Weekly Update

9-June-2021

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- Inflation debate cools market activity
- Still waiting for Employment to accelerate, but it will
- Surveys still pointing to momentum ahead
- Chart Crime of the week
- Click here for the full note

	Last	5d %	YTD %	1yr %
SPX	4220	0.3%	12.7%	32.6%
QQQ	333.5	1.0%	7.5%	40.3%
US 10 YR	1.49%	1.59%	0.92%	0.73%
VIX	17.9%	17.5%	22.8%	27.6%
Oil	69.75	1.4%	44.2%	79.7%

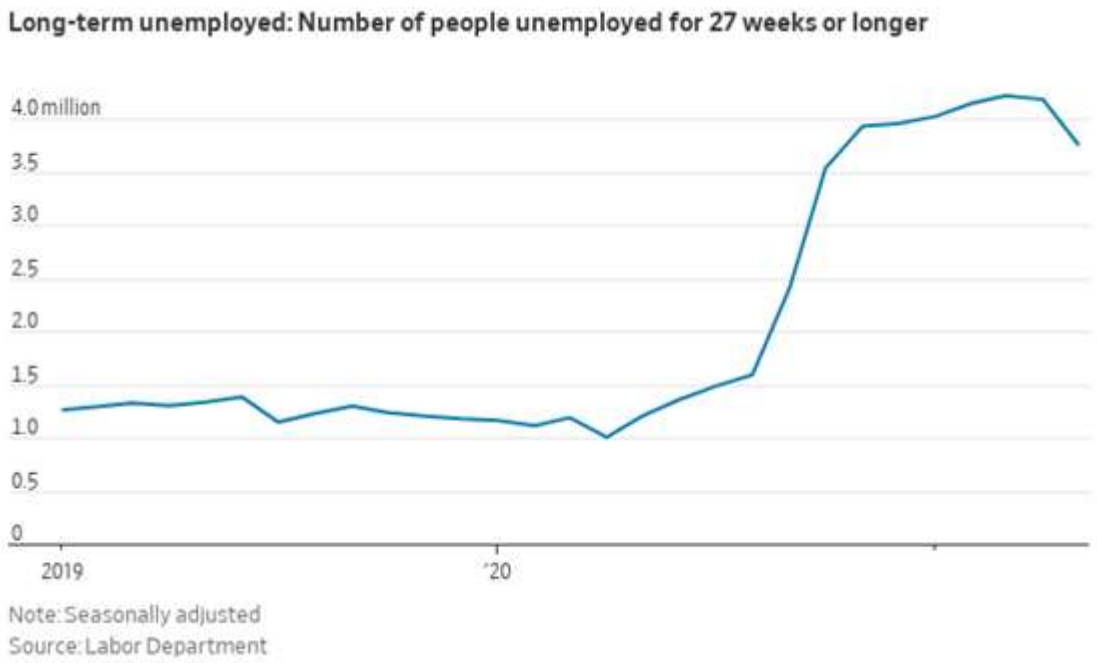
*10yr and VIX are levels not changes
** Oil is front month futures, beware

The market malaise continues with Volatility continuing to drop. Other than a few sideshows in the Reddit/meme stock world, most activity has manifested itself in the form of economic debate namely about inflation (May CPI tomorrow). The treasury market is telling us that there is no inflation since the 10-year interest rate has retraced back below 1.50% from 1.7% less than one month ago. And the Breakevens (recall these are the Forward Inflation Expectations) have all turned lower. Along these same lines, equities are back near their all-time highs with only a few notable exceptions (the original cult stock, Tesla, seems to finally be wallowing in its self-made misery). Of course, commodities and everyday life tell us that there is inflation. We think the camps that are arguing adamantly for one side or the other have it wrong. To rehash, we think we will soon see increasing easiness in the labor market (more able bodies) with the end of the government programs that have been paying people not to work. This follows the traditional economic cycle of Services Labor. It is the Goods side of the equation that is trickier to quantify. Obviously, Labor is an input into Goods, so this will help ease prices. But many of the logistical logjams will remain. So, what is actionable? We like holding our commodity longs, but we will likely continue to trim slowly. For equities, we want to keep our tactical concentration in Value and/or Cyclical stocks that will continue to ride the economic momentum but will not be punished by Goods inflation. While we are not doomsday about Tech…it traditionally has done well during Reflationary periods and even into Inflationary periods before tapering off…we still like old school Tech that are more geared towards a Reopening vs the High Growth Tech which is powered by rock bottom interest rates (and the crazy “stocks never go down” attitude).

- Still waiting for Employment to accelerate, but it will

The May Unemployment Report was a bit underwhelming. But as we keep suggesting, the real upturn in employment will come as the alphabet soup of stimulus programs continue to roll-off (and the moratorium on rental evictions ends June 30). Nonetheless, 559k new jobs were added vs the roughly 650k expected. The Average Workweek and Average Hourly Earnings both came in strong as expected continuing April's trend. The largest jump in hires was that of teens (16-19 years). The unemployment rate for this group fell to 9.6% which is the lowest rate since 1953! It appears childcare duties are still an impediment for women rejoining the workforce. The Labor Participation rate dropped a bit and remains about 1.5% points below the pre-virus-fear level (which was lousy, too, considering it had been dropping since about 2000). Nonresidential construction jobs are not increasing which meshes with what we are seeing in the Construction Spending data. The JOLTS report (Job Openings and Labor Turnover Survey) from April tells us that there are more Job Openings than ever before (chart below). Indeed.com's data support this surge in openings.

All told, there are still 7.6mm people out of work compared to before the virus-fear. One of the more encouraging signs was the drop in long-term unemployment (longer than 27 weeks). To repeat: we think the tightness in the labor market will start to ease considerably throughout the summer.



- Surveys still pointing to momentum ahead

Markit's final reading for the PMI Composite for May showed even more strength than anticipated. It is the ultimate V-shaped chart with another all-time high. The other PMI survey, the ISM, showed strength but not quite equal to that of Markit. Recall that Markit is more reflective of all company sizes in the US while the ISM mostly reflects large multinationals. Conversely, a survey of small business owners showed concern for inflation and its negative effects on the economy. While opposite the broader trend, we are not terribly surprised given the hardships small businesses have faced.

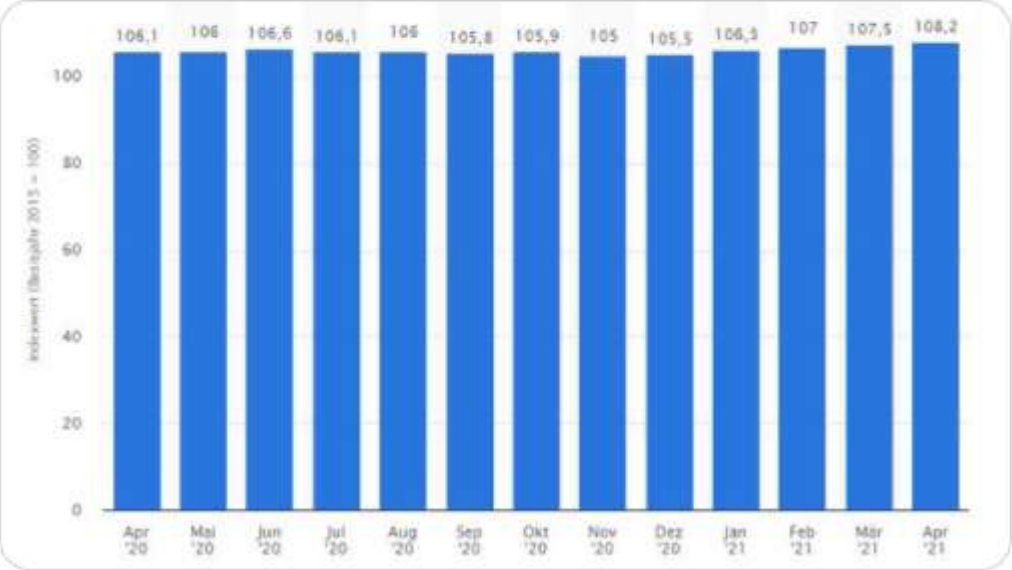
- Chart Crime of the week

We do not need to speak German to know this is the dumbest chart ever. Maybe not a crime, but dumb.

DM≡MS @dm_ms · Jun 4

Replying to @Stohrm2 @NZyniker and @tombeta

Dein **Chartcrime** wird das Virus nicht beeindrucken. Hier mal eine korrekte Variante mit nicht abgeschnittener y-Achse.



On the flip side, this one probably is a crime, but we do give bonus points for humor and creativity.

B Graham Disciple @bgrahamdisciple · 21h

$TSLA stock has now entered the dreaded sad Snoopy pattern.

- Quick Hits

- The WSJ writes: “Yield-hungry investors are snapping up Chinese property bonds, despite a recent string of defaults, tighter regulation and market unease about one of the country’s biggest developers.” How was the play Mrs. Lincoln?
- The mayor of Chicago will only give interviews to black or brown people (stated policy).
- The soccer teams that tried to start their own “super league” in Europe recently have all been fined $31mm.
- Floyd Mayweather called his boxing exhibition against a youtuber, “legalized bank robbery.”

Trading: With the market remaining quiet except for the meme mania, our activity was modest. We trimmed a little of our generic long in Energy while adding to our speculative long in Energy. We also trimmed one of our Growth longs in our Trading bucket. Most of the stocks in Trading are more Value oriented or Event Driven. With Volatility back to making new lows and Equities sticking near the highs, we will look to add back much of the protection we took off a couple weeks back.

TSLAQ: The heat on Tesla in China continues. May sales fell by 50% according to some reports (there is always slippage in these Chinese reports). And reportedly the other EV automakers are reaping the market share. Of course, a few days after this was reported, someone published data pointing towards increased production by Tesla in China. Alas, production does not equal sales. Back at home, Musk has been working on the pump surrounding his new “Plaid” version of the Model S. We have often said that the original Teslas were pretty cool performance cars. But apparently even Musk realizes that selling a long-range Model S Plaid+ for $150k may not be a big seller. He has scrapped the idea altogether despite announcing a price increase for the never-to-be-released car just last week.

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