Allianz Global Investors

Outlook 2024: targeting opportunities

Rewards for taking risk again?

January 2024

Overall 2024 outlook

We expect lower growth and "higher for longer" rates

- Inflation may take time to fall within central banks' 2% targets
- Megatrends underpin higher long-term inflation: demographic changes, decarbonisation, deglobalisation
- Interest rate cycle turning: markets anticipate major cuts from mid-2024
- Recession expected by mid-2024

Average global inflation[1] **7%**

Investment takeaway: expect volatility but also opportunities in risk assets that may not have existed for years

1. Source: World Economic Outlook (October 2023) - Inflation rate, average consumer prices, International Monetary Fund, Data as at October 2023.
Past performance, or any prediction, projection or forecast, is not indicative of future performance.

What do higher rates mean for equities?

We think quality companies will survive and may even thrive

- As money has a cost again, be selective; performance varies across regions, sectors, and assets
- Avoid zombie firms sustained by low rates, especially in Oil & Gas, Natural Materials, and Healthcare
- Management agility and adoption of new technologies are critical for company success
- Capital discipline is back: strong cash flow generation and balance sheets will be key

300%[2]

Rise of zombie companies in era of low interest rates

Investment takeaway: focus on top-quality names for the bedrock of portfolios

2. Source: Allianz Global Investors. Data as at 31 October 2023. Note: Figure relates to growth of zombie companies between 2008 and 2022. Data is extracted from the Refinitiv Worldscope database, covering developed and emerging markets. We define zombies as mature companies (established more than 10 years ago), with an interest coverage ratio of less than 1 for three consecutive years. The interest coverage ratio is used to determine how easily a company can pay interest on its outstanding debt.
Past performance, or any prediction, projection or forecast, is not indicative of future performance.

Allianz Global Investors

How can investors harness technological trends?

We see opportunities in AI and beyond

- Artificial intelligence (AI) should eventually boost productivity growth – but it may take time
- Speed that which firms integrate AI will determine their success or failure
- Diversify beyond AI companies: cyber security and healthcare firms may also benefit from the technology
- Tech drives opportunities in China's new economy: fintech, finance, health, sustainability

By 2030, the market for AI could grow by

38%[3]

Investment takeaway: our research shows technology leaders offer great potential for returns in the long run

3. Source: Precedence Research. Artificial Intelligence (AI) Market - Global Industry Analysis, Size, Share, Growth, Trends, Regional Outlook, and Forecast 2022 - 2030, as of January 2023; Artificial Intelligence (AI) Market Size, Growth, Report 2022-2030, accessed 16 May 2023; Annual growth rate = 38.11%.

Past performance, or any prediction, projection or forecast, is not indicative of future performance.

Are bonds back?

We think fixed income looks set to easily outperform cash

- Fixed income is a compelling proposition again: lower inflation, weaker growth, tighter policy signal strong future performance for bonds
- US: we can begin to look forward to interest rate cuts
- Europe: we're more cautious on duration due to the risk of upward surprises on core inflation
- Asia ex China fixed income can be a vital diversifier as it is likely to contribute significantly to global economic growth in 2024 and beyond

US, Euro and Asian investment grade credit 2023 returns: **4-5%**[4]

Investment takeaway: consider an active, flexible approach to accrue income at better levels while managing duration and spread risk tightly

4. 2023 total returns up to 30 November 2023. Sources: Bloomberg, ICE BofA and JP Morgan indices; Allianz Global Investors. The information is provided for illustrative purposes only, it should not be considered a recommendation to purchase or sell any particular security or strategy or as investment advice.
Past performance, or any prediction, projection or forecast, is not indicative of future performance.

Is there value outside public markets?

We see renewed opportunities in private markets

- Mix of higher rates and durable trends like energy transition create opportunities in private market assets
- Valuations and conditions may be similar to the post-crisis years of 2009-10
- One compelling opportunity is private credit: risk-reward profile looks attractive, and openings may emerge as major banks scale back lending
- Infrastructure – inflation-linked pricing can help insulate projects from changes in economic cycles. Other benefits: diversified returns and stable cashflows

Annual investment in the energy transition:

USD 1.1 trillion[5]

Investment takeaway: private markets such as private credit and infrastructure can serve the dual-purpose of offering relative-value opportunities and exposure to longer-term trends

5. Annual investment in 2022. Source: BloombergNEF. Data as at January 2023.

Past performance, or any prediction, projection or forecast, is not indicative of future performance.

How can investors navigate geopolitical and macro risks?

Global uncertainties favour a dynamic investment approach

- Volatility due to global uncertainty (wars, trade tensions, economic divergences): diversification is crucial
- 60:40 portfolio recovered somewhat after 2022 slump. Consider alternative allocations (eg, 30:70) as equity outlook is uncertain
- Explore safe havens like gold; watch oil markets amid Middle East tensions vs. global growth worries
- Japan equity preference: Japanese companies are among the few in developed economies still receiving support from lower interest rates

Japan‘s decade-long stimulus:

USD 3.7 trillion[6]

Investment takeaway: double down on diversification and consider opportunities in commodities and monetary policy outliers such as Japan

6. BOJ's Kuroda defends his bazooka stimulus as 'half successful', Reuters, 15 March 2023. USD 3.7 trillion = 497 trillion yen.
Past performance, or any prediction, projection or forecast, is not indicative of future performance.

Discover more insights

Outlook 2024: targeting opportunities

Our flagship investment publication includes a macro overview, plus asset-class-level viewpoints and actions from our Global CIOs

Macro view: slower growth – better returns?

Equities: quality counts

Fixed income: back in the game

Multi asset: look beyond the norm

Private markets: new window of opportunity

Disclaimer

Allianz

Global Investors