

Macro risks weigh on equities

Melda Mergen, CFA

Global Head of Equity



What I am optimistic about in 2024 is still at the company level.

Everybody thinks about the rates, interest rates as a risk, but it can also create some opportunities. So especially coming into 2024, coming into the New Year, if you think that interest rates are going to stay high longer than expected, it creates opportunities for the companies who actually have really strong balance sheets, free cash flow, high free cash flow, and a strong business model where they can still compete in the marketplace, and can pass some of that inflationary and high interest rate cost to the consumers. Those companies will be actually winners.

I think going into 2024, equity markets are generally fairly valued. In some cases actually much cheaper compared to their historical average, especially in Europe, and some emerging markets. The U.S. is looking a little bit more expensive than the rest of the world markets, especially if you use price-to-earnings ratio as your valuation metric. But I would be careful with that because there are other metrics we also pay attention to for the health of the business, and how we value companies -- like free cash flow or sales. And you still see opportunities in the U.S. markets generally as an overall equity market, but more importantly at the stock level.

In 2023, the experience in U.S. equity market was very, very narrow performance. By now it's called the "Magnificent Seven". So, they really drove the market return. So everybody's worried about, understandably, whether this is sustainable or not. I don't think it is sustainable, but that doesn't mean these companies will underperform. But we are expecting equity market returns to be of better breadth in 2024, and that's where we think we have the opportunity to invest in a portfolio context.

At the company level, when we look at the type of companies we invest in, the managements are pretty realistic about the challenges, but also they do everything in their, kind of, control to leverage the opportunities that they see in the marketplace. So we continue to engage with them, ask the right questions on behalf of our clients. And what I find every day when we do that really deep research with the companies in our offices, when we talk to the management, I get optimistic about the fact that we can find ideas for our clients where their capital is really spent in the right way.

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