MULTIPLY GROUP

THE MACRO VIEW

MAY 2023

2023 – THE INFLECTION POINT

GLOBAL ECONOMIC OUTLOOK

- THE LONG AND SHORT-TERM VIEW
- GROWTH HEAT-MAP
- GEOGRAPHIC VIEW

FINANCIAL MARKETS: REVERSAL OF SUPPORTIVE CONDITIONS

THE GROWTH AND INVESTING RISK RADAR:

- THOUGHTS ON MITIGATION

A NEW DEALMAKING REGIME

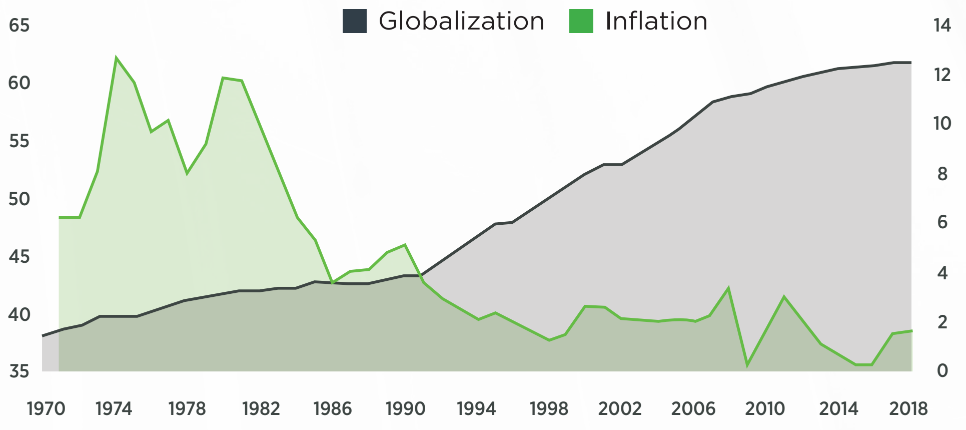
2023
THE INFLECTION POINT

The last 40 years are known as the phase of ‘great moderation’. Despite a few dips along the way, including the global financial crisis (GFC), it was a golden period for the global economy and markets as favourable demographics, technology, rapid urbanisation and globalisation accelerated productivity, prosperity.

These forces were deflationary at the same time, which meant that money remained cheap. Notably, post the GFC, global economy witnessed a phase of ‘secular stagnation’, and more credit was unleashed to stimulate the economy and markets.

Now, the impact of most of these drivers have reversed or depleted, inflation is at a 40-year high and credit is tightening. This is not a short-term business cycle shift but an inflection point.

Over the past 3 decades, a tech driven productivity boom, and globalization played a huge role in keeping inflationary forces under check. For example, **consumer durables prices declined by 40% over the years 1995-2020.** Now a growing trend of protectionism and diminishing productivity gains are making inflation an enduring risk.



Source: European Central Bank

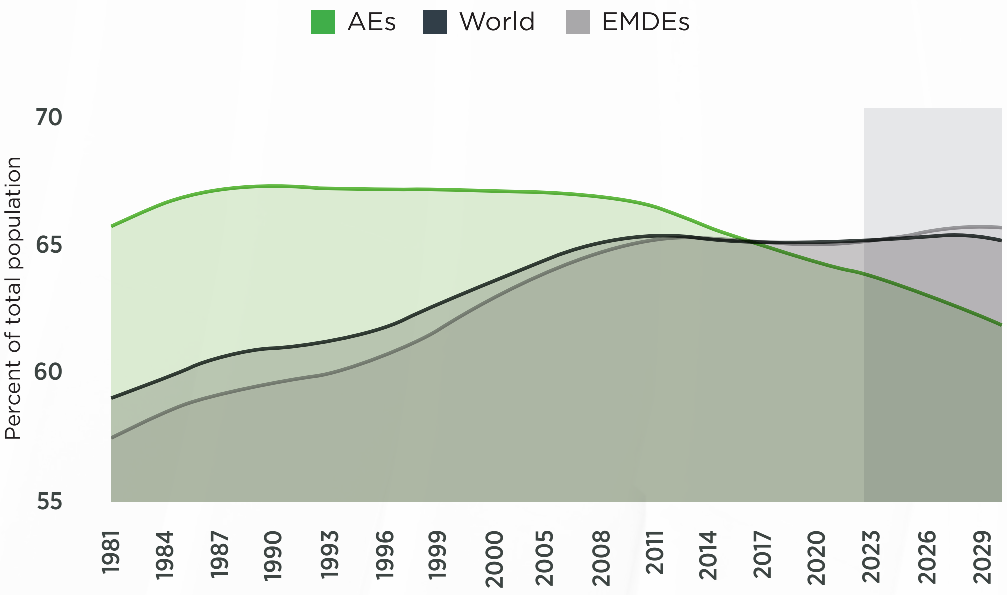
Note: Headline median inflation of 22 OECD countries and the KOF Globalisation Index.

A large and growing working age population was a key driver of growth in the past. **Now an unfavourable demography is expected to be the biggest drag on economic growth for the next decade** *(World Bank)*.

Half of the world's largest economies will be downgraded to junk by 2060 *(S&P)*, if measures are not taken to ease the costs of ageing populations.

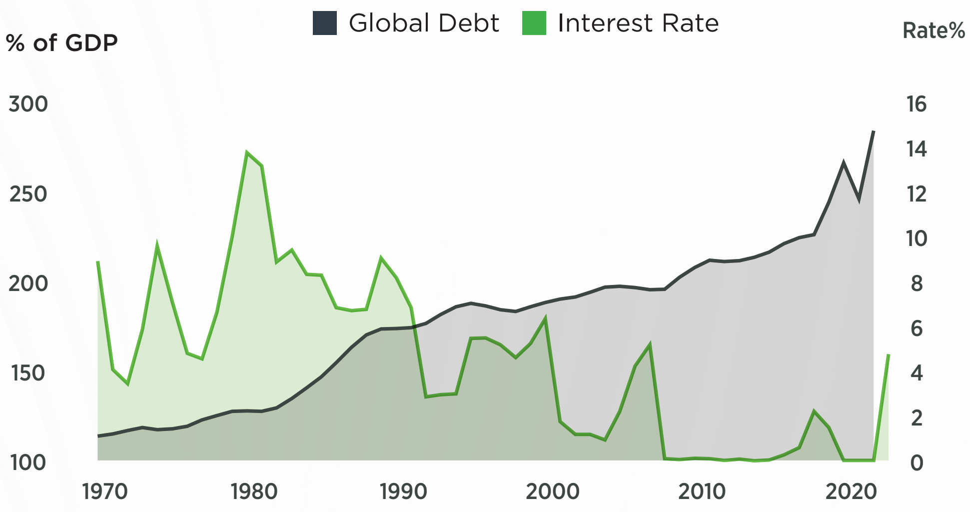
The working age population is declining globally, including China, and ageing is severely constraining budgets across the developed world, leading to **more taxes and civil unrest**.

Global Working Age Population



Global debt has ballooned to a record $300 trillion ($37,500 of debt for every person in the world), or 349% of global GDP. A 3 percentage point hike in policy rates by the US and European central banks means $3 trillion more in interest expenses, or $380 per capita (assuming 35% floating rate debt).
Interest rates are lower compared to the Volcker period in the 80s, but a significantly higher debt burden makes the current situation even more worrisome.

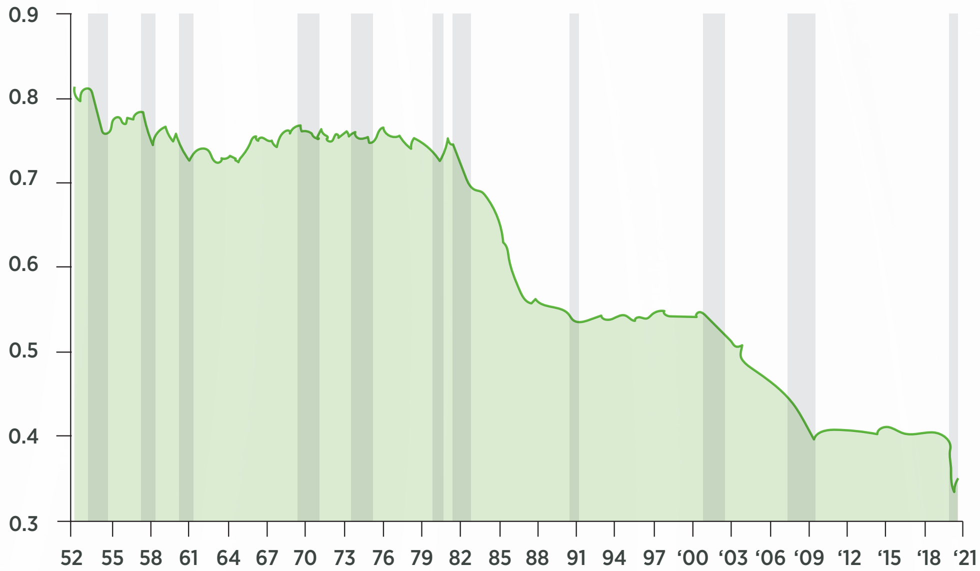
Productivity from debt has declined. We see this from the upward trend of global debt-to-GDP ratios since the GFC. The economic value-add from every additional dollar of debt has decreased.



Source: World Bank, Federal Reserve

Deminishing Returns from U.S. Debt

(GDP per Dollar of Total Non-financial Debt)



Source: Federal Reserve Board, Bureau of Economic Analysis

Source: The Changing World Order

We will be operating in a new normal over the next several years

- As investors, capital will remain expensive beyond 2023 leading to higher distress and more opportunities.
- As deal originators some regions will become more difficult while some will benefit from these shifts.
- As owners of operating businesses inflation will be sticky and a key risk to margins, making organic initiatives and deep sector focus even more important.

GLOBAL ECONOMIC OUTLOOK

The long-term view

Next 12 months

Regional expectations

The global economy grew on average by around 3.2% between 2010 and 2019. More importantly, money was available nearly free of cost. Instead of investing in productive capacity, money was pumped into NFTs, engineered financial instruments and other speculative excesses.

Now a reversal is happening and there are warnings signs that the global economy could be on the brink of a 'lost decade'. Potential global growth is expected to slow to an average of 2.2% a year in 2022-30 (compared to 3.5% between 2000 – 2010) *(World Bank)*. The long-term trend of weakening growth drivers has accelerated over the last 3 years amid a series of shocks to the global economy.

NEXT 12 MONTHS

The world's economy is poised to slow over the next 12 months and growth will remain weak by historical standards. The IMF's projection of 2.8% and 3% growth in 2023 and 2024 respectively, lower than the 5-year average of 3.8%.

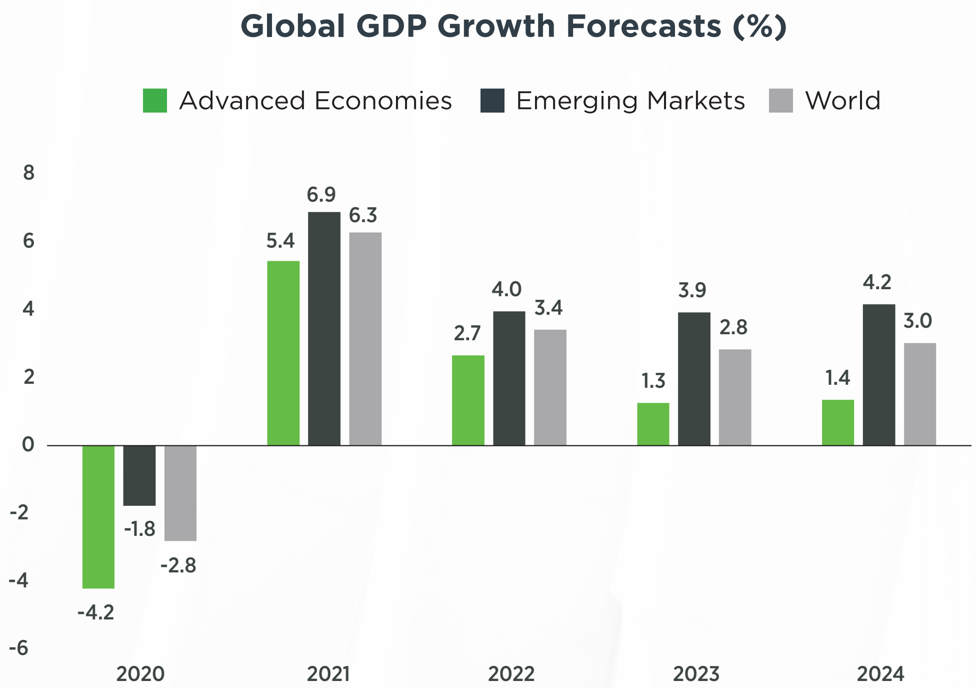
The expectation for major economies is a mild recession, characterized by GDP growth between zero to 1% and elevated uncertainty.

The near-term scenario has marginally improved on the back of 3 drivers:

- China's reopening
- Europe has avoided a major energy crisis
- A slew of economic data suggests that a recession has been averted, at least for now

Despite an improved growth backdrop than previously anticipated, the fundamental story has not changed: inflation will likely remain challenging and the most extreme monetary policy tightening cycle since the 1980s is yet to conclude.

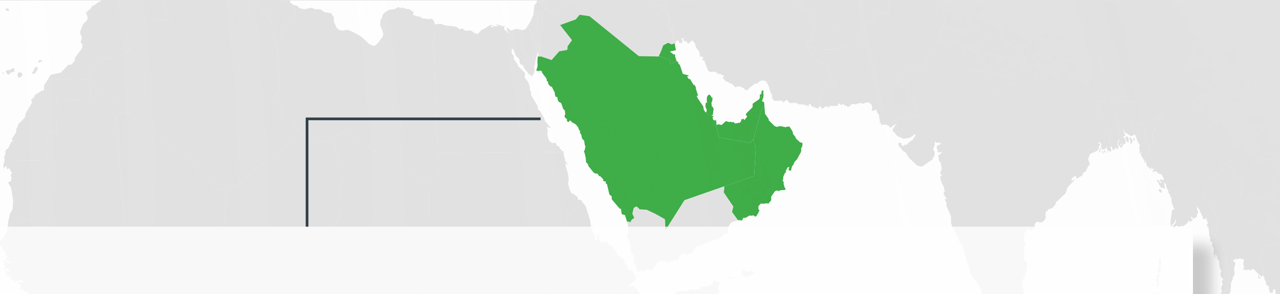
Whilst we have seen early signs of disinflation over the last 6 months, the economy has not yet shown the sort of slack most had expected would be needed to achieve real progress in bringing inflation down.



Source: IMF, WEO April 2023

Global economy will be driven by geographies which have →

- Low debt and, as a result, higher head room to induce policy driven growth.
- In a position to reap demographic dividend – more labour force participation, domestic demand (India, Africa, Saudi Arabia)
- Moderately impacted by adverse climate events due to their geographic proximity or earlier investment in building resilience.
- Less impacted by internal (political instability, chronic inequality) or external (trade wars, geopolitics) disorders.



MIDDLE EAST/GCC

LONG TERM

- **The key to sustainable growth is to create wealth from the non-oil economy,** but this remains contingent upon hydrocarbon returns in the medium term.
- **Saudi Arabia meets most of the earlier mentioned criteria** (young population, large market, fiscal strength and low debt) to lead the regions growth.
- Governments will continue to explore new revenue channels as oil become less relevant. **New forms of taxation will dilute the traditional advantage.**
- **Foreign investment flows will sustain** as the GCC has a lot of head room to make structural reforms, geopolitical and regional risks diminish, and capital markets continue to gain.
- However, some GCC states like Bahrain and Kuwait, have yet to make much ground in building significant non-oil income sources.

SHORT TERM

- **The 2023 outlook for the GCC region appears more upbeat in comparison to the global picture,** supported by relatively high oil prices and growth in the non-oil economy, as well as moderating inflation.
- **Forecasts for the GCC in 2023 see average GDP growth of 3.6%, with inflation expected to subside at 2.7%** due to higher rates.
- **The UAE is estimated to lead GCC growth in 2024 at 4.3%,** whilst Saudi Arabia is forecast to grow by 3.1% amid lower oil revenues, as per Moody's.
- **Markets will continue to face liquidity pressure as interest rates remain high** and investors find high yield elsewhere.
- Importers will continue to be stressed by high energy and food prices as the Ukraine conflict drags on. Egypt, Jordan, Turkey and Iran continue to struggle with financing their debts and managing high inflation.

UAE DRIVERS

Oil prices continue to hold at supportive levels. This will support aggregate demand – Mega projects, banking sector liquidity.

Diversification efforts are far ahead of the GCC peers. **Abu Dhabi, historically dependant on oil and gas, registered 8.1% non-oil growth in 2022, highest since 2014.** Policies and reforms implemented over the last 3 years will pay dividends over the coming years.

Resurgence in tourism and real estate demand as well as growth in manufacturing will lead the non-oil economy.

In 2021, global debt reached a record $303 trillion. On the contrary, the **UAE enjoys a moderate 31% debt to GDP ratio.**

By virtue of the Dirham peg to the US Dollar, the **UAE is not witnessing an adverse currency fluctuations like most EMs.**

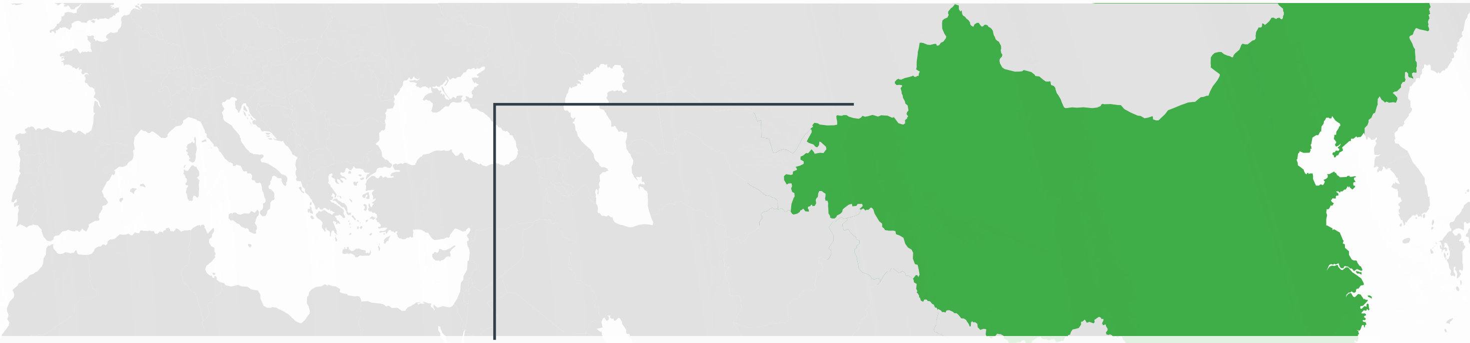
UAE RISKS

A global recession will put futher downward pressure on oil prices, despite **production cuts, slowing down fiscal spending,** which has been an important factor in shielding the economy from global macro costs.

High rates will constrain growth, especially debt driven industries such as real estate.

The **Saudi boom will divert some investments** and trade from the UAE.

The introduction of corporate tax this year will impact corporate returns.



ASIA AND EMERGING ECONOMIES

LONG TERM

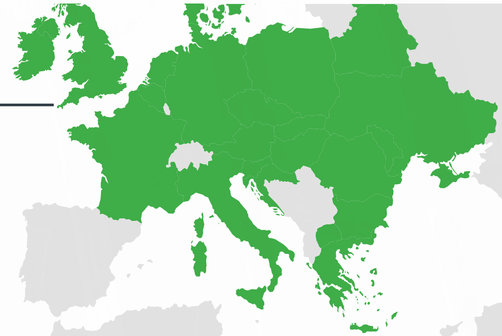
- **Asia is on track to top 50% of global GDP by 2040 and drive 40% of the world's consumption,** representing a real shift in the world's centre of gravity.
- One of the most remarkable developments of the past 30 years has been emerging Asia's **soaring consumption and its integration into global flows of trade, capital, talent, and innovation**. In the decades ahead, they will continue to reap benefits.
- A key risk for the region is a **growing divide and the geopolitical consequences surrounding China** and Taiwan which could lead to adverse policies from the west and sanctions disrupting growth in surrounding countries.

SHORT TERM

- **In most countries GDP growth this year will be lower than in 2022** but are expected to pick up again in 2024.
- **China is expected to grow by 5% in 2023, while an improvement, will be one of its lowest in decades and well below its average of 9% between 1998 and 2022.**
- **China's recovery and healthy domestic demand in India will be the region's main growth supports this year and next.** Asia and specifically APAC is seemingly a bright spot in an increasingly lethargic global economy.

  On the contrary, growth across Brazil, Argentina, Russia is expected to remain under 2%.
- Headwinds from global financial tightening and an **expected slowdown of external demand is a key near term risk.**

Expect a lot of divergence within this bloc. Economies like Indonesia and India with stable currencies, large markets and high account balances will significantly outperform countries such as Turkey, Egypt, Latin America.



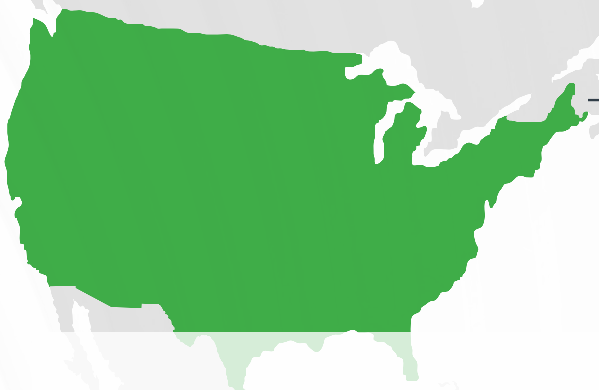
EUROPE/UK

LONG TERM

- **Key risks around the longer-term outlook are internal tensions regarding the Euro Area architecture with slow growth and a more challenging global environment** both through shrinking foreign demand and overall geopolitical tensions, particularly on its eastern flank.
- Global power is shifting East. Today, of the world's eight largest economies, four are European (including the United Kingdom), **by 2030, that number will be down to three and by 2050, only Germany is set to remain.**
- Even if income growth in the Euro Area is expected to underperform the global average, **the Euro Area remains a large consumer market. Energy security will be the biggest growth driver.**

SHORT TERM

- **The IMF forecasts growth in the euro area is to bottom out at 0.7% in 2023 before rising to 1.6% in 2024,** whilst the UK is expected to contract 0.6% in 2023.
- **Russia's war in Ukraine is taking a growing toll on Europe's economies.** The energy crisis continues to depress households' purchasing power and raise firms' costs.
- **More aggressive rate increases by the Bank of England and the European Central Bank** are expected as they are further behind in their battle with inflation than the US and other markets due to initial hesitations.
- However, **a boost to export-oriented and luxury sectors in the near term from China's reopening**, transition to net zero and energy security concerns will create opportunities.



US/NORTH AMERICA

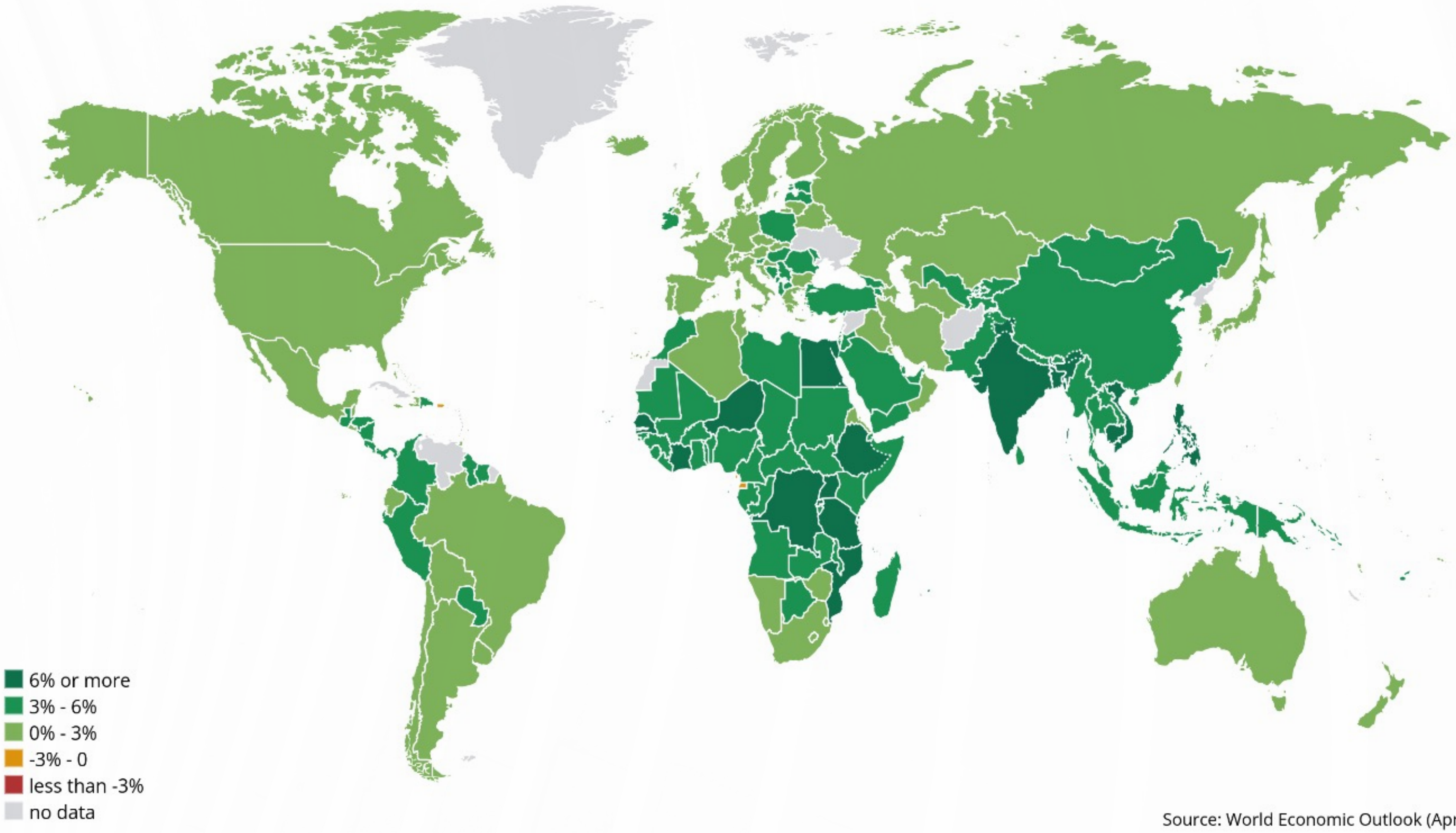
LONG TERM

- The US is currently witnessing high level of internal, external disorder and credit contraction. **These are the 3 main forces which have dislodged powerful countries from their position over centuries.**
- **The Inflation Reduction Act will stimulate** sustainable energy and EV businesses and see further reshoring of several growing industries.
- There is increasingly the risk of a decline in the US's credibility that could **undermine the reserve currency status of the U.S. dollar** and the government's financing flexibility.

SHORT TERM

- In the United States, growth is expected to remain under **1.5% by 2024, the weakest performance outside of official recessions since 1970.** as it deals with the pain of bringing inflation down with a financial stability trade-off.
- **The ongoing banking sector crisis has elevated the risk** associated with the US economy. We could witness subdued safety flows towards the US, benefitting EU and Japan.
- Despite increasing pressure from China, the US continues to be the world's most important economy and driver of innovation and technology driven business.

GLOBAL GROWTH MAP
(2028)



Source: World Economic Outlook (April 2023)

- **Higher focus on the fast-growing economies, especially for cyclical industries** such as media.
- **Mega-trends will play out even across moderately growing economies. However, countries with a bloated balance sheet will find it difficult** to support this transition. Industries such as renewable energy and mobility require strong governments which can act as partners by providing the necessary infrastructure or incentivizing the private sector.
- **The fastest growing economies of the future will also be more complicated and prone to downside risks.** We have to embrace that and build the right mitigation tools and partnerships to succeed.

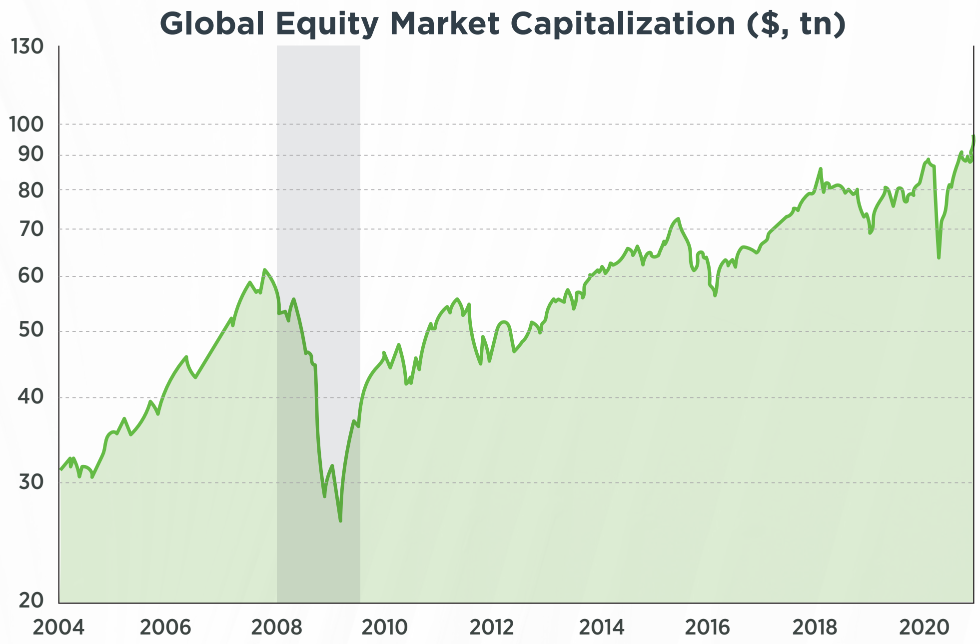
FINANCIAL MARKETS: A REVERSAL OF SUPPORTIVE CONDITIONS

Between 2008 and 2021, businesses, especially in the tech sector, were considered high growth and climbed on the innovation ladder offering superior returns to investors. **With the cost of borrowing historically low, buying businesses (often with questionable profitability) at high valuations became a norm.**

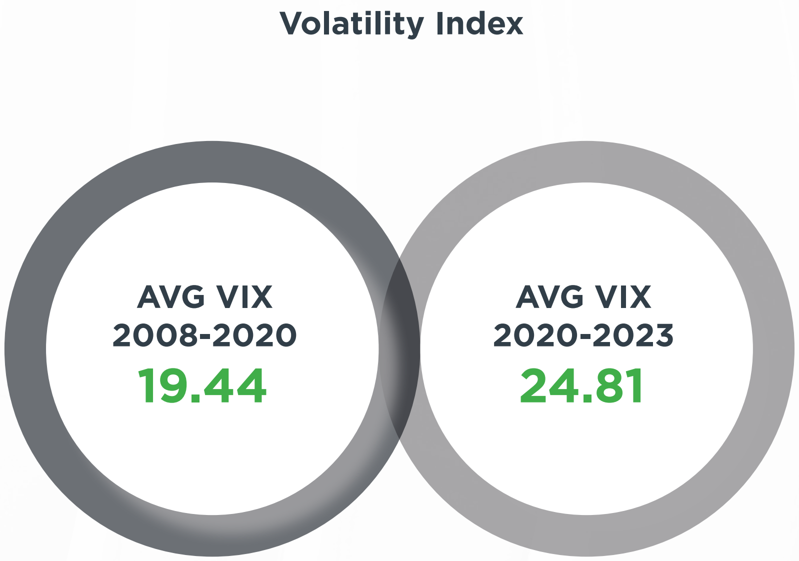
The size of the global stock markets increased by 215% between 2008 and 2023 to $107 trillion. Notably, US market cap has increased to $44 trillion. The S&P 500 has had a compounded annual return of 16% per year between 2009 and 2020.

Resemblance with previous downturns: The average length of a bear market is 292 days, but the 1980s bear market, which has a greater resemblance with the current period, lasted much longer. **Fed chairman Paul Volcker's started his crusade against inflation in 1979 and was successful. But it wasn't until halfway through 1982 that stocks began a lasting recovery.**

Long term volatility: Since the start of the millennium, there have been different periods where volatility has increased. However, the ongoing **structural factors may make this more persistent, such as global geopolitics and fragmentation. Investors may need to reel in the heightened risk appetite that had become increasingly acceptable previously.**



Source: Bloomberg; exclude ETFs and ADRs



THE MARKETS TODAY

Stocks have remained resilient to start this year. The benchmark S&P 500 rose around 7% in the first quarter after dropping nearly 20% in 2022, while gains across technology stocks have pushed the Nasdaq 100 up 20% since the start of January. Data shows that disinflation has begun, and market expects that the Fed's rate hike cycle has already peaked.

	2022	2022 Q1	2023 YTD
ADX	↑ 20.3%	↑ 17.2%	↓ -7.7%
DFM	↑ 5.1%	↑ 10.4%	↑ 6.8%
TASI	↓ -6.4%	↑ 16.0%	↑ 7.6%
Nifty 50	↑ 5.2%	↑ 1.5%	↑ 0.1%
SSEC	↓ -14.6%	↓ -10.1%	↑ 6.8%
STOXX 600	↓ -13.1%	↓ -6.2%	↑ 9%
FTSE 100	↑ 0.7%	↑ 1.52%	↑ 3.3%
S&P 500	↓ -19.7%	↓ -5.2%	↑ 8.6%

Source: Bloomberg

MARKET EXPECTATIONS

Multiples compression offers attractive entry points but capital is scarce and expensive.

Corporate earnings remain robust as evident from recent results, but high inflation will continue to impact margins, along with high taxes, labour shortage and ESG related costs.

Clarity on interest rate cycle peak will reduce volatility

Softening dollar will support emerging markets. In addition, intra country returns will be higher and less volatile

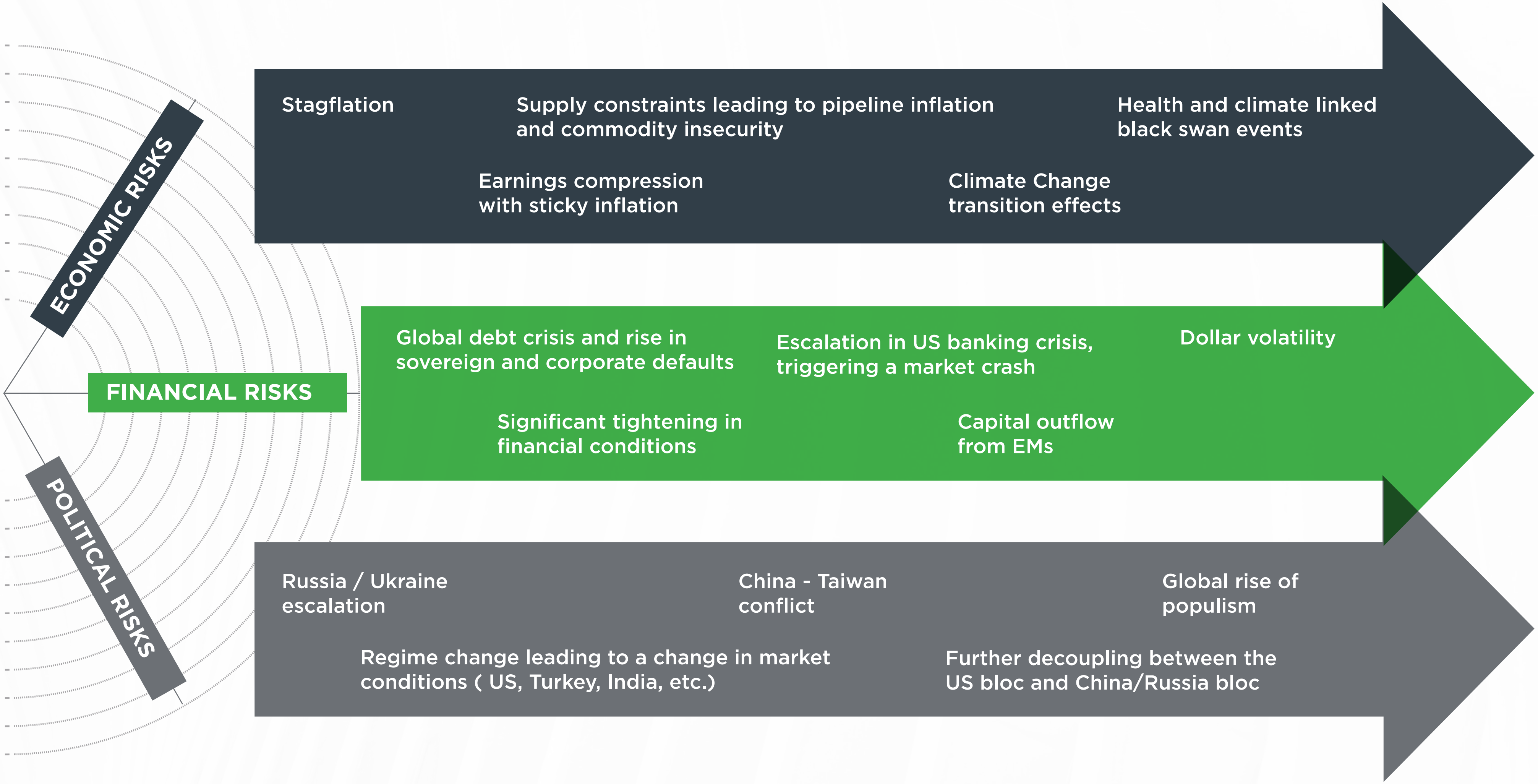
Productivity boost with new Ai. Goldman Sachs projects 1.5% boost in productivity due to AI, which could increase S&P 500 profits by at least 30% over the next 10 years.

Higher yields across fixed income assets. Cash currently yields close to 5% risk free.

Renowned investor Howard Marks has captured the new market regime in the following table:

	2009 to 2021	TODAY
Fed behaviour	Highly stimulative	Tightening
Inflation	Dormant	40-year high
Economic outlook	Positive	Recession likely
Likelihood of distress	Minimal	Rising
Mood	Optimistic	Guarded
Buyers	Eager	Hesitant
Holders	Complacent	Uncertain
Key worry	FOMO	FOLO
Risk aversion	Absent	Rising
Credit window	Wide open	Constricted
Financing	Plentiful	Scarce
Interest rates	Lowest ever	16-year high

GLOBAL RISK REVIEW



ECONOMIC RISKS
Stagflation
Supply constraints leading to pipeline inflation and commodity insecurity
Health and climate linked black swan events
Earnings compression with sticky inflation
Climate Change transition effects
FINANCIAL RISKS
Global debt crisis and rise in sovereign and corporate defaults
Escalation in US banking crisis, triggering a market crash
Dollar volatility
Significant tightening in financial conditions
Capital outflow from EMs
POLITICAL RISKS
Russia / Ukraine escalation
China - Taiwan conflict
Global rise of populism
Regime change leading to a change in market conditions (US, Turkey, India, etc.)
Further decoupling between the US bloc and China/Russia bloc

HIGHER RATES AND TIGHTER CREDIT CONDITIONS

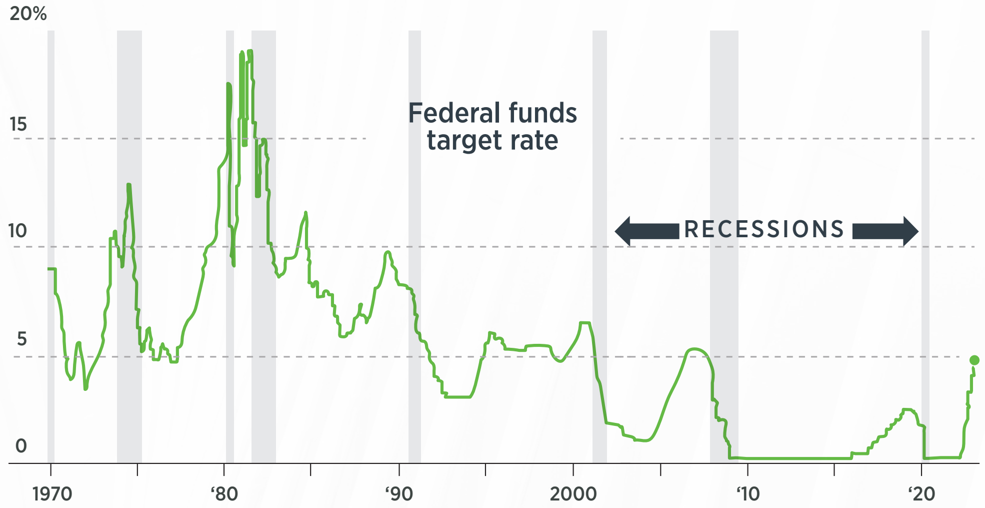
We experienced almost 12 years of quantitative easing (QE), which drove interest rates down to virtually zero. This led to an investing and deal making spree across businesses of all size, strategy, sector and location.

- S&P 500 had a compound return of 16% per year from 2009 to 2020.
- Between 2010 and 2022, the AUM of private equity and private credit grew by about 4.3x each, to $7.6 trillion and $1.3 trillion respectively.

The Fed rate is at a 16-year high and the Fed is committed to reducing its bond holdings (QT) by almost $100 billion a month and over $1 trillion each year.

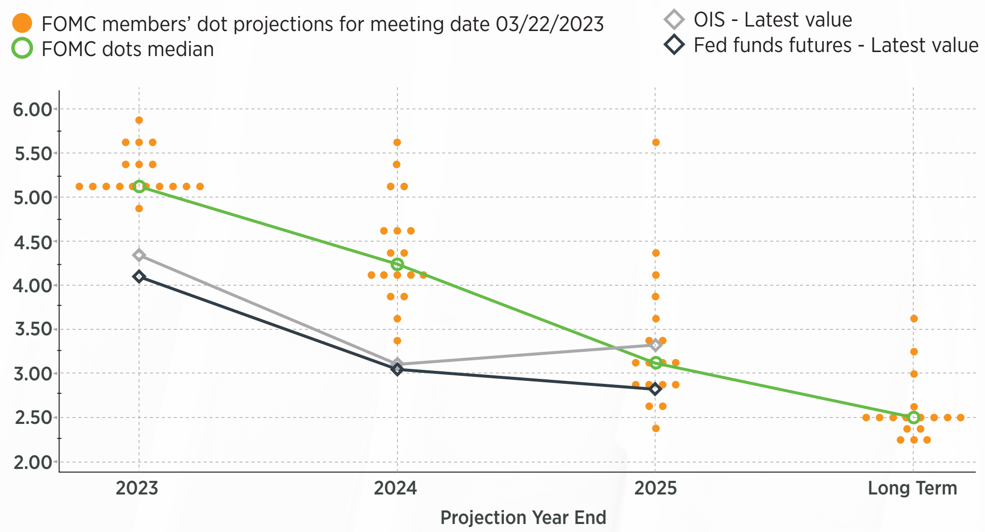
Currently the scale of inflation means that interest rates will remain higher for longer, although the Fed could get cold feet due to thr prevailing banking crisis.

Previous recessions followed similar and even less extreme rate increases



Source: US Federal Reserve

The Feds New Dot Plot



Source: Bloomberg, Federal Reserve

We should progressively start seeing the real effects of higher rates on earnings as businesses begin to absorb the lagged effects of a full year of tightening. This will stress test weaker parts of the market.

Several emerging markets, such as in Latin America, were much earlier to intervene and therefore are ahead in their cycle. **We should expect to see increased divergence in interest rate cycles across different countries and regions.**

The credit growth rate has recently fallen below its historic average of 5%, a level that has often been associated with a recession. This is expected to accelerate following the banking crisis in the US.

Investors can now potentially get solid returns from fixed-income and credit, meaning the risk premium needs to be higher.

HOW TO MITIGATE

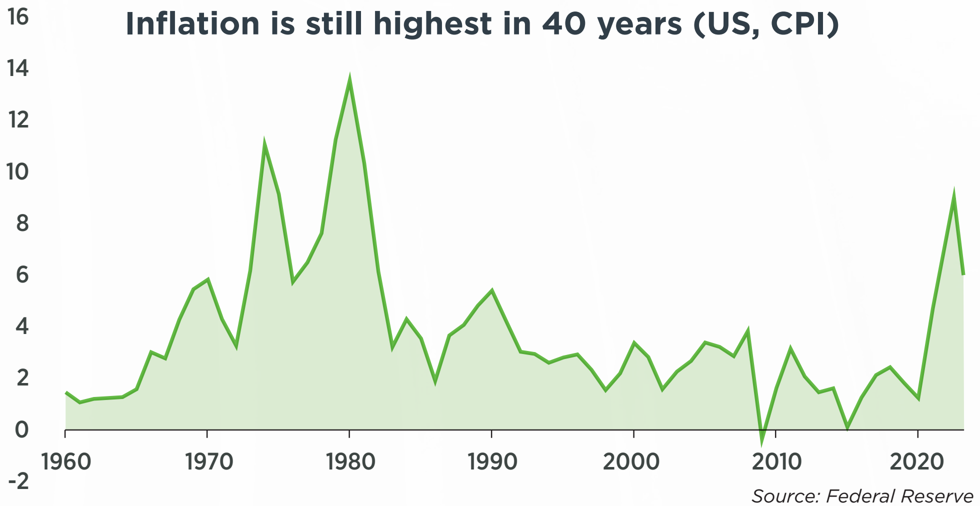
- Put a premium on businesses which are:
  - Less reliant on debt for growth
  - High free cash flows
  - Low floating rate debt
- Invest in companies with high organic growth potential rather than market driven valuation gains/higher exit multiples.
- Align the rising cost of capital (close to 6%) with minimum expected returns.
- Develop a robust hedging mechanism to mitigate the floating rate risk.
- Explore private credit as an investment instrument. Returns, especially across distressed debt are above 15% in some cases.

PERSISTENT INFLATION

Despite the recent decrease in prices, inflation remains at a 40 year high. As excess money is drained out of the system and energy concerns abate, inflation is beginning to subside. The IMF forecasts global inflation to fall from 8.8% in 2022 to 6.6% in 2023.

Getting to the 2% target level will be challenging. Greater global fragmentation, labour issues, climate change are supply side factors, beyond the control of central banks. For policymakers, 2% has become a floor, rather than a ceiling on inflation.

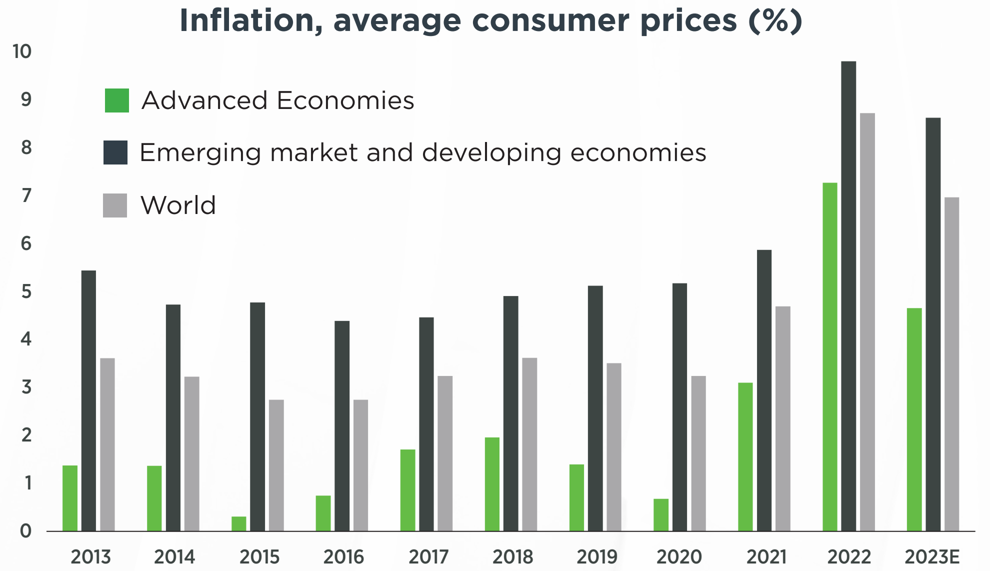
Inflation will continue to be concerning both in terms of the real return of investments as well as the erosion of household and corporate earnings. Businesses with continuous actions on building efficiency will lead the market.



Source: Federal Reserve

HOW TO MITIGATE

- Add pricing power as a key factor in deal screening process.
- Do an inflation impact review across the value chain and keep an eye on pipeline pressures.
- Put a premium on non-discretionary industries (energy, healthcare etc.).

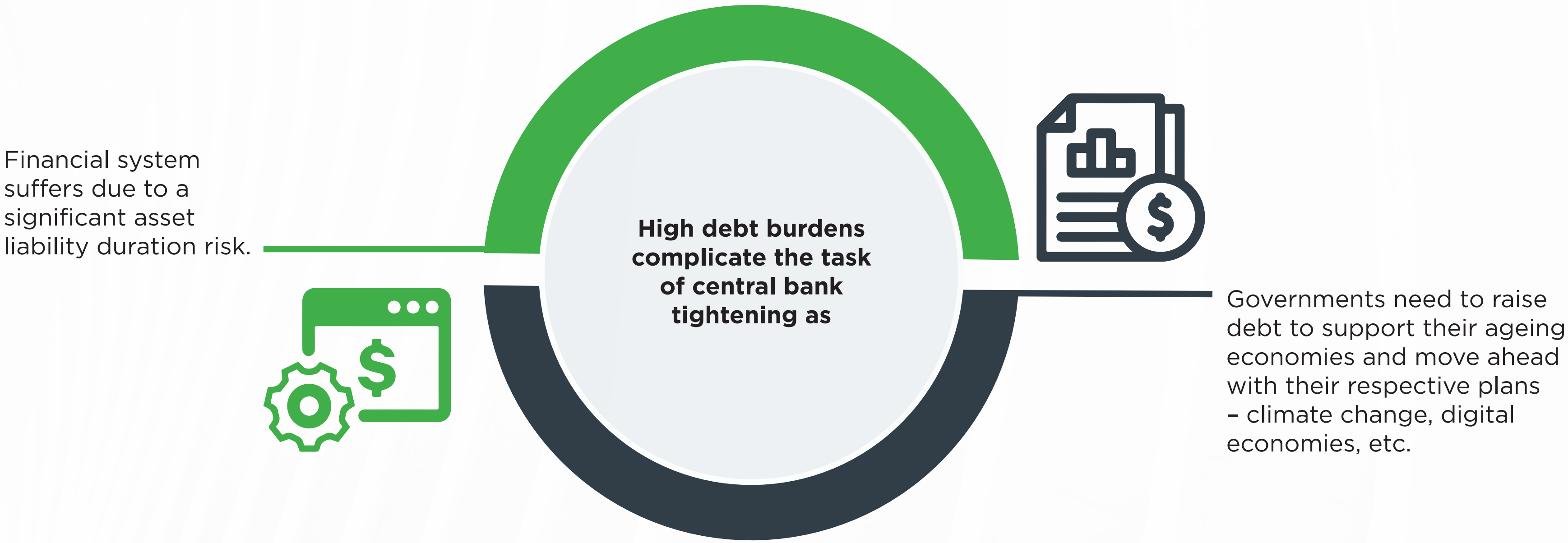


Source: IMF, WEO April 2023

DEBT AND DEFAULT RISK

$300 trillion debt with the highest debt servicing cost in 16 years means:

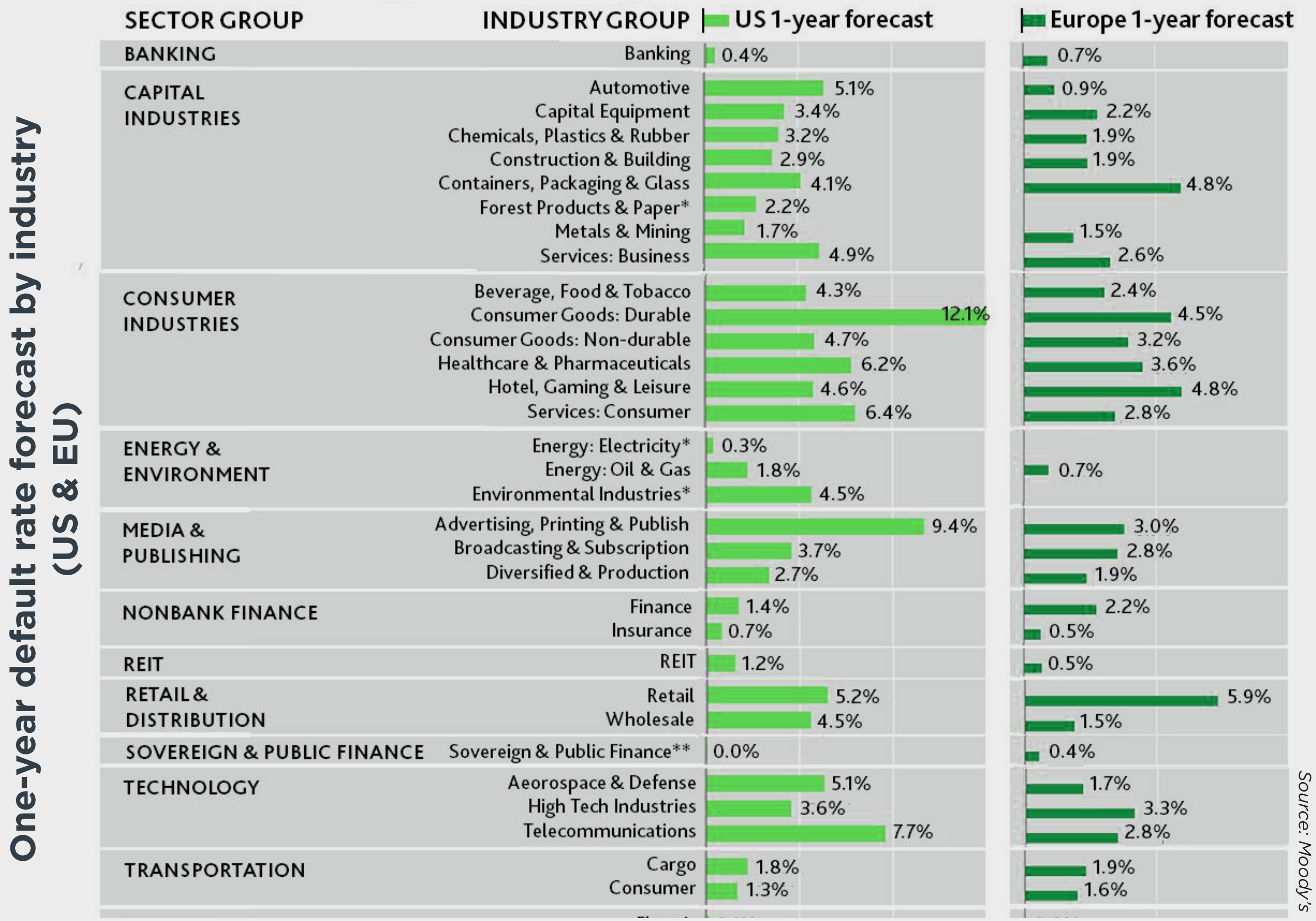
High default risk across the developing world: About 25% of emerging market economies are at high risk of default. A combination of low growth, higher borrowing costs, and currency depreciation exacerbates the vulnerability of these economies.



High corporate distress: Fifteen Moody's-rated debt issuers defaulted in March, the highest monthly count since 2020. As per IIF, an estimated 14% of US based listed firms are 'zombies', largely in healthcare and IT sectors.

While **default risk has risen across the board,** some industries face greater challenges than others.

- Banking, which fell into a crisis in March, has had government backing to ensure stability and remove most impending default risk.
- Utilities, another key sector for the economy will also be supported both by the windfall of the past year as well as government protection.
- On the other hand, non-discretionary segments, for the most part, face greater risk.



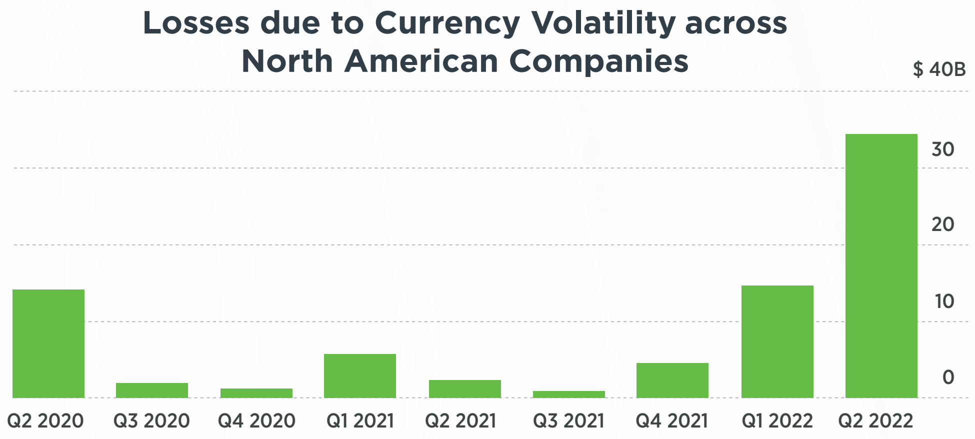
HOW TO MITIGATE

- Ensure that only productive new debt is deployed. **Have a margin of safety on new debt.**
- Conduct a detailed external diligence on emerging market **countries with high dollar denominated debt and fiscal deficit are high risk.** This is where potential for tax rise and capital controls is higher.
- **Opportunities will appear with rising distress,** including credit deals with conversion to equity options.

CURRENCY VOLATILITY AND REPATRIATION

The US dollar appreciated over 12% in 2022, hitting a two-decade high in September 2022. The strong dollar has proved to be a wrecking ball for other economies, both in the developed world and for emerging countries that rely on hard currency debt. These countries were forced to make detrimental interest rates moves to avoid steep depreciation.

Currency volatility cost North American companies $34.3 billion in the April-to-June period, the highest loss on record in data going back to 2013. Over 50% of S&P 500 companies cited negative impact from foreign exchange changes. **This is not just due to appreciation in USD but also from bad economics in source markets.**



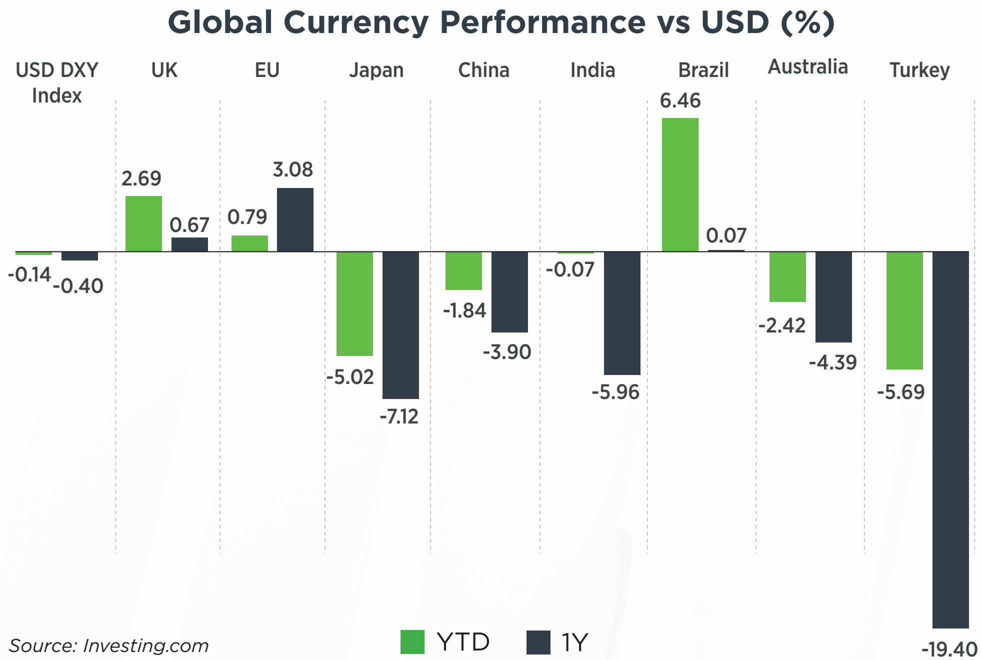
Source: Bloomberg

Stagnant growth, plateauing interest rates and financial sector uncertainty will put further downward pressure on the dollar. So far, this year, the dollar has depreciated by 1% as investors bet the Fed is near the end of its tightening cycle.

This will increase the attractiveness of emerging markets.

HOW TO MITIGATE

- Have added layers of checks on countries which have a history of deploying strong capital controls and are currently witnessing currency troubles (Egypt, Turkey).
- Avoid economies with very low foreign exchange reserves, impacting their ability to support their currencies.
- Pursue structured deals, especially in high risk emerging markets, to hedge the currency risk.



Source: Investing.com

EARNINGS RECESSION

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Tesla shares plunge on lower prices, tighter profit margins

By Chris Isidore, CNN
Published 5:45 PM EDT, Thu April 20, 20 Play

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Industries
Finance

Blackstone Profit Slides as Dealmaking Hit by Market Tumult

- Pace of sales and new deals slows during first quarter
- Activity was hampered 'given the uncertainty,' Jon Gray says

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Markets

Warren Buffett Predicts Earnings Decline at Berkshire Units

- Forecast comes after operating earnings improve on insurance
- 'Incredible period' for economy is coming to an end: Buffett

Samsung's profit drops 95% amid weak memory chip demand

Carlyle shares fall after Q1 earnings miss estimates

Profit margins of US companies hit their highest level since the aftermath of the second world war in 2022. This is attributed to greater market power of companies, amid the ongoing market imperfections and a post pandemic spending boom.

Now as demand subsides and excess savings built up during the pandemic are depleted, companies have begun to give more cautious guidance and profit warnings. Companies on the S&P 500 index are expected to report a 6.8% decline in first-quarter earnings compared with the same period a year earlier, according to FactSet.

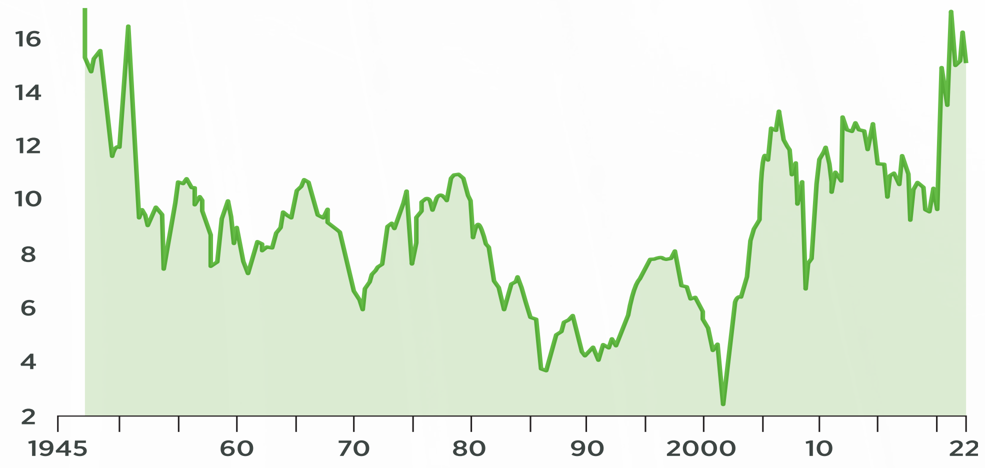
The downward pressure can come from three angles:

- **Flat or negative economic growth will reduce the demand** for goods and services.
- Higher **inflation will eat into margins and disposable income.** Businesses could face higher wage pressure.
- Higher borrowing rates will result in **greater interest expense** and make capital investments unattractive.

HOW TO MITIGATE

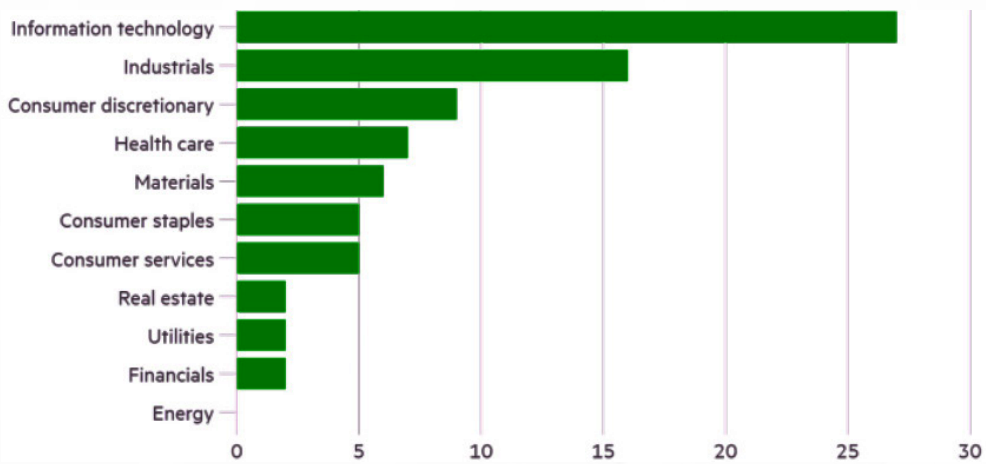
- While assessing businesses, looking beyond the anamolies of the last 3 years and the outlook beyond 2024 is important.
- Opportunistic plays become important if organic growth appears to lag.

After tax profit margin of non-financial corporate business in the US (%)



Tech and Industrial sectors led the pack in profit warnings

Number of warnings in Q1

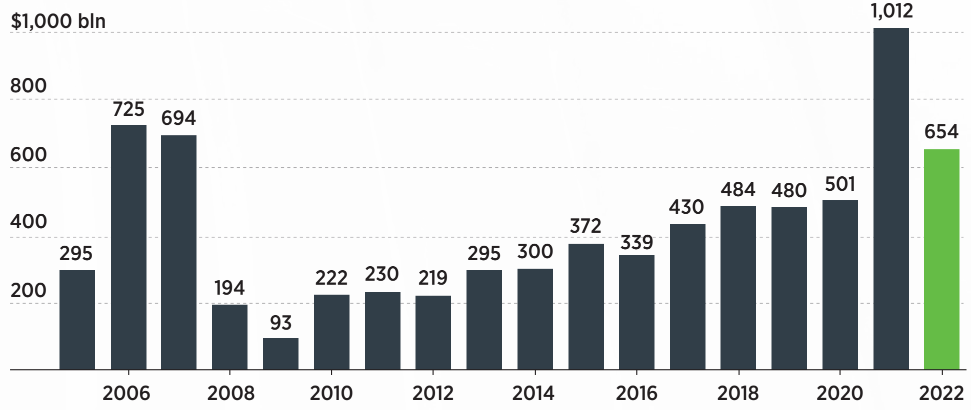


A NEW DEAL
MAKING PLAYBOOK

Deal making activity largely coincides with economic expansion and rising markets. Historically, corporates, especially large conglomerates led the dealmaking space with an aim to pursue expansion and horizontal/ vertical integration.

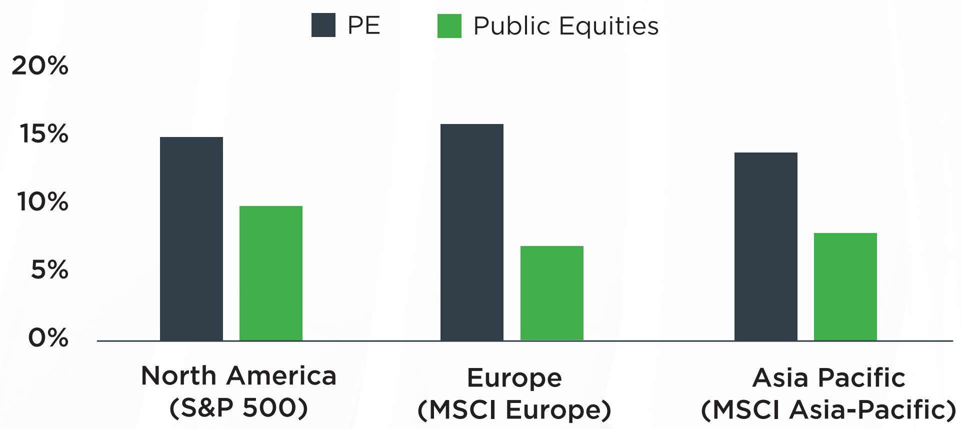
Over the last couple of decades private equity players have emerged as a driving force. PE funds have soared from fewer than 1,000 during late 1990s to nearly 4,000 by 2019 and a significant portion of this increase occurred on the back of low interest rates post GFC. Over the last 10 years, the industry's AUM has increased by nearly $10 trillion *(Bain)*.

Global Buyout Deals



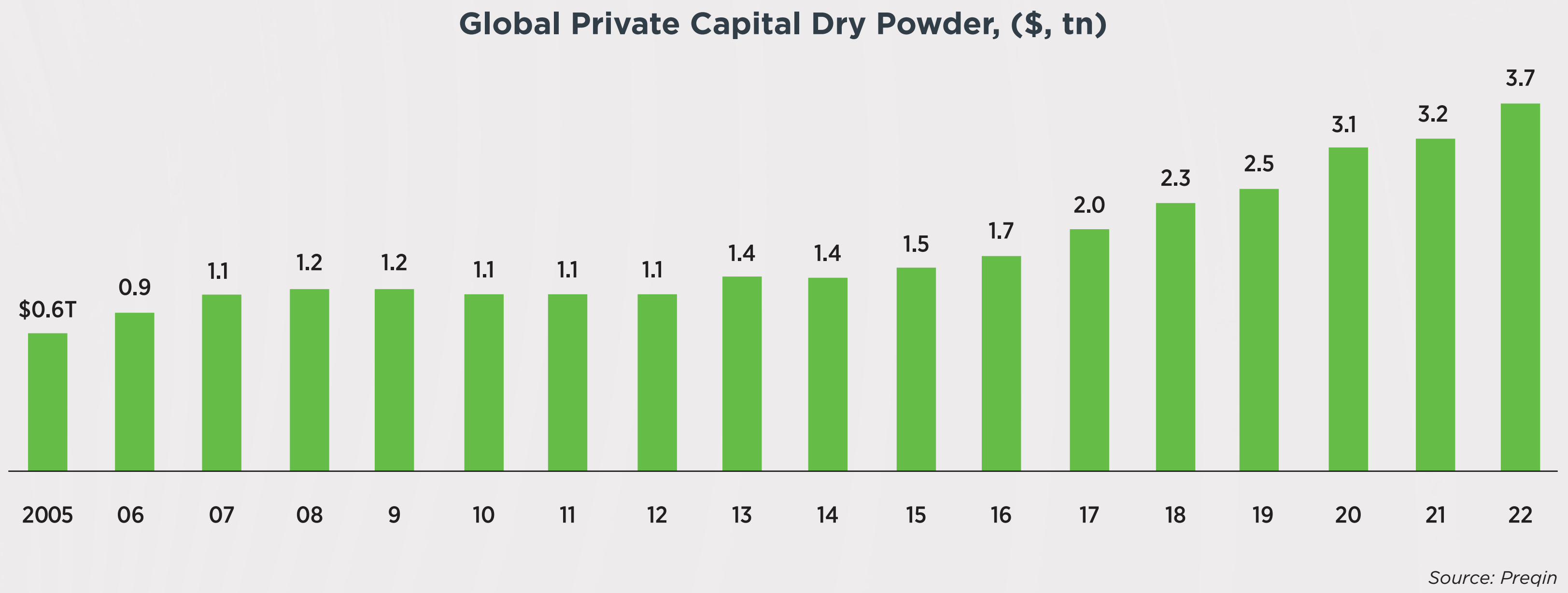
The biggest attraction has been the prospect of high returns:

PE vs. Public IRR Last 20 Years (as of Q3 2021)



Source: KKR

The industry ended 2022 with a record $3.7 trillion in dry powder.



A sharp reversal has taken place and global dealmaking has suffered since the second half of 2022 amid a darkening economic outlook and the high cost of capital.

- **The volume of deals struck globally in 2022 was down 38%** from 2021, the largest year-on-year drop since 2001.
- **The first quarter of 2023 was the slowest start in a decade** as the value of M&As dropped 45% year-on-year.
- **Leveraged buyouts (LBOs) across the US and Europe fell by 50%** to $203 billion as volume plummeted in H2 2022. More transactions are being financed with 70% equity and 30% debt instead of the usual 50-50 structure *(Bain)*.

UNDER THESE CIRCUMSTANCES, THE FOLLOWING THEMES ARE EMERGING:

- **Entry multiples have declined slightly in 2022, but due to the usual lag in valuations, a bigger dip is expected over the next 12 months** as details of new fund-raising rounds and exits emerge.

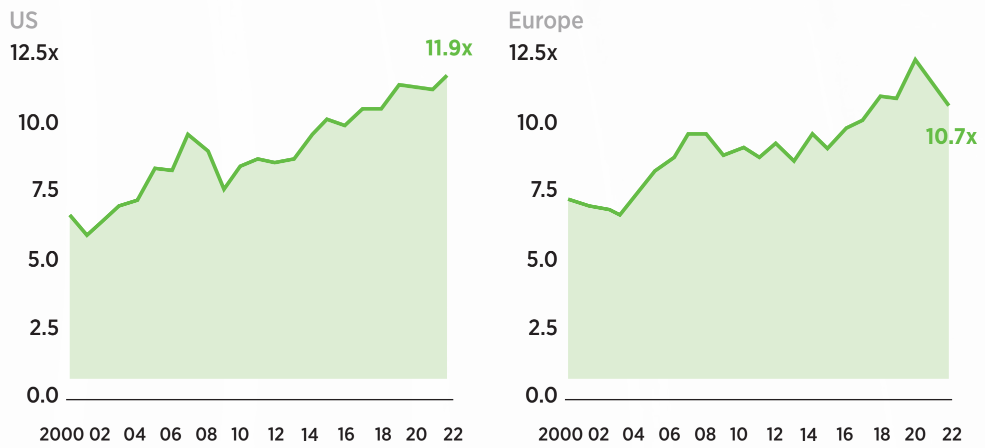
- **Investors will be sceptic to deploy funds across private markets** as their portfolio is impacted by public market swings, IRRs dip, and as exits become difficult. Therefore, while macro headwinds have given many companies better pricing power and built-up dry powder, LP's are becoming more risk averse. **This also explains why GPs are approaching SWFs.**

- **Holding periods will increase:** Investors will wait on exit plans unless valuations recover to previous levels or underlying assets are allowed time to grow into the desired valuations by generating higher earnings at lower multiples. **In 2022, buyout-backed exits dropped 42% to $565 billion.**

- **Higher emphasis on organic growth:** GP's are showing more active management and focus has increased on organic drivers such as data and analytics, costs and sustainability. **Expect more emphasis on top-line growth in portfolio companies to cover higher interest expenses.**

- **The long-term appeal remains intact.** The number of US public companies has declined by about a third over the last 25 years, and markets are dominated by large companies, making diversification difficult.

Average EBITDA Purchase Multiple for Leverage Buyout Transaction



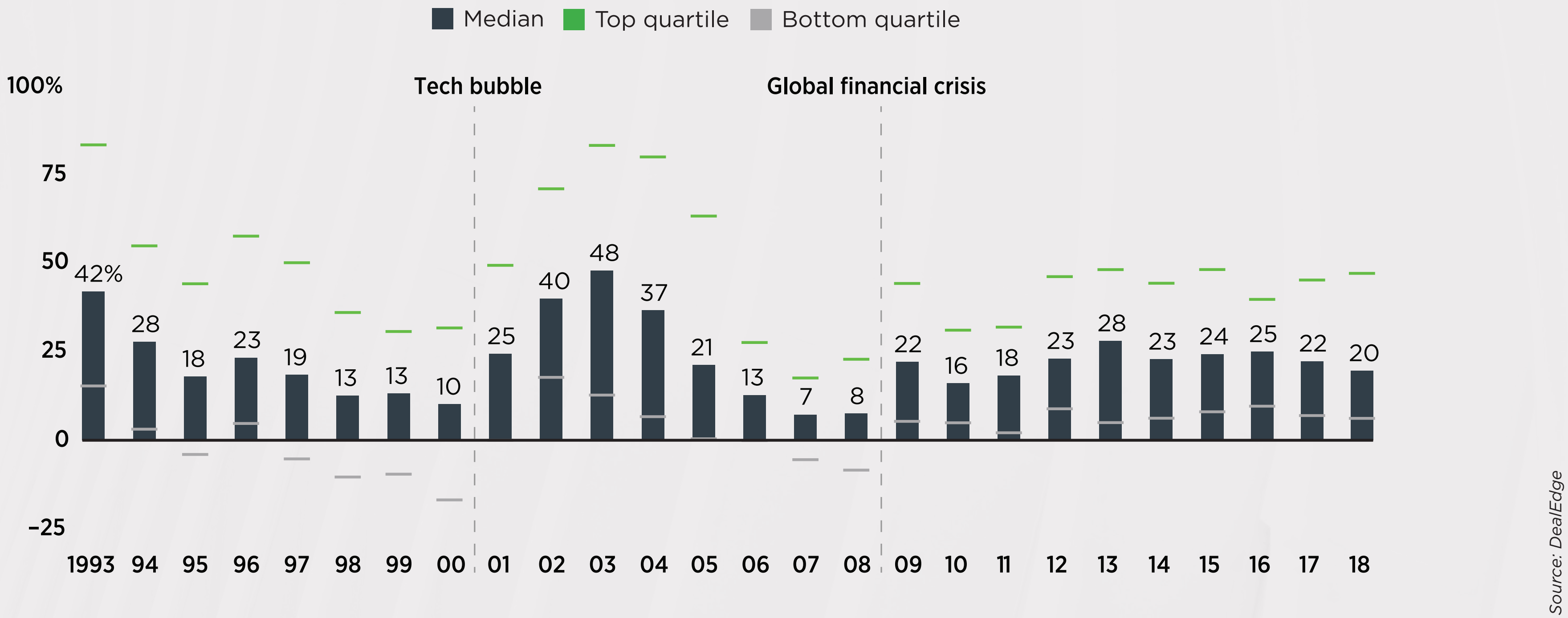
Source: S&P

- **As fewer companies are going public, investors are turning to the secondary market to find an exit.** The aim could be to add more capital for organic growth, to provide dividends to clients or to ditch assets which are not in alignment with the new normal. As a result, opportunities will emerge at soft valuations.

TO CONCLUDE

- The macroeconomic environment is drifting into unchartered waters. **The investment strategies that worked best in the past may not be the ones that outperform in the years ahead.**
- Focus on fundamentals is crucial but screening should internalize these shifts to **ensure these fundamentals are durable.**
- **Persistent distress across the board** maybe an opportunity for us. A return of 1970s style power businesses?
- **A level playing field for investing?** The macros will persist long enough for private players to feel the pain.
- The risk/reward curve has shifted, meaning investors are seeking greater premiums for accepting additional risk.
- It is important to benefit from themes, **structural changes to supply chains and energy policy, silver economy boom, tech** will continue to create high growth opportunities.
- **Investing in a downturn is the best time to reap extra ordinary returns instead of timing the market and waiting for clearer waters:**

Global Buyout Deal IRR by Year of Entry



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