Investment Insight

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ARIA | CAPITAL

***Hot property:** As investors struggle to get to grips with almost zero percent deposit rates, for many the lure of property is once again becoming hard to resist. While the market in Ireland has certainly begun to heat up in recent times, albeit coming from a very low base, investors might be best advised looking further afield when seeking out opportunities in the space.*

*In **The Inside Track** we look at the European property market and share the opinions of Anne Breen, Standard life's Head of Real Estate Research.*

***Reversing fortunes:** The trend in the US dollar was a one way bet for the last year. It presented a more difficult environment for export oriented US companies and US multinationals. The dollar's recent reversal, however, if sustained, should help to revive the fortunes of those companies.*

*Evidence of this in US stock prices is already apparent and in **Pic of the Week** we take a closer look.*

The Inside Track

Anne Breen Head of Real Estate Research and Strategy at Standard Life Investments sees the continental European real estate market regaining interest due to the economy and finds cyclical opportunities to add value through asset management.

Europe catching up

The UK real estate market was the first in Europe to recover strongly after the financial crisis. Only more recently has the continental Europe market seen an increase in performance. In view of the improving European economic outlook, and in the current 'lower for longer' interest rate environment, this trend is set to continue.

In continental Europe, opportunities for real estate investors remain more abundant and attractively priced relative to the UK. More recently, we have seen evidence of the gap in returns narrowing. Recent economic data has surprised to the upside on the continent. This is crucial to the return outlook for Europe as rental growth has been the missing piece of the jigsaw in most markets thus far. Rents have risen in the UK, and specifically London, and the anticipation of this, alongside ultra low interest rates, has helped stimulate yield compression.

These key features are dawning in the European market now, with quantitative easing squeezing bond yields into negative territory, while the underlying drivers of the occupier market are also improving. Supporting this view, recent fund performance indices reveal that we could be heading towards a point of inflection between a stabilisation in the UK returns profile and an increase in the continental European returns outlook.

Asset allocation helps

While the diversified nature of pan-European real estate portfolios offer investors a relatively stable return outlook, managers can also boost returns through tactical asset management decisions. Since the global financial crisis, many assets have been underfunded and require significant attention through asset management to bring them up to a lettable standard. This also provides substantial grounds for additional returns, above and beyond attractive income returns, at this point in the cycle.

From a global perspective, additional returns from Eurozone assets are also available as a result of currency movements. For US-domiciled investors, Eurozone-based assets have depreciated by 25% over the last 12 months from currency movements alone. While there is no assurance that the currency position will recover over the next 12 months, the depreciated euro does offer an attractive buying opportunity for US investors. This should lead to continued strong capital flows from global sources, from which Europe already attracts 60% of cross border capital flows.

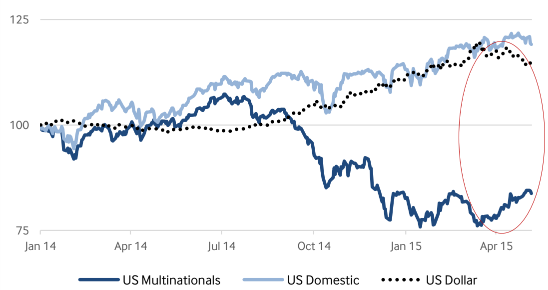
While some of the peripheral European markets are expected to start producing strong absolute returns, we would recommend investors display a measure of caution in selecting opportunities. While yields have fallen to cyclical lows in core markets, lower risk funds will find attractive risk-adjusted returns in Europe's largest and most liquid core markets such as Paris, the top five German cities and Stockholm. We also favour Dutch markets from both an income return and capital value recovery perspective.

Lastly, with the cost of debt falling steadily, the large margin between the cost of finance and real estate income yields, combined with growth in capital values, will mean even modest leverage will boost returns.

Pic of the Week

JPMorgan's *US multinationals* index consists of 37 companies in the S&P500 that generate more than 50% of their revenue overseas. As the chart shows, the multinationals index typically rises when the dollar falls, and vice versa. This trend has held up over the last month as the reversal in the US dollar has been mirrored by a strong outperformance of multinationals' share prices compared to their more domestically focused counterparts.

Dollar reversal benefits Multinationals & Exporters



Market View

	Last 7 days	YTD	5Y Ann.
Global equities	-0.7%	+5.1%	+9.9%
US equities	+0.1%	+1.4%	+13.5%
European equities	-1.5%	+13.3%	+9.9%
Emerging market equities	-2.0%	+7.2%	+2.0%
Irish equities	+0.7%	+16.6%	+15.3%
Commodities	-0.4%	-1.3%	-4.4%
Hedge funds	-0.6%	+1.9%	+1.2%

Economic indicators	*Bond yields*	*Inflation*	*GDP YoY*
Ireland	+1.2%	-0.6%	+4.1%
Germany	+0.5%	+0.4%	+1.4%
USA	+2.1%	-0.1%	+3.0%
China	+3.3%	+1.4%	+7.0%

Currencies	*Current*	*YTD Δ*
EUR:USD	1.12	-7.4%
EUR:GBP	0.73	-6.6%
EUR:CNY	6.95	-7.8%

GBP:USD	1.54	-0.9%
Bitcoin	236.26	-25.6%

Commodities	*Current*	*YTD Δ*
Gold	1,185.83	+0.1%
Copper	6,403.00	+0.5%
Oil	65.45	+6.9%
Wheat	474.75	-20.5%

Central Bank rates	*Current*
Eurozone	0.05%
USA	0.25%
UK	0.50%

Week ahead: Key events

11/05 Ireland Construction PMI
12/05 UK Industrial & Manufacturing Production
13/05 Japan Current Account Balance
13/05 China Industrial Production
13/05 Germany GDP & UK Employment
13/05 EU GDP & Industrial Production
13/05 US Retail Sales & UK Inflation Report
14/05 US Initial Jobless Claims & Ireland Bond Auction
15/05 US Empire Manufacturing & Industrial Production

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