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WWTD - FEATURE

Market Outlook 2023

EUROPE

Stagflation

INSIDE

Winter Recession

Negative GDP growth during the winter months

Gas Shock

Ban on Russia gas has compounded the inflation problem in Europe

Higher Interest Rates

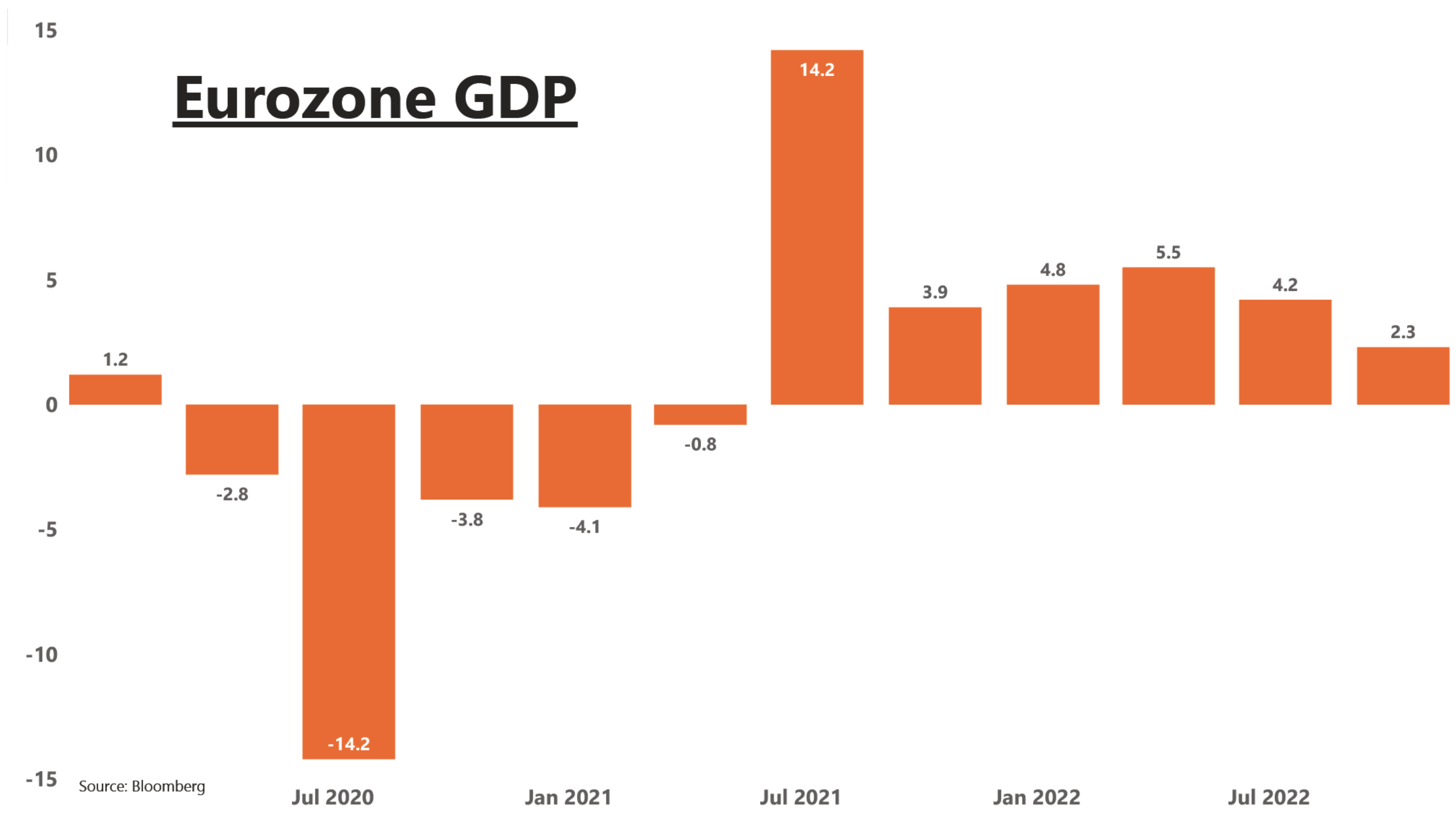
We expect ECB to continue pursuing a tight monetary policy in 2023

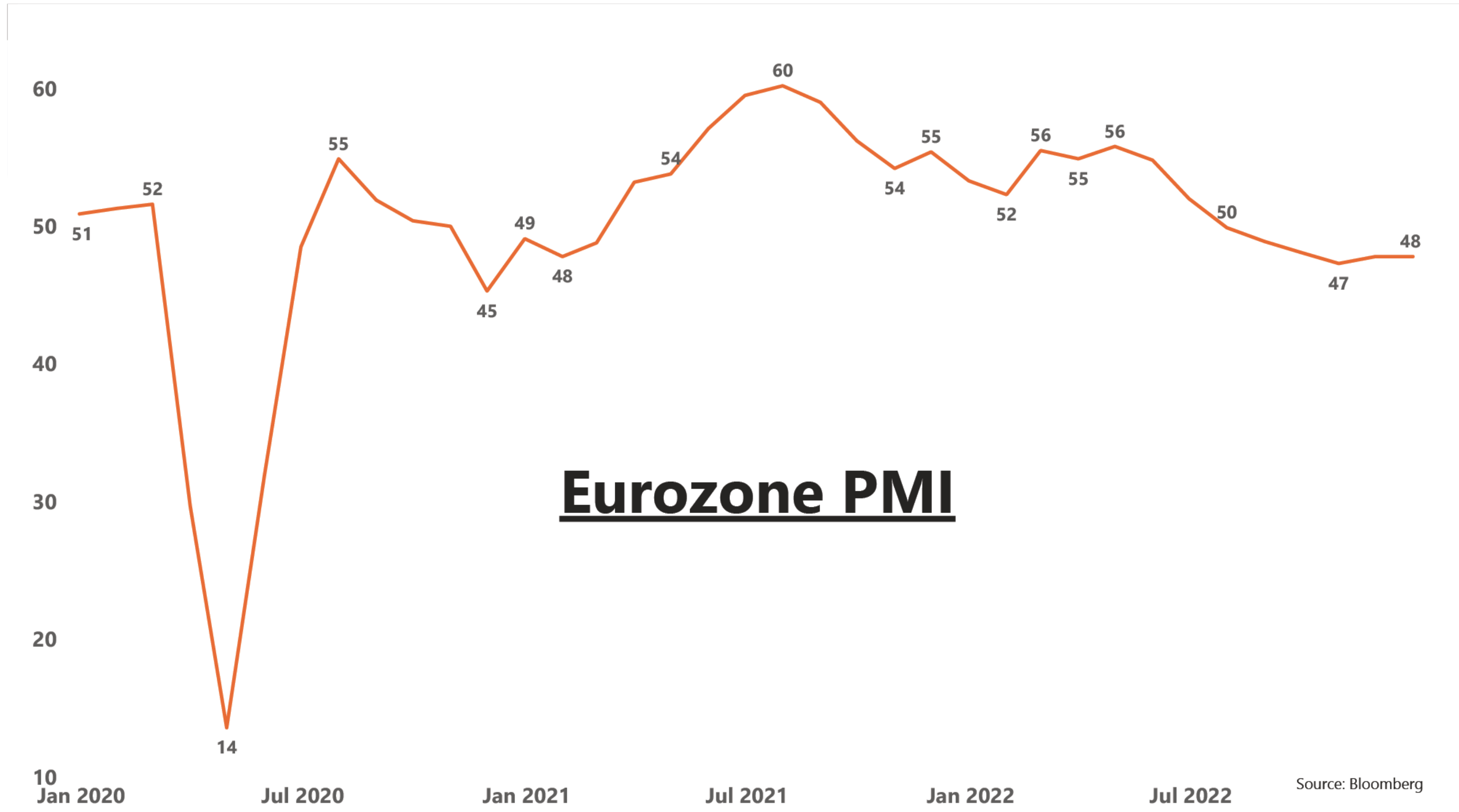
Recession and High Inflation

Inflation is wreaking havoc in Europe, and this is driven by the ban on Russia gas. The ECB is also behind the curve in tackling inflation as it is the last central bank among its peers to hike interest rates.

We expect the Eurozone to face a stagflation situation of economic recession and high inflation. The ECB is facing a tough choice of hiking interest during a period of economic downturn.

Hence, we believe that European equities will likely under-perform compared to the US and Asia.





Winter Recession

We expect Eurozone to face negative GDP growth during the winter months.

Eurozone PMI is hovering near a 23-month low of 47.8. A sub-50 PMI reading is a sign that the Eurozone economy is contracting.

October PMI marks the fourth consecutive monthly decline starting from July.

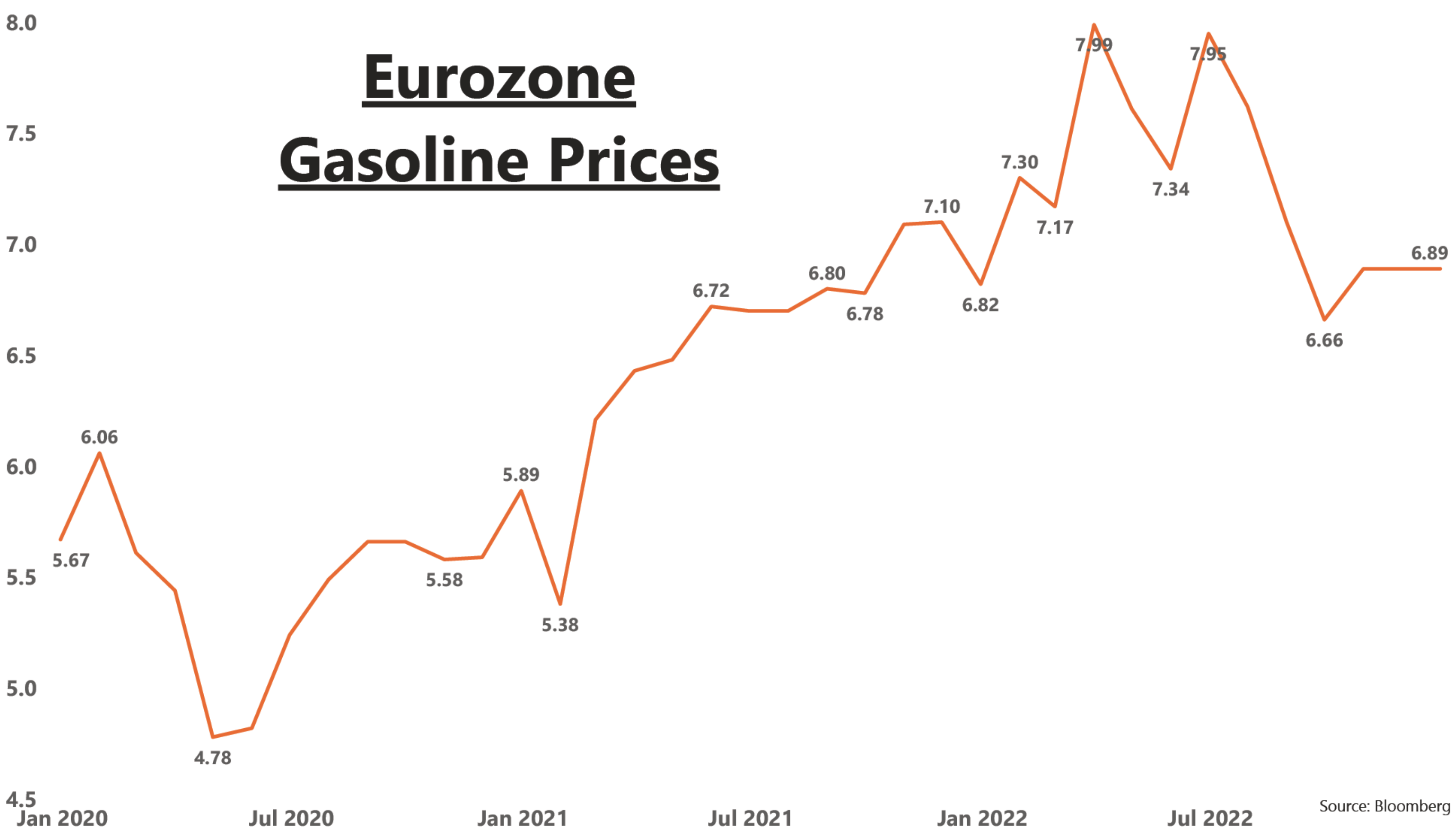
Gas Shock

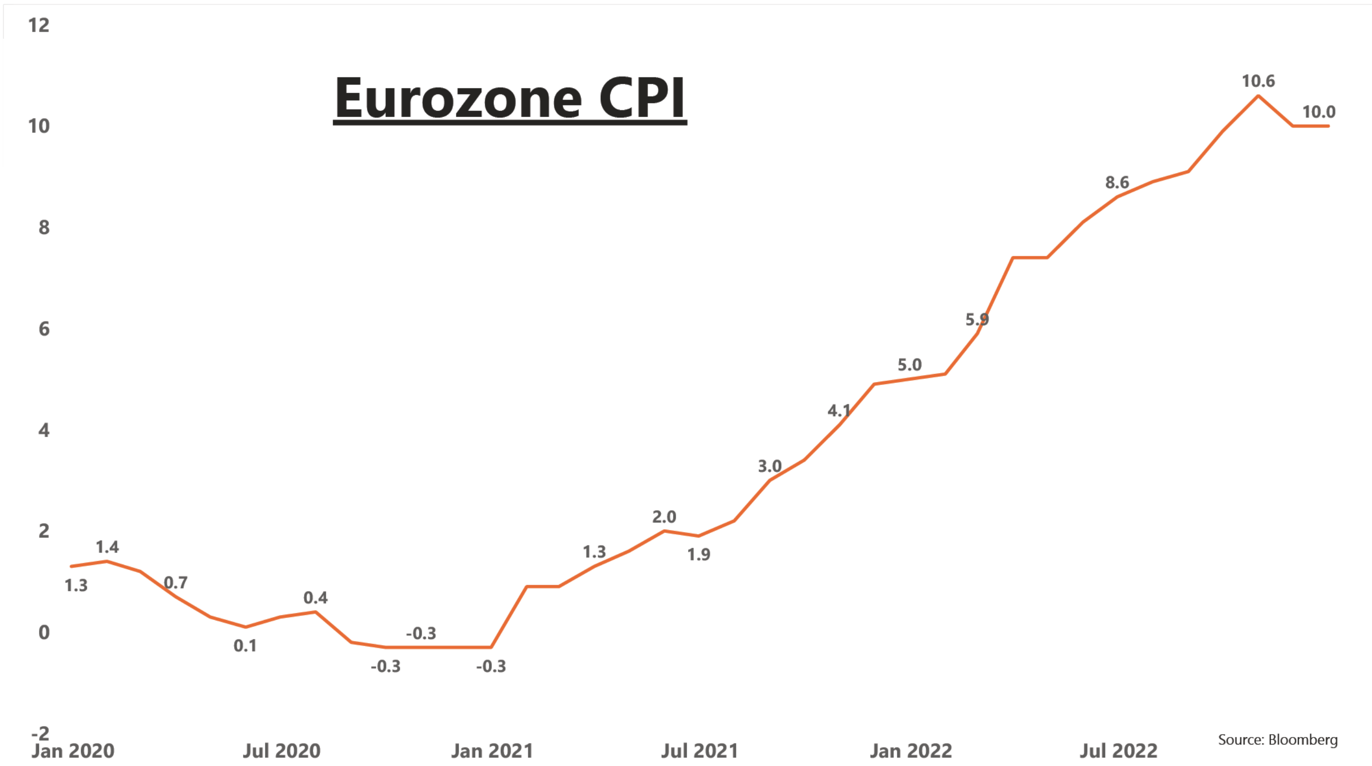
Starting Dec 5, the European Union has placed a ban on seaborne crude imports from Russia. This will be followed by a ban on refined petroleum from Russia in February 2023..

Europe is highly dependent on Russia for gas. Without Russia gas, Europe needs to import higher volume of Liquified Natural Gas to fill the gap created by lost Russian exports.

This has resulted in higher energy prices and could tip the Eurozone into recession.

The greatest impact will be on the Chemicals and Metals industry due to gas rationing. The trucking industry also faced higher cost as Russia is a key supplier of diesel to Europe.





Surging Inflation

Eurozone inflation reached a multi-year high of 10.6%. This is almost five times the 2% inflation target set by ECB.

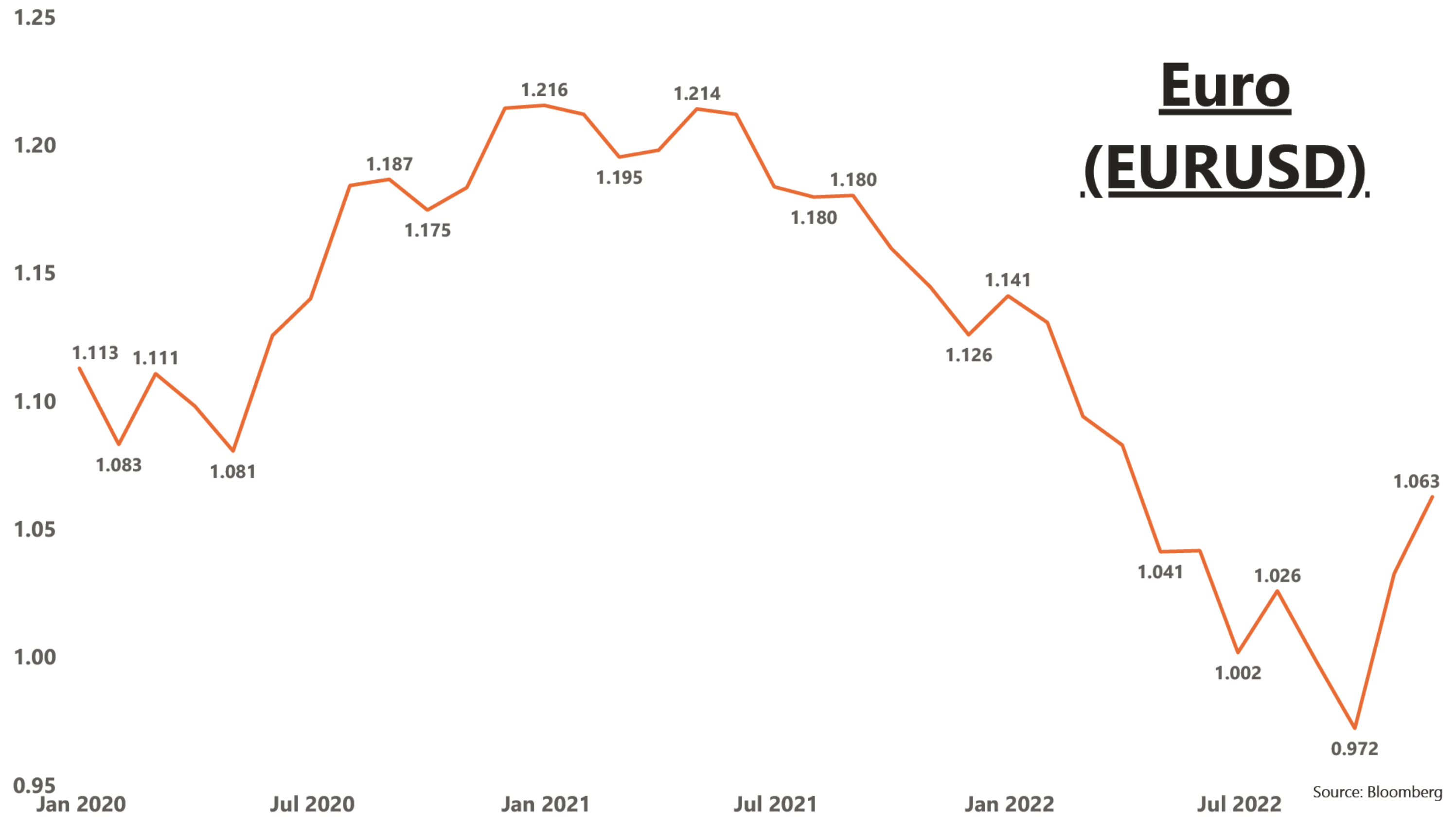
The main driver of high inflation is the Russia gas ban which resulted in higher energy and transport costs.

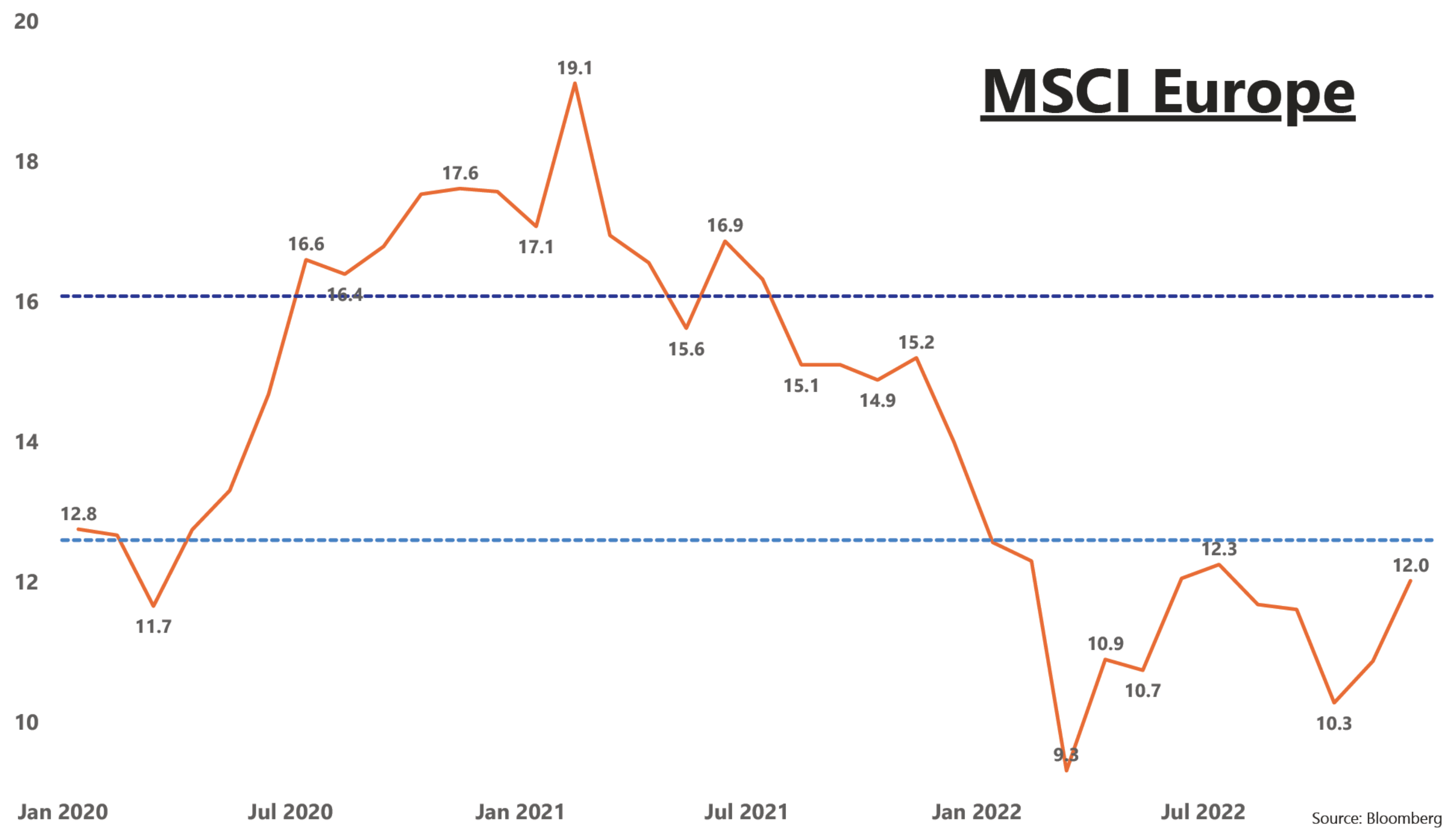
Higher Interest Rates

The ECB was the last among its peers to begin raising rates by waiting until July. In contrast, the US Fed began hiking interest rate in March.

Currently, the 10-Year Eurozone yield is around 2%, still far below its 30-year average yield of 3.25%.

By year-end, the deposit and refinancing rates are expected to reach 2% and 2.5% respectively. We further expect ECB to maintain a tight monetary policy in 2023.



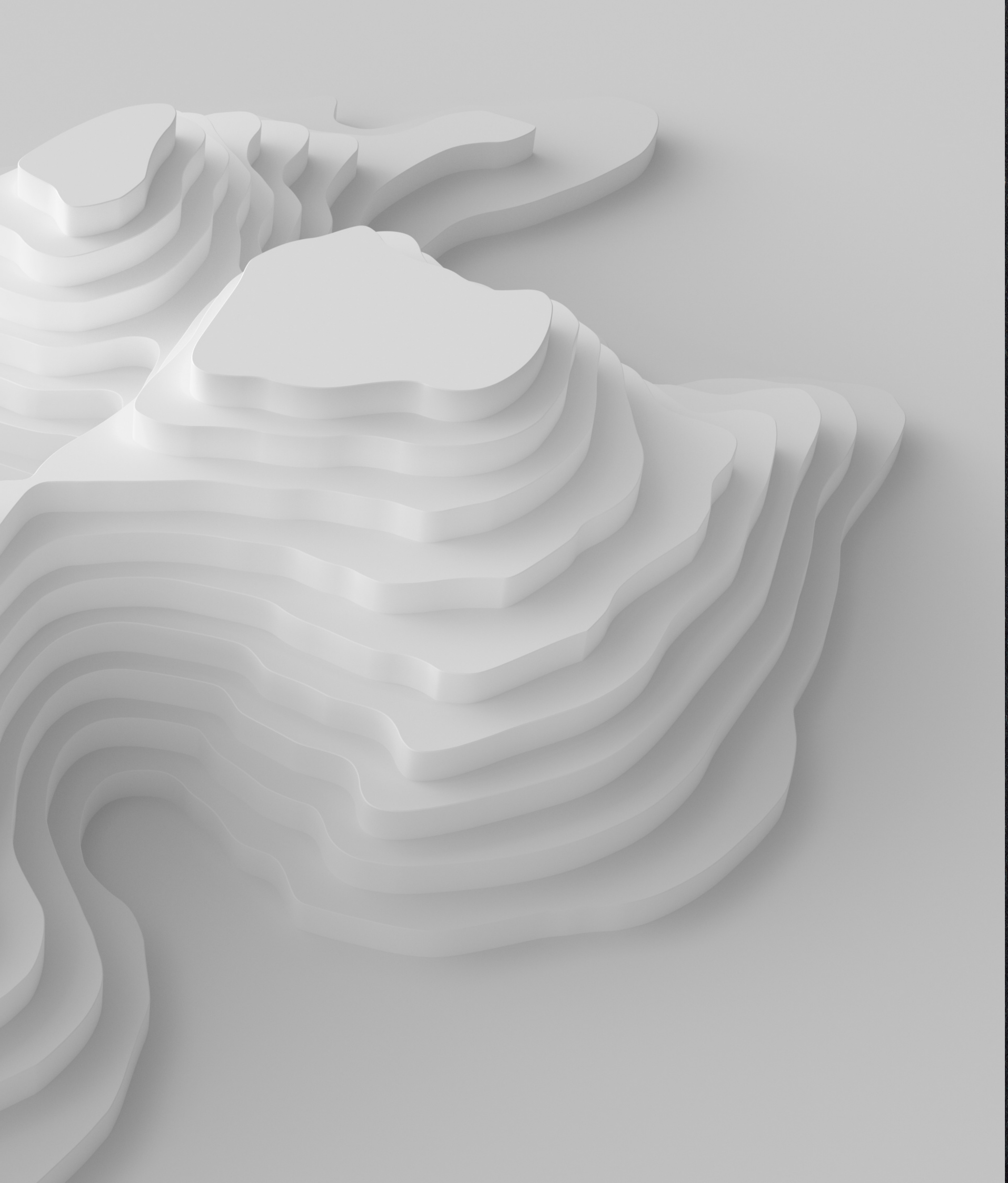


MSCI Europe to underperform

Our 2023 target for MSCI Europe Index is 144.7. This represents a P/E of 11.7x, 1.25 standard deviation below its 3-year mean P/E.

MSCI Europe Index is currently trading at 12.0x forward P/E, close to 1 standard deviation below its 3-year mean P/E.

We believe that the Eurozone equities will underperform due to the stagflation conditions of high inflation as well as recessionary economy



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