# Global Bond Outlook 2024

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After a torrid 2022, 2023 was a better year for global bond investors. But what does 2024 hold in store? We think that the rise in yields that has been seen across the last two years means that global bonds are highly investable again, and crucially they can play the important diversification role that they used to fulfil in portfolios. That said, we don't think that we've seen the full effect of rising rates on either companies or consumers, because rate rises always work with a lagged effect. This means that investors should be alive to the risk of negative surprises or setbacks – what the statisticians call 'tail risks' – in 2024.

# Is inflation over?

Given the ramp-up in interest rates seen over the last two years, you'd be forgiven for thinking that investors could start to forget about inflation. Unfortunately, we don't think that this is the case. Whilst the major central banks have worked hard to bring inflation down, it is remains higher than they would want it to be. Central banks are pragmatic and they won't keep raising rates to crush inflation to 0% if that means risking a severe downturn in the economy. Moreover, we've long believed that 'the golden age of globalisation' is over. Onshoring and nearshoring will mean that supply chains are more resilient (and probably have better ESG characteristics too) but they'll also be more expensive.

As well as inflation, global bond investors also need to consider rates and at the time of writing (December) the market is pricing a ~60% chance of a Fed rate cut by end March and 100% likelihood that rates are cut by end May. The market thinks that rates are headed lower, which is helpful for rate-sensitive assets. We think that given how much work they have done, central banks will likely proceed more cautiously, but the rate backdrop for 2024 is supportive for global bonds.

# How does it look for Credit?

The sluggish but probably positive growth in 2024 should mean the fundamental picture for credit looks robust. The higher-quality investment grade area, where yields are circa 1.3% more than in government debt, looks quite attractive but investors should be selective. Credit spreads at these levels do not offer a huge cushion, but in defensive sectors there is probably value.

Lastly, we'd encourage anyone who allocates assets to think about the following: global government bonds are government backed, they offer attractive yields (today, almost 60% of global government debt offers a yield of >3% according to Bloomberg), they offer a known coupon and they can perform if economic data proves to be weaker than expected… the case for fixed income across the developed world is back.

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