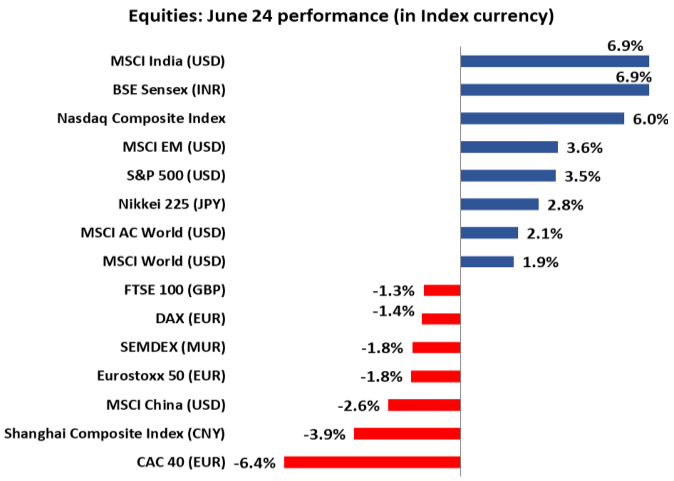
PeaQ News
Vol. 4 No. 06

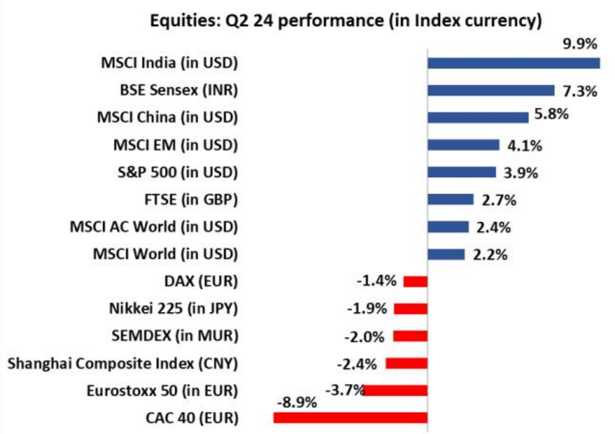
MARKET SUMMARY MONTH OF JUNE



- Global equity markets were mixed over the month of June.
- The US Fed, the BoE, the BoJ and the PBoC left their respective key interest rates unchanged in their June meetings.
- The ECB announced a cut in its key deposit rate to 3.75%. However, it highlighted that it will maintain a data-dependent approach. The inflation rate in the euro area stood at 2.50% in June.
- French President Emmanuel Macron surprised markets by calling a snap parliamentary election. Post-June, following two rounds of voting, the leftist coalition, Nouveau Front Populaire, won the most seats in parliament. Emmanuel Macron's centrists came in second and Marine Le Pen's far-right Rassemblement National third.
- In the UK, annual inflation rate fell to 2% in May, the lowest since July 2021, being in line with the BoE's 2% target.
- In India, the stock market was volatile due to the elections and the BJP failing to win a majority. Once Modi's party succeeded to form a coalition, markets continued on its upward trajectory.
- In its June meeting, OPEC+ agreed to extend the cuts of 3.66M bpd by a year until the end of 2025. It will also prolong the cuts of 2.2M bpd by three months until end-September 2024, before phasing it out over a year from October 2024 to September 2025.
- In Mauritius, headline inflation for the 12-months ended June 2024 was 4.5% (vs 10.5% for the previous period), the unemployment rate for Q1 2024 was estimated at 6.3%, compared to the rate of 6.1% at Q4 2023 and the rate of 6.7% at Q1 2023.
- In local corporate news, Sun Limited informed the markets that it will split its businesses into two distinct listed companies: one focused on the activities associated with owner-managed resorts, and the other one focused on the activities associated with owning and asset managing the resorts which are run by international luxury operators.
- Many companies announced dividends, including Rs 2.50/share for Medine, Rs 0.32/share for Ciel. Rs 0.63/share for Alteo and Rs 0.89/share for Rogers.

QUARTER 2 2024 UNDER REVIEW

- The second quarter of the year was positive for most equity markets.
- The start of the quarter was marked by the 'higher for longer' stance of the US Fed with regards to interest rates, but softer economic data by the end of the quarter led to revived hopes for a soft landing and interest rate cuts by the end of the year.
- In the US, inflation rate stood at 3.0% in June, unemployment rate at 4.0% and GDP growth at 1.4%.
- The strong performance of the technology sector (continuing the wave of the AI enthusiasm in the first quarter) lifted the broader markets – the Nasdaq Composite Index rose by 8.3% over the period and the broader S&P 500 by 3.9%.
- Against this backdrop, global equities posted positive returns, with the MSCI ACWI up by 2.4% during the second quarter.
- The best performing equity market of the quarter was the Indian markets, which rebounded strongly after the temporary volatility caused by the elections. The BSE Sensex rose by 7.3% in INR and MSCI India by 9.9% in USD.
- The worst performing market was France. Other European markets did not perform well.
- Further to the OPEC+ meeting in June, prices of WTI and Brent rose over the month (+5.5% and 6.0% respectively) but supply issues over the previous months led to falls of 2.1% and 1.1% respectively over the quarter. Gold prices rose steadily over the quarter (+5.4%) as investors turned to safe haven.
- The Barclays Aggregate Bond Index posted negative returns of 1.1% over the quarter.
- Over the quarter, the MUR depreciated by 2.1%, 1.5% and 2.3% against the US$, €and £ respectively.
- In local news, the budget included, as expected, several social measures.
- The number of tourist arrivals by air rose by 9.9% in Q1 and tourism earnings for period January-May 24 stood at Rs 38.9bn (vs 35.8bn over the previous year), an increase of 8.7%.
- GDP at market prices is forecasted to grow by 6.5% in 2024 after a growth of 7.0% in 2023



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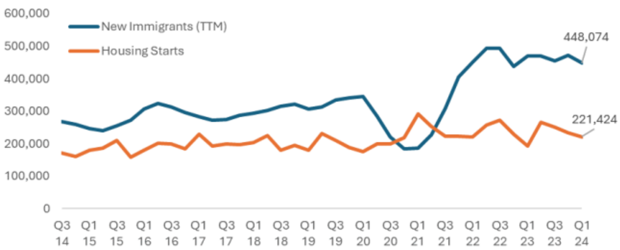
INVESTMENT THEME:
Canadian Apartment REITs

Supply Demand imbalance

- For the year ended June 2023, Canada's population grew by 2.9%, the highest YoY growth rate since 1957. International migration accounted for 98% of that growth, spurred by government efforts.

Canadian New Immigrants (TTM) vs New Housing Starts (TTM)



- The growth in population is spurred by Government efforts to ease labour shortages and continue to reduce its worker-retiree ratio towards 2-to-1 by 2035, from 7-to-1 50 years ago. The government foresees immigration to account for nearly 100% of its population growth by 2032. Targets for new immigrants for 2024 and 2025 are set at 485,000 and 500,000, indicating further growth ahead.
- Housing starts (which includes apartment units) has however not increased at a similar pace, with a CAGR 3.35% vs the CAGR of new immigrants of 8.43% since 2015. An estimated 3.5m additional housing units is required from 2024-2030 (583k per year vs 221k currently) to restore the imbalance.
- The high interest rate environment has discouraged construction of apartments while also making homeownership less affordable.
- The Government of Canada has banned foreigners from buying residential properties until 2027.
- All of the above put upward pressure on apartment rental prices, rising by 13% YoY in June 2024.

The opportunity

- Publicly traded Canadian apartment Real Estate Invest Trusts (REITs) stand to profit from this imbalance, although some will benefit more than others.
- Rent control legislation imposes a cap on annual rent increases for existing tenants. However, this is not applicable to the provinces of Alberta and for new buildings built in Ontario after Nov 2018. Ontario is the region which is projected to have the largest supply gap in 2030 (1.3m units in a conservative scenario). REITs with higher exposure to Ontario will thus see a greater increase in their topline.
- Moreover, Canadian REITs are increasingly undertaking asset recycling programs, selling off buildings with rent control to acquire assets without the rental increase cap to capture higher average monthly rental (AMR) growths.
- Despite the favorable environment, publicly listed Canadian apartment REITS - trade at more than 10% discount to their NAV. This is due to their leveraged nature amidst the high interest rate environment. Some REITs are using this opportunity to buy back stock at a discount to NAV, which is accretive to earnings.
- Interest rate expectations thus have a significant impact on REIT stock performance. The Bank of Canada cut rates by 25bps on 5th June 2024 and on 24 July 2024 respectively. REITs rallied on both occasions. The dovish tone of Central Bankers is indicative of the higher likelihood of further rate cuts down the line.
- A lower interest rate environment and the persistent demand-supply imbalance will favour Canadian Apartment REITs and they could be trading above NAV in the near future. As such, they represent an attractive investment opportunity.

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Source: Government of Canada, CMHC, Annual Reports, Statistics Canada, WSJ, European Council, EDA, Bloomberg, SEMDEX, MSCI, Statistics Mauritius, BOM, TradingEconomics