

# US Market Outlook 2024: Hopes for a Softer Landing



## The Economic Resilience

Amid the tepid outlook, the US still commands a quality premium over other markets due to cash-rich mega-cap stocks. There is still some fiscal support working through the economy, together with excess savings built up in the pandemic. Some pandemic-related disruptions are reversing with a rebound in auto production and sales. US student loan repayments may resume in the fourth quarter of 2023 which may drag the spending towards year end. Typically, there is a one-to-two-year lag in interest rate cuts and their impact on employment growth; the Fed started raising interest rates 18 months ago, indicating that a slowdown is likely to go forward due to this lag effect.

Homeowners are resilient as many of them locked in mortgage rates when they were below 4%, so they are not as vulnerable as they were in 2007-08 at the advent of GFC.

## Key themes to watch.

### ■ Central Bank Policy Lags

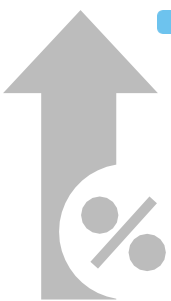
The Fed's tightening moves over the past year and a half are likely to have a lag effect and it may be observed in the coming year as well. The resilience of the consumer market may absorb the impact.

### ■ US government dysfunction

The dysfunction in the US government may lead to continued fiscal deficit worries and policy inaction. Fiscal shock absorbers are not available in the event of an economic downturn.

### ■ Geopolitical concerns

War in Ukraine and the Middle East is a risk to the global economy and inflation. Recent oil spikes have so far not spread to the global economy.



## ■ China's Economy

China's RE market has seen a significant drag on growth, putting severe pressure on corporate and local government balance sheets.

## Structural Shift Underway

The markets have been flip-flopping between hopes for a soft economic landing and fears of yet higher rates that may ultimately lead to recession. This has created volatility in the 10-year Fed rates, which have currently hit a level of 5.4%. The move in consumerspending trends drove up inflation by creating a mismatch between what people wanted to buy and what the economy was set up to produce. The mismatch is now resolving and as a result, inflation has been falling. The effects of pandemic shocks have receded, and a worker shortage has become a more structured subject issue.

**Exhibit 1:** Fed holds steady, above the longer-term average of 4.25%

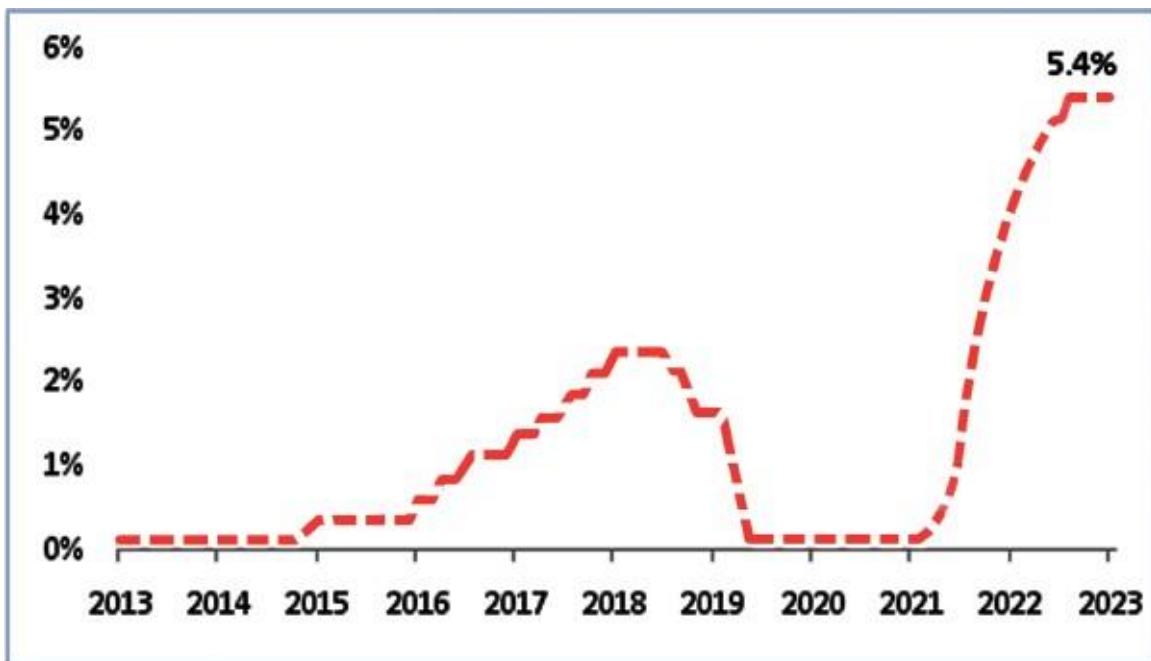


Image Source: © 2024 Krish Capital Pty. Ltd.

Data Source: 10Y Benchmark yield, FOMC

## Is the big ease coming in 2024?

**Inflation** has declined substantially from its peak last year. Over the last three months, the core Personal Consumption Expenditure (PCE) increased at a 2.3% annualized rate, last year this was 5.5%. Goods prices have come down as the supply-side bottlenecks eased and goods demand normalized in comparison to demand for services. Wage growth has declined due to the steady loosening of the labor market. The most likely environment through 2024 is that inflation may stay above the Fed's 2% target of 2025.

**Exhibit 2: A rare positive correlation since the 1990's.**

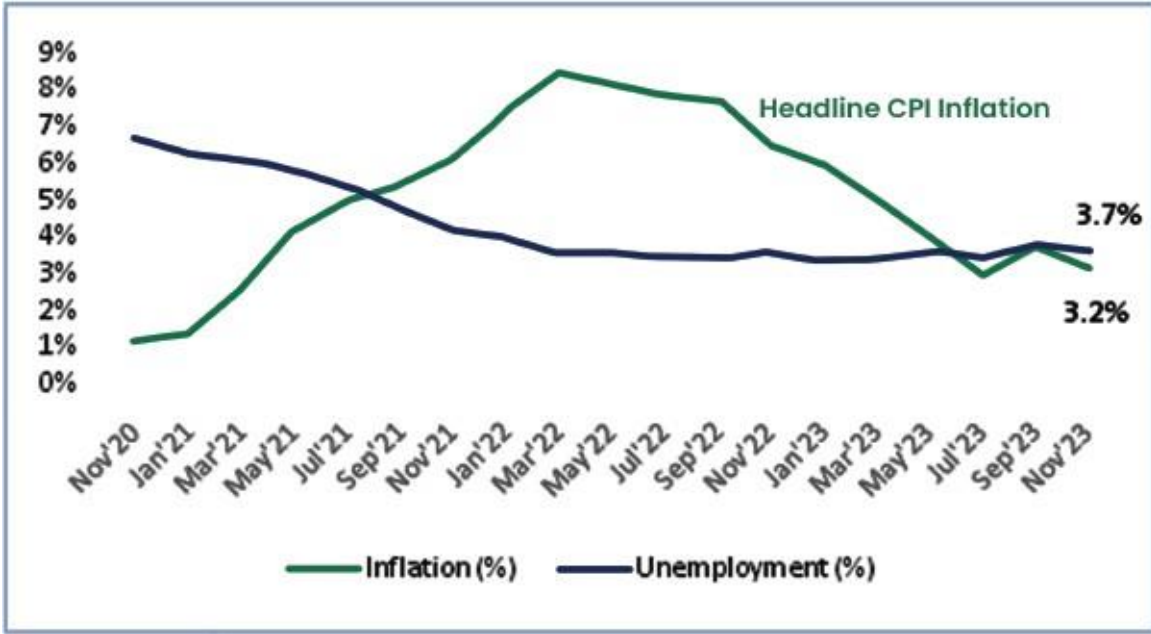


Image Source: © 2024 Krish Capital Pty. Ltd.

Data Source: US Bureau of Labor Statistics

**Chart Takeaway:** Inflation and employment both are keeping low and in the same trend, generally they remain inversely correlated. This may indicate inflation rise was largely contributed by supply chain disruptions.

**Exhibit 3: The heavy energy prices downweighing.**

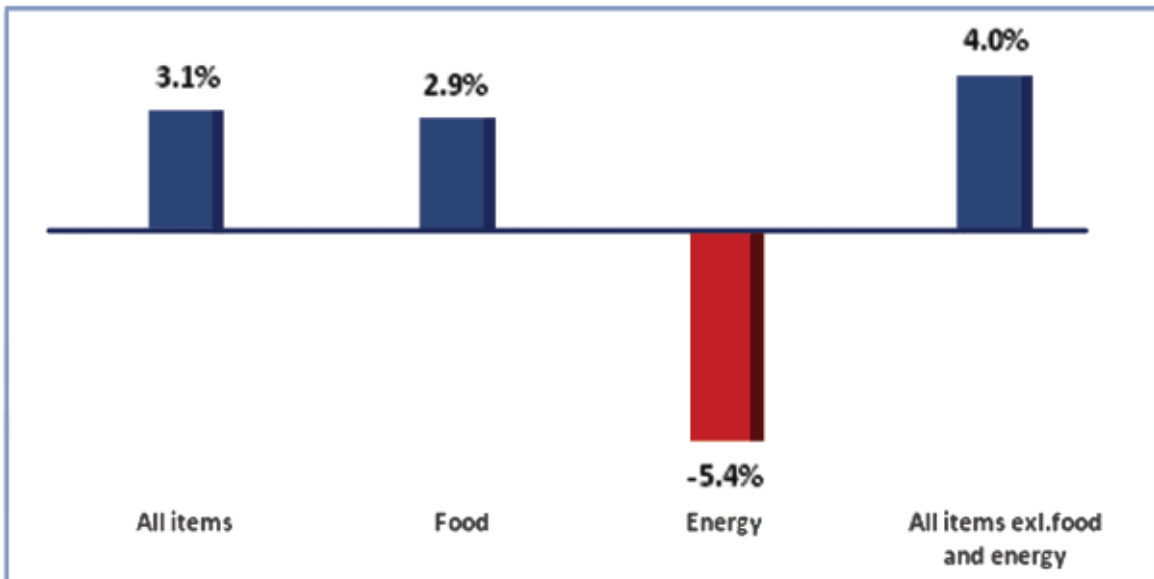


Image Source: © 2024 Krish Capital Pty. Ltd.

Data source: US Bureau of Labor Statistics

**Chart Takeaway:** The downward pressure from lower energy prices has partially offset the acceleration of core items as can be seen from the chart above.

## Equity Market Outlook- A Neutral Play

In 2022, the S&P 500 slid close to 20% in the wake of the Fed’s decision to rapidly hike interest rates. However, markets advanced in 2023 recovering some lost ground. Equity concentration in S&P 500 tech mega stocks has risen to levels never seen since the 1970s, this trend has been generally observed when managers get cautious before a market slowdown.

The equity markets are richly valued while the geopolitical and political risks remain elevated. The Fed may reduce its balance sheet, liquidity can get contracted. Among US households as well, excess liquidity and cash-like assets have fallen from a peak of \$3.4 trillion to \$1T and may largely be exhausted in the second half of 2024.

The street consensus estimates stand at 2–3% earnings growth in the US heavy-weight S&P 500 going forward through the year 2024. The market may see low growth levels amid a weak economic growth outlook. The market's volatility may be higher as compared to last year due to looming geopolitical scenarios. The US dollar (USD) is expected to remain volatile but may remain at elevated levels and can even reach new highs.

**Exhibit 4.** The S&P valuation trend so far.

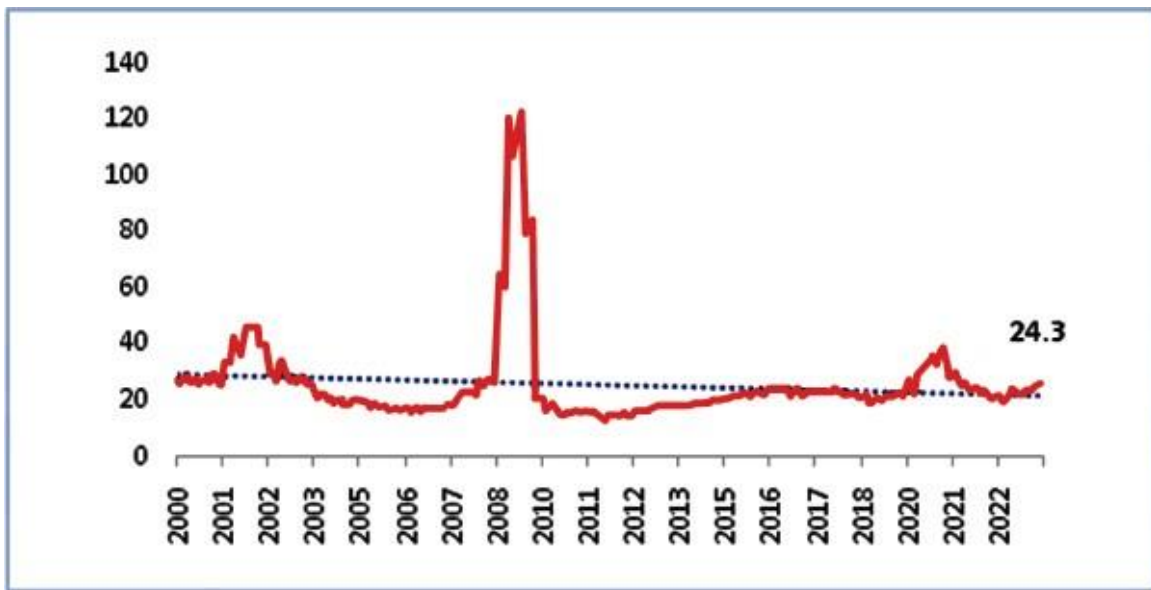


Image Source: © 2024 Krish Capital Pty. Ltd.

Data Source: S&P 500 Price/Earnings, Refinitiv

**Chart Takeaway:** The current Index P/E stands at 24. Historically, the median P/E remains at 17.9. The broader market is richly valued.

The Equities market view for 2024 looks sluggish but a neutral performance can be expected as the AI theme shows some alpha potential.

# Harnessing Mega Caps

**Exhibit 5:** Tech Outperformance relative to the broader US market.

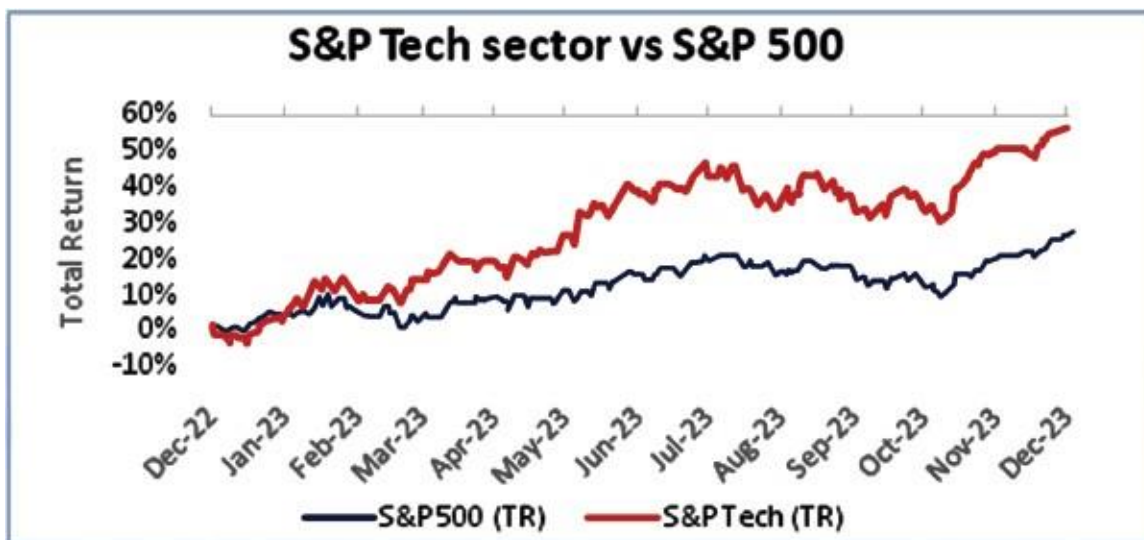


Image Source: © 2024 Krish Capital Pty. Ltd.

Data Source: S&P Global

**Chart Takeaway:** Investor enthusiasm for AI and digital tech has pushed U.S. tech stocks to easily outperform the broader market in 2023.

The digital disruption and artificial intelligence (AI) have been key forces shaping the markets. We think this reflects how quickly markets embrace such fundamental shifts in market outlook. This may create new investment opportunities and can be the key driver for long-term growth and profitability shifts.

## Consumers continue to spend in 2023.

**Exhibit 6.** Huge savings decline from the pandemic levels.

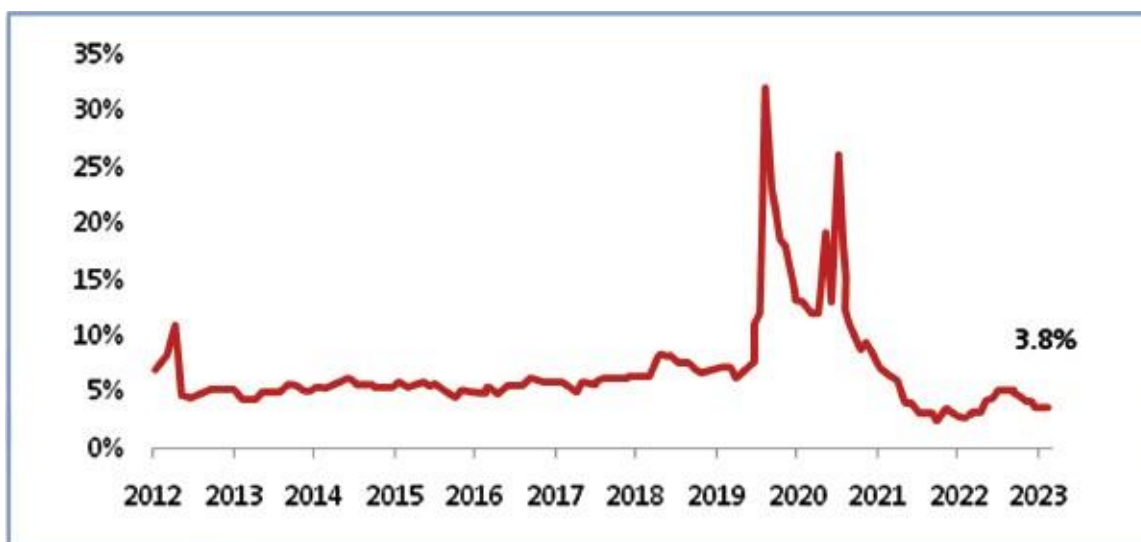


Image Source: © 2024 Krish Capital Pty. Ltd.

Data Source: US personal savings rate, FRED

**Chart Takeaway:** The US personal savings rate has declined from pandemic high levels and is below the historical average of 8.78% owing to high inflation, slower wage growth, and good consumer spending which has kept the economy away from recession.

Going forward it looks difficult for the savings rate to revive as the expected fed rate cuts will promote the consumption of goods and services, housing, and purchase on credits.

## 2024 - A better year to purchase a home?

Demand for housing was incredibly strong throughout 2020 and 2021 as record-low mortgage rates and high personal savings helped create a home-buying frenzy. But times changed, rising rates and persistently high home prices dragged the mortgage demand since the beginning of 2022.

In 2023,

- The average interest rate for a 30-year, fixed mortgage was 6.79%.
- Americans originated \$1.1 trillion in new mortgage debt in the first three quarters of 2023 where most were issued to sub-prime borrowers with a credit score of more than 720.

Going forward, mortgage rates are expected to go down due to expected fed rate cuts. The effects of past rate hikes and inflation are now cooling down. The recent rapid decline in rates along with job growth may promote home sales. Refinance activity, sluggish over the last year, has started to pick up again amid declining rates. However, home prices may climb amid a tight supply of new homes listings.

It is expected that the mortgage rates may come around to 6.5% in mid-2024 due to the cooling of inflation and labor market weakness leading the Fed to cut rates.

**Exhibit 7. Mortgage rates trend signals a cool-off.**

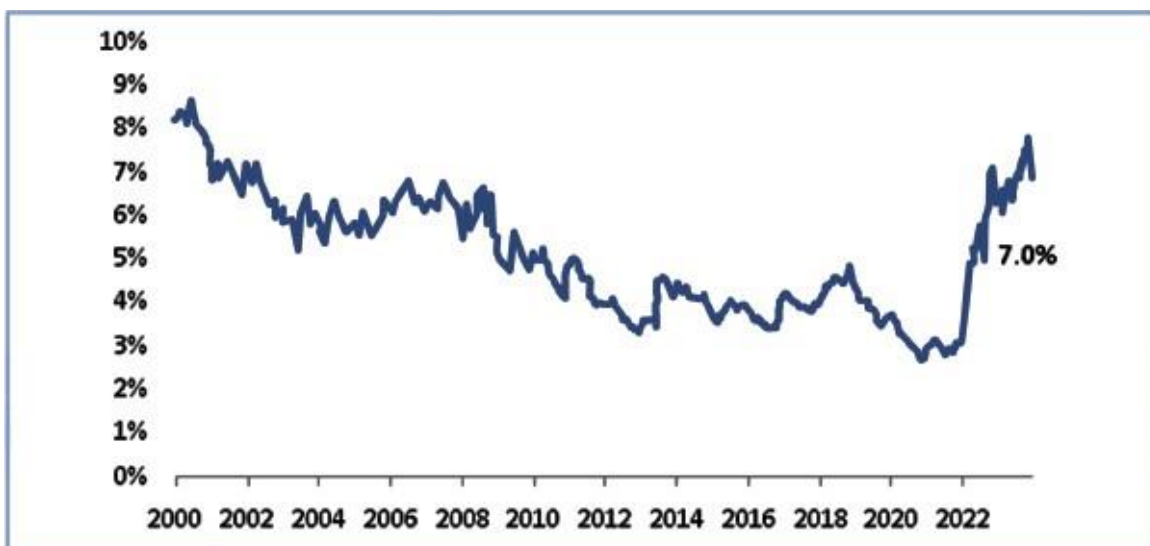


Image Source: © 2024 Krish Capital Pty. Ltd.

Data Source: 20-Y Mortgage rates, FRED

**Chart Takeaway:** The rates have started to cool in early 2022 due to the expectation of federal rate cuts next year which may boost home sales and listing prices.

## What can be expected from 2024?

In contrast to other major economies, the US grew at a robust pace in the third quarter of 2023. Core Inflation has fallen sharply, and the pace of job growth has been phenomenal since January 2022. The supply chain healing is underway.

**The bottom line** is that although it is expected that a broad range of DM and EM economies may avoid recession in the coming year, the case of US growth outperformance looks stronger. The US growth may lie further **above the consensus estimates**, with inflation having come down by mid-year and with central banks easing, growth may **stabilize in the second half of the year**.

The risk is low as compared to other economies, which makes it stable for investments. However, a balanced portfolio approach is advisable.

