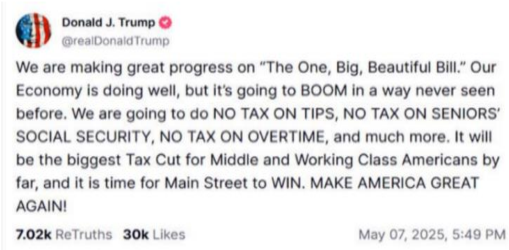
Weekly Relative Value

Tom Slefinger
Market Strategist

WEEK OF MAY 19, 2025

The One, Big, Beautiful Bill (or Not)



Donald J. Trump
@realDonaldTrump

We are making great progress on "The One, Big, Beautiful Bill." Our Economy is doing well, but it's going to BOOM in a way never seen before. We are going to do NO TAX ON TIPS, NO TAX ON SENIORS' SOCIAL SECURITY, NO TAX ON OVERTIME, and much more. It will be the biggest Tax Cut for Middle and Working Class Americans by far, and it is time for Main Street to WIN. MAKE AMERICA GREAT AGAIN!

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After six weeks being dominated by Liberation Day, which was anything but, the debate has moved to the President's promise of a "Big, Beautiful Bill" that is certainly big, but not very beautiful.

The bill has now arrived in Congress. It's a beginning place for negotiation and is bound to change in important ways before it becomes law, but the bottom line is that the combination of tax cuts with feeble attempts at cost cuts will mean a deeper deficit. Read on.

"THIS WILL FREE UP ALL THE TIME WE NEED TO BE A DO-NOTHING CONGRESS!"

Let's start off with some background.

The Biden administration avoided a widely anticipated recession over the last two years by priming the fiscal pump like never before. In fiscal 2019, federal outlays totaled $4.45 trillion, or ~21% of the gross domestic product (GDP). Per the Congressional Budget Office (CBO), total outlays in fiscal 2025 will be $7.03 trillion, or 23% of GDP. That's a 58% increase over six years!

THIS WEEK

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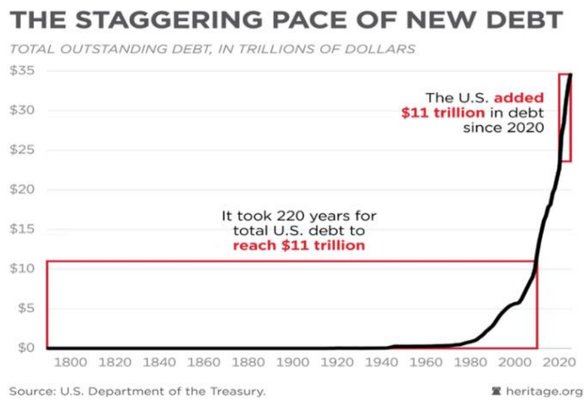
With the exception of World War II, the increase in spending over the past six years was truly UNPRECEDENTED. While much of the blame is attributable to pandemic spending, the pandemic is long over, and there's simply NOTHING today to justify this aberrant and egregious level of government spending that we've been experiencing.

To show how addicted the U.S. economy has become to DEBT, see the graph below from the Heritage Foundation. The U.S. added $11 trillion in debt (40% of the U.S. economy's GDP) over the past four years. This means that on average, national debt has increased by $2.75 trillion a year. To show you how insane this is, it took 220 years to reach the first $11 trillion of debt!

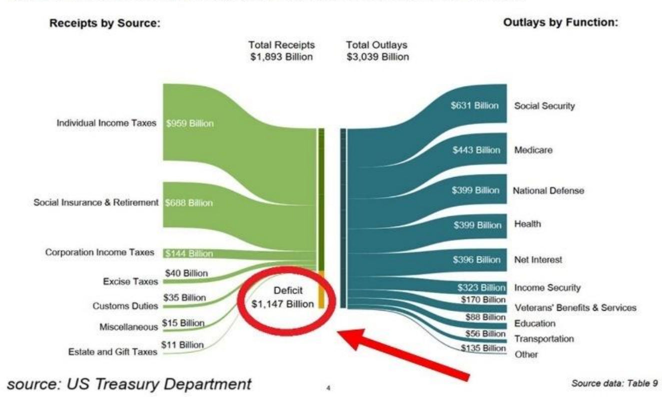


As the debt levels exploded higher along with higher rates, the cost of servicing this debt has risen exponentially.

Just in April alone, interest on the federal debt was over $101 billion in April! No roads and bridges, no healthcare, no military spending, no schools or hospitals...JUST INTEREST!

Over the past 12 months, interest expense on public debt has DOUBLED to over $1.2 trillion, or 20% of total tax revenues, near an all-time high. Interest is now the second highest expense, behind Social Security, for the U.S. Government.

During the campaign, the Trump Administration prioritized putting the U.S. on a more solid fiscal footing. But that priority has seemingly gone by the wayside. This is another sign that when the tradeoff is between the broad populist base versus prudence and pain for doing the right thing, the administration is choosing the easier path ahead, and like Biden, kicking the can down the road. Indeed, the Trump Administration borrowed a mind-blowing $1.15 trillion or nearly $8 billion a day in the first five months of the Fiscal Year 2025, the MOST EVER!



Sadly, there has been no apparent effort to change course from this runaway fiscal binge. While the President's exact budget proposals have been a little unclear so far, based on the most recent posts on Truth Social (see post above), they sure look like they are pointing to more debt and bigger deficits.

Plans to eliminate taxes on Social Security, overtime pay and tips and other goodies along with the Tax Cuts and Jobs Act extension will far outweigh the modest cuts to non-defense discretionary spending proposed. I should add that the DOGE charade was nothing more than political headhunting and targeted abuse.

So, given that the Trump administration is doing little when it comes to curbing spending, Congress will likely determine how the deficit will play out ahead. And it increasingly looks like the Senate and House are committed to BIG deficits.

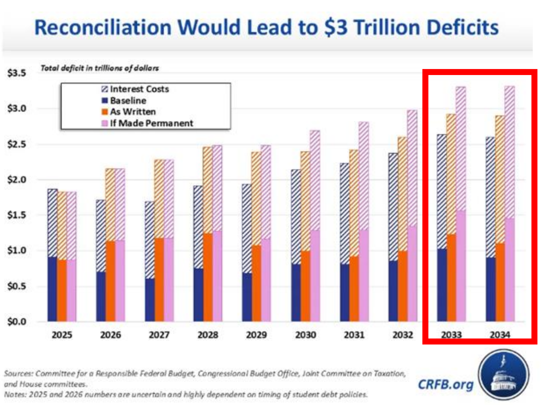
"This needs to be a serious effort, not a card trick. *We have a chance to fix that in the Senate version.* ***If there was ever a time, that time has long passed — to be pretending to do cuts and not really getting the job done.*** *— Senator John Cornyn (R-Texas)*

While the House reconciliation bill is still work in progress, the non-partisan Committee Responsible for the Federal Budget (CFRB) has estimated the cost as shown below:

- Increase debt by **$3.3 trillion**, or **$5.2 trillion** if made permanent
- Increase annual deficits to **$2.9 trillion** (6.9 % of GDP), or **$3.3 trillion** (7.8% of GDP) if made permanent
- Increase yearly interest costs to **$1.8 trillion** (4.2 % of GDP), or **$1.9 trillion** (4.4 % of GDP) if made permanent
- Increase debt to **125 % of GDP**, or **129% of GDP** if made permanent

"It's asking conservatives to raise the debt ceiling $5 trillion. ***Nobody has ever raised the debt ceiling that much."*** *—Senator Rand Paul (R-Kentucky)*

If passed, the "One Big, Beautiful Bill" would almost certainly turbo charge the debt and deficits ahead. If made permanent, this bill would set the stage for $5.2 trillion of additional debt — with $3.3 trillion annual deficits — and lock the U.S. on a path to see deficits exceeding 8% of GDP. As the CBO rightly points out, the fiscal situation in this country is unsustainable. Something needs to change before the wheels come off the train.



Bottom line: This bill is certainly BIG …but it's UGLY too. Trump is doing exactly what Biden did FISCALLY. I doubt Trump's voters expected that the U.S. Government would spend at Biden's levels, which led to the inflation they elected

Republicans last year to stop. I doubt, too, that Trump voters wanted Republicans to increase annual deficits. Sadly, it appears that nothing is going to change; it's balls-to-the-wall spending until something breaks and external forces take over. The fiscally conservative GOP that I knew and once voted for is long gone.

WAKE UP CALL

When a character in Ernest Hemmingway's *The Sun Also Rises* was asked how he went bankrupt, he said :

"Two ways. Gradually, then suddenly."

Last week, Moody's looked at what Congress is proposing and determined that our fiscal situtaion would be made worse and questioned our ability to get spending under control. Moody's joined the two other major rating services (Fitch and S&P) in downgrading the United States' credit rating for the FIRST time in history from "Aaa" to "Aa1."

The reason: An unsustainable path for U.S. federal debt and its resulting interest burden.

Moody's notes that:

- U.S. debt-to-GDP ratio is on track to hit 134% by 2035, compared with 98% today. Not even during World War II did U.S. debt-to-GDP rise above 120%.
- Federal interest payments are set to equal ~30% of revenue by 2035, up from ~18% in 2024 and ~9% in 2021.
- Deficit spending is now at World War II levels as a percentage of GDP. Moody's sees the U.S. deficit hitting 9% of GDP by 2035 compared to 6.4% in 2024.

Many have called the downgrade unimportant. The primary argument made is that people will continue to borrow from the U.S., regardless of ratings. Indeed, on Sunday morning, Treasury Secretary Scott Bessent stated the following:

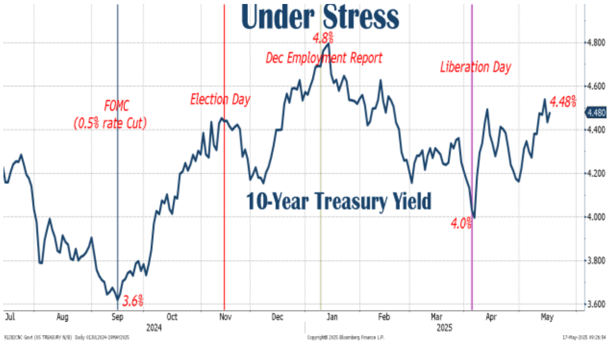
"On the Moody's downgrade, who cares? Qatar doesn't. Saudi doesn't. UAE doesn't."

What a bizarre comment from the Treasury Secretary of the United States of America. A credit downgrade doesn't matter? To the issuer of Treasuries? This mentality is why we are in a deficit spending crisis to begin with.

The problem arises when inflation comes along and the bond market gets spooked, and if the Fed tries to bail out the U.S. government with bond purchases (QE) and interest-rate repression while inflation is taking off, it could cause inflation to go completely out of control, which would cause the U.S. dollar to plummet. Everyone knows this. So this is likely not going to be experimented with in the U.S.

If the bond market finally gets really ticked off and demands much higher yields to buy the debt while inflation is surging, and the Fed's hands are tied to avoid descending into much worse inflation, that will scare the living daylights out of Congress, maybe for long enough to do something about the deficit. Simply put, the bond vigilantes may have the last say in what happens on the fiscal side.

So with the trade war unresolved along with spending out of control, keep a close eye on the Treasury market going forward. The Moody's downgrade comes along with the increased bond market volatility with the yield on the 10-year Treasury bond rising by ~30 basis points since the beginning of the month and ~ 50 basis points since Liberation Day.



Bottom line: This a wake up call. We now have ALL three major credit rating agencies saying the same thing: The U.S. fiscal situtaion is UNSUSTAINABLE. In other words, stop spending what we don't have! Both parties are equally reponsible for the mess, and policy makers need to go back to the drawing board and take steps to put our country toward a sustainable fiscal trajectory. But will they?

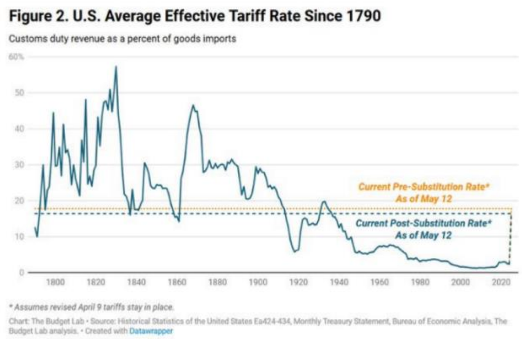
TEMPORARY TRUCE

"After weeks of market turmoil, ***the economy is left with higher trade costs and greater uncertainty for business****, but at least a step back from Smoot-Hawley 2.0.* ***Investors, businesses and households probably would welcome this outcome, which is considerably better than Mr. Trump's initial plan. […] Mr. Trump to back down from his fever dream that high tariff walls will usher in a new 'golden age.' The age didn't last two months, and it was more leaden than golden. White House aide Peter Navarro, the main architect with Mr. Trump of the Liberation Day fiasco, has been repudiated****." — excerpted from "The Great Trump Tariff Rollback," The Wall Street Journal*

Equity markets soared last week in tandem with the 90-day pause and de-escalation of the U.S.-China trade war. Investors are getting a sense that the trade war is over, and the reprieves will end with a succession of "deals" and "frameworks." It is important to note for the longer term, neither side appears to have made any concessions. This is an agreement to pause and talk as well as more of a realization by both sides that an effective trade embargo would trigger mutually assured economic destruction, both at home and across the planet.

There is also no guarantee that any of these three-month reprieves will lead to a lasting agreement. Thus, the high level of economic uncertainty cannot be expected to subside that much given the nonbinding nature of these "trade deals" and the President's unpredictable behavior.

Moreover, while the peak tariff rate of 28% has since dropped to 18% (per the nonpartisan Yale's Budget Lab), that is still well above the pre-2025 level of 2.5% and the highest since 1934, and despite trade "deals" with China and the UK, Trump's tariffs will still cost American families $2,800 more this year.



Over the this past weekend, Trump warned Walmart not to increase prices because his tariffs increased the cost of their imports. Trump said Walmart should eat the tariffs. He might as well tell Walmart to eat its rent, wages, insurance, utilities and all of its other costs too.

Ironically, if the goal of tariffs is to reduce our trade deficit, the only way that will happen is if Walmart and other importers raise their prices. It's higher prices that will cause consumers to buy fewer imports, thus reducing the size of our trade deficits.

Moreover, the bigger point is that while Trump is hell-bent on sharply reducing the U.S. trade deficit with China, that is not likely to happen because of the underlying economic imbalances responsible for the deficit. There is an overcapacity of production in China and excess demand in America. And keep in mind that Donald Trump only wants more demand, which feeds into imports, via his fiscal desires and badgering of the Fed to ease policy.

Perhaps it is best to heed what Chicago Fed President Austan Goolsbee had to say about the lasting damage that has already been incurred by all this chaos amid elevated uncertainty about the White House's trade policy:

"The way that we're doing ***this is not free for the economy****. It is definitely* ***less impactful and stagflationary than the path they were on.*** *Yet it's* ***three to five times higher than what it was before, so it is going to have a stagflationary impulse on the economy. It's going to make growth slower and make prices rise."***

Bottom line: There was no trade "win" over China — just the realization that no one wins in a trade war.

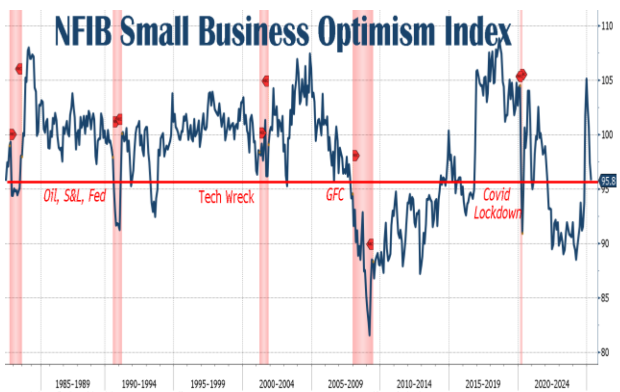
As discussed above, the real threat is runaway deficits, mounting debt and global de-dollarization.

SMALL BUSINESS GLOOM

*"Very few small businesses export their goods and services, but millions acquire imported goods as inputs to their operations and those supply chains are currently at risk…**Tariff policy is suddenly and dramatically changing relative prices (costs), and relative prices drive all decisions.**"* **—** *The National Federation of Independent Business*

The U.S. has 33 MILLION small businesses that account for 44% of GDP. They employ 61.7 MILLION people, or 46% of the private sector.

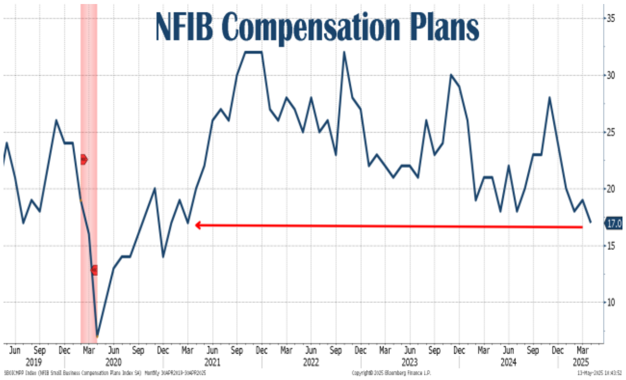
The following graphs clearly illustrate that the small business community is in a world of hurt. Small business optimism declined for the fourth straight month in April, with the lowest level of Main Street firms planning investments to expand business since 2020. Over the past four months, this index has declined by 9.3 points. Let's just say that this only happened one other time in the past, and that was in April-May 2020. The fact that this rapid descent has taken out what we saw in the 1990-1991, 2001 and 2008-2009 recessions says a whole lot.



Business expansion plans remained stuck at a six-month low of nine. (It was 20 at the end of last year.) Those who say it is not a good time to expand business overwhelmingly cite "economic conditions" as the reason.

Even worse, capital spending intentions on new equipment or buildings, etc., sagged from 21 to 18 (compared to 27 in December), which is the weakest reading since the pandemic recession in April 2020.

And there were clear signs of softness in the labor market insofar as the truth is always in the price, and the price of labor is cooling off — the net share of small firms lifting wages declined to 33% from 38% a year ago while the share claiming they plan to raise wages ahead also receded to 17% from 19% (compared to 21% a year ago).



Bottom line: Optimism among small businesses shot up after the election though those gains have quickly vanished. While this survey predated the trade war de-escalation with China, the ongoing sentiment slump is the latest warning about the economic risks associated with sky-high tariffs and broader uncertainty.

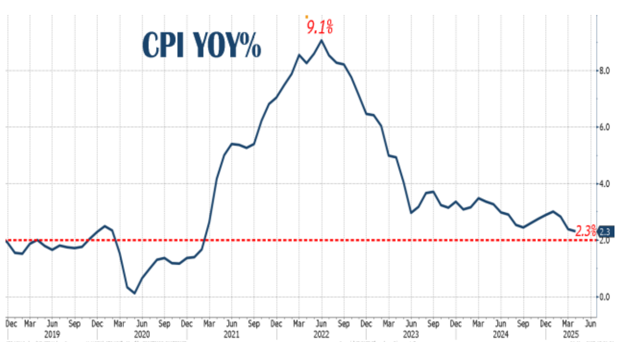
DISINFLATION RESUMED IN APRIL

*"**We will do our best to keep our prices as low as possible**. **But given the magnitude of the tariffs,** even at the reduced levels announced this week, **we aren't able to absorb all the pressure given the reality of narrow retail margins…The higher tariffs will result in higher prices."** — Doug McMillon, CEO, Walmart*

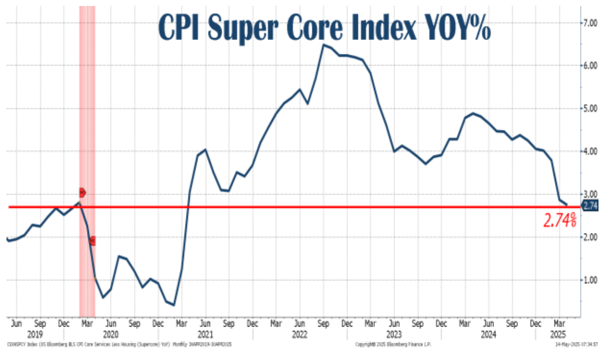
For all the anxiety over all the price hikes taking place amidst and ahead of the tariffs, the headline Consumer Price Index (CPI) and the core index both came in a tenth of a point below expectations at +0.2% month over month apiece for April. The year-over-year inflation rate slowed to +2.3% from +2.4% in March, and the core stayed at +2.8%.

In a word, the April CPI report was STELLAR. I mean, if there was ever a month when we would see an outsized increase, it would have been in April — and instead, the headline and core CPI came in light at +0.2% month over month apiece.

The three-month trend in the headline CPI is down to a mere +1.6% annual rate, and the core is now running at a +2.1% pace. This time last year, both were running north of +4.0%. Then strip out the bizarre way the Bureau of Labor Statistics (BLS) calculates residential rents, and the CPI also is running at just a +0.7% annual rate over these past three months.



What was really key within the report was the Powell supercore index (services less housing), which only rose +0.2% month over month, and the three-month trend has cooled off to a mere +0.7% annual rate (the slowest since October 2020) from +6.0% this time last year. As shown below, year over year, the index is back to levels experienced pre-pandemic.



Bottom line: If not for the trade war, the Fed would have cut rates in May, but now its hands are tied because of the uncertain impact from tariffs. Now we all wait to see how tariffs impact prices going forward along with the impact on aggregate demand, jobs and economic growth.

FAKE JOBS

I have stated time and time again that the Bureau of Labor Statistics' monthly non-farm payroll data is total garbage. It is the least accurate government report produced and is often, if not always, wrong, with significant revisions. Yet the markets trade on this "number" as if it is gospel.

The biggest reason for why this report is so inaccurate is because of the so-called birth-death model, which is nothing more than a "guess" as to how many new businesses and jobs were created. In the April payroll report, the birth-death model, yet again, accounted for over 40% of that headline payroll expansion (393,000 jobs), the most in two years. It seems odd that with all the uncertainty over tariffs, a plunge in the stock market and rise in interest rates in April, so many new businesses would start up and hire.

Table A. Three-month private-sector gross job gains and losses, seasonally adjusted

Category	3 months ended Sept. 2023	Dec. 2023	Mar. 2024	June 2024	Sept. 2024
	Levels (in thousands)				
Gross job gains	7,700	7,902	7,608	7,591	7,622
At expanding establishments	6,116	6,262	6,131	6,040	6,071
At opening establishments	1,584	1,640	1,477	1,551	1,551
Gross job losses	7,758	7,499	7,115	7,754	7,623
At contracting establishments	6,237	5,995	5,714	6,162	6,052
At closing establishments	1,521	1,504	1,401	1,592	1,571
Net employment change (1)	-58	403	493	-163	-1
	Rates (percent)				
Gross job gains	5.9	6.0	5.7	5.8	5.8
At expanding establishments	4.7	4.8	4.6	4.6	4.6
At opening establishments	1.2	1.2	1.1	1.2	1.2
Gross job losses	6.0	5.7	5.4	5.9	5.8
At contracting establishments	4.8	4.6	4.3	4.7	4.6
At closing establishments	1.2	1.1	1.1	1.2	1.2
Net employment change (1)	-0.1	0.3	0.3	-0.1	0.0

(1) The net employment change is the difference between total gross job gains and total gross job losses. See the Technical Note for further information.

source: BLS

To get a true sense of the labor market, one needs to look at the Quarterly Census of Employment and Wages (QCEW) and Business Employment Dynamics (BED) reports. (See above) As a refresher, the BED report utilizes employment data from 9.1 million establishments (a 96% sample of workers), but those reports lag by about five months. Monthly non-farm payrolls come from ~629,000 establishments and are reported the first Friday of every month. Unlike the QCEW and BED reports, which are "lagged" and "accurate," the non-farm payroll data is "timely" and often "wrong."

Here's the latest example of how flawed the non-payroll report is. The Biden administration claimed to have added almost 400,000 jobs from July through September of last year, but the latest data released suggest none of those jobs ever existed.

According to BLS Business Employment Dynamics (BED) data released a week ago, the BLS reported 1,000 JOB LOSSES in Q3 2024 after 163,000 job losses in Q2 2024.This is in HUGE contrast to the initial estimate of non-farm payrolls showing 399,000 jobs created in Q3 2024. Again, this BED data is much more accurate than the non-farm payrolls and won't show up in the jobs numbers until next year.

Bottom line: The QCEW reports have been hugely negative, and there is every reason to believe QCEW trends will NOT change. As was reported last week, non-farm payrolls in April came in solid at +177,000, above the +138,000-consensus forecast. This sounds good, but the reality is that this number will be revised lower in the months to come.
The labor market is not nearly as strong as advertised.

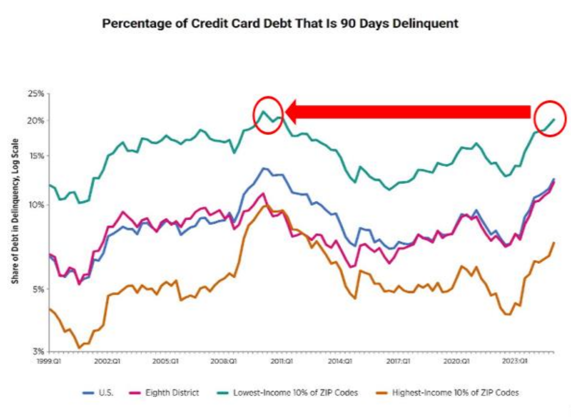
MORE ON THE K-SHAPED ECONOMY

According to the St. Louis Fed, the share of **lowest-income Americans** aged 20 to 64 having credit card accounts with debt that is 90+ days past due has risen by 6% over the last three years to 16% in Q1 2025, the highest in 22 years.

Additionally, the proportion of the **highest-income people** aged 20 to 64 with credit cards that are 90+ days delinquent hit 6%, the highest in 21 years.

As a result, the share of Americans aged 20 to 64 having credit card debt that is seriously delinquent hit a record 11%.

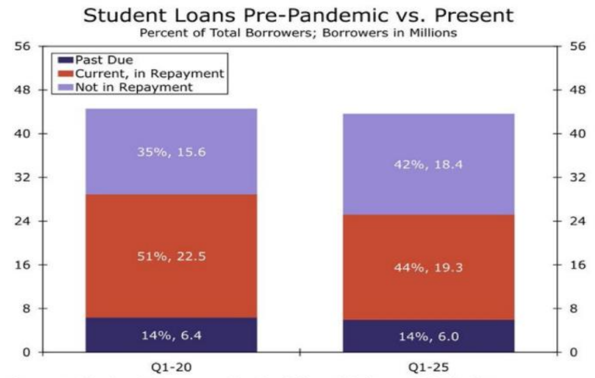
Meanwhile, the share of credit card holders aged 20 to 64 whose debt is 30 days delinquent reached 12%, an all-time high.



At the same time, more than 10% of student loan balances, or ~6 million borrowers, are either past due or in DEFAULT, according to the New York Fed.

There's more delinquent student loans in Q1 2025 than there were in Q1 2020 — last time they were collected.

The more delinquent student loans get, the less access to credit those borrowers will have for other consumption, and the less consumption they will therefore do. Thus, it's going to have a negative impact on growth. The question is how impactful.



Source: Federal Reserve Bank of New York and Wells Fargo Economics

I think the student loan repayment topic is going to become much bigger financial news eventually. Over 40 million Americans were essentially given a $500/month forbearance from the government for the past five years. This was $6,000/year of consumption power that never should have been there, but it was there. That's $240,000,000,000 of annual spending that was essentially gifted by the government to consumers. And that doesn't count the multiplier effect of all that spending. That's stopping now.

Best case scenario, borrowers repay their loans, and it's just a huge drag to GDP. Worst case, borrowers cannot repay their loans, and then it's a huge drag to GDP anyway because wages will be garnished, but on top of that, their credit scores get hit, and therefore their access to other credit — for homes, cars, appliances, credit cards, etc. — goes down, and it can easily become a much larger hit to GDP.

For what it's worth: I fully support student loan repayment. Voluntary debt taken on by ~10% of the population should not be repaid by the other 90%, many of whom are a lot poorer and less fortunate than the 10% they're bailing out.

Let me add this comment. One of the reasons we should have never let student borrowers off the hook for this long is that when we had to inevitably restart it, it would cause a massive economic headwind. Well. We didn't listen. And now the chickens are coming home to roost. Just add this to the list of yet another brand-new economic headwind the country now faces.

Bottom line: Straws are piling up on the camels back. The rising delinquencies are a further sign that we are in a "K-shaped" recovery/economy, where a smaller number of Americans are doing very well, and many, likely the majority, are struggling, either a little bit or often quite a lot. Sadly, the poor and middle class have been increasingly financing a standard of living they can't afford. Record-high credit delinquencies alongside bullish markets suggest a facade or a two-speed economy where Wall Street thrives and Main Street struggles.

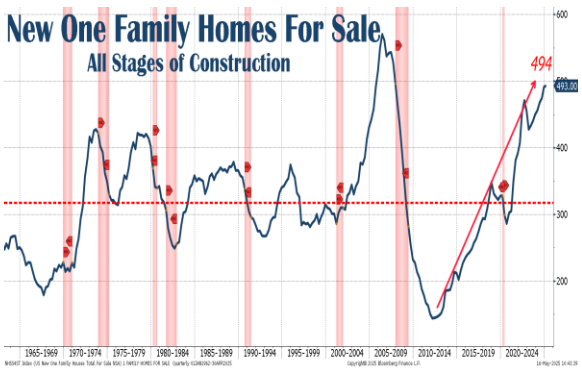
NO SPRING IN HOUSING

Moving to the housing sector. The National Association of Homebuilder (NAHB) Index for May and the weekly pending home sales into mid-May reflect the WEAKEST spring season for housing EVER outside the pandemic.

Builders are reporting very low traffic. Increased use of price cuts. And are giving sales incentives on over 60% of listings.

Meanwhile, we have the highest level of spec builder inventory on the market since 2009. Bad news for people who want home prices to go up. Good news for prospective buyers - things are about to get cheaper. Indeed, real estate demand is contracting at an alarming rate.

In other words, during the peak housing season, there is virtually NO demand. Indeed, there are 8.3 months of unsold new homes and in the resale market, the number of homes with a "For Sale" in front of them has ballooned +20% from a year ago while demand has contracted -2.4% year over year.



The April housing starts data was further confirmation, with declines concentrated among single family homes. That crucial and normally stable sector (highly exposed to mortgage rates) is down -12.0% year over year. Single-family building permits were down -5.1% month over month and -6.2% year over year — now at a 23-month low.

Housing starts and permits (especially single-family starts and permits) are definitely leading indicators and are sensitive to rates and to uncertainty. The combination of a gyrating tariff policy and a cautious Fed is pure POISON to the housing market.

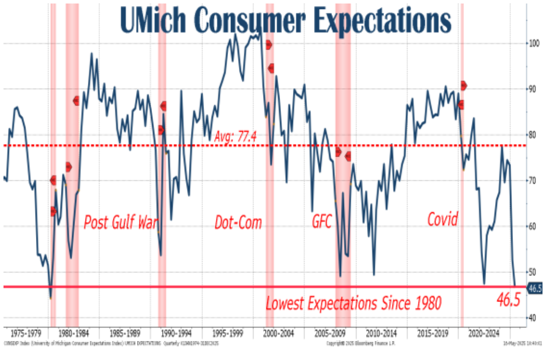
From a longer-term perspective, here are the headwinds impacting residential real estate:

- Immigration drove a huge need for multi-family housing, but Trump put a screeching halt to immigration needs.
- The supply of housing from retiring and dying boomers will accelerate.
- Millennials and Zoomers are having fewer kids. Affordability is a huge issue.
- Mortgage rates are still near 7.0 %.
- Tariffs on steel, aluminum, lumber and appliances add to building costs. Tariff uncertainty adds to job loss fears.

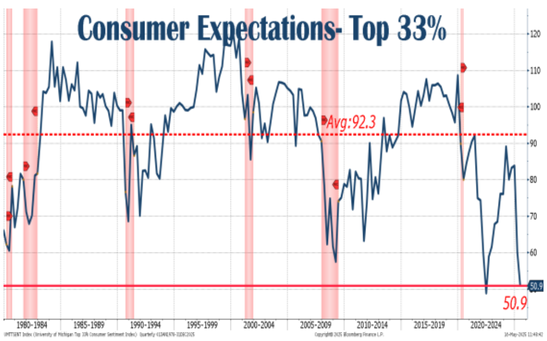
Bottom line: All roads lead to real estate deflation, the bedrock asset on household balance sheets, and it is this reason, more than any other, that supports safe-haven defensive investments like Treasury notes and bonds.

SURVEY SAYS…

Finally, to cap off the week, the University of Michigan Consumer Survey showed that consumers are REALLY pessimistic about the future. As shown in the graph below, consumer expectations have plunged to near all-time RECORD LOWS. Remember, it's expectations that drive consumer behavior.



The richest Americans — who drive aggregate spending in the U.S. — typically feel better about the economy than lower-income groups. But not anymore. When looking at the income cohort levels, top-line sentiment fell for all three groups, led by the high-end consumer falling from 54.3 last month to just 50.9, the lowest since June 2022. If the high-end consumer feels pessimistic (the high end consumer accounts for 50% of consumption) brace yourselves for bad retail numbers ahead.



Labor market conditions are also bad. The twelve-month ahead expectation for a change in unemployment fell to +48 from +49 — the lowest since March 2009.

Homebuying conditions and auto buying conditions expectations remain near all-time lows. These sectors are still depressed, thus one should expect a future slump in housing and consumer durables across the board if the Fed continues to act with extreme caution.

Bottom line: The consumer's mood is in the trash can. The question is, will it translate to the forthcoming hard data?

MARKET OUTLOOK AND PORTFOLIO STRATEGY

"I wouldn't take a recession off the table at this point."— Jamie Dimon, CEO JPMorgan Chase

Neither recession nor higher inflation have been taken off the table by calling off the trade war. Yes, higher tariffs would've made both recession and inflation worse, but the lower tariffs that remain are still problematic for an already weak economy.

All year, I have been focusing on the "soft" survey data that will soon flow into "hard data" and that Powell will be proven to have been behind the curve as a result. Indeed, last week we received numerous economic reports that pointed to an economic slowdown.

First, retail sales came in at +0.1% month over month. The "core control" figure (ex-autos, gas and building materials), which feeds directly into the consumer spending part of GDP, showed a surprising -0.2% decline and a reversal of the +0.5% March pickup.

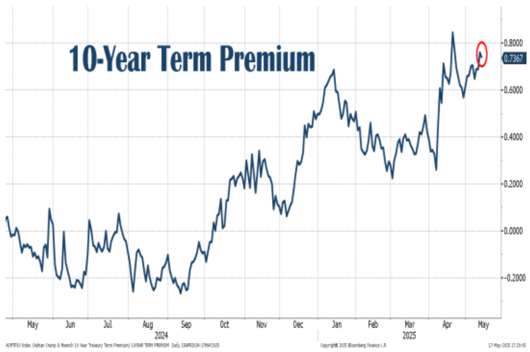
In real or inflation-adjusted terms, sales dropped -0.2% month over month and have contracted now in three of the past four months. In total, this is a dud of a report and, overall, speaks to a once-hot consumer losing momentum. Demand is clearly softening.

In April, industrial production came in weaker than expected at 0.00% while manufacturing declined -0.4%.

Tuesday's CPI and Thursday's Producer Price Index releases confirmed a disinflationary trend (prior to Liberation Day) — sparking a big rally in the Treasury market. Even with the rally, Treasuries overall continued a remarkable bear run fueled by the same dynamics, with yields up +6 basis points for the 10-year Treasury this past week. The long bond has just sliced through 5% and is now at the highest yield in nearly two decades .

Meanwhile, the yield curve has continued to steepen to three-year highs. Clearly the markets are rightly worried that Uncle Sam does NOT have his fiscal house in order.

Between tariffs, interest rates, the Fed and now the U.S. downgrade, volatility is here to stay. That uncertainty is reflected in the 10-year term premium.



Bottom line: In this environment of extreme volatility, the only prudent thing to do is to stay on course. Continue to maintain a risk-appropriate ladder strategy while buying bonds on (price) dips.

MORE INFORMATION

For more information about credit union investment strategy, portfolio allocation and security selection, please contact the author at **tom.slefinger@alloyacorp.org** or (630) 276-2753.

As Alloya's Market Strategist, **Tom Slefinger** leverages nearly 40 years of investment strategy expertise to deliver insightful commentary on the economy and market events to optimize balance sheet performance at the credit union level. With thousands of subscribers, Tom's daily and weekly publications are widely read amongst credit union executives.

Prior to becoming the corporate's Market Strategist, Tom served as the Senior Vice President of Institutional Fixed Income Sales at Alloya Investment Services, a division of Alloya Solutions, LLC. In this role, Tom developed and managed operations associated with institutional fixed income sales in addition to developing investment portfolio strategies, identifying appropriate sectors and securities, and optimizing portfolio performance at the credit union level.

Tom holds a B.S. in business administration from the University of Maine. In addition, he holds a Series 7 and 63 through ISI.

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