Weekly Update

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- The positive momentum continues
- Bad news is good news
- AI spending continues
- Maybe AI is not helping everyday companies? (Helping their customers!)
- Earnings are surprising across the board
- The Labor market is softening
- Inflation is still cooling
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week
- AI might help those working nine to five

	Last	5d %	YTD %	1yr %
S&P 500	7,799	1.2%	13.9%	20.6%
QQQ	$732.50	2.4%	19.2%	26.2%
US 10 YR	4.65%	4.68%	4.17%	4.29%
USD/DXY	100.0	99.9	98.3	98.3
VIX	14.6%	15.2%	15.0%	14.8%
Oil	$81.17	5.0%	45.0%	29.7%

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

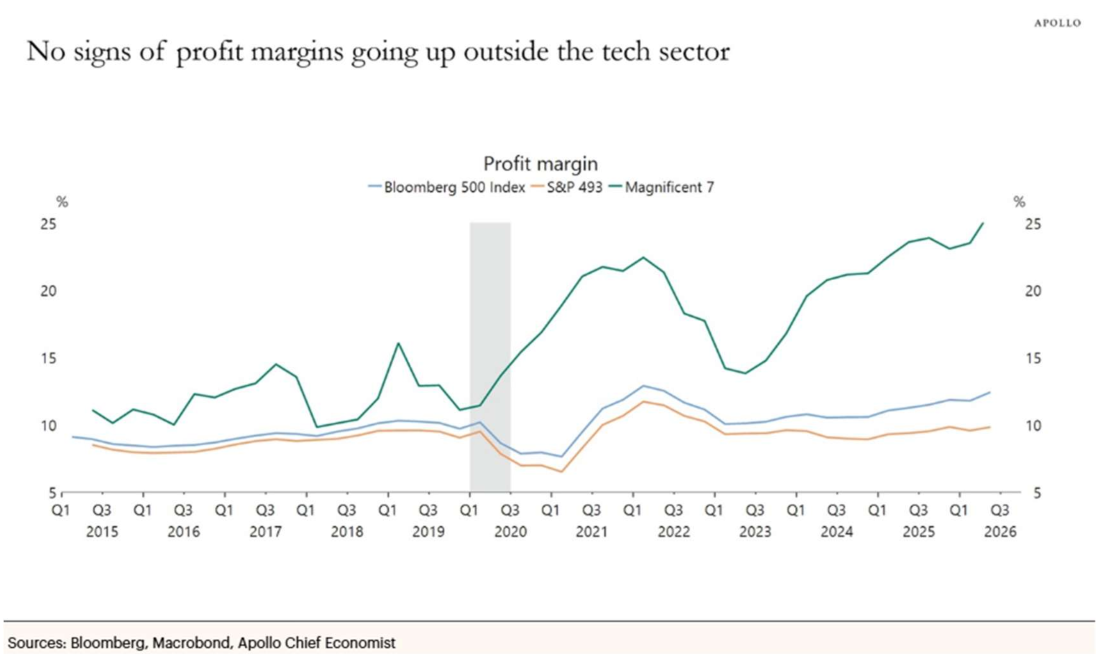
The positive momentum at the beginning of August continued this week. The one thing missing from the market turnaround (after a rough July) was an accommodative Federal Reserve. Warsh's tough rhetoric had spooked the bond market particularly the long end of the Treasury curve. But bad economic news this week was more good news for the equity market. July's Employment Report showed more job *losses* in addition to lower total employment. At the same time, inflation continues to underwhelm (that's good!) as things normalize after the energy shock earlier in the year. Logically, the probability of a rate increase continues to drop. September is now 65% on no change. A month ago, the futures market had this pegged at 25%. By the end of the year, the most likely outcome is for one rate hike. A month ago, the market was expecting two to three hikes. We maintain that it is unlikely for Warsh's Fed to increase interest rates. He wants to ease the burden on short-term borrowers (bottom of the K using credit card debt) while normalizing the use of the Fed balance sheet (stop buying bonds which will keep upward pressure on long-term rates). A cool inflation and a softer labor market give him the cover to wait if nothing else.

In the Artificial Intelligence world, the buildout narrative stayed positive. Some datacenter and networking stocks reported good revenue growth with increasing backlogs. Mark Zuckerberg tried to disrupt the apple cart a bit by declaring open-sourced models and full transparency are good for the security and stability of the AI ecosystem. He just so happened to make these seemingly altruistic comments right before Meta went on trial for (allegedly) hooking kids onto the Facebook doomscroll. (We think a layering of models makes the most sense…use the open-sourced ones for routine queries while keeping the privacy-oriented and priority jobs running on custom models.) Nvidia also threw the AI financial wheel for a loop. It is going to be organizing a pool of liquidity to fund compute spending. With the help of the giant alternative asset managers (Apollo, KKR, GS, etc), Nvidia was removing a slice of the circularity argument from much of the financing arrangements (ironically by adding another layer!). The details are sparse, but we think this was a smart move. It extends the timetable for the AI vision to become reality (companies making money with it). Bank of America announced something similar. It wants to help investors deploy $250b into datacenters, energy, and critical materials (this large number also includes advisory fees to BofA, ha!). Of course, these set ups will, naturally, load more leverage into the financing. Any future stumbles could be more violent.

The few negative narratives during the week involved the giant lockup of SpaceX coming to the market. Some pundits tried to restart the "Sell America" trade (not a lot of evidence for this one other than the USD weakening while bond yields move higher which is certainly paradoxical). Iran is still a mess. But we do not think the market has cared about this for months (other than energy prices, but even these moves are more muted now). On the plus side, there is talk that Trump wants to cut capital gains taxes before the midterms. It seems this would pertain to housing by increasing the exemption level along with indexing it to inflation. We are not hopeful as it looks like gridlock has set in long before any change of control.

- Maybe AI is not helping everyday companies? (Helping their customers!)

Apollo is challenging the notion that AI is helping the broad market. They use profit margins for their proxy for success.



But a compelling counter argument is that the returns from AI will accrue to customers and not the companies. Efficiency gains will be grabbed by all, and thus the excess returns will be competed away. Only those with defendable moats will keep the higher ROIC (return on invested capital). All this is to say that AI might be deflationary to help the nine-to-five working woman.

(We have thought this for a while, but a random on Twitter, PrefShares, points out that Warren Buffett has espoused this theory for decades.)

- Earnings are surprising across the board

One of the negative narratives undercutting the strong Earnings season is that Tech is dominating the gains. This is true, of course. We have talked about the private equity gains that have distorted the growth numbers. While we think the median EPS increase of ~12% is stellar, some need further convincing. Here is the latest remarkable growth by sector. Even after stripping out roughly 20% points for one-off gains, the overall growth is crazy.

Sector	Today	1 Jul	1 Apr
Consumer Discretionary	89.7%	5.5%	7.0%
Consumer Staples	8.5%	5.6%	6.7%
Energy	142.7%	116.0%	32.8%
Financials	23.7%	8.1%	7.6%
Health Care	-6.8%	-9.3%	5.8%
Industrials	20.0%	10.3%	12.3%
Materials	39.1%	32.7%	25.8%
Real Estate	9.6%	6.2%	6.0%
Technology	72.9%	65.5%	50.2%
Communication Services	114.5%	8.0%	7.6%
Utilities	11.8%	11.3%	12.3%
S&P 500	**51.1%**	**24.4%**	**19.2%**

Source: LSEG I/B/E/S

Exhibit 4. 2026Q2 Actual Earnings Growth

	S&P 500
Today	51.8%

Needless to say, these incredible numbers are blowing away expectations. 85% of companies have beat the consensus guess (which is typically based on company guidance). And the average "Surprise Factor" is strong, too.

Sector	Above %	Match %	Below %	Surprise Factor
Consumer Discretionary	76%	11%	13%	6%
Consumer Staples	75%	8%	17%	3.9%
Energy	90%	-	10%	10.6%
Financials	86%	3%	11%	10.0%
Health Care	98%	2%	-	19.1%
Industrials	87%	3%	10%	8.4%
Materials	83%	-	17%	5.7%
Real Estate	79%	7%	14%	3.4%
Technology	94%	-	6%	10.2%
Communication Services	74%	-	26%	-1.9%
Utilities	69%	7%	24%	5.1%
S&P 500	**85.1%**	**3.4%**	**11.5%**	**8.4%**

Source: LSEG I/B/E/S

- The Labor market is softening

The Employment Report showed a surprising loss of -23k jobs in July. A gain of 70k was expected. Moreover, June was revised lower from +57k to +20k. And May was revised lower from +129k to +63k. Manufacturing Payrolls were positive at +11k (and June was revised higher!). Government jobs fell sharply to -53k from -10k. Private Payrolls increased by +30k which is better than the rest, but it is still way below expectations (official guess was +70k and the ADP guess was +44k). Health Care was the only strong gainer at +22k.

The Unemployment Rate dipped from 4.2% to 4.1%. But the Labor Participation Rate fell to 61.4% from 61.5%. This means Household Employment fell by 87k while the labor force declined 264k.

Challenger Job Cuts in July dipped to 33.4k from almost 46k in June. For all the splashy white-collar job cut announcement, the overall data remains very subdued.

Initial Jobless Claims are still hovering around 200k. Continuing Claims ticked down slightly and are still hovering around 1.8mm (low end of the 3-year range).

- Inflation is still cooling

Inflation in July (measured by the change in the Consumer Price Index (CPI)) increased only +0.1%. While this was technically inflation compared to June's deflation of -0.4%, it still follows the disinflationary trend. Te annual rate remains at +3.4%. The "Core" CPI also ticked up vs June (+0.2% vs 0.0%). The annual "Core" rate is +2.5%. More to the point about the inflation trend cooling, Shelter increased +0.1%, and it accounted for 2/3 of the entire increase. Food increased +0.1% with a divergence between At Home (-0.1%) and Away from Home (+0.3%). Energy fell -1.5% as Gasoline prices fell -2.9% (interesting as oil prices rallied through the month). Electricity prices increased (+0.1%), of course. Airline fares increased +2.2%. Meats fell -0.7%.

The July PPI ticked up to flat 0.0% from -0.1% in June. The annual PPI dipped to +4.7% from +4.9%. The "Core" PPI increased +0.2% which is down from +0.4% in June. Its yearly change remained flat at +4.2%.

The NY Fed's Consumer Inflation Expectations (1-year) cooled slightly to +3.6% vs +3.7% in June.

- Other economic data slows (not much of it)

Existing Home Sales slowed marginally. The 4.06mm annual run-rate still pales in comparison to the 5.5mm trend before the Virus Fear.

Mortgage Applications ticked up for the largest gain in two months. But this does not mean a thing considering the low level of turnover.

The average 30-year mortgage rate moved lower to 6.77% from 6.81%.

Weekly Redbook Retail Sales slowed to +8.3%. But this is still a strong number (a break below +6.5% or so would be a rate of change concern).

- Where did all the crypto money go?

NFTs are back! Or at least, some are trying to revive the once-defunct Non-Fungible-Tokens (digital ownership certificates held on the blockchain). There is a new series of NFTs called StonkBrokers which are cartoon pictures of stockbrokers (there are 4444 different images). Each NFT image has its own crypto wallet embedded within it. Each NFT' wallet can hold crypto assets including tokenized assets (including crypto versions of regular stocks like Nvidia). To "activate" your NFT, you have to pay fees in the $StonkBroker token. You can trade these tokens (and others) by paying more fees. Your fake trader image can get a "promotion" by paying more fees or announcing to the world that you are paying fees into the ecosystem. Apparently the initial cost of the NFT has soared 800% since launching last month. The market "value" of the fake exchange that trades fake money is about $90mm.

As an NFT refresher, Jack Dorsey's first tweet (he founded Twitter) sold in NFT form for $2.9mm. A year later, the highest bid in an auction for it was $280.

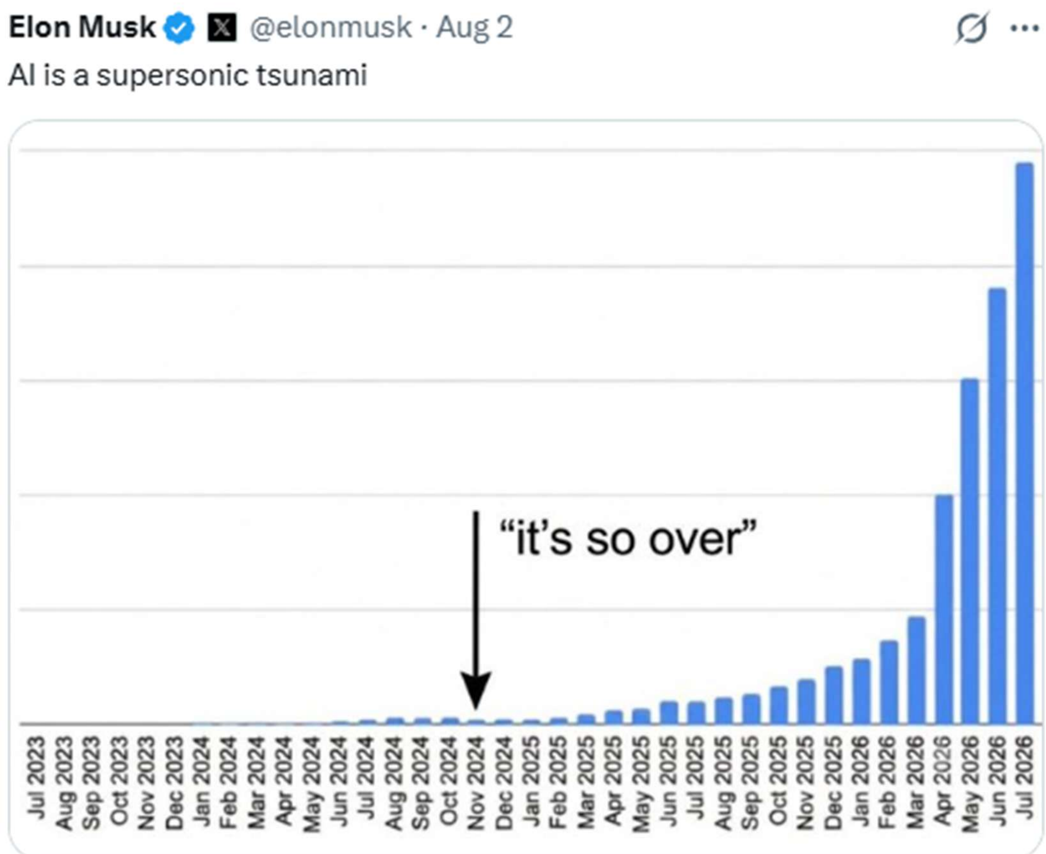
A new financing scandal is brewing. Recall First Brands (and a slew of other companies) were using fake invoices to obtain extended financing. Radiant World of Singapore is suspected of doing the same thing. Radiant is one of the largest commodity trading firms in the world with $12b in revenues in 2025 (traded approx. 70mm tons of iron ore). But stories are breaking about fake invoices being used to finance cargoes. According to KBW, some of the problems were sniffed out six years ago but now many more banks are pulling back credit lines. We do not know how much this one is gonna cost, but we suspect it could be a huge number given the sheer size of the volumes of this business. (We think is story belongs in this section, but if the loss is very large and more banks are damaged, then perhaps it could have an impact on the market.)

GameStop is apparently abandoning its fake bid for eBay. Ryan Cohen is still claiming he wants some sort of combination or partnership with the much larger eBay. We suspect eBay's reaction will be the same (no thanks).

Just last week, we lowlighted the failed password protector for crypto wallets (Coldcard from Coinkite). Apparently, there is a distressed-claims investor trying to circle the wagons to organize victims of the Coinkite debacle (creating crypto passwords that were easily guessed). This guy was accused of stealing almost $2mm from FTX victims (he settled the suit).

- ➢ Chart Crime of the week

This one is kind of boring. But it fits Musk's history of exaggeration without elaboration.



- ➢ Quick Hits
  - The Florida Chamber of Commerce has named NYC mayor Mandami its Economic Developer of the Year. It has announced this with a billboard in Times Square.
  - The defense for the guy who shot Charlie Kirk says that since the defendant killed his intended target, he should not be eligible for the death penalty.
  - A Shake Shack employee called in sick, robbed the restaurant at which he worked, then showed up the next day for work like nothing happened.
  - The kiosk at a Shake Shack in Salt Lake City was programmed to recalculate the bill if the customer did not include a tip. (Coincidence?)
  - When Michelle Phillips of the Mamas & the Papas was forced to lip-sync when performing live on the Ed Sullivan Show in 1967, she ate a banana while "singing."
  - In Major League Baseball, if a runner fails to tag up on a fly ball but crosses home plate before the third out is recorded at a different base, the run is allowed according to the "Fourth Out Rule." If the defense leaves the field before either throwing to third (and thus recording the "fourth out,") or officially complaining/appealing to the umpire, the run stands.
  - No animals have green fur.

- Deer and boars think tigers are green because they are dichromats. They cannot see the color orange…it appears as green.
- A bettor won $4mm after betting on Jackson Kouivan to win the 3M Open (PGA).
- Kouivan won $1.6mm for winning the 3M Open.
- July 23 was the biggest day for commercial flights (globally). There were 153,359 flights.
- Roberto Clemente is the only player in MLB history to have a walk-off inside-the-park grand slam. Now that is ultimate!
- There are 21 US cities that used to have 100k residents but no longer do.
- UTEP has the highest acceptance rate (100%) of all the 138 FBS (major D-1) football schools (sorry AY).
- U-Michigan announced that freshmen courses in the first semester will no longer have *grades*.
- Merion's wicker basket design on its golf flag sticks (they call them "standards") was awarded a patent in 1916.

TSLAQ: Not too much to report in Muskland. The rumors around SpaceX merging with Tesla have quieted. The first lockup for SpaceX insiders has come and gone. But the gun is probably locked and loaded and ready to be fired. A large number of shares were shorted once the stock faltered post the IPO. It looks like the insiders are playing these guys against themselves (by not selling into them and causing them to squeeze the stock higher). We do not have a position in Tesla or SPCX currently. (We would still be inclined to own SPCX over TSLA over time.)

Check out our website to learn more about Chalk Creek Partners

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