3Q 2025 COMMENTARY

CROMWELL CENTERSQUARE REAL ESTATE FUND

Portfolio Manager Eric Rothman discusses the lower interest rate environment, the resilience of real estate investment trusts (REITs) despite tariff pressures, and the current trends dominating REITs.

Would you please discuss the effects of the expected rate cuts on REIT equity performance?

In September, the Federal Reserve cut the fed funds rate, marking a pivotal shift in monetary policy. With a slowing labor market and ongoing worries about inflation, market futures anticipate up to four Fed rate cuts by year-end 2026, potentially lowering short-term yields to roughly 3%, with long-term yields projected at 3–3.5% if the yield curve shifts in parallel.

We believe a lower rate environment will likely be positive for REITs, as it may boost earnings, investor sentiment, and property values. Declining rates enhance cash flows via reduced refinancing costs and make REITs' dividend yields more relatively attractive, potentially drawing yield-seeking investors.

In our opinion, 2026 is shaping up to be a year where interest rates and their effects on earnings, cash flow, and valuations could drive REIT performance. The convergence of these dynamics positions the sector to capture upside as investors increasingly recognize the value of income-oriented investments in a lower-rate environment.

In what ways have REITs shown resilience amid tariff pressures?

Tariffs appear to be an indirect concern for REITs, because the direct costs of tariffs fall on their tenants, not the REITs themselves. Six months following the tariff changes, early signs suggest industrial and retail tenants are managing better than initially feared. Producers, consumers, and foreign suppliers appear to be absorbing portions of the costs, and economic data indicate consumer spending and business sentiment remain resilient. The uncertainty surrounding tariff policies has been more disruptive than the actual tariff levels, and fears have largely subsided.

Rising labor and materials costs, particularly in construction, are driving up replacement costs, while permitting and new supply are constrained. This combination supports the value of existing assets, as fewer new projects are initiated. Over time, limited new supply and higher replacement costs will benefit current property owners, creating long-term structural support for REIT valuations.

Overall, these dynamics suggest a cautiously positive outlook for the sector.

CROMWELL FUNDS

CLASS	INCEPTION	TICKER
Institutional	2/24/17	MRASX
Investor	12/31/97	MRESX

Fund Facts

Specialty: **Real Estate**
Fund AUM: **$93.9 million**
Holdings: **58**

Sub-Advisor

CenterSquare
REAL ASSET INVESTMENT LEADERSHIP

CenterSquare Investment Management, the Fund's sub-advisor, is a management-owned firm specializing in real estate strategies, with $14 billion in assets as of 8/31/25 and approximately 100 employees in 5 offices throughout the world. The Fund's portfolio managers have managed the Fund since 2006.

PORTFOLIO MANAGERS

Dean Frankel, CFA
Managing Director
Head of Real Estate Securities

Eric Rothman, CFA
Portfolio Manager
Real Estate Securities

What trends in REITs do you expect to dominate over the next 6 to 12 months?

The REIT market is well positioned to potentially benefit from several trends, including the following:

1. **Lower interest rates.** As mentioned previously, lower rates reduce the cost of capital, compress capitalization rates, and increase residual property values. Even modest cash flow improvements further reinforce this effect, creating a positive cycle that supports earnings and valuations.
2. **Accelerating earnings growth.** A key but underappreciated factor is the potential for accelerating REIT earnings growth. Current growth of around 4% is expected to rise to 5–6% next year. While modest compared with broader market growth, improving earnings provide additional support for valuations and income stability, creating a reinforcing effect for investors focused on yield.
3. **Stretched valuations in other parts of the market.** Investors may also favor REITs as broader equity markets experience stretched valuations, particularly in sectors such as technology. A cautious market environment could drive capital toward reliable, yield-oriented investments, potentially benefiting REITs.

We believe the combination of these factors—lower rates, accelerating earnings, and potential capital rotation from broader equity markets—creates a favorable environment for REITs.

About Cromwell Funds

Headquartered in Baltimore, MD, the Cromwell Funds provide Financial Advisors with high-quality, differentiated and actively managed strategies in a mutual fund format. The Funds are sub-advised by asset managers who have built a national reputation managing their investment strategies.

Cromwell Funds' Sub-Advisors:

- Aristotle Pacific Capital
- CenterSquare Investment Management
- Corbyn Investment Management
- Foresight Group
- Mutual of America Capital Management
- Tran Capital Management

Contact Us

888.844.4110
advisors@thecromwellfunds.com
thecromwellfunds.com