ZURICH

Pivotal Year Ahead

Investment Outlook 2023

As we look forward to 2023, we maintain a preference for equities over other asset classes. The prevailing market consensus is that inflation has now peaked, and that rates will therefore peak by the middle of 2023. Attention will now shift to the consequences of these higher rates and the impact that may be felt in relation to economic growth. 2023 will be a pivotal year for policymakers with medium term inflation expectations holding the key.

2022 Review

- Both global equities and bonds suffered losses in 2022 as high inflation led to sharp rises in interest rates and growing fears over economic growth. Monetary policy was the key focus for market participants as rates were hiked by the world's major central banks, bringing a prolonged period of low to negative rates to an end.
- While equities suffered on the back of tight financial conditions and reduced growth there were some areas of outperformance. There was a shift in the prevailing sentiment away from growth stocks as higher discount rates made dividend paying value stocks more attractive than they have been in previous years to investors.
- Fixed income instruments underwent a drastic change in circumstances as the interest rate environment developed throughout 2022. The Federal Reserve increased rates in March for the first time since 2018. The Fed has so far raised rates seven times in 2022. Longer duration bonds which are more sensitive to changes in interest rates suffered in particular in 2022.
- The US Dollar continued to strengthen against a basket of peers as markets experienced a flight to safety in 2022 with central bank tightening and lower growth prospects. The Dollar hit parity with the Euro for the first time in 2 decades in July, which is reflective of the general risk off sentiment that has presided over markets at key junctures in 2022. Commodities performed well in 2022 as the Ukraine war triggered large price rises.

Equities Outlook

- As we look to 2023, equities are now fairly valued versus the last decade on both a lagging and leading basis. As ever, the level and trajectory of future earnings is a key consideration with the rate of economic growth and cost pressures key determinants. From that perspective, both peak inflation and peak interest rates should prove to be a tailwind for equities, provided that a deep recession is avoided. Investor sentiment remains subdued, which, in isolation, represents a positive contrarian indicator.
- Even with a more positive environment for equities, the overall market action is unlikely to lift all parts of the market as has been seen at times since the financial crisis due to excess liquidity. The concept of 'growth versus value' continues to garner much attention but the prevailing price action in equity markets is liable to be more nuanced and idiosyncratic
- On a geographical basis, our allocations to North America remain slightly underweight, but are at a higher absolute level than they have been in the past. Within Europe, although progress has been made to reduce the reliance on Russian energy, the outlook is blurred given the proximity of the ongoing war in Ukraine.
- On a sectoral basis, we are more neutrally positioned than we have been in some time and remain ready and flexible to act as opportunities present themselves.

Fixed Income Outlook

- Global interest rates are forecast to go higher from current levels but are likely to peak towards the middle of 2023. Sovereign fixed income instruments saw sharp losses in 2022 as yields moved higher (and therefore prices moved lower) in response to the first sustained period of global monetary tightening in over a decade. The Federal Reserve and ECB are at different stages of the tightening process, but a policy induced recession or slowdown in 2023 may be the cost of taming inflation
- Across the developed world, inflation will begin to turn lower. However, the average rate in the coming years is still likely to be in excess of 2% and the average rate seen over the last decade. This has profound implications for fixed income investors as the transition from 'quantitative easing' to 'quantitative tightening' continues.
- Within eurozone sovereign bond markets the moves seen in 2022 see a return to positive yields with resultant cash flows at their highest levels in a decade. As this developed, we shifted the duration of our sovereign holdings higher in the second half of 2022 and could look to increase absolute allocations in the first half of 2023.
- An active approach remains warranted and in a future environment which is likely to see less support for bond prices, we remain highly cognisant of sovereign yield spreads and associated risks.

For the Bulls

1. China returns to full production capacity
2. A recession is shallow, or avoided entirely
3. Rates stabilise and growth rebounds
4. A strong consumer helps maintain robust profit margins

For the Bears

1. A policy misstep leads to a deep recession
2. Stagflation materialises
3. Tighter financial conditions bite, particularly in Asia
4. Deglobalisation concerns accentuate growth worries

Calendar Year Performance Since 2012

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Prisma Low	-5.8										
Prisma 2	-5.6	2.6	1.7	3.1	-1.3	0.3	1.6	1.0	3.3		
Prisma 3	-8.6	7.6	3.4	8.3	-2.4	2.2	4.1	2.6	7.1		
Prisma 4	-13.3	16.8	6.9	17.8	-4.6	5.7	8.5	4.9	14.2		
Prisma 5	-16.7	23.9	10.9	26.5	-6.2	7.7	11.3	6.2	16.0		
Prisma Max	-19.1	25.3	13.7	28.1	-5.4	8.7	9.8	7.9	7.4		
Active Asset Allocation	-12.2	18.6	7.4	19.0	-4.9	5.9	8.1	4.9	14.6	3.9	10.5
Balanced	-17.0	18.0	12.3	19.8	-3.6	6.3	6.7	10.0	15.3	16.1	13.1
Performance	-17.9	23.0	13.9	24.1	-4.3	8.3	6.9	10.9	16.1	17.2	12.6
Dynamic	-18.5	24.6	14.4	26.9	-4.9	8.8	7.4	11.8	15.8	19.0	13.1
Cautiously Managed	-12.3	11.5	7.1	11.8	-2.6	3.9	5.1	6.3	18.6	6.7	12.3
5★5 Americas	-24.9	35.5	23.3	33.6	1.5	2.1	14.1	11.8	28.8	24.7	10.2
5★5 Asia Pacific	-2.7	9.6	8.9	21.8	-10.8	23.8	10.4	5.7	9.2	2.6	16.7
5★5 Europe	-10.3	24.2	3.1	31.5	-12.2	16.4	4.8	17.5	8.6	23.6	28.8
5★5 Global	-19.0	29.1	18.4	28.7	-6.3	11.6	4.5	13.3	13.3	17.6	16.2
Global Targeted Return (Invesco)	-2.1	-1.1	-2.1	2.8	-5.2	-0.1	2.1	1.6			
Active Fixed Income	-15.0	-3.8	3.2	5.4	0.4	-1.1	4.7	1.0	20.3	2.4	12.8
Asia Pacific Equity	-1.5	10.3	5.8	20.5	-8.7	21.8	11.4	0.8	10.5	1.6	19.6
Long Bond	-27.2	-6.6	8.5	11.5	1.3	-1.7	6.3	1.8	28.2	1.5	14.6
Cash	-1.0	-0.9	-1.0	-0.8	-0.9	-0.8	-0.8	-0.5	-0.3	-0.4	-0.5
Irish Equity	-16.0	16.7	5.0	37.0	-19.2	8.7	-0.8	38.5	16.0	33.7	19.6
Dividend Growth	-4.6	35.1	-16.1	28.5	-10.8	3.1	17.3	6.0	18.0	20.1	18.9
International Equity	-19.7	26.1	15.4	28.9	-5.5	9.3	10.0	10.7	17.7	20.6	13.5
Eurozone Equity	-13.1	23.4	5.0	26.0	-12.1	14.3	5.0	11.7	4.3	25.5	24.0
Indexed Australasia Property	-7.9	13.4	-16.7	17.3	2.7	3.5	11.0	2.4	26.1	-10.3	34.5
Indexed European (Ex-UK) Property	-37.6	8.6	-9.3	23.8	-6.6	14.4	3.9	16.6	20.6	3.8	24.5
Indexed Global Energy and Metals	19.9	38.7	-11.4	12.4	-4.1	-5.7	21.5	-20.2	-12.4	-5.3	-2.9
Gold	5.7	3.6	13.0	19.7	3.0	-2.6	12.3	-2.3	12.8	-31.4	3.4
Indexed Inflation Linked Bond	-10.4	6.0	2.3	6.0	-2.2	0.6	3.4	0.1	4.6	-4.4	10.3
Protected 70	-15.8	17.9	4.1	17.7	-6.1	4.7	1.4	6.4	10.4	13.1	7.5
Protected 80	-12.1	12.4	1.3	10.4	-5.1	2.2	-0.3	4.2	7.1	9.3	4.4
Global Corporate Bond (J.P Morgan)	-16.3	-2.8	6.8	9.4	-5.2	3.5	3.2	-0.7	7.2	-0.2	
Global Government Bond (J.P Morgan)	-14.0	-4.1	4.9	3.9	-1.0	0.1	1.3	0.6	8.1	-0.8	
Emerging Market Opp (J.P Morgan)	-21.3	0.8	8.7	27.6	-9.7	28.6	17.1	-11.5	12.5		
Dynamic Diversified Growth (Blackrock)	-11.2	3.6	7.4	9.2	-4.4	6.8	-2.5	-1.7	5.1	5.9	6.4
American Select (Columbia Threadneedle)	-18.5	30.9	14.9	36.2	-1.3	6.3	17.5	9.9	21.3	24.5	15.0
European Select (Columbia Threadneedle)	-21.8	26.2	9.3	33.7	-11.0	13.9	0.1	13.9	12.9	15.7	26.4
Global Select (Columbia Threadneedle)	-20.3	22.3	11.1	38.9	-7.5	14.1	9.0	12.1	17.1	20.0	13.8
Indexed TopTech 100	-30.5	39.5	34.6	41.0	3.9	15.9	9.8	21.4	34.7	29.9	15.5

Notes: Annual management charges (AMC) apply. The fund performance shown is before the full AMC is applied on your policy. Returns are based on offer/offer performance and do not represent the return achieved by individual policies linked to the fund.

Source: Zurich Life as at 04/01/2023.

Warning: Past performance is not a reliable guide to future performance.
Warning: The value of your investment may go down as well as up.
Warning: Benefits may be affected by changes in currency exchange rates.
Warning: If you invest in this product you may lose some or all of the money you invest.

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