

Blackstone

The Ten Surprises of 2023

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The Ten Surprises of 2022

These Surprises were announced on January 3, 2022. The definition of a “surprise” is an event that the average investment professional would assign a one-out-of-three chance of taking place, but which we believe is probable, having a better than 50% chance of happening.

1. The combination of strong earnings clashes with rising interest rates, resulting in the S&P 500 making no progress in 2022. Value outperforms growth. High volatility continues and there is a correction that approaches, but does not exceed, 20%.
2. While the prices of some commodities decline, wages and rents continue to rise and the Consumer Price Index and other widely followed measures of inflation increase by 4.5% for the year. Declines in prices of transportation and energy encourage the die-hard proponents of the view that inflation is “transitory,” but persistent inflation becomes the dominant theme.
3. The bond market begins to respond to rising inflation and tapering by the Federal Reserve, and the yield on the 10-year Treasury rises to 2.75%. The Fed completes its tapering and raises rates four times in 2022.
4. In spite of the Omicron variant, group meetings and convention gatherings return to pre-pandemic levels by the end of the year. While Covid remains a problem throughout both the developed and the less-developed world, normal conditions are largely restored in the US. People spend three to four days a week in offices and return to theaters, concerts, and sports arenas en masse.
5. Chinese policymakers respond to recent turmoil in the country’s property markets by curbing speculative investment in housing. As a result, there is more capital from Chinese households that needs to be invested. A major asset management industry begins to flourish in China, creating opportunities for Western companies.

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The Ten Surprises of 2022 (cont'd)

6. The price of gold rallies by 20% to a new record high. Despite strong growth in the US, investors seek the perceived safety and inflation hedge of gold amidst rising prices and volatility. Gold reclaims its title as a haven for newly minted billionaires, even as cryptocurrencies continue to gain market share.
7. While the major oil-producing countries conclude that high oil prices are speeding up the implementation of alternative energy programs and allowing US shale producers to become profitable again, these countries can't increase production enough to meet demand. The price of West Texas crude confounds forward curves and analyst forecasts when it rises above \$100 per barrel.
8. Suddenly, the nuclear alternative for power generation enters the arena. Enough safety measures have been developed to reduce fears about its dangers, and the viability of nuclear power is widely acknowledged. A major nuclear site is approved for development in the Midwest of the United States. Fusion technology emerges as a possible future source of energy.
9. ESG evolves beyond corporate policy statements. Government agencies develop and enforce new regulatory standards that require public companies in the US to publish information documenting progress on various metrics deemed critical in the new era. Federal Reserve governors spearhead implementation of stress tests to assess financial institutions' vulnerability to climate change scenarios.
10. In a setback to its green energy program, the United States finds it cannot buy enough lithium batteries to power the electric vehicles planned for production. China controls the lithium market, as well as the markets for the cobalt and nickel used in making the transmission rods, and it opts to reserve most of the supply of these commodities for domestic use.

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The “Also Rans” of 2022

Every year there are always a few Surprises that do not make the Ten, because we either do not think they are as relevant as those on the basic list, or we are not comfortable with the idea that they are “probable.”

11. The FDA approves the first ex vivo gene-editing treatment. This stimulates further research into genomic medicine, and progress is accelerated on developing in vivo gene therapies. Ethical concerns around CRISPR technology inspire heated debate, but also focus investor attention on the pharmaceuticals and health care sectors.
12. The digital economy gets a major boost when Jamie Dimon reverses his position on cryptocurrencies and J.P. Morgan seeks to become a leader in the space. Crypto becomes a major factor in the financial markets.
13. The United States and China both seek to become the global leader in advanced semiconductor capabilities in order to reduce their dependence on offshore manufacturing of the technology. The US government commits major funds to private contractors for semiconductor research, while China focuses on state-owned enterprises to get the job done.
14. Puerto Rico becomes the new retirement destination of choice. People are attracted by the good weather and low tax rates, and they put aside fears of hurricanes.

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1. Multiple candidates on both sides of the aisle organize campaigns to secure their party’s presidential nomination. There are new headliner names on the respective tickets for 2024.
2. The Federal Reserve remains in a tug-of-war with inflation, so it puts the word “pivot” on the shelf alongside the word “transitory.” The fed funds rate moves above the Personal Consumption Expenditures price index and real interest rates turn positive, a rare phenomenon relative to the last decade.
3. While the Fed is successful in dampening inflation, it over-stays its time in restrictive territory. Margins are squeezed in a mild recession.
4. Despite Fed tightening, the market reaches a bottom by mid-year and begins a recovery comparable to 2009.
5. Every significant correction in the market has in the past been accompanied by a financial “accident.” Cryptocurrencies had a major correction and that proved not to be a systemic event. This time, Modern Monetary Theory is fully discredited because deficits have proven to be inflationary.

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The Ten Surprises of 2023 (cont'd)

6. The Fed remains more hawkish than other central banks, and the US dollar stays strong against major currency pairs, including the yen and euro. This creates a generational opportunity for dollar-based investors to invest in Japanese and European assets.
7. China edges toward its growth objective of 5.5% and works aggressively to re-establish strong trade relationships with the West, with positive implications for real assets and commodities.
8. The US becomes not only the largest producer of oil, but also the friendliest supplier. The price of oil drops primarily as a result of a global recession, but also because of increased hydraulic fracking and greater production from the Middle East and Venezuela. The price of West Texas Intermediate crude touches \$50 this year, but there's a \$100 tick out there sometime beyond 2023 as the world recovers.
9. The bombardment, destruction and casualties in Ukraine continue for the first half of 2023. In the second half, the combination of suffering and cost on both sides necessitates a ceasefire and negotiations on a territorial split begin.
10. In spite of the reluctance of advertisers to continue to support the site and the skepticism of creditors about the quality of the firm's debt, Elon Musk gets Twitter back on the path to recovery by the end of the year.

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11. Because of medical breakthroughs across the board, many people decide on a cryogenic burial, expecting to be defrosted when a cure for the disease that caused their demise is discovered. Funeral homes across the country advertise that “It’s Nice to Be On Ice.”
12. A technology breakthrough in reducing the carbon emissions of coal-fired plants takes the edge off the climate / global warming scare. This lowers the political pressure on emerging markets to make a rapid transition to renewable energy sources.
13. India begins to compete seriously to win/retain the manufacturing base that started looking for a new home after becoming increasingly uneasy with the uncertainty that has continuously surrounded US-China policies. The country initiates a campaign to attract global multinationals, focusing on its young population, relatively low income and growing consumer market, and prioritizing policies that incentivize investment in the auto, energy, pharma and tech sectors. Apple and Samsung are a proof of concept after successfully producing their respective flagship phones for global markets.

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