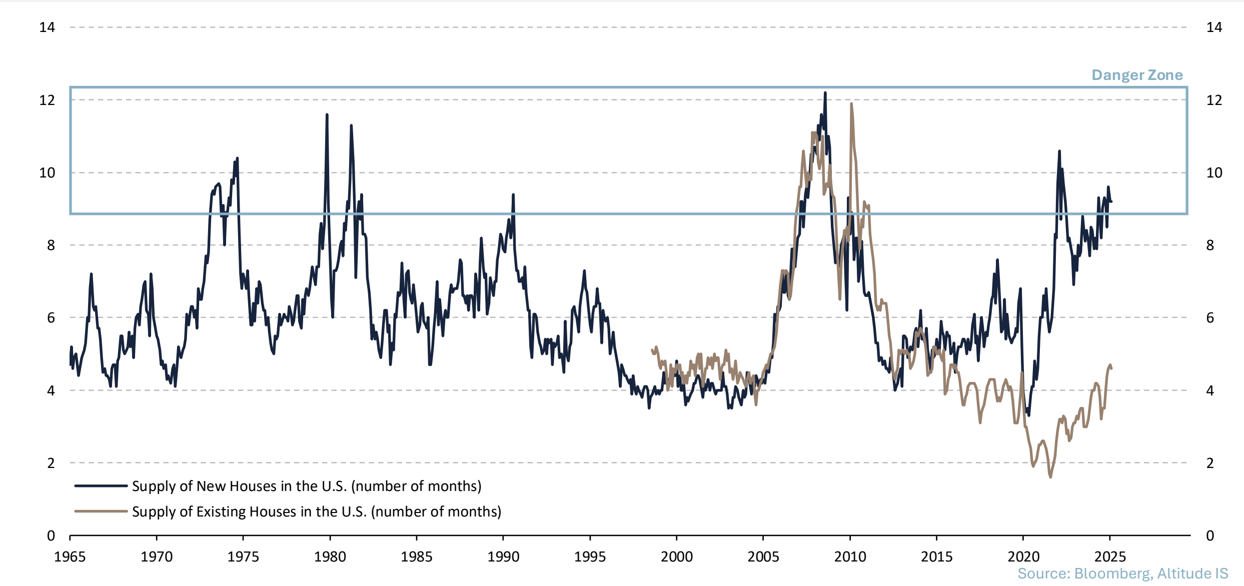
weekly investment focus

The flexiweekly that reaches new heights - published on 29 september 2025

"WILL THE NEXT CRISIS BE IN THE REAL ESTATE MARKET?"

- The Fed will lower interest rates to support the job market...
- ... as well as to ease intensifying tensions in the property market
- Otherwise, the number of defaults could surge
- In the meantime, REITs must continue to be scrutinised closely

CHART OF THE WEEK: "Who wants to buy my stock of houses, who?"



FINANCIAL MARKETS ANALYSIS

The latest meeting of the US Federal Reserve appeared to have little impact on financial markets, as the decision to lower key interest rates by 25 basis points to 4.25% was widely anticipated. Investors barely reacted to the announcement, whether in bonds, equities or currencies. However, the Fed's decision and Jerome Powell's speech at the subsequent press conference marked a real turning point in monetary policy. Although inflationary pressures continue to worry policymakers, they have taken note of the serious slowdown in the labour market. **It is now certain that the Fed will lower its key interest rates in the coming months, and at an accelerated pace.** Several factors point to this:

1- When the Fed eases its monetary policy, investors always tend to underestimate the urgency of the situation. However, looking at the average pace of historical movements, it appears that rate cuts are not only longer than expected, but also occur at a sustained pace of -35 basis points per month, compared with +22 basis points per month for rate hikes (see Fig. 2).

2- Employment will continue its downward spiral (see WIF of 11 august), heightening the concerns of central bankers. There are many warning signs: the number of job vacancies is lower than the number of unemployed, the quit rate is falling, the number of hours worked is declining, the use of temporary work is falling and small and medium-sized enterprises' hiring intentions are slowing. These are all signs that the labour market is cooling across the board and that US economic activity is losing momentum. The sectors most sensitive to credit are reducing their workforces. This is the case in construction, durable goods and distribution. Soon, business services will also be affected.

3- Inflation will remain high, but could be significantly lower than expected. While the tariffs imposed by the Trump administration are artificially pushing up prices, other factors are pulling inflation down. The halt to immigration and the exodus of some illegal workers are drying up rental demand. New rents are 9.3% lower than a year ago (see Fig. 3). Given that housing accounts for 35% of the consumer price index, there is no doubt that inflation will be lower than forecast.

4- The sharp rise in interest rates in recent years has taken time to filter through to the real economy, but its impact is becoming increasingly severe. Not only is the surge in interest charges weighing on public deficits, but some companies are unable to finance their investments and households are no longer able to take out new loans, whether for consumption or property.

Fig. 2 – Fed policy rates

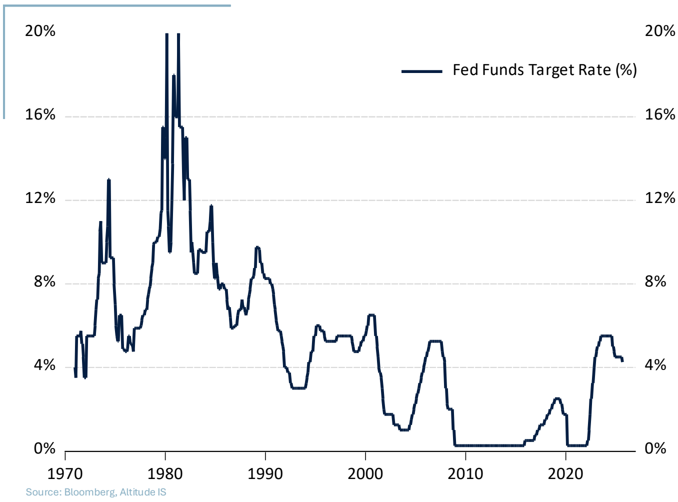
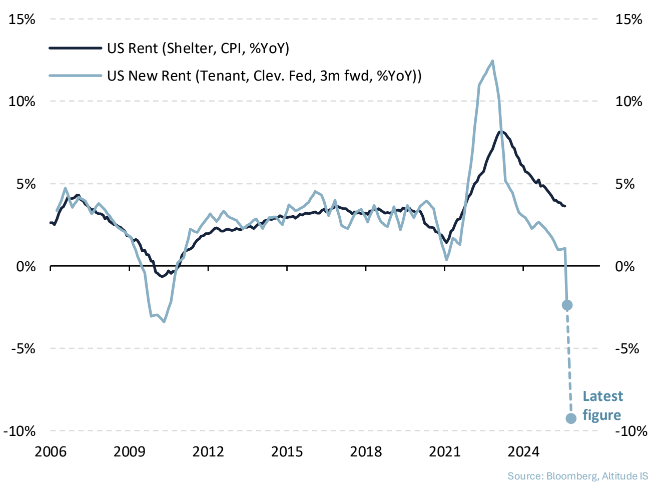


Fig. 3 – Changes in existing and new rents



The sluggishness of the US property market was already a real cause for concern (see WIF of 9 June), **but it could become the catalyst for the next crisis.** In our previous analyses, we highlighted the fact that house prices had skyrocketed, mortgage interest rates had become more than dissuasive, and Americans' ability to become homeowners had become increasingly limited. Their median income is now lower than the income required to buy a home (affordability index below 100). For housing affordability to return to its 2014-2020 level, house prices would need to fall by 38%, mortgage rates would need to drop from 6.3% to 2.4%, or household incomes would need to increase by 60%. As a result, three out of four Americans believe that now is a 'bad' time to buy a house or flat, whether new or old. That was all it took for sales volumes, and then sales prices, to gradually collapse.

<u>Other signs have confirmed, and even reinforced, this analysis</u>:

- Under the impact of new risks of budgetary slippage, notably the adoption of the One Big Beautiful Bill Act, 30-year Treasury bond yields have risen. For the moment, **financial intermediaries are compressing their margins in order to prevent mortgage rates from skyrocketing** (see Fig. 4). Banks and REITs can afford to do so because the MBS premium rose to a high level in 2022, but they will soon have to preserve their margins if they want to meet their capital and liquidity constraints. Otherwise, REITs will see their carrying capacity reduced and their profitability decline.

Fig. 4 – 30-year rates, sovereign & mortgage

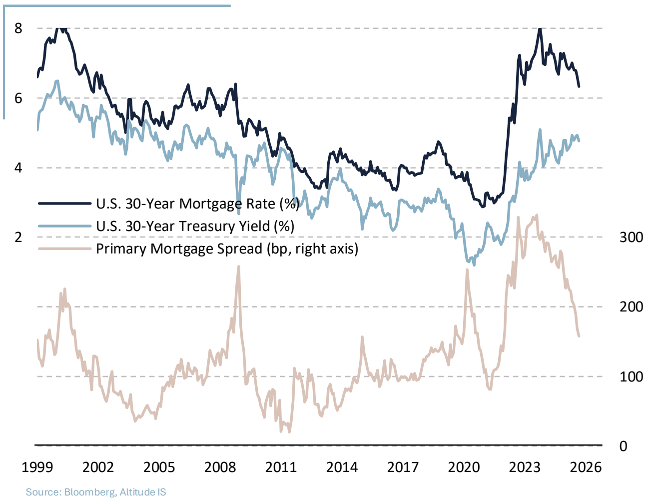
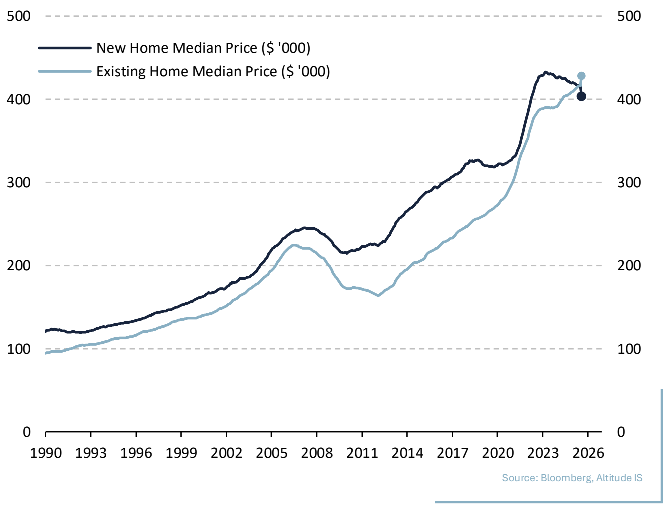


Fig. 5 – House prices, new and existing



- **New homes are now selling at lower prices than existing homes** (see Fig. 5). **This phenomenon is extremely rare!** New homes usually incorporate more expensive materials and equipment, meet more demanding standards, have higher labour costs and do not suffer from depreciation in quality. Their prices are therefore logically higher. Today, on the one hand, sellers of existing homes are giving up on moving because they will not be able to access credit that is as cheap as that which they currently have, which makes older homes scarcer and supports prices. On the other hand, new housing developers are being forced to sell off their stock of completed properties or risk running out of cash. To do so, they are adjusting their prices downwards. The stock of houses for sale, which was already at historically high levels for new builds, will therefore also end up rising significantly for older properties (see Chart of the Week).

Fig. 6 – Google searches for mortgage assistance

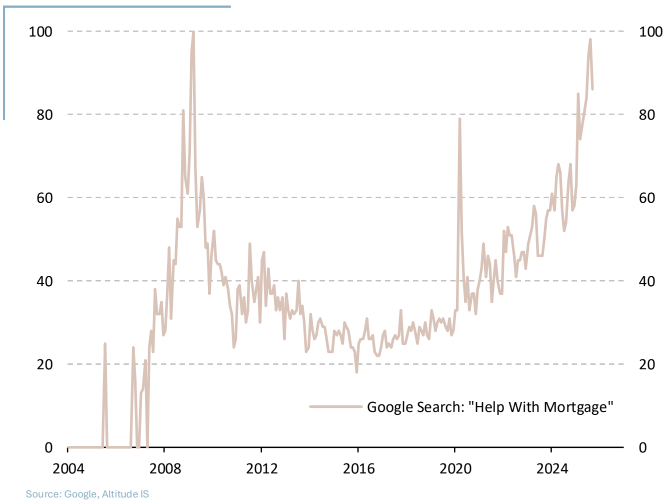
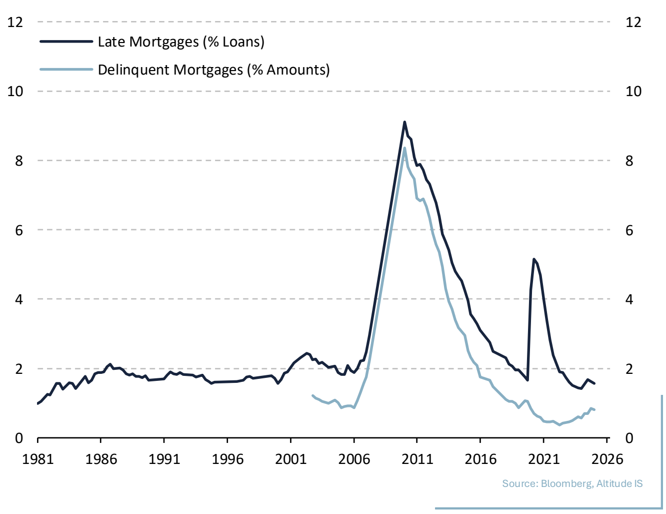


Fig. 7 – Mortgage defaults



- **The number of Americans searching for "mortgage help" on Google has just reached its 2008 level which occurred during the *subprime* crisis** (see Fig. 6). However, this latest warning sign must be qualified by the fact that the search engine has changed its data collection method. Furthermore, this issue does not only concern people seeking relief from their mortgage payments but also includes those who are inquiring about mortgage applications. Proof of this, if any were needed, is that homeowners are continuing to make their payments. Defaults are on the rise but remain below 2%, compared to more than 4% in 2008 and nearly 10% in 2009 (see Fig. 7).

In the equity market, the Footsie Nareit All Equity Index, which covers 141 US real estate companies, has been just above break-even since 1 January. It is suffering and **will continue to suffer from the compression of the spread between mortgage rates and 30-year sovereign bonds** (see Fig. 8). The industry heavyweights, exposed to logistics, storage, healthcare and digital infrastructure (Welltower, American Tower, Prologis, Simon Property), are managing to stay in positive territory. These companies are protected by inelastic demand. At the other end of the spectrum, heavily indebted office, hotel and shopping centre property companies (SL Green, Hudson Pacific, Alexandria) are being caught up by the rise in the cost of capital. Despite their recent rebound, they are down around 10% (see Fig. 9).

Fig. 8 – US REITs

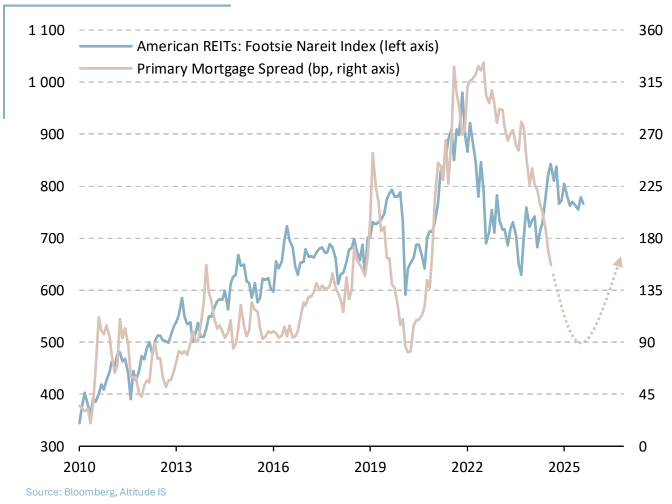
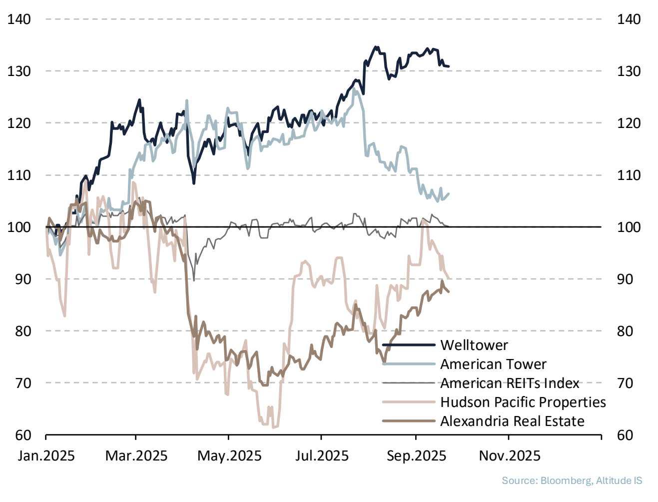


Fig. 9 – Selection of US REITs



Conclusion:

Without question, the next crisis could come from real estate. This sector is one of the usual suspects when tensions arise in the bond market. For investors scrutinising REITs, selectivity is imperative. More than ever, dynamic monetary easing by the Fed would be necessary for them.

RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2025 Year-to-Date (%)	2024 (%)	2023 (%)
Equities							
World (MSCI)	977.0	62.94	-0.5%	2.7%	17.9%	18.0%	22.8%
USA (S&P 500)	6 644	62.69	-0.3%	2.9%	14.0%	25.0%	26.3%
USA (Dow Jones)	46 247	60.77	-0.1%	2.0%	10.1%	15.0%	16.2%
USA (Nasdaq)	22 484	63.49	-0.6%	4.4%	17.0%	29.6%	44.7%
Euro Area (DJ EuroStoxx)	579.8	58.61	0.6%	1.3%	18.1%	10.2%	19.5%
UK (FTSE 100)	9 285	58.85	0.8%	0.3%	16.8%	9.6%	7.7%
Switzerland (SMI)	11 930	39.95	-1.5%	-1.8%	6.1%	7.5%	7.1%
Japan (Nikkei)	44 954	67.06	0.7%	7.1%	15.0%	21.3%	31.0%
Emerging (MSCI)	1 326	58.21	-1.1%	4.2%	26.2%	8.0%	10.2%
Brasil (IBOVESPA)	145 447	64.02	-0.3%	5.6%	20.9%	-10.4%	22.3%
Mexico (IPC)	62 307	67.86	1.8%	7.4%	29.3%	-11.0%	22.4%
India (SENSEX)	80 733	38.85	-2.7%	-0.4%	4.1%	9.6%	20.3%
China (CSI)	4 598	60.84	1.1%	2.3%	18.3%	18.2%	-9.1%
Com. Services (MSCI World)	159.8	60.51	-2.3%	5.8%	29.1%	31.9%	38.1%
Cons. Discretionary (MSCI World)	459.2	58.99	-0.9%	3.0%	9.9%	20.7%	29.5%
Cons. Staples (MSCI World)	286.6	32.85	-1.4%	-2.2%	7.2%	4.7%	3.2%
Energy (MSCI World)	266.1	69.08	3.4%	4.2%	14.3%	2.9%	6.0%
Financials (MSCI World)	215.6	54.29	-0.6%	0.6%	22.6%	25.1%	16.4%
Health Care (MSCI World)	351.7	40.96	-1.7%	-1.3%	2.2%	1.5%	4.1%
Industrials (MSCI World)	454.6	54.49	-0.2%	0.9%	22.4%	12.8%	22.5%
Info. Tech. (MSCI World)	928.1	65.59	0.0%	6.0%	21.4%	31.9%	51.4%
Materials (MSCI World)	366.1	61.27	0.4%	2.7%	22.1%	-7.7%	12.6%
Real Estate (MSCI World)	1 009	48.03	-0.2%	-0.5%	6.1%	-0.4%	5.3%
Utilities (MSCI World)	189.1	61.51	2.0%	1.8%	20.9%	13.0%	1.6%
Bonds (Bloomberg)							
World (Aggregate)	3.50%	46.10	-0.5%	0.5%	7.4%	-1.7%	5.7%
USA (Sovereign)	3.97%	52.00	-0.2%	0.8%	5.1%	0.6%	4.1%
Euro Area (Sovereign)	2.89%	47.98	0.0%	0.2%	0.0%	1.9%	7.1%
Germany (Sovereign)	2.48%	47.22	0.1%	0.0%	-1.3%	0.6%	5.6%
UK (Sovereign)	4.69%	44.82	-0.2%	0.3%	2.9%	-3.0%	5.6%
Switzerland (Sovereign)	0.38%	61.41	0.1%	0.6%	1.3%	5.4%	7.9%
Japan (Sovereign)	1.46%	32.76	-0.2%	-0.3%	-2.7%	-2.1%	0.9%
Emerging (Sovereign)	6.30%	59.60	0.2%	1.4%	9.4%	7.0%	11.0%
USA (IG Corp.)	4.84%	54.35	-0.2%	1.2%	6.6%	2.1%	8.5%
Euro Area (IG Corp.)	3.12%	53.09	-0.1%	0.2%	2.6%	4.7%	8.2%
Emerging (IG Corp.)	6.02%	60.98	-0.3%	0.7%	7.2%	7.0%	6.7%
USA (HY Corp.)	6.71%	64.77	-0.3%	0.7%	7.1%	8.2%	13.4%
Euro Area (HY Corp.)	5.28%	73.19	0.0%	0.5%	4.6%	8.2%	12.1%
Emerging (HY Corp.)	7.81%	55.65	0.1%	0.9%	9.2%	14.9%	13.1%
World (Convertibles)	527.8	67.91	-0.8%	3.6%	19.9%	9.4%	12.3%
USA (Convertibles)	696.6	67.79	-0.8%	4.2%	16.4%	10.1%	14.6%
Euro Area (Convertibles)	287.6	52.66	0.2%	-0.6%	23.6%	14.7%	7.3%
Switzerland (Convertibles)	273.7	41.68	-0.1%	-0.5%	13.7%	-10.5%	5.8%
Japan (Convertibles)	250.8	71.25	0.9%	2.3%	10.7%	6.4%	7.6%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 730	86.23	n.a.	1.9%	7.4%	11.1%	7.8%
Macro	1 375	71.70	n.a.	1.8%	2.4%	7.4%	1.6%
Equity Long Only	2 396	77.46	n.a.	1.5%	8.4%	12.0%	15.9%
Equity Long/Short	1 864	85.67	n.a.	2.5%	11.2%	14.0%	7.7%
Event Driven	1 834	83.23	n.a.	1.9%	6.3%	8.7%	7.3%
Fundamental Equity Mkt Neutral	1 795	95.36	n.a.	2.2%	8.7%	12.4%	6.6%
Quantitative Equity Mkt Neutral	1 753	85.30	n.a.	0.7%	5.3%	9.8%	7.8%
Credit	1 679	97.77	n.a.	0.9%	5.2%	8.5%	8.1%
Credit Long/Short	1 695	100.00	n.a.	0.3%	4.1%	10.0%	11.2%
Commodity	1 921	91.63	n.a.	1.2%	7.4%	14.7%	7.3%
Commodity Trading Advisors	1 308	52.88	n.a.	2.2%	-2.5%	7.9%	-3.6%
Volatility							
VIX	15.29	47.00	-1.0%	4.6%	-11.9%	39.4%	-42.5%
VSTOXX	16.71	49.37	6.7%	-7.2%	-1.7%	25.3%	-35.0%
Commodities							
Commodities (CRB)	546.1	n.a.	-0.2%	-1.8%	1.8%	5.1%	-8.0%
Gold (Troy Ounce)	3 807	n.a.	1.6%	10.4%	45.0%	27.2%	13.1%
Silver (Troy Ounce)	46.79	n.a.	6.2%	17.8%	61.9%	21.5%	-0.7%
Oil (WTI, Barrel)	65.72	n.a.	4.9%	3.9%	-8.4%	0.1%	-10.7%
Oil (Brent, Barrel)	71.93	n.a.	7.3%	6.6%	-2.9%	-4.6%	-4.5%
Currencies (vs USD)							
USD (Dollar Index)	97.93	51.50	0.6%	0.2%	-9.7%	7.1%	-2.1%
EUR	1.1725	50.30	-0.7%	0.3%	13.2%	-6.2%	3.1%
JPY	148.83	43.62	-0.7%	-1.2%	5.6%	-10.3%	-7.0%
GBP	1.3439	45.94	-0.6%	-0.5%	7.4%	-1.7%	5.4%
AUD	0.6569	49.26	-0.5%	0.4%	6.2%	-9.2%	0.0%
CAD	1.3922	37.96	-0.7%	-1.3%	3.3%	-7.9%	2.3%
CHF	0.7963	51.55	-0.5%	0.5%	14.0%	-7.3%	9.9%
CNY	7.1207	57.84	-0.1%	0.1%	2.5%	-2.7%	-2.8%
MXN	18.336	62.41	0.1%	1.7%	13.6%	-18.5%	14.9%
EM (Emerging Index)	1 837.9	43.06	-0.6%	0.2%	6.4%	-0.7%	4.8%
XBT	111 747	n.a.	-1.6%	3.7%	19.2%	120.5%	157.0%

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)

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