Chalk Creek Partners LLC

Registered Investment Advisor

Weekly Update 2-December-2020

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- Market continues higher along with sector rotation
- Random research from Wall Street
- Do analysts always get Earnings wrong?
- Weekly Unemployment Benefits chart
- First sign of Housing slowing?
- Survey data cooling off in certain segments and regions
- Yes, the economic data appears to be weakening
- Will OPEC+ keep cutting production?
- Bitcoin is a wild ride

	Last	5d %	YTD %	1yr %
SPX	3669	1.1%	15.2%	19.1%
QQQ	296.3	2.6%	43.6%	49.2%
US 10 YR	0.93%	0.89%	1.88%	1.72%
VIX	21.2%	21.3%	13.8%	16.0%
Oil	45.83	-1.8%	-26.3%	-19.6%

*10yr and VIX are levels not changes

** Oil is front month futures, beware

The market continued its drive higher. Despite the headline repetition, the market dynamics have shifted again. In its simplest form, Growth outperformed Value. But it was more nuanced than this, as usual. When positive vaccine stories hit, the Work-From-Home stocks got it. More specifically, it was the fringe stocks that got hit. These were the either the new IPOs or the thematic growers. Dare we call Amazon a more classical stock, but its ilk (Quality Growth, perhaps?) performed better despite the narrative. There was also fresh hope for a lame duck stimulus. This would be a Christmas miracle for the markets. More pointedly, old economy stocks would likely be the beneficiaries of newly injected capital. Of course, we never imagined the Robinhooders taking over the market back in the spring. While we are occasionally tempted to test the waters of the crazy stocks during these shifting moods, we think sticking with the stocks (and factors or sectors) we know well and trading against the flavor of the minute remains our best course of action.

On top of the positive vaccine and stimulus stories, we also had some M&A activity (merger & acquisitions). Salesforce is buying Slack and S&P is buying IHS Markit (the company that does the PMI surveys we like, amongst other market data businesses). M&A always kicks the market's animal spirits into gear. Of course, sometimes it can be the ultimate harbinger of an over-inflated market and economy (no organic growth to be had, so rich companies buy their competition or periphery add-ons etc). Last week, we conjured up thoughts of the dot.com bust. AOL buying Time Warner was the top of many people's list as to what burst the bubble.

- Random Research bits from Wall Street

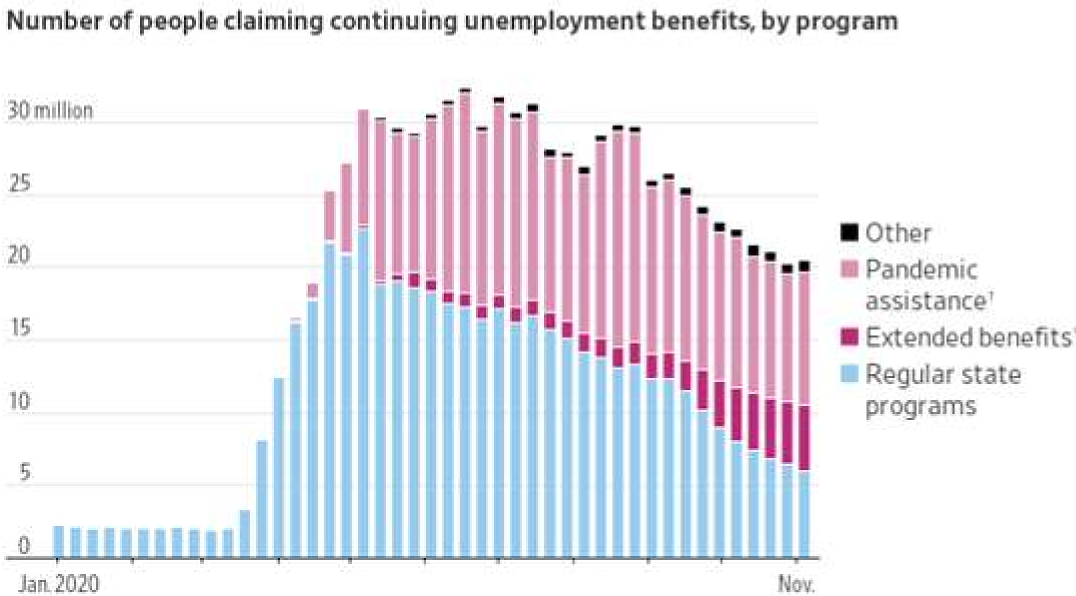
Goldman Sachs is warning about a virus-filled winter and the associate risk it will impose on the economy. The research sees a potential doubling of daily cases (no word on if any of this increase results in people getting sick) and the Volatility market is not pricing in an increase of lockdowns. Of course, after reading this research, the very next thing we came across was a Bloomberg article discussing how Volatility remains extremely elevated relative to historical levels! We sit in the middle on this one. We think there is a chance for an uptick in virus fear. But we think people are seeking out protection in the form of sector rotations. And Vol remains high because there is still persistent Call option buying. We think Put Vol is still cheapish.

JP Morgan is drumming up the old Eurozone over US trade idea. This is a partial mean reversion call. It is also a nod to the ever-elusive Value-over-Growth trade. We think both fine approaches when looking at sector-specific (or better yet, stock-specific) ideas. But to implement them in a wholesale fashion without any underlying macro or fundamental impetus is misguided. We looked at a similar idea that some were pushing: buying the United Kingdom's FTSE index. But this index is loaded with energy and mining companies not to mention some whacky emerging markets exposure. We will pass.

- Do analysts always get Earnings wrong?

Here is a chart from Refinitiv courtesy of the WSJ. It shows the optimism from stock analysts regarding their earnings forecasts. We can disregard the blip higher at the end of 2017 because this was a biproduct of the tax reform (Tax Cuts and Jobs Act). The chart shows that analyst sure know how to buy the top and sell the bottom.

- Weekly Unemployment Benefits chart



* Reflects Pandemic Emergency Unemployment Compensation for those who exhausted other programs. † Reflects Pandemic Unemployment Assistance for self-employed and others not typically eligible.
Source: Labor Department

- First sign of Housing slowing?

We might be seeing the first chink in the Housing armor as Pending Home Sales for October actually fell 1.1%. Sales are still up 20.2% vs last year. But this second straight monthly decline. Prices appear to be the main sticking point (according to surveyed realtors) with the median home price being $313k for closed sales (not pending). The South was the only region to show a monthly increase (but just barely). The Northeast saw contracts drop by 6% vs October. With this news and interest rates ticking higher, we saw housing stocks pull back. We took the opportunity to add slightly to our small, long position. They are still cheap so they should be able to withstand a slight slowing of the recent onslaught in Housing.

- Survey data cooling off in certain segments and regions

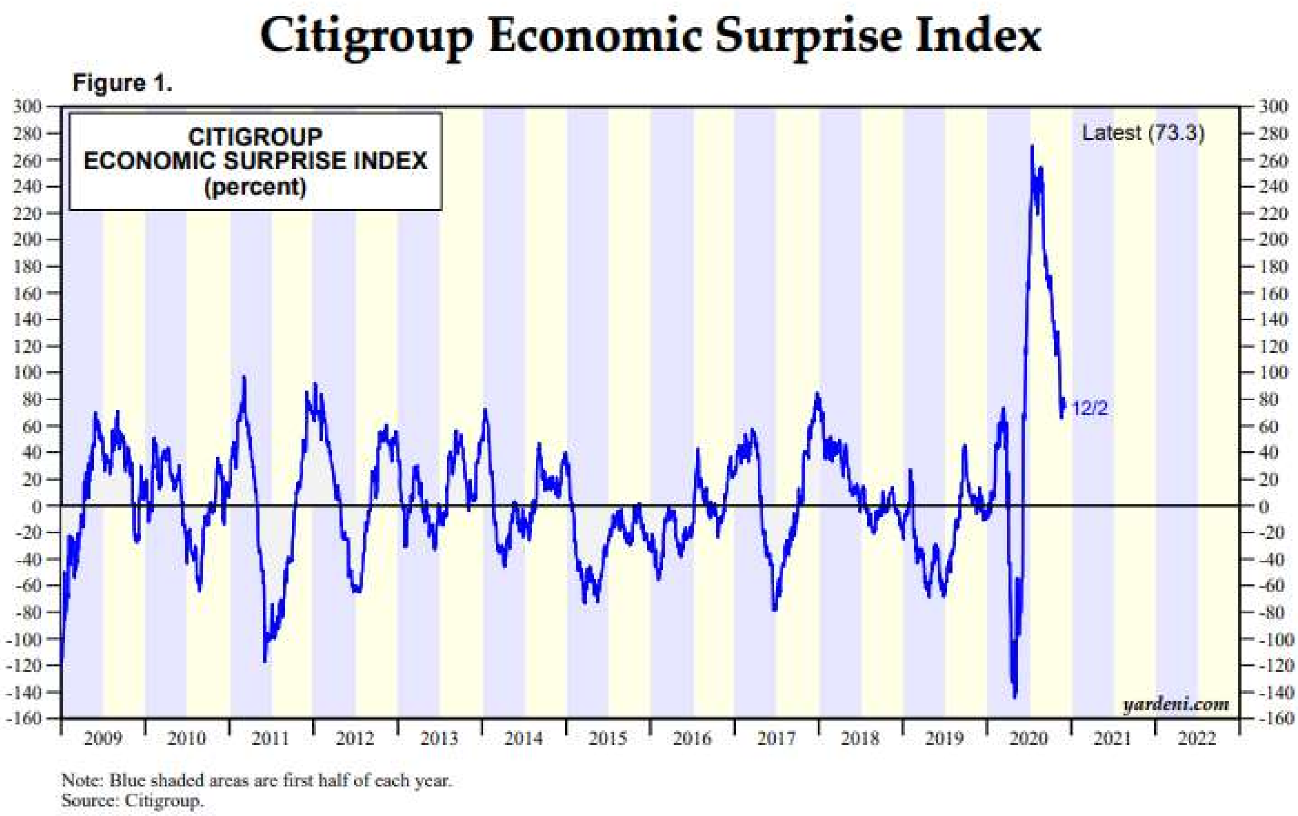
While business surveys are telling us that economic activity still sits at a healthy level, there are signs of it moderating. The Fed's Beige Book underscored the varying levels of activity across different regions in the country. Four of the 12 regional banks saw little or no growth: "Philadelphia and three of the four Midwestern Districts observed that activity began to slow in early November as Covid-19 cases surged." The ISM Manufacturing survey dropped almost two points after reversing from its recent highs. The Markit Manufacturing PMI did show continued strength reaching its six-year high. This disparity can be explained by the survey composition: the ISM focuses on larger, multinational companies while the Markit PMI includes more SMID companies (Small and Medium size). The renewed lockdowns in Europe are having an impact (and thus the ISM is weaker). The Dallas Fed Manufacturing Survey also reported a large drop in activity. Dallas only includes 100 companies in its data collection, so clearly it is biased towards large companies, as well.

- Other Economic Data
    - Construction Spending in October increased 1.3% led by residential (no surprise).

- ADP's guess at the Employment report due out Friday is for a gain of 307k vs an original guess of 400k. This translates to an official government number of about 400k jobs gained vs 638k in October.
- Mortgage Applications dropped last week. This was led by refinancings.

➢ Yes, the economic data appears to be weakening

Lest you be confused by the onslaught of data, here is the clearest chart detailing the trajectory of reported economic data vs the market's expectation. We have noted the shortcomings of the Citigroup Economic Surprise Index before: made for currency traders, the weightings are largely a mystery, leaves out outright context, etc. But it does give us a good perspective.



➢ China's official Manufacturing PMI climbed a touch to remain steady since March. Nobody should believe this. The quasi-private PMI survey by Caixin climbed to an all-time high. We repeat, nobody believes this.

➢ Will OPEC+ keep cutting production?

OPEC and Russia began their occasional meeting to discuss whether to stay the course with the current oil production cuts. The market has been pricing in a three-month extension. But apparently there is more inner-turmoil among the members – the talks were delayed a few days for "further consultations."

The current deal which cuts 7.7mm barrels per day starts to ease off on Dec 31 with an increase of 1.9mm bpd. An extension seems obvious to all given the still-massive drop in demand along with more supply coming online from Libya. (The country's first real peace accord since Qaddafi was killed has taken oil production from 0.0mm bpd to 1.25mm bpd now. And Libya will not be subject to limiting quotas until it reaches 1.7mm bpd.)

The holdouts on extending the production cuts are the UAE and Kazakhstan. It seems that the UAE is mostly jawboning against its ally Saudi Arabia. But there is some truth to the notion that the UAE is longing for more standing if not outright independence (figuratively) from Saudi. The UAE's recent peace/trade deal with Israel made it the first gulf state to have official ties to Israel (Egypt and Jordan are the only other Arab countries to recognize Israel). And the UAS has some new oil infrastructure that it is keen to get up and running. As for Kazakhstan, it has always objected to the production cuts and refuses to comply.

- Bitcoin is a wild ride

The Bitcoin rollercoaster continues. We recently have commented that it embodies the risk mood of the market (and on supercharged steroids). This cuts both ways as the crypto currency fell 14% on Thanksgiving Day. There are rumors swirling that Treasury Secretary Mnuchin is looking to clamp down on "self-hosted" crypto wallets. Exchanges would have to implement "know your customer (KYC)" rules and essentially regulate holdings. This basically would remove one of the core tenets of crypto…the ability to sit outside of government regulation. Further to this, Coinbase, one of the largest crypto exchanges, has eliminated margin trading. This is a custody issue for which the only remedy would be for Coinbase (and other crypto exchanges) to register as a commodity exchange with the CFTC (Commodity Futures Trading Commission). Again, this is contrary to the notion upon which Bitcoin was built. Of course, while the Bitcoin bears were rejoicing, it rallied back to an all-time high on Monday. Perhaps this was on the back of a Wall Street strategist saying it should be included in the standard model portfolio. Perhaps it just a manic trading vehicle with insane volatility. Our view has not changed: it is empirically a worthless asset but that does not mean you cannot make money trading it. (And we love the potential of blockchain technology in trade/business transactions.)

- Quick Hits
    - The FDNY's Irish bagpipers can be heard for 10 miles.
    - Amazon has hired an average of 1400 workers every day since March
    - Palm oil is an ingredient in about half of all supermarket packaged products.
    - Thanksgiving Day online sales jumped 21.5% vs last year.
    - Black Friday (weekend) Sales dropped over 40% vs last year.
    - Charles Barkley with the line of the week: "I love Covid golf. I cannot hit anybody lined up to the left or the right."
    - The NASDAQ is going to force companies under threat of delisting to have one woman and one self-defined "minority" on their board of directors.
    - College cheerleaders are not governed by the NCAA so they can do endorsement and influencer deals (good for them).
    - Kazakhstan's richest man took control of BTA bank in 2004 after a freak wolf-hunting accident.
    - The Rockefeller Center Christmas tree's star weighs 900lbs.
    - Biden's nominee to be chairman of the Council of Economic Advisors, Cecilia Rouse, has made fame and fortune by appearing in these very Quick Hits! We previously disclosed her cutting-edge research that revealed students on performance-based financial aid actually tried harder in school.

Erratum from last week: 10,000 to 20,000 is not 50% but 100%! Just keeping you on your toes.

Trading: We skewed our trading in favor of the weakening economic data and away from the manic momentum in the market. We are still net long and think the markets could keep the Santa rally going. But we would also rather be trimming into strength than panicking into weakness. So, we covered the lower leg of our Put Spread thus increasing our Put protection. We sold some NASDAQ outright along with some of the Financials that have run too far too fast (their year-to-date underperformance notwithstanding). We dabbled in some craziness as we bought more Palantir. We made a paper gain of 45% before cutting out at a 20% gain. We rolled a small portion of the Palantir money into a Quantum Source long. We proceeded to lose 20%. The small amount of net money made on these trades was not worth the hair loss.

TSLAQ: The market continues to take every ounce of news as good news. Somehow, Tesla rallied again after a repeated announcement about S&P index inclusion. More than ever, we are aware that the short-sellers in Tesla are just as manic and impulsive as the perma-longs. We are hoping to see the stock suffer a little when the S&P inclusion is completed. As hope should never be a strategy, we will stay disciplined and wait to see what happens.

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