Reitway BCI Global Property Feeder Fund

- The GPR 250 REIT World Index (USD) produced a net total return of -3.2%.
- The concern over tenants unable to meet their fixed obligations is likely the main drivers of this sluggish performance.
- We reiterate our preference for hybrid companies that possess both offensive and defensive characteristics.

March 2023

Market Commentary

The motley month of March brought about eerie echoes from the subprime mortgage crisis and glimpses of all sorts of faces like those of Jekyll, Hyde, and Minsky. Despite what turmoil could have ensued, the market reaction was relatively well contained with the Fed erecting a backstop for depositors' monies and pushing rhetoric of banking sector soundness and resilience. Paired with a new prospect of rate cuts coming as soon as July 2023, the market sketched perfect Vs on most major indices' price charts.

The GPR 250 REIT World Index was unfortunately one of those left behind, clawing back only 5.8% of the 9% lost and thereby ending the month down 3.2%. The index is back to trading in the 1 240-1 300 band it had momentarily escaped earlier in the year. The concern over tenants unable to meet their fixed obligations once banks start to tighten their credit belts and REITs ability to rollover maturing debt is likely the main drivers of this sluggish performance. This is more a risk to the wider sector than to our funds as we have always favoured REITs with robust balance sheets and quality tenant bases.

Data centers performed the best among REIT peers—producing a return of 2.1%, while office was the worst performing sector, delivering -10.5%. Office coming in at the bottom was due to a large portion of banks making up their tenant bases and the sector's above average leverage.

Of the continents in the GPR 250 World Index, Asia was the best performing region, producing -1.7%, and Europe the worst performing, producing -12%. The European number was driven by the abysmal performance of German residential that has been ailing from dividend cuts, high leverage, and asset dispositions in a challenging transaction market.

On March 10, Silicon Valley Bank (SVB) became the second largest bank in US history to fail when a bank run, driven by the announcement of financial stress and warnings by prominent Silicon Valley investors, caused its collapse and swift seizure by the Federal Deposit Insurance Corporation.

Panic quickly spread to Signature Bank, causing its failure in a withdrawal blitzkrieg and successive closure by regulators to contain the panic. Within two days after the SVB debacle, Signature Bank had become the third largest bank in US history to have failed.

Credit Suisse's chronicle of deterioration finally came to an end when the chairman of its biggest investor, Saudi National Bank, answered the question of whether the bank would provide any further liquidity to Credit Suisse if the situation warranted it with a market jerking "ABSOLUTELY NOT."

The share price went into freefall after that, prompting a $54 billion bailout by the Swiss National Bank that never quite cut the mustard for investors. Three days later it was announced that UBS will acquire Credit Suisse for $3.25 billion. It was reported that once the takeover is complete, 20-30% of workforce layoffs will ensue, equating to up to 36,000 jobs.

The Fed's response to SVB and Signature's collapse, and potential repercussions thereof, was to keep the dot plot from December basically unchanged. The terminal rate in market pricing dropped 50 bps from 5.6% to 5.1% when the Fed said they would step back from hiking rates to first assess the banking sector's response to the crisis in terms of a potential change in lending standards. Financial market participants put the equivalence of such tightening at anything between 25-125 bps in rate hikes.

Economic data laid almost desolate on the side for most of the month while banking sector news held the helm. Nevertheless, there were some interesting developments.

US GDP data went down a path of negative revisions, shaving 30 bps from its preliminary figure to end on 2.6% for Q4 2022. Jobless claims remained sub 200k, pointing to continued labour market tightness. Services PMI remained in expansionary territory at 55.1 while the goods sector continued to trail at 47.7. US job openings remained north of 10m and 311k jobs were added. Core CPI m/m came in at 0.5% and core PCE m/m at 0.3%.

Core Japan CPI made a big U-turn from 3.1% the month before to 2.7%—the first time the print came in lower than its predecessor reading since February 2022.

Australia CPI continued its steep downward slump to 6.8% from 7.4%.

China put in two beats on its services PMI, flying high at 58.2 while manufacturing PMI at 51.9 has been a laggard owing to a slowing global economy.

In these highly uncertain times with a recession still looming, we reiterate our preference for hybrid companies that possess both offensive and defensive characteristics, as well as our positioning in companies with quality tenant bases and robust balance sheets.

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Redefining Investment in Listed Property

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