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Investment Institute

2023 Outlook

2023 Outlook: Recession, recovery, and rebound

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A number of factors increased economic uncertainty and contributed to historically negative equity and fixed income market performance in 2022. High inflation spurred aggressive Federal Reserve interest rate hikes, leading to losses in both stocks and bonds. No wonder investors are anxious to turn the calendar to a new year.

The best way to work through a rocky patch is to have a good map, keep looking ahead, and take careful and deliberate steps. We are pleased to offer our 2023 Outlook as a guide to what we expect should be easier terrain for investors by the end of 2023.

Our theme reflects the shift to a better investment backdrop, especially after midyear. We expect a moderate U.S. **recession** through the first half of 2023, followed by a second-half **recovery** and a sustained **rebound** into 2024.

As the effects of Federal Reserve rate hikes and recession take hold, we believe inflation should noticeably drop, allowing the central bank to pivot back to lowering interest rates. In our view, lower interest rates and inflation should allow a transition to stronger economic and earnings growth, and stronger equity and fixed income returns.

We expect corporate earnings to contract in 2023 as the projected recession pressures company revenues and profit margins. We also believe market expectations of a return to earnings growth should lift equity valuations, even before the recovery becomes noticeable. Our outlook describes how to manage the rocky road just ahead. It also hints at potential opportunities to position portfolios less defensively as we eye early-cycle dynamics.

In the fixed income market, we forecast a decline in U.S. Treasury yields during the recession as investors anticipate eventual interest rate cuts from the Federal Reserve. We foresee a potential opportunity for many fixed income asset classes to produce positive returns and begin to recover the losses experienced in 2022.

In real assets, we see commodities extending their strong performance of the past two years, as many remain structurally undersupplied. However, we feel that commodity price gains are likely to be back-end loaded in 2023 due to the forecasted first-half recession.

Finally, in the alternative investment space, we believe portfolios may benefit more from equity and credit market diversification in the near-term. This can be implemented through certain hedge fund and private capital strategies. But our Outlook also anticipates potential opportunities may present themselves through the economy's transitions ahead.

For specific guidance across asset classes, sectors, and industries, as well as our top five portfolio ideas for next year, be sure to grab a copy of our special report: *2023 Outlook: Recession, Recovery, and Rebound.*

Risk considerations

Forecasts are not guaranteed and based on certain assumptions and on views of market and economic conditions which are subject to change.

Different investments offer different levels of potential return and market risk. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. Stock markets, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. Bonds are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. High yield (junk) bonds have lower credit ratings and are subject to greater risk of default and greater principal risk. Although Treasuries are considered free from credit risk they are subject to other types of risks. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate. The commodities markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility.

Alternative investments, such as hedge funds and private capital/private debt strategies, are not appropriate for all investors. Any offer to purchase or sell a specific alternative investment product will be made by the product's official offering documents. Investors could lose all or a substantial amount investing in these products.

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