A letter to investors

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– Ben Way

By many measures, 2022 was difficult: global inflation, the end of easy monetary policy, supply chain disruptions and an unprovoked war that, among other things, drove Europe to prioritise energy supply over energy transition. These events set global markets on a downward path, and the challenges they presented persist as we enter 2023.

It's not exactly the kind of environment that ordinarily inspires investor optimism – and yet, based on our experience and the views of our experts, we remain stubbornly optimistic. The global economy faces diverse and complex challenges, but we can play a key role in presenting opportunities to our clients that will generate positive impact for everyone.

When volatility and uncertainty abound and the cost of capital is not zero, it is especially important to be an active investor. To use the analogy of buying a home, our clients want to partner with asset managers who know more than which neighbourhood to move into. We need to find the right neighbourhood, but also the right house, on the right street, to unlock the most potential value – both for investors and for the community.

The work ahead won't be easy. We will remain patient and focused as we put our ideas, expertise and resources to work. We believe leadership is defined by those with deep expertise and networks, who think long term and collaborate to make a meaningful impact on major challenges, such as climate change and the energy transition, while ensuring all impacted communities are supported.

The year 2022 was punctuated by shocks to global systems that once seemed resilient and steadfast. Supply chains grew in size, scale and suppleness over decades. Energy and food markets, always subject to market factors, were reliable. Globalisation was an inexorable trend – and we believed monetary policy had prevailed over inflation.

These assumptions were challenged fundamentally in 2022. *What are the implications for 2023?*

In this Outlook, we take the view that recessions will cast a pall over global growth in the first half of 2023 – especially in Europe and the UK, but also in the US. But with China's economy likely to accelerate steadily throughout the year as policy easing steps up gear, and developed world growth set to improve in the second half of the year, the global economic landscape should be much improved towards the end of 2023.

We also expect many of the 2022 market disruptions to ease: supply chains will stabilize and improve, commodity markets will realign, and inflation will moderate (although not to central bank target levels of ~2%).

The outlook for energy is mixed. This winter will likely test but not break Europe's energy security. And we believe the transition to renewables and more sustainable energy will continue. It must. The case for more sustainable power on both environmental and security grounds has only strengthened, and many markets will make meaningful investments to lessen their dependency on fossil fuels.

Strategically, this outlook strengthens our investment thesis across four major dimensions:

- **Alternatives must play an active role in portfolios.** Many investors, especially qualified individual investors, underallocate to private markets, meaning they are missing opportunities to diversify and protect portfolios against inflation – once a non-event and now a top concern among our clients.
- **Infrastructure will lead investment priorities.** There is strong global appetite to invest in infrastructure, particularly renewable energy. We anticipate $US2 trillion in global inflows over the next five years. Further, governments are driving significant climate policy initiatives. For example, Australia's government recently passed major climate change legislation, and the US has set aside $US369 billion for climate investment. We applaud this leadership.
- **Energy security and carbon reduction are no longer opposite goals.** For years, the argument was that you could have either energy security or sustainability, not both. Now we see that these two priorities must be met simultaneously, often in concert with each other.
- **Yield has returned.** After more than a decade of next-to-zero yields for all but the riskiest fixed income securities, there's now an array of attractive risk-adjusted return opportunities. However, serious risks must be considered, including the risks of recession, rising unemployment, monetary policy, and other geopolitical developments that will continue to impact all our clients' portfolios.

For most investors, public equities represent a large share of their portfolios. Considering how stocks and bonds have performed, 2022 was clearly consequential. But as we move into 2023, we see many opportunities in various equities across several sectors, including energy and infrastructure, and in large-caps.

With our outlook – and our investment methodology and experience – we remain focused on providing ways for investors to participate in the energy transition, perhaps the largest investment opportunity of our lifetimes. We are developing more than 85 gigawatts[1] of new green energy capacity, recently launched an electric vehicle (EV) infrastructure business, and have invested in a global sustainability-focused real estate developer. And now, with the Green Investment Group fully integrated into Macquarie Asset Management, we are able to apply more than a decade of experience handling an array of sustainable infrastructure projects to unlock energy transition opportunities for investors across our Private Markets platform.

And when it comes to Public Investments, we are focused on engagement, working with companies across sectors to understand the specific actions they are taking to improve environmental and social outcomes through stewardship.

These investments, and our approach, form the foundation of portfolios that endure because of their long-term value and contribution to a more sustainable world. We feel strongly that there is no dichotomy between a great investment and a sustainable one. The best companies and the best investments will be sustainable.

We expect – and hope – to work with others. We manage nearly $A800 billion[2] in a world of many trillions of dollars in investable capital. This means we must cooperate, share best practices, and build incrementally towards the scale that we need to solve challenges such as climate change.

This isn't about a singular asset manager being the leader. Rather, given the magnitude of our challenges and opportunities, we need many leaders bringing innovative ideas to clients and broader stakeholders. This is how we are going to live up to our ambition to invest to deliver positive impact for everyone.

Stay safe and well.

Ben Way
Group Head, Macquarie Asset Management

1. As at September 2022. Gigawatts (GW) of green energy assets in development. Reflects 100 percent generating capacity of each asset, not the proportion owned/managed by Macquarie.
2. Assets under management as at September 2022

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