

# NDR Sector Views

SEPTEMBER 4, 2025

## Real Estate: Underweight effective 7/10/25

### Key Takeaways

- Real Estate was a market performer in August.
- Substantially lower long-term yields would provide a boost, but the outcome is unlikely without a recession.
- The model remains marketweight, but evidence leans more bearish than bullish.

Real Estate was roughly a market performer in August. While 11 of the sector's 14 REIT sub-industries outperformed during the month, some of the sector's largest – Telecom Tower REITs, Data Center REITs, and Specialized REITs – all trailed the S&P 500. Persistent underperformance has left the sector oversold and underrepresented in the S&P 500. The sector saw its weight in the index fall to just 2.0% as of the end of August, the lowest reading for the sector since 2011. The resumption of Fed rate cuts could serve as a catalyst for a turnaround, but we are skeptical and will wait on model confirmation before turning bullish.

**Key drivers:** Real Estate is the lone bond proxy sector that has seen its relative strength correlation with bond yields move back to pre-COVID levels. Given the negative correlation, the sector can be expected to outperform if yields decline. However, our macro team has shown that yields typically price in lower yields before the resumption

of Fed easing cycles following long pauses. Absent a recession, another substantial move lower may be unlikely to materialize.

**Indicator to watch:** Real Estate saw modest sector model composite deterioration in August, but the model remained marketweight. The monthly deterioration

from our REITS Industry Scorecard, which is designed to make a call on the REITs industry specifically, was much greater, with the model going on a sell signal on August 26. We remain marketweight but the evidence leans more bearish than bullish.

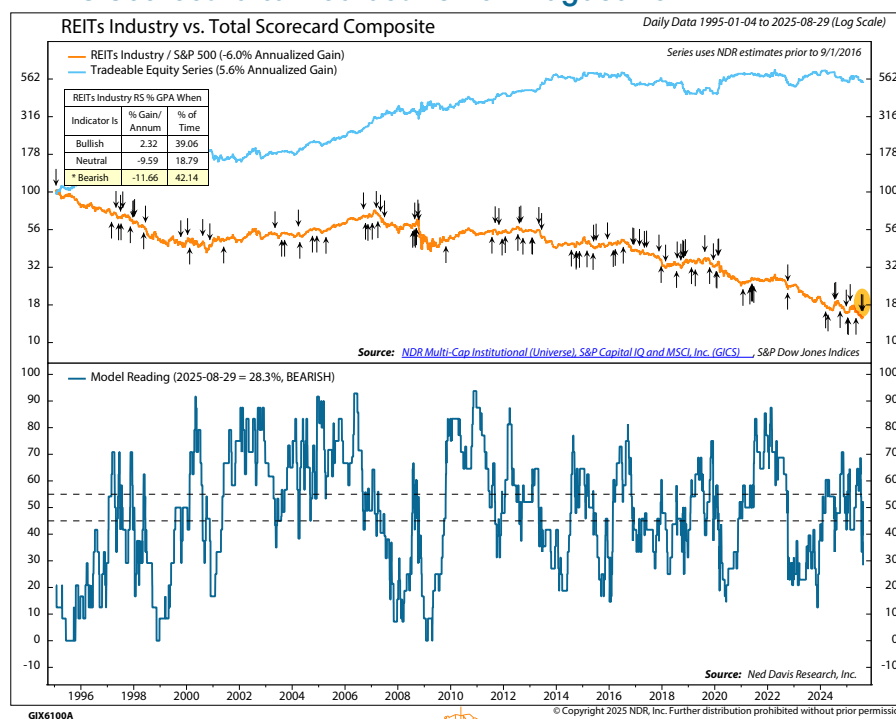
#### Sector positives

- Relative P/E remains attractive
- The sector's weight in the S&P 500 is low versus long-term average
- Tight credit spreads historically bullish

#### Sector negatives

- Low growth environments have been bearish
- Net debt to cash flow ratio near record high
- Dividend yield looks less attractive versus bonds

### REITS Scorecard turned bearish on August 26



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## Recommendations

NDR's sector team uses a quantitative sector model as the primary guide to deriving our recommendations. The model is designed to identify sectors and industries with the strongest fundamental (macro, economic, valuation, profitability) and technical price trends. Our team uses the model as the framework for our tactical shifts around longer-term fundamental themes. As a discipline, our recommendations are put on a “short leash” if they rank opposite the model's top and bottom quintiles, unless industry-specific influences can be shown to dominate.

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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## See the signals.<sup>TM</sup>

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