

# Balancing Act

## Investment Outlook 2024

As we enter 2024, we have a broadly balanced asset allocation stance, namely a neutral weighting in equities and a much increased weighting in bonds. This follows a steady reduction in equity exposure throughout the last quarter of 2023. The consensus view is that interest rates have now reached a peak and the market expects rates to begin to fall in the first half of this year, on both sides of the Atlantic.

### 2023 Review



- 2023 represented a strong recovery, particularly for equities. This recovery was driven by a combination of better news on inflation, optimism surrounding innovation in the artificial intelligence sector, the lack of a US recession, and a peaking of long term interest rates.
- The 'AI revolution' gained momentum throughout the first half of the year, as companies such as Open AI and Nvidia made advances in artificial intelligence technology. Markets responded positively with large cap tech stocks in particular displaying sustained price growth.
- In March the emergence of a bank-run on US lender Silicon Valley Bank, which ultimately led to its collapse, caused significant disquiet in the financial sector. The ensuing uncertainty resulted in a sell-off of banking assets and also culminated in the downfall of major global bank Credit Suisse.
- Throughout the year, reported inflation rates eased further, particularly in the US. The Federal Reserve decided to pause rate hikes in June for the first time in the current cycle and maintained a holding pattern in its September 2023 meeting.
- Towards the end of the year, lower inflation data in both the EU and US saw yields fall significantly, offering some level of capital return to investors in fixed income markets. The yield on the 10 Year German Bund peaked in October at 2.97%. At the end of 2023 the yield stood at 2.02%, down from 2.57% the previous year.

### Equities Outlook



- On an absolute basis, equities now look more expensive than last year but are broadly in line with historical averages. The equity risk premium is diminished versus previous periods, and this calls for a more balanced stance. However, there is still the potential for equity gains in 2024 and as active managers we are positioned to take opportunities at a geographical, sectoral and single stock basis.
- From a geographical perspective, we are currently broadly neutral across most major markets (including the US). With a percentage of 70%+ of the global developed stock market, the US continues to be the most important and influential region within our equity book. At this time, within the US, we have captured the proceeds from some of 2023's sectoral winners (including names associated with Artificial Intelligence), and our portfolio is as broadly neutral from a sector perspective as it has been for some time.
- Long term secular growth prospects in cloud computing, digital advertising, AI, and semiconductors are positive. In relation to other regions, with lower rates, a probable trough in economic activity and potentially a weaker dollar; non-US markets, which tend to be more cyclical, should fare relatively better than they did in 2023.

### Fixed Income Outlook



- Our assessment of fixed income markets is more positive than it has been in some time, with bonds now holding an equal allocation to equities across our multi-asset funds (where applicable). At some point in 2024, we may allocate to longer duration bonds for the first time across our Prisma fund range. Medium term inflation expectations remain anchored, and whilst eurozone sovereign debt has endured a difficult two years the price entry point and accompanying yield is now attractive.
- In the US, there has been a peak in the 'Fed fear' rhetoric and the market is now pricing in four rate cuts in 2024. In terms of timing, March may come too soon for the Fed, and it is worth noting that whilst the market might cheer numerous cuts if they materialise as a result of lower inflation, a round of cuts due to economic growth missing expectations would not be positive for risk assets.
- Within corporate bonds, we are taking a broadly neutral stance from an asset allocation perspective. Within portfolios we are relatively balanced from a duration viewpoint. In the face of higher funding and refinancing costs, credit spreads have so far been relatively benign. So far, both Investment-Grade and high-yield markets are well-behaved and offer nothing threatening in relation to lagged monetary policy effects.

### For the Bulls



1. The 'soft landing' materialises
2. Rate cuts appear and accelerate across developed markets
3. Chinese growth accelerates
4. Earnings remain resilient

### For the Bears



1. Central Banks become overly hawkish
2. A recession occurs as a result of the lagged effects of monetary policy
3. Chinese growth concerns both deepen and spread
4. Geopolitical tensions remain elevated

# Calendar Year Performance Since 2013



	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Prisma Low	5.4	-5.8									
Prisma <b>2</b>	5.6	-5.6	2.6	1.7	3.1	-1.3	0.3	1.6	1.0	3.3	
Prisma <b>3</b>	8.6	-8.6	7.6	3.4	8.3	-2.4	2.2	4.1	2.6	7.1	
Prisma <b>4</b>	13.5	-13.3	16.8	6.9	17.8	-4.6	5.7	8.5	4.9	14.2	
Prisma <b>5</b>	18.3	-16.7	23.9	10.9	26.5	-6.2	7.7	11.3	6.2	16.0	
Prisma <b>Max</b>	21.3	-19.1	25.3	13.7	28.1	-5.4	8.7	9.8	7.9	7.4	
Active Asset Allocation	12.9	-12.2	18.6	7.4	19.0	-4.9	5.9	8.1	4.9	14.6	3.9
Balanced	16.8	-17.0	18.0	12.3	19.8	-3.6	6.3	6.7	10.0	15.3	16.1
Performance	19.4	-17.9	23.0	13.9	24.1	-4.3	8.3	6.9	10.9	16.1	17.2
Dynamic	21.0	-18.5	24.6	14.4	26.9	-4.9	8.8	7.4	11.8	15.8	19.0
Cautiously Managed	13.0	-12.3	11.5	7.1	11.8	-2.6	3.9	5.1	6.3	18.6	6.7
5★5 Americas	28.0	-24.9	35.5	23.3	33.6	1.5	2.1	14.1	11.8	28.8	24.7
5★5 Asia Pacific	10.2	-2.7	9.6	8.9	21.8	-10.8	23.8	10.4	5.7	9.2	2.6
5★5 Europe	18.9	-10.3	24.2	3.1	31.5	-12.2	16.4	4.8	17.5	8.6	23.6
5★5 Global	22.3	-19.0	29.1	18.4	28.7	-6.3	11.6	4.5	13.3	13.3	17.6
Active Fixed Income	7.1	-15.0	-3.8	3.2	5.4	0.4	-1.1	4.7	1.0	20.3	2.4
Asia Pacific Equity	7.7	-1.5	10.3	5.8	20.5	-8.7	21.8	11.4	0.8	10.5	1.6
Long Bond	8.7	-27.2	-6.6	8.5	11.5	1.3	-1.7	6.3	1.8	28.2	1.5
Cash	2.7	-1.0	-0.9	-1.0	-0.8	-0.9	-0.8	-0.8	-0.5	-0.3	-0.4
Short Duration Corporate Bond	4.4										
Medium Duration Corporate Bond	8.9										
Dividend Growth	12.3	-4.6	35.1	-16.1	28.5	-10.8	3.1	17.3	6.0	18.0	20.1
International Equity	22.8	-19.7	26.1	15.4	28.9	-5.5	9.3	10.0	10.7	17.7	20.6
Eurozone Equity	20.6	-13.1	23.4	5.0	26.0	-12.1	14.3	5.0	11.7	4.3	25.5
Indexed Australasia Property	-5.9	-7.9	13.4	-16.7	17.3	2.7	3.5	11.0	2.4	26.1	-10.3
Indexed European (Ex-UK) Property	17.4	-37.6	8.6	-9.3	23.8	-6.6	14.4	3.9	16.6	20.6	3.8
Indexed Global Energy and Metals	-13.3	19.9	38.7	-11.4	12.4	-4.1	-5.7	21.5	-20.2	-12.4	-5.3
Gold	9.4	5.7	3.6	13.0	19.7	3.0	-2.6	12.3	-2.3	12.8	-31.4
Indexed Inflation Linked Bond	5.1	-10.4	6.0	2.3	6.0	-2.2	0.6	3.4	0.1	4.6	-4.4
Protected 70	10.3	-15.8	17.9	4.1	17.7	-6.1	4.7	1.4	6.4	10.4	13.1
Protected 80	6.8	-12.1	12.4	1.3	10.4	-5.1	2.2	-0.3	4.2	7.1	9.3
Global Corporate Bond (J.P Morgan)	6.0	-16.3	-2.8	6.8	9.4	-5.2	3.5	3.2	-0.7	7.2	-0.2
Global Government Bond (J.P Morgan)	3.1	-14.0	-4.1	4.9	3.9	-1.0	0.1	1.3	0.6	8.1	-0.8
Emerging Market Opp (J.P Morgan)	2.3	-21.3	0.8	8.7	27.6	-9.7	28.6	17.1	-11.5	12.5	
Dynamic Diversified Growth (Blackrock)	4.6	-11.2	3.6	7.4	9.2	-4.4	6.8	-2.5	-1.7	5.1	5.9
American Select (Columbia Threadneedle)	19.0	-18.5	30.9	14.9	36.2	-1.3	6.3	17.5	9.9	21.3	24.5
European Select (Columbia Threadneedle)	22.0	-21.8	26.2	9.3	33.7	-11.0	13.9	0.1	13.9	12.9	15.7
Global Select (Columbia Threadneedle)	23.7	-20.3	22.3	11.1	38.9	-7.5	14.1	9.0	12.1	17.1	20.0
Indexed TopTech 100	49.8	-30.5	39.5	34.6	41.0	3.9	15.9	9.8	21.4	34.7	29.9

**Notes:** Annual management charges (AMC) apply. The fund performance shown is before the full AMC is applied on your policy. Returns are based on offer/offer performance and do not represent the return achieved by individual policies linked to the fund.

**Source:** Zurich Life as at 02/01/2024.

**Warning: Past performance is not a reliable guide to future performance.**  
**Warning: The value of your investment may go down as well as up.**  
**Warning: Benefits may be affected by changes in currency exchange rates.**  
**Warning: If you invest in this product you may lose some or all of the money you invest.**

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