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INVESTMENT SERVICES

Weekly Relative Value



Tom Slefinger
Market Strategist

WEEK OF NOVEMBER 16, 2026

This Too Shall Pass

EXECUTIVE SUMMARY

Hot inflation, but not a new inflation cycle. October's CPI report showed renewed services price pressure, keeping the Fed hawkish; the base case remains a 25-basis-point December hike. Yet falling commodity prices, lower inflation expectations and weak real wages support the view that this is a bump in the road—not a derailment of disinflation. Meanwhile, higher borrowing costs are squeezing housing affordability, and resale prices decline for a fourth consecutive month. Rising supply and weakening demand point to further downward pressure on housing prices.

Structural risks add to the growth challenge. Social Security's fiscal 2026 deficit further eroded the trust fund; projected depletion by mid-2032 could bring a 23% benefit cut without congressional action. AI investment is another vulnerability: Capital spending holding near $800 billion could leave 2027 real GDP growth at about 0.4%, rather than 2.4%. Investment need not fall to weaken growth—it only needs to stop rising.

Portfolio strategy: stay disciplined and buy on dips. Tightening has already been delivered through higher yields and borrowing costs as a larger growth threat than the next Fed move alone. Weaker demand and restrictive monetary and fiscal policy could lower hike expectations and support shorter-term bonds. Credit unions should stay the course, buy on dips and maintain risk-appropriate duration exposure.

Last week's October Consumer Price Index (CPI) report was NOT the CPI report bond bulls wanted to see. Headline CPI rose 0.4% in October and core increased 0.3%. Both were a tenth hotter than expected. More importantly, the trend is moving the wrong way. Headline CPI has now risen 0.4%, 0.6% and 0.4% over the past three months. That works out to a 5.7% annualized pace. Core CPI has increased 0.3% for three straight months, pushing the three-month annualized rate to 3.7%, the hottest since April 2024.

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THIS WEEK

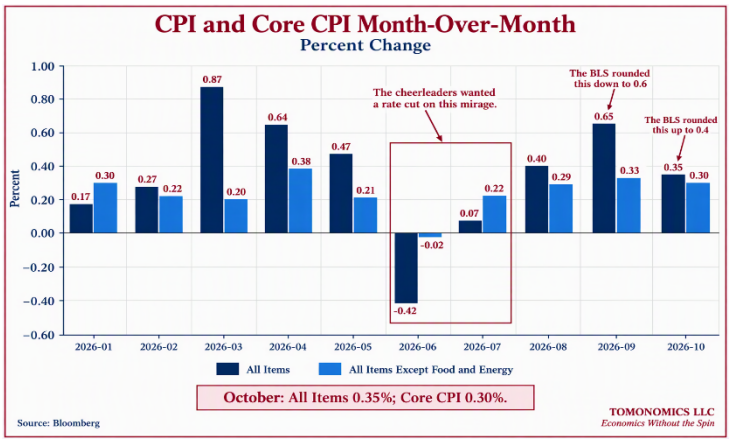
- HOT INFLATION, HAWKISH FED
- POLICY HAS CONSEQUENCES
- HOUSING UNDER PRESSURE
- SOCIAL SECURITY'S CLOCK IS TICKING
- HAS AI GROWTH PEAKED?
- RATE HIKES MEET SLOWER GROWTH
- BONDS STILL LOOK ATTRACTIVE
- STAY THE COURSE. BUY THE DIPS.
- MARKET OUTLOOK AND PORTFOLIO STRATEGY

SUBORDINATED DEBT: (SIMPLIFIED)

Partnership has its perks.
Hand over the hard parts.

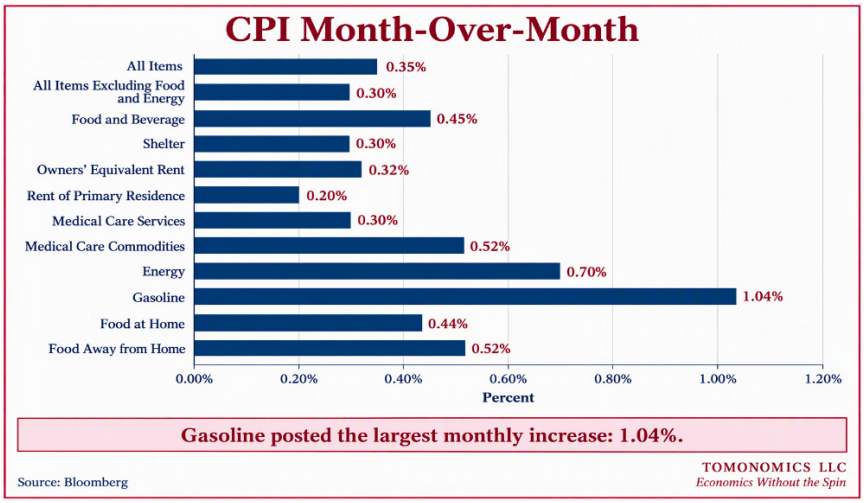
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Not good.

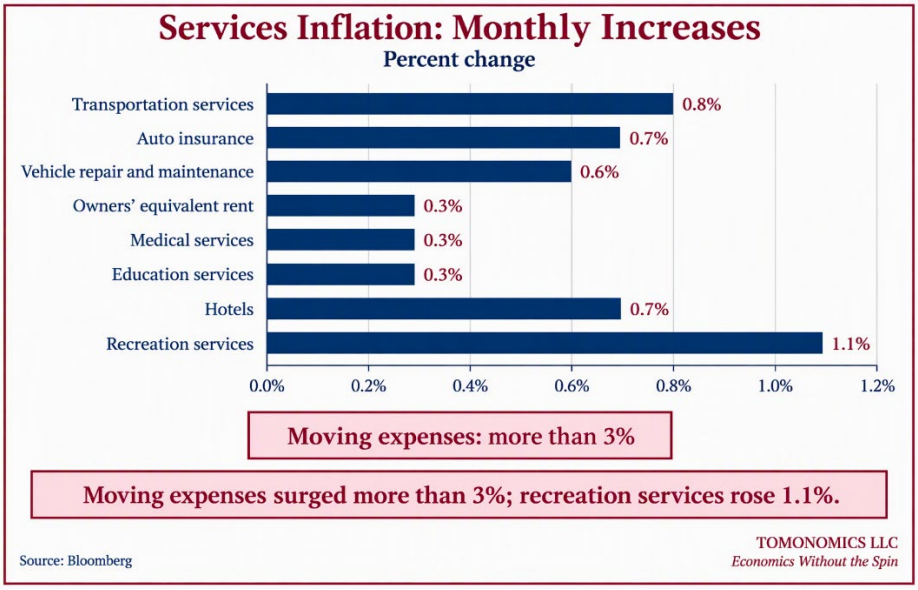
Notably, energy rose 0.7% (gasoline was up 1.04%), while food jumped 0.5%, matching the largest increase of the year.



Goods were not really the problem as core goods prices increased by less than 0.2%.

Services were the problem.

Transportation services jumped 0.8%. Auto insurance rose 0.7%. Vehicle repair and maintenance increased 0.6%. Moving expenses surged more than 3%. Owners' equivalent rent rose 0.3%, while medical and education services also increased 0.3%. Hotels rose another 0.7%, and recreation services jumped 1.1%.



The big driver behind the hot inflation in services was "super-core services" that exclude housing services, and that is a bad sign that inflation has spread deep into the services economy beyond housing. Year-over-year, the core services CPI accelerated to +3.4%. Since the beginning of 2020, the core services CPI has surged by 31%.

In other words, this was not just an oil story. That puts the Fed in a tougher spot. Chris Waller has already raised the possibility of a 50-basis-point hike in December.

> *"But if the October CPI inflation data out later today are similar to the past two monthly readings — with core CPI inflation around 0.3 percent or even higher — then a stronger policy move may be needed.* ***In that case, I believe a 50-basis point hike in the policy rate should be considered at the December meeting. Hiking only 25 basis points would put our credibility at risk, a risk I am not eager to take."***
>
> *— Fed Governor Christopher Waller*

Chicago Federal Reserve Board (FRB) President Austan Goolsbee weighed in with his thoughts, calling the CPI report ***"borderline disturbing"*** and said ***"everything is on the table"*** for December.

The latest salvo came from New York Fed President John Williams, who exclaimed that, "***inflation is far too high, and it continues to be high even in the latest data* [...] *we still have work to do.*"**

A 50-basis-point hike is clearly in play. That said, the CME FedWatch, as of November 13, 2026, shows a 11.5% probability of a 50-basis point hike. A 25-basis-point hike is priced at **nearly 100%**, with essentially no probability assigned to no change. So, Waller, Goolsbee and Williams may be talking tough, but the market isn't buying the bigger move.

The Fed also remains haunted by its "transitory" mistake in 2021 and 2022. It does not want to make that mistake twice. Unless stocks weaken sharply or oil continues to fall, the risk has clearly shifted toward a more hawkish Fed in December.

For bond investors, that hurts. Treasury yields have moved higher again. The 10-year Treasury yield surged +27 basis points over the last four trading sessions. The two-year yield shot up +14 basis points to 4.88% at the close, up +37 basis points over the last four trading sessions.

That 0.3% core CPI increase was not good, but I think the Fed's reaction was overdone. I view this as a bump in the road, not a change in the longer-term story.

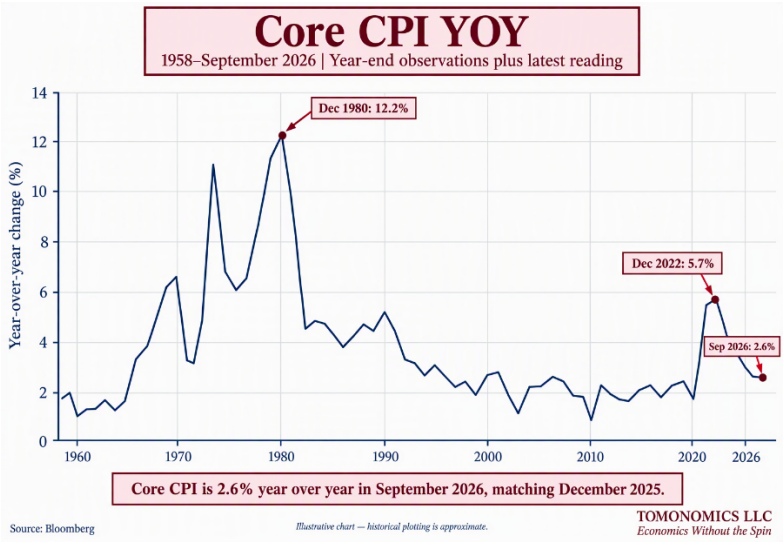
A big bump, yes. But not a derailment.

If oil, gasoline, diesel and other commodities were still climbing, I would be more concerned. They aren't. Commodity prices are falling, and those markets tell us more about where inflation is going than yesterday's backward-looking CPI report.

The bond market seems to agree. Despite the hot CPI, 10-year Treasury Inflation-Protected Securities (TIPS) inflation expectations fell another 2 basis points to a four-month low of 2.20%.

I am not seeing meaningful spillover into wages, which matters to me. What matters most is that consumers cannot keep absorbing higher prices without stronger incomes. Real wages have been flat or falling for months. That eventually puts a ceiling on inflation.

Taking a step back. Core inflation has already fallen dramatically from its 6.6% peak in 2022 to below 3% today. And there is no tolerance among monetary policy makers or the voting public for inflation. As we saw in both the 2024 and 2026 elections, inflation is political suicide.



Bottom line: The CPI report was hot, no question, and will keep the Fed hawkish, **but I think the Fed is overreacting.** Oil and commodities are rolling over, and 10-year inflation expectations have fallen to 2.20%. Real wages remain weak, too. That doesn't look like the start of another inflation spiral to me. **A bump in the road? Yes. A derailment? I don't think so.**

They will hike 25 basis points in December and raise their expectations for 2027 hikes at that meeting. It is bad news for bond bulls in the short run. But one hot report does not make a new inflation cycle.

This too shall pass.

ACTONS HAVE CONSEQUENCES

Clearly, years of rapidly expanding debt and money printing have created an inflationary backdrop, but there's more to the inflation story.

> *"Starting on day one, we will end inflation and make America affordable again, to bring down the prices of all goods." — President Donald Trump*

Now, I don't want to get political, but I've gone on record many times saying that inflation would likely be at or below the Fed's target of 2% had it not been for ill-advised and self-inflicted policy decisions. Here are a few ways government policies have created this inflationary backdrop.

- **Tariffs and trade wars**: Every economist with a pulse was telling us these would slowly appear in prices. Then they did!
- **Oil wars in the Mideast**: An input cost to everything, raised on a whim under delusions of "regime change" making Trump the third consecutive Republican president to start a war in the Mideast.
- **Immigration policy:** Instead of an immigration bill with enforceable laws and solid controls, we got performative street roundups that disrupted agriculture, construction, transportation and other industries. And we did it to ourselves amid a falling labor participation rate due to demographic graying, accelerating the shortage of workers versus dependents that was coming in a few years anyway.
- **Fiscal irresponsibility via the Big Beautiful Bill**: Massive tax cuts led to **i**nsane fiscal deficits, and debts at the peak of the economic cycle led to higher and higher interest rates, which are also an input cost into everything.

Bottom line: Despite the President's promise to lower prices on day one, this President and this Congress could hardly have governed in a more inflation-juicing manner if they'd made it an explicit policy goal.

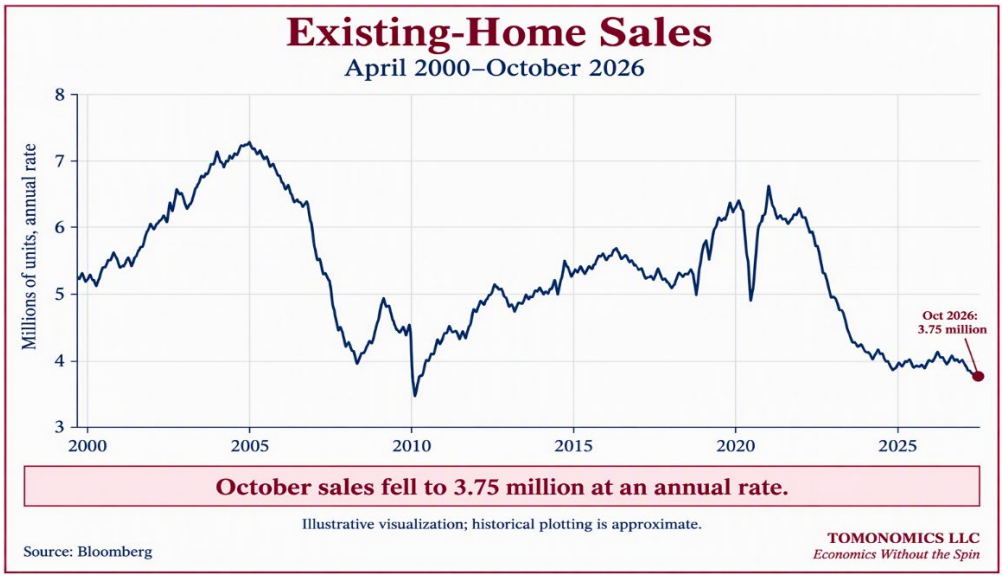
HOUSING: MORE LISTINGS, FEWER TAKERS

> *"In the near term, the higher interest rates sometimes needed to cool the economy and keep inflation in check can make homes more expensive to buy and to build…But over the longer run, stable prices create predictable economic conditions that are good for housing." — Federal Reserve Bank of Boston President Susan Collins*

The bond-induced run-up we have seen in mortgage rates continues to backfire in the housing market, with existing home sales in October disappointing with a -5.5% sequential decline to 3.75 million units at an annual rate.

At 3.75 million units, sales are now at a 16-year low, and it really says that this matches the worst levels we experienced in the 2008-2009 Great Recession.

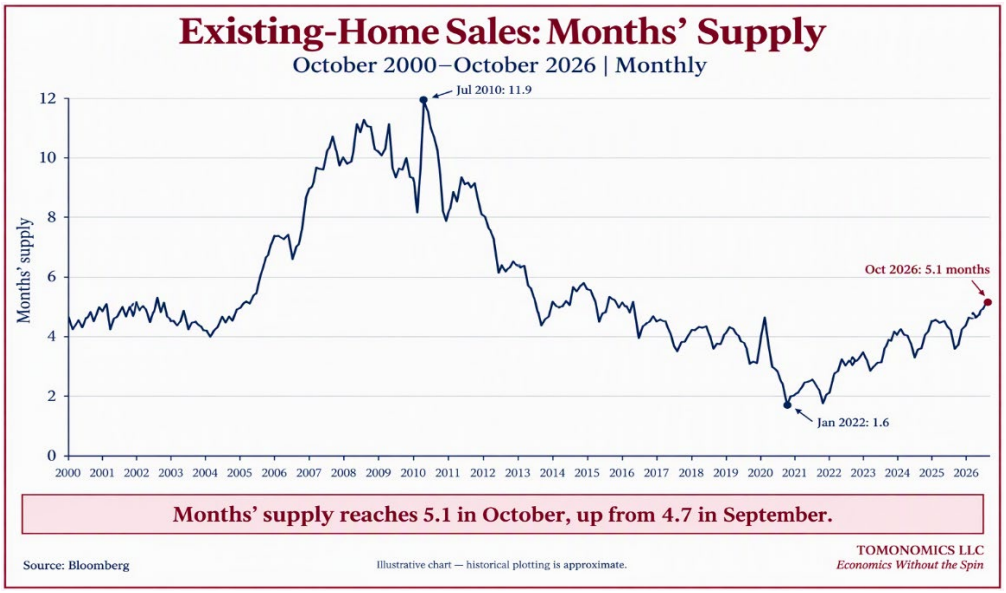
Good thing we have this AI data center construction boom on our hands, where activity is up a resounding +90% over the past year at the same time that home sales have cratered nearly -9%. Regionally, the west and the south, the former hot spots for residential real estate, are now under the heaviest pressure.



The decline in demand is showing through in lower-median housing values, which dropped -0.4% month over month in October and are now riding a four-month losing streak for the first time in three years. At $416,700, this is the lowest since last March and is virtually flat on a year-over-year basis. For all the inflation chatter, not much of it is in the real estate market.



There is also a supply dynamic at play because the number of homes available for sale jumped +1.3% in October at the same time that sales dropped unexpectedly — that took the unsold inventory backlog up to 5.1 months' supply from 4.4 months a year ago — to stand as the most oversupplied residential real estate market in 11 years. This mismatch between supply and demand will only serve to reinforce the looming deflationary forces in the U.S. housing market.

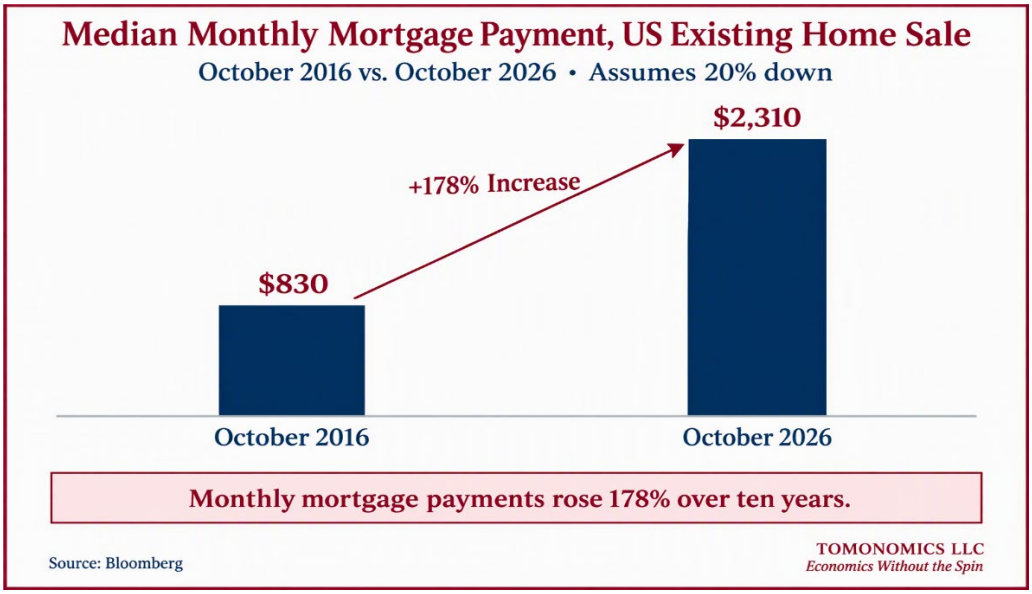


Upcoming rate hikes will only add fuel to the fire, exacerbating the declining demand by making homes even more unaffordable than they are now. Indeed, the National Association of Realtors Affordability Index, courtesy of high home prices, mortgage rates and soft income growth, has receded to its lowest level since August 2025.

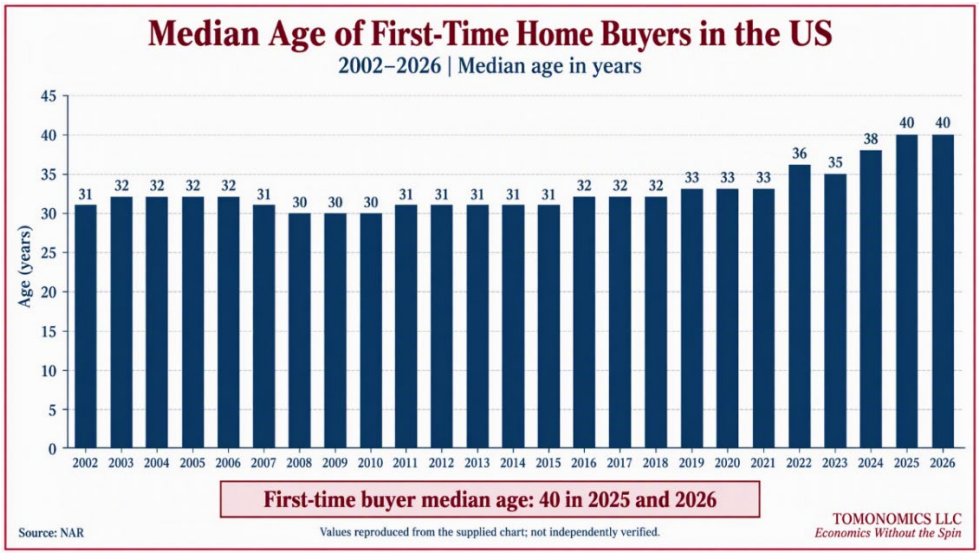


Here's a simple way of quantifying how much more expensive homes are today than 10 years ago. In 2016, the 30-year mortgage rate was 3.4%, and the median existing home price in the U.S. was $234,000. Today, the 30-year mortgage rate is 7.4%, and the median existing home price is $417,000.

Result: $37,000 increase in down payment (assuming 20% down) and 178% increase in monthly payment (from $830 to $2,310).



With affordability out of reach for so many, it's hardly a shocker that the median age of a first-time home buyer in the U.S. has risen to a record high of 40, up from 32 a decade ago. The housing affordability crisis is delaying the American Dream for an entire generation.



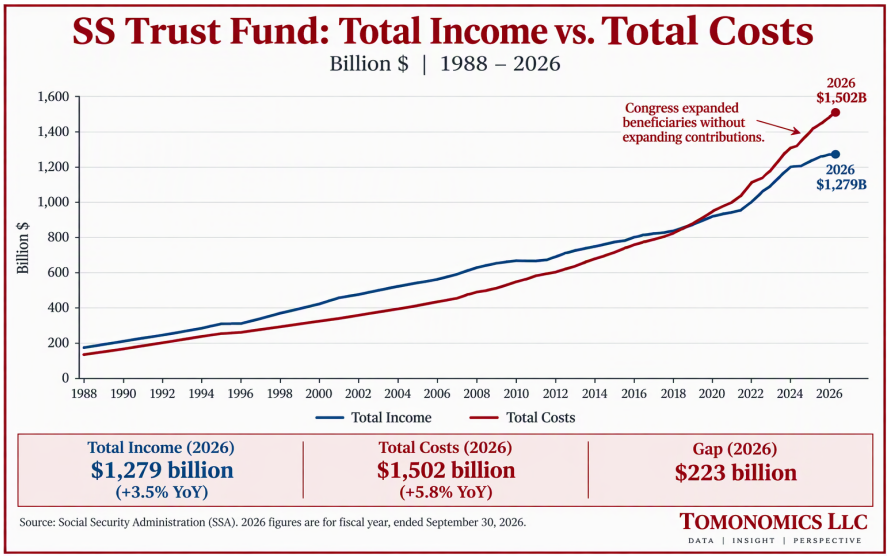
Bottom line: More homes are sitting on the market, fewer buyers can afford them and prices are slipping. Rising inventory and weakening demand point to more downward pressure on housing prices, not another inflation surge. Further rate hikes would only deepen the affordability squeeze.

SOCIAL SECURITY: THE CLOCK IS TICKING

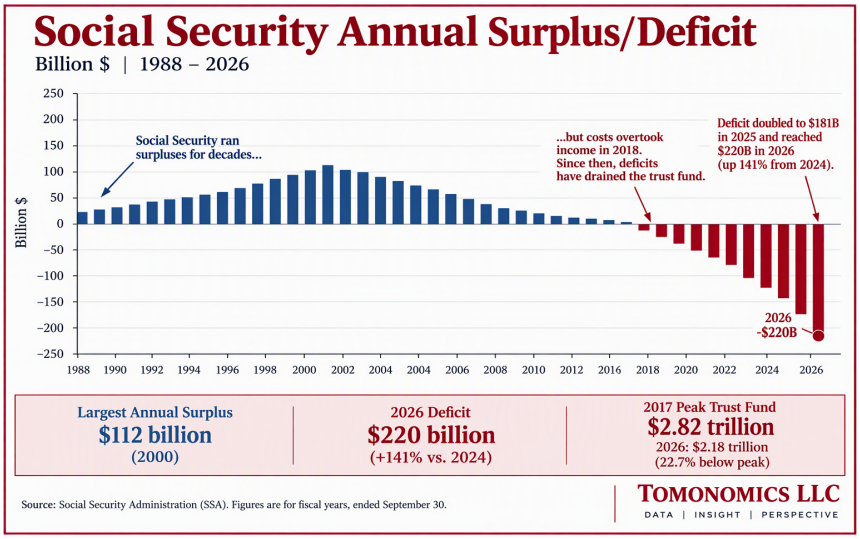
Congress needs to fix Social Security as the hole keeps getting deeper. For decades, Social Security took in more than it spent. That ended in 2018. Since then, deficits have eaten into the trust fund.

The Social Security Administration's numbers for fiscal 2026, which ended September 30, say it all:

- Income rose $43.5 billion, or 3.5%, to $1.28 trillion (blue).
- Costs rose $83 billion, or 5.8%, to $1.50 trillion (red). That's a 16% increase in just two years.



The deficit doubled to $181 billion in fiscal 2025, partly because of retroactive payments and higher benefits under the Social Security Fairness Act. In 2026, it hit $220 billion, up 141% from 2024.



The trust fund lost $220 billion, or 9.2%, in fiscal 2026. It ended September at $2.18 trillion, which is $640 billion, or 22.7%, below its 2017 peak.

Congress has fixed this before. In April 1983, Social Security was months from insolvency. Both parties agreed on reforms, and President Reagan signed them into law. It wasn't easy, but they got it done.

Now, the Trustees and the Congressional Budget Office expect the trust fund to run dry by mid-2032 without changes. Retirees could face a 23% benefit cut unless Congress pays for the shortfall from the general budget.

Waiting won't fix this. It just makes the hole deeper and the choices harder. Recent proposals have gone nowhere. Several small changes could add up over time. Congress needs to stop delaying and act.

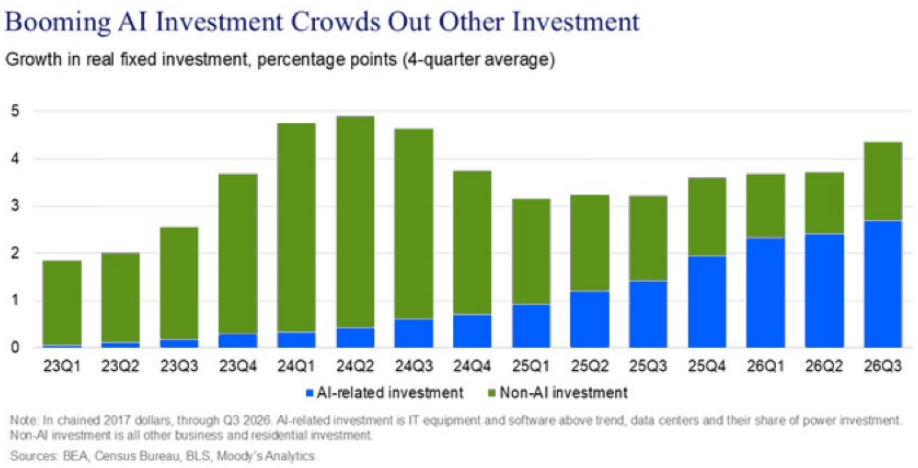
Bottom line: Social Security is spending more than it takes in, and the trust fund is shrinking. Without reform, the projected depletion of the trust fund by mid-2032 could leave retirees facing a 23% benefit cut unless Congress funds the shortfall. **The longer Congress waits, the harder the fix becomes. The clock is ticking.**

HAS AI GROWTH PEAKED?

> ***"AI is not going away, but it's a bubble that's going to unwind."***
> *— Crescat Capital's Chief Executive and Chief Investment Officer*

AI spending is holding up growth. Without it, the economy looks recessionary.

AI has been a boon to economic growth, but it's coming with side effects. It's adding to inflation by driving up electricity and consumer electronics prices and pushing up interest rates by soaking up capital to finance the AI build-out. It's also coming at the expense of other investments. **Since ChatGPT debuted four years ago, AI has gone from a rounding error to nearly two-thirds of the growth in investment, while growth in everything else has slowed by more than half since mid-2024.** The bet on AI had better pay off in higher productivity, because the rest of the economy isn't investing enough to deliver it.



Meanwhile, investors are now favoring those companies that reduce capital spending. But one company's spending is another's revenue. Cutting back could mean weaker profits and lower stock prices. That, in turn, could hurt consumer spending.

Here's the risk: Spending doesn't have to fall; it just has to stop rising. Estimates show that if AI capital spending stays near 2026's roughly $800 billion, projected real GDP growth for 2027 could drop from 2.4% to about 0.4%. Simply put, another $800 billion next year would add no new growth from AI investment.

Whether companies pull back to please shareholders or face delays from local politics, the risk is the same: slower investment. Add weaker consumer spending from falling stock prices, and growth could stall.

Bottom line: AI spending does not have to fall to weaken growth, it only has to stop rising. A plateau in investment, whether driven by shareholder pressure or project delays, could leave the economy with much less momentum. **If weaker stock prices also weigh on consumer spending, growth could stall.**

MARKET OUTLOOK AND PORTFOLIO STRATEGY

The 10-year Treasury yield jumped nearly +30 basis points to 5.15%, and the 30-year is almost 5.5%. That's one of the worst weeks for bonds since April of last year. Since February 27, the 10-year Treasury yield is up over 100 basis points. Likewise, the 30-year mortgage rate has climbed from 6.11% on February 27 to 7.18%. The rate shock is already working through the economy and tightening financial conditions.



Moving on. It's a big week for tech. Nvidia's earnings and the Anthropic initial public offering (IPO) are in focus**.** What's the price tag for Anthropic's estimated $1.4 trillion offering? Goldman Sachs, the leading IPO bank, privately told investors last week to expect cash burn of more than $65 billion next year and another $41 billion in 2028.

That is a huge bet on AI infrastructure. Anthropic's prospectus puts its bill for chips, power and other computing infrastructure at $900 billion over the next two decades to develop more advanced AI models.



Overall, the AI space needs to provide firm proof that its massive investment binge will provide the lofty **a priori** investment returns, now cast in doubt. The markets have clearly begun to question the scale of the AI buildout, notably

the efficacy of the largest capex boom for any breakthrough technology relative to GDP in modern history. Consider that of the $1.2 trillion of capex spent by the handful of mega-cap hyperscalers over the past two years, the revenue stream has come to just $227 billion thus far. Just a cool trillion to cover all the expenditures.

Nvidia does more than sell AI chips. Under Jensen Huang, it also financed customers and set the technology standard. Huang personally decided who got scarce chips, based on his relationships with Musk, Altman, Zuckerberg and government AI programs. **All of that ran through Huang. His departure puts each role under pressure at once. The biggest risk may be the financing. Nvidia invests in its customers or guarantees their obligations. That loop loses its anchor without him.**

It goes without saying that AI investment has been a major driver of U.S. economic growth. If financing tightens and spending plans slip, as I'm sure they will, growth will slow just as the Fed is hiking. Not to mention the wealth effect on spending. Seeing as Nvidia carries such a large weight in index funds, its slide also hits household wealth, keeping in mind that the top 20% of the income strata has been responsible for around 60% of consumer spending growth. The bottom 80% are hanging by a thread and limiting their budget to essentials.

Despite the rising concerns about AI and its impact on the economy and markets, bond markets are stuck **because all Federal Open Market Committee (FOMC) officials are tripping over themselves on the hawkish rhetoric front:**

- New York Fed President John Williams: **"Inflation is far too high."**
- Chicago Fed President Austan Goolsbee: **"The CPI report was borderline disturbing."**
- Dallas Fed President Lorie Logan: **"Excess inflation is unacceptable."**
- Boston Fed President Susan Collins: **"The appropriate direction for monetary policy is clear."**
- San Francisco President Mary Daly: **"We're going to need to, in all likelihood, raise rates."**
- Fed Vice Chair Philip Jefferson: **"I remain concerned about the risk of higher energy prices leading to a persistent rise in inflation more broadly."**
- Kansas City Fed President Jeffrey Schmid: "**Inflation is moving in the wrong direction."**

Schmid says, "The Fed does have the tools to address inflation." No argument there. But without lower energy prices, getting headline inflation to 2% would require a fed funds rate as high as 6%. Watch how stocks, bonds, credit and commodities react to that prospect.

Here's the problem: Central banks are raising rates against supply shocks, not overheated demand. That rarely ends well for markets or the economy.

That said, based on all the Fed commentary late last week, it's hiking on December 9. Expect a hawkish hike. These guys are not stopping until something breaks, because it is going to take a long time to get to the +2% target and a whole lot of pain, seeing as it is the stickiest items like diesel and food that are going to be the toughest to address. And in fact, there is nothing in the Fed's toolkit to attack essentials like food and fuels, which means it is going to have to deflate the other 80% of the pricing pie.

By focusing solely on headline Personal Consumption Expenditures (PCE) inflation, being driven principally by items beyond the Fed's control with its blunt instrument called interest rates, it is going to set us up for a winter of discontent.

With three full hikes of +25 basis points priced in by September 2027, the negative impacts of interest rates will only grow from here. Tack on the fact that fiscal policy is going to turn restrictive in 2027, and both major policy levers (monetary and fiscal) are reducing growth at the same time.

For bond investors, the message is simple. Softer data could pull mid-2027 hike expectations lower and bring easing expectations forward. That would support bonds.

Finally, guess what? Despite the rise in yields, I still like bonds. Here's some basic bond math. If you were to invest in a 10-year Treasury today, and if yields fall back to 4.25% over the next year, your total return is about +12%. Even if yields rise another half point, you still come out slightly ahead with a net positive return of +1.7%. I find that tradeoff rather compelling.

While the near term is decidedly volatile, I believe credit unions buying longer duration Treasuries will be well rewarded in the months and years to come. As for the AI zealots, the warning signs have been there all along. Speculators will be punished.

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

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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 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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