



Tom Slefinger
Market Strategist

Weekly Relative Value

WEEK OF JANUARY 12, 2026

Growth Without Jobs

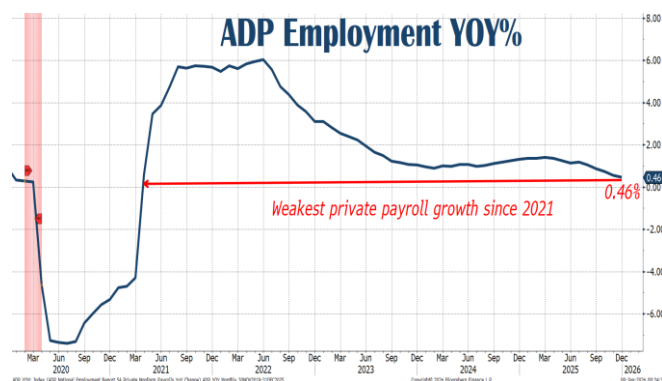
"The greatest story never told."

– Larry Kudlow, American Economist and Financial Market Analyst

You may have seen headlines touting our robust gross domestic product (GDP) as evidence that the economy is roaring along just fine. But as I and many others have argued, last year's strength was driven primarily by artificial intelligence (AI) investments. In addition, many question the accuracy of the number due to data limitations during the government shutdown. Although I won't get into the dirty details today (more to come), would the below be true if the economy was doing just dandy?

In the all-important labor market and after ADP reported a dismal -29,000 private payrolls print for November, ADP reported that in December, the U.S. added 41,000 payrolls.

The +41,000 in the headline corresponds to annualized growth of just +0.46% in December. The year-over-year trend in employment growth keeps slipping and has fallen in eight out of nine months since March, from +1.4% all the way down to just +0.5% now (the weakest pace since March 2021).



But the real story could be seen once we strip out the non-economic education and health care sector (+39,000): The rest of U.S. economy jobs grew by just +2,000, essentially nothing.

Also buried in a modest gain of 41,000 jobs in the December ADP Report was a sobering new trend in white collar employment. Professional and Business Services jobs were down

THIS WEEK

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SUBORDINATED DEBT: (SIMPLIFIED)

Partnership has its perks.
Hand over the hard parts.

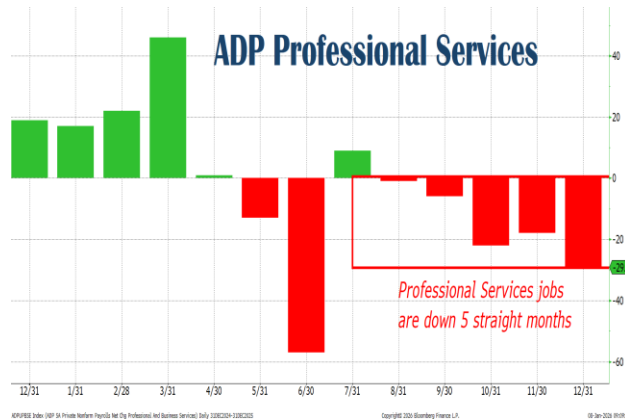
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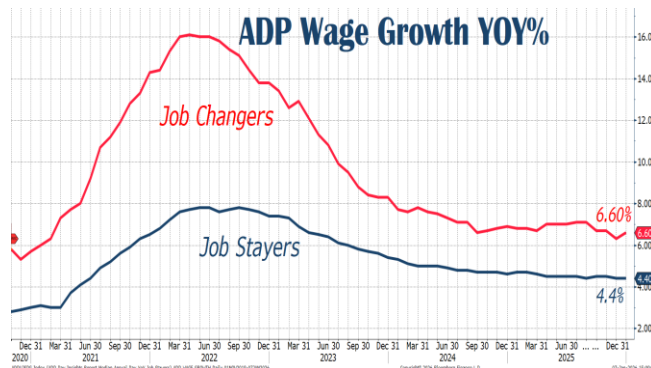
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29,000 in December and are down for five months and seven for the last eight. Overall, manufacturing is in a big slump, small business employment is dismal, and now white-collar jobs are weakening dramatically.

Note: The white-collar weakness is related to AI and manufacturing, and small business weakness are related to tariffs and a generally weakening economy. But hey, Larry Kudlow says this is “the greatest story never told.”



In terms of wage growth, year-over-year pay for job-stayers rose 4.4% in December, unchanged from November, while job changers saw their pay growth accelerate to 6.6% from 6.3%.



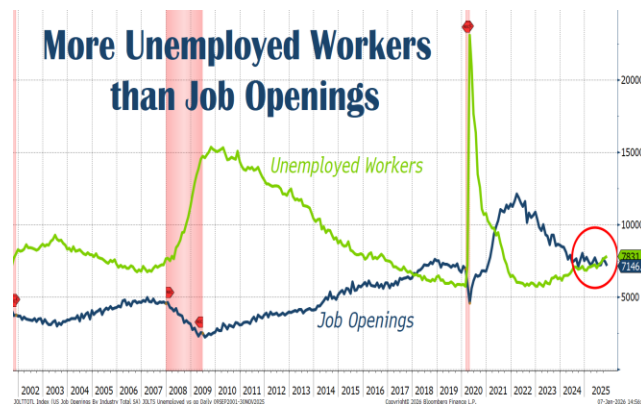
JOLTED AGAIN

Moving on. The Job Openings and Labor Turnover Survey (JOLTS) job opening report followed less than two hours later, and the job opening collapse in November was epic, with -303,000 job openings disappearing and another -221,000 being revised away from the October data. (Recall JOLTS lags the payrolls report by a month.) Now job openings are down to 7.15 million from over 12 million at the peak. That's a massive reduction in available positions.

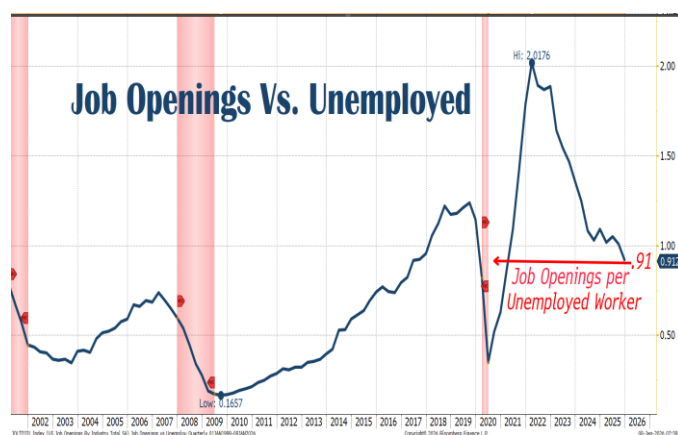


Predictably, if there are fewer job openings, there will be less hiring. Just a few months ago, the labor market was supply-constrained, meaning that there were more job openings than unemployed workers in the U.S. The latest data shows that luck has run out and we are finally back to a sharply demand constrained labor market with **685,000 fewer job openings than unemployed workers, the most since March 2021.**

Need evidence of ever-widening labor market slack? We are now down to 7.14 million job openings and up to 7.83 million unemployed. Remember back in 2022 when there were more than two job openings for every unemployed person?

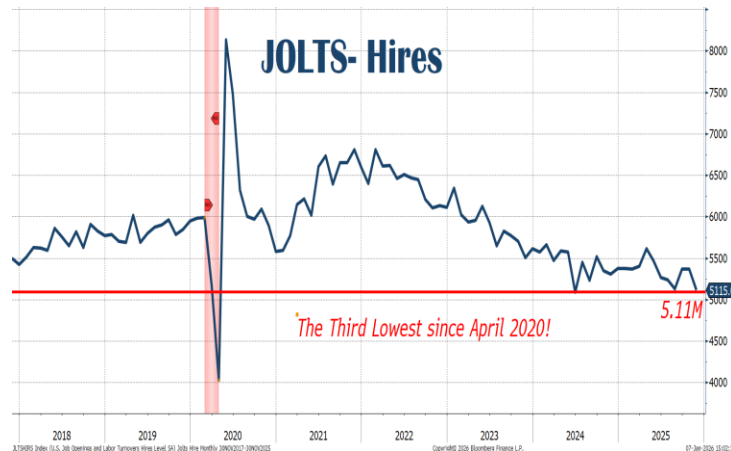


For every unemployed person, there is now only 0.913 of a job available. We haven't seen a number this low since March 2021, when the unemployment rate was a snick above 6.0%. Just in case you're wondering where we are heading and what will surprise the Fed the most in 2026.



While the job opening data was ugly and potentially another harbinger of the coming jobs recession, things were even uglier below the surface, as the number of new hires tumbled by 253,000, the biggest one-month drop since June 2024, to 5.11 million, the lowest since June 2024.

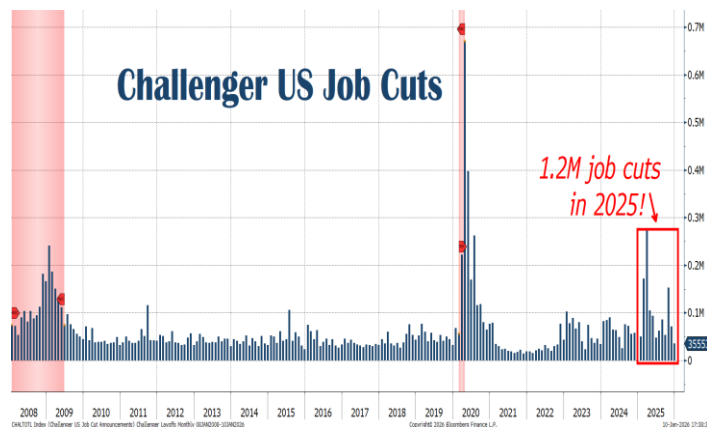
Put a different way, job openings are down -11.0% year over year, and hiring is down -3.6% year over year. You can't put lipstick on this pig. Labor demand is shrinking fast!



Bottom line: Job openings at a four-year low confirm what we've been seeing in the labor market data. Companies aren't hiring. The labor market is freezing up, not improving. 66% of CEOs plan to either fire workers or maintain existing team sizes in 2026. Job openings dropping to four-year lows fit that pattern perfectly. Companies are not expanding headcount.

LAYOFFS SURGE 58%!

Elsewhere on the jobs front, the Challenger layoffs data for December showed that announced jobs cuts came in at 35,500 in December, which is a -8.4% year-over-year trend, as well as -50.1% month over month. However, when looking at the year in aggregate, 1,206 million job cuts took place in 2025, compared to a total of 761,000 in 2024. This is a +58% jump from last year. Job cuts due to AI were up by a whopping +330% over the course of 2025 compared to the prior year. Layoffs due to economic conditions also spiked in 2025, rising by +69% over 2024's number.

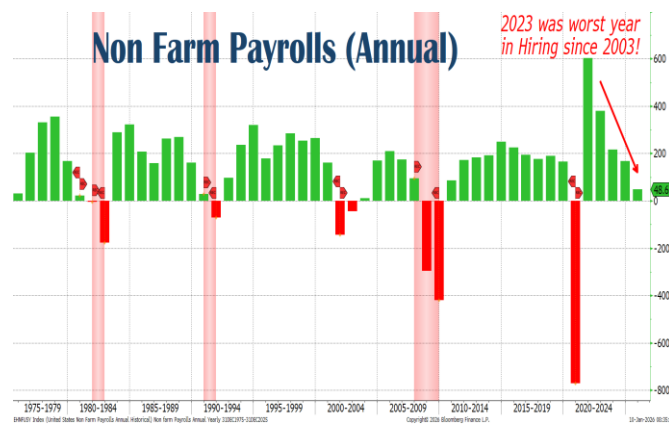


THE ESTABLISHMENT SAYS...

The December non-farm payroll report (aka establishment report) showed that the economy added 50,000 jobs. The weak establishment payroll report was validated by the fact that the companion household survey, when measured on an apples-to-apples basis to the establishment survey, showed a net employment contraction of -143,000.

As we have come to expect, there were downward revisions. October went from -105,000 to -173,000, and November dropped from +64,000 to +56,000. That's 76,000 fewer jobs than we thought.

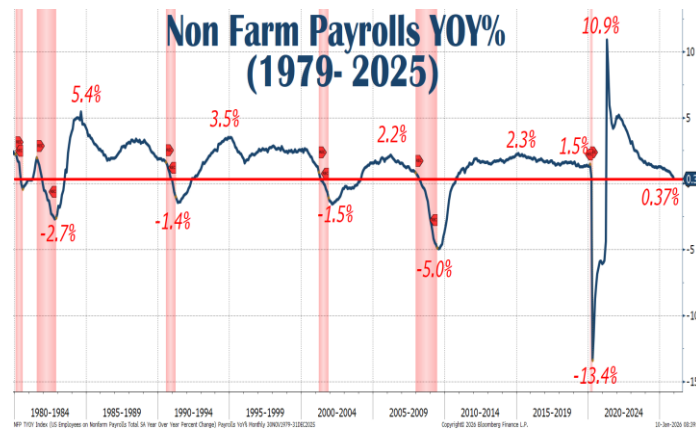
For all of 2025, the economy averaged just 49,000 jobs per month compared to 168,000 in 2024. That's a 71% drop in job creation. In fact, 2025 was the worst year for hiring outside of a recession since 2003. As an aside, there was almost no hiring since April, which coincides with "Liberation Day."



When you revise October down to losing 173,000 jobs and the best spin is "well, December was slightly positive," that's not strength. The drop from 168,000 average monthly job gains to 49,000 is a dramatic slowdown that doesn't get enough attention.

And get this. Strip out the fictitious birth-death model, and non-farm payrolls declined -633,000 last year. The last three years this happened over the past three decades were 2008, 2009 and 2020. Economic strength in GDP has somehow escaped the labor market. Must be a productivity miracle in the making. And if it is, where is this inflation that has the Fed hawks in a tizzy going to come from exactly, as unit labor costs plunge (as they have these past two quarters)?

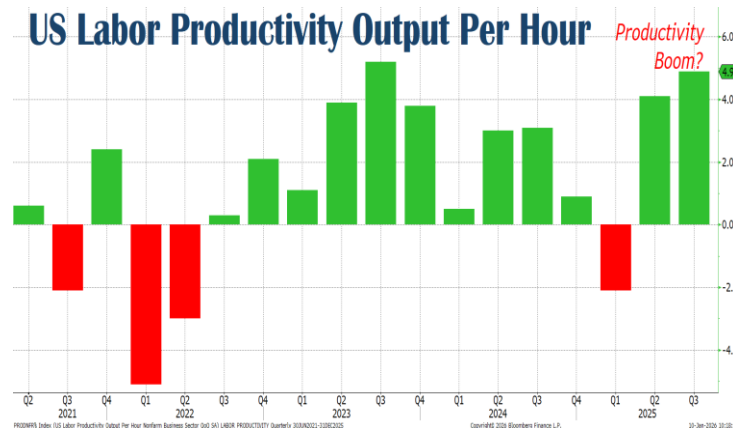
The year-over-year trend in overall payrolls has been sliced to a microscopic +0.4% from +1.3% a year ago, and +1.7% two years ago. Maybe the combination of this year's fiscal stimulus and AI spending boom keeps the economy out of a recession, but know this: A collapse in the employment trend to such a low trajectory triggered a recession signal 100% of the time since 1948! In fact, by the time the pace of job creation throttled back to this extent, we were already into an outright recession.



Maybe this time is different, as productivity growth wasn't saving the day as is the case today. As shown below, productivity rose nearly 5%, if the numbers are to be believed. Unit labor costs fell 1.9%, which on paper looks like businesses are getting more efficient without adding inflationary pressure, which begs the question of why the Fed hawks are so fixated on inflation.

Richmond Fed President Tom Barkin said the quiet part out loud: Businesses are using automation and reduced hiring to offset tariff costs rather than raise prices. Companies are squeezing more out of fewer workers because they're scared to hire and scared to raise prices. When you fire people and make everyone else work harder, productivity per worker goes up mathematically. That's just how the formula works.

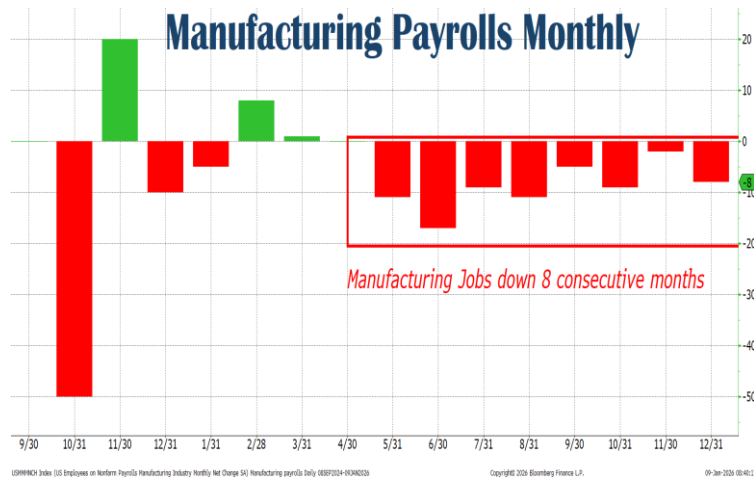
If the data are accurate, then productivity is in a full-fledged boom. And if that's the case, the inflation fretting amongst the Fed hawks and bond bears is misguided, because if there is anything we know with 100% certainty, it's that productivity is an inflation killer.



Drilling a bit deeper, all the headline payroll gain came from two sectors: health/education (+41,000 — the real never-ending story) and government (+13,000). Outside of these sectors, there was a net drop of -4,000. Leisure/hospitality also tacked on +47,000, so together with the other two sectors, the rest of the jobs pie with a near-60% share, posted a -51,000 decline.

This is the major point. The sectors most closely linked to the business cycle (Retail, Manufacturing, Construction, Transportation, Wholesale Trade and Information Services) actually declined by -55,000 last month. Not to mention these sectors have been down three straight months and by a cumulative -143,000! In percentages terms, this

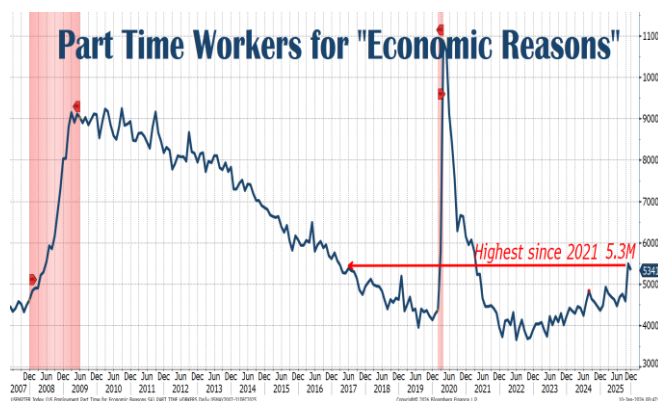
represents a -1.1% annualized decline, something last experienced in June 2020, and before that, when the economy was crawling out of the Great Recession in February 2010.



The unemployment rate did manage to dip to 4.4% from a downwardly revised 4.5% print in November, but this is largely owed to a drop in the participation rate to 62.4% from 62.5%.



The shadow unemployment is where the real pain is hiding. Almost a million more people are stuck in part-time work who want full-time hours. Nearly 700,000 more people want jobs but have stopped looking. These folks don't show up in the 4.4% headline number, but they're feeling this economy. There are now over nine million Americans working multiple jobs with over five million Americans working for "economic reasons." Outside the pandemic, this is the highest since 2017!



Combined with the New York Fed survey showing job-finding expectations at record lows and fear of job loss rising, this looks like a labor market that's slowly rolling over rather than holding steady.



Bottom line: Full of good news you are, Tom, as per usual. Although it is not good news, it is a more complete picture that will likely help many of you who are feeling a bit crazy as what's circulating in headlines does not match your reality. My goal here is to arm you with as many facts and figures as possible to help you when important financial decisions need to be made.

Here's the bottom line. While the economy may not be in a recession, the job market clearly is. The real question is whether the bond market has taken the time yet to go through this report in more detail. Because the further you delve into it, the weaker it looks.

This is a big reason (along with expectations that inflation will head south) why I believe the Fed will be easing monetary policy by more than the market currently expects.

ON THE HOME FRONT

"People live in homes, not corporations." — President Donald Trump

It was at the request of our government agencies that the institutional investors waded into the market. In yet another example of the "smartest guys in the room syndrome," everyone thought this was THE solution to stem the flow of foreclosure sales that were sweeping the nation post 2008. The institutions complied and made a pretty penny renting those homes out to displaced, former owners before rates rose in 2022.

Flash forward, we knew flashy headlines were forthcoming after reports that the president and others would assemble to discuss the "national emergency" that is housing. And sure enough, last week, President Trump said he is taking steps to ban large institutional investors from buying single-family homes, arguing corporate ownership has pushed housing out of reach for Americans. Details were not mentioned.

Let's start with the facts. Institutional ownership is absolutely a problem, especially in cities where there is a bunch of it like Atlanta and San Antonio. Per Resiclub, the third largest institutional investor, Blackstone, owns the most single-family homes.

It's also true that banning institutional investors from buying more single-family homes makes sense if the goal is helping Americans own homes instead of renting from Wall Street forever. When institutional investors buy single family homes (entry level properties), they're cutting off the traditional path to wealth building for middle income families.

Think about it this way: When you own a home, you build equity. Your mortgage payments build your net worth, and eventually you own an asset worth hundreds of thousands of dollars. That's how working-class families historically built generational wealth. But when a corporation owns the home, your rent payments go to shareholders in New York or California, not into your own equity. Over 30 years, one path builds wealth, the other enriches a corporation.

But while institutions are a problem, they are not *the* problem in my opinion. Extreme unaffordability is the problem.

According to *Realtor*, the following would have to occur to restore affordability:

- **Mortgage rates falling to 2.65%**, down from 6.15% currently, or
- **Incomes rising 56%** to a median of \$132,171, up from \$84,763 currently, or
- **Home prices falling 35%** to a median of \$273,000, down from \$418,000 last year.

I vote for #2!

Unfortunately, that does not look like it is currently in the cards.

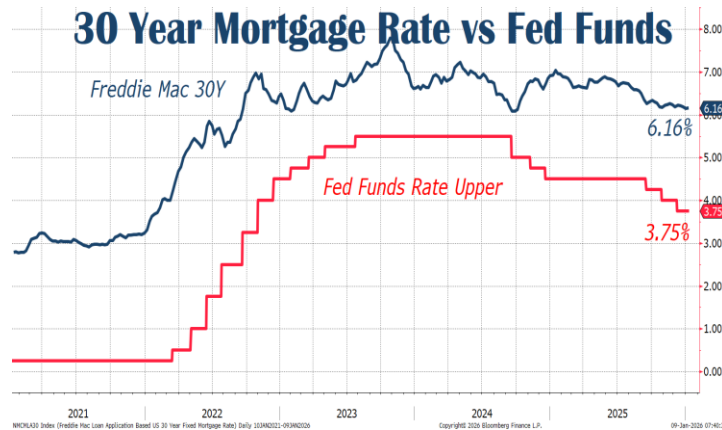
Bottom line: Banning institutional buyers from buying single family homes is a healthy step, but it is not enough in itself to change the current affordability dynamics in the housing sector.

BUY, MORTIMER, BUY!

"This will drive Mortgage Rates DOWN, monthly payments DOWN, and make the cost of owning a home more affordable." – President Donald Trump on Truth Social

The second big news story on the housing front was, once again, another Trump announcement. The president said he was ordering Fannie Mae and Freddie Mac to buy \$200 billion of mortgage-backed securities to push mortgage rates lower. As shown, the fed funds rate has been cut by 175 basis points since September 2024, yet 30-year mortgage rates are still above 6.0%. The White House appears to be making a desperate, populist push.

While mortgages may enjoy a reevaluation and tighter spreads, the proposed purchase size is not especially large when viewed against the scale of the market. More than \$10 trillion of mortgage-backed securities are outstanding, and daily trading volume runs at roughly \$300 billion. Also, any government effort to force mortgage rates lower would also tend to push house prices higher, limiting the benefit. The net effect on households is therefore likely to be minimal, if anything.

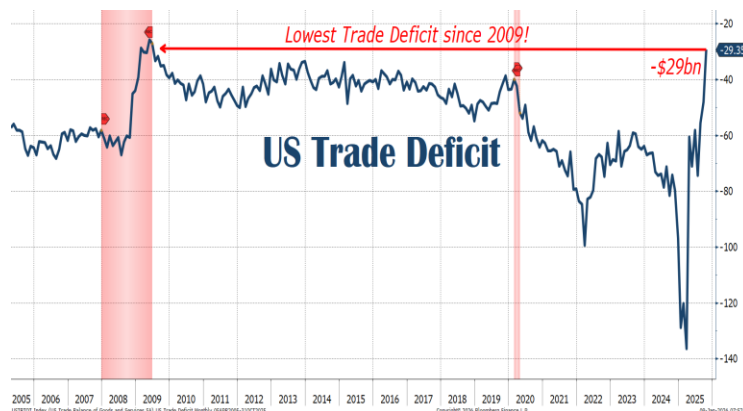


TAKE WITH A GRAIN OF SALT

The huge U.S. trade deficit has for decades been one of the factors weighing on economic growth. The trade deficit (negative “net exports”) reduces GDP growth. The huge spike in the trade deficit in early 2025 was a big factor in pushing GDP growth into the negative for Q1 2025.

“We’re running it hot. Get on board.” – Geiger Capital

The U.S. trade data for October came in at a \$29.4 billion deficit, sharply undercutting the consensus expectation of \$58.7 billion. This is an unusually small deficit for a growing economy and was the smallest deficit since June 2009 when the U.S. economy was crawling out of the Global Financial Crisis. Exports of goods and services rose by +2.6% month over month, continuing a five-month winning streak. In contrast, imports fell by -3.2% month over month, with the drop entirely centered on goods imports. This could reflect the growing weakness in consumer demand, or it could be related to the stockpiling in inventories that took place earlier this year (in anticipation of tariff implementation).



This will be supportive of Q4 real GDP, representing an estimated contribution to growth of around +1.5% if (and it’s a big “if”) consumers were switching their purchases to domestic goods. If they are simply cutting back altogether, it’s a very different story.

Indeed, the Atlanta Fed's closely watched GDPNow model lifted its estimate of Q4 real GDP growth to 5.4% on January 8, up from 2.9 % a day earlier, after incorporating new data on trade.



Bottom line: The Bureau of Economic Analysis will release its first estimate of Q4 GDP on February 20. No way that Q4 GDP growth will be 5.4%. But this is just the beginning of the delayed flow of Q4 data. The GDPNow algorithm takes in the data points of Q4 as they're released, and so the GDPNow estimate for GDP growth in Q4 will change over the next six weeks. But what the Atlanta Fed's GDPNow algorithm does show is that a big improvement of the trade deficit pushes up GDP growth substantially.

THE K-SHAPED ECONOMY AND AUTO SALES

"The people who can still afford new vehicles are buying what they want: larger premium vehicles. Everyone else didn't downgrade to a compact car, they left the new market entirely, buying either used or hanging onto what they've got." — Cox Automotive's Erin Keating

Total new-vehicle sales rose by 2.4% in 2025 to 16.02 million vehicles, the highest since 2019, and just a hair above where sales had been in 1986. Moving forward, U.S. auto sales are expected to decline in 2026 for the first time since 2022, with forecasts of around 15.8-16 million vehicles. One of the big reasons for the declining demand is because of the K-shaped economy. The average new car costs \$50,000. Most people can't afford that. Sales are up 45% among households making over \$150,000 while down 30% for people making under \$75,000. That split shows exactly what's happening in the economy. Wealthy people keep buying expensive vehicles while everyone else gets priced out completely. People aren't downgrading to cheaper cars; they're leaving the new car market entirely and are either buying used or keeping their old cars longer.

Automakers stopped making affordable entry-level vehicles and focused on larger, more expensive models with higher profit margins. The \$50,000 average price isn't coming down because as long as wealthy buyers keep paying it, manufacturers have no reason to lower prices. This creates a two-tier market where new cars become luxury goods only accessible to high earners while everyone else gets pushed into the used market. That's not a healthy auto industry; that's an industry serving only the top 20% of earners.

ARE TARIFFS DEFLATIONARY?

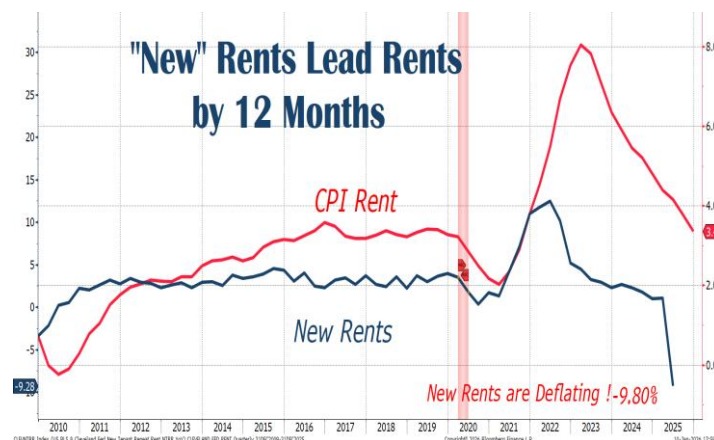
San Francisco Fed economists Regis Barnichon and Aayush Singh, found that a +1 %-point increase in tariffs actually ends up generating a -0.6 % decline in inflation as the tariff depresses consumer and business sentiment and puts upward pressure on the unemployment rate and wage trends outweigh the initial price shock.

A separate report, issued by economists at Northwestern University (Tamar den Besten and Diego Känzig), also found that inflation following tariff increases is barely perceptible, because rising import costs are generally offset by receding bilateral trade flows and contracting manufacturing activity.

As Powell recently suggested, stripping out the effect of tariffs the inflation rate is running at +2.3% and the core at +2.2%. The fear that we are in an inflationary cycle is totally misplaced.

Most importantly, the effect of the tariffs is expected to peak this quarter. That should help cap the moderate uptrend in core goods prices. But what we have not yet seen is the full brunt in either the Consumer Price Index (CPI) or Personal Consumption Expenditures (PCE) deflator data from the unprecedented deflation we are seeing in the New Tenant Rental Price Index.

As I have highlighted time and time again, the rent statistics in the CPI are still running at +3.0% on a year-over-year basis and while rents in real-time are dropping at a -9.8% rate. So once all the lags kick in, what we will be staring in the face by year-end will be headline and core inflation rates of around +1%. Just in case you are wondering why I haven't joined the consensus bond-bearish mentality. Follow the data, not the narrative.



Bottom line: The two studies discussed above suggest that tariffs will lead to a disinflationary environment, which is the opposite of what you hear constantly about tariffs being “inflationary.” Overall, I believe the inflationary story has run its course, which sets the stage for easier monetary policy and lower market rates going forward.

MARKET OUTLOOK AND PORTFOLIO STRATEGY

“I’m looking for about a point and a half of cuts...There’s about a million Americans who don’t have jobs, who could have jobs without causing unwanted inflation.” – Federal Reserve Governor Stephen Miran

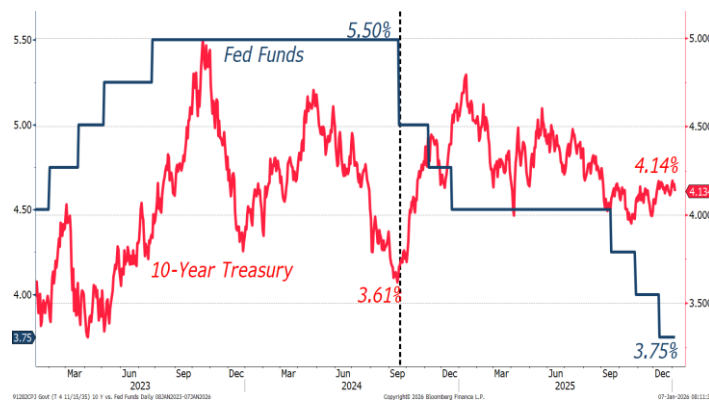
Last Friday’s December jobs report reinforced the message that the labor market is losing altitude, and fast. Headline payrolls were light, prior months were revised down, and hours worked also slipped.

The composition was arguably the bigger tell: Job gains were concentrated in the usual defensive pockets (health/education and government), while the more cyclical parts of the economy continued to contract. In other words, there is something close to a quiet recession in the labor market, even as GDP is being cushioned by fiscal support and AI-related investment.

The cooling trend in job creation is consistent with historical recession signals. I maintain that markets are missing the real story, that the labor market will compel rate cuts regardless of what the AI boom is doing to GDP.

On the inflation front this week, we will receive a major update on the inflation picture with the CPI on Tuesday, along with October and November Producer Price Index (PPI) on Wednesday. I expect the numbers to show a lower-than-expected read, which should be bond supportive.

That said, the bond market has stopped responding to weak economic data, nor do Treasuries even respond to the Fed any longer. For the first time ever, the Fed cut the funds rate by -175 basis points, and yet the 10-year Treasury yield is up over +50 basis points since that first cut in September 2024.



Likewise, the long bond yield is up by more than +90 basis points.



One reason why the current data may not matter for the bond market is that it is focused on the first half of the year. I believe that the typical Treasury investor is now concerned about the prospect of a fiscally juiced-up economy into the spring. I believe these fears are overdone, but that is the best explanation that I can come up with why the bond market has turned a blind eye towards the recent softness in the macro data.

In terms of monetary policy, the futures are assigning a measly 5% probability of a Fed cut in January after the December jobs data were released. And this was due to ONE number, the unemployment rate, which fell back to 4.4% from 4.5%. Never mind that had the labor force participation rate not dipped, the jobless rate would have stayed where it was. But why confuse the situation with facts, right?

More importantly, given the weakening labor markets and further disinflation, I believe that any weakness in the bond markets provides an attractive entry point for credit unions to put excess cash reserves to work.

There is another reason why yields will be heading lower: to distract from Trump's dismal approval rating, which is near the lows, at just 43%, (economy 41%, inflation 36%). Trump needs to reduce CPI to gain advantage in midterms, and the Fed needs to cut to stop unemployment rising above 5%. (By the way, the youth unemployment is already at 9%).

As such, Trump is pushing for monetary policy to reduce price of money (Fed T-bill quantitative easing, Trump MBS quantitative easing), U.S. geopolitical policy is aimed at lower oil prices, trade policy is now to lower tariffs, and industrial policy is intervention to **lower pharma, housing, insurance and electricity prices.**

In terms of balance sheet and portfolio strategy, credit unions should position for a lower rate paradigm as we move throughout the year.

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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