

2023 GLOBAL MARKET OUTLOOK

# Earnings, economic activity, and employment have yet to be impacted by central bank rate hikes<sup>1</sup>



Dennis Mitchell,  
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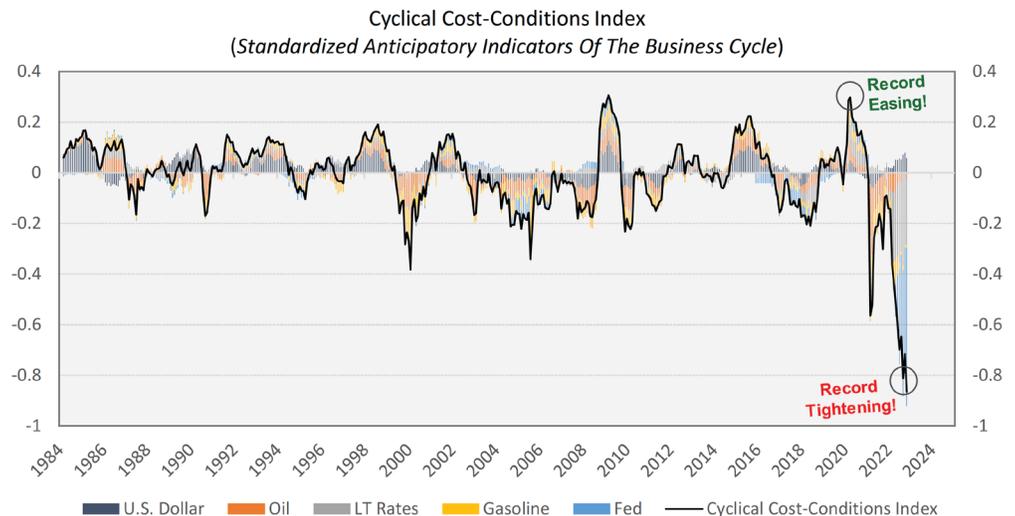


Michael Kantrowitz,  
CFA  
Chief Investment Strategist  
& Head of Portfolio Strategies

Our 2023 Equity Market Outlook call featured Michael Kantrowitz, Chief Investment Strategist and Head of Portfolio Strategies at Piper Sandler. Kantrowitz's expertise includes identifying changing trends that influence business cycles while providing forward-looking investment recommendations on global asset allocation, sector positioning, stock selection and portfolio construction. Buy-side investors ranked Kantrowitz as one of the top three portfolio strategists in the Institutional Investor Magazine All Americas Research poll in 2020.

## What is happening in equity markets?

Global markets are under pressure from several headwinds, including US dollar strength and rising commodity prices and long-term interest rates. Simultaneously, global markets are experiencing elevated levels of inflation, forcing central banks to raise policy rates aggressively.



Source: Piper Sandler, November 2022

This combination of factors has led to market multiples contracting significantly over the course of 2022. However, it's important to note that earnings, economic activity, and employment have yet to be impacted by central bank rate hikes. The fact that rates are higher has been priced into markets but the actual impact of the rate hikes has not been priced into the market yet.

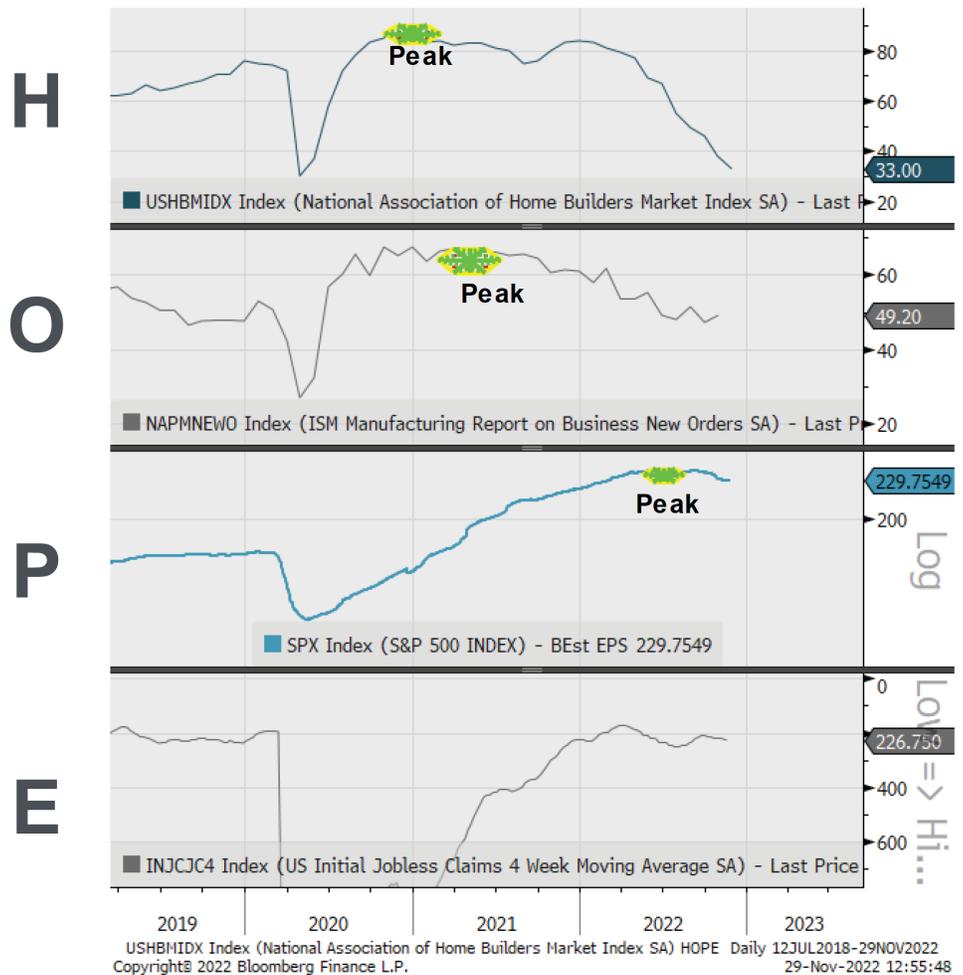
Piper Sandler	S&P 500				Change During Year			% Attribution	
	Year	Price	NTM EPS	P/E	Annual Return	Δ NTM EPS (%)	Δ P/E (pts)	EPS %	PE %
<b>S&amp;P 500</b>	<b>2022</b>	<b>4,036</b>	<b>\$ 227.25</b>	<b>17.8</b>	<b>(15.3%)</b>	<b>2.9%</b>	<b>-3.8</b>	<b>2.9%</b>	<b>(18.2%)</b>
Energy	2022	690	\$ 71.54	9.6	63.3%	84.6%	-1.3	84.6%	(21.3%)
Staples	2022	798	\$ 37.17	21.5	(0.8%)	1.1%	-0.4	1.1%	(1.9%)
Utilities	2022	356	\$ 19.01	18.7	(2.1%)	8.4%	-2.0	8.4%	(10.5%)
Health Care	2022	1,612	\$ 91.83	17.6	(1.9%)	(3.2%)	0.2	(3.2%)	1.3%
Industrials	2022	851	\$ 45.31	18.8	(4.9%)	5.0%	-1.9	5.0%	(9.9%)
Financials	2022	592	\$ 46.30	12.8	(8.9%)	4.7%	-1.9	4.7%	(13.6%)
Materials	2022	517	\$ 31.00	16.7	(9.2%)	(7.0%)	-0.4	(7.0%)	(2.1%)
Info Tech	2022	2,334	\$ 107.90	21.6	(23.6%)	(0.6%)	-6.5	(0.6%)	(23.0%)
Real Estate	2022	242	\$ 6.59	36.8	(25.4%)	8.2%	-16.6	11.8%	(48.0%)
Discretionary	2022	1,123	\$ 47.85	23.5	(30.3%)	(7.4%)	-7.7	(7.4%)	(22.9%)
Comm Svcs	2022	172	\$ 11.24	15.3	(35.8%)	(13.2%)	-5.4	(13.2%)	(22.5%)

Source: Piper Sandler, November 2022

<sup>1</sup>Source: Piper Sandler. Starlight Capital 2023 Global Market Outlook Call ft. Piper Sandler's Michael Kantrowitz.

## When will equity markets bottom?

Kantrowitz evaluates markets using a framework that focuses on Housing, Orders, Profits and Employment. Housing is the leading indicator for economic activity and the US housing market peaked in 2021 and has been declining since. The ISM Manufacturing New Orders Index peaked in late 2021 and continues to fall. Corporate earnings are currently under pressure from rising rates, rising commodity prices and wage inflation and analysts estimates will likely come down with fourth quarter results. Finally, while the overall labour market continues to be robust more companies are announcing layoffs.



Source: Piper Sandler, November 2022

## Where should investors allocate capital?

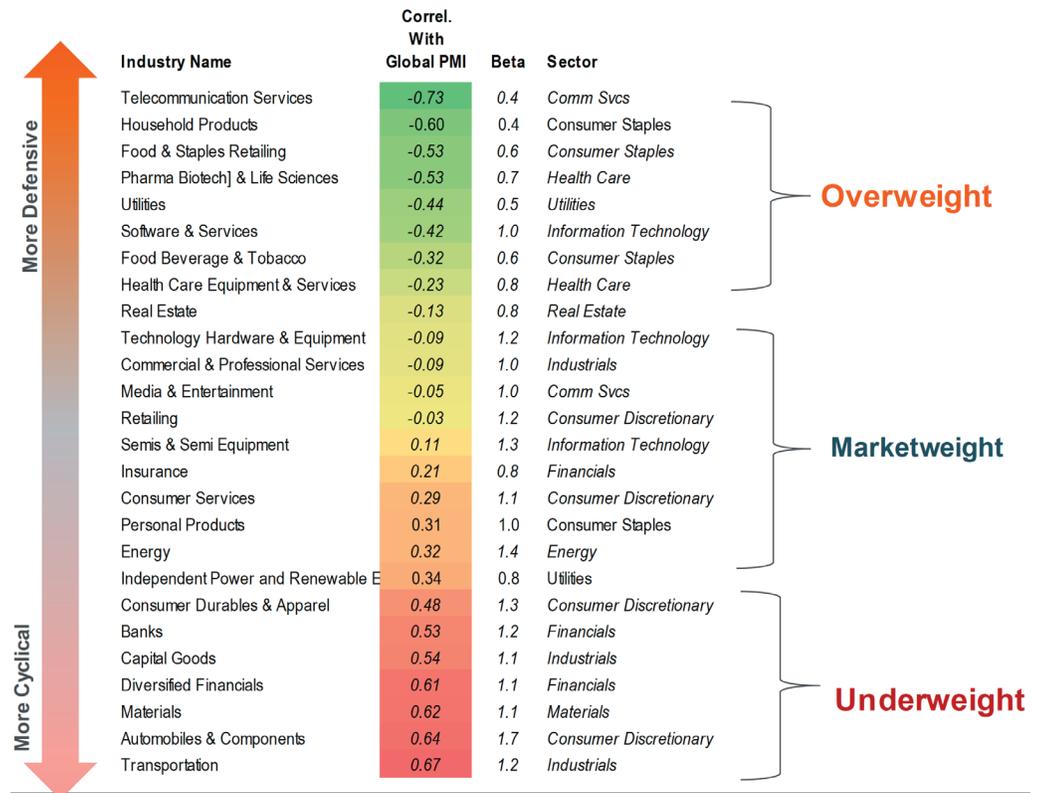
Rather than investing in growth or value, Kantrowitz pointed out that there are dominant factors that investors should look for in the companies they invest in. Investors should allocate capital to companies with strong profitability and earnings growth, strong balance sheets with high debt service coverage and consistent free cash flow generation.



Source: Piper Sandler, November 2022

Investors should favour high quality companies in industries with strong fundamentals. Given the expectation that markets will trough next year, it makes sense that investors should overweight low beta stocks to reduce overall portfolio volatility.

## INDUSTRY POSITIONING FOR CONTINUES WEAKNESS IN PMIS



Source: Piper Sandler, November 2022

## Starlight Capital Portfolios

In the second chart on page one, Kantowitz outlines the contribution to returns of multiples and earnings for the S&P 500 and each subsector in 2022. Returns in 2022 were primarily driven by multiples falling in response to interest rates rising. Of note is the fact that Utilities, Real Estate, Industrials and Financials generated strong EPS growth in 2022 and we expect this to continue in 2023. Starlight's portfolios are significantly exposed to these four subsectors and the table on this page demonstrates the strong underlying performance of our holdings.

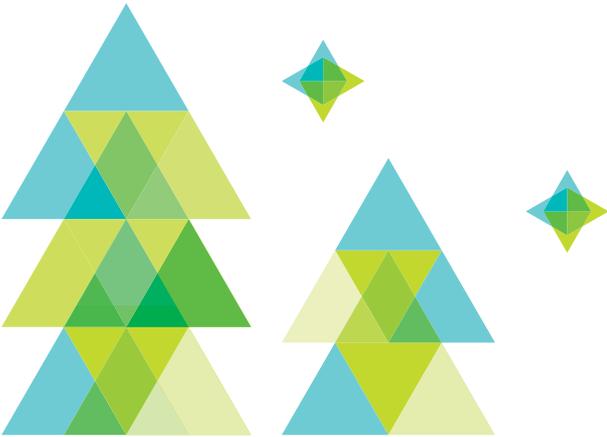
	Beta Vs SPX Index <sup>1</sup>	NTM EPS Growth <sup>2</sup>	# of Dividend Increases in 2022 <sup>3</sup>	Average Dividend Increase
<b>Starlight Global Real Estate Fund</b>	0.72	11.5%	26	19.3%
<b>FTSE EPRA NAREIT Developed Index (RUGL)</b>		7.2%		
<b>Starlight Global Infrastructure Fund</b>	0.59	16.7%	27	9.4%
<b>S&amp;P Global Infrastructure Index</b>		14.5%		
<b>Stone Global Growth Fund</b>	0.97	10.7%	40	23.9%
<b>Ishares MSCI World ETF (RUTH)</b>		9.3%		
<b>Stone Dividend Growth Fund</b>	0.65	10.5%	32	12.1%
<b>20% Standard &amp; Poor's 500 Index &amp; 80% S&amp;P/TSX Composite Index</b>		7.0%		

Source: Starlight Capital, Bloomberg LLP as of November 30, 2022

Notes: (1) Beta: 3 Year weekly. (2) NTM EPS Growth: Next 12 months Earnings per Share as of end of 11/30/2022, Vs. a year ago; For Starlight Global Real Estate Fund and FTSE EPRA NAREIT Developed Index, NTM EPS growth is represented by NTM FFO growth. NTM FFO Growth: Next 12 months funds from operations growth as of end of 11/30/2022. All Starlight and Stone funds are Series F. (3) Dividend Increase: 1 year as of 11/30/2022.

Starlight Capital continues to allocate capital to high quality business with strong track records of cash flow growth that supports consistent dividend growth. For investors looking to reduce the volatility of their portfolios while gaining exposure to concentrated portfolios of high-quality businesses with rising cash flows and dividends we invite you to partner with us.

Learn more at [starlightcapital.com](http://starlightcapital.com) or speak to our Sales Team.



Happy holidays to your family from ours!

**Starlight Capital**

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