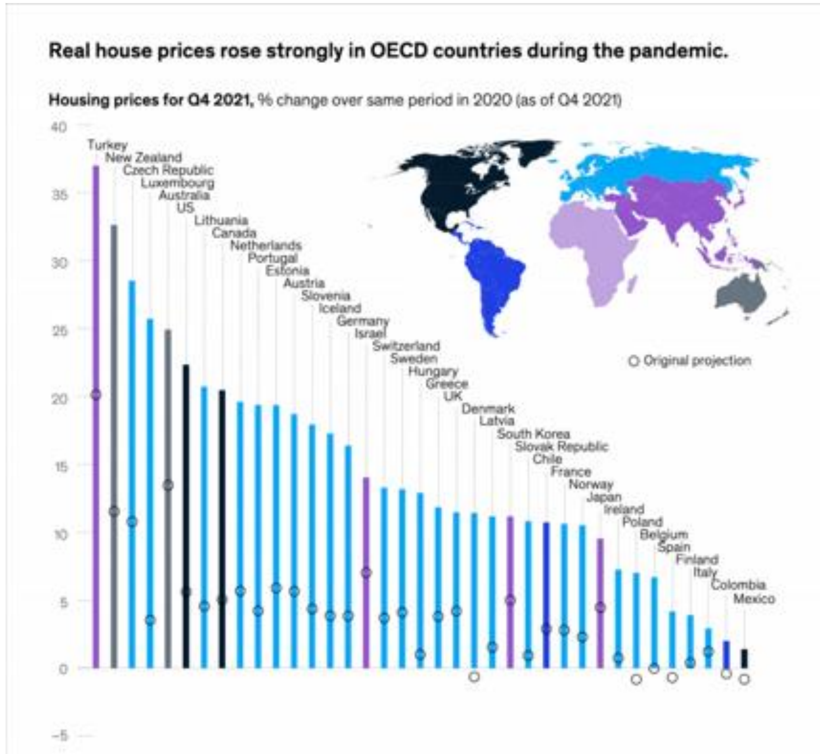
Market Review July 2022

Housing Prices Have Skyrocketed Across the Globe

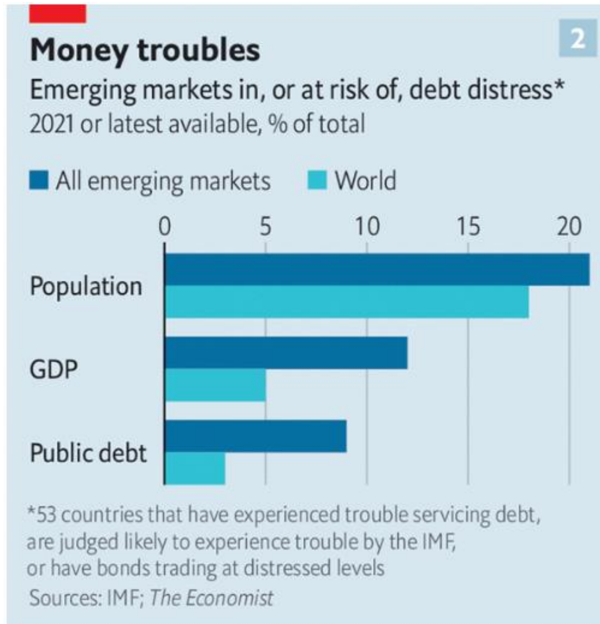


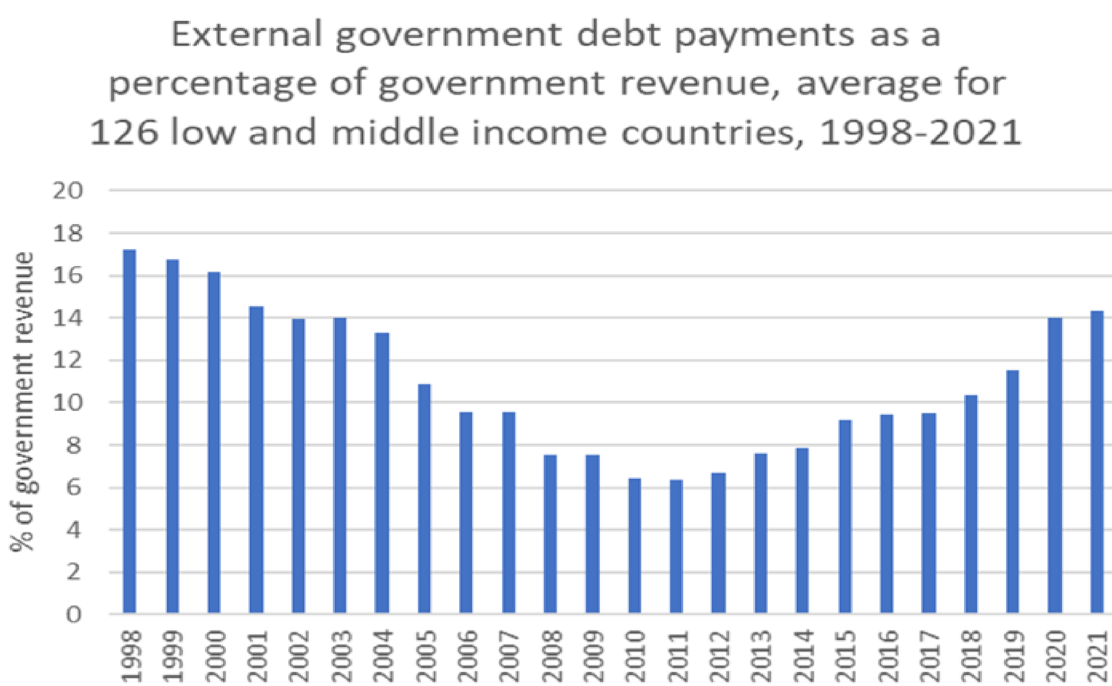
House prices have skyrocketed across the globe during the pandemic. In the wake of the short but steep covid-19 recession, house prices have risen at record levels, hitting the peak increase of 19.3% in July. Noting the reasons for this increase, the IMF noted that low interest rates contributed to the boom in house prices, as did policy support provided by governments and workers' greater need to be able to work from home. In many countries, including the United States, online searches for homes reached record levels. Along with these demand factors, house prices also increased as supply chain disruptions raised the costs of several inputs into the construction process.

However, policy stances have changed drastically across the globe given the rampant inflation. Nearly four dozen countries have raised interest rates, as central banks in the United States, England, India and other nations have pushed borrowing costs higher in a bid to contain the most rapid inflation surge in decades. According to data from FactSet, during 2022 at least 45 countries have lifted rates with more moves to come. It remains to be seen how long this boom in housing prices last in the face of sharply increasing interest rates.

Emerging Economies Challenges Continue during 2022

As the Federal Reserve has started raising interest rates, investors have increasingly started worrying about a crisis in emerging markets and it appears the usual pattern is playing out as Sri Lanka has already run out of foreign exchange, Argentina faces another default and many poor countries are increasingly facing trouble. The amalgamation of multiple factors including heavy debt burdens, slowing global growth, increasing commodity and oil prices and tightening monetary/financial conditions will likely prove to be more than some of these governments can bear. One set of potential victims comprises the poorest economies, which have lesser potential to borrow in relatively safe ways and which, because of the pandemic, were already vulnerable. Among 73 low-income countries eligible for debt relief under a G20 initiative, eight carry debt loads which the IMF has categorized as unsustainable, and another 30 are at high risk of falling into such a situation. Debt problems in these countries pose little threat to the global economy; together, their GDP is roughly equivalent to that of Belgium. However, these countries are home to nearly 500M people whose fates depend on whether their governments can withstand these challenges and afford to invest in basic infrastructure and public service. Then there are the troubled middle-income economies in the mold of Sri Lanka, which are more integrated into the global financial system, and which through policy missteps and as a result of covid-19 related factors (impacting their tourism) have found themselves exposed. Overall, 15 countries are either in default or have sovereign bonds trading at distressed levels.



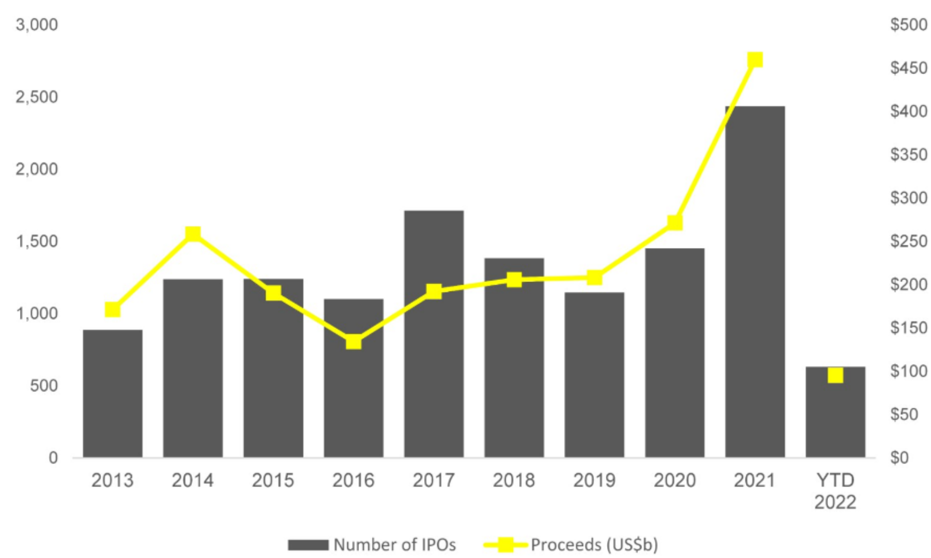


The world can find some solace in the fact that panics in emerging markets seem less likely to inflict significant damage on the economies of rest of the world. According to Economist estimates, countries most at risk of default today account for only circa 5% of Global GDP and circa 3% of Global Public Debt. The not so good news lies in the fact that these economies have circa 1.4Bn people, or 18% of the global population, and face a huge humanitarian challenge with higher inflation, debt loads, interest rates and expensive oil and food.

IPO Activity Nosedives

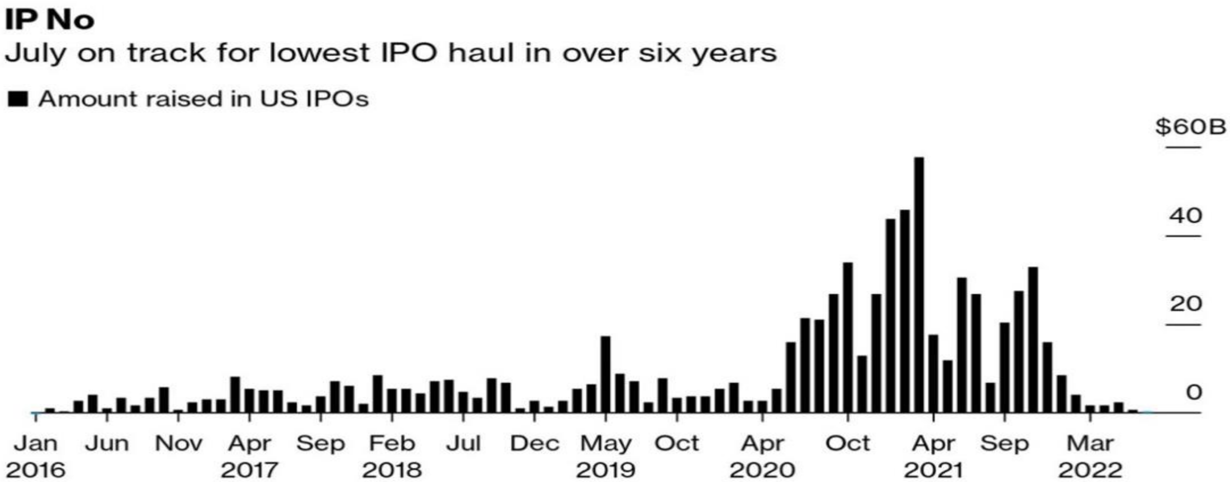
Given the rising interest rate environment and the mounting fears of a possible recession, IPO momentum worldwide has continued to slow from Q1-2022 into Q2-2022, resulting in a considerable decline in both deal numbers and associated proceeds. Increased volatility and risk caused by geopolitical tensions and macroeconomic factors, declining market valuations and poor share price performance' post IPO have led to the postponement of many IPOs during Q2-2022. The dramatic slowdown in IPO activity in YTD 2022 after a record year in 2021 was experienced across major markets. During Q2-2022, the global IPO market saw 305 deals raising circa US$40.6Bn in proceeds, a decline of 54% and 65% YoY respectively. YTD 2022, there have been a total of 630 IPOs raising circa US$95.4Bn in proceeds, reflecting YoY decline of circa 46% and circa 58%, respectively.

2013 – YTD 2022 global IPO activity

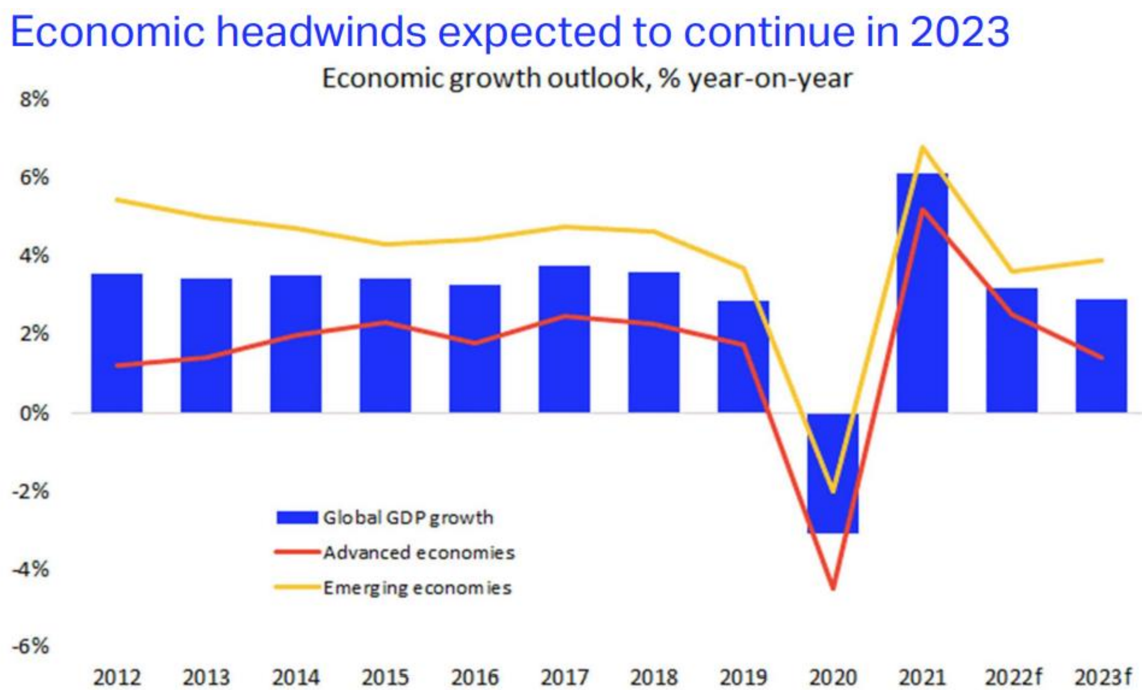


US IPO market which traditionally sets the pace for the global IPO activity has remained weak in the first half of 2022 as only 39 deals were priced during H1-2022 marking the weakest H1 IPO performance since at least 2009. These deals raised circa $4.1Bn in new cash which was circa 95% lower YoY. According to analysis conducted by Renaissance Capital, 39 new deals were priced in H12022 representing an 82.3% drop YoY. The number of IPOs priced during the first half of 2022 was also 78.1% below the 178 new deals that were priced during the second half of

2021, and marks the lowest number of IPOs priced during the first half of a year since 2009 when a mere 14 deals were priced. The graph below underscores the slowing IPO activity in 2022.



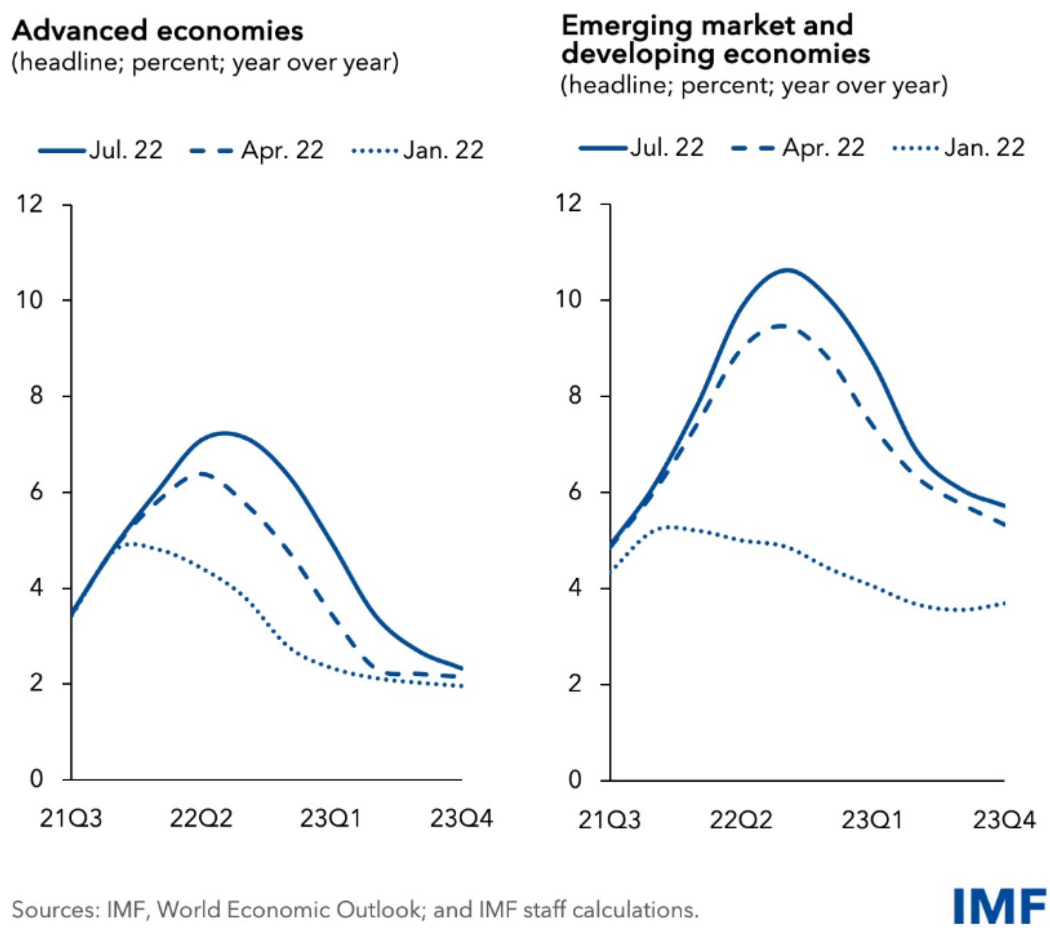
Economic Headwinds Expected to Continue in 2023!



According to the mid-year global macroeconomic outlook for 2022 issued by IMF, the global GDP forecast for 2022 has been lowered to 3.2%. At a country level, the largest downward revisions have been recorded for the US (lowered by 1.4%), China (lowered by -1.1%) and Germany (lowered by 0.9%).

The IMF has noted that the global economy continues to reel from the pandemic and Russia's invasion of Ukraine and is facing an increasingly uncertain outlook. Higher-than-expected inflationary pressures mainly in the United States and major European economies are triggering a tightening of global financial conditions. In addition, China's covid-19 related slowdown has been worse than anticipated amidst covid-19 outbreaks and lockdowns, and there have been further negative spillovers from the war in Ukraine resulting in a contraction in global output during the second quarter of 2022.

The gloom doesn't end at slowing growth forecasts as the IMF has also highlighted that the world faces increasing inflationary pressures as global inflation forecasts have been revised upwards, in part due to rising food and energy prices. Inflation is anticipated to reach 6.6% in advanced economies and 9.5% in emerging market and developing economies during 2022 and is further projected to remain elevated for a longer period. Inflation has also broadened in many economies, reflecting the impact of cost pressures from disrupted supply chains and historically tight labor market condition s. The graph below underscores how the inflation forecasts for Advanced and Emerging economies have been revised upwards since Jan-2022 by the IMF.



Despite Worldwide Economic Challenges, Air-travel Activity Continues to Soar Post Covid-19

International revenue passenger kilometers ("RPKs"); a key indicator in the air travel industry, continued to drive the global industry's recovery in May 2022. This performance was underpinned by several major international route areas overperforming their 2019 levels while many others likely reached pre-pandemic RPK levels in June 2022. As a result of this continued acceleration in the global industry, international RPKs now stand at circa 64.1% of pre-crisis levels. Domestic travel also continues to recover as global domestic RPKs reached circa 76.7% of the 2019 level in May 2022.

According to International Air Transport Association ("IATA"), in 2022, air-travel demand has ramped up strongly in both North America and the EU, however, the challenge to adjust capacity to meet this higher demand differs significantly by geography. The United States already had a significant level of operations in 2021, so the further increase in 2022 placed less stress on the industry supply chain. However, airlines operating in the EU and Canada have had to ramp up into a much greater proportional increase in demand this year. In early May 2022, the gap between 2022 bookings and 2021 bookings (as a proportion of 2019 levels) was 66% and 70% for the EU and Canada respectively, whereas in the US this gap was only 26%. This illustrates the scale of challenges that airlines and the wider air transport value chain are facing during the current northern hemisphere summer peak season in this phase of the recovery.