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INVESTMENT SERVICES

Weekly Relative Value

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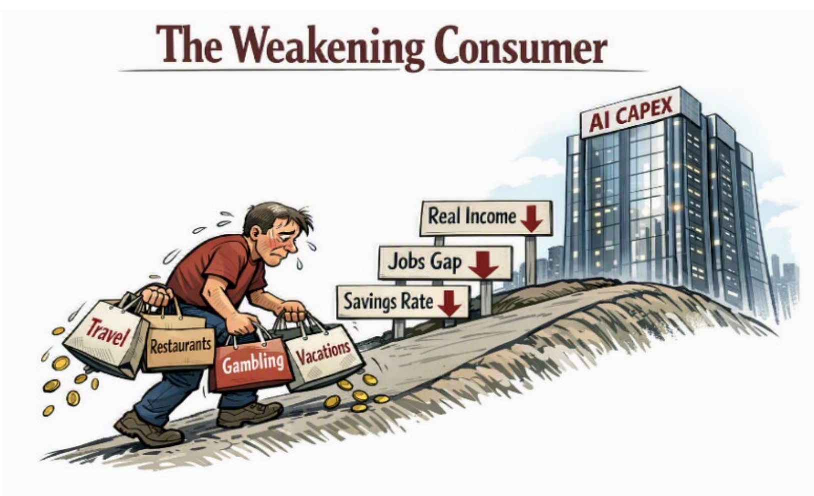
WEEK OF JULY 6, 2026

Nobody Wants Bonds. That's Why I Do.

> *"The raft of economic data released last week isn't sending off red flares, but it is sending off yellow ones. No red flares because real #GDP is still growing at a 2% pace, with AI and corporate tax cuts powering business investment. But yellow flares because consumers struggle to maintain their spending. Adding to the concern is the fall in real disposable income — the fodder for future spending — which rarely happens outside recessions. And the saving rate is seldom lower. With consumers accounting for over two-thirds of GDP, and business investment less than one-seventh, those yellow flares are getting brighter."*
> *— Mark Zandi, Chief Economist, Moody's Analytics*

Moody's Analytics chief economist Mark Zandi has now joined yours truly in what can be called a dour read on the U.S. macro backdrop. He warned that a "raft of economic data" is sending up "yellow flares." His key point was that **real disposable income is the "fodder for future spending,"** and declines in that measure **rarely happen outside recessions**. Since consumers make up more than two-thirds of gross domestic product (GDP) while business investment is less than one-seventh, he warned that those yellow flares are **"getting brighter."**



As I assess the U.S. consumer spending backdrop, let's consider that because of the stepped-up refunds, the tax bill for Americans has declined more than -$50 billion so far this year. That alone has added nearly 10% to consumer spending growth so far this year.

THIS WEEK

- HOUSING REMAINS IN A RECESSION
- LOW HIRE-LOW FIRE ECONOMY TRUDGES ALONG
- JOBS GAP DETERIORATES
- MORE RECESSIONARY THAN RESILIENT
- MARKET OUTLOOK AND PORTFOLIO STRATEGY

On top of that, there has been absolutely zero growth in real disposable income over the past year, so if consumers had been compelled to spend what they earn instead of drawing down their savings rate in an epic fashion from 5% to a historic low of 3%, volume expenditure growth would have flatlined instead of expanding more than +2%. And real GDP growth would be at stall-speed near a +1% annual rate.

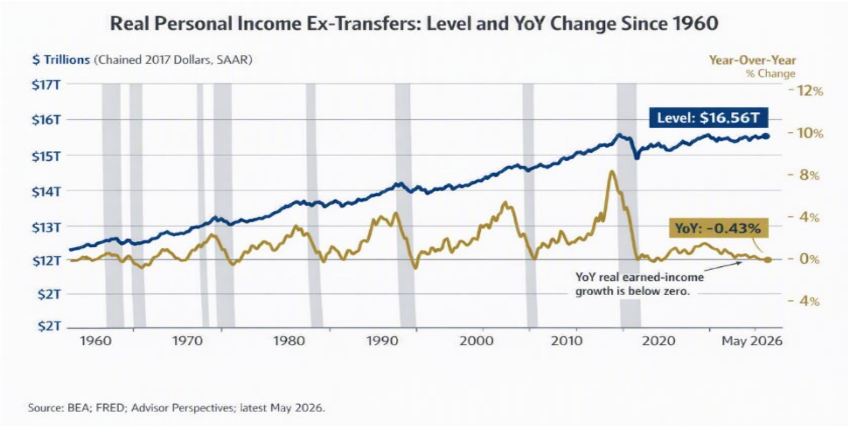
But the equity wealth effect for the high-end and massive credit card usage at the low-end have caused this radical falloff in the personal savings rate, which has acted as an artificial stimulant to the pace of economic activity. Tack on the artificial intelligence (AI) capital expenditures (capex) spending boom, and we are talking about a zero-growth economy outside of these two inputs — tech outlays on the business front and a savings rate drawdown at the personal level.

Real personal income excluding transfers is useful because it measures the consumer's true earned-income foundation since it strips out the "government support" layer (Social Security, unemployment benefits, stimulus checks and other government payments) and focuses on the economy's organic income engine. Simply put, this measure says:

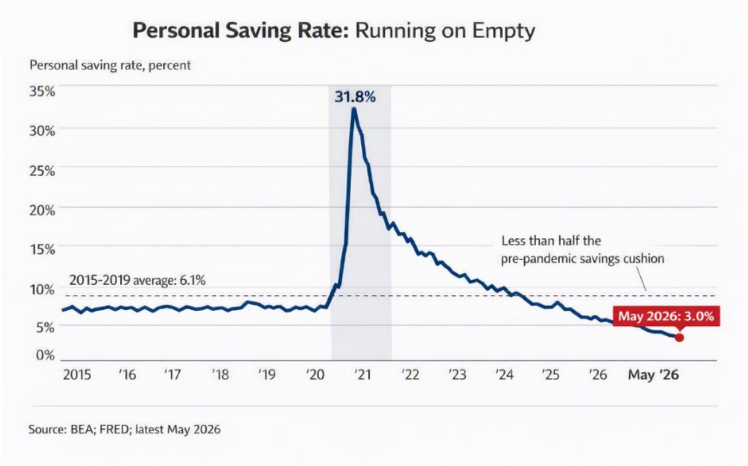
"How strong is the paycheck economy?"

If real income excluding transfers is weakening, households have less inflation-adjusted fuel to spend — especially on discretionary items like travel, restaurants, gambling and entertainment.

When that starts deteriorating in real terms, it is a warning that the economy may be weaker than headline spending or government-supported income suggests. It tends to roll over around recessions. Sustained declines are unusual outside downturns because income normally grows as employment, hours worked and wages rise. When it falls, it often means the labor market is losing momentum beneath the surface.



Meanwhile, Americans have drained their savings account to a RECORD LOW 3%. As depicted below, the current savings rate is 50% lower than the savings rate that preceded the pandemic.



A must-read last week was "These Americans Are Scrimping to Save Their Summer Vacations" (*The Wall Street Journal*).

*"Rising costs have prompted **52% of U.S. workers to stay home more this summer**, according to a poll of more than 1,000 Americans conducted by Monster, the job platform. **For that half of the population, staycations are a way to save on dining out, entertainment and driving, the survey showed."***

*"Travelers' confidence in the economy has hit its lowest point since 2023 after declining for four months, according to data from analytics firm Morning Consult… **More people now say they are willing to forgo an airfare or hotel purchase because the costs are too high, the survey showed."***

The takeaway was clear: Households still want a summer escape, but they are watching every dollar.

That pressure was also evident in Thursday's May consumer spending and income report, where the softness was concentrated in cyclical services — the categories households tend to trim first when budgets tighten.

When travel, casinos and restaurants are all contracting year over year, the message is hard to miss. Consumers are pulling back from the most discretionary parts of the household budget. That is not resilience.

Bottom line: A recession is not here, but the economy's surface strength is increasingly dependent on AI/business spending while the consumer foundation is weakening.

HOUSING REMAINS IN A RECESSION

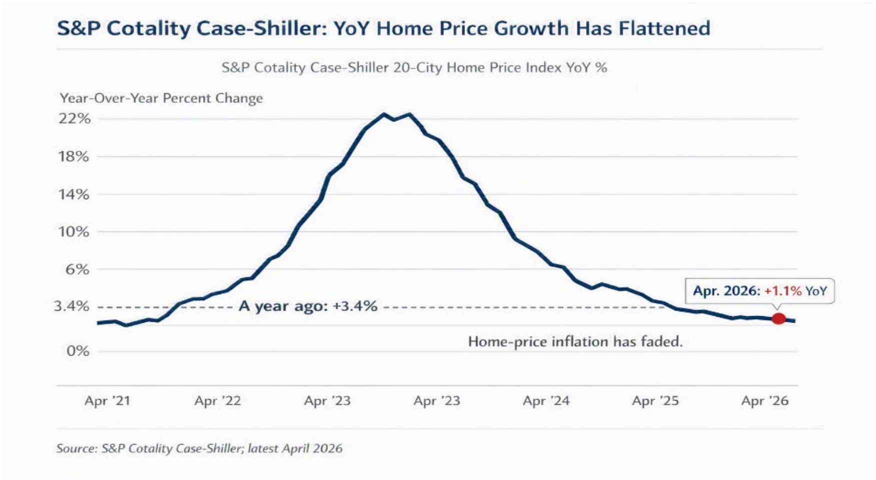
I can tell you one sector that is in a recessionary state, and a measure of how the recent interest rate hiccup has been a major obstacle, is housing. On a year-to-date basis (through May), housing starts have collapsed at a -31.5% annual rate, building permits have slid -11.3%, new home sales have cratered -41.1% and existing home sales are down -5.5%.

I realize how the AI boom has been impressive and exciting, but tell me… can you live and raise a family in a data center?

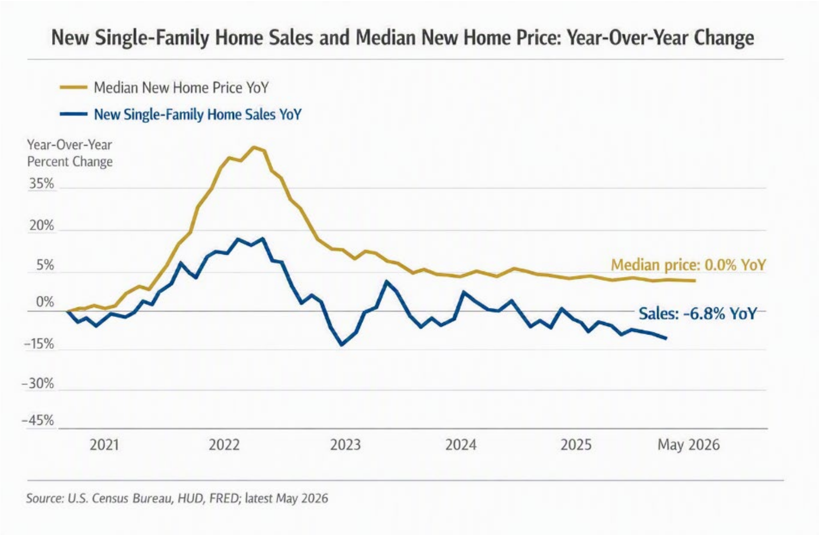
Housing Is Already in Recession Territory

Housing Starts	-31.5% Annualized
Building Permits	-11.3%
New Home Sales	-41.1%
Existing Home Sales	-5.5%

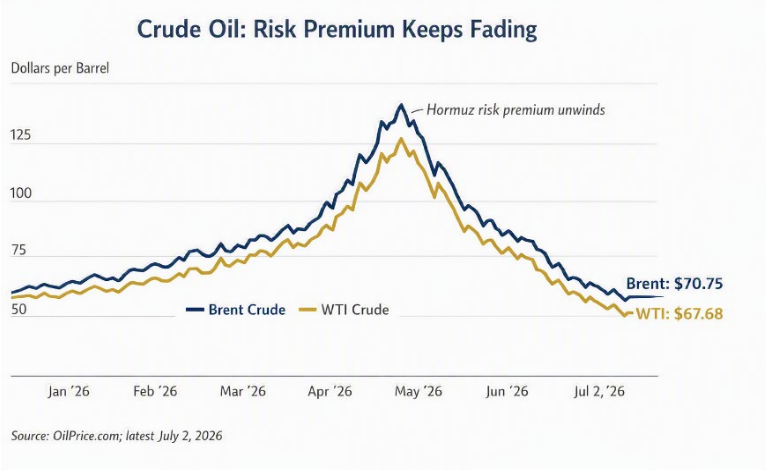
Meanwhile, there is deflation in home prices. The Federal Housing Finance Agency House Price Index dipped by -0.1% month over month in April (consensus was +0.2%), and the bellwether S&P Cotality-Shiller measure edged -0.04% lower to the second decimal place. That makes it three declines in a row. The year-over-year trend, which had been running at +3.4% a year ago and +7.3% two years back, has been pared to a mere +1.1%.



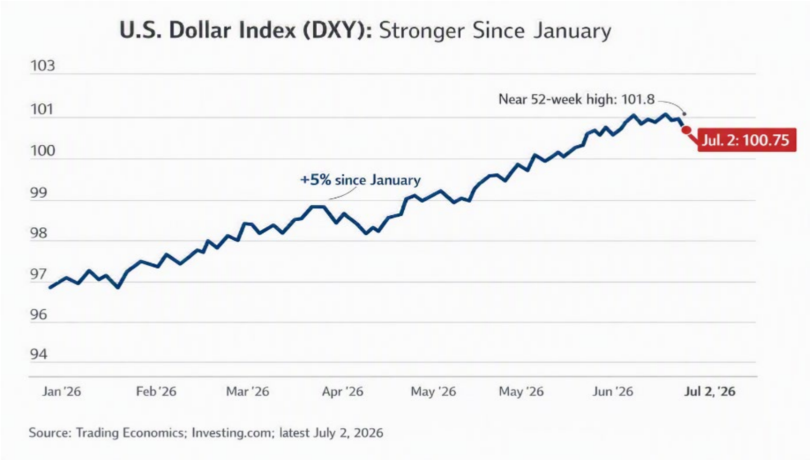
Moreover, with median new home prices flat year over year and housing demand at its second-lowest level since September 2022 — down nearly -7% from a year ago — it is hard for me to get worked up about inflation.



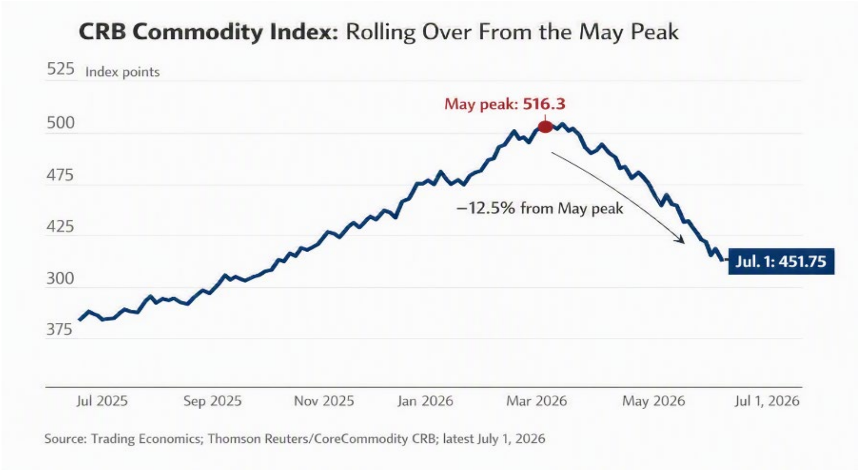
Oil, meanwhile, was on pace for its steepest quarterly decline since the pandemic as flows through the Strait of Hormuz improved following progress toward a peace deal, while Morgan Stanley warned of a potential supply glut. Brent's more active September contract traded near $70 a barrel, the sharpest drop since 2020. WTI hovered near $67.



In just five months, the U.S. Dollar DXY Dollar Index has strengthened by over +5%.

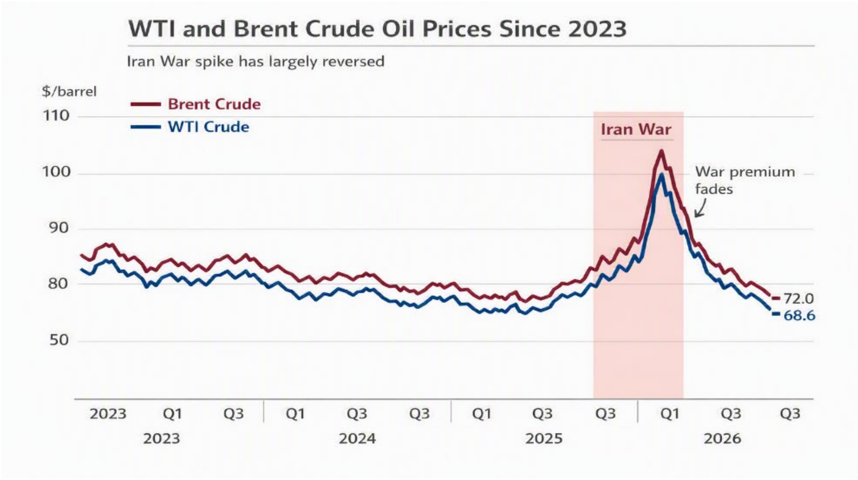


Commodity prices have rolled over by -14% from the nearby May peak.



WTI crude is down another 0.5% to $68.66 as OPEC+ plans to add 188,000 barrels per day of output. At the same time, the United Arab Emirates is exporting record volumes — about 3.7 million barrels per day this month — while Strait of

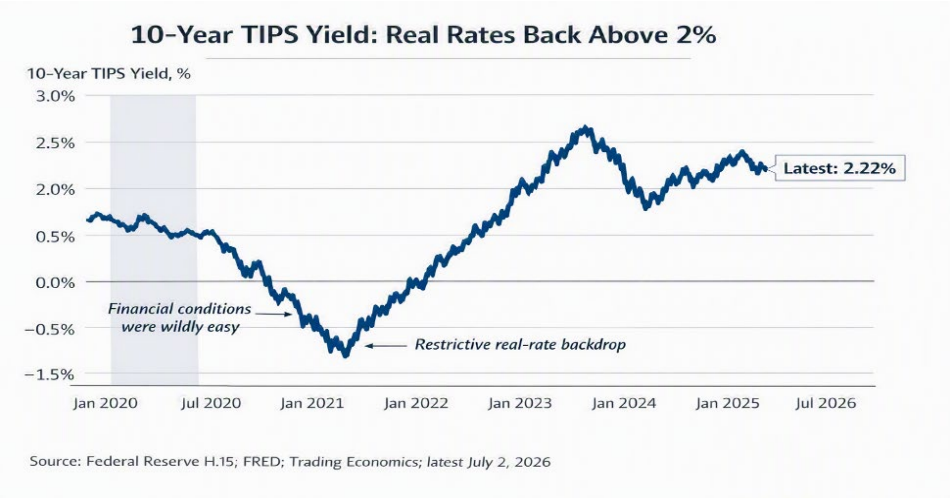
Hormuz tanker traffic has settled into a new normal of 30 to 60 ships a day. That is below prewar levels, but enough to ease pressure on global markets, drivers, and airlines. As JPMorgan put it, “a wave of oil is about to enter the market.” **Virtually all of the wartime surge in oil prices has now been reversed.** And I see that Citi energy analysts are now predicting as low as $60 per barrel for Brent by year-end.



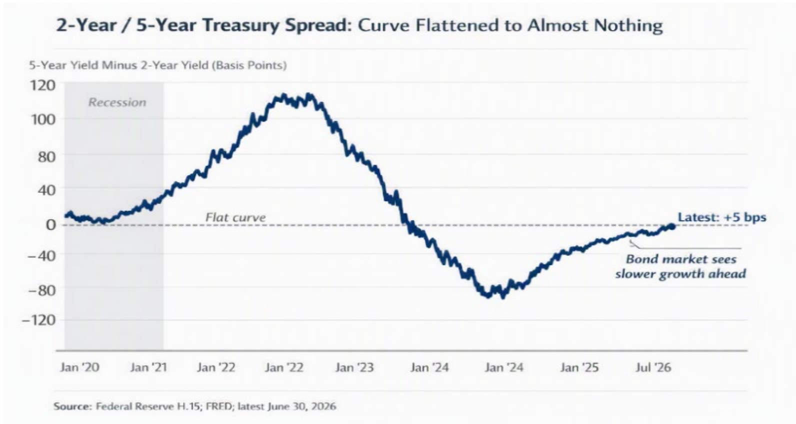
The question is, when will the Fed and the bond market realize that the primary inflation threat has gone away?

Fully 92% of the wartime surge in oil prices has now been reversed. But only 26% of the spike in the 10-year Treasury yield has been retraced. What is the disconnect? Well, it is the Fed. Despite the collapse in oil prices, the downgrading of economic growth estimates, and no sign of acceleration in wages, the central bank has been ratifying market expectations of a rate hike coming our way soon.

As for market inflation expectations, the 10-year Treasury Inflation-Protected Security (TIPS) breakeven levels have come down by nearly -20 basis points since early June to 2.22% currently. They haven’t budged at all since June 2021 when the Fed was pinning the funds rate near the zero bound.



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.



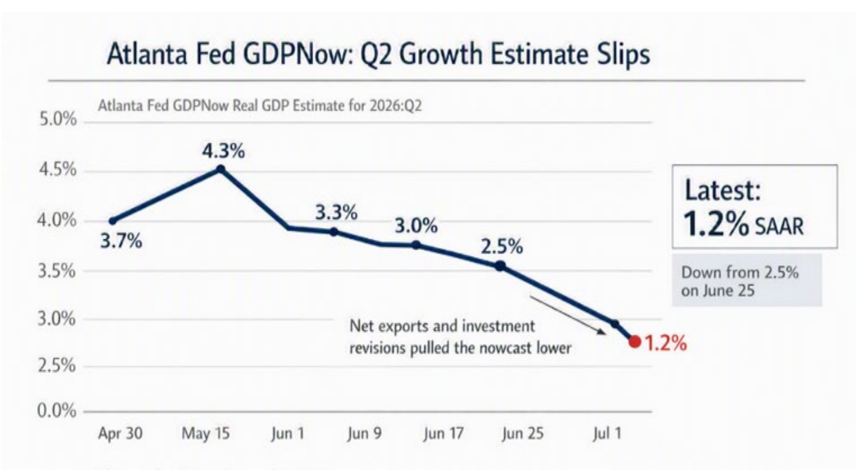
Back to the consumer. The real issue when it comes to "inflation" is discerning what it means. Is it about what businesses want to charge or what consumers are able and willing to pay?

"What we are anticipating is that as we go into this new fiscal year, the consumer is going to continue to be pressured." — Dana McNabb, General Mills

General Mills is providing the answer, because the bellwether food producer just announced that it is adding new products as it continues to win back budget-conscious shoppers, and the company is also making forceful moves to cut costs in a bid to "reduce prices," which is hardly an inflationary signpost (*The Wall Street Journal*).
Dana McNabb, the COO of General Mills announced that it is adding new products as it continues to win back budget-conscious shoppers, and the company is also making big moves to cut costs in a bid to "reduce prices," which is hardly an inflationary sign.

Again, I don't see this as a source of inflation one iota, but rather as a move by a giant food company to quash inflation. The question for the Fed hawks is whether they take the time to read the daily newspapers.

As an aside, the data over the past week forced the Atlanta Fed to cut its current-quarter real GDP growth estimate to a stall-speed +1.2% annual rate from +2.5% and +3.0% in the middle of June. Yet, you watch most of the anchors and guests on the various financial media outlets, and you would think the economy was booming.



Meanwhile, I could not believe my eyes and ears when I read what former Kansas City Fed President Esther George had to say in an interview last week to the effect that she wouldn't even wait until September to start hiking rates again. And here we have Kevin Warsh at the helm, who prides himself on being an Alan Greenspan disciple (may the Maestro rest in peace).

*"Inflation is a problem right now, and it's been a problem for a while in the United States. The real choices they're looking at is, can we hold and see inflation fall? Are we going to have to raise rates? And I think there's probably a good chance that you'll have to talk seriously about raising rates, not cutting." …**I'd plan for higher rates coming ahead."***

Seriously — this is the background for hiking rates?

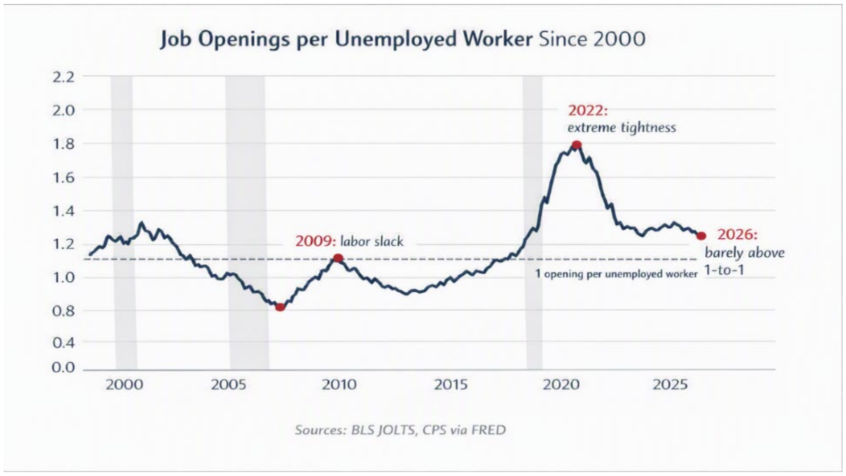
Today's version of the Fed (and recently retired officials like Ms. George) prefers to go on TV and report on the headline data rather than looking underneath the hood. No chance that this would be entering Greenspan's mind. The thing about Greenspan that was great (and this does not let him off the hook for missing the Tech bubble in 1998 and the housing bubble in 2005) is that he dug beneath the surface to get to what was really happening with the economy. Maybe Kevin Warsh can change that mindset because the Fed I grew up with in the 1980s and much of the 1990s did exactly that — analysis.

Bottom line: With all due deference to the flawed price statistics the Fed focuses on and even targets, there is no apparent inflation in the labor market, no inflation to speak of in the housing market, and yet somehow, there is a long lineup of policy officials at the Fed and legions of bears in the bond market who continue to have inflation on the brain.

LOW HIRE-LOW FIRE ECONOMY TRUDGES ALONG

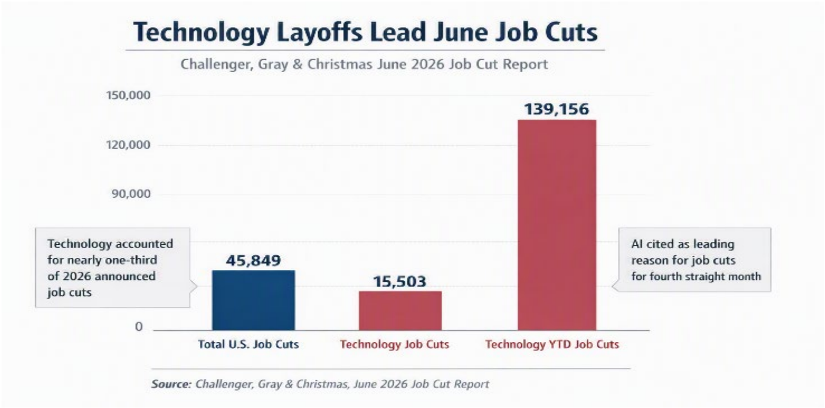
The Job Openings and Labor Turnover Survey (JOLTS) data that came out last week may have shown job openings rising a modest +9,000 in May to 7.594 million, but if truth be told, this was reflective of the temporary skew from the World Cup, because the pickup was largely centered in leisure/hospitality, which rose 95,000 in May. Outside of that one sector, job postings actually fell by -86,000.

Job openings remain elevated at **7.6 million**, so employers have not completely shut the door on hiring. But the bigger signal is that openings are no longer tightening meaningfully. The labor market has moved away from the overheated post-pandemic environment and into something much more stagnant.



Tack on the fact that layoffs rose by +41,000 and have been up now in three of the past four months (up +2.2% on a year-over-year basis) — quite the contrast to the message from the initial jobless claims data.

Challenger reported 45,849 job cuts in June, the lowest monthly total since December 2025, but technology remained the problem child, announcing 15,503 cuts as AI stayed front and center. Challenger said the sector "remains the epicenter of this year's cuts," with AI driving companies to restructure, automate roles and redirect budgets toward new capabilities. Translation: The robots are not just coming for the jobs — they are already here.



Bottom line: Nothing here that was very inspiring, to say the least. This is a **low-hire, low-fire** labor market. Employers are not panic firing, but workers are also not confident enough to job-hop. The labor market is not collapsing, but momentum is clearly fading.

JOBS GAP DETERIORATES

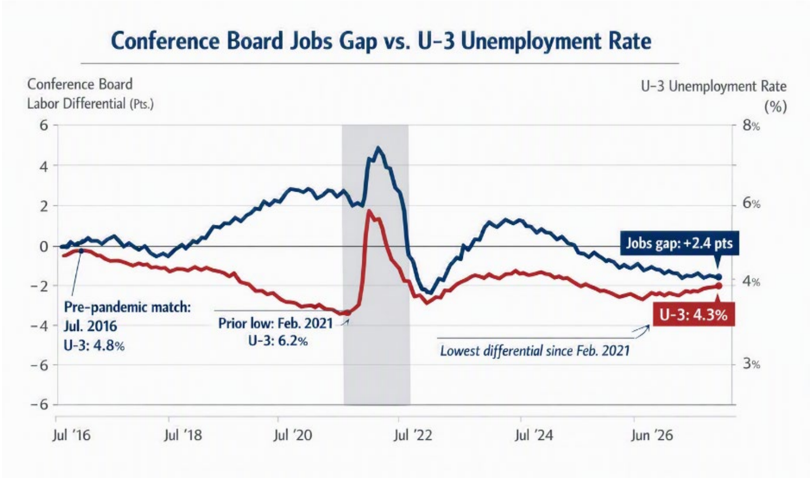
Then we got the Conference Board's consumer confidence report for June. I went straight to the labor market components, and guess what I found? The jobs gap compares two simple Conference Board survey answers:

- Jobs are plentiful.
- Jobs are hard to get.

When the gap narrows sharply, it means consumers are seeing fewer easy job opportunities and more difficulty finding work. When the gap is wide and positive, workers feel confident: Jobs are easy to find, job-hopping is easier, wage pressure tends to stay firm and consumer confidence usually holds up.

The latest read shows the "jobs are plentiful" segment barely budged at 24.9% (it was 29.4% a year back), while "jobs hard to get" expanded to a 22.5% share from 19.8% in May and 19.4% in April. That +2.4 % spread between the two series deteriorated from +5.0 points in May and +7.5 points in April. This time last year, try +12.2 points.

This was the lowest differential since February 2021, when the headline unemployment rate was sitting at 6.2%. Before the pandemic, the last time we saw a number this tepid was back in July 2016, when the jobless rate was 4.8%.



Source: The Conference Board; BLS/FRED; latest June 2026

So, you can see where I am going with this: The unemployment rate isn't staying at 4.3% for much longer. And, considering the Fed is at 4.3% for year-end, it isn't going to be tightening, and the bond market is going to end up liking that strong possibility of the bark not turning into a bite.

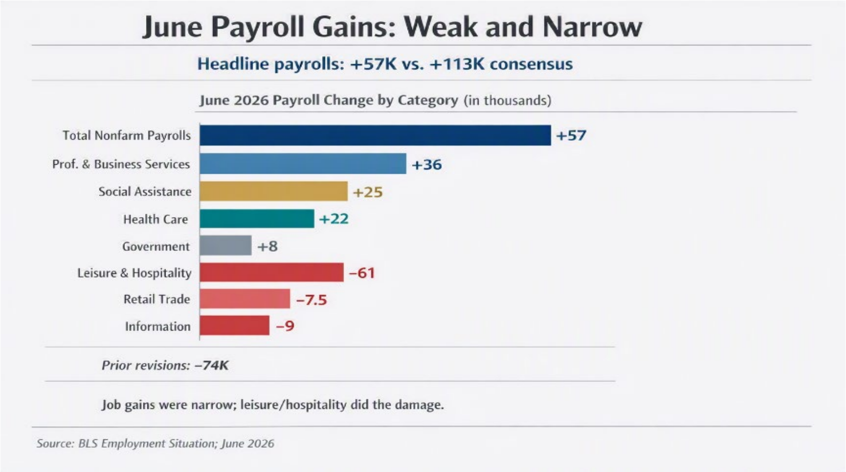
Bottom line: The JOLTS table and the Conference Board jobs gap is flashing a clear labor-market warning. Consumers are seeing fewer jobs and more difficulty finding work, pushing the differential to its weakest level since February 2021. That suggests the unemployment rate is likely to move higher, making Fed tightening unlikely and improving the setup for bonds.

MORE RECESSIONARY THAN RESILIENT

Last, but not least, the June non-farm payroll report missed badly, with the headline gain coming in at just +57,000 — about half the +113,000 consensus estimate. Prior-month revisions subtracted another -74,000, including May's downgrade to +129,000 from the initial +172,000.

The key point is that health care and education — sectors largely insulated from the business cycle — accounted for more than the entire headline payroll gain, adding +69,000 jobs. The remaining 82% of the labor market shed a net -12,000 jobs. That is the real story. Even worse, the seasonally adjusted birth-death model added +75,000 jobs, suggesting underlying employment was contracting, not expanding.

Weakness was broad across economically cyclical sectors. Residential construction fell -3,000, its third straight monthly decline and financials and transportation were flat. The most surprising and disturbing segment of the payroll report was the -61,000 plunge in employment in the leisure/hospitality industry. The same month that the World Cup began! Now, we did see a +40,000 run-up in May, so it seems the sector did a lot of pre-hiring ahead of the event. But according to hotel and tourism operators, attendance and spending have undercut expectations. So, that source of brief stimulus is behind us, and so are the stepped-up income tax refunds — which the retailers must see, because they laid off a net -7,500 staff last month in the steepest decline for the year.

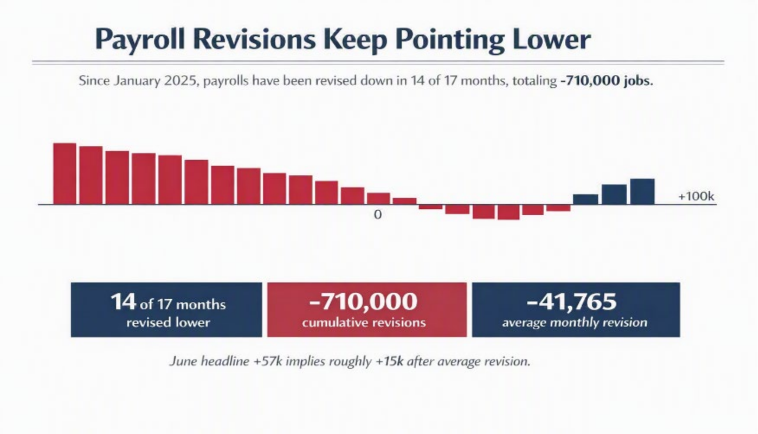


The bigger point is that monthly job reports are mostly useless noise, as we are reminded once again by the huge prior month jobs revisions contained in yesterday's June employment release. During May and April alone, the previously reported job change numbers were revised down by a total of -74,000: April jobs were revised down by -31,000, to +148,000, while May jobs were revised down by -43,000, to +129,000.

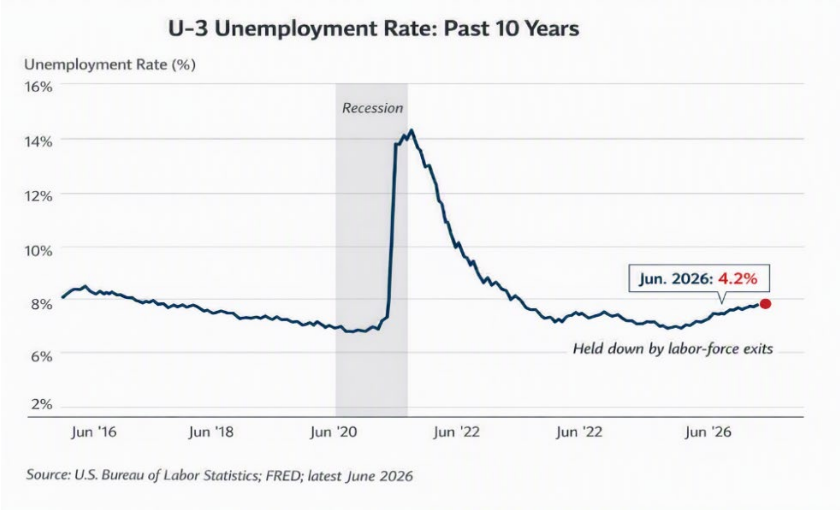
In fact, since the start of 2025, U.S. job numbers have now been revised down in 14 out of 17 months by a total of **-710,000 jobs!** Let that sink in.

In all, the headline number has been reduced by **-41,765 jobs per month** since January 2025.

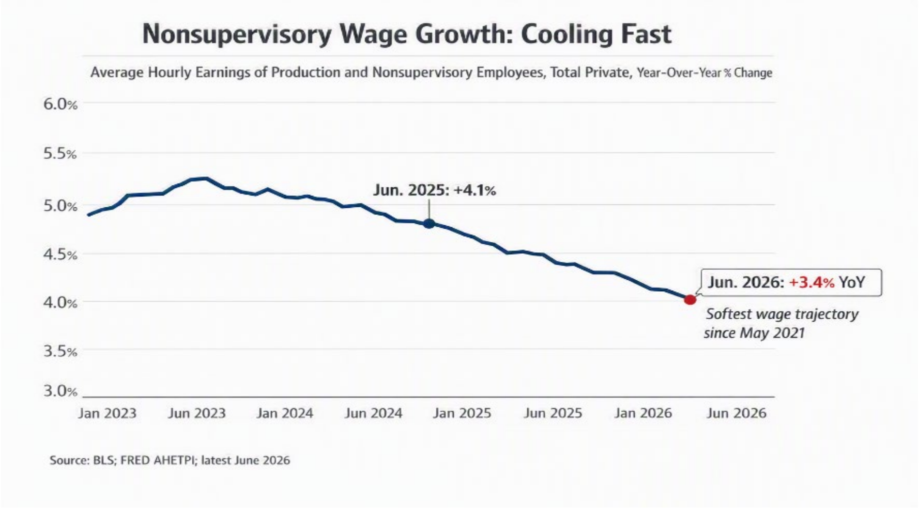
Applying that average revision to June's already-soft **+57,000** payroll gain suggests the labor market may be adding only about **+15,000** jobs per month. In an economy with roughly 159 million payroll jobs, that is stall speed at best.



All the bond bears and policy hawks could chew on was the fact that the unemployment rate dipped to 4.2% from 4.3%. But this was not because more jobs were made available. It's because people left the labor market en masse, as the labor participation rate (measures the working-age population of those either employed or looking for a job) fell to 61.5%, the lowest since March 2021. Excluding the pandemic-era jobs market, it was the lowest participation rate since June 1976. Absent that effect, the jobless rate would have actually climbed to 4.6%, which is around a level we have not seen since September 2021. Put that in your pipe and smoke it.



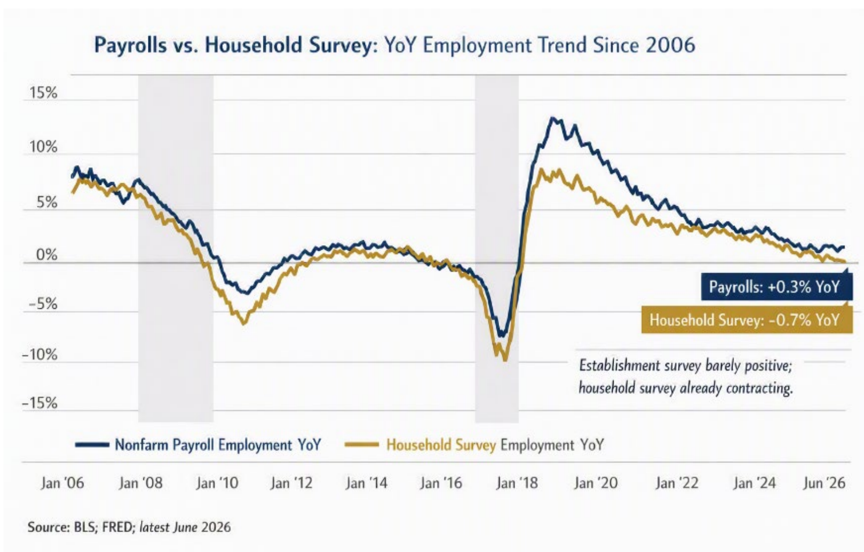
And, if the labor market were truly tight, the overall wage number would not have been as tame with the year-over-year trend steady at around +3.5%. In fact, wages for nonsupervisory employees slowed to just +3.4% (was +4.1% a year ago), and that is the softest trajectory since May 2021. With productivity running at around +2.8%, there is no inflationary impulse coming out of the jobs market one iota.



The workweek was unchanged at 34.3 hours, and the aggregate-hours index rose less than +0.1% for the second straight month. In plain English, total labor input barely grew at more than a +1% annualized pace.

Moving on. The companion household survey tells a much weaker story — one that looks recessionary and Fed-easing friendly. Employment plunged -507,000 in June and is down -833,000 since February, despite a +126,000 increase in multiple-job holders. That is a classic stress signal, not resilience. Full-time jobs fell -514,000, extending a three-month losing streak that has erased more than one million positions, while part-time employment rose +336,000 over the same period.

Finally, if you want to eliminate the monthly wiggles, to get a clearer trend of what's happening to the labor market, have a look at the following graph which shows the trend of employment growth. Suffice it to say, it isn't pretty. The year-over-year trend in non-farm payrolls is running at the grand total +0.3%, and the household survey at -0.7%. Again, by what definition is this solid or resilient?



Bottom line: The labor market is losing momentum beneath the surface. The payroll headline looks soft, but the underlying details look even worse — more recessionary than resilient.

MARKET OUTLOOK AND PORTFOLIO STRATEGY

"I think it makes sense for the Fed to tilt a little bit its posture towards paying attention to employment, but it's not as if it can take its eyes away from the inflation ball."
— Isabelle Mateos y Lago, Chief Economist, BNP Paribas Group

Kevin Warsh recently conceded that the inflation outlook has improved, but he stopped short of saying whether that means the Fed should hike rates. That ambiguity has left markets reading him as hawkish, even as the inflation data and market signals are moving in the other direction.

Meanwhile, the market now prices ONLY a 12% chance of a Fed hike at the July meeting. (In my humble opinion, those chances should be closer to zero.) And, rather astoundingly, markets still see roughly 78% of a rate hike later this year, barely moving from prior levels. Bizarre. Oil prices have done a complete retreat, the Atlanta Fed is down to +1.2% real GDP growth for Q2 and the job market has no pulse. Great environment for a policy tightening.

From my perch, the case for hiking rates looks weak. Markets suggest the Fed should worry more about slowing growth and disinflation than another inflation flare-up.

Yet the crowd remains fixated on inflation and higher rates. Inflation is 4.2%, and investors seem convinced it will stay there, even though the drivers that pushed it up from 2.4% in February have already reversed. Given the repeated shocks since 2020, that is hardly runaway inflation:

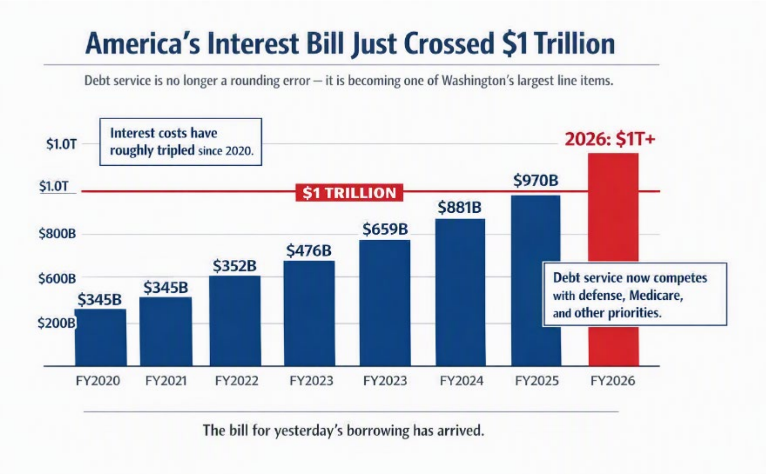
1. The pandemic and the global supply-chain shock
2. Massive fiscal and monetary stimulus even as the economy reopened
3. Russia's invasion of Ukraine
4. Trump's tariff hikes
5. The U.S.-Iran war

Stripping out those recurring shocks, inflation would look far less threatening. So long as we don't continue to incur shock after shock, the underlying inflation trend is moving back toward target. The economy is not some runaway inflation basket case.

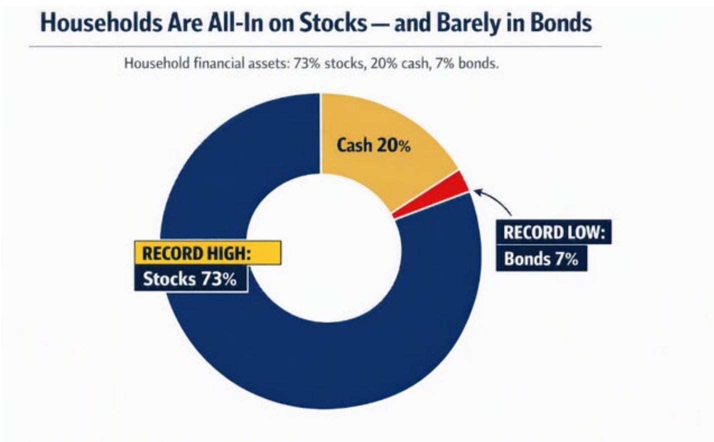
What about bond supply?

Everyone obsesses over debt and deficits — me included — but today's deficit is about 6% of GDP. That is large, but still well below the 12% deficit after the financial crisis. Back then, the usual chorus warned of failed auctions and market panic. Instead, investors showed up, auctions were oversubscribed and rates collapsed toward zero. When nobody wanted stocks, they bought bonds. It happened in 2000, it happened in 2008 and it can happen again.

Too much debt does not automatically cause crisis, but it does lower the economy's speed limit. Rising interest costs — now above $1 trillion — weaken future demand, limit policy flexibility and make the system more sensitive to higher real rates. Simply put, debt is future consumption denied.

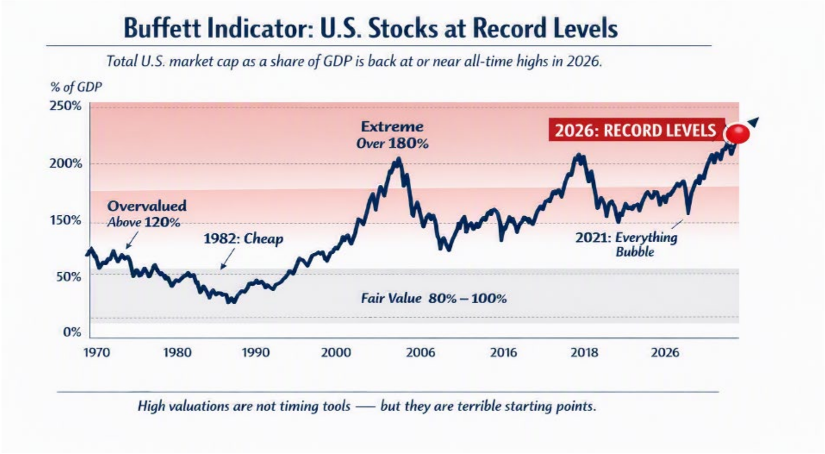


Meanwhile, nobody wants to own boring old bonds (except me). As I have highlighted previously, sentiment against bonds is about as negative as you can get. Investors are throwing caution to the wind as equities have reached a record 73% share of household financial assets. At the same time, households are the most underweight bonds than they have been since… forever? Bonds now represent a record low 7% of household financial assets.



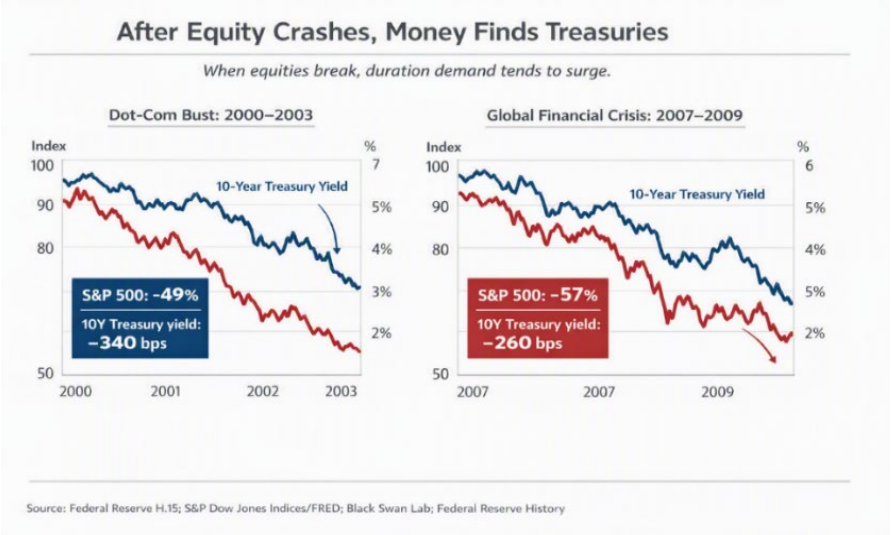
Meanwhile, everyone seems all-in on stocks. Is AI the future? Probably. Am I bullish on it? In theory, yes. But the consensus already assumes this capex boom is essential, so the real contrarian view may be that some of it still proves excessive. Maybe that is simply capitalism being capitalism: overbuilding the next big thing.

"Based on the value of the stock market compared to GDP, with modifications, this is the most expensive market in American history… The long-run prospects for the broad U.S. stock market here look as poor as almost any other time in history." — Jeremy Grantham, GMO Founder and Legendary Investor

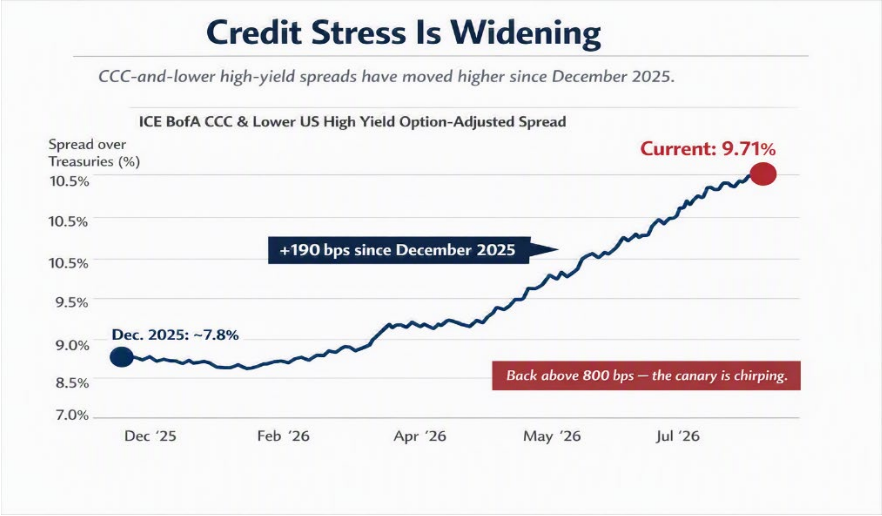


For those that remember, living though the dot-com crash was NOT easy. Yet we now know that the internet really was the future, but that did not prevent overinvestment, malinvestment and the incineration of portfolios for years to come. Railroads, utilities, the Nifty Fifty, Japan — every bubble had a real story behind it. This one does too. The difference is that it looks bigger than all of them, and it still does not look finished.

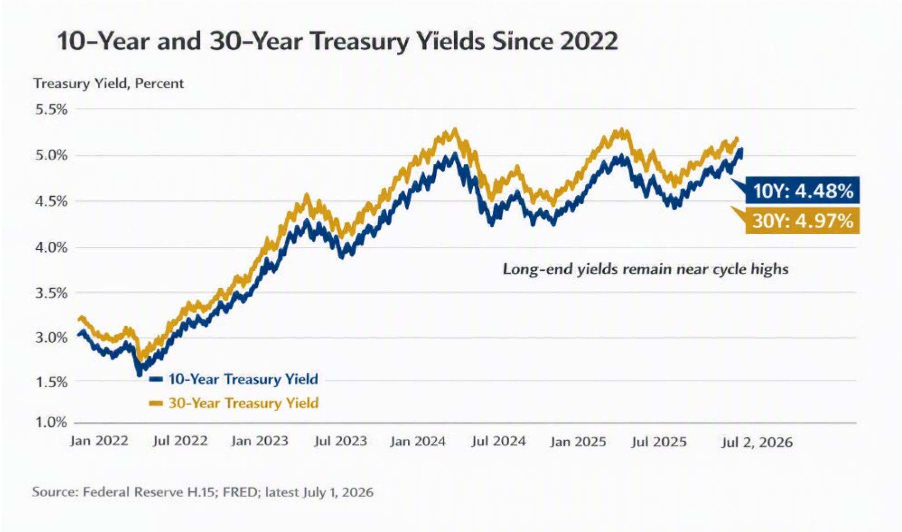
Here's the truth: Baby boomers got rinsed in 2000, got rinsed in 2007 and are may get finished off one last time in 2026 and leave your broke millennial kids with nothing.



As equities keep partying, remember: Credit usually leads. It warned in the late-1980s leveraged buyout boom and again in 2007, when mortgage credit cracked months before stocks peaked. Today, spreads on CCC-rated high-yield bonds have widened nearly 200 basis points from cycle lows and are nearing 1,000 basis points for the first time in 15 months. The canary is chirping.



Another reason I remain bullish on bonds is simply the math. In 2022, long Treasuries were crushed because coupons were extremely low, which meant higher duration and greater rate sensitivity. Today, with long-bond coupons closer to 5%, duration is lower and the risk profile is materially better than it was four years ago.



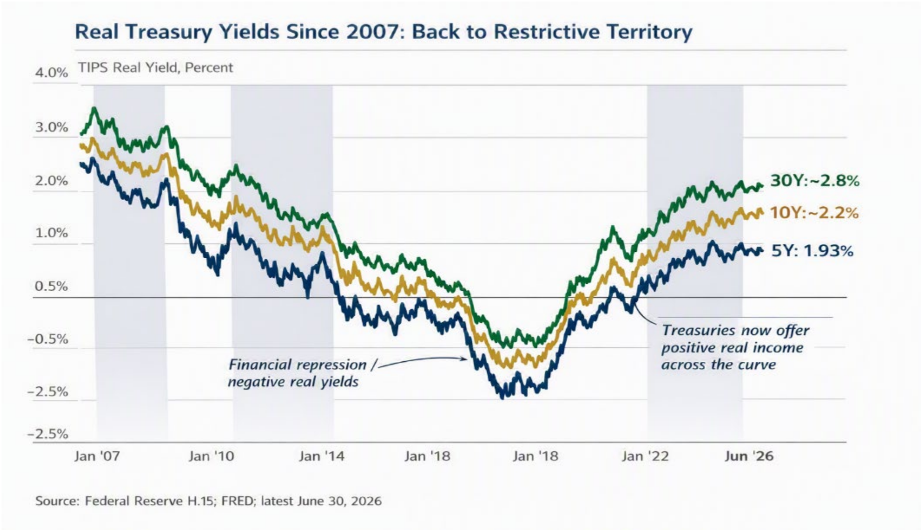
With today's coupon cushion, 10-year Treasury yields would have to rise by roughly 50 basis points over the next year before investors would suffer a negative total return. That is a much better starting point than the zero-coupon-like world of 2020-2021, when even modest rate increases could inflict real damage.

The front end has a huge cushion. Rates would have to rise ~90 basis points for the 5-year Treasury and by ~210 basis points for the 2-year Treasury over the next year before suffering a negative total return.

Treasury Maturity	Starting Yield	Duration	Rate Rise Needed for Negative 12-Month Return
2-year Treasury	4.14%	~1.9 years	**~210 basis points**
5-year Treasury	4.20%	~4.5 years	**~90 basis points**
10-year Treasury	4.48%	~8.0 years	**~50–55 basis points**

Real 5-year yields have jumped 90 basis points to just over 2%, an 18-month high and a clear sign of tighter financial conditions. At that level, investors can earn solid inflation-adjusted returns with little risk, pulling oxygen from equities, credit, housing and speculative assets.

Finally, at the risk of beating a dead horse, the front end of the yield curve still looks attractive on a risk return tradeoff. Short rates are pricing in too much inflation risk. If the Fed proves less restrictive than markets expect. **I also like the intermediate and long end for investors who can tolerate the duration risk.**



Bottom line: Bonds are under owned and attractive while stocks are over owned and expensive. 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.

I unabashedly remain bullish on bonds, and if the Fed tightens again, I will use it as an opportunity to add more exposure to the mid- and long-end of the Treasury curve.

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MORE INFORMATION

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.