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INVESTMENT SERVICES

Weekly Relative Value

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Market Strategist

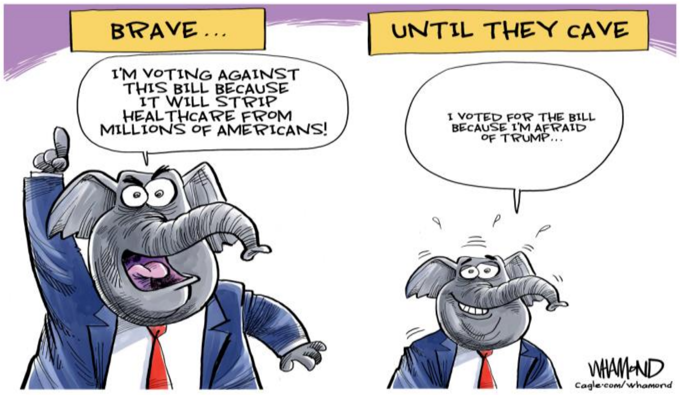
WEEK OF JULY 7, 2025

The Hawks Cave

"There could be no better birthday present for America than the phenomenal victory we achieved just hours ago, when Congress passed the One Big Beautiful Bill to make America great again…We've saved our country."
— President Donald Trump

The Big, Beautiful Bill (BBB) passed in the House and was signed into law by President Trump. This will cause a massive increase in debt at exactly the worst time. With massive demographic change looming, the U.S. faces a serious debt problem, and yet the fiscal hawks in Congress were nowhere to be found.

The BBB will ensure that large-scale deficits and debts will be with us as far as the eye can see. Yet, virtually every Republican, including the so-called Freedom Caucus (fiscal hawks in the House) caved. In the end, 36 Republicans voted for a bill they said they could NOT vote for. Apparently, the only thing that is permanent in Washington, no matter who is the president, is spending.



In a world where fiat remains faith-based, confidence can unwind fast. As our debt levels soar and deficits blow out, there is a risk that at some point, something will break. Perhaps the steep drop in the U.S. dollar is an early sign that some investors are losing faith in fiscal policy. That the dollar selloff has taken hold with U.S. rates significantly higher than in Europe and Asia is something that should be closely watched going forward.

While the equity markets might like this bill, the public polls show only 30% of the public supports the budget bill.

THIS WEEK

- CRACKS WIDEN IN LABOR MARKETS
- LIES, DAMNED LIES AND STATISTICS
- FROM THE SUBLIME TO THE DANGEROUS
- IS THE ECONOMY ALREADY IN A RECESSION?
- MARKET OUTLOOK AND PORTFOLIO STRATEGY

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Clearly, Elon Musk was NOT a fan.

*"It is obvious with the insane spending of this bill, which i**ncreases the debt ceiling by a record FIVE TRILLION DOLLARS**, that we live in a one-party country **— the PORKY PIG PARTY!!"***

Musk followed his post with another, jabbing the House Freedom Caucus, whose members mostly voted for the House version of the bill.

*"How can you call yourself the Freedom Caucus **if you vote for a DEBT SLAVERY bill with the biggest debt ceiling increase in history?"***

***Every member of Congress who campaigned on reducing government spending and then immediately voted for the biggest debt increase in history should hang their head in shame!** And they will lose their primary next year if it is the last thing I do on this Earth."*

***—** Elon Musk, Businessman and Former Head of the Department of Government Efficiency*

Republican charlatans say that extensions of tax cuts set to lapse December 31 don't count toward budget deficits the same way that new tax cuts do because they are just continuing current policies. Sure thing. The current Tax Cuts and Jobs Act set to expire next year was budgeted for expiring next year. Now it won't. This unprecedented maneuver is key to the GOP's plan to squeeze permanent tax cuts through Congress on a simple-majority vote.

Have a read of "GOP Declares Tax-Cut Extensions 'Free' to Obscure Megabill's Cost" in *The Wall Street Journal*.

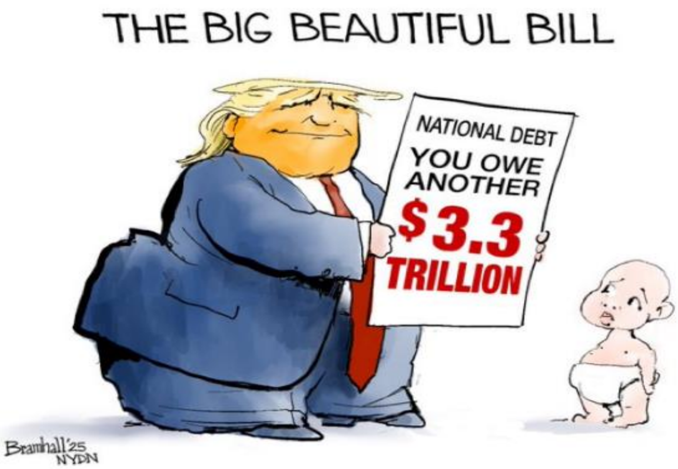
This is Trump's tax policy in a nutshell:

1) Cut taxes for the wealthy and corporations by claiming they'll pay for themselves.
2) Explode deficits.
3) Use the debt as an excuse to demand cuts to vital programs that help millions.

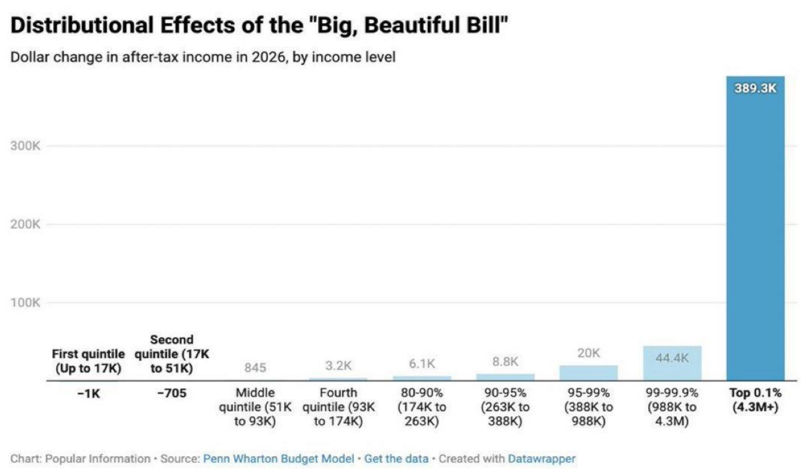
Being a fiscal conservative, my disappointment with the BBB is profound. To be crystal clear, I am in favor of low taxes, but I am adamantly opposed to deficit-financing said tax cuts, handing the bill to our children and grandchildren while taking healthcare and food from the neediest Americans. In action, I believe it borders on

criminality. So, while the budget bill certainly is BIG when it comes to spending, it is not at all beautiful. In fact, it's UGLY.

Mr. President, you want to extend the tax cuts? Then realign program spending to be able to pay for the relief instead of blowing out fiscal finances even more than is the case. You cannot indefinitely borrow into prosperity.



Not only is this bill adding trillions to the national debt, but it's going to primarily benefit the top 0.1% of Americans.



Regarding the BBB, the Congressional Budget Office (CBO) estimates that the budget bill will tack on +$3.3 trillion to the national debt by 2034.

And according to the non-partisan Committee for Fiscal Responsibility (CRFB):

- The bill will add more than $5.3 trillion to the debt, if various temporary tax cuts and spending increases were made permanent.
- The bill increases annual deficits by $600 billion per year.
- Deficits would exceed 7% of the gross domestic product (GDP) — more than double Secretary Bessent's proposed fiscal target of 3% of GDP. If made permanent, deficits would rise to roughly 8% of GDP.
- Debt/GDP could rise to 130%.

- Interest costs would approach $2 trillion.

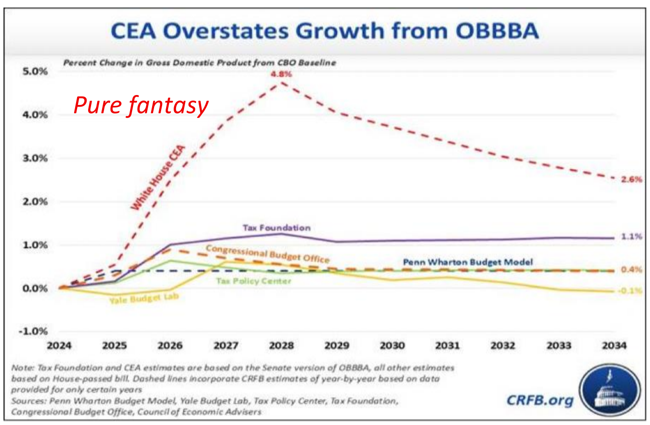
It may seem hard to believe, but once upon a time, the Republican party in Washington took fiscal rectitude seriously. Needless to say, the historic GOP would be rolling in its grave in response to the BBB with its total cop-out on spending.

Republicans justify the tax cuts on the FALSE promise that the tax cuts will create accelerated growth and more than pay for the tax cuts. This is called "trickle down" economics, also known as "voodoo" economics. This theory has been disproven time and time again, yet that is what this entire bill hinges on.

History tells us that tax cuts will only add to debt and deficits.

Don't take my word for it. Have a look below of the White House analysis of BBB versus multiple non-partisan private forecasters. Who do you belive? This analysis shows how ridiculous Trump's assumptions and claims for the legislation are.

The White House Council of Economic Advisors (CEA's) forecast is exactly how the Trump administration purposely overestimated the growth prospects and underestimated the budget impact in 2017. Trump and his economic advisers gave estimates ranging from a 4.2% to 5.2% increase in short-term economic growth and a 2.9% to 3.5% long-term gain. Yet 36 months after it took effect, and prior to the pandemic, many economists were predicting a recession in 2020. Wash, rinse, repeat. Now we are in for a repeat play of the same trickle-down nonsense.



Making matters worse, the BBB may be the most regressive piece of legislation in modern American history. According to non-partisan Yale University's Budget Lab, the BBB will cost the bottom 20% of taxpayers an average of $560 a year while giving an average boost of $6,055 to those at the top end. Moreover, the legislation also provides hundreds of billions of dollars in new funding for defense and for Trump's crackdown on immigrants, both legal and undocumented.

"It's crazy how Medicaid, food stamps and poor people spike the federal debt every time we bail out failing banks, hand massive subsidies and tax cuts to corporations, or see a speculative bubble collapse."
—John P Hussmann, PhD

The BBB would also cut the federal Medicaid and Children's Health Insurance Program. All for a tax cut for Trump's billionaire donors, who frankly, don't need it.

Here's a quick summary:

- **17 million people just lost health care.**
- **18 million kids just lost school meals.**
- **Three million Americans just lost food assistance.**

The last word goes to Maya MacGuineas, President of the non-partisan Committee for a Responsible Federal Budget:

*"In a massive fiscal capitulation, **Congress has passed the single most expensive, dishonest and reckless budget reconciliation bill ever — and it comes amidst an already alarming fiscal situation. Never before has a piece of legislation been jammed through with such disregard for our fiscal outlook, the budget process and the impact it will have on the well-being of the country and future generations.***

*Our fiscal condition is currently precarious, **with debt-to-GDP soaring towards an all-time record, interest costs surging past nearly all other parts of the budget, and the Social Security and Medicare trust funds heading towards insolvency. This bill, which has been described by champions as "a start" toward fiscal sustainability, would in fact make every single one of these problems worse – in some cases, dramatically worse.***

*Given our current fiscal condition, **lawmakers should be committed to not passing any legislation that makes the situation worse**. Instead, **demonstrating blatant disregard for the fiscal damage this will do, Congress passed a bill that would add more than $4 trillion to the debt, accelerate the insolvency of Social Security and Medicare, and leave us even more vulnerable to the whims of the Treasury markets.***

*There were a number of lawmakers who, under immense pressure, nonetheless tried to improve this bill along the way. The final bill would have been even worse for the debt, absent their efforts. But ultimately you speak with your vote, **and every Member of Congress who voted for this irresponsible bill enabled adding trillions of additional borrowing, when they should have been working to fix the debt.***

*Throughout this process, we have eroded the fragile norms that stop politicians from adding unlimited amounts to the national debt. **Congress didn't just increase the debt by $4 trillion — they engaged in a massive cover-up about it, and they forced the scorekeeper to do the same. What's the point of budgeting at all, if you can just make up whatever numbers you want?***

*Yes, the economy may well enjoy a sugar-high the next couple of years, as borrowing stimulates near-term consumption. **But a sugar-high won't be sustained, it will do real damage, and often what comes next is the crash. The longer-term health of our economy, American families, and our children will be worse off due to this debt-financed bill."***

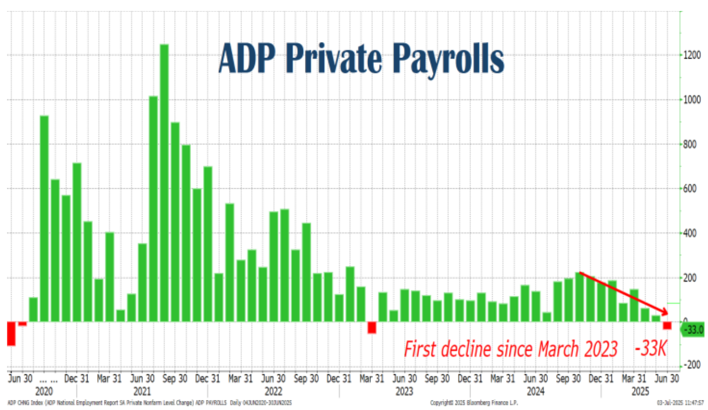
Bottom line: Billionaire tax cuts are a policy choice. Cutting healthcare for millions is a policy choice. Taking from those in need and giving to the rich is a policy choice. Make no mistake: Trump and the GOP are choosing to do this with their budget bill.

At a time of record debt and deficits and near-record inequalities of income and wealth, Republicans have passed the largest debt increase and redistribution of income upward in the history of this nation.

CRACKS WIDEN IN LABOR MARKETS

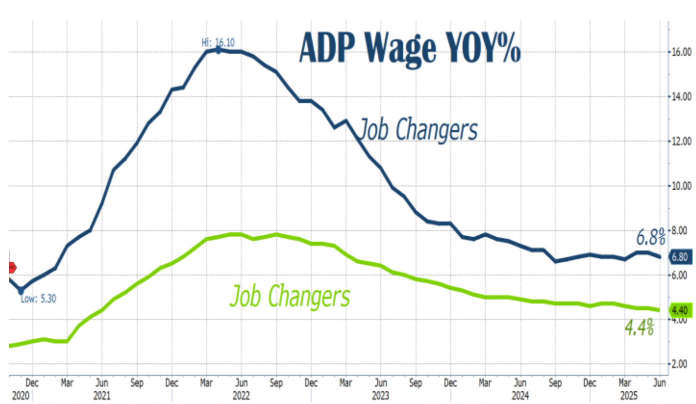
"Though layoffs continue to be rare, a hesitancy to hire and a reluctance to replace departing workers led to job losses last month." — Nela Richardson, Chief Economist, ADP.

The ADP private sector payroll data confirmed my suspicion that wider cracks are emerging in the labor markets. In fact, the headline dropped -33,000 in June, which came as a shock to a consensus expecting +98,000 (and May was revised lower to +29,000 from +37,000). This was the first decline since March 2023 and just the second falloff since July 2020 when the economy was crawling out of the pandemic-lockdown recession. As shown in the graph below, since mid-2024, payroll growth has been trending downward.

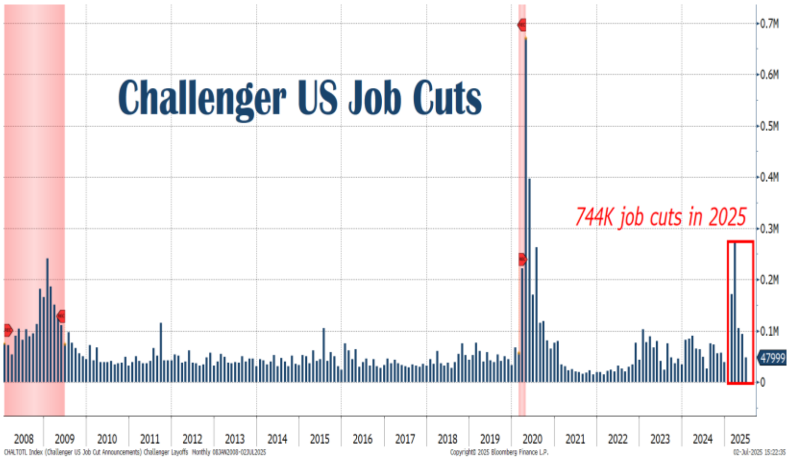


What really stood out was the -47,000 slump in small-business payrolls on top of the -13,000 contraction in May. This was the steepest two-month decline since May-June 2020; then go back to March-April 2010 when it wasn't even clear that the Great Recession was over. This is important because small firms are in the weeds of the economy and respond much quicker to shifting economic conditions. In other words, small businesses are a leading indicator for economic growth.

Wages also slowed to +4.4% year over year for job-stayers from +4.5% in each of the previous two months (a four-year low) and down to +6.8% year over year from +7.0% in May for job-changers.



Meanwhile, according to outplacement firm Challenger, Gray & Christmas, layoffs across the U.S. this year have climbed to their highest level since the pandemic slammed the economy in 2020. In the first half of 2025, companies announced 744,308 job cuts nationwide, the highest tally since the first six months of 2020, when employers cut nearly 1.6 million jobs in response to pandemic-related disruptions.



The latest continuing claims clearly show that if you lose a job, it is increasingly difficult to find one.

Bottom line: Using the above data, it's hard to deny that the jobs market is weakening.

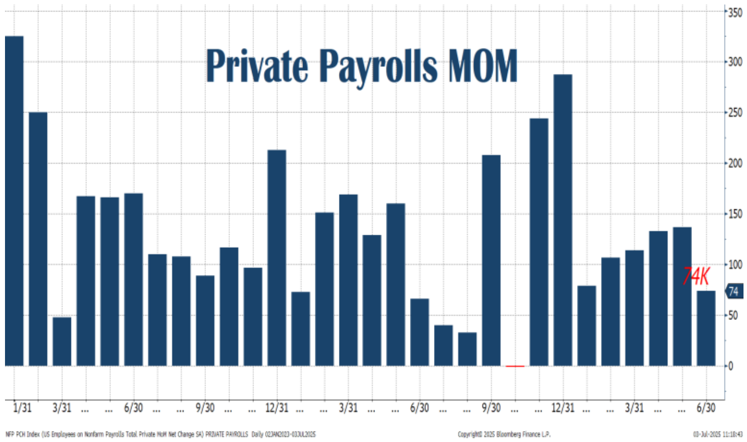
LIES, DAMNED LIES AND STATISTICS

The headline non-farm payroll number for June again surprised to the high side, coming in at +147,000 in June (consensus was for a +106,000 print), but this was NOT a strong report — not by a country mile.

First off, once upon a time June was "school's out" month, and as far as I know, it still is. But apparently the Bureau of Labor Statistics (BLS) is not aware. They reported that state and local school authorities hired an additional ***64,000*** teachers and administrators in June! This sharp rebuke to normal seasonality **accounted for 44% of the entire ballyhooed gain of 147,000 non-farm jobs in June.** So once again, the Friday jobs reports each month are truly not worth the paper they are printed on.

More importantly, private sector employment came in very light, at just +74,000 in the softest gain in eight months.

But it gets even better. The seasonally adjusted birth-death model added +76,000 jobs, which is pure fantasy since we know that business bankruptcies have climbed to near cycle highs and new business creation has slowed to a crawl. **When you strip out this skew, private sector jobs declined fractionally. This is the major takeaway from this report.**

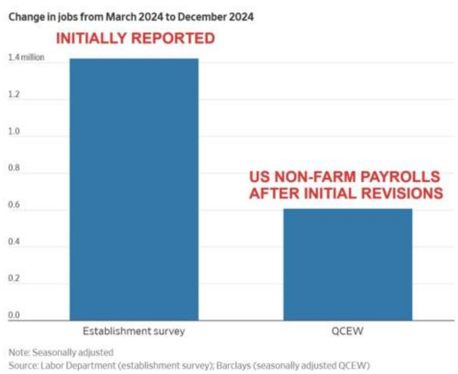


I've discussed the flawed birth-death model many times before, but I believe it needs to be highlighted again.

Nearly two-thirds of the payroll gains have been generated by the birth-death model that attempts to quantify employment caused by new net business creation. For all practical purposes, it's a GUESS. The problem I have is that the Fed and the markets have both been duped by this trickery. This is why. The total number of business insolvencies is up nearly +20% year on year and at the third-highest level in the past eight years. New business formation, meanwhile, is lower today than it was four years ago. Yet, the BLS has been telling us is that 1.1 million net new jobs in the past year came from the birth-death model!

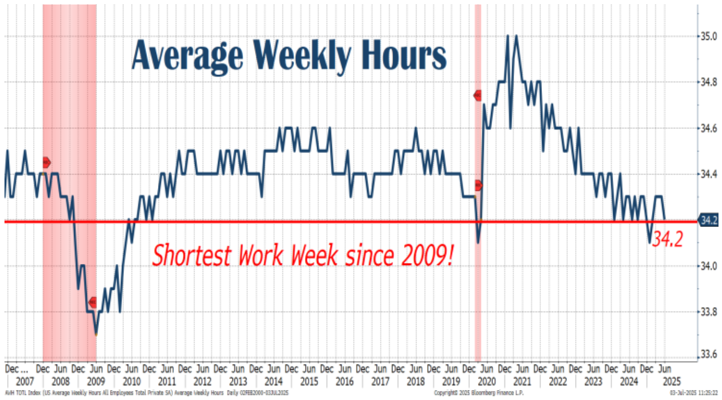
Of the 1.7 million alleged non-farm payrolls that were created over the past 12 months, 1.1 million came from this source! That means that the employment gain has just been an average of +50,000 per month, not +140,000, as has been reported. "**Lies, damned lies and statistics," goes the oft-used refrain by Mark Twain.**

As shown in the graph below, the Quarterly Census of Employment and Wages (QCEW) data has already shown that the birth-death model has been distorting the monthly payroll data by nearly 800,000 in the period from March 2024 through December 2024.

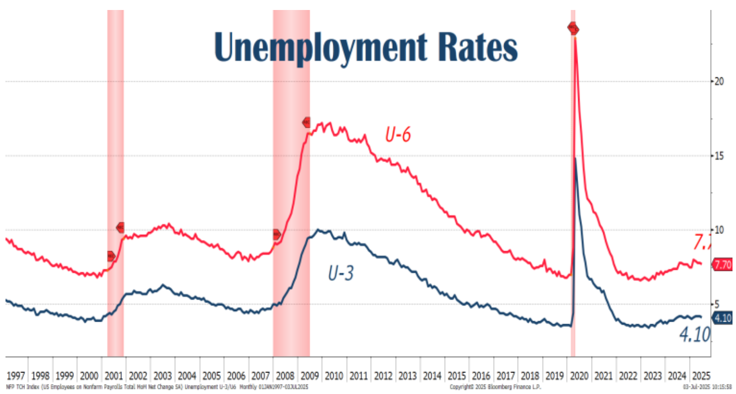


Sadly, what was once a gilt-edged piece of economic data that provided critical information about the labor markets is replete with unprecedented sampling errors. In other words, it's total garbage!

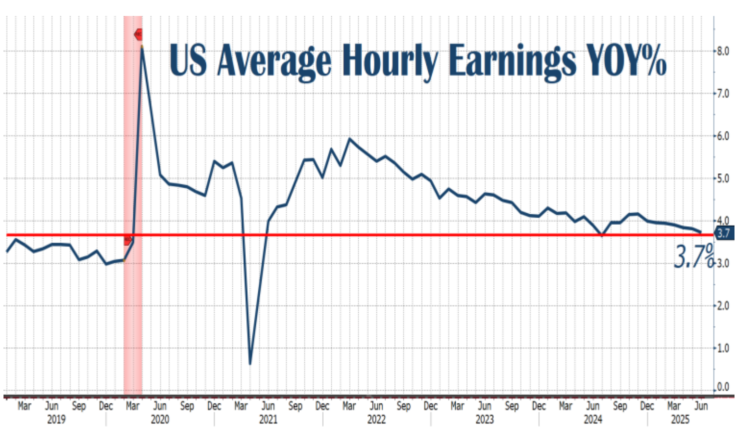
Moving on. The private sector workweek shrank by -0.3% month over month to 34.2 hours, and that means that the index of aggregate hours worked fell -0.26% sequentially.



The unemployment rate dipped to 4.1% instead of inching higher to 4.3% from 4.2%. The reason why the jobless rate fell was that the labor force contracted by -130,000 (due to a seasonal early summertime quirk via a -237,000 slide in 16- to 24-year-olds). The labor supply in the critical adult working-age population (25-54) jumped +194,000 last month.



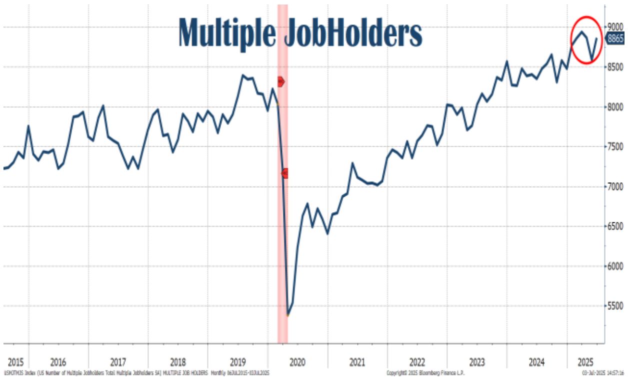
Average hourly earnings growth continues to slow as the labor market has softened. The average hourly wage number came in light at +0.2% month over month, and that helped take the year-over-year trend down a tick to +3.7% from +3.8%.



Wages rates are being pressured lower by the swelling ranks of the unemployed, still job searching and growing desperate. The share of the unemployed who have been looking for work for more than 26 weeks expanded from 20.4% to 23.3%, the second highest level over the past three years.

With employment growth around zero, and wage growth per employee at 3-4%, households don't have anything close to the nominal spending power as earlier in the cycle. When you tack on the decline in hours worked, average weekly earnings — the proxy for work-based personal income — slipped -0.1% month over month. This is what classifies on CNBC as a strong report? Give me a giant break. This data begs the question as to just how tight the labor market is if wage growth is decelerating as opposed to accelerating.

Meanwhile, the Household Survey showed +93,000 for the headline job gain, which seems far closer to reality (as did the ADP). Importantly, these reports are not influenced by the faulty birth-death model. Since the turn of the year, employment as measured by the Household Survey has declined by -0.8% annualized. As an aside, even that +93,000 print from the Household Survey was complemented by the fact that multiple job holders, a classic contra-cyclical indicator, soared +202,000 last month.



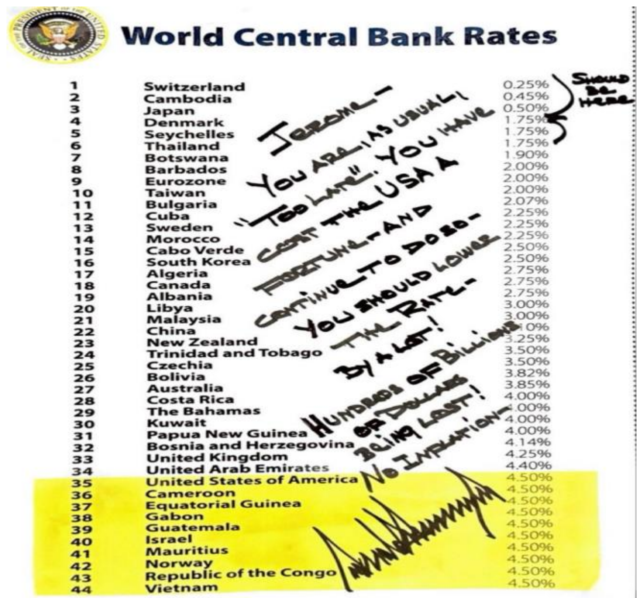
Bottom line: As I have repeatedly stressed, there is a BIG danger in drawing conclusions from the non-farm payroll headline numbers. All you need to do is scratch the surface, and you will see the cracks widening in the U.S. labor market. It isn't that difficult to do. Simply put, the labor market is weak. Don't believe the hype.

*"You are, as usual, 'Too Late,'" Trump wrote to Federal Reserve Chair Jerome Powell in a note. "**You have cost the USA a fortune** and continue to do so. You should lower the interest rate by a lot! Hundreds of billions of dollars being lost! **No inflation**."*

FROM THE SUBLIME TO THE DANGEROUS

We have seen past presidents try to pressure the Fed, but it was done in private and not nearly to the extent we are seeing today. And NEVER did we hear any other president say that they knew more about interest rates and monetary policy than the Fed chair.

Have a look at the message that the President scrawled on a note to Jay Powell.



World Central Bank Rates

1	Switzerland	0.25%
2	Cambodia	0.45%
3	Japan	0.50%
4	Denmark	1.75%
5	Seychelles	1.75%
6	Thailand	1.75%
7	Botswana	1.90%
8	Barbados	2.00%
9	Eurozone	2.00%
10	Taiwan	2.00%
11	Bulgaria	2.07%
12	Cuba	2.25%
13	Sweden	2.25%
14	Morocco	2.25%
15	Cabo Verde	2.50%
16	South Korea	2.50%
17	Algeria	2.75%
18	Canada	2.75%
19	Albania	2.75%
20	Libya	3.00%
21	Malaysia	3.00%
22	China	[illegible]
23	New Zealand	3.25%
24	Trinidad and Tobago	3.50%
25	Czechia	3.50%
26	Bolivia	3.82%
27	Australia	3.85%
28	Costa Rica	4.00%
29	The Bahamas	4.00%
30	Kuwait	4.00%
31	Papua New Guinea	4.00%
32	Bosnia and Herzegovina	4.14%
33	United Kingdom	4.25%
34	United Arab Emirates	4.40%
35	United States of America	4.50%
36	Cameroon	4.50%
37	Equatorial Guinea	4.50%
38	Gabon	4.50%
39	Guatemala	4.50%
40	Israel	4.50%
41	Mauritius	4.50%
42	Norway	4.50%
43	Republic of the Congo	4.50%
44	Vietnam	4.50%

SHOULD BE HERE

JEROME – YOU ARE, AS USUAL, "TOO LATE". YOU HAVE COST THE USA A FORTUNE – AND CONTINUE TO DO SO – YOU SHOULD LOWER THE RATE – BY A LOT! HUNDREDS OF BILLIONS OF DOLLARS BEING LOST! NO INFLATION –

Trump's criticism of Powell has been both personal and persistent. In social media posts, he has called Powell a "numbskull" and a "moron," always TOO LATE AND WRONG" and suggested that Powell's "termination cannot come fast enough." During press briefings, Trump has asserted his authority to remove Powell, stating, "If I want him out, he'll be out of there real fast, believe me."

Trump's persistent hounding of Powell to cut rates is seriously misguided. Trump does not understand trade, tariffs or the economy in general. Trump is a real estate guy, and like all of them, wants lower rates.

That said, Trump has made clear his preference for aggressive rate cuts, recently stating that the Fed should decrease rates by a full percentage point. As shown in the note above, he believes that U.S. rates should be equivalent to where the Swiss bank has pinned short term rates (0.25%). He stated:

"If I think somebody's going to keep the rates where they are or whatever, I'm not going to put them in. I'm going to put somebody that wants to cut rates. There are a lot of them out there."

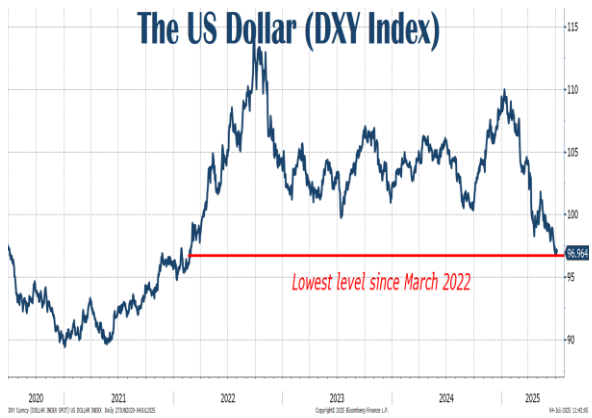
Trump is supposedly considering Kevin Warsh as Powell's replacement. While Warsh has advised against a premature removal of Powell, his potential appointment raises questions about how a Trump-selected Fed chair might respond to presidential pressure for lower interest rates. If Trump succeeds in appointing a "puppet" as Fed chair, willing to do what the president wants, history suggests the consequences could be quite significant.

With inflation still above the Fed's 2% target and tariff policies adding upward pressure on prices, aggressive rate cuts could reignite the kind of inflationary spiral that devastated the American economy fifty years ago. Anyone remember what happened in the 70s when inflation soared? However, unlike the 1970s, today's economy faces unprecedented levels of government debt and an aging population.

Fed policymakers are concerned that aggressive tariffs could reignite inflation while also potentially increasing unemployment…otherwise referred to as stagflation. As such, blatant political pressure for lower interest rates could backfire and prove damaging to the overall economy.

Ironically, Jay Powell stated last week that if it weren't for the tariff policy, the Fed would be already cutting rates today. So, the reason the Fed has NOT lowered rates is due to the uncertainty surrounding Trump's tariff policy.

As we move forward, the single biggest risk to the economy and markets would be a crisis of confidence in Fed independence. Financial markets have aways regarded central bank autonomy as essential for credibility and global stability. If markets decided that the Fed has become subservient to the Oval Office, the repricing of risk could trigger a sovereign debt crisis. The U.S. dollar could plummet, bond yields could spike, borrowing costs could soar and the government could face a fiscal crisis.



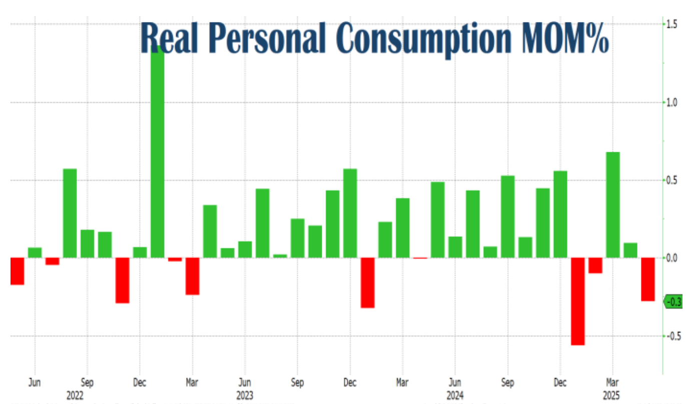
Bottom line: The decision for the next Fed chair will be whether to maintain the integrity and independence of monetary policy or yield to political pressure for short-term economic gains. The specter of Richard Nixon and Arthur Bills and the lessons learned from the 1970s have never been more relevant.

For the sake of America's economy, let's hope that history doesn't repeat itself.

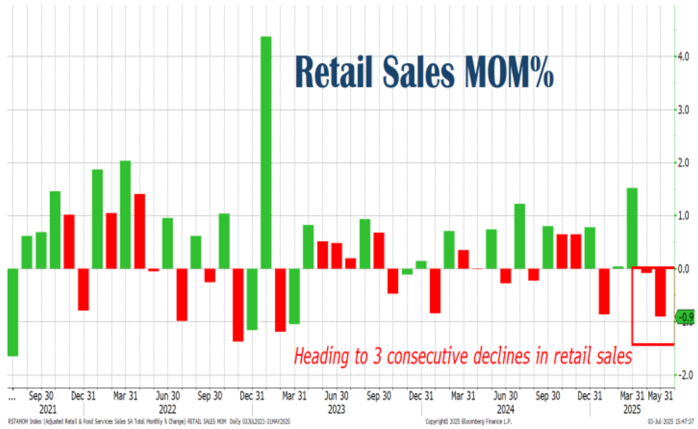
IS THE ECONOMY ALREADY IN A RECESSION?

Consider the evidence:

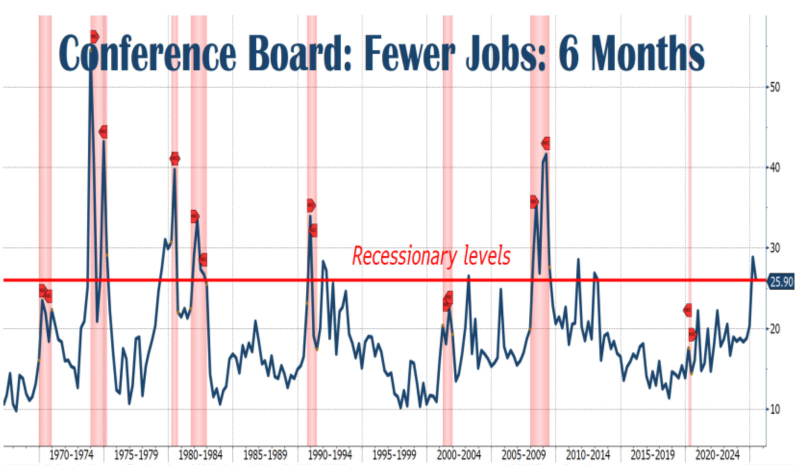
- Real personal consumption expenditures have plummeted. That's 70% of the economy.



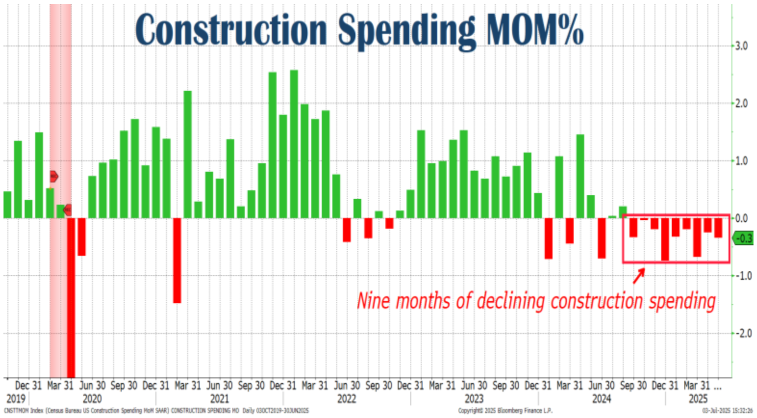
- Johnson Redbook's estimates a -0.6% pullback in chain store activity last month (after slumping -1.1% in May). Thus, we have a situation on our hands where headline retail sales may have declined for three straight months. This has not happened in a decade, and very rarely, (if ever) happens outside of a recession.



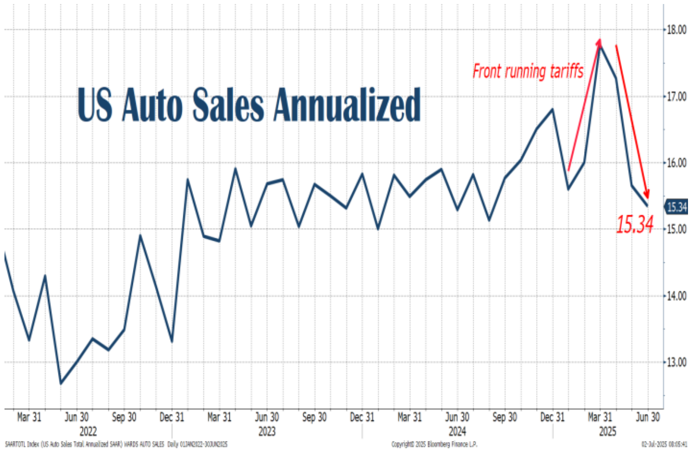
- Housing is in shambles, with residential investment down in Q1 and set to fall even more in Q2. According to Zillow, home prices are falling in more than 60% of U.S. counties.
- Payrolls keep looking good on the day of the release, only to be revised lower in subsequent months. See commentary above.
- Continuing claims show that the job market is very tight…Finding a job after receiving the dreaded pink slip is more challenging than it has been in years.
- Job confidence is in the pits. The Conference Board Survey tracks the percentage of consumers expecting fewer jobs over the next six months. Today, that number sits around 30%. Every major U.S. recession since 1980 was preceded by this signal when the reading has risen above 30%. As the below chart screams…buckle up.



- Construction spending fell by -0.3% month over month in May, extending the string of declines to nine months. Recessions typically begin only once the construction sector has turned down from record levels of activity. That has now happened. Are long and variable lags from high interest rates now finally beginning to bite?



- June auto sales declined fell -0.5% month over month for the third consecutive decline to 15.65 million units (annualized). This is a five-month low.



Bottom line: Jay Powell continues to say the U.S. economy is in "solid shape," which is a bit of a joke. Jay Powell is indeed living in the past.

MARKET OUTLOOK AND PORTFOLIO STRATEGY

"No time for significant shifts in monetary policy." — Raphael Bostic, Atlanta Fed President

The three main planks of Trump-O-Nomics — explosive and catastrophic public debt levels, an insane tariff strategy and the gutting America's immigrant dependent labor market — are a destructive policy mix, and yet out of sheer belligerence, the president has single-handedly forced it upon an entire political party that should know better, and which historically stood against every one of the three pillars of Trump-O-Nomics.

Moreover, I have been pounding the table on debt and demographic dynamics for two decades, but what's about to unfold in the future makes the present look like a dress rehearsal.

By 2035, the number of people aged 25 to 54 will rise by +8 million (131 million to 139 million), but the 65-and-older category will surge by +13 million (to 76 million from 63 million). At that time, there will only be 1.8 people in the prime working-age labor force to support every retiree, from over 2.0 currently.

And what we know about aging dynamics is that older populations save more, spend less and take fewer risks. They shift from stocks to bonds, from consumption to preservation. This isn't theory: It's behavioral reality backed by decades of data.

Moreover, aging populations don't generate inflation — they generate deflation, savings gluts and secular stagnation. Japan's been teaching this lesson for three decades, but nobody's paying attention. Meanwhile, the consensus and the Fed continue to fret about inflation.

Excessive debts only compound the situation. Debt is future consumption denied. Excess debt is DEFLATIONARY!

From a longer-term perspective, the debt dynamics and demographic cliffs will be the dominant driver of where the fed funds rate and Treasury yields eventually end up going. I believe that direction will be down.

Meanwhile growth is slowing more rapidly than appreciated. To wit: Real GDP has declined modestly by -0.7% annualized over the past six months ending in May. The three-month trend is -0.1% at an annual pace. Likewise, the year-over-year trend in nominal GDP, which was +5.7% a year ago, has wound down to +3.5%. That is the weakest since February 2021, when the 10-year Treasury yield was sitting near 1.0%. Historically, the 10-year Treasury yield lines up with the growth in nominal GDP, so it "should be" 3.5% right now — and only isn't because of where the Fed is pinning the cost of carry.

Near term, the only problem is we still do not know what Trump will do with tariffs or how that impacts the markets, jobs and inflation.

The Unknowns

- Will tariffs cause a jump in inflation? Lasting?
- Will tariffs destroy so many small business jobs that demand collapses?
- Neither?
- Both?

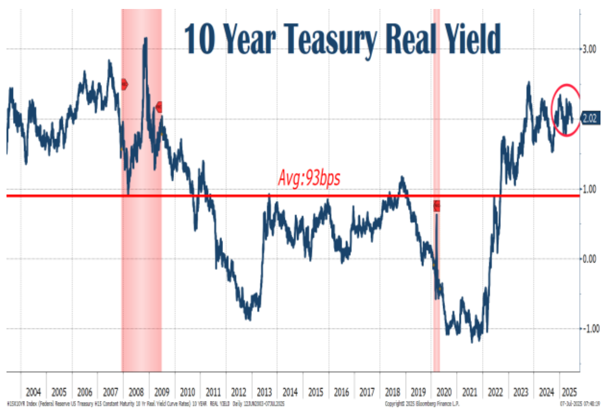
Point four, both, is the stagflation scenario. It's crazy to rule it out.

Powell is in wait-and-see mode because he does not have the answers to the above questions. Nobody else does either. Powell is on hold until something breaks.

While the tariff and fiscal backdrop remain troublesome in the near term, I believe that slow growth, rising unemployment coupled with a disinflationary environment will be enough to pressure the Fed to lower rates toward their long-term neutral rate of 3%. If so, the Fed will "eventually" cut rates by 150 basis points from current levels. If a recession should rear its ugly head, look for a more aggressive Fed reaction.

It is for this reason that I LOVE long term yields. The 30-year Treasury bond climbed all the way to 2.6%, which is practically unheard of. It was -0.6% back in November 2021, which in the rear-view mirror was a horrible time to start adding duration to the bond portfolio. But there was so much bad news and deflation risk priced into the market at that point stemming from the pandemic and a prevailing view that the Fed would keep rates at the floor indefinitely. **There was no coupon protection back then, but there is today.**

The real yield on the 10-year Treasury yield is a couple of basis points above 2.0%, where it was for much of the 2007-09 period, when being long duration paid off despite all the narratives of "economic soft landing" were warning people to avoid the Treasury market. The total return in the long bond through that period of elevated real interest rates nearly two decades ago exceeded +20%, as an aside. A knowledge of history can often be a wonderful thing.



There is a lot of inflation and fiscal premia embedded at the long end of the curve. And being a huge contrarian call, this makes it even more attractive and represents a 180-degree turn from where the bond market was four years ago.

In the meantime, VOLATILTY will remain high, but any selloffs provide an attractive entry point for credit unions sitting on excess cash. As always, the most prudent approach to managing excess cash is to structure and maintain a risk-appropriate ladder strategy.

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.