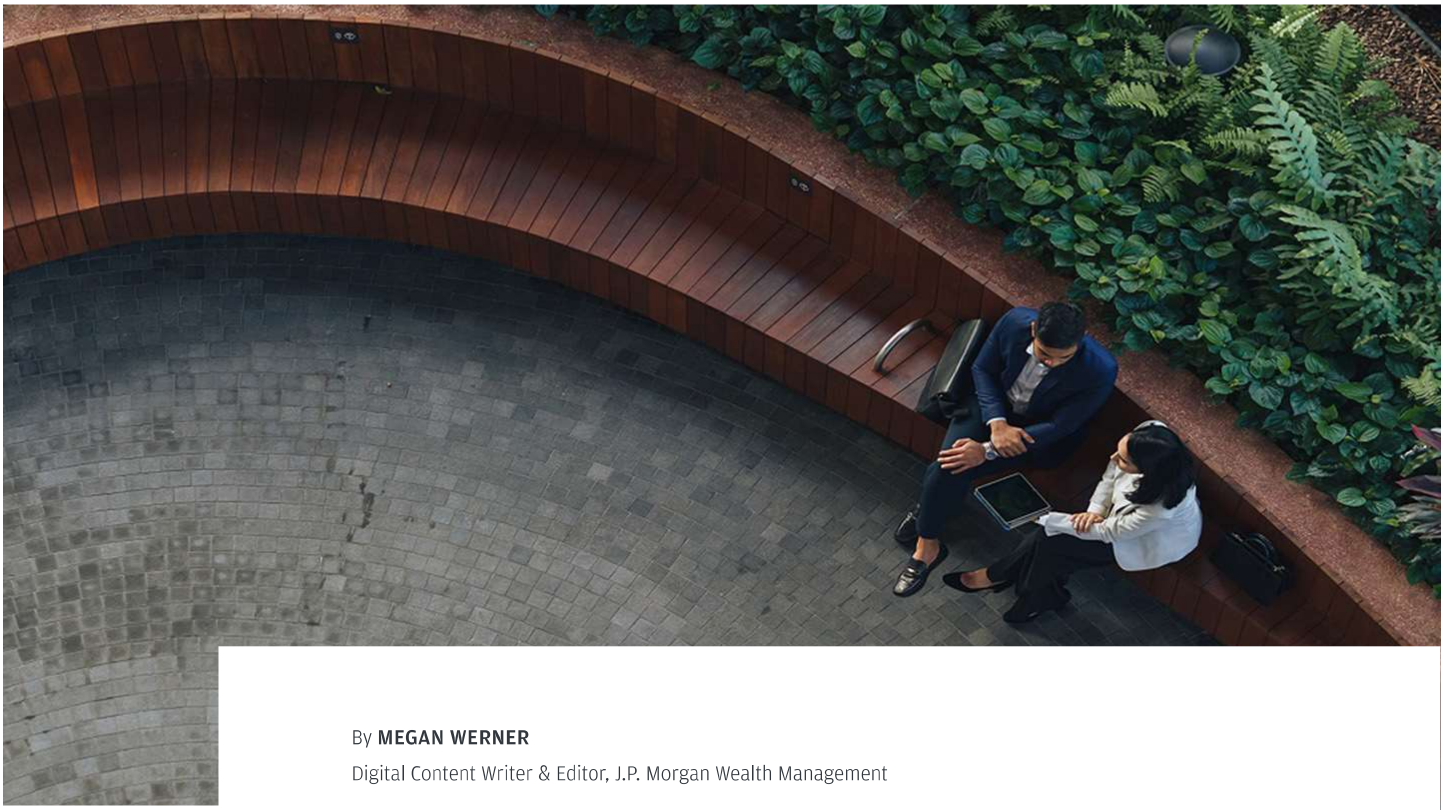
OUTLOOK

2023 mid-year outlook: Key takeaways

In our 2023 Mid-Year Outlook, we explore why the worst is likely over for investors, regardless of what looks to be an impending recession later this year. Learn more here.



By **MEGAN WERNER**

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Recession or not, investors have most likely weathered the worst of the ongoing market tempest. Yes, an economic downturn is still probably coming; as we've said before, a U.S. recession seems more likely than not by the year's end. And if we do have one, it will be the most telegraphed on record.

Even so, we think the worst is over for investors.

The markets seem to have agreed so far this year – a global multi-asset portfolio of 60% stocks and 40% bonds is up 6% year-to-date. We think that both stocks and bonds can continue to generate healthy returns for investors through the end of the year and into 2024.

In our 2023 Mid-Year Outlook, we explore why portfolios are powering through the risks. Drawing on anonymized client data, we illustrate what a representative sample of our clients are doing with their investments to better understand both the wider market environment and their individual choices. Some of the findings surprised us, while others reassured us. We learned a lot from this data – and we think you will, too.

U.S. highlights

- The S&P 500 is trading 15% higher than its October 2022 lows.[1]

- Profits and margins have both dropped a bit from all-time highs. But sales are resilient, transportation and energy costs are lower, the dollar is weaker (a boon for U.S. exporters) and finally, the scramble for workers is less frantic.

- Technology and communication services rank as the two best-performing sectors in the S&P 500 so far this year, partially recouping the significant price declines of 2022.

- Semiconductor stocks are outperforming after a less-than-stellar 2022, as evidenced by the shrinking of an inventory glut and investors scrambling to become potential beneficiaries of artificial intelligence (AI) application within the industry.

- Homebuilders' rates have stabilized against a limited supply backdrop, and the housing market seems to be bouncing back in response.

Global highlights

- Global equities have gained more than 9.77% since the beginning of the year.[2]

- European equities, in particular, are showing impressive momentum in economic growth and corporate earnings. Purchasing manager indices are at their highest level since before Russia's invasion of Ukraine, lower energy prices are helping ease the cost-of-living crunch and the escape from a negative interest rate policy have provided a respite for banks.

- Earnings estimates in Europe and China have started to hook higher after declining through most of 2022.

- China's first-quarter GDP data reported a rebound in consumption and services activity, and we see the potential for much more growth ahead. Valuations are reasonable, earnings are poised to grow at a mid-teens pace and policymakers seem likely to move in the direction of more market-friendly practices.

Looking ahead

There are a few things investors should keep in mind as they navigate the economic uncertainty moving forward, particularly where it might be wise to invest their money.

Chinese and European equities

Through various market cycles, we've come to the same conclusion: Our clients don't own enough European and Chinese equities. Like many investors, they have a home country bias that sometimes limits their investment returns.

But after the Euro-area economy avoided recession over the winter (defying many expert expectations, no less), we see multiple reasons to be bullish on European equities. Among them, there's impressive momentum in economic growth and corporate earnings; purchasing manager indices are at their highest level since before Russia's invasion of Ukraine. What's more, lower energy prices are unburdening the cost-of-living crunch, and the escape from a decade-long negative interest rate policy have helped European banks bounce back.

Stay mindful of concentrated stocks

One type of investment, a concentrated position in a single stock or security, presents a particular type of risk, the threat of which was realized in the sudden bank failures a few months ago. Investors in these failed banks were largely wiped out, while the market value of other regional banks lost 30% in less than a month.

While more conservative investors craft portfolios that would safeguard their financial goals even if their whole concentrated position disappeared, the good news is that there are alternative prevention strategies. These strategies range from the most basic (e.g., writing call options, designing a target price selling strategies, etc.), to the more complex (e.g., principal installment stock monetization strategies, exchange funds, etc.). Some clients find that the most elegant solution is to give the position away through gifts, trusts or charitable contributions.

No matter which strategy you ultimately decide to execute, all clients with a concentrated position should consider the consequences if, for reasons outside of your control, the asset suffers a material loss.

Reasonable trepidation over the rest of the year aside, investors are likely better off than they realize – it's all a matter of knowing where to invest your money, both literally and figuratively.

References

1. FactSet, "J.P. Morgan Wealth Management." (May 31, 2023).

2. FactSet, "J.P. Morgan Wealth Management." (May 31, 2023).

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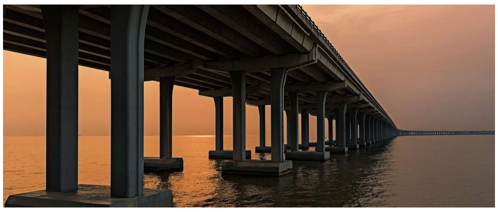

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