Chief Economist Shane Oliver's

Market Outlook for 2023

A quick recap of 2022

The good news is that 2022 finally saw the world shake off the grip of the pandemic. But the past year turned out more difficult than expected for investors.

- Inflation surged to levels not seen for decades.
- Russia invaded Ukraine, leading to higher energy and food prices.
- Central banks raised interest rates at the fastest pace in decades.
- Bond yields surged in response.
- Chinese growth fell sharply.
- Geopolitical tensions worsened with war in Ukraine and worries about China-Taiwan.
- Investors increasingly fretted about recession.
- Tech stocks and crypto currencies were hit hard.

A look back at investment returns and 2023 forecasts

Despite these problems, global GDP (Gross Domestic Product) is **expected** to come in at around 3.2%, down from 6% in 2021 and Australian GDP is expected to be around 3.5%, down from 4.8%.

3.2%

Global GDP

Down from 6%

3.5%

Australian GDP

Down from 4.8%

Investment returns for major asset classes

Total return %, pre fees and tax	2021 actual	2022 actual	2023 forecast
Global shares (in Aust dollars)	29.6	-12.5	4.0
Global shares (in local currency)	24.3	-16.4	7.0
Asian shares (in local currency)	-6.8	-18.3	10.0
Emerging mkt shares (local currency)	-0.2	-15.5	10.0
Australian shares	17.2	--1.1	10.0
Global bonds (hedged into $A)	-1.5	-12.3	3.0
Australian bonds	-2.9	-9.7	4.0
Global real estate investment trusts	30.9	-25.9	9.0
Aust real estate investment trusts	26.1	-20.5	9.0
Unlisted non-res property, estimate	12.3	9.5	4.0
Unlisted infrastructure, estimate	12.0	4.0	5.0
Aust residential property, estimate	23.0	-7.0	-7.0
Cash	0.0	1.3	3.1
Avg balanced super fund, ex fees & tax	**14.3**	**-5.2**	**6.3**

* Source: Thomson Reuters, Morningstar, REIA, AMP

Looking forward to 2023 | 4 reasons to be cheerful

With inflation still way too high, we're likely to see ups and downs on investment markets. But there is reason for optimism.

Inflationary pressures look to have peaked so **inflation** could fall faster than expected.

Interest rates are likely at or nearing their peak, with rate cuts possible in Australia in late 2023/early 2024.

The **geopolitical situation** may not be so bad with, for example, relations with China

While the risk of **recession** is very high, it may not turn out as bad as feared.

- In the **US** it may just be a sharp slowdown or mild recession.
- **Europe** has moved away from Russian gas very quickly and providing its winter is mild, may continue to hold up better than feared.
- After initial Covid-related setbacks, **Chinese** growth is likely to rebound as it reopens.
- **Australian** growth is likely to slow but avoid recession, reflecting the less aggressive RBA, the pipeline of home building work and a strong business investment outlook.

Overall, global growth in 2023 is likely to be around 2.5%, well down from 6% in 2021, but not a recession. In Australia, growth is expected to slow to 1.5% and inflation is likely to fall.

7 bumps on the way

While this should make for better returns in 2023, there are likely to be bumps on the way.

Global shares are expected to return around 7%.

Australian shares are likely to outperform again – expect the ASX 200 to end the year at around 7,600.

Bonds are likely to provide returns around running yield or a bit more.

Unlisted commercial property and infrastructure are expected to see slower returns.

Cash and bank deposits are expected to provide returns of around 3%.

The **Aussie dollar** is likely to rise.

Australian home prices are likely to fall further as rate hikes continue to impact, resulting in an overall fall of 15-20%, but with prices expected to bottom around the September quarter, ahead of gains late in the year as the RBA moves toward rate cuts.

5 risks to keep an eye on

An escalation of the **Ukraine** conflict could impact Europe.

US politics – the return to divided government risks market volatility.

China – increased tensions around Taiwan.

Australian home prices – a sharper than expected fall as fixed rates reset to variable and unemployment rises, could cause financial instability.

Inflation – if it continues to rise, central banks could raise rates further, risking deep recession.

Dr Shane Oliver
Head of Investment Strategy and Chief Economist, AMP

If you have any questions or would like to learn more, please reach out to your Financial Adviser.