MARKET SIGHT LINES

Outlook 2023 Spotlight No. 1: A Brief Summary

By Michael O'Keeffe, *Chief Investment Officer*

Well, we're into 2023, and as has been my team's practice for a number of years, this week we released our outlook report, **Outlook 2023:** ***Finding Balance***. You can read the full report, watch a video summary, or join our upcoming client webinar, but in this week's Sight|Lines, we share a brief overview.

THE TAKEAWAY: OUR REPORT CONTAINS NUMEROUS ARTICLES, LOOKING BACK AND FORWARD

Outlook 2023: ***Finding Balance*** contains a number of articles designed to help you look back at 2022 then look forward to 2023 and beyond. In summary:

- Our *2022 Year in Review* discusses how imbalances from strained supplies and excess demand drove higher inflation, a more hawkish Federal Reserve (Fed), higher market rates, and negative stock and bond returns.
- In *Outlook 2023: Finding Balance,* we present our outlook for modestly lower inflation, a pause in Fed rate hikes, and then markets that are first volatile, then poised to recover.
- We share our dynamic investment leanings in *Allocation Insights*, which include an overweight to quality, leanings toward actively managed U.S. small cap equity (versus large cap), and investment-grade fixed income (versus high yield).
- Our colleague, Stifel Chief Washington Policy Strategist Brian Gardner, shares his *Washington Policy and Political Outlook,* highlighting for 2023 a divided GOP, a limited legislative focus, the Biden administration's regulatory agenda, and attention turning to 2024.
- *Geopolitical Risk Dashboard: Tensions Rising* discusses two evolving themes anchored in protectionism and a more divided world. We then dive deep into risks like the prospect of a New Cold War, U.S.-China competition, and structurally higher inflation.
- We share other articles designed to help you navigate this bear market and learn about our asset allocation approach, our investment management process, and where to find our guidance going forward.

IN-DEPTH: THE VARIOUS ARTICLES THROUGHOUT THE REPORT, ON TOPICS LIKE 2022 RESULTS, WASHINGTON, D.C. POLICY, AND GEOPOLITICS, SET THE CONTEXT FOR OUR 2023 OUTLOOK

As my team and I developed **Outlook 2023:** ***Finding Balance***, we were mindful that your primary focus when reading the report may well be our outlook for 2023. Of course, many of the forces that drove 2022 results affect our outlook, as do evolving policies in Washington, D.C. and geopolitical risks around the world. So many of the articles in our full report serve to set the context for our outlook for the upcoming year. Going a little deeper:

- *2022 Year in Review* shares the drivers of what was a challenging year for investors:
  - Imbalances from strained supplies and excess demand drove higher inflation, with inflation for 2022 forecasted to be 8.0% as measured by consumer price index.
  - The Fed hiked rates seven times for a total of 425 basis points driving market interest rates higher and slowing earnings growth.
  - The S&P 500 returned -18.1%, while the Bloomberg Aggregate Bond Index fell 13.0%.
- In *Outlook 2023: Finding Balance,* we share details of our outlook. We see:
  - Volatility and potential market weakness continuing in the first half of the year, calming as investors find balance, then a new growth phase and recovering markets in the second half;
  - Inflation (core PCE) falling to about 3.5%-3.75%, U.S. GDP growth between -0.5% and 0.5%, and Fed rate hikes totaling 0.50%; and
  - Modestly positive equity returns, with a return forecast of 6% for the S&P 500, for example.
- Our dynamic investment leanings in *Allocation Insights* are focused on quality, favoring companies with solid and growing dividends, as well as higher-grade fixed income. We also suggest considering an overweight to actively managed U.S. small cap equity to take advantage of related market dislocations.
- Brian Gardner's *Washington Policy and Political Outlook* goes deep on four topics:
  - *Division in the GOP* presents challenges for the party as it sets strategy in the House.
  - *Congressional Priorities* are limited, with a focus on must-do legislation.
  - The *Regulatory Agenda* may include changes at the Department of Justice and in bank regulation.
  - And *2024 Elections* come into focus for both parties even as they assess the midterms.
- *Geopolitical Risk Dashboard: Tensions Rising* covers geopolitical themes and risks:
  - We share two themes, *Increased Localization and Protectionism* and *A More Divided World*, with the latter focused on the idea that we are transitioning from a U.S.-led unipolar world to a multipolar world, with China rising in power.
  - We present 13 geopolitical risks we have in focus, diving deeper into risks like *A New Cold War*, *U.S.-China Competition*, and *Structurally Higher Inflation*.
- We share other articles designed to help you learn and invest:
  - *Stifel's Approach to Asset Allocation* and *Our Investment Management Process* describe some important foundations of our investment approach for clients.
  - We provide *Five Tips to Navigate a Bear Market* and the link to our guidance, stifelinsights.com.

CONCLUSION

This week we released Outlook 2023: *Finding Balance*. We have a modestly positive outlook for the full year of 2023, but we should expect market volatility and the prospect of weaker markets to continue in the near term. You can read the full report or watch a video summary, and we invite you to join our client webinar on January 11, 2023, at 2 p.m. Eastern time.

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Asset allocation and diversification do not ensure a profit and may not protect against loss. There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries. Due to their narrow focus, sector-based investments typically exhibit greater volatility. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. Property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance of real estate companies. When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. The Standard & Poor's 500 index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The DJIA was invented by Charles Dow back in 1896. The MSCI EAFE index (Europe, Australasia, and the Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. VIX is a trademarked ticker symbol for the Chicago Board Options Exchange Market Volatility Index, a popular measure of the implied volatility of S&P 500 index options.

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