Weekly Update

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- The market is fueled by better Employment with lower Inflation
- One to two rate cuts are likely coming this year despite this combo
- Inflation cools again
- More jobs if not more people employed
- One-liners from the Fed
- Quick Hits
- Where did all the crypto money go?
- *Not* the Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	5,421	1.3%	14.0%	27.9%
QQQ	$474.09	2.3%	15.9%	34.6%
US 10 YR	4.32%	4.28%	3.88%	3.83%
USD/DXY	104.7	104.3	101.3	103.3
VIX	12.0%	12.6%	12.5%	14.6%
Oil	$78.40	5.9%	9.6%	17.0%

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

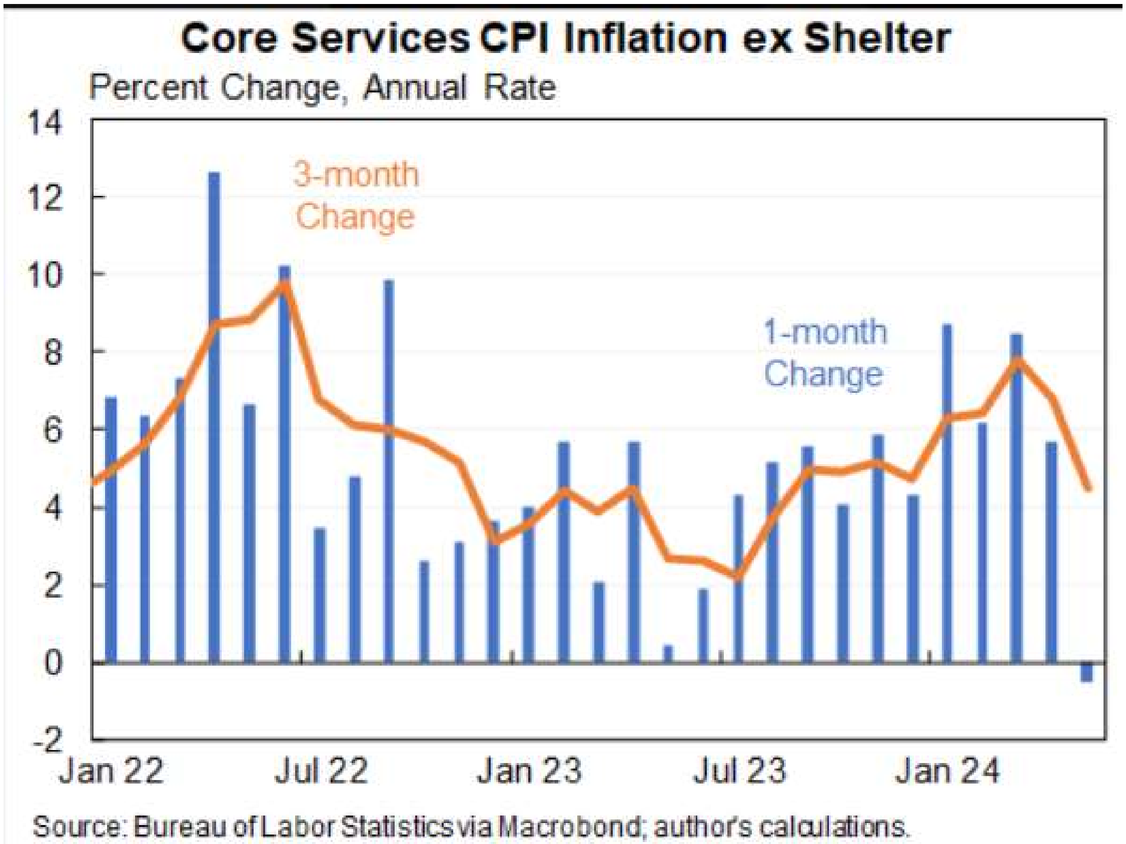
Last week we noted that the market was back to enjoying good economic data. Rate cuts were not necessary if the economy was still growing and if inflation remained subdued (if not back to the Fed's desired level just yet). And that's what we got this week. There was a strong Employment Report (with the usual caveats that we detail below), and Inflation officially registered 0.0% for the month of May. And if anyone doubted that the recent rebound in AI stocks was going to last (after a modest pullback at best), Apple burst onto the AI scene and thrilled the market (we are less impressed with the new features which include upgrades outside of AI capabilities, but we are not exactly first movers in the phone space). To cap things off, Fed Chairman Powell, despite being overly vague, did say that not a single member of the committee has a base case of hiking rates. And with an aggregate projection of 5.1% for the end of the year, one rate cut is the consensus. The market took this to mean that two rate cuts are possible if not likely given the most recent inflation trajectory (lower). Some of the more sensitive areas of the market did fade from their highs (gold, small-caps, utilities, real estate, etc.). But the overarching response was positive. And Powell's vague tone did shift when he was answering the question about whether the Fed would be responsive enough to forestall any economic weakness: It would be. Furthermore, he answered the logical question of why the Fed felt the need to cut rates even with inflation not at its desired level and the economy still growing: Powell believes the current policy stance is restrictive, and he wants to get back to a more neutral level. In David Zervos's words, the Fed Put has been in effect all year, and nothing changed today (the "Fed Put" is jargon meaning the Fed will act immediately at the first sign of stress).

On the risk front, the European Central Bank may not be as keen to cut rates as they have been indicating. Regulation on Big Tech continues to intensify. The K-shaped economy is still in force. Bankruptcies are on the rise. And the mini-political turmoil seen in emerging markets last week (Mexico and India) is now continuing in the UK, France, and Germany. Never mind the chaos in (the) Ukraine, Middle East, or right here at home. The recovery in China has seemingly stalled (CPI and PPI deflation, Imports slowing, official Manufacturing PMI back in negative territory). We were never banking on a robust China to guide the global economy. And with a booming India, there is less of a need. But it certainly is a marginal negative for global growth.

- Inflation cools again

Prices were dead flat in May vs April according to the Consumer Price Index (CPI). April's gain was 0.3%. The market had been expecting an increase of 0.1%. The "Core" rate increased 0.2%. This was also down from the 0.3% in April and the 0.3% expected. The annual rates are 3.3% headline and 3.4% Core (down from 3.4% and 3.6%). A slowdown in Services prices was a driver. They slowed to a 0.2% increase down from 0.4% in April. And Core Goods prices were negative!

Shelter prices continue to be the stickiest of the major categories. They increased 0.4% for the fourth month in a row. The annual gain is 5.4%. Both Rent (+0.3%) and OER (+0.4%, Owners' s Equivalent Rent - the weird input drawn from homeowner surveys) moved higher. As silly as it sounds to strip out Housing prices, we think that is what the Fed is doing. Powell keeps saying that they expect Housing to normalize (and he acknowledges the quirky manner in which the price indices are constructed). Only Paulie from Goodfellas could slice and dice as finely as this.



Transportation prices fell -0.5%. Vehicle Insurance and Airfares both fell while Vehicle Maintenance increased. Medical Care decelerated to a 0.3% gain. Physician Services were flat while Hospital prices still increased but slowed (0.5% vs 0.6% last month).

Food prices had their usual split. The group had a small 0.1% increase for the month and 2.1% on the year. Food at Home was flat and 1%. But Food away from Home increased 0.4% and 4.0%. Energy Prices had a large 2.0% drop on the month led by Gasoline declining -3.6%

Consumer Inflation Expectations for 1-year ahead declined to 3.2% from 3.3% (per NY Fed).

We have been thinking that inflation would remain sticky. Some of our macro positioning would benefit from rising prices. But we also think strong growth will do the trick.

- More jobs if not more people employed

The May Employment Report looked strong on the surface again. Nonfarm Payrolls increased by 272k jobs. This is up from the 165k jobs gained in April (which was revised down from 175k). Private Payrolls increased by 229k. The ADP expectation for this was 152k. Government jobs also increased by 43k vs 7k last month. But, of course, the Unemployment Rate moved higher to 4.0%. This equates to a loss of 400k jobs. We use "of course" because this has been the theme for a long time. The number of jobs is increasing but not the number of people with jobs. Heritage estimates (obviously with a political bias) the Unemployment Rate should be even worse as the calculation is missing 5mm people (that are out of work and want to be working). David Rosenberg (super smart, always too early) puts it another way: The number of unemployed has grown 8.7% this year while the number of new jobs has increased only 1.8%. And we have highlighted the breakdown of who exactly is getting the new jobs (immigrants, this is factual not political). On the plus side, the breadth of jobs gained across sectors is on the rebound. Education and Health still has the sharpest gain rate (not positive for growth). And the breadth still has more to go. But the direction and rate of change are positive.

- Other economic data is mixed
  - Commercial & Industrial lending turned positive for the first time in almost 18 months.
  - The US's Balance of Trade worsened in April as Imports increased more than Exports.
  - NFIB Small Business Optimism Index ticked up slightly. It is still near a 10-year low.
  - Weekly Redbook Retail Sales increased 5.5% (still decent but rolling over a bit).
  - Mortgage Applications had a nice bounce on the week (+16%).
  - Jobless Claims increased to 229k. The 4-week average is 222k. Continuing Claims are 1.792mm.

- One-liners from the Fed
  - Private Domestic Final Purchases (which exclude Inventory, Investment, Government, and Net Exports) are running hotter than overall GDP (2.8% vs 1.3%) (We will add that this is quite the Slicing & Dicing by Powell!).
  - Consumer Spending remains solid. Investment in Equipment has picked up.
  - The labor market is in better balance. The UE Rate ticked up but remains low. Wages are a little hot.

- Future inflation expectations remain anchored. Need more evidence that inflation is moving sustainably towards 2%.
- Powell thinks policy is restrictive, so they need to cut rates before things slide (our words).
- Housing is complicated. There will still be a shortage, but dislocations from people locked in their mortgages will be gone.
- No one on the committee has rate hikes as the base case.
- Best comment from Jeff Gundlach: He sounded more like an economist than a private equity guy.

➢ Where did all the crypto money go?

This one is more of a prediction that some are about to lose their crypto money. Iggy Azalea, the Australian singer, has been promoting a token called Iggy Azalea's MOTHER. Apparently, it is represented by a photo of her butt. Nobody is sure if the token was created by her, or if she has just taken the opportunity to buy some and then pump it endlessly. She says it is a fun way of gambling. All this has happened on Pump.Fun (what could go wrong). And the 2800% return in two weeks is fueling those gambling spirits.

➢ *Not* the Chart Crime of the week

We saw CNBC's Brian Sullivan pitching this chart. The humor is spot on, but it also represents the underlying dynamics of inflation perfectly. And we also whipped Sullivan in trivia a few years back at the Ark in Point Pleasant, NJ. (He is one of the good guys for what it is worth.)

➢ Quick Hits
  - Heading into the NBA finals, 84% of all bets and 69% of all money bet was on the Mavericks.
  - In the weeks leading up to D-Day, a British newspaper had crossword puzzles with answers including Utah, Omaha, and Overlord (and other code words used by the Allies). It was reported

as an unfathomable coincidence. But the words were likely overheard by schoolboys who contributed to the puzzles. The children played next to a military base.

- Joey Chestnut turned down a 4-year, $1.2mm contract to eat in the Nathan's hotdog eating contest. He now has his own Netflix special for Labor Day weekend.
- Sales of lottery tickets in Japan grew 37% last year.
- Shortly after D-Day, the USS Texas needed to shoot its bomb shells further as the allied forces advanced and pushed the German line backyards. The captain of the battleship decided to flood one torpedo blister (an anti-torpedo bulge on the side of battleships) to tilt the ship 2 degrees to ensure the necessary angle for more distance.
- Nike lost its bid to trademark the word "footware."

Trading: We added a little more to our long in Mexico. This nice winner has soured quickly in the aftermath of the presidential election. We still think Sheinbaum will ride the middle much like her predecessor (and perhaps still puppeteer AMLO). But to balance some exposure, we did reduce some long Energy exposure that runs through Mexico (she is an academic at heart, so her green tendencies might supersede her otherwise rational thoughts). We added more to one of our Consumer Discretionary Growth names. Its Growth narrative is coming under fire because of a few bad weeks. We added to another similar name. Otherwise, we are mostly content with our exposures and riding our winners. We still have not added to our tiny short exposure. We keep saying we are going to…but the market keeps making new highs, so we are still waiting!

TSLAQ: The WSJ is reporting that Musk is a serial sexual harasser at his companies. Allegedly, he had a sexual relationship with an intern whom he later hired as an executive. He repeatedly asked a woman to "have his children" and then demoted her when she rebuffed him. And the list goes on. The state of California is already investigating Musk for his discriminating behavior and his retaliations against those that dare protest his advances. And more personal lawsuits have crept up this week. All of this is unfolding just as Musk is pleading for $50b so he will not take his talents elsewhere. Who knows how the vote will go, but as one reformed Tesla investor put it, "why does he not put as much attention and effort into running the company instead of trying to secure his fortune?" Musk also oddly blasted Apple for not taking its AI privacy standards seriously enough. This coming from a guy who gives the communists in China all the data they want.