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INVESTMENT SERVICES

Weekly Relative Value

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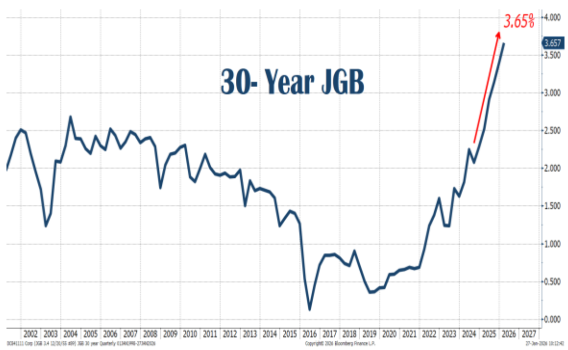
Market Strategist

WEEK OF FEBRUARY 2, 2026

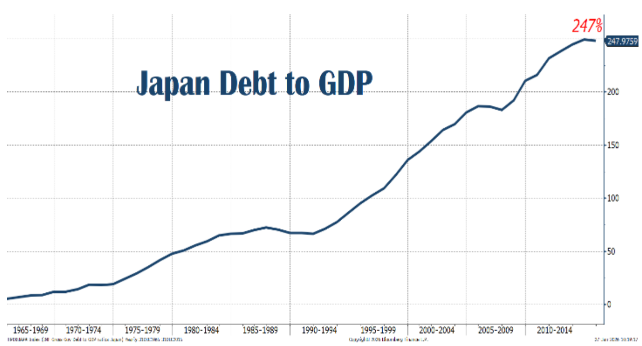
The “Financial” San Andreas Faultline

"I always loved foreign bond investment, but not anymore. Now it's JGBs.”
— Arihiro Nagata, Head of Sumitomo Global Markets

The big story in the bond markets this year has been the travails of the Japanese bond market and the yen. In fact, bond yields in Japan have surged so fast that one fund manager called it a "financial San Andreas faultline" moment. Last week’s price action finally set off alarms as the U.S. dollar (USD)/Japanese yen (JPY) exchange rate tested ¥160 alongside a rapid climb in long-term Japanese Government Bond (JGB) yields to historic highs. The 40-year JGB yield pushed through 4.0%, and the 30-year JGB reached 3.65%.



The rapid selloff is primarily due to concerns over Japan's new Prime Minister Takaichi’s goal to increase spending while the countries debt to gross domestic product (GDP) ratio is already 247% — the highest in the developed market world.



THIS WEEK

- CONFIDENCE SHAKEN
- JOB-LESS AND INCOME-LESS PROSPERITY
- NO BOOM IN CHICAGO
- MORE BAD NEWS ON HOUSING
- HOUSING REMAINS IN A DISINFLATIONARY TREND
- REGIME CHANGE
- MARKET OUTLOOK AND PORTFOLIO STRATEGY

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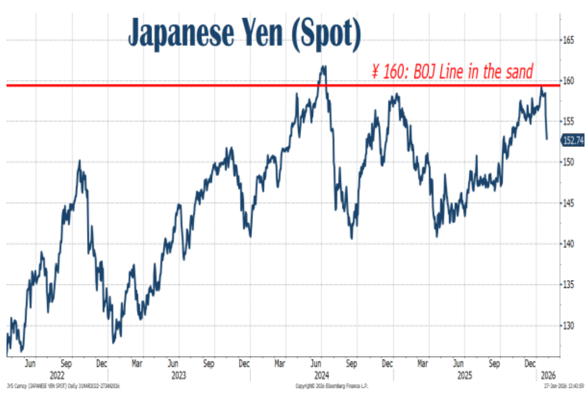
Her administration's spending plans have investors worried about government debt and inflation, so the bond market has been selling off and the yen has been weakening. Weaker basically means it takes more yen to buy one dollar. The yen got dangerously close to 160 yen per dollar, which is a level that Japanese officials have basically said is their line in the sand.

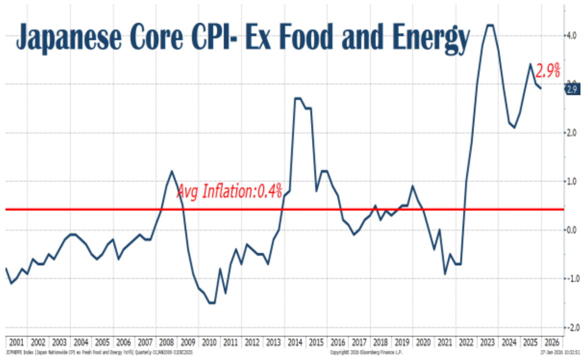
Back in 2024, whenever the yen hit around 160, Japan intervened by buying massive amounts of yen to prop it back up. They spent nearly $100 billion doing this on four separate occasions. That 160 level is now basically understood by the market as a trigger point: If the yen gets there, intervention is very possible.

Indeed, reports came out that the Federal Reserve Bank of New York contacted financial institutions asking about current yen exchange rates. The Fed doing this for Japan is huge because it hints at potential U.S. support for a coordinated intervention, something that's quite rare. The last time the U.S. and Japan worked together on currency intervention was all the way back in 2011 after a devastating earthquake. As shown below, fears of intervention appear to have helped squeeze short yen positioning so far. The bigger question is what comes next.

"Japan can't fix the yen without risking domestic stress or global spillovers so the idea of coordination, ***a Plaza Accord II type of outcome, suddenly isn't crazy to some****."*
– Anthony Doyle, Chief Investment Strategist, Pinnacle Investment Management.



For decades Japan has been able to finance this debt because inflation was tame and the Bank of Japan kept rates at zero, making their bonds boring but stable. That era is ending. Now inflation is back, the central bank stopped buying bonds, and foreign traders who move fast account for 65% of trading, up from 12% in 2009. The market that "never moved" is now swinging wildly.



Why does this matter to you?

Japanese investors hold $5 trillion in overseas assets, including a huge amount of U.S. Treasuries. For years, they put money abroad because Japanese bonds paid almost nothing. Now Japanese bonds are paying real yields for the first time in decades. Sumitomo, Japan's second-biggest bank, said last week they're shifting money back home. Their global markets head said, "I always loved foreign bond investment, but not anymore. Now it's JGBs." If that becomes a trend, it means less demand for U.S. Treasuries at exactly the moment the U.S. needs to refinance trillions in debt.

In addition, there's an estimated $450 billion in "carry trades," where investors borrow (short) cheap yen to buy assets elsewhere. If that trade unwinds fast and the yen strengthens rapidly, foreign exchange (FX) traders could face massive losses very quickly, which could trigger forced selling in other markets and create broader financial stress. To wit: In 2024, a small Japanese rate hike triggered over $1 trillion in carry trades and the global stock market tanked. In fact, some investors are comparing this to the UK's Liz Truss moment, when a bad budget crashed the bond market and brought down the government. The difference is Japan's market is bigger and more connected to everything else. The Japanese repatriation could be "the elephant in the room" for global markets.

Bottom line: When the world's largest creditor nation starts bringing money home, everyone holding the assets they've been buying feels it. Prime Minister Takaichi has started her election campaign, so markets will watch closely how fiscal spending promises and intervention signals clash over the next few weeks. Whatever happens in Japan will not stay in Japan, so the world bond markets and currencies are focused on the counteracting forces between policy, politics and debt dynamics. Simply put, every significant move in Japan could impact the Treasury market and potentially drive yields higher, which means higher mortgage rates and borrowing costs for Americans.

CONFIDENCE SHAKEN

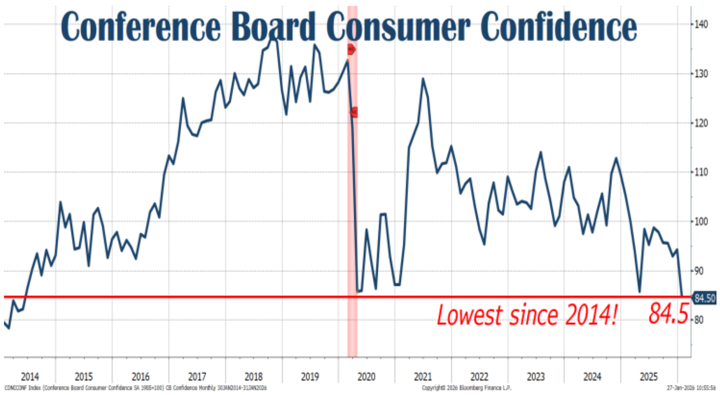
"All the smart money knows the "HOTTEST" Economy in the World is the U.S.A. TIME TO INVEST!"
– President Donald Trump

President Trump keeps selling the U.S. economy as the "hottest" in the world. GDP grew 4.4% last quarter. Unemployment is 4.4%. By the headline numbers, the economy is doing great. But by how people actually feel, it's the worst in over a decade.

The January Consumer Confidence Index plunged 9.7 points to 84.5, a 12-year low, surpassing last year's Liberation Day lows and the depths of the 2020 pandemic when unemployment hit nearly 15%.

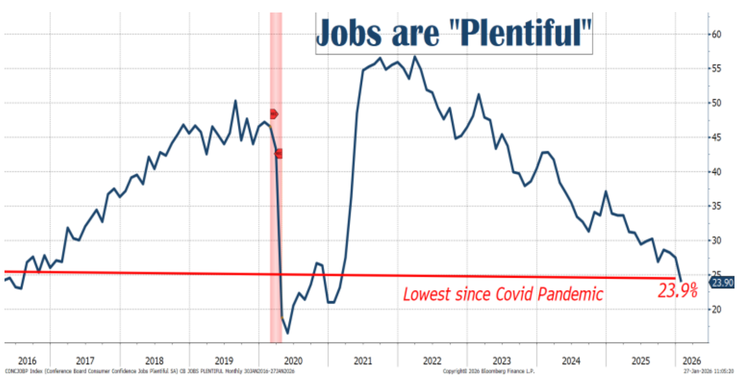
Nearly 90% of the regions retreated, as did all age cohorts, and three quarters of the income categories, including the high-end, where sentiment slipped to its lowest level in nine months.

Only 18% consider the economy to be in “good shape” (in typical expansions, the share is well north of 30%), and fewer than 16% see things improving.

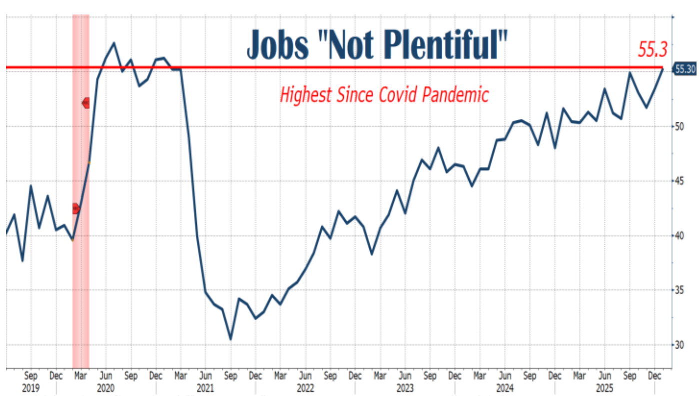


And it is all about the cracks in the labor market:

- The share saying that they are currently seeing “more jobs” fell hard to 23.9%, to stand tied for the lowest reading since the pandemic lockdown.



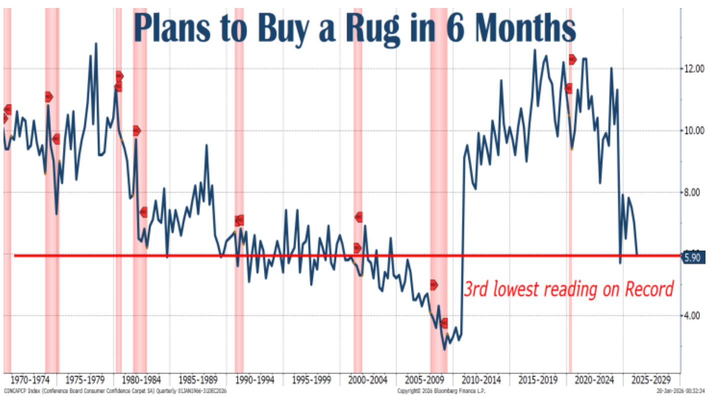
- The corresponding share seeing jobs “Not Plentiful” spiked to 55.3%. This is the worst it has been since February 2021 — when the unemployment rate was 6.2%.



People don't believe jobs are plentiful even though the unemployment rate says they should. That probably reflects what's actually happening beneath the surface: Job creation collapsed 71% year over year, hiring has slowed to a crawl, and everyone knows someone who got laid off and is struggling to find something new.

Making matters worse, 28% of the respondents see fewer jobs over the next six months! As indicated below, this metric is at recessionary levels.

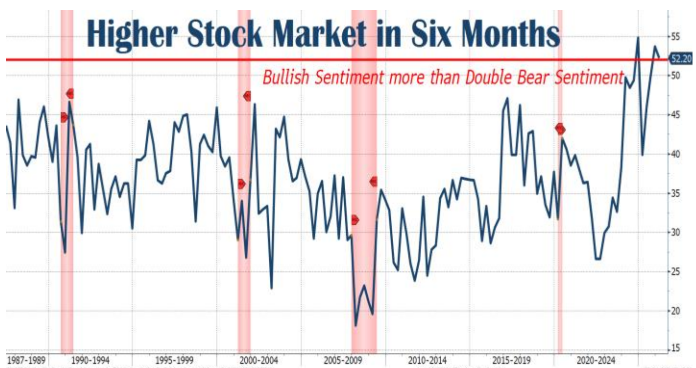
Car buying plans hooked down for back-to-back months to a nine-month low. Intentions to purchase a home also fell for the second month running, and that is tied for the weakest pulse since July 2024. And get this, plans to buy a rug have absolutely collapsed since October, and the 5.9% share is now the third lowest on record. That cannot be a good sign for the home improvement sector group. As an aside, if you are not buying rugs, you clearly don't need a vacuum. Indeed, plans to buy a vacuum cleaner also hovered to a nine-month low of 5.7%.



It's not just the reversal in plans to buy big-ticket items that was troubling about this report. Vacation plans are also being canceled. Only 38.7% of respondents intend to take one in the next six months to a five-year low. March break in 2026 is going to involve tobogganing in the backyard rather than building sandcastles on Siesta Keys Beach.

Anecdotally, a *New York Times* article really spoke to me about the K-shape U.S. consumer. Have a read of "Goodwill Thrives as Americans Stretch Their Dollars." It seems unbelievable to be talking about "consumer resilience" at a time when Goodwill Industries just surpassed the $7 billion revenue mark for the first time ever after having adding 3,400 outlets nationwide.

But what I find truly amazing is with all this negative sentiment around the economy confidence in the bull market in equities remains so strong. The bull share is at 52.2%, in the top 1% readings of all time. This is more than double the bear camp, at 24.4%. In other words, there is yet another K-shape to add to the growing list: an unprecedented gap between economic perceptions and equity market views.



Bottom line: Consumer spending has been holding up the economy. The spending is real, but due to the absence of any organic real disposable income growth for the past three straight quarters, had it not been the "wealth effect" on spending from the top 10%, we would be talking about a consumer recession right now.

As the saying goes…"If it's too good to be true, then it probably is."

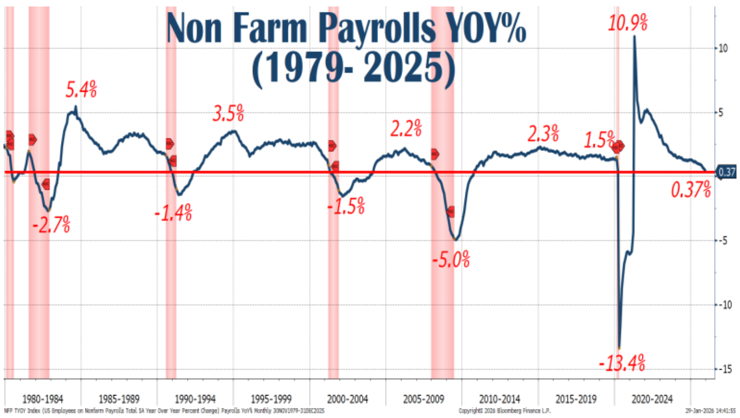
The public is onto this.

JOB-LESS AND INCOME-LESS PROSPERITY

Beauty is always in the eye of the beholder. The mantra is that the economy is now expanding more than +4%, if the Atlanta Fed model is to be swallowed without any grains of salt. I also note that the St. Louis GDP forecast is significantly lower at -0.2%. Regardless, the focus is always on GDP, but it is just one economic indicator, and there are plenty of other metrics showing that the macro backdrop is struggling.

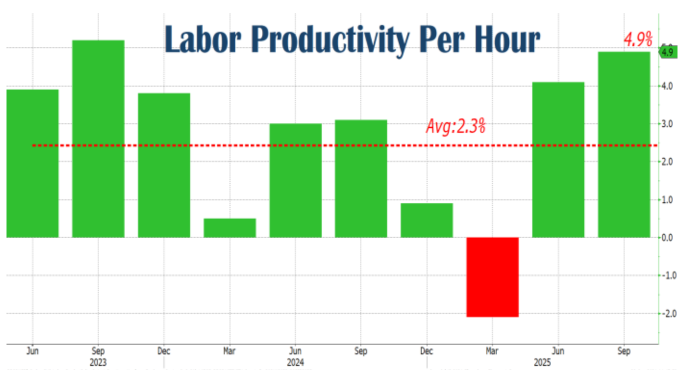
First, there has been practically zero growth in non-farm payrolls over the past year. In the past, this was a recession signal 100% of the time. Furthermore, after stripping out health and education, sectors that never go down and have absolutely zero correlation with the economic cycle, employment in the other 83% of the U.S. economy contracted by -125,000 in 2025.

Here's another little ditty. In 2025, headline non-farm payrolls rose by +525,000. But the Bureau of Labor Statistics (BLS) birth-death model contributed +1.2 million to that number (which sounds a little strange with business insolvencies up +13% over the past year). Ergo, employment from the actual survey of establishments in 2025 declined by -633,000. How well-known is that fact?

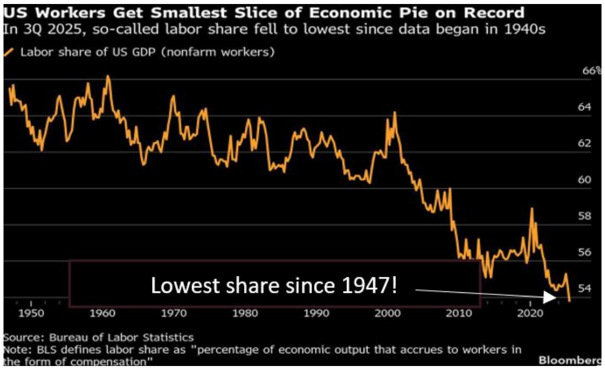


Within the labor market, the Job Openings and Labor Turnover Survey (JOLTS) data show that the past year has seen stability in terms of firings, but job openings are down by -11% while new hiring activity is down nearly -4% in what is a visibly sclerotic jobs market. The companion Challenger survey showed that in 2025, layoffs announcements soared +58% while hiring plans collapsed by -34%.

GDP growth can remain strong despite a weak labor market because productivity is high — each existing worker is producing more, but we're not hiring many new workers. If one is to believe the Atlanta Fed GDPNow forecast, all of the economic growth in the past three quarters has come from productivity — regardless of the labor input.



Moreover, a healthy economy, and something that has been the norm 90% of the time in the past, is for GDP growth to be shared between capital and labor — not capital all on its own. Indeed, inflation-adjusted corporate profits have risen over 6% year to date. Yet real average earnings for the working population are up barely 1%. As a result, the labor share of national income hit a post-World War II low. I suppose great news for profit margins and stock prices, less so for social stability. One K-shape to the economy followed by another.

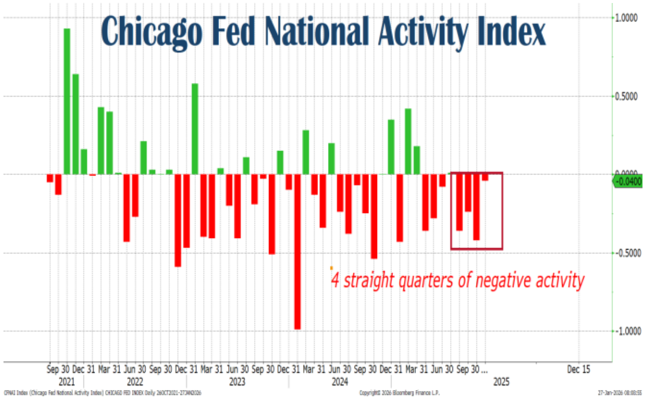


Bottom line: Call it job-less and income-less prosperity. There is a reason why consumer sentiment is at the lowest level of all time and President Trump's approval rating is in the dumpster.

NO BOOM IN CHICAGO

Arguably one of the most comprehensive monthly measures of economic activity, the 85-variable Chicago Fed National Activity Index (NAI), rang in its fourth negative reading in a row, coming in at -0.04 for November. The interpretation is that zero represents growth "at trend" — so this is still a below-average economy.

Sales/orders/inventories showed no change from the prior month (at -0.03 — a four-month negative streak), while employment registered its ninth contraction in 2025 and personal consumption barely ticked up. Breadth remains poor, and imbalances abound in this K-shaped economy.



Bottom line: The Chicago Fed's National Activity Index came in almost flat, implying growth close to trend. This is a far cry from the swollen GDP projection of 4.2% in the Atlanta Fed's Nowcast.

MORE BAD NEWS ON HOUSING

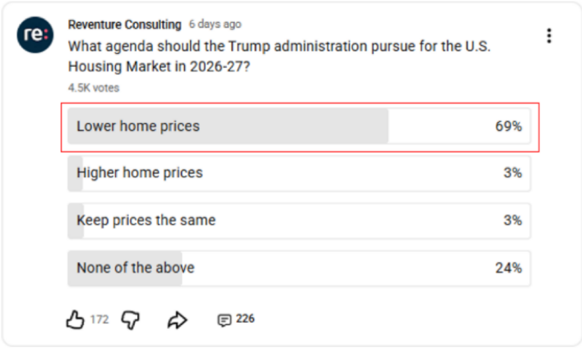
"We're not going to destroy the value of their homes so that somebody that didn't work very hard can buy a home *…I don't want to drive housing prices down.* ***I want to drive housing prices up for people who own their homes.*** *And they can be assured that's what's going to happen." — President Donald Trump*

The quote above is going to make one hell of a political ad in October. All they need are the video clips of Trump saying such things.

I am fully opposed to this proposed policy of Trump's to "preserve the value of homes." Home prices are unaffordable BECAUSE the government intervened to suppress natural market forces. To fix this, we need true price discovery. Not more intervention.

As I discussed last week in this space, with housing affordability at the lowest level ever, the last thing the housing market needs is higher prices. To wit: Redfin data shows that the number of active homebuyers FELL to 1.34 million, the lowest on record since Redfin's data began in 2013.

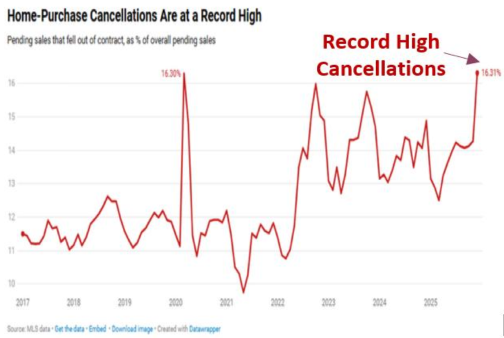
I'm not the only one. Now is a good time to remind everyone that most Americans want lower home prices. A recent survey from Reventure shows that nearly 70% of Americans want lower home prices.



At the same time, the number of sellers remains elevated, at 1.97 million, creating a massive supply-demand imbalance. The buyer-to-seller gap has widened to -632,000, reflecting extreme affordability constraints and high mortgage rates locking out potential buyers.

If home prices rise, property taxes and homeowner's insurance will rise. That means the price of rent will rise as well. That means fewer first-time home buyers. Apparently, the president disagrees. He seems to believe that the problem is that Zoomers don't work hard enough!

In the meantime, time home purchase cancellations hit a record high in December. Over 40,000 deals fell through, equal to ~16 % of homes that went under contract. That's the highest December rate since Redfin started tracking in 2017.



"Buyers frequently back out of deals using the inspection contingency; they may cancel their purchase because a structural issue came up during the inspection, even if their primary reason for canceling is that they realized the mortgage payments are too expensive." — Redfin

Citywide, Atlanta led the nation at (22.5%), followed by Jacksonville (20.6%), San Antonio (20.6%), Cleveland (20.2%) and Tampa (19.4%). On the other end of the spectrum, cancellations were lowest in Nassau County (3.8%), San Francisco (4.2%) and San Jose (8.9%).

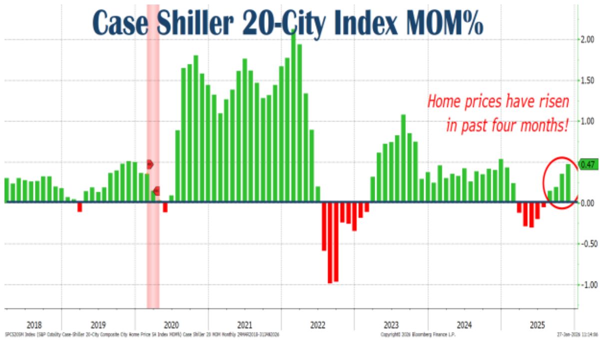
The cancellation rate tells you people are doing the math at the last minute and deciding that the real monthly numbers (not the list price) don't work. Taxes, insurance, homeowners association fees, closing costs, then an inspection report on top, and the deal suddenly looks different. That's healthy. Better to back out than buy something you can't afford. But it also means the market is stuck. Sellers won't drop prices, buyers won't close at current prices, and deals keep falling apart in between.

This is my take. Buyers have options and they're using them. Sellers outnumber buyers by a record margin nationally, and in Atlanta that gap is over 80%. When you're not competing against ten other offers, you can walk away if the inspection turns up problems or you realize the monthly payment is more than you want to handle. The inspection contingency is often the exit ramp, but the real reason is usually cost.

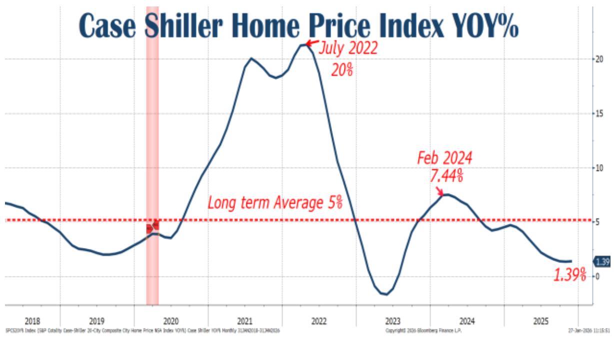
Bottom line: Redfin expects affordability to gently improve in 2026 as wages outpace housing costs, but "gently improve" after years of deterioration still leaves most buyers stretched. The housing market desperately needs LOWER, not HIGHER PRICES!

HOUSING REMAINS IN A DISINFLATIONARY TREND

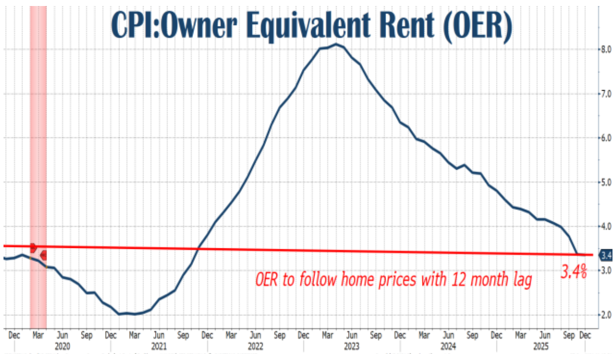
The Case-Shiller Home Price Index (the key bellwether of national housing prices) rose by +0.5% month over month in November. October was also revised up slightly, from +0.3% to +0.4%. The November datapoint was the quickest pulse since December 2024 (marking four straight months of home price increases) and a sign of a few small green shoots in the moribund housing market.



This takes the year-over-year trend in home prices up to +1.4% from +1.3% the prior month, breaking a nine-month streak of deceleration in the year-over-year trend, which started in 2025 at +4.7%.



As a point of comparison, the year-over-year trend today in the Consumer Price Index's (CPI) owner's equivalent rent (OER) component is +3.4%, implying that shelter disinflation is incoming, as the shelter components tend to follow current house prices and rents on a predictable lag of around 12 months. This is a big reason why I believe inflation will continue to decline and further rate cuts are expected.



Bottom line: One month does not make a housing recovery. Given the considerable demand-supply imbalance in the housing market and the continued usage of discounts by homebuilders to move swollen inventories, I remain skeptical of a rapid housing market rebound.

REGIME CHANGE

"I have known Kevin for a long period of time and have no doubt that he will go down as one of the GREAT Fed Chairmen, maybe the best…On top of everything else, he is 'central casting,' and he will never let you down." – President Donald Trump

President Trump nominated Kevin Warsh to replace Jerome Powell as Fed Chair. Warsh served on the Fed Board during the 2008 financial crisis. If confirmed by the Senate, he will take over in May when Powell's term expires. Note: Republican Senator Thom Tillis says he'll block all Fed nominees until a Department of Justic investigation into Powell is resolved.

We also know that Trump demands 100% loyalty, and we also know that Trump wants rates significantly lower.

"We're paying far too much interest in the Fed …We should have the lowest interest rate anywhere in the world. They should be two points and even three points lower." — President Donald Trump

It should also be noted that Warsh aligned himself with the president in 2025 by arguing publicly for lower interest rates, going against his longstanding reputation as an inflation hawk. So, if confirmed by the Senate, Warsh will take charge of U.S. monetary policy at a time when many investors see its traditional independence under threat from the White House.

Warsh has also called for "regime change" at an institution where consensus-building is how policy gets made. Whether that means meaningful reform or internal friction remains to be seen. Moreover, Powell could stay on as a governor for two more years even after losing the chair, thus the transition itself may be as important to watch as the policy decisions that follow. I also need to stress that the Federal Open Market Committee (FOMC) chair is decided by the FOMC. Powell might conceivably chair the FOMC beyond May. Now wouldn't that be a surprise to the president.

Bottom line: My outlook on the bond market and monetary policy is unchanged by the new Fed chair pick. The forthcoming rate decisions will be driven by the incoming data, and I continue to expect a renewed rate-cutting cycle later this year.

MARKET OUTLOOK AND PORTFOLIO STRATEGY

"We have now entered a new phase of policymaking where the Fed views the risks to both parts of its dual mandate are in balance. *It will be incumbent on the data to move the Fed from this perch – the days of insurance cuts to slowly approach neutral are likely over." — Goldman Sachs*

To no surprise, the Federal Reserve left rates unchanged last week, but the tenor seemed a bit hawkish to me. The Fed's "official" statement upgraded its economic assessment, stating that the economy is now expanding at a "solid pace. The Fed also tipped its hat to a view that the unemployment rate has "shown some signs of stabilization," which is nothing more than regurgitating headlines rather than any true analysis into the cracks emerging below the surface.

That said, while the FOMC press statement read quite hawkishly, the tone of Powell's press conference was rather dovish.

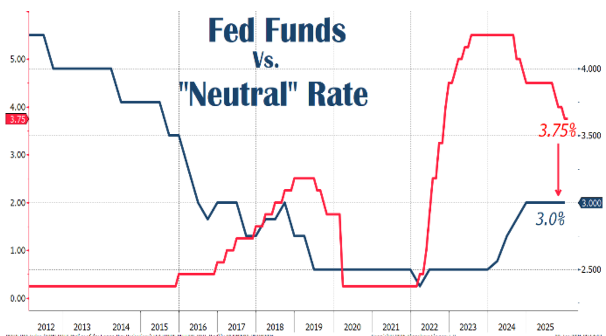
Here are the major takeaways:

- Powell emphasized repeatedly that short-term inflation expectations have receded significantly, and that long-term inflation views are consistent with the Fed's +2.0% inflation target.
- Powell acknowledged that after stripping out the tariff shocks, core inflation is now near target (in the low-2's). He also repeated that the inflation overshoot from the tariff effect on goods will roll over mid-year and expects more disinflation from the service sector ahead.
- Regarding the labor market, Powell highlighted numerous indicators that are more troubling, and it was clear that if the jobs market begins to sputter again, the Fed will respond.
- Finally, Powell stressed that no FOMC member supports a rate hike. Furthermore, there are grounds to believe the neutral policy rate is lower than commonly perceived and is likely to come down. This is bullish news for the Treasury market.

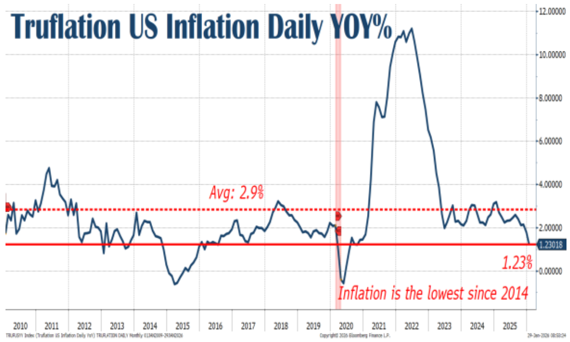
Near term the Fed's economic upgrade and the upcoming round of fiscal support suggests that they may be on hold for months to come. That will likely keep the bond market in a trading range.

That said, my longer term view is that the Fed is likely not done, and that there is more room to lower rates to "neutral" once it becomes clearer that the gap between real GDP growth and stagnant labor market conditions, as well as personal disposable income, is not exactly sustainable.

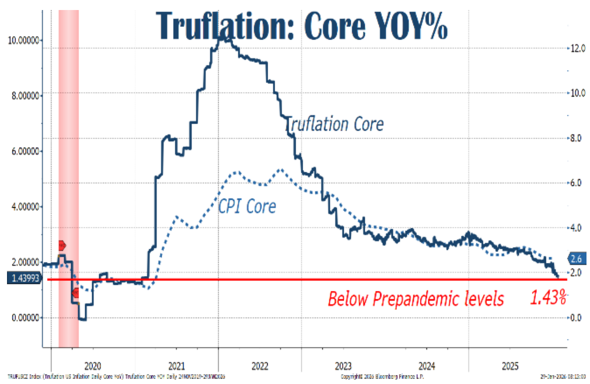
Moreover, while there are fears that inflation will rise due to increasing insurance premiums and health care costs, the reality is that these two costs will act more as a *de facto* hike and will provide an offset to the tax refunds.



Most importantly, the path towards declining underlying inflation pressure is intact, and on full display in the Truflation CPI indices. As a reminder, the Truflation Daily CPI Index shows a remarkably high correlation to the official BLS CPI, with studies indicating a correlation coefficient between **0.97 and 0.99**. As a real-time, high-frequency data source, Truflation acts as a leading indicator, often forecasting CPI trends up to 45 days in advance. It is amazing how little attention has been paid to such an important development.



The Truflation core CPI index has slowed below the +2.0% Fed target over the past three months.



In terms of portfolio strategy, credit unions should continue to maintain a risk-appreciated ladder strategy while capitalizing on bouts of volatility and market selloffs. In terms of relative value, the intermediate part of the curve offers the most favorable risk/return tradeoff.

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.