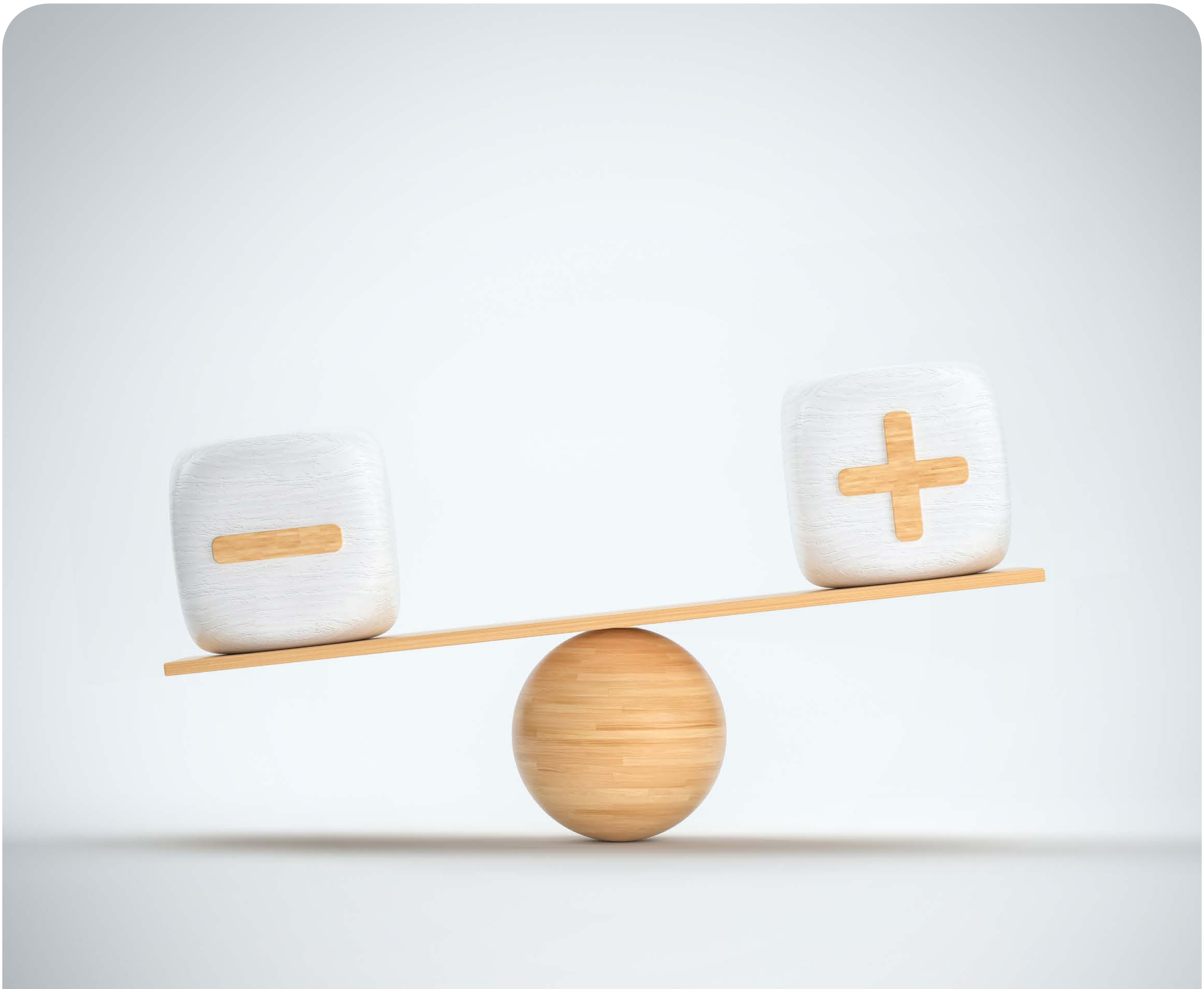
Quarterly Investment Strategy
Second Quarter 2023

UOB Asset Management



Economic imbalances are improving

Right By You

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This is an interactive PDF. For ease of reading, simply click on the navigation bar to go to the desired section.

Summary

Over the past year, growth across sectors and regions has been uneven with tight labour markets contributing to high inflation. However, in the coming quarters, we expect trends in inflation and growth to go a long way towards restoring the global economic balance, thereby driving up markets.

What's happened so far this year?

Investor expectations have been flip-flopping. Expectations in January of a rate hike slowdown and disinflation gave way to expectations of overheating and persistent inflation in February. This led to strong start-of-the-year market gains followed by a depletion of most of these gains in the following month.

What is UOBAM's base case?

We believe that higher interest rates are resulting in slower growth. However, we expect to see a relatively mild economic slowdown or shallow recession by the end of 2023. We also detect that inflation is improving and interest rates are getting close to their peak.

What does this mean for markets?

Based on this economic view, we expect fixed income prospects to improve. However, investors may want to wait until later in the year to overweight equities. Equities have already corrected by 20 per cent throughout 2022, and we predict that any downside in 2023 will be limited. However, we do not anticipate significant upside for equities until markets can assess the extent of the economic downturn.

What next?

Overall, we note that the global macroeconomic environment has been "imbalanced" since the start of the pandemic. But we think 2023 will see gradual gains towards achieving a healthy equilibrium in the global economy. This will help to settle the currently jittery market nerves.

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Global investment strategy

As in previous quarters, the outlook for inflation and economic growth will likely be the key issues driving markets in the coming quarter. We continue to maintain a base case of slowing growth and slowing inflation.

Economic signals today can only be described as "weird" and contradictory. For example, the US Conference Board of Leading Indicators have fallen to an ominous level. In the past, such levels have never been hit without a recession following within the next 12 months.

Yet the US job gains in January was over 500,000. The US economy has never experienced a recession within two years of such high job numbers. **Never before have economists had to contend with so many conflicting signals.** Clearly, not all these signals can be right at the same time.

In addition, the global economy remains very imbalanced. From how different sectors react to labour conditions to inflation trends, imbalances are prevalent throughout the global economy. Part of the imbalances have been driven by the staggered post-COVID reopenings. The long decade of zero interest rates and subpar growth have contributed to further imbalances.

Inflation outlook

Scepticism causing near-term volatility

We see 2023 as the year when these balances start getting worked out, which is ultimately a good thing for markets. Unfortunately, the process will likely involve high interest rates and slowing growth that can only cause market volatility to persist. But if our view of a shallow recession comes through, we foresee that the inflation pressures and overheated jobs market will cool off.

For now, the inflation trends remain high but are improving faster than most investors seem to believe. In fact, headline inflation has been stuck in a range close to 7 per cent for over a year. Yet in surveys of clients, we find that the vast majority do not think inflation trends are improving.

To counter this we highlight that headline inflation averaged close to 2 per cent in the second half of 2022 after averaging over 10 per cent in the first half of the year. While the general perception is that headline inflation is not budging, by tracking monthly rates we can see that trends have been improving for a while now.

Room for positive surprises

Meanwhile, over the past five months, core inflation (i.e. excluding food and energy prices) has already reached 2 per cent or lower if we exclude the shelter component. Shelter is still very high within inflation data because of the lag effect. US property agents are already seeing rent declines in many regions. Similarly, labour markets are worryingly tight, but wage growth has steadily declined for 10 months and is now down to 4 per cent. This is in line with wage growth levels seen in the 1990s and 2000s when inflation was not considered a problem.

In summary, we are not dismissive of inflation risks and expect inflationary pressure to take time to mitigate. However, we do think there is room for the trends to beat expectations and offer some relief to markets.

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Growth outlook

Growth already slowing

We note that global economic growth has been slowing and will continue to do so. Higher interest rates are weighing on the economy and contributing to the deceleration in growth. Global manufacturing and global trade are also showing signs of significant weakness.

Drilling deeper, we see that housing and goods sectors of the economy that were overheated during COVID are now sliding into recession. But the cooling in goods-buying has been replaced by an increase in service sector spending.

Services-based soft landing

As a result, service sector growth indicators have remained resilient and service sector jobs remain strong. This is partially because businesses in the service sector, having only just hired back their workers, say they have little intention of laying them off again.

If that proves correct, this should imply that whatever economic downturn the global economy faces in 2023 will likely be shallow and modest. The service sector makes up the larger share of the economy and the larger share of employment. If the service sector weakness is mild, then the global economy is likely to be on the path of a soft landing.

Greater interest rate clarity

Our outlook on inflation and growth implies a clearer path for interest rates in the coming quarters. Central banks will likely remain in inflation-fighting mode over the first half of 2023. By the second half of 2023 we expect to see signs of slowing growth and inflation improvements, which will lead to a pause in interest rate hikes.

Unlike last year, when fixed income returns were undermined by the rise in bond yields, in 2023 we think we are near the peak in interest rates. We expect the 10-year UST yield to range between 3.5 to 4.0 per cent in the first half of 2023.

Key takeaways

- Economic growth is slowing in 2023 and a modest recession is possible.
- Our base case is for an economic slowdown that does not see a significant rise in unemployment, thus preventing a hard landing recession.
- Asia appears more resilient to rising rates and should be buoyed by China's reopening, credit growth and China's pro-growth policies.
- Inflation is moderating faster than most investors realise. Still, it remains uncertain whether it will fall to the critical threshold levels of 3.0 per cent needed to give comfort to the US Federal Reserve System (Fed).
- The outlook for bond yields has become clearer for 2023. The sharp rises that result in fixed income losses are far less likely. Interest rates are near their peak, and we expect a 10-year bond yield range of 3.5 to 4.0 per cent in the first half of 2023.

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Global asset allocation

Favour fixed income over equities amid ongoing recessionary fears

Fixed Income

When recession risks grow, fixed income usually outperforms

Our **UOBAM investment clock** has been a handy reference in the past two years as the global economy cycled through three of the typical quadrants.

In 2021's recovery, the clock said equities should outperform and they did.

In 1H 2022's late expansion/overheating, the clock suggested commodities would outperform. This was also proved right.

In 2H 2022's slowdown, the clock indicated that cash would outperform. Again, that was the case.

Now, in 1H 2023, we are approaching the last quadrant - recession. The clock says bonds should outperform.

This appears in line with the realities that interest rate hikes are approaching their peak and bond yields are attractively high. A potential recession would likely bring lower inflation and interest rates, further boosting fixed income returns.

In a normal recession, we would avoid credit as default risks could rise. But as we expect a shallow downturn, we expect good credits will do well, and that the higher yields of investment grade credit will offer attractive returns for the limited real risk they will face. Given this, we suggest **overweighting** fixed income over the coming quarter.

Equities

Potential to perform on multi-year basis

The investment clock says to overweight equities at the trough of the recession. In shallow recessions such as in 1990, equities quickly recovered once investors realised the recession would not be very deep.

As such, we think investors will be quick to return to equities but this asset class will likely remain volatile in the near term as the economic slowdown poses a risk of turning into a recession. We think most of the slowdown has already been priced into equities. Thus, for the coming quarter, we suggest holding equities based on a **neutral weighting**.

Cash

Consider deploying to lock in yields

As most asset classes performed poorly in 2022, investors are likely to be comfortable with cash, especially as current cash rates are higher than we have seen in a decade. However, we caution that these cash rates may not last long. Investors may want to consider locking in today's higher yields via exposure to slightly longer duration fixed income assets and **underweight** cash.

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Asset allocation strategy

Sector	View	Notes
Equities	N	**Rationale:** Global equities are up close to 5 per cent YTD and have largely priced in much of the recession risk. But we expect growth to slow over the second quarter and fears of a recession could weigh on markets. **Risks:** If risks of a hard landing recession grow, then the downside risks in equities will grow as well. Our view of a more neutral outlook is based on the assumption of a soft landing.
Fixed Income	+	**Rationale:** Bond yields are higher than they have been in a decade and inflation has peaked. Interest rates are near their peak. The investment clock says it is time to buy bonds. **Risks:** Inflation and the hawkish Fed remain downside risks for fixed income.
Commodities	N	**Rationale:** Slowing global growth is bad for most commodities. But China's reopening is expected to offset this, even though China's commodity usage is down as property and infrastructure investing has been reduced. Overall, we recommend staying neutral and then raising weights as slowdown risks pass. **Risks:** Higher than expected interest rates could drag down both growth-related commodities and the gold outlook.
Alternatives	N	**Rationale:** In volatile markets, alternative assets can find returns in stock picking alpha opportunities. However, overall performance will likely be held back by the lack of growth opportunism. **Risks:** The rotation in assets have proved unpredictable and investment strategies may get wrongfooted.
Cash	-	**Rationale:** Short-term yields could be tempting to investors. But we saw in the first quarter of 2023 that short-term yields could fall by 100bp in less than a week. We recommend locking in attractive yields for longer by investing in fixed income. **Risks:** If global growth proves resilient, the global economy could end up trapped for an extended period in the slowdown quadrant where cash outperforms and thus is a risk to our underweight view.

++ : Strong Overweight + : Overweight N : Neutral - : Underweight -- : Strong Underweight

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Global equity outlook

Global equities are faced with several push and pull factors. On the one hand, this asset class faces headwinds from slowing economic and earnings growth. But after a year in which equities fell by close to 20 per cent, investors are likely poised to re-enter markets.

If the downturn is shallow, investors may pile back into equities sooner than most realise. If the downturn is deeper, then we may have to wait until 2024 to see global equities provide sustained performance.

DEVELOPED MARKETS: US to lead the slowdown

The US is where the interest rate hike effect has been most pronounced and thus is expected to be the focus of the slowdown.

Europe managed to avoid a recession in 2022 despite the Russian/Ukraine war and the resulting spike in gas prices. While Europe's prospects are ahead of expectations, it is also dealing with high inflation and rising interest rates. These factors may start to bite in 2023 and significantly slow its performance.

DEVELOPING MARKETS: Asia set to outperform

China is reopening while the rest of Asia is seeing better growth. Inflation problems are also more muted in Asia. With China seeing improving Purchasing Manager Indices (PMIs), rebounding credit growth and more growth focused policies from its leaders, we would expect Asia to outperform.

Regional strategy

Country	View	Notes
US	N	**Rationale:** The US is likely to be the country most directly affected by rising interest rates, as the US Fed has been the most aggressive central bank in fighting inflation. But as growth and inflation slows, growth stocks are likely to return to favour. If so, the US market has the most listed major growth and tech companies to benefit from these trends. **Risks:** US valuations are higher than other regions, and the spike in inflation started in the US.
Europe	N	**Rationale:** Gas prices have fallen, and Europe's economy is doing better than expected. Europe's valuations are more attractive, and its overall dividend yields are better than other regions. But Europe is also facing high inflation and is likely to face further interest rate hikes even after the US Fed pauses. **Risks:** Europe still faces risks of the conflict in Ukraine escalating and it usually underperforms if the US Fed pauses its rate hikes.
Japan	-	**Rationale:** Japan's economy still has a heavy dependence on global trade. Slowing global growth is likely to weaken Japan's industrial production. **Risks:** The yen is usually a safe haven asset, but in a world of higher rates, it is the least rates-supported currency.
Asia	+	**Rationale:** China's reopening should provide a good base of solid growth for the rest of Asia. Asia's equity valuations are at historically attractive levels. **Risks:** China's property glut implies that this reopening will see an economic rebound not driven by property investments, unlike previous cycles. As such, the recovery could be more muted than usual.

++: Very positive +: Positive N: Neutral -: Negative --: Very Negative

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Asia equity

We are optimistic about China as we expect its cyclical expansion to continue. Meanwhile, private demand growth is set to drive the next phase of ASEAN's economic recovery.

Asia: more balanced positioning between North Asia and ASEAN

We are optimistic about the outlook for Asia over the medium term as the region is on track to see growth accelerate. This will provide a balance against central banks' tightening bias in the near term. The macro backdrop remains favourable, buoyed by further momentum in China's reopening, supporting a healthy labour recovery in China. In ASEAN, we see sustained private demand growth to help drive the next phase of economic recovery.

North Asia: Headwinds for most markets except China

China's cyclical expansion looks set to continue, driven by consumption-based economic recovery, whilst monetary and fiscal policies remain supportive. Nevertheless, we are cautious as renewed geopolitical tensions with the US could potentially weigh on domestic equities market performance. Another key risk to our bullish outlook is a slower-than-expected rebound in China's economy in the wake of extended above-trend inflation.

We remain neutral on Hong Kong as economic activities accelerate, driven by mainland China's reopening. On the other hand, high interest rates and declining property prices remain headwinds.

We downgrade Taiwan from positive to negative. Valuations look full after the recent rally in semi-conductor stocks against a 2Q historically weaker than 1Q. Korea remains a negative as valuations are unattractive amid a deteriorating corporate earnings backdrop.

ASEAN: Indonesia remains the sole overweight for now

Within ASEAN, Indonesia is our preferred market as private consumption remains resilient and likely to sustain its relatively strong GDP growth.

We have turned less bullish and downgraded Singapore from positive to neutral. We see limited catalysts in the near term against a muted domestic growth outlook.

Likewise, we retain our neutral stance on Malaysia and Thailand. Malaysia is a relatively defensive and low beta market, while we expect the general election to be an overhang for Thailand in the near term. We have turned cautious and downgraded Philippines from neutral to negative. We see downside risks to GDP growth owing to inflation overshoot and strength in consumption could taper. We are skeptical about Vietnam due to dual headwinds from corporate bond default risk and a stagnant domestic property market.

Sectors: We favour defensive and value sectors

We turned cautiously optimistic in our positioning and favour late-cycle defensive and value cyclical sectors such as Consumer Staples, Materials, Utilities and selective tech names. Companies which benefit from domestic demand opportunities, interest rate beneficiaries, inflation hedges and commodities margin relief are also better positioned.

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Asia country strategy

Country allocation	View	Notes
Mainland China	+	**Rationale:** Cyclical expansion set to continue, driven by consumption-driven economic recovery whilst monetary and fiscal policies remain supportive. **Risks:** Real estate market fallout, accelerating supply chain relocation out of China, escalating geopolitical tensions.
Hong Kong market	N	**Rationale:** Economic activities driven by reopening with mainland China set to accelerate though high interest rates and declining property prices remain as headwinds. **Risks:** Improved China/HK political relationship.
India	-	**Rationale:** Corporates' profitability is vulnerable to further downside risks although valuations are now less stretched. **Risks:** Corporate earnings outlook improves, infrastructure spending accelerates.
Indonesia	+	**Rationale:** Private consumption remains resilient and likely to sustain its relatively strong GDP growth. **Risks:** Collapse in commodity prices, weak Rupiah.
South Korea	-	**Rationale:** Valuation is unattractive amid a still deteriorating corporates' earnings backdrop. **Risks:** Global semis downcycle normalises earlier-than-expected, Strong non-tech consumption growth, Improved geopolitical risks (US, Japan, China).
Malaysia	N	**Rationale:** Relatively defensive and low beta market within ASEAN. **Risks:** Aggressive rationalisation of subsidies.

++: Very positive +: Positive N: Neutral -: Negative --: Very Negative

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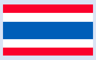
Asia country strategy

Country allocation	View	Notes
Philippines 	-	**Rationale:** Downside risks to GDP growth due to inflation overshoot. Strength in consumption could taper. **Risks:** Inflationary pressures easing faster than expected.
Singapore 	N	**Rationale:** Limited catalyst against a muted domestic growth outlook. **Risks:** Drastic slowdown in growth with major trading partners (US, EU, China).
Taiwan market 	-	**Rationale:** Valuation looks full after the recent rally in semis stocks against a historically weaker upcoming 2Q. **Risks:** Global tech sector improving earlier/faster than expected, improving cross-straits relationship.
Thailand 	N	**Rationale:** Election likely to be a near-term overhang although rebound in inbound tourism expected to gain further momentum. **Risks:** Collapse in oil price, Political noise/resurgence in political unrests.
Vietnam 	-	**Rationale:** Dual headwinds from corporate bond default risk and a stagnant domestic property market. **Risks:** Recovery in domestic property market, Corporate bond default risk recedes.

++: Very positive +: Positive N: Neutral -: Negative --: Very Negative

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Global fixed income outlook

As we near the end of the hiking cycle, slated to be during Q2 this year, markets are likely to turn their attention to locking in yields.

The market emphasis has been on the downsizing of rate hikes by the US Fed as well as the other major central banks like the ECB and BoE. But as we head towards the pause in the current hiking cycle, likely bids for G7 government bonds will increasingly surface as market participants look to lock in yields.

We also expect the yield curve to flatten further if central bankers are serious about keeping key rates at high levels for an extended period, and this will invariably hurt long-end growth and thus the long end of the curve.

Sector strategy

Sector	View	Notes
Developed Market (DM)	+	**Rationale:** Regardless of inflation, we are coming to the end of the hiking cycle in DM with each passing day. **Risks:** Inflation could yet prove to be sticky despite base effects.
DM Government	+	**Rationale:** It would be very difficult for DM central banks to hike beyond Q2, especially given recent banking contagion fears. **Risks:** If contagion fears subside, G7 central banks could yet resume their respective hiking cycles.
DM Credit	N	**Rationale:** Although we see little chance of defaults in the Investment Grade sector, there is no doubt that spreads have been widening due to recession fears. **Risks:** End of cycle dynamics could cause spreads to widen more than they should.
Emerging Market (EM)	N	**Rationale:** Carry remains very high and valuations remain attractive, balanced by an uncertain external outlook. **Risks:** Risks of a hard landing in the developed world which will have a negative knock-on impact on EM bonds.
EM Government	+	**Rationale:** PMIs in EMs are still outpacing DMs, and with headline inflation trending down, terms of trade are still supportive. **Risks:** Further deterioration of external balances, if core inflation appears more sticky than we currently expect.
EM Corporate	-	**Rationale:** Cost of funding is still rising while domestic growth is slowing down. **Risks:** Sharp drop in commodity prices.

++: Very positive +: Positive N: Neutral -: Negative --: Very Negative

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Global fixed income outlook

Sector	View	Notes
EM Local Currency	-	**Rationale:** Avoid EM local currency bonds as we expect high beta currencies to suffer in a contractionary year. **Risks:** A huge rebound in risk could carry trades back in favour.
Duration	-	**Rationale:** Long-end yields almost always falls after terminal rate is reached. **Risks:** Should economic instability subside, we could see central banks around the world hold off on rate cuts.
Yield Curve	N	**Rationale:** The 2s10s yield curve has steepened considerably since reaching negative three digits, and we stay neutral after reaching our target. **Risks:** Much depends on how central banks around the world respond to the possibility of rate cuts priced in by the market.

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Emerging market fixed income

Regional strategy

Sector	View	Notes
Latin America	+	**Rationale:** Commodity prices are still supportive, while data out of the US shows growth still holding up well. **Risks:** Political risks and a return to fiscal profligacy.
CIS/EE*	+	**Rationale:** Valuations have yet to adjust to account for the sharp drop in gas prices, which has various positive effects on economic data. **Risks:** Drastic change in weather conditions, or a sharp slowdown in growth for the core countries.
Middle East	N	**Rationale:** This sector is relatively insulated from the banking turmoil in Europe/US, though we would not recommend an overweight. **Risks:** A recession could see a steep fall in oil prices.
Africa	N	**Rationale:** China's reopening should be supportive of demand for goods in this region, and valuations remain inexpensive. **Risks:** Ability for countries in this region to tap capital markets and/or seek IMF aid.
Asia	-	**Rationale:** Valuations are rich while domestic growth is slowing down. **Risks:** Higher commodity prices.
Singapore	N	**Rationale:** Growth forecasts likely to be downgraded in Q2 while high inflation is still prevalent. **Risks:** If China's reopening turns out to be stronger than expected, growth in the domestic economy could turn out to be stronger than expected.

* Commonwealth of Independent States and Central and Eastern Europe
Views above are hard currency-based unless stated otherwise

++: Very positive +: Positive N: Neutral -: Negative --: Very Negative

Global currencies outlook

We expect the USD's status as a safe haven to come to the fore sooner rather than later.

Our long USD stance was vindicated over the past quarter as the greenback staged a significant rebound. While there is no doubt that US yields are falling and some of the recent banking turmoil was viewed as US-centric, we continue to expect the USD to benefit from its safe haven appeal.

Although the JPY has regained some of its luster with regards to flight to quality flows, US Treasuries still enjoy a significant carry over Japanese Government Bonds (JGBs). In addition, the recent China reopening trade, which caused the USD to weaken over the past quarter, appears to have run out of steam. The positioning in USD/Asian currencies is back to where it was before China announced its reopening plans.

Currency strategy

Currency	View	Notes
US Dollar **USD**	+	**Rationale:** We expect the USD safe haven status to shine in the coming quarter, despite falling UST yields. **Risks:** Any USD rise is not likely to be linear, especially if US Treasury yields fall faster than elsewhere in the world.
Euro **EUR**	-	**Rationale:** There is more room for EUR rates to reprice lower versus US rates. **Risks:** ECB could yet lead market expectations higher with regards to its terminal rate pricing.
Japanese Yen **JPY**	+	**Rationale:** JPY has regained some of its safe haven appeal, though the negative carry versus the rest of the G7 currencies is still cause for concern. **Risks:** Bank of Japan (BoJ) could yet abolish its yield curve control policy, which would see yields spike higher.
Singapore Dollar **SGD**	-	**Rationale:** SGD is mired in a stagflation story with inflation remaining high and growth forecasts likely to be downgraded. **Risks:** We could still see positive growth of over 2 per cent in Singapore this year despite falling export figures.
China Renminbi **CNY**	N	**Rationale:** The China reopening story has run its course and we hold no bias on the next trajectory of CNY, especially with positions cleaner that they were one month ago. **Risks:** CNY could tumble if geopolitical tensions spike again.

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Global commodities outlook

Over the first quarter of 2023, global commodiites were generally supported by China's reopening and the ongoing demand from green energy solutions for metals and minerals. But the gains have been limited by concerns over slowing economic growth.

Demand from China has been one of the strongest drivers of various commodity cycles over the past decade. The reopening in China has led to modest gains in metals like copper in the first quarter of 2023, but the gains appear small compared to previous China cycles.

Property and infrastructure building are usually a big source of China's commodity demand. However, this cycle appears to be far less driven by these activities and thus this commodity cycle appears more muted as well.

We expect the overall outlook to be more neutral in the coming quarters as gains from China's growth are offset by slowing global demand.

Sector strategy

Sector allocation	View	Notes
Commodities	N	**Rationale:** The commodity outlook is mixed, with safe haven assets like gold and green energy-related metals likely to perform, while energy and other commodities are likely to be soft due to weaker global growth. **Risks:** US Fed over-tightening could both slow growth and raise real rates. This would be negative for both cyclical commodities and safe haven metals.
Gold	+	**Rationale:** Recession risks and financial concerns in the banking sector should boost the appeal of gold as a safe-haven asset. Interest rates are peaking and the prospect for rate cuts has improved. Also, emerging market buying of gold appears set to rise, and significant supply constraints exist. Additionally, when the US seized Russia's USD reserves, it made many countries realise that they may need to diversify their reserves and gold is a prime candidate. **Risks:** If central banks turn overly hawkish and rapidly control inflation, the usefulness of gold for diversification decreases.
Base Metals	+	**Rationale:** We think the multi-year outlook will be strong as new green technologies are creating high demand for many of the metal commodities. **Risks:** Most base metals are very sensitive to global demand and any unexpected slowdown will weaken the outlook.
Energy	-	**Rationale:** Oil prices remain weak despite China's reopening and Europe's ability to avoid a recession. Higher interest rates in developed markets should slow growth further and this should continue to be a headwind for oil prices over the next quarter. **Risks:** Oil prices have been volatile due to uncertain macro conditions, the war in Ukraine and tense geopolitical issues. Both upside and downside risks exist in oil prices.
Others	-	**Rationale:** The demand for other broad commodities such as agriculture appears to have peaked and declined over the past couple of quarters. Also, many global producers are increasing supplies in response to last year's higher prices. This risks exacerbating future price weakness. **Risks:** As always, supply disruptions remain a key risk to the strengths and weakness of many commodities.

++: Very positive +: Positive N: Neutral -: Negative --: Very Negative

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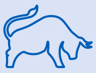
Global alternatives outlook

Alternatives remains an attractive asset class for investors looking for diversification beyond traditional investible classes. As we have seen, these can exhibit high correlation during times of market stress.

Sector strategy

Sector allocation	View	Notes
Hedge Funds 	+	**Rationale:** The tightening liquidity conditions and weakening economic conditions will limit opportunities to profit from beta exposure. However, this environment provides opportunities for absolute return-oriented funds seeking alpha with active downside risk management. **Risks:** Bear market rallies which are not fundamentally driven could cause hedged strategies to underperform.
Private Equity 	-	**Rationale:** The tightening liquidity conditions and weakening economic conditions will not be supportive to strategies that have high valuations and rely on abundant and low cost liquidity. **Risks:** Opportunistic strategies like secondary funds could do well in this environment.

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