



Tom Slefinger
Market Strategist

Weekly Relative Value

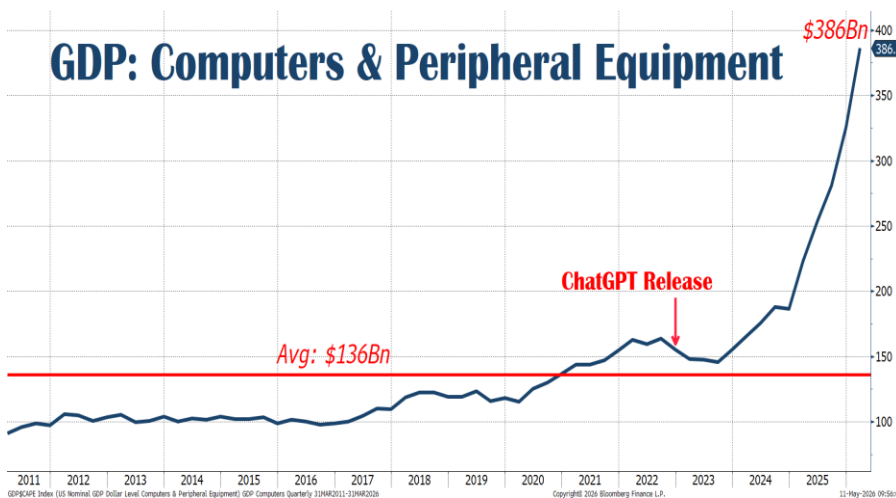
WEEK OF MAY 11, 2026

In AI We Trust

“Most big tech companies have financial firepower to keep investing. Further hints that there isn’t a pot of gold at the end of the AI rainbow could dent shareholder and lender confidence, though. The same AI investment thesis has encouraged well-off households to spend so much and save so little. Consumption has rarely depended this much on faith in one hot sector, and vice versa.” — Spencer Jakab, “In AI We Trust: Why Spending Is So Buoyant,” The Wall Street Journal

Artificial intelligence (AI) is driving U.S. economic growth and productivity. Between Software (0.7% of the gross domestic product (GDP) growth) and Nonresidential Equipment (0.88%), AI, which was the primary driver behind growth in both, contributed just over 1.5% to GDP growth of 2.0%; in other words, about 75% of all U.S. growth in Q1 was due to AI, the largest quarterly contribution in history. To put this differently, without this AI-driven tech investment, Q1 GDP growth would have been close to flat. **Over the last five quarters, investment in software and IT equipment contributed +90 basis points on average per quarter, the most for any five-quarter period on record.**

Another way to visualize the remarkable impact of spending on "computers" is the chart below: It clearly shows just how reliant the U.S. has become on spending on computer products.



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THIS WEEK

- SEARCHING FOR A POT OF GOLD
- NEW HOME PRICES DEFLATE
- THE K-SHAPED HOUSING MARKET
- LABOR DEMAND REMAINS WEAK
- FAKE NEWS
- WAGES DECELERATE
- MARKET OUTLOOK AND PORTFOLIO STRATEGY



Credit Union Leadership SYMPOSIUM
September 9-11, 2026
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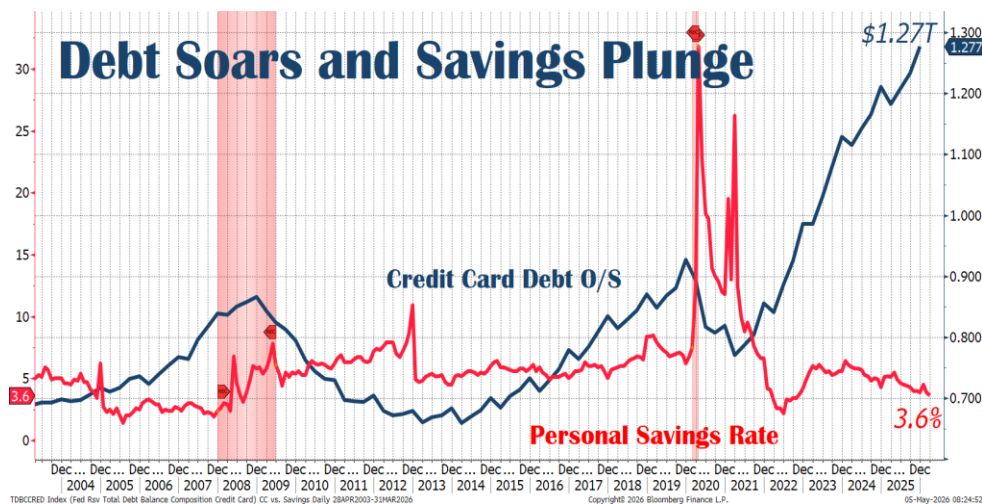
Meanwhile, over half the growth in total non-farm business output was fueled by productivity gains. Unit labor costs slowed to a three-year low of +1.2% from +3.0% a year ago. In the past two years, 92% of the growth in the U.S. economy has come from productivity gains. In a normal economy, historically the balance is 50-50. It is now a lopsided 92-8, where the labor market has become little more than a two-bit player in the economy. How does one squeeze inflation out of this? This energy spike caused by the war is not likely to outlast this productivity burst, which is now so dominant that it is accounting for virtually all the growth in non-farm business output.

Time Period	Productivity (%)	Labor Market (%)	Current Ratio	Historic Ratio
2023-2025	92%	8%	92-8 %	50-50%

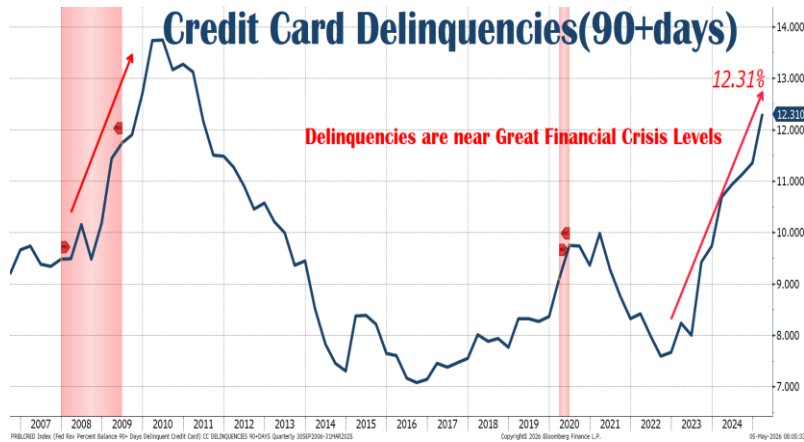
While AI is driving the economy, few have noted that, aside from reduced personal savings and increased AI spending, the U.S. economy contracted at an annual rate of -0.3% in Q1. Over the past year, besides the AI spending binge, the primary source of stimulus for the U.S. economy has been the sharp decline in the personal savings rate from over 5.0% to 3.6%. Barring that, real consumer spending would be running flat right now instead of +2% on a year-over-year basis. The reasons? The equity bull market rally, which has made the high-end feel richer and more willing to spend more out of their after-tax income, and for the low-end, the ability to continue to tap their credit cards to stay afloat.

This is what the CEO of Heinz had to say about the low-end consumer:

“They’re literally running out of money at the end of the month... “We’re seeing negative cash flows in the lower-income brackets where they’re dipping into savings.”
 — Kraft Heinz Co. Chief Executive Officer Steve Cahillane



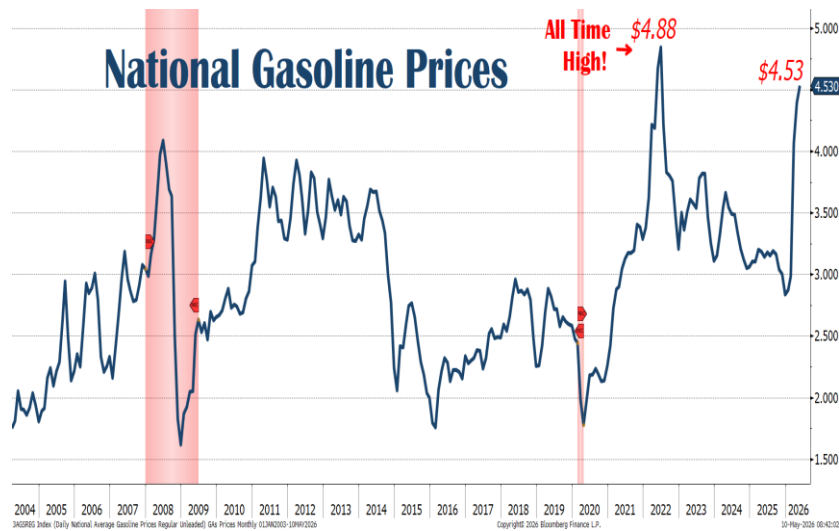
It really says a whole lot about the fragility beneath the surface when the credit card delinquency rate has soared to a fifteen-year high of 12.7%, higher today than they were in Q3 2008 (9.5%) when Lehman collapsed.



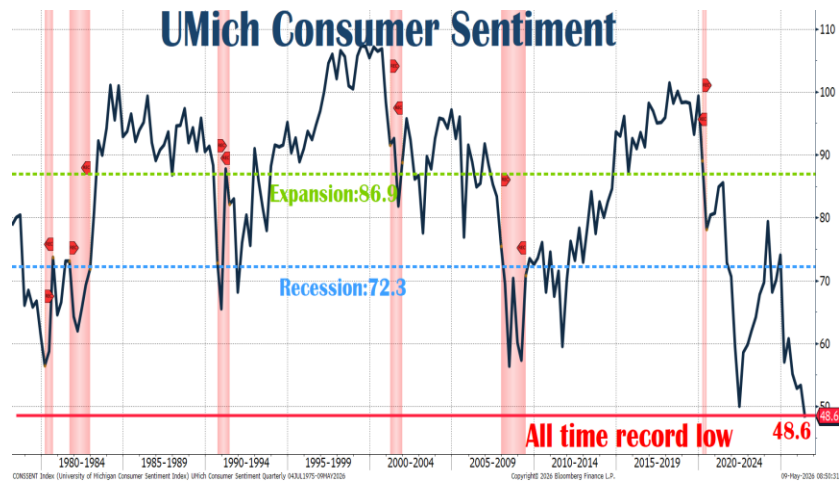
Despite Fed claims of economic strength, most sectors — including consumer durable goods, cyclical services, technology capital expenditures (capex), housing and non-residential construction — are declining. Question for the Fed: are we to assume these sectors don't exist?



Also lost on the macro and market bulls is the fact that gasoline prices nationwide touched an average of \$4.50 per gallon for the first time since July 2022 — up +50% since the war began and ONLY 35 cents away from an ALL TIME HIGH! This is equivalent to a huge tax on the consumer, which is only being kept alive by the equity wealth effect on the high end and stepped-up credit card usage at the low-end.

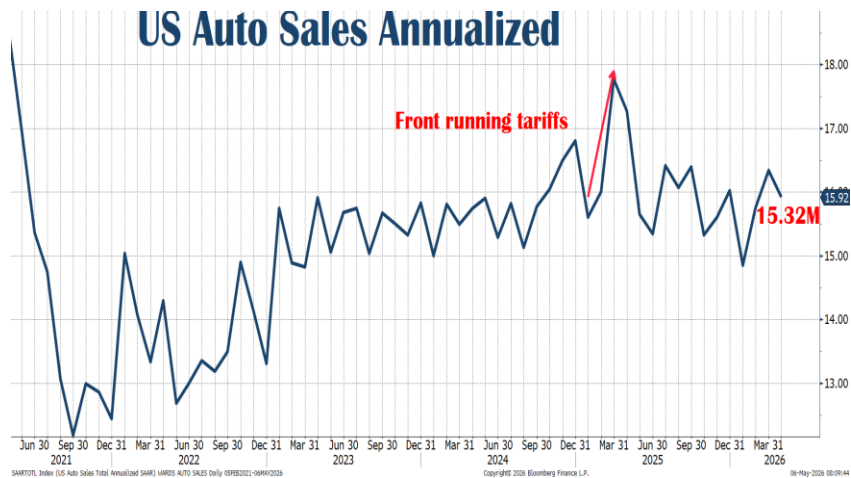


Moreover, because of the purported massive infrastructure damage, gasoline prices will likely remain elevated. Let’s hope for an end to the conflict, but much damage has already been done. At the same time, we have a far weaker labor market on our hands, and there are no \$2 trillion pandemic stimulus checks to cushion the blow. In this environment, it is not surprising that consumer sentiment has once again fallen to a record low. The reasons: gasoline and tariffs.



Unless we get relief from the “gas tax” soon, a consumer recession may well be the new dominant feature of this cycle, and that is not being discounted anywhere. Not even the Fed is discussing this risk, even as real disposable incomes shrink, which will only sow the seeds of disinflation for the other 90%+ of the Consumer Price Index (CPI) that is not energy.

We can already see cracks in the consumer starting to surface. April auto sales were down -1.5% month over month to 15.9 million units annualized, well off the peak of ~18 million in March 2025. And the Johnson Redbook same-store sales are flagging a -0.3% pullback in real chain store sales. Investors don’t seem to see it, but the economy is losing momentum, and April retail sales seem to have been a real dud.



Whirlpool’s Chief Financial Officer, Roxanne Warner, said U.S. consumer confidence nosedived to historically low levels, driven by worries over the rising cost of living, after the war began February 28. The company eliminated its dividend and cut its forecast, citing tariffs, inflation and debt.

“War in Iran resulted in recession-level industry decline in the U.S. as consumer confidence collapsed in late February and March.”

Finally, it probably is not well recognized that six years of 5%+ deficit/GDP ratios have played a key role in providing a false glow to the U.S. economy, with the largesse adding at least +0.5% annually to growth. That all comes to an end this November when fiscal gridlock enters stage left for the first time in more than a decade.

Meanwhile, markets are discounting a Fed rate increase by April of next year as recessionary pressures mount. Indeed, two *Wall Street Journal* columns illustrate the strains emerging beneath the veneer: [“High Housing Costs Are Pushing Foreclosures to a Six-Year High”](#) and [“A Federal Housing Handout Has Ended. Foreclosures Will Follow.”](#)

“Homeowners were comfortable with their monthly costs when they bought their homes, but ‘all of a sudden, a year later or three years later, that mortgage payment jumps beyond that percentage that they had accounted for, when you add in insurance and taxes.’” — Rebecca Carter, Real Estate Attorney

U.S. foreclosure filings just hit a six-year high in the first quarter, with surging homeownership costs such as property tax and insurance bills the key factors, along with the end of the generous Biden-era subsidy plan that helped people who fell behind on their mortgage stay current. The number of Federal Housing Administration (FHA)-financed homes with foreclosure filings jumped +28% in March compared with a year ago, and the delinquency rate hooked up to 11.6%.

Bottom line: I have to admit that I find it laughable when Jerome Powell keeps on describing the U.S. economy as being in solid shape at a time when nearly three-quarters of it is in a recession. We are left with just AI capex, financial services and health care as the only three areas keeping things afloat.

I seriously doubt the Fed is going to be engaging in rate increases, especially since market rates are doing the tightening job for them. The front end of the bond curves continues to provide a nice layup for decent returns in the coming year, and all they have to do is do nothing.

SEARCHING FOR A POT OF GOLD

We're living through an unprecedented chapter in financial history, where AI data center investments are skyrocketing. In just the first quarter, Microsoft, Amazon, Meta and Alphabet shelled out \$133 billion on capital expenditures — up 70% from last year — which, for perspective, is now triple what was spent on the Manhattan Project. Who knew?

The Fab Four tech giants splashed out \$133 billion on capex in the first quarter, outdoing the entire industry's \$125 billion. This year, they're gearing up to invest a jaw-dropping \$725 billion, making every previous annual figure look like pocket change; the last record was a mere \$110 billion. With such mega spending, it's no wonder AI capex provided most of Q1's 2.0% real GDP growth — tech capex accounted for three-quarters of the total.

That is not normal corporate spending.

For 30 years, Big Tech built software once, added users cheaply and grew margins rapidly with limited investment in physical infrastructure. That model is changing. The AI boom is pushing Big Tech into a more capital-intensive industry. AI models demand land, power, cooling, data centers, servers, GPUs and memory chips. Data centers carry high initial costs, ongoing upkeep, replacement needs and sunk capital that's difficult to recover. How long should a company expect an AI chip or server to stay economically viable? Four, five or six years? Unlike buildings that last decades, the chips inside are likely to have much shorter lifespans.

The platforms still have to prove that this massive spending will generate sufficient returns even as the competition and disruption rate increases. Nor do we know who ultimately wins the AI race. One month, it is OpenAI. Then Anthropic. Then DeepSeek. Then Google. The pace of change is unrelenting.

Bottom line: My head is spinning after last week's four hyperscalers — Amazon, Alphabet, Microsoft and Meta — combined announced a \$725 billion AI capital spending binge for 2026. Unheard of. But this has left the group with less cash on the balance sheet than at any point in the past decade. So, we have reached the stage of this AI spending cycle where the companies are being compelled to fund their immense buildout from cash-burn, mega debt issuance and job cuts.

NEW HOME PRICES DEFLATE

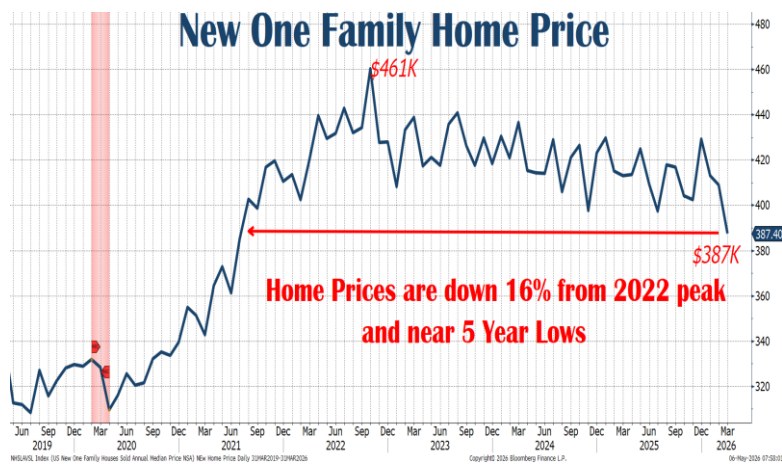
The business of homebuilders is to build and sell homes, no matter how tough the market is. They want to protect or gain market share, and they have adjusted to this market with lower prices and big incentives. Sales have held up, unlike sales of existing homes, which have been in a deep freeze for four years.

After collapsing in January (-17.6% month over month, the worst since July 2013 amid weather disruptions), U.S. New Home Sales have risen strongly for two straight months, up 8.9% month over month in February and up 7.4% month over month in March. This lifted new home sales by 3.3% year over year. But there was less here than met the eye. New home sales have really gone nowhere in three years.

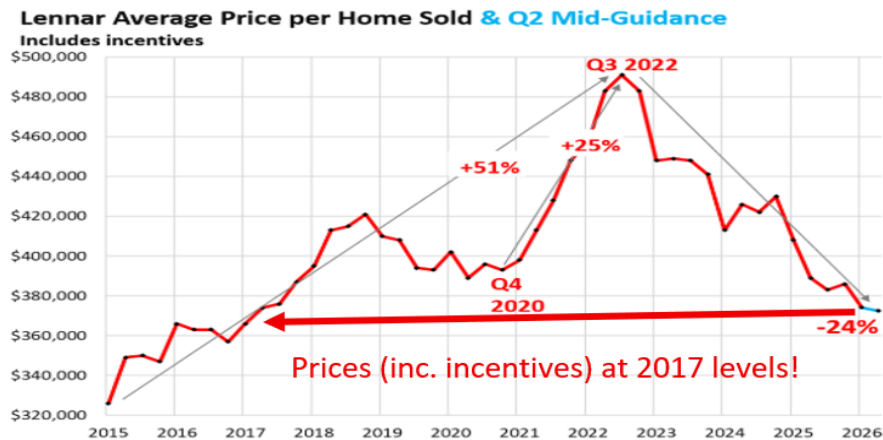


Second, the median length of time it took the builders to make a sale upon completion has gone from 2.8 months in December to 3.6 months in March — the highest since August 2021. So, what the builders are doing in response is... cutting prices.

The median price of a newly built home was shaved by -5.3% in March, riding a three-month losing streak and deflating now in six of the past seven months. The year-over-year trend is now running at a -6.2% pace, and by 16% from the peak, to \$387,400 in March, the lowest since July 2021. But this median price does not include the costly incentives, such as mortgage-rate buydowns, that builders use to boost their sales.



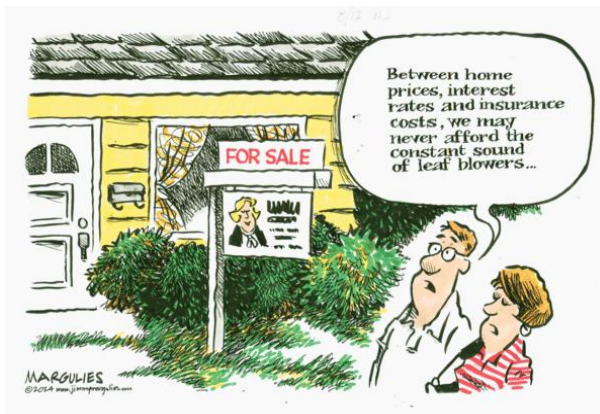
With mortgage-rate buydowns and other incentives included, prices of new homes fell far more, according to homebuilders’ financial reports. To wit: Lennar, which has been pushing for big growth in unit-sales volume to gain market share, disclosed in its Q1 financial statements that it cut the average price per home sold in Q1 to \$374,000, the lowest since 2017, and by 24% from the peak in Q2 2022, including incentives and mortgage-rate-buydown costs. And its guidance for Q2 included a further drop.



Bottom line: Does this sound like an inflation problem to you?

THE K-SHAPED HOUSING MARKET

The imbalances in the U.S. economy are both profound and unprecedented. The K exists across the wide divergences between low-end and high-end consumer confidence and spending; between household spending and incomes; between AI capex and the rest of business spending; and between housing and renting.



Looking ahead, one of the most talked-about economic issues today is the concern that most people may never be able to afford a home. Many members of Gen Z are anticipating a future where owning a house is out of reach. For those who do manage to buy property, many are choosing to purchase homes independently, prioritizing savings and homeownership over marriage.

Indeed, the latest Gallup poll showed that the share of U.S. non-homeowners who expect to buy a home within five years has dropped to 25%, that is the lowest Gallup has measured in seven readings since it began asking the question in 2013!

Currently, millions of homeowners have extremely low mortgage rates, thanks to the Fed. If they sell their homes, they'd lose their 3% loan and must get one with an interest rate around 6.5%. This keeps them from selling.

Making matters worse, too many owners bought at the peak of the pandemic and the peak of pricing. Now they are stuck trying to sell \$300,000 homes for \$600,000. **The problem is no one wants to buy a \$600,000 house that may drop to \$450,000.**

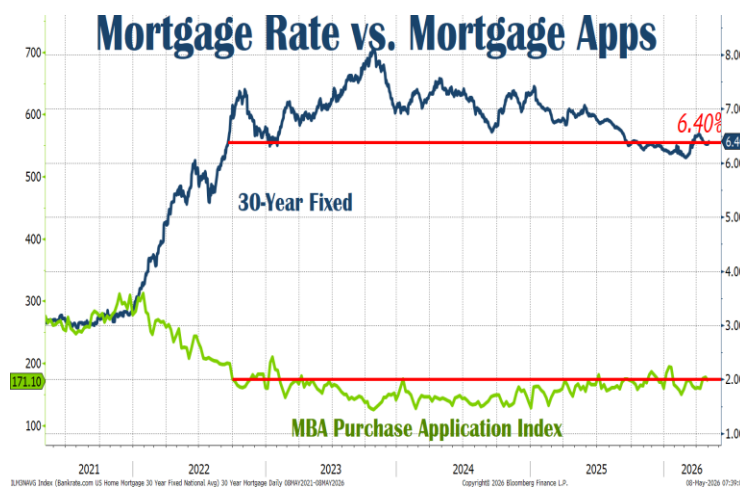
In addition, household formation and birth rates are affected, but homeowners avoid discussing it since solutions require either much lower rates or prices.

This in turn could result in considerable losses in home equity and the overall net worth of the population, not to mention a heavy decrease in mortgage loans and credit liquidity.

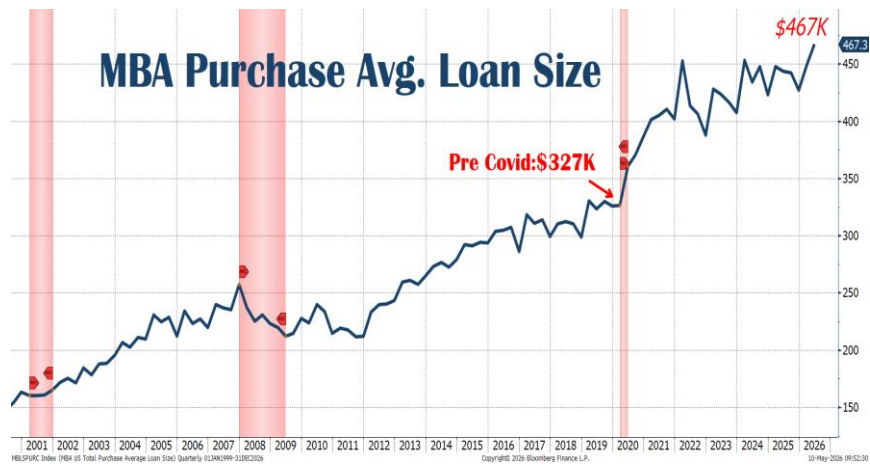
For people waiting to purchase a home, this could be good news. Price cuts of 20% to 30% are possible and well overdue. That said, buyers will likely wait out the storm until they think prices have hit bottom.

Meanwhile, as the Fed continues to sound hawkish, the interest rate that really matters is the yield on the 10-year Treasury yield, NOT the Fed funds rate. After a brief dip in the 30-year fixed mortgage rate in February, daily trackers now show the average rate climbing above 6.5%, dealing a blow to this year's spring home-buying season. That is a huge bite to affordability. If you tell a homebuilder about the solid economy and booming stock market, you may well get punched in the face because the homebuilders sector plunged -26% from its nearby high.

As shown below, total mortgage application volume fell 4.4% on the week, purchase applications dropped 4% and were only 5% higher than a year ago.



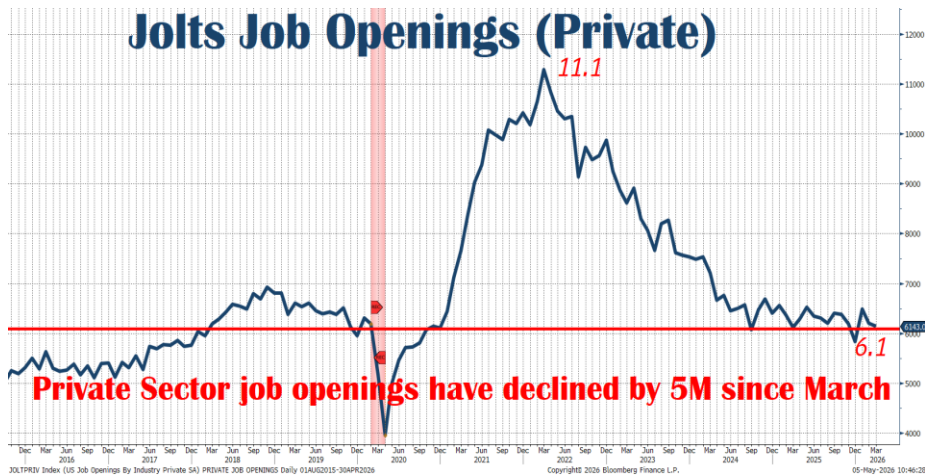
The average loan size on a purchase application hit \$467,300, the highest in the Mortgage Bankers Association's (MBA) survey history going back to 1990, indicating first-time buyers and people looking at lower price points are dropping out fastest. The market is not slowing evenly across income levels; it is hollowing out at the bottom while higher-income buyers continue transacting at price points the rest cannot reach. That gap will keep widening as long as rates stay where they are.



Bottom line: A 6.50% mortgage rate combined with home prices that have not significantly declined is the affordability squeeze the housing market has been claiming was temporary for three years now. Simply, the math does not work for a household earning median income looking at a median-priced home, and the longer rates stay here a generation of would-be buyers continue paying rent that funds someone else's mortgage.

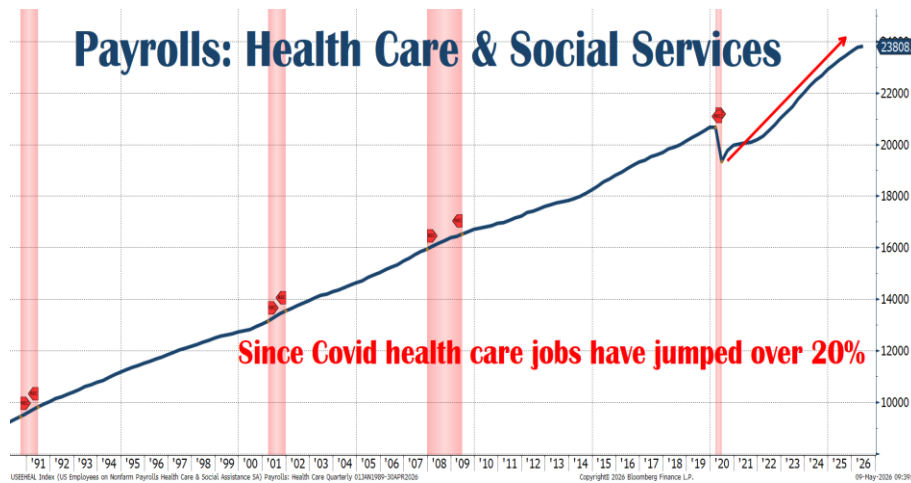
LABOR DEMAND REMAINS WEAK

Job openings, the purest form of labor demand, fell by -56,000 after pulling back -318,000 in February. Down now in four of the past five months. Since 2022 private sector job openings have declined by five million!



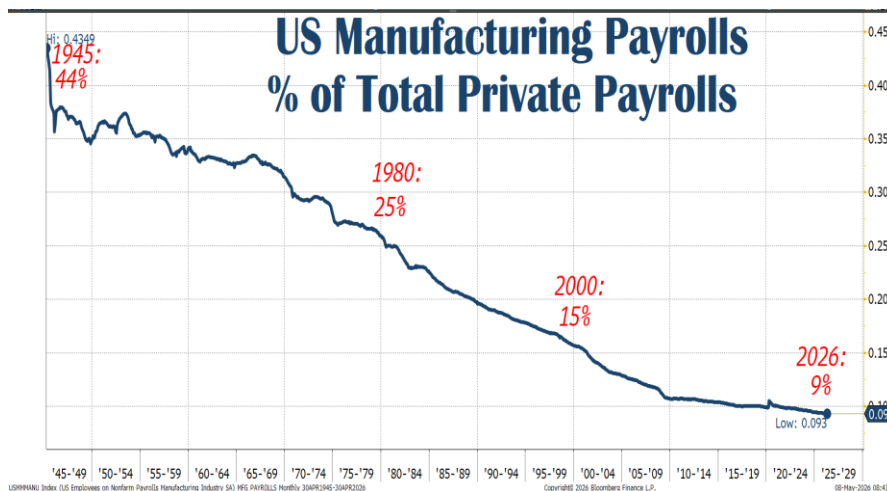
There are 6% more people unemployed than there are job postings, and this excess supply has been with us since last July. When the situation was in reverse in 2022 and 2023, the Fed had no problem using that as a rationale for hiking rates. The thing is — we are in a state of idle capacity in the labor market, which makes it silly for the Fed to be threatening interest rate hikes to combat an oil price shock.

First, looking at the composition reveals two things: The biggest contributor was from the Education and Health services category, which added 46,000, and has been the biggest and only consistent source of jobs growth this decade.



But even more remarkable was the surge in courier and messenger jobs, which soared by 38,000 in April, reversing the 52,000 drop last month. Was there a DoorDash or Uber hiring binge that I missed last month?

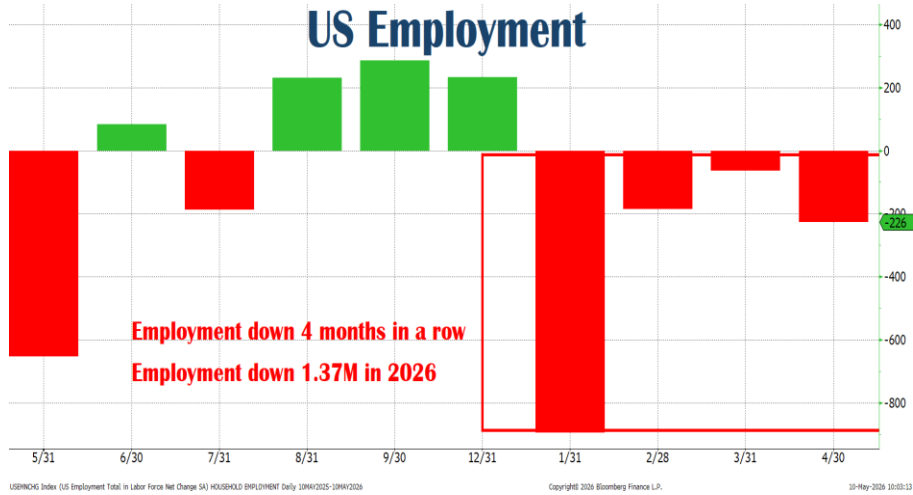
In other words, just two job categories accounted for 73% of the job gains in April. As for the beating heart of the U.S. economy, manufacturing jobs, they tumbled to -2,000, the first negative print of 2026. Manufacturing jobs are now down 73,000 over the past year. In addition, financial and transportation services were flat, which tells you a thing or two about the cyclical backdrop right now.



Then we have this other not-so-trivial detail, which is that the birth-death model was responsible for almost half the headline payroll gain. In fact, the birth-death model added +97,000, which means that the headline was really +18,000 if it was based on the existing survey alone, absent this fudge factor. Ergo, the details were less impressive than the headline.

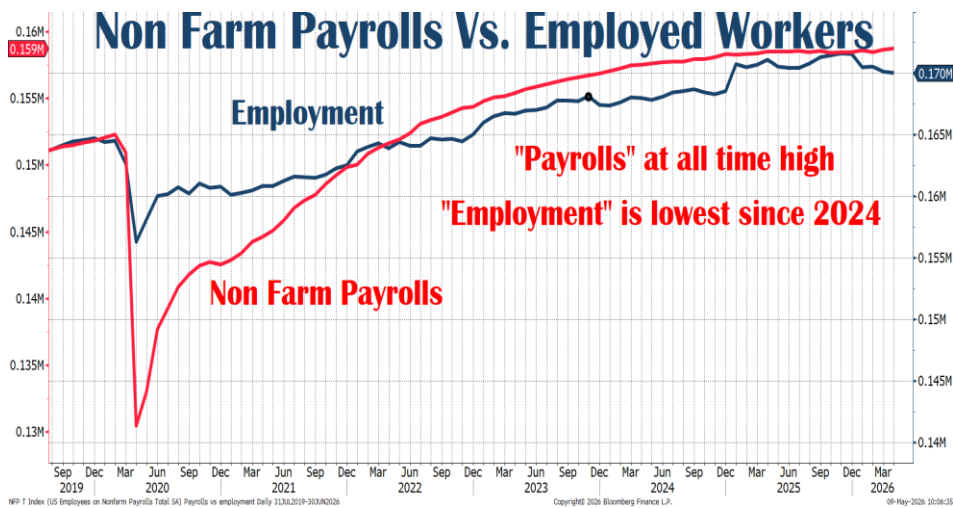
The household employment survey, which is not affected by the birth-death model, showed a -226,000 employment plunge, but when this measure shows a loss, it never gets reported in the media. Worse, this wasn't a one off: The number of employed workers has been declining every month this year and is now down an average of 343,000 jobs

every month of 2026 after hitting a record high in December 2025! In other words, total employment is back to where it was when Trump was elected.



There was more rot under the surface, as the number of full-time jobs in April plunged by 424,000, while part-time jobs surged by 445,000. The 445,000 jump in people working part-time is a pace usually associated with the early innings of a downturn.

The number of employed workers has been declining and is now the lowest since December 2024 to 162.622 million. The number of payrolls (tracked by the establishment survey) is now at an all-time high of 158.735 million, a number which is clearly not supported by the data.



There was something much more ominous in the payroll report: AI is finally coming for your job... if you are a programmer, that is.

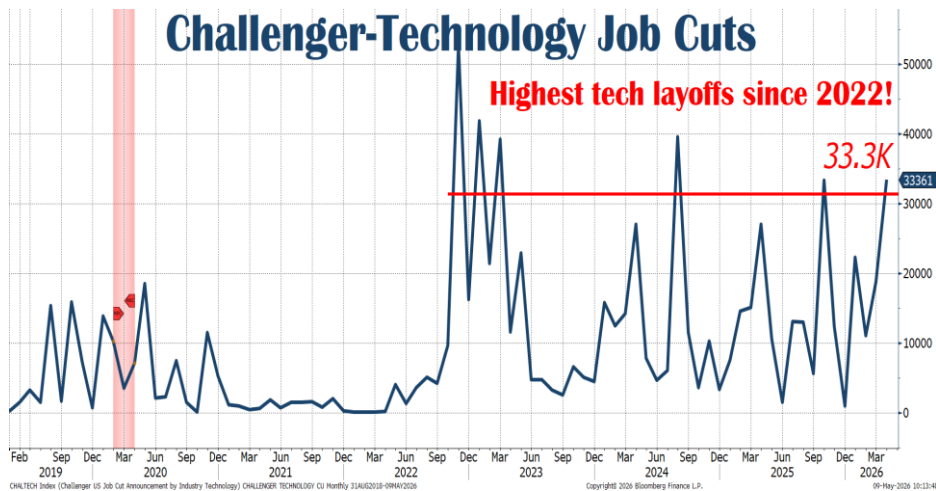
Information jobs dropped again, sliding by 13,000, having slid again... and again... and again. In fact, as shown in the next graph, information jobs have now been "negative" every month since 2024, continuing the downward trend that has seen the category down 342,000 jobs since November 2022 (11% of its workforce).



Don't expect that to change any time soon as the impact of AI "jobs outsourcing" is now here. We are now seeing a flood of tech layoffs among which Cloudflare is laying off 20%, PayPal, 20%, Upwork, 25%, Bill Holdings, 30%, Coinbase, 14%, Meta, 10%, Microsoft, 7%... and Google is saying 75% of new code is now AI-generated (and about to lay off double digits too).

Tech companies announced 33,361 job cuts in April, according to Challenger, Gray & Christmas. So far this year, the industry has planned 85,411 cuts, up 33% from the same period in 2025. Q1 has seen the most tech-related layoffs since the tech recession of 2022.

“Technology companies continue to announce large-scale cuts and are leading all industries in layoff announcements....Regardless of whether individual jobs are being replaced by AI, the money for those roles is.” — Andy Challenger, Chief Revenue Officer, Challenger, Gray & Christmas



This is how Goldman's Privorotsky puts it:

"This phase has been the capex boom to enable what eventually becomes a far more radical labor adjustment cycle."

In other words, workers are being laid off to make space for capex spending and the occasional stock buyback.

Bottom line: The headline masks that most job gains came from healthcare, courier work and social assistance — sectors that grow regardless of the economic cycle. Information, finance and manufacturing, which typically indicate economic expansion, lost jobs. Growth focused on delivery drivers and home health aides is not equivalent to broad-based hiring.

Most importantly, this assumes you believe any details in the report, which I don't. There is no reason to believe any of these details this month or any month. Take a look at this table, which shows revisions to the payroll data from January 2025 through March 2026. Detect a pattern?

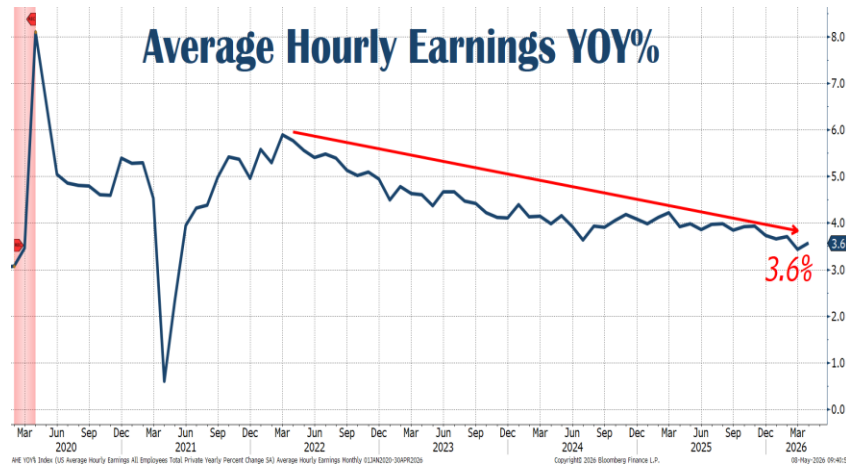
Non-Farm Payroll Monthly Revisions			
Month	First Estimate	Final Post	Difference between 1st Estimate and Final Post
Jan-25	+143K	-48K	-191K
Feb-25	+151K	+42K	-109K
Mar-25	+228K	+67K	-161K
Apr-25	+177K	+108K	-69K
May-25	+139K	+13K	-126K
Jun-25	+147K	-20K	-167K
Jul-25	+73K	+64K	-9K
Aug-25	+22K	-70K	-92K
Sep-25	+119K	+76K	-43K
Oct-25	-105K	-140K	-35K
Nov-25	+64K	+41K	-23K
Dec-25	+50K	-17K	-67K
Jan-26	+130K	+160K	+30K
Feb-26	-92K	-133K	-41K
Mar-26	+178K	+171K	-7K

WAGES DECELERATE

Nominal wages cooled off once again coming in at less than +0.2% (+0.16% sequentially). That followed a similar result in March. Over the three months to April, the trend in average hourly earnings has slowed to a +2.8% annual rate — it was +3.2% a year ago and +3.4% two years back. We have not seen anything quite like this in over five years, when the unemployment rate was sitting at 6.9%. This should not happen in a tight labor market.

More importantly, this really should be the metric that the Fed follows the most for signs of just how tight or loose the jobs space is, and the extent to which the energy price shock will simply hit the wall in the labor market and trigger a contraction in real personal incomes — and then spending. Why the hawks on the Fed aren't talking more about this is a true mystery, because there is no sustainable inflation without the labor market responding — and payroll headline aside, it is not.

Perhaps the most critical behavioral aspect of the employment report was the voluntary “quits rate.” I call this the “employee frustration” index. This is arguably the only part of this series that tells you anything about worker confidence — that ability to leave your current job in search of greener pastures elsewhere. And the “quits rate” fell from 12.4% to 11.3%, the low-water mark of the year. And this is crucial because this indicator leads the wage cycle. There is nothing inflationary here.



MARKET OUTLOOK AND PORTFOLIO STRATEGY

President Trump: “We’ve never been hotter.”

U.S. Consumers: “I’ve never felt poorer.”

Me: Both can’t be right.

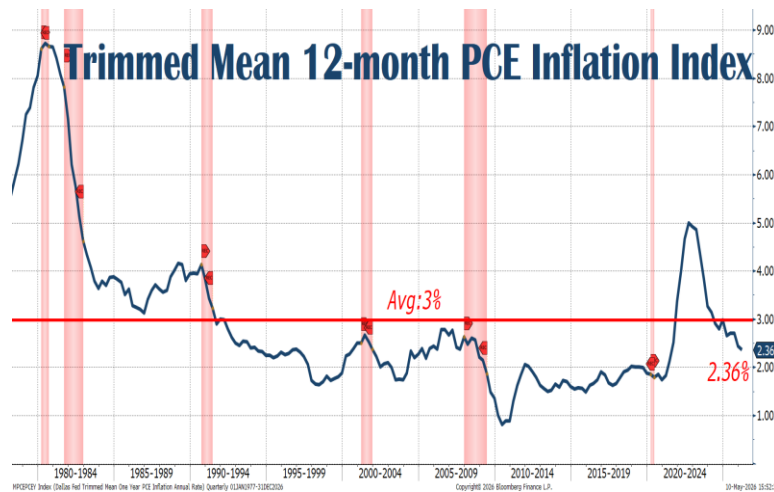
The breadth of the economy is seriously deteriorating, with contractions in consumer spending in durable goods, cyclical services, housing, non-residential construction and net exports.

I was listening to former Kansas City Fed President Esther George talking on CNBC, and all she was focused on was inflation, which is only coming from an oil shock. Nobody asked her how she would treat a sales tax hike, because it amounts to the same thing — a deflationary tax on domestic demand.

Since the end of the 1970s energy crisis, the Fed has not raised rates during an oil price shock with the unemployment rate trending higher. It is the labor market that will determine whether, in fact, the next move will be a hike — which is why I am leaning against the hawkish view. This is akin to 1990 when the oil price doubled, the jobless rate was on a rising path, and the Greenspan Fed, during that oil price spasm, ended up cutting rates no fewer than five times. Don’t buy into the rhetoric from these three hawkish dissenters.

High energy costs and rising demand from U.S. fixed investment, driven by Big Tech’s capex surge, are set to impact upcoming inflation data. CPI on Tuesday will be the main focus, with markets expecting a +0.3% rise in core CPI. Producer Price Index (PPI) follows Wednesday, then import prices Thursday. Bonds may react to any surprises that could shift the Federal Open Market Committee’s (FOMC) divided stance.

That said, the incoming Fed Chair's (Kevin Warsh) favorite inflation index is the Dallas Trimmed Mean 12-month Personal Consumption Expenditures (PCE) Index, an alternative measure of core inflation, designed to filter out the most volatile price movements (both high and low) to better reflect the underlying inflation. As one can glean from the graph below, this index is now at 2.36%, well off the pandemic peak of 5% and near the lowest level since 2021. Does this look inflationary?



From a longer-term perspective, I remain bond-bullish, as I believe the Fed will be compelled to eventually cut rates by more than what is priced in, as the slack in the labor market continues to build.

Also, despite the near-term energy price shock, my base case is that bonds will benefit from the major disinflation in the pipeline from reduced wage pressure and a sustained slowdown in residential rents. At the same time, the tariff impact should subside.

While I remain bond bullish, I would continue to overweight the front end of the curve due to concerns over fiscal recklessness and a rising term premium on the long end of the curve.

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 *WRV* sent straight to your inbox, please subscribe [here](#).

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

As Alloya's Market Strategist, **Tom Slefinger** leverages nearly 40 years of investment strategy expertise to deliver

insightful commentary on the economy and market events to optimize balance sheet performance at the credit union level. With thousands of subscribers, Tom's daily and weekly publications are widely read amongst credit union executives.

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

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

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