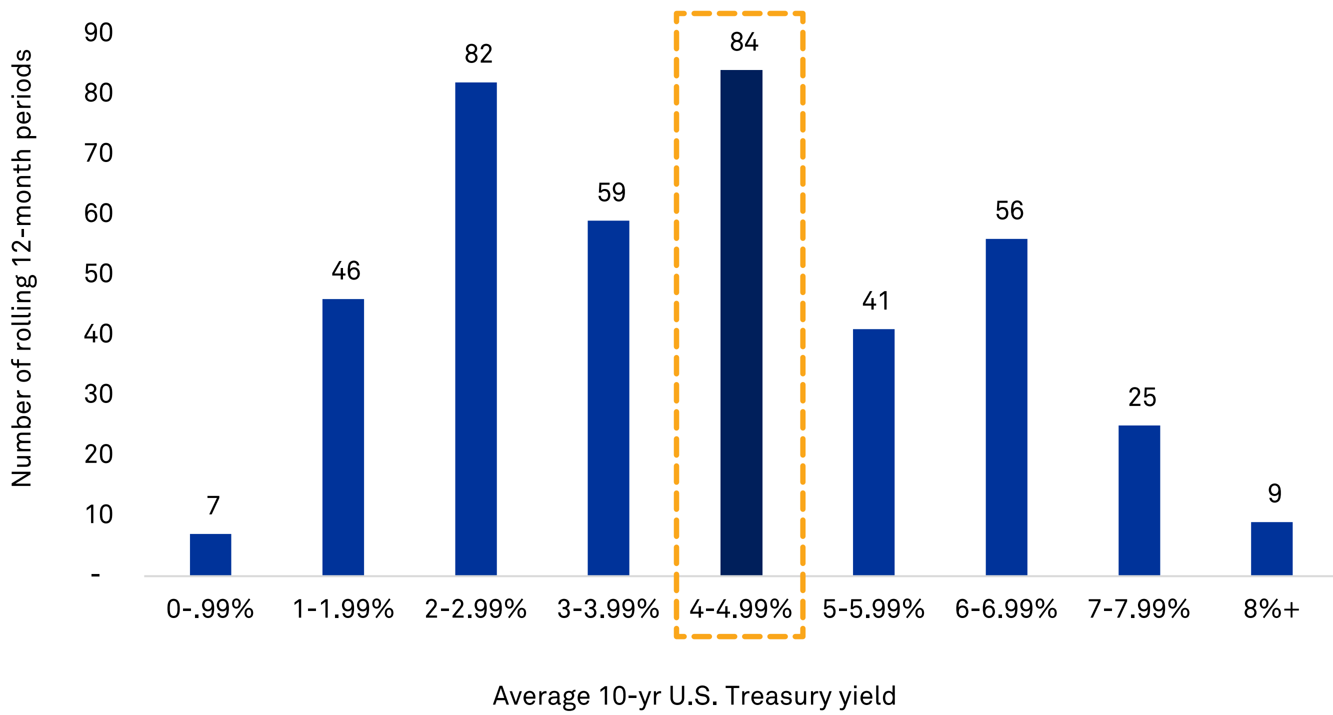
The first two months of 2025 have seen plenty of volatility in the markets – both in terms of equities and rates – as expected. Despite the volatility in the 10-year U.S. Treasury yield, it has remained above 4%, which we believe will likely be the case for the foreseeable future, barring a meaningful economic downturn.

While this may screen as a "high" interest rate environment for many investors who have primarily been active in the market in the last 10 to 15 years, this environment isn't so new to those who have invested through many market cycles. In fact, looking at rolling 12-month periods going back to 1990, it's been most common to have interest rates between 4-5% (Figure 1).

Figure 1: Historical occurrences of interest rates



Source: CenterSquare Investment Management, Bloomberg, as of 2/27/2025.

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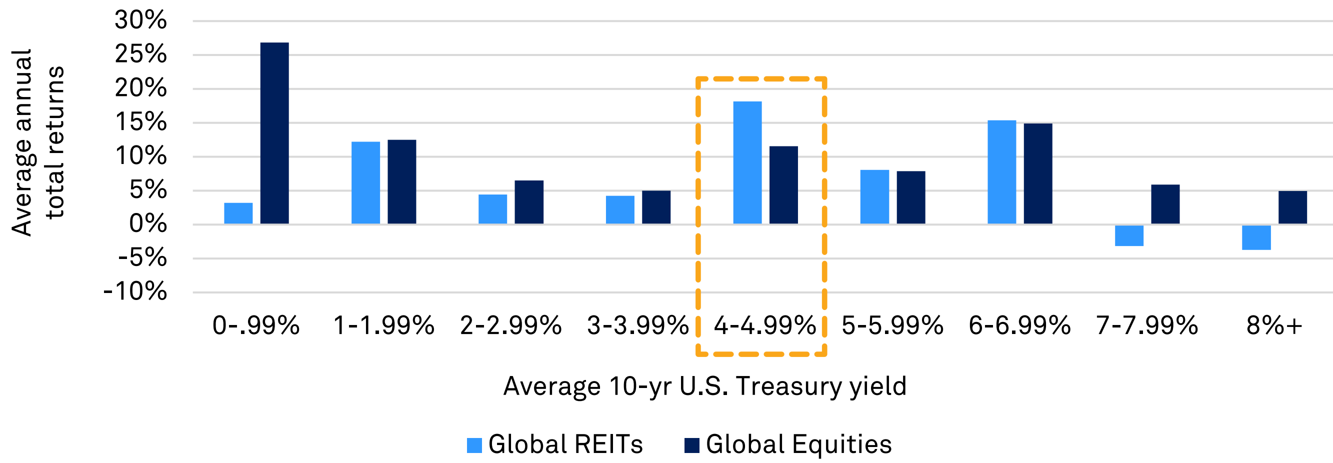
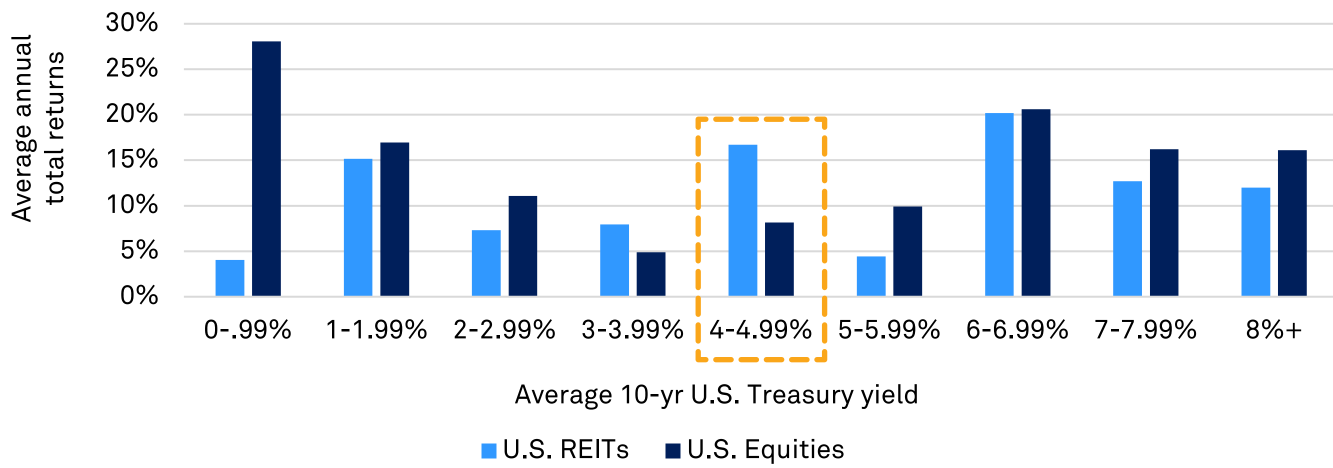
While the tightening monetary policy regime globally through 2024 created headwinds for the REIT market, REITs have historically outperformed broader equities in the U.S. and globally when the U.S. 10-year Treasury yields have been in the 4-5% range (Figures 2 and 3). Further, the largest underperformance of REITs versus broader equities has historically occurred when interest rates were extremely low, below 1%. Given the higher growth sectors, like technology, typically found across broader equities, it isn't surprising that equities meaningfully outperform REITs in these environments where investors can discount future cash flows at a lower rate, justifying elevated valuations for equities.

Figure 2: Total returns for Global REITs and Equities during different interest rate regimes



Source: CenterSquare Investment Management, Bloomberg, as of 2/27/2025. Global REITs = FTSE EPRA/NAREIT DEVELOPED Total Return Index USD, Global Equities = MSCI ACWI Gross Total Return USD Index.

Figure 3: Total returns for U.S. REITs and Equities during different interest rate regimes



Source: CenterSquare Investment Management, Bloomberg, as of 2/27/2025. U.S. REITs = FTSE Nareit Equity REITs Total Return Index USD, U.S. Equities = S&P 500 Total Return Index

Despite the volatility in the market, the current backdrop with the 10-year U.S. Treasury yield in the 4-5% range, has historically proven to be a favorable environment for REITs around the world.

Definition of Indices

FTSE EPRA / Nareit Developed Index (and FTSE EPRA/Nareit Developed Net Index)
The FTSE EPRA Nareit Developed Index is designed to track the performance of publicly listed real estate companies and REITs worldwide, containing eligible constituents from Developed markets as classified by FTSE Russell based on the nationality rules for FTSE EPRA Nareit Global Real Estate Index Series.

FTSE Nareit Equity REITs Index "FNRE"
The FTSE Nareit Equity REITs Index is a broad-based index consisting of real estate investment trust (REITs). This index excludes equity REITS that are designated as Timber REITs.

MSCI ACWI Gross Total Return USD Index
The MSCI ACWI Gross Total Return USD Index measures the performance of large and mid-cap stocks across 23 developed and 24 emerging markets, with gross dividends reinvested before tax deductions. This index provides a more complete picture of total returns by including dividend income, making it useful for performance benchmarking in a tax-neutral scenario.

S&P 500
The S&P 500 is an equity index made up of 500 of the largest companies traded on either the NYSE, Nasdaq, or CBOE. 2. The S&P 500 is calculated by adding each company's float-adjusted market capitalization.

These benchmarks are broad-based indices which are used for illustrative purposes only and have been selected as they are well known and are easily recognizable by investors. However, the investment activities and performance of an actual portfolio may be considerably more volatile than and have material differences from the performance of any of the referenced indices. Unlike these benchmarks, the portfolios portrayed herein are actively managed. Furthermore, the portfolios invest in substantially fewer securities than the number of securities comprising each of these benchmarks. There is no guarantee that any of the securities invested in by the portfolios comprise these benchmarks.

Also, performance results for benchmarks may not reflect payment of investment management/incentive fees and other expenses. Because of these differences, benchmarks should not be relied upon as an accurate measure of comparison.

A direct investment an index is not possible.

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