2024 Equity Market Outlook: Midyear Update

Earnings strength may continue amid resilient global economic growth and innovation.

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Key Points

- Equity market moves have been more aligned with fundamental earnings strength, while participation has been among a broader range of stocks.
- Generative artificial intelligence (AI), weight-loss therapies, and infrastructure expenditures could provide strong secular tailwinds.
- We think areas for opportunity include the innovation space with growth expected from positive secular trends, as well as certain markets outside of the U.S.

As we look toward the opportunities in equities over the second half of 2024, our outlook remains optimistic. We attribute the market's strength over the year-to-date period to robust earnings, moderating inflation, and the continued adoption and growth of AI.

Earnings Strength and Broader Participation

We continue to see equities driven higher as a result of stronger-than-expected earnings. As of May 24, 2024, 96% of S&P 500® companies reported results for Q1 2024, and 78% of those companies reported a positive earnings surprise. The blended year-over-year earnings growth rate for the S&P 500 is 6.0%, which is significantly higher than the March 31, 2024, estimate of 3.4%. Looking forward, earnings for the S&P 500 Index are expected to grow approximately 11% over 2024, and Russell 2000® Index earnings are expected to grow approximately 13.5%, as of May 28, 2024. (Source: FactSet).

While the so-called "Magnificent 7" have contributed substantially to the positive earnings picture, we are also seeing differentiation within and a broadening of participation outside of that cohort. This time last year in 2023, those stocks were moving monolithically. This year, mega cap stock moves are much more aligned with their earnings growth. For example, NVIDIA has had tremendous earnings growth, and the stock is up 130% year-to-date through May 28, 2024. (Source: Bloomberg). Tesla has seen its earnings contract, and its share price came under pressure as a result of this fundamental weakness. Beyond diversification, we are also seeing an improvement in market breadth with more companies participating in the rally.

Positive Secular Trends Include AI, Weight-Loss Therapies, and Infrastructure Spending

The strength of equities year to date in 2024 can be partially attributed to idiosyncratic market drivers, such as generative AI. We believe the potential of generative AI is still largely underestimated by the market and is likely to have an impact similar in scale to the Internet. While investors may first think of the immediate beneficiaries such as Microsoft and NVIDIA, the impact is far reaching and includes, but not limited to, the buildout of data centers, cooling systems, network suppliers, and semiconductor chips. As more companies embrace AI, we expect to see an ushering in of an era of efficiency and productivity gains across industries and market capitalizations. Beyond AI, we are seeing a renewed focus on infrastructure spending driven by geopolitical factors and the post-pandemic re-alignment of supply chains. Finally, a trend towards wellness continues, driven by the influence of glucagon-like peptide-1 agonists (GLP-1) weight loss drugs.

Equity Markets Have Shown Resilience

Coming into 2024, the market priced in six interest-rate cuts for 2024. As the economy continued to show resiliency, the market pared back rate-cut expectations, with just over one cut priced in for 2024, as of the end of May. Despite the repricing in the rates market, equities continued to show strong performance, which furthers our conviction that many companies can successfully navigate a higher-rate environment and that the success of high growth stocks is not dependent on rate cuts.

Assessing Global Trends

Outside of the U.S., growth remains healthy, and consensus forecasts are for the world economy to continue growing at 3.2% during 2024 and 2025. While growth in Europe is not strong in absolute terms, it is in positive territory and has been surprising to the upside. Europe has been helped by natural gas prices that have fallen to levels last seen before the invasion of Ukraine and a pickup in manufacturing activity. Furthermore, the European Central Bank (ECB) is expected to start cutting rates as soon as June as the disinflationary process has continued trending in the right direction, which should provide an additional tailwind.

We are also constructive on Japan and India, with both local stock markets being among the best performers year to date in 2024. Japan has been benefiting from a bout of inflation after three decades of deflation. Increasing import pressures have prompted companies to raise prices, leading to higher profitability and increased margins. In addition, the Tokyo Stock Exchange launched an initiative last year urging Japanese firms to bolster their attractiveness to investors, and this internal pressure continues to be a tailwind. Lastly, Japan is an economy that is very much centered around technology and robotics, so some of the same trends around AI that are benefiting the U.S. are benefiting Japan as well.

Shifting to emerging markets, India is expected to be the fastest growing economy in the world over the next five years, due in part to favorable working-age demographics relative to other countries and regions, and in part to a growing middle class. India has experienced easing regulation and banking reforms that have fostered a more productive environment for conducting business. The country has also benefited from reshoring, as companies shift global supply chains from China to other parts of the world, including India, peripheral Europe, North America, and South America.

Lastly, it is worth noting that 64 countries, representing half the world's population, will be voting in presidential, legislative, and local elections this year. Those elections will range in size and importance, with many focusing on the U.S. presidential race. The dynamics of the 2024 election year may offer opportunities amid possible volatility.

Summing up

We continue to be selectively bullish on the equity market, amid strong earnings, moderating inflation, and broad participation across sectors and geographies. Key drivers like generative AI and infrastructure spending, coupled with global economic resiliency, provide a solid foundation for continued market growth.

Past Performance of Selected Indices (Calendar Year):

	Russell 2000 Index	S&P 500 Index®
2023	16.88	26.29
2022	-20.46	-18.50
2021	14.78	28.68
2020	19.34	18.40
2019	25.48	31.49

NOTE: Past performance is no indication or guarantee of future results.

Source: Bloomberg. Returns shown are expressed in percent.

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Consensus estimate is an aggregate forecast of a public company's expected earnings based on the combined estimates of all analysts that cover the stock.

Earnings-per-share is the monetary value of earnings per outstanding share of common stock for a company. It is a key measure of corporate profitability.

European Central Bank (ECB) manages the euro and frames and implements EU economic & monetary policy. Its main aim is to keep prices stable, thereby supporting economic growth and job creation.

International Monetary Fund (IMF) is a major financial agency of the United Nations, and an international financial institution funded by 190 member countries, with headquarters in Washington, D.C.

The Federal Reserve (Fed) is the central bank of the United States. The federal funds (fed funds) rate is the target interest rate set by the Fed at which commercial banks borrow and lend their excess reserves to each other overnight.

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