

2023 Outlook: ready for reset

Our expectations at a glance

The shift we are seeing in markets feels momentous. Money has a cost again and there may be alternatives to equities. As asset classes adjust, we think potential investment opportunities may emerge in 2023. We explain more below.

To read our full outlook visit:
allianzgi.com/2023outlook



Recession on the horizon – but does it mark a turning point?

- The US economy could fall into recession in 2023, but history shows equity prices tend to trough around the middle of a downturn once investors see signs of recovery.
- Earnings expectations remain relatively high, and we see scope for them to fall as higher financing costs and a drop in disposable incomes squeeze the US economy.
- Europe appears set to fall into recession sooner, and its outlook depends, in part, on its handling of the energy crisis.
- China is suffering from a structural housing market headwind and fallout from its zero-Covid policy.

Implications for markets

- Risk assets appear set to remain in stormy water for now, but we may be approaching the point where bad news for the economy becomes good news for markets.
- Historically, around the middle of a downturn could offer potential equity market re-entry points.
- Watch the path of the US dollar. Its strength could become a challenge for some weaker emerging markets.



High inflation and tighter monetary policy – here to stay?

- Inflation rates are at their highest since the early 1980s, but year-on-year inflation rates could fall as 2023 unfolds.
- Even so, easing inflation is unlikely to be enough for central banks to stop tightening.
- Long-term forces such as deglobalisation and shorter-term factors like supply chain shocks caused by Covid-19 are underpinning inflationary pressures.
- And we forecast more interest rate rises ahead as central banks seek to rein in inflation.

Implications for markets

- We think markets still underestimate where rates may end up, and investors may want to look to core rate markets that might benefit from a flight to safety.
- Money has a cost again. This represents a momentous shift for markets and may impact earnings in the shorter term but help promote stronger companies in the longer term.
- Bonds, but also equities, should stabilise and rebound once market expectations for rate rises overshoot the required adjustment.



Navigating
Rates

Allianz 
Global Investors

How do our experts view the 2023 outlook?



Stefan Hofrichter

Head of Global Economics & Strategy

Watch out for more monetary tightening

"Any fiscal stimulus will likely have to be met with more monetary tightening."



Franck Dixmier

Global CIO Fixed Income

Tactical and relative-value positioning to the fore

"Market conditions have become more conducive to tactical and relative-value positioning."



Virginie Maisonneuve

Global CIO Equity

Prepare for long-term opportunities

"2023 could be an opportunity to position portfolios for the long term in areas like sustainability."



Gregor MA Hirt

Global CIO Multi Asset

Favour flexibility in economic transition

"Our outlook favours a flexible portfolio position amid a transition to a recessionary environment."



Guest viewpoint: Voya Investment Management* | US view

Matt Toms

Global CIO, Voya IM

Explore higher-quality income-generating strategies

"Higher-quality income-generating investment strategies may be able to generate attractive returns."

*Allianz Global Investors (AllianzGI) and Voya Investment Management (Voya IM) have entered into a long-term strategic partnership, and as such, as of 25 July 2022, the investment team transferred to Voya IM and Voya IM became the delegated manager for the Allianz Fund referenced in this presentation. AllianzGI continues to provide information and services to Voya IM for this investment through a transitional service agreement. None of the composition of the team's investment professionals, the investment philosophy nor the investment process have changed as a result of these events. Allianz Global Investors GMBH is the manager for the Allianz Fund represented in this presentation and Voya IM is the sub-advisor.

Potential investment ideas to consider



Fixed-income strategy

- Explore combining **short-maturity cash bonds** with **derivatives-based overlay strategies** that help minimise volatility. Watch for the associated cash outlay and performance costs.
- **Floating-rate notes** offer exposure to short duration corporate debt with potentially less interest rate risk. Remember: yields tend to be lower than fixed-rate corporate bonds.
- **Investment-grade credit**: three months into a recession provides a possible entry point.
- Ultimately: **sustainability-linked bonds**, **high-yield corporate bonds** and **emerging-market debt**.



Equity strategy

- **Quality companies**: a world where money has a cost would promote the survival of the fittest.
- Anchoring portfolios with **low-volatility multi-factor strategies** that offer a possible bedrock of stability on which to build.
- Consider **strong value** and **growth opportunities**, as well as **income**.
- Positioning portfolios for the long term in 2023 focused on **high-conviction thematic**s like national security, climate resilience and innovation, and sustainability.



Multi-asset strategy

- Our Multi Asset team sees **fixed-income assets** as offering a potential safe haven. Some investors could likely reallocate to the asset class now there's an alternative to equities.
- **Government bonds**, particularly **US Treasuries**, could offer the first opportunities for longer-term investors.
- Valuations seem relatively fair in **European equity markets**, but it will take more market weakness to justify a more constructive stance.
- **Commodities**, particularly in energy, are proving more resilient than many investors had expected.

Allianz Global Investors is a leading active asset manager with over 600 investment professionals in over 20 offices worldwide and managing EUR 521 billion in assets. We invest for the long term and seek to generate value for clients every step of the way. We do this by being active – in how we partner with clients and anticipate their changing needs, and build solutions based on capabilities across public and private markets. Our focus on protecting and enhancing our clients’ assets leads naturally to a commitment to sustainability to drive positive change. Our goal is to elevate the investment experience for clients, whatever their location or objectives.

Active is: Allianz Global Investors

Data as at 30 September 2022. Total assets under management are assets or securities portfolios, valued at current market value, for which Allianz Asset Management companies are responsible vis-à-vis clients for providing discretionary investment management decisions and portfolio management, either directly or via a sub-advisor. This excludes assets for which Allianz Asset Management companies are primarily responsible for administrative services only. Assets under management are managed on behalf of third parties as well as on behalf of the Allianz Group.

Diversification does not guarantee a profit or protect against losses.

Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security.

The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted.

This material has not been reviewed by any regulatory authorities. In mainland China, it is for Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations and is for information purpose only. This document does not constitute a public offer by virtue of Act Number 26.831 of the Argentine Republic and General Resolution No. 622/2013 of the NSC. This communication's sole purpose is to inform and does not under any circumstance constitute promotion or publicity of Allianz Global Investors products and/or services in Colombia or to Colombian residents pursuant to part 4 of Decree 2555 of 2010. This communication does not in any way aim to directly or indirectly initiate the purchase of a product or the provision of a service offered by Allianz Global Investors. Via reception of this document, each resident in Colombia acknowledges and accepts to have contacted Allianz Global Investors via their own initiative and that the communication under no circumstances does not arise from any promotional or marketing activities carried out by Allianz Global Investors. Colombian residents accept that accessing any type of social network page of Allianz Global Investors is done under their own responsibility and initiative and are aware that they may access specific information on the products and services of Allianz Global Investors. This communication is strictly private and confidential and may not be reproduced. This communication does not constitute a public offer of securities in Colombia pursuant to the public offer regulation set forth in Decree 2555 of 2010. This communication and the information provided herein should not be considered a solicitation or an offer by Allianz Global Investors or its affiliates to provide any financial products in Brazil, Panama, Peru, and Uruguay. In Australia, this material is presented by Allianz Global Investors Asia Pacific Limited (“AllianzGI AP”) and is intended for the use of investment consultants and other institutional/professional investors only, and is not directed to the public or individual retail investors. AllianzGI AP is not licensed to provide financial services to retail clients in Australia. AllianzGI AP is exempt from the requirement to hold an Australian Foreign Financial Service License under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order (CO 03/1103) with respect to the provision of financial services to wholesale clients only. AllianzGI AP is licensed and regulated by Hong Kong Securities and Futures Commission under Hong Kong laws, which differ from Australian laws.

This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors U.S. LLC, an investment adviser registered with the U.S. Securities and Exchange Commission; Allianz Global Investors Distributors LLC, distributor registered with FINRA, is affiliated with Allianz Global Investors U.S. LLC; Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors (Schweiz) AG; in HK, by Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; in Singapore, by Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; in Japan, by Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424], Member of Japan Investment Advisers Association, the Investment Trust Association, Japan and Type II Financial Instruments Firms Association; in Taiwan, by Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan; and in Indonesia, by PT. Allianz Global Investors Asset Management Indonesia licensed by Indonesia Financial Services Authority (OJK).