

Turning views into action

Three themes for 2024

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

We think investors will continue to face the challenges of slowing economic growth and higher-for-longer interest rates in many developed markets (DM) in 2024. Yet, we see this a time of opportunity across stocks and bonds, with three key themes shaping markets.

First, we think it's time to put money to work. Against an uncertain economic backdrop in 2022 and 2023, investors piled into cash as a source of stable income. While cash can provide peace of mind for investors, holding too much in a portfolio can weigh on potential returns over the long term. In addition to the 'opportunity cost' of holding cash – missing out on potential returns from investing it elsewhere – inflation can erode the value of much of the interest earned on cash over time. When putting cash to work, investors should carefully consider their risk appetite and investment horizon.

Cash has looked attractive because interest rates are so high – DM central banks appear to be at the peak of their rate hiking cycles, and we don't think they'll start coming back down until mid-2024. Why? Inflation levels are still well above the 2% target levels set by DM central banks to keep their economies stable. Central banks use higher interest rates to make it more expensive to borrow money and more attractive to save it. This tends to reduce the level of consumer spending and, therefore, inflation – but this lower spending also means slower economic growth.

In this environment, our second theme is managing economic risk. We're looking to build more resilient investment portfolios, which have the potential to deliver stable returns through varied economic conditions, and we see a generational opportunity in bonds with interest rates at decade-highs.

Our third theme is harnessing mega forces, the big structural changes we see driving shifts in profitability across economies and sectors as well as our outlook for inflation and economic growth – and affecting markets today.

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‘Bonds are back’ has been the investment story of 2023, with a significant increase in allocations to government bonds. In equities, technology and other ‘quality’ companies have been in favour amid the AI euphoria and volatile market backdrop.

Our investment themes for 2024

1. Putting money to work

We think many investors' cash holdings are currently too high. We're putting money to work through exposures that offer better value or strong quality features, such as robust balance sheets, cash flows and profitability.

2. Managing economic risk

Growth is slower today in many major economies than before the pandemic, and inflation is much higher. In a higher interest rate environment, we favour bonds for income, with yields currently at decade-highs.

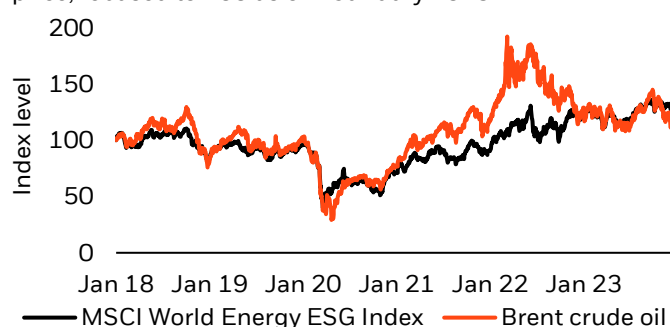
3. Harnessing mega forces

Mega forces are shaping economies – and investment opportunities – not just in the distant future, but today. We're positioning for the artificial intelligence mega force – and the chips that power it.

1. Putting money to work

As we look to put cash holdings to work through investing in stocks or bonds, one thing we're looking for is sectors tilted to companies whose overall market value – or 'valuation' – is relatively low compared to their earnings or assets. This may signal an opportunity to invest in the sector at a lower cost, and potentially benefit if the sector experiences growth later on. At present, we see good value in the **energy sector**, where market valuations are low but profitability remains relatively high. Companies in the energy sector have also shifted to a more disciplined approach to investing in their own growth in recent years, providing a further potential boost to their future earnings. The sector could also benefit from any potential rise in oil prices, given the close correlation between the two – see chart.

The energy sector tends to be correlated with oil prices
MSCI World Energy ESG Index and Brent crude oil spot price, rebased to 100 as of 1 January 2018



5Y annualised performance (%)

	2018	2019	2020	2021	2022	2023 YTD
MSCI World Energy ESG	-16.3	14.3	-25.6	27.6	34.6	8.4
Brent crude	-19.6	22.7	-21.5	50.2	10.5	-9.6

Past performance is not a reliable indicator of current or future results. Source: BlackRock and Bloomberg, as of 19 December 2023.

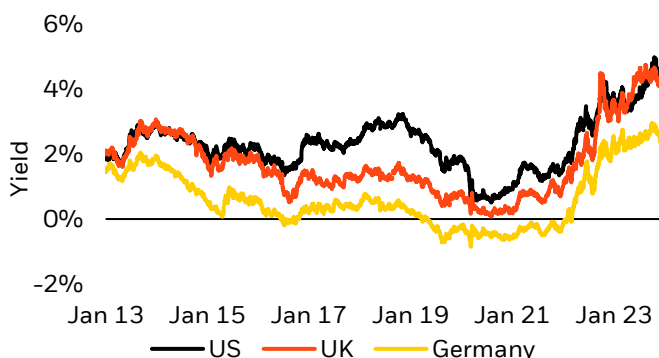
2. Managing economic risk

One way to manage economic risk, we think, is by building high-quality income streams. Higher interest rates are creating a generational opportunity in bonds for income, in our view, given that the interest now available from these bonds has risen to levels not seen for many years. This may provide an attractive, stable source of income for investors in the form of regular interest or 'coupon' payments. We prefer bonds issued by relatively stable governments with strong records of making payments on time, and see the most attractive opportunity set in **European government bonds** and **UK government bonds** (also known as 'Gilts'). Our analysis shows that many DM government bond exposures currently offer income levels well above their 10-year average.¹

¹ Source: Refinitiv Datastream and BlackRock Investment Institute, as of 15 December 2023. ² Source: McKinsey, 2023.

Developed market government bond yields are at their highest levels in over a decade

10-year DM government bond yields, 2013-2023

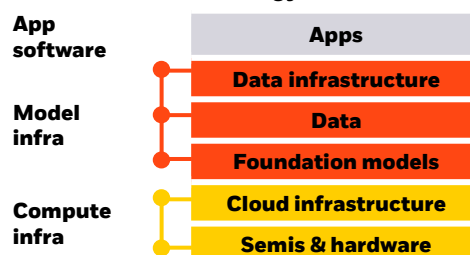


Past performance is not a reliable indicator of current or future results. Source: BlackRock Investment Institute, with data from LSEG Datastream, December 2023.

3. Harnessing mega forces

Across the mega forces we track, AI has stood out in 2023 – and we expect investor interest in AI to persist in 2024. Assessing the investment implications of AI beyond the initial hype requires us to view the technology through a platform lens, organised in a tech 'stack' – see below. While we expect companies across the full AI ecosystem to benefit over time, we see the strongest opportunity set today at the base of the stack, in the **semiconductors** that power AI tech. The AI boom could provide a tailwind for semiconductor manufacturers, with increased demand coming from different parts of the AI value chain, from accelerators to specialised chip makers, cloud operators and data centre device manufacturers. The industry is projected to grow by 6-8% annually this decade, reaching \$1T of annual revenues by 2030.² We prefer global semiconductor exposure, reflecting the industry's globally-integrated production process and supply chain.

The Future AI Technology Stack



Source: BlackRock Investment Institute, December 2023. The schematic shows the technologies we think will be needed to develop AI applications. Each layer builds on the one preceding as technologies get 'stacked' on top of one another, enabling further innovation. The schematic is for illustrative purposes only and intended as a guide based on what we know today. As the AI ecosystem evolves some categories may be replaced by newer ones.

Diversified portfolios to help navigate market uncertainty

In today's economic environment, it's unlikely that savings alone will be sufficient to support your financial goals. Investing has the potential to protect your wealth and help it grow over time. Our **MyMap range** is a family of ready-made, multi-asset funds that have been built with a risk level in mind – so all you need to do is choose one that fits your risk profile.

MyMap 3 Select ESG Fund

MyMap 5 Select ESG Fund

MyMap 7 Select ESG Fund

More cautious More adventurous
Risk level

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Risk Warnings

Investors should refer to the prospectus or offering documentation for the funds full list of risks.

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Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

Fund-specific risks

MyMap 3 Select ESG Fund

Counterparty Risk, Credit Risk, Equity Risk, Liquidity Risk

MyMap 7 Select ESG Fund

Counterparty Risk, Credit Risk, Equity Risk, Liquidity Risk

MyMap 5 Select ESG Fund

Counterparty Risk, Credit Risk, Currency Risk, Equity Risk, Liquidity Risk

Description of Fund Risks

Counterparty Risk

The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Credit Risk

The issuer of a financial asset held within the Fund may not pay income or repay capital to the Fund when due.

Currency Risk

The Fund invests in other currencies. Changes in exchange rates will therefore affect the value of the investment.

Equity Risk

The value of equities and equity-related securities can be affected by daily stock market movements. Other influential factors include political, economic news, company earnings and significant corporate events.

Liquidity Risk

The Fund's investments may have low liquidity which often causes the value of these investments to be less predictable. In extreme cases, the Fund may not be able to realise the investment at the latest market price or at a price considered fair.

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