

7 ways investors might position themselves in 2023

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Mobeen Tahir

Director, Research

How shall we summarise 2022? A year of inflation? A year when the supposed V-shaped recovery went off-track? When, instead of becoming more united against common enemies, the world became more divided? When the devastating effects of climate change were on full display? Or, on a more optimistic note, when the pandemic finally ended...ish? When the world made measurable progress on the energy transition...

Either way, it was a challenging year for investors. What lessons can be learned and how might investors position themselves in 2023? In this blog, we muse 7 considerations from our perspective at WisdomTree:

1. Investors may look to play both defence and offence

In 2022, we saw investors largely playing defence. And understandably so. The need to maintain a strong defence will still be immensely important this year to tackle three key risks: 1. recession; 2. moderating but still elevated inflation; and 3. geopolitics. With central banks still expected to tighten monetary policy in the first few months of the year, the value trade could still be popular.

But, just like football where tournaments cannot be won by playing defence alone, we expect investors to start dialling up their offensive tactics this year. This may become particularly evident when we approach the point many might classify as 'peak hawkishness' from the Federal Reserve (Fed) and other central banks. Investors may turn towards high conviction themes to access growth in this phase of the cycle.

2. Investors will likely prepare to navigate more volatility

In a way, when it comes to economic outcomes, 2022 was a year of recession anticipation. 2023 could be the year when adverse outcomes materialise. It is hard to foresee the next 12 months free of further market volatility as the state of the economy changes, central banks react, earnings unfold, and so on.

Many investors turned towards quality to strengthen the core of their equity portfolios last year. Profitable, stable businesses with relatively low levels of leverage and high pricing power, tend to exhibit less volatility during periods of inflation and rising rates. More colour on this in our recent [blog on the topic](#). Continuing the football analogy, quality serves as the strong midfield - indispensable throughout the game whether playing defence or offence. We expect investors to continue seeking ways to make their core portfolios robust and ready to withstand further volatility.

3. Investors will closely monitor the commodity supercycle

2023 could be year 3 in the commodity supercycle. Some might even argue it could be year 4 if we reset the clock around April 2020 instead of January 2021. Either way, commodities have had a strong run in recent times. In 2022, when the S&P 500's total return was down around 18%, the Bloomberg Commodity Index was up nearly 14%¹, reinforcing the credentials of commodities as diversifiers.

Now, commodities are a diverse bunch and even within a supercycle, performance is driven by different sectors at different times. Last year, energy led the way. This year, energy may pass the baton to precious and industrial metals. We expect both strategic and tactical investors to closely monitor the developments in commodity markets this year.

4. Gold could be in fashion again

Given the inflation numbers, what should have been smooth sailing for gold in 2022 became the perfect storm for gold because of how aggressively the Federal Reserve responded. If, in 2023, the upward pressure on the dollar and Treasury yields eases, economic growth numbers deteriorate while inflation remains high, gold could shine again. This was also outlined in a [recent interview to CNBC](#).

Moreover, gold recoveries tend to bode well for silver. The gold-to-silver ratio reached an all-time high in March 2020². This was followed by 12 months of pronounced silver outperformance relative to gold. The ratio reached another peak in September last year and, since then, silver has been delivering the promised recovery. Some investors may look to express their gold views via silver, especially if they see silver's encouraging industrial outlook due to the energy transition.

5. Demand for industrial metals could rise

Much like growth stocks, industrial metals temporarily lost their mojo last year. As we highlighted in our [recent commodity outlook](#), the disappointing recent performance of industrial metals has created a disconnect between the fundamentals of the physical market and what market pricing is reflecting. Physical inventories for most metals are meaningfully below historic averages, while prices have lately been fixated on lockdowns in China and the prospect of a global recession.

China relaxing its lockdowns could catalyse the recovery in industrial metals. China's Manufacturing Purchasing Managers' Index (PMI) was in contractionary territory between August and December last year. If the country's economic engines start firing again, fuelled by supportive monetary policy, industrial metals may stand to benefit. And the ever-present tailwind from the energy transition could further amplify this recovery if the macro backdrop improves.

6. Investment in the energy transition will likely accelerate

From Hurricane Ian in Cuba and Southeast of US to drought in China and Europe, and floods in Pakistan, the devastating effects of climate change were on full display last year. Moreover, soaring energy prices have driven the point home that we must act now to ensure energy security in a way that is viable both economically and environmentally.

In all our recent conversations with investors, the common thread has been that tackling climate change requires an 'all of the above' approach to energy transition solutions. This means that technologies like renewables, batteries, hydrogen, biofuels, recycling, carbon capture, and many others, all have crucial roles to play. 2022 even closed out with some buzz around a nuclear fusion breakthrough. Many other technologies, however, are already commercially available and making an impact. We expect investors to continue seeking ways to optimise how their capital gets deployed towards the most promising innovations.

7. A greater focus will be on execution

When it comes to finding ways to express their investment views, investors are increasingly spoiled for choice. And that is a good thing. But, as the menu of options increases, so does the amount of homework required to make an informed decision. We expect investors will embrace this added responsibility, dig deeper into what is available, pose challenging questions to investment managers, and look to deploy capital most effectively.

Take thematic investing as an example. WisdomTree's ethos is to build solutions informed by subject matter experts. In most cases, this is done through external partnerships. It allows WisdomTree to learn about topics like artificial intelligence, cyber security, and the energy transition etc. from specialists and transfer the benefits of that knowledge to investors. We expect investors to scrutinise this, among other approaches, more closely in the year ahead as they look for ways to access growth and make an impact with their capital.

A final word

This list is anything but exhaustive. Predictions can only be made about known unknowns. To paraphrase the former US Secretary of Defence, Donald Rumsfeld, there are also unknown unknowns, the ones we don't know we don't know. In other words, the future is uncertain, and investors will inevitably adapt as the year progresses.

1 Source: Bloomberg.

2 Source: Bullionbypost.co.uk

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