2023 Chief Investment Officer Outlook

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As we enter 2023, bottom-up fundamental research is going to be critical as we go through this environment. Now, why is that? Well, if we're looking at an economy which is slowing down, if we're looking at inflation which is high, we may well see margins come under pressure. As we see margins come under pressure the most important thing is strong fundamental research, be that on the equity side or be that on the credit side as well. With interest rates higher than they've been for the past couple of decades, it's also more possible that there will be more defaults than there have been in the past. Again, intense credit research is going to be critical in terms of seeing where those threats are and where those opportunities are as we move forward. In that respect the environment in 2023 is going to be critical for active investors and strong fundamental research.

In terms of positioning portfolios for market markets in 23, I think we have to be cognizant of the fact that we expect interest rates to stabilize. So expecting interest rates to stabilize, that should be good for bond markets – sovereign bond markets in particular. If we look at credit markets then we're looking at recession in various areas, or potential recession.

I mean, but if it's not a deep recession, that's actually good for some of the higher quality credit markets, for instance investment grade, and we'd be optimistic about the outlook for investment grade as we move into 23. For equity markets, maybe it's a little bit different because we would expect to see earnings come under pressure as a result of potential recession. But on the other hand, if companies have pricing power, if companies have control over their own destiny, then those are the companies which ought to benefit within an environment like that.

Volatility in 2023 is going to be an interesting factor, because normally we start a year and say “there's a lot of uncertainty, we expect volatility to rise as we go through the coming year.” I would say we have had so much volatility in 22, and such an uncertain environment, that actually volatility is likely to be lower in 23 than it was in 22.

So economic growth in 23 is pretty uncertain in some regions, maybe a little bit more certain in others. If I start with some of those areas which are less certain, let's look at Europe. In Europe, we've been fearful of the downturn and the effect which high energy prices – in particular gas prices – are going to have on the economy as we go through the winter months.

However, storage of natural gas is at a really high levels. So, actually, the fears of recession are maybe less severe than they were a few months back. But nonetheless we still believe we will see recession in Europe and it is likely to be more severe than that which we see in the U.S. Yes, rates are rising in the U.S., but consumption remains under a bit of pressure, but nonetheless we expect in the U.S. for there to be more slack within the economy and greater potential for – if there is a recession – it's only going to be mild within the U.S.

I think energy transition is something which is going to continue. If we look at what has happened over recent years in terms of COVID, in terms of Russia's invasion of Ukraine – if anything I think that will help accelerate energy transition and the move to investment in alternative energies. So rather than suggest that that is going to slow down, if anything I think the pace of transition may well accelerate further as we move forward.

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