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INVESTMENT SERVICES

Weekly Relative Value

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WEEK OF FEBRUARY 23, 2026

Fools and Lapdogs

What a week!

"If the Supreme Court rules against the United States of America on this National Security bonanza, WE'RE SCREWED." – President Donald Trump, Truth Social

On "Liberation Day" last April, President Trump invoked the 1977 International Emergency Economic Powers Act (IEEPA) to impose "reciprocal" tariffs on nearly every foreign trade partner to address what he called a national emergency over U.S. trade deficits. He invoked it again to impose tariffs on China, Canada and Mexico over fentanyl trafficking into the United States.

Fast forward, in a major blow for the president – who called the case "*literally, life or death for our country*" – the conservative-dominated court, led by Chief Justice John Roberts and fellow conservatives Neil Gorsuch and Amy Coney Barrett joined liberal justices and upheld lower court decisions in striking down a wide swath of President Trump's tariffs. They declared that President Trump's unilateral tariffs (which constitute about half of the tariffs under President Trump) via the IEEPA were illegal.

The Court reasoned that **the Constitution assigns the authority to impose tariffs with Congress alone**.

"IEEPA does not authorize the President to impose tariffs."

THIS WEEK

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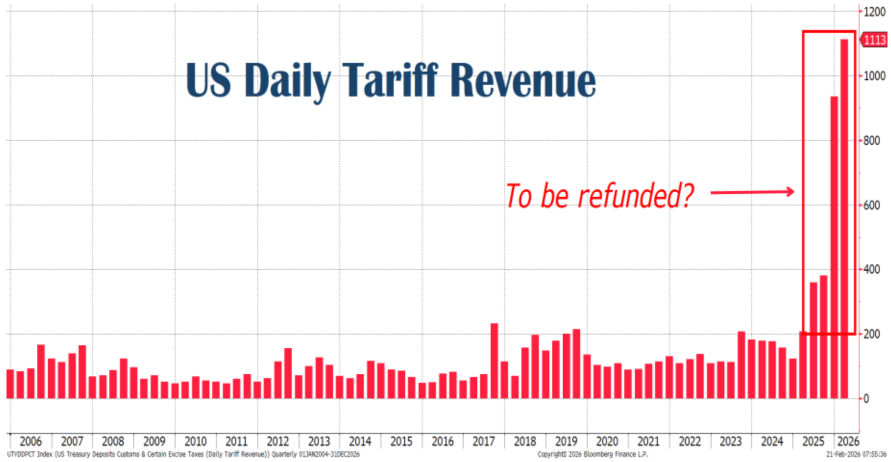
The Court further highlighted a **lack of historical precedent**, noting that that in the nearly 50 years since IEEPA's enactment, **"no president has invoked the statute to impose any tariffs**," and that was a **"telling indication"** that the authority falls outside the president's reach.

TARIFF REFUNDS?

"The Court says nothing today about whether, and if so how, the government should go about returning the billions of dollars that it has collected from importers." – Justice Brett Kavanaugh

Notably, the Court's ruling does not address what happens to roughly $150 billion in tariffs collected so far under a cloud, as some companies are seeking refunds from the administration on duties already paid. There are currently hundreds of tariff refund lawsuits pending in U.S. trade court. **This leaves the possibility of a wave of refund litigation in the months ahead open.**



Meanwhile, Democrats are calling for President Trump to issue tariff refunds for Americans after the Supreme Court ruling.

"Your tariff taxes wreaked havoc on farmers, enrage our allies and sent grocery store prices through the roof… On behalf of the people of Illinois, I demand a refund of $1,700 for every family in Illinois."
— JB Pritzker, Governor of Illinois, in a letter to President Trump calling for refunds to families

TRUMP FURY

President Trump had called the lawsuit the *"most important case ever,"* and was banking on tariffs to boost the U.S. economy, reduce deficits, pay down the national debt and fund domestic policy plans.

To no surprise, President Trump was not happy with the Supreme Court ruling and responded with fury. He labeled the justices who ruled against him (Neil Gorsuch and Amy Coney Barrett, whom he nominated during his first term) **"fools and lap dogs"** and suggested that they had been corrupted by unspecified foreign influence and **"slimeballs."**

Question: What does "lap dog" mean?

Answer: A weak person who is controlled by someone else. His coworkers regarded him as the boss's lap dog.

"I'm ashamed of certain members of the court. Absolutely ashamed for not having the courage to do what's right for our country." President Trump suggested that justices were "an embarrassment to their families" because they sided with the majority against him.

And while the president ripped into the justices who opposed him, he praised those who sided with his administration.

"I'm so proud of him," President Trump said of Justice Brett M. Kavanaugh, whom he referred to as a ***"genius."***

Constitutional legal experts said President Trump's attack against the court was a display of utter disrespect for the Constitution.

"Before the entire world, it ***was the president's most spectacular display yet of his utter disrespect for the Constitution and his contempt for the Supreme Court of the United States.****"*
– J. Michael Luttig, a conservative retired federal appeals court judge

And this is what *The Wall Street Journal* had to say.

"Mr. Trump doubtless won't offer one, ***but his rant in response to his tariff defeat at the Court was arguably the worst moment of his Presidency****." – The Wall Street Journal Editorial, "Trump Demeans Himself as He Attacks the Supreme Court"*

The Rupert Murdoch-owned paper said the president's meltdown was "ugly even by Mr. Trump's standards."

The editorial board went on to say:

"He's accusing them of betraying the U.S. at the behest of nefarious interests he didn't identify, no doubt because they don't exist."

The Wall Street Journal concluded with the following:

*"Mr. Trump shouldn't have been surprised by the Court… **We warned from the start that this would be the result of his unlawful resort to IEEPA. The fault doesn't lie with the Justices but with his own tariff obsessions."***

The Supreme Court ruling against IEEPA tariffs was not unexpected. Meanwhile on Saturday, the self-proclaimed "Tariff Man" announced on his Truth Social platform that we would impose a 10% universal tariff, then raising it to the maximum levy of 15%. So, at least for now, the moving chess pieces basically leave the effective tariff rate close to where it was, at around 16%.

What matters the most is that President Trump is done with his tariff war now. These 15% blanket tariffs expire in 150 days, (148 days and counting) and there is little chance that he is going to get 60 votes in the Senate for an extension. The president can no longer impose sweeping tariffs instantaneously with the stroke of a pen to coerce other countries into one-sided trade deals and investment pledges (President Trump used tariffs threats on select countries – of 35%, 50%, 75% or 100% – to force them to the bargaining table). Keeping in mind that the $5 trillion in outstanding pledges will likely never see the light of day, and the $2.3 trillion of foreign direct inflows that boosted U.S. GDP growth last year could now be reversed to the detriment of the economy, the only question is how the Fed now responds.

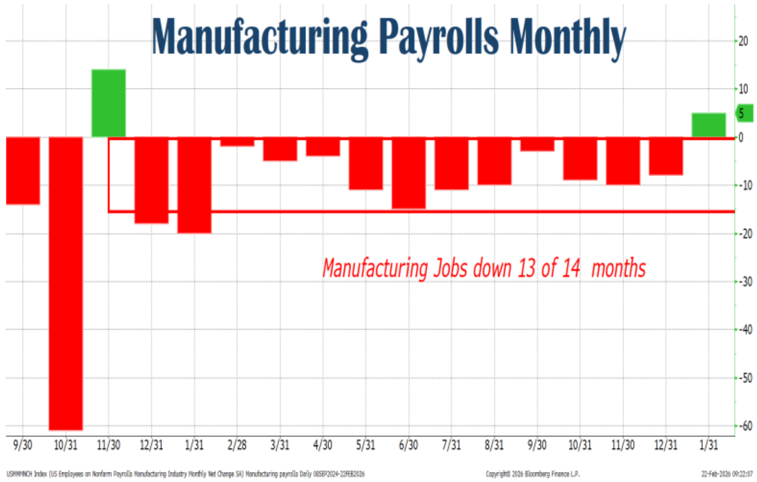
Bottom line: The ruling striking down the Trump tariffs has created another round of policy uncertainty that will likely extend well into next year. While the political rhetoric will be heated and the legal process messy, the most likely scenario is that the administration will implement alternative plans to keep the trade levies in place. Expect the level of uncertainty to remain high.

TARIFFS ARE NOT WORKING

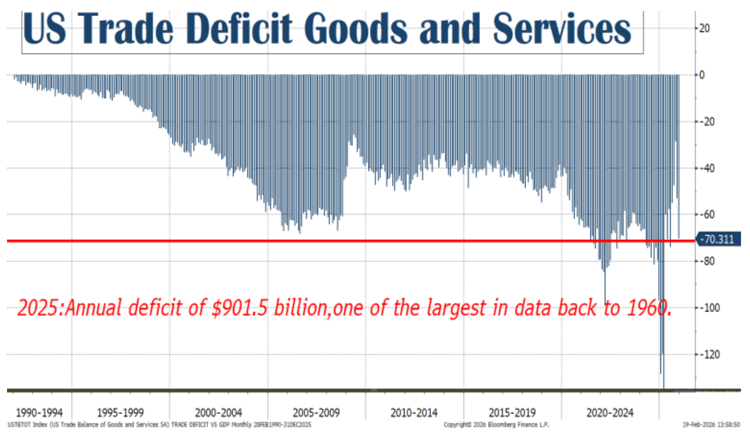
"THE UNITED STATES TRADE DEFICIT HAS BEEN REDUCED BY 78% BECAUSE OF THE TARIFFS BEING CHARGED TO OTHER COMPANIES AND COUNTRIES." – Donald J. Trump, Truth Social

President Trump has highlighted the trade deficit – the difference between the value of U.S. imports and exports – for years as an example of how the U.S. is being "ripped off" by other countries (most economists **disagree** with his characterization). He has leaned on tariffs as part of his strategy to reduce reliance on foreign goods, encourage domestic investment and correct decades of declines in manufacturing employment.

Thus far, it is NOT happening. To wit: Manufacturing jobs have been down for 13 of the past 14 months.



As for the trade deficit, the BEA reported last week that the deficit in goods and services widened to $70.3 billion. The shortfall culminated in a full-year deficit of $901.5 billion – one of the largest in data back to 1960. More telling was that the trade deficit in goods, the items subject to President Trump's sweeping global tariffs, was up 2.1% compared to 2024.



Bottom line: From my perspective, tariffs are a tax on consumers, create job losses, damage small businesses and are being used irresponsibly as an economic tool.

WHO PAYS?

President Trump has repeatedly stated that his tariffs are paid by foreign countries. Not true. Tariff payments are made by U.S. importers, not foreign exporters, and those importers often pass on some of their costs to consumers. While foreign exporters may sometimes drop their prices to try to keep their products competitive, various studies have found that the overwhelming majority of the costs of the tariffs he has imposed this term are being covered by a combination of U.S. businesses and U.S. consumers.

Despite the overwhelming evidence, Kevin Hassett suggested last week that the New York Fed economists should be disciplined for the views expressed in a research paper.

What happened?

Well, the economics staff at the New York Fed had the nerve of publishing a report that showed American businesses and consumers have been shouldering 90% of the tariff burden thus far. Hassett stated that the report is an "embarrassment" and that "the people associated with this paper should presumably be disciplined." The crime? For daring to draw conclusions in their analysis that differ from the White House. The difference is that the New York Fed is not employed by politicians, but the White House is.

I should note that the New York Fed economists' views are widely shared by other economists. Also, the National Bureau of Economic Research came to the same conclusion as the New York Fed. Should their doors be shuttered? Surreal! You can't make this stuff up.

And so does the public. In every opinion poll, tariffs rank among the most unpopular of all of Donald Trump's policies so far in his second term. As an example, almost two in three Americans said they thought tariffs made everyday items less affordable – according to a January poll by the Council on Foreign Relations.

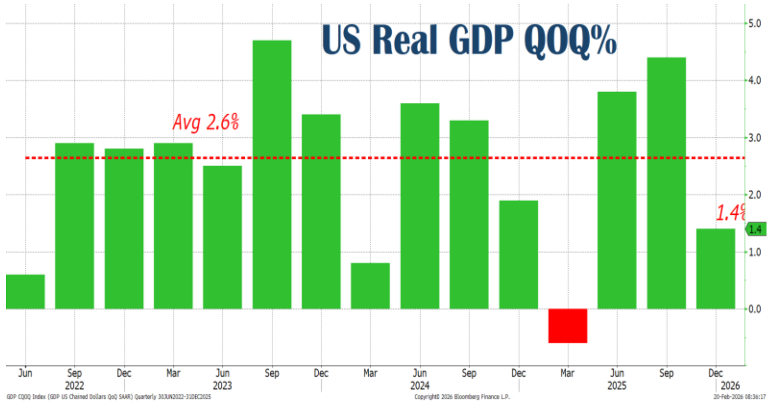
Bottom line: The Supreme Court gave President Trump a golden opportunity to pivot away from his most unpopular economic policy, which is foreign trade. Yet he has inexplicably dug his heels in.

A BIG MISS

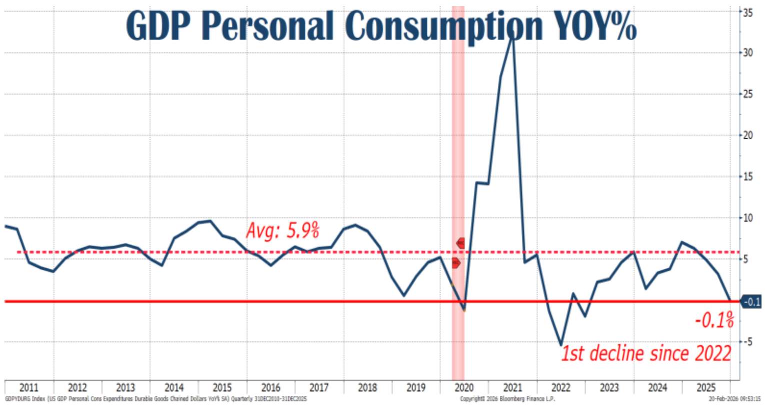
"The Democrat Shutdown cost the U.S.A. at least two points in GDP. That's why they are doing it, in mini form, again. No Shutdowns! Also, LOWER INTEREST RATES. "Two Late" Powell is the WORST!!!" – President Trump, Truth Social

Now back to our regularly scheduled programming. We ended last week with a bevy of market moving data, including Q4 real GDP, December personal income and spending, and the PCE deflators, which are front and center for the Treasury market (and the Fed).

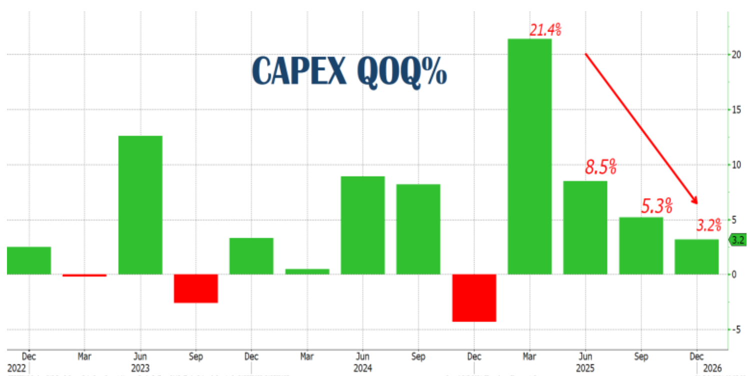
I'll start with the Big Momma – the GDP report. U.S. GDP grew by just 1.4% in Q4 2025, well below the 2.8% economists expected and down sharply from 4.4% in Q3. Not that it was less than a month ago that the Atlanta Fed Nowcast was over +4.0%. What we got was +1.4%. A BIG miss.



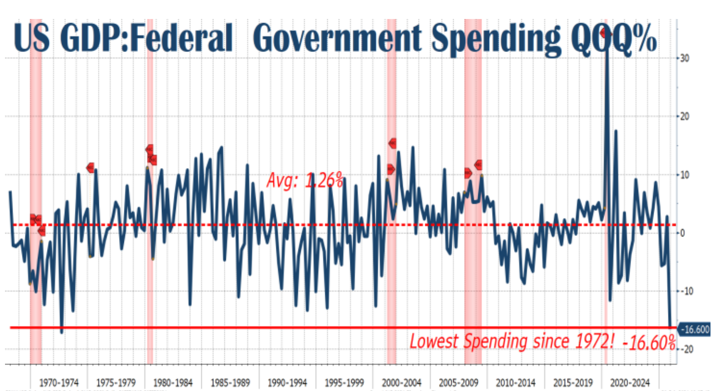
The big miss was in consumer spending on goods, which comprises the largest share of economic activity. Sales decelerated to a 2.4% pace from 3.5% in the prior period. The slowdown was mostly due to less spending on durable goods like cars. Indeed, durable goods spending dipped -0.1% at an annual rate, the first contraction of any kind since the first quarter of 2024.



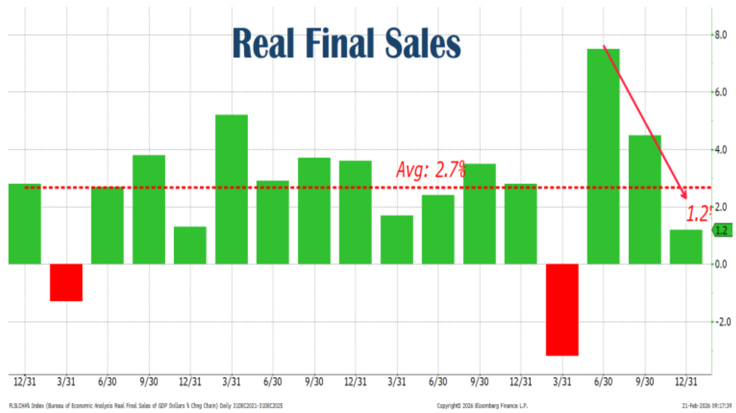
Even with all the AI spending, overall capex growth slowed from +8.5% in Q2 to +5.3% in Q3, and now to just +3.2% in Q4. This is not to say that tech-related business expenditures were weak. In fact, the sector posted a near +16% annualized pop to a record-high level. The problem is that this boom is draining resources from the “old economy” capex segment (like industrial and transportation equipment), which slumped nearly -20% at an annual rate after a -1.4% drop in the third quarter.



The thumbprints of the government showed through as federal spending slid at a -16.6% annual rate, which was the deepest contraction since the third quarter of 1972. The government shutdown, which lasted almost half the quarter, subtracted about 1% from growth. President Trump blamed the Democrats.



Arguably the best metric for measuring the economy's strength is **Real Final Sales**. This measure removes volatile inventory changes from GDP, thus providing a more stable view of underlying growth. It equals real GDP minus the change in private inventories. It shows what was produced and sold to final users, not inventory changes. Because swings in inventories distorted overall GDP last year, final sales to private domestic purchasers may be a better reflection of the underlying economy's direction. And as shown below, Real Final Sales plunged sharply to a +1.2% annual rate from +4.5% in Q3 and +7.5% in Q2.

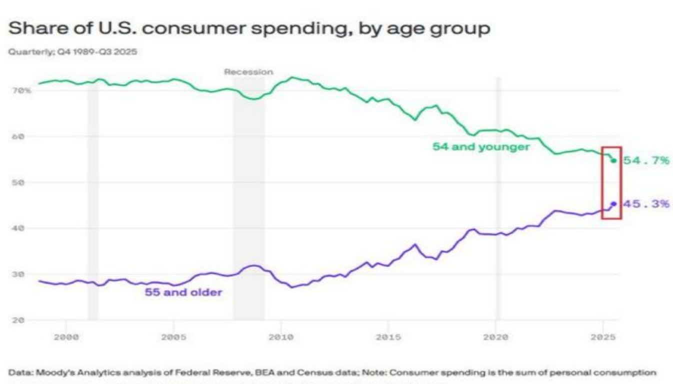


Bottom line: So, the answer is "NO" – the economy is not at all "resilient"; rather, it was cooling off as 2025 ended. This 1.4% rate for the quarter is horrific, and the spinsters who blame it on the government shutdown KNOW it is not true. What has happened here is NOT about the bad Q4 GDP growth, but the misleading Q3 GDP number, which was almost entirely about the front-running of tariffs from the prior quarter being reversed and juicing the net exports number. May the people doing economics in the political realm regain their souls, or their minds, or both.

THE BOOMERS SAVE THE DAY

Meanwhile, the U.S. economy is becoming increasingly dependent on older Americans. Back in 2000, Americans aged 54 and younger made up about 72% of all consumer spending. The 55+ crowd made up about 28%!

Fast forward to today and that gap has almost completely closed. The 55+ group now accounts for roughly 45% of all spending, nearly double what it was. Meanwhile, the under 54 group dropped all the way to 54%. The gap between the two has narrowed by about 35% in just 25 years.



So why does this matter?

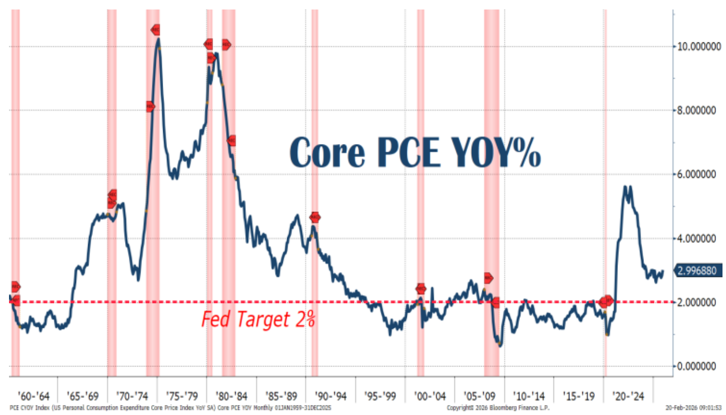
Consumer spending makes up roughly 70% of U.S. GDP. It's the single biggest driver of the economy. This is why. About 73% of all U.S. wealth is now held by people over 55. In 2000, that number was only 56%. They own the houses, the stocks and they're spending accordingly.

Meanwhile, younger Americans are getting squeezed from every angle. About 42% of Americans under 30 say they're "barely getting by." This creates a fragile setup for the economy.

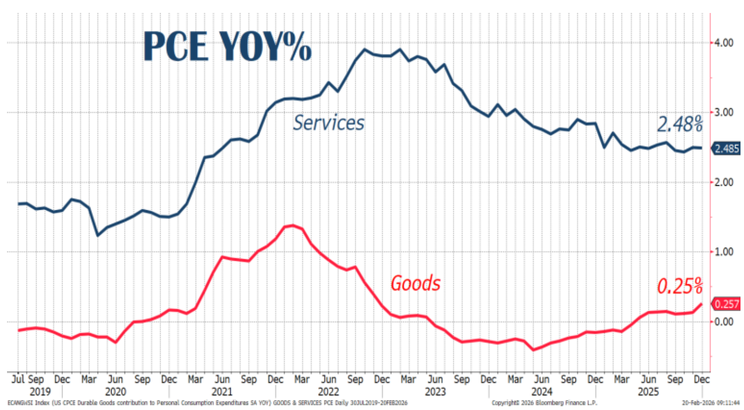
Bottom line: The bigger picture is if the stock market drops and older Americans pull back; there's no younger generation ready to fill the gap. You need a plan. And right now, there really isn't one.

HOTTER THAN EXPECTED

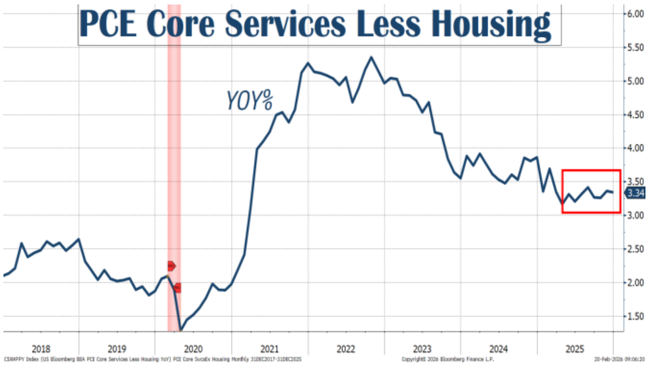
Separately, the Fed's favorite inflation indicator – Core PCE (a measure of price changes in consumer goods and services that exclude volatile food and energy costs) – rose 0.4% in December, slightly hotter than expected (+0.3% month-over-month). That lifted year-over-year inflation up 3.0% (above the prior month and hotter than expected) – the highest since April 2025. That will surely embolden the hawks at the Fed. Even more so because price resets in the insurance industry await us at the start of this year.



Services prices continue to dominate the price gains, but **goods costs also accelerated in December. The effect of the tariffs may be coming through.**



The closely watched Super Core PCE rose 0.3% month-over-month (the last month-over-month decline was April 2020), but on a year-over-year basis is printed +3.3% – very much unmoved in the last year.



If there is a problem, especially from an "affordability" (and political) standpoint, it is that "sticky" prices (essentials) rose a hefty +0.4% month-over-month in January and are up +3.0% on a year-over-year basis. While lower than the cycle peaks, when you compound that off a +50% cumulative increase in the prices of the basic necessities of life over the previous five years, you can see why the proletariat is none-too-happy – because "disinflation" is not exactly helping them remedy their cost of living situation today compared to where it once was.

Bottom line: The Core PCE deflator was a huge disappointment. It was the highest point since last February, and the Powell "super core" rang in at +0.3%, which is not good.

THE REAL WORLD

The inflation data is tough to square with an economy that seems to be expanding below its potential growth rate. Same question mark over the recent drop in the unemployment rate (that makes no sense with an economy barely expanding north of a +1% annual rate when we know that potential is closer to +2%).

Moreover, in the real world, we just saw General Mills lower its sales and profit outlook for the fiscal year, stating that stressed-out consumers are buying fewer snacks and looking for more promotions. For the life of me, I fail to see what is inflationary about that. The consumer products giant now expects organic net sales to be down -1.5% to -2.0% for the year – compared to its prior projection of down -1.0% to up +1.0%. In an attempt to stem the tide, it has reduced prices across two-thirds (!) of its North American product segment. That's inflationary?

And here's what the nation's second-largest retailer in terms of sales (Walmart, now second to Amazon) retailer had to say:

"We believe it's prudent to start the year with a level of conservatism, given the backdrop is still somewhat unstable […] there are certainly indicators out there, whether it be a hiring recession, or maybe subdued consumer sentiment, student loan delinquencies [...] that would make you want to be more balanced."

Then tack on the deflationary cracks in U.S. real estate (from *The Wall Street Journal:* "Lenders to Commercial Real Estate Owners: Pay Up Now").

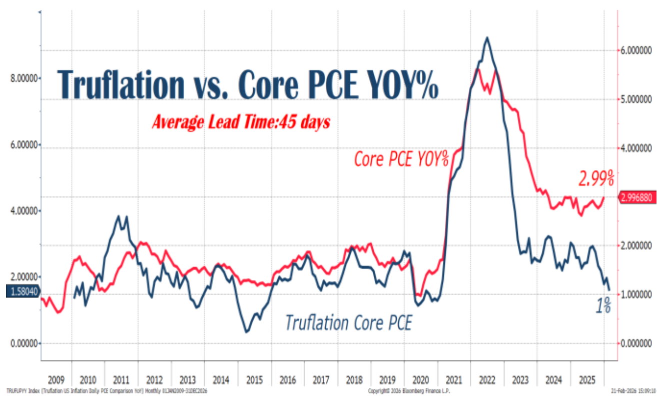
The Fed's data show that commercial real estate prices are running flat on a year-over-year basis and the level is below where they were five years ago. The median price of a newly built single-family home has sagged -8.0% year-over-year and back to mid-2021 levels, while the comparable trend in the resale market is basically flat and at levels we saw in the spring of 2022. Sorry, but I simply cannot get worked up over an inflationary backdrop with numbers like these. Shelter represents 36 of the CPI.

Bottom line: I, for the life of me, do not see any inflation threat at this time. Yet, to the typical investor, we are in the throes of some sort of reflationary boom.

WILL TRUFLATION LEAD THE WAY?

As I have been highlighting in this space (and will continue to do so), the Truflation index uses millions of actual price points at the point of purchase, sourced from multiple providers, to calculate the most current, comprehensive and unbiased U.S. inflation indexes.

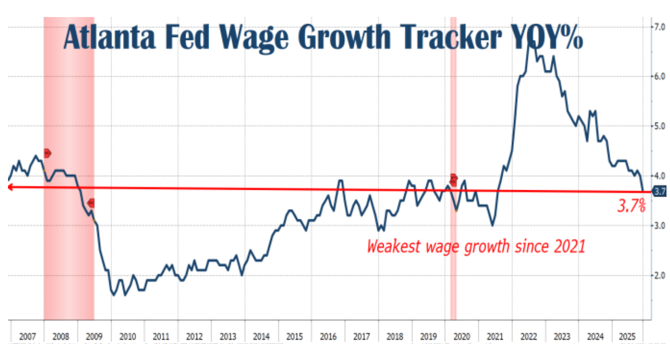
This index has correctly predicted CPI inflation and inflation with a lead time of 45 days and has a 99.94% accuracy over the past 12 months. Given the BEA's delays relative to Truflation, real-time price data, this might reflect the peak PCE inflation last seen in November, which has since cooled significantly.



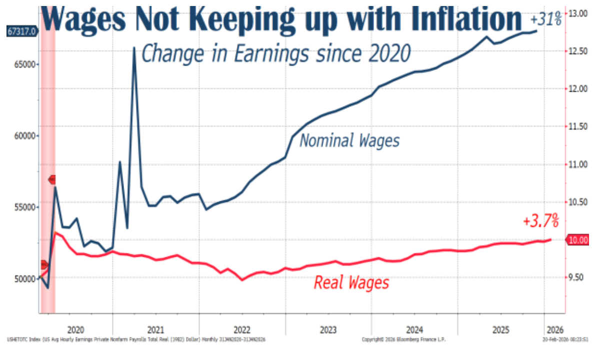
Bottom line: Historically Truflation has been a very good predictor of future CPI and PCE data. If this pattern holds true, the BLS data should begin to converge lower with the Truflation data.

WAGES NOT KEEPING UP

Meanwhile, wage growth is slowing rapidly. On a year-over-year basis wage growth has slowed to 3.7% – a long way from peak levels.



Moreover, the average American's weekly pay has risen 31% over the past six years. That's faster than prices across that period, so Americans in the aggregate aren't losing ground – but inflation wiped out most of their income gains. For low earners, who saw the fastest wage growth after the pandemic, the last year or so has been tougher and they're now lagging behind.

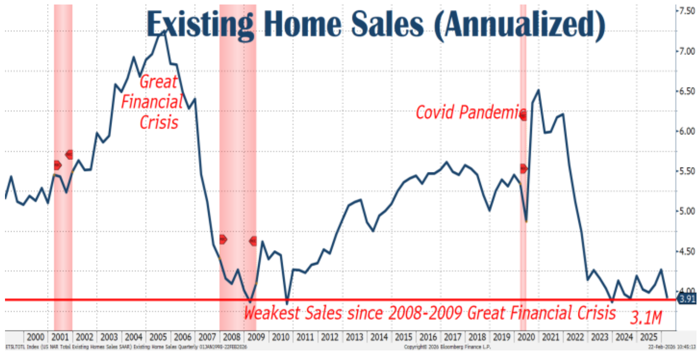


The simple reason why household spending, and therefore GDP, has remained strong despite the weakness in the labor market is that households have increasingly dissaved. Amazingly, the personal savings rate, via the equity wealth effect on the high-end household, has been driven down to a three-year low of 3.6% from 4.2% in Q3, 5.0% in Q2 and 5.2% in last year's Q1. This is epic. This has been the most powerful factor behind the GDP data – more than the health care boom, and even more than the AI spending boom**.** Continued growth at these rates requires either better labor markets or an even faster pace of dissaving.

Bottom line: While the level of inflation has declined significantly from its pandemic peak, the affordability crisis remains intact. Many Americans are hurting.

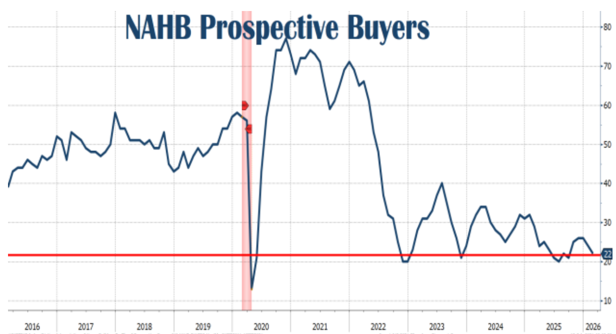
HOUSING REMAINS IN THE BASEMENT

Existing sales just fell to 3.91 million units, 42% below the pandemic peak. Amazingly, the level of resale activity is back to 1995 levels (despite the U.S. population growing by 20%). A record lack of affordability is to blame, with inflation-adjusted prices still near a record high. So long as prices remain high, these historically low demand figures will persist.



And the homebuilders are in a deep funk. The NAHB survey showed that builder sentiment sagged to a depressionary five-month low of 36 this month. This is light years away from the 51 historical average. It really says something that at 36, this metric is not far off the recession levels we had on our hands in 1990, 2001 and 2020.

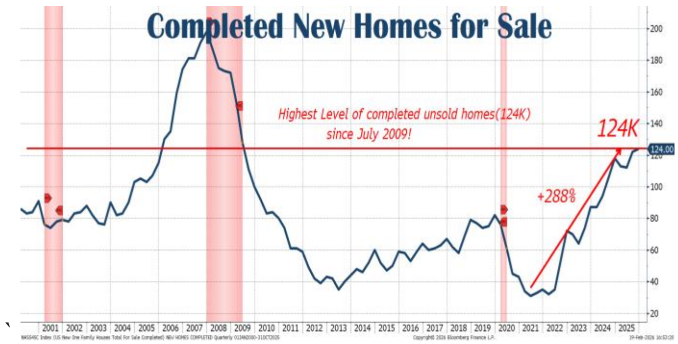
The most important subcomponent in this report, prospective buyer traffic, fell to 22 from 24 and has not been out of net contraction mode since May 2022. It's a good thing we have this AI data center boom on our hands because we need them to absorb the swelling ranks of the unemployed in the residential sector (the sector has an unemployment rate near 7%).



After plunging in December (biggest drop since the pandemic), Pending Home Sales disappointed once again with a modest 0.8% month-over-month decline in January (+2.0% month-over-month expected). This left sales down 1.23% year-over-year. The index has dropped to 70.9, a new record low.

"Improving affordability conditions have yet to induce more buying activity." *– Lawrence Yun, NAR Chief Economist*

Builders are reporting very low traffic, increased use of price cuts and are giving sales incentives on over 60% of listings. Meanwhile, we have the highest level of spec builder inventory on the market since 2009.



Pending-homes sales tend to be a leading indicator for previously owned homes, as houses typically go under contract a month or two before they're sold. Bad news for people who want home prices to go up. Good news for prospective buyers – things are about to get cheaper.

Here's another way of looking at the real estate activity.

- **15% of real estate agents sold less than five homes last year.**
- **71% sold ZERO.**

2025 NAR Number of deals per agent

No. of deals per agent*	No. of agents	%
100-300	2,487	0.2%
50-99	6,721	0.5%
30-49	10,312	0.8%
20-29	19,873	1.5%
10-19	51,639	4.0%
5-9	90,785	7.0%
1-4	193,456	14.9%
0	923,543	71.1%
NAR Agent Count as of Nov 2025	1,300,000	

*These stats should be taken with a grain of salt. There are many NAR members who may not trade (i.e. appraisers, managers, etc) as well as members who trade under their team leader's name.
The numbers above only reflects resales on MLS (not exclusives, no pre-con, no leases, no commercial).
Dec 1, 2024 to Nov 30, 2025

Bottom line: Housing is off to an awful start in 2026. Builder sentiment, mortgage applications, existing home sales, pending home sales and buyer traffic all remain at recessionary levels. Meanwhile inventory continues to build. Housing demand is off to a rough start in 2026.

It's going to take a major price drop this year to regain homebuyers' interest.

MARKET OUTLOOK AND PORTFOLIO STRATEGY

Last week, the Federal Reserve's meeting minutes showcased a full range of opinions, with advocates of rate cuts, a long pause, and the possibility of rate increases. Overall, the minutes still allow for rate cuts, but an immediate easing is unlikely.

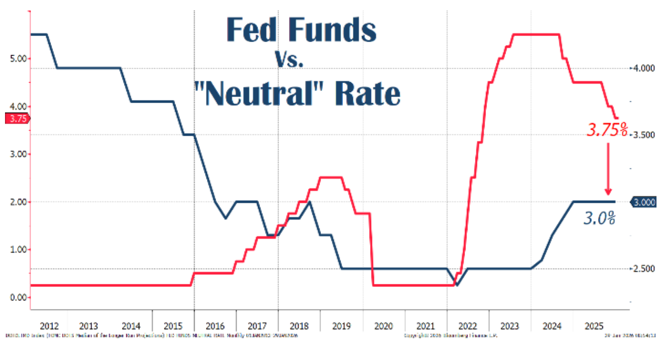
What is a bit confusing is the following statement from Jerome Powell at the last post Federal Open Market Committee (FOMC) presser. This is what he said:

"You know, we don't – we don't take things off the table, but it isn't anybody's base case right now – anybody's base case – that the next move will be a rate hike."

Yet Bloomberg ran with "Fed Reveals Surprise Shift as Several Officials Ponder Hike." Which is it?

The critical question is just how much credibility we should give this set of minutes. Yes, it was more hawkish than December's minutes, but I'm not sure how seriously we should believe that there is anybody on the FOMC with a twitchy finger… at least, not yet.

Despite the renewed chaos from tariffs, I still believe that the economy is weaker than advertised and that inflation will turn lower as we proceed through the year. If so, the Fed will move to its "long term neutral" fed funds rate of 3%. As such I remain constructive on the bond market.



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 (5-10 years) 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.

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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.