FINANCIAL LIFE CONCEPTS

"Financial Planning with Integrity"

Commonwealth 2023 Economic and Market Outlook – Executive Summary
Presented by Christopher Phelps

As we prepare for 2023, we need to reckon with what happened in 2022. Both stock and bond markets were down around the world. Still, the U.S. and global economies showed impressive resilience despite multiple disruptions. The worldwide challenges included pandemic shutdowns in China, the war in Ukraine, and inflation, which hit a 40-year high. Given this environment, what can we anticipate for the economy in the year ahead?

First, we'll see the same disruptors as we did in 2022. Supply chains have largely recovered from the pandemic shutdowns. But manufacturing will continue to be held hostage as China struggles to stay open despite medical and geopolitical complications. The war in Ukraine will continue to disrupt global food and energy markets. The divided nature of the U.S. government following the midterm elections is likely to ratchet up the political conflict. The Federal Reserve (Fed) will keep tightening monetary policy until inflation drops significantly.

But there's good news, too. Just as 2022 had a surprisingly positive economic outcome, 2023 is likely to fare better than the headlines would have us believe. Job growth should continue to show strength. Healthy levels of employment and wage growth will support consumer confidence and spending. The labor shortage will keep businesses investing, paid for by consumer spending. For the private economy, the signs suggest healthy growth.

What weaknesses could affect that outlook? The housing and manufacturing sectors are slowing down, which will hurt business investment across the board. The Fed's actions to reduce inflation will continue to dampen the economy. Depending on how hard higher rates bite, we could see a recession in 2023. But if we do, we don't believe it will be the deep recession the headlines are screaming about.

A shallow recession much like the one we saw in the first and second quarters of 2022 is more likely. Labor market fundamentals are expected to remain sound, and inflation is likely to roll over. So, the damage should be limited in severity and duration. The stage will be set for the Fed to declare victory over inflation and stop tightening monetary policy. And that should enable future growth.

For the markets, we can expect continued volatility in the short term, but our outlook for the coming year is cautiously positive. Economic growth is likely to resume, and interest rates should stabilize. With market valuations at the lower end of the recent range, these factors should provide considerable cushion to limit further short-term declines and support gains by year-end.

There are no guarantees, of course. But 2023 may bring a soft landing for the economy and an improved outlook for the markets.

Let’s dive deeper into the opportunities and risks at play.

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Authored by Brad McMillan, CFA®, CAIA, MAI, managing principal, chief investment officer, at Commonwealth Financial Network®.