COLUMBIA THREADNEEDLE INVESTMENTS

2023 Chief Investment Officer Outlook: Finding good news in a changing macro environment

November 15, 2022

After a difficult 2022, cautious optimism may be in order. Here are our thoughts on market risks and opportunities heading into 2023.

After a dismal year for the markets, we asked William Davies, Global Chief Investment Officer, to provide his thoughts on risks and opportunities in the market as we head into 2023. While there is plenty to be cautious about, a repeat of 2022 seems unlikely.

No more bad news should be good news

Through 2022, the market repriced for bad news — the Russian invasion of Ukraine, supply chain woes, stickier headline inflation and rising rates, expectations for a recession. For 2023, we may see these macro conditions continue, but as long as they don't get significantly worse, investors may begin to feel more optimistic, and we might begin to see better market performance. Of course, there is always risk. However, no more bad news could end up being good news for investors.

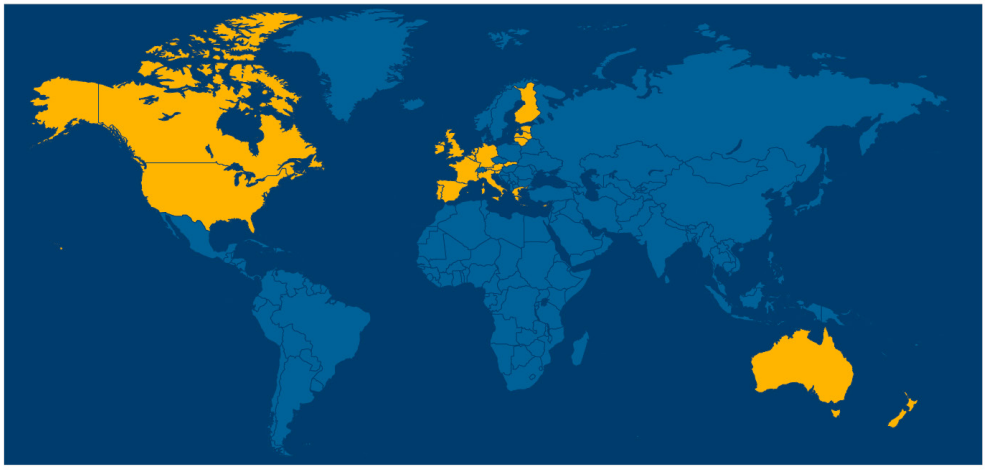
Expect the inflation and rates story to be different

Headline inflation should come down in the U.S. unless energy prices take off. Core inflation is likely to be stickier, but even there, stable/lower readings mean that rate hikes could stop in 2023. The European Central Bank (ECB) probably has more work to do than the Fed at this point. However, in terms of raising rates, the ECB won't need to raise them as high as the Fed has. We have a little less clarity on inflation in Europe given the war. I don't expect rates to come down in 2023, but an end to the guessing game about "how high" has the potential to be a positive catalyst.

William Davies
Global CIO

Central banks hiked rates through 2022; in 2023, that may change

(Developed market central banks expected to reach their terminal rate in 2023)



Source: Bloomberg

A recession playbook with a twist

It seems inevitable that Europe will see recession in 2023. In the U.S., we'll have to watch the Fed and how much economic pain it deems necessary to beat inflation. I don't think that we'll see a recession along the lines of what we saw in 2020 or 2008, but given the risk, focusing on quality will be essential for success — across asset classes and regions.

Credit quality is likely to be a much greater determinant of success than duration in fixed income in 2023 (relative to 2022 when duration was the key driver). Also, the quality of earnings and balance sheets are likely requisites for success in equities.

The same focus on quality applies to relative opportunity across regions. The indiscriminate fall in valuation has created some opportunity in markets, but without thorough analysis, you're unlikely to find the winners with strong balance sheets that can survive a mild recession. This goes for regions, too.

Usually in a recession you'd avoid economically sensitive sectors, and I do think investors will need to be cautious here. At the same time, there are some services that are getting a lift from a post-COVID "return-to-normal" and that creates opportunity even with the prospect of recession.

A little less strong U.S. dollar

The strength of the U.S. dollar in 2022 has been driven by the speed and extent of increases in the federal funds rate, the global uncertainty and, to an extent, by the continued strength in the U.S. labor market. The dollar's strength has contributed to unease in emerging markets and higher inflation generally outside the U.S. —

especially given that many goods, and commodities in particular, are priced in U.S. dollars.

As we anticipate a levelling off in the federal funds rate in 2023, this dollar strength should abate. Or, at the very least, we should see less upward pressure in 2023, which is another potential positive for capital markets.

Geopolitical risk remains on the table

It's very difficult to calibrate the risk of escalation in the ongoing war in Ukraine – or regime change in Russia for that matter. In Asia, rising tensions between China and the U.S. have introduced heightened risk for emerging markets and made us cautious, even while valuations there are attractive. (It would be in both countries' interest to get along, and maybe recession would encourage them to collaborate more.) The markets did not anticipate the Russian invasion as we entered 2022, and it's possible that a similar blind spot occurs heading in to 2023.

To find out more, call 800.426.3750
or visit columbiathreadneedle.com

Not FDIC or NCUA Insured	No Financial Institution Guarantee	May Lose Value

Securities products offered through Columbia Management Investment Distributors, Inc., member FINRA. Advisory services provided by Columbia Management Investment Advisers, LLC.

Columbia Threadneedle Investments (Columbia Threadneedle) is the global brand name of the Columbia and Threadneedle group of companies.

The views expressed are as of the date given, may change as market or other conditions change and may differ from views expressed by other Columbia Management Investment Advisers, LLC (CMIA) associates or affiliates. Actual investments or investment decisions made by CMIA and its affiliates, whether for its own account or on behalf of clients, may not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not take into consideration individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon and risk tolerance. Asset classes described may not be appropriate for all investors. Past performance does not guarantee future results, and no forecast should be considered a guarantee either. Since economic and market conditions change frequently, there can be no assurance that the trends described here will continue or that any forecasts are accurate.

CTBP48C (11/22) 5074908