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2023 Global macro outlook

Ten predictions

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No single catch-phrase epitomises the 2023 global macro outlook, but here are ten predictions:

1. 2023 will be a year like no other. Investors should not rely heavily on traditional models of previous economic and financial market recoveries, especially ones that worked best since the mid-1990s, as we are entering a unique era; rather, they should maintain a somewhat cautious and balanced perspective, with targeted risk-taking in select countries, sectors and stocks, as described in our other 2023 outlook pieces. Indeed, active stock selection, in particular, will be more important than ever in 2023, so special attention is required in selecting managers who have excelled in the last several challenging years.

2. Re-balancing and China's positive pivots: China, after a hesitant start, will likely see much improved economic growth in 2023 while most of the rest of the world will be sluggish. Its recent surge in the financing of property development was a major pivot in policy that will greatly support economic growth, although the previous mania for purchasing property and the economy's reliance on such will continue to be diminished. This should help keep global commodity prices fairly stable. Also, the sudden pivot towards détente in foreign policy in mid-November has considerably brightened the 2023 global outlook. There will be, however, many challenges to this détente, and as it is not firmly rooted yet. Especially with the likely visit to Taiwan by the new US House Republican leadership and continued trade restrictions, there is a chance that any rapprochement may prove short-lived. Clearly, both "sides" will benefit from a respite in economic and political tensions. For its part, China will likely resume purchases of US Treasuries after major sales in 2022. It also desires a more stable backdrop as it addresses the weakness in its housing sector and parts of its financial markets, while also improving the troubling situation for ordinary citizens and local governments. Meanwhile, US and other countries' corporations, especially Apple, hope that their factories there can keep producing despite various restrictions, that China will remain an important client and that the entire global supply chain will continue healing.

3. COVID will remain a factor, especially China's citizens' fear of such. We have predicted that China would open up the country sooner than expected, though gradually and somewhat furtively, but such has been accelerated by the recent protests and the increasing weakness in the economy. While cases and casualties will likely rise, the government clearly wishes to promote economic growth now and springtime will likely witness a near full opening in China, especially after the National People's Congress in March. We expect that the fears of such there, and globally, will abate in healthy, sustainable fashion.

4. Central banks, excluding that of Japan, will keep rates high to hamper "second-round effects." These "effects" will be the key factor in how inflation evolves. Labour's wage demands, coupled with the strikes and harmful supply shocks usually affiliated with such, obviously stand out, but the perceived "pricing power" of corporations and landlords will also be key, and they all will be watching how determined central banks will be to maintain high rates given the increasing political pressure as economies weaken further. This is most true in Europe, where inflation is the highest in the developed world and where labour is very powerful, especially in key political, infrastructure and economic channels. The media is not widely covering the strike actions, so investors should often screen the news themselves for such. Conversely, countries with low labour demands should have an advantage, especially Japan and much of Asia excluding Korea.

5. Countries with too much concentration in the tech hardware sector may not flourish, as industry fundamentals will remain challenged, including the upcoming oversupply of semiconductors over the intermediate term as countries around the world rush to build their own fabs for national security and other reasons. Due to this, semiconductor production equipment manufacturers, however, should see improved orders after their recent cutbacks.

6. For overall global risk markets, one should expect neither "Doom and Gloom" ahead, nor a Goldilocks scenario. The US equity market is not cheap, so a strong rally seems unjustified from December levels, but most other countries are quite inexpensive and could perform reasonably well. Europe, however, is suffering from unique difficulties, so it may remain inexpensive. Within this backdrop, stock and sector selection will clearly be the most important key to achieve positive returns.

7. Avoiding Short-term scares; many macro-economic, corporate earnings and credit shocks likely lie ahead in the short-term, as the global economy descends further into a semi-stagflationary period in which former excesses are "cured;" however, this is part of the healing process in which the intermediate-term outlook is actually improving, so investors should not panic in the short-term. Indeed, as for corporate earning shocks, as long as such are not far below analysts' estimates, investors may forgive such, especially if the outlook remains positive.

8. The global crypto infrastructure and some other ultra-growth industries are likely to continue to encounter troubles. The recently exposed lack of due diligence by many institutional investors is shockingly disappointing, as were the attitudes and practices of many industry leaders. Partly because of this, most "growth at any price" companies and industries will now be heavily scrutinized by venture capitalists, public-market investors, banks and regulators. This is bound to expose other problems that could spread. Indeed, ultra-growth companies will likely need to show a clear path to profitability on a GAAP basis in order to entice funding; however, such companies definitely exist and should benefit as they will likely attract much more investor interest.

9. Geopolitics will continue to be a factor: the "Clash of Systems and Philosophy" will clearly continue, especially with Russia, Iran and China pursuing their own path. The Russia-Ukraine war will continue through 2023, but possibly in much less bloody way, so this may calm risk markets. One also needs to keep a careful eye on the Middle East, especially Iran, as tensions remain greatly elevated given its internal problems and an even more assertive new Israeli government. As mentioned above, it will be important to watch Taiwan as well. One hesitates to mention North Korea, as it is a perennial, unpredictable worry, but hopefully China will restrain it from its increasingly provocative actions so that both "sides" can reduce the tension.

10. Troublesome domestic politics will be important; fiscal stimulus globally is already greatly constrained due to fears of its inflationary effects and as interest expenses surge, but even the normal functioning of fiscal affairs may encounter significant turbulence. In the US, the Republican control of the House of Representatives is bound to cause major disputes in 2023 and if a financial market or economic accident somehow occurs, action will need to be taken. If it is not taken, much like the initial stages of the Global Financial Crisis, financial markets could revolt. House investigations of various political matters are also likely to cause great discord in 2023, as well. In Europe, political dissent beyond strikes is likely to be intense especially as energy subsidies wane due to the need for fiscal restraint. Asia, however, looks much calmer on the political front.

Conclusion

We greatly hope that these comments, as well as the other outlook pieces, will prove useful to our investors and we are always willing to address their thoughts and questions. We could all use a bit of good luck in the year ahead after the tumult of the last few years.

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