

Positioning in equity income

Michael Barclay, CFA, Senior Portfolio Manager

David King, CFA, Head of Income and Growth Strategies



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.

The views expressed are as of December 2022, may change as market or other conditions change and may differ from views expressed by other Columbia Management Investment Advisers, LLC (CMIA) associates or affiliates. Actual investments or investment decisions made by CMIA and its affiliates, whether for its own account or on behalf of clients, may not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not take into consideration individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon and risk tolerance. Asset classes described may not be appropriate for all investors. Past performance does not guarantee future results, and no forecast should be considered a guarantee either. Since economic and market conditions change frequently, there can be no assurance that the trends described here will continue or that any forecasts are accurate.

Securities products offered through Columbia Management Investment Distributors, Inc., member FINRA. Advisory services provided by Columbia Management Investment Advisers, LLC.

Columbia Threadneedle Investments (Columbia Threadneedle) is the global brand name of the Columbia and Threadneedle group of companies.