



Tom Slefinger
Market Strategist

Weekly Relative Value

WEEK OF OCTOBER 27, 2025

Numb to Our Dysfunction

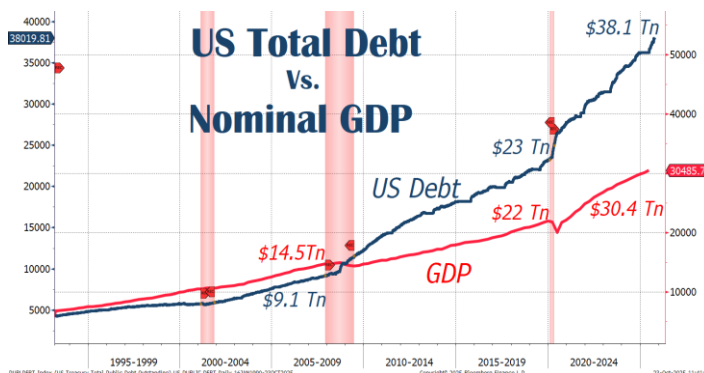
"Interest costs are now the fastest growing part of the budget. We spent \$4 trillion on interest over the last decade but will spend \$14 trillion in the next ten years. Interest costs crowd out important public and private investments."

– Michael Peterson, Chairman and Chief Executive Officer,
The Peter G. Peterson Foundation

Since the debt ceiling was raised in July, federal debt has now surged +\$1.7 TRILLION (+\$425 billion every month) to over \$38 trillion! Since 2019, debt has grown by \$15 TRILLION and the debt-to-gross domestic product (GDP) now stands at 124%. Total debt grows by \$69,713.82 per second!



While debt has soared, economic growth has not. As noted above, debt has risen by \$15 trillion while economic growth (GDP) has increased by only \$8 trillion. In other words, every new dollar of public debt has generated ~\$0.53 of GDP, near the lowest on record. As depicted in the graph, the return on the growing debt diminished by the day.



THIS WEEK

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SUBORDINATED DEBT: (SIMPLIFIED)

Partnership has its perks.
Hand over the hard parts.

TELL ME MORE!



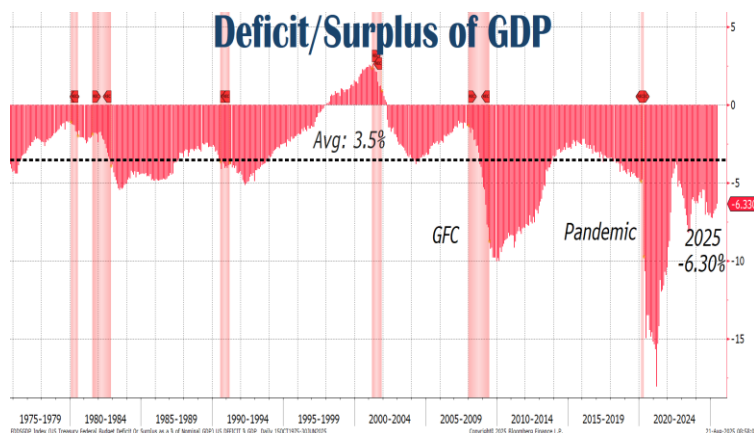
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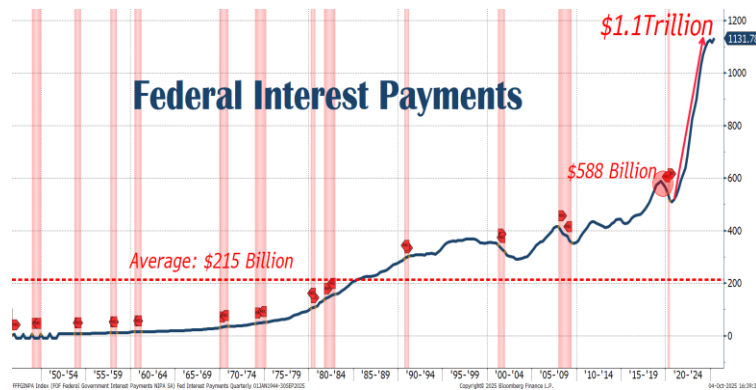
Making this situation even more unspeakable is that we'll hit the next milestone in just a matter of months. Indeed, at the current pace, the debt is now on track to hit \$40 TRILLION! And it gets worse. According to the U.S. Debt Clock, national debt will rise to ~\$46 trillion (131% of GDP) by 2029!



While nominal gross federal debt may not be the most meaningful measure of our fiscal health, the rest of our fiscal situation is just as bleak. To wit: The U.S. government is running deficits that are twice as big as the historic average. Based on the current deficit, it is as if we are in a financial crisis or deep recession. But we're not...yet.

The deficit last fiscal year, which ended just a few weeks ago, was \$1.8 trillion (which included record tariff revenue) and is headed towards \$2 trillion annually over the coming decade. And despite this, there has been no effort to rein in spending. In fact, over the next 12 months, Uncle Sam is expected to spend ~\$7 trillion while borrowing \$2.6 trillion. The madness doesn't stop.





HOW DID THIS HAPPEN?

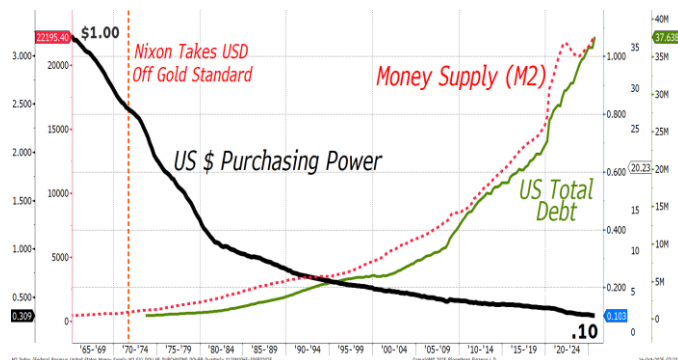
It didn't happen by accident. It started in early 2020 when the pandemic forced the government to open the fiscal floodgates. Trillions went out the door through stimulus checks, boosted unemployment benefits and small business loans under the Coronavirus Aid, Relief and Economic Security Act. Then came the American Rescue Plan in 2021, which poured another \$1.9 trillion into the economy and pushed the national debt even higher.

For a moment in 2022, it looked like things were stabilizing as the Treasury slowed new borrowing to rebuild its cash balance. But that didn't last. Infrastructure projects, new social spending from the Inflation Reduction Act, and record defense budgets reignited the borrowing spree.

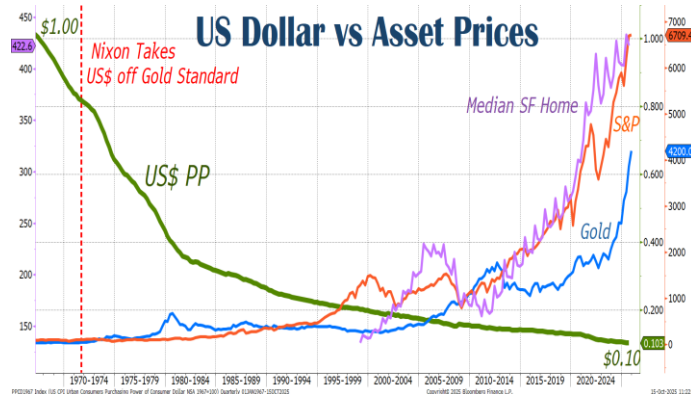
At the same time, the Federal Reserve's fight against inflation sent interest rates soaring, which made the government's own debt far more expensive to maintain. Interest payments ballooned to hundreds of billions a year. Even with tax revenues near record highs, the math simply hasn't worked. The U.S. has been running trillion-dollar deficits every single year since 2019. **THE PROBLEM IS WE SPEND TOO MUCH MONEY!**

Debt-ceiling showdowns haven't changed that trajectory. Each "crisis" ends the same way: with Congress voting to raise or suspend the limit, effectively removing any guardrails on borrowing. It's a political ritual that delays the problem but never solves it. It's also called kicking the can down the road.

As the graph below clearly depicts, while the U.S. government has increased debt and turned on the printing presses 24/7, the U.S. dollar has lost 90% of its purchasing power since Nixon took the dollar off the gold standard.

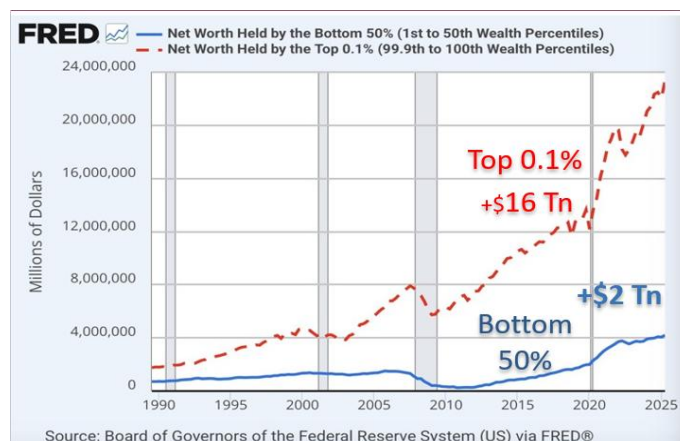


That explains why hard financial and hard assets such as gold have exploded higher! The only hedge against Washington is to own assets. Without owning assets, the depreciating U.S. dollar will destroy your purchasing power and standard of living. That's not an anomaly. That's the system.



Sadly, many Americans do not own assets, and they are falling further behind. Indeed ~ 67% of U.S. consumers are now living paycheck to paycheck, according to a PYMNTS survey. This percentage has risen by +10 % over the last 18 months. All while 46% of consumers say they feel overwhelmed by their situation.

Consider the following graph. Since 2009, the net wealth of Americans (stocks, real estate,) has risen by \$50 trillion. The top 0.1% (represents 135,000 households) has seen their net worth rise \$16 trillion or 32% of the total. This compares with the net worth of the bottom 50% (representing 67 million households) rising by ~\$2 trillion or just 4% of the total wealth generated. Simply put, the U.S. wealth divide is hitting historic levels.



Bottom line: The U.S. debt crisis is intensifying: Something has to give – and eventually it will, whether we are prepared for it or not. I'm watching debt grow by nearly \$70,000 per second while interest payments become the fastest growing budget item. When you spend \$14 trillion on interest over the next decade, that's money not going to anything productive. This explains the debasement trade driving gold to record highs.

The reality is that we're becoming numb to our own dysfunction. We fail to pass budgets, we blow past deadlines, we ignore fiscal safeguards, and we haggle over fractions of a budget while leaving the largest drivers untouched. Social Security and Medicare, for example, are just seven years from having their trust funds depleted – and you don't hear anything from our political "leaders" on how to avoid such a disaster.

Policymakers have a choice: They can continue to abandon the most basic responsibilities of budgeting, or they can finally confront the worsening fiscal situation before it's too late.

Sadly, I'm less than encouraged.

THE DARK SIDE OF ARTIFICIAL INTELLIGENCE (AI)

According to leaked internal documents, Amazon plans to replace 600,000 U.S. workers with robots by 2033 while doubling product sales. The company aims to automate 75% of operations and eliminate 160,000 roles by 2027, saving 30 cents per item and \$12.6 billion over three years.



Internal documents show Amazon considering innocuous language to soften the automation rollout, avoiding terms like "AI" in favor of "advanced technology" and "cobots." This shows that Amazon management is fully aware of the social impact while prioritizing cost savings over employment.

Think about it. The 600,000-job reduction (concentrated in logistics roles that currently provide middle-class wages) represents more workers than many entire industries employ. Unlike gradual manufacturing automation over decades, this targets service sector jobs at unprecedented speed from a single company.

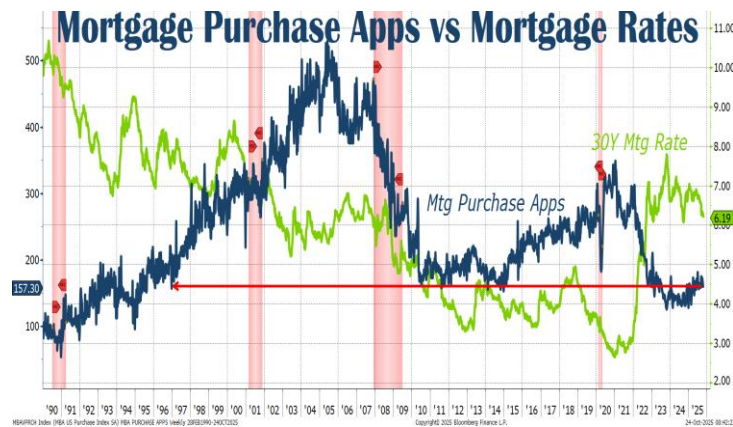
Amazon, one of the biggest employers in the United States, has moved into a net job destroyer. If Amazon is successful in lowering prices and costs, this will create competitive pressure for other retailers to follow similar strategies.

Bottom line: This leaked strategy confirms AI displacement is happening faster than the public realizes. When one company eliminates 600,000 jobs while doubling output, it vividly demonstrates how productivity gains don't translate to shared prosperity. Rather, it validates concerns about jobless growth where economic output increases while employment opportunities contract.

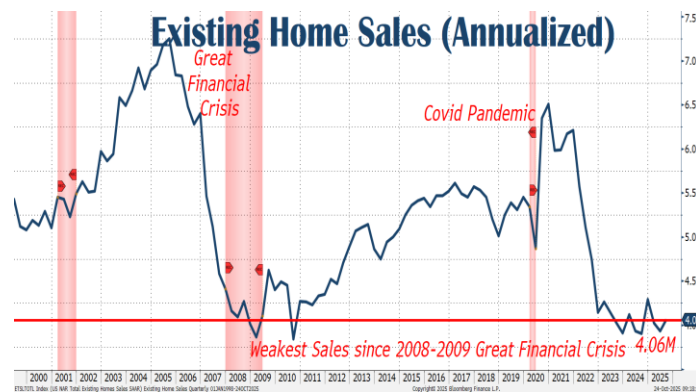
PUSHING ON A STRING

Thus far, housing has not responded to lower rates. Despite the downdraft in mortgage rates, (down by nearly -50 basis points since mid-summer) consumers are not yet biting.

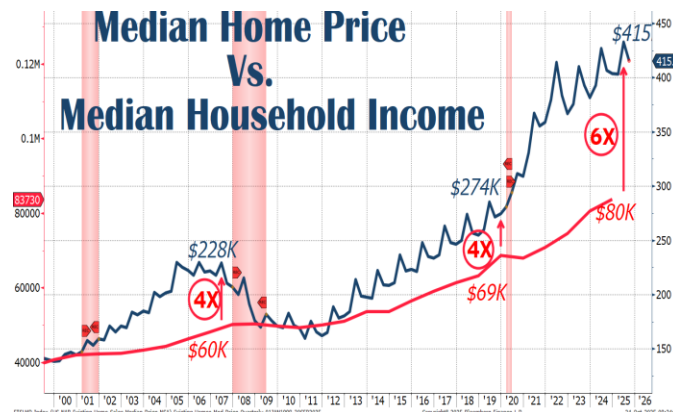
The home builders have been reporting lower profits and a generally downbeat real estate environment. This was validated by the news that in the week of October 17, mortgage applications for new home purchases took a -5.1% nosedive and have been down now in each of the past five weeks, a stretch of declines not seen in over two years.



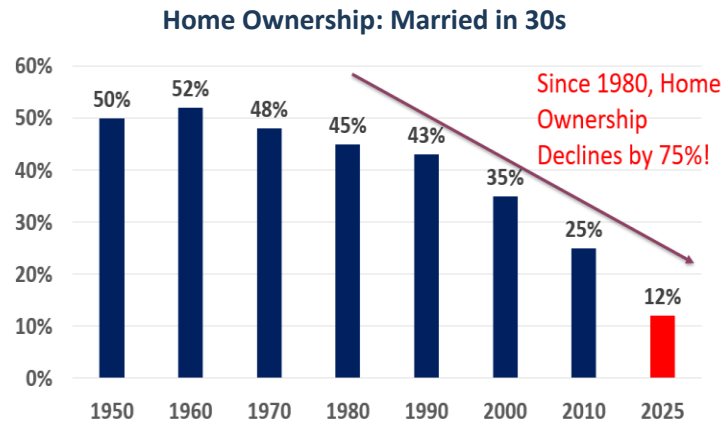
Sales of single-family homes that closed in September rose by 1.7% from August to an annual rate of 3.69 million homes and up by 4.5% year over year. **But sales are still down by 23% from September 2019 and by 2% from September 2009, during the depth of the housing bubble.** September marks the third year in a row that sales of existing single-family homes sales bounced along a deep bottom and remain at levels that defined the 2008-2009 recession. This lack of housing activity is even more remarkable when you consider that the population has grown by about 36 million people since July 1, 2009. This is unbelievable.



The national median price of single-family homes fell to \$415,000 in September. Year-over-year, the median price was up by 2.3%. The median price of single-family homes exploded by 47% from June 2020 through June 2025, most of it during the two years of mid-2020 to mid-2022. As depicted below, home prices are six times higher than household income which is 50% higher than the last housing bubble.

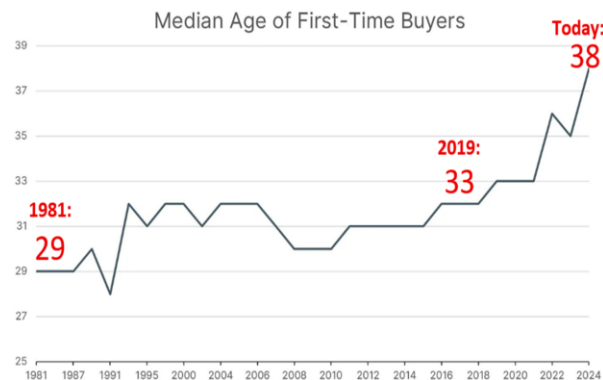


As a result, affordability for first time home buyers is at a historic low. Look at the table below. Since 1980, homeownership by married couples in their 30s has declined by 75% to just 12%. Historically, homeownership in this demographic ranged from 45% to 50%.



Source: National Association of Realtors

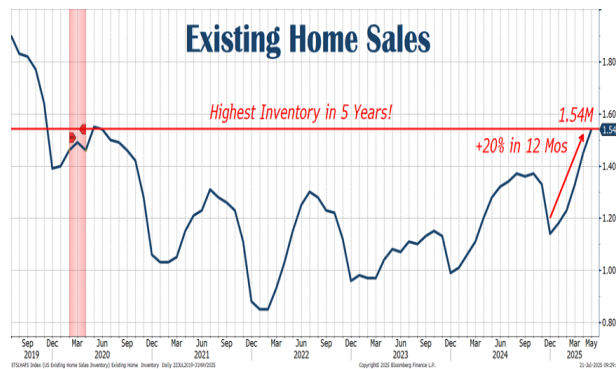
Moreover, in 1981, the average first-time home buyer was 29. Prior to the pandemic, the average age of the first-time home builder was 33. Because homes have become unaffordable for first-time home buyers, the average age of the first-time homebuyer has spiked to 38 years – an all-time record high!



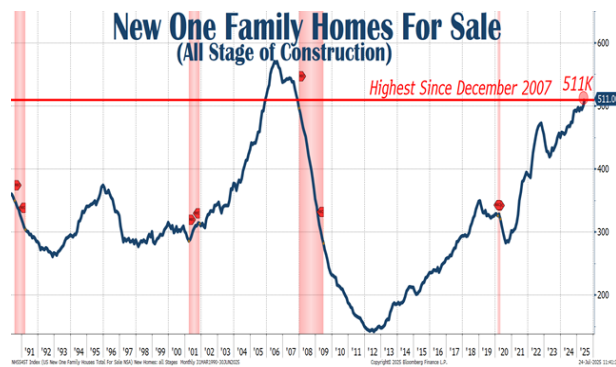
Source: National Association of Realtors

THE GOOD NEWS

As sales languish near all-time lows, the supply of existing (resale) home inventory has risen 20% in the past 12 months and is at the highest level in five years! According to Redin there are now a record high 500,000 more sellers than buyers.

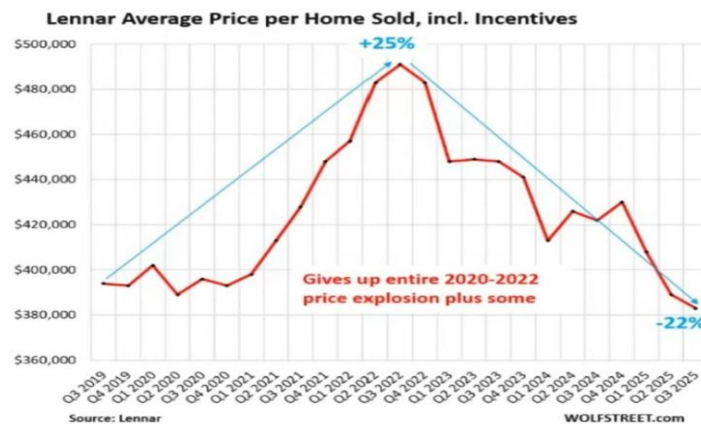


Meanwhile, new single family home inventory has skyrocketed to the highest level since 2007.



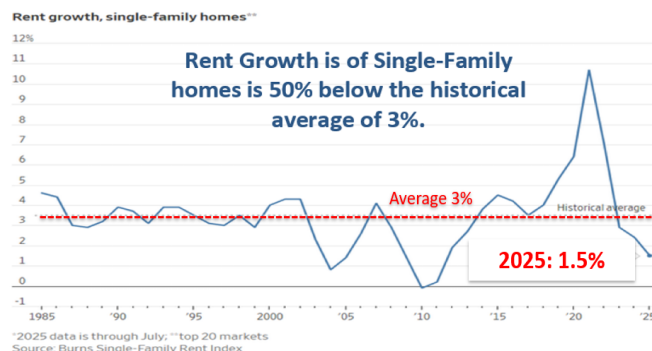
Because homebuilders are in the business of building and selling homes, they need to price homes at what the market will bear. The following graph tells the story. Lennar, one of the largest homebuilders in America, has been aggressively cutting home prices (including incentives) to sell their inventory.

After new home prices soared by 25% during the pandemic, prices (including incentives) were slashed by 22%, driving new home prices back to pre-pandemic levels. Homebuilders are telling prospective home sellers that prices are the problem and need to be lowered. Simply put, cut the price and they will come!



RENTS LEAD THE WAY

In case you are looking for a clue about where the overall housing market is heading (and inflation), look at rents. John Burns just reported that rental inflation for single-family homes in 2025 is down to only 1.5%, one of the lowest levels the index has recorded in the last three decades. It says disinflation/deflation is coming.

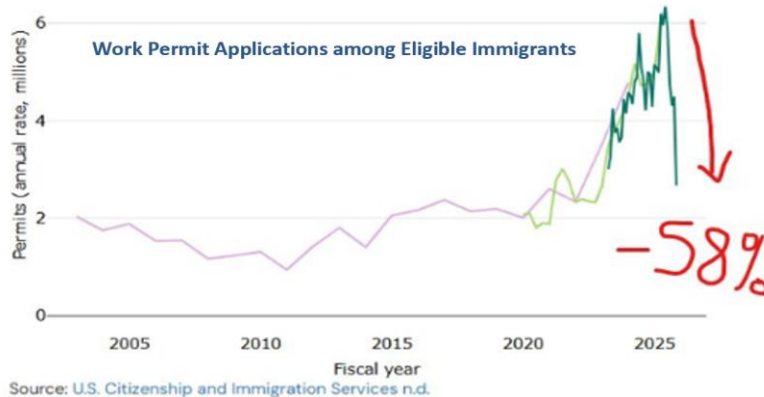


This slowdown in rent growth is being driven by an increase in rental listings from homeowners who cannot sell their houses. In addition, slowing population growth is now likely filtering its way into reduced rental demand.

If rent growth keeps slowing and even turns negative, then there's no real way homebuyer demand will increase without a large reduction in home prices and interest rates.

RealPage, the apartment data aggregator, is reporting something similar. They're reporting negative quarter-over-quarter rent growth in Q3 2025, when normally rents should be going up. According to RealPage, rents are now negative year over year as well.

One thing that cannot be ignored here is the impact the slowdown in immigration is having on the rental market. Work permit applications from immigrations have plummeted about 58% from the beginning of the year. Fewer work permits for immigrants means fewer looking for apartments, lower rental demand and lower rent growth. The immigration slowdown is a disinflationary/deflationary force, at least in the short-term.

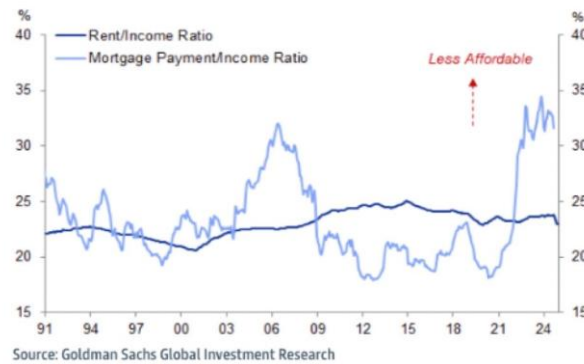


The other alarming thing about this slowdown in the rental market, and disinflation, is that renting is semi-affordable right now compared to the long-term norm.

Currently, the cost to rent is ~31% of U.S. median income, near the long-term average. While the cost to buy is ~40 % of U.S. median income, way above the long-term more. Theoretically, there should be upward pressure on rents by this relationship, but there isn't.

Exhibit 18: Rental affordability is superior to mortgage affordability

Housing vs. Rental Affordability Indices



Bottom line: A deflating rental market will likely spill over into the for-sale housing market at some point; it already is in the Sun Belt (the southern and southwestern United States).

DEMOGRAPHICS ARE DESTINY

“Less than 5 million new households will form between 2025–2035 (~480,000 per year).”

Between 13.1 and 14.6 million boomers will abandon homeownership from 2026-2036, raising housing industry fears that such a large inventory of homes could lead to price collapses.” — Berkshire Hathaway

Let’s not forget the demographic story. Berkshire Hathaway – one of the largest realtors in the country – is warning about the risk of the demographic impact on housing over the next decade.

Between 13-15 million boomers will abandon home ownership between 2026 and 2036. Some will move to nursing homes and assisted living and some will pass, but the level of supply will explode higher. This supply could lead to significant price declines.

At the same time, the declining birthrate and record low fertility rate suggest that fewer than five million households will form over the next decade. This supply demand shock could prove to be a deflationary force for home prices.

THE SWEET SPOT

The current monthly mortgage payment is \$3,033/month, inclusive of taxes and insurance. That represents 40% of median household income. The sweet spot to make housing affordable again is ~\$2,000 per month.

The way to get there:

- Home prices drop 20%.
- Mortgage rates decline to 5.1%.

Bottom line: Both mortgage rates and home values need to decline to bring affordability back.

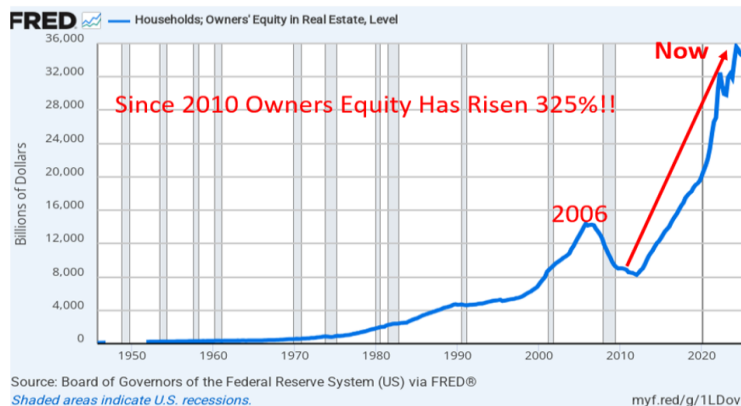
PREPARE FOR A DEFLATIONARY CYCLE IN REAL ESTATE

"If something cannot go on forever, it will stop." – Herb Stein, American Economist

Since 2010, owners' equity grew by a stunning 325%. Clearly this is quite an aberration.

As we move forward, a decline in home values is likely due to unfavorable demographics and because mortgage rates, insurance premiums, property taxes and home prices have collectively created an affordability crisis not seen in more than 40 years.

A catalyst is typically needed to trigger steep declines in home valuations. It wasn't until 2008 — when unemployment began to rise — that equity losses accelerated.



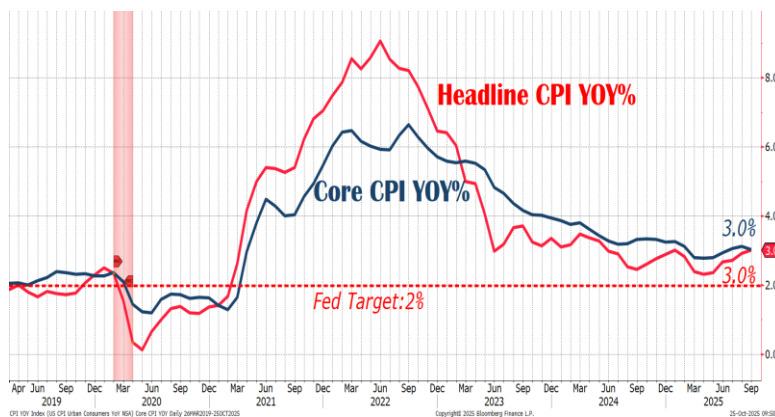
Bottom line: Residential real estate is a \$48 trillion asset on housing sector balance sheets. If home prices deflate, the declining wealth effect will reverberate throughout the economy and will more than offset any inflationary effect from tariffs.

BETTER THAN EXPECTED

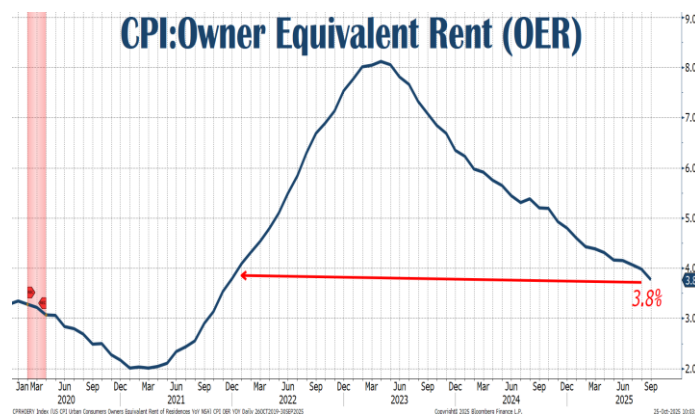
Underlying U.S. inflation rose less than expected in September. The consensus was at +0.4% month over month on the headline, and +0.3% on the core. The headline came in at +0.3% month over month, and the core was tame and tame at +0.2%.

On an annual basis, it advanced 3%, below the 3.1% estimate. The September report was delayed by the government shutdown but released so the Social Security Administration could calculate its annual cost-of-living adjustment.

Goods prices excluding food and energy rose at a slower pace, dragged down by cheaper used cars. Categories exposed to tariffs are rising while core goods deflate, suggesting the tariff impact is real but contained so far. Services prices excluding energy climbed 0.2%, restrained by the smallest increase in rents printing +0.2% month over month and +0.1% for the Owners' Equivalent Rent – a number we last saw in January 2021.



The fact that housing costs showed the smallest increase since early 2021 is notable given the ongoing affordability crisis, possibly reflecting demand destruction rather than genuine improvement. Given that shelter costs represent ~30% of the Consumer Price Index, this is a bullish signal for lower inflation as housing costs are starting to play “catch down” to the data in real time.



Bottom line: This gives the Fed political cover to cut rates this week (with more to come by year-end) despite inflation still running 50% above their 2% target. What strikes me is the timing: Inflation is moderating just enough to justify rate cuts while the economy shows weakening labor data and rising delinquencies. The Fed is cutting into weakness rather than strength, which historically signals they're behind the curve.

THE 2-YEAR TREASURY LEADS THE WAY

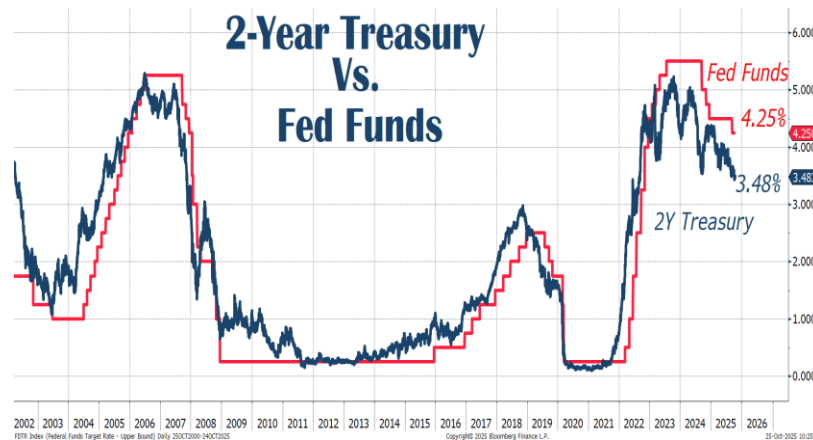
I keep hearing people talking about the Fed not having any data to look at because of the government shutdown. That is not true because the Fed has markets.

Going back over 20 years to 2004, the relationship is utterly unmistakable; the 2-year Treasury yield leads. To wit: When the Fed started easing in 2006, the 2-year Treasury yield had been falling in yield for quite a while, and by about 100 basis points before the Fed finally got in sync. And then they stayed in sync, led by the 2-year Treasury all through the global financial crisis.

And then the 2-year Treasury yield went sideways for about eight years, so the Fed stayed at... 0% except for the last year of that period. In the last year, the two-year Treasury yield started to rise. And so, what do you know? The Fed had to start tightening.

And then, everybody thought that inflation was going to go up, thanks to all the stimulus money printing. In 2020 and 2021, the 2-year Treasury was skyrocketing higher, and it rose to 200 basis points above the fed funds rate before the Fed put in their first hike.

And then the Fed raised rates 500 basis points. Then the 2-year Treasury went to the type of gap below the fed funds rate that we experienced at the depths of the financial crisis. The Fed was way behind the curve and had to start easing by 100, and they made another cut last month.



Bottom line: Currently, the 2-year Treasury is now at 3.48%, and the fed funds rate is 4.25%, so look for the Fed to cut rates by at least 25 basis points (a 50 basis point cut would be a surprise but possible).

MARKET OUTLOOK AND PORTFOLIO STRATEGY

"Worst that the job market has looked outside of a recession across the last 50 years."
 — Jan Hatzius, Chief Economist, Goldman Sachs

The pervasive belief is that the U.S. economy is doing just fine, but from my perch, within the broad economy itself, absent the spending boom in the tech space, there has been no growth at all to speak of so far in 2025. The jobs market is weak and is losing momentum. Job openings have declined for 3.5 years and are now near the pre-2020 crisis levels.



At the same time, the hiring rate in the private economy is at recessionary levels. This is a leading indicator. Firms first cut their intended hiring plans and then start to lay people off.

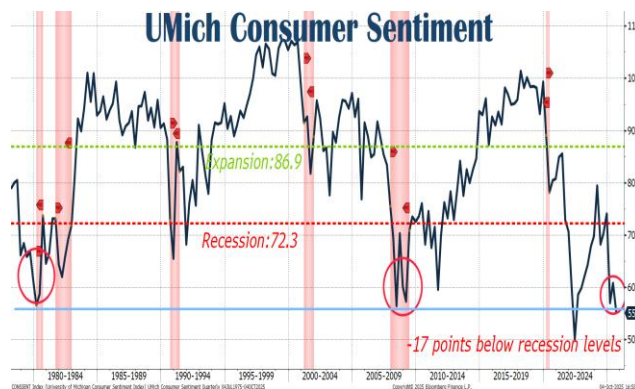


It will be interesting to see how the employment data evolve once the government shutdown ends and the official numbers are released. The intense weakness we have seen of late is bound to be extended, and with that in mind, I highly recommend a read of the *Wall Street Journal* article “Unemployment Claims Filed by Federal Workers Shoot Higher.”

Manufacturing activity is still contracting; housing is in the basement despite the recent decline in mortgage rates and exports are in a state of tariff-induced disarray.

The consumer is hanging in because of the equity wealth effect on spending for the top 10%.

At the same time, consumer sentiment is in the bottom 1% of all historical readings and the ADP Employment Report has now shown private sector employment to have declined in each of the past two months and in three of the past four.



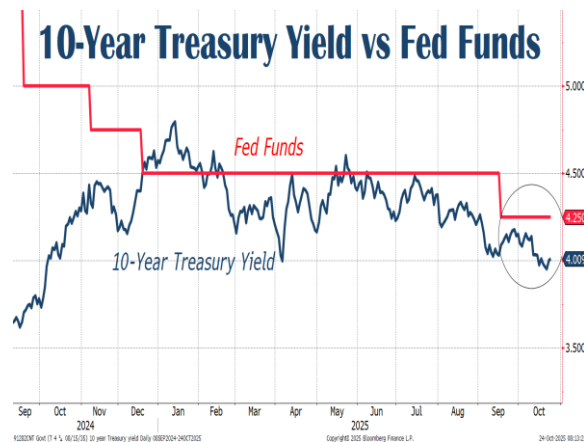
Meanwhile, credit stress is building. The share of subprime loans in default (60 days or more past due) has hit a record high of 6.5% and repossessions have expanded sharply of late. The volume of auto loans transitioning into delinquencies has been rising across all ZIP codes and credit score tranches — mainly concentrated among lower-end income households. Like subprime mortgages two decades ago, they are the proverbial canary in the coal mine.

On the earnings front, technology profits are up more than +30% from year-ago levels while the rest of the earnings pie is down -5%!

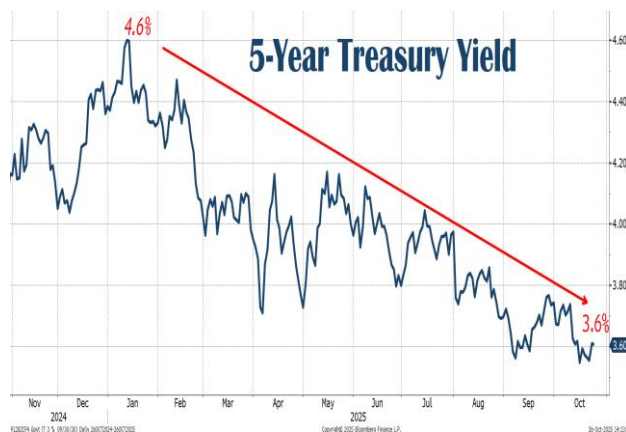
Meanwhile, the stock market is back near its record highs. That the stock market is back near all-time highs is proof that the S&P 500 has become completely disconnected from the real economy. What we have is a sentiment-fueled backdrop where all that matters is what investors expect generative AI to deliver into the future when it comes to productivity and profits growth.

While stocks soar, home prices have now declined for five consecutive months. This is a pattern, not a blip.

All in, this is not a very good look despite the consensus narrative. The bond market realizes this, and that is why the 10-year Treasury yield is at 4.0% while fed funds are 4.25%.



In the meantime, Treasury yields have declined significantly from recent peak levels. As yields continue to bleed lower on rate cuts and weaker jobs (thanks to AI), bond vigilantes are likely to capitulate their near record high short positions. Look for yields to continue their descent with the five-year benchmark trading below 3%.



At the long end, the 10-year Treasury benchmark is likely to pierce the 4% resistance with a potential move to 3.6%.



Bottom line: Rates have been declining since December, and more importantly, the stage is set for lower rates. Credit unions should position their balance sheets and investment portfolios for a lower rate paradigm.

Selloffs should be viewed as an attractive entry point to position investment portfolios and balance sheets for a lower rate paradigm. As always, the most prudent approach is to build a risk-appropriate ladder strategy.

WHY SUBSCRIBE TO THE WRV?

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 goes 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

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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