

Longview Executive Agenda

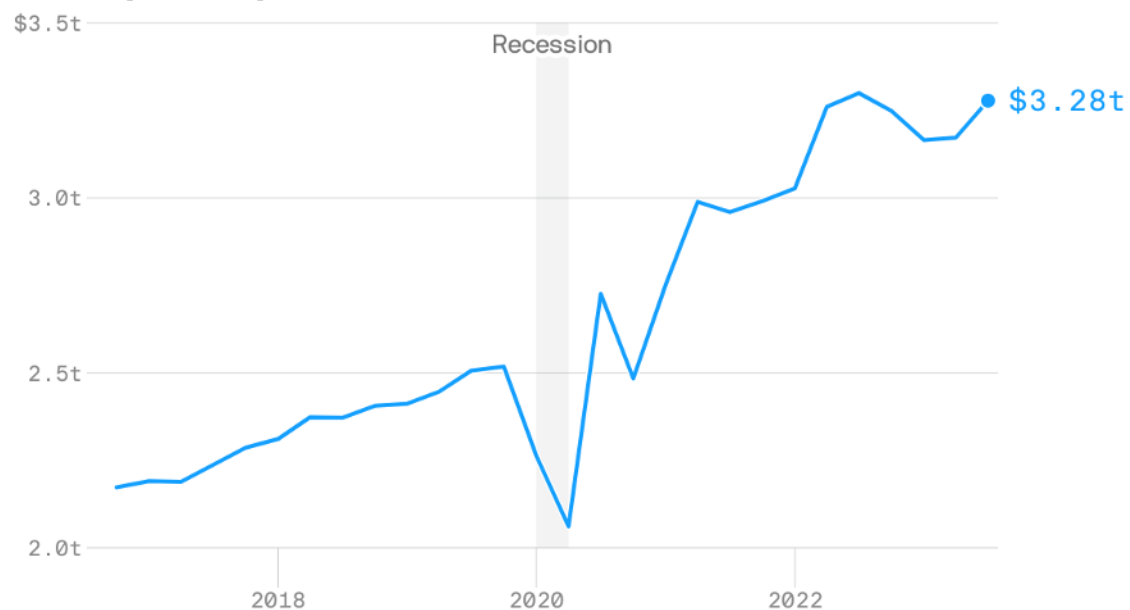
2023 Lookback: The year exceeded expectations in many ways.

December 17, 2023

1. Economic narrative

For the US, 2023 was a year of resiliency, profitability, and a big disconnect between perceptions and reality.

US corporate profits, annualized rate



FactSet via [Axios](#), November 30, 2023.

How the year started:

- The Business Roundtable said that **CEOs** were “cautiously approaching the next six months” given inflation concerns.
- **Wall Street** was on watch for something to break in the financial sector, given the rapid rise in interest rates.
- **Consumer sentiment** was at 40-year lows given year-ahead inflation expectations.

What did not happen: The much-anticipated recession never materialized, financial markets remained orderly despite several bank insolvencies, the “hot labor summer” was overblown, and inflation was not higher for longer.

What happened: Goldilocks showed up.

- The **interest rate cycle**—as measured by 10-year Treasuries—peaked in October and has fallen sharply since (see chart at bottom). Effective rates in the eurozone are down sharply as well.
- The Fed’s triennial survey of **household finances** found that American households experienced the largest increase in their

wealth on record (37%) between 2019 and 2022—more than 2x the next-fastest increase. This fueled consumer spending, despite raising interest rates.

- **Unemployment** hovered below 4% in 2023 and hit 3.5% in September—the lowest rate since 1948.
- **Corporate profits** were at near-record levels in 3Q (see chart above) and YTD total returns from the S&P 500 are running at almost 25%.
- But, but, but: **Capital markets** remained tight.

What wasn't on most people's radar at the beginning of 2023: AI.

2. Geostrategy

A lot of things didn't happen around the world in 2023.



The perception: Many surveys point to geopolitics as a top business concern. At the outset of the year, S&P Global declared: ["A world ordered for decades by globalization and geoeconomics has quickly become a world grounded in geopolitical risk."](#)

China: A much-feared Covid exit wave never materialized, but neither did the expected post-Covid economic recovery. Business and investor sentiment soured and capital flight escalated, driven by a lot of bad press. As the year came to a close, Beijing was trying to tamp down tensions with the US and EU and assure investors that China was good for business.

Ukraine: Kyiv's offensive never materialized. Despite large-scale military assistance from the West, Ukraine failed to push Russia back from its entrenched positions this year. War fatigue emerged among Kyiv's allies and at home. Meanwhile, Ukraine managed to export more grain and European energy markets normalized.

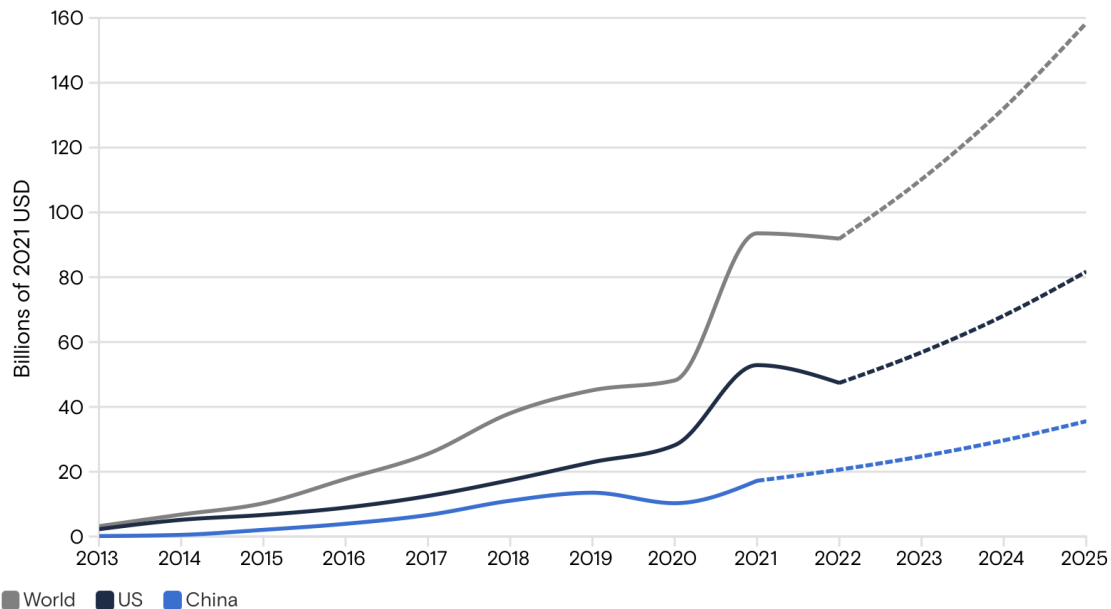
Middle East: Hamas' spectacular and savage attack on Israel was the biggest geopolitical surprise of 2023. But the conflict, while devastating for those involved, has not spread as many expected. Rather, the region's powers—Egypt, Iran, Saudi Arabia, the UAE, Qatar, and Hezbollah have largely maintained a studied distance. The global business impacts have also been very limited: The price of oil—the standard metric of regional geopolitical stresses—is trading below pre-crisis levels.

India: The market solidified its role as the global economy's bright spot in 2023. Prime Minister Modi used his G20 host position to cultivate his image as uniter and leader of the Global South while boosting India's economic and geopolitical orientation to the West. FDI is expected to hit \$35 billion in the current Indian fiscal year—up 30% from the year before.

3. Business leadership

In addition to pursuing cautious business strategies in 2023, CEOs spoke out less.

Private AI investment (dotted lines = projections)



[Goldman Sachs](#), August 1, 2023.

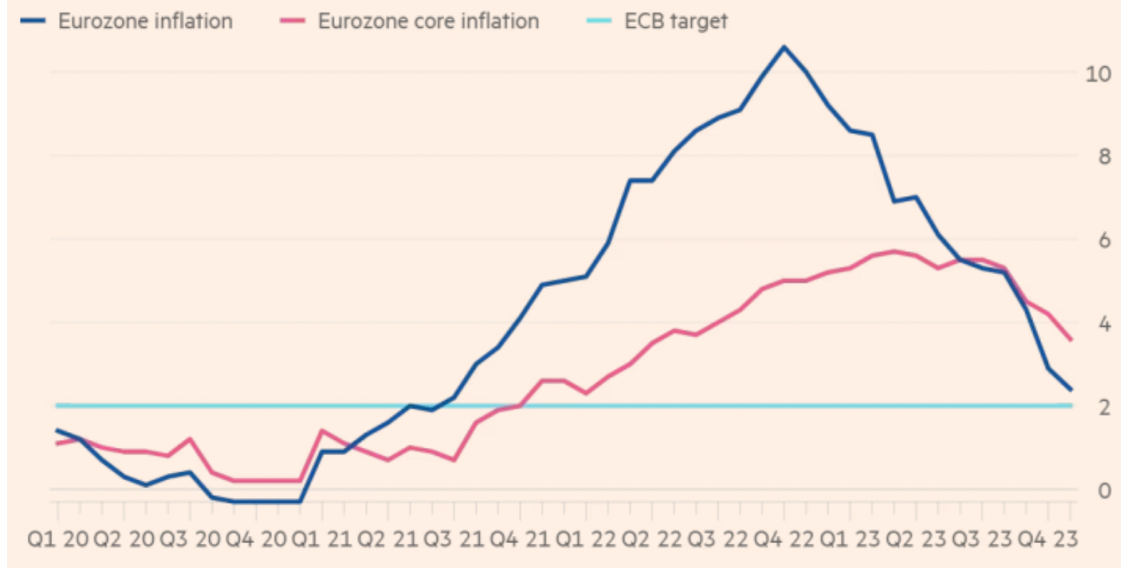
AI: The world launched into a new innovation supercycle in 2023. Efforts to regulate AI also took off. [An EY survey found](#) that companies around the world were integrating AI into capital allocation decisions and that CEOs overwhelmingly believed that AI was a force for good. Private sector investment in AI in the US dipped in 2022, but growth resumed in 2023.

Sustainability: Companies shifted from making bold climate commitments to trying to attain those already set. Progress in 2023 might best be described as "In development": A Starbucks spokesperson, for example, said the company isn't expecting big emissions reductions yet, as it's still working to "identify, test, and scale solutions across [its] global operations."

Social issues: Business leaders took more discreet stances and [Edelman found](#) that internal corporate communications have become a more important channel for business leaders. The Israel-Hamas war reinforced this trend: Statements of concern about humanitarian issues were necessary and sufficient. The plight of university presidents reinforced tread-carefully thinking as the year came to an end.

□ **The Long View: Five factors that shaped the 2023 narrative.**

Inflation trends in the eurozone (annual % change)



Eurostat via [Financial Times](#), November 30, 2023.

Weak footings: The pandemic and the policy responses were extraordinary. Foundational assumptions about recovery and the post-pandemic new normal have not gelled yet. And, AI added to a sense of novelty. This uncertainty has led to risk-oriented and wide-ranging expectations about the future.

Headline inflation: The pandemic created a sense of looming crisis that is now hard to shake. To sustain attention after the pandemic, the media and pundits play up fragilities and risks. Optimism was off-trend in 2023.

Truth decay: In a social media-driven and populist world, objective facts carry less weight than feelings. Trust in official institutions and data is down.

Sentiment bias: Consumer, business, and voter surveys have consistently shown biases between what people feel and say and what is actually occurring. In 2023, individuals and company representatives expressed more favorable outlooks about their situation than the broader world about them. The likely causes: Uncertainty, crisis talk, and truth decay.

Resiliency: People, companies, and markets constantly adjust to changing realities and worst-case scenarios rarely occur. In a hair-on-fire world, pragmatism and normalization narratives don't sell.

US 10-year Treasury bond yields (%)



[Trading Economics](#), December 16, 2023.

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