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INVESTMENT SERVICES

Weekly Relative Value

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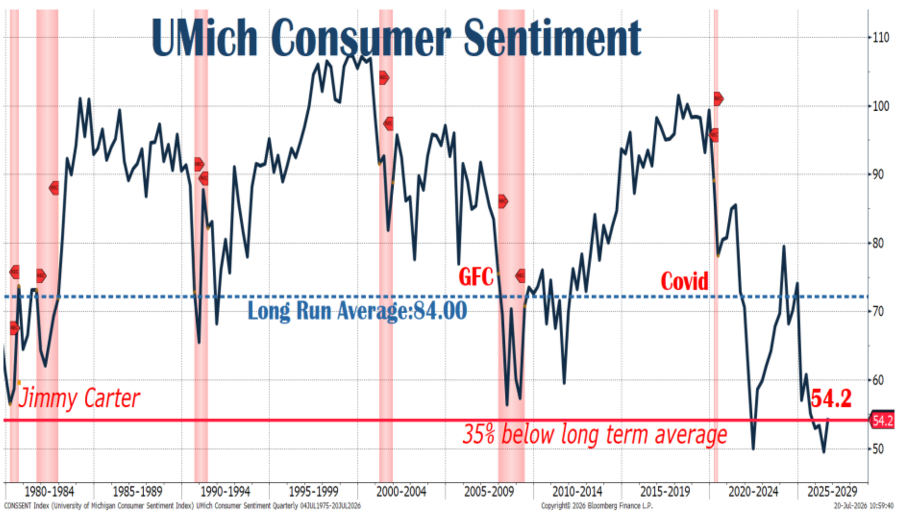
WEEK OF JULY 27, 2026

Reality Check

The University of Michigan Consumer Sentiment Survey tracks how households view the economy, inflation, jobs, rates and big-ticket purchases. Because consumer spending drives most U.S. gross domestic product (GDP), it helps signal whether households are likely to keep spending or pull back.

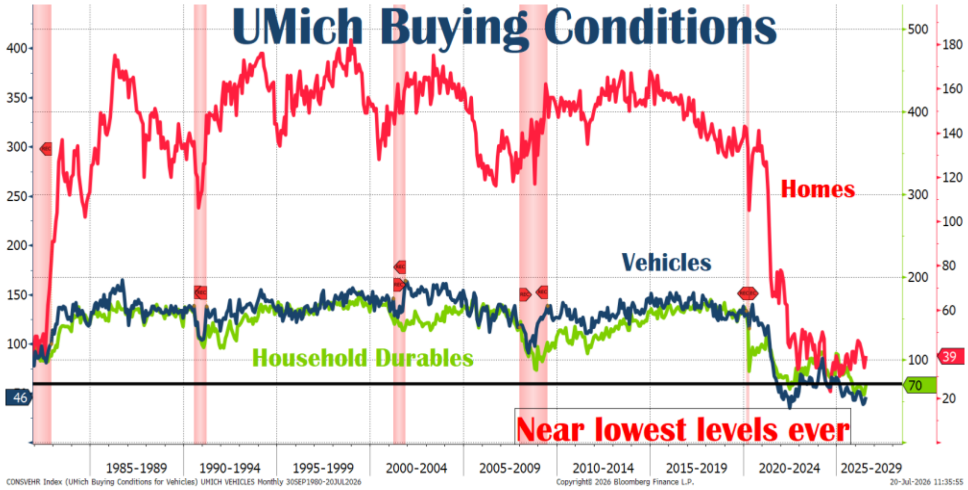
The preliminary University of Michigan Consumer Sentiment Survey headline index firmed to a five-month high of 54.4 from 49.5 in June and came in well above the 51.0 consensus expectation.

That said, a 54.4 reading still needs perspective: Sentiment was 61.7 a year ago, and the long-run average since 1952 is just over 84. July's level remains roughly 35% below normal. So, it is a nice figure relative to June and expectations, but there has never been a time when consumer sentiment was this low — outside of the 2022 scare — without a recession coming to the fore. Eleven recessions and one head fake.



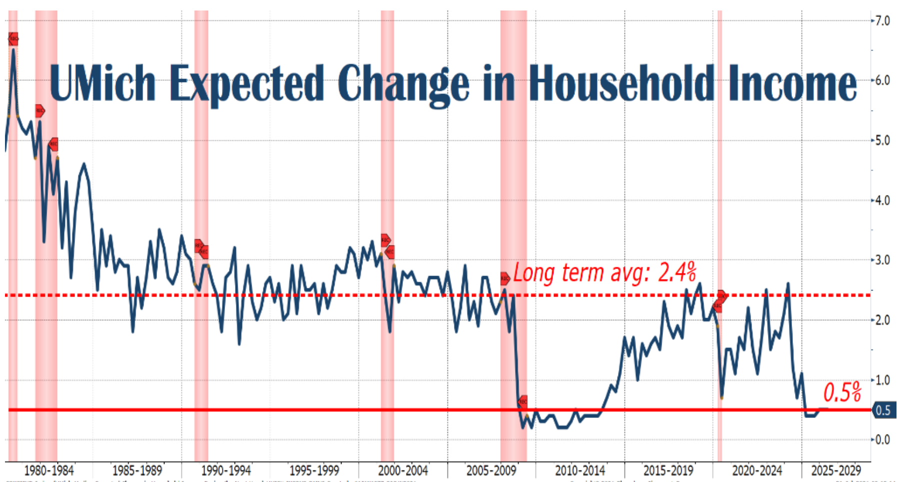
For a change, all income and age categories saw their confidence levels improve this month. All political stripes, as well as 75% of the regions. Buying plans for autos, homes and big-ticket durables picked up off the floor, but again, that floor is in the basement.

THIS WEEK



Equity owners and the top wealth echelons were the driving force, matched by bullish expectations of what the stock market is going to do over the next twelve months — rising for a third consecutive month to 60.9% from 59.0% in June, to now stand at the most optimistic level since April 2024.

Labor-market and income assessments remain weak — the median expected wage increase is just 0.5% versus a long-term average of 2.4% — but who needs wages when the stock market has made everyone feel rich?



Bottom line: Sentiment improved, but it remains recessionary by historical standards — and the recovery looks more like a stock-market wealth effect than a broad consumer revival. In other words, the K-shaped economy lives on.

This matters because the consumer strength investors keep leaning on is looking less like broad resilience and more like a narrow, wealth-driven cushion.

TRADING DOWN

The **Beige Book** gives the Fed a real-time, ground-level read on the economy before the hard data fully show up. It is based on reports from businesses, banks and contacts across the 12 Federal Reserve districts, so it captures what companies and consumers are actually doing — not just what the monthly data say after revisions.

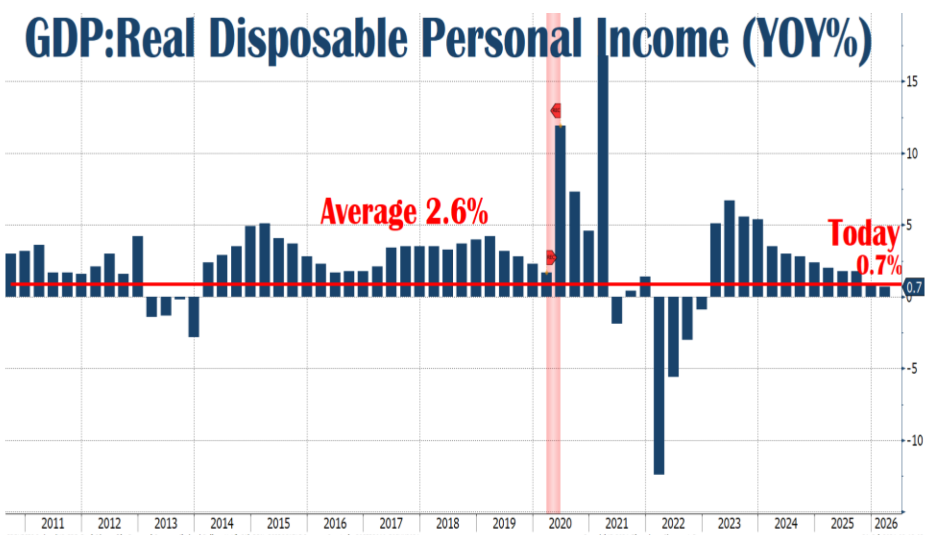
Per the Beige Book:

"Several Districts noted declines in spending on discretionary items or trading down to more affordable varieties."

"Auto dealers reported little change in sales, but spending on repairs grew as consumers held onto vehicles for longer."

"Consumer prices continued to rise, and a few Districts said contacts saw greater price sensitivity among their customers. A couple of Districts reported that selling prices grew less than input costs over the period, crimping margins."

The Beige Book cited at least five Districts — Boston, New York, Philadelphia, Atlanta and San Francisco — where World Cup tourism boosted June and early-July activity. Add in the temporary lift from larger income-tax refunds, and the second half is set up for disappointment as 2%+ real consumer spending growth converges with roughly flat real disposable income. The consumer is at a pivot point.



The Beige Book also showed how the supposedly resilient consumer is changing behavior in a frugal, disinflationary way. Inflation depends not just on what companies want to charge, but on what customers are willing and able to pay. That pushback is now widespread, with some businesses rolling back prior price increases and absorbing the hit to margins.

The details were striking: Drivers are keeping cars longer but cutting back on oil changes and lube jobs; shoppers are trading beef for cheaper poultry and pork; even high-end consumers are spending less on alcohol at restaurants or bringing their own wine. Dental and salon appointments are being canceled, too. "Trading down" has become a broad consumer theme, not just a low-income one.

Bottom line: The Beige Book matters because it captures the behavioral shift beneath the headline data — consumers are still spending, but they are spending more cautiously, more selectively, and in ways that pressure prices and margins.

That is the setup for the next myth: The "resilient consumer" is not collapsing, but the support underneath it looks narrower, more temporary and more fragile than the headline data suggest.

THE MYTH OF THE "RESILIENT" CONSUMER

The "resilient consumer" deserves a closer look. Real consumer spending growth has slowed to roughly 2% year over year from about 3% around this time in 2025. And without the savings rate falling from 5% to 3%, consumer spending would not have grown at all over the past 12 months.

Credit is doing more of the work. Credit card usage has been rising at more than a 5% annualized pace over the past three months, even as 90-day delinquency rates have climbed above 13% for the first time in 15 years. With unpaid balances near $1.3 trillion and average interest rates above 21%, this looks less like resilience and more like strain.

Fiscal support flattered the data**.** Some will point to consumer strength despite higher energy costs, but trend spending is still cooling. This year's household sector received a meaningful lift from larger income-tax refunds, SALT deductions, childcare tax credits and the elimination of taxes on tips and overtime. National accounts data show household tax payments have been reduced by $53 billion so far this year.

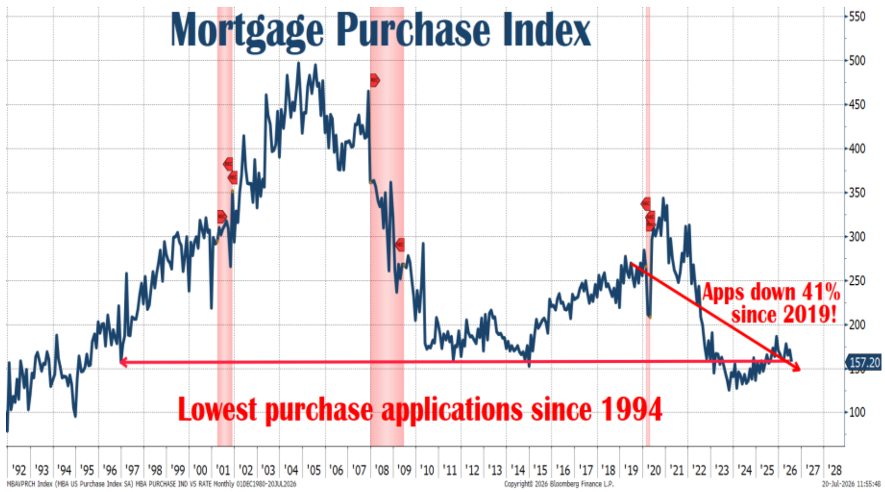
The problem is that the boost is temporary. These benefits are largely one-time effects and will not repeat. The One Big Beautiful Bill alone added more than a full percentage point to annualized consumer spending growth so far this year. When the government hands households a cash-flow boost, it tends to get spent quickly. That is not durable resilience; it is a sugar high.

Tourism added another short-lived tailwind**.** The May-to-July boost to tourism-related spending added roughly 0.5 percentage points to underlying spending growth over those three months. Like the fiscal support, that lift is temporary — and it raises the hurdle for the second half consumer outlook.

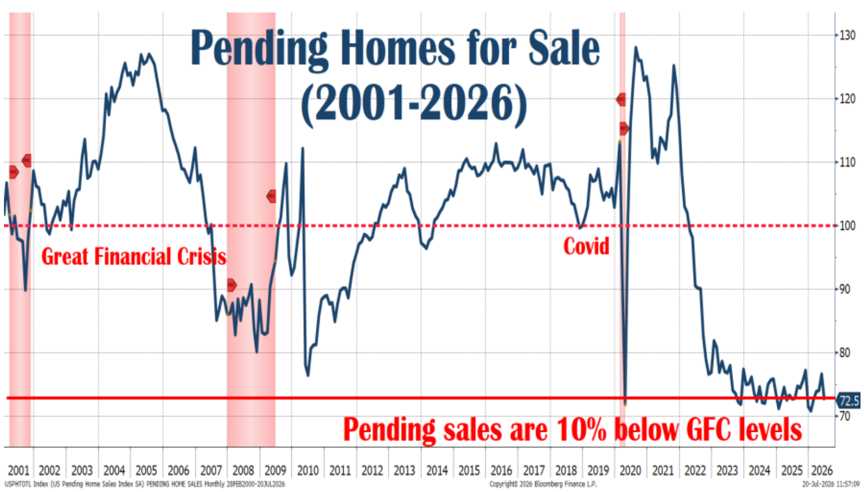
Bottom line: The "resilient consumer" story is overstated. Real spending growth has slowed, and much of the recent strength appears to come from savings drawdowns, increased credit-card use, temporary fiscal support and a short-lived tourism boost. Rising delinquencies, high card balances and expensive interest rates suggest strain beneath the surface. The core point: Consumer spending is still holding up, but the support looks temporary rather than durable.

HOUSING OUTLOOK

Housing data remain ugly this July: Mortgage applications are down 41% from the same period in 2019.



Pending sales fell year over year in June, marking the second-worst June reading ever, and 2026 is shaping up as one of the weakest summer housing markets in recent memory.



Regionally, the South accounts for 61% of inventory and 67% of sales; the West accounts for 21% of both inventory and sales; and the Midwest and Northeast together hold 18% of inventory but only 12% of sales.

That is a large inventory overhang — equal to 9.3 months of supply at the current sales pace. Still, new supply is exactly what the U.S. housing market needs. Builders are delivering it; now they need buyers to show up.

Meanwhile, the average 30-year fixed mortgage rate rose to 6.85%, the highest in a year, and a hair above the highs earlier in July and May, and up by nearly 80 basis points from the February low.

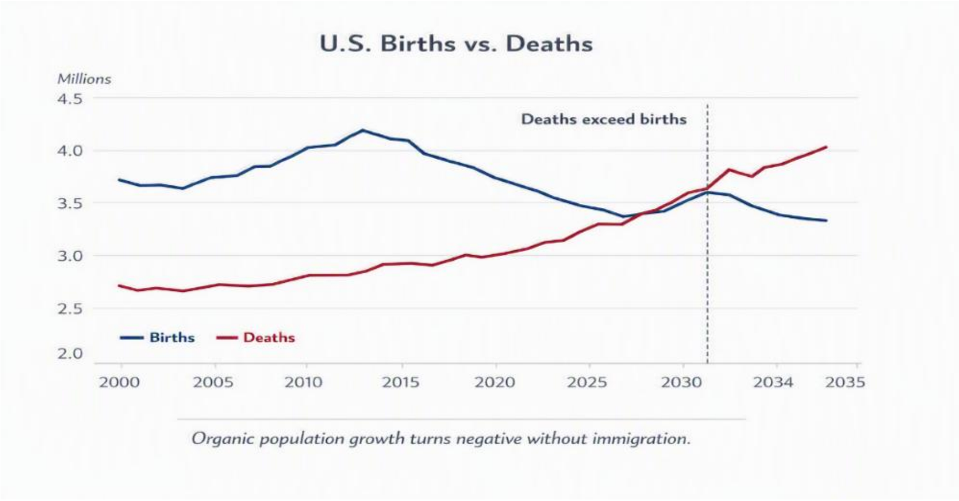
Last fall there was talk that this was going to be the spring and summer when mortgage rates would drop below 5% again, and all this “pent-up demand” would be unleashed, and the housing market would shoot to the moon or whatever. Not happening.

Sales volumes will likely drop in future months, and I wouldn't be surprised if existing sales drop below 4.0 million annualized.

The bigger story is demographics. One of the most concerning trends for the U.S. housing market is the declining birth rate. The birth rate fell to barely over 1% of the U.S population in 2025. At the same time, the death rate is increasing. Since 1991, the birthrate has declined by 60%, which means fewer future homebuyers and fewer families looking to upsize. At the same time, an aging population and rising death rate should add inventory through estate sales.

By 2034, the U.S. could have more deaths than births — organic population decline — pointing to structurally weaker housing demand and more supply over time.

Most people in real estate aren't paying attention to this trend, but it will dramatically reshape the U.S. housing market in the future.



Bottom line: Housing demand is weakening fast. Mortgage applications are down sharply versus 2019, pending sales are near record lows, and 2026 is shaping up as one of the weakest summer housing markets in recent memory. The bigger structural issue is demographics: Falling birth rates mean fewer future homebuyers and less upsizing demand, while an aging population and rising death rate should add supply through estate sales. By 2034, deaths may exceed births, pointing to structurally weaker housing demand and more inventory over time.

The same pressure is showing up more sharply in condos, where the post-pandemic price surge is now reversing in several major markets.

THE GREAT CONDO BUST

Condos have serious problems after the breathtaking price surge from mid-2020 to mid-2022, when prices jumped 50%, 60% or even 70% in some cities. Over the decade leading up to the peak, prices had soared 180% to 350% in these markets. Now those bubbles are deflating, and the price declines are spreading and deepening.

Across 30 major markets, mid-tier condo prices are already down 15% to 33% from their peaks through June. In nine of those markets, prices have fallen 21% to 33%, while prices in another 39 large cities are down 8% to 14%. Most peaks occurred between 2022 and 2024, so these are now meaningful multiyear declines.

In several of these markets, condo prices have fallen below their 2006 housing-bubble peaks and are back to levels last seen roughly 20 years ago. In others, prices are now close to those 2006 highs.

Many smaller markets have seen similar or even larger condo-price declines, but they are excluded here because the markets are too small.

In some densely populated big cities, condos and co-ops account for a large share — or even the majority — of home sales; in most other markets, condos remain a smaller slice of total activity.

The chart below shows the top 10 cities with largest condo price declines:

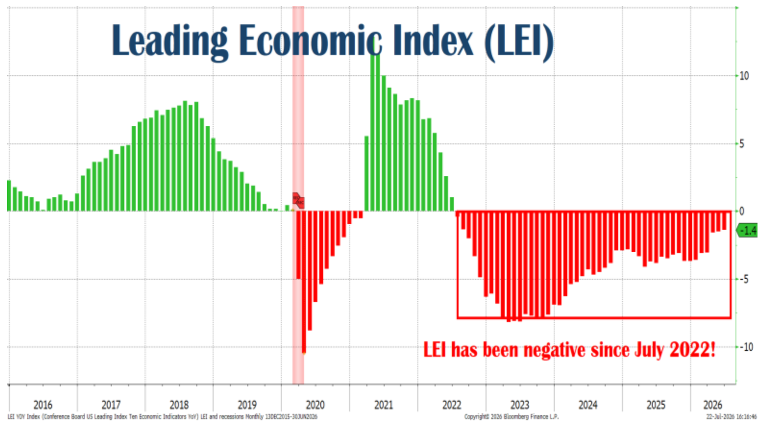
Rank	City / Market	Condo Price Decline from Peak
1	Cape Coral-Fort Myers, FL	-33%
2	Oakland, CA	-32%
3	St. Petersburg, FL	-29%
4	Austin, TX	-28%
5	Fort Myers, FL	-27%
6	Sarasota County, FL	-24%
7	Tampa, FL	-21%
8	Garland, TX	-21%
9	Jacksonville, FL	-21%
10	Detroit, MI	-19%

Bottom line: The post-pandemic condo boom is now reversing hard. After prices surged 50%-70% in some cities and rose 180%-350% over the prior decade, many major markets are now seeing meaningful multi-year declines. Across 30 large markets, mid-tier condo prices are down 15%-33% from their peaks, with several Florida, California and Texas markets hit hardest. In some areas, prices have fallen back near or even below their 2006 housing-bubble highs.
That housing weakness fits the broader macro pattern: Activity is not collapsing, but the forward-looking indicators are no longer confirming the soft-landing narrative.

MOMENTUM IS SLOWING

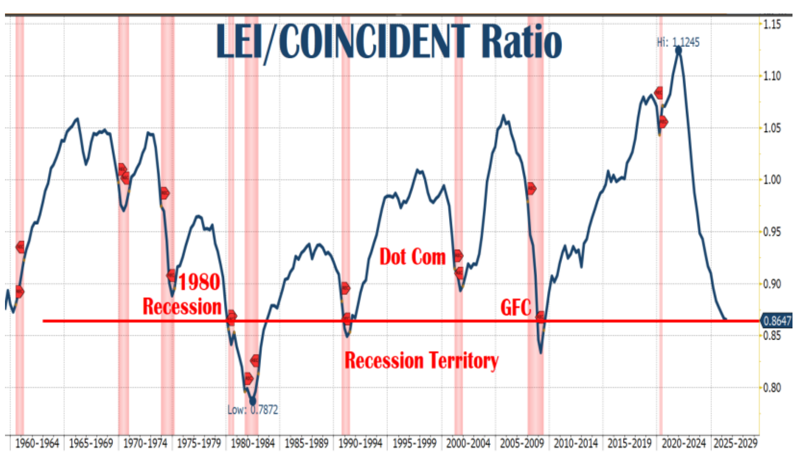
The Leading Economic Index (LEI) matters because it is designed to move before the economy does — it captures forward-looking signals like new orders, jobless claims, credit conditions, equity prices, building permits and consumer expectations. Simply put, the LEI gives you a read on where growth is likely headed next.

It is telling that the supposedly "resilient" U.S. economy saw the LEI fall 0.2% in June to a three-month low, worse than the -0.1% consensus estimate. The diffusion index held at a weak 55%, meaning components were roughly split between gains and declines. Year over year, the index has been in the red since July 2022!



The coincident index (COI) tells you what is happening now; coincident indicators rose nearly 0.2%, but they have essentially flatlined since February, with momentum starting to fade.

The LEI/COI split matters because it shows the economy is not yet breaking, but the forward-looking engine is sputtering. Leading indicators are weakening, while coincident indicators have mostly flatlined — a setup that argues growth momentum is narrowing rather than broadening.



Bottom line: If coincident indicators are flat but the LEI is falling, the economy is not collapsing yet — but the forward momentum is weakening. That supports my belief that the "resilient economy" narrative is increasingly narrow, dependent on artificial intelligence (AI) capital expenditures, fiscal support and savings drawdowns. That speaks to how narrow and concentrated the expansion is, with broad areas of the macro backdrop still under pressure, especially housing.

And just as domestic momentum is narrowing, the external shock machine is warming up again — because nothing complements a softer growth backdrop quite like a renewed energy chokepoint crisis.

Layer tariffs on top of that slowing momentum, and the risk is not just weaker growth — it is weaker growth with another policy-driven price shock.

THE TARIFF WARPATH

President Trump is back on the tariff warpath — with Canada and twelve other countries in the crosshairs — because apparently the macro backdrop was not messy enough. The proposed Canada tariffs rely on Section 338 of the Tariff Act of 1930, a rarely used trade-law relic, and would bypass United States-Mexico-Canada Agreement (USMCA) protections that shielded most Canadian goods. With U.S. health care costs already elevated, another tariff layer means more price pressure. So much for the affordability crisis.

Section 338 has been used in a trade action only once — in 1935 — and no tariffs were imposed. Its legality remains largely untested, and clarity is unlikely before spring 2027 given the slow pace of International Emergency Economic Powers Act litigation. Markets love uncertainty, right?

The White House called out alcohol, dairy and autos, covering about $20 billion of U.S. imports from Canada — roughly 5% of Canadian exports. If implemented, the tariffs would lift Canada's effective rate to 7.5% from 5.0%, with the pain concentrated in a few sectors and manufacturing-heavy Ontario and Quebec hit hardest.

The tariffs would spare Canadian energy, potash, critical minerals and fish. The twist is that they would hit USMCA-compliant goods, previously exempt from U.S. tariff actions. In other words, Washington is not just pressuring Canada; it is chipping away at the trade deal it once celebrated.

The symbolism matters, too. The U.S. is signaling it will use any available leverage, even if that means digging through Depression-era trade law. There is no trade détente here.

The U.S. definition of "discrimination" now seems to include nearly any retaliation against U.S. tariffs: provinces pulling U.S. liquor, Canada defending its auto industry or any pushback at all. Convenient how that works.

Canadian Prime Minister Carney said Canada has only responded to U.S. trade actions and will "**take any measures necessary**." Translation: Canada will not sit quietly while Washington rewrites the rules. Retaliation would mean another hit to consumers' wallets — because the bill always finds the consumer.

Bottom line: Trump's renewed tariff push risks reopening the trade-war playbook at exactly the wrong time. By reaching for rarely used Depression-era trade authority and targeting even USMCA-compliant Canadian goods, the White House is adding legal uncertainty, price pressure and another drag on growth. Canada will almost certainly respond, meaning consumers on both sides of the border could end up paying the bill. In short: no détente, no clarity and no free lunch.

The tariff story also reinforces the bond-market setup: Inflation fear keeps getting repriced, even as the underlying growth data continue to soften.

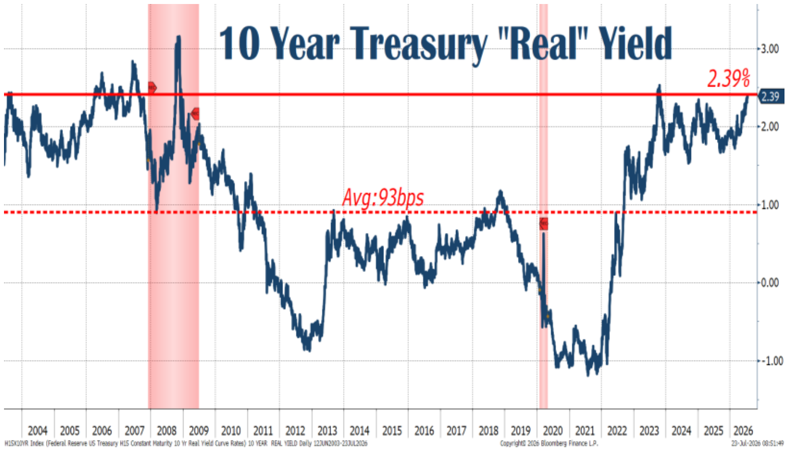
WHERE ARE BOND YIELDS GOING?

Despite multiple supply shocks, six years of extraordinary fiscal stimulus, an AI boom and record-high equities, the 10-year Treasury yield still can barely reach 4.7%. That's it? Here's the thing. Without the repeated shocks since 2020, core inflation would likely already be near 2%. Excluding shelter, the Consumer Price Index (CPI) is already running at 2.1%, a point too few investors seem to appreciate. Inflation exists in pockets, but the broader narrative still looks exaggerated.

Given that extreme consensus, it is notable that Treasury yields are still 30 basis points below the cycle peak. After the November midterms, political gridlock and fiscal drag should push GDP forecasts lower and likely keep the Fed barking but not biting.

Remember, the 10-year Treasury yield was below 4.0% before the war. Since then, oil prices have surged, Fed expectations have shifted, and AI-related debt issuance has pushed real rates higher. I do not view those forces as permanent, and I do not see a need to overcomplicate it. Meanwhile, only 2% of portfolio managers expect a recession over the next year. With consensus that pro-cyclical, the 10-year should arguably be closer to 6.0%. The fact that it is not may be the real story.

Meanwhile the “real” inflation-adjusted yield of the 10-year benchmark is 2.39%. Simply put, this is the return Treasuries offer after inflation.



Nominal versus real yields: The nominal yield shows what a bond pays before inflation. The real yield shows what investors keep after inflation. For most of the past 15 years, the real yield sat near zero. In 2020 and 2021, it turned negative, meaning investors were losing purchasing power by holding government bonds.

Today’s hurdle rate: Treasuries now offer roughly 2.3% above inflation with no credit risk. That changes the math. Every asset competes with the risk-free real return. When that return was zero, almost anything could clear the hurdle: stocks at nearly any valuation, gold, crypto and real estate.

At 2.3%, the hurdle is much higher. Gold pays nothing, while Treasuries pay a positive real return. Long-duration tech earnings are discounted at a higher rate. The cheap-money math that powered the last decade no longer works the same way.

The signal. Real yields show how tight money actually is. Right now, they are sitting near the top of the three-year range. Maybe real yields stall here, as they did in December 2024. That is the level to watch. But the market is quietly repricing the real cost of money, and this chart is where that shift is showing up first.

Bottom line: Investors are watching the wrong yield. The headline 10-year yield still sits below its cycle peak despite oil shocks, tariffs, AI debt issuance, fiscal stimulus and hawkish Fed pricing. The real signal is the 10-year real yield near 2.3%-2.4%, which shows money is already tight and the cheap-money math of the last decade no longer works.

That brings us to the Fed, where the real cost of money is already tightening before policymakers even touch the button.

HERE COMES THE FED

This week's Federal Reserve meeting is suddenly a coin toss. Oil shock, tariff noise, hawkish Fed chatter and cooler inflation data are all colliding at once. Perfect timing, naturally. And presiding over it is a new chair who has told markets almost nothing about where he actually stands.

Warsh keeps promising to restore price stability and kill the idea that the Fed is comfortable with higher inflation. Small detail: He has not explained how today's rates get that done.

Futures now price a 37% chance of a hike next week, up from 9% yesterday. Because apparently one shock was not enough — let's stack an interest-rate shock on top of an oil shock.

At the same time, the fiscal sugar high from the One Big Beautiful Bill is behind us, as is the World Cup spending bump. Even with tax refunds helping, the Atlanta Fed has Q2 real growth running at just 1.7%. Some boom.

The Fed has not moved yet, but market rates already have. The damage is showing up where it should: Yield-sensitive stocks like home improvement, autos and retail. Nobody cares, of course, because tech is still the shiny object — and semiconductors alone explain half of expected Q2 earnings-per-share growth. The consumer is only 14% of the S&P 500, but a mere 69% of GDP. Minor detail.

Finally, with a new Fed chair at the helm, history is worth remembering: New chairs almost never get a quiet opening act. Markets tend to test them early, and the pattern goes back to Eccles in the 1930s.

Maybe new Fed leaders feel compelled to flash their anti-inflation credentials. Maybe markets simply test the rookie. Either way, the first move has usually been a hike — even Janet Yellen started that way in 2015 before quickly abandoning the tightening script.

Greenspan had just tried to show he was the new Volcker by hiking early. Markets offered a rather blunt review.

Bottom line: The next Fed meeting has become highly uncertain as oil shocks, tariff risks, hawkish Fed rhetoric and softer inflation data collide. Markets have rapidly repriced the odds of a hike, even though growth is slowing and recent fiscal/tourism boosts are fading. The Fed may not have acted yet, but market rates already have — and the strain is appearing in rate-sensitive sectors while investors stay fixated on tech. It also warns that a new Fed chair could face an early credibility test, with history suggesting markets often pressure new chairs quickly.

MARKET OUTLOOK AND PORTFOLIO STRATEGY

"The U.S. economy has demonstrated notable resiliency this year, with stronger business investment and hiring. This strength is being supported by several tailwinds, including AI-driven capital investment, fiscal stimulus and the benefits of more efficient regulation. However, several risks are shifting below the surface like tectonic plates, including geopolitical tensions and wars, sticky inflation, large global fiscal deficits and elevated asset prices. We cannot predict how these forces will ultimately play out. They may remain manageable, but they could also cause meaningful disruptions when they shift or collide." — Jamie Dimon, Chairman and CEO, JPMorgan Chase, July 14, 2026

Real GDP grew at just 0.5% annualized in Q4, 2.1% in Q1, and looks headed for roughly 1.7% in Q2. Call it a 1.4% average. Not exactly an economy begging for another rate hike.

Core CPI excluding shelter is already running right at 2.0%, and housing inflation is finally breaking lower. Yes, the Fed has reasons to worry — higher energy prices and Trump's tariff file could still leak into core inflation. But that argues for keeping policy moderately restrictive, not piling on another hike. This is not 2021-2022: The real policy rate is about +100 basis points, not -4.5%.

On Wednesday, the Fed is expected to leave rates unchanged on July 29 at 3.50% to 3.75%. Intriguingly, all 88 analysts on Bloomberg expect a hold, while money markets have a ~36% chance that the Fed might hike. With economists having little disagreement over what the Fed will do, traders are hedging that the wide swaths of Federal Open Market Committee (FOMC) hawks will carry the day. It will be interesting to see if the press statement shows a tilt towards a tightening bias and whether there will be any dissents in favor of a rate hike.

After next week, there will be three more FOMC meetings this year: September 16, October 28, and December 9. The market is fully priced for a rate hike in September and 80% priced for two hikes by year-end. At the start of July, prior to the end of the ceasefire between the U.S. and Iran, the market probability of two Fed rate hikes by year-end was ~72%.

We have near-unanimity that inflation is going to spiral out of control and yields are going to skyrocket higher. There are no more bond bulls left. I'm a big fan of selling stuff that everyone loves and buying stuff that everyone hates.

Some bond math for you: Remember in 2022 when everyone got rinsed on long-term Treasuries? Well, the coupons on those bonds were exceptionally low, which means more duration, which means more sensitivity to interest rates. With a 5% coupon on the long bond, the duration is much shorter, and bonds are not as risky as they were four years ago. True story.

A word on bonds: They don't like the war — because war is inflation — but I assure you that if the war started to have some measurable impact on confidence, bonds would rally, not sell off. We may be getting to that point soon.

Bottom line: Despite all the geopolitical/economic uncertainty, I believe that bonds offer an attractive risk/return tradeoff at these levels. Inflation pressure looks less durable than feared, the economy looks weaker than markets admit and the Fed risks tightening into a slowdown driven more by supply shocks and speculation than genuine demand-led inflation.

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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.