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Media release

LGT Capital Partners publishes Investment Outlook 2024

With the economy and politics in flux, markets are struggling to preempt any future equilibrium. In its Investment Outlook 2024, LGT Capital Partners looks at how investors can seek a balance and what inflation, weaker economic growth and tighter liquidity conditions mean for the various alternative asset classes. The alternative asset manager eyes a shift towards private equity secondaries, private credit and insurance-linked strategies.

Pfaeffikon, 11 January 2024. The Investment Outlook 2024 explores how long-term investors should set up their asset allocation to thrive in a world that is in the process of rebalancing. LGT Capital Partners' economists also look at developments in the segments of the alternative investment landscape where the firm has been a principal investor for 25 years.

Global economy – In search of a new balance

Although the past couple of years have certainly been extreme, the wild swings in macroeconomic aggregates are diminishing for now. The easing of supply chain issues, the satisfaction of pent-up demand and swift monetary tightening are all helping to restore the balance within economies. But for 2024, a moderate undershoot is a likely scenario, with real growth sliding below potential expansion rates for advanced economies. Even headline inflation could fall below the critical 2%-mark, at least temporarily. However, on a longer-term horizon, the world is still beset with precarious imbalances: Inequality and political polarization are still on the rise, while the geopolitical landscape remains a major source of uncertainty. One area where we are optimistic is the outlook on a new secular upswing in capital investments, laying the path for a more productive and sustainable global economy.

Private equity – Demand for liquidity boosts secondaries

After a year of slower market activity and fundraising, the private equity market will now have the opportunity to do what it does best: adapt. The asset class continues to be among the top performers in investors' portfolios. While distributions have been slower, the denominator effect has eased, and investors recognize that continuing to commit with consistency is key in a long-term asset class. The 2024 outlook underscores the fact that investor demand for consistent distributions for reinvestment and the need for liquidity among funds may serve as a catalyst for deal activity. Additionally, it points out that commitments to private equity secondaries managers continue to be a way to potentially profit from current discounts and future adjustments in the industry.

Private credit – Continued growth trajectory with investors increasing their allocation

During the recent period of volatility in liquid credit securities, private credit has shown its resilience and reliability for sponsors and borrowers. Senior direct lending remains very attractive, with strong risk-adjusted returns that stand to benefit from higher base rates, credit spreads and upfront fees. The return profiles will likely persist in 2024 even though deal volumes are lower as private equity deal-making continues to stall and leverage is lower. NAV-based loans to private equity funds are booming and the trend will likely continue. Asset-based finance is also expected to see continued growth. Private credit is thus becoming a permanent and growing allocation within investors' portfolios.

Real estate – Insights into local supply and demand fundamentals are key

While real estate values are expected to continue on a flat-to-downward trend as the market adjusts to higher interest rates, there is optimism in view of the generally strong capital structures and strong fundamentals at present. The multi-family residential sector continues to perform relatively well, and the industrial sector presents opportunities as countries look to onshore production activities. Other core sectors such as office and retail are now being replaced by alternative or niche sectors with strong demand drivers. 2024 will be a "stock pickers market", where knowledge and insights into local supply and demand fundamentals are key.

Infrastructure – Digitization, decarbonization and deglobalization drive investment opportunities

Infrastructure navigated the macro environment in 2023 relatively well, especially those sectors with a focus on essential services. The 2024 outlook emphasizes that demand for digitization, the need for decarbonization and the process of deglobalization will continue to shape investment opportunities. Capital requirements for digital infrastructure will continue to increase rapidly as data remains the fastest-growing major commodity. The energy transition represents a multi-trillion, multi-decade investment opportunity as the global economy decarbonizes. Furthermore, onshoring initiatives to build resilient supply chains will lead to a myriad of new infrastructure projects.

Hedge funds – High interest rates and market uncertainty make allocation attractive

Hedge funds have generally coped well in the recent volatile market environment and the 2024 outlook remains positive. The combination of high interest rates and elevated market uncertainty has benefitted actively traded investment approaches by opening up frequent market timing opportunities. Moreover, uncertainty around inflation and the risk of stagflation have broken the negative equity/bond correlation. Diversification is hard to find and hedge funds can be attractive as they show low sensitivity to traditional asset classes. Actively traded systematic strategies can simultaneously capture opportunities across multiple asset classes and markets.

Insurance-linked strategies – High demand for insurance protection boosts performance

Investors in insurance-linked strategies (ILS) are finally again presented with a fundamentally attractive return potential after reinsurers and ILS managers shifted their portfolios away from weather-induced secondary perils and as demand for insurance protection remains high. While 2023 may not have presented the insurance market with a single extreme catastrophe event, the level of attritional losses once again eroded a substantial proportion of earnings within the insurance industry, resulting in a continued need for fresh capital. Premium levels for 2024 reinsurance placements, and consequently also coupons paid for newly issued cat bonds, will likely remain at current strong levels.

Impact investing – Investments in climate solutions are on the rise

More than ever, investors are conscious of the social and environmental implications of their financial decisions. The focus of many ESG efforts has recently shifted from processes to outcomes, such as clear diversity targets, the use of clean and affordable energy sources and a stronger focus on good governance. Impact investments with a focus on the energy transition are on the rise and growth will likely continue in areas such as climate solutions for private equity and climate transition infrastructure. However, disciplined underwriting, differentiated access, investment expertise and rigorous impact management will remain crucial in 2024 to achieve market returns alongside tangible impact.

The Investment Outlook 2024 can be accessed here. The US version can be accessed here.

LGT Capital Partners

LGT Capital Partners is a leading alternative investment specialist with over USD 100 billion in assets under management and more than 700 institutional clients in 44 countries. An international team of over 750 professionals is responsible for managing a wide range of investment programs focusing on private markets, liquid alternatives and multi-asset class solutions. Headquartered in Pfaeffikon (SZ), Switzerland, the firm has offices in San Francisco, New York, Dublin, London, Paris, The Hague, Luxembourg, Frankfurt am Main, Vaduz, Dubai, Beijing, Hong Kong, Tokyo and Sydney.

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