PIEDMONT
CRESCENT
CAPITAL

What's Ahead for the U.S. Economy: The Top Calls for 2026

2025 ECONOMIC OUTLOOK

JANUARY 15, 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 a 2.6% 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.**

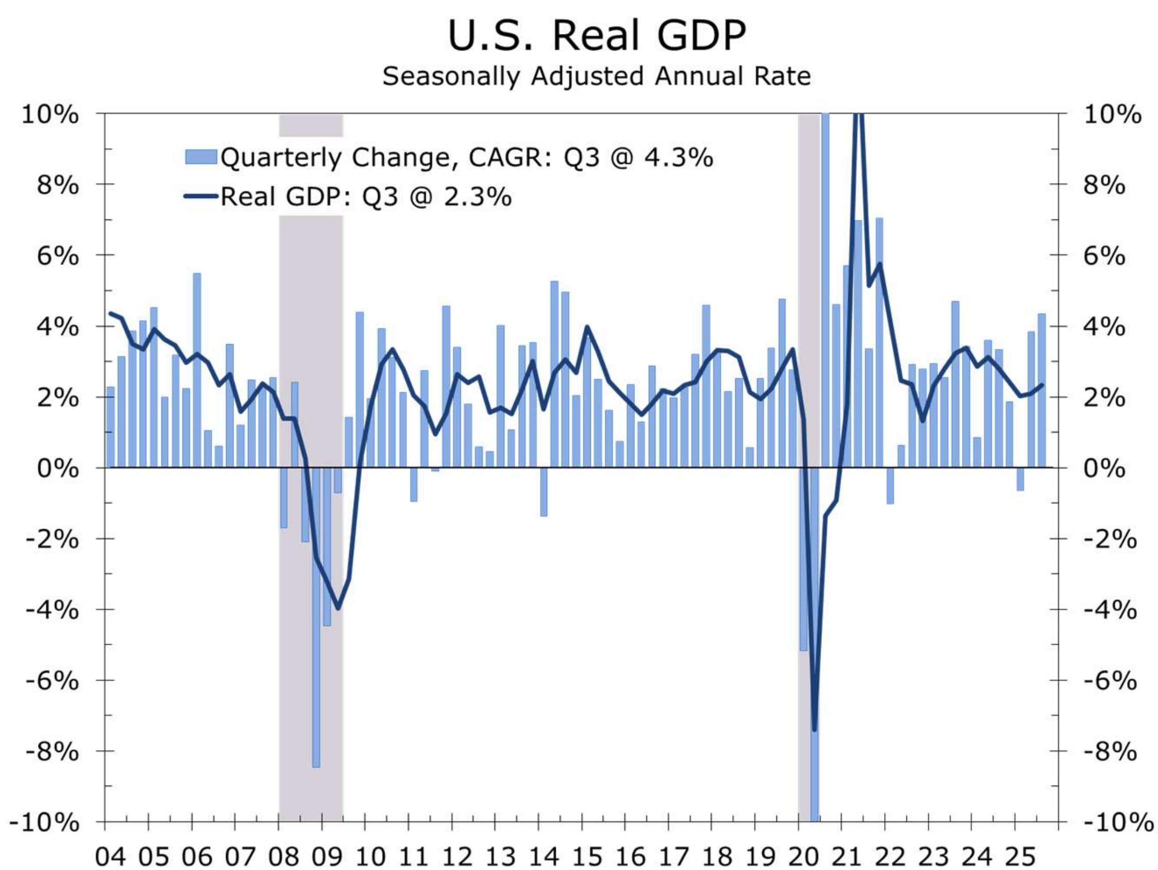
The Expansion Catches Its Second Wind

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

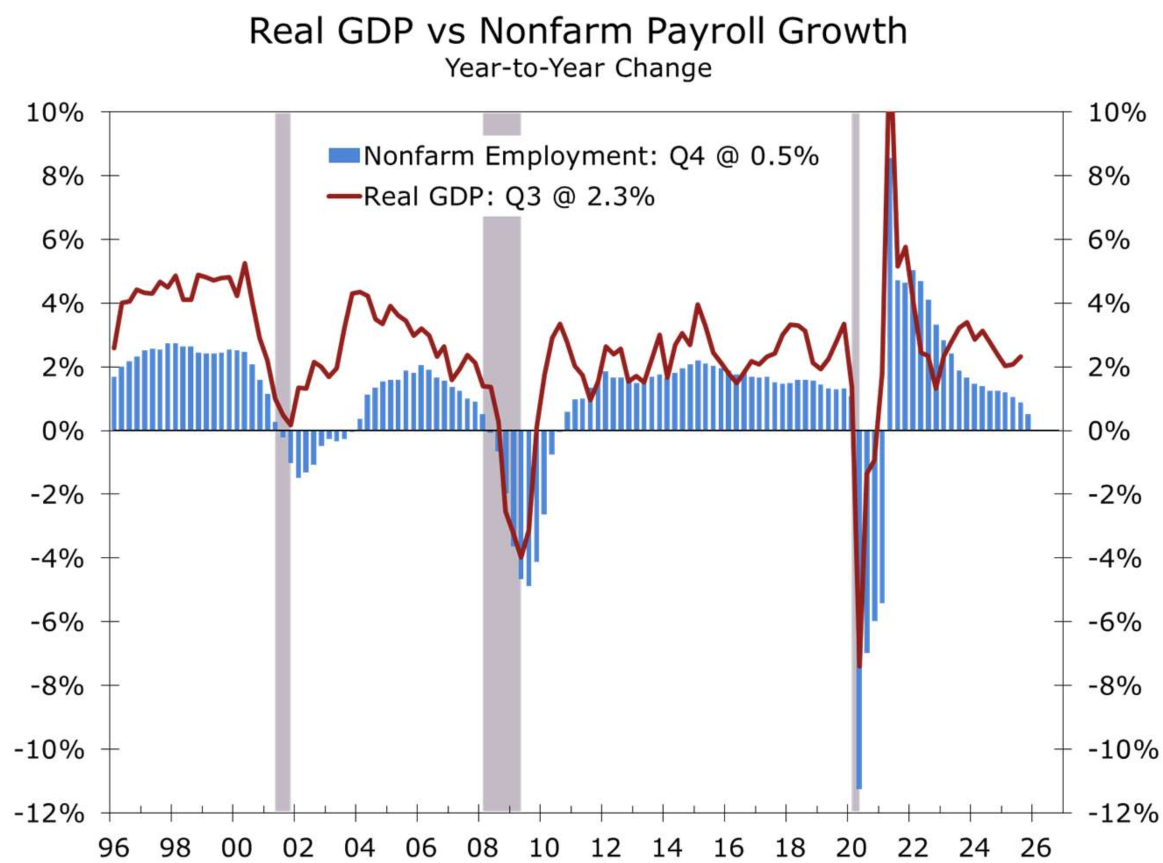
- Real GDP rose 4.3% annualized in Q3, boosted by defense spending and a 1.6 pp lift from net exports as imports fell after tariff front-loading.
- The consumer remains the economy's anchor, albeit unevenly
- Private fixed investment decelerated as structures and IP softened outside the data-center boom.



Overall Growth Has Proven Resilient, Even As Hiring Has Moderated

PIEDMONT CRESCENT CAPITAL

- Real GDP forecasts have been amped up for the next couple of quarters, even as job growth has slowed.
- 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.

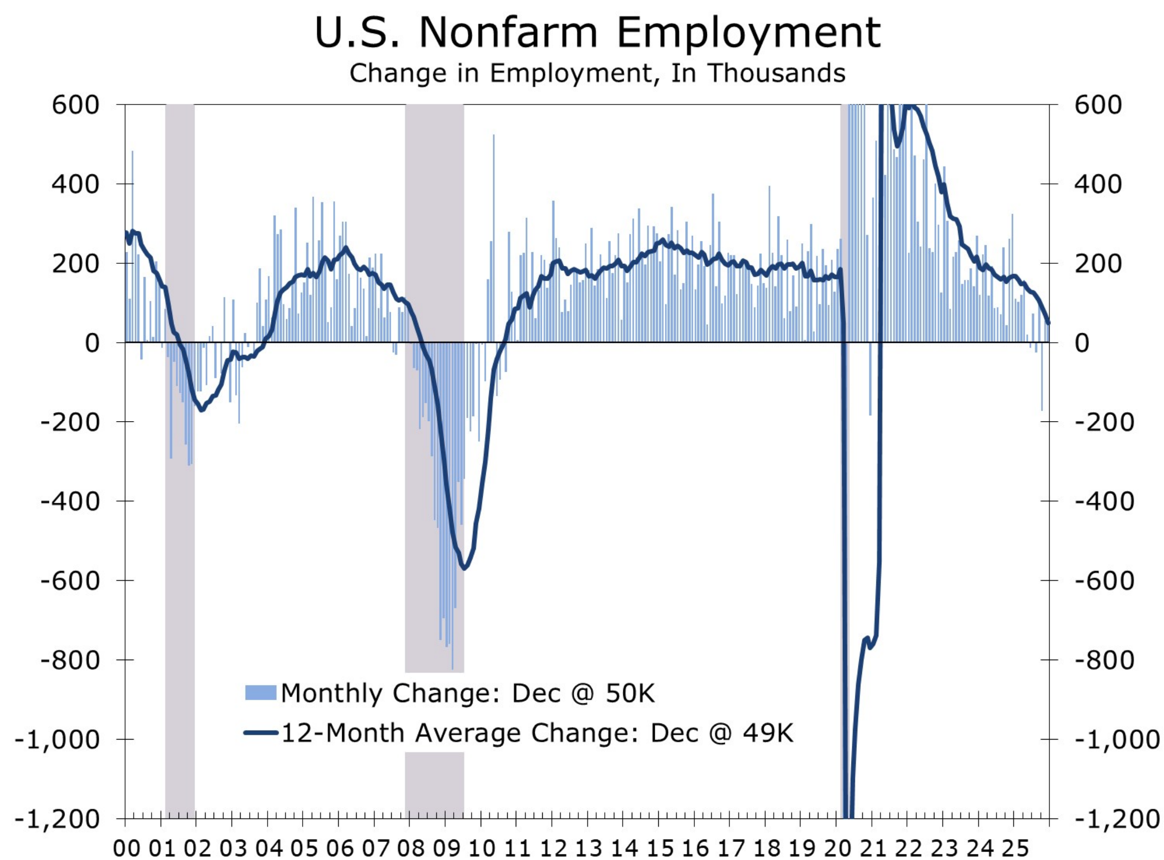


Source: Bureau of Economic Analysis

Reported Job Growth is Now Closer to the True Underlying Trend

PIEDMONT CRESCENT CAPITAL

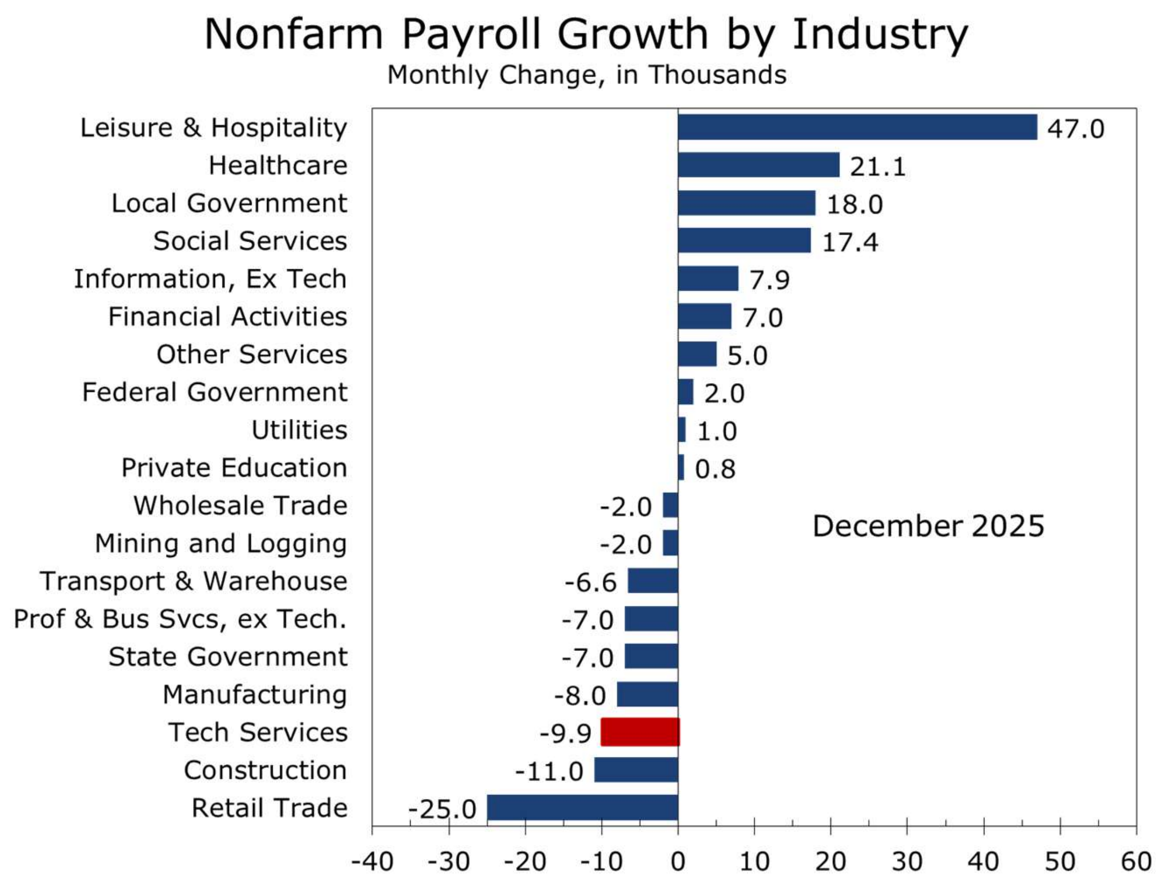
- Nonfarm payroll growth has recently slowed to a 0.2% pace and job growth is still likely overstated.
- Payrolls were grossly overstated since the Feb 2023, due to an 'odd' benchmark adjustment that raised reported '23 & early'24 job growth.
- The most recent QCEW data (Mar 2025) suggest nonfarm job 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

Job Growth Remains Concentrated in a Handful of Industries

- 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.

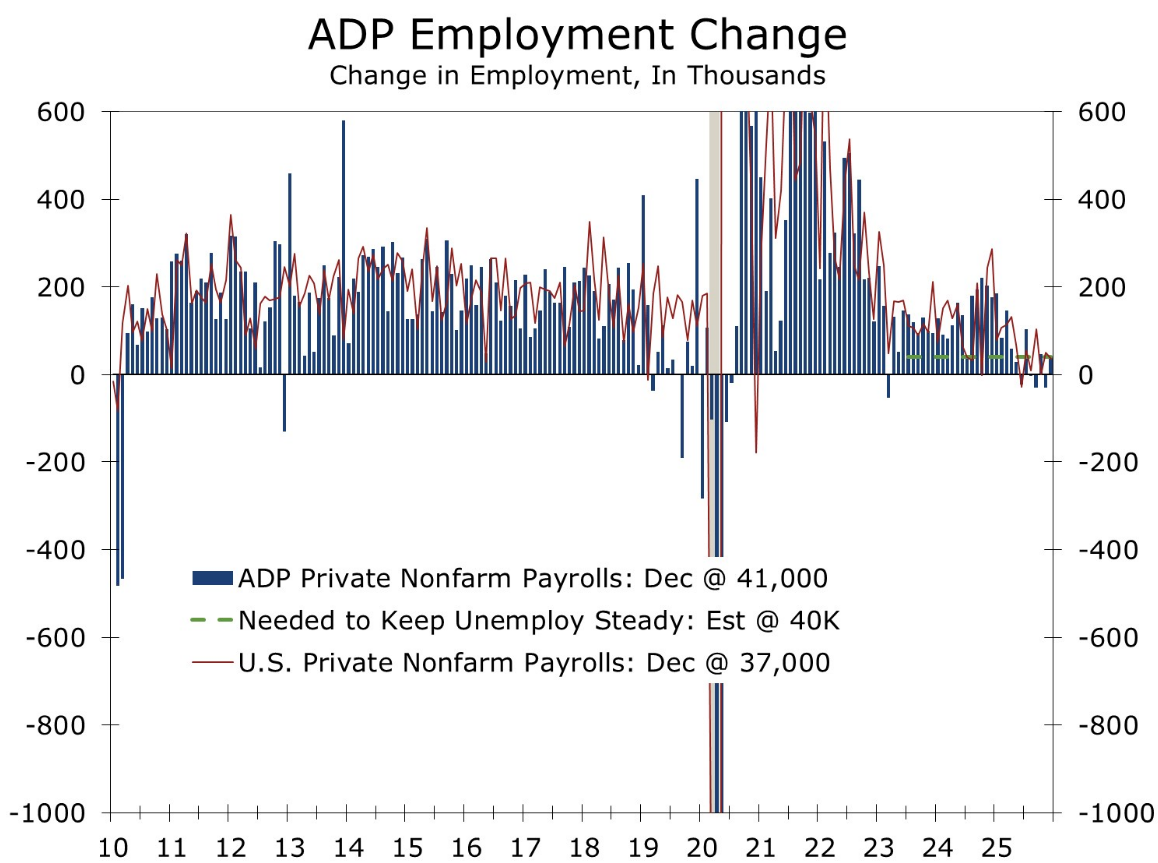


Source: Bureau of Labor Statistics

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.

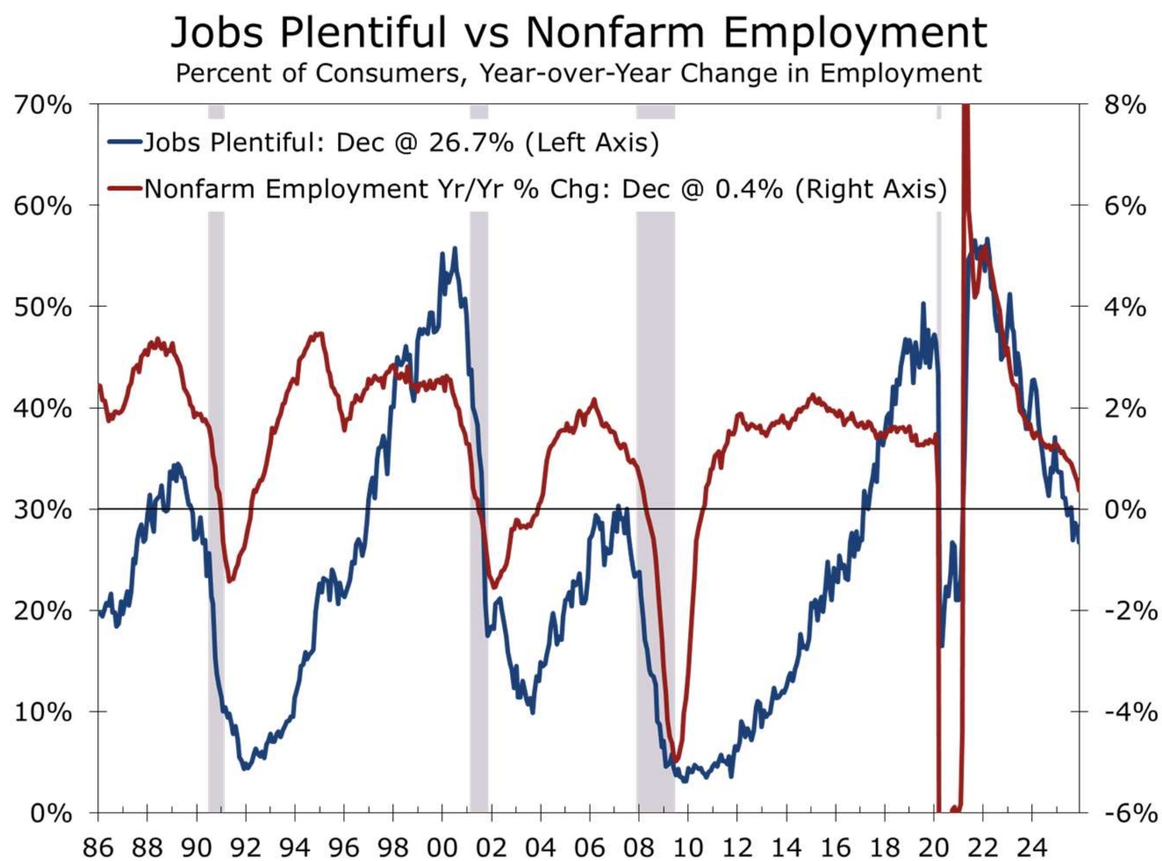


Source: Automated Data Processing (ADP)

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.

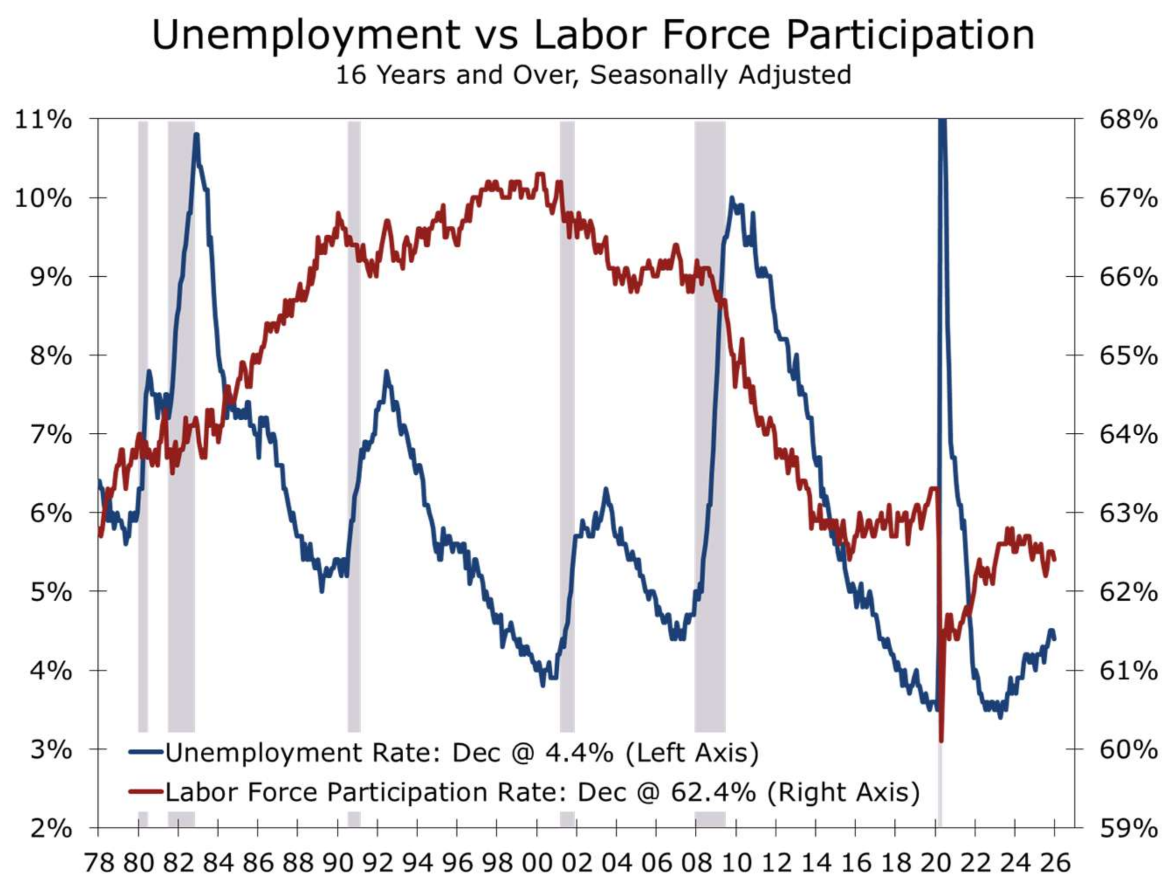


Source: The Conference Board and Bureau of Labor Statistics (BLS)

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.

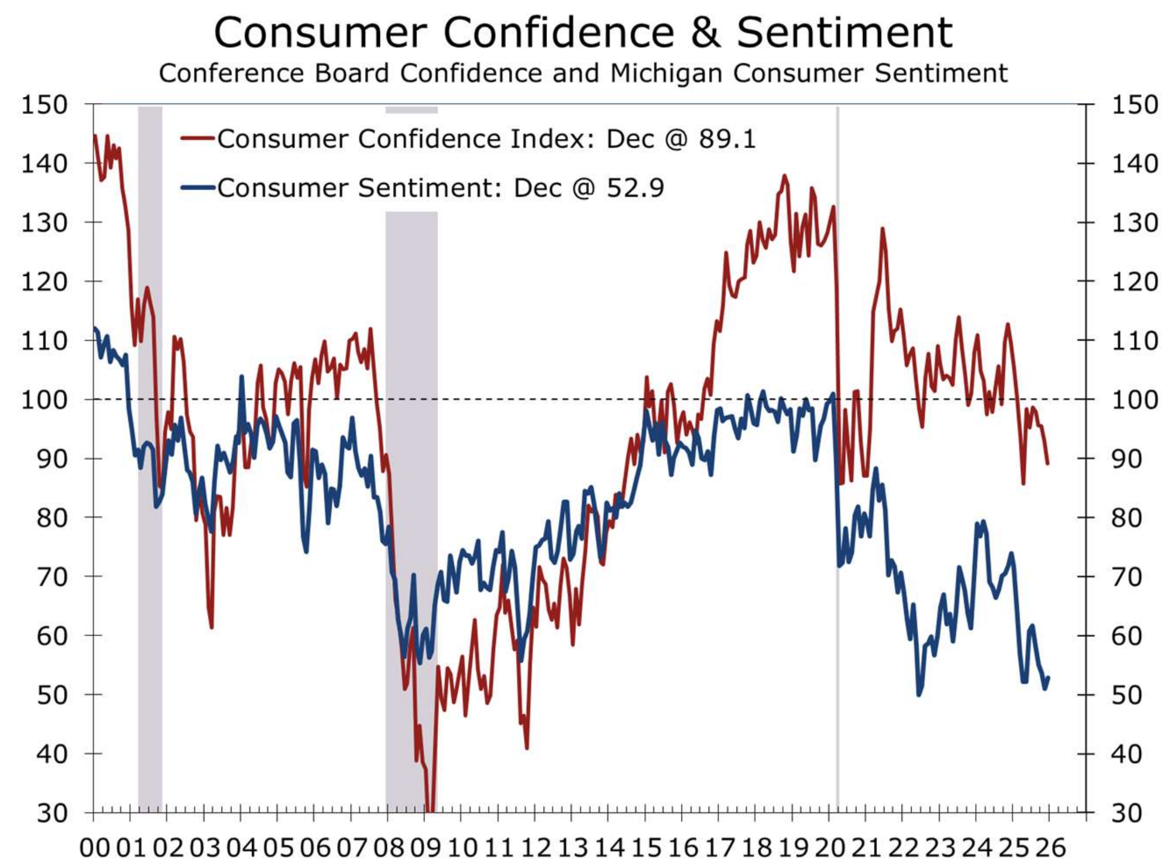


Source: Bureau of Labor Statistics

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

PIEDMONT CRESCENT CAPITAL

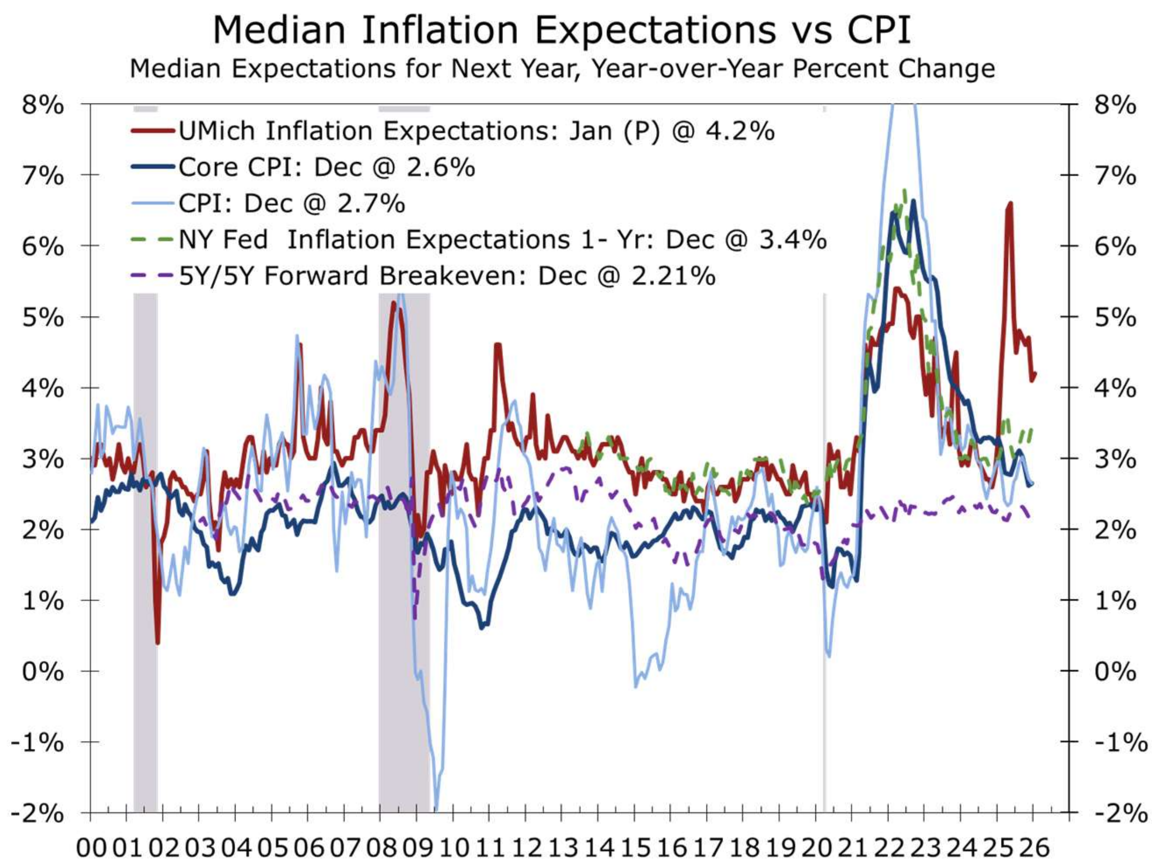
- Years of higher prices for housing, insurance, and groceries have weighed heavily on consumer sentiment.
- Uncertainty over tariffs and their impact on prices and hiring has further increased these concerns.
- Sentiment tumbled in early January, driving home the influence of political tensions, and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



Source: The Conference Board, University of Michigan and Refinitiv

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**.

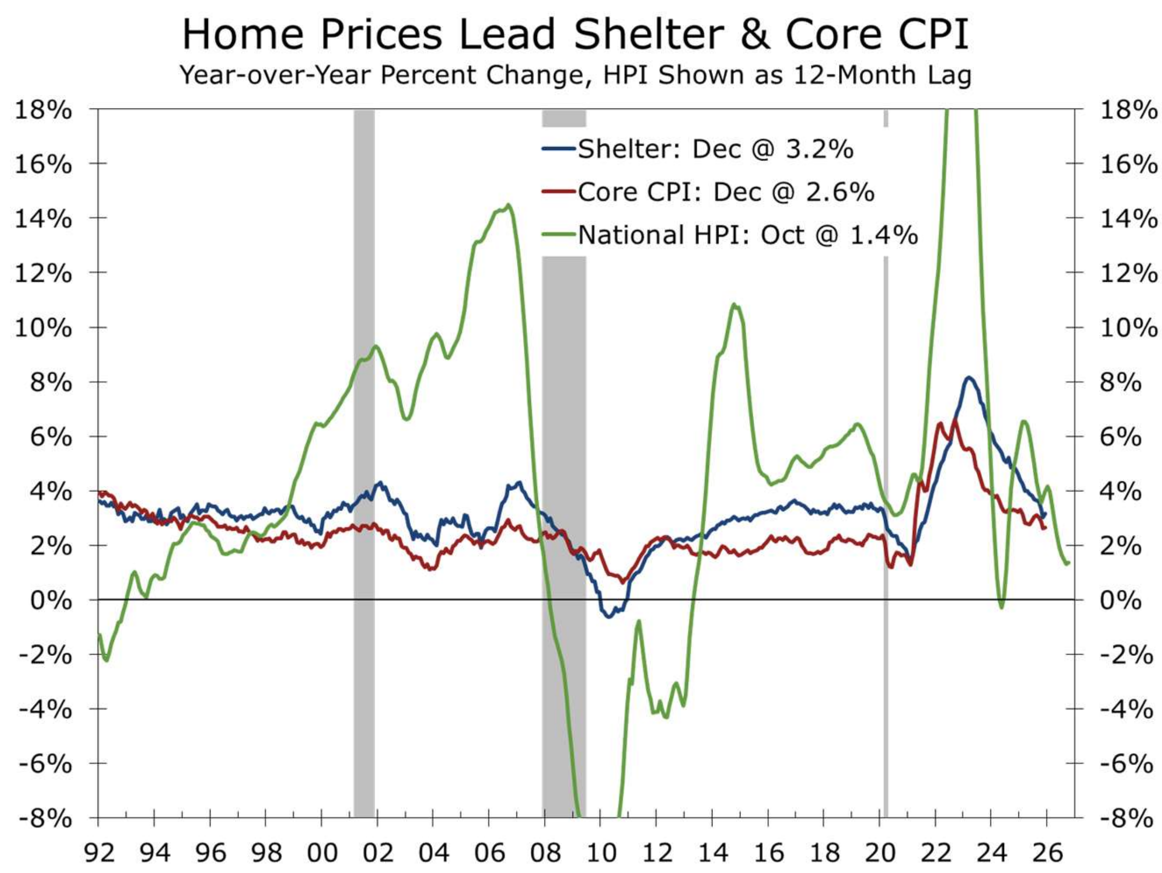


Source: University of Michigan and Bureau of Economic Analysis (BEA)

We Expect to See a Consumer Reset in 2026

PIEDMONT CRESCENT CAPITAL

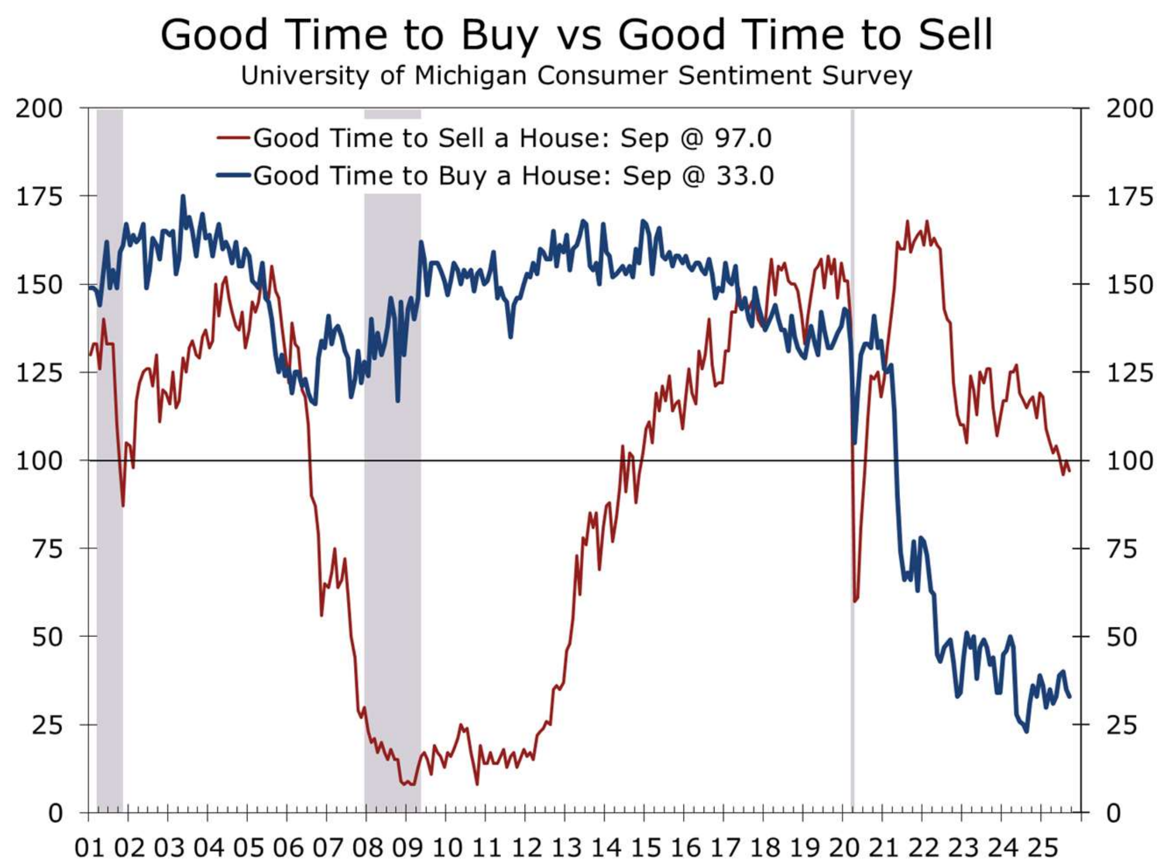
- Tariffs upended the downtrend in the core CPI this past year, but prices now appear to be cooling once again.
- Shelter accounts for 44% of the core CPI and looks set to decelerate along with home prices.
- Home prices have been essentially flat since December and are currently up just 1.3% year-to-year. 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

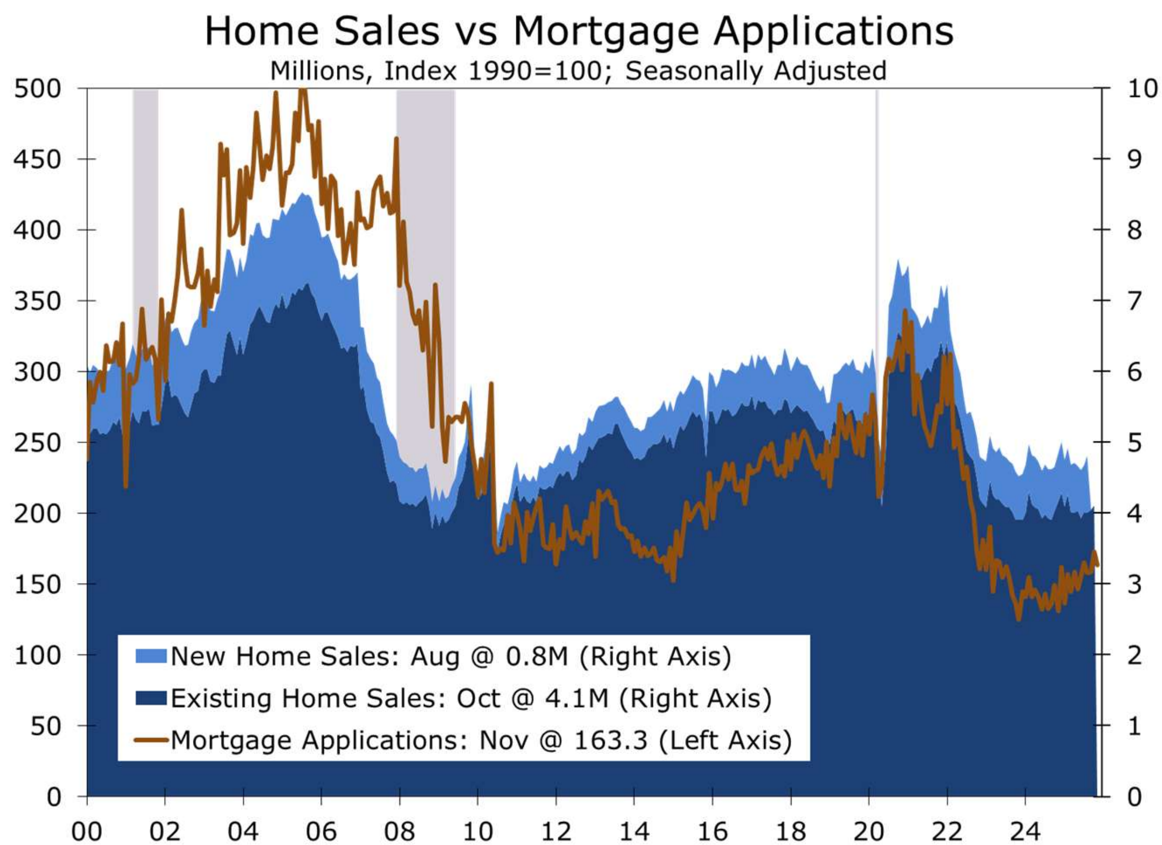
- The lack of affordable homes available for sale and 'high' interest rates have kept many potential buyers on the sidelines.
- Fixed mortgage rates below 6.35% are a key signal to bring buyers back, but rates around 6% would produce a more meaningful rebound.
- The hiring slowdown is also weighing on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



Source: University of Michigan

Lower Mortgage Rates Have Provided a Slight Boost to Home Sales

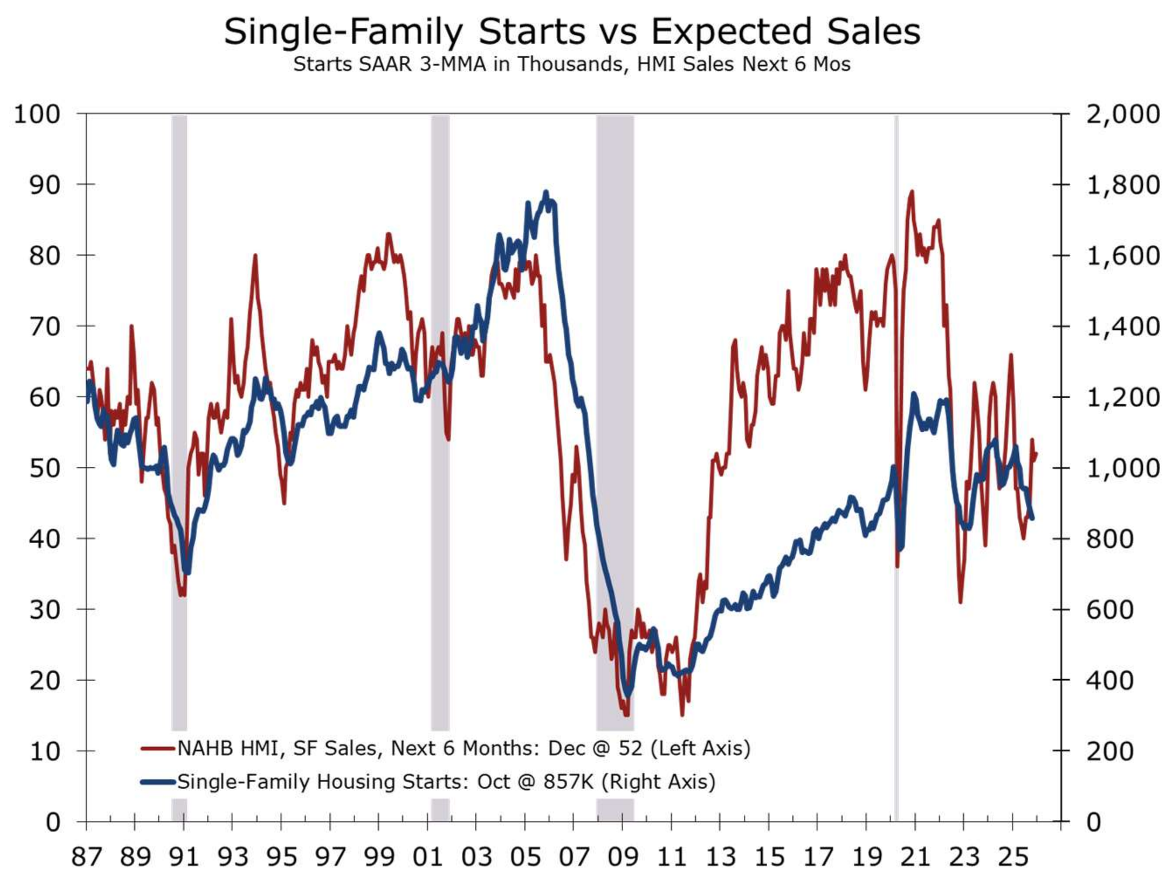
- Existing home sales have edged back to a 4.1-million-unit pace but remain at essentially recession levels.
- New home sales have gotten a bigger lift, thanks to generous builder incentives.
- Builders are relieved that price cuts have brought out buyers but still worried about mounting supply.



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

Housing Starts Slow Amid Rising Inventory and Softer Buyer Demand

- 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.
- Builders are aggressively discounting to trim the heaviest unsold inventories in more than a decade.
- The NAHB/Wells Fargo HMI rose to 39 in December while expected sales rose to 52.
- While price cuts have brought out buyers, buyer traffic remains low. High inventories are weighing on builder sentiment.

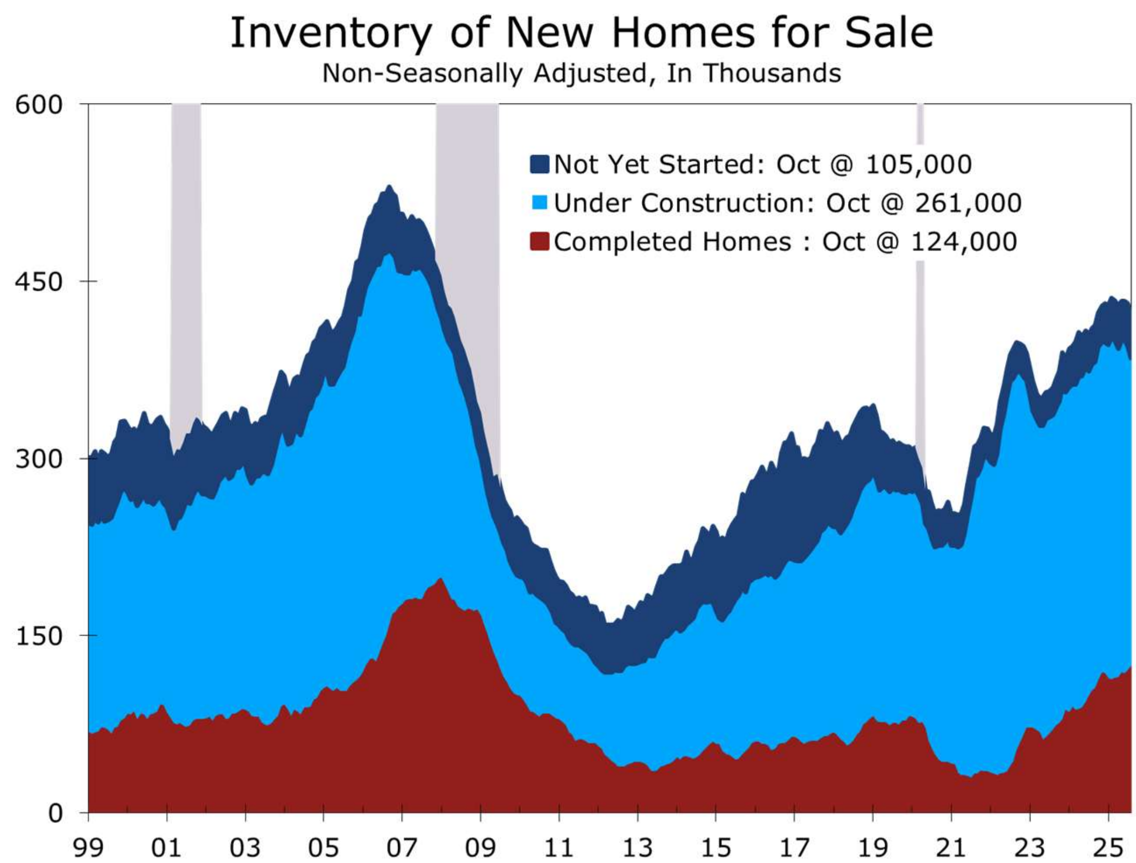


Source: Census Bureau and National Association of Home Builders (NAHB)

New Home Inventories Have Increased

PIEDMONT CRESCENT CAPITAL

- 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.
- 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.

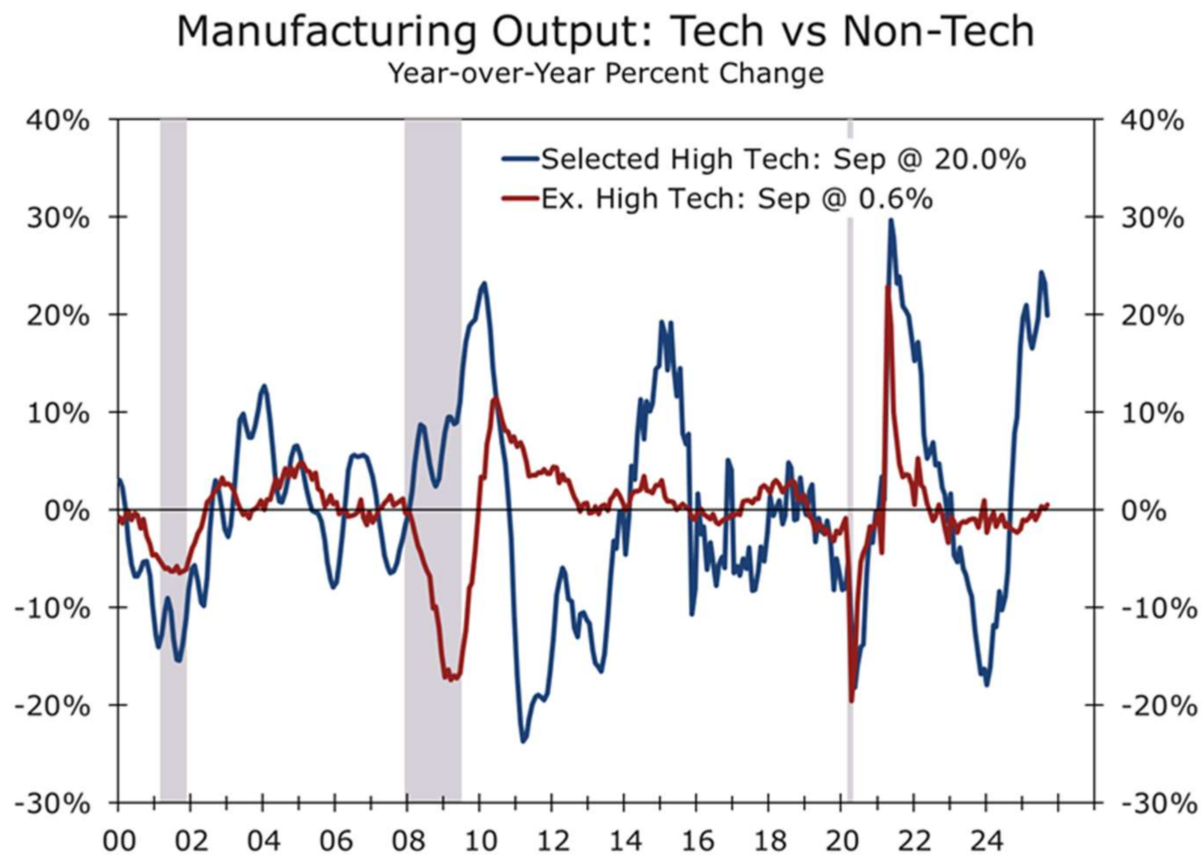


Source: The National Association of Realtors

Capital investment Remains the Driving Force Behind Growth

PIEDMONT CRESCENT CAPITAL

- 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.

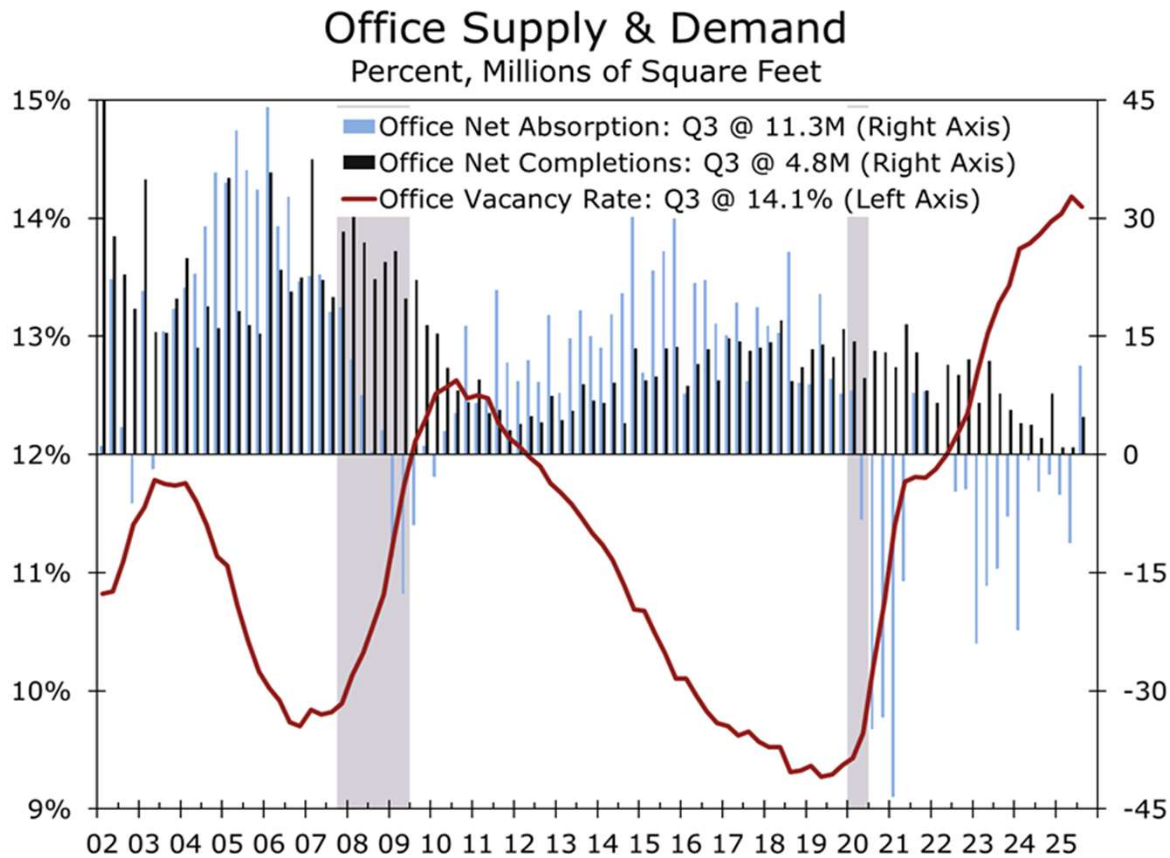


Source: The Federal Reserve Board

The Office Market Appears to Have Bottomed Out

PIEDMONT CRESCENT CAPITAL

- Office vacancy rates slipped slightly in Q3, as leasing picked up amidst a dearth of new supply.
- The improvement follows a long dry spell for the sector, with office users reducing their footprint.
- We expect modest increases in demand this year and look for new construction to bottom out by mid 2026.

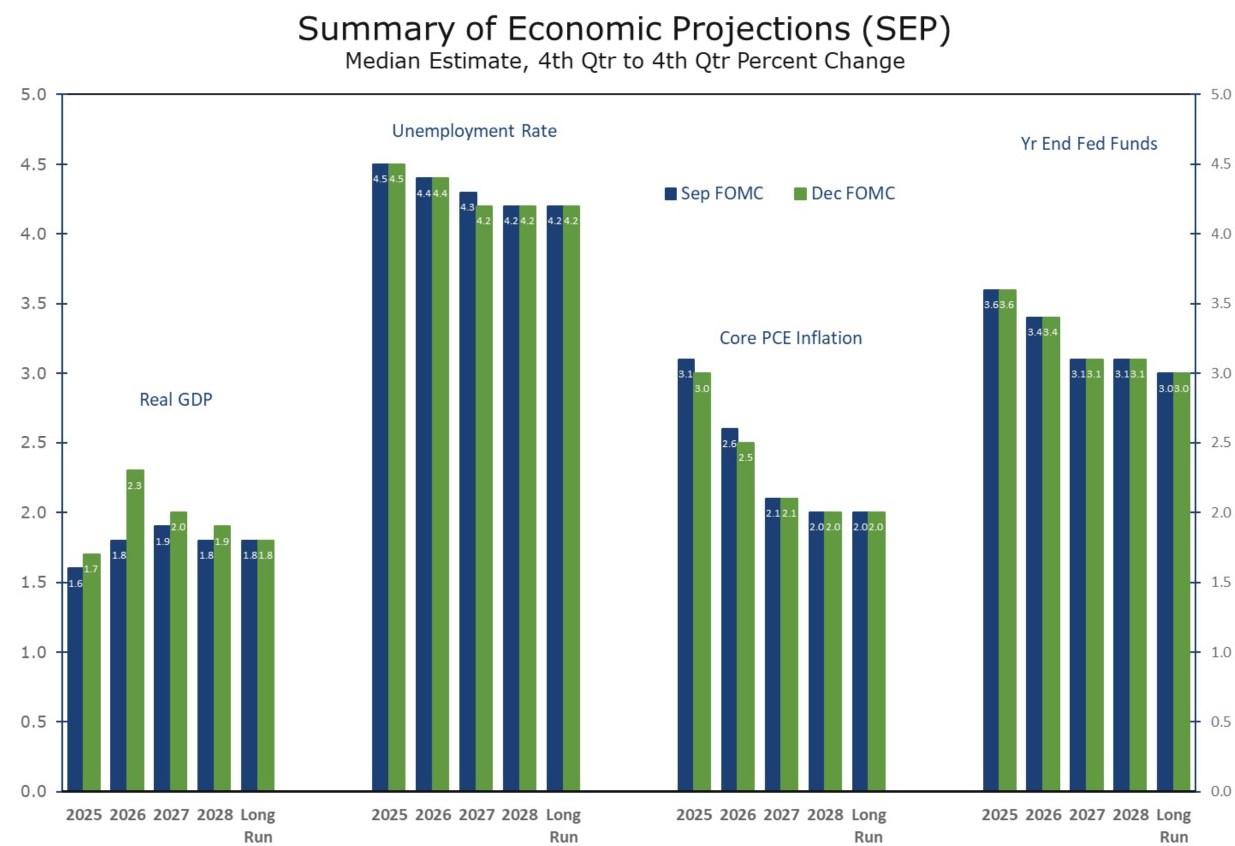


Source: CoStar

The Latest SEP is More Upbeat on 2026 GDP Growth

PIEDMONT CRESCENT CAPITAL

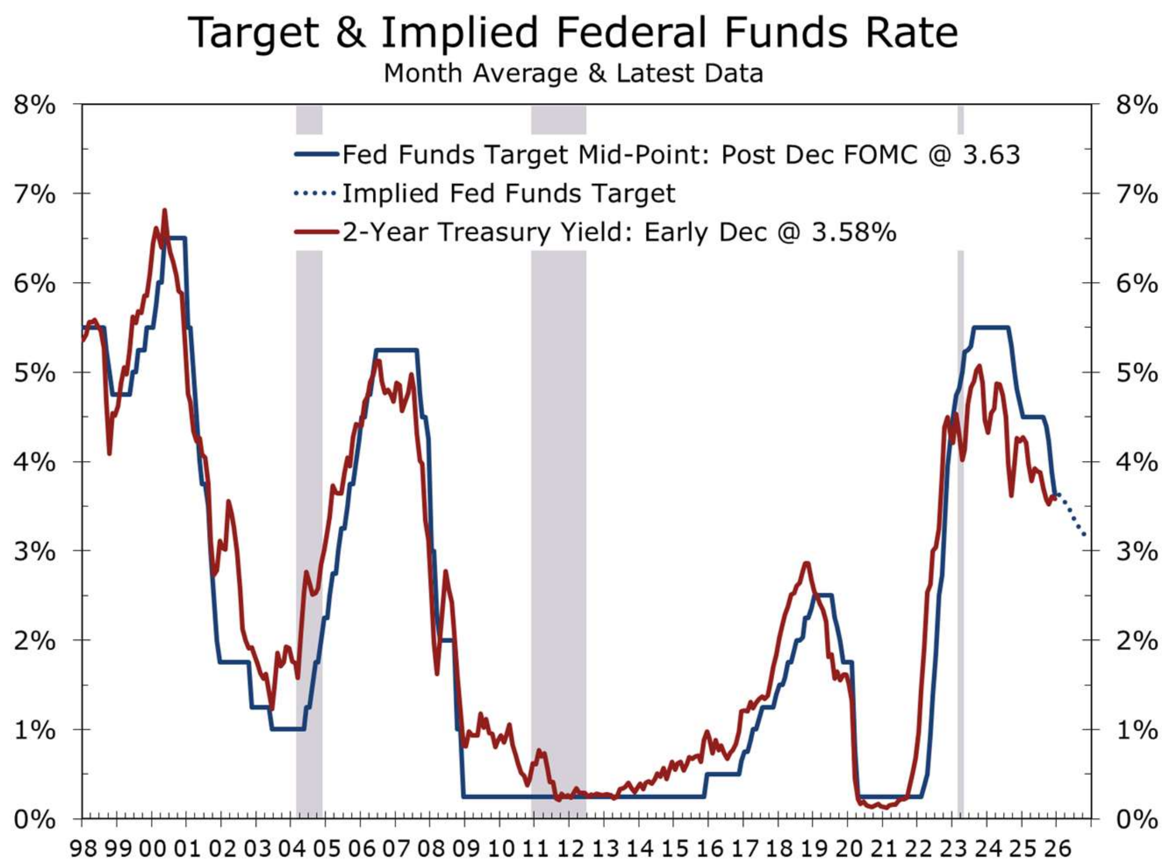
- The biggest surprise in the December SEP update was the large upward revision to 2026 GDP growth.
- The surge in capital investment and AI are expected to boost productivity.
- Tax cuts are also expected to boost growth.
- Expectations for the unemployment rate were unchanged, and inflation expectations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



Source: Federal Reserve Board

The Fed is Likely to Slow its Pace of Rate Cuts

- 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.

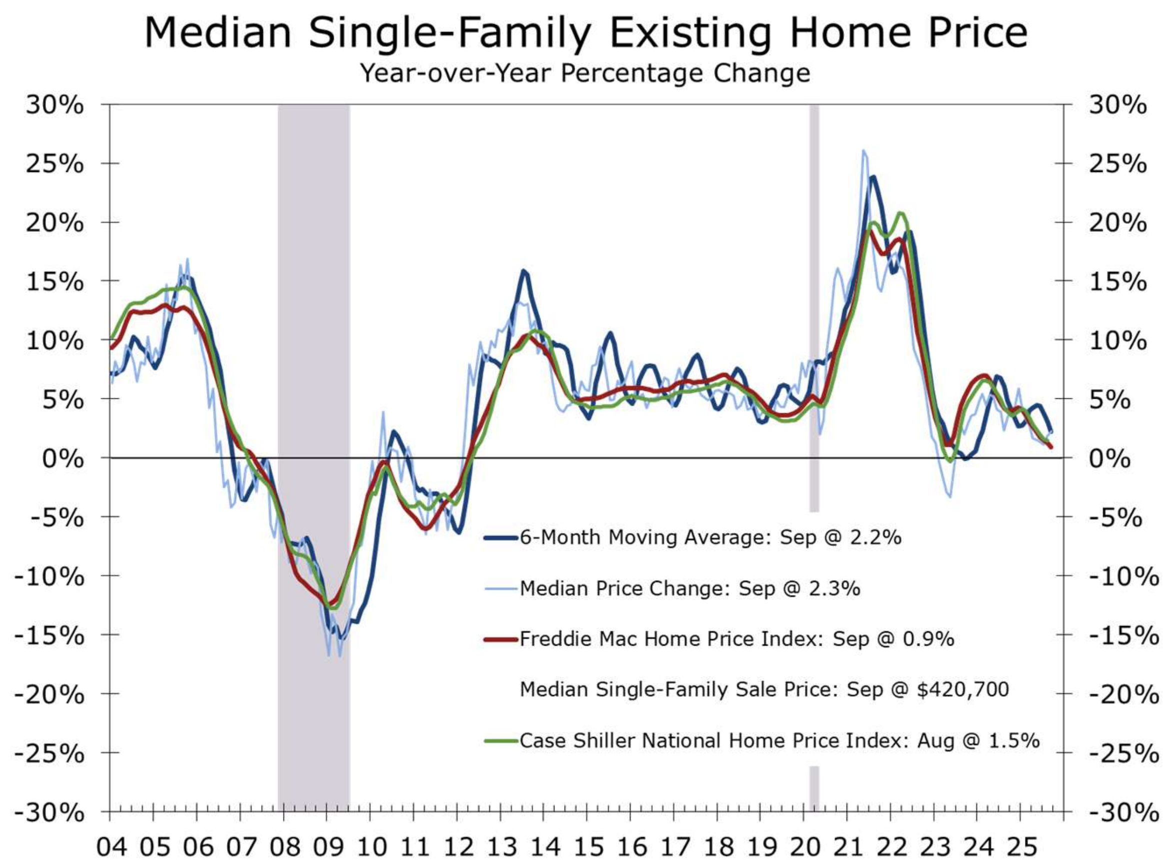


Source: Federal Reserve Board and CME Group

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.

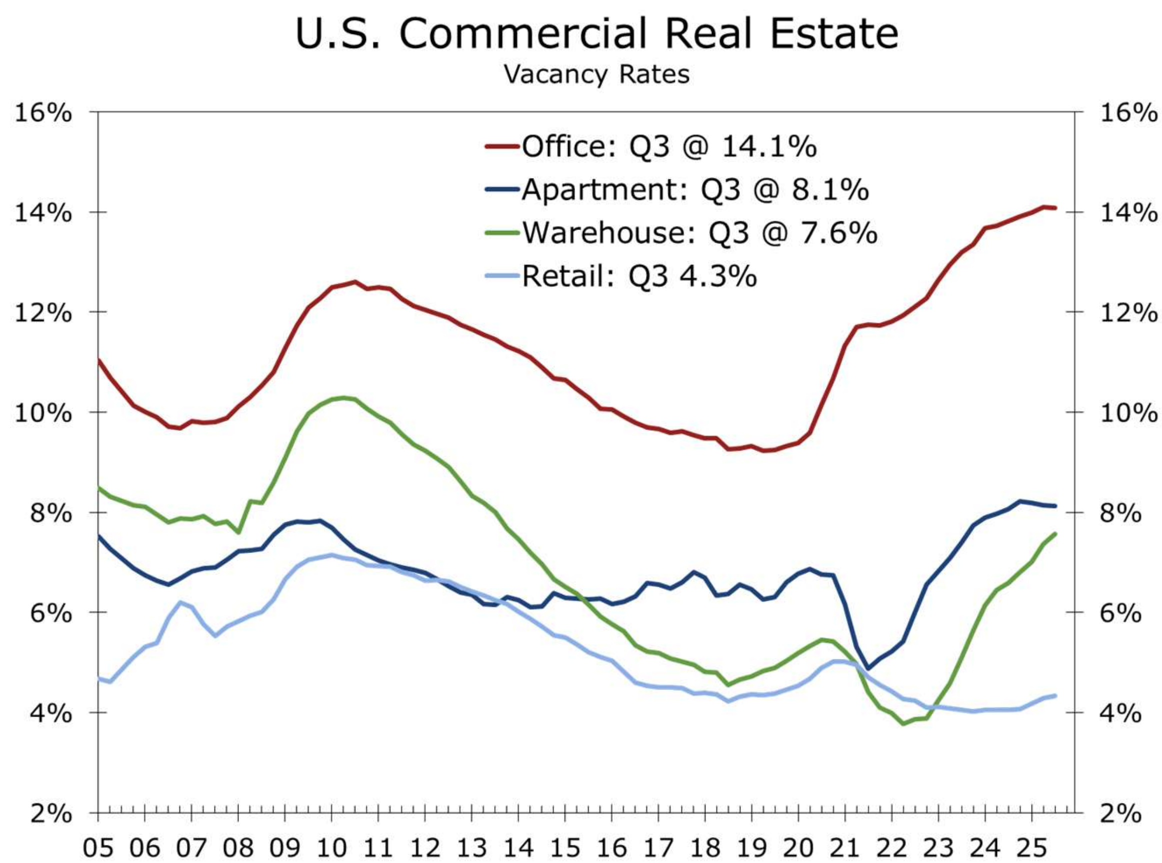


Source: S&P Global

Office and Apartment Vacancy Rates Are Showing Signs of Stabilizing

PIEDMONT CRESCENT CAPITAL

- The U.S. office market remains challenged: with vacancy around 14% and negative absorption despite improving return-to-office trends and limited new deliveries.
- Apartment remain the standout—with stronger than expected demand.
- Industrial real estate is experiencing robust demand as growth slows from peak levels amidst a torrent of new supply.
- With little new supply, the retail market continues to see low vacancy, with strong demand for specialty retail and experiential space and even a modest recovery in enclosed malls.

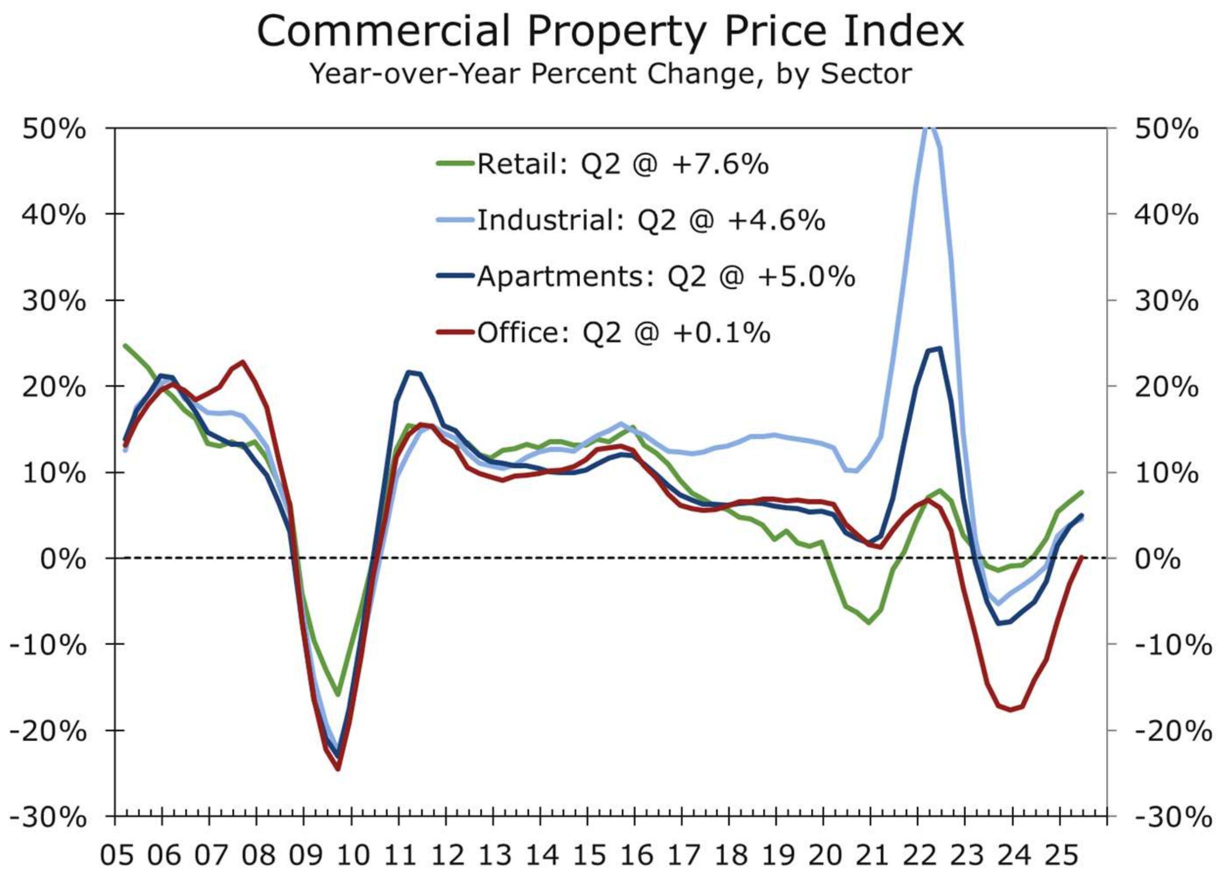


Source: CoStar

Q2 Signaled a Fragile Rebound, with Income Gains Across All Sectors

PIEDMONT CRESCENT CAPITAL

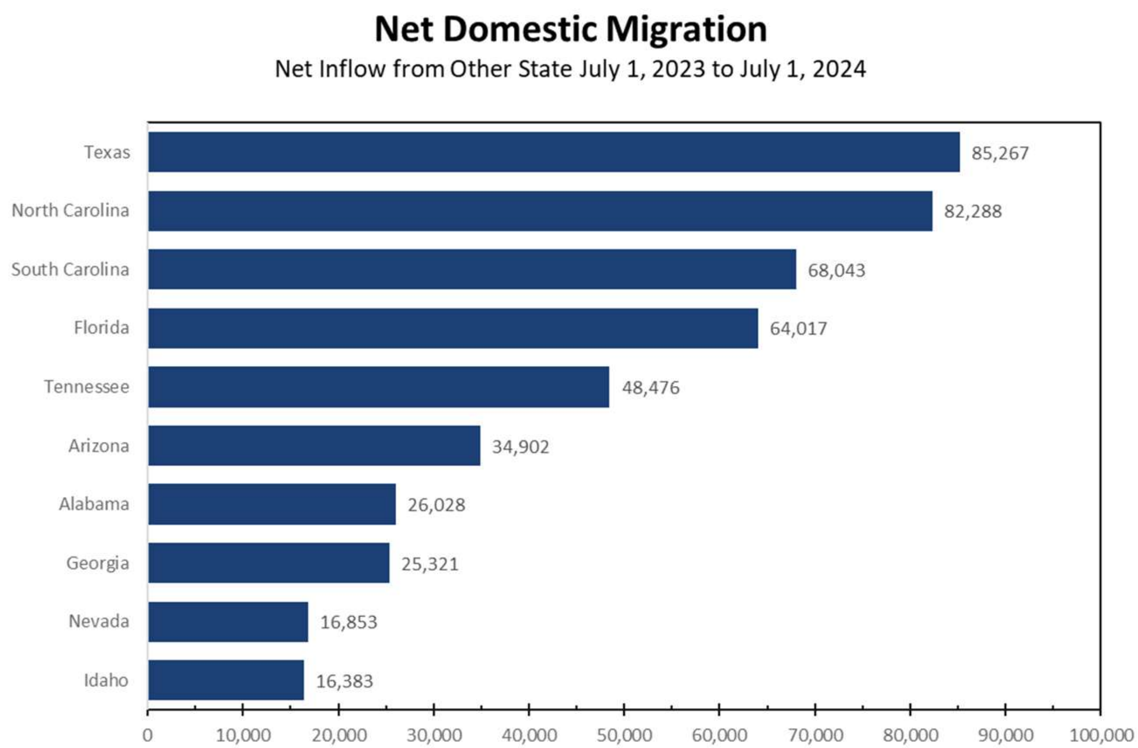
- Total return for Q2 2025 was +1.23%, marking the fourth consecutive quarter of positive returns.
- Income accounted for nearly the entire return, +1.19%, while capital appreciation added a modest +0.04%.
- All property sectors posted positive returns in Q2: seniors housing led with +2.08%, followed by retail (+1.94%); self-storage (+1.62%); apartments (+1.38%); office (+0.78%); and hotel (+0.04%).



Source: NCREIF

The Affordability Migration Shifted This Past Year

- The affordability and lifestyle migration from the Northeast, West Coast and greater Chicago slowed this past year, as offices reopened.
- Texas still receives the bulk of net migration from other states.
- The Carolinas have seen an influx of Floridians pushed out by higher costs. The juice was not worth the squeeze.

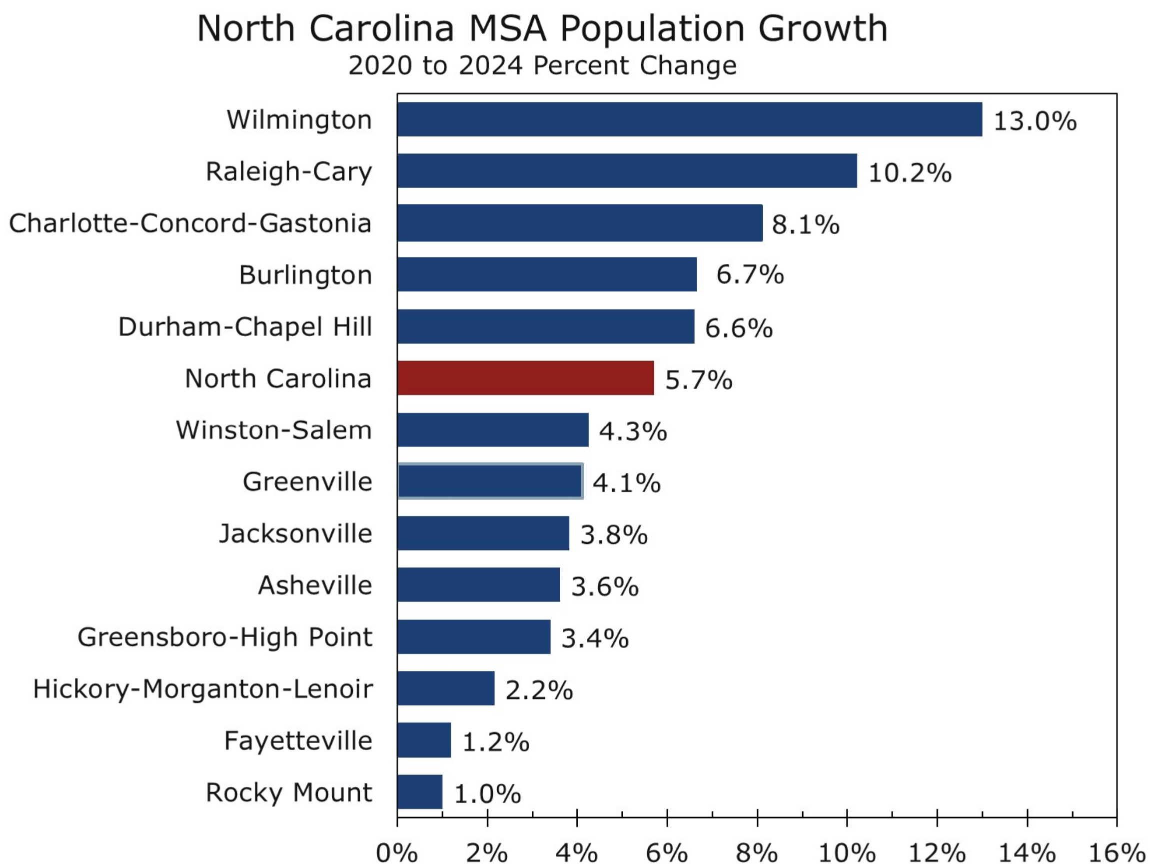


Source: Census Bureau

Population Growth Has Picked Up Across the Piedmont

PIEDMONT CRESCENT CAPITAL

- Raleigh and Charlotte rank among the nation's fastest growing major metro areas.
- Population growth is large driven by a mix of prime working-age adults nearer to the major cities, and retirees in the outer suburbs.
- Affordability concerns and Hurricane Helene have slowed growth in Asheville.

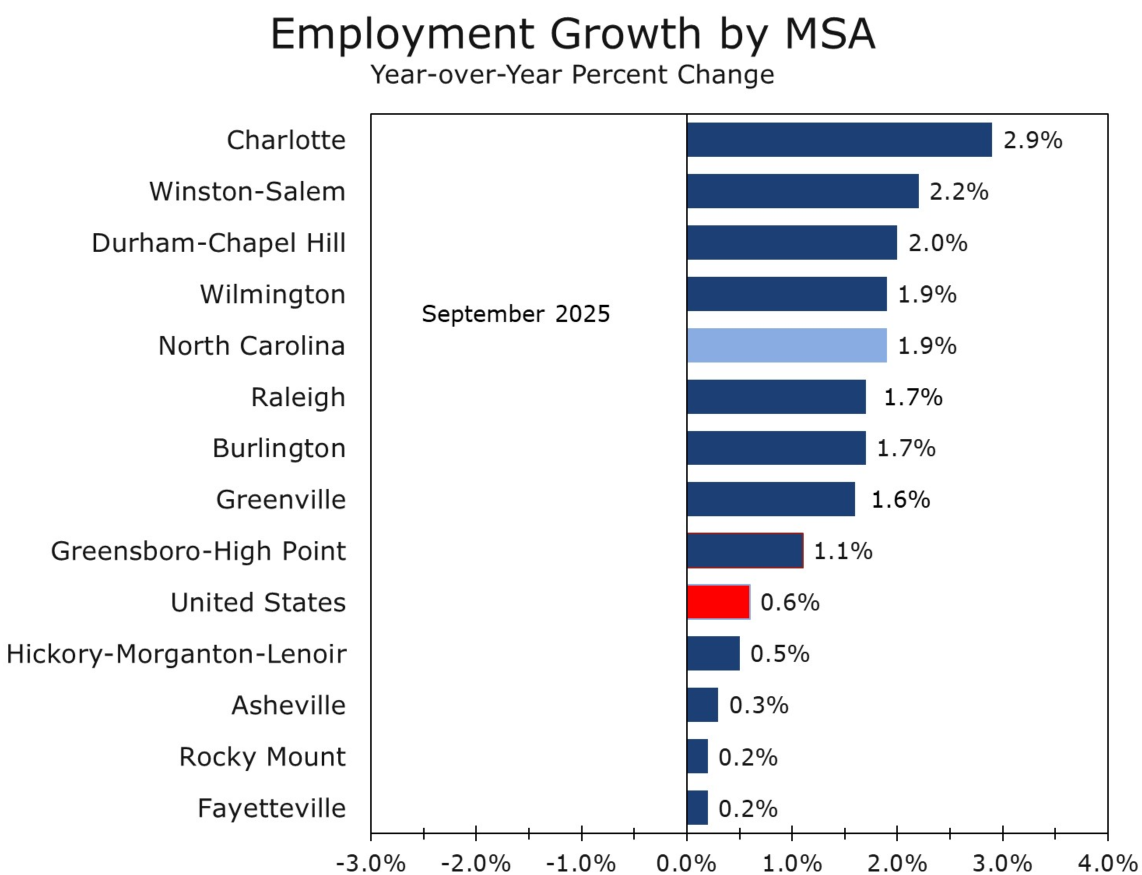


Source: Census Bureau

Charlotte is the One of the Nation's Fastest Growing Major MSAs

PIEDMONT CRESCENT CAPITAL

- Charlotte's economy was firing on all cylinders last year, adding nearly 40,000 jobs.
- Life sciences and health care are a key driver for the state.
- Durham and Winston-Salem are benefitting from the same mix.
- Greensboro is riding a wave of industrial development, with hiring finally kicking in as plants open.



Source: Bureau of Labor Statistics (BLS) *Metropolitan Area Employment and Unemployment – June 2025*

Economic Outlook

PIEDMONT CRESCENT CAPITAL

US Economic and Financial Outlook

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

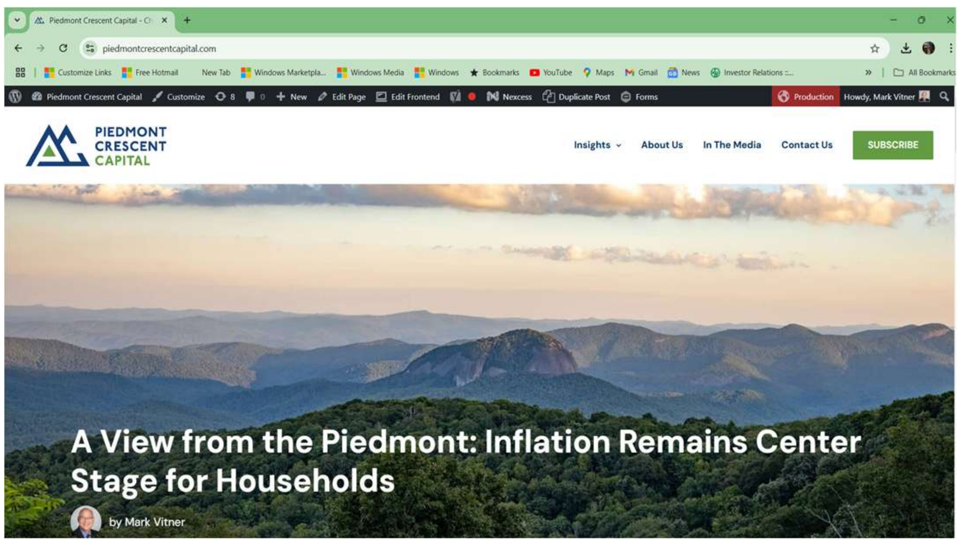
	2024				2025				2026				2023	2024	2025	2026	2027
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Actual	Actual	Forecast	Forecast	Forecast
Output																	
Real GDP	0.8	3.6	3.3	1.9	(0.6)	3.8	4.3	2.9	2.1	2.9	3.0	3.0	2.9	**2.8**	2.1	3.1	3.0
Year-to-Year Change (4th Qtr/4th Qtr for annual data)	*2.9*	*3.1*	*2.8*	***2.4***	*2.0*	*2.1*	***2.3***	*2.6*	*3.3*	*3.1*	*2.7*	*2.8*	*3.4*	***2.4***	*2.3*	*2.8*	*3.0*
Final Sales to Domestic Private Purchasers	2.0	3.4	3.5	2.7	1.9	2.9	3.0	2.6	2.6	3.2	3.3	3.2	2.5	**3.0**	2.7	2.8	3.0
Consumer Spending	1.7	3.9	4.0	3.9	0.6	2.5	3.5	2.5	2.0	2.4	2.4	2.5	2.5	**2.8**	2.7	2.6	2.4
Nonresidential Fixed Investment	1.5	2.5	3.5	(3.7)	9.5	7.3	2.8	2.8	3.8	4.7	5.0	4.5	4.9	**2.9**	4.2	3.5	4.3
Residentional Investment	8.2	(2.0)	(4.8)	4.3	(1.0)	(5.1)	(5.2)	(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	1.8	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	670	732	730	710	740	760	770	665	**685**	697	745	790
Existing Home Sales	4,143	4,023	3,937	4,163	4,127	3,990	4,020	4,070	4,100	4,150	4,200	4,240	4,090	**4,060**	4,052	4,175	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	2.8	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	2.8	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 9, 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