CAISSON
CAPITAL PARTNERS

JULY 2026
ISSUE NO. 07 / 2026

# Thoughts on the Market

Investments in Heartland Housing

MARKET COMMENTARY

## A higher curve, and cracks in the AI trade

The S&P 500 closed July at 7,489.72, down 0.1% on the month and up 9.4% year to date. A flat headline hid a sharp rotation underneath. The Dow rose 0.3% for a fourth straight monthly gain. The Nasdaq fell 3.2%, and chipmakers posted their worst month since 2008.

What broke in July was the second-quarter rally itself. Technology gained 43.5% in the second quarter, led by memory manufacturers: SanDisk rose 258% and Micron 242% in three months. Both gave back more than a third of their value in July.

The clearest casualty was Situational Awareness. Leopold Aschenbrenner founded the fund in 2024 after leaving OpenAI, on the thesis that artificial intelligence would require an enormous buildout of chips, power, and data centers.

The fund held roughly $45 billion at the start of July and roughly $10 billion at the end of it, after selling its entire public equity portfolio to Citadel at distressed prices to satisfy its lenders. It had borrowed heavily to bet on AI infrastructure and against software. Both sides of that trade moved against it at once. The thesis may still prove right. The balance sheet did not survive long enough to find out.

Energy markets turned again. The June 17 cease-fire collapsed after Iranian forces struck a container ship in the Strait of Hormuz, and the United States resumed counterstrikes. Crude settled near $88, its sharpest monthly move since March. Gasoline is back above $4 a gallon.

The reversal in oil arrived just as inflation data had finally turned. June CPI fell 0.4%, the largest monthly decline since April 2020, bringing headline inflation to 3.5% from 4.2%, with core at 2.6%. Core PCE eased to 3.3%. Both reports measure a month when oil traded near $70. Neither describes conditions today.

The Federal Reserve held rates steady in July, with three officials dissenting in favor of a hike. Kevin Warsh declined to call the decision a pause, offered no guidance for a second consecutive meeting, and would not say whether he would support tightening if inflation fails to slow. Markets now put the odds of a September hike at 66%.

Warsh separately floated the idea of holding fewer scheduled meetings each year. The Fed has met eight times a year since 1981, and more often in the decades before that. The law requires four.

Treasury yields continued drifting upward. The 10-year closed near 4.74%, up 30 basis points and its highest level since January 2025. The 30-year reached 5.25%, a level last seen in 2007. The 2-year rose only 15 basis points, so nearly the entire move landed in longer maturities. That is a market pricing inflation and government borrowing, not one waiting on the next Fed decision.

**EXHIBIT 1 Market benchmarks**

Levels and change · through July 2026

| | LEVEL | | | 1-MONTH CHANGE | | CHANGE FROM YE | |
|---|---|---|---|---|---|---|---|
| Benchmark | YE-2025 | Jun-26 | Jul-26 | Δ | % Δ | Δ | % Δ |
| Fed Funds | 3.63% | 3.63% | **3.63%** | 0.00% | 0.00% | 0.00% | 0.00% |
| 1-Month SOFR | 3.69% | 3.65% | **3.71%** | +0.05% | +1.47% | +0.02% | +0.49% |
| 10-Yr Treasury | 4.16% | 4.48% | **4.74%** | +0.27% | +5.92% | +0.58% | +13.86% |
| S&P 500 | 6,845.50 | 7,499.36 | **7,489.72** | (9.64) | -0.13% | +644.22 | +9.41% |
| REIT Index[1] | 125.39 | 137.18 | **140.32** | +3.14 | +2.29% | +14.93 | +11.91% |
| VIX | 14.76 | 16.45 | **15.99** | (0.46) | -2.80% | +1.23 | +8.33% |

1. Vanguard Real Estate Index Fund (VGSLX), which tracks the MSCI U.S. REIT Index. Fed Funds shown at the effective rate; Treasury and SOFR at month-end. Source: Bloomberg, Federal Reserve, Caisson Capital Partners.

The economic data keeps getting revised lower. June payrolls rose 57,000 against expectations of 115,000, and April and May were revised down by a combined 74,000. Unemployment fell to 4.2%, but only because labor force participation dropped to its lowest level since March 2021.

Second-quarter GDP grew 1.5%, below the 2.1% consensus. First-quarter GDP was revised up to 2.1%, though that came entirely from lower imports, while consumer spending in the same quarter was cut to 0.4% from the 1.6% first reported. Households are saving 2.7% of their income, near a four-year low. That is how spending has continued to outpace earnings.

## 01 The yield curve settles higher

When looking at the yield curve, the more useful comparison is not to last month but to last autumn. The 10-year bottomed just under 4.00% in mid-October 2025, and the 2-year near 3.41%. Both are now roughly 75 to 90 basis points higher. Measured against the year-end level of 4.16%, the 10-year has added nearly 60 basis points in seven months.

What matters is that this no longer looks like volatility. It looks like a level. The front of the curve has barely moved because the Fed has not moved. Everything from five years out has repriced around sustained higher inflation and the government's borrowing requirement. The market now views a near-term hike as more likely than a cut.

**EXHIBIT 2** The Treasury curve, then and now

Par yield (%) by years to maturity · 07/31/25, 12/31/25, 07/31/26


Source: U.S. Department of the Treasury, daily par yield curve rates. Caisson Capital Partners.

The consequence for apartment pricing is direct. Agency quotes that began June near 5.5% are now closer to 6%. MSCI put average apartment cap rates at 5.9% in the second quarter. Debt costs and going-in yields have converged and, on a growing share of deals, crossed. The cap rate plateau of the first half is now more likely to break upward than to hold.

Negative leverage has constrained this market for several years. It eased from the second half of 2025 through the first quarter of 2026. It is back.

For yield buyers, that makes the transaction environment difficult. Second-quarter volume showed it: individual asset sales fell 7%, the first decline in five quarters. Garden-style volume, where workforce product trades, fell 21% to $17.7 billion.

We underwrite to the cost of debt that exists today, not to the cost we hope to refinance into. We do not rely on cap rate compression, and we have never needed rate relief for a deal to make sense.

A market that removes the buyer who does need those things is a market where disciplined capital gets a better entry point on Class B housing in Heartland markets. We would rather compete against fewer bidders at a fair basis than more bidders at an unsupportable one.

## 02 This wave of distress looks different

"You don't find out who's been swimming naked until the tide goes out."

WARREN BUFFETT

The aggregate data still reads calm. Fannie Mae's multifamily delinquency rate stood at 0.78% at the end of the first quarter, and banks at 1.24%. Numbers like that describe a healthy sector. They do not describe what is happening inside individual sponsors.

The first failures were the easiest to explain. Jay Gajavelli's Applesway lost 3,200 Houston units to foreclosure in April 2023. Tides Equities spent $6.5 billion in two years to become the country's thirty-seventh largest apartment owner, then called capital and was removed as manager by its own preferred lender. Alan Stalcup's GVA defaulted on more than $413 million, with roughly 80% of its portfolio in distress. Undercapitalized operators, floating-rate debt, no reserves. The market called them amateurs and moved on.

The sponsors who survived that round did it in the capital markets, not at the properties. They bought rate caps, called capital, and sold their best assets to carry the worst. S2 Capital launched a non-traded REIT in 2024 to buy time until rates came down. WindMass Capital outlasted both Tides and GVA and bought distressed properties from its peers, then drew a foreclosure notice of its own in March on 1,400 Dallas units securing a $120 million loan. Every one of those moves was a bet on lower rates.

The sponsors failing now were not better operators or investors. They were better at concealing what was happening inside their portfolios, and better at finding one more source of money to push the problem out another quarter.

Jon Venetos founded Lurin Capital in 2016 after a decade at Citadel and reached 10,000 units on the claim that institutional discipline separated him from the syndicators. Lenders now allege more than $710 million of defaults across Texas and Florida, two of them claiming fraud. He put the management company into Chapter 11 in April, sold all three Northwest Arkansas properties at distressed prices, and left Fitzroy Grove in Rogers facing a receivership petition from Prime Finance on a $47.8 million loan.

S2's non-traded REIT was a financing structure, and most people looking at it said so at the time. It did nothing for the assets underneath. The individuals who funded it are now being told to expect a total loss.

Closer to our markets, Marc Kulick's Vesta Capital has run out of room after two years of mounting operational and financial distress. Vesta funded operating deficits with receivables financing, then with personal loans advanced by YSA Investments, a firm controlled by Efraim Diveroli, a convicted arms dealer and the inspiration for the 2016 film War Dogs. YSA took title to ten Tulsa properties in July. By the time a sponsor is borrowing from a lender like that, the equity is already gone.

We have watched these situations build for two years, and the collateral damage lands on tenants and site-level employees. Municipalities threatened to shut off water. Trash piled up when vendors went unpaid. Staff went without paychecks. That is hard anywhere. In workforce housing it is worse, because these residents and employees have nowhere else to go.

This round of capitulation is healthy for the market. The assets finally get marked to market, investors and lenders take their losses, and new owners bring fresh capital to stabilize the properties. Contrast that with spending investor cash to delever or buy another rate cap, which purchased time and nothing else.

Caisson has never bought a deal that required rates to fall or a lender to stay patient. We hold fixed-rate debt, we fund reserves before we fund distributions, and we underwrite Class B Heartland housing to the rents in place today. This cycle keeps producing assets whose owners did none of those things. That is where our next basis comes from.