WEEKLY BULLETIN

Week of 3rd April, 2023

Thought of the Week.

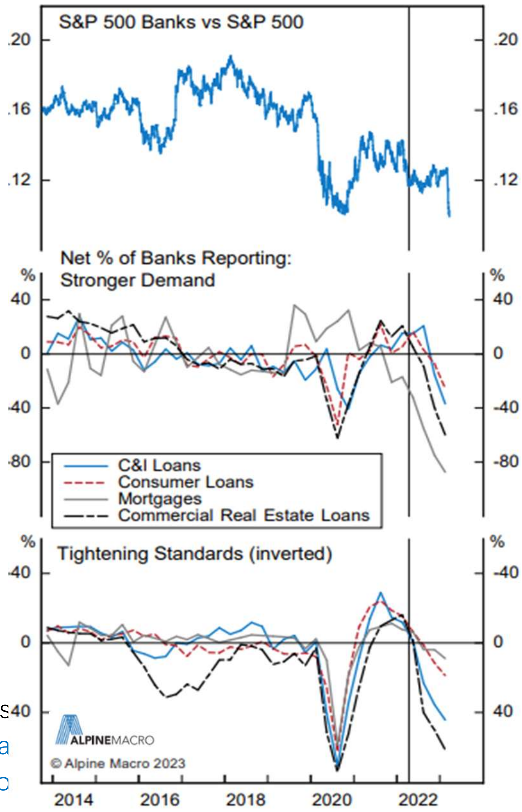
The Fed and ECB believe that interest rate policy need only focus on the economy running "too hot", while other tools can be used to combat financial stress. Separation of interest rate policy and financial stress risks monetary overkill.

The chart shows that a credit crunch was approaching even before SVB failed. The supply of, and demand for, bank credit began to tighten a year ago, as typically happens when the central bank is hiking rates and the yield curve is inverted. We think that the March hike was not necessary,

On March 23, the Fed release shows banks borrowing at the discount window along with the new Bank Term Funding Program. The pattern is concerning and makes the 25bps hike in March ineffective in terms of the expected risk-adjusted-improvement in dealing with inflation.

An inverted yield curve and rising short rate creates significant stress on the banking system, especially for the banks that hold longer-duration bonds. Besides a lower profitability environment, banks need to sell bonds due to demands for withdrawal, therefore realising losses.

Why did SVB fail? Firstly, it did not have to do stress tests because it had less than $250b in assets (2018 law S. 2155). Secondly, if SVB was subject to a stress test it would have passed. It is because the Fed 's worst case scenario was not extreme enough to incorporate the rate hike policy itself.



Note: Vertical line denotes begining of current Fed hiking cycle
Source: Senior Loan Officer Survey (SLOS), New York Fed

Events Summary for Previous Week.

US Economy/Politics

- Goldman Sachs cuts oil price target as bank crisis boosts recession fears – 21 Mar
- Fed lifts rates by 25bps as banking turmoil complicates inflation fight – 23 Mar
- Tech stocks back as a safe-haven trade as banking crisis unfolds – 21 Mar.

Europe and UK Economy/Equity

- 2 major banks in Europe look to regulators for reassurance – 20 Mar
- BOE raises UK base rate to 4.25% from 4.00% but inflation expected to cool – 23 Mar.
- UK and EU to approve new North Ireland Brexit trade pact – 24 Mar.

Asia Pacific Economy/Equity

- China-brokered Saudi-Iran peace deal will help India – 18 Mar.
- China meets with Russia after Saudi-Iran peace agreement – 21 Mar.
- Singapore and Vietnam sign MoU to enhance economic Cooperation – 23 Mar.

Other News.

- RBA tipped to raise rates after Fed intensifies recession risks amid banking crisis – 23 Mar.
- US dollar dips as the Fed ponders the inflation verses bank crisis dilemma – 22Mar.

NEW DIMENSIONS CAPITAL

Weekly Data Monitor.

Performance

- Global equities locked in profits.
- Real estate significantly weaker.
- A good week for High Yield.

INDEX	Weekly %	MTD %	YTD %	1YR %	3Y %	5Y %
Global Equity	1.66	-0.27	3.82	-10.03	58.02	37.11
Global Real Estate	-3.45	-8.09	-5.14	-22.68	31.02	17.47
US Real Estate	-3.68	-9.01	-5.92	-22.28	38.00	26.21
APAC Real Estate	-0.28	-1.74	-2.07	-14.73	3.28	-22.86
Investment Grade	0.68	-0.32	2.14	-3.96	26.76	15.63
High Yield Bonds	0.96	3.77	3.61	-7.05	-7.27	-6.05
Global HF Real Estate	-0.01	-1.62	-0.44	-3.26	16.05	7.15
Global HY ETF	1.56	-5.62	0.87	-11.11	20.45	-8.44
ASIA Real Estate ETF	-0.88	-1.41	-0.77	-16.39	-16.30	-21.15
USD Index	-1.06	-2.16	-0.88	3.87	0.56	14.73

Weekly chart:

- Bonds indices strong.
- European bonds flat.
- US$ weaker, brent stronger

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

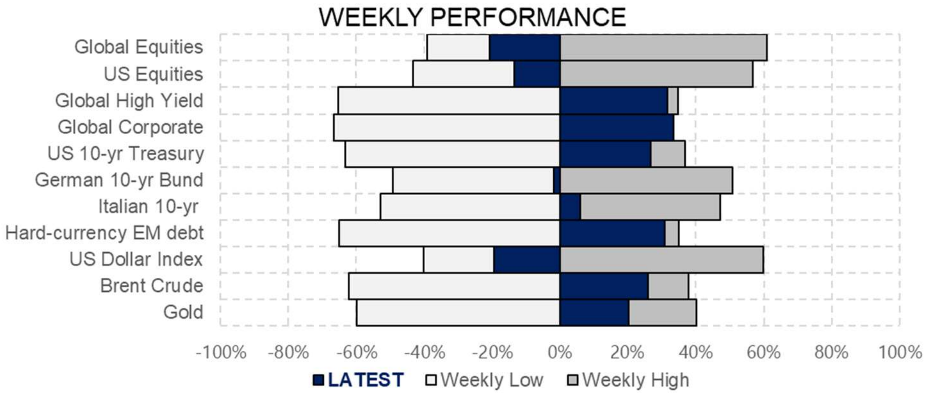


Chart of the Week.

The general view is that loans won't be able to refinance when they mature due to lower values and weaker fundamentals, particularly properties experiencing major tenant vacate or downsize. Current view is that major tenant lease expirations are still 1-2 years away for many office properties.

All property types are currently going through transitions due to higher interest rates and slowing economy, with office properties being in focus in terms of what supply and demand looks like going forward.

DELINQUENCY RATE BY PROPERTY TYPE (% 30 DAYS +)

	FEB-23	JAN-23	DEC-22	3 MO	6 MO	12 MO
Overall	3.12	2.94	3.04	2.99	2.98	3.87
Industrial	0.40	0.40	0.42	0.41	0.51	0.66
Lodging	4.45	4.44	4.40	4.64	5.18	7.82
Multifamily	1.83	1.56	2.17	1.81	0.95	1.51
Office	2.38	1.83	1.58	1.70	1.50	1.67
Retail	6.75	6.58	6.97	6.63	6.45	7.49

Source: Trepp

According to Trepp, the commercial mortgage–backed securities (CMBS) delinquency rate for office properties jumped 55 basis points in February to an average of 2.38 percent, up from 1.83 percent in January and 1.67 percent a year ago. Likewise, the special servicing rate for office CMBS loans also climbed to 4.43 percent, up roughly 60 basis points (BPS) since December.

The US Commercial Real Estate industry is a $20.7 trillion market with a serious issue: debt investors today are highly concentrated. Small banks hold 80% of CRE loans worth $2.3tln and should defaults start piling in, the US banking sector and all its stakeholders might be in serious trouble. In 2022, US banks went on a buying spree for CRE. Loan exposure increased $4.8tln to $5.3tln, 4x the rate of years prior.

Demand might be slack for retail and office space, but the U.S. real estate market faces a chronic housing shortage. That reality has spurred a nationwide push to repurpose struggling retail and office into apartments and condominiums. Despite the hurdles, developers nationwide have converted hundreds of office and retail properties over the past decade. Adaptive reuse projects have a major cost advantage over new construction and should be a strong positive sign.