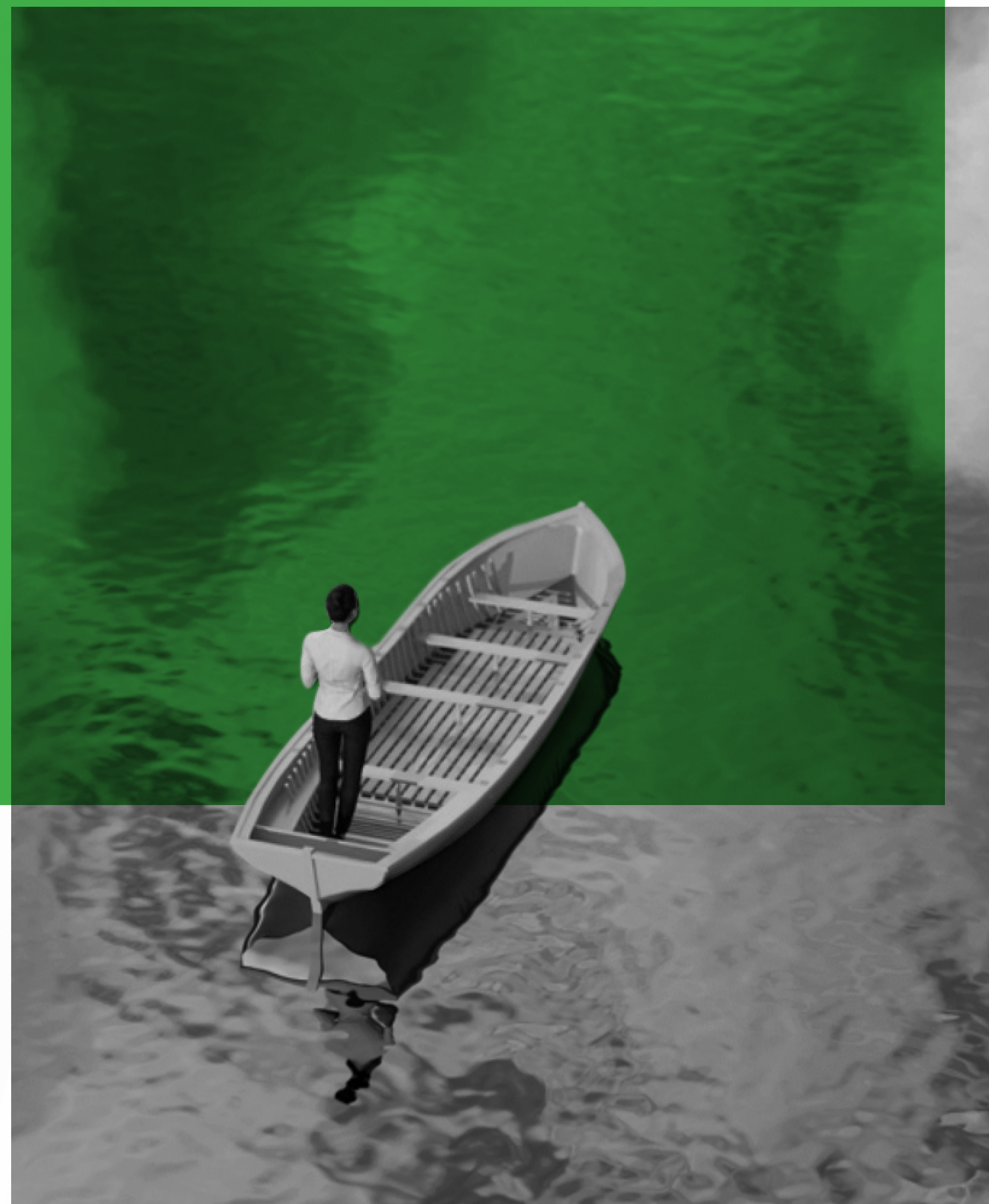
MACRO OUTLOOK 2024



MULTIPLY GROUP

OVERVIEW

GLOBAL MACROECONOMIC OVERVIEW

- GDP GROWTH FORECASTS
- INFLATION EXPECTATIONS
- CENTRAL BANK POLICIES
- CURRENCY
- GEOPOLITICAL RISKS
- OTHER KEY MACRO THEMES
- REGIONAL FOCUS

GLOBAL MARKETS

- ASSET CLASS PERFORMANCE
- EARNINGS OUTLOOK
- VALUATIONS
- DEALMAKING-CONDITIONS
- DEALMAKING-PLAYBOOK

LOCAL INSIGHTS

- UAE-ECONOMIC OUTLOOK
- UAE-MARKET OUTLOOK

INVESTMENT THEMES

- RISKS SUMMARY
- ALLOCATION THEMES

EXECUTIVE SUMMARY

As post-pandemic macro distractions have faded, a benign growth outlook could result in a 'normalizing' year for investors – bar any unforeseen shocks.

UAE REMAINS A BRIGHT SPOT AMID A GLOBAL SLOWDOWN

DEALMAKING IS CAUTIOUSLY RE-EMERGING

DISPERSION AND UNCERTAINTY CALLS FOR SELECTIVITY AND QUALITY

A softening global outlook in 2024 follows a year of stronger than expected growth and market performance as tailwinds to the consumer fade and monetary policy tightening lags catches up. A soft-landing consensus has taken precedent over last years recession fears, although we can't discount the possibility completely yet. Inflation is steadily coming down to central bank target levels, but there remains headwinds to core levels. With inflation seemingly on track, markets and central bankers are now as close to agreeing on the policy path since the start of the cycle. Roughly 100bps of cuts are likely coming in most major markets, however, in the medium term will still be comparatively elevated to the ultra-low levels we became accustomed to post-gfc. Additionally, geopolitical tensions remain highly elevated and a continued risk to the outlook.

The UAE economy continues to be a global bright spot, while ADX lagged an otherwise fantastic year for global equity markets (including DFM), the local macro environment appears conducive of positive corporate performances.

Dealmaking activity should cautiously re-emerge as pressure builds to deploy accumulated dry powder and the valuation gap narrows. However, tighter credit conditions in the medium term will require adaptation with an emphasis on operational improvements to current holdings and less leverage. Sluggish deal flow and IPO recoveries will weigh on exits, extending liquidity issues and increasing demand for carveouts.

Investors will need to roll up their sleeves to weed through a dispersed landscape as divergences emerge in growth, earnings and valuations across regions and sectors. Conditions call for increased selectivity and a premium on quality. Caution should be placed on cyclical areas of the market that benefited most from post-pandemic volatility and stimulus as those forces fade. Identifying mega forces (persisting structural themes causing current and long-term shifts in economies, sectors and profitability) can allow investors to cut through macro cycles and market volatility.

GLOBAL MACROECONOMIC OVERVIEW

GROWTH AND
INFLATION SLOWING

RATE CUTS
ARE COMING

GEOPOLITICAL
RISKS DRAG

GDP GROWTH FORECASTS

BENIGN OUTLOOK FOLLOWING A SURPRISINGLY STRONG 2023

2023 beat forecasts and avoided recession

The global economy outperformed in 2023 with GDP growth beating consensus forecasts from a year ago, which saw low and declining expectations for growth and heightened fears of a recession. **This was despite negative shocks from the largest and fastest increase in interest rates in decades, major wars, banking sector instability, emerging signs of credit deterioration, a weaker than expected Chinese reopening and marked slowdown in Europe.**

Resilience largely stemmed from residual post-pandemic liquidity driving investment spending and strength of consumers. A significant portion of businesses and consumers have been locked in lower rates, especially in the US. US homeowners still pay an average mortgage rate of only 3.75%, around half the rate on new mortgages. Large fiscal stimulus, government incentive programs and weaker commodity prices also provided relief. Normalization of consumption in China and an unexpectedly robust pick-up in US growth outweighed the sharp slowdown in Europe.

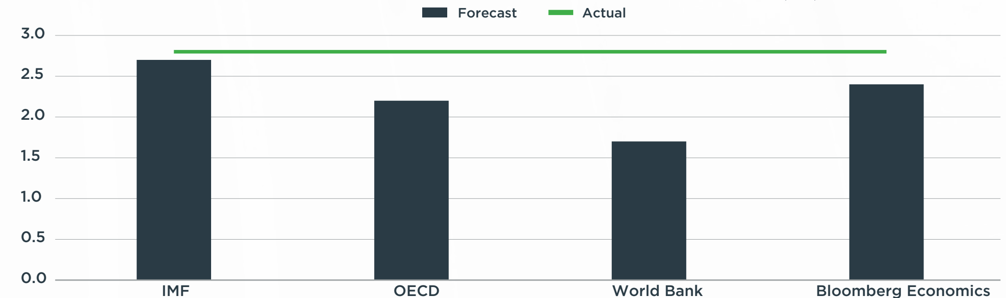
Stable but still below trend growth expected in 2024

Following a volatile period since Covid, most of the disruptions have now faded and should now be behind us. **There remains several tailwinds to global growth in 2024, including emerging market resilience, the strong growth in real household income, a recovery in manufacturing activity, a smaller drag from monetary tightening and an increased willingness of central banks to deliver cuts if growth slows.**

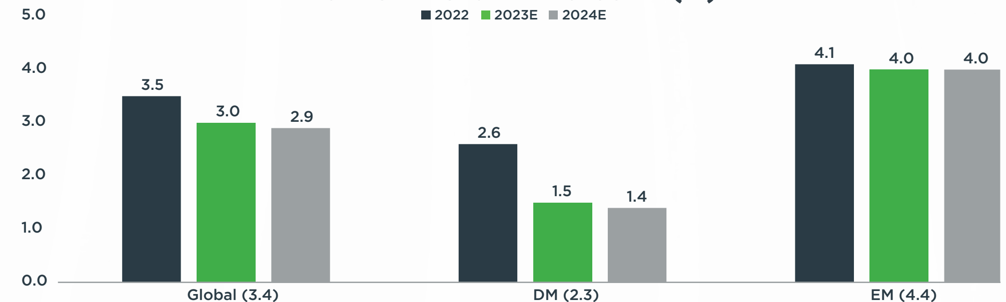
However, a global growth slowdown has not been completely avoided. The IMF's 2023 estimate of 3.0%, while a surprise to the upside, still fell well below the historic average of 3.4%. **The IMF baseline forecasts again sees global growth falling to 2.9% in 2024 with the full impact of recent monetary tightening still to be felt, a slower US economy, China's ongoing slump and European stagnation.**

We can't discount a recession...yet

Current market consensus is relatively optimistic and increasingly consistent with a soft-landing scenario. However, history shows that monetary-tightening cycles (let alone very aggressive ones) tend to bite within 18 to 27 months after they begin. As we now sit 21 months into this latest campaign, there is good cause for vigilance. In the US, GDP growth has been at least 1.4% (and as high as 5.4%) just one month before the onset of every recession since 1948.



Source: *IMF, OECD, World Bank, Bloomberg Economics*
Note: *Forecast final estimates released in 2022. Actual is average final estimates released in 2023.*



Source: *IMF*
Note: *World Economic Outlook October 2023. Historical average 1980-2022 in parentheses.*

Source: *Federal Reserve Bank of New York*
Note: *Predicted by Treasury Spread. Term spread defined as difference between the 10-year and 3-month Treasury rates.*

INFLATION EXPECTATIONS

HEADLINE INFLATION IS EASING, BUT IT IS TOO EARLY TO DECLARE VICTORY

Inflation has come down meaningfully

According to the IMF, global inflation declined steadily from 8.7% in 2022 to 6.9% in 2023 and forecasts 5.8% in 2024 due to tight monetary policy aided by lower international commodity prices. Despite edging nearer, inflation remains above the preferred targets of most central banks.

Encouragingly, US and EU CPI's now register at 3.1% and 2.4% respectfully, a sign that the monetary policy has been working, the worst is likely behind us and opens the door for interest rate cuts over the next 12 months if the trend sticks. Core inflation is generally projected to decline more gradually, and inflation is not expected to return to target until 2025 in most cases.

The final inflation challenge for the US is cyclical, while Europe battles structural headwinds

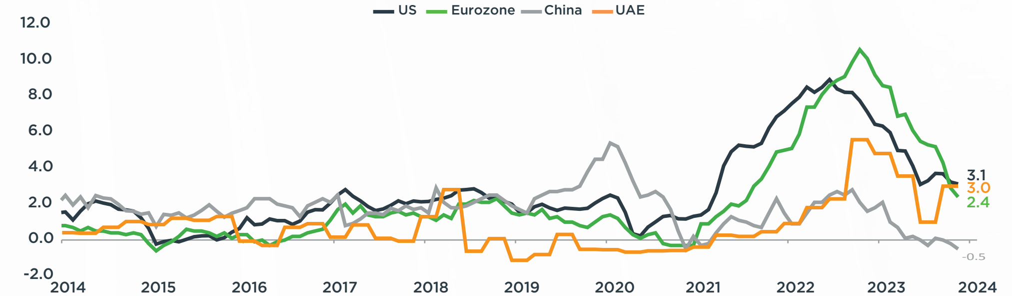
Cyclical (directly GDP linked) inflation remains the hurdle for the US Fed as acyclical (not directly GDP linked) contributions have now come down to its historical average of 1% YoY. **This would suggest that getting to the 2% target will require additional slack in the economy.** Europe's ECB on the other hand, while closer to target, has limited slack left to give. This suggests remaining inflation is acyclical (potentially structural) and likely less affected by rates.

Structural trends remain a threat to long term inflationary levels despite a normalized supply chain. These include continued de-globalization and on/friend-shoring, higher defense costs because of geopolitical instability, the energy transition, growing entitlements, and the greater bargaining power of workers.

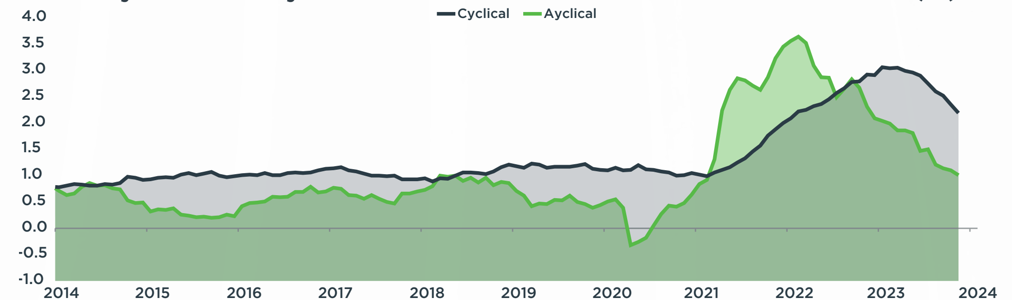
Can artificial intelligence offset inflation drivers?

Artificial intelligence is expected to increase the productive capacity as well as lower production and service costs of the economy, a supply shock which tends to exert a downward pressure on inflation, at least in the short run. Past examples include the late 1990s IT driven productivity surge, the expansion of trade with China in the 2000s and the shale gas revolution in the 2010s.

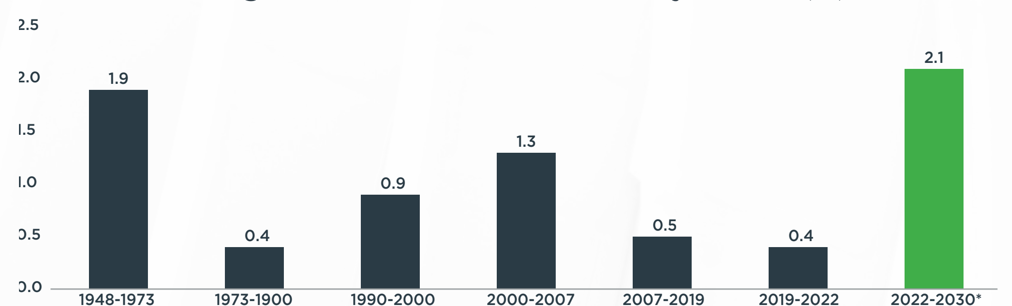
If AI increases the productivity of all cognitive work (labor using words, numbers and ideas) by 30%, and cognitive work accounts for 60% of all labor, that will result in an extra 18% of productivity capacity. While development and adoption took flight in 2023, we are still likely 5 to 10 years from truly seeing AI-driven software finally deliver on its revolutionizing promise.



Source: U.S. Bureau of Labor Statistics, Eurostat, National Bureau of Statistics of China, Federal Competitiveness & Statistics Centre (UAE)
Note: UAE inflation numbers after Q2 2023 based on market forecasts.



Source: U.S. Bureau of Labor Statistics
Note: Cyclical components include those categories where prices tend to be more sensitive to overall economic conditions. Acyclical components include those categories that are more sensitive to industry-specific factors.



Source: Federal Reserve Bank of New York
*Note: Average non-farm labor productivity growth for periods. *2022-2030 estimate assumes AI increases productivity of cognitive work by 30%, and cognitive work accounts for 60% of all labor.*

CENTRAL BANK POLICIES

WHILE CUTS ARE COMING, WE REMAIN IN A HIGHER INTEREST RATE REGIME

Central banks are done with the current hiking cycle

With inflation easing and the economy holding in, policymakers at the US Federal Reserve's final 2023 FOMC voted unanimously to keep the benchmark overnight borrowing rate in a targeted range between 5.25%-5.50%. Following the fastest tightening cycle in modern history, the decision to hold its key interest rate steady for the third straight time indicated that hikes are more than likely over.

Consumers and businesses have been appeared more insulated from hefty increases that began March 2022 than in previous hiking cycles, having locked in low interest rates before or during the pandemic. **It's premature to say how the economy has weathered the storm, as Milton Friedman famously said, "Monetary policy operates with long and variable lags".**

Rate cuts are priced-in

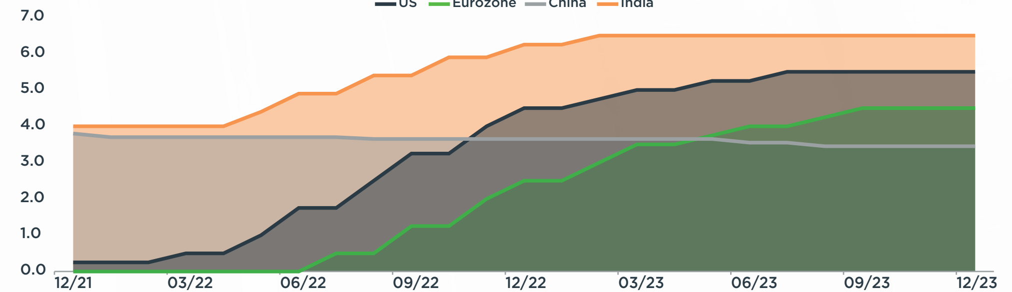
Against the backdrop of falling inflation, lower growth expectations and lagged effects of tightening through the system, central banks are now expected to start a reversal. **The latest US Fed dot plot calls for three 25bps cuts next year and markets have more optimistically priced in four 25bps starting in March.** Markets have also priced in 150bps of cuts from the ECB starting in April.

Expectations of most other markets are that they will follow trend, though at increasingly diverging pace.

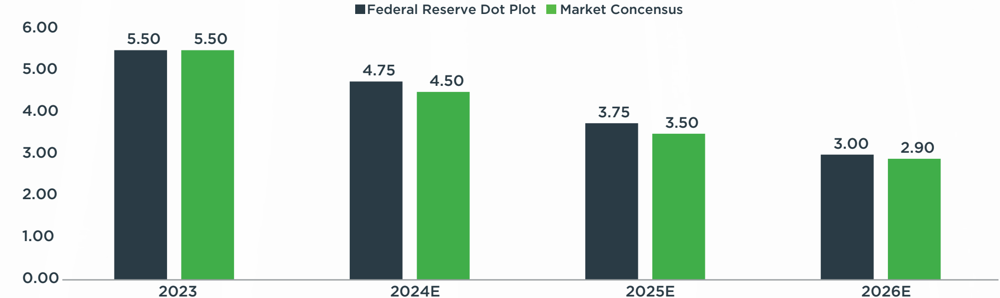
The post-gfc era of ultra-low borrowing may be behind us

While softening of monetary policy tightening will provide welcomed relief, even if the Fed does cut rates three or four times in 2024, **the Fed funds rate would end the year between 4.50% and 4.75%,** still significantly higher than the virtually zero levels we had become accustomed to when the Fed started its tightening campaign in March 2022.

The average Fed Funds target from the end of the 2008 to the start of the 2022 rate cycle was just 0.64%. **Both central bankers and markets see rates staying above 2.50% as far out as 2026. While a return of pre-GFC rates is unlikely (due to size of debt), we may need to get used to a "new-normal" of central banks requiring higher levels of real rates.**



Source: *FactSet*
Note: *US Federal Funds Target Rate, Eurozone Main Refinancing Operations Minimum Bid Rate, India Repo Rate, China Loan Prime Rate.*



Source: *Federal Reserve Bank of New York, FactSet*
Note: *Estimates for year end. December 13th 2023 FOMC Dot Plot and Fed Fund futures.*

Source: *Federal Reserve Bank of New York, FactSet*
Note: *Higher band of target rate*

CURRENCY

SOFTER BUT STILL STRONG US DOLLAR

Some Dollar softening should provide EM currency and stocks relief

After hitting a two decade high in Sep 2022, US dollar index has declined by 10% to date. **Emerging markets anticipate the continuation of the downward trend in the U.S. dollar as a boost to international central bankers and investors alike.**

The Federal Reserve's dovish December pivot has boosted the case for the weakening dollar to keep falling into 2024, though strength in the U.S. economy could limit the greenback's decline. **Falling rates are generally seen as a headwind, making assets in the U.S. currency less attractive to yield-seeking investors.** Though only a mild weakening is expected, a faster pace of rate cuts could accelerate the currency's decline.

Amid a soaring twin deficit (over 10% of GDP) of fiscal and current account and rising debt, dollar will continue facing pressure. More so, **de-dollarization, although slow, is a growing trend.** In 2023, we witnessed significant gold buying by global central banks and several countries, including the UAE accepting payments in non-dollar currencies.

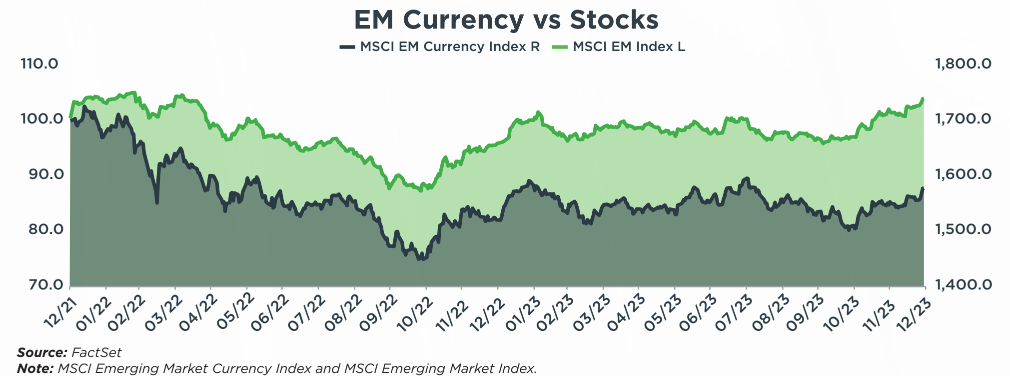
...However, USD should remain relatively strong

Betting on a weaker dollar has been a perilous undertaking in recent years, with risks on an outperforming economy and consequently a more hawkish Fed.

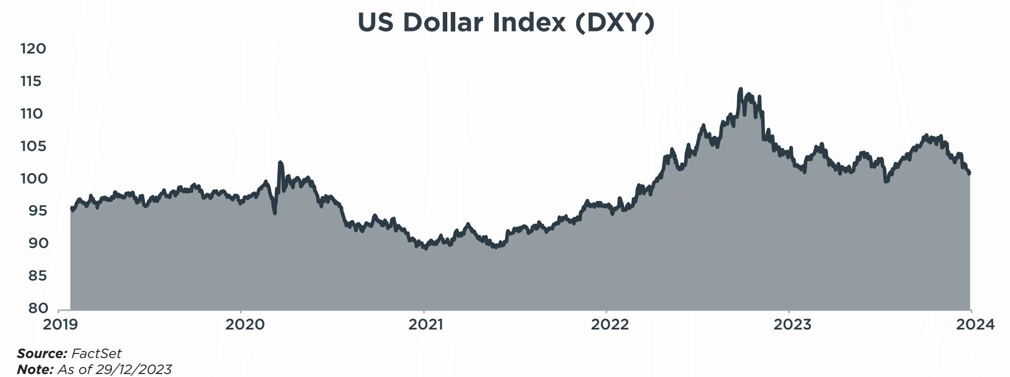
US economic data has been surprising to the upside while Europe and China have experienced weakening data. Without a clear challenger to the US growth story, the dollar could remain strong. **Relative to interest rate differentials the dollar is seemingly less expensive and even if market expected rate cuts are realized, the dollar would still yield more than 56% of global currencies on a real basis in 2024.**

Improved outlook for Multiply Group's Lira exposure

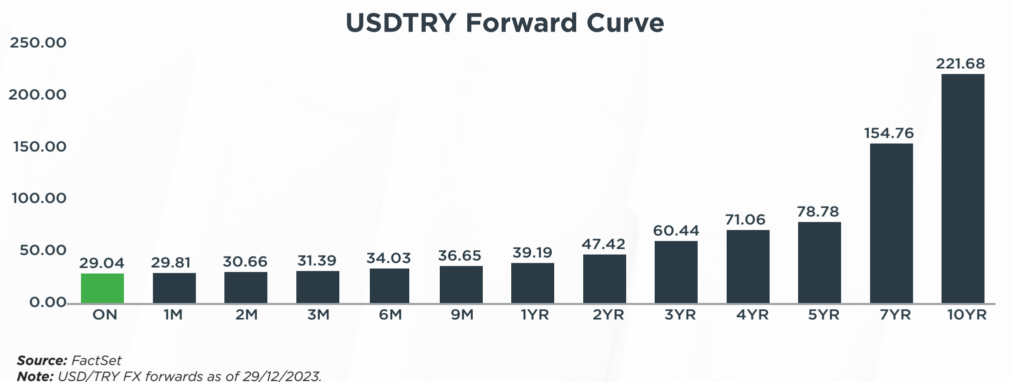
Dollar softening bodes well for the Turkish Lira. After sliding by 37% against the green back in 2023, Lira is expected to face less external presure. However, **optimism primarily stems from recent monetary policy shift in Turkey, which led to a rapid increase in interest rates.** As a result, foreign institutional capital flows turned positive in 2023 for the first time in six years.



Source: *FactSet*
Note: *MSCI Emerging Market Currency Index and MSCI Emerging Market Index.*



Source: *FactSet*
Note: *As of 29/12/2023*



Source: *FactSet*
Note: *USD/TRY FX forwards as of 29/12/2023.*

GEOPOLITICAL RISKS

GEOPOLITICAL RISKS REMAIN ELEVATED AND POTENTIAL DRAG

Deglobalization trend continues

The period that followed the global financial crisis has been characterized by a prolonged slowdown in the pace of trade reform and weakening political support for open trade amid rising geopolitical tensions.

Many countries are trying to re-shore commodity supply chains for national security and geopolitical reasons. Measures include those for critical minerals for clean energy technologies, semiconductors, and defense (examples of actions are the US Inflation Reduction Act, the European Chips Act, and China's export restrictions).

Intensifying geoeconomic fragmentation could cause additional price volatility and inflationary pressures

The war in Ukraine and geopolitical tensions elsewhere could intensify, triggering supply chain disruptions and renewed fluctuations in food, fuel, fertilizer, and other commodity prices. A rise in oil prices driven by an intensifying reduction in oil supply and unrest in the middle east could reduce global economic activity and raise inflation,

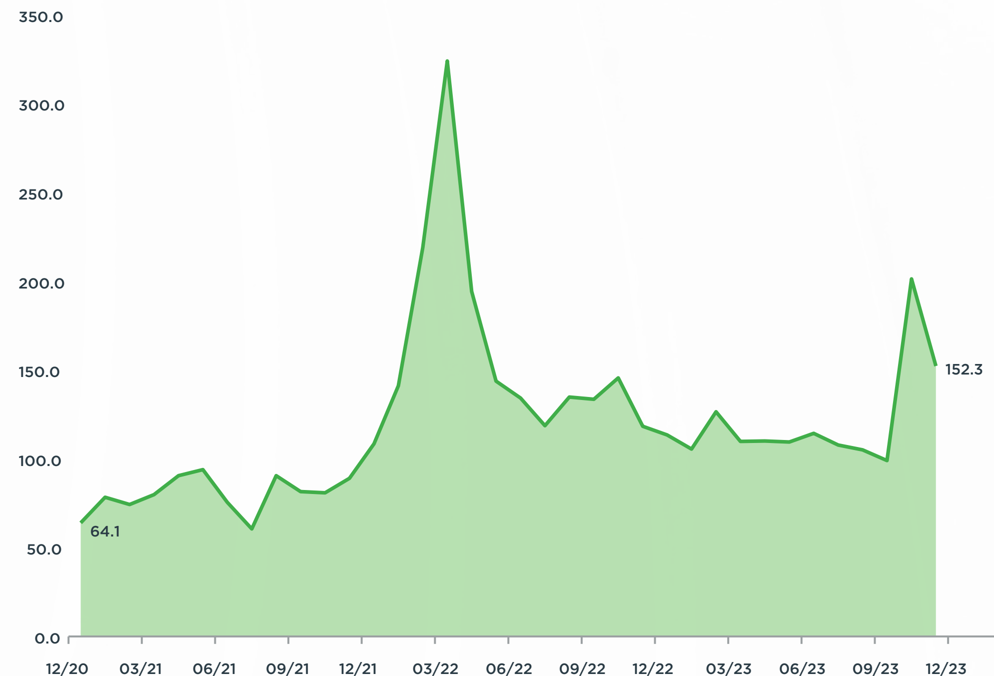
Notably, **disruption across the two key shipping "chokepoints," the Panama Canal and the Bab-al-Mandeb Strait in the Red Sea could create new supply side pressures.** 40% of global cargo traffic flows through the Panama Canal while 10% of global seaborne oil flows through the Bab al-Mandeb area.

2024: The biggest election year in history

National interests and competing policies will be paramount in a year where more than 75 elections are scheduled. **Voters will go to the polls in markets accounting for nearly 60% of global GDP.**

The US elections – with the possibility of Donald Trump returning to the White House is likely to have the most far-reaching consequences.

Geopolitical Risk (GPR) Index



Source: *Matteo Iacoviello*
Note: *Author's calculation for global geopolitical tensions.*

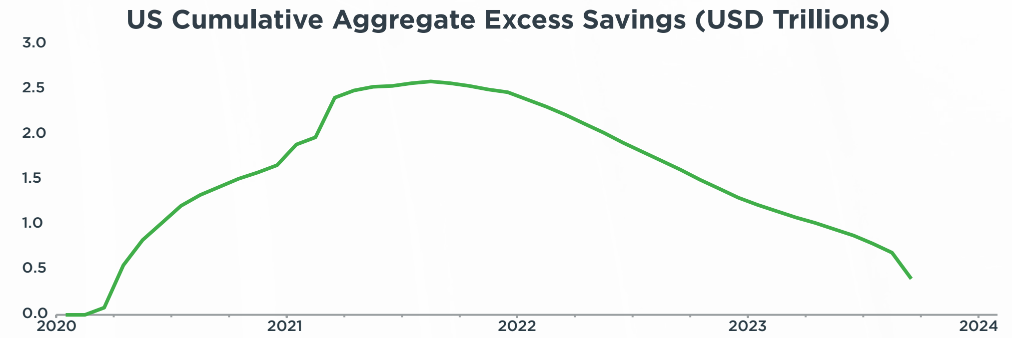
> ***"Geopolitics and the US election will be two big ongoing themes for 2024. For the former, the peace dividend era is fraying at the edges and the latter could be the main macro story in the second half."*** *- DEUTSCHE BANK*

OTHER KEY MACRO THEMES

GROWING CHALLENGES FOR THE CONSUMER

Pandemic excess savings have nearly depleted

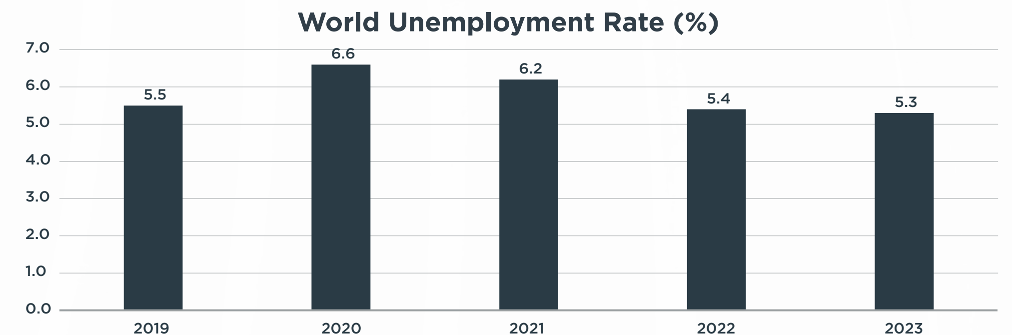
The resilience of many economies during 2023, particularly that of the developed markets that are more service than manufacturing based led, owed much to low unemployment and the excess savings that consumers built through the pandemic. **While they are not out of money quite yet, those excess savings are now running dry, and we can expect to see them become a much less powerful economic tailwind in 2024.**



Source: *U.S. Bureau of Economic Analysis*
Note: *Calculated as the accumulated difference between actual personal savings and the trend implied by data for the 48 months leading up to the first month of 2020.*

Labor markets are slowing

Robust GDP growth has resulted in positive labor market outcomes. **The unemployment rate in global economies boasting high-quality labor market data, has consistently declined throughout 2022-2023.** Unemployment has now settled below pre-pandemic levels. Notably, this positive trend is observable even in key economies with notably low real GDP growth, including the Euro area.



Source: *United Nations Statistics*
Note: *Unemployment rate, 2019, 2020, 2021, 2022, and 2023 projections (percentage)*

Furthermore, In 2024 we could witness a dual impact of diminishing corporate savings and debt refinancing at higher rates. A wave of corporate financing in 2024 will put severe strain on earnings. Notably, businesses across Europe, Middle East and Africa need to refinance $500 billion worth of debt in H1 2024.

REGIONAL FOCUS

REGIONAL MACRO THEMES FACE SIMILARITIES AND DIVERGENCES

● Tailwinds ◆ Headwinds

Europe

- ● Inflation is closest to targets of major markets
- ● Unwinding of energy shocks
- ● Robust income growth

- ◆ Stagnant growth, recession risk and subdued confidence
- ◆ Continued risk of war tensions and energy security
- ◆ Heavy export exposure to a weaker China

United States

- ● Expected of Fed rate cuts
- ● Strong labor market
- ● Government fiscal spending

- ◆ Softening growth outlook
- ◆ Stubborn core inflation
- ◆ Strength of consumer waning

GCC

- ● Oil prices remain supportive for most members
- ● Rising FDI and supply chain localization
- ● Improved non-energy sector growth

- ◆ Softer global demand outlook
- ◆ Trade exposure to a weaker China
- ◆ Escalations of regional tensions

Emerging Asia

- ● Returning growth premium over DMs
- ● Improving currency prospects
- ● India’s emergence as regional driver

- ◆ Inconsistent domestic drivers of growth
- ◆ Relative dollar strength drags
- ◆ China’s sluggish return as regional driver

GLOBAL MARKETS

PERFORMANCE TO MODERATE

EARNINGS PRESSURED BUT RESILIENT

VALUATIONS RELY ON EARNINGS DELIVERING

ASSET CLASS PERFORMANCE

PROSPECTS MIXED FOLLOWING STRONG YEAR

Stellar bounce back across most asset classes and markets

2023 turned out to be a surprisingly strong year for equity markets, with the MSCI ACWI boasting double-digit returns. **Recent market performance has been driven by multiple expansion. Relatively strong earnings have been a surprise to the upside but not sufficient to sustain market price returns.** With fixed income back in play and still decent cash returns, more options and a lower risk premium may be a pressure in sustaining the 2023 equities rally.

Performance of risk assets weighs on sticking a soft landing

Current market pricing is consistent with a soft-landing scenario and the anticipated decline in interest rates interpreted as a sign of economic resilience, with the implications for equity earnings and the asset class overall positive. This assumes, however, that an anticipated economic slowdown is neither excessively deep nor prolonged.

Consequently, consensus estimates expect a reasonably positive 12-month equity market returns, possibly in the high single digits, if not exceptional. Equities could outperform if central banks cut rates sooner than expected. A return to moderate economic growth outlook for the year suggests a moderate year for stock performances, with company profits rarely declining outside of recession times.

Normalizing economy could mean normalizing performance

Despite high valuations, if a soft landing is achieved, the US offers unique exposure to seminal themes such as artificial intelligence, tech, and cloud computing. While the market has been led by seven mega cap stocks – more concentrated than at any other time over the last 90 years – there remains opportunities for expansion in smaller cap companies.

European equities are comparatively cheaper, with upside if the growth story improves and China gets back on track economically.

EMs should become more attractive through 2024 on a return to EM-DM growth divergence. For China, which has lagged meaningfully this year, there is the prospect of better performance if the growth momentum delivers on the upside and geopolitical risks stay contained. India remains an option for investors with a long-term investment horizon. Although valuations are very high, so too are the growth prospects, in part due to the strong domestic market.

Asset Class Performance (%)

			2023	2022
Equities	Global	MSCI World Index	23.7	-15.6
	DM Ex-U.S.	MSCI World ex USA IMI	15.9	-7.4
	EM	MSCI EM (Emerging Markets)	10.3	-15.2
Fixed Income	Global Agg	Bloomberg Global Aggregate	5.7	-16.2
	High Yield	Bloomberg Global High Yield	14.0	-12.7
	EM Debt	Bloomberg Emerging Markets USD Aggregate	9.1	-15.3
Alternatives	Commodities	Bloomberg Commodity Index	-7.9	16.1
	Real Estate	FTSE EPRA Nareit Global	6.1	-18.6
	Infrastructure	DJ Brookfield Global Infrastructure Composite	6.2	-4.9
Cash	Cash	ICE BofA US Treasury (9-12 M)	5.0	-0.3

Source: *FactSet*
Note: *Price performance in local currency terms.*

Equity Market Performance (%)

		2023	2022
Global	MSCI World Index	23.4	-15.6
DM Ex-U.S.	MSCI World ex USA IMI	14.9	-7.4
EM	MSCI EM (Emerging Markets)	8.1	-15.2
U.S.	S&P 500	26.2	-18.1
EU	Euro STOXX 50	23.6	-8.8
UK	FTSE 100	6.5	4.7
China	MSCI China	-12.3	-20.6
Japan	TOPIX	27.2	-2.5
India	Nifty 50	18.5	4.3
Abu Dhabi	FTSE ADX General Index	-7.1	20.3
Dubai	Dubai DFM General	20.3	4.4
Saudi Arabia	Saudi Arabia All Share (TASI)	11.7	-7.1

Price-to-Earnings Drivers 2023

Source: *FactSet*
Note: *2023 YoY % growth.*

> ***"In a desynchronized global cycle, with higher-for-longer rates and slower growth in most advanced economies, the road ahead remains uncertain. In our view, this calls for a diversified and risk-conscious investment approach across public and private markets."*** *- GOLDMAN SACHS*

EARNINGS OUTLOOK

CORPORATE EARNINGS ARE PRESSURED BUT SHOWING RESILIENCE

Analyst estimates are optimistic

Analysts' consensus expectations call for S&P500 earnings growth of 12% this year, nearly double the long-term average and over 3 times forecasted nominal GDP. **While margins could maintain or even improve, revenues are likely to be constrained as disinflation, economic growth and a more challenged consumer provide headwinds.**

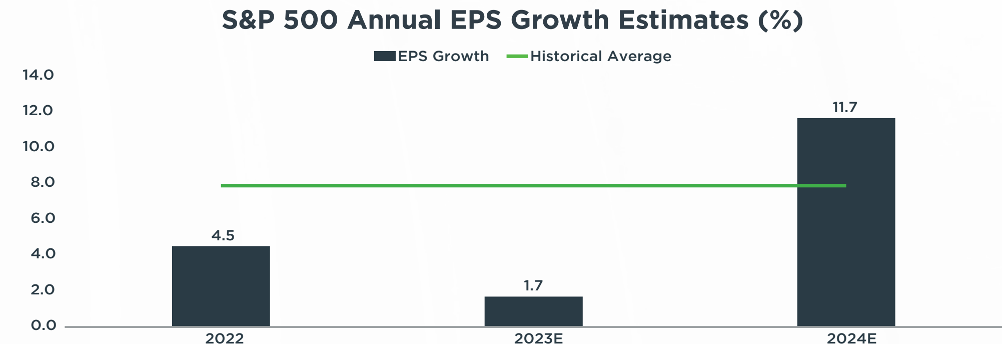
We see a somewhat greater risk to the downside of analyst projections at this later stage of the economic cycle, with risks on either side of the forecasted outcomes; a recession (mild or not) or unrealized market priced-in cuts from the Fed that could weigh on stocks.

Higher rates, wages and commodity shocks impact on margins are slowly in reverse

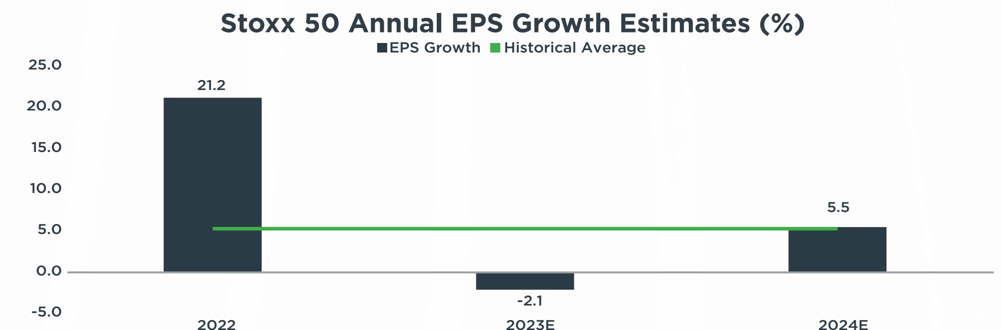
On margins, pricing power is waning, but input costs and wages are decelerating. Interest costs remain high, but 49% of S&P 500 debt is fixed beyond 2030, with no more than 7% maturing in any calendar year until then. Many S&P 500 companies have also maintained ample cash balances, which are earning meaningful interest. Therefore, interest costs as a share of profits are falling. recession times.

Consumer has been strong but could be approaching exhaustion

The heart of earnings resilience has been the strength in consumer activity. **Excess savings are diminishing, both hiring activity and wage growth point to moderation, credit card debt has crossed trend and credit terms have risen.** This all points towards a consumer slowdown, typical at this stage of the economic cycle, which will impact revenues – particularly in cyclical sectors that have run out of pricing power.



Source: *FactSet*
Note: *Analyst consensus estimates. Data as of 26/12/2023. Historical average is median 1999-2022.*



Source: *FactSet*
Note: *Analyst consensus estimates. Data as of 26/12/2023. Historical average 1999-2022.*

"And we believe it will be quality stocks, including many in the technology sector, that will be best positioned to grow earnings in a slowing global economy." *- UBS*

VALUATIONS

GLOBAL VALUATIONS ARE NOT YET STRETCHED...BUT NOT CHEAP

Equity valuations bounced following the 2022 correction

Most equity valuation multiples improved from a market correction in the preceding year, although only Japan has surpassed above its 2021 highs. **A challenge to risk assets with a benign economic forecast is that many market valuations are at or above historic average and rich in growth segments.** Outside US mega-caps, valuations look less overextended versus history and in many areas have improved relative to last year.

Global valuation dispersion

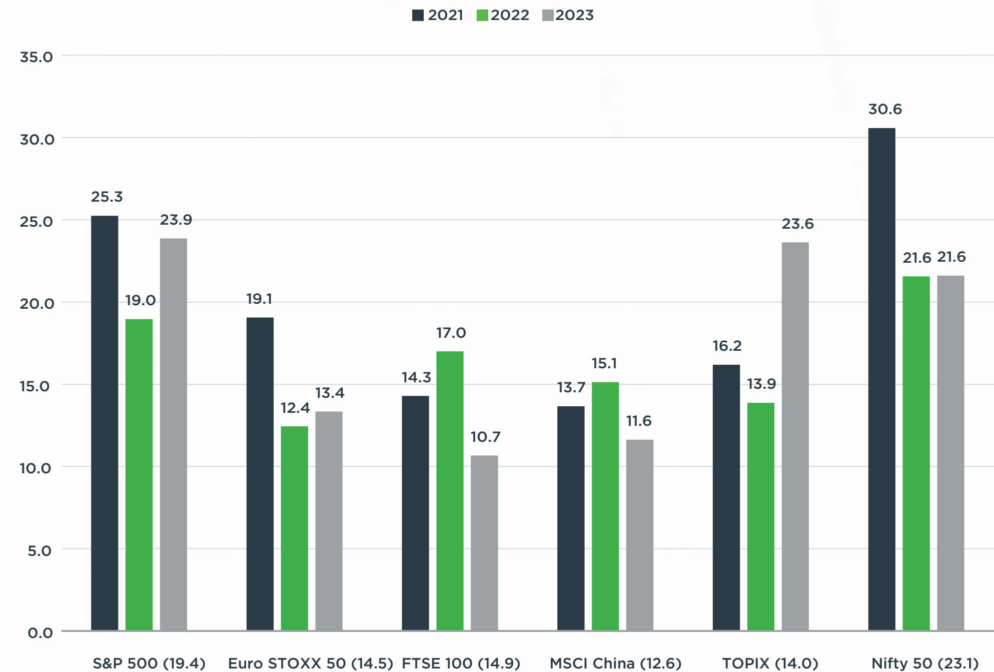
Over the last two decades value stocks have got 30% cheaper and growth stocks have got 60% more expensive. Markets might be underestimating the future of value stocks and overestimating growth stocks.

Valuation dispersion may indicate inefficiencies in the market, as it can suggest that market participants may not be accurately pricing assets, potentially leading to misallocations of capital and systemic risks. If that is the case, **dispersed valuations may present contrarian investing opportunities for investors betting on a reversion to mean valuations over time.**

High valued companies must deliver on higher expectations

Those who benefited disproportionately from pandemic measures and valuations are most dependent on a rapid reduction in rates. However, there is also concern over some of the valuation ballooning seen on the back of market pricing on big promises (potential AI bubble/sustained growth of sales/returns on large scale investments) that could fail to deliver.

Using AI as an example, almost 40% of companies in the S&P 500 index have mentioned AI or related terms in their earnings calls in Q2, boosting market pricing and analyst forecast. However, less than 16% have mentioned it in any corresponding regulatory filings, highlighting how AI has yet to make a material impact for the vast majority of companies.



Source: *FactSet*
Note: *As of 29/12/23. Historical average 1980-2022 in parentheses.*

> ***"Outside the US, equity valuations are attractive on a relative basis, but the growth outlook remains challenged for some major economies, particularly Europe and China."*** *- T. ROWE PRICE*

DEALMAKING – CONDITIONS

MODEST PICK UP IN ACTIVITY THIS YEAR AS HEADWINDS REMAIN

Challenging investment environment

Macro conditions have created a challenging investment environment marked by uncertainty. **Private equity deal activity continues to face headwinds in a world of slow growth and 4% base rates,** and some borrowers may continue to struggle. Banks have been slow to commit loans for large PE-led LBOs, driving the slowdown in megadeal activity, while dealmaking under $2B has less to do with access to debt as they have been courted by a host of private lenders.

However, for **2024, improved interest rate stability, waning recession worries, and the turn of the calendar should all help stimulate more deal activity, especially given a backdrop of a strong pipeline of deals waiting to get done, high private equity dry powder, and growing LP demands for a return of capital.**

Exit activity is down...

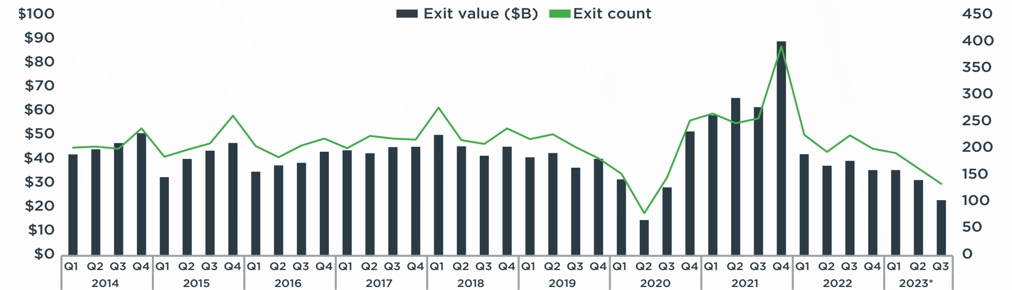
US dealmakers struck 179 middle-market exits ($25M-$1B) in Q3, representing a 7.1% quarter-over-quarter drop and one of the lowest levels in more than a decade. Depressed exit activity has resulted in longer holding periods of assets. **The median holding time from investment to exit grew to 6.3 years as of the end of Q3,** marking the first time that the median holding period exceeded 6 years since 2014. **A recovery in PE-backed IPOs is unlikely to materialize, complicating routes for exits, particularly in Europe.**

But the bid/ask spread that drove deal volume lower is improving as sellers' fatigue

While PE exits remain relatively muted, the bid-ask spread has narrowed, and pressure is building for an M&A recovery. PE funds will need to deploy their large accumulated dry powder. Meanwhile, sellers will also be more receptive to lower valuations as they are under pressure to realize their investments and return capital to investors.

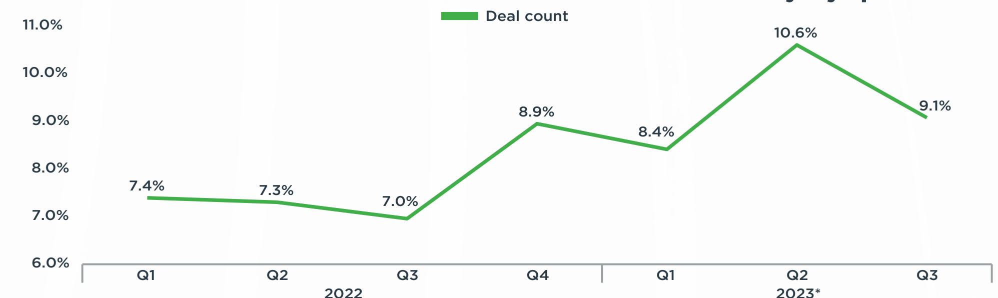
The median EV/EBITDA multiples for North America and Europe combined now stand at 11.4x, down from 13.0x in 2022 and peak 14.3x in 2019. The multiples decline can in part be attributed to a further dislocation in bid-ask spreads in favor of buyers. Prior dislocations in the PE market have taken 12 to 24 months to work themselves out, and the same appears to be happening now.

US & European PE middle-market exit activity by quarter



Source: PitchBook
Note: As of Q3 2023.

Carveouts and divestitures as a share of all PE activity by quarter



Source: PitchBook
Note: As of Q3 2023.

Median PE EV/EBITDA Multiples

Source: PitchBook
Note: As of Q3 2023.

DEALMAKING – PLAYBOOK

NEW REGIME REQUIRES ADAPTING TO

Lean into operational improvement

Tougher private market conditions are a reminder of the importance of leaning into operational improvements as an opportunity. **Higher interest rates mean leverage and multiple expansion are unlikely to add as much to value creation as they have previously.** Operational initiatives — revenue growth and margin expansion — are poised to become the main determinants of success in the new regime.

Technology, including data science, AI, robotics, and automation is providing opportunity for large-scale for transformation that wasn't available in the last decade. However, these tools for industries/businesses underperforming potential are not a stand-alone thesis for higher returns, it must make sense from a capital spending perspective although overtime will become a requirement rather than a competitive advantage.

Smaller deals continue to transact

Carveouts have seen a rise in their share of the overall deal mix. These transactions offer sellers an opportunity to generate cash and enable buyers to potentially reduce their check size, which is particularly pertinent in a high-interest-rate environment. As such, **carveouts and divestitures have witnessed an increase in their proportion of all deals for the first time since 2015.**

Opportunities for disciplined investors

Private markets will offer more opportunities in both providing liquidity and gaining attractive entry points this year. Entry multiples, however, still have further down to go. **Final repricing could reward a good vintage for investors who can be patient and seep through a massively dispersed market across asset classes, sectors and regions.** Conversely, those with less consistent underwriting approaches could be left surprised by future underperformance.

LOCAL INSIGHTS

BRIGHT SPOT THEME CONTINUES

TAILWINDS FOR MARKETS

GLOBALLY COMPETITIVE

UAE – ECONOMIC OUTLOOK

GLOBAL BRIGHT SPOT THEME CONTINUES

Growth outlook remains robust

While softening in 2023 (3.4%, following a windfall 2022 (7.9%), largely reflecting the oil prices and the extension of production cuts, **the IMFs growth outlook for the UAE in 2024 (4.0%) remains elevated both comparatively to the slower global growth story (2.9%)** and the UAEs 10-year historic average (3.0%). Most forecast account for a deceleration in non-oil GDP growth of over 1.0% as global demand softens, while reflecting a pick-up in oil GDP as production resumes following voluntary cuts which are set to end by the end of Q1.

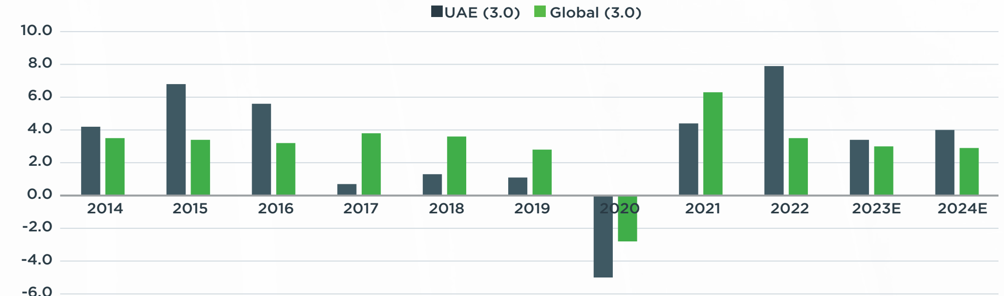
Government policies should continue to underpin the growth story as accumulated coffers continue to permit off-budget spending and stimulate aggregate demand in the economy. A reversal of Fed tightening will also provide relief due to the dollar-peg induced shadowing by the UAE Central Bank. Population growth, FDI flows and corporate relocations to the UAE are likely to be a continued tailwind to growth.

Risks to forecasts but shouldn't hinder trajectory

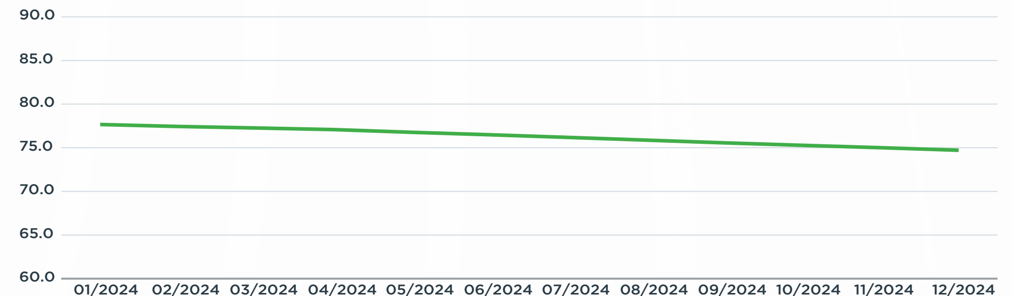
Despite the positivity, a softening global demand picture could weigh more heavily on both an expected oil turnaround and non-oil activity. Forecasts weigh heavily on oil revenues driving higher growth as the non-oil sector grows more slowly. **Possible end of production cuts may in fact counter the OPEC+ mission to maintain higher oil prices and therefore weigh down on oil revenues and consequently growth.**

The impact of newly introduced corporate taxes may be underestimated and have yet to be fully realized, with 2024 being the first full fiscal year to see the extent to which it effects business activity. Additionally, escalations in regional conflicts could upend the entire outlook.

Oil markets are often volatile and typically difficult to accurately build into the outlook. Brent futures contracts see oil ending 2024 mildly lower at $74bbl, a level which is still well above the UAEs breakeven and supportive of the economy. While not immune to global pressures, the UAEs non-oil economy has also shown incredible resilience in recent years, which very well could continue to surprise to the upside. **Weighing the risks to forecasts, higher than global and historic average growth of between 3% and 4% appears likely.**



Source: *IMF*
Note: *10-year historical average in parentheses.*



Source: *FactSet*
Note: *Brent Crude Oil (IFEU $/bbl)*

"Abu Dhabi's non-oil economy grew by 12.3 percent in the second quarter of 2023, accompanied by a 3.5 percent increase in its overall gross domestic product. The emirate's real non-oil GDP soared to 154 billion dirhams ($42 billion), marking its highest since 2014." *- SCAD*

UAE – MARKET OUTLOOK

TAILWINDS REMAIN DESPITE DIVERGENT YEAR

2023 saw ADX and DFM far apart

Despite proximities, ADX bucked the global trend declining for the year while DFM offered double its historic average return and beat the emerging market index by 12%. Dubai benefited from its heavy weight in non-oil segments of banks and real estate, with Emirates NBD and Emaar Properties improving 33.1% and 53.2% respectfully, while combined commanding 40% of market weight.

Oil markets weighed more heavily on Abu Dhabi, which ended 2023 about 7% lower after two years of gains, as geopolitical concerns, production cuts and central bank measures to rein in inflation triggered big fluctuations in prices. IHC and FAB, which combined make up 55% of market weight, fell 2.6% and 18.4% respectfully. **Substantial market returns over the last few years saw investors take profits and allow valuations to cool.**

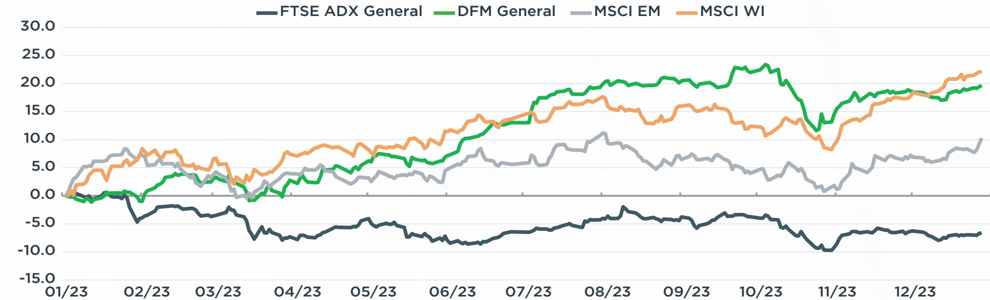
Tailwinds to corporate earnings and sentiment

A positive local macro environment and continuation of its relative isolation from global headwinds will remain supportive for corporates. Many corporates have been able to limit exposure to higher interest expenses, locking in borrowings pre-cycle and limiting borrowing. However, effects from refinancing and new borrowings should be more pronounced this year. Real estate should also slow, though a sharp correction is unlikely considering continued demand. **Expectations for an end of oil-production cuts and a reversal of US monetary policy will be welcomed relief for financing costs, improving investor sentiment and market performance.** This could translate to an extension of the local market IPO rush, which has remained a global leader.

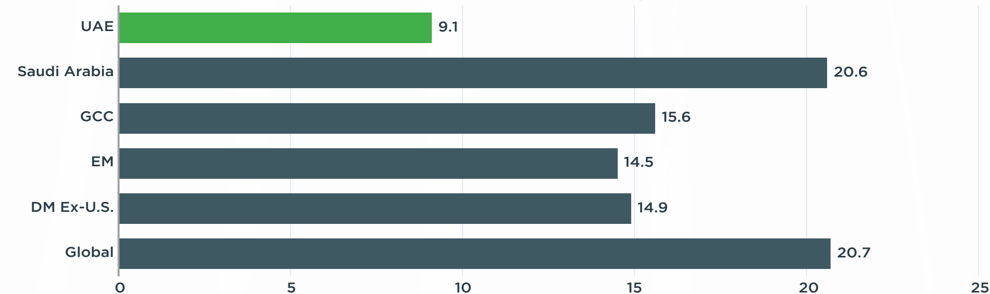
Supportive oil and a thriving local economy has particularly benefited the local markets biggest segments in energy and banks. The banking sector may face somewhat less supportive conditions in 2024 as NIMs have peaked and will begin to moderate over the next 12 months, however, collateral values remain reassuring.

UAE valuations offer upside

Despite hefty returns in 2023, MSCI UAE and DFM continues to trade below 10 on a price-to-earnings basis (P/E), implying price gains have been supported by realized earnings expansion. ADX trades at 27 P/E, however, removing index weights shows a median multiple of 14. While banks drag this number lower, compared to most major global markets and EMs, the UAE continues to offer a compelling value proposition when getting granular.



Source: *FactSet*
Note: *Simple price return. FTSE ADX General Index, Dubai Financial Market (DFM) Index, MSCI Emerging Market Index and MSCI World Index.*

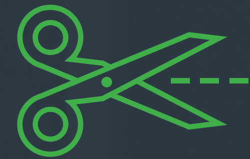


Source: *MSCI*
Note: *As of 31/12/23. MSCI UAE, MSCI Saudi Arabia, MSCI GCC Countries Combined, MSCI EM, MSCI DM Ex-USA, MSCI World. MSCI UAE excludes IHC.*

INVESTMENT THEMES

SELECTIVITY
FOR QUALITY

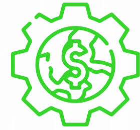
DIVERGENCES
FAVOR EMS



MEGA FORCES CUT
THROUGH THE NOISE

RISK SUMMARY

MACRO OUTLOOK HAS IMPROVED FROM LAST YEAR BUT REMAINS HEIGHTENED FOR INVESTORS



MACRO RISKS

- Recession in US or Europe and a sustained slowdown in China could mute global activity
- Inflation stubbornness could keep central bankers hawkish for longer
- Geopolitical escalations could hurt trade, commodity prices and earnings outlooks

INVESTOR RISKS

- Removal of excessive stimulative monetary policy and interest rate normalization is likely to stay in the medium term
- Dealmaking is unlikely to open back up to pre-tightening levels in the short term, making favorable exits harder to come by
- Analysts are having a harder time reading the earnings outlook with dispersion of estimates double its historic average. This highlights heightened uncertainty associated with forecasting earnings

ALLOCATION THEMES

OPPORTUNITIES EXIST FOR SELECTIVE INVESTORS

Positioning for quality

While similar advice a year ago was proven wrong by realized performance in 2023, uncertainty usually calls for a more selective and defensive approach. **Greater recognition of rising global macroeconomic uncertainties and draining liquidity should refocus attention on valuations, earnings quality and the broader resilience of business fundamentals to slowing growth.**

Equity premiums must make sense when cash and high-quality bonds provide yields and stability.

Divergence in valuation and performance favor EMs

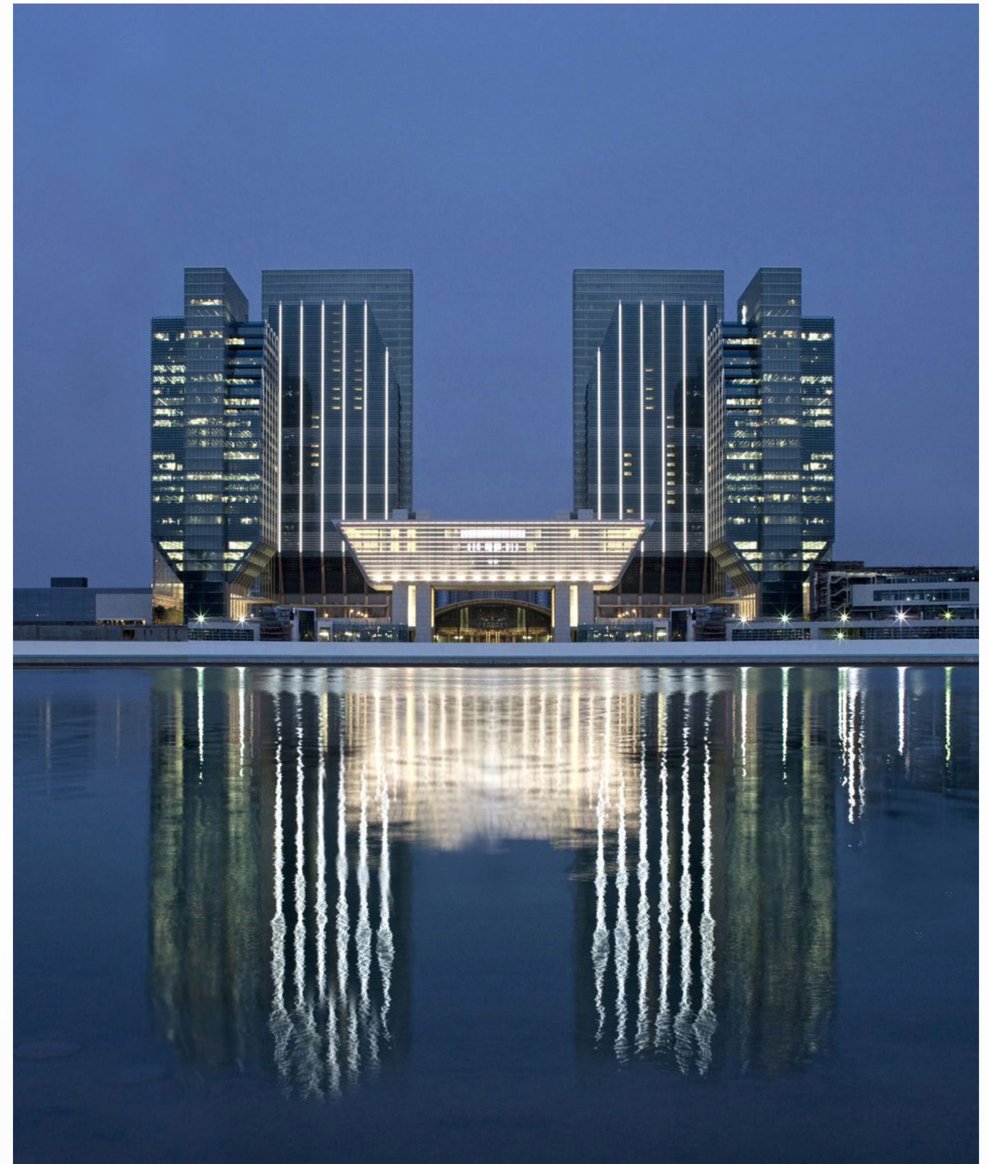
Valuation and performance gaps have and will continue to widen across regions, styles and beyond developed market mega cap growth.

Favorable valuations paired with a missed recession, including positive interest rates, should translate to further multiple expansion, benefiting most regions around the world and emerging markets in particular. **Emerging markets could be a bright spot with more headroom and improved prospects following two years of weak growth versus developed countries. Moreover, a declining dollar should provide an extra tailwind to local currency and market performance.** Within EMs, India and Mexico are seemingly beneficiaries of mega forces even as relative valuations appear rich. China, on the other hand, is priced comparatively cheaply with greater upside risk if growth struggles improve.

Mega forces outlast cyclicality

Identifying mega forces (persisting structural themes causing current and long-term shifts in economies and sectors) can allow investors to cut through macro and market volatility and cycles. However, once discovered by markets demand valuation premiums and present holding period risk.

A regime shift centered on the forces from the energy transition, access to financing, AI/digital disruption and geopolitical fragmentation will create long term shifts in profitability. They stand out as drivers of corporate profits on their own. **Market performance in 2023 exemplified the resilience of mega forces particularly in the US, which was led by AI and digital disruptor exposure despite a less rosy macro backdrop.**



MULTIPLY
GROUP

Disclaimer: This report has been prepared and issued by Multiply Group's Research Department on the basis of publicly available data from official and other reputable sources. While utmost care has been taken to ensure that the information provided is accurate and correct, neither Multiply Group, nor any of its employees shall, in any way, be responsible for the contents.