Reitway Global Property Fund

- With strong operational performance and balance sheets, REITs are well-positioned to navigate economic and market uncertainty in 2023
- REIT fundamentals generally remained solid at the end of 2022.
- REITs are expected to show a greater dispersion of intra asset class returns in 2023 than 2022.

December 2022

Market Commentary

There was no "Santa Claus Rally" for REITs in December 2022. The GPR 250 REIT World Index delivered -3.22% in USD terms, dropping from a three-month high of 1309 in the middle of December to find support at the 1240 level and ending the month at 1261.

The free standing (net lease) sector was the best performer among peers—producing a return of 0.53%, while healthcare was the worst performing REIT sector coming in at -5.95%. Healthcare's underperformance was mainly due to the short thesis released on Welltower by Hindenburg Research, which weighed on the overall sector. The short thesis has since been debunked by Green Street.

All three major central banks hiked their policy rates by 50 bps: leaving the fed funds rate at 4.25%-4.5%, the BOE policy rate at 3.5%, and the ECB policy rate at 2.5%. For a second consecutive month the US Core PCE price index increased by 0.2%, translating into an annual rate of 2.4%. Core CPI ex-shelter came in negative for a second consecutive month at an annualized rate of -1.5%.

Although pleased with the recent inflation data, the Fed communicated in their press conference that the labour market is still way too hot and that the committee will continue to hike interest rates in 2023, yet at a somewhat more moderate pace. Although common for monetary policy to permeate at a different pace through various sectors of an economy, we are aware of the exacerbation of this phenomena by the pandemic and have considered it in our portfolio allocation.

The BOJ announced a 0.25% widening of the band in which the 10-year Japanese government bond yield trades—increasing it from +/- 0.25% to +/- 0.50%. In the bank's policy statement, it was communicated that the move is intended to "improve market functioning and encourage a smoother formation of the entire yield curve, while maintaining accommodative financial conditions." However, the market caught wind of a different narrative, leading to speculation that the BOJ was ushering in the abandonment of its yield curve control policy, causing the dollar to slump ~4% against the yen. The BOJ has pushed back against this narrative while continuing with its bond buying program.

Chinese president Xi Jinping visited Saudi Arabia to warm ties between the two nations as the kingdom's relations with the US deteriorates. Xi signed a comprehensive strategic partnership with Saudi Arabia that includes expanding investment and cooperation on energy. The deal was seen political as much as it was economic. Xi pushed to use the Chinese yuan to settle oil transactions (which is normally done in US dollars), confirmed the kingdom's opposition against Taiwan's independence, and vowed to stay out of domestic affairs that the US has become infamous for meddling in.

The US housing market continued to come under pressure and might finally see itself budge in 2023 as its one last buffer (limited supply) started to wane. For the four weeks ending December 25, the total number of homes for sale jumped a record 18% compared to the same period a year ago and homes on market took 40 days to go under contract, its slowest pace since January 2021. Goldman Sachs analysts cut their price forecasts next year from approximately unchanged to down 4% based on "unsustainable levels of housing unaffordability to continue weighing on housing demand."

Our view from last month remains relatively unchanged: **REITs are expected to show a greater dispersion of intra asset class returns in 2023 than 2022. Hybrid companies (with offensive and defensive characteristics) that are bond-like are considered best for 2023 positioning, as long-term interest rates are expected to drop while recession fears build.**

If you would like to set up time to speak to us or for more information on any of our funds please contact oliviat@reitwayglobal.com / 082 676 6115.

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