

2024 Mid-Year Outlook: Global Stocks and Economy

June 3, 2024 • [Jeffrey Kleintop](#)



As the global economy builds on its recovery this year, markets may see increased volatility due to divergent central bank policies, geopolitics and election outcomes.



After a quarter of the world's 45 largest economies fell into recession in 2023, the first half of 2024 brought a global economic recovery helping to lift the world's stock market nearly 10%, measured by the MSCI World Index. While we expect the second half of the year to build on this recovery, it may be characterized by a divergence in central bank policy and election-related risks that have the potential to increase stock market volatility.

World economy goes green



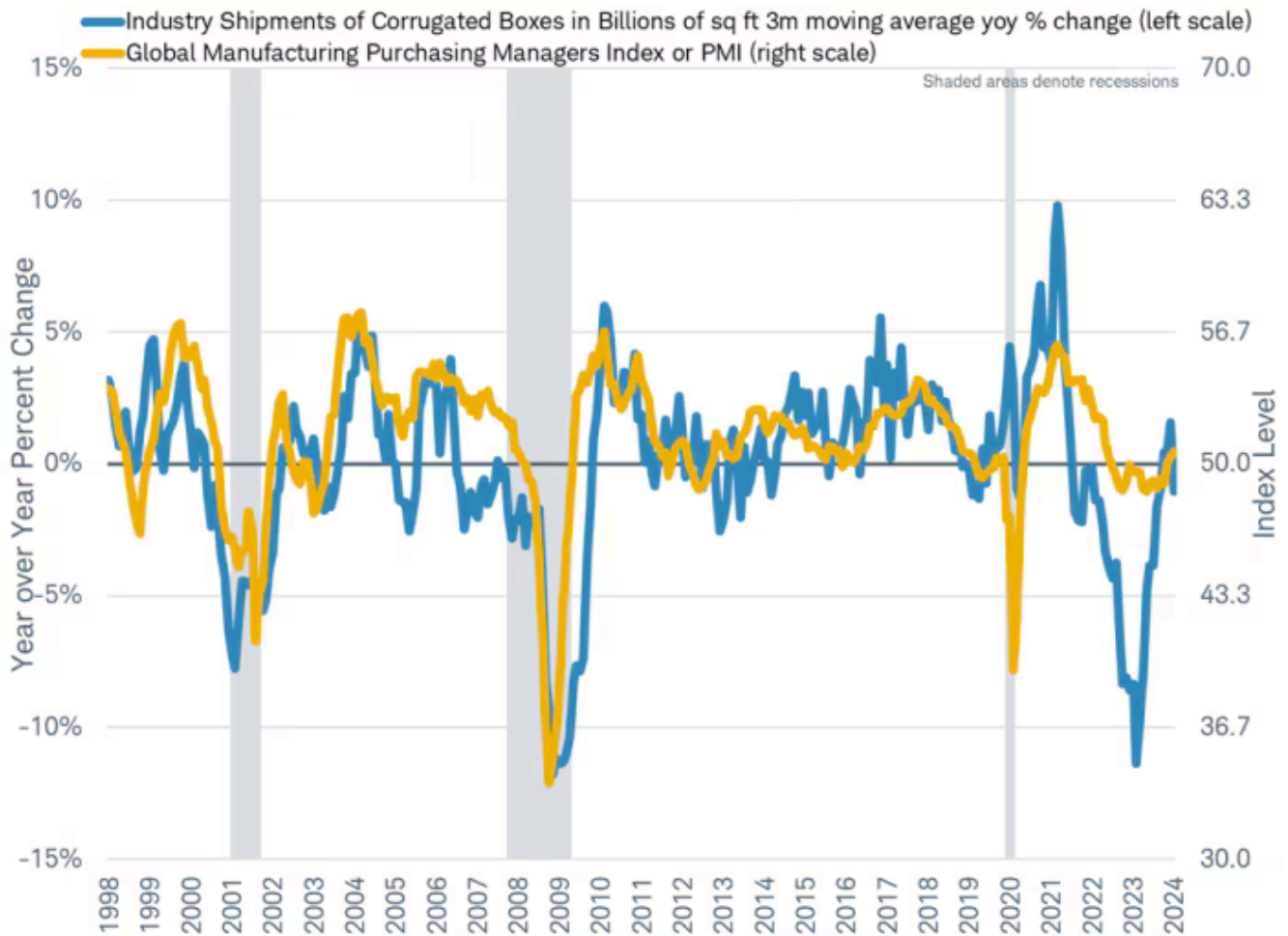
Source: Charles Schwab, Macrobond, Organization for Economic Cooperation and Development as of 5/28/2024.

2024 OECD forecasts for 45 economies. Forecasts contained herein are for illustrative purposes only, may be based upon proprietary research and are developed through analysis of historical public data.

Recessions ended

The first half of 2024 tracked our forecast for a U-shaped "cardboard box" recovery for the global economy as detailed in our [2024 Global Outlook](#). The mild recession in the United Kingdom and Eurozone ended last year as growth returned in the first quarter of 2024. This was led by a global recovery in manufacturing and trade, or what we call "cardboard box" industries. Evidence of this recovery was reflected in the demand for cardboard boxes, as measured by the Fibre Box Association, illustrated in the chart below.

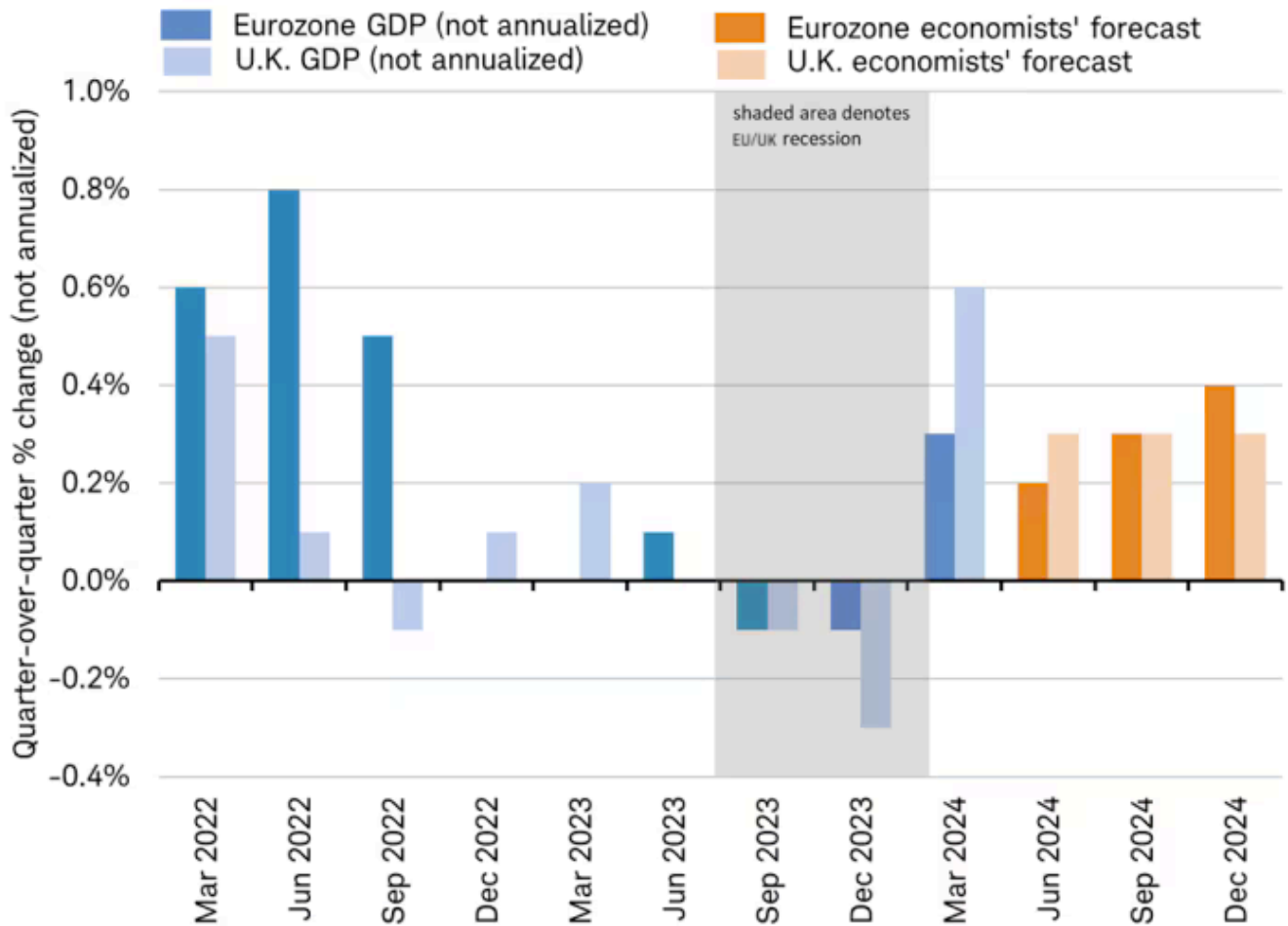
Cardboard box recovery



Source: Charles Schwab, Fibre Box Association, Bloomberg data as of 5/26/2024.

The two back-to-back GDP declines in the third and fourth quarters of 2023 in the U.K. and Eurozone were followed by growth of +0.6% and +0.3% in the first quarter, respectively. For reference, economic growth for the U.S. was +0.3% in Q1 (not annualized). These two regions, which combine to make up about 50% of the stocks in the MSCI EAFE Index representing non-U.S. developed markets, are expected to continue to grow over the coming quarters, according to the consensus forecasts of 50 economists tracked by Bloomberg.

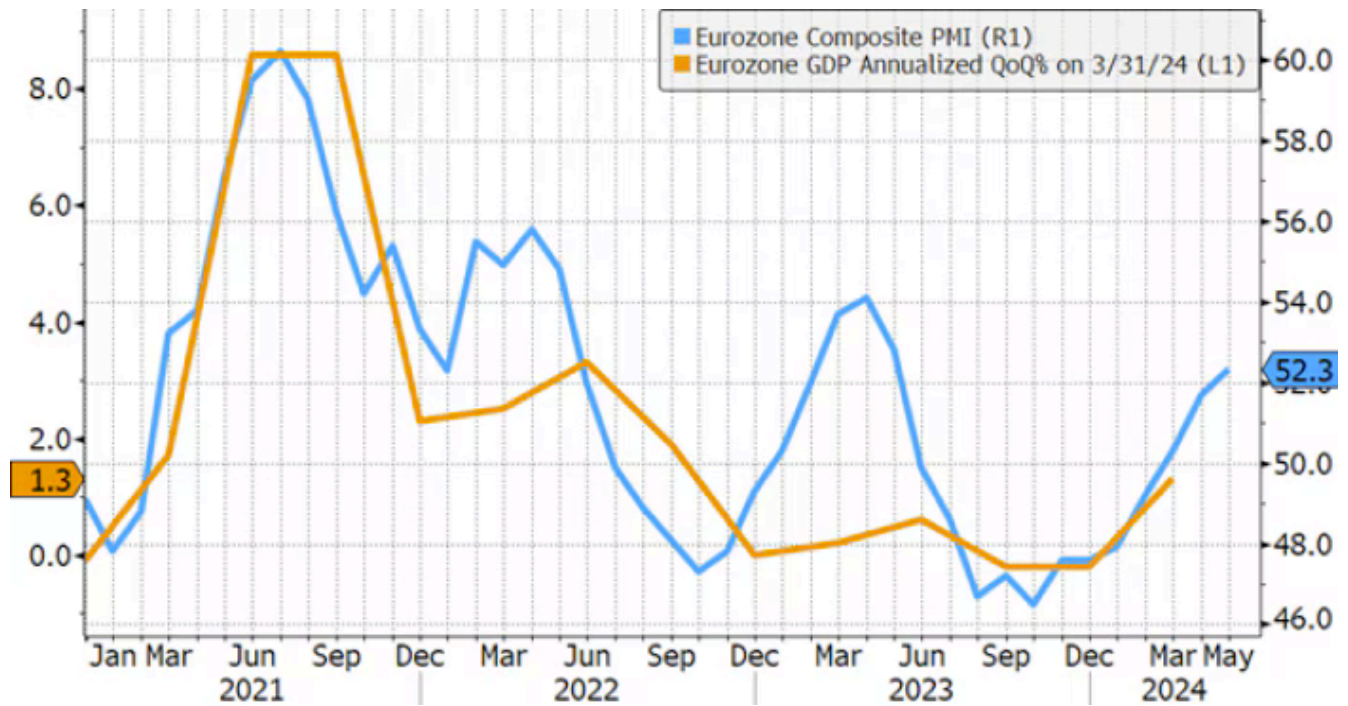
Recessions in the U.K. and Eurozone ended in 2023



Source: Charles Schwab, Bloomberg data as of 5/26/2024.

Bloomberg-tracked consensus economists' forecast. Forecasts contained herein are for illustrative purposes only, may be based upon proprietary research and are developed through analysis of historical public data.

Economic momentum appears to be both improving and broadening in the second quarter. The overall Eurozone composite Purchasing Manager Index (PMI) rose to 52.3 in May from 50.3 in March, the end of the first quarter. This suggests GDP growth is accelerating—from an annualized 1.3% in the first quarter to as much as 3% in the second, as you can see in the chart below.

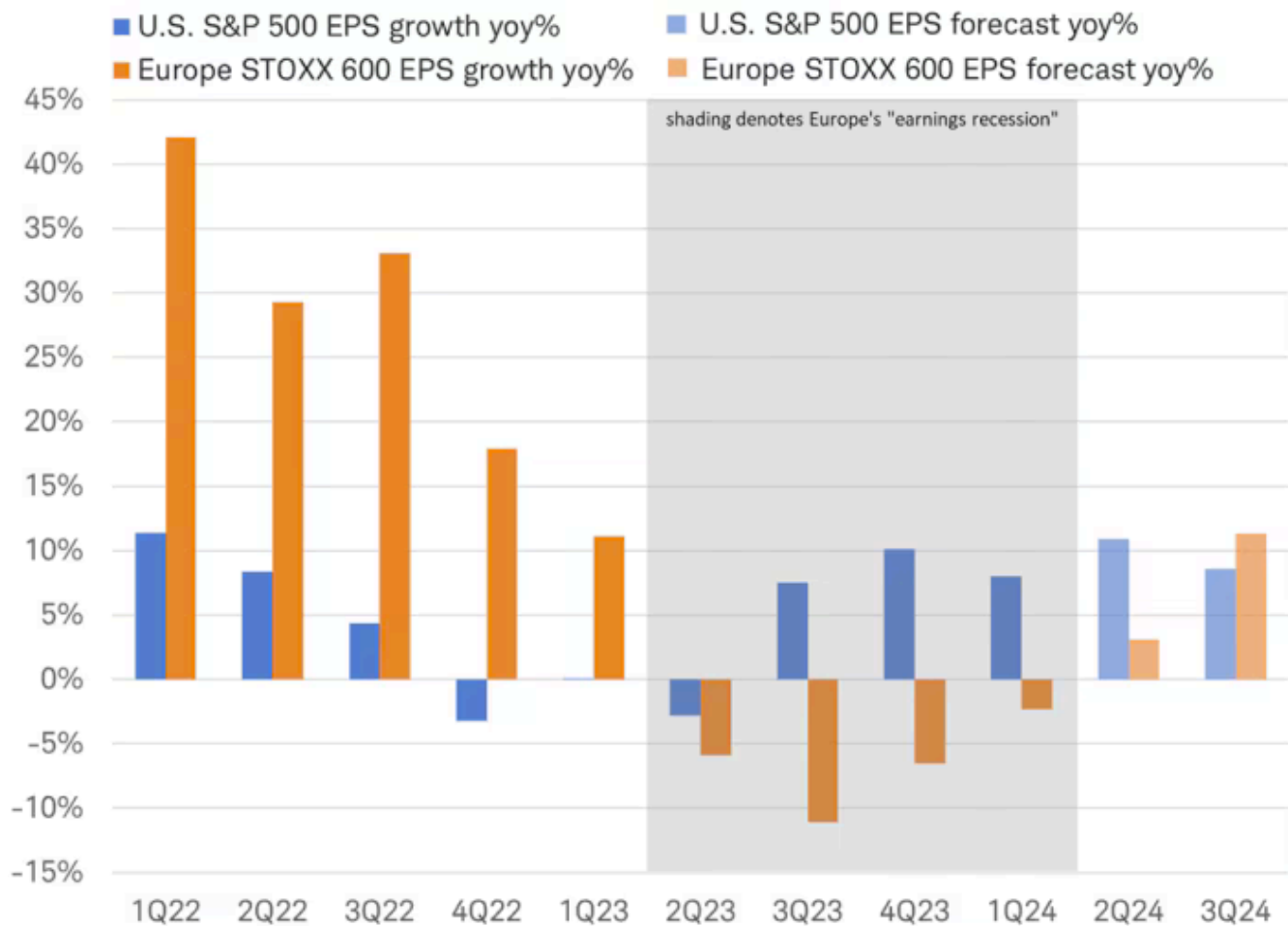


Source: Charles Schwab, Bloomberg data as of 5/27/2024.

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More important to investors, the economic recovery is accompanied by an outlook for corporate earnings growth, which is estimated to rebound from last year's declines to double-digit growth by the fourth quarter. Earnings for European companies are expected by analysts to rebound from a four quarter long "earnings recession" and outgrow U.S. earnings beginning in the third quarter of this year.

Rebounding earnings growth



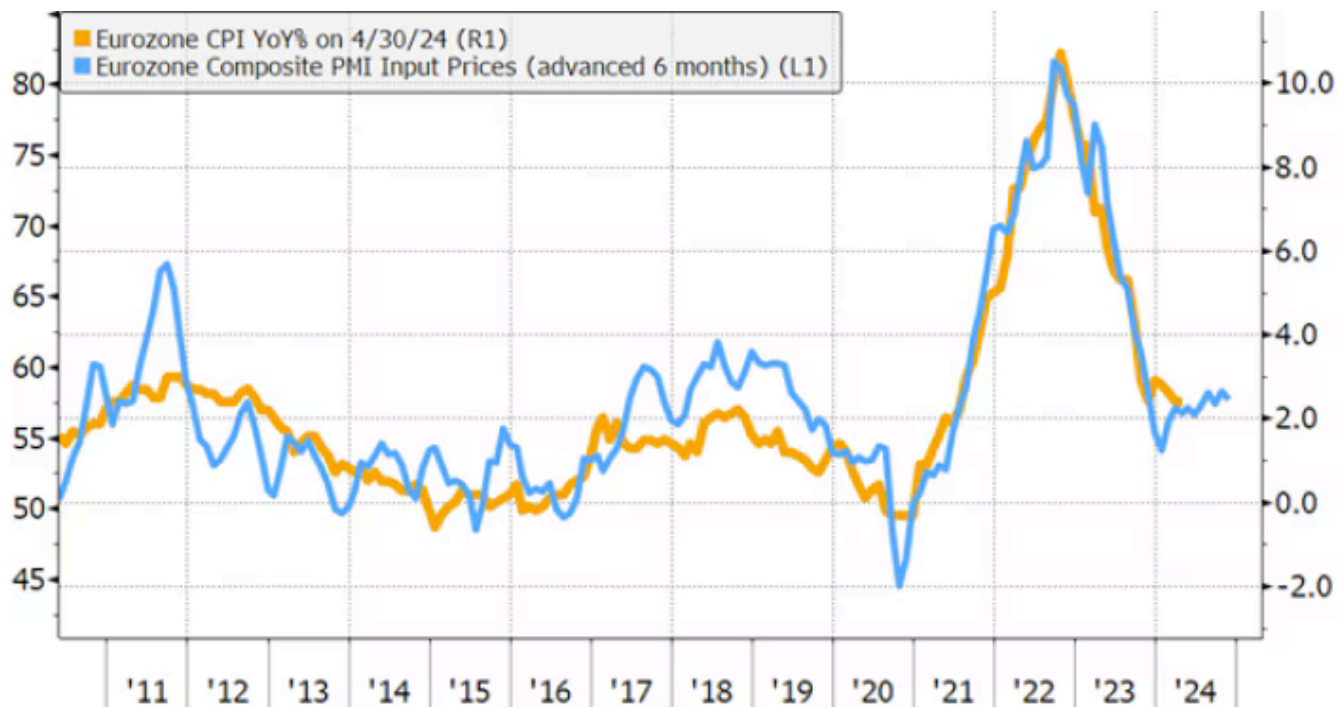
Source: Charles Schwab, LSEG I/B/E/S data as of 5/28/2024.

2Q – 3Q of 2024 are earnings growth estimates based on consensus analysts' expectations. Forecasts contained herein are for illustrative purposes only, may be based upon proprietary research and are developed through analysis of historical public data. Indexes are unmanaged, do not incur management fees, costs, and expenses and cannot be invested in directly. **Past performance is no guarantee of future results.**

Central banks diverge

May's Eurozone Composite PMI survey also provided some additional evidence that firms were struggling to pass on rising costs to consumers; output prices declining more rapidly than input prices from the prior month. Inflation in the Eurozone has generally tracked the path of the input prices component of the PMI survey with a lag of six months, as supply costs get passed on to customers. It now points to prices remaining stable around the European Central Bank's (ECB) target of 2%.

Inflation heading back to 2% target in Europe



Source: Charles Schwab, Bloomberg data as of 5/27/2024.

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Tamed inflation has encouraged the interest rate futures market to place the odds for the ECB to cut policy rates by 25 basis points in June at nearly 100%, as you can see in the chart below. On the other hand, the Federal Reserve looks to be a global outlier on central bank policy, likely cutting rates later in this cycle than other major central banks. The odds of a 25 basis point rate cut by the Fed in June have come down from a "sure thing" at the start of the year to a less than 3% chance.

Market-based % likelihood of a rate cut in June



Source: Charles Schwab, Bloomberg data as of 5/30/2024.

Futures, and Futures options trading involves substantial risk and is not suitable for all investors. Please read the [Risk Disclosure Statement for Futures and Options](#) prior to trading futures products. **Past performance is no guarantee of future results.**

The widening divergence between the outlook for rate cuts by the Fed and those of other major central banks has strengthened the dollar so far this year since higher interest rates on cash can make holding a currency more attractive. With non-U.S. central banks likely to cut more aggressively, stock valuations have risen, offsetting the drag on performance from a falling currency for U.S.-based investors. We have been seeing this effect with the price-to-earnings ratio rising for much of this year for the MSCI EAFE Index, contributing to its total return and offsetting the drag from currency impacts.

Rising valuation offsetting falling currency on total return



Source: Charles Schwab, Bloomberg data as of 5/27/2024.

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International stocks remain relatively attractively valued, priced at their 10-year average valuation based on the forward price-to-earnings ratio, where U.S. stocks prices are at a sizable premium to their 10-year average. International stocks continue to outperform the S&P 500 since the current bull market began in October 2022, as you can see in the chart below. The total return of the MSCI EAFE Index is outperforming the S&P 500 total return by about four percentage points, as measured in U.S. dollars. If the performance of the "Magnificent 7" stocks (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) are excluded, the outperformance is closer to 20 percentage points—illustrating the concentration of the gains in the U.S. market among just a handful of stocks.

International stocks' outperformance since current bull market began



Source: Charles Schwab, Macrobond data as of 5/28/2024.

All corporate names and market data shown above are for illustrative purposes only and are not a recommendation, offer to sell, or a solicitation of an offer to buy any security. Indexes are unmanaged, do not incur management fees, costs, and expenses and cannot be invested in directly. **Past performance is no guarantee of future results.**

The outperformance by international stocks continuing in the second half of 2024 may be supported by the ongoing economic recovery in Europe, faster earnings growth, and more attractive valuations. A stable or falling U.S. dollar would also benefit the performance of international stocks for U.S.-based investors. For example, in the performance of the second largest stock market in the world, Japanese stocks, as measured by the MSCI Japan Index, have produced an 18% total return this year, but the fall in the yen has eroded this outperformance when measured in U.S. dollars to 6%.

Japan's stock market performance in yen and dollars



Source: Charles Schwab, Bloomberg data as of 5/30/2024.

Performance has been normalized, or set to 0, as of the last trading day of 2023. Indexes are unmanaged, do not incur management fees, costs, and expenses and cannot be invested in directly. **Past performance is no guarantee of future results.**

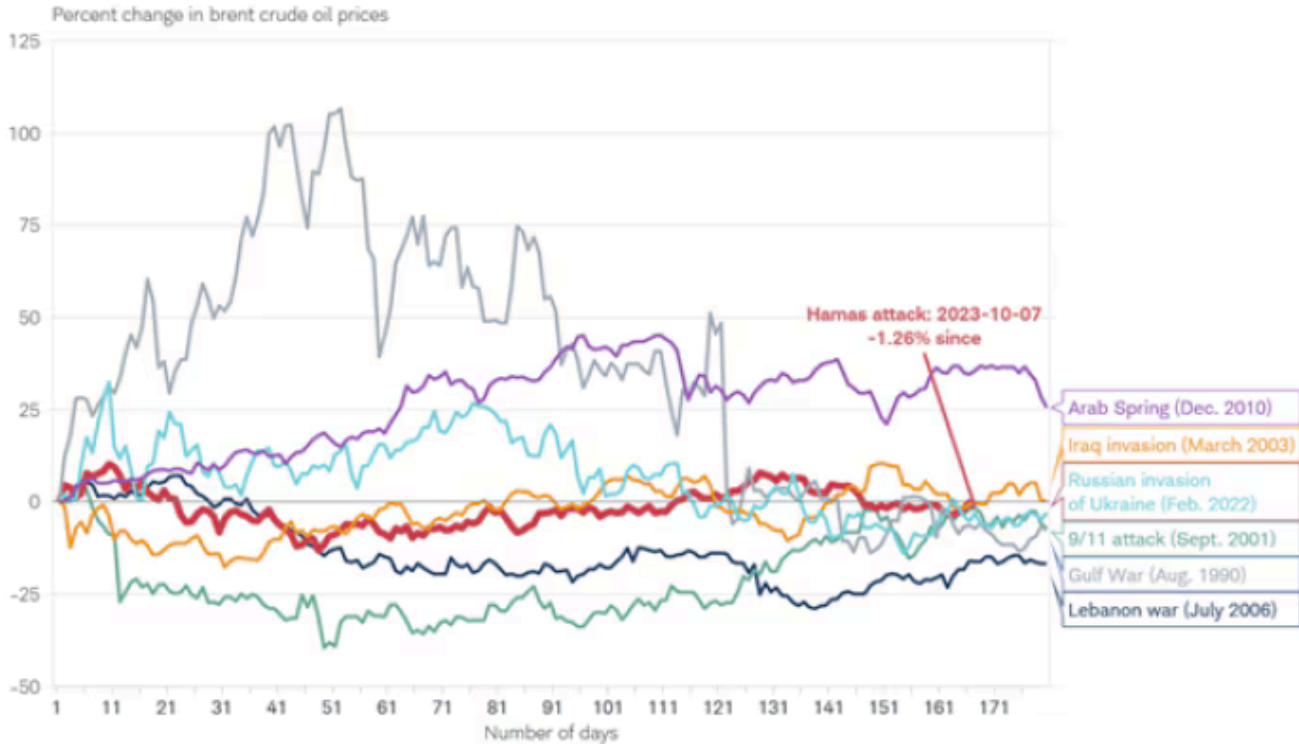
In our [2024 Global Outlook](#) we noted that emerging market stocks' relative performance is likely to revolve around China and India. Both markets have kept up with the S&P 500 this year, even when measured in U.S. dollars. But both countries have taken different paths this year; valuations for China's stocks have fallen to the low end of their range over the past 20 years, while the opposite has been true in India, where stock valuations are near the high end of their historic range. For investors in emerging market stocks, India's economic growth, optimism and high valuations increasingly balance China's economic weakness, pessimism, and low valuations. Further insight on what's next for these markets can be found in our recent commentary: [Emerging Market Contrasts: China and India](#).

Geopolitical and election risks

In the second half of 2024, geopolitical developments including the immeasurable human toll of the conflicts in Ukraine/Russia and Israel/Gaza will likely contribute to market volatility but are unlikely to derail the global economic recovery. The impact of geopolitical events on the markets is often felt primarily through sudden and sizable moves in oil prices, especially when involving the Middle East or a major exporter like Russia. The events since the Hamas attack on Israel on

October 7 have not sparked a sharp move in oil prices, as you can see in the chart below. Nevertheless, any large and sustained upward move in oil prices could negatively impact inflation and economic growth, holding the potential to spill over to stock and bond markets. However, this seems unlikely; soft demand growth, 4.5 million barrels per day of excess capacity within OPEC+ and U.S. production now double that of Saudi Arabia (data provided by the Energy Information Administration or EIA), is likely to reduce the risk of prolonged disruptions in energy supply.

Short-term impact of various geopolitical events on crude oil prices



Source: Charles Schwab, Macrobond data as of 5/30/2024.

Past performance is no guarantee of future results.

In Asia, Beijing has long described reunification with Taiwan as a goal. However, China has been restrained from using military force, which would likely result in the developed world responding with negative economic consequences. With China being more significantly integrated within the global economy compared to Russia, the threat of sanctions from the rest of the world could likely cause significant damage to China's economy. There is also a lack of popular support within Taiwan to declare independence from the mainland, preferring to maintain the status quo according to surveys conducted by National Chengchi University. We maintain our long-held view that an invasion of Taiwan by China is a low probability over the intermediate term.

Elections over the rest of 2024 may see populists across the globe gain ground and shift policies away from free trade and pro-market reforms, contributing to market volatility. In early June, Mexico (the U.S.'s biggest trading partner) will hold its elections as will the European Parliament. The U.K. will hold an election in July, and—of course—the U.S. holds its election in November. A broad theme of nationalist sentiment may emerge across these elections that has the potential for enacting policies which may hinder trade in manufactured goods. Markets could respond negatively to an outlook of rising tariffs and trade frictions that might potentially boost inflation and weigh on exports.

Yet before we brace our portfolios for the potential for tariffs to slow manufacturing, export growth and lead to higher inflation, it is significant that "my country first" trade policies tend to involve more than just tariffs. It increasingly includes incentives to support domestic industries; subsidies, tax breaks, accelerated depreciation, and R&D grants could result in more capital spending and production, fostering more domestic growth and less inflation for domestic goods, potentially acting as an offset to tariffs increasing import costs. While the overall trends may be increasingly clear—the outcomes for investors are not. There will be a lot to monitor in central bank actions and indications of future policies through the election outcomes during the second half of 2024.

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