

## January 30, 2023 – Investment Commentary

### Macro Matters

Last week, the MSCI AC world equity index gained 2% last week. **Falling inflation and relatively resilient economic data have boosted hopes of a “soft-ish” landing for the US economy.** It was a solid week for risk despite some notable intraday swings on the back of earning releases, economic data prints and central bank speakers. Speculative assets have been leading the market year to date (Bitcoin up ~40%, down 36% from high while ARK Innovation Ticker ARKK up ~30%, down 26% from high) ... a very different trend than what we saw last year or in 4Q.

All eyes will now be on the latest central bank meetings with the Fed (Wednesday), ECB (Thursday) and BoE (Thursday), all set to make their latest interest rate decisions. The market expects the Fed to slow the pace of hikes to 25bps while the ECB is expected to maintain its pace at 50bps for the next two meetings, with ECB officials continuing to push a strong stance of maintaining their policy guidance.

US equities had a strong week despite some weaker earnings releases and flash PMIs showing the economy is still in contractionary territory, albeit better than expected. The S&P 500 was up +2.6%, spurred by Q4 GDP, showing the economy had grown by an annualized +2.9% (vs. +2.6% expected). Yields on 10yr Treasuries were up +6.2bps in a sign of risk on sentiment.

A similar story was seen in Europe as the STOXX 600 was also up a more modest +0.67% on the week as the flash composite PMI came in at 50.2 (vs. 49.8 expected). That's the first time it's been above 50 since June. Yields on 10yr German bunds (+10bps), French OATs (+11bps) and Italian BTPs (+4bps) also rose on the week.

### Portfolio Construction

We believe the tide is turning in favor of equities outside the US, driven by an improving economic outlook, especially in the Euro area, and US dollar weakness. Historically, periods of US dollar weakness have coincided with a strong performance for equities outside the US. In a world of heightened market volatility, we also believe equities outside the US offer elevated dividend yields vs. US stocks and may support total returns.

#### Disclosures

*Investment Commentary Sources: Bloomberg and Morningstar*

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