Weekly Relative Value

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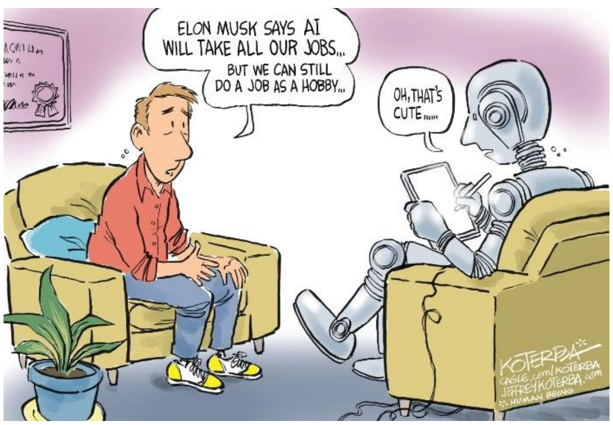
Market Strategist

WEEK OF NOVEMBER 3, 2025

Long-Term Unemployment Soars

*"…**there will come a point where no job is needed**…**You can have a job if you want to have a job or sort of personal satisfaction**, but the **AI will be able to do everything**…" "We won't have universal basic income. **We'll have universal high income**." — Elon Musk*



As shown below, since June 2022, long term unemployment has risen ~50% from 985,000 to 1.8 million.

Making matters worse, 50% of the ranks of the officially unemployed have now been without work for at least half a year. Long-term unemployment in the U.S. hit 25.7% — one

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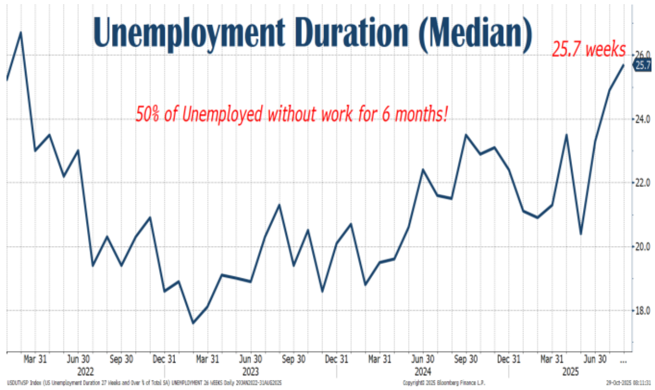
in four unemployed Americans have been out of work for 27+ weeks as of August 2025, a three-year high. Simply put, if you receive the dreaded "pink slip," it's becoming increasingly difficult to find a new job.

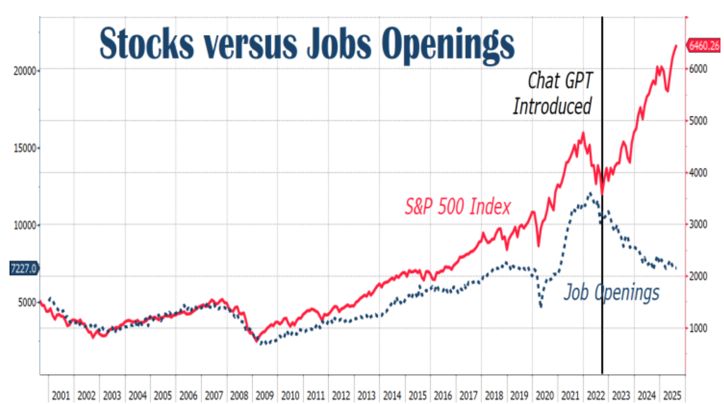


Long-term unemployment sends a different message about labor market health than the headline unemployment rate, which remains relatively low. When people can't find work for over six months, it suggests structural problems such as skill mismatches, geographic hurdles or shifts in what employers are hiring. The current rise coincides with widespread Artificial Intelligence (AI) adoption, companies cutting junior roles and hiring freezes across tech and professional service.

I should note that long-term unemployment spikes during and after recessions, as workers struggle to find new positions. For perspective, the last time this metric exceeded 25% was in 2009, when the U.S. was already over a year into a recession. During the financial crisis in 2008, this metric soared from ~17% to above 45% by 2010. It gradually declined through the 2010s expansion, bottoming around 20% before the pandemic. The current rise to 25.7% is concerning because it's happening without an official recession and while headline unemployment remains relatively stable.

The 2009 comparison is relevant because that's when structural unemployment became clear as certain jobs simply weren't coming back. We may be seeing a similar dynamic where AI permanently reduces demand for certain skill levels, leaving workers searching for positions that no longer exist.

As depicted below, historically, there has been a strong correlation between job openings and the stock market. As openings declined, equity markets weakened. But something has changed. New Harvard research shows job openings collapsing after ChatGPT's release. Openings plummeted 40% while the stock market soared by 30%. Is this a coincidence, correlation or causation?



Bottom line: Companies are eliminating junior positions, using AI to justify workforce reductions. As openings collapse, this creates a pipeline problem where entry-level opportunities disappear.

THE WHITE-COLLAR BLOODBATH

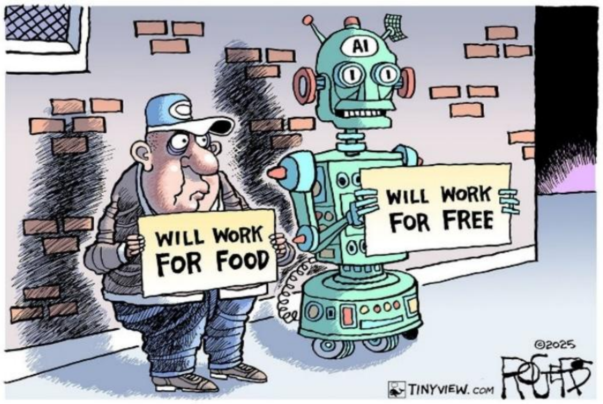
"Artificial intelligence is going to replace literally half of all white-collar workers in the U.S.”
— Jim Farley, Chief Executive Officer, Ford

As highlighted last week in this space, the Amazon’s robotics team wants to automate 60% of its logistics jobs (potentially replacing 600,000 warehouse workers by 2033). Now imagine replacing 90% of warehouse workers with robots that never sleep, never take time off and never come into work hung over. Yikes!

Meanwhile, the white-collar AI bloodbath is happening faster than many expected. Last week, Amazon announced they will fire 30,000 employees, which is nearly 10% of Amazon's corporate workforce of roughly 350,000. Again, 10% of Amazon’s 350,000 corporate workforce. Gone. Not warehouse workers. Not seasonal staff. Engineers. Managers. The “safe” jobs.

30,000 jobs. TODAY. How many jobs tomorrow?

Amazon isn’t struggling. In fact, last week they announced a quarterly blowout revenue and earnings report, and the stock soared to a record high. Rather, Amazon is optimizing its business by investing $100+ billion into AI infrastructure and replacing $100,000 salaries with AI systems that run 24/7 for much less.



Amazon CEO Andy Jassy said it plainly earlier this year:

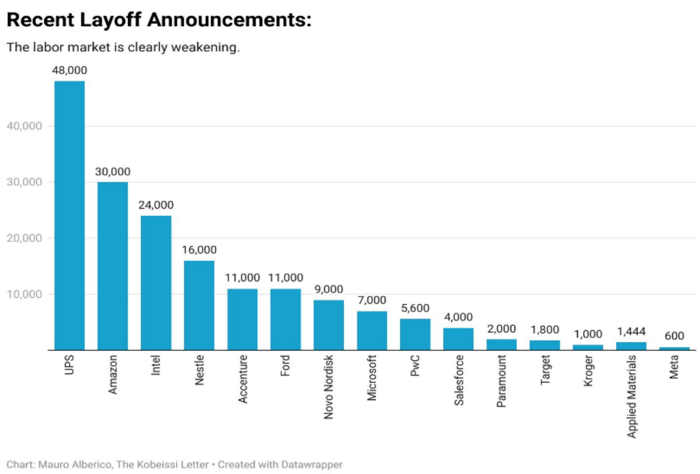
“We will need fewer people doing some of the jobs being done today.”

Not “different” jobs. Fewer people. Full stop.

And that’s the problem. We’re past peak employment for Amazon and many other companies with the capital to roll out AI and robotic solutions to curb or even eliminate hiring.

I’m afraid Amazon’s 30,000 job cuts are just beginning.

As the *Wall Street Journal* reported in "More Big Companies Bet They Can Still Grow Without Hiring," some of the country's top employers don't see the need to hire. JPMorgan Chase, Walmart, Target and Paramount, among others, have said in recent weeks that they expect to hold down headcount. In other words, don't bother looking for a job.



Bottom line: The age of AI displacement isn't coming. It's here. For now, though, it's not so much about job losses. Rather, it's about very flat hiring. In another two to three years, AI-based cuts and near zero hiring will become the norm.

Moving forward, the big issue isn't the layoffs, but that workers have no idea how to adapt to the possible mega transformative workplace. Now 30,000 Amazon employees will find out what "economic transition" feels like. And they won't be the last.

What advice would you give to a 20-year-old who is beginning his career?

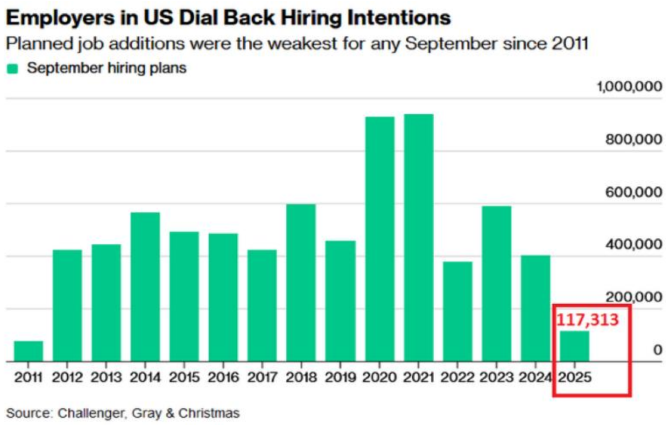
THE BACKBONE OF AMERICA

There are nearly 35 million small businesses compared to fewer than 20,000 big corporations. Small firms employ about 62 million Americans, nearly half the U.S. workforce. They're responsible for almost 80% of all job openings in the country.

But that engine is slowing down fast. In September, small business job openings fell to the lowest level since the 2020 crisis. That's one of the most reliable early warning signs for higher unemployment.

Moreover, small business employers announced plans to add just 117,000 jobs in September, the weakest September reading in 14 years. When small firms stop hiring, it usually means business is slowing and layoffs are coming next.

The Fed's rate hikes since 2022 have hit small businesses far harder than big corporations. Small businesses don't borrow at the Fed funds rate. The latest National Federation of Independent Business survey showed that the average interest rate for them has not come down this year and stands at 8.8%, the high end of the range of the past 20 years. Interest costs represent nearly 8% of revenue. And in July, 11% of small businesses said poor sales were their biggest problem, the highest since 2020. Put simply, small businesses are earning less and paying more to borrow money. That combo usually ends with layoffs.



Bottom line: Half of America works for small businesses, which make up about 44% of U.S. gross domestic product (GDP). When the economy slows, they're the first to break.

INCOME GROWTH SLOWS

"Companies might increase wages by less because they're trying to shrink staff… if people don't leave, that is when companies could start laying people off." –George Eckerd, Research Director, JPMorgan Chase Institute

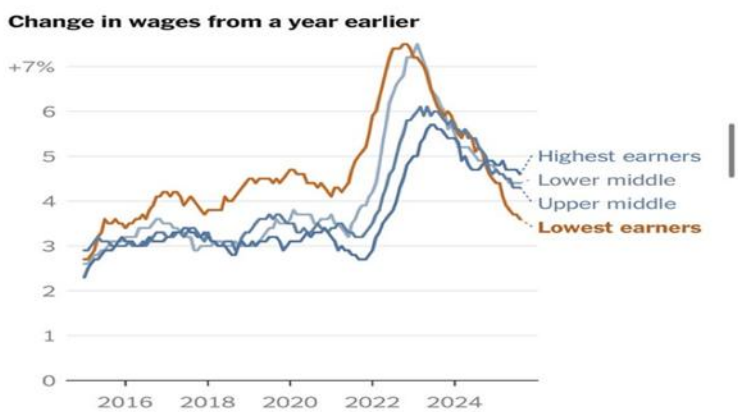
Slowing income growth is another sign of a softening labor market. Hopefully, Mr. Powell and the lone dissenter, Kansas City Federal Reserve Bank Governor Jeffrey Schmid, in favor of no move will take the time to read the article in the *Financial Times* titled: "U.S. Workers Hit by Slowing Income Growth."

To wit:

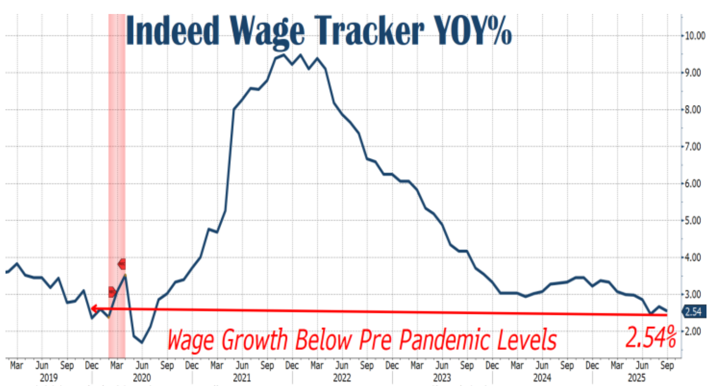
"Real income growth for workers aged between 25 and 54 this year dropped to its slowest pace — excluding during periods of pandemic volatility — since the 2010s when the 2008 financial crisis led to high levels of unemployment. — JPMorgan Chase Institute.

Moreover, young workers are experiencing the worst income growth since the 2010s as the low-hire, low-fire labor market reduces their pace of job transitions. Your twenties are historically the decade with the largest income gains. Early career workers tend to switch jobs more frequently while establishing their careers, which leads to higher wages.

"Workers ages 25 to 29 are underperforming prior generations in terms of the life-cycle income path in recent years… With young workers especially hard hit, in a sign American consumers are struggling with a weakening labor market and persistent inflation. — JPMorgan Chase Institute



This narrative is reinforced by Indeed, which reports that wage trends have slowed to +2.5% year over year from +3.3% a year ago, +9.5% at the 2022 peak, and represent the second most sluggish pace since July 2020. The price of labor is painting a disinflationary labor market.



This is what Scott Boatwright, the CEO of Chipotle, had to say about the U.S. consumer:

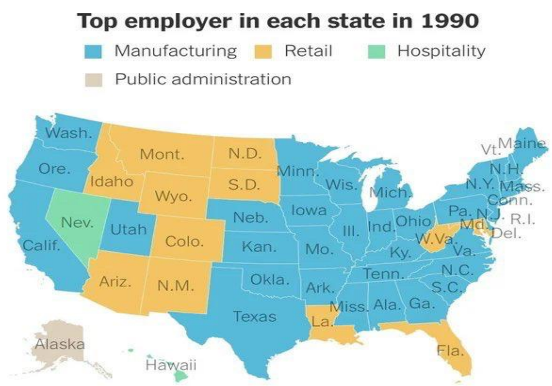
"Earlier this year, as consumer sentiment declined sharply, ***we saw a broad-based pullback in frequency across all income cohorts.*** *Since then, the* ***gap has widened, with low to middle-income guests further reducing frequency****. We believe that this guest,* ***with household income below $100,000, represents about 40% of our total sales, and based on our data, is dining out less often due to concerns about the economy and inflation.*** *A particularly challenged cohort is the 25 to 35-year-old age group.* ***We believe that this trend is not unique to Chipotle and is occurring across all restaurants, as well as many discretionary categories****."*

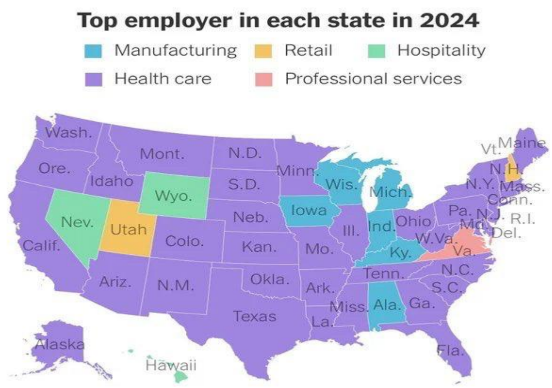
The bottom line: The weakening labor markets are negatively impacting income growth and purchasing power, especially for young people, as inflation sticks around and companies are in no rush to hire or give raises.

So, while the recession is not apparent in GDP, or in equities or corporate credit, it is increasingly apparent in the labor market, the housing sector and in personal incomes.

GRAPH OF THE WEEK

Over the past 35 years, the U.S. economy has morphed into a hospital. The picture tells the story.



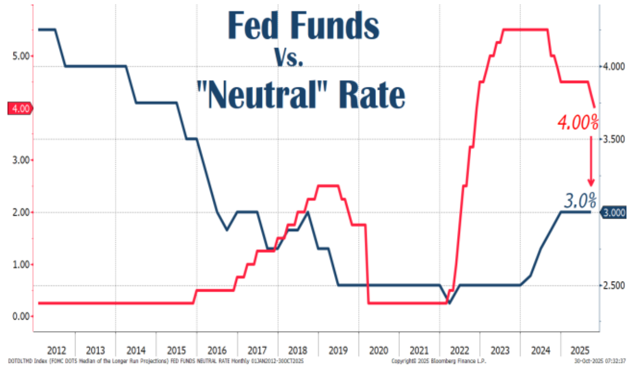


Bottom line: A picture is worth one thousand words!

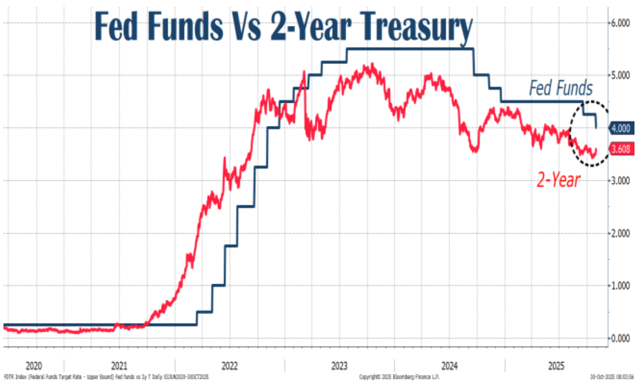
NOT A FOREGONE CONCLUSION

The Federal Reserve did the expected and cut rates 25 basis points to 4% with two dissenters in opposite directions: Governor Stephen Miran voted against the 25-basis point cut; he wanted a 50-basis point cut. Meanwhile, Jeffrey Schmid, President of the Kansas City Fed, voted against the cut; he wanted no cut.

The Fed also announced they will end quantitative tightening (QT) (stop draining liquidity) in December. The Fed has already shed $2.4 trillion in assets since QT began in July 2022.



In the press conference following the Federal Open Market Committee meeting, Jerome Powell voiced the following: December is "not a foregone conclusion" and with an emphatic addition of "in fact, far from it." Indeed, at a 3.6% yield, the 2-year Treasury note signals that it only expects one more rate cut this cycle out of the Fed.



Powell further mentioned that the Committee is between 3.0% and 4.0% on the long-term neutral rate (R*) assumption. He also stressed that the Fed has already gone -150 basis points in this easing cycle and hinted that policy is no longer restrictive.

Tack on Powell's upbeat view that there is only a "gradual cooling" in the labor market and discussed two-sided risks to inflation. He also said after stripping out tariffs, market-based inflation is closer to target in the low-2%'s (2.3%-2.4%).

So let me get this straight. ADP employment has contracted in three of the past four months, and from June to October there have been well over 200,000 job cut announcements from company reports, small businesses are reducing openings, hirings are at recession levels, yet Powell states the labor market is in a "gradual cooling." In one word: nutty.

Bottom line: Unless Powell wants to further derail the housing market by talking up bond yields (and mortgage rates), then not a lot of what Powell had to say really adds up. Futures have reduced the odds of a December rate cut to around 60% from nearly 90%.

Let me say this. I don't line up with the hawkish message, but that is indeed the message, and it is a problem for a market that priced in five additional rate cuts over the next year.

BOND BULLISH NEWS

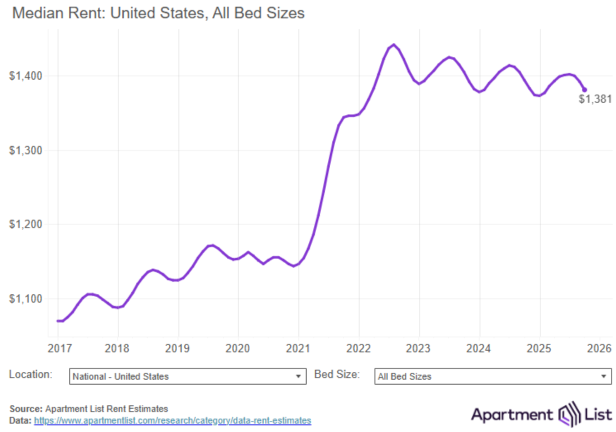
The housing/shelter category represents about **one-third** of the Consumer Price Index (CPI). The "Owners' equivalent rent" for primary residences accounts for approximately 26-27% of the CPI, while "rent of primary residence" is about 7.5%. As such, one would think that bond investors would be relishing the column in the *Wall Street Journal* titled "Renters Have the Upper Hand. And They Are Probably Keeping It."

The opening salvo says it all:

"Renters across much of the U.S. have enjoyed easing prices and months of free rent this year. Now, this tenant-friendly environment looks poised to extend deep into next year, and perhaps beyond. Apartment rents nationally are advancing at their slowest pace in years, thanks to the glut of new units that has taken longer than expected to absorb. More recently, job concerns among young people are posing a new threat to the rental market."

"Landlords in many major metro areas are slashing prices. Those in the Sunbelt and Mountain West states are offering the deepest rent cuts, especially in cities like Austin, Texas, Denver and Phoenix."

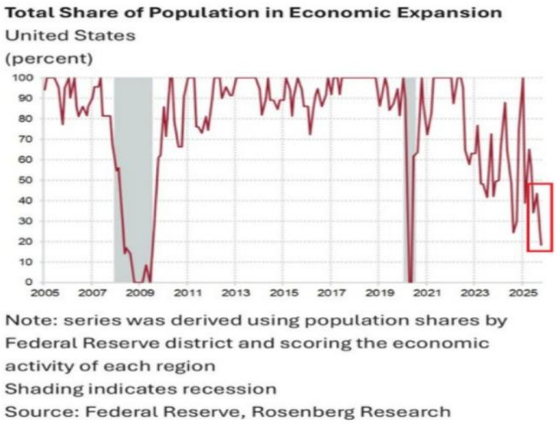
It is hard to have a stagflation thesis with rents heading down. Kristi Noem says they have deported 527,000 people plus another 1.6 million who self-deported since Trump came in. Who knows? But I do know more people will be gone in 2026, then more people in 2027. I don't know how many people will leave the country, but it will be a large number, enough to completely sway the tenant-landlord negotiation. I simply cannot understand how anyone could forecast runaway inflation in 2026 with graphs like these making the rounds. This is the single-biggest household expenditure, and it is going down, plain and simple.



Bottom line: Declining shelter costs should serve to offset the inflationary impact of tariffs on imported goods and pressure inflation lower over time.

82% OF THE ECONOMY IS IN RECESSION

The analysis shown below from Rosenberg Associates uses the Fed Beige Book, a report published eight times a year based on anecdotal information gathered from businesses, economists and market contacts from the 12 Fed districts. The percentage has DOUBLED since the start of 2025. Currently, ~82% of the U.S. population lives in regions experiencing an economic recession, the highest share since 2020. Over the last 20 years, only 2008 and 2020 saw such a large share of the country in recession.



Meanwhile, the latest Atlanta Fed estimate for real U.S. GDP growth in Q3 2025 is +3.9%.

What is going on?

GDP growth is propped up by a tech investment boom that benefits a narrow slice of the economy. At the other end, large swaths of Americans are exposed to shrinking demand, rising tariffs, automation-induced job losses, sluggish wage growth and mounting debt pressures. A few sectors boom – tech, defense and AI – the rest bleed.

Bottom line: The GDP for economic growth is misleading. The national average hides the fragmentation underneath. A handful of high-growth sectors may be propping up the averages, but the real economy is clearly signaling strain beneath the surface. When 82% of the population lives in areas technically in recession while GDP grows nearly 4%, the macro narrative is broken**.**

A ONE-TRICK PONY

"It was still necessary to reassure those who required some tie, however tenuous, to reality. The time had come, as in all periods of speculation, when men sought not to be persuaded by the reality of things, but to find excuses for escaping into the new world of fantasy." – John Kenneth Galbraith, The Great Crash, 1929

The S&P 500 stands at the most extreme level of valuations in history.

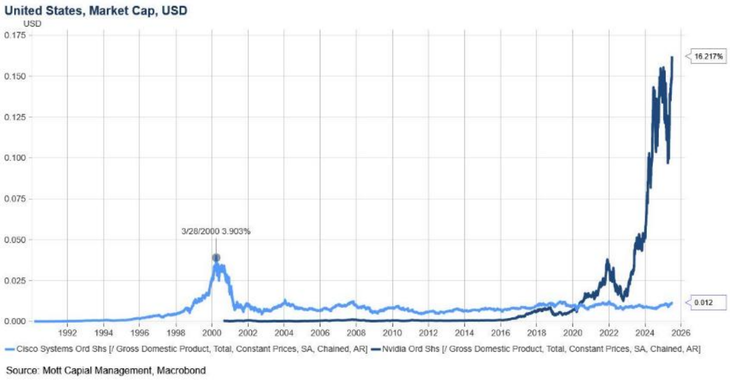
- The S&P 500 Shiller PE (CAPE) ratio has hit 41x, the highest since the 2000 dot-com bubble burst. It now sits just below the December 1999 peak of 44x.
- The "Warren Buffett Indicator" (market capitalization-to-GDP ratio) reached an ALL-TIME HIGH of 225%. In other words, the U.S. market is now more than TWICE the size of the economy. For perspective, this ratio is now 75% ABOVE the 2000 dot-com bubble peak.
- The price-to-sales (P/S) ratio hit 3.6x, nearly double the historical norm and WAY above the 2000 dot-com bubble peak of 2.1x. The tech sector is priced at over a 10x price-to-sales ratio, and the +7.2-point gap with the overall market is unprecedented and almost triple the historical mean.
- The Price-to-Book (P/B) ratio hit 5.6x, above the 2000 high of 4.6x.
- Forward P/E is 26x, the second highest since the dot-com bubble burst.

Since bottoming in October 2022, the S&P 500 has gained 90%, an impressive run but not out of the ordinary. In fact, the 12 prior bull markets over the past 80 years averaged 200% gains and lasted five years, with eight making it past the three-year mark.

If there is one underpinning for the stock market rally, it is that the Q3 earnings season is lining up as nothing short of stellar. Who would have thought it possible at the height of the tariff anxiety last spring? But the data are the data, and it looks as if, when all is said and done, earnings per share growth will come in somewhere around +13% year over year.

That said, AI has accounted for 75% of S&P 500 gains, 80% of profits and 90% of capital expenditures since this rally began. That's even more concentrated than 2000.

- The Magnificent 7 now accounts for an incredible one-third of the S&P 500 market cap.
- 41 AI-related stocks now make up 47% of the S&P 500's value.
- Nvidia became the world's first $5 trillion company, and its market value is currently 16% of U.S. GDP. For comparison, during the dot-com bubble, Cisco peaked at 4% of GDP.



The one theme stemming from last week's news flow was that the boom in AI-related capital spending is in massive acceleration mode and is on pace to continue well into 2026. Last week's news reveals that Google, Amazon, Meta and Microsoft alone intend to spend over $400 billion on AI data centers next year, even more than the anticipated $350 billion outlay expected for 2025. These numbers are staggering to say the least.

The future returns from all this investment are still unclear, but the bets being made are incredibly high, as are the stakes. All the while, this boom is masking weakness in the rest of the economy, which has been flat this year outside of this capital expenditures surge.

"There are a ton of these investments that will be dead ends." — Bill Gates, October 28, on CNBC

It's been an amazing run. But clearly, not everyone is bullish. Berkshire Hathaway has been unloading stocks for 12 straight quarters, the longest selling streak in its history. In just the past three years, Buffett's empire has sold off roughly $184 billion worth of equities, turning from a market buyer into one of the biggest sellers on the planet.

Bottom line: The stock market is a "one-trick pony" and relies on a handful of stocks. Should AI not deliver on the hype and speculation, look for the AI bubble, and hence the stock bubble, to pop.

How long will this euphoria last? All this will eventually come out in the wash as it always does, and it is a waste of time trying to time the peak.

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

Given the lack of government data, we only have private non-government data releases to chew on. Here is what we know from the latest releases:

- The Johnson Redbook numbers for October showed that chain store sales sagged by -0.4% month over month and have been down in two of the past three months.
- The Intuit small-business employment growth figures for September showed a net decline, as has been the case in three of the past four months. Powell said there is a "gradual cooling" in the labor market, but it is more than that.
- The Q4 ManpowerGroup Employment Outlook Survey also showed net hiring intentions faltering to 28, now at a four-and-a-half-year low.

- Indeed wage trends have slowed to +2.5% year-over-year from +3.3% a year ago, +9.5% at the 2022 peak, and represent the second most sluggish pace since July 2020. The price of labor is painting a disinflationary labor market.

On balance, this data does NOT reflect an economy growing near 4%. Rather it reflects a weakening consumer, declining employment and wages. 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.

Meanwhile, last week, the 10-year Treasury yield jumped nine basis points to around 4.08%, while the 2-year also climbed roughly eight basis points. This came despite the Fed cutting rates by 25 basis points, bringing the federal funds rate to 3.75% - 4%, while confirming plans to end quantitative tightening in December.

So why the sell-off?

The 25-basis point cut was expected. Traders had already priced it in. What wasn't expected was Powell's perceived hawkish tone right after throwing cold water on the market's December rate cut hopes.

During the press conference, Powell said a December rate cut is "far from a foregone conclusion" and noted there were "strongly differing views" among Fed officials.

Powell mentioned that inflation is still "somewhat elevated" at around 3% and hinted it could stay that way. He also said there are "two-sided risks," meaning the Fed is now balancing between keeping jobs strong and preventing inflation from heating back up. With unemployment at 4.3%, Powell made it clear the economy isn't in danger yet.

Another factor: The government shutdown has delayed key data releases like jobs and inflation reports. Powell said the Fed will have to "collect every scrap of data we can find" until normal reporting resumes. That uncertainty makes policymakers less likely to commit to more cuts right now.

Translation: The Fed isn't sure whether it wants to keep cutting or hold steady. That sent bond yields higher.

Bottom line: Rates have been declining since December, and more importantly, the stage is set for lower rates. **Powell's rhetoric was much less hawkish than the market seems to think,** and he emphasized the same data-dependent approach as usual.

Outside of the AI-economy, wide swaths of weakness persist — and the housing sector is front and center. In other words, the big jump up in bond yields is an overreaction in my view as I do not think there has been a hawkish shift, and incoming data argue for continued cuts. **This coming week should see some retracement in the short and long end of the curve.** Thus, the recent back-up in rates provides an opportunity to put excess cash to work.

As always, the most prudent approach is to build a risk-appropriate ladder strategy. Strategically, the short to intermediate part of the yield curve is most attractive.

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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 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.

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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.