PIEDMONT CRESCENT CAPITAL

What's Ahead for the Economy: Our Top Calls for the U.S. & Hampton Roads

2025 ECONOMIC OUTLOOK

JANUARY 27, 2026

Mark P. Vitner
Chief Economist
mark.vitner@piedmontcrescentcapital.com
(704) 458-4000

Mark Vitner, Chief Economist

PIEDMONT CRESCENT CAPITAL

After spending the past 30 years as managing director and senior economist at Wells Fargo's Corporate and Investment Bank, Mark Vitner founded Piedmont Crescent Capital this past year. At his new firm, Mark provides analysis of the macro economy to clients located throughout the country and writes a series of reports on the US economy, local economies, small business, and residential and commercial real estate. He also provides economic content for CAVU Securities, writing their monthly newsletter, The CAVU Compass.

Originally from Atlanta, Mark earned a BBA in economics from the University of Georgia, an MBA from the University of North Florida and completed further graduate work in economics at the University of Florida. Mark is a member of the National Association of Business Economics and completed the NABE Advanced Training in Economics Program at Carnegie Mellon University. He is also a member of NABE's inaugural Certified Business Economist (CBE) class.

Mark is active in the community, co-founding the Charlotte NABE chapter and serving as board chair for the Foundation for the Charlotte Jewish Community. Mark also chaired the Economic Advisory Council for the California Chamber of Commerce and currently serves on the Joint Advisory Board of Economists for the Commonwealth of Virginia. His commentary has been featured in The New York Times, The Wall Street Journal, Bloomberg, and many other publications. Mark also makes frequent guest appearances on CNBC and other major networks.

The Economic Outlook Depends Upon Your Place & Perspective

PIEDMONT CRESCENT CAPITAL

2026 Will Likely Be a Better Year than Current Consensus Estimates

After a surprisingly strong third quarter, **we look for Q4 GDP to slip below 2% and for early 2026 to begin slowly**. Business fixed investment remains the cycle's anchor, led by AI infrastructure, biopharmaceuticals, energy and power, and selected reshoring initiatives. By spring, larger tax refunds and a nascent recovery in home buying should lift growth back toward 2.5%. ***2026 Call: Stronger-than-consensus GDP growth, with real GDP rising at around a 3.0% annual rate.***

Growth Continues to be Primarily Capital Driven

AI infrastructure, power systems, aerospace, defense, biopharma, and advanced manufacturing remain the most durable engines of growth. These sectors are anchored in structural investment cycles and rising foreign direct investment and are far less sensitive to household sentiment. Discussions about how weak the economy would be without AI are misplaced. Without AI, capital would still flow to its highest risk-adjusted rate of return. ***2026 Call: Private fixed investment posts one of its strongest multi-sector performances in decades.***

The Tariff-Driven Spike in Inflation Has Peaked and Softening Shelter Cost Will Pull the Core CPI Lower

Larger and more disruptive tariffs interrupted the moderation in core inflation during 2025 but the bulk of the inflationary impact has now passed, and tariffs are being reduced or narrowed. Beef prices will be an issue in 2026, but overall **inflation is set to moderate**. Cooling home prices nationwide signal the onset of sustained shelter disinflation. With rents lagging home prices by 9–12 months, the CPI's largest component finally begins to ease, reinforced by a surge of new rental supply. **2026 Call: Shelter CPI slows to 3% or less, pulling core inflation back under 2.5% by yearend.**

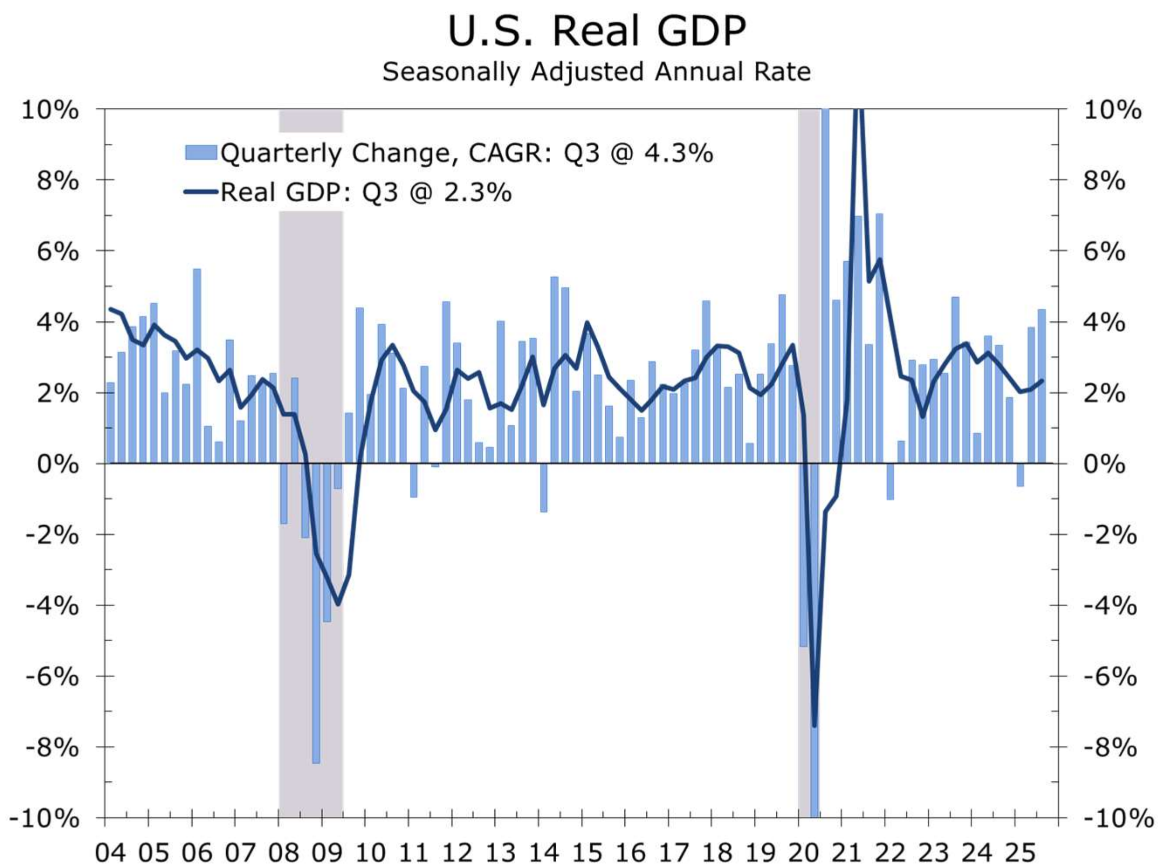
The Expansion Catches Its Second Wind

The **2026 expansion gains renewed traction** as early-year softness gives way to a firmer, more broad-based upturn. The labor market stabilizes after a near-jobless stretch, helped by easing wage pressures, lower interest rates, and a gradual pickup in hiring. Housing begins to re-engage as mortgage rates drift toward 6% and inventories improve. ***2026 Call: Combined, these forces allow the expansion to catch its second wind—shifting from a narrow, capital-led phase into a more durable and better-balanced trajectory heading into the second half of the year.***

Real GDP Surprised to the Upside in Q3

PIEDMONT CRESCENT CAPITAL

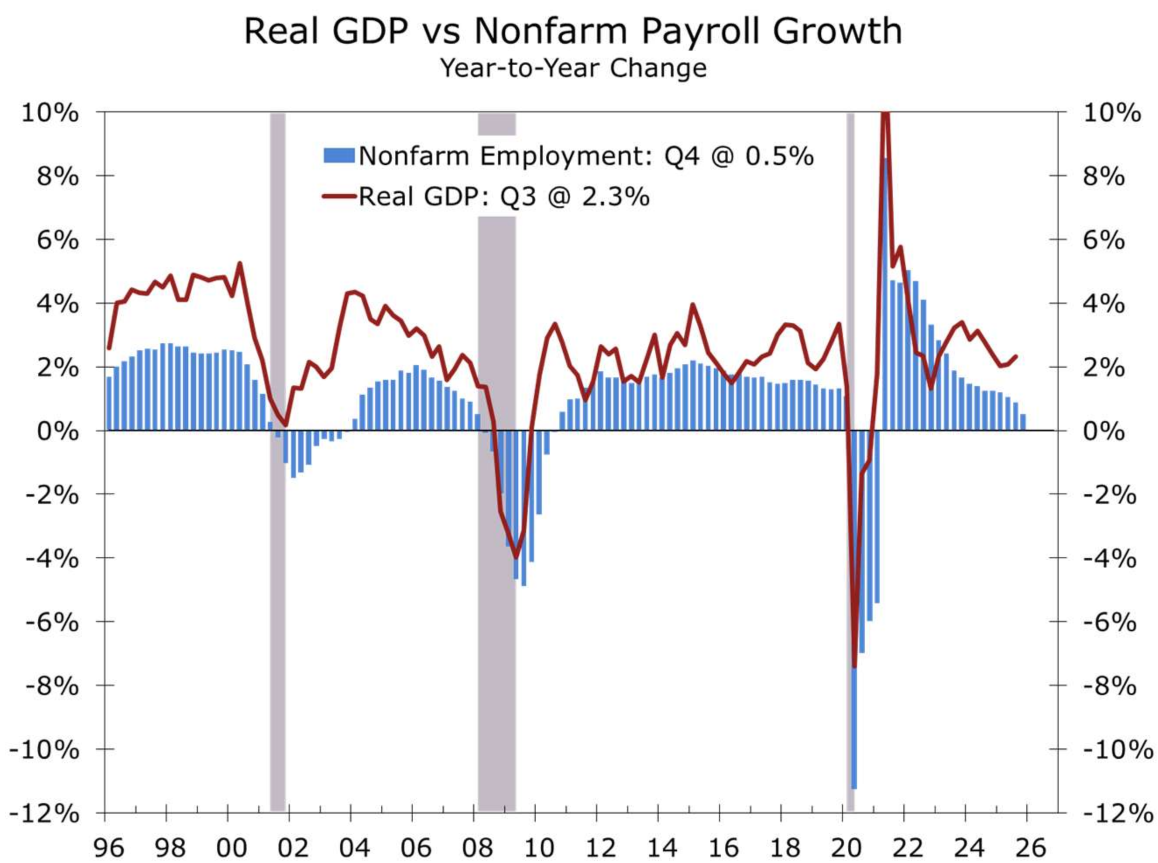
- Real GDP rose 4.3% annualized in Q3, boosted by defense spending and a 1.6 pp lift from net exports as imports fell after tariff front-loading.
- The consumer remains the economy's anchor, albeit unevenly.
- Private fixed investment is a key growth engine, with AI, energy infrastructure and life sciences leading the way.



Source: Bureau of Economic Analysis (BEA)

Overall Growth Has Proven Resilient, Even As Hiring Has Moderated

- Real GDP forecasts have been amped up for the next couple of quarters, even as job growth has slowed.
- Atlanta Fed GDPNow calls for 5.3% Q4 real GDP growth.
- Hiring has already slowed to a crawl, with reported job growth just barely enough to keep the unemployment rate from rising sharply.
- Economic growth is being driven by capital investment and higher end consumer spending.

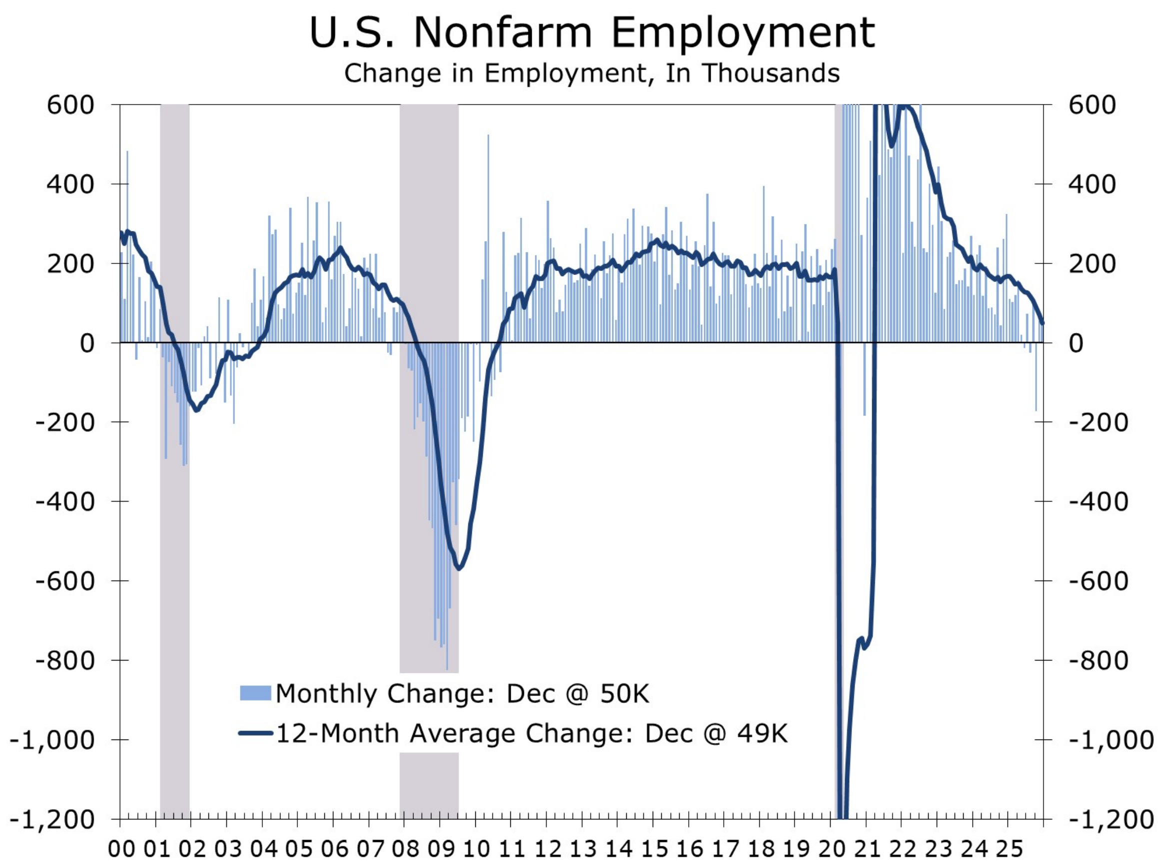


Source: Bureau of Economic Analysis

Reported Job Growth is Now Closer to the True Underlying Trend

PIEDMONT CRESCENT CAPITAL

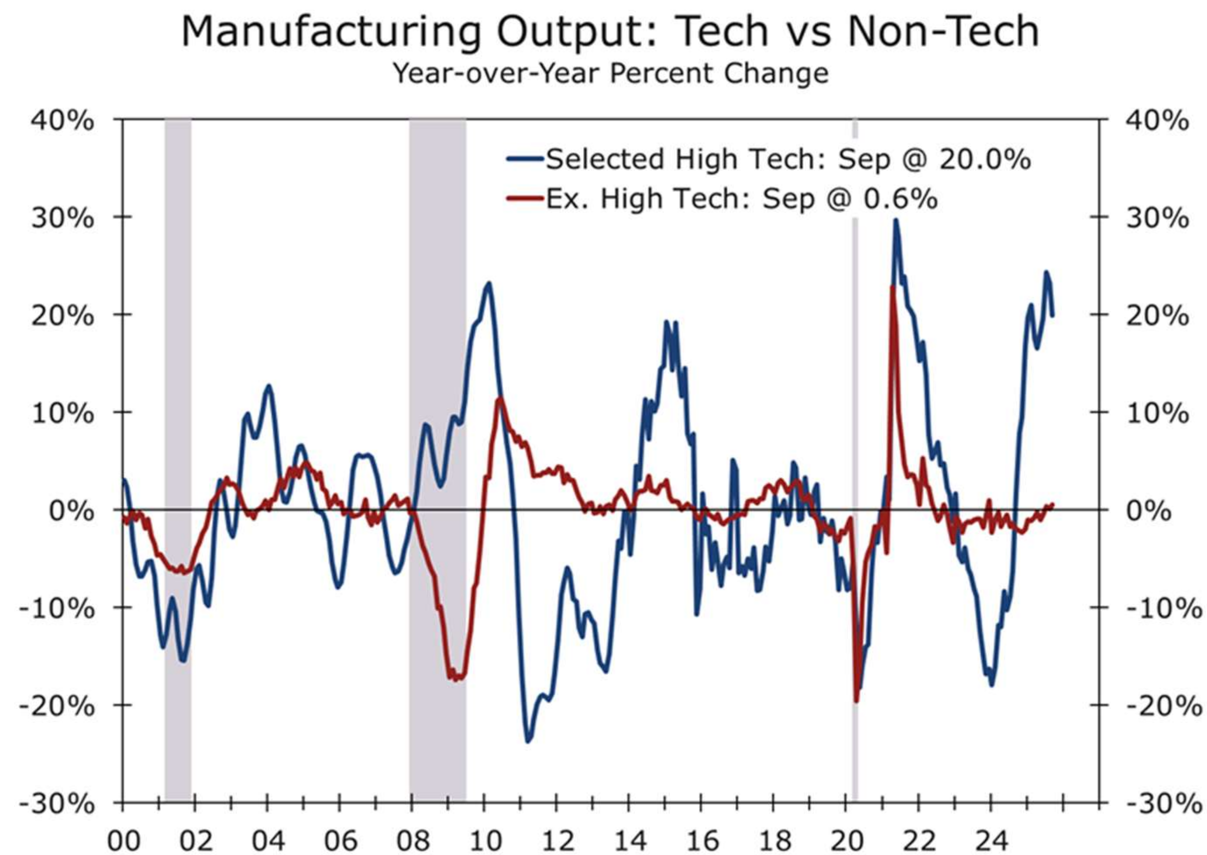
- Nonfarm payroll growth has recently slowed to a 0.2% pace and job growth is still likely overstated.
- Payrolls were grossly overstated since the Feb 2023, due to an ‘odd’ benchmark adjustment that raised reported ’23 & early’24 job growth.
- The most recent QCEW data (Mar 2025) suggest nonfarm job growth is averaging just under 81k per month.
- More recent data would put the pace at closer to 60k per month. But with the QCEW showing payrolls overstated by 911,000 jobs (75k/month), that is likely closer to zero.



Source: Bureau of Labor Statistics

Capital investment Remains the Driving Force Behind Growth

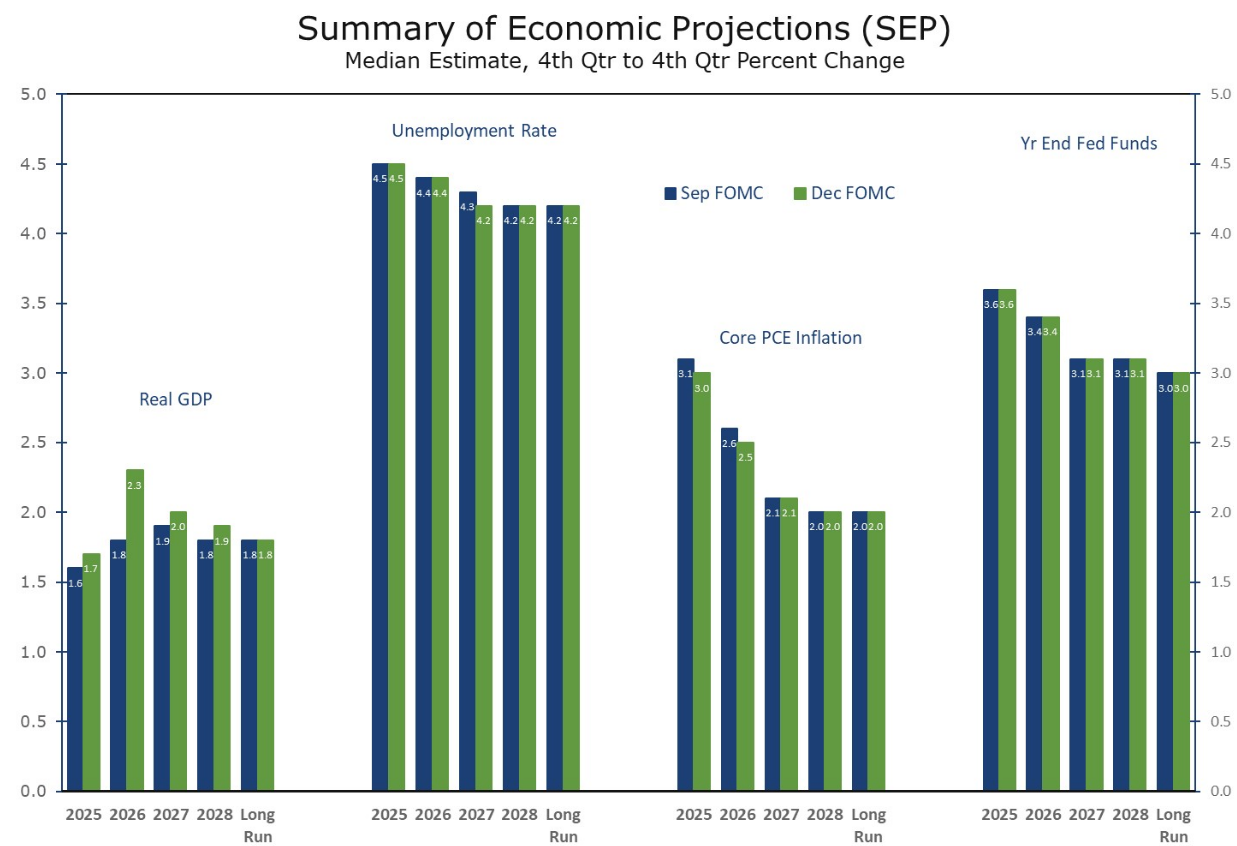
- The AI Buildout, investment in energy and power, aerospace and defense and biopharmaceuticals, remain the key drivers of economic growth.
- Reshoring will begin to add to growth in a meaningful way in 2026.
- Inventory restocking will also boost output, particularly in the second half of '06.



Source: The Federal Reserve Board

The Latest SEP is More Upbeat on 2026 GDP Growth

- The biggest surprise in the December SEP update was the large upward revision to 2026 GDP growth.
- The surge in capital investment and AI are expected to boost productivity.
- Tax cuts are also expected to boost growth.
- Expectations for the unemployment rate were unchanged, and inflation expectations were slightly reduced.

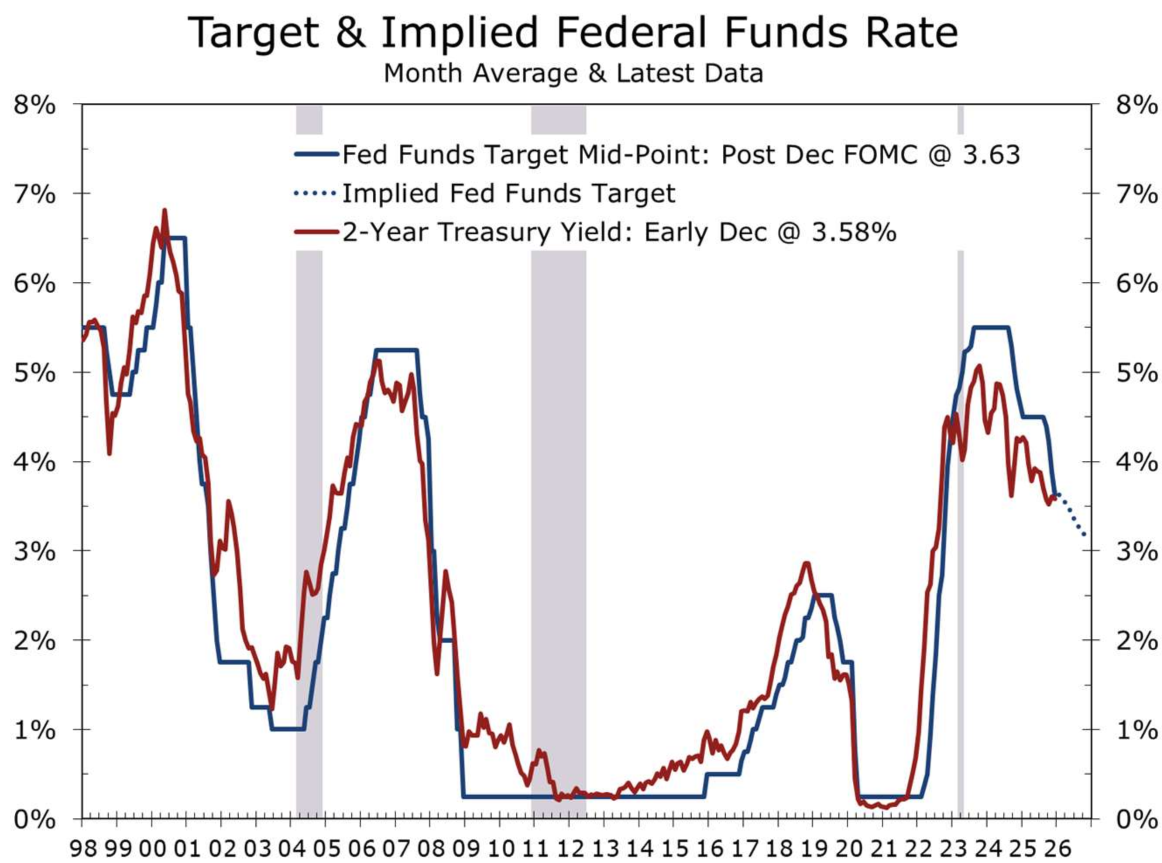


Source: Federal Reserve Board

The Fed is Likely to Slow its Pace of Rate Cuts

PIEDMONT CRESCENT CAPITAL

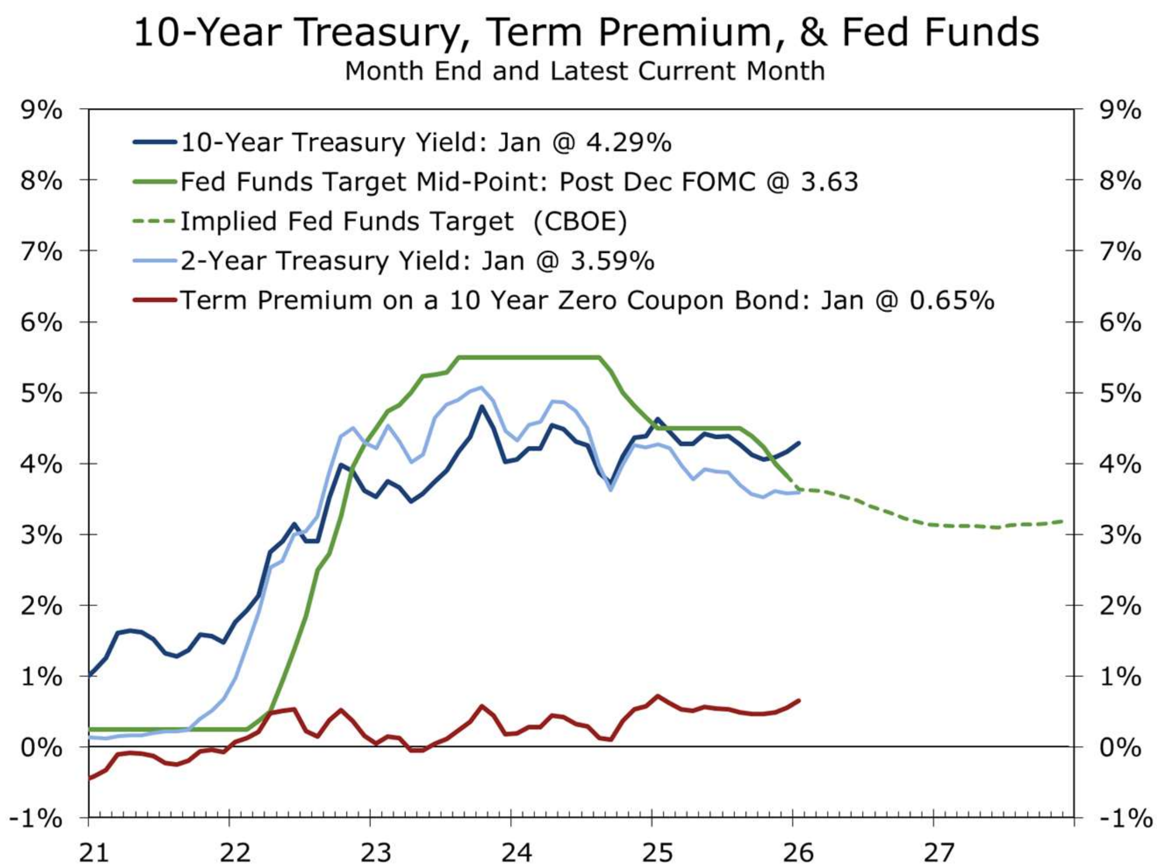
- After cutting interest rates in December, the Fed is likely to slow the pace of rate cuts, likely to cut at alternative meetings.
- Short and intermediate bond yields are likely to anticipate the Fed's move and might actually overshoot to the downside on weak economic news.



Source: Federal Reserve Board and CME Group

Bond Yields Have Risen As Tail Risks Widen Term Premia

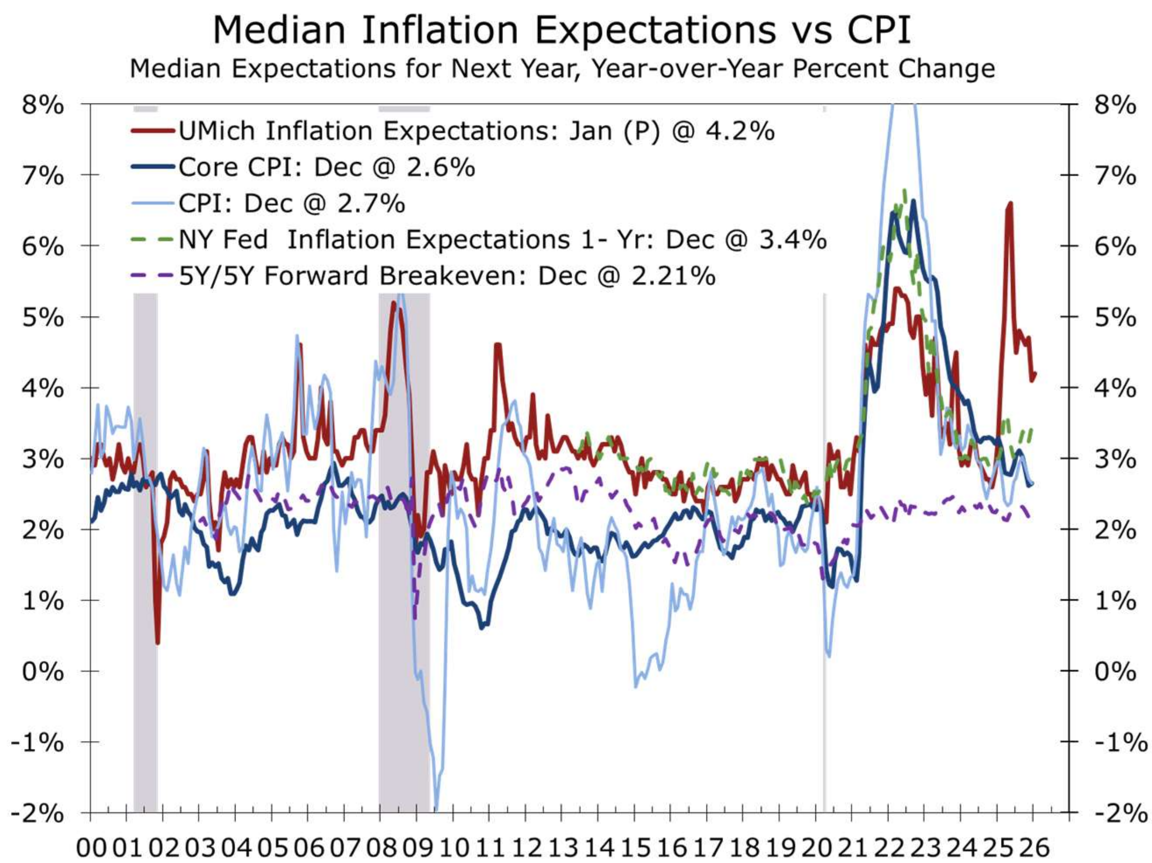
- The recent surge in Treasury yields has been driven by a widening term premium, not a repricing of the expected path for the federal funds rate.
- Heavy long-term issuance, combined with heightened fiscal and policy uncertainty, has increased the compensation investors demand to hold duration.
- Inflation expectations remain well anchored, and market expectations for the federal funds rate are largely unchanged—reinforcing that this was a duration-risk event.



Source: Federal Reserve Board and CBOE Group LLC

Tariffs are Top of Mind, yet the Economy is Less Exposed to Tariffs

- Year ahead inflation expectations fell back to 4.2% in early January, the lowest level since prior to Liberation Day tariffs were announced.
- While **tariffs are the highest since the 1930s**, the structure of the economy has changed dramatically.
- **In the 1930s, 75% of consumer spending went to goods; today, more than two-thirds is for services**.
- Of the remaining one-third spent on goods, only 40% are imported—and only part are subject to tariffs.
- Tariffs are also placed on the manufactured cost of goods **not the retail price**.

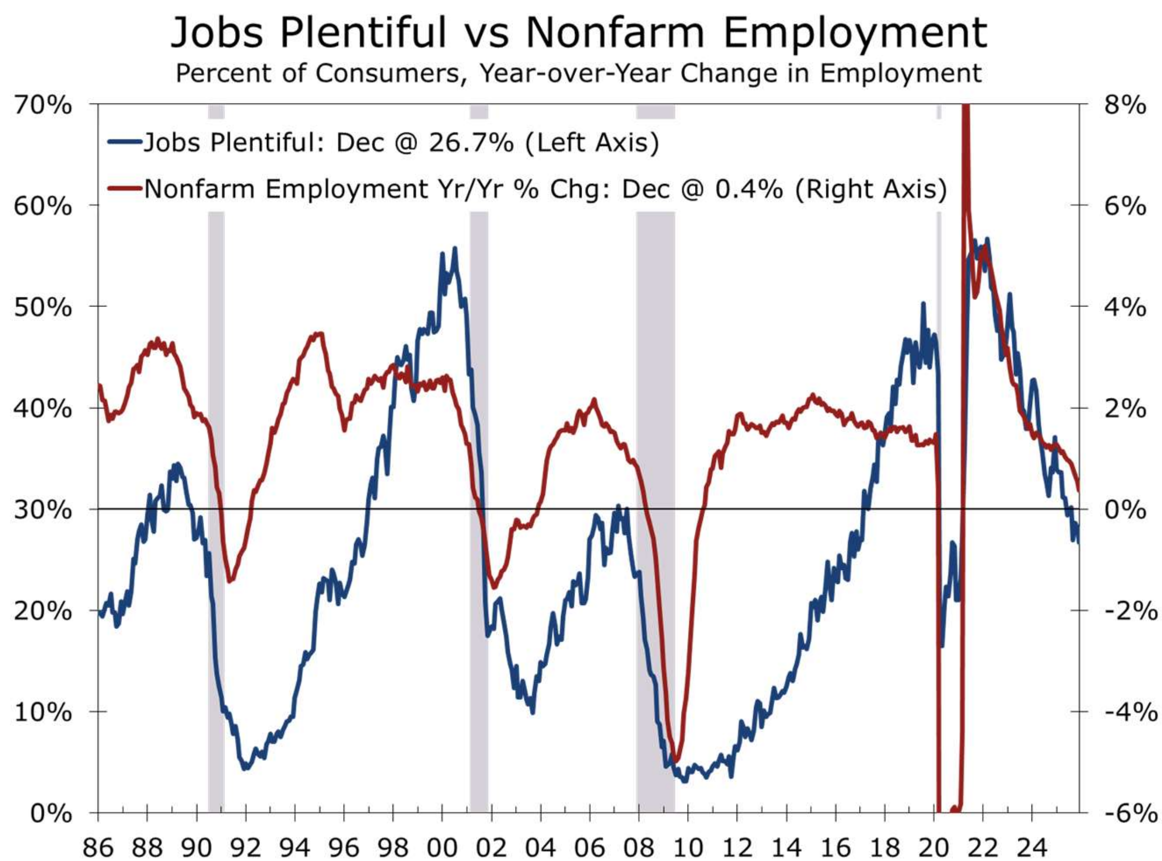


Source: University of Michigan and Bureau of Economic Analysis (BEA)

Consumers Feel that the Labor Market is Weaker than the BLS says

PIEDMONT CRESCENT CAPITAL

- The share of consumers who believe "jobs are plentiful" has fallen sharply.
- This trend aligns with JOLTS data showing fewer hires and fewer separations.
- Weaker jobs data stand in sharp contrast to stronger GDP growth, suggesting the onset of a higher-productivity "*New Economy*" era.

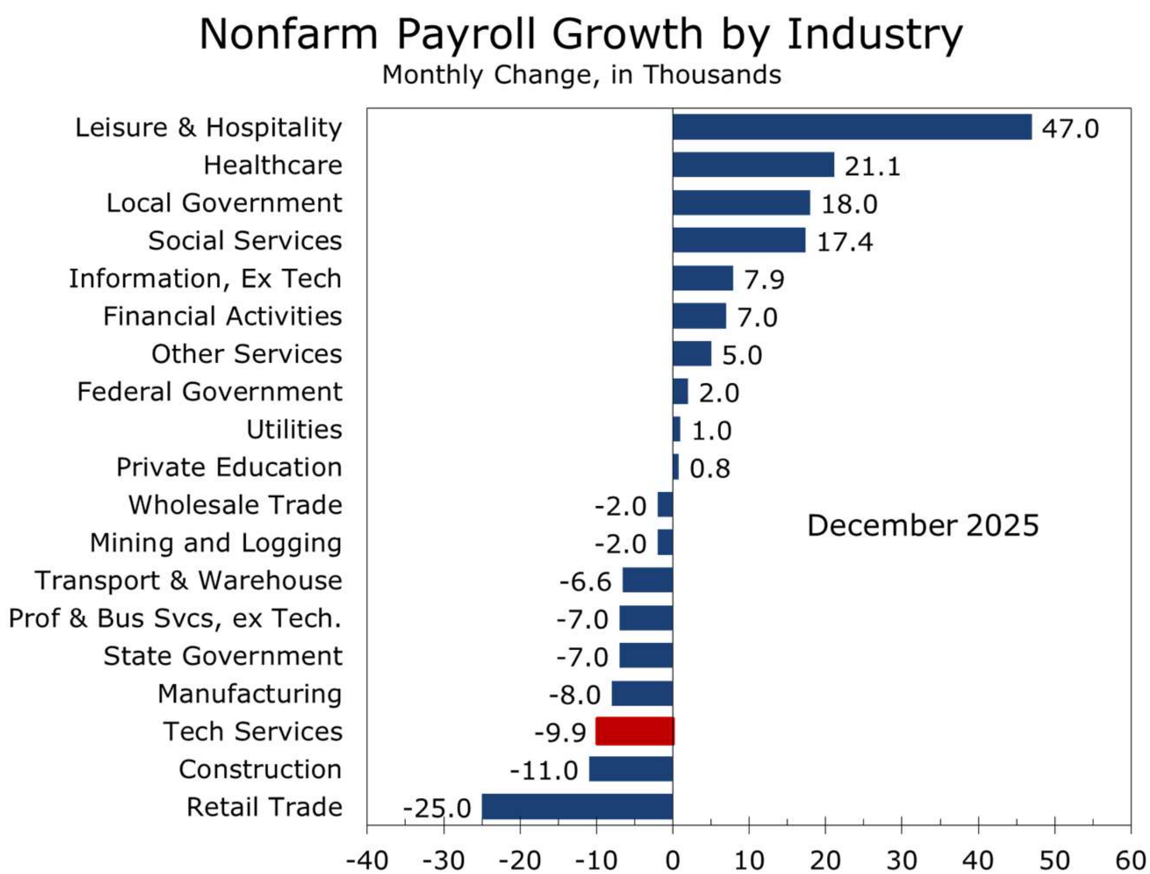


Source: The Conference Board and Bureau of Labor Statistics (BLS)

Job Growth Remains Concentrated in a Handful of Industries

PIEDMONT CRESCENT CAPITAL

- Job gains remain narrowly based.
- Health care & social services, and a handful of other sectors account for the bulk of recent job growth.
- Construction is benefitting from the AI buildout but the housing backlog is winding down.
- Tech jobs decline this past month.

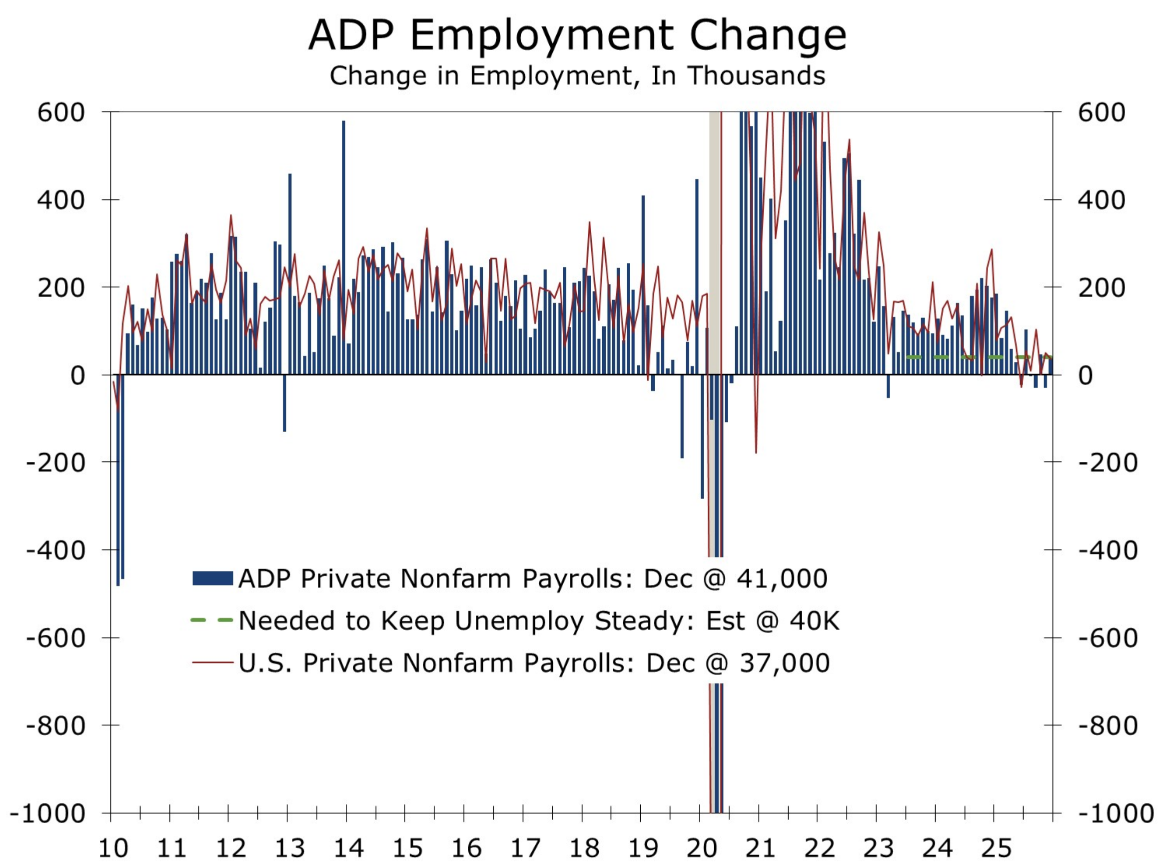


Source: Bureau of Labor Statistics

Job Growth Has Slowed to a Crawl

PIEDMONT CRESCENT CAPITAL

- The latest ADP data show private payrolls added 41,000 jobs in December and have declined in 3 of the past 5 months.
- Jerome Powell noted that the government's jobs data is likely overstated by 60,000 jobs month since April, implying a 20k job decline per month.
- Job losses are broadening beyond interest-sensitive sectors and will likely rise as still lengthy construction pipelines clear.
- Part of the slowdown in hiring is likely tied to AI and tighter immigration enforcement. Most of the slowing, however, is cyclical.

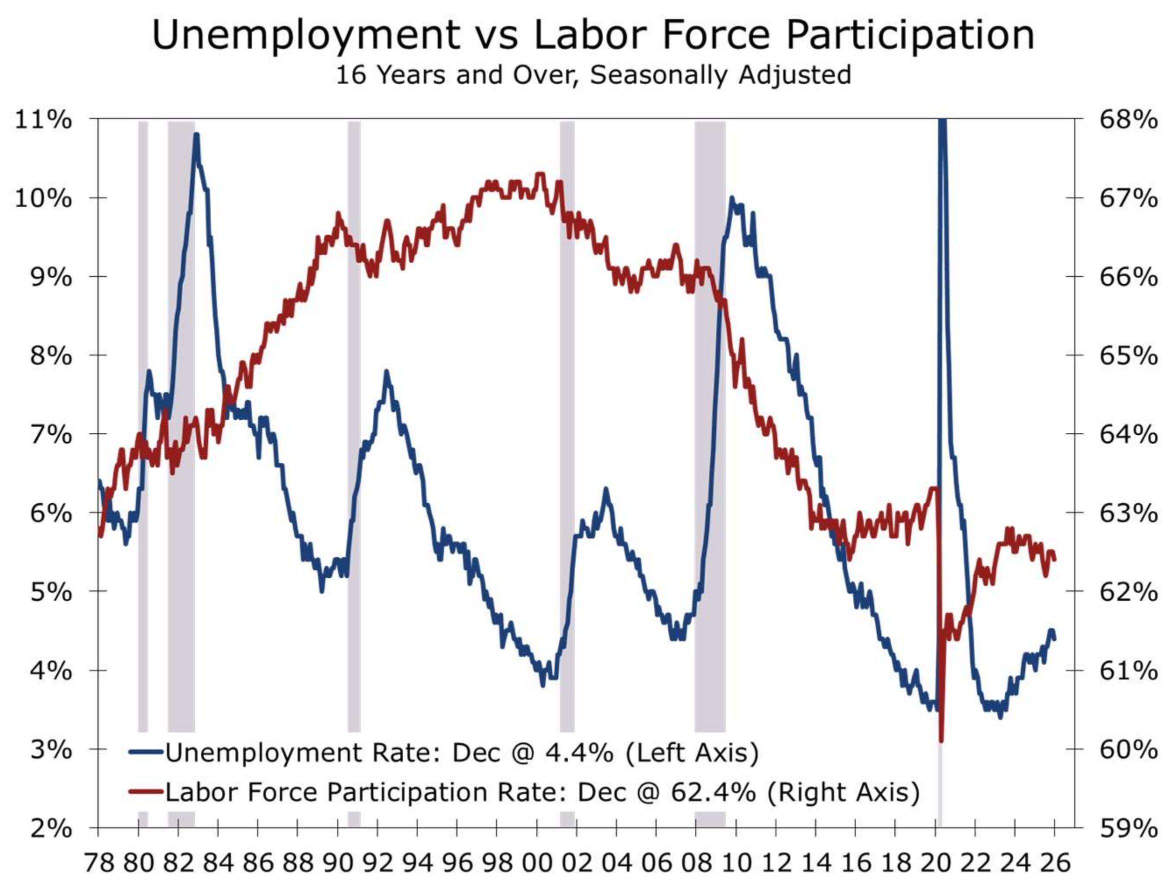


Source: Automated Data Processing (ADP)

The Unemployment Rate Will Only Rise Modestly, Despite a Nearly Jobless Expansion

PIEDMONT CRESCENT CAPITAL

- Sluggish labor force growth will restrain the unemployment rate, even as the economy endures a period of modest job losses.
- We expect nonfarm employment to dip slightly into negative territory for the October to Mach 2026 period.
- Private sector payrolls will be closer to zero.
- Baby boomer retirements, tighter immigration enforcements and sluggish hiring will restrain labor force growth.

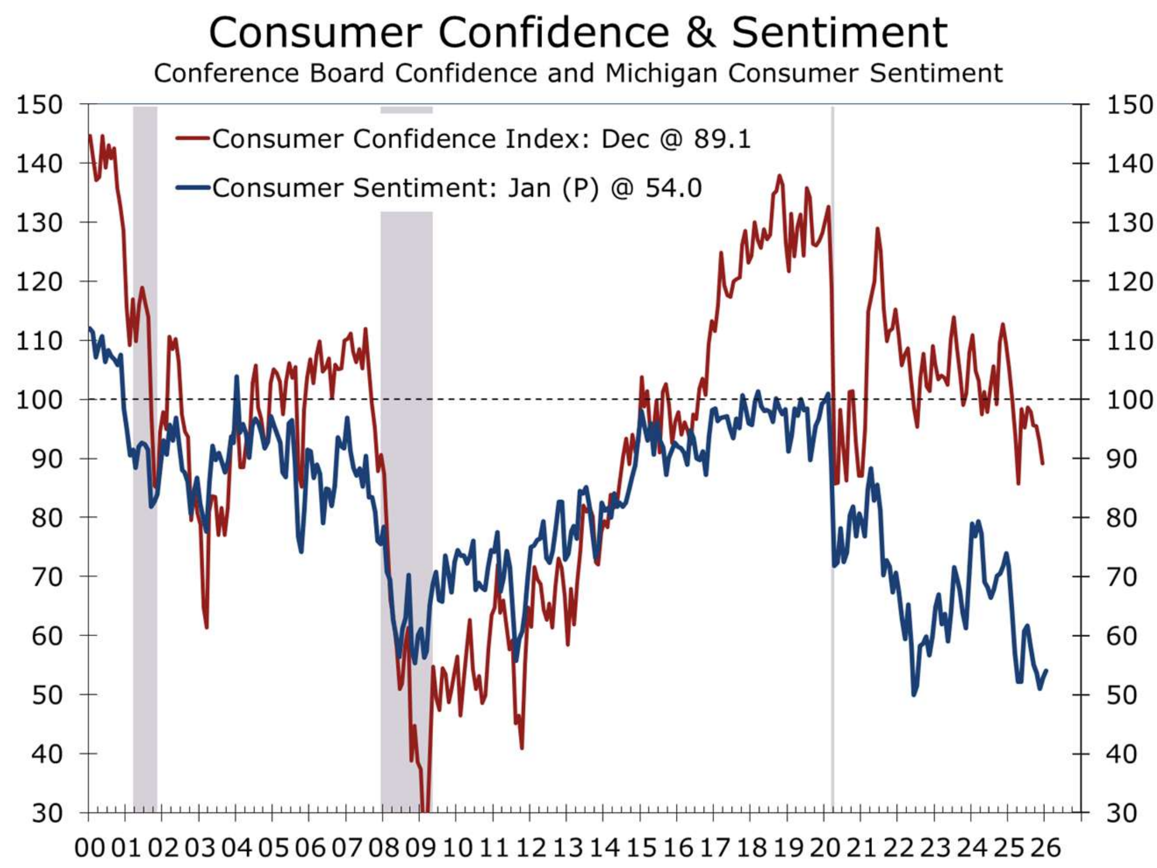


Source: Bureau of Labor Statistics

Confidence is Off the Lows, but Still Signals Weak Underlying Growth

PIEDMONT CRESCENT CAPITAL

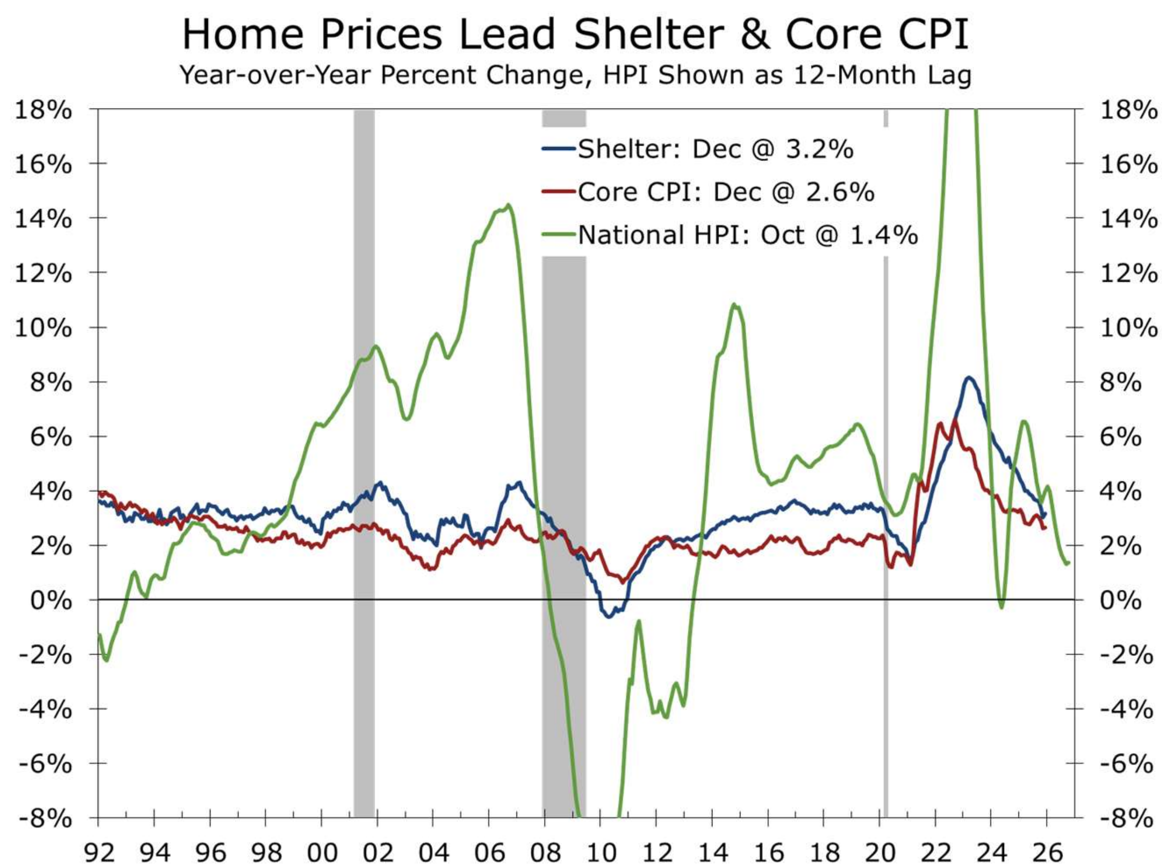
- Years of higher prices for housing, insurance, and groceries have weighed heavily on consumer sentiment.
- Uncertainty over tariffs and their impact on prices and hiring has further increased these concerns.
- Sentiment tumbled in early January, driving home the influence of political tensions, and remains consistent with slower economic growth. Sentiment tumbled again last spring and summer.



Source: The Conference Board, University of Michigan and Refinitiv

We Expect to See a Consumer Reset in 2026

- Tariffs upended the downtrend in the core CPI this past year, but prices now appear to be cooling once again.
- Shelter accounts for 44% of the core CPI and looks set to decelerate along with home prices.
- Home prices have been essentially flat since December and are currently up just 1.4% year-to-year. Changes in home prices lead changes in shelter costs by 12 to 18 months.

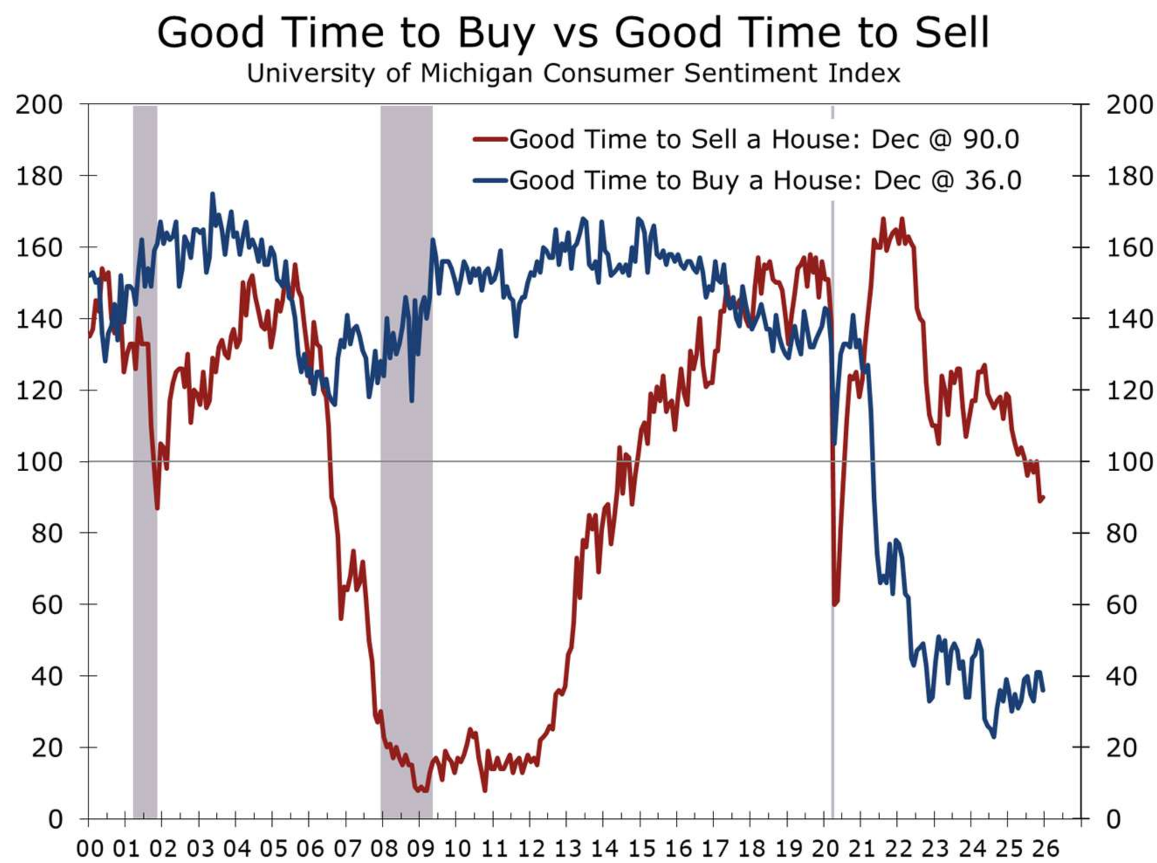


Source: Bureau of Labor Statistics (BLS) and S&P Global Cotality Analytics

Buying Sentiment Remains Weak and Selling Sentiment is Falling

PIEDMONT CRESCENT CAPITAL

- The lack of affordable homes available for sale and 'high' interest rates have kept many potential buyers on the sidelines.
- Fixed mortgage rates below 6.35% are a key signal to bring buyers back, but rates around 6% would produce a more meaningful rebound.
- The hiring slowdown is also weighing on buying plans.

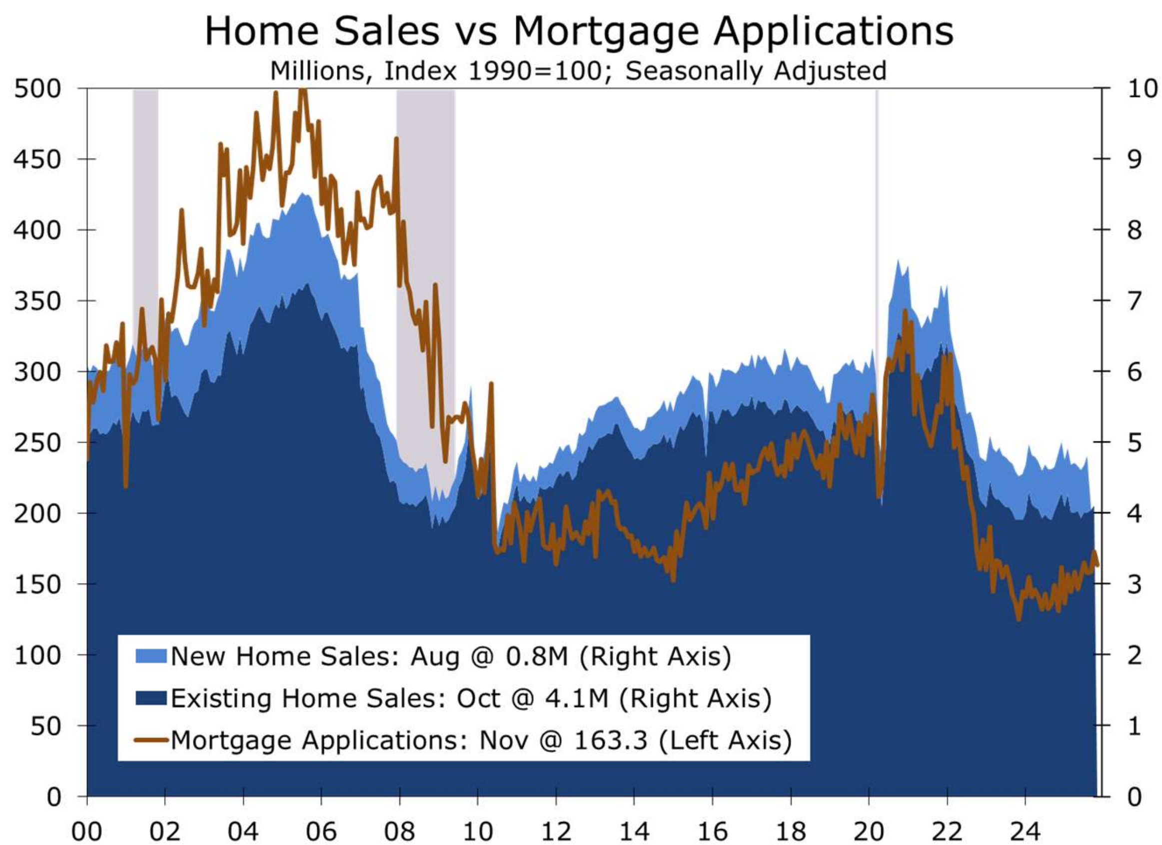


Source: University of Michigan

Lower Mortgage Rates Have Provided a Slight Boost to Home Sales

PIEDMONT CRESCENT CAPITAL

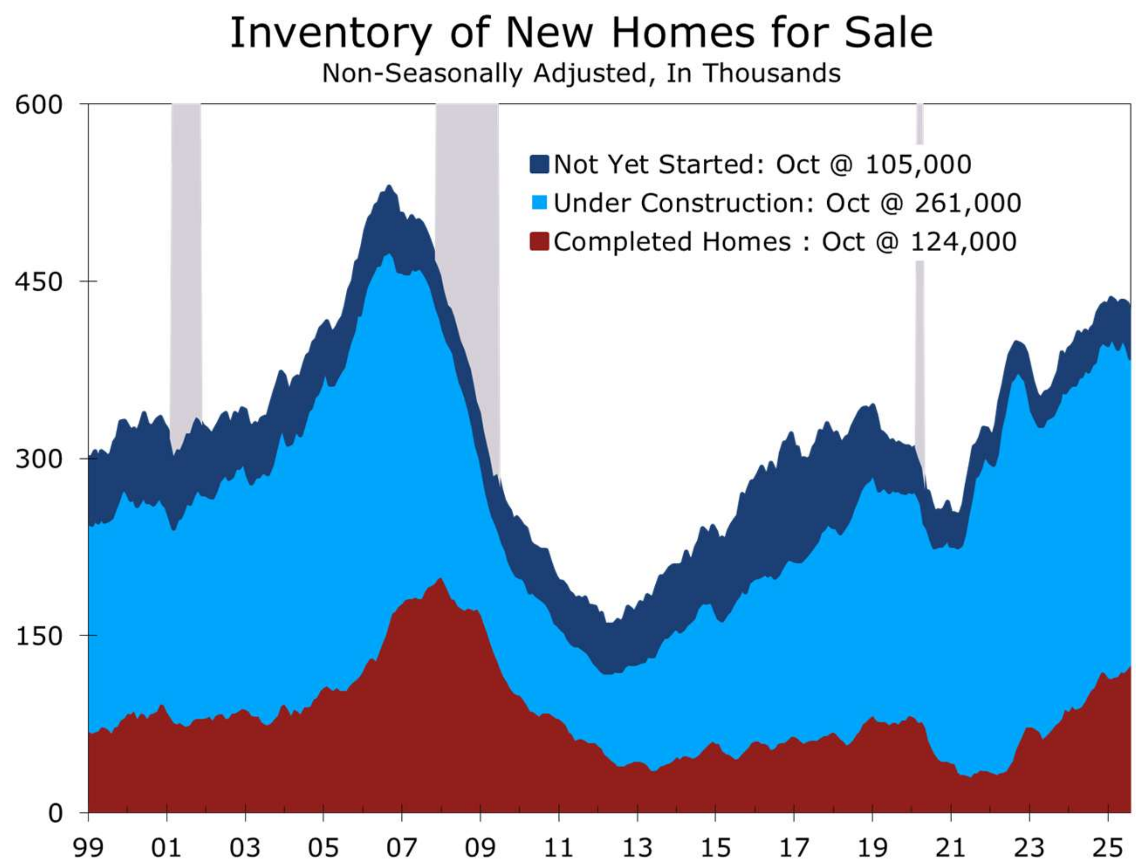
- Existing home sales have edged back to a 4.1-million-unit pace but remain at essentially recession levels.
- New home sales have gotten a bigger lift, thanks to generous builder incentives.
- Builders are relieved that price cuts have brought out buyers but still worried about mounting supply.



Source: National Association of Realtors, Census Bureau and Mortgage Bankers Association

New Home Inventories Have Likely Peaked But Remain too High

- Inventory fell slightly for the fifth month in row, sliding back to 488,000 homes in October, but remains 1.7% higher than a year ago.
- New home sales remained solid in October and are up 18.7% year-to-year.
- With sales up, supply fell to 7.9 months, down from a high of 9.6 months in May
- The number of completed, move-in ready homes has risen 10.7% over the past year to 124,000.
- The median new home price fell 0.8% in October to $392,300 and have fallen 8% from their year ago level.

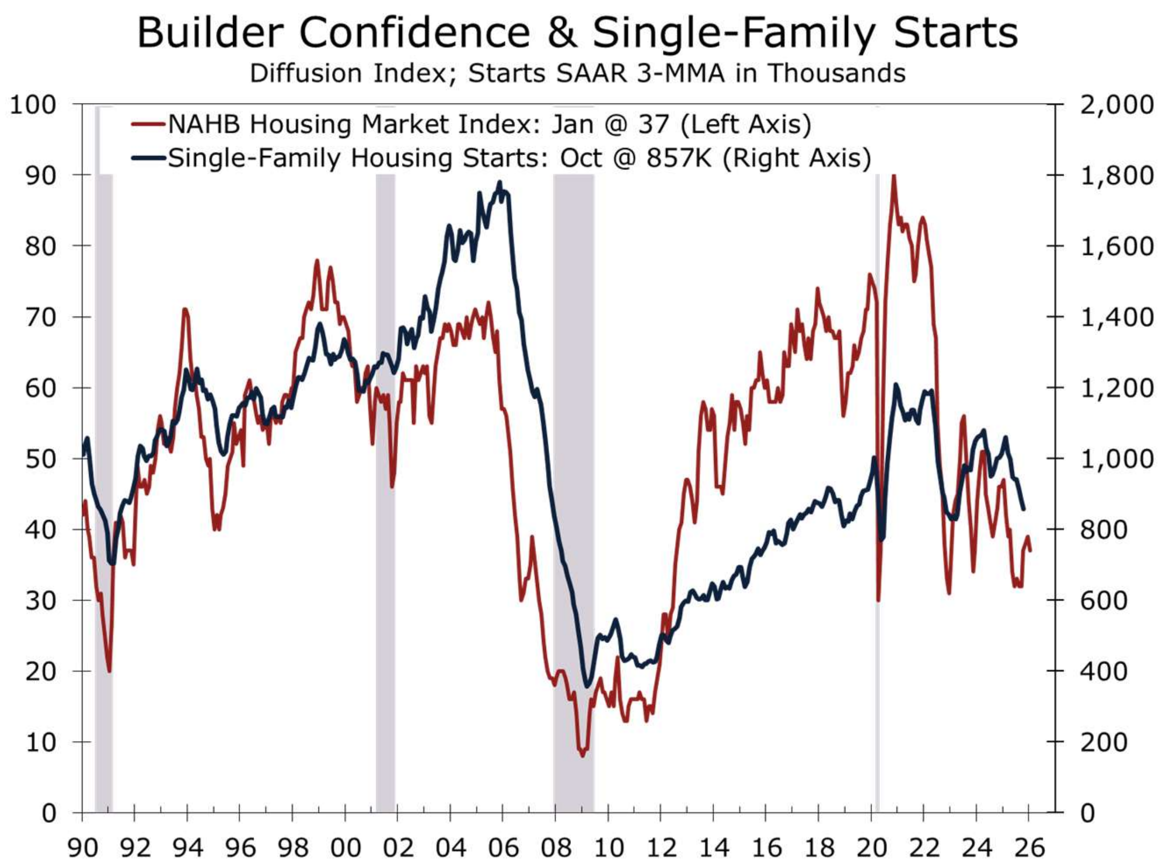


Source: The National Association of Realtors

Housing Starts Slow Amid Rising Inventory and Softer Buyer Demand

PIEDMONT CRESCENT CAPITAL

- Single-family starts rose 5.4% in October to an 874,000 annual rate (seasonally adjusted), as high inventories and rising material costs keep builders sidelined.
- New home sales
- Builders are aggressively discounting to trim the heaviest unsold inventories in more than a decade.
- The NAHB/Wells Fargo HMI fell back to 37 in January while expected sales fell from 49 to 52.
- While price cuts have brought out buyers, buyer traffic remains low. High inventories are weighing on builder sentiment.

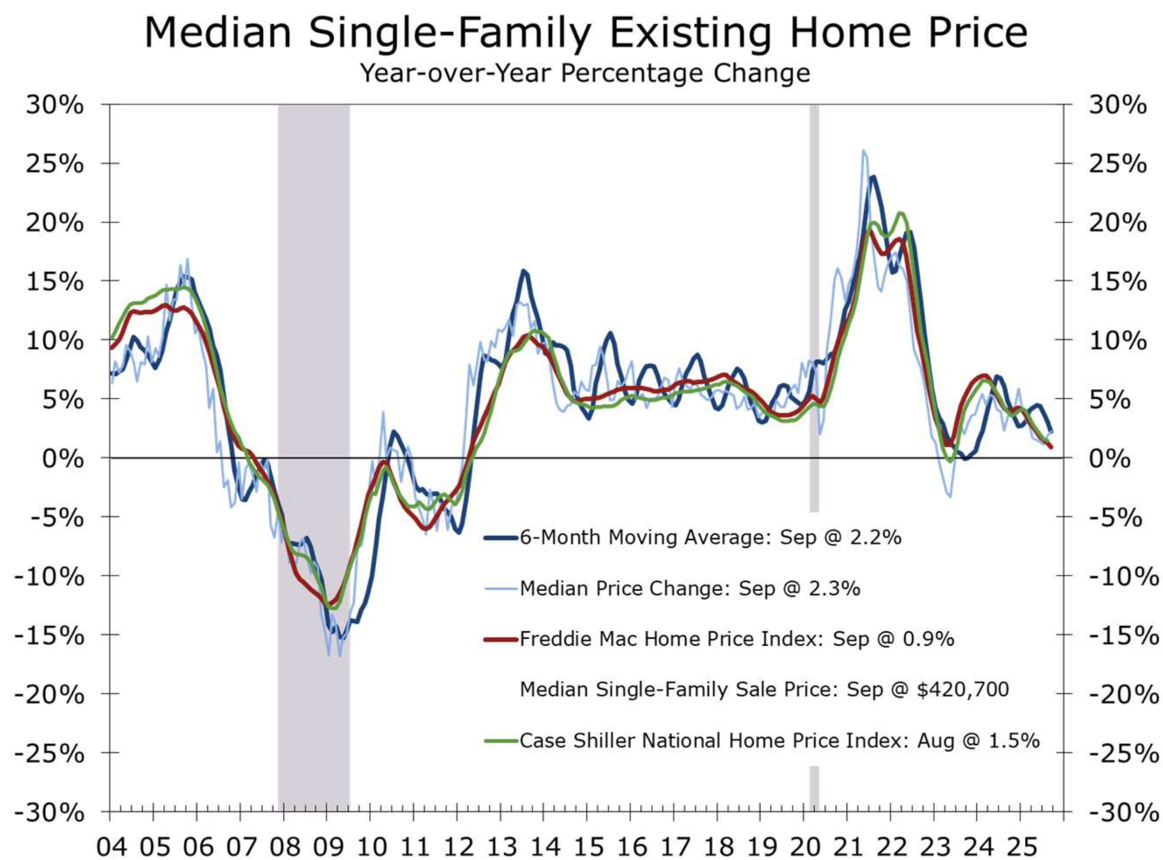


Source: Census Bureau and National Association of Home Builders (NAHB)

Home Prices Are Moderating

PIEDMONT CRESCENT CAPITAL

- The Case-Shiller HPI has fallen the past three months, and year-to-year price appreciation has slowed across all price measures.
- The Median Price of Existing Home hit an all-time high due to a shift in the mix of sales.
- Prices are easing the most in markets that had seen sharp appreciation, including Florida and Austin.

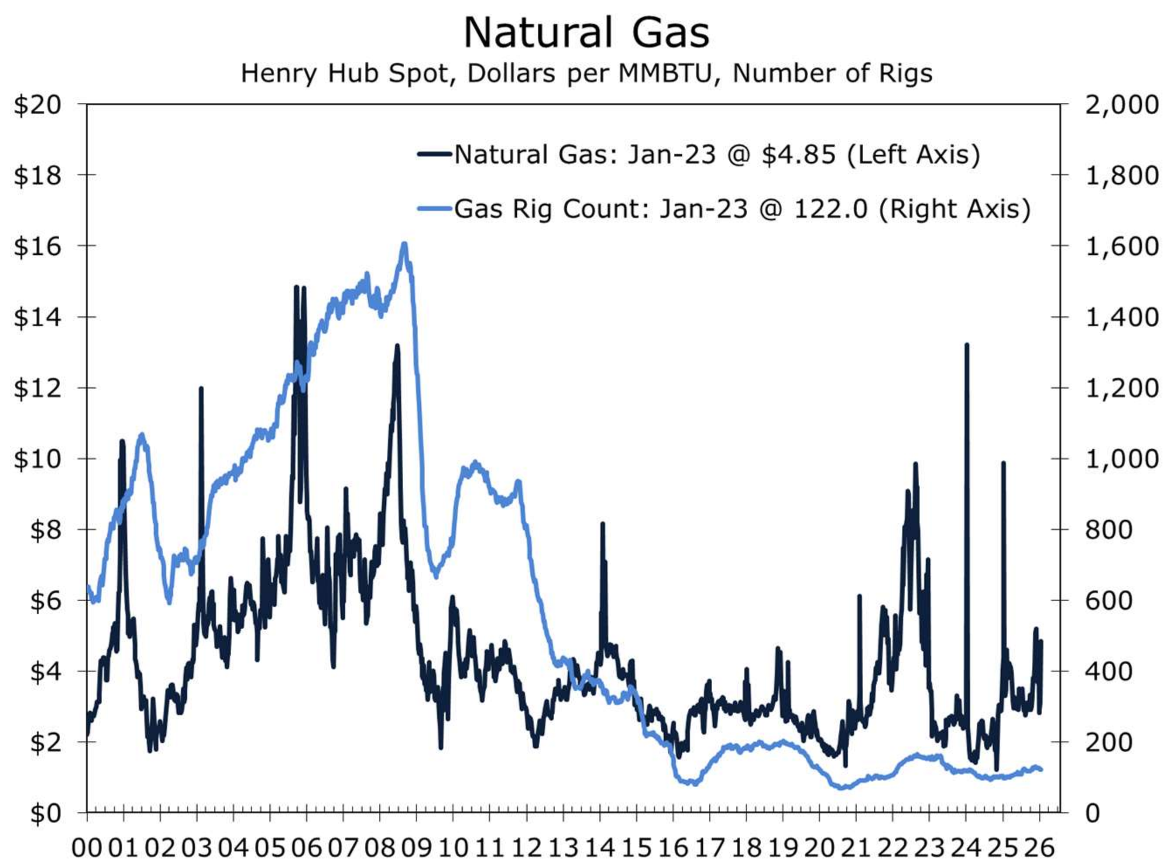


Source: S&P Global

Cold Weather Wipes Away Worries About Oversupply, for Now

PIEDMONT CRESCENT CAPITAL

- **Prices have rebounded sharply from late-2025 lows, driven by a combination of colder winter weather, production discipline, and a reassessment of how quickly excess supply can be absorbed.**
- **Supply growth is slowing, as producers have curtailed drilling activity in response to last year's price collapse.**
- **Demand fundamentals are improving, with rising power-sector consumption, growing LNG feedgas demand, and structural support from data centers, electrification, AI build.**
- **Volatility remains elevated, reflecting a market transitioning from surplus toward balance.**

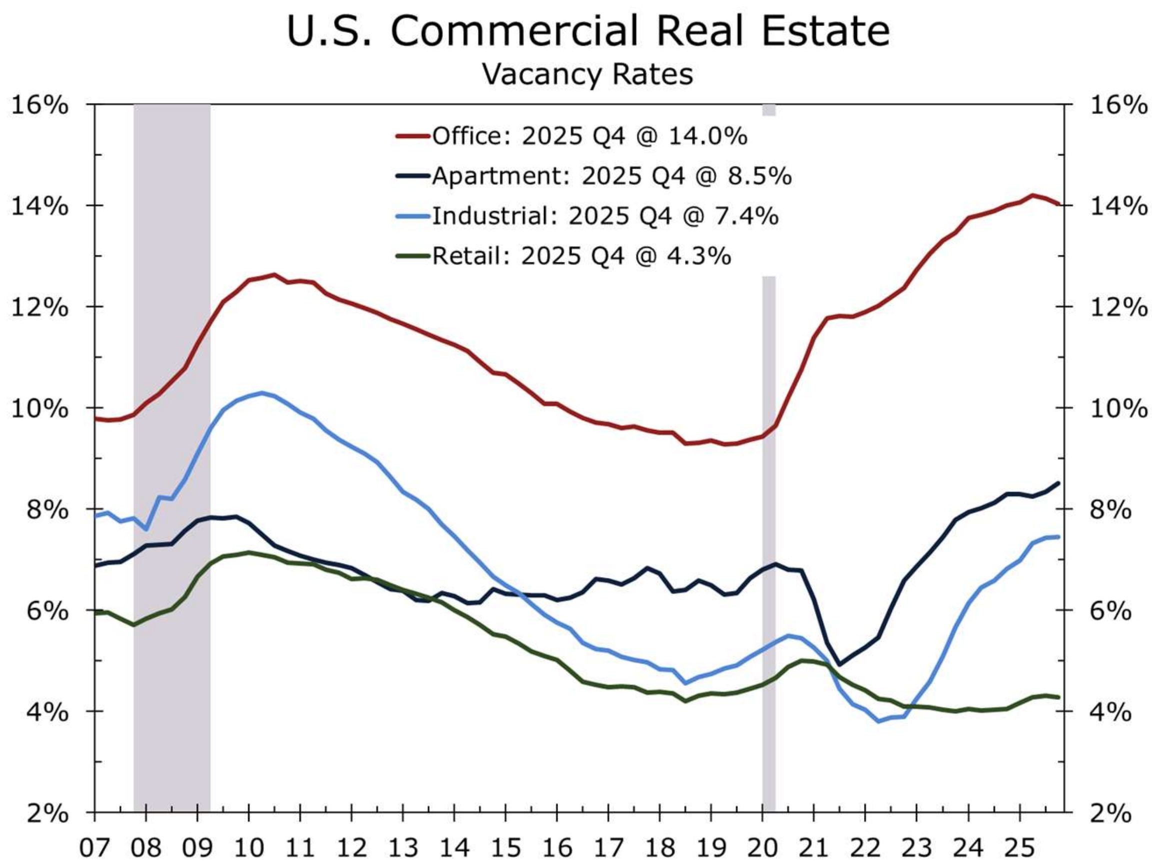


Source: Energy Information Administration and Baker Hughes

Office and Apartment Vacancy Rates Are Showing Signs of Stabilizing

PIEDMONT CRESCENT CAPITAL

- The full Return-to-the-Office has held cap office vacancy rates. Demand of class A space has been surprisingly strong across much of the country.
- Apartments continue to struggle with oversupply o high-end product.
- Industrial real estate has struggled with oversupply and an extend freight recession, which now appears to be ending.
- The retail market remains the quite outperformer, with strong demand for specialty retail and experiential space. Department stores are still retrenching, however.

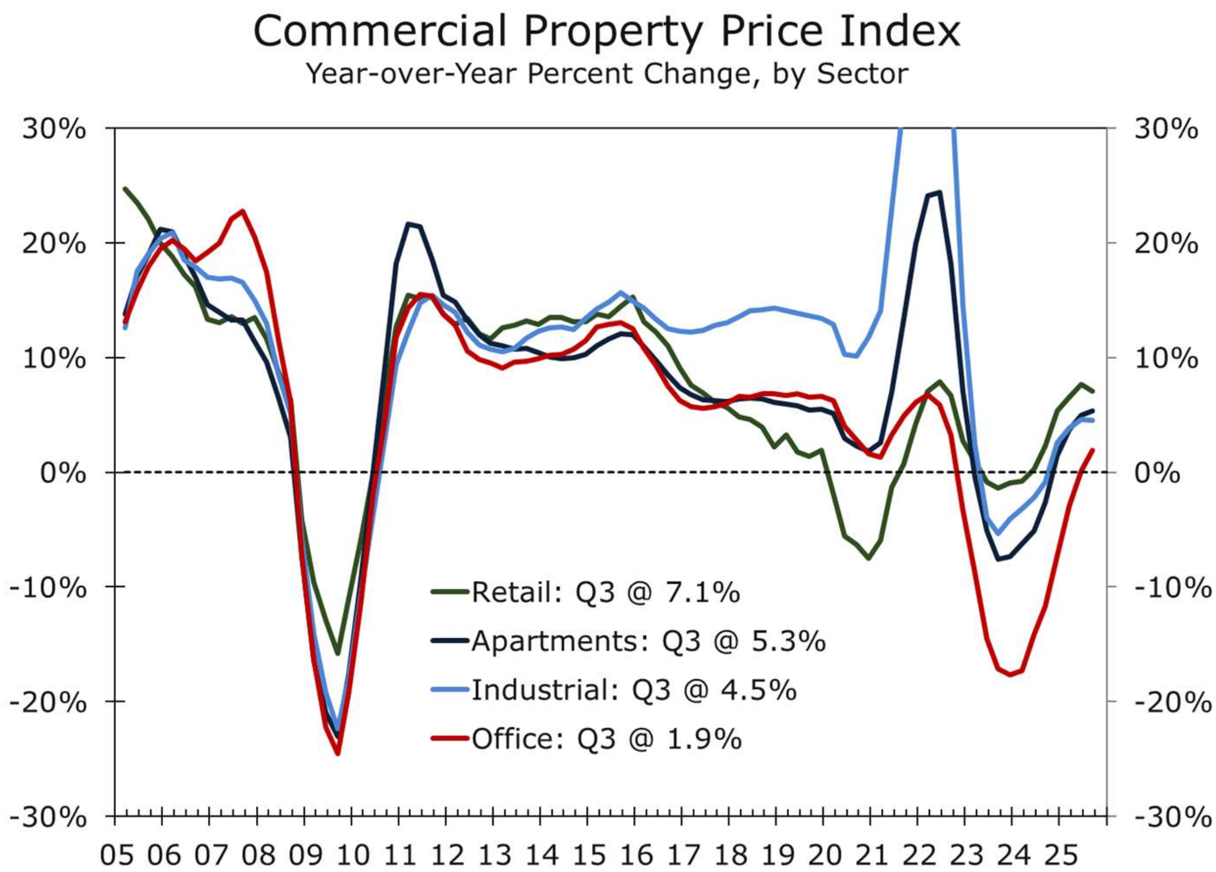


Source: CoStar

Q3 Data Show a Sustained Rebound in Property Values

PIEDMONT CRESCENT CAPITAL

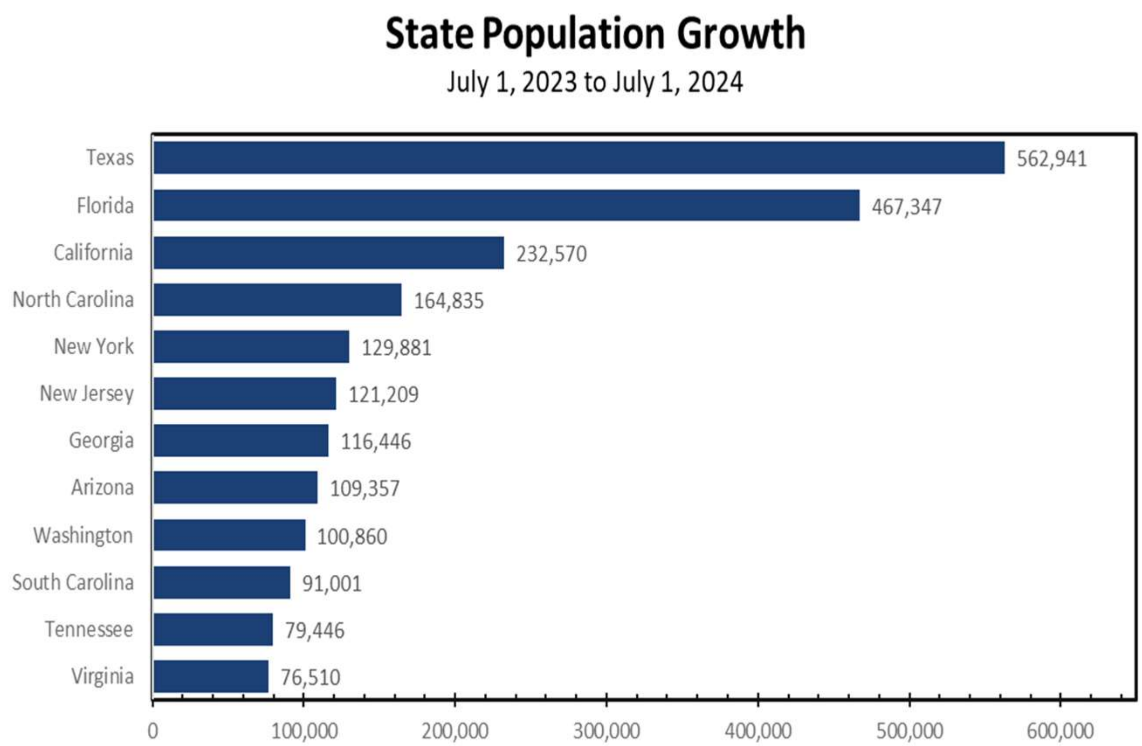
- Overall Commercial Property Prices have risen 4.7% over the past year, marking the fourth consecutive year to year gain..
- Income accounted for the entire return, with appreciation declining 0.1 percentage point.
- All property sectors posted positive returns in Q3: seniors housing led with +9.2%, followed by retail (+7.0%), self-storage (+6.1%); apartments (+5.3%); industrial (+4.5%); hotel (+3.5%) and office (+1.9%).



Source: NCREIF

Immigration Drove Population Growth Higher in 2024

- Immigration or, net inflows from abroad, account for over 84% of US population growth in 2024.
- Texas and Florida continue to see the largest population gains, but many slower growing large states posted their first significant gains in years.
- Virginia saw its first meaningful increase this decade, with international migration likely boosting Northern Virginia.

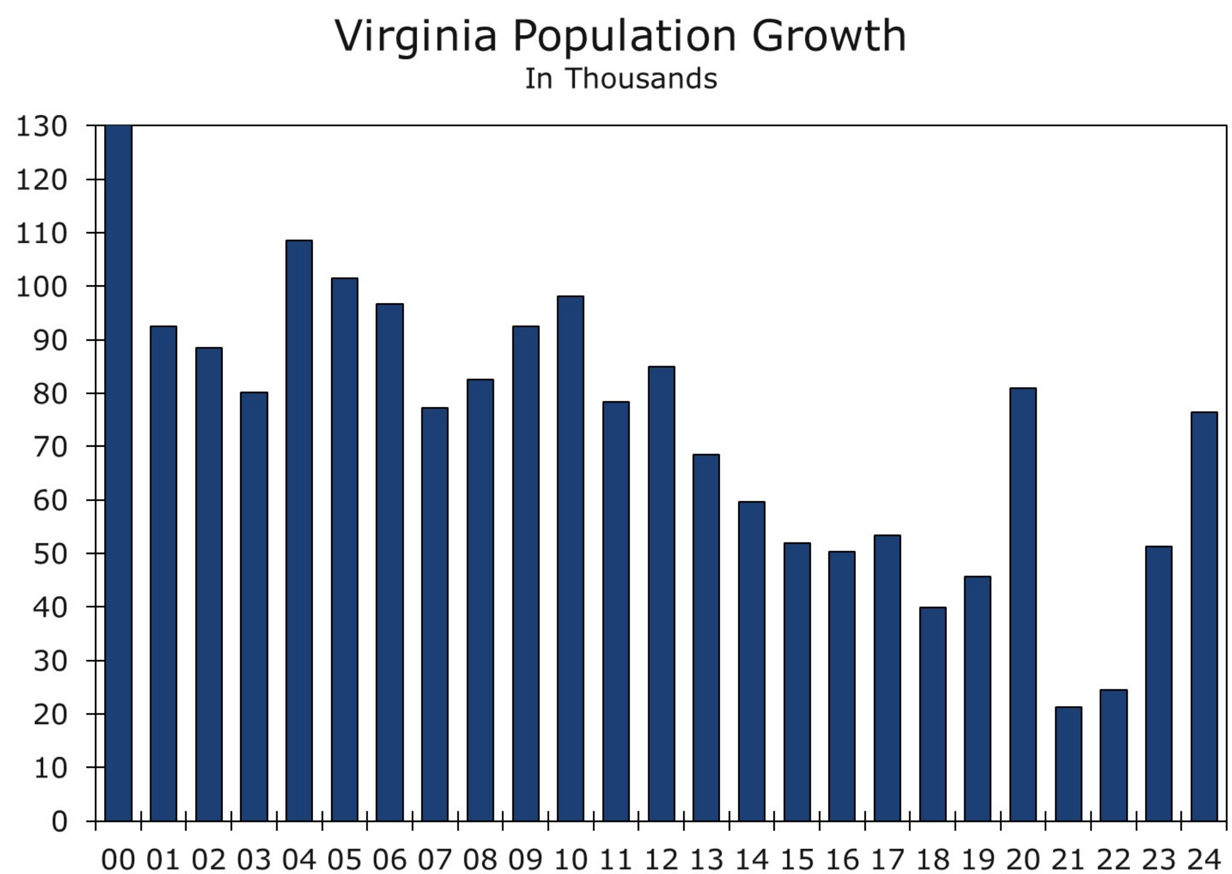


Source: Census Bureau

International Migration Helped Drive This Past Year's Population Gains

PIEDMONT CRESCENT CAPITAL

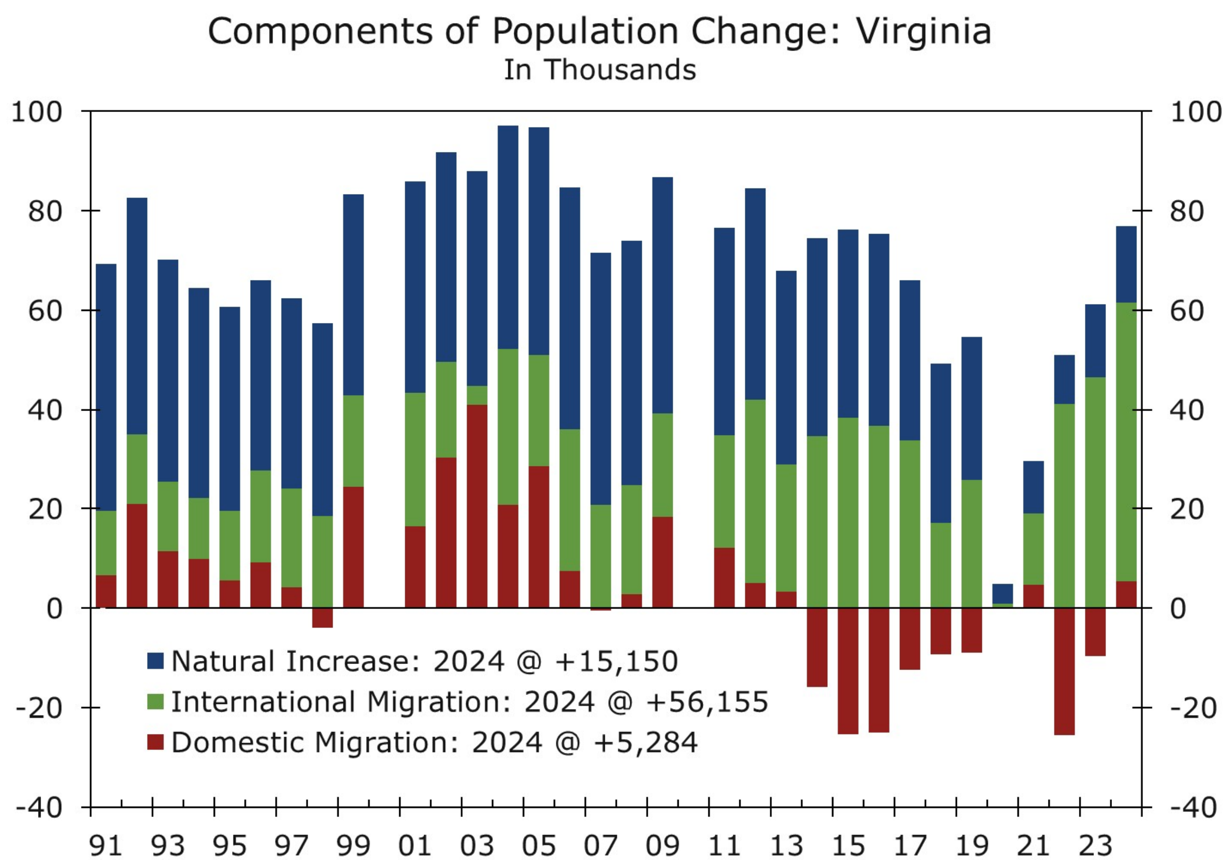
- The latest Census data show population growth perked up the past two years, thanks largely to stronger international migration.
- The bulk of the increase likely occurred in Northern Virginia and Richmond.
- The affordability migration is shifting toward less expensive areas in the South and Midwest, which is driving home building in these places.



Source: Census Bureau

Virginia's Population Growth Amps Back Up

- International migration provided a meaningful boost to Virginia's population.
- Net migration also moved back into positive territory.
- DC's status as a gateway city likely weighs on domestic migration, as international arrivals eventually resettle elsewhere.

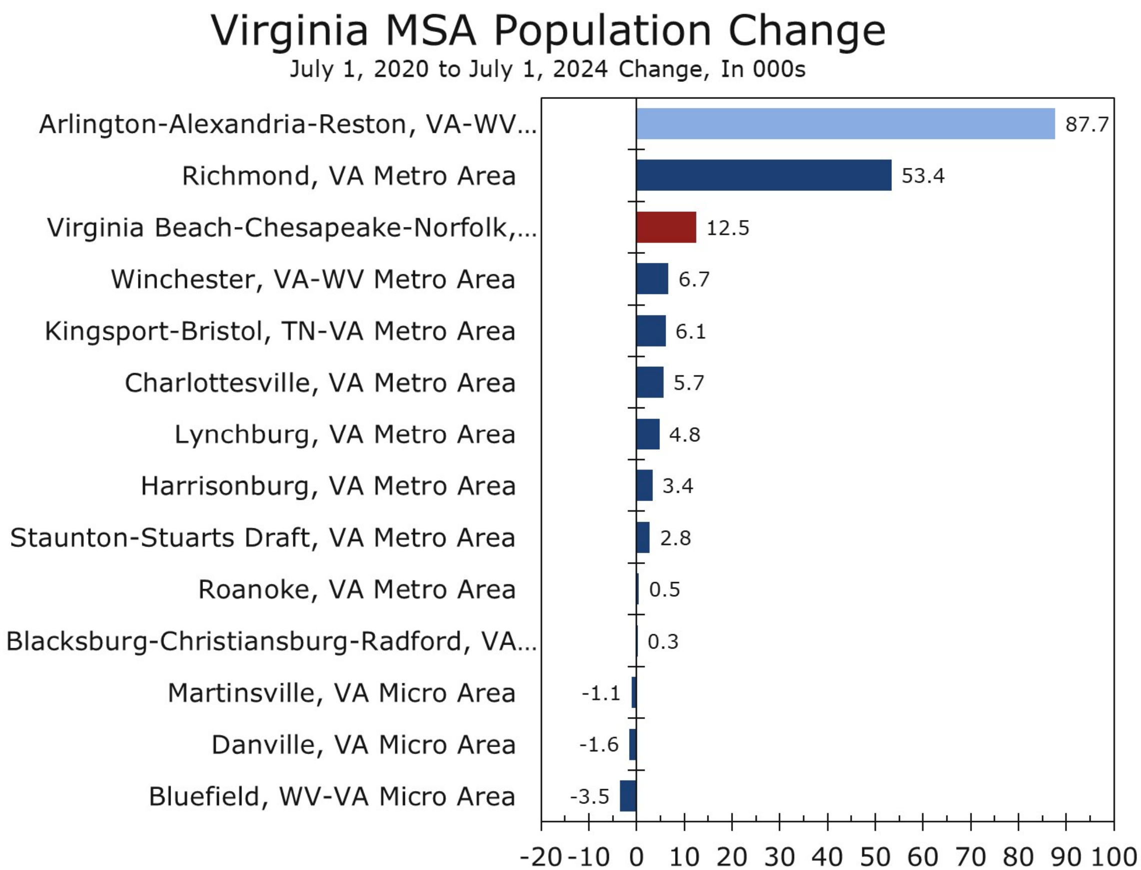


Source: Census Bureau

Washington D.C. and Richmond Account for the Bulk of Growth

PIEDMONT CRESCENT CAPITAL

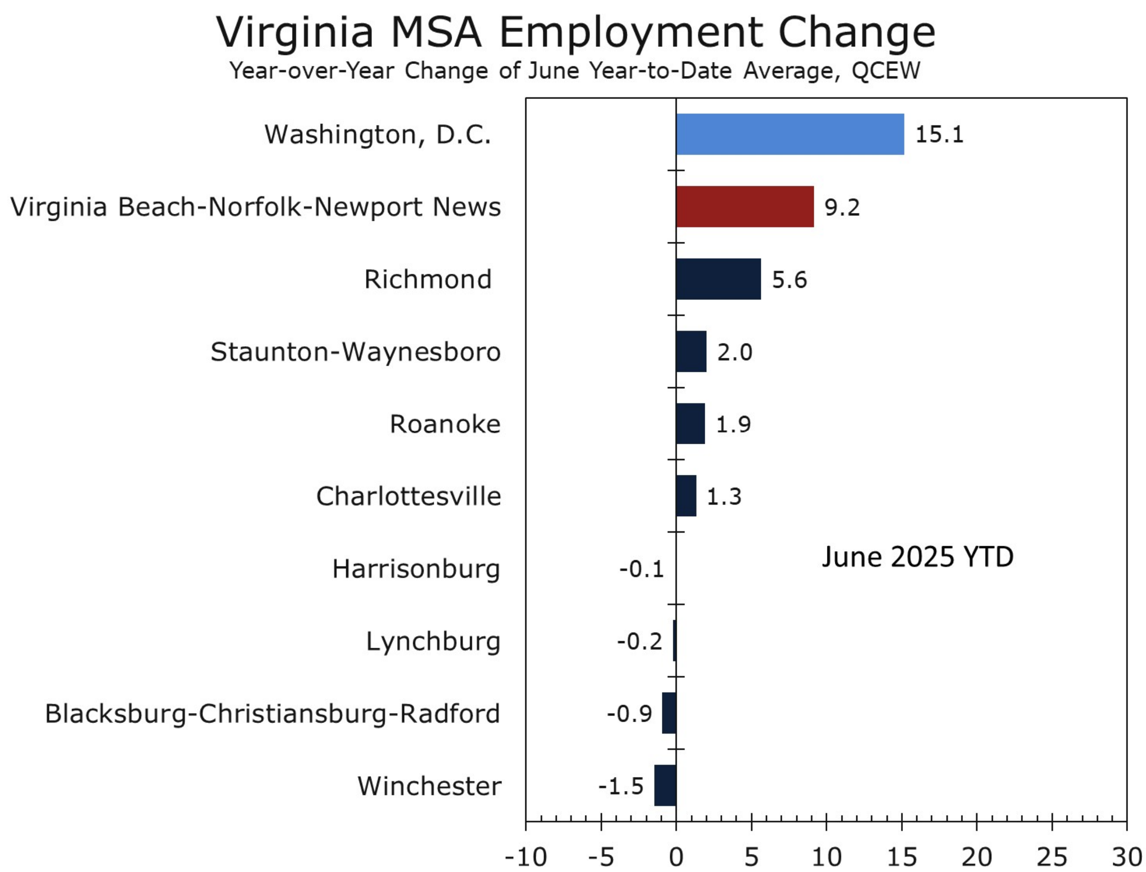
- The latest MSA data reflect changes through the middle of 2024.
- Northern Virginia and Richmond still dominate the state's population growth.
- We suspect that international migration kept population growth strong this past year, along the same lines in the Commonwealth's major metro areas.



Source: Census Bureau

The Government Shutdown Hit Virginia Particularly Hard

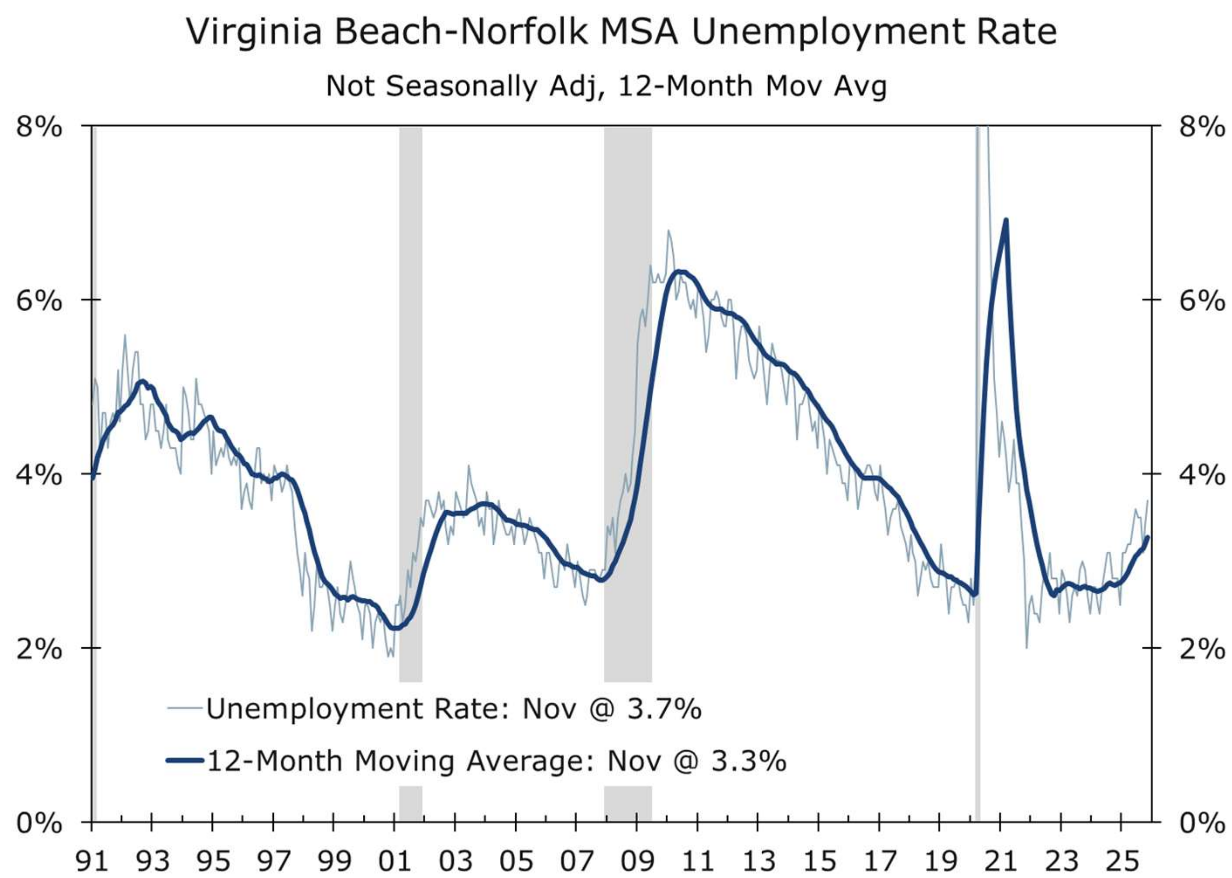
- The federal government shutdown makes the jobs data hard to interpret.
- Hampton Roads posted modest job grains this past year, reflecting gains in health care, public works, defense contracting and professional services.
- Logistics slowed this past year due to tariff uncertainty and the ongoing freight recession.



Source: Bureau of Labor Statistics - Quarterly Census of Employment and Wages (QCEW)

Unemployment Remains Low

- The unemployment rate has risen this past year but remains below the national rate.
- Government is the region's largest employer and the shutdown clearly pushed the jobless rate higher.
- Employers report that voluntary turnover has slowed, with employees hunkering down. Reduced turnover has slowed hiring.

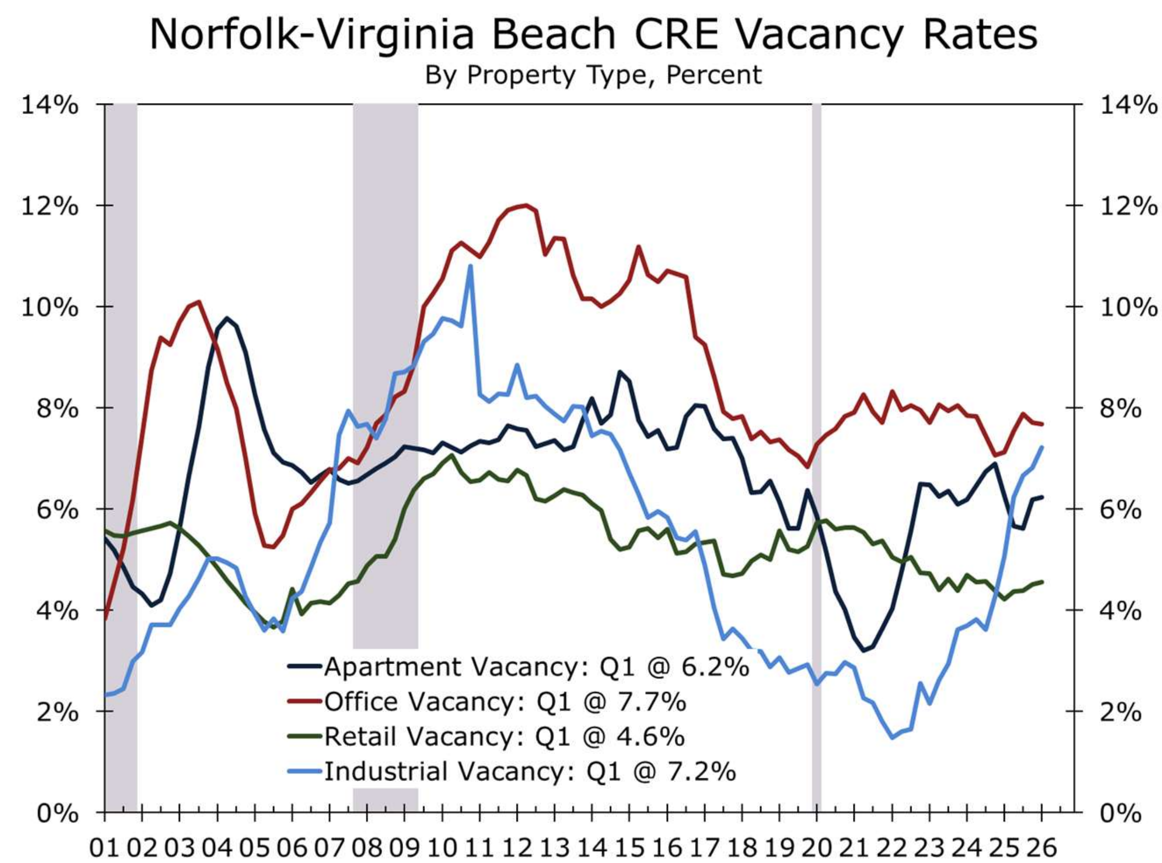


Source: Bureau of Labor Statistics

Commercial Vacancy Rates Are Mostly Within Historic Norms

PIEDMONT CRESCENT CAPITAL

- Office vacancy rates remain about half the national level and lower than peer metros.
- Apartment vacancy rates fell back this past year on solid job growth and modest population gains.
- Industrial vacancy rates have risen sharply amidst a lingering goods recession and recent tariff turmoil
- Retail vacancy rates edged higher this past year, reflecting big box closings.



Source: CoStar

Economic Outlook

PIEDMONT CRESCENT CAPITAL

US Economic and Financial Outlook

(% change on previous period, annualized, except where noted)

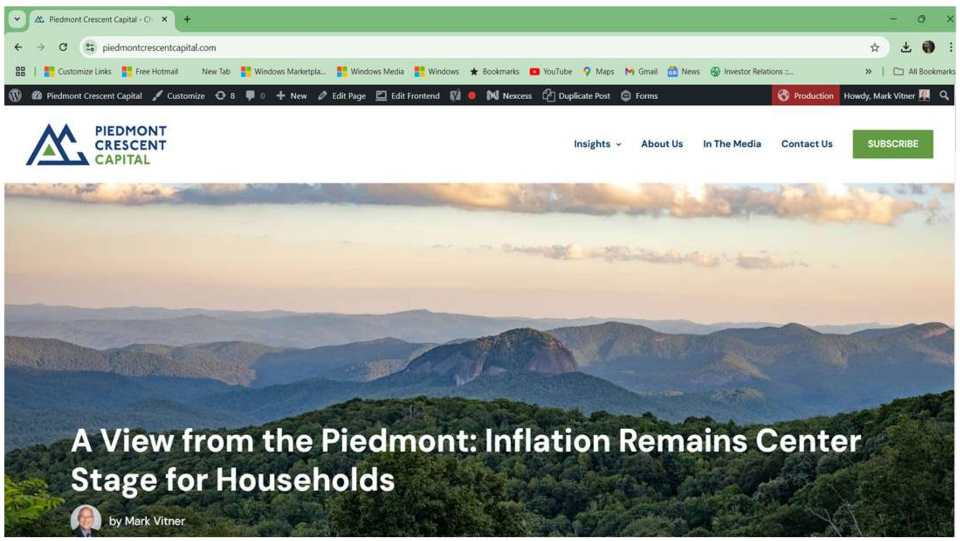
	2024				2025				2026				2023	2024	2025	2026	2027
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Actual	Actual	Forecast	Forecast	Forecast
Output																	
Real GDP	0.8	3.6	3.3	1.9	(0.6)	3.8	4.4	3.2	2.1	3.1	3.2	3.1	2.9	**2.8**	2.1	3.2	3.0
Year-to-Year Change (4th Qtr/4th Qtr for annual data)	*2.9*	*3.1*	*2.8*	***2.4***	*2.0*	*2.1*	***2.3***	*2.7*	*3.4*	*3.1*	*2.9*	*2.9*	*3.4*	***2.4***	*2.7*	*2.8*	*2.9*
Final Sales to Domestic Private Purchasers	2.0	3.4	3.5	2.7	1.9	2.9	2.9	2.7	2.7	3.3	3.2	3.2	2.5	**3.0**	2.7	2.9	3.0
Consumer Spending	1.7	3.9	4.0	3.9	0.6	2.5	3.5	2.6	2.1	2.6	2.4	2.5	2.5	**2.8**	2.7	2.7	2.4
Nonresidential Fixed Investment	1.5	2.5	3.5	(3.7)	9.5	7.3	3.2	3.0	3.8	4.6	4.8	4.7	4.9	**2.9**	4.2	3.6	4.3
Residentional Investment	8.2	(2.0)	(4.8)	4.3	(1.0)	(5.1)	(7.1)	(3.0)	1.4	2.5	3.5	3.8	(8.3)	**4.2**	(1.9)	(1.8)	4.0
Light Vehicle Sales	15.5	15.7	15.7	16.5	16.4	16.2	16.4	15.7	16.0	16.2	16.4	16.5	15.5	**15.8**	16.2	16.3	16.6
Industrial Production, Manufacturing (Yr/Yr)	(2.0)	1.1	(2.3)	(2.1)	0.1	0.5	1.9	2.2	2.3	2.5	2.9	3.0	(0.4)	**(0.4)**	1.2	2.7	3.0
Unemployment Rate (Qtrly Avg)	3.8	4.0	4.2	4.1	4.1	4.2	*4.4*	4.5	4.6	4.6	4.5	4.4	3.6	**4.0**	4.3	4.4	4.3
Housing Market																	
Housing Starts (Units, thous)	1,415	1,343	1,338	1,387	1,401	1,354	1,339	1,280	1,270	1,320	1,370	1,400	1,421	**1,371**	1,344	1,340	1,480
New Home Sales	677	685	707	671	655	665	696	730	710	740	760	770	665	**685**	687	745	790
Existing Home Sales	4,143	4,023	3,937	4,163	4,127	3,990	4,020	4,200	4,180	4,220	4,290	4,350	4,090	**4,060**	4,084	4,255	4,350
S&P/Case-Shiller Natl Home Prices (Yr/Yr % Change)	6.4	6.0	4.4	3.8	3.8	2.4	1.5	1.2	1.2	1.3	1.6	1.9	2.5	**5.1**	2.2	1.5	2.3
Inflation (Year-to-Year % Change)																	
Consumer Price Index (CPI)	3.2	3.2	2.7	2.7	2.7	2.5	2.9	2.7	2.8	2.6	2.3	2.1	4.1	**3.0**	2.7	2.5	2.3
Core CPI	3.8	3.4	3.3	3.3	3.1	2.8	3.1	2.7	2.7	2.6	2.3	2.2	4.8	**3.4**	2.9	2.5	2.2
Personal Consumption Deflator	2.8	2.7	2.4	2.6	2.6	2.4	2.7	2.8	2.7	2.6	2.3	2.0	3.2	**2.8**	2.6	2.4	2.3
Core PCE Deflator	3.1	2.8	2.8	3.0	2.8	2.7	2.9	2.7	2.6	2.5	2.3	2.1	4.1	**2.8**	2.8	2.4	2.3
Employment Cost Index	4.2	4.0	3.8	3.8	3.6	3.6	3.6	3.5	3.5	3.5	3.4	3.4	4.5	**3.9**	3.6	3.5	3.4
Interest Rates (Quarter End and Ann Avg)																	
Fed Funds Target Range	5.25-5.50	5.25-5.50	4.75-5.00	4.25-4.50	4.25-4.5	4.25-4.5	4-4.25	3.5-3.75	3.25-3.5	3-3.25	3-3.25	3-3.25	5.02	**5.14**	4.12	3.19	3.50
10-Year Treasury Note	4.21	4.33	3.81	4.58	4.23	4.24	4.16	4.18	4.10	4.00	4.20	4.30	3.96	**4.21**	4.20	4.15	4.50
Conventional Mortgage Rate (Freddie Mac)	6.79	6.86	6.08	6.85	6.65	6.77	6.10	6.15	6.00	5.80	5.90	6.00	6.81	**6.72**	6.42	5.93	6.20

Piedmont Crescent Capital - January 24, 2026

Disclaimer

This publication has been prepared for informational purposes only and is not intended as a recommendation offer or solicitation with respect to the purchase or sale of any security or other financial product nor does it constitute investment advice.

For more information, please check out our web site and subscribe to receive our reports.



Please follow us on LinkedIn
www.linkedin.com/in/mark-vitner