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INVESTMENT SERVICES

Weekly Relative Value



Tom Slefinger
Market Strategist

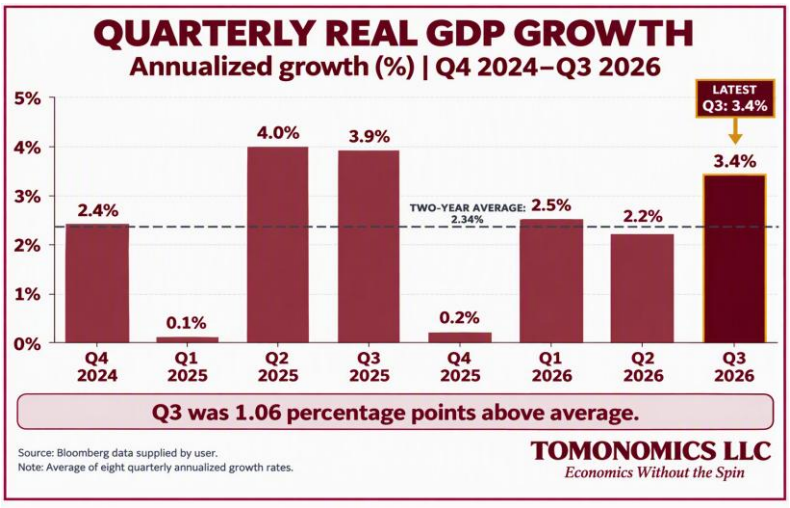
WEEK OF NOVEMBER 2, 2026

Running on Borrowed Time

Executive Summary

- **Strong headline. Weak details.** Q3 gross domestic product (GDP) grew 3.4% annualized versus 2.2% in Q2. Inventories supplied nearly half; without them, growth was closer to 1.8%. AI and consumers helped. Housing shrank.
- **Consumers are stretching.** Real after-tax income grew 2.3%; spending rose 3.8%. Savings fell to 4.1%. September real income dropped 0.3%. Weak hiring and falling real wages threaten spending. Yearly inflation: core Personal Consumption Expenditures (PCE) 3.1%, headline 3.6%. No relief.
- **AI needs profits, not promises.** Cash burn and earnings misses test the boom. Big Tech cuts payroll to fund data centers — not proof of productivity gains. Concentrated stock exposure and portfolio-backed debt could amplify a selloff.
- **Property's math is ugly.** New-home sales stagnate with 8.6 months of supply. The three-month average median price is 11% below its late-2022 peak, before incentives and rate buydowns. Commercial refinancing near 9%, versus original loans near 4%, threatens regional-bank lending and local businesses.
- **My call:** Another hike is no sure thing. I favor patience and remain bullish on front-end Treasuries. Falling yields, wider credit spreads, weaker hiring, and shrinking investment would signal spreading weakness.

The headline says acceleration. The details deserve a closer look. The U.S. economy grew at a 3.4% annual pace last quarter, beating the 3.1% forecast and up from 2.2% in Q2. The question is how much of that momentum can last.



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THIS WEEK

- I DON'T BUY IT!
- BUY, BORROW AND DIE
- THE NEXT CHAPTER
- TRADE GAP WIDENS
- HITTING THE WALL
- PLENTY OF HOMES. NOT ENOUGH BUYERS.
- COMMERCIAL PROPERTY: THE BILL COMES DUE
- MARKET OUTLOOK AND PORTFOLIO STRATEGY

SUBORDINATED DEBT: (SIMPLIFIED)

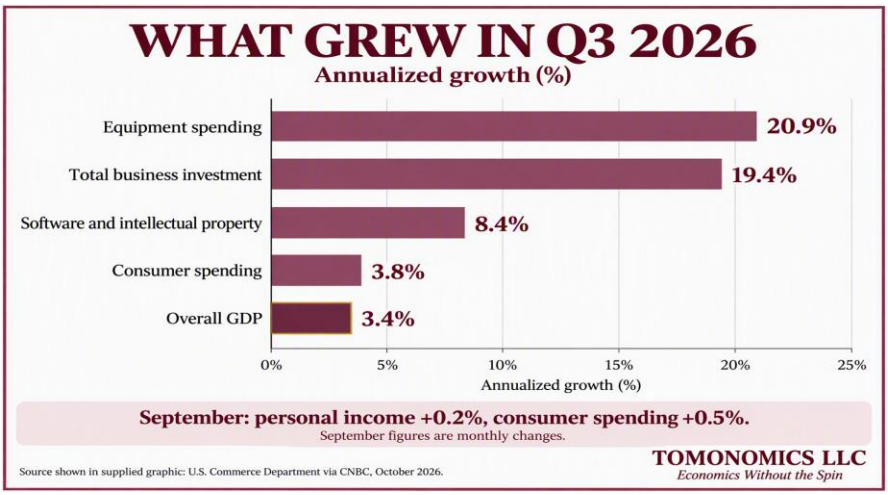
Partnership has its perks.
Hand over the hard parts.

TELL ME MORE!

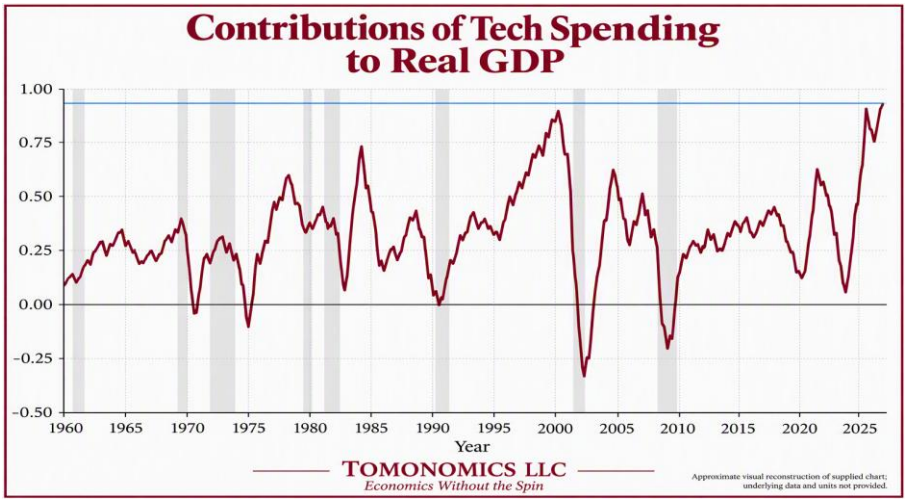
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Consumers provided more support than expected. Despite historically low confidence and concerns about living costs, personal spending grew at a 3.8% annualized pace for the second straight quarter and beating the 3.4% forecast.

Nonresidential construction rose at a 5.4% annualized pace, its strongest quarter since Q4 2023. Housing went the other way, shrinking at a 3.4% annualized pace.



AI investment had another strong quarter, growing at a 21% annualized pace. Spending on information-processing and industrial equipment surged adding more to GDP than in any quarter since 2011, outside the pandemic rebound.

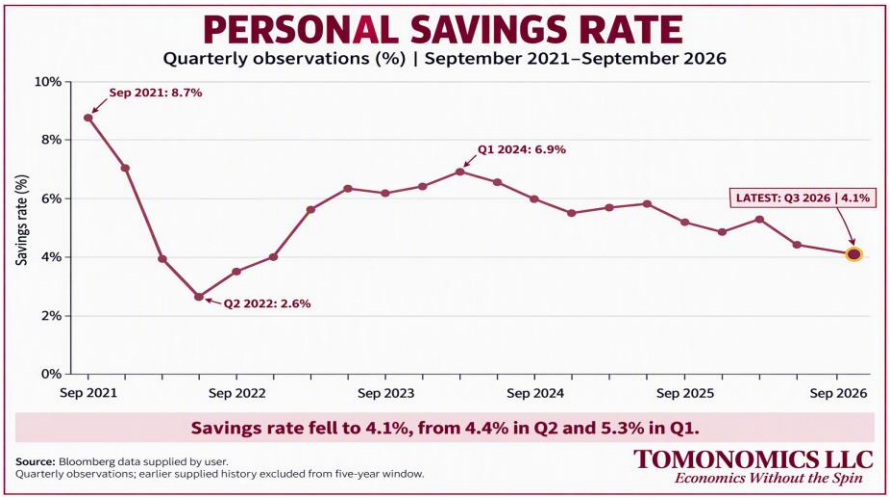


Inventories supplied 1.6 percentage points of Q3 GDP growth — nearly half the headline. Without that contribution, growth would have been closer to 1.8%. Respectable, but a different story from 3.4%.

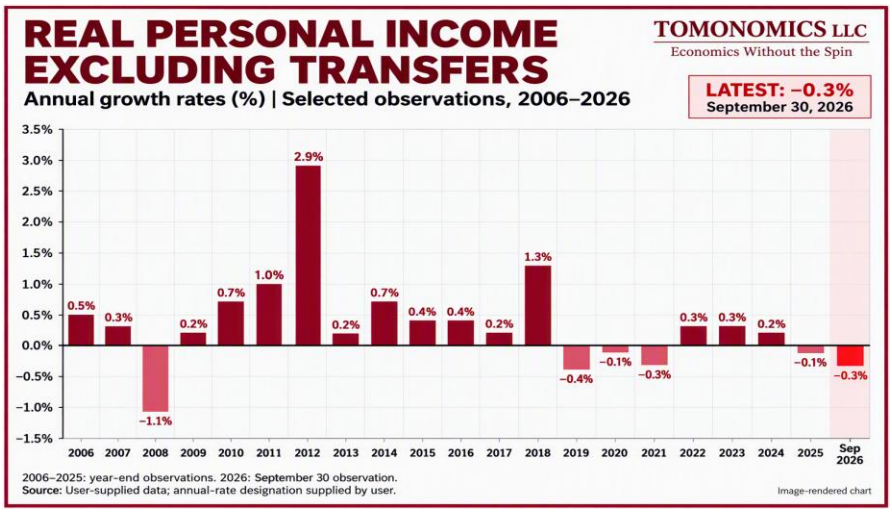
Domestic demand strengthened in Q3. That was encouraging. But much of the AI buildout relies on imported equipment, and rising imports subtracted 2.6 percentage points from GDP growth — the biggest drag since early last year.

Here is the catch: After-tax income grew just 2.3% after inflation, while consumer spending grew 3.8%. Consumers filled the gap by saving less. The savings rate fell to 4.1% from 4.4% in Q2 and 5.3% in Q1. By this calculation, spending beyond income growth added a full percentage point to Q3 GDP growth.

Remove the spending boost from stock-market wealth and the AI boom, and the estimate puts GDP growth at just over 1%.



Another warning: Inflation-adjusted income excluding government payments fell 0.3% in September after a flat August, reaching a four-month low. This is one of the National Bureau of Economic Research's (NBER) four main measures for dating economic peaks and troughs. Either way, falling income is not a reassuring signal.

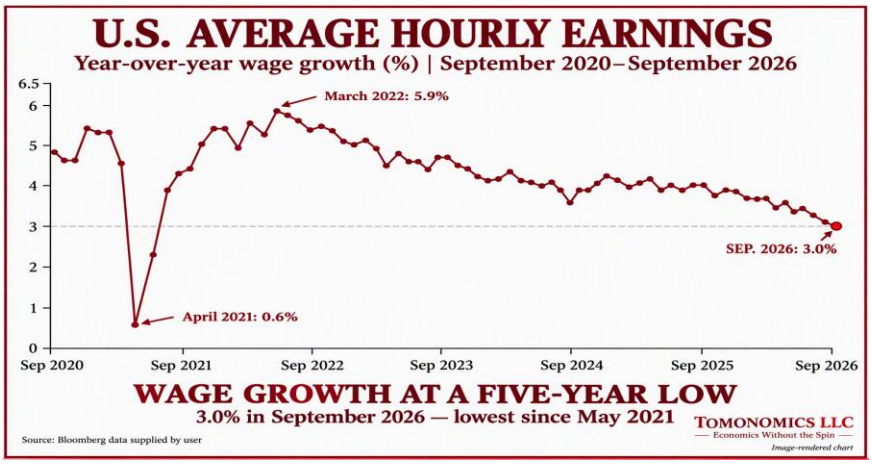


Bottom line: The headline is stronger than the underlying spending picture. The estimate here puts Q3 growth closer to 1% than 3.4% after stripping out falling savings and the AI spending binge. That is a counterfactual estimate, not reported GDP. **It supports my case for patience. My call: another hold on December 9.**

I DON'T BUY IT!

I'm also not buying the idea that AI alone will keep the economy strong. As discussed below, the AI boom has questions of its own. Meanwhile, we have yet to feel the full hit from higher energy prices or the recent tightening in financial conditions. The Fed is also tightening against a supply shock. Getting inflation back to 2% means squeezing demand — not producing more supply.

And let's be clear about the "no-hire, no-fire" labor market. It means zero employment growth. Wage growth before inflation is at a five-year low.

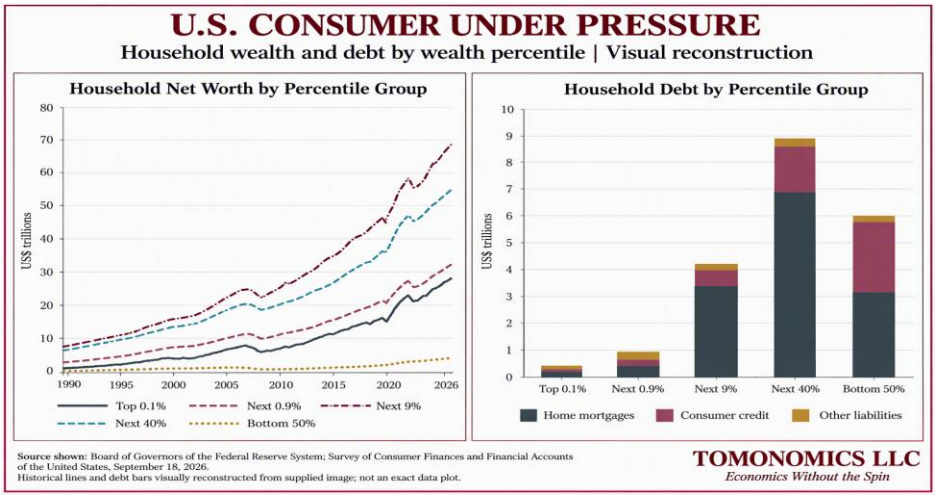


The year-over-year measure of real average hourly earnings has declined for six straight months. That points to weakening purchasing-power momentum — a poor foundation for consumer spending.

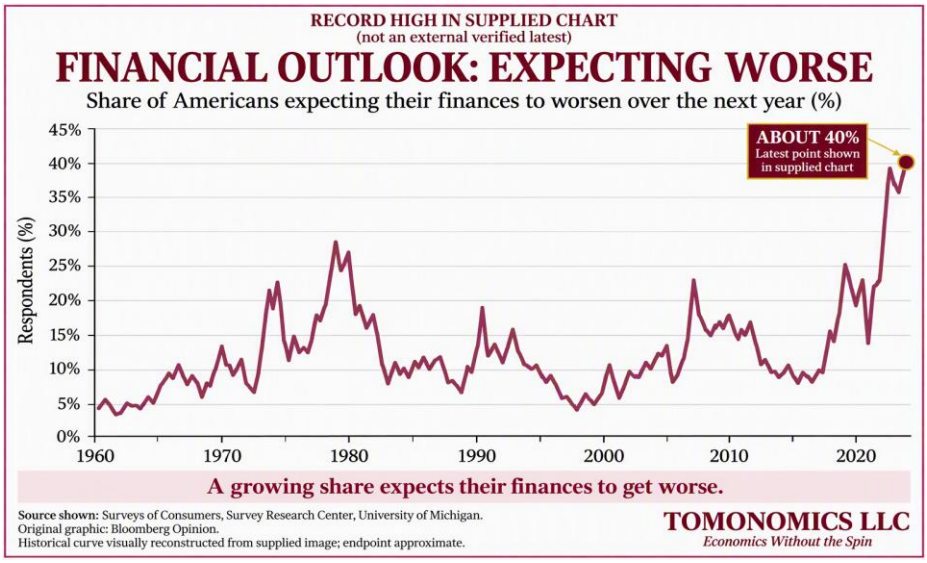


Wealth and income inequality put the economy and political stability at risk. Wealthier households spend less of each extra dollar, while many others lack savings to weather a downturn. Concentrated wealth is no guarantee of strong consumer spending.

The household cushion is thin. The bottom 50% have seen little growth in net worth but carry a large share of debt, much of it consumer credit. Rising rates make that debt harder to service. A dollar sent to a lender cannot also go to a store — a problem for a consumer-driven economy and parts of the stock market.



Possibly, this massive wealth and income inequality explains this graph. Americans now feel worse off financially than at any point in 65 years.



Bottom line: AI and inherited wealth cannot substitute for job growth and stronger purchasing power. Hiring is stalled, real-wage momentum is weakening and higher energy costs and tighter financial conditions have yet to deliver their full hit. That is a shaky foundation for spending — not a recipe for a lasting boom.

The spending story has two sides: Households stretching their paychecks and borrowers tapping their portfolios. Both can support demand today. Neither removes the question of what happens when the cushion gets smaller.

BUY, BORROW AND DIE

According to *The Wall Street Journal*, **"The 'Buy, Borrow and Die' Wealth Strategy Has Become a $5 Trillion Market."**

Get this:

> ***"Buy, borrow and die is a mantra of the rich. They love to take out loans against stock they own, so they don't have to sell it when they want to buy other things such as mansions, yachts and movie studios.***
>
> *Lend-and-thrive appears to be the approach of banks and others supplying the loans. The arrangement lets them book almost all their fees as pure profit because losses on collateral are rare and most of it can be sold quickly.*
>
> *A new survey of 57 of the world's biggest private banks and other lenders, conducted by Deloitte and reviewed by The Wall Street Journal, offers the fullest picture yet of this opaque corner of finance. Banks don't always break out such lending on their balance sheets, and there is no central tally of how much is outstanding.* ***The report finds that stock-based lending, better known as Lombard loans to borrowers in Europe and Asia, is increasingly available to those lower down the wealth scale.***
>
> ***Deloitte estimates that around $5.4 trillion is extended in securities-based lending, mostly against stock and bond portfolios but also funds and crypto. The figure has risen sharply as more global wealth pours into markets and asset prices rise. Deloitte consultants said the market's growth rate averaged 12% over the past 10 years.****"*
>
> *"Deloitte said a top slice of the market is driving growth of the securities-backed loans, along with higher asset prices. Around 45% of customer credit lines are worth more than $2.5 million.*
>
> *In mid-October, Charles Schwab said its pledged asset line product available to people with at least $100,000 in nonretirement assets drove a 35% surge in bank-loan balances, to $72.3 billion in the third quarter. A spokeswoman said usage grew after Schwab launched a fully digital process three years ago that can get the loans approved within minutes."*

Bottom line: Borrowing against inflated stock portfolios has been the economy's main fuel over the past year. The savings rate keeps falling as people spend more and save less. Strip out that risky borrowing, the AI and data-center spending boom, and the One Big Beautiful Bill boost, and GDP would have declined over the past four quarters. This is not a healthy, broad-based expansion.

That brings us to the other engine of this expansion: AI spending. The investment arrives now. The payoff remains the question.

Let's take a look at the payroll decisions behind the buildout.

THE NEXT CHAPTER

Microsoft is offering buyouts to 60,000 employees across the U.S., Canada, India and the UK — roughly 27% of its workforce. It had 223,000 full-time employees as of June 30. Its earlier retirement offer covered just 9,000; about a third took it.

The offer has a deadline, a payout and exclusions. Eligible employees at level 70 and below — including senior leaders — can receive up to 39 weeks of base pay. Sales and some engineering and corporate teams are excluded. Employees must decide by early December and leave at year-end. Level 70 refers to Microsoft's internal employee-level system.

Microsoft calls it giving employees "more ways to shape their next chapter." I call it cutting payroll without layoff headlines while pouring money into AI data centers. American Express cut about 5% of staff last week to "prepare for AI." Same explanation. Fewer paychecks.

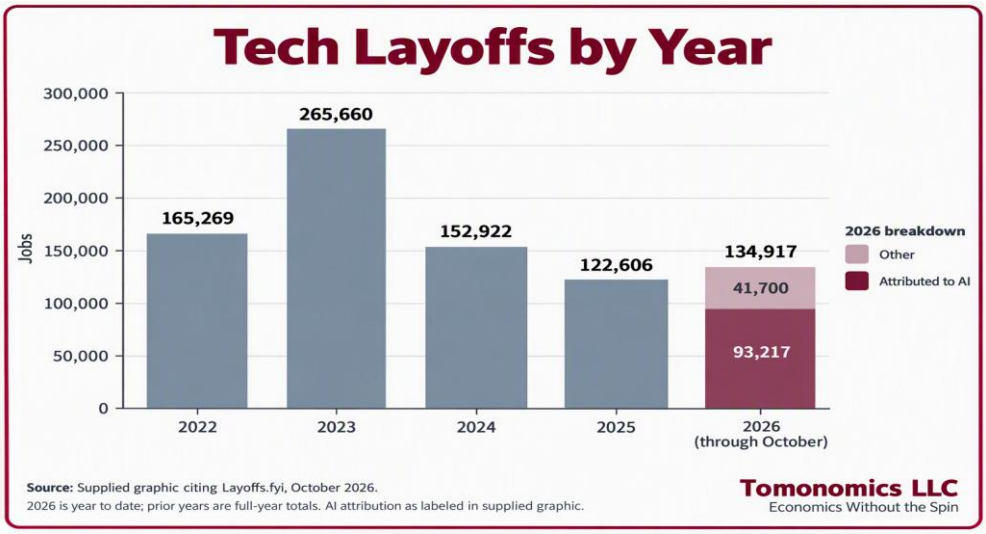
The catch: Employees with other job options are more likely to leave, while big companies barely hire. I expect more Big Tech buyouts before year-end. Costs fall quietly. "Layoff" stays out of the headline.

That's the AI boom: Pay people to leave, keep funding data centers. The test is how many of those 60,000 take the deal.



The productivity evidence is the awkward part. An NBER survey of 9,000 senior executives found that 90% report no productivity gains from AI so far. Meanwhile, Layoffs.fyi attributes 93,217 tech job cuts this year to AI.

I suspect many cuts would happen anyway. Tech over hired in 2021-2022. Now it needs tens of billions a year for data centers. Payroll is the easy target. Blaming AI sounds better than admitting over hiring. With productivity gains still missing, I'm not buying that software replaced these workers.



Bottom line: Big Tech is cutting payroll while pouring money into AI. But calling a cut "AI-driven" does not prove the technology replaced the workers — or delivered better productivity. For now, this looks more like correcting over hiring and funding data centers than a proven productivity boom.

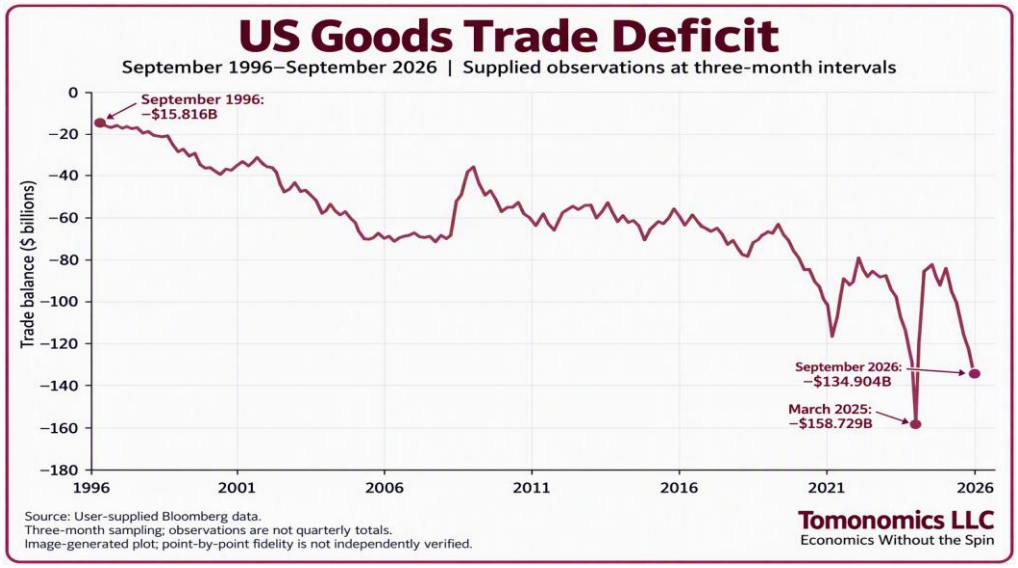
However, if, and when AI does start to earn its keep, these cuts will probably look small.

TRADE GAP WIDENS

"Our country and its taxpayers have been ripped off for more than 50 years, but it is not going to happen anymore."
— President Donald Trump, April 2, 2025

The September U.S. trade deficit in goods was $134.9 billion, the highest ever recorded in September. Looking further back, there were only three months in history when the deficit was higher, all under Trump in 2025.

Here are the facts. Measured by the size of our trade deficits, the tariffs have been a complete failure. Not only have they failed to bring manufacturing back to the U.S., but the U.S. is now more dependent than ever on foreign producers. Not only are we importing more than ever, but we are now paying Trump's tariffs on those imports.



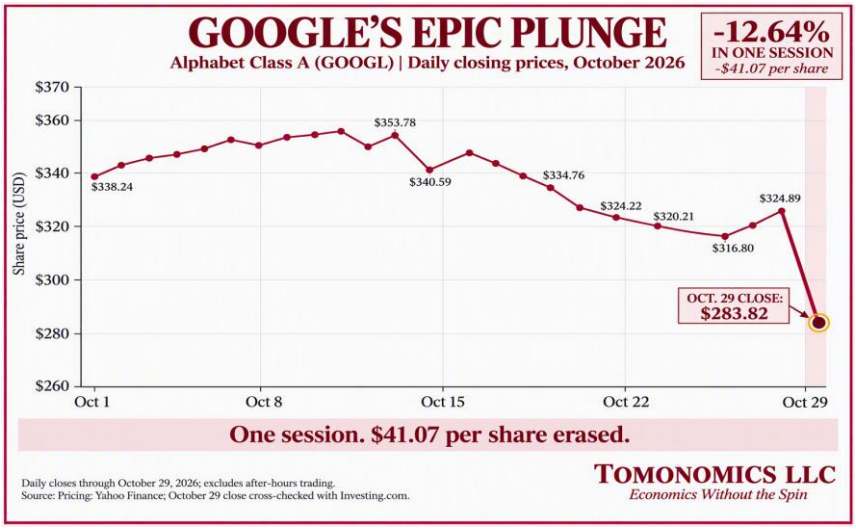
Bottom line: Why are the trade deficits under Trump so much larger than they were under Biden, when, according to Trump, we had the worst economy in U.S. history?

HITTING THE WALL

Silicon Valley is selling AI as a shortcut to paradise. It was going to cure cancer. The sales pitch: a beautiful future. Reality may look different. So far, results have fallen far short of the hype.

The outlook is tougher for Alphabet, Amazon and Intel shareholders.

Alphabet fell a record 13% last Thursday, wiping out roughly $500 billion — the second-largest one-day market-value loss for a U.S. company. Investors wanted cash. Quarterly free cash flow came in at negative $9.1 billion versus positive $2.7 billion expected. Google's answer? Spend more. It signaled another big capital-spending increase for 2027. Analysts expect over $300 billion, up from roughly $200 billion this year. **Spending big is not the same as spending wisely.**



It wasn't just Alphabet being taken to the woodshed; other Magnificent 7 stocks have taken a mighty beating.

Magnificent 7

Mag 7 Stock Names	Drawdown from 52-Week High (%)
Alphabet — Class A	–30.54%
Meta Platforms	–19.91%
Tesla	–19.15%
Amazon	–15.12%
Nvidia	–12.21%
Microsoft	–3.81%
Apple	–0.80%

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The weekly market-value loss for the four largest hyperscalers was $894 billion after earnings. The breakdown: Alphabet lost $505 billion, Amazon $192 billion and Meta $187 billion — a combined $884 billion.

Most of them are spending more cash on data centers than they get from running their businesses. Over the past two weeks, Amazon, Microsoft, Google and Meta reported that they were on track to spend more than $720 billion this year alone on data centers and other capital expenditures — roughly triple what they spent just two years ago! Incredibly, all say they intend to spend even more next year. The spending binge has sent the companies scrambling to fund their ambitions by taking out loans and, in some cases, selling more bonds and even stock to get the cash they require. This is not to say that their core businesses are not generally in decent shape, but it is the accelerating leverage that has unsettled investors who, for the first time, are starting to fret that these mega projects may not pay off, at least not over the near- or intermediate-term (if ever).

Seriously — for the buyers of these AI companies, the question must be answered: Do you even know what AI is going to deliver? Can anyone explain what this market is going to even look like? What is everyone investing in? It's like a fugazi.

The damage extends beyond the Mag 7. AI-related companies have also sold off. Caterpillar, an industrial favorite of the buildout, is about 40% below its 52-week high, and its construction sales missed expectations. As a supplier to data-center construction, it offers another test of the boom — especially as those projects face growing opposition.

Other AI-Related Stocks
Drawdown from 52-Week High | As of October 31, 2026

Other AI-Related	Drawdown from 52-Week High (%)
Oracle	-50.8%
Arm Holdings	-54.5%
KLA Corp	-48.6%
Applied Materials	-47.3%
Lam Research	-45.5%
Caterpillar	-42.0%
Super Micro Computer	-37.8%
Marvell Technology	-40.5%
Broadcom	-34.1%
Micron	-29.5%
Cadence Design	-21.3%
Arista Networks	-22.3%
AMD	-23.3%
TSMC	-16.7%
Synopsys	-13.3%
Palantir	-13.5%

October 30, 2026 regular-session closes; October 31 was a Saturday. Price drawdown, not total return.
Sources: company investor relations, CNBC, Seeking Alpha, Stock Analysis and Barchart.

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Again, to put it simply, investors are no longer rewarding ever-higher spending alone, unlike in previous quarters. They are now demanding clearer evidence that the AI buildout can translate into sustainable revenue and profitability.

While AI demand is strong the free pass is over. Burn cash without a clear earnings beat, and investors punish the stock. Cash flow and spending discipline now count.

This week's must-read, "This Boom Looks a Lot Like the Housing Bubble" in *The New York Times*, is a powerful column with a title that says it all. Here are a couple of excerpts:

> *"As bad as the financial crisis was, it began with a small slice of mortgages of a still-diversified economy. This time, the sector at risk is our economy's growth engine. A.I.-related investment fueled an estimated one-third of the country's recent economic growth, and the handful of companies most exposed to the A.I. build-out now account for roughly one-third of the entire S&P 500.*
>
> *In other words, the U.S. economy is fully hostage to an A.I. build-out laden with increasingly worrying financial engineering, all riding on a wager — that demand for A.I. will keep growing, that customers will soon be willing to pay what the technology actually costs to produce and that businesses will manage to build the infrastructure required to supply it. Recent estimates indicate that A.I. would need to generate as much as $3 trillion annually in*

perpetuity to return the capital extended. That's 9 percent of the U.S. gross domestic product, or twice what Americans spend on food."

Bottom line: AI demand is strong, but spending alone no longer impresses investors. Cash burn, earnings misses and widening credit spreads are exposing the risks. This bull market had depended on AI more than the dot-com market depended on Tech. Heavy dependence on AI and concentrated stock-market gains could turn a sector selloff into a broader economic problem.

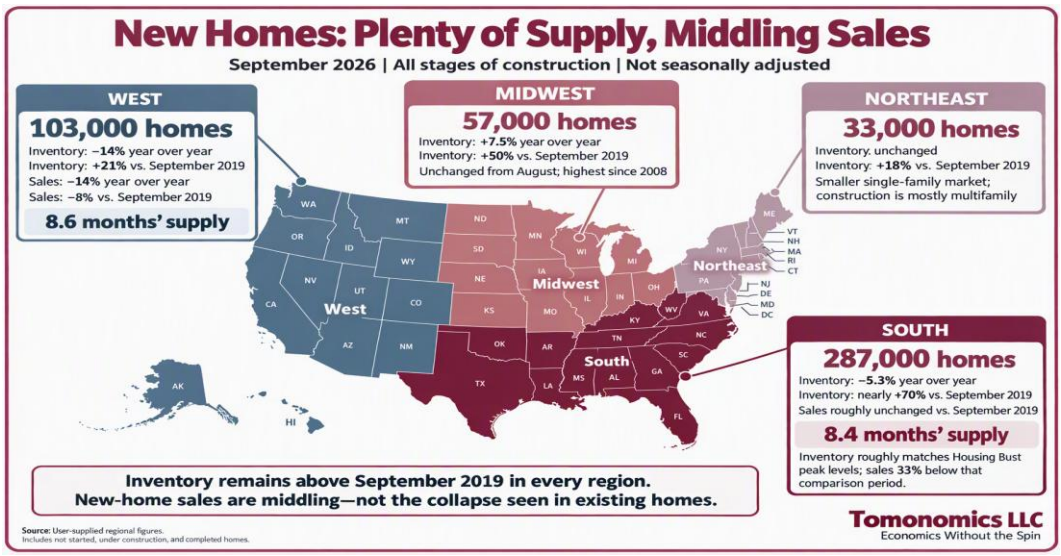
PLENTY OF HOMES. NOT ENOUGH BUYERS.

Builders are adjusting. Homeowners are slower to budge. September new-home sales across all construction stages fell 3.4% from a year earlier to 56,000. Outside the pandemic rebound, new-home sales have gone nowhere for a decade, while existing-home sales fell 40% over that stretch. Builders have kept buyers moving with incentives, mortgage-rate buydowns and price cuts. Homeowners selling have been slower to adjust. Builders are running circles around them.

Since mid-2024, new-home inventory across all construction stages has run 45%-55% above 2019 — the highest since the 2005-2007 peak as the housing bust began. Sales remain mediocre despite generous incentives, rate buydowns and price cuts.

September inventory edged down to 480,000 homes. Still 49% above September 2019 and 68% above September 2020. Builders had 8.6 months of supply.

The image of the US shows sales and inventories by region:

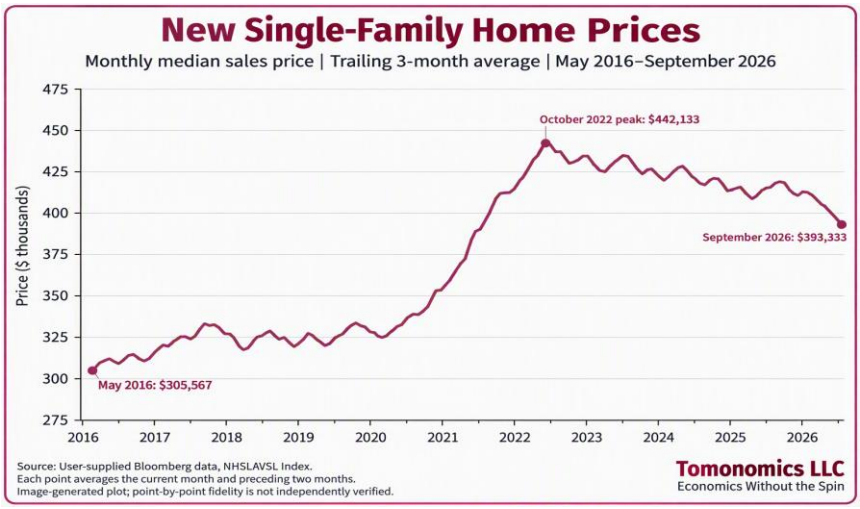


In 2021-2022, sub-3% mortgages and fear of missing out drove buyers to pay up for scarce move-in-ready homes. Builders pocketed record-fat margins.

Now supply is plentiful and prices are falling. Cash tied up in finished homes gives builders every reason to sell.

The sticker price does not show the whole deal. The national median new-home price records contract prices, not incentives or mortgage-rate buydowns, so it misses the full discount. Even so, the trend is clear: Gross margins, profits and shares have plunged. Builders keep building and selling, adding more supply.

Median prices have fallen since late 2022. The three-month average, which smooths monthly swings, is down 11% from that peak and 4.6% year over year to $393,300 — the lowest since August 2022. That excludes incentives and rate buydowns.



Bottom line: Supply of new homes for sale has been rising. Actual sales and prices have been falling. But sales haven't collapsed as they have for existing homes.

COMMERCIAL PROPERTY: THE BILL COMES DUE

The extension bought time. It did not buy a cheaper mortgage. According to Trepp, about $800 billion in office and apartment loans comes due this year, followed by another $733 billion in 2027. These short-term mortgages must be refinanced at maturity. Many owners borrowed near 4% in 2021 and 2022; now they face rates closer to 9%. Banks kept extending deadlines, but some owners say that patience has run out.



I'd rather banks recognize the losses now than drag this out for years. The extensions bought time, not a solution. The bet was that rates would fall enough to make refinancing work. They didn't. Owners who could have sold earlier are now deeper in the hole.

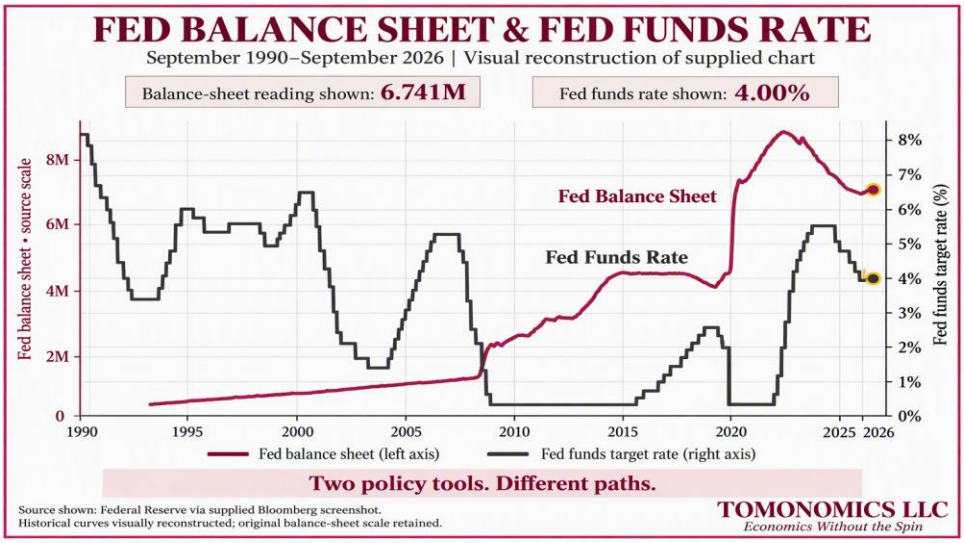
The damage won't stop at the buildings. Regional banks hold much of this debt. When losses rise, lending shrinks and local small businesses feel the squeeze. Renters can feel it, too, when struggling owners cut maintenance. As for the "buy everything" funds now pitching regular investors, my concern is simple: The big players have had years to buy at a discount. A late invitation does not necessarily mean a better deal.

Bottom line: Extending a loan does not fix the math. Owners who borrowed near 4% now face refinancing closer to 9%, and more time has not solved the problem. As losses surface, the pressure can spread beyond buildings — to regional bank lending, local businesses and property maintenance.

MARKET OUTLOOK AND PORTFOLIO STRATEGY

"We just came out of a heck of a family fight." — Fed Chair Kevin Warsh

The Fed held rates at 3.75% to 4.0%. No surprise. Markets had priced just a 7% chance of a hike. The real news was who dissented, who didn't and the softer wording in the statement.



Beth Hammack wanted a hike, just as she did in July. This time, July's other dissenters, Neel Kashkari and Lorie Logan, did not join her. The vote was 10-2, with Governor Lisa Cook, previously inclined toward lower rates, casting the other dissent. Hammack, Logan and Kashkari rotate out of voting seats in January, reducing their direct say in rate decisions.

Four hawks out. Three doves in. Add Powell's dovish lean, Williams at the New York Fed and Vice-Chairman Jefferson. The Fed may be one and done — just as it was in early 1997.

Rotating Off	Rotating On	Net Impact
Beth Hammack (Cleveland)	Austan Goolsbee (Chicago)	Less urgency to hike
Lorie Logan (Dallas)	TBD (Atlanta)	Uncertain, but likely less hawkish
Neel Kashkari (Minneapolis)	Mary Daly (San Francisco)	Less urgency to hike
Anna Paulson (Philadelphia)	Thomas Barkin (Richmond)	Slightly more hawkish

Source: Supplied table.

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Back to the Federal Open Market Committee statement. The biggest change was the change in the outlook for inflation. September said, "Today's policy action will support a timelier return to the Committee's 2 percent goal." Now it says, "The accumulation of more information will help the Committee determine the policy stance appropriate to ensure a timely return of inflation to the Committee's 2 percent goal." Translation: More data before another move.

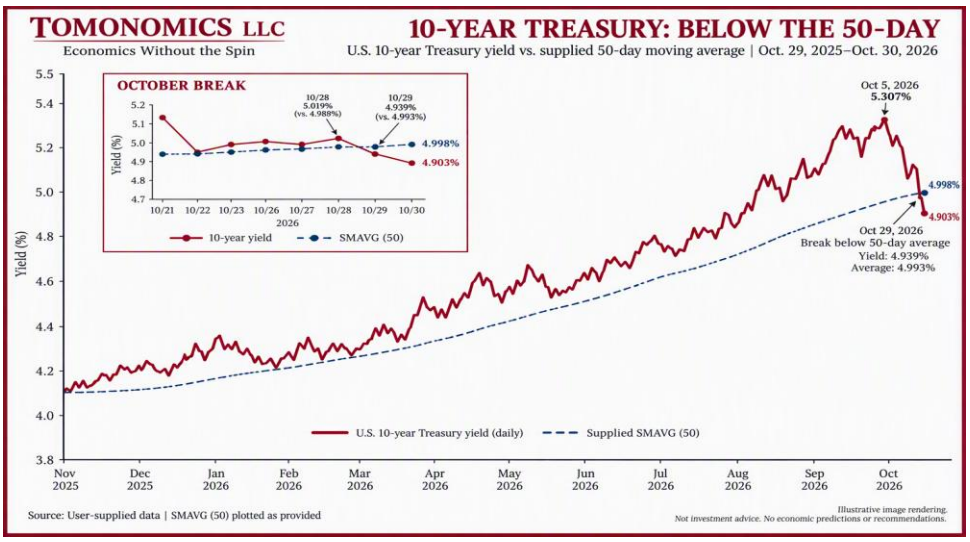
The Fed also upgraded the economy from "solid" in September to "strong." After a weaker September payroll report, what got stronger?

"Further rate increases aren't likely to be effective against the current inflation. Higher rates can't produce additional diesel or semiconductors or resolve other supply constraints. They can suppress spending and hiring, but at a high cost to the investment and growth needed to increase production. Unnecessarily high interest rates worsen inequality because the wealthy keep consuming and those with savings earn a higher return at the expense of borrowers seeking to invest and produce. The heaviest burden falls on the drivers of growth — small businesses, new workers and home buyers." — David Malpass, former U.S. Treasury Undersecretary and World Bank President, ***"The Fed Needs Better Models,"*** *The Wall Street Journal*

Truer words have rarely been spoken.

Now for the market test: Are falling Treasury yields signaling relief on inflation, concern about growth or both? The answer matters more than the GDP headline.

Bonds saw through the Q3 GDP headline. The 10-year Treasury yield fell 6 basis points to 4.95%, a seven-week low, breaking below its 50-day trendline for the first time since late June. Since October 5, the benchmark yield has plunged by 40 basis points. The 30-year Treasury yield has plunged from around 5.7% to 5.315% in less than three weeks.

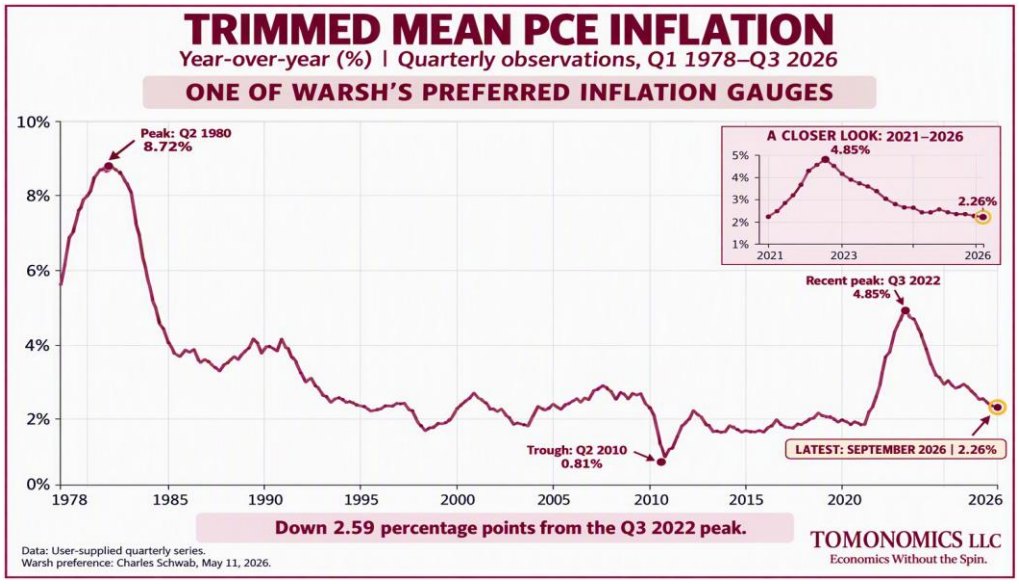


The Treasury market is looking through the headline data and sees a much weaker growth environment. As discussed above, **strip out falling savings and the AI spending binge, and Q3 growth looks closer to 1% than 3.4%.**

On the inflation front, the key core PCE deflator came in right in line with expectations at +0.3% sequentially in September (and matching the Consumer Price Index and the year-over-year trend, while elevated at +3.1% (was +3.0% in August), also came as no surprise. The headline jumped as expected by +0.5% and +3.6% on a year-over-year basis.

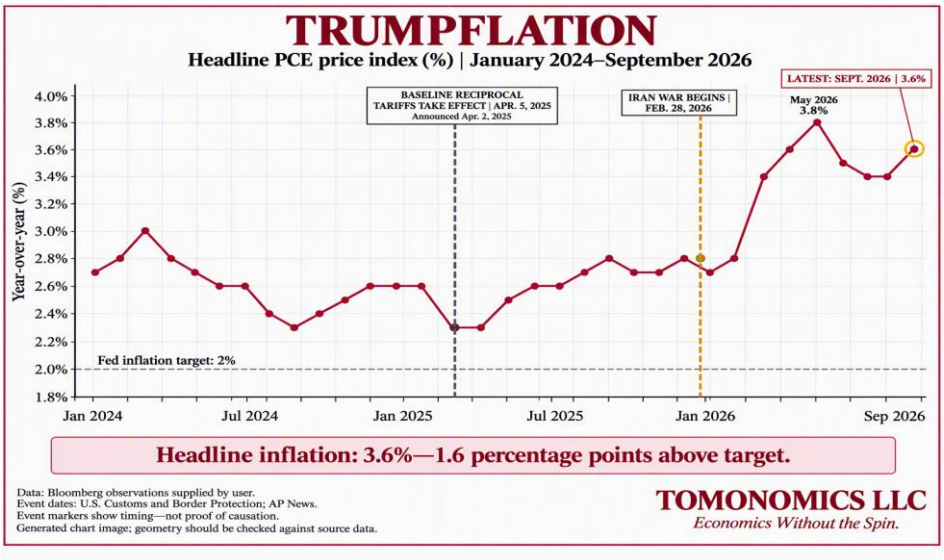
At 2.26%, Trimmed Mean PCE is approaching the Fed's 2% goal and points to less underlying inflation heat. This measure, is one of Warsh's favorites, removes extreme price moves in both directions. Each month, the Dallas Fed trims the biggest increases and decreases, then calculates a spending-weighted average of what remains. Unlike core PCE, it

does not automatically exclude all food and energy. Headline PCE tells us how much prices rose. The trimmed mean helps show how widespread the pressure is.



As I've said before, had it not been for the self-inflicted tariff war and Iranian War, inflation would be likely already at or below the Fed's target of 2%. Given that the president likes to attach his name to virtually everything, I think it's only appropriate to name this TRUMPFLATION.

Here's a fun fact: U.S. oil companies made over $130 billion during the Iran war. Americans spent an extra $147 billion on fuel in the same stretch, ~$1,100 per household. Almost dollar for dollar out of your pocket and into theirs.



Falling Treasury yields may be signaling concern about the AI boom, not just relief on inflation. My concern is that an AI bust could help tip the economy into recession. The comparisons with 2000 and 2008 are warnings. If yields keep falling

while corporate credit spreads widen, hiring weakens and investment contracts, the case for spreading deterioration becomes stronger.

As for the all-important midterms, this could be a historic defeat — the House is a foregone conclusion, and the Senate is clearly up for grabs (Alaska, Ohio and Texas will tip the balance). The Dems are far in the lead in every poll, and the gap is widening — the public, the independent voters and even many Republicans have turned away from the president (and the insults during the campaign are now totally disgusting). If you haven't yet read it, I urge you to do so — I'm talking about Peggy Noonan's ***"The Case for a Historic Wave"*** in this past weekend's *Wall Street Journal*. The die-hard Trump supporters won't like it so much, but she has huge credibility — how could she not, since she was Ronald Reagan's speechwriter (remember him? A Republican in every which way).

If the Democrats do sweep, history shows there is a 70% chance that they take it all in the 2028 national elections — as was the case with Clinton, Bush, Obama, Biden and Trump. And what that means is that the pro-market tax policies of Trump 1.0 and 2.0 will be reversed. I should add that gridlock is bad for equities but good for bonds.

Another reason to be constructive on bonds is that most economists see higher bond yields for longer, firmer growth and eventual relief on inflation**.** Thus, if higher yields and firmer growth are already reflected in Treasury prices, slower growth or faster disinflation could surprise the market potentially pushing **yields down**.

In terms of portfolio strategy, credit unions should stay the course and continue to buy on dips while maintaining a risk appropriate duration exposure.

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MORE INFORMATION

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As Alloya's Market Strategist, **Tom Slefinger** leverages over 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.

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