2023 Tactical Views

Underweight | Neutral | Overweight

These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.

		View	
ASSET CLASS	Equities	Underweight	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.
ASSET CLASS	Bonds	Overweight	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.
	Equity Regions		
EQUITIES	U.S.	Underweight	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.
EQUITIES	Global Ex-U.S.	Overweight	Cheaper valuations reflect the current challenges from high inflation, recession risks, and an energy crisis in Europe. An easing of these headwinds and continued fiscal support could provide upside over the course of 2023.
EQUITIES	Europe	Underweight	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.
EQUITIES	Japan	Overweight	Japan offers historically cheap equity valuations, 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.
EQUITIES	Emerging Markets	Overweight	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.
	Style and Market Capitalization		
EQUITIES	U.S. Growth vs. Value*	Underweight	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.
EQUITIES	Global Ex-U.S. Growth vs. Value*	Neutral	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.
EQUITIES	U.S. Small- vs. Large-Cap*	Overweight	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.
EQUITIES	Global Ex-U.S. Small- vs. Large-Cap*	Neutral	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.
	Inflation Sensitive		
EQUITIES	Real Assets Equities	Neutral	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.
BONDS	U.S. Investment Grade	Underweight	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.
BONDS	Developed Ex-U.S. IG (Hedged)	Underweight	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.
BONDS	U.S. Treasury Long	Overweight	While yield volatility could persist, slowing inflation and easing central bank policy could provide a tailwind for longer-duration bonds.
BONDS	Inflation Linked	Neutral	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.
BONDS	Global High Yield	Overweight	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.
BONDS	Floating Rate Loans	Overweight	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.
BONDS	EM Dollar Sovereigns	Overweight	Yields look attractive relative to the developed markets but reflect elevated global growth concerns. More dovish central banks and signs of improving global trade could support the sector.
BONDS	EM Local Currency	Overweight	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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