Weekly Update

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- Bumpy week, is Facebook gonna bring us down?
- The data supports the "profit taking" view (META notwithstanding)
- Weakening Housing data, but New Homes Sales are still the bright spot
- Business Surveys turn lower
- Will oil sanctions ever have teeth?
- Where did all the crypto money go?...and Chart Crime of the week!
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	5,072	1.0%	6.7%	24.5%
QQQ	$426.51	0.2%	4.3%	35.9%
US 10 YR	4.65%	4.59%	3.88%	3.40%
USD/DXY	105.8	106.0	101.3	101.9
VIX	16.0%	18.2%	12.5%	18.8%
Oil	$82.74	0.0%	15.5%	5.1%

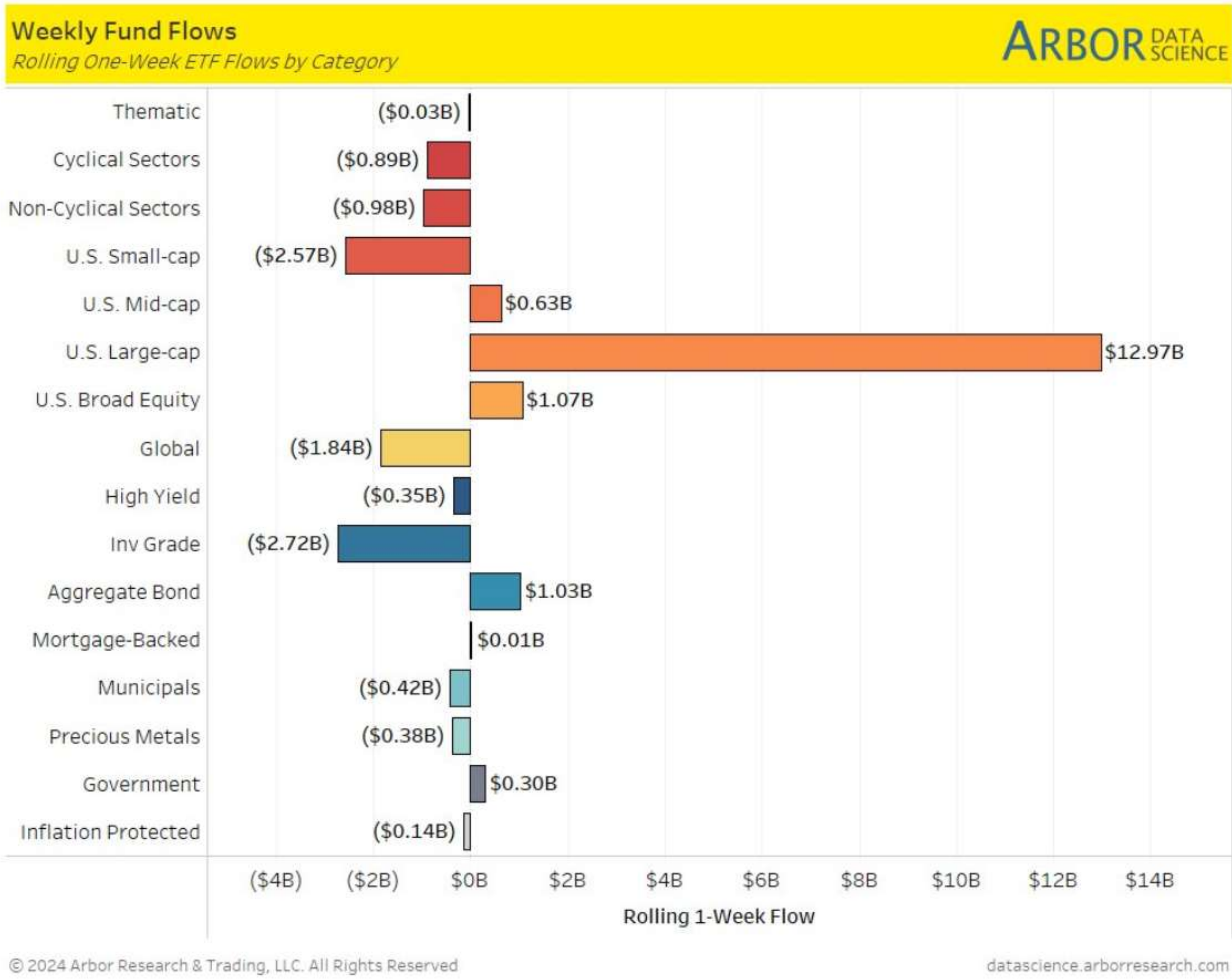
*10yr, DXY, and VIX are levels not changes
** Oil is front month futures, beware

It was a bumpy week as the profit taking accelerated into Friday. The once-strong momentum names were unraveling at a manic pace. The Fed narrative had certainly shifted. The first rate cut is now only expected in September. And it is a toss-up if the Fed will do two cuts by the end of the year. Ironically, nerves calmed a bit with some weaker economic data. The largest 2-year Treasury auction of all time ($69b) was well received. The ECB is slated to cut European interest rates in June. The Bank of England might do the same (more split). Earnings have been good even if the stock reactions have not been so hot. Geopolitics have cooled with (or maybe despite?) the passage of the three-pronged aid bill (Israel, Taiwan, and (the) Ukraine). Tesla's disastrous earnings were received warmly. While probably foolish, the reaction at least proves animal spirits are alive and well.

All of this might have come to an end tonight. Meta (Facebook) reported strong earnings with just modestly softer guidance. But the stock was slammed in the aftermarket (circa -15%). Maybe it was the higher expenses going forward. Maybe it was an end to the virtuous cycle of beating strong expectations and revising guidance much higher. While this still might fit the "profit taking" narrative we have been describing/believing, this might make for a tougher road to hoe. There was some chatter that Meta's ad business had started to slow in late March and into April. According to the reports, this was isolated at Facebook. We must wait and see what the rest of Big Tech reports (and guides). Of course, the higher capex is a positive for Nvidia and others ahead of Meta in the supply chain. Nonetheless, we are inclined to be more cautious.

- The data supports the "profit taking" view (META notwithstanding)

Much of our thinking that nothing in the market has shifted tectonically involves a combination of quantitative and qualitative observations. Trading Volumes are down a few percentage points. When regimes shifts take place, the volumes are often massive. Trading desks are reporting that they have not seen any panicky flows ("get me out now!" can be a common refrain during turbulent times…or perhaps "dump it" after an expletive laden rant). Most of the selling has been long selling according to Goldman Sachs. Short selling is running below average (this one can be hard to pinpoint with conflicting data, but without a consensus, it is safe to assume that at least short selling has not increased). There has been increased buying of Energy and Staples which could signal more of a rotation vs just profit taking. But in our experience, these super sharp dislocations usually point to forced selling. While we have not heard of any hedge funds unwinding (there surely have been some), we have heard of retail margin calls. These max-pain trades often reverse when the dust settles (which only makes them more painful if you are the one getting stopped out of your position). Also, over the last week, there have been strong inflows into large cap equities. And Interactive Brokers says that of its top 25 most active stocks (NVDA, AMD, SMCI, AAPL, QQQ, SPY, etc.), all have seen net buying. Actually, one has seen net selling. It is SQQQ…the short ETF for QQQ (and thus is the equivalent of long buying).



Last week we talked about CTA selling and its rules-based methodology. UBS notes that this kicked into gear on the same day as our letter (Wed). But UBS tells us that this aggressive selling turned into small buying one hour after the selling started. The point is this computer-driven trading can be manic. It can be self-reinforcing in the short term (selling begets selling). But often, it balances out. Fundamentals ultimately rule the day.

Of course, this all might be moot if the META mini-implosion turns into panic selling!

- Weakening Housing data, but New Homes Sales are still the bright spot

Existing Home Sales fell 4.3% in March vs Feb. This follows the same trend as Housing Starts. Higher rates are starting to be felt (with April rates worse than March).

But New Home Sales in March increased almost 9%. Unfortunately, this large increase is relative to February's number which was revised sharply lower. Nonetheless, it was still the highest sales figure since September. The median home price fell about 2% vs last year (to just under $431k). Incentives, namely mortgage rate buydowns, are still being offered. Pulte Homes said its average buydown rate was 5.75% vs market rates around 7%. Pulte also said the recent 7.5% mortgage rates are starting to dent buyer traffic. After DR Horton's strong earnings release, the company reiterated the obvious: housing supply is limited, and demographic trends are favorable.

Weekly Mortgage Applications fell 2.7%.

We think Housing has weakened, but New Sales remain in the sweet spot. We still do not have a position. But the builders still have good margins and pipelines. But they also warn of increasing interest rates (our fear, too). We cannot make up our mind on this one.

- Business Surveys turn lower

The S&P Global PMis for April (the Flash or early look) both disappointed. Manufacturing fell below 50 for the first time this year. And Services fell by over a point and declined for the third month in a row. After increasing steadily last fall and winter, the strength has seemingly rolled over.

The Philly Fed Manufacturing index jumped nicely led by New Orders. The Richmond Fed Manufacturing index improved but is still negative. Services weakened further.

- Other data is mixed
  - The Weekly Redbook Retail Sales increased 5.3%. This was the fourth week in a row of over 5% growth (after seven weeks below it).
  - Durable Goods Orders in March increased 2.6%. This is up from February's 0.7% increase. The more important Core Capital Goods increased 0.2% which is down from February's 0.4% increase.

- Will oil sanctions ever have teeth?

The US is going to reinstate sanctions against Venezuela. In shocking news, dictator Maduro did not live up to his end of the bargain (fair and orderly elections.) But considering Iranian oil exports are at a six-year high ($35b worth), we should not put too much faith in sanctions.

- Where did all the crypto money go?...and Chart Crime of the week!

We have got a two-for this week! Renzo is a crypto "staking" platform. They tout themselves as being "like a bank" insofar as you deposit your crypto with them, and they pay you interest. But to be clear, the only amounts the depositor receives are the Launchpool (2.5%) and Liquidity (2.5%). Renzo gets to keep all the rest. Community might be chopped up a bit, but even if we split that equally amongst the depositors and the perpetrators, the customers are only keeping 20% of the juice.

- Quick Hits
  - The highest ranking for a US airport in the World Airport Awards is #24 by Seattle-Tacoma.
  - Whitesnake's "Here I Go Again" was originally recorded and released in 1982 to very little fanfare. When the band members changed (all but the lead singer), they rereleased it in 1987. It reached #1.
  - The University of Utah has the second most NCAA gymnastics championships.
  - Only eight colleges have ever won the NCAA team gymnastics championship (started in 1982).
  - A California bill will do away with Clear, the airport screening system that allows you to cut the security line. The author of the bill says, "The least you can expect when you have to go through the security line at the airport is that you don't suffer the indignity of somebody pushing you out of the way to let the rich person pass you."

Trading: We added to some of our current longs in this recent downdraft. These include Health Care, Consumer Discretionary, and European Defense (or Defence as they would spell it). We increased our long commodity exposure. We have been wanting to do this on a pullback. This is the cleanest way to play stick y inflation. We increased our long Latam exposure just a touch (consumer trends seem to be picking up). We sold one of our Trading longs in Tech. And we reduced one of our Big Tech names heading into earnings (we sold some of our Meta! Of course, we still have some…woulda coulda shoulda). We also cut a chunk of our Tesla short before its earnings. We thought lots of the bad news was in the price and it had the potential to be manipulated higher by Musk. Voila! We fully intend on increasing this short as reality sets back in.

TSLAQ: Tesla already has to recall the Cybertruck. This one involves a sticky accelerator pedal. Unlike the fake news of Audis mysteriously surging in the 1980s*, this problem is real. And laughably, we now know the total number of Cybertrucks sold is fewer than 4,000.

Remember those April price hikes announced at the end of March? Not only did they not work to juice sales in March, but they are now hurting April sales. And thus, another price cut was just announced! It is a car company with a demand problem.

Musk backtracked on his plans to invest in India. He had bragged about a $2-3b investment in the country to get a foot in the door (India is most certainly a pay-to-play economy). But he just cancelled his trip for no reason, and did not say when he would be visiting. Knowing the Tesla playbook, this is Musk's way of just letting it go. Ironically, it probably is a good thing for the company…it does not need to hemorrhage money while its sales are plummeting. But it is a car company with a dented (destroyed?) growth narrative.

With all this going on, Tesla reported disastrous earnings. They were even worse than expected given the company's free cash flow turned deeply negative (-$2.5b). Its operating margin is down to 5.5%. Revenues are falling. Its tax rate jumped from 9.3% to 26.3% because of a higher rate in China (15% to 25%). And the head of Investor Relations resigned on the conference call. This is the third senior executive to resign in the last week or two.

However, Musk was at his best during the conference call. He promised an affordable, mass-market vehicle which can be built on the current production lines. Robotaxis are the thing of the future. He is going to sell his Optimus robot after he deploys them on the assembly line. And, of course, Tesla is an AI company (you can rent your car's computational power for someone else to use as a cloud server with AI inference capabilities). Alas, he gave exactly zero details on any of this. But he did mention that he still needs 25% of the company to be able to devote his full attention to this list of projects. Without another $55b pay package, he might take his talents elsewhere (like Cleveland to South Beach).

Circling back to the affordable car, a year ago he said this would be built by a new "unboxed" method. It would do away with the old Henry Ford assembly line model. And it would lower the cost by 50%. But now he is hyping the ability to build the new car on the same, old production lines that currently build the other cars. Musk added this not-new production method may "result in achieving less cost reduction than previously expected."

But the true believers, the ones that do not think this is just a car company, fell hook, line, and sinker. The stock rallied 10% in the aftermarket.

*After years of urban myths including 60 Minutes doing a blatantly false hit-piece on the company, the NHTSA exonerated Audi completely…people were simply pushing the gas pedal instead of the brake pedal. As for 60 Minutes, part of their "exposé" was showing a driverless Audi surge forward. Years later, it was discovered that the car was rigged with an air-compressor device that pushed the gas pedal remotely. Trevor Milton would be proud.

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