November | 2023

AlphaWealth Monthly Brief

"Investment success accrues not so much to the brilliant as to the disciplined."

- William Bernstein

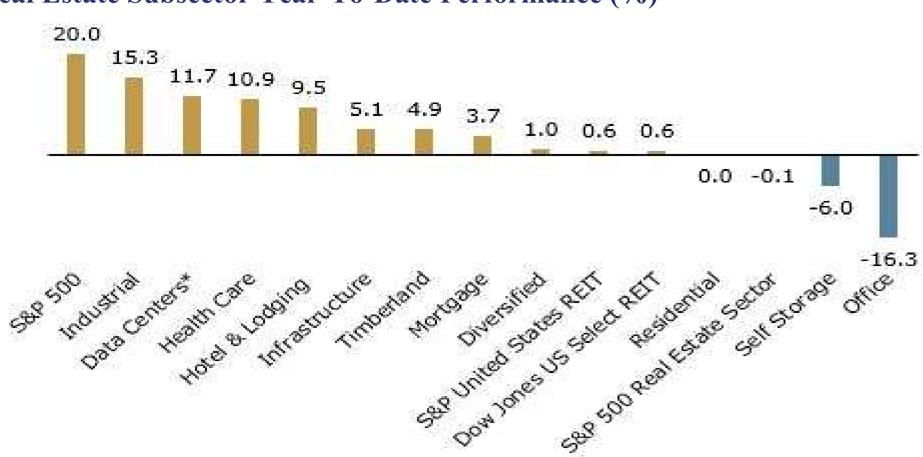
In this month's edition of the brief, we highlight the mixed performance in the commercial real estate sector as well as famed investor Howard Marks' economic outlook and asset allocation strategy.

Mixed Performance for Commercial Real Estate

As stock and bond investors celebrate the end of the Federal Reserve's interest rate hiking cycle, the real estate market continues to face challenges. The recent bankruptcy of office-sharing company WeWork, which just 4 years ago was assigned a $47 billion valuation, is just one such example of distress. However, commercial real estate is a highly differentiated market and not all areas have performed similarly.

Among commercial real estate subsectors, the office market has suffered disproportionally thanks to higher rates and weak demand stemming from hybrid work arrangements that have become commonplace in the post-pandemic world. With national vacancy rates near all-time highs and rent growth stagnating, office landlords with heavy debt burdens find themselves in a vulnerable position.

Real Estate Subsector Year-To-Date Performance (%)



Source: Kestra Investment Management with data from FactSet

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Other subsectors are holding up well in the higher rate environment. Data centers, for instance, have benefitted from the increased demand for remote work and the growth of cloud computing. Fundamentals also appear to be strong in the hotel industry as the surge in leisure traveling has driven revenue per available room to near pre-pandemic levels.

While it seems the Fed's work to tame inflation is largely done, rates may remain elevated for the foreseeable future and the full effect of higher rates can take time to work its way through the economy. We continue to monitor the real estate sector as it plays an important role in the overall health of the economy.

Oaktree's Marks on Asset Allocation

Recently, Oaktree Capital Management Co-Chairman Howard Marks sat down with Bloomberg's David Ingles at the HKMA Global Financial Leaders' Investment Summit. A legend in the investing community, Marks' commentary detailing his investment strategies and insight into the economy is read by some of the biggest names in the investing world. The interview focuses on the future path of interest rates and how a higher rate environment impacts the role private credit can play in a sensibly allocated portfolio.

On interest rates: Since 1980, you've only seen either declining interest rates or ultra-low interest rates. I believe that this monotonic decline of interest rates is over. I'm willing to say that for the next decade, the fed funds rate is more likely to be between 2-4% than between 0-2%.

On credit markets: "It looks like you can get equity type returns from credit. A little below 10% for liquid credit and well above 10% for private credit. Today, high yield bonds are in the 9's. 21 months ago they were in the 4's. When they're in the 9's, you can invest in them with high expectations."

On asset allocation: "There will always be a place for equities, but I think now there is a much better place for credit than there has been at most times in the last 14 years…The biggest potential catch in becoming a credit investor is that you reduce the likelihood of downside, but you give up the upside of equities. So, the question is, how do you and your organization feel about that tradeoff?"

On what happens to private credit in the event of a recession: "Private credit as an asset class has existed since 2011 and hasn't been tested by a real recession. It's going to vary because some people do good credit analysis, and some people do bad credit analysis. The ones who do good credit analysis have perceived the risks accurately and demand a commensurate margin of safety should do quite well."

Fast Facts

The Mayflower Society estimates that from the 102 passengers that traveled on the Mayflower, roughly 35 million people are descendants of the original passengers- 10 million of whom live in the United States. - BBC

With an average age of 78, the Rolling Stones are hitting the road again in 2024 with a 16-city tour. It is being sponsored by AARP (seriously). – AARP

Apple has repurchased over $500 billion in stock over the past ten years, which is greater than the market cap of 492 companies in the S&P 500. – Yahoo Finance

At full power, a wind turbine the size of the Haliade-X could cover a whole household’s daily electricity needs in under 7 seconds. A single rotation of the 260-meter offshore wind turbine can power an entire house for two days. – ZME Science

Just eight days account for all of the S&P 500’s 14% gain in 2023. The number of “up” days (113) for the index so far is just 11 more than the number of "down days" (102). - Morningstar

Bracketing, when online shoppers order a size up and down from what they think will fit them and return the other two (or more), costs up to $20 per return—not including freight. When products are returned, they are no longer considered new and sold as used, “open box,” or “refurbished.” Many retailers throw away more than 25% of their returns. – Morning Brew

Contact Us

As always, feel free to reach out to us if you have any questions regarding your investments or financial plan or would like to schedule a meeting with our advisors.