Beneficient

In partnership with

OXFORD ECONOMICS

Global Macroeconomic Outlook: 2023 Q1 Update

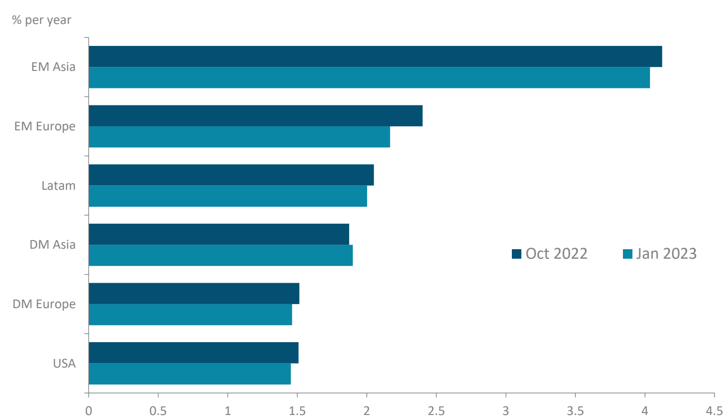
Key Macro Themes

As global growth has ground lower over the course of 2022, the economic outlook for this year is being shaped by three main forces: US excess demand and the associated monetary tightening; the impact of the Russia-Ukraine war on Europe and its energy prices; and the susceptibility of China's growth model. Combined, these shocks could lead to an era of low growth and high uncertainty.

U.S. Excess Demand and Monetary Tightening

Despite historically weak GDP growth across the US and other advanced economies, excess demand has stoked inflationary pressures as supply shocks, such as those from bottlenecks in product and labor markets, dominate. In 2023, we see tighter monetary policy combining with a lack of active fiscal policy support to create the most restrictive stance for global macroeconomic policy in years. For example, the US debt ceiling will return to the spotlight, whilst the UK's failure to adopt an expansive fiscal policy will provide a cautionary tale for other European economies. We maintain our view of 1.5% average growth in the US over 2022–2027.

World: GDP Growth by Region 2022-2027



Source: Oxford Economics - Regions weighted by MSCI index weights

Energy Impact of the Russia-Ukraine War

Europe grapples with an energy crunch, driven by the Russia-Ukraine war, which could resurface in winter 2023/2024. Hard rationing, if required, poses a notable downside risk to European industry and global supply chains. And our baseline outlook for consumer spending is bleak, given the scale of the hit to real incomes of European households which fare worse than any other region. Relative to last quarter, we have downgraded the 2022–2027 growth outlook for emerging (EM) Europe to 2.2% from 2.4%, which is the largest downgrade for any region. In comparison, developed (DM) Europe remains unchanged with growth expected to average 1.5%.

China's Susceptible Growth Model

Whilst advanced economies have relied on policy-driven Chinese growth to offset domestic weakness in previous slowdowns, we expect the reliability and strength of this impulse to wane. The effectiveness of Chinese stimulus in financing new investment has been in decline and although the rapid reopening of China should provide some near-term support to the outlook, it brings with it the prospect of further disruptions.

©2023 Beneficient, a Nevada corporation

A weak outlook for Chinese consumption due to negative wealth effects from a deflating housing market will dampen any global transmission. And we see the transition to a consumer-led economy taking years of structural change with its success not guaranteed. Reflecting this mix of economic forces, we now expect global GDP growth of just 1.3% and 2.7% for 2023 and 2024, respectively. While this represents a global recession, with per capita output falling, we expect the weakest quarter-on-quarter growth of world GDP to have been in Q4 2022 and sequential growth to strengthen again over the course of this year.

U.S. and Global Inflation Set to Remain High

Despite the meagre growth outlook for 2023, inflation is set to remain higher and more volatile than the post financial crisis decade due to supply disruptions and geopolitical tensions. The comparative resilience of the labor market and consumer spending at the end of 2022 implies a tighter macroeconomic policy stance will be required. And restrictive US policy will, by extension, mean a tight policy environment globally. With its credibility at stake, the Federal Reserve has communicated that it will tackle inflation at all costs. As such, any easing bias will remain absent until inflation returns closer to target.

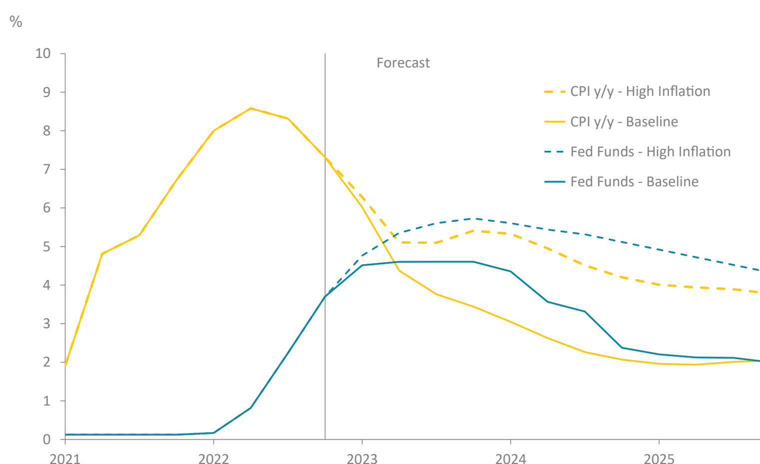
Our latest baseline forecast assumes that this will not be until 2024 at the earliest, with US headline inflation only falling to 3.4% by end-2023. Elsewhere, inflation appears to be more of a supply issue than demand related. Nevertheless, the Fed's insistence on taming inflation is forcing the hands of other central banks into tight monetary policy via the strength of the US dollar, which will likely persist until the Fed succeeds.

With the pandemic marking a shift in global inflation dynamics and bringing with it higher interest rates, our view is that markets will be unable to escape the gravitational pull of a weak economy that has characterized the last decade. As the era of low discount rates ceases, the weak outlook, quantitative tightening, and the greater issuance of safe assets from governments should provide a healthy uplift to fixed income returns.

Risk Scenario: High Inflation

In this high inflation regime scenario, financial markets suffer as inflation expectations become de-anchored from central bank targets and inflation remains persistently elevated. Despite additional tightening of monetary conditions by 100-150bps in major advanced economies, long-term inflation expectations rise globally as central bank credibility is threatened and high inflation becomes entrenched.

United States: High Inflation Regime



Source: Oxford Economics - Regions weighted by MSCI index weights

The federal funds rate rises more than 100bps above our baseline forecast by end-2023. By 2024, US real disposable incomes are approximately 1% lower and consumer spending falters. Reflecting tighter monetary policy globally, a marked rise in government bond yields and a weak demand outlook, equity prices experience sharp falls. The deterioration of financial market sentiment brings a broad-based US dollar appreciation, further exacerbating inflationary pressures elsewhere. As savings are drawn down and inflation remains elevated for a protracted period, we see a subdued economic recovery in subsequent years.

The hardest hit advanced economies in this scenario are those most sensitive to equity prices through negative wealth effects and those that experience the most significant squeeze to real incomes. Whilst emerging markets with loosely anchored inflation expectations also fare badly.

Market Forecasts & Allocations

In our previous two papers, Geographic Diversification in Private Equity Markets and Global Macroeconomic Outlook, we described Ben's portfolio management framework, our risk-adjusted forecasting methodology and private equity allocation views. In this quarterly letter we offer a more granular view of our medium-term forecasts (five-year horizon) for both public and private key market segments, as well as risk-adjusted allocation tilts derived from our portfolio risk management framework. We also provide some perspective into current downside market risks by contrasting our baseline views to those obtained within the context of persistent higher inflation scenario where the Fed and other major central banks are forced to keep rates higher for longer, as described in the previous section.

On the U.S. public markets front, our models suggest that both real estate and technology sectors are set to outperform, in part due to recent corrections making new investments significantly more attractive, while we also expect corporate high-yield segment to generate good medium-term returns due to a higher rate environment combined with our view that short-term treasury yields are currently near their peak for 2023–2027.

On the private markets front, we expect real estate funds and private equity to outperform most other sub-asset classes, but for private equity to fall short of generating mid-teens level of returns that have become the norm over the past two decades. This mild change of fortune in PE funds is in large part a consequence of the expected higher rate environment to come as well as of a more competitive alpha-generating landscape forcing general partners to pay higher prices for their investments.

We expect the most meaningful negative impact of a higher inflation scenario to be in the technology sector, which would prolong an already difficult period for many venture capital funds whose investments are often concentrated in growth technology companies. In this persistently high inflation scenario, rates would indeed keep rising in 2023–2024, dragging the poor performance of technology investments well beyond 2022.

On the private allocation side of our forecasts, we expect good risk/reward tradeoffs in private real estate and to a lesser extent in private equity (buyouts, growth capital) as risk aversion sentiments gradually fade with central banks' successful management of inflation providing markets with a soft landing through 2023–2024. In our high inflation risk scenario, a soft landing cannot be achieved but we still see nice opportunities in real estate, and to a lesser extent in natural resource and infrastructure investments as these sub-asset classes (real assets) can offer good inflation protection and generally have lower downside risks through a prolonged high inflation period.

Market Forecasts

Market Segment	Baseline	Risk Scenario
Equities - Broad	4.8%	3.8%
Equities - Technology	8.0%	1.3%
Equities - Energy	4.5%	4.2%
High Yield Corp. Bonds	9.1%	9.2%
Real Estate	11.6%	11.4%
T-Bills (3 month)	3.0%	4.4%
Private Equity	10.3%	8.5%
Venture Capital	9.1%	3.7%
Private Debt	7.4%	7.3%
Private Real Estate	10.8%	10.8%
Natural Resources	7.7%	8.1%
Infrastructure	7.1%	7.6%

Analytics from Beneficient and Oxford Economics. Additional data sources: Burgiss, Preqin, Bloomberg.

Optimal Allocations (Bullish, Bearish, Neutral)

Private Allocations	Baseline	Risk Scenario
Private Equity	neutral	-1
Venture Capital	-1	-1
Private Debt	neutral	+1
Private Real Estate	+1	+1
Natural Resources	-1	neutral
Infrastructure	-1	neutral

Analytics from Beneficient and Oxford Economics. Additional data sources: Burgiss, Preqin, Bloomberg.

Authors

Dr. Samuel Hikspoors
Chief Risk Officer,
Beneficient

Alessandro Theiss
Associate Director,
Oxford Economics

Important Disclosures

Subject to Qualifications

The information in this material and/or any other documents or information provided by Beneficient, a Nevada corporation (Ben) does not constitute an offer to sell or the solicitation of an of an offer to purchase any securities of Ben or any of its affiliates. Offers to sell or purchase any security can only be made through definitive Offering Materials and subscription agreements with the applicable investor.

Securities brokerage services are offered through Beneficient Securities Company L.P. ("Ben Securities"), which may provide certain materials to recipients. Ben Securities is affiliated with Ben and is a broker-dealer registered with the Securities and Exchange Commission and various states and a Member FINRA/SIPC. You can obtain more information about Ben Securities (see https://brokercheck.finra.org/firm/summary/119441) and its registered persons by visiting https://brokercheck.finra.org/. The registrations and memberships above in no way imply that any governmental or regulatory authority have endorsed the entities, products or services discussed herein.

Neither Ben nor any of its affiliates or representatives (i) makes any express or implied representation or warranty as to the accuracy or completeness of the information contained in these materials, or (ii) shall have any liability resulting from your use of these materials. These materials are not intended to provide the sole basis for evaluating any transaction with Ben or any other matter.

The views and opinions expressed are those of the authors and do not necessarily reflect the official policy or position of Ben or Oxford Economics. The information in this material is not intended to replace any information or consultation provided by a financial advisor or other professional nor shall be perceived to constitute financial, legal, accounting or tax advice.

These materials contain certain estimates, projections and forward-looking statements that contain substantial risks and uncertainties. The estimates, projections and forward-looking statements contained herein may or may not be realized, accurate or complete, and differences between estimated results and those realized may be material. Such estimates, projections and forward-looking statements are illustrative only and reflect various assumptions of Ben's management concerning the future performance of Ben and its affiliates, and are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond Ben's control.

Except as otherwise noted, the materials speak as of 2023. Neither Ben nor any of its affiliates or representatives undertakes any obligation to update or revise any of the information contained herein or to correct any inaccuracies which may become apparent.

©2023 Beneficient, a Nevada corporation