



Avalon Perspectives

2024 : Where the Tides Meet

By

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ABOUT THE AUTHOR

Raj is an entrepreneur, start-up mentor and investor, besides being a strategy consultant. Raj has helped companies across diverse industries in India, USA, Europe, and the Middle East to develop strategies, align strategy to vision, grow in competitive markets, restructure to make companies more customer focused etc.

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2024: Where The Tides Meet

Raj Nair, Chairman, Avalon Consulting

2024 is going to be an extraordinary year for the future of the human species due to strife and technology, but it is also expected to witness a boring slowdown from the economic angle. I am not qualified to predict the outcome of the wars in Gaza and Ukraine which can have major consequences if they escalate, as they seem to be doing. Hence, it would be more meaningful to discuss how certain other developments will shape 2024 and impact us. I do not want the GDP projections for each country take centre stage.

The tide of 2023 will carry many floating issues of the year into 2024 but it will meet an unusually strong tide of technology which is rushing towards 2024 and beyond. The result will redefine much of the future that we are heading towards. Many people expected a recession in 2023 (I predicted otherwise) and many bears are adamant that the Big Crash in the US stock market was merely delayed and is just months away in 2024. Others cautiously disagree but suggest that the labour index and that many broad indices of stock markets be tracked closely, given that it was only a few large caps that saved the US market in 2023. 2023 started with ChatGPT completely crowding out almost everything else including remnant thoughts about Covid and rightly so. So much else has happened during the year, that have distracted people away from important developments in AI. The attention of many happy people has been on the oil prices that have dipped sharply from the highs of \$ 120 per barrel (during the early days of the Ukraine War) to around \$ 77 at the close of 2023, the US Dollar which has dipped against the Euro in 2023 after a rise in 2022, etc. They are happy that Inflation which was uppermost in people's minds in recent times all over the world, is getting tamed as predicted. They are happy that the world did not slide into recession, though it was challenging for many economies. But there are also unhappy people who are worried that a big recession may finally happen in 2024 and also that 2023 seems to be ending with the appearance of JN.1, a descendent of Covid 19, demanding that the pandemic is not forgotten. They are worried about inhumane wars in Ukraine and in Gaza, not to mention the bloody battles going on the Congo region and the activities of Houthi pirates near Yemen, which are disrupting ocean cargo traffic. The tide from 2023 will inevitably deposit some of it onto 2024.

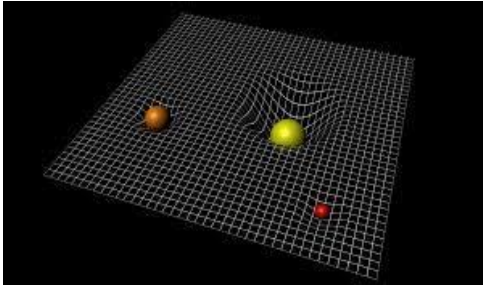
However, the worrisome thing is that most folks, neither happy nor sad, are looking at the huge oncoming technology tide with myopic lenses. There is a lot of the incredibly good things and unmitigated problems, in store due to AI. What we collectively do from hereon, will impact future generations of mankind. Make no mistake, I am optimistic about the future, and I am conscious that the right thing will be done, if not the best thing. We are at the place where the tides rushing in from where we lived till now are meeting the tides from a technology-laden world which we have not seen. **Would you not want to understand this phenomenon?**

Instead of picking a few threads including these that will knit the coming year with the current year, I prefer to go a few years into the future till 2028 in this article and let readers imagine what technology could do in 2024 to impact their individual lives. I will also pepper it with many questions which they need to think about which a precursor is to action. Do write in to talk about what your thoughts are. Eventually, actions by developers and users will determine the early inroads that AI will make in 2024.

If I don't, I will commit the grave mistake of missing the woods for the trees. Irrational optimism and pessimism dot the global economic landscape because there is little appreciation of the major changes that are in the offing due to technology. What will shock many as drastic changes in a few years, will start happening in a small way now, but may go unnoticed because we will not be looking for them. For instance, the average American is pessimistic of the future (recent PEW Research) because the recent decades have been challenging for them. But they don't know America is

poised to become a big winner in the medium term due to its unique position as a hub for massive innovation in most of the relevant sectors. The race has started with USA in pole position. A great reset is expected. Others in certain industries and countries oblivious of the great change that is happening, could sleepwalk into trouble and wonder what hit them.

If you are a technology buff, think of the familiar illustrations of the warped fabric of space-time which are used to explain gravity in the light Einstein's Theory of Relativity in which light seems to bend despite going in a straight line. Although some theoretical physicists dismiss the illustration below as too facile a way to explain gravity, I would like you to imagine a huge object which is



distorting the fabric on which the economy is moving in time and is attracting all other smaller objects towards it due to the curvature. That very heavy object is warping the fabric and thus changing the course that many objects, like the economy and its related satellites like healthcare, education, manufacturing, software development, art and design, and scores of other things that affect the daily life of humans, would have normally taken. The net result is that the world economy will end up in 5 years at a very different

place from what it was expected to be in, when the trajectory was looked at in 2020. That heavy object, technology, has grown so heavy relative to almost everything that is happening around the world, that it will even alter the narrative about 2024.

For a history buff, 2024 may be as significant as 1453 CE when the course of human history was altered for ever by the Ottoman conquest of the Byzantine Empire. Their new transit taxes made it unviable for the Europeans to trade with India and China, two of the most significant economies at the time. It got the Europeans so riled up that their attempts to bypass the old route, led to the eventual colonisation of the world including India, China, and the Americas. Instead of impoverishing Europe, it led to untold riches. A new world of opportunities opened up for the venturers and misery visited the colonised. The same will happen again. The winners and losers of 2023 and 2028 could be very different.

History is being rewritten by technology, but it is easier to appreciate when read backwards from the future- a future in which, the way we think of our daily chores and all our pursuits will change drastically, be it art, entertainment, travel and hospitality, manufacturing, education, healthcare, food, gaming, business services, agriculture, etc.

I feel very much like when I wrote about the impending Covid19 pandemic in Dec 2019 before it exploded in Q1 of 2020 (based on my research on some stray innocent looking incidents reported in China from October 2019). Like Covid19 which is reportedly the result of careless handling of some 'gain of function' experiments on a type of Corona virus, one of the triggers for the huge technology boom (AI, Bio Tech, etc.) is the release of ChatGPT by OpenAI. It should have remained in the Lab till Regulators and Technologists sat together to control the genie by erecting guard rails. But they didn't since Sam Altman operates by his own rules.

In the past, the conversation on AI was largely about the disruption in the labour market. Now it is how it will shake up mankind and everything we do. Hence, I would like to my 2024 paper to be not one that is merely read and put away, but one which will engage all readers in the process of imagining how their lives and those of their kith and kin could change, and what they can do to come on top. You can proactively work on your destiny irrespective of your gender, age, profession, business, and other inclinations. This paper will end by briefly covering the inevitable discussion on economic growth, inflation, interest rates, crises, etc.

A digression into where we have reached and where we are headed with AI, is essential for non-technical readers to appreciate what is in store in 2024 and beyond. It is predicted that AI usage

is going to add net trillions of dollars to the global economy by 2030 net of destruction. Besides OpenAI, Google and other companies have been working for many years on this aspect of AI, many technical papers were published and read by the scientific community, and improvements made. It just so happens that OpenAI was the first to release a Consumer App in end 2022. Soon followed a swarm of other magical LLMs and by September 2023, it had assumed epidemic proportions because there were 120 AI apps based on LLMs or derived from other LLMs. At the time of writing, there are more than 200 AI tools, big and small. LLMs or Foundational models as they are called, are trained with billions of pieces of content so that it becomes capable of doing certain amazing things right from art to designing, classifying things, summarising, rewriting text content in different styles, sentiment analysis, etc.

They have progressed beyond natural language to graphics, videos and even math. GenAI (Generative AI) technology is used by GPT4, Gemini from Google, and other fascinating Large Language Models (LLMs) to answer questions or suggest solutions by generating the next word, or line in a drawing, based on a very complex statistical technique without even knowing the subject. LLMs generate new content based on the data that they are trained on and do not just pick up existing information from its database.

Soon LLMs may be called Multimodal AI or the like, and very soon all of them would not need to be large. Individual organisations will be able to use some of these Foundational Models to create small, powerful AI Models to run their organisations very differently, to do things which were considered to be impossible now. In 2024, there will be a proliferation of AIs from small and big organisations and by the year-end, many of the poorly funded ones will bite the dust unless they are designed for very specific applications which have relatively small addressable market as opposed the general-purpose AIs where the big boys will thrive. Many companies and countries are working on their own foundational models due to justifiable FOMO. **Would you not at least create a team within your organisation to explore the various ways to use AI to enhance competitiveness, and make it future ready?**

A GenAI like ChatGPT can tell you in a jiffy what aspects to cover in a seminar that you are planning for cardiac surgeons. It does not suffer from writer's block and knows nothing about seminars or cardiology. There are others which claim to be as good or better, like, Claude, ChatSonic, Jasper Chat, Bard AI, Bing AI, etc. The problem is that GenAI tools feel obliged to spew out words even if it does not know the correct answer. It suffers from biases that the training data has and has no real intelligence to understand many topics. It can generate objectionable content, hallucinate, etc. Many AIs are working on improving math capabilities. Wolfram Alfa, AI.R MATH, etc. are a few examples. These serious problems are being rapidly ironed out in later versions. In 2028, we may not even be using these clunky LLM which enthral us today. That could happen even by 2025.

There are suspicions that the limitations of the breakthrough architecture associated with GPT- the Transformers, which made Generative AI possible, are being overcome with more powerful architecture by Project Q* at OpenAI (no one really knows as it is top secret right now). It is speculated to be Self Taught Reasoner (STaR) which will be eventually capable of using AIs to train other AIs, to quickly build capabilities. Today, training of Models is costly and time consuming. This will lead to the development of AIs which are much faster and more capable in ways which we humans cannot imagine. Does that mean AIs have surpassed the levels of intelligence that humans have? No but it is likely to be a huge step towards the next level of Artificial General Intelligence (AGI). Humans have General Intelligence. AGI which is the Holy Grail of AI is not there yet, but not far away. In 2020, AGI was thought to be at least 50 years away, in 2022 the estimate was 30 to 40 years away, in September, 2023, the year varied between 2027 and 2035 depending on who you talked to and depending on what Level of AGI. In December 2023, we will say that bits and pieces of it is possible in 2025 but it will match most human beings, for many practical purposes in 2028. When it happens, it will be the *Singularity Moment*. It will do unimaginably good things but will also have the potential to destroy the very fabric of rules,

guidelines, safety, trust, security, privacy, which we cherish. Even today, Trust is dead. We cannot trust as evidence, a photograph, a video with known people, a signature, a document, a short phone call from someone, etc. They could all be fake. All metrics for trust have become untrustworthy barring bio metrics. That is a huge problem for almost every aspect of our lives. People are going to use GenAI and sometimes on the sly, for all good reasons. **Wouldn't you take some steps now to improve security and trust, rather than react after being hit by fraud?**

Think of development of AI as a spectrum of higher and higher capabilities ranging from 'Zero AI' to 'Expert' to 'Superhuman' or 'God-like' and many levels in between. We have made huge progress in Narrow AI to do some specific tasks but more general things like ChatGPT are only equal to or better than an unskilled human being. GPT 4 has moved a step further to being better than 50% of the skilled humans. Mo Gawdat, the former Chief Business Officer of Google thinks that ChatGPT 4.5 has an IQ of about 155. AI has not yet reached the 'Expert' level (defined as better than 90% of humans at a wide range of general tasks and common sense). Expert level AGI could happen as early as 2028 because AI capability is doubling or tripling each year. Imagine an AI with an IQ of 310 (=2X155) which is nearly twice that of Einstein (162). *That could be the Singularity moment when machines will be smarter than most humans.* It is difficult to predict when AI could Superhuman capabilities (2055 or 2075 or may be earlier) but the Singularity Moment should concern us.

Expert level AGI should not be confused with outstanding Artificial Narrow Intelligence in which we have already reached near the top. An example would be Alpha Zero produced by DeepMind (whose cofounder I will talk about soon), which is a powerful AI system which did the unthinkable – beating expert humans at Chess, Go and Shogi. On Dec 5, 2017, a company called Deep Mind released a pre-print paper on AlphaZero which with just 24 hours of training with data achieved Narrow Superhuman capability. With a mere 9 hours of data training, AlphaZero beat Stockfish 8 in a 100-game match (28 Wins, 0 Losses, 22 Drawn). In 2019, DeepMind authored a paper on MuZero which generalised the AlphaZero algorithm to enable it to play Atari and other Board Games without being taught the games or the rules of the game. But even this is not AGI.

Regulations can at best, slow down the development of technology but cannot stop it because regulations have been so far behind technology, with the gap increasing each year and the human penchant to outwit regulators. It will be a cat and mouse game. There will be rogue elements who will skirt regulations, sometimes even with active State support.

It is important to trust that the *Singularity* event will not necessarily crush us but will enhance human progress whilst redefining the way we will do everything in the future if we carefully regulate technology. Not merely because almost all technology developments in the past have eventually found ways to keep human interests at the core of innovation but also because there are early signs that AI companies are themselves trying to self-regulate when they see excesses. An example of this is Anthropic (<https://www.anthropic.com/>), a Public Benefit Company working on safe Generative AI even as many Governments and the United Nations are trying to create regulations. Anthropic which was set up by former employees of Open.AI, is committed to making AI safe. It summarises its goals as 3H (Helpful, Honest and Harmless) and it is instructive to watch YouTube videos about them. Open AI's DALL E.3 which can be prompted to create all kinds of images, has built in restrictions that prevent adult content, copying living painters, etc. There are many other good 'text to image' generators like Midjourney.

A big votary for regulation of AI is Mustafa Suleyman, the brilliant cofounder of Deep Mind (now owned by Google) and author of the 'must-read book of 2023'- *The Coming Wave*. There are many others including Mo Gawdat who are very worried about the unbridled and unhindered growth of AI capabilities and they know why.

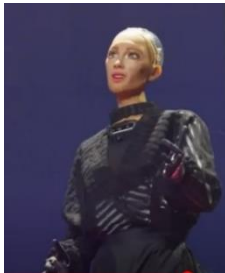
What could the world in 2028 look like as seen through today's lens? Every person on Earth who has internet access, will use one or more AI embedded applications in ways that will change their lives -much more than the existing smartphones have done. We are addicted to them because they can do so much! Imagine what if smartphones, other gadgets, cars, bikes, machines in factories and everything we use, is powered with software which is 100 times better and can 'think', 'emote', etc.! This tide will start striking our shores in 2024. Due to space limitations, I will touch upon just a few illustrations of what the world may be like and leave it to you to imagine the rest.

We will not be merely using Outlook Calendars to plan our schedules, instead we will all have Personal AI Assistants (PAiA) which we will use to manage our daily life you are a housewife or working mother both of who have to multitask to juggle many things every day, whether you are a student or the CEO of a large company, whether you are travelling on work or on vacation, etc. We will not be using a screen to check what's happening. A tiny strapped-on or embedded device will guide many of us on a virtual screen which can be made to appear at will. Your PAiA will be able to converse with you and even tell you that you have to at some place in 30 min to pick up your kid or to attend a meeting or to catch a flight and suggest the best route to take (and if you permit it will instruct the system in your self-driving car or hail a cab for you). This not fiction but will happen much before 2028. Your highly affordable PAiA will perform many tasks that your human PA does. What happens to the human PA who has done this for years? S/he will be trained to move on to playing value adding roles in which co-ordination and transmission of information are not the core. S/he can be trained to perform fifty per cent of what a senior manager would need to do despite a PAiA having eliminated certain roles. A surgeon in a hospital, head of a department in an educational institution, a design engineer, etc. not suffer the curse of having to do many non-core jobs just because today's protocols require them to do so. The PA and the boss will have their own PAiAs and work will get reallocated to them to leave the boss to do what is core. It will be available in 2024 to a few who can afford it, but its falling prices will democratise its usage till it becomes ubiquitous in 2028. Even as I type, I can hear my Alexa tell me that it can now check and help me pay my electricity bills with just a voice command. Imagine how much AI will change most of our existing ways of doing our daily chores. Soon you will not have to send queries, complaints, compliments, etc. to companies, your PAiA will do it for you. Soon thereafter, Bots (software robots) deployed by companies will respond to your PAiA (not human agents). It will begin to happen in 2024. We are entering the Multi-Agent world where one Bot will engage with one or more Bots to accomplish tasks of coordination and action in a timely manner. **Would you, as a leader, not explore ways to prepare your organisation for using such technologies since they will be soon available?** Like how data will be organised to give access to personal assistants, bearing in mind security, ease of access and privacy.

The creative entertainment and media sector like movies, shorter version videos for advertising, etc. will look different. Full length movies will not only be made in a day or less, but human actors will compete with AI Versions. *AI.invideo.io* already generates a video in a jiffy complete with images and voice. The free version allows you to instruct the AI to make a video about just about any topic but it uses Getty images which may not suit your needs. The paid version could do a lot more. This does not augur well for professional video producers and even highly paid celebrities (actors, models, social media influencers, etc.) because AI would be able to create humanoids for the screen with whatever looks, capability, etc. is demanded. Does this mean that personal branding will be dead? No. These AI versions of humans or human-like forms will be owned, get branded and licenced for deployment at a price. What happens to movie makers? Producers and financiers will exist, the ability of movie directors will be upgraded to work in the new environment with AI assisting him/her all the way. Draft scripts will be generated in a jiffy for the director to make subtle changes. Above all, you dear reader, could play all these roles in movie making as an amateur or as a professional- just like crowd sourcing has redefined journalism in the past decade. All this will start to happen for the first time much before 2028. Chat GPT5 and equivalent AIs in

2024 will be able to make certain types of videos. OpenAI itself will spring a surprise, though no outsider knows what project Q* really is as of now.

The use of AI in Smart kitchens will become de rigueur in 2028 in the Western world. Some applications like selecting a recipe and leaving it to the device to make the dish will be available in 2024; complex ones which will order the ingredients, pay, and also cook as per the recipe will be available before 2028. The use of AI to customise some aspects of the smart kitchen of 2028 will be opportunities for entrepreneurs even in 2024.



There is so much loneliness in the world but by 2028 there will be robots which could be sentient enough to provide companionship. Human-like robot for home cleaning is already available but in 2028 there will be robots to do deep cleaning of homes and offices, picking up waste lying in rooms even binning them, dusting, and arranging things in homes and offices based on the data they have been trained with user-premises-specific data on small LLMs. Expensive and early versions of such ML algo trained robots will start appearing in 2024 and get progressively sophisticated. They will be

inexpensive by 2028 as demand explodes exponentially over the next previous four years. This will also address the looming shortage of human home cleaning people in many countries. Come 2028, humanoid robots will be commonplace but there will be versions available in 2025 to those who fancy them. Think of Sophia, the Robot (pictured alongside) which co-hosted the Web Marketing Festival with great aplomb in June 2023. BCC Research and Hanson Robots are great examples of home robots that will be on offer in 2024. R&D in 2024 will make that possible.

Wouldn't you not invest in startups developing robots for use in various sectors, if you know now that they are part of our future?

In fact, there will be a craze amongst corporations in 2024 to hire anyone with any degree of knowledge of AI adding to the data science craze that started a decade before Covid. This is already creating a surfeit of small AI startups which will rise to some kind of loud crescendo in 2024; not surprising many will bite the dust in 2024 because business reality will catch up.

That will not stop the AI wave. By 2028, including Software Call Center agents that can engage with customers intelligently in long conversations. Each company could deploy its own 'trained' software agents at their internal 'Call Centers' but not all, will want to. Today, commonly deployed technology can allow very brief conversations but within 12 to 18 months, software bots will pass the Turing Test even in long conversations. To add to that new GenAI tools will not need to have an 'Agent' to know the language in which the customer is speaking; early versions have hit the market in late 2023. The Agent will hear in the language she knows, and the customer will hear in his or her language. Interestingly, human agents may not be required, instead, one Agent bot will engage with another Agent bot. There will be some humans lurking somewhere in the background to supervise the whole system. This will change the face of the Call Center industry rapidly from 2024 onwards because the business case to seek low labour cost countries will rapidly weaken from 2025. Many such companies will proactively move onshore because onshore outsourcing may not end. Likewise, the way manufacturing sector will run their operations will be very different from now, is a given across various sectors due to AI which will improve efficiency, predictability, and accuracy in most of their processes, which are not so good today. This will be widespread by end 2025, with early adopters acting in 2024. IT Services providers from India will start offering large global corporations, AI Transformation from early 2024 (Digital Transformation will sound passe) and the world will buy.

The Oil & Gas sector which depends upon fossil fuels is expected to face a crisis in the long term due to compunctions related to Climate Change- a double whammy of lower prices and lower demand as fuel. It is a rare industry which knows it knows its next quarter's cost of production though not its selling price but cannot stop and start its operating oil wells. Will they even survive?

They will be thriving not just because demand for petrochemicals will offset the loss of demand from fuel but because improvements in productivity and predictability due to AI, will create serious operational efficiencies and better capital expenditure planning. Deployment of AI tools has started from the Upstream to the Downstream parts with encouraging results. Predictability of oil prices for upstream and downstream investments and planning virtually dependable on unreliable oil price forecasts. Many will use the high oil prices to fund transformation. It is a big challenge to predict oil price with reasonable accuracy because of huge number variables and uncertainty about how each of them will play out because they in turn depend upon other variables. ML and GenAI models trained on an ocean full of data, will make oil price prediction with acceptable accuracy possible.

Use of GenAI Apps is widespread amongst employees, more than half of global CEOs want to deploy GenAI to become more productive (faster, cheaper, better). **Would you as a businessperson or an academic or a researcher not deploy GenAI now, to avoid being left behind?**

Let's examine what happens when this technology tide meets the economic tide flowing into 2024 from 2023 and lands on our shores. It is estimated that in 2024, GenAI will add a net \$ 2.6 to 4 trillion to the global economy. However, the GDP projections by experts seem to ignore it. **Since projections for 2024 even without the impact of AI, done by experts seem to vary widely, would you not want to create your projected economic scenario independently, taking AI into account, if you were a student of business or a businessperson?**

PMI (Purchasing Managers' Index) is a good lead indicator. Interest rate, inflation, investment flows and oil price predictions could be useful if they could be predicted. Stock Indices are quasi-lead indicators. S&P Global has created an insightful matrix of the PMI for the 12 months ending in November 2023 (PMI captures the expectations of purchasing managers about the coming quarter). This heatmap in Chart 1 explains that 2023 was expected to be dismal for Services and Manufacturing at the start of the year (a big recession expected) but as the year progressed hopes improved for Services but remained patchy for Manufacturing. Europe and the Americas were expected to be dismal with the exception of Mexico and Greece, and it played out accordingly. These two countries remain islands of hope in 2024 too. The Asia Pacific started out well, but at end of 2023, the expectation for the start of 2024 is neutral. The standouts in 2023 were China, India, Indonesia, and the Philippines; they are expected to do well, as we move into 2024. The PMI Mfg. for Saudi Arabia, the UAE, Russia, and Singapore, which are not on the Heat Map, are also positive.

Chart 1 Country wise PMI Heat Map for November 2023



The heat map for PMI for Services is like a green lawn but as we enter 2024, the overall optimism is negative for Canada, Australia, and Kazakhstan. This leaves the global economy a bit tentative about 2024.

Stock Markets are supposed to factor in future expectations in their valuation by anticipating trends well except by in times of sudden earthshaking events. The Global Index of Net Returns has been rising in the last Quarter and seems to be widening its gap with the S&P 500 Equal Weight Index though tracking it closely. See Chart 2.



Source: Charles Schwab, International Monetary Fund, Bloomberg data as of 11/5/2023. Data is in US Dollars.

It raises questions about exuberance in general and whether the Global Index knows something that the S&P Index figures out a little later, given that it rose earlier but it fell a little later, at least in 2023, but there are no real answers as yet. The Indian NIFTY and Sensex gave a 20% return in 2023 versus 24% for the S&P given that both economies did well in 2023. The tech heavy Nasdaq gave a return of 46%! The allocation to US stocks in the MSCI ACWI Index is 62% in 2023 (up from 42% in 2009 at the time of the Global Credit Crisis) which is not justified on the basis of most economic indicators like share of global earnings (47%), GDP (24%) and number of companies (22%) which would matter in the long term. Will this dominance of US shares continue? Ruchir Sharma of Breakout Capital made a strong case backed with statistics to support his hypothesis that every decade has its favourite theme when the theme provided an average decadal return of 2.75X over the global index, followed by minus 0.8X in the next decade. He surmises that 'US Mega Caps' theme from 2010 -2020, has run out of steam, as also the Dollar Index, and that the 'Emerging Markets' will replace it in the 2020-30 decade. Given the mega changes happening in the AI world, the US Mega ' party might extend, the influence of the broader US stocks may abate, as the EM will arrive at the Party. 2024-2026 would be an interesting period of flux. **Would you not build an emerging markets portfolio with some Nasdaq stocks thrown in now?**

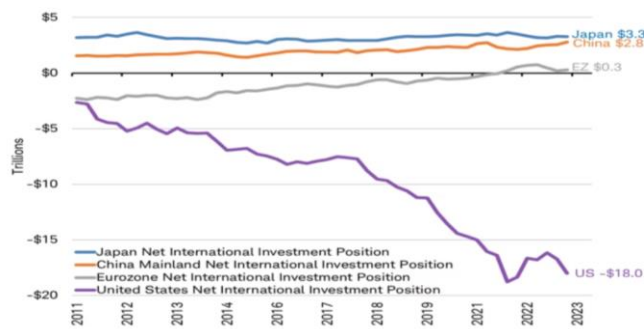
The world economy will remain obsessed in 2024 with controlling inflation caused by the excesses of the Covid period which happened even before it had fully recovered from the loose monetary policy used to save the world during the Global Crisis of 2008. Interest rates are already up based on signals of lower inflation. Interest rates are not going to be meddled with by most countries including the US, probably till mid-2024 (May to July) when there will be more clarity on the way their economies are headed. Many countries will delay the raise of interest rate, tempted to suck out some growth from the economy because the nominal GDP growth is widely expected to fall a bit in 2024.

Inflation control will be greatly aided by containment of energy costs as will economic recovery especially in Europe be. Oil prices may move in a narrow range but a drop in the Dollar rate will moderate the effective price of energy and help OECD countries recover. They desperately, want that to happen. The politics of Climate Change and Fossil fuel are joined at the hip. Western economies want oil prices to drop to impoverish Russia into ending the war in Ukraine (50% of the Russian economy is based on Oil and Gas). On the other hand, OPEC showed the extent to which it will go to protect oil usage and prices during the recent COP28 Meeting in the UAE. Oil prices are fickle and price prediction more than a week out are fraught because its supply chain is susceptible to all kinds of disruptions since it is the most traded commodity (more than 75% of the production is exported) and because speculation abounds (actual delivery accounts for hardly 5 % of all transactions). That said most experts expect the pressure to contain climate change will balance out the likely natural demand growth of around 1.6 million bpd. Hence JP Morgan expects the average Brent oil price in 2024 to be about \$83 per barrel. Others like the US EIA and Goldman

Sachs too expect the price to be in the 80s. Outliers are Citibank at \$73 and the World Bank warns of \$ 150 if the war in the ME escalates, whilst Barclay’s and Deutsche Bank expect prices to be in the 90s. I had explained, in a paper on oil price forecasting three years ago, how the numerous moving parts along the supply chain make oil prices very difficult to forecast medium term but much simpler for a week at a time. If one looks at all those factors, one could hazard a guess that there is more than an even chance that oil price could average about + 10 % or – 3 % around the current level of \$ 77 in 2024 but it could swing wildly above it should there be any disruption in supplies. Attacks on oil tankers by the Houthis cannot be ruled out besides there is a big appetite for \$ 85+ pb amongst the OPEC. A production cut here and bombing there would be sufficient trigger a hike.

Global investment flows are not just important for the recipient nation to grow but is also a proxy health indicator (relative attractiveness of an economy in the near term for flighty portfolio investors, and in the medium and long term for committed investors. This in turn depends upon relative scores on interest rates, forex stability, economic strength, etc.). It was common to assume that certain emerging markets will attract investment or lose investment flows. Given the post Covid changes in the landscape, it will be instructive to look at the picture from the supply side. Chart 3 shows that China and Eurozone have been increasing their overseas investment for over a decade. Japan has been investing more than both, but the annual investment has not risen. Not surprisingly in the aftermath of the Global Credit Crisis, the safe haven has been the US. It’s net flow inwards at the end of 2023 could be around \$ 18 trillion whereas the other three big economies are net \$6.4 trillion in aggregate. So, investments are being sucked from the world over by the ‘safe’ dollar and the ‘safe’ country thereby propping the US economy which did not enter the year with strong fundamentals. USA is leaving 2023 with a higher-than-expected GDP growth rate, high capital inflows and a stock market propped up by the Magnificent Seven stocks. But sucking out global investment flows by USA will a detrimental impact on other nations in the medium term.

Chart 3: Net international investment position by country (\$ Trillions)



Source: Charles Schwab

Given the gloomy global PMI and the falling net international flows, it is likely that the global GDP will fall in 2024 but the fall will be cushioned by falling inflation and interest rates remaining flat in H1 2024 till the economic scene becomes clearer. Leaving aside the ultra-bearish and overly optimistic estimates, the real growth in GDP of the world is likely to be around 2.7 to 2.9 % compared with the estimated 3% growth in 2023 and much lower than the average growth of 3.8% in this century. OECD countries are expected to deliver barely 1.3 to 1.4% growth on an average, smaller ones in the group like Costa Rica, Mexico, Lithuania, etc will do better, bigger ones like Italy, Germany, UK, and France may scrape the bottom at 0.5-0.7% growth. Argentina will remain sick. Asia will do well as a group. Special mentions of China, India, Indonesia, Japan (for turning the corner) and USA (the Big Boy) are warranted.

USA’s position is not bad despite all the obvious problems, with an expected real GDP growth of about 1.5 % in 2024 but what it hides is the fact it is poised for exploit the AI-led disruption in the

years to come since it is the Mecca of innovation and home to most of large global tech companies which will rule the roost and by the adoption of AI tools to boost productivity. That would make up for the dilution of USA's political influence in many parts of the World. Even North Korea openly threatening USA with long range ICBMs was unthinkable 40 years ago. USA's technology influence is going to be stupendous.

China, the nearest competitor for supremacy is 'reportedly' set to grow at 4.7% in 2024 (probably less, as their stats are unreliable) and supported now by Xi Jinping's very recent public admission of the serious challenges faced by China. China, under Xi Jinping has side stepped the Western version of capitalism and is out to create a *One people* (create all middle class, by uplifting the poor through higher wages and pride, and by castrating the upper class business owners in the guise of preventing corruption and other excesses), *One Party* (subsuming all powers of the Government, Armed Forces, Police and Judiciary) and *One Leader* (who totally controls the *One Party* and the minds of the *One People*). This could lead to more brutality, cover-ups, and eventual hallucination by the leadership. This is exemplified by one of the oft-repeated messages of the propaganda machinery:

- *"Under Mao the Chinese people stood up (zhanqilai); under Deng the Chinese people got rich (fuqilai); and under Xi the Chinese people are becoming stronger (qiangqilai)."*

The opaque Chinese economy is fraught with demand-side challenges because of the real estate meltdown which impacted the spending power of its middle class, fragile export, youth unemployment, drop in inward foreign investments due to geopolitics as well as the scare created by Government actions against rivals and large businesses owners (including its thriving tech sector) under the guise of corruption and national security issues. Slowdown was confirmed by the latest PMI for China which is 49 and an admission by Xi. Despite the economy having delivered a trade surplus in 2023, China is expected to slow down in 2024. Taiwan and the semi-conductor diplomacy that it needs to balance between their dangerous neighbour and the US, are stories in themselves. Irrespective of what might happen in Ukraine, China is unlikely to launch an attack on Taiwan in 2024. China is lying in wait next door and will strike when the time is right and only if required. As an ancient Chinese war strategist, General Sun Tzu once said, *'Whoever is first in the field and awaits the coming of the enemy, will be fresh for the fight; whoever is second in the field and has to hasten to battle will arrive exhausted'* and *'The greatest victory is that which requires no battle'*. The Chinese might even try infiltrating Taiwan politically by influencing people through its 'one family' propaganda while continuing to play to the gallery within Mainland China. Therefore, the US will continue to face a tricky situation though out 2024, alternating between sending olive branches and issuing threats to China, given the strategic need to engage with as well as subjugate, if possible.

Japan on the other hand, is going to have another good year in 2024 on the back of a good 2023. The growth could be in the region of 1.5% beating inflation at last. A 3.8% nominal per capita income growth is targeted, partially through tax cuts and the balance through negotiated wage increases. The weakening Yen helped the export sector grow but there is every likelihood of the US Dollar weakening against the Yen in 2024. The Japanese Central Bank is aware of the task ahead. Japan is trying to 'import' young talent from other countries including India to support their technology skills and balance their ageing population, so as to be able to compete with hungry and nimble competitors like Korea, HK, Vietnam, and China. The Japanese stock market is expected to give a big thumbs up with a likely increase in TOPIX by nearly 13% in 2024, excellent by global standards.

Indonesia will remain a star in Asia in 2024, with a growth around 5% despite lower commodity prices because inflation is expected to drop, Government spending likely to rise in the Election year and due to consumer expenditure support. It remains a target for China+1 investments. The

Government is going all out to bring in foreign capital investments which might work because of political stability.

Finally coming to India, the prevailing mood is positive, and the incumbent Government is expected to be returned in the Parliamentary Elections. There may be additional Government spending in the Jan-Mar 2024 quarter and a populist Annual Budget on Feb 1 with the intent to eliminate any residual chances of an opposition victory. Private capital expenditure might get revived post elections. Some sectors like real estate, construction materials (including cement, paints, Plastic pipes, steel), NBFCs, Insurance, pharmaceuticals, automobiles (especially EVs), auto ancillaries, IT (especially those which have cottoned onto AI), green energy, energy storage solutions, biotech, etc. are expected to do better in 2024 than they did in 2023. India is expected to remain the fastest growing economy in the world delivering around 6.2 to 6.5% GDP growth in FY 24-25. The Rupee is expected to remain stable in FY 24 with the possibility of the RBI allowing it to appreciate marginally in the second half when the Dollar dips. Inflation will probably however around 5%. The stock markets are already rising in anticipation of stable economic policies and the inflow from domestic (30 million new equity investors due to the growing middle class) and foreign investments (Inclusion in the JP Morgan GBI with 10% weightage could bring in \$ 20-30 billion in 2024. India's weightage in the MSCI Global index risen from 15.9% to 16.3%, leading to a prospect of additional \$ 1.5 billion foreign inflow into the equity markets). This and other factors like better corporate results, etc. could mean a 13 to 15% increase in BSE and NSE equity indices in FY 2024-25. Large caps may see revival which mid and small caps which delivered stellar performance in 2023, may continue to do well in 2024. This might also offer excellent opportunity to cherry pick value stocks besides investing in unlisted NSE stocks. **If so, would you not invest in Indian and Japanese equities now instead of defensively playing the debt game?**

The funding winter for Startups which started a year ago has not yet lifted. This has taken the froth out of startup valuations and have taken founders without sensible projects off the charts. There was only one Unicorn added in India in 2023 while 10 of the existing 108 Unicorns fell off the \$ 1 billion valuation level. VCs, Seed Capital firms and Family Offices, are sitting on cash and are eyeing startups with reasonable valuations. Angel investors remain active though more circumspect.

According to Inc42's Indian Tech Startup Funding Report Q3 2023, fund raise by Indian startups dropped to \$7.1 bn in the first nine months of 2023, versus approximately \$22 Bn raised during the corresponding period last year. This led to 34,785 employees being laid off by 121 Indian startups. Byju's debacle hurt two dozen edtech startups. Startup founders and their institutional investors have suddenly realised, after resisting for three quarters, that their '*valuation*' driven model is well past the sell by date. The emerging era of top and bottom-line driven startups, which create *real value*, opens up good opportunities for angel investors, in which returns could be many times what the capital market offers. This also offers an opportunity for founders with genuine business ideas, who were earlier crowded out by smart talking founders running flaky startups. All this begs the question, **'Would you not invest in a basket of equities and startups in India and a few select EMs, now that the time is ripe?'**

Some of us, including me, would answer positively to all seven questions that I posed in this article though many readers would have good reasons for not agreeing to many of the seven. I am reminded of a verse from Robert Frost's famous poem, *The Road Not Taken*.

**I shall be telling this with a sigh
Somewhere ages and ages hence:
Two roads diverged in a wood, and I —
I took the one less travelled by,
And that has made all the difference.**

Our Values - The Avalon EDGE

E

ENTREPRENUERSHIP

Enterprising ownership to transform ideas into pragmatic and profitable solutions

D

DEDICATION TO EXCELLENCE

Commitment to premier quality and highest standards in everything we do

G

GREAT VALUE CREATION

Focus on delivering maximum client impact through innovation and collaboration

E

ETHICAL APPROACH

Respect, fairness, and transparency in all our interactions

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