Quarterly Investment Outlook

Q3 2026

STATE STREET INVESTMENT MANAGEMENT

Contents

Introduction

Lori Heinel
Global Chief Investment Officer

As we enter the second half of 2026, the investment backdrop is being shaped less by a single base case than by a widening range of possible outcomes for growth, inflation, and policy. Geopolitical tensions, volatile energy prices, supply-chain risks, and fiscal strains have all added to that uncertainty. In this environment, we believe portfolios should be built for resilience, with an emphasis on quality, diversification, and selectivity.

Volatility has created a broader dispersion of opportunities across regions and asset classes, but it has also reinforced the need for discipline. We continue to see opportunities in equities where valuations and earnings resilience remain supportive, and in fixed income where higher starting yields have restored income as a meaningful driver of returns.

Our new-look quarterly investment outlook builds on the market forecasts publication previously shared each quarter, bringing together our latest macro, asset class, and market views in a fresh format.

Macroeconomic outlook

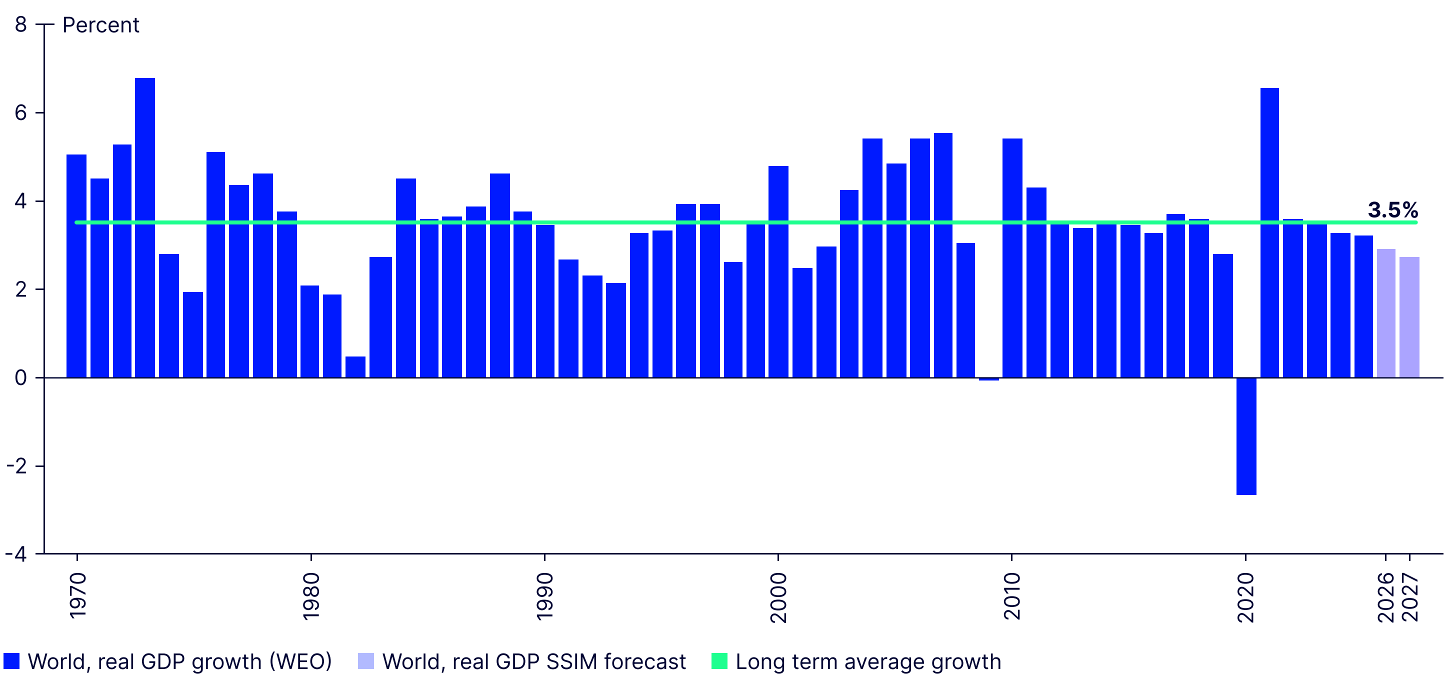
Growth resilient but uneven

The global macro backdrop remains resilient, although growth is increasingly uneven across regions and sectors. The US-Iran Memorandum of Understanding agreed in June brought about a ceasefire that reduced risks tied to energy supply and sent crude oil prices sharply lower. However, by mid-July, ongoing skirmishes escalated into large scale attacks that have effectively collapsed the agreement. Talks are reportedly continuing but the renewed threat to Strait of Hormuz transit has unsettled markets once again and oil prices have rebounded. How this scenario develops could dampen hopes for near-term headline inflation relief.

However, there is more to inflation than events in the Middle East, with more structural forces also a key influence. Most notably, the acceleration in AI-related investment continues to support demand while simultaneously fuelling price pressures in parts of the global supply chain. The result is a more complex policy environment, where inflation risks persist even as growth moderates—the June hike by the European Central Bank is a nod to the energy price shock, while a more hawkish Federal Reserve is monitoring the updrift in inflation. The quarterly edition of our weekly economic perspectives provides more insight into global economic activity and policy moves.

The boom in AI-related activity for technology and investment-linked sectors masks vulnerabilities elsewhere. A "K-shaped" dynamic is broadening across economies, complicating policymaking as rate hikes threaten struggling sectors like housing but are unlikely to dampen the AI boom.

Figure 1: Global growth forecasts little changed despite Iran war



Source: Macrobond, State Street Investment Management, International Monetary Fund as of June 26, 2026. The above forecast is an estimate based on certain assumptions and analysis made by the State Street Investment Management Economics Team. There is no guarantee that the estimates will be achieved.

United States

Robust expansion, narrowing breadth

	Forecast (%)	Change since Q2
2026 GDP growth	+2.3	—
2026 inflation	+3.4	↑
End-2026 Fed funds rate	3.50–3.75	↑

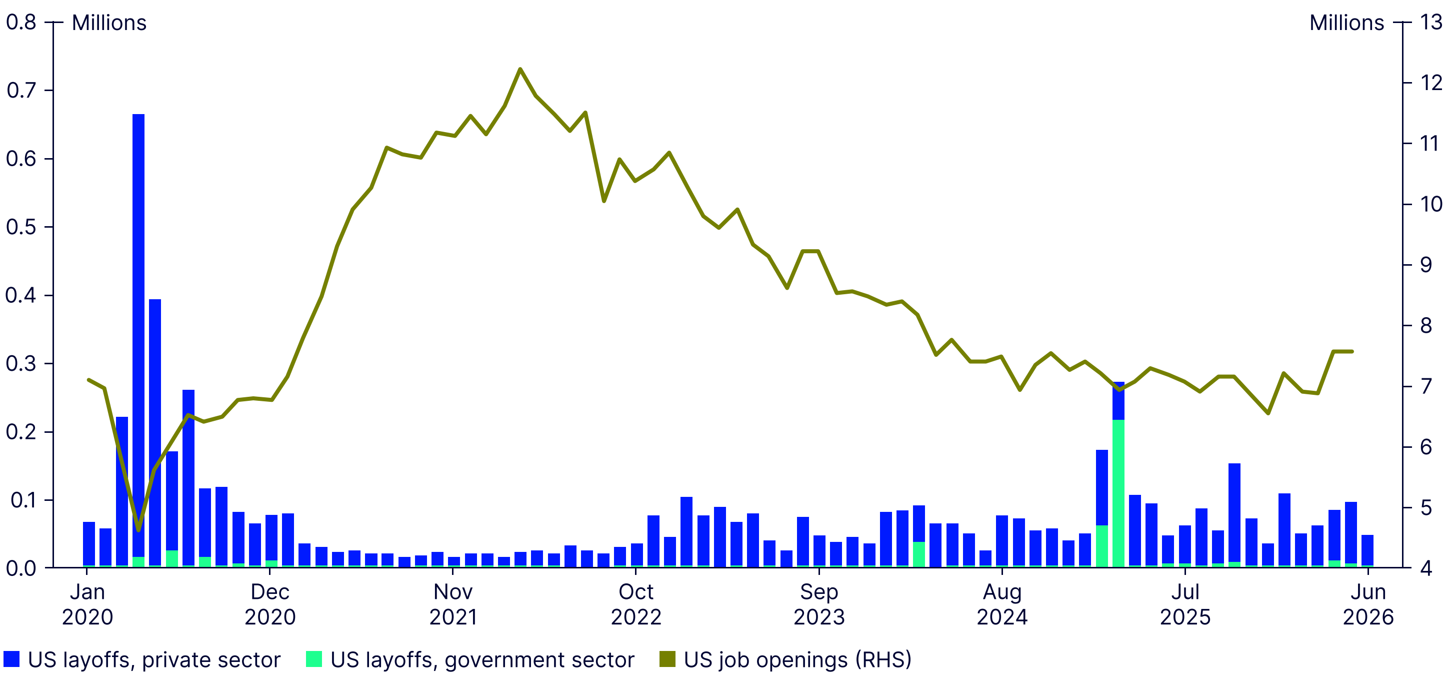
Source: State Street Investment Management as of June 26, 2026. The above forecast is an estimate based on certain assumptions and analysis made by the State Street Investment Management Economics Team. There is no guarantee that the estimates will be achieved.

The United States economy remains the keystone of the developed market outlook, although at a domestic level, growth is becoming more reliant on a smaller subset of drivers. Consumer activity is showing clear signs of moderation as real disposable income stagnates, the savings rate falls to 3.0%, and rising financial pressures are reflected in more delinquencies. Services consumption has slowed sharply, suggesting households are making tougher trade-offs as prices increase.

Investment remains a counterweight, though outcomes are increasingly polarized. AI-related spending is driving strong growth in equipment and intellectual property investment, while residential and non-residential structures investment remains weak. This divergence reinforces the uneven nature of the expansion.

More positively, labor market conditions have steadied, with employment growth rebounding and unemployment contained in the low 4.0% area. However, wage inflation and worker sentiment remain soft, suggesting stabilization rather than renewed acceleration. Inflation has picked up again, with headline CPI rising from 2.4% in February to 4.2% in May; core PCE stood at 3.4%. Against this backdrop, we no longer expect any rate cuts in 2026, and there is a risk of higher rates if the jobs market tightens or inflation stays elevated.

Figure 2: Is labor demand improving?



Source: Macrobond, State Street Investment Management, US Bureau for Labor Statistics, Challenger, Gray & Christmas, Department of Labor, Indeed Hiring Lab.

Europe

Subdued growth, lags peers

	Forecast (%)	Change since Q2
2026 GDP growth	+0.8	
2026 inflation	+2.8	
End-2026 ECB deposit rate	2.50	

Source: State Street Investment Management as of June 26, 2026. The above forecast is an estimate based on certain assumptions and analysis made by the State Street Investment Management Economics Team. There is no guarantee that the estimates will be achieved.

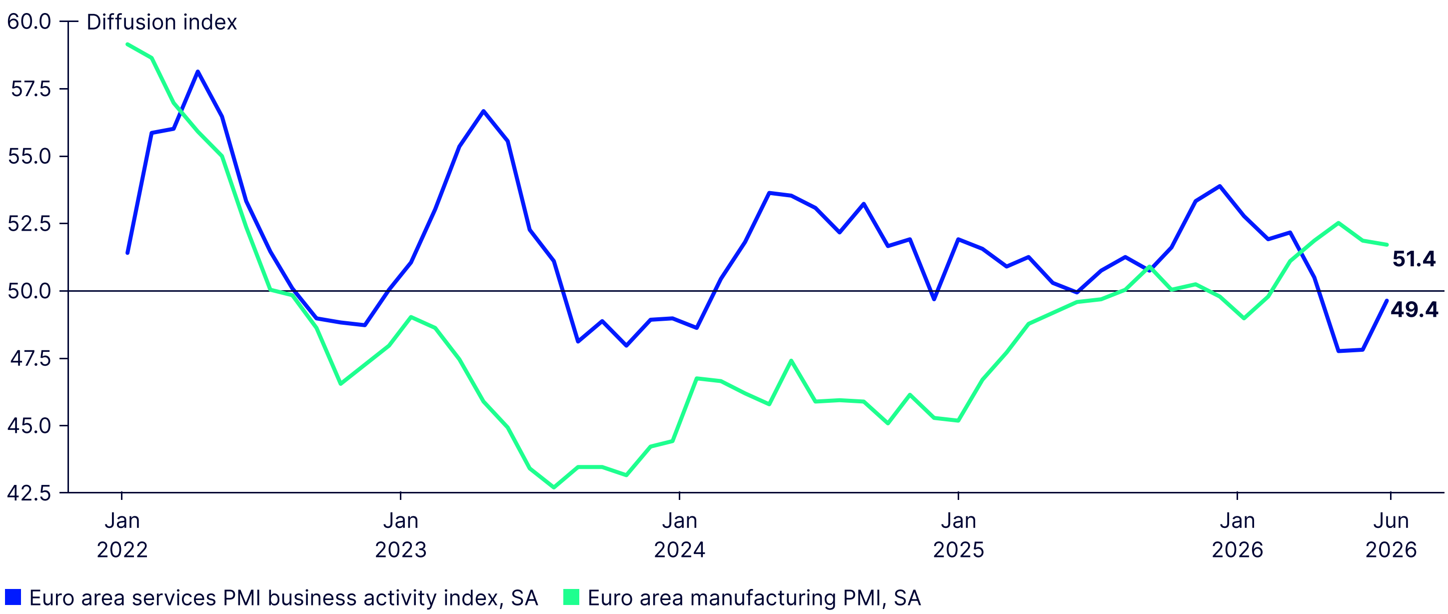
Unlike the US, our eurozone growth expectations have been revised lower to reflect softer economic activity, a less supportive investment environment and the drag from what we consider to be ill-advised policy tightening by the ECB. Our real GDP growth forecasts have been trimmed from 1.1% to 0.8% in 2026 and from 1.5% to 1.2% for 2027. Consumer spending remains subdued despite relatively strong labor markets, indicating continued caution among households. For the UK, our growth outlook is unchanged at a modest 0.7% for 2026 amid weak growth, restrictive monetary policy, and rising political uncertainty.

Investment in the euro area has disappointed, with a recent contraction interrupting the prior uptrend. A sustained easing in energy costs would be supportive (in question now due to renewed US-Iran hostilities), though the overall investment outlook remains fragile—the tangible benefits of last year's German debt brake deal have yet to materialize convincingly in the macro data.

According to purchasing managers' indexes, manufacturing activity remains in modest expansion, while services are weakening—tourism levels appear impacted by the Iran war and World Cup. With uneven domestic demand not fully compensating, this divergence highlights the limited resilience of the broader European economy. However, any slowdown in growth should help limit inflation pressures.

That said, the ECB tightened in June in response to inflation pressures—a move we believe could have been delayed. Despite slowing growth, the rhetoric from the bank prompts us to pencil in another rate hike before year-end. The Bank of England kept its benchmark rate at 3.75% in June and while softer inflation data reduces the urgency to tighten, we don't envisage a pivot to easing until the full effects of the energy shock are clearer.

Figure 3: ECB hikes likely to exacerbate economic weakness



Source: Macrobond, State Street Investment Management, S&P Global as of June 2026.

Asia-Pacific

Japan stands out, China in flux

	Forecast (%)	Change since Q2
2026 GDP growth	+0.8	
2026 inflation	+2.0	
End-2026 Bank of Japan rate	1.25	

Source: State Street Investment Management as of June 26, 2026. The above forecast is an estimate based on certain assumptions and analysis made by the State Street Investment Management Economics Team. There is no guarantee that the estimates will be achieved.

Asia presents a differentiated macro picture, with outcomes varying across economies. Among major economies, Japan stands out as a relative bright spot, supported by strong participation in the global AI investment cycle and improving domestic conditions. The Iran conflict weighed on trade activity during Q2, with both exports and imports likely softening. Nevertheless, Japan's export sector remains underpinned by robust semiconductor and technology-related shipments, which could reaccelerate in the remainder of the year.

We see scope for a recovery in both exports and corporate spending. In the meantime, household consumption remained supportive, rising 1.1% y/y in Q1, the fifth consecutive quarter of growth above 1%. While inflation in Japan remains contained at the headline level it is strengthening beneath the surface—producer price increases have broadened across metals, plastics, and other intermediate goods, suggesting that pipeline inflation is becoming more pervasive. Against this backdrop, the Bank of Japan's rate hike in June to 1.0% marks a continued shift toward policy normalization.

In contrast to Japan, China's economy is increasingly characterized by a widening disconnect between robust production and weak domestic demand. Industrial production has accelerated, high-tech manufacturing is expanding rapidly, and exports delivered strong growth. However, conditions at home remain far less encouraging.

Retail sales and fixed-asset investment remain weak, underscoring fragile confidence and subdued private activity. Manufacturing is barely expanding, services have improved only modestly, and property remains the main drag as investment, housing starts, financing, and home prices continue to fall. Inflation is similarly soft: weak household demand is keeping consumer prices contained, while producer-price gains reflect energy and technology inputs rather than broad demand.

Asset class outlook

Global equities

Equity resilience, but selectivity matters

Midway through an already-eventful 2026, we continue to view prospects for equities in a positive light. Similar to what we've seen on the economic front, equity markets have displayed considerable resilience, but whereas economic growth has been uneven across regions and sectors, we're starting to see less "unevenness" in the outlook across different stock markets.

The spectacular boom in AI-related corporate investment has driven US equity leadership and market concentration to extremes and this is even more acute in those emerging markets geared to the phenomenon. While we continue to target an overweight stance on US equities in multi-asset portfolios, this has been pared back somewhat from prior levels. We've also downshifted to a neutral position in emerging market equities.

United States

The US market's leadership in AI and technology remains a structural positive, but the extreme concentration that has developed necessitates a balanced approach that embraces diversification and selectivity. Quality growth names with strong cash flows and pricing power (especially those monetizing AI adoption) warrant their positions as core holdings, while more cyclical allocations can provide ballast. Our outlook for small-cap companies has also improved, supported by credit market conditions, easing market volatility, and relative improvements in free cash flow metrics; notably, small-cap IT stocks have led US outperformance in 2026, with semiconductor stocks particular highlights.

Europe

Although European equity returns have kept pace with US markets in the first half of 2026 in local currency terms, we do not have a strong belief that there are sufficient catalysts that would lead to meaningful relative outperformance. At the end of June 2026, earnings were forecast to grow about 15% for the MSCI Europe index in 2026, but earnings and sales revisions have continued to languish in comparison to the US experience. That said, valuations in Europe remain appealing: the index's forward price-to-earnings (P/E) multiple (c.13–14x) is below both that of the US and its own long-term average.

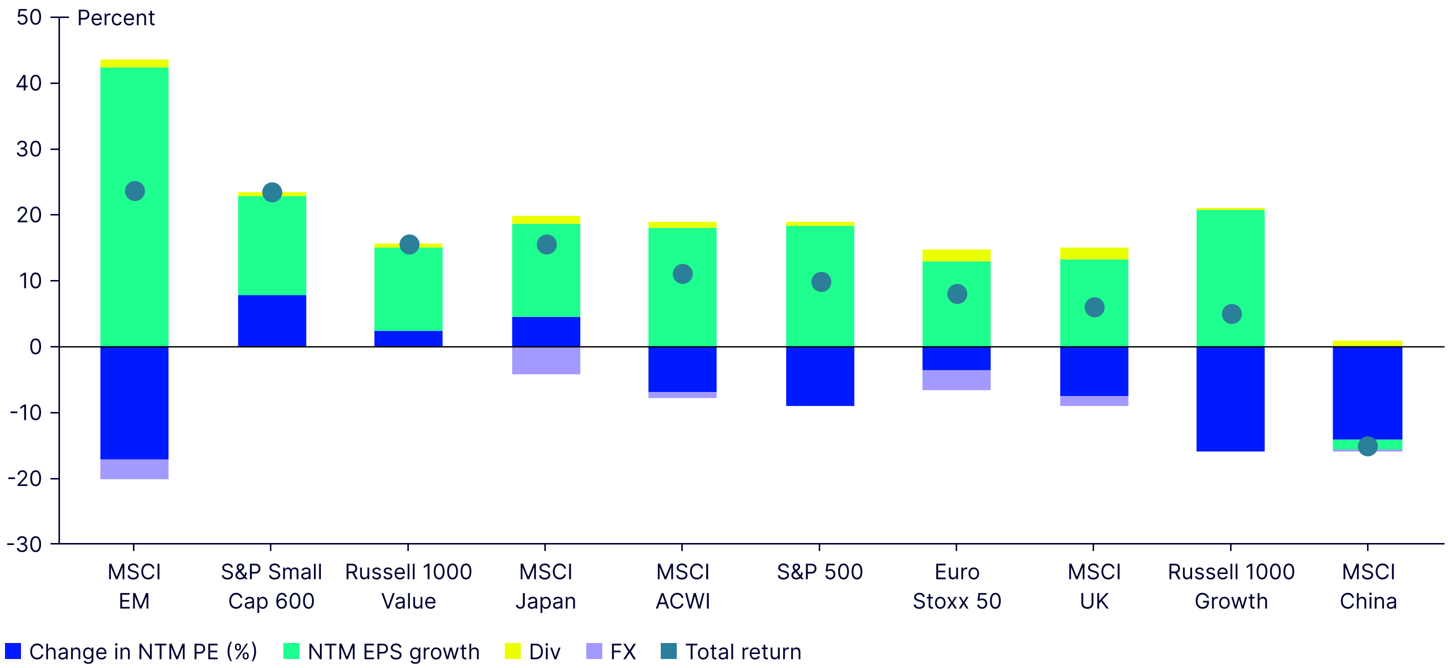
Given Europe's economic sensitivity and relatively low valuations, there is good scope for a market rally if sentiment turns for the better. In the meantime, we are inclined to bide our time and seek diversification across the region's equities—balancing value-oriented exposure (and its low multiples) with a quality defensive tilt—until macro clarity improves.

Japan

Japanese equities have staged a remarkable resurgence. This has been supported by the country's first meaningful inflation in decades, renewed economic expansion, and a strengthening domestic investor base. Corporate fundamentals remain solid: as of the end of June, earnings per share (EPS) growth for 2026 is tracking around 10–12%; forward P/E multiples of about 14x are moderate versus global peers; and analysts have grown more confident in corporate performance.

If inflation settles near the Bank of Japan's 2% target while growth holds, accommodative policy could extend Japan's "Goldilocks" backdrop, while ongoing governance reforms and rising shareholder payouts attract incremental global capital. On balance, Japan offers a relatively attractive blend of value, quality, and diversification, with its central role in the Asian AI and tech supply chain providing additional upside optionality.

Figure 4: Earnings growth key in equity rally



Source: FactSet, Bloomberg Finance L.P., State Street Investment Management as of 30th June 2026. The performance data quoted represents past performance. Past performance does not guarantee future results.

Emerging Markets

The diversity across the emerging market equity universe has been particularly evident through the last year. Asia's tech-driven markets have surged, while commodity (ex oil producers) and frontier EM markets have lagged against a backdrop of higher rates and geopolitical uncertainty. Looking forward, a two-speed EM environment seems set to continue. Overall, EM GDP growth of around 4% in 2026 should outpace developed peers, anchored by North Asia's semiconductor and AI hubs (Taiwan, South Korea). Valuations remain undemanding at 11–12x forward P/E, although elevated near-term profitability make direct comparisons with less cyclical markets more complicated.

Performance is likely to will hinge heavily on external conditions: a continued AI-driven tech cycle, declining US yields, and easing Middle East tensions would support further gains, particularly among EM Asia tech and commodity exporters. Conversely, sticky US inflation, a stronger dollar, or idiosyncratic shocks to concentrated index heavyweights like Taiwan's TSMC (which accounts for a 14% weight in MSCI EM) could quickly raise risk premia. In the short term, expensive stocks (even if valuations remain subdued) and deteriorating quality metrics have led us to adopt a more neutral stance across emerging markets.

What matters now

Equity fundamentals remain resilient, but market leadership is increasingly concentrated around AI-linked growth.

Where we see opportunity

Selective exposure to US quality growth; Japan's reform-led market; diversified regional allocations across Europe and emerging markets.

What to watch

Concentration risk; US inflation; dollar strength; durability of AI-led earnings momentum.

Fixed income

A complex rates backdrop

Despite the inflation picture shifting from month to month as uncertainty over future energy prices persist, we remain generally constructive on fixed income. Similar to equities, we caution against broad aggressive positioning in favor of more nuanced exposures within the asset class.

Global growth has proven more resilient than expected, but inflation remains elevated against the backdrop of still-high geopolitical tensions and supply-side shocks, and as trends in AI-related investment are sustained. While AI could eventually boost productivity, sequencing matters—stronger capital demand could keep real yields higher in the near term, while potential disinflationary impacts could take longer. This complicates the outlook for monetary policy across regions, but supports a view that equilibrium interest rates are likely to remain higher than in the previous cycle.

The distribution of potential outcomes is widening, and with it the risk of a tail event. Robust growth supports a higher neutral rate, though ongoing uncertainty argues for more neutral positions on duration and rates. We hold a preference for sovereigns over credit in this environment. Within credit, valuations are rich, highlighting the importance of security selection.

Diverging policy paths may create opportunity

Across sovereign bond markets, **policy divergence** is becoming more evident. Differences in inflation and employment dynamics, alongside economic growth prospects, mean central banks across the US, Europe, and Japan are adopting divergent positions. Though this can lead to a more complex landscape, it can generate opportunities within rates markets—via selective positioning along yield curves and across regions. Not too long ago, markets were building in a scenario of US rate cuts through 2026; circumstances have shifted to the extent that hikes from a more hawkish Federal Reserve are now being priced in, muting the likelihood of a sustained rates rally in the near term. While the curve could continue to flatten in the near-term, we maintain a bias towards a steeper US curve over the medium term due to deficit-driven supply, persistent inflationary pressures, and geopolitical uncertainty pushing up the term premium.

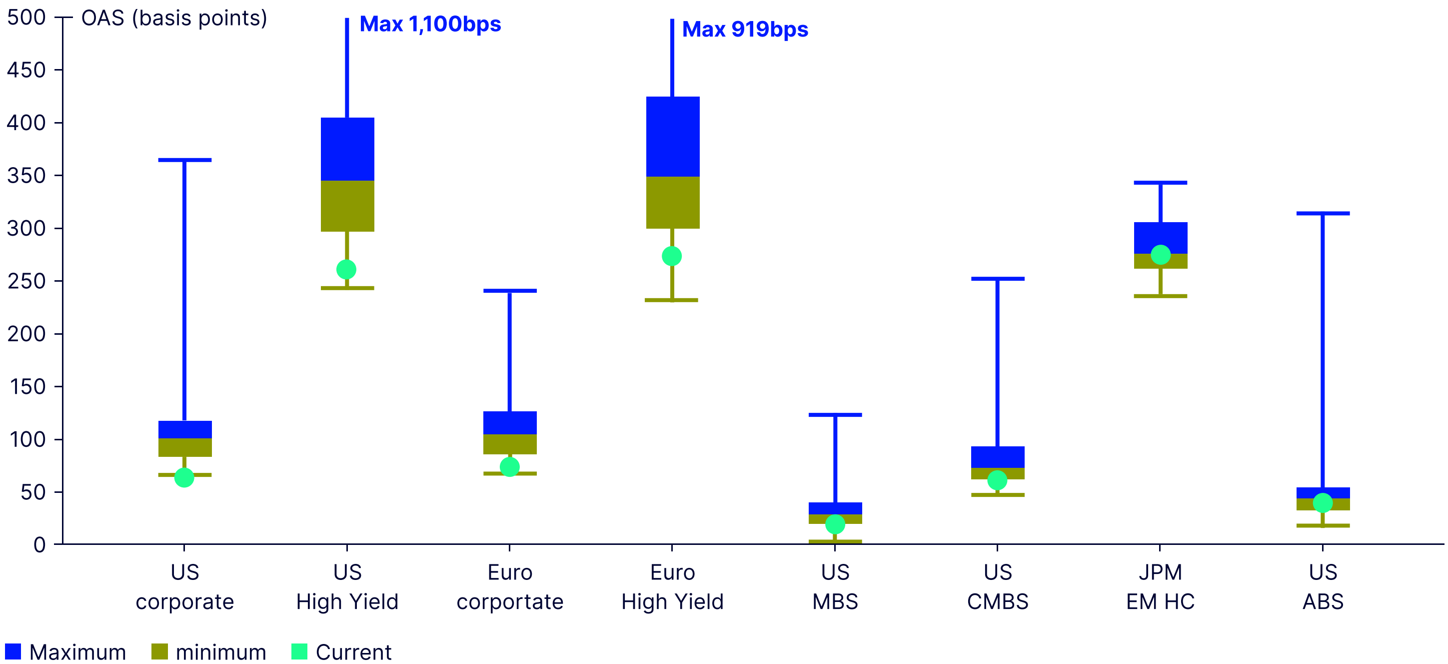
Credit: selective positioning remains key

Within credit, **valuations remain relatively tight** despite heightened macro and geopolitical uncertainty. Corporate fundamentals have generally held up, supported by solid earnings and manageable balance sheets; however, narrow spreads offer little compensation for downside risks at this time. Within investment grade credit, the massive issuance by both hyperscalers and issuers outside of AI has been met with strong demand, spurred in part by the backup in yields has ensured investor interest. High yield fundamentals are still solid with muted default activity, but a deterioration in the growth outlook could prompt significant spread-widening from current tight levels.

In an environment where liquidity conditions could become more constrained and bouts of volatility periodically recur, we believe a disciplined and selective approach is warranted. This includes maintaining a bias toward higher-quality issuers and focusing on opportunities where idiosyncratic factors or structural themes provide risk-adjusted return potential, rather than relying on broad market exposure. Private credit has evolved and diversification has improved across sectors, while recognizing that concerns exist about lending standards in some corners of the market. Structured and select investment grade private credit are preferred along with select public corporates.

Securitized credit continues to present as a comparative bright spot. Housing fundamentals remain strong, supported by high homeowner equity, conservative underwriting, and limited housing supply. Strong collateral fundamentals and wider spreads continue to support opportunities in non-agency RMBS, while non-consumer ABS remains one of the most attractive areas of securitized credit.

Figure 5: Spread valuations not pricing a wider dispersion of economic outcomes



Sources: Bloomberg. Macrobond. Analysis uses daily option-adjusted spreads over the 10-year period ending June 30, 2026.
JPM EM HC = JP Morgan Emerging Markets Bond Index Global Diversified.

What matters now

Higher-for-longer interest rates; Persistent and uneven inflation; Increasing divergence in global monetary policy.

Where we see opportunity

Selective duration and curve positioning; Cross-market relative value; Quality-focused credit.

What to watch

The trajectory of inflation; The timing and pace of central bank moves; Credit spreads amid geopolitical and liquidity risks.

Commodities

Diversification amid moderating momentum

Commodity markets have provided meaningful diversification during the turbulent periods thus far in 2026; however, their relative lack of resiliency was evident through Q2 as the war between US/Israel and Iran abated and energy markets moved toward normalization. Additionally, key precious metals such as gold entered bear market territory after blowing past all-time highs earlier in the year. Going forward, we think the best of times for broad-based commodities and precious metals might be behind us; we have trimmed our allocations accordingly, but we retain a cautiously optimistic view of these assets overall.

Energy volatility unlikely to be done

Energy commodities have retraced lower faster than expected amidst reduced demand from China, substitution effects, and signs that more oil was making its way out of the Persian Gulf than initially thought. But not all substitution effects are likely to be permanent, particularly in the petrochemicals sector. And with inevitable flare-ups in the gulf, alongside reserve re-stocking efforts, there is room for energy commodities to do more than trade sideways.

Structural support for metals

The outlook for metals remains positive despite risks from the ongoing war affecting supply and growth, with copper and aluminum markets expected to face deficits by 2026–2027. Demand is structurally supported by electrification, energy transition, and defense, while supply is constrained by underinvestment, declining ore grades, and geopolitical disruptions. In precious metals, the sell-off in gold has tripped some of our technical thresholds which had previously supported the yellow metal. But we still see support for gold in as much as short-term interest rate expectations are overly hawkish and longer-term buyers help set a floor for prices.

What matters now

Diversification value remains but momentum has slowed after pullback in energy and precious metals.

Where we see opportunity

Cautiously constructive view supported by potential energy volatility and structural demand for industrial metals.

What to watch

Energy market moves; geopolitical flare-ups; China demand; shifts in real rate expectations for gold.

Latest thinking

We publish an array of thought leadership, market updates, and key insights into investment markets, macroeconomic themes, and geopolitical developments. The articles below represent a cross-section of the publications released in the last quarter.

The future of fixed income: From income to engineered outcomes

The asset class is increasingly a strategic allocation for targeted exposures and solutions.

Why Asia may be the biggest winner of AI boom

Asia anchors AI growth through chips, efficient deployment, and supportive policies.

EM debt: Enduring strength outlook holds

EMD remains in good shape, with local currency bonds favored for yield and valuation support.

US–China trade truce holds, but for how long?

Trump's China visit supports trade war pause, but China's dominance and surplus risk conflicts.

Japan is back, and how!

Japan rebounds as political stability, firm inflation, and chip-led investment support durable growth.

Aligning EM equity allocations with growth and dollar cycles

Explore the relationship between EM growth differentials vs developed markets, and US dollar cycles.

Market pricing of UK growth is too optimistic

UK growth faces demographic and productivity headwinds, with implications for gilts, equities and sterling.

Q3 2026 Credit Research Outlook

Strong capital, liquidity, and earnings support credit stability even as risks and higher rates persist.

The transition of power at the Federal Reserve

Fed transition worries in focus as institutional resilience holds and geopolitics shape policy.

Gold 2026 Midyear Outlook

Record government debt, high stock-bond correlations, strong demand underpin the outlook.

EM debt: Why it belongs in your investment portfolio

No longer a niche exposure, EMD is now a key allocation for income and diversification.

The new era of income investing

Diversified portfolio strategies can generate cash flow and sustainable income across cycles.

What's driving the surge in global interest rates?

Oil prices, US inflation, and geopolitical tensions have hit rates. We consider 3 scenarios.

Tokenized money market funds (MMFs): Revolutionizing liquidity management

Tokenized money market funds are changing how institutions move cash.

For more insights on global investing, please visit our website.

Market forecasts

State Street Investment Management forecasts

	2026 (%)	2027 (%)
Real GDP growth		
Global	2.90	2.70
US	2.30	2.20
Australia	1.70	2.00
Canada	0.90	1.70
Eurozone	0.80	1.20
France	0.60	1.00
Germany	0.70	1.30
Italy	0.60	0.90
UK	0.70	0.90
Japan	0.80	1.20
Brazil	1.80	1.90
China	4.60	4.40
India	6.90	6.60
Mexico	1.00	2.00
South Africa	1.10	1.50
South Korea	2.50	1.90
Taiwan	9.20	4.00
Inflation		
Developed Economies	2.80	2.00
US	3.40	2.10
Australia	3.60	2.60
Canada	2.80	2.10
Eurozone	2.80	1.90
France	2.30	1.80
Germany	2.70	2.00
Italy	2.80	1.90
UK	3.20	2.70
Japan	2.00	2.80
China	1.10	0.90

	June 30, 2026 (%)	June 30, 2027 (%)
Central bank rates		
US (upper bound)	3.75	3.25
Australia	4.35	4.10
Canada	2.25	2.25
Euro	2.50	2.25
UK	3.75	3.25
Japan	1.00	1.25
Brazil	13.50	11.50
China	1.40	1.40
India	5.50	5.75
Mexico	6.50	6.50
South Africa	7.25	7.00
South Korea	2.75	3.00
10-year bond yields		
US	4.44	4.28
Australia	4.72	4.52
Canada	3.38	3.35
Germany	2.86	2.72
UK	4.75	4.64
Japan	2.67	2.95
Exchange rates		
Australian Dollar (A$/$)	0.69	0.73
British Pound (£/$)	1.33	1.35
Canadian Dollar ($/C$)	1.42	1.33
Euro (€/$)	1.14	1.17
Japanese Yen ($/¥)	162.53	150.00
Swiss Franc ($/SFr)	0.81	0.86
Chinese Yuan ($/¥)	6.79	6.55

One-year return forecasts	USD (%)	EUR (%)	GBP (%)	JPY (%)	AUD (%)	CAD (%)
S&P 500	7.6	4.8	5.9	-0.7	1.4	0.8
Russell 2000	7.7	4.9	6.0	-0.6	1.5	0.9
MSCI EAFE	5.3	2.6	3.7	-2.8	-0.7	-1.4
MSCI EM	7.5	4.7	5.8	-0.8	1.3	0.7
Barclays Capital Aggregate Bond Index	4.3	1.6	2.7	-3.7	-1.7	-2.3
Citigroup World Government Bond Index	3.6	0.9	2.0	-4.4	-2.3	-3.0
Goldman Sachs Commodities Index	6.4	3.7	4.7	-1.8	0.3	-0.3
Dow Jones US Select REIT Index	4.1	1.4	2.5	-3.9	-1.9	-2.5

Source: State Street Investment Management forecasts, as of June 30, 2026. The above estimates based on certain assumptions and analysis made by State Street Investment Management. There is no guarantee that the estimates will be achieved.

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* This figure is presented as of March 31, 2026 and includes ETF AUM of $1,940.32 billion USD of which approximately $184.18 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Investment Management are affiliated. Please note all AUM is unaudited.

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Marketing communication

State Street Global Advisors Worldwide Entities

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Companies with large market capitalizations go in and out of favor based on market and economic conditions. Larger companies tend to be less volatile than companies with smaller market capitalizations. In exchange for this potentially lower risk, the value of the security may not rise as much as companies with smaller market capitalizations.

Investments in small-sized companies may involve greater risks than in those of larger, better known companies.

The value of the debt securities may increase or decrease as a result of the following: market fluctuations, increases in interest rates, inability of issuers to repay principal and interest or illiquidity in the debt securities markets; the risk of low rates of return due to reinvestment of securities during periods of falling interest rates or repayment by issuers with higher coupon or interest rates; and/or the risk of low income due to falling interest rates. To the extent that interest rates rise, certain underlying obligations may be paid off substantially slower than originally anticipated and the value of those securities may fall sharply. This may result in a reduction in income from debt securities income.

Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates rise bond prices usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns.

Foreign investments involve greater risks than investments, including political and economic risks and the risk of currency fluctuations, all of which may be magnified in emerging markets.

Investing in commodities entail significant risk and is not appropriate for all investors. Commodities investing entail significant risk as commodity prices can be extremely volatile due to wide range of factors. A few such factors include overall market movements, real or perceived inflationary trends, commodity index volatility, international, economic and political changes, change in interest and currency exchange rates.

Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations.

Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.

Investing in REITs involves certain distinct risks in addition to those risks associated with investing in the real estate industry in general. Equity REITs may be affected by changes in the value of the underlying property owned by the REITs, while mortgage REITs may be affected by the quality of credit extended. REITs are subject to heavy cash flow dependency, default by borrowers and self-liquidation. REITs, especially mortgage REITs, are also subject to interest rate risk (i.e., as interest rates rise, the value of the REIT may decline).

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