Weekly Update

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- Trump trades are back
- If the Fed cuts rates two days after an election, does anyone notice?
- Vol is up and nobody is worried
- Some say do not worry about the Labor market
- Inflation is sticky (but the Fed does not care)
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	5,985	1.0%	26.7%	37.4%
QQQ	$513.07	1.5%	25.8%	36.5%
US 10 YR	4.45%	4.44%	3.88%	4.45%
USD/DXY	106.5	105.1	101.3	104.1
VIX	16.3%	19.8%	12.5%	14.2%
Oil	$67.97	-5.2%	-4.5%	-12.6%

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

The Trump trades are back. We honestly thought some of the moves into the election were a little overdone. Rather, they were overdone for what appeared to be a tight election*. But the momentum has continued. Obviously, the mandate earned by Trump is a boon for banks and other companies that stand to benefit from decreased regulation and lower taxes. Meanwhile, long-term interest rates have stabilized. Maybe the 0.80% move on the 10-year was too much (in two months). But we also think the market has removed some of the political angle. That is, the market never worries about long-term debt worries (we think it should, but it never does). We are left with some inflation worries (mostly tariff driven, maybe some immigration policy, too) and better economic data (see the Slok commentary below). But a benign inflation report today calms some of that worry. Of course, the Fed is not worried. They cut rates 0.25% right after the election. And the probability of another Fed rate cut in December improved to about 82% today from 59% yesterday. Even with pockets of persistent inflation (Shelter), since the Fed said it wants to "recalibrate" rates, it is going to do just that (if we have learned one thing throughout the years in watching the Fed, they do not like to reverse course…which is probably a combination of conviction, stubbornness, and ego). It is also worth noting that there was a good 10-

year Treasury auction on election day. We think that was a strong signal that the market was moving past politics no matter who was going to win. Along these lines, having this election over and done with almost immediately (we think it is ludicrous that not all the House elections have been called yet) was a big sigh of relief.

- If the Fed cuts rates two days after an election, does anyone notice?

The Federal Reserve held an Open Market Committee meeting on the two days after the election…but you would never know. The Fed cut rates by 0.25% to bring the Fed Funds target range down to 4.50% to 4.75%. All 12 voters supported the move.

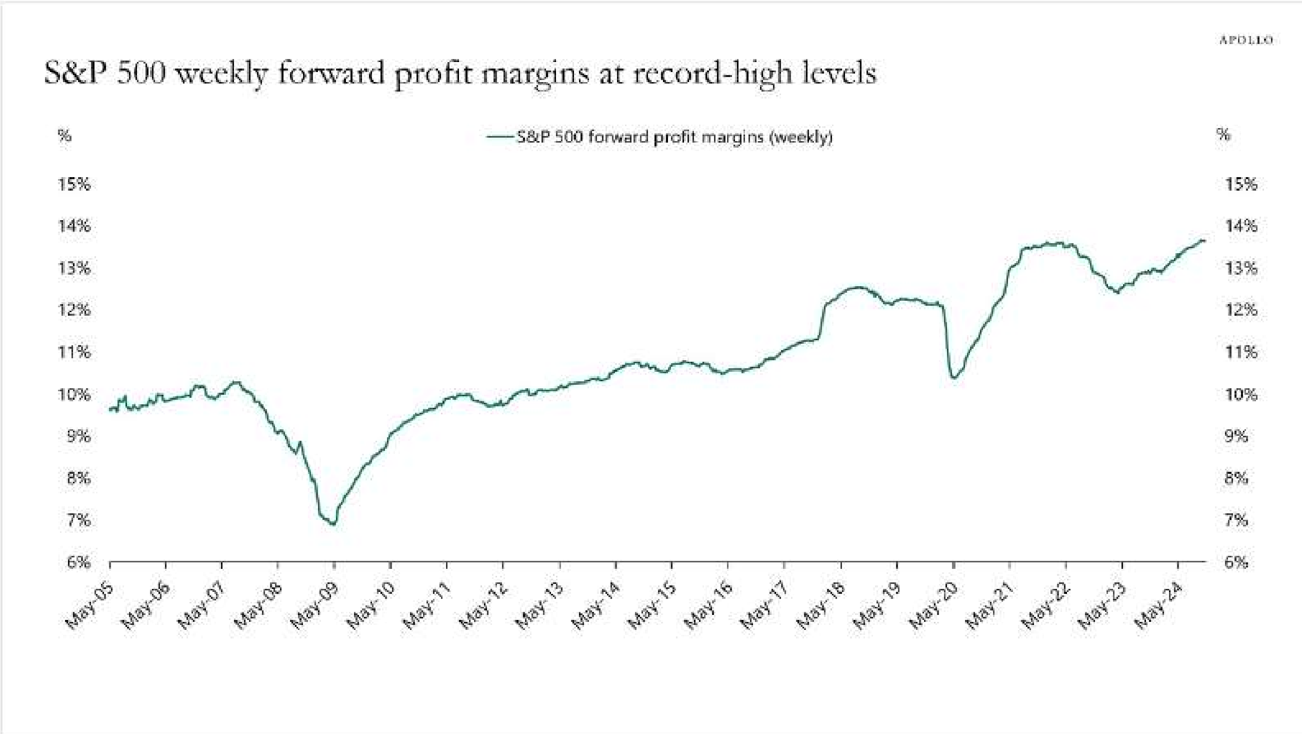
Powell was very confident on the inflation outlook. He reiterated that Housing prices are starting to rollover (not true according to the data release today, see below). This is what has been keeping the "Core" rate higher than the target level (we will believe it when we see it…lower Housing prices that is). He coupled this with a desire to stop the slow slide in the Labor market. We think he has been right to be worried here, but that slide might be just another "recalibration" (actually not being sarcastic, we have said this all along). As for the market reaction…to Trump and the Fed…David Zervos of Jefferies (one of the better Fed/market combo pundits) thinks the 10-year Treasury has been much steadier than expected. Even though the yield moved 0.80% since the middle of September, he says many had expected it to move at least another 0.20% (to around 4.65%-4.70%).

- Vol is up and nobody is worried

One strange element of the recent rally in equities is that actual Volatility has not compressed, but Implied Volatility has. Moreover, the 30-day standard deviation of the S&P 500 has risen above the 1-year. This usually only happens during times of stress. But Volatility embedded in option prices (Implied Vol, aka the VIX) has moved down to the lower end of the range since mid-August (after the infamous Yen-carry trade unwind/bad employment data overreaction). The answer could be simple: The market rallying (especially in fits and spurts) will keep actual Vol levels elevated, but nobody is buying Put protection. We remain bullish. But if option prices continue to get cheaper, they might be worth buying.

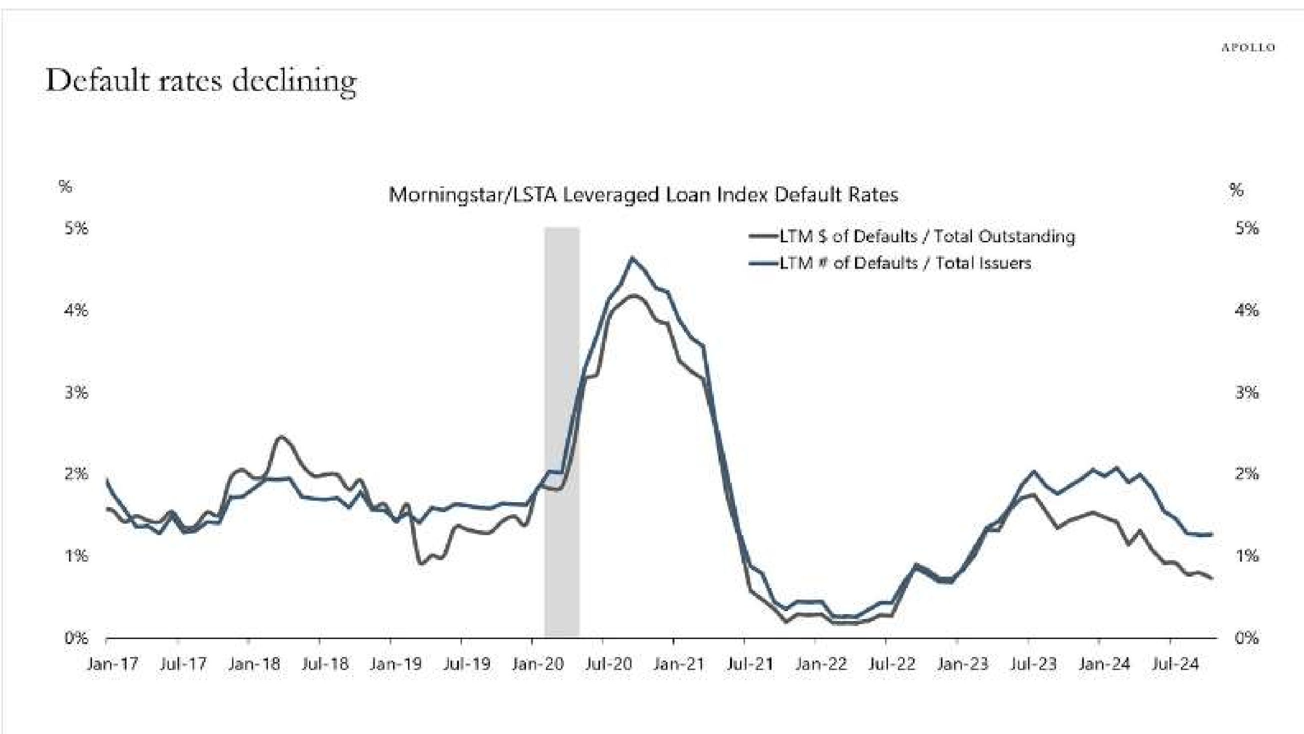
- Some say do not worry about the Labor market

We never put too much weight on any particular view, but Apollo's Torsten Slok makes a compelling case for the economy and thus the market. He basically dismisses any thought that the Labor market is cooling because all the other data is so strong. He cites strong GDP growth, strong Retail Sales, strong Durable Goods, low Jobless Claims, rising Average Hourly Earnings, strong corporate profits with great margins, low corporate defaults, and robust household balance sheets. And the Labor market simply cannot be weak if all these other factors are strong (if not accelerating). Ultimately, we think the Fed shares this opinion.



Note: The 12-month forward profit margins are calculated by using the weighted average of 1FY (current year estimate) and 2FY (next year estimate) to smooth out fiscal year transitions. Source: Bloomberg, Apollo Chief Economist

Expand



Source: PitchBook LCD, Apollo Chief Economist

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- Inflation is sticky (but the Fed does not care)

Consumer Prices (CPI inflation) grew as expected in October at 0.2%. This was the same as September. This moves the annual rate higher to 2.6% from 2.4%. The "Core" inflation (ex-Food & Energy) also increased as expected at 0.3%. This kept the annual rate the same at 3.3%.

Shelter remains the ugly spot. Prices increased 0.3% for the category. But this downplays the 0.5% gain in Owners's Equivalent Rent (that random guess about the rental value of your home). Rents went up 0.4%. The category average is lower because Hotels & Motels fell 4.1% on the month.

Food prices reverted to their previous trend: Food at Home only increased 0.1% while Food away from Home increased 0.2% (last month saw Food at Home prices outpace Away prices for the first time in a while). Energy prices were flat on the month. Fuel Oil was down again. Electricity prices, of course, were up again…and one of the strongest increases on the board.

There are a lot of different measures of inflation expectations. U-Mich sees the 1-year falling to 2.6% in November from 2.7%. The NY Fed, which unsurprisingly is a month behind, sees October inflation expectations for 1-year out falling to 2.9%. On the 5-year expectation. U-Mich ticks up to 3.1%, but the NY Fed ticks down to 2.8%. We do not get too caught up in the minutia of this data. After all, we have a hard time believing survey respondents can give refined answers on future price movements. But the Fed does care, so we monitor the general trends. While we expect some increases in annual price movements in the coming inflation reports, we think expectations will remain anchored (small price moves tend not to affect the psyche whereas large and quick moves do).

(We need to find a breakdown of Discretionary vs Nondiscretionary spending increases…our usual source is falling down on her job.)

- Other economic data is mostly strong
  - The ISM PMI for Services increased in October to 56 from 54.9. Employment popped higher and Prices cooled a bit.
  - S&P's Services PMI was basically flat on the month at 55 (55.2 in September).
  - China's Caixin PMI (surveying private enterprises, not state-owned) for Services increased in October to 52 from 50.3. We have been highly skeptical of the Chinese economy and the inability of the communists to right the ship via various stimuli.
  - Redbook Retail Sales increased 6% and 4.8% in the last two readings.
  - Retail Sales increased 0.74% in October vs September and 4.13% on the year. E-commerce sales remain the strongest with Electronics being the weakest. (This data is from the Nation Retail Federation. We get the official government data from the Census Bureau Friday. We will dig into the differences in this data points.
  - Weekly Mortgage Applications have sunk back to their summer levels. This matches exactly the path of interest rates over this time.
  - Total Vehicle Sales hit an annualized run-rate of 16mm in October. This is near a 3-year high. For all our talk about the K-shaped economy, a strong car market certainly bucks this trend.
  - Used Car Prices fell slightly in the month of October (-0.1%). This brings the annual rate to -3.2%.
  - Initial Jobless Claims were relatively stable with 221k (up 3k). Continuing Claims, on the other hand, hit a 3-year high.
  - China has had 25 months of deflation in Producer Prices (PPI).
  - China's Trade Surplus in October expanded to $95b which is near the high end of the range (February of this year was the record at $125b, the 5-year average is around $70b). During the last year, Exports have surged almost 13% while Imports have declined 2.3%. We think this data reflects

the weaker Yuan (strong USDCNY) rather than any internal strength (although much of the currency weakness was in 2022 and 2023…but it has remained weak since).

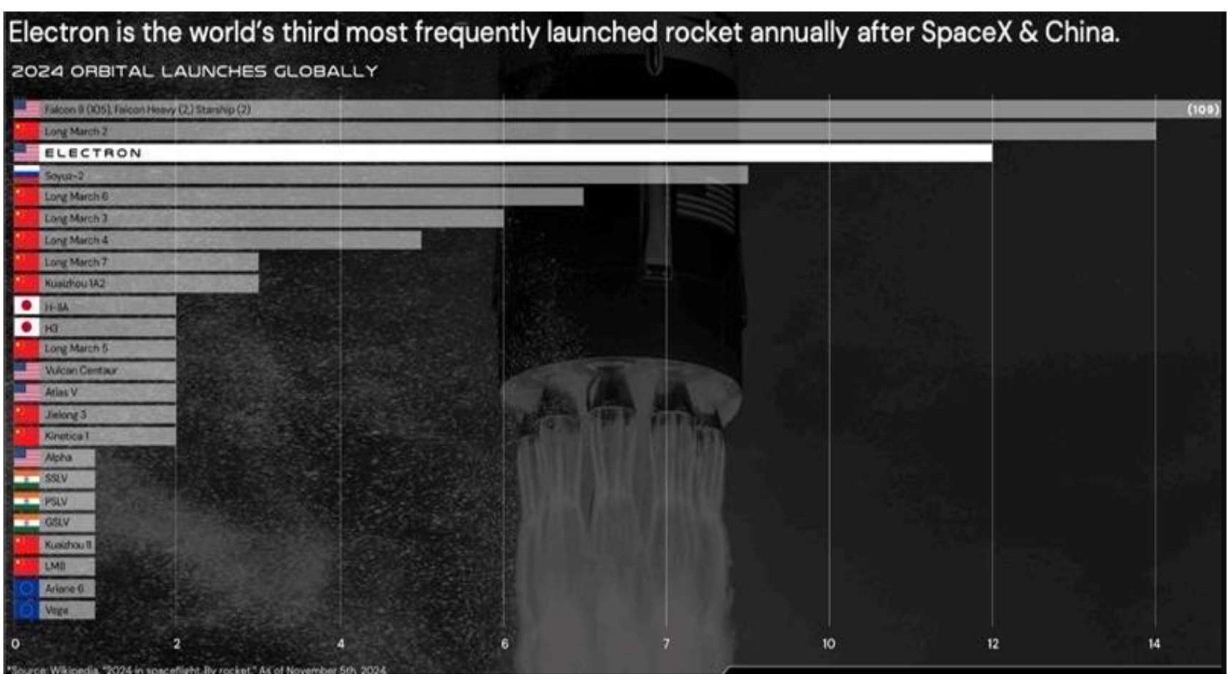
- Where did all the crypto money go?

The crypto industry is increasingly throwing its weight into politics. There were 58 crypto-backed national candidates. This group favored cryptocurrency in one fashion or another (allowing banks to custody, government creating a permanent stockpile/reserve, firing Gary Gensler, or maybe they just wanted Big Crypto's money). 54 of these candidates won their races. Through various PACs and programs, the crypto industry spent $135mm to get its candidates elected. And they already have another $80mm lined up for 2026. Hopefully this money is not coming from the likes of SBF.

This $135mm spent is already paying dividends…some on paper (HODLers) and some for real (traders). Hedge funds are scaling up one of their original games: Simple futures arbitrage. Hedge funds are buying Bitcoin in the spot market and then selling them in the futures market. The futures market is trading at a premium in the range of 1-2% depending on the contract. This is outlandishly high for a fully fungible market (15-25% annualized returns). So, what gives? Leverage. Buying futures allows you to use margin and increase your sizing. Margin rates are much lower than the wild west days of Binance or FTX (sometimes leverage got as high as 125:1). For retail trading, it is 2:1. But you can certainly juice this higher. So, traders are willing to get clipped a bit if they can load up using leverage (obviously options, too). This usually does not end well (but as we always say, you can make a lot of money trading Bitcoin. We wanted to buy some post-election, but we missed it…we think.)

- Chart Crime of the week

Somebody does not like Elon. It would appear that SpaceX has competitors nipping at its heels in terms of the number of rockets launched this year. Then you notice the number at the far right of the top line (SpaceX launches the Falcon series of rockets) fuzzily reads 109. Second place is 14. (Yes, we really do like Elon sometimes.)



- Quick Hits
  - Uber drivers are paid $1.36 per mile in New York City.
  - 2 billion people have stayed in an AirBNB.
  - The former Oakland Athletics team will now only be known as the Athletics while it plays the next three seasons in Sacramento.
  - Six states have fewer Representatives in the House than Senators.
  - Every county in Oklahoma voted for Trump (only state).
  - Every county in Massachusetts, Hawaii, and Rhode Island voted for Harris.
  - Delaware and Hawaii have 5 counties.
  - Texas has 254 counties.
  - Alaska and Louisiana do not have counties (boroughs ana parishes).
  - Connecticut and Rhode Island have physical regions called counties, but they do not have governments.
  - Rhode Island was one of three New England states that had large moves in favor of Trump (RI, MA, and CT were all in the top 6 states with more Trump support vs 2020).
  - Loving County, Texas is the smallest in the US by population. It has 67 residents.
  - The Congressional Budget Office (CBO), ***by law***, cannot not assume the US will ever enter a recession when making its calculations/forecasts.
  - A candidate running for the House of Representatives in Alaska was in federal prison. He has never been to Alaska. He got 1% of the vote.
  - 79k pounds of butter have been recalled by the FDA because the packaging did not have the warning that it "Contains Milk."
  - There is a stock in China with the English name "Trump Big Wisdom Win."
  - In 1937, the goalie for Arsenal stayed on the field for 15 minutes after the game was canceled due to fog. He had no idea the game had been canceled.
  - Yale is offering a class about Beyonce and "her legacy."
  - Freddie9999, the French guy who bet on Trump across the board, kept his identity anonymous so his kids would not know he is rich. (Kudos to the random Twitter guy who claimed to be a professional political better who was able to drill down this guy's identity.)

Trading: We made some marginal moves in the wake of the election. We thought the massive rally in Financials was overdone, so we trimmed some. Banks are obvious beneficiaries, but these were large positions for us. We bought some Pharma that got tossed out with the bath water. We bought some gold when it sold off with the dollar strength. We think the trainwreck that is the US fiscal condition is not going stop any time soon (but we also think people are buying Bitcoin as the safe-haven asset instead of gold, so we are chewing on this one). We sold some Energy. Even though Republicans are in favor of old-school Energy, we think this ultimately leads to lower prices. We had a couple of small positions with tangential exposure to China (goods manufactured there and some tourism). We cut these for small losses. We have nibbled on some small/mid-caps as they stand to benefit if the new environment continues.

TSLAQ: The big news about Tesla has nothing to do with Tesla really. It is not a far stretch to say Musk played a pivotal role in getting Trump back in the White House. Who knows what will happen with his new job of slashing wasteful government spending (redundant?). And there is a chance Tesla does benefit directly from easier regulations on autonomous driving and other Musk dreams. Of course, there is no way it will ever make as much money as the stock value seems to indicate. Of course, we are not standing in the way (that said, we might start a short position if the world finds out that Musk's FSD simply does not work…no amount of kind regulation can fix that). One thing is for sure, we are cheering for Musk to accomplish his new task.

Matt Levine poses the possibility of what could be the real driving force behind these bedfellows (Trump and Musk). Trump's DJT and Musk's X could merge. This would be something to behold.

*Our long-running belief that traditional polls are nonsense was once again vindicated. Betting markets are like the market…they may be wrong, but they do not lie. As for the market pricing dynamics, even with accurate betting markets giving a candidate a 60% chance to win, it would be pretty crazy to bet the house.

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