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Thoughts on the Market

Investments in Heartland Housing

MARKET COMMENTARY

The AI trade breaks, and rates come off the high

The S&P 500 closed October at 7,580.07, down 0.9% on the month and up 10.7% year to date. The losses were concentrated in technology. The Nasdaq fell more than 5%, its worst month since March 2025, and finished 7.8% below the record it set on October 6.

The final trading session of the month did most of the damage and was the worst day for both the Nasdaq and the S&P 500 since June. Intel fell 28.6% on its fourth-quarter outlook, its worst day since 1974, and Alphabet closed its worst month on record. The common thread was spending. After two years of rewarding any company that raised its AI budget, investors now want evidence that the spending earns a return.

The bond market's month came in two halves. The 10-year Treasury opened October by setting a new high near 5.31% on October 5. It held above 5.1% through mid-month but closed the month at 4.93%, a 35 basis point decline and the largest monthly drop since December 2023. Expectations of slower growth, not lower inflation, drove most of the move.

The FOMC held rates at 3.75% to 4.00% with two members dissenting in favor of another increase. Chair Warsh said inflation remains elevated and the committee will wait for an "information-rich" period. He said politics played no role, six days before the midterms. The next and final Fed meeting of the year is December 9.

EXHIBIT 1 Market benchmarks — Levels and change · through October 2026

	LEVEL			1-MONTH CHANGE		CHANGE FROM YE	
Benchmark	**YE-2025**	**Sep-26**	**Oct-26**	**Δ**	**%Δ**	**Δ**	**%Δ**
Fed Funds	3.63%	3.88%	**3.88%**	0.00%	0.00%	+0.25%	+6.90%
1-Month SOFR	3.69%	3.92%	**3.94%**	+0.02%	+0.63%	+0.25%	+6.85%
10-Yr Treasury	4.16%	5.28%	**4.93%**	-0.35%	-6.63%	+0.77%	+18.42%
S&P 500	6,845.50	7,651.54	**7,580.07**	-71.47	-0.93%	+734.57	+10.73%
REIT Index[1]	125.39	127.00	**133.11**	+6.11	+4.81%	+7.72	+6.16%
VIX	14.76	16.34	**19.42**	+3.08	+18.85%	+4.66	+31.57%

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 macro picture continues to point in different directions. GDP growth surprised to the upside again. Q3 rose at a 3.4% annual rate, up from 2.2% in Q2 and above forecasts of 3.0%–3.2%. This acceleration occurred while oil and rates climbed and the Fed hiked. Business investment rose 12.7%, led by a 37.4% jump in IT equipment spending.

Consumer spending grew 3.8%, and more broadly than the prevailing narrative suggests. Apollo's Torsten Slok, who described a K-shaped consumer as recently as March, noted on October 31 that New York Fed data show nominal spending growing 4% to 5% across every income group since 2024. However, consumer spending was flat in September and Q4 projections are for lower growth.

The labor market remains in the low-hire, low-fire pattern that has held all year. August's 162,000 gain, which looked like a bright spot, was revised down to 133,000, and July turned to a loss of 10,000. September added 29,000 against a consensus near 90,000, below the prior year's monthly average of 45,000.

Wage growth slowed to 3.0%, the lowest since May 2021. Inflation moved the other way. September CPI rose 3.7% on a 9.1% monthly jump in gasoline. Core CPI rose 2.6%, above forecast, and core PCE reached 3.1%.

Beneath the headline sit two labor markets. Contractors report the opposite of slack. In a survey taken this summer, the Associated General Contractors described skilled-trade shortages as acute even as construction demand softened, with data center projects competing for workers and nearly a third of firms reporting effects from immigration enforcement. At the other end, the New York Fed puts unemployment for recent college graduates at 5.7%, above the national rate for a fifth straight year.

The same AI spending that lifted third-quarter growth is what investors punished on the last day of the month. Warsh enters December with growth above 3%, core inflation above 3%, hiring at a near standstill, and a bond market that has already priced a slowdown the Fed has not yet seen in its own data.

01 AI meets its lenders

For two years, the AI build-out has run on the assumption that capital would keep coming. October was the first month that capital pushed back, in private rounds, in public equity and, most sharply, in credit. On October 30, the Wall Street Journal reported that OpenAI's latest fundraise fell short: $11 billion of commitments at a $1.25 trillion valuation, versus the $30 billion at $1.4 trillion it sought. OpenAI was reportedly racing to close ahead of Anthropic's listing because the two draw on the same investors.

Anthropic filed its S-1 on October 26. First-half revenue rose to $16.3 billion from $1.2 billion a year earlier, and press reports put the listing valuation between $1.5 and $2 trillion.

1 Credit draws the line

Credit markets now separate AI borrowers by one test: positive operating cash flow. CoreWeave, a leading "neocloud" whose business is renting GPU computing capacity to AI developers and large technology companies, saw its 2031 bonds yield over 15% and its credit default swaps trade at distressed levels. Unlike Microsoft, Amazon or Google, it has no other profitable business to fund that capacity, so it has borrowed heavily to build it. Bloomberg counts at least 18 data center financings in the junk bond and leveraged loan markets now carrying double-digit yields, and banks and insurers are nearing their data center lending limits.

2 The risk reaches real estate

Trepp noted that even AAA-rated data center mortgage bonds widened 21 basis points during the penultimate week of October. The loans underneath remain current. This is one of the first places AI risk has been priced into a property mortgage. The buildings are leased and paying. Bondholders are repricing whether the tenants can keep paying.

02 Multifamily: capitulation, and an operating business in transition

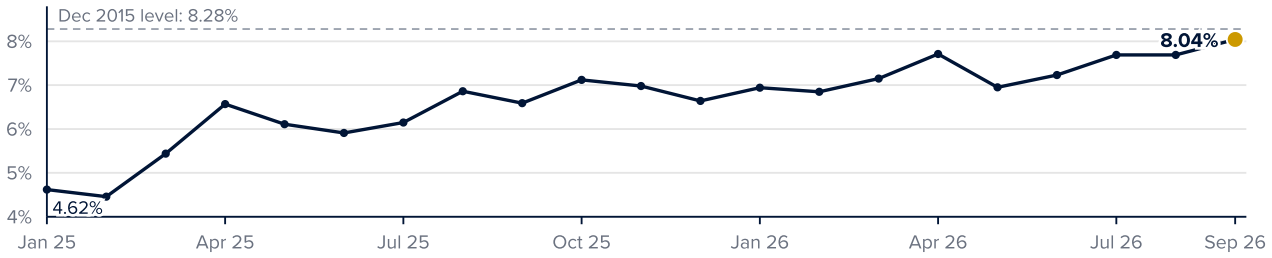
In multifamily, we are seeing early signs of capitulation, driven by the latest run-up in rates. For most of the year, owners of 2020–2022 vintage acquisitions hoped lower rates would relieve challenged capital stacks. In October, with the 10-year above 5.1% for the first half of the month, conversations turned to acceptance. Brokers and lenders point to the start of a wave of sales driven by lenders or preferred equity investors, in which sponsor and LP equity is, in many cases, largely or entirely lost.

Cap rates have widened in many markets, in part because few buyers have access to capital. In Dallas, workforce housing is now being talked about above 6% cap rates on in-place income and near 7% on pro forma. That is a sharp reversal for assets that traded below 4% in some instances just four years ago. The scarcity of capital shows up in fundraising: private real estate funds raised $30.74 billion in the third quarter, the lowest quarterly total since early 2013.

The press is also telling the same story. CNBC and the Wall Street Journal have both reported multifamily price cuts and deals falling out of contract. CBRE expects cap rates to rise at least 40–60 basis points in the near term, with multifamily among the most exposed property types.

Delinquencies continue to rise. Trepp's multifamily CMBS delinquency rate reached 8.0% in September, up from 6.6% a year earlier. Property fundamentals have held up better than the capital markets. National asking rents rose 0.7% year over year in September, and the third quarter was the first since 2022 to show positive annual growth. That suggests most of the pressure on these owners is coming from their capital structures rather than from demand.

EXHIBIT 2 Multifamily CMBS delinquency rate — Monthly · Jan 2025 to Sep 2026



Source: Trepp monthly CMBS delinquency reports, as reported by Multifamily Dive, MBA Newslink, Multi-Housing News and GlobeSt. Dashed line marks the December 2015 level.

What buyers inherit

Operations add a second layer to buyer caution. At an asset management conference this month, operators from across the country described the same problem: running properties has become harder.

Oversupply is tapering off in many markets, but it has led to staffing challenges. New developments have come online faster than the industry has been able to train managers. Maintenance labor faces the same immigration and labor pressures squeezing construction.

The National Apartment Association puts onsite turnover at 29.2%, roughly double the 14.2% for corporate roles. Owners under pressure from lenders also tend to defer capital spending and keep staffing lean, so some assets coming to market will carry operational problems along with financial ones.

Headline in-place cap rates deserve scrutiny. Basis still matters most, and capitulation may produce assets at prices not seen in several years. But a property bought at a 7% cap rate is not a 7% cap rate if the team running it cannot hold occupancy or control turnover. We expect the buyers who capture the discount to be the ones who can also operate.

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