Weekly Update

4-Dec-2024
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- Quiet trading to start the holiday season (that is a good thing)
- But some Volatility under the surface
- Holiday shopping kicks off strongly (at least online)
- But Discounts are needed
- Are investors ignoring forward guidance on Earnings?
- More Job Openings is probably a good sign
- Manufacturing optimism is picking up, but Services not as much
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	6,086	1.5%	28.8%	34.3%
QQQ	$523.24	3.6%	28.4%	35.1%
US 10 YR	4.18%	4.26%	3.88%	4.18%
USD/DXY	106.4	106.2	101.3	104.1
VIX	13.5%	14.1%	12.5%	12.9%
Oil	$68.67	-0.1%	-4.3%	-6.2%

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

After a flurry of activity heading into the holiday season, things have quieted down. But considering the market has gone up in a straight line for two weeks, we would call that a good thing. Cooler interest rates have helped drive the market back to all-time highs. And this has come with some Fed speakers that have sounded more cautious on rate cuts. Of course, this is a result of strong economic data. The Atlanta Fed's GDPNow (not a forecast, but it becomes more accurate as time passes in the quarter) has jumped up to 3.2% growth vs 2.7% last week. Economists (professional guessers) are still anchored to the 2% level. The lone macro outlier has been the strength in the USD. It typically does not perform well during periods of strong US economic growth. But clearly the new dynamic is a function of Trump…and American exceptionalism (not a political comment, but overseas investors are more bullish on our economy and assets than on their own…rightfully).

The theme of the market has changed a bit. Even with broad market Volatility (measured by the VIX which measures implied Vol on 30-day S&P 500 options) hitting its lowest level since mid-July, there have been some sharp rotations. It seems to be a see-saw between the 10-15 mega-caps and the rest of the market. This is not a new phenomenon. And people are again talking about the concentration at the top of the market. But unless these rotations get violent…aka death rotations…we are fine with some day-to-day choppiness. Of course, the last time the market had a sharp correction (approx. 10% in two weeks) was mid-July. So, we might start to look for some cheap protection (we have been saying this recently, but we have held off fortunately). We suspect the short-term top might come after all the Trump appointments and policy promises start to fade (but we still believe in the long-term tailwinds from these potential policy changes including lower taxes and fewer regulations).

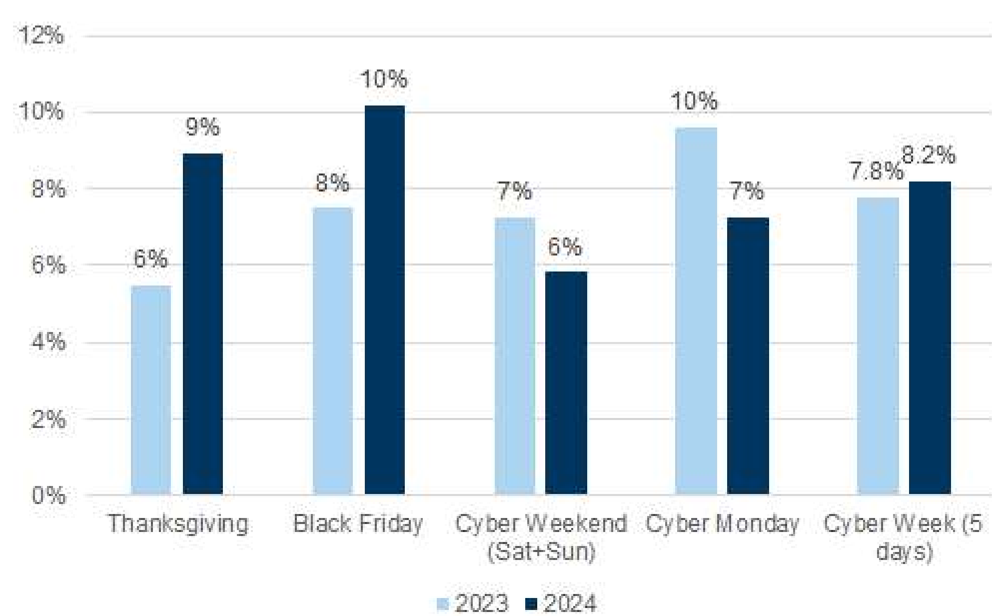
- Holiday shopping kicks off strongly (at least online)

The holiday shopping numbers are rolling in. Last week we noted some conflicting data when looking at early November to mid-November. But recent data tells that online shopping was strong during the first part of Thanksgiving holiday weekend (Cyber-5 is the new terminology). Adobe estimates that Americans spent $10.8b online during Black Friday after spending $6.1b on Thanksgiving Day. The Friday number is an increase of over 10% vs last year. The Thanksgiving number is an increase of 9%. But the sales trailed off over the weekend. Nonetheless, total online sales have been strong. But the downside to this robust e-commerce is a slowdown in physical shopping. Goldman says total shopping was up 6.5% vs 2023 but down 3.5% from 2019. Goldman also notes that discounts are driving much of the increase in sales…people are sick of high prices. Also, companies are facing steeper advertising rates because of the shortened holiday season. Presumably this will net-off, but the trajectory of these rates will be interesting to track.

Weekly Redbook Retail Sales increased 7.4% vs 4.9% last week.

Exhibit 3 : Adobe Cyber 5 US Online Sales Growth: 2024 vs. 2023

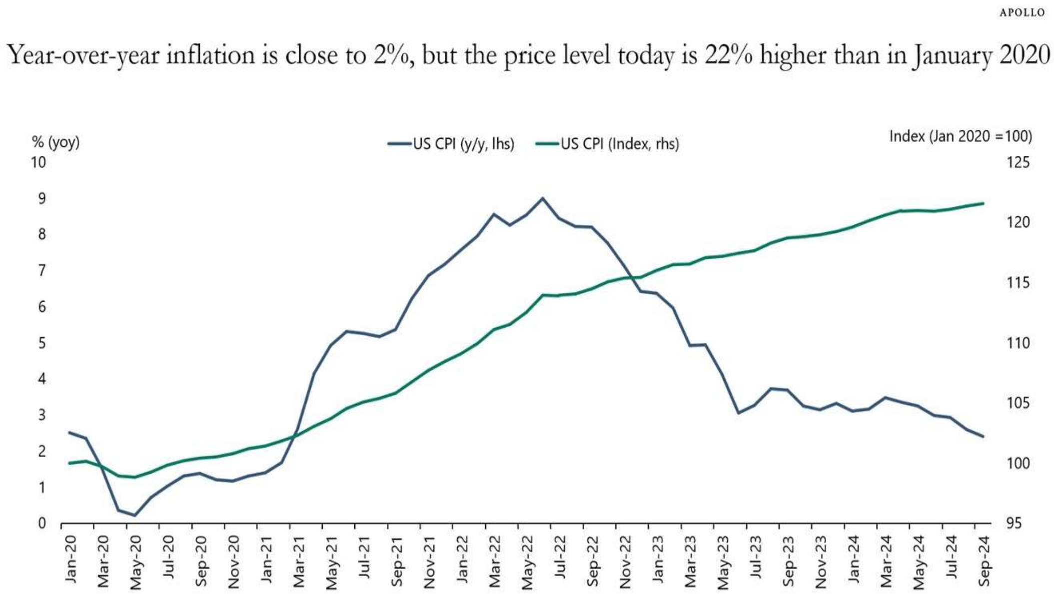
% YoY



Source: Adobe Analytics, Goldman Sachs Global Investment Research

- But Discounts are needed

And here is why shoppers need those discounts. This (repeat) chart from Apollo shows the difference between inflation (hey it is falling!) and prices (ugh they are still going up).



- Are investors ignoring forward guidance on Earnings?

For all the bullishness stemming from Earnings, one datapoint faces the other direction. Of the 102 companies in the S&P 500 that have provided guidance for the current quarter, 65 of them have been negative. You can see in the table that the ratio of negative to positive pre-announcements (N/P ratio) has increased from last quarter and last year. It is hard to extrapolate too much from this data since the magnitudes of the guidance changes are unknown…not to mention the size of the companies doing the announcements. And to be fair, anecdotally we would have guessed that forward guidance has been positive (meaning there has probably been a media skew to larger companies with positive guidance). Nonetheless, we like this backdrop. We would rather have the bad news out early. Of course, the question is whether the market is ignoring this warning sign (maybe)? Or has it already discounted it (probably)?

Exhibit 9. Earnings Pre-Announcements

Type	4Q2024 Total #	4Q2024 Total %	4Q2023 Total #	4Q2023 Total %	3Q2024 Total #	3Q2024 Total %
Positive	29	28.4%	32	31.4%	35	33.7%
In-Line	8	7.8%	6	5.9%	16	15.4%
Negative	65	63.7%	64	62.7%	53	51.0%
Total	102		102		104	
N/P Ratio	2.2		2.0		1.5	

Source: LSEG I/B/E/S

- More Job Openings is probably a good sign

ADP's guess at the change in Private Payrolls ahead of Friday's Employment report was in line with expectations (146k vs 150k). In general, we should see a large bounce from October's lousy data which was skewed to the downside from the hurricanes and strikes.

The Job Openings and Labor Turnover Survey (JOLTs) showed that Openings increased along with Quits. Both data points reversed from poor levels. We will have to see if this is a trend. Professional and Business Services showed the most Openings (but they still have a low Quit rate). While we still think this data is marred by fakeness, we do watch it directionally (similarly to our view of Chinese data). And it ties into the recent survey data that said companies were delaying their hiring plans until after the election. Voi-la.

- Manufacturing optimism is picking up, but Services not as much

Both the S&P and ISM Manufacturing PMIs improved almost to the breakeven point in November (48.5 to 49.7 and 46.5 to 48.4). Inside of the ISM, Employment and New Orders gained while Prices fell.

But Services failed to meet expectations in both surveys. The S&P improved from 55 to 56.1, but 57 was expected. And the ISM fell from 56 to 52.1. and the expectation was for an improvement.

Construction Spending in October increased 0.4% vs September.

Factory Orders increased 0.2% in October vs September.

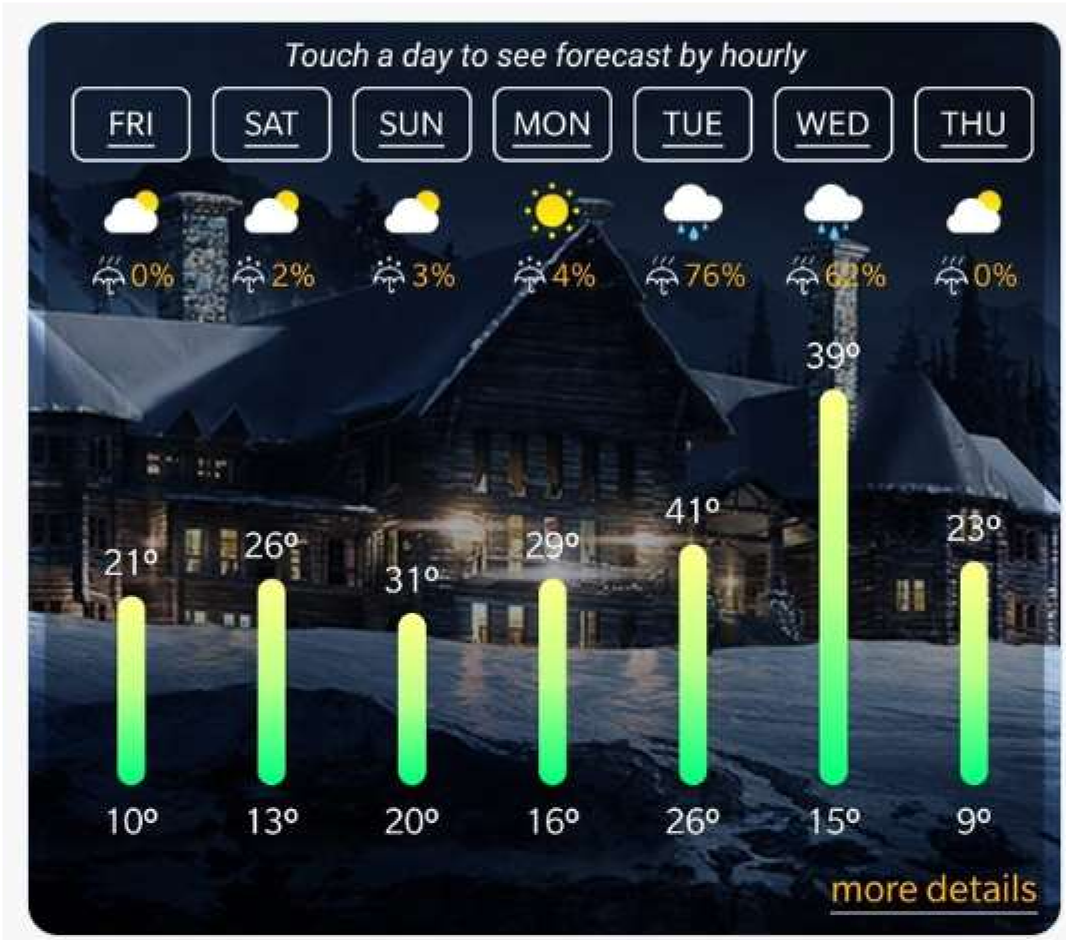
- Other economic data improved
  - Mortgage Applications ticked up on the week.
  - Total Vehicle Sales increased to 16.5mm in November from 16mm in October. This is the highest annual run-rate since May 2021.

- Where did all the crypto money go?

We have all heard of the silly "art" of the duct-taped banana which sold for $6.2mm. Of course, it was a crypto-bro that paid the ridiculous sum. Our second favorite part of the story was him saying he might eat it while at the same time saying it "echoes with our idea of decentralization in the crypto world, because this is a conceptual artwork – it's impossible for you to destroy the artwork itself." But our favorite part is that he wants to pay for the banana with a cryptocurrency called Tron (TRX). Naturally, this guy invented Tron. And naturally, he is being sued by the SEC for allegedly manipulating the price of …Tron. To cap things off, he bought $30mm worth of the World Liberty Financial token. This is the brainchild of Baron Trump and gang.

- Chart Crime of the week

Just another reason not to buy an Android phone.



- Quick Hits
  - The Clean Air Act (amended from the Air Quality Act of 1967) exempts California from following federal law pertaining to environmental standards.
  - A portfolio manager for Western Asset Management has been indicted for allocating better trades to the portfolio that paid him better (and worse trades to the portfolios that paid him less). The SEC says the chances these allocations were random is "less than one in a one trillion." So, you are telling me there is a chance.
  - Scorigami! When the Memphis Grizzlies beat the Portland Trailblazers 134-89 on November 10th, that was the 3,147th unique score in NBA history. (No, we are not going to make this a recurring theme…we were just curious if NBA tracking existed at all.)
  - ETFs that provide leverage on MicroStrategy stock (the company that borrows money to buy more Bitcoin which in turn enables the company to borrow more money) are having a tough time borrowing from their banks. Last week, the two largest funds had credit lines of over $1b. Now they can only borrow up to $50mm.
  - Mobile shopping has accounted for about 53% of all online shopping since Nov 1.
  - Josh Allen is the first QB in NFL history to catch a TD, run for a TD, and pass for a TD in a single game.
  - Josh Allen became the fifth NFL QB to catch a TD pass from himself.
  - The University of Utah offers a Feminist Cannabis Studies class.

Trading: A fairly quiet week of trading given the holiday. We trimmed some of our long in European defense. This has been a strong performer, but we think it might face some headwinds during the early days of Trump. This might present a buying opportunity down the road, but we are happy to take some profits now. Otherwise, we bought some Energy which has lagged lately.

TSLAQ: One of our worries about Tesla stock has been the bad financial performance of Musk's X. Musk used some expensive debt to pay for Twitter. And Musk secured some of this debt with Tesla stock. So, if X could not make money on its own, then the financial onus would fall upon Tesla. We have always loved Twitter/X as a platform (Financial/Political/Sports/Science/Entertainment), but Musk has done his best to anger many of his longtime advertisers (customers). But lo and behold, X has seemingly turned the corner financially. Fidelity, one of the co-investors during the Twitter buyout, has increased its valuation of X by 32%. Fidelity was quick to downgrade the valuation when Musk started losing advertising revenue. And they (Fidelity) are far more attuned to doing things in a transparent manner (unlike venture capital or private equity firms that never mark down their portfolio holdings). So, we are prone to believe any changes in their valuation mark. Chalk this up to another reason not to stand in front of the Tesla/Musk train. Of course, with all of Musk's publicity comes some downside. This is only a 1-year chart, but it does show Brand/Trust perception nosediving as Musk got more involved in politics.

Exhibit 2 : Tesla's Brand/Trust perception scores have declined in recent months

Source: HundredX

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