



## Weekly Update

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- The New Year starts off a little bumpy
- Narratives are quiet except for the Inflation/Interest Rate story
- Is the bond market warning us? Or signaling all clear?
- Business surveys: Manufacturing improving but still not great
- Business surveys: Services strong and improving. But watch out for inflation!
- The Saudis are back hiking prices to Asia
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	5,918	0.6%	0.6%	27.6%
QQQ	\$515.14	0.7%	0.7%	30.5%
US 10 YR	4.69%	4.59%	4.58%	4.02%
USD/DXY	109.0	108.5	108.5	102.6
VIX	17.7%	17.4%	17.4%	12.8%
Oil	\$73.35	2.2%	2.2%	3.6%

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

\*\* Oil is front month futures, beware

The bumpiness in December has rolled into the New Year. Most of the recent narratives have gone quiet. Politically, not much has come out of the Trump camp in terms of concrete policy proposals. We are in a bit of a void with respect to earnings and company guidance (this might change with a slew of conferences kicking off soon). There have been about five Fed speakers and one leadership resignation (Michael Barr is stepping down from his Vice Chairman role which supervises bank regulation...this is a slight positive on the margin for Financials as he was in favor of more regulation). The speakers have mostly towed the recent line...that the Fed is poised to cut interest rates further this year (today's release of the Fed minutes from the last rate-setting meeting emphasized the data-dependency of the Fed...blah blah blah). Today, Fed governor Waller said he still thinks inflation will approach the Fed's 2% target in the coming months. And this is being coupled with strong economic data (strong business surveys, more Job Openings, improved bank lending, declining Jobless Claims...although today's ADP guess for Private Payrolls came in light).

This typically would be the set up for a cheerful market. But the inflation component of the recent strong data has the bond market spooked. There have been some violent rotations in equities. We thought Nvidia's

presentation at the Consumer Electronics Show was exciting with real world applications...but the stock was met with aggressive selling. Health Care and Energy, which were left for dead in the 4Q, have shown some signs of life. The strong dollar is wreaking havoc on Staples that sell overseas. Most Emerging Markets continue to struggle. But for all these CNBC jitters, equities are still positive. Just like we said at the end of the 4Q, we think a lot of the recent noise in the equity market is just that, noise. But as we have been also saying, some parts of the market are more than extended. Quantum computing might be the new poster child for Fantasies & Frauds. And they are behaving as expected when interest rates move higher (they are imploding albeit after epic runs higher). Which brings us full circle: The bond market might be acting rationally. The curve continues to steepen, long-end rates are moving higher because of economic growth projections, and the short-term mirrors the Fed. Here is the relevant Treasury yield curve (10yr – 2yr). Note that when the Fed was hiking and the curve was inverting (2022), equities were slammed. When short-term rates were still 0% and the curve was steepening (the 10yr yield was increasing) in 2021...equities were on fire. We are not looking for a repeat of those heady days. But we also are not fearful of another ugly 2022.



➤ Business surveys: Manufacturing improving but still not great

The S&P Manufacturing PMI slipped a touch in December (but better than expected). The ISM increased about a point. New Orders were strong, and Employment was weak. Prices remain resilient (not a good thing).

Construction Spending was flat in November after three positive months (however slight).

Factory Orders fell -0.4% in November. These have been negative for five out of the last seven months. Orders ex-Transportation were positive and have been so for eight out of the last 10 months.

➤ Business surveys: Services strong and improving. But watch out for inflation!

The S&P Services PMI increased less than expected in December. It is still near a three-year high of 56.8.

ISM Services jumped two points which was more than expected. New Orders and Employment remain decent. But the Prices component shocked to the upside reaching its highest level in two years.

- Other economic data is mixed/better
  - ADP's guess at the change in Private Payrolls for December was a little light. They expect 122k new jobs versus an expectation of about 140k. (Yes, this one can be a little silly...an expectation of an expectation.)
  - Job Openings (in the JOLTs) surprised to the upside. The 8.1mm Openings, up from 7.8mm in October and 7.4mm in September, is the highest number since May. Quits, however, remained subdued. The 3.1mm is the lowest level since the Virus Fear.
  - Mortgage Applications fell over 12% on the week. The average 30-year mortgage rate climbed to 6.97%.
  - Initial Jobless Claims fell again. 211k last week was the lowest level since April. And this was followed up with 201k this week. Continuing Claims are bouncing around a bit more. But they are down from their peak two weeks ago.
  - Total Vehicle Sales increased marginally to a 16.8mm run-rate.
  
- The Saudis are back hiking prices to Asia

In December, the Saudis cut prices to Asia on its Arab Light crude. The \$0.90 premium to prices in Dubai was the lowest since January of 2021. This was a drop from the \$1.70 premium just a month before. But now, the Saudis have reversed course and are increasing the prices to Asia to a \$1.50 premium. Our first thought is that the Saudis are pretty panicky in their price moves. But we also think they are responding to the better data we have observed in China (long way to go...the real estate market there is still a disaster). And there are also reports that China is going to stop accepting shipments on crude vessels from sanctioned countries. This might be for show as Iran, Russia, and Venezuela could simply use third-party ships. But that will not stop Saudi from boosting prices if it can.

- Where did all the crypto money go?

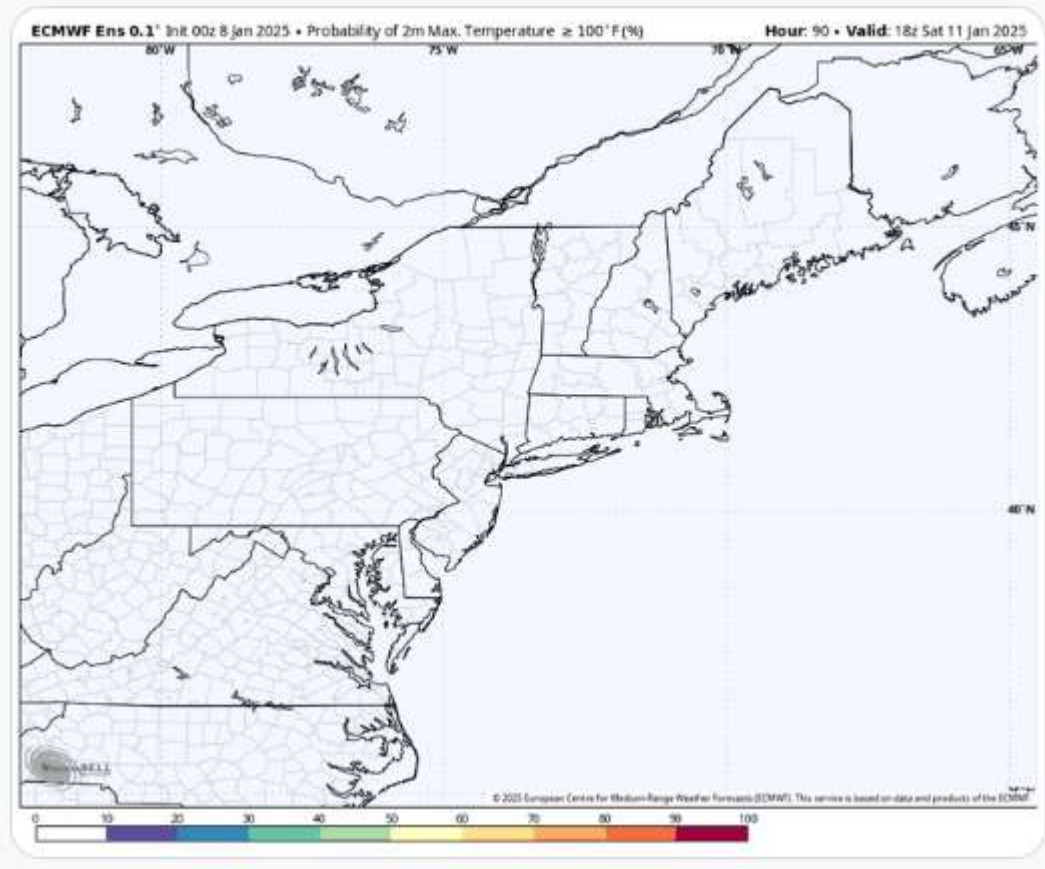
Bloomberg ran an article about the increasing usage of “stablecoins” in commerce in the Middle East. Obviously, they are talking about Dubai, that beacon of backroom dealings and shady operators. The article lists such use cases as buying an \$8mm Dubai property, buying a private yacht, paying the \$100k monthly rent on a villa, and Tanzanians buying Indonesian cooking oil. The article continues how this is all normal in the new age of “fintech” platforms etc. They use phrasing such as “bypassing geographical and institutional barriers.” Through all the laudatory fawning, Bloomberg slips in this gem: These stablecoin services “especially in sanctioned countries like Russia and Iran that lack ready access to the banking system – **can be risky.**”

You can be a royal sheik, and oil smuggler, or an international pariah...stablecoins have it all.

- Chart Crime of the week

This is a real chart from a real weather forecaster. Perhaps he sprinkles in some humor on the side?

## Probability of temperatures over 100° F in NYC this weekend



### ➤ Quick Hits

- Colorado wants to start transporting stored energy via rail.
- 50% of all Nvidia employees are worth over \$25mm.
- The Democratic Republic of Congo produces over 75% of the world's raw cobalt.
- China produces over 75% of the world's purified cobalt.
- Javier Milei has four cloned Mastiffs.
- Facebook said its fact-checkers were the problem with misinformation. The Fact-checkers fact-checked this as false (for real).
- Facebook is getting rid of fact-checkers.
- During the Houston-Tennessee game, CBS cut to the studio to show a highlight of the Houston-Tennessee game.
- According to U-Haul, the top five states that people moved to in 2024 were South Carolina (1), Texas, North Carolina, Florida, and Tennessee.
- The new TGL golf league, the indoor golf played on a screen, is paying "fans" \$200 to fill seats in the studio.
- Our beloved Cleveland Browns have had 40 starting QBs since 1999 (we update this one every so often).
- Walmart, Amazon, and Costco make up 17% of all retail sales in the US. It was 11% in 2014.
- Kirby Puckett's Sam's Club ID card sold at auction for \$270.
- A Notre Dame football player had his name on his jersey written in Chinese for the Sugar Bowl.
- Jack Nicklaus's first career victory as a professional golfer was the US Open.

**Trading:** As we have mentioned, we cut our Industrial longs. These were in our Trading bucket. They *should* do well in the macro environment, but that theory is out the window for now. We bought some more Financials. After an initial burst after the election, they have been muted. And they stand to benefit from tax reform, deregulation, improving loan growth, lower deposit beta (depositors are not bouncing around banks like they were when rates were hiked two years ago), and a steepening yield curve.

**TSLAQ:** As per the new norm, Musk is quiet about his car business. However, his “Tesla Europe & Middle East” team did post this one on X. We never thought of a hatchback as being a comfortable “tent.”



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