Higher for longer… for longer?

William Davies
Global Chief Investment Officer

We do not believe there is going to be deep recession, more that slowing of economies. Will we see recession in certain areas? Yes. It's quite possible that we will. But if it is, we would expect that to be mild rather than anything deep.

2023 came up with a number of surprises, but probably one of the largest surprises was how resilient economies were around the world. As we move into 2024, I think we have to look at that slowdown because let's face it, with interest rates peaking now at 5.5% in the US, over 5% in the UK, 4% in the eurozone, we've got to expect that that has some impact on growth as we hit 2024.

Our view at Columbia Threadneedle is that we're going to see, if anything, that growth being pretty resilient as we go into 2024, and hence corporate profitability to remain positive as we go through the year. It may well be that the time when interest rates start to come down is going to be later than some other investors may expect. But, different central banks are going to move at different times.

I think the US consumer has been particularly resilient during '23, and we'd likely see that carrying on in '24, interest rates going from 0% to 5.5% is going to have an impact, which is why we expect the economy to slow in 2024. It's just that it's taken longer than we anticipated at the beginning of '23.

I think if we look at our central scenario for 2024 of slowing growth, but not deep recession, of interest rates staying high, but then starting to fall as we hit the end of '24 and into '25 — that is an environment which I think is relatively constructive for investing. So what could hit that? Well, if we were to get deeper recession than I talk about, then that could be a threat. Why could that occur? Well, some of those left field geopolitical factors could bring that about. On the other hand, let's look at inflation. Inflation has come down in the US from over 9% to under 4%, and similarly elsewhere around the world as well. If we were to see inflation start to rise again and interest rates have to rise again, then that wouldn't only be bad for bond markets, it would have a negative impact on equity markets as well. So that central ground we talk about, that central case, we believe to be quite constructive for capital markets. But if we deviate from that, then that is where the risks start to come.

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