2024

Global Financial Markets Preview

AC Capital Market

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Analyst：

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Preface

After a long and tumultuous tightening cycle in the global market, it seems that the unprecedented shift in monetary policy has reached a turning point. The U.S. Federal Reserve sent strong positive signals in its last interest rate decision in 2023, indicating that 2024 would be a crucial year for the gradual return of liquidity to the market, driving capital outflows from fixed-income assets.

In the "2024 Financial Market Outlook Forecast Report," the AC Capital Market Research Department starts with the U.S. stock market. Through the lens of the U.S. capital market and the changing monetary policy, the team analyses how capital is flowing and guides investors in understanding the Federal Reserve's policies. The report also provides insights into the trends of the three major U.S. stock indices in the global stock market in 2024.

Following a similar approach, we will also guide investors through the stock markets in the United Kingdom and Europe. Combining the trajectories of the monetary policies of the Bank of England and the European Central Bank in 2024, we will preview the major directions of the British Pound and the Euro. In addition, the Chinese Yuan, which experienced a significant decline in 2023, and the sudden rebound of the Australian Dollar at the end of the year, are closely tied to changes in the U.S. Dollar, creating many opportunities for forex traders.

Finally, as gold reached historic highs twice this year, will its brilliance continue in 2024 amid the turbulent geopolitical confrontations of the Russian-Ukrainian War and the subsequent conflict in the Middle East? Will gold priced in U.S. Dollars have the opportunity to follow suit and gain momentum, similar to non-U.S. currencies?

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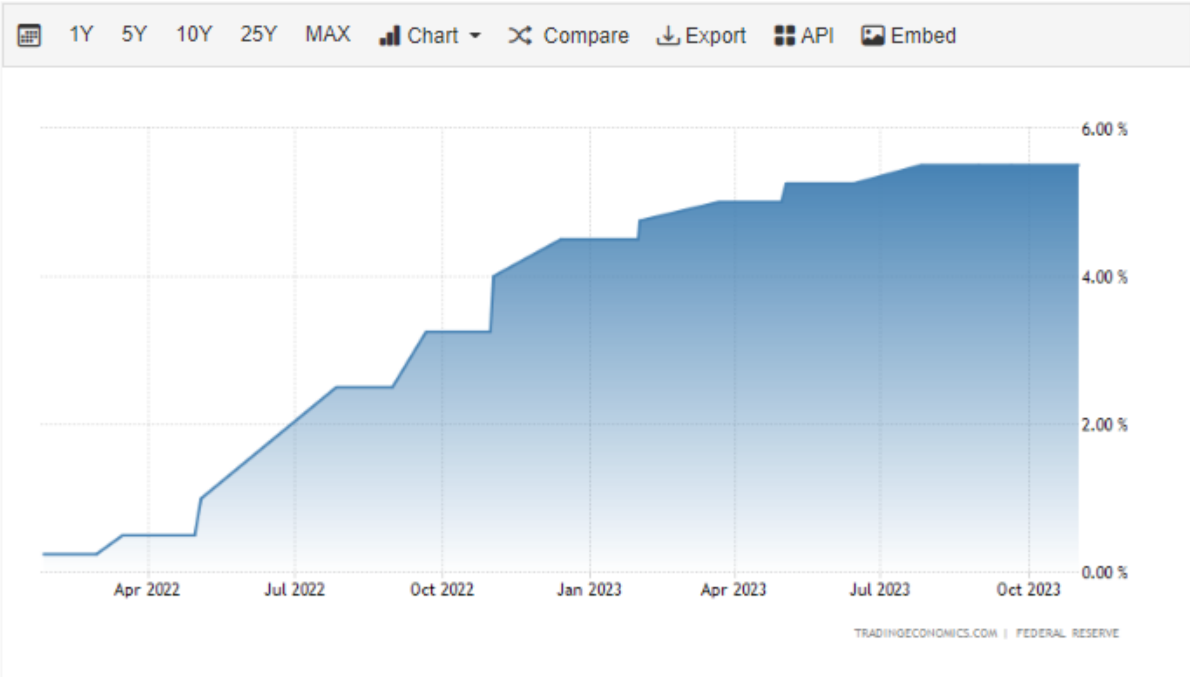
US Markets in 2024: The Historic Ebb and Flow

In the post-pandemic era of 2023, U.S. stock market continues to lead global markets, while the European market hovers in the midst of stringent monetary policies and sluggish economic growth, the differentials are visibly clear.

Macro data comprising fundamental factors indicates that this trend may persist into 2024. The consolidation of this potential trend is attributed to the robust performance of the U.S. economy, a stable labour market, and an unemployment rate maintaining its lowest level in nearly 60 years.



Calendar	GMT	Reference	Actual	Previous	Consensus	TEForecast
2023-09-20	06:00 PM	Interest Rate Projection - 1st Yr	5.1%	4.6%		
2023-09-20	06:00 PM	Interest Rate Projection - 2nd Yr	3.9%	3.4%		
2023-11-01	06:00 PM	Fed Interest Rate Decision	5.5%	5.5%	5.5%	5.5%
2023-11-29	07:00 PM	Fed Beige Book				
2023-12-13	07:00 PM	Fed Interest Rate Decision				5.75%
2024-01-31	07:00 PM	Fed Interest Rate Decision				

The continuous decline in inflation was a key driver for this theme, dropping from its peak of 9% in 2022 to 3.1%, and the Federal Reserve's monetary policy finally nearing its conclusion. Since the announcement of the pause in interest rate hikes in November 2023, market expectations for the Fed completing its interest rate hike cycle have sharply strengthened.

US30Roll 1h

Historical data reveals that the U.S. stock market typically achieves the best returns in the year-end quarter. Analysts from AC Capital Markets reviewed the performance of the S&P 500 index since its establishment in 1957 and found that the average increase in the fourth quarter is 4% (compared to an average increase of only 2% in the first quarter).

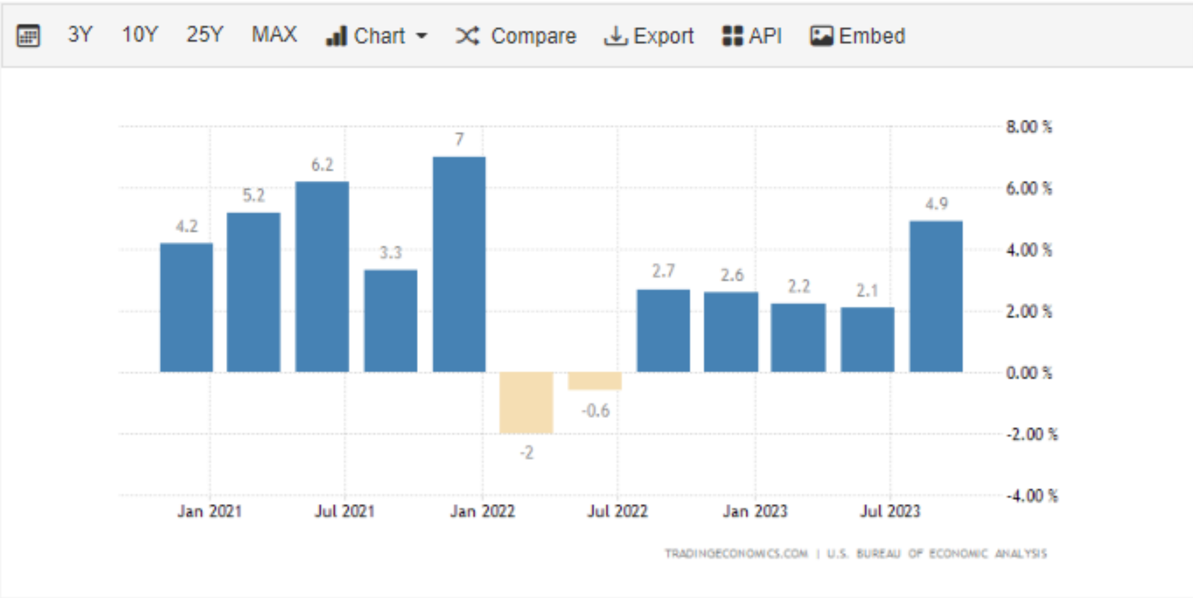
NAS100Roll 1d

For the fourth quarter of 2023, the market maintains a cautiously optimistic stance. U.S. stocks have surpassed expectations, the economy remains robust amidst contractionary monetary policies, indicating that most units within the economy are operating at full capacity. While the majority of this year's market returns came from large-cap technology stocks, there's an expectation of opportunities for small cap companies whose fundamentals have not fully ascended.

SPX500Roll 4h

Additionally, the consensus earnings growth expectation for 2024 in the market is around 12%. Despite an anticipated slowdown in economic growth next year, the decrease in inflation is expected to counteract the impact on earnings. This implies that in 2024, as the Federal Reserve begins cutting interest rates and facilitates a reduction in the cost of capital, there will be more upward momentum for the stock market and indices.

From a sector perspective, consumer spending remains healthy, supporting companies related to consumption. Although excess savings from residents related to the pandemic may soon diminish, the pace of wage increases is significant, suggesting that consumption can withstand a slight increase in unemployment. However, due to a substantial surge in government bond yields in the third and fourth quarters, the technology sector has experienced increased volatility, accompanied by noticeable and brief changes in valuation multiples.



Calendar	GMT	Reference		Actual	Previous	Consensus	TEForecast
2023-09-28	12:30 PM	QoQ Final	Q2	2.1%	2.2%	2.1%	2.1%
2023-10-26	12:30 PM	QoQ Adv	Q3	4.9%	2.1%	4.3%	4.0%
2023-11-29	01:30 PM	QoQ 2nd Est	Q3		2.1%		4.9%

In July of this year, with many economists adjusting their forecasts for the U.S. economy from a recession to a "soft landing," market sentiment has notably become more optimistic. Despite the diminishing likelihood of a deep recession, the text emphasizes the continued importance of recognizing the investment environment as the end of an economic cycle. Resilience of the U.S. economy will remain front and central for traders while trading individual U.S. stocks and indices.

Regarding economic output, the U.S. Gross Domestic Product (GDP) data remains stable, inflation rates are declining, and the economy has successfully avoided a recession so far. However, there are concerns about the potential weakening of consumer excess savings and the lagging impact of Federal Reserve interest rate hikes, possibly inhibiting economic growth and making it more challenging for companies to achieve profit growth potential.

For optimistic traders, focusing on market patterns dominated by the seven largest companies in the first half of the year, indicating a healthier market sign and a favourable environment for stock selection. Currently, some of the weakest-performing and most undervalued stocks are those with low volatility and lower beta coefficients.

Looking ahead to 2024, the U.S. presidential election and the Federal Reserve's interest rate-cutting cycle will dominate the entire U.S. stock market. More importantly, these two major themes will largely determine the direction of the U.S. Dollar. With the optimistic forecasts from the Federal Reserve at the end of 2023 continually reinforcing market sentiment for the 2024 interest rate environment, there is reason to anticipate that the U.S. Dollar will face more downward pressure in the first half of 2024. Forex traders should take this into consideration when positioning themselves in non-U.S. currency pairs and U.S. stock indices.

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Currency Markets in 2024: The Collapsing Dollar

In 2023, the performance of the US dollar became more complex after experiencing a sharp decline in 2022. The US dollar initially declined at the beginning of the year but recently rebounded due to a mix of the dollar's yield advantage and the mixed performance of global risk preferences. With the interest rate hike cycles of Western economies are almost coming to an end, central banks worldwide have adopted a more moderate stance towards the foreign exchange market, shifting their focus more towards growth differentials.

Given the relatively strong performance of the US economy, many economists believe that the period of weak US dollar has passed. In the fourth quarter of 2023, there is a shift towards a neutral view on the US dollar, especially concerning the euro and the pound. After consolidating recent gains, the US dollar might see some mild further appreciation for a period due to growth differentials. However, the moderate risk preference environment may limit the upside potential and strength of the US dollar.

EURUSD 1d

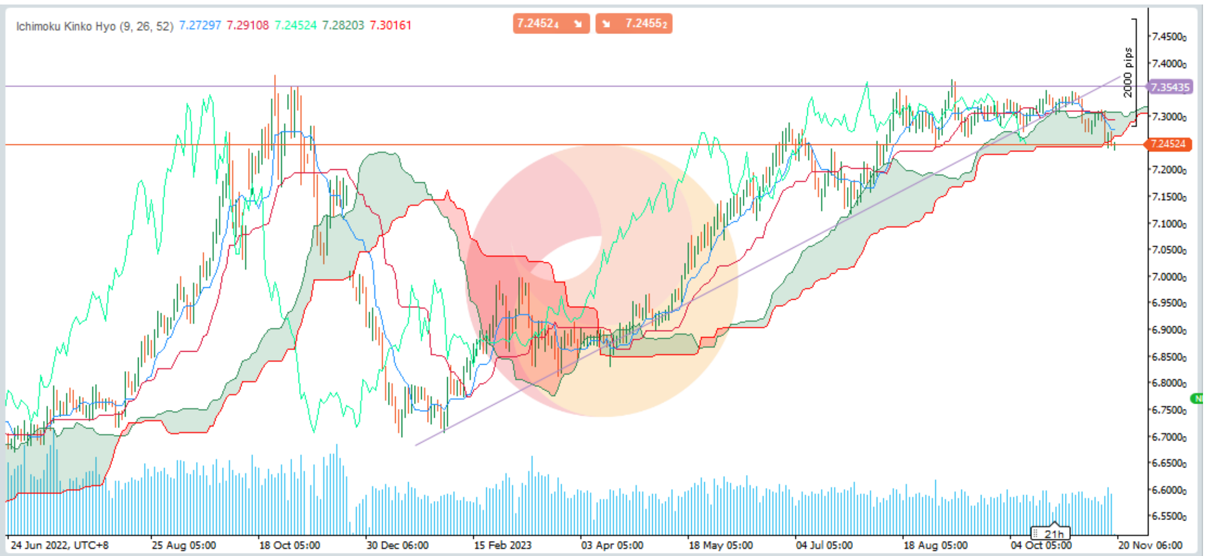
From a monetary policy perspective, as most of the tightening cycle is already behind us, economic cycle factors will become crucial. This includes the growth differentials between other economies and the US, as well as the spreads between these non-US currencies and the US dollar. While the risk environment remains crucial, interest rate differentials currently take a back seat as a driving factor for currency performance. As we enter 2024, the market will begin to anticipate rate cuts.

In the current market background, it is expected that the US dollar will first consolidate recent gains, with some gradual upside potential. The growth prospects for the United States look better relative to most G10 countries. However, the scenario of a soft landing should boost risk appetite and limit the upside potential of the US dollar. Although US yields are still relatively high, opportunities in emerging markets are also significant. For instance, in India, despite some minor yield disadvantages, strong manufacturing and substantial capital inflows continue to support the domestic economy and the demand for the rupee. Funds chasing high-yield, high-risk assets may flow out of developed economies and into these emerging markets.


EURUSD 1h

Regarding the Chinese yuan, as the currency of the world's second-largest economy, it faced constraints in 2023 due to factors such as a sluggish economic recovery, leading to a continuous depreciation throughout the year until signs of a rebound appeared in early November.

In terms of policy, China's monetary policy is not favourable for the yuan's appreciation, resulting in a relative yield disadvantage compared to the US dollar. However, policy stimulus to support Chinese economic activities and the resilience of global risk preferences may set a bottom line for the yuan in the medium to long term. Although policies seem to be moving in the right direction, the market is likely to maintain a cautiously optimistic attitude towards the yuan's trajectory in 2024.


USDCNH 1d

Among the G10 countries, the degree of divergence in global economic growth momentum will be a key factor in determining the extent to which the US dollar may further strengthen. This applies to the euro and the pound, as well as other G10 currencies. Once China shows signs of improvement, the Australian dollar may rise, and considering the significant improvement in China-Australian relations in November and the escalating trade interactions, there are reasons to believe that the Australian dollar, as a commodity currency, will gain more upside potential in 2024.

GBPUSD 4h

However, currently, we observe the Australian dollar trading horizontally. The fourth-quarter trend of the Australian dollar against the US dollar (AUDUSD) will depend to a large extent on the direction of the Federal Reserve's December decision and the Fed's outlook for the start of the rate-cut cycle in 2024. Considering the above factors, there is a possibility of a sustained rebound in the Australian dollar.

AUDUSD 4h

As for the yen, although further intervention by the Bank of Japan may create upward pressure on the currency, this brief upward trend will not have sustained substantive significance. Therefore, a neutral view is held. However, it is worth noting that Japan's inflation rate has consistently exceeded the central bank's ideal range, and the pace of economic recovery is not insignificant.

USDJPY 1d

Additionally, with the Bank of Japan relaxing yield curve control twice within three months this year, the market has started pricing in the possibility of the Bank of Japan completely exiting its negative interest rate policy. Currently, the market widely believes that this historic moment is likely to occur after the spring wage adjustment in April 2024. If wages increase in sync with inflation, the exit from the negative interest rate policy will be inevitable.

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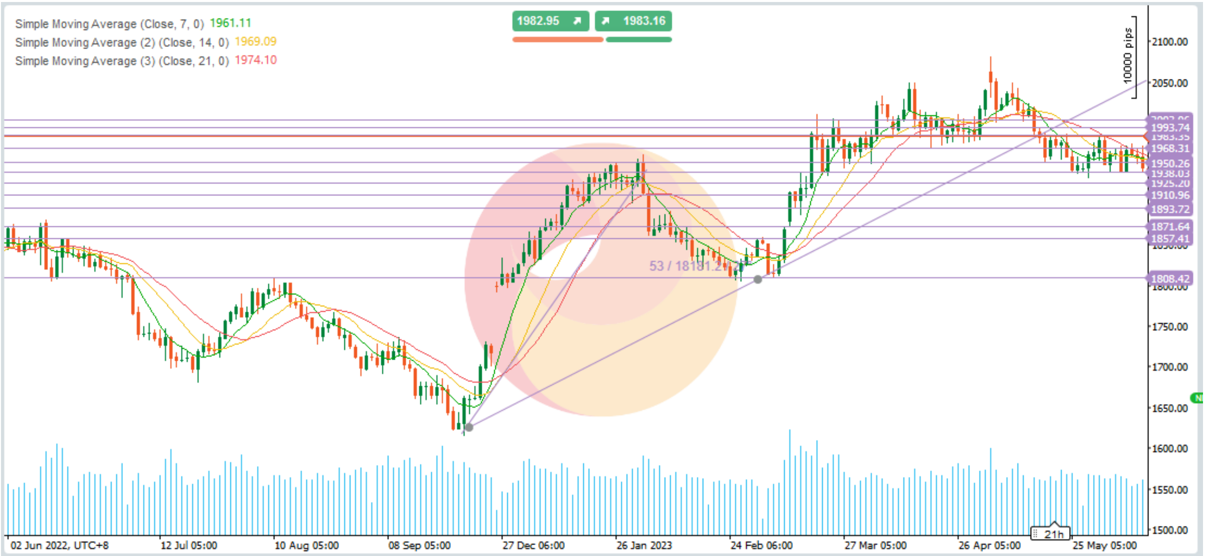
Precious Metals in 2024: More Miracles on the Menu?

This year, precious metals such as gold and silver have once again encountered historically rare opportunities. Gold (XAUUSD) hit a record high around mid-year, reaching nearly $2,080 per ounce.

Following that, gold prices reached a new record at the end of the year, hitting a high of $2,140 per ounce. The rise in gold prices was driven by continuous gold accumulation by central banks worldwide and robust demand in the international market for gold as a hedge against asset depreciation in a high inflation environment. Additionally, market expectations of a dovish turn in Federal Reserve policy played a contributing role in igniting the rally towards the end of the year. The driving force behind the rise in gold prices was the continuous accumulation of gold by central banks worldwide and the robust demand in the international market for gold as a hedge against asset depreciation in a high inflation environment.



XAUUSD 1d

Entering the fourth quarter, the rapidly deteriorating situation in the Middle East has reignited global investors' demand for the safe-haven asset, propelling gold from around $1,830 per ounce to above the $2,000 milestone.

XAUUSD 1d

Although the gold price subsequently retreated, it has remained above the $1,900 level, a perfect manifestation of gold's safe-haven attributes.

Looking ahead into 2024, precious metals may be influenced by risk appetite and the outflows from fixed income assets in a globally high-yield environment. Currently, low inflation and higher real interest rates pose challenges to gold. While demand from China's manufacturing sector may rebound, it might take some time. Therefore, we maintain a neutral stance on gold and silver, consistent with the relatively stable to slightly stronger U.S. dollar.

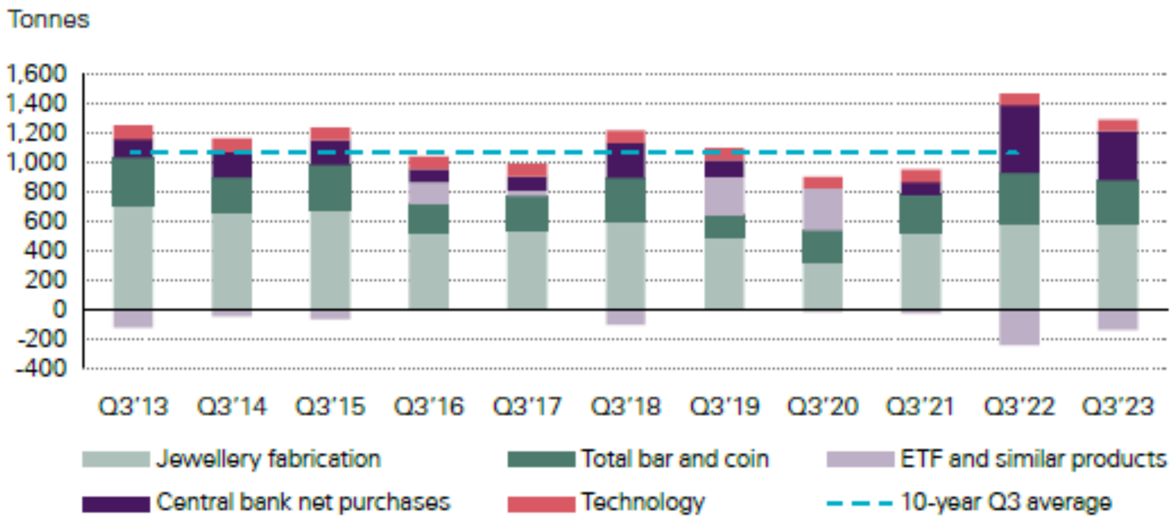
XAUUSD 1h

Central banks' net purchases, robust demand for gold bars and coins, and geopolitical tensions have driven gold prices against the backdrop of strong bond yields and a robust U.S. dollar. Despite hesitancy from ETF investors and speculative buyers so far this year, given the solid fundamentals and changing sentiments, we anticipate growth opportunities for price increases in the fourth quarter.

XAUUSD 1d

Although rising bond yields provide an alternative source of actual income for many investors, especially in Europe, we believe that the fundamental support for gold remains strong, benefiting from geopolitical tensions and low sentiments. This creates opportunities for net inflows into these areas in the fourth quarter.

Gold demand in Q3: weaker y/y but healthy compared with its 10-year average



Source: Metals Focus, Refinitiv GFMS, World Gold Council

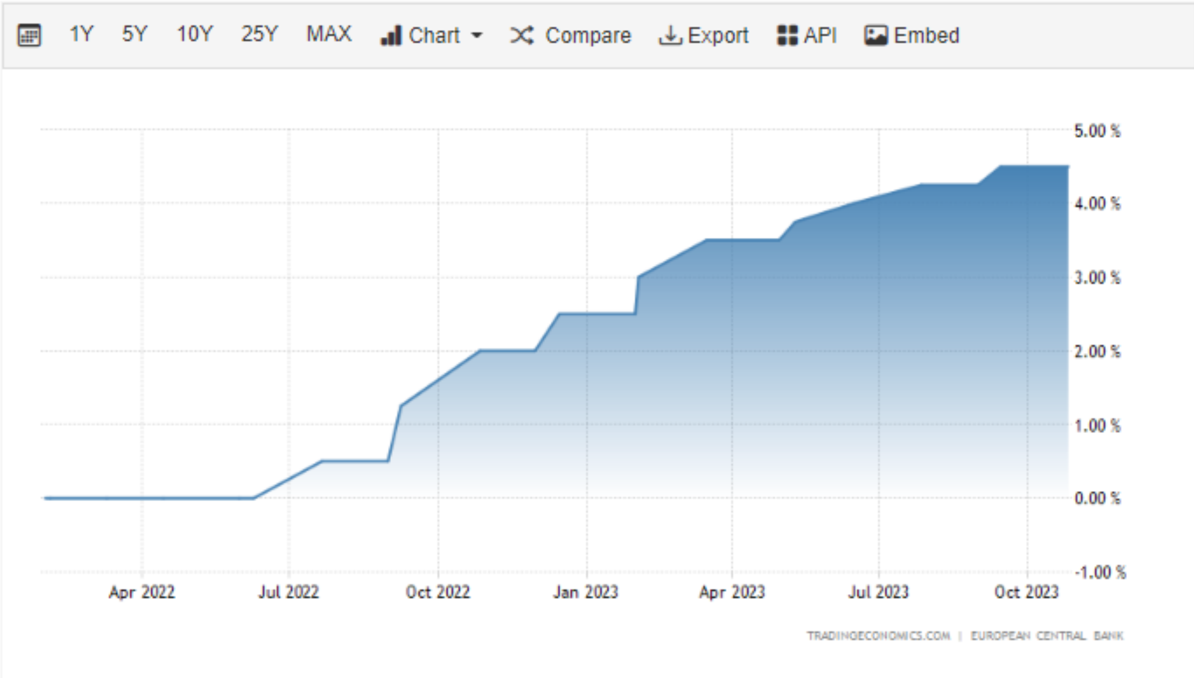
On the retail side, the unexpectedly strong demand for gold bars and coins in China and India may continue, driven by different motivations. China's economic and geopolitical uncertainties seem to be propelling demand for safe-haven assets, while India's economic strength leads to wealth-driven purchases.

These two factors are not contradictory; they contribute to building the long-term performance foundation for gold. European demand has not yet recovered, although in the United States, there has been early fourth-quarter interest in price increases, which may gradually shift towards Europe. Therefore, we maintain a cautiously optimistic outlook on the prospects for gold.

European Markets in 2024: Shadow Game

Shifting our attention to the European stock market, the economic growth in 2023 continues to disappoint investors. Persistent inflation and aggressive central bank tightening pose challenges to the Eurozone economy. Although the interest rate hike cycles of the European Central Bank (ECB) and the Bank of England (BoE) are nearing their end, the room for interest rate cuts is much smaller compared to the United States. Therefore, policies are likely to remain more hawkish, indicating a long-term high-interest-rate environment.

Geopolitically, political and military conflicts continue to weigh on the European region, creating an unstable economic growth environment. The slow pace of China's economic recovery also fails to contribute to a swift recovery in Europe.



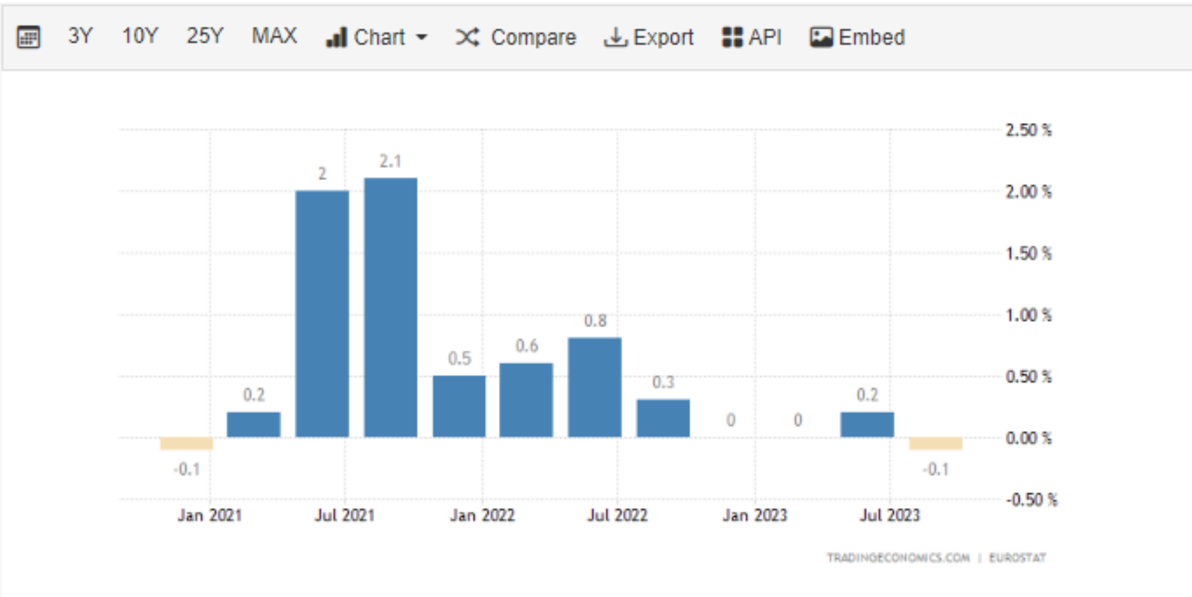
Calendar	GMT	Reference	Actual	Previous	Consensus	TEForecast
2023-07-27	12:15 PM		4.25%	4%	4.25%	4.25%
2023-09-14	12:15 PM		4.5%	4.25%	4.25%	4.5%
2023-10-26	12:15 PM		4.5%	4.5%	4.5%	4.5%
2023-12-14	01:15 PM					
2024-02-01	01:15 PM					

The performance of the China Consumer Index has been disappointing, particularly dealing a severe blow to Europe's tourism and restaurant industries. Many economists had anticipated a robust recovery in Chinese and Asian consumption and tourism after the end of the pandemic. However, this is not only the case for the manufacturing sector, and profit expectations for the second half of 2023 remain weak, with a potentially unfavourable start to 2024.

While the European market initially led the global markets at the beginning of the year, differences in growth with the United States and the relatively more hawkish stance of the European Central Bank compared to the Federal Reserve have resulted in the European market consistently underperforming throughout the year. Additionally, the cyclical nature of the European market and the lack of a massive technology sector have hampered performance.

UK100Roll 4h

From a valuation perspective, these factors limit the ongoing valuation advantage of the European stock market. Although market valuations are still close to the bottom of the 5-year average, the lack of growth momentum and the ongoing inflation and central bank policies cannot boost market sentiment. Therefore, Eurozone stocks are underweighted in many large institutions, while the UK stock market is mostly neutral.



Calendar	GMT	Reference		Actual	Previous	Consensus	TEForecast
2023-10-31	10:00 AM	QoQ Flash	Q3	-0.1%	0.2%	0%	0.0%
2023-11-14	10:00 AM	QoQ 2nd Est	Q3	-0.1%	0.2%	-0.1%	-0.1%
2023-12-07	10:00 AM	QoQ 3rd Est	Q3				

In this context, adhering to a late-cycle strategy in stock investment is evidently the most sensible approach, as the economy has not yet entered a new cycle of growth after the recession. This means diversifying risk exposure and focusing on financially robust companies with sustainable business models. The key challenge, given the complex situation after the market's strong performance this year, is to find these companies at attractive valuations.

Similar to the U.S. stock indices, when traders position themselves in the UK and European stock markets in 2024, it is crucial to pay close attention to the attitudes and actions of the Bank of England (BoE) and the European Central Bank (ECB) regarding monetary policy. If the interest rate environment tends towards accommodative policies, stock markets and indices with higher negative correlations to interest rates may see upward momentum.

However, if the lack of policy direction makes it difficult for the market to interpret, a range-bound trend might dominate the market until clarity emerges.

Reference：

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2. https://www.rba.gov.au/media-releases/2022/mr-22-05.html
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4. https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/previousReleases
5. https://www.bls.gov/home.htm

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