"Be open-minded, but not so open-minded that your brains fall out."
- Groucho Marx

"You can't go back and change the beginning, but you can start where you are and change the ending."
- CS Lewis

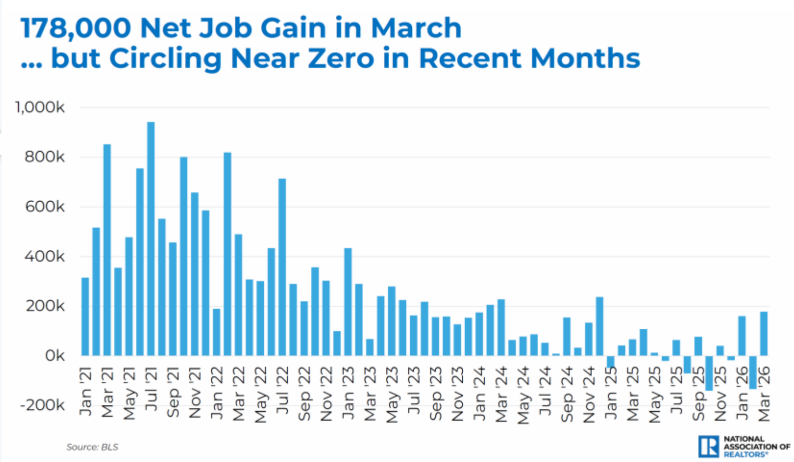
A few weeks ago, following a keynote address I gave at a conference at UCLA Anderson regarding my views on the economy, markets, and all things real estate, a former student and successful asset manager chided me for being less than my optimistic and ebullient self in front of so many current and prospective students who were in need of a good pep talk…along with job and internship opportunities in a challenging MBA employment market. As someone who considers himself an optimist, though perhaps not an eternal one, I paused and began to wonder if I had unknowingly crossed over some unseen threshold and am now just another "grumpy old man."

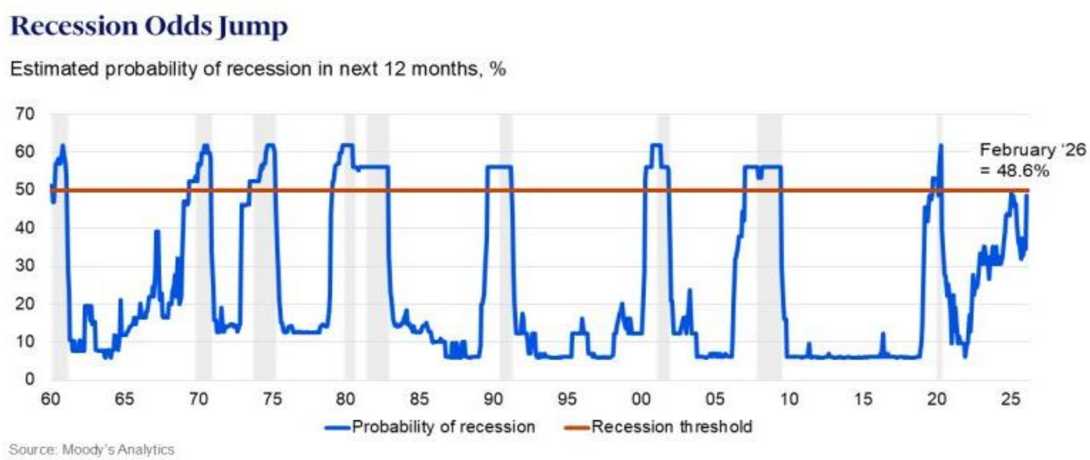
To my dismay (and with a little help from AI), it appears that I might have indeed joined a fraternity of other curmudgeons, Sigma Alpha Kvetch.

But let's face it. It's not easy being ebullient these days. Here's just a sample of recent headlines:

- **"Oil prices soar as there appears no end to Iran war in sight"**
- **"Suspect charged with attempted assassination of Trump at Washington dinner"**
- **"Former FBI Head James Comey indicted over '8647' seashell message"**
- **"Meta Layoffs, Microsoft buyouts to impact 23,000 roles in tech layoff storm"**
- **"Young, educated, jobless"**
- **"Will AI make human workers obsolete?"**
- **"Private credit stress tests. What cracks and what holds?"**
- **"Starwood freezes SREIT redemptions as liquidity crunch deepens"**
- **"Consumer Confidence falls to fresh record low"**
- **"NAR Existing-Home sales report shows 3.6% decrease in March"**
- **"Inflation resurgence threatens consumers, firms"**
- **"Experts warn that recession risks are increasing"**
- **"U.S. curling teams fall short in 2026 Winter Olympic finals"**
- **"Spirit Airlines flight attendant says boyfriend left her after airline shutdown"**
- **"Hantavirus cruise ship outbreak triggers mass evacuation"**

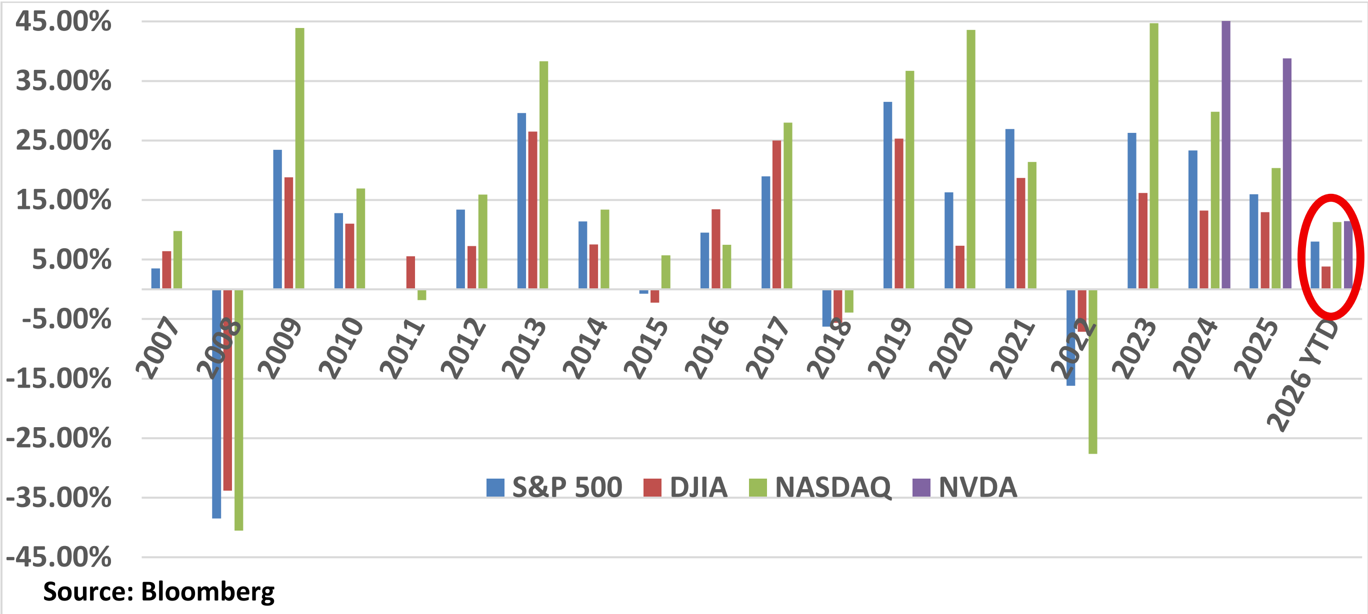
And just in case, the headlines aren't enough, there are plenty of pictures that provide support for a less than ebullient narrative…

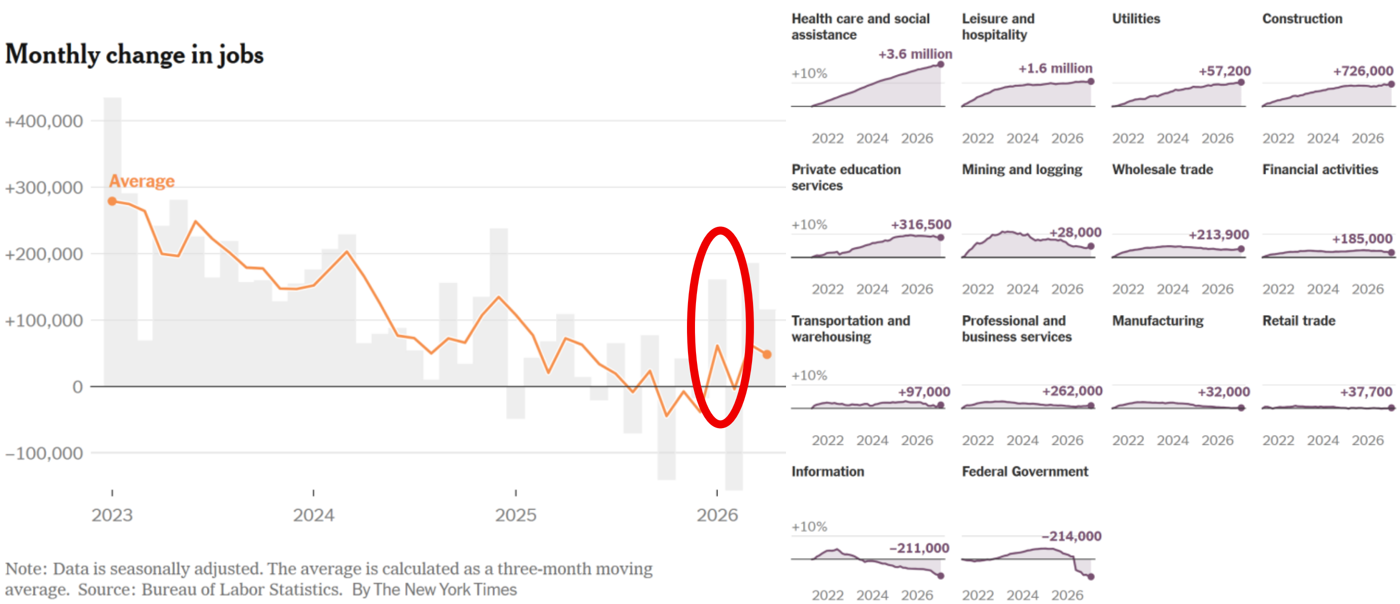




Of course, the news isn't nearly all negative and maybe this curmudgeon has merely caught a case of what one of my former Anderson colleagues calls "miserabilism," unfounded pessimism in the face of mostly good news. First quarter earnings for the S&P 500 were up over 27% year-over-year, the strongest performance since the fourth quarter of 2021. Over 80% of companies exceeded earnings expectations during the quarter, driven by AI demand and high net profit margins, particularly in the tech and communication services sectors. The six largest U.S. banks posted a record $45 billion in trading revenue during the first quarter, up 17% year-over-year. Just last week, the Bureau of Labor Statistics indicated that U.S. employers added more jobs than anticipated and the unemployment rate held steady at 4.3% and essentially full employment.

Meanwhile, the UCLA's women's basketball team won its first national championship while the men's baseball team retains its number one ranking, my son got engaged, far more Americans can now identify the Hormuz Strait and certain Middle East countries on a map, Blake Lively and Justin Baldoni settled their legal spat, and a sub-two hour marathon was finally achieved. Nobody should ever claim that I suffer from incurable miserabilism ever again.

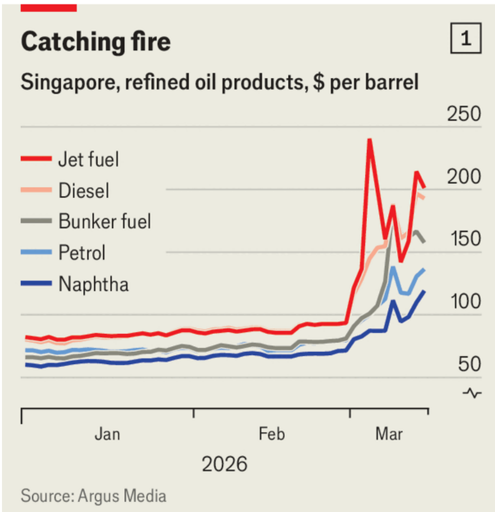


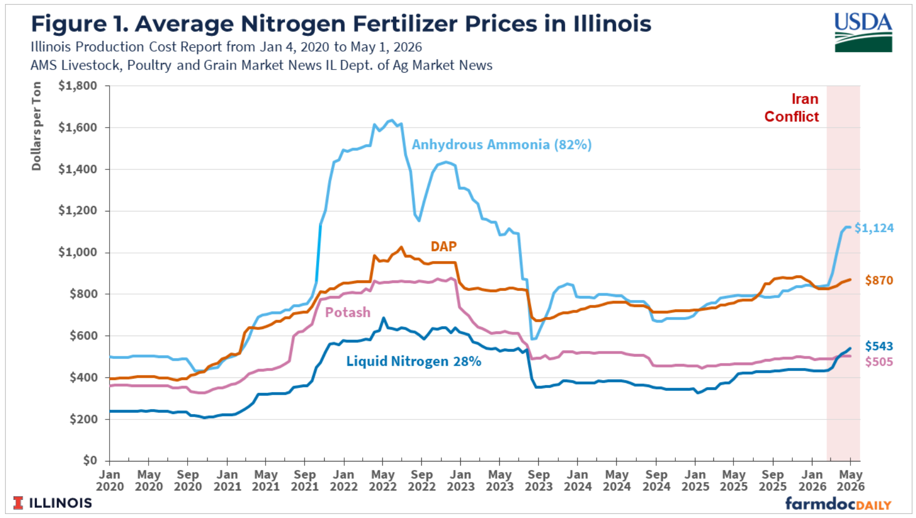


Note: Data is seasonally adjusted. The average is calculated as a three-month moving average. Source: Bureau of Labor Statistics. By The New York Times

However, it's hard to square all the conflicting data and I sense that we are at some economic inflection point. Consumer confidence sits at all-time lows while the war (or shall we say, "excursion?") in Iran and on- and off-again closure of the Strait of Hormuz have resulted in an over 40% increase in oil prices, with supply disruptions impacting everything from fertilizer to helium, as nearly a third of the global supply of each pass through the Strait.

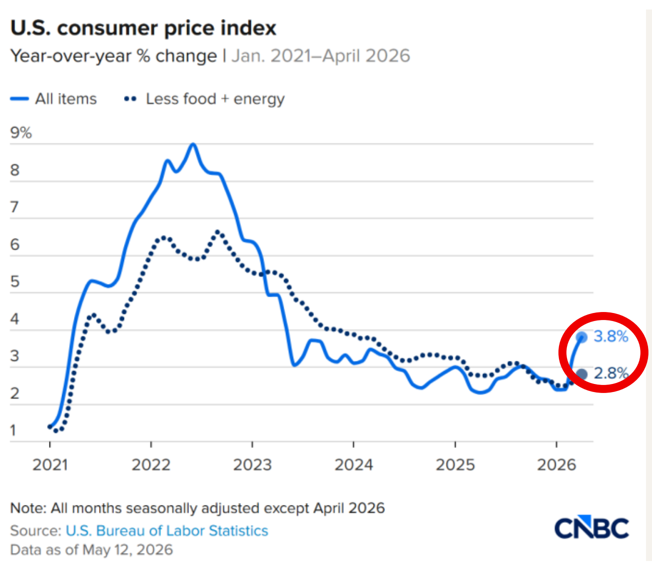
In my penchant for nostalgia, I can't help but think back to Edwin Starr's number one hit from the summer of 1970, "War," which asked a simple question, "What is it good for?," coupled with its succinct answer, "Absolutely nothing." Of course, Vladimir Putin, ExxonMobil employees and its shareholders, others long commodities, and "war correspondents" might feel differently.

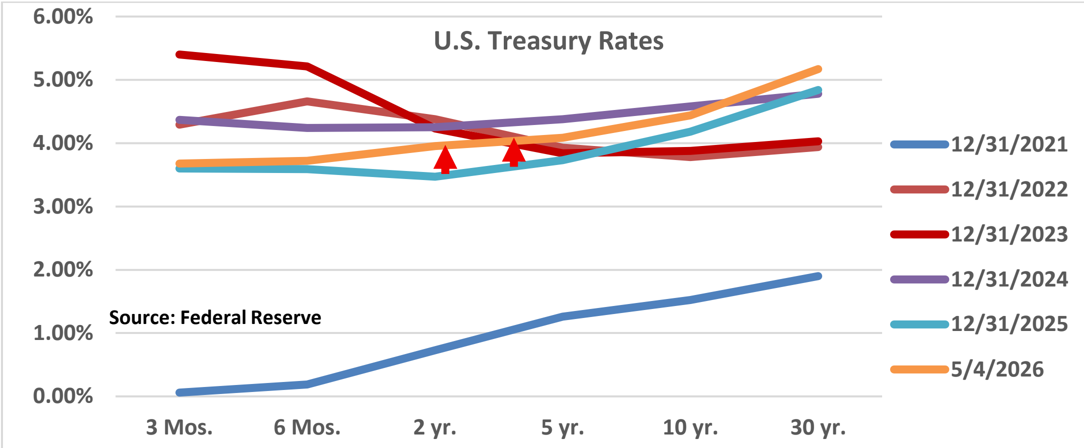


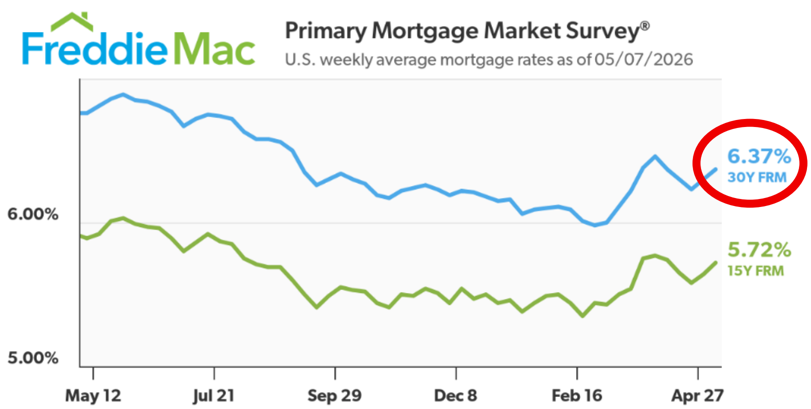


Of course, the surge in oil and other commodity prices has clouded the inflation and interest rate picture. The Consumer Price Index rose 0.9% in March alone, the largest monthly increase since June 2022, followed by a 0.6% increase in April. For the year ending April, the "all-items" index rose 3.8%. Energy prices, particularly the 28.4% increase in gas prices, was responsible for most of the increase.

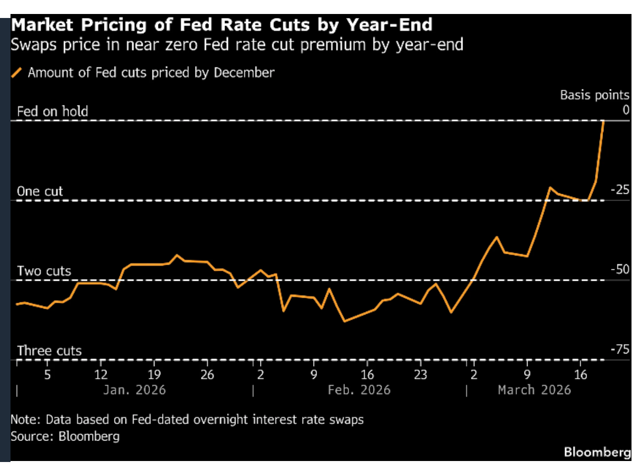
Meanwhile, inflation expectations increased in tow, while 10-year Treasury yields and mortgage rates spiked. At last glance, the 10-year Treasury yield and 30-year mortgage rates stood at 4.46% and 6.37%, respectively.







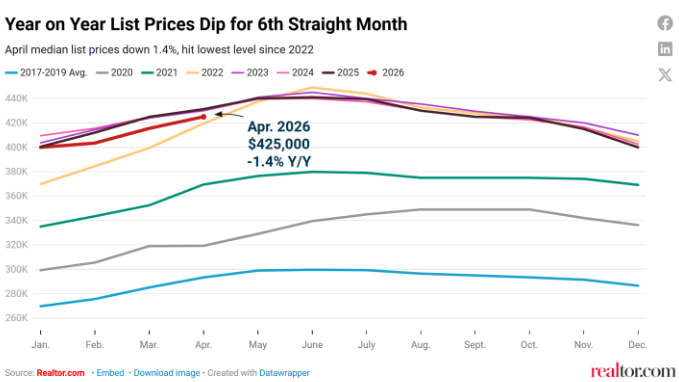
Not surprisingly, we have witnessed a dramatic shift in Fed Funds futures over the past few weeks. At the start of the year, the bond market was anticipating and pricing in two rate cuts in 2026. And now? Well, at last glance, Kalshi, Polymarket, and the swaps market are predicting a "no rate change" scenario. JP Morgan recently updated its forecasts and now predicts that rates will remain steady this year, followed by a 25 bps rate hike in early 2027. The bank had predicted a single 25 bps rate increase at the start of the year. For its part, Citibank anticipated three rate cuts totaling 75 bps, while both Goldman Sachs and Morgan Stanley had predicted two cuts. So much for forecasts, predictions, pro formas, expectations, and the psychic (investment banking?) business.

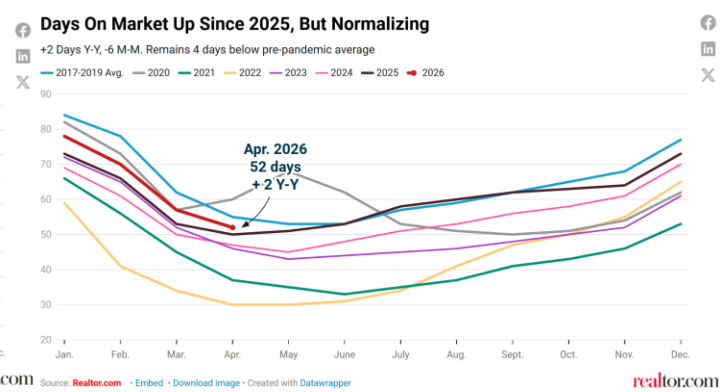


I can almost hear Agent 86 Maxwell Smart's classic line from that 1970s TV show, 'Get Smart' when comparing those inflation and interest rate forecasts to recent data: "Missed it by thaaaaat much." For those under 40, here's a visual:

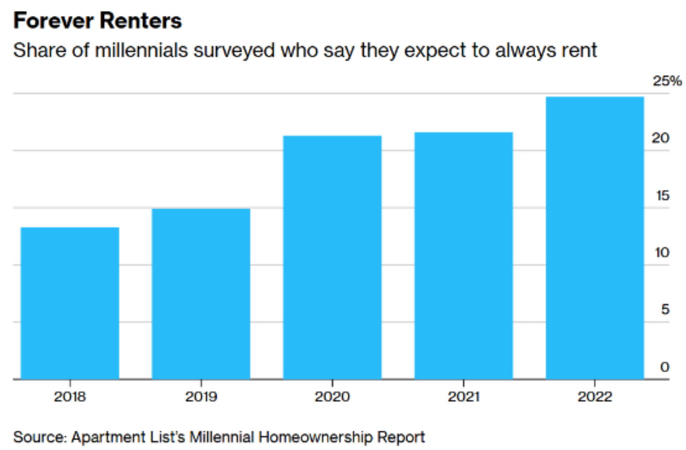
Newsflash! Wars are not good for housing…

In a conclusion likely drawn by Captain Obvious, wars are not exactly tailwinds for housing demand, as though the market wasn't already wrestling with more than its share of challenges: elevated rates, mixed employment data, declining household formation, declining birthrates, record low consumer confidence, and a general lack of affordability. And the data doesn't lie. April median list prices declined for the sixth straight month, down 1.4%, hitting their lowest levels since 2022, while houses are taking longer to sell, about 52 days on average.



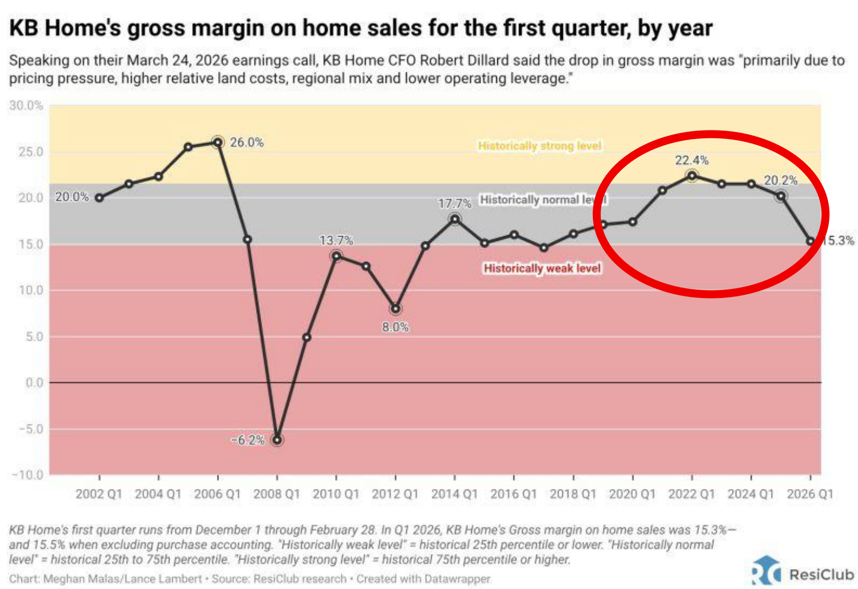


In one interesting article I read recently, an author postulated that many Millennials and Gen-Zers have entirely given up on the hope that they will ever be able to afford a home and are therefore consuming more than they should, relative to their wealth. Moreover, they have reduced efforts to save via traditional means (e.g., equities, defined contribution plans), stopped working as hard, and are choosing to "invest" in riskier assets, whether cryptocurrencies, meme stocks, and/or those Kalshi/Polymarket/DraftKings gambling market platforms. Yikes.



What are the public homebuilders saying and doing?

During the pandemic, many publicly traded homebuilders achieved record profit margins as home prices soared and buyer demand ran hot. Since then, these same homebuilders have cut prices and provided generous sales incentives to move inventory, with predictable results. Look no further than KB Home, which reported gross profit margins of 15.3% in the most recent quarter, down from 22.4% in the first quarter of 2021 and 17.0% in the last quarter of 2025. The last time KB reported first quarter margins this low was 2017. During its most recent earnings call, KB executives reaffirmed that they plan to make "speculative development" a smaller share of its business, while pivoting toward more build-to-order projects, where construction would begin only after a buyer has signed a contract and selected the home's floor plan and finishes. I am not holding my breath that this pivot will prove successful or boost margins.



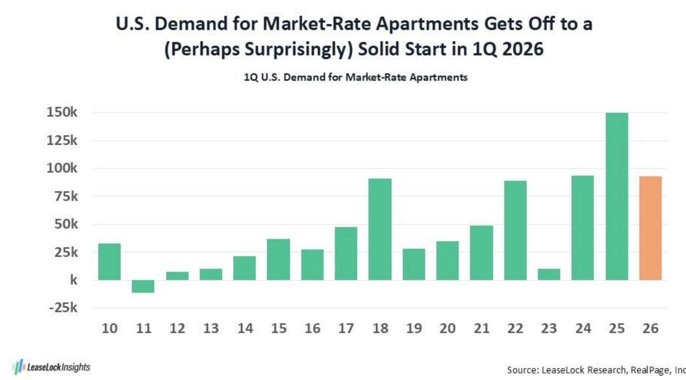
Maybe Homeowners Association (HOA) fees are having an impact on homebuying demand, at least on the margin. I recently read that HOA fees in the U.S. have surged nearly 30% since 2019, with some homeowners paying over $500 each month. More specifically, median monthly condo HOA fees have risen 29% to $420 since 2019, while HOA fees for single-family homes have increased 26% to $63 a month. In high-cost metros like New York City, more than half of HOA-paying homeowners pay $500 or more each month, while nearly 30% pay over $1,000.

The reasons for the rising HOA fees sound eerily familiar: rising insurance premiums, especially in coastal or other natural disaster-prone areas, increased labor and building services costs, higher material costs for repairs and capital projects, increased regulatory requirements, and the need for higher reserves. No wonder my Instagram feed is filled with predictable, if not entertaining, conflicts between HOA Board members, the so-called "Karens," and homeowners.

Apartments must be cleaning up as a result of all those single-family headwinds, yes? Well, that has not proven the case over the past couple of years, though I sense we are finally at a cyclical trough in the market.

Based on recent data regarding the national multifamily market, a number of observations can be made:

- **Rent growth in March was anemic, up approximately 0.4% from February and a mere 0.1% year-over-year, the weakest data since 2012, despite strong unit absorption**. While the spring leasing season tends to be strong, the less than inspiring rental growth we have witnessed reflects the impacts of a remaining supply overhang and uneven employment data. Approximately 93,000 units were absorbed in the first quarter, one of the strongest performances in a decade, though trailing 12-month demand (approximately 303,000) was below the 10-year average (approximately 340,000). However, rental growth has not kept pace with unit absorption.



Chicago, St. Louis, Cleveland, Cincinnati, Minneapolis, and Milwaukee all posted annual rent gains between roughly two and four percent. San Francisco, San Jose, and New York also outperformed, aided by return-to-office trends, AI industry momentum, and easing supply pipelines. Virginia Beach was a standout, with rents up more than four percent, year-over-year. Austin (-7%), Denver (-6%), and Phoenix (-5%) remain rental laggards. Tourism-dependent markets, from San Antonio to Tampa to Nashville to Las Vegas are also challenged. The markets that absorbed the most units during the quarter include Dallas-Fort Worth (8,500 units), Phoenix (7,200 units), and New York City (6,100 units).

Apartment Rent Growth Leaders, Year-Ending 1Q 2026

Rank*	Market	Annual Effective Rent Change	Annual Supply	Annual Inventory Growth
1	San Francisco	8.9%	1,401	0.6%
2	San Jose	4.7%	2,060	1.0%
3	Virginia Beach	4.1%	812	0.6%
4	New York	3.9%	23,481	1.2%
5	Chicago	3.5%	3,855	0.4%
6	St. Louis	2.4%	1,284	0.7%
7	Cleveland	2.3%	1,601	0.9%
8	Cincinnati	2.2%	1,944	0.9%
9 (t)	Milwaukee	2.1%	2,557	1.5%
9 (t)	Minneapolis	2.1%	2,159	0.6%

*Among Top 50 Apartment Markets by Existing Unit Count

Source: RealPage Market Analytics REALPAGE

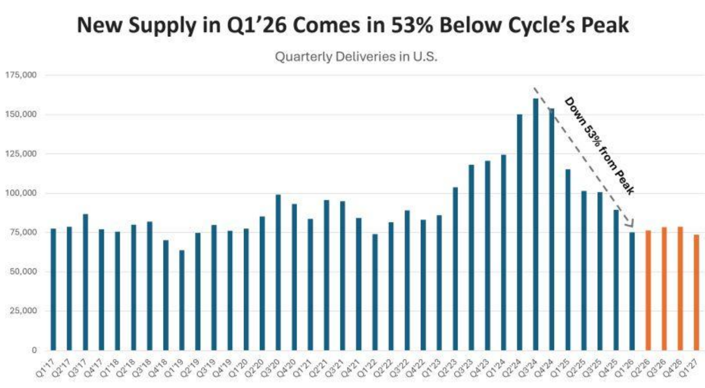
Markets with Deepest Rent Cuts, Year-Ending 1Q 2026

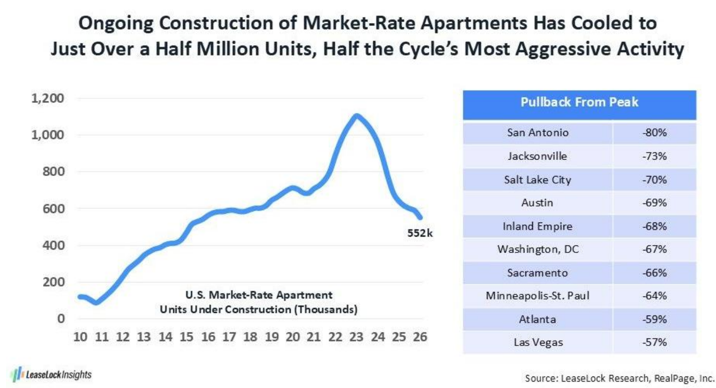
Rank*	Market	Annual Effective Rent Change	Annual Supply	Annual Inventory Growth
50	Austin	-7.4%	13,267	3.9%
49	Denver	-6.4%	10,245	2.9%
48	San Antonio	-5.4%	6,098	2.5%
47	Tampa	-5.2%	7,208	2.4%
46	Phoenix	-4.8%	21,640	4.7%
45	Charlotte	-3.2%	12,622	5.1%
44	Nashville	-3.1%	6,990	3.5%
43	Raleigh/Durham	-3.0%	7,131	3.3%
41 (t)	Houston	-2.9%	10,604	1.3%
41 (t)	Las Vegas	-2.9%	3,842	1.6%

*Among Top 50 Apartment Markets by Existing Unit Count

Source: RealPage Market Analytics REALPAGE

- **The apartment supply cliff is now officially in the rearview mirror.** Apartment completions in the first quarter of 2026 totaled 75,000 units, plus or minus, representing a 53% drop from the cycle's peak and the lowest level in years, the fifth consecutive quarter of declining annual supply. Annual completions fell to roughly 367,000 units for the trailing 12 months, down sharply from the peak of 589,000 units in late 2024. Future deliveries will likely slow further, a storyline apartment owners and investors have long awaited. Construction is off by at least two-thirds in San Antonio, Jacksonville, Salt Lake City, Austin, the Inland Empire, Washington DC, and Sacramento. Completions in the last three years represented the largest supply wave since the 1970s, placing significant pressure on rents and occupancy, especially among Class B and C assets, those in which Clear Capital has invested.



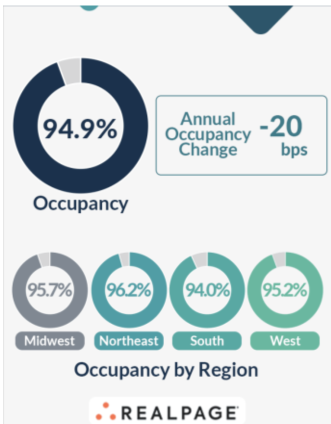


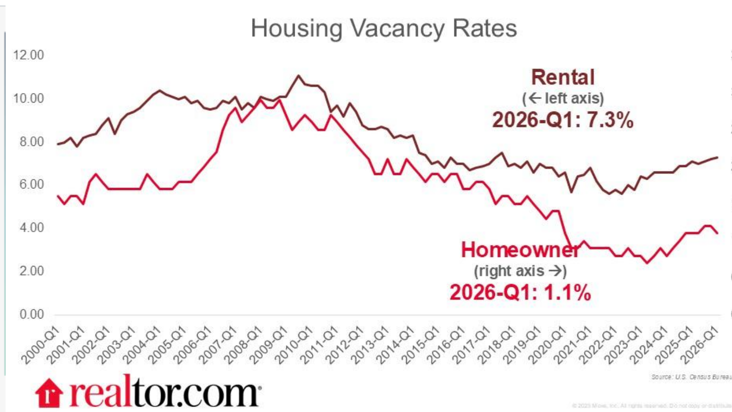
The good news is that rent growth momentum should return, if not by the end of this year, then in 2027 and/or thereafter.

- **Markets characterized by low supply experienced the most significant rental growth…and vice versa, as Economics 101 would have predicted.** As set forth above, the strongest rental markets during the most recent quarter (as opposed to the trailing 12 months) were NYC (+4.5%), San Francisco (+3.9%), Chicago (+3.4%), Minneapolis-St. Paul (+2.5%), and Kansas City (+2.3%). What's unique about these markets? Every one of them witnessed less than 2.5% growth in additional unit deliveries. Meanwhile, Austin (-4.1%), Denver (-3.5%), Tampa (-3.4%), and Phoenix (-3.2%) remain weak. Why? Austin added nearly 8% in additional units, some three times the national average.

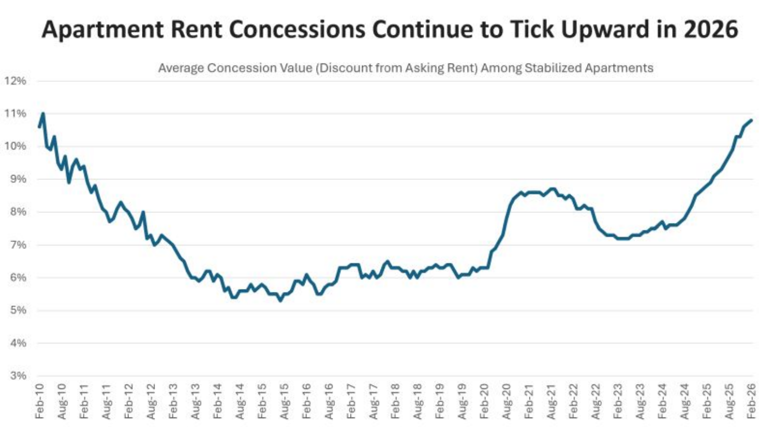
- **Overall occupancy softened across the board, albeit modestly.**

  While the national occupancy rate held steady at 94.9%, according to RealPage, it declined 0.2% year-over-year. Only two markets posted occupancy gains, Atlanta and San Francisco (both +0.2%). Tampa witnessed the largest drop (-1.1%), followed by Washington, D.C., and Houston (both -0.9%). Texas markets are experiencing especially soft occupancy rates, especially Houston (91.8%) and Austin (92.0%). Meanwhile, New York's overall occupancy sits at 98.2%. While Realtor.com places the national multifamily occupancy rate at 92.3%, modestly lower than RealPage, both data aggregators are consistent in their directional assessment of occupancy rates.





Because it is imperative that landlords do all they can to keep "heads in beds" and maximize retention rates, rental concessions (discounts off asking rent) remain sticky, with roughly 25.5% of apartments nationally offering them. The average concession amounts to 10.8%, equal to 5.6 "weeks free" on a one-year lease, the highest discount since 2010 at the tail end of the Great Financial Crisis (GFC). Of course, there's a significant difference between 2010 and 2026. Back then, unemployment exceeded 10%, more than twice today's rate. However, with multifamily owners prioritizing occupancy over rent heading into the peak leasing season, meaningful rent recovery may be delayed longer than top-line numbers might suggest.



- **Affordable housing comprises a larger-than-normal share of recent starts (and future completions).** Pre-COVID, affordable housing projects comprised 10 to 12% of annual supply, according to Yardi. However, more recently, affordable projects represent closer to 20% of new supply.

How serious are those "cracks" in the private credit market?

If I were to measure the strength of the private credit market based on the numerous calls I receive daily from lenders, aka "potential spam," promising that I am mere "moments away" from a $50,000 (or more) loan approval, I would think that the market is either extremely robust or profoundly desperate, maybe both. However, based on recent headlines and challenges facing Blue Owl Capital, perhaps the poster child for broader risks in the mostly unregulated private credit market, to extensive redemption requests impacting the likes of Cliffwater and Starwood, it is clear that the industry is under a lot of pressure. One need look no further than the market performance of "Alternative Asset Managers" that are publicly traded.

Generated by Jason Lemire @ Bold Wealth

Alternative Asset Managers		**Total return (USD) - As of the close of March 12th**			
Ticker	**Name**	**1 Day**	**Month to date**	**YTD**	**1 Year**
CION US	CION INVESTMENT CORP	-9.4%	-13.3%	-26.5%	-31.8%
GCMG US	GCM GROSVENOR INC - CLASS A	-8.6%	-9.2%	-7.2%	-15.6%
SCM US	STELLUS CAPITAL INVESTMENT C	-7.8%	-13.0%	-29.8%	-28.7%
ARES US	ARES MANAGEMENT CORP - A	-7.2%	-13.8%	-40.6%	-32.4%
APO US	APOLLO GLOBAL MANAGEMENT INC	-5.4%	-4.1%	-30.3%	-24.4%
BX US	BLACKSTONE INC	-5.0%	-9.9%	-33.1%	-25.0%
RPC US	RIDGEPOST CAPITAL INC-A	-4.7%	-11.5%	-26.6%	-35.6%
OWL US	BLUE OWL CAPITAL INC	-4.5%	-18.4%	-41.2%	-51.9%
HLNE US	HAMILTON LANE INC-CLASS A	-4.3%	-10.2%	-30.0%	-32.6%
STEP US	STEPSTONE GROUP INC-CLASS A	-4.2%	0.4%	-31.7%	-14.4%
TPG US	TPG INC	-4.2%	-10.0%	-38.1%	-18.4%
CG US	CARLYLE GROUP INC/THE	-3.8%	-12.8%	-22.9%	10.6%
MAIN US	MAIN STREET CAPITAL CORP	-3.6%	-3.3%	-8.3%	5.3%
KKR US	KKR & CO INC	-3.6%	-4.3%	-34.0%	-26.1%
BN CN	BROOKFIELD CORP	-3.4%	-11.6%	-15.5%	11.2%
BAM CN	BROOKFIELD ASSET MGMT-A	-3.3%	-7.9%	-17.5%	-11.2%
TCPC US	BLACKROCK TCP CAPITAL CORP	-3.1%	-10.8%	-33.2%	-47.1%
BLK US	BLACKROCK INC	-2.8%	-12.7%	-13.1%	3.7%

Banks		**Total return (USD) - As of the close of March 12th**			
Ticker	**Name**	**1 Day**	**Month to date**	**YTD**	**1 Year**
GS US	GOLDMAN SACHS GROUP INC	-4.5%	-7.9%	-10.0%	49.9%
MS US	MORGAN STANLEY	-4.3%	-7.3%	-12.8%	38.7%
RF US	REGIONS FINANCIAL CORP	-3.4%	-8.2%	-5.7%	25.3%
FITB US	FIFTH THIRD BANCORP	-3.3%	-11.9%	-6.9%	17.2%
C US	CITIGROUP INC	-3.2%	-4.3%	-9.0%	59.5%
BAC US	BANK OF AMERICA CORP	-2.9%	-4.9%	-13.9%	20.7%
TFC US	TRUIST FINANCIAL CORP	-2.7%	-10.0%	-8.8%	16.8%
CFG US	CITIZENS FINANCIAL GROUP	-2.6%	-5.4%	-1.8%	46.0%
NTRS US	NORTHERN TRUST CORP	-2.5%	-3.5%	1.2%	44.5%
COF US	CAPITAL ONE FINANCIAL CORP	-2.4%	-9.3%	-26.4%	5.7%
WFC US	WELLS FARGO & CO	-2.4%	-7.6%	-19.1%	11.2%
MTB US	M & T BANK CORP	-2.2%	-8.0%	-0.7%	19.0%
KEY US	KEYCORP	-2.2%	-6.4%	-5.9%	29.9%
FHN US	FIRST HORIZON CORP	-2.1%	-6.8%	-7.5%	21.5%
STT US	STATE STREET CORP	-2.1%	-4.2%	-3.8%	48.1%
WAL US	WESTERN ALLIANCE BANCORP	-2.0%	-15.2%	-18.5%	-8.2%
JPM US	JPMORGAN CHASE & CO	-1.7%	-5.8%	-11.9%	26.6%
USB US	US BANCORP	-1.6%	-5.8%	-3.7%	28.8%

Over the last 15 years, the private credit market has evolved from a niche asset class into a significant player in global finance, growing roughly fivefold since the GFC, following the retreat of traditional banks from mid-market lending. The global private credit market reached approximately $2 trillion at its peak in the middle of 2024, a significant leap from roughly $310 billion a mere 15 years ago. When one considers how quickly the private credit reckoning seems to be happening, one can only think of what the world-renowned news reporter Ron Burgundy might have to say: "Boy, that escalated quickly…I mean, that really got out of hand fast!", a popularized version of that more famous quote, "there are decades when nothing happens and weeks when decades happen," or something like that.

However, despite the significant cracks in the market, I do not believe private credit presents a systemic risk, though its impact will certainly reverberate and create additional unwanted headwinds to private markets in need of capital.

And AI? How dangerous is it? Will it bring both prosperity and/or profound hardship? In a word, "yes."

While watching a recent episode of Bridgerton and the efforts of scion Benedict to find everlasting love in British high society, as he wrestles with the exhausting and daily challenges of playing polo, learning French or the latest cotillion, and visiting social clubs, all while preparing for the next masquerade ball, I kept wondering if this is the future of AI.

On the one hand, there will be those who own assets, the modern-day Bridgertons and other Dukes, Marquesses, Earls, Viscounts, and Barons, who continue to spend, consume, and enjoy the finer things in life, waited upon hand and foot by Optimus robots and chauffeured by self-driving Bentleys. Meanwhile, the rest of society, the working class, scrapes by, struggling to pay rent, fill up its gas tanks, or put food on the table, assuming roles and performing those tasks that robots and machines cannot.

I recently read a paper from MIT published in February, whose authors include the Nobel Prize winner in economics from 2024, Daron Acemoglu: "AI, Human Cognition and Knowledge Collapse," which put forth a simple, though frightening, premise. If AI continues to become more able and accurate, such that researchers and others (read: students) rely on it extensively for answers to questions they seek, without truly understanding and internalizing the answers, AI will destroy human civilization's ability to generate new knowledge entirely. Not a gradual degradation or decline in innovation and new knowledge, but a collapse. In short, individual rationality - individuals using AI to obtain the "answers" in academic and research endeavors - ultimately results in collective catastrophe as human knowledge and their ability to innovate erode completely. Happy stuff, and yet intuitively accurate. How can one develop the next cancer drug without understanding the results of prior research and inquiry, both failures and successes?

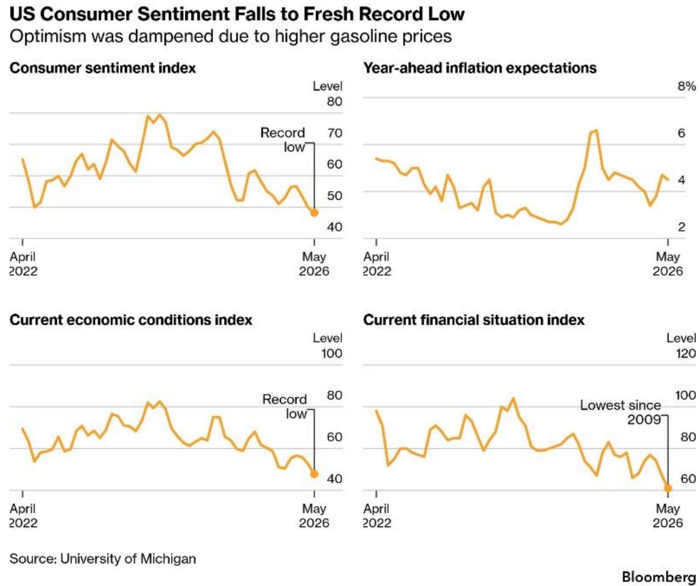
Finally, you may have missed a top AI story from the quarter, the nasty split between Anthropic, the developer of Claude AI, and the Pentagon, resulting in Anthropic being blacklisted from key military contracts and labeled a "supply chain risk." Basically, the Pentagon had a contract with Anthropic for $200 million, which allowed the military to use Claude under two conditions: it couldn't be used to power fully autonomous weapons - the kind that could decide to make a lethal strike without a human in the loop - and it couldn't be used for mass surveillance of American citizens. The Pentagon, meanwhile, demanded "unrestricted" access to Anthropic's model for all "lawful purposes."

So, to the question posed above, will AI bring both opportunity and hardship? Yes. It merely remains to be seen who will win the AI spoils and who will lose them, who will enter the "AI ton," the AI equivalent of British high society, and those who will ultimately be left behind. The consequences on markets and real estate will be nothing short of impactful, that's for certain. And don't get me started on the changes I need to make to my MBA course syllabuses this summer as a result of Claude, which can do "A-" level work on many of my cases in about five minutes. I'd say that's a personal hardship, having to revert back to giving in-class exams with Blue Books. Speaking of nostalgia…

Consumer sentiment just hit an all-time low, while retail sales increased 1.7% in March, month-over-month, surpassing expectations. Huh?

Consumer confidence in the U.S. plunged to a historic low of 47.6 in April 2026, the lowest level ever recorded in the 74 years the University of Michigan has been measuring it. Ouch.

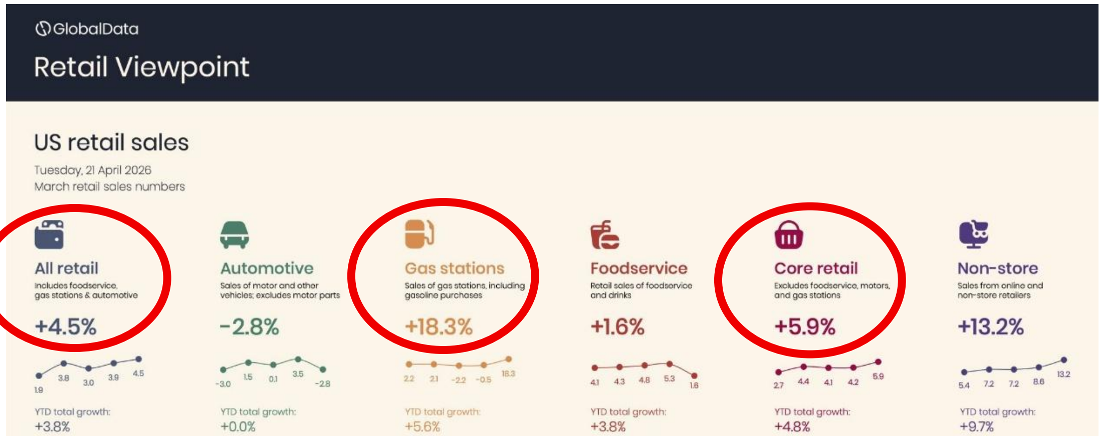
The pessimism among households amid rising energy costs, geopolitical tensions, and political divisions is unprecedented. Other measures surrounding the consumer are equally sobering:

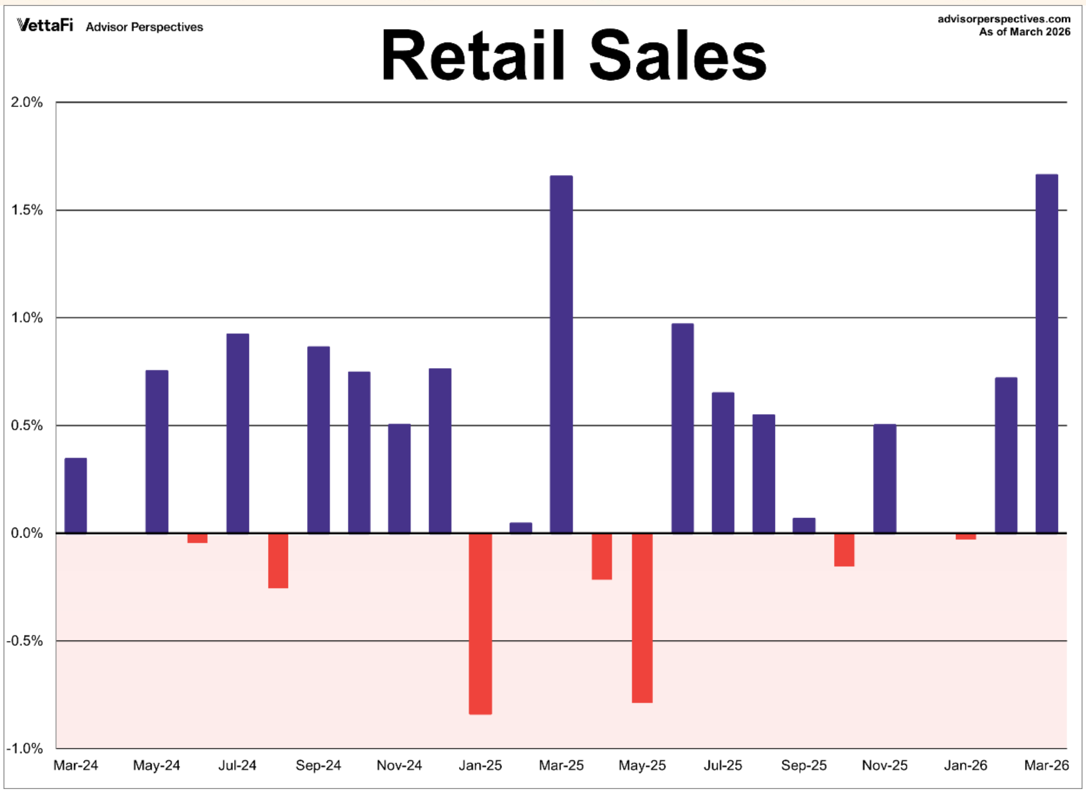


The drivers of the decline in all-things-consumer are not exactly shocking: geopolitical tensions, rising energy costs and tariffs, inflation concerns, and market volatility deserve much of the blame. The implications are to be expected including pullbacks in discretionary spending and non-essential goods from electronics, vehicles, travel, to spa bookings, to single-family homes, to reduced demand for credit.

I recently read an interesting article about how the Administration's isolationist, "America First" focus is negatively impacting the economy, some of which I have written about previously. Jim Beam suspended production for the entire year, blaming excess inventory and Canada's halt in purchasing American brands. Tesla's European sales are down 40%. According to the 2026 "Global Soft Power Index," the U.S. has experienced the "steepest fall in cultural influence of any nation in recorded history." In surveys across the world as many as half of consumers say they are "less willing to purchase a product simply because it is American." Ouch, again. Goldman Sachs estimates that these sort of behaviors, quasi-boycotts of American products, could reduce our GDP by 0.1 to 0.3%, or $30 to $80 billion. Brands from Starbucks to Nike to Levi's to Jim Beam and his close relative, Jack Daniels, are most at risk.

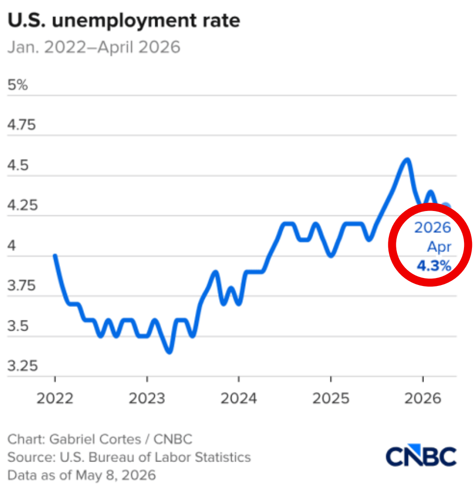
And yet, retail sales have not collapsed and in fact, continue to prove resilient, up 1.7% in March and 4.5%, year-over-year. There is clearly a disconnect between what the consumer feels and is saying and what they are actually doing. Double-digit price increases in gasoline contributed substantially to the retail sales figures, but core retail sales have been surprisingly strong, up 5.9% year-over-year. However, I have to believe that we will witness substantially weaker figures in the coming months absent relief from elevated energy costs.

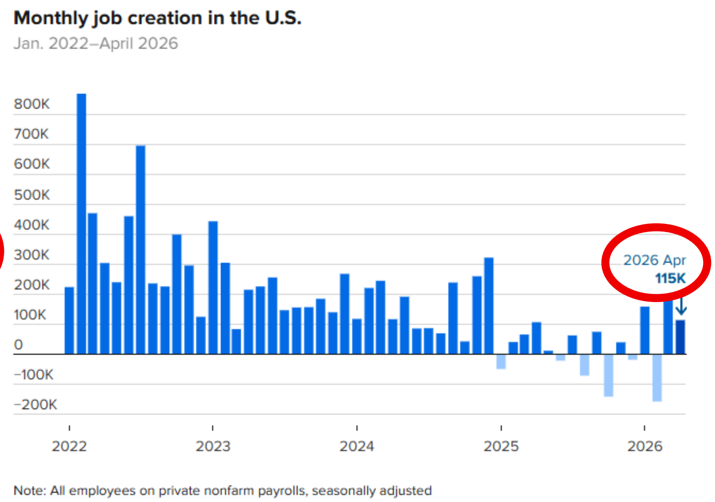




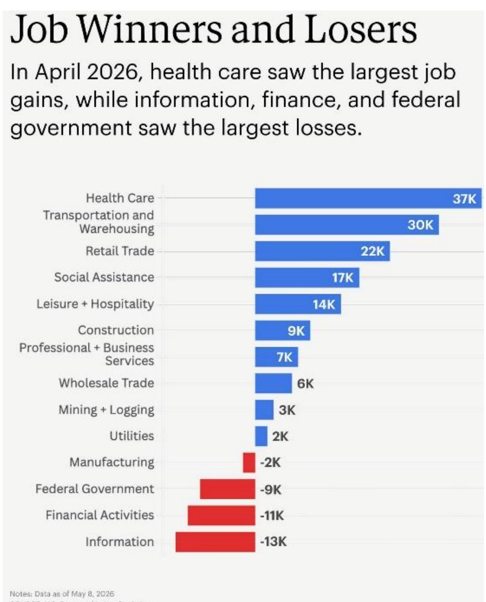
Just like retail sales, the "low hire, low fire" employment theme is holding for now, though cracks are beginning to emerge

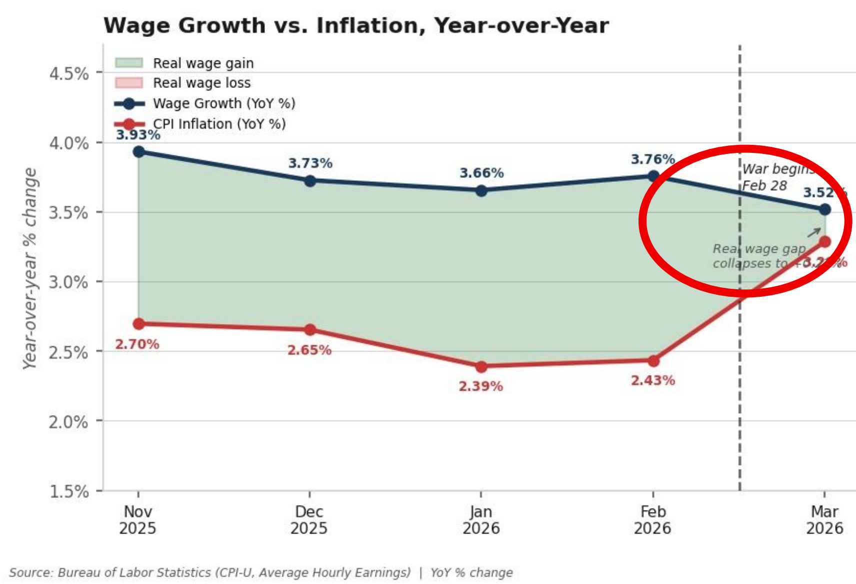
The U.S. labor market added more jobs than expected in April, showing that hiring activity is still holding up despite growing economic uncertainty. According to the Bureau of Labor Statistics, nonfarm payrolls increased by 115,000 during the month. While this was lower than the revised 185,000 jobs added in March, it was still much better than forecasts that expected only around 55,000 new jobs. The unemployment rate remained unchanged at 4.3%, suggesting that the labor market is still relatively stable even as hiring slows compared to previous years.



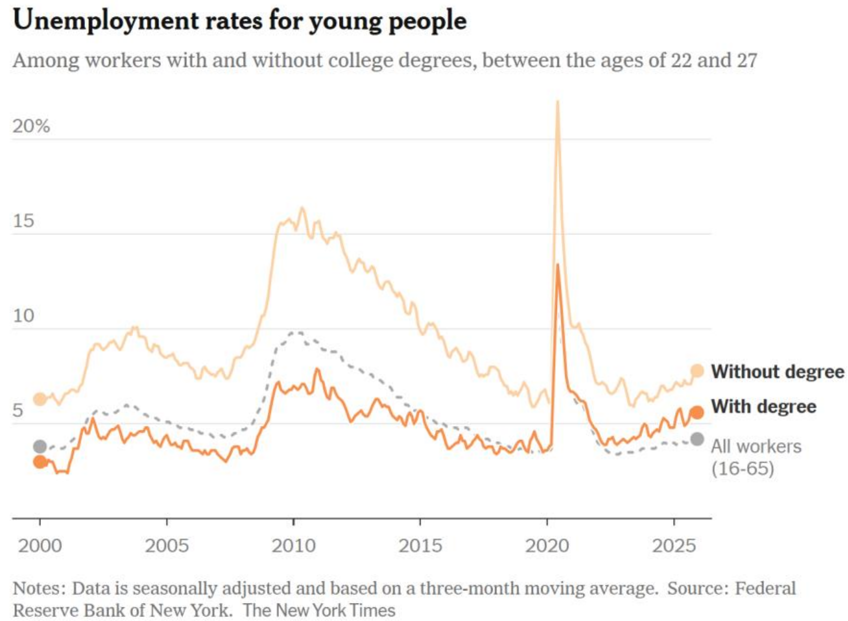


However, it is not all employment peaches and cream. Healthcare was responsible for most of the job gains (about a third), while the government, finance, and information sectors saw the largest losses. Manufacturing jobs also dropped modestly, continuing a long-term trend, despite the tariffs and efforts to bolster manufacturing-related employment. While wages increased 3.52% last month, year-over-year, the gap between this growth and inflation has narrowed considerably. Moreover, the monthly change in wages of 0.2% was softer than expected.





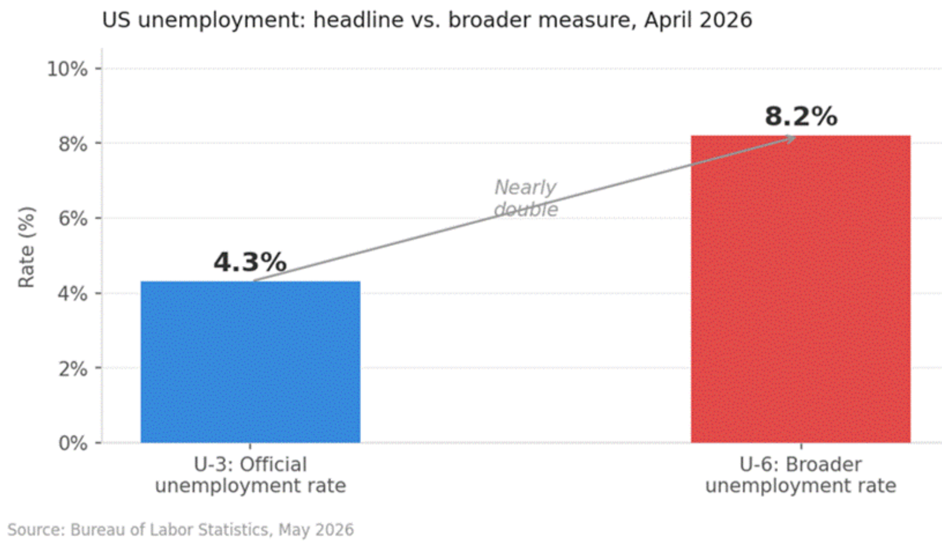
The job market is especially challenging for college graduates, who face the grimmest job market in years. The unemployment rate for college graduates ages 22 to 27 rose to 5.6 percent at the end of last year, according to an analysis from the Federal Reserve Bank of New York, up sharply over the past three years. And in another telling sign, for those who are employed, more than 40 percent hold jobs that do not typically require college degrees, the highest level since 2020. Although AI may be replacing some entry-level jobs, it is unclear if AI is the main culprit, at least as of now. It seems that the "low-hire, low-fire" labor market is the main impediment for young people seeking employment.



There are two other concerns I have regarding the young and employment. One is based on a research paper published by Dr. Till von Wachter, a UCLA Economics professor, who found that those young Americans who entered the labor market during the steep recession in the early 1980s had significantly lower earnings for the first 10 years of their careers, coupled with higher rates of divorce, fewer children, and poorer health outcomes, something he labeled “scarring.” I fear that this generation of college graduates will experience this same fate.

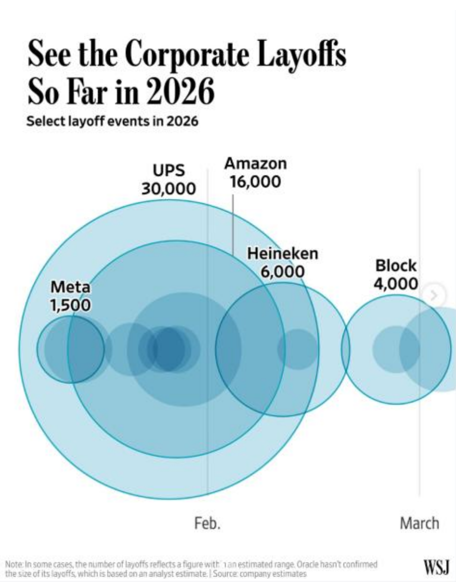
And two is what I perceive to be a changing social contract between employers and young employees, wherein there is simply minimal, if any, loyalty between the two. Employers will fire scores of employees, regardless of age, salary, or tenure, while employees willingly change jobs at the drop of a hat. In fact, younger Americans, particularly Gen Z and Millennials, are switching jobs more frequently than older workers, with some studies indicating Gen Zers stay at jobs for less than 18 months on average. A review of the LinkedIn profiles of so many of my MBA students is confirmatory.

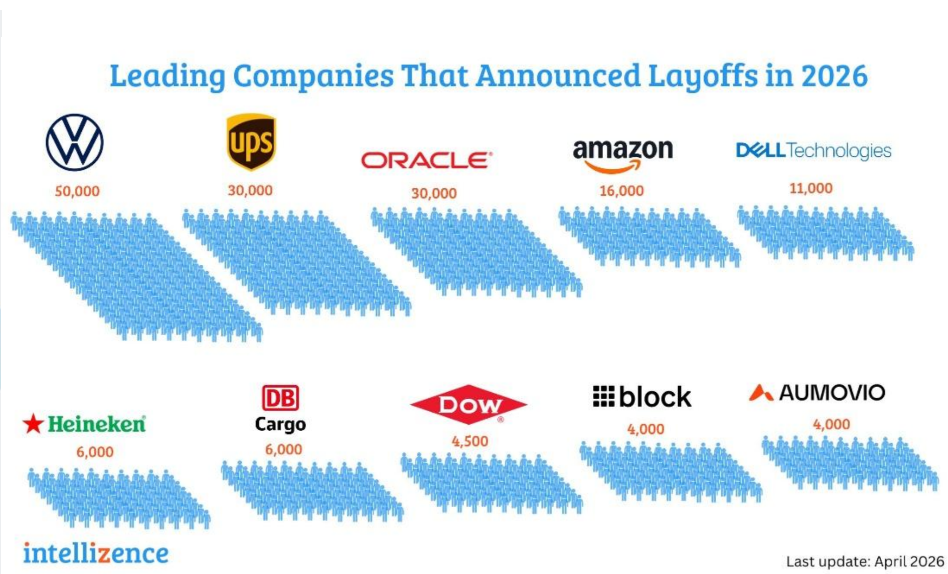
Moreover, while most attention from last week’s labor report focused on the 115,000 new positions and the steady unemployment rate, few noticed data buried deeper in the report: the number of Americans employed part-time jumped by 445,000. In addition, the reported unemployment rate, “U-3,” does not include those not actively searching for work. Unlike the official U-3 rate, the “U-6 rate” casts a wider net and includes discouraged workers who have given up searching and those stuck in part-time roles and want full-time work but can’t find it. That broader rate rose to 8.2 percent in April, up 0.2 percentage points, nearly double the headline and more positive unemployment rate.

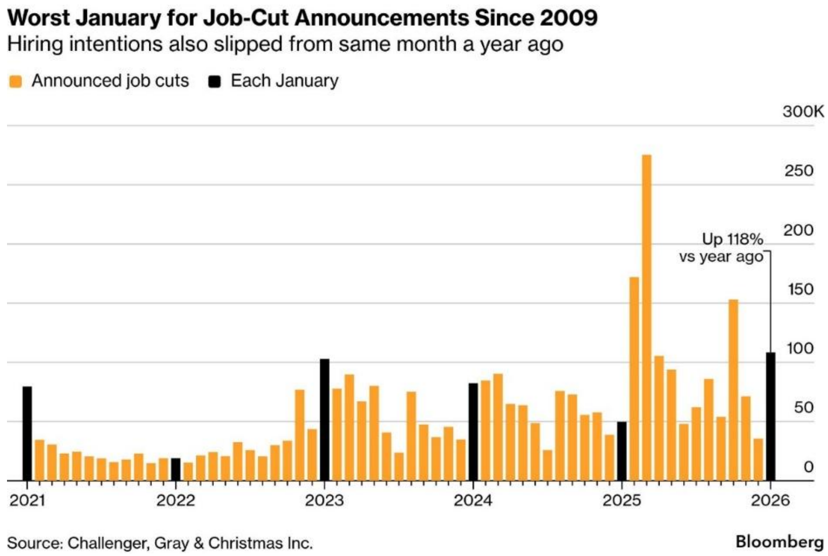


According to the data, a record 104.3 million Americans, representing over 60% of eligible employees, are now "outside" of the labor force, neither employed nor actively looking for work, significantly exceeding the 2020 pandemic peak. Since the GFC, the number of people not participating in the labor force has surged by nearly 26 million.

Meantime, tech firms - Meta, Amazon, Salesforce, Microsoft, and their brethren - are actively shedding workers. I pity the recent or prospective college graduate with a degree in Computer Science (CS). As much as it pains me to say it, unless cappuccino machines need coding, as many are unlikely to be putting their CS degrees to work. Some may end up working for firms creating code for AI firms, creating tools that render future coding jobs obsolete, like an early 20th century blacksmith teaching someone how to forge metal parts for automobiles. There may be other factors at play, but regardless, one thing is clear. The labor market is changing and changing quickly, disproportionately impacting those new entrants or prospective entrants to the workforce. A recent headline from the Stanford Review says it all: “The Class of 2026 is struggling to find jobs—and it’s not because of AI.” Well, it’s not just AI…







Almost half of the job cuts announced in January were tied to just three companies: Amazon, United Parcel Service (UPS) and Dow. Amazon announced plans to cut 16,000 corporate positions while UPS said it would shed as many as 30,000. Chemical maker Dow intends to eliminate about 4,500 positions, while Peloton Interactive and Nike also announced mass dismissals. After a couple of quiet months, April saw a 38% jump in job cuts, exceeding 83,387, the third-highest total for an April since 2009. The surge was principally driven by layoffs in the technology and government sectors, with AI-related layoffs emerging as the single largest cause. Many companies are taking these actions as they pour billions into data centers and other infrastructure to meet demand for AI services, with Meta projecting record capital expenditures and Microsoft racing to construct data centers around the world, for example.

And as always, each quarter brings its share of idiotic new and proposed housing-related legislation, rules and/or regulations, aimed at addressing affordability challenges and promoting further investment in housing. I anticipate that none will work.

Let's start with some proposed federal legislation, the "21st Century ROAD to Housing Act," a bipartisan legislative package, which aims to increase housing supply and improve affordability by curbing institutional investor purchases of single-family homes, boosting certain homebuying program income limits, and reducing regulatory burdens. However, the bill should actually be recaptioned the "Rental Inflation Bill" because many of its provisions will inevitably make housing more expensive, at least on the margin. Here are some of the bill's high(low?)lights.

- **Institutional Investor Restrictions:** Places a moratorium preventing institutional investors, entities owning more than 350 single-family homes, from acquiring single-family homes and forces them to sell build-to-rent (BTR) homes after seven years.
- **HOME Investment Partnerships Program Reforms:** Increases the eligibility of homebuyers for the HOME program, a federal program which provides grants to cities, counties, and federally recognized tribes, and low-interest loans to developers.
- **Supply and Zoning Incentives:** Includes grants for planning and community development.
- **Community Development Block Grants (CDBG):** Permits communities to dedicate up to 20% of CDBG funds for new housing construction, offering greater flexibility in funding usage.

- **Manufactured and Modular Housing:** Amends definitions to allow manufactured homes without a chassis, expands financing for these, and authorizes competitive grants to support manufactured home communities.
- **Regulatory Flexibility:** Reduces federal environmental review requirements.

First off, as I discussed in a previous letter, institutional investors own but a small fraction of single-family residences in the U.S., about 0.7% across the country, representing but five percent of all 14 million rental homes. Second, there are several exceptions to the institutional purchase ban and the critical 7-year disposal requirement including homes acquired prior to the bill, high density properties of three or more units, portfolio transactions between institutions, some 55+ age-restricted communities, and manufactured housing, for example. And anything that makes homebuying easier and/or reduces supply will…wait for it…increase housing prices.

In sum, restricting institutional buying activity will not materially move the needle on affordability, boost housing supply, or expand access to the "American dream of homeownership."

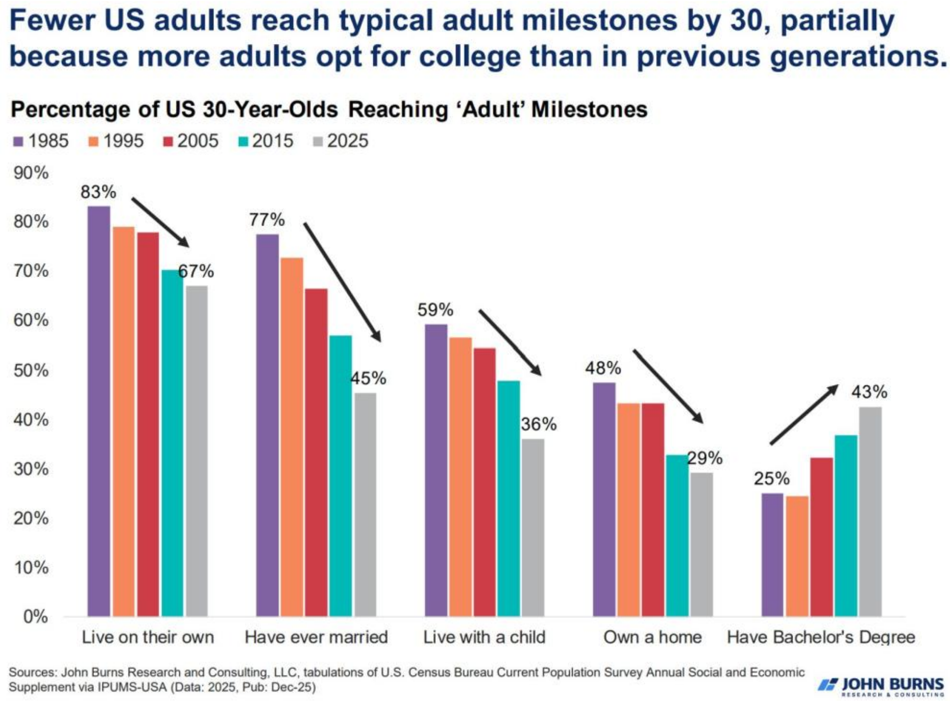
Closer to home, the Los Angeles Board of Supervisors recently approved additional tenant protections against evictions. Under the new rule, in order for landlords to evict tenants for the non-payment of rent, tenants must not have paid the equivalent of <u>two</u> months of "market" rent before an eviction can proceed. To fully understand the ridiculous consequences of this new law, imagine a tenant in a rent-controlled unit who pays $1,000 per month in rent, which happens to be half the market rent, hardly an uncommon scenario. In such a situation, this particular tenant cannot be evicted until they have missed four months of rent.

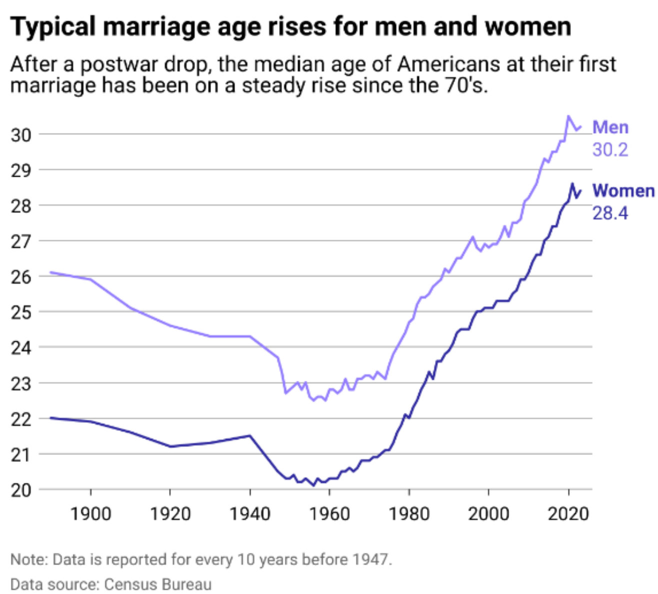
Can you imagine that they were originally considering making the threshold three months, but they didn't want to appear excessively socialistic, I guess? At what point does all of this constitute an unconstitutional taking under the takings clause of the Fifth Amendment? And who in their right mind would want to buy or build rental housing in Los Angeles with its City Council failing to fully grasp the concepts of capitalism and private property?

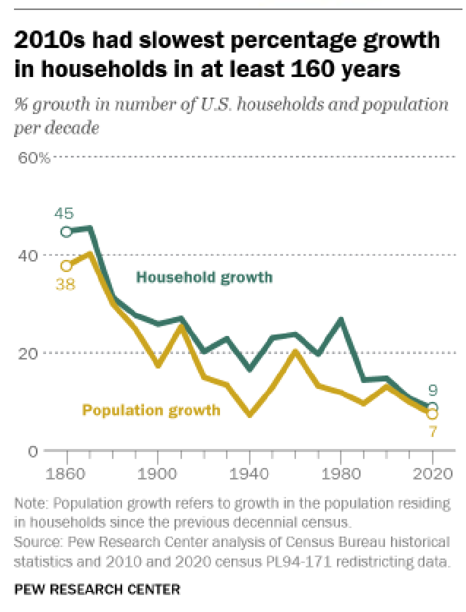
At least Los Angeles has New York City and Mayor Mamdani to compete with in the ongoing competition for the 'Most Socialist City' in the U.S. To wit, I just read about a trend in New York City whereby developers intentionally cap residential housing projects at 99 units in order to avoid strict, cost-intensive prevailing wage requirements mandated for buildings with 100 or more units under the City's "485-x Tax Incentive Program" enacted in 2024. By building fewer than 100 units, developers receive tax exemptions and avoid higher labor (read: union) costs, often leading to smaller, fragmented projects…while the City is in desperate need of more housing and larger projects. Sometimes I think the "facepalm emoji" was created specifically in response to local politicians and their penchant for developing harebrained policies, whose effects are likely to be the opposite of their intent.

And with each quarter, new and highly informative and predictive demographic data emerges

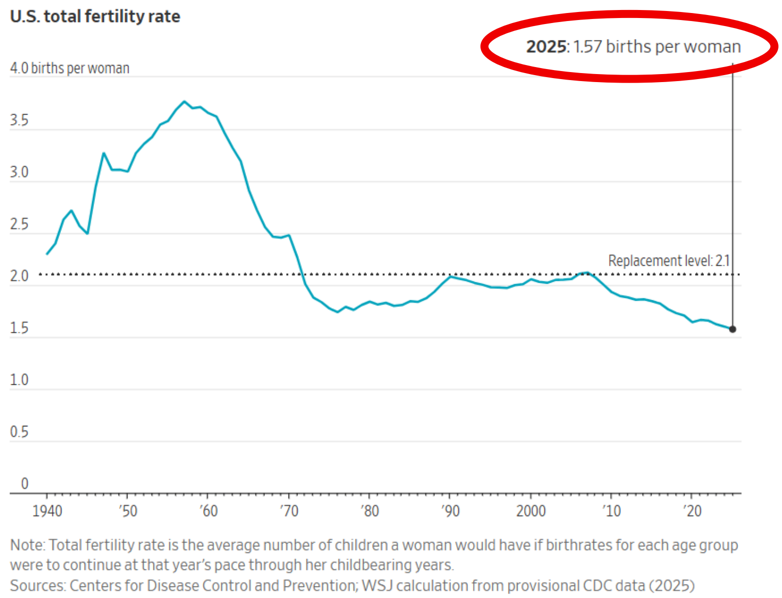
As time goes on, I find myself more and more interested in both public policy and demography, if just because of their impacts on all things real estate. John Burns, a research and consulting firm, just released some updated demographic data through 2025 and I found this particular summary graph informative and telling, with a clear upshot. The "renting stage of life" is getting longer and longer, a trend that will persist, regardless of what happens to mortgage rates or housing prices. Perhaps it is due to the changing nature of employment and the need for younger employees to maximize flexibility in a shifting labor market. Perhaps it is due to delays in marriage and household formation. Perhaps it is the shrinking family unit. Perhaps it is all of the above or that renting just makes more sense these days.



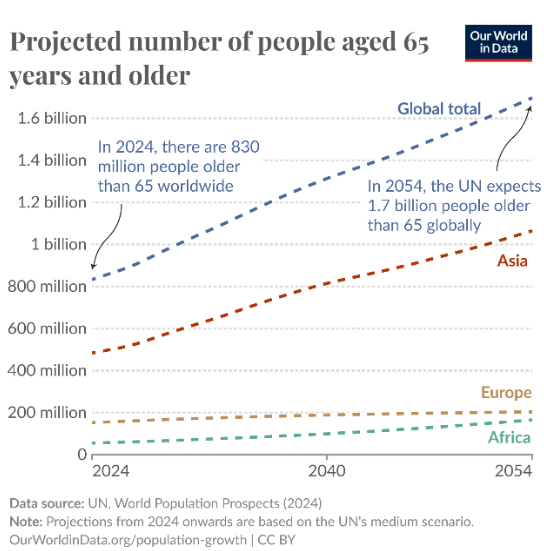


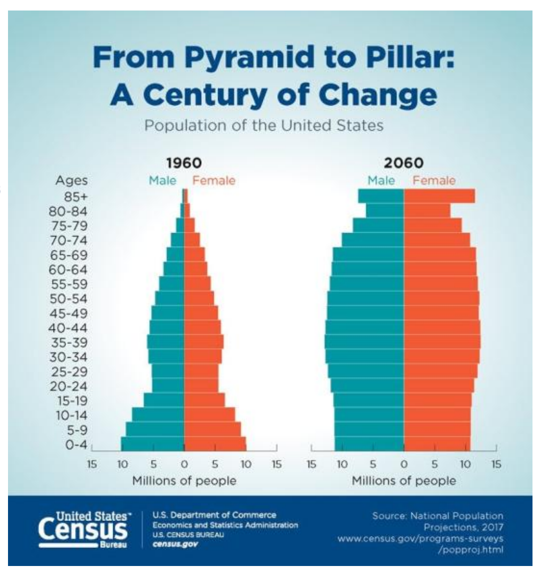


Meanwhile, women in the U.S. gave birth to roughly 710,000 fewer children last year compared with the nation's peak in 2007, according to preliminary data released this week by the Centers for Disease Control and Prevention. The latest one percent drop in "general fertility" from 2024 to 2025 continues a long-running downward trend. Since 2007, there has been a 23% decline in the general fertility rate in the U.S. The impact of that change in real numbers is noteworthy. In 2007, there were 4,316,233 babies born in the U.S. And in 2025? Even though the nation's population as a whole is larger, there were only 3,606,400 newborns. The total fertility rate in the U.S. has moved down to 1.57 births per woman, an all-time low.



As America ages, we could see demand remain strong in many multifamily markets simply as a function of people choosing to rent longer than did prior generations. But their preferences may evolve with age -- such as preferring larger units to accommodate more stuff and bigger budgets. We shall see. In any case, the combination of both an aging and shrinking population will result in a shrinking demand for housing overall. It's another reason I believe single-family home prices will decline in real terms over the next decade or two.

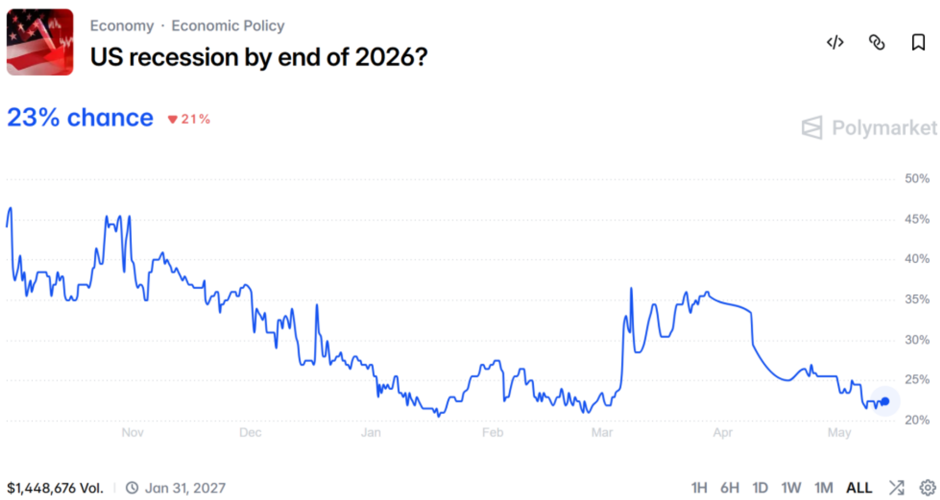


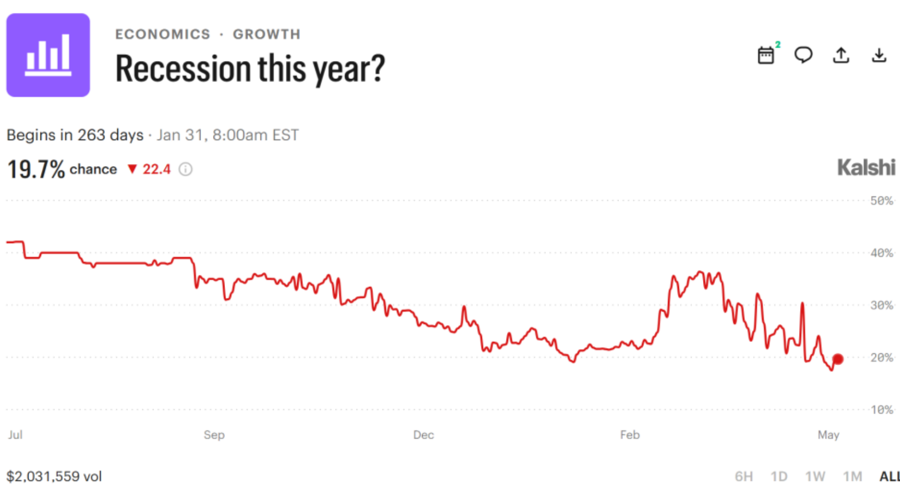


Before we close out another quarterly memo, is there anything else to offer in terms of what might be in store for the rest of 2026? Any closing thoughts?

In each of the past few quarters, I have ended these memos with the same (or very similar) sentiments regarding the challenges I face trying to make heads or tails out of the conflicting economic data I see. So, not only am I becoming more curmudgeonly, I am becoming a more repetitive curmudgeon at that. However, if I had told you that we would start a war with Iran during the quarter, causing spikes in all things energy, disrupting supply chains, increasing inflation and interest rates, and decreasing the demand for housing, and I asked what you think would have happened to equity prices in such an environment, I have to believe that most, if not all of you, would have predicted sharply lower markets.

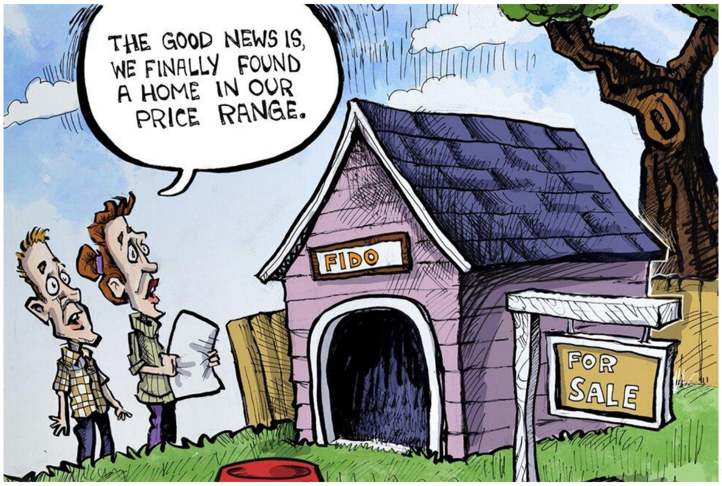
Yet, here we are, at or near a stock market top, so there you go. I am concerned that the markets are susceptible to a downturn, so be wary, in the vein of that well-trodden quote from Warren Buffett about fear and greed. Aside from the brief COVID-19 contraction we experienced in the first half of 2020, the global economy has not suffered any significant downturn in nearly 15 years, a simply remarkable reality. And 2026? Let's survey the experts, Polymarket and Kalshi, respectively.

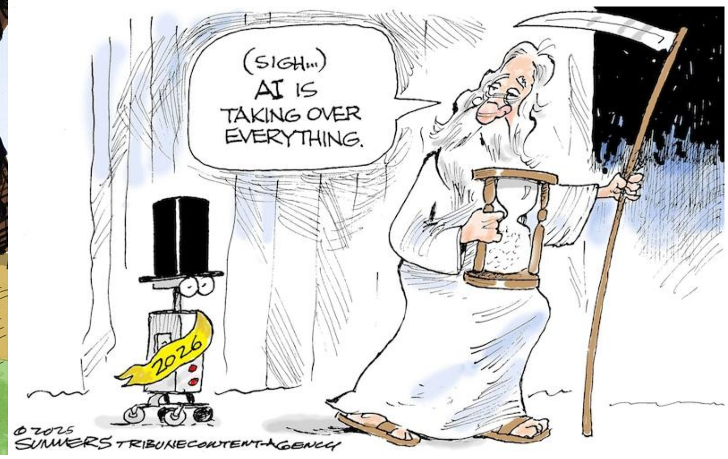




Well, there you have it. According to Polymarket, there is a 23% chance of a recession this year, while Kalshi places those odds at a slightly lower, 19.7% likelihood. I am with the majority, at least for now, but I cannot foresee strong economic growth given all that I see, and I would not be surprised if we see an economic downturn by year end. With the all-important midterm elections coming up, the economy will be front and center at the polls, so stay tuned.

Finally, because one cannot have enough laughter in one's life, I leave you with a couple of cartoons that seem apropos to this quarter's tome…





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

Best,

Eric Sussman
Managing Partner