

NDR Sector Views

JUNE 4, 2025

Real Estate: Marketweight effective 5/15/25

Key Takeaways

- Real Estate was the third worst performer in May.
- Low growth environments have been bearish for the sector, historically.
- We upgraded the sector to marketweight on May 15.

Real Estate rose just 0.9% in May, underperforming the S&P 500 by more than 500 basis points and ranking as the third-worst performing sector for the month. Rising interest rates continued to pressure the REITs industry group, which accounts for nearly 90% of the sector's market cap. During the month, 13 of the 14 REITs sub-industries lagged the broader index. The model responded by downgrading the sector to underweight at its month-end update.

Key drivers: Two key macro factors we are monitoring for Real Estate are credit spreads and inflation. Credit spreads have started to widen, and the sector has historically underperformed when the high yield-investment grade (HY-IG) spread moves above its long-term average. While spreads are not yet at bearish levels, further widening could pose a risk. We are also watching inflation. According to our Growth and Inflation Regime Report, the current

backdrop of slowing growth and neutral inflation has historically been unfavorable for Real Estate.

Indicators to watch: Real Estate's composite score declined in May, driven by weaknesses in both the internal and external composites. The sector's Relative Price

Trend indicator turned bearish within the internal (price-based) composite, while the Industrial Production and Business Credit Conditions Index indicators turned bearish in the external (non-price-based) composite. As a result, the model downgraded the sector back to underweight, and we may follow suit in the coming weeks.

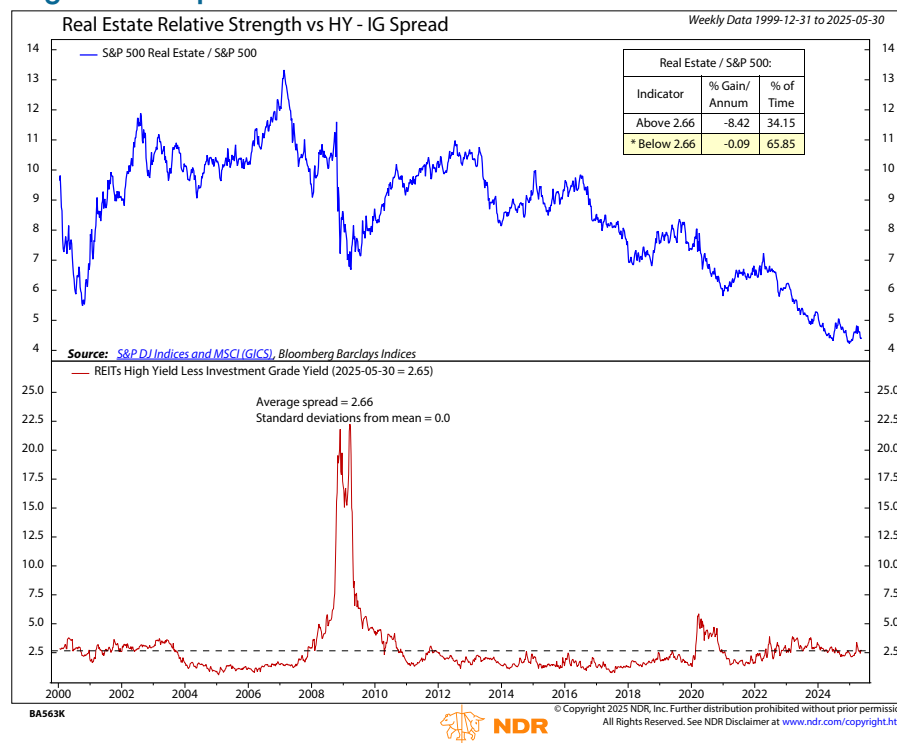
Sector positives

- Demographics are a long-term tailwind for Health Care REITs
- NDR's Recession Watch Report shows little risk of recession in near term
- REITs Trend Model is overweight Diversified REITs

Sector negatives

- Inflationary fiscal policy could lead to higher yields
- Office REITs continuing to struggle with high vacancy rates
- REITs scorecard fell from bullish to neutral

High credit spreads are bearish for Real Estate



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Some sectors receive “over-,” “market-,” or “under-” weight recommendations, which means that the research firm recommends that more, the same, or less of the sector should be held in your portfolio than is held in the market.

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