

2023 Mid-Year Outlook

JUNE 2023



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EQUITIES

- Inflation cooling but fading pricing power and falling demand decelerates revenues.
- Rising wages and interest expenses keep costs elevated.
- Avoid companies with high fixed costs and undifferentiated products.
- Greater scarcity value rewards companies with durable cash flow streams.
- Quality and cash flows eclipse macro and style factors.
- Prefer non-US over US given lower profit vulnerability and more attractive valuations.
- Favor small caps over large as small benefits from higher capital spending.



BONDS

- With inflation falling, global central banks near the end of their tightening cycles.
- Elevated recession odds favor high-quality, long-duration fixed income.
- High credit quality and attractive valuation factors favor US municipals.
- Investment grade vulnerable amid recession risks and disappointing profits, but value in select credits.
- Rising US bankruptcies and financial stress increases high yield default risk; bank loans most vulnerable.



10 YEAR YIELD ESTIMATES*

- **US Treasuries:** 3.00% – 4.00%
- **German bunds:** 1.75% – 2.75%
- **Japanese government bonds:** 0.50% – 1.00%

*Estimates are based on the equity and bond markets described above. These estimates are subject to change and cannot be guaranteed.

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