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Market Strategist

Weekly Relative Value

WEEK OF JUNE 8, 2026

Same Bubble, New Buzzwords

“At 10x revenues, to give you a ten-year payback, I have to pay you 100% of revenues for ten straight years in dividends... That assumes I have zero cost of goods sold... That assumes zero expenses... That assumes I pay no taxes... that assumes you pay no taxes on your dividends... And that assumes with zero R&D for the next ten years... Now, having done that, would any of you like to buy my stock at \$64? Do you realize how ridiculous those basic assumptions are? ...What were you thinking?”

— Scott McNealy, Chief Executive Officer, Sun Microsystems, March 31, 2002

Sun Microsystems was the posterchild of dot-com excess. By 2000, its stock had surged to roughly \$250 per share, giving it a market value near \$200 billion. Sun claimed that it had “put the dot in dot-com,” and the market bought into it hook, line and sinker. Never mind that many of its customers were questionable startups with businesses held together by borrowed money. They were still lining up to buy Sun’s expensive servers. At the peak, the stock traded at about 10 times sales.

By 2002, CEO Scott McNealy was openly mocking the valuation that had made Sun a market darling. As the opening quote makes clear, his point was brutally simple: If investors paid 10 times revenue for Sun, they would need a full decade of handing over 100% of revenue just to break even — and that fantasy still assumed no costs, no taxes and no reinvestment. In other words, the stock price only made sense if you suspended basic math along with common sense.



When the dot-com bubble finally burst in March 2000, the demand behind Sun’s story vanished on cue. Many of its customers went bust or simply disappeared, server demand rolled over and the company was pushed into layoffs and cost cuts as revenue declined

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THIS WEEK

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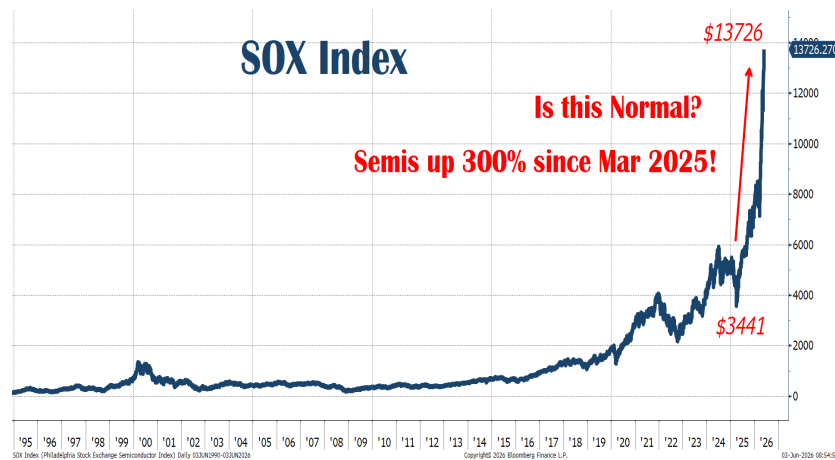
quarter after quarter. The stock then did what bubble stocks do once reality shows up: It was obliterated, falling 51% in 2001 and another 76% in 2002 before sinking below \$10 a share.

In short, Sun went from market hero to exhibit #1 of the dot-com bust. The narrative is different this time, but the underlying story remains the same.

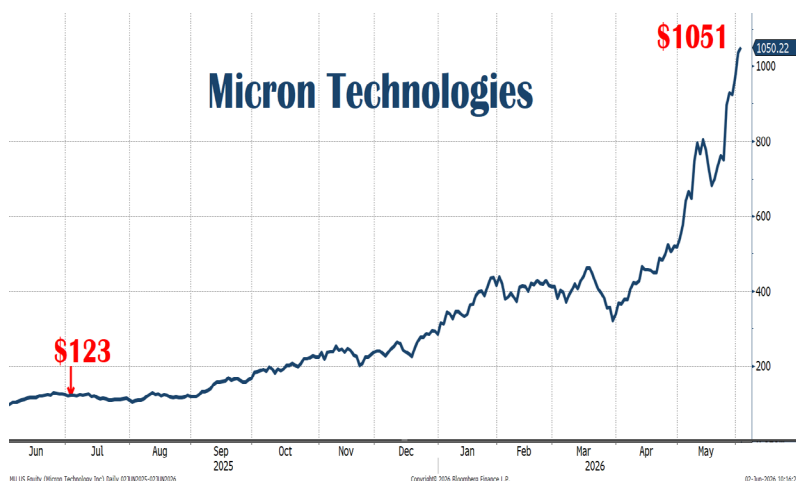
FROM DOT-COM TO DOT-BOT

Fast-forward. Today, there is no shortage of market punditry arguing that today's tech-driven cycle looks like the dot-com bubble of the late 1990s, especially those old enough to remember it. Indeed, the market is showing many of the same trends. Investors are chasing the AI narrative with little regard for valuation, macro risks or the usual way speculative stories outrun the economics behind them.

Rather than focus on those risks, investors have gone all-in on artificial intelligence (AI), and the trade has narrowed into a full-blown microchip mania. The Philadelphia Semiconductor (SOX) Index is up 300% since March 30, 2025, putting it on pace for the hottest start to any year on record. Seriously, who would buy this?



Micron is a vivid example of that mania. Its stock has gone nearly vertically, rising almost tenfold over the past year and pushing through the \$1 trillion market-cap threshold. Even by recent market standards, the pace is extreme: Micron doubled from a \$500 billion market value to \$1 trillion in just 48 trading days after first crossing the \$500 billion mark on March 17.

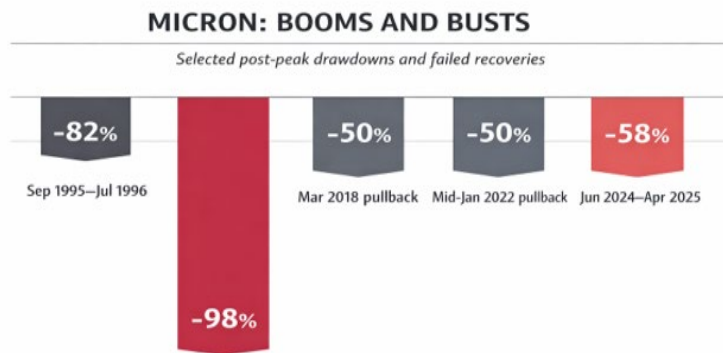


Micron’s recent vertical move looks unreal, but the pattern is not new. During the dot-com bust, the stock lost roughly 98% of its value. The first 70% of that plunge (to \$29.00) happened in the first three months. It took the stock 24 years, to 2024, to exceed its historic dot-com bubble high.

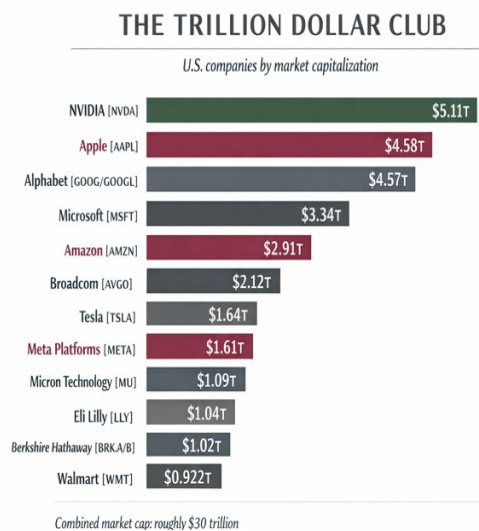
That history matters because memory chips are still commodities, which leaves Micron and other microchip companies highly cyclical and vulnerable to sharp reversals when pricing power fades.

But at each peak, the story was, “it’s different this time.”

But it never was.



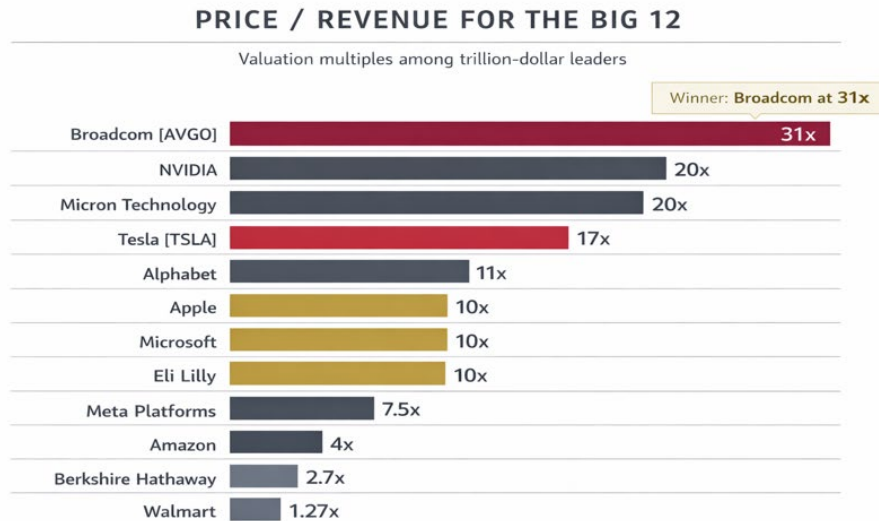
The current AI boom is larger and more concentrated than the dot-com period. Twelve U.S. companies now have market capitalizations of at least \$1 trillion, and their combined value has surged from about \$6 trillion to \$30 trillion in just six years. They now account for about 43% of the S&P 500’s total market value, well above the 27% concentration reached at the 2000 bubble peak.



To be fair, these are not dot-com era pretenders. In the 1990s, there were very early-stage companies with no profits or sales coming to market. Today, they are real businesses with dominant positions in AI, cloud computing, semiconductors and pharma.

But many of these companies are no longer producing the massive excess free cash flow that once funded growth and stock buybacks. Instead they are spending aggressively and, in some cases, adding debt to keep the AI build-out going. So, the nature of the mania is different, but the main point is that even large companies do not eliminate valuation risk.

Even so, investors continue to chase the AI narrative and push earnings and sales multiples to extremes. This time, valuations are not yet as obviously detached from fundamentals as they were during the dot-com bubble. But the mania around the AI story might be. The price-to-sales ratios on these market darlings make the point clear: Eight of the top 12 companies have a price-to-sales ratio of 10 times or higher!



Moreover, because these 12 stocks have reached a massive weighting (43%) in the S&P index, the S&P 500 CAPE ratio rose to 42.5 from 40.2 in May, its highest since September 2000. Look ma, no risk. The markets are pricing in Nirvana. I've asked this before, but do retail investors understand how much concentration risk they have in a handful of names in their 401(k)s? Do they even care?



Bottom line: This time is no different. This time is never different! Whether it's railroads, industrials/utilities, the Nifty Fifty, Japan or any other bubble. The difference is that this one is bigger than *all* of them.

The difference between other bubbles and this one is that so many more people own stocks this time around. It is estimated that 62% of Americans own stocks. If we have a 50% bear market, the consequences would be pretty ugly, but knowing markets and karma, that is probably exactly what is going to happen.

A HOUDINI ACT

"AI is not a bubble." — Arvind Krishna, Chief Executive Officer, IBM

The market is running on the fantasy that AI will deliver monster returns, enough to justify obscene capital expenditures (capex) and inflated valuations. The AI capex cycle is nearing \$2 trillion. For that spending to pencil out, large U.S. hyperscalers would likely need to at least double revenue without materially higher costs.

IBM's CEO Arvind Krishna estimates the industry will need \$6 trillion to \$8 trillion in capex for data centers and chips. To earn that back over seven years, companies would need \$1 trillion to \$2 trillion in new annual revenue. The problem is that, by his own words, that revenue probably does not exist. He also thinks only two or three companies will actually win the race to build leading AI models.

Yet Krishna says this is "not a bubble," while his own math describes trillions of spending chasing revenue he does not believe is there. By any non-comical definition, that is a bubble. And he is hardly any casual observer. As IBM's CEO, he benefits if the spending spree keeps going.

Even OpenAI CEO Sam Altman has raised the question of whether AI spending will show up in revenue. The spending has outrun any realistic estimate of the revenue it can generate, and the companies writing the checks know it. They're just betting they're one of the two or three that survive long enough for it to pay off.

Per a new [Bain study](#), AI is **not paying off** nearly as much as companies expected.

Moreover, investors seem unfazed that Alphabet — once a major buyer of its own stock — has now announced an \$80 billion equity raise to fund AI infrastructure after adding \$85 billion of debt over the past year. It is the company's first share sale in more than 20 years and one of the largest ever. Alphabet expects \$190 billion of capex this year, above the \$174 billion of operating cash flow it generated over the last 12 months. Five years ago, capex was \$25 billion against \$92 billion of operating cash flow. The AI build-out is now consuming more than all internally generated cash flow.

And this is bullish? Equity-funded capex binges used to be a red flag, not a buy signal, but this market abandoned rational analysis long ago. The key point is that big-tech balance-sheet strain is no longer theoretical: Alphabet is following Meta in tapping outside capital to fund its AI spending.

The next question is whether today's investors, replete with neophytes with no sense of history, understand how the equity market is undergoing a major structural transformation away from the past several decades, which was dominated by buybacks, and mergers that depressed supply in the public equity market. That supply support is now heading in the opposite direction, and in a major way.

Bottom line: Do I believe AI will be transformative? Sure. The internet was too. But many of the dot-com companies went belly up during the internet mania.

Capitalism tends to overbuild first and sort out the economics later. That usually ends with too much supply, too little return and a crash.

NOT EVERYONE IS MANIC

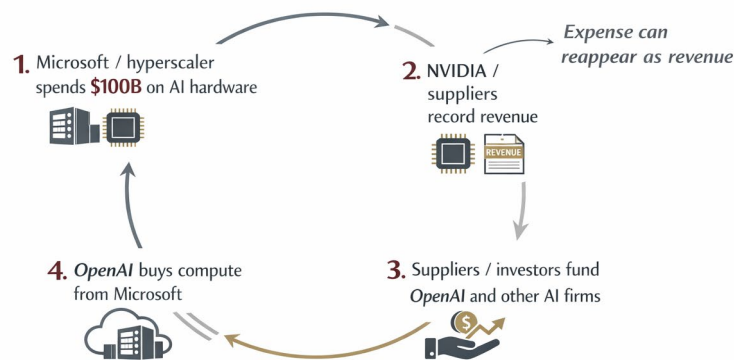
A few skeptics still see the trick, including Panmure Liberum, the U.K.'s largest independent investment bank. They have zeroed in on the questionable way AI profits are being manufactured. The word “artificial” fits.

*“Given the impossibility of finding enough additional revenues to self-finance their capex plans, hyperscalers and their hardware providers increasingly use external financing to fund them. **The worrisome emerging trend here is the increasing use of circular financing as demonstrated by the cross-investments between Microsoft, OpenAI and others.**”*

In essence, a cash-rich hyperscaler like Microsoft buys hardware from Nvidia, AMD and other suppliers. Nvidia then uses that revenue to buy a multi-billion-dollar stake in OpenAI. OpenAI then uses this cash to secure compute in Microsoft data centres. Microsoft itself also invests in OpenAI and enters into a mutual revenue share where some of OpenAI's revenues flow to Microsoft and vice versa as the two companies use each other's products.

CIRCULAR FINANCING

How AI spending can loop back as reported revenue.



Reported demand may look larger than true end demand when funding loops back through the system.

*Assuming that Microsoft spends \$100bn to order hardware for data centres, Nvidia, AMD and other suppliers can recognise this \$100bn as revenues. They then use that cash to invest in OpenAI (for example), which then uses this money to book data centre capacity with Microsoft. Microsoft recognises this OpenAI investment as revenue, **thus effectively turning its \$100bn expense into billions of revenue.**”*

For another clear look at what is really going on, I also recommend [“The Hallucinatory AI Math”](#) (*The Wall Street Journal*).

“Competition plus new technology means that token price declines will return as the norm. My gut says over the next five years and likely sooner, we’ll see token costs decline another 90%, maybe 99%. The future AI math is more like 470 million coders with \$1,000 of tokens. Even \$100.

Watch prices. Everything Global Crossing forecast in undersea demand — per bit — happened and more, but at way lower prices. Same for the overall internet, which grew and grew in demand, but not at 1999 prices that caused flashing green spreadsheets.

*It’s starting. New training algorithms show up almost daily that promise to use less memory and less compute and have AI models learn 10 times as fast. **This is the natural evolution of technology, not price increases.***

There were no recessions in bits, only in price per bit. With tokens, the rosiest AI demand forecasts will be exceeded, but at much lower prices. Today, investors are enjoying the ride. This AI rocket ship is flying high. Why get off? But be warned that many spreadsheets go from green to red in a hurry when prices drop.”

So yes, a few people can still see where this ends, even if no one can say exactly when the mania cracks.

Here is a lesson from one of the greatest fund managers of all time, Stanley Druckenmiller. Speaking privately about the late-1990s tech bubble, he described the emotional strain and test of conviction it created. At the time, he was managing money for George Soros’s Quantum Fund. Though he believed a collapse was coming and was short tech near the end of 1999, mounting losses and pressure eventually pushed him to reverse course. To wit:

“So like around March I could feel it coming. I just — I had to play. I couldn’t help myself. And three times the same week I pick up a — ‘don’t do it. Don’t do it.’ Anyway, I pick up the phone finally. I think I missed the top by an hour. I bought \$6 billion worth of tech stocks, and in six weeks I had left Soros and I had lost \$3 billion in that one play.

Bottom line: As Warren Buffett has often quipped, investors never seem to learn.

“What we learn about history is that people don’t learn from history.” — Warren Buffet

Like the internet, AI will be transformative, but it has done nothing to change the madness of crowds and fear and greed. That is why I keep tuning out the euphoria telling investors to stay all-in on what still looks an awful lot like a bubble. One thing we know about bubbles is that they do not correct by trading sideways.

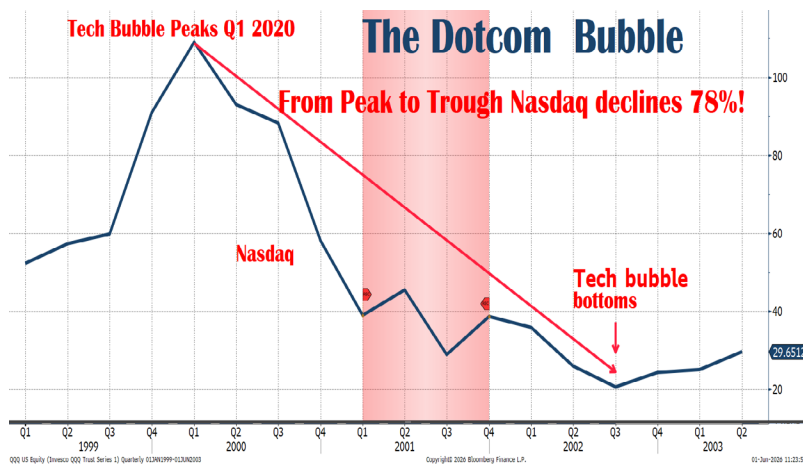
WHAT IF THE AI BUBBLE POPS?

Even small swings in the 12 stocks above now create or vaporize trillions in paper wealth. A 20% drop would torch \$6 trillion. Not long ago, that kind of damage was unthinkable. Now it can come from just a dozen names. Even a 10% pullback would incinerate trillions of dollars of make-believe value.

A classic tech washout in these names, the kind that often follows generational gains, would do more than rattle markets. It could shove the U.S. economy into the recession many have been predicting for years. There are only so many trillions that can disappear from portfolios before consumers and businesses slam on the brakes.

A hard correction hits the investment class first — the top 10% own roughly 90% of equities — so most households are not checking brokerage accounts and cutting grocery budgets overnight. But if the damage spills into jobs, earnings outside tech or credit, the fallout gets much uglier.

That is essentially what happened in the 2.5-year dot-com bust. About a year into the unwind, recession arrived in March 2001 and lasted through November. The carnage did not bottom until October 2002, by which point the Nasdaq had been cut by 78%.



Bottom line: No one knows how much further this AI mania can run or which stock will be the first to get cut in half. But when this blows up, as manias always do, trillions in paper wealth will go up in smoke and the fallout will not stay contained.

This “time is not different.”

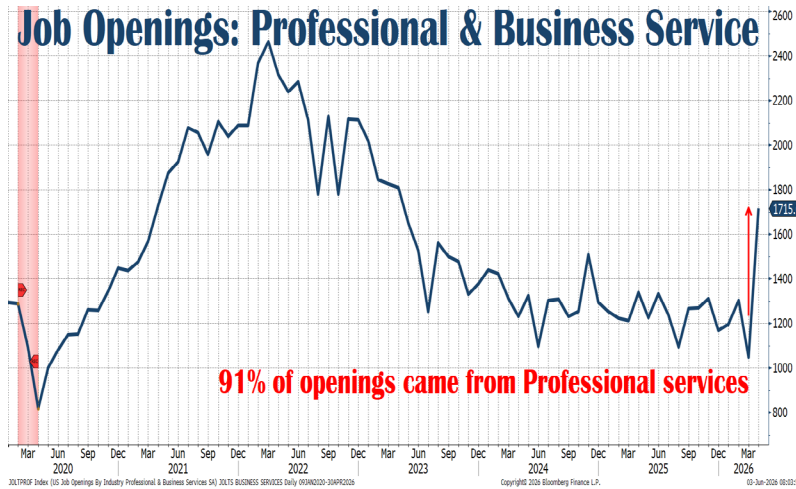
LABOR UPDATE

“The labor market is being reshaped by technology in real time,”... “AI is now the leading reason companies give for cutting jobs.”

— Andy Challenger of outplacement firm Challenger, Gray & Christmas

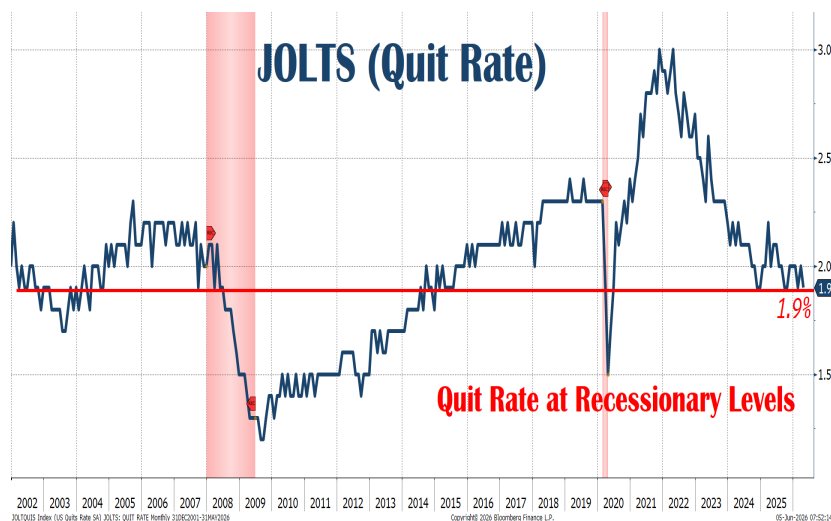
There are lies, damn lies, and headlines. I mean, look at this for a bad joke: Job openings rose 731,000 in April, but 91% came from professional and business services, a proxy for part-time work.

Add government, and those two sectors accounted for 98% of the gain, reinforcing the shift to lower-cost labor.



Meanwhile, openings fell 43,000 in retail and 67,000 in leisure and hospitality. Hiring dropped 419,000 and is down in two of the past three months, led by retail (-81,000) and leisure and hospitality (-27,000).

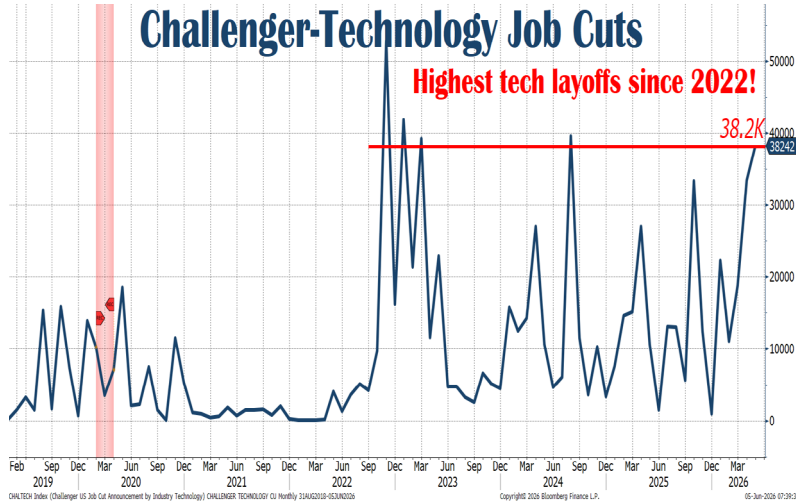
Voluntary quits fell 183,000, with the quits rate at 1.9%, tied for the lowest since May 2020. Because quits closely track wage growth, weaker job-hopping points to fading worker confidence, not inflation pressure.



This is not a balanced labor market: Hiring is down 275,000 over the past year versus a 126,000 drop in layoffs, helping explain why employment growth has been flat for a year.

Moving on, Challenger job cuts totaled 97,006 in May. Outside of the 2020 pandemic, this was the highest level of firing activity for any May since the Great Recession of 2008 and 2009. The fact that we are comparing the latest number to the past two recessions says a whole lot about how the Fed and the consensus are way off base on this view that all is just dandy with the U.S. labor market.

In case you don't think AI is directly or indirectly behind this, the number of layoff announcements due to its proliferation totaled a record 38,242 in May, or 40% of the headline increase. Since June of last year, the tally has exceeded 142,000.

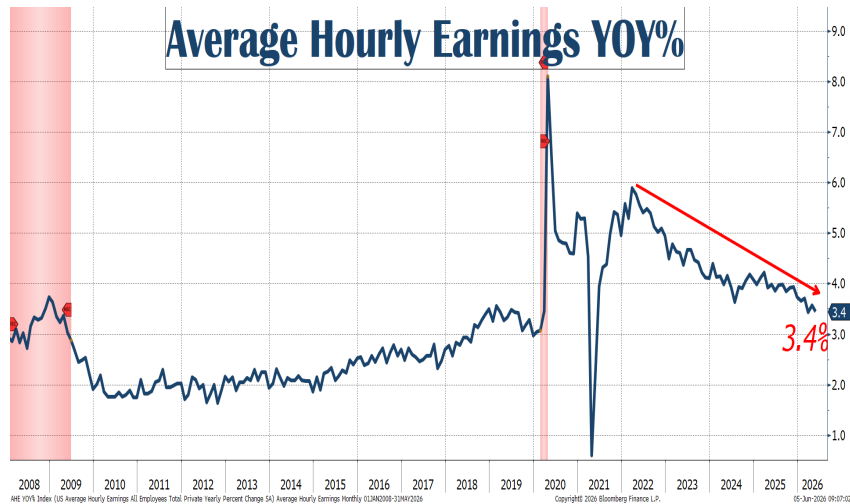


THE WORLD CUP SAVES THE DAY

Finally, I have covered many non-farm payroll reports in my four plus decades of following markets, and they rarely fail to surprise. May was no exception. Headline payrolls rose 172,000, nearly double the 88,000-consensus forecast, and prior months were revised up by a combined 93,000. (See ["U.S. labour market shows resilience despite Iran war, adding 172,000 jobs in May"](#) in *The Globe and Mail*.)

The headline unemployment rate held at 4.3%, while the broader U-6 measure edged down to 8.1% from 8.2%. The work week was unchanged at 34.3 hours.

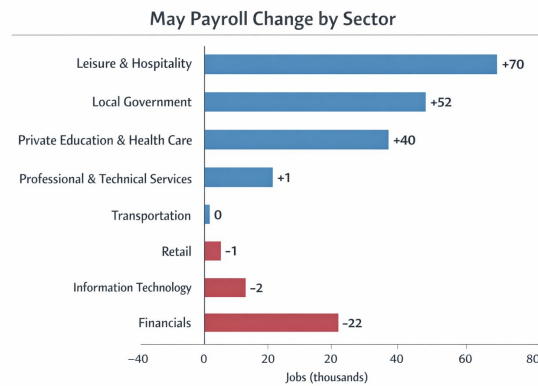
Average hourly earnings rose 0.3%, in line with estimates. Over the year, average hourly earnings have increased by 3.4%, also in line with estimates, matching the slowest pace since 2021, **which barely covers inflation, leaving real work-based incomes stagnant at best, and a reflection of a labor market that is weak, not strong in the slightest.** I consider this to be the most important aspect of this report, given how everyone has inflation on the brain.



The biggest surprise was leisure and hospitality. Despite appearing weakest in the Job Openings and Labor Turnover Survey, the sector added 70,000 jobs — its strongest gain since February 2023 and six times the January-April average. **Three-quarters of that whopper of a +172,000-headline payroll gain came from the preparation of the World Cup.**

This fits with the household survey’s showing employment was up 149,000 after four straight declines, but the entire gain came from part-time work. Full-time jobs fell another 79,000 after April’s 424,000 drop and are down in four of the past five months.

Two-thirds of the jobs market saw no growth at all last month — it was all leisure/hospitality, local government and health/education.

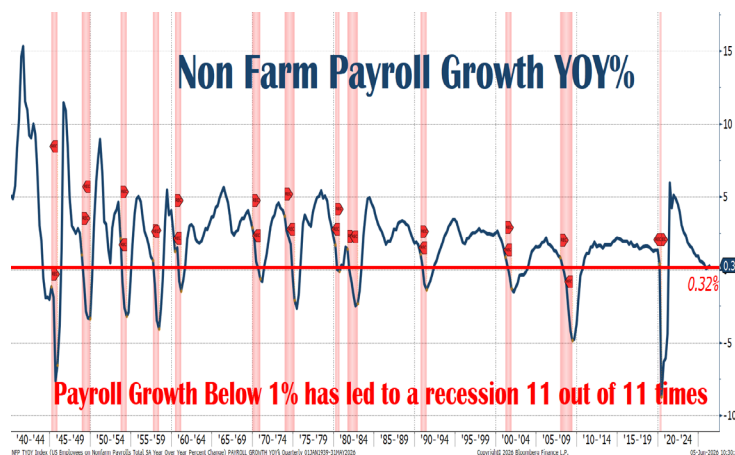


Source: U.S. BLS; figures in thousands.

Moving on. More than 20% of the headline gain also came from the Bureau of Labor Statistics birth-death model, which added about 62,000 jobs. That would cut the headline to roughly 110,000.

Unemployment duration also worsened: The median rose to 11.6 weeks, the highest since November 2021, and the share of unemployed for at least six months climbed to 27.5%, the highest since December 2021. Those are not minor details — they suggest the headline payroll number overstated the labor market’s underlying strength.

Once you eliminate the squiggles and month-to-month noise, the trend of payroll growth still looks pretty weak: Year-over-year non-farm payroll growth is just 0.3%, while household survey employment is down 0.3%. That is not a clear case for tighter policy.



Bottom line: Markets took the report as a green light for the hawks. Treasury yields jumped, and year-end odds of another rate hike rose sharply, from 62% to 99%.

I am still on the other side of that bet. The broad picture is one of virtually no job creation in the past year and in the hole to the tune of -25,000 so far in 2026. That is something the media will not share with you. There is no sign of renewed wage pressure, and fiscal support has likely peaked now that tax refunds are behind us.

I have avoided the word “transitory” for obvious reasons, but it fits this payroll report with the lion share of gains attributed to low-paying leisure and hospitality jobs likely related to cities hiring in anticipation of the World Cup starting next week. What stands out most is the continued erosion in full-time employment, which matters far more for income, spending and consumer confidence than the headline suggests.

If the Fed hikes into a stagnant labor market with slowing nominal wages, it would be repeating a major policy error.

MARKET OUTLOOK AND PORTFOLIO STRATEGY

“The evolution of the Middle East conflict remains uncertain, but its economic consequences are likely to be felt for some time even after its resolution.”

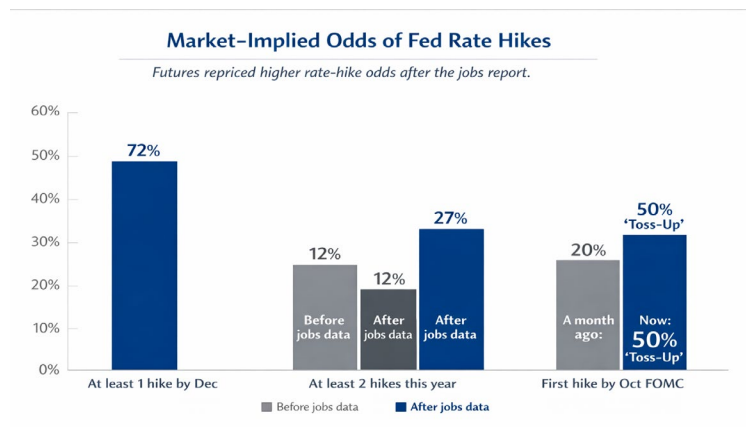
— Organisation for Economic Co-operation and Development Economic Report

Whatever exit ramp emerges, the war with Iran has global inventories that have already fallen by more than 100 million barrels in two months. Meanwhile, in the U.S., the Strategic Petroleum Reserves are on track to hit their lowest level since 1983 by mid-June.

The fallout is also likely to hit global agriculture as the Strait of Hormuz disrupts fertilizer exports. At the same time, the temporary lift from larger tax refunds has mostly faded, leaving consumers more exposed heading into the second half. That weakness is starting to reach higher-income households.

I believe the market’s mistake is treating the oil shock as a permanent inflation catalyst while ignoring the demand destruction it can trigger. Those effects are likely to crush inflation across 80% of Consumer Price Index (CPI) not directly tied to fuel and food.

Following the jobs data last week, the futures market slapped a 72% probability of at least one quarter-percentage-point hike in the Fed’s current target range of 3.50% to 3.75% by December. In fact, we are up to 27% odds of at least two rate increases this year, up from 12% before the jobs data were released Friday morning — with the first volley now a toss-up as early as the October Federal Open Market Committee meeting (the market-based probability was 20% a month ago).



Moving on. **One of the most glaring statistics that came out last week, that should actually be causing the Fed to contemplate a rate cut, not a hike, was that unit labor costs in Q1 were revised down to show a +0.5% year-over-year rate, down from +1.8% in Q4 2025 and +3.1% a year ago, and the faintest pulse since Q3 2019, when the funds rate was pinned at 2.0%. That is not inflationary. It is about as disinflationary as the data get.**

“Income from capital risks replacing income from labor.” — Pope Leo XIV, excerpted from Magnifica Humanitas, his encyclical letter devoted to the effect of AI.

The question for the Fed is why it would ever raise rates in an environment where the price shock is not being transmitted into wages. Average hourly earnings rose a grand total of +0.3% in May, but the consensus is at +0.5% for this week’s headline CPI print. That would leave real wages contracting by -0.2% month over month and would mean that growth has been negative for each of the past three months for the first time in five years.

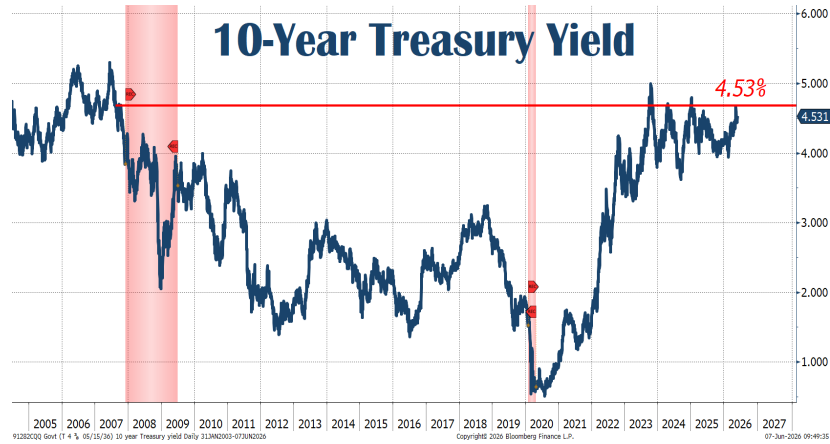
I like bonds because I do not see any path to further Fed tightening. As the Beige Book made clear, consumer companies face too many macro headwinds to pass through higher costs. The Beige Book’s mentioned “uncertain” and “uncertainty” no fewer than 50 times this month (before tariffs were announced). Uncertainty has frozen U.S. labor market activity. That should keep core inflation contained under Kevin Warsh, while squeezing margins and adding slack to the labor market.

Finally, everyone, including me, is running around talking about how stocks are in a bubble right now. Unlike the last two bubbles, so many more people own stocks this time around. It is estimated that 62% of Americans own stocks. If we have a 50% bear market, the consequences would be too terrible to contemplate, but knowing markets and karma, that is probably exactly what is going to happen.

At the same time, Treasuries are unloved and under-owned by retail and institutional investors alike. I’m not certain that bonds have bottomed out yet, but I think we are in the ballpark. Sentiment against bonds is about as negative as you can get. In the late 1970s, when bond yields were upward of 14%, people were calling them “certificates of confiscation.” A pretty great time to buy bonds!

So, what if we are in a bubble? What if this turned out to be a repeat of 2000-2002 and stocks declined 50% over the next couple of years? Bonds would probably be up a lot — more than you think. I can envision a scenario where 10-year yields get to 2% or lower.

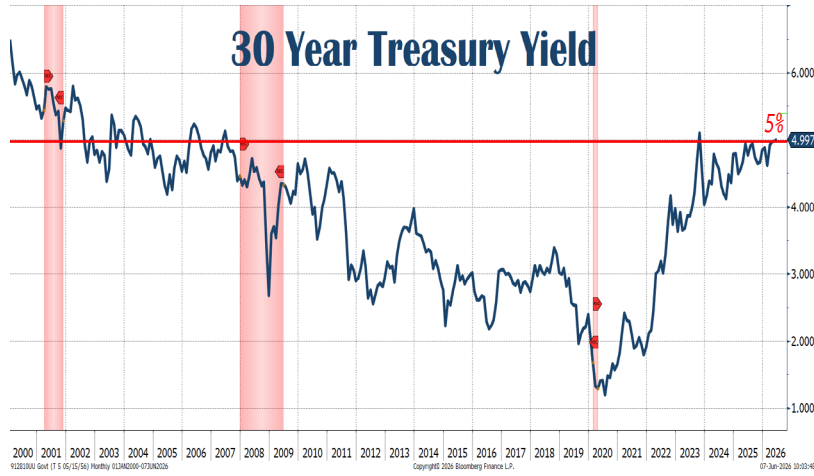
As shown below, yields remain historically attractive and have priced in a great deal of risk. The benchmark 10-year Treasury yields 4.45%, near its highest level in 20 years. If the AI trade ends up being a house of cards, Treasuries would likely be the primary beneficiary.



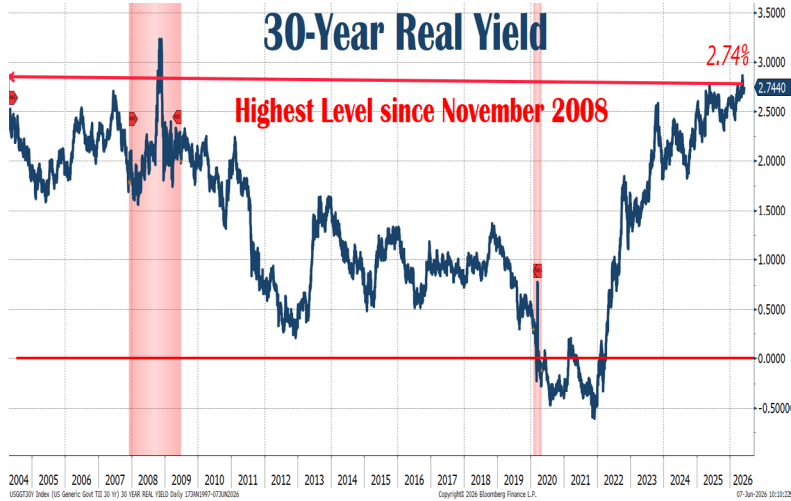
Meanwhile, the inflation-adjusted real yield is 2.19% — more than twice the long-term average.



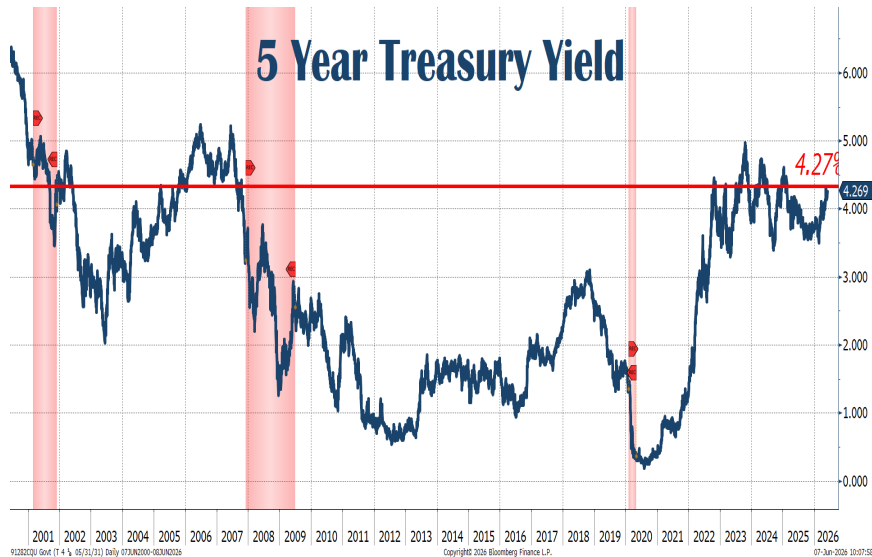
The long bond has a nominal yield of 5%!

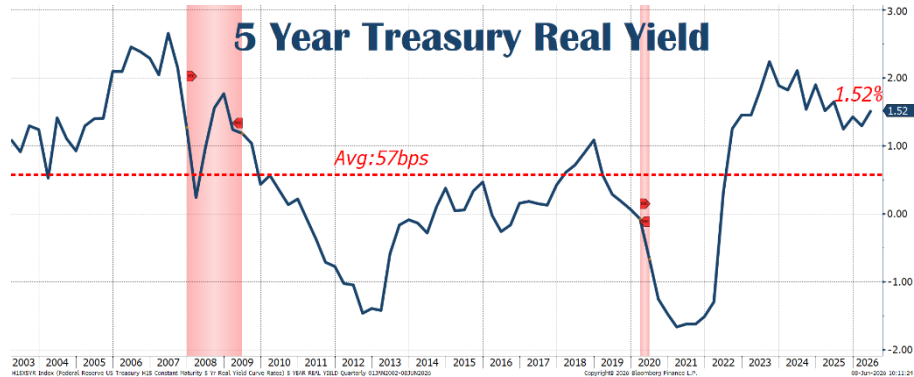


On an inflation-adjusted basis, the real yield is 2.74%, the highest since 2008!



Even at the front end of the yield curve, valuations look attractive.





Bottom line: While patience will be needed, I see compelling value in bonds right about now.

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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.

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