Catella Finance Focus

#01/22

TURNAROUND OF THE MONETARY POLICY OF THE ECB

The trend of rising interest rates on the money and capital markets, which started at the beginning of the year, had reached its interim peak by the end of the second quarter of 2022, but then weakened again as a result of growing fears of recession. In the meeting of 21st July 2022, the ECB decided to start the exit from its low interest rate policy with significant first interest rate increase of 50 bps, while the market consensus assumed an increase of only 25 bps. Moreover, further interest rate rises on the way to normalization of monetary policy were announced for the upcoming central bank meetings. In addition, a new instrument, the so-called Transmission Protection Instrument (TPI), was approved by the ECB council. **The TPI intended to ensure that spreads on government bonds of euro area members are not too far apart.** If necessary, the ECB could intervene within the framework of this instrument.

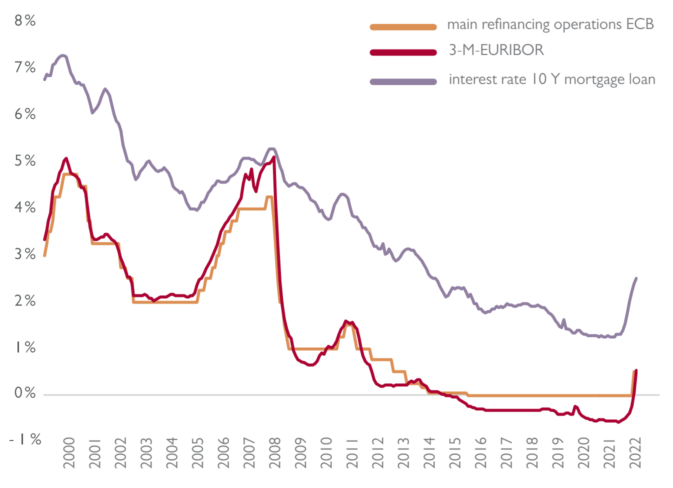
Market interest rates have been rising again since August, and this was recently reinforced by the interview with ECB director Isabel Schnabel published by the ECB on 18th August 2022. In the interview Isabel Schnabel explained that the inflationary pressure in the euro zone will persist for some time, even with the normalization of monetary policy now underway. This is also reflected in the results of the “Survey of Professional Forecasters” (SPF) published by the ECB on 25th July 2022. **According to this survey, the annual inflation rate in 2023 will be over 3.00% p.a. with a probability of approx. 75% and with a probability of approx. 40% over 4.00% p.a..**

Even in 2024, there is a probability of approx. 40% that the inflation rate in the euro zone will be above the central bank´s declared target of 2.00% p.a.. At the Economic Policy Symposium organised by the US Federal Reserve on 27th August 2022 in Jackson Hole, USA, ECB Director Isabel Schnabel reiterated in her speech that both the likelihood and the cost of entrenching the current high inflation in market expectations are uncomfortably high and that central banks must now act vigorously with determination to maintain public confidence in the stability of fiat currencies. As a result, the majority of commentators expect a "significant rate increase" ahead of the next ECB meeting on 8th September 2022, in some cases even up to 0.75 percentage points. This would be a historically unique event - never before has the European Central Bank raised key interest rates so sharply.

This outlook of prolonged period of high inflation above the target of 2.00% p.a. makes further interest rate increases necessary and we therefore assume in our forecast that we will see two more interest rate steps in 2022 and that the interest rate on the main refinancing operation could be 1.50% at the end of 2022.

We currently see further increases of interest rates in 2023 as well, although the momentum should weaken due to the expected economic slowdown. We also think it is likely that other central banks from non-euro countries will take similar steps in the fight against high inflation. Due to this background, we believe that the financing conditions will continue to become more expensive across all maturity bands in the short and medium term.

Development of interest rate level in the euro zone



Source: Eurostat, Catella Research 2022, ECB

TURNAROUND OF THE MONETARY POLICY OF THE ECB

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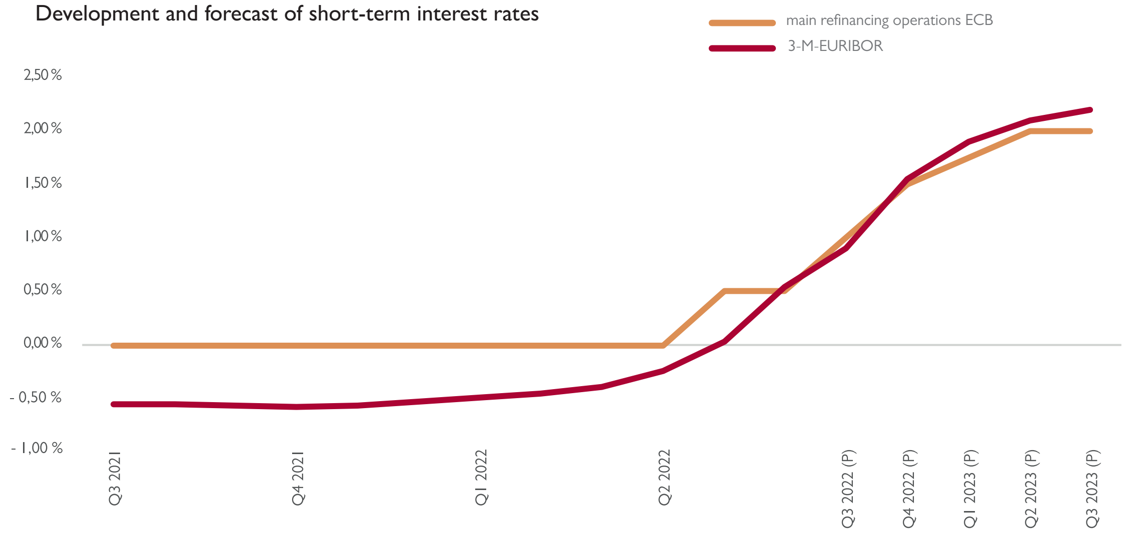
Development and forecast of short-term interest rates



Source: Eurostat, Catella Research 2022, ECB

PRIVATE DEBT OFFERS NEW POTENTIAL FOR THE REAL ESTATE INDUSTRY

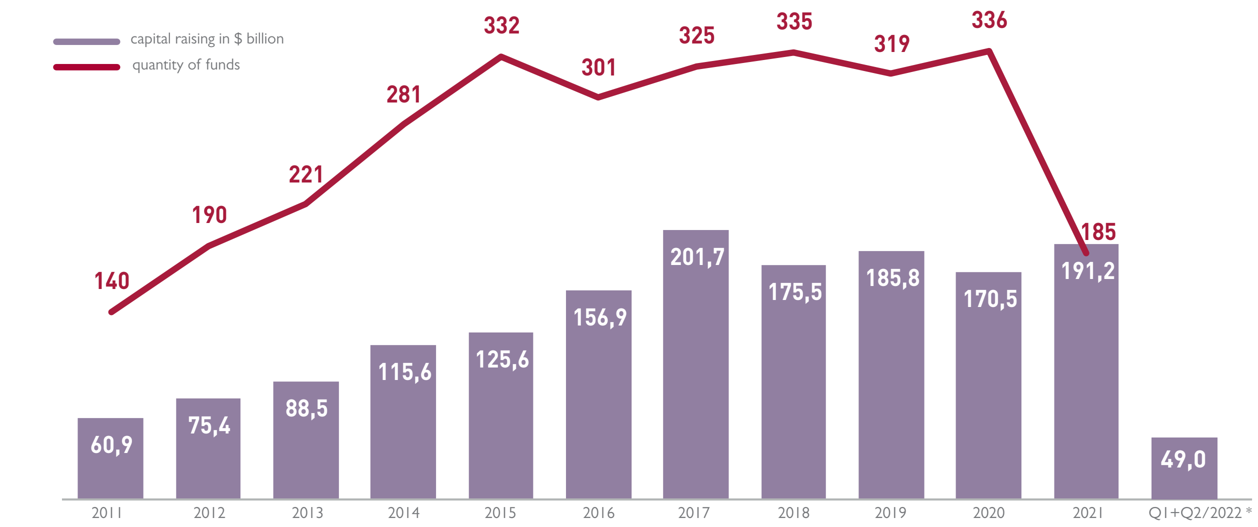
The volume of the global private debt market has grown significantly in recent years. This shows that this segment of the financial market is becoming more and more important and this sector is therefore becoming increasingly relevant for investors.

The main reason for this is the increasing regulatory requirements as a result of the changed risk management of traditional lenders. For example, it should be noted that in recent years the financing option private debt has become more relevant within medium-sized companies. [1]

The private debt segment is also playing an increasingly important role in the real estate industry. According to the INREV Capital Survey 2022, so-called "Non-listed debt products" represent the third strongest capital raising instrument on the European market for the second time in a row in 2021 with a market share of 19%. [2] Private debt has been an integral part of real estate financing in North America fore more than 10 years. Credit funds are also gaining relevance as alternative financing instruments on the European market and especially on the German market. Private debt offers investors attractive access to divers real estate investments. Private debt products give investors the opportunity to invest in low-risk real estate as well as in high-risk properties with higher potential returns. In addition, private debt products as an instrument of indirect real estate investment have a cost advantage compared to a direct investment in real estate (direct purchase of a property), which makes private debt products more attractive as a possible investment vehicle in the context of real estate investments. [3]

This confirms the increasing relevance and strategic importance of private debt in the real estate industry. It is therefore essential for real estate professionals to take an intensive look at the private debt segment.

Development of the global private debt market



Source: Pitchbook (* Estimated according to preqin)

[1] DMB (2022)
[2] NREV (2022), ANREV/INREV/NCREIF Capital Raising Survey 2022
[3] BVAI (2022), Private Real estate Debt – the alternative investment for institutional investors

OVERVIEW OF THE EUROPEAN INTEREST RATE LANDSCAPE

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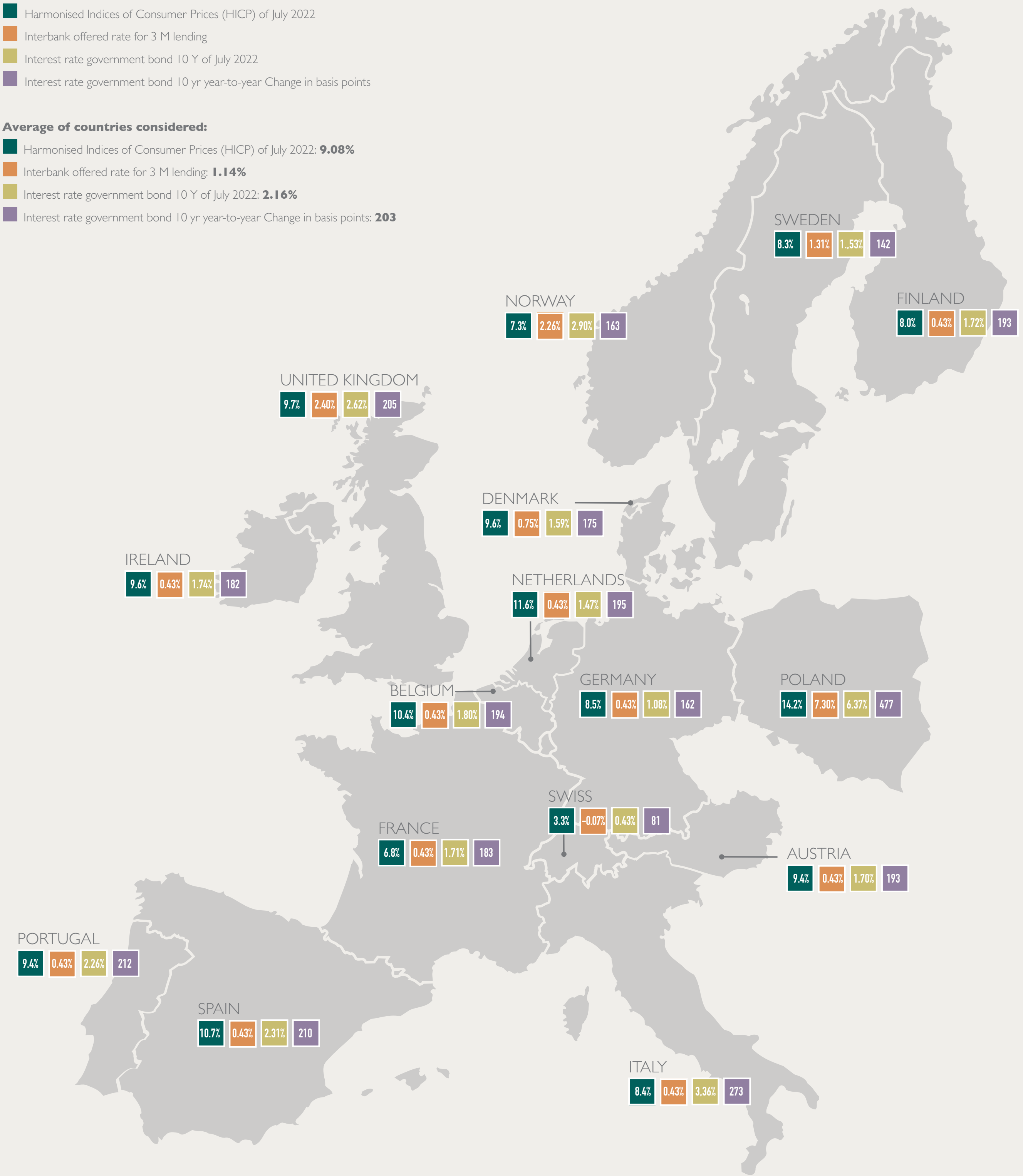
- Harmonised Indices of Consumer Prices (HICP) of July 2022
- Interbank offered rate for 3 M lending
- Interest rate government bond 10 Y of July 2022
- Interest rate government bond 10 yr year-to-year Change in basis points

Average of countries considered:

- Harmonised Indices of Consumer Prices (HICP) of July 2022: **9.08%**
- Interbank offered rate for 3 M lending: **1.14%**
- Interest rate government bond 10 Y of July 2022: **2.16%**
- Interest rate government bond 10 yr year-to-year Change in basis points: **203**



Sourcen: Catella Research 2022, Eurostat, ECB, national central banks

About Catella

Catella is a leading specialist in property investments and fund management, with operations in 13 countries. The group has approx. EUR 13 billion in assets under management. Catella is listed on Nasdaq Stockholm in the Mid Cap segment.

Read more at catella.com

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