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Monthly Insights: January Outlook

Real Estate Sector

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Sector Price Action & Performance Review: Real Estate

The Real Estate Sector violated longer-term support near the $40 level on the XLRE in December as low vol. exposures were sold at the beginning of the month in anticipation of Fed easing.

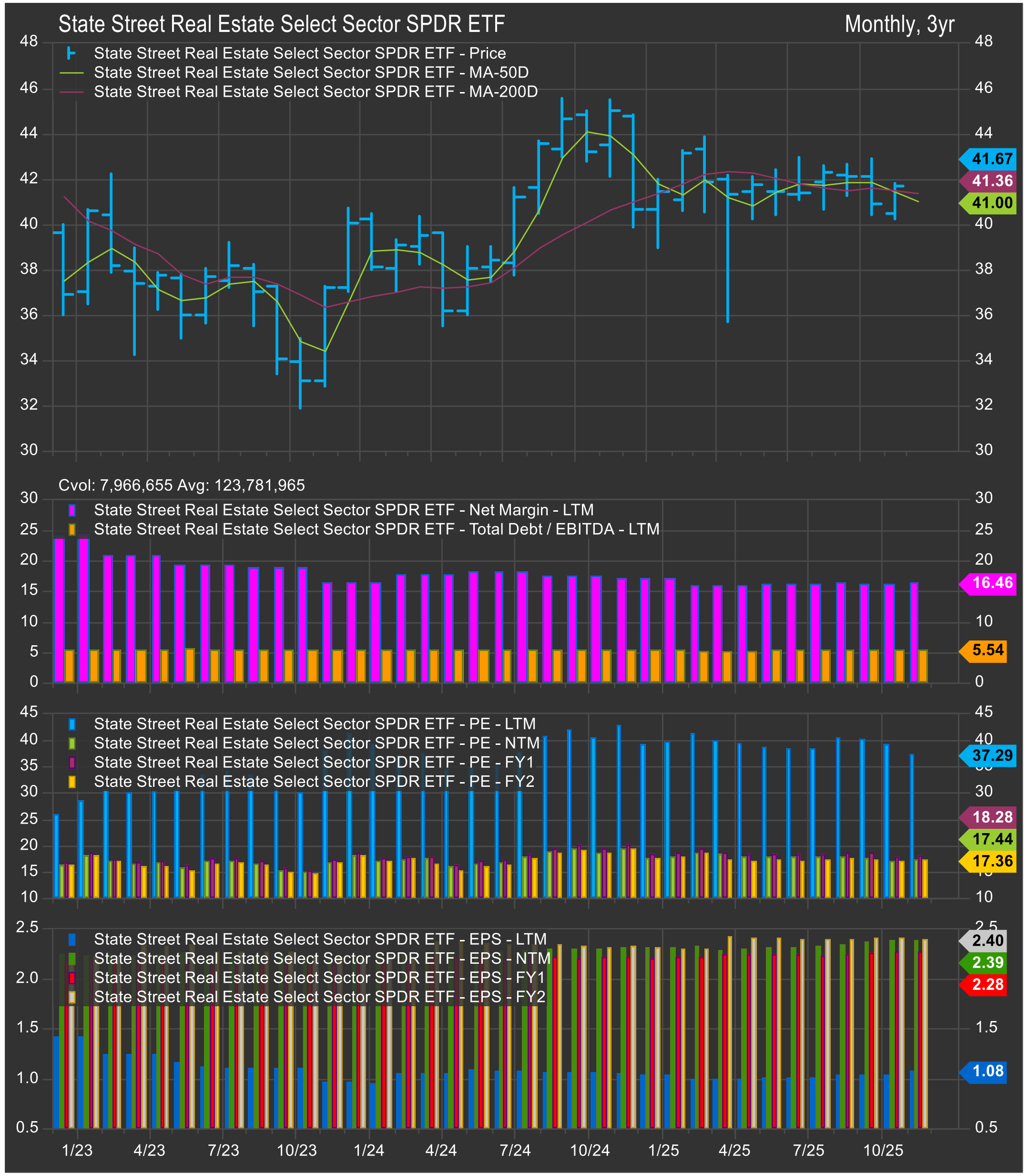
From a technical perspective the sector remains in a longer-term downtrend relative to the S&P 500. The only period of sustained outperformance over the past year came with equities in correction mode through March and April.

Office REITs and Tower stocks continue to be the primary drag on the sector as Healthcare, Industrial and Residential REITs have shown pockets of strength at various times in 2025.

Continued impairment in the Office space remains a headwind. We'd expect the sector to outperform on an index level correction as it did in March-April, but a lack of catalysts, stubbornly high interest rates and continued struggles for large segments of the sector (Towers, Office) has us less than sanguine on the sector to start 2026.

We start January with an MARKETWEIGHT allocation of -0.26% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Real Estate Sector



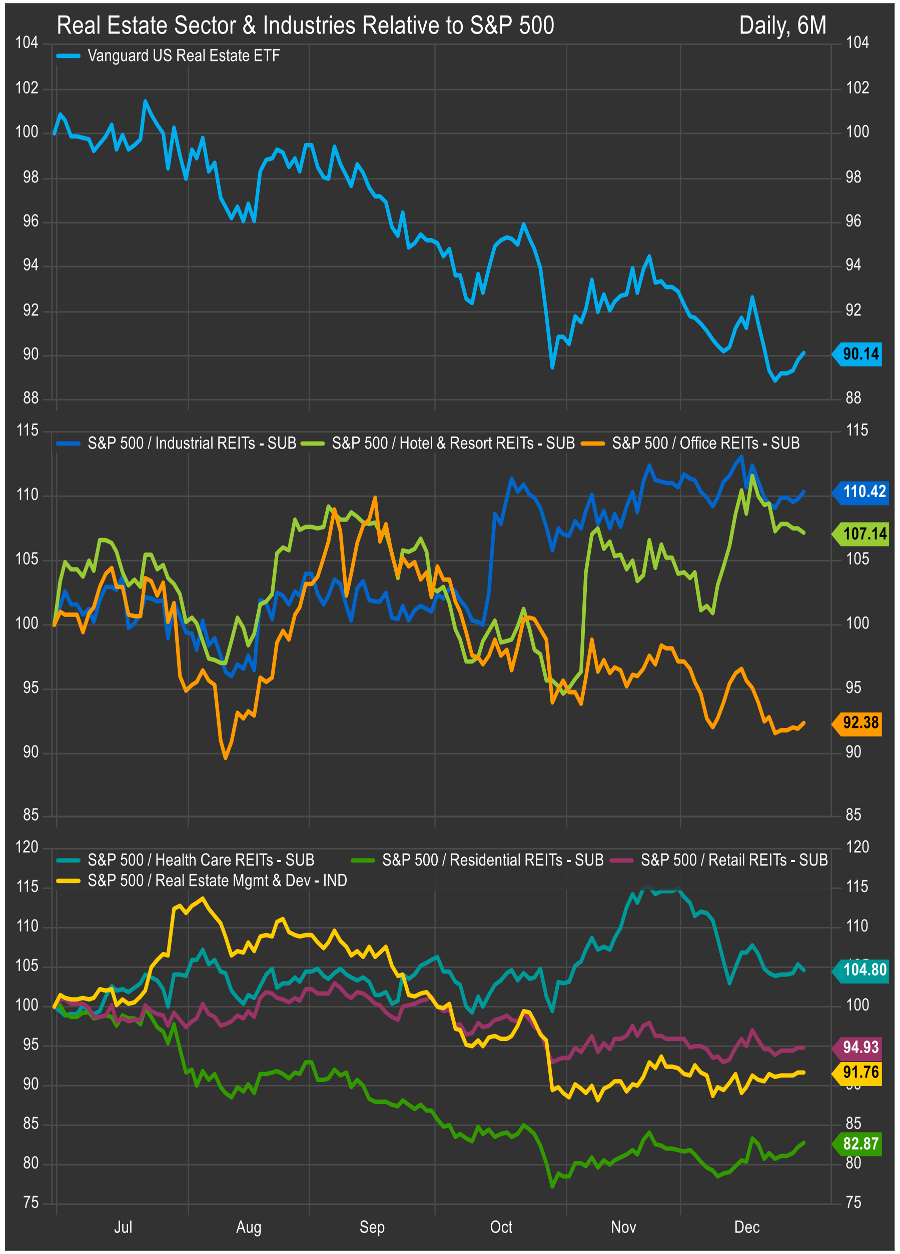
The chart (left) shows S&P 500 Real Estate Sector Margins, Debt/EBITDA, Valuation and Earnings

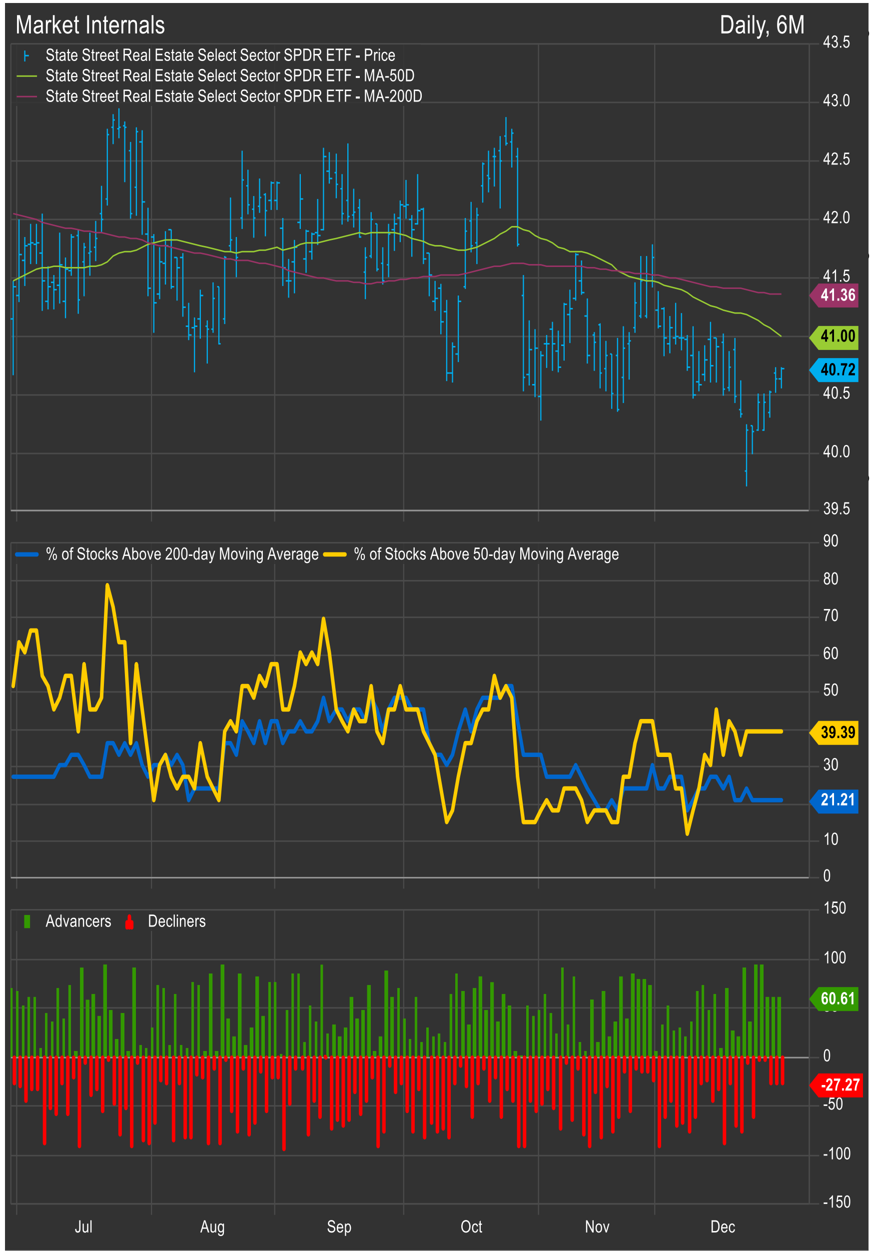
Margins continue to contract gradually at the sector level (chart, panel 2) with debt levels stable.

LTM Valuation (chart, panel 3) is lofty due to earnings impairment from Office REITs though we can see out year P/E multiples are set to contract if the consensus for >100% EPS growth comes to fruition

Out year valuations have contracted as companies have guided forward earnings higher. There still seems to be a disconnect between the bearish present trend and consensus estimates for robust forward EPS Growth. At face value, out year valuation levels seem appropriate

Industry Performance and Breadth: Real Estate





Real Estate Industries (chart, left): Residential, Hotel and Industrial REITs gained in December.

Healthcare REITs saw retracement, but remain leadership over the longer-term

We saw some uptick among Real Estate Sector Internals (chart, right): Market internals continue to hit "wash out" levels for the sector, but the context of long-term under performance blurs the efficacy of that signal.

Top 10/Bottom 10 Stock Level Performers: Real Estate

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
WY	Weyerhaeuser Company	Consolidation	17,163.7	3.96	-5.5	2.3	1.34	6.3
CPT	Camden Property Trust	Downtrend	11,702.4	3.82	-0.9	2.5	0.90	3.5
HST	Host Hotels & Resorts, Inc.	Bullish Reversal	12,646.6	0.84	3.8	3.1	1.43	3.4
FRT	Federal Realty Investment Trust	Consolidation	8,805.6	1.42	0.0	2.9	0.84	2.4
EQR	Equity Residential	Downtrend	24,076.4	1.79	-5.7	2.9	0.76	1.5
MAA	Mid-America Apartment Communities, Inc.	Downtrend	16,295.4	1.61	-4.0	2.9	0.67	1.5
SPG	Simon Property Group, Inc.	Consolidation	61,250.8	1.13	0.8	3.0	1.27	1.0
EQIX	Equinix, Inc.	Downtrend	75,112.4	2.07	-5.4	1.6	1.12	0.6
CBRE	CBRE Group, Inc. Class A	Bullish Reversal	48,855.8	0.89	0.8	0.0	1.33	0.5
AVB	AvalonBay Communities, Inc.	Downtrend	26,039.3	1.41	-8.2	2.5	0.76	0.1
PLD	Prologis, Inc.	Bullish Reversal	119,340.8	1.70	6.9	2.1	1.56	-0.2
UDR	UDR, Inc.	Downtrend	12,115.6	2.47	-5.9	3.1	0.77	-0.3
KIM	Kimco Realty Corporation	Consolidation	13,808.0	1.09	-7.2	3.3	0.97	-1.0
ESS	Essex Property Trust, Inc.	Downtrend	16,937.6	1.77	-6.2	2.6	0.68	-1.2
VICI	VICI Properties Inc	Consolidation	30,247.4	0.40	-12.6	4.1	0.60	-1.2
SBAC	SBA Communications Corp. Class A	Downtrend	20,637.1	0.89	-8.2	1.5	0.80	-1.2
INVH	Invitation Homes, Inc.	Downtrend	17,005.2	1.42	-9.3	2.8	0.83	-1.5
EXR	Extra Space Storage Inc.	Consolidation	27,749.2	1.08	-9.8	3.3	1.44	-1.6
REG	Regency Centers Corporation	Consolidation	12,764.7	1.14	-6.0	2.7	0.66	-1.8
VTR	Ventas, Inc.	Bullish Reversal	37,414.2	5.04	8.5	1.6	0.54	-2.1
O	Realty Income Corporation	Downtrend	52,259.8	1.42	-7.2	3.7	0.66	-2.3
CCI	Crown Castle Inc.	Downtrend	38,609.6	1.22	-10.6	3.6	0.92	-2.7
CSGP	CoStar Group, Inc.	Downtrend	28,650.4	1.97	-18.4	0.0	0.88	-2.7
DLR	Digital Realty Trust, Inc.	Consolidation	53,466.0	3.70	-10.8	2.1	1.16	-2.9
AMT	American Tower Corporation	Downtrend	82,314.2	1.03	-12.9	2.6	0.84	-3.0
IRM	Iron Mountain, Inc.	Retracement	24,424.6	1.47	-17.7	2.5	1.34	-4.2
PSA	Public Storage	Consolidation	45,501.1	1.01	-12.4	3.1	1.06	-5.4
BXP	BXP Inc	Consolidation	10,935.9	1.50	-9.4	3.3	1.30	-5.6
ARE	Alexandria Real Estate Equities, Inc.	Downtrend	8,497.8		-33.9	6.6	1.43	-9.3
WELL	Welltower Inc.	Uptrend	130,155.3	2.80	1.7	1.0	0.61	-9.9
DOC	Healthpeak Properties, Inc.	Downtrend	11,160.9	2.17	-16.1	5.0	1.03	-12.4

Healthcare REITS (WELL, VTR) continue to be standout names within the sector despite some near-term profit taking.

Residential and Hotel REIT names benefitted on dovish policy expectations, but overall performance was muted.

Metrics:

(Formulas are in the appendix at the end of the report)

Valuation Multiple Relative to Index

Premium (or discount) to benchmark valueation

Momentum

Long higher scores, short lower scores

Dividend Yield Relative to Index

Higher scores preferred when rates and equities are moving lower

Near-term Overbought/Oversold

Price is >10% away from the 50-day moving average Above/Below

GREEN|RED

Company scores positively|negatively for Elev8 Sector Rotation Model for April

Economic & Policy Drivers: Real Estate Sector

The S&P 500 Real Estate sector underperformed the broader market in December as **macroeconomic and policy dynamics remained the dominant determinants of relative returns**. While U.S. equities traded near record highs, leadership was concentrated in growth- and momentum-oriented segments, leaving real estate stocks at a disadvantage amid an unfavorable interest-rate and policy backdrop.

Sector weakness was not the result of a material deterioration in property-level fundamentals, but rather **persistent macro headwinds tied to rates, policy uncertainty, and capital allocation preferences**.

Interest Rates, Policy Expectations, and Valuation Pressure

Interest-rate dynamics were the primary driver of Real Estate sector underperformance. Despite intermittent shifts toward a more dovish policy outlook, **long-term Treasury yields remained elevated and volatile throughout December**, reinforcing pressure on rate-sensitive equity sectors.

From a valuation standpoint, higher long-end yields increased discount rates applied to real estate cash flows, encouraged cap-rate expansion assumptions, and constrained net asset value upside. Even as markets debated the likelihood of additional Fed easing in 2026, **uncertainty around the timing, pace, and terminal rate of policy cuts limited investor willingness to re-rate the sector**.

This policy ambiguity proved especially challenging for real estate equities, which tend to trade as equity-duration assets and are therefore highly sensitive to changes in real yields and forward rate expectations.

Monetary Policy Signaling and Capital Allocation

Mixed signals from policymakers further weighed on sentiment. While some Fed officials emphasized risks to the labor market and argued for eventual easing, others continued to stress caution around inflation persistence. The result was **a policy outlook that remained neither restrictive enough to force defensive positioning nor accommodative enough to catalyze a durable reallocation into yield-sensitive assets**.

In this environment, capital continued to flow toward sectors offering stronger earnings momentum and secular growth narratives. Real estate equities were frequently used as a source of funds during risk-on rotations, particularly as volatility compressed and investor confidence improved.

Credit Conditions and Financial Stability Considerations

Although credit markets remained orderly in December, **the policy-induced reset in interest rates continued to influence perceptions of balance-sheet risk across the sector**. Investors remained focused on refinancing timelines, leverage levels, and exposure to higher funding costs, even in the absence of systemic stress.

Policy-driven changes in the cost of capital—rather than deterioration in operating performance—were the key constraint on multiples, reinforcing a cautious stance toward the group.

2026 Macro and Policy Outlook: Tailwinds and Headwinds

Potential Tailwinds

Clearer Fed Easing Path: Greater visibility into the timing and magnitude of rate cuts would reduce uncertainty around discount rates and support valuation stabilization.

Lower Long-End Yields: A sustained decline in longer-term Treasury yields would improve NAV assumptions and alleviate cap-rate pressure.

Improved Financing Conditions: Policy-driven normalization in credit markets could lower refinancing risk premiums embedded in real estate equities.

Defensive Relevance: In the event of a macro slowdown or renewed volatility, real estate’s income characteristics may regain appeal.

Key Headwinds

Higher-for-Longer Risk: If policy easing is delayed or limited, elevated real yields would continue to pressure valuations.

Policy Volatility: Ongoing shifts in inflation data and Fed communication could sustain rate uncertainty well into 2026.

Risk-On Market Regime: Continued dominance of growth and AI-led themes may limit relative inflows into real estate during expansionary phases.

Regulatory and Tax Uncertainty: Changes to fiscal or housing-related policy could introduce additional sector-specific risk

Appendix: Metric Interpretation/Descriptions

Valuation Multiple Relative to Index

Higher scores correspond to more expensive earnings than the index, lower scores are cheaper

Valuation Multiple Relative to Index

(Company Price/NTM EPS)/ (Index Price/NTM EPS)

Dividend Yield Relative to Index

Higher scores correspond to higher company dividend yield relative to the S&P 500 Index dividend Yield

Dividend Yield Relative to Index

Company FY1 Rolling Dividend Yield / Index FY1 Rolling Dividend Yield

Momentum

Long higher scores, short lower scores

Momentum (simple mean)

1-Month Excess Total Return (vs. S&P 500) * 0.2

Plus

3-Month Excess Total Return (vs. S&P 500) * 0.5

Plus

6-Month Excess Total Return (vs. S&P 500) * 0.3

Metric Interpretation/Descriptions

Price Structure

We categorize stock chart patterns into 7 categories

Uptrend—Stock exhibits sustained outperformance

Bullish Reversal—Stock has outperformed over the past 3-6 months by > 10% vs. benchmark

Consolidation—Sideways price action, generally a bearish pattern in a bull market

Retracement—A sharp move lower in a previously strong chart

Distributional—A topping pattern

Downtrend—Sustained underperformance, lagging the benchmark by >15% per year

Support—Price has reached a level where major bottom formations or basing has occurred in the past

Basing—A protracted consolidation at long-term support

Deviation from Trend

Intermediate-term: Price % Above/Below 200-day moving average

Near-term: Price % Above/Below 50-day moving average

Overbought/Oversold (We want to sell overbought charts with declining momentum)

Overbought = Stock price > 25% above 200-day m.a.

Oversold = Stock price > 20% below 200-day m.a.

Near-term Overbought/Oversold (Signals depend on trend context)

Overbought = Stock price > 15% above 50-day m.a.

Oversold = Stock price > 15% below 50-day m.a.