Weekly Update

20-November-2024
Carlisle C. Wysong, CFA
Managing Partner

- Trump trades or Fed policy? We say both
- Gold vs Bitcoin
- Earnings results are volatile, but not as much as expected
- Credit card metrics are confusing
- Builders say they are optimistic…but they are not building houses
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	5,917	-1.2%	25.2%	32.8%
QQQ	$503.17	-1.8%	23.5%	31.2%
US 10 YR	4.41%	4.45%	3.88%	4.39%
USD/DXY	106.7	106.5	101.3	103.6
VIX	17.2%	14.2%	12.5%	13.4%
Oil	$68.95	0.8%	-3.9%	-11.3%

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

The pundits are trying to discern if the Trump trade is still alive. Some of this debate is political. Will Trump really do everything he promises or threatens (depending on your perspective!)? Banks are still viewed as benefiting from fewer regulations. And Pharmaceutical companies have been and likely will be under the most strain with RFK taking aim (one interesting take is that the industry will go from "warp speed' to a "snail's pace"). But what about everything else in between? We think much of his bombastic rhetoric has cooled down. One example is Big Tech. He started most of these DOJ attacks on the mega-caps during his first term, and they have continued under Biden. But these companies know he does not have much to lose, so they are playing ball. And Trump would rather attack Europe for assessing silly fines on our Tech companies. Moreover, it is unlikely for him to be able to dismantle as much as he wants in short order.

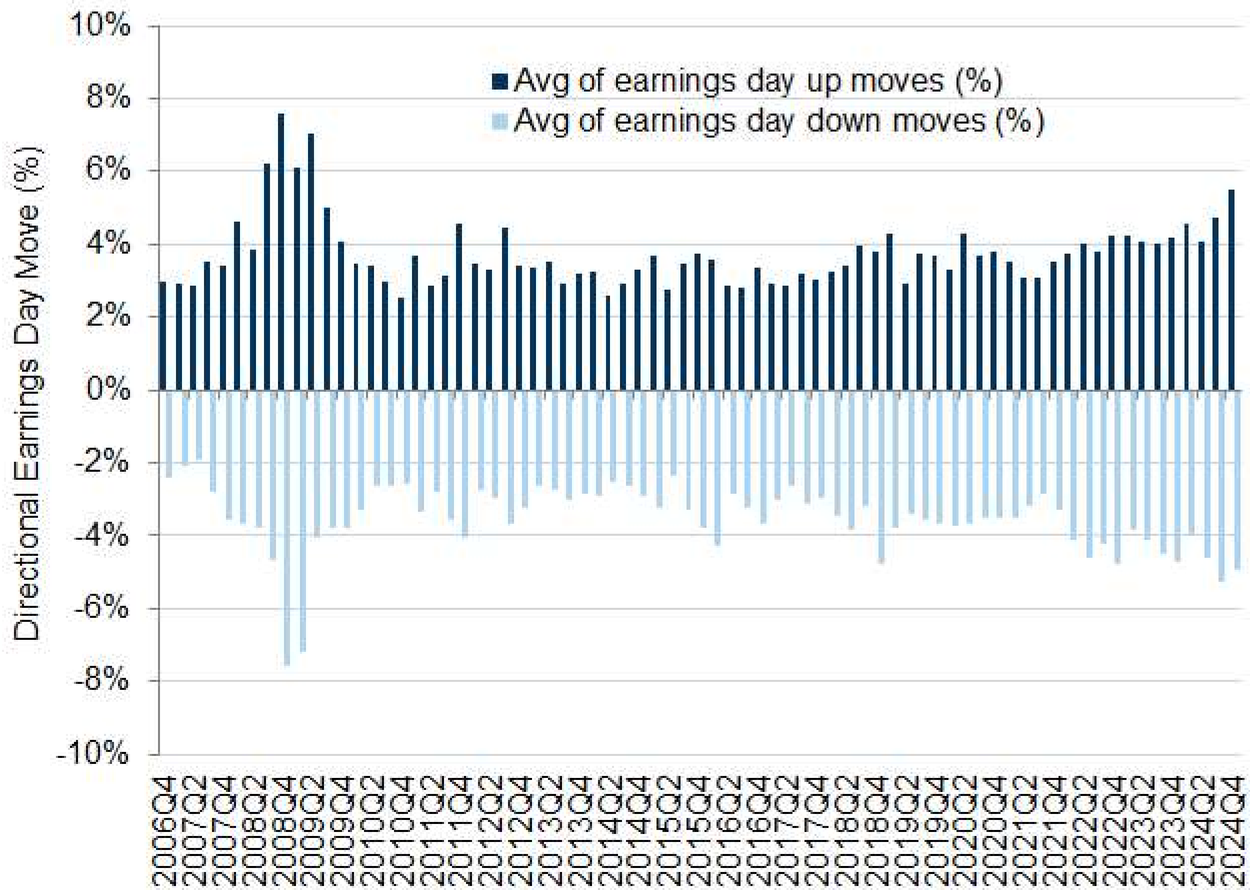
We also have the ongoing debate on Fed policy. Last week, we saw the probability that the Fed would cut rates in December shoot from 59% to 82% after the cool-enough inflation report. But the very next day, Fed Chairman Powell inadvertently (we think) spooked the market. He stuck to his belief that inflation is on a "sustainable path to 2%." But overall, the market's focus was on Powell's reiteration that the economy was still growing with a solid labor market. Most importantly…the Fed might slow down the speed at which they plan to cut rates. The market immediately reversed course and took the chances of a December Fed rate cut back down to 54%, and equities were hit hard. But none of what Powell said struck as new or threatening. Quite the opposite. We do not want a suffering economy to justify Fed cuts. But we are likely to get Fed cuts while the economy is growing! Some of the old school macro traders always say it is Fed liquidity that dictates market direction. We think this is true. But if we can get both (strong economy and Fed easing rates) along with a business-friendly White House (no politics here, but lower taxes and fewer regulations boost stocks), then that is the real Goldilocks.

- Gold vs Bitcoin

One easy way to view the market psyche is to compare gold and Bitcoin. Gold has traditionally performed well during a few different scenarios: Low real interest rates, ramping inflation, slow economic growth, or as a flight to safety. Obviously, there is a lot of overlap in these. But the missing factor is accelerating growth or in silly Wall Street parlance "Risk On." Some argue that Bitcoin has various use cases (store of value, decentralization, money laundering). But none of these are true (except for the money laundering). Its only value is as a trading vehicle…an asset you buy for capital appreciation (to be clear, there is nothing wrong with this!). In other words, with Bitcoin ramping and gold floundering, we think the market is telling us something: "Risk On!". A corollary to this view involves the strength in the USD. USD strength can stem from various sources (monetary and fiscal). Lately, its strength reflects the private asset flows into the US.

- Earnings results are volatile, but not as much as expected

This Earnings season has seen bigger moves than usual. The average up-move has been 5.5% which is above the historical average of 3.7%. While losses have also stretched, they trail the gains. And the spread between current and historical is stronger on the positive side. However, all this volatility was expected. The options market was expecting a 6.3% move. Of course, the election noise surely contributed to this. Increased Volatility is usually a bad thing (realized in your portfolio or fear in your head…look at those 2008 numbers). But we are comforted by the winners outperforming. That said, we will want to see Volatility decrease in general for the market to continue with a sustained rally. On this note, Nvidia is down 2.5% in the aftermarket after great earnings (more on that next week). But the options market was expecting an 8% move. We will take this as a win…and we will look to buy some tomorrow on a moderate dip.



Source: Goldman Sachs Global Investment Research, Goldman Sachs Group Inc., Refinitiv Eikon, Bloomberg

➢ Credit card metrics are confusing

The monthly data for credit cards is diverging. In a nutshell, Delinquencies worsened, and Charge-offs improved. Of course, the devil is in the details. JP Morgan, considered the highest quality lender (or the bank with the highest credit quality customers), saw its Delinquencies deteriorate and are now higher than the 2019 level. Discover saw its Delinquencies improve by 1.05%. But its rate is still 1.04% higher than 2019. Overall, we need to see more stable trends to see where we stand on the K-shared recovery.

		2024				2023	2019	bps% chng Oct. '19 to
Company	Type	Oct.	Sept.	August	3-month average	Oct.	Oct.	Oct. '24
Capital One	delinquency	4.61%	4.53%	4.35%	4.50%	4.48%	3.79%	82
	charge-off	5.82%	5.23%	5.82%	5.62%	5.08%	3.95%	197
American Express	delinquency	1.40%	1.40%	1.30%	1.37%	1.30%	1.60%	-20
	charge-off	2.40%	1.90%	2.20%	2.17%	1.90%	2.30%	10
JPMorgan	delinquency	0.87%	0.87%	0.84%	0.86%	0.98%	1.16%	-29

	charge-off	1.62%	1.57%	1.64%	1.61%	1.65%	1.61%	1
Synchrony	delinquency	4.90%	4.80%	4.60%	4.77%	4.60%	4.50%	40
	adjusted charge-off	6.40%	6.20%	5.70%	6.10%	5.60%	5.10%	130
Discover	delinquency	3.87%	3.84%	3.79%	3.83%	3.61%	2.58%	129
	charge-off	4.31%	5.36%	5.22%	4.96%	4.42%	3.27%	104
Bread Financial	delinquency	6.40%	6.40%	6.20%	6.30%	6.50%	5.90%	50
	charge-off	7.90%	7.40%	7.80%	7.70%	8.00%	6.60%	130
Citigroup	delinquency	1.52%	1.44%	1.46%	1.47%	1.39%	1.58%	6
	charge-off	2.36%	2.53%	2.38%	2.42%	2.07%	2.61%	-25
Bank of America	delinquency	1.52%	1.48%	1.43%	1.48%	1.37%	1.62%	-10
	charge-off	2.41%	2.52%	2.48%	2.47%	2.06%	2.41%	0
	Avg. delinquency	3.14%	3.10%	3.00%	3.08%	3.03%	2.88%	0.26
	Avg.charge-off	3.69%	4.09%	4.16%	3.98%	3.85%	3.43%	0.26
	Avg. delinquency ex-BFH	2.67%	2.62%	2.59%	2.63%	2.53%	2.40%	0.27
	Avg. charge-off ex-BFH	3.62%	3.62%	3.63%	3.62%	3.25%	3.04%	0.58

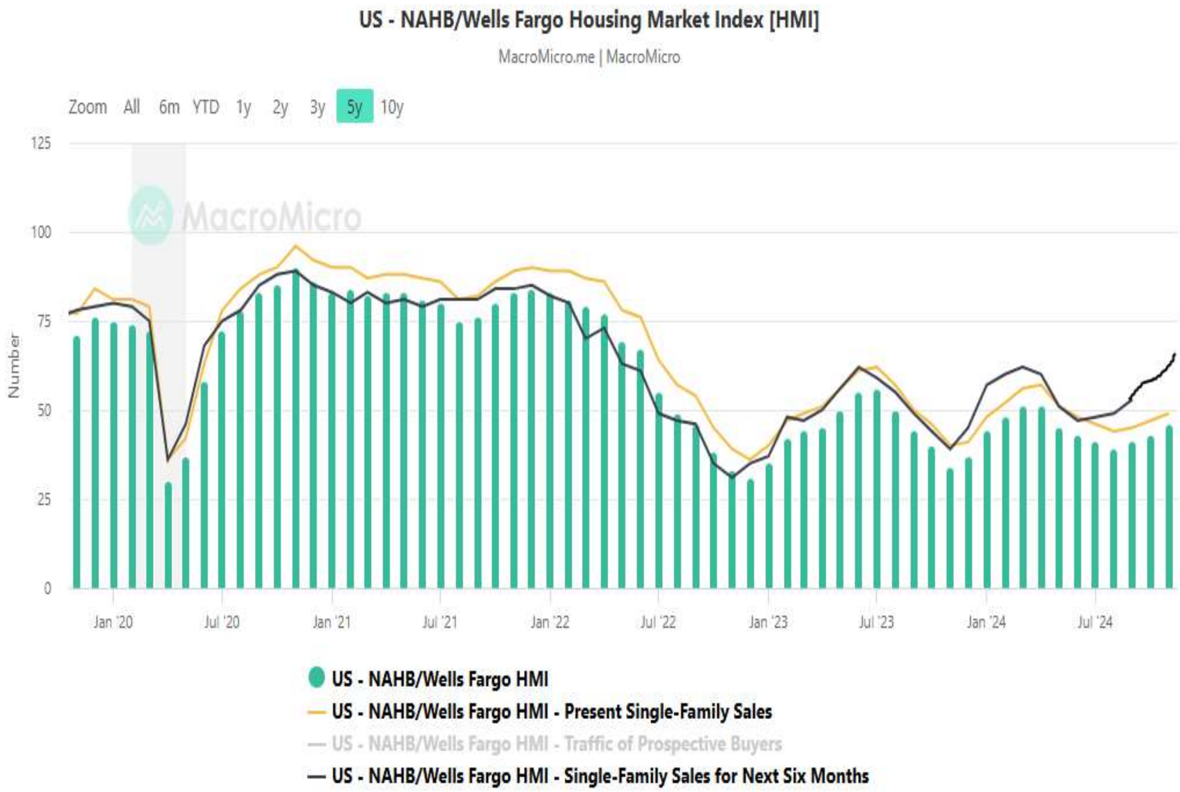
- Builders say they are optimistic…but they are not building houses

The Housing Market Index (aka homebuilder survey) was a little better on the headline (43 to 46 in November). While Current Sales Conditions and Buyer Traffic remain lackluster, the Sales Expectations metric (six-month) increased 6 points to reach a robust 64.

But this forward-looking optimism has not translated into current sales. Housing Starts fell 3% in October vs September. 1.31mm Starts was the annualized run-rate. This number has been stair-stepping lower for two years. Building Permits mirror the same downward trajectory.

Mortgage Applications increased slightly on the week. High rates and high prices are still keeping a lid on housing activity.

Here is the Housing Market Index chart. We have removed the Traffic line. And for some crazy reason, the Sales Expectation line stops in September. So that is our annotation on the black line. Our bad graphic design talents aside, builders really are getting optimistic.



- Other economic data is positive
  - Producer Prices (PPI inflation, wholesale or input prices) increased in October. The headline increased 0.2% which was expected (but above 0.1% in Sept). "Core" prices accelerated to 0.3% from 0.2% last month (0.3% was expected).
  - Initial Jobless Claims ticked down to 217k. Continuing Claims also ticked lower to 1.873mm. Continuing Claims have been the ones making new three-year highs.
  - Retail Sales increased 0.4% which is better than expected but lower than the 0.8% in September (which was revised higher from 0.4%).
  - Redbook Retail Sales ticked up on the week.
  - The NY Fed's Empire Manufacturing index had a huge bounce back from -12 to +31 in November. We are skeptical of this survey data.
  - Industrial Production fell -0.3% in October. This is an improvement on the -0.7% in September.
  - Business Inventories increased 0.1% in September.

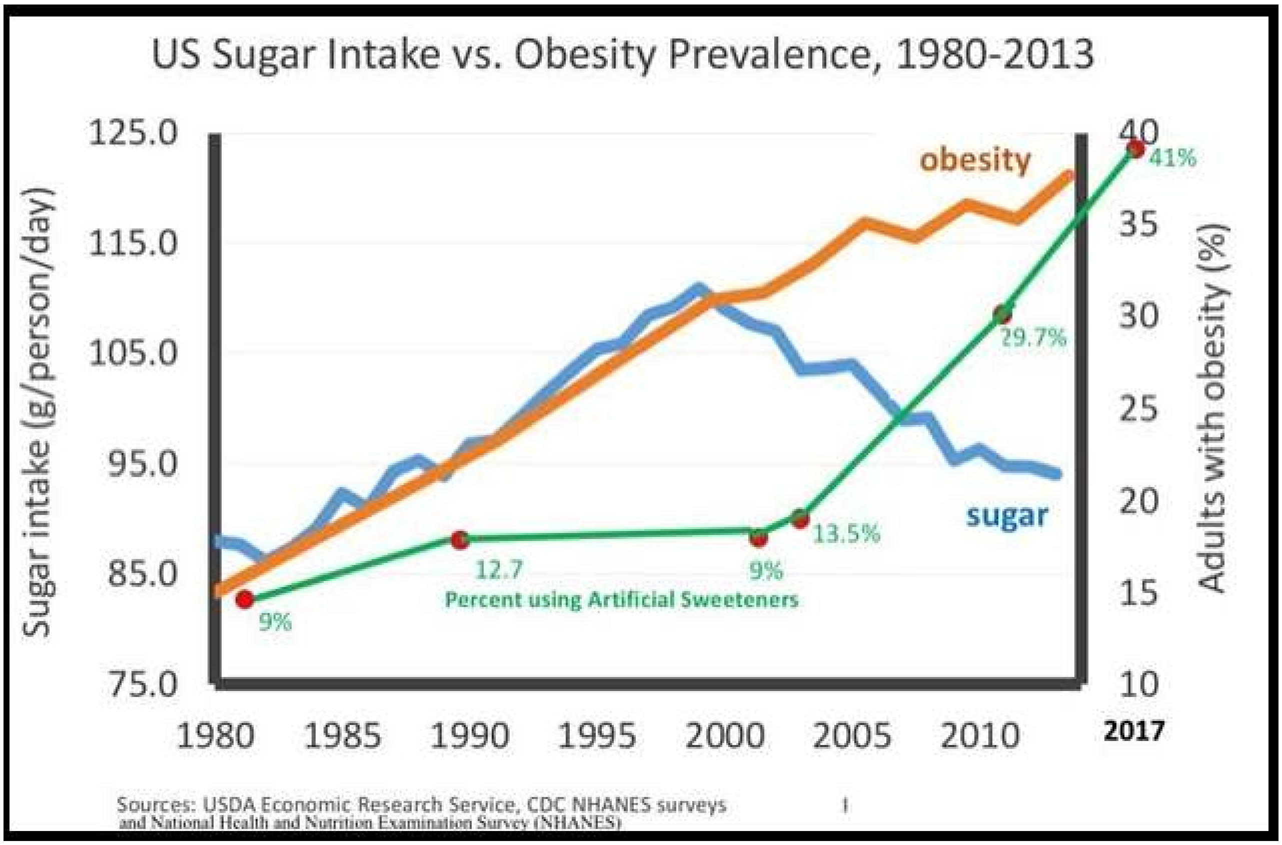
- Where did all the crypto money go?

FTX is the gift that keeps on giving (or taking). We mentioned before that FTX had a customer that understood the whole crypto token system was a fraud. This guy bought over 50% of a fake-money token. In the process, he jacked up the price by over 10,000%. On paper, this position was worth over $1b. The customer decided to borrow real money using his fake money as collateral. But some facts have come to light according to court filings (thanks to Matt Levine for uncovering). FTX caught on to the fact that this position was highly inflated. SBF and his inner circle decided to freeze the account. It would no longer be able to make any transactions. Except they forgot to block one form of transaction: Withdrawals. FTX let this guy withdraw $450mm.

We will also add that Binance is launching a new “stablecoin” with a 19.55% yield. Here we go again.

- Chart Crime of the week

With RFK taking over the department of Health and Human Services (pending confirmation), there have been a lot of obesity charts going around. The one we have seen the most shows the sugar intake in the US starting to fall around 2000, but the obesity rate continues to climb. We stumbled across this one which a) attempts to show there are other factors at play (which we believe) b) makes a nonsensical chart with different axes…and the green line…the one we suspect is hiding a lot of the truths…unfortunately makes no sense at all. The two 9% levels are not even. And why does it go off the chart to the right? Hopefully RFK has a better chart in his quiver.



- Quick Hits
  - Scorigami! Detroit beating JAX 52-6 was the 1088th unique score in NFL history.
  - The UK is attempting to force Wales to create “dog-free zones to help make the outdoors ‘anti-racist’.”
  - Super Micro has been unable to file its quarterly report because the special committee investigating fraud allegations, “has other works that is ongoing.”
  - Mike Tyson once offered a zookeeper $10k to let him into the gorilla cage and “smash that silverback’s snot box.”
  - Milton Friedman once said he would abolish 10 or 11 of the 15 cabinet level departments in the US government.
  - A Virginia man’s EXZ-Pass was charged $576 after driving 45 miles on a toll road. The charges were not in error (crazy surge charging and three axles).

Trading: We bought the mini-dip in the market. We added to some Mid-caps and Big Tech. We dabbled in crypto! We bought one of the miners for a quick trade. We continue to nibble slowly in Latin America. We are becoming more cautious in Health Care specifically Pharma. This is obviously a Trump trade…more like an RFK trade. We would rather wait and see what happens with the space rather than buy any dips.

TSLAQ: Not much to report in Tesla-land…seriously. There have been a few more recalls. And there is more talk about subsidies getting slashed and tariffs getting boosted. But the central narrative is autonomous driving. Elon wants to bring to life his hopeful pivot from selling cars to selling technology/software. Other than his SpaceX being likely to dominate government contracting (which seems to be warranted), his big push is to tear down regulations prohibiting the growth of autonomy (for example, it is a current regulation that all cars must have a steering wheel). We think this will be a tough road to hoe (or at least a slow one). And we think the competition (Waymo and Cruise) is well ahead of Tesla's "Full Self Driving." Nonetheless, having the government on your side is quite the advantage. Our central concern with Musk right now is hoping he succeeds with his DOGE project!

Check out our website to learn more about Chalk Creek Partners

Carlisle's Twitter Financial List

Carlisle's LinkedIn