Weekly Update

5-March-2025
Carlisle C. Wysong, CFA
Managing Partner

- Volatility spins itself into a frenzy
- Tariff talk is somehow now scary
- Recession is an easy answer after you sell
- Is the Atlanta Fed right? Is the economy crashing? No.
- What exactly will tariffs and DOGE do to the economy?
- More panicky selling
- Uncertainty feeds the beast
- Durable Goods Orders are growing
- Inflation is still picking up; Spending is not
- Fed Surveys change their tune
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	5,843	-1.9%	-0.7%	15.3%
QQQ	$502.01	-2.4%	-1.7%	13.8%
US 10 YR	4.28%	4.26%	4.58%	4.10%
USD/DXY	104.3	106.5	108.5	103.4
VIX	21.9%	19.0%	17.4%	14.5%
Oil	$66.37	-3.3%	-7.5%	-15.2%

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

The same narratives that spun Volatility into a frenzy intensified this week. The two focal points were 1) Trump actually did what he said he was going to do on tariffs 2) Recession fears increased - highlighted by the Atlanta Fed's GDPNow tracker falling off a cliff to -2.8% growth for the current quarter. We think both are overblown. The one thing we know about Trump is to expect the uncertainty. After announcing the 25% tariffs on Canada and Mexico would proceed as planned, one day later he backtracked on some of the policy again (exempting autos for a month with respect to Canada and Mexico). During Trump's address of the joint session of Congress, he did acknowledge some economic "disturbance" while the economy adjusts (we have been saying this about DOGE, too, assuming it is successful in cutting meaningful spending). But his repeated focus has been on border security (more talk about fentanyl than immigrants lately). More to the point, we think he saw how the markets reacted, and he decided to make it clearer that these policies were not meant to be blind with respect to economic harm.

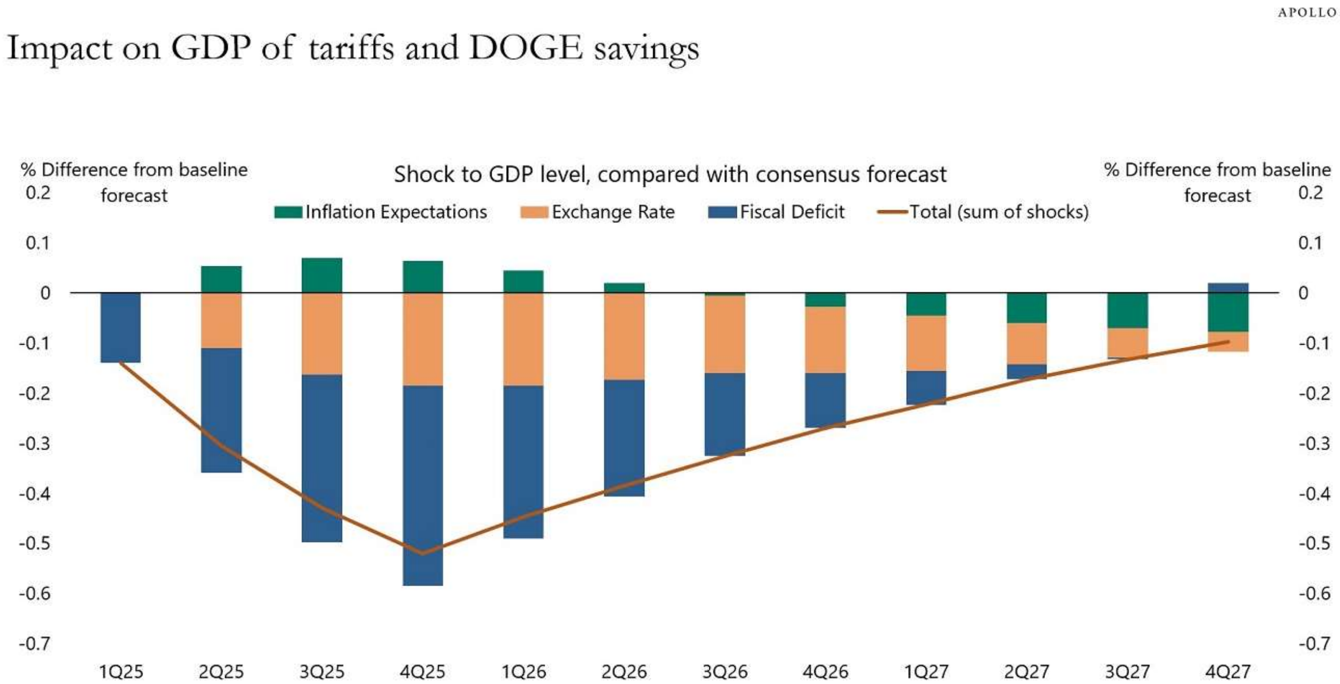
As for the recession talk, we have noted that some economic data has certainly weakened lately (especially relative to expectations). This is likely a combination of the tariff talk, lack of movement on tax reform and deregulation, and probably a little mean reversion (people became too optimistic too quickly). But right when the market has tied itself into knots over the weaker (not as strong) data, a strong ISM Services number tells everyone to calm down (and the market finally had a sustained rally). To be clear, before this ISM, the market was following the recession playbook. Interest rates were tumbling – the market now expects three rate cuts this year with the first one in June. This move has been so fast that bond volatility has increased sharply (Vol usually does not rally when its underlying asset rallies…remember that falling bond yields are bonds rallying). Staples were outperforming. Momentum stocks were reversing. Utilities were not rallying which would be the norm. But Utilities were on the momentum bandwagon thanks to the AI narrative. Speaking of AI, it was strong earnings from Nvidia that really kick-started this panic. That anomaly pretty much sums it up. (As well as Mexico outperforming the US by about 3% in the last week and 6.5% in the last month).

- Is the Atlanta Fed right? Is the economy crashing? No.

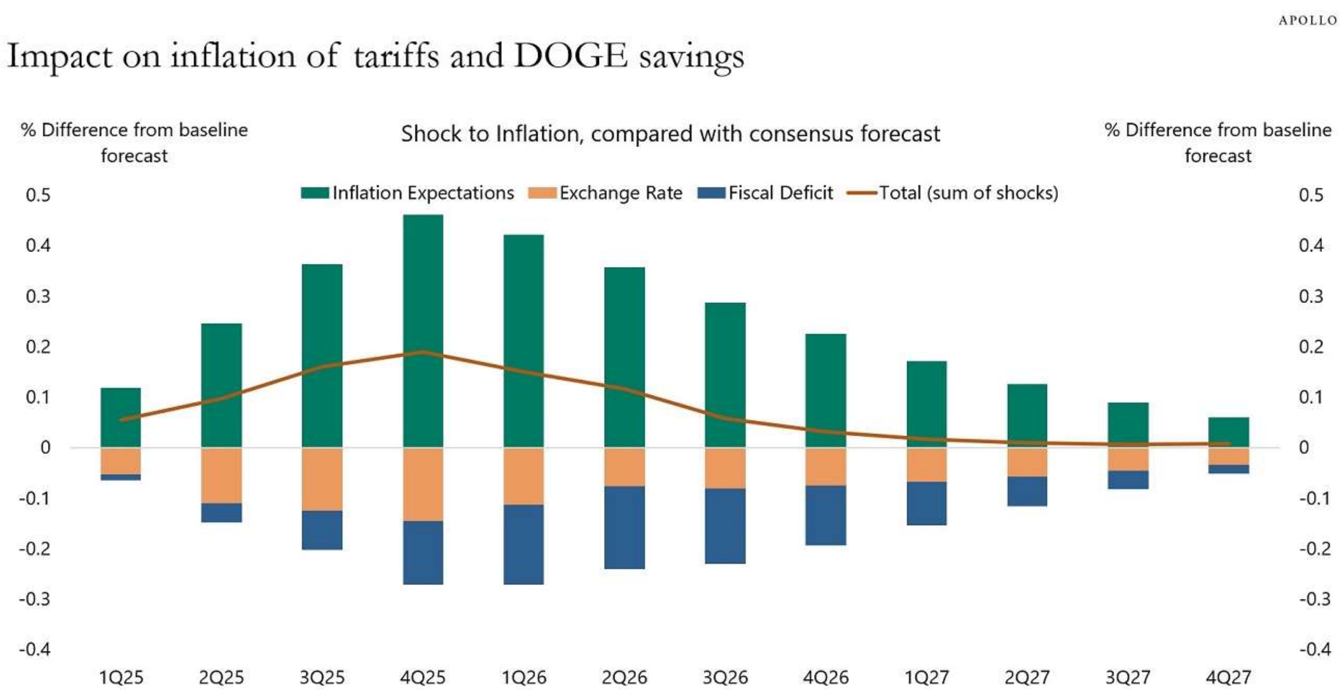
The Atlanta Fed…they need to go back to economics school. We have always used their GDPNow nowcast lightly…it literally just incorporates one datapoint at a time without factoring in relevant connections or spillovers. But this -2.8% number is calculated with surging imports (which nominally detract from GDP) without acknowledging the counterbalancing effect of these imports (Investment or Consumption should move higher in the GDP calculation). And some of the import number is due to gold movements. Either way, this is compiling data without seeing the forest through the trees. And for the record, one of the first to debunk this data (that reflects poorly upon Trump) was Jason Furman. He is the former Obama economist turned Harvard professor…not exactly a MAGA backer (we always comment that we like Furman's level-headed approach even if we do not always agree with him).

- What exactly will tariffs and DOGE do to the economy?

Economists (professional guessers) are scrambling to assess the impact of tariffs and DOGE spending cuts. Apollo does a good job with its data…it quantifies it along a timeline. You can see that the height of the impact on GDP and Inflation is in 4Q2025. Also, the extreme levels are not that extreme. There is a lot of guesswork in this. Things may get worse. Then again, these projections do not incorporate productivity gains or any other potential knock-on benefits.

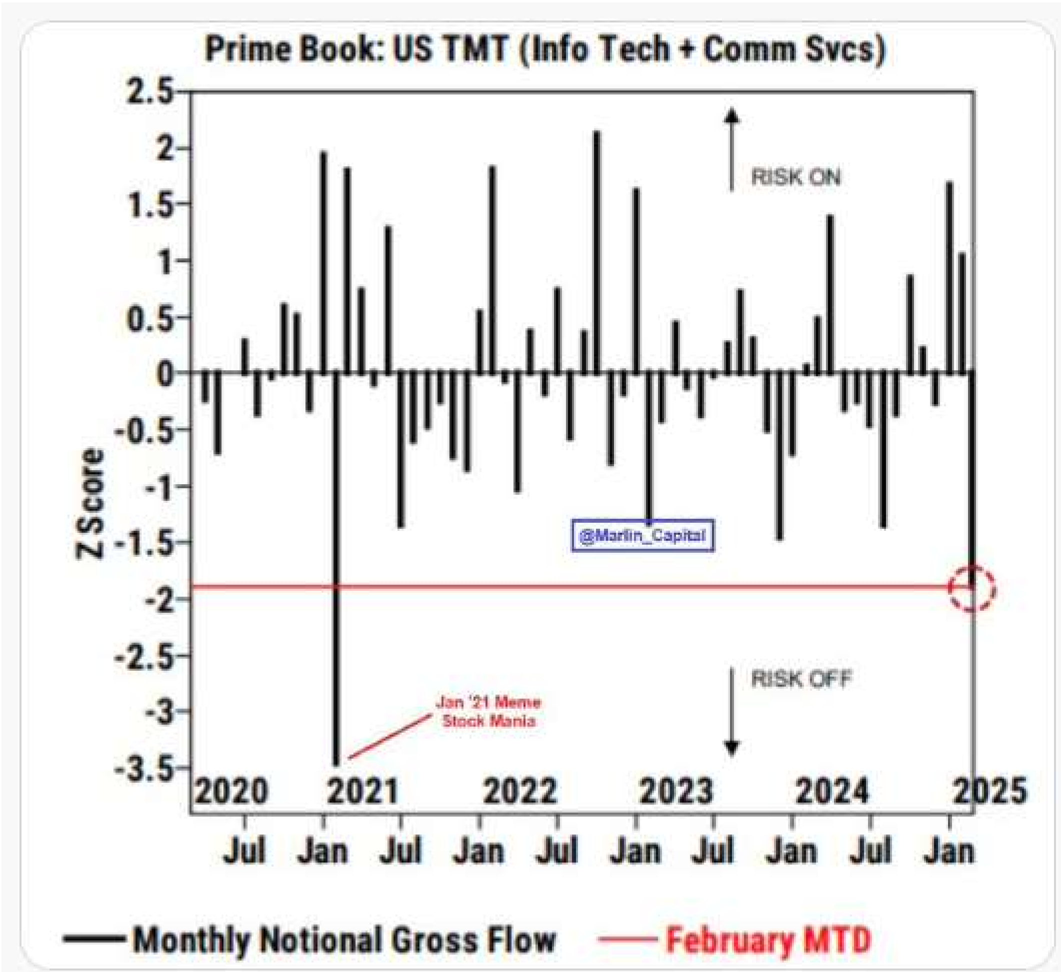


A breakdown of inflation is the mirror image. We should see an immediate bump higher followed by a moderating trend.



- More panicky selling

We have talked about the "degrossing" undertaken by hedge funds in the last week or two. This chart shows this selling of longs and covering of shorts (labeled as "risk off" which is another silly Wall Street term) has hit extreme levels. And this is before the latest few days of whipsaw action! Death rotations are degrossing events!

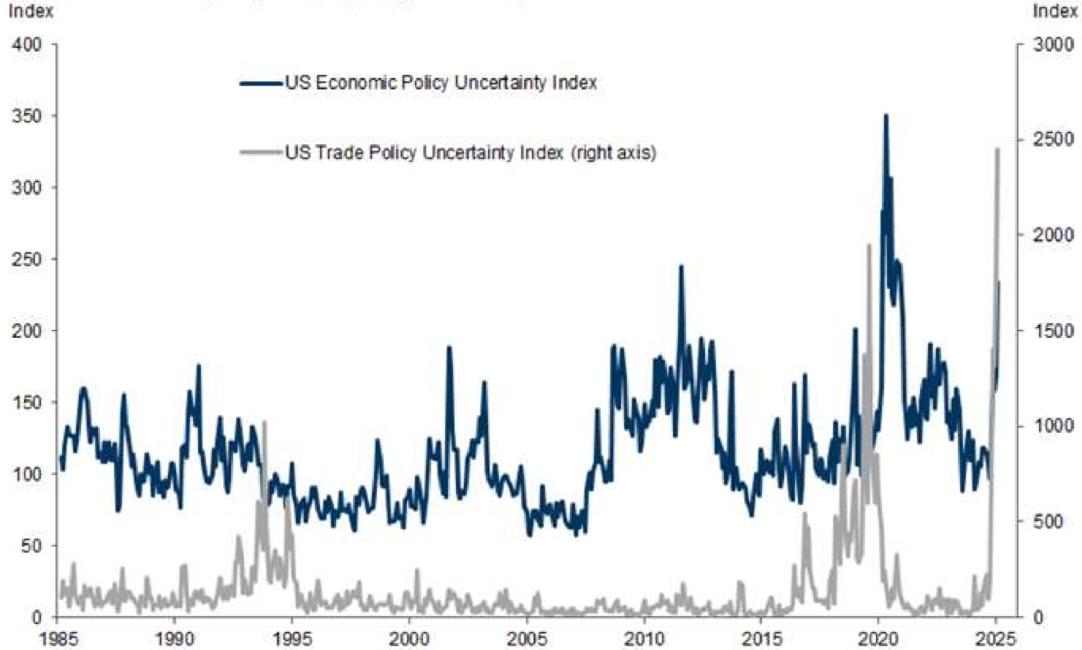


It is also worth noting that Retail sentiment has worsened after the already bad levels. Supposedly there is even more "Yen-carry trade unwind" happening. We do not see this explicitly insofar as the USDJPY move has not been very sharp but rather a slow bleed lower (USD weaking vs JPY strengthening). But the mere presence of the conversation tells us what we need to know (traders are pulling out the old tried and true excuses). If people start talking about the "Euro-Yen cross," then we know the shark is being jumped.

- Uncertainty feeds the beast

Goldman has some Uncertainty indices. Obviously, they are hitting extremes.

Exhibit 2: An unusually large rise in policy uncertainty



Source: Haver Analytics, Goldman Sachs Global Investment Research

➢ Durable Goods Orders are growing

Durable Goods Orders increased 3.1% in January vs December. This is an improvement from a -1.8% drop and better than the 2% expected. Core Capital Goods (aka business spending) increased less at 0.8%, but this is still an acceleration and better than expected. The difference between the two is largely transportation orders.

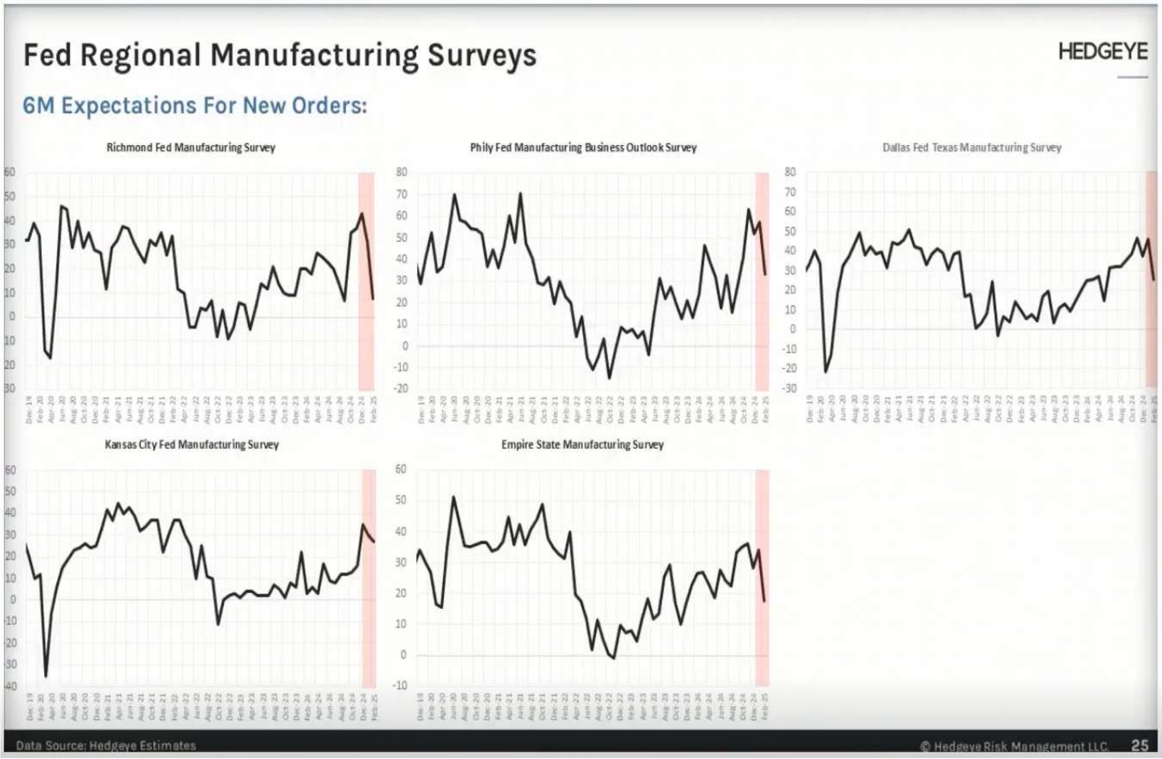
➢ Inflation is still picking up; Spending is not

The Fed's primary inflation gage (the change in the Personal Consumption Expenditures index, PCE) ticked a little higher in January to +0.3% vs +0.2% in December.

Personal Income (+0.9%) outstripped Personal Spending (-0.2%) which is clearly good for household balance sheets. But it is not great for consumption in the economy.

➢ Fed Surveys change their tune

A general theme in the Fed's regional business surveys is that Manufacturing optimism burst higher upon Trump's election. But the honeymoon period is over, and 6-month Expectations in these surveys have all turned markedly lower. (Chart from Hedgeye, a very good macro shop.)



As we have noted recently, the private surveys show a muddier pattern. The S&P Global February Manufacturing PMI hit its highest level (52.7) since the middle of 2022. The ISM Manu is not quite as strong, and it did dip in February. But it is still just off its two-year high. Alas, the ISM New Orders data did drop sharply (55.1 to 48.6). In theory, the ISM should better reflect larger companies with more internation exposure. Given the data we looked at last week (international data has been surprising to the upside while US data has been disappointing), this divergence is particularly surprising. Adding insult to injury, the Price component of the ISM shot up dramatically (54.9 to 62.4).

Right when all was lost, the ISM Services accelerated and beat expectations. New Orders did the same. This uneven data reflects the current political environment. We will lean towards the hard data over survey data for now (even if the former is lagging compared to the latter).

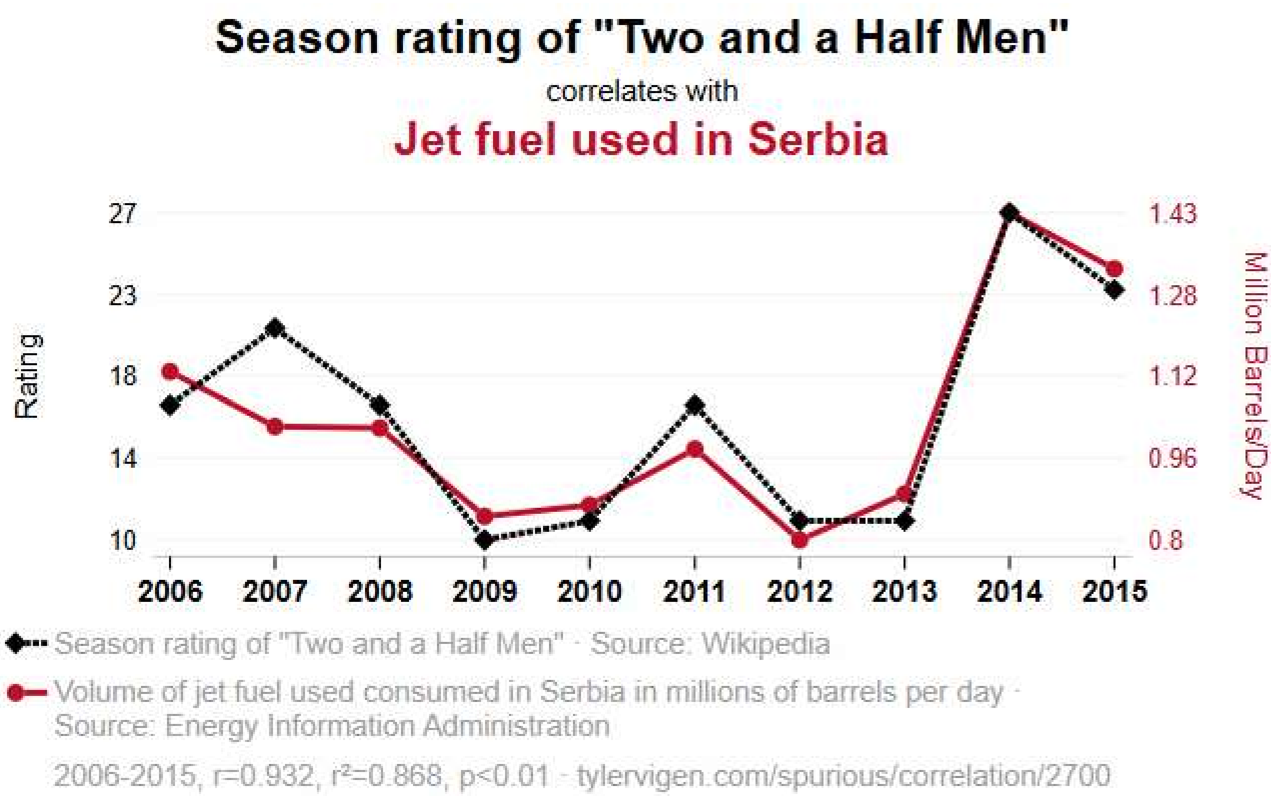
- ➢ Other economic data is negative
  - The ADP guess at the change in Private Payrolls fell sharply. The correlation with the actual data is not great.
  - Initial Jobless Claims jumped higher to 242k from 220k last week. We are still not seeing any increases in the DC area. Continuing Claims ticked down to 1.862mm.
  - Pending Home Sales in January fell 4.6%. This is the second monthly drop in a row after that mini-rally of four positive months (August -> November).
  - The second estimate for 4Q2024 GDP remained steady compared to the first read at 2.3%. But this is still a drop from the 3.1% growth in 3Q2024. The Atlanta Fed's GDPNow has Q1 GDP tracking at negative -2.8%. Most of the professional guessers are in the +1.6% area.
  - Construction Spending in January fell 0.2%.

- ➢ Where did all the crypto money go?

Argentine President Milei is no match for Trump when it comes to pumping crypto crap. On Sunday, the Trump team floated more ideas about buying a basket of cryptocurrencies (not just a Bitcoin reserve has had been the original notion). On Saturday, a crypto trader spent $4mm buying a basket of these. He levered the trade 50x. Upon the announcement, he cashed out for a $6.8mm profit. Later on Sunday, this same trader supposedly opened a short position on these same cryptocurrencies…which all tanked on Monday. Eric Trump touted the creation of the Crypto Reserve as impowering the everyman/retail trader. These very rubes were the ones who were fleeced.

- Chart Crime of the week

Ok, we admit we were looking for something dumb when we found this one. But considering we have been talking about jingle-writers lately, we could not resist. We think this was created by the same guy that drew the correlation between The Rock movies and google searches for zombies.



- Quick Hits
    - New tow-trucks will be illegal in California once the 2024 inventories are sold.
    - A 1950 law was introduced to keep the federal workforce below 2m people. This was the birth of contract and grant workers.
    - As of 2020, there are more than three times as many contract and grant workers as federal employees (6.8mm vs 2.2mm excluding USPS.)
    - In 1975, 20% of Americans moved homes every year.
    - Today, fewer than 7% of Americans move each year.

- The first zoning laws in the country were prohibitions on laundry mats. This was a not-so-subtle attempt to segregate communities. Obviously, it was in California.
- Berkeley, California was the first city to impose zoning laws that prohibited apartment buildings.
- Citigroup accidentally posted $81,000,000,000,000…that is 81 trillion…to a customer account. It was supposed to be a $280 payment.
- The CEO of Palantir does not know how to drive a car.
- Back in 2019, after protesting an oil pipeline in North Dakota over environmental concerns, Greenpeace left behind 48,000,000 pounds of garbage.
- The Strategic Petroleum Reserve can drain 4.4mm barrels of oil per day. It can refill barrels at only 0.785mm bpd.
- There is a basketball player for Florida Gulf Coast University with over 2mm social media followers. He is a walk-on whose social media theme is "Road to 1 point." He finished his college career with 0 points.
- Trump's address of the joint session of Congress last night was not a State of the Union speech since he was just elected.
- In 2023, someone bought all the tickets in the Texas Lotto to guarantee himself the winning combination. He won. He even asked the lottery commission beforehand if he could do this…and they said yes! (Matt Levine uncovered this one for us.)

Trading: Given the extreme choppiness in the markets, we retrenched some of our exposures. That is not to say we reduced our net long. We simply cut some of our riskier names (all small positions) and used the proceeds to buy some of the dips. We think Financials are poised to do well when the market gets over this tariff tantrum. A recession would obviously hurt banks and credit card companies. But we think a more probable outcome is for the Trump administration to move on with its pro-growth agenda (cutting taxes and regulation…Financials are the big winners in this scenario). We did, however, reduce some of our Big Tech. Normally, this gang does well in times of turbulence because of the "flight to quality" dynamic. But these names have had some huge runs. And we think some of the recession talk is just masking people's desire to trim their mega-cap exposures. Be it DeepSeek competition, Microsoft cutting its data center plans (just a rumor), or just a lack of monetization, there is definitely an AI overhang (hangover?). Otherwise, we still want to increase our international exposure as we discussed recently (economic data is improving around the world for the most part).

TSLAQ: We are seeing the multiple sides of Musk lately. On the one hand, he is talking about privatizing as much of the government's functions as possible (we love this). Of course, many of the DOGE claims are starting to be refuted (uh oh). In touting his robotics/AI business at a conference, he made the claim that GDP is "essentially unlimited." Alas, selling Teslas is not unlimited. German sales fell 76% in February.

Check out our website to learn more about Chalk Creek Partners

Carlisle's Twitter Financial List

Carlisle's LinkedIn

The information presented does not involve the rendering of personalized investment, financial, legal or tax advice, and it is intended to be general market commentary. Information presented is believed to be factual and up-to-date, but we do not guarantee its accuracy and it should not be regarded as a complete analysis of the subjects discussed. All expressions of opinion reflect the judgment of the authors as of the date of preparation and are subject to change. All information provided is for informational purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific security. Chalk Creek has an economic interest in the price movement of the securities discussed in this letter, but Chalk Creek's economic interest is subject to change without notice. Positions reflected in this letter do not represent all the positions held, purchased, or sold, and in the aggregate, the information may represent a small percentage of activity. Certain information has been provided by third-party sources and, although believed to be reliable, it has not been independently verified and its accuracy or completeness cannot be guaranteed. Past performance is not indicative of future results.