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What Major Financial Institutions Expect for the Second Half of 2024



Six months ago, we published our report [What Major Financial Institutions Expect for 2024](#) summarizing the forecasts of the leading economic research teams of the top financial institutions for the current year. At the mid-year mark, many of these institutions released their updated outlooks. We have analyzed and condensed the insights from 26 of these papers below.

Foreword

Waiting In An Uncertain Time: Although cautious optimism should prevail for the second half of 2024, elections in major countries may accelerate market volatility and reshuffle macroeconomic and geopolitical trends in the mid- to long-term.

Dear partners,

As we navigate the midpoint of 2024, the financial landscape presents a complex and dynamic environment, shaped by multifaceted factors ranging from inflationary pressures to the impacts of significant political events. This paper, produced by FTI Consulting provides a comprehensive overview of the prevailing sentiments and strategic outlooks within major financial institutions. By synthesizing their opinions, we aim to equip our partners with a nuanced understanding of the mid-year financial outlook for 2024, emphasizing the pivotal role of informed government affairs and robust financial communication in achieving sustainable success.

The first half of 2024 has been marked by persistent inflationary trends, driven by various global economic factors. Financial institutions express a cautious optimism, noting that while inflation remains a concern, strategic monetary policies and fiscal measures are expected to stabilize the situation. Interest rates have been a focal point, with a general consensus that gradual adjustments by central banks are crucial to managing inflation without stifling growth.

Political developments, particularly elections in key economies, have had a profound impact on market sentiment and financial strategies. Institutions emphasize the need for vigilance and adaptability, recognizing

that government policies and regulatory changes can significantly influence market dynamics. **The interplay between political stability and economic confidence underscores the critical importance of government affairs in shaping the financial landscape.**

Growth perspectives for the remainder of 2024 vary, with some institutions projecting a disinflationary trend, while others anticipate a more volatile outlook. The consensus emphasizes the need for agile financial strategies, with a keen focus on region-specific opportunities and risks.

In this context, the role of government affairs and financial communication cannot be overstated. Effective engagement with policymakers, clear communication strategies and a proactive approach to regulatory changes are essential for clients to navigate this evolving environment. FTI consulting is committed to providing strategic insights and support, helping clients to not only understand but also anticipate and respond to these critical factors.



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Executive Summary

Institutions are much more confident in their mid-year 2024 outlook than they were at the end of 2023: the macroeconomic outlook is positive, with disinflationary trends and global growth picking up.

In the United States, inflation will continue to decrease, but the Federal Reserve could remain hesitant to cut rates as economic fundamentals remain strong. Observers reject the possibility that either outcome in the presidential election could fundamentally impact financial markets. Generally, equities thrive under Democratic administrations, while bonds, especially U.S. Treasuries, perform well under Republican presidents, with Bank of America¹ even noting that “markets are apolitical”.

Geopolitically, there is concern that a Trump administration could shift the narrative on Taiwan and implement even greater tariffs on Chinese goods compared to a Biden administration, impacting financial markets and bilateral political relations that have been relatively stable this year. At the same time, regardless of the outcome of the U.S. elections, some observers believe that the trajectory of United States-China relations is likely to deteriorate.

In Europe, focus is on the developments in the Russia-Ukraine war, and on trade policy with China as European Parliament coalitions stabilize. In France, uncertainty around legislative elections has impacted sovereign debt and financial markets, and this is likely to continue. In the UK, a Labour victory is priced in.

In India, despite a smaller-than-expected win for the Bharatya Janata Party (“BJP”) in India, we are set to see policy continuity on manufacturing, digitization and infrastructure.



Macroeconomics



Inflation and Interest Rates

- Analysts expect **disinflationary trends to continue**, as global supply chains have stabilized, and growth rates are likely to return to long-term trend levels “*now that inflation has been tamed for*”² the latter half of 2024.
- By the end of the year, U.S. core CPI inflation is expected to “*fall from today’s elevated levels to a more normal 2.5%*”³. Investors can head into the second half of 2024 with optimism that a **global recovery is under way** and inflation has finally been tamed, with lower interest rates to follow.
- The ECB⁴ cut rates by 25bps in June 2024, with more cuts expected to follow until 2025. UBS says that “*2025 rates will be between 150 and 200 basis points below their recent peak*”. For the US, a **bumpy disinflation process could be expected**. Resilient labor markets and easing financial conditions may delay the Federal Reserve from cutting interest rates. However, inflation should continue to decrease over time as slower wage growth and lower rent inflation reduce service prices. Investors should prepare for further cuts ahead.



Financial Markets

During the first half of 2024, the global economy performed better than financial institutions expected. Regional disparities grew, with recessions in Germany and Japan, while Spain was a growth leader in Europe. However, 2024 is a year of elections which could lead to political volatility and impact financial markets during the second half of 2024.



Equity and Bond Markets

- Analysts expect elections to impact **equity markets in the short run by increasing volatility**. However, as is the case with many institutions, Loomies Sayle⁵ is not concerned by the equities market volatility caused by elections as *“equities have more to gain in 2024”*.
- Nonetheless, institutions choose to **focus on the U.S. market**. Allianz⁶ believes that *“equities tend to shine under Democratic presidents”*.
- Moreover, while volatility increases, **market yield can be slightly smaller than a year without an election**, at least in the United States. Bank of America⁷ found that average S&P 500 returns during election years since 1928 were 7.5%, while they reached 8% during non-election years.
- As seen above, observers believe that **equities are in a better shape under Democratic administrations**. Allianz⁸ also says that, in the United States, *“Bonds generally do best under Republican presidents”* and *“US Treasuries tend to thrive under Republican presidents without a Congress majority”*. However, according to the ECB⁹, some elections could lead to geopolitical risk which would *“reduce equity and corporate bond valuations and raise the rates banks charge on loans”*. Even if *“US and European corporate credit spreads appear tight relative to history”*, as Loomies Sayle¹⁰ notes, **Europe would suffer more than the United States from this effect**, as the latter is seen as a safer place.



Global Financial Markets

- Nearly all financial institutions agree that, as stated by Bank of America¹¹, **“long-term market returns are driven more by market fundamentals, like the strength of the economy and corporate earnings, than they are by assumptions about a political candidate’s possible future policies”**. Bank of America¹² believes that conditioning investments to political party lines *“is a great way to underperform the broader market”*. In other words, markets are apolitical.
- On the other hand, Goldman Sachs¹³ *“finds that these predictable election-related economic effects are less likely to cause sharp reactions in financial markets than the potentially more significant shifts in policy that happen after an election.”* Indeed, according to the ECB¹⁴, **great concerns can be seen concerning the foreign policy of major states such as those in Europe or the United States** as *“geopolitical risks could destabilize financial markets by increasing uncertainty and weighing on the macroeconomic outlook”*.
- However, just as for the volatility caused in the short term by elections, the ECB¹⁵ notes that *“geopolitical risk events on financial markets are found to be strongest on impact, after which they tend to fade somewhat”*.
- Globally, ING¹⁶ expects that **“a Trump administration would be worse for global trade and negative for currencies such as the Renminbi and the Euro.”**
- There is a broad consensus that, as written by Saxo Bank¹⁷, *“both presidential candidates may continue to advocate for US protectionism. However, Trump’s proposal of imposing a 60% tariff on Chinese imports suggests a more drastic approach, reflecting a significant escalation in protectionist measures.”* This could increase uncertainty and penalize financial markets.

Elections and Geopolitics

Asia



India

- According to Fitch Ratings¹⁸, “*India’s elections bring broad policy continuity but with greater reform challenges*”. The BJP’s lower-than-expected seat count likely means a “*weaker mandate and less political capital*” for them and their allies, according to J.P. Morgan Asset Management¹⁹. Focus on infrastructure, manufacturing, urbanization and digitization should continue, but coalition politics and a weakened mandate could make it challenging to pass legislation. Tricky areas such as land and labor reforms might not proceed as planned.
- Overall, **the equity market outlook is positive** and “*the long-term supporting factors for the Indian economy remain*”²⁰. The sustained public investment in infrastructure, ongoing digitalization initiatives and stronger bank and corporate balance sheets compared to pre-pandemic levels are expected to bolster prospects for private investment.



Taiwan

- **Optimistic views are emerging regarding Taiwan**, as the newly elected Democratic Progressive Party (“DPP”) leadership has not made independence a central point of its agenda. Saxo Bank²¹ notes that the DPP’s low winning margin and hung legislature will “*limit its ability to pursue a more radical agenda, especially concerning independence*”. These two signals should relieve investors.
- Additionally, President Biden reiterating non-support for Taiwan’s independence, helps reassure mainland China that **Taiwan is unlikely to escalate efforts toward independence**.

Middle East

- The main concern in the region is highlighted by Citi²², which believes that “*unprecedented Iran-Israel hostilities could spill over into a broader regional conflict, also with the potential for blowback well beyond the Middle East*”.

Europe

There was no major shift to the right in the European Union (“EU”) after the 2024 elections of the European Parliament, as the body’s composition remained close to previous one. The center-right European People’s Party (“EPP”) once again prevailed, and its coalition with the social democrats and the centrist liberals of Renew Europe retained the majority.

In addition:

- **Grand coalition maintains majority:** A broad alliance of parties (likely including the EPP and S&D) still holds a majority with 56% of the seats.
- **EPP gains ground:** The center-right EPP emerged as the biggest winner, increasing its share to 26% of the Parliament.
- **S&D stagnates:** The center-left Socialists & Democrats (“S&D”) remain the second-largest group but with a stagnant share of 19%.
- **Renew Europe falters:** The center-liberal Renew Europe (“RE”) suffered a significant setback, dropping to just 11% of the seats and potentially losing further ground depending on final right-wing and far-right party results.

Russia-Ukraine War

- The **ongoing geopolitical tensions, particularly with Russia, have triggered a significant increase in military spending** and the strengthening of military capabilities across Europe. This response aims to counter the persistent security threats posed by Russian aggression. ING²³ mentions a “*security risk for Europe*” despite US-NATO support, and that “*Europe will have to step up military expenditures far above the current target of 2% of GDP*”.

- The economic ramifications of these geopolitical tensions are profound, with **concerns over market stability and potential energy crises**. The Russia-Ukraine war continues to pose a significant risk to both European and global markets, leading to a generally pessimistic outlook from major financial institutions.
- Citi²⁴ mentions that “*fresh Russian breakthroughs in its war with Ukraine could send shockwaves through European markets and perhaps extend to global markets*”, while Bloomberg predicts the “*threat of another energy crisis*” due to the war.
- However, NatWest²⁹ predicts if Labour wins with only a small majority, “*markets might worry about fiscal slippage (and tax rises) as Labour might be forced to meet spending demands from its base to shore up sufficient support. This would imply a higher terminal Bank Rate, with higher yields and a steeper curve*”.
- According to J.P. Morgan³⁰, “**Green ambitions have been scaled back** by both parties over the past year. Labour has significantly reduced the scope of its £28 billion a year Green Prosperity Plan and has shifted its attention to energy provision, with plans to set up a publicly owned energy company, GB Energy” – which tracks with the EU’s deceleration of efforts given to the climate question.

Pessimistic Outlook on European Trade

- The EU is adopting a **more assertive trade defense strategy**. According to Deutsche Bank²⁵, the EU is “*further flexing its trade defense muscles regarding perceived unfair trade practices. Ongoing investigations into perceived unfair trade and subsidy practices by China will proceed over the next few months*”.
- Amid these pressing security and economic concerns, **climate protection, although still important, has been deprioritized. The focus has shifted more towards national security and trade defense**, reflecting the changing priorities in the current geopolitical context. According to Deutsche Bank²⁶, “*Climate protection is among the priorities, but no longer takes a central position*”.



United Kingdom

- According to analysts from NatWest²⁷ and J.P. Morgan²⁸, markets are **unlikely to be significantly impacted by election results**. However, a shift to Labour could **boost household and business confidence, leading to political stability**. This increased confidence could support the UK’s economic recovery, already aided by falling energy prices and accumulated savings. Perceived stability might reduce consumer caution, aiding sustained recovery in domestic activity. This recovery could make UK equities, especially the undervalued FTSE All-Share, more attractive to international investors, supported by a 4% dividend yield.
- Banks, ratings agencies and insurers alike agree on four post-vote scenarios: a hung parliament, or relative majorities respectively for the Rassemblement National, the Nouveau Front Populaire or Renaissance.
- UBS³¹ sees the French legislative elections as “*uncertain*” and the “*probability of no clear majority emerging is high, leading to potential political instability*”. Fitch agrees, saying the decision “*heightens uncertainty around the country’s fiscal consolidation path and prospects for further economic reforms*”.
- As regards sovereign debt, UBS³² says “**political news should continue to affect French government bond yields, especially in medium to longer tenors.**” The bank believes higher deficits (contingent on election results) could lead to earlier and more credit rating cuts. Generali³³ agrees, adding that “*OAT-bund spread development will be largely determined by the majority in the new parliament*”.
- Fitch³⁴ underlines that “**France should be placed under the Excessive Deficit Procedure this year. Either way, the next administration will have responsibility for formulating corrective measures**”.
- UBS³⁵ does not see much impact on corporate bonds, and says that policy uncertainty is negative for equities, with “*further uncertainty limiting investor appetite*”.



France



United States

- The focus for analysts in global geopolitics **remains the war in Ukraine**. Financial institutions agree that U.S. presidential elections represent a fork in the road. Indeed, according to Goldman Sachs³⁶, *“a Republican administration and Congress would likely look less favorably on ongoing support for Ukraine in its war with Russia”*. This idea is backed by Saxo Bank³⁷ which thinks that *“a Trump administration might escalate tensions by taking actions such as reducing US support for Ukraine or threatening to withdraw from NATO”*.
- There is a consensus on the idea that a **Biden administration would likely aim to reduce geopolitical tensions and foster international cooperation**. Moreover, Citi³⁸ highlights the fact that *“the choice of US president alone will be critical for US foreign policy, with great importance for security and trade with some countries”*.
- The last point which stands out is **the friction between China and the US**. According to Citi³⁹, there is a broad consensus that the *“rivalry between the US and China [...] is likely to increase, whatever the outcome of November’s US elections”*. This is partly due to a **will to instore tariffs on imported goods from China, in a bid to shore up U.S. manufacturers**. The difference between Biden and Trump might be in the way measures are announced and in **how the administration chooses to develop its China policy narrative**.



Bold views

France

- Allianz⁴⁰ believes that despite the polls predicting a far-right minority government, this would be short lived: *“A technocratic/Front Républicain and Macron-backed minority government could be coming in before the end of the year to avoid a hung parliament impasse”*.

Global Geopolitics

- J.P. Morgan⁴¹ believes that despite more than 50 elections and armed conflicts *“concerns over geopolitics are overstated...geopolitical events do not have lasting effects on globally diversified equities”*. Citi⁴² agrees, saying *“the global economy and markets have historically rebounded swiftly from geopolitical shocks”*.
- Both institutions nevertheless underline that *“geopolitical risks need careful consideration in portfolios”*⁴³ and that **the largest consequences are often felt locally, or in the event of a major cyberattack against critical infrastructure.**

Inflation

- Geopolitical tensions could increase inflationary pressures on both sides of the Atlantic, making U.S. Treasuries more attractive as a safe haven asset and potentially moderating the rise in yields, though not fully offsetting it. Additionally, if government fiscal policy remains loose, *“Fed policy rates may need to be tighter”*⁴⁴.
- This is reflected in expectations of a rising neutral rate for Fed funds, according to Saxo Bank and Nomura⁴⁵, with *“risks of inflation reacceleration and a higher neutral rate [that] could lead to a more hawkish Fed in 2024 and 2025”*.

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