Weekly Update

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- Election is front and center
- Conflicting data, but not much action, except in Earnings!
- We expect Volatility, but ultimately back to Calm.
- What happened to reshoring/nearshoring?
- Employment falls, weather is the scape goat
- Housing improving slightly
- Business surveys are still split (Manu bad, Services good)
- But Business Spending is still ok
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	5,713	-1.9%	20.9%	34.1%
QQQ	$486.01	-1.9%	19.2%	34.6%
US 10 YR	4.29%	4.29%	3.88%	4.65%
USD/DXY	103.9	104.3	101.3	105.2
VIX	22.0%	19.8%	12.5%	14.9%
Oil	$71.46	6.2%	-0.4%	-11.3%

*10yr, DXY, and VIX are levels not changes
** Oil is front month futures, beware

The narratives have seemingly all converged, yet again. Obviously, the election is front and center. With a more varied mix of polling, some of the Trump trades have cooled. Notably, the 10-year US Treasury yield has stopped going up in a vertical line (that is not to say rates have really cooled by much). The USD has also leveled off after a strong 4% gain in the month of October. Equities had steadied near all-time highs, but the meat of Earnings season has shaken up the market. It seems that the mega caps that were not as loved fared better than the popular names despite earnings being pretty good across the board. This tells us there was a lot of repositioning. People do not want outsized bets going into the election. Full circle, indeed.

The market is still trying to figure out the driving force in the huge move in interest rates. Have rates gone straight up (since the recent Federal Reserve rate cut) because the economy is so strong? Or are inflation fears trickling back? Or is it the fiscal deterioration with both political parties showing no signs of curtailing spending? We lean towards inflation fears even though the recent data has been benign (our fears are rooted in changing

base effects and a potential increase in global commodity prices). And other data is mixed. The economy barely eked out any job gains in October (skewed by the bad weather). Housing has shown some signs of life even with the higher interest rates. Business surveys remain lousy, but business spending is still decent (actions speak louder than words!). Of course, the Federal Reserve is going through this same thought exercise. We do not expect any change in policy (they are loathe to change their minds, and there are enough cracks in the labor data to risk a return of some inflation).

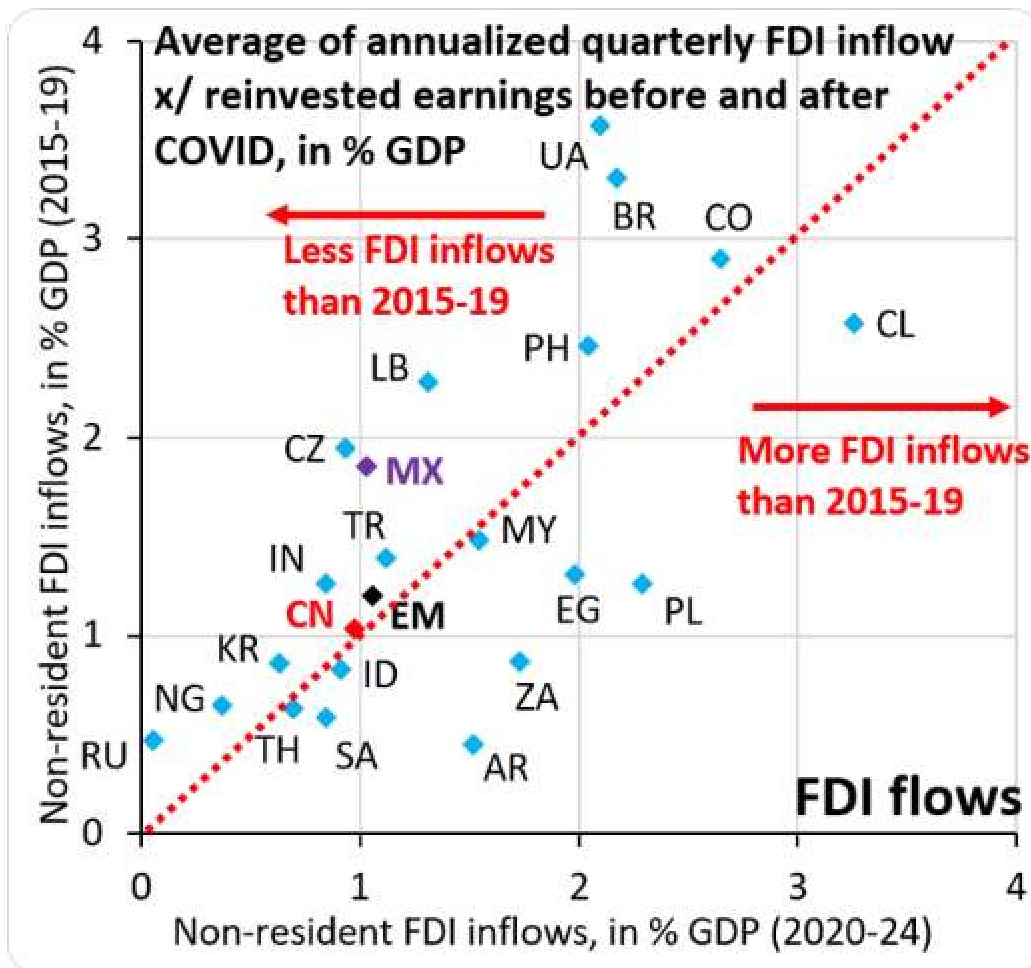
Some pundits dismiss the volatility in interest rates completely. They say stocks are more sensitive to high yield spreads than risk-free rates (Treasuries). And we will only get a move in spreads when we have greater confidence in policy (monetary and fiscal). Again, the short-term comes back to politics (monetary policy is often political despite what the Fed says).

As for our inflation fears (worry might be a better word than fear), oil is certainly not playing a part. The market was shocked that Israel did not retaliate as aggressively against Iran as feared. Oil prices were hit hard (about -5%, natgas prices fell about 8%). We never believe there is a "war premium" when it comes to the Middle East…especially not right before a US election. We think weak oil prices is just another Trump trade (lower regulation could lead to more production pushing down prices). But as we have said before, it might just be that outlier signal of recession (not our base case, but we do not dismiss it outright).

Ultimately, we expect volatility coming out of the election in the short term. Barring some crazy, drawn-out fight (which is certainly not a 0% chance), we think things will calm down. The market might race further ahead on a Trump victory because of the prospects for lower taxation and fewer regulations. But a Harris win coupled with a Republican Senate will fit that much sought after gridlock scenario. As for the people on TV and Twitter screaming at each other, that will never end.

- What happened to reshoring/nearshoring?

This is an interesting chart (from Robin Brooks on X). Countries to the left of the red line have less Foreign Direct Investment (FDI) in the 2020-2024 window compared to 2015-2019. China is exactly the same in both windows (right at 1% of GDP). Mexico FDI has almost been cut in half (from about 1.8% to 1%). We can understand that some investors have been skittish with the new government in Mexico. But this does not explain the five-year data. We have a small long in Mexico predicated on this theme. We believe this will change (Mexico will receive more foreign investment). But we certainly want to dig into this further.



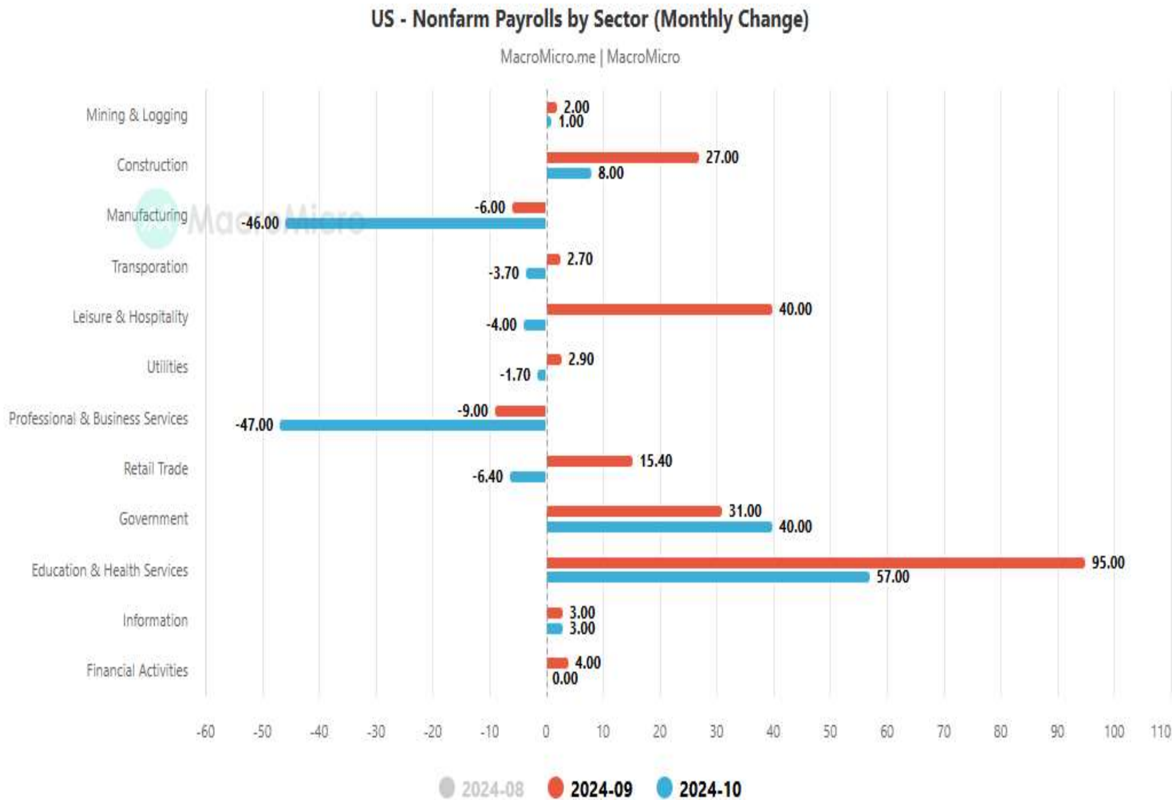
- Employment falls, weather is the scape goat

The October Nonfarm Payrolls number was a massive miss with only 12k jobs gained compared to the 223k added in September (which was revised lower from 254k, and August was revised down by 159k from 237k to 78k). Private Payrolls were negative for the first time in over 20 years excluding the Virus Fear. Needless to say, Manufacturing jobs fell -46k. Of course, 40k Government jobs were added. Average hourly Earnings increased a hair to 0.4% (or rather, the previous month was revised lower). Of course, the hurricanes in the Southeast shoulder much of the blame for the reduction in new jobs (the hurricanes are thought to have reduced the number of new jobs by 100k).

On the Household survey (the one that calculates the Employment rate…the number of people working vs the number of jobs being worked), the Unemployment Rate increased a touch from 3.9% to 4.0% (September was originally 4.0% but it was revised down). The Labor Participation fell a tick from 62.7% to 62.6%. The impact from the hurricanes and strikes was even greater in terms of how many people were working. 512k people were not at work because of bad weather. The strikes were responsible for 22k people not at work.

As a whole, Employment fell almost 400k in the Household survey. The labor force shrunk which kept the Unemployment Rate relatively unchanged.

Here is the dispersion of jobs gained/lost in September (red) and October (blue) courtesy of MacroMicro. Manufacturing and Business Services stand out. Even discounting the impact from the weather and strikes, this was a pretty bad employment report. On the year, total full-time jobs have decreased by almost 400k.



The Job Openings and Labor Turnover survey (JOLTs) showed openings fell to 7.44mm form 7.86mm. The steady decline continues (as we have said a million times). Quits are also continuing to fall.

- Housing improving slightly

New Home Sales improved 4.1% on the month (Sept vs Aug). The annualized 738k is near the high for the last 18 months. The trend is still below the pre-Virus trend. This data closely tracks Housing Starts (obvious).

Pending Home Sales also increased with a 7.4% gain on the month. This data series is particularly volatile, but this was one of the strongest monthly gain since the Virus Housing boom.

Weekly Mortgage Applications were flat on the week.

This data is positive given the higher interest rates.

- Business surveys are still split (Manu bad, Services good)

The early look at the October S&P Composite PMI improved a touch. Both Manufacturing and Services ticked high. Manufacturing sentiment remains in negative territory, and Services remain robust. The ISM Manufacturing PMI fell to 46.5. After the two-year downtrend in 2021 and 2022, this survey data has been flat for the last year (still bad).

The Kansas City Fed Manufacturing index improved slightly but is still negative (-8 to -4). The same goes for Dallas Fed Manufacturing (-9 to -3).

- But Business Spending is still ok

Durable Goods fell -0.8% in Sept vs Aug. This is the same drop as August and slightly better than expected. The Core Capital Goods (aka business spending) increased 0.5% (vs 0.3% last and 0.1% expected).

- Other data is better
  - Weekly Redbook Retail Sales bounced 5.6%. The trend is still reasonably strong.
  - Jobless Claims cooled again down to 228k and 216k over the last two weeks (down from 242k). Continuing Claims, on the other hand, are still ticking higher albeit not in a straight line.
  - Consumer Sentiment (U-Mich) in October was unchanged as expected.
  - PCE inflation increased 0.2% in September. The "Core" increased 0.3%. These were slight upticks but expected. The annual rates are 2.1% (down from 2.3%) and 2.7% (unchanged).
  - 1-year inflation expectations remained steady at 2.7% vs 2.9% expected. 5-year expectations dropped from 3.1% to 3.0% as expected.
  - China's private Caixin Manufacturing PMI moved into positive territory (49.3 to 50.3) and beat expectations (49.7).

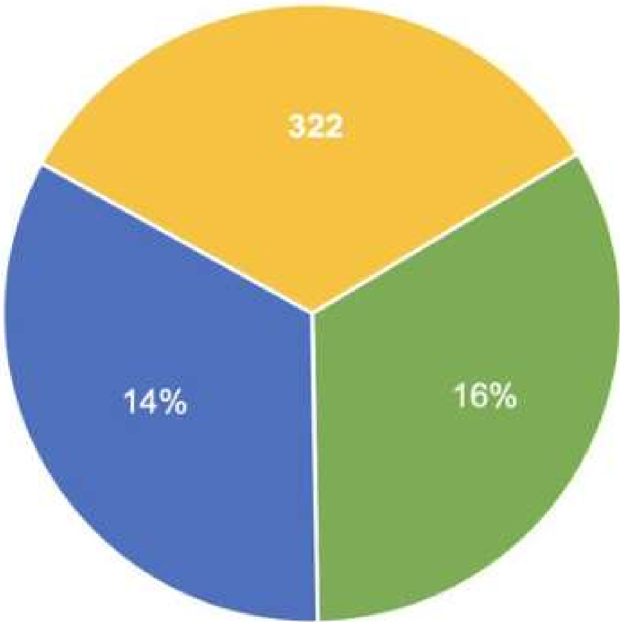
- Where did all the crypto money go?

Here's a warning about traditional finance gone wrong. A company called Synapse served as the front-man interface for a handful of banks. This Fintech would facilitate all the traditional functions of a modern bank: Lending, wealth management, online payments, credit card solutions, etc. The problem was (and still is), Synapse was not technically a bank. Apparently, Synapse had about 100 customer relationships. The bankruptcy court estimates that $200mm will finally be returned to depositors in December. Alas, there will still be a shortfall of about $75mm of customer money. Why did Synapse fail if it was just the middleman? Some of its larger customer partners (the banks) could not reconcile the account balances claimed by Synapse. Uh oh.

- Chart Crime of the week

This is from a public engineering company in Australia. We cannot even attempt to explain it…it is just nonsensical.

Addressable market share (truck trays only)



Total addressable home market truck bodies p.a.
% Share of world market p.a.
% Austin share of home market p.a.

- Not a Chart Crime

- Quick Hits
  - 31% of the Japanese population lives in Tokyo.
  - The expected increase in data center power usage by 2030 is likely to be equivalent to three New York Cities.
  - Sam Darnold has been tackled for a safety for three different teams in five years.
  - Tesla gained more market value on its earnings day than the total values of GM and Ford combined.
  - The Denver Broncos eat 700 Uncrustables a week.
  - The NFL consumes 80,000 Uncrustables during the season.
  - Notre Dame has more touchdowns at Met Life stadium than the Giants and Jets combined (both play their home games there).
  - Abercrombie and Fitch once paid its disgraced CEO $4mm to not use the corporate jet for more than $200k in personal use.
  - Russia has fined Google 20 decillion dollars.
  - A player named Will Smith has won the World Series five years in a row.
  - The Wild Free-Roaming Horses and Burros Act of 1971 allows for anyone in the US to get a free horse.
  - Dragonflies have almost 360-degree vision.
  - A great quote from Thomas Sowell: "There are only two ways of telling the complete truth, anonymously and posthumously."

Trading: We added to some of our Big Tech longs when they were hit after good earnings. We also bought some Energy as oil faded on the lack of a full-scale Israel-Iran war. We finished selling some of our Health Care. We added to Mexico. We think the political overhang is overdone at this point. We bought some Housing in the

US. We are usually the kiss of death in this sector, so beware. We added to our commodity long which is an inflation hedge.

TSLAQ: So, the Tesla earnings were perceived to be strong on improving margins. Of course, all the financial levers were pulled after the We Robot flop. This is wonky accounting stuff, but Hedgeye does a good job breaking it down. The company is putting expenses on the balance sheet (called "capitalizing expenses"). Pre-paid expenses are booked as a current asset, and they have doubled in the last year (on flat revenue). Account Receivables are up 25%. Depreciation is running at half capex. Of course, R&D was slashed. And Expenses in SG&A are down. None of this jibes with a so-called growth company. Not to mention, a large percentage of earnings are still derived from selling regulatory credits which are going away soon (since other car companies are selling EVS and do not need to by these credits…what a racket). But none of this might matter in the short term. Musk has squarely hitched his wagon to Trump. If Harris wins, Musk's empire will be attacked from all angles. If Trump wins, Tesla will still be a car company (with an even more distracted CEO).

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