2024: A year of intensifying macro regime change?

2024 GLOBAL MACRO OUTLOOK FROM WELLINGTON MANAGEMENT

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The nature of economic cycles is changing. We expect domestic output gaps to be far more important in determining inflation in a particular economy than we have seen over the past 20 years of globalisation. Markets and central banks will take time to adjust to this new normal, but the result will be shorter and more frequent cycles, accompanied by more volatile and, on average, higher inflation.

Global growth is slowing. And we expect it to keep slowing into 2024. There is a high chance that most countries will experience at least one quarter of contraction and that some will even face a technical recession, meaning two consecutive quarters of negative growth. However, these downturns should be mild, especially as households are supported in aggregate by rising real incomes.

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Central banks are keen to indicate that rates have now peaked.
As growth slows, unemployment rises modestly and inflation comes down, central banks will probably see an opportunity to cut rates. In our view, that would be a mistake, because the growth slowdown is unlikely to be sufficient to create the slack required to get inflation sustainably back to target.

Fiscal policy and electoral cycles will increasingly dominate outlooks.
A long list of fiscal commitments, ranging from military to climate-transition expenditure, will keep government budgets in deficit, particularly in Europe. As we approach elections, countries will likely loosen fiscal policy further—the US and UK being prime examples in 2024—even though inflation will likely still be above target.

With monetary policy in flux and governments consistently increasing their spending commitments, we expect risk premia to experience a further upward trend in the coming years, driven by a significantly higher shift in the net supply of government debt, which is fast approaching levels not seen for three decades.

Governments are consolidating their deficits slowly while central banks, which acted as the buyers of last resort over the last 10 years, have become net sellers. At the same time, global savings surpluses have shifted towards emerging markets, which seem to be less inclined to recycle the money into developed market government debt.

The resulting structural upward pressure on term premia is likely to restrict the potential for long-term rates to rally in the event of a downturn. Conversely, they could potentially continue to sell off at the first signs of a reacceleration of inflation in 2024.

Deglobalisation means that thinking locally may yield greater value.
Throughout 2024, there is the potential for many interesting themes to play out at a regional and country level. Many small, open economies—from the Scandinavian countries to New Zealand—could follow very different cyclical and policy paths from the US, the euro area and other large economies, whose private sector balance sheets tend to be in better shape. Some of the countries that have depended on exports for growth—most notably, Germany and China— may need to transition to a new domestic-led growth model or risk deflating. And Japan, for so long a source of deflation and savings for the world, could well raise rates, end yield curve control and continue to reflate.

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