Opening Bell 2023:

Global Market Outlook

Key issues for 2023 – interest rates and recession

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The outlook is looking a lot better than it was, as US inflation turns down and energy prices fall. However, I still think that equity markets will struggle in the next few months or so, as we move into recession.

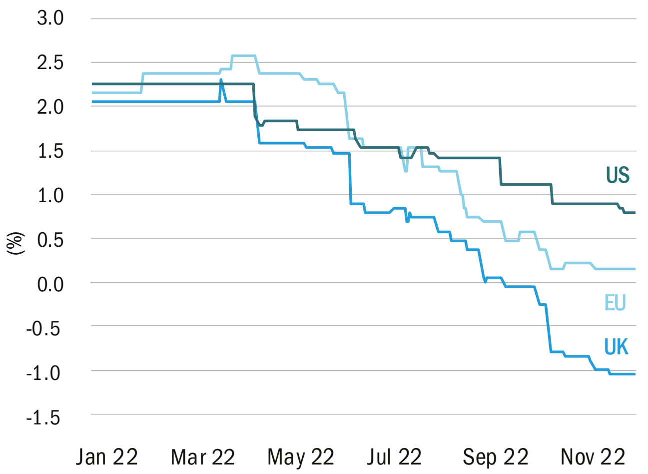
High energy costs will mean that the euro zone economy will be, at the very best, flat. However, a mild winter means a mild recession. The UK economy has an additional burden from rising mortgage costs.

The US economy has a different problem, wages rather than energy prices, so needs a different solution. The Fed will continue to raise rates until a recession eases the inflationary pressures from the overheated jobs market.

I don't think that we're going to have a deep or long-lasting recession – the financial problems that normally cause a severe or protracted recession are just not there. That means that we will also see economies and markets recover in 2023.

Growth forecasts stabilise at low levels

Consensus growth forecasts for Q4 2023 GDP growth



Source: Columbia Threadneedle Investments and Bloomberg as at 6 Jan 2023. Estimates and forecasts are provided for illustrative purposes only. They are not a guarantee of future performance and should not be relied upon for any investment decision. Estimates are based on assumptions and subject to change without notice.

US inflation is headed lower, but the journey to 2% needs a recession

The main driver of inflation in the US is not energy prices, but wage growth running at over 5%. This wage growth is a product of an overheated labour market.

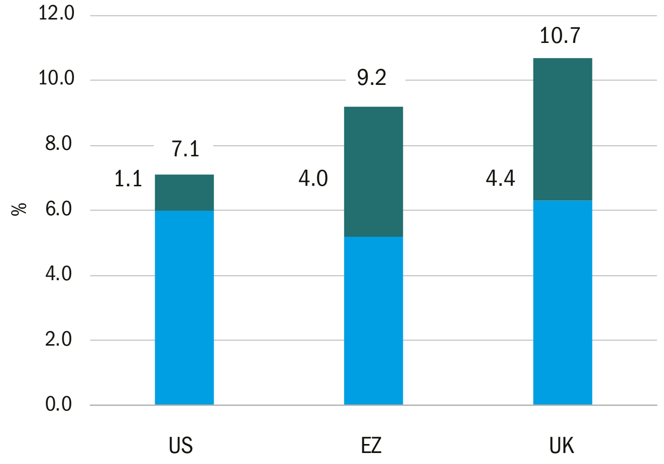
The Fed is therefore going to keep hiking rates to choke off the economy and its demand for new jobs. Unemployment needs to rise, from the current 3.5% to probably around 5%, to get wage inflation back into balance with an overall inflation target of 2%.

The good news is that the US economy is very flexible and so this adjustment can be made swiftly. Other areas, like the housing market, are already adjusting rapidly.

I don't think that the US is going to have a deep or long-lasting recession

Inflation US, EZ and UK, US core high, headline low

Consumer price inflation % year on year



Source: Columbia Threadneedle Investments and Bloomberg as at 28 Nov 2022

The mild winter has been a stroke of good fortune for Europe

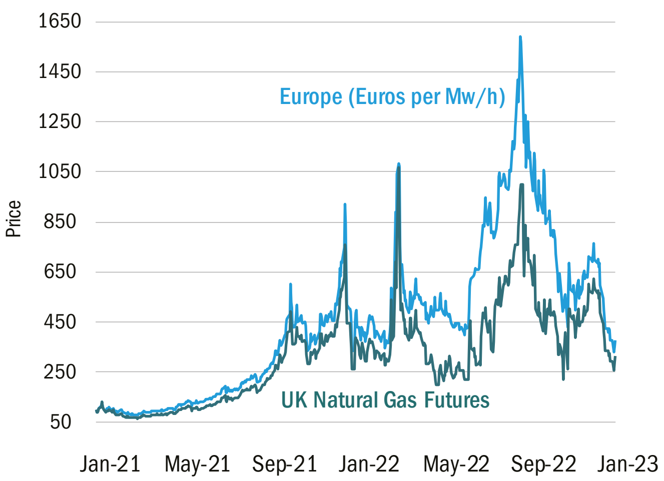
Near term natural gas prices in Europe have tumbled, but they remain high for next winter. The crisis is not over, but the mild winter has reduced the pain and given more time for a shift to new sources of energy for Europe for the next winter.

Natural gas prices in Europe for the winter of 2023/4 are still five times the level in the US, so the incentives to deliver energy to those markets remain huge and the speed and scale of the market response is likely to be a positive surprise.

European consumers are deeply depressed at present, but falling energy prices will ease the pressures on them and, when confidence improves, they have unspent 'Covid piggy banks'.

Near term European gas prices tumble

Futures prices for next month delivery



Source: Columbia Threadneedle Investments and Bloomberg as at 6 Jan 2023

UK faces inflation and recession in 2023, but the 2024 election cycle should support recovery

The UK economy is set to underperform in 2023 as it faces a combination of a pan-European energy crisis and an overheated jobs market.

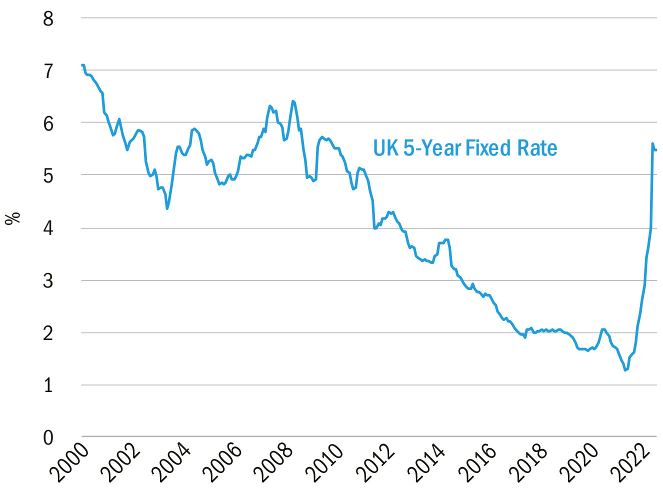
Higher mortgage rates will have a significant impact on the key housing market and mean consumers remain under pressure.

A recession in 2023 will be followed by economic recovery. The election cycle means that Sunak has an incentive to take necessary pain now and to support a recovery in 2024 ahead of the next General Election.

While a lot of negativity is priced into equity market, I don't think it's quite enough. History shows that US equities always fall during a recession. Thereafter there will be opportunities as we expect a swift recovery to follow in 2023.

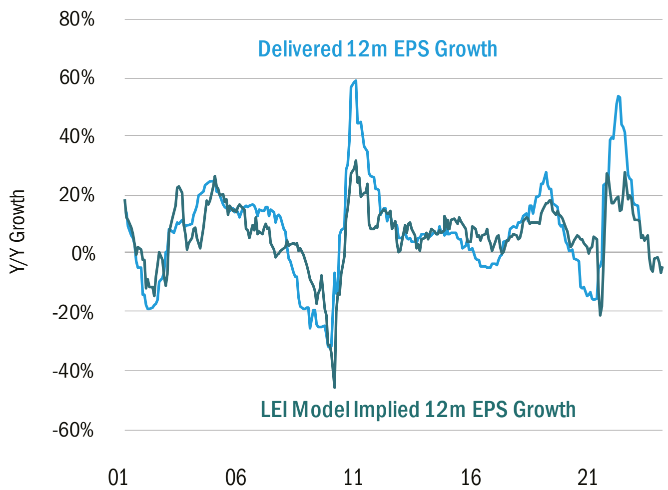
China will also help boost the recovery in the latter part of the year. While the decision to go from 'covid-zero' to 'covid-100' is causing chaos, that will not prevent an economic recovery emerging. This will be supportive for commodities and emerging market equities overall, but these are areas where you need to be very selective as an investor, reflecting the great diversity within these asset categories.

Rising UK mortgage rates to push economy into recession



Source: Columbia Threadneedle Investments and Bloomberg as at 6 Jan 2023

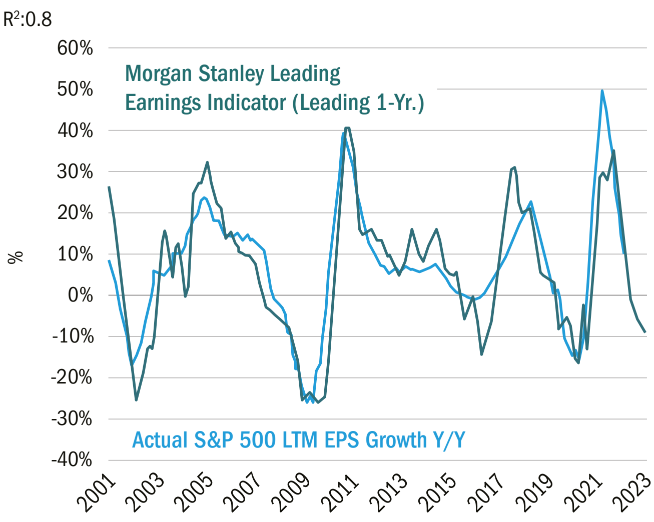
Models forecast negative EPS growth for S&P 500 this year



Source: Columbia Threadneedle Investments, Bloomberg and Barclays, as at 9 Jan 2023. Estimates and forecasts are provided for illustrative purposes only. They are not a guarantee of future performance and should not be relied upon for any investment decision. Estimates are based on assumptions and subject to change without notice.

Recessions are bad for equities, but recovery will also follow in 2023

Market consensus for US corporate earnings growth for 2023 has fallen to below average, but remains positive. Most investors are more cautious still. However, if you accept my view that the US needs to have a recession to get wage inflation to sustainable levels, then corporate earnings will inevitably decline.



Source: Morgan Stanley, as at 1 Nov 2022.

Note: The LEI is a top down macro indicator consisting of the dollar, manufacturing PMI survey data, consumer confidence, housing related data, and credit spreads

The UK economy is set to underperform in 2023

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