ARIA | CAPITAL

INVESTMENT INSIGHT

A weekly look inside the investment world.

People are so impressionable, they can die of imagination.
Geoffrey Chaucer

Friday, 13 January 2023

In this week's Investment Insight

Early outlook
In turn-of-the-year conversations with clients, the question most frequently arising is "what do you expect for 2023". Oh, to have the wisdom and foresight to reliably respond! Understandable caution aside, it is possible to make a constructive, albeit cautious, argument for 2023, following on from one of the worst years on record for so many asset classes. In this week's Inside Track we share some of PIMCO's thoughts on the matter.

Best-in-class
Let's be honest, 2022 was a year to forget for most asset classes. That said, there has to be a best-in-class which we reveal in this week's Pic of the Week.

Newswire
Some interesting nuggets from this week's newswires.

Market view
A visual snapshot of recent market performance.

The Inside Track: Early outlook

PIMCO is one of the world's largest fixed income asset managers. After one of the most challenging years for fixed income in 2022, there are good grounds for it to be one of the more reliable asset classes in 2023. In their recently published cyclical outlook, they offered the *following views on markets over the next 6 to 12 months.*

Economic activity has been more resilient than expected, but the outlook has deteriorated. Financial conditions have tightened, and our baseline view is for modest recessions across developed markets (DM).

The U.K. is likely already in a recession. We expect the euro area to follow, and the U.S. and Canada to slip into recession later in the first half of 2023. We believe that euro area and U.K. headline inflation – which appear to be following the U.S. with a lag – peaked just above 10% in the fourth quarter of 2022, while U.S. CPI (Consumer Price Index) inflation likely peaked near 9% in mid-2022. We expect DM central banks to continue to raise interest rates for the next quarter or so. As 2023 progresses, inflation moderates, and unemployment rises, the need for restrictive policy will get less clear. Since the U.S. appears to be leading DM inflationary trends, and inflation could fall faster in the U.S. than elsewhere, the U.S. Federal Reserve (Fed) may be the first central bank to discuss cutting rates in the second half of 2023. China's reopening may also provide a tailwind to the global economy and could quicken the easing of supply-chain disruptions.

We believe uncertainty over the outlook for Fed policy should be much lower in 2023. If the Fed and other central banks can convince investors that the center will hold, then assets near the core should perform well, feeding into improved returns at the edges. But if there is a loss of confidence on inflation, and policymakers must raise rates more than expected, this will have negative consequences. Any recession could further challenge riskier assets such as equities and lower-quality corporate credit. But we believe the repricing across financial markets in 2022 has improved prospects for returns elsewhere, particularly in bonds. We are focusing on high quality fixed income sectors that offer more attractive yields than they have in several years.

There is still a plausible path to a soft landing as labour hoarding amid still-scarce supply, as well as moderating inflation, reaccelerate real income growth. Consumer and business balance sheets are strong, with elevated cash reserves, while pandemic-related supply constraints created large order backlogs, pent-up demand, and margin expansion, which are all likely to support business activity. China's reopening may also provide a tailwind to the global economy.

Pic of the Week: Best-in-class

Not only was commodities the best performing asset class for a second consecutive year in 2022, it was one of very few to turn in a positive performance in 2022. For consistency with previous years, asset class returns are shown in local currency terms (generally USD), so returns to Euro and GBP investors will differ.

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
+23%	+27%	+8%	+12%	22%	0%	26%	25%	31%	17%
+15%	+18%	+5%	+8%	12%	-1%	26%	16%	25%	7%
+1%	+4%	-0%	+5%	11%	-2%	19%	8%	24%	0%
-3%	+4%	-1%	+4%	11%	-4%	15%	6%	22%	-0%
+6%	+3%	-1%	+3%	7%	-5%	10%	1%	9%	-9%
-4%	+3%	-3%	+2%	3%	-9%	7%	-1%	-0%	-10%
-7%	+0%	-3%	-0%	2%	-10%	7%	-2%	-1%	-14%
-8%	-1%	-4%	-0%	0%	0%	3%	-3%	-2%	-18%
-5%	-1%	-10%	-2%	0%	-12%	-4%	-4%	-3%	-18%
-27%	-17%	-25%	-7%	-3%	-13%	0%	-9%	-4%	-25%

KEY

Global Equities	Commodities	European Equities	Gold	US Corp Bonds
Hedge Funds	Cash (Euribor)	US Govt Bonds	Managed Futures	Global Property

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Newswire

...on Monday

Woes continue for Tesla shareholders with the stock closing below $119, over 70% lower than it's November 2021 high.

...on Tuesday

French labour unions immediately call for strike action after Emmanuel Macron announces plans to gradually raise France’s minimum retirement age to 64.

...on Wednesday

Apple announces that it is developing touchscreen technology for its Mac computers, reversing a long-held orthodoxy promoted by Steve Jobs.

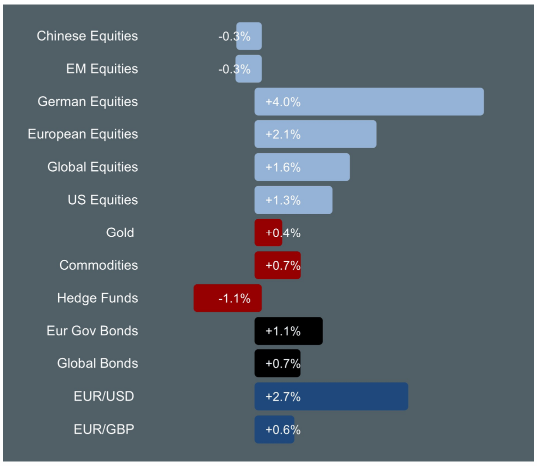
...on Thursday

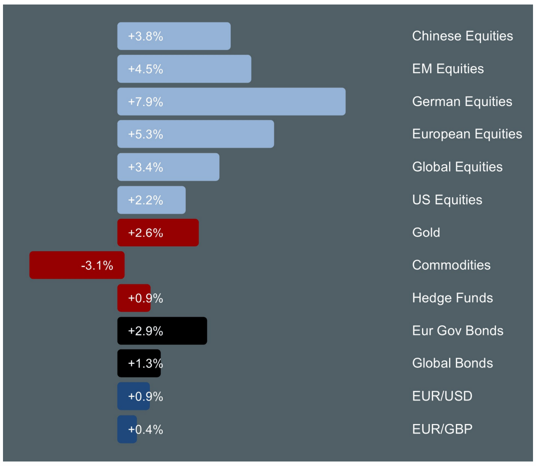
US headline CPI falls to 6.5%, the lowest level in 12 months prompting further falls in the US dollar to its lowest level in 7 months.

Market View

Last 7 days (€)

Year to date (€)





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