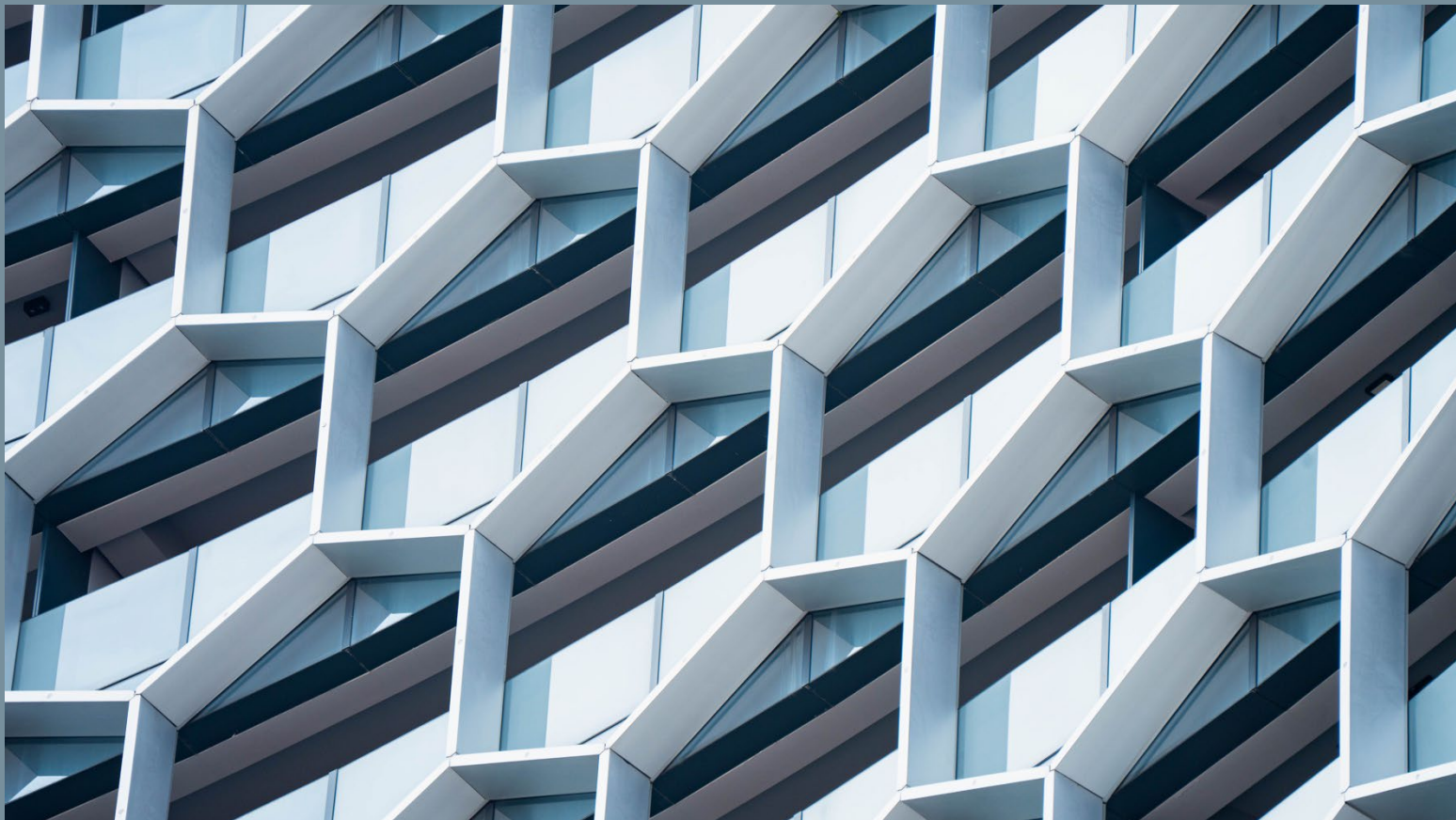




# Macro Outlook

## Q3 2024



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# Key calls

## The cutting cycle has begun

### 01

The Western Central Banks, led by the ECB, BoE and the Fed, are all expected to cut interest rates in the near term as inflation eases. Bond yields have moved in with expected rate cuts.

Where interest rates will settle is still uncertain but will largely depend on fiscal policies, inflation expectations and currency. The upcoming U.S. election will provide more clarity on these issues. For now, we maintain our outlook of sticky inflation and higher-for-longer bond yields.



### 02

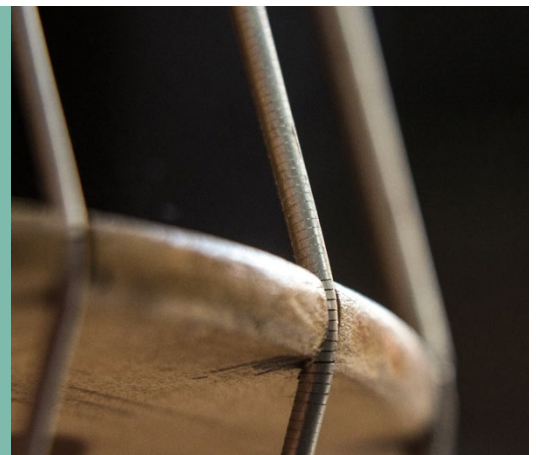
Our forecasts for real economic growth are broadly unchanged. Political uncertainty, inflation volatility and generally weakening demographics suggest slower growth for major economies. Germany pulled out of a recession, which has slightly brightened the European economic outlook. The U.S. economy has remained strong, driven by stable consumer spending. China's housing market correction sees no end in sight and weighs heavily on consumers.



### 03

Rate cuts may lead to some upside potential if credit conditions improve materially. Labor markets are likely to benefit from warming business sentiment and rising trade activities.

However, geopolitical tensions remain elevated. Rising shipping costs, trade barriers and government debt costs all point towards higher inflation and increased risk of supply disruptions.

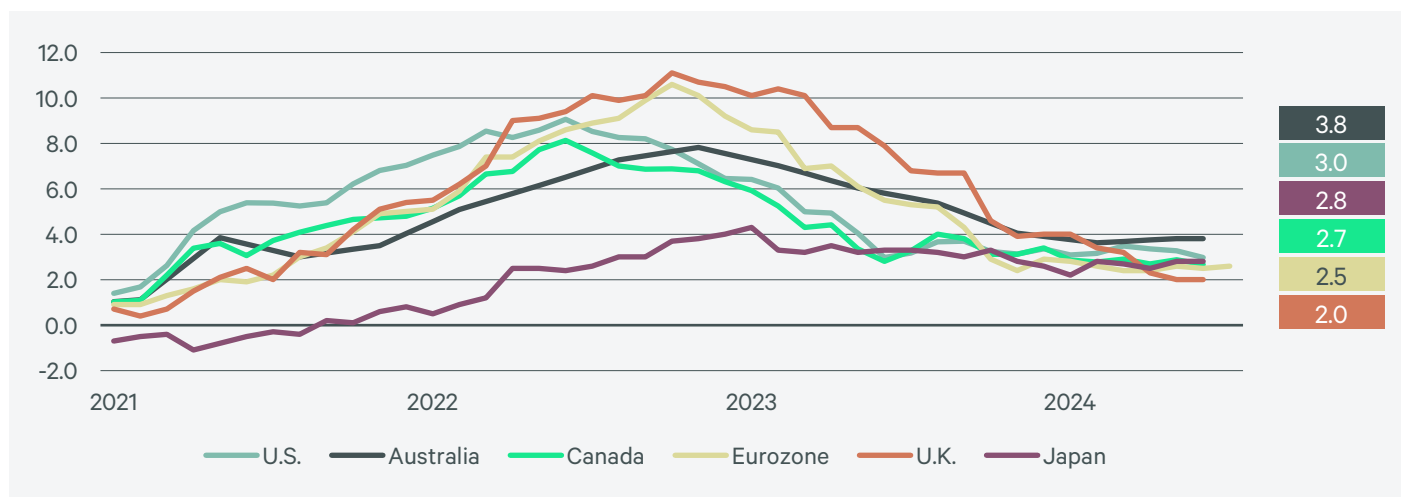




## Easing inflation brings lower interest rates

Falling oil prices and more stabilized housing markets pushed CPI inflation towards a 2% target across the Western developed economies, as shown in **Figure 1**. Central banks are moving into a slow cycle of interest rate cuts, partially driven by concerns over softening labor markets and economic slowdowns.

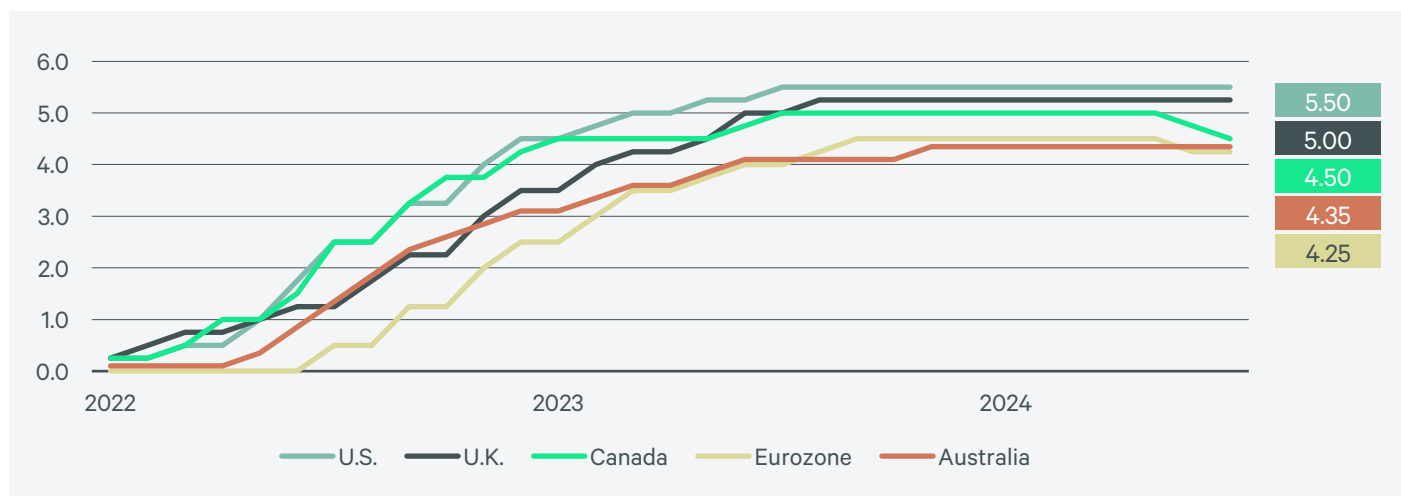
**Figure 1: Global headline CPI, % Year-over-Year**



Sources: LSEG Datastream and national sources, as of July 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 Bank of Canada has cut interest rates twice so far, with a reduction of 50 bps. The European Central Bank and Bank of England each cut interest rates by 25 bps (**Figure 2**). The U.S. Federal Reserve is expected to kick off rate cutting in September 2024. The Reserve Bank of Australia lags with stickier inflation and will likely hold through the rest of 2024.

**Figure 2: Major market policy rates, %**




Sources: LSEG Datastream and central banks, as of August 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.

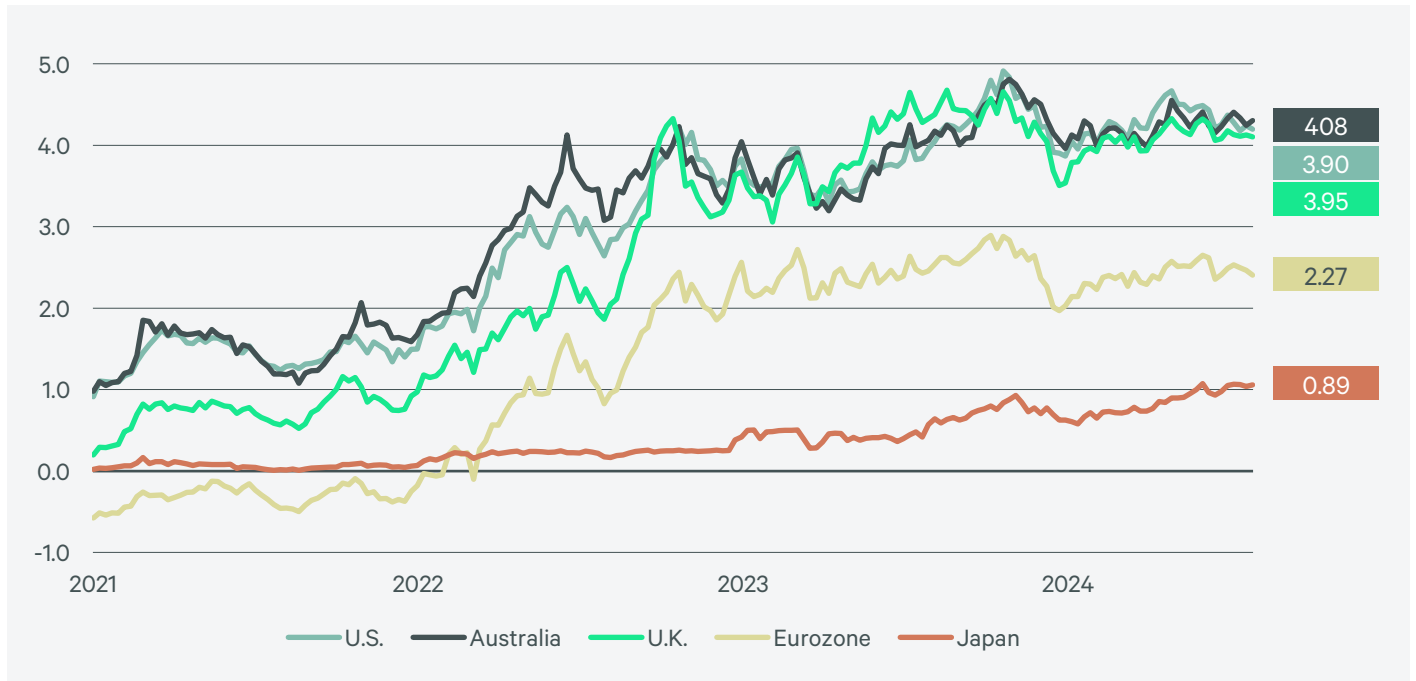
## Expected policy rate changes

We made two major changes in our near-term policy rate expectations. The first change is to bring forward the first rate cut in the U.S. to September, due to recent communications by the Fed that implied an intention to cut. The second cut is now penciled in for January 2025, considering political uncertainty and potential inflation stickiness. Shifting interest rate expectations have led to a global yield compression (**Figure 3**).

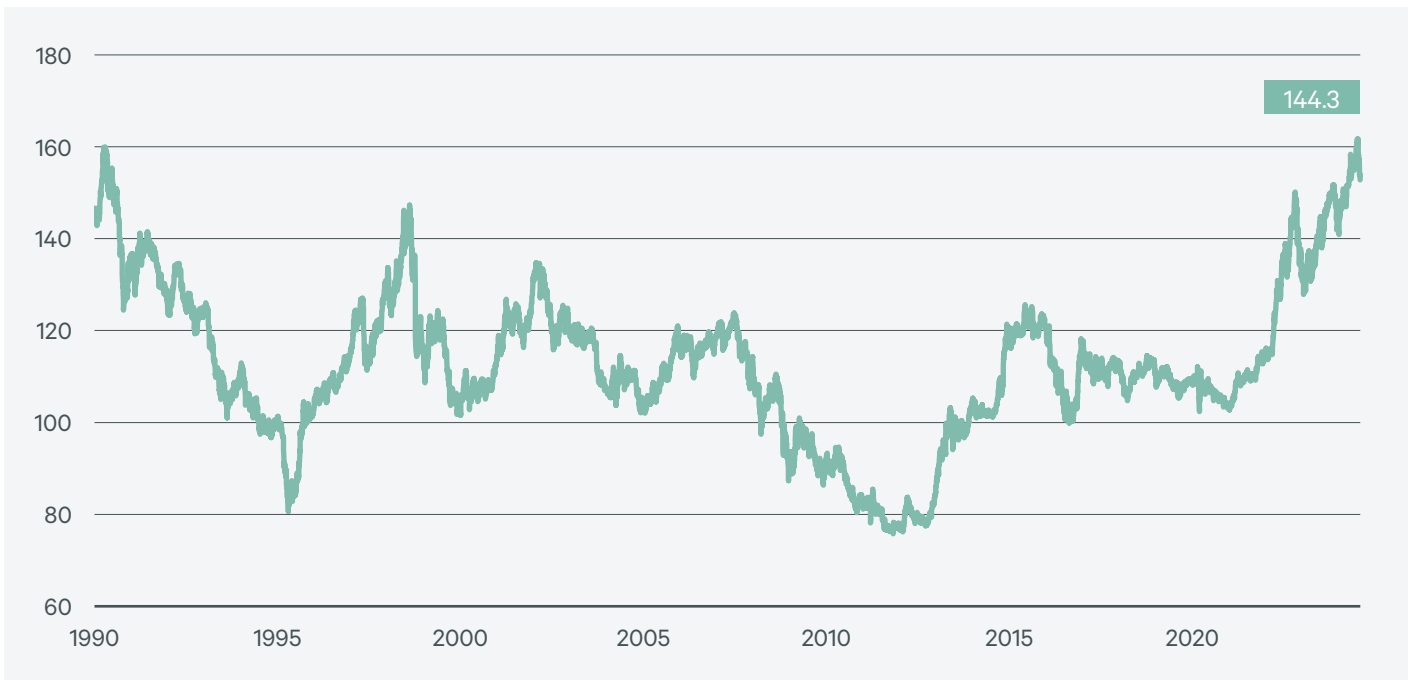
The second change is to raise the medium-term Japanese policy rate. The Bank of Japan hiked the interest rate to 0.25% in July, as the dramatic weakening of the Japanese Yen reached historic levels (**Figure 4**). The rate hike shocked the market and sent the Yen into a sharp appreciation. If a positive wage-price spiral forms, the Bank of Japan is anticipated to maintain the current policy rate throughout 2024, followed by two more rate hikes.



The Bank of Japan hiked the interest rate to 0.25% in July, as the dramatic weakening of the Japanese Yen reached historic levels.

**Figure 3: 10-year government bond yields, %**

Sources: LSEG Datastream, Refinitiv, as of August 7, 2024.

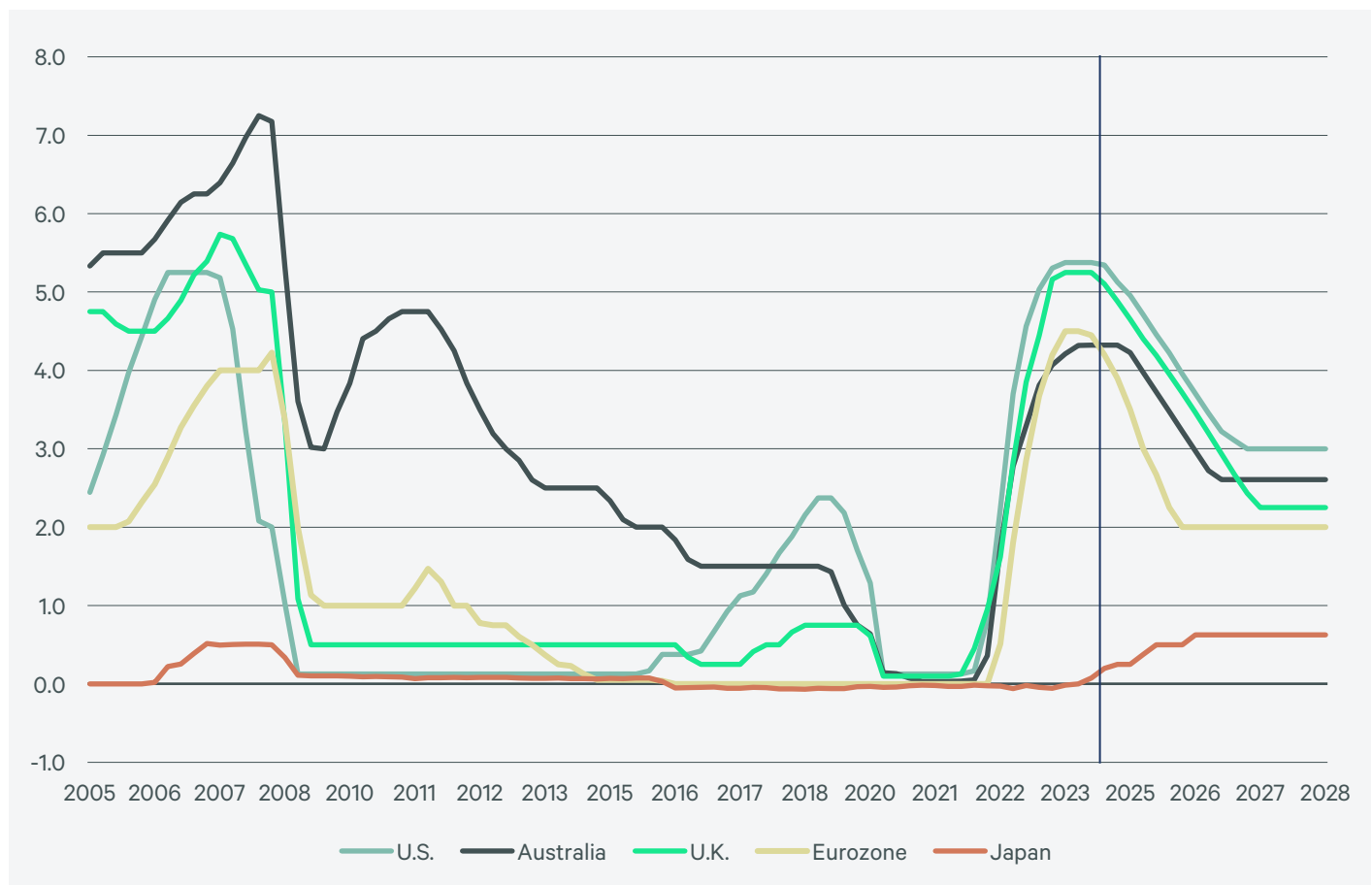
**Figure 4: JPY/USD exchange rate, spot rate**

Sources: LSEG Datastream, Refinitiv, as of August 7, 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.

As shown in **Figure 5**, in the next 24 months, we expect:

- The Fed to cut the Federal Funds rate to a range of 3.50%-3.75% by Q2 2026
- The Bank of England to roughly align the pace and magnitude of rate cuts with the Fed
- The European Central Bank to cut rates once a quarter until the repo rate settles at 2%
- The Bank of Japan to raise two more times to a long-run level of 0.63%
- The Reserve Bank of Australia to start cutting in Q1 2025 to a 3% cash rate by Q2 2026

**Figure 5: Central bank policy rates, %**



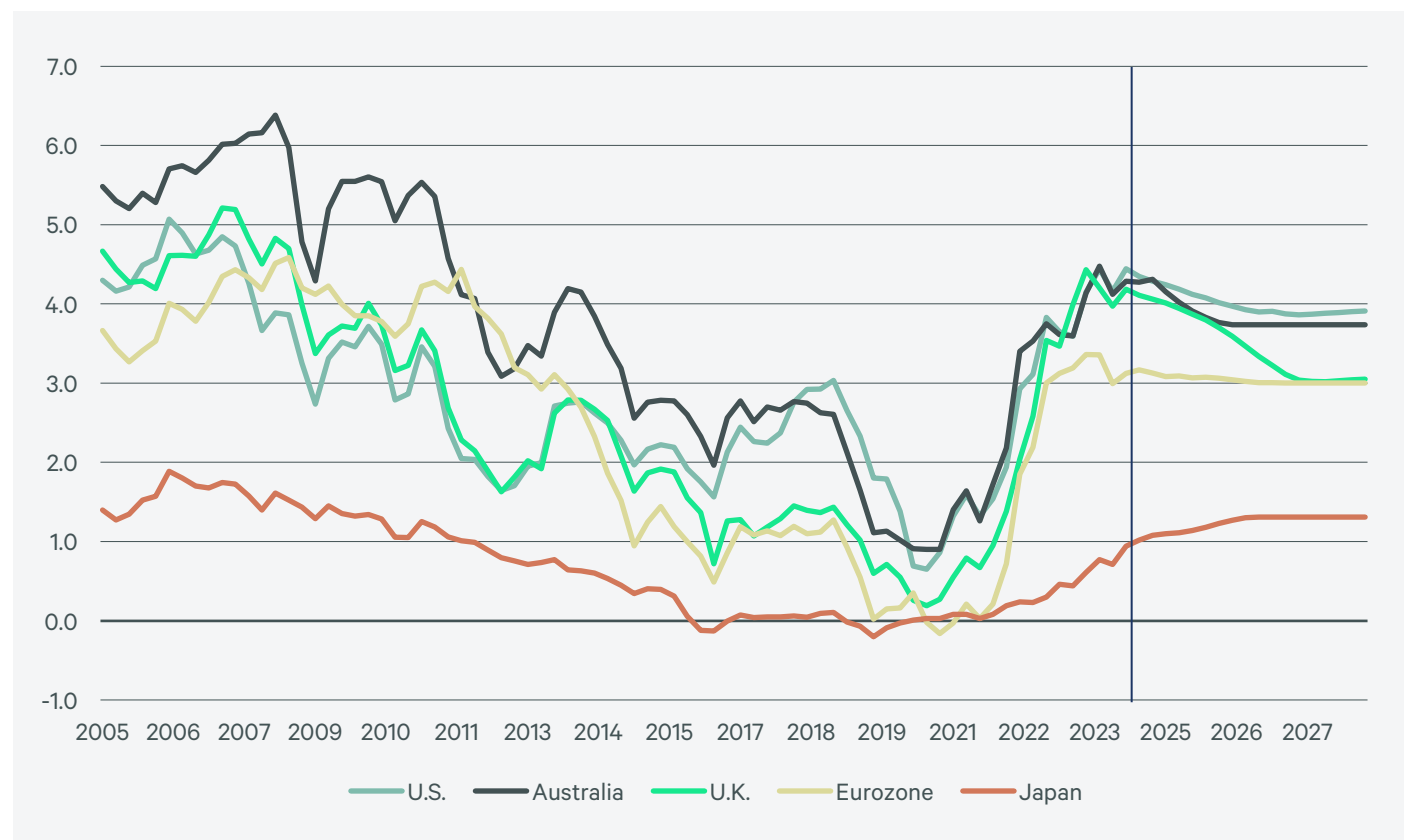
Sources: Oxford Economic Forecasting and CBRE Investment Management, as of Q3 2024. For illustrative purposes only. Based on CBRE Investment Management's subjective views and subject to change. There can be no assurance any targets or business initiatives will occur as expected. Forecasts are inherently uncertain and subject to change.

## Bond yields suggest easier credit market conditions

We believe the long rates, also known as 10-year government bond yields, are largely over the peak, now that policy rates are starting to fall and inflation expectations appear anchored. **Figure 6** shows that we expect continued easing of 10-year government bond yields, particularly in the U.K. where the base rate is expected to fall by 300 bps, more than most of its peers. Many economies such as the U.S. came out of the COVID pandemic with huge increases in government debt and surging debt service costs. This has, to different degrees, increased risk premia required by bond investors. We expect bond yields to settle in the 3%-4% range for most Western markets, while noting that market expectations will shift significantly based on each market's policy outlook.

We believe the long rates are largely over the peak, now that policy rates are starting to fall with anchored inflation expectations.

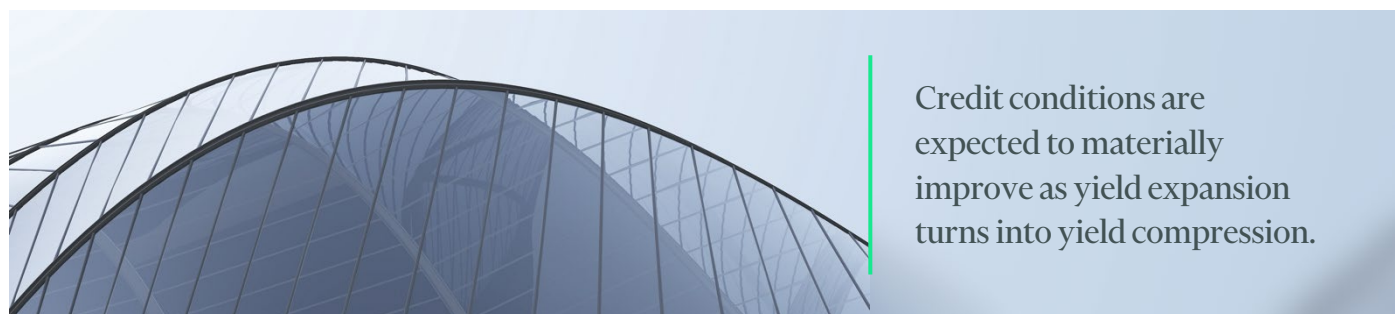
**Figure 6: 10-year government bond yields, %**



Sources: Oxford Economic Forecasting and CBRE Investment Management, as of Q3 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.

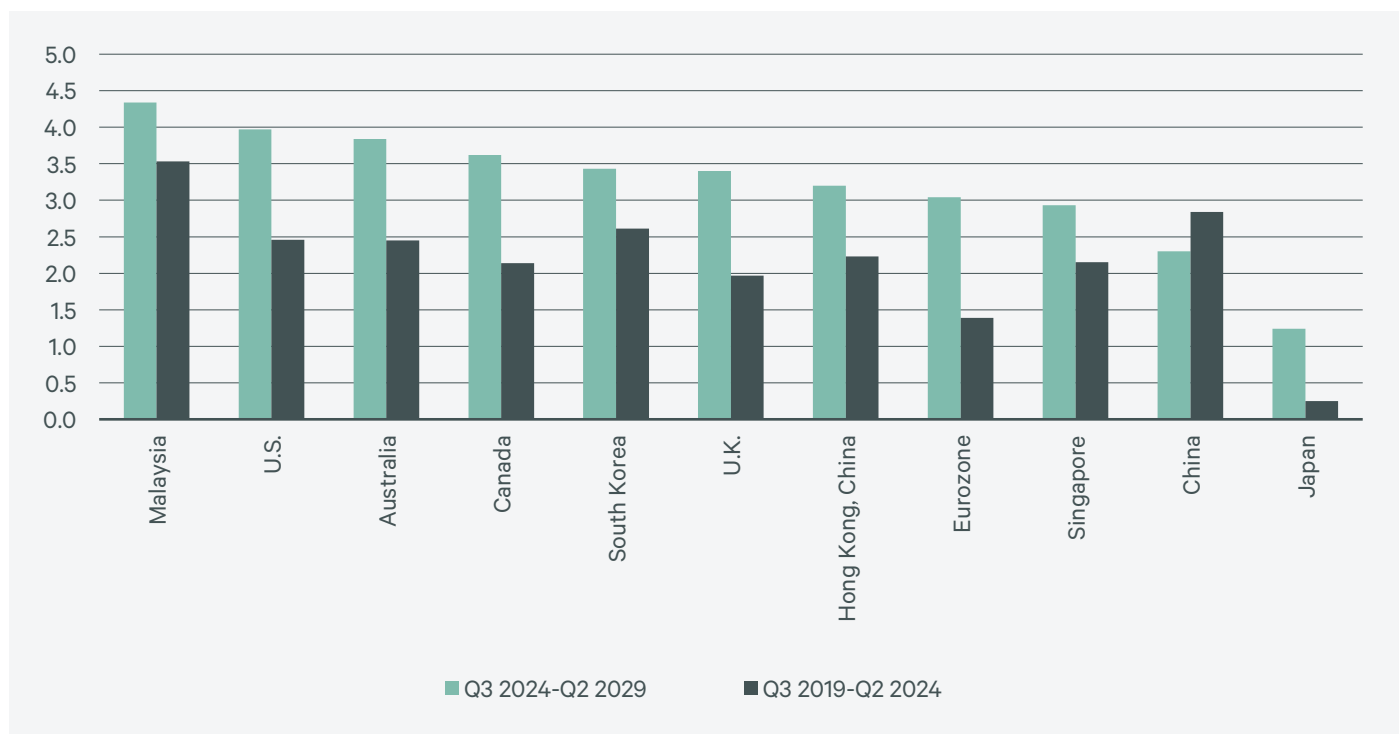


**Figure 7** compares the five-year averages of 10-year bond yields between the next five years and the previous five years. In major Western markets including the U.S., Australia, Canada, U.K. and Eurozone, long rates will average approximately 150 bps higher and likely stay more stable over the next five years. This greater stability in the bond markets will accommodate moderate yield compression in real assets especially in markets where yields moved out more than 200 bps in the last two years. Credit conditions are expected to materially improve as yield expansion turns into yield compression.



In Japan, we expect to see approximately 100 bps of expansion in 10-year government bond yields. As a result, we expect an increase in real assets yields and a decline in prices. Higher inflation supports higher income growth which will help offset the impact of yield expansions. Relative to the Western markets, Japan continues to offer much lower debt costs.

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



Sources: Oxford Economic Forecasting and CBRE Investment Management, as of Q3 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.

## Economic growth broadly returns to trend

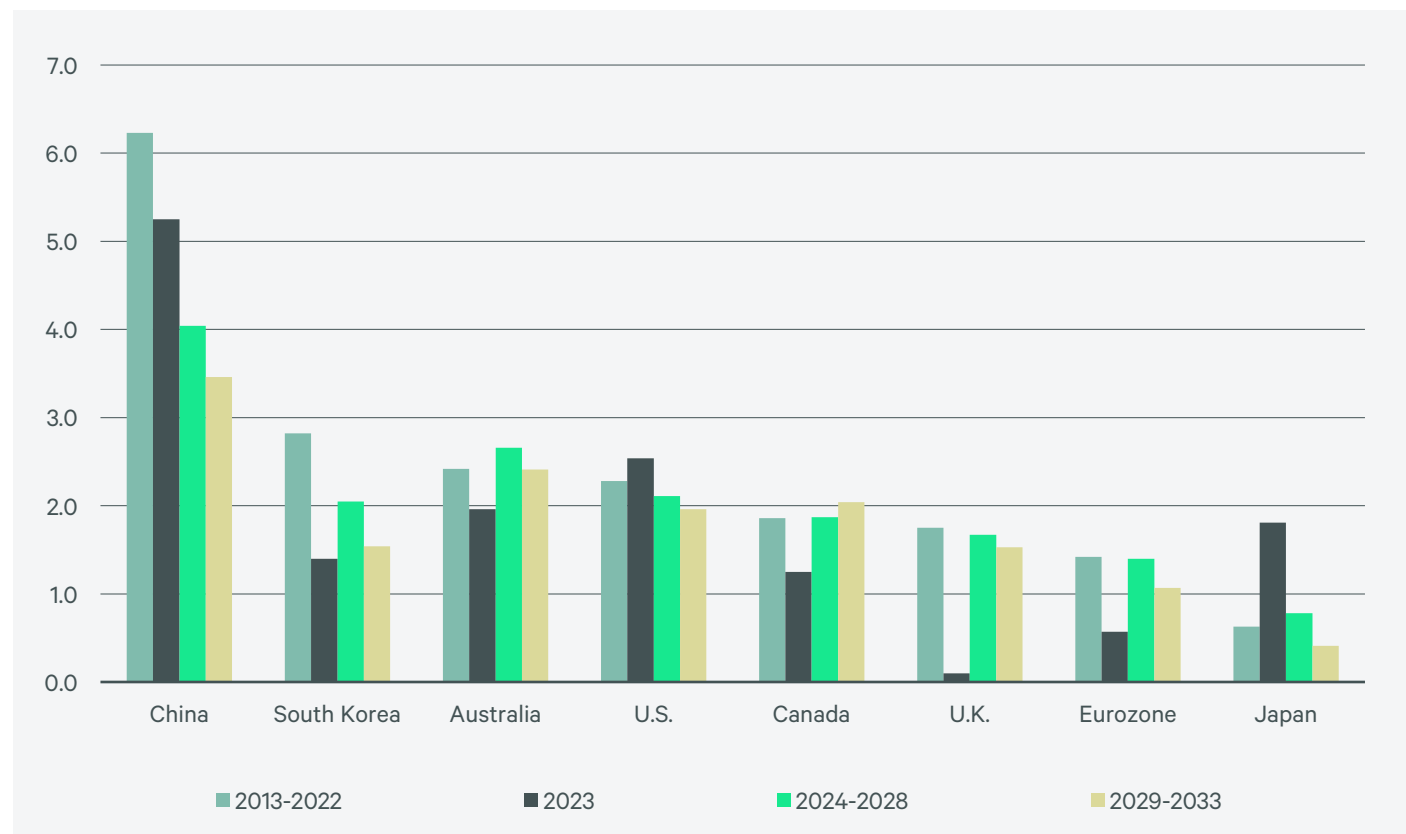
### Minimal changes to our growth forecasts

In the first half of 2024, the Eurozone economies stabilized, the U.K. rebounded, and the U.S. remained strong while China's housing market slump curbed growth. We continue to see a soft landing in the U.S. and a broad return to trend growth in developed economies. **Figure 8** shows our GDP growth forecasts in a historical context.

Countries like China and Japan are notably moving away from a decade of status quo growth. Japan exited zero interest rates earlier this year and is potentially at the cusp of a reallocation of household wealth from excessive saving to spending and investment.

China and Japan are notably moving away from a decade of status quo growth.

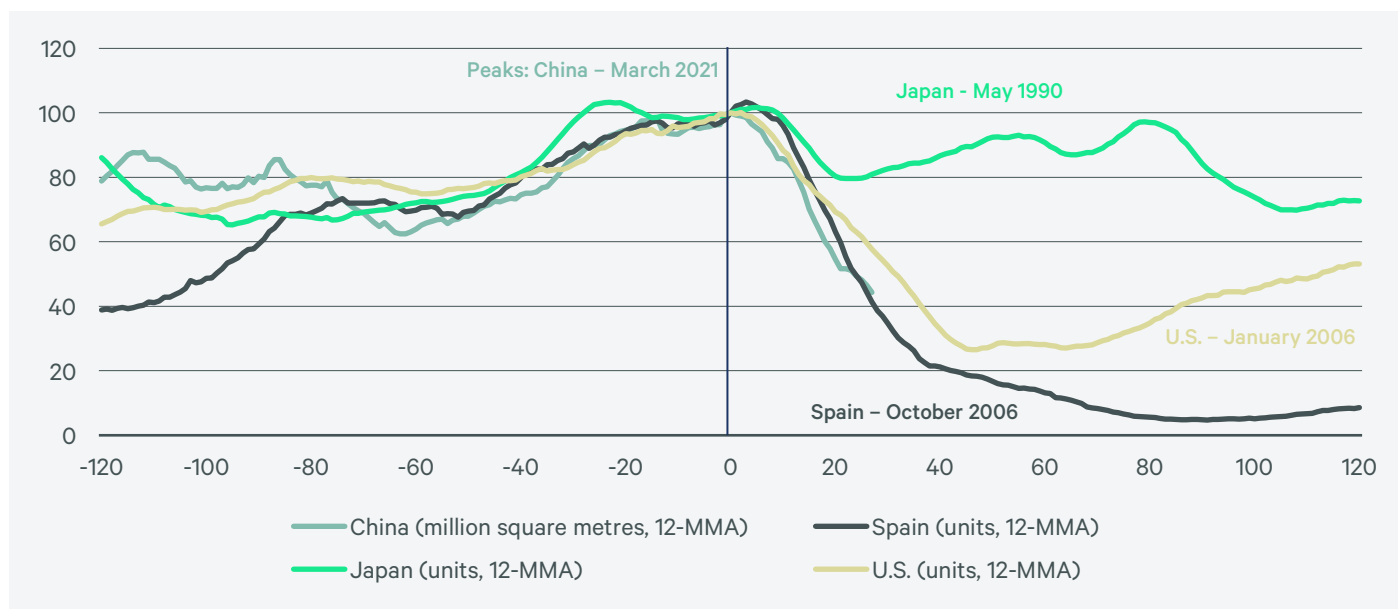
**Figure 8: GDP growth forecasts with historical context, % Y-o-Y**



Sources: Oxford Economic Forecasting and CBRE Investment Management, as of Q3 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.

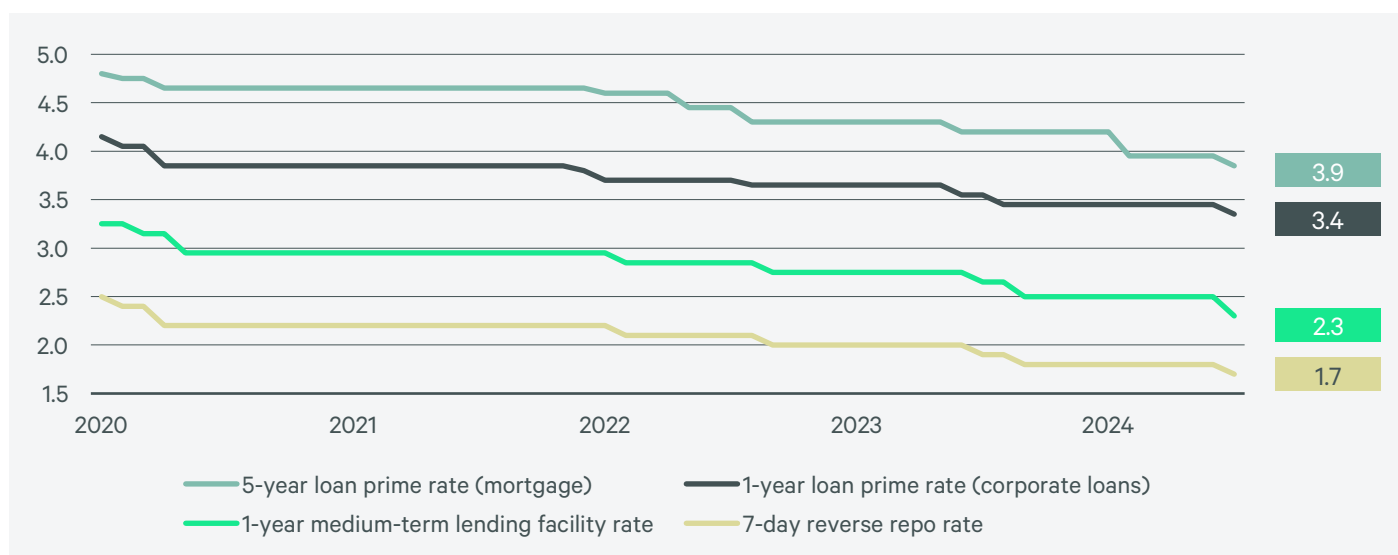
China's housing crash saw a 22% drop in home sales and 56% drop in housing starts in the first half of 2024. If the trend continues, China seems to be sliding into a collapse similar to Spain (**Figure 9**), which has not recovered even as of today. Acknowledging the dramatic downside, the People's Bank of China (PBoC) has cut interest rates across lending facilities, as shown in **Figure 10**. We expect fiscal and monetary policies to be significantly more accommodative as China fights its way out of a prolonged bust. We remain relatively bearish on the growth outlook in China but expect the government to manage the housing market crisis without triggering a greater financial crisis.

**Figure 9: Housing starts in China, Spain, Japan and the U.S., Index, cyclical peak = 100**



Sources: LSEG Datastream and national sources, as of July 2024. Note: MMA=Monthly moving average.

**Figure 10: China lending rates, %**



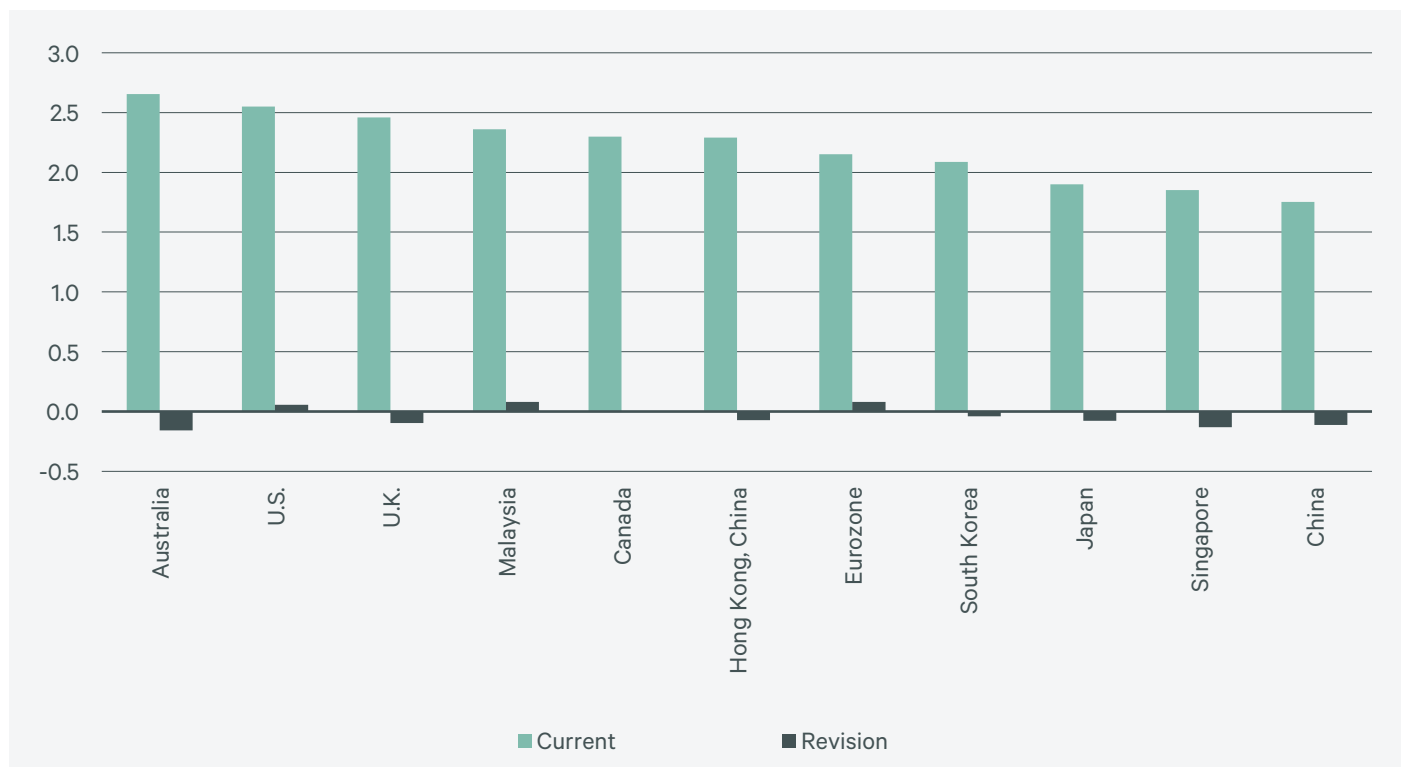
Sources: LSEG Datastream, PBoC, as of July 2024. Please add under both graphics: For illustrative purposes only. Current market conditions differ from prior market conditions; including during prior periods of stress and dislocation. There can be no assurance any prior trends will continue.

## 2% is the new floor for inflation

The inflation forecasts stayed roughly the same—we expect 2% to be the new floor, rather than an average for most markets, as shown in **Figure 11**. We have held this view since 2022, supported by a host of factors including housing shortages, increased government spending, more trade frictions, energy diversification and aging demographics. Real estate and infrastructure are known to be inflation hedges due to the empirical evidence of income growth matching inflation in the long term. In the current relatively high-inflation environment, we expect real estate and infrastructure to outperform unprotected fixed income.



**Figure 11: CPI inflation 2024-2028, % Y-o-Y**



Sources: Oxford Economic Forecasting and CBRE Investment Management, as of Q3 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.



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