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.

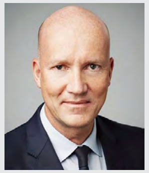
Navigating Rates

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."

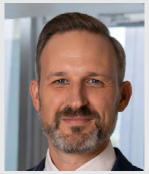


Franck Dixmier
Global CIO Fixed Income

Tactial 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 thematics** 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-ávis 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.

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