

The views expressed in these posts are those of the authors and are current only through the date stated. These views are subject to change at any time based upon market or other conditions, and Eaton Vance disclaims any responsibility to update such views. These views may not be relied upon as investment advice and, because investment decisions for Eaton Vance are based on many factors, may not be relied upon as an indication of trading intent on behalf of any Eaton Vance fund. The discussion herein is general in nature and is provided for informational purposes only. There is no guarantee as to its accuracy or completeness.

[MARKETS AND ECONOMY](#) | [OUTLOOK](#)

2023 Investment Outlook: Multi-Asset

By: EV Forward | December 14, 2022

Rebalancing Acts

KEY POINTS

- 1 The global economy should normalize as pandemic pressures ease.
- 2 Imbalances in labor and energy markets pose a greater inflation risk for Europe than the U.S.
- 3 China is redoubling efforts at structural reform to put its economy on a path of long-term stability.

Labor Pains

With pandemic-related pressures beginning to wane, global rebalancing may be a principal market driver in 2023. We foresee three key areas of rebalancing: labor markets, the energy crisis and China's structural reform shift.

In developed markets, post-COVID employment conditions have favored workers over employers. Even as growth is slowing, the labor market remains resilient. In the U.S., for example, job openings still sit at high levels, but the number of new positions has come down by 1.15 million from a peak of 5.1 million in March 2022. U.S. wage growth is also normalizing, with the rate running at roughly one-half of its 6.6% high in January 2022.¹

Labor market rebalancing is likely to be slower in Europe, and risks of a wage-price spiral are higher. Compared to prepandemic levels, indicators such as total employment numbers, hours worked and participation rates have risen more in the eurozone than in the U.S. Labor shortages in the industrial sector should sustain tight employment markets, raising risks that wage increases continue to exert upward price pressures.

Evolving Energy Landscape

We expect a transitional year for energy markets. Higher oil and gas prices should combine with slowing economic activity to dampen demand. However, sanctions on Russia are likely to result in tight gas supplies globally. As Russian gas exports look set to fall more sharply next year, we expect that some buyers may switch their energy mix with a move to oil from gas.

OPEC's recent decision to cut production quotas underscores the role that high prices play to incentivize investment. A fall in prices now could disincentivize investment and spell higher prices when demand recovers. In 2023, we expect prices to be supported in the \$90 to \$100 per barrel (p/b) range. If China achieves a successful reopening from its zero-COVID policy, normalization of demand could push prices above \$100 p/b.

Change in China

Global supply chain realignments, demographic change, debt deleveraging and a structural shift toward a consumption-led economy will be key trends for China in 2023. Manufacturing and trade are becoming less important in driving economic activity partly because of reduced offshoring by Western companies and rising wage costs in China.

The debt-fueled investment boom has weak foundations, with the country's corporate debt-to-GDP ratio at 218% in 2021,² and the property market now saturated. The Chinese government is aware of the urgency for change, which will entail reducing inequality and expanding access to the middle class through its "common prosperity" agenda. These transitions will need to be managed in tandem with the near-term challenge of navigating a COVID reopening.

Investment Implications

Economic rebalancing may be tricky in 2023, following a period of profound disruption. Policymakers must carefully weigh their options as they attempt to suppress inflation without harming the economy and financial markets. Labor market and energy challenges will not facilitate a smooth walk across the tightrope for Europe, but the region does appear to be more surefooted than China. The U.S. economy, more

flexible and energy independent, has a slight advantage in unwinding its imbalances.

Overall, we expect fixed income assets to outperform equities in the first half of 2023. Ultimately, the range of potential macro scenarios is wide and dependent on how central banks proceed, particularly the U.S. Federal Reserve. We expect to see a shallow recession and moderate, but still largely restrictive monetary policy. In our view, the paths to rebalancing, and not simply the macro outcomes alone, will matter for markets in 2023. Staying nimble and adjusting investment positions as events unfold will remain key.

Andrew Harmstone

Head of Global Balanced Risk Control (GBaR)

Senior Manager, Global Multi-Asset

¹ U.S. Bureau of Labor Statistics, Morgan Stanley Investment Management, November 30, 2022.

² Bloomberg Economics, December 31, 2021.

Risk Considerations: *There is no assurance that the strategy will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in this portfolio. Please be aware that this strategy may be subject to certain additional risks. There is the risk that the adviser's asset allocation methodology and assumptions regarding the underlying portfolios may be incorrect in light of actual market conditions and the portfolio may not achieve its investment objective. Share prices also tend to be volatile and there is a significant possibility of loss. The portfolio's investments in commodity-linked notes involve substantial risks, including risk of loss of a significant portion of their principal value. In addition to commodity risk, they may be subject to additional special risks, such as risk of loss of interest and principal, lack of secondary market and risk of greater volatility, that do not affect traditional equity and debt securities. Fixed income securities are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest-rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall. Equity and foreign securities are generally more volatile than fixed income securities and are subject to currency, political, economic and market risks. Equity values fluctuate in response to activities specific to a company. The risks of investing in emerging market countries are greater than risks associated with investments in foreign developed markets. Diversification does not protect you against a loss in a particular market; however, it allows you to spread that risk across various asset classes.*



EV Forward

"Staying nimble and adjusting investment positions as events unfold will remain key."

Marketing Communication

To report a website vulnerability, please go to [Responsible Disclosure](#).

Eaton Vance is part of Morgan Stanley Investment Management, the asset management division of Morgan Stanley.

This site (<https://global.eatonvance.com>) is operated by Eaton Vance Management (International) Limited ("We"). We are a limited company, registered in England and Wales under company number 4228294 and have our registered office at 125 Old Broad Street, London, EC2N 1AR. Our VAT number is 762717416. Eaton Vance Management (International) Limited is authorised and regulated by the Financial Conduct Authority ("FCA") and is entered on the FCA's register with register number 208634.

Eaton Vance Management (Registration No. 1121368) and Parametric Portfolio Associates LLC (Registration No. 1217626) are the registered trade marks of The Eaton Vance Group.

Information on this website does not constitute an offer to sell, or a solicitation of an offer to purchase, securities in any jurisdiction to any person to whom it is not lawful to make such an offer. It is your responsibility to be aware of and to observe all applicable laws and regulations of any relevant jurisdiction. The information on this webpage is not intended for U.S. residents. To visit our U.S. website please click [here](#). Information on this website does not constitute an offer to sell, or a solicitation of an offer to purchase, securities in any jurisdiction to any person to whom it is not lawful to make such an offer. It is your responsibility to be aware of and to observe all applicable laws and regulations of any relevant jurisdiction. The information on this webpage is not intended for U.S. residents. To visit our U.S. website please click [here](#).

The views expressed are those of the authors and are current only through the date stated. These views are subject to change at any time based upon market or other conditions, and Eaton Vance disclaims any responsibility to update such views. These views may not be relied upon as investment advice and, because investment decisions for Eaton Vance are based on many factors, may not be relied upon as an indication of trading intent on behalf of any Eaton Vance fund. The discussion herein is general in nature and is provided for informational purposes only. There is no guarantee as to its accuracy or completeness.

In the EU this website is operated by MSIM Fund Management (Ireland) Limited (MSIM FMIL). The business of Eaton Vance Global Advisors Limited was transferred to MSIM FMIL on 1 October 2021. MSIM FMIL has been appointed as management company of the Eaton Vance International (Ireland) Funds plc and is responsible for the distribution of the funds together with the distribution of Eaton Vance strategies and strategies of Eaton Vance affiliates. For any queries in respect of the products and strategies referred to on this website, please contact MSIM FMIL at 7-11 Sir John Rogerson's Quay, Dublin 2, D02 VC42, Ireland. MSIM FMIL is regulated by the Central Bank of Ireland with Company Number: 616661.

Outside of the US and EU, this material is issued by Eaton Vance Management (International) Limited ("EVMIL") 125 Old Broad Street, London, EC2N 1AR, UK, and is which is authorised and regulated in the United Kingdom by the Financial Conduct Authority.

This material is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.

This material does not constitute an offer to sell or the solicitation of an offer to buy any services referred to expressly or impliedly in the material in the People's Republic of China (excluding Hong Kong, Macau and Taiwan, the "PRC") to any person to whom it is unlawful to make the offer or solicitation in the PRC.

The material may not be provided, sold, distributed or delivered, or provided or sold or distributed or delivered to any person for forwarding or resale or redelivery, in any such case directly or indirectly, in the People's Republic of China (the PRC, excluding Hong Kong, Macau and Taiwan) in contravention of any applicable laws.

EVMIL is registered as a Discretionary Investment Manager in South Korea pursuant to Article 18 of Financial Investment Services and Capital Markets Act of South Korea.

Morgan Stanley Investment Management (Australia) Pty Limited ACN 122 040 037, AFSL No. 314182 arranges for Eaton Vance Management International Limited to provide financial services to Australian wholesale clients. This publication is disseminated in Australia by Morgan Stanley Investment Management (Australia) Pty Limited ACN: 122040037, AFSL No. 314182, which accepts responsibility for its content. This publication, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.

We are actively incorporating accessibility practices, such as those outlined in the Web Content Accessibility Guidelines, into our go-forward website design and content development to make information more accessible and user-friendly. In addition, we are developing a multi-year accessibility strategy and content guidelines that further support the use of assistive and adaptive tools. Our ultimate goal is to meet federal guidelines and policies or provide equivalent accommodations and service support for all customers.