

# CIO Market Outlook: Have we dodged a recession?

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I think as we go into the second half of 2023, we'll look to see whether or not we get a continuation of what has driven in markets in the first half. So we'll see that peak in interest rates in the developed world, so what will that mean for investors? We do not believe that as we go into the latter stages of 2023, we'll start to see interest rates coming down. That will be maybe for 2024, but at least that stability will be a positive. Also, if there is recession, and I think it's in the balance, there may be recession, but also we may not hit recession. As we see that slowdown, again, if that's not as bad as some had feared, then corporate earnings will be better than expected and that will lend further support to the markets. So, yes, we've seen a rally in markets in the first half of 2023, but we think that's sustainable as we go through the second half.

So if we look at the different regions, we have seen Europe outperforming the turn of the year, but maybe that's to be expected in as much as the depth of that recession didn't come to fruition, or the severity of the recession didn't come to fruition. We've seen a rally in the Japanese market as well as we see, I guess, the global economy performing not as poorly as expected and Japan, benefiting from that with its strong industrial base. And as we look into the U.S. as well, I mean, what was the big thing about 2022? It was the outperformance of value versus growth, and we've seen a reversal of that as we've gone into 2023. And I think from a regional perspective, we see some of the strongest technology or growth companies within that U.S. market, within the Asian market as well, and that has helped drive markets thus far this year. We expect to see a continuation of that as well because as we see rates peak, the longer duration assets are likely to be rewarded in a scenario like that. But what we do not expect, is to see a return to the 2020-2021 outperformance of growth versus value and then the huge outperformance of value versus growth in 2022. We think that's going to be far more nuanced and balanced as we move forward. And indeed, if we look regionally, then yes, the outlook for the U.S., given the makeup of the market, looks, looks pretty attractive, but then the valuation ought to support the Japanese and the European markets as well. So again, I don't think there's going to be enormous differentiation. But actually that's quite constructive because there are reasons why each of them may look attractive.

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