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OUTSIDE THE FLAGS

2023: The Year that Wasn't

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Towards the end of the calendar year, there's a natural tendency in the financial media to look both back and forward – back on the events of the past 12 months and forward to what we imagine the coming year will hold.

The assumption is we've reached a transition point in December and that there is some sort of dividing line between this year and the next. Of course, this is entirely arbitrary. Events are always unfolding in real time and what happens in one 12-month block has no automatic bearing on what happens in the next.

But those are the dictates of media publishing schedules. Newsrooms tend to thin out over the holiday season in December and January, so a lot of material for the summer months is prepared ahead of time. And that is why forecasts are so prevalent at this time of the year.

WHAT WAS FORECAST

If we go back to early 2023, the financial news service Bloomberg published its annual "Almost Everything Wall Street Expects" year-in-preview article. As is usual with these things, the legions of forecasters had something for everyone.[1]

One analyst said a hard economic landing looked "unavoidable". But another said the global economy's "resilience may surprise". One said global equities would "plunge as recession hits". Another said shares would remain "range-bound". One said the US dollar would fall from its perch. Another said the relative growth outlook supported further USD gains. If there *was* anything close to a consensus call, it was the increasing risk of global recession.

To say the article was head-spinning is an understatement. But the range of views, many well-reasoned and supported by evidence, should not really be a surprise. That's the nature of markets. They represent the opinions of millions of participants with often wildly contrary views about what might happen next.

And what did happen next? Well, what *always* happens. News and other information came into the market and was absorbed into prices. Much of that news was unexpected.

That, after all, is the definition of news - new, unexpected and noteworthy events. Something that isn't surprising or remarkable rarely leads the bulletin…or moves markets.

THE MAJOR HEADLINES

- January – China relaxed COVID-era restrictions and reopened its borders.
- February – The US Federal Reserve scaled back interest rate rises as inflation eased.
- March – US regional bank problems arose; Credit Suisse was forced to merge with UBS.
- April – RBA paused on official interest rates after 10 straight increases.
- May –The World Health Organisation declared an official end to the pandemic.
- June - Russian warlord Prigozhin, in a challenge to Putin, staged a march on Moscow.
- July – US inflation fell to a two-year low, raising hopes for an end to interest rate rises.
- August – China's economy slipped into deflation amid growing property sector strains.
- September – A rout in bond markets sent US Treasury 10-year yields to a 16-year high.
- October – Israel attacked Gaza in reprisal for a surprise Hamas assault on civilians.
- November – US President Biden met China's leader Xi in a bid to mend relations.

So, another eventful year, in other words. In 2020, the big, unexpected event was COVID. From 2021, it was the emergence of inflation. In 2022, it was Ukraine. If you believed many of the forecasts at the start of 2023, a global recession looked to be on the cards this year.

Yet, confounding many forecasters, the US economy continued to perform relatively strongly through to November. In the third quarter of 2023, in fact, official figures showed it growing at an annualised rate of 5.2%.[2] That's a long way from recession.

FORECASTS FOR AUSTRALIA

Australia, too, proved resilient amid a slowdown in global activity and persistent inflation pressures. Having raised cash rates 12 times between May last year and June this year, the RBA paused for four months and then resumed raising them in November to 4.35%, citing a stronger-than-expected economy and more persistent-than-expected inflation.[3]

Cast your mind back to early this year, and a panel of 29 academic, industry and market economists forecast the RBA cash rate would peak at 3.8%. The panel also was too pessimistic on unemployment, seeing it rising to 4.0% when it was at 3.7% going into the fourth quarter.[4]

On financial variables, the forecasters got the Australian equity market broadly right, seeing it rising about 1%. As of early December, it was up about 3%. They were too hopeful on the Aussie dollar, though, seeing it around 71 US cents by late 2023. It was closer to 66c in the final weeks of the year.

LESSONS FOR THE FUTURE

As we look ahead of 2024, then, be prepared for a barrage of forecasts in the coming months telling us what will happen to the economy, growth, inflation, unemployment and what all that will mean for interest rates, shares, bonds, currencies and commodities.

To be fair, these views are often interesting and entertaining to read. It's quite valid that people have different opinions on where markets might head. That's what makes a market, after all. But it's not really the basis of an investment strategy, as we've seen.

What are sold as forecasts are really just assumptions. They can be based on many different variables. If any one of those variables changes – say oil prices jump over $US100 a barrel – a lot of other pieces of the puzzle can come unstuck very quickly.

Forecasting prices correctly and consistently requires an ability to forecast news. As someone who was a journalist for 25 years, I have never seen *anyone* who could pull that off. And if that could, they really should start up a newspaper 'Tomorrow's News Today'.

If you can't predict the news or prices, what *can* you do? We know that the average return in the equities market over the past century or so has been around 10%. It's not like that every year, of course. There'll be good years and there'll be bad years.

But those returns are available to disciplined and diversified long-term investors who count on the ability of human ingenuity in many areas of life to solve big challenges – like the energy transition or biomedical breakthroughs or sustainable food production. Being a long-term investor gives your opportunity to share in the wealth created by those innovations.

The fact is there will always be uncertainty. We can't say what will happen. But we can build life-long financial plans that are able to deal with what can happen.

You can take that to the bank, at least.

1. 'Almost Everything Wall St Expects in 2023', *Bloomberg News*, 3 Jan 2023.
2. 'US Third Quarter Economic Growth Revised Up to 5.2%', *Reuters*, 30, Nov 2023.
3. 'Monetary Policy Statement', *RBA Governor Michelle Bullock*, 7 Nov 2023
4. 'Top Economists' Forecasts for 2023', *The Conversation*, 5 Feb 2023.

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