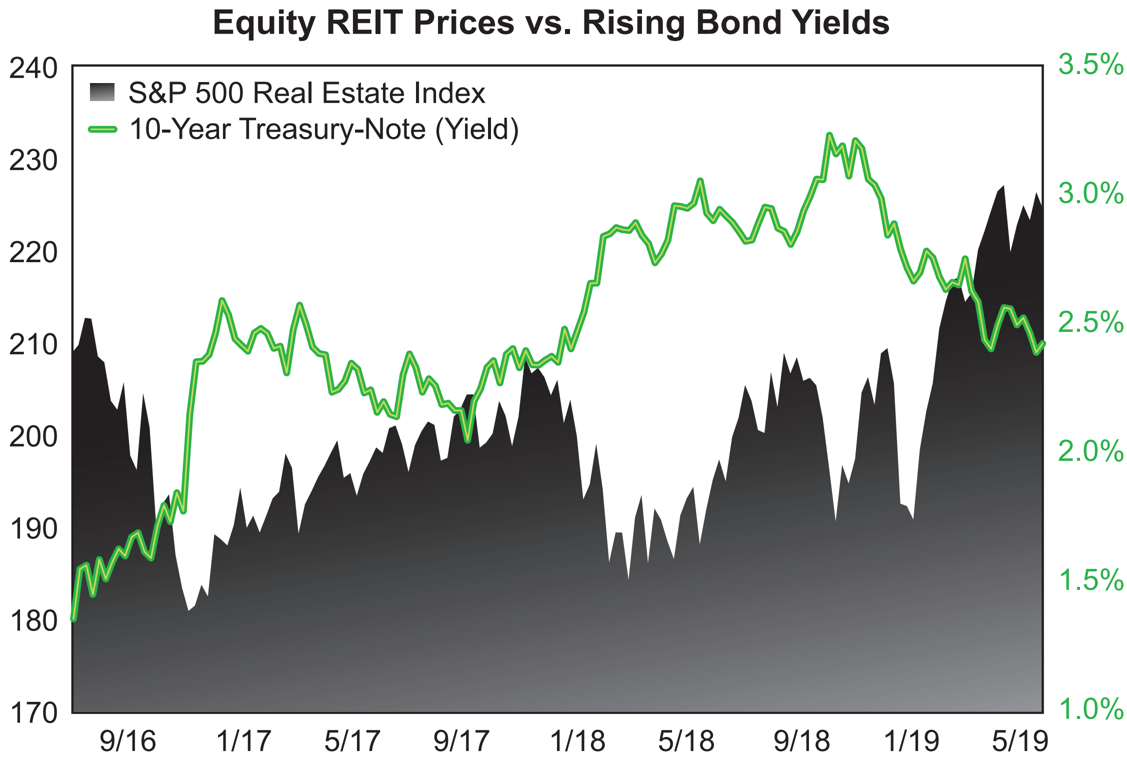
How Equity REITs Have Fared Since 7/8/16



Source: Bloomberg. Weekly data points. 7/8/16-5/21/19.

View from the Observation Deck

1. The yield on the benchmark 10-year Treasury note (T-note) closed at an all-time low of 1.36% on 7/8/16, according to data from Bloomberg.
2. From 7/8/16-5/21/19, the yield on the 10-year T-note rose from 1.36% to 2.43%, or an increase of 107 basis points. In the period, however, the highest closing yield was 3.24% on 11/8/18, or 188 basis points off the all-time low.
3. When bond yields rise, income-oriented investors may seek opportunities that will not only generate current income, but also have the potential to better preserve capital. Equity REITs have historically been one of those options.
4. The basic premise is that while REIT prices have tended to decline as yields begin their ascent, they often recover over time provided the cause of the increase in rates is stronger economic activity.
5. That is exactly what transpired in the period depicted in the chart. Click here for some additional perspective on the relationship between Equity REITs and rising rates.
6. From 7/8/16-5/21/19, the S&P 500 Real Estate Index posted a cumulative total return of 18.47%, compared to -0.66% for the ICE BofAML 7-10 Year U.S. Treasury Index, according to Bloomberg. Equity REITs delivered as advertised.
7. Investors funneled an estimated net $2.71 billion into U.S.-based Real Estate mutual funds and exchange-traded funds over the first four months of 2019, according to Morningstar.
8. Moving forward, the combination of a strong U.S. economy and the Federal Reserve signaling it does not foresee the need for any further rate hikes in 2019 suggests that the climate for Equity REITs should remain attractive for investors, in our opinion.