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Weekly Relative Value

WEEK OF MARCH 30, 2026

Day 31

"People do not make wars; governments do." — Former U.S. President Ronald Reagan

The 2026 Iran War began on February 28, 2026, when the United States and Israel launched Operation Epic Fury. Targets included Iranian missile sites, air defenses, nuclear facilities and naval assets. The opening strikes also killed Supreme Leader Ali Khamenei, along with dozens of top officials and military figures.

Iran retaliated with waves of ballistic missiles and drones targeting Israel and U.S. bases in the region. U.S. and Israeli forces have conducted thousands of follow-on strikes.



The Trump Administration wants to strike a deal to end the "excursion" quickly and handed Iran a 15-point plan demanding Iran end its nuclear program and ensure the freedom to navigate the Strait of Hormuz. This was a set of conditions that Iran would never accept. Indeed, Tehran rejected the proposal and presented a five-point proposal that included reparations and recognition of its sovereignty over the waterway. On Thursday, Trump extended the deadline by 10 days for Iran to reopen the blockaded Strait of Hormuz or face attacks against its civilian energy grid.

We also keep hearing about the U.S. military "obliteration" of Iranian weapon capability, but Iran has shown that it can fight a war simply with crude and Shahed drones from Russia. These drones are hard to track, and from what I read, Iran still can launch up to 90 per day and had tens of thousands of these drones hidden underground heading into the war. This, in turn, allows Iran to play the waiting game even as the country gets pummeled. Let's also not forget that as the eight-year Iran/Iraq war proved, Iran has an unimaginable capacity to absorb pain and a proven ability to inflict it.

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THIS WEEK

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Figuring out how or when this war that has held the global economy hostage will end is something completely different because, let's face it, we are not dealing with rational actors. Not only is Tehran not interested in ending this war, but making matters worse, the Yemen's Houthi Group just officially entered the war.

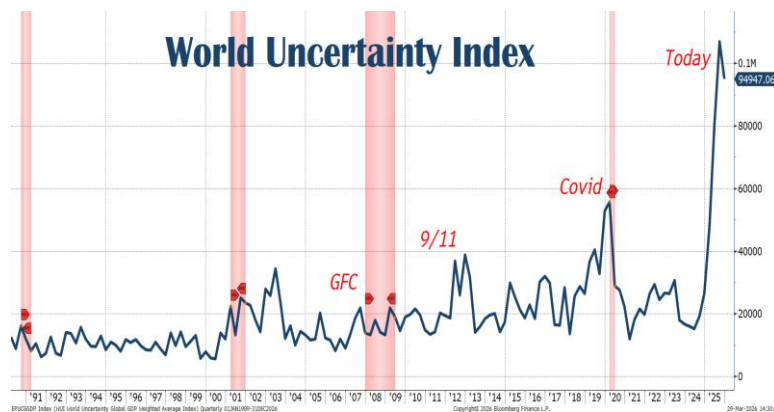
The Houthis did not say they would target tankers transiting the southern Red Sea and the Bab El-Mandeb Strait, but if they do and the Bab al-Mandab Strait closes, global oil supply drops by another ~six million barrels per day.

The Trump administration has been sending mixed signals, proposing peace plans while sending soldiers to the region. Finally, over the weekend, the Washington Post reported that the U.S. Defense Department was preparing for potentially weeks of ground operations in Iran. If so, this will take the war to the next level. For some perspective, Desert Storm took 700,000 troops against a much smaller and weaker Iraq with no drones. If the U.S. tries a limited military invasion, it's going to be an even bigger mess. Iran is prepared. They also have support from China and Russia, and that will be unwavering.

"Trump is unpredictable, so one doesn't know whether he's gaining time to send troops to invade the Strait of Hormuz or to negotiate further...The war could stop anytime and things could return to normal within a few months but one could also end up with oil at \$200 in six months."

— Nicolas Domont, Fund Manager, Optigestio

All of this can be summed up in the World Uncertainty Index, which reached a new all-time high. Higher than the pandemic. Higher than 9/11. Higher than the 2008 financial crisis. This is not some abstract stat. It's the market pricing in real, sustained chaos.



Bottom line: As of today, the conflict has lasted for 31 days. The Trump administration initially thought this would be a 4-6-week war. Armchair generals (some of whom were actual generals) and pundits have offered their opinions as to when and how this excursion will end.

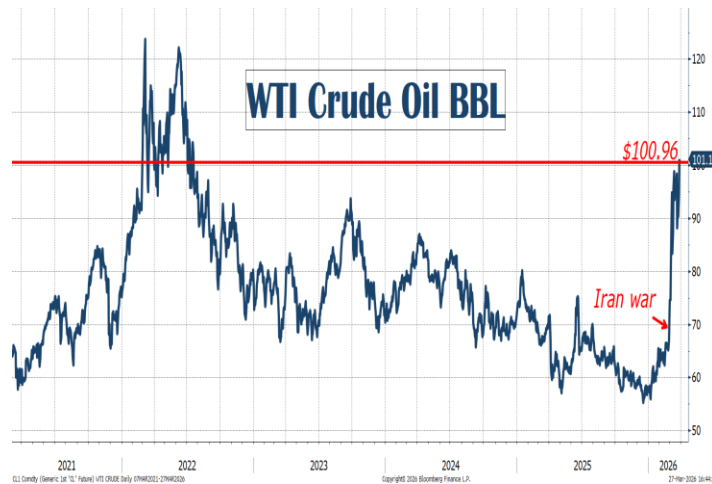
As I have said, no one knows how this war will end, but the sad reality is that what was hoped to be a 4-to-6-week war could wind up being a prolonged affair and a destabilizing global recession.

THE ECONOMY FEELS THE PAIN

Iran's disruption of shipping through the Strait of Hormuz — nearly a fifth of the world's oil passes through the strait — instantly caused energy prices to spike. WTI crude oil jumped by 30% to over \$100 a barrel.

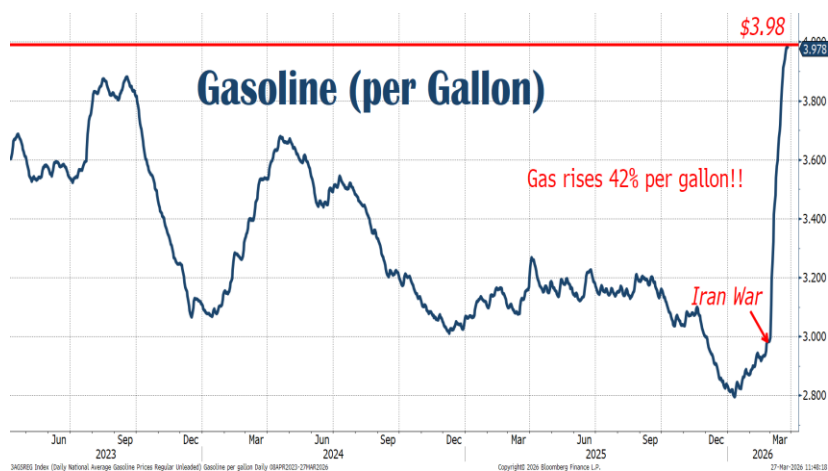
Geopolitical strategist Marko Pasic of BCA Research pulled together an estimate of the sources of supply and their blockages. For now, through roughly April 19, Pasic estimates the world has lost 4.5-5 million barrels a day of oil from the war, amounting to about 5% of global supply. But he writes in a research note sent out this week, “That number will double by mid-April, becoming the largest loss of crude supply.”

The world will hit an oil cliff in mid-April, in Pasic’s estimation, because supplies from the strategic petroleum reserve as well as Russian and Iranian oil exempted from sanctions will run out. There is no substitute for pumping oil from the ground and sending it directly to clients.



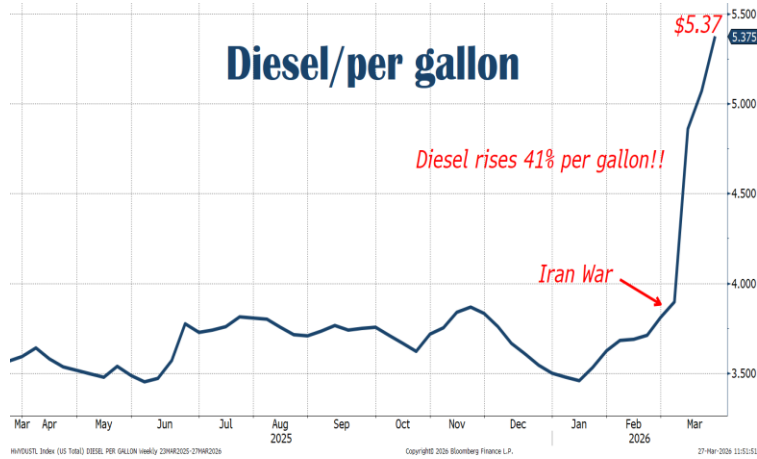
But the ability of the oil industry to return to delivering its product is also in question. When energy infrastructure gets damaged, it does not flip back on like a light switch, and when oil stays expensive for months, it raises the price of almost everything that gets made, shipped or heated.

Undoubtedly, anyone who has gone to the gas station is now experiencing firsthand the impact of this conflict. Gasoline has jumped +42% since the conflict began.

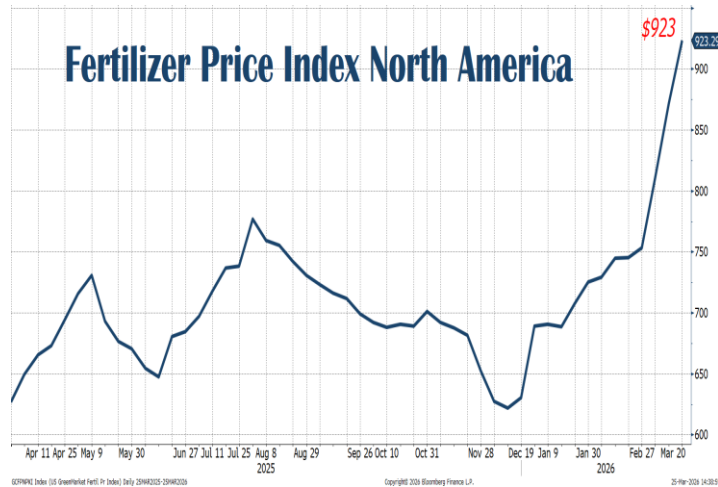


Moving on. The average gallon of diesel crossed \$5.34 nationwide and has soared an unprecedented +43% in just a month, which will undoubtedly ripple throughout the broader supply chain and may well trigger a wave of bankruptcies in the small-trucking industry. It typically takes three months for diesel costs to show up in food prices — keeping in

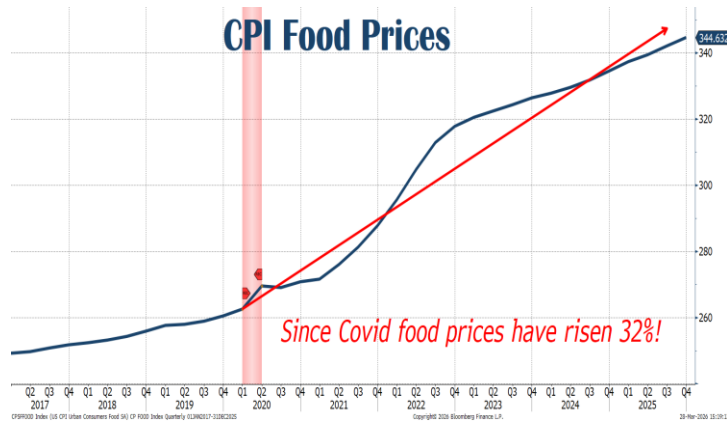
mind that the agriculture industry relies heavily on diesel to fuel tractors and combines (and to truck produce to markets).



The timing of this war has impacted on the supply of fertilizer (~one-third of all global seaborne fertilizer trade goes through the strait of Hormuz), just ahead of the spring planting season. As shown below, fertilizer in North America has risen by 25% since the start of the war.



This means that the energy price shock will be joined by a food price shock. That is doubly important for the household budget (especially for the low-end). But this is the sort of “inflation” that is really a tax on real consumer purchasing power, and hopefully the brass at the Fed have that figured out. Have a read of [“The Iran War’s Other Energy Shortage — Food”](#) in the *Wall Street Journal*.



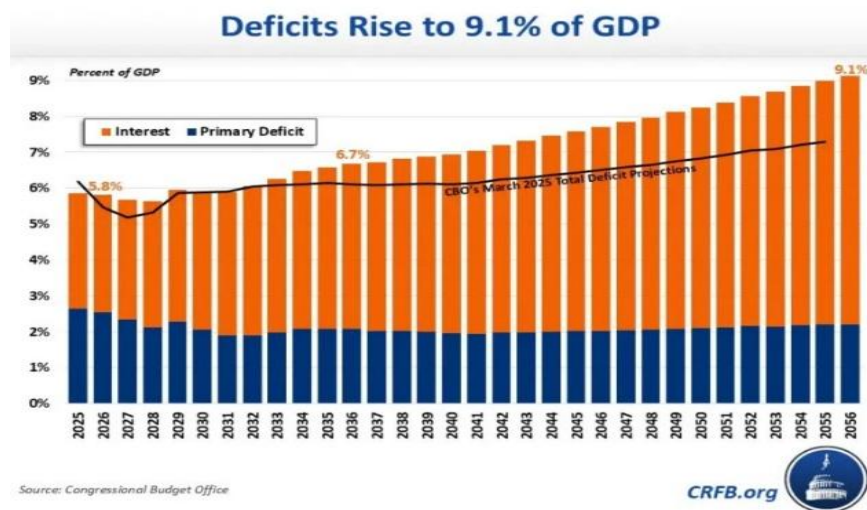
Bottom line: Energy and food prices are going to pinch the consumer harder and harder. There goes the affordability theme.

WAR AND DEBT

Meanwhile, the *Wall Street Journal* penned an article titled [“Is the Next War Casualty America’s Balance Sheet?”](#) To wit, the public debt crossed the **\$39 trillion** mark and nearly in the blink of an eye, too. Just four years ago, our debt was **\$29 trillion**, and nine years ago it was at the **\$19 trillion** mark. During Trump’s first term, the public debt grew by a staggering \$8 trillion and already another \$3 trillion has been racked up during his second go-round.

Stated differently, the self-proclaimed “King of Debt” has surely earned his place in history books. **The \$11 trillion new debt on his watch to date already accounts for 28% of all the public debt incurred in America since George Washington!**

Then again, we have not seen the debt impact of the One Big Beautiful Bill Act and the financial bloodbath in the Persian Gulf. To wit: Each day the war goes on, it adds around \$500 billion to the deficit (a +1.5 % boost to the deficit-to-gross domestic product (GDP) ratio, which would take it back to 7%, the highest since the impact of the pandemic back in 2021. So much for the gains from all that tariff revenue that came in this past year.



Based on the Congressional Budget Office's latest long-term projections, the U.S. is on a path toward annual deficits of **9.1%** of GDP by mid-century and public debt equal to **175%** of GDP. That computes to a **\$9.0 trillion annual deficit** by 2056 and outstanding public debt of **\$170 trillion!**

Moreover, the overwhelming cause for this potential deficit explosion is the compounding effect of ever higher interest expense. As the debt level of \$30 trillion today persistently cranks toward the said \$170 trillion by the end of the period, the carry cost becomes impossible. Indeed, have a look at the orange area of the bars above, which tells you all you need to know about the debt-interest-deficit-debt spiral now underway.

Bottom line: Surpassing \$39 trillion in gross debt is an embarrassing milestone that both parties have helped build over decades, and neither seems particularly interested in addressing it before we hit \$40 trillion. Sad!

AFTER THE MISSILES STOP FLYING

While the war remains the front-page news, there are other shocks hitting the economy. The credit shock from private debt and equity is still building as concerns over asset valuation declines have triggered a wave of redemptions, forcing fund managers to restrict withdrawals. To wit: Last week, Apollo was the latest to cap withdrawals at 5% of outstanding shares, following in Blackstone's footsteps.

At the same time, software stocks have fallen 35% from their peak, largely due to concerns that artificial intelligence (AI) may render traditional software as a service (SaaS) products obsolete, especially those for single tasks, content creation or data analysis.

Many SaaS companies also depend on private debt financing, and now a record \$25 billion in software-sector loans are trading below distress thresholds, indicating high default risks as debt costs remain elevated, according to SaaStr.

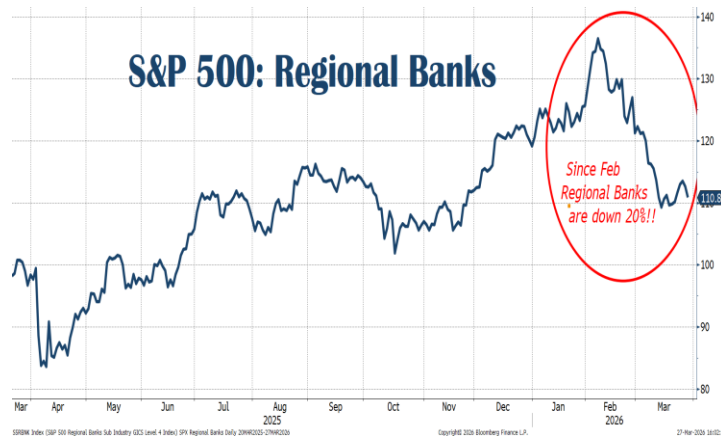


And it's not just the small cap software companies that have been under pressure. Take a look at the recent performance of Microsoft shares.

Microsoft has been pouring tens of billions into data centers, graphics processing units (GPUs) and AI capacity. Microsoft has increased capital expenditures to ~\$146 billion in fiscal year 2026, roughly double last year. Markets are now questioning payback timelines. This has flipped the narrative: Heavy spending now looks like funding a liability, not growth.



Regional banks have experienced significant declines, falling 20% over the past two months. These institutions had increased lending to non-bank financial entities, which subsequently lent to private firms, resulting in a "\$300 billion" exposure for U.S. banks to private credit companies. Furthermore, regional bank stocks have decreased markedly due to commercial real estate (CRE) risk, recent fraud allegations at banks such as Zions and Western Alliance, and losses related to subprime auto lender failures, including Tricolor Holdings.



The ripple effect throughout the economy has been quite telling as consumer finance stocks e.g., American Express, Capital One Financial and Synchrony Financial are down significantly — with many falling over 20-40% year to date — due to fears of a weakening economy, rising credit risks (defaults) and high interest rates pinching consumers.

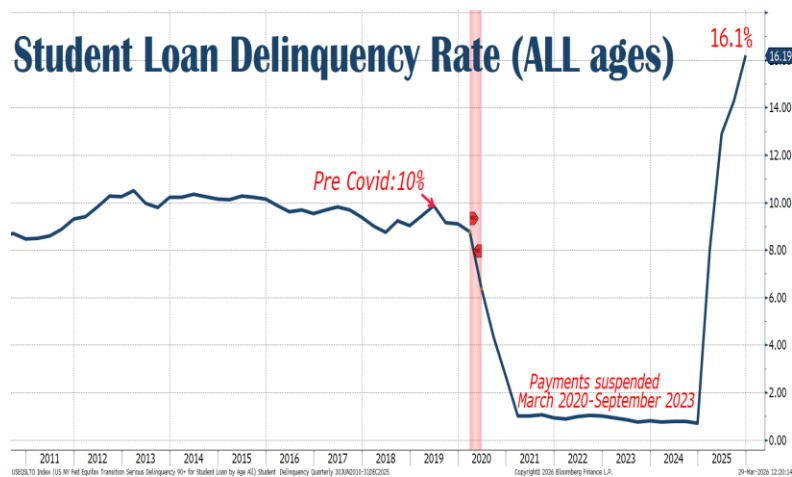


THE SECOND SHOCK

No one can say with certainty whether AI will ultimately create more jobs than it destroys, but in the here and now, it is a downpour on the employment parade.

- Indeed Hiring Lab's data shows job postings most exposed to vanishing due to AI. To wit: Job postings for data analytics are down (-31%), marketing postings are lower by (-25%), software development openings have declined (-15%), and accounting postings are -13% lower than compared to pre-pandemic days.
- In Q4 2025, just 28% of U.S. employees said it is a "good time" to find a quality job, the lowest in at least four years, according to the latest Gallup survey. This percentage has fallen -42 points since Q2 2022.
- College-educated workers were the most pessimistic, with only 19% of degree-holders saying it is a "good time" to find a quality job, down from 73% in Q2 2022.
- College graduates are dealing with unemployment rates close to 6.0%.
- Harvard University's survey uncovered that nearly 60% of young Americans see AI as a looming threat.
- One in four Americans worries their job could evaporate within five years — a statistic sure to make any worker reconsider their backup plan (professional dog walker, anyone?).
- Workers without a college degree followed, at 35%, the lowest percentage in four years.
- Younger workers were the least confident, at 20%, compared with 41% of those aged 65 and over.

Meanwhile, student loan delinquency continues to haunt borrowers, with the delinquency rate reaching an unprecedented 16%, with defaults totaling a jaw-dropping \$181 billion.



Bottom line: Although the U.S. added 156,000 jobs over the past year, healthcare did all the heavy lifting with 364,000 new positions. Removing healthcare from the equation, the rest of the economy is dropping jobs like hot potatoes. This isn't a full-blown recession yet, but the disruptive ripples of AI are already sending waves through the labor market, no matter what optimists say. The robots aren't just coming — they're here, and they're starting to take names and roles. Those retraining as nurses may sleep easier at night, but for most workers, the labor market feels more uncertain than ever.

BEFORE THE WAR, ECONOMIC GROWTH FALTERS

“The market is worried about inflation, but the risk to growth is much bigger.”

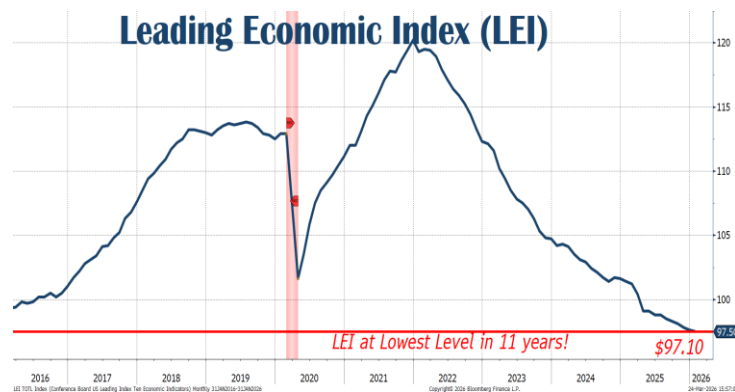
— Luca Paolini, Chief Strategist, Pictet Asset Management

If one thing is clear, it is that the U.S. economy was already slowing down before the Iran war. The Chicago Fed’s National Activity Index, which covers eighty-five economic indicators (that’s a lot of indicators!), fell by -0.11% in February. This comprehensive measure has been below zero in six of the last seven months.



Even with more data centers popping up everywhere, overall U.S. construction spending dropped by -0.3% month over month in January. Residential project spending took a nap at -0.8%, while nonresidential expenditures remained flat after three months of decline, led by manufacturing construction — down for 12 straight months.

Another important economic release was the Conference Board’s Leading Economic Index (LEI), which slipped by -0.1% in January, hitting its lowest point in 11 years. The LEI hasn’t taken a step upward since November 2024. So even before the war and government stimulus measures, 2026 economic risks were piling up like dirty laundry.



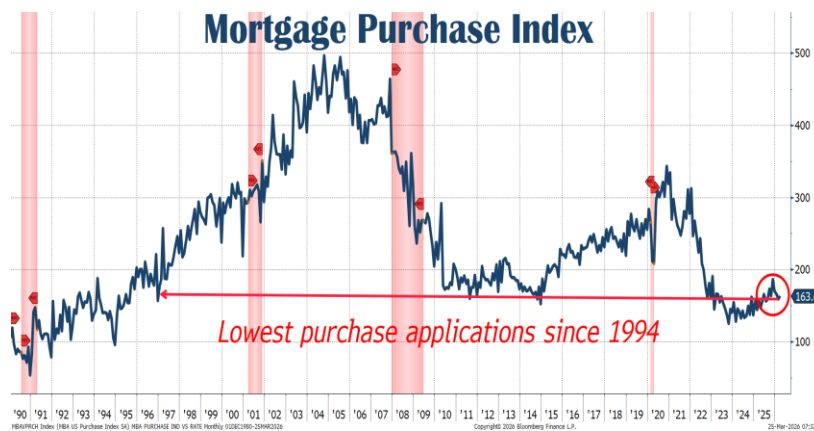
HOUSING WOES CONTINUE

Housing plays an essential role in the United States economy, contributing approximately 15-18% of GDP, serving as a major engine for job creation and constituting the primary source of household wealth. The sector functions as a key

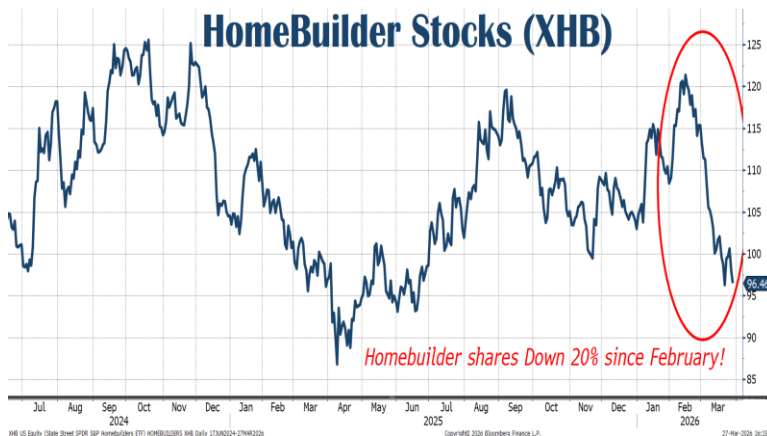
driver of consumption through construction, remodeling and real estate services while also exerting direct influence on consumer spending, financial stability and workforce mobility.

As we head into the key spring selling season, the 30-year mortgage rate has jumped to 6.50%, a five-month high. While stating the obvious, this is not good news for the moribund housing market. To wit: Mortgage applications to purchase a home (a forward-looking indicator of home sales) fell in the current survey week for a miserably low beginning of the year and remain near rock-bottom levels, down by 35% from the same period in 2019.

The mainstream media is writing articles about how higher mortgage rates and the war are killing the "housing recovery." But that's wrong. Homebuyer demand remains near its lowest level on record and has not improved at all over the last four years. This has nothing to do with the "excursion" or higher mortgage rates in the last month. It has to do with sky-high prices. Bring those down, and demand will shoot up.



Regardless, a big casualty from the U.S. bond yield backup is the housing market. The homebuilding stocks have responded in kind, now in a bear market, having slid -20% since mid-February.

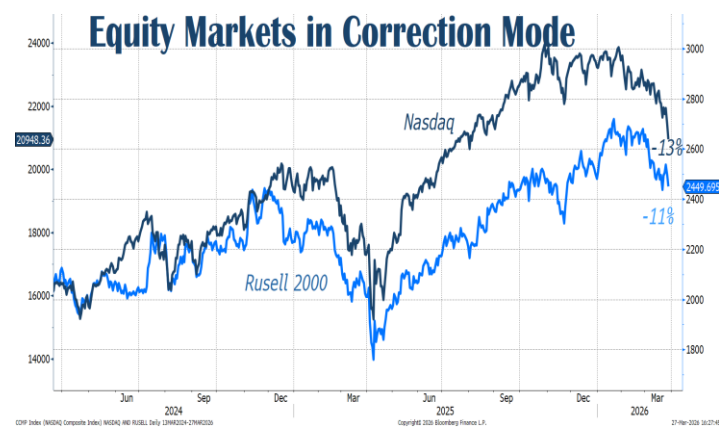


NO PLACE TO HIDE

As for the investors, this is a perfect storm where virtually no tools or wartime playbooks are working. The S&P 500 closed below the March 20 low (breaking further away from the 200-day moving average and now down -9% from the all-time high and back to where it was in early July). With the exception of energy, virtually every sector in the stock market from health care to tobacco has declined. What does tobacco have to do with war?



The Nasdaq Composite joined the small cap Russell 2000 in correction territory.



Meanwhile, the problem is that now, like in 2022, stocks and bonds are highly correlated, so there are no diversification benefits to investing in bonds. In the wake of last week's trio of Treasury debt auctions (\$183 billion in total), which all went poorly in terms of investor participation, selling pressure on bonds continued. The benchmark 10-year Treasury yield is at 4.44%, back to the highest level since July 2025!



And to make matters worse, gold is now correlated to bonds and stocks. Who would have expected gold to plunge 15% on a war?



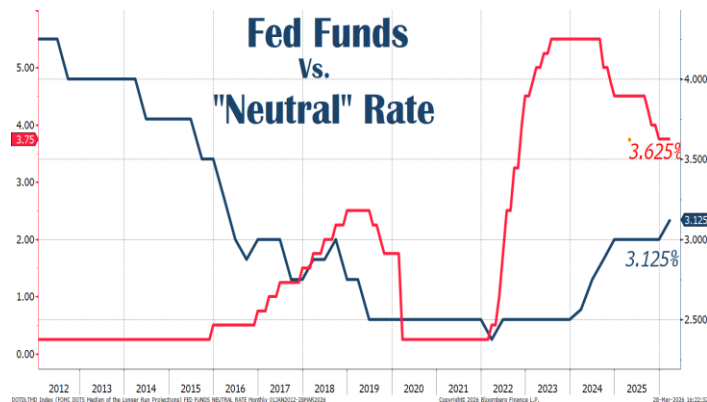
Bottom line: This has been a rough few weeks for investors with interest rates are on the rise, and the stock market is looking wobbly. Really, the only place to hide has been in cold hard cash, energy or a commodity index.

MARKET OUTLOOK AND PORTFOLIO STRATEGY

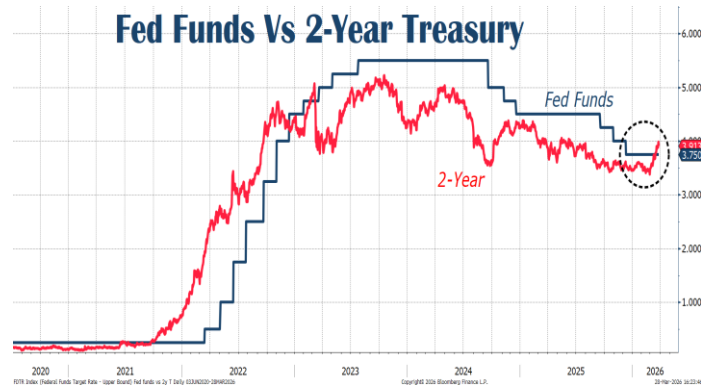
Several Fed officials are talking as if they are prepping to adopt a *de facto* “tightening bias.” At the same time, the swaps market is now priced for no rate cuts through 2027, and front end of the yield curve believes that there is a 35% chance the next move by the Fed is a rate hike. That is nutty, but this is happening, nonetheless. **I would aggressively fade that view.**

Now have a look at the op-ed piece in the *Wall Street Journal* titled [“Can the Federal Reserve Please Shut Up?”](#) It is hard to believe that all these PhD economists don’t realize that growth risks outweigh inflation risks.

Above all, it’s important to note that at 3.625%, the fed funds rate stands 0.5% higher than the central bank’s most recent estimate for the “neutral” rate.



Moreover, the spread between the two-year and the policy rate is now the highest in three years, implying more tightening to come. That said, markets have a long history of mispricing Fed policy, and this is potentially a prime example.



War-driven uncertainty, volatile credit spreads and mixed business sentiment contribute to implicit tightening. When combined with the implicit tightening in conditions from rising financial market stress, I believe that the markets are overestimating how much tightening will be needed to manage inflation in most of the likely scenarios.

If the war ends in peace talks that are successful, and oil normalizes below \$85 for WTI, I expect to see many of these priced-in hikes disappear. That, combined with further labor market weakness, housing already on the rocks and tight monetary conditions could set the stage for the policy rate moving back towards neutral in late 2026 — perhaps even below that level if unemployment climbs above the Fed’s median projection of 4.4%.

Bottom line: There are too many unknowns to have a strong conviction as to what comes next. What we do know is that over the past six weeks, real GDP growth and the job market have both fallen short of expectations. Rising gasoline prices, higher mortgage rates and emerging issues in private credit and equity markets are contributing to the slowdown.

In uncertain times like this, one cannot be blamed for wanting to hold excess cash reserves. However, one should not become too shortsighted. Given the fast-moving developments and the distinct possibility of sharp reversals in the commodities, bonds and equities in the coming days or weeks, a more prudent approach is to ride the storm out by maintaining a risk-appropriate ladder strategy.

WHY SUBSCRIBE TO THE WRV?

The financial world and social media are often crowded with opinions and commentary about the markets and economy. I focus on filtering out the usual noise, rhetoric and optimism that tend to emphasize potential rewards but often overlook related risks — a recurring issue in Wall Street research. My analysis strives to move beyond misleading narratives, critically evaluate headlines and deliver comprehensive reviews of financial market movements and economic realities. While some may consider this approach too cautious, I see it as similar to a mechanic double-checking all safety features — recognizing and understanding risk is vital and must not be ignored. This dedication sets the *Weekly Relative Value (WRV)* publication apart. Subscribers receive timely updates on important trends in the economy and markets, as well as key risks. To get future issues of the *WRV* sent straight to your inbox, please subscribe [here](#).

MORE INFORMATION

For more information about credit union investment strategy, portfolio allocation and security selection, please contact the author at tom.slefinger@alloyacorp.org or (630) 276-2753.

As Alloya's Market Strategist, **Tom Slefinger** leverages nearly 40 years of investment strategy expertise to deliver insightful commentary on the economy and market events to optimize balance sheet performance at the credit union level. With thousands of subscribers, Tom's daily and weekly publications are widely read amongst credit union executives.

Prior to becoming the corporate's Market Strategist, Tom served as the Senior Vice President of Institutional Fixed Income Sales at Alloya Investment Services, a division of Alloya Solutions, LLC. In this role, Tom developed and managed operations associated with institutional fixed income sales in addition to developing investment portfolio strategies, identifying appropriate sectors and securities, and optimizing portfolio performance at the credit union level.

Tom holds a B.S. in business administration from the University of Maine. In addition, he holds a Series 7 and 63 through ISI.

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