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INVESTMENT SERVICES

Weekly Relative Value



Tom Slefinger
Market Strategist

WEEK OF NOVEMBER 9, 2026

Higher for Longer? The Case Is Cracking.

The case for lower yields is building. Consumer spending is weakening, AI investment faces delays and hiring looks stronger than the details. October added 165,000 jobs and unemployment fell to 4.1%, but gains were concentrated, involuntary part-time work rose and hours barely grew. Median unemployment duration reached 11.9 weeks. Real wages, auto sales, mortgage demand and restaurant spending show pressure on consumers.

Slower AI spending could weaken a major growth engine. The tech selloff highlights overbuilding and valuation risks. Fiscal gridlock, rising debt costs and eventual budget restraint could cool demand. Lower energy prices could ease inflation, while crowded Treasury shorts could amplify a bond rally.

Bottom line: One strong jobs report does not settle December's rate decision. The strategy remains to buy bond-market dips while keeping duration appropriate to portfolio risk.

I'd rather focus on economics and investments. But this past week, we experienced a seismic and unprecedented blue tsunami in what many called the most important election in U.S. history. Because politics impacts economics, I need to address it.

First off, this time the polls were right, and voters made their position very clear with the Democrats sweeping by a huge margin. *The Economist* noted that Tuesday's Democratic victory was **"the biggest congressional landslide in 50 years."** More than 12 million voters (and counting) voted for the Democrats than the Republicans.

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THIS WEEK

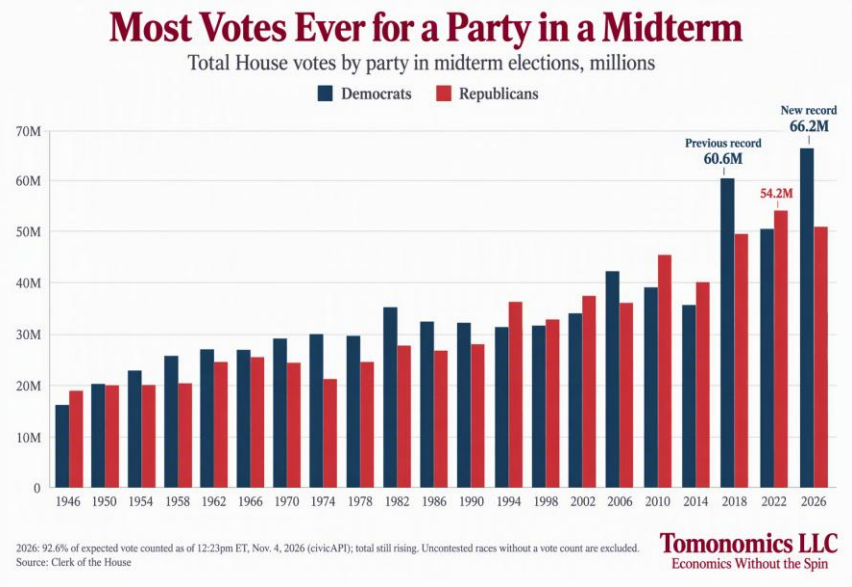
- THE BIG LIE
- TOO MUCH DEBT CAN SET THE STAGE FOR LOWER RATES
- GRIDLOCK AND BONDS
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- STOCKS FOR THE LONG RUN
- CONSUMER CRACKS
- STRONG HEADLINE. MIXED DETAILS.
- MARKET OUTLOOK AND PORTFOLIO STRATEGY

SUBORDINATED DEBT: (SIMPLIFIED)

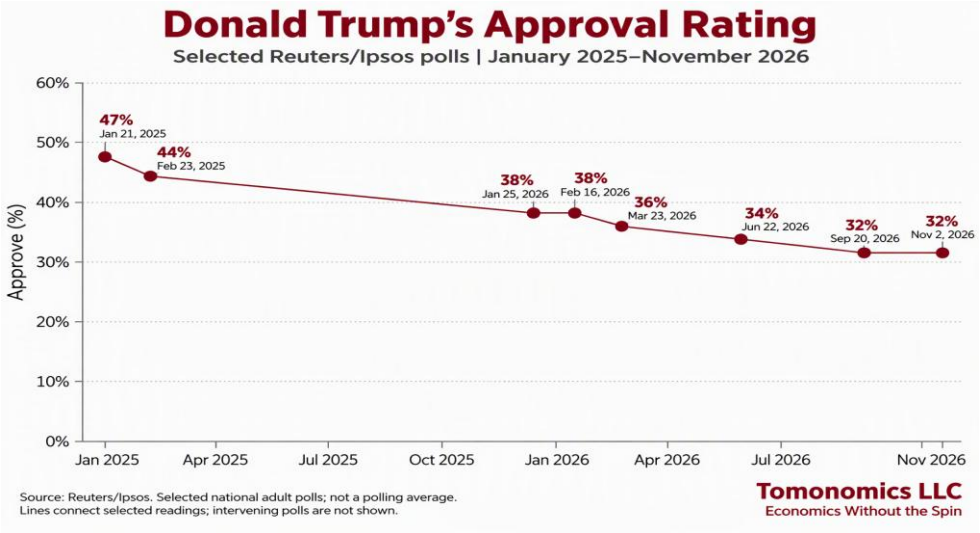
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The White House blames the war with Iran for last week's blue tsunami. But here is the reality. Donald Trump's approval rating when he took the keys to the White House in January 2025 was 47%, but half the decline happened before the extremely unpopular war. Even before the war shock, affordability was the number one issue. The war clearly made it worse. But the war was not the only factor. In addition, the voting public was never thrilled with inexplainable on-again off-again tariffs or with the massive run-up in fiscal deficits and debts. Not to mention the focus on monuments and ballrooms, etc. Just as all roads lead to Rome, in this election, all roads lead to Trump.



The midterms were as much a referendum on the AI data center construction boom as anything else. Voters backed limits or bans on data centers in 40 of 41 local ballot initiatives — more than half in Ohio. Now, 80% of construction plans are in states with Democratic governors. And 56% of voters nationwide said data centers were a crucial or major factor in their congressional choices. As an aside, the latest Gallup poll shows nationwide that 71% of Americans oppose building a data center in their areas — that compares to 53% for a nuclear plant!

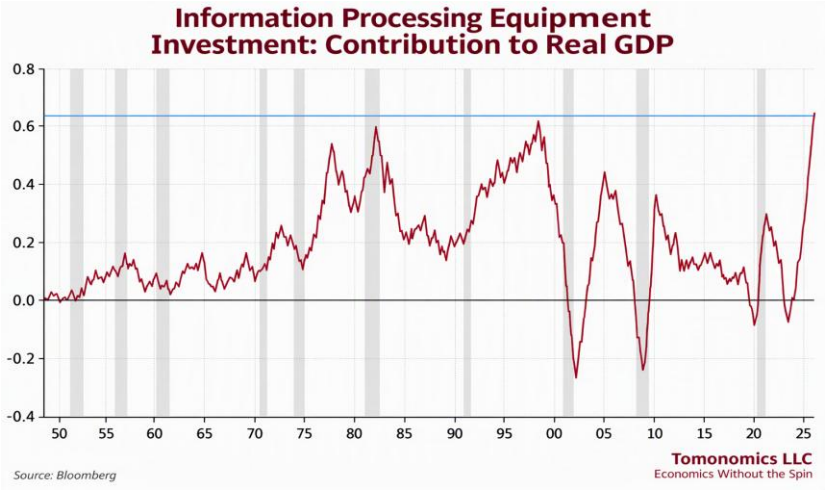
I recommend a read of "Voters Rejected A.I. in the Midterms. Now Comes an Era of Scrutiny" (*The New York Times*) and "Data-Center Backlash Key for Democratic Voters" (*The Wall Street Journal*).

The rules are changing. Under pressure from the Trump Administration, local officials offered big tax breaks to attract data centers. Environment-focused Democratic leaders now have more leverage. They will push developers to pay taxes, build their own power plants, cover electricity and water costs, and support local services, including education.

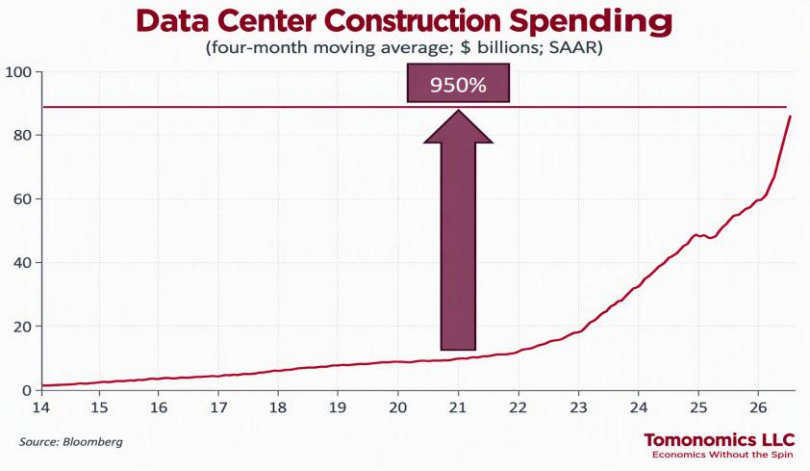
A construction pause looks likely. That could force Kevin Warsh to rethink a growth and inflation outlook tied to AI spending. The boom may not be over, but slower investment means less growth and inflation pressure — weakening the case for another hike and potentially supporting Treasuries.

The bigger risk is growth. An economy relying on AI spending will feel the hit if it slows.

Look at the two charts below. Does this look normal? **Goldman Sachs estimates tech investment added 1.9% to real gross domestic product (GDP) this year, against roughly 2.1% overall growth.** In other words, virtually all growth came from AI.



Data center construction spending spiked by another 8.6% in September from August, and by 90% year over year to an annual rate of $96 billion. Since the beginning of 2021, the annual rate of construction spending on data centers has spiked by 950%.



Bottom line: Data center delays should help Treasuries. Kevin Warsh favors private final domestic demand and worries that strong demand could spread energy inflation through the economy. His growth outlook relies on AI spending. Last Tuesday's election puts that spending at risk.

Slower AI spending could ease demand and inflation pressure. Add falling energy prices, and the market's 81% odds of a December hike look too high.

THE BIG LIE

"The next president is going to inherit a Social Security trust fund that is going to extinguish within his or her tenure."

"Unless you want to see across the board benefit cuts of 28% to current Social Security recipients. That's crazy."
— Natasha Sarin, President, Yale Budget Lab

The U.S. public debt crisis is back in focus. The people voted for major reform. True. But instead, they got more of the same. Promises made. Promises NOT kept.

The U.S. National Debt has now increased by over $1.1 trillion since July 1. The federal government is borrowing from our future to spend money like drunken sailors today. Everything they said about "cutting spending" and "balancing the budget" was a lie.

U.S. NATIONAL DEBT

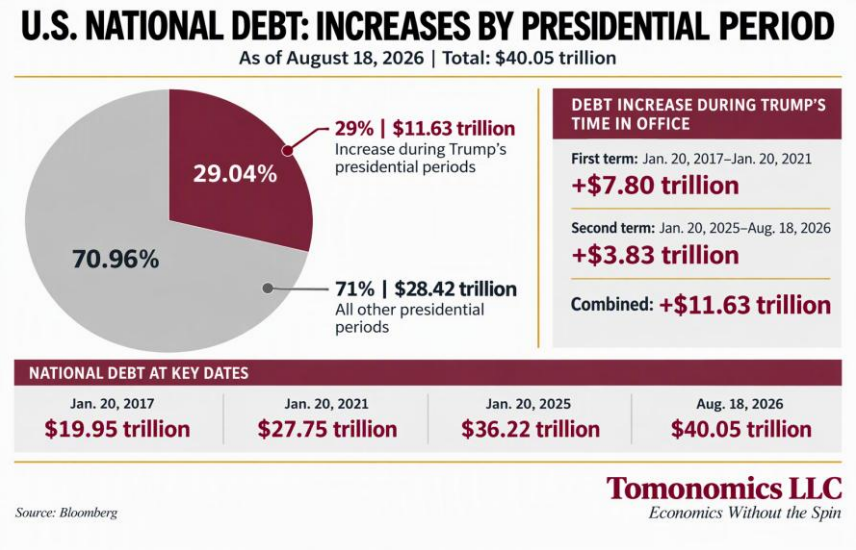
July 1–October 28, 2026

Date	Total Public Debt	Increase since July 1
10/28/2026	**$40,551,054,852,362**	**$1,161,750,063,460**
10/21/2026	$40,413,639,012,306	$1,024,334,223,403
10/14/2026	$40,329,229,827,541	$939,925,038,638
10/7/2026	$40,284,036,147,367	$894,731,358,465
9/30/2026	$40,171,825,101,340	$782,520,312,438
9/23/2026	$40,073,558,531,202	$684,253,742,299
9/16/2026	$40,094,080,427,791	$704,775,638,888
9/9/2026	$40,074,284,925,787	$684,980,136,884
9/2/2026	$40,117,045,127,073	$727,740,338,170
8/26/2026	$40,069,751,423,221	$680,446,634,318
8/19/2026	$40,012,700,535,679	$623,395,746,777
8/12/2026	$39,913,239,319,465	$524,234,530,562
8/5/2026	$39,829,652,708,624	$440,347,919,721
7/29/2026	$39,799,618,642,771	$410,313,853,869
7/22/2026	$39,635,799,057,234	$246,494,268,331
7/15/2026	$39,488,616,467,668	$99,311,678,766
7/8/2026	$39,394,977,645,639	$5,672,856,736
7/1/2026	$39,389,304,788,903	$0

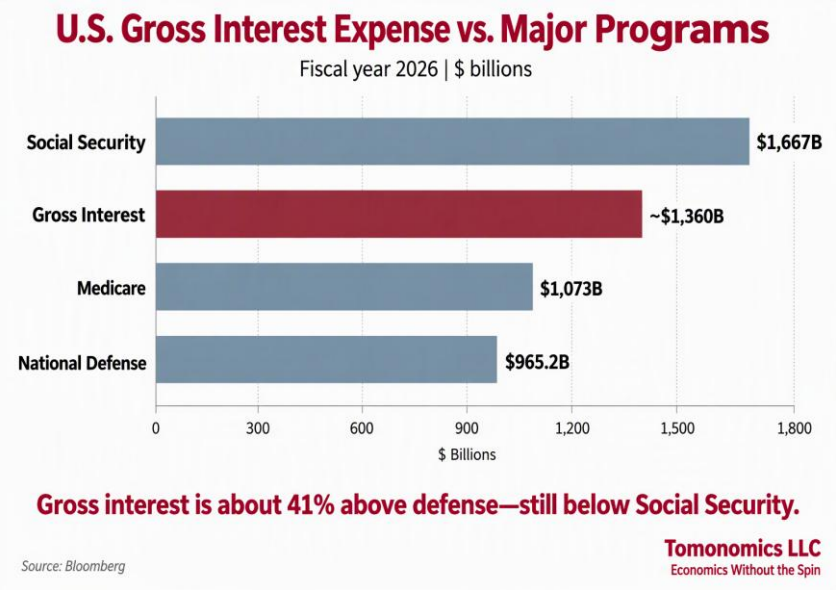
Source: Bloomberg

Tomonomics LLC
Economics Without the Spin

Look at the following graph. Under the two Trump Administrations, U.S. government debt has increased by nearly $12 trillion! For some perspective, when looking at ALL prior presidential periods, debt increased by $28 trillion. In other words, in just a matter of six years, the Trump Administration is responsible for 30% of all debt growth in the U.S.



Meanwhile, a few months ago, interest in the national debt passed defense. Now it's 40% higher. Next year it passes Social Security. The biggest line in the budget is the one nobody voted for.



With annual federal deficits running at a massive ~$2 trillion, investors are watching for a shift in the Treasury's borrowing strategy. At last week's Quarterly Refunding Announcement, Treasury Secretary Scott Bessent left long-dated issuance untouched, disappointing those who had positioned for a cut. Treasury also said it will "continue to evaluate possible enhancements to buyback operations, including the maximum purchase amounts." So, yes, the buyback tool stays on the table, but nothing new was announced on that front.

Bottom line: The debt keeps growing, the interest bill keeps climbing and Treasury has not cut long-term issuance. That can pressure yields higher now. But rising borrowing costs and eventual budget restraint could slow growth and inflation — setting up lower rates.

TOO MUCH DEBT CAN SET THE STAGE FOR LOWER RATES

More borrowing can push yields higher. But supply is only part of the story.

1. **Interest costs limit stimulus.** A bigger interest bill leaves less room for another rescue. Less spending could cool demand and inflation.
2. **Budget restraint slows growth.** Spending cuts or higher taxes can support bonds through weaker demand and less borrowing. The catalyst is the adjustment — not the debt itself.
3. **High rates become a brake.** Costlier financing slows business investment and housing, potentially setting up lower Fed rates.
4. **Long yields look ahead.** They reflect expected Fed rates and a term premium. Falling growth and inflation expectations can outweigh supply pressure — even with debt still high.

Bottom line: Debt can push yields higher first. But rising interest costs and budget restraint can slow growth and cool inflation, setting the stage for lower rates. Bullish for bonds, unless inflation keeps yields elevated.

GRIDLOCK AND BONDS

"A divided government just speaks to less fiscal spending than we've seen in the last few years…Typically when we get a divided government, it has been historically pretty good for Treasuries."
— Brij Khurana, Portfolio Manage, Wellington Management

Bonds like fiscal gridlock. It can curb spending when one-party control ends. Last week's midterms could mark that shift. Consider the past reactions:

After Trump's Republican sweeps on November 8, 2016, and November 5, 2024, the 10-year Treasury yield rose 19 and 16 basis points, respectively, the next session. Markets expected big tax cuts, including the One Big Beautiful Bill after the 2024 win.

After the GOP lost control in the midterms on November 6, 2018, yields were initially unchanged. They then fell 8 basis points over the next week and 35 over the following month.

After Democrats lost control in the midterms on November 8, 2022, the 10-year yield dropped 8 basis points the next session.

Speculators also hold crowded, near-record net shorts in Treasury futures and options. They are betting on higher yields. If yields keep falling, they could be forced to cover — pushing yields lower still.

Bottom line: Fiscal gridlock could limit new stimulus and support lower yields. Crowded Treasury shorts could amplify the rally if investors are forced to cover. That supports the bond case.

IS THE AI BUBBLE BURSTING?

"A billion is a dollar a second for 31 years. A trillion is a dollar a second for 31,000 years… Can there be enough business and enough profit to produce an attractive return on a $7 trillion investment? I think the answer is who knows."
— Howard Marks

When the most famous bubble-spotter on Wall Street says "who knows" about the return, that's the whole debate in two words.

"You don't have to be a Luddite to worry about an AI bubble. All bubbles eventually burst and this one is unlikely to be any different. It's not the AI revolution that is at risk. The problem lies in its distortions of the real economy and asset prices. The astonishing U.S. midterm results will not foreclose the turn of the business and financial cycles." — Stephen Roach, "Morning in America, Twilight in the Markets", Financial Times

"AI will change the world." Sure, but we don't know when or how. The internet changed the world, too. It did not save investors who overpaid during the dot-com boom. Likewise, the railroad boom transformed the economy but destroyed plenty of investor capital through overbuilding. Why assume we will get today's data center capacity and chip supply exactly right?



The AI spending boom has looked overdone from the start, especially in data centers. AI could deliver big economic gains. But will the companies spending all this money earn enough to justify it? That's the question.

If the skeptics are right, investors and lenders could have their Wile E. Coyote moment: Look down, realize there's nothing underneath and fall. We've seen it before — with dot-com stocks in 2000 and housing a few years later.

Indeed, investors have grown nervous in recent weeks. Wednesday's post-election rally gave way to Nasdaq's worst day since 2020. It fell 5.5% and entered correction territory. The Magnificent Seven lost $900 billion in market value. AI stocks took most of the hit. Chips plunged 12%, their worst day since March 2020 — as the Nasdaq shed $2.5 trillion in market value.

The average AI stock Is now down nearly -40% from the peak.

AI Stocks: Below Their Highs

Drawdown from 52-Week High (%)

Mag 7	Drawdown (%)
Mag 7 Index	-11.0%
Amazon	-9.4%
Alphabet	-30.8%
Meta	-22.4%
Tesla	-31.1%
Apple	-3.2%
Nvidia	-25.4%
Microsoft	-4.2%

Other AI-Related	Drawdown (%)
Caterpillar	-48.4%
Palantir	-27.2%
AMD	-38.6%
Arista Networks	-26.8%
Broadcom	-41.1%
Marvell Technology	-59.5%
Super Micro Computer	-47.3%
Oracle	-54.4%
Arm Holdings	-63.2%
Lam Researrch	-57.8%
Applied Materials	-56.8%
KLA Corp	-57.8%
Synopsys	-18.4%
Micron	-47.7%
TSMC	-27.6%
Cadence Design	-25.3%
Intel	-63.3%
Cisco	-26.6%
IBM	-25.7%
Dell	-46.8%
CoreWeave	-68.4%

Average	**-37.7%**
Median	**-34.8%**

Source: Bloomberg

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Bottom line: A great technology does not make every stock a great investment. Sharp stock declines and overbuilding risks are warning signs — not proof the bubble has fully burst.

However, a burst AI bubble will almost surely cause a recession. But even if the recession is short and shallow, history and theory suggest that recovery from that slump will be painfully slow, that unemployment will remain elevated for multiple years.

STOCKS FOR THE LONG RUN

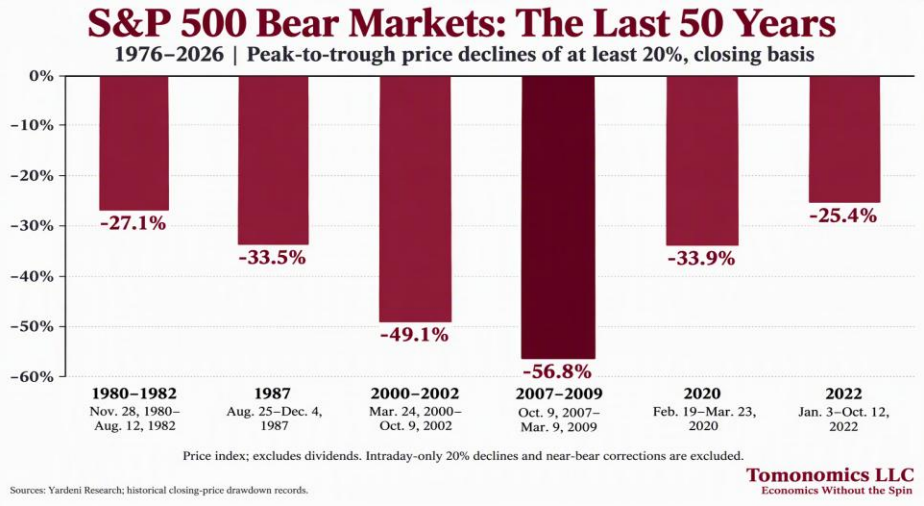
Turn on financial news, and the message is always the same: Relax, stay invested, think long term.

Then comes the claim that stocks rise 85% of the time after midterms produce divided government. If they rise 85% of the time anyway, what does that tell us? You might as well credit the World Series — or my steak dinner.

The issue is the other 15% and how much you lose. Bull markets take the escalator up. Bear markets take the elevator straight down. They may be shorter, but they can erase years of gains before policymakers come to the rescue. The market cycle has not retired.

Then greed becomes fear. After a 30%, 40% or 50% loss, "stocks for the long run" is harder to sell. Panic can push prices below fair value, creating opportunities for investors who still have cash.

Divided governments also make major tax cuts harder to pass. The 2018 tax cuts and the One Big Beautiful Bill benefited from Republican control. A president facing an opposition-controlled Congress has fewer options.



Bottom line: "Stocks for the long run" does not make the next bear market harmless. A short downturn can erase years of gains. The cycle still matters—and so does managing risk before greed turns into fear.

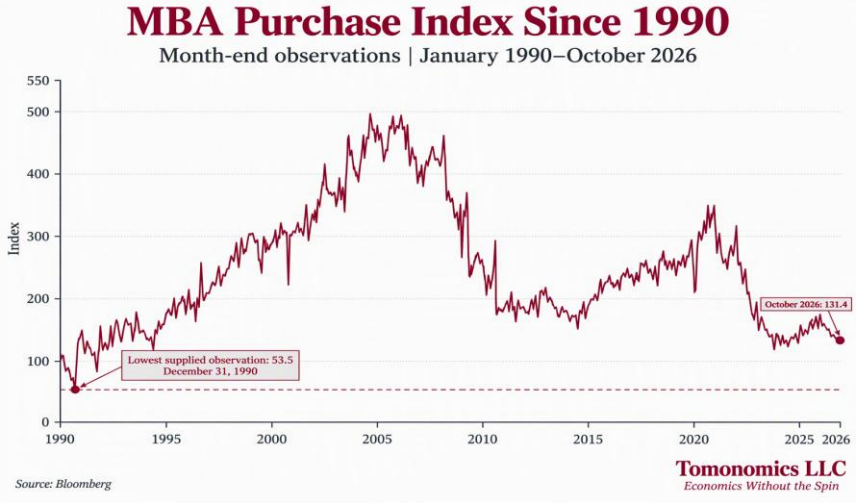
CONSUMER CRACKS

"I'm not excelling in the way that I want to. Budget-wise, I'm just doing what I can to survive. I've seen the Democratic party fail us before." — Mariam Khan, hired as a software engineer. She voted for Democrats on Tuesday.

One must wonder at what point Kevin Warsh will give up on his rosy economic narrative. Not just the tightening in financial conditions, which he recently acknowledged, but also all the doubts now being placed on the future trajectory of the AI spending boom.

And tack on the fact that the consumer is starting to look a little squishy soft. Auto sales dropped -2.7% month over month in October to a 15.5-million-unit annual rate — that followed a -3.5% reversal in September, down in three of the past four months, and back to a nine-month low.

Not to mention that even with the bond-induced decline in market interest rates, mortgage applications for a home purchase declined -2% in the last week of October, faltered in eight of the past nine weeks, and are running -20% on a year-over-year basis. All it took was the Fed to nudge the futures markets to price in four hikes and move just once to cause the rate-sensitive sectors to completely roll over.



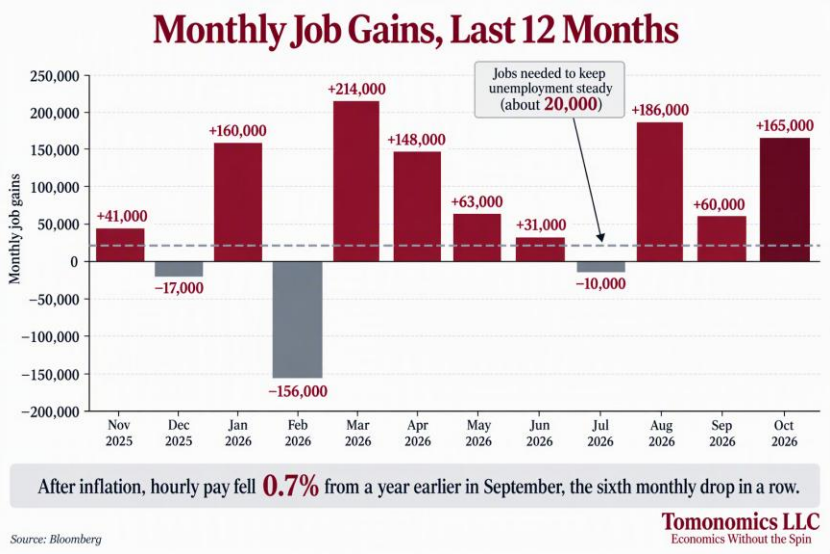
And just a day after McDonald's announced a dip in its year-over-year comparable sales in the United States, Papa John's logged weaker-than-expected quarterly sales and cut its full-year outlook. What does it mean when Americans curb their appetite for Big Macs and pepperoni pizzas? Maybe it's all Ozempic's fault.

Finally, about that supposedly "hot economy", Disney announced a 20% cost-cutting plan that includes job cuts. For a company tied closely to consumer spending, that hardly screams strength.

Bottom line: Falling auto sales, weak mortgage demand and softer restaurant spending point to a consumer losing steam. Disney's cost cuts add another warning. **This is not proof of a recession, but it hardly supports the "hot economy" story — or the case for another rate hike.**

STRONG HEADLINE. MIXED DETAILS.

October's jobs report beat forecasts by a mile. Employers added 165,000 jobs when economists expected 65,000. The Labor Department also revised August and September up by a combined 84,000. Millions of boomers have retired, and fewer immigrants come here now, so the economy doesn't need many new jobs to keep unemployment flat. The Budget Lab at Yale puts the breakeven pace at fewer than 20,000 net new jobs per month in 2026, **down** from more than 150,000 in 2024.

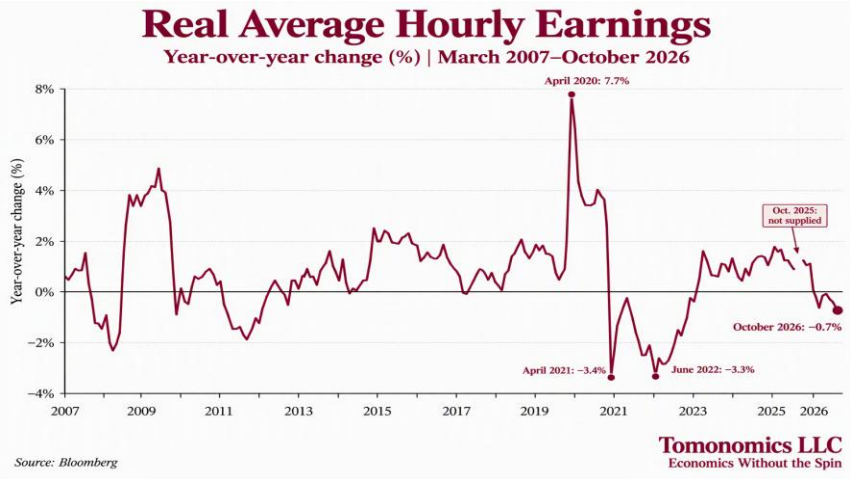


Unemployment fell to **4.1%**, versus the expected **4.2%**, even as participation rose to **61.9% from 61.8%**. But broader U-6 unemployment climbed to **7.9% from 7.6%**, a three-month high.

Wages also beat expectations. Monthly growth reached **0.4%**, the strongest since November 2025, versus **0.3% expected**. September was revised to **0.3% from 0.1%**. Annual growth slowed to **3.1% from 3.2%** but exceeded the **2.9% forecast**.

That said, wages still trail prices. After inflation, hourly pay fell 0.7% from a year earlier in September, the sixth monthly drop in a row.

Here's a little factoid: In 12 U.S. states, earning $100,000 a year can still put you in the lower middle class. In Massachusetts, $116,476 still counts as lower middle class. Even in Virginia, the cheapest state on the list, it's about $102,000. Six figures used to mean you'd made it.



Strong headline numbers. Much less convincing underneath. Four sectors generated roughly **80% of the gains**.

- Couriers and messengers: **17,400**
- Administration and waste services: **28,100**
- Education and health: **53,000**
- Professional and technical services: **32,900**

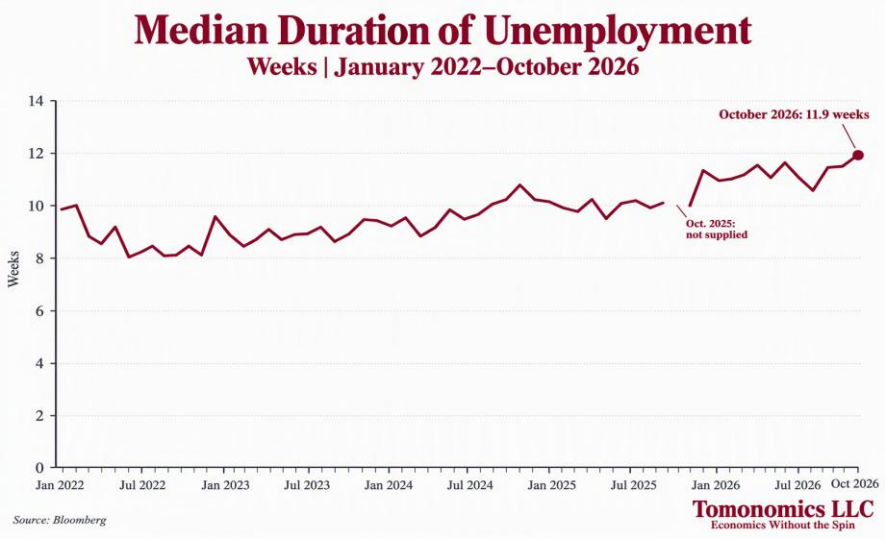
Meanwhile, leisure and hospitality lost **13,000 jobs**. Construction and retail/wholesale each lost **3,000**. Banking, information, rail, trucking and resources were essentially flat.

Also 100,000 jobs were attributed to the birth-death model.

The bigger warning is hours, not headcount. Part-time employment, because of slack business conditions jumped **356,000**, the largest increase in nearly two years. That group now totals 4.8 million.

Aggregate hours rose less than **0.1% for the second month**. So far in Q4, hours are growing at roughly **1% annualized** — a weak growth signal before allowing for productivity.

Finally, measures of long-term unemployment worsened, with the median duration of a jobless spell reaching 11.9 weeks, the longest since 2021. Labor-market turnover has been historically low for much of the last few years, which has made it difficult to find new jobs and led many to feel either locked out or stuck in place.



Bottom line: I wouldn't call this a hiring boom. Hiring beat expectations. But concentrated gains, rising involuntary part-time work and barely growing hours do not add up to an economy firing on all cylinders.

I expect the hawks at the Fed to use this report to push for a hike, and I think that would be a mistake for families who already lost ground. One strong headline does not settle the December rate decision.

MARKET OUTLOOK AND PORTFOLIO STRATEGY

I've been bearish on AI — and early. But it's possible that we have witnessed the peak in the AI boom. As such, September's rate hike still looks like a mistake: tightening into a slowdown. The economy looks strong until you strip out AI spending. Then growth turns negative. Jobs have held up, but a recession could accelerate AI-driven job cuts.

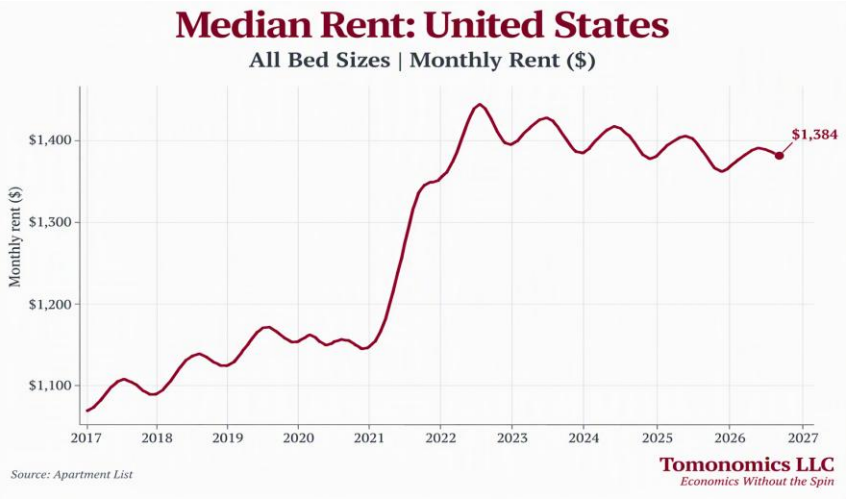
It also looks to me as though inflation has peaked. Oil prices are range-bound. The Trump tariff file will not be escalating. Unit labor costs are declining, which calls into question the veracity of the jobs data. The inflationary impulse from the construction boom on resource prices is now set to subside.

The 10-year Treasury Inflation-Protected Securities (TIPS) inflation breakeven levels are down to a three-month low of 2.23% and have plunged -15 basis points since late October; five-year/five-year forwards are down to 2.17%. Is the Fed aware of this as it continues to bark?

All good news for Treasuries. See "The Argument for Buying Treasury Bonds Is Still Strong" (*The Wall Street Journal*).

This week Inflation is the main event. October Consumer Price Index (CPI) comes out Tuesday, followed by Producer Price Index (PPI) on Friday. Markets put the odds of a 25-basis-point December rate hike at 77%.

Headline CPI is expected to rise 0.3% from September, with core up 0.2%. The year-over-year comparison will be messy because last October's shutdown left gaps in the data. Another strong core reading, especially beyond volatile items like airfares, would make a December hike almost certain. But don't lose sight of the cooling underneath: Rents on new leases are generally falling, and core CPI excluding shelter was up just 2.0% from a year earlier in September.



Friday's PPI report offers another inflation check. Expectations call for a 0.4% monthly increase in headline prices and 0.3% in core. Both would be below September's jumps of 1.3% and 0.7%, respectively, but still elevated.

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

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 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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