INVESTMENT TRENDS to look out for in 2024

adamfayed.com
advice@adamfayed.com
+44 7393450837

This 2024 investment guide will analyze some of the opportunities in 2024 and beyond. Needless to say, investing should be based on taking a long-term perspective, because there are so many unknown variables that could affect asset prices going forward.

The big question in 2024 and 2025

The big question going into 2024 and 2025 is how much interest rates will be decreased.

In the long term, it seems inevitable that interest rates won't stay at over 5%, with trends such as falling and aging populations and artificial intelligence being deflationary forces.

This guide will, therefore, look at which assets are likely to do well when interest rates fall, which is likely to happen in 2024.

Needless to say, the past isn't always a reliable guide for the future.

Government and corporate bonds

Government bonds have had a bad run recently. That is because interest rates have risen. As bonds pay a fixed return, they become more attractive when interest rates fall, and therefore it drives up demand and the price of the bond.

In comparison, when interest rates rise, investors are unlikely to prefer a lower fixed coupon on the bond, resulting in a decline in its price.

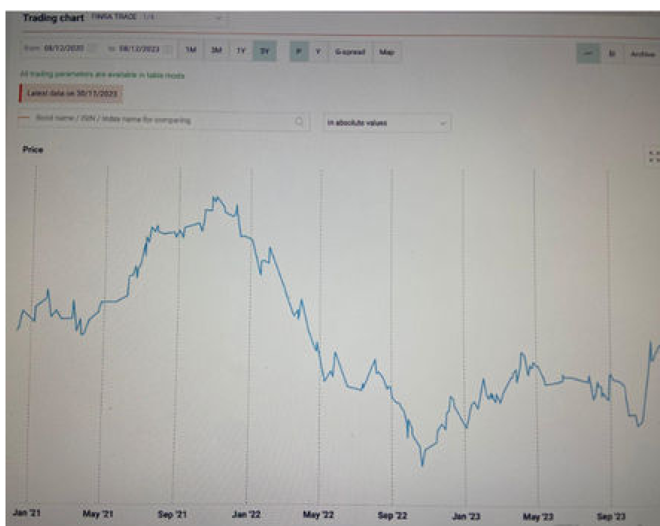
A few months ago I suggested that the TLT ETF (iShares 20 Plus Year Treasury Bond ETF) was a buy because interest rates have likely peaked.

Whilst the price has risen a lot since that Quora answer, it is still a long way away from its price a few years ago.

The table below, from iShares shows the poor performance of the TLT ETF over the last few years.

	1y	3y	5y	10y	Incept.
Total Return (%)	-10.82	-16.73	-3.40	0.57	3.72
Benchmark (%)	-10.78	-16.69	-3.32	0.65	3.81

This long-term graph, also taken from iShares, shows how terribly the ETF perfumed after the increase in interest rates.



The same fundamentals also affected the price of A-rated corporate bonds such as Halliburton, which has numerous bonds paying up to 7.6% per year.

The graph on the left, which looks at the bond price over the last three years and is taken from cbonds, shows how Halliburton's 7.6% bond was badly affected by the recent interest rate rises.

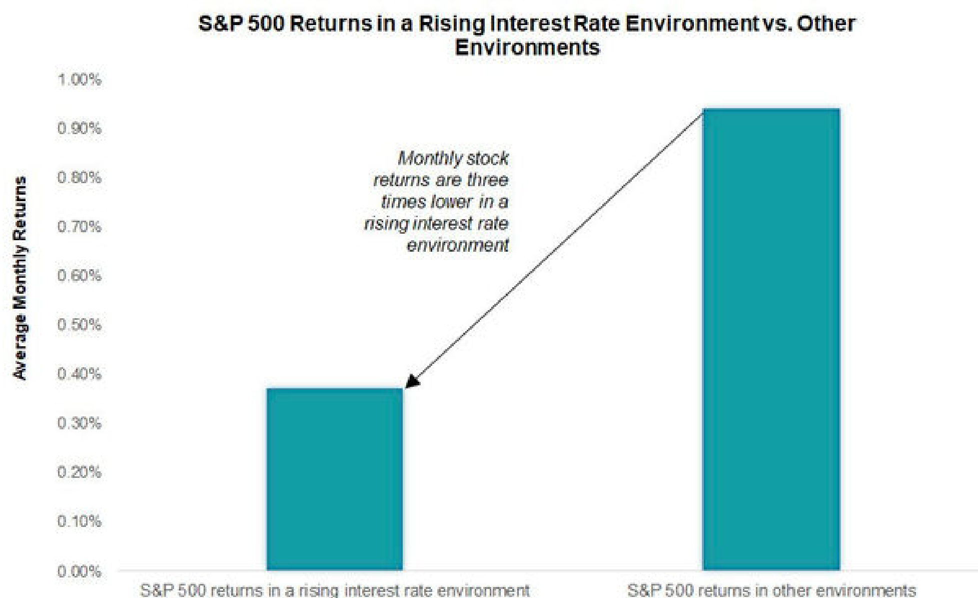
If interest rates fall, we can expect increases in the prices of A- and B-rated corporate and government bonds.

Stocks

Warren Buffett once said, "Interest rates are to asset prices like gravity is to the apple. They power everything in the economic universe."

When interest rates are rising, consumers and businesses tend to tighten their belts. When they are falling, the opposite tends to happen.

The following graphs show how the main US stock market, the S&P500, has performed during rising interest rate periods versus other periods.



Source Simply Wise

In addition to that, lower interest rates tend to be good for companies that try to use debt (leverage) to grow their businesses.

Examples of this are growth stocks such as technology firms. Most innovative technology firms don't pay shareholders big dividends and instead reinvest money back into the stock and even borrow extensively.

Amazon didn't make a profit for nine years when it was on the stock market, and regularly posted low profit margins. Tesla was also unprofitable for many years.

Whilst big tech stocks have solid balance sheets, smaller tech stocks did particularly badly during the 2022-2023 rising interest rate environment.

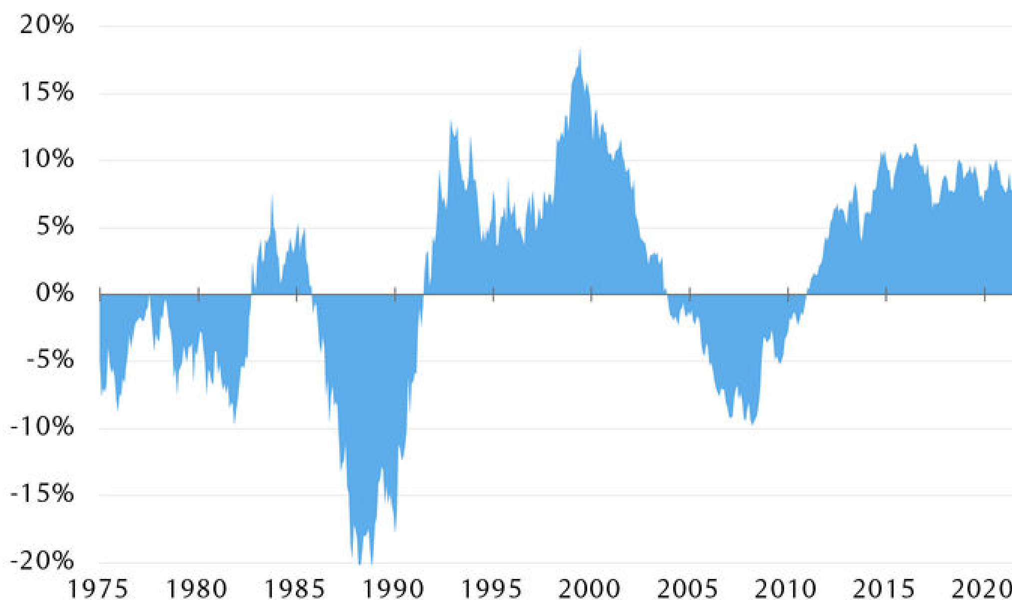
This was seen in how poorly ETFs such as ARRK Innovation did during this period.

Small-cap stocks also tend to do better in lower interest rate environments because they are more sensitive to changes in interest rates and the economy.

Whilst large-cap companies tend to sell globally, many smaller companies are focused on domestic markets that can be focused on the consumer.

Non-United States stocks could well be primed for over-performance.

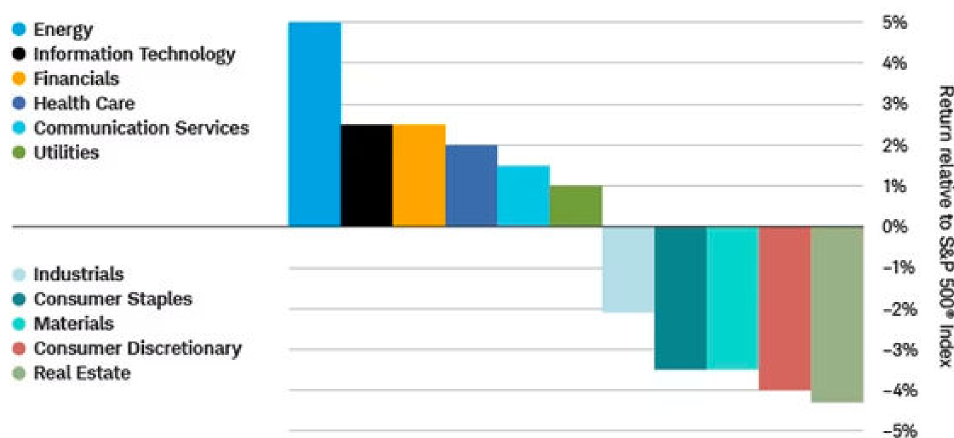
Historically, US stocks and international stocks have taken turns to outperform each other. Since 2010, the United States stock markets have consistently outperformed international stocks, as per the graph below from RBC Wealth Management.



One of the big drivers of this over-performance is the strong US dollar. If a company in Germany, Vietnam or any other market is growing by 20% per year in local currency, but that local currency is consistently losing to the USD, that drags down the overall performance.

The strong USD won't last forever. Even a moderate fall will help international, and especially emerging market stocks.

A follow-up question is which sectors in the stock market are likely to underperform when interest rates fall.



As per this graph from Charles Schwab, energy and financial stocks have historically done well when interest rates increase. We saw the same thing in 2022.

If interest rates fall, that is likely to be bad for those sectors relative to others in the market in 2024 -2025.

It is also a mistake to think that recessions are automatically bad for stock markets. Recessions tend to lower interest rates, increasing asset prices in the long term.

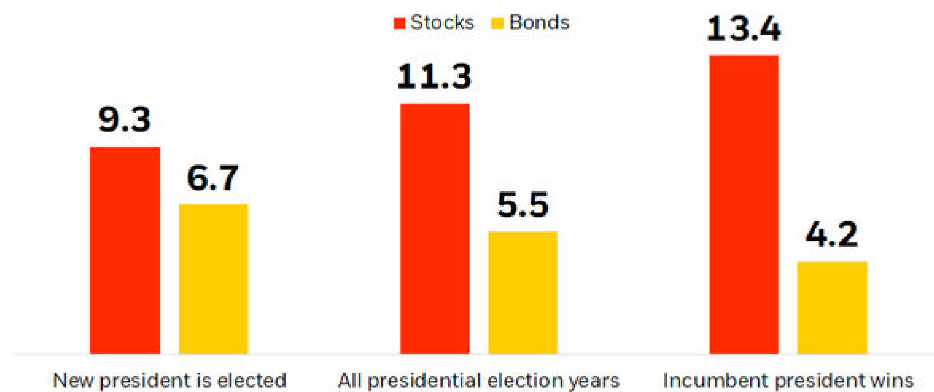
We recently witnessed that during Covid-19, when stock markets soared in 2020 and 2021.

Finally, investors should not be worried about the 2024 US election.

HISTORIC YEARS

Presidential election years throughout history

Calendar year performance during presidential election years (1928-2019)



Morningstar as of 12/31/19. Stock market represented by S&P 500 and the IA SBBI US Large Cap Index, US Bonds by the IA SBBI US IT Bond Index and the BbgBarc US Aggregate Bond Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

This graph from Darrow Wealth Management shows that stock markets have historically done well in election years.

The last two elections have also proven this point.

Many people were worried about a Trump presidency in 2016, and others were fretting about a disputed election in 2020.

Both scenarios played out, and on each occasion, the stock markets soared.

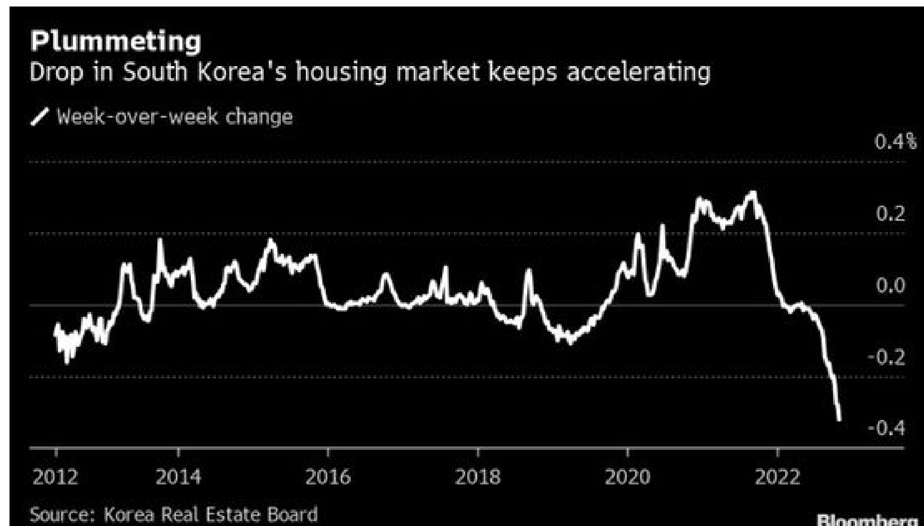
That does not mean that stocks will automatically increase in November 2024. It means that media fear mongering about the likelihood of a stock market crash due to the election should be avoided.

Real estate, REITs and alternative investments

Traditional real estate and real estate investment trusts (REITs) are especially vulnerable to higher interest rates

Property prices have declined recently in the UK, Hong Kong, South Korea and beyond.

The graph below from BNN Bloomberg shows how deep the falls have been in South Korea.



However, real estate could take some time to stabilize in some markets, as the full effects of the interest rate rises haven't yet been felt.

Alternative assets linked to real estate developments, such as loan notes, might benefit from a lower interest rate environment.

More generally, private and alternative assets such as hedge funds, private equity, and private debt are more likely to outperform public markets such as the S&P500 than managed funds that try to pick individual stocks to beat the market.

Such assets carry risk, though, so you should have access to a good advisor to help you navigate this space.

They can be worth it, though, because it is possible to get a better return for giving up some liquidity with some alternative assets - meaning you will likely face some lock-in.

Money market funds and cash

This guide has spoken chiefly about the likely winners from declining interest rates. One big loser will be cash and related investments such as money market funds.

Money market funds aim to return more than a regular bank account, but the returns are closely correlated.

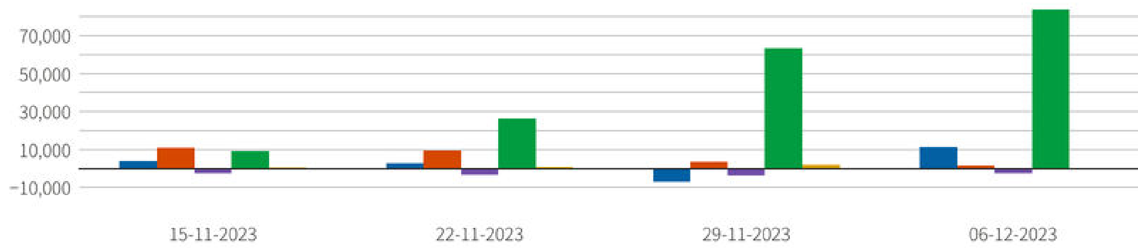
Money market funds are projected to receive a record 1.3 trillion dollars in inflows in 2023. This is unsurprising considering interest rates have increased from 0% to over 5% in a short period of time.

The graph below shows the trend compared to bonds and stocks (equities).

Fund flows: Global equities, bonds and money markets

Flows in $ million

● Bond ● Equity ● Mixed Assets ● Money Market ● Other



Source: LSEG

Conclusion

Nobody can predict the future with any degree of certainty because there are always so many unknown variables.

We have been reminded of that in recent years.

Few people, if any, saw the 2020 stock market crash coming. Even fewer saw such a fast recovery.

On the balance of probabilities, however, we can say that stocks and bonds should benefit from lower interest rates in the coming years.

Money market funds and cash are likely to be the biggest losers from any falls in interest rates.

Alternative assets will likely continue to offer investors a value-added in 2024 and beyond.