

# Cromwell's European Market Monitor

Q4 2023

Our Perspective on Financial  
Markets



# ECB Rates, Credit Standards and Rate Decline Indicators

Prospects for stable base rates point to potential increase in deal volumes

## Higher For Longer Base Rates

- The ECB Deposit Rate rose 425 basis points between July 2022 and September 2023, to the highest ever level ever of 4%<sup>1</sup>.
- Polls from Reuters and our own analysis anticipate no more rate increases this cycle<sup>1+2</sup>. Nevertheless, opinions on the timing of rate decreases vary, with a majority favouring Q3 2024<sup>1</sup>.
- There is concern over slowing economic growth and with revised forecasts lowering GDP<sup>3</sup>, recessionary indicators could bring the first cut-in base rates into Q2 2024.

## Tighter Credit Standards and Low Demand

- The ECB continues to suppress bank liquidity leading to tighter credit standards, reduced loan demand, and lower inflation. Net business loan demand fell by 36% in Q3 2023<sup>4</sup>.
- Rising interest rates and declining fixed investment remain other key drivers for the decrease in loan demand<sup>5</sup>.
- Banks are expected to face added strain in the next six months due to reduced loan volumes and lower net interest margins, as rising provisioning needs and impairments impact their profitability<sup>5</sup>.

## Leading Indicators of Base Rate Decline

- Continuously softening domestic demand, and lower profit margins leading to further drops in consumer confidence. There are signs of this already, with European consumer confidence registering at -17.9<sup>6</sup> in October 2023, the fourth consecutive monthly decline.
- Rising unemployment from low economic growth impeded by high interest rates<sup>2</sup>.
- Sustained declining inflation towards target levels<sup>2</sup>.
- The increasing likelihood of a recession consequent to weakening economic growth. European Composite PMI continues to fall from its 12m peak of 54.1 in May 2023, down to 46.5<sup>6</sup> in October 2023.

Sources: 1: Reuters, 2: Cromwell Property Group Q3 2023, 3: ECB Macroeconomic projections, 4: ECB Q3 BLS October 2023, 5: IMF Working Papers, 6: Statista  
 Glossary: Consumer Confidence is an index based on current economic, financial status, savings intention, and expectations for consumer price indexes, general economic situation, and durable goods purchases on a scale from -100 (lack of confidence) to 100 (confident). The lowest recorded score was -28.7, it has been recorded since 1985.  
 European PMI: Purchasing Managers' index derived from New Orders, Output, Employment, Suppliers' Delivery Times, and Stocks of Purchases. It ranges from 0 to 100.  
 Above 50 signals growth, below 50 indicates decline

# Cromwell's Economic Forecast

Low economic growth, moderating inflation and higher stabilised interest rates

## Macro-economic Forecasts<sub>1</sub>

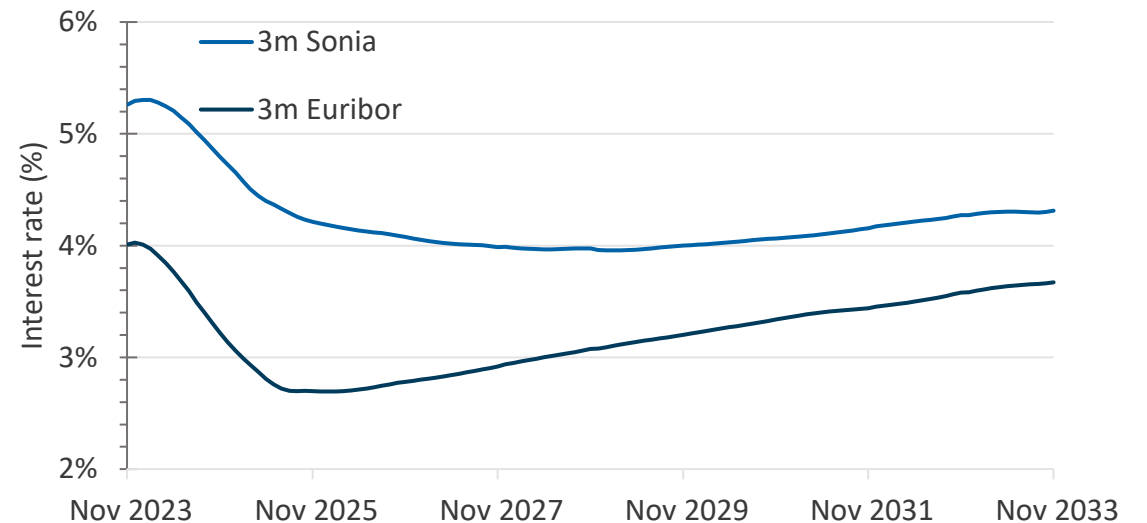
	2023 Actual		2024		2025		2026	
	UK	EU	UK	EU	UK	EU	UK	EU
<b>GDP YoY</b>	0.6% Jun	0.1% Sep	0.4%	0.8%	1.4%	1.7%	1.9%	1.9%
<b>CPI YoY</b>	6.7% Sep	2.9% Oct	3.2%	2.9%	3.0%	3.0%	3.0%	3.0%
<b>Unemployment YoY</b>	4.3% Jul	6.4% Oct	4.2%	6.6%	4.7%	6.5%	4.5%	6.4%

- We foresee **low GDP growth in the UK and the EU** in the short and medium term, remaining **under 2% up until 2026<sub>1</sub>**. This reflects geopolitics weakening the international trade environment, the costs of pivoting to a low carbon economy, inflation exceeding central bank targets and weak consumer/business sentiment.
- Inflation has trended down significantly over the last 6 months. In the UK we expect **further sharp decreases in the short-term** as the energy price volatility of autumn 2022 drops out of the YOY rate. However, we believe **inflation will average 3% in the medium term**. Europe remains exposed to energy price volatility and will be subject to other inflationary trends such as an ageing population, labour shortages, decarbonisation, supply chain reshoring and climate change-related food prices.
- 3m Sonia** expected to stabilise at **3.5%**. **3m Euribor** expected to stabilise at **2.75% in H2 2025**.

## Central bank interest rates have peaked, but no cuts until H2 2024<sub>1</sub>

Base Rates	1 Nov'23	Previous	6 months ago	12 months ago
<b>UK</b>	5.25%	5.25%	4.25%	3.00%
<b>Eurozone</b>	4.00%	3.75%	3.00%	1.50%
<b>US</b>	5.25-5.50%	5.25-5.50%	4.75%-5.00%	3.75%-4.00%

## EURIBOR and SONIA Forward Curves<sub>2</sub>

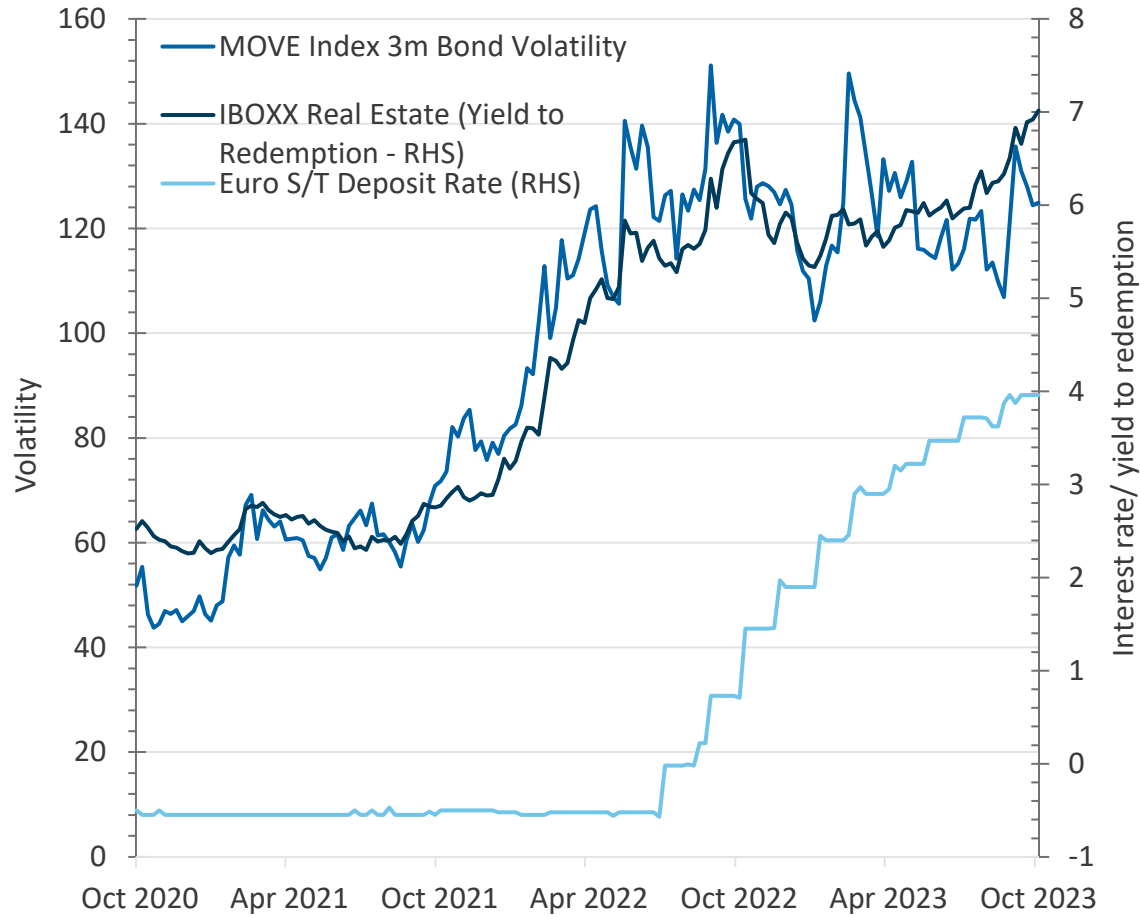


Sources: 1: Oxford Economics/Cromwell Property Group, Q4 2023, 2:Reuters

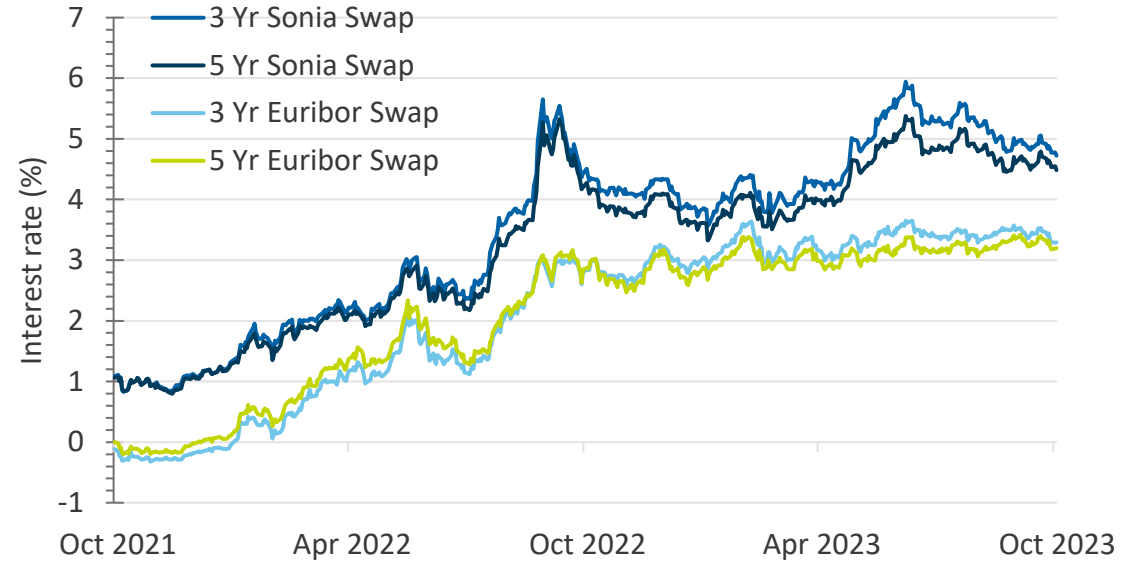
# Market Indicators

Cyclically high swap and base rates are elevating bond volatility and yields and adversely impacting liquidity

## High Corporate Real Estate Bond Yields due to volatility & rising base rate<sub>1</sub>



## 3 & 5 Year Sonia and Euribor Swap rates<sub>1</sub>



Swap Rates	31 <sup>st</sup> Oct '23	1 week ago	1 month ago	12 months ago
<b>3 Yr Sonia</b>	4.72%	4.84%	4.91%	4.51%
<b>5 Yr Sonia</b>	4.48%	4.60%	4.60%	4.27%
<b>3 Yr Euribor</b>	3.29%	3.40%	3.50%	2.84%
<b>5 Yr Euribor</b>	3.20%	3.27%	3.35%	2.87%

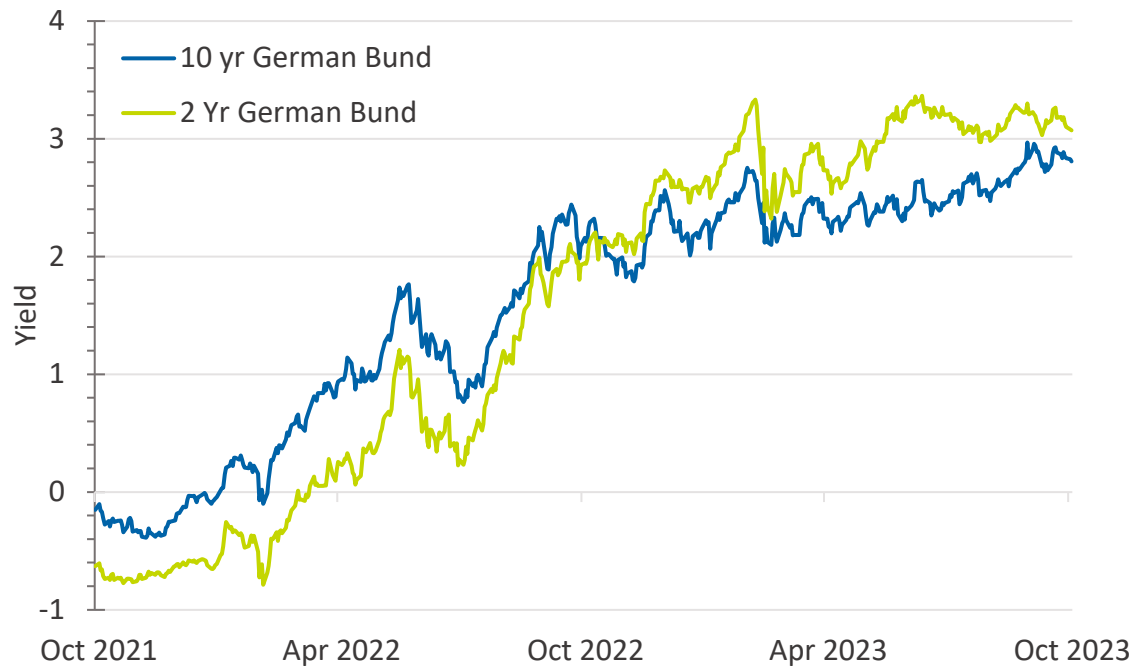
Glossary: iBoxx represents the IG bond market for the Real estate sub-sector. The MOVE index calculates the volatility of U.S. Treasury options by capturing the expected fluctuations in interest rates, the index is a proxy for the bond market's overall sentiment on future interest rates.  
Source 1: Reuters

# Market Indicators

Inverted yields bolstered by higher for longer interest rates

## German Bunds<sub>1</sub>

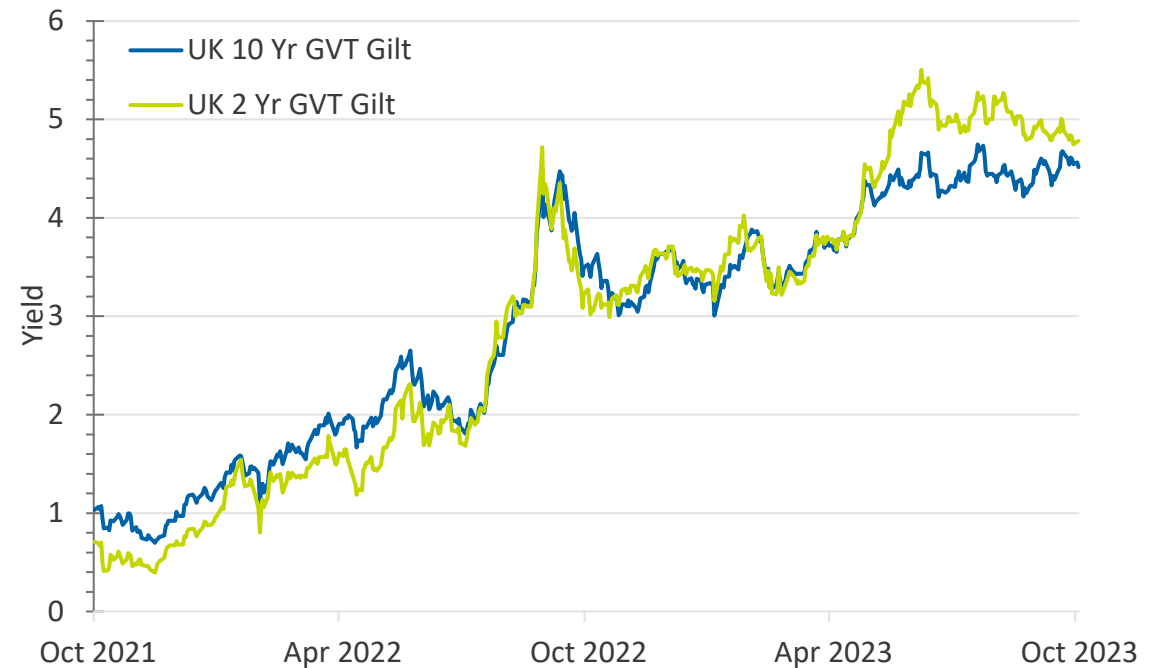
German Bunds	31 <sup>st</sup> Oct '23	1 week ago	1 month ago	12 months ago
<b>2 Yr</b>	3.07%	3.16%	3.21%	1.943%
<b>5 Yr</b>	2.65%	2.73%	2.77%	2.02%
<b>7 Yr</b>	2.62%	2.69%	2.71%	2.02%
<b>10 Yr</b>	2.81%	2.83%	2.84%	2.16%



Source: 1: Reuters

## UK Gilts<sub>1</sub>

UK Gilts	31 <sup>st</sup> Oct '23	1 week ago	1 month ago	12 months ago
<b>2 Yr</b>	4.78%	4.79%	4.90%	3.27%
<b>5 Yr</b>	4.47%	4.52%	4.51%	3.60%
<b>7 Yr</b>	4.36%	4.39%	4.32%	3.67%
<b>10 Yr</b>	4.52%	4.54%	4.44%	3.53%



# Contacts



**Afraz Ahmed**

HEAD OF TREASURY - EUROPE

E: A.Ahmed@cromwellpropertygroup.co.uk

T: +44 7507 646 964



**Jonathan Earp**

SENIOR TREASURY MANAGER

E: J.Earp@cromwellpropertygroup.co.uk

T: +44 7930 537 729



**Charles Rimmer**

TREASURY ANALYST

E: C.Rimmer@cromwellpropertygroup.co.uk

T: +44 7508 010 813



**Tom Duncan**

HEAD OF RESEARCH, STRATEGY &  
PRODUCT

E: T.Duncan@cromwellpropertygroup.co.uk

T: +44 7823 770 496



**Alex Dunn**

RESEARCH MANAGER

E: A.Dunn@cromwellpropertygroup.co.uk

T: +44 7971 533 542



# Important Information and Disclaimer

This presentation is dated 2<sup>nd</sup> November 2023 and has been prepared by Cromwell Europe Limited (“Cromwell”) for illustrative and information purposes only.

Unless otherwise stated, all information contained in this presentation is prepared as at 2<sup>nd</sup> November 2023. Cromwell assumes no duty to update or correct any information in this presentation for any reason, including new information, results, or subsequent events. The information contained herein is only a summary of key information, is not complete, does not contain certain material information, including important conflicts disclosures and risk factors, and is subject to change without notice.

The contents of the presentation, including its outputs, do not constitute investment advice or a recommendation, offer or solicitation to acquire or dispose of any investment or to engage in any other transaction. Neither Cromwell nor any of its affiliates nor any of their employees, officers or directors have provided or agreed to provide advice on the merits of dealing in or exercising any right to deal conferred by an investment. This presentation is preliminary and provides only a high-level summary. You should not rely on this presentation in making any future investment decision. You must always rely on your own assessment of the legal, regulatory, taxation, financial and other risks and consequences of any investment or transaction.

This presentation is commercially sensitive, private and confidential and may not be copied, disclosed, distributed, or modified without the prior written consent of Cromwell except as may be required under applicable law, by a regulatory authority or pursuant to a court order. This presentation contains competitive information about Cromwell. By accepting this presentation, recipients of this presentation agree to (1) keep such competitive information confidential, (2) not share it with other investment managers or competitors of Cromwell or its portfolio companies, and (3) not use such competitive information to gain a competitive advantage in their business or personal activities.

No person to whom you disclose this presentation, with our consent, should rely on it in making any future investment decision. They must always rely on their own assessment of the legal, regulatory, taxation, financial and other risks and consequences of any investment or transaction.

Cromwell and owners of third-party sources of underlying data used in the presentation reserve ownership of all IP Rights in any data and information contained in this presentation and no licence is granted for their use. “IP Rights” means patents, trade marks, service marks, trade names, design rights, copyright,

database rights, rights in know-how and other intellectual property rights of whatever nature arising anywhere in the world, whether registered or unregistered and including applications for the grant of any such rights.

The use of this presentation in certain jurisdictions may be restricted by law. The information in this presentation is not directed at, and is not intended for, any person in any jurisdiction if it would be contrary to applicable laws or regulations in that jurisdiction for such a person to receive such information.

This presentation may include forward-looking statements, projections, expectations, opinions, forecasts, targeted and illustrative returns and estimates such as growth forecasts, sales values, gearing and capitalisation yields (“forward-looking information”). Forward-looking information involves numerous assumptions, uncertainties, qualifications and risks. Forward-looking statements can be identified by the use of terminology such as ‘intend’, ‘aim’, ‘project’, ‘anticipate’, ‘estimate’, ‘plan’, ‘believe’, ‘expect’, ‘may’, ‘should’, ‘will’, ‘continue’, ‘annualised’ or similar words. Forward-looking information is not intended to serve as and should not be relied upon by any prospective investor as a guarantee, assurance, prediction or definitive statement or fact or probability. No representation is made as to the reasonableness or achievability of any forward-looking information or as to the accuracy or completeness of any modelling or analysis. Any expression of opinion on present or future market values does not constitute a formal valuation. All opinions and estimates are given as of the date the presentation is prepared and are subject to change. All quoted research data is provided for illustrative purposes only and may not be relied upon. Actual events and circumstances are difficult or impossible to predict and may differ from assumptions.

Recipients of this presentation are encouraged to contact Cromwell representatives to discuss the procedures and methodologies used to make projections, targets, forecasts and estimates and other information provided herein, and the risk and limitations of using such projections, targets, forecasts and estimates in making investment decisions.

Actual realised net and gross returns depend on, among other factors, future operating results, the value of the assets, market conditions at the time of disposition, legal and contractual restrictions on transfer that may limit liquidity, any related transaction costs and the timing and manner of sale, all of which may differ from the data and assumptions on which this presentation is based. Accordingly, the actual realised returns may differ materially from target returns indicated in this presentation. No guarantees are provided as to performance. The past performance of any investment and returns generated are provided for illustrative purposes only

and should not be regarded as an indication of the future performance of any investment, nor are they indicative of potential investment results. Investment losses can occur, and investors can lose some or all of their investments. There can be no assurance that these or comparable investment results or returns will be achieved, that it will be possible to avoid losses, that it will be possible to make investments similar to the existing and historical investments, or implement its investment strategy. Nothing herein is intended to imply that any investments described in this presentation may be considered “conservative,” “safe,” “risk free” or “risk averse.”

Performance measurement data and other metrics including, but not limited to, Internal Rate of Return (IRR), Equity Multiple (EM) / Multiple on Invested Capital (MOIC) and other metrics set out herein are calculated using Cromwell proprietary investment analysis templates using excel formulae, unless otherwise stated.

Certain economic and market information contained in this presentation have been obtained from and reproduced with the kind permission of third-party sources and have not been independently verified by Cromwell. While reasonable care has been taken in the preparation of this presentation, neither Cromwell nor its affiliates nor any of their employees, officers or directors make any representation or warranty regarding the accuracy, completeness, adequacy, reasonableness or achievability of the information in it, nor do they accept any responsibility or liability for any direct, consequential or indirect losses arising out of the use of or reliance on this information, nor any liability to third parties seeking to rely on this presentation, to the fullest extent permitted by applicable law. You must always rely on your own assessment of the legal, regulatory, taxation, financial and other risks and consequences of any investment or transaction.

© 2023. Cromwell Property Group. All rights reserved