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INVESTMENT SERVICES

Weekly Relative Value

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WEEK OF FEBRUARY 9, 2026

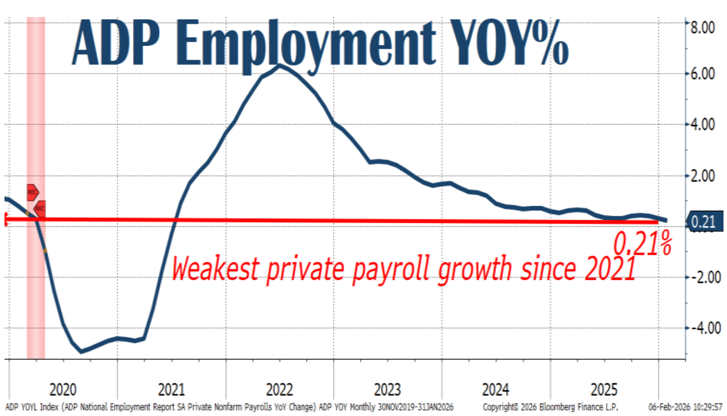
Whistling Past the Graveyard

"Also, as you probably know, the lore is that when GDP and the labor market get into an argument, in the end labor market is more — the labor market data is more reliable. GDP data is just very hard to collect and understand."
— Jerome Powell, Chair, Federal Reserve, January 28 Post-Meeting Press Conference

With the above quote in mind, and as the pundits ooze over gross domestic product (GDP) growth of 4.0% or even 5.0%, the labor market is transitioning from stagnation to outright contraction. In the commentary below, I will discuss the latest employment data. I also suggest a read of "Weak Hiring, Layoff Plans Paint a Gloomy Labor-Market Picture" (*The Wall Street Journal*).

First, with the non-farm payroll report being delayed until this coming Wednesday, the ADP number has taken on more importance. Here's the initial take in one word or less: WEAK.

The headline ADP report showed that private sector job creation came in light, at +22,000 in January, which was 50% lower than the consensus forecast versus the +45,000 estimate. Looking through the monthly wiggles, the year-over-year trend in ADP payrolls has cratered to a mere +0.2% pace from +0.5% a year ago, +1.7% two years ago, and +3.8% three years ago. That ain't no blip. That is a pattern… of weakness.



THIS WEEK

- IT'S A BIG CHALLENGE
- ONE BIG JOLT!
- HIGH PRICES ARE THE CURE FOR HIGH PRICES
- AUTO SALES IN REVERSE
- THE TRUE INFLATION RATE
- WHAT WILL KEVIN WARSH DO?
- MARKET OUTLOOK AND PORTFOLIO STRATEGY

And let us put the latest +22,000 number in some perspective. Because most economists believe the "new normal" breakeven level for job creation is ~+60,000, this report suggests unemployment is still heading higher.

The headline number was even worse than it looks when you consider that education/health services, which always go up no matter what and have no correlation to the economic cycles, showed a +74,000 employment boom in January. Do the math. **Net of education/health, the economy shed -52,000 jobs last month**. So, if this report is to be believed, **80% of the private sector is cutting staff.** Yet, we are supposed to be excited about the economy because of a future brief round of fiscal stimulus, which just borrows growth from 2027 and lumps it into 2026 to try and buy votes ahead of the midterms.

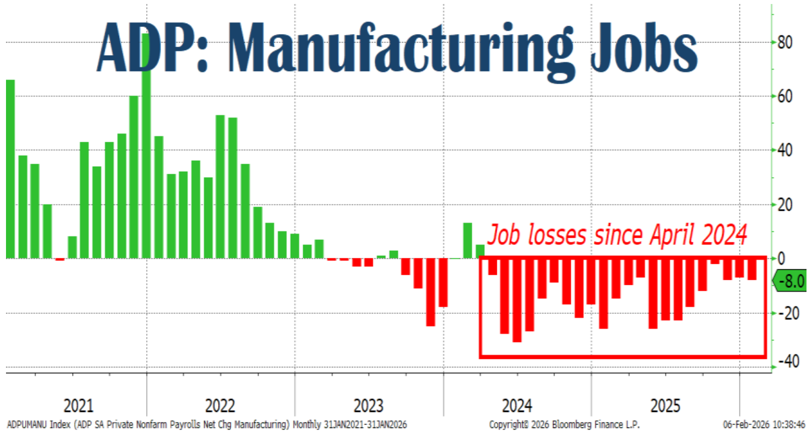
Also, for the first time since last June, there was zero growth in small business employment. Remember it is the small businesses that are on the front lines, in the weeds. Because small firms tend to adapt very quickly to shifting patterns in the economy, they are a leading indicator.

But it was not just small businesses that reduced labor. Large companies (500+ employees) saw the same thing as small businesses and reduced their staff by -18,000 (the first reduction since last May).

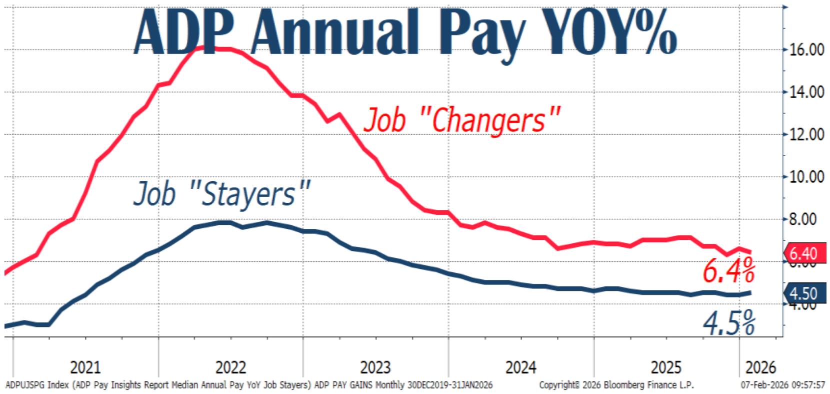
Adding insult to injury the ADP cut its job tally for 2025 by roughly -200,000 considering the newest information out of the Quarterly Census of Employment and Wages (QCEW), which represents the complete universe of employment conditions.

"America will be a manufacturing nation once again." — President Donald Trump

Even with the massive artificial intelligence (AI) data center buildout, manufacturing has recorded month-over-month declines consistently since April 2024. In fact, since the November 2024 election, the U.S. economy has lost more than 200,000 manufacturing jobs. Where is the positive impact on job growth from tariffs that the White House promised? (See "U.S. Manufacturing Is in Retreat and Trump's Tariffs Aren't Helping" in *The Wall Street Journal*.) Trump's promised manufacturing boom is a bust so far.



Finally, on the wage front, the overall downward trend is intact. This is important because if the Fed hawks and bond bears were correct, this declining pattern of wage growth would not be taking hold.

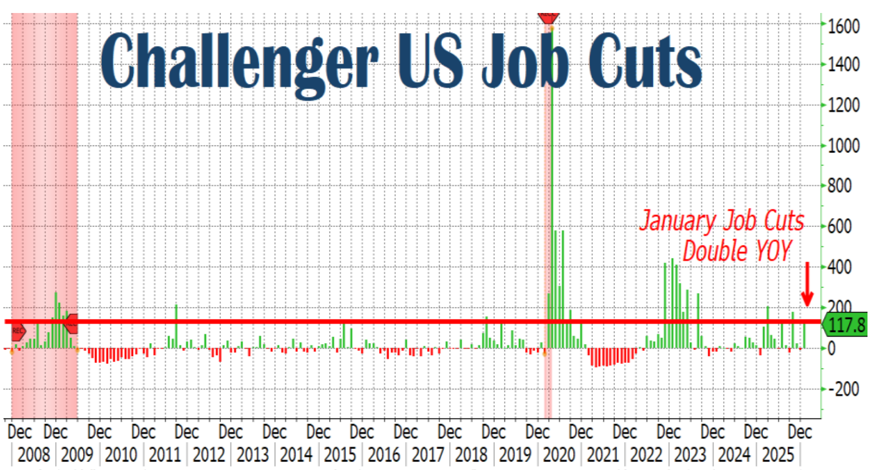


Bottom line: The latest ADP report means that the disinflationary slack continues to build in the U.S. labor market. This is one reason I have persistently refused to budge from my bullish outlook on the maligned, under-owned, unloved and heavily shorted Treasury market.

IT'S A BIG CHALLENGE

Moving on. The Challenger survey data was horrible. The latest report showed a +118% year-over-year (more than double) surge in layoff announcements to 108,435 (from 49,795 a year ago). As shown below, going back to 1993, such an elevated January level only happened six other times. The last time was during the Great Recession in 2009.

The reasons for the surge in layoffs were the economy. Overall, macro conditions accounted for 30,564 lost jobs. This is triple the level of a year ago. Also worth highlighting: There were 294 firings in January due to tariffs (none a year ago), and that brings the pink-slip tally to over 8,200 since last March. Again, didn't the White House promise us that tariffs were going to boost jobs?



Interestingly, one of the biggest increases has been in the technology sector. Layoffs have now tripled over the past year and accounted for 25% of the surge in total firing announcements in the twelve months to January. Indeed, 7,624 of the job cut postings came from AI — from ZERO a year ago. Since last June, over 62,000 jobs have been lost due to AI deployment.

To add insult to injury, hiring plans dropped by nearly -13% from year-earlier levels to a paltry 5,306. That represents the weakest reading for every January in this survey, and that includes 2008 and 2009, which really tells you something. In a typical January, new job postings average out to be 32,318. In other words, we are now ~84% below that norm.

Sector-wise, there were ZERO announced hirings in January across technology (!), financials, media, retail, real estate and transportation services. In other words, the most economically sensitive parts of the economy have stopped hiring entirely. But somehow the consensus believes the economy is booming at +5.0%.

Here's another important detail. The number of layoffs has now exceeded hires in each of the past three months. And depending on the behavior of the Bureau of Labor Statistics (BLS) birth-death model, we should be seeing negative headline non-farm payroll tallies. That will raise more than a few eyebrows, and this once again explains why I have not joined the herd of bond bears.

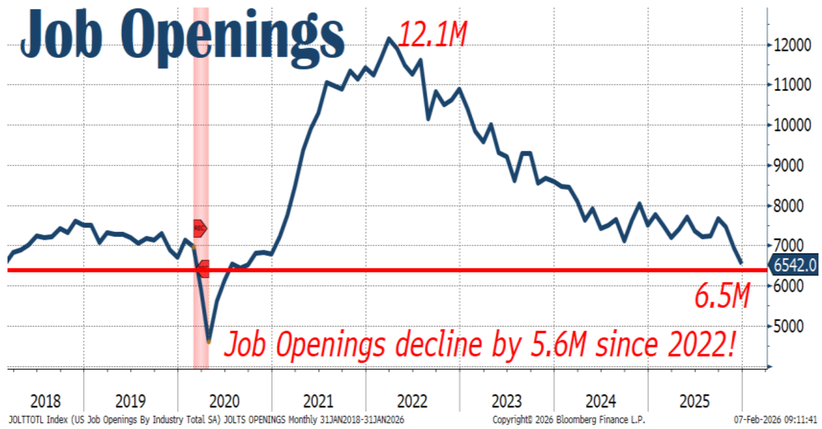
Bottom line: The fact that firings have soared by +118% in the past year while hirings have sagged by nearly -13% is all anyone really needs to know. It is interesting to hear virtually everyone at the Fed talk about inflation as the labor market deteriorates. Then again, market pundits believe this economy can hum right along to perpetuity without any labor input or real personal income growth.

ONE BIG JOLT!

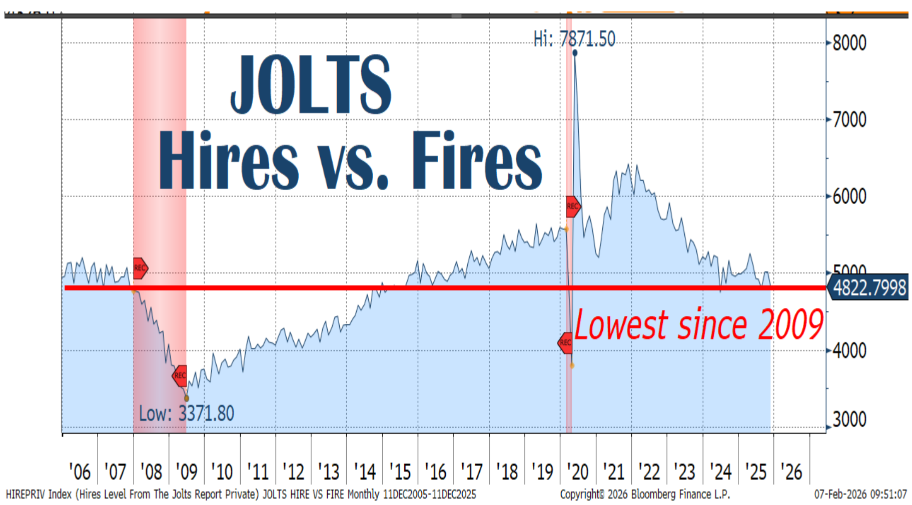
Beyond the lousy ADP data, the big increase in initial jobless claims, and the disturbing surge in Challenger layoffs, the Job Openings and Labor Turnover Survey (JOLTS) was released. Here are the key takeaways:

Job openings, the poster child for labor demand, plunged to 6.542 million in December from 6.928 million in November (revised down from 7.146 million).

Openings are now down nearly -13.0% year over year to their lowest level since September 2020. It was most interesting to see job openings retreat by -76,000 in health/education after a -67,000 pullback in November, seeing as this sector has long been the source of support for non-farm payrolls over the past year.



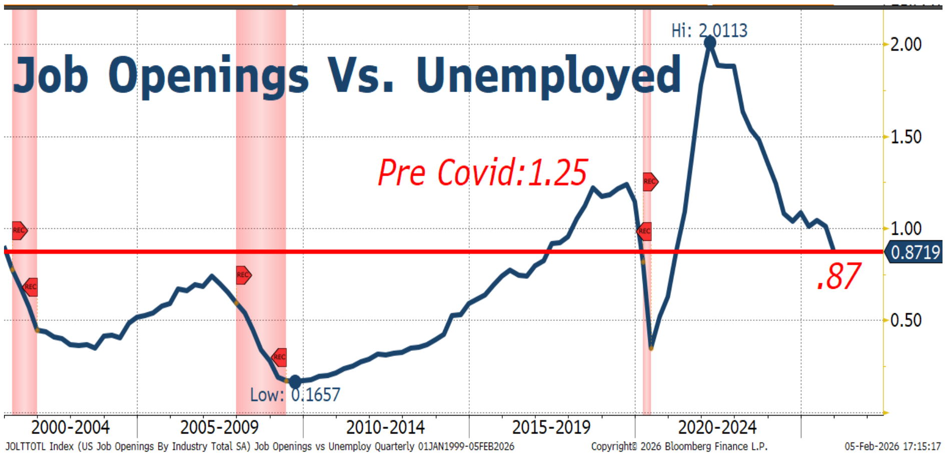
Not just that, but the level of firings increased by +61,000 and has been up now in three of the past four months. As depicted below, the level of "hires minus fires" is the lowest it's been since 2009. Along with the Challenger data, we may soon be on the precipice of seeing outright declines in the non-farm payroll data. The only question is whether investors really care about the economy as much as economists (and voters) do.



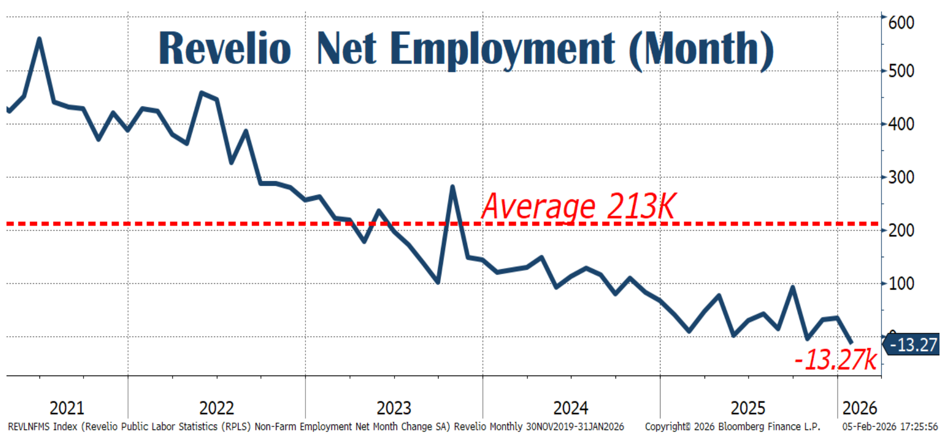
Not sure anyone remembers, but during the period when the Fed was busy hiking rates in 2022 and 2023, they talked incessantly about how there were nearly two job openings for every person who was unemployed. Given this labor market supply-demand imbalance, the Fed feared we were on the cusp of a wage-price spiral.

And for a period of about eighteen months, that was the case. But starting last summer, the labor market pivoted in favor of employers when the number of unemployed surpassed the level of job openings. Now that gap has risen to +15%, as in **there are +15% or nearly a million more people who are unemployed and looking for work compared to the number of jobs that are available**.

As shown below, the ratio of job openings to unemployed workers tumbled to 0.9x, the lowest since early 2021. This in turn will crush wage growth.



But there's more. Revelio Labs, which had become the go-to alternative while the government data was suspended during the shutdown, reported that in January, payrolls plunged by 13,270, driven by goods-producing jobs, which dropped by 5,100, but was mostly a plunge in government jobs, which declined by 16,400. While Revelio uses a different methodology than the BLS, if we get anything even remotely close in next week's jobs report, the U.S. jobs recession will be confirmed.



Bottom line: Let's all continue to whistle past the graveyard. As I have been writing about for months, the labor market is much weaker than what the consensus believes**.** Frankly, I'm not sure what the Fed hawks are thinking. Regardless, from my perch, the Fed is now behind the curve and needs to cut rates more aggressively and sooner than the market is pricing at this point.

I'll tell you what: The Fed is probably going to have to rethink its on-hold strategy at its next meeting.

HIGH PRICES ARE THE CURE FOR HIGH PRICES

The fixed-income crowd should be embracing the "deflation" news out of PepsiCo, which announced a broad-based price cut of as much as -15% for its brand-name snacking products (Lay's, Doritos, Cheetos and Tostitos). This follows in the wake of General Mills' plan to discount roughly two-thirds of its offerings.

This is what happens when you push prices until people stop buying. PepsiCo and others spent years raising prices after the pandemic. Turns out there's a limit. People switched to store brands or stopped buying chips altogether. Now the company is calling it "listening to consumers."

Indeed! A nationwide survey of 5,000 Americans from Talker Research reports 52% now struggle to pay bills like rent on time each month, while an equal number are struggling to afford necessities like groceries. Nine in 10 people believe the U.S. is experiencing a full-blown cost-of-living crisis, and nearly eight in 10 said everything became more expensive in 2025. Clearly, this is not an environment conducive to higher prices.

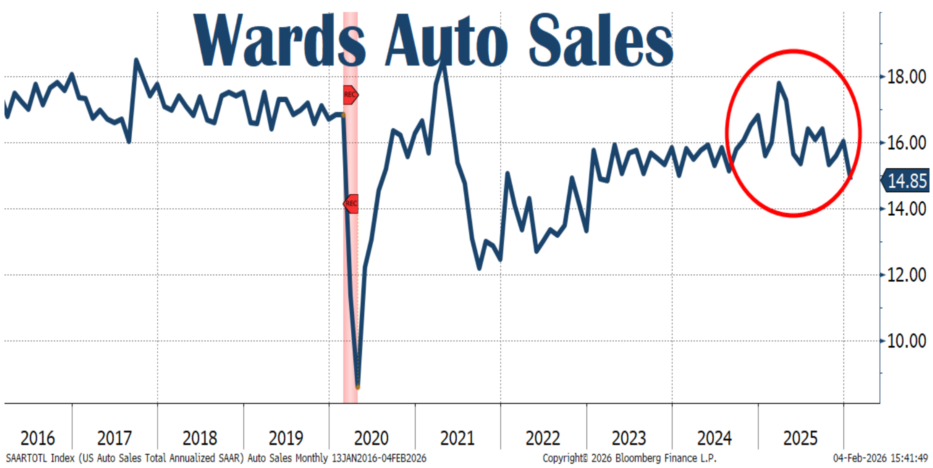
Given that the shelter component of the Consumer Price Index (CPI) is dominant at 30% and 40% for the core index, I also suggest a reading of "Do More Deportations Mean Lower Housing Costs?" in *The Wall Street Journal.*

Here's something else to think about. The discount retailer Five Below, which sells 80% of its merchandise at a $5 price or lower, reported very strong quarterly sales of +23% year over year. To me this is another sign of consumers becoming more frugal. One can also wonder if the higher-end consumer is beginning to follow suit after Disney's dismal earnings report. Notably, total attendance at its U.S. theme parks are practically stagnating.

Bottom line: Consumers are becoming more frugal, and companies are being pressured into lowering prices in order to maintain growth. In what world is this inflationary?

AUTO SALES IN REVERSE

In other key data releases, motor vehicle sales were released, and they disappointed with a 15.0 million annualized unit pace in January, an -8.5% pullback from December's 16.3-million-unit headline, undercutting the consensus estimate of 15.2 million. This was the lowest reading since December 2022. The decline was due to a general loss in economic confidence among consumers.



THE TRUE INFLATION RATE

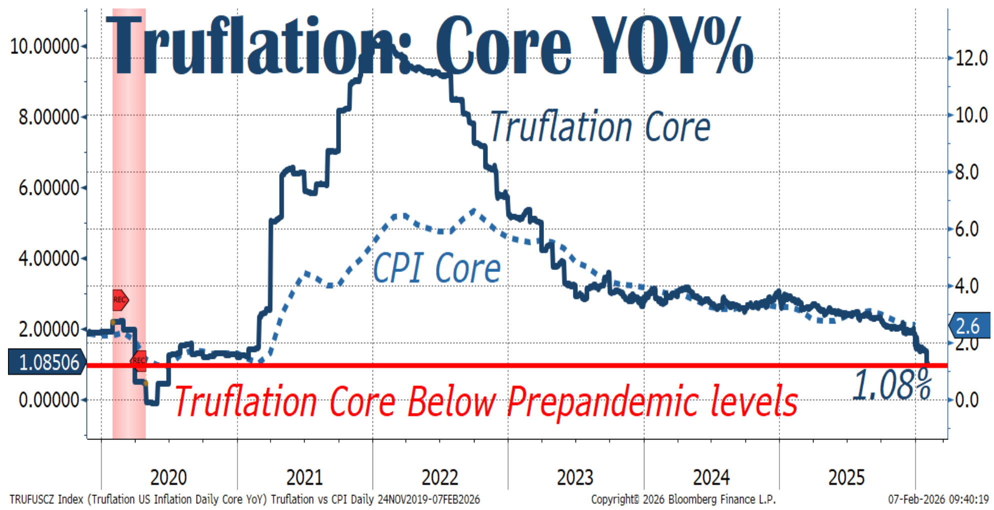
I continue to highlight the Truflation CPI indices, which show inflation falling much more rapidly than the so called "official" BLS data. These numbers come from the real-time price aggregator at Truflation, which monitors millions of prices every single day. That is much greater magnitude than the BLS, which only observes a few thousand prices just three times per month.

Today's real-time core inflation rate is only 1.08% versus 2.6% for the BLS core CPI rate. Not only that, but according to Truflation, the real-time core inflation rate is below pre-pandemic levels and dropping rapidly.

Most importantly, 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.

Falling below 1% would be something, but crashing towards 0% would be even more of a big deal.

Stay tuned!



WHAT WILL KEVIN WARSH DO?

> *"If he (Warsh) said that he wanted to raise rates he wouldn't have gotten the job." – President Donald Trump*

Kevin Warsh is a long-time hawk, but that was many moons ago when rates were at zero bound, and the Fed was in full-on quantitative easing under Bernanke despite the recession having ended. He now favors a reduction in the funds rate to the 3.0% neutral level but has yet to provide any guidance on what he would do after that.

As for his view that the Fed's bloated balance sheet needs to be reduced, it is fascinating to see bonds selling off on this concern. Even if Warsh is successful in his quest to shrink the balance sheet again, that should be beneficial for Treasuries since it will act as a brake on growth and serve to depress long-term inflation expectations.

There is a lot of chatter on how Warsh wants to make the Fed smaller and less involved in regulatory and supervisory matters. He also seems to be joined at the hip with Scott Bessent in giving the Treasury more control over balance sheet issues.

Finally, the Fed is an institution, and rates are set by a committee, not one person. So, it begs the question as to how much power he will have unless he proves to be a master of persuasion. Much of what we are seeing so far is pure speculation.

Bottom line: While there are many unknowns about Kevin Warsh, I believe that he was the best of the pack of contenders.

MARKET OUTLOOK AND PORTFOLIO STRATEGY

This week, we get the delayed non-farm payrolls on Wednesday. Considering the mediocre ADP report, the drop in job openings in the December JOLTS data, and the rise in initial claims last week, I am skeptical of the +70,000 consensus. A miss looks more likely, with a weaker print consistent with the recent leading indicators.

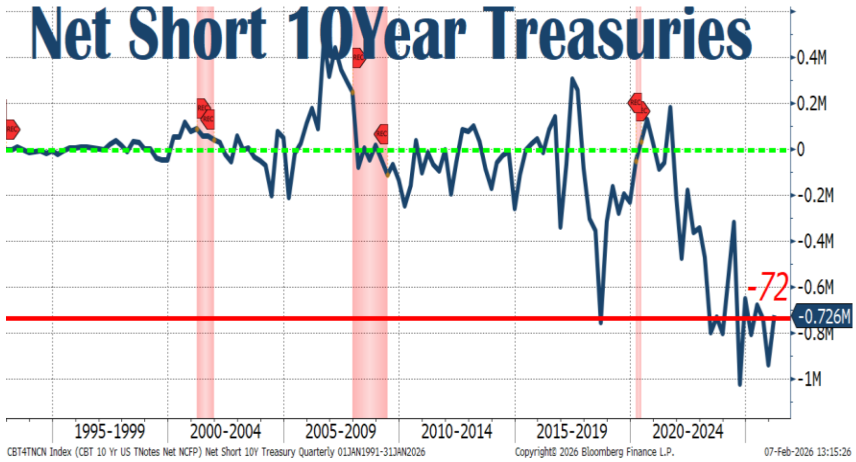
Core CPI is the other key highlight on Friday. The average forecast points to a +0.3% month-over-month reading on the core number.

Also watch for Kevin Warsh's comments on payrolls and CPI as well. Will we develop a "two popes" problem, with outgoing and incoming chairs sending conflicting signals? That kind of divergence could quickly become a driver of short-term volatility in yields.

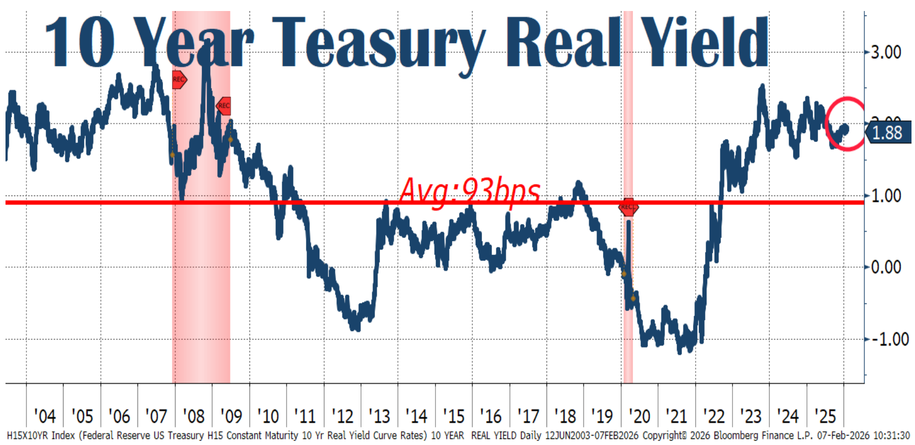
Retail sales (Tuesday) also deserve close attention. Alongside earnings from Coca-Cola and McDonald's, the release should give a clearer read on consumer behavior after a run of weak survey data.

The bond market is finally starting to show some verve. Last week's rally took the 10-year Treasury yield to 4.20% and below the 200-day moving average (4.22%). The next test is the 100-day at 4.12% (a mere -8 basis points away).

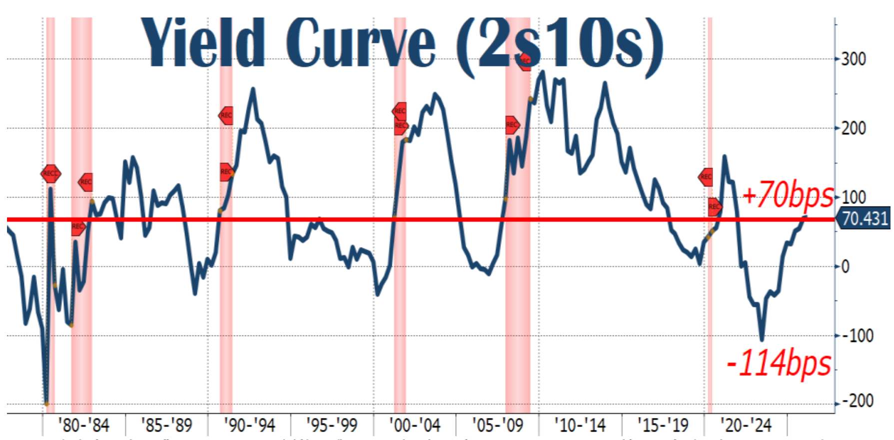
The short-covering rally may have arrived because the net negative bets on the Chicago Board of Trade have come in more than 20% in the past three weeks, but it is still extremely high at 726,000 net speculative short contracts. You must go all the way back to October 2021 to find the last time the non-commercial accounts were neutrally positioned, let alone net long the bond market.



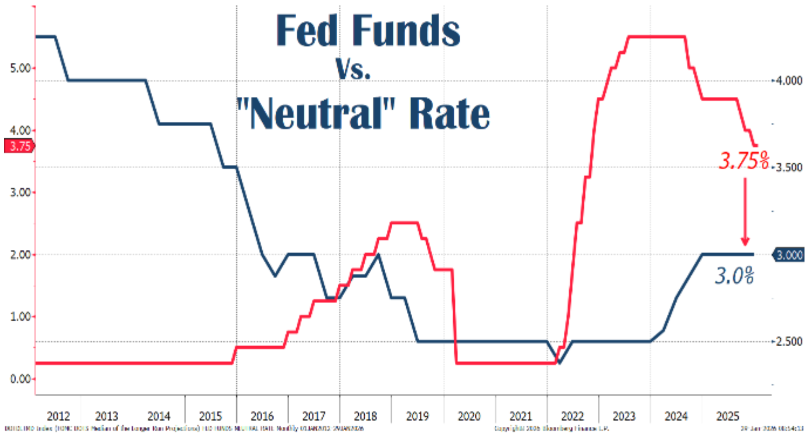
On a valuation basis, the real yield on the 10-year Treasury yield is 1.88%, or twice the long-term average of ~90 basis points. Further, if Truflation inflation data is prescient for where the BLS inflation data is heading, the 10-year Treasury yield is looking quite attractive at current levels.



Also, because the long end of the curve has underperformed, the yield curve as measured by the 2s10s spread is at the steepest level since 2019. This provides an attractive yield pick-up by extending out the curve.



Because of the incoming labor data and market leading Truflation data, there is more room for the Fed to lower rates to "neutral."



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?

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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.

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