# Weekly Update

4-September-2024
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- Bad news is bad news
- Or is it positioning and quirky trading again?
- Many corporates think the rate cuts will not last
- Business surveys rattle the market (not sure why)
- Normalizing Jobs Openings had the same effect
- High prices are not the Fed's problem
- But high prices are shrinking Savings
- China data is still getting worse
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

| | Last | 5d % | YTD % | 1yr % |
|---|---|---|---|---|
| S&P 500 | 5,520 | -1.9% | 16.5% | 24.0% |
| QQQ | $460.61 | -3.4% | 12.8% | 22.8% |
| US 10 YR | 3.76% | 3.84% | 3.88% | 4.26% |
| USD/DXY | 101.3 | 101.1 | 101.3 | 104.8 |
| VIX | 21.3% | 17.1% | 12.5% | 14.0% |
| Oil | $69.43 | -8.5% | -3.1% | -18.8% |

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

We have commented several times recently that "good economic news is good news again." Even with Fed Chairman Powell emphatically telling us that interest rate cuts are a normalization process, the slightest bad news has the market abandoning the soft-landing glide path. This was abundantly clear this week as some typically middling data shook the market out of its recent sideways trading action. Of course, it might not all be attributed to recessionary fears (just like the early August panic when the unwind of the Yen-carry trade struck at the same time as a weak Employment Report). Positioning seems to have been juiced higher in the last month. Supposedly the momentum funds that sold the dip a month ago subsequently bought the rally. And now they have to sell all over again. Sentiment among induvial investors is back near its peak (bullishness as tracked by the American Association of Individual Investors is one-standard deviation above its average). The market tends to run out of steam when this group gets too optimistic. And we are getting the usual banter about seasonality (September is a bad month; Volatility increases heading into presidential elections). These

things are typically just market noise. But it is hard to argue that some segments of the market are overvalued while economic growth is slowing. US GDP growth dropping from 3% to 2.5% to 2% is going to rock the boat. Globally, Europe barely has its head above water. The same goes for China once you discount the data for the communist spin. It is no wonder that the defensive sectors Health Care, Staples, and Utilities continue to be the winners (along with Financials and Real Estate). We also have the yield curve starting to un-invert. The 2-year Treasury yield is now below the 10-year yield. We do not put a lot of credence into this (just like we do not believe that a curve inversion is necessarily a bad thing!). But the market sometimes thinks this is a sign of weakness to come (for the economy and equities). We will also add that there is more scrutiny on the timing of the AI monetization. We think this is mostly the market looking for a question while NVDA gets smacked around by the market volatility. Nothing has changed fundamentally for the company, and we are seeing more evidence of end-users utilizing increased computational power (aka AI) to enhance profitability.

- Many corporates think the rate cuts will not last

The debt capital markets have been super active lately. 29 US companies sold debt for about $43b on Tuesday. This was the highest number of issues ever in a single day. Meanwhile, 24 companies in Europe raised about $25b in debt. The thought is mgmt. teams are afraid that the runaway fiscal policies will lead to higher debt burdens down the road and thus higher interest expenses for the corporates.

- Business surveys rattle the market (not sure why)

A poor S&P Manufacturing PMI was the first headline to spook the market coming out of the Labor Day weekend. But the 47.9 reading missed the expectation of 48. Yes, this was a slowdown from the 49.6 in July. And the ISM Manufacturing also missed expectations…by 0.3. But this one still improved on the month. New Orders was the worst component, so perhaps this was the market focus. But we have never seen such second-tier data (especially now that they have been off the mark for over two years now) have such a profound impact.

- Normalizing Jobs Openings had the same effect

Job Openings in the July JOLT survey fell to 7.67mm from 7.91mm (which was also revised lower from 8.18mm). The expectation was for a roughly flat reading. However, Quits actually increased in July vs June. None of this is bad data to us (but the market thought it was). We have been clamoring since the Virus Fear recovery that Job Openings have been inflated. Some are duplicates, some are inflated, some are stale, and some are just fake news. The current number of Openings is still very strong by historical standards. The Quits bounce might just be a small bounce in a long downtrend. But we still would not sound the alarm.

We heard/read a lot of pundits pointing to this data because the Fed has highlighted it recently. The weird thing is that the Fed wants this data to cool. Powell cites the Job Openings/Unemployment ratio as having normalized. Maybe the market thinks this trend is going to worsen beyond its pre-Virus Fear trend? Maybe. But it is clear that the 2:1 ratio during the Virus recovery period was overinflated. The Fed does a good job breaking down this data. The Job Openings Rate is still higher than 2019. But the current Unemployment rate is also higher. These two effectively cancel each other out. Furthermore, the Fed notes that 2019 was considered a "hot" labor market. So, a further normalization might be necessary.

- High prices are not the Fed's problem

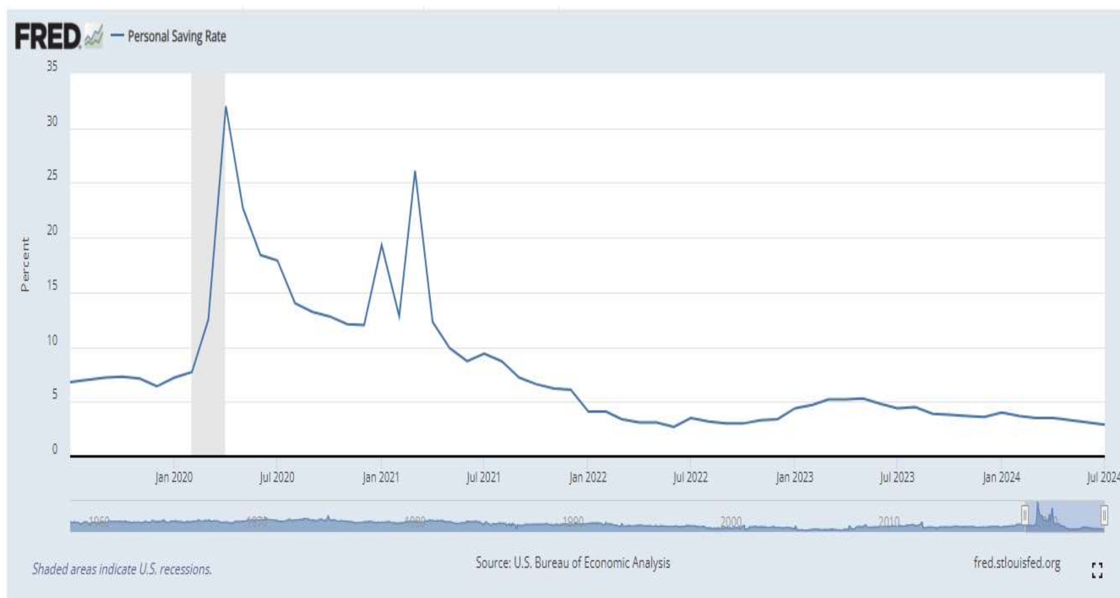
Inflation remains in check with a 0.2% gain in August according to the change in the Personal Consumption Expenditures index (PCE). This is the same as July. And the annual rate was steady at 2.5%. Core prices were up a hair to 0.2% from 0.1%. But the annual rate was also steady at 2.6%. Personal Income ticked up from 0.2% to 0.3%. Personal Spending ticked up a little more from 0.3% to 0.5%.

U-Michigan Inflation Expectations for August ticked down to 2.8% from 2.9%. Looking further out, the 5-year expectation has been stuck at 3% for the last five months.

Some economists (professional guessers) think inflation might tick up this fall because of base effects (current data compared to data rolling out of the 1-year calculation). Even if this were to happen, the Fed has firmly planted its flag in the dovish camp…and we know how long it takes for the Fed to change its mind!

- But high prices are shrinking Savings

The Personal Savings Rate for July just hit its lowest level since the 2008 recession. It is not broken down by segment, but we suspect this is heavily skewed by the lower part of the K-income distribution (spending what they make to get by). But we often start to see the savings rate move higher as an economy weakens (clearly not the case for the Virus Fear recessions which was government mandated). We still think this portends overall weakness. But it might not be the doomsday indicator some are making it out to be. It is more likely value-hunting…"just poor it my hand!"




- Other economic data is mixed
  - The 2nd estimate for 2Q GDP was revised up from 2.8% to 3.0%. 1Q saw growth of 1.4%. Inflation for the quarter was also revised down a touch, but Core prices were revised up. Consumer Spending was also revised higher.
  - Pending Home Sales fell 5.5% in July vs June. This is an -8.5% drop vs last July. Last week we noted Housing data was improving. Perhaps we spoke to soon.
  - Jobless Claims were flat at 231k. We have entered a new range that defies logic.
  - Continuing Claims also have a found a new range…a higher one (around 1.85mm).
  - Retail and Wholesale Inventories are both creeping higher.
  - U-Michigan Consumer Sentiment improved slightly in August. It is well off the 2022 low, but it is still well below the normal level. Recall this gage is heavily influenced by inflation. The logic simple: Inflation is not as bad as it was…but prices are still high.
  - Weekly Redbook Retail Sales accelerated to 6.3% vs 5% last week
  - Factory Orders increased 5% in July vs June which had fallen 3.3% vs May.
  - The trade deficit for July worsened to -$78.8b. But Exports and Imports both increased.

- China data is still getting worse

The official Manufacturing PMI for August fell a touch more into negative territory. It is the lowest reading since February. The fact the communists admit it is negative is the most telling. Oddly, the private Caixin Manufacturing PMI bounced back into positive territory. The official Services survey also moved a touch higher (already positive). The private Services dipped but it remains positive. The most telling of these numbers is the official manufacturing. This represents the largest companies in China.

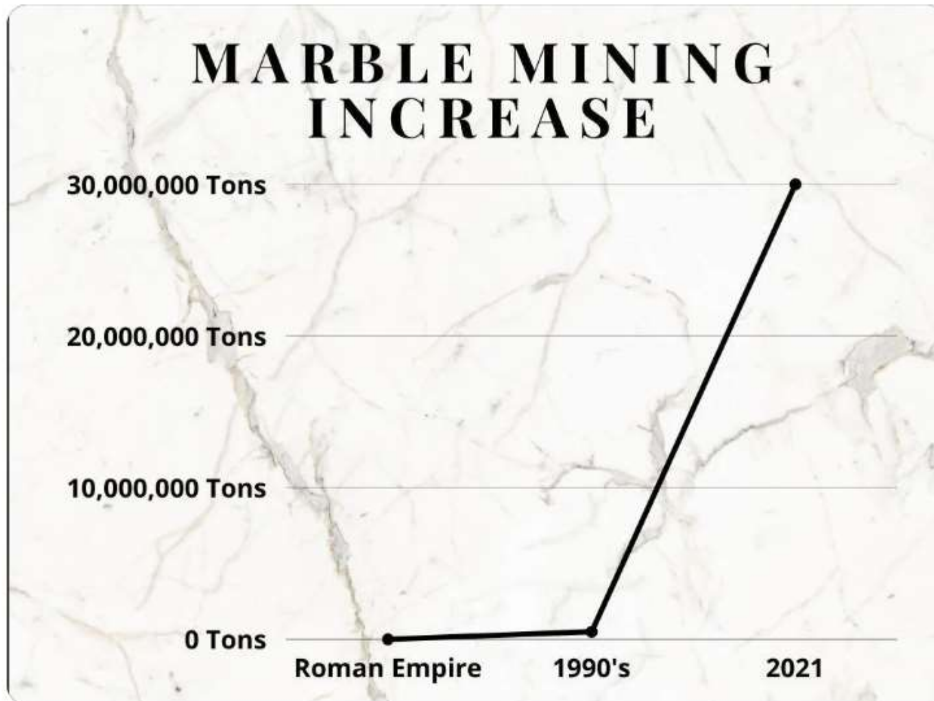
- Where might all the crypto money go?

Last week we mentioned that the “stablecoin” Tether would be the 8th largest money market fund given its gigantic reserves. Not being happy with just clipping coupons on $100b of real money (since they do not pay interest on their reserves), Tether is looking for places to invest its bounty (theoretically it is still the bounty of

its investors…but that has never stopped crypto people before). In typical crypto fashion, Tether has hired an investor who is known for "unconventional investments, including psychedelic drugs, dinosaur fossils, and alternatives to performance-enhancing drugs taken by athletes during the Olympics."

- Chart Crime of the week

This chart might be interesting if they just started at 1990.




- Quick Hits
    - Scottie Scheffler's caddy won more money this year than Jack Nicklaus did in his PGA career.
    - The US fertility rate hit 1.62 births per woman in 2023. This is down from 3.7 in 1960. (h/t WGAM).
    - Shortly after the city of Richmond, California extorted Chevron for $550mm (a "settlement" to avoid a $1 per barrel refining tax), Chevron announced it was moving its headquarters from San Ramon, California to Houston.
    - Chevron was founded in California in 1879.
    - There are no Interstate Highways 50 or 60. They were skipped to avoid confusion with the US Highways 50 and 60 which were around before the interstate system.
    - Interstate Minor Highways have three digits. If the first digit is an even number, then the Minor returns to the Major. If the first digit is odd, then it does not connect back.

**Trading**: We bought a small bit of Big Tech during this week's selloff. We suspect there might be more volatility and weakness, so we will be picky and methodical. We also continued trimming our long in Energy. We are mostly worried about the weakness in China. We might increase our modest short on the small-caps.

**TSLAQ**:  We know that the market share of EVs in the US has stalled if not rolled over in the US.  No wonder that all of the Big 3 have changed their production plans.  EVs in China still have a growing market share albeit with an overall slower auto industry.  But now we get news that EV market share is slipping in Europe.  For July, it fell to 12.1% from 13.5%.  Hybrids also fell to 6.8% from 7.9%.

While we sympathize with Musk for the growing censorship towards him and X, he has to accept some responsibility.  Or at least Tesla shareholders would like to see him take a slightly less confrontational approach.  The same goes for Starlink shareholders who just saw their assets frozen in Brazil.   Tesla might, again, have to be the piggy bank for these Musk pet projects.  And given the declining appetite for EVs (except in China), the piggy bank might run dry sooner vs later.

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