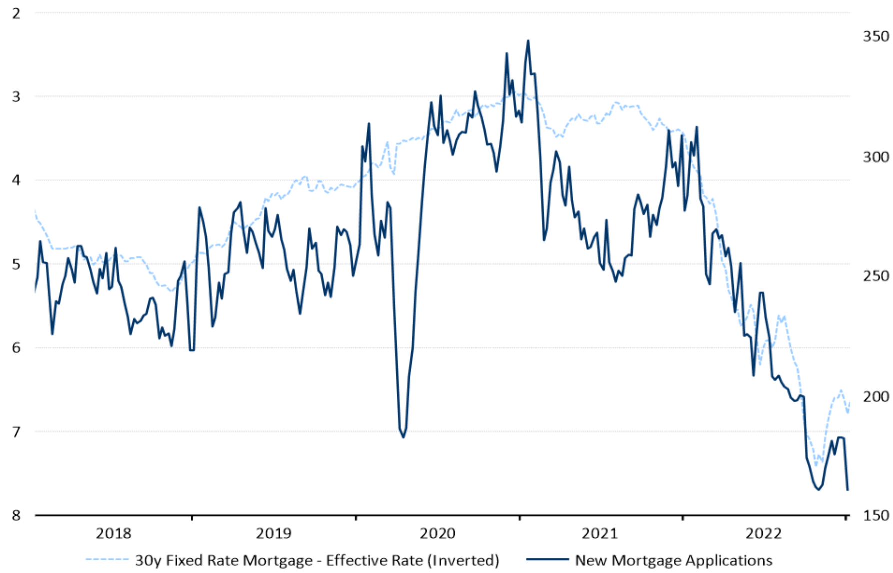
January 2023
Issue No. 26

GLOBAL INSIGHT

Overview

- In our Macro View, we consider an increasingly wide distribution of future outcomes.
- While we are attempting to paint a more positive picture of global markets in general, we remain very alert to the unusually high number of risks.
- In our Investment Outlook, there are several tailwinds supporting markets, not least the resilience of the consumer and buoyant employment markets.
- We remain cautious but are also mindful that there are a number of tailwinds behind financial markets. These could provide a more optimistic outcome which would see positive rapid price volatility.
- In our feature piece, Tim Sharp, Group CIO assesses the views behind both a potential hard and soft landing in 2023.
- Housing looks particularly vulnerable given the recent fall in new mortgage applications.
- In summary, the transition from low inflation to high inflation has been stressful and 2023 is likely to be a year of low growth. Investors need to be mindful of the range of plausible outcomes.

30y Fixed Mortgage Rate vs. New Mortgage Applications



Inside this issue

Economic Highlights

- December ISM Services data pointed to a very robust US consumer.
- Headline inflation data in the US which fell to 7.3% in November.
- Chinese growth has fallen to approximately 3% in 2022.
- China represents some 15% of global trade.
- Inflation markets are now pricing headline US CPI to reach the target level of 2% in just one year's time.

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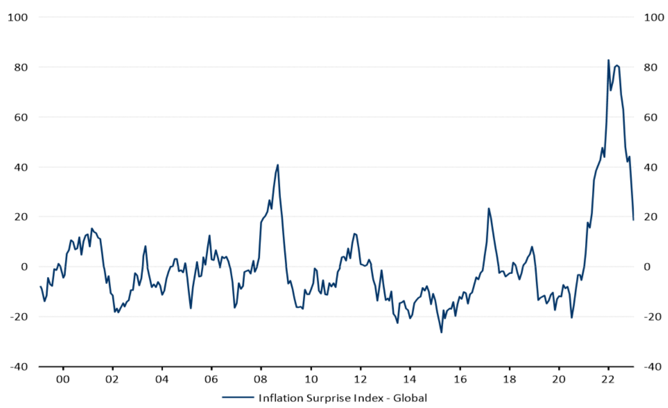
Based upon information available up to and including
16th January 2023

Key Issues in Charts

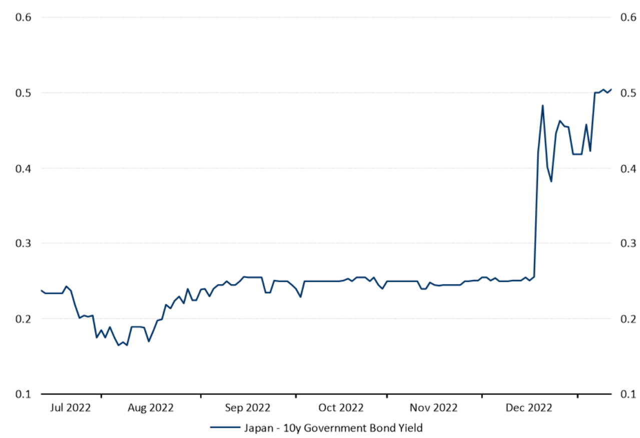
The Inflation Surprise Index



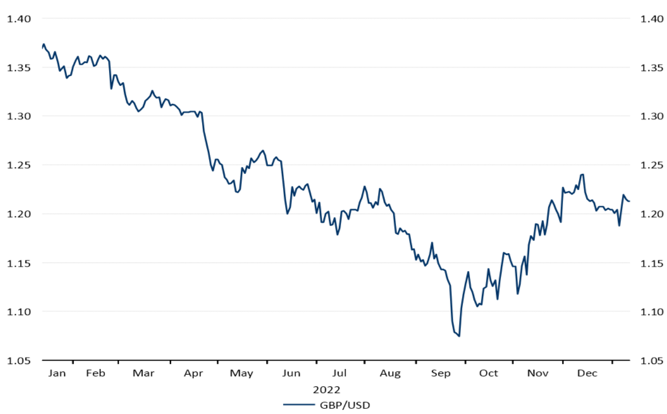
- The inflation surprise index is a measure of how much actual inflation deviated from the consensus forecasts of economists, a positive move meaning inflation came in higher than expected and the inverse upon inflation declining more than expected.
- 2022's final quarter saw the Inflation Surprise Index fall 75% from peak to its current level as inflation receded from its highs earlier in the year.
- Although still above its historical mean, further supportive inflation data could see the index fall further, while surprising positive inflation data could push the index higher. The latter would cause some pain for markets in 2023.

Japan—10yr Government Bond Yield

- In December, The Bank of Japan unexpectedly raised the upper limit of the yield cap on 10Y Government Bonds, doubling their target range from 25Bps to 50Bps.
- Markets are pricing in another potential policy tweak with Japanese inflation on the rise, moving from deflation in April to now seeing both positive headline and core CPI.
- Although the bank's Governor has claimed the purpose was of "improving market function and maintaining yield curve control, not the start of a tightening policy" and inflation still remains below the bank's 2% target, the Governor's term comes to an end in April where a potentially a more hawkish official could be brought in as a replacement.



GBP vs USD



- Sterling suffered a volatile year in 2022 impacted by a range of factors, inflation, political mishaps, the Bank of England and a strong U.S economy lead to a historical low for the Pound vs the US Dollar in September.
- Since October the GBP has rebounded sharply, along with a number of other global currencies against the dollar, fuelling a rally in U.S equity market.
- A weaker dollar, prompting more international trade and purchases could provide some respite to the economy in the U.S, while a stronger dollar could potentially decrease inflation playing into the Fed's goals and interest hikes.

Macro Outlook

*By **Adam Jones**, Senior Investment Manager*

One of the great joys of being part of a small, highly experienced and thoughtful investment team (myself excluded of course) is the discourse around diverging opinions. The team at Hottinger are especially divided at present with respect to the investment outlook over the next 12 months, which itself carries value. One often-overlooked aspect of investing is the fact that none of us, really, have the faintest idea of how the future might present itself. The challenge of understanding (and positioning for) an increasingly wide distribution of future outcomes owes far more to the domains of art or philosophy than to science. Markets are reflexive in nature (to quote the legendary George Soros[i], who originally coined the term). That is to say that the behaviour and beliefs of market participants themselves actually shape the path of realised future outcomes.

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Conventional thinking, at present, is that the world is so clearly on a path toward lower growth, lower corporate revenues and lower valuations that none of us could possibly hope to achieve a decent real return through investment in equity. While we sympathise with this idea from a macro perspective, we also see more opportunities at the individual equity level than we can recall over at least a 2-year period.

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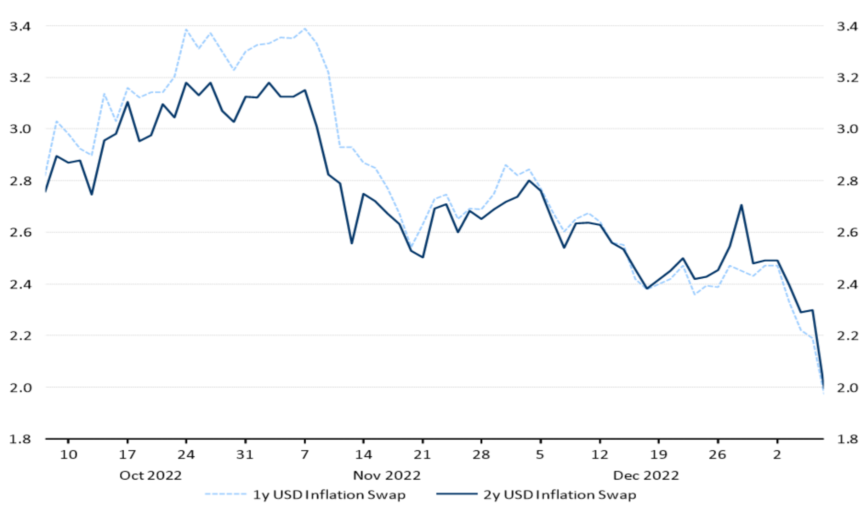
Recent employment data has given comfort to those hoping for a soft landing in the US economy. While job growth itself remains surprisingly strong we are beginning to see revisions to historic estimates of wage growth which, when coupled with lower headline inflation, suggest that it may in fact be possible to bring inflation under control without a corresponding collapse in both economic activity and employment. Given the Fed's dual mandate (of full employment and price stability) the key tension that needs to be resolved from a policy perspective is the dichotomy of an exceptionally tight labour market and rapidly declining inflation. On the latter, inflation markets are pricing headline CPI to reach the target level of 2% in just one year's time, a remarkable turnaround given its current level of 6.5%.

USD Inflation Swaps Q422



Source: *Hottinger Investment Management / Refinitiv Datastream*

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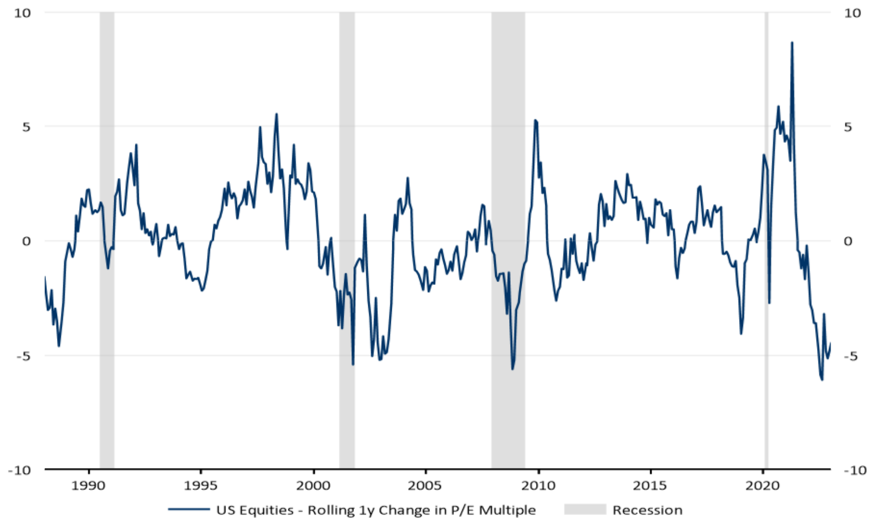
An unexpected increase in real incomes is an outcome we do not believe equity markets currently anticipate given a significant contraction in earnings multiples over the past year.

In addition to an apparently healthy (albeit lagging) labour market the decline in oil prices, agricultural commodities and headline CPI itself are all supportive of an strong increase in consumer incomes, an outcome we do not believe equity markets currently anticipate given the significant contraction in earnings multiples over the past year.

US Equity Markets—Rolling 1y Change in P/E Multiple



Source: *Hottinger Investment Management / Refinitiv Datastream*

The potential for positive surprises on the economic front is increasing in our view.

The potential for positive surprises on the economic front is thus increasing in our view. In particular, we see two major economic tailwinds arising over the first half of 2023;

1. A significant increase in US real incomes. Oil prices have fallen almost 20% over the past 6 months and this should flow through to cheaper prices at the pump. Indeed, the average US gas price recently fell below its level 1yr ago[ii]. In addition to oil, most agricultural commodity prices have also fallen significantly which should reduce food prices and hence household grocery bills. These declines are occurring at a time when wage negotiations are rife, and discussions are based around the level of inflation that has already been endured over the past 12 months (not that expected in future).

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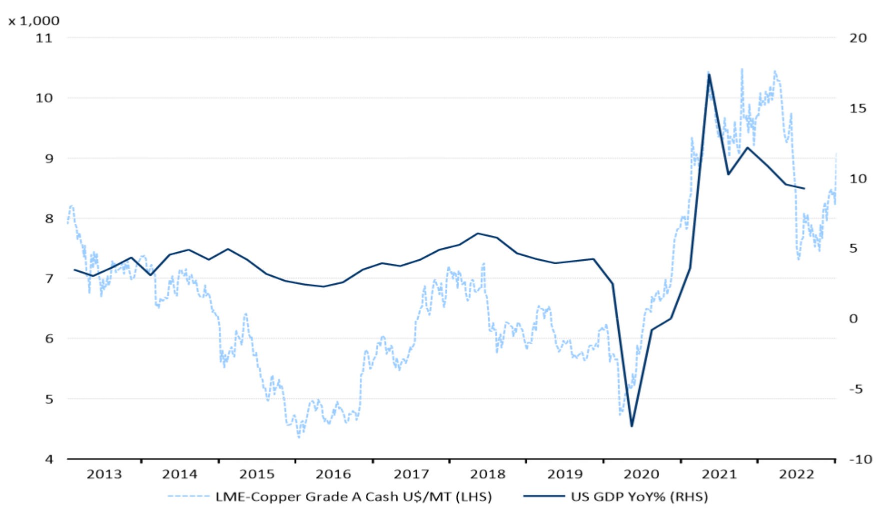
Copper prices vs. US Growth year-on-year



Source: *Hottinger Investment Management / Refinitiv Datastream*

2. China. Having spent so much time in lock-down, Chinese policy makers have finally reversed their stance and agreed to re-open their economy. Given China represents some 15% of global trade this is a significant development which should be supportive of global growth. Copper prices have reacted particularly positive to this development, an indicator which is widely perceived as being a useful guide to economic growth.

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The key question moving forward is whether the Fed views declining inflation as being enough to soften their policy stance, or should they keep interest rates elevated in order to avoid another resurgence? At first glance markets appear to disagree that the Fed should maintain restrictive monetary policy. The chart below maps the difference between the market-implied level of interest rates in June 2023 versus those expected to prevail in January 2024. Essentially, this tells us that market participants are pricing an almost 50bp *reduction* in interest rates over the second half of this year (and have been doing so since June of last year).

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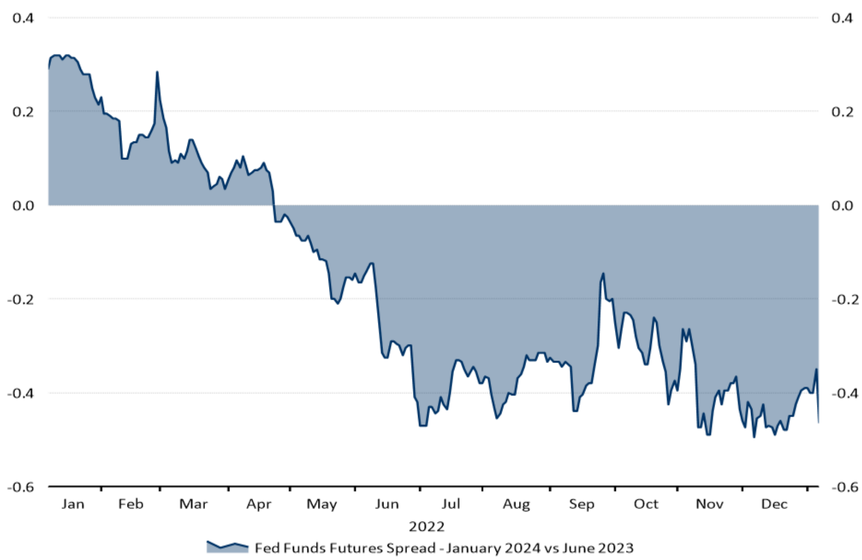
Fed Funds Futures Spread



Source: *Hottinger Investment Management / Refinitiv Datastream*

While the Fed are very keen to push back against this suggestion, we believe current pricing makes sense from an investor perspective.

Q. How long will the Fed keep rates above 5%?
A. "Three words: A long time."

Atlanta Fed President Raphael Bostic—Atlanta Rotary Club

We see an inherent asymmetry here with rates likely being capped on the upside while being much less so on the downside. We see areas of fixed income as offering good value.

If markets took the Fed at their word here rates would be priced at or around the 5% level from March through December, with very little risk of moving higher in the context of slowing nominal growth and inflation. The greater likelihood, at least in our view, is that the policy tightening that has already been undertaken begins to materially impact incoming macro data. We see an inherent asymmetry here with rates likely being capped on the upside while being much less so on the downside. As such, we see areas of fixed income as offering good value.

Regardless of our near-term views on the path of rates we also feel confident that yield curves should begin to steepen as unemployment begins to rise.

Regardless of our near-term views on the path of rates we also feel confident that yield curves should begin to steepen as unemployment begins to rise (given the very strong historical correlation between the two series). Yield curves are currently inverted (with longer dated yields being lower than shorter dated yields) to as great an extent as we have witnessed since the early 1980's, with effects having manifest in valuations across a variety of asset classes (financials, bank equity, mortgage-backed securities et al). As such we have recently increased exposure to those areas we believe will benefit from this shift which, pleasingly, also happen to provide very significant income yields.

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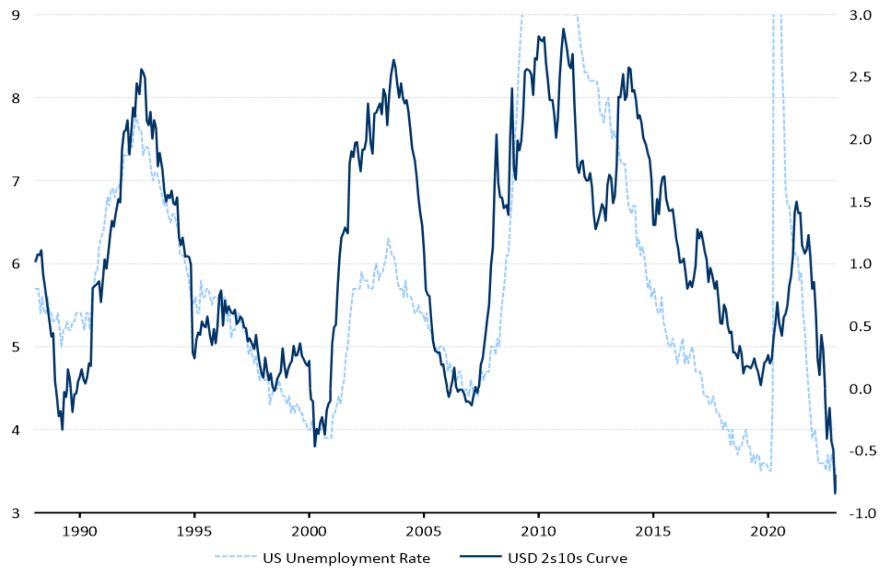
US Unemployment Rate vs. US Treasury 2yr/10yr Curve



Source: *Hottinger Investment Management / Refinitiv Datastream*

We are attempting to paint a more positive picture of global markets at present, however we remain very alert to the numerous risks. We believe portfolios are sufficiently well balanced to weather any storm and continue to find interesting ideas that have resulted from recent shifts.

As you may be able to tell we are attempting to paint a more positive picture of global markets at present, however we remain very alert to the numerous risks. We believe portfolios are sufficiently well balanced to weather any potential storm while we continue to find interesting ideas that have resulted from recent shifts.

i The Alchemy of Finance—George Soros

ii American Automobile Association

Investment Outlook

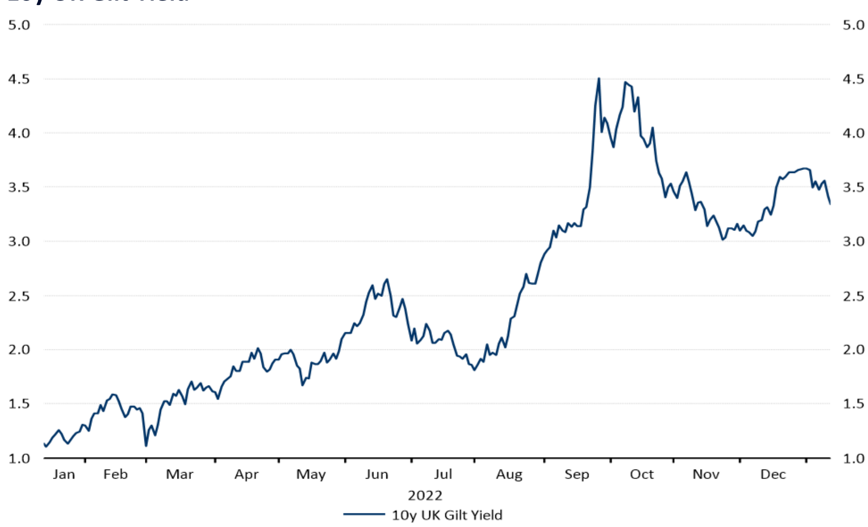
The fourth quarter was notable for its level of social unrest ranging from public sector strikes in the UK to civil unrest in China over continuing Covid lockdowns all of which seem to me to be linked to the rising global cost of living crisis triggered by the ongoing Russia – Ukraine war. There seems little chance of a short-term cessation in hostilities that have caused a prolonged period of high inflation leaving central banks to move aggressively in tightening rates.

Despite interest rate policies, there are several tailwinds supporting markets, not least the resilience of the consumer and buoyant employment markets.

Despite interest rate policies, there are several tailwinds supporting markets, not least the resilience of the consumer and buoyant employment markets. Despite global PMI's stabilizing but still being in contractionary territory in November, December ISM Services data pointed to a very robust US consumer, whose confidence in spending has apparently yet to be curtailed by tighter monetary policy. We believe this helps to explain the markets slow pace of earnings revisions and the optimism amongst a large proportion of investors that believe the US Federal Reserve (Fed) will be able to engineer a soft landing in 2023 avoiding dragging the global economy into recession. Recent declines in both oil prices, where Brent has given up 14.9% over the quarter, and headline inflation data in the US which fell to 7.3% in November, might also provide additional support for ongoing strength in consumption trends.

We do think the inflation outlook for the next 1-2 years is clearly lower, which gives us more confidence when looking at potential new additions to client portfolios.

10y UK Gilt Yield



Source: *Hottinger Investment Management & Refinitiv Datastream*

In the UK, the quarter started with the Bank of England providing emergency support to the UK Gilt market in response to the Truss mini budget that led to her demise as Prime minister but had the lingering effect of making the UK appear unstable to foreign investors who underpin government borrowing. The Bank of England went on to tighten rates to 3.5% by year end in line with equally aggressive policies from the US Fed and the European Central Bank (ECB) in a concerted effort to curtail inflation.

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Despite the appointment of Rishi Sunak supporting sterling and giving gilts a welcome boost of 2.2% over the quarter, the public sector disruption in December once more undermined confidence leaving Gilts down 4.4% in December to finish the year -25.02%. The decision by the central banks to move to a 0.5% increment in December following hikes of 0.75% to that point provided some optimism in markets that a pause in tightening would allow economies to stabilize but later investor angst turned to fears over a pending global recession bringing the “Santa rally” quickly to a close. Despite a weak December, Global equity markets still gained 9.4% over the quarter in USD terms leaving it down 19.4% over the course of 2022.

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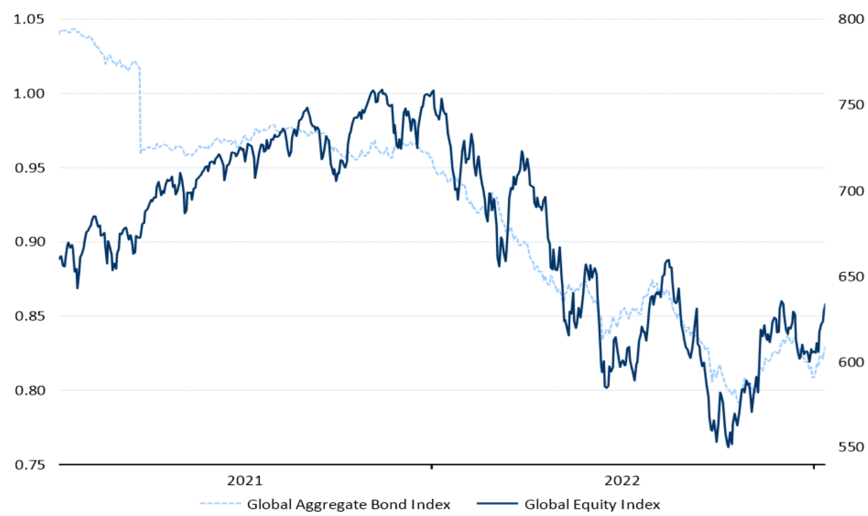
Global Bonds vs. Global Equities 2021—2022



Source: *Hottinger Investment Management / Refinitiv Datastream*

The correlation between major asset classes left investors with few safe havens this year with Global bond markets represented by the Vanguard Global Aggregate Bond ETF USD hedged also losing 12.6% over the year although eking out a 1.2% gain over the quarter despite tightening rates in major economies. The Hottinger Investment Management Sterling Balanced Composite Index used for illustrative purposes[i] lost 11.9% during the year despite having bounced 4.5% over the quarter. This is despite the UK equity market being surprisingly resilient this year with large caps overall finishing in a mildly winning position at year end. This may be due to the value orientation of the composition, supported by mining, oil and pharmaceutical stocks, but may also lay testament to the already cheap valuation of the UK stock market following Brexit as foreign investors seem reluctant to return to the UK .

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UK equity market were surprisingly resilient this year with large caps overall finishing in a mildly winning position at year end.

In China, zero-Covid policies have weighed on economic sentiment so much that recent street protests calling for the resignation of President Xi have led to a relaxation in policy pushing the Hong Kong Hang Sang Index to a gain of 14.9% over the quarter. As China comes out of lockdown ending zero-Covid restrictions the country is seeing stocks improve on the basis that business, both domestic and international, will hopefully resume despite the apparent soaring number of new cases as the Omicron variant spreads. Travel restrictions have been lifted allowing international travel from China, although many countries including the US, UK, France and India have imposed a negative Covid test restriction on travellers due to the acceleration in new cases,

In China, zero-Covid policies have weighed on economic sentiment so much that recent street protests calling for the resignation of President Xi have led to a relaxation in policy pushing the Hong Kong Hang Sang Index to a gain of 14.9% over the quarter much to the annoyance of Chinese authorities and the airline industry. The re-opening of China brings a tailwind to global markets adding further weight to the potential soft landing thesis as Chinese authorities seem intent on giving the people what they want despite the build up in new cases and hospitalisations, although official figures appear unreliable.

The re-opening of China brings a tailwind to global markets adding further weight to the potential soft landing thesis.

Japan has been a relative safe haven with the Yen gaining 9.69% this quarter versus the US dollar as the Bank of Japan (BOJ) surprised investors by amending its yield curve control policy in December allowing long term interest rates to rise by widening the target band around 10-year JGB yields. Analysts widely expected no change to yield curve control in the run up to the end of the term of Governor Haruhiko in April 2023 leading to speculation of something more meaningful to come. This minor amendment undermined Japanese stocks with the Nikkei 225 losing 6.7% in December to end the year down 9.36% while hanging on to a positive quarter result by 0.6%. The markets made use of the wider band to push JGB yields higher further underpinning the stronger Yen. Change at the BOJ adds an element of uncertainty that may undermine Japanese financial assets and despite managing to create an element of inflation for the first time in decades through continuing contrarian loose monetary policy, Japan's traditional safe haven credentials were dented in 2022.

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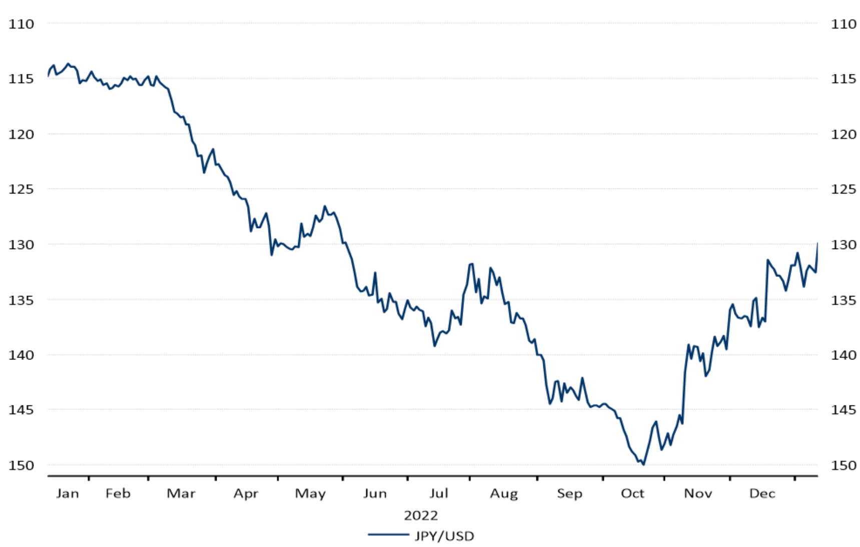
JPY vs USD



Source: *Hottinger Investment Management / Refinitiv Datastream*

Commodities and energy stocks remain one of only a few positive performing trades in 2022 .

Commodities and energy stocks remain one of only a few positive performing trades in 2022 although most took a beating during the final quarter of the year as fears of pending recession are reflected in energy prices. Furthermore, mild weather and full European storage facilities going into the end of the year have taken the heat out of wholesale markets.

Despite its weak quarter oil is still up 9.4% over the course of the year and in general commodities gained 1.6% over the quarter to end the year up 12.9%.

Despite its weak quarter oil is still up 9.4% over the course of the year and the wider WisdomTree Enhanced Commodity ETF USD Hedged gained 1.6% over the quarter to end the year up 12.9%. Amongst stocks the global energy sector

We believe that many major oil stocks remain below average valuations.

The global energy sector has been a leading performer gaining 18.6% over the quarter to end the year up 41.1%. .

We also stay positive on alternative investments, particularly real assets where infrastructure looks defensive with a low correlation to equities and should also see continuing new investment particularly in the alternative energy sector.

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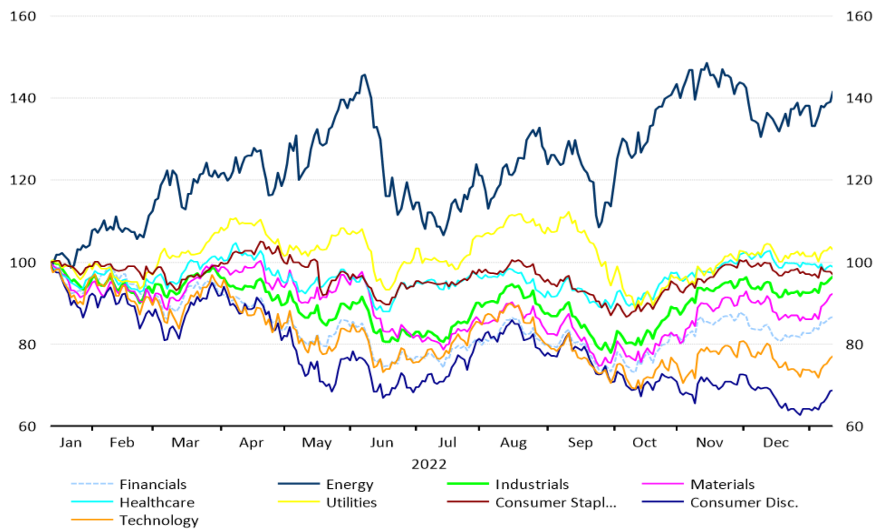
has been a leading performer gaining 18.6% over the quarter to end the year up 41.1%. Despite this positive move we believe that many major oil stocks remain below average valuations. For example, BP and Shell trade on 5.17- and 5.73-times forward price-to-earnings according to Refinitiv, while the UK market trades nearer 11.25 times. This type of valuation is repeated across major markets as sustainable investors have shunned traditional (brown) energy providers in favour of renewable (green) energy investments while we feel the Russia – Ukraine war has shown both the value of and the need to invest in both types at this current time.

Equity sector performance during 2022 (rebased)



Source: *Hottinger Investment Management / Refinitiv Datastream*

We also stay positive on alternative investments, particularly real assets where infrastructure looks defensive with a low correlation to equities and should also see continuing new investment particularly in the alternative energy sector. Alternative strategies have also been a positive sector this year with macro strategies leading the way although hedge fund indices were lower this quarter losing ground to traditional risk assets.

We remain cautious as we enter the New Year believing the fourth quarter equity performance to be a bear market rally as investors struggle with the spectrum of potential outcomes for which we believe we do not have enough information to make a definitive forecast. We are also mindful that there are a number of tailwinds behind financial markets that could provide an optimistic outcome which would see positive rapid price volatility.

[i] HIM £Balanced consists of 40% All UK Equities; 20% Rest of the World; 35% Gilts and 5% Cash

2023—Hard or Soft Landing?

*By **Tim Sharp,** Chief Investment Officer at **Hottinger Group***

According to John Authers fictional hedge fund, Hindsight Capital LLC, that publishes its trades at year-end[i], there were four key insights that if known on January 1, 2022, would have made the financial environment far clearer to investors.

The first being Vladimir Putin's invasion upon Ukraine, secondly China being hit especially bad by the Omicron variant, Inflation being at higher levels for longer and previously low central bank rates had left many securities in global markets overpriced.

However, as we are not blessed with such clarity of vision and as a traditional, long only investor, we work within a risk framework that relies upon the ability to choose the level of conviction based on the information as presented, meaning 2022 was a brutal year for the investment community. Bonds and equities fell in unison, the normally defensive S&P500 fell in line with global equities, the US dollar rallied strongly, and gold had a flat year leaving only a few alternative assets in positive territory making 2022 a very difficult year for global asset allocators.

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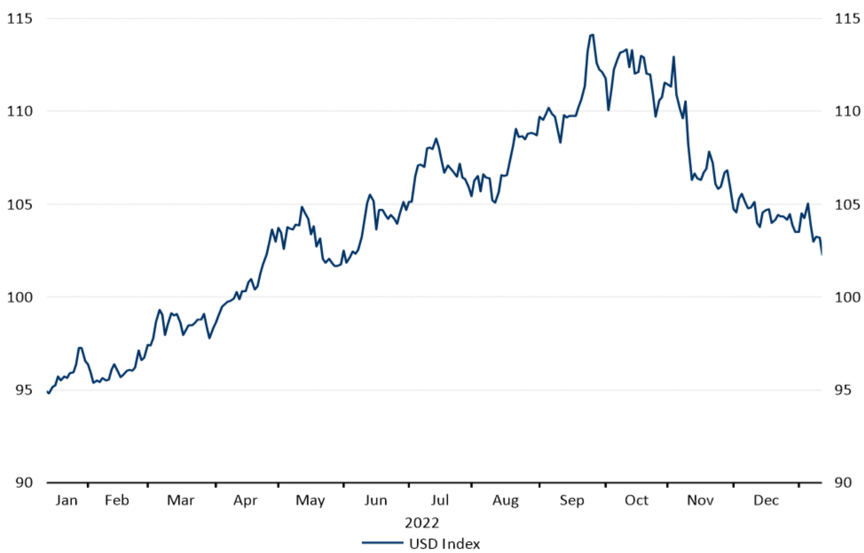
USD Dollar Index 2022



Source: *Hottinger Investment Management / Refinitiv Datastream*

2022 was a very difficult year for global asset allocators.

As we sit at the beginning of a new financial year it would be useful to have the benefit of Hindsight Capital's global insight but instead, we are left with a great deal of uncertainty due mainly to the fact that we simply do not have enough information to forecast accurately the most likely scenario's investors will face in 2023. It seems to me that the investment community is split between those who believe that the US Federal Reserve (Fed) will be able to engineer a soft landing and those who believe that a global recession is a certainty that as yet

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is not priced into markets. The main reasons for the difference of opinion lie with a few conflicting statistics that we believe defy historical comparisons but then the last time the world saw such high levels of inflation was in the 1980’s and it could be argued that a lot has changed since then making comparison mis-leading.

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It seems the consensus outlook expects global growth should be below 2% this year, inflation will remain elevated, and unemployment will rise steadily as the policies enacted in 2022 come to fruition in 2023. Advanced economies are heading for recession led by Europe and the UK and the slow re-opening of China will create a below average growth scenario. The aggressive tightening undertaken by central banks is unprecedented over the last 40 years[ii] and historically has always delivered a recession.

2022 largely saw a compression in price-to-earnings ratios as equity values fell, the next stage would be to see earnings fall as economic activity slows. Q322 earnings surprised on the upside, buoyed by a resilient household consumer, and we feel companies were evasive with forward guidance as they defended share prices. Analysts have been reticent in revising earnings lower due to the conflicting outlook leaving investors to focus on Q422 earnings season that will play out from the middle of January. Absolute Strategy Research (ASR) continues to forecast a 15-20% fall in global earnings in line with historical comparisons surrounding recessions which, if it were to prove accurate, would likely exert increased balance sheet stress in some cases. With current consensus US earnings for 2022 remaining largely as they were in January 2022 the potential for disappointment to the downside is significant.

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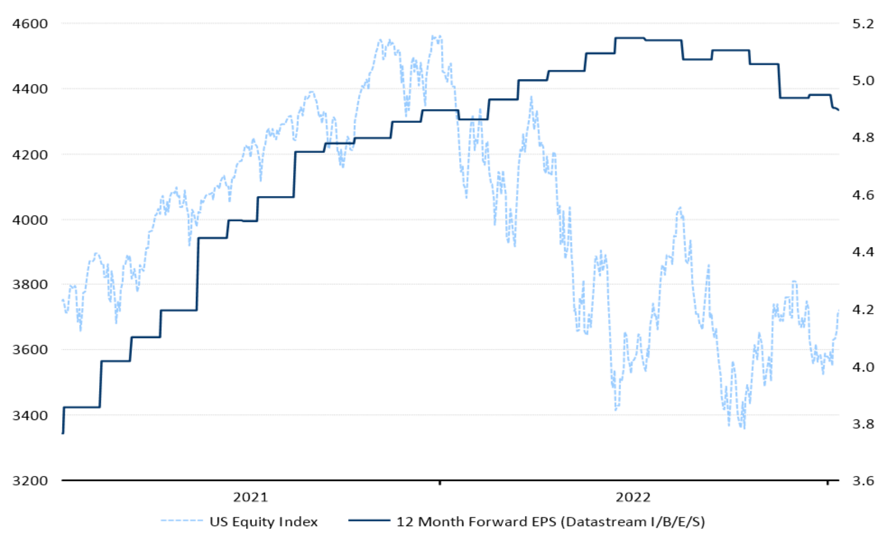
US Earnings



Source: *Hottinger Investment Management & Refinitiv Datastream*

Developed economies will be dealing with the aftereffects of higher interest rates and the strong likelihood of a recession in 2023 but from an investors perspective this scenario has been well predicted and any moderation in the earnings contraction could see investors looking past near-term revisions to focus on the areas of perceived value in equity markets.

Developed economies will be dealing with the after-effects of higher interest rates and the strong likelihood of a recession in 2023 but from an investors perspective this scenario has been well predicted.

The reduction in the pace of interest rate hikes in December points to a potential pause in policy by central banks as they assess the implications of their actions. This is different to a pivot which would suggest that by the middle of this year, inflation will have fallen significantly, the recession will be deep, and interest rates will need to be eased to stimulate economies. This prediction occupied markets during Q322 but central bankers have worked hard to undermine this view with harsh rhetoric aimed at convincing investors that although inflation may have peaked and may start to fall, it will still be higher for longer requiring interest rates to remain elevated. It is worth remembering that the low interest rate environment that we have experienced since the Global Financial Crisis is not normal, actually the current levels of interest rates in the developed economies are probably closer to historical, long-term averages where bonds offer more income than they have for over a decade, and we would argue government bonds are once more effective investments against recession risk.

It is worth remembering that the low interest rate environment that we have experienced since the Global Financial Crisis is not normal.

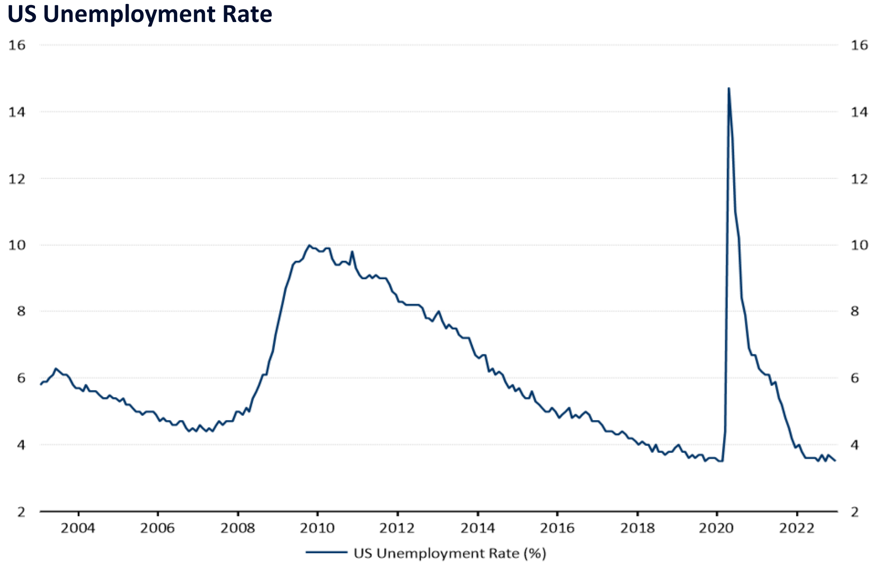
So, although a global recession remains the most likely scenario in 2023, there are many investors who believe that the Fed will be able to engineer a soft landing based on inflation proving to be more transitory, job creation continuing without exerting undue wage pressures, allowing the consumer to support earnings growth and therefore valuations.

Although a global recession remains the most likely scenario in 2023, there are many investors who believe that the Fed will be able to engineer a soft landing

One of the reasons for optimism amongst investors is the robust nature of the US labour market where jobs growth is still above trend and jobless claims still at low levels. The post-pandemic job openings and quit rates were startling as the over 50's reassessed their lifestyle choices and despite being off those highs currently remain well above pre-Covid levels. In previous recessions, jobless claims were rising sharply 12 months after stock markets peaked but so far this time this has not materialised. Industries within leisure sectors continue to face a shortage of workers, however, the turn of the year has seen a number of announcements from mega-tech regarding significant layoffs which may indicate that pressures within the labour market may be receding.

In previous recessions, jobless claims were rising sharply 12 months after stock markets peaked but so far this time this has not materialised.

US Unemployment Rate



Source: *Hottinger Investment Management & Refinitiv Datastream*

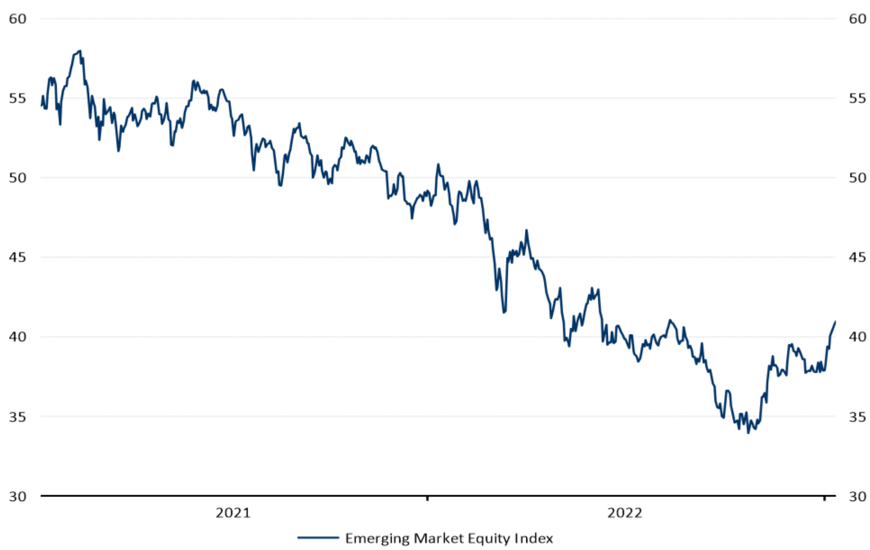
For the labour market to cool without the unemployment rate rising significantly in order to support the soft landing scenario would be unprecedented in post-war US economic history.

For the labour market to cool without the unemployment rate rising significantly in order to support the soft landing scenario would be unprecedented in post-war US economic history points out ASR's Dominic White[iii]. However, the reopening of the global economy post-pandemic is as unprecedented as the pre-pandemic global lockdown, creating so many imbalances and unexpected consequences which we believe we are still experiencing.

A much welcomed tailwind for the global economy is the quicker than expected lifting of zero-Covid policies in China

A second much welcomed tailwind for the global economy is the quicker than expected lifting of zero-Covid policies in China despite rising new cases and hospitalisations, already leading to the lifting of travel restrictions for the first time in 3 years. Zero-tolerance has seen global supply chains severely affected and a drop in economic activity that has seen Chinese growth fall to approximately 3% in 2022. A mixture of onshoring and "friend-shoring" had already seen supply chains change but Chinese reopening will undoubtedly see any lingering pressures not linked to the Russia-Ukraine war ease.

Emerging Market Equity Index



Source: *Hottinger Investment Management / Refinitiv Datastream*

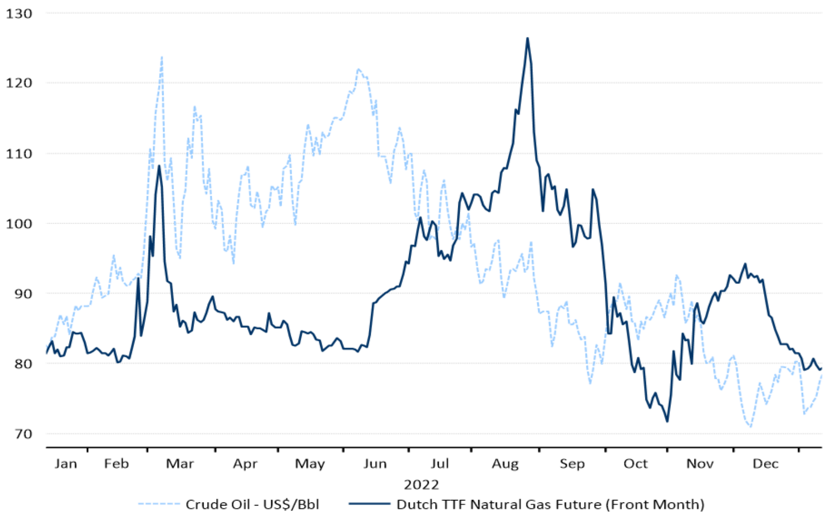
China has been the engine for global growth for over a decade but how it re-opens will determine its effect on the global economy.

China has been the engine for global growth for over a decade but how it reopens will determine its effect on the global economy. Consumer confidence is likely to bounce and a rebound in the services sector as seen in many other economies would boost global GDP growth through international tourism. A return to close to pre-pandemic growth would be a welcome boost for the global economy but problems still remain in the Chinese housing market that would need to be overcome before other benefits to the global economy will be felt. Emerging market assets have been depressed by geopolitics, Covid restrictions and a strong US dollar, however, we believe many of these risks are now discounted and robust monetary policy action has left many emerging markets in an interesting position.

Another positive is the decline in energy prices. Due to the ongoing Russia-Ukraine war European economies will have to dramatically change their energy sources.

Another positive is the decline in energy prices. Gasoline prices in the US have fallen 18% since the summer, European wholesale gas prices are also significantly below the peak of the summer thanks to 83.5% full storage facilities and mild winter weather. Due to the ongoing Russia-Ukraine war European econo-

Oil and Gas Prices



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Sustainable energy is likely to be a growth sector particularly in Europe, affecting infrastructure, production, and distribution providing a major global investable theme.

mies will have to dramatically change their energy sources driven as much by energy security as by the climate change objectives set out by the green fund initiative. Sustainable energy is likely to be a growth sector particularly in Europe, affecting infrastructure, production, and distribution providing a major global investable theme.

While the accepted wisdom is that higher rates will restrict growth and bring down inflation, the timings and mechanisms are not self-evident as they are unique to each cycle.

While the accepted wisdom is that higher rates will restrict growth and bring down inflation, the timings and mechanisms are not self-evident as they are unique to each cycle. The perceived policy lags remain variable due to the lack of near-term historical comparison for such an aggressive short term tightening cycle providing investors with several potential outcomes. We believe that it is unlikely that the US will avoid recession entirely although the depth may be mild while the ongoing energy crisis has probably already pushed Europe into negative growth territory. The UK continues to try and rebuild its international reputation after the political roller coaster of 2022 has undermined its credibility combined with a continuing Brexit hangover that is undermining potential growth and causing recession. China seems to be prepared to push on with re-opening which will provide some stimulus to the global economy, but we feel probably not as much as investors would like.

In summary, the transition from low inflation to high inflation has been stressful and 2023 is likely to be a year of low growth. Investors need to be mindful of the range of plausible outcomes .

In summary, the transition from low inflation to high inflation has been stressful and 2023 is likely to be a year of low growth. Investors need to be mindful of the range of plausible outcomes and tread carefully until such a time as we can see further into the future or feel comfortable with valuations.

[i] John Authers – Bloomberg Opinion Points of Return – Hindsight Capital in 2022, Part 1 – December 29, 2022
[ii] ASR – Risk Assets Skating on Thin ice – December 19, 2022
[iii] ASR – The Alternative Year Ahead – December 20, 2022

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