May 2025 – Did Equities Hear about the Trade War?

Equity markets rebounded sharply this month resulting in the best May performance for the S&P 500 since 1990. This despite growing fiscal concerns, mounting evidence of consumer weakness, and a downgrade of U.S. sovereign debt. The S&P 500 was up 6.15%, turning back into positive territory for the year as investors appeared to acclimate to the ongoing trade tensions and policy uncertainties.

Market Benchmarks

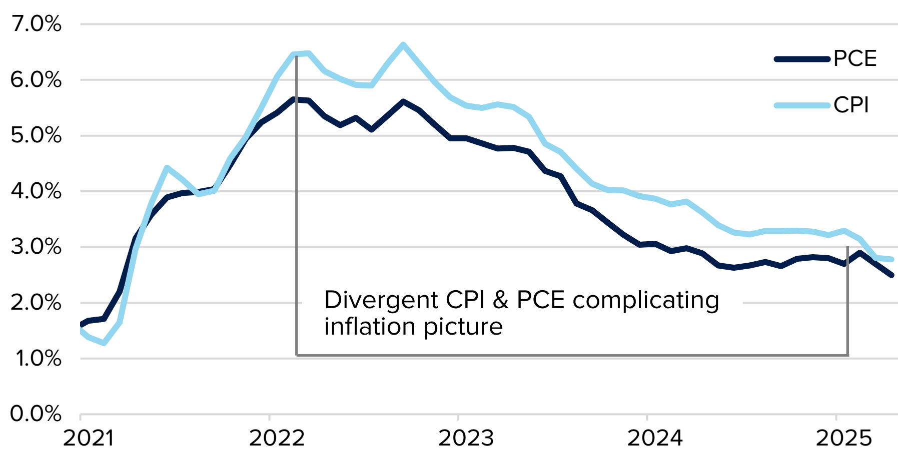
	YE-2024	Apr-25	May-25	1-Month Change Δ	1-Month Change % Δ
Fed Funds	4.33%	4.33%	4.33%	0.00%	0.00%
1-Month SOFR	4.33%	4.32%	4.32%	0.00%	0.00%
10-Yr Treasury	4.57%	4.17%	4.40%	0.23%	5.52%
S&P 500	5,881.63	5,569.06	5,911.69	342.63	6.15%
REIT Index[1]	126.31	125.34	126.67	1.33	1.06%
VIX	17.35	24.70	18.75	(5.95)	-24.09%

1. Vanguard Real Estate Index Fund (VGSLX) tracks the MSCI U.S. REIT Index

A mid-May agreement between the United States and China to temporarily roll back select tariffs offered the market a respite from months of escalating trade tensions. However, days later, this news was followed by Moody's decision to downgrade U.S. sovereign debt from Aaa to Aa1, citing the country's expanding $36 trillion debt burden. The downgrade marked the loss of the U.S.'s last top-tier credit rating and pushed CDS spreads toward levels more typical of BBB-rated nations. The 10-year Treasury yield rose 23 basis points to end the month at 4.40%, reflecting investor recalibration around fiscal stability, trade dynamics, and monetary policy direction.

On the inflation front, headline CPI slowed to 2.3% year-over-year—its lowest level since February 2021—while core CPI remained elevated at 2.8%, reflecting continued pressure from housing costs. After several years of divergent measurements which complicated the inflation picture, CPI and PCE have now come back into closer alignment with core PCE presently at 2.5%.

Core-PCE vs. Core-CPI



In the political arena, Federal Reserve Chair Jerome Powell met with President Trump at the White House last week and the President advocated for interest rate cuts. Powell reaffirmed the Fed's commitment to data-driven policy decisions, emphasizing the institution's independence. This stance was indirectly supported by a recent Supreme Court ruling that, while allowing the President to remove certain agency heads, explicitly excluded the Federal Reserve from such executive authority, thereby reinforcing its autonomy.

Warren Buffett's Retirement and the Reality of Returns

Warren Buffett's announcement to step down as CEO of Berkshire Hathaway at the end of 2025 is truly the end of an era. There is hardly an executive alive today who didn't grow up hearing about the legendary Oracle of Omaha, whose investing principles became as foundational to business thinking as any textbook or MBA curriculum. Over his 60-year tenure, Buffett transformed Berkshire from a struggling textile company into a $1.16 trillion conglomerate, delivering a compounded annual return of approximately 19.9%—nearly double the S&P 500's 10.4% over the same period.

This track record underscores a critical lesson for investors: arguably the most talented investor of the last century achieved returns just under 20% annually. In an environment where some investment opportunities promise significantly higher returns, it's essential to approach such claims with skepticism. High promised returns often come with increased risk, and as Buffett's experience illustrates, sustainable wealth accumulation is typically the result of consistent, moderate gains over time.

For multifamily investors, this perspective is particularly pertinent. The allure of high-yield opportunities must be balanced against the realities of market volatility and operational challenges. Emphasizing long-term value creation, prudent leverage, and thorough due diligence aligns with Buffett's ethos and offers a more reliable path to enduring investment success.

Staying Put: The Rise in Multifamily Lease Renewals

In the first quarter of 2025, multifamily REITs reported historically low turnover rates, signaling a notable shift in renter behavior. Equity Residential (EQR) achieved a record-low resident turnover rate of 7.9%[1], attributed to its centralized renewal process and a focus on enhancing resident experience. COO Michael Manelis noted, "This is a continuation of a very favorable prior trend and supports the strength of our centralized renewal process and intense focus on delivering our residents a quality experience."

Similarly, Mid-America Apartment Communities (MAA) reported a turnover rate of 41.5% in Q1, down from 46% two years prior. This reduction in turnover has bolstered renewal rents, which grew 4.5% on a lease-over-lease basis. MAA anticipates this trend to continue, with strong renewal acceptance rates projected for the upcoming months.

Jay Parsons, the well-known rental housing economist, observed that across the board, REITs reported strong demand, occupancy growth, and solid renewal growth, with minimal impacts from tariffs or federal layoffs. He highlighted that "resident turnover remains ultra-low," emphasizing the strength of the rental market despite broader economic uncertainties.

These trends suggest that renters are opting for stability amid economic ambiguity, favoring lease renewals over the uncertainties of moving or purchasing homes in a volatile market. For multifamily investors, this underscores the importance of focusing on resident satisfaction and retention strategies to maintain occupancy and revenue growth.

Go Where the Herd Isn't…to Workforce Housing

Amid a market where institutional capital continues to concentrate on high-end multifamily in core markets, opportunities continue to emerge in workforce housing. Sam Tenenbaum, Head of Multifamily Research at Cushman & Wakefield, noted recently that investor interest in this segment has thinned—not because of deteriorating fundamentals, but because the "herd" is focused almost exclusively on newer product.

In our current environment of higher interest rates, significant cap rate compression is less likely, making yield even more important. Workforce housing is where that yield can still be found, though these deals require operational expertise. Operating older assets is challenging and demands active management by ownership.

Caisson Capital has spent years developing this expertise and remains focused on markets and segments where attractive assets are being overlooked because of their age. We let fundamentals, not momentum, drive our decisions.

[1] EQR measures turnover relative to their entire tenant base vs. those which are renewing in the period.