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2024 CEO outlook: Rates, risks and the fight for market share

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Inflation has come down and the economy has been more resilient than many predicted at the beginning of 2023. Our CEO shares his thoughts on what's in store for markets and asset managers in 2024.

William F. "Ted" Truscott
Chief Executive Officer

The biggest surprise of the past two years has been a 500-plus basis point increase in interest rates without a recession. While there are pockets of the economy that are not doing well, we've gone from quantitative easing to quantitative tightening without a credit cycle. There's a lot of reasons that hasn't happened — fiscal stimulus and savings accumulated during the pandemic among them — but I think we can also give some credit to the Federal Reserve for calibrating the rate increases successfully.

From an investment perspective, the rate increases have meant that money market rates are attractive once again, but getting investors to consider other asset classes has been a persistent challenge for financial advisors. Cash can be great in the short term, but it's not a long-term investment vehicle, and I think investors will begin to see that as rates come down over the year.

For institutional investors, higher rates have helped many match their liabilities, and not surprisingly they are taking their time with decisions on allocations. Generally, we're seeing them allocate their risk and fee budgets to alternatives and private credit especially. I think private credit will continue to grow because banking regulations have discouraged banks from lending. They don't want to hold loans on their balance sheets, because the capital costs are too high. The private markets are fairly opaque, though, and there could be some accidents, especially if we return to a more historically normal credit cycle.

There's plenty for investors to consider this year. From a technical perspective, I think equity valuations in the U.S. are extended. And pockets of traditional commercial real estate are facing significant uncertainty, particularly older office buildings, which haven't bounced back in terms of occupancy since the global pandemic. There'll be a shakeout in this asset class, and there are going to be some incredible opportunities, but there is pain to get through first.

There's also considerable geopolitical risk, including two wars that could become wider conflicts and the ever-present concerns about China, which wants to dominate the Pacific. Do tensions in the region escalate? Hopefully not, but it's certainly something we can't overlook as a possibility. In the U.S., we are heading into an election year in a particularly polarized political environment. In the long run, politics don't matter to

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markets as much as some might think. What does matter for the business community — and capital flows — is sensible regulation, endurance of institutions and the rule of law. And if all that stays in place, well then — politics will be politics.

The asset management industry generally remains in flux. I have long said that there are too many traditional asset managers and products and not enough assets to go around. It's a market share fight both in the U.S. and Europe, and I think it's going to lead to more consolidation. Most industry observers think we'll end up with a barbelled industry, with some very large managers that do a lot of things well, and a set of small managers that provide a very focused offering; in the middle, you're probably going to see fewer and fewer players.

AI is a game-changer for our industry. It's going to get embedded into the operating side of our business. It's going to assist with investment research. It will probably support portfolio management at some point. That said, I think that it's a resource that will supplement a human's work rather than replace it. More broadly, I think that we'll see technology and AI become a bigger part of every industry, but I think there's more to be done to understand all the possibilities and the risks.

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