



Weekly Update

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- The strong year ends with a whimper
- Short-term trading weakness
- High valuations and Fed risk, but strong economic growth
- Treasuries are pricing in more uncertainty
- Earnings growth is expected to accelerate
- Economic data is better on the margin
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	5,882	-2.6%	23.3%	23.3%
QQQ	\$511.23	-3.6%	24.9%	24.9%
US 10 YR	4.58%	4.59%	3.88%	3.88%
USD/DXY	108.5	108.3	101.3	101.3
VIX	17.4%	14.3%	12.5%	12.5%
Oil	\$71.87	2.5%	0.1%	0.1%

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

** Oil is front month futures, beware

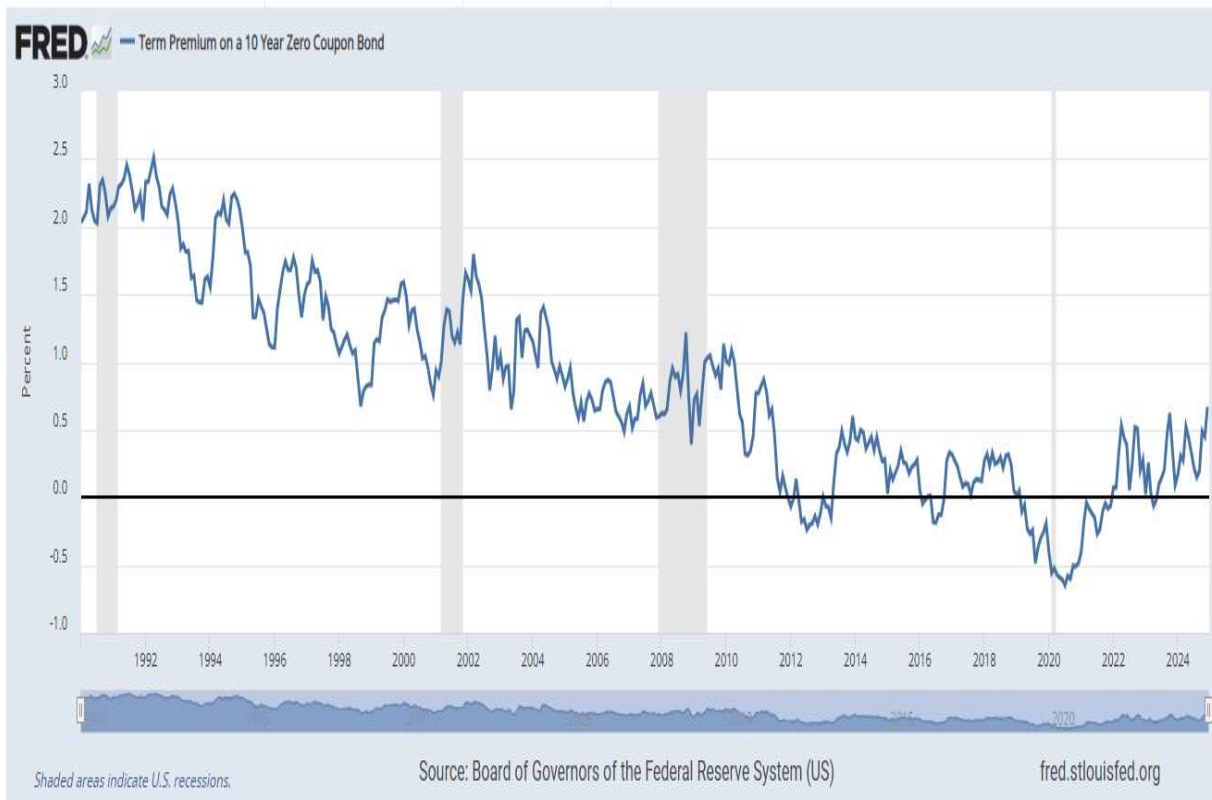
A strong year for equities ended with a whimper. The much-hyped “Santa Claus rally” failed to materialize and then some. The year’s best performers were the losers of the week. Energy and Real Estate, two of the worst sectors of the year, were the only decent performers this week. We do not put too much into these low-volume, quiet-news moves. We think a lot of people got suckered into the Santa rally nonsense (and thus sold). And then some hedge funds with mediocre performance felt compelled to lock-in some performance before the bell tolled. And as we have seen recently, the spike in Volatility leads to more systematic selling (Quant funds, option hedging, etc.). We also think there is some fatigue from/in the Trump rally.

But all of these are short-term dynamics. Strong growth and moderate inflation usually lead to positive market returns. Obviously, valuations are not cheap. The Fed is likely going to hit its “neutral” interest rate sooner than previously expected. And there is a non-zero chance that inflation will continue to accelerate. On this note, David Rosenberg (super smart, usually right, always early) says most of the recent uptick in inflation has been supply driven. Demand is still tepid, and deflation is a real possibility. Ironically, if this scenario were to develop,

this would propel the Fed to cut interest rates more aggressively. Whatever the case, we expect continued Volatility. Ultimately, we think expanding growth will rule the day.

- Treasuries are pricing in more uncertainty

Apollo highlights the recent upturn in the “term premium” imbedded in the 10-year Treasury yield. The calculation is rather complex. But what it means is simple: The market is demanding a higher yield for unknown risks other than Fed rates and inflation. The term premium has trended lower for 30 years. But the bottom occurred right before the Virus Fear...right before the government ratcheted up spending to previously unfathomable levels.



- Earnings growth is expected to accelerate

As we have discussed, Earnings growth for the 3Q was 9.1%. The just-finished 4Q growth is expected to jump to 12.8% with continued strong growth for the next few quarters. The sectors and quarters are a little choppy. But it is no surprise that Technology, Communication Services, Consumer Discretionary, and Industrials are likely going to lead the charge. Health Care is usually a laggard in a landscape of expanding GDP growth and inflation. But with strong earnings expectations, it might buck its usual trend.

Exhibit 10. Historical/Current/Future Earnings Growth Rates

Sector	2023Q3	2023Q4	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1	2025Q2	2025Q3
Consumer Discretionary	42.7%	37.3%	27.8%	14.8%	11.3%	12.2%	12.3%	8.7%	9.6%
Consumer Staples	6.9%	7.1%	6.2%	3.4%	4.0%	-1.6%	0.8%	5.6%	6.2%
Energy	-33.0%	-21.9%	-24.1%	1.3%	-25.4%	-26.6%	-9.5%	-2.4%	14.9%
Financials	23.5%	8.8%	13.1%	20.7%	8.5%	17.3%	5.7%	2.9%	8.2%
Health Care	-17.3%	-14.1%	-24.0%	20.5%	14.6%	13.1%	42.4%	12.7%	11.3%
Industrials	16.4%	8.4%	6.0%	1.7%	-5.0%	-3.5%	12.6%	13.9%	30.8%
Materials	-18.0%	-18.9%	-20.2%	-5.8%	-6.8%	1.3%	12.4%	11.4%	32.0%
Real Estate	-5.4%	9.9%	8.3%	-0.4%	-9.3%	10.8%	1.7%	5.2%	22.9%
Technology	15.3%	24.2%	27.0%	21.2%	19.4%	15.1%	18.2%	21.5%	20.8%
Communication Services	46.5%	53.3%	43.2%	7.4%	25.7%	22.6%	10.1%	33.4%	5.4%
Utilities	10.3%	36.0%	22.8%	15.5%	16.0%	10.6%	6.1%	1.8%	-1.7%
S&P 500	7.5%	10.1%	8.2%	13.2%	9.1%	9.6%	12.8%	12.4%	13.4%
S&P 500 Ex-Energy	13.1%	13.7%	11.5%	14.0%	11.8%	12.4%	14.3%	13.3%	13.4%

Source: LSEG I/B/E/S

- Economic data is better on the margin
 - Initial Jobless Claims remained steady at 219k. Continuing Claims, however, increased to 1.91mm. This is the highest level since the Virus Fear.
 - Retail Inventories increased while Wholesale Inventories decreased in November.
 - Pending Home Sales in November increased 2.2% vs Oct. This is better than the 0.7% expected.
 - The House Price index for October increased 0.4% on the month. This is a 4.5% increase on the year.
 - The Chicago PMI (the ISM conducts a survey just for the Chicago area Services and Manufacturing...we have no idea why) was negative for the 13th straight month and the lowest level since May.
 - The Dallas Fed Manufacturing index flipped to positive in December. Services remained flat (still positive).
 - The weekly Redbook Retail Sales surged to 7.1%. This is the second highest weekly gain in two years. The highest was just after Thanksgiving.
 - China's official PMI data in December showed a slight decrease in Manufacturing with a decent increase in Services.

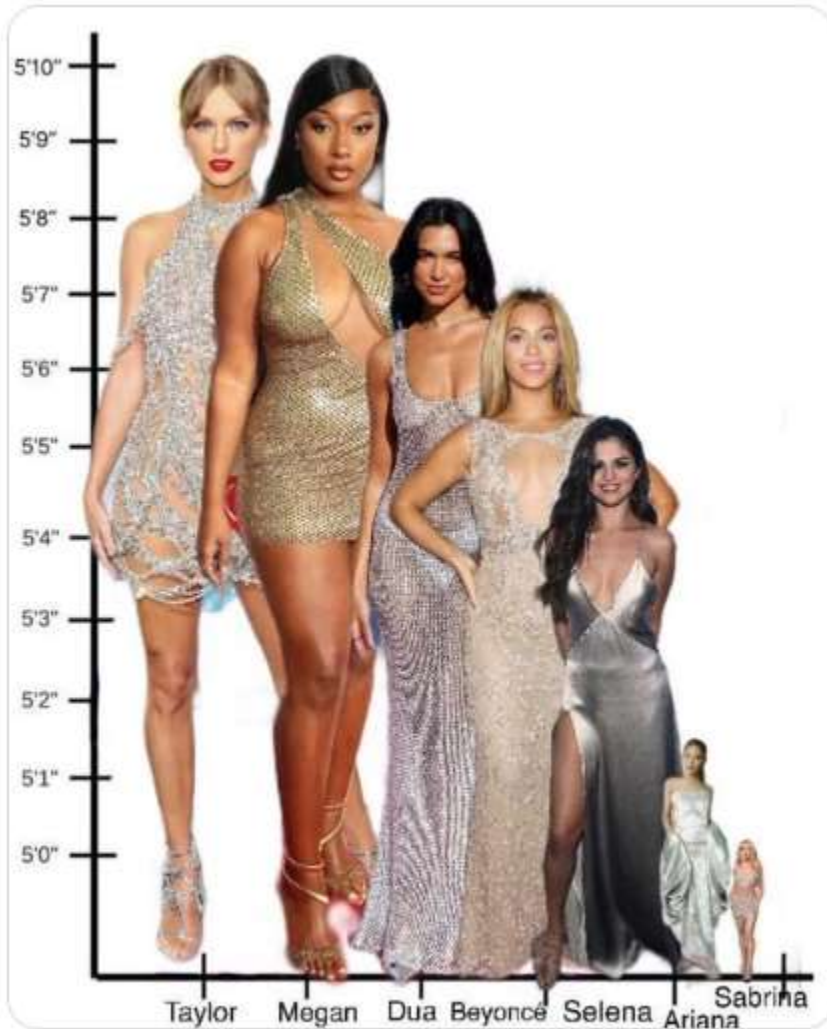
➤ Where did all the crypto money go?

The story of Luna and Terra appears to be coming to an end after a few years. Terra was the supposed "stable coin" which was linked with Luna, a regular coin. Back in May of 2022, when one seller withdrew real money from his fake money account, the other fake money went down. And by going down we mean 99.99%. \$50b evaporated instantly. And \$300b in other crypto vanished, also.

The perpetrator, Do Kwon, fled Korea and was arrested trying to get to Dubai (obviously). Ironically, he was arrested in Montenegro after one of his victims broke into his home demanding an apology. The Montenegro police wanted to see Kwon's identification, and he handed over fake South Korean papers. Rough estimates have Kwon's wealth at \$1b. He routinely signed off tweets and other communications with "have fun staying poor." But Kwon's fun is coming to an end. Montenegro just processed his extradition to the USA.

➤ Chart Crime of the week

Yes! Perhaps we found the best for last.



➤ Quick Hits

- Not a Scorigami! While watching the Ravens trounce the Texans 31-2 on Christmas, all we could think of was whether this was a unique score in NFL history. Alas, it was not. It has happened twice with the most recent being in 1965.
- The swimming pool over the basketball court in the movie *It's a Wonderful Life* is real (Beverly Hills High School).
- The bearded vulture is the only known animal whose diet consists of bone.
- An Amazon delivery driver in Massachusetts dumped 80 packages in the woods because he was "stressed" about meeting on-time delivery demands.
- It is illegal for businesses to offer "Ladies Night" promotions in California, New York, New Jersey, Minnesota, Iowa, Maryland, Pennsylvania, Washington, and Wisconsin.
- Members of the military not in uniform were not allowed to salute the flag until 2009 (National Defense Authorization Act of 2008 with an amendment in 2009).
- Saudi Arabia has solar powered laser lights across its desert. They highlight routes and water sources for lost travelers.

- Marina Bay Sands (Singapore) is the most profitable casino in the world.
- Vermont has “safe injection sites” where drug addicts can shoot up fentanyl. The center is funded by a settlement from...pharmaceutical companies.
- Oregon passed a law to recategorize self-employed home healthcare workers. They now are forced to pay union dues.
- A new law in Minnesota prohibits the consumption of beaver meat. You can kill a beaver on your property; you just cannot eat it.
- Goaltending is a penalty in football.
- The Pop Tarts Bowl had sprinkles painted on the sidelines.

Trading: We added a little more to our Energy long. This sector has started to perform ok. Despite the weakness in China, oil prices are stabilizing with the fear of US over-production waning (we will be long some oil services in case the production discipline does, indeed, fall by the wayside). We cut a trading long in Industrials. We believe in the theme given the macro backdrop, but we will wait for a better entry point. We added to some long Financials, Big Tech, and Consumer Discretionary.

TSLAQ: Musk has changed his X profile name to Kekius Maximus. His Profile picture is some sort of Pepe the Frog-meets-Gladiator mash-up. We have no idea what any of this means. We hope he cuts wasteful government spending (redundant).

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