UW FARMSA Newsletter

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Real Estate Sector Outlook

2023 will be a challenging year for real estate due to high interest rates and an expected economic recession. Despite inflation decreasing in late 2022, it still remained above 6% and the Bank of Canada is expected to hold the policy rate between 4-5% until inflation drops closer to its target of 2%. Weakening fundamentals and increased cost of capital will likely lead to a decrease in property values.

The Real Estate Market Faces Persistent Changes

Despite economic challenges, the pace of change in the real estate market is expected to remain steady as it undergoes significant transformation. Following a pandemic-fueled course correction, the global real estate industry faces transformational shifts in how buildings will be used, valued, and transacted in 2023 and beyond. ESG considerations and policy, and the growth of the digital economy will also continue to impact demand.

Hybrid/Remote Work Leads to Decreased Office Utilization

The adoption of hybrid/remote work will benefit both businesses and employees, but the office sector will need to adapt to these changes. The national office vacancy rate in Canada ended 2022 at 17.1% 2 following the upward trend that is expected to continue in 2023

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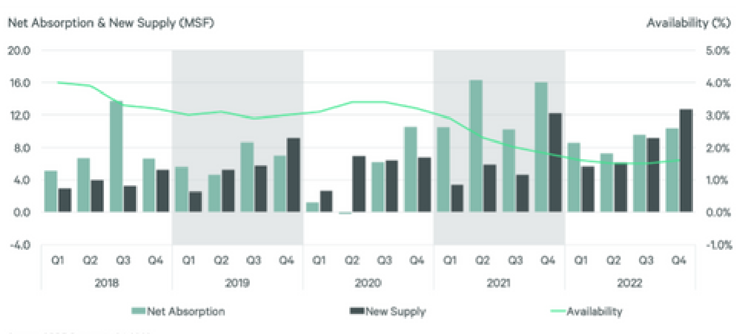
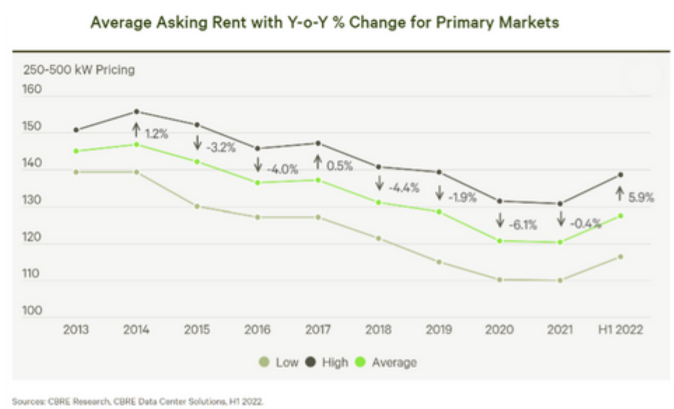
Industrial Space Demand Driven by Digital Economy



E-commerce space, the transformation of supply chains, and location optimization will continue to fuel demand for industrial space. Availability rate of 1.6% was reported in Q4 2022 with net rental rates reaching an average of $13.71 per sq.ft 3 setting a record for year-over-year growth in the past decade. Although property values are expected to remain stable, another year of double-digit rent growth is expected in 2023 due to a supply shortage.

The Real Estate Market Faces Persistent Changes



Rapid growth witnessed in 2022 for data center estate may slow down in 2023 as new supply is expected to reduce due to land and power supply shortages in major hubs. However, the average monthly asking rental rate for a 250- to 500-killowatt requirement in major markets increased by 5.9% year-over-year in H1 2022. 4 This trend is expected to continue in 2023, with supply constraints having the greatest impact on asking rates.

Amy Xu

Energy Sector Outlook

22022 was a strong year for the energy market. S&P 500's energy index finished with 63% return in 2022 (including 7% dividend), settling with another year high on record. For investors, energy stocks are less sensitive to interest rate hikes and can still be a great buy choice during the 2023 recession. As demand and supply for the energy market is recovering, the oil and gas market would maintain strong performance this year and is likely to overperform the S&P index again.

Energy Transition in 2023

2022 has set a start for renewables. Long since covid has crashed the energy supply, countries are seeking renewable energy as a stable and cheap energy source. In addition to global warming, companies are trying to achieve energy transition to renewables with clean technology. According to UNDP, renewable energy consumption will increase about 11% overall to 2025 and its supply will overtake coal as the largest energy source. In the short term, fossil fuel would still be the largest energy supply in 2023, price hike can be expected.

Technology advancement

One problem transitioning to renewable energy is energy storage. Renewable energy generation tends to be unstable from weather conditions. Energy storage will help with reliability and stability for decentralized energy systems. It will ensure maximum growth and usage of renewable energy.

China's Covid Policy

China's zero-covid policy had a huge crash to the market, which led to low energy demand in 2022. As China is removing its policy, we can expect great demand in the market, driving about 50% global oil growth in 2023.

Renewables growth slowed down by the rising costs and supply chain disruption, and inflation will be carried out in 2023.

Traditional energy projects will also be carried out in 2023, recovering to normal production volumes.

Fossil Fuel Price Change

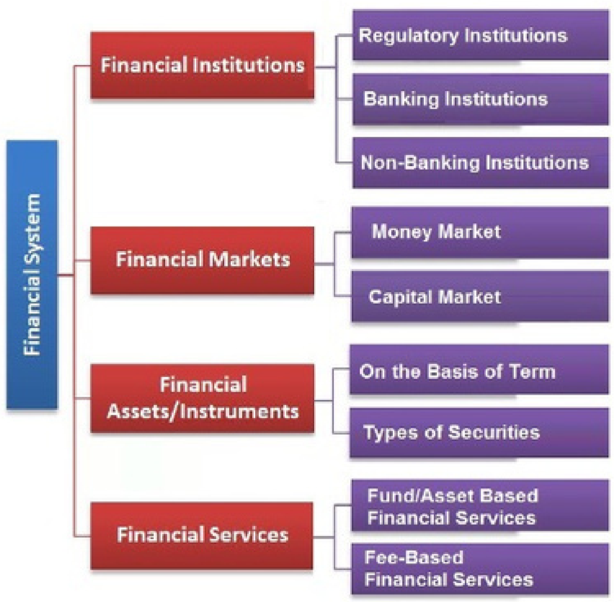
Oil and gas contracts had dropped 7% in Q3 2022, our demand for fossil fuel is decreasing due to inflation pressure. Still, the price movement will still heavily depend on OPEC's quota policy, the existing supply around the market, and the reliance on fossil fuels.

Renewables growth slowed down by the rising costs and supply chain disruption, and inflation will be carried out in 2023.

Amy Xu

Financial Services Sector Outlook

- Financial services make up one of the economy's most influential sectors - It consists of activities related to banking, insurance, and investing.

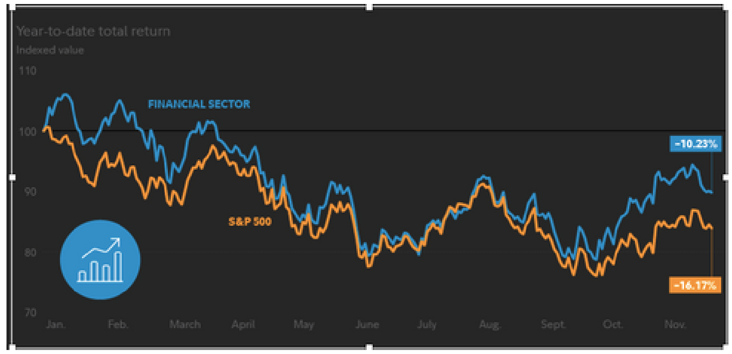


Structure and Components of Financial System

- The financial services industry in the United States alone brought in $4.96 Trillion in earnings, and shapes up about 7.4% of the US's total GDP. The financial services industry makes up appx. 20-25% of the world's total economy.

- Key customers include, consumers, businesses, and governments.

- The sector's performance in 2022 the financial services sector declined by by around 10% as compared to the S&P's 16-20% decline at the beginning months, but regained strength towards the end of 2022 due to rising yields (seen on right).



- The financial services sector is heavily affected by economic variables. "Rising interest rates tend to boost bank profitability by widening the differential between what banks earn (on loans they make) and what they must pay (on deposits they hold)." In recessions the they must pay (on deposits they hold). In recessions the banking industry falls but remains on a stable decline as opposed to other sectors due to the heavy reliance of consumers on the industry at all times.

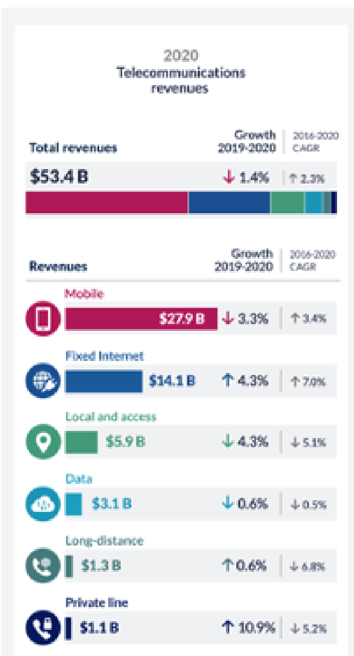
- My take on 2023 is that the Financial Services sector is that fundamentals will take a hit due the current and upcoming recessionary period, but overall due to tightening of monetary policy; Lending margins will remain high increasing their overall balance sheet partially hedging against huge falls.

Mohammed Jabsheh

Telecommunication Sector Outlook

Market Composition:

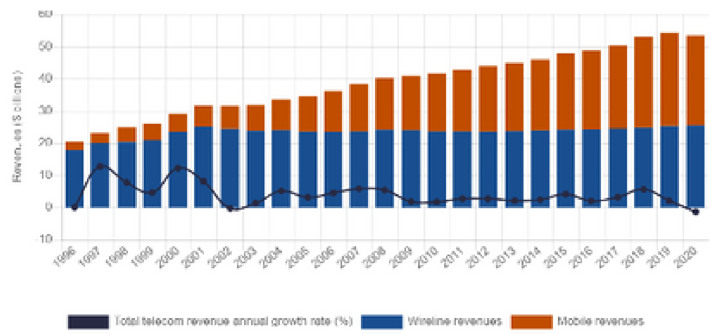
- The three subsectors of the industry are telecom equipment, telecom services and wireless communication (Beers, 2021).
- The industry can be separated into two markets: residential and small business markets and corporate markets. Small business markets will be highly price competitive since individual customers can easily switch to competitors with lower prices. However, corporate customers are more concerned with quality and telecom reliability.
- Specifically, in Canada, the industry revenue was $53.4 billion in 2020. Out of the total revenue, mobile services generated more than half of the earnings and fixed internet contributed a quarter of the income (see below).



Financial Performance:

- Revenue & EBITDA - There is an overall increasing trend in the industry's revenue as shown in Fig 2 below. As mentioned above, mobile and mobile services contribute more than 75% of the industry revenue. The analysis below will mainly compare the revenue performance of these two services. Wireline service used to generate more revenue than wireless service, however, this trend has been reversed since 2016. Besides, the wireless service has maintained a higher EBITDA than the wireline sector over the 2016-2020 period.

- Capex - During the COVID-19 pandemic, the total capital expenditures decreased by 3.9%, and thus both the wireless and wireline services CapEx dropped. Despite the decline in industry capital expenditures, there has been a continuing investment of $480 million in 5G networks.



Economic Variables:

- As a risk-averse investor, risks are key considerations. Telecommunications is strictly regulated by the government, and hence investors may pay more attention to political policies. Cyber risks are also important since telecom companies hold a significant amount of personal data. Any cyberattacks will lead to serious customer privacy leakage.

Future Trend:

- With an increasing trend in the industry revenue, I'm optimistic to see how the industry can generate higher future earnings and attract more capital in the future. In conclusion, the telecommunication industry will be a valuable investment.

Melody

Technology Sector Outlook

The technology sector provides immense investment opportunities due to its broad and rapid evolution that encompasses a wide range of products, services, and technologies. It includes companies specializing in hardware, software, semiconductors, telecommunications, internet services, and many more. The sector is known for its innovation and willcontinue to drive economic growth on a global scale and across a wide range of industries. With the increasing geopolitical and economic uncertainties, the technology sector has proven to be resilient but investors will be more cautious and the sector has been slowing down significantly.

The prevalent themes we see playing a crucial role in 2023, which will be explored more in this report, are navigating macroeconomic uncertainty, the continued growth of new emerging technologies, the transformation of other industries through technology, and adapting to new regulations. There are many economic headwinds that are gathering in the technology sector but many opportunities that will allow for innovation and growth.

To start, technology companies are
aced through many macroeconomic uncertainties regarding trends such as adecrease in product demand, reductions in consumer spending, and falling valuations. To deal with these changes, companies are responding through conducting reviews of their operations, improving their tech infrastructure, and placing more emphasis on M&A. There has also been rising inflation, presenting a clear challenge to the tech sector and global economy. Q4 2022 saw hiring freezes and layoffs after hiring aggressively to meet demand, and this trend of workforce reduction is expected tocontinue in 2023.

Additionally, the growth of new emerging technologies is continuing the widespread adoption of innovative technologies.

Technology giants are accelerating their transformation of other industries with the help of emerging technologies.

One prime example is the healthcare industry where there has been a profound impact on the way patients are receiving care and how the service is being provided. These digital technologies include electronic health records, telemedicine, improved medical devices and equipment, and the implementation of AI and machine learning in the diagnosis process. Additionally, in the automotive industry, there have been transformations with their functionality such as assisted driving and safety, whichprovides endless opportunity. The emergence of technology will continue to transform the operations in industries such as retail, real estate, and manufacturing.

Technologies such as augmented reality, IoT sensors,smart devices, 3D technologies, and more.
Despite all of these innovative technologies, this also raises the problem of adapting to changing regulations. One big factor is that governments are pushing for transparency in their operations and ensuring that they are following sustainable initiatives such as being ESG friendly. Some other concerns include tax transparency, the Pillar Two model, and more reporting requirements with regards to climate information, risk management, and financial impact. In 2023, tech companies are recommended to implement enterprise resource planning (ERP) software which ensures that there is end-to-end visibilityin relevant jurisdictions.

2023 will continue to provide the technology sector with endless growth opportunities with emerging technologies such as cloud computing, and implementing these technologies into other industries. However, the technology sector has seen declines and poor performance in the market where companies are facing major challenges in trimming costs, increasing efficiencies, and growing revenues. To rebound from issues such as soaring inflation, layoffs, and a slowdown in IPOs, there is a good chance for the industry to surge from 2022 lows.

Janet Jian

HealthCare Sector Outlook

Healthcare in 2023 is expected to be a more defensive sector in comparison to others, especially under market stress,due to its constant necessity; examining sector performance in previous economic downturns, as well as arising growth opportunities, healthcare is a good long term investment choice, with an estimated growth of 5-15% in the upcoming year. Observing specific subsectors, bio-pharmaceuticals will be the least affected due to their high-margin products, whilst the medical devices market and the service sector will be more volatile to fluctuations within theeconomy. The medical devices market is reliant on materials like superconductors, and other manufactured parts, their growth margins are lower, with a lower ability to pass prices to the end consumer, and medical services are more volatile to be affected by inflation and the labor market; the general consensus is that making the most sought after investments this year within the health sector will be within pharmaceuticals, and biotechnology, with several oncoming drug releases that are expected to release this year.

The Pharmaceuticals market is likely to perform well in the first half, whereas the second half will be more dependent on individual stocks, some of the biggest market opportunities being obesity treatments, and oncology. Although the sub-sector faces challenges from low R&D returns and patent cliffs, generic drug companies are also expected to grow in the coming years. Due to factors such as interest rates and policy risk, growth stocks will likely only be sought after in the later half of the year, on the assumption that interest rates will drop and policy restrictions will be eased. Although the pharmaceuticals industryis generally more resilient to inflationary pressure, there is the risk of raw materials price changes, supply chain disruptions, and decreased demand. Roughly 54 new drug applications are pending for approval for 2023 treating diseases a small portion of these drugs are also expected to be “generational opportunity” drugs, such as the release Oof Donanemab for Alzheimer's and Tirzepatide for obesity.

The biotechnology sector sees potential for momentum, following advancements within the technology industry in recent years. With the recent introduction of applicable artificial intelligence, its benefits and potential in the healthcare industry continue to grow, as a tool to improve diagnosis, medical procedures, and to mitigate costs in clerical work, aiding in the buffering of the impact of a labor shortage. We can expect the implementation of these technologies to be a prominent trend in the following year. In relation to technologized health care, personalized healthcare has gained traction after Covid-19, whichleverages artificial intelligence and other service technologies. In 2022, uptake of virtual health had increased from 22 to 44%,the primary reasons for changing being concerns over cost (27%) and convenience (38%). It’s important however, to note that companies in technological sectors are easily overtaken by competition, as more technology companies are getting involved in healthcare.

Due to the decreasing budgets of healthcare facilities, we will also likely observe a shift in retail healthcare; there's been a shortage of healthcare workers, due to Covid-19 causing burnout in nurses, retiring physicians as well as fewer medicalschool grads going into public healthcare due to the expenses. Privatization of healthcare will be expanding in 2023 as a solution to the shortage problem; though this may be a solution and improve productivity, privatization may risk depletingnational wealth and social welfare, as it is less accessible to low-income citizens. Retail healthcare services offer an accessible and affordable option to those who can’t afford private healthcare, or are unable to find a publicly covered family doctor.

Jasmine Zhang

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