



## Weekly Update

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- Good Earnings and a good Fed
- But there is some silly speculation
- Earnings season was a good one led by Communication Services
- A soft start to holiday shopping? Depends on your timeline...and what you are measuring
- Spec-homes might be a problem
- Business surveys: Manufacturing is weak, Services are strong
- Business spending takes a breather
- But activity might be picking up since the election
- Inflation remains the same
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	5,999	0.8%	27.0%	33.6%
QQQ	\$506.06	0.2%	24.2%	30.9%
US 10 YR	4.26%	4.41%	3.88%	4.27%
USD/DXY	106.2	106.7	101.3	102.8
VIX	14.1%	17.2%	12.5%	13.0%
Oil	\$68.86	-1.8%	-3.9%	-9.9%

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

\*\* Oil is front month futures, beware

Even with the holidays upon us, it was a pretty busy week with competing themes. There has been a resurgence in silly speculation (albeit somewhat isolated). Earnings are still great as a whole, but expectations are hard to beat (namely Nvidia). The economy is still chugging along. But with a tame inflation reading, the market is back to thinking the Fed will cut rates again this year (59% chance of one cut and 16% chance of two cuts). Trump has reminded everyone that he is serious about using tariffs as a negotiating ploy. Geopolitics are seemingly quieting down.

The poster child for the fluff in the market is obviously MicroStrategy (the shell company that sells debt to buy Bitcoin and trades at a crazy premium to its Bitcoin holdings). But there was also a Chinese IPO listing in the US...an autonomous driving company with AI in its name. It burns over \$100mm a year but has a valuation of over \$4b. There is a new narrative to chase is anything with "Quantum" in the name (see the Quick Hits).

We think this adds up to a sustained march higher in equities. Some of the micro-bubbles (pun intended) will surely pop. And we might see more “broadening” in the market thanks to a better regulatory backdrop. If things get too rosy, we will look at adding some cheap protection. In the meantime, we look forward to a Santa Claus rally (even though we hate trader-almanac type of stuff).

- Earnings season was a good one led by Communication Services

Earnings season is about done with 475 of the S&P 500 reported. This table shows the evolution of expectations. Starting at the right, Earnings were expected to grow 13.2% in this 3Q2024. This was crazy high in retrospect. And the market recalibrated fairly quickly. Looking at Oct 1 of this year, the market had overcorrected...only expecting 5.3% growth. Today’s actual growth of 8.9% explains the strength in the market (despite interest rate headwinds and political uncertainty...which has obviously turned into a positive for certain sectors). Moreover, Earnings are expected to grow 9.9% in the current quarter and into the 12-13% range for next year.

(Communication services includes Google, Meta, and Netflix.)

**Exhibit 3. 2024Q3 Blended (Reported & Estimated) Earnings Growth**

Sector	Today	1 Oct	1 Jul	1 Apr	1 Jan	1 Oct
Consumer Discretionary	11.2%	2.4%	4.0%	5.2%	5.2%	15.7%
Consumer Staples	3.9%	1.9%	4.4%	6.9%	6.5%	10.5%
Energy	-25.4%	-19.8%	-3.1%	-6.2%	-0.4%	6.3%
Financials	8.5%	2.1%	1.6%	1.3%	0.2%	9.4%
Health Care	14.6%	11.2%	17.0%	19.4%	19.2%	10.9%
Industrials	-5.0%	2.8%	10.4%	15.1%	16.0%	19.3%
Materials	-6.8%	-3.2%	8.6%	8.2%	11.1%	19.9%
Real Estate	-9.3%	2.8%	5.3%	0.5%	4.9%	9.0%
Technology	19.1%	15.4%	15.4%	14.4%	12.3%	18.4%
Communication Services	25.7%	12.3%	11.8%	10.3%	7.3%	14.8%
Utilities	15.5%	3.7%	8.5%	5.0%	5.8%	6.2%
<b>S&amp;P 500</b>	<b>8.9%</b>	<b>5.3%</b>	<b>8.5%</b>	<b>8.6%</b>	<b>8.4%</b>	<b>13.2%</b>

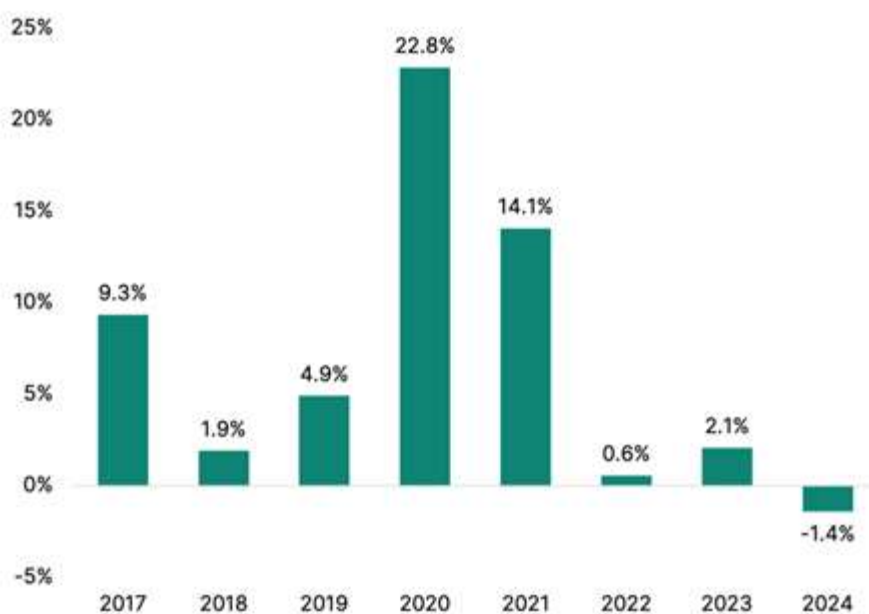
Source: LSEG I/B/E/S

- A soft start to holiday shopping? Depends on your timeline...and what you are measuring

Here is an interesting snapshot of Retail Spending heading into the holidays. But we also have some data from Adobe that tells us online shopping is up 10% in the first 24 days of November. We will somehow try to form a consensus from all the conflicting data we are about to get. And we cannot believe some people already have up their Christmas trees and lights.

## US holiday sales growth

Nov 1 - Nov 13, 2024 seasonally adjusted; YoY



Source: Earnest Analytics, Vela Gamma transaction data. Based on spending across major retail merchant category codes (MCC). See notes for details.

earnestanalytics

The weekly Redbook Retail Sales increased 4.9%. This is still a healthy clip. You can see that Retail earnings have been strong for the 3Q (11.2% growth in the table above). But guidance from companies is more split. On the other hand, travel is expected to hit a record this week. But the media always seems to say this.

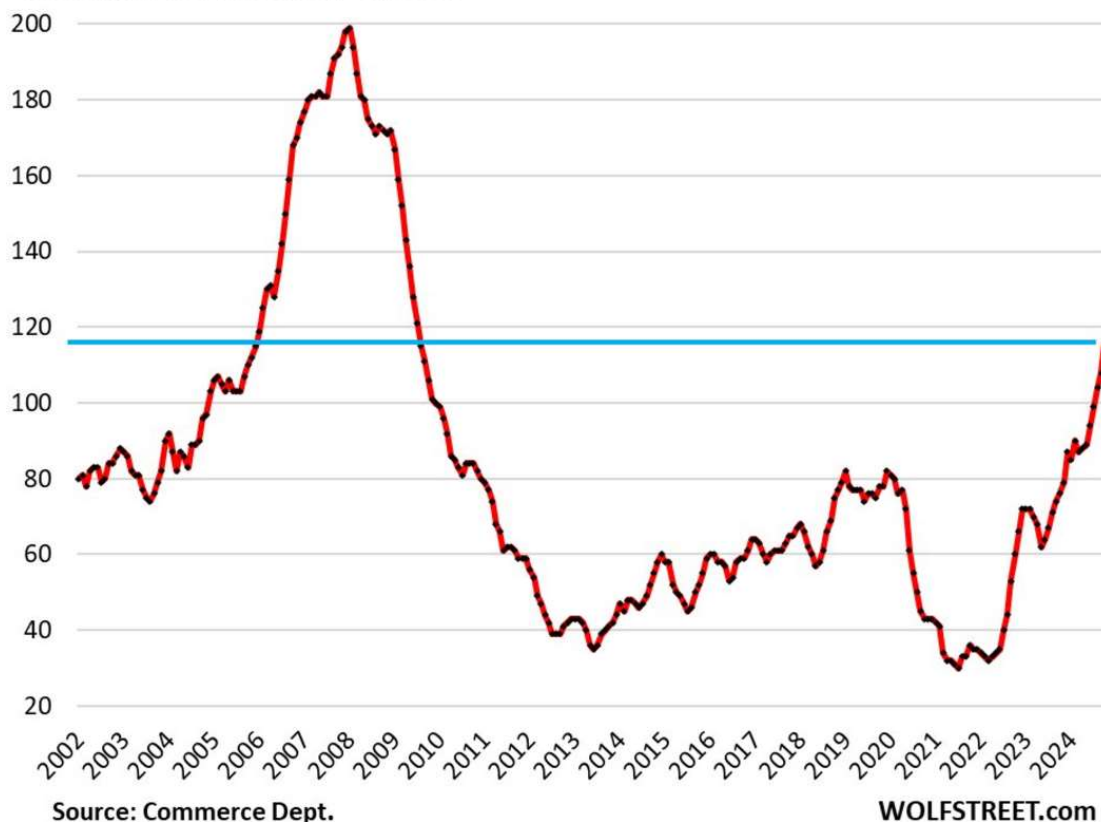
- Spec-homes might be a problem

Existing Home Sales ticked up 3.4% in Oct vs Sept. The annualized run-rate is 3.96mm. Despite the modest pickup, the level is still near a 30year low (post housing crisis was recent record low).

New Home Sales fell sharply in October (-17% vs Sept) to hit a run-rate of only 610k. This is down from 738k last month. Other than the dip in the summer of 2022, it is the lowest level in four years. It is well below the trend before the Virus Fear. The median price increased to over \$437k which is up almost 5% vs last October. Very quietly, lumber prices are on the rise again. They are up over 20% this year thanks to an increase in tariffs on Canadian lumber (they jumped to 14.5% in August from 8.05%). New Home supply is up to 9.5 months vs 7.6 months. But this stat (for New Homes) can be misleading as homes that have not been started yet are often counted in this data. However, the inventory of spec-houses is on the rise. This does not bode well.

## Completed New Single-Family Houses for Sale

Thousands, not seasonally adjusted



Pending Home Sales showed some signs of life with a 2% increase in October vs September.

Mortgage Applications had its second weekly increase in a row. Purchases are better than Refinancings. The average 30-year mortgage rate is about 6.86%.

- Business surveys: Manufacturing is weak, Services are strong

The early read for the S&P Services PMI surprised to the upside with a jump to 57 from 55. This is the highest level since March of 2022. Manufacturing only improved slightly and is still negative.

The Philly Fed's Manufacturing index slipped back into negative territory. The Kansas City Fed's Manufacturing index followed the same path (less aggressively). The Dallas Fed Manufacturing index remains in negative territory, but it has been gradually improving all year. The Richmond Fed's Manufacturing index is still negative (-14 last two months). The Chicago Fed's Manufacturing PMI was weaker than expected. The Richmond and Dallas Fed Services indices both improved further into positive territory.

- Business spending takes a breather

Durable Goods Orders increased 0.2% in October. This was less than expected (+0.5%) but better than September (-0.4%). More importantly, Core Capital Goods (aka business spending) slipped -0.2%. This is a reversal from last month and below the increase expected (+0.5%). But as we always write, these numbers are volatile around the edges. So, we wait for trends to develop. So far, the trend remains that business spending is resilient.

- But activity might be picking up since the election

The Atlanta Fed conducted a survey asking companies if they were delaying capital investments or hiring plans until after the election: A whopping 1/3 of respondents said they were. And lo and behold, some Fed data shows that borrowing intentions have picked up in the last few weeks. This is incredibly thin data., and we are taking it with a grain of salt for now. But if this turns into a trend, this could be a catalyst to extend any sort of Trump trade.

- Inflation remains the same

The Fed's favored inflation gage, the growth in the Personal Consumption Expenditures index (PCE), increased by 0.2% in October which was expected. The "Core" PCE increased a touch more at 0.3% (expected). These are the same levels as September. This brings the annual rates to 2.3% on the headline and 2.8% on the "Core."

- Other economic data is mixed

- The second estimate for 2Q GDP growth dropped a bit from 3.0% to 2.8%. The Atlanta Fed's nowcast for 3Q GDP (GDPNow) is 2.6% (been rising lately). The professional guessers (economists) are expecting 1.9% growth.
- Initial Jobless Claims dipped to 213k last week and remained at that level this week. But Continuing Claims resumed their march higher reaching 1.91mm. This is a new three-year high.
- U-Michigan's Consumer Sentiment moved marginally lower. 1-year Inflation Expectations remained steady at 2.6%. The 5-year ticked up to 3.2% from 3.1%.
- The Leading Economic Indicators index for October was negative again. We think this datapoint is broken (it has three financial inputs which are valuable, but the majority of the other inputs are all manufacturing based).

- Where did all the crypto money go?

Ok this is disturbing, be forewarned. We have talked about Pump.fun before. Bloomberg's descriptive line should be enough to scare anyone away, "A platform where traders can create and trade cryptocurrencies without prior technical knowledge." Not able to leave well enough alone, Pump.fun now allows "developers" to livestream themselves on their home pages in order to attract attention (what else since there is no value to any of this garbage). A positive story made the headlines: A boy created a coin, and he sold it for a cool \$30k after his livestream hit the waves. Unfortunately, the cute, feel-good stories have given way to the dark and demented. We will quote Bloomberg rather than attempt to recreate: "One person punched themselves (edit: himself!) repeatedly. At least two streamers claimed to be inmates broadcasting from inside US prisons, while multiple streams featured live sex shows. Another threatened to strip, beat and waterboard a person if their token didn't rise in price. One stream was focused on a live game of Russian Roulette." God help us.

- Chart Crime of the week

These wealth comparisons are always silly since they do not use any relative factors (ie cost of living). But including Washington DC as a state...at least they put an asterisk with a tiny disclaimer.



➤ Quick Hits

- The SEC has collected \$8.2b in fines in 2024 (so far).
- A company called Quantum Computing is over 500% this month. It has a market cap of almost \$1b. It has \$311k in sales for this year.
- Quantum Computing was a beverage company six years ago.
- 63% of all outstanding mortgages were issued after 2018.
- There is a water ETF. Its largest holding is Marriott.
- New York state is now banning pet stores from selling cats and dogs.
- Part of Greenland is further east than Iceland (we might have used this one before, forgive us.)
- Someone bet \$100 on Kent State to win the College Football Playoff. The odds were 10,000-1.
- Kent State went 0-12 this year.

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