Equity outlook: Macro remains top of mind

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In 2023 so far, the equity market returns have been very concentrated. What I mean by that is, there were a small number of stocks [that] really, really drove the market returns. And if you think about the index, like the S&P 500, if you see the top 10, 15 really carrying the full return of the market, we get worried about it, because we don't think it is sustainable. If you really believe the equity market is reflecting the future health and growth of the economy, it has to be more than a couple of stocks or companies driving the overall economic growth and economic health.

When we look at the second half of this year, 2023, we still think macro factors will remain top of mind for all the investors and [is] really going to impact the returns in the equity markets. And this is globally — the important factors, particularly geopolitical risk, are going to be very important. The other thing that I would say, of course, [is the] Fed's rate policy, and where we are going to land the second half of the year is a big question investors are asking. And it is still affecting expectations about earnings, expectations about multiples. And the companies are also trying to figure out this environment's rate environment, what it means for their profitability and their margins.

If we focus on the opportunities, we still think that Europe is interesting in the way of still delivering earnings on the upside, and much better than expected. So Europe is definitely a focus, although there are still some challenges with energy transition. In the U.S., we find the expectations are very high, so a lot of eyes and looking at the earnings and what the companies' results will be. But we find the type of companies we invest in, where we do the deep fundamental research understand our business models, we see a lot of good opportunities in the way of investing in these companies for the longer term.

A lot of investors are asking if the market is pricing in recession, and it is really important question but it is hard to answer. When we look at the earnings estimates and the sentiment in the marketplace, especially from the companies, most of the participants — market participants — are anticipating probably a shallow recession.

I think my biggest worry is that people are kind of trying to convince themselves that once all this uncertainty is over, we are going to go back to what it was, which is before pandemic, where everybody could really rely on low inflation, low interest rates. I'm in the camp that I think those days are over, I would also say that in the way of thinking about the opportunities, there's still a lot of innovation in the marketplace. Health care, technology, industrials, there's so much opportunity and stories there that we can invest in.
