Lemanik: equities, double-digit returns in 2024 | The latest view of our portfolio manager Andrea Scauri

From the in-depth analysis by Andrea Scauri, Lemanik’s Italian stock manager, it emerges that: “A recession in 2024 will be relatively modest, short and shallow, followed by a strong recovery in late 2024 and 2025. If so, the historical performance of the markets after the first rate cut would also improve”.

We translate and publish the market view of our portfolio manager Andrea Scauri, taken from Investiremag.it. The original article in Italian can be found at this link: https://urly.it/3-9pa

“We expect 2024 to end with solid double-digit returns, albeit lower than in 2023, for both US and European indices. We see that the European index will reach levels around 4900/5100 towards the end of 2024, with gains in the order of 10-15%. In a context of higher volatility compared to 2023, in the middle we will see setbacks, even important and probably quite deep, with falls that could reach -10%.

> *2024 is an election year not only in the United States, but also in many other countries. US elections will be the most important element of next year, and this US presidential election cycle will also affect the outlook for US and global equity markets.*

With the pre-election year now behind us and with the important expected earnings, typical of the best year of the four-year cycle, the second best year is the election. S&P

earns an average of 17% in pre-election years and 7% in election years. But the main difference that defines the performance of the election year is when you look at the type of election year that we are facing: when it comes to the end of the first term of a new president, Yields are much higher than in an election year at the end of a second term.

Beyond this, there are many other data and statistics that show a clear probability of achieving a double-digit return in 2024. The years following a bear market like the one we saw in 2022 are not normally followed by a single year of strong rise. In the past these bear markets have always been followed by two or more years of rise, with average earnings of 35% in the first year (S&P so far not up to par in 2023) and yields of 14% in the second year after the end of a bear market. The momentum has already been oriented towards a direction of very strong rise, also indicating to expect decent returns to 12 months ahead of the fourth quarter 2024. However, 2024 will not be a one-way street. We believe that the declines over the year will be sharper and more intense than seen in 2023, mainly because the seasonality of pre-election years, such as 2023, was better than that of electoral years.

> *The problem is not only to be found in the errors of monetary policies because it would be appropriate to ask whether the U.S. model, built on quantitative easing policies, deserves the colossal bet that markets are pricing in, he notes.*

As for the Fed’s moves, we believe it has enough options to counter a possible deterioration in the financial system but also in the fiscal framework. The first step would be to put an end to quantitative tightening with a cut in rates and, later, with other interventions. Whatever we face next year, we have plenty of ammunition to get an antidote. A recession in 2024 will be relatively modest, short and shallow, followed by a strong recovery in late 2024 and 2025. If so, the historical performance of the markets after the first rate cut would also improve. Markets only plummet after the first rate cut if a severe recession occurs.

Europe will most likely follow a path similar to that of the United States. DAX and Eurostoxx followed S&P’s performance fairly well in 2023, with a few percentage points above or below S&P’s earnings this year. This ratio is unlikely to change much. The bond-to-stock ratio was of extreme importance in 2023. The correlation between rising yields and falling markets and vice versa had a strong impact on narrative changes during 2023. We expect this correlation to be less apparent in the future. If the economic data are negative and the recession approaches, you will obviously have a bullish bond. But at the same time, the avalanche of US issuance can trigger new pressure on long bonds and interest rates.

> *As for Italy, the theme of small caps deserves a mention. After the penalizing trend of 2022 and 2023, we believe that there may be investment opportunities, in particular in some Italian Smid securities that have clean balance sheets and are traded at large discounts compared to the average of multiples of the last 5/10 years”.*

Andrea Scauri

More than 20 years of experience in equity markets, developed both within Asset Management firms and at leading investment banks both domestically and globally. In these contexts, lived between Milan and London before joining Lemanik Invest SA in 2019, Andrea has been directly involved in IPO processes of several companies.
His in-depth knowledge of different economic sectors, with a particular focus on the Oil, Capital Goods and Consumer Goods sectors, combined with his strong financial analysis skills, which have led him to be consistently ranked among the top 10 financial analysts in the Italian market, represent the main components of his stock picking activity.

View Andrea Scauri profile

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