2024 MID-YEAR OUTLOOK

Preparing for What's Next

What Goes Up Must Come Down?	Labor Market Specifics	Market Momentum	Emerging Trends Shaping Tomorrow

What Goes Up Must Come Down?

The world entered the year with the expectation of imminent recession that would force major central banks to cut interest rates. However, the world economy has remained resilient and, while inflation has not come down as quickly as many predicted, it is progressively lowering to comfortable levels. Markets will embrace this trend and hope to catch momentum from the potential rate cuts.

1. **The United States began 2024 with much uncertainty regarding:**
   a. The stickiness of inflation.
   b. The resilience of the American consumer.
   c. The timing of central bank rate cuts.

d. Supply chain disruptions.

e. The outcomes of elections in over 64 countries.

2. **In 2023, the US Federal Reserve's aggressive rate hikes:**

   a. Successfully brought headline inflation (CPI) down from over 6% at the start of the year to 3.1% in January 2024.

   b. The markets welcomed the rapid deceleration in consumer prices, leading many to believe the Fed would cut rates as early as March 2024.

3. **However, inflation trends showed that:**

   a. Inflation appeared to have bottomed out in March as it progressively worsened to 3.5% on the year.

   b. Since then, both headline CPI and PCE (Personal Consumption Expenditures) have slowly fallen to 3.0% and 2.6% respectively.

   c. The uncertainty has now shifted to whether the pace of disinflation will provide the Federal Reserve with enough justification to cut rates this fall.

4. **Producer Prices Indices (PPI) indicated that:**

   a. Durable goods inflation has indeed been transitory following the COVID-19 pandemic, despite the onset of shipping disruptions.

   b. PPI fell rapidly from over 5.7% at the start of 2023 to 1.0% at the start of 2024.

   c. Following consumer prices, producer prices also experienced a slight upside trend, rising to 2.6% currently.

5. **Service spending remains elevated due to:**

   a. A resilient labor market.

   b. Improved labor productivity.

   c. The less quantifiable attributes of the "wealth effect" and "revenge" consumer spending after the 2020-2021 pandemic.

6. **Manufacturing output:**

   a. Fell sharply due to a skyrocketing increase in operating costs.

7. **Developed economies in 2023 suffered as:**

   a. Tighter financial conditions and reduced fiscal deficits dried up demand.

   b. Both the United Kingdom and Germany briefly entered recession in the second half of 2023.

   c. The UK economy grew just 0.1% in 2023, while the Eurozone posted meager growth of just 0.5%.

8. **The US outperformed largely due to:**

   a. Strong public investment thanks to the CHIPS and IRA acts.

   b. Relative isolation from geopolitical disruptions.

   c. A resilient labor market.

9. **Latest reports from the IMF assert:**
   a. The US economy will continue to outperform the global economy.
   b. Estimated GDP growth rate of 2.7% in 2024 and 1.9% in 2025.
   c. Other advanced economies will grow at 1.7% and 1.8% respectively.

10. **In China:**
    a. Structural challenges such as property defaults, an ageing population, excessive local government debt, and stressed banks present difficulties for Beijing in achieving over 5% GDP growth as in the past decade.
    b. The IMF forecasts Chinese GDP growth to moderate to 4.6% in 2024 and 4.1% in 2025, down from 5.2% in 2023.

11. **The monetary policy divergence between the US Federal Reserve and the European Central Bank (ECB) may:**
    a. Disrupt the smoothness of monetary policy transmission.
    b. Higher debt levels and investment demand have naturally caused the natural level of interest rates (r*) to be higher than the pre-pandemic average.
    c. S&P forecasts the Fed and ECB's terminal rates at 2.9% and 2.5% respectively.

12. **Geopolitical tensions, such as a potential trade war with China:**
    a. May disrupt financial stability and cause another spike in inflation.
    b. This is a plausible scenario if Donald Trump is re-elected in November.

13. **Latin American economies are expected to:**
    a. Continue benefiting from strong US demand but face economic uncertainty due to slowing US growth, high interest rates, a strong dollar, and slightly higher food prices.
    b. Political uncertainty will continue to harm investments in Latin American economies into the rest of the year.
    c. Specific concerns include:
       i. In Brazil, issues surrounding fiscal policy and the appointment of a new central bank governor.
       ii. In Mexico, Sheinbaum's MORENA party threatens to pass constitutional reforms, risking weakness in public finances, evidenced by the surge in MXN-USD rates.
    d. Rest of year GDP growth for Brazil also remains dependent on the severity of the Rio Grande do Sul floods.

14. **Meanwhile, in South Africa and India:**
    a. The dominant ruling parties (ANC in South Africa and BJP in India) lost their legislative strength; they will have to coordinate with alliance parties, which may disrupt economic stability.

15. **In Europe:**
    a. Right-wing gains in the European Parliament briefly devalued the Euro against the dollar and sent French banking stocks tumbling.
    b. France's extreme right-wing National Rally (RN) nearly gained a majority in the French legislature and a strong share in the European Parliament.
    c. Investors fear that a right-wing populist government could instill a bank tax.
    d. S&P recently cut France's credit rating due to the country's rising deficit.
    e. As a result, the spread on the 10-year French government bond to the German Bund rose to 85 basis points, one of the highest levels since the European Debt Crisis.
    f. The outcome of the European Parliament election likely implies increases in Chinese tariff measures and less defense spending/aid for Ukraine.

16. **Looking forward, the key to avoiding a drastic economic deceleration lies in:**
    a. Labor market data.
    b. Stability in services spending.
    c. A modest manufacturing rebound.

17. **The US has seen:**
    a. Labor market productivity gains that have offset higher wage and operational costs while also fueling services demand.
    b. This was a key difference between the US and EU economies, as in Europe, flat labor productivity combined with higher energy costs caused profits to fall and ultimately led to an overall slowdown in demand.
    c. The improving Purchasing Managers Index in Europe suggests the Eurozone economy is recovering into modest expansion as rates fall.

18. **The race to the bottom has already started in some developed economies as:**
    a. The ECB and Canada cut rates last month and are set to deliver 25 to 50 more basis points of rate cuts before year-end, while the UK is forecasted to begin cutting in August.
    b. Recent legislative elections in France and the European Parliament have caused the spread between French and German sovereign bonds to reach multi-year highs.

19. **Emerging markets may come under pressure:**
    a. As a strong dollar will raise import costs.

Labor **Markets Specifics**
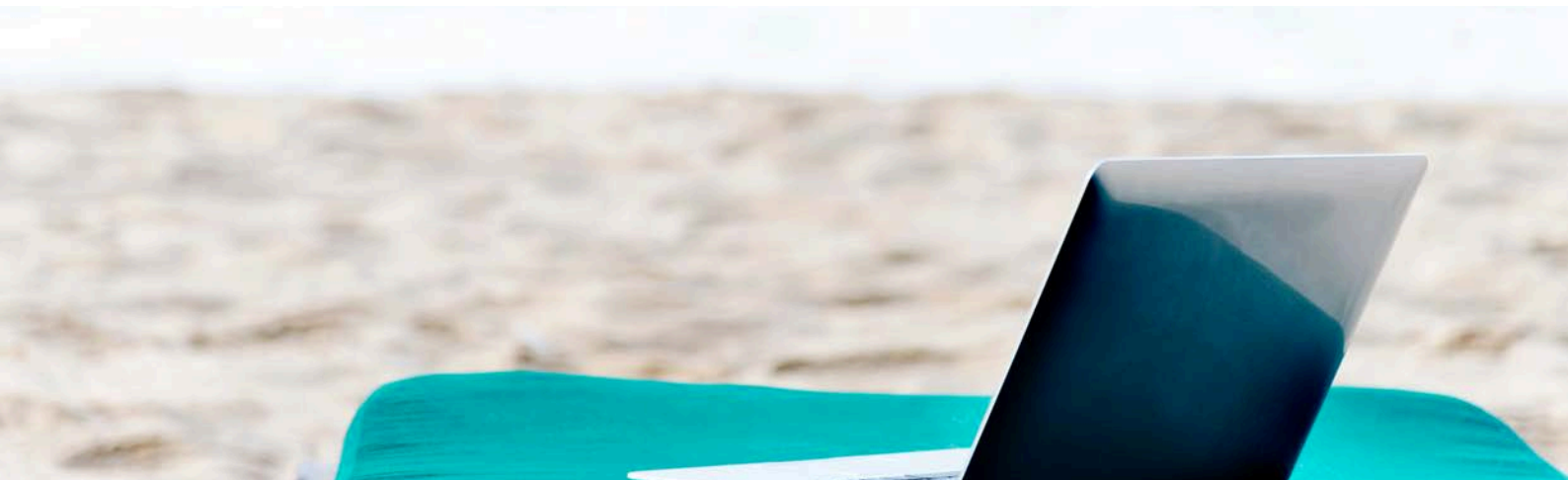
United States

○ **Employment rates:** Unemployment around 4.1%; strong job creation in technology, healthcare, and professional services.

○ **Wage growth:** Average hourly earnings up 3.9% year-over-year; significant gains in hospitality and retail.

○ **Job sector performance:** Technology and healthcare sectors leading job creation; manufacturing recovering due to re-shoring initiatives.

○ **Productivity gains:** Increased productivity in sectors adopting advanced technologies and automation; remote work models contributing to productivity dynamics.

European Union

○ **Employment rates:** Unemployment varies widely; Germany low at 3%, Spain and Greece above 13%; youth unemployment remains high in southern Europe.

○ **Wage growth:** Moderate growth with faster increases in Eastern Europe due to economic convergence and labor shortages.

○ **Job sector performance:** Service sectors recovering post-pandemic; manufacturing resilient in export-driven countries; green energy sector growing.

○ **Productivity challenges:** Flat labor productivity; high energy costs and regulatory burdens; efforts to boost productivity through digital transformation.

China

- **Employment rates:** Urban unemployment stable around 5.5%; rural-to-urban migration influencing labor dynamics.
- **Wage growth:** Slowing compared to previous decade; regional wage disparities persist.
- **Job sector performance:** Manufacturing facing headwinds from trade tensions; service sector expanding; construction slowing due to property market concerns.
- **Productivity trends:** Slower productivity growth; government focusing on innovation and technological advancement.

Global Trends

- **Technological adoption:** Automation and AI reshaping job markets; need for reskilling and upskilling.
- **Demographic shifts:** Aging populations in developed economies; youth bulges in emerging markets.

Inflation Outlook (Year Average)	2023	2024e	2025e	2026e	2027e
United States	4.5	2.3	2.1	2.0	2.0
China	0.2	0.5	1.5	1.9	2.1
Euro Area	5.4	2.4	2.2	1.9	1.8
Japan	3.3	2.2	2.1	2.0	2.0
United Kingdom	7.3	2.8	2.4	2.1	2.0
Brazil	4.6	4.2	3.8	3.5	3.5
Mexico	5.5	4.6	3.7	3.2	3.0
World	6.8	5.9	4.5	3.7	3.5

GDP Growth Forecasts (%)	2023	2024e	2025e	2026e	2027e
United States	2.5	2.5	1.7	1.8	1.9
China	5.2	4.8	4.6	4.6	4.4
Euro Area	0.6	0.7	1.4	1.4	1.3
Japan	1.8	0.7	1.1	0.9	0.9
India	7.7	7.2	6.7	7.2	7.0
United Kingdom	0.1	0.6	1.2	1.7	1.7
Brazil	2.9	2.0	2.0	2.1	2.2
Mexico	3.2	2.2	1.7	2.1	2.2

Source: S&P Global Market Intelligence

Market Momentum

1.0 A Deep Dive into the First Half of 2024

Index Name	Last Price	Ytd (%)	1 Yr (%)	Currency
Americas				
S&P 500	5,460.48	14.48%	19.88%	USD
DJ 30 Industrial Average	39,118.86	3.79%	11.92%	USD
NASDAQ Composite	17.732.6	18.12%	23.54%	USD
Russell 1000	2974.64	13.44%	18.97%	USD
Russell 2000	2,047.69	1.01%	3.62%	USD
S&P TSX 60	1,304.8	3.16%	6.77%	CAD
S&P MERVAL Index (ARS) TR	1,611,295	73.31%	252.67%	ARS
Brazil Bovespa	123,906.6	-7.66%	5.15%	BRL
Mexico S&P / BMV IPC	52440.02	-8.62%	-2.95%	MXN

Source: FactSet. Results as of June 30, 2024.

Index Name	Last Price	Ytd (%)	1 Yr (%)	Currency
Europe				
EURO STOXX 50 (EUR)	4,894.02	8.24%	11.99%	EUR
FTSE 100	8,164.12	5.57%	9.53%	GBP
France CAC 40	7,479.4	-0.84%	2.19%	EUR
Germany DAX (TR)	18,235.45	8.86%	13.08%	EUR
FTSE MIB	33,154.05	9.23%	15.49%	EUR
Netherlands AEX	923.85	17.42%	19.29%	EUR
Norway Oslo Benchmark	1,422.35	8.86%	18.34%	NOK
Spain IBEX 35	10,943.7	8.33%	15.74%	EUR
OMX Stockholm 30	2,569.454	7.24%	13.75%	SEK
Switzerland SMI (PR)	11,993.83	7.69%	8.02%	CHF
OMX Copenhagen 20	2,887.711	26.46%	43.18%	DKK
OMX Helsinki 26	4,491.095	-0.40%	1.83%	EUR
Russia RTS	955.46	0.00%	0.00%	USD
Asia Pacific				
ASX All Ordinaries	8,013.8	2.35%	6.90%	AUD
SSE Composite	2,967.403	-0.25%	-7.21%	CNY
Hang Seng	17,718.61	3.93%	-6.82%	HKD
Nikkei 225	39,583.08	18.28%	21.82%	JPY
Korea KOSPI	2,797.82	5.36%	7.29%	KRW

1.1 Stellar Performance in Global Markets

The world markets have performed positively during the first semester of this year, with indexes like the S&P 500, Nasdaq, and the FTSE MIB showing strong gains. This upward trend can be attributed to several factors:

Economic Growth

Especially in the US, economic growth has been robust, with GDP increasing at an annual rate of 1.3 percent in the first quarter of 2024.

The resilience of the U.S. economy, driven by consumer spending and a strong labor market, has supported overall growth. This economic stability has been a key factor in bolstering market performance.

Corporate Earnings

Companies have reported strong earnings in the first quarter of this year, with a positive sales surprise of 1.04% relative to expectations and a positive earnings surprise of 8.26% relative to expectations.

Strong corporate earnings have exceeded market expectations, contributing to higher stock prices. This positive earnings performance reflects efficient cost management and strong revenue growth across various sectors.

Technological Advancements

Particularly in the artificial intelligence sector, have spurred growth, with the semiconductor industry being the subsector with the highest growth rate.

The semiconductor industry has seen significant growth due to increased orders driven by increasing demand of companies that want to adopt an AI technology in their operations. The rapid advancement and adoption of AI technologies require sophisticated semiconductor components.

Buoyed by expectations of potential interest rate cuts by central banks, supporting market liquidity and economic activity.

Investors are optimistic about the potential for interest rate cuts, which would enhance market liquidity and stimulate economic activity. This positive sentiment has encouraged increased investment in equities.

Investor Sentiment

1.2 Risks in the Second Half of the Year

Despite the positive outlook, several risks are essential to consider for the second half of the year:

Geopolitical Risks: Ongoing tensions in Eastern Europe and potential conflicts in other regions could disrupt global supply chains and trade flows. Europe and China tit-for-tat arguments of EV trade and the potential rise of tariffs under a Trump administration may disrupt many chemical, technological, and pharmaceutical companies interdependent on Chinese trade.
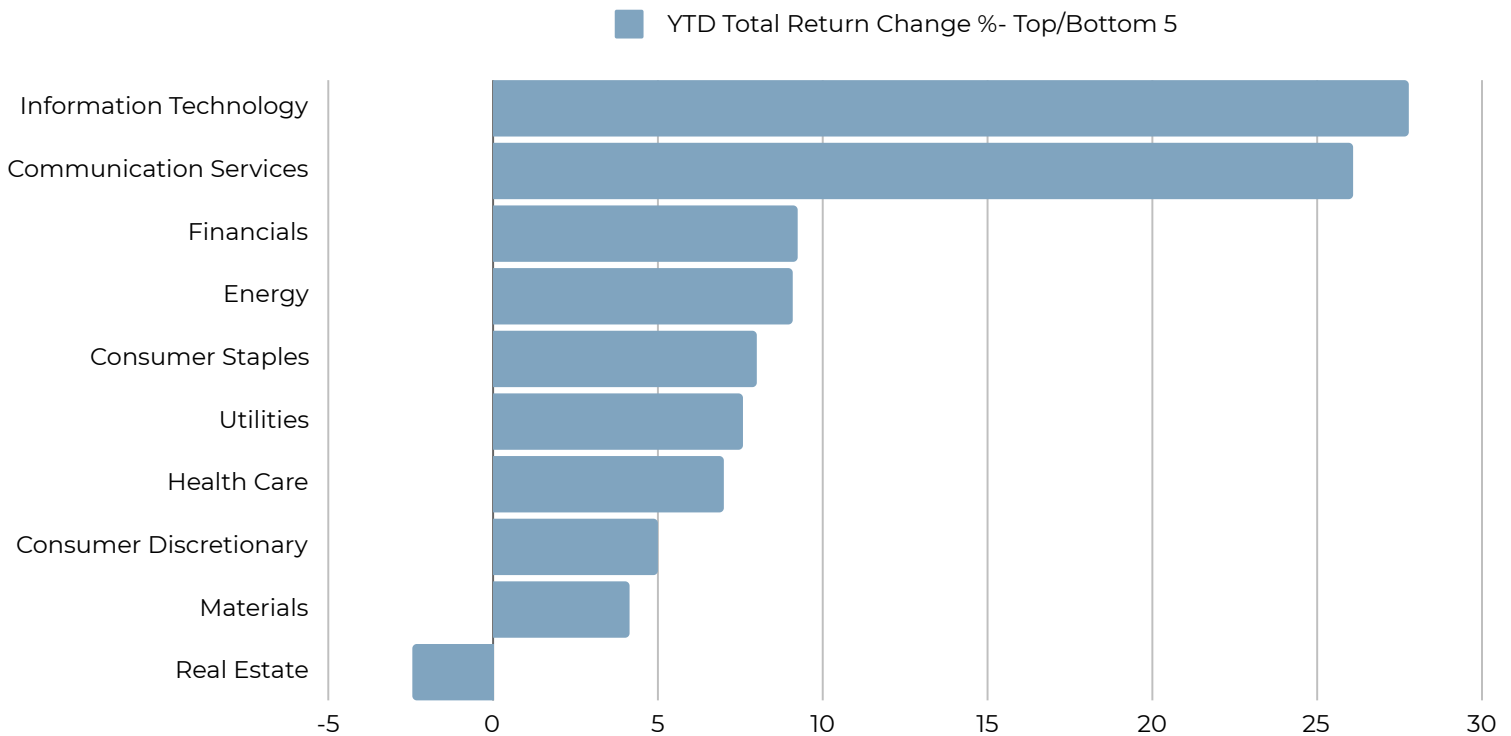
Inflationary Pressures: Re-emergence of inflation could lead central banks to adopt more aggressive monetary tightening.

Technological Overvaluation: Advancements in AI and technology, while driving growth, also bring the risk of market overvaluation and potential regulatory challenges.

Policy Changes: Changes in fiscal policies and government regulations in major economies, including tax reforms and spending cuts, could also pose risks.

1.3 Tech Titans and Market Movers: The S&P 500's Stellar 2024

Sector Performance - Currency US Dollars

YTD Total Return Change %- Top/Bottom 5

Sector	YTD Total Return Change %
Information Technology	~28
Communication Services	~26
Financials	~9
Energy	~9
Consumer Staples	~8
Utilities	~7.5
Health Care	~7
Consumer Discretionary	~5
Materials	~4
Real Estate	~-2.5

Source: FactSet. Results as of June 30, 2024.

Sector Contributions

The S&P 500 has been primarily driven in the first half of the year by the Technology and Communications Services sectors. Key observations include:

Large-Cap Growth Large-cap growth companies have shown the highest increase, with a year-to-date (YTD) gain of 17.04%. These companies, particularly in the technology sector, have been market leaders. The "Magnificent Seven" companies still represent a significant portion of the S&P 500, accounting for 61% of the share returns YTD. This represents a high percentage of the overall market compared to previous years. In the first half of the year, only 21% of S&P 500 companies outperformed the index. However, we believe that in the second half of the year, the underperforming companies will catch up, increasing this percentage.

Small-Cap Value: The only group of companies experiencing a decline YTD are the small-cap value, decreasing by 2.43%. Small-cap value companies are often more sensitive to economic fluctuations and uncertainties. Concerns about inflation, interest rates, and potential economic slowdown have weighed on these stocks.

2019	2020	2021	2022	2023	YTD
31% Value	33% Growth	41% REITS	24% Commodities	30% Large-Cap	23% Growth
31% Large-Cap	22% Large-Cap	39% Commodities	-5% Value	29% Growth	17% Large-Cap
31% Mid-Cap	19% Small Cap	31% Growth	-12% TIPS	22% Value	10% Commodities
31% Growth	18% Mid-Cap	28% Large-Cap	-13% Agg Bonds	18% Small Cap	7% Emerging
29% REITS	15% Emerging	25% Value	-15% Developed	18% Developed	6% Value
27% Small Cap	11% TIPS	25% Mid-Cap	-18% Small Cap	16% Mid-Cap	5% Mid-Cap
23% Developed	10% Developed	18% Small Cap	-18% Emerging	12% REITS	5% Developed
21% Emerging	7% Agg Bonds	12% Developed	-19% Mid-Cap	9% Emerging	3% Small Cap
16% Commodities	2% Value	6% TIPS	-20% Large-Cap	6% Agg Bonds	1% TIPS
8% Agg Bonds	-5% REITS	1% Emerging	-26% REITS	4% TIPS	-1% Agg Bonds
8% TIPS	-24% Commodities	-2% Agg Bonds	-29% Growth	-6% Commodities	-3% REITS

Source: FactSet. Results as of June 30, 2024.

Source: FactSet. Results as of June 30, 2024.

Overvaluation and Profit Margins

The US market is overvalued compared to its fair value, but S&P 500 companies have increased their profit margins during the first half of 2024 and are expected to continue this trend in the second half. Reasons for this include:

Economic Resilience: Robust growth in the US economy, avoiding recession and maintaining above-trend real GDP growth.

Disinflation and Interest Rates: Anticipation of potential rate cuts by the Federal Reserve, stimulating the market.

Broadening Earnings Growth: Expansion of profit growth from tech companies to other sectors.

AI Investments: Continued investment in AI driving significant profit growth, particularly in tech sectors and industries benefiting from increased power usage and data center demand.

S&P500 Net Margin
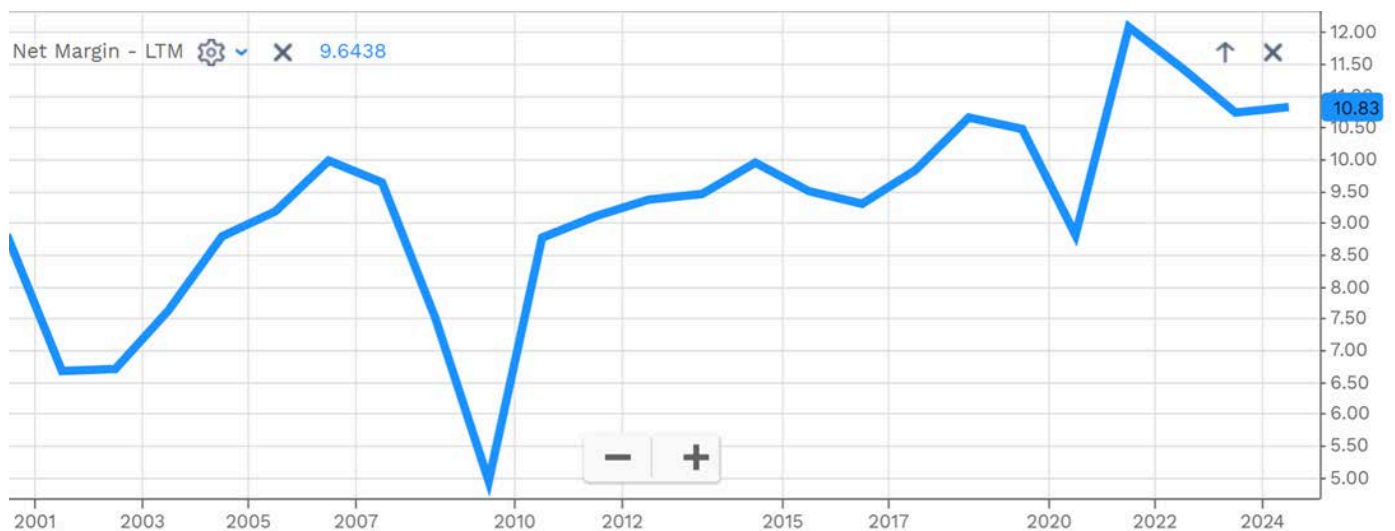
Source: FactSet. Results as of June 30, 2024.

Emerging Trends Shaping Tomorrow

1. AI and Technological Innovations

We believe the AI is here to stay, transforming various critical industries in profound ways. Five key sectors are poised to benefit significantly and sustain growth over the coming years:

The **advanced manufacturing** industry is experiencing a revolution with the integration of industrial robots and logistics automation. These technologies are enhancing productivity and efficiency across factory floors, driving substantial cost savings and operational improvements.

In the **digital design** industry, advancements in computer-aided design (CAD) and simulation tools are reshaping product development processes. These technologies enable faster prototyping, more accurate simulations, and streamlined design iterations, empowering companies to innovate more rapidly and effectively.

The **healthcare automation** industry is leveraging AI to revolutionize patient care and laboratory operations. From surgical robots performing precise procedures to automated lab equipment accelerating diagnostic processes, AI-driven solutions are enhancing healthcare delivery and patient outcomes.

Consumer-facing AI applications are transforming daily routines through personalized assistance and automation. From virtual assistants that manage schedules to smart home devices that optimize energy consumption, these technologies are becoming indispensable in modern life, enhancing convenience and efficiency.

In the **infrastructure** industry, the initial beneficiaries were chipmakers, experiencing a surge in demand as AI technologies proliferated. Now, these components are crucial for various industries developing AI-driven solutions, from autonomous vehicles to smart infrastructure, driving demand across the supply chain ecosystem.

These industries illustrate how AI is not just a passing trend but a transformative force reshaping businesses and societies, with continued growth and innovation expected in the years ahead.

2. Utilities and Alternative Energy

Utilities companies are benefiting from AI advancements, particularly in regions with significant data center operations. The high energy consumption of generative AI applications is driving increased demand for electricity. For instance, a single search in ChatGPT uses ten times more electricity than a Google search.

Additionally, companies are exploring alternative energy sources, such as nuclear power, to mitigate environmental impacts and reduce costs. Advances in nuclear technology are making it a more attractive option both economically and environmentally.

Data center power consumption, by providers / enterprises, gigawatts
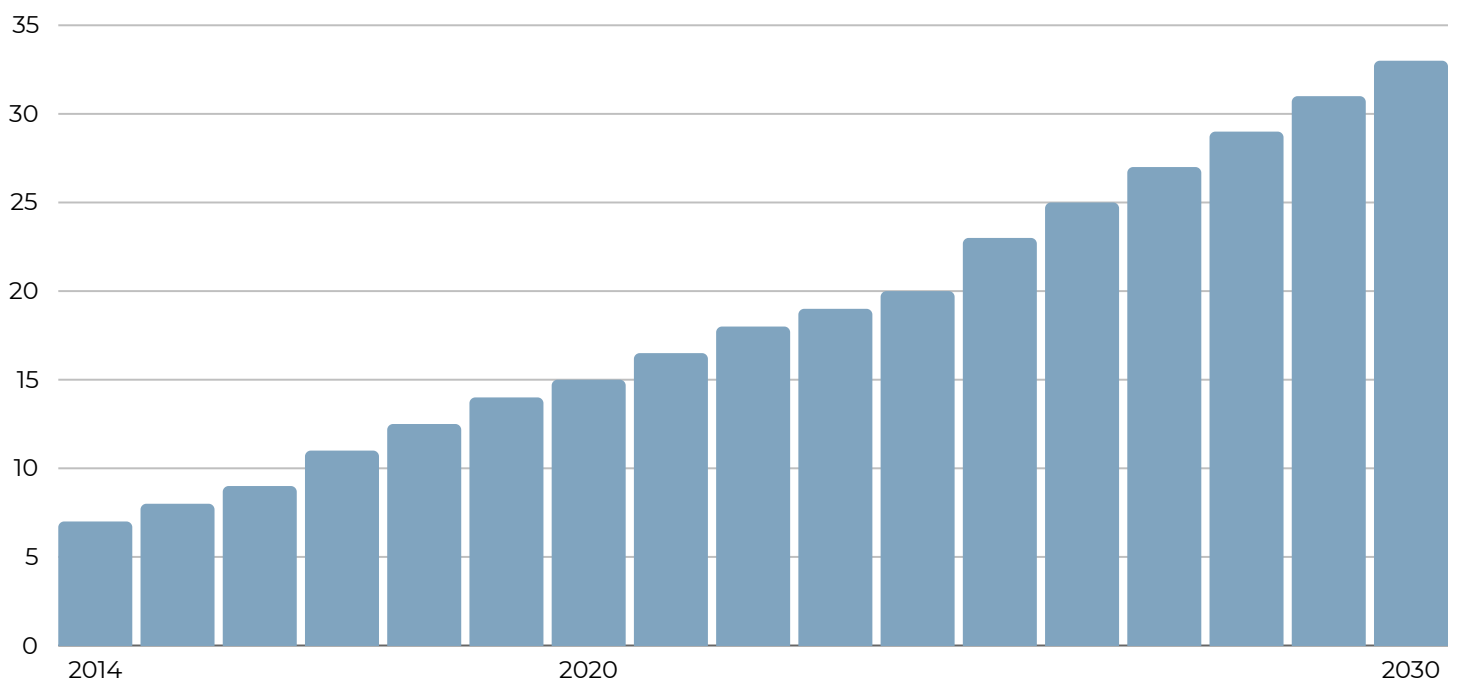
CAGR +13.0% 2014-2019 / **+11.9%** 2019-2022 / **+9.6%** 2022-2026 / **+8.7%** 2026-2030

Source: McKinsey. Results as of June 30, 2024.

3. Healthcare Sector Growth

Healthcare is poised for growth, driven by advancements in obesity drugs, genomics, and robotics:

Obesity Drugs: Obesity medications have emerged as a significant disruptor in the pharmaceutical landscape, rivaling few other innovations in impact. Their introduction, coupled with a shift in the perception and treatment of obesity and related conditions, has propelled this new drug class toward blockbuster status, showing no signs of slowing down. Proof of this is that Morgan Stanley Research has revisited its assessment of the global obesity drug market, projecting it to reach $105 billion by 2030, an increase from its previous forecast of $77 billion—and potentially as high as $144 billion.

Genomics: Genomics, the study of DNA's complete set of instructions for living organisms, holds immense promise for revolutionizing healthcare by advancing the understanding and treatment of diseases. Over the past two decades, plummeting costs of gene sequencing have fueled genomics' rapid emergence as a critical industry. This surge has attracted substantial investment and research, focusing on treating genetic disorders, complex diseases, and improving personalized medicine through enhanced diagnostic capabilities. Breakthroughs in genomics offer unprecedented opportunities to cure previously untreatable illnesses and prolong healthier lives.

Robotics Technology: Transforming surgical practices and patient care delivery, offering precision and efficiency in complex procedures. Several companies are actively developing healthcare robotics across various applications. Intuitive Surgical leads with its da Vinci Surgical System, renowned for minimally invasive procedures. Medtronic focuses on robotic-assisted platforms for spinal surgeries and other medical interventions. Ekso Bionics specializes in exoskeletons for rehabilitation, while ReWalk Robotics offers similar devices for individuals with spinal cord injuries. Hocoma develops robotic systems for neurological rehabilitation therapy. SoftBank Robotics deploys humanoid robots like Pepper in healthcare for patient interaction and assistance. Toyota Research Institute invests in mobility solutions for elderly care. Cyberdyne creates robotic suits and exoskeletons, while Rethink Robotics provides collaborative robots (cobots) for healthcare tasks. Aethon's autonomous mobile robots support logistics in hospital environments. These companies collectively illustrate the diverse applications of robotics in improving medical procedures, rehabilitation, and elderly care.

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SEAVIEW
INVESTMENT MANAGERS

Strong Values. Smart Investments.

Disclosures