



YTD as of 5/31/2024

Alpha Portfolio 1.11%
 Smart Yield 1.15%

MARKETS

DOW JONES 2.83%
 S&P 500 10.95%
 NASDAQ 100 10.05%
 REIT INDEX -5.79%
 SMALL CAP 2.62%
 HIGH YIELD -3.4%

BOND YIELDS

10 YR TREAS 4.51%
 YTD CHANGE 16.67%
 30 YR TREAS 4.65%
 YTD CHANGE 15.70%

SINCE INCEPTION

Through December 31, 2023
 BROXTON 464.46%
 S&P 500 447.04%
 DOW JONES 438.42%



Trouble for Real Estate? Part 2 Last month we covered the growing troubles in commercial office real estate. We highlighted the Gas Company Tower in downtown L.A. as a “pretty nice building” but one of the “complete blowups”. There are many examples of “office type” properties being disposed of at a fraction of their mortgage loan. This [mall](#) just sold for \$7mm and it has good tenants. The 16-story building (right) at 995 Market St., sold for \$6.5 million in April, down 90% since 2016. So, what is the total damage going to be and is it a threat to the economy, like 2008 was, and should we be prepping for an “end of world” scenario?



End Of World Prepper

New York Times [Article](#): “Assessing the scale of the problem (is difficult). Roughly **\$737 billion of office loans are (out there).**” Since many of the properties have long term tenants the defaults are moving slowly. Fitch ratings agency: “CMBS delinquency rate increased to 2.42% in May from 2.33% in April 2024 due to mall and office loans.” This is what Citibank reports: As of December 31, 2023, Citi’s total credit exposure to commercial real estate (CRE) was \$66 billion, including \$8 billion of exposure related to office buildings (versus \$180 billion of equity). JP Morgan reports \$16 billion. Wells Fargo reports \$ 28 billion. All three coming in at less than \$10 of exposure per share....easily survivable at a 100% loss.

Moody’s Ratings concludes: (We) analyzed credit metrics of 41 U.S. commercial banks and found that most loans have been conservatively underwritten and (they are not a threat to survivability).” Our conclusion is the same. There are around \$100 billion of **office type loans** in banks and at levels that are non-threatening even at a 100% default rate. The remainder are in the following: REITs (Real Estate Investment Trusts): 100-200 billion, Insurance companies: 50 billion, Commercial mortgage-backed securities (CMBS) 100-200 billion and private owners: 75-125 billion. The losses in the REITs are being realized. Over the last few years Boston Properties, Inc. (BXP) is down \$9.7 billion, for example. CMBS is not causing problems right now and private investors and insurance companies can’t really affect anything. So, sorry end of worlders (unbelievably) this flop isn’t doing anything at this time.



Blackstone Mortgage Trust (BXMT) is a commercial mortgage REIT with a 22.4-billion-dollar loan portfolio. Our sell recommendation and target of \$11.50 are based on our projection for declining revenue of 6-7% through 2026 and the high probability of continued impairments in the U.S. office portion of the portfolio. Since the REIT is diversified (only 26% U.S. office type) the company *could* survive a worst case scenario. [REPORT](#)

Broxton Capital Advisors

Broxton Capital is an investment manager located in San Juan and employs the Alpha Portfolio (AP). The AP is a growth and income investment strategy. The strategy attempts to continuously improve the value of investment portfolios by investing in equities, ETFs, including leveraged ETFs, options, bonds (investment grade and sub-investment grade, [which may also have limited liquidity]) and other securities. Long-term strategies purchase securities which are underpriced according to our appraisal methodologies. Broxton uses regression analysis to obtain an average appraisal value for an individual company and places a priority on the securities of companies with improving financial performance and or additional catalysts that provide for increases in earnings and valuation. We use financial modeling in order to create a projected trajectory for the company's earnings, cash flows and future value. The strategy does not have any capitalization (market size), sector or industry allocation mandates. Broxton may also engage in certain types of activism in order to support positions and relay advantageous strategies to company managements. Broxton deploys technical analysis and momentum as indicators of movement for shorter term strategies, that may not involve deep fundamental analysis. Shorting (selling and then buying) of securities can be used as a long term or short-term strategy. We exit positions in accordance with our discipline, this includes when valuation targets are clearly exceeded or financial performance falls below our projections. Since the AP returns are calculated using a composite of accounts, the average account will not match the composite return and the return could be higher or lower. Broxton manages the Alpha Portfolio for other investment managers. The AP returns which are advertised or submitted to various databases are calculated using the accounts in the composite that are managed internally. Broxton is required to execute any trades internally first and then for other advisors second. Some advisor platforms prohibit or do not trade certain security types and some positions may be omitted for other reasons. In the case of smaller companies, we may judge that there are not enough shares traded to create a position at any or all advisors. Short term strategies may not be able to be implemented. Shares may trade at a higher or lower between purchasing at Broxton or one platform before another. Broxton uses a rotation strategy and attempts to obtain the best execution for all advisors. Any commentary is solely the opinion of the Broxton Capital Advisors. It refers to securities we hold in our portfolio and sometimes ones we are considering but does not represent a complete list of positions held at Broxton Capital Advisors. A complete list covering the last twelve months will be furnished upon request. Price targets are mentioned for information purposes only. Nothing contained herein constitutes a recommendation to purchase or sell securities at any designated price or time. All performance figures are net of fees and reflective of dividend reinvestment. As always, past performance does not guarantee future results. Please see the Alpha One Strategy Quarterly Performance for additional information regarding performance. Any intra quarter performance presented may change with additional auditing. The index performance presented above do not include fees or dividends and is derived from the following ETFs: DIA, SPY, QQQ, HYG, IWM and VNQ. The Broxton Strategies do contain dividends and fees. The treasury yields are derived from the CBOE 10 and 30-year interest rate index. Please visit our web site to obtain additional information and read form ADV 2A.

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