



SECOR ASSET MANAGEMENT

Q4 2023 Equity Market Outlook

October 2023

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What Has Changed Through the Third Quarter?

	30-Jun-23	30-Sep-23	Change
MSCI World	10556.40	10289.64	-3%
S&P 500 Index	4450.38	4288.05	-4%
MSCI World P/E	17.5x	16.8x	-4%
S&P 500 2023 Est. EPS	0.5%	1.0%	0.5%
US 10 Yr Yield	3.84%	4.58%	+74 bps
High Yield Spread	475 bps	431 bps	-44 bps
US CPI YoY	4.0%	3.7%	-30 bps

Public Equity – Factors Driving Outlook Summary

Factors	Comments	Historical Range
Valuation	<ul style="list-style-type: none"> • Valuations improved modestly, remain above long-term averages; less so over shorter horizons. • Valuation multiples contracted after better-than-expected Q2 earnings and market pullback in Q3. • Rising bond yields have narrowed the relative attractiveness of stocks to average levels. 	
Fundamentals	<ul style="list-style-type: none"> • Muted earnings expectations for 2023; high expectations especially for Q4. • Earnings revisions have turned positive after strong Q1 and Q2 relative to expectations. • Companies have thus far proven resilient in passing on higher costs, maintaining profit margins in what were expected to be challenging times. 	
Technicals	<ul style="list-style-type: none"> • After improving with H1 rally, sentiment measures have become more neutral. Flows from stocks to bonds persist. • Past large drawdowns have often been followed by periods of above-average equity returns. • However, households still hold a relatively high percentage of their assets in stocks versus history (but off peak). 	
Macro Impact	<ul style="list-style-type: none"> • Earnings Yield advantage versus fixed income alternatives has converged to average. • Inflation data continues to be encouraging despite stronger than expected growth. • Recent banking turmoil appears to have been contained – but will there be casualties from recent swift rise in rates? • Geo-political tensions intensify. 	
<div style="display: flex; align-items: center;"> <div style="margin-right: 10px;"> ● Current Quarter X Last Quarter </div> <div style="flex-grow: 1; text-align: center;"> <h2>9 – 12 Month View</h2> </div> </div>		

Private Equity – Factors Driving Outlook – Summary

Factors	Comments	Historical Range
Valuation	<ul style="list-style-type: none"> • Median Buyout EV/EBITDA acquisition multiple in NA & Europe fell to 10.5x in H1 2023. • Share of debt in deals plummets from 51% in 2022 to just 43% in 1H 2023. 	
Fundamentals	<ul style="list-style-type: none"> • HY default rates have ticked up slightly but remain at low levels. Interest coverage remains high despite some recent weakness. HY Distress ratios have moderated in H1 2023 after picking up in 2022. • Rising financing costs should impact deal economics, dampen deal activity (9.5% average YTM on new-issue leverage loans backing LBOs vs ~5% in 2021). 	
Technicals	<ul style="list-style-type: none"> • PE deal activity and fundraising have been slightly off 2022's relatively brisk pace in H1 2023. • Exit activity trails 2022's weak pace despite strong public equity markets in H1 2023. • Exit-to-Investment ratio dropped to 0.32 as of mid-2023 (vs average of 0.51 over prior decade). 	
Macro Impact	<ul style="list-style-type: none"> • Increased probability of a "Higher for Longer" scenario would further pressure deal making, valuations and exits. • Reining in inflation with stronger-than-expected growth, however, has yet to derail PE. 	
<div style="display: flex; align-items: center;"> <div style="margin-right: 10px;"> ● Current Quarter X Last Quarter </div> <div style="text-align: center;"> <h2>9 – 12 Month View</h2> </div> </div>		

Equity Premia Performance & Valuation Summary*

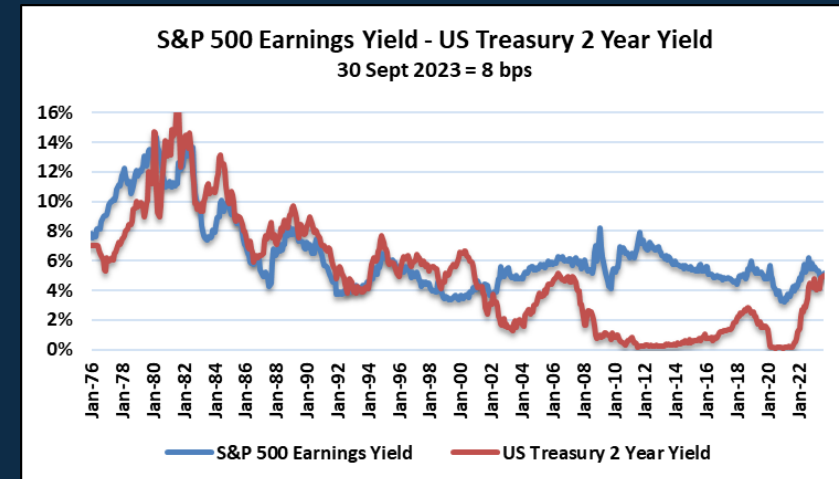
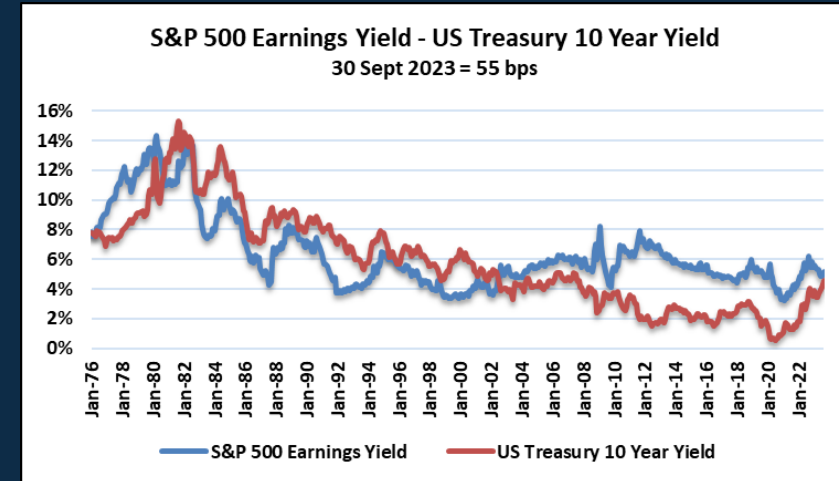
	Performance		Valuation (z-score)	
	Last 3 Mo.	TTM	Last 10 Yrs	Last 35 Yrs
Value	6.0%	1.1%	-0.5	-1.2
Size (Small)	-1.4%	-7.5%	-1.1	-1.4
Momentum	0.1%	-5.0%	0.1	0.2
Quality	0.7%	7.3%	0.6	1.1
Low Volatility	0.7%	-10.0%	0.5	1.3

■ Highlights

- A strong quarter for Value after poor performance in the first half of the year.
- Small caps continued their run of futility despite appearing cheap relative to history.
- High Momentum stocks were modestly positive in Q3 but negative for the year due to the changing market leadership.
- Low volatility stocks finally outperformed (modestly) in Q3 but have experienced poor performance over the last year.

US Equity versus Bonds

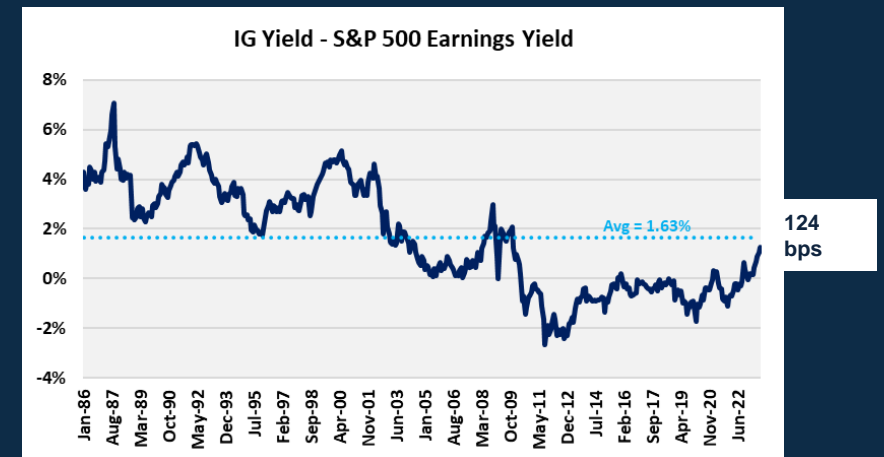
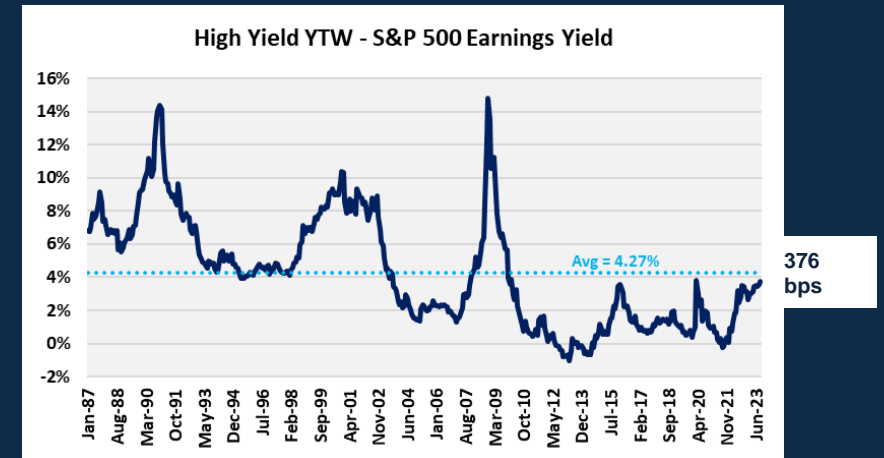
- The spread between the equity earnings yield and the US 10 Year yield has reverted to historical average.
 - The spread of 55 bps as of 30-Sep-2023 compares to an average of 53 bps from 1976.
 - The current spread is the lowest since 2004.
- And the spread between the equity yield and the yield on the US 2 Year Note have also converged with a spread of just 8 bps.



US Equity versus Credit

- **The spread between HY YTW and the US equity Earnings Yield continued to expand during the third quarter and has closed to within 51bps of long-term average.**
 - The spread between High Yield YTW (8.89%) and the S&P 500 Earnings Yield (5.13%) stood at 376 bps at 30-Sep-2023, slightly below the average of 427 bps since 1987 (48th percentile).

- **The spread between IG Yield and the equity Earnings Yield has also continued to normalize to within 39 bps of long-term average.**
 - The spread between the IG Yield (6.37%) and the S&P 500 Earnings Yield (5.13%) stood at 124 bps at 31-Sep-2023, below the average of 163 bps since 1986 (and 47th percentile).



Trade Idea #1 – Long MSCI ACWI ex China/Short MSCI China

- Even before the recent weakness, China was an underperformer despite embracing free market principles for the internet/ technology sector. And despite the recent sharp drop in prices and regulatory crackdown, Chinese stocks' discount relative to the ROW is marginal.



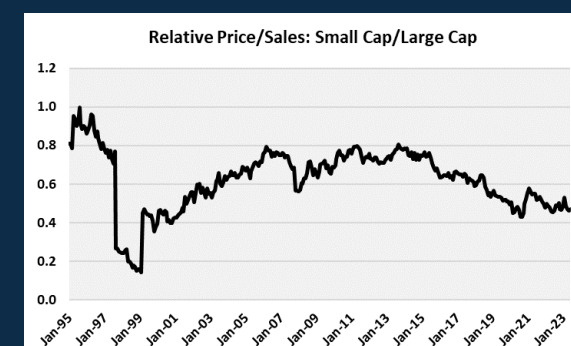
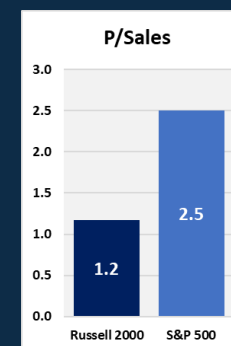
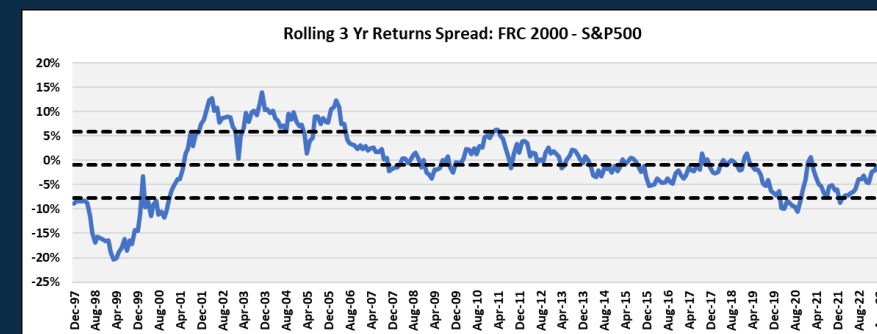
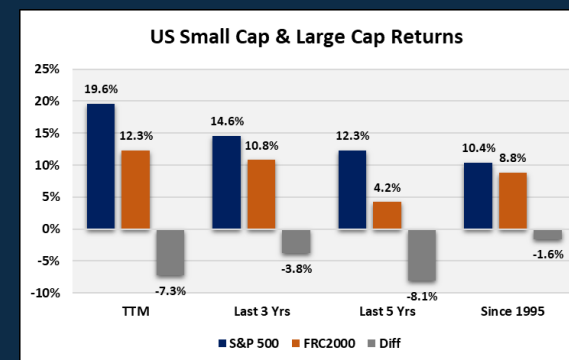
- China previously intervened in market-leading sectors - Telecoms in 2001 and Financials in 2011 – both subsequently experienced decreases in profitability, increased costs through government –directed socially responsible investments, long-term earnings growth declines, multiple contraction and poor returns. (App. Page 25)
- Difficult to forecast when the crackdown will end. State-owned newspaper reports last week applied pressure to online gaming (Tencent) and delivery company Meituan was handed a \$1.0B fine for abusing its market-leading position.
 - Political motivations suggest that it may continue for some time as President Xi positions himself before the end of his second term in 2022.

- MSCI China outperformed ROW by 0.6% in Q3 2023.

ITD (30 Jul 2021) Performance:
+35%

Trade Idea #2 – Long US Large Caps/Short US Small Caps

- **Small Cap stocks have consistently trailed Large Caps over the last 25+ years.**
 - The recent underperformance, though sizable, is not extreme. Over the last 3 years, the Russell 2000 has underperformed the S&P 500 by 3.8%/yr. (73rd percentile since 1995).
 - No evidence of small cap effect over this period as large caps have topped small caps by 1.6%/yr.
 - Large Caps also enjoy strong momentum vs small caps, with the last one-year outperformance of 7.3% ranking in the 73rd percentile.
- **Small Caps current discount to Large Caps on a Price/Sales basis has only been exceeded during the peak of the TMT bubble.**
 - Large Caps do trade at a large premium to Small Caps on Price/Sales (84th percentile).

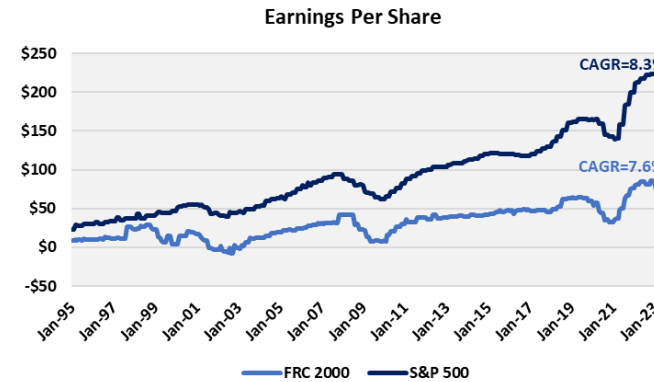


Sources: Standard & Poor's, FTSE Russell, Bloomberg, SECOR.

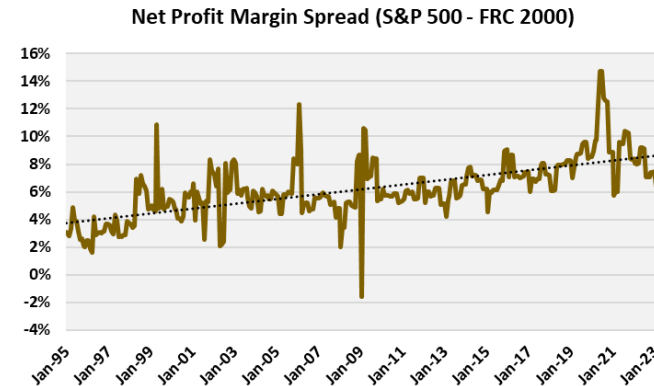
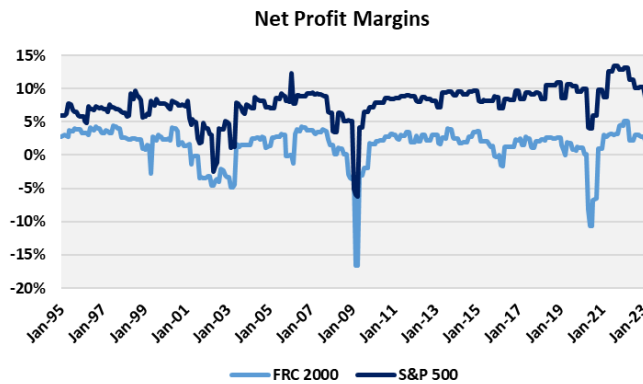
Data as of 30-Jun-2023

Trade Idea #2 – Long US Large Caps/Short US Small Caps

- Small Cap earnings growth has trailed that of Large Caps.
 - The difference has widened over the last ten years with Large Caps growing earnings at 7.5%/yr. versus 6.2%/yr. for Small Caps.
 - Small Cap earnings have also been more volatile than those of Large Caps.



- Small cap earnings growth has lagged because their profit margins have remained flat at ~2%-3% while those of large caps have steadily expanded from ~6% to ~11%.
 - The spread in profit margins has nearly tripled from 3.1% in 1995 to 8.9% today (SPX=10.9%, RTY=2.0%).
 - Small cap profit margins did not exceed 5% at any time since 1995.



▪ S&P 500 outperformed RTY by 1.9% in Q3 2023

ITD (29 Apr 2022) Performance:
+8%

Trade Idea #3 – Long Oil/Short Energy Stocks

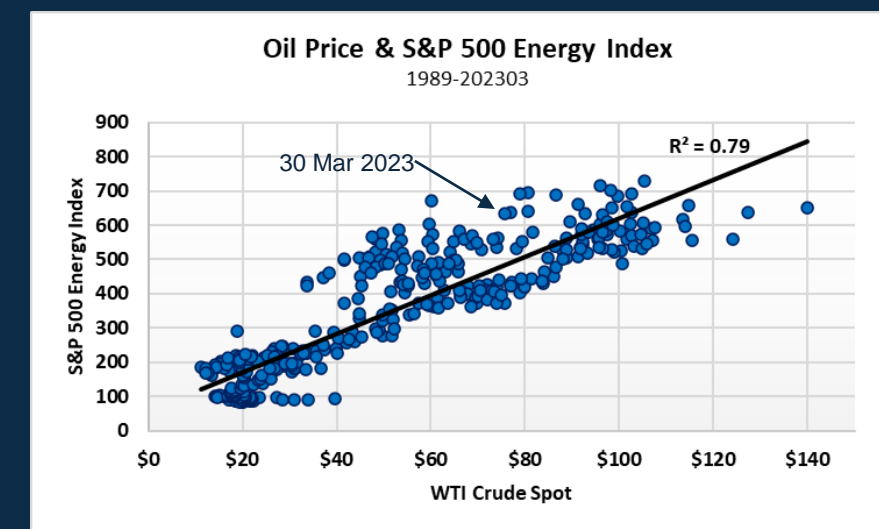
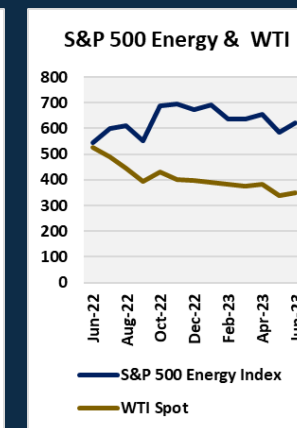
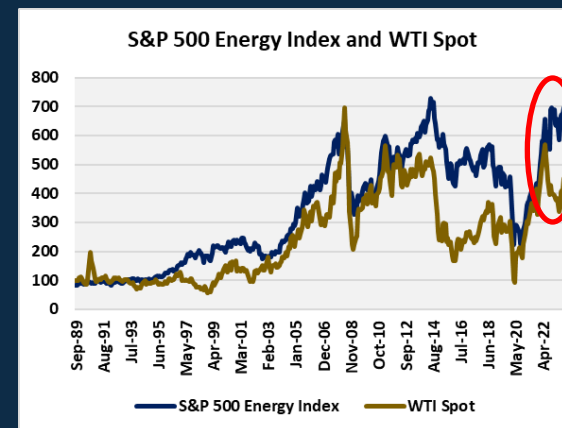
- Energy stock prices decoupled from the price of oil in mid-2022.

- The S&P 500 Energy Index was up 14% from 30 June 2022 thru 30 June 2023 while the price of crude fell by 33%.
- Q3 saw some convergence as the Energy index was flat while the price of crude rose 12%.

- There has been a very tight relationship historically between the price of oil and the price of oil stocks.

- Crude oil outperformed the S&P 500 Energy index by 17% in Q3 2023.

- ITD Performance 23 Jan 2023 – 30 Sep 2023: +12%



Trade Ideas: Performance

Open Trade Ideas

As of Date **30-Sep-23**

Trade Idea	Implementation	QTD	YTD	Since Inception	Inception date
Long ACWI ex China/Short China	Futures/Swaps	-1%	18%	35%	30-Jul-21
Long US Large Cap/Short US Small Cap	Futures/Swaps	2%	11%	8%	29-Apr-22
Long Oil/Short S&P 500 Energy	Futures/Swaps	17%	NA	12%	23-Jan-23

Closed Trade Ideas

Trade Idea	Implementation	Return	Trade Dates
Long US Equity/Short US HY	Futures/Swaps	2%	8/18/22 - 6/30/2023
Long US Equity/Short US IG	Futures/Swaps	5%	8/18/22 - 6/30/2023
Long S&P 500 2024 Dividends	Futures/Swaps	10%	8/18/22 - 6/30/2023
Long Japan Value/Short Japan Growth	Futures/Swaps	12%	./20/2022 - 1/23/2023
Long EM Value/Short EM Growth	Futures/Swaps	5%	./20/2022 - 1/23/2023

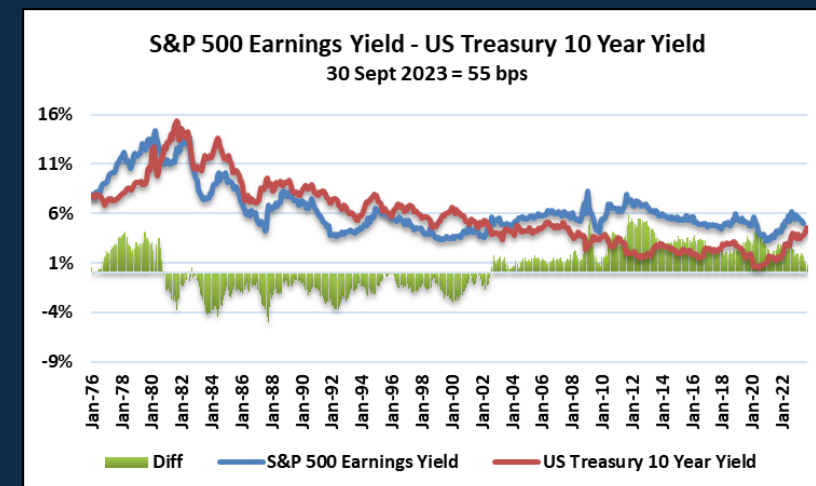
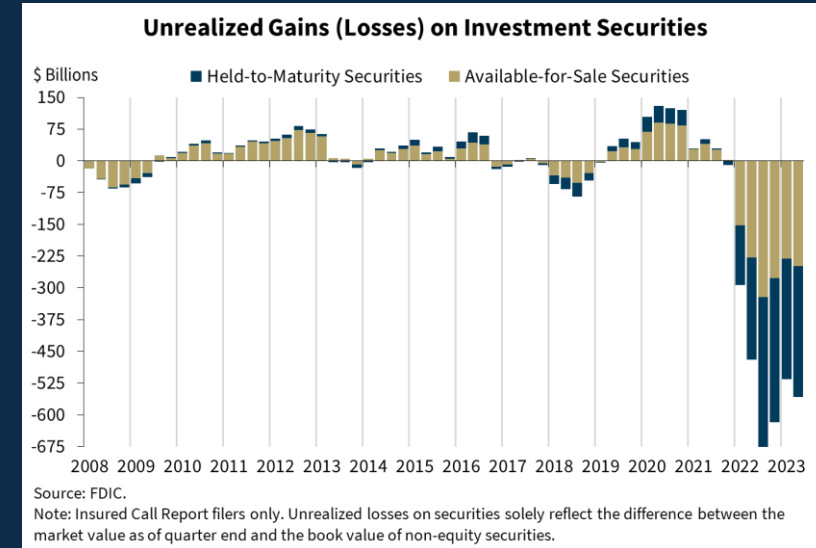
3 Catalysts That Could Change Your View & Recommendation

- Recommendation: Neutral Weight Equity

- 3 Catalysts That Could Change Your View

1. Losses on securities portfolios from the recent bond market rout trigger another wave of bank failures that is less easily contained than the episode earlier this year.
2. The attractiveness of equities relative to other assets changes.
 - After narrowing recently, the spread between the earnings yield and yields on bonds and credit have reverted close to long-term average.
3. The DOJ/FTC are successful in reining in/breaking up the big Tech companies that have been the engine of profit growth in the US.

Sources: FDIC, Standard & Poor's, Bloomberg, SECOR.

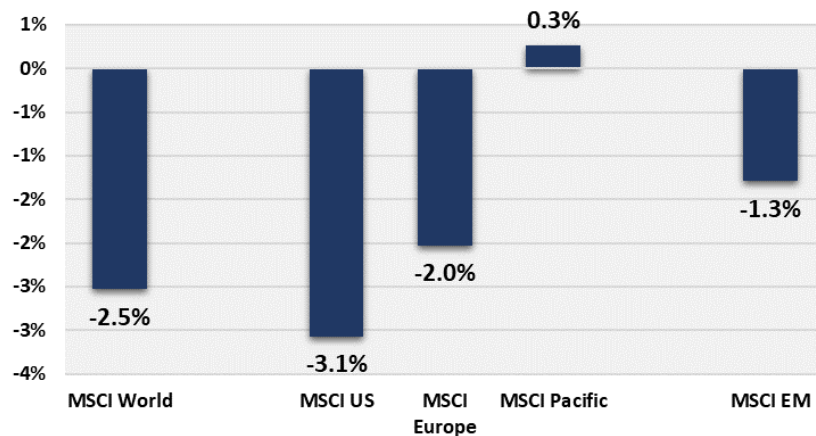


Appendix

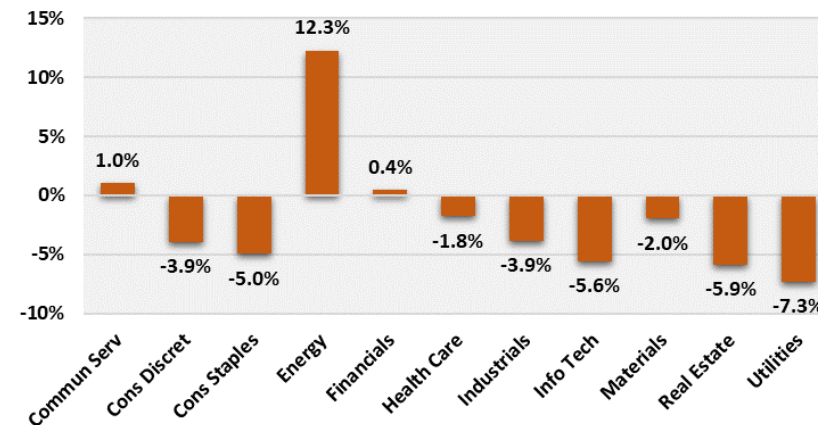


Appendix 1 – Equity Market Returns

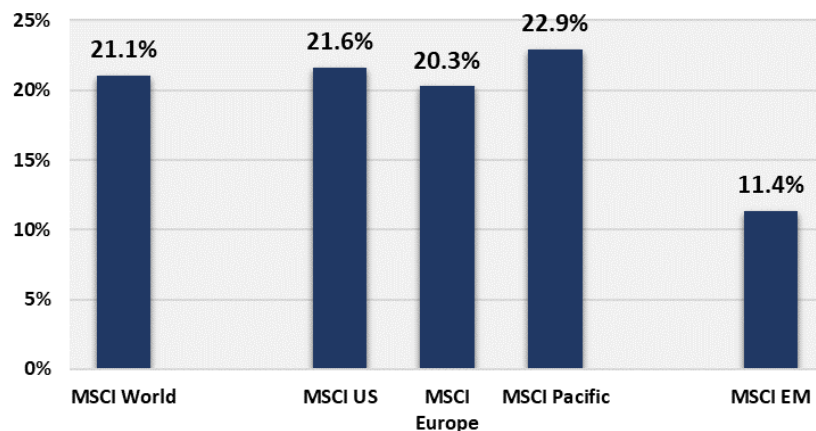
Last 3 Months Returns thru 30 Sept 2023 (Local)



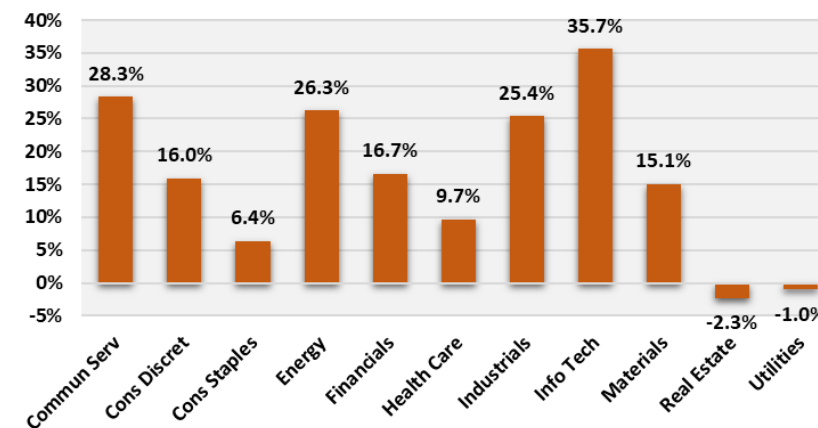
Last 3 Months Returns thru 30 Sept 2023 (ACWI, Local)



TTM Returns thru 30 Sept 2023 (Local)



TTM Returns thru 30 Sept 2023 (ACWI, Local)



Appendix 2a – 5 Factors Driving the Outlook for Equities

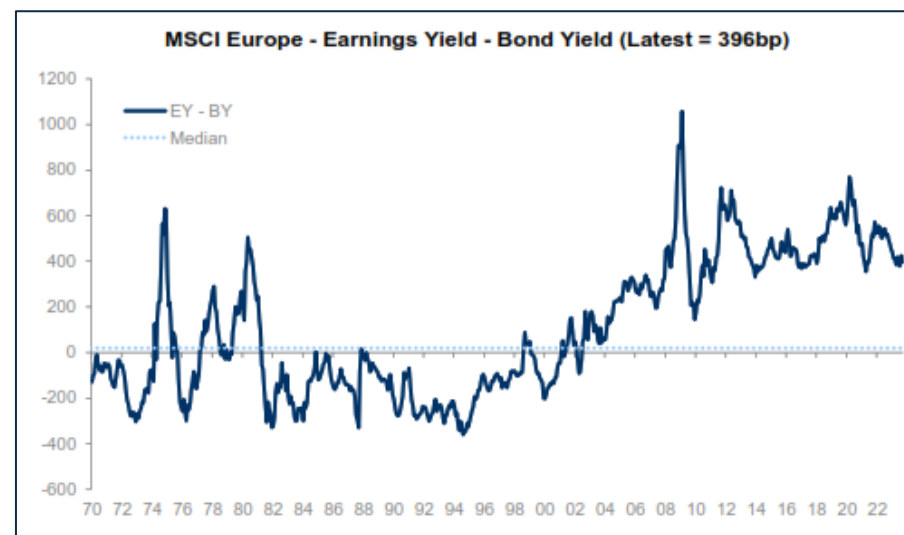
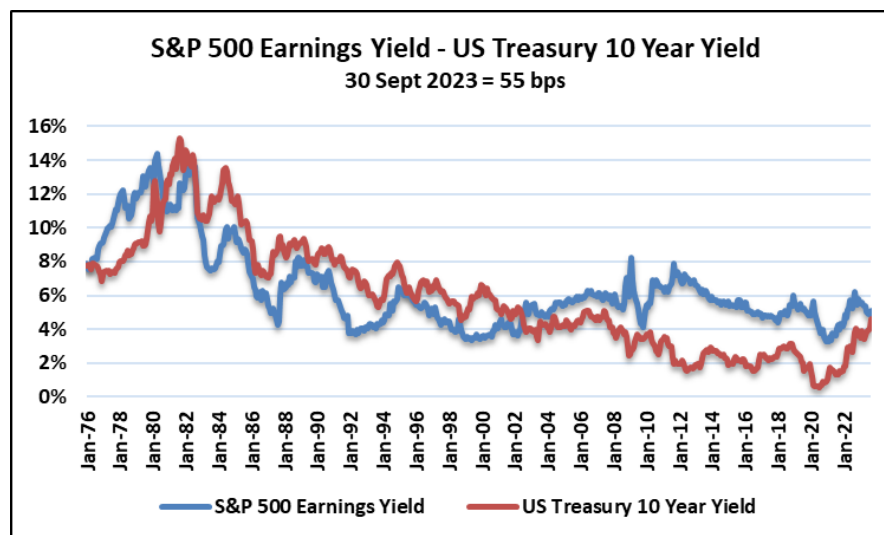
- **Valuation** – Global equity valuations moderated slightly in Q3 but remain high by historical standards, particularly in the US. (Appendix 1-8)
 - Valuation measures in the US well above long-term median.
 - US Shiller P/E at 29.6x at end of June (91st percentile since 1926), down from 30.1x at end Q2.
 - Valuations are less extreme in Europe where the Shiller P/E is at 17.3x (52nd percentile since 1980);
 - Emerging Markets relative valuation versus Developed Markets are near average levels, as are current valuations relative to their own history.
 - Median Buyout EV/EBITDA acquisition multiple in North America & Europe eased slightly in the first half to 10.5x, share of debt in deals continues to fall.

- **Fundamentals** – Earnings growth continues to moderate after post-COVID spike. (App. 9-12)
 - Earnings are expected to grow 1% in US in 2023 and 11% in 2024 after growing by 4% in 2022.
 - Earnings growth in Europe and Japan expected to grow by 1% and 13% , respectively, in 2023.
 - Emerging Markets EPS expected to fall by 5% in 2023.
 - Estimate revisions have turned positive across all regions after Q1 and Q2 earnings comfortably exceeded expectations.
 - Buyouts have yet to show signs of stress from higher funding costs (9.5% average YTM on new-issue leverage loans backing LBOs vs ~5% in 2021) as default rates remain low for HY borrowers; interest coverage and net margins remain high but have slipped recently.

Appendix 2b – 5 Factors Driving the Outlook for Equities

■ Macro Environment – Higher for Longer?

- Global growth has proven resilient, defying pessimistic outlook, recession in US.
- Strength in the economy has forced market to re-think size/pace of rate cuts.
- The spread between earnings yields and bond yields in the US have reverted to average (since 1976) at 55 bps in the US. This compares to 193 bps at YE2022.
- Earnings yield spread in Europe remains wide by historical standards at 396 bps but has also narrowed recently.

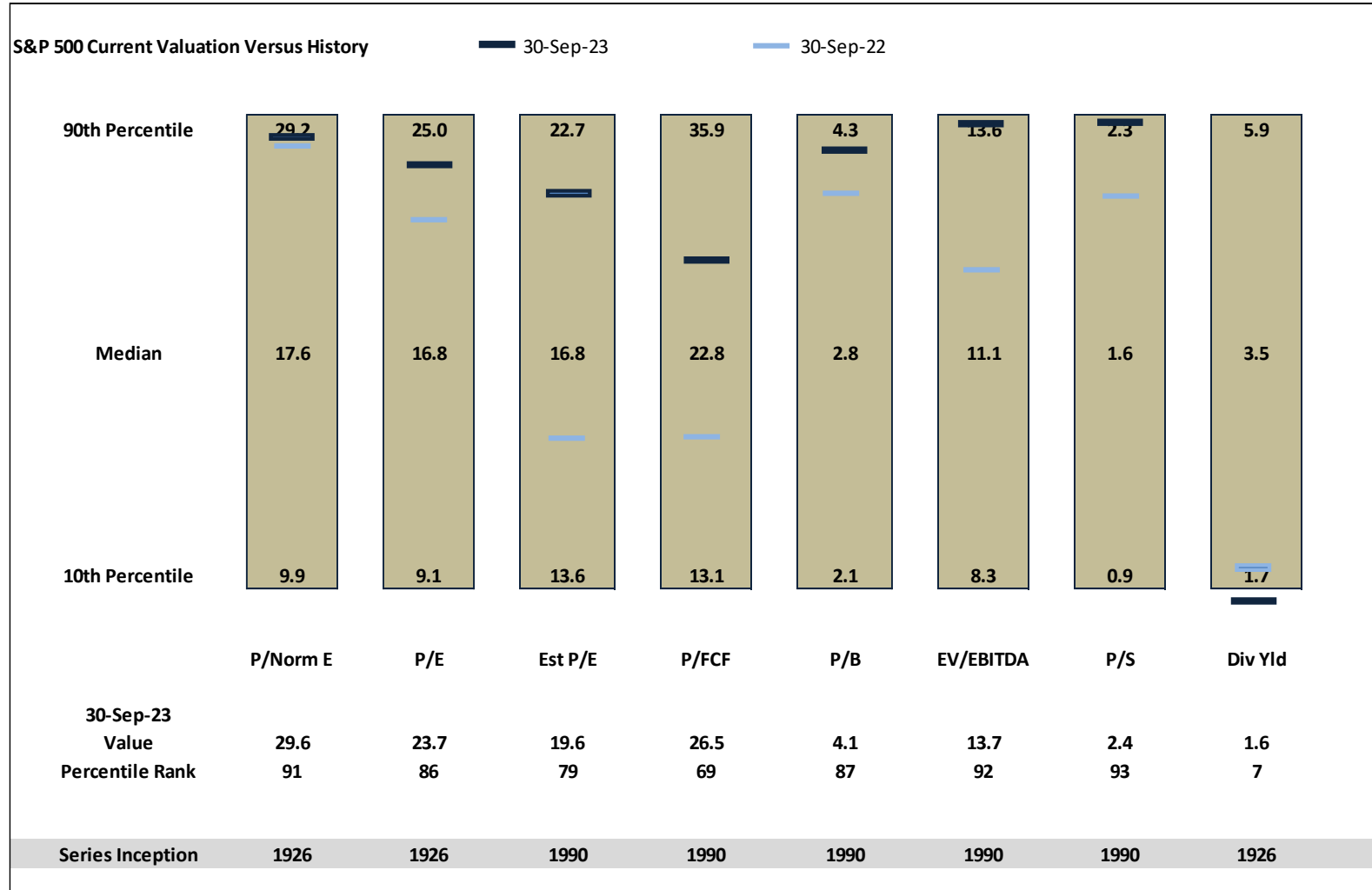


Appendix 2c – 5 Factors Driving the Outlook for Equities

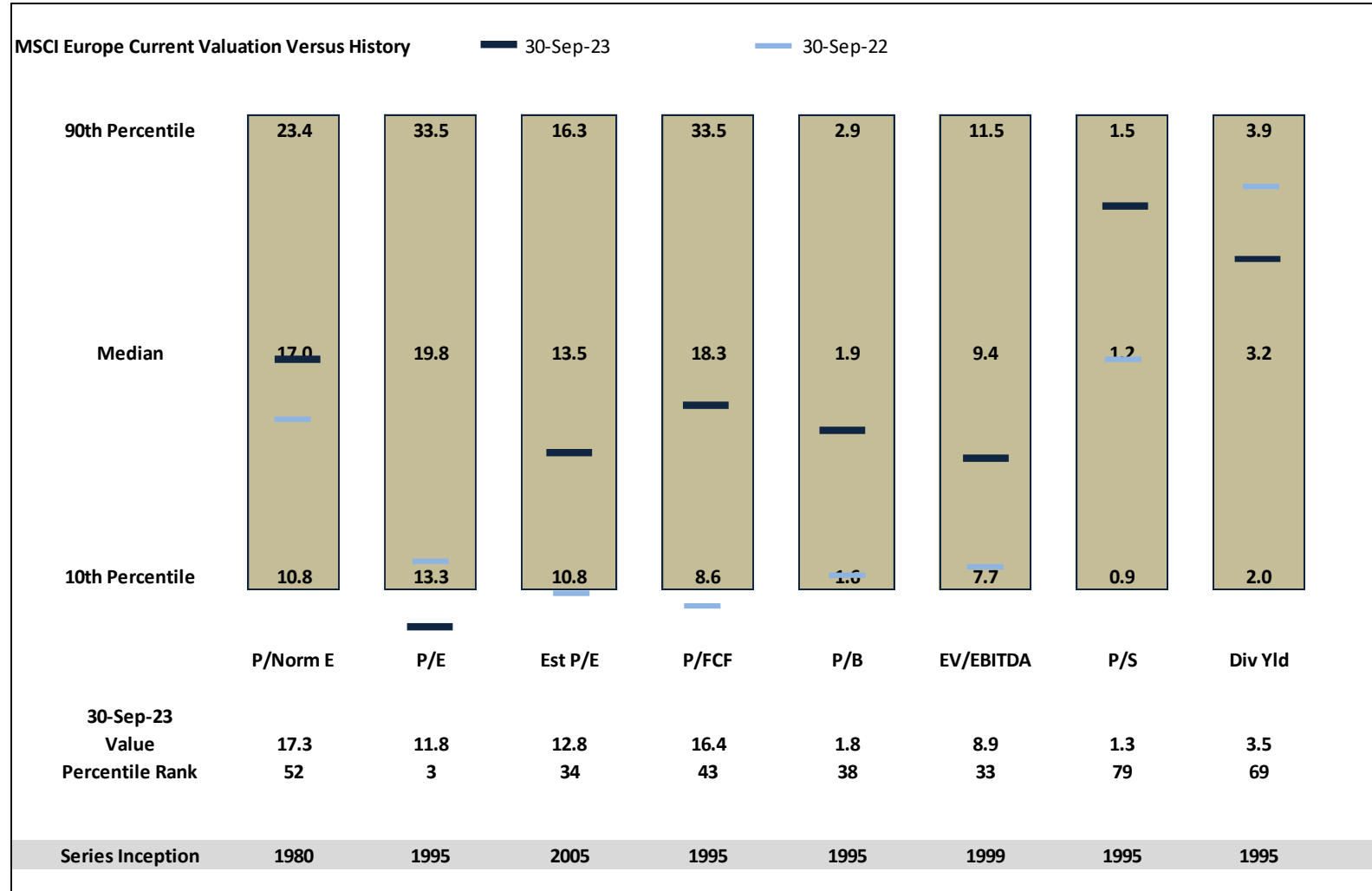
- **Technicals** – Sentiment slipping after first half optimism. (Appendix 13-18)
 - Outflows from equity to fixed income continue. (Appendix 13)
 - Stocks have tended to rebound following big down years such as 2022, current instance has been the weakest 1 year bounce from trough. (Appendix 14)
 - Retail investor sentiment has moved from optimistic to neutral across a number of measures. (Appendix 15,16)
 - Household Equity Assets as a percentage of Total Financial Assets remains high versus history. (Appendix 17)
 - PE deal activity trails the pace of 2021 and 2022 through the first half with fundraising slightly off last year's pace. Exit activity trails even 2021's anemic level despite a healthy public market in the first half. (Appendix 18)

- **Politics** – Geopolitical risk remains center stage as Middle East violence erupts.
 - No end in sight for war in Ukraine, China-US tensions for the foreseeable future, Israel again a hot spot.
 - Posturing for 2024 presidential election in the US has begun.

Appendix 3

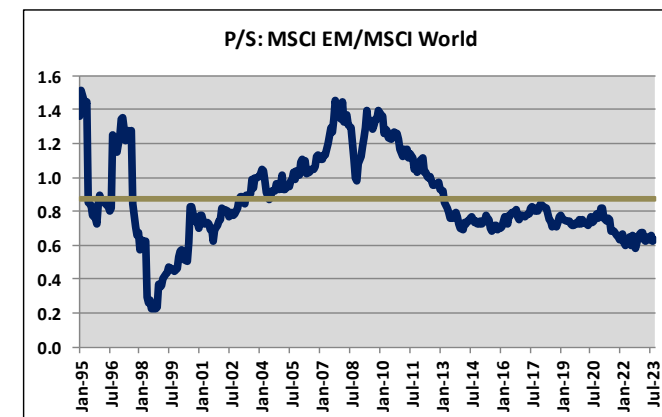
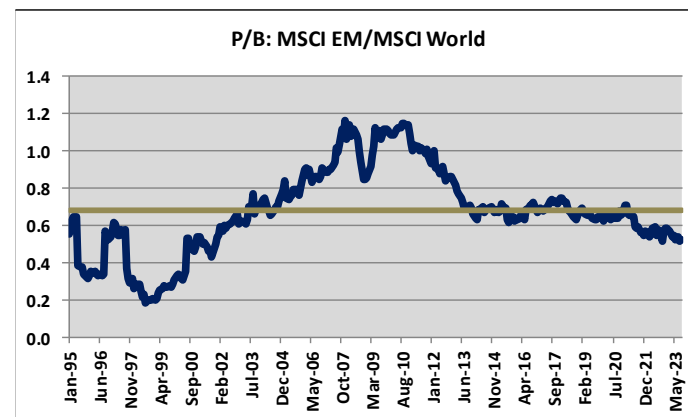
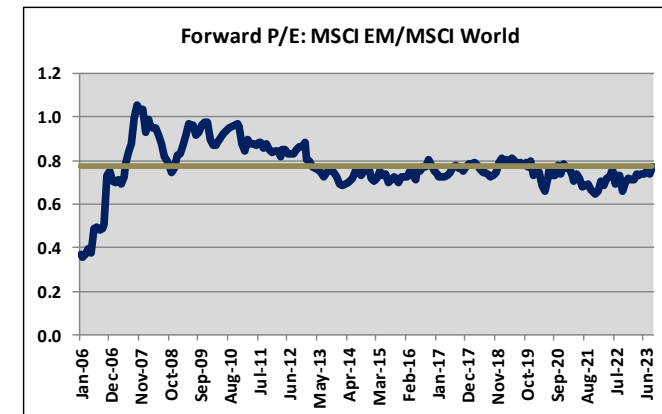
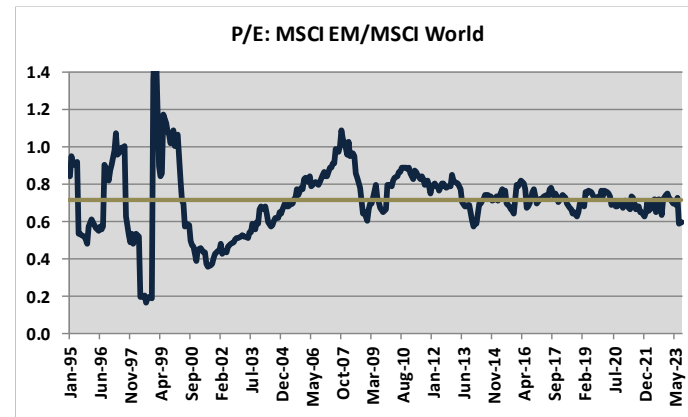


Appendix 4 – Europe Valuation



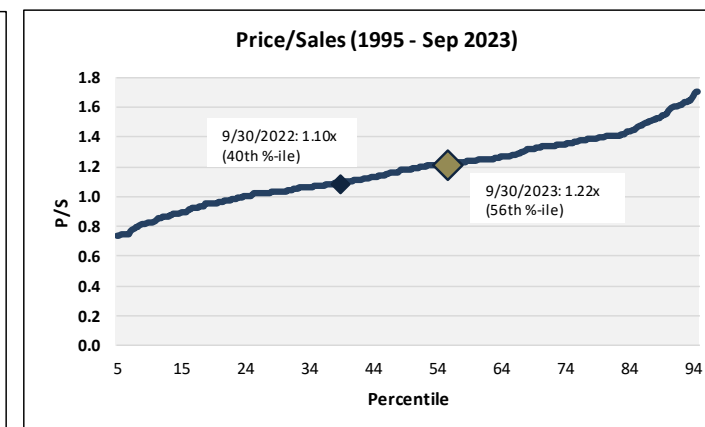
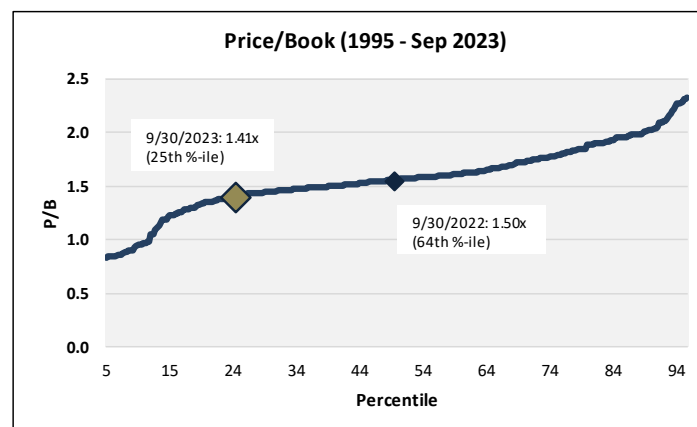
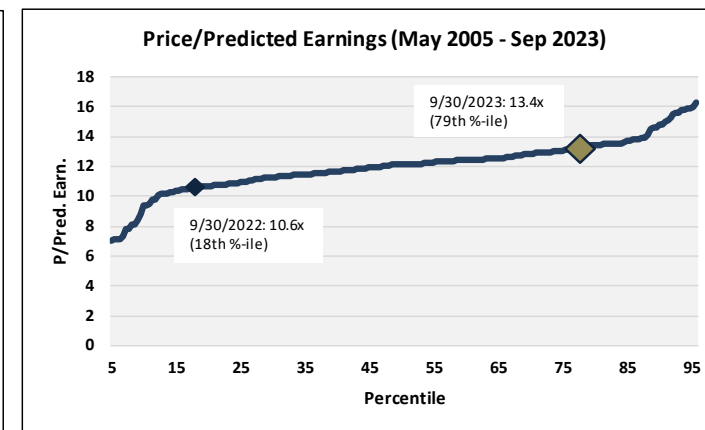
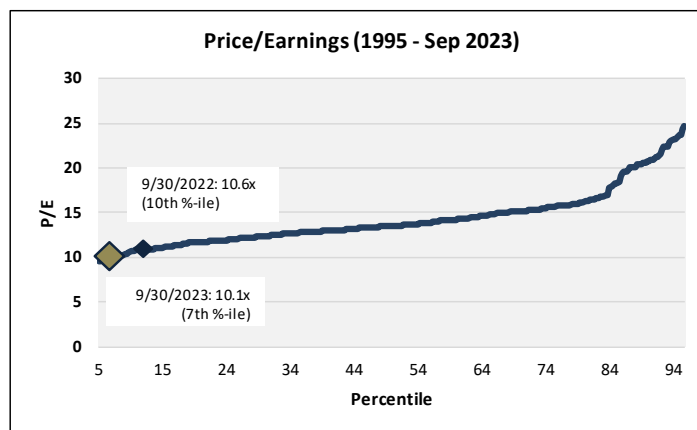
- Despite their underperformance, Emerging Markets valuations are only slightly inexpensive relative Developed Markets.

Appendix 2c – 5
Factors Driving the
Outlook for Equities



- Emerging Market equity valuations have become more compelling versus their own history, however.

Appendix 6 – Emerging Market Valuations



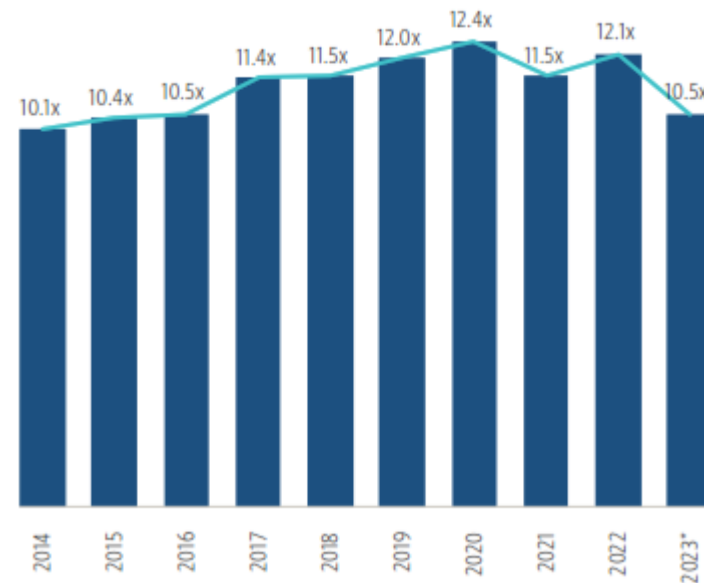
Appendix 7 – Global Equity Valuation

Index	Level	1yr Range	Forward		Trailing			Composite Value		
			Fwd P/E	20y Z-Score	P/B	20y Z-Score	Div Yield	20y Z-Score	vs. ACWI	20yr Range
MSCI ACWI	657		15.8		2.6		2.2		n/a	n/a
S&P 500	4,288		18.3		4.1		1.6		136%	
MSCI Europe	1,821		12.2		1.9		3.3		75%	
FTSE 100	7,608		10.4		1.7		4.0		66%	
TOPIX	2,323		14.1		1.3		2.2		70%	
Hang Seng	17,810		8.7		1.0		4.0		46%	
MSCI Australia	1,405		15.3		2.1		4.4		89%	
MSCI EM	953		11.8		1.6		3.1		67%	
Brazil	1,555		7.6		1.5		8.6		53%	
China	59		10.0		1.3		2.6		56%	
India	2,224		20.6		3.7		1.2		135%	
Korea	759		11.9		1.0		2.1		56%	
US Growth	9,314		26.2		8.9		0.5		253%	
US Value	3,121		14.1		2.6		2.8		93%	
EU Growth	177		19.4		4.2		1.9		141%	
EU Value	120		8.8		1.2		4.7		51%	
US Large Cap	2,876		19.1		4.4		1.5		145%	
US Small Cap	1,151		15.5		1.7		2.2		81%	

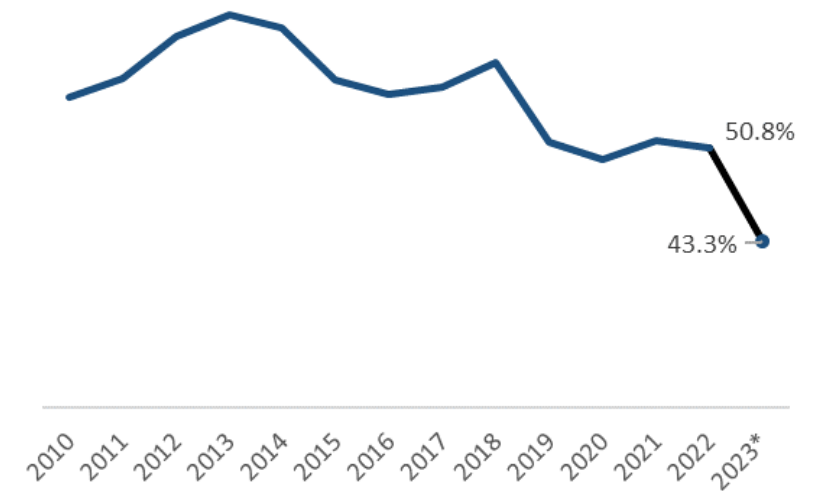
- The median Buyout EV/EBITDA multiple in North America & Europe has moderated in 2023 to 10.5x and the median debt level has declined to its lowest level in recent history.

Appendix 8 – Buyout Deal Multiples

Median PE EV/EBITDA multiples

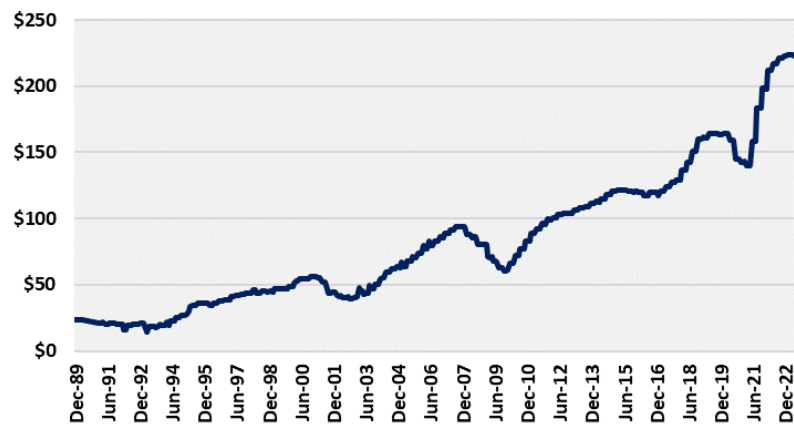


Debt Percent

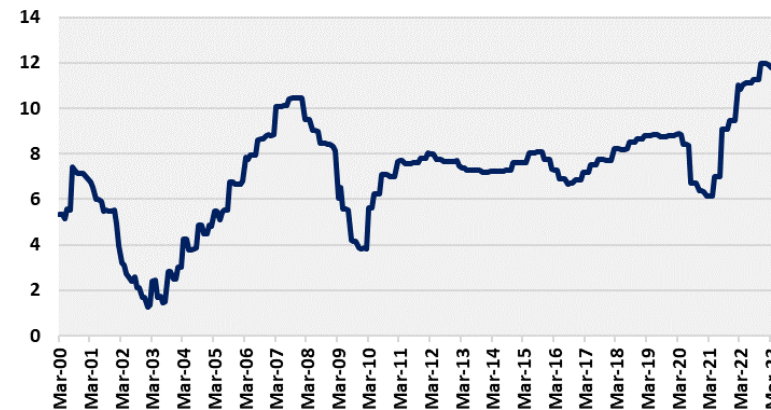


Appendix 9 – US & Europe Earnings

S&P 500 EPS

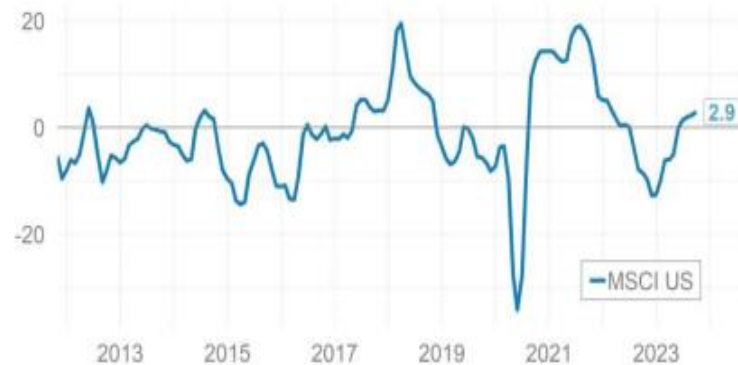


MSCI Europe EPS



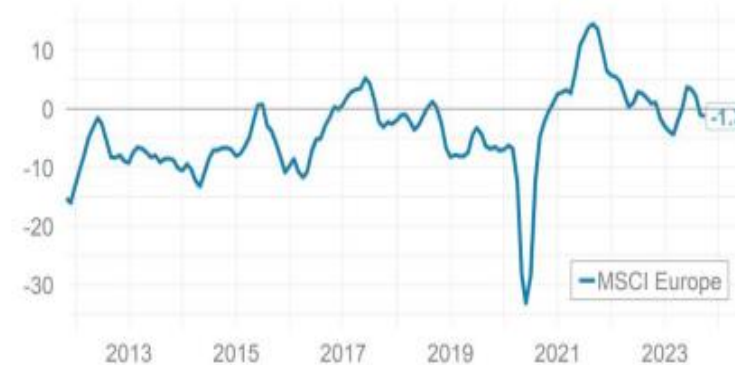
US

N12M Earnings Revision Ratio, 3mma (%)



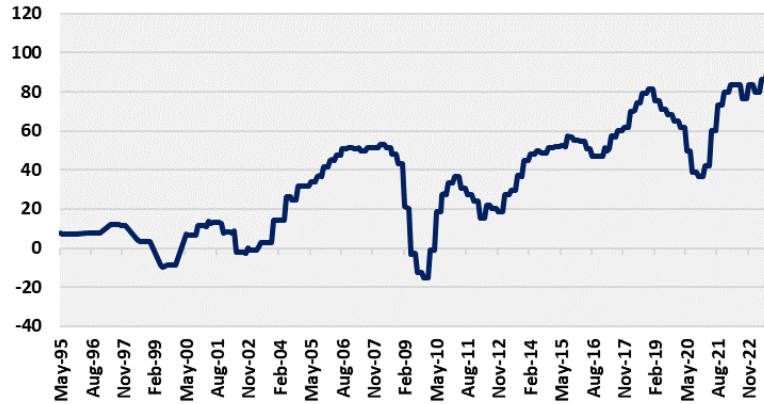
Europe

N12M Earnings Revision Ratio, 3mma (%)

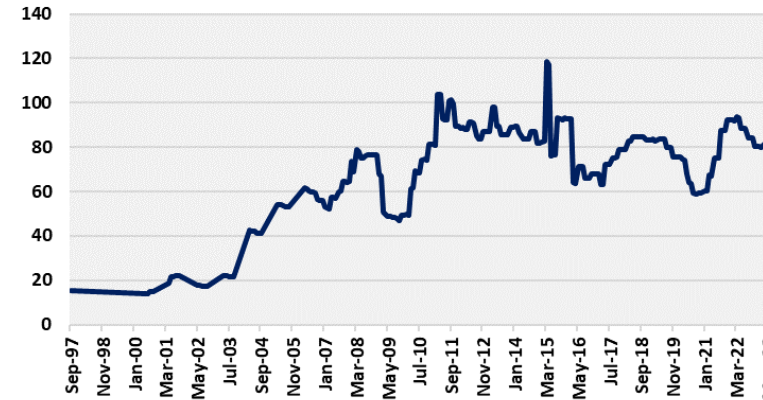


Appendix 10 – Japan & EM Earnings

MSCI Japan EPS

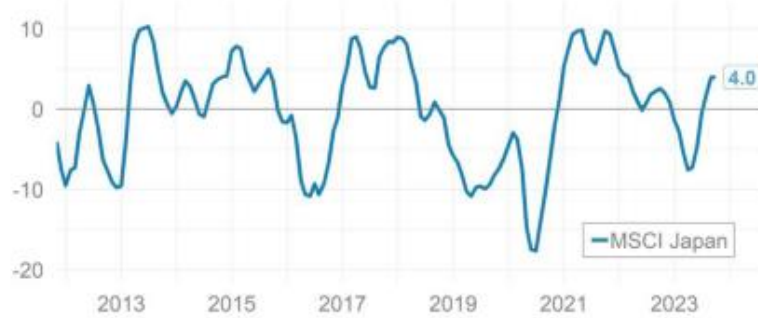


MSCI EM EPS



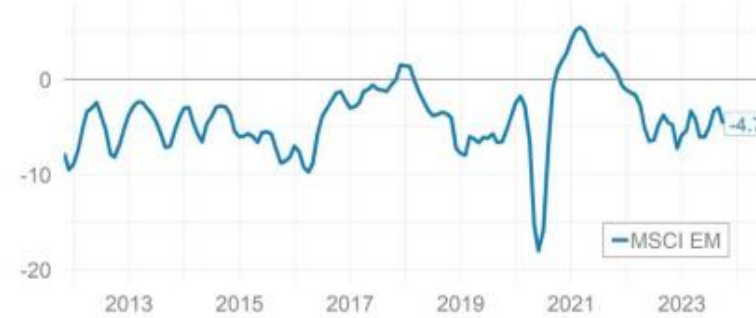
Japan

N12M Earnings Revision Ratio, 3mma (%)

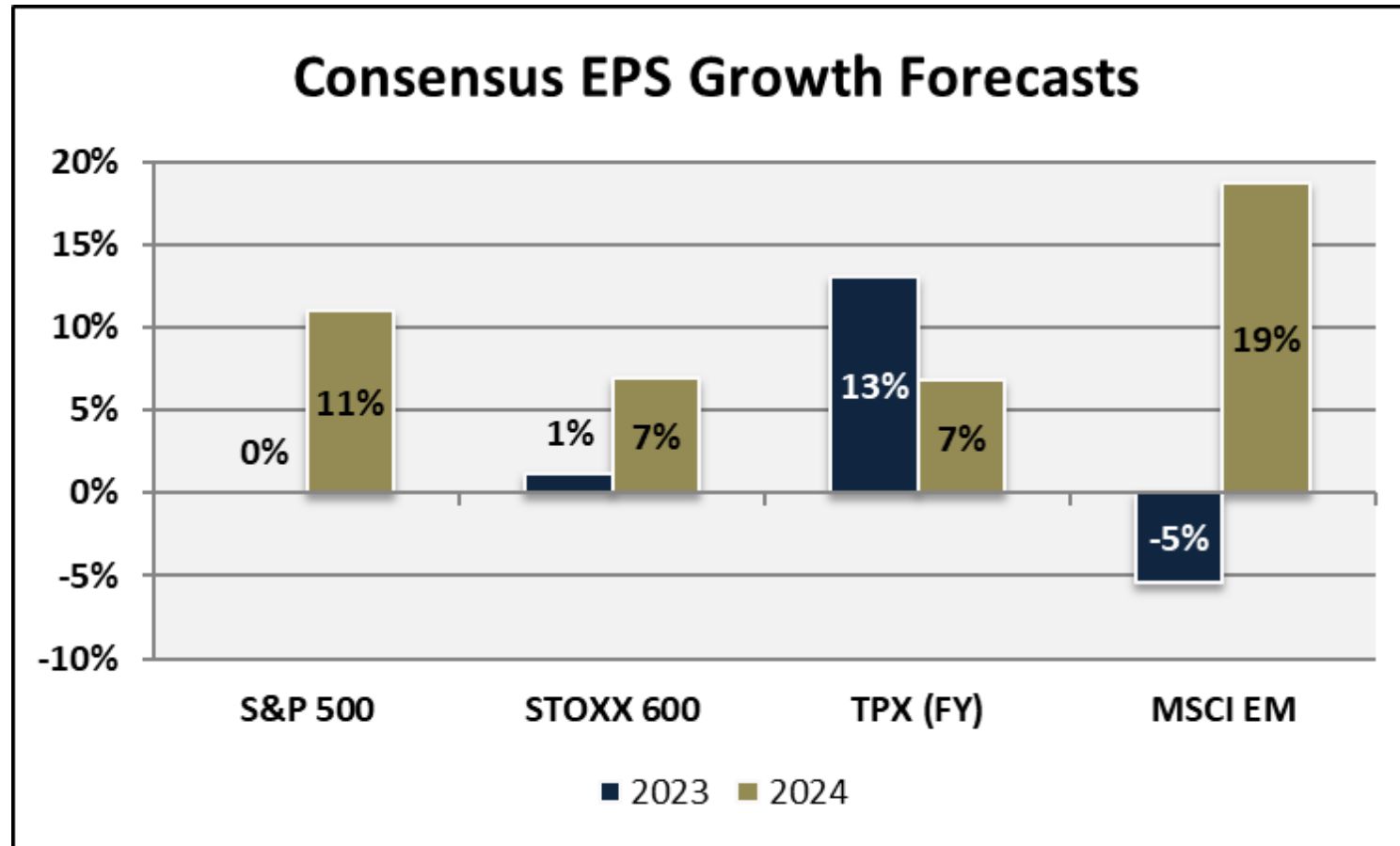


EM

N12M Earnings Revision Ratio, 3mma (%)



Appendix 11 – Earnings Forecasts

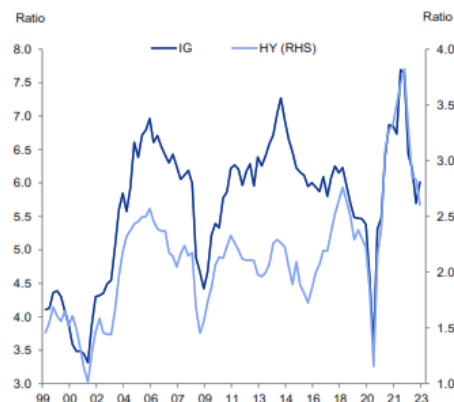


Appendix 12 – Private Equity Fundamentals

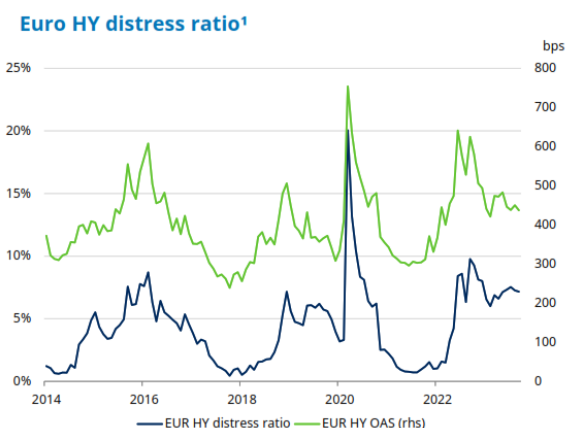
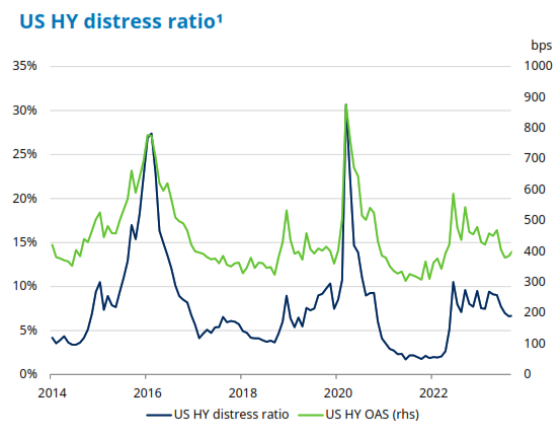
- HY default rates remain very high; interest coverage has worsened recently but is still favorable relative to recent history.



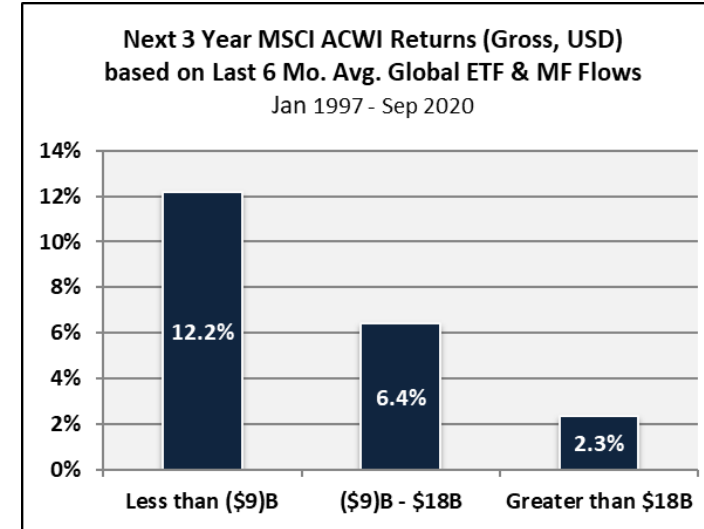
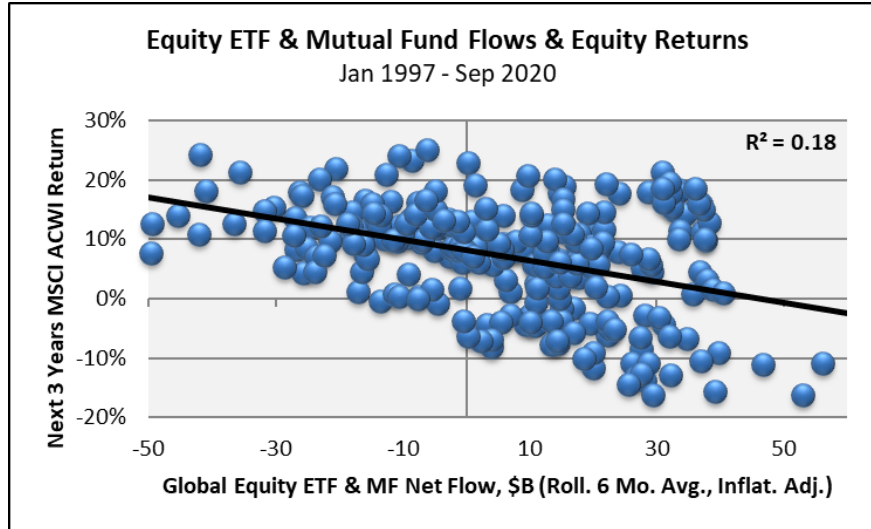
Exhibit 96: Interest coverage ratios for the median US IG and HY-rated non-financial corporations



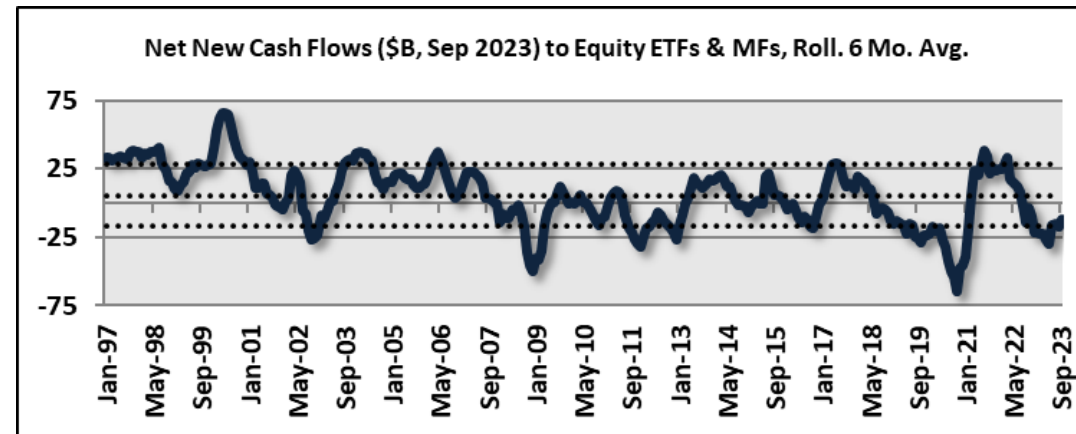
- HY distress ratios picked up in mid-2022 but have since levelled off.



Appendix 13 – Technicals: Flows



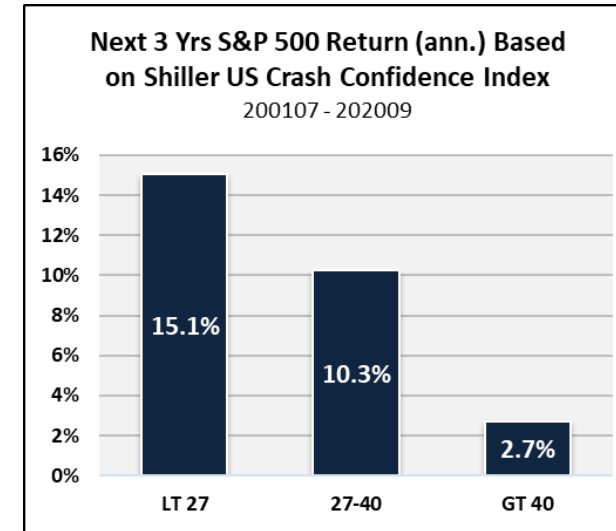
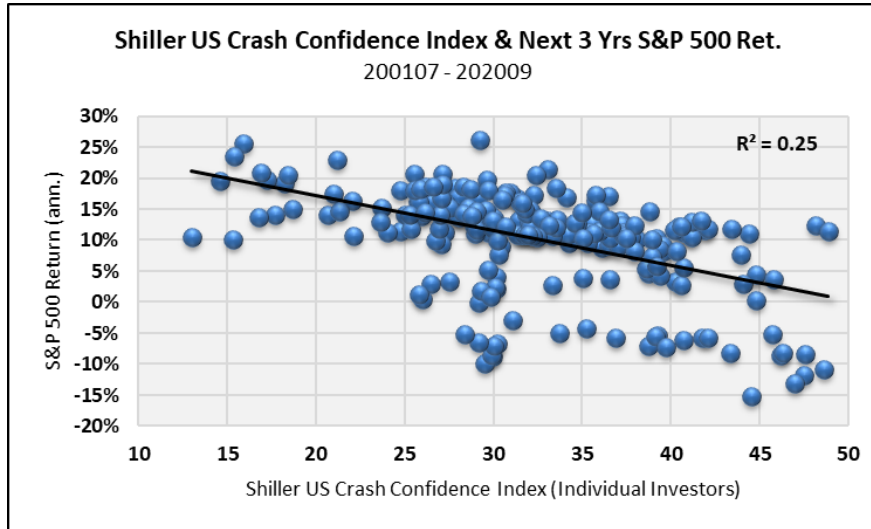
Est. Sept 2023 Avg. Flow = -\$13.0B



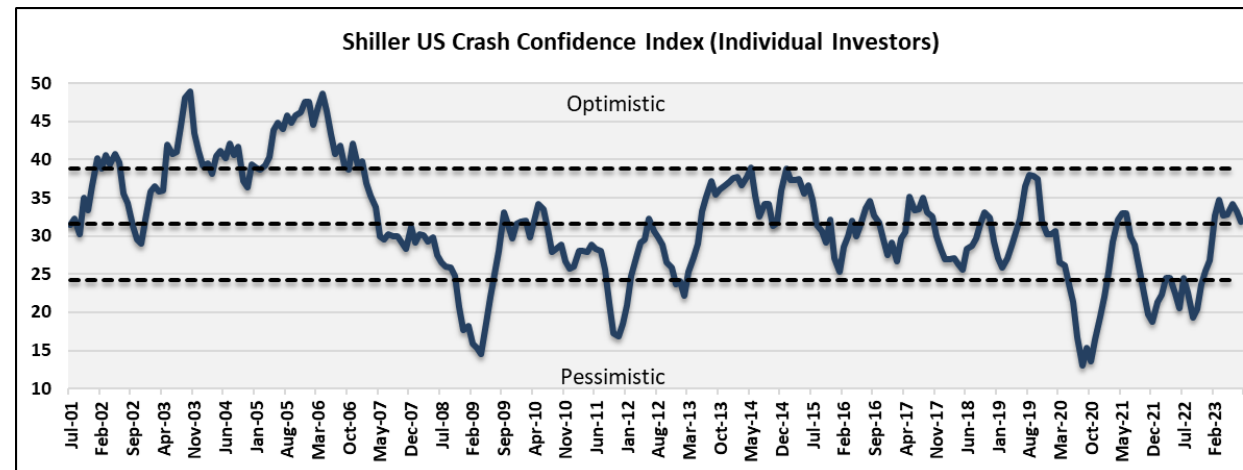
Appendix 14 – Technicals: Post-Bear Market Performance

Peak	Trough	S&P 500	Price Return (ann.)			
		% Decline	+1 Year	+3 Years	+5 Years	+10 Years
12-Dec-61	26-Jun-62	-28.0%	32.7%	16.7%	12.0%	7.5%
29-Nov-68	26-May-70	-36.1%	43.8%	15.9%	5.5%	4.8%
11-Jan-73	03-Oct-74	-48.2%	38.0%	15.8%	12.0%	10.1%
28-Nov-80	12-Aug-82	-27.1%	58.3%	22.3%	26.5%	15.1%
25-Aug-87	04-Dec-87	-33.5%	21.5%	12.9%	14.0%	15.8%
24-Mar-00	09-Oct-02	-49.1%	33.7%	15.5%	15.0%	6.4%
09-Oct-07	09-Mar-09	-56.8%	68.6%	26.5%	22.7%	15.0%
19-Feb-20	23-Mar-20	-33.9%	74.8%	20.8%	???	???
03-Jan-22	12-Oct-22	-25.4%	21.6%	???	???	???

Appendix 15 – Technicals: Sentiment



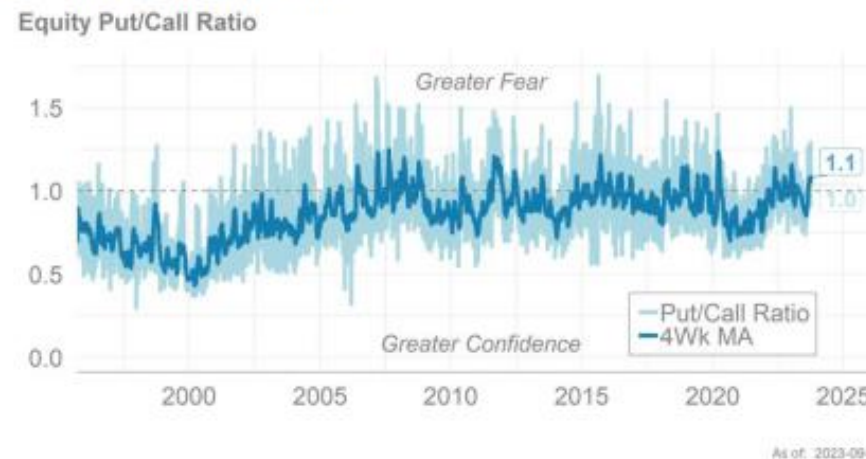
Aug 2023 = 31.8



Appendix 16 – Technicals: Sentiment

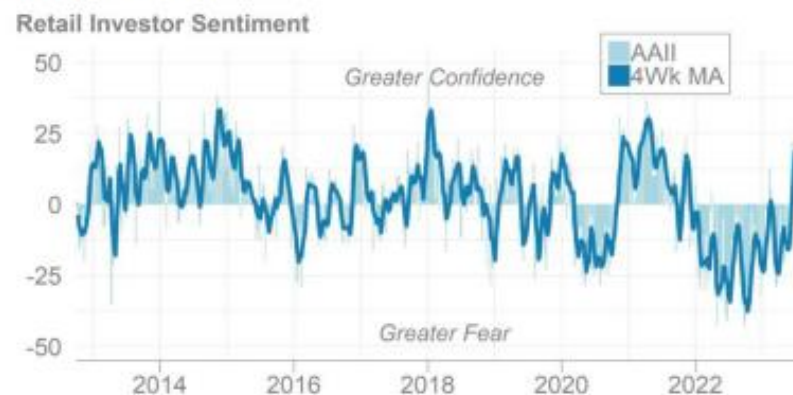
- Both the Put/Call ratio and the AAI Bulls-Bears Retail Sentiment Index have moved to more neutral levels from their more optimistic positioning before the recent pullback in the US stock market.

US Equity Put/Call Ratio

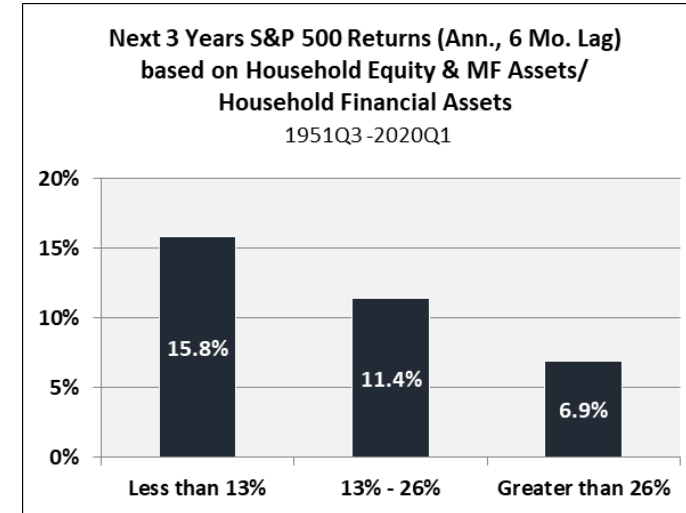
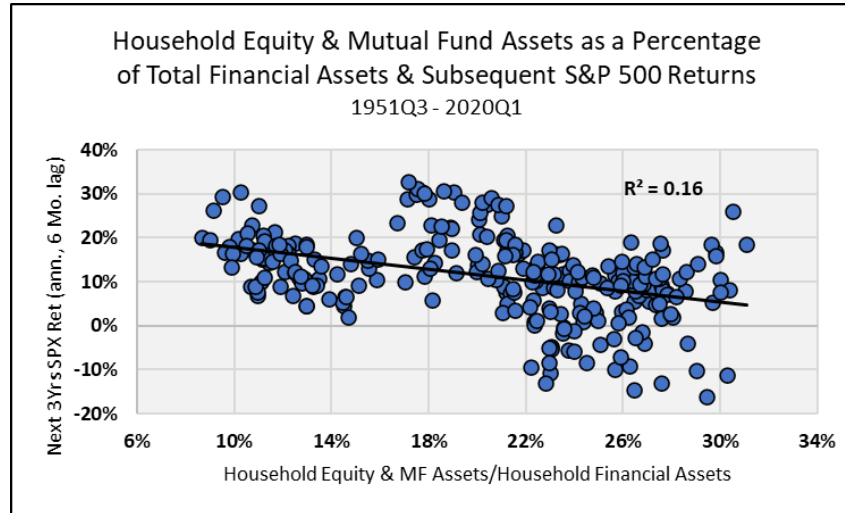


Source: CBOE, Bloomberg, Morgan Stanley Research

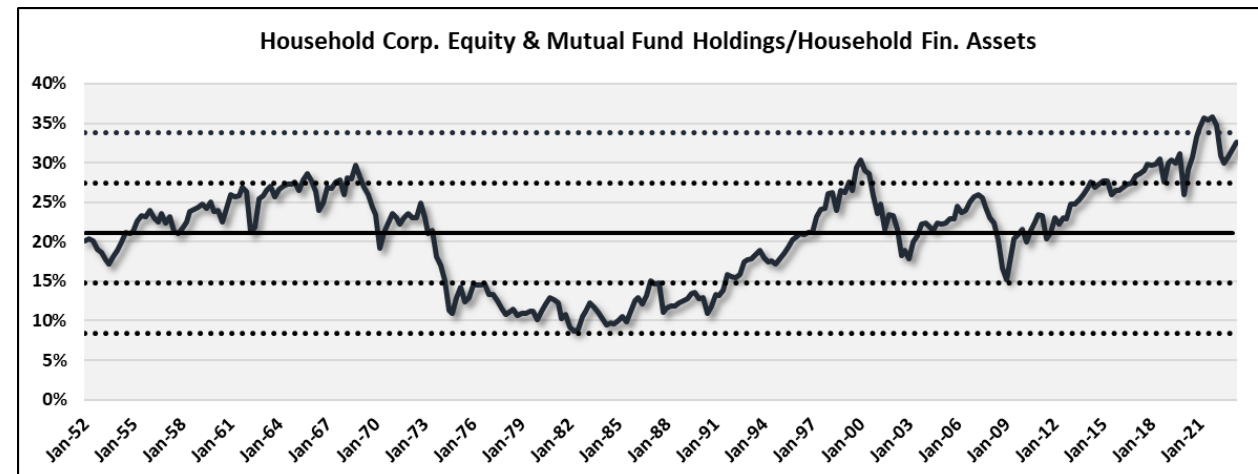
AAI Bulls-Bears



Appendix 17 – Technicals: Sentiment

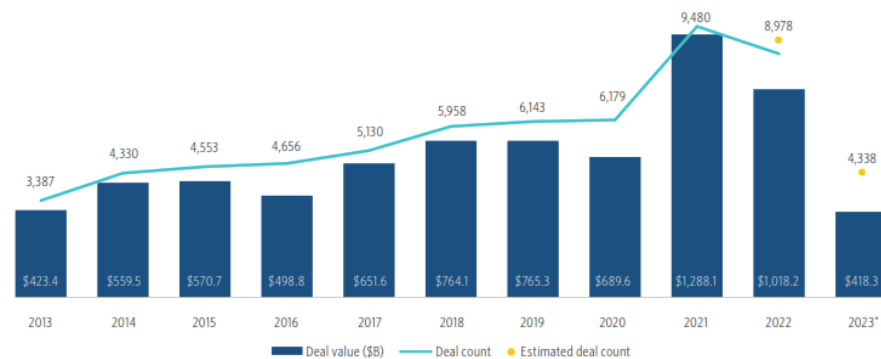


Q2 2023 = 32.6%

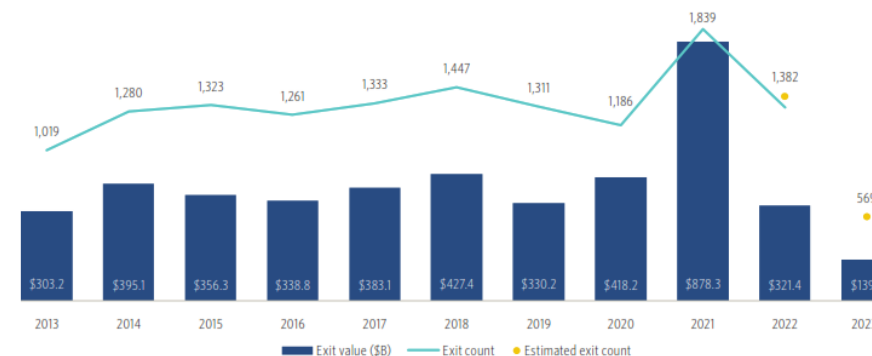


Appendix 18 – PE Technicals: US Deals, Exits, Fundraising & Debt Statistics

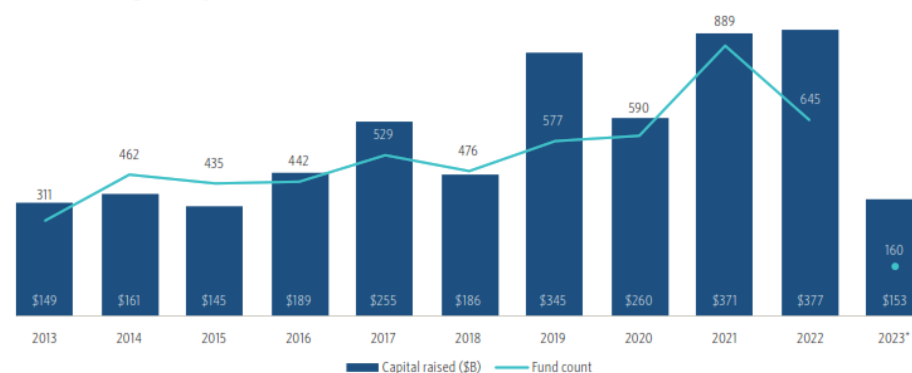
PE deal activity



US PE exit activity



PE fundraising activity



New issue spread and yield-to-maturity on debt-backing LBO deals



Appendix 21 – Outlook for Respective Premia

Value

- The Value factor return had a strong return in Q3 and flipped back to positive for the TTM period. (App. 17)
- The factor appears cheap, especially relative to its long-term history.

Size

- Small caps once again underperformed in Q3 and is strongly negative over the TTM period. (App. 17)
- Small caps also appear cheap relative to their history.

Momentum

- The Momentum factor was modestly positive for the last three months but down over the trailing twelve-month period, a result of the reversals in the market. (App. 17)
- High momentum stock valuations are close to historical averages.

Quality

- High quality stocks outperformed slightly over the last quarter and have been strongly positive over the last 12 months. (App. 17)
- Companies with strong balance sheets are unattractively valued relative to their history, especially over the longer term.

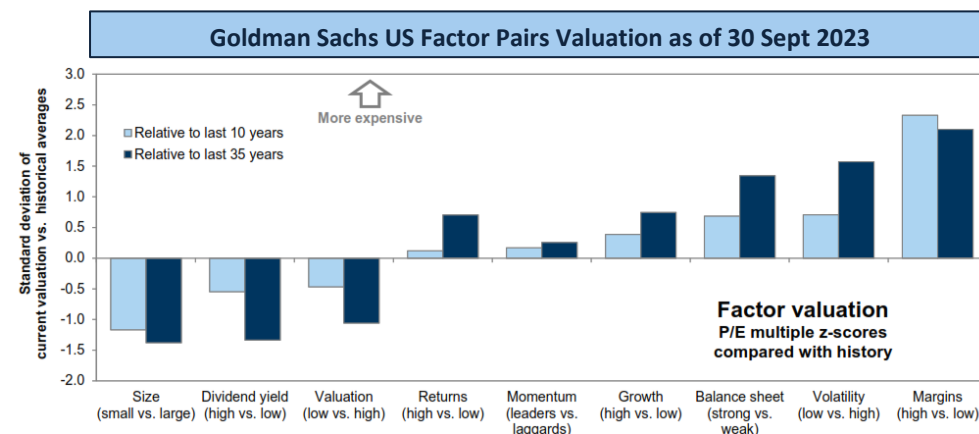
Volatility

- Low volatility stock performance was slightly positive in the third quarter but strongly negative over the last year. (App. 17)
- Low volatility stocks also appear expensive valued relative to their longer-term history.

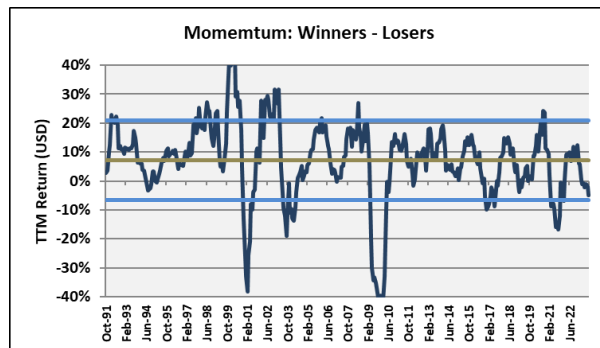
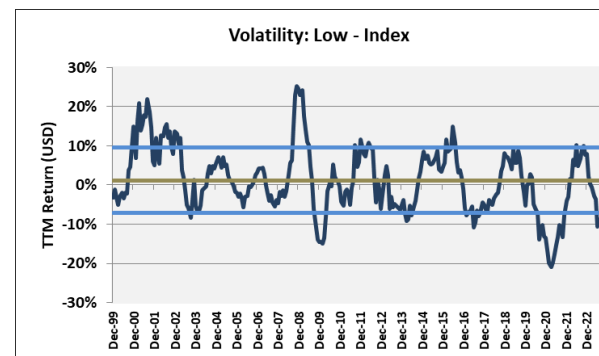
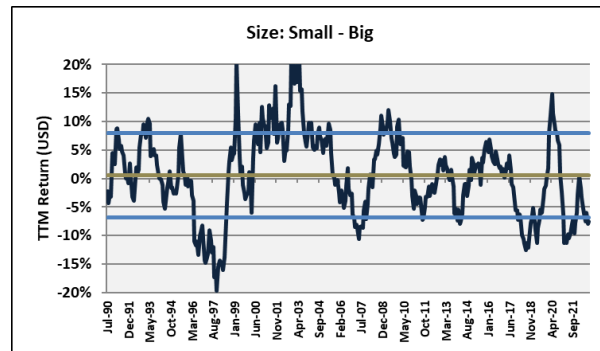
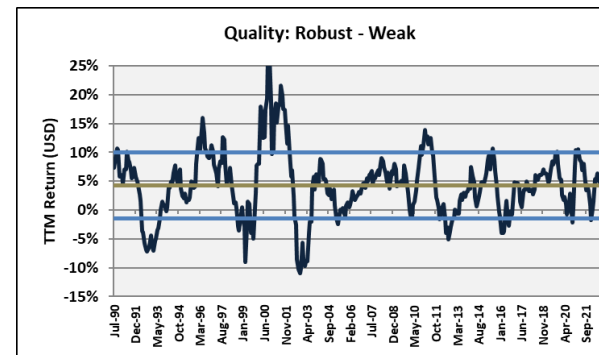
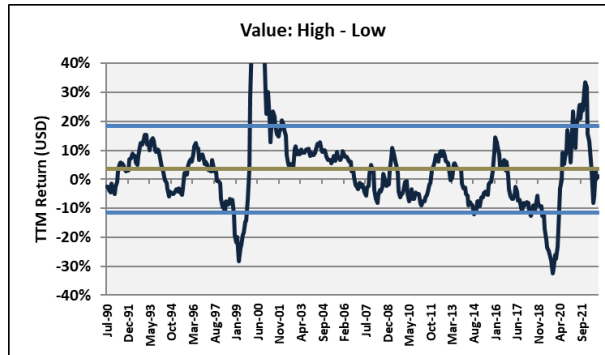
Global Factor Performance	TTM Return	Z-Score History		Note: Last 3 Mo. Return
		10 Year	Since Inception*	
Value (FF)	1.1%	0.2	-0.2	6.0%
Size (FF)	-7.5%	-1.0	-1.1	-1.4%
Momentum (FF)	-5.0%	-1.2	-0.9	0.1%
Quality (Balance Sheet Strength, FF)	7.3%	1.0	0.5	0.7%
Volatility (MSCI ACWI Min Vol - ACWI)	-10.0%	-1.1	-1.3	0.7%

* July 1990 for Value, Size & Quality, Nov 1990 for Momentum, Dec 1998 for Volatility). Sept 2023 estimated.

Sources: Ken French website (http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html), MSCI, Bloomberg, SECOR.



Appendix 22 – Global Equity Factor Performance



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