"Everyone has a strategy until they get punched in the mouth."
- Mike Tyson

"There were always ample warnings, there were always subtle signs, and you would have seen it coming but we gave you too much time."
- Guns 'N' Roses

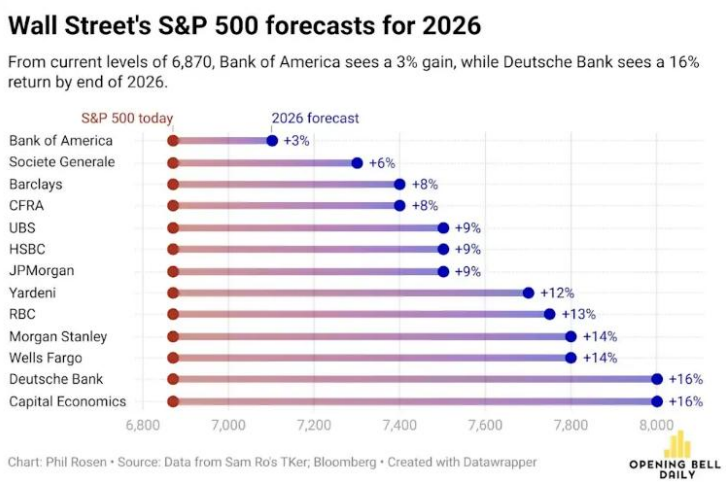
As I was watching "Mission Impossible: The Final Reckoning" on a recent flight over the holidays, two thoughts came to mind. One, sequels are rarely, if ever, as good as their predecessors, Toy Story 2, Godfather Part II, and The Dark Knight, notwithstanding. And two, so-called "final" installments of anything are rarely, if ever, final. Just like the Who's "farewell" tours of 1980, 1989, 2014, 2017, 2021, and the most recent installment of the band's extended retirement last year, I am looking forward to "Mission Probable: The Unlikely Final Reckoning" arriving in theatres sometime in 2028. Mark your calendars.

Which brings me to current events and the so-called "Donroe Doctrine," an unwelcome sequel to the "Monroe Doctrine," the 20th century U.S. foreign policy position that opposes foreign intervention in the Western Hemisphere. The "Donroe Doctrine" sequel, written by Stephen King, directed by David Lynch, and accompanied by a Yoko Ono soundtrack, apparently justifies everything from regime change in Venezuela (our 56th military intervention into Latin America, at last count), threats against NATO allies, demands that Denmark sell Greenland to the U.S., schizophrenic tariff policies against friend and foe alike, the regifting of Nobel Prizes, and a request for $1.5 trillion in additional defense spending. And that was just the last two weeks associated with the doctrine. Our unilateral renaming of the Gulf of Mexico is so yesterday.

In sum, the Donroe Doctrine, with its far more capricious, aggressive, and offensive stance towards foreign policy and traditional alliances, threatens to undermine much of the existing global order and resembles the policy equivalent of Police Academy 4. All the lessons from the Cold War and preceding history seem to have been forgotten. In response, a Danish pension fund announced its intention to sell $100 million of its U.S. Treasury holdings. While immaterial on its face, keep in mind that European entities (e.g., central banks, private banks, investment funds) own a massive share of U.S. financial assets, $8 to $10 trillion in total of U.S. bonds and equities. NATO member states, along with Canada, own roughly $3.3 trillion in U.S. Treasury bonds. Upending longstanding global economic and financial alliances, or just unnecessarily threatening to do so, does not come without risk.

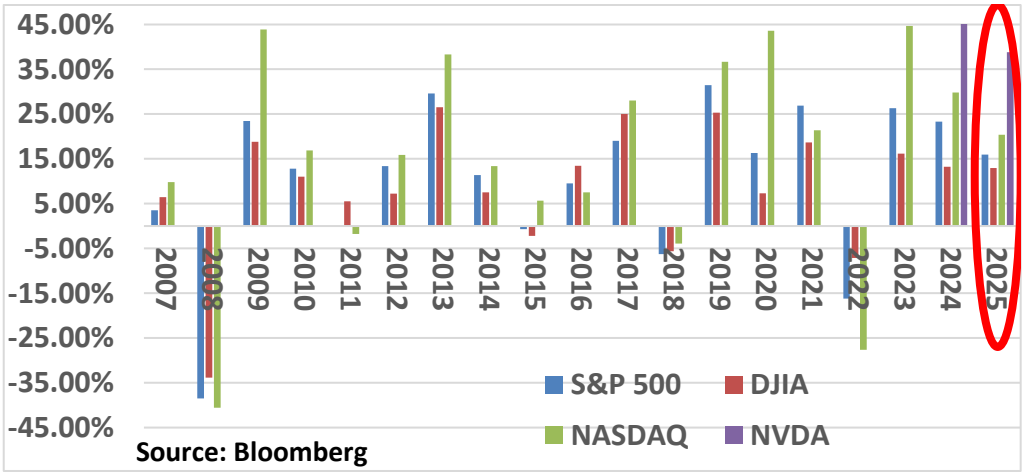
Meanwhile, the chaos surrounding this "doctrine," coupled with venti-sized mayhem closer to home, make forecasting 2026 and beyond no easy feat. Candidly, it is simply remarkable how resilient the U.S. economy and markets have been of late, despite all the noise. While I am not sure how long the good tidings will last, investment banks and market pundits remain

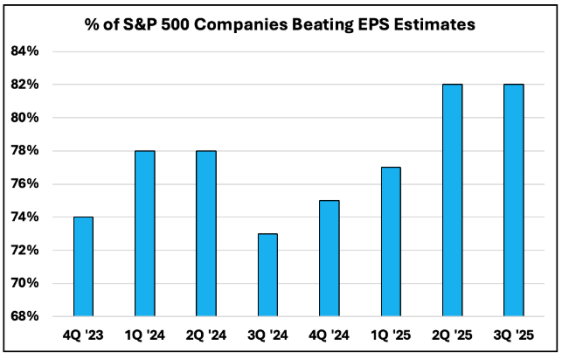
universally optimistic and bullish, with every single investment bank predicting higher markets in 2026, the kind of consensus that generally makes me uneasy.

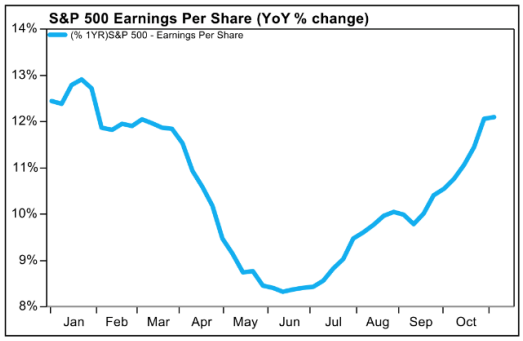


Then again, they were similarly bullish at the end of last year and that proved prescient, as equity markets here and virtually everywhere marched higher in 2025. Capital still seems plentiful. GDP, decent, if excessively reliant on AI investment. Corporate earnings, strong. Inflation, moderate. Employment, relatively steady. However, between the widening chasm between the "haves," the "have nots," and the "have yachts" (the aptly labeled "K-shaped" economy), worsening domestic demographics and population declines, a paralyzed Congress, sticky inflation and interest rates, and record high gold and silver prices, I am feeling a tad uneasy. And while it's hard to imagine domestic politics becoming more partisan, recent politically motivated investigations against and efforts to fire the likes of Fed Chair, Jerome Powell, and Fed Governor, Lisa Cook, hardly instill confidence. And who knows what the Donroe Doctrine will usher in next…week?

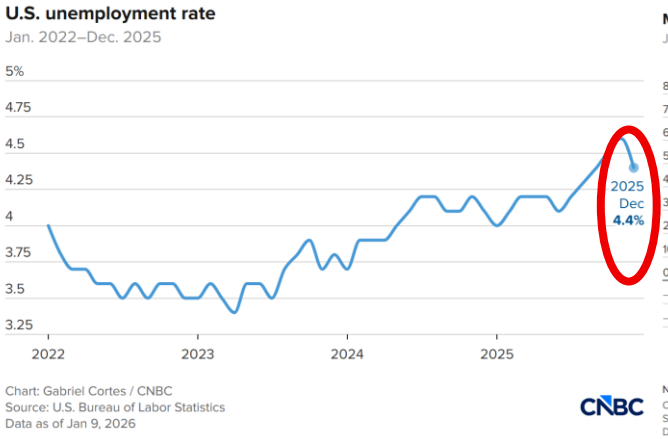
With this backdrop, let's take a trip down memory lane and a look back at the most recent quarter and 2025 more broadly. We can start with the positives. The S&P 500 and NASDAQ ended 2025 up roughly 16.4% and 20.3%, respectively, the third straight year of substantially higher equity markets. Over 80% of S&P 500 companies reported earnings above analyst expectations in the third quarter, the highest rate since the second quarter of 2021. In total, third quarter earnings exceeded analyst estimates by more than ten percent.

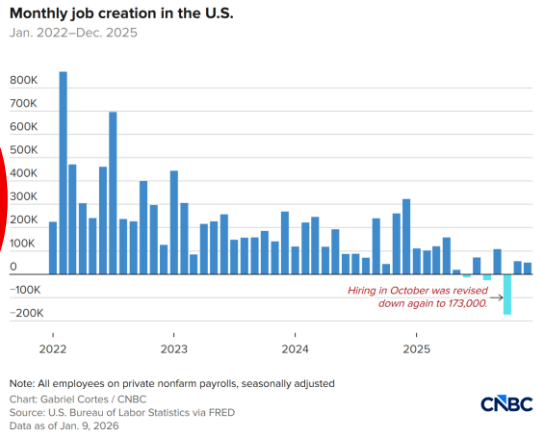




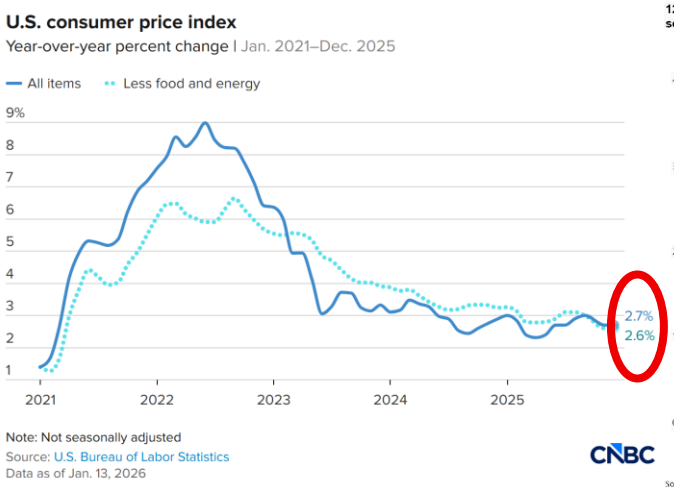


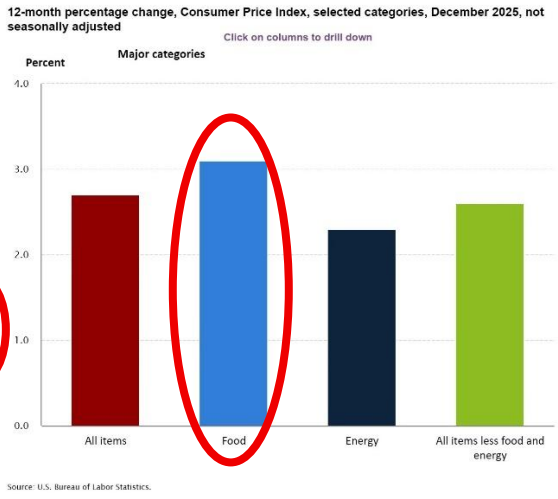
Unemployment remains relatively low (4.4%) and the economy continued to expand in 2025, with GDP up 4.3% in the third quarter alone, driven by significant investment in all things A.I. While job creation remains relatively anemic, as described in more detail below, we are not experiencing an employment or economic recession….at least not yet.





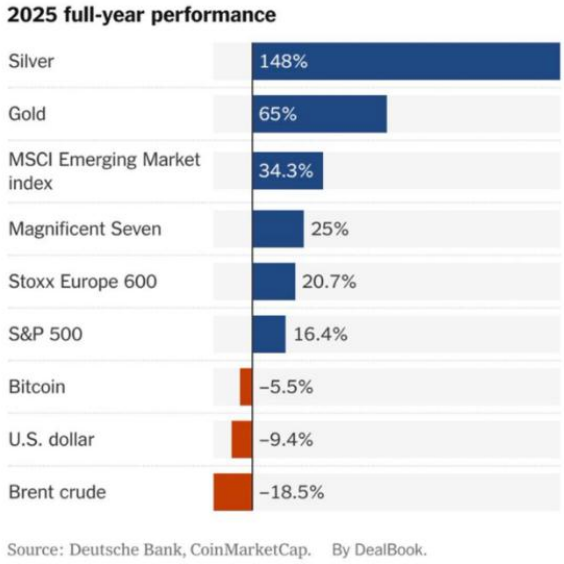
Finally, inflation remains mostly in check. The CPI was up 0.3% for the month of December and 2.7%, year-over-year, consistent with consensus, though food prices increased 0.7% during the month. The core consumer price index showed a seasonally adjusted 0.2% gain on a monthly basis and 2.6% annually. Both were 0.1 percentage points below expectations.



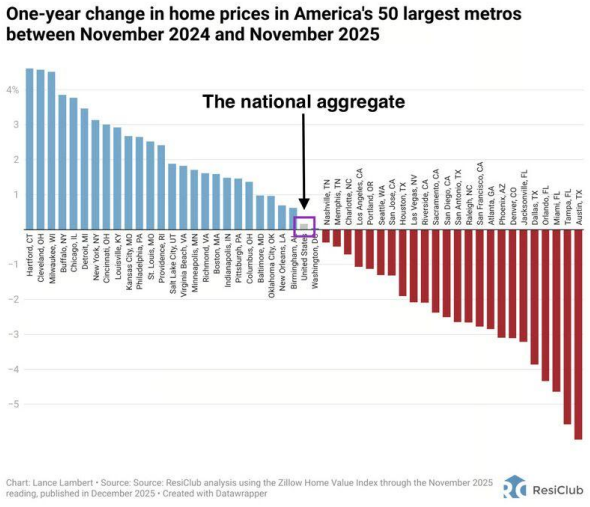


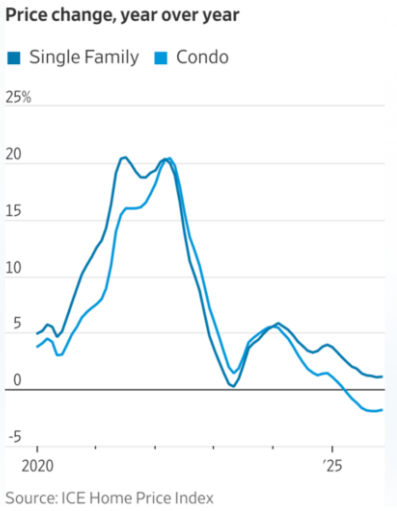
However, one need not look very hard to see many areas of risk and concern. The U.S. dollar? Down about 10% last year. And while the U.S. equity markets performed remarkably well, they

pale in comparison to the 29% gain for the MSCI "All Country World ex-US Index," trailing that index by the widest margin since the Global Financial Crisis. While the U.S. dollar swooned, metal prices, from gold to silver to platinum to palladium surged last year. Silver was up nearly 150% and gold, 65%. And the surge in gold prices was not merely the result of President Trump's Louis XIV-inspired Oval Office redecorating endeavors. Central banks were significant net buyers of gold as they diversify reserves and exposure to the U.S. dollar. As a result, gold reserves surpassed U.S. Treasuries in reserve share for the first time in about 30 years. That doesn't sound like great news…because it isn't.



What about housing prices? How did the housing market perform last year and what's the outlook? Broadly speaking, the housing market – both single- and multifamily – logged its weakest performance last year since the Great Financial Crisis. Single-family home prices barely budged, while multifamily rents declined modestly. Certain submarkets performed well, especially in the Midwest and Northeast, but they offset downtrends in other markets. According to Zillow, over half of U.S. homes declined in value in 2025 while condominium prices posted their biggest annual decline since 2012.





The condominium market faces the same challenges as the broader housing market, with a few bonus headwinds: higher borrowing costs, HOA fees, significant competition from a large supply of class-A, highly amenitized multifamily units, and a changing job market. Many condos are located in urban cores, which are less attractive than they used to be for people who are able to work from home, at least part-time. Condos are also popular in second-home markets, which have suffered from a slowdown in demand.

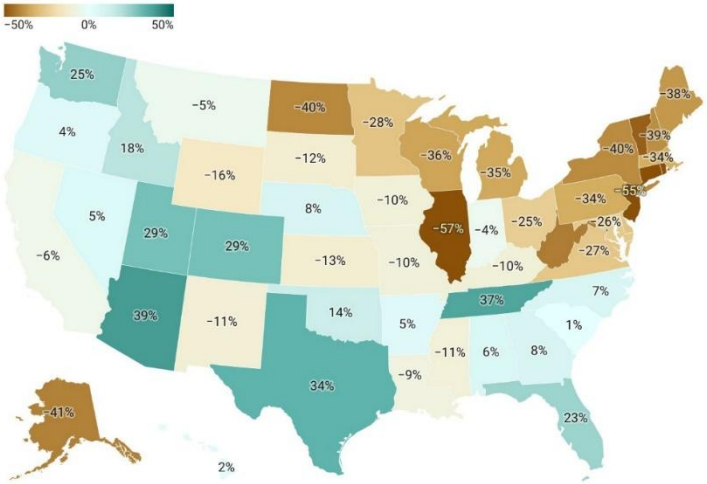
It can come as no surprise that the weakest single-family markets last year, continuing the trend over the past few years, were those that witnessed the most significant price gains during COVID. Those same markets (e.g., Austin, Fort Myers, Sarasota, Boise, Phoenix) have experienced substantial increases in housing inventory for sale during the last six years. All that supply has pressured prices and rents alike.

Housing markets that saw the biggest home price gains during the Pandemic Housing Boom have been the most likely to experience price declines since 2022

Austin, TX home prices surged a staggering 72.5% between March 2020 and June 2022. As of October 2025, home prices in Austin—which is currently working through a correction—were 26% below the market's 2022 peak.

Metro area housing market	▼ Pandemic Housing Boom shift from March 2020 to June 2022	Post-boom shift since 2022 peak
Austin-Round Rock-Georgetown, TX	72.5%	-26.0%
Cape Coral-Fort Myers, FL	69.7%	-18.0%
North Port-Sarasota-Bradenton, FL	69.3%	-16.7%
Boise City, ID	63.4%	-9.7%
Phoenix-Mesa-Chandler, AZ	62.2%	-11.4%
Tampa-St. Petersburg-Clearwater, FL	61.1%	-8.7%
Lakeland-Winter Haven, FL	57.6%	-7.6%
Ogden-Clearfield, UT	56.6%	-2.4%
Palm Bay-Melbourne-Titusville, FL	55.6%	-7.2%
Raleigh-Cary, NC	55.5%	-5.4%
Charlotte-Concord-Gastonia, NC-SC	55.1%	-0.1%
Deltona-Daytona Beach-Ormond Beach, FL	54.9%	-8.9%

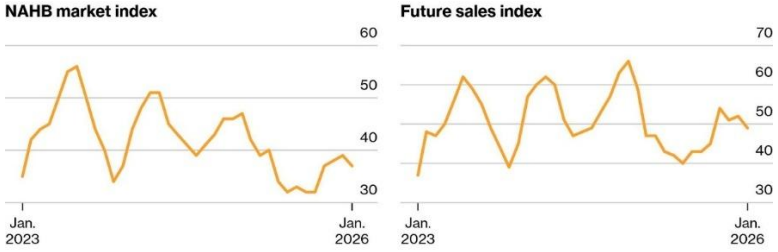
Active housing inventory for sale compared to pre-pandemic levels: Shift between November 2019 and November 2025



Perhaps portending what may be to come, pending home sales dropped sharply in December, down 9.4%, according to the National Association of Realtors, while analysts were expecting a slight gain. Sales fell during the month in all regions of the U.S. Finally, there were just 1.18 million homes on the market in December, down nine percent from November, and matching the lowest inventory level of 2025. Stagnant mortgage rates, falling housing supply, and ongoing uncertainty – economic, financial, political, and social – weighed heavily on homebuyers and consumer sentiment (see below) alike in December.

US Homebuilder Sentiment Turns Down in January

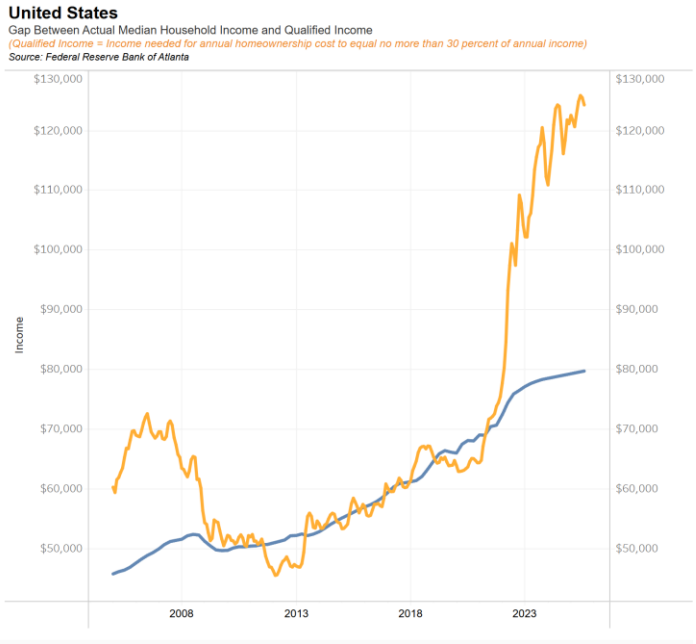
An index of future sales expectations fell below the break-even level of 50

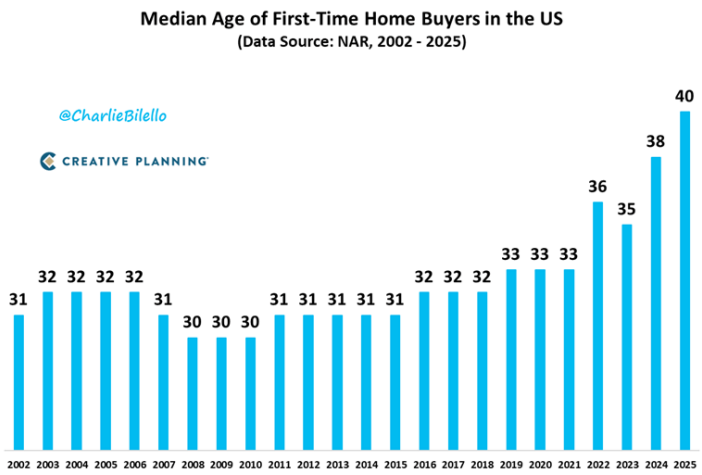


Source: National Association of Home Builders/Wells Fargo

Bloomberg

For-sale housing has seemingly, and not surprisingly, shifted into a broad, slow-motion phase of price correction and I foresee more downside ahead. Baby boomers and their heirs will likely be selling homes over the next couple of decades. The gap between actual median household income and that needed to acquire a home continues to widen. The weak and volatile labor market presents a material impediment to demand. Declines in household formation and population generally, resulting from delays in marriage and childbirth and reverse immigration, reduce demand for all types of housing. It can't come as any real surprise that the median age for first-time home buyers in the U.S. is now 40 and on its way to…who knows? I have long predicted we would become principally a nation of renters, whether we like it or not.



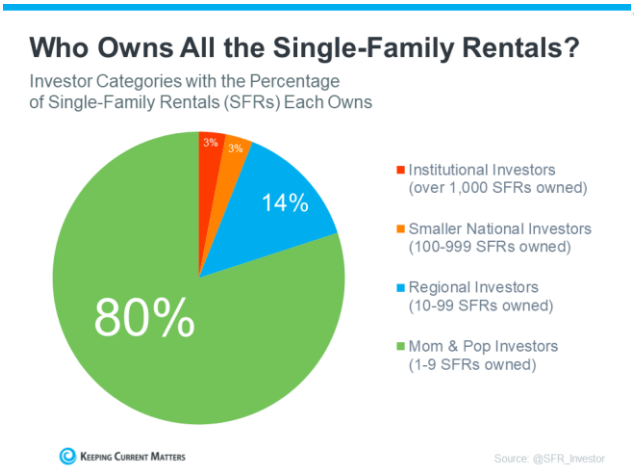


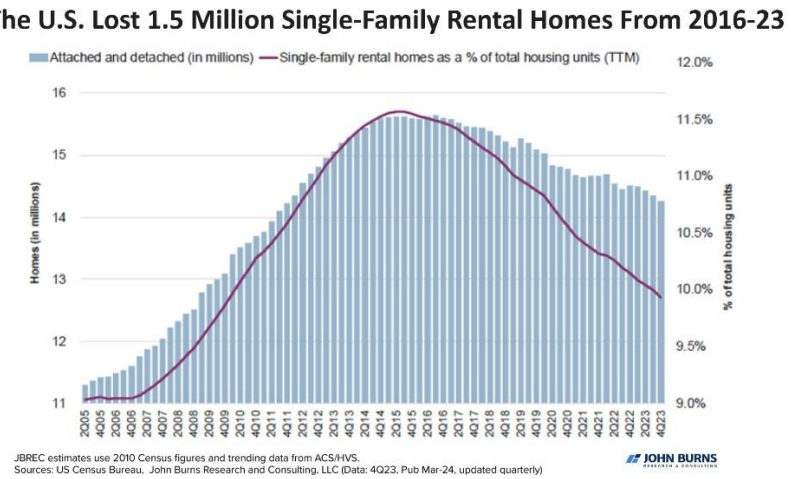
What about President Trump's proposal to ban institutions from purchasing single-family homes? What impact might that have on the housing market?

President Trump recently announced, via a Truth Social post (exactly how our Founding Fathers foresaw domestic policy being formulated) that he wants to "ban large institutional investors from buying more single-family homes." Should Congress formally approve such a ban (assuming an Executive Order or Truth Social post doesn't cut it legislatively), the proposal, while perhaps appealing political fodder, won't make any discernible dent in housing affordability or availability.

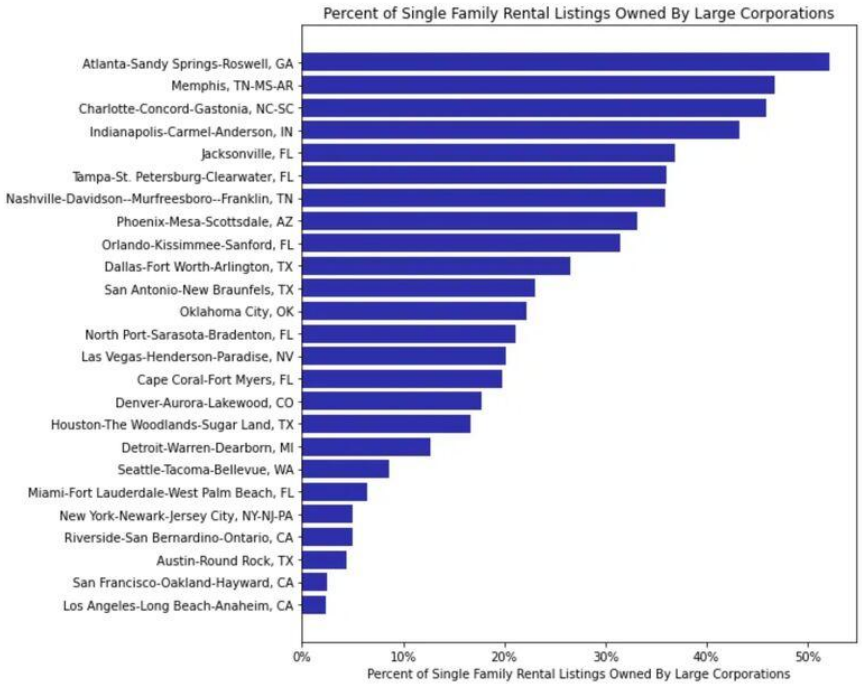
As a starting point, there are inherent flaws in the argument that institutional investors, a convenient bogeyman, are hindering homeownership in the U.S. To start, multiple sources indicate that the number of single-family homes available for rent has declined over the last decade and that, contrary to the narrative, the share of individual homebuyers purchasing homes has grown since 2016. More specifically, the total number of U.S. single-family homes available for rent declined from about 15.5 million in 2016 to 14 million by the end of 2023, according to John Burns, a real estate consulting firm. If you're skeptical of the Burns analysis, Harvard's Joint Center for Housing Studies concurs, noting back in 2023 that, "The number of single-family rentals then fell in more recent years as the for-sale market strengthened, and many of these homes converted back to owner occupancy."

In aggregate, institutional investors own roughly 500,000 single-family homes in total, about 0.6% of the entire single-family housing stock (about 87 million homes across the U.S.) and a fraction of the nearly 17 million single-family homes that are rented. Who owns the balance of single-family homes offered as rentals? 89% are owned by "mom and pops," those owning fewer than ten homes. And most small local landlords own no more than two homes offered for rent.





Institutional ownership of single-family homes is effectively a local problem as the vast majority of metro areas have no institutionally owned rental properties whatsoever, while certain markets (e.g., Atlanta, Charlotte, Phoenix and surrounds) have tens of thousands of homes owned by institutional investors. In a small handful of markets, institutional ownership of homes represents more than a third of all homes in some neighborhoods, but it is just that, a handful, despite all the rhetoric.



A recent research paper, "The Impact of Institutional Investors on Homeownership and Neighborhood Access," by NYU's Josh Coven (now a professor of real estate at Baruch College in New York City), had three principal findings: 1) "Institutional investors increase the quantity of rentals and lower rents on net because their ability to operate large portfolios at scale outweighs

the incentive to use market power to decrease the rental supply." 2) While "Institutional investors decrease the quantity of homes available for homeownership and raised prices…the homeownership impact is 1/5th of what it would be if there were no supply response and the price impact is far below the observed association between institutional investor purchases and actual price increases." And 3) "Renters from regions with lower median incomes, worse school test scores, and lower historic economic mobility move into institutional investor rentals."

Thus, if the research findings are to be trusted, institutional ownership of single-family homes has not had any discernible impact on housing prices or rents, and if anything, has provided upward mobility and access to better neighborhoods, communities, and schools than their income would otherwise be able to provide.

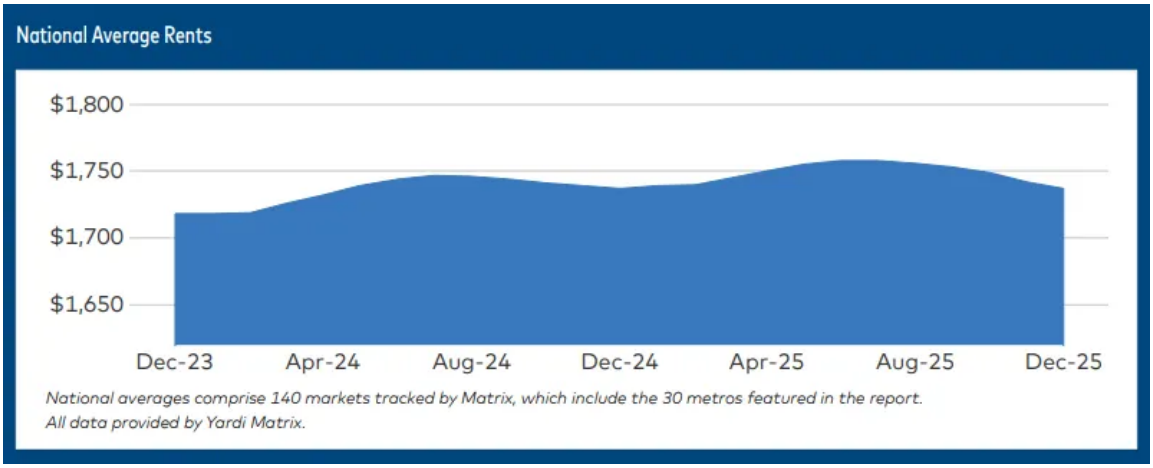
How about another proposal floated by President Trump meant to increase access to single-family homes, that the Housing Finance Agency offer a 50-year residential mortgage?

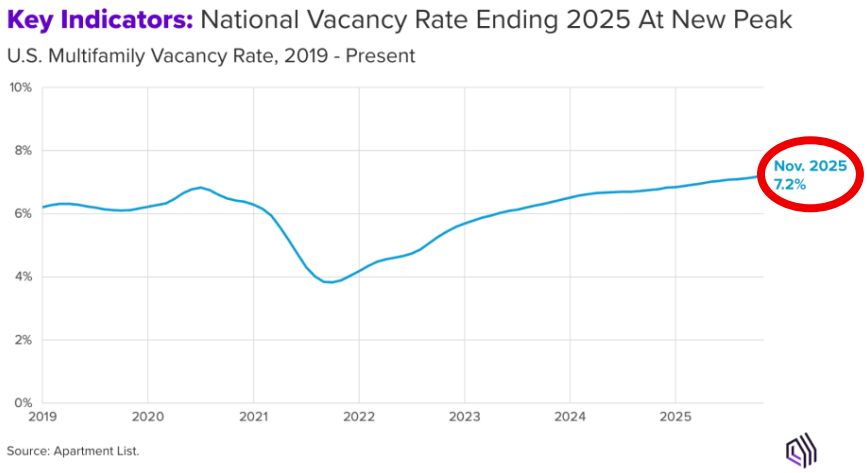
A 50-year mortgage? That's what some (read: Bill Pulte, Director of the Federal Housing Finance Agency and the White House) are proposing, claiming it will be "a complete game changer" for homebuyers. No, it won't be, even if it, too, were to actually find its way into one bill or another.

First off, what bank would issue a 50-year mortgage to homebuyers without a government guarantee? Is Fannie Mae or Freddie Mac willing or able to do so? Two, offering such a mortgage would theoretically increase demand, which in turn would….wait for it…drive up prices, making homes….wait for it…less affordable. It's amazing how economics work sometimes. Three, a 50-year mortgage would more than double the amount of interest borrowers pay as compared to conventional 30-year mortgages, and borrowers would not pay down meaningful principal on such a loan for some 40 years, given that pesky thing known as "mortgage amortization." And lastly, Congress would actually need to get off its collective backside and amend the Dodd-Frank Act, a farfetched likelihood. Can you imagine our elected representatives actually working to craft legislation instead of appearing on news programs, C-SPAN, or late-night talk shows?

So, whether Congress bans institutional homeownership of single-family homes and/or passes legislation amending Dodd-Frank and promoting 50-year mortgages, rest assured that neither will make a dent in housing affordability.

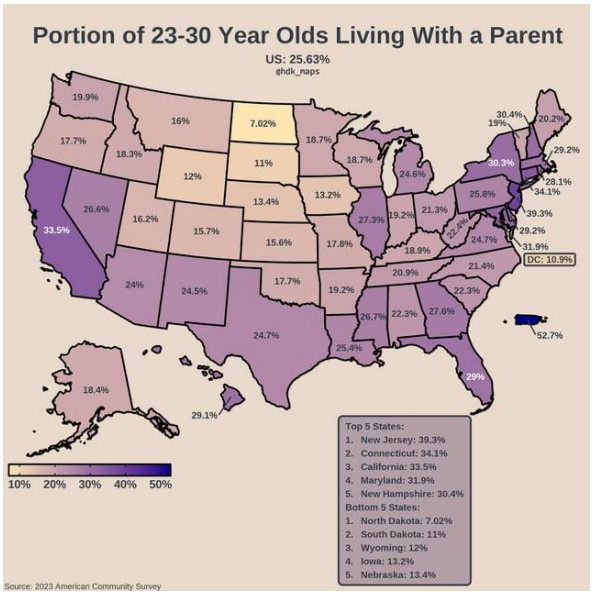
And the multifamily market? Why isn't it benefiting more from the stagnant single-family housing market? As mentioned, 2025 was unusual in that both single- and multifamily housing struggled during the year. Apartment rents declined in the fourth quarter, offsetting gains made in the first half of the year, resulting in overall flat rents during 2025. The last time multifamily rents failed to grow was 2020 and in 2010 before that. Vacancy rates ticked up modestly, to 7.2% at the end of November (latest available data). While more renters stay in place and fewer transition into homeownership, elevated supply, a soft job market, reduced immigration, and an overall population decline present headwinds and soften demand.





Rent growth was strongest in gateway and Midwest markets, led by New York (5.8%), Chicago (3.6%), the Twin Cities (3.2%), Kansas City (2.6%), and San Francisco (1.9%). Not one of the 12 markets that produced positive rent growth in 2025 had more than three percent growth in supply last year. While the historic surge in multifamily construction over the past few years is now pulling back, a decent supply of new units is still coming online in some markets and at a time of softer demand.

The primary demand headwinds are several-fold: one, young people are failing to form new households, a reflection of everything from changing demographics, a challenging job market, outstanding student loans, higher costs of living generally, and, as some social scientists have concluded, smartphones and social media. As I have written about many times before, we continue to see record numbers of 20- to 35-year-olds returning to the nest and living with their parents. Imagine that over a third of all twenty-somethings in California, the fourth largest economy in the world, are still living at home. And in full transparency, my 27-year-old, middle child is amongst them. I hope (forecast!) that she will leave our humble abode this year, but you know what they say about both “hope” and “predictions.”

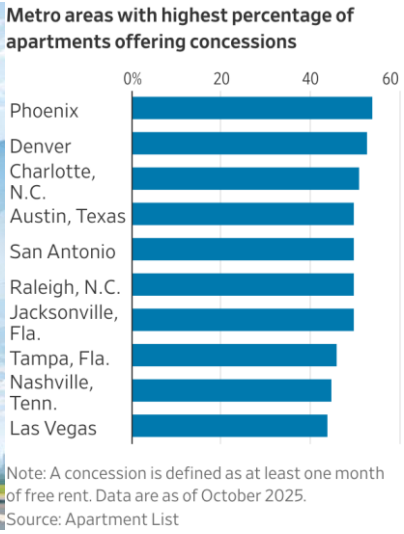


Some of these themes came up a lot in the recent earnings calls for residential (both single- and multifamily) REITs.

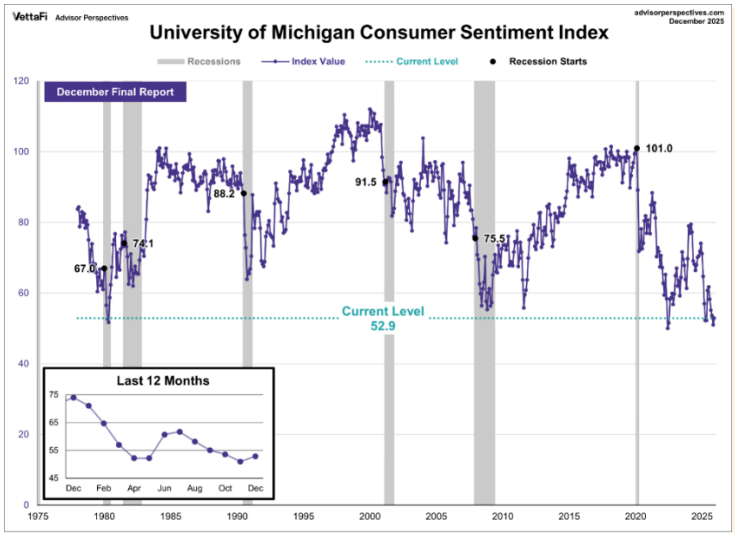
Company and Executive	Comment Made During Most Recent Earnings Call
Centerspace CEO, Anne Olson	"We feel great about the health of the renter. There's really no evidence that people are starting to double up."
Equity Residential, CEO Mark Parrell	"We see continued improvements in delinquency and no other signs of customer financial stress."
Invitation Homes, CEO Dallas Tanner	"We're not seeing any degradation of our customer… Our FICO scores look great from our customers coming in … Our (rent) collections have been actually quite better than what we've seen historically."
UDR's CEO, Tom Toomey	"We're seeing "a very cautious customer… And you can see that from the time we send out a notice to the length of time it takes them to respond to the traffic patterns, how long they spend on our (property websites)."
EQR's EVP/COO, Michael Manelis	"There was just a little less sense of urgency to buy and sign on the dotted line and commit to move-in dates. So that manifested itself as we worked our way through September into October with just a lower volume of new leases occurring."

I sense that 2026 will represent a transition year, where rents will mostly be flat for the first half, forcing operators – landlords and property/asset managers – to continue focusing on tenant retention, controllable costs, capital expenditures, and other potential levers of and for value creation. Sharp reductions in multifamily construction in the Sunbelt, should allow existing supply to eventually be absorbed, after which rents should increase.

Meanwhile, prospective tenants continue to relocate to Texas, Arizona, and North Carolina in record numbers, according to the 2025 "U-Haul Growth Index" (yes, there really is one), which offers insights regarding migration patterns across U.S. metros. These metros continue to lead in domestic migration trends, reflecting regional economic strength, job opportunities, and quality-of-life factors. Moreover, they generally offer something all prospective tenants desire, concessions (read: free rent). For example, over half of the rentals in the Phoenix metro area are offering tenants at least one month off of their rent, the highest percentage in the country. The discounts can range from one month to more than three months. And that doesn't count the other perks that landlords give out to attract tenants: Amazon gift cards, discounted sports tickets, and free moving trucks, likely U-Hauls.

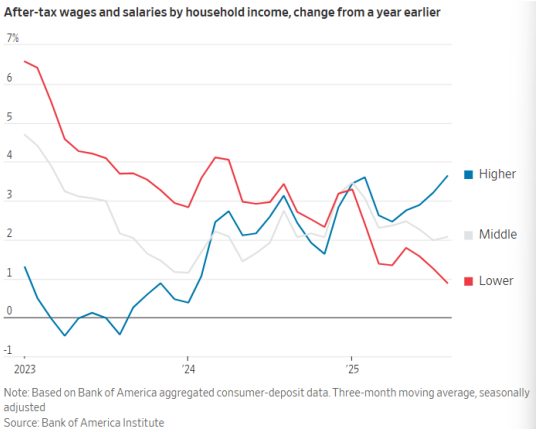


How are consumers feeling and faring? Well, in short, it's a mixed bag. Overall consumer confidence, as measured by our friends at the University of Michigan, sits near all-time lows (second lowest reading since 1952), while lower-income Americans are singing the blues. They have never been more negative and pessimistic. I guess "affordability" might really be a thing after all.



The result? The economy is looking more and more "K-shaped," with the economic fortunes of low- and high-income Americans diverging. The rich are getting richer, and the poor, poorer.

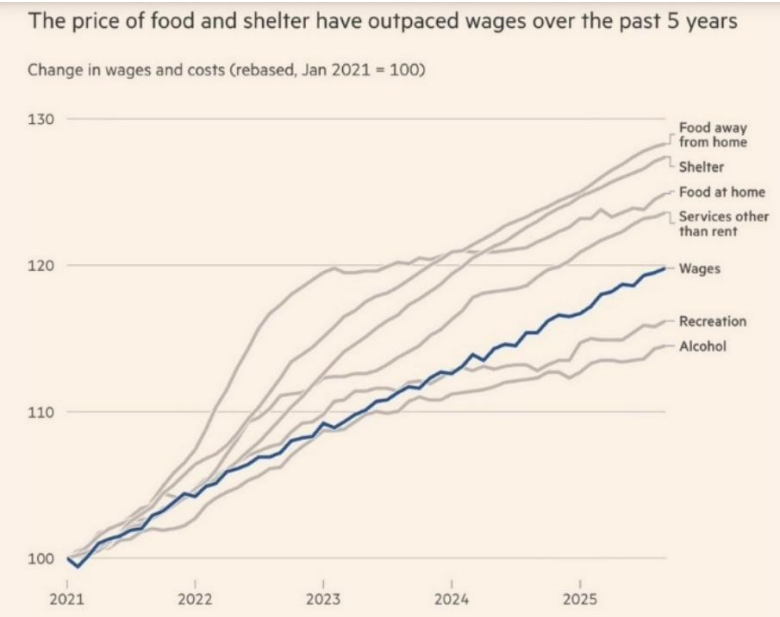
The problem with such an economy is its increasing dependence on a small group of the well-to-do, who, in turn, spend based in significant part on how their stock portfolios are performing. The increasing social angst we are witnessing, evident in these consumer sentiment surveys, mounting societal divisions, and fractured politics are due in part to this divergence. Frankly, when one distills the after-tax wage and salary growth by household income, the reasons behind both sentiment and the K-shaped economy become clear.

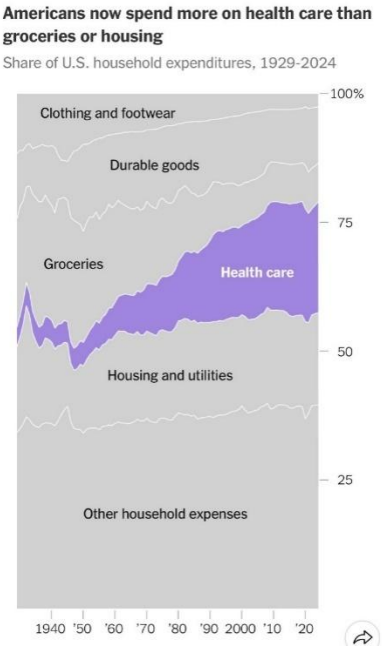


In fact, according to the minutes of December's meeting of the Federal Reserve, when discussing one of the surveys they conduct, "a majority of participants mentioned evidence of stronger spending growth for higher-income households, while lower-income households had become increasingly price sensitive and were making adjustments to their spending…" As a result, the top 10 percent of U.S. earners are responsible for nearly half of all consumer spending, a 13 percent increase over the last 30 years. At the same time, the bottom 80% of earners represent roughly 37% of total consumer expenditures, down 11 percent since 1995. The net result? The top 10% of wage earners in the U.S. account for a third of GDP. Asset owners are the real winners in this economy and at what point do those "eating cake" demand some of those assets for themselves?

The Fed minutes and underlying data are consistent with comments made during Chipotle's most recent earnings call where the company indicated that they are "losing younger and lower-income customers who have been hit harder by rising inflation and slowing wage growth." As a result, Chipotle is now forecasting restaurant sales to decline in the low-single-digit range in 2026. Other competitors, including Shake Shack and Cava are experiencing slowdowns as well and all of their share prices have experienced significant beatdowns over the past year, down over 30% on average. That's some serious indigestion.

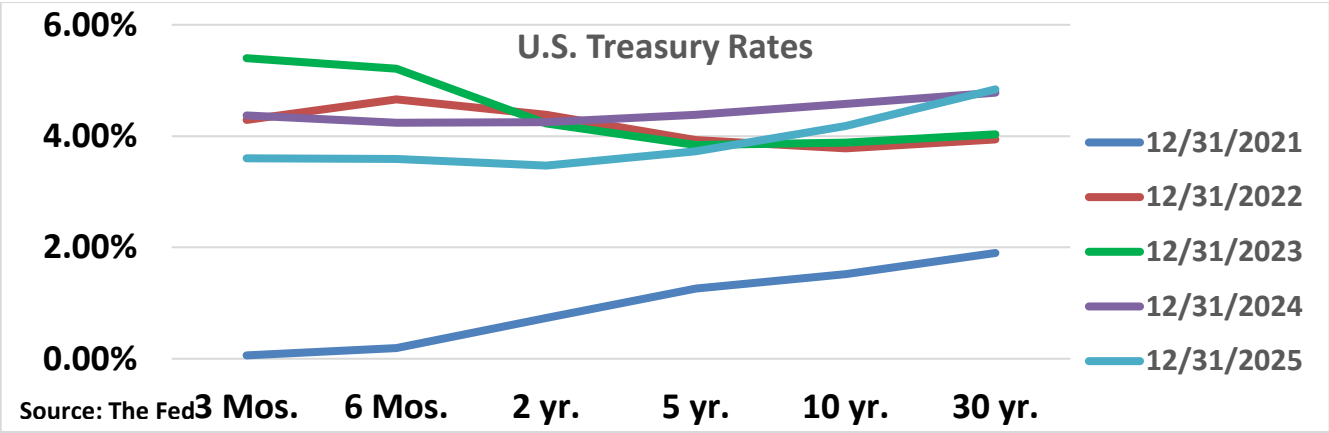
A couple additional data points are confirmatory. One, the price of food and housing have significantly outpaced wages over the past five years. And, according to December inflation data, food prices continue to rise, albeit at a slower pace than in prior years. Meantime, Americans are spending more on health care than on either groceries or housing and more than ever before. In short, the average consumer is feeling pressure from many directions.





What's strange is that despite the challenges buffeting the average consumer, overall U.S. retail sales grew 4.8% over the last year, well above inflation. To my recollection, we have never seen this sort of disconnect between what the U.S. consumer is saying versus what they are actually doing. However, I suspect that it is just a question of who is doing the talking and who is doing the…doing, so to speak.

With inflation moderating, where do yields and rates stand? Despite the Fed cutting the discount rate three times in 2025, from 4.50% to 3.75%, 30-year bond yields are slightly higher today (4.84%) than they were a year ago (4.78%), a seeming disconnect, while yields on 10-year Treasuries have declined, from 4.58% at the end of 2024 to about 4.25% at last glance. Apparently the bond market is not convinced, or is at least uncertain (confused?), about what the longer-term future will bring given our addiction to spending, the iffy inflation outlook, and geopolitical instability. The delta between the shorter and longer ends of the curve, reflected in two- and 10-year Treasury yields (roughly 0.68% at last glance), steepened significantly during 2025.



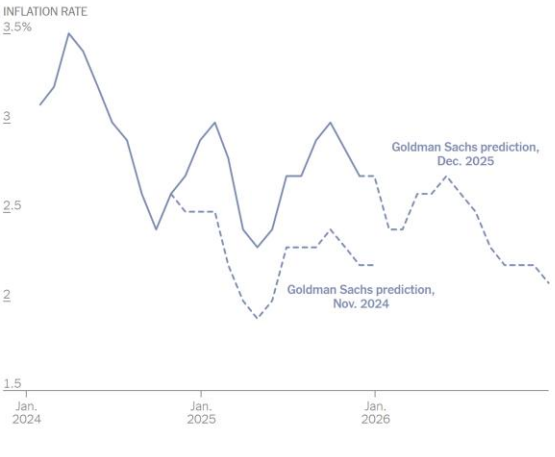
Looking forward, there are several question marks which will drive what happens to rates in the coming year. One, inflation, of course. Monthly inflation has exceeded the Fed's 2.0% annual

target every single month since March 2021 or thereabouts. Inflation seems to be hovering between 2.5% and 3.0%, though Goldman Sachs forecasts inflation to decline around two percent over the next year. Declining rental inflation will help, but recent trends will likely persist.

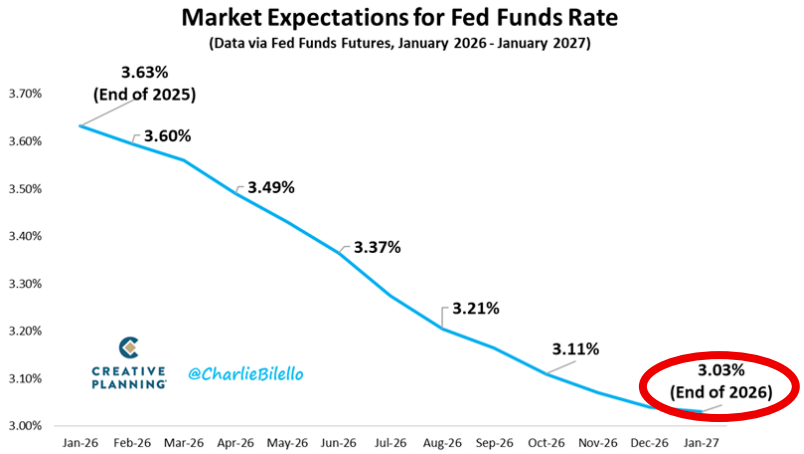
Two, the economy, and whether GDP and retail spending can continue to expand in the face of declining consumer sentiment and a soft job market. Three, the Fed itself. Who will succeed Jerome Powell this coming May, and what approach will they take thereafter? President Trump has made it perfectly clear that he wants lower rates and will likely get them, at least in terms of the Fed Funds rate. But perhaps the Administration ought to be careful what it wishes for (read: demands). In March 2021, President Erdogan of Turkey fired the Governor of his central bank because…wait for it…he wanted lower rates. What followed were those desired interest rate cuts, followed by world-leading inflation and a catastrophic depreciation of the Turkish Lira (see below).

And, finally, geopolitics. Given our penchant for spending and debt, also discussed in greater detail below, we will need allies (and others) to continue their largesse and willingness to buy Treasuries. Someone will need to do so unless we can find that special money-growing tree or that unique rainbow. Under the Donroe Doctrine, we are not exactly ingratiating ourselves with those who own so much of our debt. In any event, the market presently expects two rate cuts this year, one in April (25 bps) and the second in September (also 25 bps). If this forecast proves prescient, a super-sized "if" to be sure, the Fed Funds rate will approximate 3.0-3.25% by the end of 2026.

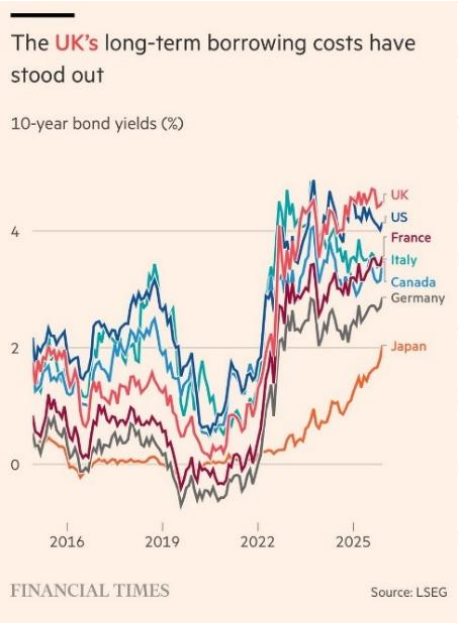
Will Treasury yields, on which so much residential and commercial real estate debt is priced, follow suit? That is a, if not "the," critical question.

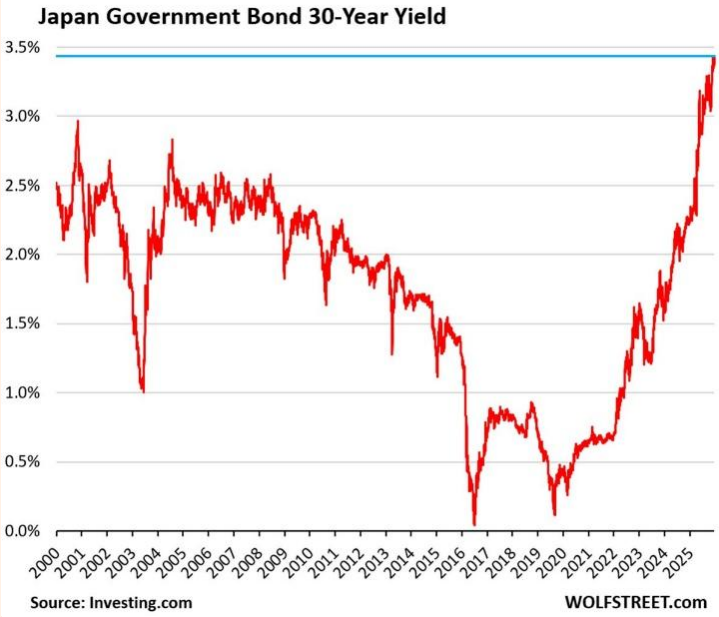


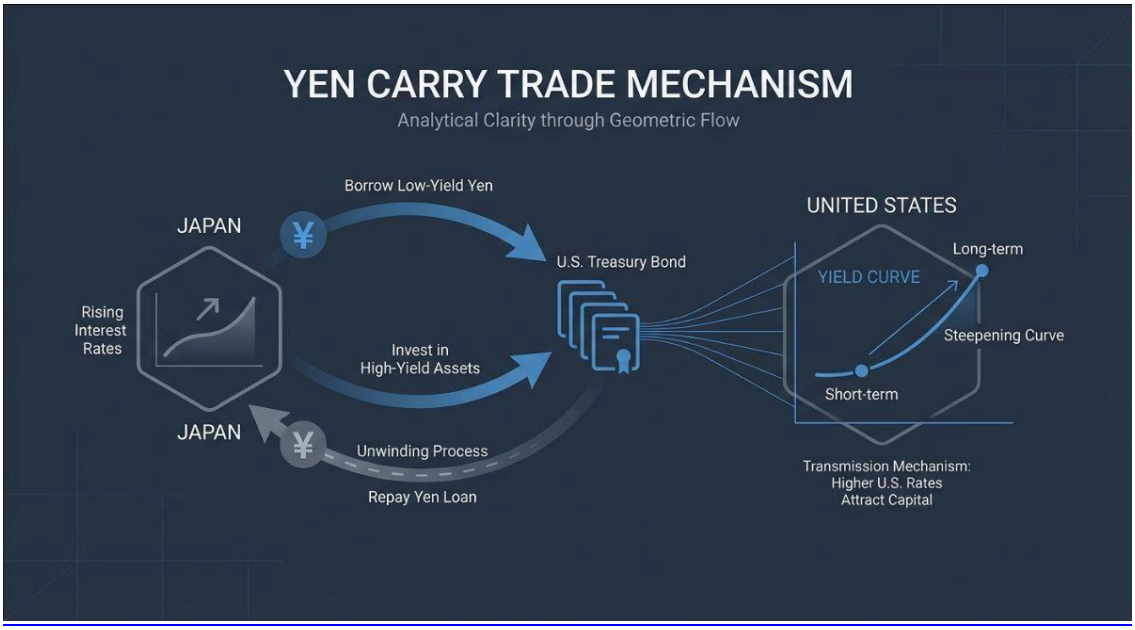
Sources: Bureau of Labor Statistics; Goldman Sachs.



Finally, one cannot focus solely on rates here at home, not in the global marketplace for debt. Borrowing costs in the U.K., Germany, and especially, Japan, have spiked over the past year. In seven years, the 30-year Japanese government bond yield has surged from 0.10% to a record 3.65% at last glance. Yikes. The unwinding of the "Japanese carry trade," where investors borrowed cheaply in Japanese yen, investing in higher-yielding U.S. assets, reduced Treasury yields across all durations. Now that Japanese yields have risen sharply, while the U.S. dollar has swooned, these trades are being unwound, increasing Treasury yields and the forward curve, accordingly. Meanwhile, in the U.K., the gilt yield on 30-year bonds has increased from 4.4% at the start of 2024 to 5.3% at last glance.



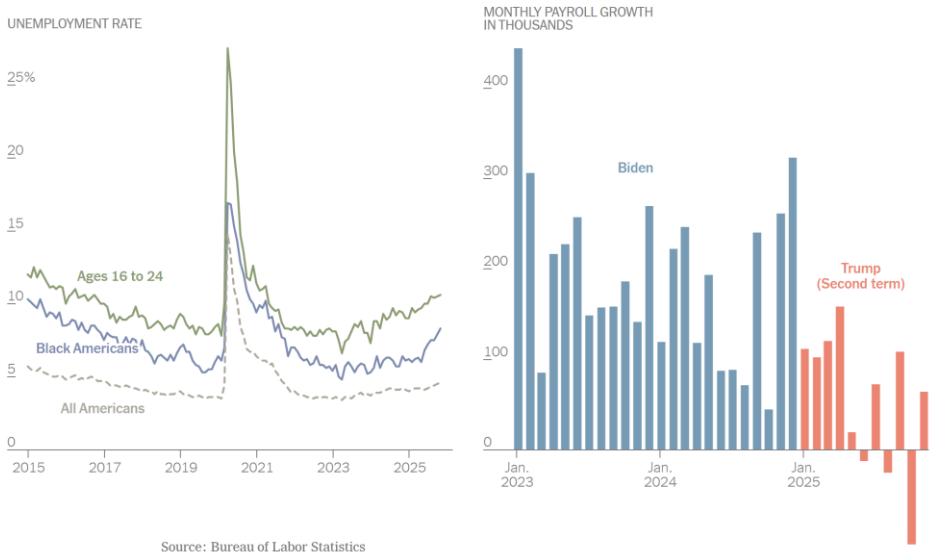




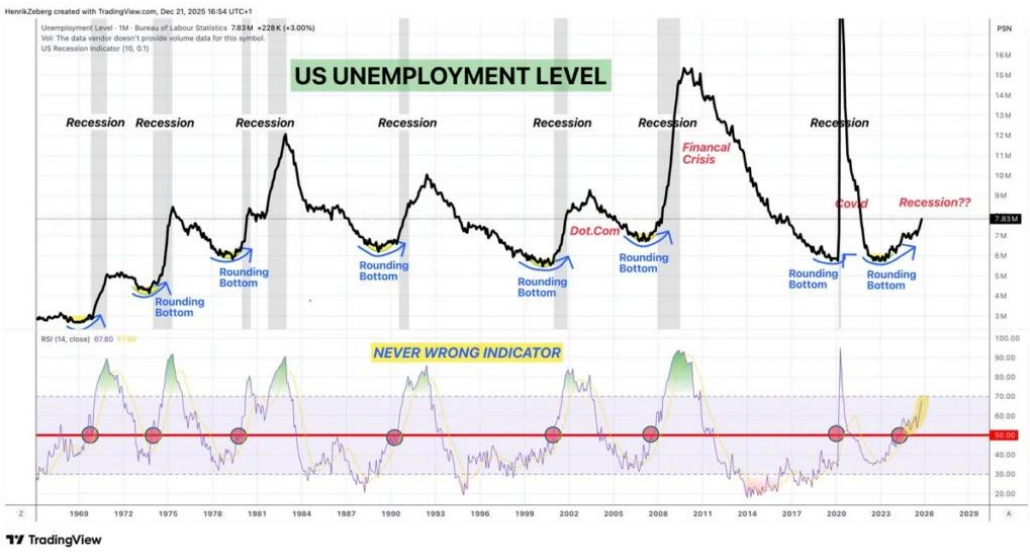
Looking for a job? It may not be easy finding one. Despite low overall unemployment (4.4%, as mentioned above), the labor market in the U.S. is confounding, to say the least. Nonfarm payrolls rose a seasonally adjusted 50,000 in December, lower than the downwardly revised 56,000 in November and short of estimates. The U.S. added an average of 10,000 jobs per month over the last four months of 2025, the fewest since the 2020 recession, while the total number of jobs in the U.S. increased by only 0.6% over the year, the slowest growth rate since March 2021.

In the past 50 years, this sort of weakness in job creation has preceded a recession and a spike in the unemployment rate 100% of the time. A Minneapolis Fed analysis found that half of the payroll weakness can be attributed to reduced immigration. And, as I mentioned in the last

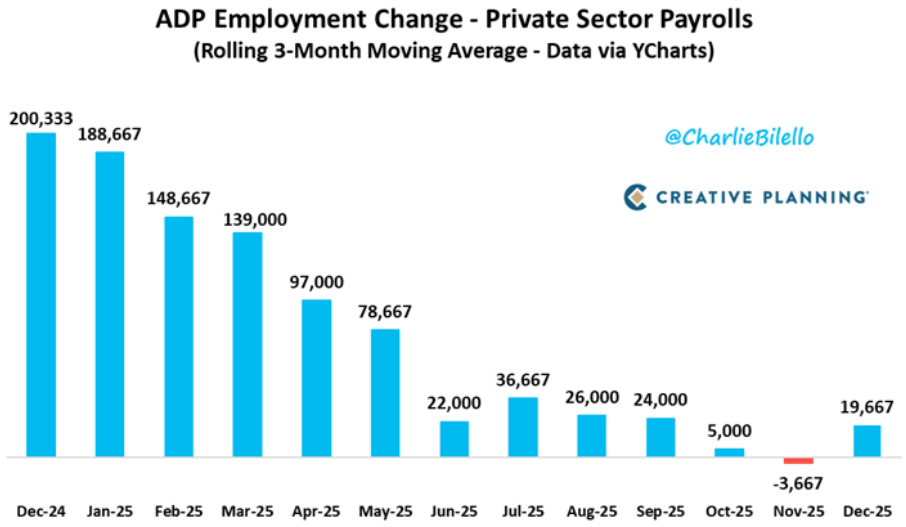
quarterly memo, those aged 16 to 24 are finding the job market especially challenging. The figures for young men are even more sobering.



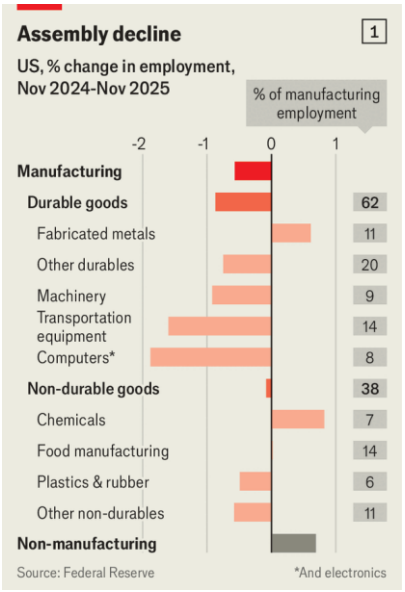
Source: Bureau of Labor Statistics



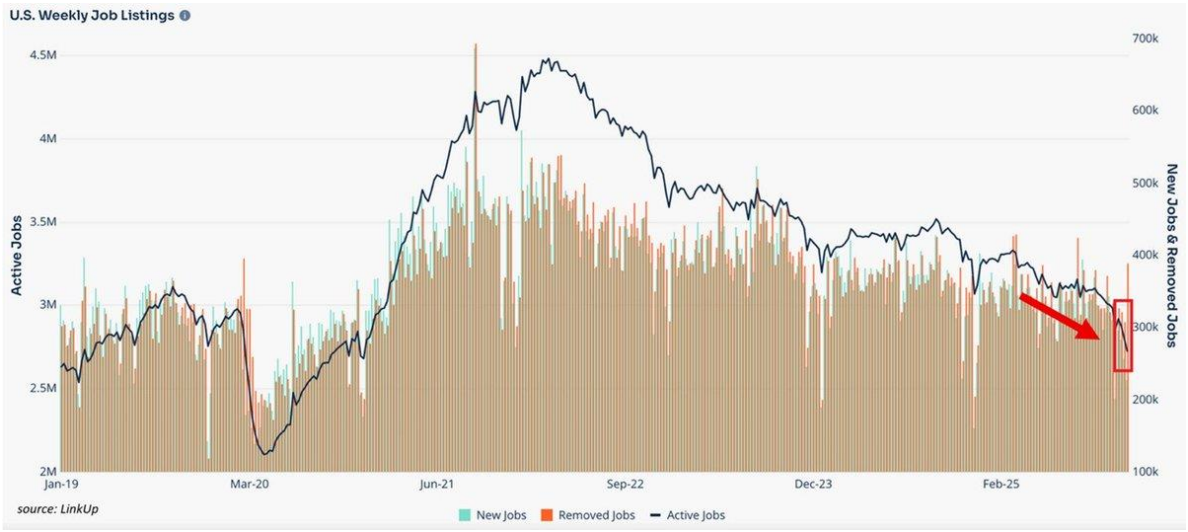
Meanwhile, private payrolls rose 41,000 in December, slightly below expectations, and with the growth emanating entirely from service industries such as education and healthcare, and from companies that employ fewer than 500 workers.



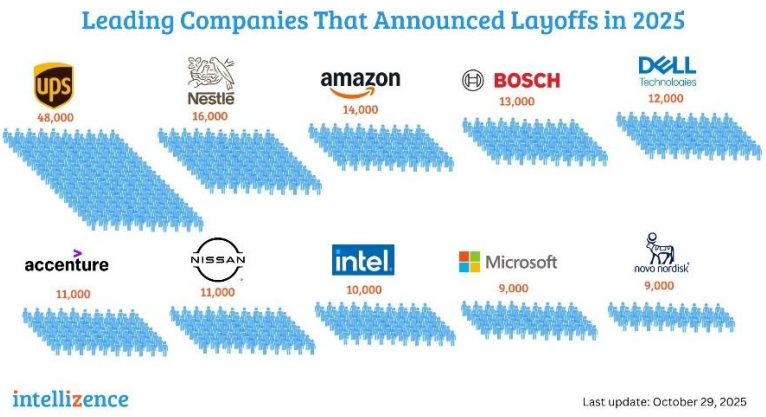
Remember the assurances that revised tariff and trade policies would lead to a manufacturing renaissance and increased hiring? Without having to go too far out on the prediction ledge, I expressed profound cynicism about such promises at the time, and recent data supports my prediction. Through the year ending November, manufacturing jobs in the U.S. declined. I am simply stunned that we have not yet relocated clothing production from Bangladesh to the States. And don't get me started on those darn penguins from the Heard and McDonald Islands, who have not only failed to make required tariff payments, but have shelved their plans to open a wildlife sanctuary in the U.S.

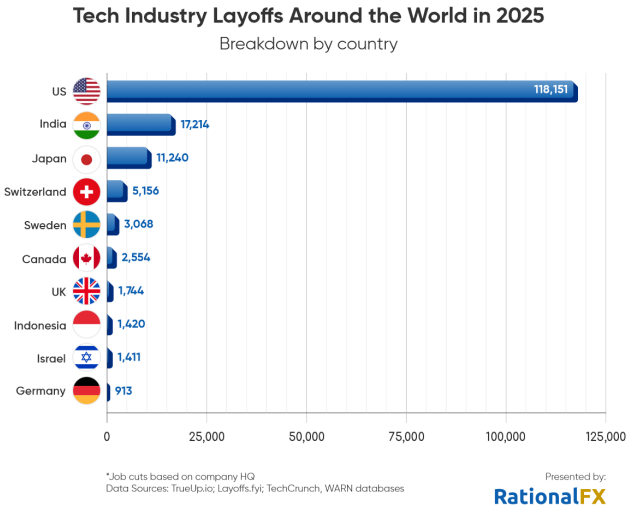


Meanwhile, outside of the many open NFL coaching positions (i.e., Ravens, Falcons, Raiders, Bengals, Colts, Dolphins, Jets, Buccaneers, Giants, Titans, Browns, and the Cardinals are looking at last count), the number of available jobs in the U.S. just hit its lowest level in more than a year. Weekly job listings fell over 11% in 2025 to approximately 2.7 million at last glance, the lowest level since December 2020. The weakness was observed across both the manufacturing and services sectors, as well as across blue- and white-collar jobs in most industries and occupations. As a result, total job listings ended the year below 2019 pre-pandemic levels. Average hourly earnings rose 0.3% for the month, in line with forecasts.



However, despite weakness in employment markets, we have not yet witnessed any sort of systemic "job-pocalypse" despite October witnessing the most layoffs in any single month in history. Perhaps recent layoff announcements from UPS (48,000), Amazon (up to 30,000), Intel (24,000), Nestle (16,000), Accenture (11,000), Novo Nordisk (11,000), Ford (11,000), Microsoft (7,000), PWC (5,600) and Target (1,800) are harbingers of things to come.





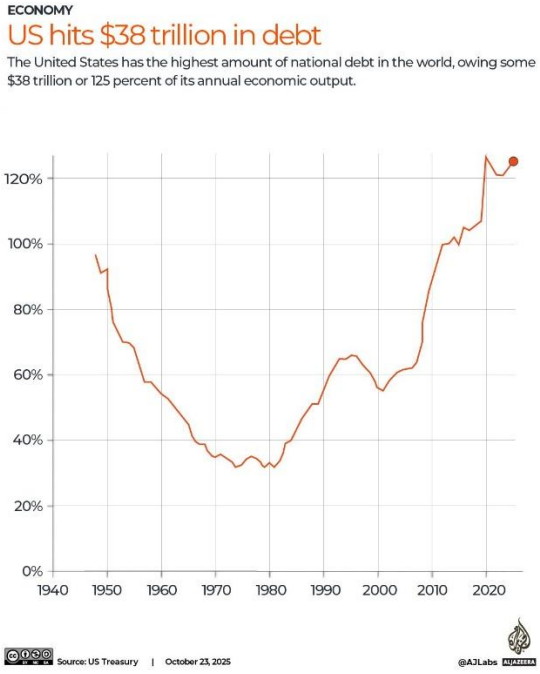
With that in mind, the Massachusetts Institute of Technology, using a labor simulation tool called the Iceberg Index, recently released a study that found that AI can already replace 11.7% of the U.S. labor market, principally across finance, health care and professional services, including routine functions in human resources, logistics, finance, and office administration. 11.7%, which sounds remarkably precise. In any event, I imagine that a large number of the announced job cuts presented above are captured within MIT's model.

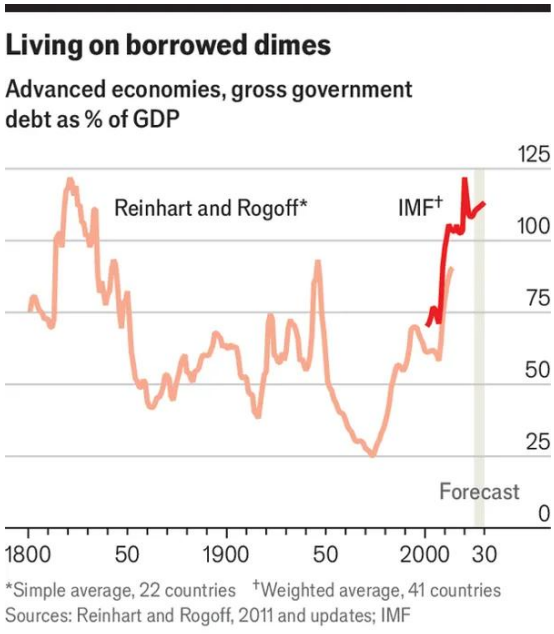
In summary, despite monthly swings, the longstanding employment trend seems clear: the U.S. is likely to experience a low-hire, modest-fire labor market, at least for the time being. However, the lack of new hiring, especially in younger demographics, will likely have a long and impactful tail. Moreover, it's not just about unemployment or layoffs and whatever our AI future might bring, but the risk of systemic underemployment among 18- to 30-year-olds. College educated

baristas, Uber drivers, and DoorDash couriers, already a reality, will become even more commonplace, with obvious consequences on everything from sentiment, spending, and investment.

What happened to DOGE and all the promises of reduced spending and deficits? I remember well the adage that there are "lies, damn lies, and statistics." Well, perhaps we can categorize any Administration's promises to reduce federal spending accordingly, but many were hopeful when Elon Musk appeared on stage wielding a chain saw and promised to take our profligate ways to the woodshed. Well, we can now say, without hesitation, that theatrics notwithstanding, DOGE was a failure. Spending is up. Deficits are up. Borrowing is up. And there is absolutely no end in sight, not with the amount being spent on immigration control and recent military entanglements, not with Trump's desire to markedly increase defense spending, all while passing bills that reduce taxes and increase spending overall. It was all so performative and unnecessary, like so much these days.

While we may not nearly be alone in our addiction to debt, I don't find that reality of much comfort. Gross public debt as a share of GDP in developed countries is near an all-time high, approximately 110%, while the average deficit exceeds 4% of GDP. In the U.S. it's 6%, all the byproduct of corporate bailouts, war spending, COVID largesse, support for Ukraine, and those tax cuts.





MONTHLY STATEMENT OF THE PUBLIC DEBT OF THE UNITED STATES

DECEMBER 31, 2025

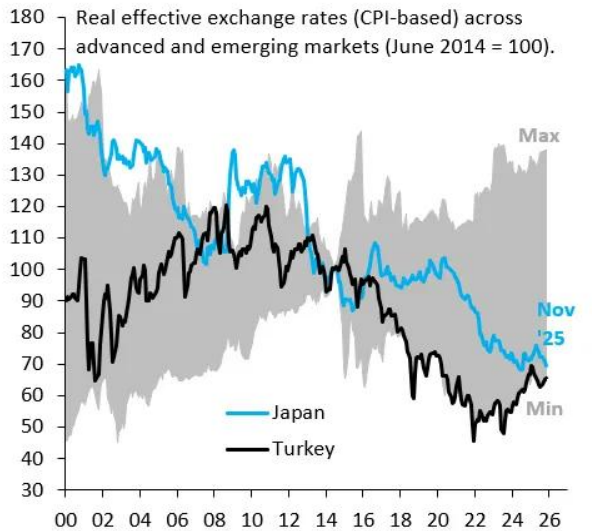
(Details may not add to totals)

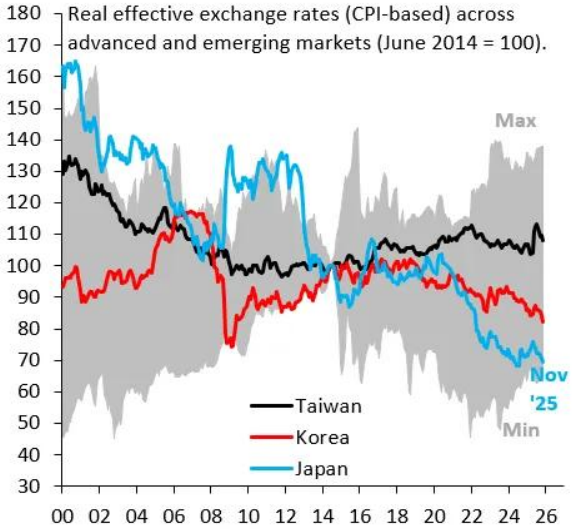
TABLE I -- SUMMARY OF TREASURY SECURITIES OUTSTANDING, DECEMBER 31, 2025

(Millions of dollars)

	Amount Outstanding		Totals
	Debt Held By the Public	Intragovernmental Holdings	
Marketable:			
Bills	6,546,564	696	6,547,260
Notes	15,632,488	4,386	15,636,874
Bonds	5,238,540	10,462	5,249,001
Treasury Inflation-Protected Securities	2,133,177	705	2,133,882
Floating Rate Notes [19]	700,176	58	700,233
Federal Financing Bank [1]	0	4,093	4,093
Total Marketable [a]	**30,250,944**	**20,399** [2]	**30,271,343**
Nonmarketable:			
Domestic Series	11,047	0	11,047
State and Local Government Series	82,387	0	82,387
United States Savings Securities	149,989	0	149,989
Government Account Series	347,086	7,646,893	7,993,979
Other	5,264	0	5,264
Total Nonmarketable [b]	**595,773**	**7,646,893**	**8,242,666**
Total Public Debt Outstanding	**30,846,717**	**7,667,293**	**38,514,009**

In the long run, something will have to give, though timing these things is a fool's errand. Excessive debt, non-stop borrowing, and ill-conceived fiscal policy eventually take their tolls. Perhaps the sharp drop in the U.S. dollar this year reflects this reality. The pronounced weakness in the Yen over the past year certainly does. You may be able to run, but you can't permanently hide from the consequences of high debt and bad fiscal policy, putting your central bank in a tight spot. And trying to cap yields by purchasing your own debt has its limits and at some point, currencies devalue as a consequence. At last glance, Japanese 30-year bonds are trading at all-time lows, while the Yen has declined nearly 50% over the last five years. Ouch.

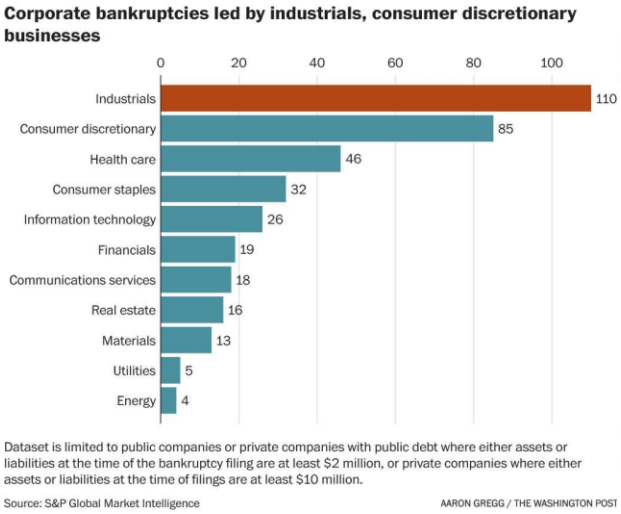


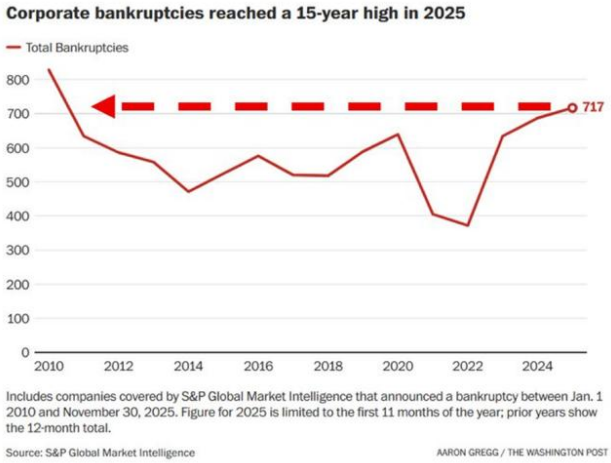


Finally, what other noteworthy tidbits are worthy of discussion?

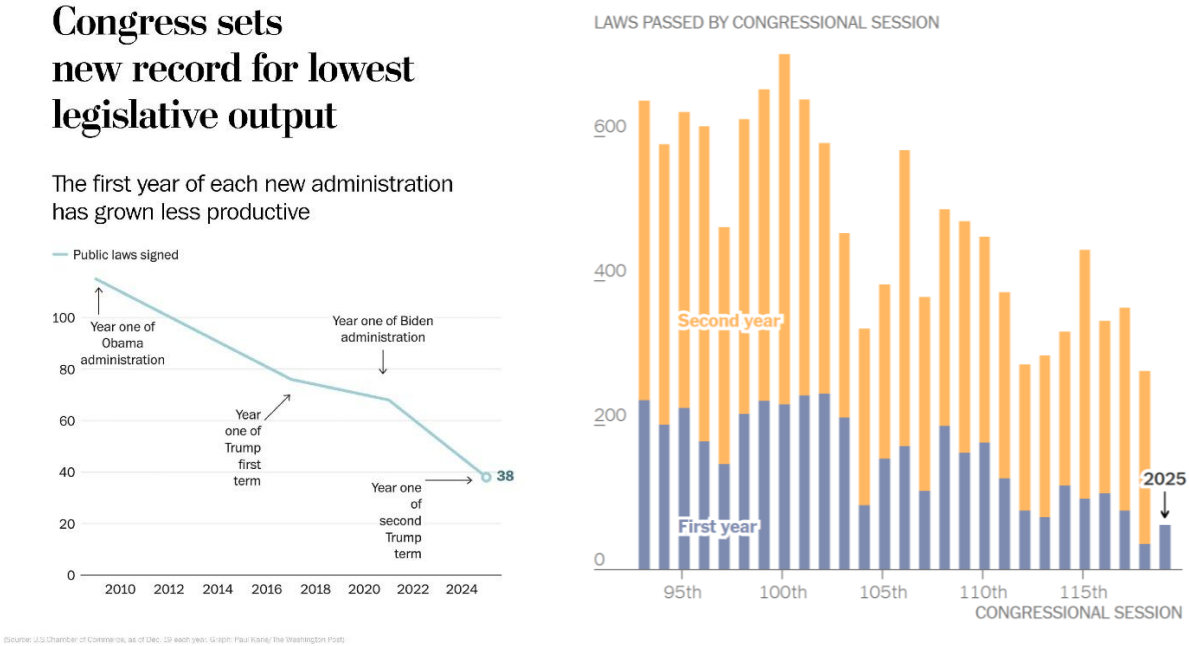
- **Corporate bankruptcies last year reach their highest levels since 2010:** Through November, at least 717 U.S. companies filed for bankruptcy, including 85 consumer discretionary and 32 consumer staples companies. 110 industrial and 46 healthcare companies joined in on the insolvency fun during that same time period. Many companies are falling behind on their debt as if the economy is already in a recession. Saks Fifth Avenue defaulted on at least one outstanding debt obligation at the end of 2025, filed for bankruptcy last week, and will be renamed Saks Fifth Off. Perhaps the title of a recent Washington Post article says it all: "Bankruptcies Soar as Companies Grapple With Inflation, Tariffs."

  Anecdotally, I recently had a tenant, an importer of toys and household furnishings from China, go out of business due to the tariffs and the Administration's immigration policy, which materially impacted the company's operating economics and labor force. This is the first vacancy I have had in at least five years and brokers tell me that finding a replacement tenant in the current market won't be easy and that when we do, it will be at rents some 20% lower than they were just a year or two ago.





- **At this point, it's not clear when Congress is in session given how truly unproductive they have been.** To cut to the chase, Congress has never been this unproductive in the first year of a new administration, having passed a mere 38 bills in 2025. I understand that President Trump, on behalf of the Executive Branch, has made a concerted effort to assume powers previously or generally belonging to the legislative branch, so one might conclude that the low legislative output doesn't necessarily reflect a lazy or intentionally unproductive Congress. Actually, both can be and are likely true. Of course, President Trump would not mind abolishing Congress altogether if he were able, and through Executive Orders, manage Washington without oversight. However, it is also true that Congress is completely dysfunctional, with divisions both between and within the parties.

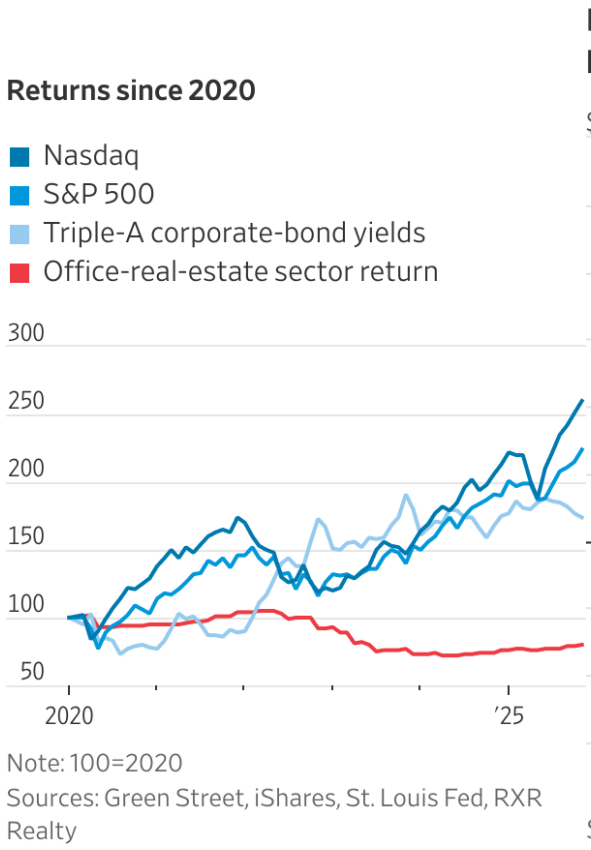


- ***Office-to-Residential conversions are booming and New York Is the epicenter:*** Over the past two decades, developers in New York have converted nearly 30 million square feet of office space into residential units, with the pace of transformation picking up in recent years. Most office buildings are too wide and/or ill-suited design-wise to repurpose into apartments. But New York developers are looking to address these impediments with architectural creativity—notches, uniquely designed light wells, and the strategic enclosure of interior cores to create space for new residential floors.

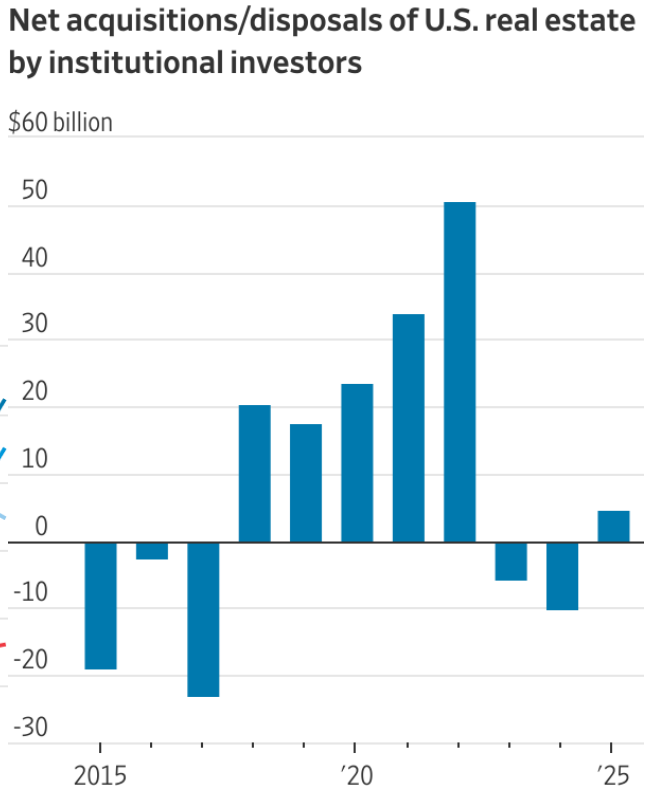
  However, I don't see these endeavors panning out in other cities. First off, few cities, even those with housing shortages, offer New York's unique housing economics, where shoe closets rent for $4,500 a month. Secondly, these conversions represent but a small fraction of New York's excess office space. In short, adaptive reuse, while superficially appealing, will not offer any meaningful solutions to address housing availability and affordability in our housing-impacted gateway cities.

  Commercial real estate might be getting too cheap to ignore: Poor commercial real estate. Fewer investors want to touch it after being burned by falling property values in recent years, first following the Great Financial Crisis and more recently, COVID. Why settle for 7% annual returns on real estate when Nvidia, Alphabet, and other "Magnificent" stocks offer more compelling returns? I remember hearing these same refrains back in 1999. Since the third quarter of 2019, private real-estate funds have returned 20%, compared with 150% for the S&P 500. U.S. commercial-real-estate values are still down 17% from their 2022 peaks on average, according to Green Street Advisors. As a result, institutional investors like pension funds and insurance companies, traditionally large owners of and contributors of capital to commercial-real estate have been relatively quiet, despite lower interest rates and a mostly steady domestic economy, and given recent performance, it's hard to blame them.

However, certain pockets of commercial property (e.g., Class A office, multifamily offerings in certain cities, and yes, retail), unlike high-flying AI and tech-related stocks, do not seem mispriced compared to underlying fundamentals. Offices and apartments are valued at especially deep discounts of 36% and 19%, respectively, from their peaks. Recent data from MSCI indicates that institutional investors acquired $4.6 billion more commercial property in the U.S. last year than they sold, following two years of net sales. However, 2025 deal activity pales in comparison to acquisition activity between 2018 and 2022.



Note: 100=2020
Sources: Green Street, iShares, St. Louis Fed, RXR Realty



Source: MSCI

- ***Los Angeles tightens rent controls for first time in four decades and Boston is doing its share to keep up:*** In an announcement surprising absolutely nobody, Los Angeles just enacted significant rent control reforms which go into effect in early February. The new rules cap annual rent increases between one and 4%, based on 90% of changes in the local consumer price index. Previously, the rental adjustments allowed were larger, up to 8%. Landlords are no longer able to charge renters additional amounts (i.e., the previous 1% surcharge) if they pay for utilities on a tenant's behalf. While the new rules only apply to multifamily units built on or before October 1, 1978, they cover nearly three-quarters of apartments in the city. And don't forget that the city is still charging the so-called "mansion tax" a tax of between four and 5.5% of the gross sales price of any and all real estate sales over $5 million, a large swath of real estate in the city.

  Meantime, voters in Boston are gearing up to vote on another doozy of a rent control measure in November that will likely pass. Under that ballot measure, whatever rents are being paid as of the end of January sets a sort of "rental baseline." Subsequently, rent increases will be capped by changes in the CPI or 5%, whichever is lower. But here's the rub. The measure would apply not only for renewals of existing tenancies, but new leases

as well, rent "control," as opposed to rent "stabilization," where rents can be adjusted to market when one tenant vacates and another leases the unit. Moreover, it applies to all properties and new construction is only exempt for 10 years. I would rather enjoy a different Boston-LA rivalry than one involving rent restrictions.

I continue to shout into the wind trying to explain that all of these economic restrictions, rent controls, taxes on gross sale prices, and inclusionary zoning (read: economic sticks) do nothing to lower rents or improve housing, but quite the opposite. Politicians are slow, if simply unwilling, learners. For developers, these restrictions can and often are deal killers. We need more politicians who actually understand basic economic and finance principles. Is that asking too much?

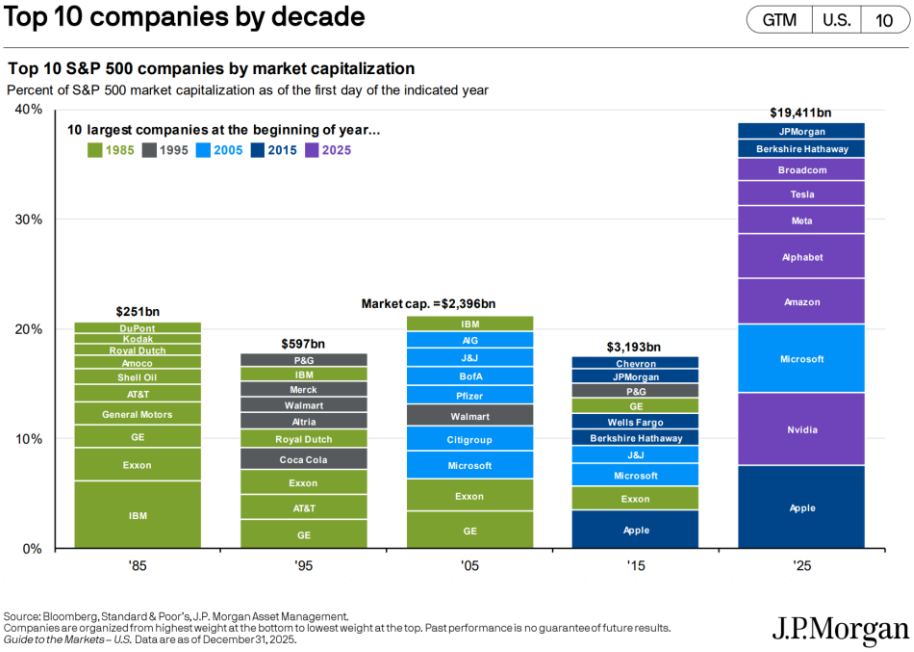
- ***Tourism to the U.S. is cratering:*** Europeans, Canadians, and just about anyone with a non-U.S. passport is voting with their feet, shunning the U.S., and traveling elsewhere. The economic consequences have yet to be felt, perhaps, but I have to believe that the sharp decline in tourism and travel to the U.S. will manifest itself in future GDP prints and certain economic outcomes. For example, I have to believe that lines at Disneyland or Universal Studios will be a tad shorter than usual in 2026, occupancy rates at certain hotels will dip, along with airline load factors, at least on certain routes. Perhaps domestic travel will make up for declines in international travel, but that's hard to square with the whole K-shaped economy story.

So, as we close out another quarterly memo, is there anything else to offer in terms of what might be in store for 2026? Any closing thoughts?

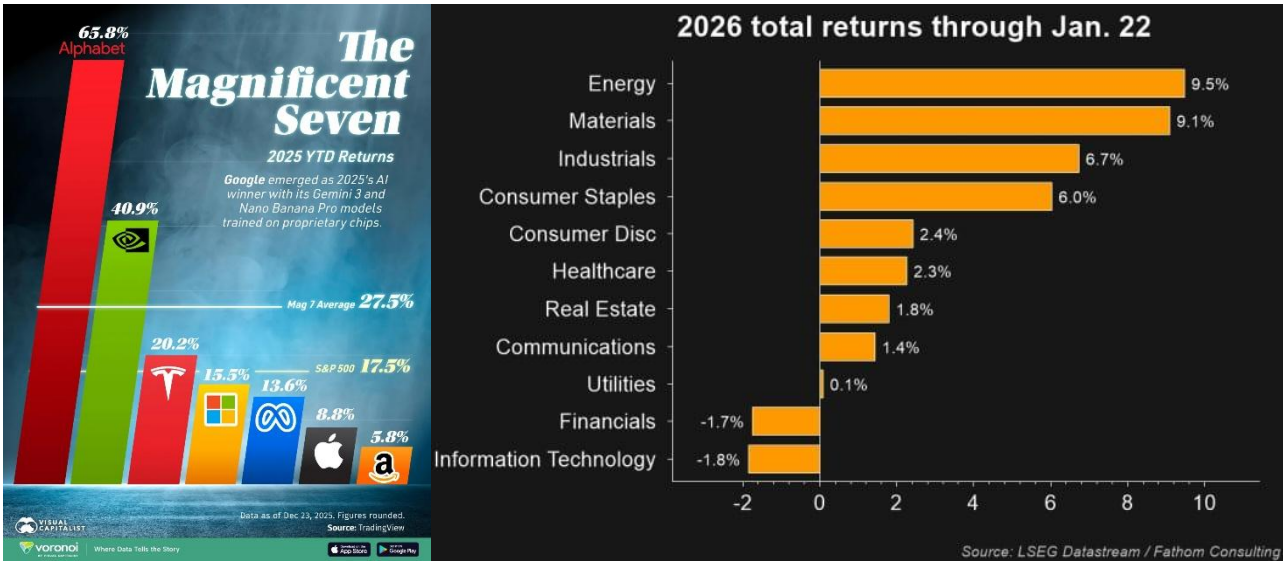
I have often warned about the risks associated with forecasts and predictions, evidenced by the fates of everyone from now deceased Cleo, the supposed Jamaican psychic who served time for her misdeeds (apparently she was neither Jamaican nor a psychic), to that of the long defunct Psychic Friends Network, which failed to foresee their financial challenges, to the many recessions predicted by "professional economists" and market pundits that failed to materialize. Indiana was ranked 20th in the AP preseason college football poll, only to go undefeated (16-0) and win the NCAA championship. Meanwhile, Penn State, ranked second in preseason polls, finished 7-6, twelfth in their own conference, and nowhere near the top 25. There you go.

If you need more evidence that forecasting is difficult, look no further than data summarizing the most valuable companies in the S&P 500 over time, as ranked by market capitalization. Of the ten most valuable companies in 2005, for example, which included the likes of IBM, J&J,

and AIG, none make the list a mere 20 years later. And only three from the 2015 list still appear ten years later: JP Morgan, Berkshire Hathaway, and Apple. Capitalism moves fast, just like life, as Ferris Bueller would have us remember.

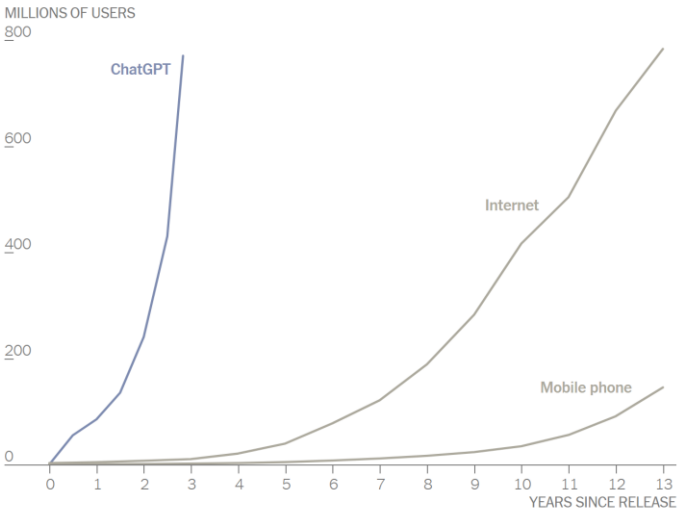


The "Magnificent Seven" continued to propel the market in 2025, with an average return of 27.5%, well surpassing that of the S&P 500. However, thus far in 2026, and obviously, three weeks do not a year make, but Information Technology stocks, including the Magnificent 7, have declined about 1.2% in the opening two weeks of 2026, while the broader S&P 500 saw modest gains of about 1.1%, led by energy and materials stocks, thanks to Venezuela and Greenland, perhaps. Is this a harbinger of things to come or merely a blip?



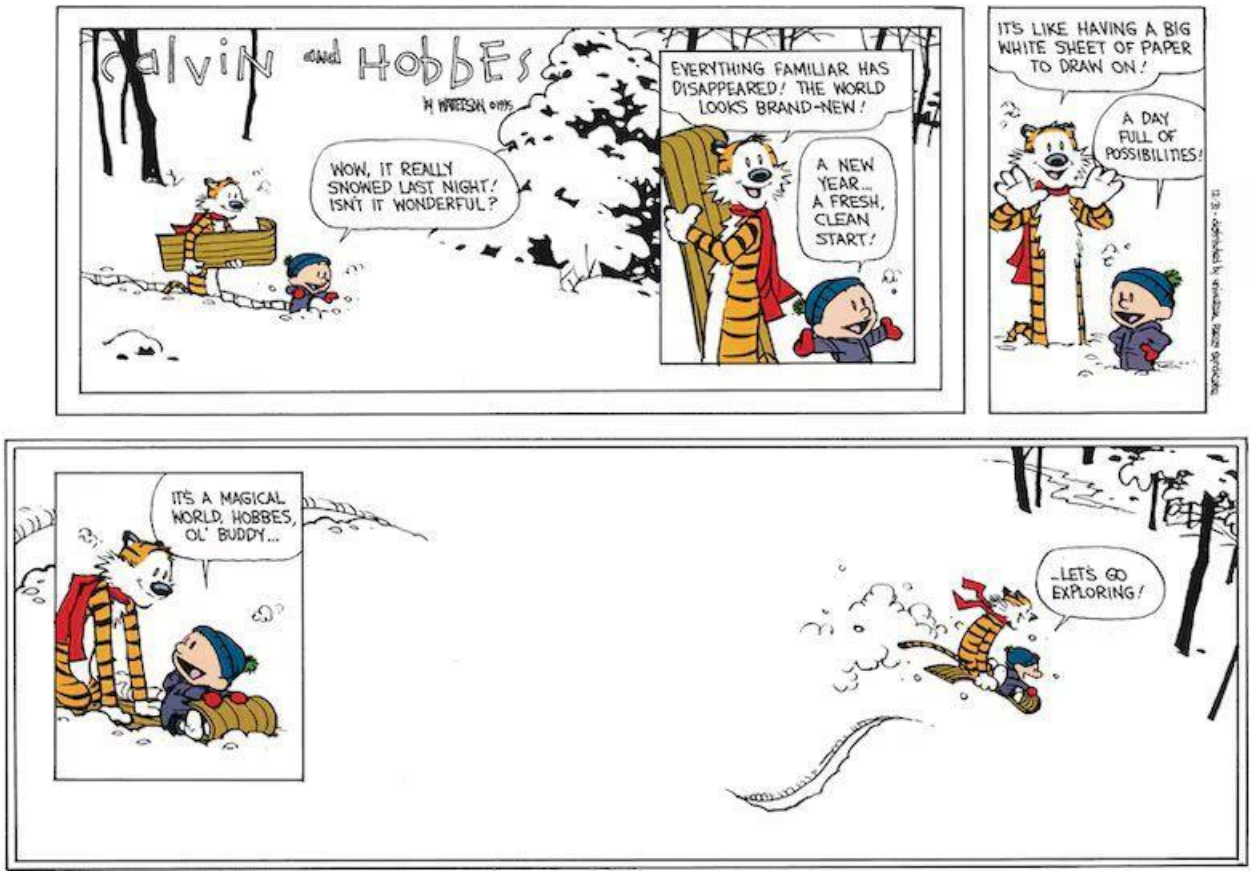
Obviously, AI is doing its part to compel change and make forecasting even more difficult. The adoption rate of ChatGPT, faster than that of either the Internet or mobile phone, and the trillions now expected to be spent on data centers over the next few years, speak volumes.

However, trying to predict the ultimate winners and losers from these trends, whether the projected demand will materialize, and the impact on everything from the consumer to employment to GDP remains to be seen.



Aside from the sudden COVID-19 contraction back in 2020, the global economy has not suffered any significant or long-lasting recession for nearly 15 years, which is simply remarkable. Will 2026 be the year when we finally experience a downturn? Not a single market pundit thinks so, as mentioned above, while Scott Bessent, Treasury Secretary and a candidate to succeed Jerome Powell as Fed Chair, recently stated that "interest rate sensitive" industries are in recession, but others aren't. I assume he is mostly referring to commercial real estate and housing. Current Polymarket odds place the likelihood of a recession in 2026 at 26%, so there you go. If equity markets swoon this year, watch out below because in this K-shaped economy, I believe it is the equity markets that have compelled those "haves" and "have yachts" to continue spending. That could change and change lickety-split.

I will leave you with a couple of other final thoughts, with an accompanying visual, to start the new year, reflective, nostalgic, and perhaps random. One, with the death of Brigitte Bardot at the end of 2025, only three of the 59 people mentioned in Billy Joel's memorable banger "We Didn't Start The Fire" are still alive: Chubby Checker, Bernard Goetz, and Bob Dylan. As I said, life and capitalism move fast. And two, consistent with my traditional endings of annual letters, I bring you words of wisdom from my two very favorite philosophers, Calvin and Hobbes.



With that, the entire Clear Capital team sends its best wishes for 2026 (and beyond) and thanks you for your ongoing and continued support.

Best,

Eric Sussman
Managing Partner