RESEARCH BRIEF

Marcus & Millichap

FINANCIAL MARKETS

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Amid Rate Hold, Eyes Remain on How Trade and Labor Dynamics Evolve

Fed pauses on rate adjustments to start the year. After three consecutive cuts, the Federal Open Market Committee opted to hold the overnight lending rate steady at a lower bound of 3.5 percent in its first meeting of 2026. While the FOMC viewed the current rate as supporting its mandate to achieve price stability and maximum employment, committee members remain open to future adjustments as warranted by incoming data. Chief among inflation concerns are the ongoing effects of tariffs, while the labor market has shown both signs of weakness and stability in recent months.

Uncertain tariff outlook remains a possible inflation pressure. Core PCE inflation, the Federal Reserve's preferred gauge, fell to 2.6 percent in April 2025 before returning to the high-2 percent band as new import taxes were imposed. Tariff costs may continue to raise consumer prices, as only one in five consumer products companies in a recent survey indicated that they plan to absorb costs as part of their trade policy response in 2026. The extent of tariffs also remains unclear, given their role in ongoing policy negotiations and an upcoming Supreme Court ruling. If the court narrows or eliminates the ability of the International Emergency Economic Powers Act to impose tariffs, it could substantially reduce these costs, at least in the short term. If that were to occur, it might free the Fed to focus more on the other side of its dual mandate.

Labor market may prove quiet but stable in 2026. Employers added just over 580,000 jobs last year, the smallest gain outside a recession since 2003. However, the unemployment rate rose by only 30 basis points to a still-low 4.4 percent. This suggests that while labor demand has slowed, with job openings declining by nearly 900,000 in 2025, labor supply has also declined. Going forward, U.S. population growth may approach zero in 2026, which would reduce upward pressure on unemployment even if job creation were to slow further. If, however, the labor market were to shift into a clearer contraction, it would likely prompt additional rate cuts by the Fed, especially if inflation remains contained. More than half of Wall Street participants expect at least one reduction before 2027.

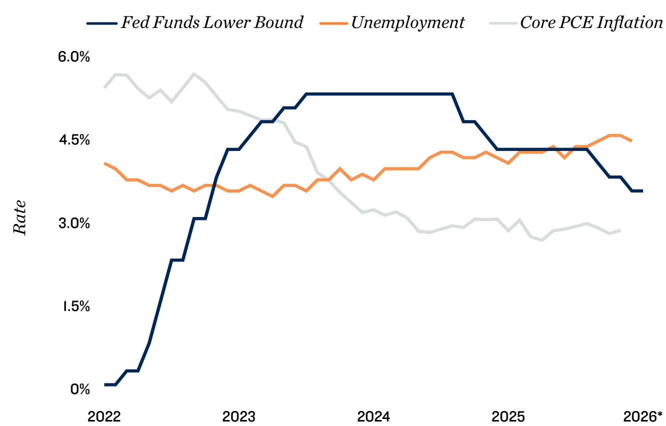
Commercial Real Estate Implications

Multifamily supply-demand balance aids outlook. High barriers to homeownership are keeping some households in the renter pool longer. At the same time, softer hiring in 2026 could moderate relocation-driven multifamily demand. Construction activity is also tempering, however. While apartment net absorption is expected to slow further in 2026, a drop in openings should help keep the overall U.S. vacancy rate in the low-5 percent zone, below the long-term average of 5.6 percent.

Household spending sustaining retail sector momentum. Despite declining consumer confidence, total core retail sales increased 4.4 percent year-over-year in November. This resilience continues to support the retail sector. While store closures outnumbered openings in the first half of 2025, the year ultimately ended with more retail space occupied than vacated. Barring 2020, every year since at least 2001 has seen positive retail net absorption. Record-low deliveries in 2026 will continue to support backfilling of quality existing space, which should keep the national vacancy rate range-bound at 5 percent.

0.4% *U.S. Employment Growth in 2025*	2.8% *Core PCE Inflation as of November 2025*

Unemployment Low Amid Sustained Moderate Inflation



** Fed funds rate as of January, unemployment rate as of Dec. 2025, inflation as of Nov. 2025*
Sources: Marcus & Millichap Research Services; CME Group; CoStar Group, Inc.; Deloitte; Federal Reserve; Moody's Analytics; RealPage, Inc.; U.S. Bureau of Labor Statistics