Weekly Update

2-October-2024
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- Powell says 0.50% more cuts this year, stirs up the volatility
- Not a quiet week outside of the US market
- China is market manipulation at its finest
- The port strike is political noise at its finest
- Inflation cools again; Goods are deflating, Services are sticky
- Government revises data again…this time higher!
- Employment data is mixed, but we suspect it will continue to soften
- Business Spending remains resilient
- But business surveys are still mostly negative (we believe the spending)
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	5,710	-0.2%	20.9%	35.0%
QQQ	$482.43	-0.7%	18.3%	35.6%
US 10 YR	3.79%	3.79%	3.88%	4.80%
USD/DXY	101.6	101.0	101.3	107.0
VIX	18.9%	15.4%	12.5%	19.8%
Oil	$70.95	1.8%	-2.2%	-21.1%

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

The market did not move much on the week, but we had a few bumps along the way. Fed Chairman Powell caused a mini-stir when he basically outlined the path for rate cuts this year. He said he expects two more 0.25% rate cuts this year, and additional cuts would be “over time.” The market had been expecting three (80% chance last week, now about 63% chance). The market did not like this. But oddly, the most rate sensitive stocks continued to do well (Utilities) while Big Tech suffered. We think this is emblematic of the periodic panicky rotations we see. Otherwise, economic data was mixed with Inflation cooling but Employment softening (Friday is the important Employment report). Business Spending remains strong, but business surveys are still weak. Perhaps the biggest non-headline of the week were the strong upward revisions to Personal Income, Consumer Spending, and the Personal Savings Rate. No wonder the economy has done better than everyone feared! The market had the wrong data!

There were plenty of other headlines to keep everyone on their toes. The East Coast and Third Coast port workers have gone on strike. This has spooked some parts of the market, but we think this is overblown (data below). The tension between Israel and Iran is increasing. But many have already forgotten that Iran shot rockets at Israel as recently as April. If this boosts oil prices in the face of Saudi Arabia increasing production (and without any meaningful growth in China), we will use any short-term strength as a chance to trim our Energy longs (but we will enjoy the boost in the interim). And, of course, we had the usual political noise in the US centered around the VP debate. We think it was a worthwhile exercise so we could finally get some policies out of either side. But alas, this will be an election based on personality (we have long advocated for limiting presidential advertising to a list of policies…nobody cares what we think!). Memory chip maker Micron delivered a strong earnings report. But this failed to reignite any momentum in the AI space. We expect the market to chop around at least until the election (if not further depending on the outcome…and the nature of the outcome). Additionally, the Atlanta Fed's GDPNow shows 3Q growth has slowed to 2.5% from over 3% last week. Official consensus (by the professional guessers) has it pegged below 2%. More clarity on the economy will be necessary for the market to power higher.

- China is market manipulation at its finest

The stimulus out of China continues to dominate the market news. We have been dismissive of China's ability to wrangle itself out of a moribund real estate market. But the communists sure are trying (including giving money to "the very poor and orphans.") Some of the "smart money" guys in the US have jumped on the bandwagon. So, the kings of capitalism and the communists have joined forces to engineer a massive short-squeeze. We think this is foolhardy and not worth chasing directly. But we certainly do not want to get in the way, either. And we increased our ancillary long exposure to China in the form of commodities. But the fact that the communist made these announcements right before their stock market was closed for a week should provide some insight into their motivations.

- The port strike is political noise at its finest

A lot has been made of the port strike...the first on the east coast since 1977. The headlines are certainly scary: The impact on the economy will be $5b a day. But the numbers tell us that management teams have seen this coming for months. Inventories are at their third highest level in over thirty years! This chart lays it out nicely; it shows inventory-to-sales ratios for the 10 most affected industries. Clearly this is not all due to management foresight. Demand is softening. Just look at the Goods deflation (next segment). Our takeaway is to not get worried about supply chain inflation (again). Slowing demand is the worry (some slowing is fine). If this strike does persist, truckers and rail could be the beneficiaries.

- Inflation cools again; Goods are deflating, Services are sticky

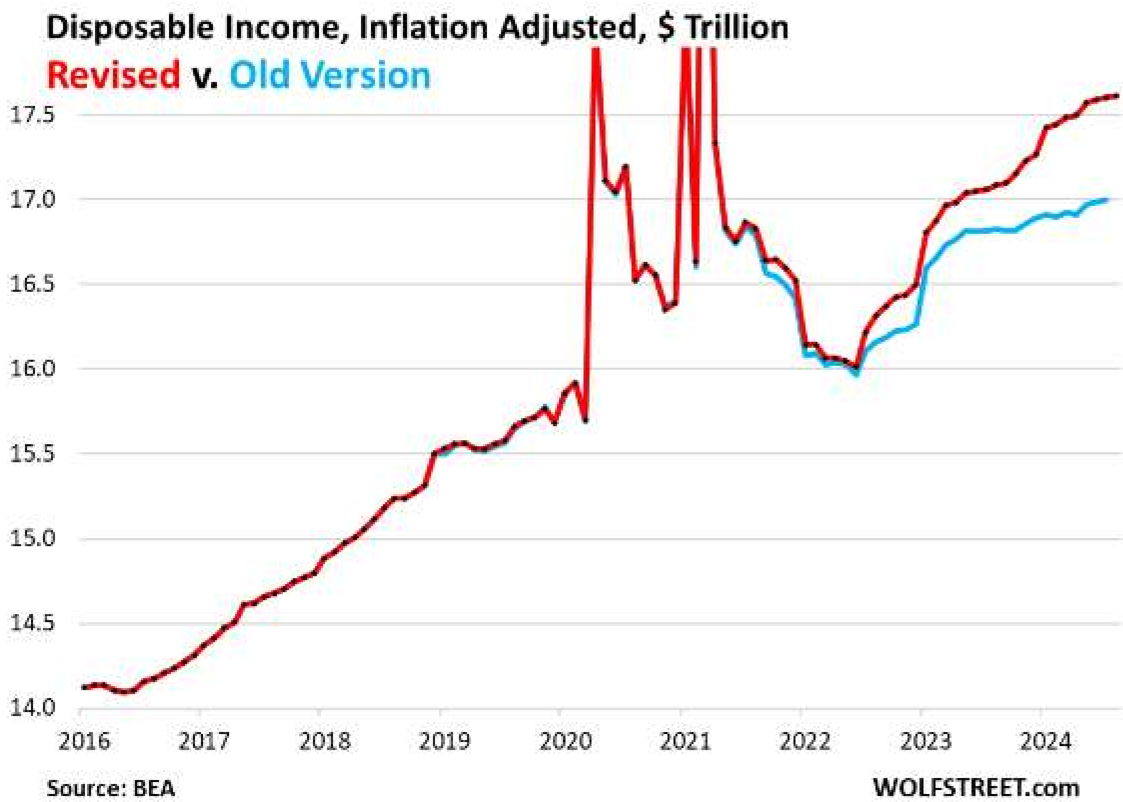
The August change in the Personal Consumption Expenditures index (PCE inflation) slowed to just 0.1% from 0.2% in July. The Core (stripping at Energy and Food) also moved from 0.2% to 0.1%. This headline for the year moved down to 2.2% from 2.5%. (We think Powell tipped this off during his last press conference. We thought he misspoke quoting a 2.2% inflation number…turns out he was just spilling the beans.) The yearly Core moved higher to 2.7% from 2.6% (we do not get caught up in monthly changes to the yearly numbers…these are just base effects…of course knowing the yearly inflation rate is important as it stabilizes with less monthly volatility).

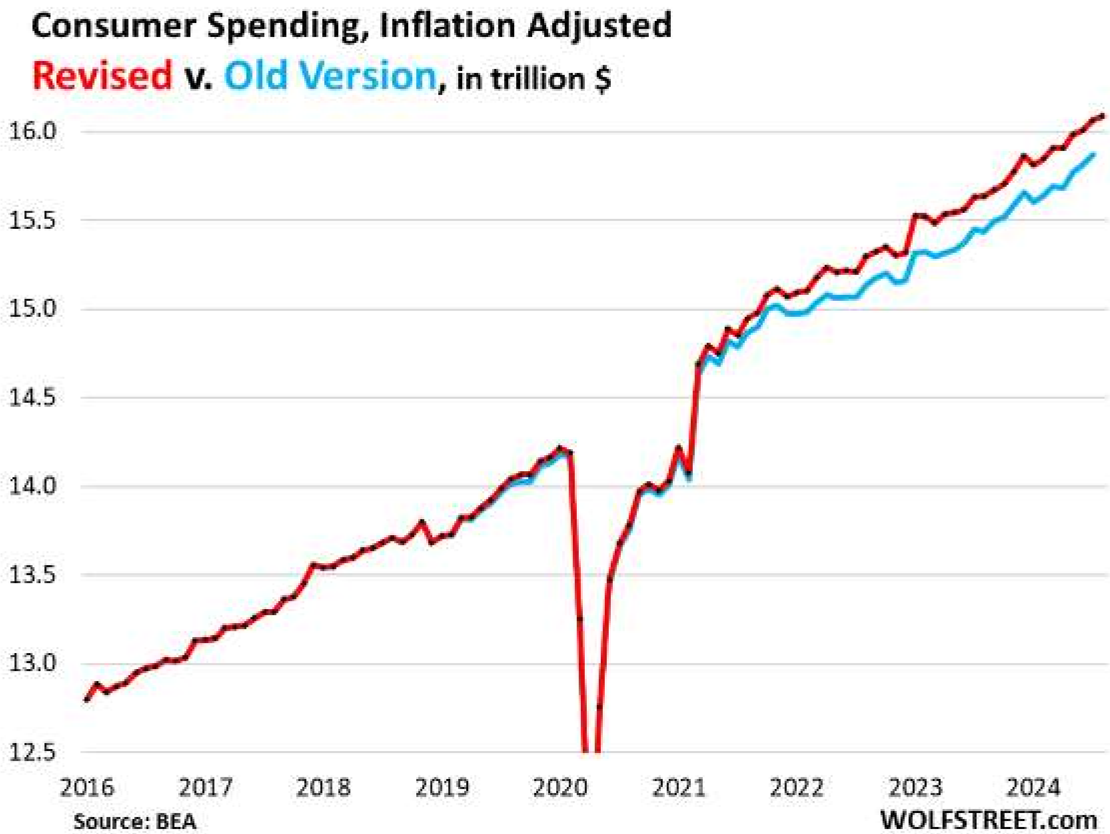
Oddly, buried underneath the topline (so not that deep…but too deep for the financial media apparently), Goods prices fell -0.2% on the month. Services prices, on the other hand, moved 0.2% higher. The annual price changes are -0.9% for Goods and 3.7% for Services. The Fed continues to dismiss Shelter inflation. We think this is a "be careful what you wish for" scenario. The only way we will see Housing prices fall is if Unemployment moves higher. But for now, the Fed is threading the needle.

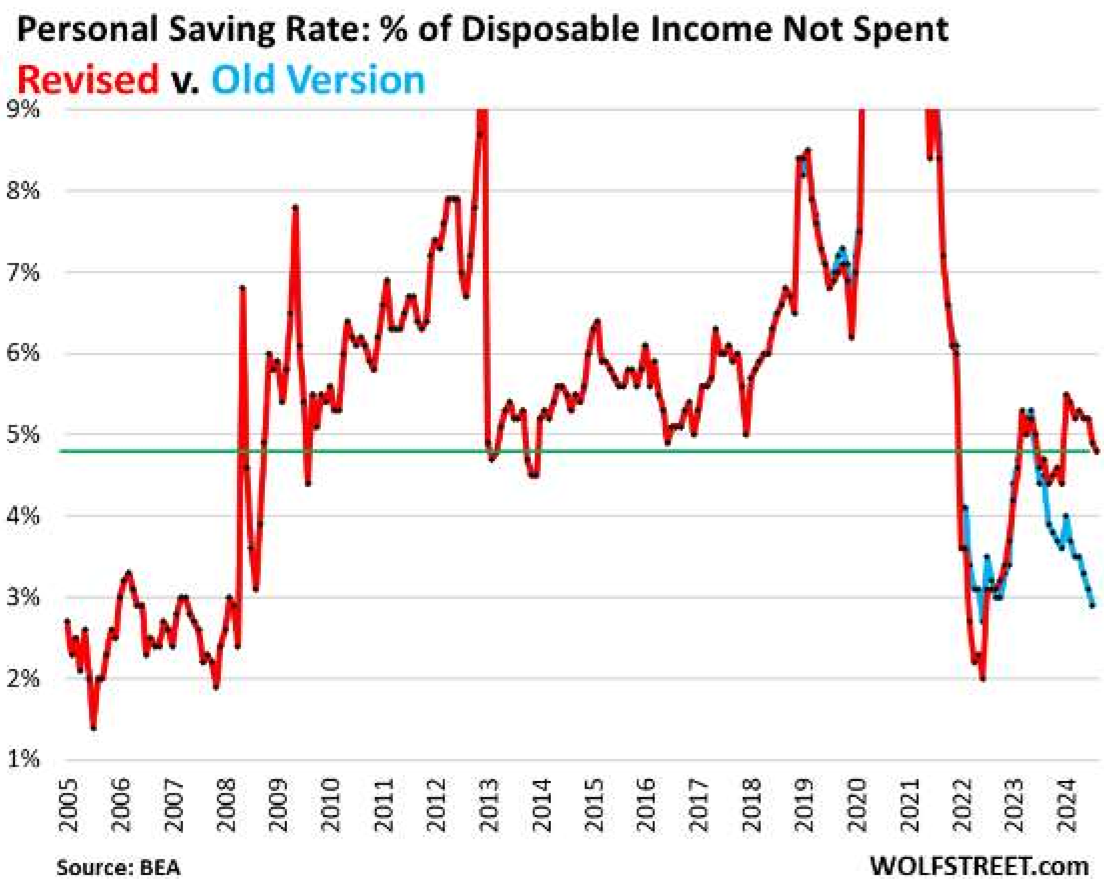
The U-Michigan inflation expectations remained the same as the early releases. The 5-year increased from 3.0% to 3.1%. The 1-year dropped from 2.8% to 2.7%. (We think it is weird that they pre-release a monthly survey number…why?)

- Government revises data again…this time higher!

With zero fanfare, the government quietly revised Personal Income, Disposable Income, Consumer Spending, and the Personal Savings Rate. Iin fact, we only uncovered these changes when some of the old data did not mesh with our memory (that is not saying much, so we had to double check). These revisions cover five years, but the changes to the last two years are, quite frankly, amazing. The skeptic in us thinks there is some monkey business going on here. But for now, we will take the data at face value (especially since this data was not plastered everywhere right before the election). No wonder the economy has done better than everyone thought. People earned more money, spent more money, and still saved more money!

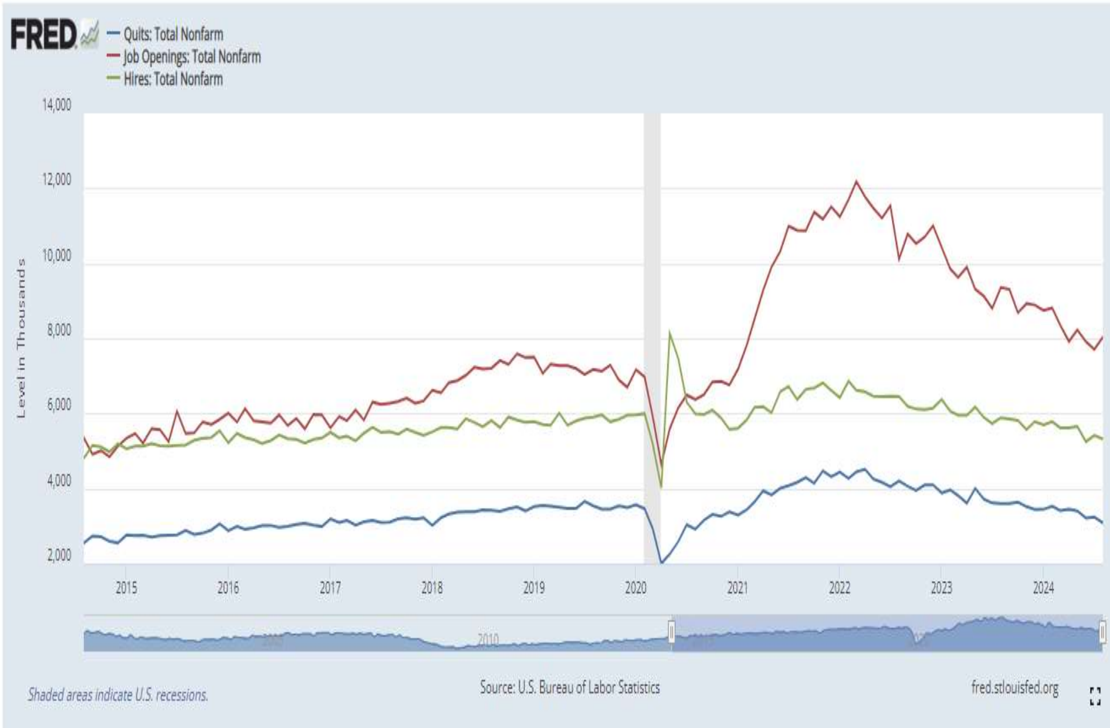



Consumer Spending, Inflation Adjusted
Revised v. Old Version, in trillion $
16.0
15.5
15.0
14.5
14.0
13.5
13.0
12.5
2016
2017
2018
2019
2020
2021
2022
2023
2024
Source: BEA
WOLFSTREET.com



- Employment data is mixed, but we suspect it will continue to soften

Job Openings increased in August per the JOLTs (Job Openings and Labor Turnover survey). There are 8.04mm openings compared to 7.711mm in July (which was revised modestly higher from 7.67mm). This is a good sign, at least nominally. But we still maintain a lot of these openings are fake news (duplicates, stale, or truly fake). However, Quits fell to their lowest level since January of 2021 (low Quits is a bad thing). The 3.084mm is well below the pre-Virus trend. Hires also fell which is an especially bad sign when the workforce is expanding (all those early retirees are finding it hard to survive with inflation). This is one explanation for why many are dismissing low Jobless Claims. These will likely only tick higher once the job growth goes negative (give or take variations in sectors…that is the K-shaped economy again).



ADP's guess at the Private Payrolls data for September (ahead of the official data this Friday) was stronger than expected at 143k new jobs. This is up from 103k last month per ADP (the official was 118k, these two will closely track each other but are not identical). The consensus estimate for the official Payrolls data is 140k on the top line (unchanged vs August) with about 125k expected for Private. While the market watches this data closely, we will focus on the Household survey to see how many people are getting full-time jobs (they have been negative year-to-date).

- Lower rates have not started to help Housing (yet?)

Pending Home Sales increased 0.6% in August. This is an improvement from a slow July, but still nothing to celebrate. High mortgage rates are still keeping buyers at bay. As JP Morgan recently noted, the first sign of rate cuts can actually reduce economic activity as consumers wait for lower rates.

Weekly Mortgage Applications fell slightly on the week.

- Business Spending remains resilient

Durable Goods Orders were flat in August after a big jump in July. The market had been expecting a 2-3% reversion. The Core Capital Goods Orders (aka business spending) increased at 0.5%. The resilience of business spending continues to amaze.

- But business surveys are still mostly negative (we believe the spending)

ISM Manufacturing for September matched the early read of 47.2. This is the same as August and generally middling. Of the ISM components, the Employment index is now the weakest. It softened further while New Orders bounced a bit. The S&P Manufacturing PMI hit the lowest mark of the year.

The Kansas City Fed Manufacturing index fell sharply into negative territory from positive territory (+6 to -18). The Dallas Fed Manufacturing index improved a hair but it still in negative territory (-9.7 to -9.0). It has been negative for almost 2.5 years. The Dallas Fed Services improved but is still negative (-7.7 to -2.6). The Chicago PMI was basically unchanged on the month (46.1 to 46.6). It has been negative for over a year. (All these are September surveys).

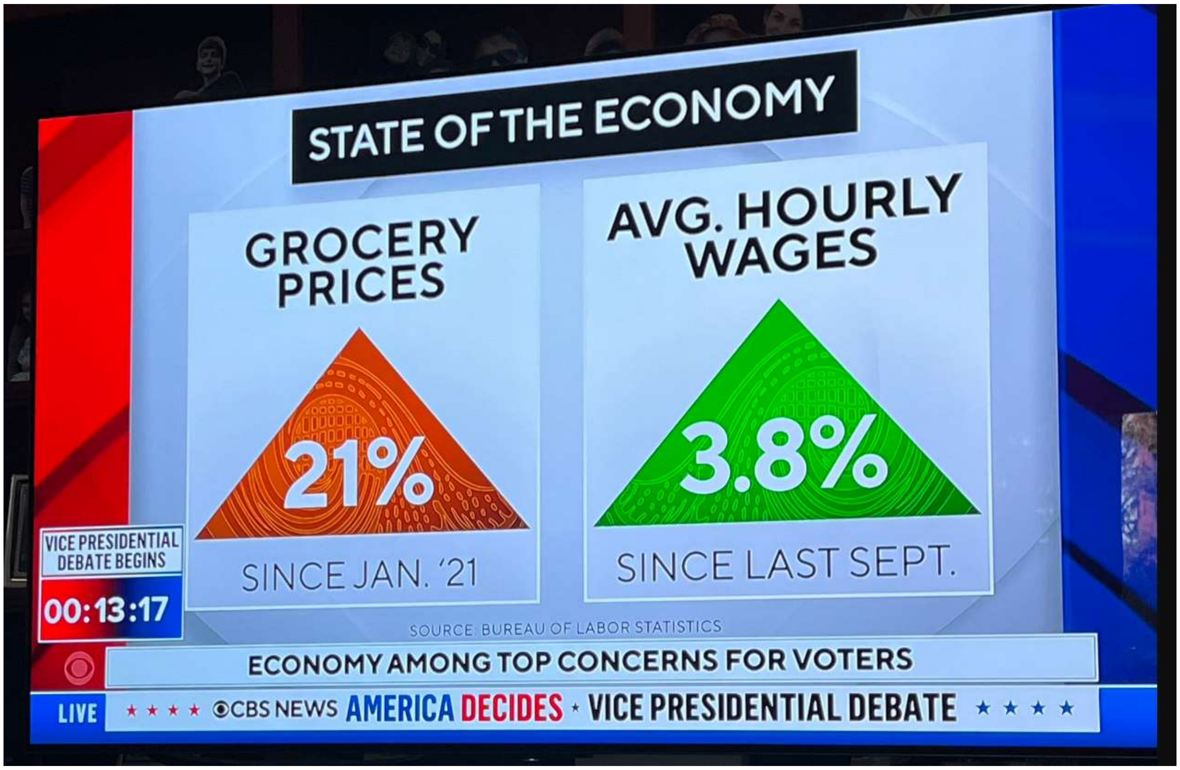
- Other economic data
  - The final GDP growth rate for Q2 was 3% as expected. This is obviously backward looking. But it just reminds us that many had expected a significant slowdown in the economy earlier in the year. This is that revised Income, Spending, and Savings at work!
  - Jobless Claims fell 4k on the week. 218k is the lowest amount since mid-May. Continuing Claims ticked up a bit.
  - Weekly Redbook Retail Sales increased 5.3%.

- Where did all the crypto money go?

Apparently, there is a crypto exchange called Deribit. Apparently, traders on this exchange have bet about $1b that Bitcoin will hit $100k soon after the election. Data is sparse, and it is obvious a nonfinance person wrote the Coindesk article. But whatever the case, a lot of people are going to be sad. It is one thing to buy/believe in crypto (we think it is fine, for real, that is our stance), but it another to play crypto via options. As we always say, the rich guys in Chicago are the ones *selling* you the equity or index options. In crypto land, it is the rich guys in the Caymans or Bahamas that are *selling* you the options. (And these guys have the added kicker of just not paying off the bet if you happen to be right.)

- Chart Crime of the week

This is a pre-VP debate statistic by CBS. We are not sure about their aim here. Are grocery prices far outstripping the increase in wages (true)? Or are we supposed to think the 3.8% increase in the last year is strong (true again)? You know, if you are going to have political biases, at least use the same time frames for prices and wages so we know what message you are trying to deliver.



- Quick Hits
    - Motorola was started in 1928 as a car radio company.
    - The Three Mile Island nuclear facility that is reopening was shut down in 2019 (not 1979…that was a different unit).
    - From 2008 to 2023, the US economy grew 82%. Europe grew 6% (in dollars).
    - Hydrangeas turn purple when the soil is acidic and pink when alkaline.
    - 1247 MLB baseball players have had Tommy John survey since the Tommy himself had it 50 years ago.

Trading: As we mentioned, we added to our commodity longs. We prefer these actual economic indicators versus playing in the rigged casino that is China. We added to some Energy longs. One is to capture an upswing in the commodity price. The other is more of an infrastructure play. We also added to some long exposure in Latin America. We trimmed more of our Big Tech that has stalled out. We added to a special situation trade (a merger).

TSLAQ: Deliveries for Q3 came in as expected around 463k. Tesla produced 470k cars. It appears that China accounted for an outsized 37% (not released, but back of the envelope math). Given that margins are even thinner in China, this does not bode well for earnings. Energy "deployment" slowed 27% vs 2Q. This Energy slowdown likely comes with reduced margins, too. Now, we eagerly await the Robotaxi day entitled "We, Robot." This is Oct 10.

We have stopped following the Tesla research from Morgan Stanley…and we get a reminder as to why every so often. Even though the analyst has reigned in some of his expectation for the upcoming "We, robot" event, he reminded us Tesla still has some potential "moonshots." These include an electric plane, an electric boat, a phone, and an “Optimus robot flipping burgers at a Tesla Diner.” In a note published just this morning, he detailed the prospects for “supervised FSD.” The irony of this oxymoron is rich, even for this Musk sycophant.

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