2023 Global High Quality Outlook

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Investments

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High inflation and rising bond yields were responsible for the 2022 equity bear market, however in our opinion, both factors may reverse next year. And while equity bears argue that leading economic indicators point to rising odds of the U.S. and European economies heading into recession we believe that there are some mitigating factors which may help the global economy including: a weakening dollar; falling inflation expectations and interest rates peaking by the second quarter of 2023.

The general direction of a weakening U.S. dollar should alleviate pressure on emerging markets and so we retain our overweight position. Emerging market equities were down by 42% by late October 2022 from their peak in February 2021. Whilst past performance is not a guide to future performance we have been adding to our emerging market exposure over the last 18 months in anticipation of a better environment for this region in 2023.

Our optimism for Asian equities is based on our belief that equities are forward looking and typically turn 6-9 months before the economy. As the Chinese economy gradually starts to accelerate this should ease concerns that the economy will remain in a state of paralysis. Policy reflation in China could be more effective as zero-Covid restrictions are gradually phased out. We like companies like Yum China and Samsung Electronics, due to very long term sustainable growth dynamics within the industries they operate in.

Within the U.S. in 2022 there has been a rush to stable, predictable businesses with mostly dollar earnings like healthcare insurance business Elevance. Due to very expensive valuation levels (after strong outperformance) we sold Elevance and our attention is now on faster growing U.S. based companies and select Asian names.

At the beginning of 2022 multinational growth stocks were under pressure due to their expensive equity valuations; a strong dollar leading to negative earnings revisions and the lasting impact of travel restrictions on revenue acceleration and staff shortages. A weakening dollar, fewer travel restrictions and valuation multiples back to relatively attractive levels means we are positive on companies like Edwards Lifesciences, Thermo Fisher and Visa. As valuation levels stabilise we also believe new positions like Intuit and London Stock Exchange Group should demonstrate the benefits of being in predictable industries with strong recurring revenues.

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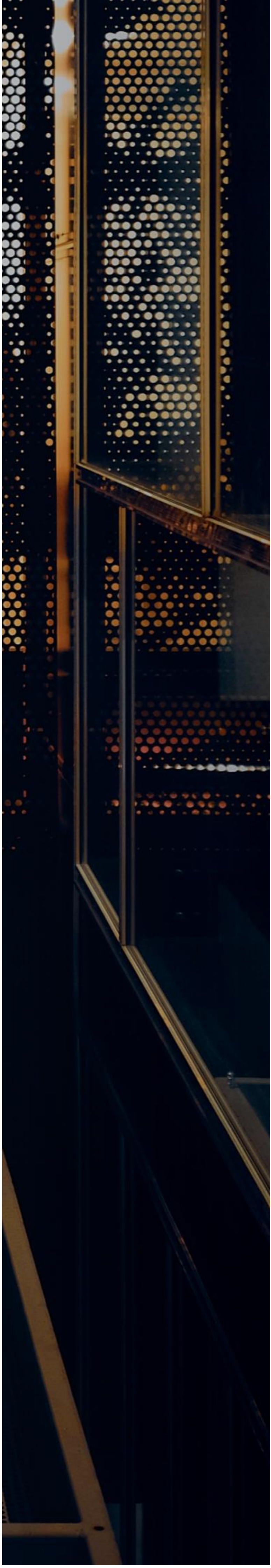

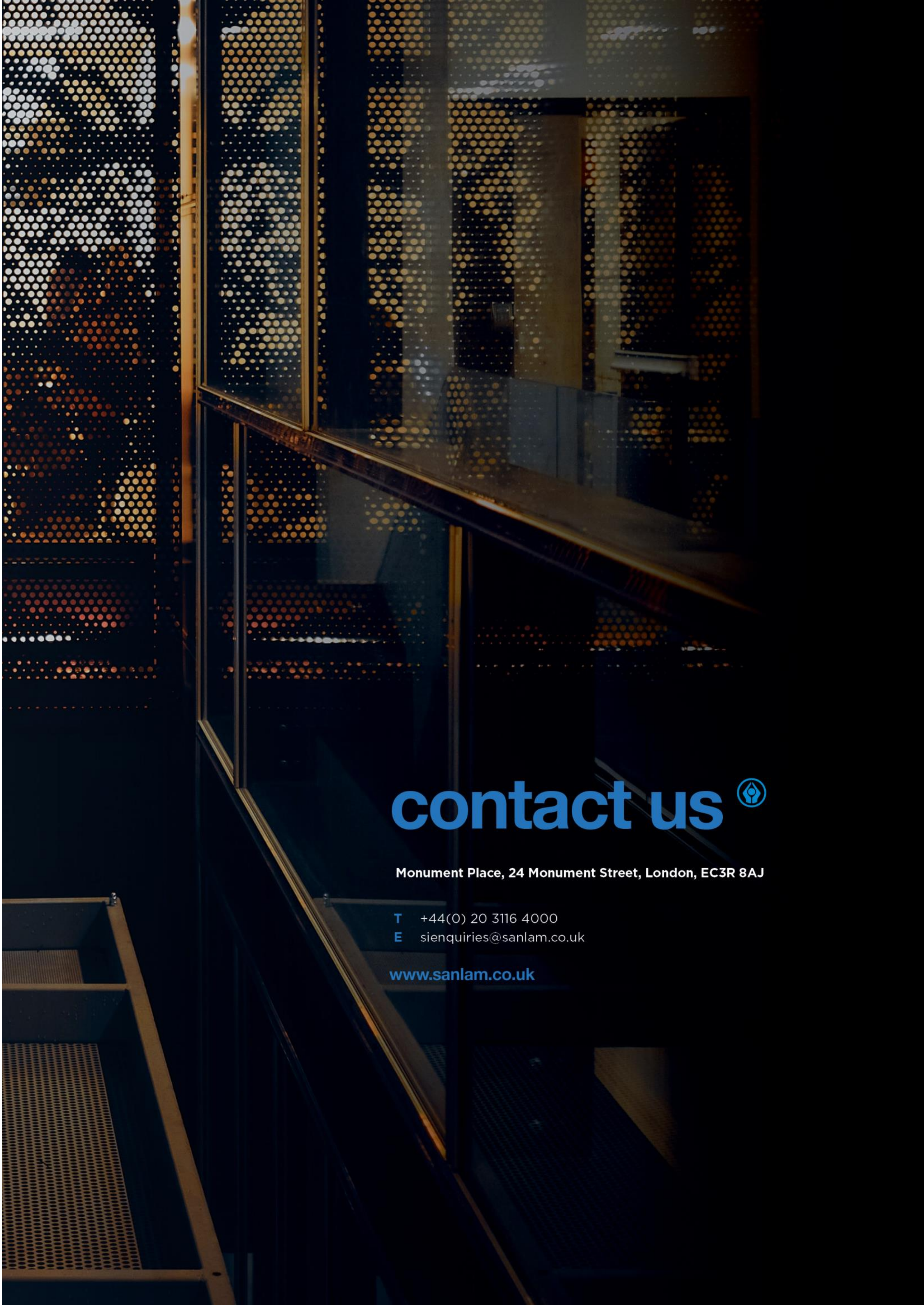

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