Ninety One

Investing for a world of change

Position for growth in 2023

Clyde Rossouw
Co-Head of Quality

How has Quality performed versus the broader market in 2022?

It is important to stress that there are various expressions of Quality, including defensive businesses such as staples, structural growth stocks such as technology and cyclical companies such as financials. It has clearly been a challenging year for investors, and broadly speaking, Quality has performed in line with the market, largely as a result of the valuation adjustment we have seen, because stocks have all become cheaper across the board. There has been no fundamental problem with the stocks or their earnings; it has been more about what multiple the markets have been prepared to pay for those stocks, which has decreased in the face of rising interest rates.

What do you think will be the key drivers of equity markets in 2023?

We expect geopolitical uncertainty to remain with us for some time to come. What is likely to change though, from an investment perspective, is probably the outlook for inflation and ultimately, therefore, earnings growth and whether or not we'll be in a recession by this time in 2023. Some of the big drivers of inflation – such as oil, copper and iron ore – are already starting to moderate and, as a consequence of that, investors should look to a more interest rate friendly environment in 2023. The importance of this is that we can then get back to focusing on things like company earnings; how fast companies are going to grow at and worry less about whether or not stocks need to de-rate and need to become cheaper.

How do you expect Quality to perform in 2023?

We believe the stocks that are probably likely to underperform in 2023 within the broad Quality banner would be the more defensive stocks, such as pharmaceuticals and consumer staples. In contrast, those businesses that are more strongly endowed with growth characteristics – such as technology – are probably going to be higher up on the performance stakes next year. So, within the Quality spectrum, we believe it is important that managers position their portfolios for growth next year, and not treat all Quality stocks as a single item.

Should growth outperform value in 2023?

The attraction of value is obvious in a rising rate environment because investors tend to have shorter-term investment outlooks, so they are very happy to try and bank returns for one or two years. However, as soon as things normalise a little bit more, investors can find themselves invested in businesses that have attractive upfront valuations but are more likely to be at the top of the cycle from an earnings perspective – whether that's energy companies where oil is moderating or refining margins are declining, or whether it's banks where the interest rate cycle has unequivocally been supportive of their earnings. Instead, investors need to look for businesses that have the next level of growth beyond some of these cyclical characteristics. While there is still some time to run until the rate environment normalises, we believe that the value tailwind is beginning to run out, which will favour those stocks with access to growth.

Important information

Australia
Level 28 Suite 3, Chifley Tower
2 Chifley Square
Sydney, NSW 2000
Telephone: +61 2 9160 8400
australia@ninetyone.com

Botswana
Plot 64511, Unit 5
Fairgrounds, Gaborone
Telephone: +267 318 0112
botswanaclientservice@ninetyone.com

Channel Islands
PO Box 250, St Peter Port
Guernsey, GY1 3QH
Telephone: +44 (0)1481 710 404
enquiries@ninetyone.com

Germany
Bockenheimer Landstraße 23
60325 Frankfurt am Main
Telephone: +49 (0)69 7158 5900
deutschland@ninetyone.com

Hong Kong
Suites 1201-1206, 12/F
One Pacific Place
88 Queensway, Admiralty
Telephone: +852 2861 6888
hongkong@ninetyone.com

Luxembourg
2-4, Avenue Marie-Thérèse
L-2132 Luxembourg
Telephone: +352 28 12 77 20
enquiries@ninetyone.com

Namibia
Am Weinberg Estate
Winterhoek Building
1st Floor, West Office
13 Jan Jonker Avenue
Windhoek
Telephone: +264 (61) 389 500
namibia@ninetyone.com

Singapore
138 Market Street
CapitaGreen #27-02
Singapore 048946
Telephone: +65 6653 5550
singapore@ninetyone.com

South Africa
36 Hans Strijdom Avenue
Foreshore, Cape Town 8001
Telephone: +27 (0)21 901 1000
enquiries@ninetyone.com

Sweden
Västra Trädgårdsgatan 15, 111 53
Stockholm
Telephone: +46 8 502 438 20
enquiries@ninetyone.com

Switzerland
Dufourstrasse 49
8008 Zurich
Telephone: +41 44 262 00 44
enquiries@ninetyone.com

United Kingdom
55 Gresham Street
London, EC2V 7EL
Telephone: +44 (0)20 3938 1900
enquiries@ninetyone.com

United States
Park Avenue Tower, 65 East 55th Street
New York, 10022
US Toll Free: +1 800 434 5623
usa@ninetyone.com

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CS_429 11/2022