



Olive Tree Wealth Management Ltd
Plain Speaking advice you can trust

Olive Tree Wealth
Management Ltd

4 West Parade, Wakefield, WF1 1LT

Tel: 0800 0845018

www.olivetree-wealth.co.uk

THE YEAR IN REVIEW

A whistlestop tour of the last 12 months,
some key events in 2023 impacting the
global economy and markets, and looking
ahead to what **2024** may have in store

CONTINUING CONFLICT

GLOBAL GROWTH STILL ON THE ROPES?

MANAGING INFLATION AND 'STEALTHFLATION'

ELECTIONS, ELECTIONS, ELECTIONS...

AI OK?

MARKET VOLATILITY - STILL A KNOWN KNOWN

LOOKING AHEAD - HANDLE WITH CARE

What a year 2023 was!

The world continues to change at a ferocious pace. Looking back over 2023, so much has happened; from the rapid progress of AI to the fast-changing global energy resource map, as the green energy transition gathers momentum. The 'permacrisis' theme has played out throughout the year, with the continuing conflict in Ukraine and more recently the Middle East, shocking the world. Meanwhile, instability in the banking sector in the US and Europe rattled financial markets during the spring. The global economy continued to confront the challenges of persistent inflation and subdued growth prospects, with increasing divergence across economies an ongoing theme.

CONTINUING CONFLICT

With the conflict in the Middle East causing immense human suffering, consequences for the region and more widely, remain uncertain and will depend on the conflict's *'duration, intensity, and spread,'* according to the International Monetary Fund (IMF). While the conflict is currently contained, the impact on energy and financial markets has been limited. Kristalina Georgieva IMF Managing Director said the agency was keeping a close eye on the fast-evolving situation and although premature to fully quantify the impact of the conflict, it was *"a new cloud on not the sunniest horizon for the world economy."* She continued, *"We are experiencing severe shocks that are now becoming the new normal for a world that is weakened by weak growth and economic fragmentation."*

The protracted war in Ukraine rumbles on, debilitating the economy and forcing millions into poverty; the loss of life has been catastrophic. Isolation has highlighted the weakness of Russia's geopolitical position, as sanctions strain the economy and Europe successfully weans itself off Russian gas. With no end in sight, Ukraine must secure Western military aid in order to carry on, which will prove challenging with the Middle East conflict distracting international attention.

GLOBAL GROWTH STILL ON THE ROPES?

In 2023, the impact of tighter financial conditions, weak trade growth and lower business and consumer confidence have been felt.

In the IMF's most recent World Economic Outlook, entitled *'Navigating Global Divergences,'* the international soothsayer maintained their global growth forecast

of 3.0% for 2023, lowering to 2.9% in 2024. These levels of growth come in under the historical (2000–19) annual average of 3.8%. With policy tightening measures across the globe weighing, the IMF expects growth in advanced economies to slow to 1.5% in 2023 and 1.4% in 2024, while developing economies and emerging markets are expected to record 4% (2023 and 2024). The report highlights that although signs of economic resilience presented earlier in 2023, efforts to reduce inflation continue to *'cool economic activity.'* Regional divergences to global growth prospects remain and are likely to persist, as many areas struggle to return to pre-pandemic output levels.

MANAGING INFLATION AND 'STEALTHFLATION'

Stubbornly high inflation in developed and developing countries prompted the most aggressive interest rate hike cycles in decades, causing financial conditions to tighten in 2023, exacerbating debt vulnerabilities. Thankfully inflation is now cooling across G10 and emerging market economies.

The IMF forecasts global inflation to decline steadily from 6.9% in 2023 to 5.8% in 2024, due to tighter monetary policy, supported by lower commodity prices. While headline inflation has tempered since the multidecade highs experienced in 2022, core measures are proving more awkward, further complicating central banks' paths to bringing inflation back to target.

Falls in inflation have been a relief to central banks, but with production costs elevating oil prices, although curtailed by the Middle East conflict, resulting expensive fuel costs could raise concerns of a second wave of inflation. Major central banks are unlikely to respond with interest rate rises, instead treating any oil-driven inflation as temporary.

Into 2024, one eye needs to be kept on the curse of 'stealthflation.' Firms have found stealthy ways to elevate prices, even as inflation tempers. In some instances, firms are charging extra for things that were once free. With cost-conscious consumers starting to push back, companies in many sectors will need to start competing more aggressively on price again.

STANDOUT PERFORMER - WITH A CAVEAT

Despite the fastest tightening of monetary policy since the 1980s, the US economy outperformed expectations in 2023 *'along three key dimensions: growing economic output, labour market resilience and slowing inflation,'* according to the US Treasury. The Federal Reserve's aggressive monetary policy tightening started to pay off in 2023, dampening the rise of inflation without triggering a recession (yet) in the world's largest economy. However, the robustness of the US economy comes with a caveat as it has been supported by elevated levels of government borrowing.

CHINA'S GROWTH SLOWDOWN WEIGHS

The world economy is also suffering from China's slowdown in growth. The world's second-largest economy is facing many challenges, with its property downturn likely to endure and weak consumer demand weighing. The shrinking working-age population in China will prompt contemplation as to how to refocus its growth model. IMF analysis shows that when China's growth rate rises by 1 percentage point, global expansion is boosted by about 0.3 of a percentage point. Worsening geopolitical tensions between the US and China, and the global wave of protectionism, are causing trade challenges as countries favour homeland economics.

Time to reflect and refocus for the coming year

Heads up for 2024 – some key areas to focus on include:

ELECTIONS, ELECTIONS, ELECTIONS...

2024 will be the year of the election with over 70 due to be held around the world. Over half the planet's population reside in countries holding nationwide elections in 2024.

One such election takes place in the US on 5 November. The world will watch with bated breath, with all 435 seats in the House of Representatives and 34 out of 100 seats in the Senate, due to be contested. A fireworks night to remember!

With months of campaigning ahead, next spring will bring greater clarity over who the final candidates will be. The election and its outcome are set to be so polarising that the impact will be felt politically and economically across the globe.

The world will breathe a sigh of relief if an internationalist is elected. Re-election of Trump would reignite many issues, including trade, environmental, tax and protectionism.

On home turf, expectations are for a General Election to be called later in 2024 (it needs to take place before 28 January 2025). Some possible pre-election tax cuts could feature in the Spring Budget on 6 March. With household incomes squeezed and stealth taxes taking their toll – are the electorate ready for change?

NEW ENERGY GEOGRAPHY

Although demand for 'less green' energy alternatives will endure, shifting energy consumption patterns are redrawing the map to determine regional dominance as the competition for green resources reshapes trade and geopolitics.

AI OK?

The Collins Dictionary word of 2023, 'AI' has risen in prominence, boosted by the launch of ChatGPT in November 2022.

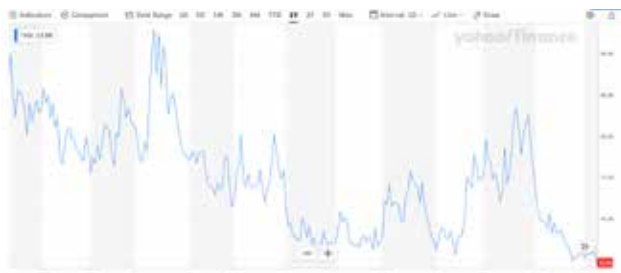
As businesses adopt it and accessibility improves, debate intensifies over the risks and regulatory approach. With too many barriers to overnight adoption, people will either be enthusiastic adopters seeing the benefits, or wary of the potential threats (including to their jobs!).

An inaugural AI Safety Summit, hosted by Rishi Sunak, took place in early November. One key outcome was the signing of the Bletchley Declaration, with 28 countries and the European Union agreeing to meet regularly to discuss the global risks posed by AI.

Market volatility – still a known known

Despite phases of volatility caused by concerns over inflation, rising interest rates, an unexpected regional banking crisis and rising geopolitical tensions around the world, some market resilience has prevailed this year. Global stock markets have had some positive periods, with some momentum returning towards the end of the year, thanks to tentative signs of economic moderation and falling inflation across developed markets. Data releases broadly support the view that central banks have reached the peak of their tightening cycles, aiding equities.

The CBOE Volatility Index or The VIX® Index is a measure of the US stock market's expectation of volatility based on S&P 500 index options. Widely known as the 'Fear Index,' the higher The VIX® Index, the greater the level of fear and uncertainty in the market, with levels above 30

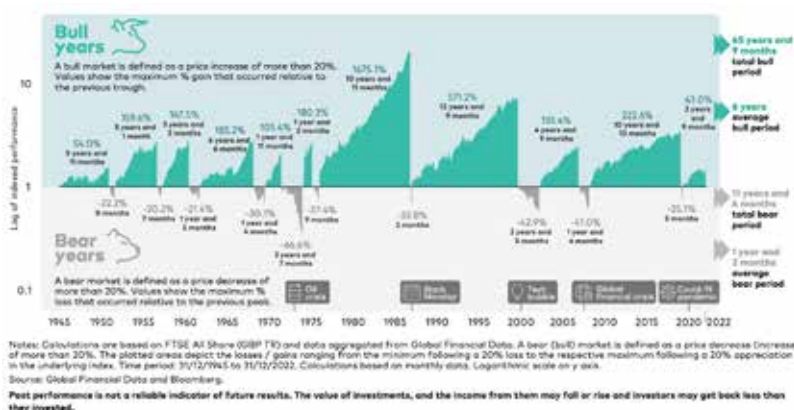


indicating tremendous uncertainty, levels above 20 regarded as 'high' and below 12 as 'low' volatility. During 2023, the VIX® Index topped 26 in March as banking sector issues added uncertainty. In early December, The VIX® Index moderated to around the 12/13 level, with a 2023 low of 12.46 recorded at the end of November.

Bulls and bears – a mixed bag

2023 has been a mixed bag. In a recent US-based poll of Chief Investment Officers, equity strategists and portfolio managers, over 60% of respondents believe stock market gains in 2023 have been a bear market bounce, seeing more trouble ahead, while 39% believe we are already in a new bull market. As an individual investor, the key to approaching any turbulence is to understand that market swings are normal and relatively insignificant over the long term.

This chart about bull and bear runs shows that over a 75-year period to 2022, there were 65.9 bull years (the average bull period was six years), and 11.4 bear years in total (the average bear period was 1.2 years). Historically, bull markets have beaten bears and driven long-term gains. Investing for the long term and having a disciplined, well-constructed plan can help you reach your goals.



© 2023 Vanguard Asset Management, Limited.

Looking ahead – handle with care

2024

We enter 2024 with a fragile global economy. Although inflation will be lower, it will remain elevated. Economic policy still faces a difficult balancing act and although western economies performed better than expected in 2023, they're not out of the woods. Interest rates staying higher for longer will be challenging, even if recessions are avoided.

Predictions can be troublesome but we do know that providing our clients with a sound strategy and a financial plan able to flex with changing needs, which is positioned for the long term and broadly diversified across a range of global assets, will help bring resilience in different market conditions. It's important to remember that market volatility is normal. History shows that

those who are patient and stick to their plans are more likely to achieve their financial objectives. Rebalancing your portfolio will ensure your asset allocation remains aligned with your objectives.

Today's world is unpredictable, we can you help take control and face the future with confidence

While we aren't in the habit of making predictions for the year ahead, here are a selection from some reputable banks, organisations and asset managers for you to ponder:

The **Bank of England** expects inflation to fall towards its 2% target in 2024

The **OECD** expects global growth to remain moderate and to be highly dependent on fast-growing Asian economies. They predict headline inflation to return to levels consistent with central bank targets in most major economies by the end of 2025

'Investors will need to make deliberate choices in 2024, paying close attention to monetary policy if they want to avoid a variety of potential pitfalls and find opportunities in an imperfect world of cooling but still-too-high inflation and slowing global growth' – **Morgan Stanley**

'Our 10-year economic outlook continues to point to a prolonged period of declining vitality in the global economy. Real GDP growth will return to its slowing trajectory with mature markets making smaller contributions to global GDP over the next decade. Nonetheless, there are still opportunities for firms to invest in both mature markets – given their wealth and need for innovation to compensate for shrinking labour forces – and emerging markets – given their need for both physical and digital infrastructure to support their sizable and young labour forces' – **The Conference Board**

'Our economists have a positive outlook for real disposable income growth at a time of much lower headline inflation and still-strong labour markets... rate hikes and fiscal policy will continue to weigh on growth across the G10 economies, but the worst of that drag has already happened' – **Goldman Sachs**

The Bank of England expects inflation to fall towards its 2% target in 2024

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. It is important to take professional advice before making any decision relating to your personal finances. This document does not provide individual tailored investment advice and is for guidance only.

All details are believed to be correct at time of writing – 11 December 2023.