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Market Strategist

# Weekly Relative Value

WEEK OF APRIL 6, 2026

## Private Credit: Liquidity Sold Separately

*“If people yell fire in a crowded theater, everybody runs still — it still pays to beat people to the door...I will stand back there and say, ‘Everybody stay calm,’ but that’s because I can’t run fast.” — Warren Buffet*

Blue Owl Capital is a major alternative asset manager with over \$300 billion in assets under management (AUM), primarily in private credit (also known as shadow banking or direct lending). It provides loans to middle-market companies — often in tech/software sectors — outside the traditional regulated banking system. The stock is down 67% in the past year.



According to Fitch Ratings, private credit defaults just hit a record 9.2% more than double the rate of traditional loans. And now investors are trying to pull their money out — fast. In Q1 alone, Blue Owl got hit with \$5.4 billion in withdrawal requests.

The problem?

The funds can only pay back 5% at a time, leaving investors stuck. Investments that were sold as “permanent capital” are turning out to be anything but.

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### THIS WEEK

- LOW HIRE-LOW FIRE ECONOMY CONTINUES
- PAYROLLS REBOUND
- LAID OFF AT SUNRISE
- BACK TO OIL BASICS
- MARKET OUTLOOK AND PORTFOLIO STRATEGY



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And it's not just Blue Owl. Some of the biggest names in finance just restricted withdrawals from their private credit funds: BlackRock, Apollo, Morgan Stanley and Ares. The combined exposure: roughly \$2 trillion.

The wave of redemptions is likely to grow further in private credit as investor confidence in the misguided low-volatility narrative shatters and financial stress widens.

## **Apollo gives investors only 45% of requested withdrawals from \$15 billion private credit fund**

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A vicious cycle of redemptions → forced sales → markdowns → more redemptions could spread if:

- Artificial intelligence (AI) disruption causes a wave of tech defaults.
- Secondary market liquidity for private loans dries up.
- Broader economic slowdown hits borrowers.

As noted above and below, the “Oracle” himself, Warren Buffett, cautioned that he’s seeing signs of fragility emerging in the banking system as it has become more connected to non-bank players.

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*“They all affect each other, and the troubles from one can spread over to another.” — Warren Buffett*

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So while the uncertainty in the Middle East continues, I, for one, do not believe anybody should underestimate the extent to which private credit is interconnected with other parts of the financial system, including insurance companies and banks, and not just the regional banks, but some of the biggest banks.

To wit: The Boston Fed concluded that the banking sector’s relationship with private lenders is “extensive” and issued a warning that “those links indirectly expose banks to the traditionally higher risks” associated with this space.

Read on:

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*“The meteoric rise of private credit presents important questions about the role of banks going forward and the implications for stability in the U.S. financial system.”*

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Moody’s weighed in with the conclusion that U.S. banks have extended around \$1.2 trillion in loans to non-depository financial institutions as of last year with about \$300 billion directed to private credit providers. This is double the size of the subprime mortgage market two decades ago.

Then tack on the annual report from the Treasury Department’s Financial Stability Oversight Council (signed off by Scott Bessent), which estimates that total loan commitments made by banks to private credit funds were approximately \$445 billion as of Q2 2025.

Finally, in a classic case of cognitive dissonance, *The Wall Street Journal* ran with these two articles:

[“Private Credit’s Exposure to Ailing Software Industry Is Bigger Than Advertised”](#) and [“Non-Cash-Generating Private-Credit Loans Rise to a 14-Year Peak, Fitch Says.”](#)

Well, which is it?

The fact that the funds themselves are downplaying the stress is a classic “contrarian” signal, just as it was in 2006 and 2007 when the homebuilders told the world that their business was no longer cyclical, and former Fed Chair Ben Bernanke was busy trying to convince the public that the problems in the subprime mortgage market would be contained.

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*“We believe the effect of the troubles in the subprime sector on the broader housing market will be limited and we do not expect significant spillovers from the subprime market to the rest of the economy or to the financial system.” — Ben Bernanke, Former Chair, Federal Reserve, May 17, 2007*

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The irony is that as all of this is happening, the Department of Labor proposed rules that would open 401(k) retirement plans to private equity, private credit and cryptocurrencies for the first time. Plan trustees would receive safe harbor protection from lawsuits (no legal consequences) if they followed a stated process, regardless of what happens to your money. Blackstone, KKR, Apollo and BlackRock all applauded the move. A 60-day comment period opens before potential finalization.

The argument for this is that private markets have historically delivered better long-term returns than public markets and ordinary Americans have been locked out of those returns. That is a legitimate point. But private assets are illiquid, valued by the managers who profit from high valuations.

**Bottom line:** The private credit market is currently in its most serious stress test since 2008. Blackstone, Blue Owl, BlackRock and Morgan Stanley are all gating withdrawals or limiting redemptions right now. Some analysts warn of similarities to the 2008 credit bubble.

Others argue headline default rates remain relatively contained, and the sector argues underlying fundamentals are “resilient.”

Then again, even if private credit issues are not systemic, rising defaults and reduced lending could still negatively impact the U.S. economy.

## LOW HIRE-LOW FIRE ECONOMY CONTINUES

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*“The U.S. economy is in huge trouble. There is effectively zero net job creation in the private sector.”  
— Jerome Powell, Chair of the Federal Reserve*

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Federal Reserve Chair Jerome Powell and Federal Open Market Committee (FOMC) members frequently say the U.S. labor market has cooled and is now more balanced, referencing the U-3 unemployment rate and jobless claims.

This is what Powell said on March 18:

*“You’ve got a sort of a zero-employment growth equilibrium. Now that’s balance, OK, but I would say it does have a feel of downside risk, and it’s not kind of a really comfortable balance.”*

Indeed, the number of Americans filing for jobless benefits for the first time tumbled back to just 202,000, continuing to hover near record lows.



The unemployment rate has risen nearly a percentage point from its low in 2023. The increase has been gradual, though it was sufficient to motivate two rate cuts by the Fed. That said, while the U-3 unemployment rate has risen from cycle lows to 4.3% (the highest rate since 2021), it remains relatively low from a historical perspective.



However, I think relying on these metrics is flawed, since labor demand is actually falling. To wit: The February Job Openings and Labor Turnover Survey (JOLTS) report indicated widespread weakening in the U.S. labor market.

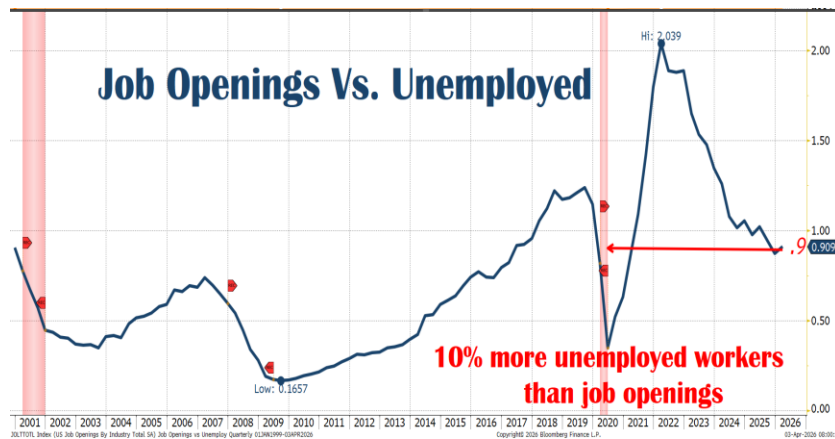
Here are the key takeaways from the report. First, job openings cratered by -358,000 in February to 6.88 million, and not even an upward revision to January could stop the number of postings from declining by -288,000 over the past four months.



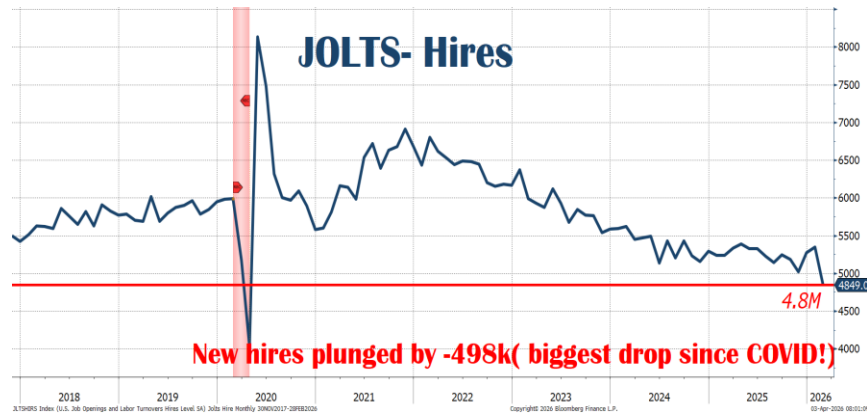
As depicted below, labor demand based on this metric was down in the most economically sensitive sectors and the only source of employment growth in the payroll data over the past year is now heading into contraction mode as well — education/health services with a -78,000 pullback in job openings (down in two of the past three months).

Sector	Change in Job Openings
Leisure/Hospitality	-213,000
Manufacturing	-71,000
Construction	-28,000
Education/Health Services	-78,000

Overall, there are now about 10% more unemployed folks out there than there are job openings — a gap of close to 700,000. Try and squeeze inflation out of that. The question remains — how does anyone at the Fed consider that as being “balanced?”

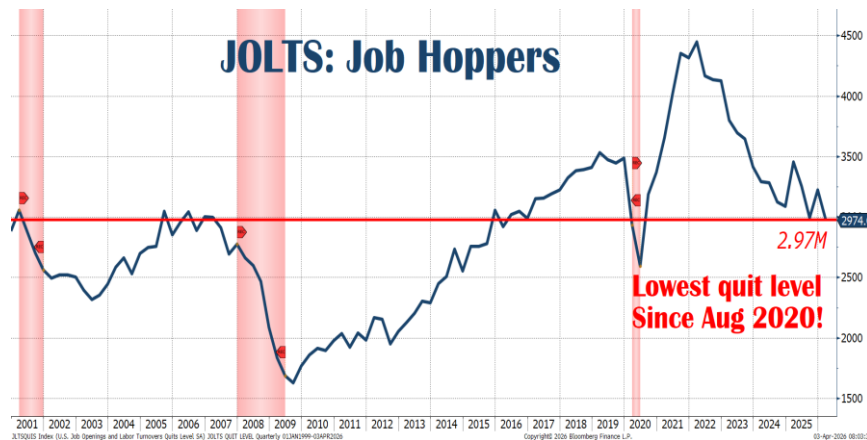


Second, people looking for jobs now are facing recession-like hiring conditions. New hires plunged by a whopping -498,000 in a drop. In total, the level of new hiring activity, at 4.85 million, is the lowest since April 2020, when the economy was in lockdown mode.



Since this number feeds directly into the payroll’s calculations (after netting out separations), this explains why the March payrolls report was such a total disaster. How anyone at the Fed can translate that into higher wages and prices is a true mystery. And here we have many investors and traders out there who still believe the Fed will be hiking! Give these folks another bottle of Ripple.

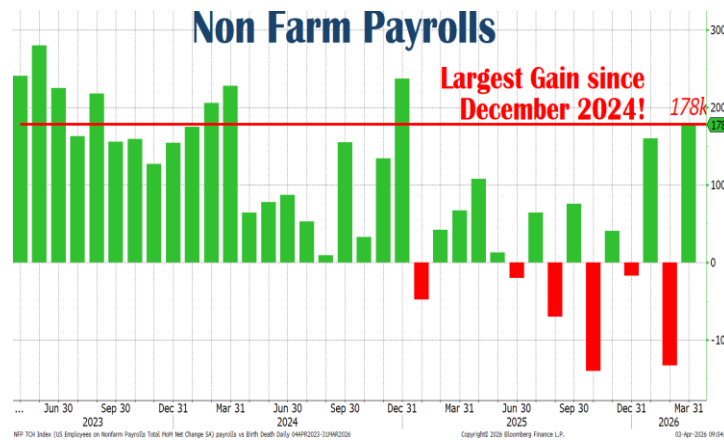
Third, in another sign that the working class is losing confidence and swag, the number of job-hoppers declined by -157,000 after a -94,000 slide in January, setting a new low (2.97 million) since August 2020.



**Bottom line:** Overall, the latest JOLTS report confirms that the labor market demand continues to deteriorate with every passing month. And Americans are feeling it. That is all anyone needs to know when it comes to the future of interest rates and the economy as well.

**PAYROLLS REBOUND**

The consensus had widely expected a bounce back in employment in March after a strike by more than 30,000 health care workers and severe winter weather contributed to an outsize decline in February. And sure enough, non-farm payrolls shot the lights out despite the war breakout, the energy price shock and the slump in the stock market. In March, the U.S. economy added +178,000.



That said, the -69,000 downward revision to the prior two months showed that the economy lost 130,000 – not the 92,000 initially reported. Also, the birth-death model tacked on +73,000 to the headline number, so accounting for this and the revisions, one can argue that the “real” payroll number was closer to +36,000. There may have been less than met the eye in this shiny report.

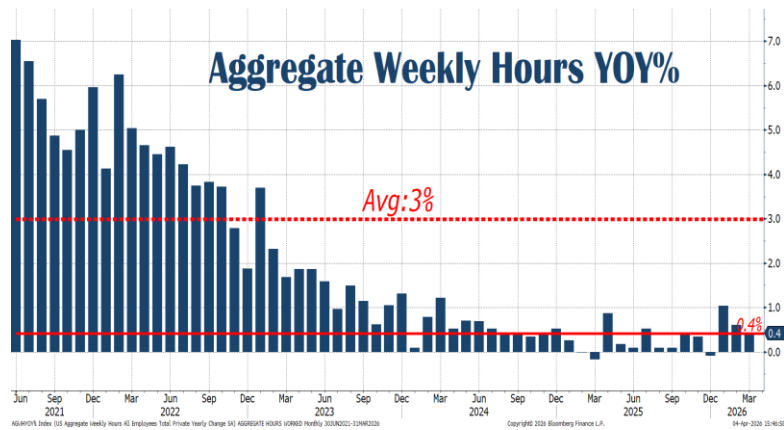
As noted above, the unemployment rate dipped to 4.3% from 4.4%, but that was courtesy of a move lower in the labor force participation rate, (the share of the population that is working or looking for work) to 61.9% from 62.0% in February.



It is also noteworthy to have seen wages slow to +0.2% month over month, which was halved from +0.4% the prior month. The year-over-year trend eased to +3.5% from +4.2% a year ago, and this is the lowest increase in almost five years. That softening trajectory should not be happening in an alleged tight jobs market.



The workweek sagged -0.3% to 34.2 hours. This is the real key since that counts as much as bodies when it comes to total labor input into the economy. Aggregate hours measure the total number of hours worked by the labor force in a year and represent the sum of hours that all employed people, either full- or part-time, worked during the course of a year. As shown below, aggregate weekly hours have risen a sluggish 0.4% over the past year versus the five-year average of 3%.



And where were the jobs coming from? The payroll gains were led by healthcare and education where jobs rose a combined 91,000 – over 50% of the total gains in March. I should stress that outside of education/health sector, payrolls have contracted more than -400,000 over the past twelve months.

It was also interesting to see the divergence between the payroll and household surveys, because the latter showed a -64,000 decline after a -185,000 contraction in February.

**Bottom line:** Sorry, but I am not gullible enough to be a buyer of this report. From my perch, it was far weaker than it seemed at the surface. Despite the reported job gains, combining increases in jobs with a shorter work week shows payrolls actually fell by 284,000. Including revisions, the loss is 353,000, and after adjusting for the birth-death model, it's 426,000. What all this means is that whatever growth in the economy we see is coming exclusively from productivity growth.

Finally, the employment survey reflects the second week of March, just after the U.S. and Israel launched the Iranian attacks on February 28. If the war continues, look for a larger impact on future jobs reports as companies respond to higher energy prices and potentially lower demand by delaying hiring or laying off staff.

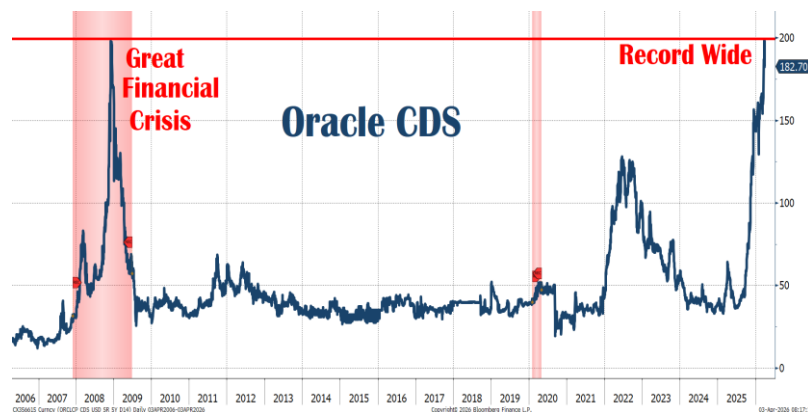
## LAID OFF AT SUNRISE

*"We are sharing some difficult news regarding your position. After careful consideration of Oracle's current business needs, we have made the decision to eliminate your role as part of a broader organizational change. As a result, today is your last working day. We are grateful for your dedication, hard work, and the impact you have made during your time with us." – Email from Oracle*

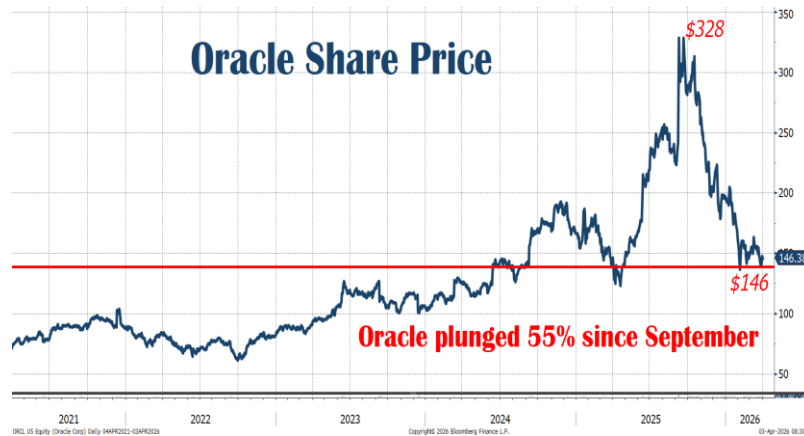
One of the big stories last week was that Oracle laid off between 20,000 and 30,000 employees (roughly 18% of its global workforce), via a single email sent at 6:00 am ET, before most people finished their morning coffee. There was apparently no prior discussion or HR outreach. System access was revoked almost immediately.

This is not a company in distress in the traditional sense. In fact, Oracle posted a 95% jump in net income last quarter. Rather, it's a company that made an enormous debt-funded bet on AI infrastructure. The company now carries over \$124 billion in debt, up from \$89 billion a year ago, with free cash flow running negative \$10 billion last quarter. Meanwhile the five-year certificates of deposit (CDs) just hit the widest on record, a level first (and only) seen during the global financial crisis, meaning debt investors are genuinely nervous about getting paid back.

Oracle didn't lay off 18% of its workforce because those people lacked skills. It laid them off to free up \$8-10 billion in cash flow to service AI infrastructure debt. Simply put, Oracle is converting its workforce into cash flow to service that debt.



The stock price has been sliced in half since last September!



But Oracle, while being the most heavily leverage tech company, is not alone. AI investments from the so-called “hyperscalers” have reached an estimated \$9 trillion, more than double information technology spending before the dot-com crash. Here’s something to think about. For investors to achieve a 10% annual return, the sector would need \$900 billion in yearly profits or \$2.7 trillion in revenue at a 30% margin, which is nearly 10% of the gross domestic product (GDP). All I can say is good luck with that!

Investors are downgrading the financial outlook for the big tech players and calling into question the veracity of this AI investment boom. Maybe it is for this reason that a high-quality company like Microsoft could see its share price plunge more than -30% from the highs (and the other high-flying tech names are down anywhere from -10% to -25%). The pressure started last fall, driven by AI capital expenditures concerns, accounting issues and valuation fatigue. War is unlikely to help.

Company	Change from Peak (%)
CoreWeave	-59%
Oracle	-57%
Microsoft	-34%
Meta	-33%
Palantir	-31%
Broadcom	-27%
Amazon	-22%
Alphabet	-20%
Nvidia	-19%
Apple	-13%

**Bottom line:** Oracle could be the first canary in the AI bubble coalmine.

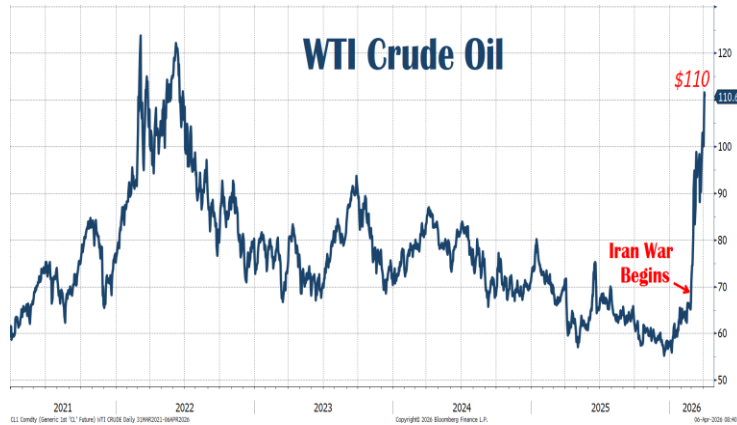
**BACK TO OIL BASICS**

Given the widespread price increases caused by supply constraints — especially due to the continued effective closure of Hormuz — the effects go beyond energy.

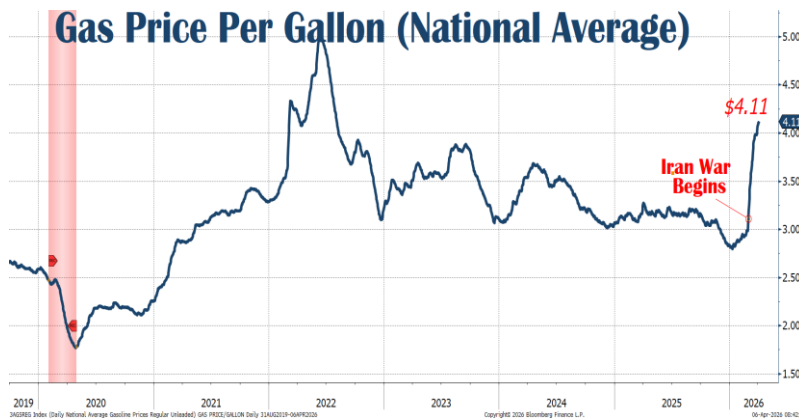
See: [“The Other Markets Being Rattled by the Blockage of Hormuz”](#) (*The Wall Street Journal*).

The Strait of Hormuz closure has sharply increased the prices of oil, gas and fertilizer, each rising over 40% since the U.S.-Israel-Iran conflict began on February 28. Foodstuffs including corn, oats, wheat, coffee and sugar have seen significant price increases. Rising food costs and energy shocks hurt consumer discretionary spending the most. With low savings rates, non-essential purchases will decline, impacting all consumers — especially those with lower incomes.

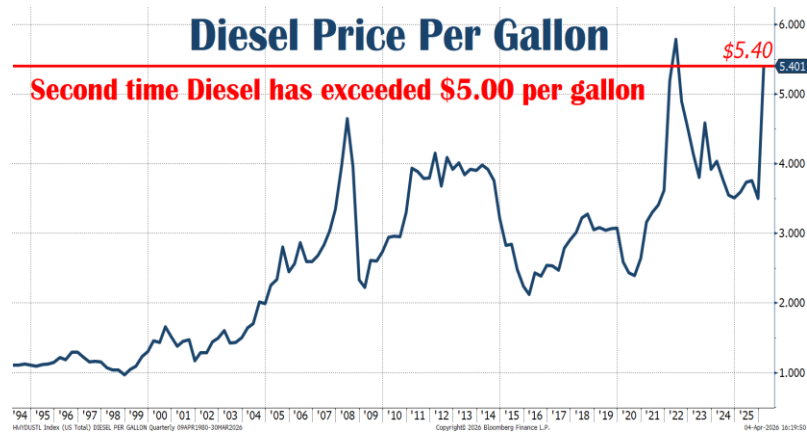
With the exception of the pandemic, every recession since World War II has been preceded by a significant surge in crude oil prices. On average, these increases have doubled, suggesting that \$120 per barrel marks the threshold for economic strain this time. WTI closed on Thursday, bringing us 85% of the way to that mark.



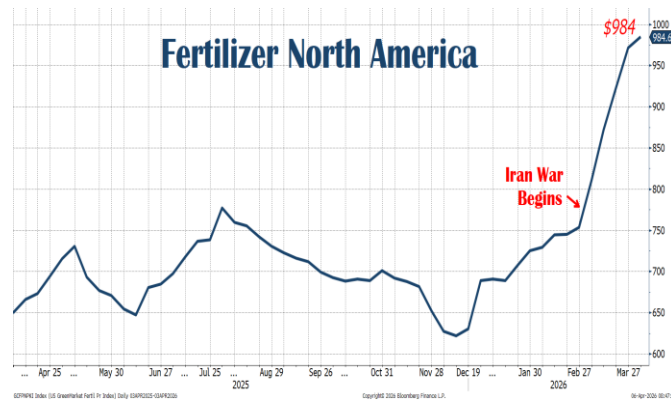
Since the war started, the average price of gasoline has jumped by a dollar per gallon to \$4.11.



Diesel has soared to over \$5 per gallon for just the second time in history, a major shock to the costs of operating tractors and food distribution trucks.



The cost of fertilizer, just in time for the spring season, has soared by ~40%!



**Bottom line:** Don't mistake low jobless claims for economic stability. Over the past year, hiring has dropped twice as fast as firing, and the unemployed population exceeds available jobs by 10%. This supply-demand gap will suppress wage growth amid a major price shock, further eroding real income and spending power, which means the chance of a recession is much higher than most assume.

## MARKET OUTLOOK AND PORTFOLIO STRATEGY

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*“Energy shocks have tended to come and go pretty quickly. By the time the effects of tightening take effect, the oil price shock is probably long gone.” — Jerome Powell, Chair of the Federal Reserve, March 30, 2026*

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Uncertainty remains the new normal as the U.S. is governed by chaotic, *ad hoc* dealmaking in both trade policy and geopolitics. Ongoing tightening in credit markets will slow economic growth. Meanwhile, recent war, oil and food shocks are hurting economic growth, with oil prices unlikely to fully recover even if conflict ends. AI is disrupting the labor market, slowing job creation and income, which reduces GDP. Tariffs' peak effects continue to weigh on the economy and falling equity and home prices threaten spending through a declining wealth effect. Income tax refunds are below expectations, and together these factors raise the risk of recession.

The slowing economy can be best summarized by the latest Atlanta GDPNow cast. GDPNow is a running estimate of what the BEA would report *if* the Bureau of Economic Analysis (BEA) were to produce a GDP report at the current time. As economic reports come in, the nowcasts are updated.

**As of Friday, the headline GDP nowcast is back to 1.6%. More importantly, real final sales are at 1.07%!** The difference between GDP and Real Final Sales (RFS) is Change in Private Inventories that nets to zero over time. RFS is the actual bottom-line number. So indeed, the economy is slowing and fast.



Moreover, there is a real crisis developing for lower-income Americans who have struggled with the end of pandemic-era aid and inflation. Credit card delinquency rates for low- and medium-income borrowers are now higher than at the pre-pandemic economic peak. The thing is, these problems are now gravitating towards the middle class. And if the wealth effect on spending that has supported the consumer these past two years reversed course, now that home prices have stopped going up and the equity market is weakening, the high-end will no longer be able to be relied upon to act as an antidote.

**Ergo, the Fed will be cutting and cutting hard once this reality sets in, but it will be too late — just as it was with Alan Greenspan in the early 1990s when the funds rate was slashed from 8% to 3%.**

Moving on. President Trump may want the war to end soon, as his approval rating nears 30%, but Iran remains uncooperative. Reports suggest only half of Iran's military launchers have been neutralized, and the country still has significant capacity — including more drones than expected — to cause disruption in the Gulf, especially at the Strait of Hormuz. For Iran, control of Hormuz and Kharg Island is now crucial for deterrence and economic survival, outweighing concerns about nuclear ambitions.

From an investment perspective, the range of outcomes and tail risks are far too wide to have any conviction right now or to put on any large positions on anything outside of either cash or short-term bonds. The quote below sums it up nicely.

*"This is really all investors can do. Tread lightly, assume nothing, and don't get swept away by the idea that a brave prince will save the day. It's time to dig in for a long period of radical uncertainty."*

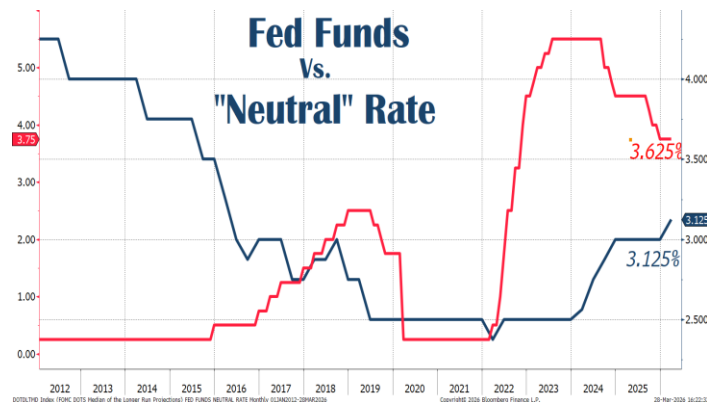
— Katie Martin, *"Trump's tales are still muddling markets," Financial Times*

In this sea of uncertainty, one thing I am certain about is that the Fed is not going to raise rates anytime on the forecasting horizon. This is why the front end of the bond curve has now become my preferred investment.

That said, there are valid concerns about longer-term bonds, mostly linked not to inflation but to future fiscal deficits and debt, especially considering defense spending requirements. Prior to the war, fiscal arithmetic was already difficult — and is poised to get worse.

The U.S. entered the conflict with deficits over 5% of GDP, debt above 100%, and rising interest costs that make up 20% of government revenue. President Trump's budget proposes \$1.5 trillion in new military spending out of \$2.2 trillion total, while the Pentagon requested \$1 trillion this year. Social Security may become insolvent by 2032 without intervention. Fiscal pressures will likely keep bond yields high even during recession-related rallies.

Foreign officials are selling Treasuries to defend their currencies and manage pricier energy imports, while U.S. fiscal concerns keep long-term yields elevated. Even if war premiums ease, ongoing trade, military risks and tax politics suggest a weaker fiscal outlook, making a steeper yield curve likely.



**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 and food 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—recognising 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 *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](mailto: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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