Weekly Update

25-September-2024
Carlisle C. Wysong, CFA
Managing Partner

- Equities believe Powell
- Stagflation is a possibility
- Credit Card metrics are mixed, but better as a whole
- Housing transactions are slowing but mortgage applications are higher
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	35,724	2.2%	21.1%	34.3%
QQQ	$486.70	3.4%	19.4%	36.9%
US 10 YR	3.79%	3.71%	3.88%	4.54%
USD/DXY	101.0	101.0	101.3	106.2
VIX	15.4%	18.2%	12.5%	18.9%
Oil	$69.80	-1.6%	-2.7%	-22.3%

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

Once again, the knee-jerk reaction to the Fed was wrong. But we did not need to wait a day or two as sometimes is the case. Equities decided to believe Powell that the rate cuts were, indeed, a recalibration: A soft-landing was in the works. Most macro assets had already priced in the Fed's action. The USD, commodities, and bonds did not move much. In fact, longer-dated Treasury yields moved *higher*. But the 2-year Treasury, the best market proxy for future Fed Funds yields, is still grinding lower. And the market expects it (Fed Funds) to hit 4% by the end of the year. We suspect the Fed might not be this aggressive, which could potentially set up the market for a little disappointment. Not that we read too much into any one Fed member (other than Powell), Michele Bowman did dissent to the 0.50% cut. She was the first Fed Governor to dissent since 2005. And the Fed's dot-plot (not a forecast they say, but it is a forecast) sees a median rate of 4.40%. Only one Fed member sees the rate going down near 4% in the next three months.

Elsewhere, we are beginning to worry more about the regulatory heat building on Big Tech. This is not a new story…but the various government lawsuits seem to be gaining traction. And the companies are even beginning to turn on each other. On the bright side, T-Mobile says the iPhone 16 is selling at a greater rate than last year. And the CEO noted the rolling release of AI features will extend the refresh cycle. We highlight this not only as an obvious tailwind to Apple, but it is a clear sign of a healthy consumer (regardless of carrier trade-ins and subsidies, people would not think about a new phone if times were tough). That said, Housing is a still an issue (prices starting to fall with more inventory appearing…even though transactions are yet to increase). And the lack of real job creation might turn into job destruction. And if growth suffers while central banks are easing monetary policy (not to mention potential fiscal policy giveaways)…that is a recipe for stagflation. That is not our base case, but we will have some positioning to account/hedge for this. And as for the multiple stimulus efforts in China…these are of the emergency ilk... none of this is "recalibration." Put simply, goosing equities with free money will do nothing to help the overbuilt and overleveraged property sector.

➢ Credit Card metrics are mixed, but better as a whole

Here is the monthly credit card data (we have reformatted the table that always drove us nuts). The trend is basically the same. The large banks are still below 2019 levels. The smaller ones (with riskier loans) are seeing delinquencies rise but charge-offs are declining. Average charge-offs declining, but they are still above 2019 levels. Overall, we think this data is positive, but there are certainly pockets of weakness (highlighted by Ally recently).

								Aug '24 vs	
		Aug	July	June	3-mth Avg	Aug-23	Aug-19	Aug '19 bps	
COF	delinquency	4.35%	4.28%	4.14%	4.26%	4.09%	3.50%	85	COF
	charge-off	5.82%	5.79%	5.93%	5.85%	4.55%	4.18%	164	
AXP	delinquency	1.30%	1.30%	1.30%	1.30%	1.20%	1.50%	(20)	AXP
	charge-off	2.20%	2.10%	2.30%	2.20%	1.70%	2.30%	(10)	
JPM	delinquency	0.84%	0.83%	0.82%	0.83%	0.90%	1.14%	(30)	JPM
	charge-off	1.64%	1.51%	1.60%	1.58%	1.68%	2.45%	(81)	
SYF	delinquency	4.60%	4.60%	4.50%	4.57%	4.10%	4.20%	40	SYF
	charge-off	5.70%	6.30%	6.10%	6.03%	4.70%	5.30%	40	
DFS	delinquency	3.79%	3.73%	3.69%	3.74%	3.15%	2.41%	138	DFS
	charge-off	5.22%	5.28%	5.67%	5.39%	4.16%	3.40%	182	
BFH	delinquency	6.20%	6.20%	6.00%	6.13%	5.90%	5.50%	70	BFH
	charge-off	7.80%	8.00%	8.40%	8.07%	6.70%	5.70%	210	
C	delinquency	1.46%	1.44%	1.36%	1.42%	1.28%	1.53%	(7)	C
	charge-off	2.38%	2.59%	2.47%	2.48%	1.97%	2.62%	(24)	
BAC	delinquency	1.43%	1.42%	1.41%	1.42%	1.26%	1.56%	(13)	BAC
	charge-off	2.48%	2.36%	2.50%	2.45%	2.13%	2.67%	(39)	
Total	Avg. delinquency	3.00%	2.98%	2.90%	2.96%	2.74%	2.67%	33	Total
	Avg.charge-off	4.16%	4.24%	4.37%	4.26%	3.45%	3.58%	58	

➢ Housing transactions are slowing but mortgage applications are higher

Existing Home Sales fell -2.5% in August vs July. The annual run-rate dropped to 3.86mm from 3.96mm. This is down -4.2% from last August. Single Family home sells fell -2.8% on the month. The median price fell for the fourth month in a row down to $422k. This is still a 2.9% increase vs last August. Inventory ticked up slightly to 1.35mm homes. Versus last year, the gain is more noticeable as supply was 1.1mm last August. The 1.35mm is 4.2 months of supply (based on rolling sales rate and current inventory, so the month is not obvious). The "experts" think 6-7 months is healthy (the high over the last 10 years is 5.7 months). The average time a house is on the market is 26 days which is up slightly from 24 in July. First-time buyers only accounted for 26% of sales…this is a record low.

New Home Sales dropped almost 5% in August vs July (716k from 751k. But July was a strong month so this downtick is just that. Building Permits, on the other hand, accelerated higher after a lousy July. New Home Supply is higher at 7.8 months.

Two other price indices (House price Index and Case-Shiller) showed prices remained flat in July (backward looking, but some of this data is more granular).

Mortgage Applications increased again. As we have noted recently, the activity is starting to increase (still has a long way to go). This data conflicts with the slowing transactions on Existing Homes. Perhaps it is mostly reflecting the change in cash buyers (fewer of them). We are still concerned about the Housing market, but the Housing stocks might be able to withstand any pressures thanks to favorable demographic changes and supply shortages.

- Other economic data is mixed/negative
  - Jobless Claims fell 3k. Continuing Claims fell 14k. Still nothing to see here.
  - The Philly Fed Manufacturing index moved back into positive territory. While Prices Paid were higher, Employment showed the best improvement.
  - The Richmond Fed Manufacturing index sank further into negative territory. The is the 11^{th} negative reading in a row. The Services index improved on the month, but it is still negative.
  - Consumer Confidence fell sharply in September. Not to be confused with Consumer Sentiment…Confidence is more centered around Employment while Sentiment is more Inflation sensitive.
  - Weekly Redbook Retail Sales slowed again. For all the accelerating strength seen in August (4.7% -> 6.4%), September has unwound this (back down to 4.4%). This data is obviously volatile (it being weekly), so we do not read too much into this as long as it stays moderately positive (pre-Virus Fear range was 2% to 6% roughly).

- Where did all the crypto money go?

This one checks a lot of boxes in the three C's: Crypto, Covid, and Communists. The founder of a crypto venture capital firm disappeared for over a month. The fund, based in the US, had about $100mm in capital when the founder wrote a cryptic (pun?) email about going to China to help his father defend himself against the communists. His father, a senior member of the communist party, apparently rankled some feathers. Speculation swirls around his handling of Covid. He was a "first level inspector" in the Hubei province…Wuhan is the capital. For some reason, the venture capitalist son was unable to communicate with anyone in the US during his time in China. After more than a month, the limited partners of the fund decided to wind it down. Just then, the founder reemerged. He has yet to explain what happened. According to Fortune, he has agreed to "relinquish his ability to manage or transact with the fund's multi-signature wallet."

We will call this a preemptive strike. We will bet anything that this fund's money somehow follows the same fate as the founder's father.

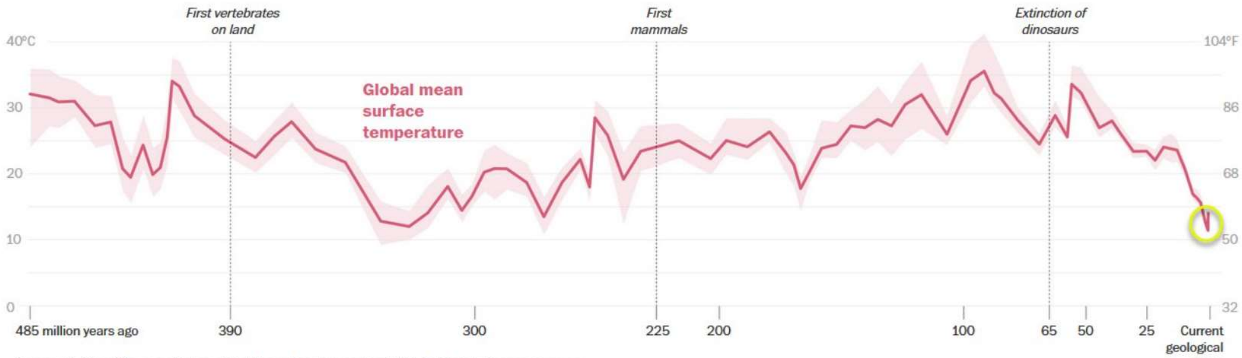
- Chart Crime of the week

Ladies and gentlemen, we have a winner. We have been writing this for about seven years, and we have finally reached the pinnacle of chart lunacy. We have laughed at the charts with foolishly long time periods: 100 years, 500 years, maybe even 1000 years. This one…485,000,000 years! Not to mention, the recent uptick does not look that severe? Perhaps our biggest beef with this is the use of "Scientists."

Scientists have captured Earth's climate over the last 485 million years. Here's the surprising place we stand now.

An effort to understand Earth's past climates uncovered a history of wild temperature shifts and offered a warning on the consequences of human-caused warming.

10 min 1321



Source: "A 485-million-year history of Earth's surface temperature", E.J. Judd et al. Temperatures are averages for geological periods. Shaded area shows values with a 68% probability.

- Quick Hits
  - One of the reasons the stock market crashed in 1973 was that a third of all loans from New York banks were used to buy stock on margin.
  - There is a biker in NYC that rides the Citi Bikes back and forth between the docking stations. He gets paid $0.20 for each ride. He made $60k last year. We prefer the Spotify arbitrage in which the guy played his own music to the tune of $10mm. (Matt Levine of Bloomberg is a hawk on these schemes.)
  - McDonald's soon to be released hamburger, named the Big Arch, will have 1030 calories.
  - There are more MRI machines in Pittsburgh than all of Canada.
  - The United Kingdom does not believe in prescreening for prostate cancer.
  - Apartment prices in Buenos Aires have dropped 40% in real terms since the government scrapped price controls.

Trading: We rearranged some positioning this week. We increased our inflation longs. The global stimuli (everywhere but Japan) should boost commodity prices even if global growth remains muted (not negative, just slowing). We shifted some of our Big Tech exposure. We trimmed some of the names that had benefitted from the AI wave without necessarily earning those benefits (yet - we think they will eventually, but they might have to prove it first). And we increased some exposure in other names that we think will benefit but the market is not appreciating that potential yet. We also rearranged some of our health care exposures. Similarly to our Tech exposures, we want to be better aligned with the regulatory environment. We also increased our long in European defense (or "defence" as they might spell it).

TSLAQ: Tesla has been rallying ahead of its 3Q sales (early October) and its "Autonomy Day" on October 10. Sales are supposed to be ok…because of the continued price cuts. And the Robotaxi nonsense will surely be a flop. This is a classic Tesla rally into fluff. We suspect reality will hit once this silliness is behind us (with more clarity with its earnings on October 16).

As a reminder, the rage for EVs sems to be fading and fast. Registrations for new EVs in Europe fell 44% in August compared to last year. New car sales as a whole fell 18%. EV market share for new cars fell to 14% from 21% last year in August. Hybrids saw a nice surge in sales and market share.

Check out our website to learn more about Chalk Creek Partners

Carlisle's Twitter Financial List

Carlisle's LinkedIn

The information presented does not involve the rendering of personalized investment, financial, legal or tax advice, and it is intended to be general market commentary. Information presented is believed to be factual and up-to-date, but we do not guarantee its accuracy and it should not be regarded as a complete analysis of the subjects discussed. All expressions of opinion reflect the judgment of the authors as of the date of preparation and are subject to change. Certain information has been provided by third-party sources and, although believed to be reliable, it has not been independently verified and its accuracy or completeness cannot be guaranteed. Past performance is not indicative of future results.