Investment Ideas for 2023

2022 was a turbulent year by all means. A mixture of unprecedented factors, ranging from a 40-year high inflation to a conflict in Europe, determined strongly negative returns for almost all asset classes. The main central banks around the world, guided by the FED, were in fact forced to rapidly raise rates to tame inflationary pressures, which caused a sharp repricing of risky assets. In this context, for the first time in history, equities and bonds exhibited a strong correlation, leaving no space to hide for investors. Fixed-income, especially on the longer duration side, registered significant losses. Only commodities and the US Dollar came out as winners. However, the outlook for 2023 seems to be somewhat different. We present some interesting investment ideas.

Will gold finally be able to shine?

The main headwind for gold over 2022 has been the exceptionally strong US Dollar which soared for a good part of the year. This has been mainly due to the tightening cycle brought forward by the Federal Reserve. The currency in fact assumed temporarily the role of safe heaven, with investors allured by the higher yields and the geopolitical tensions worldwide. Now that rates have risen considerably, a pause in the FED tightening cycle would likely be a strong catalyst for gold. There are also many existing risks in the financial system and global landscape that could support higher gold prices: a persistent and elevated inflation, a weakening economy, difficulties in servicing debt and black swan events like the LDI crisis in UK. Naturally, for example in case of a more hawkish FED and easing tensions, gold price could head lower or remain around the current level.

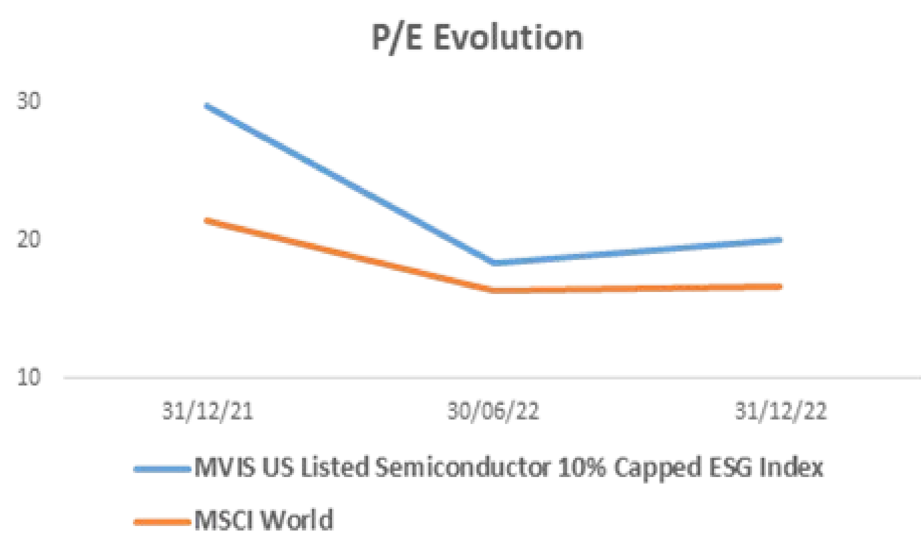
An interesting way to benefit from potentially higher gold prices is by getting exposure to companies active in the extraction and refinery of the precious metal. Their price has in fact been traditionally strongly correlated with the one of gold and they also offer the opportunity to receive dividends. Naturally, this also means that when gold experiences price declines, these companies tend to go through downturns. There are ETFs offering access to a diversified portfolio of gold miners, divided among more mature and established companies as well as junior ones, focused more on the exploration of new sites.

The hunt for dividends

In a phase like the current one, where the market is moving sideways, dividends can assume a significant role and enhance a portfolio's return. There is also a very actual aspect that is often overlooked: dividends have traditionally been a moderate inflation hedge. At times when prices rise and erode consumers' purchasing power, companies tend as a consequence to increase the selling prices of their goods and services. This in turn normally improves nominal earnings, with the dividend distributions that tend to be raised as well. There are however many different ways to select dividend paying stocks. A more elaborate approach, for example through a dividend ETF, could pay off. Instead of analyzing the dividend yield of companies, the distributions in monetary terms can be considered. This can then be combined with a screening of payout ratios, namely the percentage of income that gets distributed, and the consistency of dividend payments. A common way in the financial industry to try examining if dividends are sustainable for the long run is that the payout ratio shouldn't be too high, which would also display a lack of reinvestment within the company. All these features together can contribute to potentially avoiding the so called “dividend traps”. Of course, there is no guarantee that stocks that have paid dividends in the past will keep doing so.

Semiconductors to play a significant role

Being very cyclical in their nature, semiconductors have suffered over 2022, among interest rate hikes and fears of a slow-down in economic activity, which is still the case. The fears and materializing of a recession could indeed hamper their demand. However, the long-term semiconductor investment rationale remains intact. They are in fact the heart of microprocessor chips and transistors, having hugely impacted our societies. They possess tremendous computing power and literally anything that is computerized or uses radio waves depends on semiconductors. From automotive, robotics, IoT, healthcare and communications, these are only some of their applications. In the wake of the recent geopolitical tensions, they have become a matter of national securities for most economies around the world. US President Biden signed recently the $55bn CHIPS Act[1], incentivizing companies to repatriate semiconductor manufacturing. Also, Europe is moving in the same direction. Furthermore, on a fundamental level, the premium necessary to access the semiconductor sector has significantly reduced. The main multiples of semiconductor stocks have come down significantly.



Source: Bloomberg

[1] FACT SHEET: President Biden Signs Executive Order to Implement the CHIPS and Science Act of 2022 | The White House

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