



## Outlook and deflation for 2023

*by **Marco Capponi***

*After a year in which the markets' worst fear was skyrocketing increases in the cost of living, there could yet be a turnaround in 2023. "The main macro-trend of the year", explains **Roberto Bianchi**, head of fund investments and portfolio manager at **Banor Sim**, "will be deflation". He explains the mechanism as follows: "Inflation is created when you have aggregate demand growth and monetary expansion. In the last quarter of 2022 inflation peaked while economic growth slowed down. But in 2023, we will almost certainly see the opposite situation: aggregate demand should initially be weak while central banks should do an about-turn to resuscitate the economy". What does this imply for investors? "As*

*inflation and rates fall," Bianchi clarifies, "bonds will take off again and will outperform equities, at least in the first part of the year." As has often happened in the past, the Federal Reserve would be the first central bank to react when faced with such a scenario, "driving down Treasury yields and thus further weakening the dollar." Bianchi argues that this will then trigger a domino effect, which will produce two winners in particular: "A weakened greenback is good for emerging markets and commodities." Finally, there will be a further trend to keep an eye on over the course of the year. "The end of China's zero-Covid policy," asserts the **Banor** asset manager, "will prompt an economic recovery right across Asia." (All rights reserved)*