BofA Global Research Calls 2024 “The Year of the Landing”

Lower Inflation Around the Globe Should Allow Central Banks to Cut Rates, While US Equities May Reach a Record Level of 5000 on the S&P by Year-end

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NEW YORK, NY – Few have experienced today’s macro uncertainty in their lifetime, and investors have underappreciated and underpriced its impact. The recession that many expected in 2023 never arrived. Inflation rates peaked in the fall of 2022 in many geographies and disinflation continued throughout 2023, despite economies being generally stronger than expected. In their newly released outlook for 2024, BofA Global Research economists and strategists note they expect this disinflation to continue and rate cuts to begin midway through the year from both the Federal Reserve and European Central Bank. Rate hikes seen over the last year and a half should ultimately weaken growth and lead to higher unemployment rates, though our economists are calling for a soft landing rather than a recession.

“2023 defied almost everyone's expectations: recessions that never came, rate cuts that didn't materialize, bond markets that didn't bounce, except in short-lived, vicious spurts, and rising equities that pained most investors who remained cautiously underweight,” said **Candace Browning, head of BofA Global Research**. “We expect 2024 to be the year when central banks can successfully orchestrate a soft landing, though recognize that downside risks may outnumber the upside ones.”

Key macro calls made for the markets and economy in the year ahead are:

- **A global shift to rate cuts**: **Claudio Irigoyen**, head of Global Economics, expects inflation to gradually move lower across the globe, allowing many central banks to cut rates in the second half of 2024 and avoid a global recession. Head of US Economics **Michael Gapen** expects the first Fed rate cut in June and the central bank to cut 25 basis points per quarter in 2024.
- **The 3Ps = the 3Bs**: Chief Investment Strategist **Michael Hartnett** thinks the bull markets of 2024 will be the “3Bs”... Bonds, Bullion & Breadth. He believes the risk of a hard landing for the economy is higher-than-expected and that he awaits the classic combination of bearish investor positioning, recessionary corporate profits and easing policy—the “3Ps”—before he flips to being a full bull.
- **S&P 500 forecast to end 2024 at 5000, an all-time high**: Head of US Equity and Quantitative Strategy **Savita Subramanian** remains bullish on equities—not because the Fed is expected to begin cutting rates next year, but because of what the Fed has already done and how corporates have adapted. EPS can and has accelerated as GDP slows, and reshoring has been identified as a tailwind by companies.
- **Expect Brent crude to average $90, commodities to restock**: OPEC+ has been cutting supply since 2022 and will likely keep at it in 2024. **Francisco Blanch**, head of Commodities and Derivatives Research, sees oil demand growing by 1.1 million barrels per day in 2024 as emerging markets benefit from the end of the Fed’s monetary tightening cycle. Yet Brent and WTI prices should average $90/barrel and $86/barrel, respectively. Recession, faster-than-expected US shale growth, and lack of OPEC+ cohesion are downside risks to oil prices. Lower rates should boost gold and lead to restocking in industrial metals.
- **Japan inflation persists**: Our Japan team expects an improvement in consumer spending and forecasts inflation to remain above consensus, which is a positive in the case of Japan. Our strategists expect progress with corporate

reform, evidenced by the highest number of companies raising guidance in ten years.

- **Rate cuts and a peaking US Dollar are a positive for Emerging Markets**: EM returns in the 12 months after the last Fed hike in a cycle tend to be highly positive and positioning is light across EM assets. China economic growth should stabilize. Our fundamental FX team is more bearish on the USD than consensus as US GDP growth slows and the Fed begins to cut rates.
- **Seek quality yield in credit**: Rates, earnings and issuance will likely challenge credit in 2024, causing our credit strategists to prefer quality. They believe investment grade offers the best relative value in credit. Loans offer more carry than high yield (HY) and HY credit losses are unlikely to be lower than loans.
- **Slowing investment spend a drag US economic growth**: The impact of fiscal investment programs should dissipate. Our US economists expect consumption to slow down but not to crash. While capex has secular tailwinds, cyclical headwinds also exist, as evidenced by fewer CEOs expecting higher capex over the next six months.
- **US 10-year Treasury yield should remain elevated**: Our US Rates Strategist **Mark Cabana** is not as bullish as consensus on 10-year bond prices for several reasons: the US fiscal stance has deteriorated, as has its net international investment position, and duration/inflation risk have become riskier.
- **Policy uncertainty could rise as elections will occur in countries that make up over 60% of global GDP**: Our Research team expects heightened policy uncertainty amid increasing political polarization. Fiscal consolidation becomes difficult, having implications for rates.

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Reporters may contact:

Melissa Anchan, Bank of America
Phone: 1.646.532.9241
melissa.anchan@bofa.com

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