# WEEKLY BULLETIN

July 2023: Issue #2

## Thought of the Week.

We concluded our July Bulletin commentary about REITs in a positive note, supported by the fact that bad news are generally priced in while balance sheets are solid and cap rates imply attractive valuations.


Commercial real estate market is still facing challenges and there are signs of potential trouble, especially if we end up in a recessionary environment caused by relentless inflation.

With inflation hovering at higher levels for longer, interest rates will be kept higher and due to long leases, REITs will be affected by high interest expense and cap rates expansion, resulting in debt refinance pressures and lower NAV. This case is challenged these days, and signs of NAV recovery are clear across the sector (illustrated by the Chart from SeekingAlpha). Despite the refinancing cliff, a considerable portion of commercial real estate debt appears capable of being refinanced without major issues. Banks have maintained strict lending standards, and most debt in the market generates sufficient income to meet these standards. This indicates a certain level of stability and preparedness in the industry.

Banks have started reporting (continuing this week) and showed excellent credit performance in commercial real estate lending, with low delinquency rates and minimal losses. This suggests that lenders have been cautious in their underwriting practices and have managed risk effectively.

An additional source of capital that will help stabilize the market is private equity investments - with increasing public interest in office stocks due to their perceived value, private capital is likely to invest when the timing is optimal.

If we ignore the deeply inverted yield curve (recession predictor) and monitor for any signs of interest rates returning to lower levels, we should see a continuous recovery in REITs NAV.

## Last Week 's Notable Events.

### US Economy/Politics

- Lawrence Summer warn on inflation complacency, sees more bond declines – 8 Jul.
- Fed Bullard steps down to be dean at business school in Indiana – 13 Jul.
- Yellen to visit India for G20 meeting; Vietnam for bilateral talks – 14 Jul.

### Europe and UK Economy/Equity

- Air traffic control strikes could disrupt flights in Europe this summer – 8 Jul.
- EU new climate policy seen as tariff barrier in China economic circles – 11 Jul.
- Spain, Italy and Greece to swelter in 40c heat as long-lasting heatwave grips continent – 12 Jul.

### Asia Pacific Economy/Equity

- President Xi urge Jiangsu to take lead in advancing Chinese modernization – 7 Jul.
- China June new bank loans jump more than expected on policy support – 11 Jul.
- Cooperation between Asean and India must continue says Bloc's foreign ministers – 14 Jul.

## Other News and Quotes.

- Saudi sovereign wealth fund posts $14.8 billion investment loss for 2022 – 12 Jul.
- Ringgit hits record low against Singapore dollar, dropped to a seven year low against British pound – 12 Jul.

## Weekly Data Monitor.

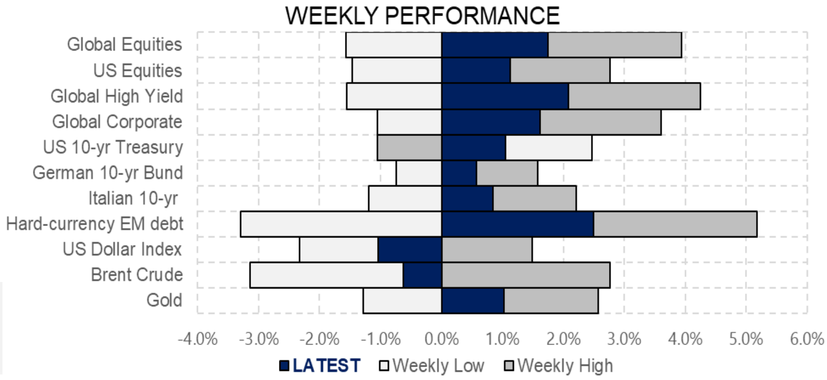
### Performance

- Strong week across the board.
- Dollar weakness supporting stock markets
- Bonds moved supported by inflation data.

| INDEX | Weekly % | MTD % | YTD % | 1YR % | 3Y % | 5Y % |
|---|---|---|---|---|---|---|
| Global Equity | **3.07** | 2.03 | 16.25 | 18.42 | 33.47 | 47.44 |
| Global Real Estate | **2.94** | 3.40 | 5.05 | -3.20 | 15.20 | 21.17 |
| US Real Estate | **2.42** | 3.03 | 7.20 | -0.48 | 22.20 | 28.84 |
| APAC Real Estate | **3.94** | 2.96 | -2.71 | -2.94 | -10.27 | -16.79 |
| Investment Grade | **1.38** | 0.99 | 6.42 | 8.21 | 8.38 | 18.48 |
| High Yield Bonds | **2.04** | 1.60 | 3.06 | 0.84 | -13.73 | -3.76 |
| Global HF Real Estate | **0.50** | 0.29 | 0.92 | 2.08 | 7.22 | 8.15 |
| Global HY ETF | **3.29** | 3.16 | 8.29 | 14.40 | 26.30 | 20.62 |
| ASIA Real Estate ETF | **2.76** | -0.34 | -5.03 | -14.22 | -10.09 | -1.92 |
| USD Index | **-2.04** | -2.91 | -3.48 | -7.53 | 4.15 | 5.20 |

### Weekly chart:

- US$ and Brent were only weak signals.
- EM debt one of best performers.
- Gold keeps momentum.




Note: The chart shows normalised weekly highs and lows for the Indicator, BLUE being the LATEST.

## Chart of the Week.

The Chart of the Week comes from Tenviz.com and targets the outflows from Technology into other sectors, recently happening into Energy and Soft Commodities,

While many other investors run away from fossil fuels due to ESG and climate change concerns, Warren Buffett is doubling down (Bloomberg).

The latest is a $3.3 billion bid in a LNG export facility, while he already has big stake in $CVX, $OXY and several Japanese trading houses.


Looking at the sector performance and considering that 'maybe' commodities are in early stages of a new economic super cycle, then recent price levels may represent an opportunity to step in. At levels where equity markets make new highs, government bonds look at a difficult period ahead and the growing narrative is that a recession is necessary to stop inflation, we see Energy, Consumer Staples and Healthcare as the best defensive allocation towards a most desired economic recovery.

Supporting factors for Energy commodities are a potential Winter 2023 resurface of global energy and commodities shortages that we avoided in 2022, gas drilling weakness in US, flows seen moving away from US and AUS treasuries into Energy equities. Furthermore, both Brent & WTI futures curves are in complete backwardation pointing to increasing current demand, versus later periods.

We are looking for real signs to solidify our allocation into Energy stocks, including Oil Equipment and Services (Infrastructure) as an efficient play to gain upside on more drilling and exploration outside of US. We avoid US companies for now and would look at Canada instead, and for a full extension of this potential pivot, Brazil and Mexico could be suitable targets.

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