CAISSON CAPITAL PARTNERS

JUNE 2026
ISSUE NO. 06 / 2026

Thoughts on the Market

Investments in Heartland Housing

MARKET COMMENTARY

A strong first half meets a harder second

The S&P 500 ended June at 7,499.36, up 9.6% since the start of the year, its strongest opening since the 2021 COVID recovery. Not everything was bullish. The index fell 1.06% during the month on both AI and macro concerns as the Fed confirmed that 2026 rate cuts are not coming. The 10-year Treasury ended the month at 4.48%, little changed, as oil relief roughly offset the Fed's hawkish turn.

On June 17, the United States and Iran signed a memorandum to end nearly four months of war and reopen the Strait of Hormuz, with a 60-day window to reach a permanent agreement. Oil fell to nearly $70 a barrel, effectively back to where it traded before the war began. War-related inflation has likely crested. Headline PCE rose 4.1% in May and core rose 3.4%, both cycle highs, but those readings predate the oil relief. If the framework holds and Hormuz stays open, the summer prints will likely turn lower.

The labor market showed continued resilience. May payrolls rose 172,000 against a consensus near 80,000, with prior months revised higher, even as wage growth of 3.4% continued to trail inflation.

Kevin Warsh held his first meeting as FOMC chair. The Fed held rates and published projections eliminating any 2026 cuts and introducing the possibility of hikes. The median year-end rate projection is now 3.8%, up from 3.4% earlier this year. Warsh is also changing how the Fed speaks. His public statement ran only 130 words, down from 341 in April, he declined to submit his own rate projection, and he stood up task forces to review the Fed's communications, data, and operations, with a stated aim of shrinking both forward guidance and the dot plot.

EXHIBIT 1 Market benchmarks

Levels and change · through June 2026

	LEVEL			1-MONTH CHANGE		CHANGE FROM YE	
Benchmark	YE-2025	May-26	Jun-26	Δ	% Δ	Δ	% Δ
Fed Funds	3.63%	3.63%	**3.63%**	0.00%	0.00%	0.00%	0.00%
1-Month SOFR	3.69%	3.62%	**3.65%**	+0.03%	+0.87%	-0.04%	-0.96%
10-Yr Treasury	4.16%	4.45%	**4.48%**	+0.02%	+0.52%	+0.31%	+7.49%
S&P 500	6,845.50	7,580.06	**7,499.36**	(80.70)	-1.06%	+653.86	+9.55%
REIT Index[1]	125.39	135.58	**137.18**	+1.60	+1.18%	+11.79	+9.40%
VIX	14.76	15.32	**16.45**	+1.13	+7.38%	+1.69	+11.45%

1. Vanguard Real Estate Index Fund (VGSLX), which tracks the MSCI U.S. REIT Index. Fed Funds shown at the effective rate; Treasury and SOFR at month-end. Source: Bloomberg, Federal Reserve, Caisson Capital Partners.

The larger development for the Fed was legal. On June 29 the Supreme Court ruled that the Trump administration cannot remove Governor Lisa Cook, holding that Congress built the Fed to operate independently and that any change to that design must come from Congress. The ruling is notable because, on the same day, in a separate case, the Court upheld the president's power to fire an FTC commissioner without cause, ending a ninety-year-old precedent that had shielded independent agencies. The Court named the Fed as the clear exception, fencing off the central bank from expanded presidential control.

All said, markets and the economy are set up for an interesting second half of 2026. Equities sit at valuations that leave little room for disappointment on either earnings or the AI capex cycle. Peace has taken the war premium out of oil and should pull inflation lower into the summer, yet the Fed has removed the cushion of rate cuts and is openly weighing hikes. And the withheld cut understates the move. Even with the short end anchored, the rest of the curve has reset upward this year. The 10-year now sits more than 30 basis points above where it began January, and the all-in cost of borrowing for most users of capital, commercial real estate included, has risen 20 to 40 basis points without a single Fed move. A resilient labor market argues the economy can carry a no-cut path. Softening consumer credit and negative real wage growth argue it may not. The tension between a market pricing relief and a Fed refusing to provide it is the story we will be watching into year-end.

HALF-YEAR CHECK

Right on housing, wrong on rates

We opened the year with ten themes for 2026 and a read from the January NMHC meeting. At the midpoint, the scorecard divides along a single line. The calls keyed to housing fundamentals and capital-markets behavior have largely tracked. The calls keyed to the rate path have not, because the rate path moved the other way.

We expected CRE stabilization to continue and transaction volume to build gradually rather than surge, and it has, rising off the trough while still short of prior-cycle norms. Rent growth has stayed uneven and dispersed, with limited-supply Heartland markets outperforming while oversupplied Sun Belt metros keep absorbing deliveries. The broader back-half improvement we projected, as the supply wave finishes leasing up, is still ahead and still plausible. We also expected lower-quality distress to resolve through lenders rather than a market-wide reset, and it has. Extend and pretend has given way, workouts now outpace new distress, and the weakest Class C is clearing at prices that reflect years of deferred capital. The floor is finally forming for the lowest-quality assets, a critical bookend for valuation ranges.

The January NMHC read has aged well. Debt was abundant and cheap early, and it was masking problems now surfacing in the delinquency data. Institutional equity stayed selective, as expected. And the Heartland differentiation has sharpened, with the Upper Midwest holding its place as the strongest rental region in the country.

Our labor call deserves the sharpest test, because the obvious objection is the K-shaped economy. If artificial intelligence lifts the top and hollows the middle, the worry runs, the renter base sits in the wrong half. We do not read it that way. The cohort pulling away at the top owns rather than rents, so its gains never reach apartment demand. The squeezed middle is the group that rents, and rents longer as ownership moves out of reach. AI displacement has concentrated in the white-collar, Class A demographic, while the healthcare workers, tradespeople, and logistics operators who fill workforce housing stay insulated. San Francisco is the exception that proves the rule. There the AI cohort does rent, and the rush to stake a claim near the labs has driven rents to record highs, past New York as the most expensive in the country. But that is one metro at the very top of the K, a concentrated luxury distortion rather than the broad workforce base we underwrite. The K-shape reinforces our demand case rather than threatening it.

What has not tracked is everything keyed to rates. We expected the next cycle to take hold and cap rates to begin compressing. Private cap rates have instead held near 5.6% for close to two years, and the public and private markets have not converged the way we expected. The listed REITs rallied more than 9% to a fresh high for the year, yet their implied cap rates still sit well above where private assets trade. The rally narrowed that gap without closing it. Even now, apartment REITs cannot buy existing assets at prevailing private pricing without diluting their own valuations, so the arbitrage that would pull the two markets together is still absent. The reason is plain, and it is not only about the front end. We wrote in December expecting gradual disinflation and a Fed still cutting. The year delivered an oil shock, a fresh inflation impulse, and a Fed that pulled its cuts and began pricing hikes. The short end never moved, but the rest of the curve reset upward. The 10-year now sits more than 30 basis points above where it began the year, and the all-in cost of debt for commercial real estate has risen 20 to 40 basis points without a single Fed action. Cap rates cannot compress against a cost of capital that is quietly climbing. Every theme keyed to rates has underdelivered for that reason. Everything downstream of supply and distress is on schedule.

The second half turns on whether the curve cooperates, not just the Fed. If the peace holds and oil stays down, the disinflation we expected in January arrives late and by a different road, with relief coming from the long end rather than a cut alone. Supply rollover keeps working for existing owners, lease-up pressure eases, and cleared distress restores the pricing benchmarks transactions need.

We are positioned for exactly this. We buy at a reset basis, size debt to today's cost of capital, set by the whole curve rather than the Fed's next move, and underwrite no compression. Class B workforce housing in supply-constrained Heartland markets, anchored by an employed tenant base, carries a margin of safety that the year has not eroded.