DECEMBER 2022

Consensus Outlooks 2023

Investment and Portfolio Advisory

Rothschild & Co
Wealth Management

1

Executive Summary

1.1 Summary of Rothschild & Co and the Street's view

In 2023, monetary policy is expected to gradually fade away to leave the focus on growth

Key Drivers

- 2022 has been a year of unexpected events. While consensus expected geopolitics tensions to take a back seat, the conflict of Russia/Ukraine arrived as a surprise. Additionally, on the macroeconomic front, higher-than-expected inflation pushed Central Banks into aggressive tightening, hardening financial conditions and impacting risk-on assets.

- Inflation and monetary tightening were the key drivers for major markets in 2022. Consensus agrees that 2023 will be about understanding their impact on growth.

- A global slowdown in growth should allow Central Banks to soften their interest rate hikes. Monetary policy should hence be less of a headwind in 2023, at least in the US, where brokers see the cycle more advanced. In fact, 1Q2023 should be the last leg of Fed monetary tightening. The rest of the year should see a Fed on pause, while waiting to start easing by year-end or early 2024, in which brokers expect the beginning of rate cuts. Europe, in turn, should see a similar pattern, but with softer moves (due to lower terminal rates) and later in the year.

- A combination of moderation in inflation and a resilient job market might allow the US to avoid recession. However, not all brokers agree and some think that Powell's soft landing scenario will be difficult to achieve, as, in order to contain inflation and wage growth, the Fed will need to see a faster deceleration in the job market. Consensus paints a darker picture for Europe, due to higher inflation rates and vulnerability to high energy prices. On the other side of the globe, the world continues to look at China as the promise of re-opening attracts attention to a region that has been avoided by global investors in 2022.

- Challenges remain on the horizon and, as a result, brokers have cautiously adjusted their asset allocations to higher uncertainty. Fixed income and commodities have increased their weights in portfolios at the expense of equities and cash.

Equities

- In line with some brokers, we reduced our preference for equities during the year over geopolitics, inflation concerns and expected monetary tightening. We remain Neutral.
- Brokers are somehow cautious on equities due to upcoming earnings downgrades. Valuations, despite more attractive than in early 2022, play still a secondary role.
- In terms of regions, Rothschild & Co's overweight to the US seems to diverge with consensus, which favours Japan and EM Asia over the US and Europe.

Fixed Income

- The increase in yields and the widening of credit spreads have both allowed the comeback of Fixed Income to investors' portfolios.
- Investments into government bonds and credit increased during the year. Although allocations still vary from underweight to neutral or even slight overweight, we see less preferences on corporates vs govies.

Commodities

- Brokers point to a solid positioning in commodities for next year, with a slight preference of oil versus gold.
- The outlook for oil is based on a narrative of late cycle, tight supply and peaking USD.
- The outlook for gold is more mixed in the face of real yield evolution and Central Bank demand.

Currencies

- The USD is expected to continue its strength seen this year, but at a lower pace. A depreciation might come in line with a slowdown in inflation and Fed actions.
- The evolution on the EUR and GBP will depend on geopolitics and politics altogether, while the Yen might reverse some of the lost ground in 2023 if the Japanese Central Bank changes course on its Yield Curve Control policy.

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Our view – Rothschild & Co

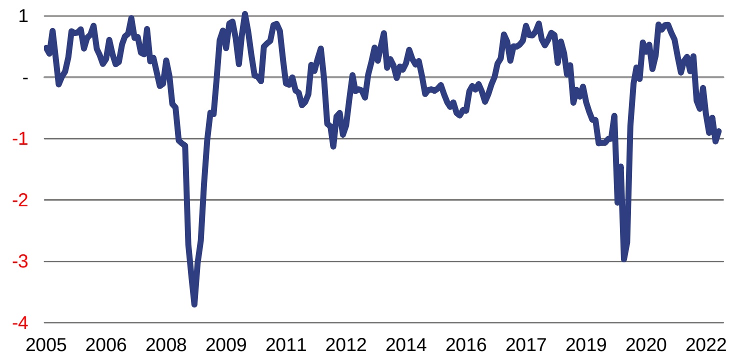
2.1 Economic overview

Working through the inflation surge

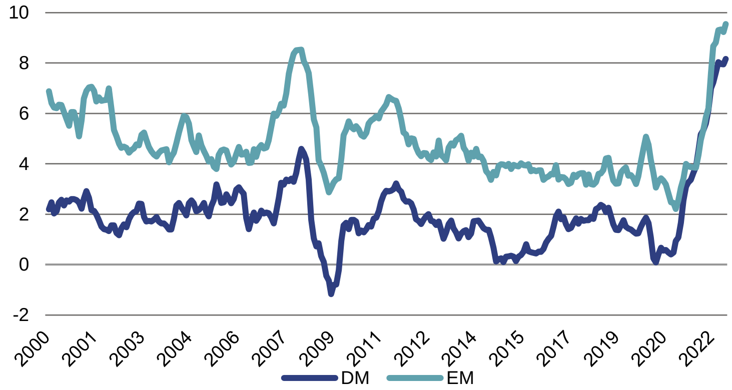
A combination of geopolitical trauma and monetary misjudgement in the aftermath of the pandemic has delivered the highest inflation for decades, and a return to what we used to think of as “normal” interest rates. Both inflation and rates may be close to peaking – H1 2023 may be decisive

- Russia’s invasion of Ukraine squeezed energy and commodity prices higher, and added further to the obstacles facing international trade. Inflation risk had been rising beforehand, as rapidly-rebounding aggregate demand had encountered numerous post-pandemic supply constraints during 2021, and the net result has been some dramatic surges in headline inflation rates in 2022 – to double-digit territory in Europe (most exposed to Russian energy), and not far off that in the US.
- Central banks’ misguided notions of allowing economies to “run hot” were forgotten, and they eventually moved to push interest rate expectations up more decisively. The Fed continued to lead the way, but the ECB was a quick convert. Only the Bank of England seemed somewhat uncommitted still, though it too raised rates sharply.
- As the scale of the rebound in interest rates, and (more importantly) the impact of energy prices on European households and businesses, became clearer, expectations of a sharp economic downturn took root (see chart). At year-end, however, a major downturn has yet to materialise – perhaps because European governments have been able to offer more fiscal support, and because gas prices recently fell back sharply – and labour markets remain historically tight.
- Inflation should soon turn a corner: indeed, it may have started to decline in the US and eurozone. If so, confidence will grow that western central banks may have raised interest rates sufficiently. The trajectories recently priced into money markets (see chart) look broadly plausible to us. But that still leaves the banks needing to deliver on the rates priced in – and with labour markets tight, the money markets may be premature in starting already to think about falling rates.

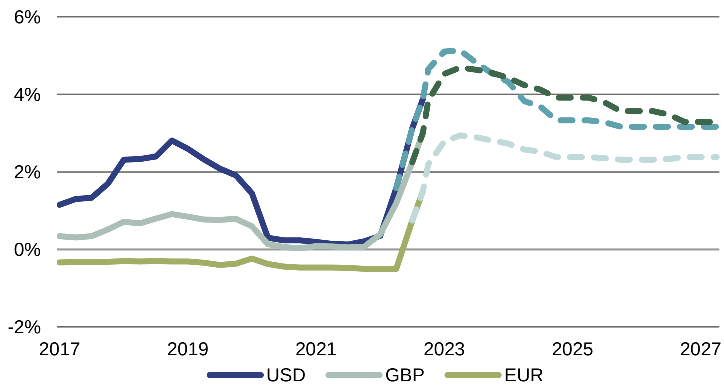
Global cyclical indicator (standard deviations from trend)



Developed & emerging market headline inflation (YoY, %)



Market-implied policy rate trajectories (%)



Source: Rothschild & Co, DataStream, Bloomberg
Past performance is not indicative of future performance and the value of investments and income from them can fall as well as rise

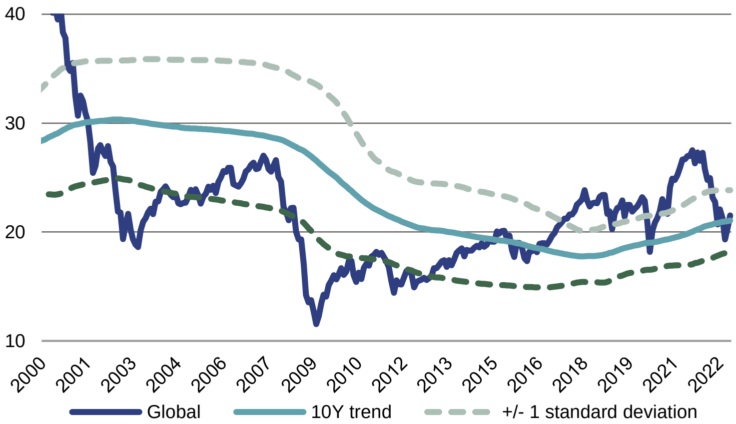
2.2 Bonds not so expensive – stocks still offer best value

Rising rates hit most assets in 2022: tactically, cash was king. But 2023 could be different

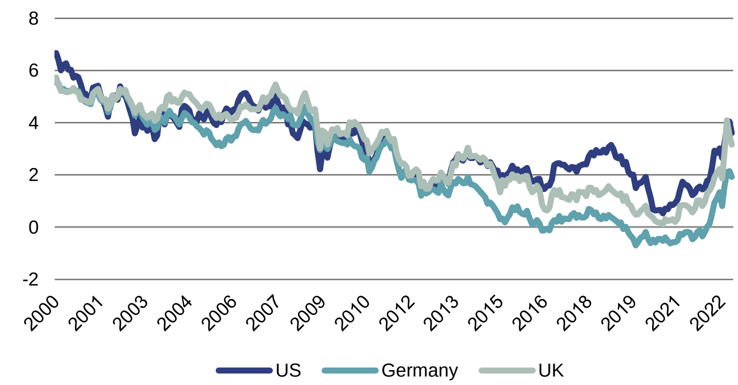
Few assets did well in 2022, but for supposedly-safe bonds, the normalisation of interest rates was traumatic. Their steep declines did however leave government bonds looking fairly valued for the first time in years – *almost*. Stocks struggled too – particularly as recession fears took root – but valuations suggest more long-term positive headroom

- Despite the continuing upward surprises in headline inflation rates for much of the year, the main driver of higher government yields was a rethink of real interest rates as it became clear that the big central banks were indeed going to raise policy rates more decisively. As a result, inflation-indexed bonds also fell sharply, a reminder that they are not always reliable "hedges" against inflation. The general rise in yields, and the flattening of yield curves, at one point took the US bond market to levels at which we felt able to close a long-standing underweight in USD portfolios: for the first time in many years, risks looked evenly-balanced. European bonds remained a little expensive, even after their fall, and we stay underweight.
- For stocks, always the most volatile asset class, geopolitical and recession risks made themselves felt alongside rising rates. However, a dramatic fall in profits has yet to materialise. We may yet see more pronounced economic weakness in the New Year, but even if profits do fall further, long-term valuations – not outlandish to begin with – now suggest that plausible long-term returns have risen and are above even the more elevated inflation trends we expect.
- Corporate bonds, as usual, seem to offer prospective returns in between those on stocks and government bonds. The economic slowdown seen to date is probably not sufficient to generate the scale of corporate defaults and losses needed to justify current high-yield spreads, and this has been an attractive part of the credit curve, specially in Europe and Switzerland.
- After 2022's sell-offs, our modelled 10-year returns from a balanced portfolio are higher than they were a year ago. In other words, valuations are looking more attractive.

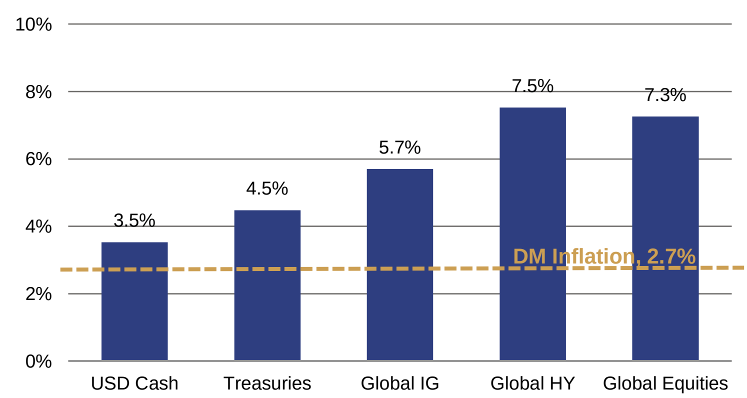
Global stock valuations (Cyclically-adjusted PE ratio)



10-year government bond yields (%)



Forward returns (next 10 years, annualised, nominal terms)



Source: Rothschild & Co, DataStream, Bloomberg

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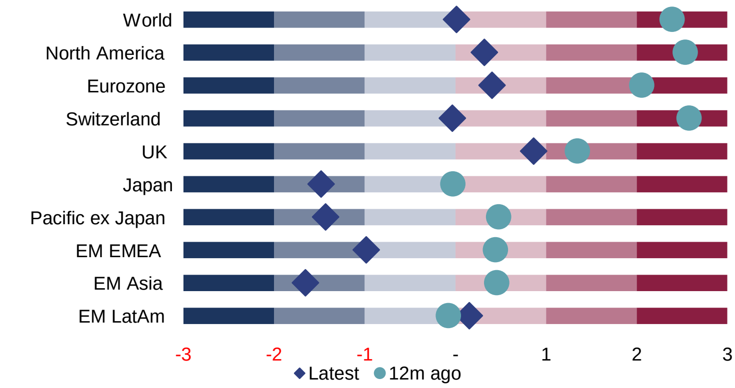
2.3 Equity regions and sectors

Our positions have been reduced as we wait for the next cycle to begin

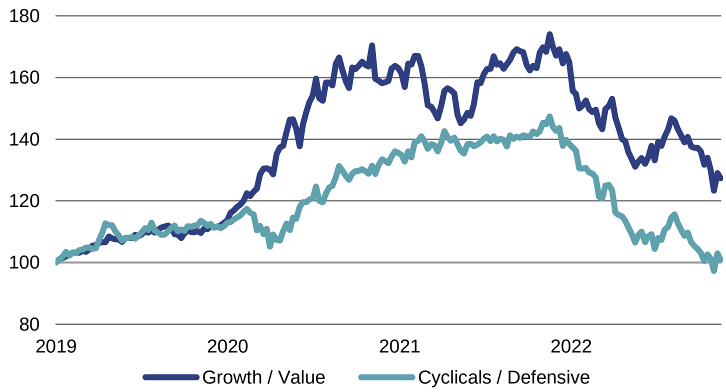
Our preference for the US market may be running its course; conversely, the prospects for Continental Europe may be poised to improve

- **US: Overweight.** The US remains the most economically-resilient stock market, valuations are unremarkable, and the Fed may be the first big central bank to signal that it is done raising rates. But we wonder how much further this relative call has to run – particularly if economic growth, not duration, drives the next cycle.
- **Switzerland: Neutral.** Big weightings in healthcare and consumer staples give the Swiss market a defensive and concentrated orientation that became more attractive as 2022 dragged on.
- **Emerging Asia: Neutral.** China's economy is currently the only one to be significantly impeded by covid, and property and regulatory-related issues have continued to further shadow sentiment this year. On a longer-term view, emerging Asia remains by far the most dynamic part of the global economy, but we have taken a step down. Valuations are attractive however.
- **Sector-wise,** during the year we trimmed many of our positions as the extent of the downturn grew, and as the possibility of a neat return to "growth"-led investing receded. That said, we still favour **technology** and **healthcare**, and avoid **utilities** and **real estate.**

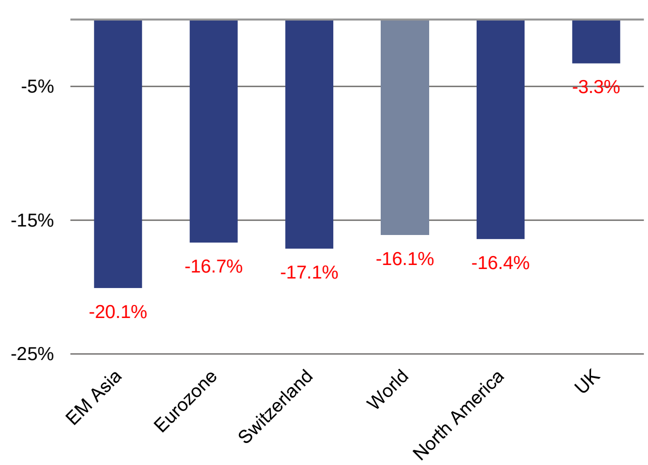
Valuations (Cyclically-adjusted PEs, z-scores)



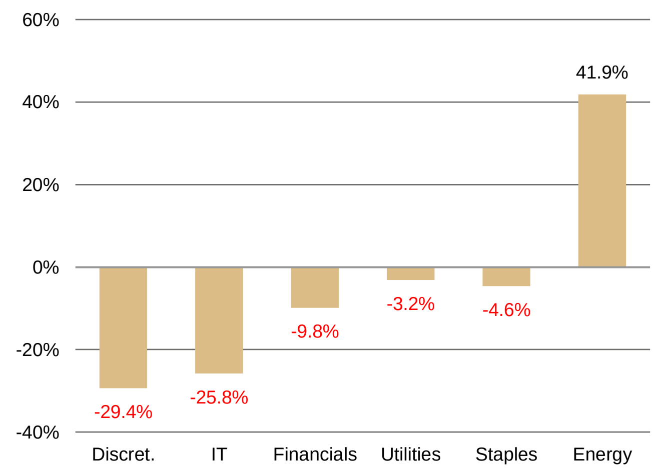
US Growth vs Value & Defensives vs Cyclicals



Selected regional returns (USD, year-to-date)



Selected DM sectors returns (USD, year-to-date)



Source: Rothschild & Co, DataStream, Bloomberg. Performance figures as of 12.02.2022
Past performance is not indicative of future performance and the value of investments and income from them can fall as well as rise

2.4 Fixed income and currencies

Bonds no longer look so expensive, and the dollar may be turning a corner

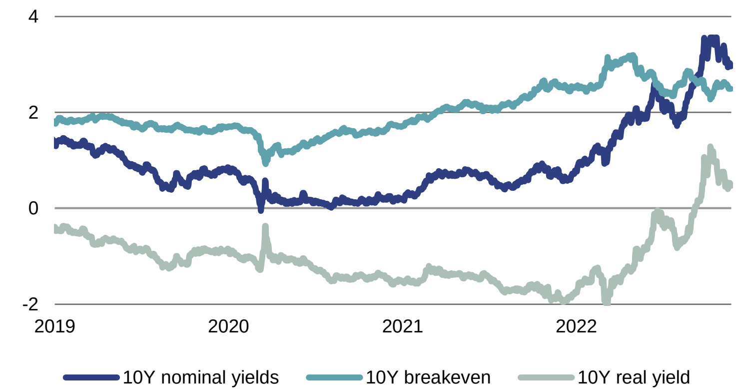
Significantly higher interest rates are arriving at last, and prospective money rates in 2023 look almost "normal". That's not quite enough to make most bonds a "buy" just yet

- **Central banks have woken up, and realise they have some credibility-rebuilding to do.** Monetary policy has quickly become much less loose – which may be all that is needed if inflation does roll over soon. That said, some central banks look more convincing than others – and relative to expectations, for us it was the ECB which moved most smartly to reverse its position during 2022.

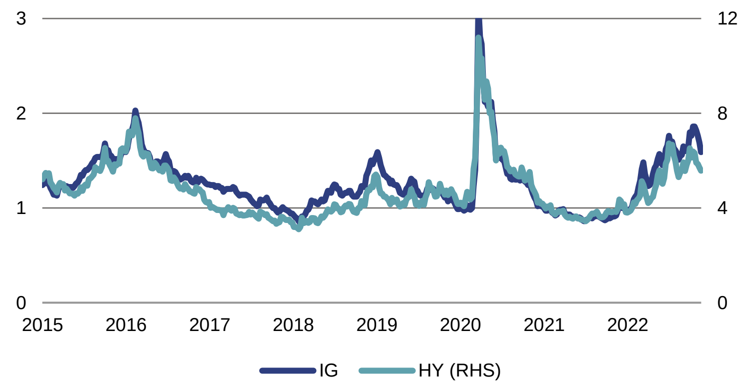
- **Bond valuations are more balanced,** in our view. Prospective real yields rose back into positive territory, though in the case of the eurozone and the UK we didn't quite reach levels that we thought warranted a more neutral view, and we stay underweight in EUR, CHF and GBP portfolios. We also stay underweight duration in European portfolios.

- **We are not as firmly tilted towards lower quality bonds.** Cyclical risks may not deliver a significant default cycle, but higher yields across the curve have boosted the appeal of investment grade quality bonds

Composite government bond yields (US, UK, GER average)



Global credit spreads (OAS, option adjusted spreads)



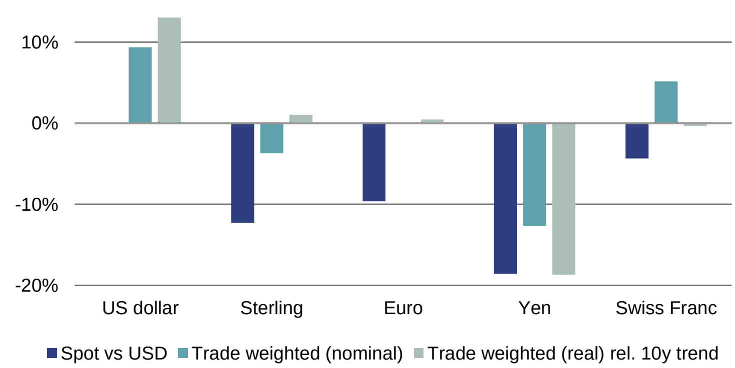
Foreign exchange markets may become noisier in 2023

Currency volatility resurfaced after a long absence in 2022 – and not in the direction many expected. We think the dollar may soften in 2023

- **FX volatility returned:** Interest and inflation rates, and valuations, had all converged. This began to change during 2022

- **The dollar's strength was not a big surprise – but may have run its course.** The Fed was the fastest central bank to "get it", and US policy rates may be closer to their ultimate destination than those elsewhere. Meanwhile, risk appetite may be stabilising – and the USD has looked expensive. We would not yet describe this as a high conviction call, however.

Currency performance summary (YTD, %)



- **Emerging markets may benefit most if the dollar softens further.** Particularly those dependent on commodities – some of which have done relatively well so far. Some EMs pre-empted the Fed's tightening, and may yet be rewarded with improved monetary credibility.

Source: Rothschild & Co, DataStream, Bloomberg
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3

Consensus - Equities

3.1 US equities

Flat equity returns expected in the US over the next twelve months, however the path may prove to be volatile in a challenging year for the economy and earnings

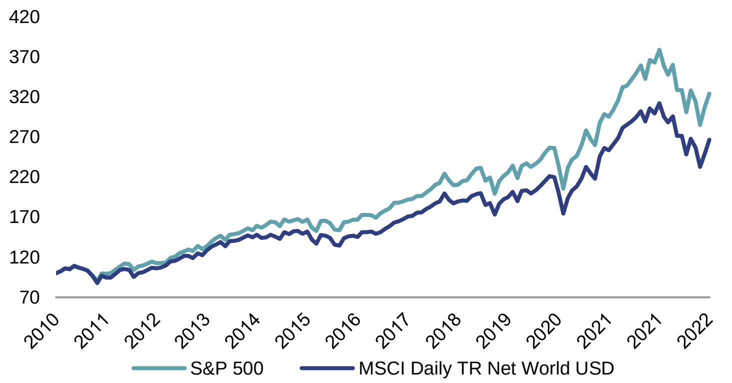
Investment case

- **Divergence in recession forecasts**: Estimates differ as to whether the US will enter a recession next year. While some brokers and forecasters (for example the WSJ forecaster survey and the Philly Fed survey of Professional Forecasters) put a high probability on a US recession in the next 12 months, other brokers rule out this scenario in their base case.
- **Attention on earnings**: 2022 was about valuation derating. In 2023, the lack of corporate earnings growth could mean flat returns for equity investors. Margins could compress due to cost pressures and slowing demand. The deceleration in inflation, the normalization of supply chains or a loosening labour market might mitigate this compression to a certain extent. Also, margins are normalizing from pandemic highs, and a compression would modestly breach their long-term trend.
- **Brace for volatility**: While the end-of-year forecasts point to flattish returns, the journey may be volatile with lower prices for stocks in the near term – whilst stock market performance has been favourable in October/November 2022, they could re-test recent lows before regaining some ground as we may approach the Fed pivot and the end of the tightening cycle.

Considerations

- **From TINA to TARA**: With bond yields rising, we have moved from TINA (There Is No Alternative) to TARA (There Are Reasonable Alternatives). Investors are now more willing to consider the fixed income space.
- **Relative valuations**: Compared to other regions, the US equity market may still suffer from an unattractive risk-return profile in relative terms.

Total return development



Source: Rothschild & Co, Bloomberg

2023 Forecasts

	US Equities	Upside
J.P. Morgan	4,200	+5%
Goldman Sachs	4,000	+0%
Morgan Stanley	3,900	-2%

Forecasts as of November 2022, and refer to S&P500 Index as of close **12.12.2022**
Spot price = **3990**

3.2 European equities

Low single-digit returns expected in Europe in the context of a moderate recession and pressure on margins after the resilience in earnings in 2022

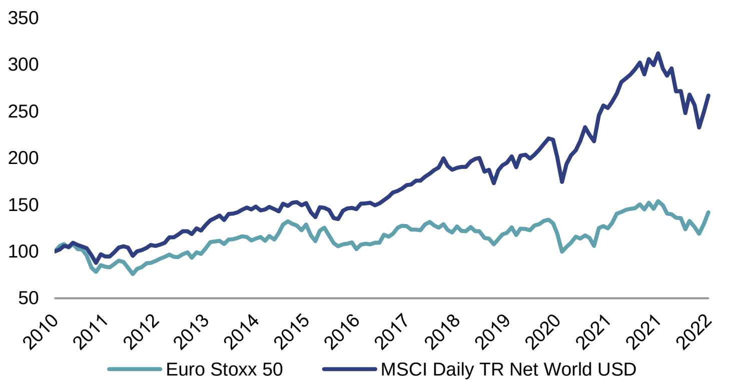
Investment case

- **Europe is still dependent on the Russian conflict**: The invasion of Ukraine has been an unanticipated shock with global reach. The consequences are most noticeable in Europe, which depends on Russian gas, as it has suffered energy security challenges and a slide in regional sentiment.
- **Recession fears looming**: Europe is expected to fall into a moderate recession, given the unfavourable outlook for inflation and real income entailed by a bigger energy shock. According to brokers, the risk of a deep downturn is reduced thanks to fiscal support by governments.
- **Earnings expected to consolidate**: While company earnings have proven resilient in 2022, there are signs of them slowing. There is now downside risk to earnings due to expected downgrades. Corporate margins might come under pressure because of weaker demand and higher input costs. In a recessionary situation, it may prove harder for companies to increase prices and pass on higher costs (materials, labour, interest rates, taxation) to consumers. Only a few sectors (financials, energy) might benefit from the higher inflation and interest rates environment. China re-opening could be a tailwind for Europe, thanks to the international (including Asia Pacific) exposure of revenues.
- **Relative valuations attractive**: Contrary to the US, current valuation of European equities are below historical average and the discount versus US equities is especially large by historical standards.

Considerations

- **Deepening in the Russian conflict**: An escalation in the ongoing war in Ukraine, a deeper than expected economic recession, a more severe hit to corporate margins, or the return of energy constraints in 2023 (supply, competition from China re-opening on the demand side) are bear case scenario components for Europe.

Total return development



Source: Rothschild & Co, Bloomberg

2023 Forecasts

	European Equities	Upside
J.P. Morgan	256	+ 6%
Goldman Sachs	450	+ 3%
Morgan Stanley	1,790	+ 2%

Forecasts as of November 2022, spot prices as of close **12.12.2022**
J.P. Morgan uses MSCI EMU Local Index, spot price = **241.49**
Goldman Sachs uses STOXX Europe 600 Index. Spot price = **436.98**
Morgan Stanley uses MSCI Europe Local Index. Spot price = **1,756.38**
Past performance is not indicative of future performance and the value of investments and income from them can fall as well as rise.

3.3 Japanese & Emerging Markets equities

Japan and Emerging Markets are expected to outperform the rest of the world next year

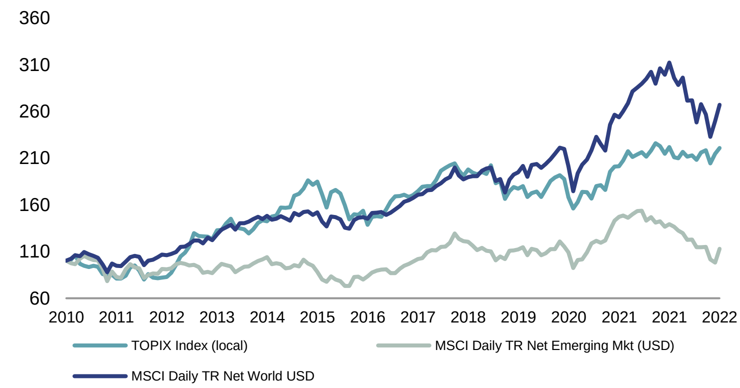
Investment case

- **Japan**: Japan has been one of the best performers in local currency terms in 2022 and in line with global equities in USD terms. The depreciation of the JPY supported earnings for companies deriving a significant portion of revenues from abroad. The macro stability and governance framework are tailwinds for Japanese equities, as well as relatively cheaper valuations. COVID normalization has been somewhat slower than other regions, hence Japan is still in the early stage of a service sector recovery which is again supportive for the market in 2023.
- **Emerging Markets**: After a peak in February 2021, EM have been in their longest equity bear market on record. However, EM may trough before the US/Europe. EM countries started hiking rates earlier than DM, and some of these economies are showing first signs of stabilization. The EM earnings downgrade cycle may be nearing completion, while valuation levels are supportive. China re-opening may prove bumpy but will ultimately foster growth. According to brokers, investors are still lightly allocated to EM equities, and hence inflows could drive performance.

Considerations

- **Japan**: The cyclicality of Japanese earnings may be detrimental in case of weaker-than-forecast global growth, and a stronger yen may reduce the profitability of companies.
- **Emerging Markets**: Stress may build in EM due to the global tightening of financial conditions, the impact of USD strength, a further deterioration in international relations and the upcoming election cycle in the region. COVID may keep playing a key role in China's outlook. The 20th Party Congress has also raised questions about long-term earnings outlook in the country.

Total return development



Source: Rothschild & Co, Bloomberg

2023 Forecasts

	Japanese Equities	Upside
J.P. Morgan	2,100	+ 7%
Goldman Sachs	2,200	+ 12%
Morgan Stanley	2,150	+ 10%

	EM Equities	Upside
J.P. Morgan	1,060	+ 10%
Goldman Sachs*	550	+ 7%
Morgan Stanley	1,000	+ 4%

Forecasts as of November 2022, spot prices as of close **12.12.2022**
For Japan index used is Topix, spot price = **1'957.33**
For EM, index used is MSCI Emerging Markets, = **963.58**
*) MSCI Asia-Pacific ex Japan ($), spot price = **512.27**

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4

Consensus – Government Bonds

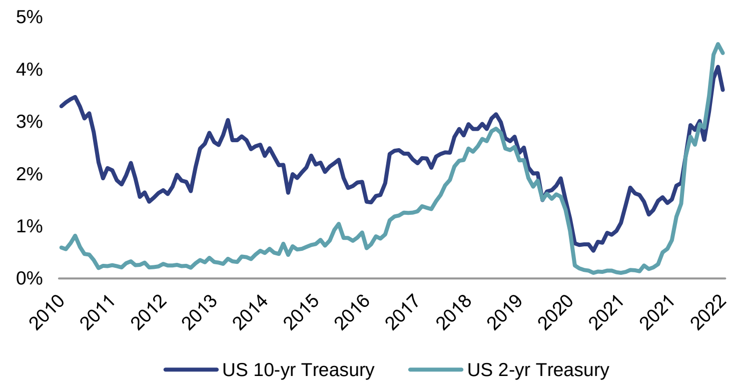
4.1 US Government Bonds

In 2023 the Fed will face potentially weaker growth and disinflation, allowing it to finally pause rate hiking

Investment case

- **All about inflation:** Inflation could peak in late 2022 or early 2023, with disinflation setting the tone for next year. Moderate demand, potentially higher inventories in different sectors, improvements in the supply chain and a normalization in the labour market should lower consumer goods inflation.
- **Macro back to the front page:** The macroeconomic backdrop is expected to deteriorate in 2023, with a worsening in consumption and unemployment rates that could surpass 4%. Depending on brokers' view, interest rates could peak between 4.50% and 5.25%, allowing the Fed to implement the last rate hikes during 1H23, pausing and finally, loosening monetary policy by year-end.

Price development



Source: Rothschild & Co, Bloomberg

Considerations

- **Even higher inflation:** Another wave of energy or commodity price shocks could trigger another potential international round of (temporary) upward inflation. Further disruption to supply chains, possibly due to a worsening geopolitical shock could also keep inflation high or even push it to new highs.
- **Significantly higher target/peak rate:** Led by potentially higher core inflation speeding through 2023, the Fed could hike rates to a much higher peak rate. Tighter policies and weaker growth could increase the chances of the US diving into recession.
- **Pandemic times continue to prevail in China:** An expansion of China zero Covid-policies - contrary to recent expectations - could create even more headwinds for consumption and supply chains, forcing the Fed to keep interest rates at higher levels for longer.

2023 Forecasts

	12m target 10y US Treasuries
J.P. Morgan	3.40%
Goldman Sachs	4.30%
Morgan Stanley	3.50%

Spot price as of 12.12.2022: +3.61%
Targets as of November 2022

4.2 EU Government Bonds

The Eurozone is likely to enter a moderate recession in 2023. Inflation has yet to peak and unknowns in the European energy environment need to be considered

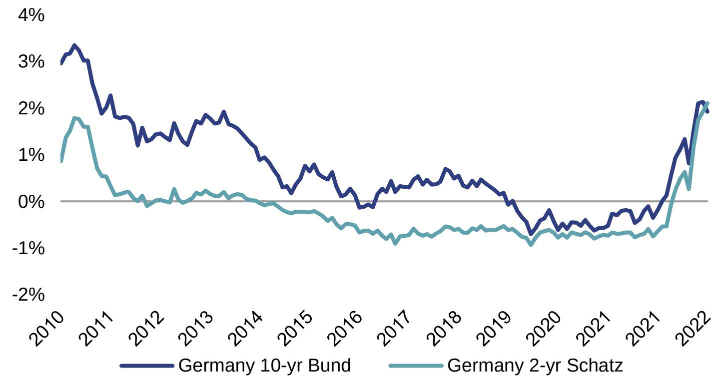
Investment case

- **Waiting for inflation to peak:** The earlier strong base effects in energy and food might reverse next year. In addition, recession forecasts for the eurozone should further reduce the pressure on prices. Finally, a normalization of global supply chains would support inflation trending lower. Accordingly, the ECB could interrupt the trend of interest rate increases as early as 1H2023 and possibly initiate the trend reversal from beginning of 2024.
- **Lower peak target rate than in the US:** A more challenging macro backdrop and lower GDP expectations warrant 10year Bund forecasts that are below those of the US.
- **Fiscal support:** Further fiscal programs may be needed in 2023 in order to help households in absorbing energy or inflation shocks. This will largely come from national budgets and might partially compensate Covid-related programs that are mostly phased out. Expansionary fiscal policies should support growth and, hence, yields.

Considerations

- **Unknowns in the European energy environment:** Any new or additional volatility in energy prices would further reduce European growth and could result in significantly (temporarily) higher inflation, prompting the ECB to hike rates while compressing growth.
- **China's re-opening:** A potential change in China's Covid policy and possible reopening should boost eurozone growth - more through increasing foreign demand than lowering inflation because of relaxing supply chain limitations.

Price development



Source: Rothschild & Co, Bloomberg

2023 Forecasts

	12m target 10y Bunds
J.P. Morgan	1.30%
Goldman Sachs	2.75%
Morgan Stanley	1.50%

Spot price as of **12.12.2022: 1.94%**
Targets as of November 2022
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5

Consensus – Credit

5.1 US credit

Consensus expects lower interest rate volatility which would be supportive for credit

Investment case

- **Corporate fundamentals:** Corporate fundamentals remain fairly robust within both USD IG and HY markets, and balance sheet management has been conservative as companies have had time to prepare for an economic slowdown. On inflation, although consensus expects there is still some way to go, there has been some tangible progress already.
- **A 2023 Fed pause:** Consensus does not expect to see the same rate hike aggressiveness in 2023 as in 2022. A less hawkish Fed would lead to lower interest rate volatility, a positive for spreads.
- **Total return prospect:** After a historical slump in bond prices, the outlook for total return has improved. With the assumption of less volatility in 2023, and improved yield support, USD IG and HY credit is forecast to offer more pronounced total returns.

Considerations

- **Recessionary fears still being felt:** Despite the resilience of the US economy, some brokers believe the risk of a US recession in the next 12-18 months remains high. The more challenging corporate environment would see, specially, wider High Yield bond spreads.
- **US hiking cycle:** The speed with which the US Fed hiked interest rates in 2022 could cause concerns around the ability of certain corporate borrowers in a higher funding environment.
- **Higher USD HY default rates:** While it would still be below the long-run average default rates for USD High Yield, there could be an increase in default rates and potential credit rating downgrades, driven partly by cyclical headwinds.

Price development

Source: Rothschild & Co, Bloomberg

2023 Forecasts (current → target)

	US Investment Grade	US High Yield
J.P. Morgan	149 → 155 [1]	483 → 575 [2]
Goldman Sachs	129 → 150 [3]	431 → 500 [4]
Morgan Stanley	129 → 155 [3]	431 → 575 [4]

[1] JPM US Liquid Index spread, forecast as of 22.11.2022, current level as of **12.12.2022**
[2] JPM US HY Index spread forecast as of 22.11.2022, current level as of **12.12.2022**
[3,4] Bloomberg Barclays US Corporate and HY spread, forecast as of 13.11.2022 for MS and as of 18.11.2022 for GS, current level as of **12.12.2022**

5.2 European credit

Consensus points towards reduced interest rate volatility as the ECB is approaching its terminal rate

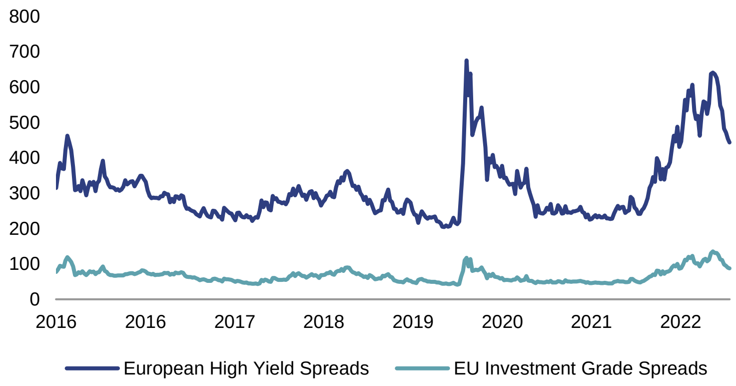
Investment case

- **Uncertain outlook:** While consensus anticipates a recession in the region, which would induce some pressure on weaker balance sheet issuers, the downturn could be shallower than feared, and some tail risks and macro uncertainty have receded.
- **Valuations:** The opportunity cost of not being invested is punitive given higher yield environment and improved valuations.
- **Central bank pause:** With (core) inflation set to roll over, central banks are approaching terminal rates and the ECB may under-deliver compared to expectations. As a result, rates volatility could ease, which is a tailwind for valuations in 2023.

Considerations

- **A (desynchronized) global cycle:** The US economy may only enter a recession in late 2023. This could result in an economic "double-dip" in Europe, assuming Europe entered a recession earlier compared to the US.
- **Questions around a potential central bank pivot:** Uncertainty around the 2023 rate trajectory and quantitative tightening of the ECB may contribute to an uneven recovery with volatility still.
- **Credit quality peaked:** Higher funding costs and a slowdown in earnings growth could pressure companies with weaker balance sheets. Particularly companies with a higher degree of sensitivity to higher rates could be pressured and there could be net rating downgrades from IG to HY. These factors would set the stage for higher quality companies to perform better.

Price development



Source: Rothschild & Co, Bloomberg

2023 Forecasts (current → target)

	EU Investment Grade	EU High Yield
J.P. Morgan	186 → 180 [1]	549 → 625 [2]
Goldman Sachs	186 → 210 [3]	514 → 550 [4]
Morgan Stanley	174 → 190 [5]	511 → 650 [6]

[1,2] JPM EU Liquid Index and JPM EU HY Index spread, forecast as of 22.11.2022, current level as of 09.12.2022
[3,4] ICE-BAML IG and HY Index spread, forecasts as of 18.11.2022, current level as of 08.12.2022
[5,6] Bloomberg Barclays US Corporate and HY spread, forecast as of 13.11.2022, current level as of 12.12.2022

6

Consensus – Commodities and Foreign Exchange

6.1 Commodities

Consensus enters the year positive on commodities. Supply concerns remain in the oil market, while the Fed marks the rhythm of gold performance

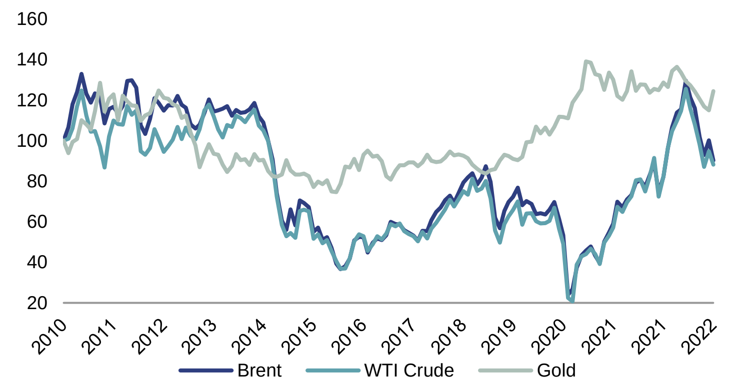
Investment case

- **The bullish view on oil continues:** Consensus expects oil prices to recover after the drop that started in June. On the supply-side, there is a clear view on slim spare capacity, low inventories and strong capital discipline by private players. Yet, brokers have different views on whether Russia will grow and re-route supply despite EU embargo and how the OPEC+ will balance the market by cutting or adding production. Tight supply should drive prices higher, while demand may slow down as recession looms unless China re-opens strongly.
- **Mixed view on gold:** Brokers rely on two factors to build their view on gold. First, whether the Fed will pause hiking and, hence, real yields will decline. A moderation in inflation may allow the Fed to halt rate hikes, real yields to drop and the USD to depreciate, all of which would support higher gold prices. Second, whether the US will be able to weather a US recession and, as a result, investors will avoid safe-haven assets. Brokers agree on the fact that EM Central Banks will remain strong buyers of physical gold.

Considerations

- **China:** As the biggest consumer of commodities, China's re-opening will be key to watch, as it could add up to 0.5mbd (or $5/bbl. annualized), based on a broker view.
- **Fed and USD:** A depreciating USD could be a positive catalyst for commodities. Also, once the Fed also stops its monetary tightening (by halting interest rates and stabilising money supply) oil prices could increase if low inventories persist.
- **Russia ceasefire:** A resolution in the Russian/Ukraine conflict is expected to bring oil prices down.

Price development



Source: Rothschild & Co, Bloomberg

2023 Forecasts

	12m target WTI
J.P. Morgan	$90
Goldman Sachs	$105
Morgan Stanley	-

	12m target Brent
J.P. Morgan	$96
Goldman Sachs	$110
Morgan Stanley	$110

	Gold	Upside
J.P. Morgan	$1,860	+4%
Goldman Sachs	$1,950	+9%
Morgan Stanley	$1,650	-7%

Forecasts as of December 2022, spot prices as of **12.12.2022: WTI: $73.1 Brent: $77.9 Gold: $1781**
Past performance is not indicative of future performance and the value of investments and income from them can fall as well as rise

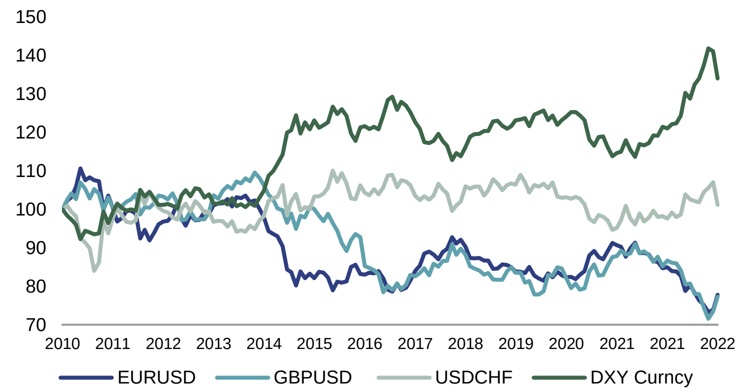
6.2 Foreign exchange

Strong trends seen in 2022 might continue next year although at a slowing pace

Investment case

- Currency markets in 2022 have been dominated by **USD** strength, backed by a combination of tighter monetary policy and geopolitical shocks that have supported its safe-haven attractiveness. Despite current signs of overvaluations, brokers expect the greenback to remain strong in 2023, although at a slower pace, before eventually peaking and turning lower. USD weakness should only appear once inflation rates moderate. In this scenario, the Fed's monetary policy becomes looser (pushing down US interest rates) and global growth resumes. The latter should be driven by a potential China re-opening, easing in supply bottlenecks and some progress in European geopolitics.
- The European region's vulnerability to high gas prices continues to underpin the weakness of the **EUR.** Neither undervaluation reasons nor a Fed pause are expected to be enough to boost the euro as the ECB is expected to halt rate hikes at 2.5%. Hence, either a de-escalation in the Russian/Ukraine conflict or a spike in global growth will be needed to support the risk-on currency.
- After a tumultuous 2022, moving from a £45bn tax cut to a £55bn tax-rise plan in just two months, **Sterling** has suffered the consequences of political instability. Consensus sees no improvement in 2023. Adding to the fiscal drag, the BoE expects eight quarters of economic contraction, driven by ongoing high gas prices, Brexit-related distresses and a tight labour market with rising wage growth. That is pushing UK inflation higher while raising the odds of a recession
- The most important factor impacting the **Japanese Yen** will remain interest rate differentials, as markets favor the Yen as a funding currency. The USD/JPY strength seen in 2022 would be renewed in the case of US yields grinding even higher, the US avoiding recession and the BoJ sticking to its Yield Curve Control policy

Exchange rate development



Source: Rothschild & Co, Bloomberg

2023 Forecasts

	EUR/USD	GBP/USD	USD/CHF	USD/JPY
J.P. Morgan	1.00	1.08	0.92	133
Goldman Sachs	1.05	1.22	0.88	140
Morgan Stanley	1.08	1.16	0.94	140

Forecasts as of November 2022
Spot prices as of **12.12.2022: EUR/USD 1.05, GBP/USD 1.22, USD/CHF 0.93, USD/JPY 137**
Past performance is not indicative of future performance and the value of investments and income from them can fall as well as rise.

Notes and terminology

BoE = Bank of England
BoJ = Bank of Japan
DM = Developed Markets
ECB = European Central Bank
EU = Europe
EM = Emerging Markets
EPS = Earnings per Share
Fed = Federal Reserve
FX = Forex
GDP = Gross Domestic Product
GER = Germany
HY = High Yield
IG = Investment Grade
OPEC = Organization of the Petroleum Exporting Countries
YTD = year-to-date

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Morgan Stanley 2023 Global Strategy Outlook – The year of yield, page 3, as of 13th November 2022

Note: We select, when available, the closest target to the end of 2022, depending on the counterparty (stated as *end of 2022, 4Q2022, 12-month forecast* or, alternatively, *2H2022*). Forecasts might be changed by counterparties depending on market circumstances.

Important information