



Weekly Update

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- Iran headlines are likely temporary
- AI questions, credit worries, and stagflation fears might linger
- Retail is doing what it does best
- Is the bottom of the K getting better?
- More dispersion seen in stock Vol vs index Vol
- Earnings were great, and guidance looks good, too
- So much for the rebound in Employment
- Inflation stays cool for now
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week
- You'd be better off gambling against this guy

	Last	5d %	YTD %	1yr %
S&P 500	6,776	-1.4%	-1.0%	21.6%
QQQ	\$607.69	-0.5%	-1.1%	28.9%
US 10 YR	4.23%	4.10%	4.17%	4.32%
USD/DXY	99.2	98.8	98.3	103.6
VIX	24.2%	21.2%	15.0%	24.2%
Oil	\$88.22	18.2%	51.9%	31.7%

*10yr, DXY, and VIX are levels not changes

** Oil is front month futures, beware

The erratic headlines surrounding the war in Iran continue to dominate the market. But we still think a good chunk of the jittery nerves are born out of the confusion around the Artificial Intelligence trajectory, credit worries, and hints of stagflation in the economy. In the AI world, Oracle put a lot of worries to bed with impressive earnings and strong guidance. Of course, the company also did this six months ago before it proceeded to fall 60% (and it also announced it is scrapping some of the splashy infrastructure initiatives already announced). Moreover, solid data center spending does not mean software companies will be able to trade at lofty multiples if their future growth rates are no longer sure things. Private Credit lenders are realizing that retail clients are not the perfect buyers of their long-dated products. JP Morgan has started to write down some loans and is restricting collateral. Investors in a \$33b Cliffwater fund, a private credit firm that few have heard of before this week, just requested to redeem 14% of the assets (as the great Lee Corso would say, not so fast!).

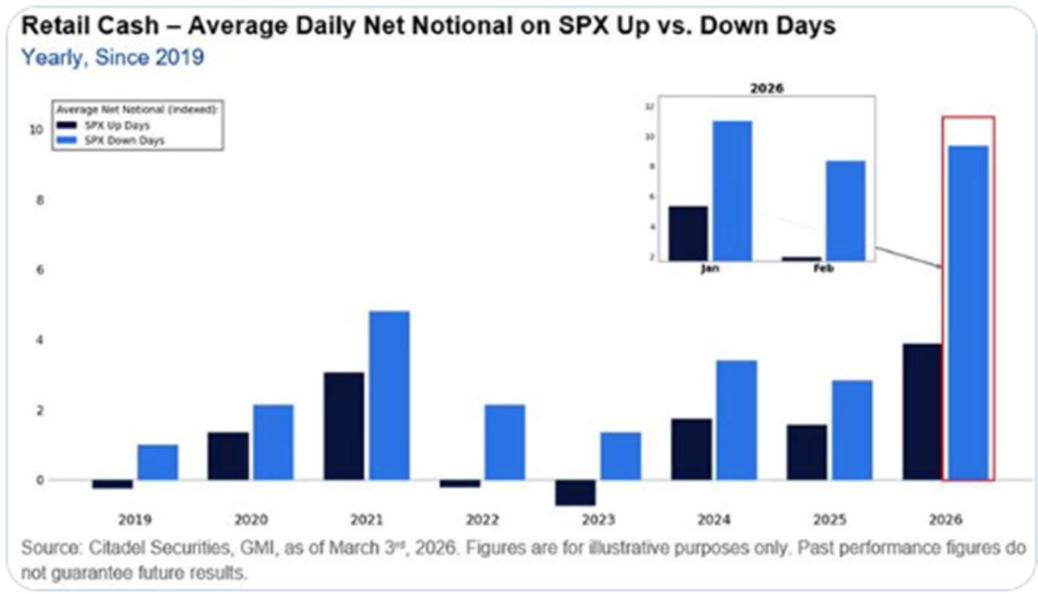
This type of bank-run of activity only feeds on itself and spills over to other financial stocks (as more sponsors are cutting prices of loans in the portfolios/funds, more retail clients want their money back). A Canadian subprime lender named Goeasy (alert: stupid name!) is writing off \$200mm in shoddy consumer loans. And while economic data had been steadily improving, an awful February Employment Report and the impending spike higher in inflation are looming larger than the good data from the recent past. Right on cue, the Atlanta Fed lowered its GDPNow tracker for Q1 to +2.1% down from +3.0% last week.

As for Iran, who knows how long this will take to play out. We suspect it will be relatively short-lived. But given the inertia involved in reopening much of the infrastructure that has been shut down, the effects of the war will be felt for some time. (This is different from our usual nonchalant attitude towards oil spikes because of the broad shutdown across the region.) Even if we get releases from strategic petroleum reserves or cuts in gas taxes or allow countries to buy oil from Russia, these efforts will likely not be enough to normalize prices in the short-term (at least not back to pre-war prices). That said, oil companies in the Permian are producing at a frantic pace. Natural gas prices in the region (Waha hub) have lurched lower into negative territory (reaching lows of -\$8/MMBtu). Negative prices in the region are not novel because of the inadequate pipeline infrastructure. They have been in a range of about -\$2.16 to +\$0.76 so far this year. But the spike in oil prices has pushed producers to dispense with the natural gas byproduct at virtually any cost to be able to attain much higher oil prices. As we like to say, high prices are always the cure for high prices.

Through all this, we remain bullish in the medium term. But we are tilting our macro exposures to hedge against any temporary stagflation worries. We are still long the core AI names on the infrastructure side. But we are still mostly avoiding the Software space until we can learn more about who is going to win with AI and who is going to be beaten by it.

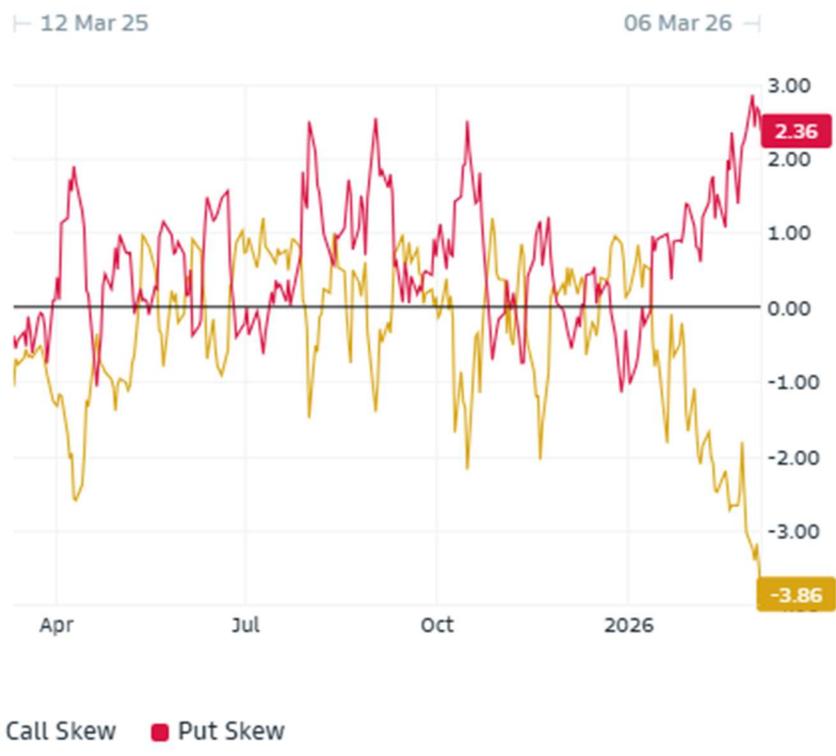
➤ Retail is doing what it does best

GS prime brokerage (fancy term for hedge fund custodian) notes that equities have been sold for three straight weeks. But this selling has been dominated by macro positioning. Single stocks have actually been bought. The obvious sector themes have included selling Cyclical and short covering Software. This macro trading can be seen in ETFs which currently account for 40% of all trading. And, of course, Retail is still doing what it does best...buying the dip. Retail buying on down days is 100% higher than what we thought was an unhealthy clip back during the 2021 meme frenzy.



This chart shows how manic the scramble was to get hedged. Put option buying shot higher and Call option buying plummeted. This usually signals a reversal (hedging at the wrong time).

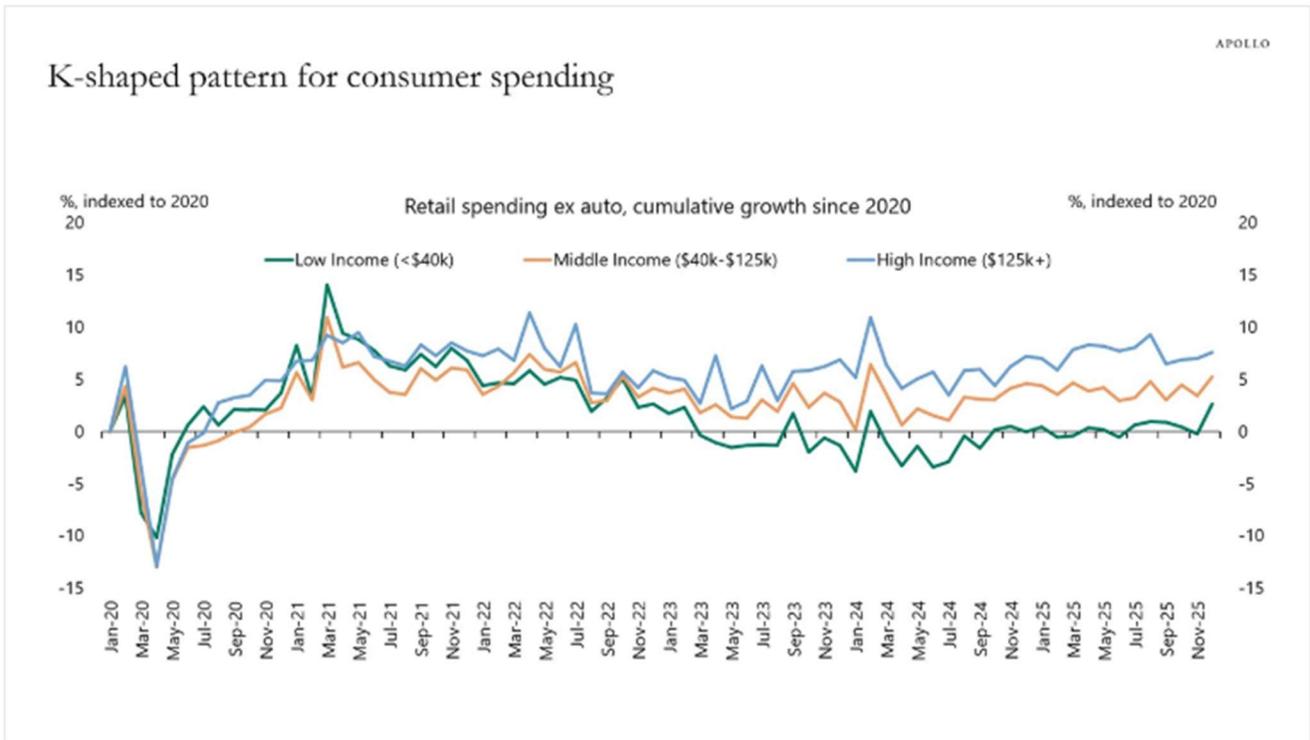
SPX Call Skew And Put Skew - 1yr Z-Score



➤ Is the bottom of the K getting better?

Bank of America releases a monthly household spending tracker. February consumer spending was +3.2% higher vs last year (and accelerating from +2.6% in Jan). Tax refunds are about +10% vs last year. Higher income earners are seeing slightly higher refunds (+11% vs +7% for the lower earning household and 8% for the middle). But the lower earning segment are the ones spending more of their refund. Unsurprisingly, most of the increase in spending has been on electronics and travel. Hopefully this is a sign of stability and not frivolity.

Here is a chart showing cumulative Retail Spending for different income brackets. Oddly, this data was framed as proof that the bottom of the K is still doing poorly. Clearly the <\$40k group has lagged...but it sure looks like it is picking up at an accelerating pace. Just like the BofA data!



Sources: [Economic Heterogeneity Indicators \(EHIs\) - FEDERAL RESERVE BANK of NEW YORK](#), Apollo Chief Economist

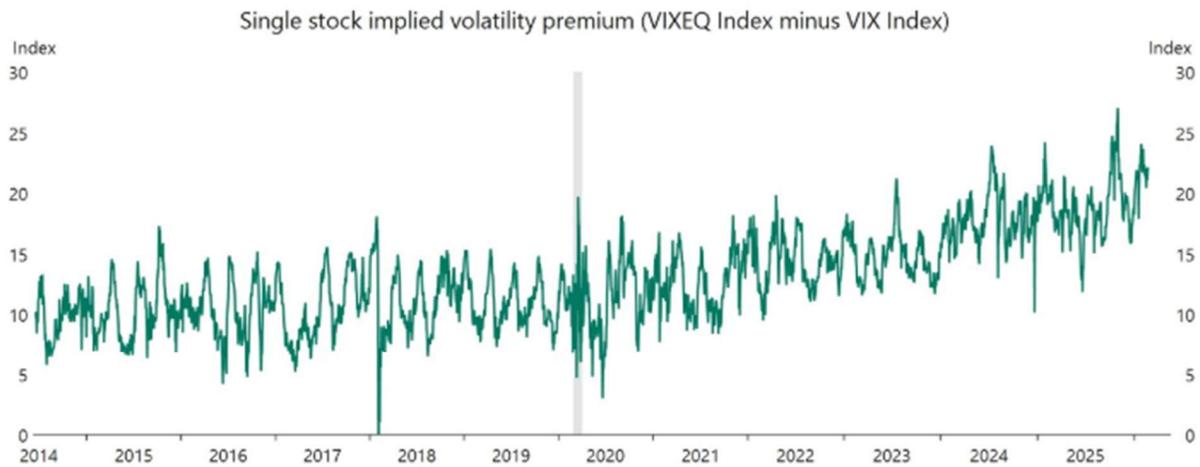
Expand

- More dispersion seen in stock Vol vs index Vol

We are probably beating a dead horse at this point, but here is another way to look at the dispersion in the market. In a nutshell, option pricing for single stocks (Volatility) is increasing relative to that of the index.

Single-stock volatility premium near cyclical highs

APOLLO



Sources: Bloomberg, Macrobond, Apollo Chief Economist

Expand

- Earnings were great, and guidance looks good, too

With Earnings season pretty much done, about 73% of the S&P 500 have beaten expectations. Only about 22% have missed. Earnings growth is going to be above +14% which is pretty incredible when looking back at the expectations over time. And Revenue growth is +9.3%. Looking ahead, 115 companies have given guidance (as of a few days ago). Mgmt teams are almost always cautious or conservative. But for 1Q2026, there are more positive pre-announcements than negative ones. The ratio of Neg/Pos is 0.9. Last quarter it was 1.1. A year ago, it was 2.4.

Exhibit 3. 2025Q4 Blended (Reported & Estimated) Earnings Growth

Sector	Today	1 Jan	1 Oct	1 Jul
Consumer Discretionary	0.0%	-2.8%	-1.9%	-2.9%
Consumer Staples	4.3%	1.6%	5.4%	4.9%
Energy	3.6%	1.7%	0.6%	0.2%
Financials	9.6%	6.7%	4.7%	2.5%
Health Care	0.9%	0.7%	4.4%	8.8%
Industrials	17.2%	-1.7%	0.7%	1.1%
Materials	13.1%	8.2%	10.1%	14.9%
Real Estate	2.0%	0.8%	0.9%	1.2%
Technology	33.9%	26.5%	19.2%	14.7%
Communication Services	14.6%	7.3%	7.1%	3.8%
Utilities	-0.7%	3.8%	10.5%	8.3%
S&P 500	14.1%	8.9%	7.7%	6.3%

Source: LSEG I/B/E/S

➤ So much for the rebound in Employment

Nonfarm Payrolls *fell* -92k jobs in February. January had a large jump of +126k. The expectation was +60k. There were some excuses about weather, strikes in California, and the old birth-death model which is fraught with errors. But no matter how you slice it, this was a terrible report. For all the signs that Employment was stabilizing if not improving, this data casts more than a little doubt. Private Payrolls lost -86k jobs. Manufacturing lost -12k. The Unemployment Rate ticked up to 4.4% from 4.3%. the Labor Participation Rate ticked lower to 62%. Oddly

The only bright spot was that Average Hourly Earnings ticked up +0.4% again. This brings the annual rate to +3.8%.

➤ Inflation stays cool for now

Inflation in February (per the Consumer Price Index, CPI) increased +0.3% after rising +0.2% in January. This brings the past 12-month tally to +2.4%. This is the same as last month (technically it was a touch higher if you go out one more decimal place, but we typically do not wade this far into the weeds). "Core" CPI increased +0.2% vs +0.3%. the annual rate remained steady at 2.5%.

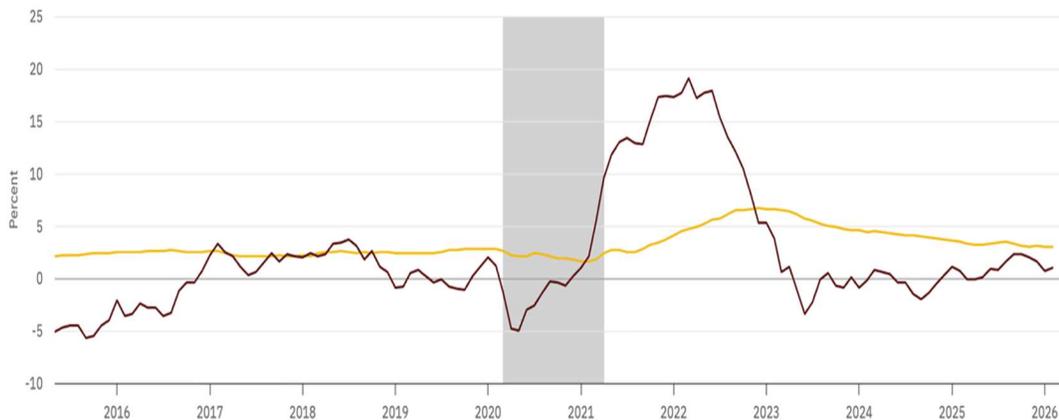
Food Prices increased +0.4%. At Home prices increased this +0.4% while Away from Home prices were marginally better but still accelerating at +0.3%. Energy prices jumped +0.6%...obviously this was before the super-spike from the war. Fuel Oil jumped 11.1% in the month. Electricity prices fell -0.7% (we do not believe this one!). Piped Gas jumped +3.1%.

In Core Goods, Used Car prices fell (-0.4%) and Apparel jumped (+1.3%). Airfares saw the biggest jump (+1.4%) in Core Services. They are up +7.1% in a year.

Shelter prices increased +0.2% down from +0.3% last month. Rents were better at +0.1% while OER (Owners's Equivalent Rent...that quirky stat that has you guess the rental bale of your home) increased +0.2%. Shelter prices are still up +3.0% over the last year.

Much of the debate around the jump in oil prices is how long should we expect them to stay elevated? We think the real worry should be how long other price hikes stay elevated (insurance, shipping, fertilizer-> food, electricity, etc). The Atlanta Fed tracks what it calls Sticky Price Inflation. The chart below shows that sticky prices (yellow) did not jump in the ridiculous money printing days of the post-Virus Fear era (monetary and fiscal policy failures). But they also have not normalized as much as headline prices since. The definition of Sticky is prices that change less often than 4.3 months. There is a lot of overlap between the headline and Sticky (about 70%, these include Shelter, Healthcare, Education, Food Away from Home, etc). So we think it is a good metric to watch if you want to eliminate the short-term noise. And this makes us think the days of declining inflation will be on hold for a while regardless of the duration of the fighting in the Middle East.

Sticky-Price CPI



Gray bars indicate periods of recession.
Source: Federal Reserve Bank of Atlanta

Separately, the NY Fed's Consumer Inflation Expectations (1-year) cooled slightly to +3.0% from +3.1%.

➤ Retail Sales are mixed

Retail Sales were negative in January -0.2%. This is a +2.4% vs last year. It was slightly better than expected. More importantly, the Control Group (those businesses that are included in the GDP calculation) increased +0.3% vs 0% last month (and better than expectations). Motor Vehicles (and parts and gas stations which are not in the control group) all fell sharply. Electronics, Appliances, and Apparel were also weak. E-commerce was the standout. Furniture and Building materials (not in control group) were also positive

The Weekly Redbook Retail Sales slowed to +6.2% from 7.0%.

➤ Other economic data is better/mixed

Existing Home Sales in February increased slightly after the noticeable drop in January. The annualized run-rate is 4.09mm (up from 4.02mm).

Weekly Mortgage Applications increased slightly after last week's jump higher. The upward trend continues.

The average 30-year mortgage rate increased to 6.19% from 6.09%.

Small Business Optimism (NGIB) in February was mostly unchanged as it has been for six months.

Business Inventories (ex-autos) increased +0.4% in Dec. This can be a tricky metric: Are businesses optimistic and thus stocking the shelves? Or are consumers pulling back? Typically only large swings give a good signal (contrarian).

➤ Where did all the crypto money go?

We have another entry from Drake. This guy seems to be all over the crypto and new-gambling world. His latest publicized hobby is live-streaming his online casino action. He does this at a site called Stake which is apparently not just a casino but a crypto casino. The gist of the story is that Drake "somehow" wins at an incredible rate when he is live-streaming (maybe as fast as Lloyd Christmas running in the pet mobile). His peak was winning 1000x his wager four different times in an hour. In general, he wins at 4x the rate of the other mere mortals. How does he do it? While there has not been any official confirmation, the scuttlebutt is that Stake simply juices

his odds and payouts. They want as many big wins from high profile people as possible. Of course, the poor saps who are dumping their crypto into this unregulated Curacao casino are probably not getting the same odds. The only way to lose money faster than buying most crypto is betting that crypto in a crooked* casino.

*As a fun aside, years ago, we were gambling in Trinidad & Tobago. It was a makeshift casino on the side of the road. While it was in the real world, it was certainly not regulated. One of the games involved putting big, fuzzy dice into a box. The box was tilted and propped up by a stick. The casino guy would whack the stick, and the dice would tumble out. We simply bet on what the dice would roll. Double sixes paid the most at 30:1. Oddly, 6-6 paid more than 4-4 or every other double. This payoff was actually the closest to a fair bet in the casino (35:1) ...or so we thought. Our group loaded up our bets in TT-dollars (about 6:1 to the USD at the time) on 6-6. We won! Until the casino guy nonchalantly reached out and turned one of the dice to a different number. Oh well.

➤ Chart Crime of the week

This one took as a second to figure out. Eventually you see that the Korean day traders have charted their index (Kospi) through the Persian Gulf into the treacherous waters of the Strait of Hormuz with unknow travels ahead in the Gulf of Oman. (h/t to SF for this one.)



➤ Quick Hits

- A government plane in Bolivia carrying \$62mm worth of local currency (bolivianos) crashed in a populated area. Most of the money was grabbed by local residents. Bolivia has cracked down on the stolen money by restricting serial numbers and seizing dubious bills (not sure stolen is the right word). Now, everyone in the country is afraid to use their currency and commerce has ground to a halt.
- There are 140 crypto ETFs listed on US stock exchanges. There are 100 applications pending.

- The regulated crypto platform Kraken has been awarded a “limited purpose account” at the Federal Reserve Bank of Kansas City. This will allow the platform to move money directly with the Fed.
- The parent company to the New York Stock Exchange (the Intercontinental Exchange Inc.) is buying a stake in the crypto platform OKX. The valuation is \$25b. (When we clicked on the link from Bloomberg to get more details, Microsoft flagged it has a dangerous link. We did not pursue the matter.)
- Perhaps the last three bullet points should be in the WDATCMG section?
- Cushman & Wakefield is being sued for *not* offering ESG funds in its 401k/retirement plans.
- A Log Bronc is a small boat used to move logs around a sawmill pond.
- The Federal Reserve acknowledged (in an official whitepaper) that the prediction market Kalshi “provides a high-frequency, continuously updated, distributionally rich benchmark that is valuable to both researchers and policymakers.”
- The Los Angeles Marathon awarded anyone who ran 18 miles a “finisher medal.”
- Exxon is moving its legal headquarters to Texas after 144 years in New Jersey.
- Exxon’s New Jersey roots (Standard Oil), ironically, were born out of a need to escape political pressure.
- Women now make up 26% of users on Kalshi. This is up from 13% about a year ago.

TSLAQ: Musk is a master manipulator. Sometimes this is a bad thing (convincing people that his Full Self Driving actually has full self-driving capability), sometimes this is a good thing (getting the government to focus on frivolous spending etc). Sometimes it is just working over the rubes in the public markets. Apparently, SpaceX has convinced Nasdaq to include the IPO stock in its indices when it becomes public. Nasdaq is literally rewriting its IPO rules. Most indices (S&P, Russell, and MSCI) base index weightings on the number of shares that freely trade in the market. In other words, they exclude insiders with lockups or different share classes. But Nasdaq has agreed not only to allow SpaceX into its indices almost immediately upon listing (there is a 15-day cooling period, but this is effectively immediately considering it usually takes months if not years to gain inclusion), but the exchange will assume 5x the number of shares in the free float! Moreover, a float adjustment will take place right before the rebalance in December. This means the insiders (Musk & Friends) can file to sell their shares to get the float up to 20% right before the index inclusion. This means the float adjustment goes to 100%. This is complicate stuff, but the punchline is that SpaceX investors will be able to sell their stock into massively inflated levels because index investors will be legally obligated to buy massive amounts of stock on a predetermined day. Of course, we might want to use this for our own good! (We got this from one of our favorite X followers from the past, Keubiko. Unfortunately, he is off X now and only posts sparingly to Substack.)

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