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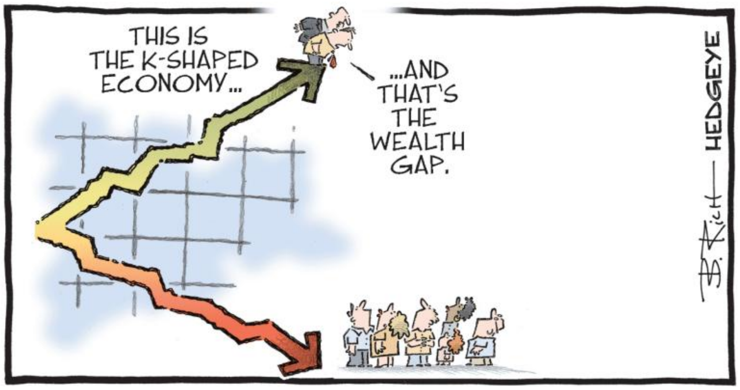
Market Strategist

Weekly Relative Value

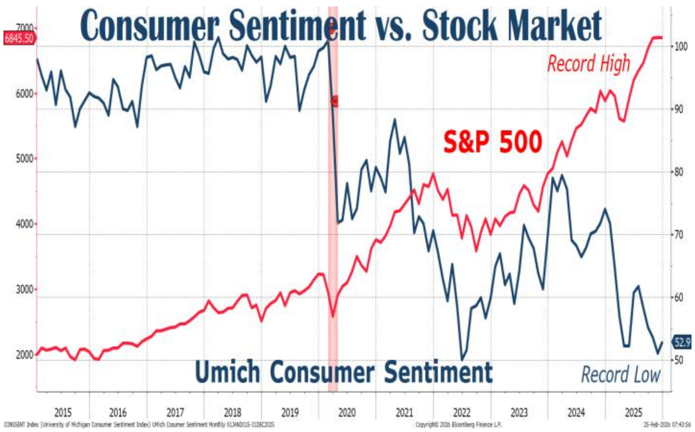
WEEK OF MARCH 2, 2026

K-Shaped Confidence

Last week, both the University of Michigan and Conference Board released consumer sentiment surveys. Their main finding was that America's K-shaped economy persists due to rising wealth inequality: The top 20% own 90% of equity assets while the bottom 20% own none. Asset prices have outpaced inflation, but those without assets depend on stagnant incomes that don't keep up with living costs.



Returning to the surveys, first up was the University of Michigan Consumer Sentiment Index. As illustrated below, consumer sentiment remains near historic lows, despite the stock market reaching record levels. Although February's index shows modest improvement over January's notably low reading of 56.4, it still ranks within the lowest 3% historically.



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THIS WEEK

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- HOUSING IS DISINFLATIONARY
- MORE ON THE SUPREME COURT RULING
- STATE OF THE UNION
- PRODUCER PRICE INDEX COMES IN HOT
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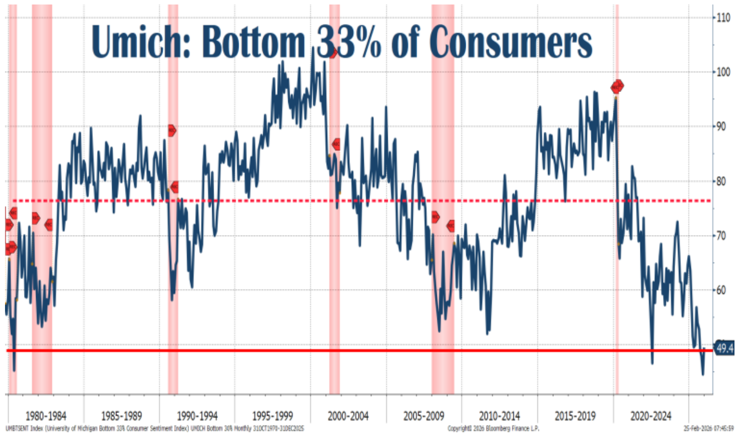
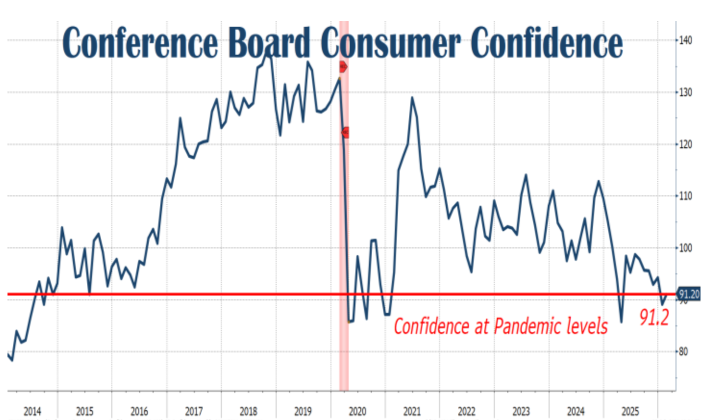
The K-shaped economy theme was alive and well, with low-end consumer sentiment dropping to 45.8 from 50.9 — the third-lowest level ever — while high-income household confidence rose to a seven-month high of 64.9 in February. The nearly 20-point gap is close to the historical maximum.

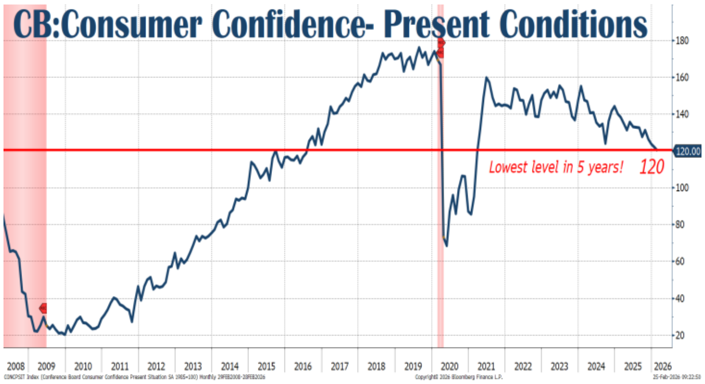


Recent data shows one-year inflation expectations dropped to +3.4% — the lowest since January 2025 — and have declined for six straight months, while the 5-10-year forecast remains at +3.3%. However, Fed hawkishness has cooled household optimism, with only 35% now expecting rates to fall next year, down from 43%, matching last July's low when labor market figures worsened.

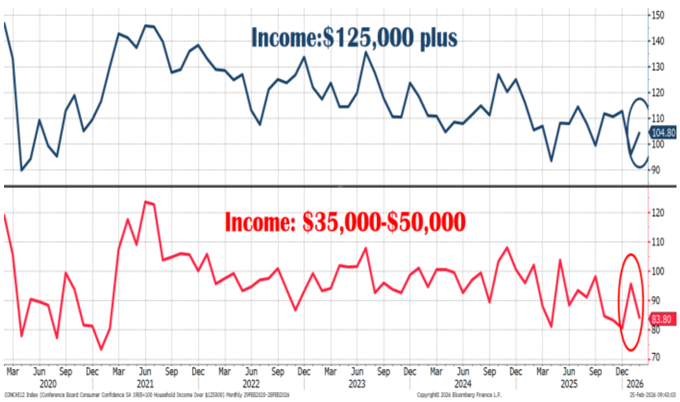
Meanwhile, the Conference Board's February consumer confidence survey reported 91.2, slightly above expectations but still revealing negative sentiment about current conditions.



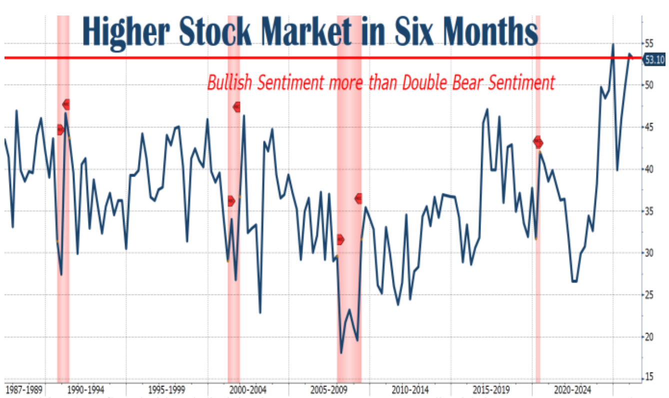
Assessments of the present situation fell to 120.0, now at the lowest level in almost five years. This is hardly an optimistic report.



Similar to the UMich Consumer Sentiment Survey, confidence levels demonstrated significant variation across income groups as the K-shaped economic trend continues. Among individuals with incomes exceeding $125,000, confidence increased from 96.1 to 104.8. In contrast, the lower-middle income group ($35,000 to $50,000) experienced a decline in confidence from 95.6 to 83.8.



Stock market expectations remain highly optimistic, with 53.1% predicting gains in 12 months and only 25.7% expecting losses. This positive outlook supports future sentiment, but if it falters, sentiment may decline sharply.

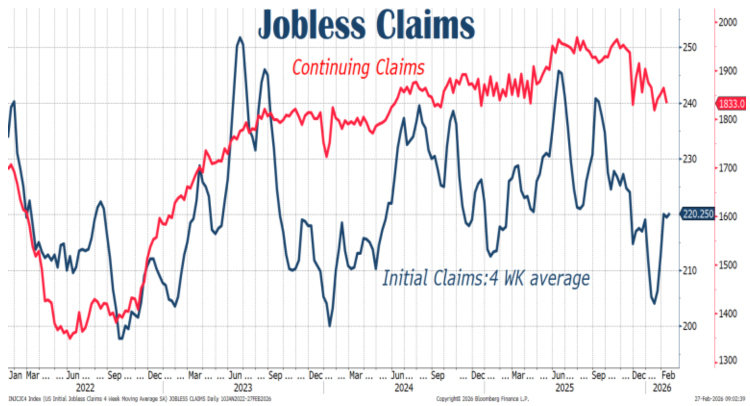


Bottom line: Asset values play a critical role in the economy. If there is a significant decline in real estate or stock markets, consumer sentiment will likely worsen, leading to reduced consumer spending and, ultimately, a slowdown in economic growth.

IS ARTIFICIAL INTELLIGENCE (AI) A JOB KILLER?

"If you've spent time with tools like Claude Code or Codex, you can see how smaller teams really can ship more…The risk to white-collar work over the next few years is real, and workers, managers and policymakers should be planning for that world now."— Gad Levanon, Chief Economist, The Burning Glass Institute, a labor market research nonprofit that studies AI's impact on jobs.

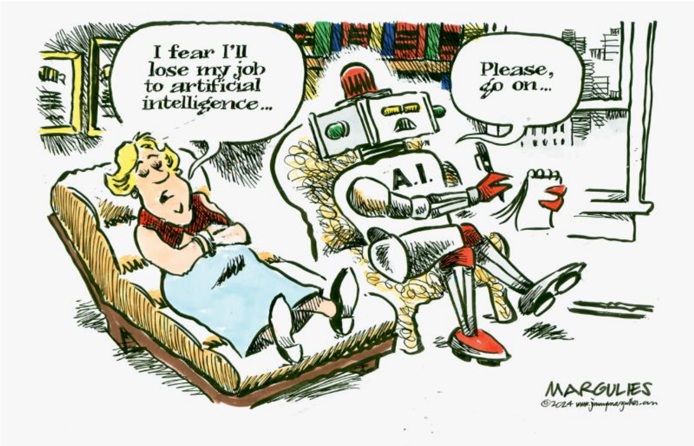
Initial jobless claims rose slightly to 212,000 last week, below expectations. The four-week moving average, which irons out the week-to-week wiggles, was 220,250, roughly unchanged for the past three weeks. Continuing claims dropped to 1.833 million. The labor market remains in a "low-hire, low-fire" mode.



On the surface, the numbers initially appear fine, but below the surface, there are plenty of concerns. Headline jobless numbers exclude recent graduates, the long-term unemployed and those re-entering the workforce.

As depicted below, more Americans now view jobs as "not plentiful" and "hard to get". At the same time, the median duration of unemployment is at a four-year high, and displaced workers are not returning quickly, as companies shift work to AI.

This AI fear was accentuated by a Citrini Research report outlining where AI disruption causes mass unemployment due to AI. One hypothetical scenario showed that ~100 million people may lose their jobs over the next decade.



We can also see the impact of AI on the new college graduates, who are increasingly underemployed (i.e., working in jobs that typically do not require a college degree). Underemployment has major ripple effects and implies smaller lifetime earnings.

The underemployment rate among recent college graduates aged 22 to 27 increased by nearly 4% over the past year, rising from 38.8% at the end of 2024 to 42.5% as of December 2025. This figure matches the highest rate recorded since October 2020, during the peak of the pandemic, and represents the most significant year-over-year change since April 2012.

Bottom line: The typical view of AI is that it boosts productivity and growth by a lot. However, at the same time the term "rising productivity" has rapidly become synonymous with mass future layoffs. Unemployment, unemployment, underemployment and wage data all point in the same direction: AI is going to upend the labor market for years to come, with higher unemployment and job market churn.

Moreover, AI-driven job changes lead to lower wages and prices, resulting in disinflation. **These trends indicate that short-term interest rates should fall, making it hard for the Fed to keep rates high during rapid labor market shifts**.

MORE DOWNWARD JOB REVISIONS

"In the second quarter of 2025, gross job losses represented 6.0 percent of private-sector employment…In the second quarter of 2025, gross job gains represented 5.7 percent of private-sector employment. Gross job losses exceeded gross job gains in 9 out of 13 industry sectors in the second quarter of 2025. ***The service-providing industries experienced a net job loss of 224,000. The goods-producing industries had a net job decrease of 97,000." —*** *Excerpted from the Quarterly Census of Employment and Wages (QCEW).*

The updated 2025 Q2 Business and Economic Development (BED) data show a net loss of 321,000 private-sector jobs — the largest drop since Q2 2020. In contrast, Current Employment Statistics reports a gain of 526,000 for the same period. Because of sample size and response considerations, the BED numbers are more reliable. The economy is now losing jobs faster than it is adding them. I'm surprised Governor Waller wants to wait for more signs of labor market weakness before cutting rates, especially since the data he's using has been overstated.

Bottom line: Clearly this Fed is not a proactive Fed and will likely wait until the data forces its hand. That said, if history is any guide, they'll wait and wait and then, they will cut like they mean it.

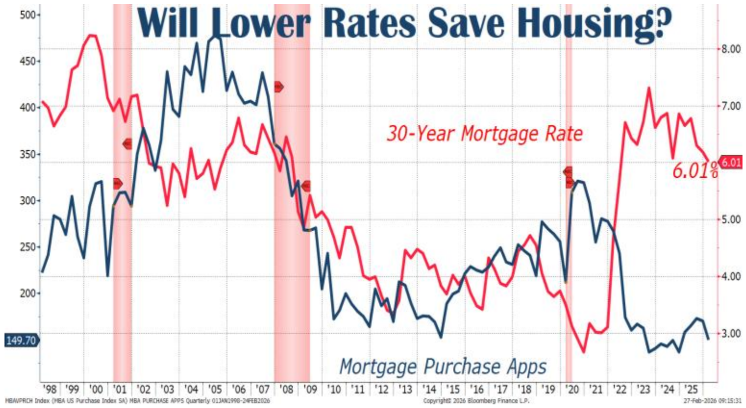
I continue to believe that the Fed will lower rates again and more aggressively than the dot plots suggest, but only when disinflation accelerates and labor market conditions weaken even more than they have.

HOUSING REMAINS IN THE DOLDRUMS

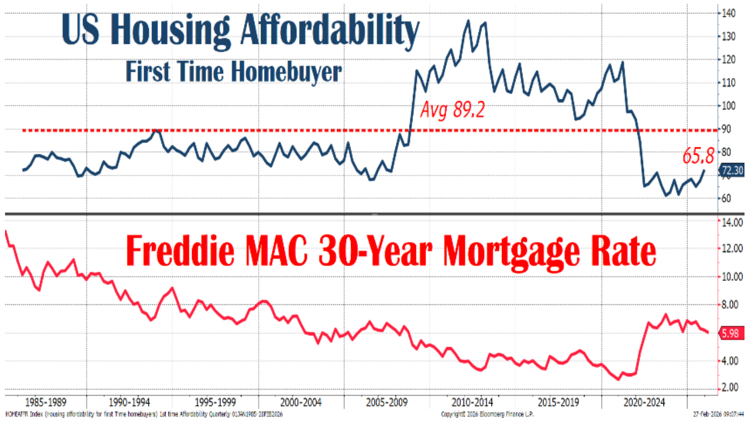
Owning a home in the current 2024–2025 landscape is increasingly viewed as a major accomplishment comparable to "winning the gold medal."

Mortgage rates are at their lowest since September 2022, but mortgage demand has dropped to a 10-month low. The Mortgage Bankers Association's Mortgage Purchase Index is at 150, down 57% from the pandemic peak and 40% below 2018-2019 levels, marking a significant decline in homebuyer activity.

The 30-year fixed-rate mortgage has declined to below 6% for the first time in more than three years. This is an important psychological level that hopefully will help support the long-suffering housing sector, which has entered a recession of its own in recent quarters.



While lower rates will unquestionably help, affordability no longer matches previous levels. To wit: Even with mortgage rates at 6%, home affordability is still ~27% below the long-term average.



In addition, corporate CEOs openly state that white-collar jobs won't be necessary, with others acting on this sentiment by enacting 40% layoffs. I'm talking to people every day who have good jobs but are skeptical that their job will exist in five years. And for good reasons. Jack Dorsey is saying the quiet part out loud and going on record stating that he thinks "a majority of companies" will follow suit in the next year. That's wild. Block's stock jumped over 20% in response, indicating that Wall Street traders loved it. If this becomes a "provable" model for success, other companies will follow suit.

Even though home prices have stopped rising and rates have come down, prospective home buyers are second-guessing the wisdom of making a huge purchase when there's a fear in the back of their mind about the state of the economy, the unknowns around AI and the uncertainty of their finances. That's particularly true when they're first-time buyers who don't have equity from a previous home sale, and they're using most or all their savings on a down payment.

Who would want to buy a house right now?

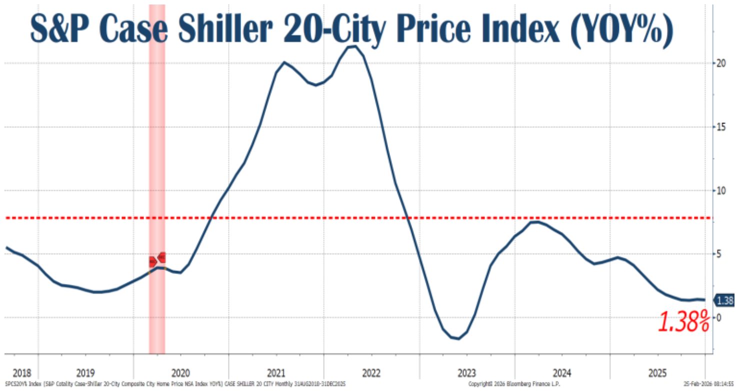
Meanwhile, data show that buyers are at a record low of 1.36 million, while sellers have quickly risen to nearly two million. It would now appear that many who secured 2-3% mortgages during the pandemic are now selling, often due to job losses, divorces or relocations. However, buyers have largely disappeared for understandable reasons.

HOUSING IS DISINFLATIONARY

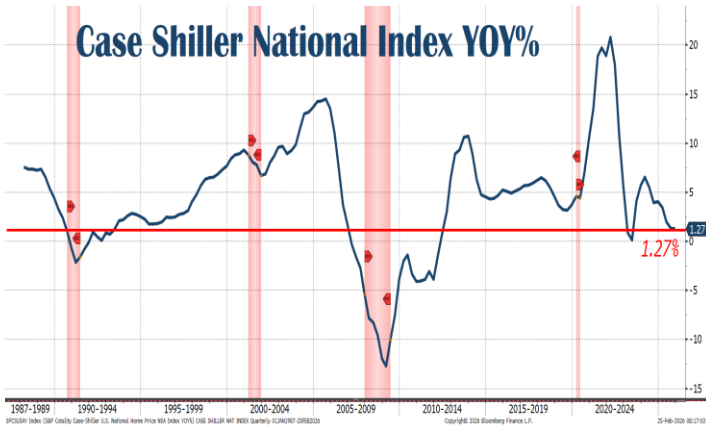
"We continue to see pressure from consumer uncertainty and frozen housing conditions. Our customer who is the homeowner remains among the healthiest consumer cohorts, but they do tell us uncertainty is impacting their desire to spend on the home. They have concerns over affordability and job losses."
— Richard McPhail, Chief Financial Officer, Home Depot

"Our outlook for 2026 remains cautious given the persistent volatility in the housing macro […] This uncertainty continues to pressure big-ticket discretionary [do-it-yourself] projects, as many consumers are reluctant to make significant investments in their homes." — Marvin Ellison, Chief Executive Officer, Lowe's

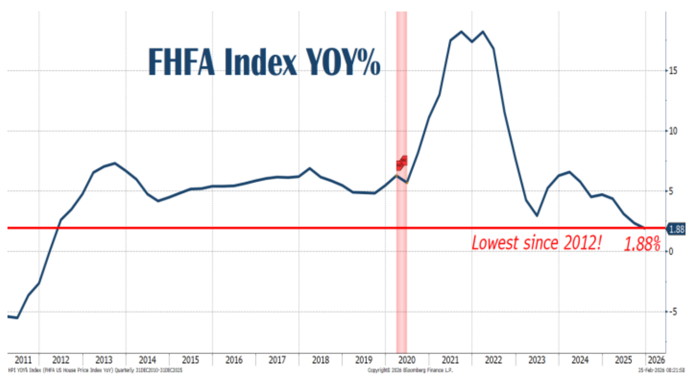
The U.S. housing sector is still in the doldrums overall, but the Case-Shiller 20-city Composite rang in slightly higher than expected in December, at +0.5% month over month for the second consecutive month. The year-over-year trend came in at +1.4% and modestly beat consensus views of a +1.3% slowdown. That compares to a year-over-year trend of +4.5% a year ago and +6.3% two years ago.



On a national basis, home price gains have declined significantly. Year over year, home prices have risen by just 1.27%, ***the weakest full-year gain since 2011.***



The Federal Housing Finance Agency (FHFA) House Price Index showed a weaker pulse in December, up just +0.1% month over month (vs. +0.7% in November). That sends the year-over-year trend in that index to +1.8%, the lowest since March 2012.



Bottom line: For 2025 as a whole, the three indexes tell the same story: Housing supply is still outstripping housing demand. All in all, there should be no inflationary concerns stemming from the housing file.

MORE ON THE SUPREME COURT RULING

Returning to the Supreme Court decision, the many trade agreements of 2025 began with tough International Emergency Economic Powers Act (IEEPA) tariffs, which the U.S. Supreme Court has now invalidated. (Refer to last week's *Weekly Relative Value* for additional information.) President Trump responded by imposing a new 15% blanket tariff for 150 days under section 122; however, its temporary nature and capped rate make section 122 far less potent than IEEPA. With diminished leverage, signing countries no longer have strong incentives to comply. As a result, the investments promised in these deals — primarily frameworks — are likely to disappear, potentially impacting equity markets moving forward.

Below is a summary of those agreements and their anticipated changes. Despite their shaky foundations, equity markets previously saw them as significant bullish factors:

- The European Union: Initially threatened with tariffs up to 30%, ultimately agreed on 15% and committed $1.35 trillion in investment and energy purchases.
- Japan: Originally facing 25% tariffs, settled for 15% and pledged $550 billion in investments.
- The United Kingdom: Confronted with 25-50% tariffs for certain goods, secured a 10% rate but now faces the same 15% blanket tariff, making it one of the biggest losers from these developments.
- South Korea: Faced a 25% threat, accepted 15% along with a $350 billion investment vow.
- Taiwan: Under threat of 20-30% tariffs, settled for 15%, promising $250 billion.
- Switzerland: Threatened with 39%, agreed to 15%, and pledged $200 billion.
- India: Confronted with 20-30% tariffs, took an 18% rate and pledged $500 billion.
- Vietnam, Indonesia and the Philippines: All faced threats of 20-50% tariffs and settled for rates between 15-20%, without major investment commitments.

Section 122 has not been previously invoked, as these tariffs may only be applied under circumstances defined as "fundamental international payments problems." The reason Section 122 tariffs have not been utilized until now is that, since the 1970s, we have operated in a system of floating exchange rates; by definition, this precludes the existence of such "payments problems."

The president cites high "trade deficits," but Section 122 addresses the "balance of payments," which always balances in a floating currency system. The U.S. current account deficit is matched by a capital account surplus, so there is no balance-of-payments issue.

Bottom line: Only time will tell, but from my perspective, the recent move to impose 122 tariffs is likely to trigger a surge of new lawsuits. (There are already 2000 lawsuits against the White House.) Moreover, if Congress decides to prolong these tariffs beyond 150 days, it should seriously reconsider its judgment. Over the past year, either breaking the law or misinterpreting it appears to have become commonplace.

STATE OF THE UNION

"There are two ways to enslave a country. One is by the sword. The other is by debt." – John Adams

At the end of Q4, the U.S. national debt reached $38.51 trillion, having soared by yet another $2.30 trillion over the 12 months in the calendar year 2025, or by 6.3%. In Q4 alone, the debt rose by $877 billion, or by 2.3% from Q3. The U.S.

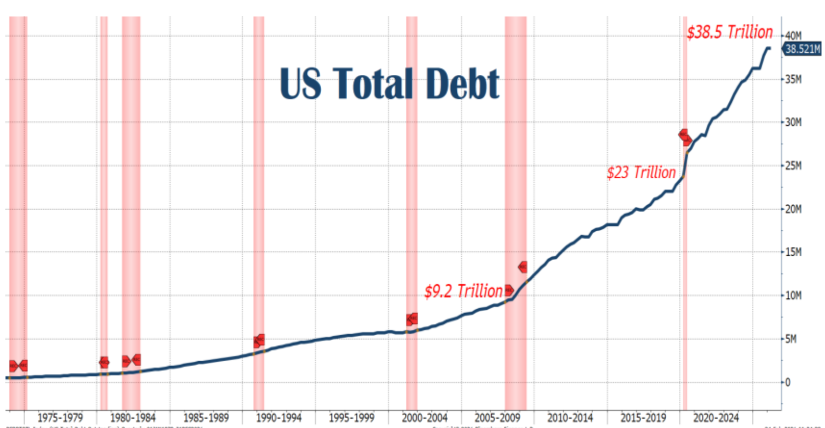
debt-to-gross-domestic-product (GDP) ratio rose to 122.3% at the end of Q4, the highest since Q1 2021, as the pandemic spike was winding down.

The debt-to-GDP ratio is the total Treasury debt at the end of the quarter in dollars, not adjusted for inflation, divided by the annual rate of "current dollar" GDP in dollars for that quarter, also not adjusted for inflation. The debt-to-GDP ratio rose because the debt increased by 2.3% in Q4 from Q3, while current-dollar GDP increased by only 1.3%.

For the whole year, the debt increased by 6.3%, and current dollar GDP increased by 5.6%. In other words, $38.51 trillion in debt meets $31.49 trillion annual rate in current-dollar GDP. If the debt increases faster than current-dollar GDP, the debt-to-GDP ratio continues to rise.

The debt-to-GDP ratio is important because an economy generates tax revenues that grow roughly with the economy, and tax revenues are needed to service this debt. If the economy grows faster than the debt year after year, then the burden of that debt on the economy begins to lessen. But that's not happening at this point. For now, this growing debt-to-GDP ratio means a more leveraged government, and a higher burden on the economy.

Here for your morbid amusement, the U.S. Treasury debt in a vacuum. It spiked by 88% in seven years, to $38.5 trillion as of Friday. This shows how rapidly the debt has risen. In the year 2000, the federal debt was $5 trillion. Now it's almost $40 trillion! This debt is the actual amount in Treasury securities that the U.S. government owes and cannot walk away from. They are either traded in the markets ($28.84 trillion) or are held by government pension funds, the Social Security Trust Fund, etc., that owe their beneficiaries those funds ($7.38 trillion).

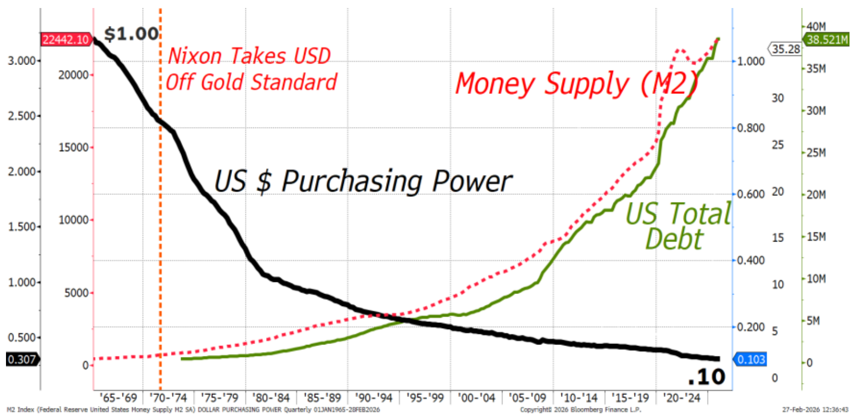


The following is a statement from Maya MacGuineas, president of the non-partisan Committee for a Responsible Federal Budget*:*

> *"Ultimately, the president's agenda thus far has added significantly to the national debt, and we will be spending even more because of our past refusal to pay for our priorities. Interest payments on the debt will total nearly $17 trillion between now and 2036; annual payments will rise from more than $1 trillion this year to more than $2 trillion by 2035."*

Last year, the federal government fired 9% of its workforce, the largest peacetime reduction ever. Spending still went up $7 trillion total. That's because the entire federal payroll is less than 5% of total spending. You could fire every bureaucrat in Washington and 95% continues autopilot: Social Security, Medicare, interest on the debt. None of it requires a vote. The checks just go out.

Meanwhile, the spending keeps going, the borrowing keeps going and the dollar keeps losing purchasing power.

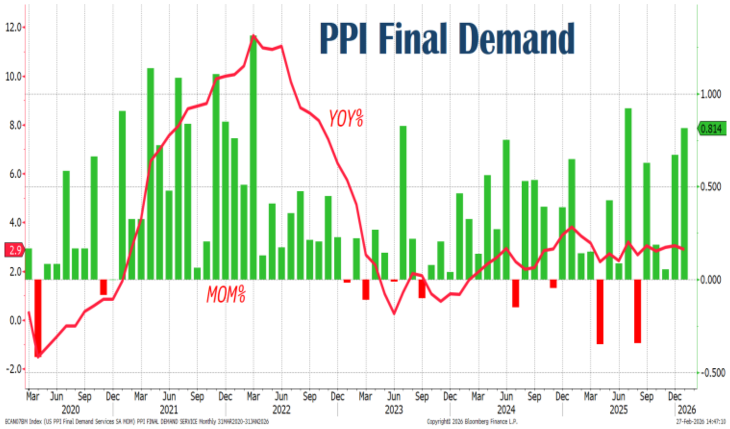


Bottom line: The United States faces a debt issue created by both parties, requiring bipartisan cooperation to solve. Leaders should aim for targets like a 3% deficit-to-GDP ratio, prevent Social Security and Medicare insolvency and support a bipartisan commission for solutions. With the nation's 250th anniversary approaching, responsible fiscal action is essential.

PRODUCER PRICE INDEX (PPI) COMES IN HOT

The latest PPI report presented notable increases. The headline index rose by 0.5% month over month in January. The core index, excluding food and energy, advanced by 0.8%, following a 0.6% gain in December.

Year over year, the headline trend moderated to 2.9% from 3.0%, due to base effects, yet remained above the consensus estimate of 2.6%. The more significant core index accelerated to 3.6% year-over-year, up from 3.3%, surpassing market expectations of 3.0%.



The increase in the core producer price rate came mostly from another jump in trade services margins and government purchases, not tariff related.

- Final demand goods: -0.3%
- Final demand foods: -1.5%
- Final demand energy: -2.7%
- Final demand services: +0.8%
- Government purchased goods, excluding foods and energy: +1.9%

This does not represent a broad-based inflation reacceleration. The increase was primarily driven by margins, with final demand excluding trade services remaining unchanged at 0.0% month over month. Additionally, upstream deflationary pressures are evident, as unprocessed intermediate goods have declined by 6.1% year over year. Additionally, the core consumer deflator rose only 0.2%, reaching the lowest level since last June.

Bottom line: This is why the bond market did not react negatively. The bond market is realizing that most of the price impact from tariffs is fading. Overall, this provides comfort for bond market optimism.

MARKET OUTLOOK AND PORTFOLIO STRATEGY

"The question is how is AI going to be inflationary and maybe the long end of the curve is sniffing all of this out*… The only inflationary aspect of AI is the building out of data centers and the associated energy needs, and that is known." – Jack McIntyre, Portfolio Manager, Brandywine Global Investment Management*

Consumer sentiment is at historical lows. The labor market looks stagnant with dimming prospects. Housing remains soft. Together, those signals point to peaking aggregate demand conditions.

Concerns about rising inflation, and the Fed hiking rates to contain it, have reversed rather dramatically. Until mid-February, traders were betting that the central bank would resume hiking rates in 2027 after two quarter-point reductions by the end of this year. But the growing debate around the impact of artificial intelligence on the labor market is leading them to reassess this outlook. Indeed, last Tuesday, Fed Governor Lisa Cook warned that the central bank may not be able to counter rising unemployment driven by the adoption of AI.

The futures market is placing a 58% probability for a Fed rate cut by June and does not see another cut until the late July meeting at the earliest. But there are some, including David Einhorn and myself, who believe that the Fed will cut rates more aggressively than currently discounted.

"I think one of the best trades out there right now is betting on more cuts this year than expected**… **I think by the time we get to the end of the year, it's going to be substantially more than two cuts." *— David Einhorn, Co-Founder of Greenlight Capital Einhorn*

And rate cuts will not only take place this year, but next year too.

Kevin Warsh, whom President Trump has picked to succeed current Fed Chair Jerome Powell, is likely to deliver what the president wants: lower rates. Warsh could convince his colleagues to adopt his view that rising productivity will create room for easier monetary policy, even if the economy is strong.

*"**He's not being brought on to hold the rates at a steady rate…He's going to argue we can cut even if the economy is running hot."*** *— David Einhorn, Co-Founder of Greenlight Capital Einhorn*

Meanwhile, bond markets are starting to send more decisive signs of lower inflation and lower growth ahead.

Last week, the federal reserve policy-sensitive two-year yield dropped to its lowest level since 2022.

Likewise, the benchmark 10-year Treasury yield, which underpins borrowing costs for mortgages, broke through the 4% barrier and closed the week and month at 3.94% -down -34 basis points since February 4, and the lowest level since last October 3. This sharp downward movement occurred with absolutely no help from Fed speak.

Given the recent sharp decline in yields, we will have to see further signs of weakening labor markets and disinflation before yields continue lower. This coming week, keep your eyes on retail sales and the labor market data (ADP, Challenger layoffs and non-farm payrolls). Regarding the payroll data, the key will be revisions.

Credit unions should keep a risk-appropriate ladder strategy and take advantage of market volatility. The 5-10-year segment provides the best risk/return balance.

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.