Weekly Update

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- Macro taking a backseat to the micro
- Trump surging in the polls, what does it mean?
- Corporate insiders are not buying this market
- Unemployment expectations are on the rise
- Auto loan delinquencies are on the rise
- Inflation remains the same, but the mix is different
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week
- It has been 85 years since the man behind the curtain

	Last	5d %	YTD %	1yr %
S&P 500	5,842	0.9%	23.6%	36.8%
QQQ	$490.80	-0.5%	20.4%	35.3%
US 10 YR	4.02%	4.07%	3.88%	4.83%
USD/DXY	103.6	102.9	101.3	106.3
VIX	19.6%	20.9%	12.5%	17.9%
Oil	$70.54	-4.0%	-1.8%	-18.8%

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

Last week's strong Employment report is a distant memory now. Not that the positive vibe for equities is gone. But rather, the macro (economic data/interest rate policy) took a backseat to the micro (company specific news). Specifically, strong bank earnings and mixed start to the semiconductor outlook split the market (the chip equipment maker ASML lowered guidance for next year…due to China and memory but not AI ambitions, and Taiwan Semi had blowout earnings). Utilities continued their epic run without the aid of lower rates (they are *higher* after the Fed *cut* them two weeks ago). Google and Amazon followed Microsoft in announcing they would be investing in nuclear facilities to feed their insatiable need for power. We think this is a real force. But it might be getting ahead of itself (whatever the case, we are confused/pleased to see politics not enter the conversation…yet). Energy was the worst performer of the week, but that was mostly macro move. Apparently, Israel is not going to start World War III. It might only target Iran's nuclear facilities. As we have said countless times, always fade any "war premium" built into oil prices. Or at least do not forget to look at the demand side of the equation. Otherwise, there does not seem to be any closing of the gap between the diverging factions of the consumer (the K-shaped economy). Unemployment expectations are on the rise. Auto loans are heading for trouble. Inflation is cooling but not for your monthly costs (namely Food and Electricity, but Shelter did cool slightly). We still think the economy can power through this, but there might be some bumps along the way.

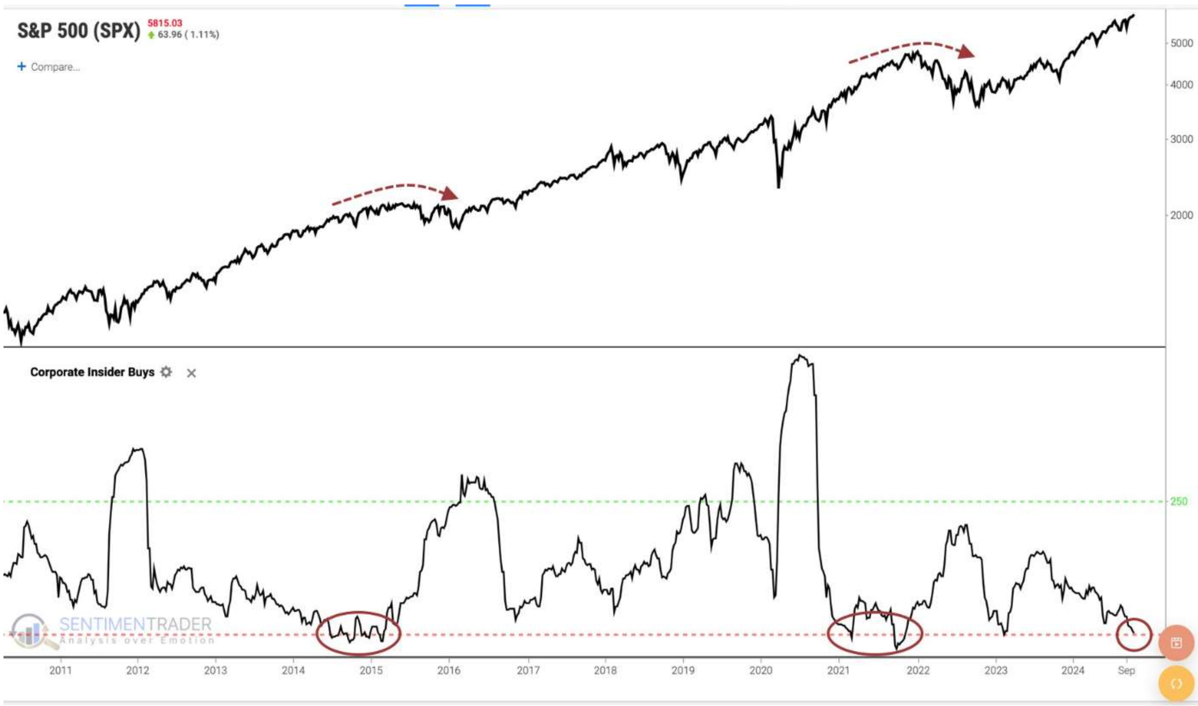
- Trump surging in the polls, what does it mean?

In political news, Trump seems to be pulling ahead in the polls (just reporting the facts, our opinion is irrelevant). We see Trump at 58.7% on Polymarket. Predicit has Trump at 55%. We have somehow stumbled upon a full-time political bettor on Twitter. Because of the giant bettor in the market (up to $25mm on Trump now), he pegs the Polymarket premium at about 5%. To be clear, we never believe polls outright. We only believe in broad trends. As for why we care, this is a risk management exercise. We want to know which assets are being pushed and pulled by politics. Put another way, we want to understand if this changing landscape has resulted in some illogical moves in the market (not wrong moves, just not following the typical macro playbook). Financials would possibly benefit from a lighter regulatory environment. Energy is getting hit because "Drill Baby Drill" is usually bad for oil stocks (on top of the increasing supply and decreasing demand). Nuclear/Utilities's tailwind might be strengthened by fewer regulatory hurdles. Health Care typically does poorly in election years regardless of the party in the lead (the sector is an easy target for politicians on both sides of the aisle). Tech and Communication Services (which is dominated by Facebook, Google, and Netflix) have been treading water lately. This is a function of giving back some of their big gains earlier in the year. But it also might signal that the market is afraid of both candidates and their populist leanings (looking to breakup Big Tech). Here is a snapshot of sector performance.

Sector Name	5-Day Return	YTD Return	1-Year Return
Basic Materials	2.4%	14.0%	28.6%
Communication Services	0.6%	25.6%	38.5%
Consumer Cyclical	0.6%	11.6%	28.7%
Consumer Defensive	1.1%	16.0%	26.7%
Energy	-1.4%	10.0%	3.4%
Financial Services	4.2%	27.0%	47.2%
Healthcare	0.5%	13.5%	21.0%
Industrials	2.0%	22.3%	39.2%
Real Estate	3.2%	13.7%	34.7%
Technology	0.2%	24.4%	42.6%
Utilities	4.4%	32.3%	43.1%

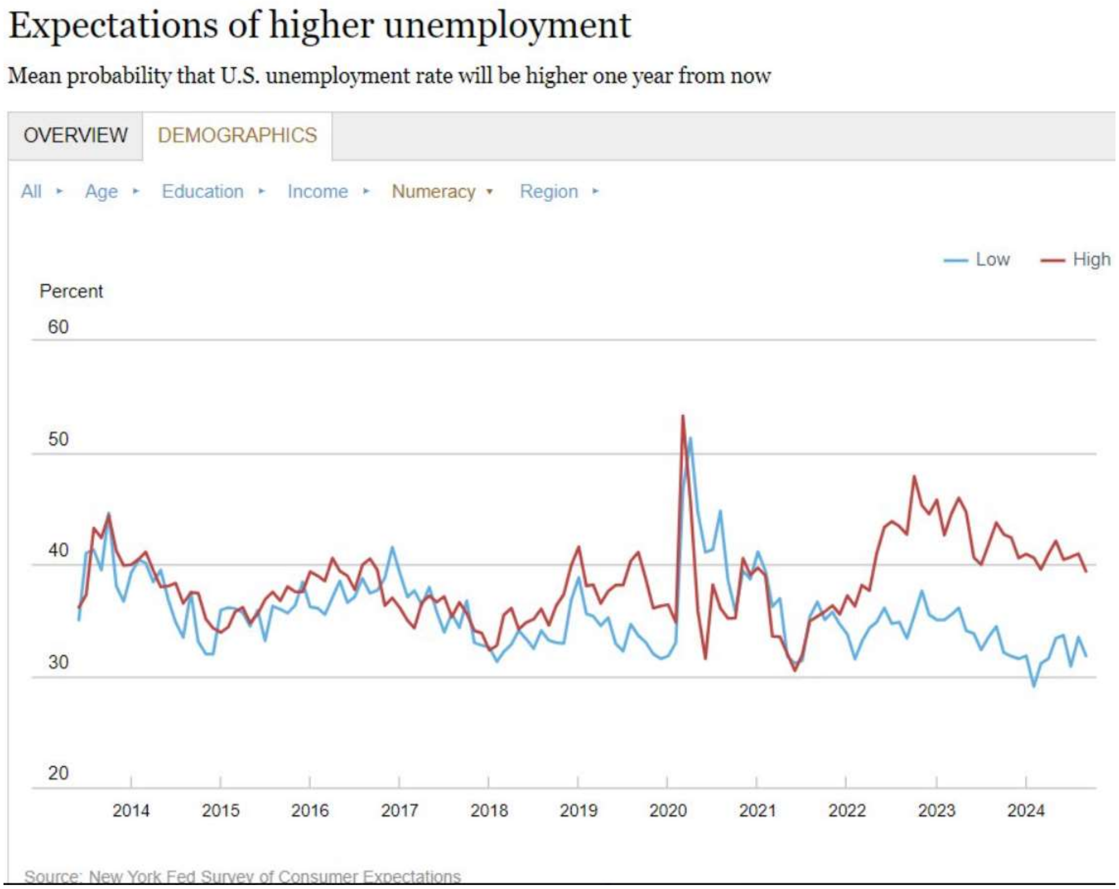
- Corporate insiders are not buying this market

Corporate insiders are not buying this market. This chart is not great, but we still think there is some solid signaling value. Over the last 15 years, when insiders (corporate mgmt. teams / strategic owners) slow down their buying, the markets have rolled over. We could always get an increase in buybacks to offset this. Then again, buybacks at an all-time high are probably not a great signal, either.



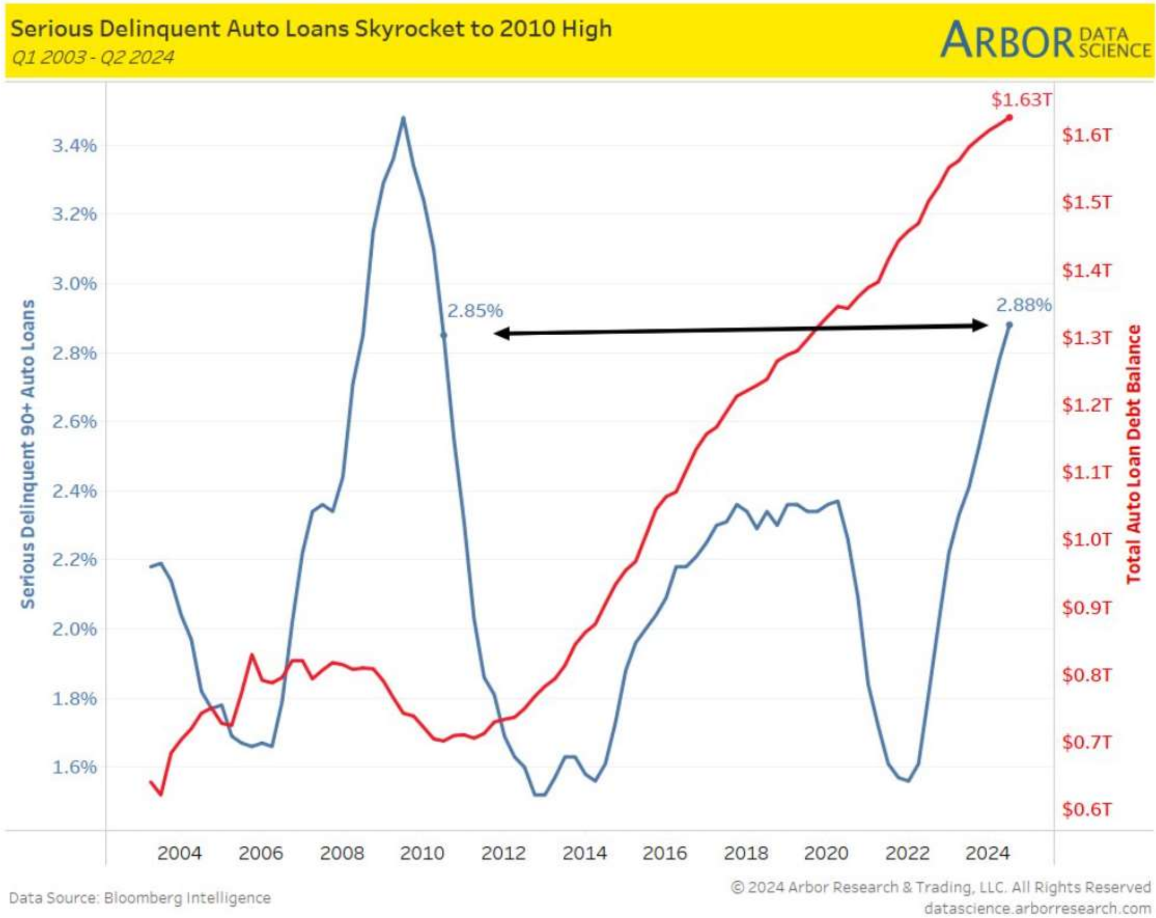
➢ Unemployment expectations are on the rise

The NY Fed does monthly surveys on consumer expectations. We typically note the Inflation expectations, but the survey on Unemployment expectations is interesting, too. Those more affluent are more concerned about the Unemployment Rate as a whole. The Fed tiptoes around the awkward nature of this question by splitting the workers along the lines of “numeracy.” (This is the equivalent of literacy but for numbers.) The higher bracket of numeracy correlates with higher levels of income (and education…we suspect this relationship is weaker than it used to be). While the red line is sloping down, it is still at an elevated level and much higher than the “low numeracy” folks. Separately, the group who thinks they will lose their own job is dominated by the lower income bracket (not in this chart). Put together, it sounds like the people responsible for the firing expect more layoffs to come…and those being fired see it coming.



- Auto loan delinquencies are on the rise

This is another K-shape datapoint. Auto loan repayments are falling behind. Serious Delinquent loans (past 90 days) are at their second highest rate in the last 20 years…and climbing (blue line). And the overall level of auto loan debt has doubled (red line). Also, subprime auto loan delinquencies are now higher than 2008 (approaching 4.5% on the 60-day delinquency…not in this chart and not apples to apples but also accelerating higher).



- Inflation remains the same, but the mix is different

The Consumer Price Index (CPI inflation) increased by 0.2% in the month of September vs August. This brings the annual rate down to 2.4% from 2.5%. The "Core" increased 0.3% to bring the increase for the year to 3.3%. The monthly numbers were about 0.1% higher than expected.

Food was the biggest surprise with a 0.4% increase. And unlike the previous trend, Food at Home was the larger contributor (+0.4% vs +0.3% for Food away from Home). Energy prices fell 1.9%, but Electricity prices are still surging higher (and we have seen Energy prices inflect higher in October albeit with volatile swings). Medical Care Commodities fell -0.7%, but Medical Care Services increased 0.7%. Shelter price growth slowed down to 0.2%. Rent increased 0.3%, and Owners's Equivalent Rent (OER, the weird guess of your house's estimated rent) also increased 0.3%. (The math is fuzzy here…how can two things increasing at 0.3% have an average of 0.2%...because there are other, smaller contributors to Shelter like Lodging away from Home which fell -1.9%. There is also Household Insurance which fell -0.5%).

Produce Prices (PPI, wholesale or input prices) cooled down to 0% in September. The "Core" was a touch hotter at 0.2%, but this is still lower than the 0.3% in August. The annual rates are 1.8% on the headline and 2.8% "Core."

Inflation Expectations (1-year, per NY Fed) remained steady at 3%. The U-Michigan 1-year expectation increased to 2.9% from 2.7%.

- Other economic data is mostly negative
  - Jobless Claims jumped to 258k from 225k. Continuing Claims also increased to 1.86mm from 1.82mm
  - The NY Fed's Empire Manufacturing for October sank sharply from +11.5 to -11.9.
  - Redbook Retail Sales increased from 5.4% to 5.6%.
  - Weekly Mortgage Applications fell sharply -17%. The average 30-yr mortgage rate is up about 0.50% in two weeks (6.11% to 6.61%).

- Where did all the crypto money go?

The FBI set up a sting to catch the biggest crypto "market-makers" perpetrating the new-aged version of pump-and-dumps. The government accuses these companies of "executing sham trades…to create the appearance of trading activity that would make tokens look like good investments."   These platforms would sometimes be responsible for 90% of a token's total trading volume. And they are not exactly subtle about what services they offer. They "openly offer wash trading service to token foundations" according to a digital asset monitoring platform (reported by Bloomberg). The FBI has one of the criminals saying on video, "If you guys have a requirement on the price, for example, like pump the price from $1 to $2, we will give you a plan." To sum it up: Fake trades are used to pump up fake money.

Not to be outdone, traditional finance had a pump-and-dump get busted also. Insiders of a penny stock called Minerco were touting it as "The Magic Mushroom Company."

- Chart Crime of the week

This one checks two classic chart crime boxes: A completely random chart with zero labeling; A spurious relationship if there ever were one. (DragonBall is a video game, apparently.)

- Quick Hits
    - Scorigami! The only thing the Cowboys are good for these days is getting beat so badly that we get a unique NFL score (1087th all time).
    - Sphere Entertainment has a 16-member board of directors. Nine of them are in the Dolan family.
    - The first dictator of Turkmenistan after the collapse of the Soviet Union was Saparmurat Niyazov. He renamed himself Turkmenbashi ("Father of Turkmen").
    - An NFL bettor turned $10 into $131k with a 16-leg parlay wager (must win all the bets to get paid). The 16th bet, all involving NFL games, was the Bills covering the 2.5 point spread. The Bills won by 3.
    - USC sells a fan experience during which you can pay to run out of the tunnel with the team onto the field before kickoff. A Penn State fan signed up and ran with the team in his Penn State gear.
    - A public company called Bright Minds Biosciences rallied 1500% on Tuesday. Its market cap went from $4mm to $172mm. No news on the stock.

Trading: We trimmed some more in Health Care. It has been a big winner, and it might be running out of steam (Covid catch-up finally happened). We added to our longs in commodities. We dumped our main exposure in Europe. We cut some Big Tech…we had a big position, so we are just right-sizing it some. We bought a speculative industrial. We are looking to add back some of our Energy that we sold when it got a boost from the Israel/Iran story.

TSLAQ: Tesla's "We, Robot" event was a flop that only lasted 19 minutes. There was no $25k mass-market model reveal. There was no actual path to monetize any of his empty dreams…just a slimmed down version of the Cybertruck, the Cybercab which is just as ugly. There is some sort of Robovan (we call it a bus; Uber beat them to the punch). Of course, his robot made an appearance and poured a drink and flashed the peace sign. Even the Tesla fanbois were unimpressed, "For the next 24 months, Tesla has to sell EVs. Why aren't we focused on that?" Even the Morgan Stanley lackey entitled his note, "That's it?" They are starting to realize it is just a car company.

But some were impressed by the robot…it was so cool that it could walk and talk by itself! Alas, it was being controlled by a human "teleoperator." We call that remote control. Even the voice of the robot was the actual voice of the human behind the curtain.

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