Chalk Creek Partners LLC

Registered Investment Advisor

Weekly Update 9-December-2020

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- Market grinds higher until wham!
- Labor market growth is slowing
- Is Housing finally slowing?
- OPEC+ reaches a deal, oil Vol sinks.

	Last	5d %	YTD %	1yr %
SPX	3669	0.1%	15.3%	19.0%
QQQ	296.3	-0.8%	42.4%	48.1%
US 10 YR	0.94%	0.93%	1.88%	1.84%
VIX	22.3%	21.2%	13.8%	15.7%
Oil	45.6	0.5%	-25.5%	-22.9%

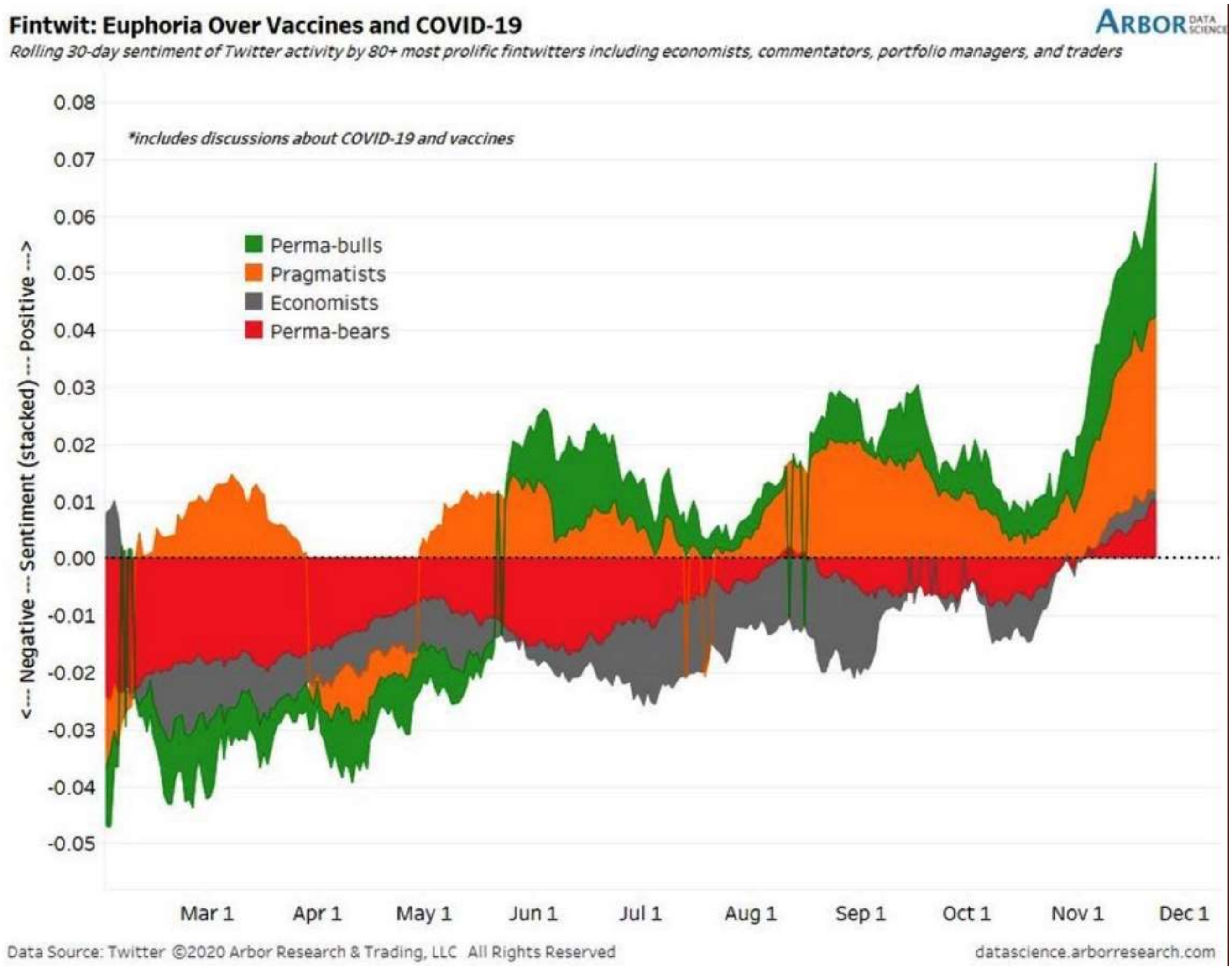
*10yr and VIX are levels not changes
** Oil is front month futures, beware

The market was happily grinding higher every day until something rocked the boat today. 10 straight days of gains in the Nasdaq gave way to some abrupt "profit taking." More than a few pundits blamed the success of the DoorDash IPO (+86%) for the afternoon swoon in Growth/Tech stocks. This is just silly. $3.4b of capital cannot bring down the entire market 2%! (The general notion is that investors sell like-minded stocks to buy a hot IPO). The selling was likely based on another antitrust suit against the FATMAAN (this time Facebook). There were also rumors that the advancing stimulus talks were stalling all over again. Both of these are logical. And the general idea that stocks have moved too far too fast is also entirely rational. Then again, it will take more than a wobbly day to bring down this market with the Fed pumping money, a stimulus still very likely, and a vaccine around the corner.

We had an old-school flashback to the "bad news is good news" days. After the weaker than expected Unemployment Report, the market gained some optimism for a stimulus deal. This was obviously before today's rumor, but the point still stands. The market is looking to take any news and make it a positive. Having written this, we will have to see if the impending funding of the government turns into an issue.

Goldman is out with another "positioning" research piece decrying the crowded nature of equity longs. GS's "Sentiment Indicator," which we have referenced before, has hit the 98th percentile using data back to 2009. Conversely, JP Morgan has a report out saying the light positioning will help propel the market to new highs. These guys are just throwing darts.

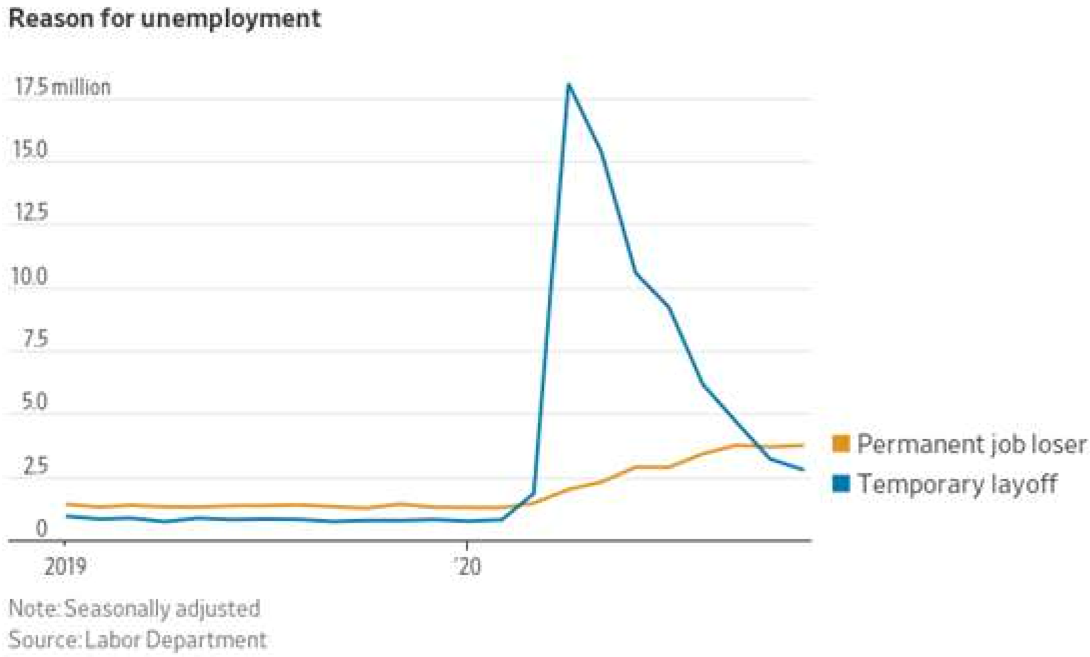
Here is a splashy looking chart showing the extreme level of sentiment. We have used this before and we know it could be a chart crime for even referencing "Twitter Sentiment." While this bullishness can catch investors offsides just like the positioning, we think turning the tides of sentiment is a much slower process.



- Labor market growth is slowing

The Unemployment Report showed a gain of 245k jobs according to the Establishment Survey (aka Nonfarm Payrolls). The guess was for 500k. But we knew from the ADP report earlier in the week that the report was likely to miss by about 100k. While Government jobs declined as expected because the temporary census workers rolled off (93k jobs, the amount of money wasted here is outrageous), Private Payrolls were expected to make up the slack…but this did not materialize. The Unemployment Rate dropped from 6.9% to 6.7%...but this is a function of the math with fewer people looking for jobs. The one bright spot was the uptick in Average Hourly Earnings with the Average Workweek remaining the same.

One theme we have been tracking is the rate of change of permanent job losses compared to temporary job losses. We have found some solace in this trend stabilizing…permanent losses have flattened out. But we still need to see the outright numbers start to drop.



The JOLTS Report (Job Openings and Labor Turnover Survey) showed that Job Openings continue to be plentiful. But hiring slipped and layoffs ticked higher. And this data is for October. Most economists realize that renewed lockdowns will likely squash the relative positives in this report.

Linkedin has a quirky metric. The website discloses the % of members who have listed a new employer. October showed an 18% jump compared to September. But November only showed an 0.8% increase vs October. We do not think LinkedIn is the perfect barometer ("it's called a thermometer") for unemployment as a whole. We know that higher-end jobs have faired better during the virus fear while the working class has suffered. There are not many slaughterhouse workers on LinkedIn, we suspect. Point being, if the upper end is having trouble getting new jobs, we would harken a guess that the lower/middle range folks are having a tougher time.

All told, all the Labor data shows the recovery has stalled. It likely comes down to which force is more powerful: lockdowns or stimulus. Our view: Short-term: Stimulus. Medium-term: Lockdowns.

- Is Housing finally slowing?

We have recently noted the slowing of Pending Sales which are clearly more leading that past sales. We have also noted that some realtor surveys indicate that high prices has been the main worry regarding future growth. Now we have a real word example in Toll Brothers's earnings. The high-end housing company lowered its expectation for realized prices for the upcoming quarter as it has seen pushback from customers. We are still holding our small, long-housing position as the sector does not need meteoric price increases to continue in the short term. We are betting that the general themes of de-urbanization and work-from-home continue. But we are also wary of the cyclical nature of these businesses and the accompanying fickleness of housing investors.

- Other economic data
    - Wholesale Inventories increased in October. This data can cut both ways: are companies building inventories ahead of expected demand? Or are companies sitting on excess inventory with demand waning? For now, we believe the former (excess demand).

- Factory Orders remained about the same with a 1% growth (this is about the 10-year monthly average).
- German Manufacturers Orders climbed 2.9% in October and Industrial Production jumped 3.2% higher.

➢ OPEC+ reaches a deal, oil Vol sinks.

OPEC and its band of unofficial cronies (Russia and twelve other countries) came to terms on extending the production cuts. The talk was that close to 2mm barrels per day were going to be coming back on the market thanks to the UAE and Kazakhstan arguing for more production. But the resolution was settled at a 500k increase. We previously indicated and still suspect the UAE was jawboning for a more powerful seat at the table with their Saudi allies. Even with an extremely large increase in US crude inventories released today, oil has seemingly found a new trading range with low Volatility around the $45 level. Oil Vol is just 4% above its lowest level during the last year.

➢ Quick Hits
  - The California food company Eat Just "grows" chicken from cells which are produced in bioreactors. We will not be first in line.
  - Stevie Nicks sold 80% of her song catalog for $80mm. Bob Dylan is reportedly selling his whole catalog for $200mm.
  - We once rented a house at the Jersey Shore from the man behind the David Bowie bonds.
  - Easy Jet, the European low-cost carrier, will start charging for overhead bin space.
  - Ryanair, the Ireland based LCC (low-cost carrier), once proposed offering sexual favors for sale (we will leave the googling to you as this is a family outfit).
  - 20% of urban homes in China are vacant.
  - The Panama Canal's expansion in 2016 was to allow for larger ships. But the unintended consequence is that increased usage often results in ships having to wait up to nine days to traverse the isthmus because of a bottleneck in canal bookings.
  - The French's initial digging of the Canal in the early 1880's was financed by a public stock offering which was boosted by flattering press reports induced by substantial bribes. The French gave up 14 years later when the US took over.
  - Cybersecurity firm FireEye was hacked by a foreign country.
  - DoorDash thinks supply drives demand. DoorDash loses money.
  - Breakdancing is going to be in the 2024 Olympics.
  - There is a new credit card that offers rewards in Bitcoin. Repotedly, the $200 annual fee must be paid in the same manner in which Randy Moss used to pay his fines: "With Straight Cash, Homey."

Trading: We did not do much on the broad exposure front. We have the right mix of conservative longs, aggressive longs, put protection, and cash. Although we did add slightly to our tiny Small-Cap long. We did adjust some of our sector exposures. We added to our Chewy long. It is a crazy stock that whips around. But as its earnings proved, the company is firing on all cylinders. We added to our Cybersecurity long after the news of a breach. We think this news is bad on the surface, but it only reinforces the need for more cybersecurity! We trimmed some of our high-dividend paying stocks as they have had a big run. We will look to reload if they cheapen again. We also added to our Healthcare long. We added a touch to our Housing long, but as we stated above, we will tread lightly here. For nimble tax-exempt accounts, we added some baskets that hope to capitalize on short-term movements (our Tax Loss strategy and a separate High Growth strategy). Over the next few months, we will cull these baskets down to stocks we might hold for the long term. We also added our first SPAC. We are buying it at the listing price +/-, so we are not playing the fool's gold game. Hopefully, we can be sellers of said gold.

TSLAQ: Goldman upgraded Tesla based on three things. Battery adoption is accelerating (false). The Energy and Self-driving businesses (both money-losing). And margin expansion (false on the surface and worse when the accounting fraud of not accounting for warranty expenses is stripped away). This seemed a bit odd for a relative skeptic. Why would Goldman seemingly swallow its pride and start believing in the fantastical? Well, we should have known why. Four days after the upgrade, Goldman was awarded Tesla's latest equity sale and its abundant fees! Kudos to the Villain for playing these fools like fools.

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