



Tom Slefinger
Market Strategist

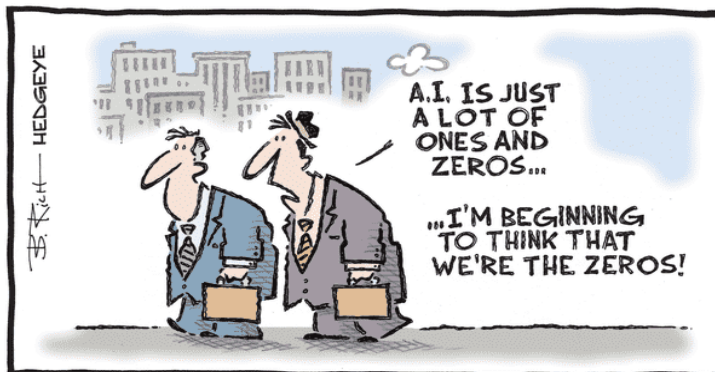
Weekly Relative Value

WEEK OF MARCH 23, 2026

How AI, Housing, Credit Markets and War Are Impacting the Economy

"... Effectively, there's zero net job creation in the private sector ... with very, very low — nonexistent, really — growth in the labor force, which of course we've never had in our history." — Jerome Powell, Chair of the Federal Reserve

The prevailing perspective on artificial intelligence (AI) is that it significantly increases productivity. Indeed, in 2025, nearly all economic growth was attributed to productivity gains. However, the labor market has not experienced similar growth, resulting in a steep decline in job openings and new hirings. At the same time, jobless claims and firing rates remain low. Companies have little incentive to hire when their existing staff are already highly productive.



AI stands apart from previous technological revolutions, such as microchips, mainframes, PCs and the Internet, which, despite causing disruption, led to net job creation. With AI, productivity surges, but the labor market is hollowing out in ways that are not yet fully recognized. Evidence of AI's growing influence on employment is becoming increasingly apparent.

As the following graph clearly shows, "private" payroll growth has sharply declined and is now approaching virtually no growth. At the same time, the economy has grown by over 2%. Never before has private payroll growth been at such depressed levels when the economy is growing.

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THIS WEEK

- AI AND ITS IMPACTS ON LABOR
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- NO PLACE TO HIDE
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Credit Union Leadership
SYMPOSIUM

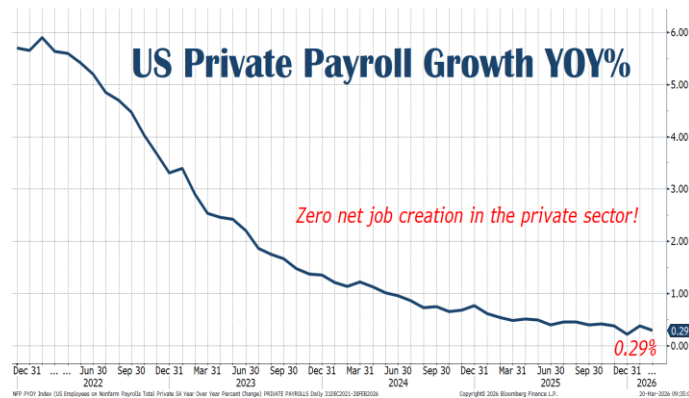
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Andrej Karpathy, co-founder of OpenAI, analyzed 342 U.S. occupations to determine their risk of automation by AI. Each job was rated on a scale from 0 to 10, with 10 indicating the highest exposure. The average American worker faces a risk score of 5.3 out of 10, and 42% of jobs, representing roughly 59.9 million people, scored 7 or higher. Importantly, no job scored a zero, meaning every occupation faces some degree of exposure.

Highly paid and highly educated positions are most at risk, not traditional factory or lower-skilled jobs. Karpathy's findings revealed that roles with salaries above \$100,000 had an average exposure score of 6.7, while those earning less than \$35,000 had the lowest exposure, at 3.4.

The most chilling part is that no job scored a zero. In other words, there is no safe harbor, only degrees of exposure.

Professions such as software developers, computer programmers, database administrators, data scientists, mathematicians, financial analysts, paralegals, writers, editors, graphic designers and market researchers received scores of 9 out of 10. AI tools are now capable of rapidly performing tasks that previously took humans hours, days or weeks.

Conversely, jobs like construction laborers, roofers, painters, janitors, ironworkers and grounds maintenance workers scored just 1. Home healthcare aides, nursing assistants, massage therapists, dental hygienists, veterinary assistants, manicurists, barbers and bartenders scored 2. This suggests that workers traditionally seen as "unskilled" may now be the most recession-proof.

Likewise, Anthropic, the company behind Claude (a next-generation AI assistant), recently published a report titled ["Labor market impacts of AI: A new measure and early evidence."](#) The study found that actual AI adoption is only a fraction of its potential. Yet, like Karpathy's analysis, Anthropic's paper concluded that AI could theoretically handle most tasks in sectors such as business, finance, management, computer science, math, legal and office administration. Workers most at risk are older, highly educated and well-compensated. Anthropic warned of a possible "Great Recession for white-collar workers."

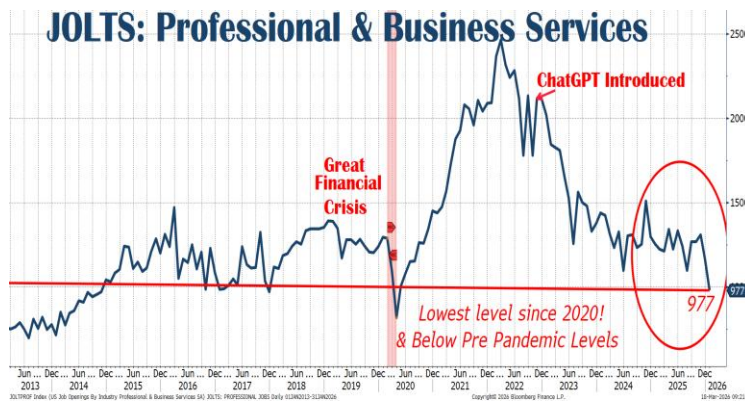
Skeptics argue that some companies have used AI as a justification for reducing headcount for unrelated reasons. In fact, several companies that laid off workers due to AI are now regretting their decisions and rehiring some employees.

Bottom line: While the question of how artificial intelligence may create, destroy or change jobs is one of the most important of our time, many predictions about our current moment have proved quite wrong — about the volume of jobs lost (too pessimistic), the number of new jobs created (too optimistic) and the time frame in which major changes in labor markets will take place (much slower than predicted).

It remains an open question as to whether there are also going to be elevated layoff rates, or just a grind of attrition, but my base case would be an increase in layoffs in AI-exposed sectors alongside minimal hiring.

AI AND ITS IMPACTS ON LABOR

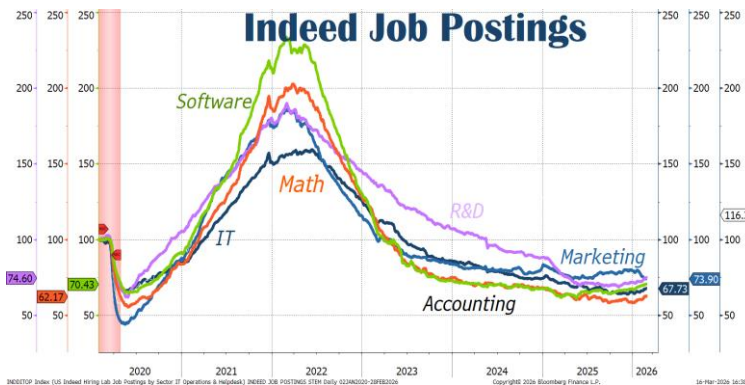
The white-collar job market recently hit its lowest point since the 2020 crisis. Job openings in fields such as professional services, law, consulting, technology and financial analysis have dropped 60% from their 2022 peak, now sitting below pre-pandemic levels. Historically, a sharp decline in white-collar hiring has preceded broader economic downturns within six to 12 months.



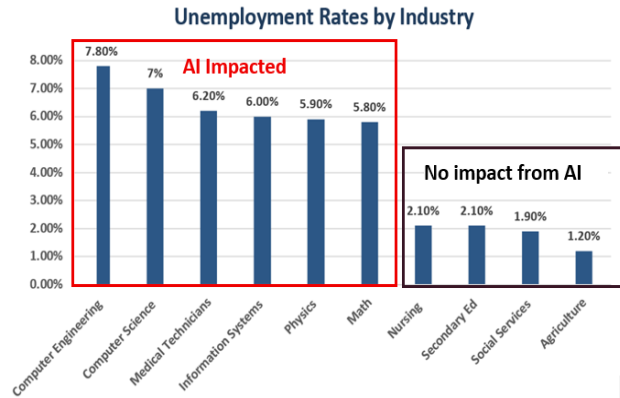
The jobs disappearing are the ones millions of college graduates spent four years and six figures training for. Simply put, the playbook is changing and most people have not been told yet.

Indeed Hiring Lab job postings reinforce this trend. Openings in industries highly exposed to AI, such as data and analytics (-31%), marketing (-25%), software development (-15%) and accounting (-13%), are well below pre-pandemic levels.

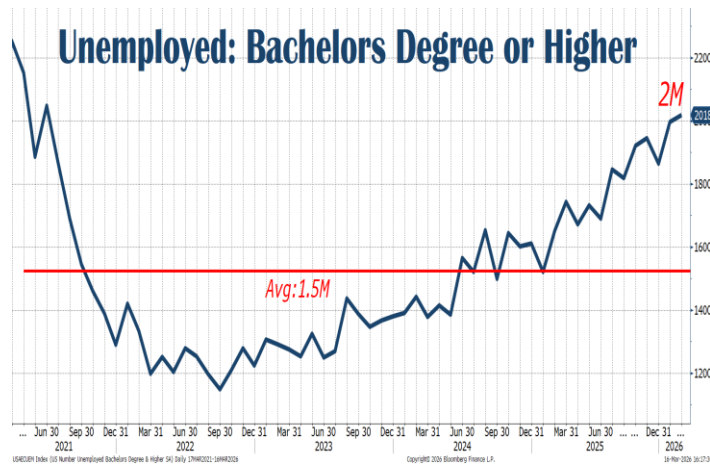
While layoffs have not yet surged, hiring has stopped. The folks that lay claim that, to date, there has been no rippling disruption from AI in the labor market aren't looking hard enough. The layoffs have not spiked yet, but the hiring has stopped.



Recent Bureau of Labor Statistics (BLS) data from 2024 shows a shift in the employment hierarchy among college majors, with STEM-heavy majors now facing higher unemployment rates compared to less AI-exposed fields.

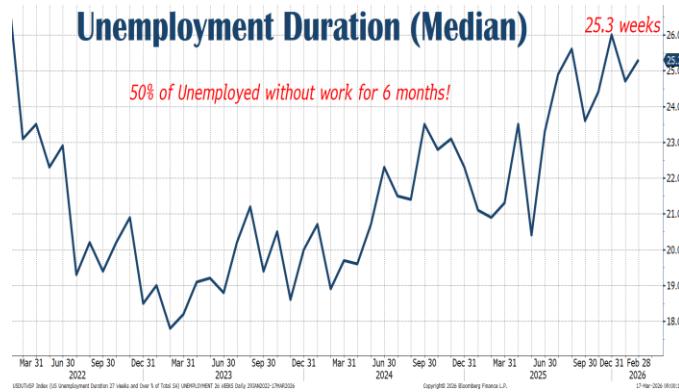


I also need to stress that while the weekly jobless claims continue to be subdued, the problem with focusing on what initial jobless claims are doing is that much of the rise in unemployment we are seeing is not in firings of existing staff but rather college grads who have been priced out of the job market from the spread of AI. The unemployment rate for youth aged 22 to 27 has approached 6%, a twelve-year high outside the pandemic.



When looking at the overall labor market, there are currently more unemployed Americans than there are open jobs. As of January, there are +6% more people unemployed (7.4 million) than there are job openings (6.95 million), which is a significant change from the past five years.

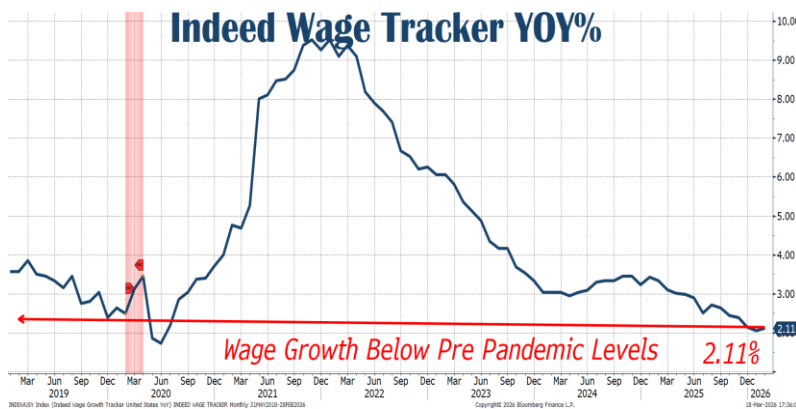
Making matters worse, many laid-off workers struggle in lengthy job searches. The number of people who have been out of work for at least six months has surged by +30% over the past year to nearly two million and now represents 50% of the ranks of the unemployed, and that also means they have exhausted their eligibility for benefits.



At the same time, many people are concerned that their jobs are at risk. Per the University of Michigan Consumer Sentiment Survey for March, it is clear that a near record 23% of Americans fear a job loss in the next five years, and the spread of AI technology is beginning to scare the working class at the margin.



Employers now hold more leverage, resulting in slower wage growth. Current wage increases are at 2.11%, well below pre-pandemic levels.



Bottom line: An upcoming period of disruption could radically reshape the labor market and may result in sustained high unemployment and declining wages.

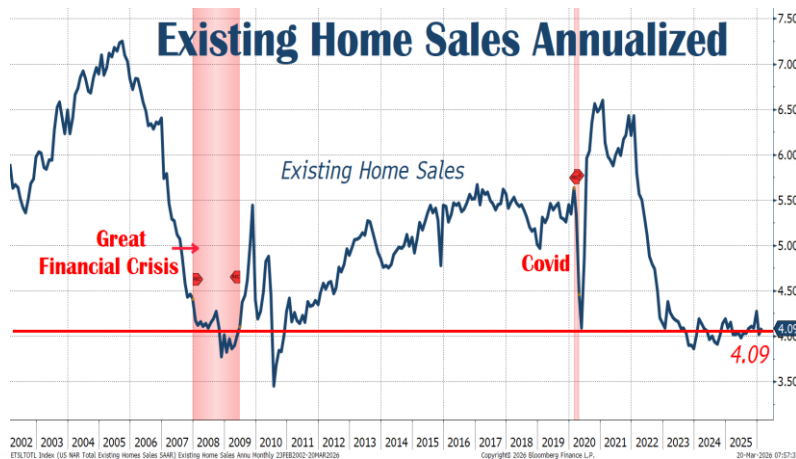
MORE UGLY HOUSING DATA

"I don't want to drive housing prices down." – President Donald Trump

The Pending Home Sales Index, which typically predicts existing home sales by a month or two, rose 1.8% from January to February but only reached 72.1, the lowest on record. This is a dead market trying to bounce off a historic low base.

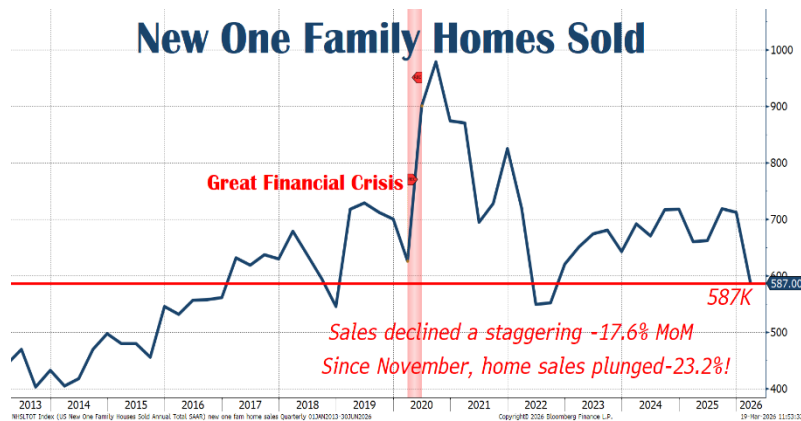


Existing home sales in 2025 totaled just 4.06 million, the lowest since 1995, with early 2026 numbers still near this low. This is surprising given the larger population and increased demand, but turnover remains at levels typical of a much smaller economy.

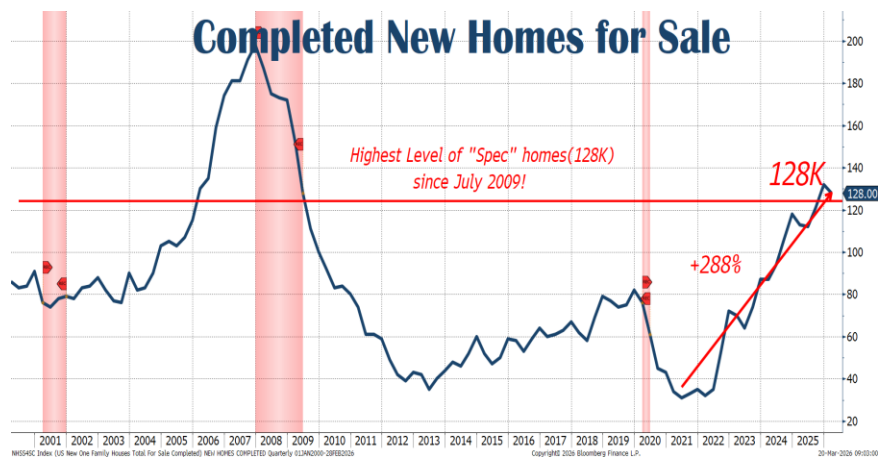


January's new home sales release rounds out the decrepit housing market data we have seen of late, coming in at a shockingly low 587,000 annualized units — a staggering -17.6% month over month. December was also downwardly revised to 712,000 from 745,000. This was the steepest two-month tumble since 2010, just as we were emerging from the Global Financial Crisis. Since November, home sales have nosedived by -23.2%.

Selling activity fell in every region: the Northeast (-44.7% month over month), the Midwest (-33.9%), the South (-8.1%) and the West (-21.6%).

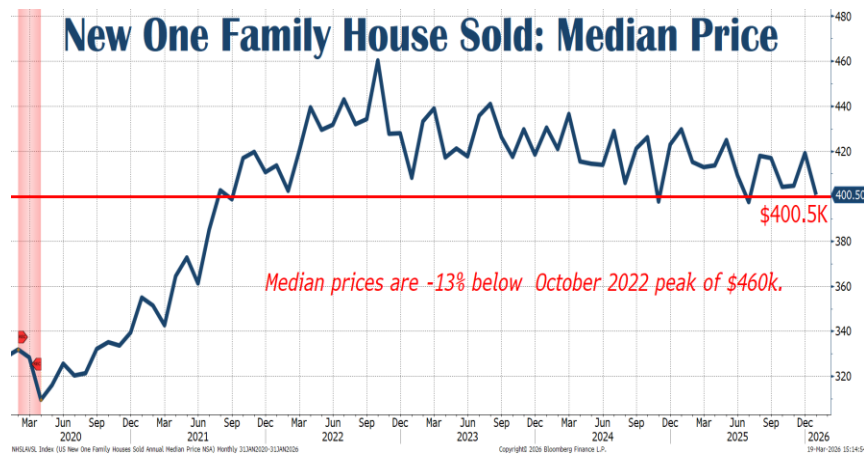


Meanwhile, homebuilders have been aggressively trying to build and sell homes because that is their business; they cannot wait out this market and pray for lower mortgage rates that may not come. They are fighting for market share, and they are trying to show growth to their investors in a housing market that is otherwise frozen. The inventory of completed single-family homes for sale – “spec homes” – has reached the highest level since 2009.



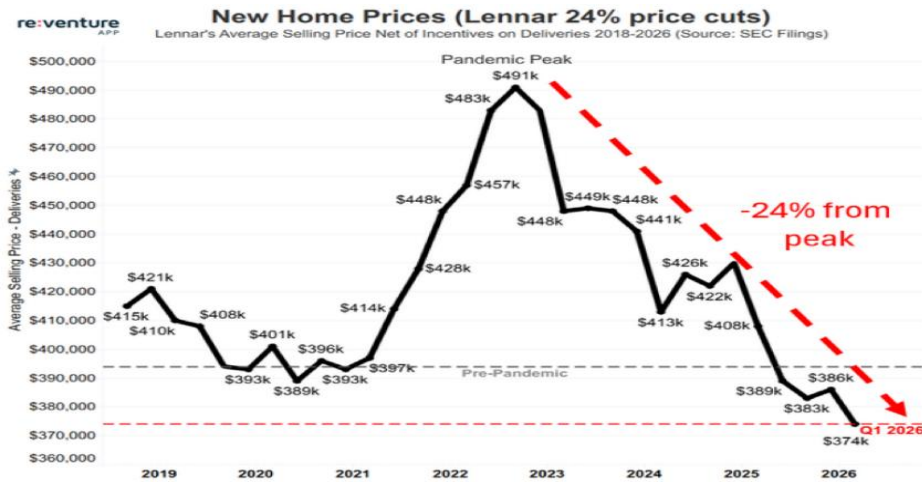
The median number of months a house is for sale since its completion rose to 3.2 months, from 2.7 months a year ago, its highest level since April 2022. All of this confirms the weak housing demand picture — and why median prices registered a steep drop (-4.5% month over month) to just around \$400,000 and are now -13% below the October 2022 peak of \$460,000.

But this median-price metric does not include heavy incentives, such as mortgage-rate buydowns that builders use to move their inventory.



With the costs of the buydowns and incentives included, home prices fell far further. We know that from builders’ financial reports. For example, Lennar, America’s second largest builder, has cut prices 24% from peak. Their price on new deliveries hit \$491,000 in 2022. But they’ve cut by over \$110,000 since then, through price reductions and mortgage buydowns. The result is a \$374,000 net price in 2026, down -8% year over year and -24% from peak. This is the cheapest we have seen in a decade, even lower than the pre-pandemic norms.

In return, Lennar’s deliveries in Q1 soared by 37% from Q1 2021, while sales of existing single-family homes **plunged** by 32% over the same period.



Bottom line: The thing everyone gets wrong in the housing market is they think it is about mortgage rates when it is actually about prices. Buyer demand is at record lows because prices (inflation-adjusted) are at record highs. No one wants to buy a house if they think it will be worth less in three to four years.

Meanwhile, mortgage rates around 6% are normal for the U.S. going back 100+ years. That’s why movements in mortgage rates (either up or down) are not having any material impact on sales right now. Meanwhile, if you manage to bring prices down meaningfully, the buyers will flood back.

THE GREAT HOUSING PRICE RESET

As of February 2026, 1.1 million homeowners (2.1% of all mortgages), are underwater (“negative equity”). This is a 58% increase from 696,000 at the start of 2025 and the highest level since early 2018. Although current negative equity levels are still below the 2008-2009 peak of 11.1 million, the rapid rise in negative equity suggests an accelerating pattern reminiscent of 2005-2006. In addition, 3.2 million homeowners hold less than 10% equity, making them highly susceptible to falling underwater.

- **Over 90% of currently underwater homeowners purchased their homes between 2022 and 2025. Nearly 17% of Federal Housing Administration (FHA) and 25% of Veterans Affairs (VA) loans purchased in 2024 are already underwater.**

The crisis is most severe in Florida (Cape Coral, Tampa, Lakeland) and Texas (Austin, San Antonio).

- **Nearly 70% of 2023-2024 FHA loans are underwater, and in Austin, 65% of 2022 FHA loans are underwater.**

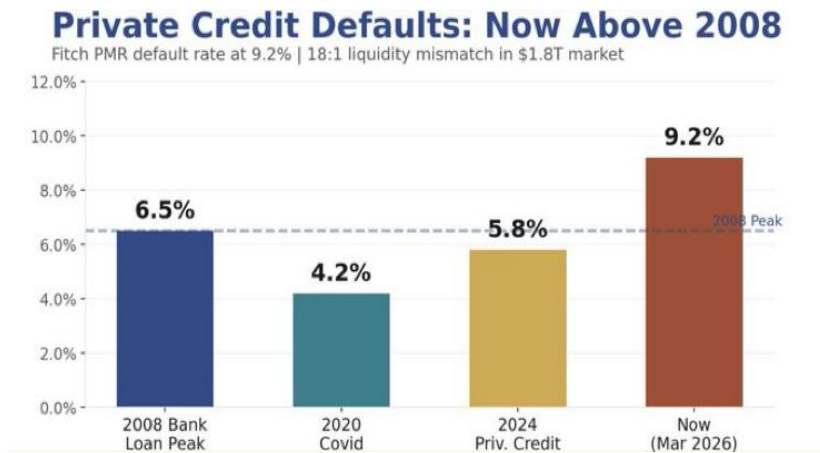
All the data points in the same direction. Home prices are still too unaffordable. And mortgage rates are headed back up. Further, it’s hard to buy a home when you don’t even have a job or are afraid your job will be taken away by a robot. Last month, the BLS reported that employment was overstated by about 1.4 million.

Bottom line: National price declines don't happen just because buyers hold out; they occur when sellers can no longer wait. While labor is weakening and mortgage stress is increasing, it is not yet widespread enough for mass selling. If unemployment climbs, market psychology could shift quickly — listings rise due to necessity, price cuts become mandatory, and the frozen market starts to clear. In other words, mortgage rates and overpriced homes have stalled the housing market, but unemployment may trigger its reset.

DEFAULTS SOAR!

“It’s going to be a car crash or a train crash, whatever pick your metaphor, but it’s going to be fairly slow motion. And that’s going to be real painful.” – Josh Steiner, Financial Analyst, Hedgeye

As discussed in detail last week’s *Weekly Relative Value*, [“Here Come the Cockroaches,”](#) something is breaking inside a \$1.8 trillion market most people have never heard of. Fitch just confirmed that the default rate inside this market hit 9.2% in 2025. That’s a record and higher than any point during the 2008 Financial Crisis. One in every ten borrowers is failing to pay back their loans. The loans are almost all floating rate. With the Fed now on hold due to the war, the pressure on these floating-rate borrowers only deepens from here.

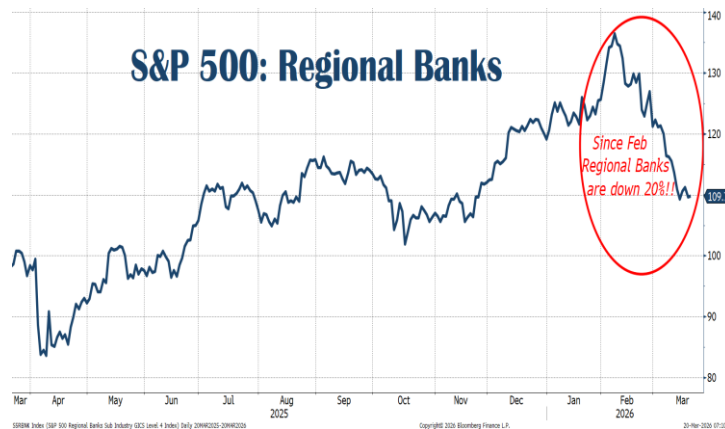


Now here's where it gets dangerous. This market holds \$1.8 trillion in assets, but it only has about \$100 billion in available liquidity. That's an 18-to-1 mismatch. Eighteen dollars trapped for every one dollar that can be moved. And that is why private credit firms such as Blue Owl Capital recently blocked their own investors from cashing out. A \$1.6 billion fund froze withdrawals; Blue Owl lost \$2.4 billion in market value in a single day.

Last week, JPMorgan Chase marked down the value of certain private credit loans and restricted lending to funds that hold them. **BlackRock, Blackstone and Morgan Stanley have all limited or gated redemptions** in recent weeks as investors, spooked by deteriorating underwriting standards and AI-driven fears, rush for the exits. Redemptions in private credit are evidence that the credit stress is no longer hypothetical and is now impossible to dismiss.

Now ask yourself, who's funding all these private credit firms? It is estimated that regional banks carry between \$100 billion and \$150 billion of aggregate exposure to private credit, much of it through lending to the very funds now gating withdrawals and watching their collateral get marked down.

This in turn helps explain why the Regional Banks have seen their share price tank back into a bear market (down -20% from the early February highs).



Harvard economists, Moody's analysts and Securities and Exchange Commission (SEC) researchers published a joint study warning that private credit has quietly become a major source of systemic risk. Less transparent than banks, less regulated and more interconnected. This isn't 2008; the structure is different. But physics are identical: opacity, leverage, liquidity mismatch and panic. When exits close (and some already have), the rest writes itself.

Despite these warnings, some argue that the risk is not yet systemic and that the asset class remains healthy, with defaults appearing to be issuer-specific rather than systemic.

That said, for the here and now, the private credit market sits in an uncomfortable middle ground: defaults at records, redemptions surging, the largest bank in America pulling back collateral values and a macro environment that is about to get worse before it gets better.

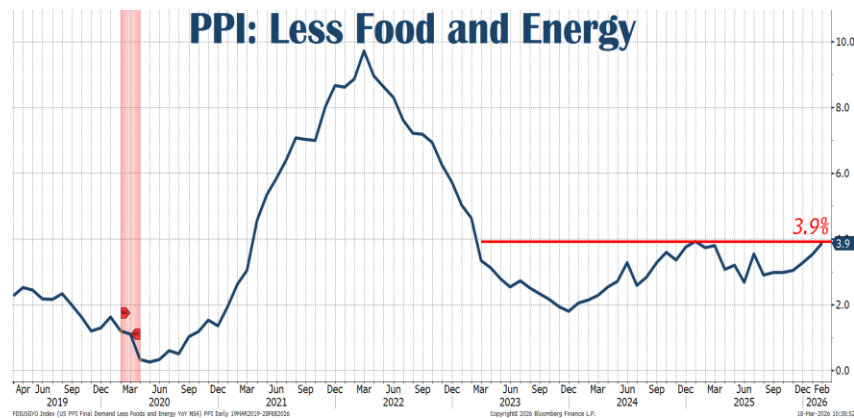
Bottom line: Do I even need to say it... Keep a watchful eye on credit markets.

PRODUCER PRICE INDEX POPS!

“About 20% of the February advance in the index for final demand services is attributable to a 5.7% jump in prices for traveler accommodation services.” – Bureau of Labor Statistics

Then last Wednesday, we got the Producer Price Index (PPI). Even before the spike in oil prices and other commodities, headline February PPI jumped by .7% month over month, the biggest rise in seven months. Core PPI (excluding food and energy) rose +0.6%, pushing the year-over-year pace up to +3.8% from +3.2% in December, reinforcing the Fed’s reluctance to pivot toward easing. Such figures are likely to strengthen the resolve of central bank policy hawks.

Goods inflation reaccelerated in February, with food and energy driving a +1.1% monthly increase, the largest since mid-2023. Services inflation remains the core problem, posting a third consecutive large gain (+0.6% in December, +0.8% in January and +0.5% in February), with pressures broad-based. Note: This inflation reading does not include the recent energy spikes due to the Iran situation. The March readings will be much higher



The good news, if there is any, is that the Fed looks at the core Personal Consumption Expenditures (PCE) Price Index, which excludes energy and food. And the PPI components feeding into core PCE are set to cool. Softer health-care costs and falling airfares offset higher portfolio-management fees, pointing to a more moderate +0.3% month-over-month increase in both headline and core PCE.

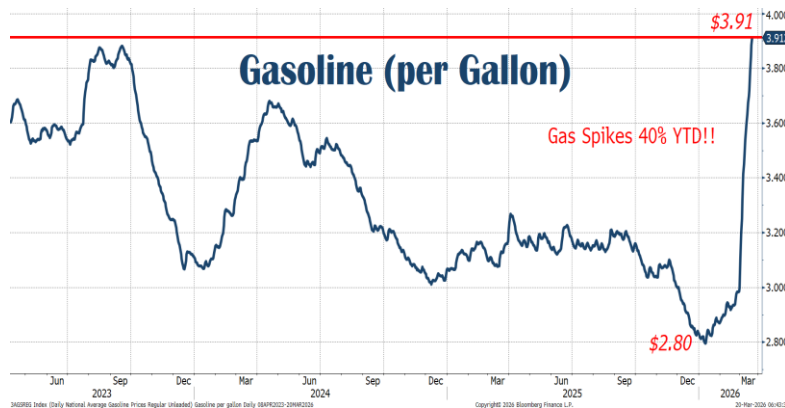
Bottom line: Inflation is easing too slowly to justify rate cuts, but just enough to keep the Fed firmly on hold. The market has gone from pricing in three rate cuts this year to a small chance of a rate hike.

IT'S NOT THE ECONOMY; IT'S OIL, STUPID!

None of us have any idea when the war with Iran will be over or if and when the Strait of Hormuz will be open, so we really have no idea where oil prices are going over the next two to six months: just lots of guesses based on assumptions. But with attacks on energy infrastructure increasing, the outcome is uncertain.

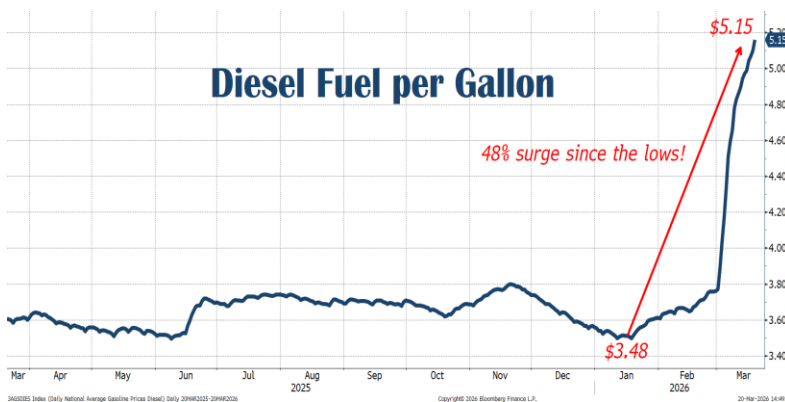
Hopefully, in the next two weeks, the U.S. can manage somehow to get the Strait reopened. If not, energy prices (and food) will hook even higher, and the political pressure at home is going to really intensify.

Meanwhile, gasoline prices keep rising — average prices may reach \$4.00 per gallon this week.

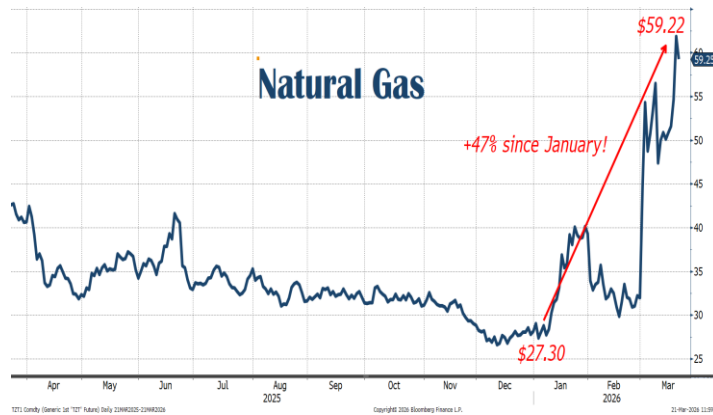


The price of #2 diesel oil — the fuel that enables America’s giant trucking, rail and farm tractor fleets to generate and haul nearly **billions of products** each day, including Sundays, holidays and snow days — is now up a staggering **+48%** from its January 2026 level to \$5.15 per gallon at the end of last week.

It gets embedded repeatedly in supply chain costs as goods move through farm, factories, warehouse and distribution commerce. Needless to say, America’s manufacturing economy does not need any new cost shock barriers.



And then we have massive spikes in liquefied natural gas, which is primarily used for generating electricity for 40-50% of the homes and businesses in the U.S.



Bottom line: Higher oil prices are feeding into higher fuel costs throughout the country. This should turn into a deflationary shock to Americans who will have less discretionary income.

NO PLACE TO HIDE

“The implications of developments in the Middle East for the U.S. economy are uncertain.”

— Jerome Powell, Chair of the Federal Reserve

As widely anticipated, the Federal Open Market Committee kept rates steady, with one dissenting vote from Stephen Miran, a Trump appointee known for his obsessively dovish stance. (As an aside, all five major central banks (the Fed, Bank of England, European Central Bank, Bank of Japan and Bank of China) delivered hawkish holds of one type or another.)

As Powell spoke the words highlighted above, there were few places to hide. Every sector in the stock market closed in the red. Amazingly, even energy stocks, with the spiking crude. Even the Defense subsector fell. One would have thought the most defensive sectors, like Health Care, would have fared well. One would be wrong. What does the Iran war have to do with Health Care service stocks? Yet this group is off by nearly -12% in less than two weeks.



Oil’s surge has continued to boost inflation fears with rate-hike concerns swamping any safe-haven benefit for bonds. Treasuries sold off with yields rising across the curve. At the front end, the two-year benchmark jumped to 3.90%.



At the long end, the benchmark 10-year Treasury yield has risen to 4.38%.



Moving on. The precious metals did not provide any safety either as **gold suffered worst week in 43 years!**



Note: President Trump had set a deadline for reopening the Strait of Hormuz (this evening) or threatened that the U.S. would bomb Iran, but earlier this morning he postponed those strikes for five days. This is his tweet from Truth Social:

"I AM PLEASE TO REPORT THAT THE UNITED STATES OF AMERICA, AND THE COUNTRY OF IRAN, HAVE HAD, OVER THE LAST TWO DAYS, VERY GOOD AND PRODUCTIVE CONVERSATIONS REGARDING A COMPLETE AND TOTAL RESOLUTION

OF OUR HOSTILITIES IN THE MIDDLE EAST. BASED ON THE TENOR AND TONE OF THESE IN DEPTH, DETAILED, AND CONSTRUCTIVE CONVERSATIONS, WHICH WILL CONTINUE THROUGHOUT THE WEEK, I HAVE INSTRUCTED THE DEPARTMENT OF WAR TO POSTPONE ANY AND ALL MILITARY STRIKES AGAINST IRANIAN POWER PLANTS AND ENERGY INFRASTRUCTURE FOR A FIVE DAY PERIOD, SUBJECT TO THE SUCCESS OF THE ONGOING MEETINGS AND DISCUSSIONS. THANK YOU FOR YOUR ATTENTION TO THIS MATTER! PRESIDENT DONALD J. TRUMP"

Equity markets, which were down big, have reversed course and are now much higher in pre-market trade! To wit: The Dow was down 300 points in premarket trade and is now ~1000 points higher! The same story goes for Treasuries. The 10-year benchmark was at 4.44% when I sat down, and then seconds after the tweet the yield plunged 14 basis point to 4.30%. In the commodity pits, WTI after trading at \$100 per barrel has plunged over \$10 per barrel to 87.50. All moves occurred within seconds!

It's not even clear who the president or his team was talking to, or how accurate his statement was. But then again, who knows when his mind is going to change again. It could be anytime from now to noon. But this could be a breakthrough if it ends up meaning that the Strait reopens. We shall see.

MARKET OUTLOOK AND PORTFOLIO STRATEGY

Three weeks into the Iran war and the Strait of Hormuz is effectively closed for the first time in history, and 20% of global oil normally flows through there.

Duration is the only variable that matters for markets right now. If this ends quickly and flows resume, Goldman sees oil back to the \$70s by Q4 and everyone moves on. If the strait stays closed for 60 days or more, their downside case has oil exceeding its 2008 high of \$147 and the knock-on effects hit airlines, shipping, and groceries all at once.

The Fed is in a tough spot because they cannot cut rates with inflation running hot from oil, but they also can't hike with the labor market softening. No one knows how this ends because the range of outcomes is too wide. The math is simple though as every week the strait stays closed, inflation pressure builds and the Fed has fewer moves available.

The biggest immediate risk outside of the Middle East remains the private credit sector, and any other "cockroaches" that emerge into the light. Anecdotally, some banks are already tightening lending standards, but that's more of a deceleration factor than a systemic risk. Any major unwelcome news on this front could further hurt financials, while being marginally bullish for the front end of the bond curve.

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.

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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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