

# **Global Economic Forecasts: Top Mid-Year Financial Outlooks for 2024**

At Tiempo Capital, we have gathered 17 mid-year outlooks from the most influential financial institutions to provide you with a comprehensive and digestible summary. This report aims to offer clear insights into how the year has progressed and what to expect in the coming months. Our goal is to equip you with the essential information needed to navigate the evolving financial landscape with confidence.



## Executive Summary

As we navigate through the second half of 2024, global economic growth continues to demonstrate resilience amidst a myriad of challenges. The U.S. economy remains buoyant, driven by robust consumer spending, while emerging markets, particularly in Asia, show promising signs of recovery and expansion. Despite the overall positive outlook, inflation persists as a significant concern, albeit one expected to moderate gradually over time.

Central bank policies are diverging, with Europe poised for rate cuts, while the U.S. maintains a more cautious approach. This divergence reflects the varying economic conditions across regions, highlighting the need for tailored monetary strategies. Higher interest rates are likely to persist, fundamentally altering borrowing, saving, and capital allocation behaviors globally.

Investment strategies for the remainder of the year emphasize the importance of high-quality assets. Equities and fixed income remain central to portfolio construction, with a strong recommendation for diversification across geographies, sectors, and asset classes to effectively manage risks and capitalize on emerging opportunities. Defensive sectors, innovative technologies, and alternative investments such as private equity and real estate are particularly highlighted for their potential to offer stability and growth in an uncertain economic landscape.



## Insights

- **Global Economic Trends**

The global economic landscape is marked by robust growth, with the U.S. and India leading. U.S. growth is driven by consumer spending and strong job markets, while India benefits from infrastructure investments and a growing middle class. Europe shows gradual recovery supported by consumer confidence and policy measures. China's growth stabilizes with macroeconomic and housing policy support. Emerging markets offer investment opportunities due to discounted valuations and structural growth factors like demographics and technological advancements.

- **Central Bank Policies**

Central banks are adopting divergent monetary policies. Europe and the UK anticipate rate cuts to stimulate growth and control inflation, with the ECB and BoE taking an accommodative stance. The U.S. Federal Reserve remains cautious, balancing growth with inflation risks, indicating limited rate cuts. In Asia, central banks in Japan, Korea, and India are expected to start rate cuts in the second half of 2024, enhancing opportunities in investment-grade bonds.

- **Inflation Dynamics**

Inflation remains a key focus but is projected to moderate by the end of 2024, driven by easing supply chain disruptions, stabilizing commodity prices, and balanced demand-supply dynamics. Monetarist factors suggest transitory inflation pressures, allowing central banks to aim for price stability without aggressive measures. Investors need to adapt strategies to manage inflation risks and opportunities, understanding the drivers and potential monetary policy adjustments.

- **Investment Themes and Strategies**

Strategic investment themes emphasize high-quality bonds, such as Treasuries and investment-grade corporate bonds, for stability and reliable income. Equities in technology, healthcare, and consumer discretionary sectors hold potential for robust earnings growth. Diversification into private assets and infrastructure is crucial, offering less correlated growth avenues and mitigating portfolio volatility through exposure to urbanization, technological innovation, and the energy transition.

- **Geopolitical and Policy Risks**

Geopolitical and policy risks, including the 2024 U.S. presidential election, pose significant market uncertainties. Different policy agendas could lead to divergent market outcomes, affecting taxes, trade, energy, and healthcare sectors. Geopolitical tensions in regions like the Middle East and Eastern Europe further heighten risks. Strategic asset allocation and diversification are essential, with investments in defensive sectors, national security, defense, energy infrastructure, and cybersecurity providing resilience against geopolitical shocks.

## Market Analysis and Strategies

### Economic Outlook and Growth

The global economic outlook for the second half of 2024 remains robust, with the United States leading the charge. Economic growth in the U.S. is driven by strong consumer spending and resilient investment, underpinned by a healthy labor market and moderated wage growth. Despite a slowdown in GDP growth from 4.9% to 1.3% annualized in early 2024, the economy is expected to stabilize around 2.5%. This stability reflects continued confidence in the market and the ability of businesses to navigate higher interest rates.

International markets are also showing signs of recovery. In Europe and the UK, consumer confidence is on the rise,

supported by positive economic indicators and ongoing policy measures aimed at stimulating growth. China's gradual recovery, facilitated by strategic macroeconomic interventions and housing policy measures, contributes to the positive global sentiment. These developments suggest a broadening of economic growth beyond the U.S., presenting diverse opportunities for investors.

Emerging markets, particularly in Asia, offer compelling growth prospects. Structural factors such as demographic trends and technological advancements are expected to drive long-term growth in these regions. Investors are increasingly focusing on these markets to diversify their portfolios and capitalize on potential upsides as global economic conditions evolve.

**3%**

Projected U.S. Real Growth Trend

**Below 4%**

U.S. Unemployment Rate for the Last Two Years

**3%**

Current U.S. Inflation Rate

**Nearly 6%**

Household Income Growth in Europe and the U.S.

**Below 3%**

Projected U.S. Inflation Rate by Year-End

**2%–3%**

Projected Long-Term U.S. Inflation Range

### Interest Rates and Monetary Policy

Interest rates remain a critical focus for global financial markets in 2024. In the U.S., long-term interest rates are expected to stabilize, with modest declines anticipated over the coming years. This stabilization is crucial for managing economic expectations and supporting investment activities. The yield curve is likely to remain inverted

for some time, signaling the need for active management around duration and credit. Bonds are poised to perform better as interest rates stabilize and inflation moderates, offering a favorable environment for fixed income investors.

Central bank policies are diverging across regions. In Europe, the ECB and BoE are expected to implement rate cuts to stimulate their economies and

address falling inflation. This shift towards more accommodative monetary policies contrasts with the U.S. Federal Reserve's cautious approach, which aims to balance economic growth with the risk of inflation resurgence. In Asia, central banks, particularly in Japan,

### Equity Market Performance

Equity markets continue to show strong performance, driven by robust earnings growth and significant investments in technology, particularly AI. In the U.S., equities are supported by healthy corporate earnings and substantial capital expenditures in technology sectors. The investment in AI and related technologies is a major driving force, contributing to sustained earnings growth and enhancing the overall market outlook.

International stocks present attractive valuations and growth prospects, especially in regions undergoing economic recovery and structural reforms. Stocks in Europe, Japan, and other parts of Asia offer promising opportunities for investors seeking to diversify their portfolios. These markets

**10%**

Global Equities Year-to-Date Return

### Fixed Income Strategies

Fixed income investments remain a pivotal part of diversified portfolios, especially as interest rates stabilize and inflation moderates. High-quality bonds, particularly Treasuries and investment-grade corporate bonds, are emphasized for their stability and attractive yields. These bonds provide a reliable income stream and help mitigate portfolio volatility in uncertain economic times.

Korea, and India, are anticipated to start rate cuts in the second half of 2024, providing opportunities in investment-grade bonds and enhancing the attractiveness of fixed-income securities.

are benefiting from improved corporate governance, policy support, and favorable economic conditions.

Small and mid-cap stocks are also highlighted for their potential higher returns. These stocks are trading at significant discounts compared to larger companies, presenting opportunities for value investors. As the market moves beyond the dominance of large-cap technology stocks, small and mid-cap stocks are expected to deliver substantial gains, driven by their attractive valuations and growth potential.

This comprehensive analysis underscores the importance of understanding global economic trends, central bank policies, and strategic investment opportunities in shaping the financial markets for the remainder of 2024.

**20%**

Global Equities One-Year Return

Diversification across sectors and geographies is essential for managing risk and capturing yield opportunities in the fixed income market. Investors should consider spreading their investments across different yield curves and sectors to enhance their portfolio's resilience. This strategy allows for flexibility and protection against sector-specific or regional economic downturns.

Structured credit and multi-sector debt strategies offer additional protection against market volatility. By incorporating various types of debt instruments, such as mortgage-backed securities, asset-backed securities, and

collateralized loan obligations, investors can achieve a more stable and diversified income stream. These structured products are particularly valuable in environments characterized by economic uncertainty and fluctuating interest rates.

**Above 5%**

Yields on 10-Year U.S. Government Bonds

**Over 5.5%**

Yields on U.S. Investment Grade Corporate Bonds (3-Year Maturity)

**Just Below 4%**

Yields on European Bonds with Similar Credit Quality and Maturity

**Nearly 3%**

High Yield Bonds Year-to-Date Return

**Alternative Investments**

Alternative investments present significant opportunities for diversification and growth, driven by structural trends and market dynamics. Private credit, real estate, and infrastructure are key areas where investors can find attractive returns and stability.

Private credit is gaining traction as traditional bank lending contracts due to regulatory changes and market conditions. Investors can explore opportunities in direct lending, mezzanine financing, and distressed

debt, benefiting from attractive yields and strong risk-adjusted returns.

Real estate and infrastructure investments offer long-term growth potential and protection against inflation. The focus on value-add and opportunistic investments in these sectors can provide significant upside, particularly in markets undergoing urbanization, technological advancements, and energy transitions. High-quality managers are crucial for successful alternative investments, as their expertise and strategic approach can significantly impact the performance and risk profile of these assets.

**11%+**

Yields to Worst for Direct Lending in Private Equity

**9%**

Yields on Leveraged Loans

**Sector Focus**

**1. Technology:**

The technology sector remains a major driver of market performance, fueled by advancements in artificial intelligence (AI) and digital transformation. Companies investing heavily in AI are expected to see substantial

revenue and free cash flow growth. The impact of AI extends beyond traditional tech giants, benefiting sectors such as semiconductors, data centers, and related infrastructure.

**2. Healthcare:**

Innovations in biotechnology and pharmaceuticals continue to propel the healthcare sector

forward. The development of new therapies, drugs, and medical technologies addresses global health challenges and demographic shifts, offering long-term growth opportunities. Companies focusing on cutting-edge research and development are poised to lead the sector's growth.

### 3. Energy:

The energy sector is experiencing increasing demand driven by AI data centers and sustainable energy initiatives. The transition to a low-carbon economy and the growing emphasis on renewable energy sources are creating significant investment opportunities. Companies involved in energy efficiency, clean energy production, and energy storage solutions are well-positioned to benefit from these trends.

**18%**

Potential Cumulative Productivity Gain from AI Over 20 Years (\$7 Trillion)

**Up to 30%**

Potential Job Displacement in the U.S. Due to AI Over 20 years

### Geopolitical Risks and Election Impact

Geopolitical tensions and the upcoming U.S. presidential election pose significant risks to market stability in the second half of 2024. The geopolitical landscape is fraught with conflicts and political uncertainties that can disrupt global markets. Tensions in regions like the Middle East and Eastern Europe, particularly the ongoing conflict in Ukraine, continue to impact commodity markets and global supply chains. These geopolitical risks necessitate a strategic approach to portfolio management.

The U.S. presidential election adds another layer of uncertainty. The benefit from increased government spending on national security, while energy investments provide a hedge against commodity price volatility. Cybersecurity remains a critical area as

contrasting economic policies of the candidates could lead to divergent market outcomes, affecting sectors such as healthcare, energy, and technology. Historical trends show that markets often experience volatility during election periods, driven by policy uncertainty and potential changes in fiscal and regulatory frameworks.

To mitigate these risks, investors are advised to maintain a diversified portfolio with a focus on sectors that offer resilience against geopolitical shocks. Investments in defense, energy, and cybersecurity are particularly recommended. Defense stocks can

the risk of cyberattacks and digital espionage grows, driven by geopolitical conflicts and increasing reliance on digital infrastructure.

## Opportunities in Emerging Markets

Emerging markets continue to present compelling opportunities for investors, driven by strong recovery prospects and attractive valuations. China and South Korea are at the forefront of this recovery, supported by robust economic policies and structural reforms. China's strategic macroeconomic measures and focus on improving corporate governance are driving growth, while South Korea benefits from advancements in technology and manufacturing.

Tactical opportunities abound in undervalued quality stocks in Mainland China and Hong Kong. These markets are poised for growth as policy stimulus

and capital market reforms take effect. Investors can capitalize on these opportunities by identifying companies with strong fundamentals, solid earnings potential, and strategic positioning in their respective industries.

In addition to China and South Korea, other emerging markets in Asia offer significant growth prospects. Countries such as India and Vietnam are experiencing rapid economic development, driven by favorable demographics, increasing foreign investments, and expanding middle-class populations. These markets provide a fertile ground for long-term investments, particularly in sectors such as technology, consumer goods, and infrastructure.



## Conclusion

In the second half of 2024, navigating the global economic landscape will require a focus on high-quality assets and diversification across geographies and sectors. The mid-year outlooks highlight significant opportunities in emerging markets, particularly in Asia, driven by structural growth and attractive valuations. Key sectors such as technology, healthcare, and energy offer substantial growth potential, supported by advancements in AI, biotechnology, and sustainable energy initiatives.

Geopolitical risks and the upcoming U.S. presidential election introduce layers of uncertainty, making diversification and strategic asset allocation essential. Investments in defense, energy, and cybersecurity can provide resilience against geopolitical shocks. Additionally, fixed income strategies, including high-quality bonds and structured credit, offer stability and attractive yields in a stabilizing interest rate environment.

By focusing on these targeted areas and maintaining a balanced investment approach, investors can effectively manage risks and capitalize on the evolving market dynamics throughout the remainder of 2024.

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