Weekly Relative Value

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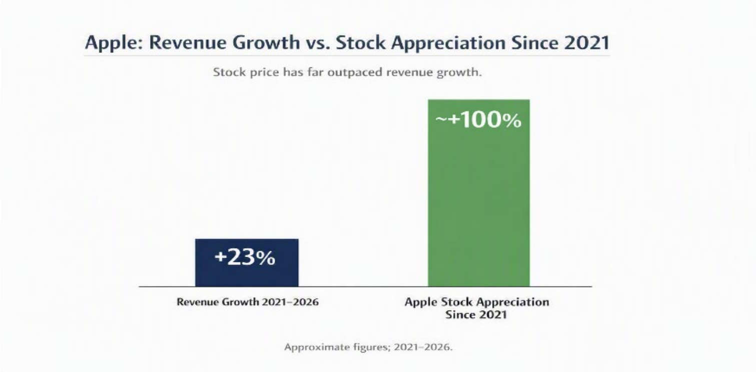
WEEK OF JUNE 29, 2026

Get Your Hedges Ready

"You have a lot of assets out there which look like they're entering bubble territory. That doesn't mean you don't have 20% to go — it's just one more cause of concern."
— Jamie Dimon, Chief Executive Officer, JPMorgan Chase

By almost any measure, this is one of the most expensive stock markets on record. Apple alone has doubled in four years despite revenue growth of ONLY 23% over that period. Here's another example: Palantir may be a great company, but at roughly 55 times sales, investors are no longer paying for software. They are paying for a dream.

Now may be a good time to de-risk.



Jamie Dimon in the lead quote is saying bubbles can keep inflating before they burst. Elevated valuations, tight credit spreads, heavy artificial intelligence (AI) enthusiasm and broad risk-taking may still carry stocks higher in the near term, but the higher they go, the more painful the eventual correction could be. He also said he was "far more worried than others" about a possible market decline and warned the market could fall roughly 20% sometime over the next six months to two years.

THIS WEEK

Jamie Dimon believes this is a classic bubble and suggested another 20% upside is possible. If history rhymes, the S&P 500 could approach 8,000 before the elevator shaft opens toward 4,800. Get your hedges ready.

At the same time, I keep hearing from the Wall Street promoters that you can't compare today's bubble with that of the late 1990s. To which I say — why not? This is the biggest capital expenditures (capex) boom for any specific sector relative to the size of the economy ever recorded. And the capex boom has now morphed into a debt boom.

As Larry McDonald (founder of *The Bear Traps Report*) has pointed out, nearly $800 billion of AI infrastructure financing is reportedly sitting off corporate balance sheets through special purpose vehicles, project finance and private credit. Add another $200-300 billion of AI-related investment-grade debt in the public bond market — with estimates of $500 billion-plus in global AI debt issuance this year — and the "capex boom" starts to look a lot like a debt boom.

That said, market bubbles are hard to time because seeing the danger and risk is not the same as knowing when prices will fall.

There are a few simple reasons:

- **Overpriced markets can stay overpriced.** Prices can keep rising even after they already look too high.

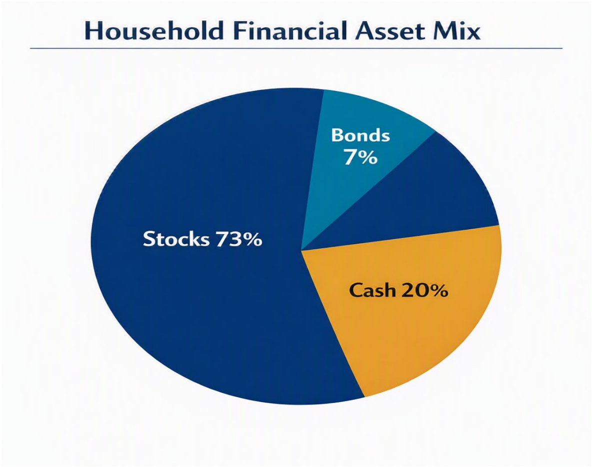
- **Rising prices attract more buyers.** When people see others making money, they often pile in, which can push prices even higher for a while.
- **The breaking point is hard to predict.** A bubble may pop after bad earnings, tighter credit, a policy mistake or a recession scare, but no one knows exactly when that trigger will arrive.
- **The Fed can delay the fallout.** If investors believe the Federal Reserve will step in when markets fall, they may keep taking risk longer than they otherwise would.

"Markets can remain irrational longer than you can remain solvent." — John Maynard Keynes, British Economist

Keynes' point was simple: Being right too early can be indistinguishable from being wrong. A bubble can keep rising long enough to bankrupt anyone who bets too aggressively against it. The quote is a warning about risk management. Identifying a bubble is only half the battle.

Here's a simple example: Suppose you think tech stocks are wildly overvalued, so an investor sells all their stocks because valuations look extreme. The market then rallies another 20%. Performance looks terrible, and the investor may be forced to buy back in near the top. You were right on the idea — but wrong on the timing.

Meanwhile, retail investors are throwing caution to the wind as mutual fund inflows have surged over the past month, just as equities have reached a record 73% share of household financial assets. At the same time, households are the most underweight bonds than they have been since… forever? Bonds now represent a record low 7% of household financial assets.



Bottom line: Dimon's warning is simple: Markets look bubble-like, but bubbles can keep inflating before they break. So, while no one can time the peak of a bubble, with valuations, AI enthusiasm, risk-taking, and retail equity exposure all stretched, now is a good time to de-risk and consider hedges.

MOTHER'S MILK

"Profits are the mother's milk of stocks." — Larry Kudlow, American Economist and Commentator

Q2 S&P 500 earnings are three weeks away, and consensus now expects +22% year-over-year earnings per share growth, up from +14% at the start of the year. That's a high hurdle to beat.

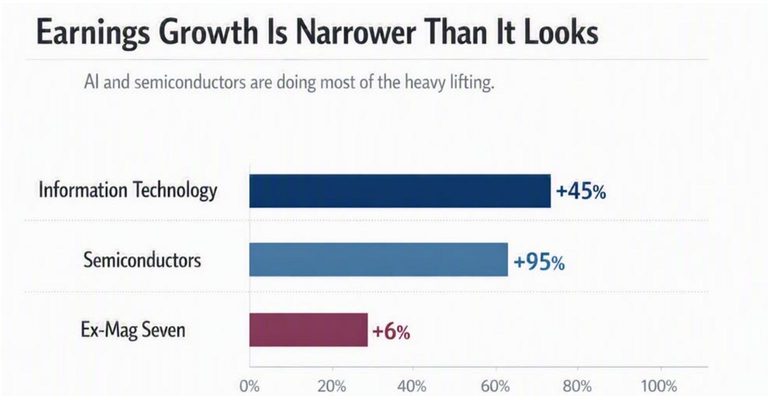
Yet, we are living in a world with comments like the following:

"Ignoring the Fed and focusing on earnings is the most important thing to do at this point… If earnings move higher, the market moves higher. It's that simple." — Sam Rines, Macro Strategist, WisdomTree

That sounds simple, but it misses the bigger point: Much of today's earnings growth is coming from a small group of semiconductor and AI-infrastructure companies. It does not say much about the health of the broader economy, and some of the reported profit growth reflects accounting gains that may make today's numbers look better than the long-term reality.

In short, the earnings story is narrower than it looks. The strongest results are concentrated in semiconductors and AI infrastructure, while weakness in other parts of the economy and one-time accounting benefits are getting less attention.

See the following image, which shows that Information Technology earnings are up +45% year over year, with semiconductors near +95%. Excluding the Magnificent Seven, earnings are barely up +6%.



AI spending is making today's technology earnings look stronger than they may really be. Companies that sell chips and data-center equipment are getting paid now as customers race to build AI systems. But the companies doing the buying often spread those costs over many years instead of counting the full expense right away. That can make current profits look better than the real long-term economics.

Alphabet is a useful example. Its latest results included $38 billion of "other income," which gave earnings a major boost. In normal periods, that line is usually small. This time, it made reported profits look much stronger.

Amazon is another example. Its earnings looked better partly because of a $16 billion paper gain from its investment in Anthropic, not just because its regular business improved. Researchers at the University of Florida estimate that nearly half of today's earnings growth comes from accounting items like this. Put simply, some of the profit growth investors are celebrating may not reflect stronger day-to-day business performance.

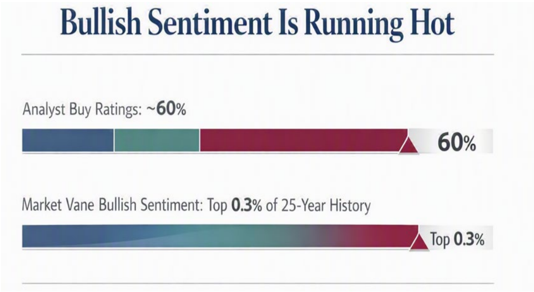
The bigger concern is that many AI costs are being pushed into the future. Companies are spending heavily now, which reduces cash flow today, but the official expense often gets recorded slowly over several years. As big tech companies become more dependent on expensive data centers, chips, debt and outside financing, it becomes harder to know what these businesses are really worth.

Bottom line: S&P 500 earnings growth looks impressive on the surface, but the strength is heavily concentrated in AI, semiconductors and Mag Seven. Excluding those leaders, broader earnings growth is modest. Also, some reported profit gains may be flattered by accounting items and delayed AI-related costs, making today's earnings look stronger than the underlying business reality.

OPTIMISM SOARS

"When the music stops, in terms of liquidity, things will be complicated. But as long as the music is playing, you've got to get up and dance. We're still dancing." — Chuck Prince, Former CEO, Citigroup

The above quote became one of the defining quotes of the pre-financial-crisis era — basically Wall Street admitting that everyone knew the party was risky, but no one wanted to leave early.



Meanwhile, as in 2007, investor optimism is off the charts. Nearly 60% of analyst ratings are now "buy" recommendations, one of the highest readings since at least 2010. Market Vane bullish sentiment is also extremely elevated, ranking in the top 0.3% of the past 25 years.

That much optimism can be a warning sign. Shares of technology companies that still are not profitable have jumped nearly 60% this year and have far outperformed the broader market. When investors are eager to buy companies that are not yet making money, it usually means speculation is running hot. That is why I remain cautious: Markets can stay excited for a while, but extreme optimism often ends badly.

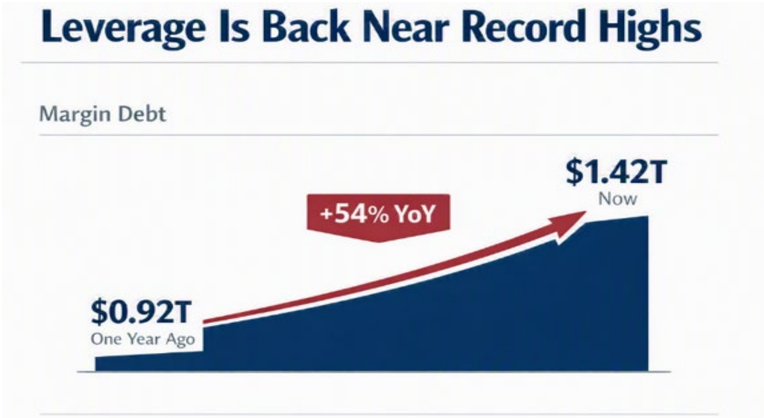
"U.S. margin debt, or what investors borrow from their brokerages to buy securities, rose 54% to a record $1.4 trillion in May from a year earlier, according to Finra data. Meanwhile, high-risk leveraged exchange-traded funds that produce double or triple the daily move of underlying stocks are growing rapidly, as is trading in options tied to them." — The Wall Street Journal

At the same time, the market is highly leveraged. Margin debt has climbed ~54% year over year to roughly $1.4 trillion, near a record high — another sign that investors are pushing the envelope. Excessive leverage is a classic sign of a market bubble, and yet nobody seems to believe we are in one. Retail investor stock market leverage crossed over the

$1 trillion mark in June 2025 and has ballooned +40% since that time. Two-thirds of all the margin debt outstanding has been created since March 2020 alone.

While margin debt is extremely high, the bigger issue is the leverage hiding in plain sight: options, private credit, AI infrastructure finance, leveraged ETFs, corporate debt and crowded positioning. The machinery looks different from 2000 or 2007, but the risk is familiar — rising prices are resting on increasingly fragile assumptions.

"I'm fearful that we're building unintended leverage that isn't fully understood. You've got people with a lottery mentality using margin to buy options on levered ETFs. That's three or four layers."
— Mark Hackett, Chief Market Strategist, Nationwide's Investment Management Group



Bottom line: Investor optimism is unusually extreme. Buy ratings are near historic highs, bullish sentiment is in the top 0.3% of the past 25 years, and unprofitable tech stocks have surged nearly 60%. The takeaway: Speculation is running hot, and while markets can stay excited for a while, excessive optimism often ends badly.

IS THE "GREENSPAN PUT" DEAD?

The **"Greenspan Put"** refers to investors' belief that the Federal Reserve will rescue markets when stocks fall far enough to threaten the economy. The idea dates back to Alan Greenspan's Fed, which eased policy after major market shocks — including the 1987 crash, Long-Term Capital Management in 1998 and the dotcom bust — creating the perception that the Fed had placed a downside safety net under asset prices.

Why it matters: If investors believe the Fed will always step in, they may take more risks, pay higher prices and assume selloffs will be cushioned.

I suggest a read of: **"Can the Market Still Bet on the 'Greenspan Put'?"** (*The Wall Street Journal*)

"If the next stock-market downturn is severe enough to threaten the economy, and so lower inflation, I'd expect the Fed Put to make a rapid reappearance. But I doubt a mere 20% fall would be enough, and whether it underwrites the economy with stocks down 30%, 40% or 50%, it will come too late for those caught up in a crash."

It is still early, but Kevin Warsh could mark a major change in how the Fed responds to markets. Unlike recent Fed leaders, he may be less willing to step in quickly just because stocks are falling. Powell, for example, took over with the Fed's balance sheet at $4.4 trillion and left it near $6.7 trillion, even as officials insisted they were not trying to support markets with more bond buying. If there is a true crisis — like a market crash or a credit freeze — the Fed would probably still act. But under Warsh, investors may have to endure much more pain before the Fed comes to the rescue.

Bottom line: A Warsh-led Fed may be less eager to "babysit Mr. Market," meaning the put might still exist — but only after a much larger decline or genuine credit/economic stress.

MIXING POLITICS WITH MARKETS

"The pursuit of greater profits cannot justify choices that systematically sacrifice jobs, because the human person is an end, not a means… For AI to lead to massive unemployment would be a true social calamity." — Pope Leo XIV

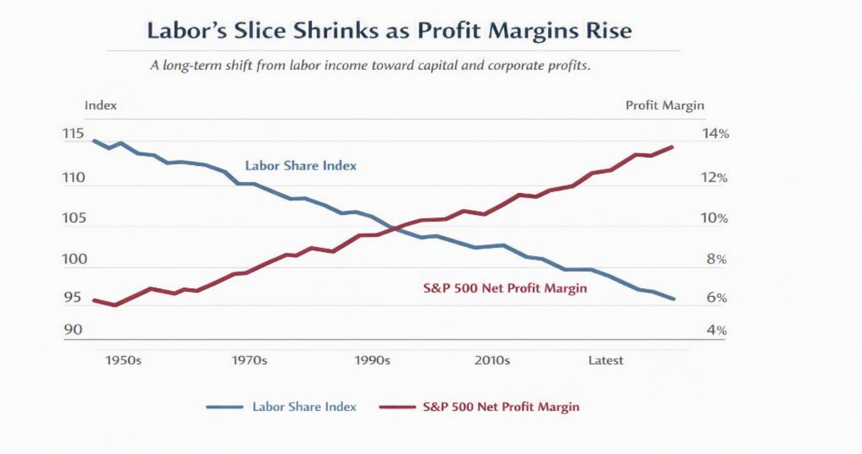
Moving on. I am often told not to mix politics with markets, but last week's New York Democratic primary results make that harder to do. Three candidates backed by Mamdani won, showing that the party's socialist wing is gaining influence. Their agenda is generally less friendly to business, capital markets and AI. Mamdani's strong win also makes a future presidential run look less far-fetched than it once did.

Younger voters appear to be moving in the same direction. Many have embraced the New York mayor much as they once embraced Bernie Sanders. Gen Z and Millennials are generally further left than older generations, and roughly 90 million U.S. voters are now under 40, making them an increasingly important political force. More than half of that group is between 18 and 29, with limited memory of earlier economic and political cycles. Before the midterms, someone with deep pockets might consider sending them a copy of Tom Brokaw's *The Greatest Generation* — if only as a reminder of what leadership used to look like.

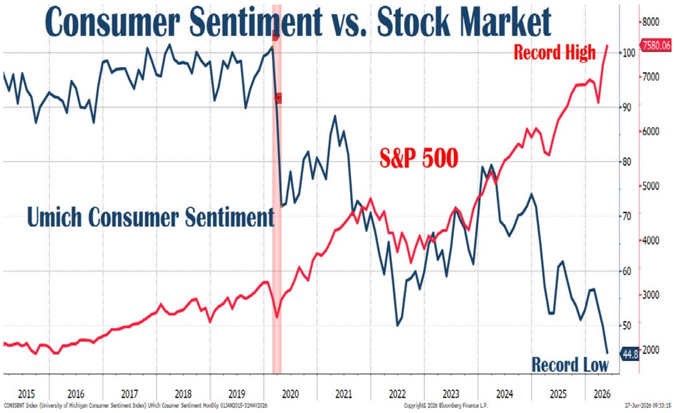
For markets, the risk is simple: Companies have enjoyed decades of rising profit margins while workers received a smaller share of income. If politics now shifts toward higher wages, higher taxes or more redistribution, those unusually high profit margins could come under pressure.

Non-farm business labor share shows how much of the economic pie workers are getting versus capital. When labor share falls, more income is flowing to profits and owners; when it rises, workers are reclaiming a larger slice.

To understand why so many people feel sour about the economy, focus less on how much gross domestic product (GDP) grew and more on who benefited from it. In the first quarter, worker compensation — wages and benefits — rose just 0.8%, while domestic corporate profits jumped 2.7%. As a result, labor's share of gross domestic income fell to 51%, the lowest level since records began in 1947, while profits' share climbed to 12.1%, the highest since 1950.



This is not a new story, but the trend has intensified. Labor's share began falling more clearly in the 2000s and accelerated after the pandemic. Since the end of 2019, inflation-adjusted hourly wages are up only 3%, while profits are up 50%. That gap helps explain the divide between a euphoric stock market and an uneasy public. The chart below says it all.



Bottom line: A record-low labor share suggests profit margins have benefited from decades of worker-income compression. If politics, wages or redistribution pressures push labor's share higher, corporate margins could face mean-reversion risk.

WHAT A BEAR MARKET LOOKS LIKE

Nobody ever lost money by taking profits. For the first time since March, during the early stages of the U.S.-Iran war, Bank of America reported that its clients were net sellers of equities in the past week. Time will tell, but we could look back on last week's action as a pivot point in terms of AI saturation/frothiness. A more hawkish Fed and a peace deal with Iran, riddled with confrontation, have added to the more uncertain backdrop. The darker inflationary side of what AI is doing, in terms of generating excess demand for memory/storage chips, showed through in Apple's decision to boost its prices by about 20% on its MacBooks and iPads, and instead of investors treating this as a bullish move to protect margins, the share price slumped by a sharp -6.1% upon hearing the news.

The AI buildout is looking extreme, straining resources and facing growing environmental backlash. Investors are also starting to question the return on investment and total addressable market assumptions that launched tech into orbit. Future historians may view the SpaceX initial public offering as the peak insanity of this cycle.

Remarkably, there are many a pundit who believe that market cycles have been all but eliminated. For those that need a reminder, the table below shows the bear-market lesson: Cycles still exist. Across 14 post-World War II cycles, roughly 70% of prior bull-market conditions were reversed, on average, in the ensuing bear phase.

What Bear Markets Look Like

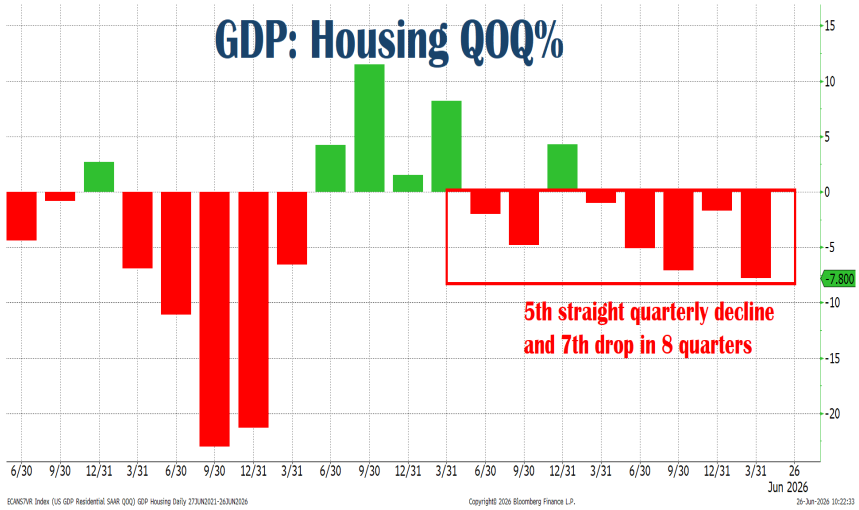
Initial Trough	Final Peak	Bull Gain	Final Trough	Bear Decline	% Bull Reversed
June 1949	August 1956	+267%	October 1957	-22%	~31%
October 1957	December 1961	+86%	June 1962	-28%	~58%
June 1962	February 1966	+80%	October 1966	-22%	~48%
October 1966	November 1968	+48%	May 1970	-36%	~75%
May 1970	January 1973	+74%	October 1974	-48%	~83%
October 1974	November 1980	+126%	August 1982	-27%	~44%
August 1982	August 1987	+229%	December 1987	-34%	~53%
December 1987	July 1990	+65%	October 1990	-20%	~44%
October 1990	March 2000	+417%	October 2002	-49%	~57%
October 2002	October 2007	+101%	March 2009	-57%	~88%
March 2009	February 2020	+401%	March 2020	-34%	~47%
March 2020	January 2022	+114%	October 2022	-25%	~49%
Average		**+167%**		**-33%**	**~56%**

Bottom line: When markets are sending mixed signals, this is not the moment to play hero. Big gains can run longer than common sense suggests, but they rarely glide gently back to earth. In the post-WWII cycles above, the average bull market rose roughly 167%, only for the next bear market to fall about 33% and erase more than half the prior advance. Translation: The party can last, but the cleanup is usually ugly. Get your hedges ready.

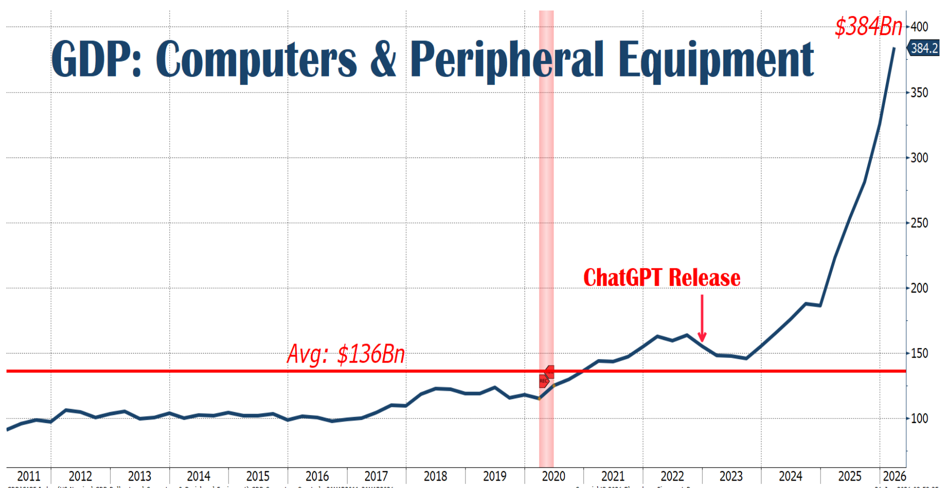
75% OF Q1 GDP GROWTH WAS DUE TO AI

The Q1 GDP number looked better, but the details were not as strong as the headline suggested. GDP was revised up to a 2.1% annual growth rate from 1.6%, putting it close to the original estimate. But the improvement mostly came from accounting mechanics: Imports were revised lower, which helps GDP mathematically, and business investment was revised higher. It was not because consumers suddenly started spending much more. Consumer spending was revised down to just 0.5% annualized growth from 1.4%. That is not terrible, but it is not exactly a boom either, especially with tax refunds giving households some extra cash. So, the report looked good at first glance, but the parts that usually show real economic strength were softer.

Housing was the clear weak spot. Residential investment fell 7.8%. That was the fifth straight quarterly decline and the seventh drop in the past eight quarters. With interest rates still high, housing continues to weigh on the economy.



But nonresidential fixed investment was the outlier, soaring by 8%, and **responsible for 1.42% of the 2.1% bottom line print**. 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.



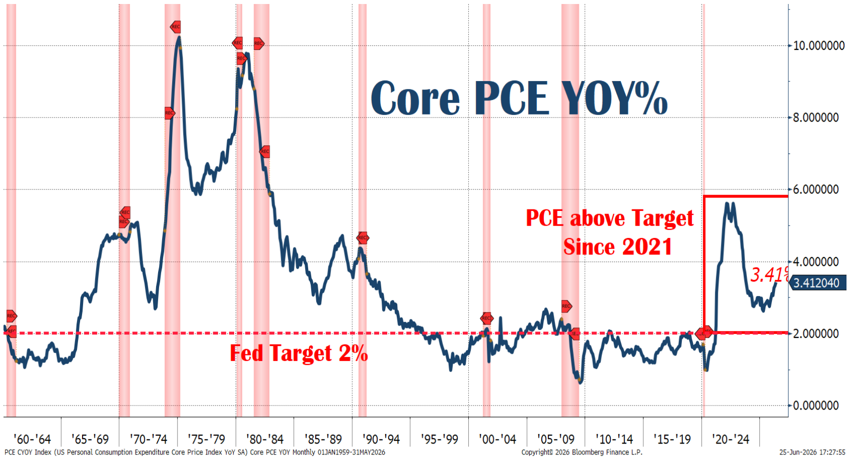
Bottom line: AI is now not only a market bubble, but it has become a core anchor propping up the entire U.S. economy; it's also why the U.S. government will have no choice but to backstop it once the inevitable AI bubble pops.

PEAKY PCE

"Rates are currently well positioned to bring inflation back to target."
— John C. Williams, President, Federal Reserve Bank of New York

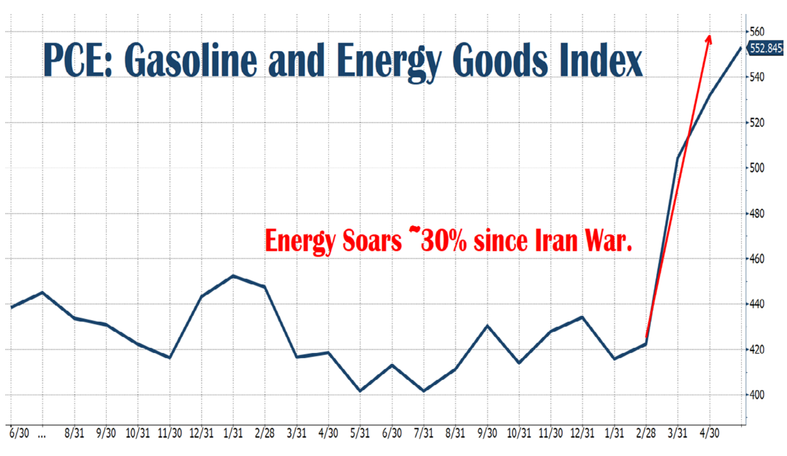
The economy showed solid momentum in the first quarter and May, but inflation did not come in worse than expected. The Fed's preferred inflation measure, core personal consumption expenditures (PCE), rose 0.3% for the month, exactly what economists expected. Over the past year, it is up 3.4%, also in line with forecasts and the highest reading since October 2023.

Headline PCE, which includes food and energy, was a little softer than expected for the month, rising 0.4% instead of 0.5%, while the yearly increase matched expectations at 4.1%. That said, it has been above the Fed's 2% target since March 2021 (over five years!) and never got even close to the Fed's 2% target but bottomed out at 2.6% in April 2025 and has been moving away from the target ever since.



The energy PCE price index jumped by 4.0% in May from April on top of the spikes in the prior months. This pushed the year-over-year increase to +30% up from a negative reading in February. Prices of motor fuels have been declining in recent weeks, and that will be reflected in the PCE price index going forward.

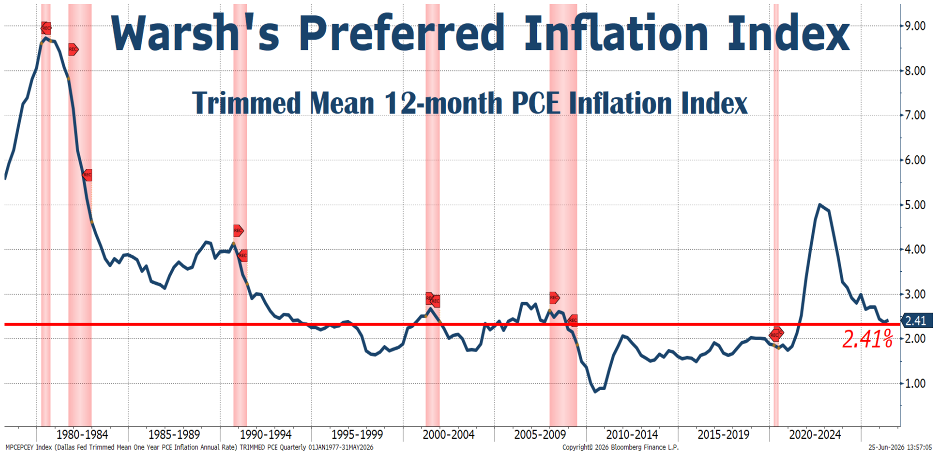
"What I'm most interested in is: What's the underlying inflation rate? Not: What's the one-time change in prices because of a change in geopolitics or change in beef?" — Kevin Warsh

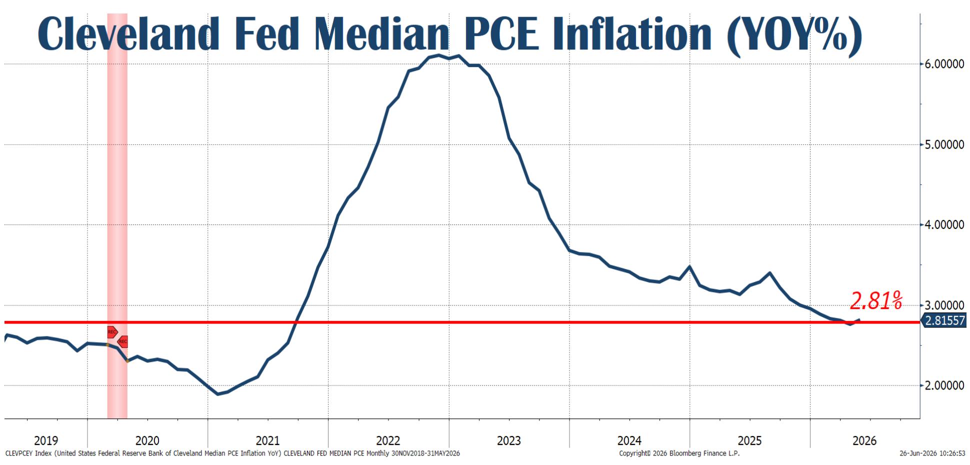


The problem with headline or even core PCE is that a few volatile categories — energy, used cars, airfares, insurance, portfolio-management fees, etc. can swing the monthly number around and make inflation look hotter or cooler than the broader trend.

Kevin Warsh prefers the **trimmed and median inflation indices** because they filter out the noisy stuff and give a cleaner read on underlying inflation. Trimmed and median inflation gauges ask, **"What is happening to most prices?"** rather than **"What got weird this month?"** That is why Warsh prefers them. They help determine whether inflation is truly spreading through the economy or whether the headline number is being pushed around by a few circus acts.

As highlighted previously, Kevin Warsh's favorite inflation indices are the Dallas Fed's Trimmed Mean PCE and the Cleveland Fed's Median PCE. Both strip out some of the monthly noise.





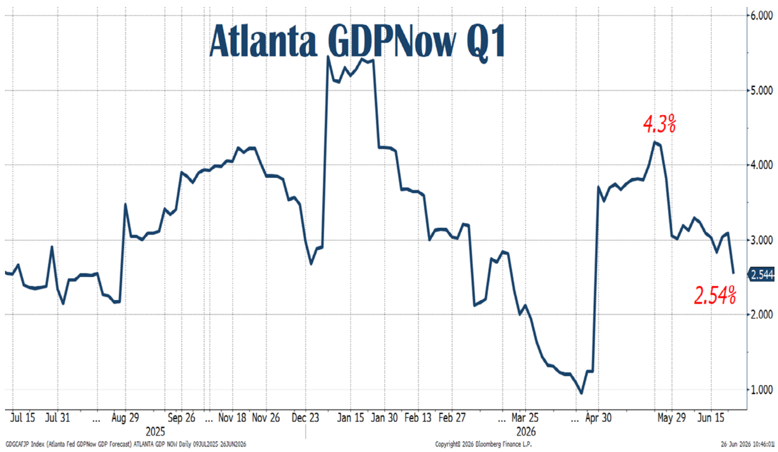
Bottom line: The upward trend in core PCE might lead one to believe that there is some pass-through of the energy shock, but that was not confirmed by the regional Fed indices. Both indices are leaning against Fed rate hikes anytime soon.

MARKET OUTLOOK AND PORTFOLIO STRATEGY

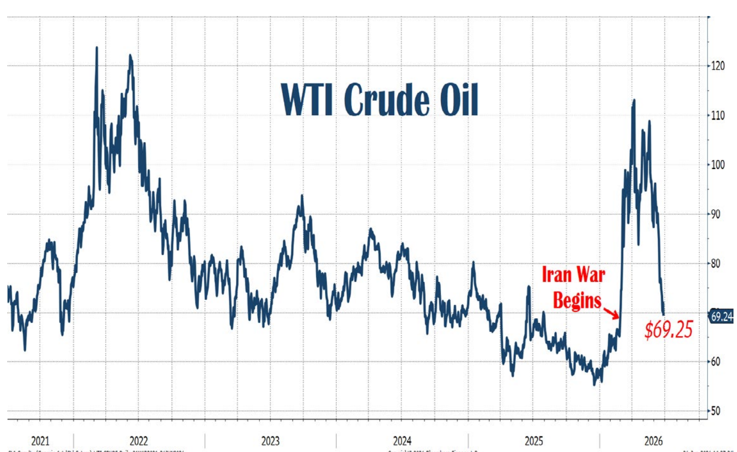
"You don't buy bonds because the world looks perfect. You buy them because it doesn't."

Larry Kudlow was emphatic last week that the U.S. economy is now moving into a +4.0% growth trajectory. Apparently, he missed that first-quarter real GDP came in at just a +2.1 % annualized pace, following a meager +0.5% print in Q4 2025. That is otherwise known as stall speed. The problem is that people watch these shows and believe what they are told.

Even with income tax rebates, the AI spending boom, and a war-related inventory bulge, the Atlanta Fed's Q2 GDPNow estimate is down to +2.5% — from +3.8% a month ago and +4.3% in mid-May. To be clear, +2.5% is hardly weak. But the point is that estimates are moving lower, not higher, and they are nowhere near +4.0%. The New York Fed Nowcast is at +2.7%, while the St. Louis Fed is tracking just +1.4% for current-quarter growth.

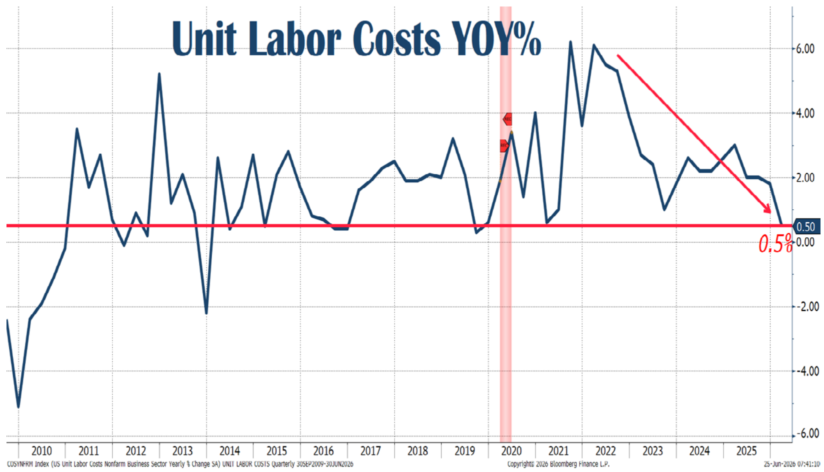


Amazingly, WTI crude has dropped by more than 35% since Mid-May. **Roughly 90% of the oil spike from the Iranian war has now vanished. The last time crude was here, in early March, the 10-year was barely above 4%.** So, either the bond market has found a new inflation bogeyman to chase, or it is missing the risk of negative Consumer Price Index prints ahead. Airfare should only add to the disinflationary drag.



All I keep hearing from the Fed hawks and the bond bears is about inflation, yet commodity prices have tumbled -21% from the early May peak and are lower today than they were in early March. Where is all this inflation anxiety coming from?

Furthermore, it is hard to call this inflationary when productivity is driving nearly 90% of private-sector growth and unit labor costs are up just +0.5% year over year, down from +3.0%. The Fed rarely mentions these figures, but they matter.



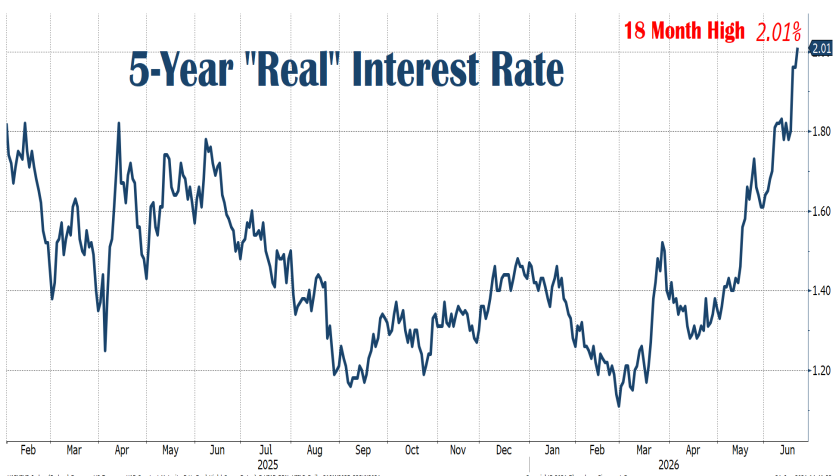
Moving forward, the labor market is now the key battleground for rates.

Thursday's June payroll report is this week's key release, as investors look past fading oil-driven inflation fears and refocus on employment and growth. Consensus expects +115,000 payrolls, consistent with a resilient but slowing labor market. Beyond the headlines, markets will watch unemployment, wage growth and revisions.

I have argued that the labor market is not as strong as the headlines suggest. To wit: Real wages, adjusted by the PCE deflator, have fallen for three straight months and may fall again in Friday's payrolls data. After peaking at +1.8% year over year in March 2025, real wage growth has declined in 11 of the last 14 months to -0.6% year over year in May — hardly evidence of a "solid" labor market.

Meanwhile, the Fed has successfully flattened the curve with nearly no spread (+5 basis points) between the yield on the 2-year Treasury and that of the 5-year maturity. This is the bond market's way of downgrading economic growth projections. In other words, the bond market expects today's tight policy to slow the economy.

On a valuation basis, real interest rates (5-year term) have gapped up +90 basis points to just over 2.0%, which is an 18-month high and is the poster child for the tightening in financial conditions. A 5-year real yield above 2% is restrictive because investors can earn a solid inflation-adjusted return without taking much risk. That drains some oxygen from equities, credit, housing and speculative assets.



Finally, the 5-year market-based inflation expectations have collapsed by -45 basis points from the war-induced peak to 2.25%, the low point of the year. And here we have everyone out there with inflation and higher interest rates on the brain. Not me, however. I remain bullish on the bond market.

Falling inflation expectations are bullish for bonds because they reduce the inflation premium embedded in yields and make a less hawkish Fed more likely. If investors are still obsessed with inflation while the data are moving the other way, boring old Treasuries may be the asset class quietly getting interesting.

Moderating growth on the macro front, coupled with the likely melt-down in inflation in the coming months, should help set the stage for a less bellicose Fed and a better tone to the Treasury market.

Finally, as I have harped on repeatedly, the front end of the yield curve looks attractive. Cooling wage growth and weakening labor market dynamics suggest that the short end of the curve is pricing in too much inflation risk. This creates an attractive opportunity should the Fed ultimately prove less restrictive than the markets currently expect as oil prices fade.

Bottom line: Bonds are underowned and look attractive on a valuation basis. The opposite is true of the equity market. The bond market still seems overly focused on inflation and higher rates, while the bigger risk may be slowing growth and disinflation. If the equity bubble bursts and assets shift to bonds, look for a significant decline in rates. Further, if oil continues to fade and wage pressure cools, the Fed may eventually sound less hawkish — creating a more favorable setup for Treasuries, and I encourage you to get as much duration as appropriated for your risk profile.

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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.

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