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Date: December 12, 2023  
Topic: [Investment Strategy](#)



## GLOBAL X ETFs INVESTMENT STRATEGY

# 2024 Outlook and Investment Opportunities

Prospects for lower interest rates and a weaker U.S. dollar set the stage for a global soft landing in 2024. Consensus continues to build for that market-friendly outcome, but an issue with strong consensus is its inherent vulnerability to shocks or data surprises. And 2024 has plenty of events that could have a meaningful impact on economic forecasts and market volatility. Among them, we highlight geopolitics as a potential source of consternation. With over 40 general elections on tap around the world, 2024 will be one of the busiest election years in history.

Still, we are cautiously optimistic about the market environment for 2024, balancing positive earnings reports and mixed economic data with uncertainties about valuations, monetary policy, and elections. While a strong stock market rally seems unlikely, particularly in the first half, investors may be expected to have compelling opportunities to weather volatility and capture innovation in several promising areas.

Investment strategies highlighted for the year ahead:

- **Defence for Looming Macro and Market Risks** – The S&P 500 and Nasdaq 100 may find volatility and limited upside potential in 2024. We highlight strategies such as covered calls, which may benefit from slightly rising markets and heightened volatility and potentially improve risk-adjusted returns.
- **Quantum Technology as an Emerging Catalyst** – In the thematic space, it is expected that quantum technology (QT) may become a key catalyst for numerous themes, but especially for Cloud Computing and Cybersecurity.
- **Infrastructure's Renovation to Accelerate** – Infrastructure Development is well positioned to thrive as a countercyclical theme amid a softer economic outlook and massive public investments in the United States and Europe.

## Defensive Strategies: Elections, Interest Rates, and Valuations May Warrant Caution

With polarisation and populism on the rise, we expect market volatility from the electoral cycle to emerge. Elections in Russia, the United Kingdom, the European Union, India, Taiwan, Mexico and the United States likely pose the highest risks of diverging the global economy from its current path and spurring market volatility. The increasingly complex geopolitical landscape poses upside risks to oil prices, leaving Europe particularly exposed.

On monetary policy, the Federal Reserve's (Fed) meeting minutes for the November meeting signalled a continuation of restrictive monetary policy, tempering hopes for imminent interest rate cuts.<sup>1</sup> Inflation dynamics will look more similar across developed and emerging economies in 2024, with most countries experiencing gradual disinflation driven by the dissipating effects of supply-side shocks combined with tightening financial conditions.

Should these disinflationary trends continue, it is expected that the Fed and the European Central Bank (ECB) could start easing their monetary policies in June, followed by the Bank of England (BoE) later in summer 2024. A weaker U.S. dollar and a bull steepening in global rate curves could help emerging market (EM) central banks to continue easing too. China's economy could improve with a weaker U.S. dollar, reduced trade tensions with the U.S., and gradual policy stimulus. The Bank of Japan (BoJ) is



expected to continue unwinding its yield curve control (YCC) and exit negative interest rate policy (NIRP), which should have a moderate impact on global rates.

Should monetary policy remain restrictive in 2024, investors may want to look at more mature themes such as Cybersecurity and Cloud Computing while considering risk management strategies such as covered call or buffers strategies. As an alternative to money markets, investors may consider gradually rotating to equities through covered call strategies to earn a relatively attractive yield compared to cash while also gaining some beta exposure.

Valuation is another consideration for investors. The tech giants that carried the S&P 500 and Nasdaq 100 to gains in 2023 could remain catalysts amid bets that the Fed pivots to rate cuts. However, valuation concerns about some tech mega-caps may turn investors cautious. Nvidia's fiscal third-quarter earnings surpassed expectations, but the stock, which more than tripled in 2023, faced downward pressure in November due to concerns about export restrictions to China.<sup>2</sup>

One example of a covered call strategy involves purchasing the S&P 500 or the Nasdaq 100 and selling call options on the index with the aim of harvesting volatility premiums. During periods of higher implied volatility, option premiums may increase, bringing risk management potential by reducing portfolio volatility. Investors could also receive monthly income in exchange for the capped upside potential.

## **Quantum Technology: A Rising Secular Trend Begins to Take Shape**

Themes connected to the artificial intelligence (AI) ecosystem, including Cloud Computing, Robotics, and Data Centres, could find new growth catalysts from front-line innovations in 2024. In particular, quantum technology is expected to be an important driver. Quantum technology is viewed (QT) as a secular trend in the sense that it can have a significant impact across all industries and society over the longer-term. QT applications span communications, sensors, and computing, and the technology brings disruptive potential, particularly to the AI and cybersecurity industries.

QT and more specifically quantum computing promises to transform cybersecurity in areas like cryptography. For example, quantum number random generators can utilise quantum optics to generate sources of true randomness, and quantum key distribution can secure communications. Also, the AI and QT crossroads may enable exponentially faster and more time- and energy-efficient quantum machine learning algorithms that can better identify, and defeat novel cyberattack methods.<sup>3</sup>

Private and public investment in QT is already significant. The majority of private investments are in U.S. companies, including \$3.3bn in 2022, followed by Canada (\$1.2bn), the United Kingdom (\$1.1bn), European Union (\$0.5bn), and China (\$0.3bn).<sup>4</sup> In the public arena, the U.S. government committed \$1.8 billion to QT.<sup>5</sup> In Europe, the innovation initiative known as the European Quantum Technologies Flagship committed €1 billion for quantum research.<sup>6</sup> In the United Kingdom, AI and quantum research were at the centre of the science and technology announcements in the UK Chancellor's Autumn Statement. The UK government will spend £1.5 billion on AI and £2.5 billion in its National Quantum Strategy over the next 10 years.<sup>7</sup>

The QT market is currently estimated at about \$106 billion, and 80% of it is quantum computing.<sup>8</sup> Cloud-based QT could likely capture the lion's share of the developing QT market in the form of Quantum Computing as a Service (QCaaS). UK-based Oxford Quantum Circuits (OQC) launched Europe's first commercially available Quantum Computing-as-a-Service built entirely with its proprietary technology in 2021.<sup>9</sup> The massive private investments in QT prompted both large tech players, such as IBM, Amazon, and Alphabet, and a number of smaller startups to get involved in QT. For example, Amazon Braket offers developers access to quantum technology through processors from companies like OQC, Rigetti, IonQ and QuEra Computing.<sup>10</sup>

## Themes for 2024 Cloud Computing, Cybersecurity, and Infrastructure Look Primed

For now, direct investment in quantum technology is limited to venture capital, angel investments, and other private investments. Alternatively, an indirect approach to gain exposure to QT is through the Cloud Computing and Cybersecurity themes, which is believe have the potential to thrive in 2024. They offer compelling valuations compared to related themes like AI while having early-stage exposure to QT. Cybersecurity could also serve as a defensive strategy against the geopolitical risks brought by the elections.

Cybersecurity, as captured by the Indxx Cybersecurity v2 Index, showed high sales growth of 23% and a low price-to-sales growth (PSG) of 0.23x as of November 2023. For comparison, the Nasdaq 100 Index had sales growth of 9.6% and a PSG of 0.42x. Cloud Computing, as captured by the Indxx Global Cloud Computing v2 Index, showed high sales growth of 10.4% and a low PSG of 0.35x.<sup>11</sup>

Another theme that is expected to perform in 2024 is Infrastructure Development, which should continue to benefit from large public investments and be well positioned as a countercyclical theme amid the softer economic outlook. The U.S. government is set to spend approximately \$300 billion a year over the next decade, potentially translating to a 37% increase in revenue for infrastructure companies.<sup>12</sup> In Europe, the European Commission aims to mobilise up to €300 billion of investments by 2027.<sup>13</sup>

### Footnotes

1. The Fed - Monetary Policy: (federalreserve.gov).
2. NVIDIA Announces Financial Results for Third Quarter Fiscal 2024 | NVIDIA Newsroom.
3. Lipman, P., Forbes, How Quantum Computing Will Transform Cybersecurity. January 4, 2021.
4. McKinsey & Company. Quantum Technology Monitor. April, 2023.
5. Ibid.
6. European Commission. Quantum Technologies Flagship. October 4, 2022.
7. HM Treasury. Autumn Statement 2023. November 30, 2023.
8. McKinsey & Company. Quantum Technology Monitor. April, 2023.
9. The Oxford Magazine. QQC delivers the UK's first Quantum Computing as-a-Service. July 7, 2021.
10. Cloud Quantum Computing Service - Amazon Braket - AWS
11. Global X ETFs calculations derived from Bloomberg Terminal as of October 31, 2023.
12. Global X analysis with information derived from: Bloomberg L.P. (n.d.) [Data set]. Retrieved on October 27, 2023.
13. Global Gateway (europa.eu).



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