



LaSalle Macro Quarterly Q2 2023

April 3 2022

Investing today. For tomorrow.

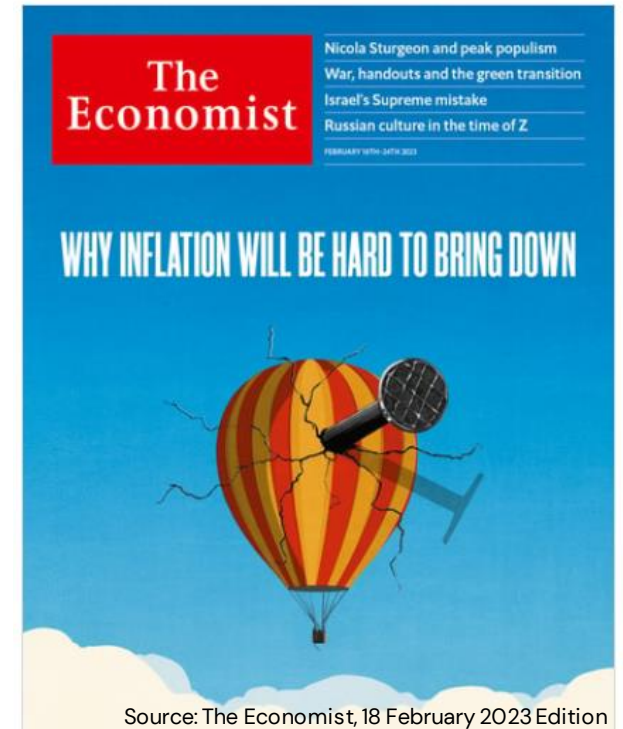
Q1 2023 macro review: A wave of bank runs, adjustment to higher rates, and a tech retreat – yet still waiting for inflation and labor market landing.

A set of March bank runs borne of the mobile digital age

Stubborn inflation drives rate hikes



Source: Wall Street Journal, front page on 11 March 2023

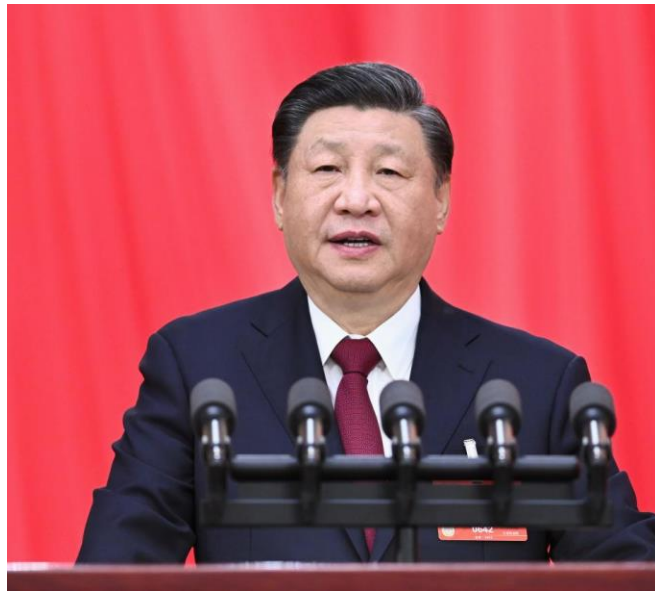


Source: The Economist, 18 February 2023 Edition



Logo sources: Wikimedia Commons

China reopens – see LaSalle’s ISA Briefing on China’s reopening [here](#). Premier Xi addressing 2023 NPC.



Source: Xinhua

Energy key in real estate outcomes – Winter 2023 saw positive surprises in Europe, with adaptation through projects like LNG regasification (below). See LaSalle’s energy ISA Briefing [here](#).



Source: RWE

Ueda takes over at Bank of Japan

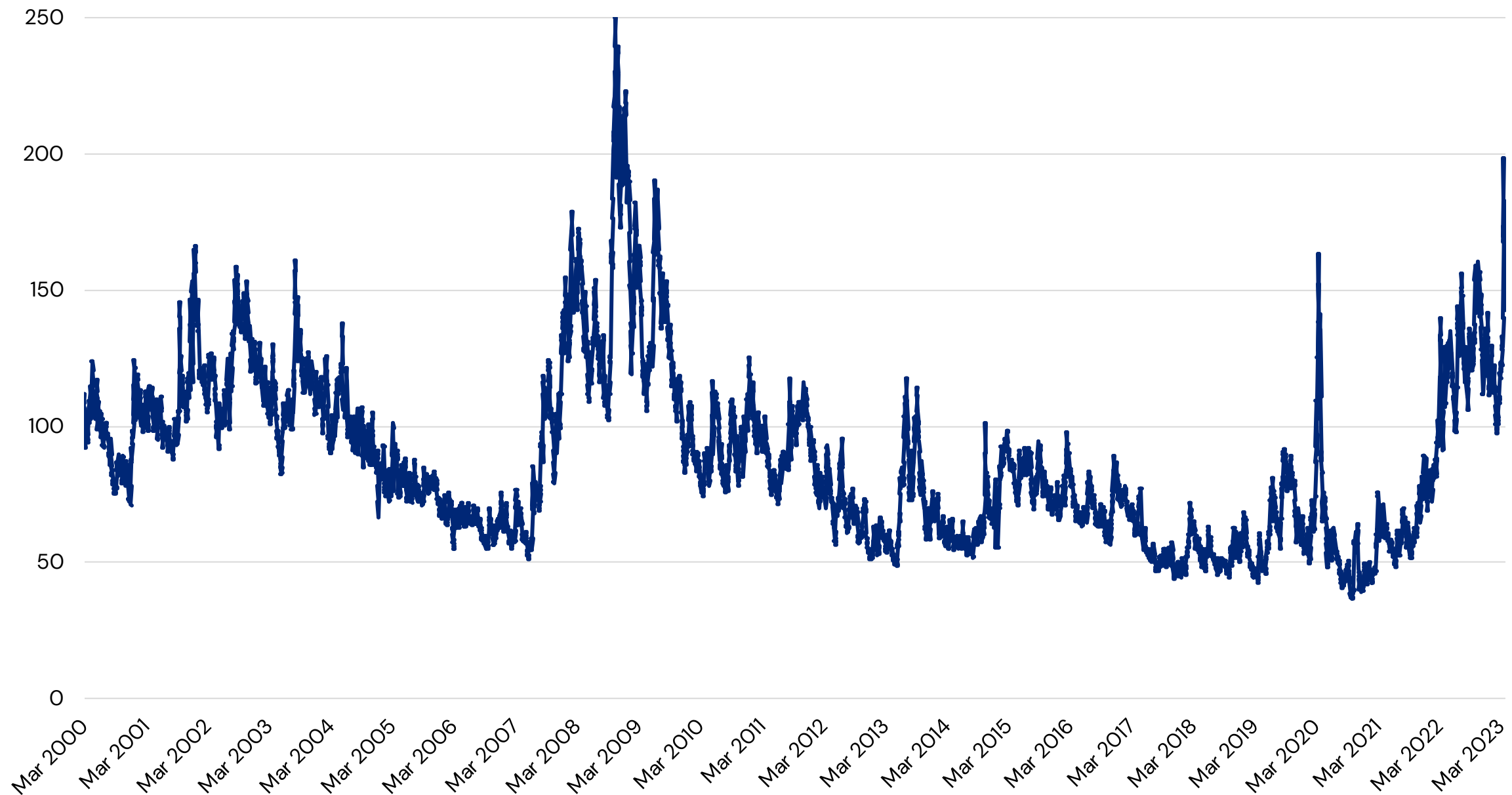


Source: Bank of Japan

Bond market volatility highest since Q4 2008

MOVE is the bond market's VIX*, and highlights the extreme conditions following recent bank failures

Merrill Lynch Option Volatility Expectations (MOVE) Index



The MOVE index is based on the implied volatility on one month US Treasury options, weighted based on 2, 5, 10, and 30 year contracts for the next 30 day period. It reflects both price uncertainty and risk aversion.

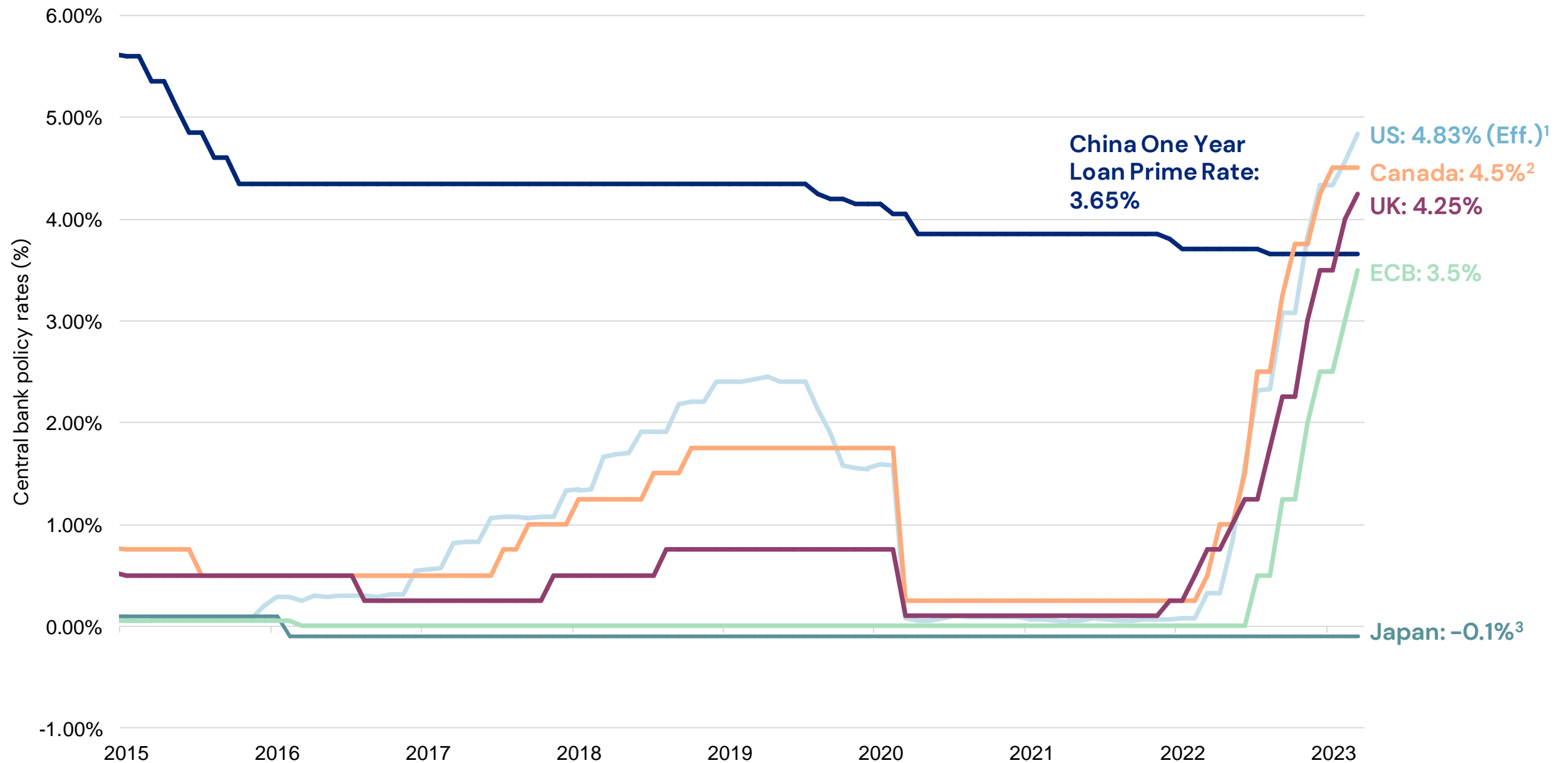
*VIX is the Chicago Board Options Exchange's CBOE Volatility Index. Source: Bloomberg, LaSalle. Data through 29 March 2023.

Note: No assurances are given that these trends will continue or materialize as expected. Nothing herein constitutes a guarantee or prediction of future events or results and accordingly the information is subject to a high degree of uncertainty. Past performance is not indicative of future results.

ECB, Fed, and Bank of England raised rates in March

Rate increases continued in the wake of banking turmoil

Central bank policy benchmark rates



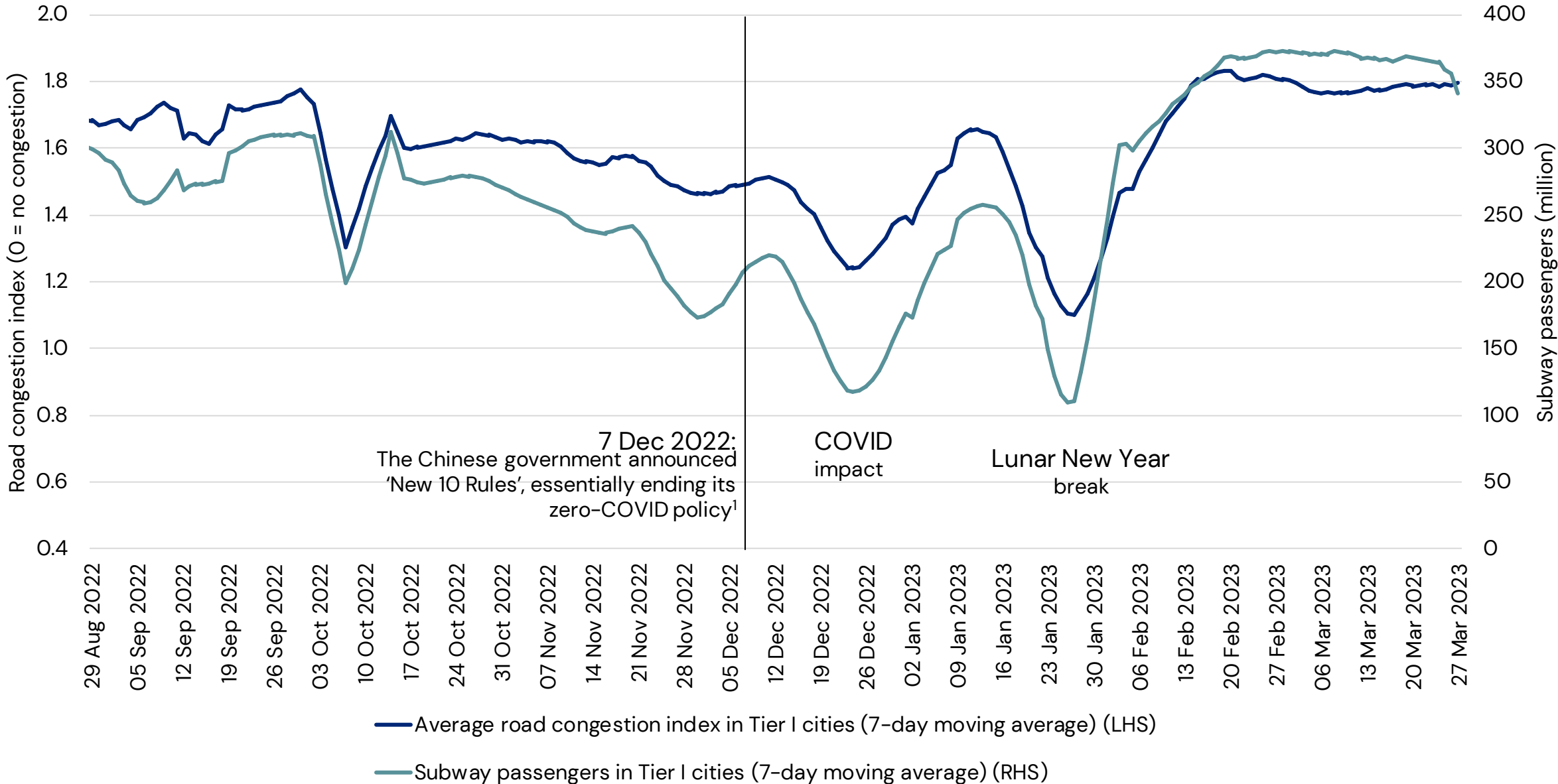
Notes 1. Effective Fed Funds rate shown rather than target range. 2. ECB main refinancing rate shown. 3. Negative interest rates in Japan apply to marginal increases to reserves. Japan cash rate / complementary Deposit Facility. Source: Refinitiv, LaSalle. Data through 30 March 2023.

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China has rapidly re-opened

High frequency data shows a return toward pre-pandemic levels of traffic

Average road congestion index and total subway passenger volume in Tier I cities in China



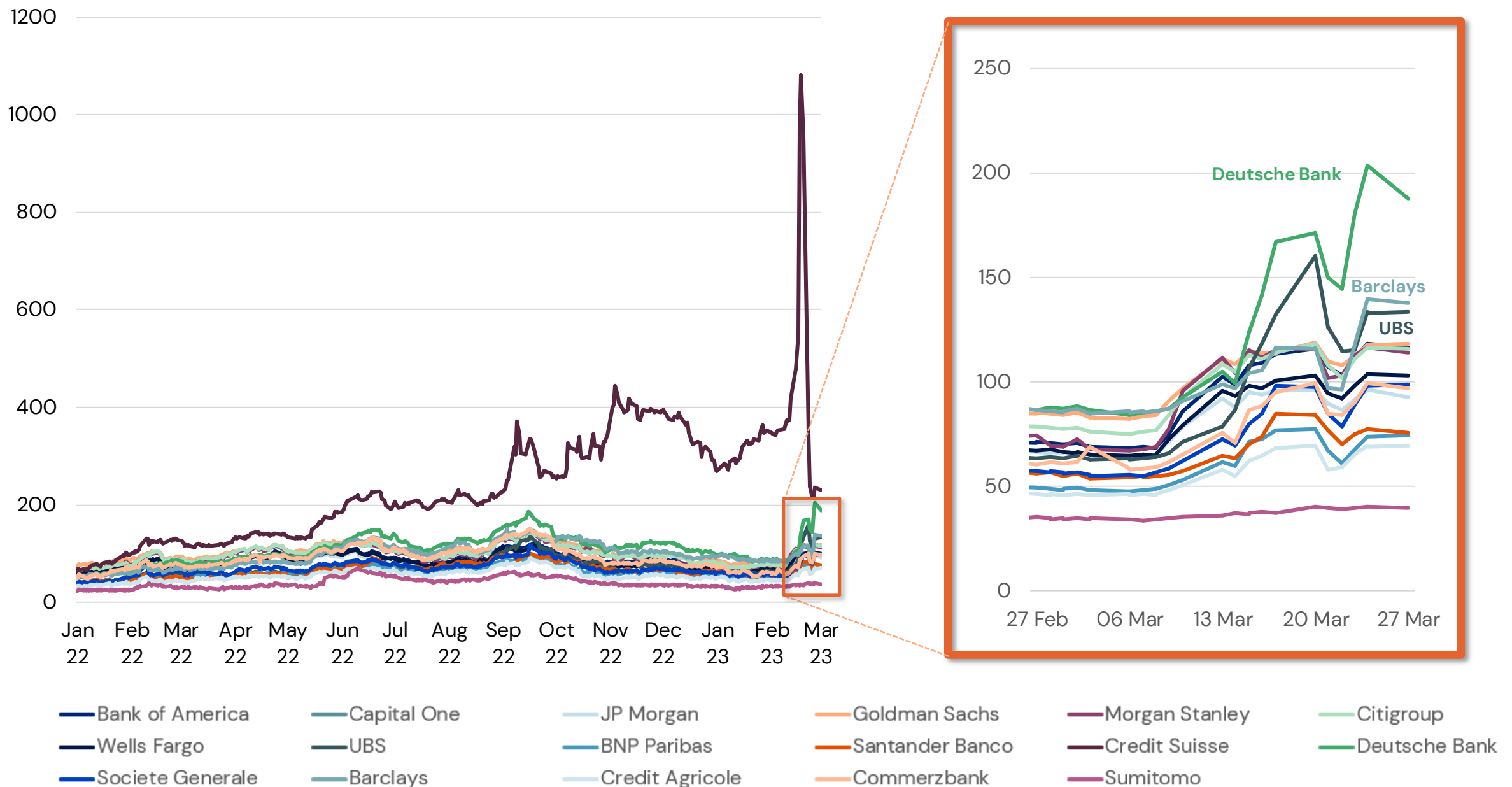
See LaSalle’s recent ISA Briefing on the impact of China’s reopening [here](#).

Note: 1. For details of the 10 rules, please refer to <https://www.bloomberg.com/news/articles/2022-12-07/these-are-the-10-new-covid-rules-china-will-follow-on-path-to-reopening>. Source: report.amap.com (road congestion index), WIND Economic Database (subway passenger volume), as of 27 March 2023. Note: No assurances are given that these trends will continue or materialize as expected. Nothing herein constitutes a guarantee or prediction of future events or results and accordingly the information is subject to a high degree of uncertainty. Past performance is not indicative of future results.

Heightened volatility following SVB collapse

Credit Default Swap ('CDS') spreads picking up concerns around Credit Suisse since mid-2022

5-year CDS spreads on key global banks



CDS spreads can be a relevant signal, but with some additional caveats relative to the past, such as during the Global Financial Crisis (GFC). Bloomberg reports that trading activity in CDS was greater in 2008-09. They report that a small amount of trading activity has had an outsized impact on moving Deutsche Bank CDS.

Source: Bloomberg. As of 27 March 2023.

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Q1 2023 quotes

US resolution of SVB: *“Today we are taking decisive actions... enabling the FDIC [Federal Deposit Insurance Corporation] to complete its resolution of Silicon Valley Bank... depositors will have access to all of their money starting Monday, March 13.”* – Joint statement by US Federal Reserve, FDIC, and Treasury, 12 March 2023

Outlook for Credit Suisse deteriorated quickly in Q1 2023

“We looked at the downside, we believe it is limited...It’s a 160-year-old brand, so how far below 30 cents on the dollar on book is it going to go?”

– Ammar Alkhudairy, [former] Saudi National Bank Chairman, interview with the Financial Times, 13 December 2022

On increasing equity in Credit Suisse: *“The answer is absolutely not” [to avoid additional regulatory scrutiny]*

– Despite the qualifying language, damage was done with this statement by Ammar Alkhudairy to Bloomberg on 15 March 2023

“It’s panic, a little bit of panic. I believe completely unwarranted...”

–One day later, Ammar Alkhudairy to CNBC on 16 March 2023

Fed Chair Powell on post-SVB outlook: *“The process of getting inflation back down to 2% has a long way to go and is likely to be bumpy... Recent developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation. The extent of these effects is uncertain.”*

–Fed Chair Jerome Powell speaking at a press conference after the Federal Open Market Committee (FOMC) meeting, 22 March 2023. Full press conference available at: <https://www.federalreserve.gov/newsevents.htm>

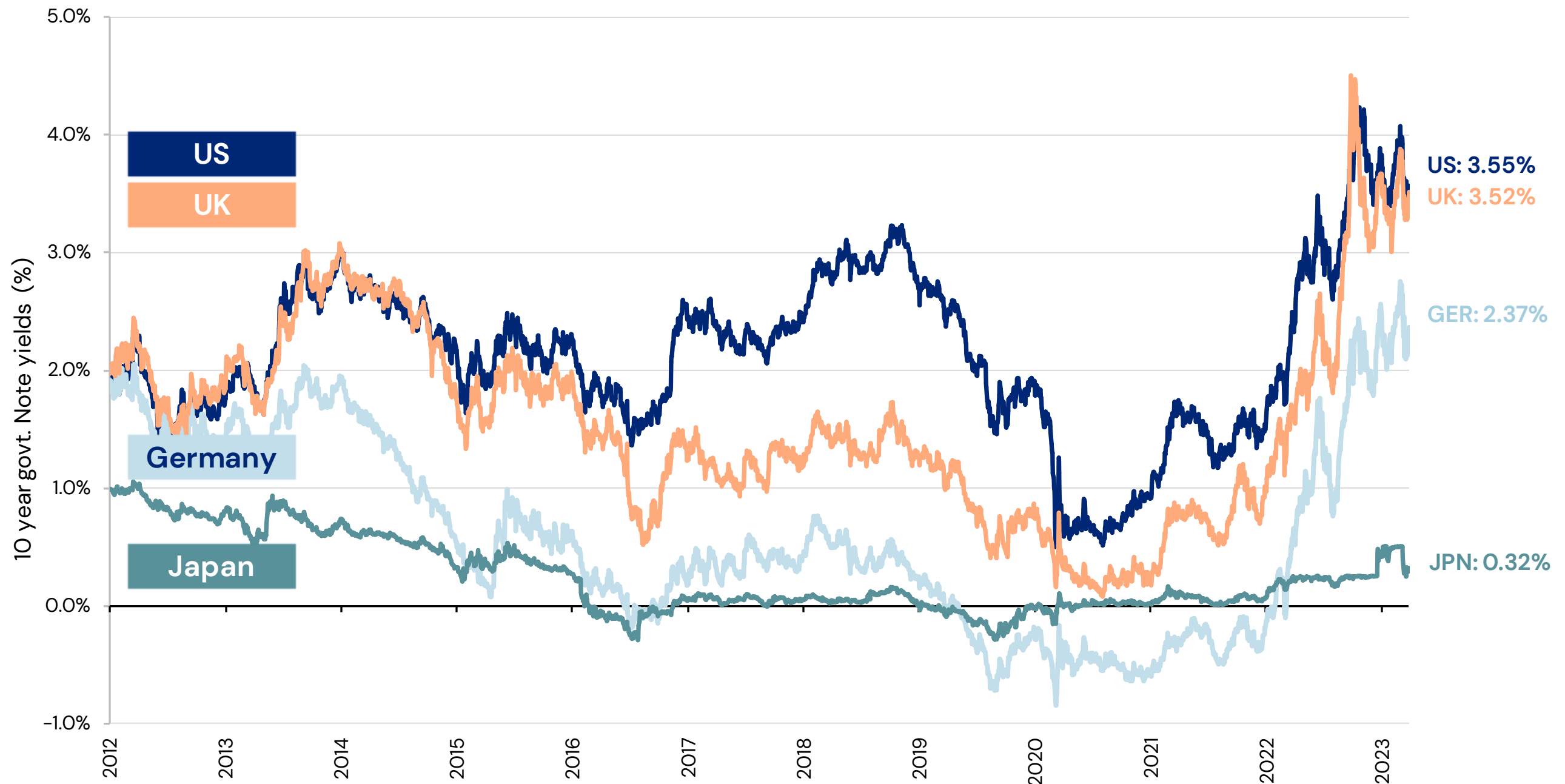
Xi Jinping and Vladimir Putin met in March: *“Right now there are changes the likes of which we haven't seen for 100 years. And we are the ones driving these changes together. ”*

– Chinese President Xi Jinping speaking to Russian President Putin, 22 March 2023

Risk-free interest rates down slightly in Q1 2023

A volatile quarter saw rates decline after SVB's failure and March central bank actions to improve bank sector stability

10-year government note rates



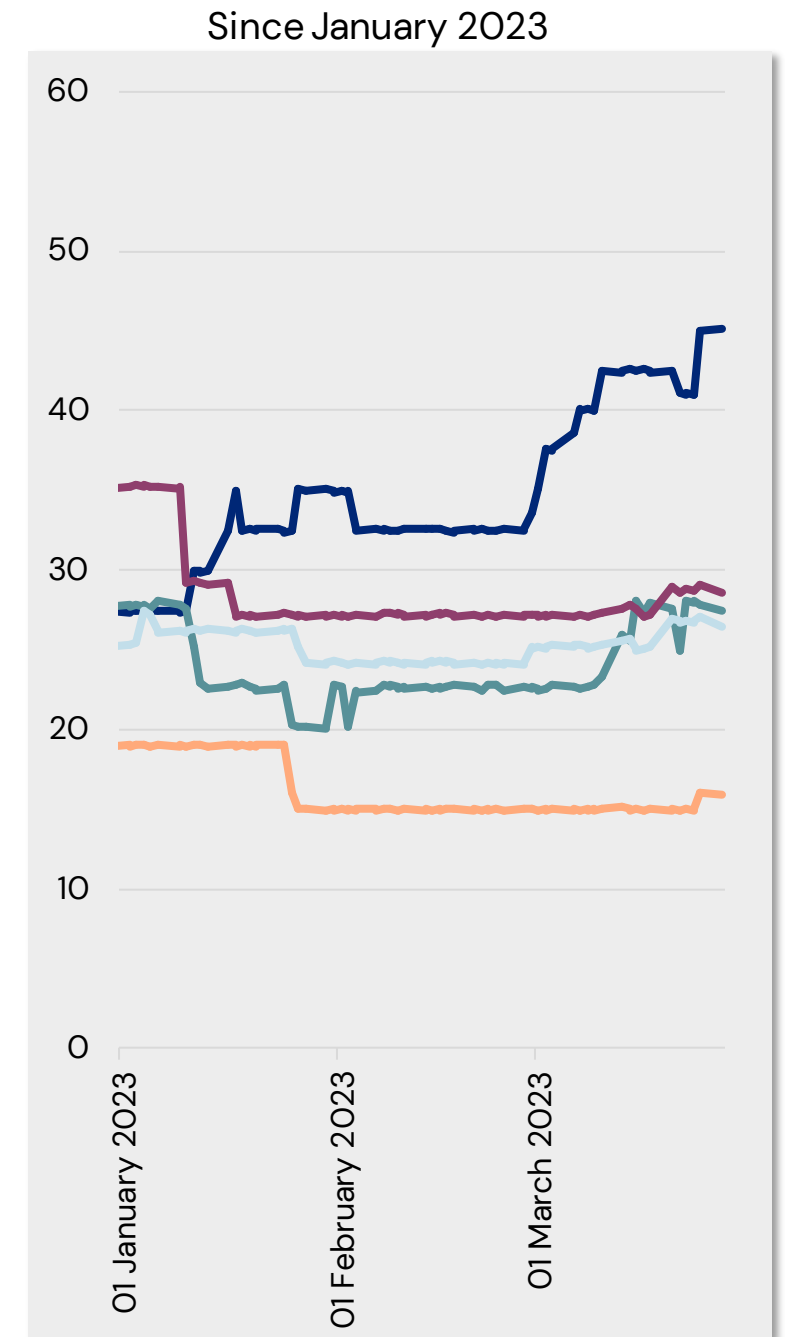
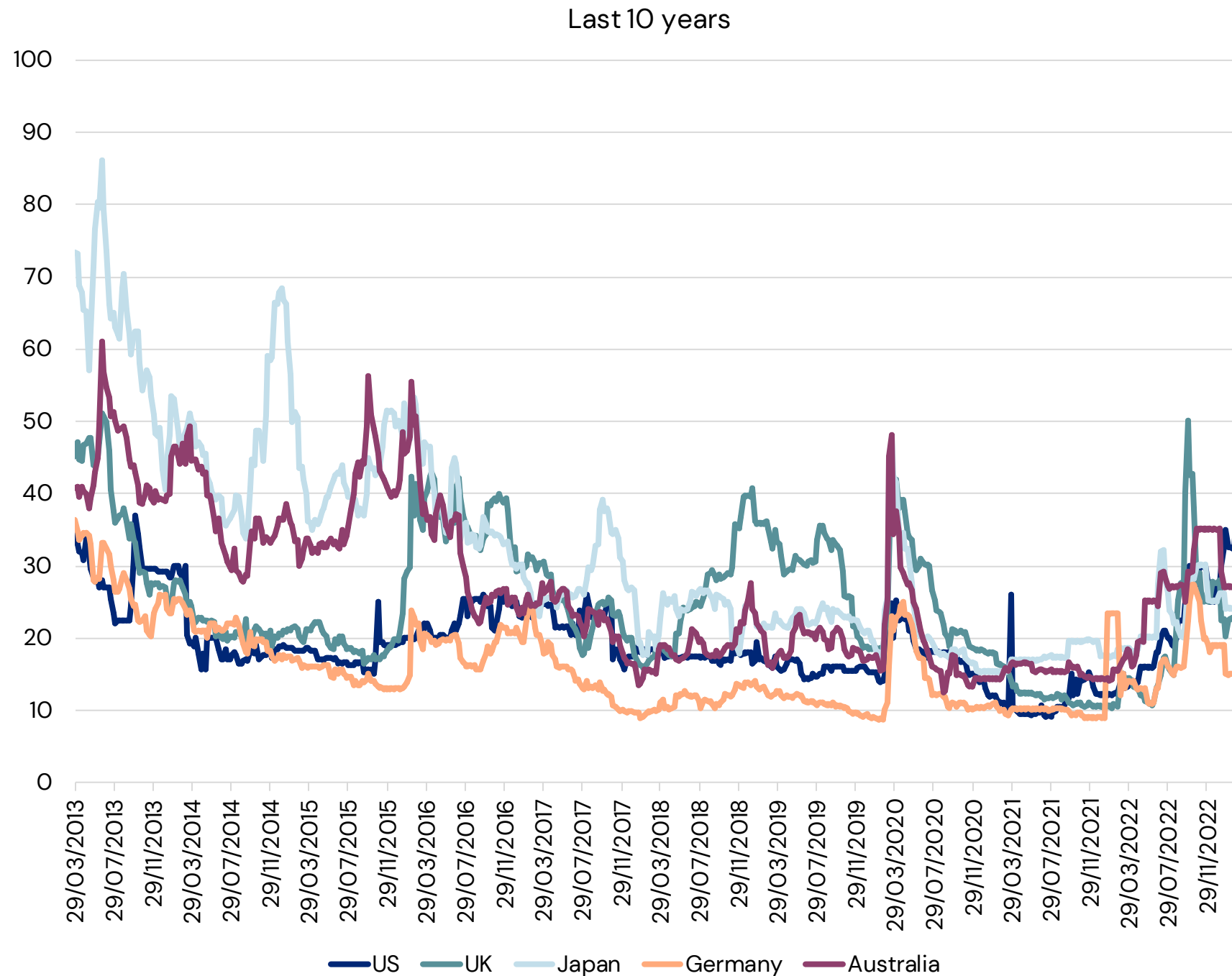
Source: Refinitiv, LaSalle. Data through 30 March 2023.

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Higher sovereign CDS indicate risk aversion

Germany and Japan have lowest CDS spreads; most elevated in the US

Sovereign CDS Spreads
[bps p.a.]



Source: Bloomberg, LaSalle Global Solutions Portwatch as at 29 March 2023.

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Corporate bond yields up over last year

US corporate yields are 197bps wider than one year ago and down by 10bps year-to-date

Nominal corporate bond yields
(Mar 2007 – Mar 2023)

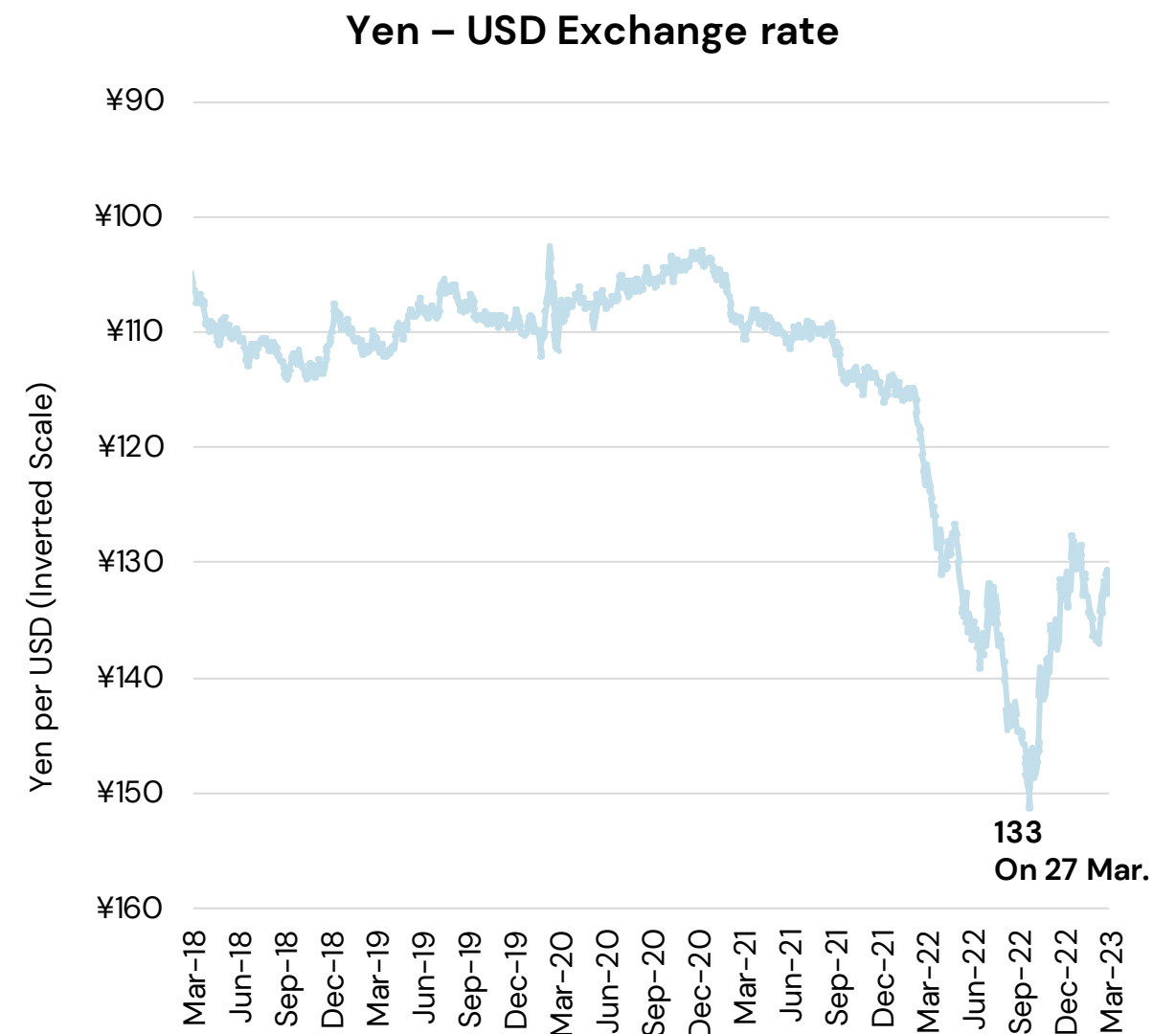
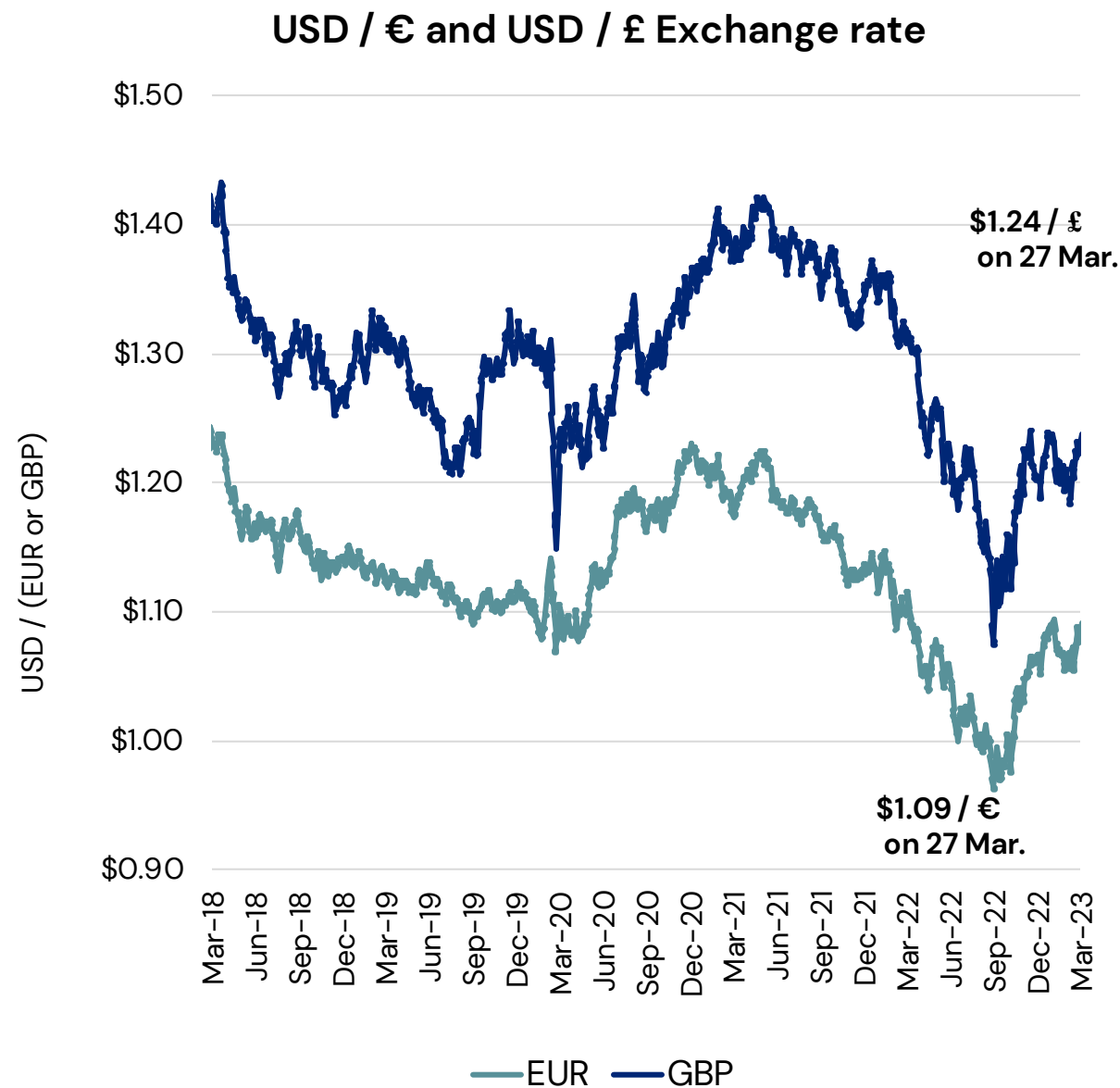


Source: Bloomberg; LaSalle. Data through 30 March 2023

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Q1 2023 saw €, £, ¥ move by less than 2% vs USD

Contrasts with declines against the dollar that exceeded 7% during Q4 2022



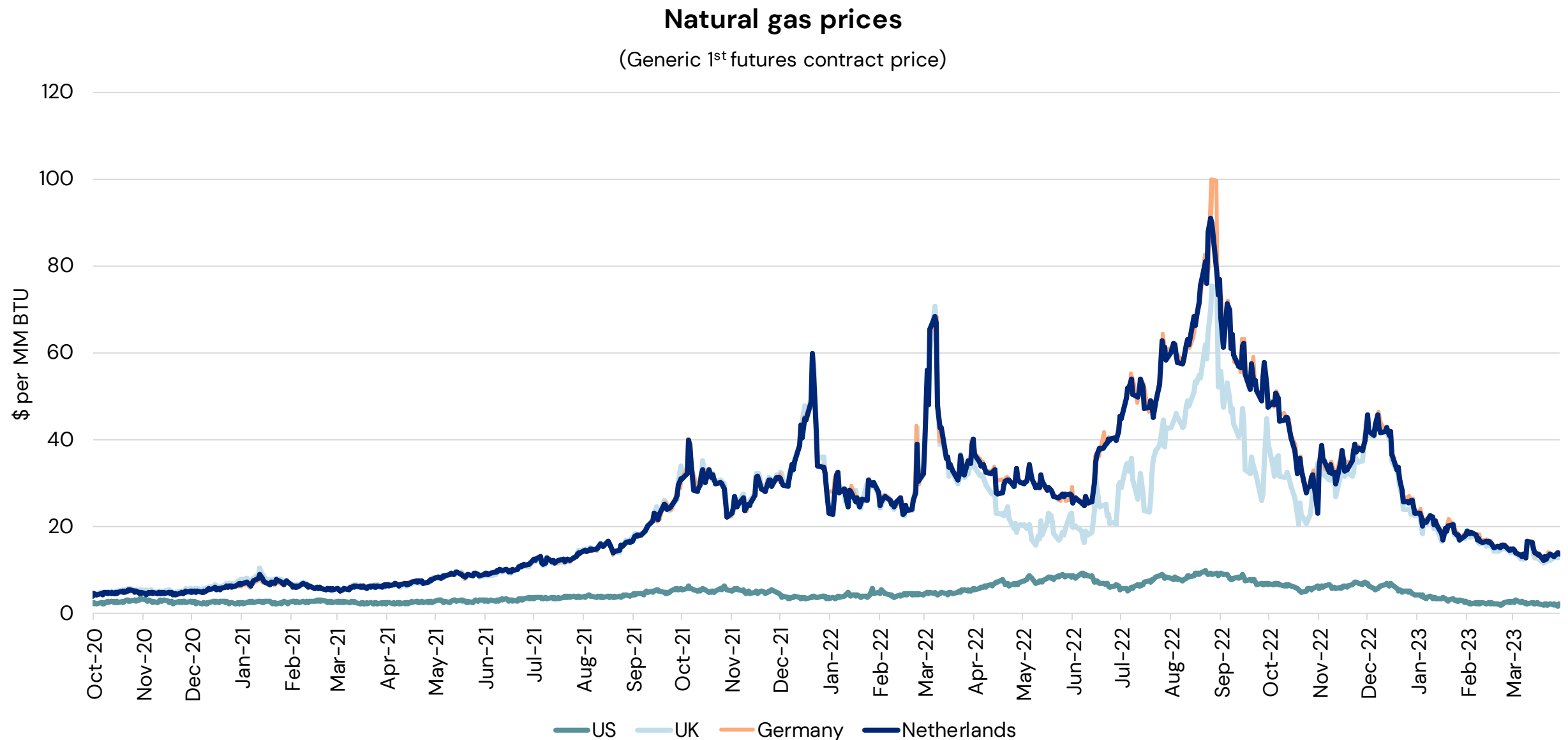
Currency exchange movements have been relatively more marginal over Q1 2023 where against the USD, GBP, EUR, and Yen appreciated by 1%, 2%, 1%, respectively. In comparison to Q4 2022, when stronger movements were observed with 8%, 7%, 9%, respectively.

Source: Refinitiv. Latest data available as of 30 March 2023.

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Dutch natural gas benchmark 50% down YTD

Prices have declined to levels lower than when Russia invaded Ukraine in February 2022



EU gas storage is currently filled up to 56% of the capacity, in line with the seasonal patterns. The rush to fill storage to full capacity will likely commence from summer onwards in preparation for the colder seasons. While prices are coming off and stabilizing, the gas prices are still double the 10-year average.

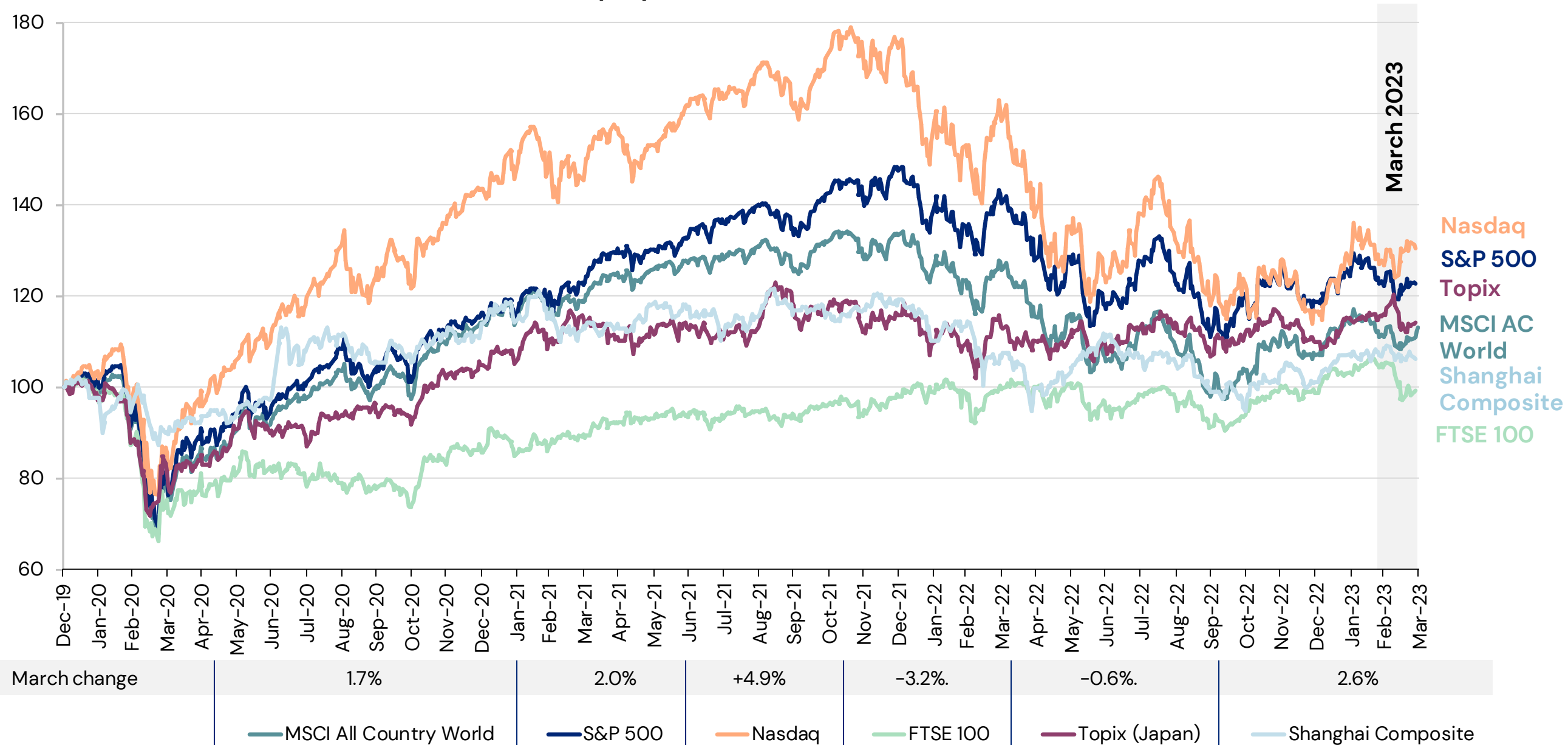
Source: New York Mercantile Exchange and Intercontinental Exchange data via Refinitiv. Gas storage data via GIE. As of 30 March 2023.

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Global equities up, rose during volatile Q1

MSCI All Country World Index rose in March

Global equity indices (31 Dec. 2019 = 100)



Global equities started off the year with a rally to mid-February. Overall equity index levels fell amid March banking turmoil but only modestly and saw a subsequent rebound.

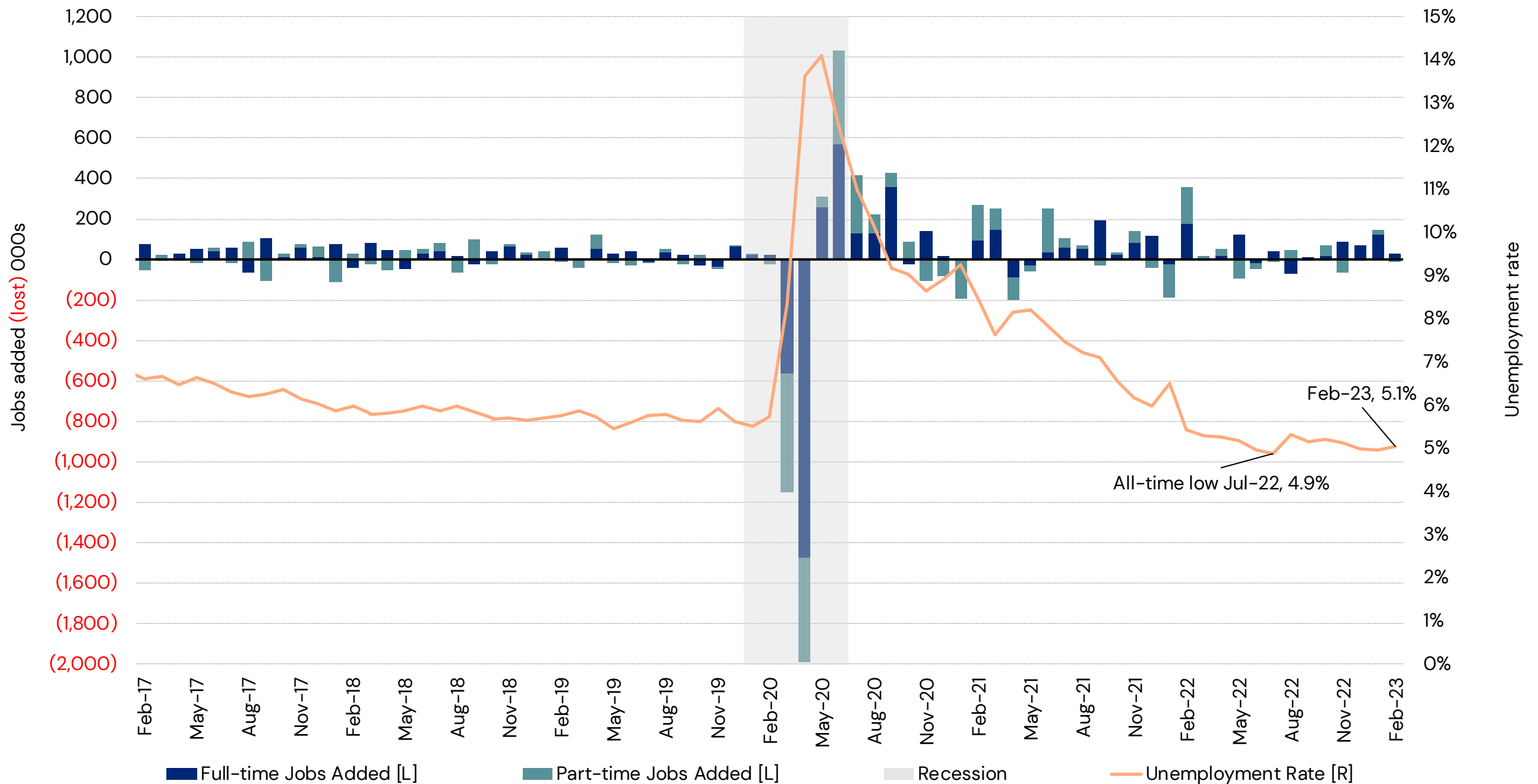
Source: Refinitiv. Data through 30 March 2023.

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Canada, consistent with global trend, continues positive job growth

Unemployment rate hovering near all-time low as labor shortages persist

Canada: full-time and part-time jobs added / (lost), monthly, 2017 – 2023



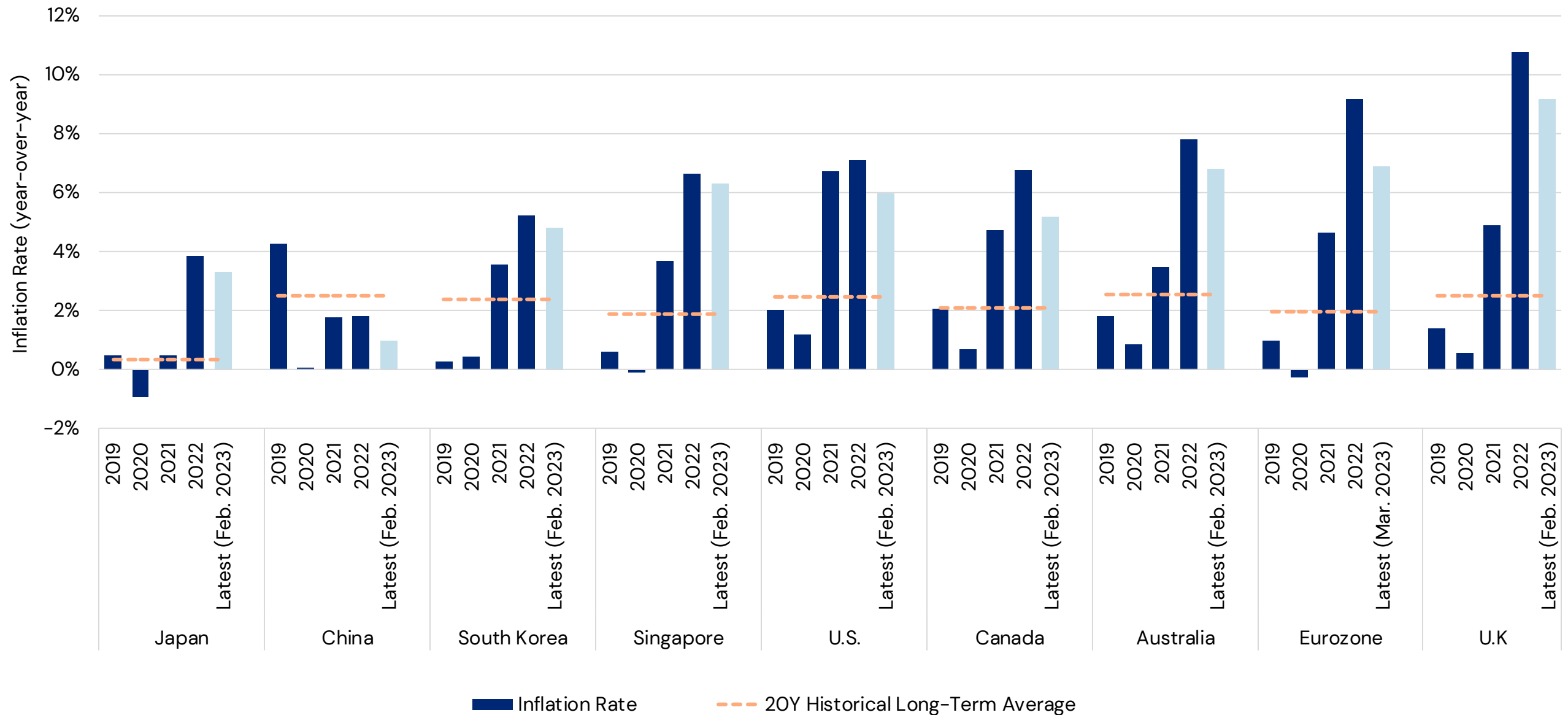
Sources: Statistics Canada, LaSalle. Data to February 2023

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Inflation cools in most markets but still elevated

Inflation readings down in Q1 2023 relative to YE 2022

Inflation trend by country



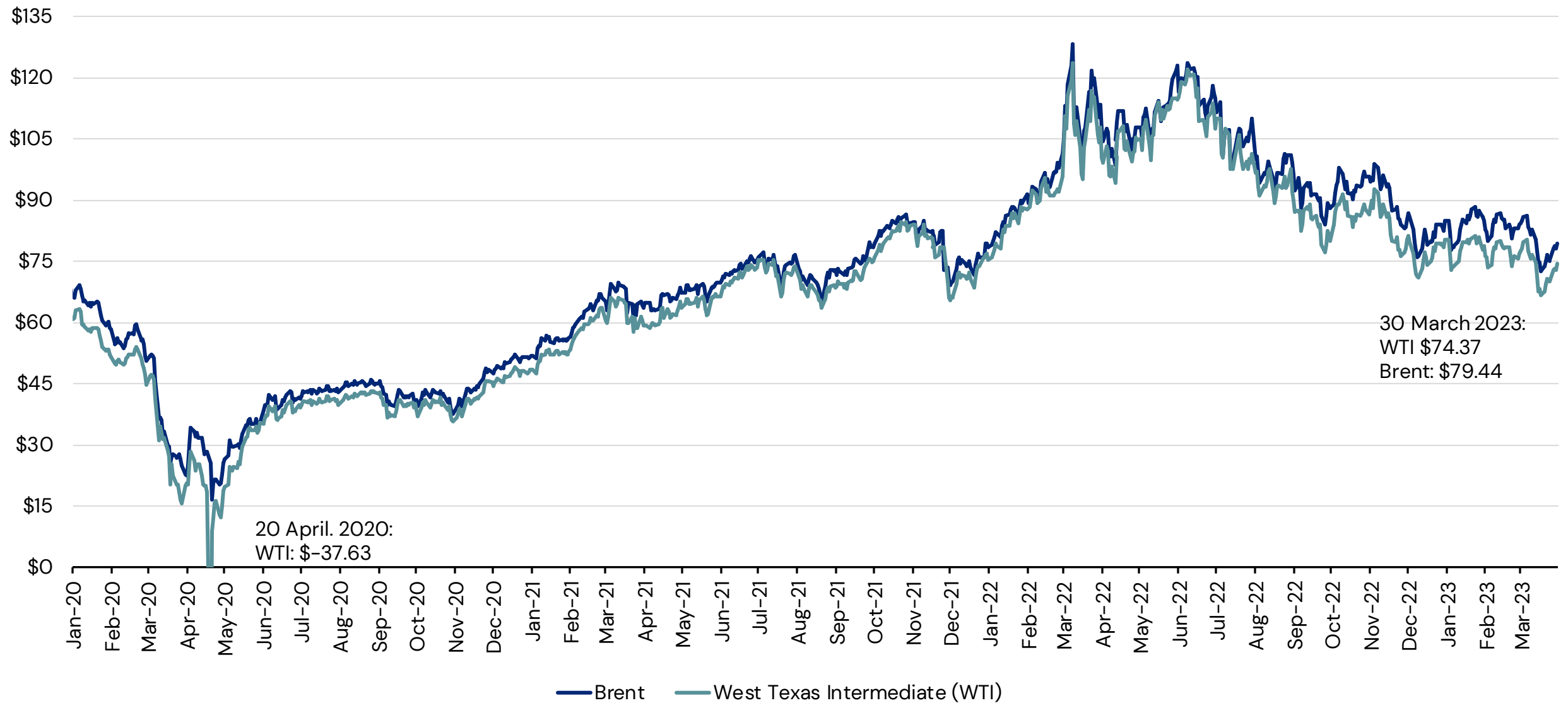
Year-over-year inflation remains above its 20-year average in major markets, bar China. Increasing energy prices have been the driver of high European inflation. UK inflation rose 9.2% Y/Y in February 2023, down from 10.75% in Q4 2022 but up from 8.8% in January. The Eurozone reported a Y/Y March inflation reading of 6.9%, easing from its Q4 2022 reading of 9.2% Y/Y and February 2023 reading of 8.5%.

Note: 20-year historical long term average inflation rate is the average quarterly inflation rate from Q1 2003 to Q4 2022.
 Source: Oxford Economics; latest monthly data from Australia Bureau of Statistics (Australia), Eurostat (Eurozone), Singapore Department of Statistics (Singapore), Statistical Bureau (Japan), Statistics Korea (South Korea), National Bureau of Statistics (China), Statistics Canada (Canada), Office for National Statistics (UK), US Bureau of Labor Statistics (US). Latest data available as of 29 March 2023.
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Brent crude oil price down about 7% in Q1 2023

Most of the Q1 2023 decline came in March

Oil price, USD per barrel



The latest OPEC meeting which took place on the 1 February 2023 reaffirmed the cartel's decision to leave their quotas for oil production unchanged. This followed their decision to cut oil production by 2 million barrels/day at the October meeting. The next meeting is on the 3rd of April.

Source: AAA, New York Mercantile Exchange and Intercontinental Exchange data via Refinitiv. As of 30 March 2023.

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Wheat down about 13% during Q1 2023

Metal prices up approximately 1% from YE 2022

Wheat futures

Next month contract, Chicago Board of Trade



London metals exchange price index

Based on prices of copper, aluminium, tin, zinc, lead, and nickel

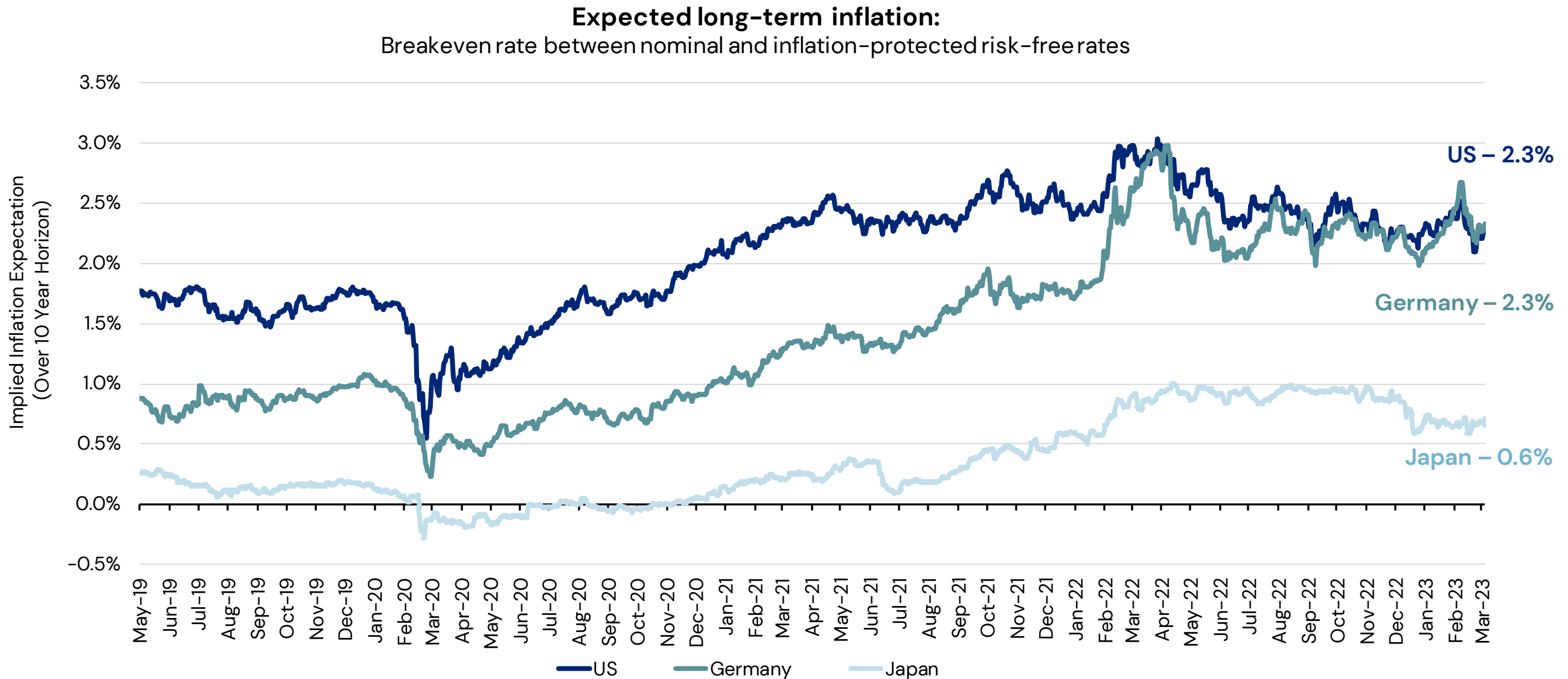


Source: Bloomberg. Wheat price as of 29 March 2023. London Metals Index as of 30 March 2023. Latest data available as of 30 March 2023.

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Breakeven 10Y inflation outlook remains under 2.5%

In the US, Germany, and Japan inflation-protected yields anticipating a dramatic deceleration



Breakeven inflation rates rose from pandemic lows to about 3% at the end of April 2022. Since then – coinciding with more aggressive central bank action and slowing growth signals – long term inflation expectations have moved slightly lower.

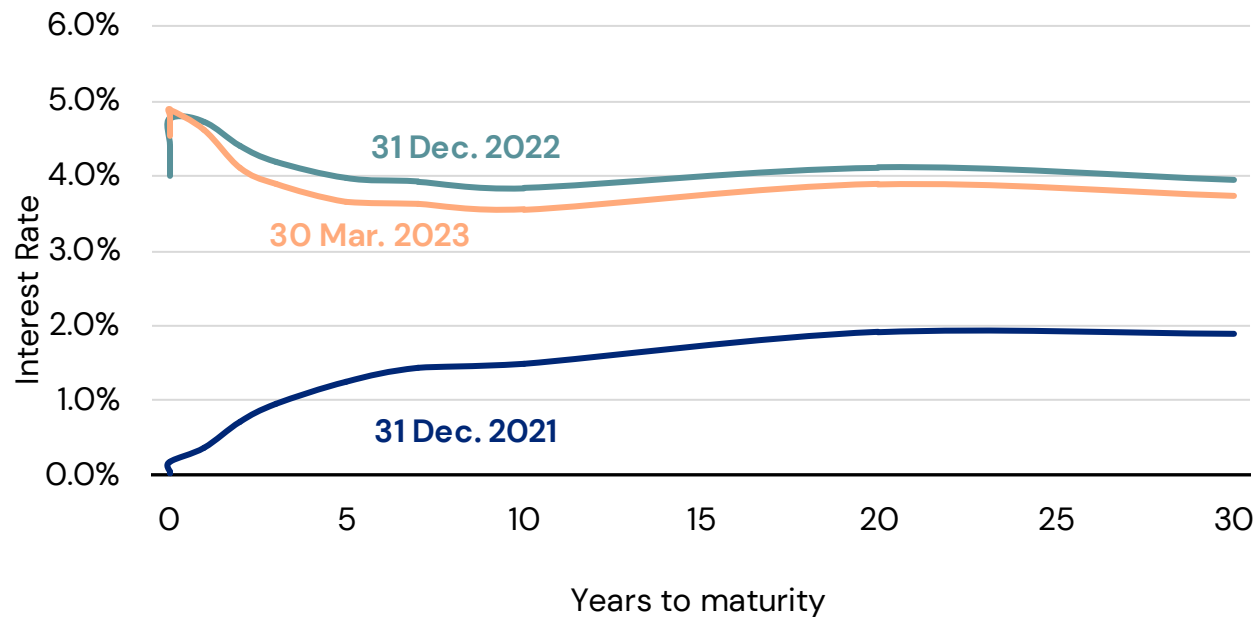
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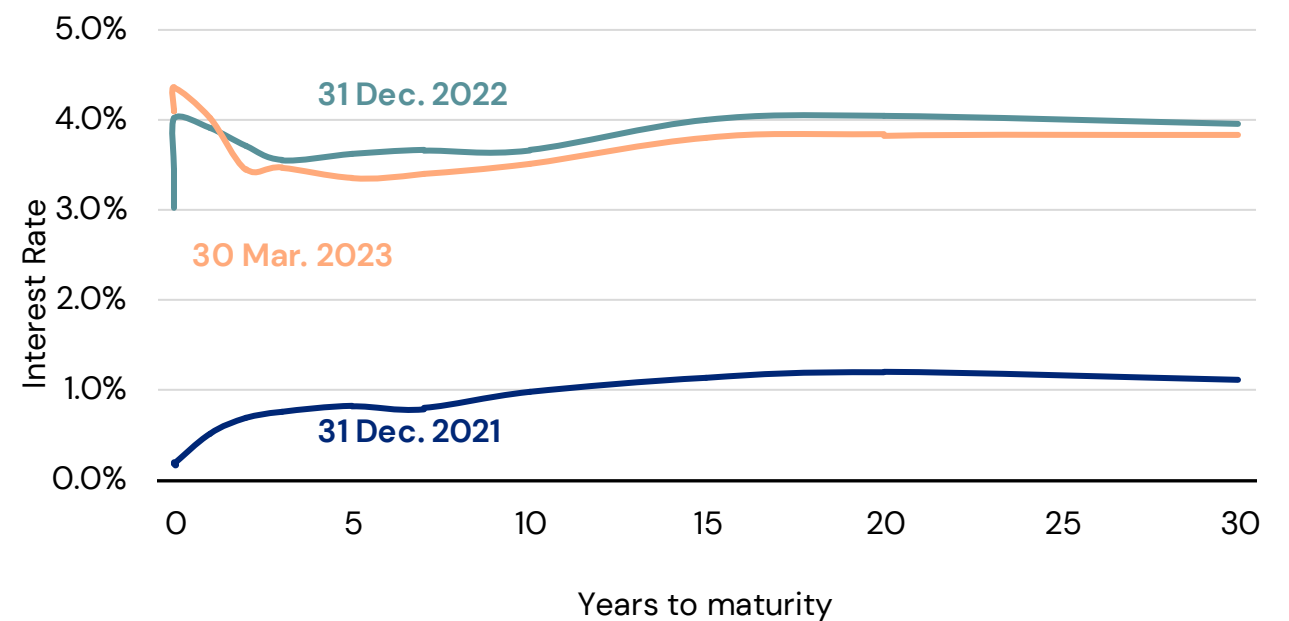
Yield curves: 10Y vs. 3M spreads inverted in US, UK

US and UK yield curves shifted lower in March; current curves similar to those at YE 2022

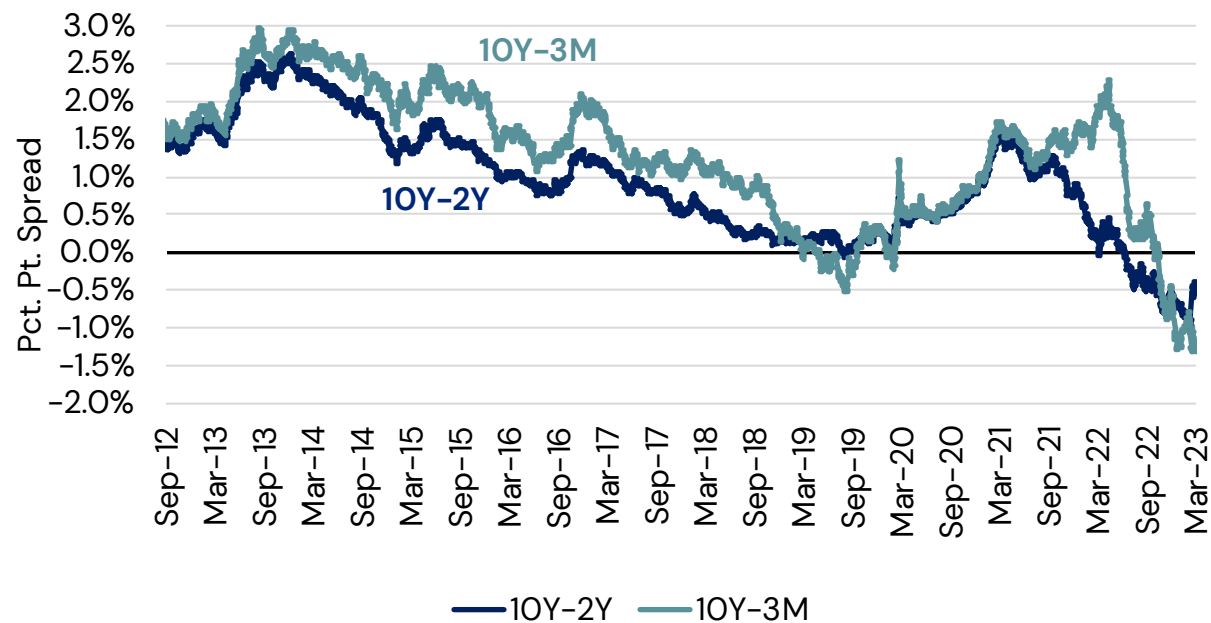
US yield curve over time



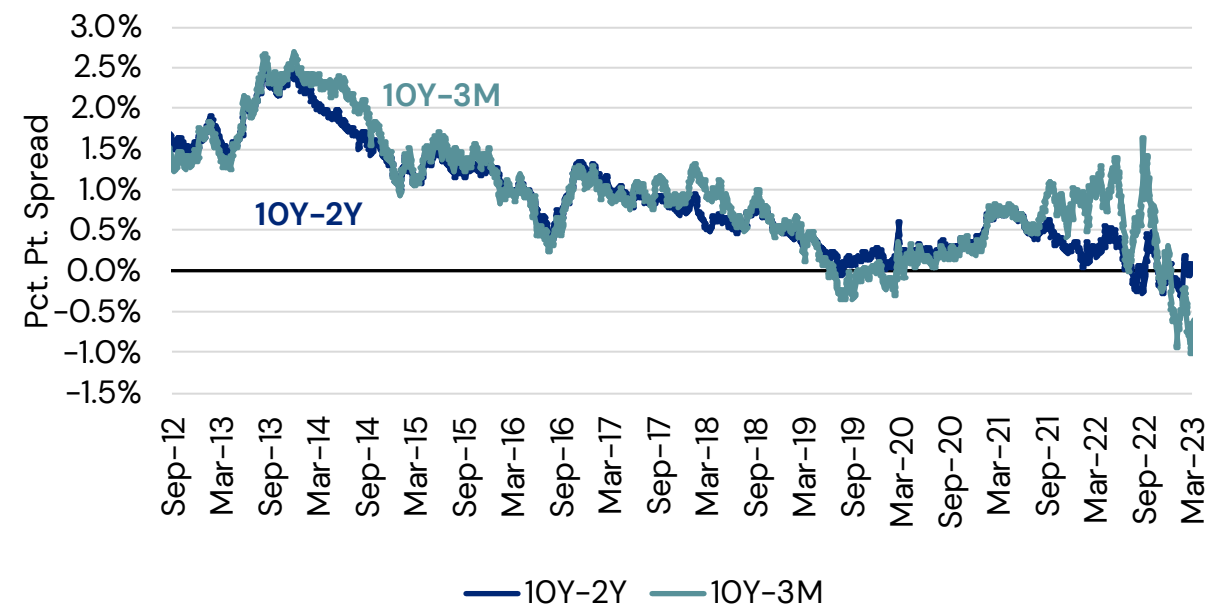
UK yield curve over time



US yield curve spreads



UK yield curve spreads

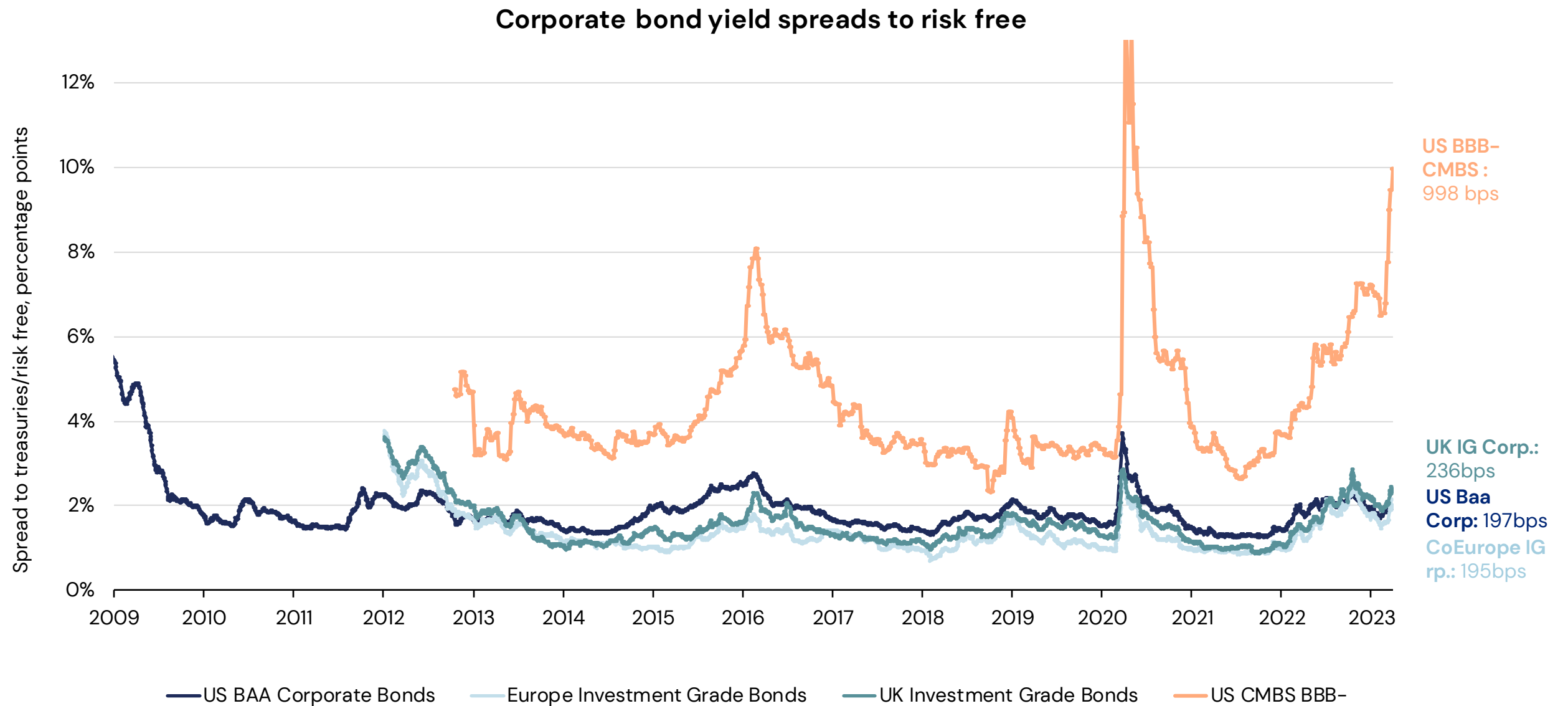


Source: Refinitiv, LaSalle. Data through 30 March 2023.

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CMBS spreads widen sharply

European investment grade spreads widened by smaller 21 bps during Q1



The European investment grade spread has widened by 20bps YTD while UK investment grade spread has increased 16bp. Higher risk spreads have widened significantly more than investment grade spreads, with the US BBB- CMBS spread up 278bps during Q1 2023.

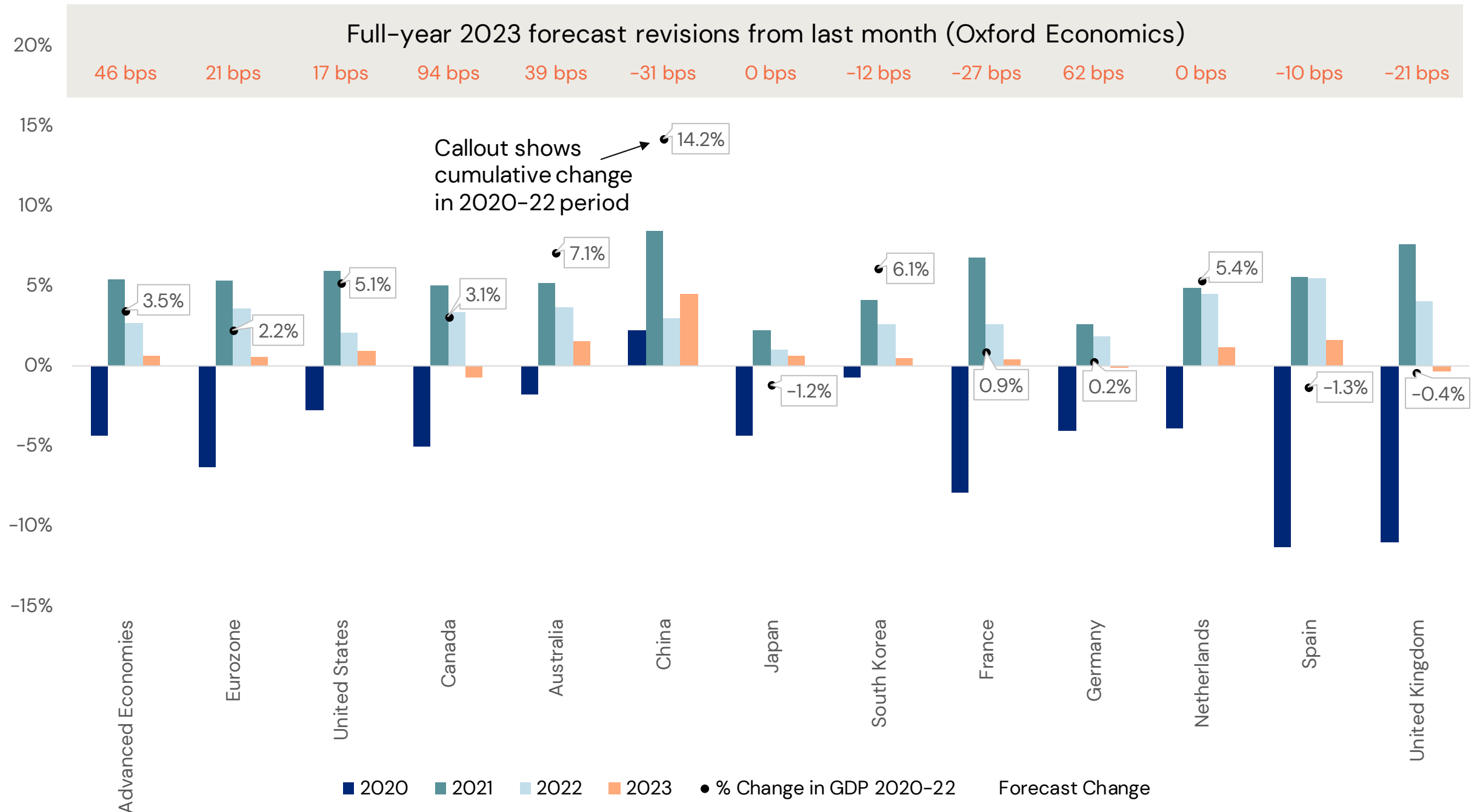
Source: Bloomberg, JP Morgan. Latest data available as of 29 March 2023.

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Economic outlook improved in Jan. and Feb.

But Oxford's forecasts below do not yet reflect SVB failure fallout and may be revised lower

Oxford Economics global annual GDP forecasts

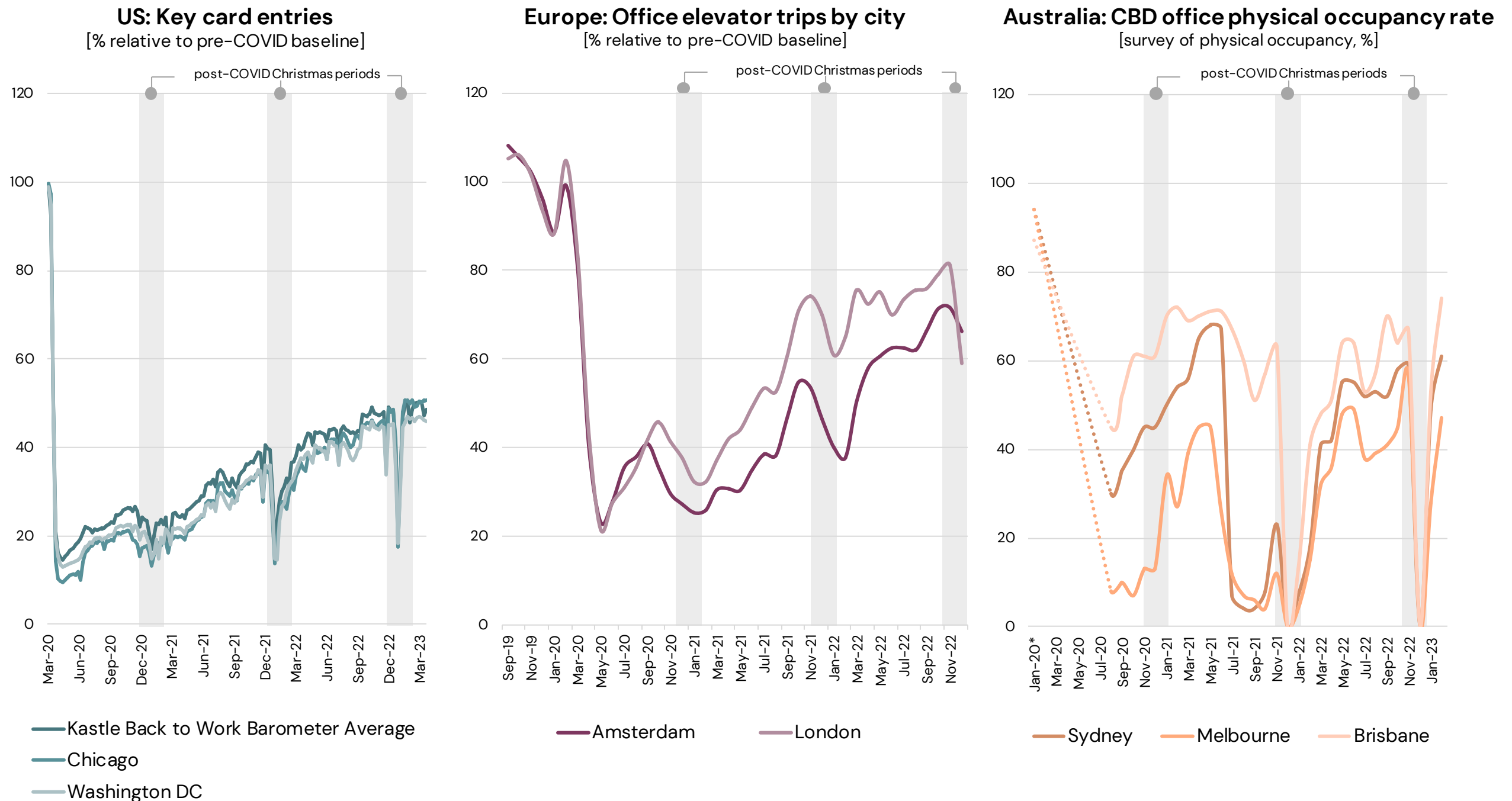


*Aggregation based on Oxford Economics country classification: <https://services.oxfordeconomics.com/api/definitions/WDMacro/GlobalMacroEconomicDatabank.pdf>
 Source: Oxford Economics Forecast most recent as of 23 March 20223

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US return to offices weak by global comparison

Proxies for physical occupancy show European and Australian offices seeing swifter RTO



See LaSalle's recent ISA Focus on Revisiting the Future of the Office [here](#).

Note: Kastle's US data based on weekly key card entries into office buildings, Kone's data for Europe uses office elevator trips as a proxy for physical occupancy, Australian figures are based on responses from PCA members who own or manage CBD office buildings and cover occupancy metrics.

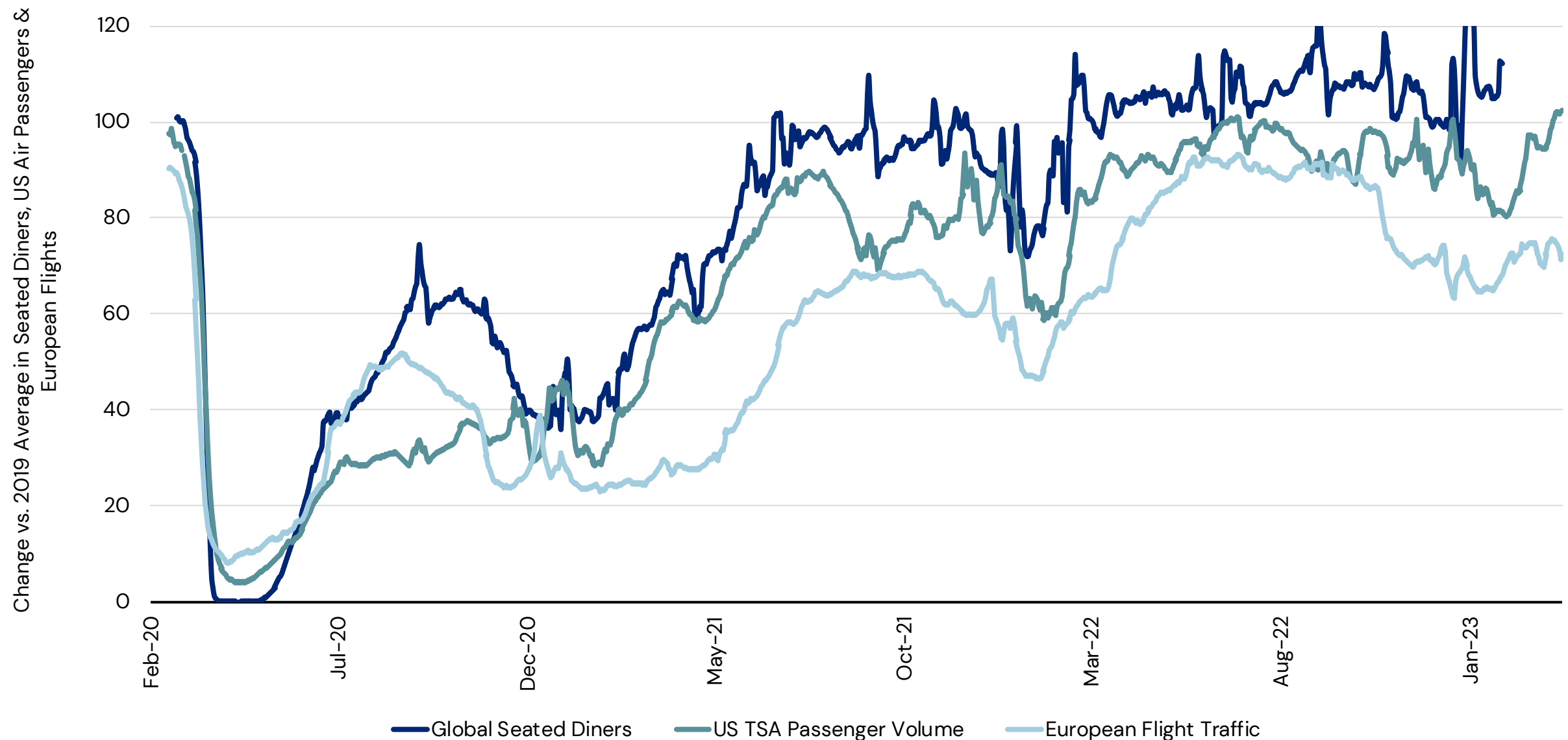
Source: Kastle Systems (22 March 2023), Property Council of Australia (February 2023), Kone (January 2023). Latest data as at 30 March 2023.

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Return to leisure ahead of return to office

Air traffic and dining out have regained pre-pandemic levels

Global diners, US air passenger screenings, European flight traffic
(Y/Y Change in 7-Day Rolling Average)



Global seated diners at the beginning of February were at 112% of their pre-pandemic average. Also, controlling for seasonality and comparing to 2019, US passenger screenings at the end of Q1 2023 were 2% above pre-pandemic. While the number of European flights was down 29%, strikes affecting air travel in Europe during Q1 2023 may explain the lower statistic.

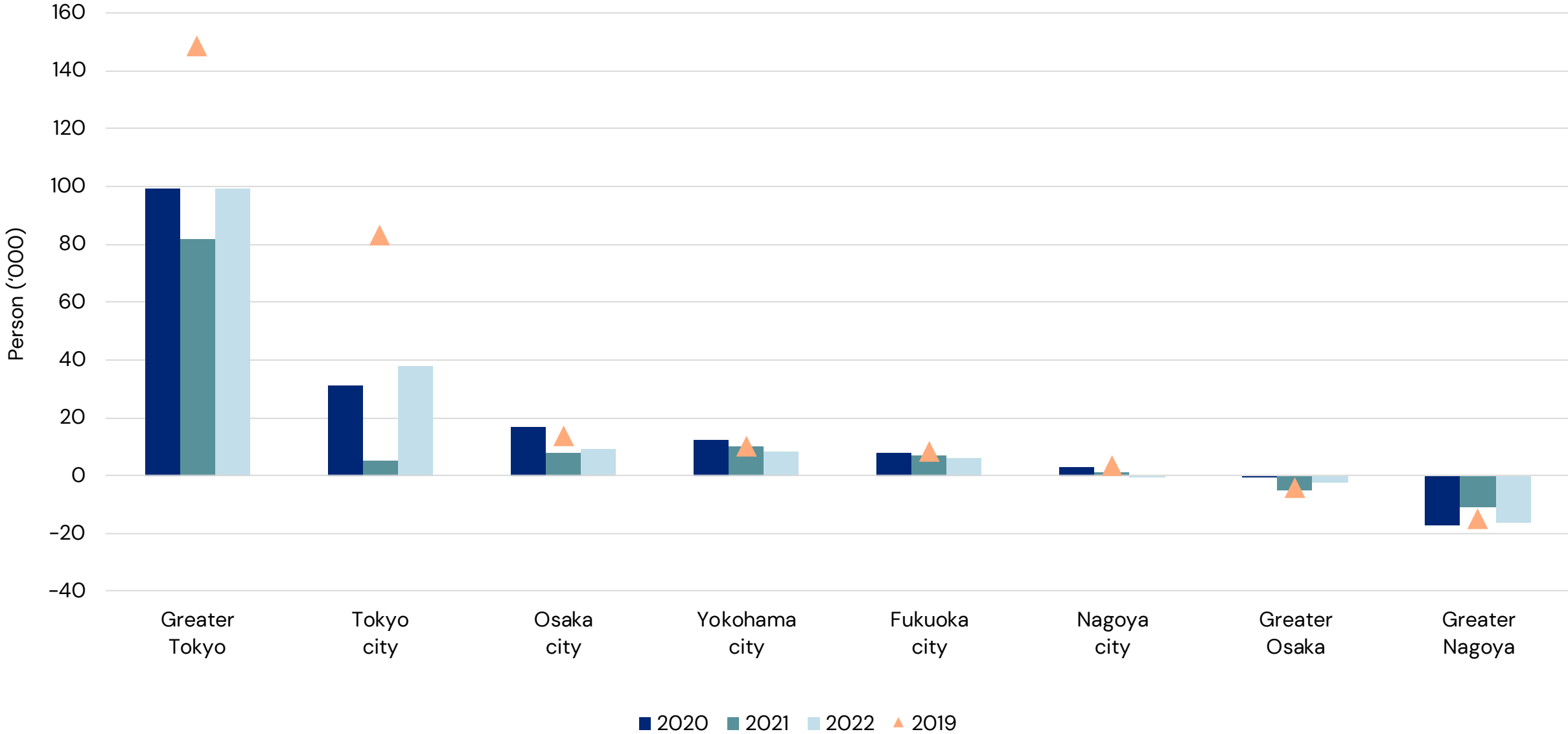
Source: US passenger data is from the Transportation Security Administration (TSA), Global seated diners from OpenTable, and European Flight Traffic from Eurocontrol. Data to 28 March 2023 (8 February for OpenTable due to a data reporting outage). Latest available as of 29 March 2023.

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In Japan, migration to urban areas picked up in 2022

Expect migration to improve further in 2023 as the country move to a post-pandemic new normal

Net migration* trend in Japan



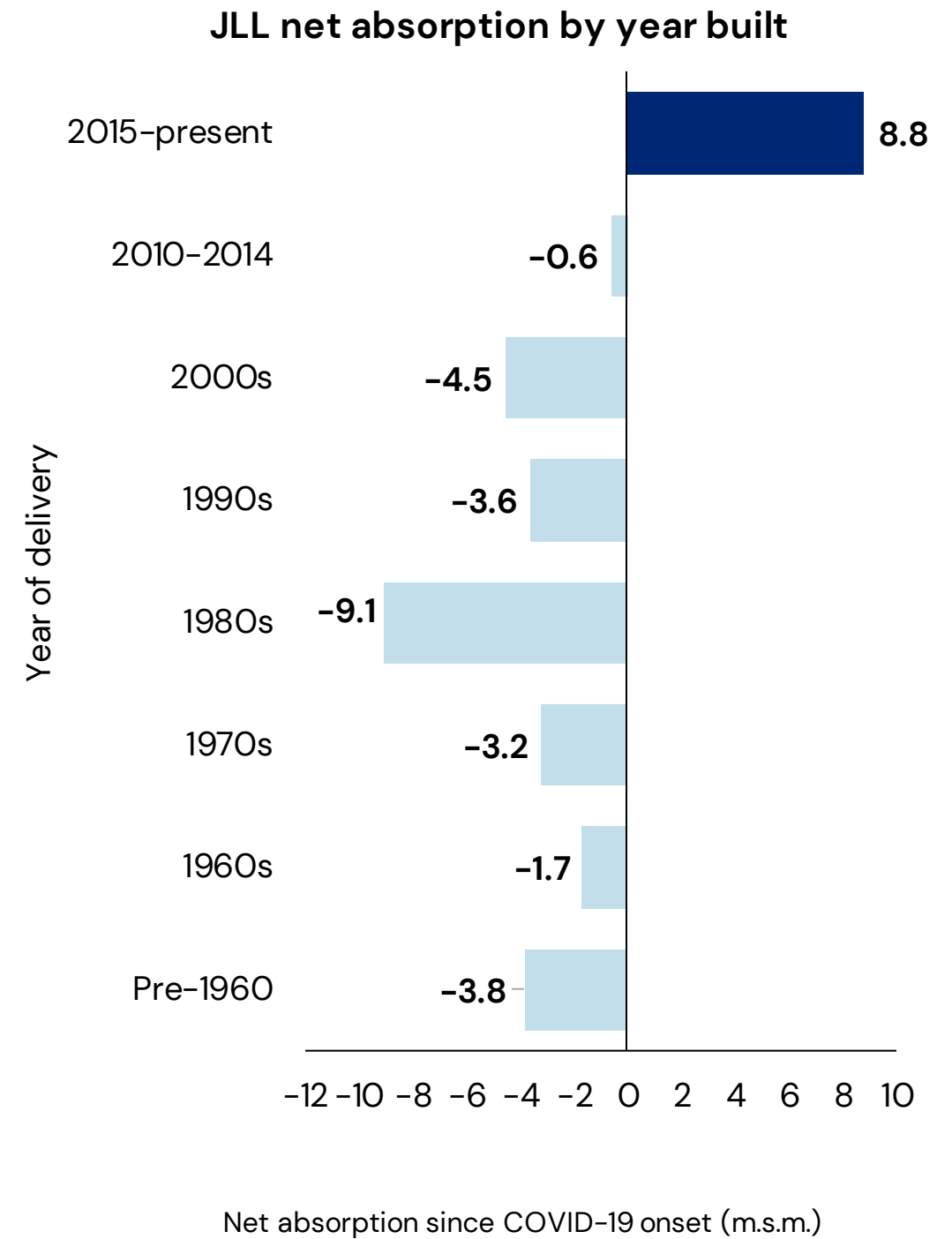
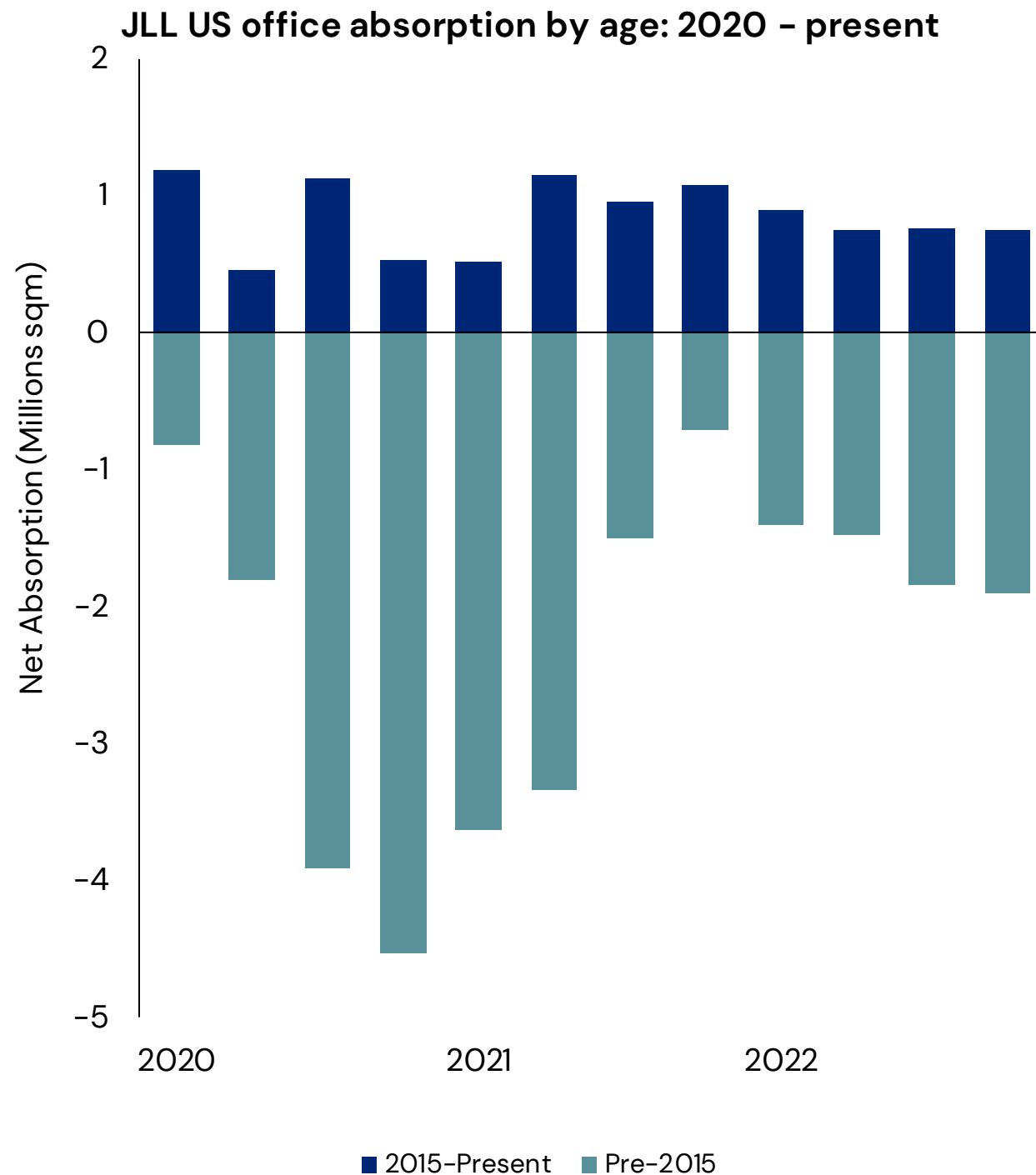
* The net in-migration data include Japanese and foreigners.

Source: The Ministry of Internal Affairs and Communications, as of 2022

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Recently constructed office buildings capturing demand

US tenants absorbing space in newest, highest grade offices even as they reduce overall footprint

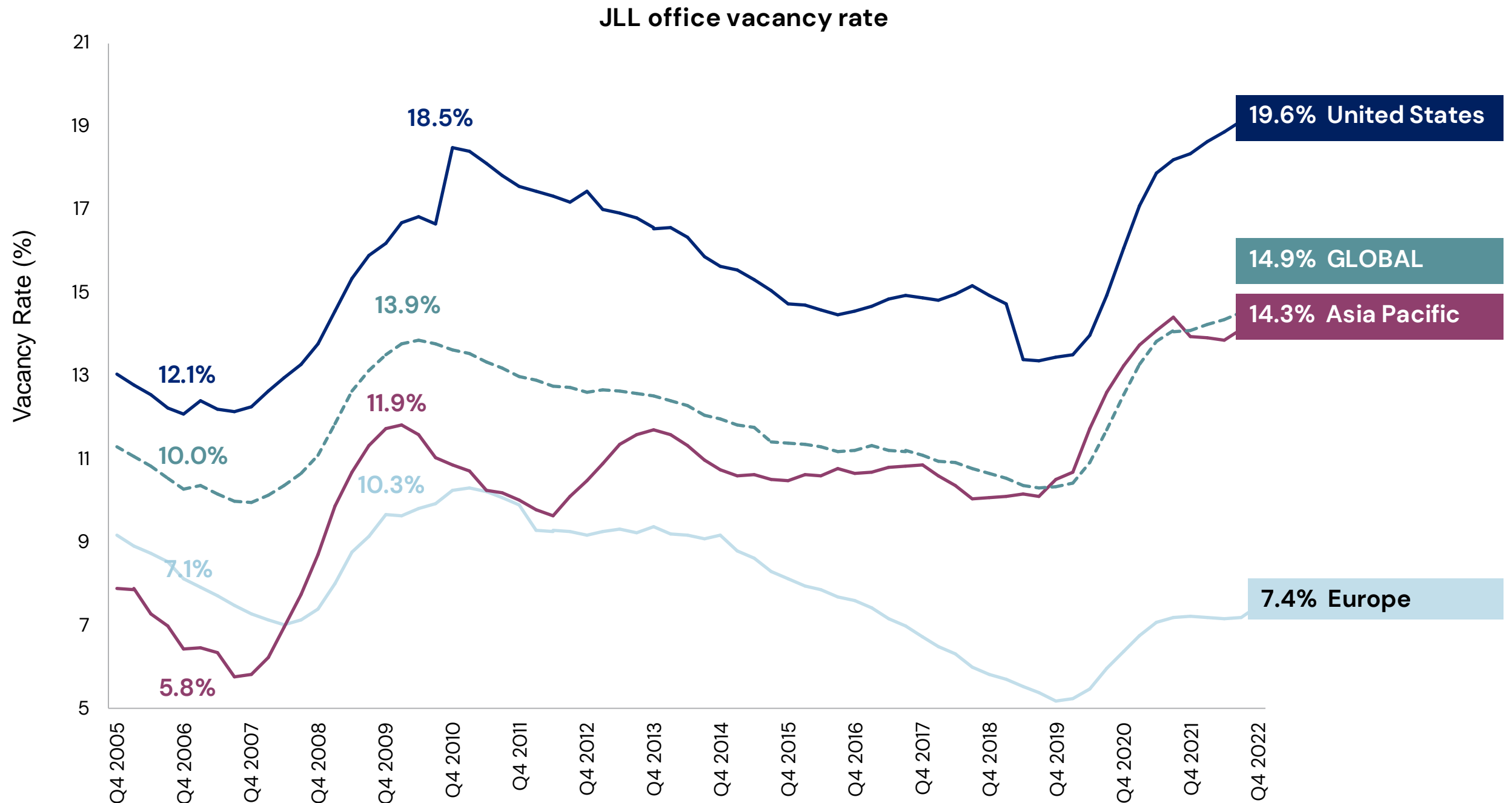


Source: JLL. Data to Q4 2022. Latest available as of 31 March 2023.

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Global office vacancy rose to 14.9% at year-end 2022

LaSalle's latest ISA Focus examines what's driving large differences between regions



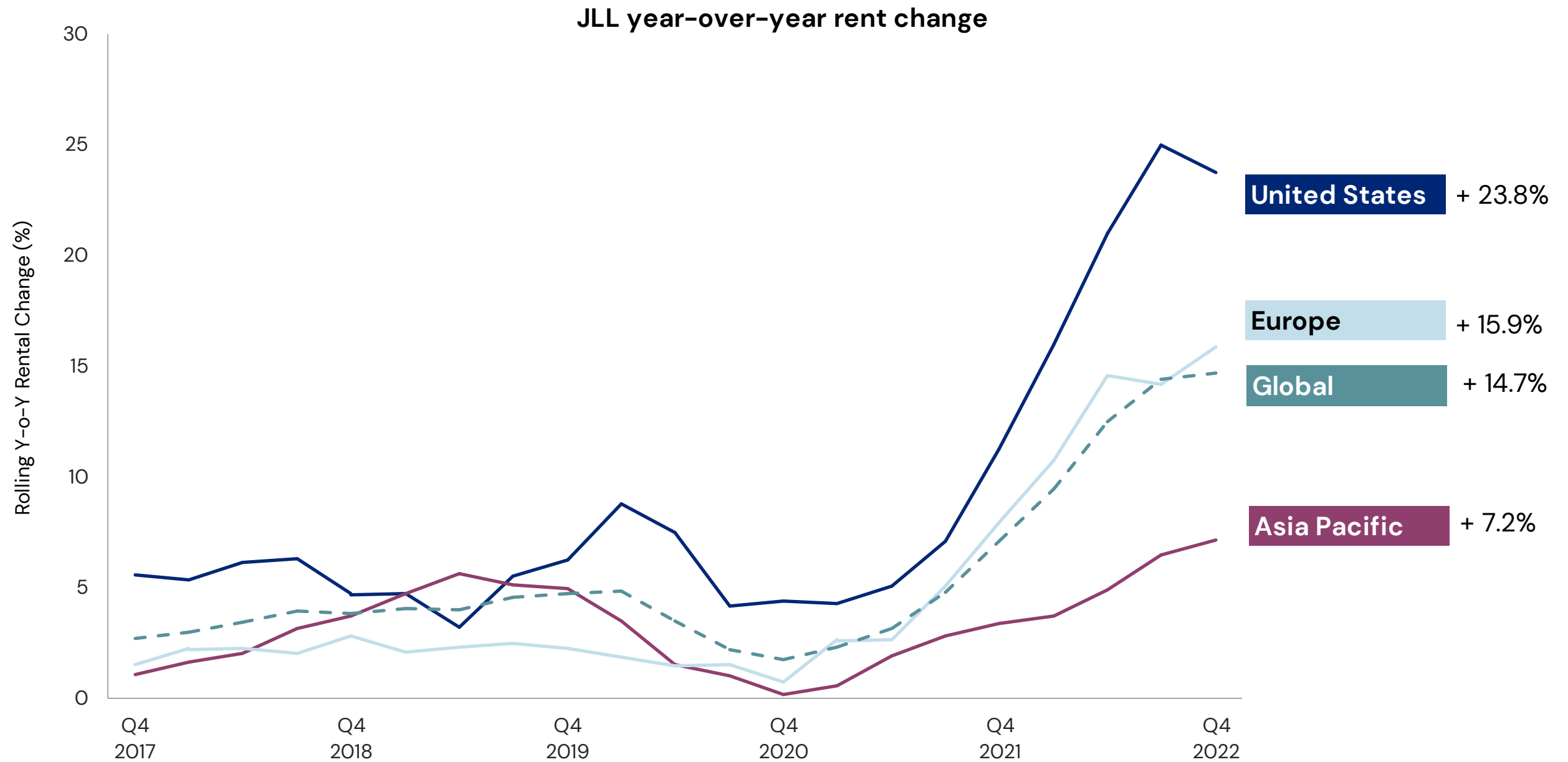
Source: 57 markets in the U.S., 23 markets in Europe, 25 markets in Asia Pacific. Grade A space vacancy only for Asian markets

Source: JLL, Data to Q4 2022. Latest available as of 31 March 2023

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Global logistics rent growth remains robust

Double digit pace of increases through year-end in North America and Europe



U.S.: average asking rents (inclusive of all stock A/B/C gradations) based on 55 city markets; Europe: aggregate nominal rental growth based on prime headline rents in 23 city markets (weighted by city nominal GDP); Asia Pacific: based on net effective rent in 40 city markets (unweighted); Global: weighted average according to region's (US/Europe/Asia Pacific) share of total GDP.

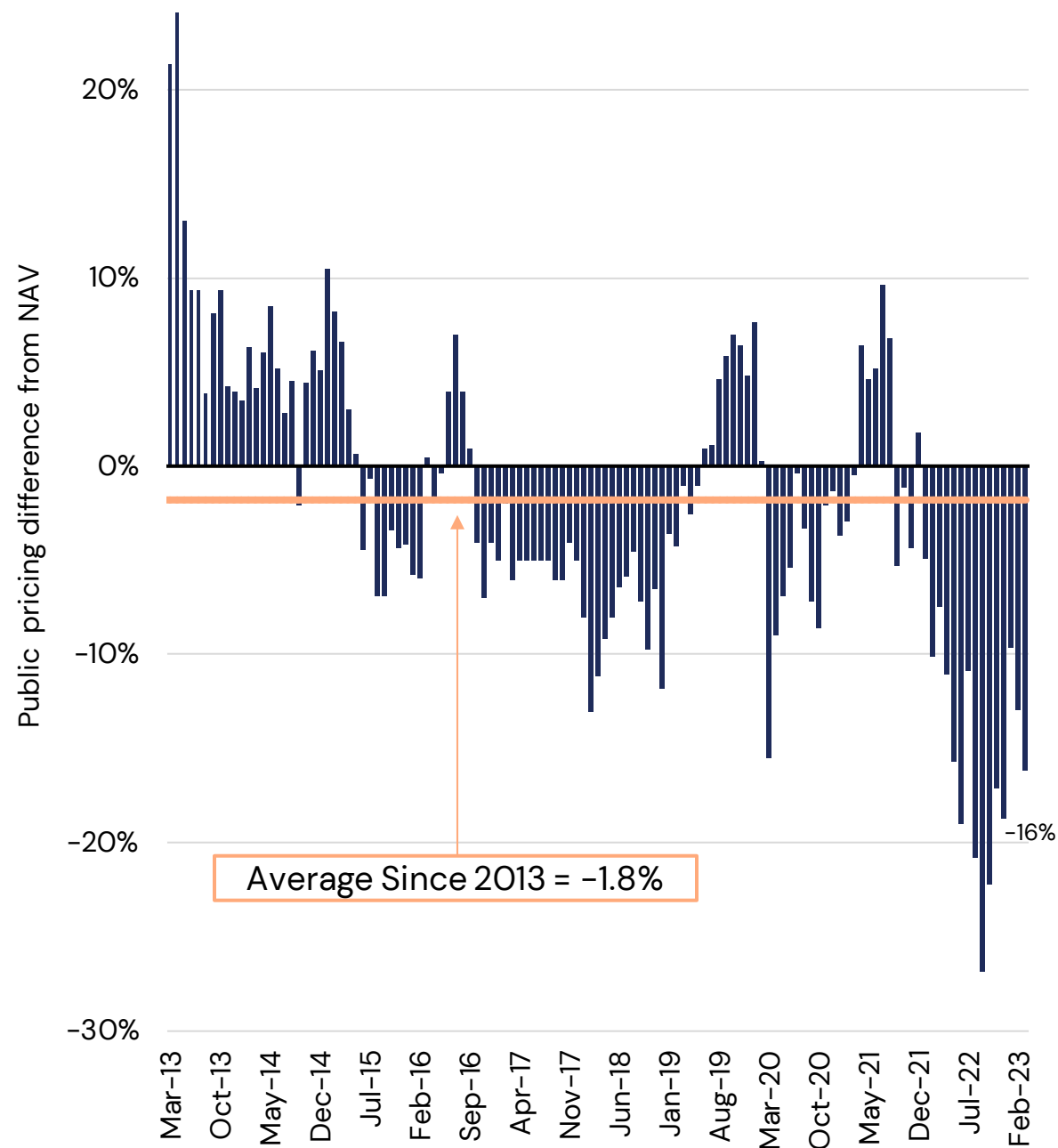
Source: JLL, Data to Q4 2022. Latest available as of 31 March 2022.

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Global REIT discount to NAV eases

Listed REIT securities down 1.5% YTD and 26% Y/Y at the end of Q1 2023

Global RE securities premium / discount to NAV



EPRA / NAREIT global index



Source: EPRA/NAREIT, LaSalle Investment Management Securities. Discount to NAV data to 30 March 2023. EPRA/NAREIT data to 30 March 2023.

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Global macro indicators summary

Latest data as of end of March

	United States	United Kingdom	Germany	France	Japan	China	Australia	Canada
Official interest rate (target rate)	4.75% to 5% ↑	4.25% ↑	3.5% ↑	3.5% ↑	-0.1% ¹	3.65% ²	3.6% ↑	4.5% ↑
GDP(Q/Q) annualized	2.6% (Q4)	0.0% (Q4)	-1.7% (Q4)	0.3% (Q4)	0.1% (Q4)	2.9% (Q4) (Y/Y)	2.0% (Q4)	0.03% (Q4)
CPI/inflation (Y/Y)	6.0%	10.4%	7.4%	6.3%	3.35	1.0%	7.8%	5.2%
Industrial production (Y/Y)	0.3%	-4.3%	-1.2%	-2.2%	-3.1%	1.3%	2.0%	-0.3%
Unemployment rate	3.6%	3.7%	3.0%	7.1%	2.4%	1.0%	3.5%	5.0%
Retail sales (Q4 2022 or latest Y/Y change)	6.2%	-5.4% ³	-5.8%	-2.0%	3.8%	-1.8%	7.4%	5.9%
Stock market price index 2023 YTD (local)	5.5%	2.3%	11.5%	12.2%	4.8%	5.6%	1.2%	2.9%

Note: Changed data from last update is highlighted in bold. ¹Negative interest rates in Japan apply to marginal increases to reserves. Japan cash rate / complementary Deposit Facility. ²One Year Loan Prime Rate. ³Retail sales figure from the UK is as of Q1 2023. Source: Eurostat, The Economist <https://www.economist.com/markets-data>, Bloomberg. Latest data available as of 30 March 2023.

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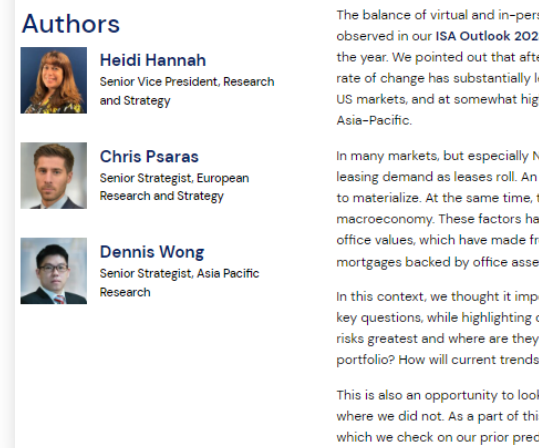
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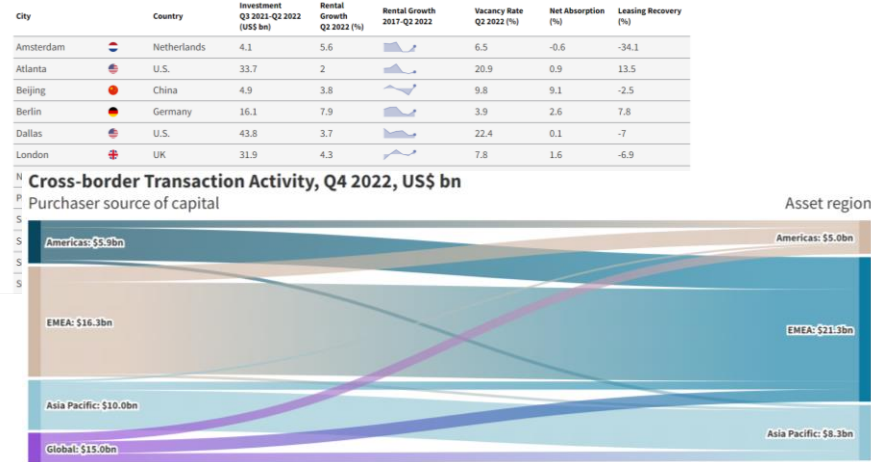
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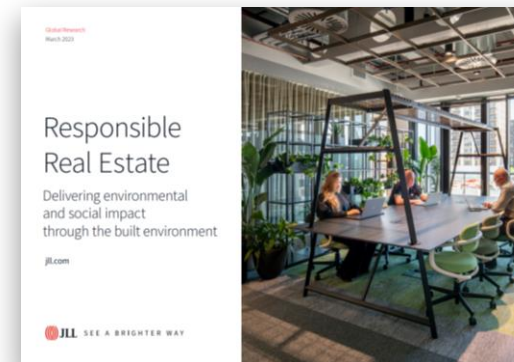
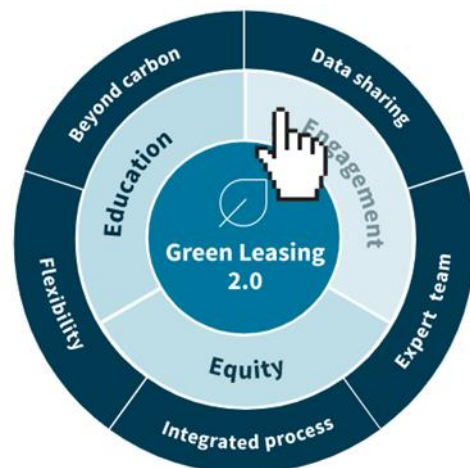


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LaSalle Global Research and Strategy

Brian Klinksiek

Global Head of Research & Strategy

London

+44 207 852 4878

brian.klinksiek@lasalle.com

Julie Manning

Global Head of Climate & Carbon Strategy

Chicago

+1 312 897 4052

julie.manning@lasalle.com

Chris Langstaff

Senior Strategist for Canada

Toronto

+1 416 304 6018

chris.langstaff@lasalle.com

Eduardo Gorab

Head of Global Portfolio R&S

London

+44 207 852 4214

eduardo.gorab@lasalle.com

Frederik Burmester

Munich

Tobias Lindqvist

London

Kyra Spotte-Smith

Chicago

Hina Yamada

London

Daniel Mahoney

Head of Europe Research & Strategy

Chicago

+1 312 897 4023

daniel.mahoney@lasalle.com

Zuhaib Butt

Director of Investment Risk Strategy & Management

London

+44 207 852 4066

zuhaib.butt@lasalle.com

Simone Caschili

Data Strategist

Chicago

+1 312 897 4028

simone.caschili@lasalle.com

Chris Psaras

Senior Strategist

London

+44 207 852 4016

chris.psaras@lasalle.com

Amanda Chiang

Singapore

Ally Muszynski

Chicago

Sophia Sul

Chicago

Rich Kleinman

Head of Americas Research & Strategy and Americas Co-CIO

Chicago

+1 312 897 4025

richard.kleinman@lasalle.com

Petra Blazkova

Head of Research & Strategy, Core & Core+ Capital, Europe

Munich

+49 892 111 1364

petra.blazkova@lasalle.com

Fred Tang

China Investment Strategist

Shanghai

+86 21 2250 6000

fred.tang@lasalle.com

Heidi Hannah

Senior Strategist

Chicago

+1 347 918 3058

heidi.hannah@lasalle.com

Ryan Daily

London

Sierra Pierre

Toronto

Matt Wapelhorst

Chicago

Elysia Tse

Head of Asia Pacific Strategy

Singapore

+65 6494 3599

elysia.tse@lasalle.com

Dominic Silman

Head of Research & Strategy, Debt & Value-Add Capital, Europe

London

+44 207 852 4119

dominic.silman@lasalle.com

Dennis Wong

Senior Strategist

Singapore

+65 6494 3596

dennis.wong@lasalle.com

Jen Wichmann

Senior Strategist

Chicago

+1 312 897 4022

jen.wichmann@lasalle.com

Kayoko Hirao

Tokyo

Wayne Qin

Singapore

Jannie Wu

Shanghai

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