



February 2026 – Tariffs Struck Down Amid Major Market Rotation

Much of February’s equity market activity was hidden below the index level, yet it delivered the clearest evidence so far of a major change in market posture toward technology. The S&P 500 fell 0.87% in February, a modest move that hid a sharp sector rotation. Energy rose 22%, materials 18%, and consumer staples 15%, sectors defined by physical assets and a lower risk of technological obsolescence.

Every member of the Mag 7 is now negative year-to-date, and the software sector has shed more than \$1 trillion of market value as investors question whether massive AI capital spending will translate into earnings growth. The rotation toward tangible, cash-generating businesses, often described as the “HALO” trade, is starting to look more durable than a short-lived factor swing. Public real estate participated, with the REIT Index up 5.36% and outperforming the S&P 500 by more than six percentage points.

Treasuries had their strongest month in a year as the benchmark 10-year fell 29 bps to 3.95%. Thirty-year mortgage rates followed, dropping below 6% for the first time in over three years. FOMC minutes released in mid-February added a hawkish note when several officials raised the possibility of additional rate hikes if inflation persisted; futures markets still point to a first cut in June.

Core CPI printed 2.5% YoY, a four-year low. Shelter inflation continues its slow convergence toward private market rents, which have been negative now on a rolling two year basis. Ex shelter, inflation is running near 2.1%.

The month’s most consequential development was legal rather than monetary. On February 20, the Supreme Court struck down the administration’s primary tariff authority in a 6–3 ruling, holding that the power to impose tariffs belongs to Congress. The administration responded within hours, reimposing tariffs under a separate, time-limited authority. The outcome preserved most of the near-term tariff regime while raising the bar for future unilateral action and should, over time, reduce some of the policy volatility that has complicated supply chain planning and goods pricing.

Revisions to the labor data point in a different direction. The economy added roughly 15,000 jobs per month in 2025 after revisions, less than a third of what was reported in real time, even as GDP grew an estimated 2.7%. That combination of strong output and negligible job growth is unusual this late in an expansion without a prior recession. Corporate profit margins remain near post-WWII highs, yet the labor market that underlies household formation, mobility, and lease-up velocity has been considerably weaker than the original data implied.

AI Crosses the Operational Threshold

For the past three years, the AI narrative in markets has been a capital expenditure story, with datacenter construction and other AI investment bolstering GDP growth. February marked an inflection point as clear evidence of white-collar job displacement emerged.

On February 26, Block, the parent of Square and Cash App, announced plans to reduce headcount by roughly 40%, about 4,000 roles, after internal AI tools made it possible to handle similar volumes with fewer people. The stock rallied on the announcement, closing up 17% the following day. CEO Jack Dorsey framed the move as a structural response to a permanent change in how work gets done and suggested most companies would reach a similar conclusion within a year. Amazon, Salesforce, Pinterest, CrowdStrike, and eBay have all made cuts explicitly tied to AI in recent months. Challenger, Gray and Christmas reported 108,435 announced layoffs in January, the highest January figure since 2009 and up 118% from a year ago.

Market Benchmarks

	YE-2025	Jan-26	Feb-26	1-Month Change	
				Δ	% Δ
Fed Funds	3.63%	3.63%	3.63%	0.00%	0.00%
1-Month SOFR	3.69%	3.67%	3.67%	0.00%	-0.10%
10-Yr Treasury	4.16%	4.24%	3.95%	-0.29%	-6.93%
S&P 500	6,845.50	6,939.03	6,878.88	(60.15)	-0.87%
REIT Index ¹	125.39	128.70	135.60	6.90	5.36%
VIX	14.76	17.44	19.86	2.42	13.88%

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



AI tools are evolving fast. Agentic workflows, meaning systems where AI models execute multi-step tasks with minimal human oversight, have moved from theoretical to operational within months. The unusual gap between GDP and job growth in macro data now has a structural explanation that goes beyond cyclical adjustment. If technology enables companies to grow output without proportional hiring, the relationship between economic growth and employment will weaken. That matters for housing demand, which is driven by jobs and income, not GDP.

The displacement so far is concentrated among white-collar, office-based, college-educated workers. This demographic is most likely to be forming households and signing Class A leases in high-cost metros. Workforce housing tenants operate in a different labor market. Healthcare workers, tradespeople, logistics operators, and educators perform jobs that still require physical presence and human judgment in unpredictable environments. Those roles do not automate easily or quickly. That distinction reinforces our view that well-located Class B assets, anchored by structurally durable employment, remain among the more defensible positions in real assets.

A Bifurcated Capital Market and the First Signs of Real Capitulation

The multifamily capital markets are telling two very different stories, and both are becoming harder to ignore.

For stabilized assets with durable cash flow, financing conditions are as favorable as we have seen since before the rate hiking cycle began. Agency rates are anchoring near 5%, with stabilized financing spreads compressed to 140–155 basis points over Treasuries. Banks are lending aggressively, with originations up 85% year-over-year, and the MBA is forecasting \$399 billion in multifamily lending this year, up 21% from 2025. This is a favorable backdrop rather than a reason to stretch.

For overleveraged assets acquired in 2021 and 2022, the picture is moving the other way. Bank-reported multifamily delinquency has reached 1.37%, its highest level since the financial crisis, with total delinquent balances rising from \$2.4 billion to \$8.9 billion in two years. CMBS delinquency rose 30 basis points in January alone to 6.94%, and CRED iQ now projects the overall CRE distress rate will reach 15% by year-end¹.

The posture of servicers has shifted meaningfully. Among specially serviced loans with defined workout strategies, nearly 58% are now directed toward foreclosure or note sales, meaning liquidation rather than collaborative restructuring. The era of “extend and pretend” is giving way to something more decisive. Lenders are demanding fresh equity, and not every sponsor is willing or able to deliver.

We are seeing this on the ground. In February alone, we underwrote and toured five assets across our Heartland markets that fit this profile. The situations varied, but the pattern was consistent: a high-basis acquisition from 2021 or 2022, an overextended business plan, stressed operations, and a preferred equity investor forcing a sale. In several cases, the original sponsors are accepting a complete loss of their equity. We do not expect any market meltdown, yet the type of capitulation required for markets to regain a strong footing is now occurring.

As a patient, well-capitalized buyer, we view this as an environment that *finally* rewards discipline. The opportunity is to focus on assets where the operational story remains intact but the capital structure does not. In many of these situations the problem was the price paid and the debt placed, not the underlying real estate. We are targeting cases where we can acquire at a reset basis, stabilize operations, and finance at today’s spreads with modest rent growth underwritten and no cap rate compression. We would rather pass on deals that require heroic assumptions that reach for headline returns that put principal at risk.

¹ CRED iQ distress rate reflects all CRE asset classes, including office.