The January 2023 Special Report, “The Next American Productivity Renaissance,” from Morgan Stanley Wealth Management Chief Investment Officer Lisa Shalett, contends that the next business cycle will look much different from the period of secular stagnation that followed the Great Financial Crisis (GFC), as it will feature transformative new economic drivers that will ignite a multiyear capital investment super-cycle. In this AlphaCurrents, we identify an investable universe of companies that could benefit from the five demand-side and four supply-side capex catalysts identified in the January report. We also provide the inputs for our quantitative screen and fundamental investment rationales for each company.

We sort the list of 25 companies into five groups that we expect to do well as the productivity renaissance plays out. Further, our analysis limits the list to companies that are big and liquid enough, with potential to grow through an economic downturn and with attractive valuations given their competitive advantages.

While each stock has individual risks, the group could also underperform in an era of low rates, global peace and/or shrinking global population.

Special thanks to Jane Yu for her contributions to this report.
The Next American Productivity Renaissance

In “The Next American Productivity Renaissance”, Lisa Shalett contends the next business cycle will look much different from the period of secular stagnation that followed the Great Financial Crisis (GFC), as it will feature transformative new economic drivers that will ignite a multiyear capital investment super-cycle.

The report highlights demand-side capex catalysts and supply-side enablers that we’ve used as a guide to create a list of stocks that could benefit from these trends. The five demand-side catalysts of greater capex include digital disruption and reengineering of services businesses, a structurally tight labor market, advancing deglobalization, accelerating decarbonization and geopolitical adjustments leading to a new world order. Our list also draws on four supply-side enablers—healthy private-sector balance sheets, improving workforce demographics, commercialization of enterprise-level innovation and the normalization of Federal Reserve policy.

With these factors as our compass, we created a list of 25 stocks that illustrate these trends and could potentially outperform peers. The list includes stocks from five groups that align with the various elements identified in Lisa Shalett’s report: 1) enablers of human capital efficiency, 2) enablers of deglobalization, 3) enablers of energy efficiency, 4) enablers of a new world order; and 5) finance and funding facilitators.

The 25 stocks also meet our quantitative test, based on our view that the winning companies should be big enough and liquid enough, have the potential to grow even through an economic downturn and have an attractive valuation given their competitive advantage. In short, they needed to meet these quantitative criteria: 1) market capitalization over five billion dollars; 2) estimated fiscal year 2024 sales growth greater than five percent; and 3) return on equity (ROE) greater than price/earnings (P/E) ratio.

The list is diversified across sectors and themes, and the companies on it have an average market capitalization of $51 billion, average consensus estimates for fiscal year 2024 sales growth of around 12% and an average fiscal year 2024E P/E ratio of 22x.

Key Risks: While each stock has individual risks, the group could also underperform in an era of low rates, global peace and shrinking global population.

How Did We Get Here?

Much of the last economic cycle was characterized by slow economic growth, low inflation and lackluster productivity. From 2009 to 2019, real economic growth was 2.2% (two-thirds the post-World War II average of 3.3%), annual capital expenditures as a share of gross domestic product (GDP) averaged about 25% versus the 30% historical average, and annual growth in productivity was a disappointing 1.4% versus the long-run average of 2.3%.

This same period also saw one of the strongest financial market returns of all time, with low interest rates and negative real rates greatly benefitting valuations. US stocks compounded at close to 15% a year—twice the average rate—and bonds advanced by more than 6% a year.

It was in this environment that the COVID-19 pandemic struck, shocking the global economy and markets. The pandemic upended longstanding supply/demand dynamics and accelerated structural changes across the economy that now demand new capital.

Powering the Capex Boom

This return of capex, according to “The Next American Productivity Renaissance,” could be powered by five transformational demand drivers: digital disruption and reengineering of services businesses; a structurally tight labor market; advancing deglobalization; accelerating decarbonization; and geopolitical adjustments leading to a new world order.

The report emphasizes that the supply side is primed to meet these new demands and identifies four enablers of strong capital investment: healthy private-sector balance sheets; improving workforce demographics; commercialization of enterprise-level innovation; and the normalization of Federal Reserve policy (see Exhibit 1).

These drivers are coming together to set the stage for a new breed of market leaders—no longer the consumer tech-focused names, but formerly underappreciated companies that appear poised to exploit technology disruption to advance their business models.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.
Which Stocks Could Outperform During the American Productivity Renaissance?

These ideas bring us to this report, where we seek to create a basket of companies that might outperform given these trends. We use the five catalysts outlined in “The Next American Productivity Renaissance” to find important industries, and use some simple quantitative screens to find quality, growing companies at reasonable valuations that might outperform.

Based on the thinking illustrated in the Special Report, we can infer that the kinds of companies that could drive the next bull market will likely be those that either benefit from demand capex or supply capex, or those that finance or facilitate capex. While that leaves us with a vast universe of companies, we believe a focus on “capex enablers” may be a winning strategy.

Many of these capex enablers have been neglected in the prior cycle, and others might just keep performing well even as their FAANG peers stumble. But which capex enablers should investors buy?

The answer is not so obvious. In some cases, competing in an attractive market may not be enough for a company’s stock to outperform. Sometimes, attractive industry economics are already priced into the share price. Importantly, we are not looking for an index of capex companies, but rather the leaders, or “captains,” of this group, a collection of leading companies that would not only benefit from the next American productivity renaissance, but would also be subject to diverse drivers and end markets. These “Capex Captains,” could have the potential to outperform others even in their own industries over the next five years.

Getting to the Investable Universe

To identify the Capex Captains, we set out to construct the investable universe, starting with two hundred companies that supply or facilitate capex that were covered by Morgan Stanley & Co. Research with Equal-weight or Overweight ratings. We then put this initial list of companies to the test on two levels.

First, we looked for those companies that could be qualitatively considered “capex enablers.” Admittedly, we found numerous also-rans in the bunch: companies that provided capex to smaller markets or that were too diversified, companies that looked overvalued or companies that didn’t have competitive advantages. But using the catalysts explained in the Special Report, we assessed the companies and grouped them into five buckets:

1) Enablers of human capital efficiency, 2) enablers of deglobalization, 3) enablers of energy efficiency, 4) enablers of a new world order, and 5) finance and funding facilitators.
Next, to narrow the list down, we felt the qualifying companies should be big enough and liquid enough, have the potential to grow even through a potential recession and have an attractive valuation given their competitive advantage. In short, they would need to meet these quantitative criteria:

1) Market cap over $5 billion; 2) estimated fiscal year 2024 sales growth greater than 5%; and 3) return on equity (ROE) greater than their price/earnings (P/E) ratio.

Our final list of 25 Capex Captains hit most of these criteria, though we made some exceptions. In terms of sectors, the list is comprised of industrials (44%), tech (28%), health care (12%), financials (8%) and energy (8%) companies.

We discuss our analysis further in the following sections.

Five Groups of Capex Captains

As mentioned above, we organized the list into five groups, four of which are focused on the various areas of the economy where we expect to see increases in investment, while the fifth includes companies than enable that investment through financing. That said, some of our companies fall into multiple groups.

- **Enablers of Human Capital Efficiency**: The Special Report discusses the digitization of business models as a key demand driver of increased capex. It talks about how the pandemic accelerated developments like mobile banking and remote conferencing. For example, digitization of business is about replacing human capital with automation, such as artificial intelligence, or increasing individual workers’ productivity. Sometimes this is done to improve margins and efficiency, while at other times it is done out of necessity. Another catalyst discussed in the report is a once-in-a-lifetime labor-market shock. In the future, employees are likely to become harder—and more expensive—to find. This makes economizing on human capital all the more important. Based on these ideas, our first category of potential Capex Captains is made up of companies that help businesses get more out of labor or help upgrade the human capital of an existing workforce. Of our 25 Capex Captains, 52% help improve human capital efficiency. They include businesses focused on automated surgeries, advanced medical testing, industrial automation, farming automation, automated dispatch, training, traffic ticketing and toll collections and cyber threat identification.

- **Enablers of Deglobalization**: The past 20 years have seen many areas benefitting from global scale, but several events have caused the forces of globalization to go in reverse. The Special Report mentions tariffs and rising protectionism, supply-chain disruptions related to COVID and an expanding economic sanctions policy. Regardless, new supply chains require capex, and sometimes policymakers want to duplicate the manufacturing capacity of whole industries deemed strategic. Among the companies studied, we’ve identified a handful of names that make possible a less globalized world, including industrial automation manufacturers supplying new nearshoring factories and food supply-chain enablers. These companies account for 24% of the Capex Captains.

- **Enablers of Energy Efficiency**: The report also focused on decarbonization as a catalyst. The shift away from carbon-based energy has far-reaching effects. On the one hand, new industries have emerged to replace carbon-based energy such as wind, solar and other renewable sources. On the other hand, the uncertain future for carbon energy has depressed capex in the energy sector. Going forward, we see promise for both types of energy capex: one that moves away from carbon and one that helps meet ongoing energy demands until the energy transition is complete. Traditional energy service companies, as well as those that support electrification, improve energy efficiency and support alternatives like solar energy, are all included in our consideration. Energy capex companies account for 36% of the Capex Captains basket.

- **Enablers of a New World Order**: The Special Report highlights how the post-Cold War consensus has shifted into a world where regional blocs choose alliances or try to play one side off against the other. In this new, multi-polar world, companies that help nations compete with one another, or defend against attacks will see an increasing share of the economic pie, including the companies that can help fund political entities. Our list of qualifying companies includes defense contractors, suppliers to defense companies, space companies, cybersecurity providers, and a business that helps governments generate revenue through ticketing and tolls. Winners from the “New World Order” category account for about 27% of the Capex Captains.
**Financing and Funding Facilitators:** The four groups of winners above help support increased investment, but this investment must also be financed. As mentioned earlier, the Special Report focused on four supply enablers that facilitate the acceleration in capex. Among those, improving demographics provides hope that capex improving human efficiency will not only offset poor demographics of the past several years but will also supplement it in the future as demographics improve. The rise of innovation J-curves, a trend that is characterized by an initial loss soon after followed by a large gain, helps us focus our efforts on the right companies. Healthy balance sheets and the end of the negative-rate environment help direct us to the last category of the Capex Captains: financing. Healthy balance sheets allow for a material increase in debt, and higher interest rates place an importance on finding higher risk/higher reward investments which justify taking on debt. The investments above will require lending, smart allocation of capital and new government revenue. While much of the financial sector might benefit in some segments of their business, we focused on more “pure play” companies. Banks with lower-risk commercial banking deposits and services, residential home finance or wealth management arms might have units that benefit from increases in capex, but companies that focus on financing high-yield investments or support the issuance of bonds and loans, or help governments generate more revenue, may be more levered to the capex theme. Roughly 12% of the Capex Captains are Financing and Funding Facilitators.

**Identifying the Captains**

Many companies compete in industries that should see a lift from rising capex, but those without notable competitive advantages, or those with expensive valuations may still underperform, even if they have exposure to secular trends. To filter those out, we used a three-part screen to narrow our list of companies to those that were: 1) reasonably sized, 2) growing; and 3) possessed competitive advantages without being overpriced. We aimed for all three criteria, and while some did not check all the boxes, they ultimately merited a place on our final list.

- **Reasonably Sized:** We looked for companies that had over $5 billion in market cap. This is often high enough that an attractive market has been identified and liquid enough to take a larger stake. The Capex Captains average $51 billion in market cap, leaving room for growth. The two smallest (SHLS, VRRM) are just under $5 billion, and the four largest are over $100 billion.

- **Growing:** It’s possible for companies in declining industries to generate great returns, but it’s unlikely that companies in declining industries will benefit from the capex renaissance. In fact, many of these trends have been in place for a few years and should already be driving growth. We focused on companies that are expected to grow revenue by more than 5% in FY24 over FY23. Our 5% limit is somewhat arbitrary, but with two-year breakeven inflation rates ranging from 2.0% to 3.5% since the Federal Reserve began aggressively raising rates and with population growth of 1%, we think revenue growth over 5% suggests the company is gaining importance. As for the four exceptions on our list, they are expected to grow more slowly due to tough year-over-year comparisons (DE, LECO, ROK), or industry-specific downcycles like the one occurring in semiconductors (AMAT). Nonetheless, we expect those companies to generate strong growth over the next five years. As a group, consensus sales growth of the Capex Captains is expected to average around 12%.

- **Possessing Competitive Advantages Without Being Overpriced:** Quantitatively screening for competitive advantages is difficult, but one method is to look for companies with high returns on capital. A company with a high return on capital is likely doing something that is hard for would-be competitors to copy. There are many measures of return on capital, but return on equity (ROE) is one of the easiest to measure. That said, many companies with high returns on capital are fully valued by the market. Pairing a high return on capital with a low P/E is a classic formula on Wall Street, similar to one popularized by *The Little Book that Beats the Market*, by Joel Greenblatt. The screen finds companies with a strong business that are not too expensive. We used a similar screen of companies with ROE greater than forward P/E to limit our universe to such companies. Among our Capex Captains, ROEs ranged from 3% to 72% (with a few higher exceptions due to low book values) and averaged 28% (excluding three outliers). Price-to-earnings multiples ranged from 8x to 68x and averaged 22x. All but nine of the Capex Captains had ROEs that exceed the P/E. The stock with the biggest divergence between the ratios, Illumina (ILMN), is impacted by a loss-making division that disguised the profitability of its larger legacy business. Two other companies are expected to grow EPS so rapidly, ROE for 2024 maybe much higher than FY23 (UBER, FLSR). The other exceptions were either close (GFS, NOV, SEDG, JEF) or benefitted from high recurring revenue which lifted their P/E over ROE (ISRG, CAE).
Nice in Theory, but Will It Work?

We have ensured that our final list is diversified across sectors and includes exposure to several distinct themes in order to avoid heavy exposure to any one sector or theme. Within sectors, we expect the market cap, growth and value criteria will help us identify secular leaders. No single sector accounted for a majority of the companies that made the final cut of Capex Captains. The Capex Captains included companies from five key sectors—industrials, tech, health care, financials and energy. The companies identified as Capex Captains serve a diverse group of end markets and reflect a wide range of business models.

In addition to diversification and quality screens, historical evidence also suggests potential outperformance by these sectors in periods of rising capex intensity. An analysis of year-forward S&P 500 sector returns from 1990 through 2022 showed that during times of rising capex, tech was the best-performing sector, with financials, energy, health care and industrials posting above-average returns (see Exhibit 2).

This data finds some backing in another analysis, conducted by our colleagues at Morgan Stanley & Co. Research, who examined which sectors benefited from capex outgrowing the economy. Specifically, the team considered more than 40 years of data to see how sales growth in about 60 industries fared relative to the overall market during periods of capex in excess of GDP. They found mild correlations between sales growth relative to the market and growth in fixed, non-residential investment relative to GDP in many of the industries included in our report. Communications equipment, machinery, energy equipment and services; and electronic equipment, instruments and components showed a coincident correlation. Meanwhile commercial aerospace, construction and engineering, aerospace and defense, and industrial conglomerates showed a lagging correlation. While admittedly the economy is always changing, it seems plausible to us that these types of sectors would again grow faster than peers if the capex renaissance plays out as expected.

Where We Could be Wrong About the Capex Captains

Over the short term these companies may have cyclical risks as capex is tied closely to the economic cycle and each company may have its own risks but in the long term we see three risks to the group:
• **Return of Low Rates:** If in fact economic normalization takes a pause or goes into reverse bringing back low interest rates, the environment might favor lower-risk products and the “freemium” business models that have proliferated over the past 10 years. Perhaps after moving higher over the past year or so, rates may slip back and stay lower for longer for another decade, if higher rates create too much political pressure globally.

• **Peace in Our Time:** The past few years may turn out to be a temporary setback from the march towards a more global world. Globalization could return alongside all the business models it encouraged, and the new world order and rising tensions between blocs of countries may subside should there be a series of political leadership changes in key countries around the world. Duplicative supply chains built in the past few years and rising defense budgets might then reverse, potentially leaving so much excess capacity that the world would be awash in goods and products.

• **Depopulation:** We view labor shortage as a key driver of the capex renaissance today, but population growth as the trend in the future. That said, working-age populations have begun to shrink in Japan, China and some European countries. If the world were to move to a steady depopulation trend, all capex providers will be challenged as a growing number of sectors experience excess capacity.
### Exhibit 3: Morgan Stanley Wealth Management’s Capex Captains

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Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of March 24, 2023
## Exhibit 4: Morgan Stanley Wealth Management’s Capex Captains Data

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Name</th>
<th>Sector</th>
<th>Market Cap (Billion)</th>
<th>F2024E Sales Growth</th>
<th>P/E 2024</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMAT*</td>
<td>Applied Materials</td>
<td>Information Technology</td>
<td>$100.5</td>
<td>-3%</td>
<td>18.2</td>
<td>4.9</td>
</tr>
<tr>
<td>CAE*</td>
<td>CAE</td>
<td>Industries</td>
<td>$6.8</td>
<td>9%</td>
<td>16.5</td>
<td>6</td>
</tr>
<tr>
<td>DE*</td>
<td>Deere &amp; Co</td>
<td>Industries</td>
<td>$116.5</td>
<td>4%</td>
<td>12.4</td>
<td>4.4</td>
</tr>
<tr>
<td>ETN</td>
<td>Eaton Corp</td>
<td>Industries</td>
<td>$65.2</td>
<td>6%</td>
<td>18.3</td>
<td>19</td>
</tr>
<tr>
<td>FSLR</td>
<td>First Solar</td>
<td>Information Technology</td>
<td>$22.4</td>
<td>32%</td>
<td>18.9</td>
<td>12</td>
</tr>
<tr>
<td>GFS</td>
<td>GlobalFoundries</td>
<td>Information Technology</td>
<td>$37.0</td>
<td>14%</td>
<td>21.1</td>
<td>13</td>
</tr>
<tr>
<td>HAL</td>
<td>Halliburton</td>
<td>Energy</td>
<td>$27.6</td>
<td>11%</td>
<td>8.1</td>
<td>35</td>
</tr>
<tr>
<td>HON</td>
<td>Honeywell International</td>
<td>Industrials</td>
<td>$125.6</td>
<td>5%</td>
<td>19</td>
<td>35</td>
</tr>
<tr>
<td>ILMN</td>
<td>Illumina</td>
<td>Health Care</td>
<td>$34.4</td>
<td>15%</td>
<td>68.2</td>
<td>3</td>
</tr>
<tr>
<td>ISRG</td>
<td>Intuitive Surgical</td>
<td>Health Care</td>
<td>$88.5</td>
<td>13%</td>
<td>40.7</td>
<td>17</td>
</tr>
<tr>
<td>JEF*</td>
<td>Jefferies Financials Group</td>
<td>Financials</td>
<td>$6.9</td>
<td>14%</td>
<td>9.4</td>
<td>7</td>
</tr>
<tr>
<td>LECO</td>
<td>Lincoln Electric Holdings</td>
<td>Industrials</td>
<td>$9.3</td>
<td>2%</td>
<td>17.3</td>
<td>4.9</td>
</tr>
<tr>
<td>MCO</td>
<td>Moody’s</td>
<td>Financials</td>
<td>$53.7</td>
<td>11%</td>
<td>26.6</td>
<td>63</td>
</tr>
<tr>
<td>MSI</td>
<td>Motorola Solutions</td>
<td>Information Technology</td>
<td>$45.9</td>
<td>6%</td>
<td>21.4</td>
<td>14-67%</td>
</tr>
<tr>
<td>NOC</td>
<td>Northrop Grumman</td>
<td>Industrials</td>
<td>$69.7</td>
<td>6%</td>
<td>18.9</td>
<td>22</td>
</tr>
<tr>
<td>NOV</td>
<td>NOV</td>
<td>Energy</td>
<td>$7.0</td>
<td>10%</td>
<td>10.4</td>
<td>9</td>
</tr>
<tr>
<td>PANW*</td>
<td>Palo Alto Networks</td>
<td>Information Technology</td>
<td>$58.3</td>
<td>21%</td>
<td>37.4</td>
<td>617%</td>
</tr>
<tr>
<td>PH*</td>
<td>Parker-Hannifin</td>
<td>Industrials</td>
<td>$41.6</td>
<td>6%</td>
<td>15.2</td>
<td>28</td>
</tr>
<tr>
<td>ROK*</td>
<td>Rockwell Automation</td>
<td>Industrials</td>
<td>$32.0</td>
<td>5%</td>
<td>23</td>
<td>43</td>
</tr>
<tr>
<td>SEDG</td>
<td>SolarEdge Technologies</td>
<td>Information Technology</td>
<td>$16.0</td>
<td>22%</td>
<td>23.4</td>
<td>23</td>
</tr>
<tr>
<td>SHLS</td>
<td>Shoals Technologies Group</td>
<td>Industrials</td>
<td>$3.5</td>
<td>46%</td>
<td>21.4</td>
<td>32</td>
</tr>
<tr>
<td>STX*</td>
<td>Seagate Technology Holdings</td>
<td>Information Technology</td>
<td>$12.8</td>
<td>18%</td>
<td>12</td>
<td>285%</td>
</tr>
<tr>
<td>TMO</td>
<td>Thermo Fisher Scientific</td>
<td>Health Care</td>
<td>$216.5</td>
<td>8%</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>UBER</td>
<td>Uber Technologies</td>
<td>Industrials</td>
<td>$615</td>
<td>18%</td>
<td>24.9</td>
<td>8</td>
</tr>
<tr>
<td>VRRM</td>
<td>Verra Mobility</td>
<td>Industrials</td>
<td>$2.5</td>
<td>6%</td>
<td>14.2</td>
<td>72</td>
</tr>
<tr>
<td>AVERAGE</td>
<td></td>
<td></td>
<td>$50.5</td>
<td>12%</td>
<td>21.8</td>
<td>28%**</td>
</tr>
</tbody>
</table>

*Fiscal Year does not begin on January 1st. **Average ROE calculation does not include securities with an ROE greater than 100%

Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of March 24, 2023
Introducing the Capex Captains

Enablers of Human Capital Efficiency

CAE Inc. (CAE) produces flight simulation solutions and technologies operating in three segments: civil aviation training solutions (Civil), defense and security (Defense), and health care. Civil (45% of company sales) provides training solutions for pilots, cabin maintenance and ground control staff. Defense (40% of company sales) provides training and support for defense forces for multi-domain operations and government entities supporting public safety. Health care (10% of company sales) supplies education and training solutions including surgical simulations, curriculum and management platforms to students and professionals. CAE embodies human capital efficiency accelerating the breadth and speed of advanced training. CAE satisfies two of the three quantitative criteria: its current market cap is $7 billion and FY2024 estimated consensus sales growth is 9%; however, its ROE (6%) is less than its P/E (17x). Notably ROE was much closer to the PE in 2018 when it reached 16%. The current ROE may be depressed from the $1.1 billion acquisition in 2021 of L3Harris’ military training business. If the human capital shortages unfold, we expect CAE’s pricing power and ROE to increase closer to historic levels. Key risks include a slowed recovery in air traffic after COVID and a reduction in global defense budgets amid an uncertain macro backdrop.

Deere & Co. (DE) is a global machinery company focused on agriculture and construction. Its segments include production and precision agriculture (42% of 2022 revenues), small agriculture and turf (25%), construction (25%), and financial services (6%). Historically, demand drivers include global crop commodity prices, supply/demand (stocks/use), farmer incomes and industrial production. While these could continue to be cyclical factors, Deere could also benefit from increased penetration of its precision agriculture products, which utilize technology to drive automation and efficiency. Given the impact of geopolitical events on farmers’ incomes and the aging stock of machinery globally, we expect strong replacement demand into the higher-margin precision agriculture machinery over the next several years. As this plays out, Deere should emerge as a key driver of human capital efficiency (making farmers more productive) and deglobalization (as scarce resources like food production are localized in an effort to reduce supply disruptions). Finally, Deere also offers loans through its captive finance segment that helps fund capex investment into new more efficient agriculture equipment. Deere satisfies two of the three quantitative criteria: its current market cap is $117 billion, and its ROE (44%) is above its P/E (12x). While its FY2024 estimated consensus sales growth is 4%, this is largely due to challenging comparisons; should replacement demand extend the cycle given strong farmer incomes, we would expect consensus estimates to be revised higher. Key risks include falling crop commodity prices impacting farm incomes, used inventories affecting pricing power and new equipment purchase, a global growth slowdown driving negative operating leverage and supply chain issues and raw material headwinds impinging on profitability for longer than expected.

Honeywell International (HON) is a diversified industrial company that provides hardware, software, and solutions across aerospace, industrial and energy end markets. Its segments include aerospace (33% of 2022 revenues), performance materials & technologies (30%), safety and productivity solutions (20%), and Honeywell building technologies (17%). Given its economies of scale and strong balance sheet, Honeywell International has been able to both invest internally, as well as pursue strategic mergers and acquisitions to position itself to address secular growth in automation, sensing, energy, quantum computing and health care. By taking a technology and R&D-focused approach to industrial applications, Honeywell International addresses several of the critical themes including human capital efficiency, energy efficiency, deglobalization and the new world order. It has strong competitive positioning in markets like e-commerce warehouse automation, health care data analytics and sensing, building heating and cooling and aerospace/defense. Honeywell satisfies all the quantitative criteria: its current market cap is $126 billion, FY2024 estimated consensus sales growth is 5% and its ROE (35%) is above its P/E (19x). Key risks include supply chain headwinds that could impact productivity, continued slowdown in growth end markets like e-commerce, a residential construction slowdown, and M&A deployment misses targets.

Illumina (ILMN), a global genomics company, focuses on sequencing and array-based solutions enabling advancement in genetic and genomic analysis. The sequencing platform (90% of company revenue) produces systems that are distinguished for their productivity, cost-efficiency and accuracy among next-generation sequencing (NGS) technologies, which dominate the market, possessing 85% share. DNA sequencing is used for studies, genetic screening, early detection of direct cancer treatments, prenatal testing and sequencing of plants and animals among a budding list of additional practices. Arrays (9% of company revenue) are the main technology for consumer genomics applications as one array supports identification of millions of genetic markers. Illumina embodies human capital efficiency as an enabler in more productive ways of targeting DNA and genome sequencing. Illumina satisfies two of the three quantitative criteria: its market cap is $35 billion, and FY2024 estimated consensus sales growth is 15%. However, its ROE (3%) is less than its P/E (68x). If Illumina spins or sells its Grail business, the unprofitable biotechnology company specializing in creation of an early-stage cancer screening test, its revised
earnings per share should result in an ROE greater than its P/E multiple. Key risks arise from ownership in Grail spanning an ongoing legal battle, slower-than-expected Grail reimbursement and adoption and greater-than-expected dilution from Grail. Another noteworthy risk is potential competition from emerging NGS platforms.

Intuitive Surgical (ISRG) designs, manufacturers and markets surgical systems. As the leader in robotic-assisted surgery, Intuitive Surgical benefits from economies of scale in R&D and in industry-standard network effects as doctors train on its systems and know how to use them. It makes human capital more efficient through automation. The company benefits from the human capital efficiency trend. Intuitive Surgical satisfies two of the three quantitative criteria: its market cap is $89 billion and FY2024 estimated consensus sales growth is 13%. However, its ROE (17%) is less than its P/E (41x), suggesting that these competitive advantages may already be priced in. That said, we make an exception for Intuitive Surgical because its high recurring revenue and network effects tend to make it trade at elevated multiples. Since 2017, it has traded between 32x and 50x P/E, with brief periods of over 50x forward earnings. Given the stock is currently trading in the bottom half of its trading range and fits the catalyst and other quantitative criteria, we include it in the Capex Captains. Key risks for Intuitive Surgical include significant placement risk driven by constrained hospital capex, procedure growth stalls in benign procedure categories and increased competition from large competitors.

Lincoln Electric (LECO) designs and manufacturers welding and cutting products, fume extraction equipment, robotic welding systems and cutting systems, with 55% of revenue from the United States. Roughly 45% of revenue is from equipment, but the consumable portion is often used to build other capital equipment in the steel fabrication, energy, shipbuilding, automotive and construction industries. Lincoln Electric improves human efficiency through automation, but its customers often fit the catalyst of energy efficiency, new world order and deglobalization. Lincoln Electric’s product suite and leading position in certain products give it a competitive advantage. Roughly 57% of 2021 equipment sales were from new products. Lincoln Electric satisfies two of the three quantitative criteria: its market cap is $9 billion, and ROE (49%) is well above its P/E (17x). Lincoln Electric’s FY2024 consensus revenue growth of only 2% is below our target, but we note that consensus sales estimates for FY24 have risen 5% already year to date and could rise further. Key risks include a recession, margin compression from negative operating leverage and broader industrial markets surprise to the downside.

Parker-Hannifin (PH) has a leading (13%) market share in the motion and control industry, selling components that are critical to manufacturing and transportation end markets. Its recent acquisition of Meggitt has effectively doubled its exposure to aerospace and engineered materials, which tend to be longer cycle with higher margins. By segment, Parker-Hannifin’s pro forma Morgan Stanley & Co. 2023 estimated revenue mix is 77% diversified industrial and 23% aerospace. Notably, it has deep relationships with customers as two-thirds of sales are derived from customers that leverage four-plus technologies/platforms. This positions Parker-Hannifin favorably for the capex cycle as it is a critical provider of components to industries that address key themes, including energy efficiency (two-thirds of its portfolio enables clean tech solutions), deglobalization (its systems and materials are inputs to manufacturing processes that will benefit from near-shoring) and the new world order (around 40% of aerospace sales are military-focused). Parker-Hannifin satisfies all the quantitative criteria: its current market cap is $42 billion, FY2024 estimated consensus sales growth is 6%, and its ROE (28%) is above its P/E (15x). Key risks include a short cycle industrial slowdown drive inventory de-stocking; synergy targets from Meggitt integration fall short of expectations; the aerospace industry remains challenged from travel disruptions; and supply chain delays continue.

Rockwell Automation (ROK) is a pure play industrial automation company that sells hardware and software products to industrial, health care, semiconductor and food and beverage customers. Its sensors, equipment and software for manufacturing processes. Its key segments include intelligent devices (46% 2022 revenues), software and control (30%) and lifecycle services (25%). Rockwell Automation has exposure to several secular growth areas including semiconductor production, auto assembly (including electric vehicles), e-commerce and warehouse optimization. As companies attempt to optimize supply chain and logistics footprints and offset rising costs and inflation through productivity, we believe that Rockwell Automation is well-positioned. As capex is allocated to these efforts, Rockwell Automation is exposed to themes including human capital efficiency and deglobalization. Additionally, as it provides solutions to enable electric vehicle production, pharma/biotech drug development and clean energy production, we believe Rockwell Automation could also address the new world order theme. While the company continues to face cyclical demand drivers (industrial production, GDP), we believe secular tailwinds presented by these capex themes should sustainably uplift its growth profile. Rockwell Automation satisfies two of the three quantitative criteria: its current market cap is $32 billion, and its ROE (43%) is above its P/E (23x). While its FY2024 estimated consensus sales growth is 4.6%, this is largely due to challenging year-over-year comparisons, as underlying orders and backlogs suggest continued durability of revenues. Key risks include: auto end markets remain depressed, e-commerce warehouse investments continue to slow, increased competition in automation software and M&A-driven growth disappoints.


**Uber Technologies (UBER)** is a global technology platform using its vast network and proprietary technology to enable delivery, ride hailing and freight transport services. The delivery segment accounts for 50% of sales and allows customers to order meals from restaurants, groceries, alcohol, among other items for delivery or pickup. Mobility accounts for 40% of sales and connects consumers to mobility drivers who supply rides. The freight segment accounts for 10% of sales and connects carriers with shippers. Despite having over 140 million monthly active users and over 5 million active drivers and couriers, Uber improves human capital efficiency through reducing the need for human dispatchers and reducing wait times between rides when drivers are not fully utilized. In the future, it might be able to improve efficiency by fully automating the drivers. Through various partnerships and its massive platform, Uber is set to be a leader in autonomous mobility and delivery. Uber Technologies satisfies all three of the quantitative criteria: its market cap is $62 billion, and FY2024 estimated consensus sales growth is 18%. Uber’s expected ROE (8%) in FY2023E is below its forward FY2024 P/E (25x). However, it is just reaching profitable scale. FY24 consensus EPS estimates suggest ROE might be closer to around 30% in a few years, much closer to its expected ROE. Key risks include competition across delivery and mobility, timing surrounding vast AI implementation and legal challenges.

**Seagate Technology (STX)** provides data storage and infrastructure technology hardware. Given growing adoption of cloud software, data processing takes place increasingly outside of traditional data centers. This powerful shift is enabled through 5G technology, the Internet of Things (IoT), machine learning and artificial intelligence (AI). Seagate Technology benefits from two areas of capex spending: human capital and energy capex. Its data storage products power many of the cloud analytical services that improve human capital efficiency, while Seagate’s PowerChoice Technology makes data centers centers—which are huge energy consumers—more energy efficient. The company enjoys economies of scale in research and development where it spends 9% of sales, or nearly $1 billion annually. Seagate satisfies the quantitative criteria: the company’s market cap is $13 billion, its FY2024 estimated consensus sales growth is 18%, and its ROE (285%) exceeds its P/E (12x). Risks include steeper declines in revenue from cyclical markets, inventory takes longer to work through, and IT hardware normalizes more than expected.

**Enablers of Deglobalization**

**Applied Materials (AMAT)** is part of a five-member global oligopoly that produces front-end semiconductor capital equipment. These firms are key suppliers to the global semiconductor industry, providing the essential equipment used in the manufacture of high-tech chips. Roughly 95% of Applied Materials’ revenue benefits from the deglobalization catalyst, while it does benefit slightly from the Decarbonization catalyst as well. Applied Materials’ semiconductor equipment revenue is benefiting from the move towards deglobalization as policymakers globally take steps towards securing local semiconductor manufacturing capacity given the economic importance of microchips. As redundant manufacturing capacity is deployed globally, chip equipment manufacturers like Applied Materials should benefit. Applied Materials’ competitive advantage comes from economies of scale in R&D, where it can afford to in invest in innovation, in manufacturing scale where it maintains some of the highest volume production lines in the industry, and the benefits of an installed client base. These advantages help explain Applied Materials satisfies two of the three quantitative criteria: its market cap is $101 billion, and ROE (49%) is greater than its P/E (18). While the consensus estimate for FY2024 sees sales growth falling 3% (which violates our growth constraint), this reflects the cyclical nature of semiconductor manufacturing sector, which tends to have strong secular growth over longer cycles. Key risks for Applied Materials are its concentration of customers and highly cyclical business model. Three customers, alone, make up 42% of revenue. Other risks include semiconductor industry cyclical, and given the potential economic slowdown, consensus estimates for 2023 and 2024 may be too high.

**GlobalFoundries (GFS)** is a semiconductor foundry firm focused on the pervasive semiconductor market, particularly in the manufacture of 12nm+ chips. GlobalFoundries sells to over 200 customers in the automotive, communications infrastructure, Internet of Things (IoT), datacenter, smart mobile and PC end markets. The company enjoys the competitive advantage of being the only US-based pure foundry, with additional operations in Germany and Singapore. As the global semiconductor arms race plays out, strategically located foundries that align with US policy should benefit. With end markets in high tech and clean-tech industries, it benefits from increased demand for its products. GlobalFoundries has exposure to three secular capex areas: 1) Deglobalization; 2) New World Order; and 3) Energy Efficiency. Primarily, GlobalFoundries is set up to diversify chip manufacturing away from China for a variety of reasons, including tariffs, domestic legislation and shorter supply lines. As an all-important strategic capability, chipmaking benefits as a solution to the new world order. Finally, a small percentage of GlobalFoundries demand comes from the EV transition and thus supports energy efficiency (though this is not as an important driver as the first two). GlobalFoundries satisfies two of the three quantitative criteria: its market cap is $37 billion, while F2024E consensus sales growth is 14%. Although ROE (13%) is below P/E (21x), GlobalFoundries’ ROE has been increasing lately and may continue to increase as deglobalization escalates and achieves scale. Key risks include...
its cyclical business model, which could result in reduced demand in the short term if the economy slows, and if its 12nm+ end markets migrate to 10nm semiconductors, an area GlobalFoundries does not focus on.

**Thermo Fisher Scientific (TMO)** is a diversified life science tools company that has exposure across high-growth secular end markets: pharmaceuticals and biotech (58% revenues), academic and government (15%), industrial and applied (13%) and diagnostics and health care (14%). Combined, management highlights a $225 billion addressable market, with 4%-6% long-term growth. We expect Thermo Fisher Scientific can grow at a faster rate in these end markets given its market leadership, recurring revenue base (around 80% of sales are consumables) and broad-based offerings. The company’s products and services allow for innovative R&D investments that enable critical and life-saving advancements in healthcare. After the events of the past several years, health care capabilities and supply chain have become matters of national security. Thus, we view Thermo Fisher Scientific as supporting the themes of deglobalization (as countries emphasize health care supply-chain resiliency) and the new world order (as vaccine availability became a geopolitical issue in 2020). Thermo Fisher Scientific satisfies all three of the quantitative criteria: its current market cap is $217 billion and FY2024 estimated consensus sales growth is 8%. Its ROE (21%) is modestly above its P/E (21x) which reflects its stable growth profile, warranting a premium valuation. Key risks include headwinds from fading COVID revenues, economic downturn affecting demand across segments, government funding waning in faces of other priorities, M&A execution and persistent regional turbulence, including China.

**Enablers of Energy Efficiency**

**Halliburton (HAL)** is the second-largest player in an oilfield services oligopoly consisting of three players. While some oilfield services end markets are more competitive than others, and some of these activities are performed by integrated oil companies or national oil companies themselves, Halliburton is a key participant in outsourced oilfield services. It provides energy, engineering, and construction services as well as manufactured products to the energy industry. All of Halliburton’s business enables energy efficiency. A focus on decarbonization and the pandemic led to a period of underinvestment in energy, but future demands will rely on a growing energy supply during the transition to new energy sources. Halliburton benefits from economies of scale, which allows it to manage costs, and also enjoys high barriers to entry given the concentrated nature of operating as a major player in an oligopoly. Halliburton satisfies all quantitative criteria: its market cap is $28 billion, FY2024 consensus sales growth is estimated at 11%, and its ROE (35%) is greater than its P/E (8x). Key risks include cost overruns due to undisciplined project bidding and falling commodity prices from a global economy slowdown, resulting in lower earnings.

**NOV (NOV)** sells equipment and components used in oil and gas drilling, production and oilfield services to the energy industry. It has over 1,300 rigs in operation and generates about 30% of its revenue from the US. Its three segments—Wellbore Technologies (35%), completion and production services (35%) and rig technologies (30)—help to improve energy efficiency. Although most of its products support the oil and gas industry, some support offshore wind power development and geothermal energy. As a leader in rigs, it benefits from mild industry standard network effects while its leading share drives economies of scale in selling and administrative costs. NOV satisfies two of the three quantitative criteria: it has a $7 billion market cap and FY2024 consensus estimates sales growth at 10% is well above inflation rates. Its ROE (9%) is slightly below its P/E (10x); however, recent ROE is far below the levels reached in the prior energy capex cycle from 2004 to 2014 when NOV ROE typically ranged from 10%-20%. If energy capex does increase, historical ROE may be more indicative of competitive advantage than more recent ROE. Key risks for NOV are slowing oilfield activity, loss in market share, disappointing working capital improvements and unanticipated pricing pressures.

**Shoals Technologies Group (SHLS)** produces electrical components used in large-scale solar infrastructure. Shoals Technologies makes a first-of-its-kind product that allows for the installation of multiple electrical components along solar infrastructure, which cuts installation costs by around 40% and reduces material costs by about 20%, while improving the reliability of the installed electrical system. Shoals Technologies is a beneficiary of increased energy capex. It has the leading market share and economies of scale in customized electrical equipment for electrical balance of system (EBPS) solutions for solar energy. Included in 50% of US-based solar projects, high volume gives it a cost advantage in manufacturing and engineering customized solutions. Shoals Technologies Group satisfies two of the three quantitative criteria: its FY2024 consensus sales growth is 46% and its ROE (32%) is greater than its P/E (21x). Shoals Technologies Group has a market cap of $4 billion, which is under our $5 billion target, but its fast growth suggests it may cross the $5 billion market cap level soon. Key risks include slower adoption in international markets, increased competition which could impact margins and unsuccessful entrance into the EV and battery storage markets.

**SolarEdge Technologies (SEDG)** produces electrical components which maximize solar panel power generation while lowering energy cost. SolarEdge is also making inroads in the EV, energy storage and energy management end markets. The company is a clear beneficiary of energy capex,
as all its revenue comes from energy investment. SolarEdge Technologies benefits from economies of scale in R&D and SG&A as it has two contracts with large solar installers. SolarEdge satisfies two of the three quantitative criteria: its market cap is $16 billion and the FY2024 sales growth estimate is 22%; ROE (23%), though, is slightly below its P/E (23x). Given the high level of sales growth, however, we make an exception for SolarEdge Technologies. As SolarEdge Technologies EPS growth rates are expected to remain 20%-plus over the next few years, small changes in EPS growth could impact ROE. Even so, ROE and P/E are close enough that we feel comfortable that the stock has a durable competitive advantage that is not fully reflected in current valuations. Risks include failure to differentiate their product offering, which could hurt market share gains and margin stability, and devaluation of other currencies relative to the USD given their global customer base (37% US, 17% Europe, 12% Netherlands and 34% rest of the world).

First Solar (FSLR) manufactures photovoltaic (PV) solar energy solutions. It produces PV solar modules that provide a high-performance, lower-carbon alternative to conventional PV solar modules. First Solar is the largest PV solar module manufacturer in the Western hemisphere. Its solar panels provide energy at a lower levelized cost of electricity, which means the net present value of a system’s total life cycle divided by the quantity of energy that it produces over its life, is less than traditional forms of energy generation. All of First Solar revenue supports energy investment. As clean energy capex accelerates globally, First Solar could see sustained revenue growth. The company benefits from economies of scale and can invest in continued research and development to create solar panels that increase solar generation performance. First Solar satisfies two of the three quantitative criteria: its market cap is $23 billion and FY2024 consensus sales growth is projected at 32%; that said, its ROE (12%) is below its P/E (19x). Given the high level of sales growth we make an exception for First Solar. IF First Solar beats EPS consensus estimates its ROE could increase in line with the P/E ratio. Even so, ROE and P/E are close enough that we feel comfortable that the stock has a durable competitive advantage that is not fully reflected in its valuation. Key risks include inability to meet cost-cutting targets and increased competition which could impact margins, along with any delays in ramping new manufacturing capacity.

Eaton (ETN), a global power management company, is benefitting from trends towards electrification—including EV infrastructure, grid modernization and energy distribution/storage. This ought to provide a resilient growth profile that outpaces industrial production, given the large opportunity presented by both retrofitting existing equipment and new utilization. Roughly 70% of FY2022 revenues came from its electrical business, 15% from aerospace, 24% from vehicle and 3% in its emerging e-mobility segment. Key drivers of demand include climate change and investments in energy efficiency and increased electricity utilization driven by EV adoption and data center growth. It addresses several megatrends including energy efficiency and deglobalization by enabling more efficient electrical generation/distribution as well as near-shoring as industrial/manufacturing capacity is re-organized. Additionally, a small percentage of its aerospace business is through defense customers. Eaton satisfies all the quantitative criteria: its current market cap is $66 billion, FY2024 consensus estimated sales growth is 6%, and ROE (19%) is just above its P/E (18x). Risks include its EV infrastructure build taking longer than expected, a cyclical slowdown affecting demand, disappointing e-mobility investments, and cost headwinds weighing on margins.

Enablers of the New World Order

Motorola Solutions (MSI) provides communications infrastructure, devices, software and services to government and enterprise customers. Its three product categories include land mobile radio, video security and analytics, and command-center software. Motorola Solutions benefits from economies of scale, which allows it to reinvest in research and development. Its return on the investment it makes in R&D can be seen in the over 6,500 patents owned by the company. Patented technology is a significant barrier to entry for competitors. It benefits from New World Order capex spending given its government and defense-oriented end markets. Motorola Solutions satisfies all quantitative criteria: its market cap is $46 billion, FY2024 consensus sales growth is 6%, and its ROE (14.67%) greater than its P/E (21x), and 6% sales growth. ROE is artificially high due to very low book value but return on invested capital, which is typically lower than return on equity, has been in the 22%-25% range since 2019, above its P/E. Key risks include video security market-share loss, prolonged radio replacement cycles and inability to cross-sell command center offerings.

Palo Alto Networks (PANW) is a global leader in cybersecurity, selling products and services which protect enterprise users, networks, clouds and endpoints and serving companies, organizations, and government entities, among others. Product revenue (25% of company sales) stems mostly from its ML-Powered Next-Generation Firewall, which is available as hardware or on virtual platforms, but also from its licenses of Panorama-based software firewall. Services include subscriptions (45% of sales), which are cloud-based security offerings sold as options to firewall appliances and software or as per user, per endpoint, or capacity based. Support revenue (30% of sales) spans customer support, professional services and the Unit 42 Threat Intelligence team proactively governing cyber risk. Palo Alto Networks is a capex enabler positioned to be a winner in a New World Order where its services will be vital in the emergence of
electric vehicles, semiconductor supply chain and increased cyber threat. Palo Alto Networks also drives Human Capital Efficiency as providing cybersecurity through its leading artificial intelligence and automation. Palo Alto Networks satisfies all quantitative criteria: its market cap is $59 billion, FY2024 consensus sales growth is 21%, and its ROE (617%) is larger than its P/E (37x). Key risks include muted short-term demand for security, specifically firewalls, in a climate of slowing macroeconomic growth and rising competition.

Northrop Grumman (NOC) is a leading global aerospace and defense company that supplies space systems, advanced aircraft, missile defense, advanced weapons and long-range firing capabilities, among other things to US and international buyers. This customer base includes the US Department of Defense (DoD) and intelligence community, as roughly 85% of Northrop Grumman’s sales come from the US government. With DoD spend currently at an all-time high, Northrop Grumman should be a significant player in a New World Order where global geopolitical tensions, threats and defense spend are on the rise. The US defense budget is likely in the early stages of a longer, multi-year upcycle as the war in Ukraine continues and tensions with China persist. Northrop Grumman passes the quantitative screen: its market cap is $70 billion, FY2024 estimated consensus revenue growth is 6%, and ROE (22%) is above its P/E multiple (19x). Key risks include execution of contracts, inflationary pressures cutting margins and easing of the geopolitical or risk environment causing the DoD budget to contract.

Enablers of Financing

Moody’s (MCO) is a global financial services company composed of two main segments, Moody’s Investor Services (MIS) and Moody’s Analytics (MA). MIS produces 60% of company revenue and is the company’s original line of business operating as a traditional bond credit rating agency. MA accounts for 40% of revenue and provides decision makers analytics and research. Moody’s behaves as a Financing and Funding Facilitator as Moody’s Investor Services is a major leader in the debt issuance business that is expected to rise in 2023 and 2024 after a weak 2022, when new debt issuances fell in the wake of seven Federal Reserve rate hikes. Its MA segment also acts as a capex enabler supplying risk management, financial modeling and consulting services. Moody’s satisfies all quantitative criteria: its $54 billion market cap, an 11% FY2024 consensus sales growth estimate and an ROE (63%) that is above its P/E (27x). Key risks revolve around a potential decline in debt issuance due to widening spreads and a volatile macro environment.

Jefferies Financial Group (JEF) is a global financial services company providing investment banking and capital markets (85% of company revenue), asset management (5% of revenue) and direct investing services (15%). The investment banking segment supplies advisory services and equity and debt underwriting, including both M&A and restructuring and recapitalization expertise. The capital markets platform conducts business across equities, fixed income and foreign exchange products. Jefferies Financial Group is set to grow as a Financing and Funding Facilitator due to its rising market share through international expansion, continued funding of its investment banking division and narrowing its credit ratings gap with bulge bracket banks. Jefferies Financial Group satisfies the quantitative criteria: its market cap is $7 billion, FY2024 market consensus sales growth is 14%; however, its ROE (7%) is less than its P/E (9x). Historically and as recently as 2021 Jefferies had an ROE in the teens, higher than 9x today which reflects cyclical concerns. In the next bull market, we expect Jefferies Financial Group ROE to rise. Key risks include the current economic environment with rising rates and market volatility, which can discourage capital markets and investment banking activity.

Verra Mobility (VRRM) designs and develops mobility software that automates speeding, railroad crossing and school bus enforcement, as well as parking management and tolling. While the industry is fragmented today, Verra Mobility has solutions in a wide variety of products that help governments generate cash and automate enforcement and revenue-generating actions. Verra Mobility has dominant market position across its commercial services toll business, its government solutions traffic photo enforcement business, and its newly acquired parking solutions business. The company is poised to benefit from the trend towards the New World Order as governments need to generate revenue as efficiently as possible. Verra Mobility also improves human capital efficiency for public and private entities through automation. The company satisfies the two of the three aspects of the quantitative criteria: its FY2024 estimated sales growth is 6% while its ROE (72%) is well above its P/E (14x). Verra Mobility is smaller than we would like with a market cap of only $3 billion, but there is room in the Capex Captains for a few companies that have more room to grow. Key risks are constituent backlash against photo-based enforcement of traffic laws, decline in car rentals and a recession-induced reduction in travel demand.
Securities Mentioned in Report

CAE Inc (CAE, $21; MS & Co. Rating: Overweight; Industry View: Attractive)
Deere & Co (DE; $387; MS & Co. Rating: Overweight; Industry View: Attractive)
Honeywell International Inc (HON; $188; MS & Co. Rating: Equal-weight; Industry View: In-Line)
Illumina Inc (ILMN, $220, MS & Co Rating: Equal-weight; Industry View: In-Line)
Intuitive Surgical, Inc (ISRG, $256, MS & Co Rating: Equal-weight; Industry View: In-Line)
Lincoln Electric Holdings (LECO, $161, MS & Co Rating: Equal-weight; Industry View: Attractive)
Parker-Hannifin Corp (PH; $321; MS & Co. Rating: Equal-weight; Industry View: In-Line)
Rockwell Automation Inc (ROK; $278; MS & Co. Rating: Overweight; Industry View: In-Line)
Halliburton (HAL, $30; MS & Co Rating: Overweight, Industry: In-Line)
NOV (NOV, $17; MS & Co Rating: Overweight; Industry View: In-Line)
Shoals Technologies Group (SHLS, $21; MS & Co Rating: Equal-weight; Industry View: Attractive)
SolarEdge Technologies Inc. (SEDG, $285; MS & Co Rating: Equal-weight; Industry View: Attractive)
First Solar, Inc. (FSLR, $211; MS & Co Rating: Equal-weight; Industry View: Attractive)
Eaton Corp PLC (ETN, $164; MS & Co. Rating: Overweight; Industry View: In-Line)
Motorola Solutions, Inc. (MSI, $272; MS & Co. Rating: Equal-weight; Industry View: Cautious)
Palo Alto Networks Inc (PANW, $192; MS & Co. Rating: Overweight; Industry View: Attractive)
Uber Technologies Inc (UBER, $31; MS & Co. Rating: Overweight; Industry View: In-Line)
Seagate Technology (STX, $62; MS & Co. Rating: Overweight; Industry View: In-Line)
Northrop Grumman Corp (NOC, $455; MS & Co. Rating: Overweight; Industry View: Attractive)
Moody's (MCO, $293; MS & Co Rating: Equal-weight; Industry View: In-Line)
Jefferies Financial Group Inc (JEF, $29; MS & Co Rating: Equal-weight; Industry View: In-Line)
Verra Mobility Corporation (VRRM, $17, MS & Co Rating: Equal-weight; Industry View: Attractive)
Thermo Fisher Scientific Inc (TMO, $558; MS & Co. Rating: Overweight; Industry View: In-Line)
Applied Materials (AMAT, $120; MS & Co Rating: Equal-weight; Industry View: In-Line)
GlobalFoundries, Inc. (GFS, $69; MS & Co Rating: Overweight; Industry View: In-Line)

Note: Prices as of market close on March 24, 2023.
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Not Covered (NC): Indicates that the analyst does not cover the fund.

Closed-End Fund Ratings Distribution

(as of date February 28, 2023)

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