October 2025 – A Cut and a Warning but the Mag Seven Marches On

Market Benchmarks

	YE-2024	Sep-25	Oct-25	1-Month Change Δ	1-Month Change % Δ
Fed Funds	4.33%	4.08%	3.83%	-0.25%	-6.13%
1-Month SOFR	4.33%	4.13%	3.98%	-0.15%	-3.63%
10-Yr Treasury	4.57%	4.12%	4.08%	-0.04%	-0.97%
S&P 500	5,881.63	6,685.45	6,840.20	154.75	2.31%
REIT Index[1]	126.31	129.65	126.34	(3.31)	-2.55%
VIX	17.35	16.08	17.44	1.36	8.46%

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

The Federal Reserve reduced the federal funds rate by 25 bps to 3.75%–4.00%, though Chair Powell emphasized that another cut in December is *"not a forgone conclusion."* Post-meeting remarks highlighted a divided committee: some pushing for further easing, others still wary of inflation. Markets had largely priced in another cut, and treasuries rose following the press conference. The 10-Year Treasury ended the month down 4 bps, and implied odds of a December rate cut are now 50/50.

Despite this uncertainty, equity markets continue to rally with the S&P 500 up 2.3% for the month and 16.3% year to date, though gains remain concentrated. The “Magnificent Seven” continue to carry the index, while the other 493 stocks tread water.

Inflation signals remain mixed, and labor indicators continue to cool as several large employers announced significant layoffs this month. Consumer confidence fell for the third consecutive month, reflecting growing concern about job availability.

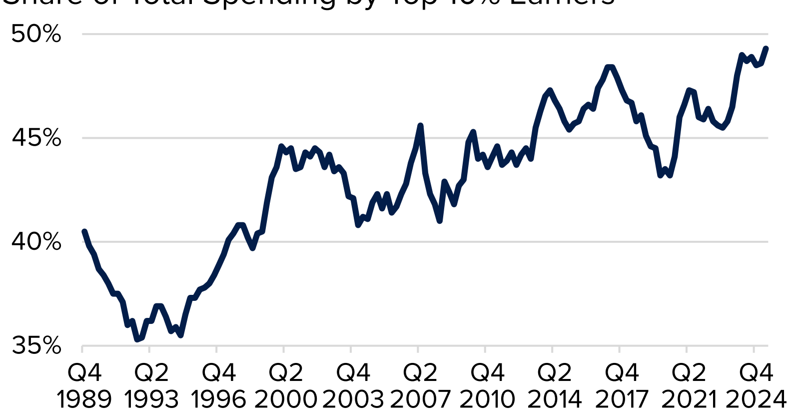
A final complication: the recent federal government shutdown has delayed several key data releases, reducing near-term visibility for policymakers and markets. Meanwhile, tighter immigration enforcement is constraining labor supply, tempering job growth even as demand remains uneven. Taken together, these crosscurrents muddy the economic outlook for policy makers and investors alike.

The Two Economies: AI & The Wealthy vs. Everyone Else

Ray Dalio, founder of the world's largest hedge fund, noted in October that the US economy now varies so wildly across sectors and households that it can “no longer be looked at as a whole." Growth today is effectively being carried by AI/data investment and, to a lesser extent, spending by the country’s wealthiest consumers.

2025’s growth has become unusually narrow: investment tied to data centers and information-processing equipment/software accounted for most of first-half real GDP growth, leaving ex-AI categories near flat. Multiple independent reads suggest that without data centers, H1 growth would have been close to zero.

Share of Total Spending by Top 10% Earners



As far as the American consumer—the traditional workhorse of the economy—Moody’s analysis indicates that since the pandemic, spending growth has been driven almost entirely by the top 20% of earners. In comparison, the bottom 80% (those making $175,000 or less) have kept pace only with inflation. The top 10% now accounts for nearly half of U.S. retail spending, the highest share since 1989.

Moody's Chief Economist Mark Zandi warns the economy is increasingly reliant on the fortunes of higher-income households; if they retrench, growth would be vulnerable. This pattern is visible in corporate strategy, with a greater product mix and pricing aimed at upper-tier demand, even as lower- and middle-income households face persistent inflation and a softer job market. Stock market performance tells a similar tale as the Dow Jones U.S. Consumer Goods Index has still not surpassed its pre-COVID peak.

Geographically, the picture is also concerning. In early October, Moody's Analytics reported that 22 states and the District of Columbia are either in or near recession. The at-risk cohort skews toward smaller, goods-producing states across the Midwest and Plains; energy- and mining-reliant parts of the Mountain West; and slower-growing New England corridors, with the D.C. metro singled out due to federal job cuts. Contributing factors include trade tariffs pressuring costs and demand; slowing wage growth for lower- and middle-income households; elevated household debt; and slower immigration/population growth in certain regions. Moody's also cautioned that if larger states such as California or New York—currently treading water—were to slip into contraction, national growth would be at risk.

Multifamily Update

Operations

Rents and demand softened again in late Q3/early Q4. Nationwide asking rents fell for a fourth straight month, and September registered the steepest decline in more than 15 years. Concessions have widened and lease-trade-out has compressed across many lease-up-heavy submarkets, pushing operators to emphasize retention, occupancy management, and expense control over rent growth.

The supply overhang is in sight but not yet behind us. Even as most peak construction projects reach completion this year, lease-ups keep competitive pressure elevated for roughly a year. Forecasts point to a gradual reversion toward pre-2020 dynamics by 2027, with annual completions stabilizing around ~400k units and rent growth converging toward low single digits. Near term, we still expect elevated deliveries through 2025 with a clearer taper emerging into 2026. Jeff Adler, head of Yardi Matrix, noted that we might finally be approaching a "pre-COVID" normalized market mid to late in 2026.

Capital Markets

Credit stress has edged higher. Trepp's latest read shows multifamily CMBS delinquencies increasing in October to a new cycle high. At the same time, lenders continue to opt for extensions and loan modifications, pushing the maturity wall into 2026—limiting forced sales but prolonging resolution and keeping special servicer workloads elevated.

Pricing remains uneven. Cap-rate gaps are unusually wide across markets and asset profiles, reflecting debt costs, taxes/insurance, and execution risk; underwriting needs to lean on asset-level cash-flow durability rather than broad comps. Despite the weak prints, cycle tone is tentatively improving: deal dialogue has picked up, bid lists are thicker than mid-year, and several large allocators emphasize an early-cycle recovery setup ("flows ultimately follow performance" in Jon Gray's phrasing).

Taken together, fundamentals are still adjusting—softer rents today with supply headwinds that fade over the next year—while capital markets are buying time via extensions and selective risk-taking.

Our View

From an investment perspective, we are steadfast in our view that we are in the early innings of the next cycle, and the widening divergence in income underscores the value of durable, need-based housing across the Heartland. These markets are grounded in affordability and essential employment. They are also increasingly supported by capital and talent migrating out of coastal economies. These regions remain connected to the nation's growth engines but through more stable, diversified channels that continue to support housing demand.