

Cromwell Market Monitor

Q3 2023

Our Perspective on Financial
Markets



Green Resilience in a Weak Bank Lending Climate

Lower demand; tighter credit standards and bank liquidity, but opportunity for green financing

Tighter Credit Standards and Low Demand

- In Commercial Real Estate (CRE), Euro area banks reported a decrease in demand for loans by 42% in Q2 (23% Q1)¹, the lowest level since 2003.
- Credit standards and loan terms for CRE are the strictest / tightest for Q2 amongst the other largest sectors e.g., Services, Manufacturing & Construction¹.

Tighter Bank Liquidity

- The ECB has reduced Targeted Longer-term Refinancing Operations (TLTRO's) in the Euro area by c.70% from December 2021 levels, resulting in reduced bank liquidity².
- Higher bank bond yields have pushed up the price of bond issuance, further reducing the banks access to longer term debt³.
- A higher proportion of Non-Performing Loans will increase the risk of refinancing and repayments³.

Opportunity for Green Financing

- Green financing or sustainability linked loans have unlocked the bank's balance sheet and are currently the main drivers for lending opportunities³.
- Non green loans have suffered from a net tightening of credit standards, making it more difficult to execute such facilities³.

Glossary: Targeted longer-term refinancing operations III are offered by the ECB as longer-term loans to banks at favourable costs provided to encourage banks to lend to businesses and consumers in the euro area. Initially implemented during the pandemic in 2021.

Source: 1: ECB Q2 BLS July 2023, 2: ECB Balance Sheet 3: Cromwell Property Group, Q2 2023

Cromwell's Economic Forecast

Low economic growth, persistent inflation and higher stabilised rates

Macro-Economic Forecasts₁

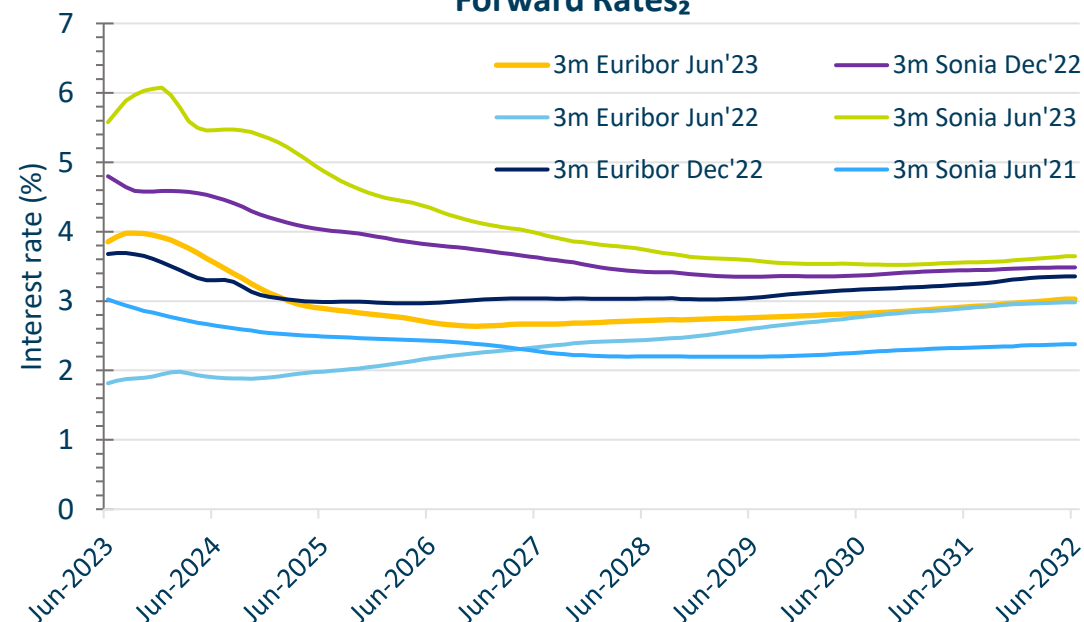
	2023 Actual		2024		2025		2026	
	UK	EU	UK	EU	UK	EU	UK	EU
GDP YoY	0.2%	0.6%	0.9%	1.2%	1.5%	1.7%	2.3%	1.9%
	April	Jul						
CPI YoY	7.9%	5.4%	3.2%	2.9%	3.0%	3.0%	3.0%	3.0%
	Jul	Jul						
Unemployment YoY	4.0%	6.4%	4.2%	6.7%	4.1%	6.7%	3.8%	6.7%
	May	Jun						

- Low **GDP growth** YoY expected in the UK and the EU, remaining **under 2% up until 2026₁**.
- Inflation is trending down, but the speed of adjustment is decelerating as core inflation remains sticky and stubborn. We expect **inflation to average 3% until at least 2026** as drivers such as climate change, demographics and decarbonisation create volatility and add to costs₁.
- **3m Sonia** expected to stabilise at **3.5%**. **3m Euribor** expected to stabilise at **2.75%**.

Central bank interest rates are close to expected peak, but no cuts forecasted in H2 2023₁

Base Rates	3 rd August '23	Previous	6 months ago	12 months ago
UK	5.25%	5.00%	3.50%	1.75%
Eurozone	3.75%	3.50%	2.00%	0.00%
US	5.25-5.50%	5.00-5.25%	4.25%-4.75%	2.25%-2.50%

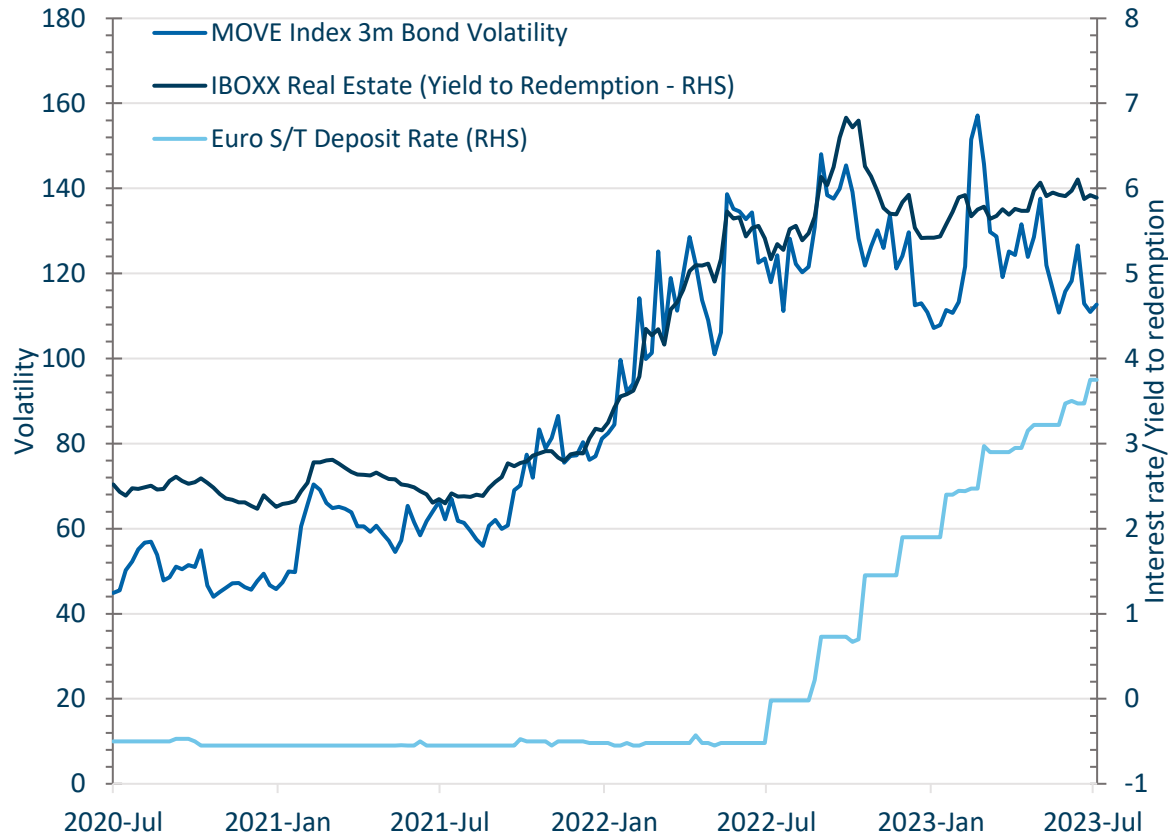
Forward Rates₂



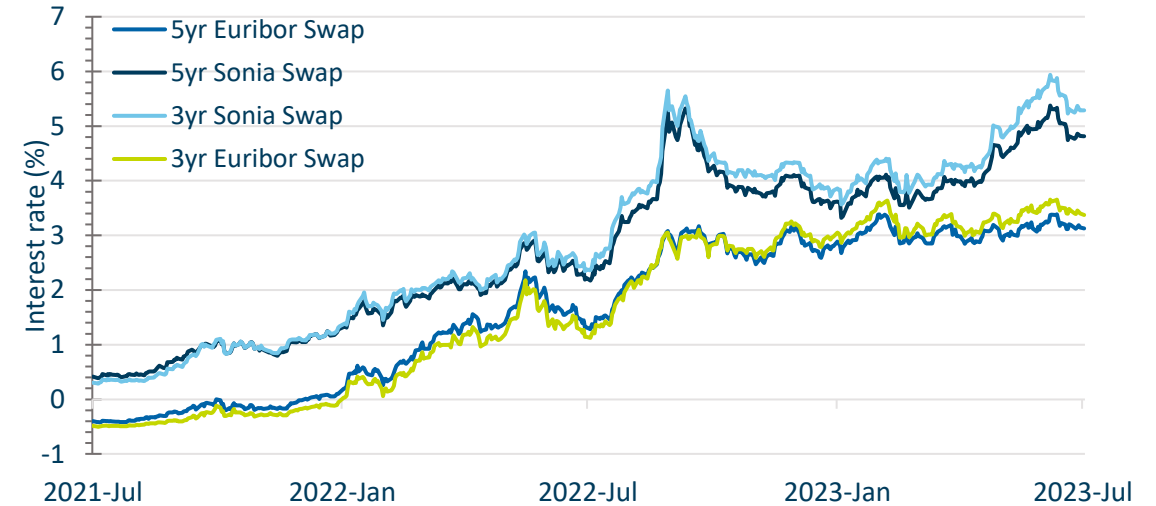
Market Indicators

Spiking swap and base rates elevate bond volatility and yields

CRE Bond Yields remain high due to Volatile Bond Market and ECB IR hikes₁



3 & 5 Year Sonia and Euribor Swap Rates₁



Swap Rates	31 st July '23	1 week ago	1 month ago	12 months ago
3 Yr Sonia	5.28%	5.29%	5.65%	2.31%
5 Yr Sonia	4.82%	4.80%	5.09%	2.22%
3 Yr Euribor	3.37%	3.40%	3.52%	1.15%
5 Yr Euribor	3.13%	3.14%	3.19%	1.32%

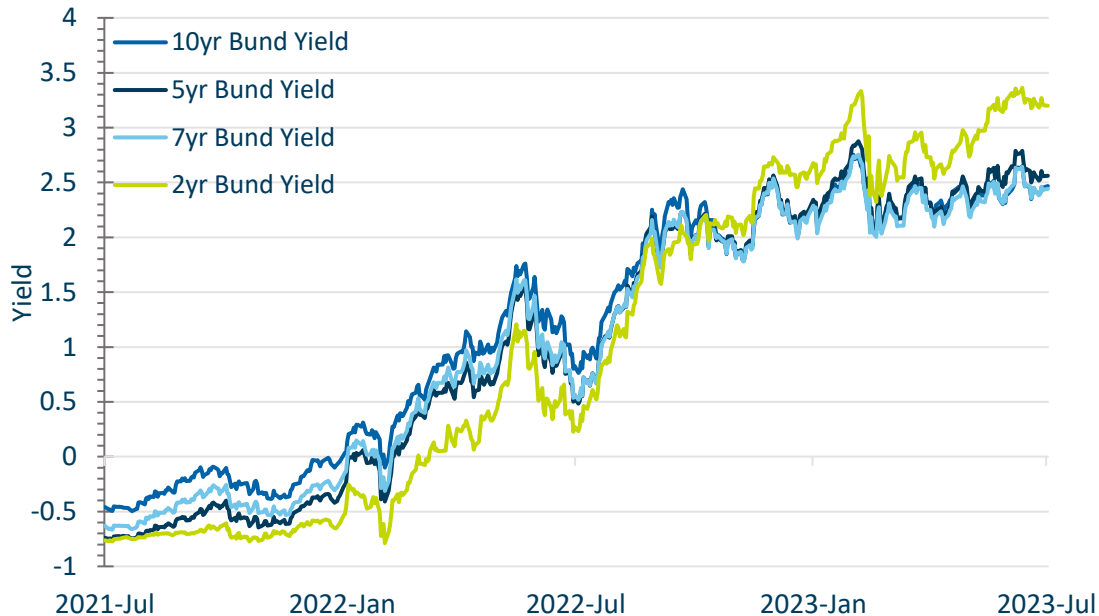
Glossary: iBoxx represents the IG bond market for the Real estate sub-sector. The MOVE index calculates the volatility of U.S. Treasury options by capturing the expected fluctuations in interest rates, the index is a proxy for the bond market's overall sentiment on future interest rates. Source: Reuters

Market Indicators

Inverted yields bolstered by higher for longer interest rates

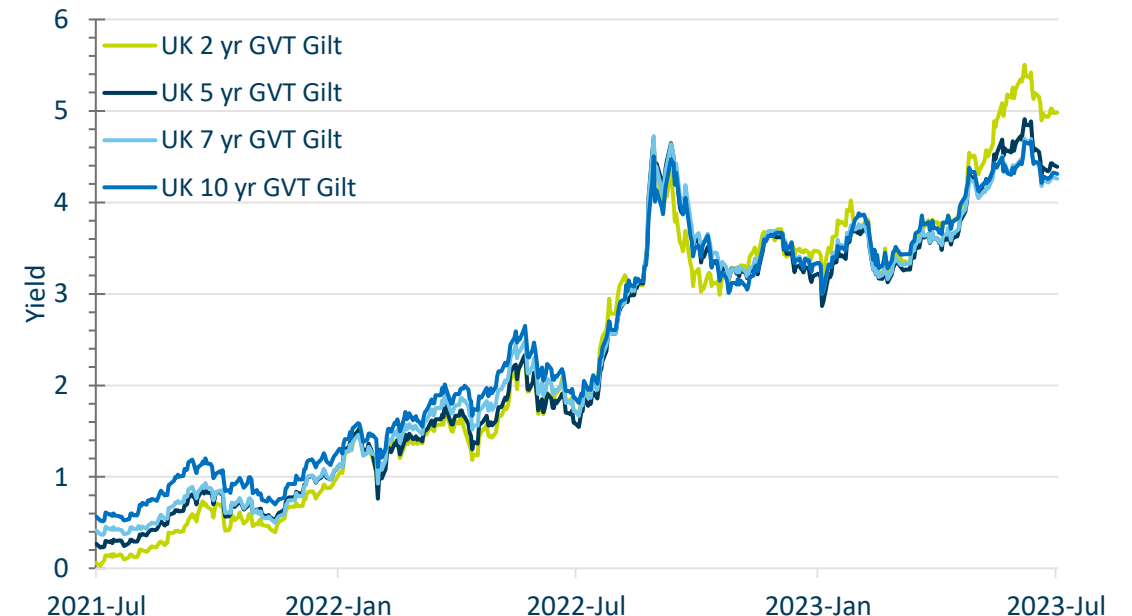
German Bunds ₁

German Bunds	31 st July '23	1 week ago	1 month ago	12 months ago
2 Yr	3.20%	3.24%	3.27%	0.27%
5 Yr	2.56%	2.57%	2.59%	0.53%
7 Yr	2.44%	2.31%	2.42%	0.57%
10 Yr	2.47%	2.43%	2.39%	0.82%



UK Gilts ₁

UK Gilts	31 st July '23	1 week ago	1 month ago	12 months ago
2 Yr	4.98%	4.94%	5.26%	1.71%
5 Yr	4.39%	4.37%	4.66%	1.59%
7 Yr	4.26%	4.24%	4.41%	1.72%
10 Yr	4.31%	4.28%	4.39%	1.86%



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