## 2023 Tactical Views

**Underweight** | **Neutral** | **Overweight**
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### Equities
- Stocks remain vulnerable amid tightening liquidity, slowing growth, and higher rates. However, these headwinds should peak and subsequently ease in the latter half of 2023, which may provide an opportunity to add to equity exposures.
- The balance between central bank tightening, high inflation, and slowing growth could produce rate volatility. Higher yields, especially for high yield bonds, are supported by strong fundamentals and can help provide a buffer against credit weakness.

### Bonds
- Valuations are compelling, but high energy costs and weakening manufacturing activity make a European recession likely. We expect the ECB’s resolve on fighting inflation to ease as economic growth wanes in 2023.
- Valuations and currencies are attractive in many markets. Central bank tightening may have peaked. The path in 2023 is likely to remain uneven, but an easing of China’s zero-COVID policies could be a significant tailwind.

### Equity Regions
- Valuations are historically cheap, a lower inflation rate, and accommodative monetary and fiscal policy. The cheap yen and an improvement in global trade later in 2023 could support this export-oriented economy.

### Style and Market Capitalization
- U.S. equities remain expensive on a relative basis. However, the U.S. economy appears to be on a stronger footing than the rest of the world, and its less cyclical nature could provide support as global growth weakens.
- Japan offers historically cheap equity valuations, a lower inflation rate, and accommodative monetary and fiscal policy. An easing of these headwinds and continued fiscal support could provide upside over the course of 2023.

### Inflation Sensitive
- Valuations and currencies are attractive in many markets. Central bank tightening may have peaked. The path in 2023 is likely to remain uneven, but an easing of China’s zero-COVID policies could be a significant tailwind.

### U.S. Growth vs. Value*
- Relative valuations continue to favor value stocks, and financials and energy sector earnings provide support. Growth stocks remain vulnerable to higher rates but could be viewed as potential safe havens if U.S. economic weakness intensifies.

### Global Ex-U.S. Growth vs. Value*
- As of late 2022, ex-U.S. value stocks were trading at attractive valuations, reflecting tight monetary policy, sovereign debt concerns, and Europe’s energy crisis. If these risks are mitigated in 2023, value could provide strong upside.

### U.S. Small- vs. Large-Cap*
- Small-cap stocks offer historically cheap valuations, reflecting recession concerns and higher financing costs. A preference for quality is warranted, but small-caps could offer notable upside when the economic outlook improves.

### Global Ex-U.S. Small- vs. Large-Cap*
- Small-cap valuations are attractive across many regions but challenged by the weak growth outlook, inflation, and higher borrowing costs. An improvement in the economic and inflation fundamentals could be a tailwind.

### Real Assets Equities
- Real assets could remain an attractive hedge if inflation lingers. However, commodity and natural resource equities are vulnerable to global economic weakness—notably ongoing COVID and property market concerns in China.

### U.S. Investment Grade
- Yields could peak in the first half of 2023 as inflation cools, allowing the U.S. Federal Reserve to moderate policy. Slowing growth and inflation could support longer-duration bonds. Credit may prove resilient thanks to strong fundamentals.

### Developed Ex-U.S. IG (Hedged)
- Interest rates in developed ex-U.S. markets are likely to remain volatile as central banks balance inflation concerns and risks to growth. A slowdown in the pace of Fed rate hikes should narrow rate differentials, softening U.S. dollar strength.

### U.S. Treasury Long
- A moderation of inflation in 2023 is likely to be a headwind for inflation-linked bonds. However, the sector also offers a hedge against upside inflation surprises.

### Inflation Linked
- Strong credit fundamentals should remain supportive in the face of deteriorating economic growth in 2023. In the wake of the bond bear market, higher yields offer attractive income potential and a possible buffer if credit spreads widen.

### Global High Yield
- High yields and relatively short duration profiles make floating rate loans attractive in rising rate environments. However, slower central bank tightening and declining short-term interest rates could be headwinds in 2023.

### Floating Rate Loans
- EM currencies and local currency yields are at attractive levels, reflecting cautious investor sentiment. As the U.S. Fed slows the pace of interest rate tightening, EM currencies may benefit.

### EM Dollar Sovereigns
- EM currencies and local currency yields are at attractive levels, reflecting cautious investor sentiment. As the U.S. Fed slows the pace of interest rate tightening, EM currencies may benefit.

*For pairwise decisions in style and market capitalization, boxes represent positioning in the first asset class relative to the second asset class. The asset classes across the equity and fixed income markets shown are represented in our multi-asset portfolios. Certain style and market capitalization asset classes are represented as pairwise decisions as part of our tactical asset allocation framework.

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### 2023 GLOBAL MARKET OUTLOOK
T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

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