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Media release

LGT Capital Partners publishes 2023 Annual Outlook

Not too long ago, we were lamenting the dearth of investment opportunities in a world awash with cheap liquidity and deeply suppressed yields. But now that interest rates around the world are moving up, we realize that life beyond zero is not exactly the joyful return to the land of plenty. Quite to the contrary, in fact, as monetary policy is not the only one that turned from friend to foe and stiff headwinds abound.

Pfaeffikon, 19 January 2023. In our 2023 Annual Outlook, we first look at the various shifts and rifts that are disrupting the global economy and financial markets, and how investors should adapt to the changing realities, but also prepare to embrace new opportunities arising. Key findings include:

- Real economy: Rising interest rates are taking their toll on the economic outlook, as are swelling geopolitical tensions and growing global fragmentation. For 2023, the business cycle is first pointing downwards, with stagflation a dominant risk. But later on, the global economy could be revived by a relaxation of current headwinds and an intensifying of investment activity that might usher in a buildout boom.
- Financial markets: The old market regime is clearly disrupted, with financial assets re-rating to tighter liquidity conditions and higher macro-volatility. This process, although already advanced, may still have some ways to go, resulting in a reshuffled ranking of attractiveness for asset classes. But it also upends and changes behavioral patterns in markets, with far-reaching implications for optimal asset allocation.

In the second section, we delve into the segments of the alternative investment landscape, where we have been actively engaging as a principal investor for over two decades. We share our observations and assessments on private equity, private credit, real estate, and infrastructure, as well as liquid alternatives and insurance-linked strategies. In particular, we emphasize recent trends, the challenges of the current environment and attractive future investment opportunities. Key findings include:

- Private equity: While the broader outlook is uncertain, private equity has already tested its resilience during multiple crises and developed tools in the last decade to both defend existing portfolio companies and capitalize on a market dislocation. We remain convinced that private equity has the patience and dry powder to continue its long-term success story.
- Private credit: The private credit asset class has seen sustained expansion since the retrenchment of the banks following the Great Financial Crisis in 2008, providing investors with the choice of an ever-broadening set of underlying strategies making up the private credit universe. Amongst investors, private credit is increasingly viewed as a mature and stable asset class which has the potential to deliver consistent returns, even in turbulent market conditions.
- Real estate: Whilst the demand impact of a prolonged scenario of economic turmoil and/or high inflation is difficult to predict at this stage, we feel confident that the market will continue to see resilient tenant and ultimately investor demand in several sectors. Market participants with the ability to invest creatively across the capital stack will likely be able to capitalize on arising opportunities, especially in niche sectors.

- Infrastructure: We have not yet seen a significant valuation impact on infrastructure given sustained high levels of dry powder and healthy deal flow. In light of the inflationary backdrop, we remain focused as ever on investing in assets which provide essential services with strong barriers to entry, pricing power, and no near-term refinancing requirements.
- Liquid alternatives: History has shown that liquid alternatives can perform in a wide range of scenarios. Given the current macroeconomic imbalances worldwide and the renewed importance of fundamentals, there will be further tailwinds. We believe that liquid alternatives should be an integral part of a well-diversified portfolio, as they tend to deliver uncorrelated and attractive returns regardless of the market environment, fulfilling the role of an alternative return source.
- Insurance-linked strategies (ILS): The overall challenging environment for the insurance sector may lead to the most attractive period for ILS since the last truly hard market occurred in the aftermath of hurricanes Katrina, Rita, and Wilma in 2005, and hurricane Ike in 2008. ILS managers who are able to provide reinsurance capacity to meet the demands of buyers will be differentiated from peers and rewarded through preferential terms and very attractive risk premiums.

Further information, including views on pertinent topics such as sustainable investing or investments in China, can be found in our full 2023 Annual Outlook, which is available for download here.

LGT Capital Partners
LGT Capital Partners is a leading alternative investment specialist with over USD 85 billion in assets under management and more than 600 institutional clients in 43 countries. An international team of over 700 professionals is responsible for managing a wide range of investment programs focusing on private markets, liquid alternatives and multi-asset class solutions. Headquartered in Pfaeffikon (SZ), Switzerland, the firm has offices in San Francisco, New York, Raleigh, Dublin, London, Paris, Vaduz, Frankfurt am Main, Luxembourg, Dubai, Beijing, Hong Kong, Tokyo and Sydney.

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