2024 market outlook

At NEI Investments, we are cautiously optimistic about markets in 2024. The unprecedented tightening cycle looks like its coming to an end and looking past peak interest rates we see a new monetary policy regime that should be generally supportive of both fixed income and equity markets.

In fixed income, real yields are starting to make the income side of the equation for bonds very attractive, plus expectations for rate cuts later in 2024 will likely add capital appreciation in the years ahead. Within our own strategic asset allocation, we are favouring the High Yield segment of the market as over the next 10-year period it shows some of the highest return potential of any asset class.

In equities, we prefer being selective with a focus on high quality companies that offer stability and growing dividends, especially in some regions and sectors where valuations are cheap on a relative basis. We also see opportunities in renewables and the clean infrastructure space, as the march towards a lower carbon world is still a huge opportunity and at current low valuations, we believe this long-term secular tailwind will generate alpha.

However, in the year ahead, slowing global growth will likely weigh on corporate earnings while heightening geopolitical tensions may introduce other risks for investors. In this environment we rely on our subadvisors who take a more selective approach to finding investment opportunities.

Below are a few key opportunities outlined by our subadvisors:

1. **High Yield Bonds:** positioned to potentially provide equity-like returns with bond-like volatility over the next year. The relative quality of the High Yield market is at historically high levels, and issuer starting yields in the 9.0% area, provides a substantial income buffer which allows it to weather adverse economic or geopolitical events.
2. **Investment Grade Bonds:** remain resilient as large companies are still benefiting from the very low cost of funding they enjoyed in previous years. Spreads still remain relatively cheap from a historical perspective and offer the potential for real returns given the downside risks ahead.
3. **Credit:** corporate fundamentals are likely to deteriorate, albeit from strong starting points, as softer demand, higher financing costs, and sticky cost pressures conspire to pressure profit margins while providing attractive entry points to add credit exposure.
4. **U.S Equities:** despite projections for slowing growth there are opportunities in quality businesses with pricing power, competitive advantages, innovation and management. These types of companies can overcome the profitability headwinds created by inflation and higher interest rates.
5. **Canadian Equities:** parts of the Canadian market can continue to thrive in this era of higher inflation and interest rates. This includes oil and gas producers and select technology stocks. Businesses with durable free cash flow, balance sheet strength, and proven management are key.

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6. **Value:** the end of the zero-rate environment, a gap in the valuation between value stocks and growth stocks, geopolitical conflicts, and high valuation spreads are potential drivers for the Value strategy in 2024.
7. **Clean Infrastructure:** more evidence that electrification is happening due to the large amount of electricity needed for datacentres, AI and electric vehicles. Attractive relative and historical valuations create opportunities in this space as demand for electricity is still expected to more than triple by 2050.
8. **Emerging Markets:** have strong projected GDP growth in 2024 and equities are set to benefit from rate cuts. Equity valuations remain cheap on a historical and relative basis across emerging markets generally. Key countries are entering new cycles of structural growth while others are enacting policy changes designed to increase direct foreign investment.

Talk to your advisor about how investment solutions from NEI can help you achieve your goals.

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