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Markets and Trends 2024: Global economy in a transition game



- Focus on central banks and geopolitics
- German economy forecast to grow by 1.3 percent
- Inflation shock to recede; but structural burdens remain
- DAX projected to close out 2024 at 17,500 points

Helaba Research & Advisory's Economic and Capital Market Outlook for 2024 is once again based on a theme: with Germany hosting the European Championship next year, there is no escaping the fact that football will be more prominent than usual and the “beautiful game” has more in common with economics than you might think. After all, the factors that ultimately determine a team's competitiveness and success are long-term strategies combined with short-term tactics. In this context, many people here are wondering: is our economy in good enough shape to finally return to growth in 2024 or is Germany destined for elimination at the group stages again?

The right structural framework is essential

Flexibility and a capacity to adapt are decisive factors in both football and the economy. From a tactical point of view, this is true for both monetary and fiscal policy; but it also applies to structural factors, as they can contribute to ensuring that an economy is able to react quickly to external shocks. But with the tectonic plates of macroeconomics and geopolitics shifting fast, a new strategy is called for – and it will present both challenges and opportunities in 2024.

2024: Monetary policy needs to transition

As inflation rates fall, this should create scope for interest rate cuts and, with industry recovering, the economy is set to improve in the course of 2024. “The German economy is poised to grow by 1.3 percent”, forecasts Dr. Gertrud R. Traud, Helaba’s Chief Economist. Germany’s inflation rate is set to decline from an average of 6 percent in 2023 to 3 percent. Upward pressure on prices will gradually decline throughout 2024 and will culminate in an average inflation rate of 2.5 percent by 2025. "That means inflation in Germany will still be one percentage point higher than the average of the 20 years before the pandemic. However, this is a result of structural factors such as demographics and deglobalisation rather than cyclical ones," she adds.

Geopolitical risks remain

Not only do geopolitical challenges have an impact on the price level but also on cross-border trade. There is a risk that the global economy will fragment into two technology and trading blocs. In industrialised countries, protectionism and interventionist industrial policy are gaining ground. Meanwhile, the downsides to rampant state intervention are becoming increasingly evident, particularly in Germany.

Germany's fitness level is not up to scratch. In 2024, reducing bureaucracy, competitive policies on taxes and social security contributions as well as fully functional infrastructure must be the priorities on the training programme. While many of these issues have been identified, it remains to be seen whether they will be addressed. At 70 percent, the probability that Helaba Research & Advisory has assigned to its baseline scenario is higher than in the previous year.

Asset classes in the baseline scenario: “Global economy in a transition game” (70 percent)

Pressure on **bonds** will ease in the course of the year. Positive momentum for the 2024 season will flow from lower inflation and a turnaround in key interest rates. Despite this, with central banks reducing their bond portfolios and relatively high levels of government bond issuance, there will only be limited potential for price gains.

Covered bonds will continue to benefit from their status as safe haven assets. The quality of cover assets, high overcollateralisation ratios and banks' solid credit ratings are compelling arguments in favour of this asset class. Despite this, it is likely that new business will decline somewhat and that the issuance volume will be slightly lower.

On **equity markets**, high interest rates, tepid growth and adverse geopolitical developments have already been adequately priced in. With moderate to cheap valuations, economic sentiment having already reached very low levels and cautious positioning among a broad cross-section of investors, the stage is set for prices to rise significantly once again. At the end of 2024, the DAX should be trading at around 17,500 points.

Thanks to a sustained high level of demand and a sharp fall in construction activity on the German **real estate market**, the downward trend in residential property prices should bottom out. Following years of decline, prices of retail properties will stabilise, whereas those of office real estate can be expected to contract further.

Gold may benefit from diminishing opportunity costs. As soon as signs of an improvement in real yields emerge, which should occur no later than the second half of the year, the precious metal will be back on a path towards a level of 2,000 US dollar per troy ounce.

In the context of an incipient interest rate cutting environment, the **US dollar** will generally trend weaker. Additionally, the growth gap between the US and the euro area will narrow. However, given the Fed's hesitancy, there is only limited potential for the relatively strong US dollar to lose ground. The euro-dollar exchange rate is likely to be around 1.10 at the end of 2024.

Negative alternative scenario “Group stage knock-out” (probability 20 percent)

There is a time lag before the enormous amount of monetary tightening causes the global economy to fall into recession. Rising unemployment weighs on incomes and impacts the stability of the financial system. Misguided decisions on geopolitical issues and trade policy put the brakes on vital structural changes and stifle productivity gains. Equities slip into bear market territory and there is a marked decline in bond yields. Property prices, especially in the office and retail segments, decline sharply. The crisis leads to an appreciation of safe haven assets such as the US dollar and gold.

Positive alternative scenario “Virtuoso performance” (probability 10 percent)

In Helaba’s positive scenario, “Virtuoso performance”, the German economy grows by more than 2 percent. This would depend on political success in reducing geopolitical tension, achieving more effective co-operation on global trade and environmental issues and halt-ing the subsidy competition harming poorer countries. Everything falls into place perfectly and all players are fully

committed to working as a team. Real estate benefits from the improved economic environment. Neither gold as a crisis currency nor the US dollar as a safe haven are in demand any longer. Equity markets boom and the DAX soars past the 20,000 point mark.

Markets and Trends



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