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INVESTMENT SERVICES

Weekly Relative Value

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Market Strategist

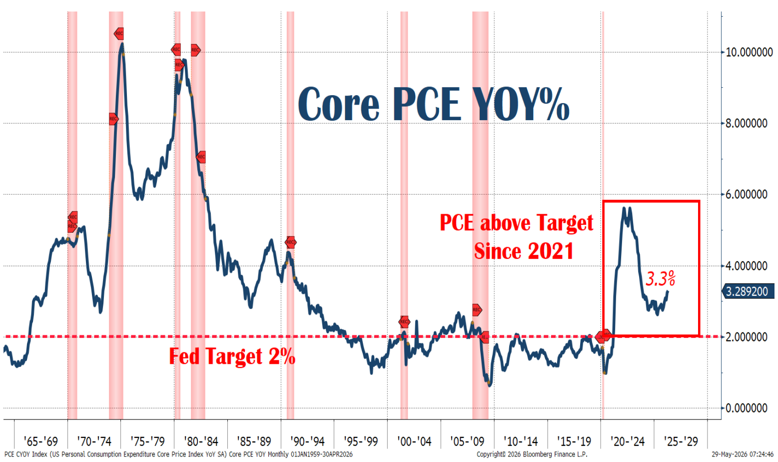
WEEK OF JUNE 1, 2026

Not Everything Is Coming Up Inflation

"Companies from Clorox to Kraft Heinz are finally realizing that half of the consumers in the U.S. can't afford what they are selling…To appeal to cash-strapped and inflation-weary shoppers, the companies are launching smaller and cheaper products, pitching value packages and, in some cases, reversing price increases." — *"Americans Are Sick of High Prices. Companies Are Finally Doing Something About It,"* *The Wall Street Journal*

Last week brought the latest core personal consumption expenditures (PCE) reading, excluding food and energy, the Fed's preferred inflation measure and the market's most important data point.

Investors were bracing for a 0.3% month-over-month print, but it came in at just 0.2%, the lowest reading since last November. That was a relief. The headline deflator also came in soft at 0.4%, at least relative to expectations for a 0.5% increase. That said, the year-over-year trend in core PCE ticked up to 3.3% from 3.2% in March, while the headline measure accelerated to 3.8% from 3.5%.



The impact of the war was evident in crude prices and the PCE energy index. The energy PCE price index jumped 3.9% in April from March, on top of an 11.6% surge the prior month. That pushed the year-over-year increase to 18.3%, up from negative territory in February. Goods prices rose 0.7%, driven by a 5.5% jump in gasoline tied to the Iran situation, but this may be as bad as inflation gets.

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THIS WEEK

- HOMES DEFLATE
- RENTS DEFLATE
- BENEATH THE VENEER
- CONSUMERS HANG ON BY A STRING
- LESS SAVINGS, MORE DEBT
- BNPL BREAKING POINT
- MARKET OUTLOOK AND PORTFOLIO STRATEGY

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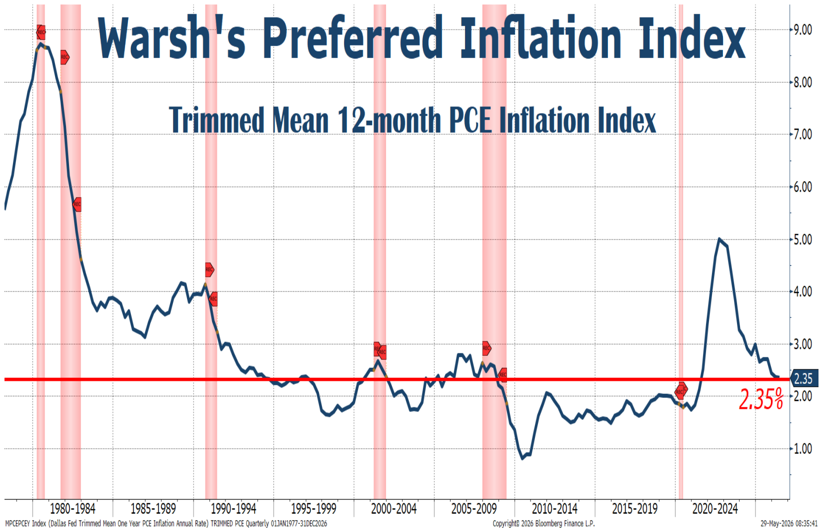
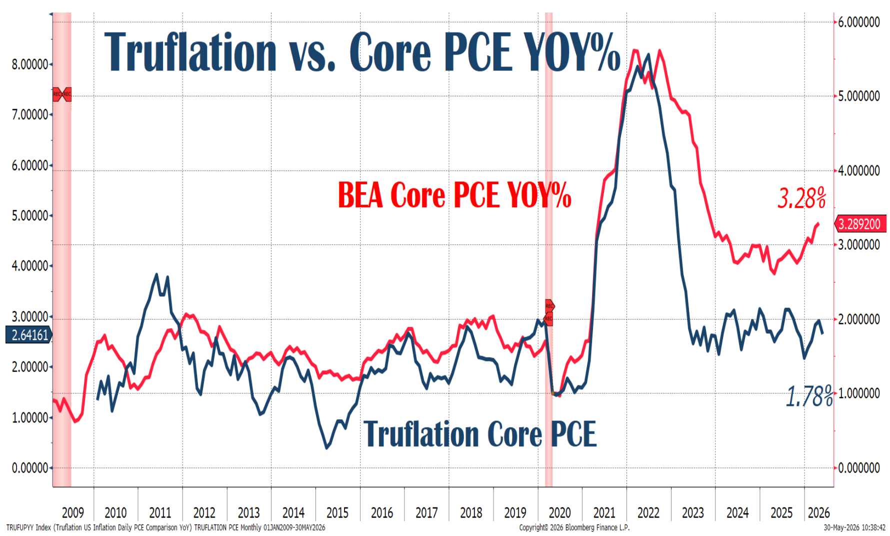
As discussed previously, it's important to remember that Fed Chair Kevin Warsh's preferred inflation measure is the trimmed 12-month PCE index. It strips out extreme price swings to reveal the underlying trend. In April, the Dallas Fed's trimmed-mean metric rose at a 2.35% annual rate, a touch below March's 2.36% pace. Not too scary.



I also encourage readers to follow Truflation, an independent platform that provides real-time daily inflation data. Instead of relying on manual surveys and monthly reporting, it tracks millions of real-world prices to deliver a timelier read on changes in inflation.

The chart below compares the Bureau of Economic Analysis's (BEA) monthly PCE price index with Truflation's monthly PCE equivalent. Truflation's core PCE measure shows core inflation running at 1.78% year over year, versus 3.28% for the BEA's core PCE index.



Truflation uses more than 14 million daily data points from 40-plus independent sources, mapped to the BEA's PCE categories and weights. It has a 0.99 correlation with the BEA measure, offers a timelier inflation read, and has historically led the BEA PCE index by about 29 days.

Truflation's methodology and data collection differ from the BEA's PCE price index.

- **Real-time price collection**: Truflation captures millions of daily prices from public and private sources, reflecting changes as they occur.
- **Continuous updating:** Truflation updates daily, while PCE is released monthly with a 28- to 30-day lag.
- **No smoothing:** PCE uses chain-weighting and imputation, which can delay turning points. Truflation does not, helping it catch inflection points sooner.
- **Faster transmission of economic shocks :** Truflation captures rapid repricing almost immediately, while PCE reflects it only after collection, aggregation and release.

Overall, Truflation is a strong leading indicator of inflation, offering an early read ahead of the BEA's PCE price index. It is especially useful during periods of rapid change, when real-time signals matter most.

Bottom line: I still do not buy the big-inflation narrative or the sell-all-your-bonds thesis. That is not to say inflation risks are dormant. My point is that too little attention is being paid to the real economic damage already unfolding. This is not 2022.

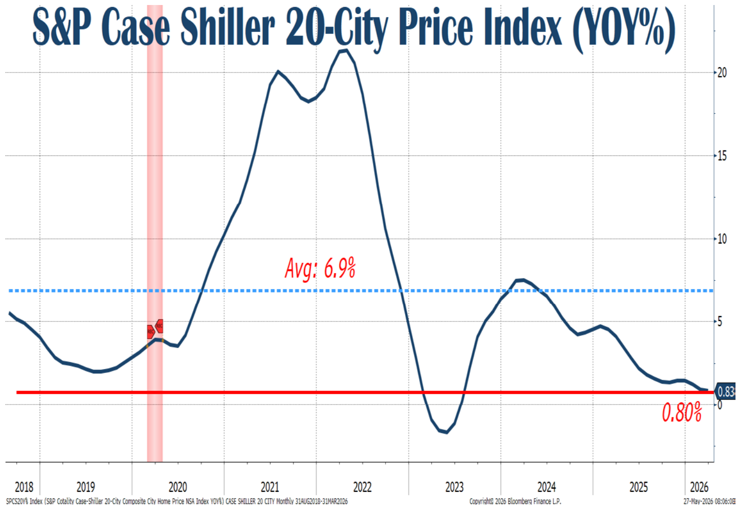
A better comparison may be the 2007-2008 oil price spike, which also stirred fears that inflation pressures were spreading through the economy. The setups are not identical, but one similarity stands out: Recession and deflation risks were largely ignored until the global financial crisis hit with full force.

HOMES DEFLATE

"They said buying a house builds equity. They didn't mention it also builds anxiety. — Anonymous

The Case-Shiller Home Price Index is the leading gauge of U.S. residential real estate values. Unlike median sale prices, which can shift with the mix of homes sold, Case-Shiller tracks repeat sales of the same property over time. Because it includes only homes sold at least twice, it controls for changes in size and quality.

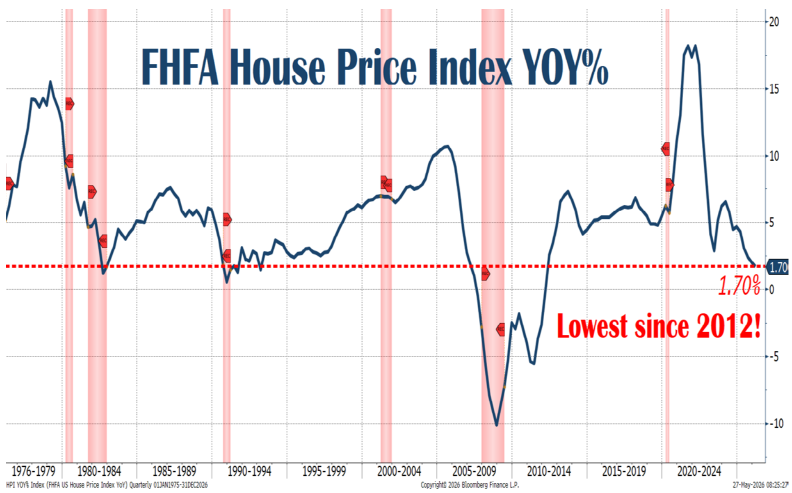
As the chart below makes clear, pain is building in the U.S. housing market. The Case-Shiller 20-city composite index fell 0.2% month over month in March, the second straight monthly decline and the largest one-month drop since May 2025. Over the first three months of 2026, U.S. home prices deflated at a 0.2% annualized pace, hardly surprising given the run-up in mortgage rates.



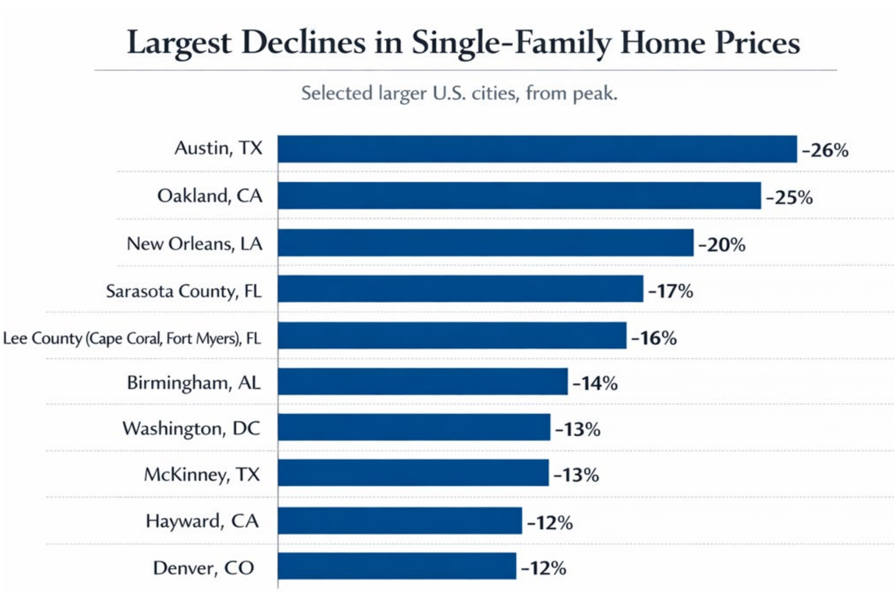
The trend lines do not lie: The year-over-year pace for the Case-Shiller composite slowed to just 0.8% from 0.9% in February. A year ago it was running at 4.1%. Two years ago it was 7.5%. This is a significant cooldown and the slowest pace in nearly three years.

Seattle posted the steepest decline at 2.5%, followed by Denver at 2.0%, Tampa at 1.9%, Dallas at 1.7% and Los Angeles and Phoenix at 1.6%. That is not to say every market is falling. The spread between the strongest and weakest markets now stands at 8.6%, highlighting how uneven the housing slowdown has become.

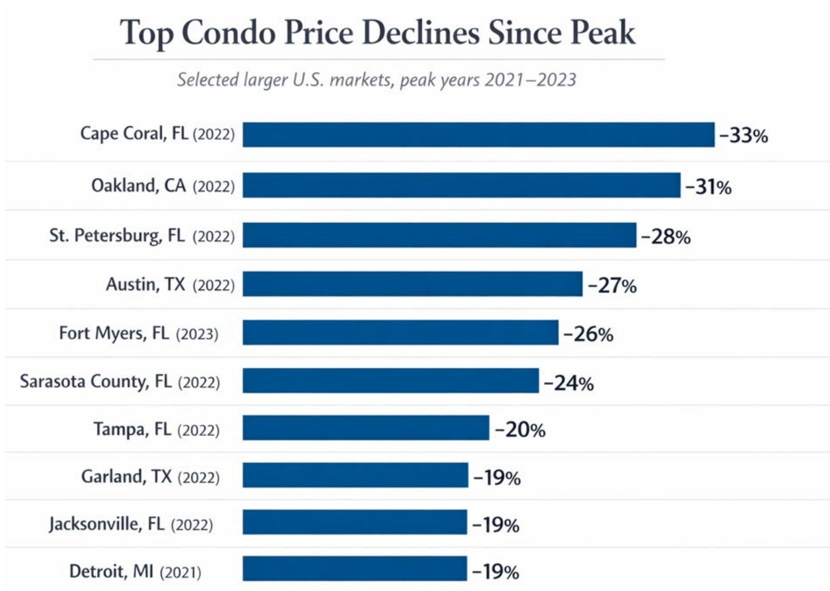
The Federal Housing Finance Agency (FHFA) Home Price Index, which tracks average home values using mortgages sold to or guaranteed by Fannie Mae and Freddie Mac, tells the same story. Its year-over-year pace has slowed to 1.7%, the weakest since March 2012, when housing was still crawling out of the Great Financial Crisis.



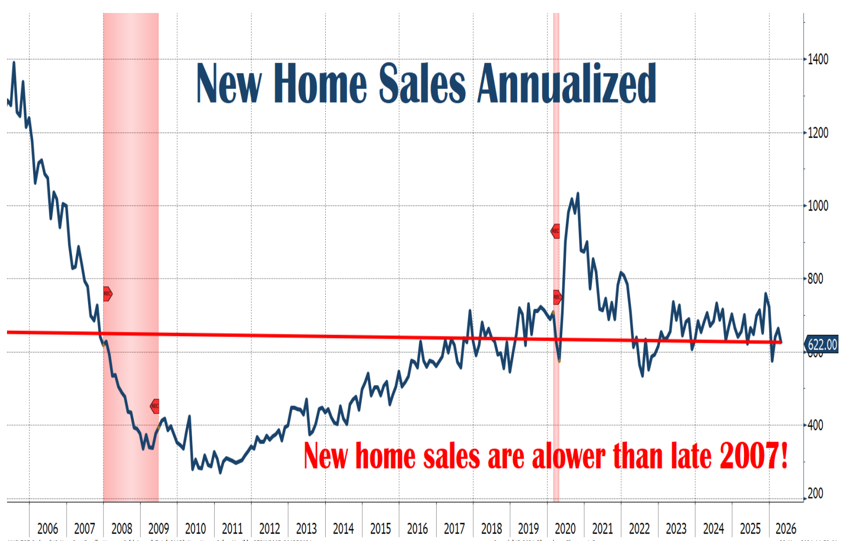
Below, I show the 10 largest declines in single-family homes from their respective peaks:



Meanwhile, the condo bubble has burst. From mid-2020 to mid-2022, condo prices in some cities surged 50% to 70%. Those gains are now unwinding, with prices down 15% to 33% from peaks reached between 2021 and 2024. As shown below, prices are down more than 30% in two cities, 20% to 28% in five others, and 19% in three more. In several markets, condo prices have fallen back to levels last seen 20 years ago.

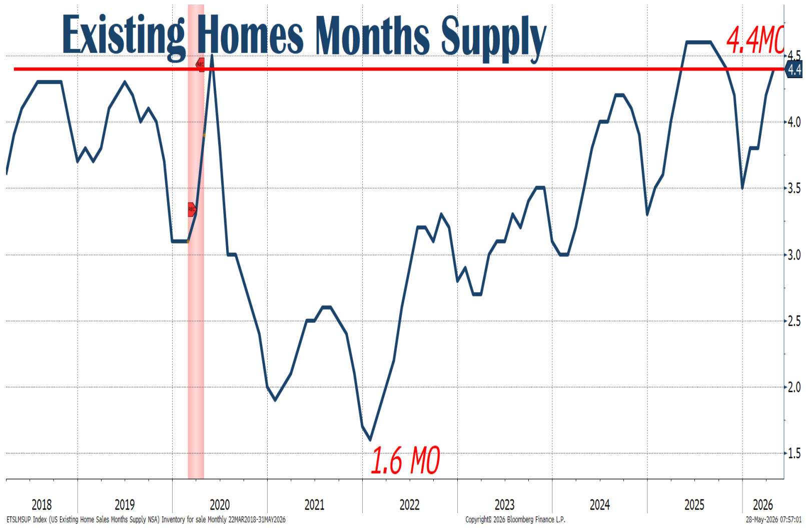


To underscore the weakness in housing, new home sales fell 6.2% in April to a three-month low of 622,000 annualized units. It says a great deal about the state of residential real estate that new home sales are now lower than they were in late 2007, when the housing-led recession began to take hold.

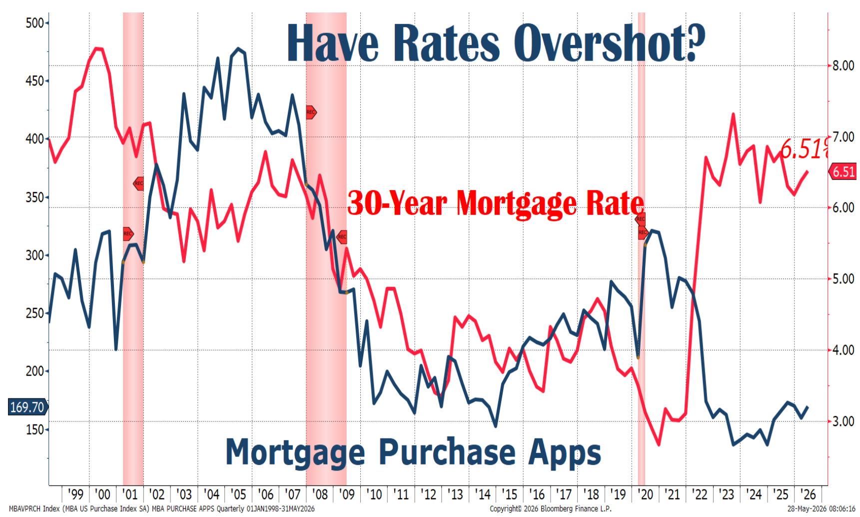


Builders are having such a hard time finding buyers that the median time to sell a completed home has risen from 2.8 months at the end of last year to 3.6 months as of March, near a five-year high. Anecdotally, home builders are still using discounts to move inventory.

Listings are up nearly 6% from a year ago while demand is down 0.3%. As a result, unsold inventory has climbed to a six-month high of 4.4 months of supply, up sharply from the 1.6-month cycle low four years ago when home prices were still rising. The balance has shifted.



Mortgage applications fell 8.5% in the week of May 22 and have dropped sharply in four of the past five weeks, reaching their lowest level since last August. The purchase index has gone nowhere this year. Artificial intelligence (AI) spending may still be firm, but housing remains too important to ignore. When the Mortgage Bankers Association (MBA) index weakens this much after a rate shock, it suggests bond yields have overshot.



Bottom line: Negative momentum is building in residential real estate. New buyers cannot afford the combination of high home prices and mortgage rates, while would-be movers do not want to trade a 3% mortgage for a 7% one.

Despite the recent decline, home prices remain artificially inflated, and sellers now outnumber buyers by roughly 50%. At the same time, weak demographics and poor affordability are slowing household formation, not accelerating it. As baby boomers age out of homes they own, including primary residences, second homes and long-term rentals, more supply will come to market, whether from them or their children. Home prices are likely headed lower.

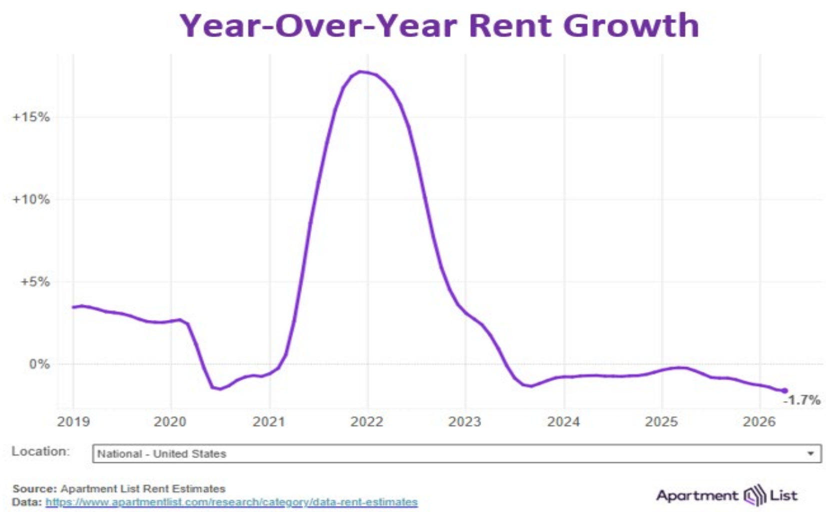
Residential real estate, a nearly $50 trillion asset on household balance sheets, is becoming a growing drag on consumer spending as home equity erodes alongside tighter credit and a softer labor market.

It continues to fascinate me that the Fed is so consumed with the oil-price spike while barely acknowledging that national home prices have now deflated for two straight months.

RENTS DEFLATE

In the rental market, Apartment List's national rent index fell 0.2% in April, extending a three-month losing streak and leaving rents down 1.7% from a year earlier. Landlords are waiting for supply to ebb so they can raise rents again, but that moment does not look close. Roughly 480,000 apartments will come online this year, and about 450,000 more per year are set to be delivered in the years ahead.

Rent trends still vary widely by region, with annual declines concentrated mainly in the South and mountain West. Meanwhile, many markets in the Northeast, Midwest and parts of the West Coast are still seeing rents move higher.



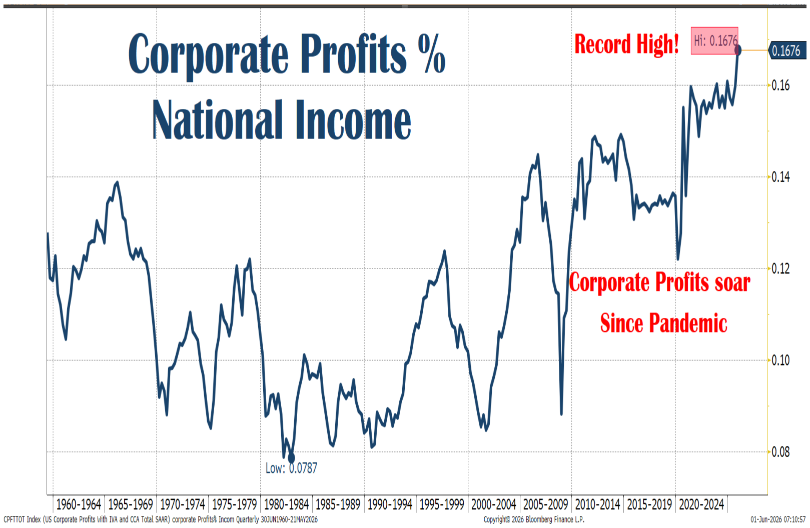
Bottom line: This is where the inflation narrative begins to unravel. Both sides of the housing market, home and condo prices as well as apartment rents, are now declining together. That should push the shelter component of the Consumer Price Index (CPI) lower over time and also weigh on PCE.

As bond investors and the Fed focus on oil-driven price pressure, they may be missing a bigger story: Mild deflation is returning to residential real estate. That should give hawks pause ahead of the June Federal Open Market Committee (FOMC) meeting and reinforce that, outside the AI boom, the broader economy remains soft.

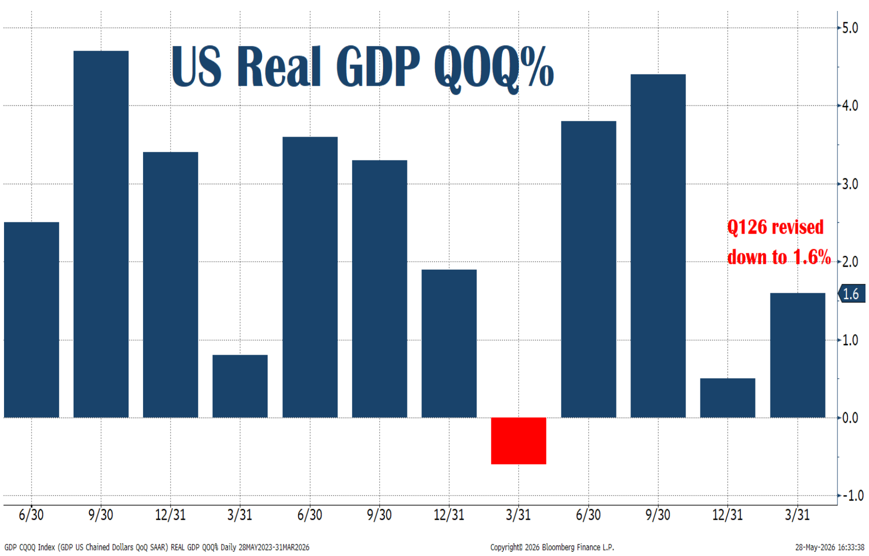
BENEATH THE VENEER

"To understand why people are so miserable about the economy…look no further than Thursday's report on gross domestic product. Not how much GDP grew, but how it was divvied up." — Greg Ip (The Wall Street Journal)

Ip noted a growing split between wages, which are taking a smaller share of national income, and corporate profits, which are taking more. Many Americans feel the system is rigged for good reason. More gains are going to shareholders than workers, while wealth is becoming more concentrated at the top.



Meanwhile, the biggest macro surprise last week was the downward revision to first-quarter real GDP growth, which was cut to a 1.6% annual rate from an initial 2.0%. That was a sharp comedown from the Atlanta Fed's widely followed Nowcast, which at one point had projected growth well above 3.0%.



Here are the key details:

- Real consumer spending was revised down to a weak 1.4%, annualized from an initial 1.6.
- AI capital expenditures (capex) surged at an unprecedented 23% annual rate, while the rest of business capex fell 7.9% after a 13.1% drop in Q4.

- Industrial and commercial construction declined 5.4% quarter over quarter, extending its losing streak to nine quarters.
- The residential sector also contracted at a 6.3% annual rate, marking a fifth straight quarterly decline and underscoring how little momentum exists outside tech.

One final takeaway from the Q1 GDP revision: Strip out the AI surge, the federal reopening, the savings drawdown and the inventory swing, and the economy contracted at a 1.1% annual rate.

Look at these sectors:

- Housing
- Nonresidential construction
- Old economy capex
- Consumer cyclical services

Together, these sectors contracted at a 1.9% annual rate in Q1, after falling 2.6% in Q4 2025.

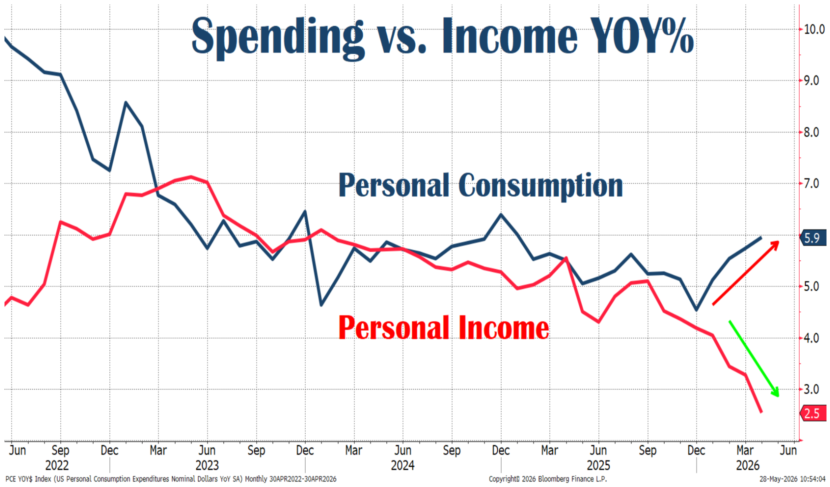
Yet the narrative remains one of economic strength, largely because of the stock market.

CONSUMERS HANG ON BY A STRING

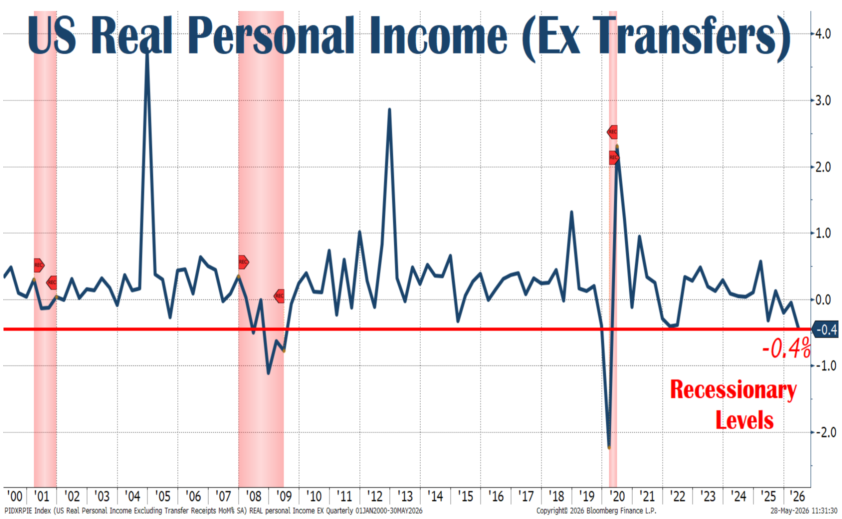
*__They're literally running out of money at the end of the month__… We're seeing negative cash flows in the lower-income brackets where they're dipping into savings." **—** Steve Cahillane, CEO, Kraft Heinz*

On the consumer front, I continue to push back against the rose-colored consensus view of the U.S. economy. Despite higher interest rates, elevated inflation and repeated shocks, tax refunds averaging nearly $3,500 helped keep spending resilient. But much of that support has already been erased by the rise in Middle East-driven energy prices, and the longer the conflict lasts, the more inflation will erode consumer spending growth. In other words, the sugar high is ending.

Personal income was flat against expectations for a 0.4% increase. Consumer spending rose 0.5%, but almost all of it came from savings drawdowns rather than income growth. Over the past year, personal consumption has risen 5.9%, while personal income is up only 2.5%. That gap of more than three percentage points has been possible only because of equity wealth at the high end and heavier use of credit cards and buy now, pay later (BNPL) financing for the rest of America.



I realize it is not fashionable to talk about recession, but keep in mind that one of the National Bureau of Economic Research's (NBER) key indicators is real personal income excluding government transfers. That measure fell 0.4% month over month in April and has now declined for three straight months after peaking last September.

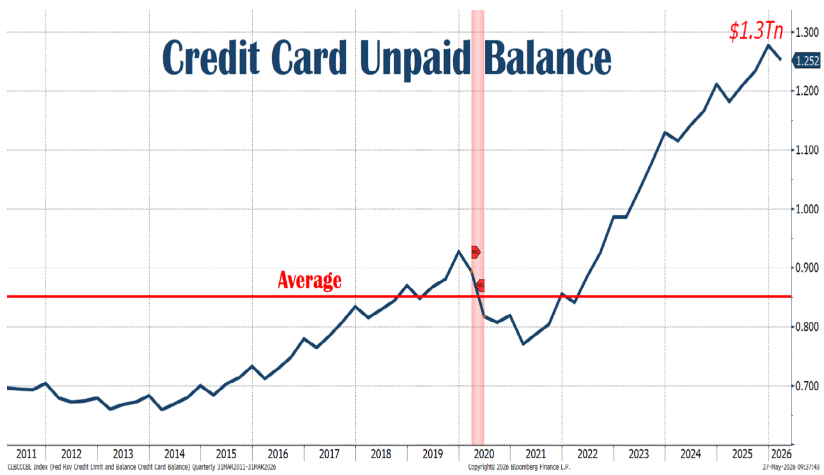


Bottom line: Households are spending faster than their incomes are growing, a gap that cannot persist indefinitely. Spending has held up because Americans are draining savings and leaning on credit cards just to stay afloat.

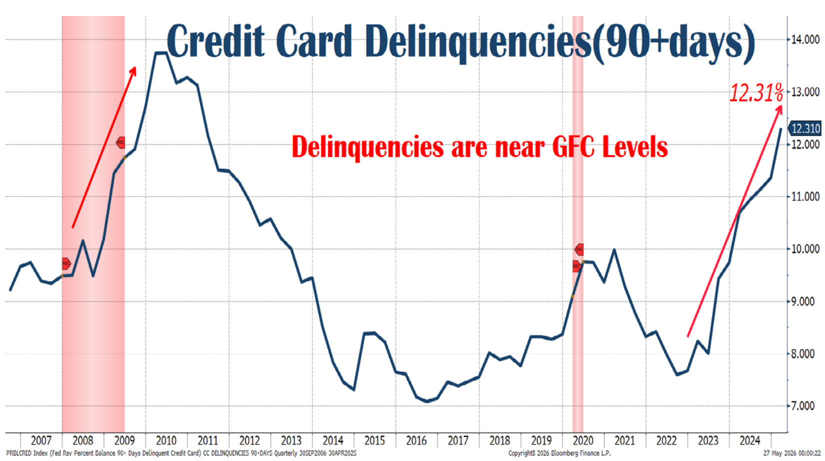
LESS SAVINGS, MORE DEBT

The personal savings rate plunged to 2.6% from 4.3% in January, near a four-year low. A year ago, it was 5.5%. With savings barely above record lows, Americans appear to be drawing down cash reserves just to keep up with inflation. It is no wonder sentiment remains weak.

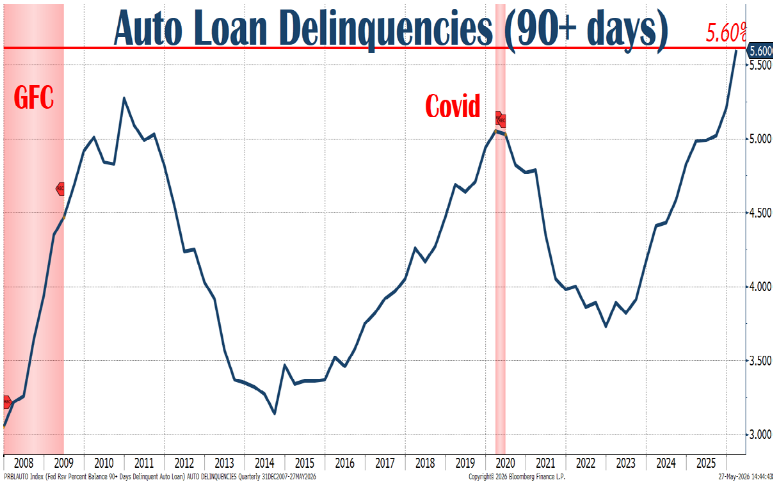
As savings fade, Americans are relying more heavily on credit cards, along with tax refunds, to sustain spending. There will be consequences from carrying that debt at average interest rates of 21%, **especially now that unpaid balances have reached an unprecedented $1.3 trillion.**



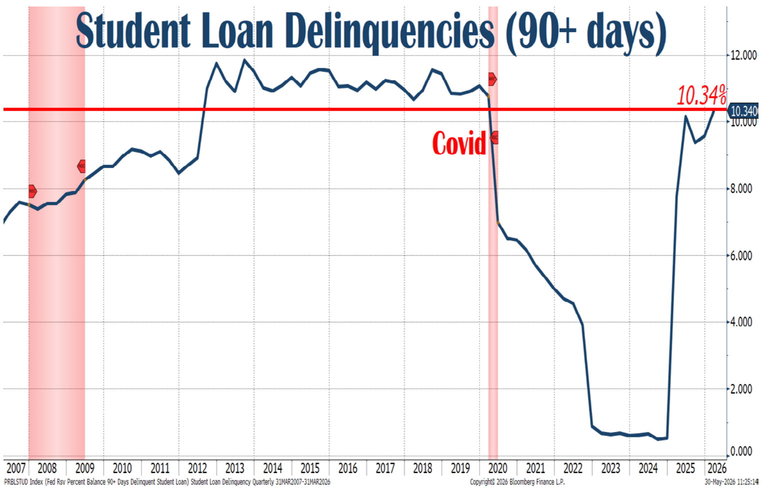
Not to mention that 90-day credit card delinquency rates have broken above 13% for the first time in 15 years.



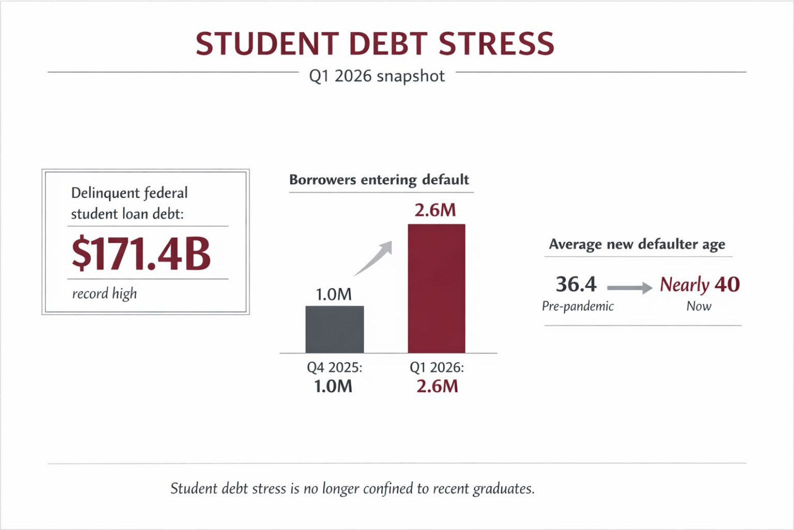
Auto loan serious delinquencies have now surpassed levels seen during both the global financial crisis and the pandemic, reaching a new record.



The student debt crisis shows no sign of easing. The serious delinquency rate is now above 10%!



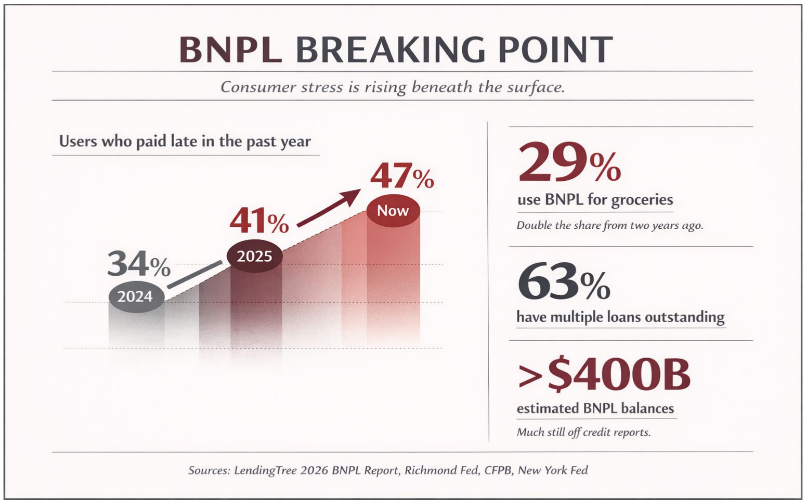
Delinquent federal student loan debt has climbed to a record $171.4 billion, with 2.6 million borrowers entering default in Q1 2026 versus 1.0 million in Q4 2025. Making matters worse, the average new defaulter is now nearly 40, up from 36.4 before the pandemic, showing that the crisis is hitting middle-aged Americans, not just recent graduates.



Bottom line: Signs of consumer stress are rising**,** with delinquencies climbing across credit cards, auto loans and student loans, while lower-income households remain trapped on the wrong side of the K-shaped economy.

BNPL BREAKING POINT

Nearly half of BNPL users have paid late on a loan in the past year, up from 34% in 2024 and 41% in 2025 to 47% today. About 29% now use BNPL for groceries, double the share from two years ago, and more than half say they cannot make ends meet without it. Roughly 63% have multiple loans outstanding at once. The New York Fed estimates BNPL balances exceed $400 billion, much of which still does not appear on credit reports.



At nearly every checkout, shoppers can now split even a $40 grocery bill into four payments. Klarna, Affirm, Afterpay and PayPal approve users instantly, but none can see what borrowers owe the others. A household can carry $5,000 in BNPL debt across multiple providers and still appear debt-free on a credit report. The Consumer Financial Protection Bureau (CFPB) tried to classify BNPL firms as credit card issuers in 2024, which would have added basic consumer protections, but it withdrew the rule in 2025. As a result, BNPL remains in regulatory limbo, leaving lenders unable to see a borrower's full exposure.

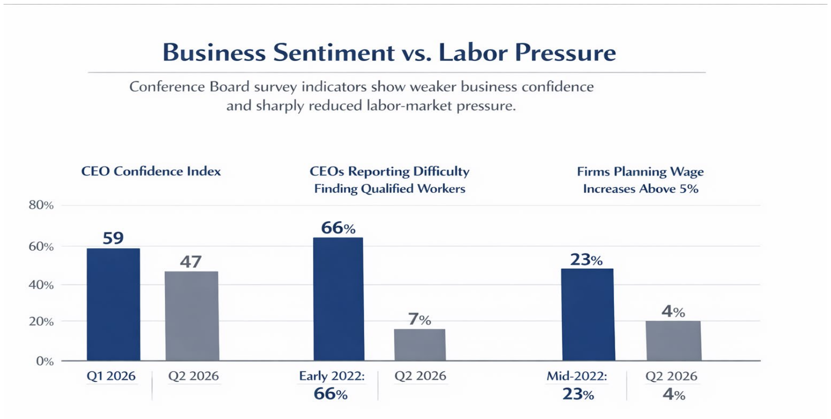
Bottom line: With 29% of users financing groceries and more than 60% of borrowers rated subprime or near-subprime, consumer stress is greater than traditional credit data suggests. The roughly $400 billion in off-report BNPL debt may not threaten financial stability on its own, but it hides how stretched households really are. If bureaus begin reporting BNPL balances consistently, household debt would jump by hundreds of billions and millions of credit scores would fall. The longer that adjustment is delayed, the bigger the eventual correction.

MARKET OUTLOOK AND PORTFOLIO STRATEGY

There is still a stubborn view across asset classes that the U.S. economy is humming and the labor market is super tight, which it is not. Outside of AI, there is little vitality in the economy. GDP growth has slowed to a level that would usually argue for cuts. New home sales are now running below where they were as the last housing-led recession began. In fact, strip out the spending boom and the 3% plunge in the savings rate to a near four-year low of 2.6%, and real GDP would be running at a 0.6% year-over-year decline, not a 2.6% gain.

Yet the consensus narrative is still one of resilience, as everyone tries to use the stock market's price action as proof that the economy is doing great. The problem is that the stock market runs on sentiment, momentum, and psychology. Real GDP does not. The stock market is not the economy.

Also, even though investor confidence remains high, business sentiment has plummeted. The Conference Board's Q2 CEO confidence index fell to 47 from 59 in Q1, back near mid-2007 levels. More than 30% of firms plan to cut staff over the next year, near a record, while 40% expect no change. Longer term, 32% plan to reduce headcount over the next three years, the highest in the survey's history, underscoring AI's growing impact on hiring. Just 7% of CEOs report difficulty finding qualified workers, down from 66% in early 2022 when labor shortages helped push inflation into wages. That dynamic is absent today: Only 4% of firms plan wage increases above 5% in the coming year, versus 23% in mid-2022. A very different kettle of fish.



How this manages to generate anything but a fundamentally disinflationary backdrop in the future is a legitimate question. And it will be more evident once this war-related oil shock, at least partially, reverses course, which seems likely at this point since President Trump, despite all the rhetoric, is aching for an exit strategy.

I suspect that once the fire and fury of the energy shock passes, the structural damage it caused will become more apparent. When the smoke clears, deflation risks may prove more prominent.

Even though traders have shifted from pricing cuts six months ago to pricing a possible hike from my perch, the U.S. economic backdrop simply does not look like one that should prompt tighter monetary policy. Central banks can talk hawkishly to manage inflation expectations, but they do not need to follow through.

On the bond-market side, I continue to believe inflation worries are likely overdone. My base case is that energy prices will reverse once the war ends and bonds will eventually benefit from the disinflation already building through weaker wage pressure and a sustained slowdown in shelter costs.

I remain dovish on rates and bullish on bonds heading into a data-packed week capped by Friday's payrolls.

I would continue to maintain a risk-appropriate laddered portfolio while overweighting the front end of the curve.

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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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