

Weekly Relative Value

WEEK OF AUGUST 11, 2025



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We Are on a Slippery Slope

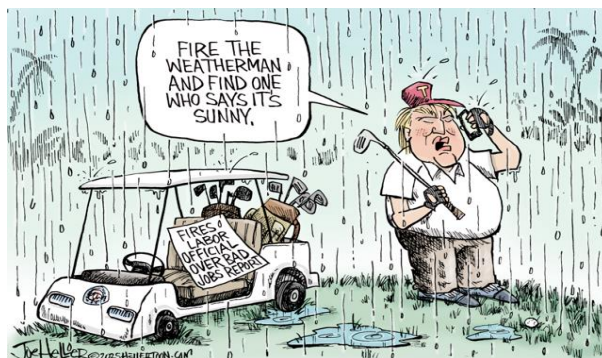
"For the FOURTH month in a row, jobs numbers have beat market expectations with nearly 150,000 good jobs created in June. American-born workers have accounted for ALL of the job gains since President Trump took office and wages continue to rise."

— Karoline Leavitt, White House Press Secretary, July 3, 2025

"In my opinion, today's Jobs Numbers were RIGGED in order to make the Republicans, and ME, look bad." — President Donald Trump, August 1, 2025

All I can say is what a difference a month makes. I must admit that it is quite bizarre and troubling that so many partisan sycophants have backed Trump's accusation of the Bureau of Labor Statistics' (BLS) numbers being "rigged." See ["Republicans Suddenly Distrust Jobs Data After Trump Fires Statistics Chief"](#) (*The New York Times*).

Ironically, these are the same people who cheered the prior jobs reports that showed surprising strength, even though most other labor data did not support the payroll data. I wonder what sort of reaction would have been on Truth Social (*Pravda* means truth!) had the May-June data been revised up +258,000. So, this is the world we live in: Bad data cannot be trusted, but good data is the real deal.



I have said for years that the initial release of non-farm payrolls should be taken with a giant grain of salt. I have said repeatedly that the payroll data, while the timeliest, is the least accurate and most heavily revised data provided by the U.S. government. I have also called it "garbage."

THIS WEEK

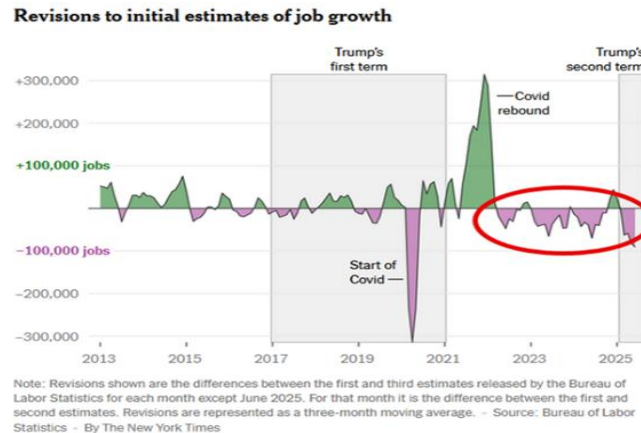
- MORE DOWNWARD REVISIONS TO COME
- LONG-TERM UNEMPLOYMENT IS RISING
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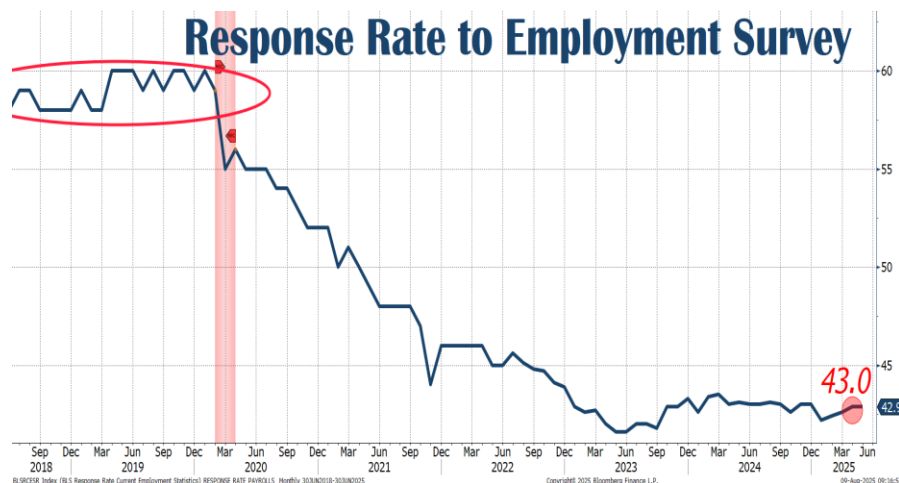
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Investors should think of the first release of the non-farm payroll as an incomplete and inaccurate picture of the labor market because it is challenging “to get it right” in a complex, 170-million-person labor force market.

Moreover, as the graph below from *The New York Times* clearly illustrates, payroll revisions have been the norm. Big negative revisions are NOT evidence of political bias; they were happening long before Trump began his second term.



But to be crystal clear, there is nothing “political” about these revisions. The payroll data has become less accurate because people are increasingly reluctant to answer survey questions for several reasons. Worse, the impact isn’t equal for all businesses. Large companies are likely to have a person or department assigned to answer government surveys. Small business owners, on the other hand, have their hands full. If they respond at all, it may take weeks. This is happening in both government and private surveys. As shown below, prior to the pandemic, the response rate was nearly 60%. Today it is ONLY 43%! Thus, the problem lies with the low survey response rate in the initial payroll release. By the time the third and final revision are released, the response rate is 94%. That’s the story.



In other words, “garbage in, garbage out.” Simply put, the data is only as trustworthy as the sample size, and that has nothing to do with the BLS but rather the delay of U.S. businesses providing updated employment levels to the BLS on time. As a statistician, your numbers are only as good as the sample size. The reason the last two-month revision (-258,000) was so big only attests to how the establishment survey was so inconsistent with the other labor data.

Note: We received the July employment data on the first day of August! But the price paid for receiving information quickly is the accuracy in the report. And make no mistake, the July payroll number will be revised too. The initial payroll report is an estimate with a large error term only because the sample size for the first stab at the employment report is so small. Why is everyone so shocked?" Possibly, the BLS should simply stop publishing the payroll data so quickly.

A recent lead [*Wall Street Journal*](#) editorial summed it up very well:

"[...] the BLS job revisions are best explained by a decline in business response rates, not political bias. The reality of slowing job growth is clear to anyone paying attention, no matter the official statistics. Mr. Trump's data denial is one more reason fewer Americans will trust the government."

Frankly, does anyone believe it was possible for BLS commissioner Erika McEntarfer and a group of roughly 40 diverse political minds to engage in a conspiracy to fake the numbers? If not, for what cause should he have fired her? The plain fact of the matter is that there is nothing evil or nefarious going on. There has been no attempt to mislead and there was clearly no case for McEntarfer, who has been a government statistician since 2002, covering a span where Bush, Obama, Biden and Trump were in the Oval Office, to be fired. This is a deflection of what was a very UGLY jobs report. That's all it is.

Bottom line: We are on a slippery slope, folks. No matter what your party affiliation is, firing the BLS commissioner with no cause creates a dangerous precedent. Now imagine, if all of a sudden, the incoming employment data shows surprising strength, markets will and should question the accuracy of the data even more. Data integrity is critical. Meddling into economic data releases, from the POTUS, is the kind of thing we have seen in the past in China, Argentina and Greece. Janet Yellen may well be a card-carrying Democrat, but she was far from wrong when she stated for the record that "this is the kind of thing you would only expect to see in a banana republic."

MORE DOWNWARD REVISIONS TO COME

Annual benchmark job revisions are made by the BLS to the Current Employment Statistics' (CES) non-farm payroll employment estimates to align them with more comprehensive data sources. These annual revisions take place to improve the accuracy of monthly job reports, which are initially based on a sample of about 149,000 businesses and government agencies, covering roughly one-third of total non-farm payroll employment.

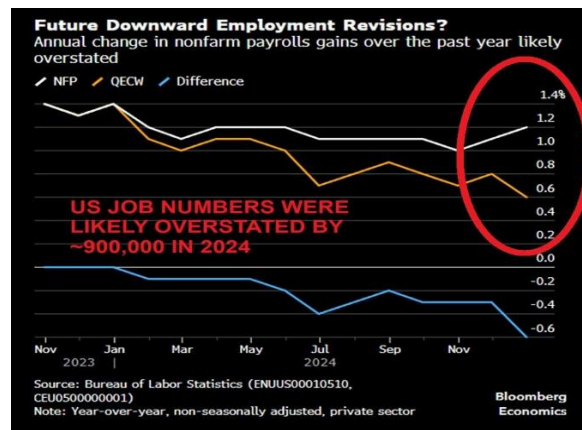
The BLS compares the data from its own CES non-farm payroll survey to the BLS Quarterly Census of Employment and Wages (QCEW) report, which covers nearly all U.S. jobs (about 97% of non-farm payrolls) and is derived from state unemployment insurance records. This data is more complete but less timely, as it lags the BLS non-farm payroll data.

Adjustments are made to align CES employment levels with QCEW figures, correcting over- or underestimations. Revisions typically affect the prior 21 months of data, with the largest impact on the most recent 12 months. These revisions provide a more comprehensive and accurate view of labor market strength/weakness, which in turn affect policy decisions and market expectations.

Here is what we already know. The QCEW data shows that that BLS has been overstating the strength of the labor market. This overstatement is largely due to the birth-death model, which has accounted for over 1.1 million jobs in the payroll number, or almost 75% of the payroll gains in the past year. The birth-death model attempts to quantify employment through a net of job losses/gains from newly created firms and from business failures. This is nothing more

than a GUESS. I should add that as was the case with Joe Biden, President Trump has benefited from this skew, which has added a combined +777,000 to the payroll data since the November election.

We also know that while the QCEW data only goes through the first quarter of 2024, this more accurate data shows that +400,000 net new jobs were created in the year through Q1 2024, from startup jobs minus the losses from business failures. But the payroll survey showed +1.2 million jobs being created from its internal birth-death model... or ~900,000 overstatement!



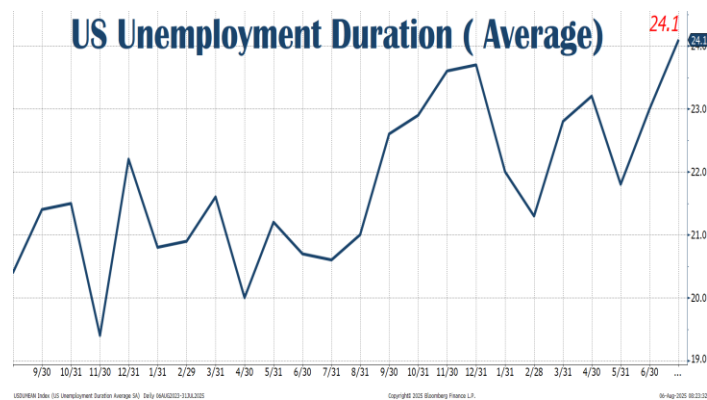
Bottom line: If you think the May-June revisions were wild, just wait for the benchmark change! Will the next head of the BLS see his or her head roll?

LONG-TERM UNEMPLOYMENT IS RISING

One thing that is crystal clear is that it is becoming more challenging day by day for those who have received the dreaded pink slip. The number of people searching for a job for more than six months has expanded by 18% year over year to top 1.8 million. This is the highest level since the economy was crawling out of the pandemic in late 2021. Think about this: One in four of the ranks of the officially unemployed have now been without work for at least half a year. Excluding the pandemic, this is the highest level since 2017.



Moreover, the average duration of unemployment in the U.S. has also ticked up, from 23.0 weeks in June to 24.1 weeks in July, and the highest level in more than three years. These are the numbers the households being surveyed reported to the BLS. Should these respondents be fired? Well, they can't, because they are already unemployed!



The same story can be gleaned from the rising continuing jobless claims, which have now reached a new cycle high of 1.974 million. Continuing claims bottomed out in mid-2022 at 1,349,000 and are now 1,974,000.



But that's not the full story. The problem with looking at continuing claims alone is that benefits expire after on average 26 weeks. It's also important to understand that unemployment benefits are for people who *lose* jobs. They don't reflect those who are just entering the labor force — new college graduates who can't find suitable positions, or inflation-afflicted retirees who decide to start working again. Those groups count as "unemployed" because they're actively seeking work, but they aren't eligible for unemployment benefits. In other words, these people are still unemployed but are NOT counted in continuing claims.

The monthly average of continuing claims plus 27+ week unemployment is 3,778,000 through July gives a more complete picture of the labor market. That's up from a low of 2,513,000 in September of 2022.

Drilling deeper, the small amount of new employment we see is highly concentrated in one part of the economy. This chart shows six-month employment change by sector as of July.

The majority of job creation, almost all, appears to be in the "private education and health services" category. Those sectors depend heavily on government support. Hiring tied to the economic cycle is stagnant at best.

6-month net employment change in July



Source: [Bureau of Labor Statistics](#)
Allie Kelly/BI

Bottom line: Trump says the economy is doing fine and the job weakness is “rigged.” This data strongly suggests otherwise. While initial jobless claims are stable (for now), initial claims do not tell the story of what’s really happening in the labor markets. Job “creation” has slowed in the last few months — not yet to recession levels but trending that way. The issue is that employers have slowed or stopped new hiring, which makes it quite a challenge to find a new job for the long-term unemployed.

THE TRADE WAR OFFICIALLY BEGINS

“Tariffs have moved from being tentative to permanent — and that changes how American businesses are going to respond...You’re going to start seeing higher prices as soon as businesses become convinced this will stick around, and that clock starts today.” — Justin Wolfers, Professor of Public Policy & Economics, the University of Michigan.

Because companies had so much time to prepare in advance, imports and inventories soared earlier this year and bought time for manufacturers, wholesale importers and retailers alike. They have continued to buy time by selling off their lower-cost pre-tariff stockpiles of goods, but that process has now reached an end.

Furthermore, because of the previous delays and reprieves, at least three-quarters of the price effect is yet to come. As of last week, as many as 90 countries saw their tariff rates adjusted higher last week. Per the non-partisan Yale Budget Lab, the current tariff rate on U.S. imports is ~20%, which is the highest rate since 1790! The brunt of the tariffs will bear down on the domestic importer and the final consumer.

This is akin to a \$2,400 *de facto* tax hike per household and a -0.5% trimming from this year’s gross domestic product (GDP) growth trajectory. In other words, the worst is yet to come. The question regarding inflation is how consumers will respond and the extent of any pass-through — and these are unknown. My biggest concern is over the constant uncertainty and the negative effects this will have — and has already had — on capital expenditures plans and hiring policies.

Tariff rates- Highest since 1790!



Meanwhile, Treasury Secretary Scott Bessent stated last week that because inflation has yet to surge, it won't. The flaw with that reasoning is that most of the tariffs still lie ahead. And let's not forget the forthcoming tariff threats on sectors such as pharmaceuticals, consumer electronics and chips.

Bessent also claimed that the tariffs are just a one-time price level shift. I must admit, I too once held that view, but the timing of tariffs represents a series of moves over time, and that argues against the view that this is just "one time." Indeed, this "drip, drip" approach to trade policy is what makes the job at the Fed that much more vexing.

Bottom line: We are still at the incredibly early chapters of this tariff story. Only time will tell if this tariff strategy becomes more inflationary or deflationary. Meanwhile, the Fed is caught in a box between its two mandates, with or without the growing number of policy doves.

HOW ART THOU, CONSUMER?

If you listen to the CEOs of the major banks, you will hear that the U.S. consumer is in good shape. But that is not what you will hear from consumers and consumer-based retailers.

Colgate Palmolive, which makes things we use every day like toothpaste, deodorant, soap and shampoo, stated that:

"There is a persistently cautious consumer in North America right now [...] many of our markets and categories around the world remained challenging in the second quarter and we expect this to continue through the second half of the year."

Also consider the following comments from a recent *Wall Street Journal* article: ["American Consumers Are Getting Thrifty Again."](#)

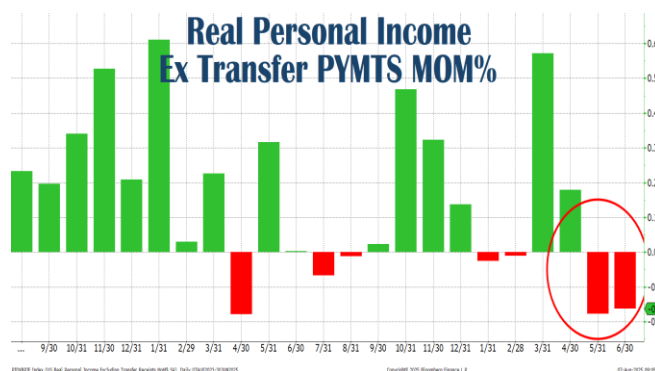
"There's a lot of consumer anxiety." — Dirk Van de Put, Chief Executive Officer, Mondelez International (maker of Oreo cookies, Ritz crackers, and Cadbury chocolate)

"People are frustrated, and I would say understandably frustrated, with the lack of certainty." — Jon Moeller, Chief Executive Officer, Proctor & Gamble

Solution: Fire them?

There is no question that the consumer is cooling off. Real consumer expenditures edged up by less than +0.1% month over month in June, and the three-month trend is running at a mild contractionary -0.4% annualized rate. Most importantly, real discretionary outlays have declined for three months in a row, during which they have slipped at a -1.2% annual pace. The last time this happened was May 2020, April 2009, September 2001 and February 1991. So, if it walks like a duck...

For Q1 and Q2, the net contribution from the consumer to real GDP was the lowest since the first half of 2020, when the economy was in a shutdown mode. As I discussed last week, when you strip out inventories and net exports, real final sales cooled off to a stall-speed of +1.1% at an annual rate in Q2 after an almost equally tepid reading of +1.5% in the first quarter.



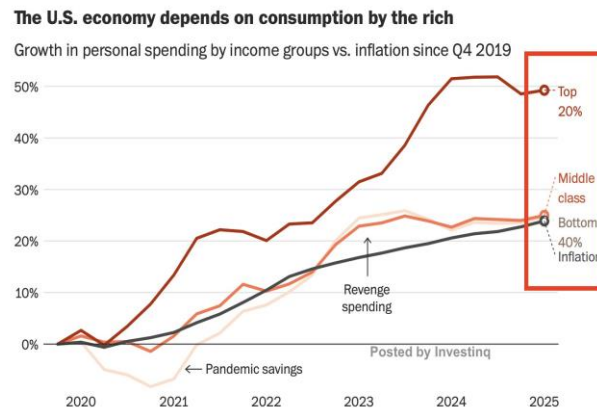
Bottom line: The consumer is beginning to pull back, and consumption drives the U.S. economy.

THE ASSET-BASED ECONOMY

America isn't broke, but many Americans are. Indeed, because of the tremendous wealth effect from higher asset prices (equities, real estate, bitcoin, gold, etc.) the wealthiest Americans are living the life of Riley and are carrying the entire economy.

The chart below shows personal spending by income group since 2019. Spending by the top 20% is nearly 50%. This group now drives nearly half of all household spending and one-third of GDP. The middle and bottom? Barely kept up with inflation, the rate at which prices rose.

If the rich pull back even slightly, the economy stalls. Because the rest of America is either broke, in debt or living paycheck to paycheck, they simply don't have the spending power to keep things moving.



And now, signs of financial stress are everywhere: This isn't a single-cause crisis. It's a multi-front squeeze:

- Savings are depleted.
- Student loan payments are back, and loan delinquencies have more than tripled compared to pre-pandemic levels.
- Buy Now, Pay Later's hidden debt is unraveling into collections and defaults.
- Auto repossessions are spiking, wiping out families' mobility and triggering insolvency.
- Credit cards are maxed, and balances are compounding under the weight of sticky inflation and interest rates of 20% or more.

Add to that list: tariffs. Tariffs as discussed above will increase the cost of goods purchased by an estimated \$2,400 per year for the average household but for poor families, the impact is even worse. Why? Because tariffs are regressive, they take a bigger share of income from the poor than the rich. It's a stealth tax on working-class consumption.

The problem and big risk for the economy is that if asset prices (stocks, real estate, etc.) crash, the top 20% will likely pull back on spending. If the rich slow down their spending, there's no cushion from below. If the market drops, so does luxury demand. And when the wealthy stop buying \$10,000 couches, third homes or luxury vacations... service workers, contractors and retail employees lose income. The pain trickles down fast!

Bottom line: The U.S. economy looks strong at the top. But look closer: The rich are flying private. The middle is switching to dollar stores. The poor are skipping meals. This is not resilience; it's abject wealth and income inequality. Healthy growth comes from broad-based demand. Right now, it's all coming from the top 20%.

Final thought: It has often been said that the stock market is NOT the economy. Well, in 2025 that story no longer holds. Should asset prices, the stock market, real estate, etc. decline, it will likely have a significant impact on the high-end consumer. If 20% of Americans (who own most assets) are responsible for 50% of consumption and they decide to pull back? We're not looking at a soft landing!

THE WORLD IS GETTING SMALLER

U.S. trade deficit came in at the lowest level since September 2023, coming in slightly below expectations, at \$60.2 billion, from \$71.7 billion in May. Good news? Not so fast. What sounds like progress is a red flag for the economy.



Here's why the deficit shrank.

- Imports fell by \$15.4 billion.
- Exports also dropped by \$3.9 billion.

Imports declined by -3.7% month over month and are riding a three-month losing streak for the first time since the summer of 2022.

Translation: We didn't sell more to the world; we just bought less from it. That's like your monthly spending going down, not because you got a raise but because you're skipping takeout and gas is too expensive.

This wasn't the result of smart policy; it was a sign of weakening demand, especially for expensive or industrial goods. Here's the bigger point: When imports drop like this, it often means consumers are pulling back, companies aren't restocking their warehouses, and factories are using less energy. That's not economic strength. That's economic fatigue.

Moving on. Exports of goods and services fell by -0.5% month over month after a -4.1% month-over-month drubbing in May, and this was the steepest back-to-back decline since April-May 2020 (to a five-month low) when pandemic-related global supply chain constraints were all the rage.



So why did the trade gap fall in June? Not because we're thriving. No, it's because:

- Companies ordered less inventory.

- People bought fewer imported goods.
- Factories used less oil and materials.

It's a sign of slowing momentum. The bigger story is that the two-way trade between the United States and the rest of the world declined by -2.3% and has declined sharply now in each of the past three months. Year-over-year two-way trade is nearly flat now versus over +7% growth a year ago. Thank you, tariffs!

Bottom line: The June trade gap shrank only because we imported less. More importantly, a decline in global trade and protectionism can be detrimental to economic growth, living standards and innovation.

MARKET OUTLOOK AND PORTFOLIO STRATEGY

"So, if you just think about the current state of the U.S. economy, there's something vaguely futuristic about it. A very tiny handful of people are getting generationally wealthy (and powerful). A broad swathe of people is seeing their personal balance sheets improve because the stock market's been so hot... And then the only areas of actual widespread jobs growth are tied to aging and health, much of which is sustained by widening deficit spending.

"What we're not seeing is any kind of general expansion in activity across the economy.

"A bad jobs report here or there is not the end of the world. They happen from time to time, and people freak out, and then forget about it. However, the specific contours of this moment feel like a glimmer of a stranger, less comfortable future." — Joe Weisenthal, Bloomberg

What is keeping the economy going in significant part is not anything that's coming out of the president's policies. It is all the investments in A.I. data centers that come from the tremendous progress that some companies are making in technology. Other parts of the economy are suffering, including housing and manufacturing. At the consumer level, as discussed above, the high end is doing swimmingly well due to asset appreciation and the wealth effect. The bottom 50% are suffocating and barely making ends meet.

Meanwhile, the doves are getting louder and louder. The number of Fed officials calling for a rate cut has reached four, after Minneapolis Federal Reserve Bank (FRB) President Neel Kashkari joined the pack. Kashkari had suggested in June that a rate cut in September might be possible. Also, on Monday, San Francisco FRB President Mary Daly said that the time is nearing for rate cuts and that there may be a need for more than two cuts this year.

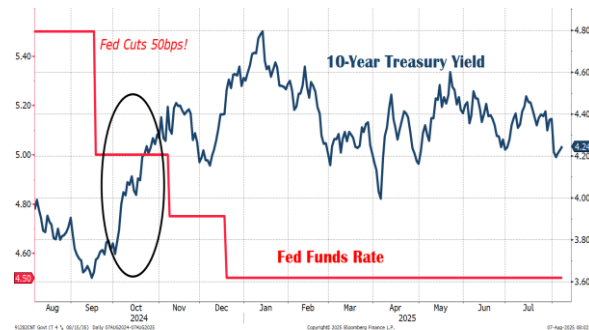
Adding to the dove contingent, President Trump nominated Stephen Miran, the chair of the Council of Economic Advisors and a hard-core advocate of far lower rates, to replace Adriana Kugler's empty Fed governor seat (until January). I must admit that it is borderline hilarious that Miran, an open critic of the Fed's move in 2020 to ease policy in the face of the pandemic shock, is now aggressively pushing for rate cuts amidst the current and prospective tariff shock.

The next big market impacting story will be who will be appointed as the next Fed chair. Frankly, the only qualification is unconditional loyalty to the president.

That said, whoever takes over the Fed chair, we will witness the first chairperson taking orders from the Oval Office to cut rates. This is akin to Arthur Burns buckling under pressure from Richard Nixon back in 1970 to cut rates. All I know is that in the following decade, the gold price soared nearly twentyfold. Got gold?

I should note that the Federal Reserve can drive the bond market action but a premature easing by the Fed could be “rejected” by the bond market if investors feel it is imprudent, and the longer end of the curve sells off. This can lead the Fed to reverse course or just leave the market with a substantially steepened yield curve. With the term premium driven by serious policy issues, we could be ripe for a re-run if investors worry that tariff inflation could be a problem.

To wit: When the Fed cut rates by 50 basis points in September 2024, the 10-year Treasury yield bottomed that year. In light of concern over inflation and the probability of Donald Trump winning the election, the 10-year Treasury note yield rose from 3.6% to 4.4% between September and early November 2024.



That said, bond markets have now priced in a September rate cut. Importantly, the 10-year Treasury yield has sliced below all its major trendlines. At 4.2%, the 10-year benchmark is at a critical technical juncture. A break here could set us up for a test of 4% where it was in early April.



Likewise at the front end, the 2-year Treasury benchmark has crossed through all trend lines.



At the same time, the overall policy landscape, coupled with political interference in central bank decision-making, has raised the likelihood of a steeper yield curve as we move forward.



From a portfolio perspective, credit unions should be positioned for a reduction in the fed funds rate in September and a steepening of the yield curve. Given the policy landscape, the best risk-return tradeoff lies in the intermediate part of the yield curve.

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There is a lot of noise in the financial world and social media about the markets and the economy. I do what I always do, block out the noise, rhetoric and bullish biases (that point to the rewards without discussing the risks) that dominate Wall Street research and, most of all, try to keep investors out of trouble. This constant analysis cuts through the noise, debunks misleading headlines and makes deep dives into the financial markets and economic reality. Call me a “permabear” if you will, but I see myself more as the car mechanic who fixes your brake lights and makes sure your side-view mirrors are okay. Risks should never be ignored, and I focus on identifying them. It’s what makes the *Weekly Relative Value (WRV)* unique in the marketplace. By subscribing, you will always be up to date with the most relevant economic and market trends, and most importantly, you will be aware of the key risks. To receive future issues of WRV in your inbox, subscribe [here](#).

MORE INFORMATION

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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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