



Weekly Update

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- The Fed freak-out was equity volatility panic
- Bond Volatility and High Yield Spreads told us there was no panic
- Positive economic data certainly helped the bounce
- Inflation cools a bit
- Are people getting used to higher mortgage rates?
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week
- Merry Christmas

	Last	5d %	YTD %	1yr %
S&P 500	6,040	-0.2%	28.3%	28.9%
QQQ	\$539.96	-0.9%	30.2%	30.8%
US 10 YR	4.59%	4.52%	3.88%	3.90%
USD/DXY	108.3	108.3	101.3	101.2
VIX	14.3%	27.6%	12.5%	13.0%
Oil	\$70.12	0.1%	-2.2%	-4.7%

*10yr, DXY, and VIX are levels not changes

** Oil is front month futures, beware

Last week's freak out in response to the Fed's cutting of interest rates seems to have been the usual wrong-headed, knee-jerk reaction on a Fed Day. The stock market (S&P 500...do not look at the Dow) has almost recovered all the way back (about a 2.5% gain from the Wednesday close). On top of not thinking the Fed was overly hawkish (we anticipated the Fed walking back some of the rate-cut expectations in the market), there were some market indicators supporting this. Bond Volatility (MOVE index) *fell* on the day market interest rates moved higher in response to a rate cut. And High Yield spreads decreased (their nominal rates minus Treasury yields...the lower the spread -> the less perceived risk). These were marginal moves, but they both signaled that the macro angles to the markets were not in panic. Of course, equity Volatility did rocket higher (one of the biggest percent moves ever...even though the VIX should be viewed in nominal changes not percent changes, it was still extreme). So, this served as the tripwire for the systematic funds to turn into aggressive sellers (this is an oversimplification, but it works since their methodology mirrors that of human behavioral economics.) Also, this move higher in Volatility flipped the option gamma into negative territory. This means the option dealers who dynamically hedge their positions had to sell the dips (and subsequently had to buy the rally!). And the

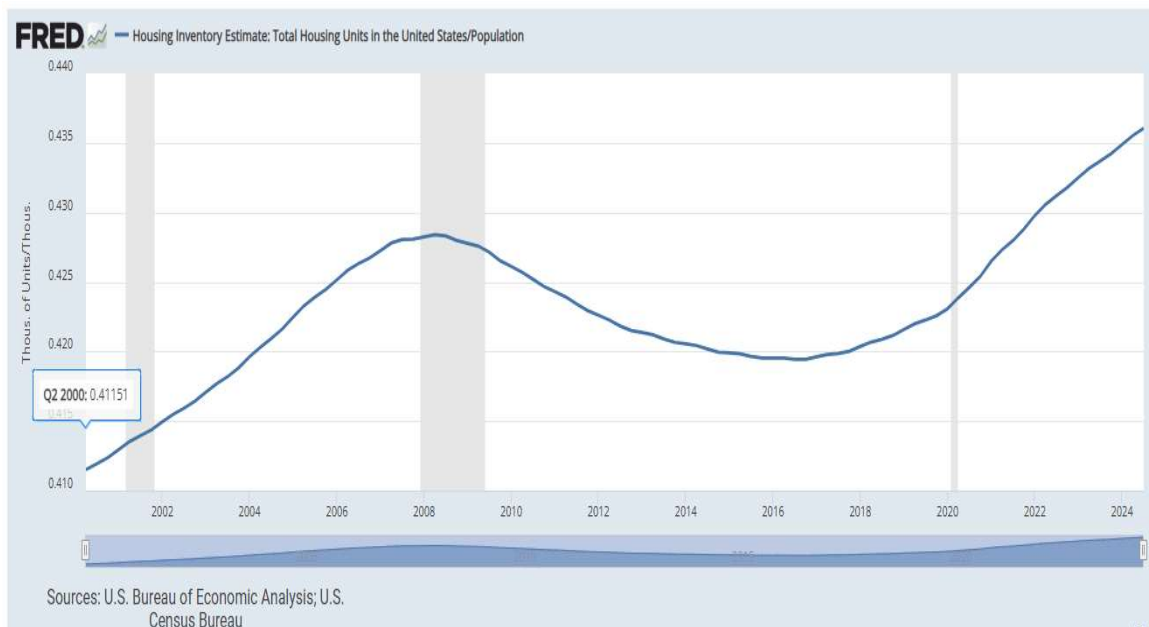
options expiration on Friday was the biggest of all time. We can also point to one of our favorite contra indicators...politics. The debate over keeping the federal government “open” came to a head when Musk interjected some rhetoric into the discussion. The talks failed, contributing to the volatility. Of course, the continuing resolution (CR) quietly passed two days later. On the economic data front, we got cooler inflation, better Housing sales, and positive growth. We would be remis to ignore some of the froth in the market. The posterchild remains MicroStrategy, the failed software company that just buys crypto using leverage. The company announced plans to dilute its shareholders by 97%...and the stock rallied. Hans Gruber had a better chance at surviving his fall than Michael Saylor does when this thing implodes (not a knock on Bitcoin).

➤ Inflation cools a bit

The Fed’s preferred measure of inflation (the change in the Personal Consumption Expenditures index or PCE) was cooler than expected in Nov. The headline increased 0.1% vs 0.2% last month (and 0.2% expected). The “Core” increased the same amount. This is down from a 0.3% gain in October. The annual rates are 2.4% and 2.8%. This “Core” rate is higher than the 2% target. But many Fed watchers think the language and tone have been pointing to a 2.5% target (not to mention the Fed expectations show a gradual path to 2.0%). Market/consumer Inflation expectations, which Powell said have been anchored and give the Fed some comfort in their easing cycle, ticked up a bit in the short-term. According to a U-Michigan survey, the expected rate in one year moved from 2.6% to 2.8%. But the 5-year moved lower from 3.2% to 3.0%.

➤ Are people getting used to higher mortgage rates?

Existing home Sales increased almost 5% in November vs October. The annualized run rate reached 4.15mm which is the highest since March. Of course, this is still well below the 5.5mm run rate pre-Virus Fear. And the peak coming out of the Virus Fear was 6.6mm. The National Association of Realtors said consumers are getting used to “a new normal of mortgage rates between 6% and 7%.” Inventory ticked down slightly in November, but it is still near the high end of its 5-year range. For all the talk about a Housing shortage, check out this chart showing the ratio of housing units to population:



The median sales price is still up vs last year, but it has been sliding on a monthly basis since June. This will help offset the higher mortgages rates in terms of affordability.

New Home Sales also improved in November. They increased 5.9% to reach 664k (annual run rate). But October was a particularly bad month, so the total is still in the lower part of the two-year range.

- Other economic data is mostly positive
 - The final reading on 3Q GDP showed growth of 3.1%. This is an uptick from the 3.0% growth in 2Q. And it is much better than the 2.8% expected. Moreover, the Atlanta Fed's nowcast for 4Q GDP is 3.1%. The professional guessers (economists) are still expecting about 2.2% growth.
 - Redbook Retail Sales increased 5.9% on the week.
 - The Richmond Fed Manufacturing index improved slightly but it is still solidly negative (-14 to -10).

- Where did all the crypto money go?

\$2.2b worth of crypto was stolen from crypto platforms during 2024. North Korea was at the heart of most of this. They stole roughly \$1.34b across 47 incidents. Last year, they only stole \$660mm (20 incidents). One of the more prominent forms of hacking occurs when the criminals are "remotely employed IT staffers at American companies." North Korea is coordinating these attacks to circumvent international sanctions...they need the money.

- Chart Crime of the week

This the opposite of a chart crime...it rings too true!

DECEMBER 2024

1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

- Pretend to work
- Nostalgial
- Don't even pretend anymore
- Destroy your body with food and alcohol
- Say you're going to start shopping for Christmas presents
- Prepare for the inevitable disappointment that is New Year's Eve
- Actually start shopping for Christmas presents
- Realize that you got absolutely nothing accomplished in 2024

➤ Quick Hits

- Oreos will not burn under a blow torch.
- North Dakota State and South Dakota State have won 11 out of the last 13 Division 1 FCS football national championships.
- The Dakota State schools have had 7 different coaches over this span.
- Gunter High School has won more playoff games (5) in Cowboys Stadium than the Cowboys (3).
- Rickey Henderson led the league in steals when he was 39 years old (66).
- The head coach of the Green Bay Packers spends \$100 a week on his hair.
- 30 states in the US have a smaller population than Los Angeles County.
- Brazil's northernmost point is closer to Canada than it is to Brazil's southernmost point.

- Finland's lake Neitokainen is shaped just like Finland.



Trading: We started adding a little Energy. The sector has badly underperformed lately. We think it is combination of China's weak economy and Trump's policies geared towards increasing production. We think a strong US economy can provide a cushion to both negatives (still a small position). We also added to some Consumer Discretionary. This should be a good sector in this macro environment. Pharma is not a good sector right now, but we added a bit. We think bad news has been getting exaggerated. We also added to our basket of software stocks. These have been great performers this year, so we do not want to buy the rally aggressively. But we do think there is more room to run as AI starts to monetize at the next level. We sold some trading positions on inflation (mixed results).

TSLAQ: As we have noted, actual Tesla news is very quiet. We will get some delivery numbers next week. Until then, we will only see the part of Musk we enjoy...like him posting clips of Reagan on Johnny Carson!

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