Q4 2021 HIGHLIGHTS

- From a real estate point of view, fundamentals are healthy with high occupancy rates and rent collection rates are back to pre-COVID levels of balance sheets .
- We do not believe a recession is likely in the near-term but economic growth is likely to slow.

MARKET OVERVIEW

Markets experienced significant volatility in the first quarter initially due to a pivot by central banks to tighten financial conditions more quickly than anticipated to rein in inflation. Inflation is running hot around the world driven by a V-shaped COVID-19 recovery in demand with asset, housing, food and commodity prices all surging following excess monetary and fiscal stimulus and continued supply chain bottlenecks. The Federal Reserve, the Bank of Canada and the Bank of England raised interest rates in the first quarter while the European Central Bank and Australia's Central Bank telegraphed an earlier end to accommodative policy. Government bond yields are responding by rising to their highest levels in years with some markets, such as the U.S., inverting at points along the curve. The yield on the Bloomberg Global Aggregate Bond Index increased 90 basis points in the first quarter, its steepest rise since 1994.

Russia's invasion of Ukraine rattled markets in February and March, causing volatility to spike, commodity prices to rise further and equities to decline. At its peak, oil prices surpassed $130 a barrel[1], rising over $55 or nearly 74% from the start of the year. The VIX Index[2] (which measures the market's expectation for volatility over the coming 30 days) rose to 36.5 in early March, up 117% from the start of the year while technology[3] shares, global equities[4] and global REITs[5] experienced an intra-quarter peak to trough decline of ~20%, ~14% and ~9.5% respectively.

Global REITs ended the first quarter down 3.8% (USD)[6] or 5.0% (CAD)[7], bouncing off its low and outperforming global equities, by approximately 125 basis points. Singapore delivered the strongest performance in Asia gaining 3.9% (SGD)[8]. Within Asia, Singapore is most open to living with COVID and recently relaxed mobility restrictions, making outdoor mask wearing optional and removing quarantine for visitors. The relaxation of these measures had a positive impact on share price performance and particularly for REITs that own hotel, office and retail properties. Japan generated a positive 1.8% total return (JPY)[9] in the quarter, led by C-corps which were up 6.7% (JPY)[9] due to strong profit growth and the announcement of share buybacks. Although Hong Kong remains largely closed to the outside world the market eked out a positive 0.9% total return (HKD)[10]. Hong Kong share prices entered 2022 at a significant discount to fair market value which helped cushion them in the first quarter. On the flip side, REITs in Continental Europe delivered the weakest total return during the first three months declining 5.9% (EUR)[11]. Russia's invasion of Ukraine weighed on share prices as it will likely slow economic growth in Europe and lead to higher prices and the need for greater energy independence. U.S. REITs declined 4.1% (USD)[12] driven by macro-economic forces such as the influence of higher bond yields on trading multiples and share prices of growth-oriented sectors like cell towers, data centers, industrial, single family rental and manufactured housing REITs, all of which underperformed in the quarter. Australian and U.K. REITs declined by 2.5% each (in local currency) while Canadian REITs were flat in the quarter. Across all three of these markets, last year's losers were the first quarter's winners such as retail REITs in Australia and the U.K. and office REITs in Canada.

PERFORMANCE[13]

The portfolio generated a -5.3% (CAD) total return in the first quarter, slightly trailing the benchmark by 25 basis points. We see market performance in the period largely driven by macro

Annualized Returns[14]	3 Month	6 Month	1 Year	3 Year	5 Year	Since Inception[15]
Net Fund Returns	-5.3%	2.4%	11.3%	3.5%	4.6%	4.8%

*Bloomberg. A*ll figures are in USD unless noted otherwise. [1]Crude Oil Futures [2]Chicago Board Options Exchange Volatility Index [3]NASDAQ Composite Index [4]MSCI Composite Index [5]FTSE EPRA NAREIT Developed Total Return Index [6]Global Equities is the MSCI World Index [7]FTSE EPRA NAREIT Canada Index [8]FTSE EPRA NAREIT Singapore Index [9]FTSE EPRA NAREIT Japan Index [10]FTSE EPRA NAREIT Hong Kong Index [11]FTSE EPRA NAREIT Developed Europe ex UK Index [12]EPRA NAREIT United States Total Return Index [13]Individual company performance represents quarterly holding period total returns [14]*The returns are based on Class F units, net return.* [15]*July 7, 2015. Annualized returns for years not available. For more information about the risk rating and specific* macro factors (i.e., Russia's invasion of Ukraine and changes in central bank policy) and less so by real estate fundamentals.

Portfolio Allocation By Sector*	% of NAV Assets
Industrial	18.9
Technology REITs	11.7
Diversified	11.0
Multifamily	9.0
Self Storage	7.2
Low-Rise Office	7.2
High-Rise Office	5.1
Single Family Rental/MHC	5.1
Open Air Grocery Anchored Centre	4.7
Private Real Estate	4.5
Hotel	4.0
Life Science and R&D	3.9
Healthcare	3.4
Regional Mall	1.5
Student Housing	1.5
Specialty/Triple Net Lease	0.4
Cash & Other	0.6

Portfolio Allocation By Region*	% of NAV Assets
United States	50.9
Australia	6.8
Japan	6.1
Hong Kong	5.8
Canada	5.7
United Kingdom	5.2
Singapore	4.9
Ireland	4.4
Belgium	2.7
Sweden	2.1
Spain	2.1
France	1.6
Norway	1.1
Cash & Other	0.6

Six positions with a combined weight of 14.6% of the portfolio represented the bulk of the detraction in performance in the quarter.

Cell tower REITs in the U.S. (American Tower) and Europe (Cellnex) underperformed in the quarter similar to how the NASDAQ Composite underperformed the broader equity market. Combined, these two REITs make up 3.8% of the portfolio and saw their share prices decline by 14.1%(USD) and 14.6%(EUR) respectively. We believe the performance of cell tower REITs were negatively impacted by the acute increase in interest rates and the influence higher rates have on trading multiples (i.e., higher rates typically lead to lower multiples and lower share prices). Fundamentally, demand for cell tower space in American Tower and Cellnex's North America, South American and European markets as strong and we see above average amendment growth over the next several years. We anticipate that the performance of American Tower will improve once the company completes a well-anticipated equity raise to permanently finance its $10 billion acquisition of CoreSite. Similarly, we also believe Cellenx should see better performance in subsequent quarters once they dispose of mandated tower sales in the U.K.

Swedish REIT Samhallsbyggnadsbolaget (SBBB) experienced a 36% decline (SEK) in share price in the quarter and made up 2.4% of the portfolio. The decline in share price was due to an activist shareholder named Viceroy Research accusing SBBB of insider dealing, governance issues and financial inconsistencies. Following Viceroy's report, SBBB's auditors conducted an extensive review which concluded with minor revisions to 2020 and 2021 financial statements that equate to approximately 1% of profit. After visiting the company in their offices at the end of February, we believe these financial concerns fail to reflect the sustainability of the underlying cash flows of the properties. During the pandemic SBBB collected all their rents. We encouraged SBBB's management team to increase transparency and show the market just how sustainable the company's cash flow profile is. Further SBBB is a leader in ESG and out of 4,000 companies was recognized by Sustainalytics as being an ESG Regional Top-Rated company in 2022.

U.S. manufactured housing REIT Sun Communities saw its share price decline 16.1% (USD) in the quarter and made up 3.8% of the portfolio. We believe the primary reason for the stock's underperformance during the period is the fear that higher gas prices may impact demand for recreational vehicles at the company's transient RV parks. We are of the view that transient RV parks remain one of the most affordable ways to travel relative to other medians such as flying and staying at hotels. Airline ticket prices increasing significantly as airlines pass-through higher oil prices to the consumer while hotel room rates are above 2019 levels at most leisure and resort destinations. For 2022, the company's RV reservation pace is 50% above last year and we believe Sun Communities will continue to experience strong demand despite higher gas prices.

*risks that can affect the Fund's returns, see the 'What are the risk of investing in the Fund?' section of the Fund's simplified Prospectus. On January 22, 2018, Hazelview Global Real Estate Income Fund (formerly Timbercreek Global Real Estate Income Fund) completed a fund merger with Timbercreek Global Real Estate Fund. The calendar returns for Class A securities of Timbercreek Global Real Estate Fund were as follow (as of December 31, 2017, the last completed monthly period): 2015: 4.3%; 2016: 8.8%; 2017: 3.9%. The calendar returns for Class B securities of Timbercreek Global Real Estate Fund were as follow (as of December 31, 2017, the last completed monthly period): 2010: 5.7%, 2011: 2.8%, 2012: 23.1%, 2013: 4.7%, 2014: 16.8% 2015: 4.8%; 2016: 9.1%; 2017: 4.2%. *Individual company performance represents quarterly holding period total returns.*

In Australia, Mirvac experienced a 14.4% (AUD) decline in share price and made up 2.7% of the portfolio. We believe Mirvac's underperformance was driven by FY 2022 earnings guidance that came in below consensus expectations and the fear that higher interest rates and the cancellation of housing subsidies will negatively impact demand for housing. As Australia re-opens, tourism improves and employees start to return to the office, we believe retail sales and collection rates should also improve, serving as a tailwind in subsequent quarters. Although higher interest rates and higher residential prices create affordability headwinds in the for-sale market, we believe Mirvac's build-to-rent program will add new supply in a low completion environment helping to offset some of the impact of potentially slower lot sales.

Singapore-listed Ascendas India Trust (AIT) saw its share price decline 13.7% (SGD) and made up 2.0% of the portfolio. AIT endured a challenging quarter after reporting an 11% decrease in DPU due to a one-off dividend distribution tax of 14%. Excluding this, total DPU grew by 3% on a year-over-year basis. During the pandemic, occupancy dropped from 98-99% in 2018-2019 to 88% as of the most recent quarter. We believe occupancy and fundamentals are set to rebound with a return to office beginning in April and leasing momentum from multi-national corporations (MNC's) starting to regain traction. The Indian office market is experiencing secular growth as MNC's outsource IT work to India. Every year, India has over 2.6 million science, technology, engineering, and mathematics (STEM) graduates making it one of the largest scalable English-speaking talent pools in the world. Office rents in India are very low compared to other major office markets around the world averaging USD $1/sf or below. As a result, real estate operating costs as a percentage of income typically range from 3-6% making the cost savings of work-from-home negligible. Although work-from-home has caused attrition rates to rise from 10-15% pre-pandemic to 20-30% today, we believe employers will look to bring employees back to the office sooner rather than later.

Partially offsetting the detractions above were a handful of companies that positively contributed to performance by delivering strong returns in the quarter with a combined weight of 14.5% of the portfolio.

In Ireland, Hibernia REIT made up 2.5% of the portfolio and received an all-cash takeout bid from Brookfield in March at a 35.6% premium to its undisturbed share price. For the quarter, Hibernia's share price generated a +26.3% total return (EUR). Hibernia owns a €1.5 billion prime Dublin office portfolio located in the traditional core CBD area and South Docks of which both markets are seeing steady demand for space. Brookfield's takeover bid comes at an implied EPRA net initial yield of 4.3% or €1,025 per square foot and a 6% discount to Hibernia's 4Q21 EPRA NTA. We believe Brookfield's takeover offer suggests that sophisticated institutional investors see European office as an attractive opportunity to allocate capital.

In Japan, Mitsui Fudosan made up 3.6% of the portfolio and saw its share price gain 16.4% (JPY). The company's outperformance was driven by the announcement of a new share buyback program totaling ¥15 billion or 1% of total outstanding shares. The company's payout ratio now stands at 30%, leaving significant room for future dividend growth. In addition, Mitsui Fudosan increased its earnings guidance driven by better brokerage and parking revenue, as well as property sales and leasing. Finally, the portfolio's office vacancy rate in Tokyo increased 20 basis points in the quarter to 4.1%, a more modest increase compared to office REITs in other major global gateway cities, which speaks to the resiliency of demand for office space from domestic Japanese corporations.

In the U.S. senior housing sector, Welltower made up 3.1% of the portfolio and delivered a +12.9% total return (USD). Welltower experienced a resurgence in demand for senior housing following several years lower COVID-induced net absorption. Currently, new resident leads exceed pre-COVID levels and occupancy rates are exceeding guidance (+420 basis points Y/Y) thereby allowing landlords to recoup pricing power more quickly. Welltower is raising rental rates on renewals which is helping to offset higher agency labor costs and other inflationary pressures. The strong recovery in demand speaks to how senior housing is a needs-based product and we foresee more occupancy gains over the next 12 months, which should lead to outsized NOI growth relative to other property types.

In Canada, Allied Properties REIT which made up 3.4% of the portfolio generated a +7.1%(CAD) total return. In the quarter, Allied announced the acquisition of six office properties in Montreal, Toronto and Vancouver totaling 1.2 million square feet from publicly traded Choice Properties for CAD $794 million at a mid-to-high 4% cap rate or $646 per square foot. To fund the transaction, Choice is taking back 75% of the purchase price in the form of Allied common units at NAV ($50.30). We view this transaction as a win-win for Allied because 1) Allied is issuing new shares to Choice Properties at NAV rather than a 10% discount where the company's stock is currently trading; 2) the deal reduces leverage by 0.3x and 3) Allied enhances the portfolio's diversification by increasing exposure to Toronto and Vancouver.

In the U.S., Kite Realty made up 2.0% of the portfolio and delivered a +10.5% total return (KRG). Kite's outperformance was driven by better-than-expected 2022 FFO Guidance issued in conjunction with the company's fourth quarter earnings report in February. Kite Realty is seeing strong demand for space amongst retailers looking to open physical stores to take advantage from a recovery in consumer spending. We believe the company's portfolio of Sun Belt and coastal properties are well positioned to experience growth in rents which should lead to attractive SS NOI growth and releasing spreads in 2022.

PORTFOLIO CHANGES

During the quarter, we added exposure to Australia and Singapore and lowered exposure to the U.K., Japan and Ireland. From a sector perspective, we increased exposure to shopping centers, industrial and multifamily REITs while decreasing exposure to regional malls, triple net lease and single-family rentals.

We used the increase in volatility and change in geopolitical / monetary policy landscape in the first quarter to concentrate the portfolio around our best ideas, selling **17** positions and adding **7**, bringing the total number of positions held in the Fund at quarter end to **36**.

Each of the positions sold were done so based a change in our outlook for the company, its underlying operating fundamentals and differences in valuation and expected return relative to other investment alternatives around the world. For example, in the U.S. we exited Digital Realty Trust based on a change in view in the trajectory of the company's FFO growth profile in 2022, rotating that position into DigitalBridge which offers higher earnings growth with more embedded upside. In Hong Kong, we exited CK Asset in favor of Sun Hung Kai Properties driven primarily by better valuation and higher expected return. Finally, in Singapore, we exited Daiwa House Logistics Trust in favor of CapitaLand Integrated Commercial Trust (CICT) based on the view that CICT will benefit more from a reopening of the Singaporean economy to foreign tourism, an increase in domestic spending and return to the office.

In the United States, we added DigitalBridge, Kite Realty and Whitestone REIT.

*All figures are in USD unless noted otherwise

DigitalBridge is one of the largest investors, operators and managers of digital real estate across four key verticals: data centers, cell towers, small cells and fiber. The company has an investment management business with over $37 billion in third-party AUM after raising $9 billion in 2021 and a digital operating business focused on owning high-quality digital real estate such as data centers that offer attractive returns, predicable cash flows and steady growth. The investor-operator-third party manager model gives DigitalBridge the ability to scale its business through acquisitions or new builds while the company's extensive network of relationships enables it to source deals to help grow its portfolio companies which have operations in North America, Latin America, Europe, Asia, Africa and Australia. We believe DigitalBridge offers a compelling opportunity to earn outsized returns while gaining exposure to the world of digital real estate through a best in-class management team led by CEO Marc Ganzi. The company's balance sheet is in terrific shape with Net Debt to EBITDA at 5.4x and valuation is compelling with the company's shares trading at a 34% discount to forward NAV and priced to deliver a 20% annualized expected return over the next two years.

Kite Realty owns a high-quality portfolio of 185 open-air shopping centers primarily anchored by a grocer totaling 32 million square feet located throughout the United States. In 3Q22, Kite announced a merger with Retail Properties of America for $7.5 billion, expanding the company's portfolio by 20 million square feet and entering new markets like Los Angeles, Seattle and New York. From the day of announcement through year-end 2021, Kite's share price underperformed its shopping center peers by 442 basis points, partly driven by the company pulling 2021 FFO guidance which the market interpreted negatively. We believe there were many positive attributes of the deal such as Kite ending up with a better balance sheet, better negotiating power with retailers as the company has a larger portfolio and operational upside by growing NOI margins. Fundamentally, open-air retail is strong and leasing demand is robust which should allow Kite to quickly regain lost occupancy created by the pandemic. We viewed the company's underperformance as a buying opportunity and believe the company's valuation is compelling with the shares trading at a 28% discount to NAV and priced to deliver a nearly 15% annualized expected total return over a two-year holding period.

Whitestone REIT (WSR) is a small-cap ($555M equity market cap) shopping center REIT that owns 59 centers totaling 5.1 million square feet. Thirty-one of WSR's properties are in Texas and 27 are in Arizona, two business friendly states in the Sun Belt that are seeing strong in-migration. Demographics surrounding the company's portfolio are better than the private market average with household income at $102K allowing WSR to consistently generate strong releasing spreads of ~10% since 2017. In-place occupancy is 90% and annual contractual rent increases are 2% to 3%. WSR is well diversified on the tenant side, with only 3 tenants make up more than 2% of ABR (the largest being Safeway at 2.7% followed by Whole Foods at 2.4%). We believe turnover in the senior management suite and changes in corporate governance have positioned WSR to close the discount embedded in their share price (23% discount to forward NAV). We see valuation as compelling with the stock priced to deliver 30% upside in price or 18.4% annualized total expected return including a 3.8% dividend yield over the next two years.

In Japan, we added Mitsui Fudosan Logistics Park to the portfolio. Mitsui Fudosan Logistics Park manages the most modern and highest qualitative logistics portfolio among its J-REIT logistic peers. The REIT conducted a global public offering in the amount of USD 183 million (21.2bn JPY) to acquire three recently completed 100% occupied logistics facilities in the Metropolitan Area of Tokyo (2x) and Osaka (1x) for JPY 44.6 billion at a blended 4.4% cap cate. After announcing an equity raise in January 2022, the company's share price declined 11%. Through participating in the offering, our entry price of JPY 545k per share resulted in an attractive 16% discount compared to calendar year end of 2021. The warehouses Mitsui Fudosan Logistics Park purchased have a modern fit-out with an average building age of 1.5 years, remaining lease term of 6.3 years, contain green building certifications and total over 160,000 sqm. The acquisition is highly accretive to DPU growth by 6% and NAV per share by 2.8% as Mitsui Fudosan Logistics Park is financing its debt portion at an average interest rate of 35bps with an eight-year term. We believe valuation is attractive with the company trading at a 3.6% implied cap rate, 2.9% dividend yield and priced to deliver a 9.4% annualized expected return over the next two years.

In Hong Kong, we added Sun Hung Kai Properties (SHKP) to the portfolio. SHKP is Hong Kong's largest property company whose share price has been battered over the past three years due to negative headlines arising from social unrest and the pandemic. We believe the company's current share price (HKD $90 per share) is a 56% discount to its latest reported book NAV representing an attractive entry point to play a recovery in the Hong Kong market. Sun Hung Kai Properties geographical rental income is split between Hong Kong 69%, China 28%, and Singapore 3% and within Hong Kong, retail and office accounted for 51%/36% of total rental revenue. We believe a re-opening of the borders with China and the world will help stage a recovery in retail sales and office take-up. Further growth will come from a multitude of commercial property developments expected to increase the company's rental income over the next 1-4 years, with GFA in China expected to increase by 74%, HK office 30%, and HK retail 8%. The company has the largest developable HK residential landbank of 17.5m sf which can cover 5+ years of saleable resources. Profit margins over the last 5 years have averaged 37% which is comparably high to other parts of the world. Since 2013, there has been a cumulative shortfall of 101k public housing and 20.5k private units in Hong Kong, with future supply in both public/private housing below estimated demand. We feel Sun Hung Kai Properties is well positioned as the market leader in Hong Kong's mass to mid-end market to sustain sales without a significant impact on margins. The company is in a strong financial position with a net gearing ratio of 17.5%, ICR of 13.0x and payout ratio of <50% to weather through the pandemic and execute on their commercial development pipeline (further increasing recurring income). We believe valuation is compelling with the company's share price poised to deliver a 26.3% annualized expected total return including a 5.5% dividend yield over the next two years.

In Singapore, we added CapitaLand Integrated Commercial Trust (CICT), an owner of high-quality suburban/downtown retail properties connected to mass transit and Grade A office properties primarily located in Singapore's CBD. Since the pandemic began, downtown malls in Singapore have underperformed, reaching 75% of pre-COVID sales levels versus 94% for suburban malls. We believe the return to office and gradual resumption of air travel will help drive a recovery in tenant sales and shopper traffic. On the office front, demand for office space is being supported by co-working operators, expansion of technology companies and multi-national corporations looking to diversify away from other Asia-Pacific cities. Office rents in Singapore grew 4% in 2021 and are expected to rise by another 5-7% in 2022. We view Singapore's path to recovery as more visible compared to other developed countries in Asia because the government is one of the first to adopt a policy of living with COVID-19. We believe Singapore's high vaccination rates and endemic policy approach is expected to spearhead a recovery in downtown/tourist orientated malls and a return to office, driving CICT's DPU growth to 10% in the coming year. We feel CICT will continue to capitalize from Singapore becoming more of a preferred regional destination within Asia-Pacific and valuation is attractive with the stock priced to deliver a 14% annualized expected return over the next two years.

In Australia, we added Goodman Group (GMG) to the portfolio, increasing exposure to one of the best industrial platforms globally. Goodman is an Australian property group that owns, develops, and manages prime warehouses and large-scale logistics facilities in major gateway cities, as well as business and office parks, with total assets under management of $68.2 billion. We are projecting Goodman to achieve 15%+ earnings growth over the next three years driven by the company's robust development pipeline, attractive same store NOI and rising AUM growth. Goodman's development pipeline has increased from $4 billion in 2019 to $12.7 billion in 1Q22 with expected development starts of over $7 billion per year. We forecast high development profit margins of up to 70% with the average estimated yield-on-cost at 6.8% relative to an exit cap rate of 4.0%. Funds management fees and development profits are expected to contribute 34% and 40% of earnings growth over the next 2 years. Cash flow visibility is supported by long-term leases with in-place lease terms at 4.5 years and new developments at 14 years. Our same store NOI growth forecast is 3% driven by annual fixed annual escalations of 2-3% as well as positive releasing spreads of 5-10%. We believe Goodman is poised to capitalize on strong demand for modern logistics facilities located in infill areas driven by e-commerce, population density, and scarcity of urban land. We see valuation as attractive with Goodman priced to deliver an annualized expected return of 14% over a two-year holding period.

Market Outlook

In our 2022 Outlook Report, we detailed how we see REITs as well positioned to serve an inflation hedging role while benefiting from a continued recovery in operating fundamentals. The events that transpired in the first quarter does not change our view.

We also touched on how we believe the key to creating value will be to identify companies with pricing power that can raise rents on new leases and pass-through higher rental rates on existing leases to offset the impact of higher inflation, rising labor costs, higher utility expenses and property taxes. The events that transpired in the first quarter does not change our view.

We also wrote about how raising interest rates won't alleviate supply chains disruptions, help with COVID-related factory closures or overcome energy shortages. These are problems largely out of a central bank's control. The events that transpired in the first quarter also does not change this view.

What has changed is the Russian invasion of Ukraine and the pace at which monetary policy is likely to normalize.

Russia's actions are changing the flow of commodities, exacerbating supply chain issues and causing commodity prices for wheat, fertilizer, oil and gas to accelerate higher, creating a negative feedback loop for the economy by hurting consumer wallets and sending producer input costs soaring. Russia is the world's second largest exporter of oil, making up about 12% of the global market and supplies Europe with 45% of its natural gas, 45% of its coal and 25% of its oil.

Inflation in the Euro Area rose 7.5% in March, hitting an all-time high. Inflation in the U.S. increased by 8.5% in March, the highest rate in 40+ years and first quarter inflation in Canada reached its highest mark in 30-years. At the same time, job creation is robust and wages and rents continue to push upwards.

The war in Ukraine is making the job of central bankers even tougher and the market's concern today is that the only way to halt inflation is to raise interest rates high enough to choke off demand and hurt growth, similar to what happened in the early 1980s.

As it relates to the path of monetary policy, fundamentals for global economic expansion are robust and the retreat of Omicron has unleashed another round of pent-up demand across North America, Europe and parts of Asia.

Going into 2022, expectations were for moderate interest rate increases.

Today, the market is pricing in over a 200 basis point increase in interest rates from the U.S. Federal Reserve, from the Bank of Canada and the Reserve Bank of Australia, 125 basis points from the Bank of England and nearly 50 basis points from the European Central Bank.

Central banks around the world are decidedly hawkish in their quest to fight inflation which is why yields have risen by so much so quickly and why yield curves are flattening with some markets like the U.S. inverting at points along the curve.

The reason a lot of investor focus is being dedicated to the yield curve inversion in the U.S. is because an inverted yield curve has historically served as a reasonable recession indicator because it signals when policy is too tight. According to Jefferies, inversion typically occurs when the Fed pushes short term rates above the longer-run neutral rate, which puts the brakes on growth, creates slack in the economy and causes a negative feedback loop that usually ends a growth cycle.

While the slope of the yield curve has been one of the best leading recession indicators historically, recessions usually don’t start before inversion and equity markets typically peak one year after inversion.

In a research paper published in June 2018, Fed economists Eric Engstrom and Steven Sharpe spoke to how the so-called “near-term forward spread” defined as the 3-month minus 10-year bond rate has more predictive power for recessions than the more widely followed 2-year versus 10-year Treasury yield spread. The 3-month and 10-year treasury bond spread inverted in 2007 and 2019, both of which preceded a recession.

Although the spread between the 2-year and 10-year bond yield in the U.S. is inverted (as of this writing), the spread between the 3-month and 10-year bond rate is not and in fact is showing a positive slope of approximately 190 basis points, which is the widest it’s been since March 2017.

So where does that leave us?

We do not believe a recession is likely in the near-term but economic growth is likely to slow in subsequent quarters pressured by rising gas prices, higher interest rates and cost inflation. At the same time, labor markets are tight, unemployment is low, corporate profits and dividends are poised to continue to grow and demand for goods and services in Asia should improve over the next 12 months as those markets fully re-open.

From a real estate point of view, fundamentals are healthy. Occupancy rates are high, rent collection rates are back to pre-COVID levels and balance sheets are in good shape. Demand for rental housing and demand for commercial space across most property types around the world is strong. Supply is limited across most geographies and property types with landlords regaining the upper hand in rent negotiations. Transaction volumes are rising and so are property prices driven by above average NOI growth and there is a record amount of dry powder (USD $365 billion) sitting on the sidelines ready to be deployed to take advantage of improving real estate fundamentals.

In our 2022 Outlook Report, we wrote about the 1970s being the last time the developed world dealt with a prolonged bout of high inflation. During that time period, REITs delivered a 10%+ annualized total return, the third highest of any asset or equity sector.

While our crystal ball is not perfect at predicting how high and how long inflation persists, we do believe inflation is likely to be stickier as long as global supply chains remain disrupted, labor remains scarce and countries limit mobility, of which all three remain in-place today.

Although the events in Ukraine and the acceleration of monetary policy normalization have created more uncertainty today than when we penned our 2022 Outlook Report in December. Historically, equity markets appreciate after the first interest rate hike, not collapse, and moving to the sidelines because volatility is elevated is not a solution in our mind.

According to Bank of America Global Research, the average peak-to-trough equity market decline[16] during major macro / geopolitical shocks since the Global Financial Crisis is 7% to 8% with stock prices more than fully recovering within three months. Further, since 1930, a 10%+ correction has occurred once per year on average and has lasted an average 54 trading days while missing the 10 best performance days in each decade results in a return of 45% compared to approximately 20,000%.

Today, we believe valuations are attractive and our models which capture the current interest rate environment suggest global REITs remain poised to deliver 15%[17]+ upside in price and a double digit annualized total return. Earnings growth is still attractive and forecasted to rise by 10%+ in 2022. We believe property types with short lease durations such as hotels, apartments, single family rentals, manufactured housing, senior housing and self-storage that can reset lease rates more frequently are in a more advantageous position to grow cash flow and offset rising inflation. Similarly, property types with strong pricing power, like industrial and life science, will benefit from the step-up in market rent. Areas to avoid are REITs trading at high multiples relative to underlying growth and deep value property types with minimal internal growth.

[16]S&P 500 Index [17]Based on Hazelview models

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