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Political Landscape | Implications for Markets & Economic Policy

Moderator

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Panelists

Mark Zandi, *Chief Economist, Moody's Analytics*

Jim Parrott, *Nonresident Fellow, Urban Institute Co-Owner, Parrott Ryan Advisors*

[Tanya Rakpraja:](#)

I'm Tanya Rakpraja, Head of Corporate Responsibility and Government Relations. So we have spent some time today hearing about Annaly's numerous advantages. One thing that sets Annaly apart that is very unique about Annaly is our relationships with policymakers. It is about the level of engagement that we have on topics that impact financial markets, our business, and you as investors. We've spent years building relationships across parties and across administrations, and we will continue to do that because it is important that we are at that table.

So to that end, we have with us today two significant voices on the economy and on housing. We have Mark Zandi, which many of you all know is the chief economist at Moody's and a prolific writer and speaker on the economy and economic policy. And we have Jim Parrott. Jim is a fellow at the Urban Institute. He served in the Obama Administration at the National Economic Council and is a trusted advisor working across the aisle on housing policy. Thank you both for joining us. We're thrilled that you're here.

[Mark Zandi:](#)

Thanks, Tanya.

[Tanya Rakpraja:](#)

Today we're going to cover the economy, politics – what we know and what we don't know – and housing. So let's set the stage. Mark, start us off on the state of the economy.

[Mark Zandi:](#)

Sure. And thanks Tanya and David and Annaly for the opportunity. And I'll have to say this seat is so comfortable. I could fall asleep.

[Jim Parrott:](#)

No, don't do that.

[Mark Zandi:](#)

But it's good to be with you. Just for sake of disclosure, I'm on the board of NGIC, a mortgage insurer, and PolicyMap, which is a software data visualization company. So I'm the chief lead director on that organization. You said the economy.

[Tanya Rakpraja:](#)

The economy.

[Mark Zandi:](#)

The economy, okay.

[Jim Parrott:](#)

Not foreign policy.

[Mark Zandi:](#)

Yeah, right. Economy. I don't think this is hyperbole when I say in aggregate, the economy is about as good as I've ever seen it as a professional economist. I've been a professional economist for 35 years, and the economy is performing exceptionally, creating a lot of jobs across every industry.

Unemployment is low, it's 4%-ish, it's low across every demographic, age, ethnicity, educational attainment. It's low from coast to coast. The one blemish was inflation, and we can talk about that, but inflation is now back in the bottle. The only difference between where underlying inflation is currently and the Fed's 2% target is the cost of home ownership, owner's equivalent rent. And that's just related to measurement issues with lags between rents and how you measure it in prices. So I think we're effectively where the Fed wants inflation to be.

Stock market's at a record high. If you're one of the two-thirds of Americans that own their own home, you're happy because house prices are at record highs. If you look at household debt service, the percent of income going to servicing debt, household debt in aggregate, it's low and stable despite the run-up in interest rates. Households did a wonderful job locking in the previously record low interest rates. I do think we need to make a distinction between the aggregate and the parts. I think of the economy, the metaphor I have in my mind is it's this big elephant. If I look at the elephant in its entirety, as I described it, it looks very good. But depending on where you touch the elephant, you can get a different picture. And I do think there are differences in terms of how the economy is performing across the distribution of income. So folks, everyone in this room, top third of the distribution, fabulously well, things are going great. Folks in the middle part of the distribution, the middle third of the distribution, it's okay, it's not bad, it's not great, it's kind of typical.

Folks in the bottom third of the distribution, struggling. They don't have any savings, they don't own stock, they don't own their own home, they are paying higher rent. The high inflation of a couple three years ago, particularly because it was rent and groceries and to a lesser degree gasoline, things that people need to buy and are a large share of folks' budget, particularly in the lower part of the income distribution, they're paying a lot more for those things. And it seems like everybody's got a food item that they buy on a regular basis that they use as a litmus test for how well things are going.

So I teach a class at Wharton. I'm from Philly, it's my hometown. And I was talking to one of the kids and said, "How are you doing?" And he said, "Not so well." And I go, "What's going on?" And he goes, "Well, I'm paying a lot more for ramen noodles." So my niece, she's 22 years old, she lives in Philly, she's a social worker, same kind of conversation, took a little longer to get around to the bottom line with her than the Wharton student. But finally she said she's not happy. And I said, "Why?" And kombucha tea? Moldy tea, apparently. I've never had it, but she's paying a lot more for it.

And I think that this goes a long way to explaining the election results. I do think incumbents around the world had a pretty serious inflation headwind, and everyone's losing. And that explains to a large degree what... There's many other explanations I'm sure, but I'm an economist and everything that looks like the economy, to me, it feels like that was the biggest headwind for Vice President Harrison on her reelection bid.

But one more factoid, and then I'll stop. The folks in the top third of the distribution account for 55% of consumer spending on average through the business cycle. Right now it's higher than

that, but on average. Folks in the middle third account for a pro rata share, a third. And the folks in the bottom third account for 15% of the spending.

So I don't think that's a good thing. I think this goes a long way to explaining our fractured politics and our social unease, and it's a real problem, but the economy can move forward if the top two thirds of the distribution are doing their thing. And they are doing their thing. The American consumer writ large is driving the train, not only here in the United States but globally, because we are consuming a lot, everything we produce here and then a lot of stuff where everyone produces around the world. So unlike in the financial crisis or in the teeth of the pandemic, when China was leading the way, it's the American economy that's leading the way. This is an exceptional economy.

[Tanya Rakpraja:](#)

Is your baseline expectation that we have a soft landing?

[Mark Zandi:](#)

Yeah, we've soft landed, mission accomplished. Come on, let's end that conversation. We have soft landed. The Federal Reserve has engineered an economy that... And actually not only did we not have a recession, the economy has performed much better than anyone would've anticipated. By the way, I was one of the few folks that said no recession. I just want you to stick that in. And the reason is because I think economists misdiagnosed the inflation.

The inflation is demand and supply. But most economists thought it was mostly demand. And if you have too much demand, the way you get that back in is you have to raise interest rates a lot, crush demand to get inflation back in. But it was mostly supply. And now it feels like duh. But a year or two ago was not obvious to people that it was the pandemic and the Russian War, the impact on supply chains, labor markets. The price of a gallon of regular unleaded was going for five bucks, a record high in June of 2022, because of the Russian invasion and the sanctions on Russian oil. And as those shocks have faded and moved into the background, at least in terms of their economic fallout, we've been able to get inflation back in without the Fed having to jack up interest rates even more and pushing the economy in the recession.

And then we got a bit of luck. Two things, one is immigration. Immigration has created a great deal of cost to many communities across the country, but the one benefit is it added to labor supply at the same time, the Fed was working to cool things off in the labor market, and they got it without having to jack up rates more because the immigration that came in took a lot of pressure off labor markets and key sectors of the economy, construction trades, manufacturing, transportation, distribution, retailing, hospitality, elder care and child care.

And the other fortunate thing that happened was, and this goes to my optimism about the economy fundamentally, no matter what else is going on, is the productivity growth is picked up. Underlying productivity growth feels a lot higher today than it did a few years ago. Some of which may be temporary. There's a lot of debate in the economics community about this. So all the quitting that went on a couple three years ago, people shuffled into jobs that are better suited to their skills. That'll give you a one-time pop to productivity growth, and I think we're enjoying some of that. But take a look at business formation. It's just incredible the number of businesses that have been forming since the pandemic hit for lots of different reasons. And it's the new businesses that incorporate the new technologies.

At the end of the day, artificial intelligence is only going to have real impacts on the economy once we have businesses form and incorporate that technology and optimize around that new technology. When existing companies like a Moody's tries to adopt AI, it's painful. It's very difficult. It takes time to realize the benefits of it. In fact, initially it could hurt productivity for lots of different reasons, but it's when new businesses form. And new businesses are forming across every industry, across every corner of the country. And that gives me great confidence in our economic future despite all the storms that are headed our way.

[Tanya Rakpraja:](#)

I have to ask, what's the biggest risk to your baseline that we've reached a soft landing and we're in a good place?

[Mark Zandi:](#)

Well, there are many risks. I think the biggest storm headed our way is change in economic policy that's coming. This is President Trump and his policies. Let me preface this by saying three things. Am I taking too much time? Is this okay?

[Tanya Rakpraja:](#)

No, this is, yeah, the conversation.

[Mark Zandi:](#)

Because I can speak for three days. Jim's raring to go.

[Jim Parrott:](#)

No.

[Mark Zandi:](#)

All right, I won't be too long.

[Mark Zandi:](#)

Let me preface this by saying I think President Trump is going to do what he said he was going to do on the campaign trail. He's not going to do it to the degree he said it, but he's going to do it. That's the lesson from Trump term number one. You got to give him credit, he did exactly what he said he was going to do. Again, not to the degree, but he did it.

Second thing I'd say is he's going to do it fast. Unlike in his first term when he didn't expect to win, he didn't have any personnel in place, he didn't really know what was... I think it took him a year to get going. TCJA, Tax Cut and Job Act, was almost a year after he was inaugurated.

And third, I'm not surprised he won with Republican sweep actually. I mean, I put the same probability on that as Harris winning with a split Congress. I come from Philly. I live in the suburbs of Philly, which was ground zero. And when I did my run, I live on Laurel Circle, a mile circle, half Republican, half Democrat. And I count the lawn signs when I'm running and it was 50/50. So by my barometer, it should have been close. Although, I didn't account for the size of the signs. So it was kind of a missing variable, Trump signs were definitely much larger than the Harris signs by orders of magnitude. That was not a variable in my model, but I expected it to be close. I was surprised by how easily he won. He won. He won. He won every swing state and he won with a plurality of the vote. And he's off and running because he has a mandate. And we're going to get tariffs. I strongly recommend you go listen to the Economic Club of Chicago interview he did three, four weeks ago.

[Tanya Rakpraja:](#)

But Mark, in term one, he did successfully increase tariffs to an effective... What? ... 3% rate on tariffs, versus 1% prior, which is a lot lower than what he had initially proposed, what's been currently proposed.

[Mark Zandi:](#)

Right.

[Tanya Rakpraja:](#)

So I mean, right now, he's talking about a 10 or 20% across the board increase tariffs. What is actually, do you think, plausible and why is that?

[Mark Zandi:](#)

Well, we went from one to three. That's the effective tariff rate. If you told me we go from three to six or three to seven at the peak, I'd say that it's about right. That sounds about right to me.

China, for sure, he's going to double. The effective tariff rate on China is 20%, if you told, mid-40, I'd say that sounds about right. And then, he wants to scare the heebie-jeebies out of everybody, and hopefully, he doesn't have to raise tariffs as much on everybody else and gets what he wants, whatever that is. But I would say just double it at the peak. And the peak is probably going to be by the end of 2025 because he's going to get going here very early.

Second policy, and then, I'll wrap it all up. We are going to get deportations in my view, not 12 million undocumented people, that's just not happening. But directionally, if you told me half a million people are deported, that sounds about right to me. I think he was reporting 350,000 people per annum in his first term.

Three, we are going to get tax cuts. Now, some of that's going to be unfunded. He's going to pay for some of that with higher tariff revenue, but it's going to add to deficits and debt.

And three, there is going to be some fed capture, in my view, not through firing Jay Powell, that's not happening, especially in a declining rate environment, they're all on the same page, but by appointments, the people he is going to appoint are going to be people that are more compliant with his perspective on things.

You add all of that up, that leads to some combination of higher inflation, higher interest rates and diminished growth. And I'm not the only one thinking this, this is exactly what the markets are saying. Go take a look at the ten-year Treasury yield, it was 3.6% two months ago when Harris was at the peak of her popularity and leading in the polls in the betting markets. As she started to lose and Trump started to win, that's when interest rates started to rise, we're now at 4.4. That 80 basis points, half of that is inflation expectations. Just go look at five-year break-evens, are up by 40 basis points, last I look.

The rest of it is the term premier, and that goes to deficits, debt and inflation uncertainty. So the stock market has gone up, but not a lot. And that goes to, I'm giving you a tax cut, that's the check to a shareholder. I mean, same PA, multiply a higher tax earnings, I get a higher share price. It goes to last regulation, deregulation. So financial stocks are up, utility stocks are up, technology stocks are up. And it goes to more M&A, we're going to get more M&A. So cap one, discover that's happened.

[Tanya Rakpraja:](#)

Right. So the stock markets and credit markets have had an undecidedly or a decidedly positive reaction to a Trump administration and Republican Congress. Jim, how do you think the Trump administration in their second term is going to be different from the first?

[Jim Parrott:](#)

Mark alluded this a little bit. I think there were three or four lessons they learned from the last go-round that they will change their course this time around on the process side. So last time around, as Mark said, it took the better part of a year for them to get their folks, their senior teams in place in the key agencies. Took them a while to figure out who they wanted to put in place, took them a while to get them through vetting, took them a while to then get confirmed. So they lost the better part of a year before they actually had much policy momentum.

Second, once those political folks got into place, the career folks around them sort of ran circles around them more or less, and tended to slow walk or push back a lot of the more extreme policy prescriptions that the political folks wanted to implement. So that stymied him a bit over the first really two years of that term.

And then lastly, and most frustratingly for Trump, his own political people pushed back on some of the more extreme policies that he wanted to implement when they had misgivings about them. So there was this inefficiency between what Trump wanted to happen and what he could make happen through the key agencies. I think he'll try to solve that this time around. So first, he'll try to push through a much bigger slate really quickly, which may or may not work given the folks that he's trying to make a swing at so far.

But second, you'll see a purge of some kind, of senior level career folks at a lot of the key agencies, especially the State Department, but also, some other buildings.

And then third, we'll see many more loyalists this time around as political appointees, especially heading the agencies than we saw last time. Last time you had a mix, some institutionalists, some pragmatists, some traditional Republican types that had a lot of knowledge about the space in which they were being asked to lead. That often created a headwind for what Trump himself wanted to get done. I think this time around, you're much more likely to see the kind of folks you've seen nominated so far, people that are much more inclined to just push on whatever agenda Trump wants to see.

I think if you translate or you take that, and then, you shift to policy, it's worth remembering that there's a tension in Trump's general rhetoric, historically, with a lot of more traditional Republican takes on things. If you go back historically, a lot of them, but two of them are worth pointing out in particular. There's a tension between Trump's sort of economic populism, which you hear him sort lean into a fair amount on the campaign trail. There's also a tension and the sort of traditional Republican economic policy that we've seen up until Trump.

There's also a tension between a kind of dogmatism that Trump is inclined towards the sort of, "Damn the torpedoes, I'm going ahead with whatever X is," that, and a more market-sensitive, pragmatic sort of take on things that we would've gotten from the Bushes and Romney and folks like that.

The way that those tensions played out in the first Trump administration was really by different sort of competing factions in the Trump administration that really represented those different extremes. So for every Stephen Mnuchin, you'd have a Peter Navarro, for every Mark Calabria in Housing Finance, you'd have a Brian Montgomery, he's a more pragmatic, market-friendly kind of guy with FHA.

And so as those differing worldviews came up against each other when they with play through a policy, you'd wind up with outcomes that were kind of somewhere between the two extremes. I think this time around you're much less likely to get as strong a mix of institutionalists, pragmatists traditional Republicans, at least in some spaces. And as a result, you're going to see policy land much more towards the economic populace into the spectrum, much more towards the dogmatic end of the spectrum. And I think you'll see, how far towards that end of the spectrum they land will depend on the remaining sort of key personnel spots, especially Treasury and the NEC.

We can get into Congress in a second, but over the next six months when they get into trade policy debates, when they get into the tax policy, tax negotiations with the expiration of Trump's tax cuts, you'll really begin to see the tension between Trump's drive towards the sort of populist instincts and the natural pushback that you would've historically gotten from Republican concern about tariffs, concern about deficit spending.

Like in another era, the kinds of deficit spending that's going to be on the table next year would've seemed absolutely bananas to Republican-controlled Congress. It'll be interesting to see who in the Congress would stand up against Trump's interest in pushing heavy deficit spending to pay for tax cuts this time around. I'm guessing won't be nearly as strong as what we would have seen, say 10, 15 years ago.

And then the last piece of this, which is a bit of a caveat to all this is even though I'm skeptical that Congress provides a big check against some of Trump's instincts, I do think the markets are going to provide a bit of a check. I think he is more concerned about market impacts than he is about other versions of social responses to his more extreme positions.

The opening bid that he makes for extending the tax cuts and expanding them and all the rest freaks the bond market out. I think that'll matter. I think it's the sort of thing that will act as a bit of a check against what he'd like to do, whoever's in the Treasury job, whoever's in the NEC job. So I'm a little more hopeful in the economic sphere about moderation in other non-economic spheres because there isn't a similar sort of check there like we have in the market.

[Tanya Rakpraja:](#)

Yeah. I mean, President-elect Trump, during his first term, did pivot on policies that people thought could impact the economy, impact, damage investor sentiment. And so, I would expect that he would also have that willingness to pivot if there is a market reaction or if business leader or company feedback on policies that it could be damaging. And what about Congress? What do you expect from Congress?

[Jim Parrott:](#)

Yeah. As we suggested, I think it'll be, initially, a huge focus on tariffs and taxes I think will be the first two big items these guys take up. The Trump tax cuts expire at the end of next year and the sheer magnitude of what's set to expire, both on the corporate side and on the individual side, is going to bring Democrats to the table. There's a lot of stuff on the individual side in particular that's set to expire that Democrats wouldn't want to see expire, the child tax credit, for instance. So I think you're going to be forced into a negotiation that sort of has to succeed to most of the parties around the table.

It'll be a gigantically challenging math problem. Trump's already said he wants to see all of the tax cuts extended, that would cost about \$4.5 trillion. He's also added to that, eliminating taxes for tips, eliminating taxes for overtime, eliminating taxes for social security, decreasing the corporate tax rate from 21%, where it is now, which is already lower under the Trump tax cuts, to 15%. That is just enormous in its expense.

And then, he's also said, over the last three or four years, but also during the campaign, that messing with social security's off the table, messing with Medicare and Medicaid's off the table. So the things that you're supposed to have to mess with to make any of this math work is all off the table. And so, when you actually look at the charts of where expense comes from and you take all the things that Trump said off the table like defense, there's not much left in the pie to cut from. And so, if you're really looking at a \$6 trillion price tag or whatever the number would be, there's not nearly enough money left on the table to cover that.

So the tax debate will be interesting and I think, all-consuming, but if we're going to segue into housing, may be a hopeful opening for housing policy because I think a lot of that may be tax side in its focus. So there may be a silver lining in the big tax debate, I think.

And then, tariffs, as Mark said, I think, it's inevitable, that's something they're going to focus on. Whether Congress wants to focus on it or not, Trump will make them focus on it. I think for it to have any sort of permanence, he's going to want it to be a legislative move, not just an administrative move. So it feels like that's something that's going to consume a ton of their time next year too.

[Tanya Rakpraja:](#)

And what do you think is achievable on the tariff side?

[Jim Parrott:](#)

Me? Oh, God! I think Mark's right. We were talking about this yesterday. I think Trump will be trying to achieve as much signaling benefit as he can without blowing the economy up. And I think he'll, especially if he's got a pragmatic Treasury secretary, if it's Warsh or Bessent or one of these guys whose name is being kicked around, who's not all that excited about tariffs, just philosophically. I think you're likely to see a big bazooka aimed at China initially, and then, some other players caught in the crossfire, Vietnam, some others that he's mentioned already.

My guess is he goes big on a couple of opening bids and tariffs just to scare the bejesus out of everybody and make it clear that he's not fooling around. And then, there'll be a pause and you wait to see what the effect of those moves is. And then, assuming that he can claim some sort of victory, maybe there isn't a phase two or a phase three.

But if you listen to his key economic validator types like Bessent who are out there talking on his behalf, they all talk in terms of targeted tariffs, they all talk in terms of phased-in tariffs, and I think that's what they mean. I think they mean aim a big bazooka at one player, maybe two, maybe three early, wait and see how that plays. Pray to God you can claim victory over something. Trump's happy, and then, hit pause, I think is probably the base case.

[Tanya Rakpraja:](#)

Great. So let's turn to the housing market. What is the housing outlook, Mark?

[Mark Zandi:](#)

Well, it depends on which part of the housing market you're looking at. I'll start with what's good and then go to what's not so good. What's good is house prices and mortgage credit quality. I mean, house prices have been steadily rising despite the run-up in interest rates, especially if I look at the FHFA House Price series for Fannie and Freddie, house prices related to Fannie and Freddie loans. It just barely paused when the Fed started jacking up rates and continues to rise. It's up 50% since the pandemic four years ago. It's up 100%, I think on the nose, 10 years ago.

And that just goes to the lack of supply. There's just no supply, both in the existing market because of interest rate lock and in the new home market, we've got very low vacancy rates for home ownership and for the affordable part of the rental market. And so, got high house prices, continue to rise very strongly. There's a boatload of equity out there. Mortgage credit quality... And now, I'm the head of the risk committee at MGI, I don't see any issues at all. It's like just shockingly good, how good it is. So that's the good.

Kind of the okay is the home building. The home building, that's the supply side of the market. It is, in terms of completions, at a very high level, that goes in part to the fact that during the pandemic builders couldn't build because of the supply chain issues and the labor market issues. And so, you saw a lot of building get bottled up under construction. The number of units under construction hit a record high about a year ago, they're starting to come in now, but still at a very high level.

And I think builders, they're showing more willingness to be flexible on effective price through buy-down. So they are new home sales have held up much better than existing. They're selling units because they're willing to cut price effectively. And so, we're seeing continued good construction. And they're the fundamental tailwinds, are very positive because we have a very severe shortage. And Jim and I have been doing a lot of work in this area and we've got a study coming out shortly on this.

[Jim Parrott:](#)

We've said that for two months.

[Mark Zandi:](#)

I know, I'm sorry. I'm sorry. It's complicated.

[Jim Parrott:](#)

It's going to be true eventually.

[Mark Zandi:](#)

Because we're looking at the supply shortfall by Census Tract, so that gets really pretty difficult, but that's a tailwind to building going forward for the foreseeable future.

Obviously, the bad is transactions and origination volume. I mean, because of the interest rate lock, people aren't moving. And now, we got mortgage rates back up to 7%, that's a killer. When rates were down closer to 6% a couple months ago, it almost felt like we were going to get a 5% handle. And I go, "Oh, this is..." Because I think once we get a 5% handle plus all the pent-up life that's out there, we're going to get more supply, more transactions. But no, we went right back. And by the way, there's no going back here for a while, going back to policy, and you know what that means for inflation and real interest rates for term premium.

And also, now we're talking about GSE reform, and there may be some evidence that GSE reform is getting into people's thinking, and that, certainly, will have an impact on mortgage spreads and mortgage rates.

So it feels like we're going to be stuck in a 7% world for a while, and that's just a no-go, particularly because house prices continue to move up. Life is building, people are in homes that aren't suited to their needs, children, job change, death, divorce. So it's building and you can feel the pent-up demand sitting there, but it won't be unleashed until we get mortgage rates back in. And I think that's going to be for a while. And then, if you don't get transactions, because existing home sales are as low as they've been in the teeth of the pandemic or in the height of the financial crisis, it's amazing how low they are. You're not going to get origination volume either. So that's, I want to say the good, not the bad, the good, the okay and the ugly, the good, the okay and the ugly. That's how I think about the housing market.

[Tanya Rakpraja:](#)

So how does that weigh on the economy if we're stuck in this environment for a while? Because mortgage rates aren't going to decline materially and interest rates are pricing current levels into the future. How does that weigh on the economy? What does that mean for the economy?

[Mark Zandi:](#)

Well, when you think about prices and you think about building and you think about transactions, the thing that matters most for the economy is building, because that's jobs. That's a lot of jobs. It's not just the building, it's everything that goes into the home, manufacturing, transportation, distribution, whole shoot in that. So that's a positive for the economy, a reasonably good positive.

Second is prices, that goes to wealth effects. I was alluding to that earlier, I am a homeowner, my home is worth a lot more. I feel more confident and I save less than otherwise would be the case. In fact, we're the only country on the planet where our saving rates are actually down, everywhere on the planet, they're up because people are scared to death. And you don't see these kinds of positive wealth effects. Here in the United States, wealth effects are real and people are out spending. Your home equity borrowing still very low by any standard, it's picking up. That's the only area of consumer credit that's seeing any kind of growth whatsoever because people are tapping into that equity.

Transactions, that's the least important thing because if you just look at it in terms of jobs or in terms of GDP, it's what the real estate brokers are doing. And I don't want to minimize it, but in the grand economic scheme of things, that's a small potato. It's really the home building and the wealth effects that matter most. So right now, housing has been an add, it might become less of an add because you're starting to see home building, particularly on the rental side, at the high end of the rental market, because that's where you are seeing some overbuilding and rents are weak. We are starting to see that roll over. And credit's getting a little bit more difficult if you want

to build a multifamily tower. Where are we? In New York? Sorry, I've been traveling a lot. So in New York or Philly or Chicago or San Francisco, but other than that, that's where the juice is.

[Jim Parrott:](#)

Wait till we deport half the labor force and we'll see how the supply chain works out.

[Mark Zandi:](#)

What's that?

[Jim Parrott:](#)

So wait till we deport half the labor force-

[Mark Zandi:](#)

Yeah, make that point. That's a great point. That's a great point.

[Tanya Rakpraja:](#)

So what do you expect the Trump administration's focus on housing will be, Jim?

[Jim Parrott:](#)

Yeah, they didn't lean into this much in the campaign. They were forced to talk about it a little bit. And he would mention it only indirectly by talking about other stuff that he was going to do and how it would help the housing market. And he, somewhat laughably, most frequently, leaned into how deporting 10, 15, 20 million people, depending on the speech, was going to soften demand and thus bring down home prices, but as I was just sort of applying a second ago, that roughly, depending which state you're in, somewhere between 20 and 50% of the labor force in the construction industry comes from non-native born folks, i.e., immigrants. So if you begin deporting hundreds of thousands, much less seven figures of folks, you're going to create a pretty significant dislocation in the supply chain, which will lead to even more of a supply shortfall that we've had historically, which is going to lead even higher home prices and more of an affordability challenge. So that's going to be a mess.

But as far as intentional housing policy, I think GSE reform is where they're going to. I don't think they're going to focus much on the supply stuff that we've been talking about, Congress I think probably will, I think once we get into the tax debate, I think because much of the supply side support that Congress could usefully provide is tax side support, increased li tech, maybe some sort of tax benefit for building entry level homes, opportunity zones, that kind of thing.

I do think you'll see those sorts of things, make it into the mix, make it into the tax debate. So I'm mildly optimistic that we see Congress take this up, but I think as far as the Trump administration goes, on housing, it'll be Fannie and Freddie and driven mainly out of FHFA over the next year. I can't imagine the focus on it outside of FHFA much this year because in 2025, there's so much else to deal with. I think it'll be a 2026, 2027 sort of thing where Treasury finally gets engaged, you begin to see discussion about their exit the way that people should begin to pay attention to.

[Tanya Rakpraja:](#)

Yeah. So FHFA and the GSEs-

[Mark Zandi:](#)

I thought we lost you actually-

[Jim Parrott:](#)

Like, "That's it." She dropped the mic.

[Mark Zandi:](#)

"I'm done."

[Tanya Rakpraja:](#)

There has been a lot of coverage on FHFA and the GSEs. What do you see them being able to accomplish there?

[Jim Parrott:](#)

Yeah, I think it's going to be an interesting mess. So they are absolutely dead set on at least attempting to get them out. And they went pretty far down the field, as it were, last time in the Trump administration. And Calabria was running the FHFA, the regulator for Fannie and Freddie, was pretty anxious to close the deal. Mnuchin was uncomfortable with this sort of risk of disruption that the path out Calabria had in mind, or at least the pace at which he had the path in mind made Mnuchin uncomfortable so they couldn't get over the finish line. I think they'll pick up, roughly, where they left off.

I do think there are two sets of challenges that make me skeptical they're going to be able to pull it off. One is just the practical, legal economic challenges that go into getting them out. I mean, right now, the taxpayers got a quarter of a trillion dollar interest in the GSEs, depending on how you sort of count their various positions. You're going to have to write that down, more or less, in order to get them out. And writing down a quarter of a trillion dollar interest in the taxpayers, like not a politically insignificant thing. There's even some sort of legal impediment to that. So they've got issues like that they're going to have to work through, getting them in position for a capital raise, getting investors interested in a model that may be somewhat constrained for ideological reasons. So there are all kinds of logistical, legal issues in the thick... It will be hard.

But I think the biggest issue by a long shot is what they say and do about the government support beyond the PSPAs. So the way to think about the layers of support, now you got capital, let's just assume, theoretically, they get capital up to whatever the regulatory levels are supposed to be. You've got the PSPAs, which are the explicit backstop that Treasury provides for the GSEs, which is a quarter of a trillion dollars, a big number. And then, you've got, possibly, the implicit government guarantee beyond that.

And by that, I mean, if you blow through the first two, is the government going to bail them out or not? And the market-wide view before conservatorship last time around was, of course, they're going to bail them out. And so, that market assumption that the GSEs are going to be bailed out as what we all call the implicit guarantee, and that's what gave them a relatively high rating, it's what allowed the Fed to buy their MBS. The Fed can only buy the MBS of a, quote-unquote, "government Agency." They were able to rationalize the GSEs as a government Agency because of this implicit guarantee. So a whole lot of the GSE model worked well because of this assumption about an implicit guarantee.

So I mention all this because if you fast-forward into, say 2026, let's say they're on the five yard line, they're going to push it in or whatnot, we'll hear a lot of talk about whether the government would bail them out if they were to blow through all these layers of capital. And I think a lot of folks in this town just assume, "Well, of course, they bailed them out last time, why would it be any different this time?" I think there'll be a lot of ideological pressure in the administration and from conservatives outside of the administration to say, "Oh, no, no, no, no, no, if these jokers blow up again, it's not on the taxpayer, it's going to be on the shareholders." And there'll be a lot of pressure for them to say that, "We're not going down the moral hazard path again, yada, yada, yada."

So if we do hear that coming from these guys and there is a reason to actually believe them when they say this, that there is a meaningful doubt, the government wouldn't bail them out, the ripple effects of that are significant, they get downgraded by rating agencies, the Fed probably can't buy their MBS anymore. The whole model doesn't work quite as well as it would before. So I think that's going to be a pretty binding constraint for them.

And so, the question is, do they give in to market reality and sort of give a wink and a nod of your implicit guarantee? Or do they listen to the more ideologically charged folks in and out of the administration and either try to blow them out without the implicit guarantee, which I think is pretty unlikely, or just frankly, stop and blame Congress for not doing what they're supposed to be doing? If I had to guess, that's probably what they'll do.

[Tanya Rakpraja:](#)

Yeah.

[Jim Parrott:](#)

I say that with all this confidence, but you'll hear a lot of rhetoric from these guys over the next couple of years that, "We've got a mandate to bring them out. It's crazy to have them in government this long. It's irresponsible," all that. All I'm saying is it's really hard to get them out. And while getting from your 20 yard line to your opponent's five yard line takes a lot of yardage, it's going to be that last five yards that's going to be really tough.

[Tanya Rakpraja:](#)

Yep. And politicians of every stripe understand the importance of a liquid and a stable housing market and mortgage market in the end, right? So it'll be really hard to bring them out for all the reasons you've mentioned. What they'll likely be very successful at is reducing the GSE footprint, right?

[Jim Parrott:](#)

Yeah.

[Tanya Rakpraja:](#)

We saw FHFA director, Calabria, do this by tightening the credit box, raising pricing to juice up ROE's and bring in private capital, putting caps on second homes and investor properties, for example. So that we do expect to see.

[Jim Parrott:](#)

And I'm mildly optimistic. I hate the idea of bringing them out, for all kinds of reasons, at least in the way they would bring them out. So I'm mildly optimistic that's not going to happen, partly because I think the markets could provide a check on all this. And so, when you get to the five yard line and the market begins to pay attention to, not just the fact they're coming out, but the terms on which they're going to come out, and begins to say, "Whoa, whoa, whoa, we didn't sign up for that." And you've got all these big, foreign investors that are not willing to buy the MBS unless they've got a clear government backstop, blah, blah, blah. I think, at that point, Trump, who couldn't care less about any of this, will begin to pay attention and say, "Whoa, wait a minute. I didn't sign up for that." So I think in the Trump administration we get, even if it's just the most bananas version that we might be at risk of having, I think the market reality and his sensitivity to market reality may ultimately be the sort of grown up in the room that keeps us from going down that path.

[Tanya Rakpraja:](#)

Yeah, right. So ending on that note, let's do a quick lightning round. What are you keeping an eye on?

[Mark Zandi:](#)

That to me?

[Tanya Rakpraja:](#)

Yes.

[Mark Zandi:](#)

I'm really looking at the Eagles and wondering whether they're going to make it to the Super-

[Mark Zandi:](#)

I'll just mention two things that I'm watching very carefully. One is unemployment insurance claims because that's a window into layoffs and ultimately whether consumers continue to spend. I mean, nothing will cause consumers to pull back more than if layoffs start to pick up. So that's a very real-time barometer of the health of the labor market, and ultimately I think the broader economy.

The second thing I'm watching is the mortgage rate, because that matters to a lot of Americans and that's key to the housing market. And that's a window into how President Trump's policies-

[Tanya Rakpraja:](#)

This is supposed to be a quick lightning round.

[Mark Zandi:](#)

President Trump's policies are affecting the economy via all those other policies, including GSE reform. Because once it becomes clear, the GSE reform is more likely, it's going to show up in that mortgage rate very quickly.

[Tanya Rakpraja:](#)

Jim?

[Jim Parrott:](#)

Personnel, personnel, personnel. It'll define whether we have a slightly disruptive Trump administration or really disruptive Trump administration, and especially on economic stuff. So who's at Treasury? Who's at NEC? Has he gotten this sort of populist zaniness out of a system with all the non-economic stuff? God, I hope so. Are we're going to go back to something a little more normal on the economic side? So personnel for me for sure.

[Tanya Rakpraja:](#)

I'll have to say inflation because of the impact on consumer spending and balance sheet, and the labor market. So what's top of mind as it comes to opportunities the next year?

[Mark Zandi:](#)

Opportunities...

[Tanya Rakpraja:](#)

Quick.

[Mark Zandi:](#)

Jim, you try that first. I'm the economist. I'm always looking on the dark side of things.

[Jim Parrott:](#)

I think in areas where deregulation can help, you'll have a very open audience. I think with this Congress, this coming Congress, I think tax side help on housing will be there if you could frame it right. And I think the giant sums of money we're talking about on the tax side will open the door for a pretty meaningful supply side help and housing, I think, as an opportunity.

[Mark Zandi:](#)

I'm going to pass. Look at valuations in the stock market, look at crypto, look at corporate credit spreads, look at valuations across the market. Look at the fragility of the bond market generally. I don't know, it feels, when you say opportunity, I'm thinking of it from the prism of an investor. All I know is my 93-year-old grandmother-in-law continues to ask me, her CDs roll over, "What do I do

with that money?" And the answer I give her is, "I don't know. I don't know." So I don't know about opportunity in that context. I think we need to see some general leveling of valuations across markets.

[Tanya Rakpraja:](#)

For me, not from the investor's perspective, but as an American, I'd love to see less political division in this country.

[Mark Zandi:](#)

Oh, good luck with that.

[Tanya Rakpraja:](#)

And my last question, so your most outlandish prediction does not have to do with your job or your work.

[Jim Parrott:](#)

Oh wow.

[Mark Zandi:](#)

Most outlandish prediction?

[Jim Parrott:](#)

Do we have to believe in it?

[Mark Zandi:](#)

I know what mine is. I got a good one. My son who's getting married in April, says his new wife is pregnant. That would be good.

[Jim Parrott:](#)

Is this being videoed?

[Mark Zandi:](#)

It's all about me. It's all about me.

[Jim Parrott:](#)

Yeah, man, I don't know. Carolina makes a final four. Nothing to do with my job. What do you say?

[Tanya Rakpraja:](#)

I say LSU loses their next two games. Brian Kelly gets fired by LSU and they pay the 60 million contract to get them out.

[Jim Parrott:](#)

Whoa, you thought about this.

[Tanya Rakpraja:](#)

All right, so we will end on that note. There is a lot of themes throughout this conversation. I'd say one of the takeaways I had is that it's important to be nimble, it's important to be adaptive, it's important to be engaged. And these are all hallmarks of Annaly. So give us a few minutes. We are going to set up the stage for the Q&A that follows and we'll be back.