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Weekly

momentum
global investment management

Several sectors within commercial real estate still present promising long-term prospects.

Richest match in football

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On Saturday, the most lucrative match in world football unfolds, and surprisingly, it is not the Champions League final or the World Cup final, but rather the Championship Play Off final. In case you are unfamiliar, the Championship is the division just below the esteemed English Premiere League (EPL). While the top two teams from the division secure automatic promotion, the teams that finish third, fourth, fifth, and sixth engage in the playoffs, competing for the last available promotion spot to the EPL. This year, Coventry City and Luton Town, which pains me to say as a Watford fan (as Luton happens to be our greatest rival, known as the M1 derby), face off in the final. This one-off match, held at the iconic Wembley Stadium, carries an astonishing value of approximately £265million[1]. When Coventry City get promoted on Saturday, preserving the financial prosperity of the EPL will undoubtedly be at the forefront of their mind. The crucial element in upholding their EPL status, and the riches that come with it, will be the investment of those funds.

While I do not have a personal fortune of £265million to invest right now, it sparked my consideration about how I would strategically allocate such funds if given the opportunity. Given my focus within commercial real estate, I have outlined below the areas where I would seek to invest these resources, aiming for sustainable long-term returns in today's ever-changing macro environment.

Offices. Despite the rise of remote and flexible work arrangements, office spaces remain an essential component of the commercial real estate market. Investing a portion of the capital in prime office locations can yield stable returns. However, it is crucial to focus on high-demand areas with robust rental markets, such as central business districts and hubs. These locations are likely to continue attracting companies seeking collaborative spaces and physical presence for their operations. Especially for those businesses with a younger workforce, enabling a space for personal development, culture adoption and welfare.

Industrial and Logistics. The ongoing growth of e-commerce continues to present high demand for industrial and logistics facilities. Investing in warehouses, distribution centres, and fulfilment hubs can prove profitable, given the ever-increasing need for efficient supply chain management. With the continued growth in online retail, companies require strategically located facilities to expedite last-mile deliveries. Allocating a substantial portion of the capital in this sector offers attractive long-term prospects.

Mixed-Use Developments. Mixed-use developments that combine commercial, residential, and entertainment spaces have gained significant traction in recent years. These developments create vibrant communities and offer a diverse range of amenities, making them appealing to both tenants and residents. Investing in well-planned mixed-use projects, particularly in urban areas experiencing growth, can provide a steady stream of income from commercial leases while benefiting from residential property appreciation.

Source: [1]Optus Sport

Healthcare Real Estate. The healthcare sector is expected to witness steady growth due to an aging population and increased demand for medical services. Investing in healthcare real estate, such as medical office buildings, outpatient facilities, and specialised clinics, can offer stability and potentially attractive returns. It is essential to focus on locations with established medical infrastructure and proximity to hospitals and research centres.

Data Centres. With the digital age in full swing, data centres have become the backbone of modern technology and cloud computing. The increasing reliance on data storage and processing necessitates substantial investments in these facilities. Given the constantly evolving technological landscape, targeting data centre developments in regions with favourable business climates and robust connectivity can yield long-term gains as demand continues to rise.

Hospitality and Leisure. While the hospitality industry faced significant challenges during the pandemic, it is gradually recovering and poised for growth. Investing in hotels, resorts, and leisure facilities in popular tourist destinations or emerging markets can be a prudent choice for medium and long-term investments. Careful consideration of the local tourism landscape, accessibility, and demand patterns is crucial to capitalise on this sector's potential.

Considering the evolving macro environment, several sectors within commercial real estate still present promising long-term prospects. Offices in high-demand areas, industrial and logistics facilities to support the continued e-commerce growth, well-planned mixed-use developments, healthcare real estate, data centres, and hospitality and leisure properties in strategic locations all offer avenues for sustainable returns. But, more importantly, and to conclude, come on Coventry City!

Market Focus - 22 May 2023

- Global equities returned 1.2% last week
- 'War rooms' have been established inside several of the world's largest banks as the US runs the risk of being unable to cover its debt by 1 June 2023
- Brent crude rose 1.9% last week to $75.58 per barrel
- Gold fell 1.6% last week to $1977.81 per ounce

US

- US equities rose 1.7% last week, with the benchmark index breaching the 4,200 level in intraday trading for the first time since late August 2022
- Crunch talks on whether to raise the US debt ceiling concluded without a deal on Friday, hours after Republican negotiators stormed out complaining that President Biden's team were being unreasonable
- Chairman Powell stated in a speech on Friday that "rates may not need to rise as high given credit stress", with the Federal Reserve to remain data dependent

UK

- UK equities returned 0.1% last week
- The government has offered the owner of Jaguar Land Rover £500million in subsidies in an effort to persuade the carmaker to build a new electric battery plant in the UK
- Britain and the European Union have taken a 'significant step' towards closer post-Brexit ties on financial services regulation, according to a treasury minister
- The UK and other G7 countries are planning collective action against Russia and China if they threaten trade boycotts for political reasons, announcing a new body to deal with 'economic coercion'

Europe

- European equities returned 0.9% last week
- European Central Bank President Christine Lagarde says the ECB's fight to tame inflation isn't over and more action is still needed
- Eurozone industrial production sank 4.1% sequentially in March after rising 1.5% in February 2023. On a year-over-year basis, industrial output declined 1.4% after increasing 2.0% in the preceding month

Rest of the World/Asia

- Global emerging market equities returned 0.5% last week
- Japanese equities returned 0.7% last week. Sentiment was supported by data showing that the Japanese economy grew by more than expected over the first quarter of the year, boosted by a post-COVID-19 revival in consumption
- Chinese equities fell 0.8% last week amid concerns that the country's post-COVID-19 recovery is losing steam

Past performance is not indicative of future returns. Source: Bloomberg Finance L.P., returns in local currency unless otherwise stated.

Market Summary

Asset Class / Region	Currency	Cumulative returns: Week ending 19 May	Month to date	YTD 2023	12 months
Developed Markets Equities					
United States	USD	1.7%	0.6%	9.7%	8.8%
United Kingdom	GBP	0.1%	-1.2%	5.6%	9.9%
Continental Europe	EUR	0.9%	1.3%	13.8%	15.0%
Japan	JPY	3.1%	5.1%	15.7%	19.5%
Asia Pacific (ex Japan)	USD	0.7%	0.0%	2.3%	-0.2%
Australia	AUD	0.5%	0.0%	5.4%	7.8%
Global	USD	1.2%	0.4%	10.1%	9.1%
Emerging Markets Equities					
Emerging Europe	USD	-3.3%	-0.6%	6.3%	22.8%
Emerging Asia	USD	1.0%	0.3%	2.7%	-0.7%
Emerging Latin America	USD	-0.4%	3.6%	10.5%	7.9%
BRICs	USD	-0.8%	-0.8%	-1.9%	-0.2%
China	USD	-0.8%	-2.4%	-3.0%	-2.5%
MENA countries	USD	-0.6%	-0.4%	2.3%	-11.6%
South Africa	USD	-1.4%	-9.7%	-9.4%	-11.6%
India	USD	-1.2%	-0.4%	0.7%	9.1%
Global emerging markets	USD	0.5%	0.2%	2.9%	-0.8%
Bonds					
US Treasuries	USD	-1.4%	-1.5%	2.1%	-2.4%
US Treasuries (inflation protected)	USD	-1.1%	-1.2%	2.3%	-4.0%
US Corporate (investment grade)	USD	-1.4%	-2.0%	2.2%	-0.4%
US High Yield	USD	-0.4%	-0.9%	3.8%	3.5%
UK Gilts	GBP	-2.0%	-2.5%	-2.2%	-18.0%
UK Corporate (investment grade)	GBP	-1.2%	-1.4%	1.2%	-9.1%
Euro Government Bonds	EUR	-1.0%	-0.8%	1.7%	-9.0%
Euro Corporate (investment grade)	EUR	-0.8%	-0.5%	1.7%	-4.2%
Euro High Yield	EUR	0.3%	0.6%	3.7%	1.3%
Japanese Government	JPY	0.0%	0.0%	2.7%	-1.0%
Australian Government	AUD	-1.5%	-1.4%	3.6%	1.9%
Global Government Bonds	USD	-1.7%	-2.0%	1.4%	-5.7%
Global Bonds	USD	-1.5%	-2.0%	2.0%	-4.2%
Global Convertible Bonds	USD	0.3%	0.5%	2.5%	0.1%
Emerging Market Bonds	USD	-2.0%	-1.8%	0.6%	-1.3%

Asset Class / Region	Currency	Cumulative returns: Week ending 19 May	Month to date	YTD 2023	12 months
Property					
US Property Securities	USD	-2.1%	-3.1%	-0.1%	-8.8%
Australian Property Securities	AUD	-0.4%	0.9%	6.1%	-2.8%
Asia Property Securities	USD	-2.3%	-3.9%	-5.5%	-10.1%
Global Property Securities	USD	-1.8%	-3.2%	-1.0%	-10.6%
Currencies					
Euro	USD	-0.3%	-1.9%	1.0%	2.2%
UK Pound Sterling	USD	0.1%	-0.9%	3.1%	-0.3%
Japanese Yen	USD	-1.5%	-1.3%	-4.9%	-7.4%
Australian Dollar	USD	0.3%	0.7%	-2.2%	-5.6%
South African Rand	USD	-0.5%	-5.8%	-12.2%	-18.4%
Swiss Franc	USD	-0.1%	-0.7%	2.6%	8.1%
Chinese Yuan	USD	-0.8%	-1.4%	-1.6%	-4.3%
Commodities & Alternatives					
Commodities	USD	0.9%	-2.8%	-8.1%	-18.3%
Agricultural Commodities	USD	-1.6%	-1.8%	-4.6%	-17.1%
Oil	USD	1.9%	-5.0%	-12.0%	-32.5%
Gold	USD	-1.6%	-0.6%	8.4%	7.3%
Hedge funds	USD	-0.2%	-0.1%	0.2%	-0.3%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

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