



2024 Market Outlook

December 2023

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Letter from the Partners

Outlook for 2024

There has been no single issue that has weighed as heavily on the minds of investors as the “higher for longer” interest rate environment that we have found ourselves in, and the structural shift that it has created in the market.

Geopolitical tensions, energy transition, and demographic headwinds have all contributed to a shift towards persistently higher costs and, as a result, higher levels of inflation and interest rates than we’ve witnessed in the past 15 years.

If there's any chance of the central bankers wrestling inflation back to their '2%' target, it would likely require much more economic weakness than we've seen so far, or significantly more quantitative tightening. The dance that is monetary policy will arguably have to be more nuanced than ever before and the outcome, from our current vantage point, is still uncertain.

Yet, as much as the rapid rise in rates over the past 18 months has created turmoil in the markets, it has also created a range of opportunities in alternative investing, in particular in private credit and fixed income products.

In this 2024 Market Outlook report we attempt to address some of the trends we expect to see in alternative investing in the coming year and put them in the context of what got us here. The goal is to ensure that, as investors, we have the right tools in place to navigate the increasingly complicated investing environment and to guide our portfolio strategies through the next cycle.

We hope this paper helps contribute to the conversation.

James Fox

John Wilson

Managing Partners

Ninepoint Partners LP

Private Credit Outlook

The year ahead could be a watershed year for private credit in Canada. High interest rates and the pullback in lending by banks in 2023 laid the groundwork for both challenges and opportunities in the sector. Private credit's resilience, adaptability and innovative approaches will be tested in the coming year. But for those able to navigate these trends, the rewards could be significant. The evolving role of private credit will further cement its position as an essential part of Canada's broader financial ecosystem, including by providing crucial funding for those companies embarking on energy transition projects.

"Higher For Longer" Will Pose Challenges for Canadian Businesses in 2024

Many Canadian companies will bear the brunt of increased debt servicing and refinancing costs in a higher interest rate environment in the coming year. This, in turn, will stress cash flows, leading to an uptick in defaults and bankruptcies. As a result, private credit managers will need to transition from mere financiers to operations specialists, steering challenged borrowers toward recovery by drawing on a blend of their financial acumen and operational expertise.

Shadow of a Potential Recession Looms in the New Year

The potential of a recession further underscores the vital role private credit funds play in the Canadian economy. Managers with experience handling special and distressed situations and complex credit structures will be presented with numerous opportunities to help small- and medium-sized businesses across the country that have limited access to traditional credit. A private credit manager's

ability to offer flexible and bespoke solutions will make them preferred lenders, especially as traditional financing avenues become more constrained and cautious.

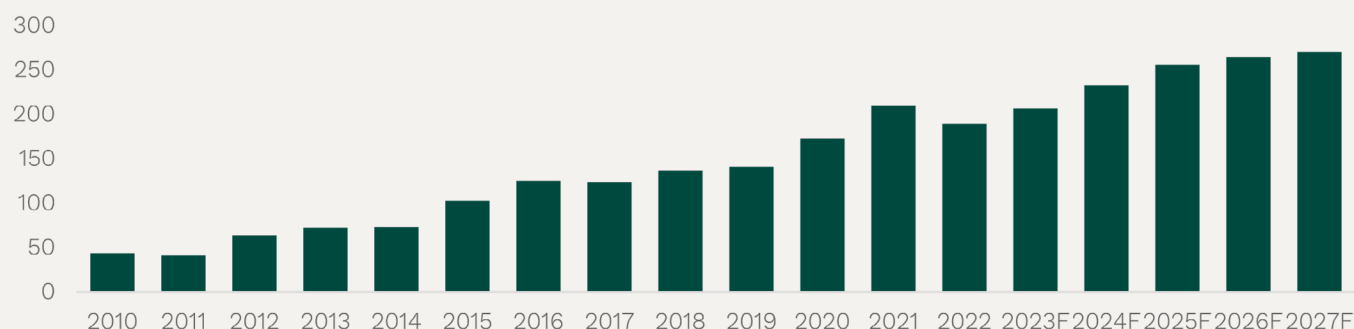
Higher Rates, Bank Pullbacks Create Structural Shift in Private Credit

Higher interest rates combined with pullbacks in lending by the banks due to heightened capital requirements and regulatory scrutiny created a vacuum in the Canadian credit market this year. Private credit lenders were quick to fill the void, evolving and adapting to the changing landscape. As traditional lenders became more selective, it created an opportunity for private lenders to partner with high-quality borrowers and solidify deals on more favorable terms. As they navigated this shift, it set the stage for potentially outsized returns, signaling that 2023 wasn't just a year of challenges but also immense opportunities. As we look ahead, the private credit market's ability to innovate and adapt underscores its resilience and the pivotal role private credit plays in the broader financing ecosystem in Canada.

"The rapid rise in interest rates and tightening of credit conditions have resulted in a lending environment with strong risk-reward characteristics. Dislocation in the broadly syndicated loan market further expands the opportunity set for experienced private credit managers to work with larger companies who seek certainty of execution and in turn, are amenable to more lender-friendly terms."

— David Sum
Managing Director, Alternative Income Group
Ninepoint Partners

Private Debt Fund Raising (US\$B)



Source: Preqin, 2022.

Public Market Volatility Shines Light on Private Credit Benefits

Investors increasingly started to recognize the benefits of private credit amid the public market volatility this year. Private credit presented an opportunity for stable returns in uncertain times, and investors took notice. The evolving landscape saw a notable shift in loan structures, which became increasingly lender friendly. Private credit lenders are no longer seen just as providers of growth capital; their role has expanded to significant supporters of rescue financing that has been especially critical in an increasingly challenging environment for business.

Energy Transition Creates Opportunity for Direct Lenders

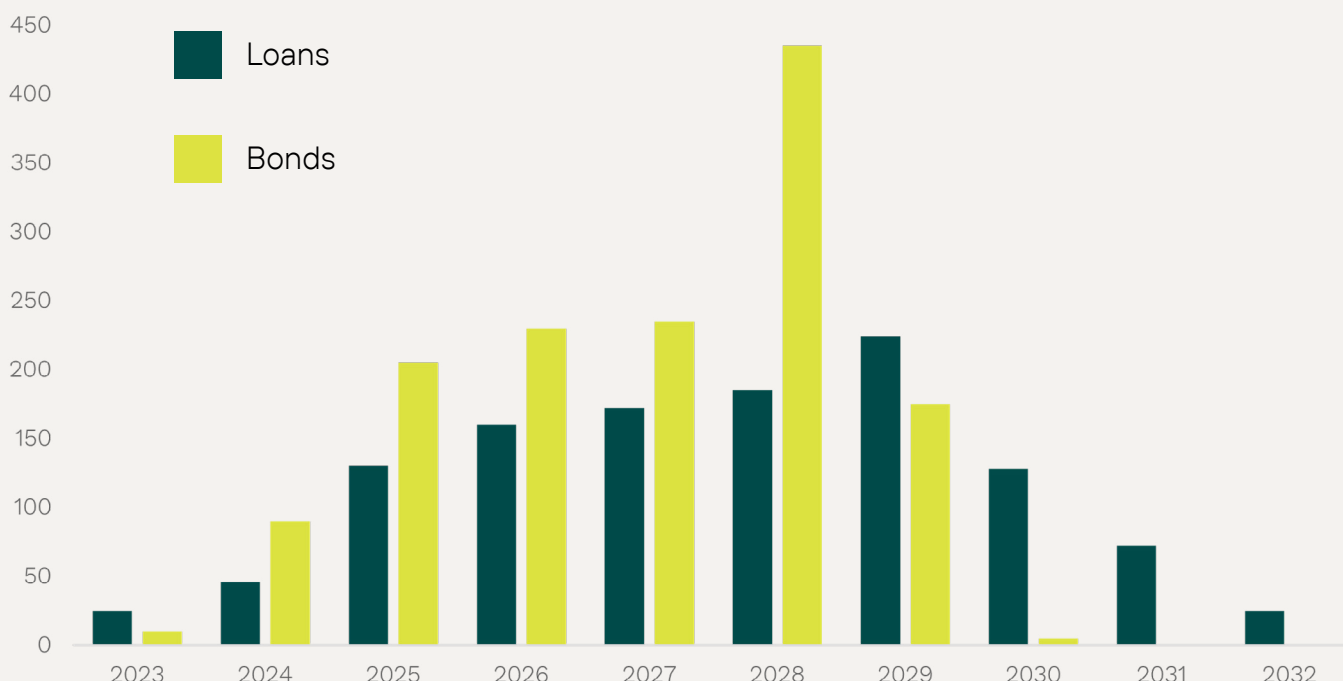
There is a significant opportunity for private lenders to participate in the country's energy transition plans. Emerging sectors such as carbon capture and storage, electric vehicle charging, commercial and residential efficiency, and the production of sustainable aviation all present compelling opportunities. The burgeoning space may offer attractive returns over the long term given the global push toward sustainability and the increasing demand for cleaner energy. Private credit funds, with their nuanced risk assessment and flexibility in deal structures, are ideally placed to capitalize on this trend. Their capacity to provide alternatives to traditional equity raises offers companies in the energy sector a compelling proposition. Instead of diluting ownership through equity, businesses can opt for debt structures with equity-style components, ensuring they retain ownership while accessing the capital they need.

"As volatility surged in public markets, investor appetite for private credit grew, recognizing its potential for stable returns in uncertain times. This was not just a fleeting trend but a structural shift, as investors became more familiar with the risk-return profile of private credit."

— Arif N. Bhalwani
Chief Executive Officer & Managing Director
Third Eye Capital

Upcoming High Yield and Leveraged Loan Maturities*

High levels of debt maturities in 2024-2029 period to ensure robust near-to medium-term demand for private credit.



*USD in Billions, High Yield and Leveraged Loans Maturity Profiles. As of December 31, 2022.

Source: ICE Data Services LLC, BofA Global Research (©2023 Bank of America.) Bonds are represented by ICE BofA US High Yield Index and loans are represented by the Morningstar LSTA.

Fixed Income Outlook

The next 10 years in the fixed income market are not going to resemble the last decade in any way. We are entering a new era. The days of low inflation are over. Climate change, the movement to green energy, huge government debt levels, supply chain management and an aging population in developed economies will continue to pressure inflation higher. To keep inflation under control, interest rates will need to remain higher than the markets have become accustomed to over the past 15 years.

"Higher for Longer" to Take Center Stage

The stubbornness of inflation has had a profound effect on the level and direction of intermediate and long-term interest rates. Inflation remains above the 2% target set by all major central banks and is unlikely to get back to 2% in the near term. Last year's consensus was that North America would be in a recession by now and central banks would be lowering interest rates. That hasn't occurred. The U.S. economy has remained very strong and although growth in Canada has started to slow, the unemployment rate in both countries has increased only marginally from all-time lows. The Bank of Canada and the Federal Reserve have surprised many by raising rates three and four times respectively. In this 'higher for longer' interest rate environment, bonds are generating more income, but because interest rates aren't declining, an investor isn't getting the usual capital appreciation they had grown accustomed to in the aftermath of the Global Financial Crisis.

"Higher interest rates make my job much easier. I'm obviously very excited about our market next year and I'm optimistic about returns for the next decade. It's the best investing environment for bonds I've seen in 15 years."

— Mark Wisniewski
Partner, Senior Portfolio Manager & Head of Fixed Income
Ninepoint Partners

Higher Rates Will Create Healthy Investing Environment

While the transition to higher interest rates has not been a friendly environment for bonds, it does make for a healthier investing environment for fixed income products going forward. Corporate debt of high-quality companies can be purchased at 5.5% to 6.5%, which is double what it was

18 months ago. Investors are benefiting from much higher returns without taking on risk. High yield securities are getting cheaper, it is not uncommon to earn 10% more on those investments. In the equity proxy space, some limited recourse capital notes are yielding more than 13% and some preferred shares more than 8%. Fixed income investors now have the potential to earn much more than the dividend yield on many stocks in a security that is less risky and higher up the capital structure. Many of the bonds in our market now trade at discounted prices, so over time more of an investor's return will come in the form of capital gains, as opposed to income, creating tax efficiency.

Geopolitical Uncertainty

It appears the wars in Ukraine and Gaza are not going to end anytime soon. There has also been an escalation in tension between China and the U.S. and for that matter even Canada. Geopolitical risk will be front and center for the foreseeable future and markets don't like uncertainty. Expect this to be an ongoing source of volatility in the bond market.

Severe Weather Events to Put Pressure on Inflation

After the severe weather events we experienced in 2023, investors are becoming increasingly aware of the link between climate change and the financial markets. Extreme weather will continue to create supply chain disruptions, hamper working conditions and destroy productive land. This will have ongoing implications for supply chains, labor, productivity and the price of goods. That makes the transition to a greener economy more important and timelier than ever before. Unfortunately, cleaner sources of energy will take time and require significant investments over time. It will not be cheap for individuals and economies, and these factors will continue to put upward pressure on inflation and interest rates.

Real Estate and Infrastructure Outlook

The outlook for the real estate and infrastructure sectors in 2024 will be largely dependent on where interest rates go over the next 12 months. If there are any further hikes, earnings and cash flow growth may weaken further and valuations may remain depressed. However, the expectation is that interest rates will stabilize in 2024 and trend lower as central banks pivot to an easing bias. This will be required due to the lagged impact of the tightening cycle, which eventually leads to falling inflation, slowing growth and rising unemployment, consistent with past cycles. But as economic conditions normalize, infrastructure and certain real estate assets have performed well coming out of the downturn.

Home Values Expected to See Modest Gains

The expectation is that 2024 will start off slow for home sales, but as interest rates decline, there will be an increase in listings. Residential values in Ontario remained mostly steady in 2023 due to record immigration and a large increase in foreign students and those working on permits. This saw the population increase by one million people in 2022 and a similar level of growth is projected for 2023. The Canadian government has also made promises around eliminating taxes for new construction of rentals; however, it will be years before these projects are completed. As a such, the increase in values in 2024 is expected to be in the 1% to 3% range depending on the area.

Homebuyers Waiting on the Sidelines

The rapid rise in interest rates over the past 18 months has slowed new home sales and dragged on valuations. Home sales tend to fall in uncertain times, and there was a great deal of uncertainty in the market in 2023 amid rising rates and the broader stock market selloff. To keep the wheels of the Canadian real estate market moving, existing homeowners need to sell their homes and move up market to make room for first-time homebuyers. There is a pent-up demand in the Ontario market in particular that is evidenced by the large increase in rental rates for houses.

"People do not like to purchase homes during uncertain times and this year there was a great deal of uncertainty."

— Nick Kyprianou
President & CEO

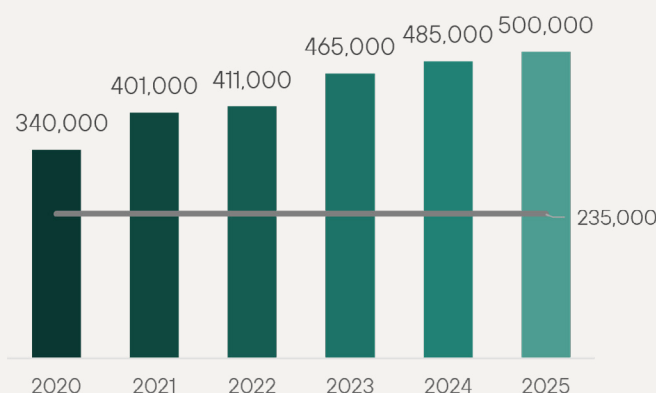
*RiverRock Mortgage Investment Corporation

Any reduction in interest rates should give buyers enough confidence to enter the market. Conversely, any further increase in rates would cause borrowers to see increased costs when their mortgages come up for renewal and, in many cases, prevent them from moving up market.

Interest Rate Cuts Could Drive REIT, Infrastructure Rebound

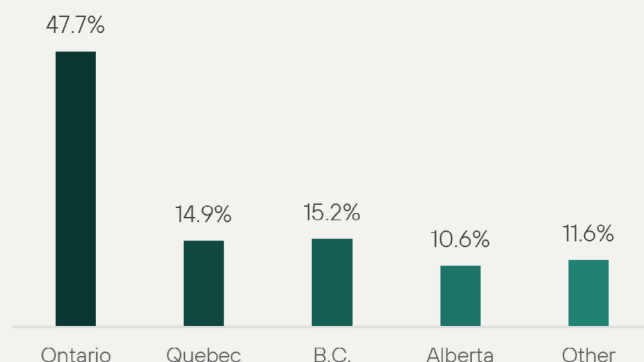
The Federal Reserve raised rates at the fastest pace in 40 years over the past 18 months, which has created headaches for REITs carrying heavier debt loads or facing funding obligations resulting in the inability to grow their funds from operations. Higher interest rates have also led broadly to cash flow multiple compression as the relative attractiveness of other investment sources marginally improved. The current environment has contributed to an

Canada Immigration Levels¹



¹Projected immigration prior to COVID-19 restrictions in 2020
Source: Government of Canada, REMAX, Canada Mortgage and Housing Corporation

Immigration Distribution – 2021



underperformance of certain interest rate sensitive infrastructure and real estate assets, including many securities in the utilities, cellular towers and data center subsectors. In 2024, interest rates are expected to stabilize and trend lower over time. Central banks will have to carefully adjust their monetary policy to engineer a soft-landing scenario and avoid a recession. As we move through the trough of the cycle, infrastructure and certain sub-sectors or sub-industries in real estate, such as healthcare, cellular towers, data centers and industrials may outperform those facing either supply or demand issues, such as apartments and offices. However, if interest rates decline significantly, it is possible that the most strained segments in infrastructure and real estate could experience a sharp rally sometime during 2024.

Infrastructure Assets to Get Boost from Government, Green Transition

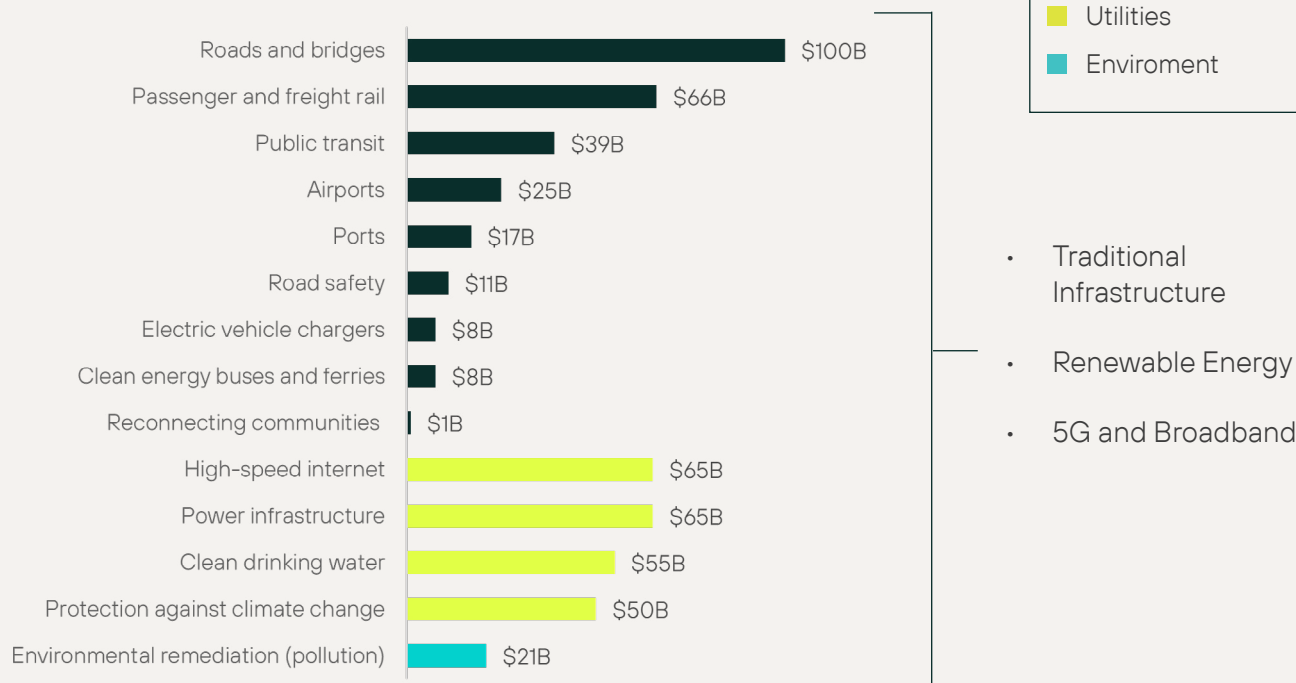
Infrastructure assets stand to benefit from the Bipartisan Infrastructure Bill, which is poised to inject roughly \$550 billion USD worth of funding into the sector over the next five years. Despite some projects dealing with funding concerns in a "higher for longer" interest rate environment, the clean energy transition will be one of the biggest investment themes in the years ahead. That makes both traditional energy and renewable energy investments attractive given the importance of energy sustainability and security around the world.

"In an environment of moderating inflation but slowing economic growth through 2024, the most important drivers of investment performance will likely be valuation, balance sheet strength and the ability to consistently generate cash flow and earnings."

— Jeff Sayer
Vice President, Portfolio Manager
Global Equity, Infrastructure and Real Estate
Ninepoint Partners

What is the Bipartisan Infrastructure Bill?

The legislation includes around \$550 billion USD in new federal spending



*The RiverRock Mortgage Investment Corporation has entered into an agreement with Ninepoint Partners LP ("Ninepoint") pursuant to which Ninepoint will distribute the Class N and Class F Non-Voting Common Shares.

RiverRock Management Inc., is licensed as a Mortgage Administrator through FSCO (Financial Security Commission of Ontario). Mortgage Administrator License # 12514. The Corporation and the Administrator have retained Ninepoint Partners LP ("Ninepoint"), to provide exempt market dealer, distribution and marketing services for the Corporation on an exclusive basis.

Energy Outlook

The biggest trends in the energy sector this year were global oil inventories falling to multi-year low levels which are indicative of an undersupplied market and OPEC+'s success in managing production to attempt to lower crude volatility. The ongoing recessionary fears and, by extension, concern about moderation in oil demand growth are expected to continue to impact prices into 2024. Fears of a recession and other signs of economic weakness will be watched closely by investors alongside the inventory problems at U.S. shale companies, expansion of Canadian export capabilities and any actions taken in the U.S. Presidential election in 2024.

U.S. Shale Will Be in Focus

The most prominent trends of 2024 will be the realization that U.S. shale companies have an inventory problem with respect to quality and quantity. Funds will continue to flow into longer duration inventory basins such as Canada. Recent M&A in the U.S. is demonstrative of the realization that shale companies have drilled through much of their Tier 1 acreage, depleting high quality resource with more marginal rock left. Prior to being acquired this year, Pioneer Natural Resources and Hess Corp. were the two independent companies with the largest inventory depth in the Permian and offshore Guyana respectively.

petroleum reserves in history despite no actual emergency given static Russia production levels.

Economic Slowdowns to Weigh on Oil Market

It will be important to closely monitor changes in the rate of growth in the coming year as certain geographies are exhibiting signs of economic slowdown. Given the sensitivity of oil prices to the broader economy, fears of a recession have plagued investor sentiment for well over a year. Any temporary weakness in the oil price has been explained away with "weak demand" headlines, despite oil demand in 2023 reaching a record high.

"Oil demand is sensitive to the overall economy, so it will be important to monitor closely for changes in the rate of growth as certain geographies are exhibiting signs of economic slowdown."

— Eric Nuttall
Partner and Senior Portfolio Manager
Ninepoint Partners

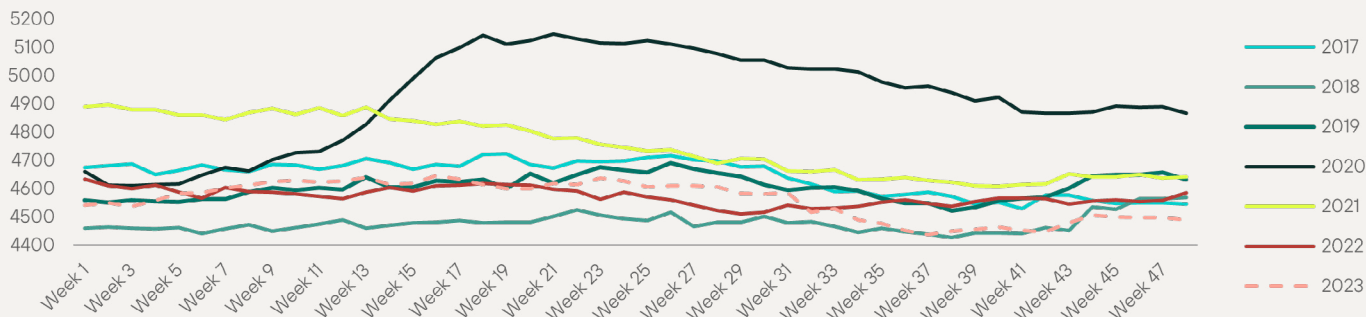
Canadian Buildout of Oil and Natural Gas Exports

Canada will be building out meaningful export capacity both for oil and gas through the TMX expansion and LNG Canada respectively, which will lead to better price realizations. The TMX expansion will add an incremental 590,000 barrels per day of takeaway capacity, and this will both lower the absolute discount for Canadian heavy oil and, equally as important, lower the volatility in the discount, making Canadian oil companies more investable to foreign investors. LNG Canada will be Canada's first liquefied natural gas export terminal, and this project combined with a buildout of export capacity in the Gulf of Mexico should finally make natural gas demand much less sensitive to bearish weather events such as warm winters and cold summers.

U.S. Presidential Election's Impact on Oil Prices

With a U.S. Presidential election in 2024, we look to see what actions, if any, the White House will take to try to manipulate the oil price down. A lack of sanctions enforcement or the release from strategic stockpiles would follow similar moves from 2022, which saw the largest release from strategic

Global Observable Oil Inventories*



*Onshore + oil-on-water (MM BBls)

Source: Kpler

NOTE: This is after the global oil market absorbing ~228MM BBls from SPR

Digital Assets Outlook

The crypto asset market came roaring back this year after the “annus horribilis” of 2022. As the market has recovered, the asset class has grown to \$1.6 trillion, up 30%, while the two bellwethers, Bitcoin (BTC) and Ether (ETH), the native token of the Ethereum blockchain, were up 161% and 96% respectively¹. Building on the momentum, 2024 is set to see the SEC deliver its landmark decision on the first Bitcoin spot ETF proposals from firms such as BlackRock and Fidelity. As a result, the year ahead offers investors the promise of both increased access to crypto assets and the further institutionalization of the asset class. In tandem, the growing adoption of Web3 presents a promising new frontier for investors as Fortune 500 companies gain interest and venture dollars continue to flow in.

Bitcoin and Ethereum ETF Approvals

Several Bitcoin ETF filings inched closer to SEC approval, with Bloomberg Intelligence analysts setting odds of approval at 90% by January 10, 2024². Buoyed by a likely positive outcome with Bitcoin, at least five spot Ethereum ETF applications have now been submitted, with a May deadline. We believe both will be approved.

“The stage is set for the next Bitcoin halving to occur in 2024, which has a high potential to serve as a strong catalyst for a bull run if supply shock is met with strong demand from buyers.”

— Alex Tapscott
Managing Director, Digital Asset Group
Ninepoint Partners

Regulatory Clarity on the Horizon

2023 was defined by regulatory uncertainty following various enforcement actions. As of August 2023, there had been several SEC enforcement actions against crypto-related entities, with a total of 15 administrative proceedings and eight litigations³. The SEC, for example, launched lawsuits against Binance.US and its CEO for allegedly misusing customer funds and securities-related violations and also filed a suit against Coinbase for supposedly operating as an unregistered securities exchange, broker, and clearing agency. While these suits are still ongoing, they did lead to many exchanges delisting certain assets like Solana, Polygon, and Cardano that were deemed ‘securities’ by the SEC. We believe Web3 will be on the ballot in the U.S. Presidential election in 2024, forcing both parties to come up with a thoughtful framework in order to persuade a growing group of single-issue voters who care about the

success of this industry. Major U.S. Web3 firm Coinbase estimates that 52 million Americans own digital assets, representing 15% of the entire U.S. population⁴. Firms like Coinbase are leading grassroots advocacy campaigns to advance legislation and support key candidates.

Wall Street Will Continue to Embrace On-Chain Real World Assets

In 2023 alone, JPMorgan announced its Tokenized Collateral Network (TCN) for settlement, and Australia’s ANZ bank showed success in cross-chain transfers of Australian-denominated stablecoins. HSBC launched its tokenized gold ownership program for its London Vault while Franklin Templeton and WisdomTree both did tokenized treasury offerings, just to name a few. This rise in popularity and attention toward Real World Assets (RWAs) is reflected in the 575% yearly market growth in tokenized treasuries to \$770 million, according to RWA.xyz⁵. Boston Consulting Group estimates that the tokenization of illiquid assets globally by 2030 is to be a \$16-trillion opportunity in a “highly- conservative forecast” with the potential for it to hit \$68 trillion in a “best-case scenario⁶.” This will be a key theme in 2024.

Stablecoin Adoption Will Hit a Record

Stablecoins are tokens backed by fiat currencies such as the U.S. dollar. In 2023, PayPal launched PYUSD which has already amassed a circulating supply of \$160 million⁷. Aiming to enhance the performance and speed of cross-border payment transactions, Visa began leveraging USDC, a leading stablecoin, on Solana for settlements. We believe stablecoin values will hit an all-time high in 2024, driven by a combination of enterprise and investor appetite.

¹<https://coinmarketcap.com>

²<https://www.bloomberg.com/news/articles/2023-11-09/bitcoin-trades-past-36-000-on-possible-etf-investment-approval>

³<https://static2.ftitechnology.com/docs/white-papers/FTI+Technology+White+Paper+-+Global+Regulatory+Trends+in+Crypto.pdf>

⁴<https://www.coinbase.com/blog/a-call-to-action-mobilizing-52-million-crypto-owners-into-an-army-of-1>

⁵<https://app.rwa.xyz/treasuries>

⁶<https://www.bcg.com/publications/2022/relevance-of-on-chain-asset-tokenization>

⁷<https://coinmarketcap.com/currencies/paypal-usd/>

⁸https://dune.com/nick_one/brand-nft-collection-overview

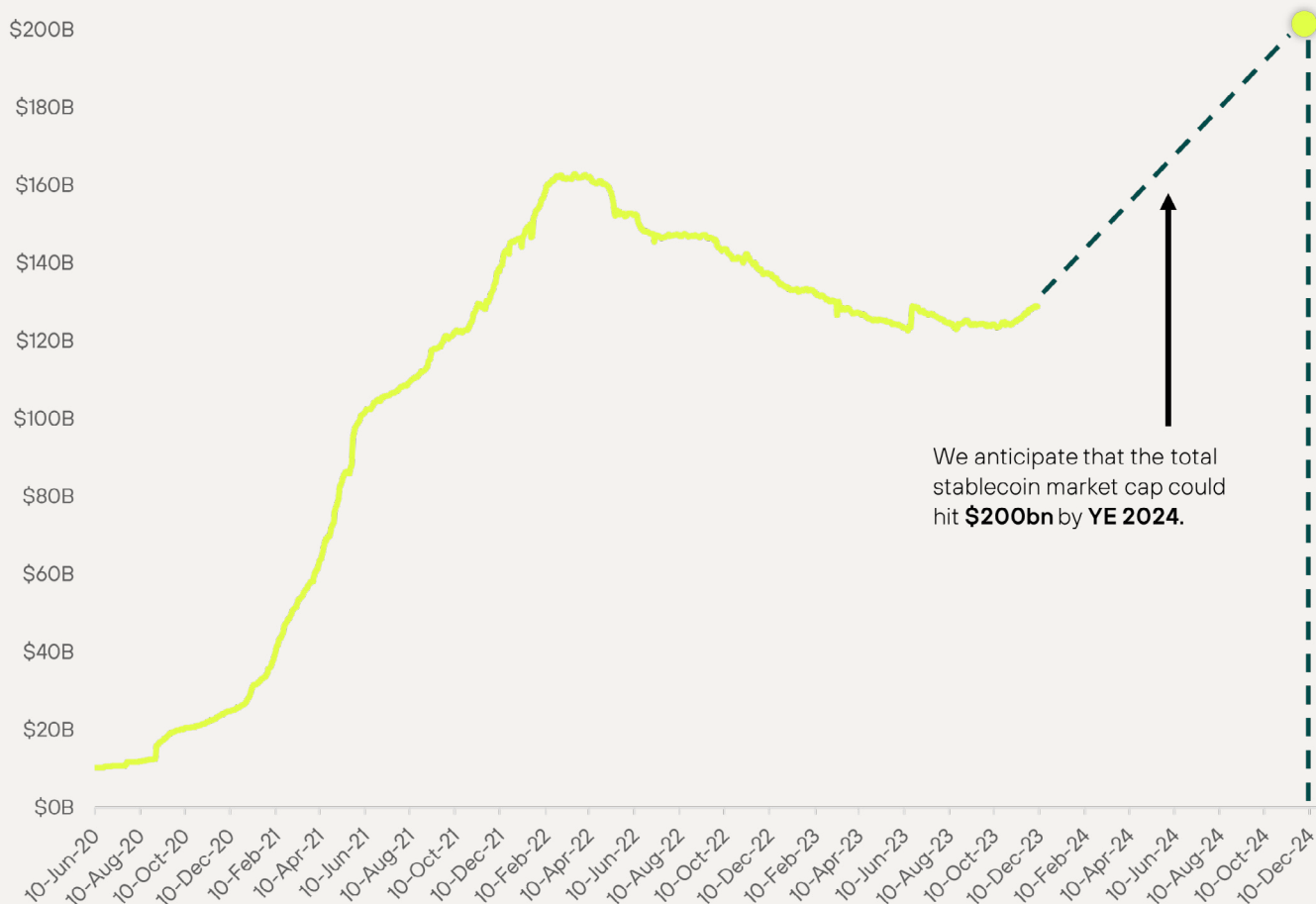
Enterprises Will Continue to Explore Web3 Initiatives

Nike and other innovative companies have already embraced tokens. For example, Nike has generated \$385 million in revenue across 25 different NFT collections since December 2021. Other brands following in Nike's footsteps include Adidas (\$150 million in NFT revenue), Dolce & Gabbana (\$27 million), Gucci (\$16 million), Tiffany & Co. (\$15 million), and several others⁸. Despite an amplified bear market for NFTs, these brands have weathered the storm through innovative fusions of their physical goods and the digital realm. Ticketing provider Platinum Group debuted 'NFT tickets' for the Monaco Grand Prix in May, offering not just event entry but additional utility in the form of loyalty discounts. Aiming to be the first complete NFT ticket service, Sports Illustrated partnered with ConsenSys to develop an NFT ticketing platform, 'Box Office.' Disney also announced a partnership with Dapper Labs to launch its own Web3 initiative.

Gaming Will Onboard Millions to Web3

Despite a big decrease in overall VC funding to the Web3/crypto sector compared to 2021, Web3 gaming projects have raised hundreds of millions in the past year and have had a two-year bear market to focus on developing quality games⁹. As the second largest VC crypto category allocation behind just CEXs, the potential total addressable market and opportunity for Web3 gaming hasn't gone unnoticed; gaming giants like Sega, Ubisoft, Zynga, and many more have entered the arena with blockchain-based games. With sustained capital injections and time to properly build, Web3 gaming could become one of the largest narratives in the coming years and lead the way in onboarding users to Web3.

Total Stablecoin Supply & Year-End 2024 Forecast



Source: DeFiLlama

⁹ <https://dappradar.com/blog/state-of-blockchain-gaming-in-q3-2023>

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