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Parmenion Investment Management's

Q1 ECONOMIC SURVEY RESULTS

We surveyed a panel of highly regarded economist/strategist from some of the largest asset managers to understand key views and the wider consensus. We start by asking their views on inflation and growth which are both important in determining the current stage of the economic cycle. Additionally, we look to understand their view on liquidity and sentiment, and finally which asset classes and regions they are most bullish or bearish on currently. We then collate the data to see where consensus is and potentially where there are some differing opinions. This helps us in our discussions as a tactical committee internally however we also want to share this data with our clients and hope it supports you with client conversations.

Simon Molica
Senior Investment Manager

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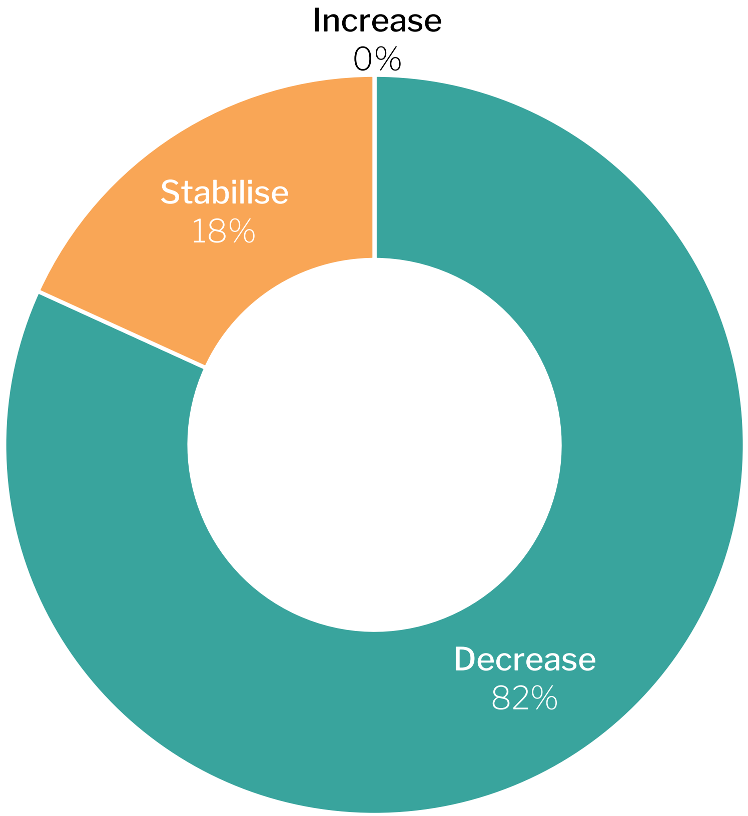
GLOBAL INFLATION VIEWS

Global inflation has already fallen from its peaks of 2023; however, the question is what happens from here? It's been widely commentated that the final push, back towards the 2% target could be the trickiest. Our panel of economists and strategist firmly believe inflation will continue to fall over the next 12 months. If this happens, central banks can kick start the interest rate cutting cycle. This should help economies start healing from one of the quickest monetary policy tightening cycles in history. Expectations for how many cuts we'll see in 2024 and 2025 have reduced from expectations in Q4 2023. This is largely because inflation is being a little stickier, particularly on the services side as labour markets remain strong. However, interest rate cuts are still very much expected, and we also hold that view.

Global Inflation views over the next 12 months



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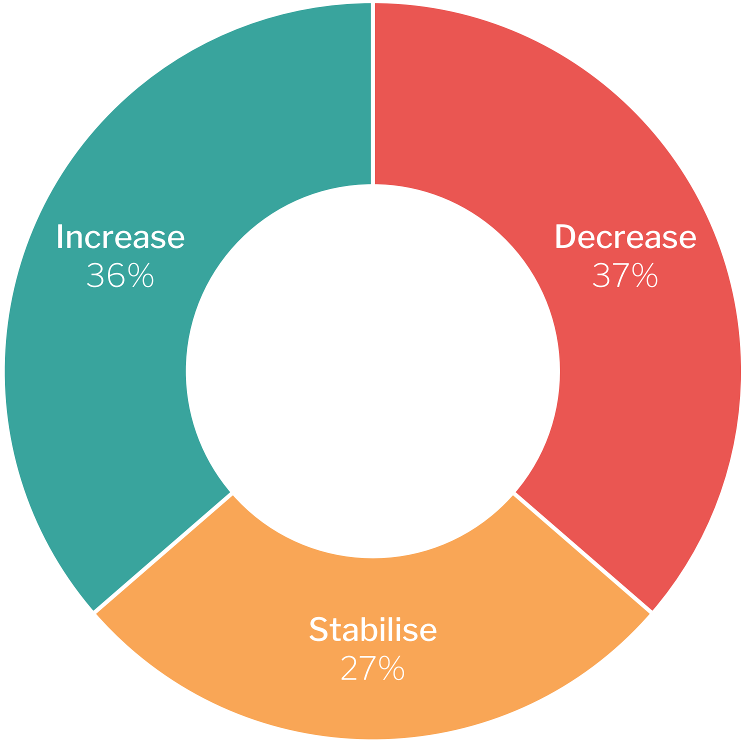
GLOBAL GROWTH VIEWS

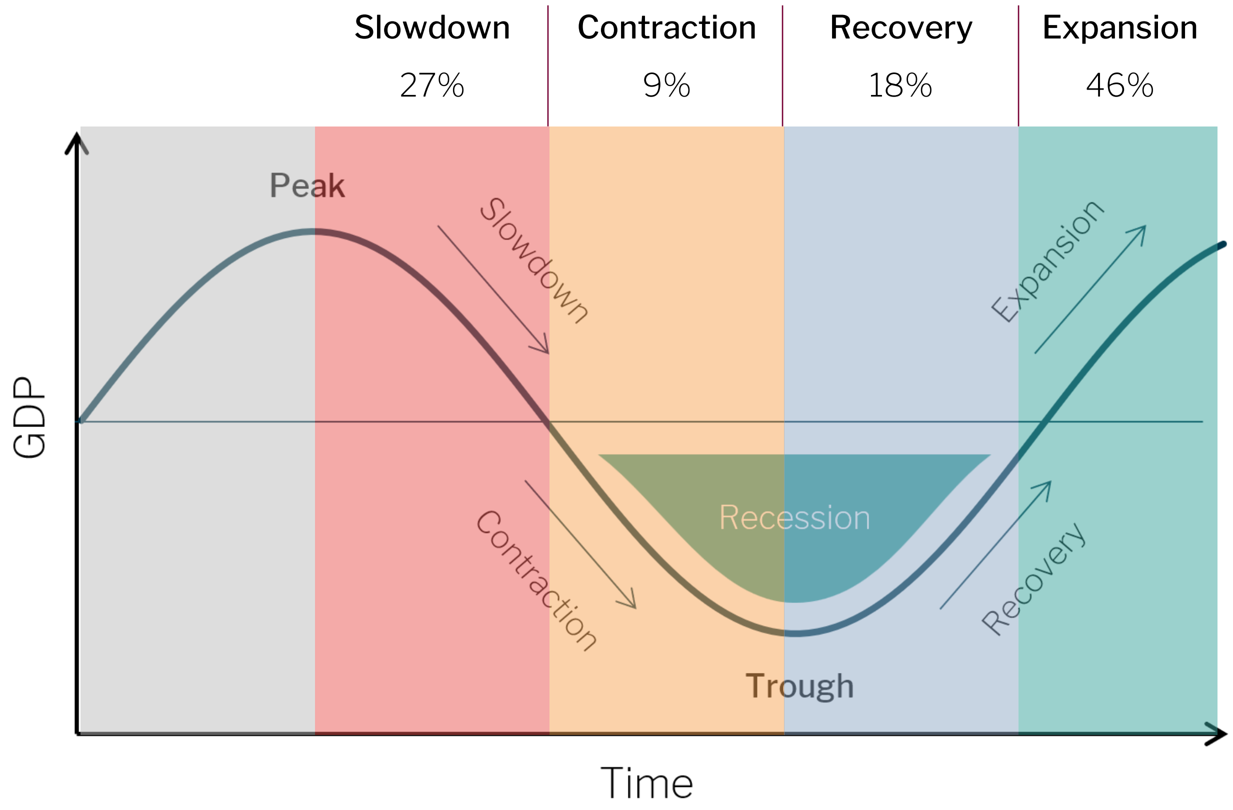
Unlike global inflation, there's little consensus for global growth expectations across the panel. The sheer speed and extent of rate hikes witnessed in the developed world caught market participants off guard. The time lags on monetary policy impacts are well known. So, we're still in a 'wait and see mode' on how this rate hiking cycle will affect global growth. From the mixed results, it's safe to assume the jury is still out on whether we experience a recession, soft landing, or no landing at all. Clearly each option has a materially different outcome for global markets. The IMF project global growth to be 3.1% in 2024, this is below the 2000-2019 historical average of 3.8%. Given the current environment and differing central bank responses it seems likely that growth could diverge aggressively across economies.

Global Growth views over the next 12 months



ECONOMIC CYCLE ASSESSMENT

Our panellists' collective view indicates the cycle is most likely in expansion or slowdown. This seems slightly odd on the surface. The views were neither early expansion or late slowdown – which suggests the expansion is mature, or the slowdown has only just begun. Typically, this means growth is above trend but set to decelerate. In expansion and slowdown, equities tend to hold up well but the type that are set to benefit differ depending on the regime. For instance, cyclical equities and momentum as a style can be favoured in expansion. On the other hand, defensive and quality tend to fair better in a slowdown. Caution is warranted as quantitative tightening, the COVID Pandemic and geopolitical instabilities could heavily distort the path of future cycles.



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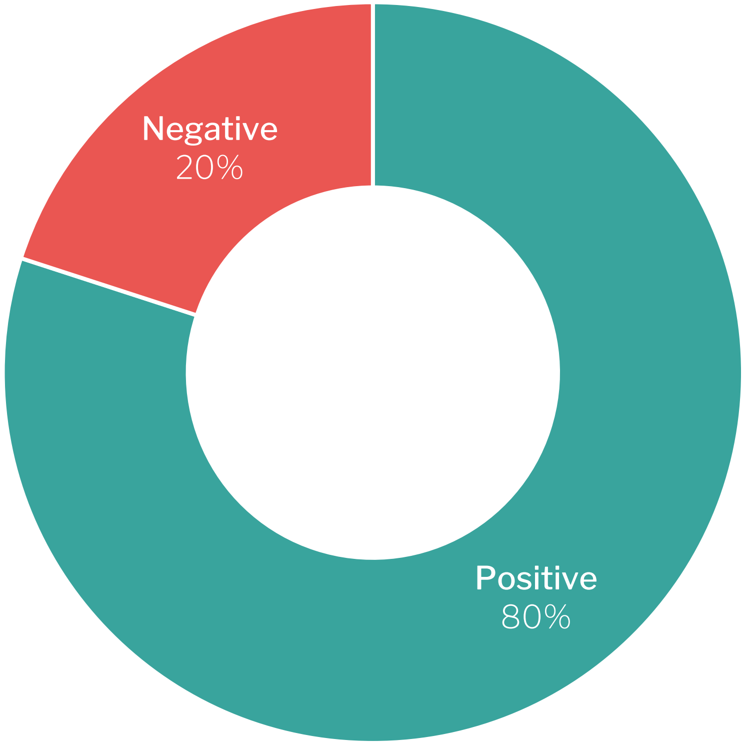
SENTIMENT

The panellist views on sentiment appears positive. This aligns with the well-established CNN Business Fear & Greed Index, which recognises the market is being driven by greed so far this year. Although early April indications show it moving closer to neutral. With record high stock markets and low levels of volatility, it has been a positive start to 2024. With peak inflation in the rearview mirror and investors waiting for the easing cycle to start, positive sentiment isn't surprising, at this stage. However, there's still a lot of uncertainty. For example, if inflation rears its ugly head again, sentiment could quickly change. Additionally, heightened geopolitical tensions and election outcomes could easily alter sentiment throughout 2024.

Views on Market Sentiment



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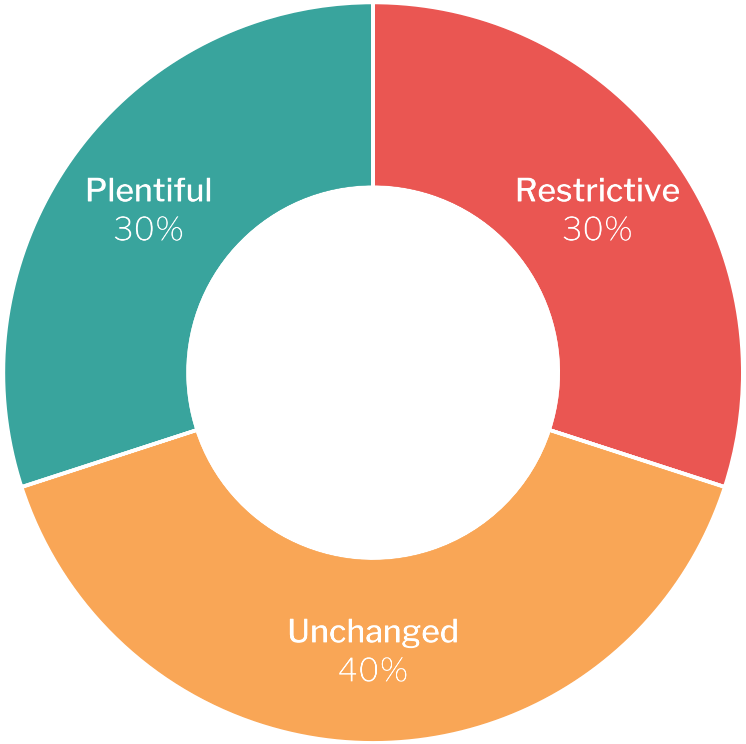
LIQUIDITY

The survey results provided little certainty around the state of liquidity, with very mixed responses. Liquidity can be measured in a variety of ways and the continued shrinkage of the Fed balance sheet via its quantitative tightening (QT) programme may present issues.
QT represents a material change in liquidity conditions when compared to the previous decade where the market was flooded with liquidity by quantitative easing. Several of the survey respondents did include comments around the overnight reverse repo facility (which has been used as a source for market liquidity over the past 18 months, offsetting QT) becoming depleted. This could also cause issues given it serves as a vital tool to maintain stability in the money market ecosystem.

Market Liquidity Assessment



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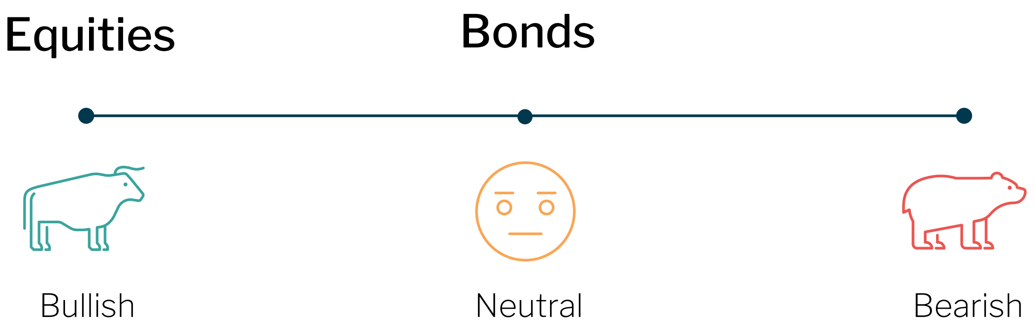
Market Views

The overall tone of the key capital markets from the participants in the survey for the next 12 months is as follows:



Overall, the survey results showed a tilt towards a bullish view for equities and a neutral view on Bonds. Regionally, participants were most excited about the prospects for Japanese equities, which have performed well recently on the back of Yen weakness which tends to help corporate earnings. Other factors that have impacted the revival of Japanese equities has been cheap valuations and a corporate governance makeover that's finally being taken seriously. So, the view seems to be that this can continue to thrust Japanese equities further forward over the next 12 months. The high-level Bond view was neutral but no-one in the survey felt bearish on prospects for Government Bonds. In the higher credit risk arena of High Yield however, the volume of nervousness picked up with a few votes on the bearish side. We'll monitor the views across the credit breakdown as this is a good indicator of risk appetite.

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Thank You

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