

“It’s like there’s a horse loose in the hospital. Nobody knows what the horse will do next, least of all, the horse. He’s just as confused as you are.”

- John Mulaney

“If you can’t convince them, confuse them.”

- Harry S. Truman

“Politics is the art of looking for trouble, finding it everywhere, diagnosing it incorrectly, and applying the wrong remedies.”

- Groucho Marx

Having grown up in the ‘60’s, 70’s, and ‘80’s, I know a good fight or battle when I see one: Muhammad Ali versus Sonny Liston (twice), Joe Frazier (three times), and George Forman (only once, unfortunately); Sugar Ray Leonard versus Roberto Duran (three times); Andres the Giant versus Hulk Hogan, the U.S. versus the Soviet Union in an unforgettable 1980 Olympic hockey semifinal. And, though purely cinematic, the list would be incomplete without mentioning Rocky Balboa (aka “The Italian Stallion”) versus Apollo Creed (three times) and Ivan Drago (aka the “Russian Robot”) (once).

I can still hear famed announcer Howard Cosell’s memorable color commentating, “Down goes Frazier, Down goes Frazier...Down goes Frazier!!!,” Al Michael’s equally memorable, “Do you believe in Miracles....? Yes!!!!,” or even the Rocky theme song, without much effort. For those of you unfamiliar with these references from decades past, you have some homework to do (Google, YouTube, or Bing, if you must). You can thank me later.



Which brings me to the first quarter of 2025 and recent events, where the U.S. seems to be picking illogical fights with anyone and everyone, friend and foe alike, with significantly negative consequences: NATO, Canada, Mexico, the E.U., China, and just to leave no perceived adversary unscathed, the Heard and McDonald islands, a group of mostly barren islands in the Antarctic, inhabited only by penguins and seabirds that have apparently been “ripping us off” for too darn long. Let’s see how those penguins like a 10% tariff, which should go a long way to protecting our...krill and squid exports?

While I tend to avoid political discussions in these memos, I can’t help myself this go round, as it is my strong view that these “America First” tariff policies, heavily influenced by an odd and misplaced infatuation with President McKinley and the perception that the late 19th to early 20th centuries represented the United States’ “glory years,” will be remembered as nothing short of a catastrophic blunder, an “unforced error,” or “own goal” to put it in sporting terms. After all, in 1890, most Americans lived in poverty, and a mere 30 years earlier, 13% of Americans were enslaved. And the most common job in the U.S. in 1910? Blacksmith. To say things have changed just a tad since then would be a ridiculous understatement.

First off, the premise that trade deficits are inherently problematic or broadly unfair is wrong. Many countries with whom we have trade deficits (i.e., we import more than we export) simply

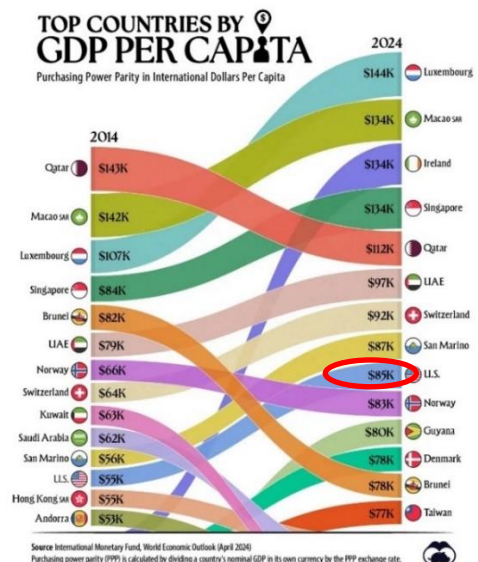
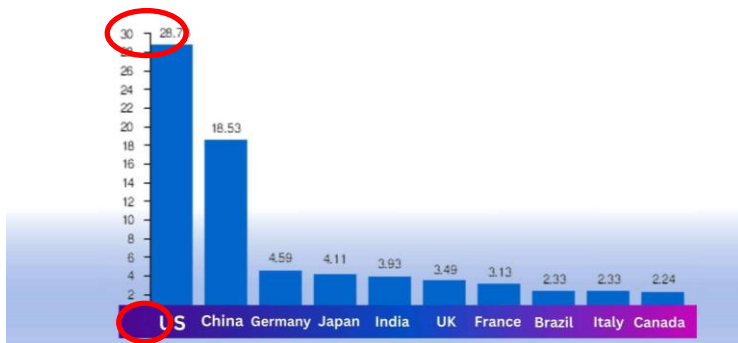
cannot afford what we have to sell. With no condescension intended, folks from Bangladesh (GDP per capita of about \$2,500) or Vietnam (GDP per capita of about \$4,300) generally lack the wherewithal to purchase American-made goods. Meantime, I don't think Walmart customers are ready to pay three times the price for a pack of tee shirts simply because they have a "Made in the U.S.A." label. In a battle between patriotism and one's wallet, you know where I'll put my money (pun intended).

Thus, increasing the tariffs on Bangladesh imports by 37%, per the April 7th Executive Order, will increase the price of "ready-made garments," the country's number one export, in turn decreasing demand. This reduced demand will potentially push Bangladesh into a recession, reducing their need for the few U.S. goods they import (soybeans, scrap iron, and rice). How does that help us? Meantime, are we really going to onshore "ready-made garment" production? Even if that were to happen, which is beyond unlikely, machines and robots, mostly manufactured overseas, of course, would likely do the bulk of the work. It's all so predictable and ironic.

In other instances, countries don't want what we have to sell. China, where the Big Three automakers (GM, Ford, and Stellantis (formerly Chrysler) have a presence, is principally interested in EVs these days, where we lag. In a recent visit to Japan, I don't think I saw a single regular sized pick-up truck or SUV, or even a single U.S. branded sedan. Their roads are too narrow, garages or carports too small (if they have one), their public transportation system is extraordinary, and because the Japanese drive on the other side of the road (the "wrong side," of course), U.S. automakers would need to manufacture cars specifically designed for their market, which is likely not economical even in the absence of tariffs.

Finally, the whole notion that we need to "make America wealthy again" or to reverse economic and trade policies that allowed other countries to "rape, pillage, and rip us off" is preposterous, contradicted by virtually every economic data point imaginable. We are (were?) the wealthiest nation on the planet, and by far. Our 2024 overall GDP of some \$29 trillion swamps that of second-place China (\$18.5 trillion), while Germany and Japan's GDPs are roughly 1/7th of our own. Similarly, our 2024 GDP per capita of over \$85K exceeds that of virtually every large country.

World GDP Ranking 2024

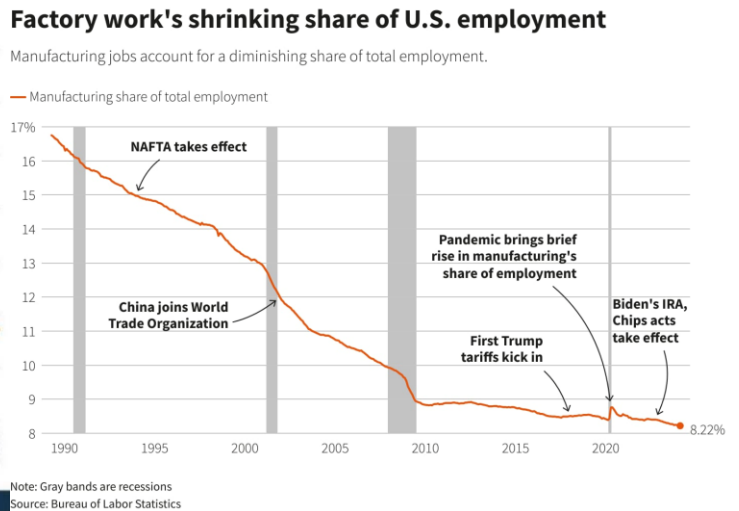
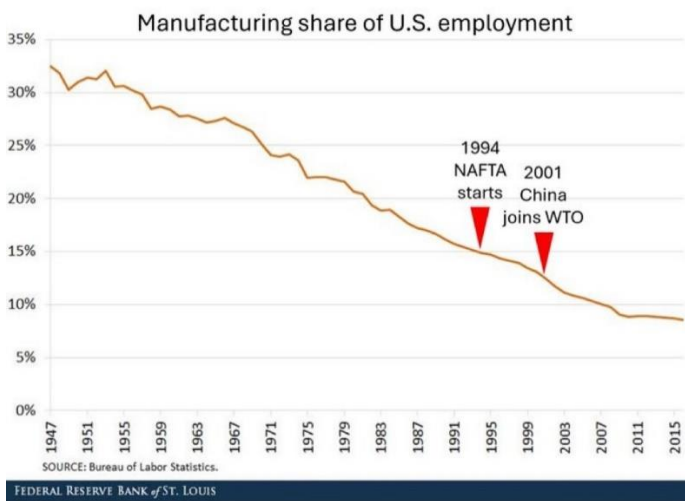


Besides, you would think (hope?) that we might have learned something from Britain's ill-fated and isolationist decision to leave the E.U. back in 2016, sold to voters as a magic bullet that

would revitalize the country’s economy and return it to...yes, glory days of a bygone era. Not only did the imagined revitalization not happen, but quite the opposite. Research suggests that the U.K. economy is 2.5% smaller than it would have been had it remained in the E.U. and per capita income is down about 5%. Oops. That harebrained decision is now getting a run for its money from across the Pond.

Trying to justify the tariffs given the economic harm and dislocation that they have already caused (and will cause) – significant equity market declines, the increased risk of recession and stagflation, increasing interest rates and bond yields, and the incalculable costs associated with the possibility that the U.S. dollar might lose its global hegemony – is simply not possible without substantial revisionist history, impressive twists of logic, and/or a complete inability to comprehend the obvious. Today’s global economy and related supply chains look nothing like those of the past.

In a working paper released last month, Gordon Hanson (Harvard) and Enrico Moretti (UC Berkeley) found that while that 39% of the U.S. jobs were manufacturing-based in 1980, by 2021 that figure had dropped to 20%, continuing a trend that began after World War II. Meanwhile, over the same period, the share of high-paying jobs in finance, IT services, law and other professional services jumped from 8% to 26%. After the 1950’s, manufacturing’s role in the U.S. economy began to slip. Some of this came about merely because Americans became more affluent and devoted more of their spending to services (e.g., travel, restaurants and medical care). Jobs followed the spending, of course, with more people accepting jobs in the service sector (e.g., hotels, banks, law firms and hospitals). From the mid-1960’s through the early 1980’s, manufacturing employment essentially leveled off, as service jobs grew.



In any event, the belief that increasing tariffs with all of our trading partners will miraculously bring back high-paying manufacturing jobs is a pipe dream and fails to appreciate the structural changes that time and technology have wrought. The U.S. now exports in excess of \$1 trillion worth of services, far more than any other country. Moreover, America’s services exports are undercounted as a result of companies moving overseas the rights to intellectual property developed in the U.S. (e.g., patents and trademarks) for tax purposes.

Meanwhile, robotics and automation have and will continue to replace (displace?) countless jobs and I find it hard to fathom that Gen-Zers will be lining up to seek jobs in factories or manufacturing plants, even if they were available. Being a crypto trader, barista, or “influencer” (still trying to figure out how to break into that field) apparently (and depressingly) holds

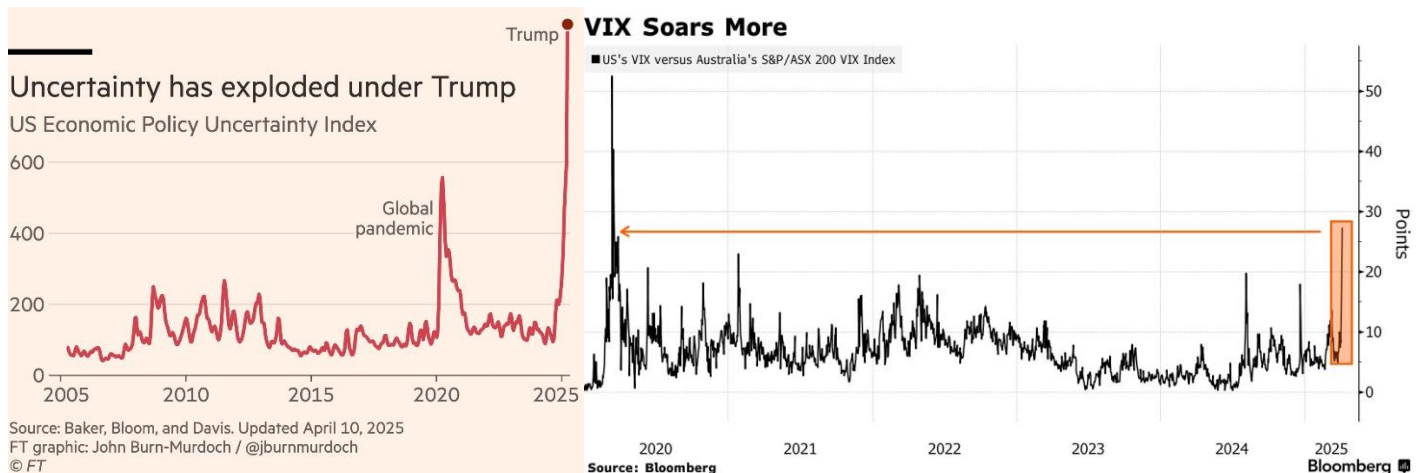
greater appeal. And lastly, other countries simply have comparative advantages - cheaper labor, access to needed resources - that foolhardy tariff policies cannot and will never undo.

Not surprisingly, the markets have not been impressed, forcing the Administration to capriciously backtrack, flipflop, and add hodgepodge exemptions to the ill-conceived tariffs, with more of the same undoubtedly to come. The White House will be hard pressed to ignore increased uncertainty, volatility, and interest rates coupled with decreases in most asset values (including the dollar). And just wait until the White House is greeted with a widespread penguin and seabird protest. They had better have a tarp ready.

In all seriousness, how can any firm make long-term investment decisions in such an environment? Who is going to continue purchasing dollars or our bonds, necessary given our penchant and seemingly unbreakable habit of deficit spending and borrowing, which 100 DOGEs can't stop? If this is 4D chess, I suggest we go back to the checkers board.

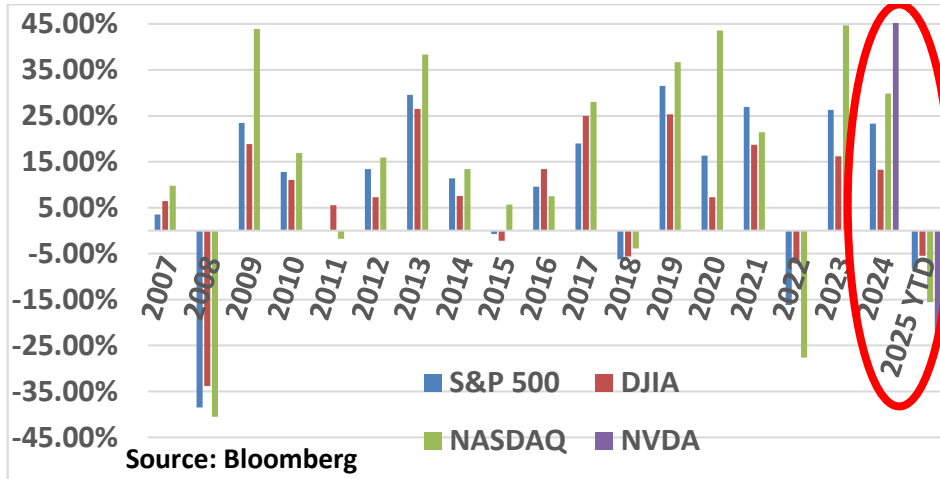
So, how have the markets responded?

Unless you have living under a rock or an oversized Easter egg, not well. Global economic uncertainty is off the charts and market volatility, as measured by the VIX, has soared since the inauguration.



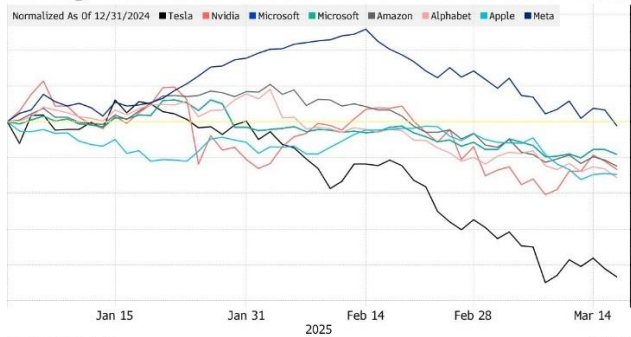
Equity markets are down sharply for the year, reversing earlier gains and excitement surrounding the new Administration and its perceived “business friendly” policies. At last glance, the S&P 500 was down about 12.3% year to date, with the tech-heavy NASDAQ down nearly 18.0%, representing over \$10.5 trillion in losses. Half of those losses occurred over two days immediately following the tariff announcements in early April, representing the largest two-day market loss in history. Globally, another \$10 trillion plus has been wiped out since then. Ouch.

I had no idea that the pathway to making America great again would be substantial declines in equity, bond, and oil prices, whose values are not usually so correlated. I must have missed that lecture in graduate school. Other than gold, there have been few, if any, places to hide. Heck, even Bitcoin is down from \$109,000, where it stood on Inauguration Day, to some \$88,000 at last glance. It's not often you see a market where virtually all assets are liquidated simultaneously. Just a couple of weeks ago, 10-year Treasury yields experienced their highest weekly rise since 2001, increasing 50 basis points, to 4.49% on a “not so Good” Friday.

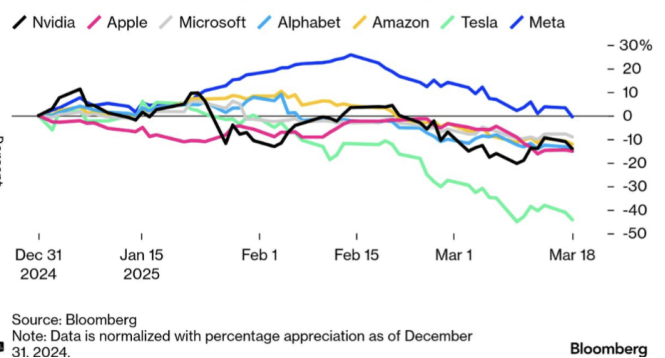


And how about those “Magnificent 7” (Nvidia, Apple, Microsoft, Alphabet, Amazon, Tesla, and Meta) which have been principal drivers of higher equity prices in recent months and beyond? With all of them down for the year, including an over 40% drop in Tesla, they are now being relabeled, the “Not So Magnificent 6 1/2.” Meanwhile, oil prices are down 9.0% this year, to under \$65 a barrel. In many cases, that would be good news for consumers, a harbinger of lower gas prices. Here, it reflects declining economic prospects, here and everywhere. It’s remarkable how quickly markets and investor sentiment can shift, all responding to an ill-conceived policy decision.

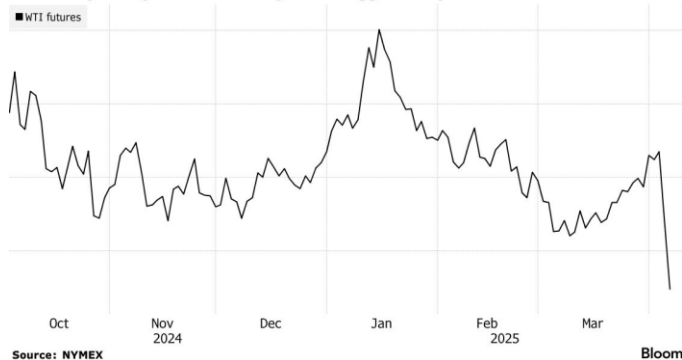
All Magnificent Seven Stocks Are Now in the Red for 2025



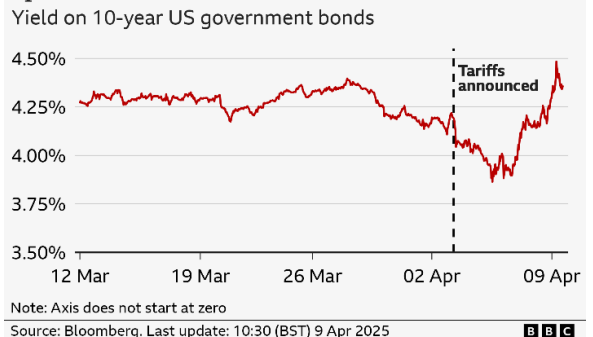
Meta Becomes Final Mag7 Stock to Turn Negative in 2025



Oil Plunges on Trump Tariffs and OPEC+ Shock
WTI collapsed by 7.4% on Friday in its biggest drop since 2022



The cost of US government borrowing has spiked



And looking forward, what will the impact be?

In two words, “not pretty.” Recession. Stagflation. Increased deficits, borrowing, and debt to GDP levels. According to the just released, “April Manufacturing Business Outlook Survey,” published by the Federal Reserve Bank of Philadelphia, new orders “dropped sharply, from 8.7 in March to -34.2 in April, marking its lowest level since April 2020,” data echoed by the New York Federal Reserve, which noted that “manufacturing activity fell for a second consecutive month according to its April survey after “declining steeply” in March. U.S. imports from China are down over 60%, representing a \$24 billion monthly hole in supply chains. By June, are retailer shelves going to be empty?

Week-over-week changes in ocean bookings
Percent change between April 1–8 and March 24–31

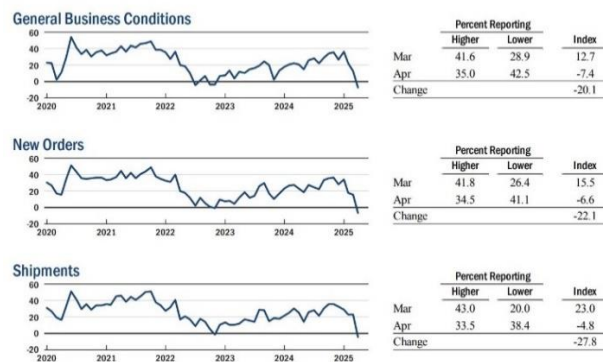
Global TEUs booked	▼ 49%
Overall U.S. imports	▼ 64%
Overall U.S. exports	▼ 30%
U.S. imports from China	▼ 64%
U.S. exports to China	▼ 36%

Source: Vizion



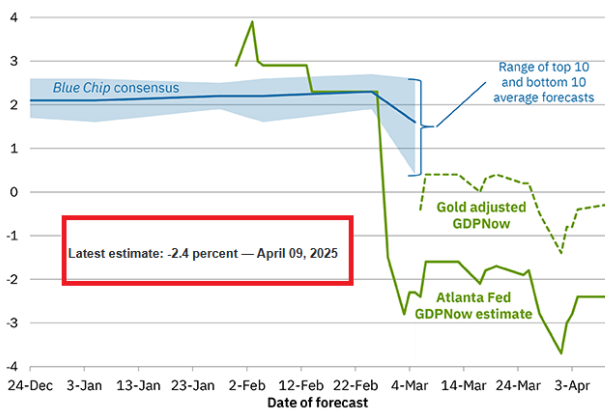
Forward-Looking Indicators

Expectations Six Months Ahead



Meanwhile, I routinely share forecasts published by the Atlanta Fed, which speaks for itself. They predict that in the first quarter GDP will decline, in real terms, by 2.4%. Keep in mind that we may not know for sure until later this year, given the government’s penchant for releasing, and then revising, data. To wit, the 2008 downturn wasn’t “confirmed” until after the S&P 500 had declined almost 50%.

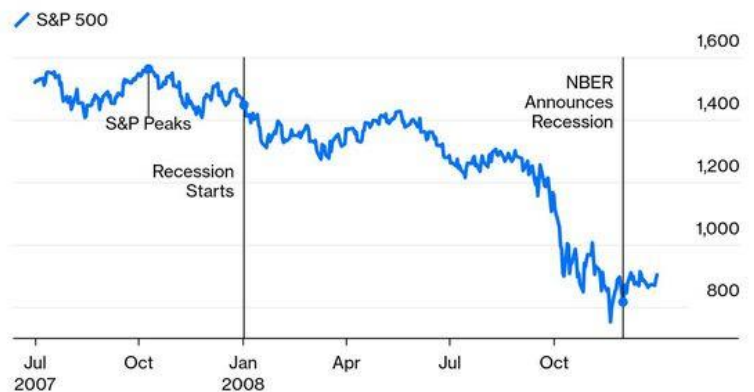
Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q1
Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Best Not to Wait for Confirmation

The 2008 recession wasn’t confirmed until the S&P had fallen almost 50%



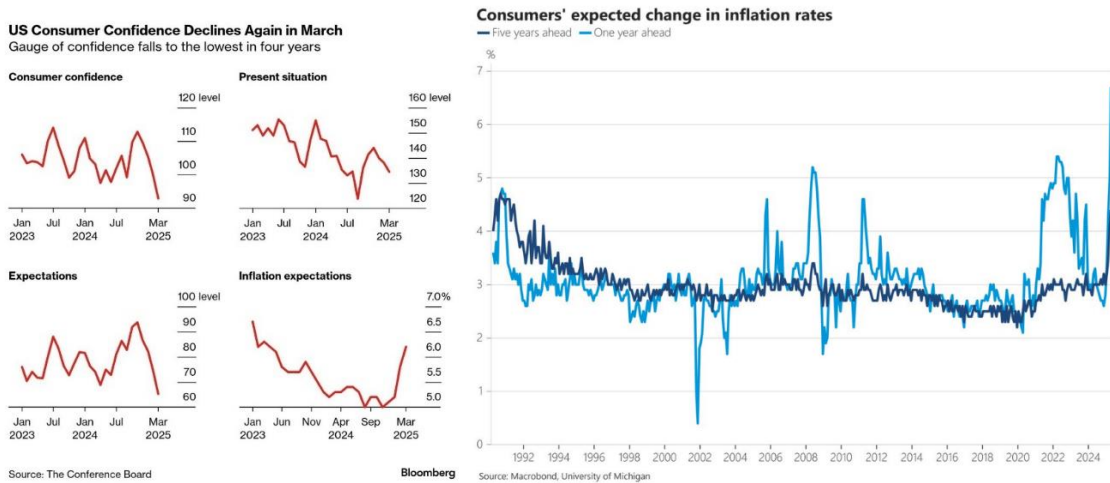
Source: Bloomberg

Bloomberg Opinion

In a strange way, I see a positive in recent events. American consumers, who generally know as much about the capital markets, economics, and trade policies as a pet rock, are going to quickly learn what trade imbalances represent, concepts like comparative advantage, and how the relative wealth of nations dictates import export policy as much as anything else. Some of life’s lessons are painful and I predict this will be one of them.

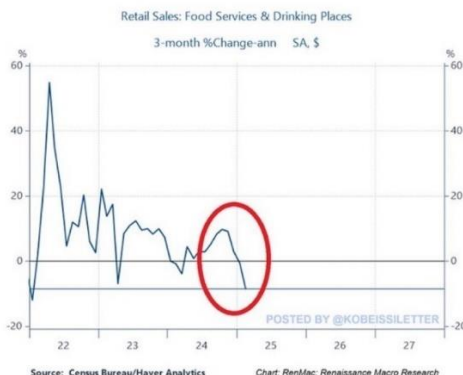
Meanwhile, the market declines and volatility are significantly impacting the consumer, which drives our economy

The best gauge of the U.S. economy is the U.S. consumer, of course, and recent data is sobering. U.S. consumer sentiment tumbled to a more than two-year low in March, while long-term inflation expectations jumped to a 32-year high as American anxiety over the economy continues to build. Between declining consumer confidence, a big jump in jobless claims, and gloomy housing data (see below), there are lots of reasons to worry about the direction of the economy and anxiety has taken hold across markets.

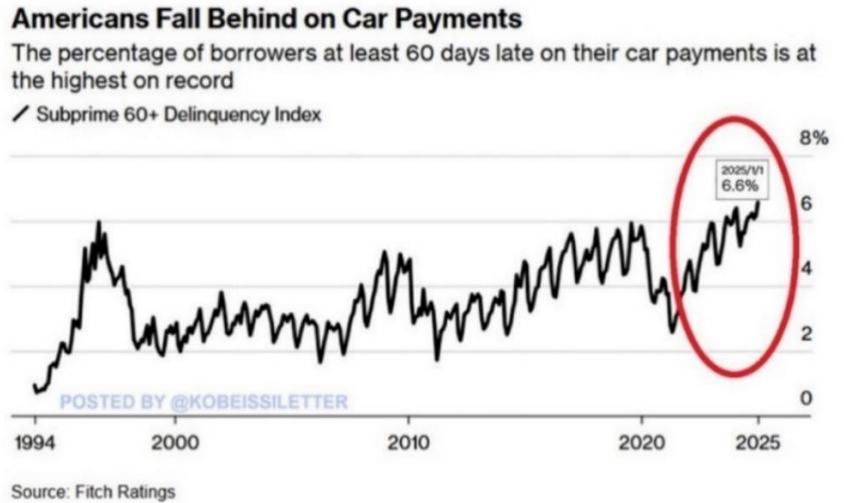
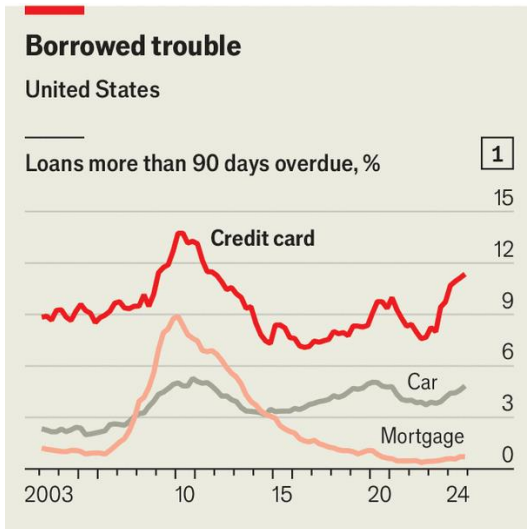


The final March sentiment index declined to 57 from 64.7 a month earlier, below both the 57.9 preliminary number and the median estimate in a Bloomberg survey of economists, according to the University of Michigan. Consumers expect prices to rise at an annual rate of 4.1% over the next five to 10 years, according to data released last week, the highest expectation since...1993. The Conference Board's gauge of confidence decreased 7.2 points to 92.9 while the median estimate in a Bloomberg survey of economists called for a reading of 94. The dollar, meanwhile, is headed for its worst month in over a year (see below), recently declining to a three-year low.

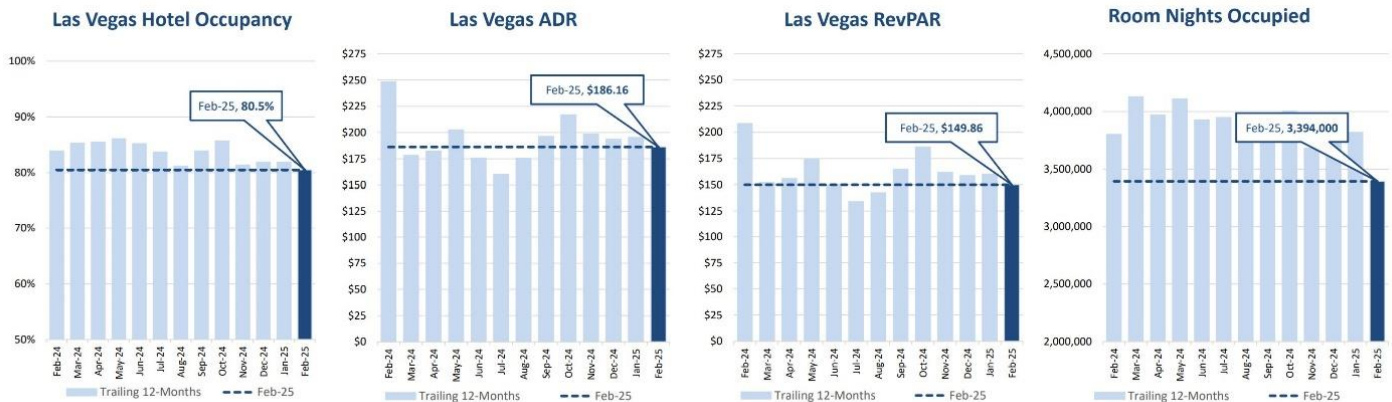
Consumers also see costs rising 5% over the next 12 months, the highest since 2022. But even more worrisome is what Americans see ahead for the job market. For years, the U.S. has left the rest of the post-pandemic world behind with low employment levels (levels not seen since the 1960's) and record levels of consecutive monthly job growth. Well, according to the most recent survey, two-thirds of consumers expect unemployment to rise in the year ahead, the highest reading since 2009. Meantime, recent retail sales data from Walmart and dining/drinking establishments paints a worrisome picture, though I seem to be imbibing more of late.



Meanwhile, over 11% of credit card balances in the U.S. are now over 90 days delinquent, the highest since 2011, while the percentage of Americans behind on their car payments (at least 60 days) sits at record levels.

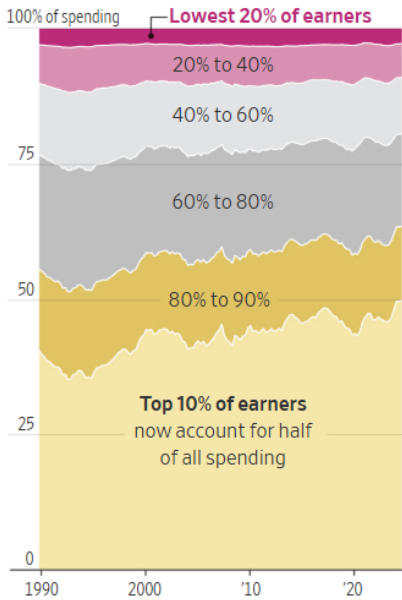


And Vegas economic activity, perhaps one of the best indicators as to the health of the U.S. consumer? It looks like blackjack players are folding, perhaps even surrendering, as The Strip reported \$690.3 million in February 2025 gaming revenue (most recent available data), down from \$800.6 million in February 2024. While March data is not yet out, I will go out on a limb (or a Cirque du Soleil trapeze) to predict that the declines will persist into March and the rest of the second quarter.



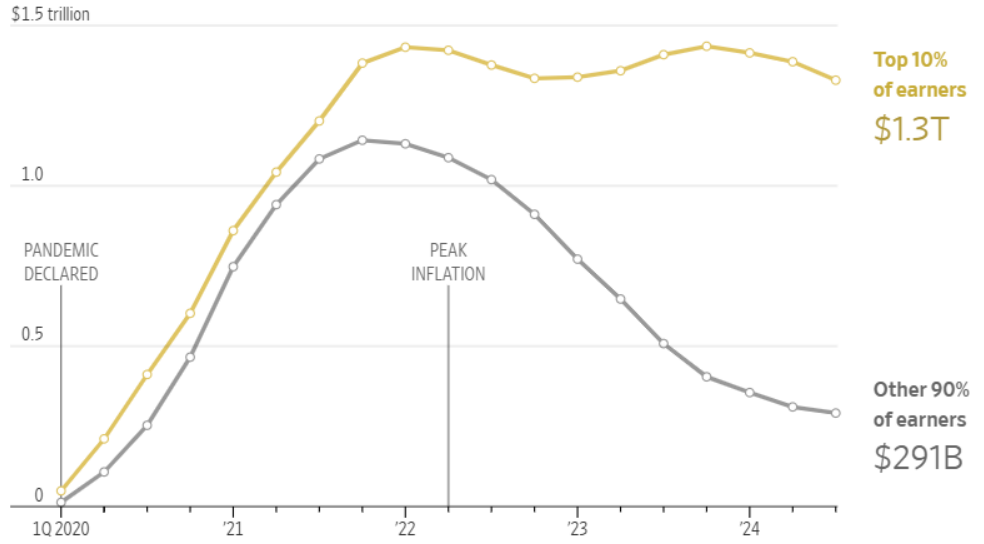
Finally, there are other worrying economic data points surrounding the typical U.S. consumer and those involve “saving and spending.” In short, the “top 10% of earners” now represent half of all spending and over 80% of all savings in the U.S., at or near record levels. This glaring disparity between the “haves” and “have nots” is telling and potentially destabilizing as we look at the potential impacts of a recession, tariffs, and an economic downturn. Clearly, increasing taxes such as tariffs will disproportionately impact lower-income individuals and households and will likely have a greater negative impact on overall consumer demand and GDP than a more progressive tax based on income.

Share of spending, by income group



Source: Moody's Analytics

Cumulative excess savings, by income



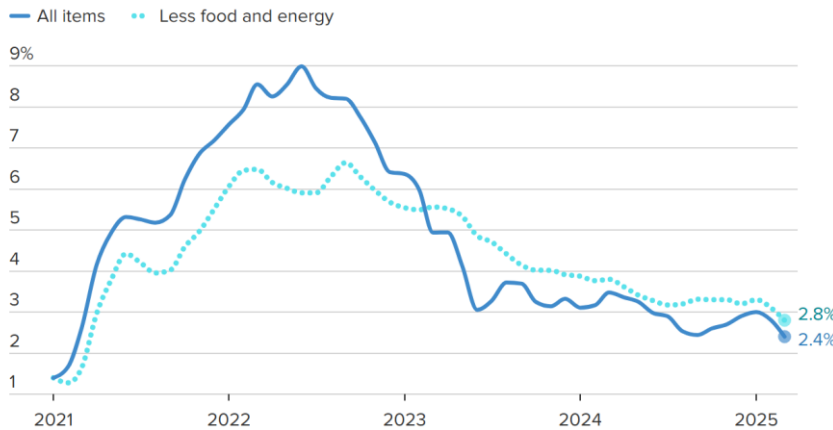
Note: Chart shows savings above the typical prepandemic saving rate.
Source: Moody's Analytics

Are there any green shoots, any positive macroeconomic data?

Providing perhaps a glimmer of hope and relief for consumers in all the tariff battles, U.S. inflation cooled broadly in March. The overall CPI declined 0.1% from a month earlier, the first decrease in nearly five years, reflecting declines in energy costs, used vehicles, auto insurance (major source of inflation in recent years), hotel stays and airfares.

U.S. consumer price index

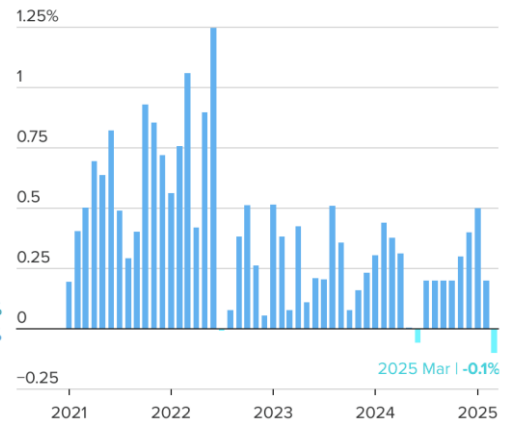
Year-over-year percent change | Jan. 2021–March. 2025



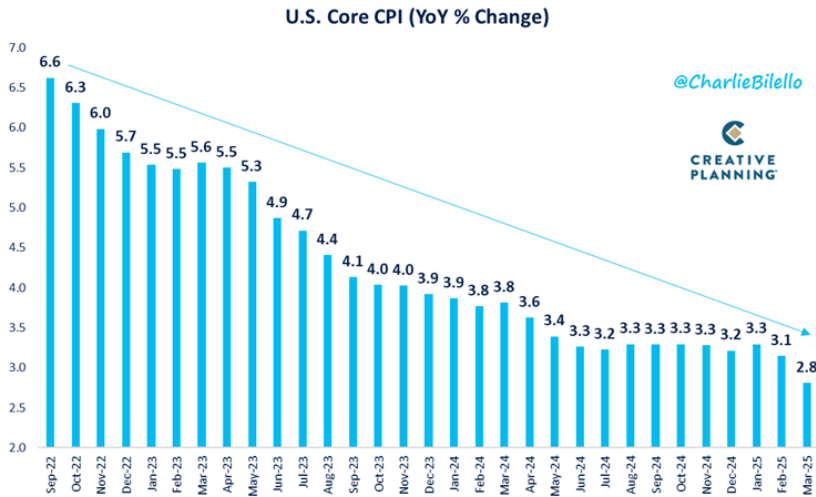
Note: Not seasonally adjusted
Source: U.S. Bureau of Labor Statistics
Data as of April. 10, 2025

U.S. consumer price index

Month-over-month percent change | Jan. 2021–March. 2025

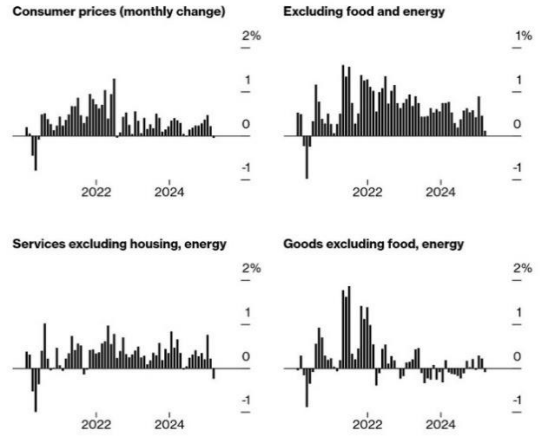


Note: Seasonally adjusted
Source: U.S. Bureau of Labor Statistics via FRED
Data as of April 10, 2025



US Inflation Cools Across the Board in March

Economists predict higher prices in the months ahead as tariffs kick in

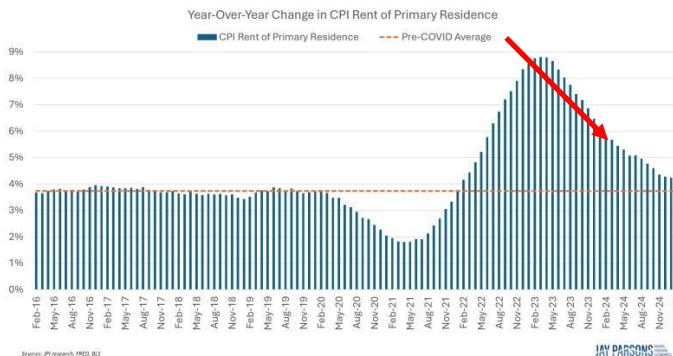


Source: Bureau of Labor Statistics, Bloomberg

Bloomberg

In March 2025, the “shelter” component CPI saw a slight increase of 0.2% month-over-month, and 4.0%, year-over-year, the smallest 12-month gain since November 2021 and down from a peak of 8.2% in March 2023 (highest since 1982). Given its long lag (versus real-time rental data), a continued move lower in future shelter costs is expected, which should lead to continued declines in core inflation.

CPI Rent Inflation Continues Rapid Cooling, Nears Pre-COVID Levels



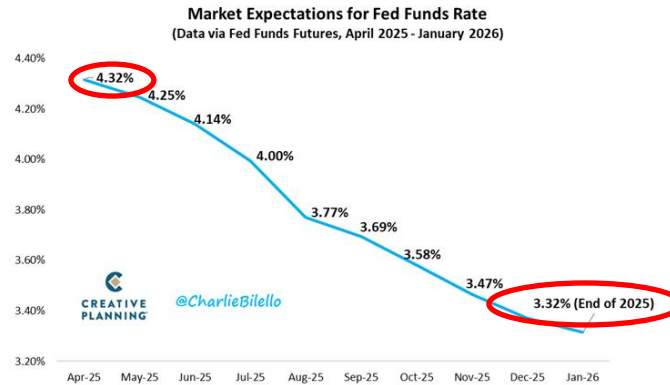
Source: J.P. Research, FRED, BLS

JAY PARSONS

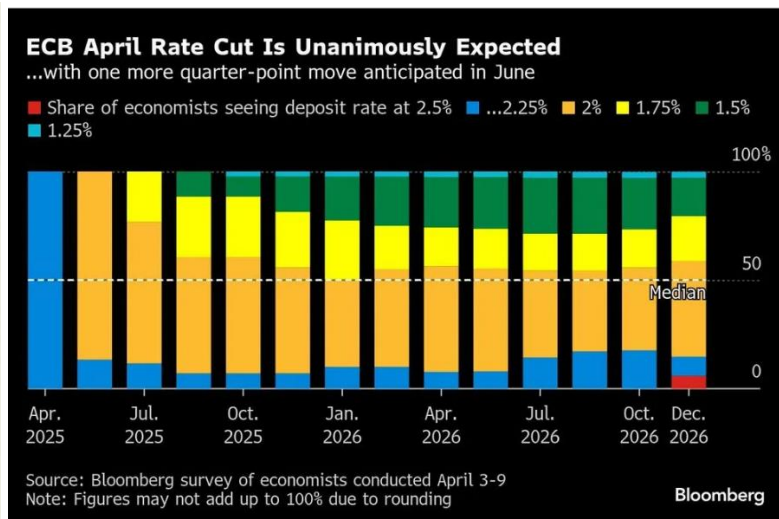
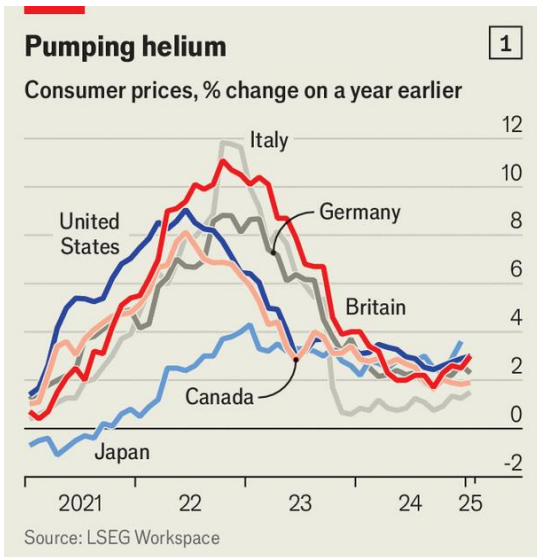
According to “Truflation,” a digital platform that provides real-time inflation data by gathering information from a wide range of sources, U.S. inflation is now running at 1.34%, well below the Fed’s two-percent inflation target. While one should always be skeptical of any data source, it is at least worth noting.



So...despite all the fears of higher inflation triggered by tariff policies, the market still anticipates that interest rates, at least as measured by the Fed Funds rate, will decline 100 basis points between now and January 2026.



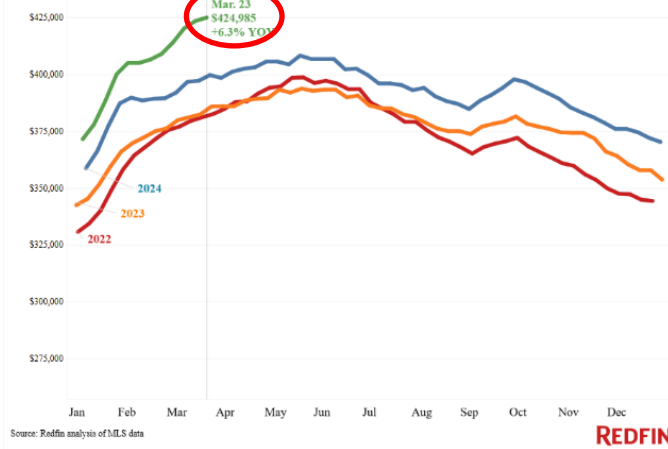
Ultimately, with all the moving parts (e.g., tariffs, DOGE and public sector layoffs, weakening in private sector employment, natural disaster recoveries (California, North Carolina, elsewhere), declining consumer confidence, softening shelter costs), it's hard, if not impossible, to find consensus as to where prices and inflation are heading (and hence, the Fed), and my Ouija board is giving mixed signals. Meanwhile, across the rest of the world, inflation is also moderating and the European Central Bank reduced its main interest rate again last week (25 basis points), to 2.25%, as was “unanimously expected,” amid concerns about slowing growth and, yes, the tariffs.



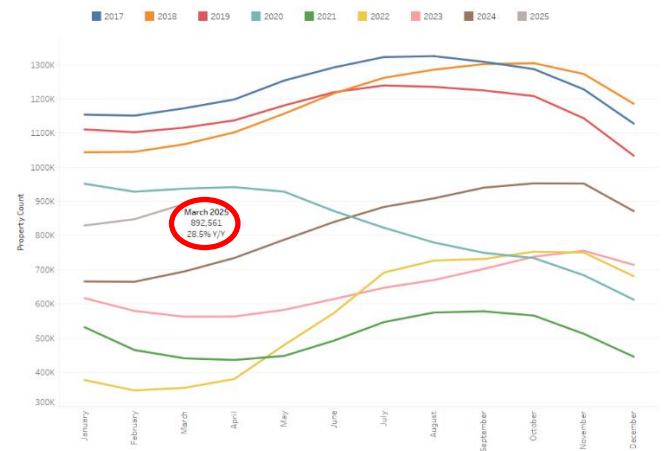
What about housing? How have prices, activity, and rents responded amongst all the tariff noise and other economic and political uncertainty?

While median asking prices remained firm, up over six percent year-over-year, inventory of homes for sale rose sharply (28.5%) and new listings were up 10.2%, all the highest levels in three years, while pending sales declined 5.2%, according to the National Association of Realtors. Homes spent a median of 53 days on the market, and 17.5% of listings saw price reductions, the highest share in March since at least 2016. The single-family residential market is feeling the effects of higher mortgage rates and increasing uncertainty.

Median Asking Price +6.3% Year Over Year
4-week rolling average of the median asking price of newly listed homes for sale



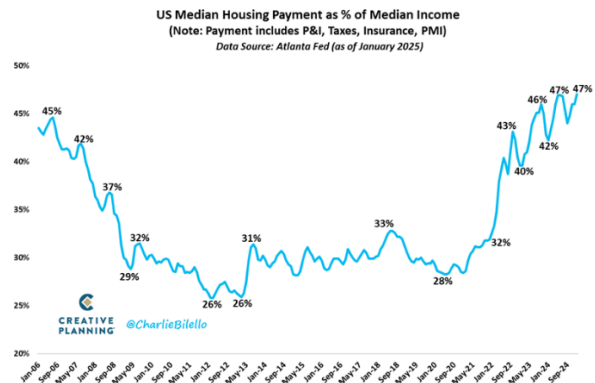
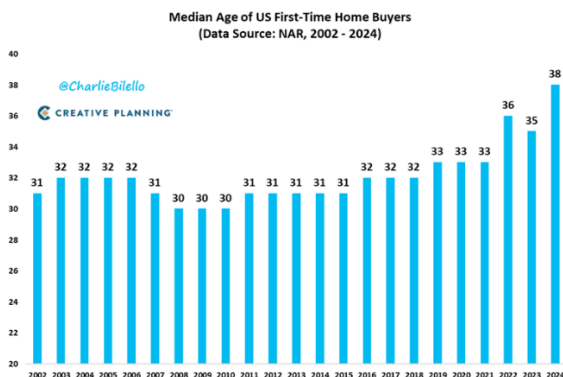
Active Listing Count
Up 28.5% Y/Y in March 2025



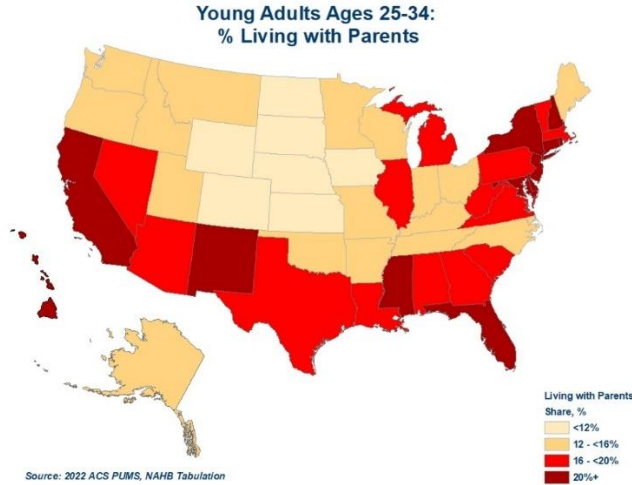
However, national level data masks divergent regional trends. I know it's shocking, but location matters. The Northeast and Midwest markets have far more prospective buyers than available homes, while parts of the Sunbelt are seeing a flood of houses for sale. In the Northeast, new construction is constrained by land availability and zoning limitations, impediments not as commonly found in the Sunbelt.

If you were wondering, the state with the fastest-moving market in February was Rhode Island of all places, where the median home sat on the market for a little over a month, 37.5 days. Meanwhile, the slowest-moving market was Montana, where homes are sitting on the market for over 108 days on average. In Southern Florida, builders are dangling significant incentives to sell newly built homes. Investors, second-home owners and retirees are putting homes on the market to escape storm damage and rising insurance rates. Nationally, of the 300 largest housing metros, home prices fell in 42 of them, year-over-year, with markets in Florida (20) and Texas (9) topping the list, comprising about three quarters of the submarkets experiencing price declines.

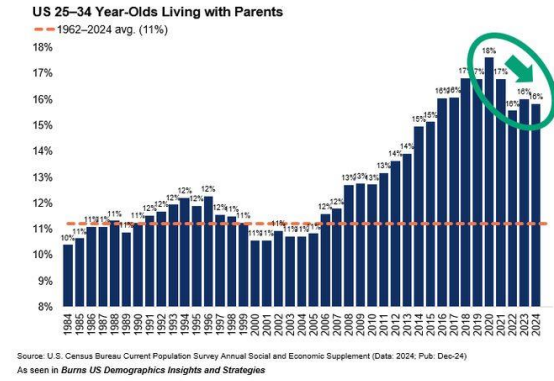
And in this quarter's edition of "Housing Costs Are Too Damn High," I bring you a few data points worth considering, echoing data I have provided previously. One, at last glance, 30-year fixed rate mortgages average about 6.83%, less than 10 basis points lower than the start of the year, but about 20 basis points higher than early March. Two, the median age of a first-time homebuyer continues to increase, up to 38 at last glance. And finally, the median household now spends 47% of their income towards housing costs, matching record highs.



Perhaps that explains why more than 12% of young adults aged 25 to 34 still live with their parents in a majority of states, while the figure exceeds 20% in many, and not just California and New York. The silver lining is that the overall percentage of young Americans still living with their folks has remained steady and has dropped from COVID peaks (18%). As discussed below, these “new households” represent renters of apartment units, reflected in the strong multifamily absorption discussed below.



800K young Americans adults left moved out in 2021–2024 and formed new households, mostly rentals.



Finally, I bring you two other housing related data points, one setting forth the most affordable cities in the U.S. (Detroit and a couple other midwestern locales top the list) and a breakdown as to the itemized costs of building a new single-family home in the U.S., with the obvious punchline. It ain't cheap (over \$428K) and in total, far greater than it was just a couple of years ago and tariffs certainly won't help the cause.

AMERICA'S MOST AFFORDABLE CITIES

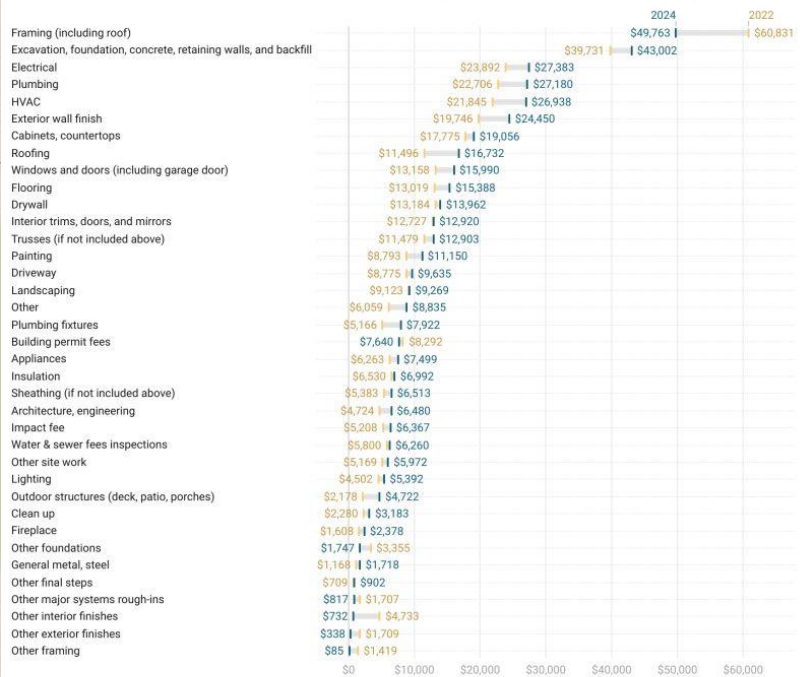
Rank	Average monthly spend
1	Detroit, MI \$1,640
2	Cleveland, OH \$1,735
3	Dayton, OH \$1,773
4	El Paso, TX \$1,784
5	Rochester, NY \$1,858
6	Oklahoma City, OK \$1,896
7	Albuquerque, NM \$1,907
8	Memphis, TN \$1,912
9	Louisville, KY \$1,936
10	Indianapolis, IN \$1,976
11	Tucson, AZ \$1,982
12	Saint Louis, MO \$2,003
13	Kansas City, MO \$2,045
14	Philadelphia, PA \$2,060
15	Cincinnati, OH \$2,065
16	Omaha, NE \$2,091
17	Pittsburgh, PA \$2,099
18	Columbus, OH \$2,101
19	San Antonio, TX \$2,161
20	Jacksonville, FL \$2,164
21	Milwaukee, WI \$2,212
22	Birmingham, AL \$2,214
23	Houston, TX \$2,232
24	Minneapolis, MN \$2,237
25	Fort Worth, TX \$2,249

The 50 largest cities were ranked by avg. household spending on:

- alarm & security
- auto insurance
- auto loan
- cable & internet
- health insurance
- life insurance
- mobile phone
- mortgage
- rent
- utilities

Source: dxa/INSIGHTS (2024)

The average itemized costs of constructing a typical new U.S. single-family home

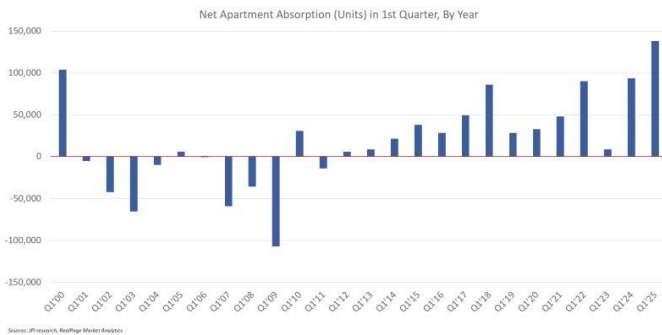


Meanwhile, it looks like the fundamentals surrounding the multifamily market may finally be turning a corner based on first quarter data

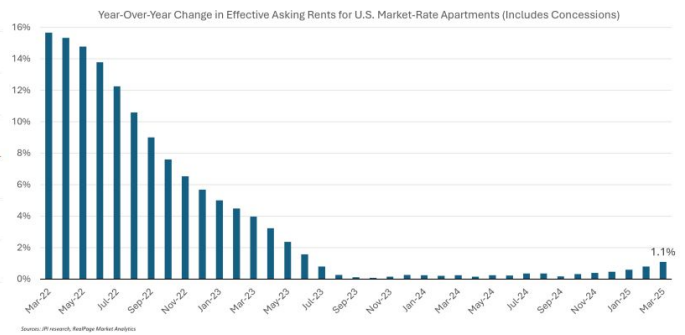
The first quarter of 2025 was one of the very best for the multifamily market in some time, at least in terms of net absorption (move-ins minus move-outs), which equaled 128,000 to 138,000 units, depending on the source, as demand surged during the period. Net absorption above 100k units is something you might see during the second or third quarters, peak leasing seasons, but rarely in the first quarter. These results represent some of the strongest rental activity in the last 25 years. Overall, rents inched up to a 21-month high of 1.1%, year-over-year.

Between stronger demand, reduced new deliveries, higher single-family home prices, and elevated mortgage rates, multifamily market fundamentals are improving, such by the end of this year, every major metropolitan market is expected to see positive rent growth. If anything, tariffs will increase construction costs and further temper supply looking further out. Demand was strong virtually everywhere, especially in the supply-heavy Sun Belt (led by Texas), but was also strong across much of the East Coast, West Coast and Midwest.

U.S. Apartment Demand Surged in 1st Quarter 2025

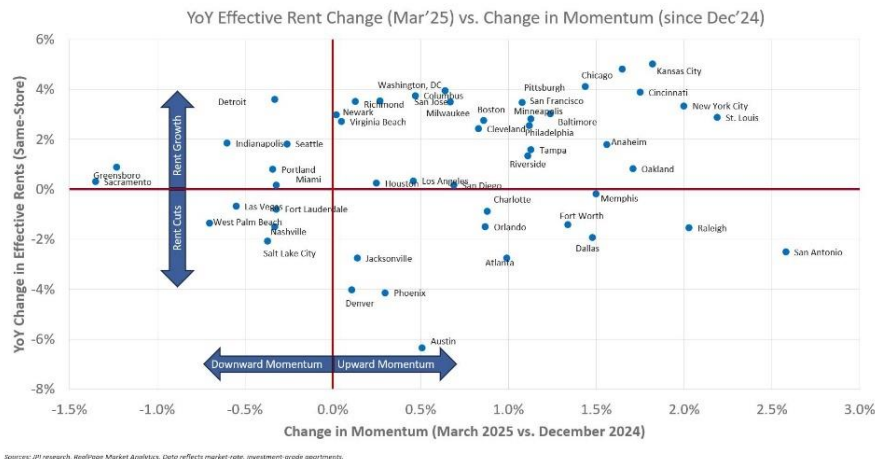


U.S. Apartment Rent Growth Crawls Up to 21-Month High



But just like in the single-family world, not all markets or assets are created equal. Some of those markets (particularly Midwest and the coasts) are already seeing rent growth levels topping 3% again. Year-over-year rent changes accelerated in 90 of the nation's 150 largest metro areas between February and March. The increase was fairly broad, spreading from big coastal markets (e.g., New York) to smaller Sun Belt markets like Charleston, and many others in between. Most of the higher-supplied markets are already showing signs of turning the corner and could be candidates for faster rebounds.

Rent Momentum Shifting Upward Again in Most U.S. Markets



One of the key drivers to higher multifamily rents is wage growth - especially among younger workers more likely to be renters - which has outpaced apartment rental growth for 27 consecutive months. If apartment demand remains moderately solid over the next six months as supply tapers off and the economy doesn't fall off the rails, virtually all markets should continue to experience rental growth through the remainder of 2025 and into 2026. Obviously, there are a lot of big questions about the state of the economy going forward, which can put one big wrench into any forecast.

But if the economy holds up as supply drops off, we could see rent growth continue to reaccelerate in line with most forecasts for 2025. While we are hardly out of the woods with respect to the many headwinds that have vexed (hexed?) the multifamily markets (e.g., elevated interest rates, inflation, increased insurance and wage costs, employee turnover, illiquidity, and inadequate rental growth, mortgage debt coming due this year and next), improving fundamentals are beyond welcome news. My fingers and toes are crossed that these favorable trends persist for the remainder of the year and beyond.

While we are on the topic of the multifamily markets, I thought I might also provide some broader data from the developed world, which have been witnessing tremendous apartment rental growth, "through the roof," as the Economist characterized it. From France to New Zealand to Switzerland, rents are up and in many places, sharply. In Portugal, they are up 7.0% this year. In Switzerland, as much as 20%. In France, a more modest 2.5%. Ireland now has "rent pressure zones," literally labeled "RPZs," where annual rent increases are capped at 2.0%. In Germany, they have implemented "rent brakes" or "Mietpreisbremse" (don't you dare ask me to pronounce it), forcing landlords to consult with a government index to determine what rents they can charge, which should sound quite familiar to landlords in many U.S. cities.

Meantime, I am sure it will come as no surprise to most (all) of you that these government interventions into the private housing rental markets have done absolutely nothing to stymie rent increases, just as one would have predicted. Old habits die hard. Higher nominal wage growth, at least in the G10 countries, is also partly responsible.



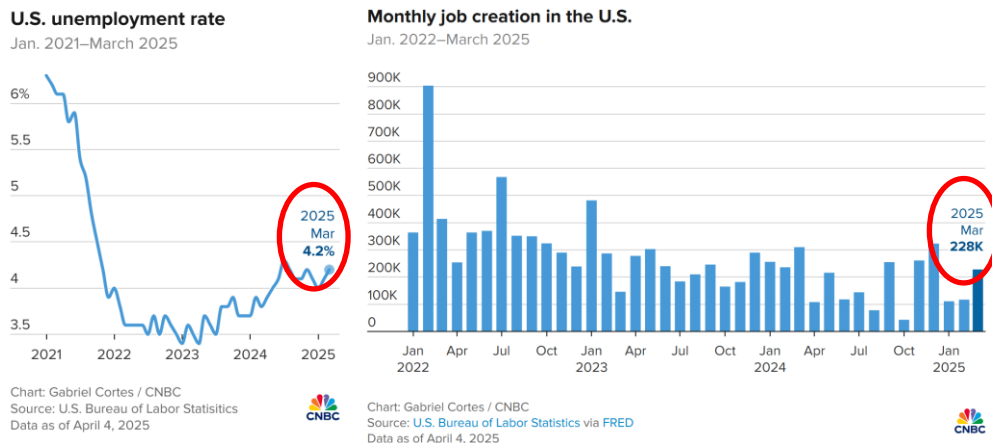
Finally, to reiterate what I alluded to earlier and that is how tariffs might impact rents, at least over time. They should increase them, if just because tariffs will increase material and other building costs. According to the National Association of Homebuilders, tariffs could increase the average cost of a new home by as much as \$10K, due to increased costs for lumber and gypsum

(wallboard), principally sourced from Canada and Mexico. For example, a 25% tariff on Canadian lumber, which is already subject to a 14.5% duty, would increase the total cost of lumber used in a typical home by some 40%. Yikes.

How about the job market? Has the economy continued to add jobs, in spite of announced layoffs and the DOGE-ing of the public sector? How about wages and wage growth?

In summary, the U.S. labor market (nonfarm payrolls) added 228,000 jobs in March, surpassing February's "revised gain" of 117,000 and analyst expectations (140,000 jobs). However, the unemployment rate increased slightly to 4.2% as the labor force participation rate increased (7.1 million individuals remain unemployed). Job gains occurred principally in health care (54,000 jobs), social assistance and retail (24,000 each), and transportation and warehousing (23,000).

Of course, these figures may prove meaningless as they precede the recent tariff announcements, which are likely to result in job losses, at least over the next couple of quarters, as well as the significant DOGE-inspired layoffs from the public sector, which are estimated to be more than 275,000 to date.



Average hourly earnings grew by 0.3% month-over-month, in line with forecasts, though the year-over-year growth of 3.8% was the lowest level of wage growth since July of last year.



Not just the culprits (read: California) typically involved in rent-controlling endeavors were active this quarter, as others joined the fray

Over decades at this point, I have written extensively about issues in housing and the public sector's foolhardy and misdirected efforts to address the oft heard and not untrue mantra that the "rent is too darn high." Cost-burdened renters are forced to allocate increasing amounts of household income to housing (see data above), so that when eggs triple in price, not just omelets suffer. Unfortunately, too many politicians are naïve, uneducated in basic economics, and/or act in counterproductive ways to mollify anti-growth, anti-development constituents to the detriment of equally ill-informed renters in their communities.

I recently testified at a local City Council meeting (in Glendale, about five miles north of downtown Los Angeles) about a modest but needed housing project of less than 150 units, of which at least 19 would be designated as "affordable." Based on the testimony of many local residents, you would think that the developer was building a nuclear power plant in their neighborhood. While the Council has not yet decided whether to greenlight the project or not, I am not holding my breath.

Meanwhile, the State of Emergency declared in California and Los Angeles following the devastating wildfires in January includes several housing related provisions designed to ensure that rent increases for existing tenants are modest (generally, 4% max) and prospective landlords don't gouge displaced homeowners or residents. While The Los Angeles City Council was considering a complete freeze in rents and an eviction moratorium, they tabled the proposal for "further research and discussion," whatever that means. Hopefully, they will not pass such draconian measures and will reach some other compromise.

Meanwhile, the crazy train surrounding housing policy doesn't just run along the West Coast. A Florida lawmaker is making headlines for proposed legislation which would essentially block single-family rental investors (defined as anyone, including LLCs or entities, which own more than three rental homes in a given county) from buying single-family homes or even building/funding new single-family rental homes in new subdivisions. While its odds of passing remain unclear, it's refreshing to see a red state proposing shortsighted, ineffective, protectionist housing policies, joining my blue state friends. There is no monopoly on stupidity.

However, opportunity zones remain one apparent bright spot in the public policy efforts to make housing more affordable

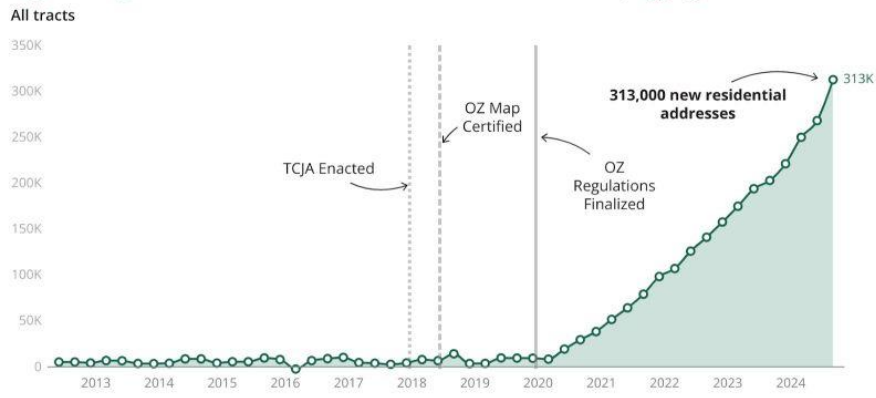
As you may recall, the Tax Cuts and Jobs Act of 2017 created "Opportunity Zones," ("OZs") an economic development tool that provides incentives for investors to invest in economically distressed and lower-income communities. According to research recently published by the Economic Innovation Group, OZs have created over 300,000 housing units, at far lower costs per unit (\$26K) given the available tax subsidies. Economic carrots (read: incentives) are far more effective than economic sticks like rent control.

Their findings and conclusions are worth noting:

- Prior to the legislation, neighborhoods that became OZs had not experienced any meaningful increase in housing supply for a decade. Since then, 313,000 new housing units located within OZs have been built, with more still under construction.
- OZs outpace national averages in creating new housing supply.

- OZs account for 48% of new housing in designated tracts, 16% across all low-income communities, and 4% of all new housing nationally. One of the report's authors wrote that "these are astonishingly large results" impacting not only urban areas, but rural communities and everything in between.

Opportunity Zones' effect on the count of residential addresses, aggregate effect



Source: The Impact of Opportunity Zones on Housing Supply by Benjamin Glasner, Adam Ozimek, and John Lettieri



- At a subsidized cost of \$26k/unit, building residential units in OZs is far cheaper. It's no surprise that tax incentives, like other economic carrots, can be effective means to increase needed housing supply, especially in underserved communities.
- Because OZ projects have a "by-right" qualification, they are not subject to nearly the same bureaucratic local government pre-approvals that typically accompany commercial real estate projects.

Anyhow, given our need for more affordable housing, we should continue to promote and expand OZs and other incentive programs like it, despite their potential shortcomings. Let's see if policymakers agree.

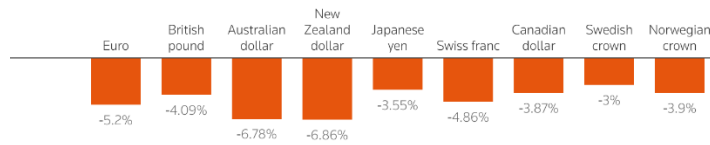
Finally, there are a few other issues warranting discussion before we bid another quarter and another quarterly memo adieu

- **After a strong 2024, the U.S. dollar is swooning following the tariff announcements:** Earlier today, the U.S. Dollar hit another three-year low against the euro, the British pound, the Japanese yen and the Swiss franc. The dollar decline has been historic, with the U.S. Dollar Index slipping nearly 9% this year, its worst start to a year since 1995. Because of its role as the primary currency used for global trade and finance, swings in the dollar have significant consequences.

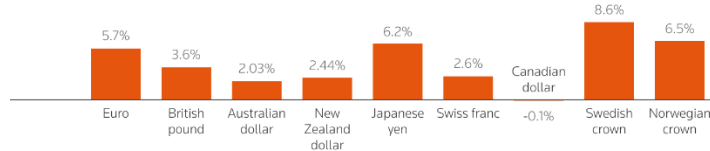


Developed market currencies weakened after Trump's win, but have nearly all rallied against the dollar this year

Nov 5 2024 - end 2024



Jan 1 2025 - March 13

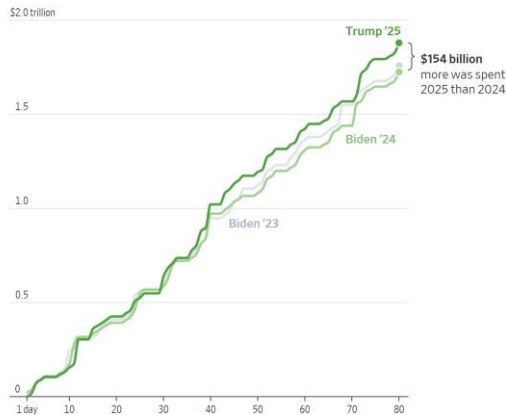


Note:
Source: LSEG | Reuters, March 13, 2025 | By Alun John

Investors and others assessing Trump's schizophrenic tariff and trade policies have reacted by dumping U.S. assets, including dollars. I am not entirely sure what the Administration's thinking is, assuming there is any real thinking going on, because the hegemony and strength of the U.S. dollar is a cornerstone of our economic stability and view as a safe (or safer) haven in a risky world. The view that a strong U.S. dollar has made American manufacturers less competitive (read: more expensive) and fueled trade deficits may not be without some foundation, but I simply don't see that as a justification for allowing the dollar to weaken so substantially. The markets clearly agree.

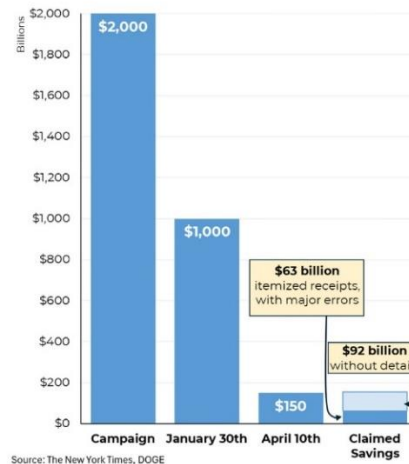
- Despite all the rhetoric about it uncovering tremendous amounts of fraud and waste, DOGE and Elon Musk's efforts appear to mostly be a dud, just as I predicted. Government spending remains unabated and debt levels continue to grow, all while we teeter to recession:** As Elon Musk appears poised to depart the West Wing, his DOGE team doesn't have a heck of a lot to show for their work and breathless announcements and tweets about all their supposed wins. At last glance, it looks like DOGE has trimmed about \$150 billion in costs from a \$6.8 trillion budget, and less than half of that figure is actually verified. In sum, they removed a small pimple from the backside of an elephant. Whoopdeedoo. In short, DOGE is a DUD, at least thus far.

Cumulative total spending since Trump's inauguration compared with the same periods in 2023 and 2024



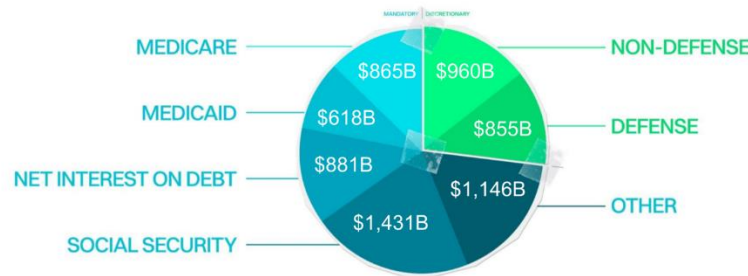
Note: Day 1 for 2025 is Jan 20; dates for 2023 and 2024 are aligned to match the 2025 days of the week and account for the leap year.
Source: Treasury Department

DOGE Savings: Promises vs Reality
Musk's Promises & "Wall of Receipts" Claimed Savings



Source: The New York Times, DOGE

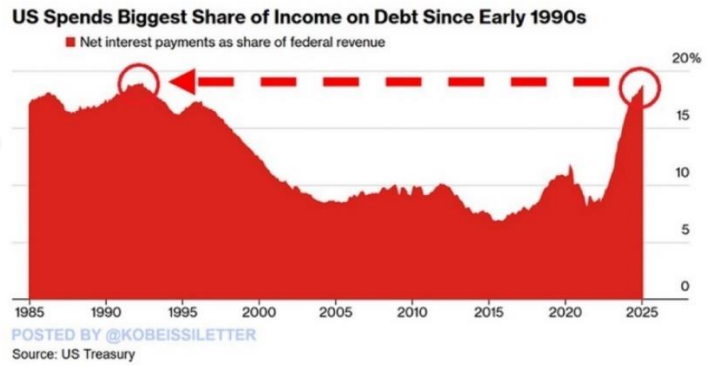
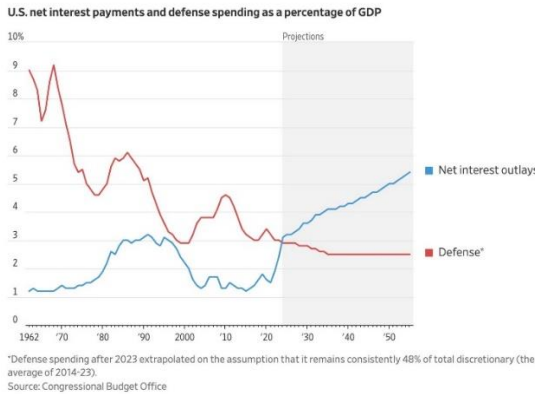
What happened to DOGE's promised cuts of \$2 billion? Well, DOGE has learned that firing park rangers and scientists at the NIH don't move the needle very much if you are not willing to take a scalpel to those areas where the big bucks are really spent.



Meanwhile, the government hit the pause button on its plans to sell hundreds of vacant or underutilized federal office buildings in Washington, D.C., and around the country. In quite the reversal, the General Services Administration (GSA) removed from its website about 440 federal buildings (representing nearly 80 million square feet of space) that only hours earlier it had listed for sale. Instead, the GSA now indicates that it will publish a list of "non-core properties for disposal" soon. That was a few weeks ago, and to quote the late Tom Petty, "the waiting is the hardest part."

Finally, a recent article in WSJ opined that "debt has always been the ruin of great powers" and asked whether the "U.S. is next?" The less than rhetorical question was asked because of Ferguson's Law, dating back to 1767. Adam Ferguson, a Scottish political theorist, wrote in his "Essay on History of Civil Society" that any power that spends more to service outstanding debt than on defense "risks ceasing to be a great power."

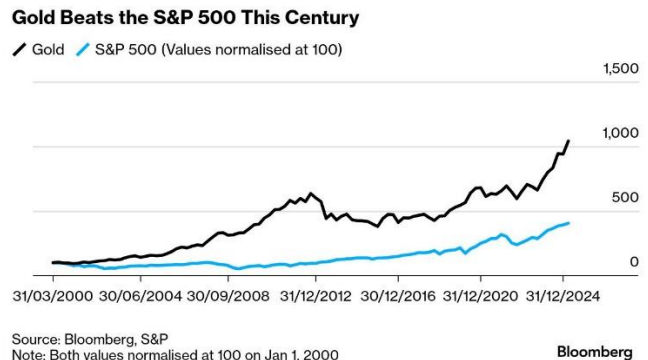
Perhaps in an era of nuclear weaponry, that relationship may be a bit more tenuous, but concerns over our ever-expanding debt, requiring ever-expanding interest outlays, are well founded and as we shift alliances from NATO towards something quite different (e.g., Russia, Hungary, Belarus) and become more isolationist, our future as the most powerful nation, becomes less clear.



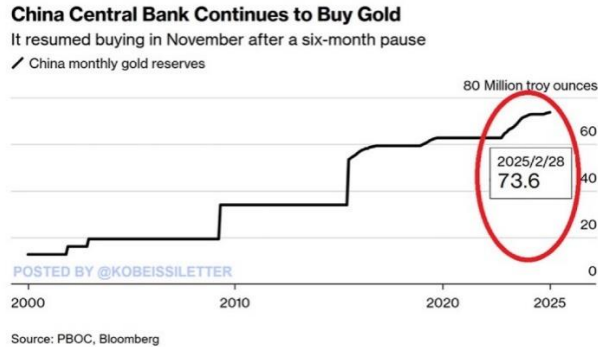
- When Led Zeppelin crooned “all that glitters is gold,” they were ahead of their time:** President Trump said that his second term in office would represent a “golden age” for America. For the more literal among us, he was prescient in this regard. For one thing, just take a look at the redesigned Oval Office. What do you notice about the “before” and “after?”



Meanwhile, the price of gold is hitting a record high as I type, trading at over \$3,400 an ounce, up over 28% this year. It’s been the one safe space in the markets in 2025 and has performed so well in recent years that gold has now outperformed the S&P 500 this century. However, in spite of its rally, gold is still a long way from its all-time inflation-adjusted peak, which was set in 1980 and equates to about \$3,800 an ounce. Back then, it was a combination of weak economic growth, runaway inflation, and growing geopolitical frictions that sent prices soaring...all of which may sound scarily familiar.



However, it's not exactly good news as central banks around the world have been selling dollars and buying gold in response to concerns over the global economy, the Trump Administration's attempts to impose tariffs on allies and rivals alike, rewrite the rules of global trade, and to punish those who refuse to bend the knee or negotiate.



- **A record amount of wealth will transfer from the Baby Boomers to Gen X in the next 25 years, with unknown implications:** I was recently giving a talk to some of UCLA Anderson's Japanese alumni and one of the attendees asked me a question about what I thought the impact might be of all the generational wealth set to be transferred in Japan over the next quarter century.

It was a thought-provoking question since that is an issue facing the developed world, as record amounts of wealth are set to be transferred from Baby Boomers to Gen-X during that time frame, with unknown consequences, something that the Economist labeled "inheritocracy." For example, according to UBS, 53 people became billionaires in 2023 the old-fashioned way, by inheriting it, as opposed to the 84 who reached the milestone through their own efforts. I believe it was Confucius who opined that "wealth only lasts three generations."

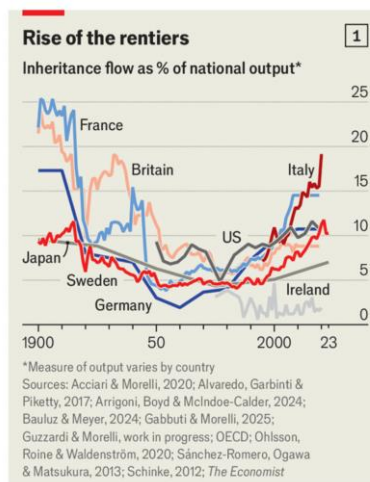


CHART: THE ECONOMIST

However, I'm not sure that Confucius knew the likes of Gates, Buffett, Musk, and Bezos. Be that as it may, I suspect that many Baby Boomers are already subsidizing their Gen-X offspring, who in turn are subsidizing their own grown Gen-Y (Millennial) children. After all, record numbers of Millennials are living with their parents and I imagine more than a few of you provide financial support to your children and grandchildren, paying for their housing, education, medical expenses, or the like.

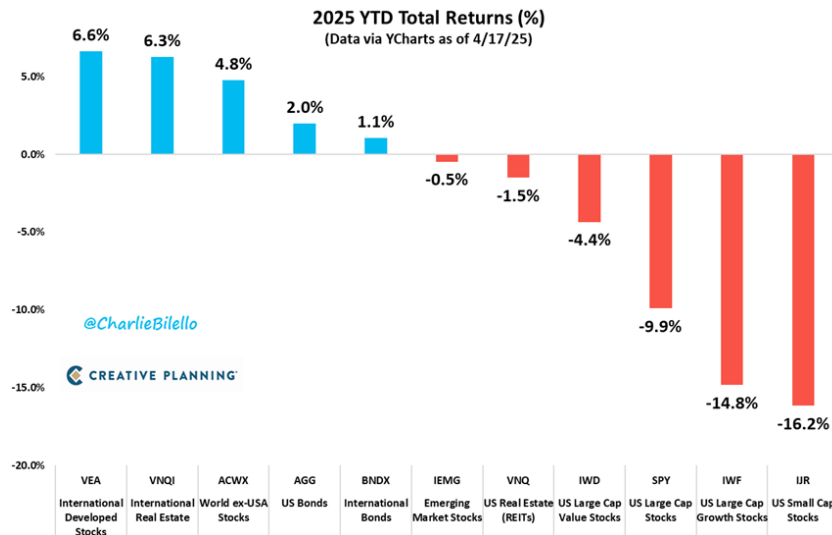
I suspect that other demographic trends we are witnessing (i.e., delayed marriages, fewer children per couple) and about which I have written extensively, are related somehow to issues involving the current job market for Millennials and Gen-Xers and issues involving generational wealth. I suppose that if Confucius is even remotely correct, we need to consider what happens 100 years from now when the generational wealth has evaporated or can no longer support all those who could use a helping hand and some additional allowance money.

- **Despite all the market volatility and less than stellar news, fundraising remains strong and there is plenty of dry power on the sidelines:** In spite of the economic and market challenges, Blackstone announced the \$10.6 billion first quarter close of the “largest European real estate fund ever,” surpassing an \$8 billion real estate debt fund the firm closed in September 2020. In total, Blackstone’s three opportunistic strategy funds (global, Asia, and Europe) have nearly \$47 billion of available capital. Wowza! And according to JLL, dry powder for commercial real estate totaled \$394 billion as of August of last year.

Between these funds, those stashed away in money market funds of late (about \$6.9 trillion, with a “t”), and additional dry powder found in other private equity funds (over \$2 trillion), there is plenty of cash available to chase opportunities. However, in a market characterized by so much uncertainty and volatility, I have a faint feeling this powder will remain mostly dry for the time being.

As we begin the second quarter of 2025, “uncertainty” remains the best way to describe where the economy - domestic and global – might be headed, especially in an era of protectionist “America First” policies, which seem ill-conceived at best

Like most years, 2025 started out with optimism, at least on the economic front. After all, every single market analyst expected markets to rise this year, especially since a new administration was about to usher in a new era of pro-business policies: reduced regulatory impediments and oversight, lower taxes, and lower interest rates. Ah, the best laid plans of mice, politicians, businesspeople, and investors. Unfortunately, things have not nearly turned out as planned.



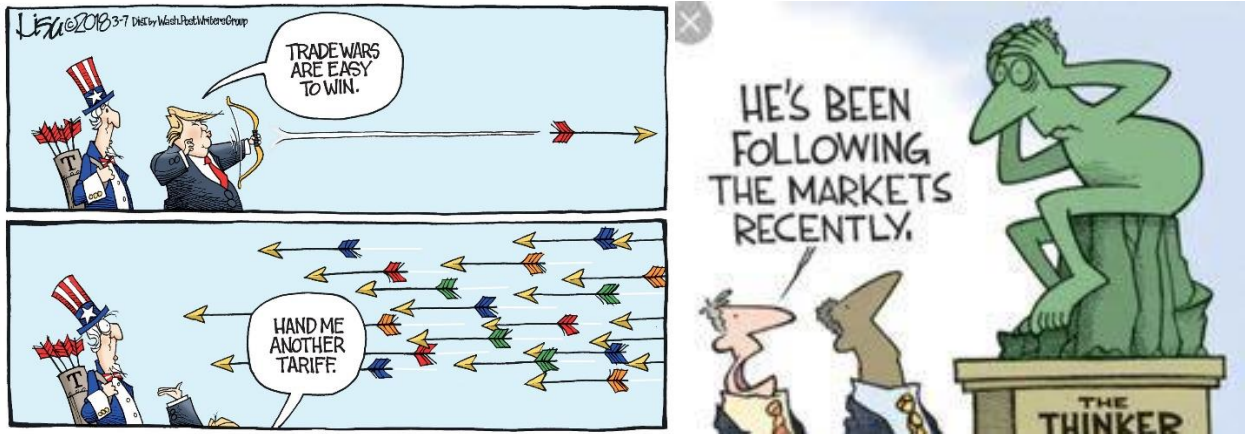
So, what happens from here? Honestly, it’s hard to say with all the turmoil emanating out of our nation’s capital, as we seemingly leap from one crisis to another. First, it was “Signalgate,” part

I. Then the mass (and arguably, unconstitutional) deportations began, followed by one court challenge after another. Before long, the tariff debacle commenced, and now, as of this morning, we have Signalgate, part II, and Trump threatening Jerome Powell which has sent the markets into another tailspin? Really? And I haven't even finished my morning coffee yet.

Meantime, conflicts in Ukraine and Gaza seem far from settled despite assurances that they would be soon after the inauguration. Each week we get more Executive Orders to add to the 124 that have already been issued, many of which seem focused on setting old scores rather than moving us forward with all those anticipated business-friendly policies. It seems like the controversies surrounding the renaming the Gulf of Mexico, our overtures (threats?) to take over Greenland, Panama, and Canada, Zelensky's (underdressed) visit to the White House only to be followed by Kid Rock's overdressed visit, seem like events from long ago amongst the daily chaos.

There are green shoots, however, especially in the multifamily market where fundamentals finally seem to be improving, with increased rents, higher tenant retention and occupancy rates, fewer delinquencies, and reduced deliveries of new units. If we avoid a recession, financial markets stabilize, and we get some interest rate relief, we can feel much better about prospects for the remainder of the year and beyond. However, we are certainly not insulated from macroeconomic trends and the whimsical policies and actions of our leadership. I have no doubt that we are living through a unique time in history, which is as captivating as it is frustrating, as I wouldn't mind a little less turmoil in our markets and nation's capital.

Finally, because markets like these require stiff upper lips and senses of humor, if nothing else, I leave you with the following:



With that, let's hope that the remainder of 2025 brings better news, along with less chaos, conflict, and volatility. In the meantime, on behalf of the entire Clear Capital team, thank you, as always, for your ongoing and continued support.

Best,



Eric Sussman
Managing Partner