2024 CEO OUTLOOK

For asset managers, a market share fight

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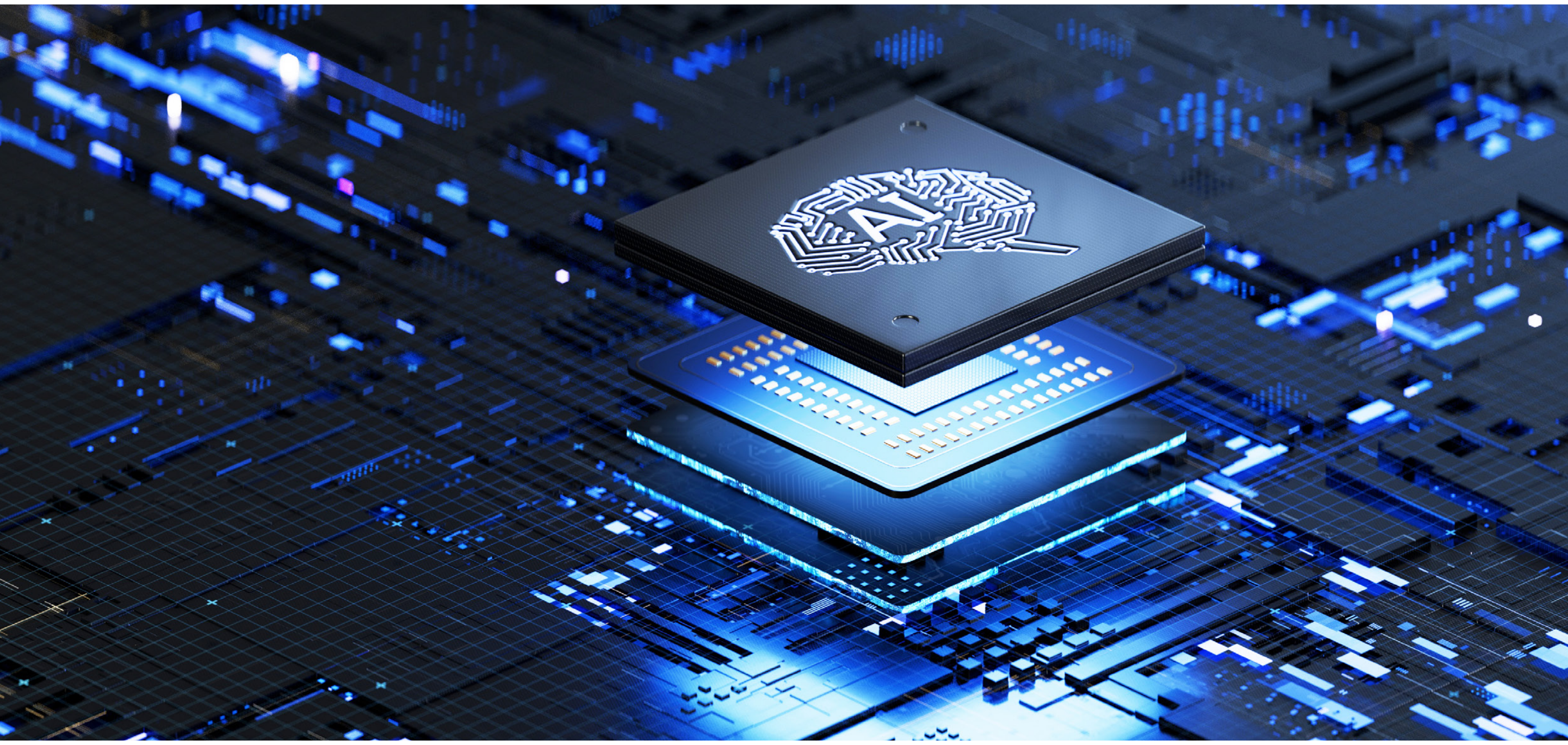
Inflation has come down and things have turned out a lot better – economically – than many would have predicted at the beginning of 2023. Our CEO gives his thoughts on what's in store for markets and asset managers in 2024

The biggest surprise of the past two years has been a 500-plus basis point increase in interest rates without a recession. While there are pockets of the economy that are not doing well, we have gone from quantitative easing to quantitative tightening without a credit cycle. There are a lot of reasons that hasn't happened – fiscal stimulus and pent-up savings during the pandemic among them – but I think we can also give some credit to the US Federal Reserve for calibrating the rate increases successfully.

From an investment perspective, the rate rises have meant that money market rates are attractive once again, but getting people to consider other asset classes has been a persistent challenge for financial advisors. Cash



is great in the short term, but it's not a long-term investment vehicle. I think investors will begin to see that as rates come down over 2024.

For institutional investors, higher rates have helped many match their liabilities, and not surprisingly they are taking their time with decisions on allocations. Generally, we are seeing them allocate their risk and fee budgets to alternatives and private credit especially. I think the latter will continue to grow because banking regulations have discouraged banks from lending. They don't want to hold loans on their balance sheets because the capital costs are too high. The private markets are fairly opaque, though, and there could be some accidents – especially if we return to a more historically normal credit cycle.

There is plenty for investors to worry about in 2024

From a technical perspective, I think equity valuations in the US are extended. In addition, pockets of traditional commercial real estate are facing significant uncertainty, particularly older office buildings which haven't bounced back in terms of occupancy since the global pandemic. There will be a shakeout, and there are going to be some incredible opportunities – but there is pain to get through first.

There is also considerable geopolitical risk, including two wars that could become wider conflicts and the ever-present concern about China, which wants to dominate the Pacific region. Does this spill over into a major international incident? Hopefully not, but it is certainly something we cannot discard as a possibility. We are also heading into a US election year in a particularly polarised political environment. In the long run, politics don't matter to markets. What does matter for the business community is sensible regulation, endurance of institutions and the rule of law. And if all that sort of stays in place, well then – politics will be politics.

Artificial intelligence is a game-changer. We are going to be able to do a lot with it

The asset management industry generally remains in flux

There are too many traditional asset managers and products and not enough assets to go around. It is a market share fight both in the US and Europe, and I think it is going to lead to some more consolidation. Most people think we will end up with a barbell-shaped industry, with some very large managers that do a lot of things really well, and a set of small managers that offer single products really well; in the middle you are probably going to see fewer and fewer players.

Artificial intelligence (AI) is a game-changer. We are going to be able to do a lot with it: it is going to get embedded into the operating side of our business; it is going to assist with research; it is probably going to assist with portfolio management at some point. That said, I think it is a co-pilot that will supplement a human's work rather than replace it. More broadly, I think we will see technology and AI become a bigger part of every industry, but I think there is more to be done to understand all the possibilities and risks.

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