



Weekly Update

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- Another crazy week underneath the surface
- Greenland made the headlines, but Japanese rates were the story
- Forced, quantitative selling does not last long
- Inflation is still cooling
- Other economic data is positive
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week
- This guy's wages might no longer be garnish-ee'd

	Last	5d %	YTD %	1yr %
S&P 500	6,916	-0.4%	1.0%	13.4%
QQQ	\$621.76	0.2%	1.4%	17.6%
US 10 YR	4.23%	4.23%	4.17%	4.54%
USD/DXY	97.5	99.4	98.3	107.3
VIX	16.1%	15.9%	15.0%	17.9%
Oil	\$61.31	3.1%	6.4%	-18.2%

*10yr, DXY, and VIX are levels not changes

** Oil is front month futures, beware

You would never guess it was a crazy week by looking at the minor index moves. But assets were zipping around with macro and geopolitics taking center stage. Most of the headlines focused on Trump and his Greenland theater. He added the requisite topping of tariff threats. The media, again, called it a "sell America" moment. Of course, it was just more Art of the Deal bluster. Greenland, sanctions on countries dealing with Iran, Gaza, Ukraine, Arctic Mexico...none of it really matters to global markets (other than securing critical minerals or natural resources, of course). It is also worth noting that Treasury Secretary Bessent was basically saying to ignore the Trump headlines. We should listen to him.

Another source of the market volatility was the Japanese bond market. We have talked about the battle between the new Prime Minister's fiscal plan (lower taxes and higher spending) against the Bank of Japan's (BOJ) monetary plan (higher rates and relinquishing yield curve control). Things came to a head when PM Takaichi proposed suspending the food sales tax. She said the government will not sell more bonds to pay for the tax move, but the market is becoming increasingly skeptical. Moreover, she has dissolved parliament and

has called for a snap election on Feb 8. She is wildly popular (over 70% approval rating), so if she is able to consolidate more power, her fiscal stimulus plans will become reality. As for the impact on the markets, the exact mechanics at work are simple: Japanese investors pull money out of the rest of the world and invest it at home. And international investors are eyeing JGBs (Japanese Government Bonds) for the first time in a long while (rates are the highest in over 25 years). The real question centers around the Yen. It will be supported in the short term simply from the buying of Yen denominated assets. But if the fiscal spending overwhelms the monetary tightening, will it weaken further which could unravel the newly found attractiveness? Interestingly, the head of the BOJ remained hawkish in the face of this rate pressure (higher). However, at the same time, BOJ chief Ueda provided a lifeline: If rates volatility were to pick up, the BOJ would reconsider its tightening stance. As we have said recently, the volatility in rates matters more than the actual movement in rates!

This Japanese problem is not just a Japanese problem. Higher rates in Japan push rates higher across the globe. Citigroup estimates that Risk Parity funds in the US might have to sell \$130b in US bonds if Japanese rates continue to push higher. This would be about a third of their holdings. The MOVE index (Treasury volatility which we charted last week) jumped on Tuesday in response to the higher rates...which led to more selling. And higher interest rates typically induce selling in equities. This pushes equity volatility higher which triggers more equity selling. But this runaway train was stopped in its tracks as Ueda squashed the fear of uncontrolled rates. Most of these quant sellers (in bonds and equities) probably bought back what they were forced to sell! This is a long way of saying that much of the selling pressure across the globe was technical in nature. Notably, high-yield bond spreads did not widen, so there was not any concern over the economy or company fundamentals. We have learned over recent years that the markets tend to shrug off these type of forced-selling events rather quickly!

Here is the high yield spread chart.



Random notes from the week:

Some are speculating that gold and silver prices are instilling fear. We think there is some currency debasement action in these metals, but we think their moves are mostly a function of the Quad 1 economic environment (accelerating growth with cooling inflation) and a weaker USD. If anything, gold represents the debasement (foreign countries continue to buy), and silver is tied to the industrial space. Musk has been touting this theme. Jordi Visser (smart investor who is focusing on AI now) lists silver as being central to the AI buildout theme along

with solar, switches, chip packaging, drones, radar, robotics, sensors, and even robotics. The idea is that we are in the stage in which we need materials and production (hardware) vs the software days of the last 15 years.

Hedge fund positioning is stretched: Gross is at a 5-year high. Net is at a 3-year high. This matches other sentiment gauges (AAII, CNN Fear & Greed, NAAIM, ML Fund Manager Survey, German investor optimism).

Congress is making progress with the remaining six appropriations bills. They cleared the House and DC insiders say the Senate is likely to get it done before the Jan 31 deadline.

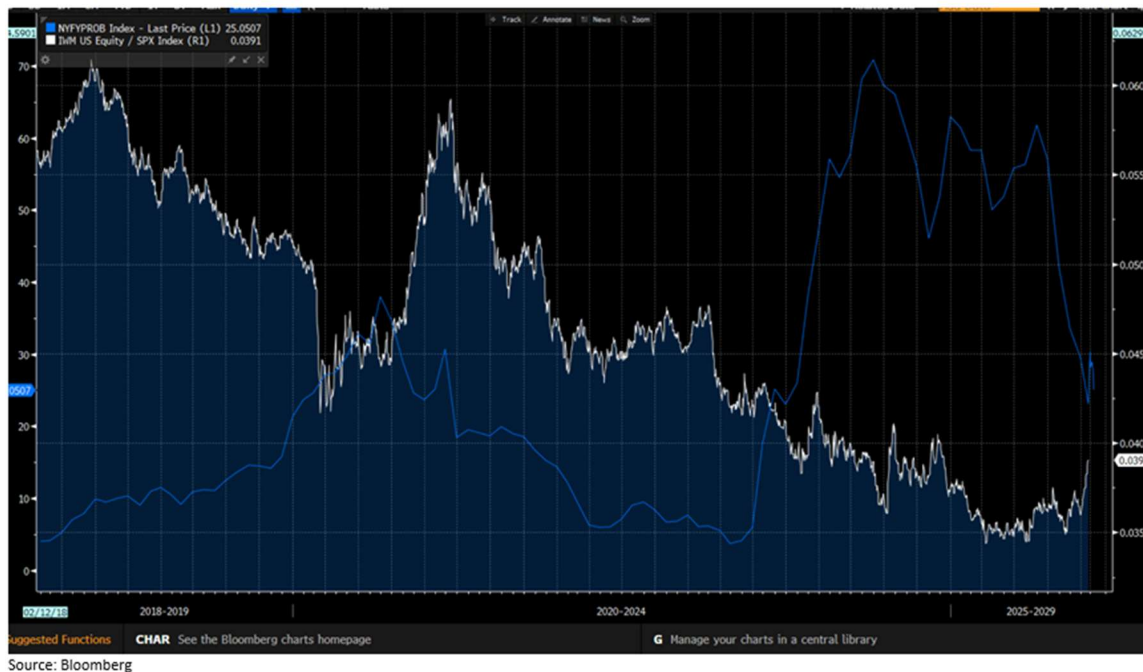
UK elections: Chances are increasing that the Labor party will have a centrist leader.

More layoffs are coming at Citi. Amazon is probably going to cut 10-15k in corporate jobs as part of a plan to reshape the "culture."

Amazon and Rio Tinto are collaborating on a new copper source and technology to be used in data centers.

Student loan relief. The government is no longer going to garnish wages from those in default. And it is going to start a different kind of repayment plan which could allow for smaller payments to match income levels (this all seems very fluid to us).

Small caps have been leaders so far this year. BTIG points out the relationship between small caps and Recessions risk. This chart isn't perfect, but the idea is that recession risks have been elevated for a few years and small caps have struggled. As the blue line drops further (risk of recession), the white line (small caps) should rally.



Mean reversion can be a widow-maker of a trade. But given that small-caps are massively under-owned, the chart guys might be able to call this bounce correctly.

Chart 6: Long-term returns from small vs. large cap near lows

US small cap vs US large cap relative 10-year annualized returns



Source: BofA Global Investment Strategy, Bloomberg, GFD Finaeon

BofA GLOBAL RESEARCH

➤ Inflation is still cooling

PCE Inflation for November (the change in the Personal Consumption Expenditure Price Index) remained cool with only a +0.2% increase. The old October data was also released (delayed from the government shutdown) at +0.2%. The annual rate through Nov is +2.8%. The "Core" PCE also only ticked up +0.2% in Nov (and Oct). Personal Spending increased +0.5% in both months. The only hitch to this data conglomeration was Personal Income which only increased +0.3% in Nov and +0.1% in Oct.

➤ Other economic data is positive

ADP's Weekly Employment Change showed a gain of 8k jobs. This fits into the not growing / not slowing theme (with most estimates of breakeven job growth of around 30k a month).

Initial Jobless Claims remained subdued at 200k. The four-week moving average is 202k and is the lowest since the Virus Fear. Continuing Claims improved to 1850k (down from 1875k). This data is also trending lower albeit not as quickly.

Pending Home Sales in December fell over -9%. This was the biggest drop since the Virus Fear. The National Assoc of Realtors blamed the drop on the increase in closings in the month. That is, new listings did not keep pace, so Pending Sales were not able to keep pace (seems like a stretch to us).

The average 30-year mortgage rate dropped to 6.16% from 6.18%.

Mortgage Applications increased nicely for the second week in a row. The December lull seems to be reversing right on cue.

Weekly Redbook Retail Sales ticked down to +5.5%. This is still a decent level especially with inflation cooling (this data is not adjusted for inflation). But it has been cooling, so we will be monitoring this.

Construction Spending in October increased +0.5%. September had a drop of -0.6%.

The early January read for the S&P PMI showed a slight uptick in Manufacturing (51.8 to 51.9) and steady Services (52.5).

The Leading Economic Indicators worsened in November (this has long been a useless indicator).

The final reading on Q3 GDP was even better than expected. The economy grew 4.4% vs 4.3% from the 2nd reading and +3.8% from the first reading. As we have noted, not only is this backward looking, but most of the extra growth came in July. Nonetheless, it reinforces our view that the economy is on solid footing.

Michigan Consumer Sentiment improved for the second month in a row. 1-year Inflation Expectations came down to 4% from 4.2%.

China's GDP grew +4.5% in Q4. The trend is decelerating from +4.8% in Q3 and +5.2% in Q2. Miraculously, GDP for 2025 hit the government's +5% target right on the number.

➤ Where did all the crypto money go?

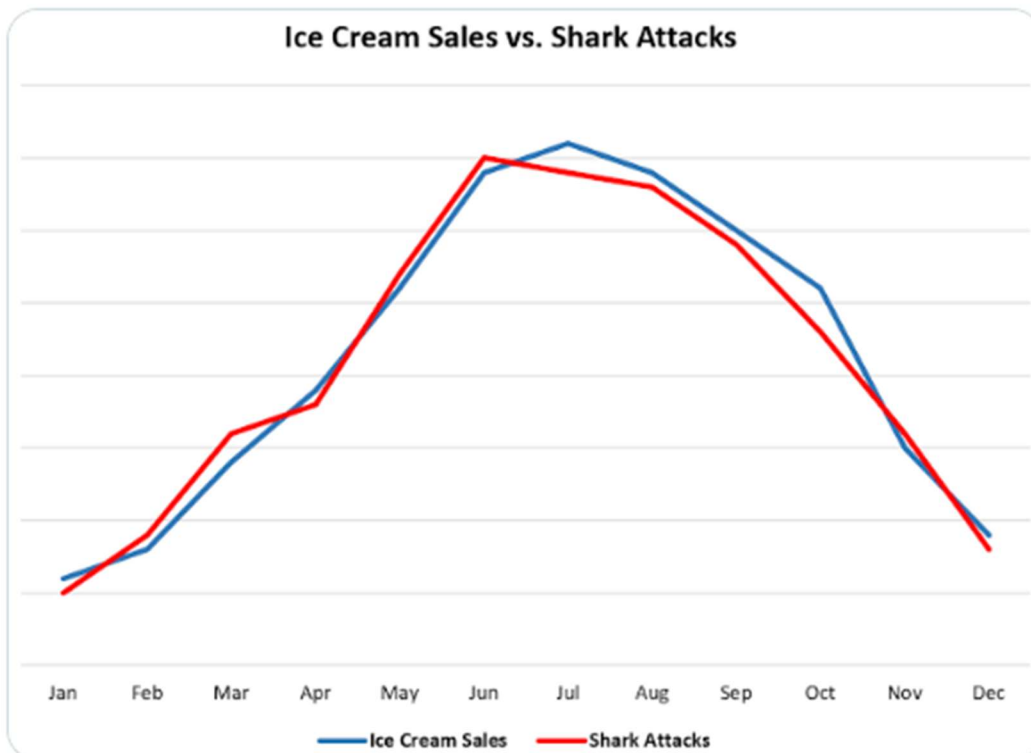
We recently wrote about memecoins as a thing of the past. Apparently, we spoke too soon. A logical place for pumpers-and-dumpers to virtually loiter is in the Artificial Intelligence world. A semi-famous software developer came up with an IDE platform (Integrated Development Environment) for Claude coders (Anthropic's AI coding engine, this particular one combines the functions of different engines). He called it Gas Town. The developer had no particular path to monetization. But someone else did. An anonymous crypto guy created a coin called \$CGAS. Naturally, it was launched on the "Bags" platform. This anonymous guy sent a LinkedIn message to the developer telling him that he had instructed Bags to direct all of his platform commissions (creators of coins get trading commissions) to the developer. The developer didn't really believe it until you received \$75k. So then the developer started blogging about the anonymous fees...and this generated more trading of \$GAS which generated more trading commissions for the developer. The price of \$GAS went from \$0.01 to \$0.04 with a market value of \$40mm. And then it sank back to \$0.001. Poof!

Prediction markets are learning the same lessons from traditional financial markets. On Polymarket, they have 15-minute betting windows on whether a certain crypto will be UP or DOWN at settlement. Most of the counterparties on prediction markets are bots...people are not literally making two-way markets at all hours of the day on crazy betting topics. And therein lies the room for manipulation. Last Saturday, a trader aggressively bought all the UP offers on whether the crypto XRP would be UP or DOWN by 1:00 PM EST. Right before the settlement, someone bought \$1mm worth of XRP which pushed it 0.5% higher for the win. The same XRP was immediately sold back after the settlement period had passed. Crypto watchers peg the cost of the buy-sell action at about \$6,200. The traders made \$233k on the UP wager.

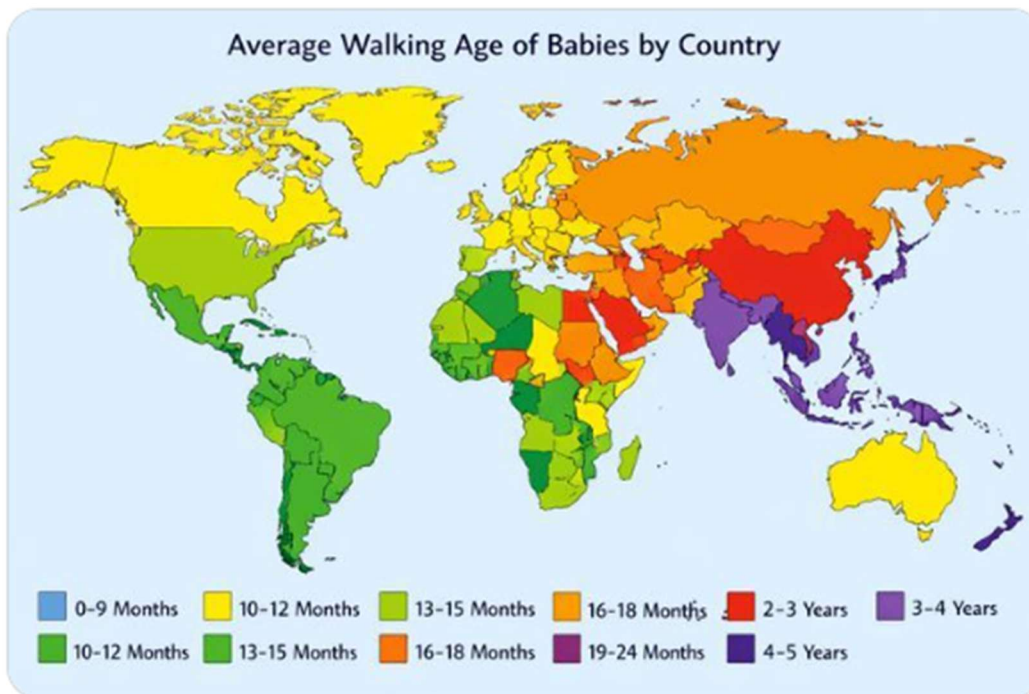
Back in the real world, authorities busted an insider trading ring. An investment banker at Lazard was tipping his friends about upcoming merger announcements. The traders in the scheme made \$41mm. The guy who stole the information? He got a watch, "professional advice" including how to make PowerPoint slides, and potentially 25 years in jail.

➤ Chart Crime of the week

I guess we can see the summer-time correlation. But it is probably safe to say that causation is a stretch.



This is random and probably not a chartcrime/mapcrime of any sort. But we find it very hard to believe.



➤ Quick Hits

- Don Meredith once said about Tom Landry, “He is such a perfectionist that if he were married to Raquel Welsh, he’d expect her to cook.” (We appreciate his proper usage of the subjunctive “were.”)
- The Bureau of Labor Statistics measures health insurance inflation by how much insurers must pay out in claims...not by the premiums that consumers pay.
- Mr. Beast had 68,000,000,000 views on YouTube in 2025 (including more than a few by the Chalk Creek household).
- 3M once put \$3mm in a glass case at a Canadian bus stop. If you could break the glass with just your body, you got to keep the cash. Nobody got the money.
- China burns 56% of the world’s coal output. It burns 20x that of the entire European Union and 8x that of the US. China has tripled its coal usage since 2000.
- The owner of three Las Vegas casinos in the Downtown area will accept Canadian dollars (CAD) on par with the USD. USDCAD is currently trading at about 1.37 (one dollar buys 1.37 CAD).
- International visitors account for about 12% of Las Vegas tourism. In 2024, Canadians made up about 38% of this international total. That is now down to about 21%.
- New England typically generates 27% of its electricity from burning oil. This will approach 40% this weekend.

TSLAQ: Musk proudly announced on X that Tesla “just started robotaxi drives in Austin with no safety monitor in the car.” Musk left out that each robotaxi has a safety monitor in a separate car which follows the robotaxi. Of course, there is also a remote “Teleoperator” which watches each ride in real time and interjects when necessary. No wonder Tesla only has a handful of robotaxis on the road at a time.

Remember the “infinite” revenues, and robots will rule the world? Musk surreptitiously pushed back the production of the Optimus “humanoid.” Previous Tesla guidance had pegged production at thousands of units in 2025. Tesla missed that target by thousands of units (99.9%). Mass production was supposed to start in 2026. But now Musk is calling for “low volume output” this year. And Tesla will be “selling humanoid robots to the public by the end of next year.” That sounds like 2028.

Musk did have a good line this week. When asked if he wanted to die on planet Mars, he said yes, “but just not on impact.”

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