Research Blast

US Real Estate Market, February 2018

Real estate and stock market volatility

As February 2018 gets its start, the world equity markets are producing headlines like "volatility spike" and "mini-crash." Stock market volatility, which was extremely low throughout 2017, rose dramatically with a global decline of 2% to 5% in various equity markets. The resulting flight to safety moved sovereign rates down slightly after a long run up.

"What does this shocking outcome mean for private commercial real estate? – Nothing yet."

Stock and bond volatility sometimes reflect major changes in fundamental pricing and on some occasions adjustments that last for years. Many times, however, short-term trends in these freely traded markets are reversed without a hint of change in private markets. Which event is the current case? Many pundits will answer with full conviction but only time will tell.

During 2008, equity markets moved violently in response to the credit crisis and all asset values fell over the coming year, taking several years to recover. During 2013, US Treasury rates spiked up 100 basis points over a month's time, only to quickly recede back to the beginning rates over the following months.

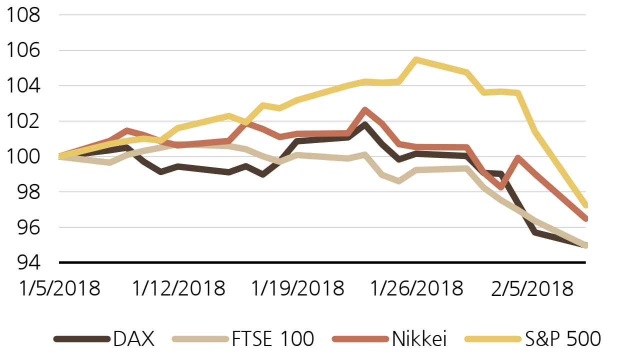
During this event, private markets did not miss a step in continued yield decline (rising prices). Without fortune telling skills or a crystal ball, only the passage of time will reveal the basis of the current event. However, it feels much more like the 2013 situation than the 2008 situation.

The volume of trade during the recent sell-off appears to be retail and programmatic in nature. Thus, this is the result of technical trading, rather than a shift in fundamental expectations. In the short-term, institutional investors are known to hold positions to avoid volatility-trading losses. Investors tend to move with the market. On the other hand, speculators think they can take advantage of the market volatility by employing their specialized knowledge if they indeed possess it.

"Investors hold the market to minimize volatility effects. Speculators increase trading during high volatility to maximize its effects."

Global equity price changes, past 30 days

Indexed (100= Jan. 5, 2018) Closing Prices

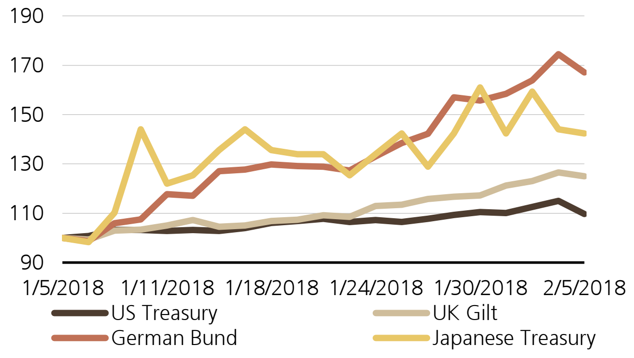


Closing Prices	Jan. 5	Peak[1]	Feb. 5
S&P 500	2,724	2,873	2,649
DAX	6,313	6,426	5,996
FTSE 100	7,724	7,779	7,335
Nikkei	23,506	24,124	22,682

Source: Morningstar as of February 6, 2018.
Note: Index = 100 = Jan. 5, 2018. [1]Within last 30 days; peak different dates.

Global bond yield changes, past 30 days

Indexed (100= Jan. 5, 2018) Yields



Yields	Jan. 5	Feb. 5
US Treasury	2.47	2.71
UK Gilt	1.25	1.56
German Bund	0.44	0.74
Japanese Treasury	0.06	0.08

Source: Investing.com as of February 6, 2018.

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