Asset Management One Co., Ltd.

Global Outlook 2024

January 2024

Contents

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Creating a sustainable future through the power of investment

23-045 GBDG

Forecast Summary

Economic Forecast Summary for 2024

Calendar Year		2022 (Actual)	2023 (AMO Estimate)	2024 (AMO Forecast)
US	Real GDP (YoY%)	1.9	*2.4*	*1.7*
	Core CPI (YoY%)	6.2	*4.8*	*2.2*
Eurozone	Real GDP (YoY%)	3.4	*0.5*	*0.5*
	HICP (YoY%)	8.4	*5.5*	*2.7*
China	Real GDP (YoY%)	3.0	*5.3*	*4.7*
	CPI (YoY%)	2.0	*0.0*	*1.9*
Japan	Real GDP (YoY%)	1.0	*2.1*	*1.2*
	Core CPI (YoY%)	2.3	*3.1*	*2.5*

Stock Market Forecast Summary for 2024

Calendar Year		2022 (Actual)	2023 (Actual)	2024 (AMO Forecast)
US	S&P500	3840	*4770*	*4900*
	YoY%	-19.7	*24.2*	*2.7*
Eurozone	Eurostoxx50	3794	*4521*	*4660*
	YoY%	-11.9	*19.2*	*3.1*
China	Shanghai Composite	3089	*2975*	*3150*
	YoY%	-14.6	*-3.7*	*5.9*
Japan	TOPIX	1892	*2366*	*2650*
	YoY%	-5.1	*25.1*	*12.0*

Bond Market Forecast Summary for 2024

Calendar Year	2022 (Actual)	2023 (Actual)	2024 (AMO Forecast)
UST 10-Year Yield (%)	3.87	*3.87*	*3.50*
Germany 10-Year Yield (%)	2.57	*2.03*	*1.80*
JGB 10-Year Yield (%)	0.42	*0.63*	*1.00*

Source: Bloomberg, FactSet, AMOne

United States

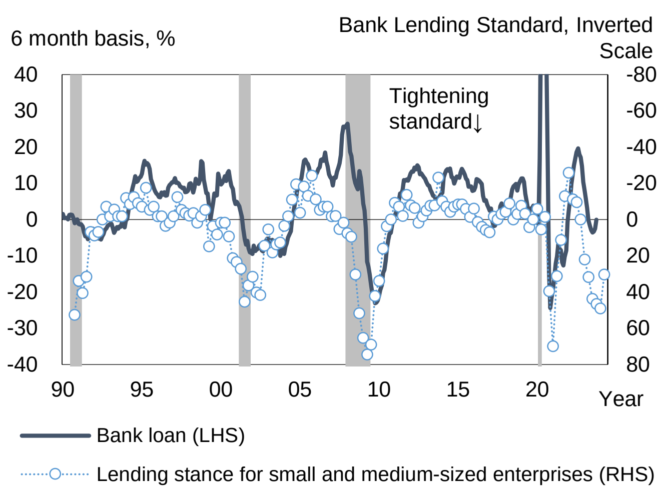
Naoki Murakami
Senior Economist

Economic outlook

Since Q4 2023, the US economy has experienced a slowdown due to the noticeable impact of higher interest rates. However, the slowdown in 2024 is expected to be moderate. There will not be an intensification of tightening measures through bank intermediation, and adjustments in the labor market will be limited. We expect a soft landing, and it is unlikely that a recession characterized by a sharp and significant decline in economic growth will take place.

In the banking industry, we are already witnessing lending stances becoming as strict as during past economic downturns. However, there is a higher likelihood that the decrease in bank lending will be limited, even with the banks tightening their lending stance (Figure 1). We expect that the dampening effect of financial tightening on the economy will not significantly intensify, thus becoming one of the factors that mitigate the economic slowdown in 2024.

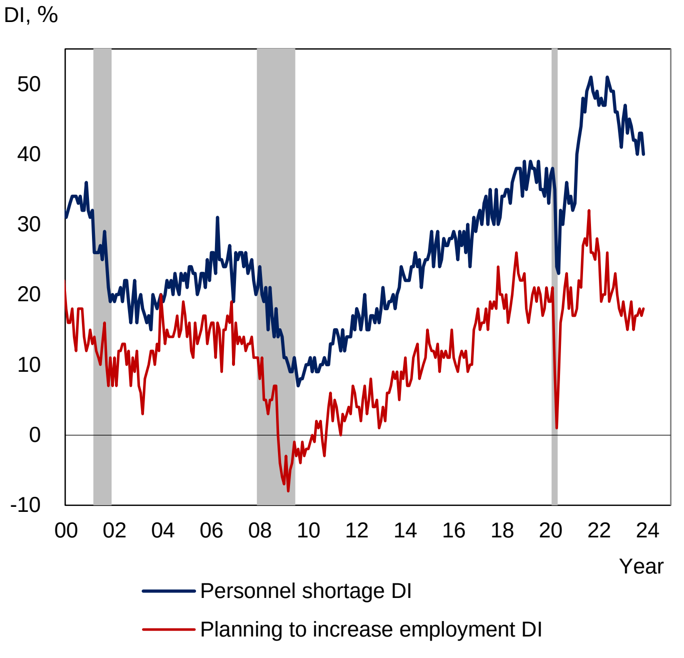
Figure 1: Bank Loan & Lending Stance



Sources: LSEG Data & Analytics
Note: 1. Bank Loan: Monthly data from January 1990 to October 2023
2. Lending stance: Quarterly data from 2Q 1990 to 4Q 2023
3. Leading stance reflects a six-month forecast
4. The gray areas indicate a recessionary phase

Furthermore, in the labor market, there continues to be an improvement in the supply-demand balance in 2023. However, many companies, especially those with labor-intensive operations, are still facing labor shortages. According to surveys conducted among small and medium-sized enterprises, the number of companies reporting a shortage of personnel is still higher than it was in 2019, before the Covid-19 pandemic (Figure 2). It is believed that many companies prioritize retaining employment, which has led to a limited increase in job cuts. The mild adjustment in employment would result in limited overall economic impact.

Figure 2: Personnel Shortage Situation & Plan to Increase Employment in Companies



Sources: LSEG Data & Analytics
Note: 1. Monthly data from January 2000 to November 2023
2. The gray area indicate a recessionary phase

Taking these factors into account, we expect that the economic growth rate will slow down until the first half of 2024, with a gradual recovery in the latter half of the year.

In 2022, core inflation rose to the 5% range, but high inflation is expected to decelerate throughout 2023. By the end of 2023, the trend of inflation appears to have steadily declined to around 3%. The easing of supply constraints in the manufacturing sector and the improvement in the labor market's supply-demand balance have contributed to a decrease in inflation on both the demand and supply sides. In 2024, there is an expectation for a gradual deceleration of inflation towards the 2% range.

Monetary Policy and Political Outlook

The Federal Reserve Board (FRB) is growing confident in its progress in controlling inflation since the middle of 2023. It is expected that the FRB will start lowering interest rates as early as the middle of 2024, after assessing the inflation control around the mid-2% range. It is also expected that the FRB will be able to respond flexibly to changes in economic trends and implement policy measures accordingly.

Risk Scenarios

Although deemed unlikely, the biggest risk scenario is that the growth depressing effects of monetary tightening suddenly become apparent, putting a sudden brake on economic growth and causing it to stall for several quarters. On the political front, the presidential election in 2024 is increasingly likely to be a battle between President Joe Biden and Former President Donald Trump. If there are statements from Mr. Trump that increase distrust in economic policies, such as advocating for stronger intervention in monetary policy, it could temporarily worsen market sentiment in the financial markets.

Eurozone

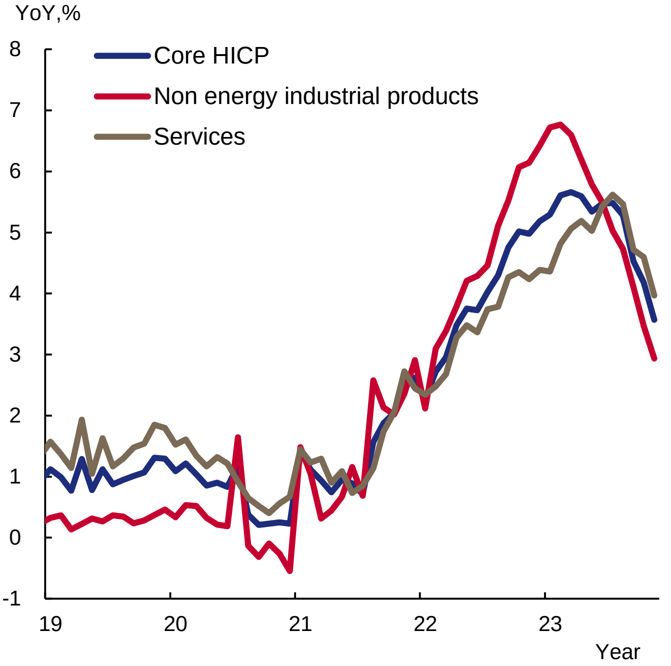
Taichi Kadowaki
Economist

Economic and Inflation Outlook

The negative impact of high inflation on consumption and the curbing of economic activity due to rising interest rates are putting downward pressure on the euro area economy. However, despite these challenges, the labor market remains resilient with record-low unemployment rates, which will support consumption. As a result, real GDP growth is expected to remain stagnant at around 0% in the January-March quarter of 2024. Nevertheless, the Eurozone economy is expected to gradually pick up from mid-year onwards, driven by (1) a recovery in real incomes due to slower inflation and (2) a rebound in economic activity following interest rate cuts.

Regarding prices, the core HICP (consumer prices) that the European Central Bank (ECB) focuses on is anticipated to slow down to the 2% YoY level by spring 2023, primarily due to weak economic activity and other factors (Figure 1). However, it should be noted that the overall HICP might experience temporary increases due to the removal of price inflation measures by national governments and the elimination of the base effect caused by the significant rise in energy prices in the previous year.

Figure 1: Core HICP and Components

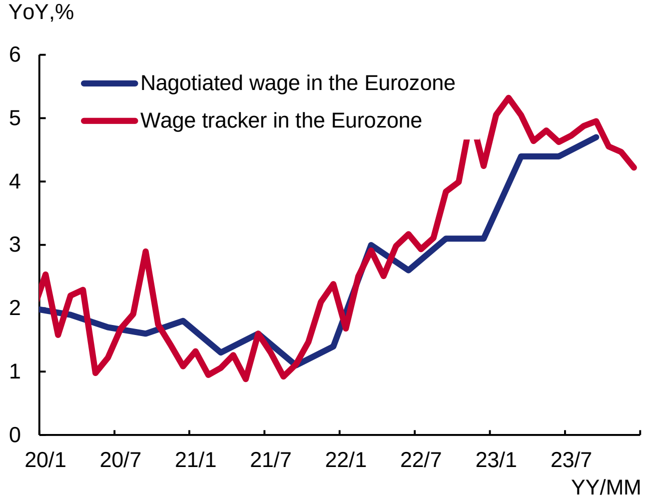


Source: LSEG Data & Analytics
Note: Monthly data from January 2019 to November 2023

Monetary policy

The market is starting to anticipate that the ECB will cut interest rates in the spring of next year. This expectation is based on a slowing trend in core HICP and increasing indicators of softness in economic activity. However, the ECB is closely monitoring developments in wage negotiations, which are scheduled to take place in the spring of 2024. It is likely that the ECB will maintain its vigilance regarding inflation and keep the policy rate unchanged until the results of the wage negotiations are confirmed. Recent data, such as the wage tracker, suggests that wage growth may have peaked and is expected to slow down in the future (Figure 2). Therefore, we anticipate that the ECB will start cutting interest rates from June 2024.

Figure 2: Negotiated wage and wage tracker



Source: LSEG Data & Analytics, Indeed

Note: 1. Negotiated wage in the Eurozone: Quarterly data from 1Q2020 to 3Q2023

2. Wage tracker in the Eurozone: Monthly data from January 2020 to December 2023

3. The wage tracker reflects a five-month forecast

Risk scenarios

We see a risk scenario where the high inflation trend may persist due to escalating situations in Ukraine and clashes between Israel and Hamas, leading to further increases in energy and food prices, and continued high wage growth.

Of particular concern is the sustained increase in wages, as it may contribute to persistent high inflation. If high inflation continues, it could have a negative impact on consumption. Additionally, there is a possibility that the current high policy interest rates will need to be maintained for an extended period to contain inflation, which in turn is expected to prolong the economic downturn.

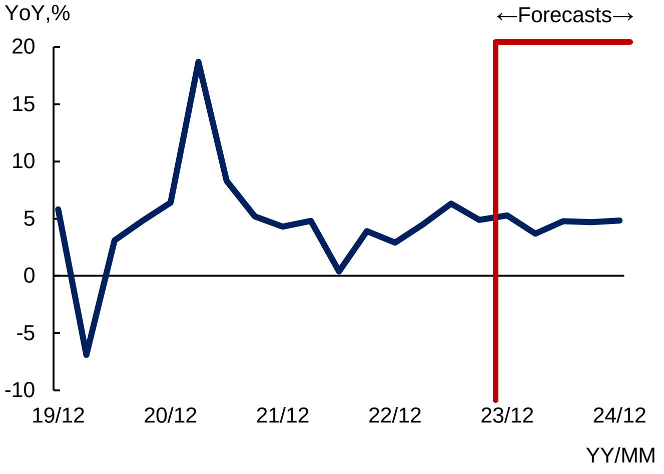
China

Yukinari Sukada
Economist

Economic Outlook

In 2024, the Chinese economy is expected to enter a cyclical recovery phase following the completion of inventory adjustments in the manufacturing sector. The Chinese government's fiscal policies and monetary easing measures will support the economy, and we project the GDP growth rate to reach 4.7% YoY (Figure1).

Figure 1: Real GDP Growth Rate Forecast



Source: LSEG Data & Analytics
Note: Quarterly data from 4Q 2019 to 4Q 2024

One significant risk factor is the property debt crisis faced by real estate developers. However, the authorities have requested increased lending to real estate developers from the banking sector to address this issue. Additionally, urban redevelopment plans have been announced, which are expected to involve fiscal expenditures on real estate development. This suggests that the debt payment difficulties for developers may improve. In such a case, the real estate issue could shift from being a developer's problem to a balance sheet problem for households.

If the US and Europe can avoid a severe recession, external demand is not expected to decline significantly, which will limit the impact on the Chinese economy. However, regarding consumption, it is possible that households may undergo short-term balance sheet adjustments due to a decline in real estate prices, resulting in a slower recovery. We believe that the recovery in the Chinese economy in 2024 will be driven by the manufacturing sector.

Prospects for fiscal and monetary policy in 2024

In the Central Economic Work Conference to discuss the economic policy in 2024, given the importance of stabilising the economy, we expect that the authorities will continue fiscal stimulus and monetary easing to support the economy. However, both are not expected to be large-scale for the following reasons:

Regarding monetary policy, due to the shrinking interest margin in the banking sector, it is likely to result in only a minor interest rate cut. Moreover, there is an increasing demand for liquidity for the refinancing of local government debts, which may lead to a monetary policy operation that prioritizes funding supply rather than interest rate cuts.

As for fiscal policy, while the central government is expected to increase general expenditure, there remains uncertainty about whether special expenditure, which mainly consists of expenditure by local governments for debt refinancing of LGFVs (Local government financing vehicles), will increase. It is important to note the possibility that the overall size of expenditure, combining general and special accounts, may not expand. The government's budget proposal for 2024 will be the focus in the upcoming National People's Congress in March.

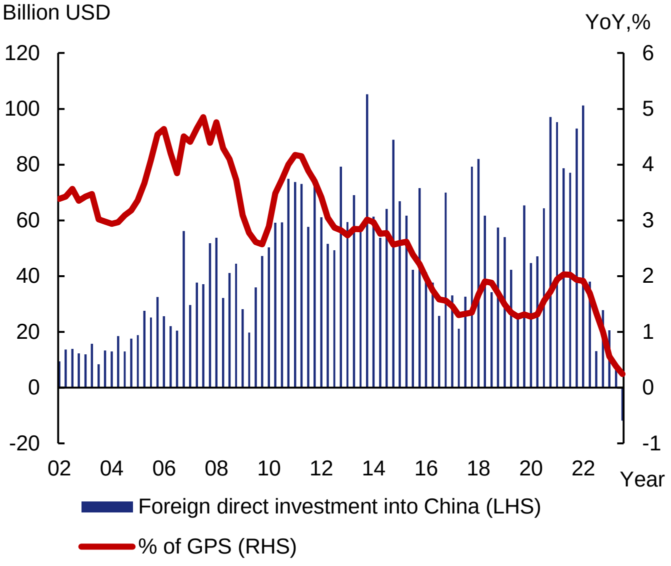
Risk Scenarios

The risks surrounding the Chinese economy in 2024 are as follows; (1) failure to recover sentiment among households and businesses, leading to a second dip in consumption and investment, (2) the adoption of a more contractionary fiscal policy than anticipated to address local government debt issues, and (3) accelerated withdrawal of investments from China by overseas companies. All of these risks present a downward pressure on the economy.

In particular, if sentiment fails to recover, resulting in a continued slowdown in the economy and the manifestation of the second risk of aggressive local government debt resolution, the growth rate could potentially drop to the 3% range.

It is worth noting that the third risk has already begun to materialize. Foreign direct investment (FDI) in China has been experiencing a downward trend since 2022. In the third quarter of 2023, there was a shift from inflows to outflows, marking the first time this has occurred since the beginning of statistical records. Over the past four quarters, this represents a YoY decline of around 1% of GDP. If foreign companies accelerate their moves away from China, this could weigh heavily on the Chinese manufacturing sector, which has begun to recover (Figure2).

Figure 2: Changes in Foreign Direct Investment into China



Source: LSEG Data & Analytics
Note: 1. Quarterly data from 1Q 2002 to 3Q 2023
2. The percentage of GDP shows the sum of last 4Q.

Japan

Yuko Iizuka
Economist

Economic Outlook

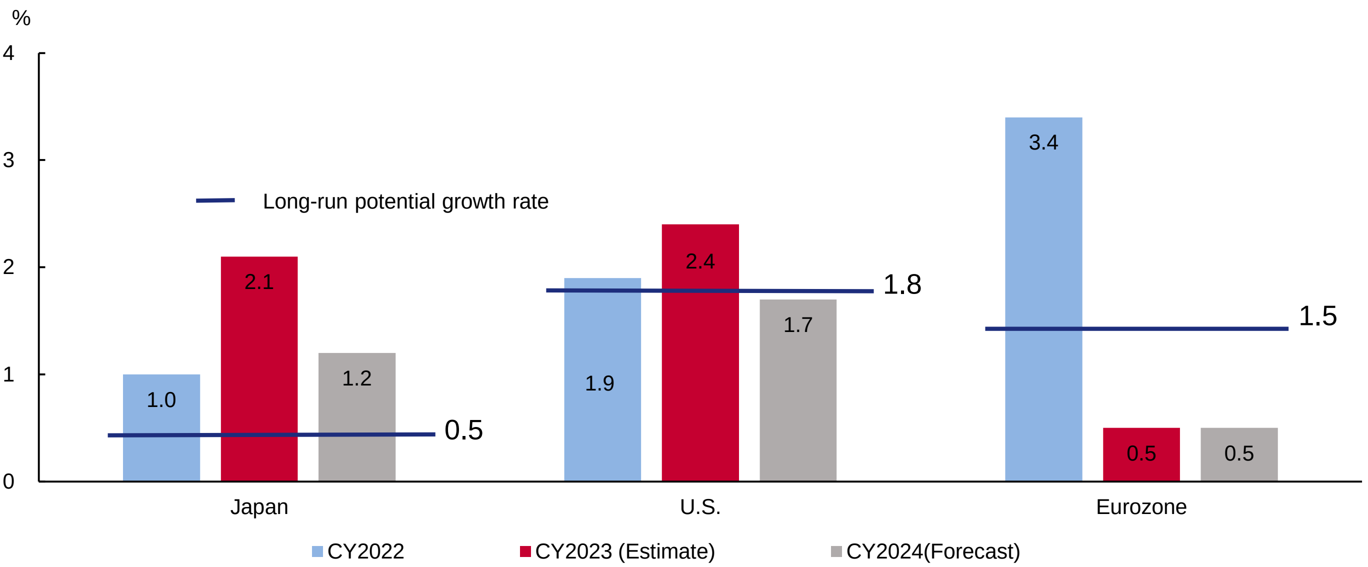
In the recent July-September quarter of 2023, Japan's real GDP growth rate turned negative for the first time in three quarters. Both consumption and capital investment decreased for two consecutive quarters, but this was due to temporary factors such as a slowdown in consumption recovery, which had been propelled by the resumption of economic activities, and temporary delays in capital investment.

Although momentum has slowed from the initial phase of economic normalization, Japan's economy is expected to continue on a recovery track in 2024. It is anticipated that a positive cycle of price and wage increases will begin, surpassing the potential growth rate, leading to a gradual inflationary trend and avoiding deflation.

The driving forces of the Japanese economy include (i) consumption underpinned by the government's energy price control measures, cash benefits to households, accumulated savings during the pandemic, and wage increases, (ii) capital investment driven by expansion of digital transformation (DX) and investment to enhance operational efficiency against the backdrop of solid corporate earnings and labor shortages, and (iii) further recovery of inbound tourism demand. Unlike the U.S. and Europe, which have been impacted by rate hikes, it is expected that Japan's real GDP growth rate will continue to exceed the potential growth rate next year.

"Japanese real GDP growth will continue to exceed the potential growth rate unlike the U.S. and Europe."

Real GDP Growth



Source: Japan Cabinet Office, U.S. BEA, Eurostat
Note: Figures for CY2023 and CY2024 were estimated and forecasted by AMO

Forecast Summary

Calendar Year	Actual 2021	Actual 2022	AMO's Estimate 2023	AMO's Forecast 2024
Real GDP (YoY, %)	2.6	1.0	2.1	1.2
Core CPI (YoY, %)	-0.2	2.3	3.1	2.5
JGB 10-Year Yield (%)	0.07	0.42	0.90	1.00
USD/JPY	115	131	150	140
TOPIX EPS	135	146	160	172
YoY, %	82.8	7.9	9.5	7.5
TOPIX	1992	1892	2470	2650
YoY, %	10.4	-5.1	30.6	7.3

Source: Bloomberg, Factset
Note: The data doesn't suggest or guarantee any future economic situations, market outlook, other trends related to investment environments, etc.

While the Bank of Japan (BoJ) is likely to proceed with the normalization of monetary policy as the economy emerges from deflation, long-term interest rate increases are expected to be restrained compared to the U.S. and Europe, and an accommodative monetary environment is expected to continue.

The core consumer price index (core CPI), excluding fresh food items, has risen 2.8% in September from a year ago, and has remained at a high growth rate above 2% for the past 18 months. It is projected that this trend will continue in the coming year, with the core CPI remaining above 2%. While the growth in prices of goods are expected to slow down following the peak-out of import prices, the increase in service prices supported by wage hikes will lead to a rise in inflation rates from the previous zero percent range to around 1%. The goal set by the late Prime Minister Shinzo Abe's administration of achieving a nominal GDP of 600 trillion yen by 2020 is expected to be achieved, albeit with a few years of delay.

Monetary Policy and Political Outlook

The BoJ under the new governor Kazuo Ueda has gradually relaxed the yield curve control (YCC) in 2023. The full normalization of monetary policy, i.e. simultaneous termination of YCC and negative interest rates, is expected to take place in early 2024, between January and April. While some market participants anticipate the normalization to occur in January, considering that the BoJ gives importance to the positive transformation of the output gap, an economic measure of the difference between the actual output of an economy and its potential output, which is increasingly likely to be delayed, it is more likely to occur in April 2024. The removal of the negative interest rate, which is considered as a shift towards monetary tightening, is expected to take place simultaneously with the termination of YCC. Although the upward pressure from overseas interest rates is expected to weaken, it is possible that new forward guidance may be introduced to restrain a potential sharp increase in long-term interest rates.

Nevertheless, the BoJ is expected to maintain low interest rates and refrain from further raising interest rates considering the impact on government bond interest payments and the economy. In addition to the environment surrounding prices and wages, attention needs to be paid to the direction of personal consumption at the high price levels and the analysis results of the BoJ's policy review scheduled to be announced from December 2023, as well as changes in the international situation.

As changes in corporate pricing behavior and household’s tolerance for price increases have begun to emerge, fiscal policy plays a significant role in initiating a positive cycle of wage and price increases. This can be achieved through (i) implementing a capital investment support program to increase domestic growth expectations and improve productivity, (ii) raising regulated prices, which account for a large portion of service prices, and (iii) supporting small and medium-sized enterprises (SMEs) transferring increases in input prices to selling prices and ultimately achieve wage increases. The comprehensive economic measures for complete eradication of deflation, which were decided by the cabinet in November 2023, are estimated to have a push-up effect on the growth rate of 1.2% per year. However, the consumption stimulus effect resulting from tax cuts for high-income earners, who possess surplus savings, is perceived to be low. Additionally, the recent subpar implementation of public investment has led to limited anticipated impact from this economic measure, with potential gains estimated to reach only about 0.3%.

Hitoshi Asaoka
Senior Strategist

Market Outlook

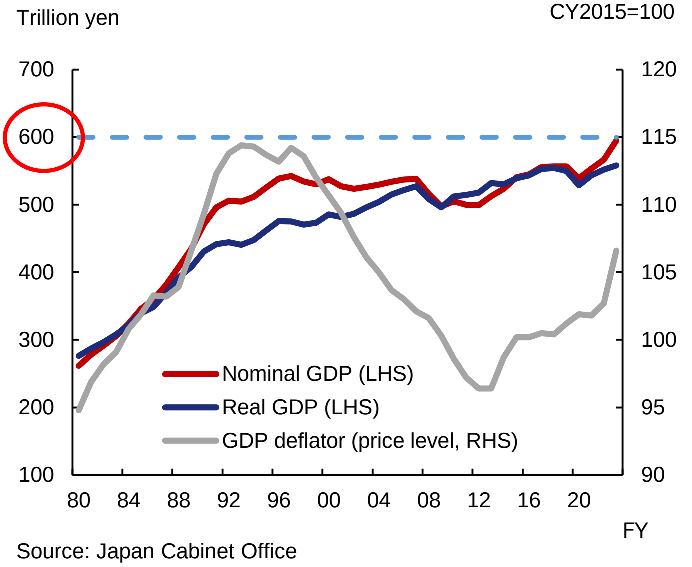
Japanese equity, interest rate and currency exchange rate outlook for 2024

In 2023, Japanese stocks experienced a significant increase. This can be attributed to factors such as the progress in resuming economic activities, the continuation of accommodative monetary policies despite concerns about the impact of interest rate hikes in the U.S. and Europe, the depreciation of the yen which led to improved earnings prospects for exporting companies, and the expectations for management response to the Tokyo Stock Exchange's focus on capital costs and stock prices. In addition, heightened expectations for deflation eradication played a significant role in driving stock prices to new levels. Short-term cyclical positive factors, along with secular positive factors, coincided and provided support for stocks.

In 2024, it is anticipated that the trend of increased profits will continue based on the background of deflation eradication, and Japan is expected to maintain an advantage over the U.S. and Europe in terms of the stock market environment. Although the growth rate of earnings per share (EPS) of the TOPIX index is expected to slow down compared to the previous year, down to around 7%, a continuous increase in profits while maintaining revenue growth is projected.

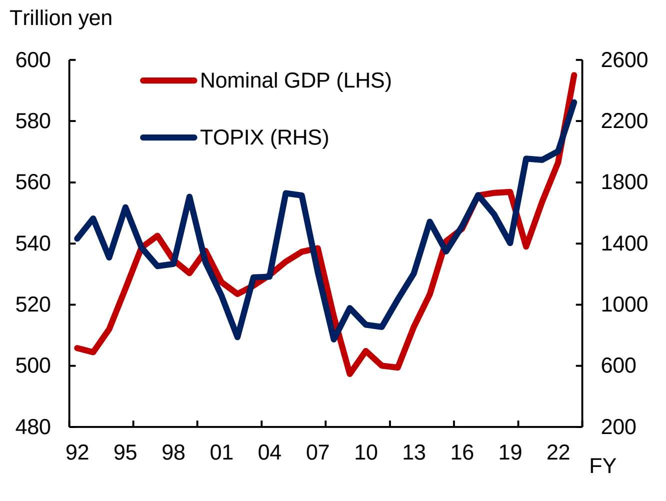
“Deflation eradication is facilitating the stock market ”

Japan’s Nominal and Real GDP



Source: Japan Cabinet Office
Note: 1. Annual data from FY1980 to FY2023
2. Nominal and Real GDP for FY2023 represent estimated data as of end 3Q

Nominal GDP and TOPIX



Source: Japan Cabinet Office, ,LSEG Data & Analytics
Note: 1. Annual data from FY1992 to FY2023
2. Nominal GDP and TOPIX for FY2023 represent estimated data as of end 3Q

Although the BoJ will proceed with monetary normalization, long-term interest rate increases will be restrained, and valuation adjustments are not expected. The forecast price-to-earnings ratio (PER) for TOPIX is expected to remain in the range of the upper limit of the historical average, around 15 times, and the year-end forecast for the TOPIX index is around 2650. With the expectation of deflation eradication, the index may approach its all-time high of 2884.80 by the end of the year.

Corporate responses to the Tokyo Stock Exchange's (TSE) requests are also expected to make further progress. Towards the end of August, the TSE published statistics pertaining to companies' adherence to the requests made in March 2023. These requests urged companies to disclose initiatives pertaining to capital efficiency and stock price valuation. Notably, companies with a price-to-book ratio (PBR) below 1 or a large market capitalization were prominent in showcasing progress. Beginning from early 2024, the TSE plans to disclose the list of companies that are in compliance with the requests.

Moreover, an increase in personal investor funds is expected due to the expansion of NISA (individual savings account) including an increase in the annual investment limit and the permanent extension of the tax-exempt period. The majority of funds from individual investors are expected to flow into U.S. stock indexes, with limited expectations for inflow into domestic stocks. However, the permanent extension of the tax exemption period presents the potential for individual investors to adopt a long-term investment approach. Furthermore, the anticipation of a temporary pause in the depreciation of the yen, along with the possibility of a breakthrough in the long-term upper limits of stock prices, may lead to some level of inflow into domestic stocks as well.

In 2023, long-term interest rates in Japan experienced a temporary rise to around 1% due to an increase in long-term interest rates in the U.S. This development has triggered concerns in the market about potential further increases in domestic long-term interest rates as the BoJ continues to normalize its monetary policy. However, it is worth noting that the BoJ could introduce measures, such as new forward guidance, to curb interest rate hikes even after the discontinuation of YCC. Additionally, it is anticipated that long-term interest rates in the U.S. reached their peak in 2023, which lead to the projection that long-term interest rates in 2024 will stabilize around 1%.

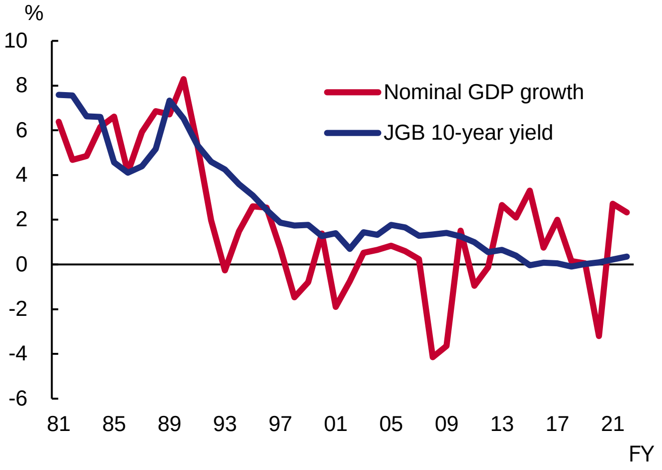
Looking ahead, it is expected that the long-term interest rates in Japan will not see significant increases similar to those witnessed in the U.S. and Europe. This is primarily because the long-term nominal GDP growth rate is expected to serve as an upper limit for long-term interest rates in the medium to long term.

The USD/JPY exchange rate is anticipated to undergo a shift towards a strengthening of the yen as a result of the pause in interest rate hikes by the Federal Reserve. However, given the persistent wide interest rate differential between Japan and the U.S. compared to pre-pandemic levels, the likelihood of a substantial appreciation of the yen is considered to be low. Instead, it is expected to remain within the 130-140 yen range.

“Limited room for long-term interest rates to rise, and the continuation of accommodative monetary policies”

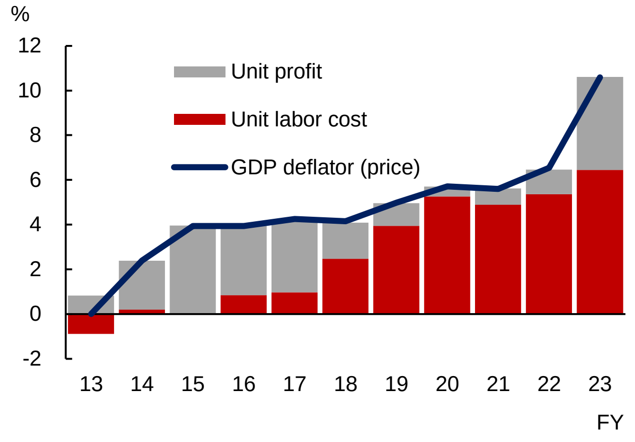
“Firming inflation benefits businesses, and capital investment plans are also strong”

Nominal GDP growth and JGB 10-year yield



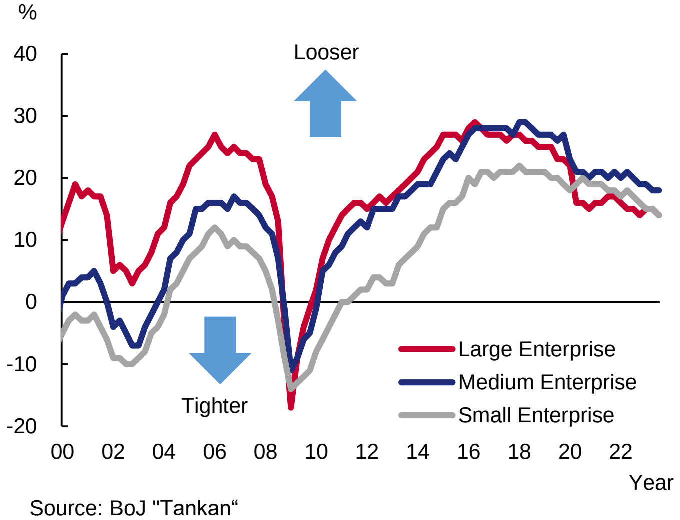
Source: Japan Cabinet Office, LSEG Data & Analytics
Note: 1. Annual data from FY1981 to FY2022
2. JGB 10-year yields are at the end of each FY.

GDP deflator decomposition



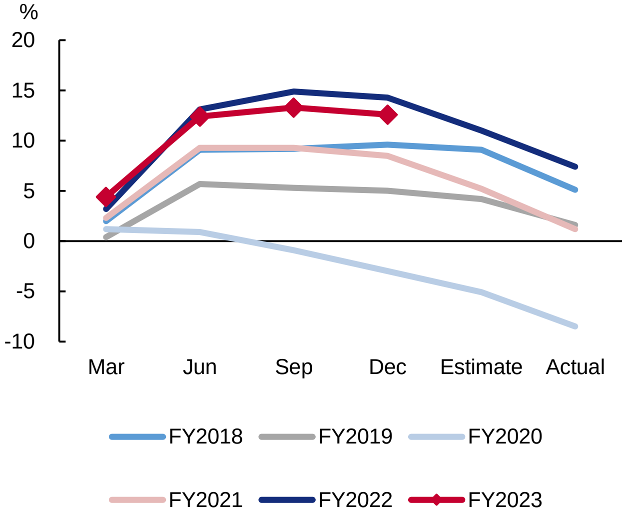
Source: Japan Cabinet Office
Note: 1. Annual data from FY2013 to FY2023
2. Figures for FY2023 represent estimated data as of end 3Q

Bank Lending Attitude (Tankan)



Source: BoJ "Tankan“
Note: 2000/1Q-2023/3Q

Capex Plan



Source: BoJ "Tankan"
Note : Quarterly data from March FY2018 to September FY2023

Risk Scenarios

In the short term, the Japanese economy faces various risks. These include a potential decline in corporate earnings and a reduction in the purchasing power of households due to the rise in prices of imported raw materials. Additionally, there is a possibility of a slowdown in exports and production due to a downturn in overseas economies and inventory adjustments.

Furthermore, although efforts to eradicate deflation are ongoing, it remains uncertain whether the established "norms" related to pricing behavior by corporations and acceptance of price increases by households have truly shifted from the deflationary phase. If the slowdown in domestic and international economies intensifies, there is a risk that deflationary tendencies may resurface. This is considered the most significant risk for Japan's economy and market.

Yoshihito Edamura
Economist

COP28 summary and adoption of the 'UAE Consensus'

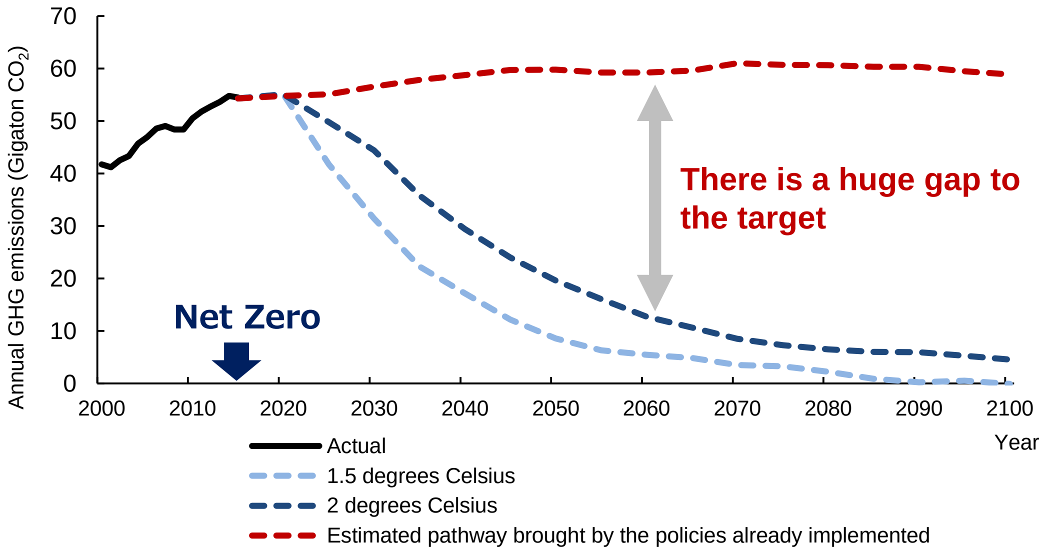
COP28, the 28th Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change, took place in Dubai, United Arab Emirates, during the period between 30 November and 12 December 2023. During the conference, discussions on the Global Stocktake (GST) were held for the first time. The GST aims to assess whether the greenhouse gas (GHG) emission reduction targets and decarbonization policies of each country are sufficient to meet the long-term goals of the Paris Agreement, namely the 1.5 degrees Celsius and 2 degrees Celsius targets, and to confirm the global decarbonization progress. The technical assessment of the GST conducted prior to the conference revealed a significant gap between the world's GHG emission pathways and targets (Figure 1).

It highlighted that without urgent action, achieving the 1.5 degrees Celsius target would become increasingly challenging. Building on these technical assessments, the UAE Consensus, an outcome document of the GST adopted during the conference, called on contracting parties to accelerate their efforts in adopting low-carbon and decarbonized energy systems and to expedite the deployment of low- to zero-emission technologies.

Avoided Emissions

The key point of this COP is that while there was limited progress on the negative agenda for economic activity, significant progress was made on the positive agenda. This is exemplified by the fact that the outcome document includes, among other things, tripling the generation capacity of renewable energy and doubling the rate of improvement in energy

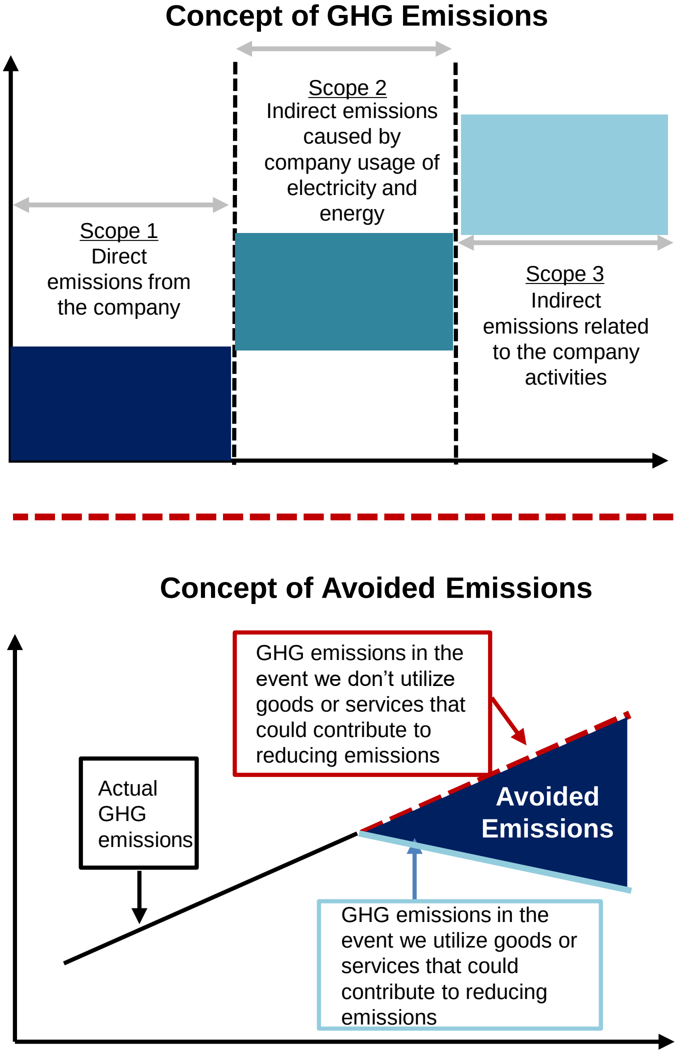
Figure 1:Scenario of World GHG Emission



Source: IPCC (Intergovernmental Panel on Climate Change)
Note: 1. Actual data displays annual figures from 2000 to 2015. Three other datasets display data from 2015 to 2100 in five-year intervals
2. The Scenario is based on the median of prediction
3. Two blue dotted lines show required pathways of GHG emissions to curb rise in average temperature in the world within 1.5 degrees Celsius or 2.0 degrees Celsius at the end of 21st century compared to the pre-industrial level

efficiency by 2030, whereas almost no progress was made in the treatment of fossil fuels, including coal. We also believe that next year, 2024, the political momentum for progress in negative agenda for the economic activity in the climate change area is unlikely to increase. Now that the GST has ended, there is little incentive for countries to raise their ambitions at COP 29, which is due to take place in Azerbaijan, and there are important elections coming up in key countries next year. In light of this, the focus of the climate change debate is likely to shift from politics to business and from negative to positive themes in the near term. In this context, the focus is on 'avoided emissions' (Figure 2).

Figure 2:GHG Emission and Avoided Emissions



Source: AMO

This is a concept that assesses the contribution of a company's products and services to emission reductions. When assessing a company's climate change efforts, the GHG emissions generated by the company's business activities are usually assessed. On the other hand, focusing on the amount of avoided emission leads to incorporating the positive contribution of the company to decarbonization in the assessment.

'Avoided emission' has some challenges, but is expected to be mainstreamed in the future

There are several challenges associated with the concept of avoided emissions. One such challenge is the difficulty in calculating it accurately. It is calculated by comparing it to a hypothetical scenario in which the product or service in question does not exist. Consequently, various variables can greatly affect the calculated amount depending on how the scenario is constructed. Additionally, the avoided emission must be calculated separately from emissions, and it cannot be used to offset emissions.

Despite these challenges, avoided emission is expected to become a mainstream assessment indicator. In 2023, the World Business Council for Sustainable Development (WBCSD) will provide guidelines for the calculation of avoided emission, and the G7 Joint Statement of the G7 Climate, Energy, and Environment Ministers' Meeting has also emphasized the importance of avoided emission. Consequently, there is increasing attention and opportunities for companies to decarbonize, including through their reduction contributions.

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