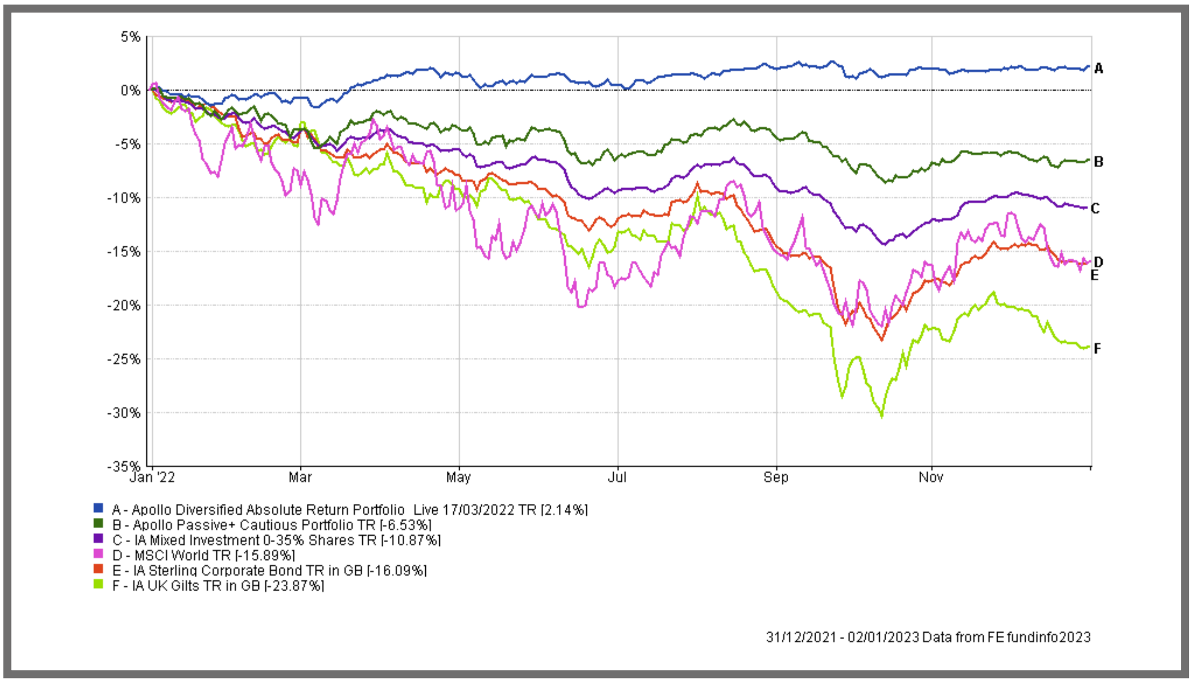
APOLLO MARKET OUTLOOK 2023

The outlook for 2023 is uncertain and complex. Markets have been too complacent in their expectations of a Goldilocks scenario for growth and inflation, predicting a mild recession and an early reduction in rates by Central Banks. At Apollo, we have become students of history and past inflation cycles, listening to the sages of industry and their past experiences. Our gut feel is that inflation will be more sticky and stubborn than the market thinks. While inflation looks to have peaked in the middle of 2022, we believe interest rates will need to stay higher for longer and unemployment to rise before the cycle can turn. In 2023, 5 is the magic number! The scenario we see is that rates will peak at over 5%, the Federal Reserve will induce a recession and look for unemployment numbers to head above 5% to tame inflation. In both their latest central bank meetings, the Federal Reserve and the ECB have made very resolute statements in their desire to fight inflation. Therefore, this will be the first induced recession since the 70s and it is highly unlikely that the central banks will come to the aid of the markets or the economy until persistent inflationary pressures are quashed.

While it may be a difficult year ahead, we have confidence that for active asset allocators there will be many opportunities to trade markets. The days of the 60:40 portfolio and passive asset allocation are dead. One needs a diverse portfolio across multiple asset classes, active asset allocation within those asset classes and/or sectors; and most importantly to be nimble. It is unlikely, that headline index returns will be comparable to those seen over the last 10 years, and asset allocators will have to work hard by moving money geographically, sectorally and with style bias to achieve returns.

The chart below demonstrates the benefits of having a truly diverse multi asset allocation especially during periods of uncertainty. The performance chart for 2022 compares the Apollo diversified absolute return portfolio and our Passive Plus Cautious portfolio versus the IA Mixed Investment 0-35% shares, IA Sterling Corporate Bond, IA UK Gilts and the MSCI World Index.



Source: FE Analytics 31.12.21 – 02.01.23

For equity markets, valuations have become attractive in many geographical regions, however, there is still some uncertainty as to the whether the potential recession and earnings downgrades coming have been fully reflected. We maintain an overall underweight to equities but remain confident there are still opportunities to make good money over the long term when focusing on structural trends such as aging populations, deglobalisation and energy transition. China and its post Covid recovery remains a question as does its political aspirations; we will be monitoring this very closely as the direction of China both from a growth perspective and a political perspective will have huge bearings on the global economy and markets in 2023. We continue to favour managers focused on value over growth, strong dividend companies and those with business models that can sustain a recession.

Within fixed income markets, we see pockets of value in the investment grade space. 2022 saw some of the largest downgrades in value ever in the fixed income market. While we believe inflation will be stickier than the market predicted, there is value in shorter duration assets, however, there are some risks to credit and higher yielding bonds should the recession be deeper than the market expects. In fourth quarter of 2022, we increased our weightings to fixed income but remain underweight; and prefer allocating to absolute return and alternative funds.

The asset class which produced positive returns overall last year was the basket of absolute return strategies, most importantly in a year where most asset classes fell. We have always been truly multi asset and believe there was always a place for absolute return alongside the traditional asset classes. We have a very diversified approach to absolute return combining 12 to 16 strategies and funds, which we believe provides the best opportunity to produce steady low risk and diversified returns. Going into 2023, we maintain an overweight position and see added opportunity with higher interest rates for these strategies as the interest earned on the cash on the funds' balance sheets will be higher than in previous years.

As a further diversifier, we added gold at around $1650 per troy ounce via an ETF. This was the first time we have invested in physical gold since 2012. We noted in the third and fourth quarter of 2022 positive trends in the level of central bank buying of gold as investors looked to safe havens diversification away from US treasuries.

Lastly, for real assets including infrastructure and property, 2023 looks to be a challenging environment. We remain underweight and have concentrated our exposure within niche and specialist investment trusts that have either a level of inflation protection or income which is largely immune from a recession.

To conclude, 2023 is another year in which a truly diversified multi asset, actively managed portfolio will be able to navigate, defend when necessary and take opportunity as it presents itself to achieve the best returns possible.

APOLLO MUTLI ASSET MANAGEMENT

Founded in 2008 with two of the first multi asset funds in the UK, Apollo has a proven track record of building strong, lasting relationships with clients and financial planners alike. After the launch of the first funds, Apollo quickly adapted to the growth in platform-based portfolios with the launch of the risk graded, platform-based portfolio range called Athena. In the subsequent years, due to client demand, we have continued to innovate and have launched a range of multi asset Passive+ portfolios, an ESG solution and a DFM range of portfolios.

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