Positioning in equity income

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Michael Barclay: There is always going to be some risk that you have to contend with. However, you know, we do feel like the Fed rate hikes, the inflation picture, supply chain issues, those could all be a lot better in 2023. And there's some cause for optimism there.

David King: I think the equity market in 2023 will be driven by pockets of undervaluation. So I think that the key to it is not necessarily assuming things are going to suddenly be wonderful, but looking for situations where securities were overdone on the downside in 2022.

Michael Barclay: So thinking about the components of return for 2023, do you have the income component, which again, income's been an important part of returns for almost 100 years now. And we believe that that could be stable in 2023. The capital return part of the equation, though, is going to be determined based on how the multiple reacts.

David King: Historically dividend income, it's been about 40% of total return when you're considering equities, and coupon has historically been a large part of bond returns. And I think in the equity market, the key is if it's a below-average market, which is possible, dividend income instead of being 40%, could be 60% or even 70%. And I think that really argues for a renewal of interest in income-oriented equity investing.

Michael Barclay: If the Fed does ease or start to again slow the pace of rate hikes, we do think the multiple part of the equation can be a stabilizing force for returns. We do think earnings will grow. However, we think that right now consensus expectations are probably still a little bit too high, and there has to be some digestion of that before we can really see a growth because of that.

David King: I actually think the next couple of years could see a renaissance of kind of a value-driven approach to growing your income old fashioned, buy low, sell high, as opposed to the more ruler approach of like, hey, this is a great company. I mean, I think many well-known good companies are going to raise their dividend in 2023, even if the economy is a little soft. But you may get more mileage out of buying something that you could buy at 40 that used to be 100 where the dividend is safe.
