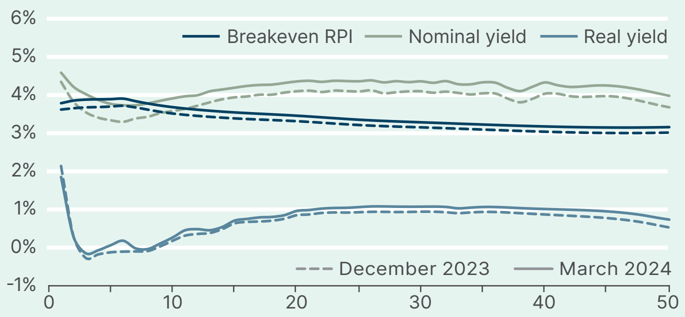
Market Monitor Q1 2024

AlphaReal
Real assets. Real security.

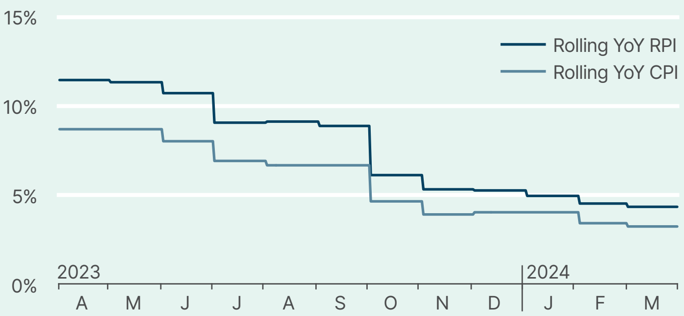
Rates, inflation and credit spreads

Gilt yield curves



Source: Refinitiv – 31 December 2023 and 31 March 2024

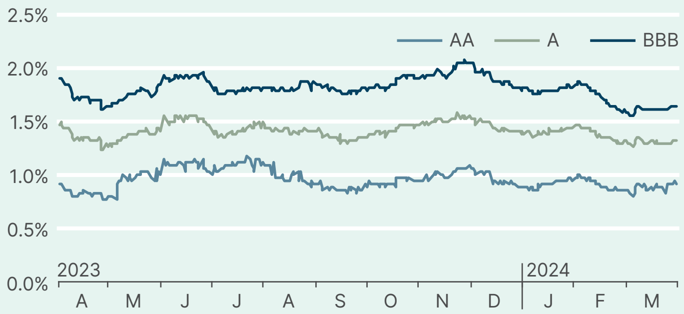
12 month rolling inflation



Source: Refinitiv – 31 March 2024

- Real and nominal Gilt yields both increased over the quarter. Real yields averaged an increase of c15 bps, while nominal yields increased by c30bps. This led to a commensurately higher break-even inflation rate.
- Inflation prints continued to decline over the quarter, following the trend of the previous quarter. The YoY RPI rate at the end of March was 4.3%, while the CPI rate was 3.2%.
- Over the quarter the market lowered its expectation for the number of Bank of England base rate cuts in 2024. This is due to the receding probability of rates being cut by the US Federal reserve. However, we anticipate that UK rate cuts are still likely this year as inflation returns closer to target.
- Non-financial corporate credit spreads remained low at around 90bps, 135 bps and 170bps for AA, A and BBB rated securities, respectively. These levels are the lowest they have been over the last five years.

Credit spreads



Source: Refinitiv 10 year non-financial GBP bonds – 31 March 2024

Secure income market update

Spreads remain compelling for secured long income assets

- Spreads over risk-free yields for Commercial Ground Rents remain unchanged. Income Strip spreads also remain unchanged.
- Spreads for Renewables over the equivalent duration gilt remain unchanged.
- Social Infrastructure spreads increased by 15bps; valuations have softened slightly over the quarter.
- Real estate debt spreads remain the same, while SONIA is volatile the overall range remains unchanged.
- The inflation linked nature of the long income and renewable assets (albeit typically capped) has acted to maintain values and spreads.

Asset class definitions

Real Estate Debt: 5-year interest and fees cashflow from senior investment term-loan secured against core real estate where interest is comprised of a margin over either SONIA or BoE base rate.

Renewables Infrastructure: 15+ year inflation-linked cashflows from unlevered wind and solar infrastructure assets subject to Feed-in Tariff (FIT) or Renewable Obligation Certificate (ROC) regimes.

Long Leases: 15+ year inflation-linked leases on commercial real estate. Traditional sale & leasebacks fall within this market.

Social Infrastructure: 15-20+ year inflation-linked leases on operational real estate across the housing, healthcare and education sectors.

Income Strips: 30+ year inflation-linked leases on commercial real estate where the lessee has an option to purchase the real estate back at the end of the lease for a nominal amount (e.g. £1).

Commercial Ground Rents: 100+ year inflation-linked leases on commercial real estate, with a higher degree of rental and value cover than a traditional sale & leaseback.

Sources: Alpha Real Capital (for illustrative purposes only and for typical transactions available to pension schemes in these asset classes). Data as at 31 March 2024. The future returns and opinions expressed are based on Alpha Real Capital internal forecasts and should not be relied upon as indicating any guarantee of return from an investment managed by Alpha Real Capital nor as advice of any nature. Source of corporate bond spreads: Refinitiv 10 year non-financial GBP bonds – 31 March 2024.

Real assets. Real security.

AlphaReal is a specialist secure income investment manager. We originate, structure, and manage real assets for pension schemes and insurers, operating across the UK and Europe. Our trusted investment solutions deliver predictable, inflation-linked cashflows.

We specialise in Commercial Ground Rents – where we are the market leader in the UK – Social Infrastructure, Renewable Infrastructure and Alternative Credit.

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LAPF INVESTMENTS AWARDS
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