



# Macro Outlook

Q2 2024



# Contents

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Key calls	3
Economic growth to stay resilient	4
Sticky inflation suggests slower rate cuts	7
Bond yields are accommodative for moderate real estate yield compression	10
Contact	13

# Key calls

## Growth is resilient and uneven, while caution rises over rate cuts

Most markets will see the real estate bottom this year while liquidity comes back slowly.

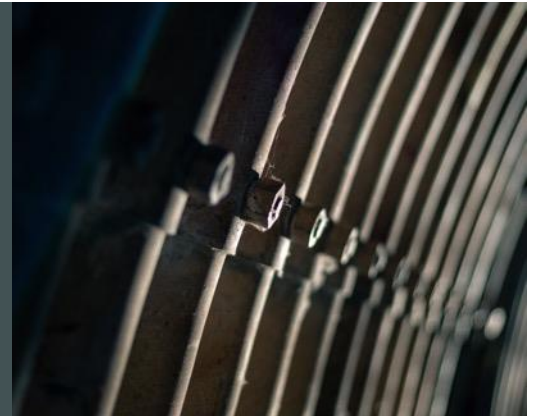
### Key calls

#### 01

The ongoing strength of U.S. economic growth and surprising stickiness of U.S. inflation have led us to push back our expectation for the first and only rate cut this year to December 2024.

By contrast, we still expect the ECB to cut Eurozone rates in June but have reduced the number of cuts to three in 2024.

Our long-term interest rate forecasts are broadly unchanged.



#### 02

Our forecasts for real economic growth are broadly unchanged.

We expect to see robust near-term consumer-driven growth in North America, Japan and parts of Europe.

Manufacturing export growth is recovering albeit slowly.

China remains beset by a protracted property market correction. Stimulus measures will stabilize but not revive growth.

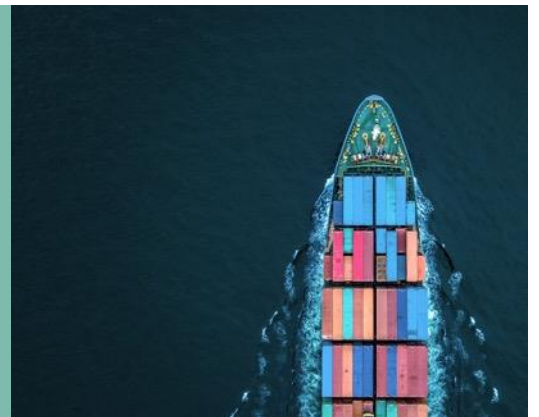


#### 03

The proximate risk to these forecasts lies in elevated geopolitical tensions, notably in the Middle East, but also between China and the U.S.

Should trade disruptions increase, the pass-through of higher shipping and energy costs would hit Europe the hardest.

In all markets, disruptions would elevate inflation and likely slow or halt the expected policy rate cuts.

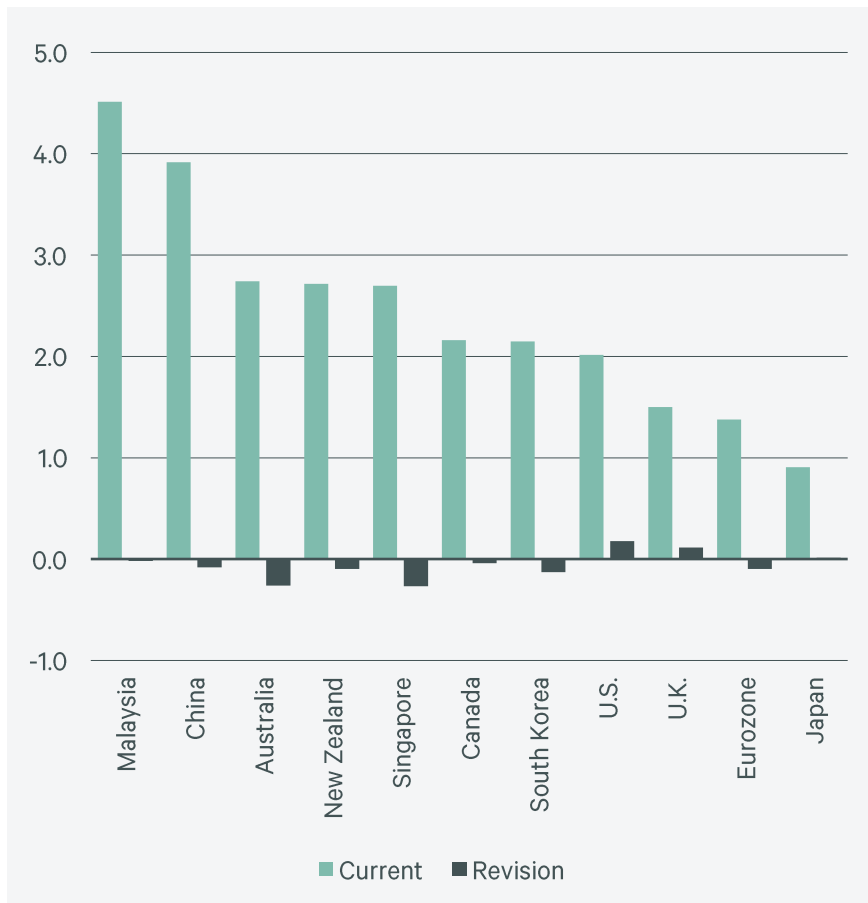


# Economic growth to stay resilient

## Minimal changes to our real economic forecasts

**Figure 1** shows that our GDP growth forecasts are largely unchanged and that the Asia Pacific economies continue to promise stronger growth than developed Western markets. China's growth is still under pressure from its property market turmoil. Policy measures are expected to steady but not boost the sector. Growth softens in Australia and Japan as sticky inflation dampens consumer sentiment. Europe remains fragile but shows signs of improvement as seen in Germany's services sector. The U.K. is faring slightly better with strong wage growth. U.S. consumers keep spending vigorously and fuel economic growth. As a result, inflation in housing and services has been persistent.

**Figure 1: GDP growth 2024-2028, % Y-o-Y**



Source: Oxford Economic Forecasting and CBRE Investment Management, as of Q2 2024. For illustrative purposes only. Based on CBRE Investment Management's subjective views and subject to change. There can be no assurance any targets or business initiatives will occur as expected. Forecasts are inherently uncertain and subject to change.



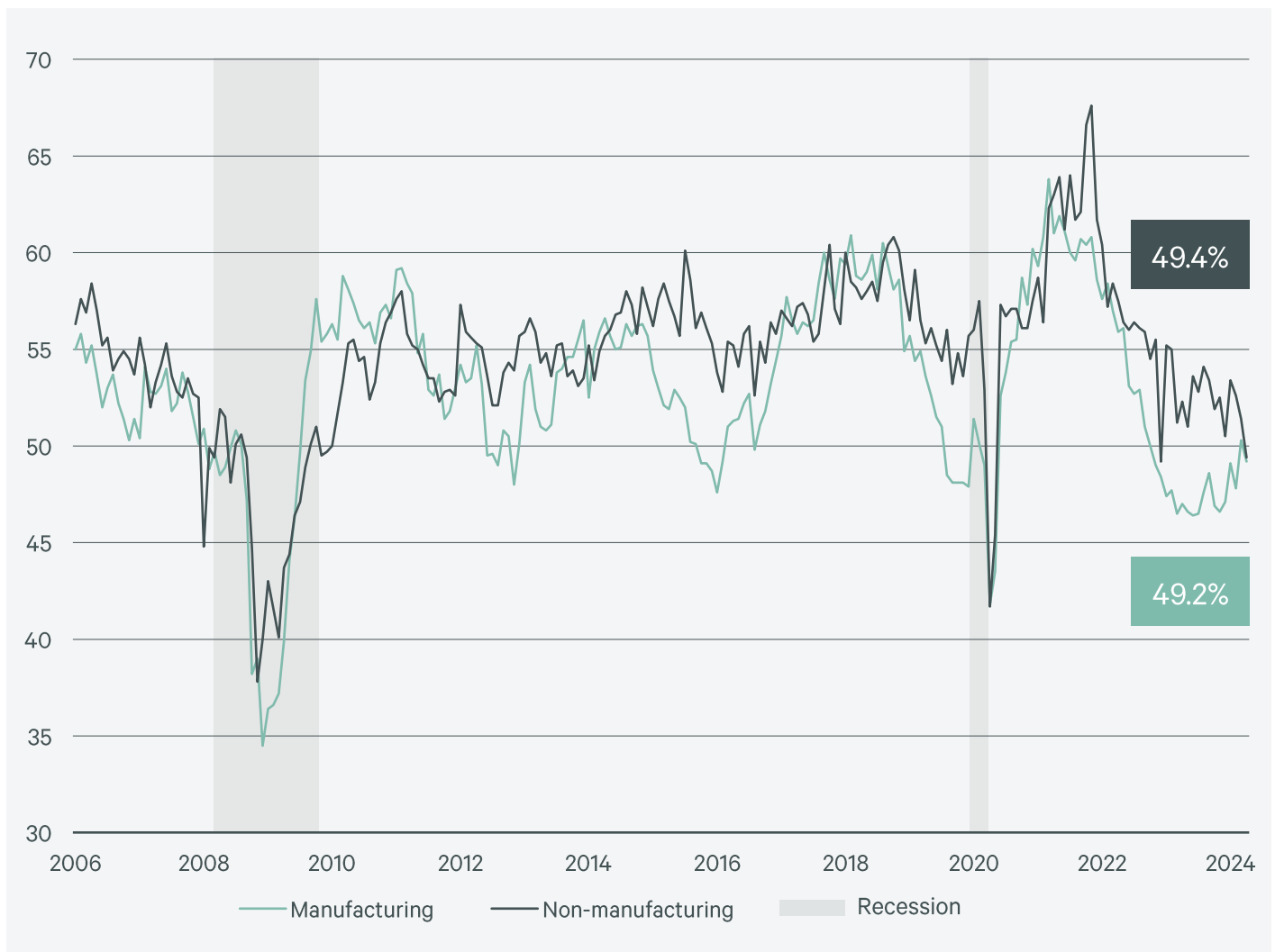
## Manufacturing growth is recovering albeit slowly

Manufacturing recoveries in China, Japan and the U.S. are behind the recent expansion of S&P's global manufacturing PMI. Government-led industrial policies and strong consumer demand pushed the U.S. manufacturing PMI towards the expansionary zone (PMI>50) as shown in **Figure 2**. Private investments and technology advancements should further support the growth of manufacturing as well as industrial real estate.

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**Figure 2: U.S. ISM business surveys**

PMI, 50 = no change



Source: LSEG Datastream, Institute for Supply Management, as of April 2024. For illustrative purposes only. Current market conditions differ from prior market conditions; including during prior periods of stress and dislocation. There can be no assurance any prior trends will continue.

Increased production activities demand more energy. Crude oil prices are moving towards a new average of \$85 per barrel, according to the U.S. Energy Information Administration (**Figure 3**), higher than our previous expectations. Transportation and utility costs have climbed on the back of rising energy prices and will likely drive inflation until the end of this fall.



**Figure 3: Crude oil prices**  
US\$ per barrel



Source: : LSEG Datastream, Refinitiv, as of April 30, 2024. For illustrative purposes only. Current market conditions differ from prior market conditions; including during prior periods of stress and dislocation. There can be no assurance any prior trends will continue.

# Sticky inflation suggests slower rate cuts

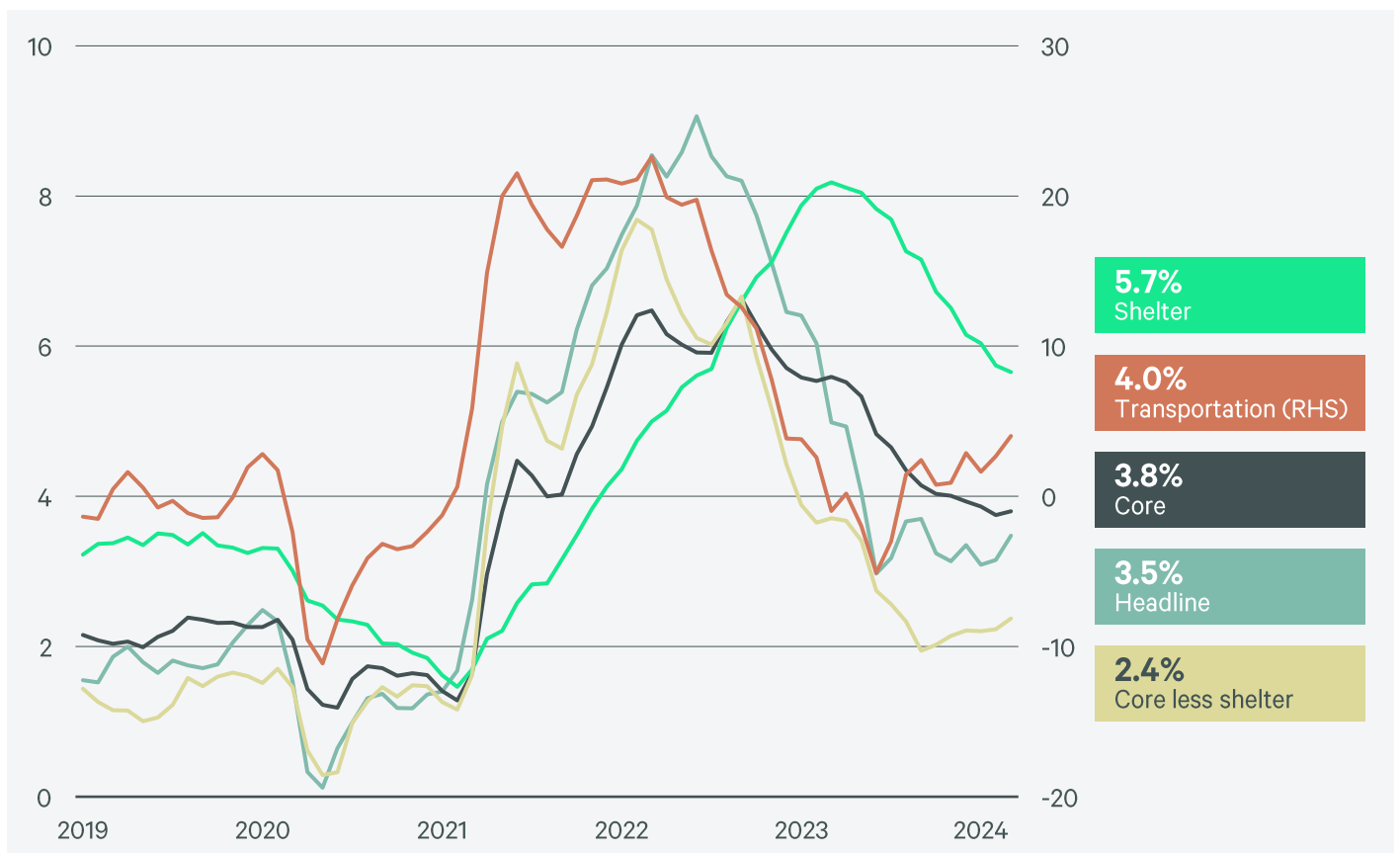
## The unexpected rebound of U.S. inflation

The U.S. headline CPI rebounded in Q1 2024 driven by the rising cost of transportation, services such as medical care and continued housing inflation that did not ease as rapidly as expected (Figure 4). This has caused the Federal Reserve to be cautious in cutting rates too soon. The market consensus moved towards less and slower rate cuts in the near term.

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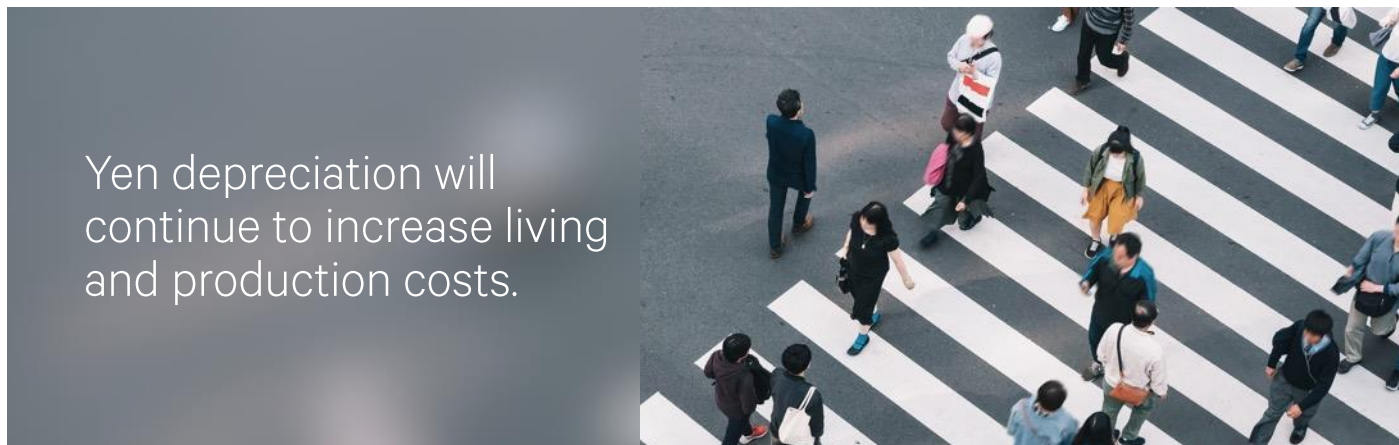
**Figure 4: U.S. CPI measures**

Twelve-month percentage changes



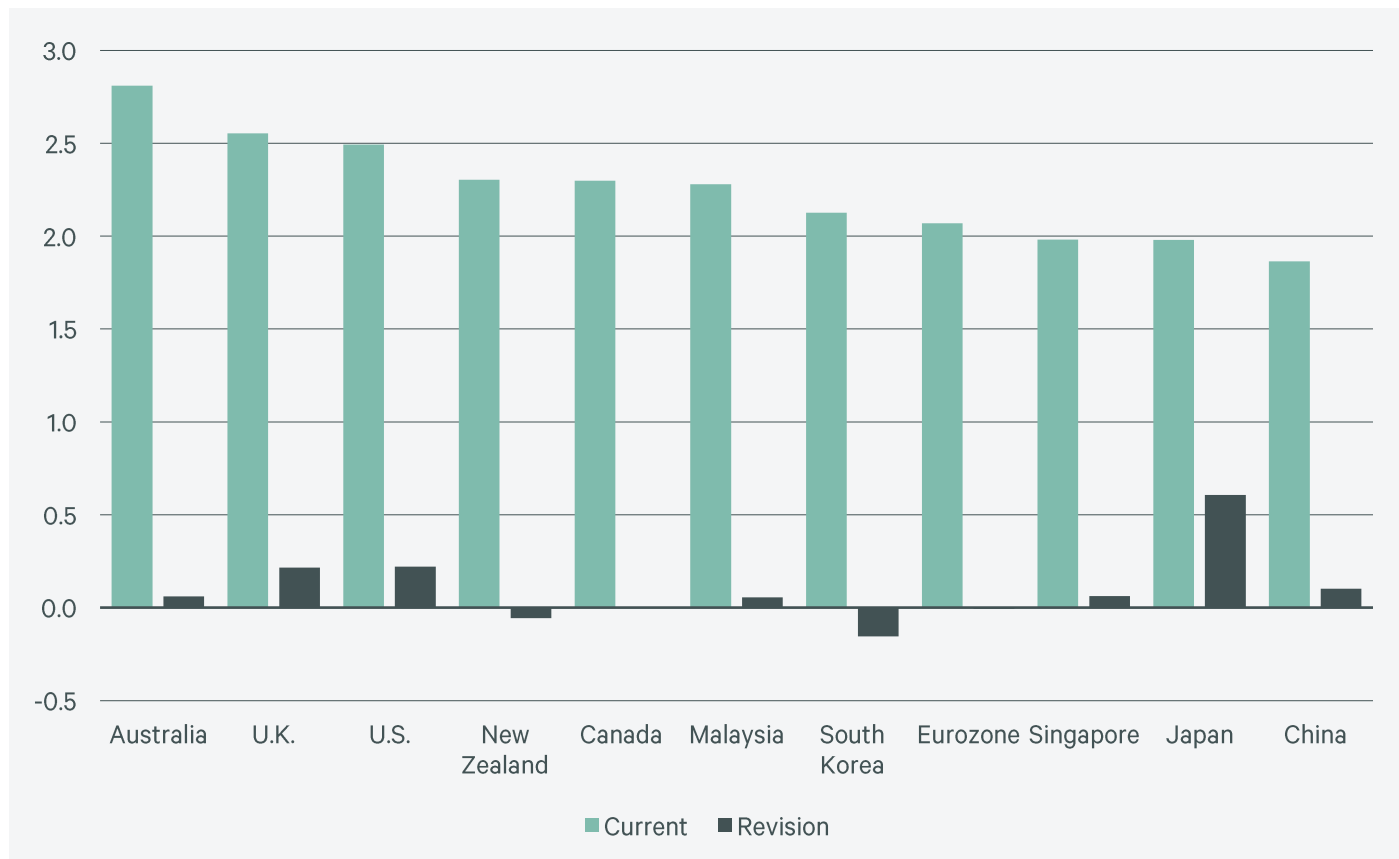
Source: LSEG Datastream, Bureau of Labor Statistics, U.S. Department of Labor, as of March 2024. For illustrative purposes only. Current market conditions differ from prior market conditions; including during prior periods of stress and dislocation. There can be no assurance any prior trends will continue.

The U.K. and Japan are also exposed to heightened inflation risks (**Figure 5**). Inflation in leisure, food and beverages remains as U.K. consumers respond to strong wage growth and lower credit costs. In Japan, Yen depreciation will continue to increase living and production costs.



**Figure 5: CPI inflation 2024-2028**

% Y-o-Y



Source: Oxford Economic Forecasting & CBRE Investment Management, as of Q2 2024. For illustrative purposes only. Based on CBRE Investment Management's subjective views and subject to change. There can be no assurance any targets or business initiatives will occur as expected. Forecasts are inherently uncertain and subject to change.



## Policy rates in Europe and North America should begin to fall in 2024

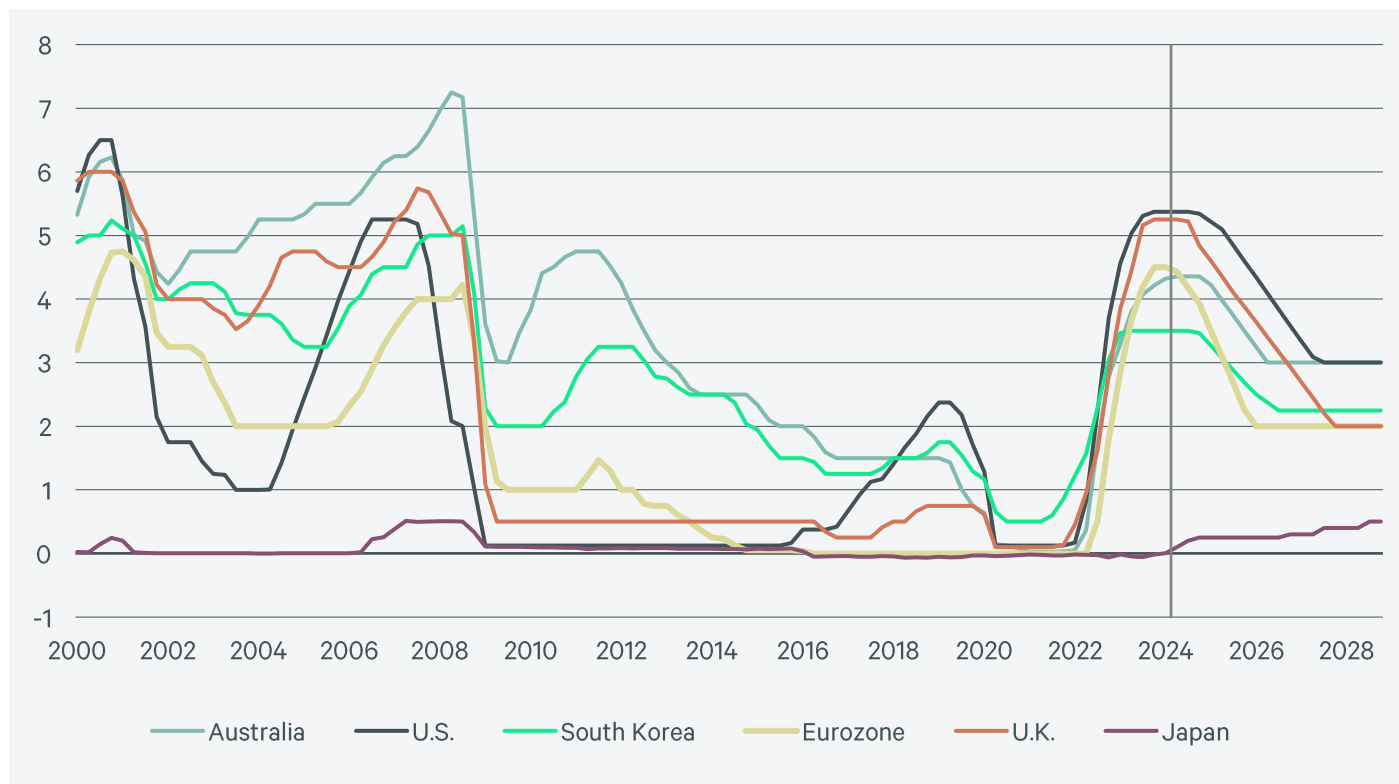
Due to changing facts like higher energy prices and sticky inflation, we have pushed back monetary easing expectations, especially in the U.S. where economic strength supports prudence by the Federal Reserve. By contrast, we expect central banks in Europe to lead in cutting policy rates and help their economies gain a solid footing. As shown in **Figure 6**, in 2024 we expect:

- The European Central Bank (ECB) to cut interest rates three times by 25 bps each starting in June
- The Bank of England to cut interest rates twice by 25 bps each starting in Q3
- The Federal Reserve to cut interest rates by 25 bps in December
- No rate cut in Australia and South Korea
- The Bank of Japan to raise interest rates from 0.1% to 0.25%

After 2024, we set the neutral rates—levels of policy rates that are neither stimulative nor restrictive—higher in the U.S., Australia and Japan, considering long-term inflationary pressures such as housing shortages and deglobalization.

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**Figure 6: Central bank policy rates, %**



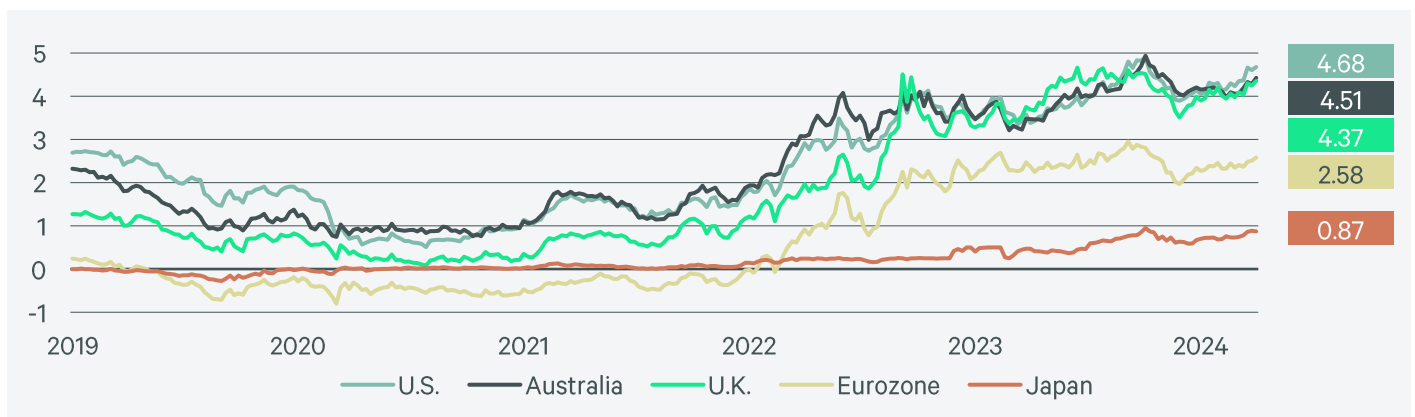
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# Bond yields are accommodative for moderate real estate yield compression

## Modestly higher bond yields in most markets

Shifting interest rate expectations and relatively strong economic performances have led to a broad increase of government bond yields (**Figure 7**). This is a similar occurrence as experienced last October when the market priced in higher rates for longer.

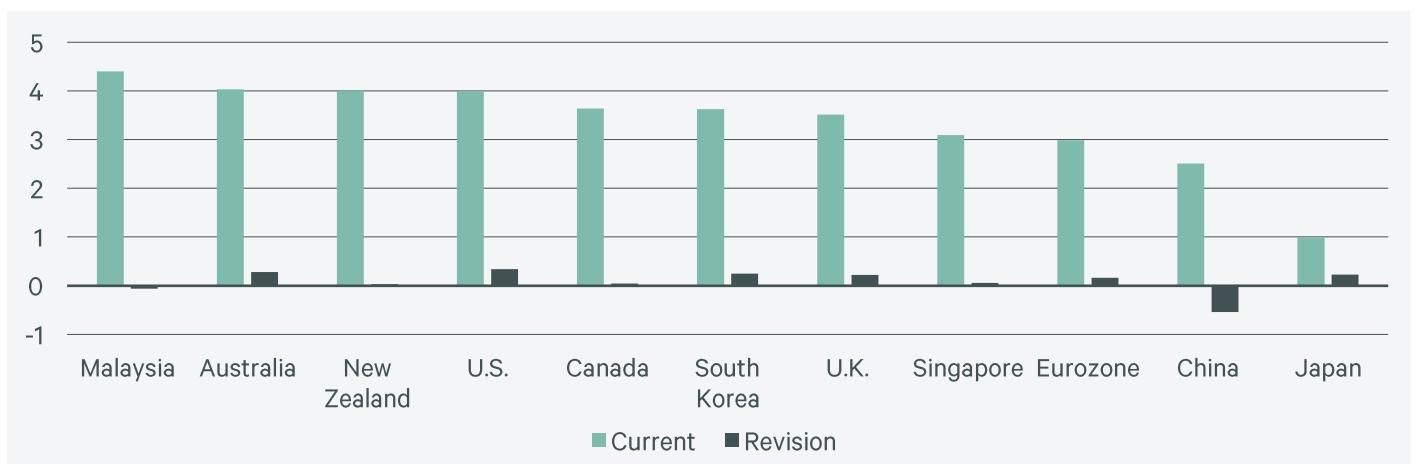
**Figure 7: 10-year government bond yields, %**



Source: : LSEG Datastream, national sources, as of April 30, 2024. For illustrative purposes only. Current market conditions differ from prior market conditions; including during prior periods of stress and dislocation. There can be no assurance any prior trends will continue.

Though uncertainty remains high regarding the long-run level of interest rates, we have moved bond yields up modestly to reflect market expectations of the new normal (**Figure 8**). Either policy rates will stay higher to keep inflation at 2% or inflation will drift higher with less restrictive interest rates. Either way bond yields will stay higher for longer.

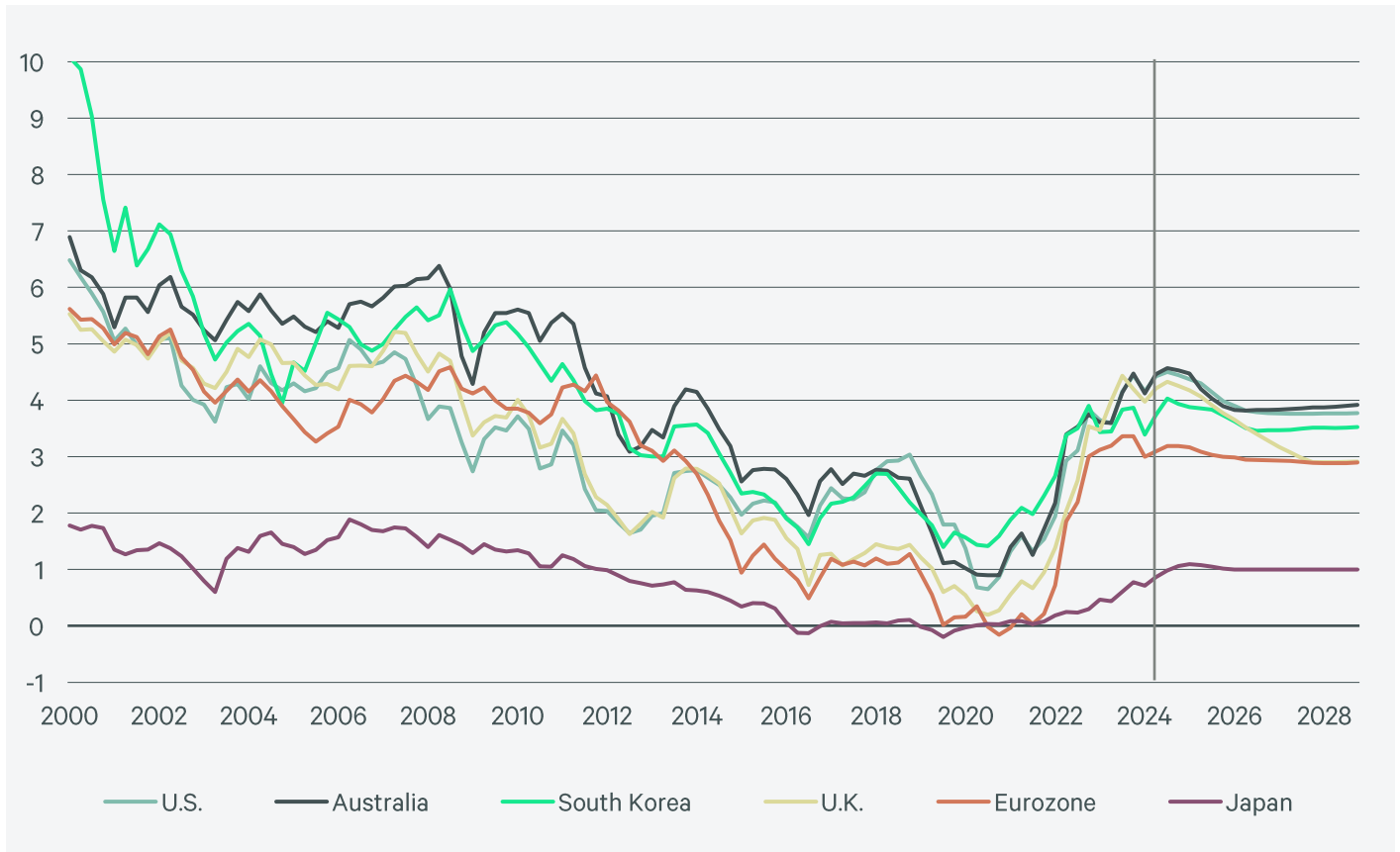
**Figure 8: 10-year government bond yields, 2024-2028, % average**



Oxford Economic Forecasting & CBRE Investment Management, as of Q2 2024. For illustrative purposes only. Based on CBRE Investment Management's subjective views and subject to change. There can be no assurance any targets or business initiatives will occur as expected. Forecasts are inherently uncertain and subject to change.

Figure 9 shows that we expect bond yields to settle in the 3%-4% range, lower than the 2000s but higher than the Quantitative Easing era. Japan's bond yield is forecast to stay at 1% in the long run due to relatively slow economic growth.

Figure 9: 10-year government bond yields, %



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## The bottom is near for real asset values

After one and half years of value correction, the cyclical bottom is near as interest rates are slated to fall (outside of Japan). Uneven economic growth and policy divergences are expected to drive diversified returns across regions. Long-term trends like smart manufacturing growth and the scarcity of affordable housing are tailwinds for real estate demand and call for modern real estate solutions. Interest rate relief is delayed but not for long in European and North American markets, where capital markets activity already shows signs of warming. The macro environment is encouraging for discounted entry opportunities as well as long-term asset holding in desirable sectors.



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# Contact



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