Liontrust Views: Our teams' outlooks for 2023

Peter Michaelis, Sustainable Investment team:

2022 was a challenging year for investors, especially for those investing sustainably. And yet we are more excited about the prospects for the coming twelve months than we have been in years.

This confidence comes from the strength of powerful, persistent long-term sustainability themes, the high quality of businesses aligned with solving these critical sustainability challenges, and the much improved valuations at which they now trade. We have taken advantage of the broad-based sell-off to add to certain companies that we have long admired in every aspect except valuation.

James de Uphaugh, Global Fundamental team:

How will the UK equity markets fare in 2023 after we exit 2022 with "permacrisis" as the Collins word of the year? Three points are worth noting: firstly, valuation trumps sentiment over the long term; secondly, shares are rarely a bargain when all the news is rosy; and thirdly, the consensus tends to over-focus on the short term.

The chance of bad outcomes is dramatically reduced in 2023, thus the Liontrust Global Fundamental Team is focussing on how our companies are positioned strategically for the next few years.

Clare Pleydell-Bouverie, Global Innovation team:

Despite inflation and slowing economic growth, innovation is steaming ahead. Why? Innovation drives down prices for customers and operating costs for businesses, so it is a godsend in the face of high inflation and scarce growth. Indeed, necessity is the mother of invention and such counter-cyclicality in innovation is the historical norm. The depths of the Global Financial Crisis in 2008 spurred 126 unicorns including Uber, AirBnB, Instagram and Whatsapp, while both Microsoft and Apple were founded during the recession and inflation spike of 1975. Today's innovation pipeline across the economy is booming.

2022 was a painful year investing in innovative companies, but as long-term investors focused on high quality companies, these are the moments when we are most excited about putting capital to work.

Anthony Cross, Economic Advantage team:

Because our investment process focuses on intangible asset strengths, it has a bias towards less (physical) asset-intensive businesses. Our smaller companies also often have a strong owner-manager culture, a consequence of a requirement for at least 3% senior management equity ownership. This tends to be accompanied by a more conservative business ethos focused on organic growth and lower balance sheet gearing.

While heavily indebted, capital-intensive companies are exposed to rising interest costs and inflated capex spending, our businesses should be able to prioritise capital allocation towards growth and investment. Hopefully, this should set them up to emerge from the current macroeconomic turmoil in decent shape and thrive once conditions normalise. In the meantime, we have been trying to view the UK market sell-off as a period of disruption which should present investment opportunities, particularly lower down the size scale.

Phil Milburn, Global Fixed Income team:

The good news is that inflation will be heading in the right direction, but the bad news is that this comes at a cost of a recession in 2023, although we don't yet know just how deep it will be.

Rates are peaking and the conditions will be in place by the end of 2023 for them to be able to be cut again, albeit not to the ultra-low levels we saw prior to 2022. We believe this is a good environment to be owning bonds. Credit offers compelling long-term value, but one definitely has to be selective given the inevitable recession we will experience in 2023.

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Thomas Smith, Global Equity team:

With China now firmly set on a path to relaxing its zero Covid measures and reopening its economy, this could provide a much needed boost to global demand which would benefit Latin America's exporters in 2023. But the most important drivers this year will likely be more domestic in nature. President Lula took office in Brazil on January 1st and whether he repeats previous mistakes made by his leftist Workers' Party or governs in a more pragmatic, fiscally responsible way will ultimately determine the returns in Brazilian equities in the coming years.

In Mexico, the key trend to watch will be the evolution of nearshoring. Mexico's competitive advantages in manufacturing have been a tailwind for years already, but this has been further reinforced by trade wars and geopolitical tensions, as well as the supply chain disruptions caused by the pandemic.

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Samantha Gleave, Cashflow Solution team:

Our investor anxiety indicator has been a very effective indicator of market inflection points and how we should then be positioned. Today, it has climbed back to the very high levels seen in summer 2020. However, during that period, a number of our other indicators were also very constructive, for example, an attractive market valuation and benign corporate behaviour. This is not the case today. Overall market valuations are less expensive than at the start of the year, but we are not yet in cheap territory on our measures. Concurrently, our corporate aggression indicator is still (worryingly) high.

We are also continuing to monitor the valuation of different investment styles. On our measures, high forecast growth still appears expensive while value stocks are still lowly valued – despite a re-rating year to date.

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