Weekly Relative Value

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WEEK OF JANUARY 26, 2026

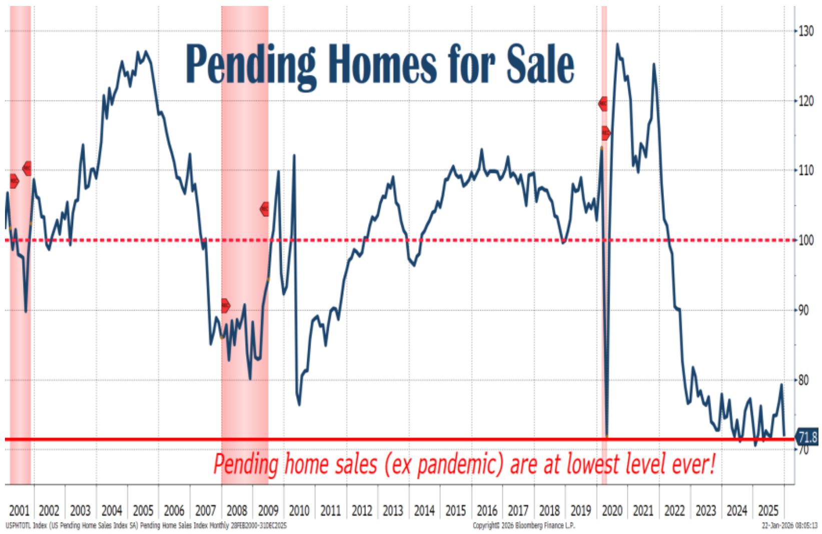
Housing Woes Continue

*"The housing sector is not out of the woods yet… **After several months of encouraging signs in pending contracts and closed sales, the December new contract figures have dampened the short-term outlook."***
— Lawrence Yun, Chief Economist, National Association of Realtors (NAR)

While the move to expand government-sponsored enterprises (GSE) balance sheets led to an initial narrowing in mortgage spreads, the selloff in the bond market has frustrated the move towards lower interest rates, and the residential real estate space is responding in kind.

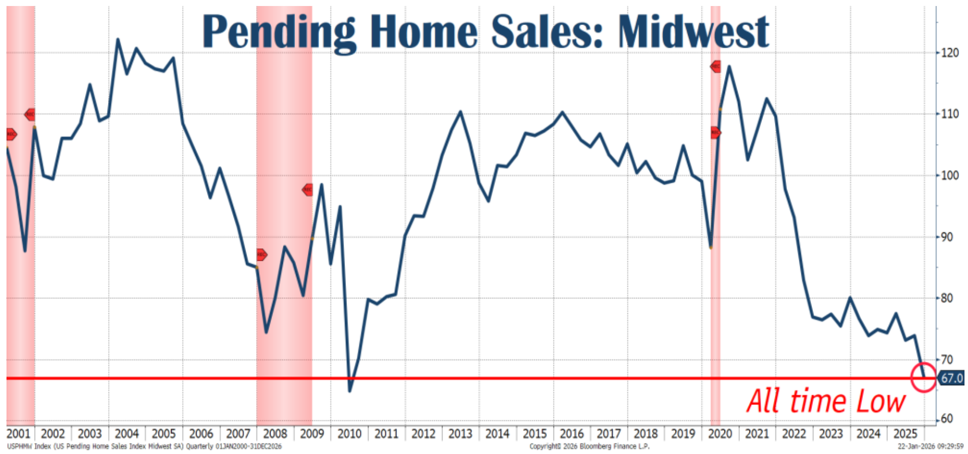
Pending home sales, which track the number of contracts signed in December crashed in December (-9.3% month over month versus -0.3% month over month expected), dragging sales down and -1.3% below the year-ago level. This indicates that 2026 is going to get off to a rough start on closings and buyer interest.

This was the sharpest one-month contraction since April 2020 (aka the global pandemic), and the level is now tied for the lowest in eight months! **Note**: Housing activity typically slows in winter months and picks up more in the spring selling season. While NAR adjusts the data for these patterns, the drop was still the largest for any December in data back to 2001.



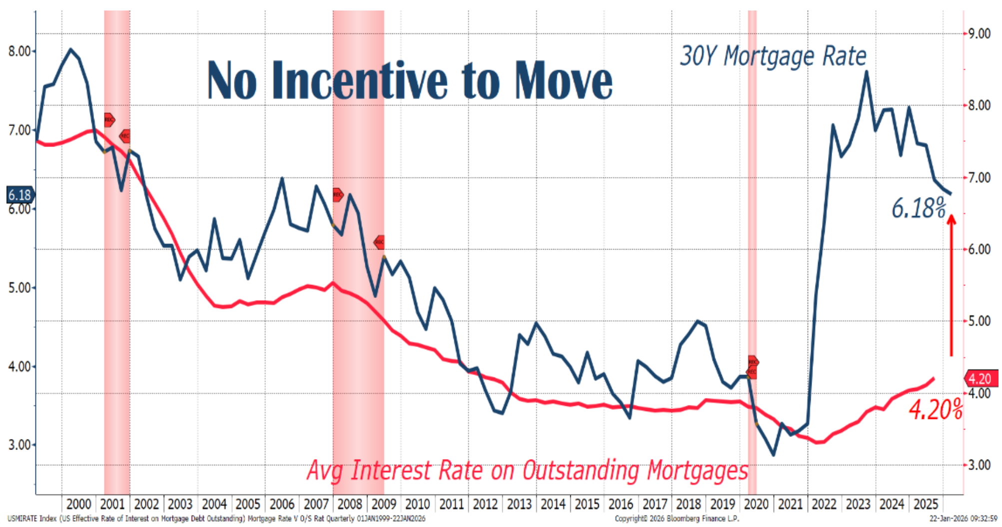
THIS WEEK

Also notable: For the first time since last April (Liberation Day), all four major regions have experienced a sizeable pullback, but this was particularly pronounced in the Midwest, where sales collapsed by 14.9%, seasonally adjusted to a new record low.



At fault are the ultra-low mortgage rates of 2020-2022 that ended up destroying the housing market in two ways: by causing prices to explode in a two-year time span, and by “locking in” homeowners with ultra-low mortgage rates who now cannot afford to move. This has destroyed the dynamics that come with a functioning housing market, such as mobility, whereby people are able to move.

As shown below, regarding the “lock in” effect, the unwinding of the below-4% mortgage rates is occurring, and so the lock-in effect is gradually loosening as these mortgages get paid off nevertheless, but at a snail’s pace.



Bottom line: Pending home sales were down 30% from pre-pandemic norms on contract signings (and still dropping from last year's already historically low levels). The housing market is now well into its fourth year of the collapse in transactions, and there has simply been no improvement.

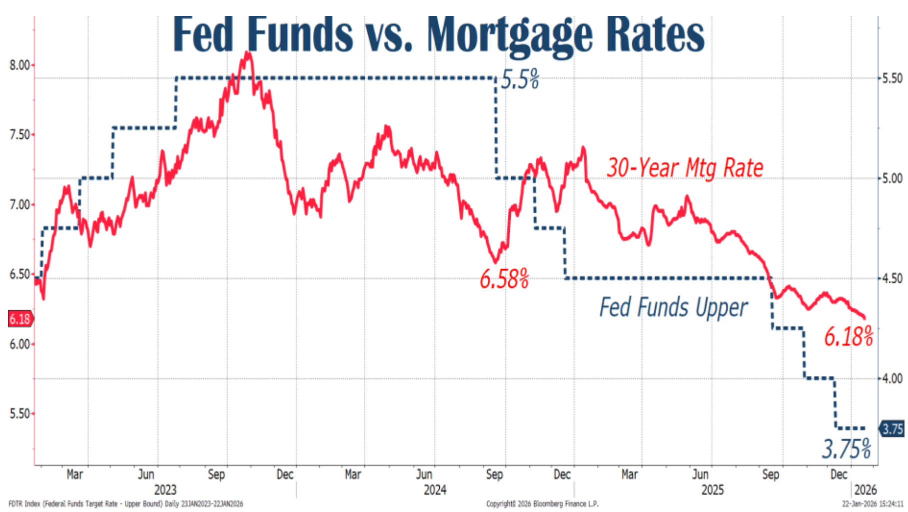
So, my apologies for not drinking the consensus Kool Aid that the U.S. economy has caught fire as much as the gross domestic product (GDP) data suggest, because there is no such thing when the housing market is in such a deep state of disarray.

HOW TO JUMP START THE HOUSING MARKET

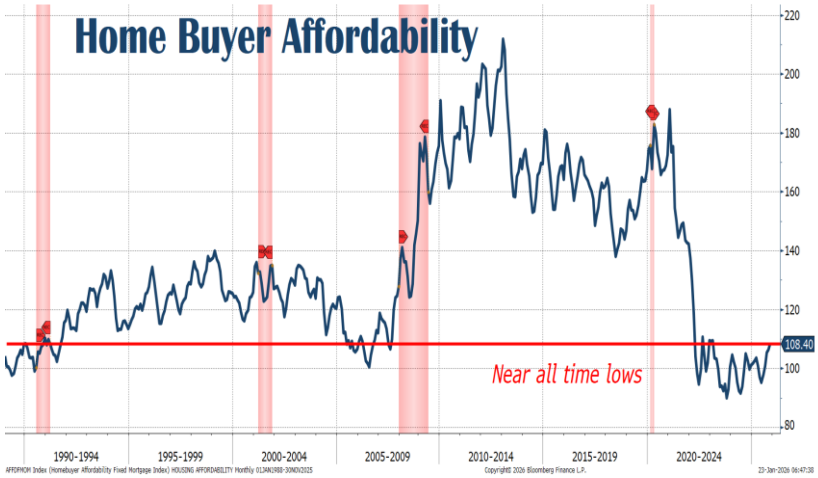
"Homes are built for people, not corporations. America will not become a nation of renters. We're not going to do that. That's why I've signed an order banning large institutional investors from buying single-family homes."
– President Donald Trump at the World Economic Forum (WEF), Davos, Switzerland

The president believes that rate cuts by the Federal Reserve will lead to increasing housing activity. I would like to remind everyone that we've now had seven rate cuts since August 2024. Back then the fed funds were at 5.25-5.50%. Now it's 3.50-3.75%. At the same time the 30-year mortgage rate is ONLY down about 40 basis points from where it was in August 2024. And buyer demand is still dropping. Note: There were an estimated 47% more home sellers than buyers in the U.S. housing market in December (or 631,535 more, in numerical terms).

So, while the Fed sets its overnight policy rates, the bond market sets long-term rates including those of mortgage-backed securities (MBS), which determine mortgage rates. If the bond market is worried about a lax Fed and worsening inflation, long-term rates go up, no matter what the Fed does on the front end.

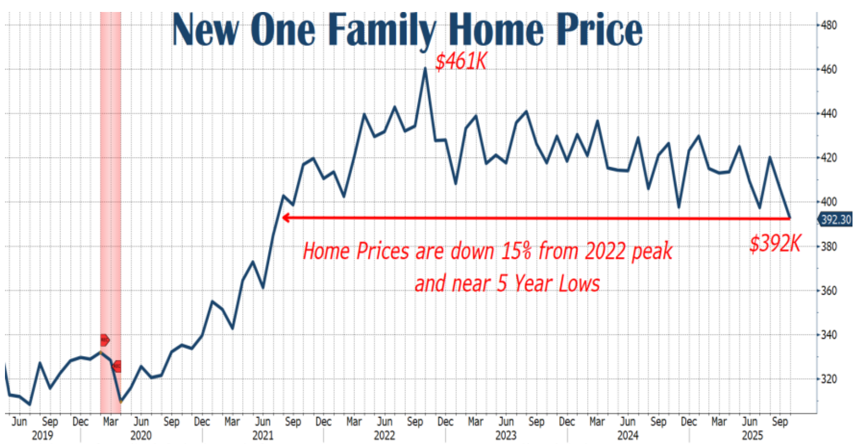


Meanwhile, affordability has improved incrementally but still is mired near all-time lows. But homebuyers don't care, because prices are way too high. Home prices have gone up significantly faster than inflation in the last 25 years. In the previous 100 years, housing roughly tracked inflation, which is why houses always felt affordable from 1900 to 2000 and why they feel expensive now. The reason for this divergence is simple: Fed intervention in interest rates and quantitative easing (QE) starting in the 2000s.



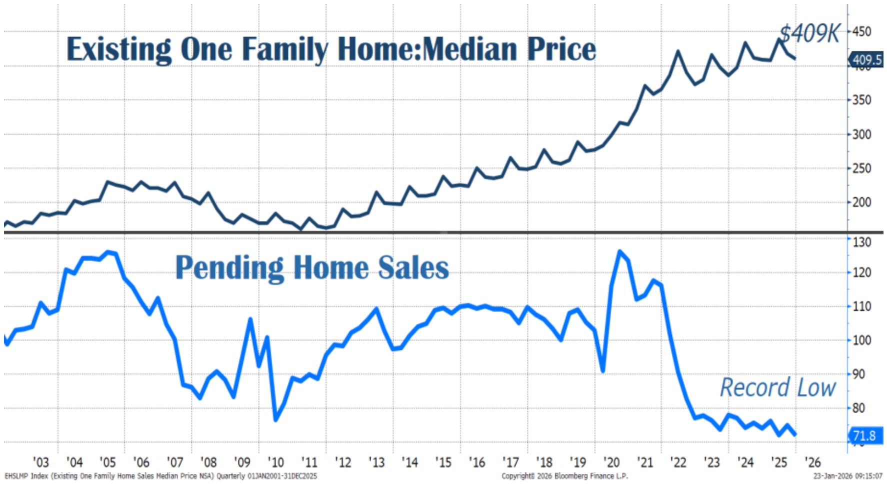
No matter what the metric — home prices versus inflation, income or rent – they all point to a housing market which is significantly overvalued today. Homebuyers intuitively know this, so they aren't interested in buying. Somehow, real estate industry professionals (and many others in government and academia) still refuse to believe that lower prices are the answer, or even possible.

However, home builders have shown us even more evidence that lower prices are the way forward. To wit: Back in October 2022, the median sale price for homebuilders was $460,000. Now it's down to $392,000. A 15% haircut on the median price.



In response, their sales volumes have shot back up to above pre-pandemic norms (737,000 sales in October 2025 is above 2019 levels).

You can see how different the graph for existing sales/homeowners looks compared to home builders. Median sale prices keep marching higher, up to 409,000 in December 2025 while pending sales are at the lowest levels on record. Notice that after 2021, the relationship became completely disconnected; sales crashed and haven't recovered.



While the president does not want home prices to decline, I believe that is the largest PROBLEM with the housing market. With prices at ridiculously stretched levels, too many Americans are unable to purchase homes.

"Houses are very valuable. It's a big part of [homeowner's] net worth, their house. I don't want to knock those numbers down. At the same time, I want to make it possible for young people out there and other people to buy housing. In a way, they're at conflict." – President Donald Trump

Personally, I think one way to address the affordability crisis is to have the White House and the NAR jointly release statements that lower home prices is a central policy goal. This would clear up any remaining confusion about the issues plaguing the housing market. This would also give realtors additional credibility to talk sellers down on price (so the house can sell and not be de-listed).

From there, we need to address the continued inventory issues in the housing market, especially in the Midwest/Northeast. Any government policy should be focused on getting more homes on the market. Incentivize builders to build. Incentivize existing owners to sell.

Another idea is to eliminate the capital gains tax for long-term owners (10+ years) including investors because we want investors to sell homes to regular buyers. Around 60-70% of the 16-24 million investor-owned homes have been owned for over 10 years, (U.S. Census Bureau Rental Housing Survey). That means most investors have banked huge appreciation on their houses and potentially aren't selling because of an expensive tax bill from the U.S. government when they do. If we eliminate capital gains tax for say, two to three years, this could unleash a flurry of institutional selling that would increase inventory, bring down prices and ultimately increase demand.

Bottom line: The appreciation the housing market saw from 2019 through the pandemic and into 2022 and even 2023, must be adjusted. It was fueled by historic low and highly subsidized mortgage rates and tight inventory, which pushed prices much higher, quickly. The only way out is lower prices.

THE POLLS POINT TO A LAME DUCK

Last week, Bret Baier of Fox News went on and on about the +4.3% real GDP growth number for Q3. This was an attempt to criticize the public opinion polls (one person might say "fake news") showing that President Trump's approval rating on the economy is in the dumpster.

First, with regard to the public opinion polls, I highly recommend a read of Karl Roves *Wall Street Journal* Op-Ed and especially some of the survey results he comments on:

- 58% of Americans and 66% of independents disapprove of Mr. Trump's handling of immigration.
- 57% of all voters and 64% of independents disapprove of how Immigration and Customs Enforcement (ICE) is enforcing immigration laws.
- 86% of Americans oppose taking Greenland by force — including 68% of Republicans and 94% of Independents.
- 55% of Americans oppose "trying to buy Greenland," while 37% support it.

The real crushing statistic in the Rove piece was that President Trump's "downward spiral has led 58% of Americans and 66% of independents in the CNN/SSRS poll to describe his second term as 'a failure'."

Suffice it to say, these results are not encouraging as to what is likely to happen at the November midterms, and a Democratic sweep can no longer be ruled out even though the party has moved so sharply to the left.

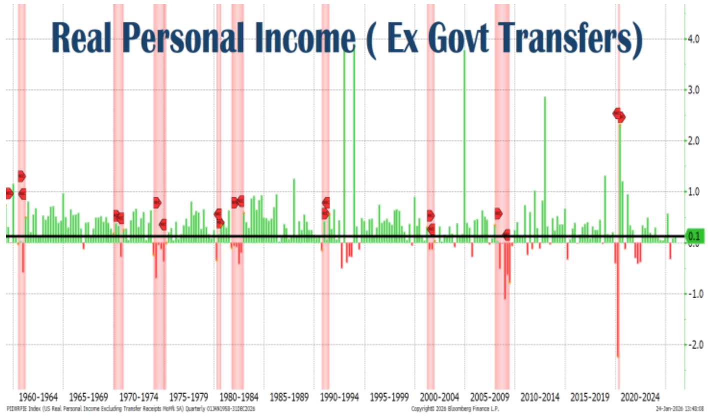
Bottom line: Watch for the cracks in his GOP congressional support to appear as the November midterms draw near. The term "lame duck" now comes to mind.

THE POLLS ARENT WRONG

"We're the hottest country anywhere in the world." — President Donald Trump

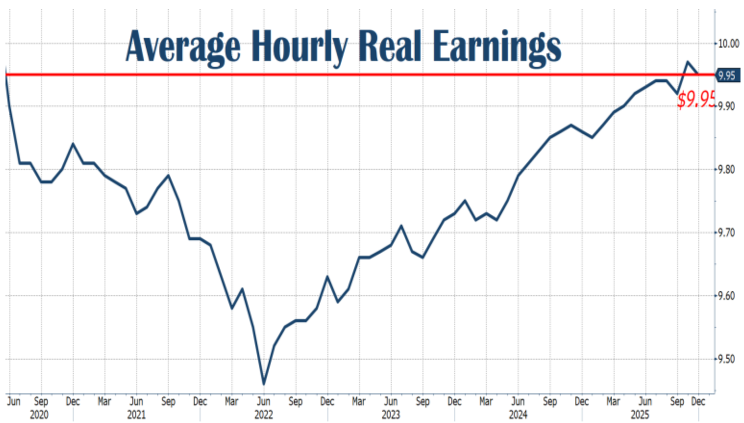
Here's what you need to know. GDP is a limited measure of economic success. GDP is not income. It is spending. And that the spending growth in the economy is being concentrated among the top 10% earners, artificial intelligence (AI) data center construction and government spending.

The reason why most people are in a funk is because real organic personal income (excluding government support) has now stagnated for three straight quarters. Three FLAT consecutive quarters in this measure of economic activity have only happened in recessions. This is incredible.

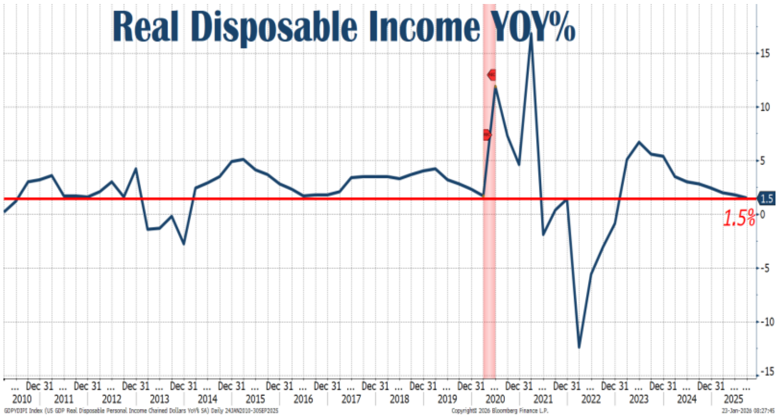


Moreover, real hourly earnings of private sector workers in Q4 2025 stood exactly at the level of Q2 2020 on heels of the lockdown. That's right. **There has been 0.00% gain in inflation adjusted hourly earnings for the last five years in the entire private sector of the U.S. economy!**

As shown in the graph below, real wages had been inching up recently. But this had amounted to a gain of just **0.90%** during December 2023 to December 2024 on Joe Biden's watch and 0.73% in the year ending in December 2025 under Trump 2.0. In either case, there is certainly not a shred of evidence that the Trump ballyhooed "hot" economy is showing up in worker pay envelopes.



The real kicker is that we have a consumer spending more at a time when real after-tax income is on a downward path. In the seven months since April, real expenditure was up at a +2.8% annual rate even as real disposable income fell by -1.0%.



The fallout is on the personal savings rate, which has now declined for seven months in a row, and this hasn't happened since the pandemic year of 2020. At 3.5% in November, down from 3.7% in October and 4.0% in September, the savings rate is now at a three-year low and is half the pre-pandemic level. Not sustainable.

Bottom line: Strong-paying jobs have to lead. Consumers have to earn more money to compensate for the high costs of daily necessities, whether that's razor blades or milk.

THE TAIL IS WAGGING THE DOG

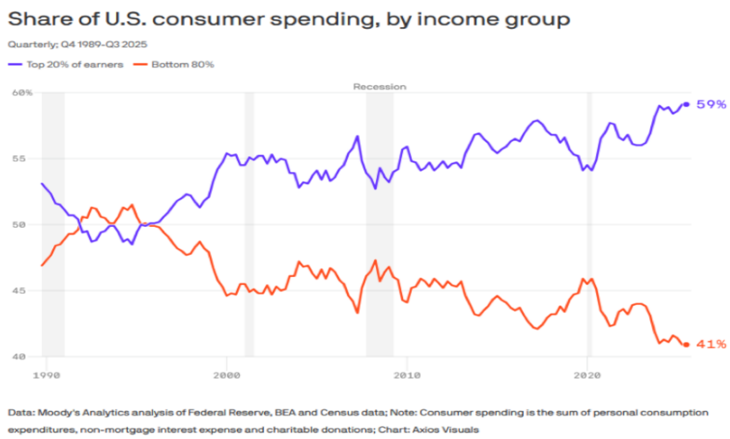
"The market is up because the economy is growing and consumer spending is strong. A lot of that might be the tail wagging the dog." — Excerpted from "A Stock Slump Could Slam the Economy" (The Wall Street Journal)

The top 20% of the wealthy strata own more assets than all the groups below them combined. Not to mention that their proportion of wealth directly in stocks has more than doubled in the past 30 years. Who needs a job or wage when the high-end consumer has his or her fattened stock market gains as fuel for more spending growth? Epic.

The fact is that 90% of the GDP has come from the stock market. As the stock market has soared, the consumer spending by the top 20% has reached a record high of 59% of total consumption. Never has the economy hinged so much on what the S&P 500 is going to do.

At the other end of the spectrum, the bottom 80% share of consumer spending has plunged to 41%! Indeed, the K-shape to the economy is ubiquitous.

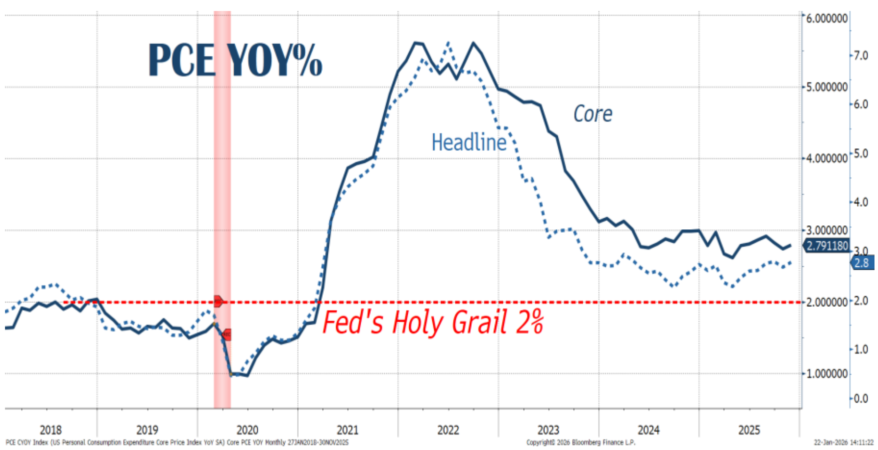
Have a read of “The Americans Who Are Going a Whole Month Without Buying Anything” with the tag line being “Gen Zers and millennials cut nonessential purchases amid anxiety about affordability.”



Bottom line: The reality is that if not for the power of the “wealth effect” on spending via the depleted savings rate, we would, in fact, be talking about a mild consumer recession right now.

ON THE INFLATION FRONT

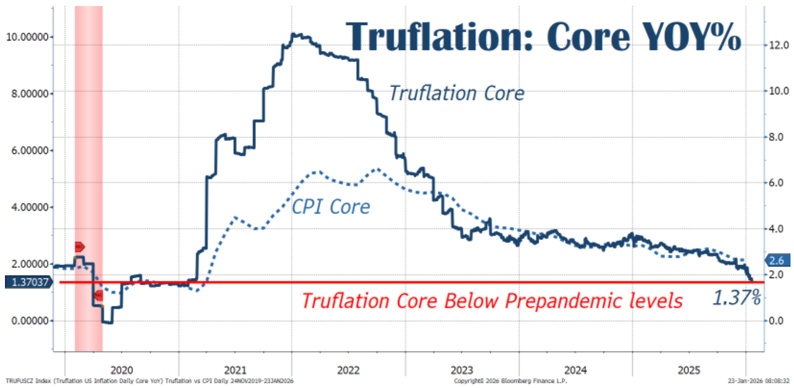
Meanwhile on the inflation front, the Personal Consumption Expenditures (PCE) deflator (the Fed’s preferred inflation metric) numbers were nothing short of fantastic. The core index was below +0.2% on a month-over-month basis. The year-over-year trend may be at +2.8%, but the three-month trajectory reveals the disinflation momentum underway down to just a +2.25% annual rate.



As an aside, the core market-based figure (absent imputed guesswork) was a mere +0.1% and the three-month trend is now running BELOW the Fed’s target at +1.9% annualized through November.

For the cherry on the top, the Truflation real price data are showing core and headline Consumer Price Index (CPI) and PCE inflation metrics cooling very fast since the beginning of the year. As shown below, the Truflation PCE core index is

1.35% today, based on real-time actual price data. The official CPI core index is 2.6%. What's important to know is that Truflation leads the official CPI and PCE indices by approximately 45 to 72 days. By using daily high-frequency data from over 30 sources to calculate inflation in real-time, Truflation identifies price shifts faster than the monthly Bureau of Labor Statistics (BLS) reports. And if history is any guide, look for lower inflation and yields ahead.



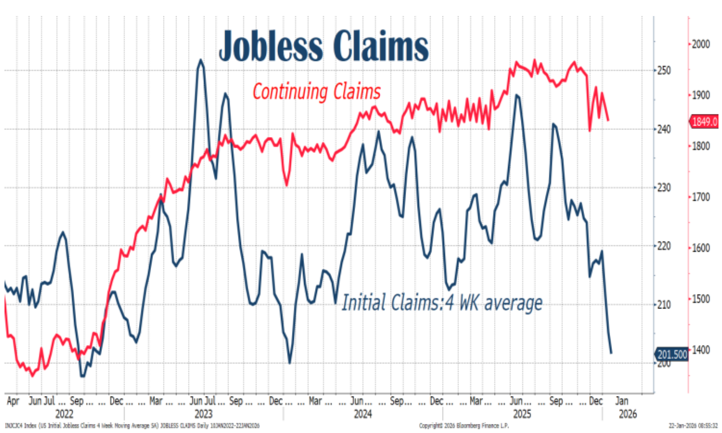
Bottom line: Memo to the inflationist — the PCE deflator numbers last week were nothing short of fantastic. What is it exactly that the Fed hawks are looking at?

CLAIMS REMAIN LOW

"With U.S. companies adding fewer seasonal workers, post-holiday layoffs have been limited, keeping initial jobless claims low. Layoff-related news remains relatively sparse, offering little indication that broader labor-market conditions have changed." — Eliza Winge, Bloomberg

Following last week's plunge back below 200,000, analysts expected a small rise to 209,000 this week but the number of Americans filing for jobless benefits for the first time remained flat at 200,000… hovering at its lowest levels since 1969...

Continuing jobless claims also ticked down (to 1.849 million Americans), the lowest since November.



Bottom line: After three consecutive rate cuts to bolster the job market, Federal Reserve officials are widely expected to keep interest rates unchanged at their first policy meeting of the year next week. This fits with the ebbing of rate-cut expectations for this year...likely much to the chagrin of President Trump.

HERE WE GO AGAIN

“Great powers have begun using economic integration as weapons, tariffs as leverage, financial infrastructure as coercion, supply chains as vulnerabilities to be exploited”
— Prime Minister Mark Carney in his speech at the WEF

Relations between Washington and Ottawa have soured since Trump’s return to the White House. The president’s decision to raise tariffs on goods from Canada triggered widespread outrage, with many Canadians boycotting American products and shipping travel to the U.S. Canada has responded by aggressively looking to increase trade ties east to Europe and west to Asia.

As a result, last week Trump threatened Canada with 100% tariffs against all its exports to the U.S. if it makes a trade deal with China. Trump, referring to Prime Minister Mark Carney as “Governor Carney,” said the Canadian leader was “sorely mistaken” for opening his country to more business from China, including a recent deal allowing an increase in Chinese electric vehicle exports.

“China will eat Canada alive, completely devour it, including the destruction of their businesses, social fabric, and general way of life.”

“If Canada makes a deal with China, it will immediately be hit with a 100% Tariff against all Canadian goods and products coming into the USA.”— President Donald Trump, Truth Social

Bottom line: If there were 100% tariffs on Canada, it would be a disaster. My question is, what’s the likelihood of that happening? Just one week ago, he threatened Europe with tariffs over Greenland that he has since shelved. And earlier this month, he threatened secondary tariffs on any country trading with Iran but has never elaborated and has yet to enact any.

DRAGGING THEIR FEET

Meanwhile, the tariff saga continues, as the Supreme Court continues to drag its feet and has yet ruled on the Trump tariffs, which two lower courts decided were illegal. And get this — the Supreme Court is slated to embark on a month-long recess after next week. This means the sword of Damocles on this file will cloud the market for more time to come (along with the 1,500 claims that have been filed thus far). All the while, somebody is still going to be paying $16 billion monthly, and most of the research I have done shows that it has not, as was previously advertised, been coming out of foreign producers’ wallets.

Bottom line: The conventional wisdom is the longer the delay, the more likely Trump wins. I don't believe that's true. While I do not think threatening Canada will change the decision (because it's already against Trump), it *should* matter because this is insane madness.

MARKET OUTLOOK AND PORTFOLIO STRATEGY

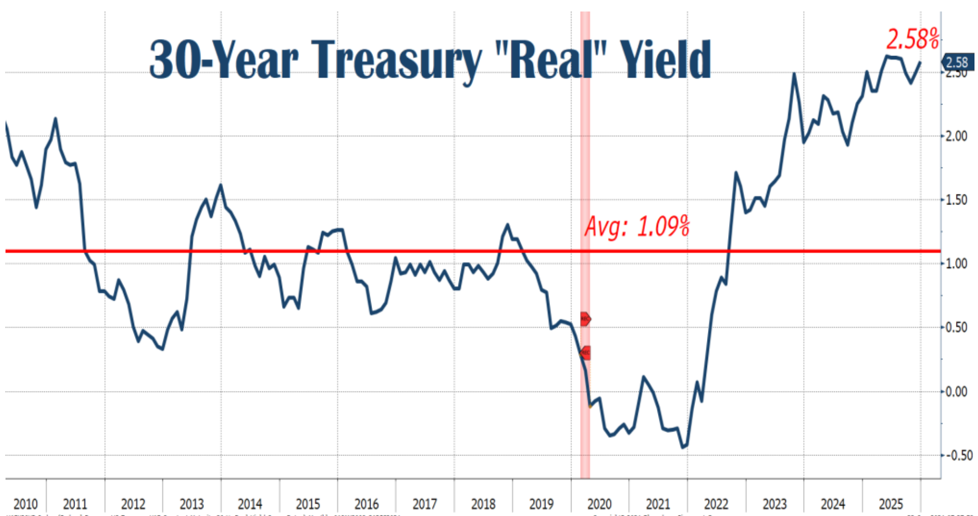
*"**It is possible that even such an uncooperative and unstable environment will not impair the willingness of business and policymakers to take big bets on the future**. Look at the AI boom. But this must be doubted. The costs may not come swiftly or even visibly. Yet we know that populist policies erode domestic economic performance. The same is sure to be true when the regime in question is a global superpower. But, in this case the damage will be to the world economy, too, as we lose a host of global public goods**. Casualties might well include the global roles of the dollar and the U.S. financial system**." — Excerpted from Martin Wolf's Financial Times Editorial "Trump is Erasing the Global Economic Order"*

Prepare for another roller-coaster year in markets. And we are not even into the noise that will surround upcoming Supreme Court decisions, the choice of the next Fed chair, and the midterm elections. Investors should be ready for sharp market action, while keeping an eye on geopolitics as well as developments in Japanese bond yields.

On the economics front, this Wednesday's Fed meeting will be the key focus. I expect the Fed to pause the rate-cutting cycle in the face of improving headline growth and unemployment numbers.

However, as discussed above, the economic acceleration story of GDP does not hold up when you look at the data. Moreover, the inflation data is supportive of lower rates, yet bond markets are not cooperating. What's notable is that even with the Fed lowering rates by 175 basis points since 2024 long term Treasury yields are HIGHER!

As an aside, the detested 30-year Treasury bond appears juicy to me. The fiscal and political risk premium looks to be priced in, and the positive carry of +60-basis-point premium over 10-year Treasury and +100 basis points over the 5-year maturity is quite attractive. Moreover, the real yield (inflation adjusted) recently hit a near-lifetime high of 2.65%, which looks very attractive from where I sit, and history shows that the odds of at least making money exceed 80%. I like those odds. The nominal yield of nearly 4.9% is where it was in the summer of 2007, three months before the stock market hit its fundamental high for the cycle, and the total return one-year hence was around +15%.



At the front end of the curve, twos and fives settled at 3.60% and 3.84%, respectively. As you can glean from the graph below, short-term yields (which are tied to Federal Reserve Policy) have risen due to lower expectations of fewer if any rate cuts this year.

Bottom line: I still expect further cuts later this year as the lower leg of the K-shaped economy starts to outweigh the rest. That said, in the current environment, volatility is the watchword. The most prudent course is to maintain a disciplined ladder approach while trying to capitalize on selloffs.

From a longer-term perspective, 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.