

MACRO TRADING STRATEGY: REITs

Team: Capital Builders Group
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Investment Decision: Reallocate \$40,000 from SPY holdings to a diversified REIT portfolio

INTRODUCTION:

Our group chose to focus on Real Estate Investment Trusts (REITs) because they offer consistent dividend income, inflation hedging, and potential capital appreciation. REITs historically outperform during periods of rate cuts, benefiting from reduced borrowing costs and enhanced property valuations. Additionally, REIT dividend yields have outperformed US Treasury yields almost every year since the turn of the century. Given the Federal Reserve's optimistic forecast for rate reductions in the coming quarters, we believe this strategy capitalizes on favorable macroeconomic conditions while diversifying our investment portfolio into real estate.

TRADING STRATEGY DETAILS:

We recommend a portfolio distributed evenly across four REITs: **Realty Income Corp (O)**, **Public Storage (PSA)**, **VICI Properties, Inc (VICI)**, and **HealthPeak Properties, Inc (DOC)**. These selections offer a mix of resilience, income stability, and sector-specific opportunities. For example, Realty Income provides dependable monthly dividends, while VICI Properties leverages growth opportunities in the gaming and hospitality sectors. We will abandon this strategy if inflation rises above 3.0%, prompting concurrent rate hikes.

BACKTESTING PERFORMANCE:

Our backtesting shows REITs consistently outperform SPY during rate-cut cycles, generating superior risk-adjusted returns. REITs' dividend growth has also historically outpaced CPI inflation, providing an inflation hedge. For instance, in 2021, REITs outperformed SPY by 12.6%. On average, dividends per share have grown by 9.8% annually, compared to 2.1% for consumer prices, according to NAREIT. While our portfolio assumes moderate leverage risk, its high proportion of low fixed-rate debt and long average maturities mitigate interest rate exposure. Sharpe and Sortino ratios reflect favorable risk-adjusted returns compared to SPY over the tested periods.

