What Does 2023 Hold for Investors?

I know it is now late January, but a quick discussion of what may be ahead for investors this year seems worth a few lines.

It is fair to say that 2022 was not a good year!

We watched a blatant war of aggression by Russia with its attack on Ukraine; inflation in the west exceeded 10% after some four decades of very low inflation, and a worsening global economy, despite the opening-up following Covid lockdowns of previous years.

Global financial markets fell hard, with typical 60-40 equity-bond portfolios losing about 20%.

There was nowhere to hide.

Even the bright light provided by a 15% gain in commodities was only visible for the first two months of the year, before it flickered and died.

How will markets fare in 2023?

Like last year, it is worth a look at what Bloomberg said;

“To kickstart the new year, Bloomberg News has gathered more than 500 calls from Wall Street’s army of strategists to paint the investing landscape ahead.

And upbeat forecasts are hard to find, threatening fresh pain for investors who’ve just endured the great crash of 2022.”

“It may be one of the most anticipated recessions of all time, but that doesn’t mean it won’t hurt. Barclays Capital Inc. says 2023 will go down as one of the worst for the world economy in four decades. Ned Davis Research Inc. puts the odds of a severe global downturn at 65%. Fidelity International reckons a hard landing looks unavoidable...”

And this continues for some 130 more pages, with views on everything from global growth to inflation to valuations to interest rates to earnings growth and so on.

Interestingly, nobody mentioned the cryptocurrency markets, so I don’t know if they all missed it, or chose not to look.

Wall Street overall, seems to think that that the first half of the year will be ‘bad for markets and the second half much better’, with most markets ending the year back where they started.

There is one main argument supporting this is that major central banks will keep tightening and so drive the global economy into a recession.

Most economists expect recession, either shallow or deep, but almost none are expecting a soft landing.

Not often, but just occasionally, consensus is correct, so we should not be surprised if this scenario plays out.

However, markets rarely care about the logical arguments of strategists, and tend to do the unexpected, almost as if to intentionally confuse and frustrate investors.

All we are sure about, is that equity valuations have come down over the last 12 months and it would be a folly to wait for them to bottom before buying.

As Dean Witter (of Dean Witter Reynolds stockbrokers) said in 1932, a few weeks before the end of the worst bear market in history;

“Some people say they want to wait for a clearer view of the future. But when the future is again clear, the present bargains will have vanished. In fact, does anyone think that today’s prices will prevail once full confidence has been restored?”

We all know that a well-diversified portfolio that invests in high quality securities should do well over the years, and any short-term volatility pales when viewed in hindsight.

On the other hand, speculating or choosing narrow themes has almost always ended badly.

Dow-Jones Index since 1915

Happy New Year!