



Weekly Update

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- Strong economy with a rate cut coming
- A mini death-rotation does not shake the market
- Earnings are still good, but are expectations too high?
- Shelter inflation cools, but other prices are accelerating
- Employment report bounces back (depending on where you look)
- China is stimulating, and nobody is listening
- Oil prices are lifting, but global demand is still sluggish
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	6,084	0.0%	28.8%	33.9%
QQQ	\$529.92	1.3%	30.0%	36.1%
US 10 YR	4.28%	4.18%	3.88%	4.20%
USD/DXY	106.7	106.6	101.3	103.9
VIX	13.6%	13.5%	12.5%	12.1%
Oil	\$70.38	2.7%	-1.9%	-1.4%

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

** Oil is front month futures, beware

Recent weeks have bounced around with varying narratives and actions. Many of these coalesced this week. Economic data was strong (Jobs and Inflation) but not strong enough to spook the Fed. Jobs bounced back from the October downturn due to hurricanes and strikes. On inflation, despite the rate remaining elevated above the Fed's target, Jerome Powell and gang finally got a slight cooling in Shelter price increases (still increases). The market has moved to a 99% chance of a Fed rate cut next week. This combination has resulted in a slightly steeper yield curve (the difference between 10-year and 2-year Treasury rates). We interpret this to mean the market is expecting some cuts in the short-term to recalibrate rates, but a robust economy is keeping longer-dated yields elevated.

As for market dynamics, there was a brief yet harsh rotation out of momentum stocks. We have said that these rotations can be healthy as long as they are not of the death-rotation variety. On Monday, it felt like death. But

it was short-lived. Perhaps it was a few large funds locking in gains at the same time (and triggering more selling). But the negligible move higher in market Volatility (Vix) tells us this flare up was largely ignored. Nasdaq Volatility, a better proxy for recent momentum, acted similarly. Since Volatility did not ramp higher meaningfully, Quant funds were not compelled to sell (Vol-targeting, Risk-parity, Statistical Arbitrage, old-school CTA/momentum chasing, etc.). Drilling down a bit, some software companies are reporting good earnings. But they are falling victim to the curse of high expectations (the sector deserves to take a breather, but we are bullish in general). On the political front, some of the Trump trades have slowed down. But Trump's appointees continue to be pro-business with respectable experience (with a few select ideologues throw in, for sure). And hopes are riding high that Musk and Vivek's DOGE project might accomplish something without a big hit to short-term growth. Tariffs remain the bogey man (Elaine) in the media. But the market is waiting for more concrete policy initiatives (not just negotiating tactics). China is doing all it can to avoid the tariff hammer (more stimulus).

Of course, there are still some worries underneath the surface. Not all the Employment data is positive. The same old theme persists: There are more jobs, but, also, more people are not working. Even though the Fed has stated its focus is on Shelter prices, it quietly must worry about the increase in Food price volatility. And for all the optimism around rate cuts, some will surely be disappointed when monetary policy stops easing (with the balance sheet run-off ongoing, it will be a net tightening). And while we think some of the software companies deserved better reactions to their earnings, the market is clearly richly valued.

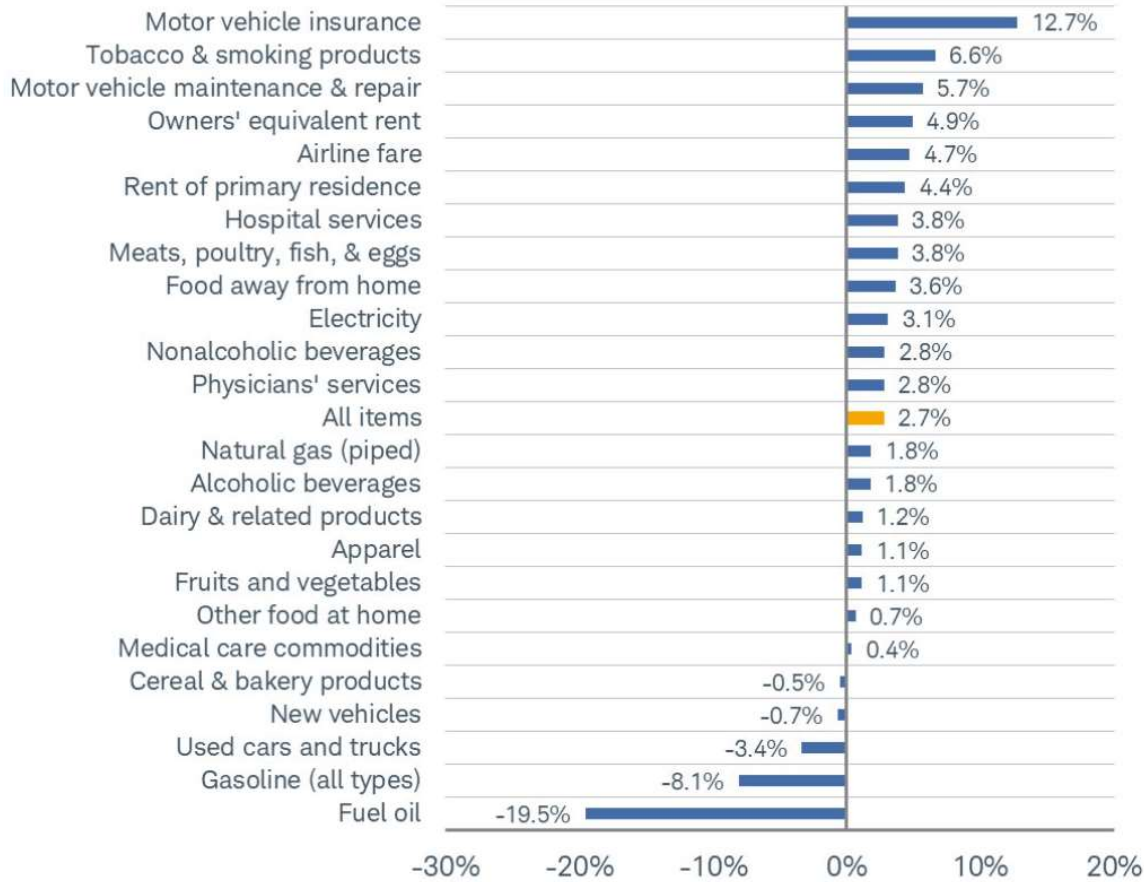
➤ Shelter inflation cools, but other prices are accelerating

The growth in the Consumer Price Index (CPI inflation) in November increased 0.3% vs October. The "Core" (excluding Food & Energy) also increased 0.3%. The yearly rates are 2.7% and 3.3%. The monthly headline rate is the highest since April. The annual rate has inflected higher since the low in September (2.4% -> 2.6% -> 2.7%).

Food at Home and Shelter were the standouts (bad and good). We previously noted that Food at Home inflation surged in September but cooled again in October. November was back to surging, this time 0.5%. Food away from Home was not much relief with a 0.3% gain. Shelter, on the other hand, registered a slight 0.3% gain. More importantly, Owners's Equivalent Rent (for how much you think you could rent your house) only increased 0.2%. Rent also only gained 0.2%. This means Hotel prices moved much higher (+3.7% but not a Fed focus). But this subdued price change in Housing is exactly what the Fed wants to see (and has been saying we will see). Some other outlier categories include Gasoline (+0.6%), Electricity (-0.4% we have not witnessed this one yet!), New Vehicles (+0.6% after being flat/down in recent months), and Used Vehicles (+2.0% but this is down from Oct 2.7%). The largest gainer in Food at Home was Nonalcoholic beverages.

Here are the annual changes:

CPI select categories (y/y % change)



Source: Charles Schwab, Bureau of Labor Statistics, as of 11/30/2024.

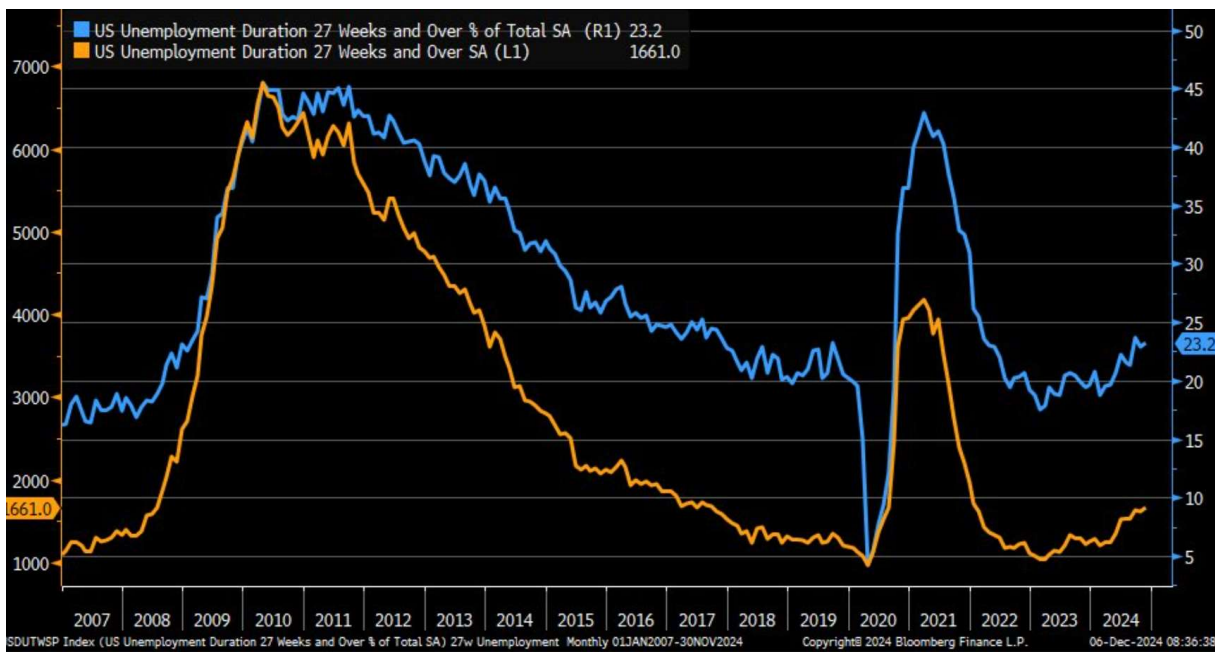
U-Michigan Inflation Expectations (December) diverged a bit. The 1-year moved higher to 2.9% from 2.6%. But the 5-year ticked lower to 3.1% from 3.2% (again, we do not put too much into monthly moves).

➤ Employment report bounces back (depending on where you look)

The Employment Report for November was a mixed bag. The headline Non-Farm Payrolls (NFP) showed a gain of 227k jobs. This large gain was expected after October's number was so low thanks to the hurricanes and strikes. Even this low 12k from October was revised higher to 38k. And September, a strong month at 225k originally, was revised up to 255k. Government payrolls were about as expected at 33k. Manufacturing bounced back from -48k in Oct to +22k in Nov. Private Payrolls registered 194k new jobs (-2k in Oct). ADP's guess earlier in the week was for a gain of 146k.

That is the good news. On the downside, the Unemployment Rate ticked up to 4.2%. And the Participation Rate ticked lower to 62.5%. These numbers translate into 398k fewer people working. October had a drop of 282k. David Rosenberg (super smart, usually right, always too early) estimates that if the Participation Rate had not dropped the last two months, the Unemployment Rate would be at 4.5%. The Underemployment Rate (U6 report = total unemployed plus marginally attached workers plus part time workers for economic reasons) ticked higher to 7.8%. This is still low by historical standards, but it is near the highest level in three years and well above the pre-Virus level.

Liz Ann Sonders points out that unemployment longer than 27 weeks continues to rise albeit slowly and from a low level. But these are the statistics that turn into a drag on growth.



Average Hourly Earnings remain strong at 0.4% on the month. 4% is the tally for the last year. This may not bode well for inflation, but it is better than having inflation without a commiserate growth in wages. Average Weekly hours ticked up to 34.3.

Challenger Job Cuts remained steady at 58k in November (56k in Oct). There has not been a trend in this series for over a year.

- China is stimulating, and nobody is listening

China made another stimulus announcement. This time it was a change in wording by the top communists...they now want to adopt “an appropriately loose” monetary policy. Maybe this is their form of guidance. But promises from these guys ring hollow. As we have stated, manipulating the market with asset buying and raging against Trump’s tariff machine are no way to fix a broken economy. Even lower interest rates and juicing fiscal stimulus will do nothing to bring life back into an overheated-turned-dead real estate market.

China’s Trade Surplus surged higher in November. Sounds like good news...except Imports are shrinking at an accelerating pace. And even though Exports are still growing, the pace is slowing. Not to mention, much of the recent increase can be attributed to front-running tariffs.

- Other economic data is mostly positive
 - Small Business Optimism (NFIB) jumped to its highest level in over three years. This is that group of businesses that did not want to invest or hire before the election.
 - Initial Jobless Claims ticked up to 224k. Continuing Claims ticked down to 1.87mm.
 - U-Michigan Consumer Sentiment increased to the highest level in eight months.
 - Nonfarm Productivity moved lower, but this is 3Q data.
 - Redbook Retail Sales slowed to 4.2% growth from 7.4%. This is a typical slowdown post-Thanksgiving.
 - Mortgage Applications increased for the fifth straight week (still a long way to go).

- Oil prices are lifting, but global demand is still sluggish

Oil prices are trying to follow the growth theme. The China stimulus has probably helped a bit (for trader sentiment if nothing else). The chaos in Syria certainly does not hurt prices (but we do not think the situation will have much of an impact...we typically downplay “geopolitical” premia). But we have to remember that the sluggish global economy has a much stronger pull on prices than an optimistic US economy does. And, actions speak louder than words. Saudi has cut the premium it charges to its Asian customers roughly in half (\$1.70 to \$0.90). This is the lowest premium for Asian customers in four years. And all this comes as the Saudis are continuing to keep a lid on production.

- Where did all the crypto money go?

We thought the meme-coin garbage had jumped the shark with social media 15-minuters losing money left and right. And the video of the real-life Russian Roulette was too depraved to even try to verify. But now, apparently, humanity has taken another step back. There is a crypto coin “inspired by CEO “killer” Luigi Mangione.” Worse yet, at one point it had rallied almost 35,000% to reach a “valuation” of \$50mm. We cannot stomach this to keep following it.

- Chart Crime of the week

This is the Table Crime of the week.



One Bee Study Words for Third Grade

The School Spelling Bee Study List is broken down into three levels of difficulty: One Bee, Two Bee and Three Bee. One Bee words include words appropriate for first, second and third grade.

The list below includes 50 challenging third grade words. If you learn the spellings and meanings of these words, you will be well prepared for your third-grade classroom bee. To prepare for a school spelling bee, ask your teacher for the full 450-word School Spelling Bee Study List, which includes these words, the remainder of the One Bee words, and the Two Bee and Three Bee words.

giraffe
groceries
huddling
jigsaw
neighbors
gasped
mansion
midday
powwow
bazaar**
OR bazar
astray
liquid
fuel
nassive
women**
OR womyn
chuckle

handstand
machine
leaking
snazzy
whee
welcome
pretend
should
sideways
muster
include
sandwich
Saturn
violet
mighty
solution
spiral
thread

velvet
breathe
taxicab
report
cobweb
rodent
spying
showed
scribbly
recess
highway
reeds
bolts
squeeze
softly
wriggle

**preferred spelling



Download the Word Club app for spelling games and audio pronunciations.



Official Dictionary of the Scripps National Spelling Bee. merriam-webster.com

➤ Quick Hits

- Scorigami! Miami beating the Jets 32-26 is the 1089th unique score in NFL history (this one surprises us).
• Walt Disney founded his namesake company at the age of 22 (in 1923).
• A professional poker player has plead guilty to scamming clients in a sports betting ring. This guy advertised on the radio that he had inside information on sporting events including dirty referees.

- Six Apple employees ran a charity scam...collecting and keeping a matching contribution from the company. Costanza would be proud.
- The Province of Newfoundland changed its name in 2001 to Newfoundland and Labrador.
- A Bitcoin miner called Hut 8 has announced a \$500mm stock offering and a \$250mm stock buyback.
- New York state is going to hand out money to help combat inflation. Fox Butterfield strikes again!
- The rarest statistic in Major League Baseball is hitting two grand slams in the same inning (Fernando Tatis).
- Google's new "quantum" computing chip "solved a standard computation in < 5 minutes that would take a leasing supercomputer over 10^{25} years, far beyond the age of the universe(!)."
- William Safire, the late, great maven word known for his grammar and pronunciation prowess, added an "e" to the end of his name... for easier pronunciation.
- A drunk driver in Long Island decided to reenact Ground Hog Day and take his Honda down the LIRR train tracks.

Trading: We shuffled a few positions this week. We trimmed some of our commodity longs. These were more inflation-oriented plays. We want to focus more on Growth in the short to medium term. So, we added some software and Midcaps. We added some Energy and Industrials (not exactly Growth in the traditional sense, but could have tailwinds). We cut our European defense. This has been a big winner for us. But we fear these stocks could take a hit if Trump has any diplomatic success. That said, we also think Trump success could lead to more self-financed defense spending in Europe which would benefit these companies down the road. But we think bumpiness is more likely in the near term.

TLAQ: As much as we really like Elon and his DOGE mission, sometimes Elon reminds us of who he has always been: An overconfident pumper. Someone is apparently proposing a tunnel between New York and London for a cool \$20t (trillion). This supersonic pathway can theoretically get you across the Atlantic in under an hour (this would have been nice when we lived there). Musk chimed in that his Boring company could do the job for \$20b. For perspective, the Chunnel connecting England and France cost \$15b in 1994. (But we still are hoping Musk succeeds wildly with DOGE.)

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