# Key themes and their investment implications for 2023

| | Asset Allocation | Equities | Fixed income | Private markets | Real estate |
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| **Navigating the polycrisis** | ▪ Defensively positioned: underweight equities and credit, overweight government bonds and overweight cash.<br>▪ Prefer the safer haven of US equities to Europe. Neutral on the UK, Japan, emerging markets (EM).<br>▪ In credit, we prefer investment grade for defensiveness and better value; underweight EM debt on strong dollar and rising real yields.<br>▪ Extreme volatility and large tail risks leave us with less conviction on government bonds but we start the year with an overweight to offset the credit underweight. | ▪ Cautious on global equities. We are looking to invest in high quality stocks that are best placed to weather market volatility.<br>▪ It is a good time to remain highly selective with a strong focus on companies' balance sheets and funding positions as the economic downturn takes hold.<br>▪ Most bullish versus consensus in Asia Pacific ex Japan, particularly the ASEAN markets and India. | ▪ Defensive and highly selective in the near-term, continued exposure to where valuations remain relatively attractive.<br>▪ US and core Europe duration are considered relatively attractive, considering hard landing risks in both regions.<br>▪ We remain neutral on UK duration given the extremely high level of volatility, dependence on future fiscal policy and the Bank of England's reaction function. | ▪ Private markets are not immune to volatility but likely to fare better than other asset classes due to inherent features, such as floating rate structures that hedge against rising rates.<br>▪ Underlying credit metrics remain robust, with less exposure to CCC-rated credits than in previous downturns (e.g. 4% in Oct 2022 vs 10% in Jan 2007). | ▪ We expect an economic hard landing in our regions, however this could allow more attractively-priced opportunities to emerge in the real estate market.<br>▪ We expect this Real Estate cycle to be shorter and shallower than previous cycles, due to greater transparency in the markets, so values will adjust more quickly. |
| **Implications of dollar dominance** | ▪ Despite appreciation, dollar remains the key safe haven. Higher terminal rates, stubborn inflation and weak sentiment still support dollar strength.<br>▪ EM foreign exchange (FX). has not depreciated in line with other major USD crosses, suggesting more downside is possible.<br>▪ This, and Federal Reserve (Fed) hawkishness, slowing global growth and RMB weakness, underlie our underweight in EMFX. | ▪ Strong dollar remains detrimental to stocks, even US corporates, as dollar value of foreign profits shrinks.<br>▪ When the Fed eventually pivots, a weak US economy could result in a weaker dollar, which would be supportive for global equities.<br>▪ We remain cognisant that market volatility and tail risks could send markets lower if left unchecked. | ▪ Policymakers will eventually re-prioritise growth, as inflation begins to ease. An inflection point would offer a significant reprieve to fixed income asset classes and support total returns.<br>▪ We believe rates will ultimately settle far higher than they have at any point over the past decade. | ▪ Current valuations have priced in downside risks in excess of all-time lows, suggesting strong positive returns over a medium- term horizon.<br>▪ The market is dominated by defensive sectors, e.g., healthcare, services, & media/telecoms, but security selection remains key.<br>▪ The maturity wall is not an immediate risk. Default rates are likely to step up but not to the same levels seen in the Global Financial Crisis. | ▪ The nature of the hard landing will cast an even sharper light on energy costs and as such, "green" buildings are already commanding higher rents. Demand remains strong given market conditions.<br>▪ With occupancy costs rising rapidly, we expect there to be more pressure among occupiers to rationalise their portfolios.<br>▪ Focus is on supply constrained markets where rental values look more resilient. |
| **China transitions** | ▪ China is undergoing a transition phase. The gradual bifurcation of China and the West should continue.<br>▪ While this may be a growth drag for China, a reconfiguring of supply chains will provide opportunities as well, including in Mexico, Canada, LatAm, Thailand and Vietnam.<br>▪ We are underweight the RMB on the drivers outlined above. | ▪ China should offer a strong medium-term opportunity, though economic recovery will be gradual, with both sector and stock selection key drivers.<br>▪ Domestic earnings is expected to improve, against the backdrop of renewed levels of investment in infrastructure.<br>▪ We are positive on consumer staples, financials, and healthcare. | ▪ We have a constructive outlook on China, due to expectations of reopening and other supportive developments, such as easing in property market regulation and funding support for developers to ease liquidity shortages.<br>▪ Therefore we are selectively overweight in China assets. | ▪ Although little direct exposure to China, many credits in the private markets have faced supply-chain issues due to the Zero-Covid policy. Easing of restrictions should be beneficial, although the timing remains uncertain.<br>▪ Chinese growth is not expected to return to the strongest levels historically, but private markets are likely to be less impacted. | |

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