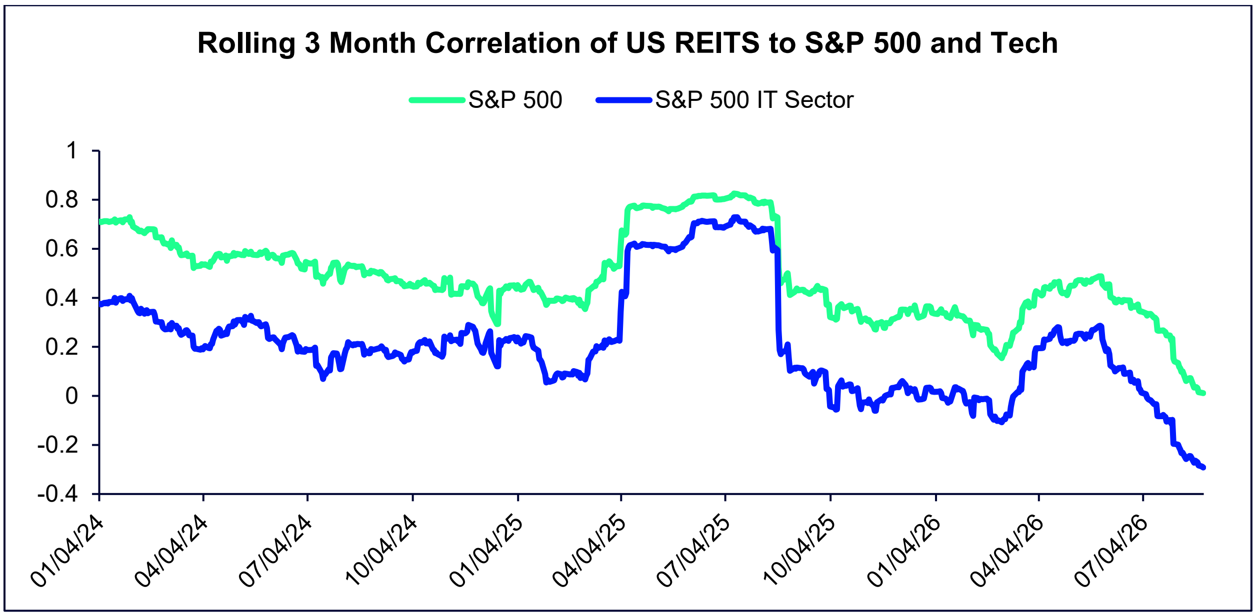
COMMENTARY
August 27, 2026

Mind on the Market

Chart of the Week



Source: FactSet, S&P Dow Jones Indices, and Nareit. Chart displays the rolling 90-day correlation of daily returns between the FTSE EPRA Nareit USA Index, the S&P 500 Index, and the S&P 500 Information Technology Sector from 8/28/2023 through 8/25/2026.

Data centers have increased the REIT market's exposure to the AI investment cycle, but that shared exposure has not caused real estate and technology stocks to move in lockstep. Although data center REITs and semiconductors have both been among the year's strongest performers, their paths have differed considerably. For example, in July semiconductor stocks sold off sharply while data center REITs advanced, and in August technology stocks outperformed as broader REIT returns softened. These divergences helped push correlations lower, highlighting that REIT returns remain influenced by a distinct set of property and market fundamentals.

Contact

Christine Norton, CFA
Investment Strategist

Dane Smith
Head of Investment Strategy & Research – North America

Weekly Highlights

US REITs vs. S&P 500 Information Technology Correlation	FTSE EPRA Nareit USA Index YTD Total Return	Change in Data Center REIT Weight within the U.S. REIT Index
-0.29	19.53%	+15.64%
Source: S&P Dow Jones Indices, Nareit. Index referenced is FTSE EPRA Nareit Correlation calculated using 60 trading days of daily returns as of 8/25/2026.	Source: FactSet, Nareit. Data as of 8/26/2026.	Source: FactSet, Nareit. Index referenced is FTSE EPRA Nareit USA Index. Data as of 8/26/2026.

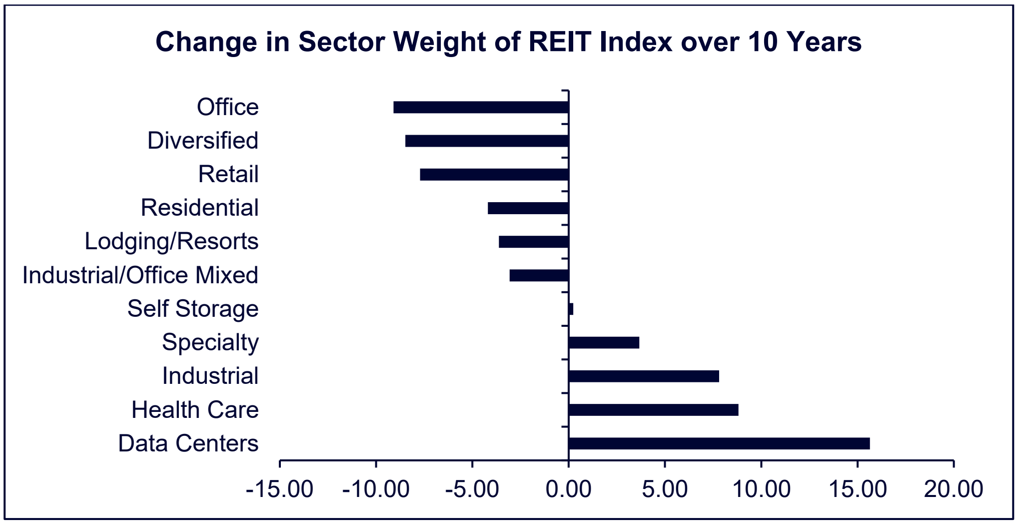
REITs Beyond Rates

Real estate has quietly become one of the market's better-performing sectors in 2026. After struggling through the post-pandemic rate shock, REITs have outperformed the broader equity market this year despite elevated Treasury yields, affordability pressures in housing, and persistent concerns surrounding commercial real estate.

The strength of the sector challenges the conventional view that REIT performance is driven primarily by interest rates. While higher yields remain a headwind and REITs continue to show sensitivity to daily rate movements, improving fundamentals, secular growth themes, and healthy balance sheets have become increasingly important contributors to returns.

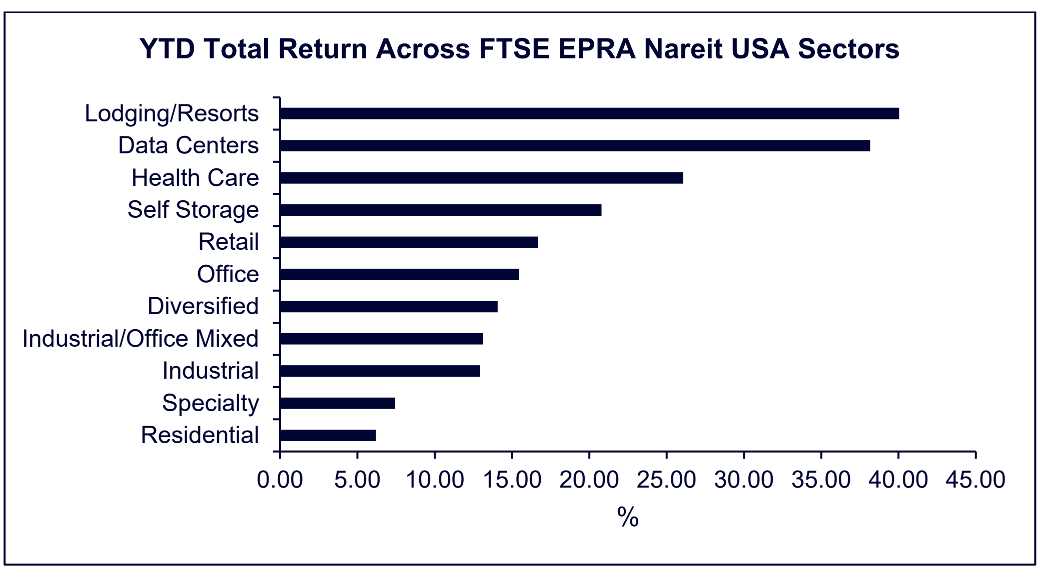
The Real Estate sector of the S&P 500, which includes REITs along with real estate management and development companies, has returned 14.66% year-to-date, ahead of the S&P 500's 12.97% return. The FTSE EPRA Nareit USA Index, which captures a broader universe of publicly listed real estate companies and REITs, has performed even better, returning 19.53% year-to-date.

Over the past decade, the REIT market has evolved meaningfully, reflecting both technological change and demographic shifts. Traditional property sectors such as office, retail, and lodging account for a smaller share of the market today, while data centers, industrial, and healthcare REITs have become increasingly important contributors to earnings growth.



Source: FactSet, Nareit. Index referenced is FTSE EPRA Nareit. Data from 12/31/2016 to 8/26/2026.

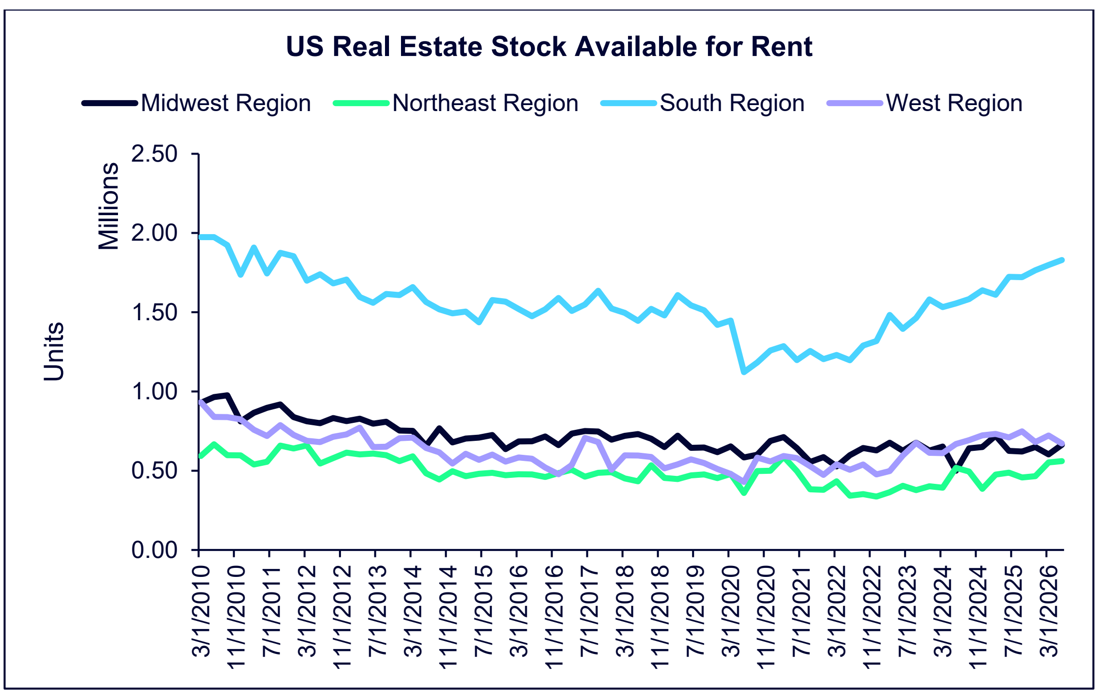
Data centers have been among the clearest beneficiaries of the AI investment cycle. As companies continue investing in AI infrastructure, demand for data center space has surged. Healthcare REITs have likewise benefited from favorable demographic trends. An aging U.S. population is supporting demand for senior housing and other healthcare-related properties, while limited new supply has helped improve occupancy and pricing power across several healthcare subsectors. These trends have been reflected in sector performance, highlighting the growing importance of long-term secular growth drivers within the REIT market.



Source: FactSet, Nareit. Data as of 8/26/2026.

Lodging and resort REITs have been the strongest performers this year, returning 40.04%, supported by resilient leisure spending and a continued recovery in business and group travel. The sector's strength defies concerns that a slowing economy and a weakening consumer would weigh on discretionary travel activity.

Residential REITs, by contrast, have lagged this year, though underlying fundamentals have varied considerably across regions. Demand for rental housing has remained resilient, supported by elevated home prices, higher mortgage rates, and affordability challenges that continue to make renting an attractive alternative to homeownership for many households. However, markets with significant multifamily construction activity have still faced pressure on rent growth as new supply has outpaced demand. In contrast, many Northeast and coastal markets have remained more resilient, benefiting from more limited additions to housing stock and tighter supply-demand dynamics. As a result, the residential REIT landscape remains increasingly bifurcated, with performance driven by both local market fundamentals and broader housing trends.



Source: US Census Bureau, MacroBond. Data as of 6/30/2026.

Greater exposure to structural growth themes may help explain why the sector has proven more resilient in a higher-rate environment than many investors anticipated. At the same time, many REIT sectors continue to be driven by property-level supply and demand dynamics rather than the technology spending cycle, providing investors exposure to a broader set of return drivers than those found in increasingly AI-focused equity markets.

Importantly, this resilience has been supported by improving operating fundamentals across much of the sector. Funds from operations, or FFO, which measures the cash flow generated by REIT operations, increased 12.4%[1] year over year in the second quarter, with 72% of REITs reporting growth. Net operating income, or NOI, rose 6.8%, led by healthcare, data centers, and specialty REITs.

Balance sheet positions have been another factor supporting REIT performance. Despite concerns that higher interest rates would weigh heavily on earnings, most REITs entered this period with conservative leverage, long dated debt maturities, and limited exposure to floating-rate borrowing. Approximately 90% of REIT debt is fixed rate and the average debt maturity is about six years. As a result, much of the sector was able to lock in financing costs before rates moved sharply higher, helping shield cash flows from rising borrowing costs.

Credit markets appear to share this constructive view. REIT credit spreads remain relatively contained despite elevated Treasury yields, suggesting investors view balance sheet risk as manageable and refinancing concerns as more limited.

Ultimately, 2026 has shown that interest rates are only one part of the REIT story. Higher yields remain a headwind, but improving property-level results and healthy balance sheets have helped the sector manage that pressure. At the same time, the outlook varies considerably by property type. As the composition of the REIT market continues to evolve investors may increasingly need to evaluate the asset class through a combination of earnings growth and secular demand rather than interest rates alone.

Source: FactSet, Nareit, State Street Investment Management. Data as of 8/26/2026 unless otherwise stated. The performance data quoted represents past performance. Past performance does not guarantee future results. Investing involves risk, including the risk of loss of principal.

[1] Source: Nareit REIT Industry Tracker, Results include all listed U.S. equity REITS. Data as of Q2 2026.

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* This figure is presented as of June 30, 2026 and includes ETF AUM of $2,203.98 billion USD of which approximately $156.81 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Investment Management are affiliated. Please note all AUM is unaudited.

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AdTrax: 5064514.166.1.GBL.RTL
Exp. Date: 8/31/2027.