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Weekly Relative Value

Tom Slefinger
Market Strategist

WEEK OF SEPTEMBER 14, 2026

Believe It or Not

"THE MOON IS OURS." — President Donald Trump, September 6, 2026

More than a year ago, President Trump renamed the Gulf of Mexico — named by Spanish explorers around 1550 for the Mexica people — the "Gulf of America." He later rechristened Lake Ontario "Lake America," despite Ontario's name tracing back roughly 400 years to the Wendat word *Ontari'io*, meaning "the lake is beautiful." Now he is reportedly pushing to rename New Mexico "New America." Yes, apparently, he believes he can rename a state.

Believe it or not, last week Mr. Trump posted on Truth Social an image of the U.S., Canada, Greenland, Iceland, Mexico and the Caribbean islands all colored as an American flag!

It didn't stop there. President Trump recently posted a photo of the moon on Truth Social with the exact caption: **"THE MOON IS OURS."** Unwittingly or not, the assertion runs counter to the 1967 Outer Space Treaty, which the U.S. helped draft and more than 100

THIS WEEK

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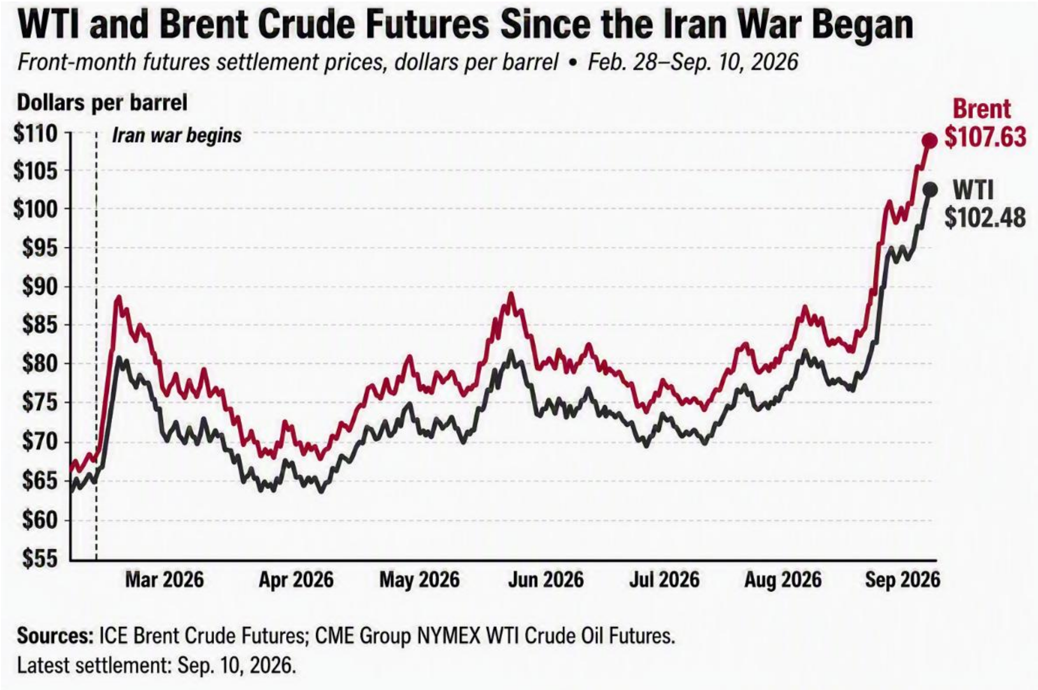
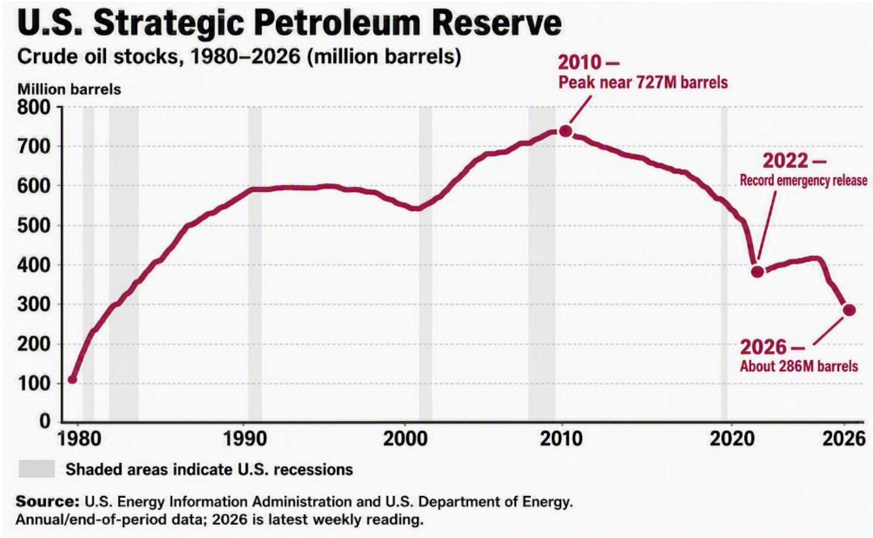
countries signed. The treaty explicitly states that outer space and celestial bodies are not subject to national appropriation through sovereignty claims, use, occupation or any other means.

Bottom line: One has to wonder whether this is simply a distraction from the Iran war and the punishing cost of living — though most Republicans still blame Joe Biden.

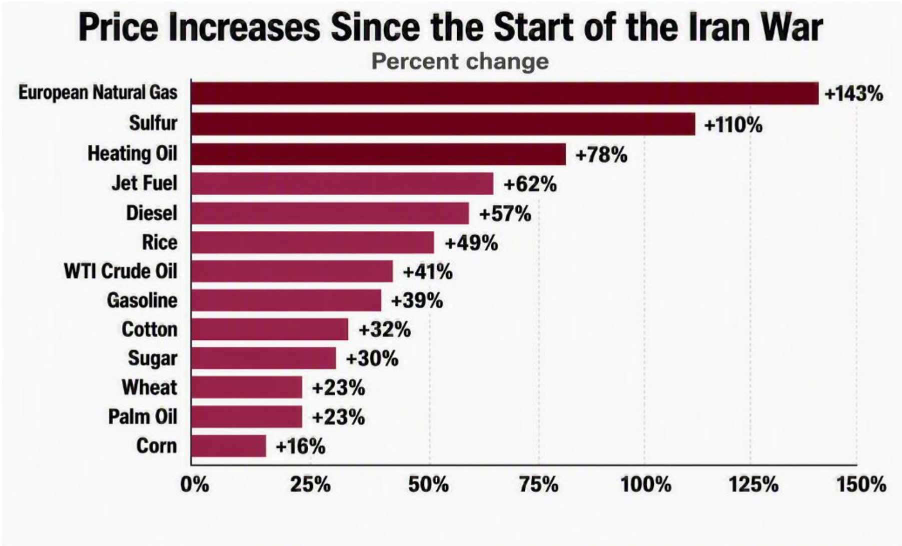
Oil prices remain in the line of fire**.** Attacks by the Houthis on Saudi Arabia are coinciding with explosions at Kharg Island. Time to price in a prolonged conflict where the path of least resistance is higher oil prices. So much for a quick end to this war. At week's end, WTI oil was heading towards $102 per barrel, while Brent approached $108 per barrel.



The rising price of WTI is occurring even though the Trump administration has been rapidly draining the Strategic Petroleum Reserve (SPR) to keep oil prices suppressed prior to the midterms. Imagine how much higher oil prices will be by the general election in 2028, if the SPR has been empty for over a year, now just seven million barrels away from record lows.



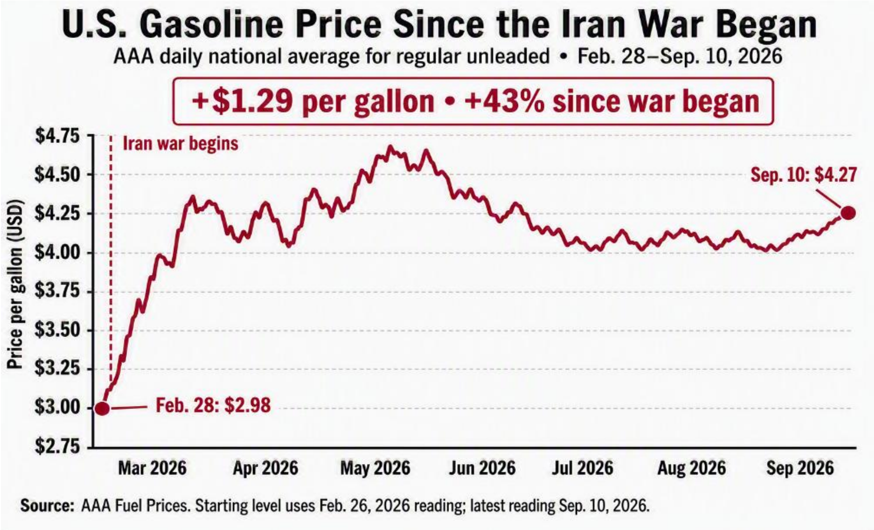
And as you can easily see from the graph below, the higher energy prices have impacted food prices.



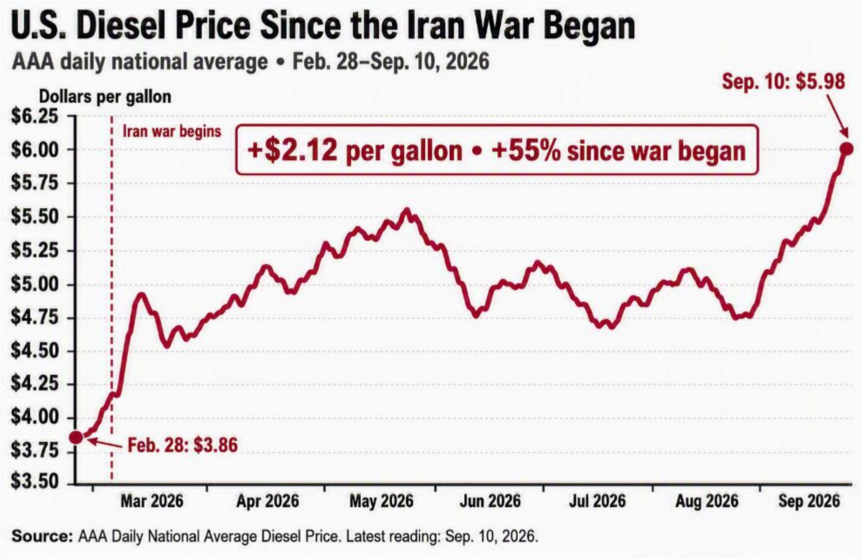
"Diesel is the key real-economy pressure point: shipping, trucking, agriculture, construction, mining... blasé markets + bravado policy = recipe for volatility." — Kevin Hartnett, Bank of America

THE BIG STORY

Gasoline prices are off the boil at $4.26 per gallon nationwide but are still nearly +43% higher than they were before the war began.

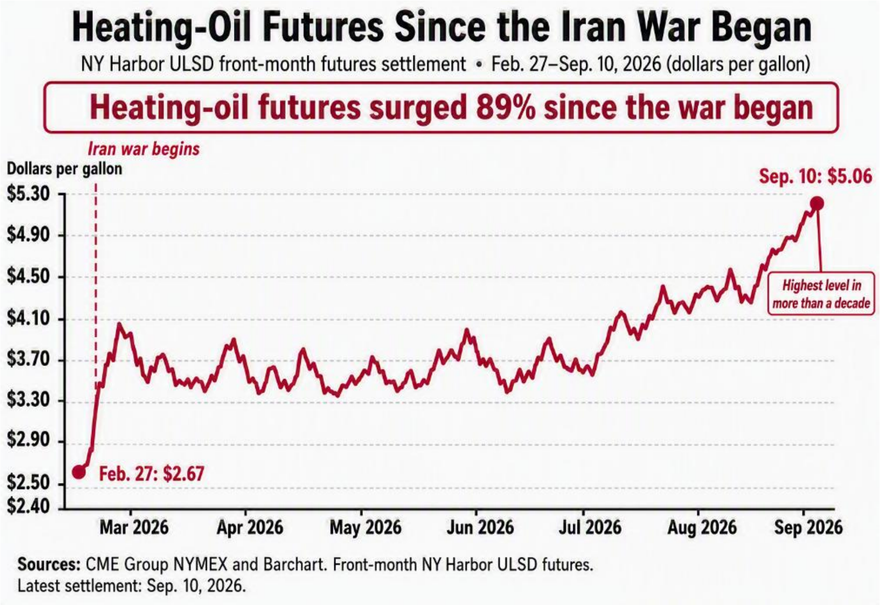


But while we gaze at Brent, WTI and gasoline, what we are missing is the really big story — diesel fuel — which jumped to a record high on Friday in the United States, as the war in Iran continued to restrict the supply, further squeezing businesses that rely on diesel to run their factories. The national average price of a gallon of diesel reached $5.98 per gallon, now up +55% since late February. That took out the previous peak set four years ago during the global energy crunch caused by Russia's full-scale invasion of Ukraine.



Diesel is the one that matters more than people realize. It moves freight. Every truck, every delivery, every shipment of food. Those costs get passed straight through to whatever YOU buy. Diesel is where the rubber meets the road, and its full impact has yet to be felt. Diesel inevitably gets embedded in food, retail and construction costs with a lag of several months. Ergo, we have not seen the macro effects play out yet, but this will surely challenge the "economic resiliency" narrative before long.

Meanwhile, inventories have fallen to levels last seen in 1982 as tightening global supplies strain refining capacity. Heating-oil futures — a close diesel substitute — have surged nearly 90% since the Iran war began. Because the Northeast relies heavily on heating oil for boilers, furnaces and water heaters. It could be a brutally cold winter — financially and literally.



Bottom line: To repeat: Diesel is different from gasoline, despite the fact that the latter moves the public opinion polls. The price at the pumps is a known-known, but diesel works its way through the economy in an even more pernicious manner.

Diesel costs spread quietly through freight, food, retail, construction and industrial activity, meaning the inflationary impact will appear with a lag. Tight inventories and soaring heating-oil prices suggest the pressure could persist, particularly in the Northeast, and the Federal Reserve has little power to fix a supply-driven shock with higher interest rates.

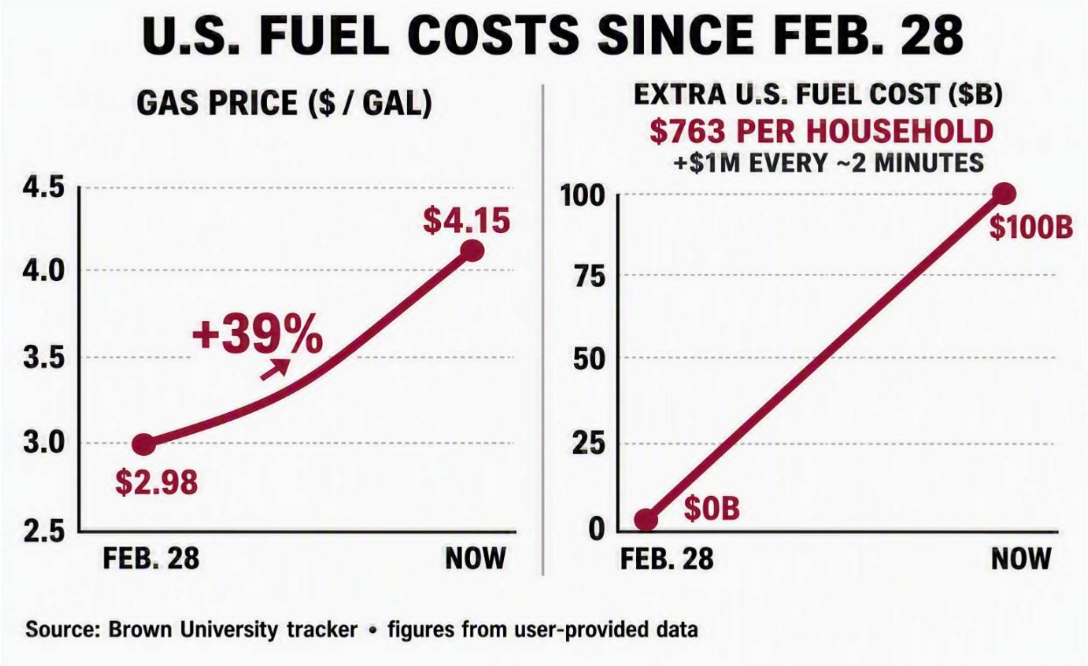
THE COST ADDS UP

"Under my administration, we will be slashing energy and electricity prices by half within 12 months, at a maximum 18 months." — President Donald Trump, August 2024

And once higher diesel costs work their way through the economy, the damage is no longer abstract — it lands directly on household budgets.

Brown University built a tracker showing how much more people pay at the pump against what prices would have been without the war, then multiply by how much fuel the country burns.

So far Americans have paid an extra $100 billion for fuel since the Iran war started on February 28. That's $763 per household. And it's still rising by about $1 million every TWO MINUTES.



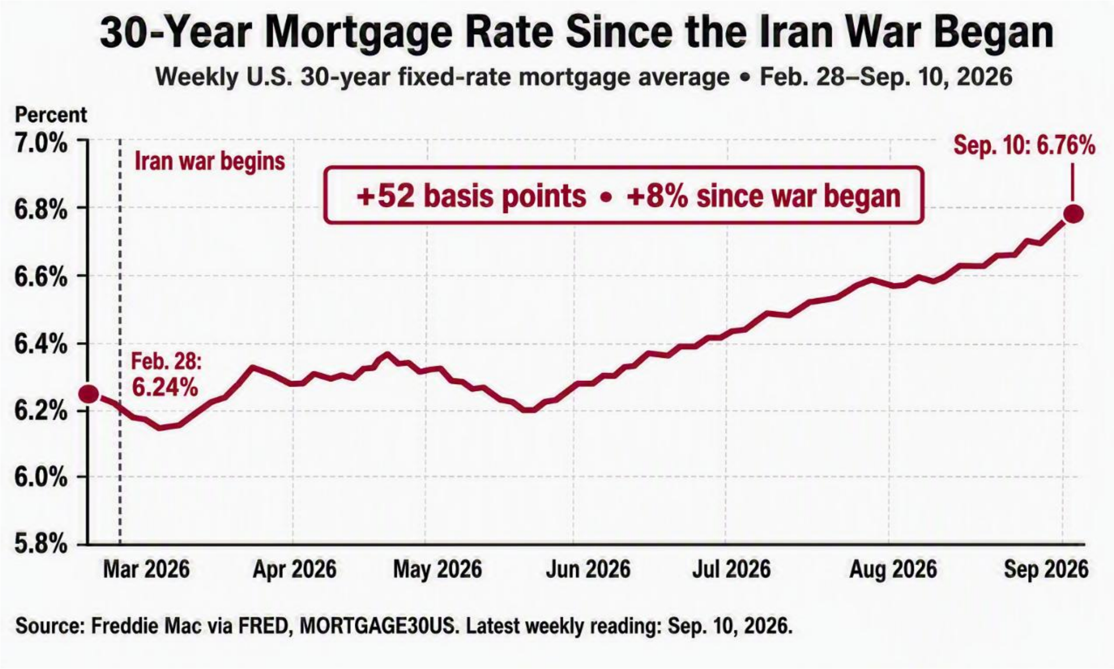
By state, Texas has taken $11 billion of it. California $8 billion. Florida $5 billion. Trump's position on this: "If they rise, they rise." He's blamed oil companies for price gouging. He also said in February the war would take four to five weeks. It's now in month seven.

Bottom line: Since the war began, Americans have already paid an estimated $100 billion more for fuel — about $763 per household — and the Federal Reserve has little power to fix a supply-driven shock with higher interest rates.

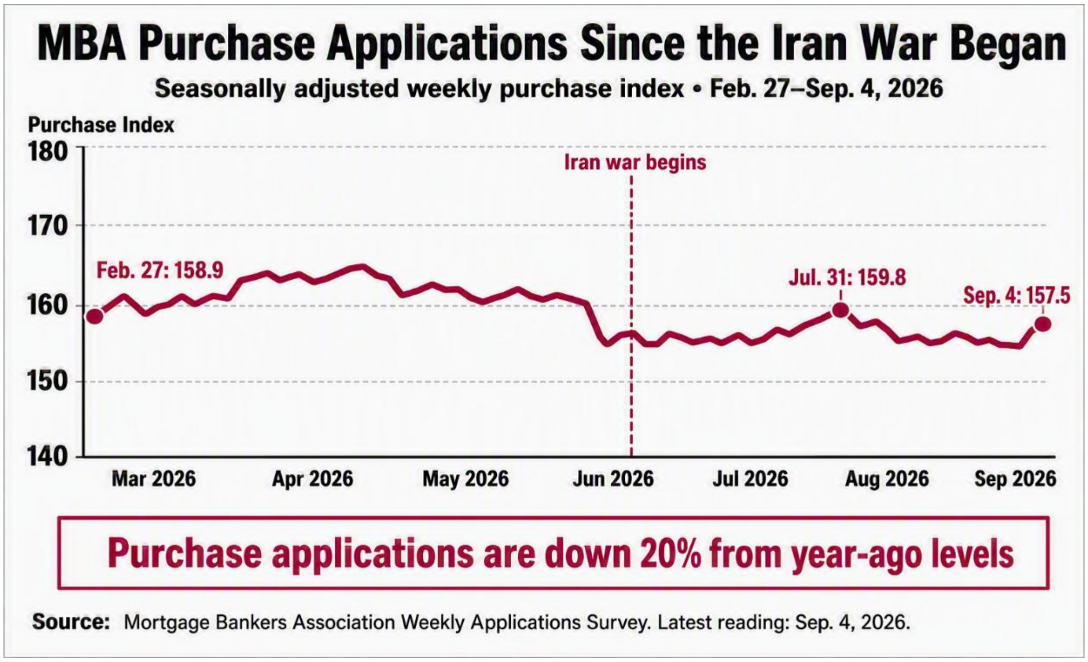
THE ROOF COLLAPSES

And for those in the market to buy a home the cost of the Iran War is clearly depicted in the higher cost of credit. As oil energy prices have soared along with higher inflation expectations the yield on the 10-year Treasury benchmark has risen by a whopping 93 basis points.

Because mortgage yields are priced off the 10-year Treasury benchmark, the 30-year mortgage rate hit its highest level in more than 14 months.

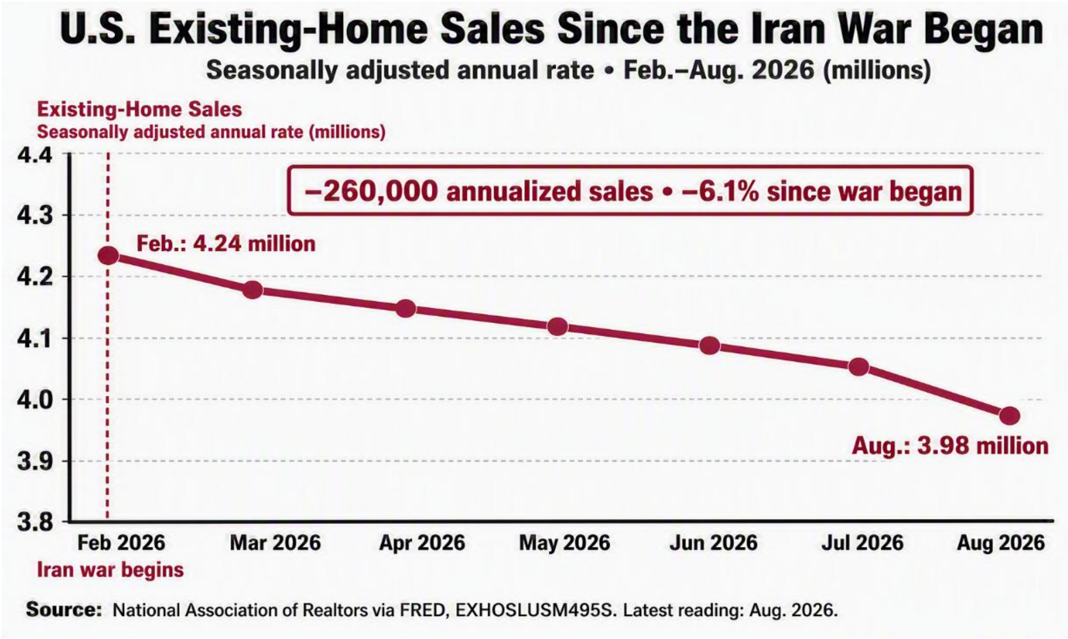


The bond-led spike in mortgage rates has triggered a rapid 20% decline in mortgage applications to purchase a home. It says something that the level is already below the troughs of the past three recessions.

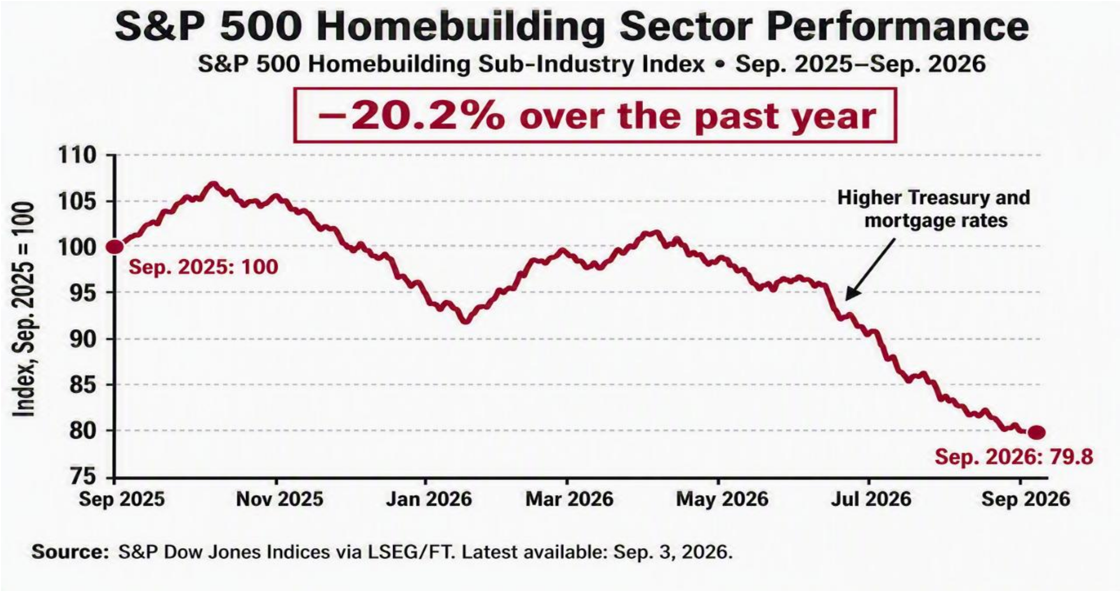


Existing home sales fell by -2.0% month over month in August to a 3.98 million annualized unit rate — riding a three-month losing streak. Sales are now down to a fourteen-month low and -1.2% below last year's depressing level. And this is just the thin edge of the wedge since existing sales are based on contracts signed months ago, which closed now.

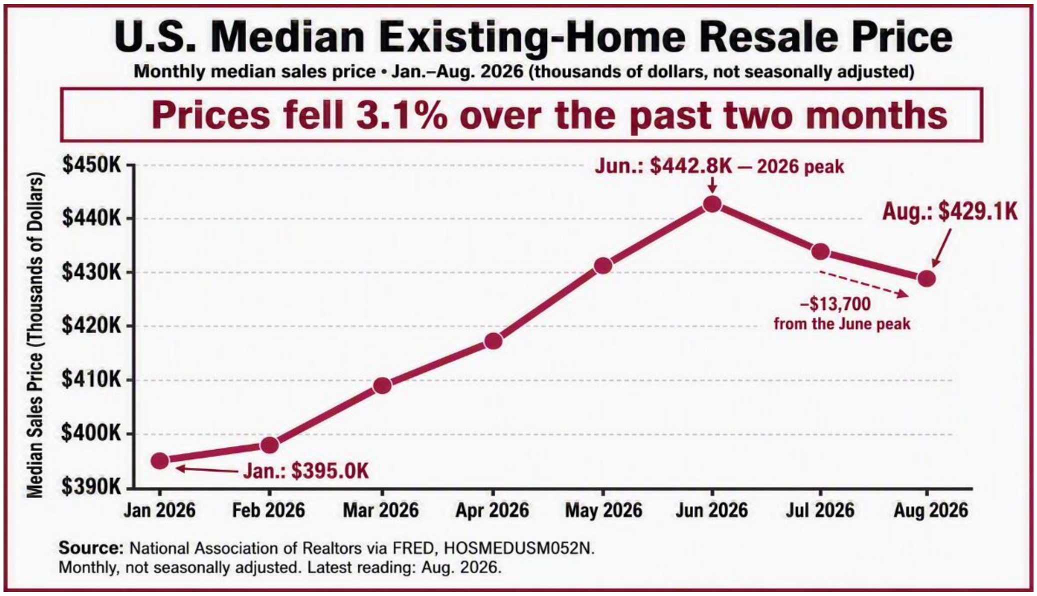
It really says something that sales turnover activity is lower today than in October 2008, when the economy was in the eleventh month of a recession nobody ever believed could be possible and a month after Lehman collapsed.



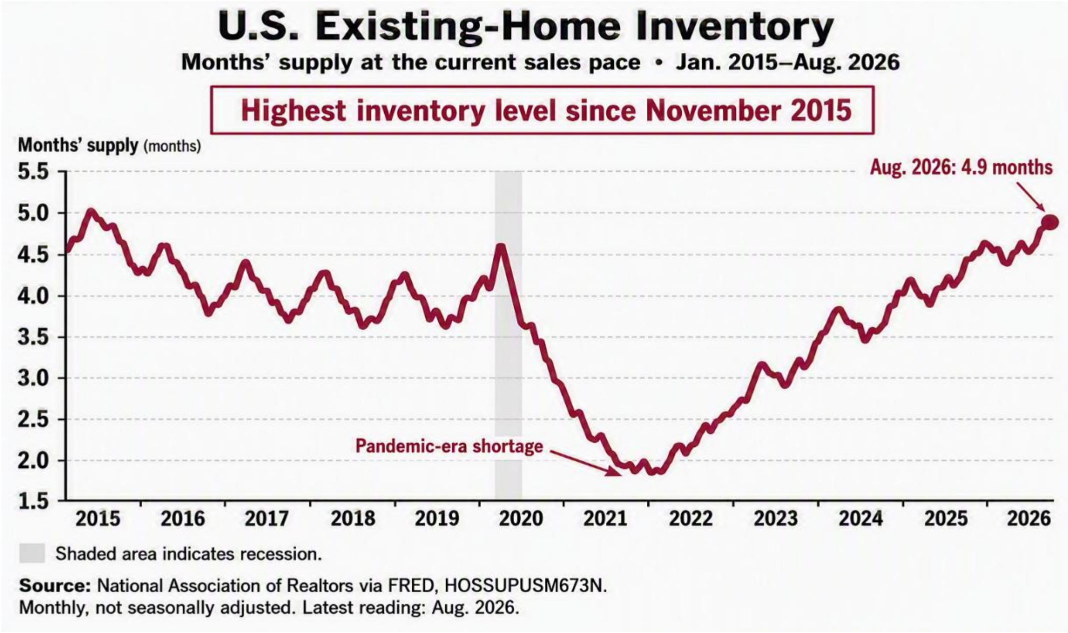
In the same vein, housing starts are down -13.5% year over year, and new home sales by -6.3% in this "booming" economy. Total residential construction expenditures have sagged -7.3% year over year. The S&P 500 homebuilder sector index has collapsed -25% over the past year, so I would advise against telling anyone with exposure to the group what a great place the stock market has been.



Here's the scoop. Energy prices are rising, but labor costs are not — and housing prices are falling. **Median existing home prices fell 1.7% in August after dropping 1.5% in July. They are now more than 3% below their second-quarter level.**



Looking at how the supply and demand curves are diverging, further home price deflation is coming our way. The number of homes with a “For Sale” sign in front of them swelled by +3.2% month over month in August to 1.62 million units — a seven-year high. The inventory backlog expanded to 4.9 months’ supply from 4.6 months in both June and July — the highest since November 2015!



Higher oil prices, heavy borrowing for the AI investment boom and tough Fed talk have crushed housing — the part of the economy most sensitive to interest rates. Yet much of Wall Street seems eager for the Fed to tighten further and for bond yields to keep climbing.

For the bond bears, it is hard to know whether any yield would ever be high enough to make them bullish. But if they are right and rates stay elevated, housing — one of the economy's best early warning signals — could remain stuck for a long time. This may be the AI economy, but people still need homes. Nobody lives in a data center.

Bottom line: Housing is weakening fast under the weight of higher interest rates. Mortgage rates are at a 14-month high, purchase applications are down about 20%, existing-home sales have fallen to a 14-month low, construction is contracting and homebuilder stocks have been hammered. Meanwhile, inventory is at its highest level since 2015 and prices are beginning to decline. The Fed may see resilience, but housing is sending a much darker signal.

TIT FOR TAT

"The on-again/off-again trade talks between the U.S. and Canada lead to higher costs, risk and uncertainty for Maine businesses. If the Administration proceeds with these tariffs, they will increase costs for Maine families, as most businesses will have no choice but to pass on…" — Senator Susan Collins, August 22, 2026

Beyond the Iran war, the U.S. has started a back-and-forth trade fight with Canada. The Trump administration plans to ban Canadian-made products from federal contracts, ending the trade truce and likely triggering retaliation. Canada would suffer, but so would the U.S., especially if the dispute spreads to electricity. Trump calls Canada's trade surplus "unacceptable," even though most of it disappears when discounted Canadian energy is excluded. Two more years of this will be exhausting. Whether Democrats would do better is another question.

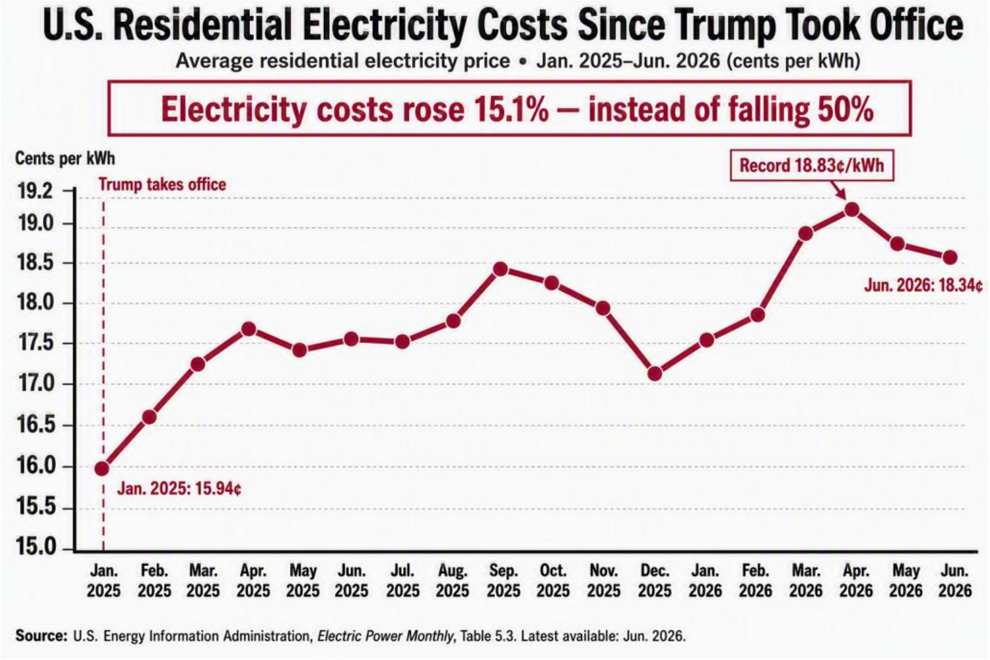
Canada's trade surplus with the U.S. mostly exists because America buys large amounts of affordable energy from a nearby, reliable ally. Tariffs would not suddenly create the same oil, gas or electricity at home. More likely, they would raise energy and manufacturing costs, disrupt supply chains and invite Canadian retaliation. Put simply, a trade deficit only shows that one country bought more than it sold. It does not mean the country lost and the other side won. **A trade deficit is not a scoreboard, and picking a fight with a reliable energy supplier could leave both sides worse off.**

The public is not impressed. Only 34% support the Iran war, 69% oppose new data centers near their homes and 57% oppose the latest trade moves against Canada. Just 20% support them. Nearly half blame the administration, while only 12% blame Mark Carney.

Carney remains popular in Canada. He is searching for new trade partners and providing targeted support to industries hurt by the tariffs. He may want to follow China's example, because tariffs have done little to slow its exports. China's domestic economy is weak, but its trade surplus has exceeded $100 billion for four straight months while exports rose 25% from a year earlier in August.

China has also shown that it depends on the U.S. market less than many people think. Its exports to Southeast Asia and Africa rose 25% over the past year while Canada's imports from China increased 10%. China's technology exports are also surging: Semiconductor shipments jumped 130%, and exports of data-processing machines rose 77%.

Meanwhile, kicking sand in the face of Canadians has become something of a White House sport. However, if this trade war continues, Canada may eventually use its own leverage. One word: electricity. That leverage matters in New England. In January 2025, Canadian power supplied about **14% of the region's electricity demand**.



Bottom line: The U.S.–Canada trade fight risks becoming an expensive cycle of retaliation. Blocking Canadian goods may hurt Canada, but it could also raise U.S. energy and manufacturing costs, disrupt supply chains and invite retaliation — possibly through electricity exports. Meanwhile, Canada is diversifying its trade relationships, and public support for the administration's actions remains weak.

WE'VE SEEN THIS MOVIE BEFORE

"If the Republicans win the House of Representatives and the United States Senate … I will issue a dividend to every adult citizen … for $5,000." — President Donald Trump

I've been told that I'm a left-wing liberal Democrat — or, as some prefer, a "Dumocrat." For the record, that is simply not true. I'm for limited government, fiscal discipline and individual liberty. For years, the Republican Party wrote those ideas into its platform: Government is not the solution, spending must be restrained, debt is a burden on the next generation and freedom and work beat dependency. That was what I signed up for.

When I look at today's Republican Party, I see few genuine fiscal conservatives in Congress or the White House — only plenty of lip service. I believe many Democratic proposals would be worse, but that does not excuse Republicans for abandoning conservative principles.

So, after decades of reckless spending and lies by both parties, I now consider myself an independent. And as an independent, I'm more concerned about policy than politics. Some readers may not like criticism of their party, but objectivity and candor should always trump political loyalty — pun intended.

Meanwhile, the president says that he will give $5,000 to every American if they give him a Republican House and Senate. Absent spending cuts or new revenues, we'd have to borrow it, which would cost an estimated $1.3 trillion, further destroying any budget credibility of the Republican Party.

And the bond market is thinking: Wait a minute, that $5,000 is like all three pandemic stimulus checks combined, all at once. When money is free, prices become meaningless. And inflation takes off. All this free money that the government threw out, first under Trump then under Biden, helped trigger the worst inflation in 40 years, and bond holders got crushed by the loss of purchasing power and the plunge in market value, and now Trump wants to supercharge the free money inflation circus all over again?

This all belongs in Ripley's Believe-It-Or-Not bin. This is the same cognitive dissonance I see in further raising tariffs on Canada while convincing everyone that the affordability issue is top of mind.

Meanwhile, the buyers and sellers in the bond market are thinking Trump might just blow up the bond market and sacrifice it at the altar of the midterm elections. The buyers wanted to be paid for this risk, and the sellers tried to get rid of their holdings. As a result, Treasury prices fell, and yields spiked across the board last week.

Republicans are polling poorly coming up on the midterms, so they are offering money in exchange for votes.

And for anyone who believes that they'll get their checks after the Republicans win, it is important to remember that we didn't receive the checks we were promised from all the money DOGE (didn't) save us or tariff refund checks.

We won't be getting those checks, any more than we'll get anything more than "concepts of a plan" about how to deal with health care costs or a ceasefire in the Iran war.

The good news is there is zero chance such a proposal could make it through the Senate, and I would give pretty large odds that it could not pass the House.

Bottom line: The proposed $5,000 payment is a politically appealing but fiscally reckless idea. Unless spending is cut or taxes are raised, it would require roughly $1.2 trillion in new borrowing — risking more inflation, higher interest rates and even weaker budget credibility. We saw the same pattern with pandemic stimulus: borrowed money boosted demand, inflation surged and households ultimately paid the price.

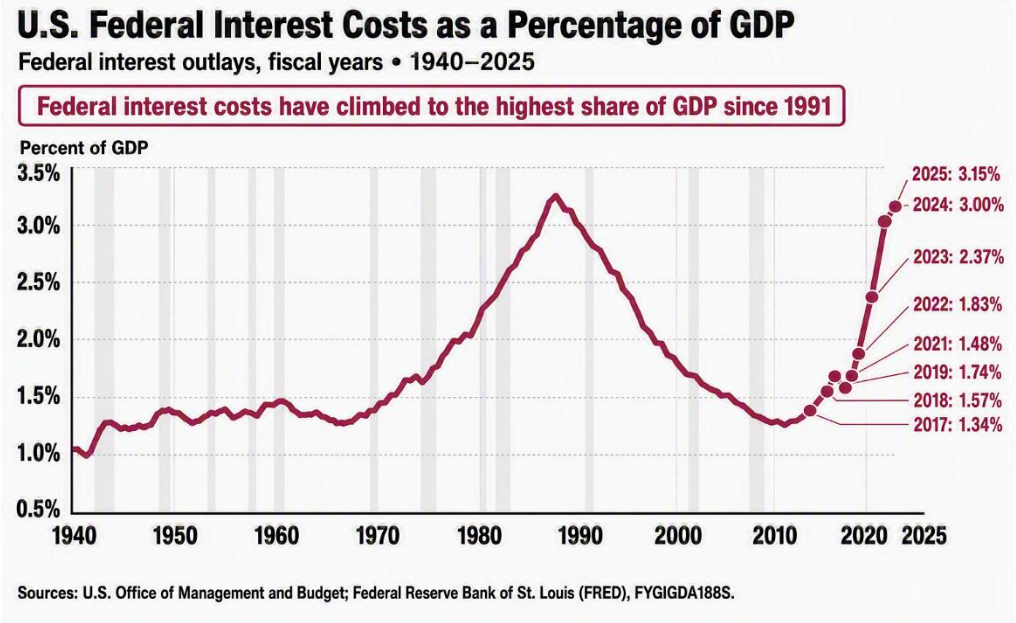
DEBT MATTERS

Paul Krugman has long argued that the dangers of federal debt are often overstated. So far, he's been right. That is beginning to change. And like every country in history, debts and deficits don't matter until they actually do. And when they do, it is typically in a rather vicious and unwelcome fashion.

Last week, the Financial Times published the article titled **"*Why a US Debt Binge Is Starting to Matter*."** The research cited showed that a 5% yield on the 10-year Treasury may well be the touch-off point for a bursting of the AI bubble. Quick increases of +75 basis points off an interim low in the past have been the trigger point for a pop in any bubble, and what comes closest to mind is what happened to housing in the spring and summer of 2007: "Historically, spikes that sharp have ended bull markets […] when Big Tech must compete for capital with a government paying a yield of more than 5% on bonds […] many will find themselves crowded out of the debt markets […] rising public borrowing cost will squeeze other borrowers sooner, and hit the bubbly AI markets higher."

While all the attention is on the instability of grotesquely high federal debt, where interest costs are biting at a record 3% of gross domestic product (GDP) ($1.25 trillion of debt-service costs!), the new culprit is this debt-financed AI spending binge where $1 trillion of capital commitments are coinciding with a $200 billion revenue stream, which is one-fifth the size.

Ruchir Sharma, the author of this column, is Chair of Rockefeller International. He used the term "bubble" no fewer than five times, for those who think we are not in one. The fact that his firm's compliance department didn't strike that emotional term from the piece tells you that at least one large financial institution is willing to call this what it is.

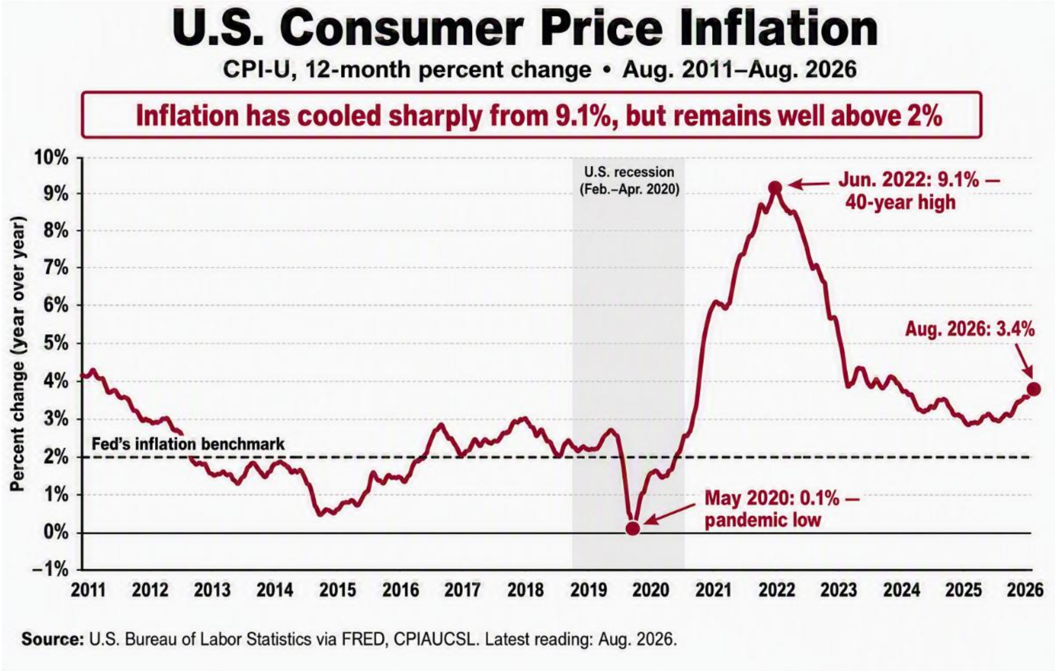


Bottom line: Massive government borrowing and the AI spending boom are competing for the same pool of capital. If the 10-year Treasury yield reaches about 5%, borrowing costs could squeeze businesses, consumers and heavily financed AI projects — potentially bursting the investment bubble. With federal interest costs already at a record $1.25 trillion, debt is no longer a distant problem; it is actively pushing rates higher and crowding out private investment.

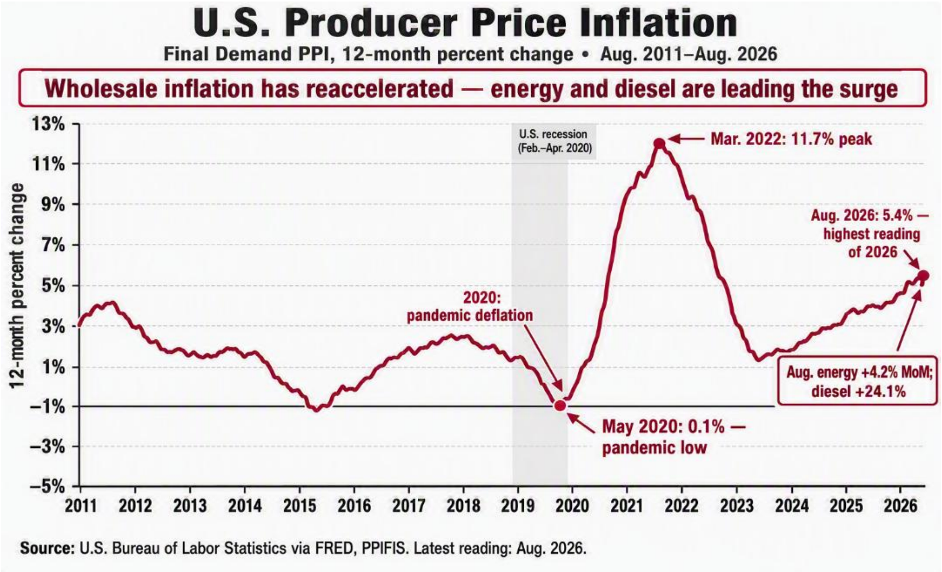
MARKET OUTLOOK AND PORTFOLIO STRATEGY

> *"That said, higher interest rates now suggest that future bond returns will be higher, too. The richer yields will buffer price losses that inevitably occur when market interest rates rise. […] Don't let the bond market headlines scare you too much. The bond market's troubles are opening opportunities for patient investors." – "How to Make Sense of Mayhem in the Bond Market," The New York Times*

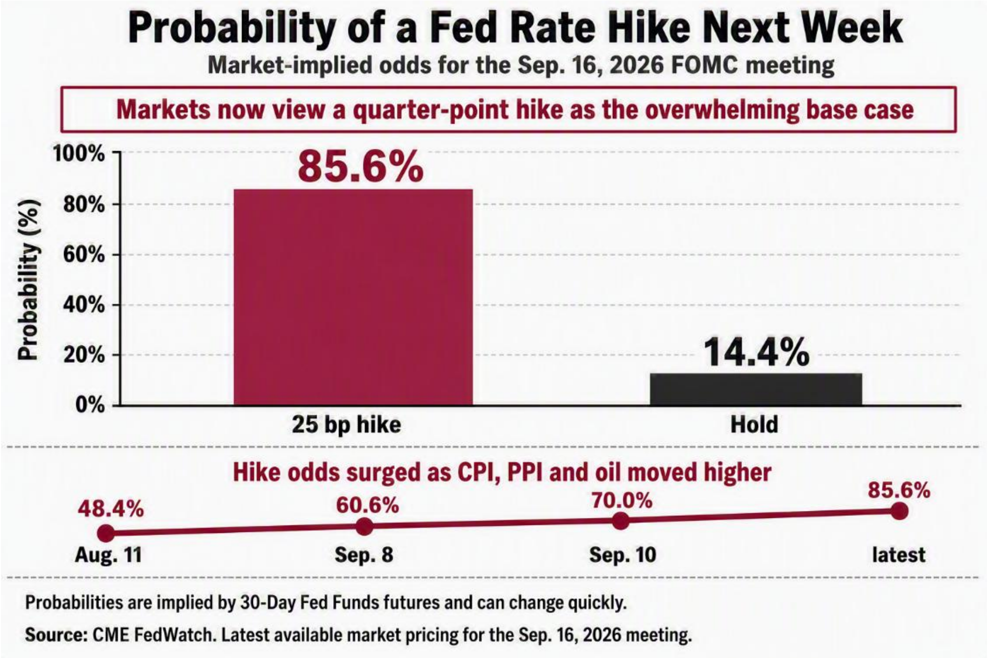
The August Consumer Price Index (CPI) rose 0.4% for the month, matching expectations, but inflation is still too high. Prices are up 3.4% from a year ago — well above the Fed's already generous 2% target. Energy was the main driver, rising 4% in August and 27% over the past year. Shelter inflation remains somewhat overstated, though it is slowly catching up with current housing conditions. Because the government's housing measure tends to lag the market by about a year, it can make inflation look too high when housing is weakening — and too low when housing costs are rising.



The Producer Price Index (PPI) was annualized 5.4%. The average for the last six months has been well over 5%. That feeds directly into CPI pressures. This is a trend that is not the Fed's or our friend.



Currently the markets see 85-86% chance that the Fed will hike rates at the Federal Open Market Committee (FOMC) meeting this week. **So, it now looks like the Fed is willing to hike rates into a supply shock, just as the European Central Bank has done and now likely the Bank of England as well.** This inflation is all energy-driven, and the headline will undoubtedly be worse and Kevin Warsh likes to look at the headline.



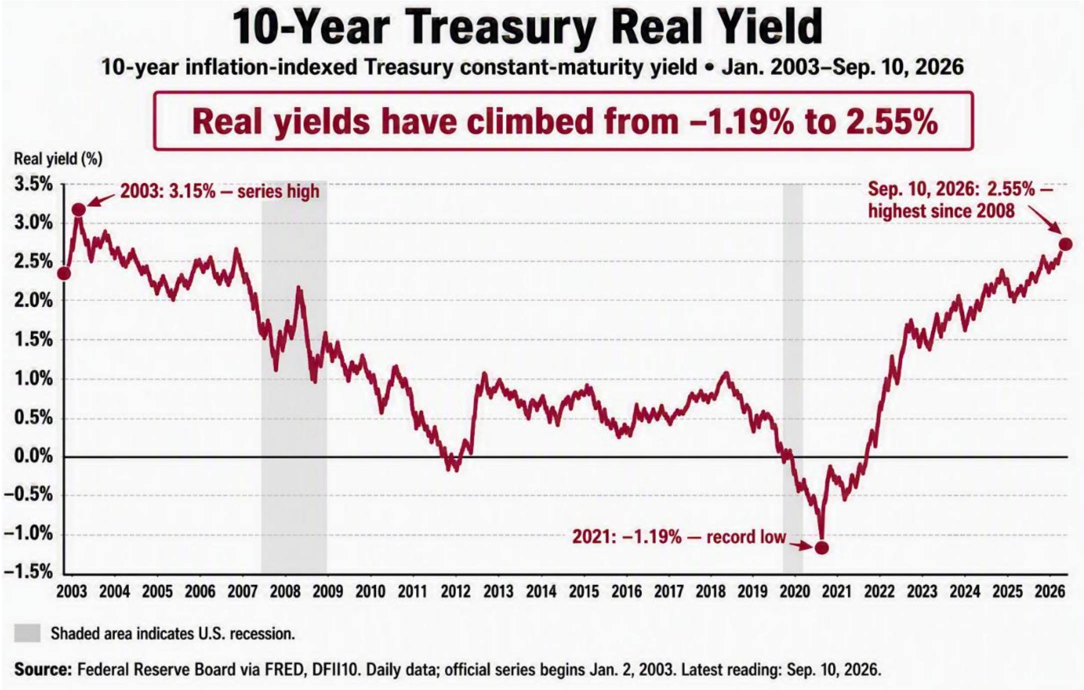
That said, I don't see how hiking rates help the price of oil or gasoline or diesel when the problem isn't excess demand but supply disruption and a global system of refining that isn't operating at optimal levels. If everyone was running around willy nilly, "splurging" on gasoline, electricity and diesel, it might help, but the cost is already impeding demand. How does raising rates help? Maybe it hurts as it makes some projects to generate more oil, gas and electricity less easy to justify economically?

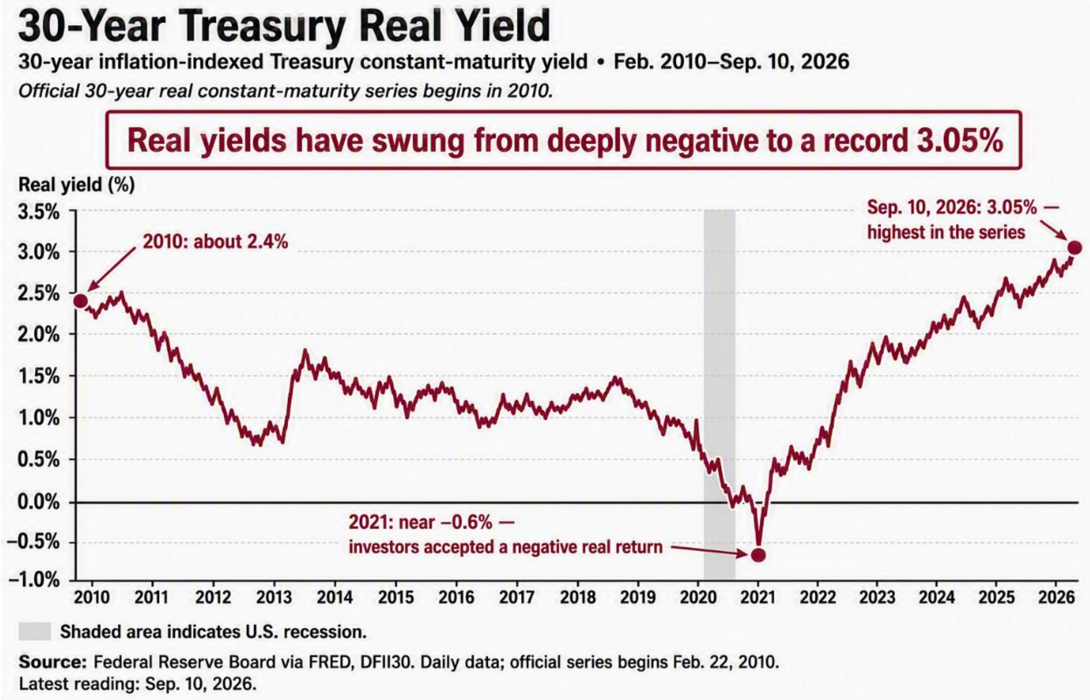
Warsh has a tough job. I would fight tooth and nail to stay on hold**!** Not because it would make the president happy (it would). Not because it would help the long end of the yield curve (it won't), but because hiking won't help fight the current drivers of inflation, and inflation isn't high enough to have what I think is a "pre-emptive/fighting past wrongs" hike.

That said, the odds are that the Fed will raise rates, and I think long-term yields could then come back down.

Last week Treasury yields still rose despite strong bond auctions and Treasury buybacks. The main reason was nervousness about oil prices and the growing risk of tighter Fed policy. Right now, nearly everything in the bond market seems tied to crude oil.

Still, the auction showed that large institutional investors are willing to buy long-term Treasuries. Nominal yields are at their highest level since 2007, while real yields are near a record 3.0%.





Bottom line: Regardless of what the Fed does next, bonds offer attractive value at current yields. Inflation may prove less persistent than feared, while the economy appears weaker than markets acknowledge. The greater risk is that the Fed tightens into a slowdown caused mainly by supply disruptions, oil shocks and speculative excess — not strong consumer demand.

Stay patient, stay liquid and use today's unusually hated bond market to add duration selectively before the Fed and the data force the market to rethink the path of policy.

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For more information about credit union investment strategy, portfolio allocation and security selection, please contact the author at **tom.slefinger@alloyacorp.org** or (630) 276-2753.

As Alloya's Market Strategist, **Tom Slefinger** leverages nearly 40 years of investment strategy expertise to deliver insightful commentary on the economy and market events to optimize balance sheet performance at the credit union level. With thousands of subscribers, Tom's daily and weekly publications are widely read amongst credit union executives.

Prior to becoming the corporate's Market Strategist, Tom served as the Senior Vice President of Institutional Fixed Income Sales at Alloya Investment Services, a division of Alloya Solutions, LLC. In this role, Tom developed and managed operations associated with institutional fixed income sales in addition to developing investment portfolio strategies, identifying appropriate sectors and securities, and optimizing portfolio performance at the credit union level.

Tom holds a B.S. in business administration from the University of Maine. In addition, he holds a Series 7 and 63 through ISI.