**TOP TEN THEMES FOR 2023:** January 2023

1. **Rates will rise further:** To keep up their fight against inflation, the U.S. Fed and the other major central banks will continue to raise rates in 2023. To avoid inflation relapses, Fed chair Jerome Powell might remain hawkish longer than market participants expect. This will negatively impact fixed income – and keep a lid on the recovery of equities.

2. **OECD government debt** in local currencies are **particularly vulnerable.** Since most developed markets will not be able to raise taxes to generate more revenues to service higher borrowing costs, they may try to reduce their debt load by allowing their currencies to weaken through negative real rates.

3. **Underweight U.S. and European equities:** Rising rates, likely negative earnings surprises, a (mild) recession and weaker consumer sentiment do not bode well with equity investors. Despite low valuations and a rather cheap EUR, European equities are not yet a buy due to structural problems, indebted governments and the disappearance of Russia as a market. The only **exception is the U.K.** market due to lower P/E multiples.

4. Thanks to rising interest rates, **holding cash** is worth considering again. The economic outlook remains bleak with a recession looming, the markets have not yet capitulated and global supply chains remain fragile.

5. **Chinese equities could benefit from pent-up demand:** Three years of lock-downs allowed Chinese household savings to sky-rocket. The re-opening releases the buying power of starved Chinese consumers and creates opportunities in the entertainment, travel and leisure sectors. Even real estate equities might be worth a consideration given lower mortgage rates and government support programs.

6. **Japanese** and selective **emerging market equities** such as Brazilian, Chilean, Indian and Vietnamese will be likely beneficiaries from a reemergence of China. Japan could also benefit from relatively low valuations as well as from a revision of its monetary policy ushered in by the new Bank of Japan governor.

7. **Equity themes around "security**" such as energy security, air and environmental security, cyber security, food security and defense are attractive. We would focus on dividend paying equities rather than growth stocks.

8. **Too early for tech:** Markets have entered a regime change. A new bull market will not be led by tech stocks but by sectors mentioned in the previous point. In addition, infrastructure stocks will benefit from "friend-shoring" in the wake of the disengagement from Russia and to a lesser extent from China.

9. Current global central bank **gold** holding is at the highest level since 2000 and continued buying is likely in order to diversify out of USD holdings. Gold cannot be used as a political weapon like the USD. Last year's freezing of Russian USD reserves was a clear reminder of this. This makes gold the only truly safe asset on central bank balance sheets

10. **Private assets have not been fully re-rated.** We expect many leveraged real assets such as private equity, direct lending, private debt, real estate and art to get marked down due to reduced liquidity, higher interest rates and comparable public market valuations.