Weekly Update

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- Iran: Flight to safety, Stagflation, or just more unwinding?
- The markets did not follow the standard playbook
- The economy is still growing
- Private Credit is still a worry
- AI disruption is probably overkill
- Dispersion everywhere
- Some inflation is good inflation
- The Europeans will never learn
- Who/what exactly is AI disrupting?
- Disinflation might be slowing
- The Fed is still on hold until June…and maybe beyond now
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week
- This guy discovered efficiency?

	Last	5d %	YTD %	1yr %
S&P 500	6,831	-1.1%	-0.2%	16.9%
QQQ	$608.91	-5.0%	-0.9%	21.3%
US 10 YR	4.14%	3.95%	4.17%	4.28%
USD/DXY	99.1	97.6	98.3	104.1
VIX	23.8%	19.9%	15.0%	24.9%
Oil	$79.26	21.5%	41.1%	22.2%

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

Obviously, the war in the Middle East is the story of the week. Flight to safety or quality is the first move during a geopolitical upheaval like this. Stagflation is the first economic thought with oil and gas prices shooting higher and businesses retrenching in the face of uncertainty (and consumers retrenching in the face of higher gas prices). But the market moves did not follow the standard playbook (other than oil moving higher). Gold and Fixed Income, the two stalwarts under market stress, both weakened sharply. The USD has rallied sharply which follows the flight to safety theme. But stagflation usually hits the dollar. Equity sectors were all over the place. Energy was strong but Materials were weak. Staples suffered while Discretionary outperformed. Big Tech was in the middle of the pack, but Software came back from the dead. In other words, the weird market rotations and random bouts of irrational trading have continued.   Iran might have been the latest catalyst to jar the market off its unstable footing. But ultimately, we think this uneasiness has been in the making. The reversal of the Memory Chip/Software trade stands out. The Korean market having daily +/- 10% swings is wild and telling (and correlated to the Memory Chip trade with 43% of the index being Samsung and SK Hynix). The international trade in general has come under fire after great performance (Japan, Latin America, Australia, Europe). A few weeks ago, when the Quant funds were all unwinding (as well as other forced selling in the market), we noted that we might become small buyers in the face of these multiple "death rotations." These moves have only sped up, so we remain cautious. But we still believe in the broadening economy through tax refunds, lighter regulation (but maybe not for banks?), Big Beautiful Bill stimulus kicking in, enhanced productivity through Artificial Intelligence (first mention, this must be a record), etc. And the recent economic data supports this. Employment and Business Sentiment and Spending are improving. While we think Disinflation has slowed recently, we do not think the spike higher in oil prices will last (the futures curve has December oil prices at $66 versus the April price of $79). All this makes us eager to buy a meaningful dip if we get one (unfortunately, it seems some of the big Wall Street firms are saying the same thing which means either it will not happen or it will be a bad idea).

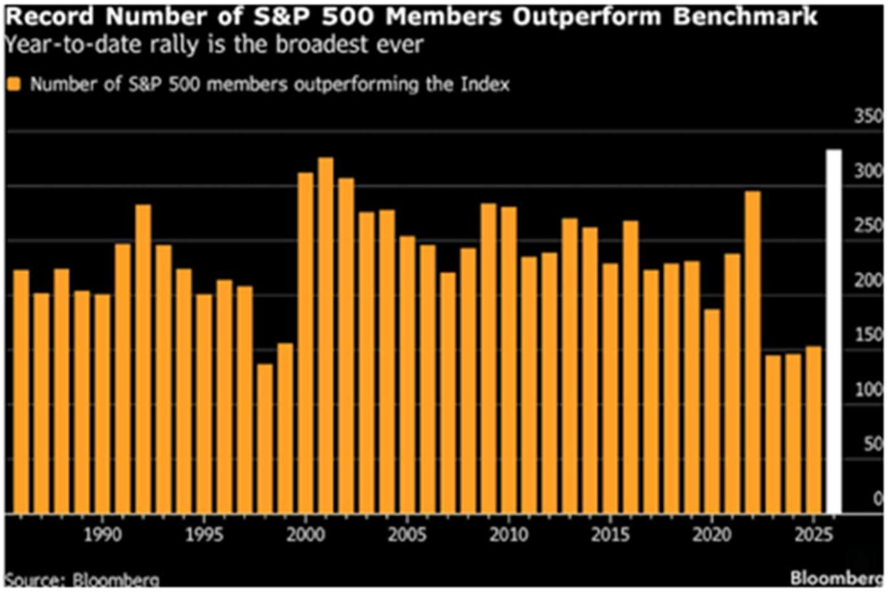
There have been plenty of other headlines that normally would make the front page. Not only did Trump lose his IEEPA tariffs, but now he has to refund the payments. This will continue to weave through the courts which could take a very long time. But this could be putting some pressure on US Treasury prices (higher yields) with the government's coffers potentially taking a hit.

The credit markets are also still sending warning signs. Or at least more people are realizing that private credit is loaded with bad debt. A Blackrock fund is cutting its dividend. Apollo is marking down assets. A UK mortgage firm that nobody had heard of looks to be another case of fraud with double-pledging of collateral (not to mention ridiculous internal spending on artwork, sports memorabilia, and parties with an Indian rapper). Blackstone and its employees had to pony up their own money to cash out investors in its private credit BDC. They did this "willingly" as they increased the size of the allowed withdrawal from 5% to 7.9%. But it still means there are a lot more natural sellers than buyers in these products. (Knowing these guys, it will not be long until they call up their buddies at the giant pension funds to get more money to fill any holes. This is what they did when their private real estate funds started feeling pressure a few years ago.)

Before the war broke out, the big worry in the market (or most recent worry) was still the AI disruption. The latest rattling was from the company Block (formerly Square…name change! And dumb stock ticker XYZ!). It announced it was cutting 40% of its staff. Instantly, people thought (all over again) this meant all white-collar jobs were going to be lost (especially in the financial services industry). Of course, Block was founded and run by Jack Dorsey…the same guy that founded and ran Twitter (the same guy who prioritizes being a hipster doofus over shareholder value…at least up until now). In other words, Block was probably ripe for efficiency gains. We doubt it is emblematic of the industry. Elsewhere in AI, there was a very quiet story about how old laptops with only CPUs might be able to run Large Language Models (LLMs). In other words, is the scheduled massive amount of compute actually necessary? We think this story is likely hyperbole if not just flat out wrong. But we suspect these kinds of stories will persist for a while (of course, the cost will eventually come down).

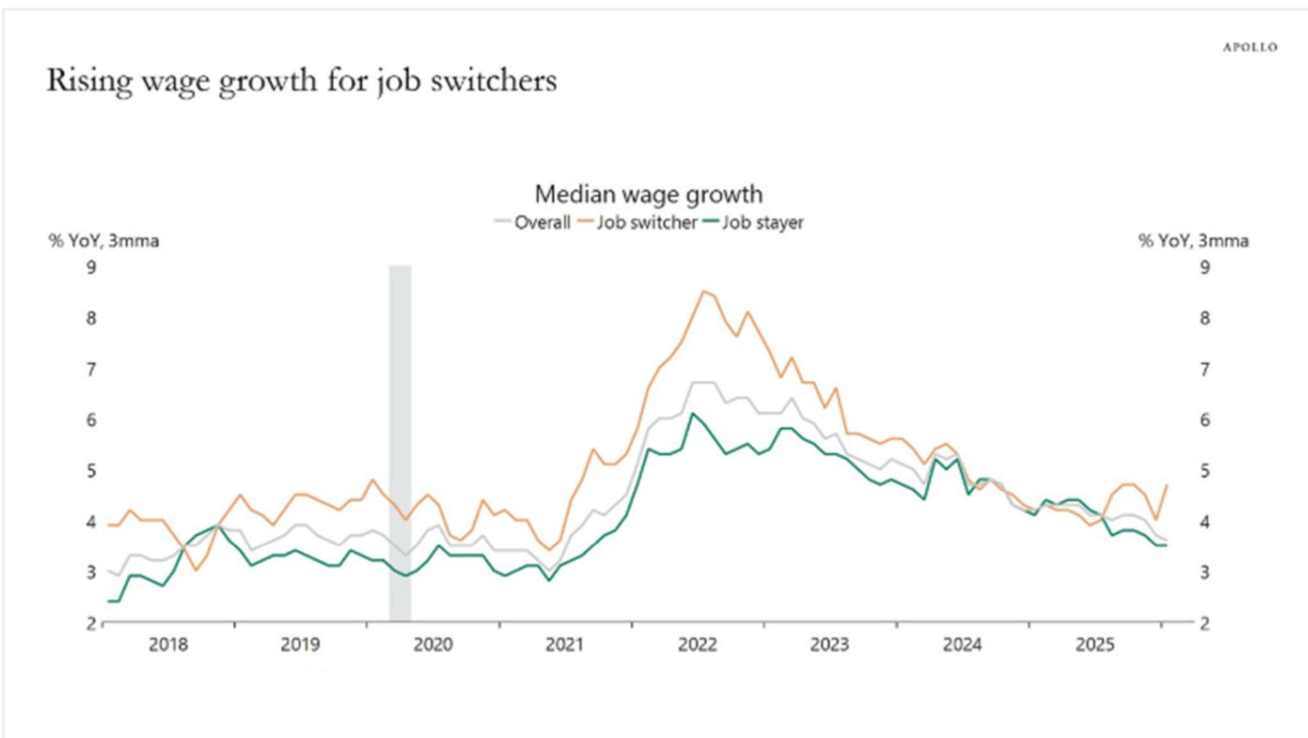
- Dispersion everywhere

Here is another look at the dispersion argument. There have never been as many companies in the S&P 500 outperforming the index at this point in the year (we will look to see if this trend holds for longer periods).



- Some inflation is good inflation

Here is a good chart from Apollo. Wages are growing for Job Switchers.

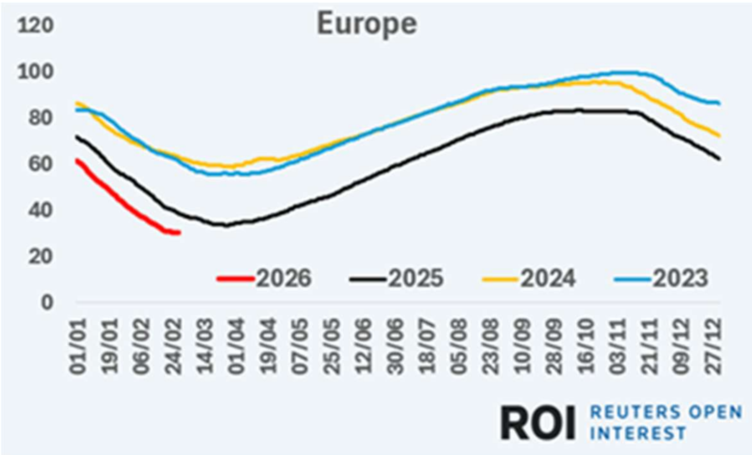


Sources: Federal Reserve Bank of Atlanta, Macrobond, Apollo Chief Economist

Expand

- The Europeans will never learn

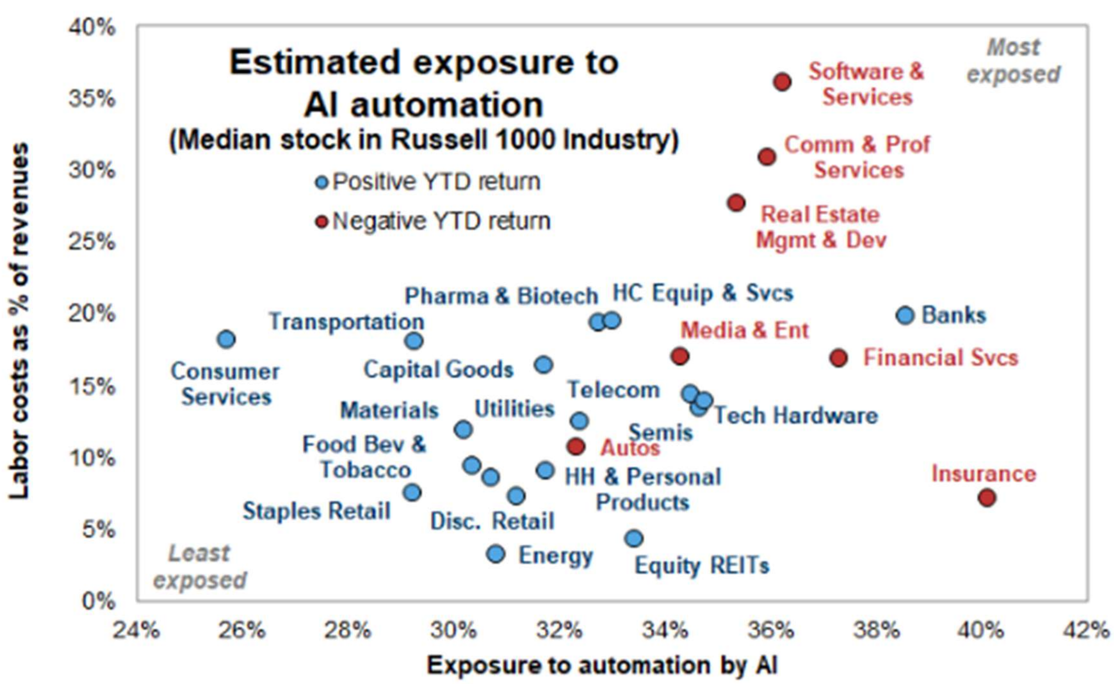
Natural gas prices in Europe are up about 70% in the last week. They are now at a 5x premium to prices in the US. Of course, the Europeans are even more ill-prepared than they usually are in terms of Energy reserves. This poorly labeled chart shows the inventory levels of natural gas across the continent. And this is not just bad luck or cold weather. The EU relaxed storage rules to maintain control over prices. Unintended consequences will get you ever time.



- Who/what exactly is AI disrupting?

This is a tricky chart to figure out. At first, you would think that if a company could be automated with AI and it had a high labor cost, that it would be a beneficiary. But the idea is that *someone else* will do the disrupting, and you will be the victim. As we have stated recently, we do not think this is a binary game across all Software or other perceived victims of AI. But the chart shows that people shoot first and figure out later which ones will survive and thrive.

Exhibit 1: Estimated potential labor exposure to AI automation



Source: Revelio, Company filings, Goldman Sachs Global Investment Research

- Disinflation might be slowing

Producer Price Inflation (PPI, wholesale or input prices) jumped in January. The headline increased by +0.5% vs +0.4% last month (*and +0.3% expected). The "Core" was even worse at +0.8% vs +0.6% last month (+0.3% also expected). While we typically dismiss this price gauge as erratic (despite the conventional wisdom that PPI leads CPI), there is one tiny slice of the data that is troubling. Thanks to Quill Research (run by ex-Fed gal Danielle Dimartino Booth…she's quite the bulldog when it comes to not pulling punches and producing solid research), we learned that the largest contributor to this jump in PPI is the category for Bankruptcy Lawyers. Their prices jumped 6% in the month. The annual gains is approaching 10%. Needless to say, this is not positive for anyone other than the lawyers. (And higher Energy prices are obviously not reflected in this data yet.)

- Other economic data is positive

The ADP Employment guess for Private Payrolls for the month of February increased +63k. This is up from +11k in January and above expectations of +50k. This is the precursor to Friday's Employment Report.

Jobless Claims were flat at 213k, Continuing Claims ticked up to 1868k from 1822k.

Challenger Job Cuts fell in February from 108k to 48k.

4Q Nonfarm Productivity increased +2.8% which was down from the robust +5.2% in 3Q. But it was still better than the +1.9% expected.

The S&P PMIs fell in February as expected (per their Flash readings earlier in the month). The Manufacturing slowed to 51.6 down from 52.4. Services slowed down to 51.7 from 52.7. However, the ISM was a little better. While the Manufacturing slipped marginally from 52.46to 52.4, Services improved from 53.8 to 56.1. This is one of the strongest numbers in over two years (with an increasing trend, not just a super-spike). New Orders and Employment improved while Prices cool. Notably, the opposite was true for Manufacturing.

The Chicago PMI (oddly done by the ISM but they do not brand it with such) accelerated to 57.7 in February from 54 in January. This is a composite of nth Manufacturing and Services. This is the strongest showing since mid-2022.

Construction Spending in December increased +0.3% after dropping -0.2% in Nov.

Redbook Retail Sales increased +7%.

Total Vehicle Sales accelerated to 15.8mm (annualized run-rate) up from 14.9mm.

Weekly Mortgage Applications jumped 11%.

The average 30-year mortgage rate remained steady at 6.09%.

- The Fed is still on hold until June…and maybe beyond now

The Fed's Beige Book (which is a collection of data two weeks before the next Fed meeting) was mostly unchanged. There are pockets of slowing activity but generally there is slight-to-moderate growth. There are some price increases, but businesses have been able to pass them on to the consumer. Employment levels are improving slightly. The probability of a rate cut in June (per the futures market) is now down to about 36%. This was 48% last week. And it was 75% a month ago!

- Where did all the crypto money go?

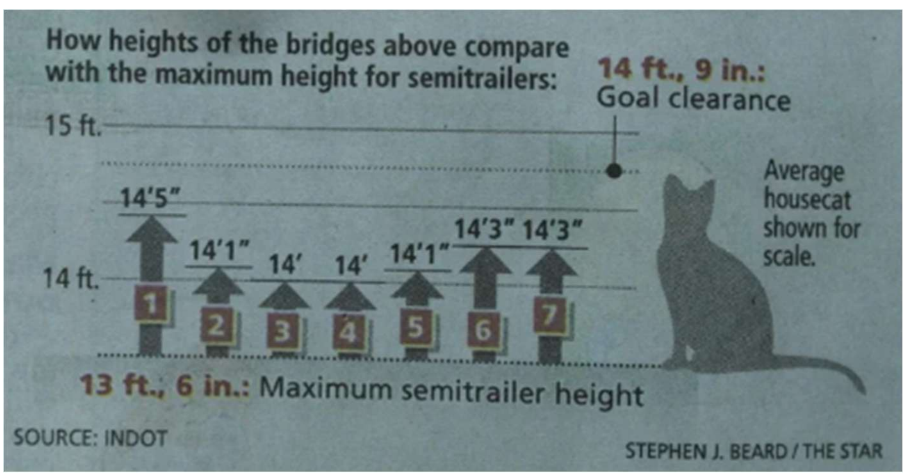
Word of another crypto Ponzi scheme broke recently. This one involves a scammer who claimed investment funds were being put into crypto "liquidity pools." In reality, the funds were used for his mansions, jewelry, Lamborghinis (of course), and "Casino Royale themed holiday partes featuring the performances by Jason Derulo." The only shock here is that we have heard of this singer. (h/t AY).

A friend of ours recently pointed out that we might have to discontinue this segment soon…since all the money is almost gone anyway. Our opinion has not changed. Bictoin, blockchain, stablecoins, regulated exchanges…these are all reasonable ideas (some more than others, and some are just speculative trades without any fundamental backing, for sure). But delving into the wild west of crypto with tokens, coins, protocols, schemes, pools, or whatever…PT Barnum is rolling over (to be clear, this phrase predates Barnum by a few hundred years, but he certainly contributed to its spread).

If we do move on from our semi-infatuation with crypto (unlikely), we might be able to dedicate more time to watching the real-time train wreck that is prediction markets. Obviously, some people bet on the strike against Iran. A Polymarket account called "Magamyman" made $515k when he bought the 17% chance of a strike hours before the strike. All told, six accounts made over $1mm on the strike happening. Over on Kalshi, apparently dying does not count as being "out as Supreme Leader." Kalshi has a death clause that prohibits pay outs upon death. With this came the standard uproar. Kalshi has since backtracked marginally and refund some early trades. The immoral of the story: don't bet on death.

- Chart Crime of the week

We stumbled across this one while perusing the B section of the Indianapolis Star from 2013. We just cannot get enough of the size or height of living creatures being depicted in charts.



- Quick Hits
    - When the strikes against Iran started in the wee hours of Saturday morning, the president (lower case p) of the European Commission felt the urgency to convene a meeting on Monday to discuss the matter.

- A long time ago, we felt like we were in an episode of Homeland when we had to take a UK citizenship test at the Iranian embassy in London (it was for a permanent visa, not citizenship, but it was the same test).
- Red Lobster declared bankruptcy in 2024 because of the "Ultimate Endless Shrimp" promotion.
- The Red Lobster in North Little Rock, Arkansas has historically been the most profitable restaurant in the brand.
- The St. Louis Cardinals will sell some tickets to games this year for $29 which include all the food and drink (not beer).
- We once paid $10 (face value) to attend a Lakewood Blueclaws minor league baseball game in New Jersey. The $10 ticket came with $15 worth of beer.
- After the Citigroup building was built in New York City in 1978, the engineers realized they made the mistake of using bolts on the joints instead of welding them. The novel use of the Tuned Mass Damper (giant concrete block located near the top of the building that slides to counteract the natural swaying in the wind) was not enough to alleviate their worries. They secretly welded metal plates over the bolts without telling the public.
- The John Hancock Tower in Boston was the first skyscraper to use the Damper (it beat the Citigroup Tower by a hair).
- There is a tiny island between Finland and Sweden at the northern point of the Baltic Sea. It is called Market. The Finnish built a lighthouse on it in 1885. It was technically on Swedish territory. In 1985, the two countries decided to redraw the border to loop around the lighthouse.
- The leader of the 2026 US Half Marathon took a wrong turn with two miles to go. She was following the official lead bike which, apparently, did not know the route.
- Northwestern State defeated Missouri State in softball despite being no-hit.
- The best scoring team in the NBA in 2003 would be the worst scoring team in the NBA in 2026.
- The worst defensive team in the NBA in 2003 would be the best defensive team in 2026.
- Every year, the city of Amsterdam pulls about 12k bikes out of the city's canal system.
- It is against the law to hunt Big Foot in certain counties in Washington state.
- China has 300 different languages.
- Food packaging in Japan has to perfectly portray the size of the food inside.
- Qatar has 124 fighter jets.
- The US fired a submarine torpedo (in a conflict) for the first time since WW2.

TSLAQ: The car part of the car company might not be dead yet. Tesla sales in Europe during February showed signs of a rebound. Thanks to lower cost models, registrations (not exactly sales, but pretty close) in France, Spain, and Norway surged compared to last year (+55%, +74%, +32%). There are still plenty of soft spots (Netherlands -45%, Denmark -18%). And market share is still down marginally (0.8% of all European cars down from 1% a year ago). But maybe buying a cheap Chinese EV is losing some luster.

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