Economic and Market Outlook 2023

JANUARY 2023

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EXECUTIVE SUMMARY

ECONOMIC OUTLOOK

2022 saw higher-than-expected inflation, tightening global financial conditions, a war on the European continent constraining energy supplies and a China constrained by lockdowns.

The interplay of inflation and central-bank intervention will ultimately shape the story of economic growth for 2023, whilst facing economic scenarios that range from a 'soft landing' to 'stagflation' and perhaps outright 'recession'.

In October 2022, the IMF revised down their forecasts for global growth for 2023 to 2.7%. It warned that more than a **third of the world economy will contract and there is a 25% chance of under 2% GDP growth, which it defines as a global recession.**

Despite early signs of inflation subsiding, the journey back to the Fed target 2% will likely require a significant slowdown in economic growth and may take longer than previously anticipated as the labour market remains hot. The Ukraine war and China's Covid battle continues to cause disruptions to the global supply chain, reversals in globalization trends and global debt build up is making it more difficult to tame inflation.

We may be witnessing a fundamental shift towards a new regime where inflation is a persistent problem and ultra-low interest rates are no longer the norm.

MARKET OUTLOOK

Weighed down by macroeconomic shocks, stocks could trend lower as central banks continue work on rising prices.

Equities face volatility, as well as a much-needed reset after the post covid mania, as fundamentals deteriorate with conditions becoming even more restrictive and valuations continue to contract on an anticipated drop in earnings.

A repricing of valuations will provide opportunities for selective capital, although short term returns will continue to be found in defensive parts of the market.

There are bright spots in both developed and emerging markets, although emerging markets will likely see a larger rebound, particularly in fast growing Asian economies.

Geographically, commodity exporting economies in the GCC and stable emerging economies in Asia are expected to do better. This will support their respective markets and lead to higher capital flows as investors search for yields in a slowdown.

Bonds and fixed income are likely to outperform equity returns amid a higher interest rate environment.

THEMES AND RISKS

Central bank policy moves and inflation activity will ultimately be the key factors driving markets in 2023. This will determine the economic landing we face, as well as the timeline towards a rebound.

With debt levels over $300 trillion globally, small changes in interest rates have a significant impact on borrowers.

The biggest concern with inflation in 2023 is the risk of a second wave, likely triggered by wage growth. The central banks may also be forced to consider the trade-off of either getting inflation back to 2% targets by crushing demand down to what the economy can comfortably produce now, or live with more inflation.

Watching how the Chinese reopening plays out will be an important factor for global markets, particularly in Asia. China has yet to emerge from COVID, and an increase in activity from the worlds second largest economy will have positive ripple effects.

China's reopening has highlighted the continued risk of COVID, with reports of increased number of cases delaying a full opening. This has also been slowly emerging in other nations such as India. **A return of COVID at a global scale could once again derail all economic projections.**

Geopolitics remains a key risk. 2022 was marked by the war in Europe, and US-China relations turning sour over Taiwan playing out could aggravate global conditions.

The fragmenting and doubling up of supply chains, as multinationals create parallel US-oriented and China-oriented production plans, will lower productivity globally and it will continue to fuel inflation as the divergence of global supply chains sweeps from sector to sector over a lengthy period of time.

Energy security will once again dominate markets. **Policy makers insist they are not backtracking on their fight against climate change, but it's clear that the environment is no longer the absolute priority,** at least in the near term.

ABU DHABI AND THE REGIONAL OUTLOOK

While not immune to the pressures of the global downturn, the UAE has remained comparatively insulated in most measures.

Although the local economy is in a much better position compared to the west, a deep global recession could weigh on the UAE. The UAE economy is expected to grow by over 4% in 2023, this is lower than 2022 but higher than the historic average.

ADX has witnessed a remarkable bull run since mid-2020. This strong performance has been driven by robust economic growth on the back of high oil prices and strong corporate profitability.

Following a 68% rally in 2021 amid an IPO boom, ADX performance continued its strength in 2022, having gained over 20% in 2022, outpacing both global and regional bourses such as Saudi's Tadawul and Dubai's DFM.

While the global markets are witnessing a sustained sell-off, ADX could continue to maintain robust performance on the back of strong expected GDP growth, favorable policies such as the IPO fund and growing interest from international investors.

However, in a global recession scenario and attractive fixed income returns, equities could soften, creating better entry points for investors.

INVESTING IN THE NEW ERA

- **Set a high bar on diligence for businesses exposed to risky markets, economic cyclicality, supply chain disruptions, and inflationary pressures.**
- **Businesses with an established moat such as predictable cash** flows will sell for a premium.
- Invest in areas that are set to benefit from **long-term transformative trends.**
- **Maintain a fortress balance sheet to withstand shocks –** adequate liquidity, study refinancing plans, closely engage with lenders.
- **Incorporate a small 'opportunistic' bucket** to benefit from adverse market shifts. Lock interest rates.
- **Recessions separate wheat from the chaff – So focus on quality.**
- **Companies with pricing power and recurring revenues that can grow their earnings steadily in real terms across cycles will likely outearn the market.**
- The recovery will be faster in **countries with large domestic markets** and less reliance on exports.
- **Look beyond the last 3 years** when assessing a company's performance.
- Identify discretionary expenses and overhead you can reduce or defer to maintain margins without sacrificing long-term growth – **Trim the fat, preserve the muscle.**

Take advantage of volatility *- "the disarray in markets gave us a tailwind in our purchases. When investing, pessimism is your friend, euphoria the enemy." Buffet*

GLOBAL ECONOMIC OUTLOOK

The interplay of inflation and central-bank intervention will ultimately shape the story of economic growth for 2023.

In 2022 general economic sentiment was soured by higher-than-expected inflation, tightening global financial conditions, a war on the European continent constraining energy supplies and a slowdown as a result of lockdowns and the deepening real estate crisis in China.

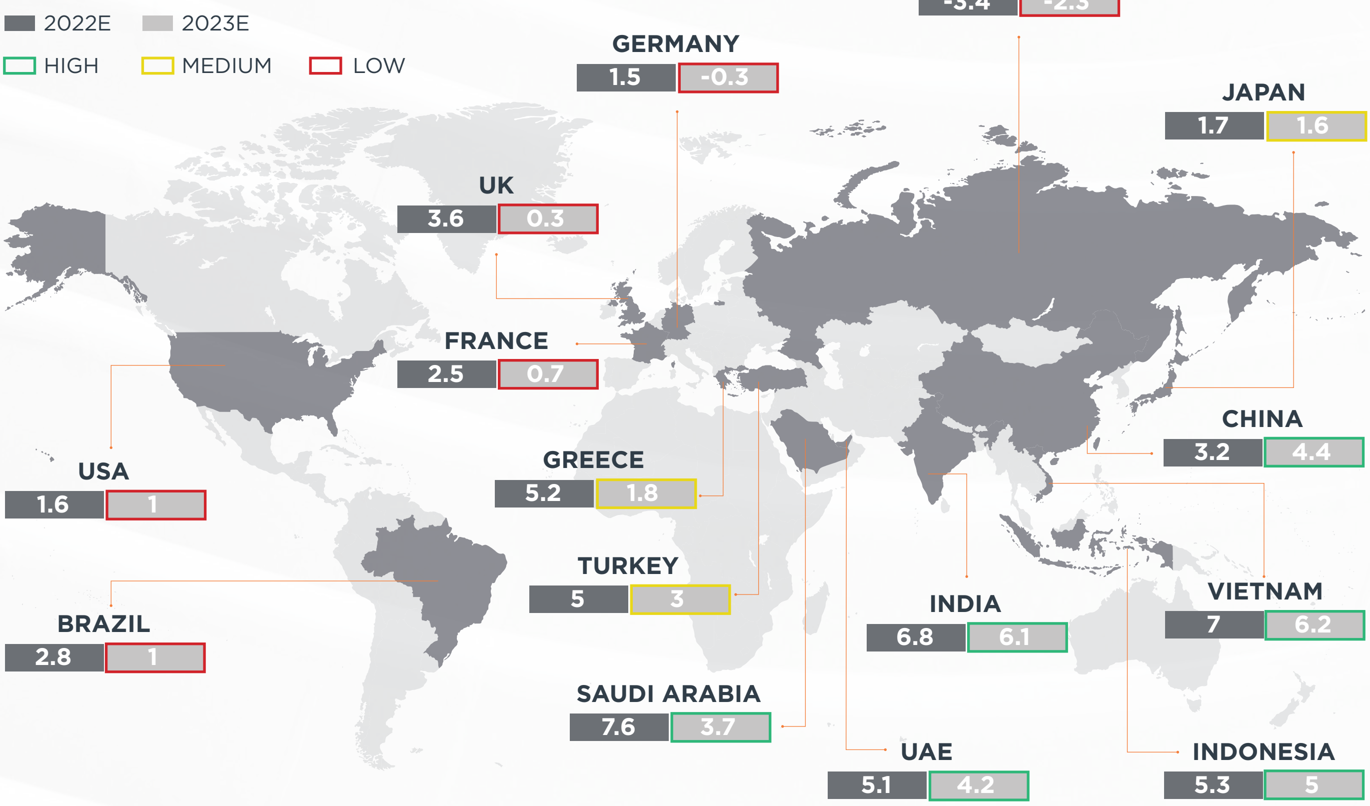
Entering 2023, the global economy is expected to face below trend growth as central banks seek to continue the path of slowing growth and fighting inflation (and armed with the tools to do so).

In October 2022, the IMF revised down their forecasts for global growth for 2023 to 2.7%. It warned that more than a third of the world economy will contract and there is a 25% chance of under 2% GDP growth, which it defines as a global recession.

The focus over the next will be on whether inflationary pressures can be reversed without a recession, and if a recession does occur, how deep it will be.

Overall, the global economy faces economic scenarios that range from a 'soft landing' to 'stagflation' and perhaps outright 'recession'.

Real GDP growth (Annual % change)



	2022E	2023E
EMERGING MARKET AND DEVELOPING ECONOMIES	3.7	3.7
MIDDLE EAST AND CENTRAL ASIA	5	3.6
EURO AREA	3.1	0.5
WORLD	3.2	2.7

Source: IMF, World Economic Outlook, October 2022

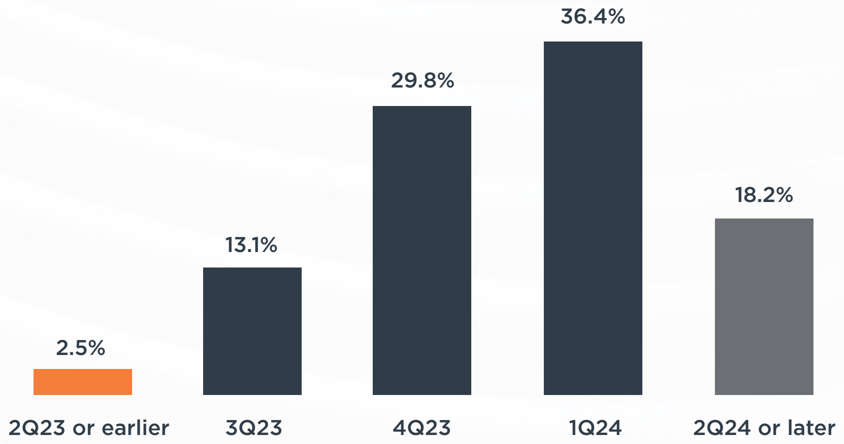
In the last 12 months we have seen the fastest increase in the Federal funds rate since 1981. In their final meeting of 2022, FOMC members anticipated the central bank will continue to tighten until it reaches a terminal fed funds rate of 5.1% in 2023, and suggested the Fed will hold rates throughout 2023.

But as supply chains recover and labour markets see less friction, there is a possibility that we see a sharper and broader fall in inflation, which would provide a new path for policy and higher growth globally.

Despite early signs of inflation subsiding, the journey back to the Fed target 2% will likely require a significant slowdown in economic growth and may take longer than previously anticipated as the labour market remains hot.

55% of investors polled by J.P. Morgan in its 2023 Outlook Survey expect the Fed to be on hold through the first quarter of 2024 or beyond.

Investor responses to the following question: 'When do you believe the Fed will start cutting its fed funds target rate?'



Source: J.P. Morgan, 2023 Outlook Survey

In contrast to expectations for Western economies, Asia could offer greater opportunities for growth, although remain below its pre-pandemic trend, which will slow modestly from 2022. **Emerging market economies could further benefit as the Fed finds its peak rate and the dollar eases. India and the GCC remain bright spots,** however will face uncertainty over commodity prices and a Chinese reopening. Last years commodity boom will continue providing benefits for resource-rich markets.

Waning private sector savings will also test emerging market's ability to endure continued tightening in global financial conditions and weaker global growth.

WHAT MAKES THIS SLOWDOWN DIFFERENT?

The period between the end of the Global Financial Crisis in late 2009 and the onset of the pandemic in early 2020 was marked by dormant inflation and low interest rates. Furthermore, the Ukraine War and Covid scare in China is causing massive disruptions in the global supply chain, creating big faultlines across the corporate world and making it more difficult to orchestrate a controlled slowdown to tame inflation.

With inflation and interest rates reaching 40 and 13 year highs respectively, there is a fundamental shift occurring despite some encouraging recent inflation readings, the labor market is still very tight, wages are rising, and the economy is relatively resilient. **Globalization is also slowing or reversing, losing its significant deflationary influence, as focus has shifted from efficiency to self sufficiency and unilateralism. This could see higher structural inflation over the next several years, making a sustainable 2% target level difficult.**

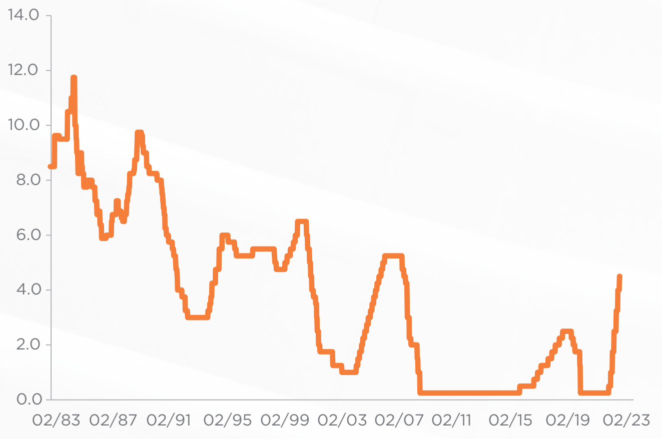
The Fed, now looking to maintain credibility, looks set on remaining restrictive for longer and once satisfied will then look to settle at a neutral interest rate (neither stimulative nor restrictive) sometime in 2024. **Looking at the past, even today's interest rates would not be considered elevated in the longer sweep of history.**

For these reasons, the base interest rate over the next few years is unlikely to return to the same ultra-low levels we had been accustomed to since 2009.

Therefore, it is highly likely that we are moving into a different era, rather than just a small business cycle shift. An era which will be marked with high interest rates and above target inflation rates. Macro will play a crucial role in investing world over the coming years.

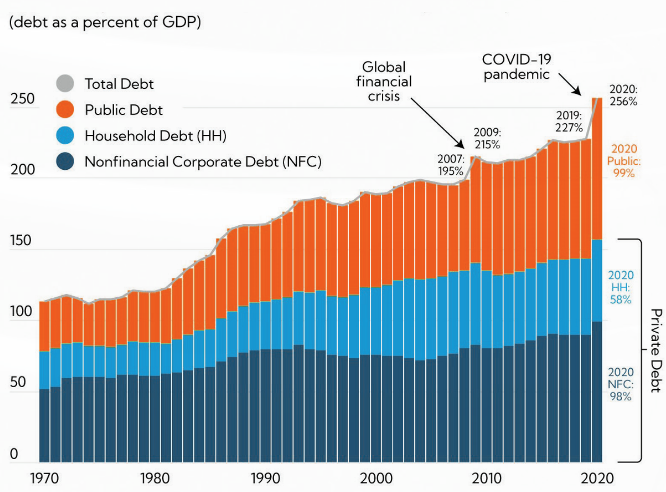
The debt build up in recent years, especially post-Covid, is creating more complexities. Sovereigns and corporates have significant leverage on their balance sheets and **risings interest rates, dollar strengthening will create more debt servicing issues and limit their ability to fight the slowdown by adopting fiscal measures.**

Fed Fund Rate



Source: Bloomberg

Global Debt Surge



Source: IMF Global Debt Database and IMF staff calculation

GLOBAL MARKET OUTLOOK

2022 marked a turbulent year for global markets as macroeconomic and geopolitical shocks saw most markets contract, with the ACWI slipping 19.80% YTD.

Key drags to the markets were inflation, tightening financial conditions, and shockwaves caused by the war in Europe. Investors turned bearish on expected consequences of macroeconomic weakness on corporate earnings. These remain risks in the coming year, and investors will keep a close eye on if they subside as well as the full extent that they effect the economy and earnings.

Asset Class Performance 2022 (Annual % Change)

	Change
MSCI All Country World Index	-19.80
S&P 500	-19.44
Euro Stoxx 600	-13.06
FTSE 100	0.91
MSCI Emerging Markets Index	-22.37
ADX Index	20.30
Dubai DFMI	4.39

	Change
Saudi TASI	-7.12
GCC S&P Index	-7.16
Bitcoin	-65.18
Oil (Brent)	9.52
Gold	0.77
US Dollar Index	7.84

Source: Bloomberg

2023 OUTLOOK

Stocks could trend lower into 2023 as global central banks continue to work on rising prices, especially across the EU and North America. However, with better visibility in the second half of the year on policy and economic outlook, investor sentiment could recover from rock bottom levels to take advantage of much improved valuations in riskier asset classes such as equities.

A dramatic reset in valuations (necessary after the post-COVID mania), with higher yields and lower multiples, could create attractive entry points in most asset classes.

Assets in defensive market sectors like utilities, healthcare, consumer staples, and gold that outperformed relative to the market in 2022 will likely be safer bets again, albeit with more modest returns.

With Treasury, corporate and government bond yields at their highest levels in a decade, income and portfolio diversification are once more available.

Geographically, commodity exporting economies in the GCC, especially the UAE and stable emerging economies in Asia are expected to do better. This will support their respective markets and lead to higher capital flows as investors search for yields in a slowdown.

Equity Volatility

Equities will continue to face volatility and trend downwards in **the first half of the year as economic conditions constrain earnings. However, business with strong fundamentals across thematic industries are expected to weather the storm and be winners in the long run.**

Across several cyclical industries, fundamentals will likely deteriorate as financial conditions continue to tighten and monetary policy turns even more restrictive.

Outperformance for small cap stocks compared to large caps occurs, generally, when risk appetite returns for riskier assets such as equities.

Valuations Contract

Valuations continue to contract on an anticipated drop in earnings, although it is possible EPS weakness could revert to sequential growth around the middle to tail end of the year. However, expect this to be a complex and choppy scenario, 2023 guidance will be important to how EPS estimates change, starting early in the year.

The S&P 500 average P/E multiple sits just below 20 coming into the new year, down from 27 one year ago, and roughly its modern era market average level. With expectations of worse corporate earnings and a recession, of some form, this may have further down to go in the near term.

Seeking Refuge Within Equities

Investors could seek higher-yielding parts of the equities market, including consumer staples, financials, healthcare and utilities according to Morgan Stanley.

Businesses with an established moat such as predictable cashflows will fair best. Real assets such as infrastructure, transportation and the energy transition create a wide range of possibilities for both public and private investment.

A Comeback for Fixed Income

Bonds and fixed income are likely to outperform equity returns amid a higher interest rate environment. However, the market is currently priced in below the Fed's proposed terminal rate and could result in a selloff at some point if the Fed stands by its December dot plot.

Private Markets

Private assets are not immune to higher macro and market volatility or higher rates, and public market selloffs have reduced their relative appeal. Private allocations are long-term commitments, however, and **there will be opportunities as assets reprice over time.**

There is sill significant dry powder available to PE ($1.2 trillion according to Pitchbook) and the next 12 to 18 months will be about patient capital and selectivity, as buyers capitalize on changing market dynamics. Blackrock has found that PE tends to outperform public equity by a greater alpha during periods of distress.

Whilst investing in private markets may be compelling, it will be important to **be patient whilst companies reprice their valuations** to reflect the current market. Private market assets are generally repriced less frequently than public equities.

Commodities

Despite expectations for sub-par global growth, global commodities strategists at J.P. Morgan suggest that **crude will trade at an average $90 a barrel,** driven by a continued normalization of demand for mobility fuels like gasoline, diesel and jet fuel to pre-COVID levels. Oil supply growth is set to slow, with OPEC+ looking to keep markets balanced next year.

Base metals are likely to see a modest recovery, whilst precious metals and gold looks even more positive. A harder than expected economic landing could see the price of gold test the $1,900 range.

Bitcoin, after falling over 60%, has shown greater correlation with conventional stocks. **Lower risk appetite in 2023 does not lend itself to a significant recovery for the cryptocurrency.**

The reopening of China's economy may lend support to demand for natural resources. However, overall slower global growth is likely to weigh on commodity prices.

Tech Remains Risky

Tech stocks (particularily mega-cap) saw valuations come down dramatically in 2022. Founder of PE Carlyle Group, David Rubenstein, sees a further drop in the upcoming year and **newer tech companies without revenues, let alone earnings, to come down a fair bit.**

In 2000, the five largest tech related stocks of the time comprised just over 20% of the S&P 500. Five years later, in 2005, they had bottomed and represented just 5% of the index.

The five largest tech stocks in 2022 at their peak made up roughly 25% of the index. Although not expected to fall as low as 5%, trading at an average 30 times premium with slowing growth rates will see further pain in the sector.

M&A Expectations

The overall economic backdrop is also slowing down M&A. With recessionary fears growing, the outlook for the operating environment is less favorable. Executive confidence is a key factor in deal making. However, corporate activity is expected to drive M&A's in 2023, as businesses build competence to grow in the new era and acquire targets at a relatively lower valuations.

The structural headwinds have pushed many buyers in the private equity industry to the sidelines and could reduce the number of large transformational transactions.

One longer-term deal making trend still playing out is technology-driven disruption. Enhancing technology can help companies take out cost and appeal to new customer bases, both of which become more critical against a bleak economic backdrop.

GEOGRAPHIC OUTLOOK

Developed Markets

US markets are likely to provide modest returns, with Morgan Stanley forecasting the S&P 500 ending the year roughly where it started, although there is potential for a turnaround later in the year as the market gains clarity on a Fed policy pivot. US treasuries remain a bright spot as fixed income yields improve.

European equities likely have a recession to negotiate and geopolitical tail risks, but the eurozone has rarely been this attractively priced versus the U.S. Although consensus suggest a recession will be unavoidable, a rebound in the second half of the year would see a bounce in shares.

Japanese equities look to be in a favourable position relative to other developed markets. The earnings outlook in Japan remains robust, with recurring profits expected to grow by 11.2% in 2022 and by 5.5% in 2023 as per Nomura. A monetary policy decision in the spring, as well as China's reopening, will be important factors to consider in how Japanese markets play out over the year.

Emerging Markets

The global and U.S. economic cycles will remain the primary drivers for EM assets in 2023. In previous cycles, emerging markets have recovered before U.S. and developed markets.

Analyst estimates suggest the MSCI EM Index may see 10% growth or more in the next year. This will be driven by cheap valuations, and cyclical winds shift in favor of emerging markets as global inflation eases, the Fed stops hiking rates and the U.S. dollar declines.

Valuations reflect a more difficult earnings outlook. Uncertainty and short-term earnings stress can present investment opportunities. However, despite volatility in the near-term, as the monetary cycle peaks this year, 2024 may bring better economic conditions and see emerging markets equities rebound.

The market has yet to differentiate between winners and losers in many emerging markets. For example, Indian IT services with a much lower growth outlook are trading at the same multiples as niche, digital IT services companies with twice the likely growth rate.

As China's zero-COVID policies begin to moderate, combined with a weaker dollar, that could make China an intriguing equity area for 2023.

The Bull/Bear case outlook for global equities in 2023

INDEX	CURRENT PRICE	New Target Price - Dec 2023 (% From Current Levels)		
		Bull	Base	Bear
S&P	3,956	4,200	**3,900**	3,500
		6%	-1%	-12%
MSCI Europe	1,740	2,060	**1,790**	1,485
		18%	3%	-15%
MSCI EM	890	1,130	**1,000**	730
		27%	12%	-18%

Source: Bloomberg, Analyst Consensus

TOP THEMES AND RISKS

CENTRAL BANK POLICY

After reversing course on labelling inflation "transitory", the US Federal Reserves hawkish stance on inflation will continue to be the key factor shaping the story of the global economy in 2023. We will feel the full effects of rate hikes, with central banks facing the enormous challenge of taming inflation with the risk of dragging the economy into a recession.

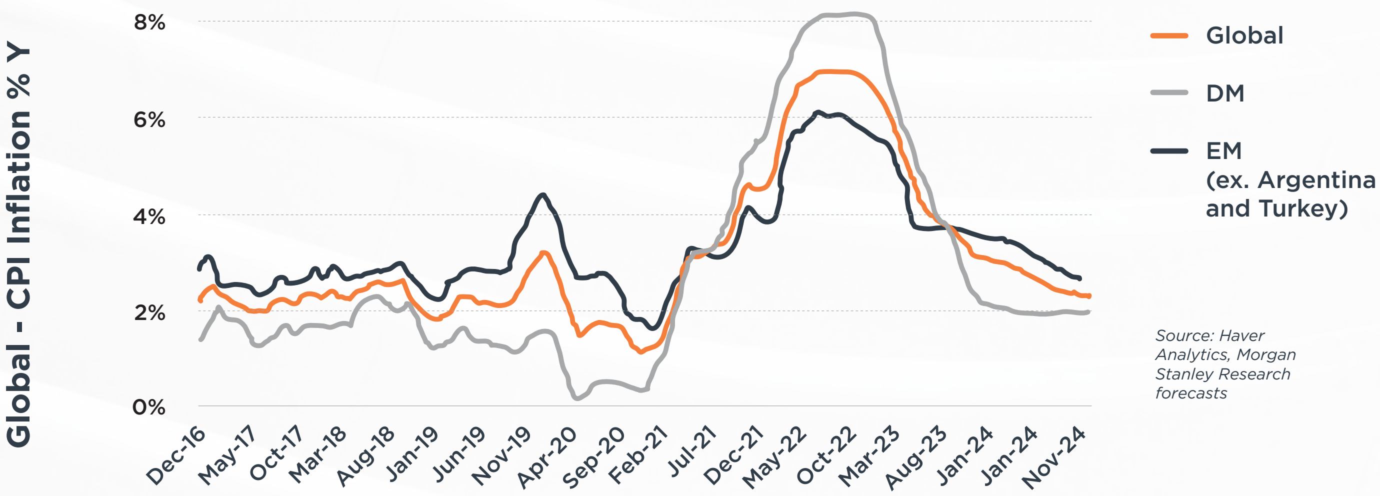
Markets will keep a close eye on policy direction, although the Fed provided guidance at December's FOMC event that their terminal rate target is 5.1%, with 17 of 19 members expecting it to be necessary to hold at that level until 2024. **Businesses will continue to see margins and earnings squeezed as a consequence, which have not been fully priced in yet.**

INFLATION

Inflation reached decades highs in 2022, advanced by a period of significant easing during the pandemic, supply chain constraints and ballooning commodity prices. Consequently, Central Banks have been forced to intervene with rapid monetary policy tightening. However, there are signs that inflation is softening and has likely already peaked, with November inflation numbers in the US showing its greatest drop in core CPI in 2022.

The biggest concern with inflation in 2023 is the risk of a second wave, likely triggered by wage growth. The central banks may also be forced to consider the trade-off of either getting inflation back to 2% targets by crushing demand down to what the economy can comfortably produce now, or live with more inflation.

Over the next year we will need to see how quickly inflation falls, and to what level, as the Fed will be looking for interest rates to be higher than inflation before considering a policy pivot.



Source: Haver Analytics, Morgan Stanley Research forecasts

CHINESE REOPENING

Global markets, particularly in Asia, will be looking to see when and how successfully the Chinese economy fully reopens from COVID lockdowns. There have been signs that the world's second largest economy is easing its stance on its Covid-zero policy and that a full reopening will occur in 2023. **Increased activity from China will have a positive impact on the global economy as several supply side price issues could abate. However, it could also lead to a surge in oil demand and add more fuel to demand side inflation.**

RE-EMERGENCE OF COVID

While global economies have mostly reopened, COVID re-emergence remains a serious risk. Stark scenes in China, where some models are estimating up to a million Covid related deaths over the next year exemplify the risk, but India has also seen an uptick in cases, causing some restrictions to be reinstated.

The threat of Covid and new vaccine-resistant strains becoming prevalent could derail the global economy once again, shaking Covid complacency seen in 2022.

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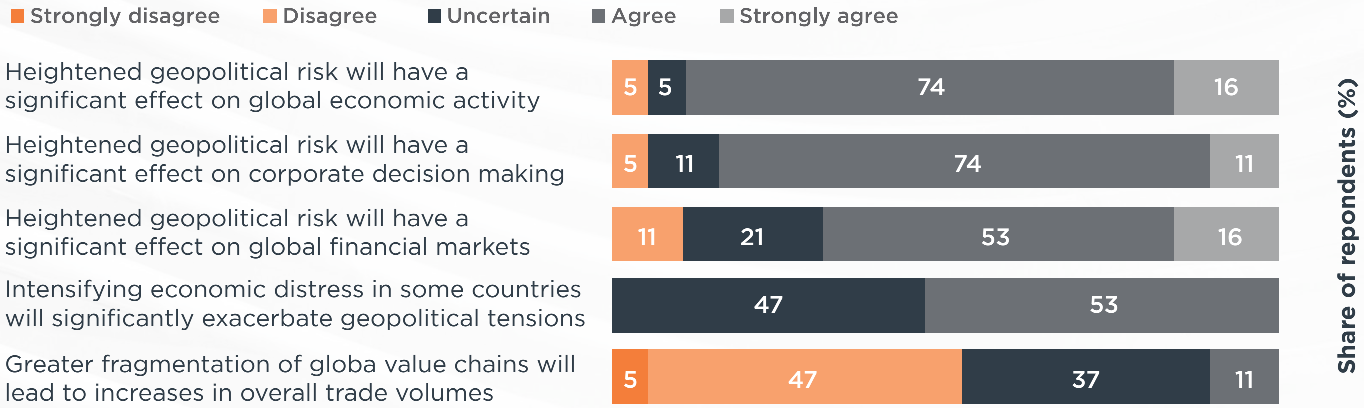
GEOPOLITICAL RISK

The Ukraine war, China-US tensions and a potential of social unrest across both developed and emerging economies due to rising cost of living are major economic risk.

Continued geopolitical tensions may result in further deglobalization and reshoring, impacting variable costs, corporate margins and investor returns.

Global Chief Economists Survey - Aug 2022 (Over the next three years)



Source: Chief Economists Survey, August 2022

GLOBAL DECOUPLING

China was said to "export deflation" post its 2001 entry into the World Trade Organization and now the reverse process is under way.

Trade tensions and the deeper conflicts on technology, economy, and geopolitics can lead to the possibility of China and America decoupling. This is creating two distinct, rival, economic, technological, and political systems with their own spheres of influences.

The fragmenting and doubling up of supply chains, as multinationals create parallel US-oriented and China-oriented production plans, will lower productivity globally. And it will continue to fuel inflation as the divergence of global supply chains sweeps from sector to sector over a lengthy period of time.

In 2022 we saw some of the effects of Russia's disintegration from the West and Europe, the Chinese-US decoupling will see countries and multinationals needing to pick sides more.

DEBT STRESS

With debt levels over $300 trillion globally, small changes in interest rates have a significant impact on borrowers (government, households and companies). Corporate profits will take a hit and a slowdown, if not an a recession of some form, is consensus.

The current outlook does not look like a GFC as financial markets are more stable and corporate and consumer balance sheets are better. However, the systematic risks could aggravate with a deep recession, and this time the debt market could be the trigger.

ENERGY SECURITY

The current energy crisis is forcing governments to weigh their priorities again. Security and affordability are making a top consideration.
Policy makers insist they are not backtracking on their fight against climate change, but it's clear that the environment is no longer the absolute priority, at least in the near term.

What we may see once short term needs are covered (through traditional sources) is a sharp acceleration in investment in renewable projects to secure long term energy needs.

UAE AND THE REGIONAL MARKET OUTLOOK

ECONOMIC OUTLOOK

While not immune to the pressures of the global downturn, the UAE has remained comparatively insulated in most measures. In 2022 the country is expected to register the highest growth rate in over a decade. It is forecasted to maintain above average growth and be the best performing GCC economy in 2023.

2022 INDICATORS	UAE	GLOBAL
GDP growth *(IMF)*	5.1%	3.2%
Inflation *(IMF)*	5.2%	8.8%
Capital Market Performance ***(YTD 30/12/22)***	**ADX:** 20.30% **DFM:** 4.39%	**S&P 500:** -19.44% **MSCI ACWI:** -19.80% **MSCI EM:** -22.37%
Fiscal Balance % of GDP *(IMF)*	18.5%	-8.2%
Currency performance	**DXY:** 7.84%	**EMFX:** -4.26
PMI ***(Change Sep to Nov 2022)***	54.4	48.8

Source: IMF, Bloomberg, UAE Central Bank

Although the local economy is in a much better position compared to the west, the ongoing global macro risk will weigh on the UAE. Growth, which will likely slow this year, will be dependent on oil prices sustaining at high levels.

Inflation has remained moderate, with the IMF forecasting 3.6% inflation in 2023, with the GCC region in general set to enjoy one of the lowest levels of inflation worldwide.

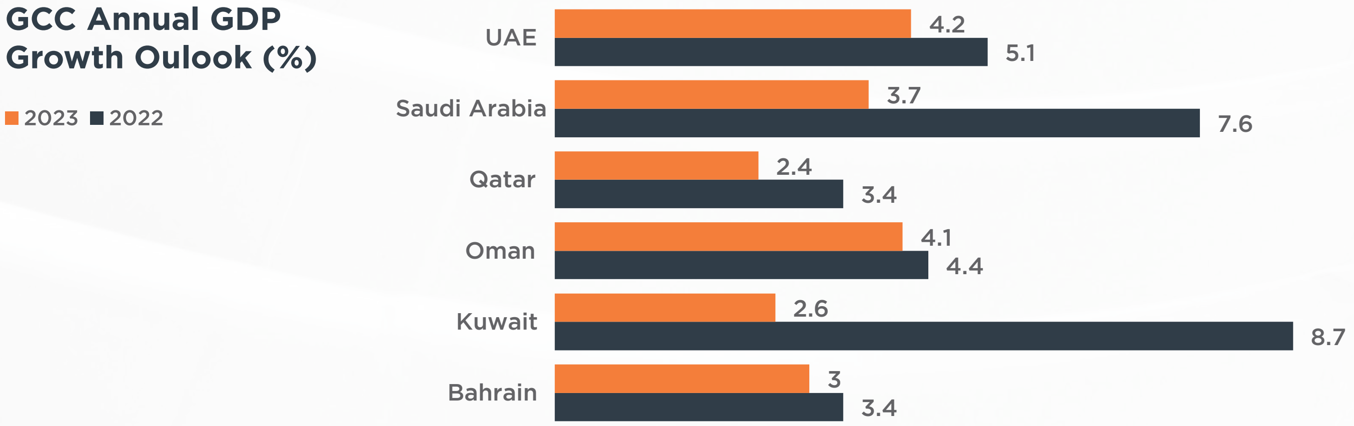
Prudent fiscal spending, as the federal government aims to increase spending 4% in the revised 2023-2026 budget, will provide stimulus and support the economy.

By virtue of the Dirham peg to the US Dollar, the UAE is not witnessing an adverse currency fluctuation like most emerging markets. However, as monetary policy slows, the Dollar/Dirham will likely soften.

While global borrowing by governments and businesses is at dangerously high levels, **with global debt surpassing record levels over $300 trillion, the UAE enjoys a moderate 31% debt to GDP ratio.**

The UAE economy has been bolstered by higher oil prices, and will require levels to remain elevated next year. With EIBOR at its highest levels since 2007 putting pressure on corporate profits, it is expected the economy slows down modestly in 2023.

GCC Annual GDP Growth Oulook (%)



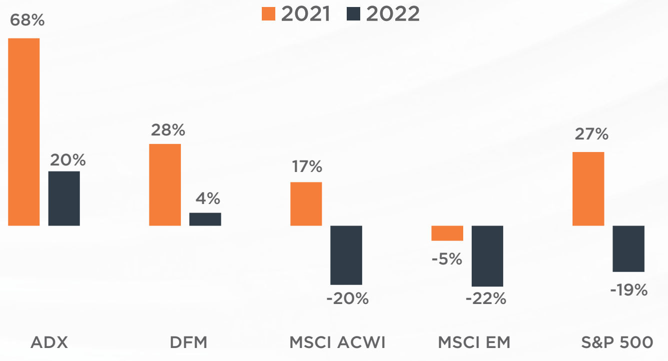
Source: IMF, World Economic Outlook, October 2022

MARKET OUTLOOK

Capital market attractiveness: ADX has witnessed a remarkable bull run since mid-2020. This strong performance has been driven by robust economic growth on the back of high oil prices and strong corporate profitability. Following a 68% rally in 2021 amid an IPO boom, ADX performance continued its strength in 2022, having gained over 20% in 2022, outpacing both global and regional bourses such as Saudi's Tadawul and Dubai's DFM.

While the global markets are witnessing a sustained sell-off, ADX could continue to maintain robust performance on the back of strong expected GDP growth, favorable policies such as the IPO fund and growing interest from international investors. However, in a global recession scenario and attractive fixed income returns, equities could soften, creating better entry points for investors.

Global Financial Market Yearly Returns (%)



Source: Bloomberg, Multiply Group

UAE DRIVERS AND RISKS

DRIVERS	RISK
Government spending will increase as the government remains relatively prudent with their oil windfall, building up reserves and providing investment.	The global slowdown could weigh down on local markets and subdue activity, particularly oil demand.
Strong domestic demand and a recovery in tourism will support non-oil sectors.	Higher interest rates will put pressure on corporate profit margins.
UAE stocks saw a net investment from non-Arab foreigners hit $8.2 billion in 2022. This was a testament to efforts to attract further foreign market participation, and could increase in 2023 as investors seek refuge from ailing global markets.	Inflation may be more problematic this year as businesses that have been holding back on passing on costs to consumers give in and consumers tighten their belts. Lower spending power will translate to lower demand.
ADX expects 11 new IPOs in the year ahead, although lower than 2022, shows continued demand for new listings at a time where global IPOs are few and far between.	Many 2022 IPOs in the DFM markets have fallen below their list prices, which may signal a trend of lower performance in upcoming listings.
UAE market growth has risen in parallel to corporate profitability and earnings. For example, despite strong growth, ADX is trading at a P/E of 18x (in line with mature markets such as the S&P 500 at 18.5x)	Currency risk will be more prevalent and profitability in USD/AED terms could be impacted if currency volatility doesn't abate across the world.

INVESTING IN THE NEW ERA

- **Set a high bar on diligence for businesses exposed to risky markets, economic cyclicality, supply chain disruptions, and inflationary pressures.**
- **Businesses with an established moat such as predictable cash** flows will sell for a premium.
- Invest in areas that are set to benefit from **long-term transformative trends.**
- **Maintain a fortress balance sheet to withstand shocks –** adequate liquidity, study refinancing plans, closely engage with lenders.
- **Incorporate a small 'opportunistic' bucket** to benefit from adverse market shifts. Lock interest rates.
- **Recessions separate wheat from the chaff – So focus on quality.**
- **Companies with pricing power and recurring revenues that can grow their earnings steadily in real terms across cycles will likely outearn the market.**
- The recovery will be faster in **countries with large domestic markets** and less reliance on exports.
- **Look beyond the last 3 years** when assessing a company's performance.
- Identify discretionary expenses and overhead you can reduce or defer to maintain margins without sacrificing long-term growth – **Trim the fat, preserve the muscle.**

Take advantage of volatility *- "the disarray in markets gave us a tailwind in our purchases. When investing, pessimism is your friend, euphoria the enemy." Buffet*

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