Weekly Update

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- The same split personality, the same market rally
- The video game killed the FTC star
- The IPO market may not be so hot after all
- Sentiment is at a year high
- Employment data is slowly slowing
- New Housing is strong and still improving
- Inflation is slowing, but maybe not for much longer, and prices are still high
- Business surveys still point to weakness ahead
- Business Spending is still bucking the trend
- Retail spending is now negative in nominal terms (worse in real terms)
- International economic data is signaling global recession
- Powell is being very clear about future interest rate policy
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	4,472	0.6%	17.4%	17.9%
QQQ	$372.82	0.7%	40.4%	29.9%
US 10 YR	3.86%	3.94%	3.88%	2.94%
USD/DXY	100.5	103.4	103.5	108.0
VIX	13.5%	14.2%	21.7%	26.8%
Oil	$75.83	5.6%	-5.6%	-21.0%

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

This week's Employment data perfectly encapsulates this market and its split personality. The precursor to the government data was an incredibly strong ADP jobs gain. The market reacted to this data negatively. It just so happens that Powell had just reemphasized the Fed's likely course of action…more rate hikes (not to mention, there seems to be more coordination in global rate hikes ex-China). This logically resulted in equities and bonds both selling off. But then the official government labor data was not as strong on top of some negative revisions. All was good again! This same kind of zig zag trend can be seen in business surveys and inflation data. Meanwhile, the most-shorted stocks (Fantasies & Frauds, Profitless Tech, whatever you want to call them) are leading the market higher. Mega Tech has slowed its Nvidia-led boom, but it is still grinding higher. So, the long-duration assets are completely eschewing the new interest rate environment. But Staples and other sectors that might feel the squeeze of a strained consumer are performing poorly! It is a true goldilocks market where selective price action dictates the narrative. We still maintain that the consumer is in trouble with sky-high credit card debt and the average monthly revolving interest rate over 22%. Biden is going to try more fiscal stimulus, but the resumption of student loan repayments is about six weeks away. Employment is slowly weakening. Housing is still strong…but only New Housing. Business Spending (Core Capital Goods Orders) is resilient, which can certainly help keep things afloat for longer. But with bank lending standards tightening relentlessly (the Fed's H8 data is updated weekly), this is likely to slow. Of course, we could sum this all up with something we have been clamoring about all year: The market runs with the good news and ignores the bad news. Looking ahead, we get the kickoff to earnings season this Friday with the major banks. We expect cautious management comments. But to be fair, we are not averse to pivoting if the banks surprise the market.

- The video game killed the FTC star

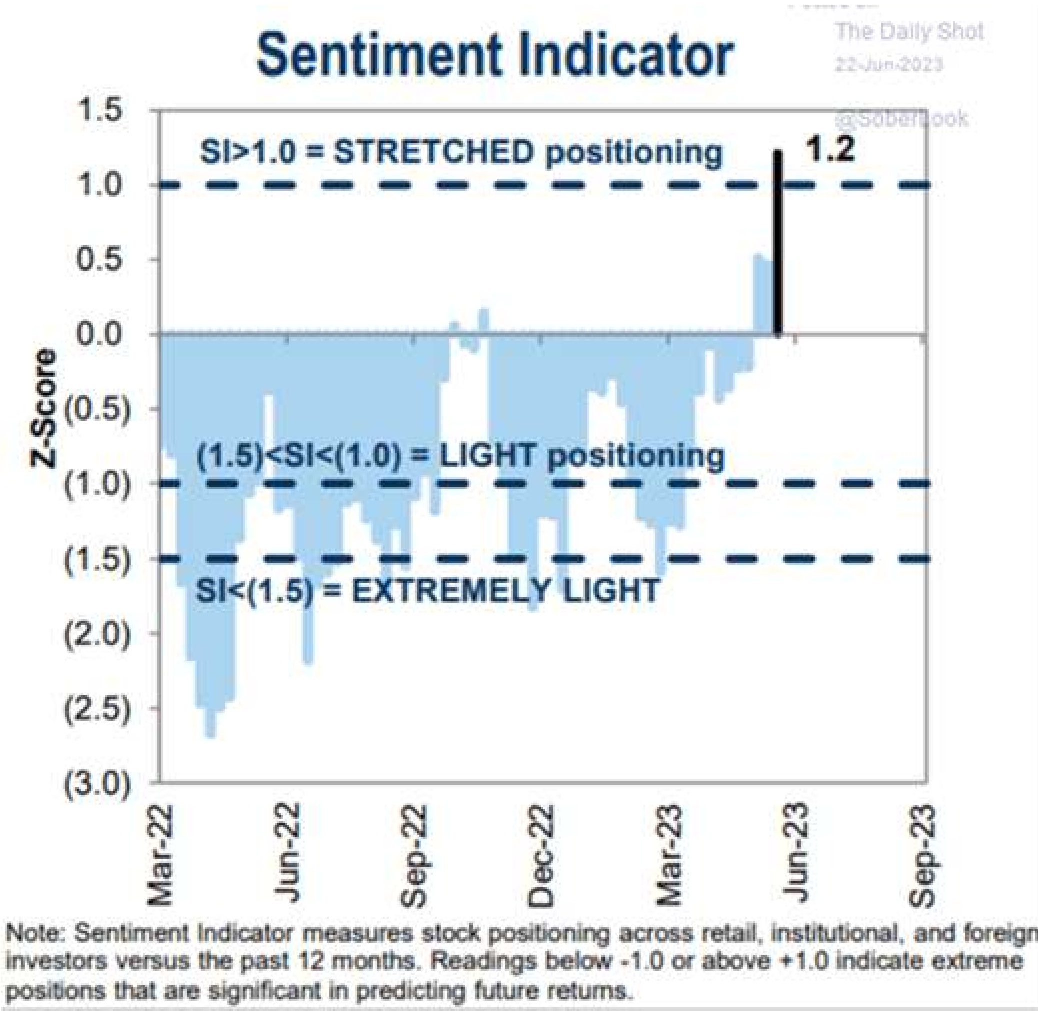
On the political front, the FTC was dealt a blow in its attempt to block the Microsoft-Activision merger. We are not sure why the government was so worried about video games. But the signal here is that Lina Khan, the head of the FTC who thinks Amazon is bad for consumers, might lose the will (or power) to challenge every proposed merger. This could reactivate some animal spirits which is always a tailwind to the markets.

- The IPO market may not be so hot after all

We recently noted the spectacular trading debut of CAVA. The notion was that this strong IPO could usher in a next wave of companies going public…always a bullish indicator. Alas, we had three IPOs recently which all flopped. It might not be fair to compare a hot Mediterranean-style restaurant chain (the "next Chipotle") to a thrift store, a reinsurer, and a gas service company. But it is fair to say the blind buying of IPOs, and the typical market exuberance associated with it, is not here yet.

- Sentiment is at a year high

Goldman's Sentiment Indicator is back to being sharply positive for the first time in a year. Merrill has a Sell Side Indicator – it aggregates strategists views and price targets. It is typically used as a contrarian indicator. The June signal jumped the most since November. It now prices in a 16% return over the next six months. Yet somehow the headline data still tells us strategists are negative. In other words, strategists are doing what they always do…equivocate.

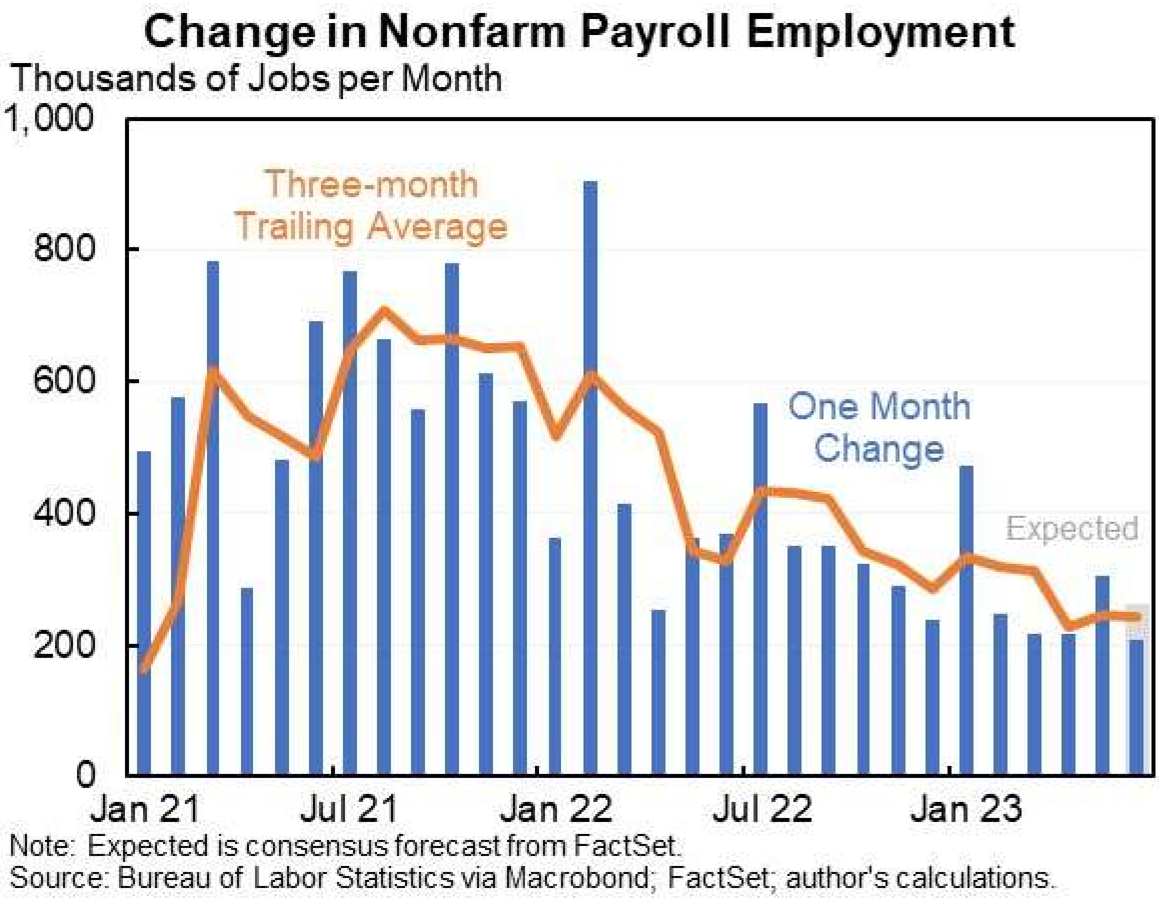


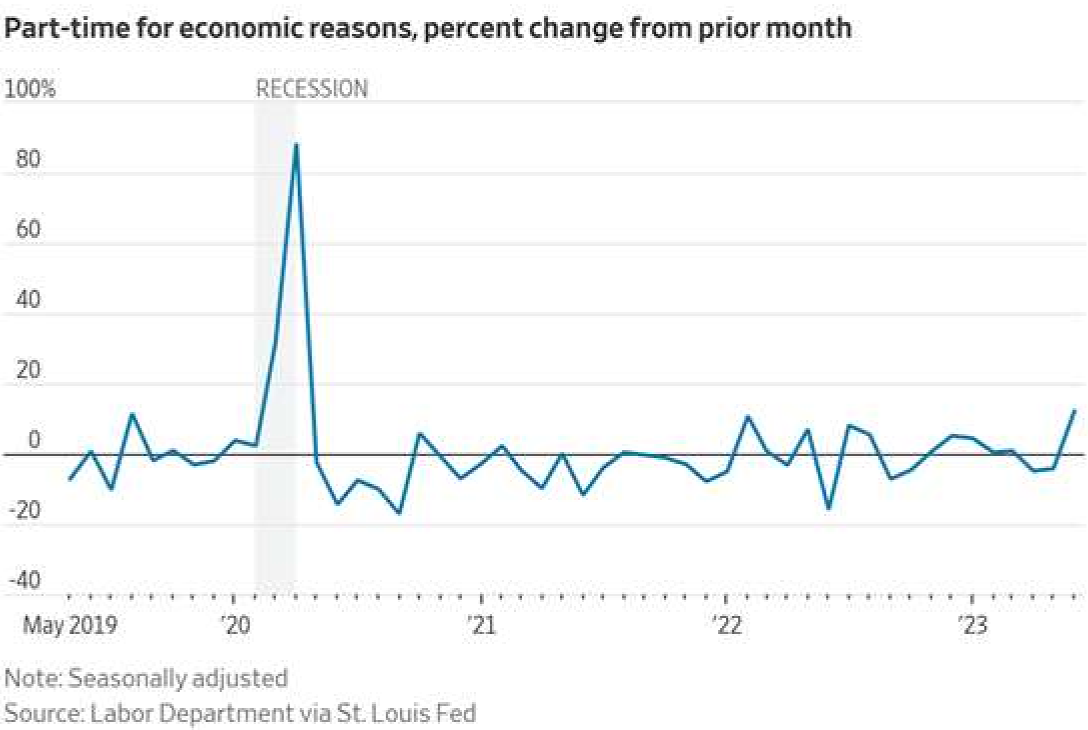
Source: Goldman Sachs

- Employment data is slowly slowing

The Employment Report for June was surprisingly not very strong (not to be confused with weak). That is, the guess from ADP (payroll/HR company) a day before the release had a giant surge of 497k new jobs. Alas, the official government data only showed a gain of 209k. This was down from 278k in May which was revised lower to 267k (And April was revised down by almost 90k). Of this, Private Payrolls only accounted for 149k which was down from the original 283k in May (was revised down to 259k). The Unemployment Rate fell a tick to 3.6%. The Participation Rate was steady at 62.6% (but the prime age participation is the highest since 2001). Perhaps the biggest surprise was the increase in Average Hourly Earnings. This moved higher from 0.3% to 0.4%. And May was revised higher from 0.3% to 0.4%. In separate data the number of Job Openings reversed back lower in May. We had previously guessed that the strong April (more Openings) was an aberration. On the other hand, Quits did have an uptick. We suspect this will be short-lived, as well.

Jason Furman (former Obama economist who is very likeable and typically presents data without bias) called this a “another strong jobs number.” While we think it is strong enough to warrant more rate hikes from the Fed, breaking down the data gives us another perspective. Part Time jobs increased by 452k. Government jobs increased by 60k which was more than expected. Seasonal factors adjusted the headline higher by 100k jobs. Steph Pomboy of Macro Mavens says, “are we about to go from labor hoarding to labor shredding?”





➢ New Housing is strong and still improving

New Home Sales in May increased over 12% vs April. This has been the strongest segment of Housing. But Existing Home Sales for May improved slightly vs April. Building Permits also improved to their highest level in seven months. Pricing remains resilient, too. Further pointing to the tight supply conditions, Pending Home Sales contracted in May. The Mortgage Market Index wallows near its 25-year low.

➢ Inflation is slowing, but maybe not for much longer, and prices are still high

The growth in Personal Consumption Expenditures (PCE inflation) slowed in May to just 0.1% monthly vs 0.5% in April. The "Core" reading (ex-Food & Energy) slowed but just a tick to 0.3% from 0.4%. This brings the annual Core down to 4.6%. JP Morgan notes that very little progress is now being made despite the move lower from the peak. The average since 2021 is 4.8%. The highest average six-month period since 2021 is 5.1%. The current six-month average is 4.6%.

The CPI showed a similar slowing in "Core" inflation as it fell from 0.4% to 0.2% in June. The annual rate is still an eye-popping 4.8% (although this was down from May's 5.3%...but this is just math obfuscating the optics). The headline fell dramatically from 4.0% to 3.0%, but this was expected. Again, the dynamic is older, higher inflation months will begin to roll out of the calculation.

We still think this cooling inflation is not enough for the Fed to relent on its interest rate policy. That said, the U Michigan Inflation Expectation for the next year is down to 3.3% vs 4.2% in May. But Business Inflation Expectations ticked up a notch from 2.7% to 2.8% (one year forward per the Atlanta Fed). The Fed likes to view expectations, but ultimately it needs prices to come down now.

Here is what small businesses think of their chances of raising their selling prices. Considering wage hikes are sticky, margins should continue to be compressed.

Net share of small-business owners who raised average selling prices over the past three months

Note: Seasonally adjusted
Source: National Federation of Independent Business

➢ Business surveys still point to weakness ahead

The Markit Manufacturing PMI for June fell deeper into negative territory. Services cooled a bit, But the trend appears to be rolling over. The ISM Manufacturing weakened to its lowest point since 2009 excluding the Virus Fear plunge.

Globally, the same trends are apparent. Here is a snapshot of consumer-facing businesses (Goods and Services).

The regional Fed surveys paint the same picture. The Kansas City Fed Manufacturing for June fell deeper into negative territory. The Dallas Fed Manufacturing improved more than expected, but it is still deeply negative. The Richmond Fed Manufacturing Index improved but it is still negative. The Chicago PMI (a composite measure) remained negative for the 10th straight month.

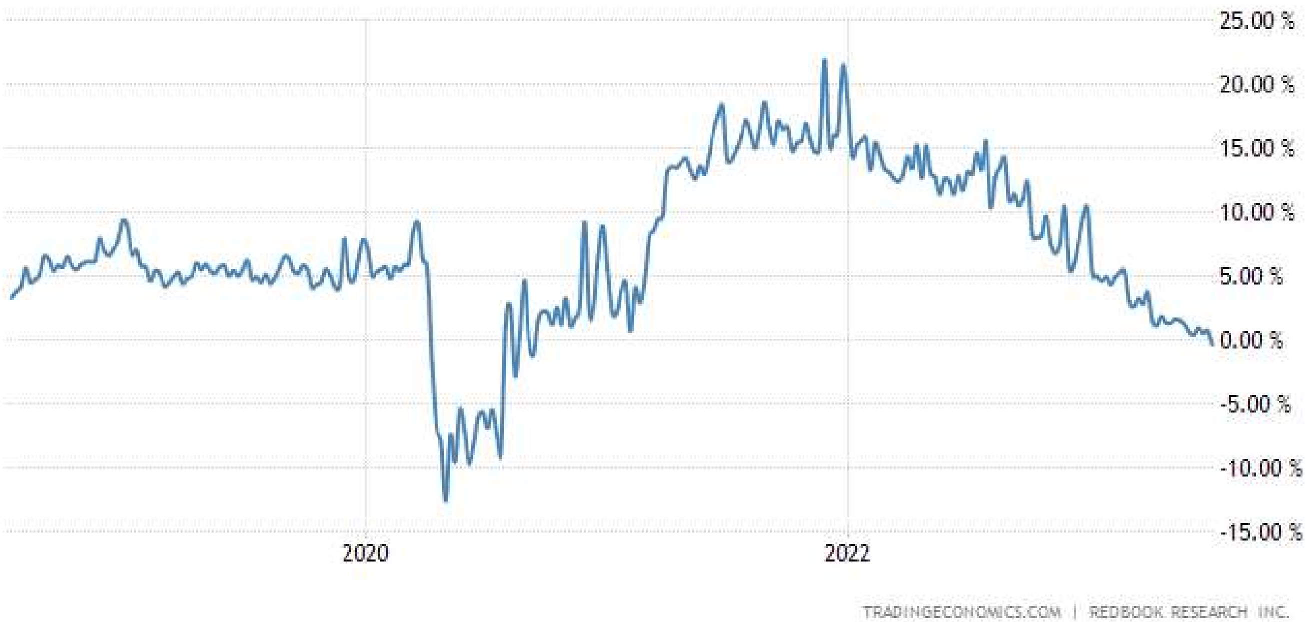
Of course, this "soft" data (survey based) has been wrong for a while now. But we still believe expectations and future intent are valid indicators of future economic growth.

➢ Business Spending is still bucking the trend

Durable Goods Orders increased in May. The more important Core Capital Goods (aka business spending) component increased a touch to 0.7%. This data is not adjusted for inflation. But with inflation having cooled, this is back to improving at a positive real rate (however slight). This remains one of the bright spots (along with Housing and Employment to a lesser degree).

➢ Retail spending is now negative in nominal terms (worse in real terms)

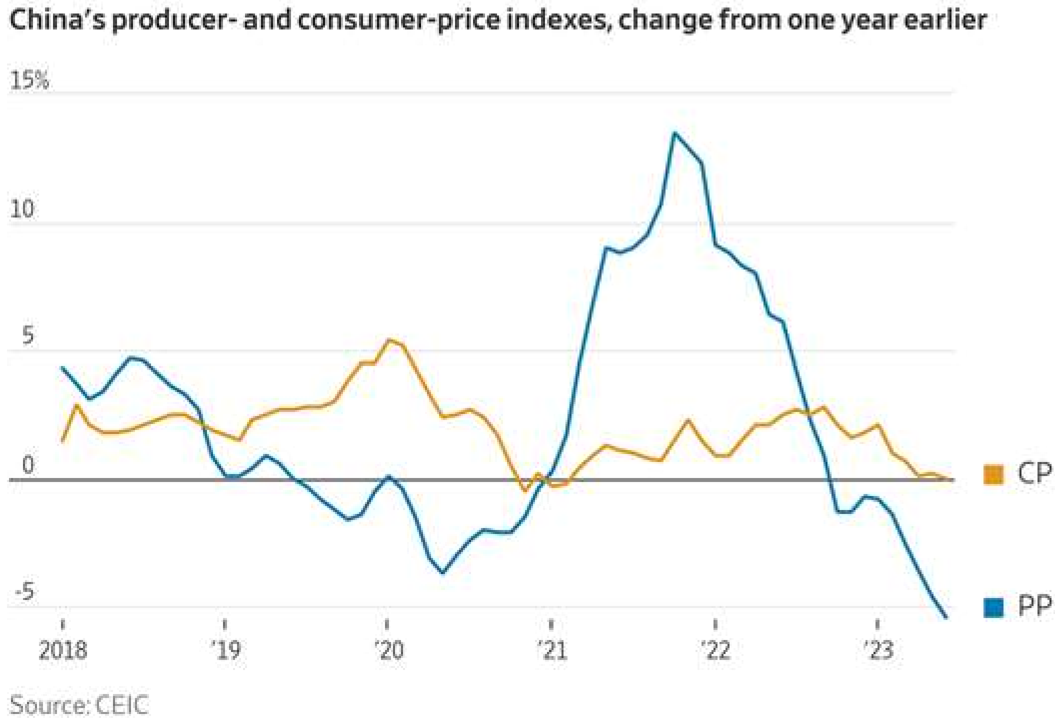
Inventories in May are still pointing to a slowdown. Retail Inventories for May improved to unchange from a negative reading in April. Wholesale Inventories are still negative but less so. Retail cannot sell its inventory fast enough. And wholesalers are not replenishing their stock. Like most economic data, Inventories can be viewed in different lights. Sometimes low inventories signal strong buying trends…this is clearly not the case today. Below is the nominal change in Redbook Retail Sales. It is a poorly labeled chart, but you can still tell the data is now negative.



- Other economic data is mixed
  - The final reading for Q1 GDP was revised higher to 2.0% from 1.3%. The bulls point to this as vindication. It seems more like old data that was dominated by the robust surge in January.
  - The U Michigan Consumer Sentiment improved nicely in June. But it is still 40 points below its pre-Virus Fear level.
  - Factory Orders in May remained in negative territory.
  - Construction Spending is still positive. This, of course, is dominated by residential housing. Non-residential spending fell.
  - Total Vehicle Sales continue to improve.
  - NFIB Small Business Optimism moved higher, but it still sitting near 10-year lows.

- International economic data is signaling global recession

China's private PMI survey for Manufacturing fell again. It was slightly better than expected and it is still sitting above the breakeven level (just barely at 50.5). New Orders and Sentiment stand out as weak spots. Export activity, conversely, remains somewhat stable. This is a bright spot with respect to the global economy. However, China inflation is decelerating quickly. Or rather, deflation is picking up steam. Producer Prices, more of an indictor for exports and international trade, are following quickly.



Euro area Manufacturing PMI fell again. It has dropped every month this year. It is squarely in negative territory and below the pre-Virus Fear levels.

- Powell is being very clear about future interest rate policy

The market wants to believe that the Fed will pivot soon. But Fed chairman Powell sure is saying the opposite. "We feel there's more tightening power to do... we believe there's more restriction coming…Though policy is restrictive, it may not be restrictive enough" and it hasn't been restrictive for very long.

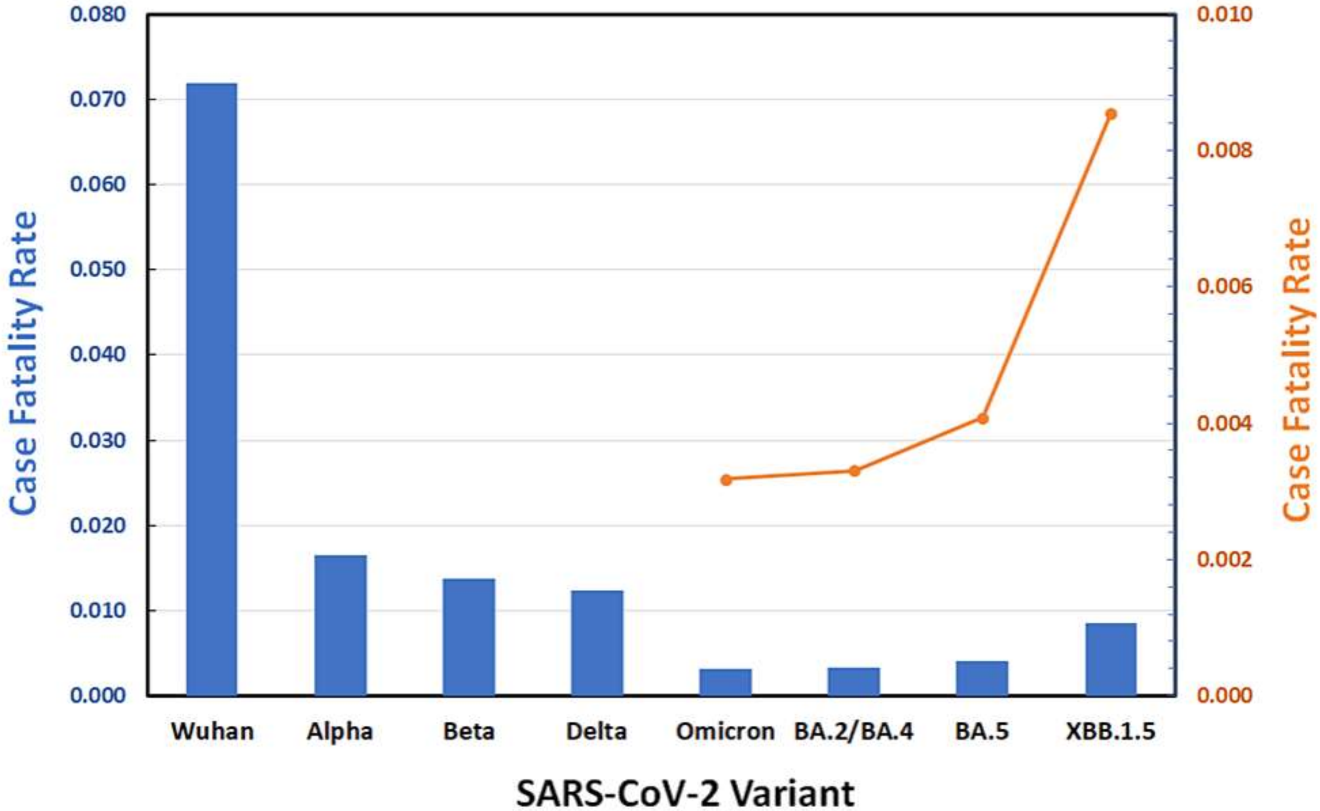
Elsewhere, the Fed's head of supervision, vice chair Michael Barr, wants to increase the capital requirements on large banks. And he wants the threshold to qualify as a large bank lowered. We think this ultimately will help the large banks. Through some short-term pain, they will become stronger. We think the consolidation theme will continue with the rich getting richer.

- Where did all the crypto money go?

We talked about Tom Brady when the FTX fraud unraveled. We surmised at the time that Brady's foray into make-believe money was a driving force behind his divorce with Gisele. Now we are getting more reports detailing the extent of their losses. The range is wide and scary: $48mm to $150mm. And this does not include the taxes they will owe on the once valuable compensation. And we know they are being sued for leading sheep to the slaughter.

- Chart Crime of the week

Part of us misses the lunacy born out of the Covid hysteria (not the actual illness, of course). Thankfully, we still have people tweeting and making up unintelligible charts to provide some everlasting entertainment. Below is the creation of someone worried about the increasing case fertility rate of the latest variants (to quote Cooter from Stripes, "there was one?") Whatever the case, just magically changing the right-hand y-axis to make your data scarier is a bit disingenuous.



- Quick Hits
  - A man in Delhi, India stayed at the Roseate House hotel for 603 days and then just left without paying.
  - Oregon's Multnomah County is suing Big Oil for $51b over climate change.
  - A woman arrested for killing her husband is suing his estate to break his will.
  - Mattel is suing Burberry for using a new brand BRBY. The former thinks this is too close to the "Barbie" brand.
  - Managed Care (health) companies are citing pickleball as a contributor to increased injuries.
  - Justin Bieber allegedly bought one of the now infamous "Bored Ape" NFTs in January 2022 for $1.3mm. It is now supposedly worth $59k.
  - McDonald's has a wedding catering package in Indonesia.
  - The New York Times and LA Times have both fired the bulk of their sports departments.
  - The Chinese communists asked its local banks to respond to negative research on the Chinese economy written by Goldman.
  - Republican presidential candidate Doug Burgum is offering $20 gift cards to the first 50k donors to his campaign. A $1 donation qualifies.
  - Vivek Ramaswamy, another Republican presidential candidate, is offering 10% commissions to people that get others to donate to his campaign.
  - Saudi Aramco has wormed its way into ESG inclusion (Environmental, Social, and Governance investing…which we have long labeled an outright scam) by setting up shell companies that "trick" investors into buying the company's securities. Blackrock, the holier-than-thou

investment giant that purports to know what is good for you and the world, has engineered this scheme.

Trading: The move higher has kept us mostly on the sidelines. We have continued to add to our longs in Japan and India. We have used the rally to trim some of our stale longs in Staples and Utilities. We added to some Gold and USD. These are mostly trading positions at this point. We had been planning on adding a structure in Big Tech to gain some long exposure while protecting our downside. But the news that Nasdaq was going to rejigger the weightings of the big names (moving their weights much lower) made us rethink this move. Of course, we woulda/coulda/shoulda done it anyway given the market's love for these stocks. We will still likely do the trade if we get a good entry point. All told, we still like the 5% we are getting on our cash while we wait for better opportunities.

TSLAQ: A few weeks ago, we made fun of Morgan Stanley's ludicrous valuation methodology around its supercharger system (they valued it with a range from $3 per share to $78). Last week, MS downgraded the stock with this line, "While the market may want to dream on the AI theme, we'd prepare to wake up to the sound of a blaring car horn." That sounds like a car company to us! (MS is infamous for saying Tesla is *not just* a car company.) Of course, MS is entirely disingenuous with its price targets. It has a bear case PT of $70, a base case of $200, and a bull case of $390. Not exactly value-added.

Back on earth, Tesla reported its 2Q deliveries. They beat expectations by 4% setting a new quarterly record of 466,140 cars. Of course, this burst in volume is completely due to the massive price cuts. We will see what happened to margins when the company reports earnings in about a month. As for the deliveries, they continue to lag production. Tesla, the company with never ending demand according to Musk, has excess inventory.

Lastly, Musk signed a pledge that Tesla will uphold "core socialist values" in China.

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