December 2025 – A Strong Finish Capping a Historic 3-Year Run

Markets closed 2025 on a high note, capping a third consecutive year of outsized equity performance. The S&P 500 finished the year at 6,845, up 16.4%, following gains of 24.2% in 2023 and 23.3% in 2024. This is one of the strongest 3-year market runs on record.

Market Benchmarks

				1-Month Change		Change from 2024	
	YE-2024	Nov-25	Dec-25	Δ	% Δ	Δ	% Δ
Fed Funds	4.38%	3.88%	3.63%	-0.25%	-6.45%	-0.75%	-17.14%
1-Month SOFR	4.33%	3.87%	3.69%	-0.19%	-4.78%	-0.64%	-14.89%
10-Yr Treasury	4.57%	4.02%	4.16%	0.15%	3.63%	-0.41%	-8.97%
S&P 500	5,881.63	6,849.09	6,845.50	(3.59)	-0.05%	963.87	16.39%
REIT Index[1]	126.31	129.41	125.39	(4.02)	-3.11%	(0.92)	-0.73%
VIX	17.35	16.35	14.76	(1.59)	-9.72%	(2.59)	-14.93%

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

The headline strength continues to mask highly uneven outcomes. A narrow set of AI-exposed and mega-cap companies drove the bulk of performance, while many household-facing sectors experienced far more muted performance. This divergence increasingly defines both market behavior and underlying economic conditions.

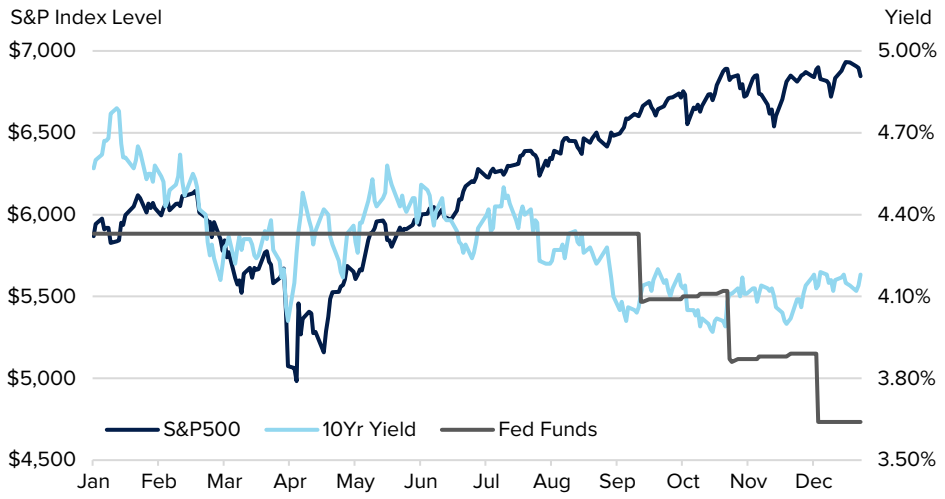
The Federal Reserve delivered its third rate cut of the year in December, lowering the policy rate to 3.50–3.75% and formally shifting the stance from "restrictive" toward "neutral". Labor markets continued to cool into year-end with November payrolls slowing to 64,000 following a decline in October. The unemployment rate rose to 4.6%, and job-finding rates weakened as continuing claims increased. While labor force participation improved modestly, layoffs accelerated late in the year. The Fed's own projections imply only one cut in 2026, signaling caution despite market expectations for more easing.

The key macro takeaway entering 2026 is clear: the economy is bifurcated. Asset markets (specifically AI stocks) and high-income households continue to perform well, while consumer confidence remains depressed, unemployment is rising, and real wage gains have struggled to keep pace with price levels that remain structurally higher than pre-pandemic norms. That divide has meaningful implications for household demand, capital allocation, and risk assessment across real assets.

2025 in Review – A Year of Shifting Narratives

Entering 2025, consensus expectations were constructive. Markets anticipated continued disinflation, early rate cuts, and a gradual normalization across real assets as new supply peaked. That narrative unraveled quickly.

2025 Market Benchmarks



The early months of the Trump administration reintroduced policy uncertainty, culminating in April's tariff announcements and renewed volatility. By late April, the S&P 500 had fallen 5% from year-end 2024 levels, and confidence in a clean first-half pivot faded. Through mid-year, GDP growth held up but increasingly appeared concentrated in AI-related capital expenditures rather than broad-based activity. Labor data softened gradually, reinforcing concerns about durability.

The second half of the year brough chaotic noise. A record-length federal government shutdown delayed and distorted key economic released, culminating in the cancellation of the October jobs report and its subsequent combination with November data. Later revisions raised questions about prior payroll estimates, leaving markets to react to incomplete or noisy information through much of Q4.

By late 2025, inflation moderation and labor market softening ultimately provided the Fed with sufficient data to begin easing. Rate cuts arrived in September, October, and December— later than initially predicted, but broadly consistent with revised expectations.

In multifamily, market consensus proved directionally correct, but the recovery timeline has been extended. Supply peaked, development pipelines contracted, and transaction activity improved modestly. However, the lease-up tail from the 2023–2025 delivery wave lasted longer than expected, muting rent growth despite solid absorption. Distress increased but remained localized, with lender extensions and modifications delaying broad price discovery. Overall rent outcomes diverged considerably by market and submarket, reinforcing the importance of asset quality, location, and execution.

10 Themes for 2026

1. The next CRE cycle firmly takes hold

Across commercial real estate, the sharpest valuation resets appear largely behind us, syndication distress notwithstanding. Capital is re-engaging selectively, underwriting discipline remains intact, and bid-ask spreads continue to narrow. This positions the asset class for the next cycle, even if progress remains uneven and measured.

2. Multifamily stabilization continues, with transaction volumes rising gradually

Transaction activity should continue to build in 2026, but slowly. Trailing-twelve-month multifamily sales volumes reached roughly $110 billion by mid-2025, up about 30% from 2023 trough, yet still well below prior-cycle norms. Without broad equity re-engagement or meaningful cap-rate compression, volume growth is likely to remain incremental rather than explosive.

3. Multifamily rent growth remains uneven, driving dispersion

National rent growth stalled near zero in 2025, with advertised rents up roughly 0–0.5% depending on the measure. In 2026, rent outcomes will continue to vary by market and submarket as elevated deliveries work through lease-up. Limited-supply markets should outperform, while high-supply regions remain competitive, driving dispersion across portfolios without implying broad instability. The back-half of 2026 should see broader improvements across most high-supply markets as lease-up pressure abates.

4. Consumer sentiment remains cautious, impacting leasing

Households remain selective and deliberate, even absent a formal recession. The University of Michigan Consumer Sentiment Index fell to 50.3 in late 2025, near historic lows, reflecting inflation scars and job uncertainty rather than headline economic collapse. For housing, confidence in employment prospects matters: it influences household formation, mobility, and willingness to sign new leases, keeping friction elevated in leasing decisions.

5. Labor dynamics favor workforce relative to luxury

Broad labor-market softness and macro cooling pose greater risk to luxury demand, while workforce housing may benefit from trade-down dynamics as affordability pressures persist. Immigration enforcement presents a clearer risk for workforce demand, though the magnitude and duration of that impact remain uncertain. Divergence by renter profile becomes increasingly important in underwriting and asset selection.

6. Lower-quality distress accelerates via lender-driven outcomes

The weakest assets, particularly poorly operated Class C and syndication-era deals, will increasingly resolve through lender involvement. In many cases, years of deferred capex and operational underperformance have impaired intrinsic value beyond capital structure stress alone. Clearing prices for these assets will likely reset materially lower to reflect that deterioration rather than cyclical dislocation.

7. Institutional equity scarcity persists

This dynamic has been true since 2023 and we see it continuing into 2026. Institutional equity remains highly selective, appearing primarily in "Goldilocks" profiles. Many investors continue to work through legacy funds calibrated to prior-cycle returns, while others favor preferred equity and credit strategies seeking equity-like returns with lower risk. The result is constrained risk capital that favors relationship-driven transactions over improving fundamentals.

8. Strategy boundaries will continue to blur

Traditional distinctions between core, value-add, and opportunistic strategies are eroding. Opportunistic capital searched for widespread distress that largely failed to materialize, while development—historically a key outlet for higher-risk capital—remains muted. Limited core exit activity has pushed value-add toward core-plus profiles with operational levers, compressing strategy definitions across the risk spectrum.

9. Development cautiously re-emerges for post-2026 delivery

With deliveries peaking and pipelines thinning, developers are beginning to re-engage—evaluating land, entitlements, and future projects targeting 2027–2028 deliveries. Near-term construction remains disciplined, but early-stage activity reflects growing confidence in longer-term fundamentals rather than a return to speculative building.

10. Public and private valuations begin a gradual convergence

Public and private real estate pricing has remained dislocated longer than in past cycles, prompting REIT share repurchases, selective liquidations, and measured M&A rather than aggressive acquisition programs. In 2026, improved price discovery should allow valuations to move directionally closer together, even if full parity remains unlikely.