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2024 Capital Markets Outlook: Plenty of Progress, Solid Foundations Laid

All data references are as of November 15, 2023 unless otherwise stated.

Executive Summary

Looking back on 2023, we can see progress in tackling major issues that loomed over the global economy and capital markets. The world enters 2024 faced with some unfinished business that will be a priority in

the year ahead.

We remain constructive on the investment outlook. The foundation is laid for a continuing return to normal, which is an environment where investors are rewarded across the risk spectrum. This has been absent for most of the previous decade.

Interest rates and bond yields have been rising globally for more than two years. Much of this increase was necessary to get beyond the unhealthy, ultra-cheap interest rates that were too low for too long.

A return to normal for real yields lays the foundation for a healthier economic and investing landscape ahead.

Fixed income market outlook

We believe the end of rising bond yields is here. Central banks appear very close to ending their rate-hiking campaigns, and inflation is well off its highs. This makes the outlook for cash (2023's most-coveted but not best-performing asset) less attractive in 2024 – we emphasize less attractive, not unattractive. **We forecast interest rates available on cash balances will be in the 4.25% range by the end of 2024.**

In our base case scenario, **our end-of-2024 call is for the yield curve to steepen, with 2- and 10-year Canadian bond yields lining up at 3.75%. This should drive a total return from the broad Canadian fixed income market in the 6% range.**

Equity market outlook

We have endured five quarters of no earnings growth. Earnings slumps are a normal part of the business cycle; this is the fourth since 2009. Like all the others, it will pass. We believe 2024 will mark the turning point.

Looking ahead to 2024, once inflation is closer to being tamed, businesses and households will be poised to benefit from lower borrowing costs and other easing cost pressures. We expect growth outside the U.S. to stabilize and improve by late 2024, and U.S. growth to cool, not collapse.

Stock markets will react positively in advance of these developments, especially when accompanied by today's mostly reasonable equity market valuations.

Even if we have a mild recession, equities may fare okay if investors take the victory over inflation as a signal to act and anticipate a strong rebound for earnings.

Our forecasts for equity market returns essentially line up with earnings growth projections. We see some

room in certain markets (e.g., Canada) for P/E multiple expansion, but we are not relying on valuation expansion to drive our return targets. **Expectations for earnings growth in 2024 are respectable and in the range of long-term averages – a return to normal.**

Our targets are 23,000 for the S&P/TSX Composite Index and 4,900 for the S&P 500 Index.

Our positioning

Our portfolios remain well diversified and balanced. We favour equities over fixed income but see opportunity across cash, bonds, stocks and selected alternative investment strategies to contribute to return or mitigate risk.

Overall, in our broadest representative portfolios, we are overweight Canadian and U.S. equities and neutral weight to international developed markets (Europe and Japan) plus emerging markets.

The current yield from our well-diversified bond positions is very competitive. We have taken steps to de-risk and extend the duration of our capital preservation strategies. These measures are designed to provide bond positions that deliver a level of safety in a recession.

Our base case sees inflation tamed enough to allow an easing in financial conditions, especially in economies where growth is already stalling. We think inflation can fall faster than the current zeitgeist forecasts but concede this issue is hotly debated.

Households and businesses are adapting to higher borrowing costs. We believe governments will need to do the same. Higher borrowing costs curb enthusiasm for government spending. This is part of the recipe to cool inflation. Bond yields will then have room to stabilize or retreat slightly. It may take several months for this scenario to unfold.

Looking at today's levels, we see the potential for percentage gains in the low-to-mid teens for equities and mid-single digits for bonds.

Read the full PDF report here: [2024 Capital Markets Outlook: Plenty of Progress, Solid Foundations Laid](#)

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