HARTMANN
Asset Management

Market Outlook 2024

Sunday, 31.12.2023

Ladies and Gentlemen,

In just a few hours, Germany will be celebrating New Year's Eve and thus the transition to a new year. In addition to resolutions, many people also look back on the past year and reflect on their goals for the year. We can learn a lot from history, but the trick is to assess the future in the best possible way.

In 2024, Hartmann Asset Management will launch a global strategy called "Global One" for European clients. In the backtest of the last 10 years, we were able to achieve a fee-adjusted annualised return of 10.4% and we are confident that we will be able to offer our clients a secure and consistent return even after the launch of the portfolio in 2024. Here we utilise global stocks with country and sector specific emphasis to reflect not only the global economy but also profitable countries and trends.

Our market outlook for 2024 is based on extensive research, in which Sophie Hartmann in particular has made a significant contribution. This outlook also includes our thoughts and assessments on the future development of the economy and society.

Global political developments

A large number of elections will take place worldwide in 2024, but this does not necessarily mean more democracy. Rather, they will bring the global understanding of democracy into focus and enable more than 70 votes in countries with a population of around 4.2 billion people. American voters and courts will decide the fate of Donald Trump, who has a chance of winning the presidency again. The outcome could depend on a few tens of thousands of voters in a few contested states. However, the impact will be global, affecting a range of areas from climate policy to military support for Ukraine and Israel.

Geopolitical tensions, primarily between China and Taiwan, will continue to exist and affect global trade. Ongoing geopolitical tensions have led to increased defence spending in the United States, Taiwan, Japan and Europe, with all countries spending around 2% of their GDP on defence. This favours companies in the defence sector. In addition, high oil prices are having a positive impact on energy stocks and commodities. Gold retains its popularity as an investment among conservative investors due to persistent inflation. The rise in the price of gold can also be explained by the introduction of the BRICS countries' new gold-backed reserve currency. In 2023, central banks around the world made exceptionally high gold purchases, the likes of which have not been seen for a long time.

However, the current geopolitical landscape is very different from past decades. While the United States has helped to promote a free trade environment and a liberal economic order in the past, conflicts with countries that represent autocratic values are on the rise. With Iran, North Korea, Russia and China, more and more countries are pushing against the Western democratic order. The current level of geopolitical tension is likely to persist until 2024 and beyond.

Development of the global economy

The global economy proved to be more resilient in 2023 than originally expected, partly due to restrictive monetary policy measures. We expect monetary policy to loosen slightly in 2024, which will lead to a slight macroeconomic slowdown, particularly in the US. The necessity of these measures lies in the aim of bringing inflation back to the desired level while maintaining economic stability. The market valuations of shares are likely to remain at a high level despite expected stagnating corporate profits.

In our view, rising production costs in a fragmented world will prevent many economies from growing at their pre-Covid levels without renewed outbreaks of inflation. Another risk lies in an ageing society. China is struggling particularly badly here due to its former one-child policy. Japan's society is also ageing with a lack of new blood.

In addition to these economic aspects, the transition to a climate-friendly economy is also exerting pressure on prices as the transformation of the energy system progresses.

The emerging and frontier markets promise to be particularly attractive in 2024. The new positioning and global investment focus create significant growth opportunities, with India, Indonesia and Vietnam in particular offering new investment opportunities.

Entwicklung der Developed Markets

USA: The market outlook for the USA in 2024 is characterised by uncertainty resulting from two economic challenges. Firstly, coping with the pandemic has led to a structural labour shortage, while inflation has risen due to changes in consumer behaviour. Although the effects of the pandemic shock are easing, a soft landing is expected, characterised by more restrictive lending and lower consumption. This downturn could affect the stock market in 2024. Several forecasts indicate that opinions on the development of the US economy and its impact on the market differ widely. Some expect a mild recession and significant interest rate cuts, while others see a continuation of the bull market. The uncertainty is likely to lead to a turbulent start to the year and the results of the US presidential election in November will have an additional impact on the markets.

The Biden administration's American Rescue Plan has stimulated America's economy in the right places and thus helped to prevent the US from slipping into a recession. Overall, the development of the economy and the Fed's response will remain decisive for 2024. In our view, the Magnificent Seven in particular will grow less strongly than before. At the same time, small caps can outperform the US market. In principle, we see very good opportunities for strong performance for companies in the trend areas we have defined.

Japan: Based on attractive valuations, earnings growth and corporate reforms aimed at increasing shareholder value, we maintain our positive view on Japan. The Japanese economy is forecast to continue to grow moderately at around 1% per annum in 2024 and beyond. Capital spending is expected to increase due to generally strong corporate earnings. The semiconductor and automotive industries are expected to support exports, while spending by Chinese tourists will drive inbound tourism growth. However, domestic consumption could shrink as consumers spend less due to falling real wages. The Bank of Japan will monitor wage growth closely to see if it can keep pace with inflation. Overall, the risk of a rapidly ageing society remains.

Europe: 2023 was also a year of uncertainty and instability in Europe. While progress has been made to reduce inflation, fears of recession remain. Overall, the outlook for the capital markets in 2024 remains mixed for the EU, with rising insolvency filings and sharply declining credit growth in most banks and central banks sticking to monetary tightening despite a cyclical peak. The continued tightening of credit conditions is expected to moderate inflation in 2024, albeit not as quickly as in 2023.
Although generative AI has not yet created extensive revenue streams for many tech companies, it has driven new waves of capital investment as they prepare for widespread adoption. In April 2021, the European Commission proposed the AI Act, which defines different risk categories and imposes stricter regulations and

restrictions when applied to higher-value use cases. However, the proposed legislation has raised concerns. These concerns could delay the approval of the law until 2024.
The shortage of chips continues to put pressure on global supply chains. From the design and manufacture of chips to their testing and installation in computing devices, it is an extremely complex system.

Environmental policy will also become more relevant to supply chain decision-making in 2024, with three key EU policy initiatives - the Low Carbon Border Crossing Mechanism, the Emissions Trading Scheme and the Deforestation-Free Value Chains Regulation - imposing direct costs to bring about policy change in other countries. Regulation plays a significant role in greening business decisions that also aim to build resilience.

Development of the emerging & frontier markets

Current developments on the international financial markets shed light on the changing dynamics of the global economy. In 2023, international equities outperformed US equities on average. We have a preference for emerging market (EM) assets, but emphasise the importance of selectivity as EMs are closely linked to global growth. Forecasts for non-US developed markets range from 7.0% to 9.0%, while emerging markets are expected to return 6.6% to 8.6%. An interesting perspective arises with regard to China and India, which are expected to account for more than 40% of the value in the MSCI EM Index and thus influence the relative performance of emerging market equities.

Emerging: China is going through an economic development that has been cushioned by much stronger macroeconomic support and the Chinese government is expected to aim for a growth target of "above 4.5%". However, volatility could remain characteristic of Chinese equities in 2024, simply because of the congestion in the property market. There is a trend that more and more Chinese investors prefer to invest their money abroad, while international investors are increasingly avoiding the Chinese market.

India, on the other hand, will be one of the three largest global economies by the end of the decade. From 1960 to 2021, the population in India rose from 450.55 million to 1.39 billion. This is an increase of over 200 per cent in 61 years. An expected annual economic growth of 6.3 per cent until 2028 makes the country a star performer again in 2024. Strong companies are emerging in the financial and e-commerce sectors in particular. However, Indian shares already appear expensive today and may have priced in high expectations.

Frontier: Outside of China and India, there are clear prospects for emerging markets. Strong GDP growth and falling interest rates provide a solid basis for equities in Vietnam, Indonesia and the Philippines. These countries promise great potential with strong structural growth.

In Korea, the electronics cycle is driving performance and the country has the largest global share of computer memory production. Although the memory market is suffering, we see a gradual recovery by 2024. The Middle East is benefiting from higher oil prices and an emerging economy. Saudi Arabia, for example, is investing in companies and infrastructure projects worldwide via a state fund. In doing so, the country is trying to reduce its dependence on oil revenues as part of its Vision 2030 plan for a diversified economy, but it is clear that oil still calls the shots for the world's largest exporter. Saudi Arabia's population is young and growing. According to the Saudi Arabian Statistics Authority, the total number in May was 32.2 million people with an average age of 29. The population has increased by a third in 13 years, and more than half of Saudis are under 30 years old.

The low-carbon transition offers an important opportunity for Latin America, especially for those countries that have large reserves of key resources such as copper and lithium. US companies relocating operations and production closer to home could favour countries such as Mexico.
Countries in Eastern Europe, including Poland and Greece, are performing well. EU funds for Poland and "year-round" tourism in Greece reinforce our positive view. Overall, frontier markets are showing some positive momentum, with attractive expected returns. The equity markets reflect the optimistic outlook for these regions.

Trends

We see climate change adaptability as a new investment theme in the transition to a sustainable economy. With increasing damage from climate change, we see an increased demand for solutions that help economies prepare for, adapt to and withstand climate risks and rebuild after damage. Also known as climate resilience. Think of early warning systems to predict flooding, air conditioning systems to cope with heatwaves or retrofitting buildings to better withstand extreme weather conditions. Given the increasing scale of climate damage in the coming years, it will require substantial investment to strengthen society's resilience.

Advances in computing hardware and innovations in deep learning led to a tipping point for Artificial Intelligence (AI) in late 2022. We believe progress from here will be exponential as innovation accelerates. AI has the potential to transform employment, drive faster productivity growth and generate profits for investors. Corporate investment is likely to increase in 2024 as the benefits of AI to their businesses become clearer, providing the opportunity for productivity returns in the second half of this decade. AI-related stocks could benefit from increasing capital investment and provide an opportunity for investors as companies strive to improve their business processes.

The presence of wars in the world is increasing again. These are not only taking place in the real world, but also in the digital space. Cyberattacks are becoming more and more frequent, while at the same time the protection of personal data is becoming increasingly important. By 2025, the damage caused by cyberattacks is expected to reach around USD 10.5 trillion annually, an increase of 300 per cent compared to 2015. Despite this expenditure, threats are increasing and the commercial solutions currently available do not fully meet the requirements. Smaller companies in particular are more vulnerable to attacks due to their rapid growth, digital touchpoints and lack of budget. In addition, a multitude of laws and regulations are forcing companies worldwide to strengthen their cyber security. This is why we are looking more closely at companies in the area of cyber security in 2024.

According to the forecasts by S&P Global Sustainable, it is clear that water scarcity and drought frequency are increasing worldwide. A marked increase in these problems is expected in Spain and Italy in particular, according to a "medium" climate scenario. These developments could have a negative impact on the operation of nuclear power plants, particularly in countries such as France, as was observed in the summer of 2022. Although the impact on the safety of nuclear reactors is estimated to be low, a water shortage could lead to a reduction in electricity production. Energy companies must comply with regulations to ensure specified water levels and temperatures at the source, protect the ecosystem and avoid the loss of biodiversity. In August 2022, critically low water levels had a significant impact on the Rhine in Europe, causing major disruption to commercial shipping and supply chains. Industries that are likely to be most affected by future disruptions to Rhine shipping are coal mining, the automotive industry, food production and the chemical industry. This means that the treatment, extraction and infrastructure expansion of water remains a growth driver, and not just in Europe.

At the end

We have made a conscious decision not to comment on Hamas' attack on Israel and Russia's ongoing war against Ukraine. We believe that every country has the right to self-defence and that it is not for us to judge the situation from the outside. Instead, we should listen more to those affected, the people who are really at stake.

Hartmann Asset Management is a family-run company and is therefore free from the influence of external stakeholders. We make our decisions jointly, with full transparency and a focus on quality for our clients. As a matter of principle, we consider the client to be the most important person in the decision-making process, because we believe that an ideal environment for consistent investment decisions can only be created through a combination of strongly anchored values and client focus.

"Values lead to tradition, tradition to consistency." (Jonas Hartmann) and consistency is our response to global instability.

Sincerely,

Jonas Hartmann