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Sentiment Matters, But It's Only One Bud in the Bouquet

The matter of sentiment is sometimes as hard to define as the feelings themselves. In investments analysis, measuring sentiment is a key point for the forecasters and commentators but one that is a mix of qualitative and quantitative – in terms of both the input (data) and output (results).

Going from sentiment to forecast is not a straight line, and with the mixed bag of sentiment surveys coming out recently, we do not envy the job of those intrepid analysts unpacking this.

Latest Data

One new set of commercial real estate (CRE) sentiment analysis that has recently come out hails from the CRE Finance Council (CREFC). This regular report tracks sentiment in the US – specifically from the select group of this organization's board of governors – and the latest iteration shows a deep decline in positivity for the first quarter of 2022.

This index was started in 2017, and the latest result – 80.5 points, down from 105.2 in Q4 2021 – is the second-lowest score ever. The report's authors called the change "decidedly negative".

In GlobeSt's analysis of the report, they write: "Although in the previous quarter 65% of the board expected the economy to improve or stay the course, now only 25% hold that view. Three-quarters expect the economy to worsen." The troubles weighing down sentiment include interest rates, inflation and underperformance in the treasury market, according to GlobeSt. The article also points out the lower expectations of borrower demand.

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Opposing Views, Regional Deviations

Meanwhile, a sentiment survey from legal services firm Seyfarth says the CRE experts and insiders they're speaking to are signaling optimism and opportunity. "A vibrant 2021 for the commercial real estate industry combined with solid fundamentals going forward to support strong expectations for 2022. Inflation, interest rates and the pandemic/endemic evolution are concerns, but do not overwhelm industry optimism," according to their Real Estate Department Chair Paul Mattingly.

And, of course, what is on the minds of property experts in Shanghai, Sydney or Dublin will differ greatly – with conflict in Europe and harder lockdown measures in parts of China being just two ready examples.

Seeking Certainty

As stated above, sentiment is just one of several factors to consider and must be viewed in conjunction with hard data – like sales figures, development pipelines, foreclosure and distressed assets and so on – in order to begin teasing out the trend lines and possible futures.

There's also the disconnect factor to consider. Where commentators say they are (and genuinely are) nervously watching push and pull factors play out, but still acting in a business-as-usual-for-now way. This argument is made well in this Irish Times article, which outlines a few major elements – including war in Ukraine and interest rates – and points out that market activity and demand remain high.

The piece reads: "… one would still expect that the current, heightened uncertainty would lead to some form of stalemate as investors take stock. This doesn't appear to be happening […]"

The writer here might be talking about a regional case, but the principle stands: we must consider sentiment, but also keep cool heads and remember the fundamentals before we pile in or out of an asset, investment or market.