US focused Real Estate Investment Trusts are in play as global stock markets falter

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The past few months have been a disappointing time for investors in South African and other global stock markets. At the time of writing the JSE ALSI had lost 8% in value since the highs reached in April of this year. The Australian (-15.25%) and Brazilian markets (-19.09%) have declined even further from their highs for the year.

The main reason for this poor performance by equity markets is the ongoing slowdown of China's economic growth rate. China is the biggest contributor to the growth of the global economy. Without a strong China the world economy will struggle to expand at its current pace. This is a troubling implication for stocks, specifically the deeply cyclical ones, which need improving growth prospects in order to perform well.

In an environment where question marks loom about the sustainability of corporate profit growth, there is strong merits for allocating capital toward more defensive assets like listed real estate. Our view is that the Real Estate Investment Trust ("REIT") market in the United States is in a particularly sweet spot at the moment:

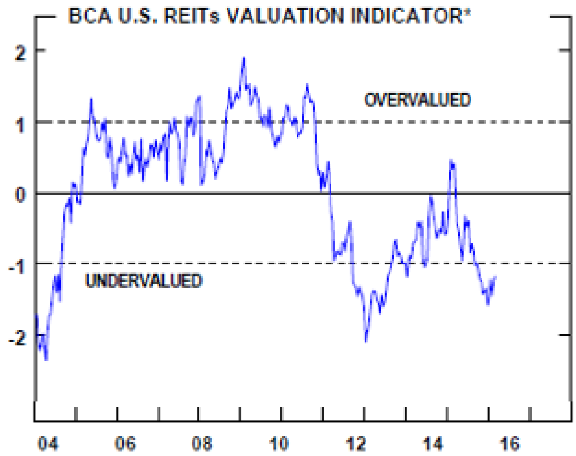
- The contractual nature of rental income provides the investor with **more certainty** compared to the income stream of a highly cyclical commodity-company like Glencore.

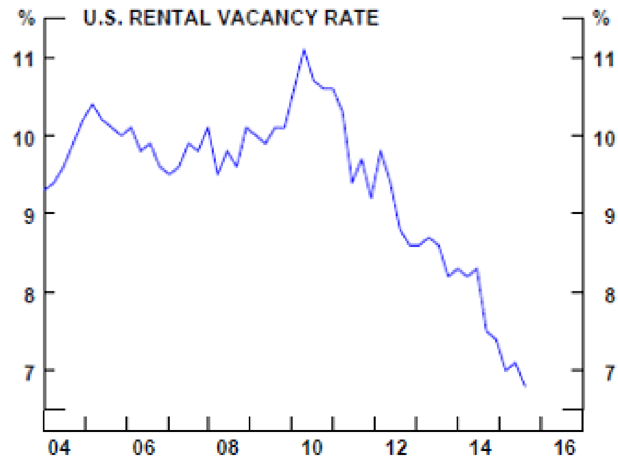
- The **strength of its economy** bodes well for real estate fundamentals in the US. Unemployment continues to decline and acts as a tailwind for occupancy gains across the real estate market. This bodes well for a continuation of strong rental growth. The favourable economic conditions in the US is in stark contrast to what is currently being experienced locally in South Africa.

- The pullback in stock markets provide **good entry levels** to invest in US-REITs. Many REITs in the US are trading at stock values that are less than the net asset values observed in private transactional markets. Furthermore, dividend yields of 4% on these REITs were last available to investors in January 2014.

- US multinationals are importing disinflation from the slowdown in global trade. These disinflationary pressures are providing a **cap on rising US Treasury yields**, which was a previous concern for our thesis on US-REITs.

Positive signals for US-REITS:





*Includes: P/E, P/CF, P/B and Dividend Yield Relative to S&P500. Source: Bank Credit Analyst

Conclusion

The US REIT market has been is in a particularly good space for a while now, but entry levels previously have not been attractive enough to support a buying spree.

Fortunately, the negative sentiment from nervous investors have spilled over to the share prices of the more defensive REIT sector. This combination of **attractive entry points**, **defensive earnings** and **strong fundamentals**, place US-REITs in a sweet spot compared to other investment alternatives.

For more information about the Reitway Global Property Funds, please visit our website at www.reitwayglobal.com or contact us at 021 551 3688.