Weekly Update

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	Last	5d %	YTD %	1yr %
S&P 500	4,221	1.7%	10.4%	3.9%
QQQ	$352.01	3.6%	32.4%	15.1%
US 10 YR	3.60%	3.82%	3.88%	2.91%
USD/DXY	103.6	104.3	103.5	101.8
VIX	15.7%	19.1%	21.7%	24.8%
Oil	$70.11	-2.4%	-12.7%	-39.2%

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

The bullish narrative around Artificial Intelligence and Nvidia continues to drive the market higher. Perhaps the resolution of the debt ceiling standoff has helped. But since the equity market never priced in any calamity, calling it a relief rally is still a stretch. The most shorted stocks (Fantasies & Frauds) are still zooming higher. Tesla is extending its good graces as Musk tours China (we are not sure how this alleviates his demand/pricing/competition problem). Hype is building around Apple's and Meta's goggle wars (God help us). But the real economy is still struggling. Weakness in Retail is apparent almost everywhere (Vias credit card data is deteriorating and is worse for in-store purchases than in e-commerce) including in some of the typical recession-proof places (Dollar General's terrible earnings). Energy stocks and industrial commodities are still flagging. (The supply side is getting some relief/increasing as Russia is still pumping crude - and scoundrels are still buying it). Real Estate is having an awful stretch as higher rates dampen the business prospects of the companies and the relative value of the equities.

Perhaps some cooling rhetoric from the Fed (aptly timed considering the rhetoric had been heating up lately), is providing some cover for equities as the bond market relaxes. But even this talk is more specific to a pause in June before a resumption of hikes in July (the futures market has realigned with this thinking). Normally we would point to the aggressively long positioning in the market as a sign of potential exhaustion. But new longs are being funded by factor rotation. The defensive sectors are being sold so people can buy more Nvidia. (Our problem is not with Nvidia but all the other junk emanating from the likely evanescent story of the day – "AI.") Ultimately, we think the weight of the economy will come down on most things…including those seizing the day today. And defensive sectors will be defensive again.

- Quantitative Tightening on blast mode

We have been warning about the explicit effects of the debt ceiling resolution. We have stated that the bulk of new Treasury issuance will go to debt servicing and not government spending. The Treasury General Account has been drained by about $500b this year. And this has been during the tax receipt season when it logically replenishes every year. Estimates vary, but a middle-of-the-road number calls for an additional $1t in debt issuance during the back half of this year. The market is massively short Treasuries because of this. So, we do not think holding government debt is such a bad trade right now. But we do think that this will result in less fuel for the red-hot equity market.

- The cost of loans is rising while the demand for loans is falling

This ties in nicely with the tightening lending standards we see in the Senior Loan Officer Opinion Survey (SLOOS). Not only is financing hard to come by, but not as many people even want in the first place.

Corporate loan cost versus demand, percentage change from the previous quarter

Sources: Ares Management, Federal Reserve

- Are people selling Nvidia?

Here is an interesting chart from Tier 1 Alpha. They have a metric that shows the balance between buyers and sellers. It is obviously imperfect. And there have been a ton of these over the years with varying degrees of accuracy. But they claim there are more sellers of Nvidia than there are buyers. Of course, the buyers are in more of a rush to grab the stock than the sellers are to unload it. But this type of metric, in theory, shows that the marginal buyer will soon disappear. Who knows – we are not sold on these metrics. But we think it is interesting and worth monitoring.

- Employment data is as confusing as ever

We often note the absurdity of government statistics. The Bureau of Labor Statistics (BLS) released its Quarterly Census of Employment and Wages (QCEW) for 2022. Mysteriously, 500k jobs disappeared. And labor compensation actually fell instead of rising at a breakneck pace. As Tier 1 writes, we should rename it the "Bureau of Lies, Damn Lies, and Statistics."

The Job Openings and Labor Turnover Survey (JOLTS) had a surprising move higher (more job openings). And the March data was revised higher. This reverses the recent trend of disappearing job openings. But the Quits data has normalized (lower) back to the pre-Virus Fear trend. Some economists (professional guessers) point to this data as being more reliable. We tend to agree because Quits are verifiably real things. Job Postings can be stale, duplicated, or just fake.

ADP's guess for tomorrow's Private Payrolls number surprised strongly to the upside. ADP does not have a great track record, but the trend has been better lately (more closely correlated).

The Challenger Jobs-Cut report remained at an above-trend level…around 80k a month vs 40k pre-Virus Fear.

- ➢ Inflation is not cooling

Inflation as measured by the Personal Consumption Expenditure (growth in these prices) accelerated higher in April. The headline rate increased 0.4% in April vs March (vs 0.1% last month). This is a 4.4% annual increase (up from 4.2%). The Core prices increased the same 0.4% (vs 0.3% in March). This is a 4.7% annual rate. Looking at one of the chopped-up metrics the Fed likes, Core Services ex-Housing inflation is running at 5.1%. It appears the Fed has its hands full with high price levels and persistently high rates of change.

- ➢ Business Spending is proving resilient (sorta)

Durable Goods Orders in April slowed but not as much as expected. The important Core Capital Goods increased vs March. Another decline was expected. Signs have been pointing to a slowdown in business spending (Core Capital Goods). This data is not adjusted for inflation, so this increase is still a negative in real terms. Nonetheless, perhaps this acceleration higher is a change in the trend. Or at least business spending is not deteriorating as many expect (including us). Perhaps there is a lag with financing. Companies are spending money while they can get financing before the banks turn off the spigots.

- ➢ Other US economic data is mixed
  - Retail Inventories are starting to increase at a slower pace. Wholesale Inventories are now negative.
  - The U Michigan Consumer Sentiment in May ticked a couple of points higher
  - Both Manufacturing PMIs from Markit and ISM remain in negative territory. The Dallas Fed Manufacturing Survey and the Chicago PMI both moved deeper into negative territory.
  - Case Shiller and FHFA home price indices showed price gains. But both of these series are March data.
  - Mortgage Applications are lower again
  - Construction Spending bounced nicely in April. This is still led by multi-family housing while single-family housing is still negative. Oil & Gas drilling expenditures were the largest surprise on the upside.

- ➢ The globe is slipping into recession (some regions are already there)

Germany is officially in recession as its growth in Q1 was revised down to -0.3%. This is the second quarter in a row of negative growth (this is still the definition of a recession despite some politicians trying to employ the Potter Stewart approach). High inflation is the cause of the slowdown along with a dramatic drop in government spending. Of course, Germany is now experiencing deflation. So, inflation hurts them on the way up, and deflation will hurt them on the way down. Italy and France still have positive GDP growth. But both are just hovering above 0% with deflationary pressures, as well. And Europe's Manufacturing PMI is still squarely negative.

The latest official PMIs (business surveys conducted by the government) in China (for May) point to more weakness. Manufacturing fell further into negative territory. The move was small, but the market was expecting an improvement. Services are still positive, but it fell by more than two points which was worse than expected. The private PMI improved on the headline to get back above the breakeven level. Output and New Order growth were both strong. But Buying Activity, Employment, and Sentiment all slipped badly. Without any new stimulus (fiscal, monetary, or regulatory), the reopening will stay dead.

- ➢ Some in the Fed did not like what the Fed was saying

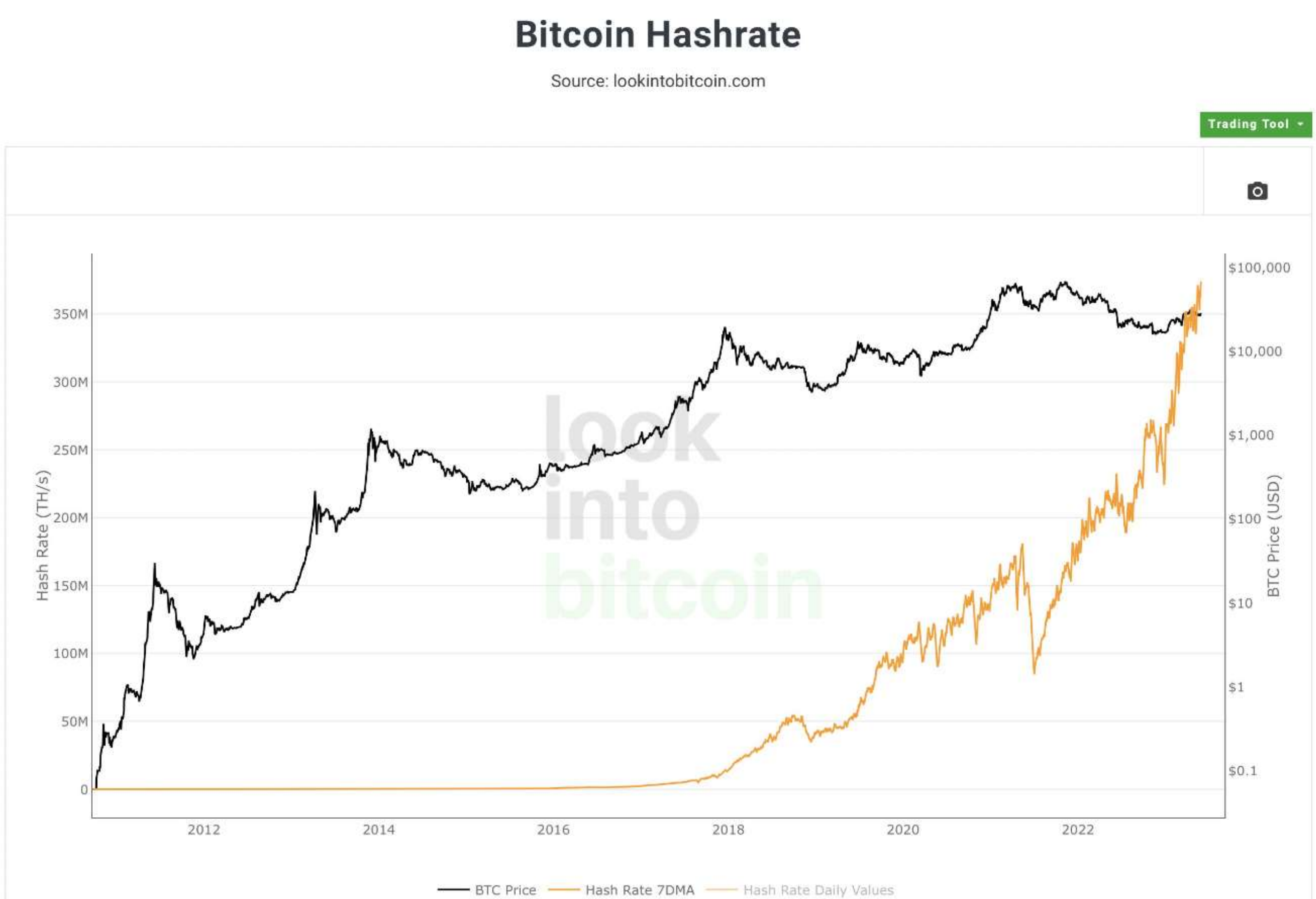
The change in Fed sentiment revolves around one central figure voicing a softening tone. Philip Jefferson, a member of the Fed Board and the nominee for vice chair, was rather plain spoken when he suggested the Fed would pause in June. Jefferson is thought to be the closest to Powell and thus voices the most likely outcome. Of course, Jefferson also said more rate hikes could resume in July. We think celebrating a pause is foolhardy (even a long pause – monetary policy does not work overnight).

- Where might more crypto money go?

The infamous Winklevoss twins are taking their crypto show on the road. After having lost $900mm of their clients's money, they are mad at US regulators. Instead of dealing with regulation (never mind trying to recover the stolen funds), they are moving their Gemini crypto platform (do not call it an exchange!) to the UAE if they are granted a license. Nothing says "above board" like moving shop to the Middle East.

- Chart Crime of the week

We often criticize charts that do not use a log scale (especially if they are over extended time frames with a starting point of effectively zero) or do not use comparable percentage moves when comparing two things. This chart is a new twist. It is trying to show that the Bitcoin network is becoming more robust through the "hashrate" metric (not that it matters, but this is supposed to represent the robustness of the network). The hashrate is plotted using a linear scale – this exaggerates the sharp move higher. The price of Bitcoin is shown with a log scale – this smooths out its move higher. Or just look at the intervals of the y-axes.



- Quick Hits
  - Lululemon fired two employees for calling the cops while being robbed in the store.

- 29.4% of Mississippi drivers are uninsured.
- Midland County (TX) had the largest employment growth rate in the country in 2022 (+7.9%). It also had the largest percentage increase in wages at 6.1%.
- Two counties in Indiana had the largest drops in employment (both at -1.7%). San Francisco County had the largest percentage drop in wages at -22.6%.
- The college enrollment rate for US high schoolers dropped to 62% in 2022 from 66% in 2019.
- Merrill has a News factor. Stocks with positive news outperform those with negative news. Generalissimo Franco…still dead.

Trading: We continue to mostly stay on the sidelines. We are reluctant to get in front of the "AI" train. This burst of market momentum has somehow sucked in the short squeeze names including the Fantasy & Frauds and Bitcoin related equities (yes, one could lop these all together). We are happy keeping our defense posturing and trading around some of the macro factors…at least until the dust settles.

TSLAQ: Musk continues to keep his mouth relatively shut…other than confusing Voltaire for a neo Nazi and making fun of kids with Leukemia (or so goes the blowback against him on Twitter…who knows). More specific to Tesla, he is currently conducting one of his apology tours. This time he is in China kissing the ring of the ultimate owner of his Shanghai factory.

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