



A Time of Transition

EXPLORING UNDERNEATH THE SURFACE

CONFIDENTIAL

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Tensions building underneath the economy and society

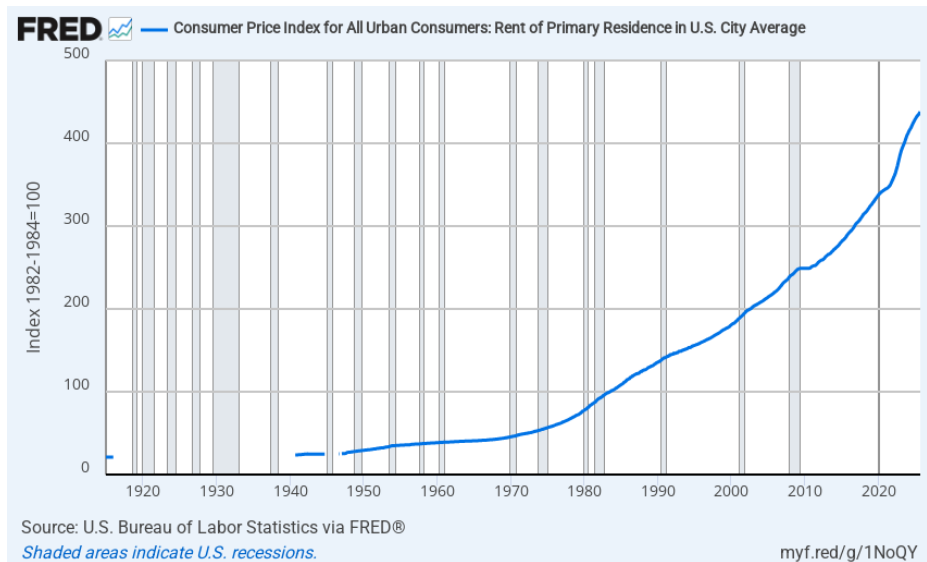
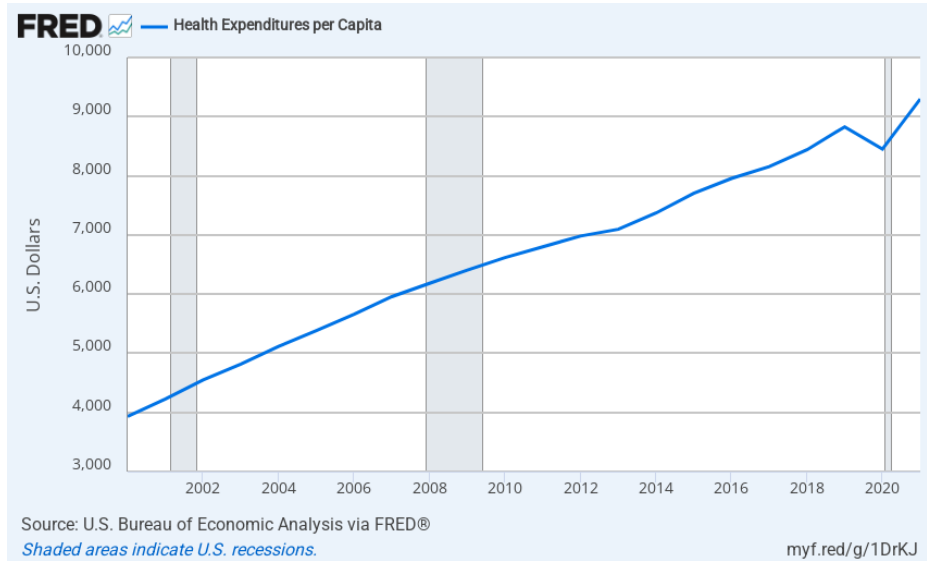
Signs of diverging trends are surfacing

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Consumers under stress



Further Evidence of a K shaped Economy

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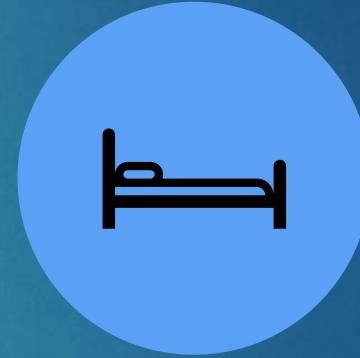
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HOTEL REITS REPORTED THEIR EARNINGS OVER THE PAST COUPLE OF WEEKS AND MOST SAW REVENUE PER AVAILABLE ROOM, OR REVPAR, DECLINE FROM A YEAR AGO.



THE STORY THEIR FINANCIAL RESULTS TELL IS THAT ALL HOTELS AREN'T PERFORMING THE SAME. RESORT HOTELS APPEAR TO BE DOING JUST FINE, WHICH IS WHY DIAMONDROCK HOSPITALITY CO., BRAEMAR HOTELS & RESORTS, AND SUNSTONE HOTEL INVESTORS EACH REPORTED INCREASES IN THEIR SAME-PROPERTY REVPARS



OUR CONCLUSION: LUXURY AND UPSCALE HOTELS ARE HOLDING THEIR OWN, GENERALLY POSTING REVPAR GAINS, BUT ECONOMY AND MID-SCALE BRANDED PROPERTIES ARE BEING SQUEEZED.

Source: Trepp

The economy supported by the three A'S

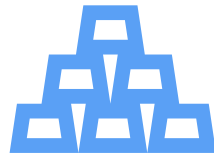
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Affluent Consumer:

Top 20% drive most discretionary consumption



AI Trade:

Stock market bifurcated – The AI has driven momentum and market liquidity



Asset Appreciation:

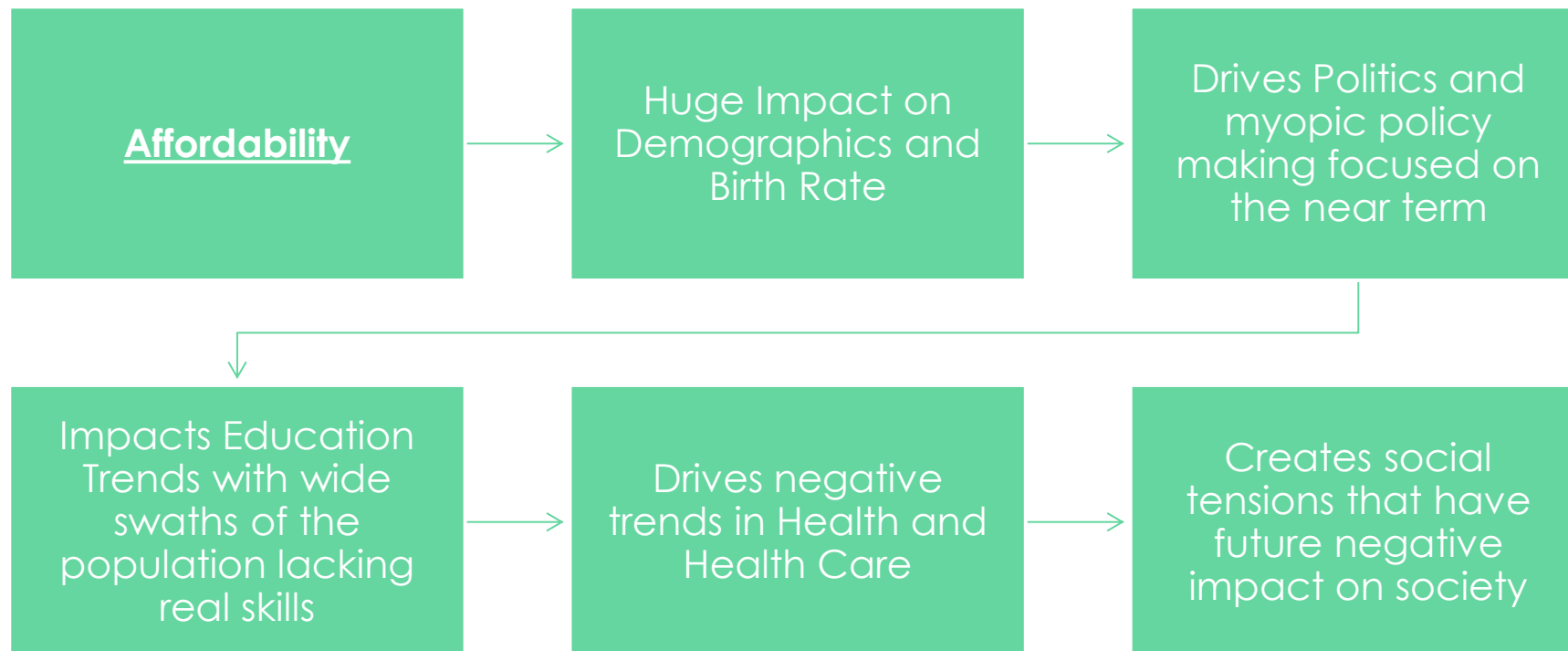
Equity Market
Housing Market

Source: Bloomberg Discussions and Panels

Achille's Heel for the Economy and Society

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The nature of Private Employment is changing

- ▶ Private employers added 42,000 jobs in October
- ▶ Last month delivered a rebound from two months of weak hiring, but the bounce wasn't broad-based. Education and health care, and trade, transportation, and utilities led the growth. For the third straight month, employers shed jobs in professional business services, information, and leisure and hospitality.

Source: BLS, Bloomberg, Bloomberg Panelists, ADP



Change by Establishment Size

Small



Mid-sized



Large



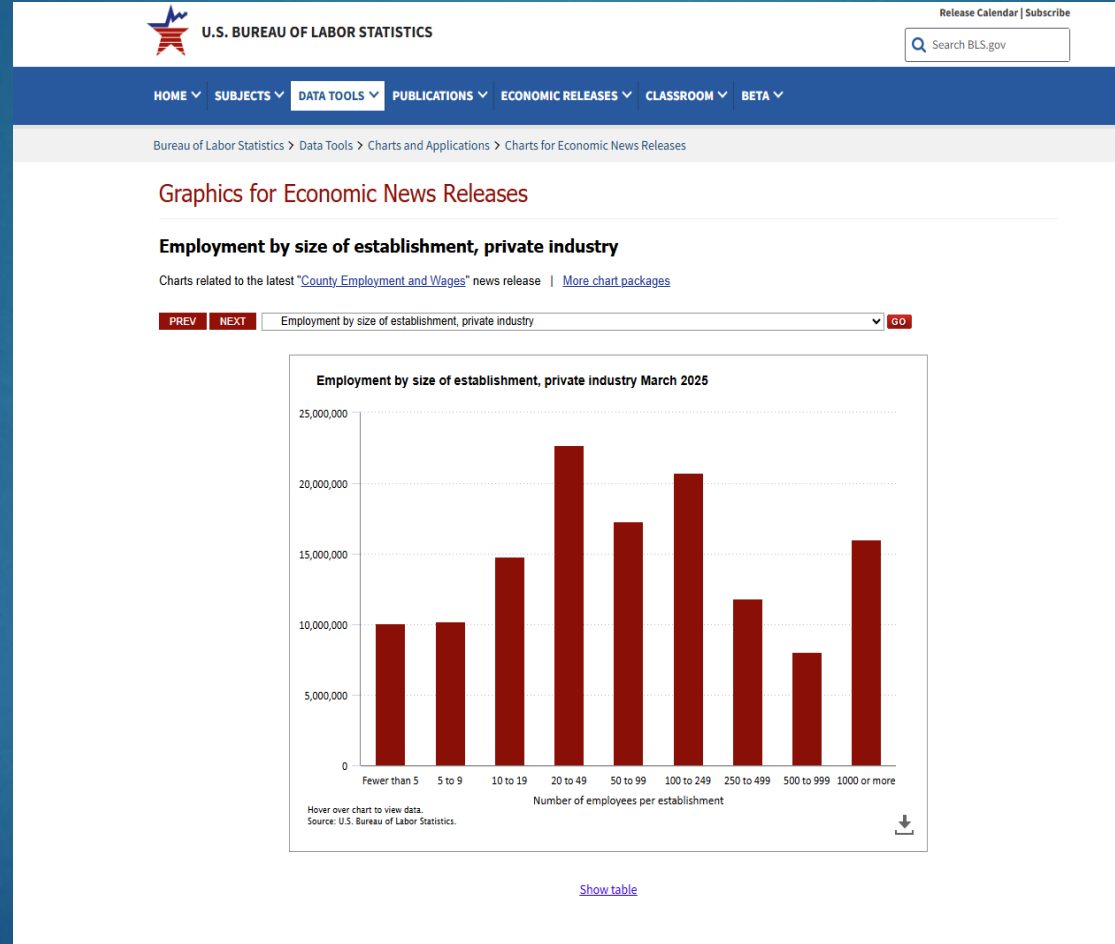
Sources: ADP, BLS (Bureau of Labor Statistics), SBA (Small Business Administration)

Employment has
been created
mainly by larger
companies
Entrepreneurs
crushed by the cost
of technology and
scaling

Small companies with less than 15 employees, critical for the economy

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Hiring Slows in the last half of October

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Bloomberg) -- US companies shed 11,250 jobs per week on average in the four weeks ended Oct. 25, according to data released Tuesday by ADP Research.

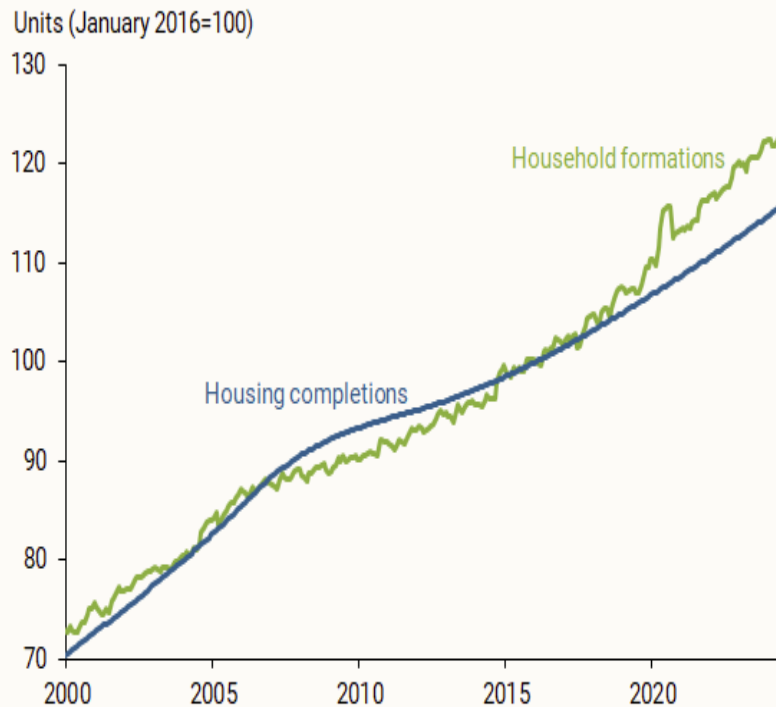
The figures suggest the labor market slowed in the second half of October, compared with earlier in the month. ADP's most recent monthly report, released last week, showed private-sector payrolls increased 42,000 in October after declining in the prior two months.

Source: Bloomberg

What is behind shelter inflation?

Figure 1

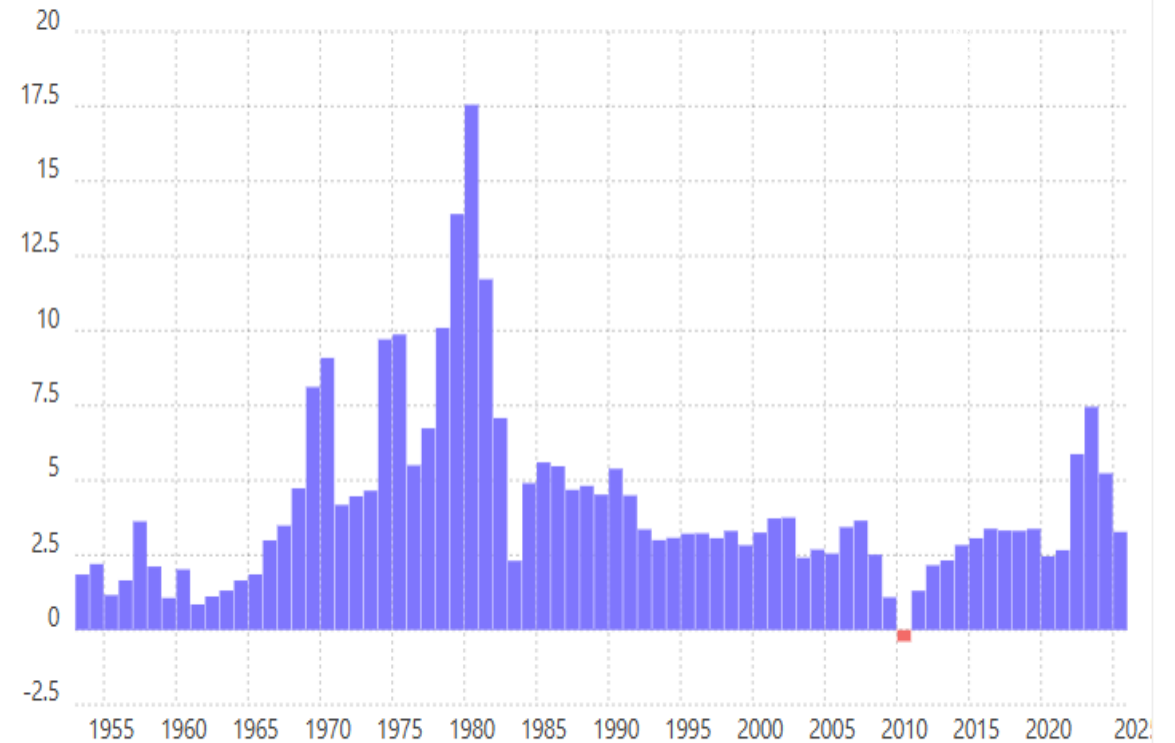
Housing completions relative to household formations



Source: Census Bureau

Price Inflation for Shelter since 1952

Consumer Price Index, U.S. Bureau of Labor Statistics



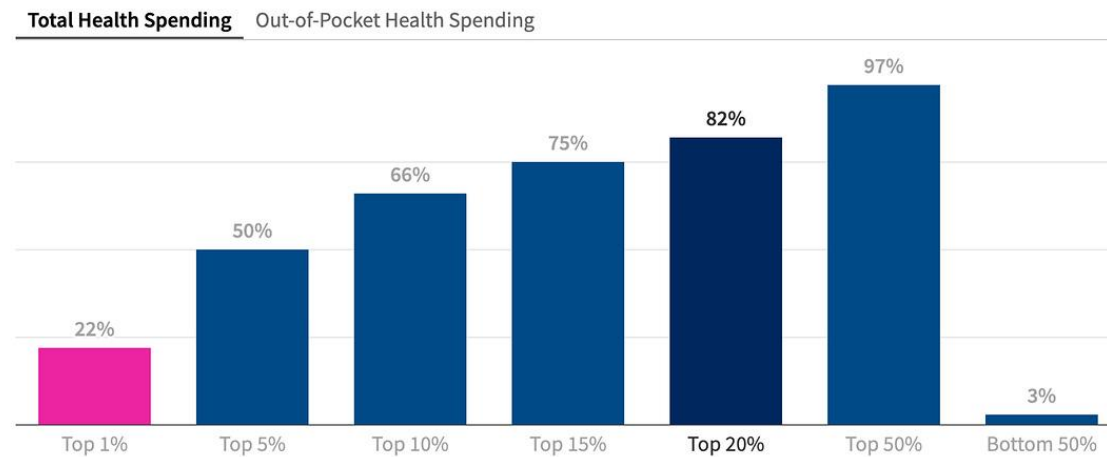
Years with the largest changes in pricing: 1980 (17.55%), 1979 (13.90%), and 1981 (11.72%).

In any given year, most people face low or modest health care costs, but a small number of people face huge bills. Here's the distribution of health spending in 2022:

A Small Share of the Population Incurs Most of Health Spending

Figure 9

Share of Total and Out-of-Pocket Health Spending, by Percentile, 2022

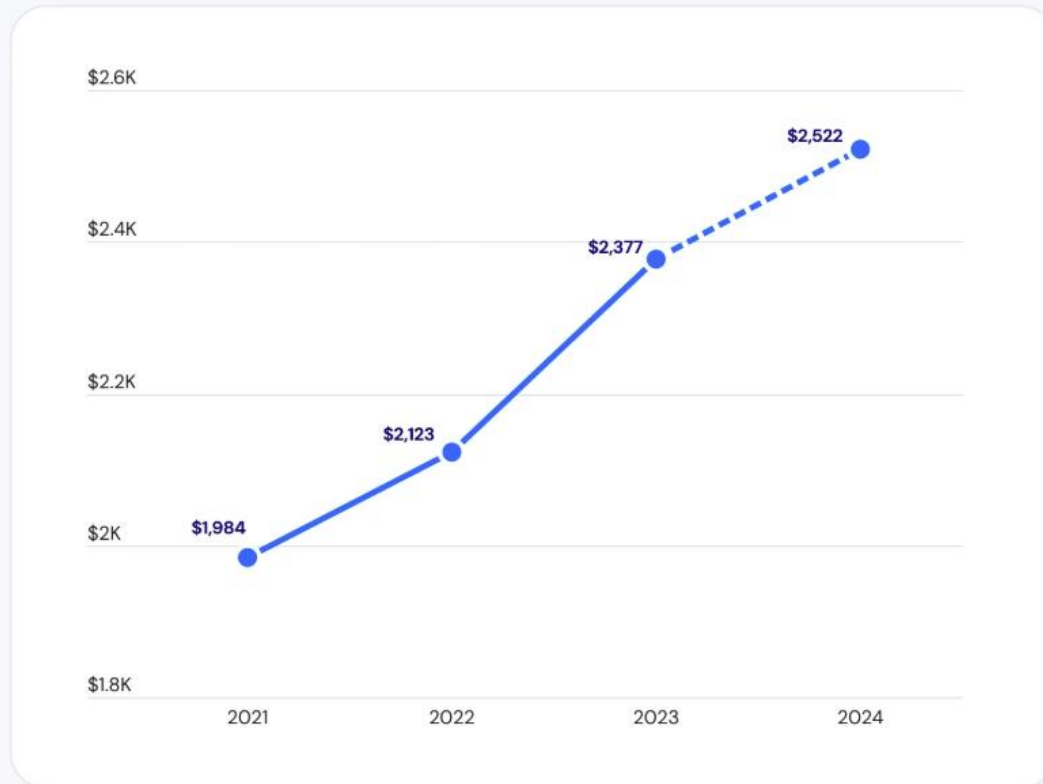


Source: KFF analysis of 2022 Medical Expenditure Panel Survey data • [Get the data](#) • [Download PNG](#)

Peterson-KFF
Health System Tracker

Technology and Insurance Intermediaries influence Health Care Affordability and Access Distribution

Average Annual Cost of Home Insurance (2024)



Source: Analysis of Insurify data

Other costs of shelter also impacting consumers

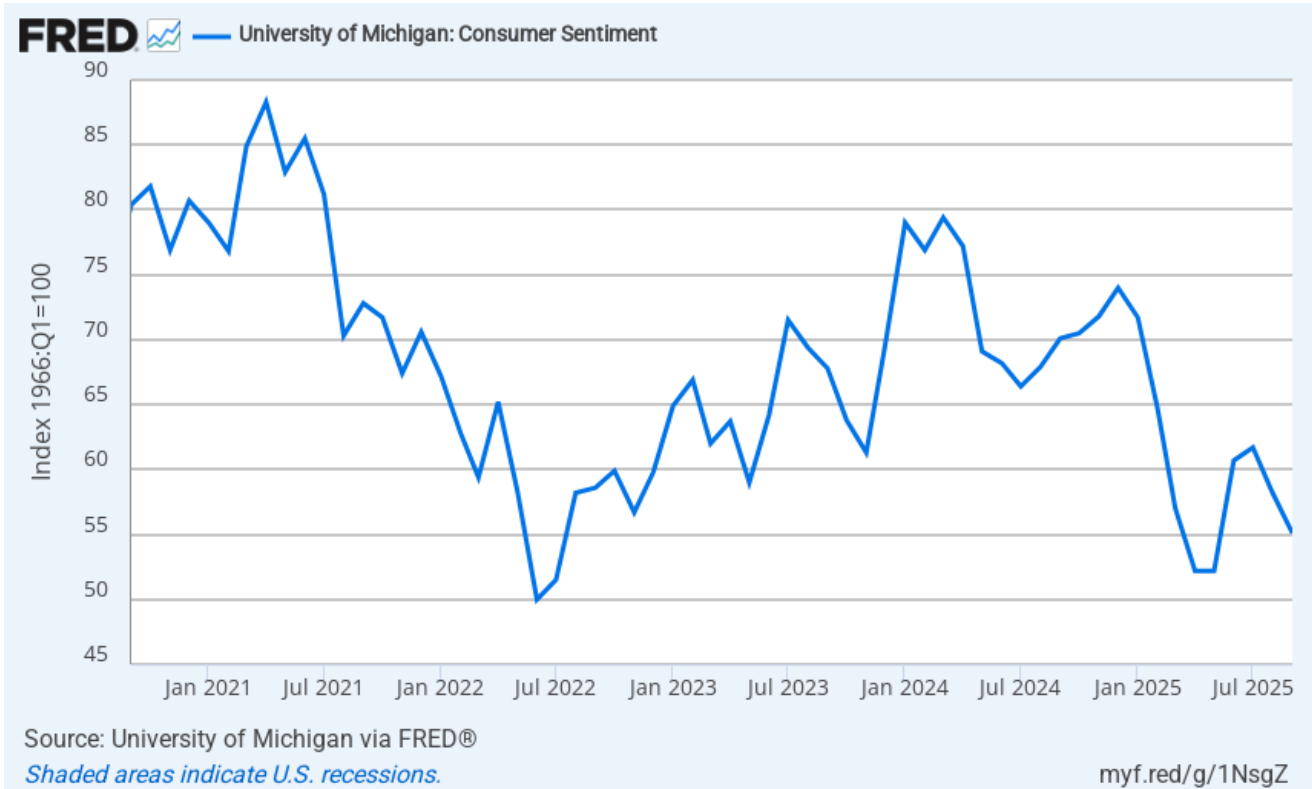
The AI Push may break the Consumer

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Energy Costs may become unaffordable as electricity production and distribution prioritizes Data Centers and other Technology applications

State and Federal Governments may face deep consumer discontent that leads to populist leaders



Affordability Crisis Impacting Consumer Sentiment

The straw (s) that break the camel's back

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AFTERSHOCKS FROM
GOVERNMENT SHUT-
DOWN (NO PERMANENT
SOLUTION REACHED)



ACUTE AFFORDABILITY
CONCERNS AND NEAR-
TERM EXPERIENCE
(HIGHER HEALTH CARE
PREMIUMS)



POOR CONSUMER
SENTIMENT



MARKET LIQUIDITY
SHORTAGES (IMPACTING
TECH AND CRYPTO TRADE
AND EVIDENCED BY
VOLATILITY IN REPO-
RATES)



DEEPENING POLITICAL
TURMOIL (RELATED TO
GOVERNMENT SHUT-
DOWN AND EPSTEIN
FILES?)



Toxic Mix Ahead