

JANUARY 2023

THE TRADE PRESS

The Federation of European Independent Financial Advisers



It is always darkest
before the dawn

See page 4/5

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It is always darkest before the dawn: an outlook for 2023

TAM Europe Asset Management discusses.

2023

Medicine first; corporate earnings are still too optimistic in our minds. We are anticipating Q4 company earnings to begin to show a more negative set of corporate growth numbers and forecasting earnings for 2023 to be lower from here. This scenario usually spells more negativity for markets in the short term so not quite time to call an end to volatility just yet.

Another risk is the potential for inflation to remain stickier than many think, resulting in central bankers having to keep interest rates higher for longer. Predominantly the longer they stay high the higher the chance of an economic contraction. We see global GDP contractions continuing in the UK and Europe, and potentially in the US over most of 2023, and this appears to be the consensus of the market right now.

Don't discount the potential for the US market to actually remain strong over Q4 and surprise markets with a very good set of corporate earnings numbers. This, combined with lower inflation, will likely cause the market to remain positive, which is certainly a good thing in the short term.

Longer term this picture clouds as fears that high inflation will need to be controlled, and if the economy is strong then that's only more impetus for central banks to keep raising rates until they break inflation, and history tells us this is where recessions occur.

As we move into Q4 2023, we expect to see stock markets, despite recession probabilities, to begin to price in an inevitable economic recovery. This is less of a hope and more of a reliable and sequential response from markets historically which usually prices forward of the current economic condition by six to nine months.

This could be a very exciting time as investors start to "buy the dip" ahead of what could be a strong bull market in which clients can expect to return back to an environment where gains are seen each year, as opposed to losses... hurrah!

TAM's investment team is spending considerable time evaluating areas of the market which have been heavily sold and are now at prices well below their fair value. Some of these are the likes of emerging market stocks, including China, which have suffered this year at the hands of their zero COVID policy. We also see the potential for UK small and mid-cap stocks to shine, as prices for quality companies are at generational lows. TAM's expertise in the UK sector has positioned us very well to identify the opportunities in the UK, as well as the funds to invest into to capture the full rally back in this market.

Finally, as a result of the terrible war in Ukraine, we see a huge level of potential coming from European value stocks which are, like UK mid-caps, now at generational lows in some areas. ESG sectors are setting themselves

up for a strong rally. Specifically, in areas linked to sovereign energy independence and particularly green energy independence. There's nothing like having your nation's fuel held to ransom by Russia to make you realise things have to change. This positivity should manifest itself in the green energy transition and green energy infrastructure sectors, to name two. Again, TAM's decade of running ESG portfolios has put us in a fantastic position to be able to isolate the best funds in these areas to put into client portfolios ahead of that influx of attention.

So, all in all a negative start to the year as we continue to digest a developing recessionary narrative which we believe will progress into a positive latter stage of the year as the market begins to anticipate the green shoots of economic growth moving into 2024.

I would like to take this opportunity to wish you all a very happy new year, and try to remember, amongst the gloom of price increases in just about everything, high energy costs and strikes across the nation, it can all seem very bleak out there. But try to remember that it's always darkest before the dawn, and nowhere is this truer than in the markets. We at TAM are focusing on the positives and getting your portfolios back into rally mode as soon as we are able.

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