



## Weekly Update

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- Wild ride in the markets
- The Fed cuts into a growing economy
- But AI worries come to the front and center
- Economic data is better on the margin
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week
- That is the Fed on the left and AI on the right

	Last	5d %	YTD %	1yr %
S&P 500	6,827	-0.6%	17.1%	13.6%
QQQ	\$613.57	-1.9%	20.5%	16.4%
US 10 YR	4.18%	4.14%	4.57%	4.41%
USD/DXY	98.4	98.0	108.5	106.9
VIX	15.7%	15.4%	17.4%	14.7%
Oil	\$57.53	-4.2%	-19.9%	-19.4%

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

\*\* Oil is front month futures, beware

It was a wild ride in the markets this week. It was the two recurring themes, monetary policy and Artificial Intelligence, that provided the fireworks. The buildup to the Federal Reserve's monetary policy announcement had most of the pundits expecting a "hawkish cut." But Jerome Powell delivered the cut without any accompanying warnings on further monetary easing. Moreover, the Fed will be flipping its script from Quantitative Tightening to Quantitative Easing sooner and with more firepower than previously thought. Powell essentially said the Fed was cutting rates into a growing economy. We think it is worth noting that the non-equity markets had this pegged correctly. The USD has been weakening, the Treasury curve was starting to steepen again (after the recent pause we noted last week), hard assets (ex-oil) were strong, even Bitcoin had risen from the dead.

But the Artificial Intelligence side of the equation renewed some worries about capex spending and monetization. While Oracle and Broadcom reported decent earnings, Oracle struggled to outline the financing around its increased spending (and the future revenues from OpenAI are being discounted more heavily...if not entirely). Broadcom is aligned with the more likely winner of the AI ecosystem, but it appears to be losing

margin to the lead dog (its partner, Google). But most importantly, Bloomberg reported that Oracle was pushing back the completion date for some of its OpenAI-partnered data centers. The company gave the standard denial, but considering the market was already skeptical, this story only enflamed the concerns. We have noted that the market was trying to pick sides between the Google complex and the OpenAI one. The overarching theme has been that the overall pie of AI will grow, but there will be winners and losers (we maintain this to be true). But if there is a shock to the system, the short-term could be a much bumpier ride. On the plus side, Nvidia will be able to sell its H200 chips into China (not the old chips that have already been authorized, but also not the most advanced). The US government will levy a 25% vig on these sales (the vig on the older chips is 15%).

- The Fed is cutting rates into a growing economy, and QE is cranking up again (but do not call it that)

The Federal Reserve cut interest rates 0.25% as expected. The new target range for Fed Funds is now 3.50% - 3.75% (the rate range at which the Fed encourages banks to lend to each other in the overnight market). This was widely expected as the futures market had pegged it at about 87% (it has been bouncing all around with a recent low near 25% until the head of the NY Fed came out and supported a cut). More importantly, this was not a “hawkish cut.” For starters, there were only two dissenters to the cut (Trump’s guy Miran wanted a 50bps cut, so he technically dissented making it 9-3 in favor of one cut). In the press conference, Powell insisted that recent increases in inflation had been fueled by one-off price moves from tariffs. Services inflation was falling. And expectations (both from markets and surveys) were anchored at desired levels. While acknowledging the downside risks to Employment, he was generally upbeat on the economy (even pointing to potential productivity gains from AI). The Summary of Economic Projections shows growth accelerating from 1.7% this year to 2.3% next year. Powell literally said what we have been espousing...the Fed is cutting interest rates into a growing economy! Moreover, when asked if there was any pressure to reverse the path of interest rates as has been done twice in the recent past, Powell stated that nobody on the committee was biased towards hiking. The “hawkish cut” was cast to the dustbin of history! On top of this, Powell announced that the Fed was kickstarting Quantitative Easing. He did not call it this explicitly, but he said bank reserves had fallen to a level that needed replenishing to become “ample” again. The Fed had announced this previously, but the size of the new T-Bill buying was surprising (\$40b a month for a few months to judge the impact). Also, the Fed is eliminating the limit on repo market operations. This is “monetary policy plumbing talk” for saying the Fed would provide unlimited liquidity if necessary.

It is important to add that the composition of the voting members of the FOMC is tilting more hawkish next year. Notably, the regional presidents of the Dallas and Cleveland Feds have cautioned against rate cuts, and they are voting members next year (four of the 12 regional Fed presidents rotate through the committee along with the seven Fed governors and the NY Fed president). Also, the Fed voted to reconfirm 11 out of the 12 regional presidents (Bostic of Atlanta is retiring). This was seen as a move supporting “Fed independence.” That is, recent Trump appointees did not try to stop the hawks (non-rate-cut supporters) from getting reappointed.

Bullet points from Powell:

Risks to inflation are tilted to the upside. Risks to Employment are tilted to the downside. A challenging situation. No risk-free path. Reasonable base-case is tariff impact is short-lived. The balance of risks has shifted to the Employment side of the dual mandate.

Housing activity remains weak. Consumer remains strong. Shutdown slowdown was temporary. Hiring and layoffs remain low.

SEP rate projection is 3.4% at end of 2026 and 3.1% at end of 2027 (median, both unchanged from Sept.) Not a committee plan or prediction.

Has the risk management phases ended? Yes.

Productivity is structurally higher, can sustain more growth without higher employment. AI playing a role

Payrolls since April have been overstated by about 60k per month = -20k. Declining supply and demand for workers. Cooling a touch more gradually than previously thought.

Interpretation of why the yield curve is steep? 10-year Treasury is higher. Breakevens (a market price for inflation) suggest that inflation is not a problem, so the 10 year is not moving on that. It must be an expectation of higher growth! (Exclamation point is our emphasis...Powell has never spoken with emphasis in his life.)

Why prioritize employment over inflation? Loud and clear about high costs which is not an inflation thing (legacy 2022 inflation). Have a strong economy where real wages are going up with more jobs. Gundlach points to global rates and says it is likely a sign of mistrust in the system. Foretelling a financial problem...people flocking to hard assets (metals).

➤ Economic data is better on the margin

Small Business Optimism increased in November. This has been holding steady at a good level after the dip early in the year (but still well below the post-election jump).

The Weekly ADP Employment increased by 4.75k vs last week's loss of -13.5k.

Job Openings (per the JOLT survey) increased from 7.23mm in August to 7.67mm in October. Quits, however, fell from 3.09mm to 2.94mm.

Initial Jobless Claims jumped to 236k from 192k. Some of the previous dip and subsequent increase can probably be attributed to Thanksgiving. Continuing Claims experienced their biggest drop since the Virus Fear. They fell about 100k to 1.838mm. (This might be related to Thanksgiving, too.)

Redbook Retail Sales normalized to +5.7% from the holiday bump to 7.6%.

The average 30-year mortgage rate ticked up to 6.33% from 6.32%.

Mortgage Applications increased slightly. Refinancings increased for the first time in about two months.

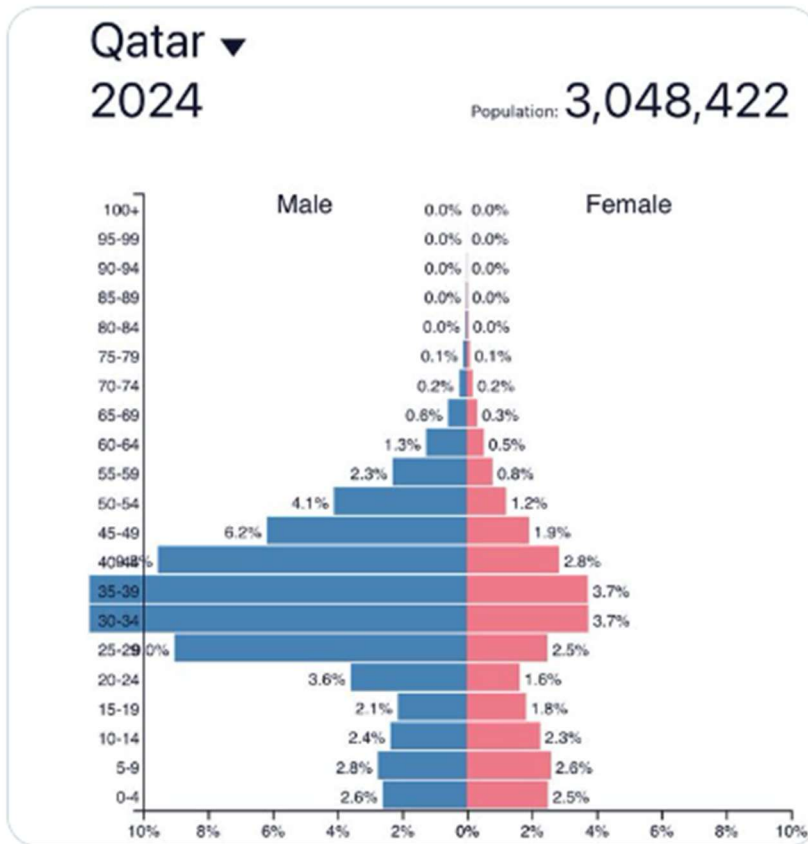
The NY Fed's Consumer Inflation Expectations (1-year) in November remained steady at 3.2%.

➤ Where did all the crypto money go?

Sometimes the disappearance of crypto takes a violent turn. We have talked about the terrifyingly bizarre story about the two men abducting the Italian crypto trader on the streets of Manhattan. He was held captive and tortured for days. Well, it turns out this is much more common than just a one-off crazy story. There have been over 60 crypto-kidnappings this year. And unlike the Italian who was able to flag down a police officer before the criminals got his bounty, most of the victims do not have the fortitude and toughness of Costanza in keeping his ATM code a secret. The reported losses are around \$50mm. And crypto security experts think the number of kidnappings and losses is "woefully underreported." These crypto security experts recommend traders stop posting screenshots of "lambos, going to the moon, and their crypto wallets" in addition to details about where they live.

➤ Chart Crime of the week

We suspect this is a crime of laziness. Presumably, one could have just changed the x-axis. Or made a vertical bar chart. But the math of the chart is real...about 70% of the Qatari population is male! This reminds us of the male-to-female ratio at parties at Amherst back in the 90s.



#### ➤ Quick Hits

- To clarify, it is possible for an NFL or college football team to score a single point in the whole game. But you cannot be the winning team with only 1 point.
- The first conversion safety occurred during the Texas vs Texas A&M game in 2004 (Texas won).
- A conversion safety is yet to happen in the NFL. It has been a pro rule since 2015.
- Both the offensive and defensive team are able to score a conversion safety. The defensive one would require the offensive team (kicking the PAT or going for 2) to get tackled in its own endzone.
- The US Treasury prints about two billion one-dollar bills a year.
- The US Treasury still prints two-dollar bills...but not every year. They are printed only to replace worn bills or from specific bank demand. Treasury printed about 100mm in 2022 and 2023. But they did not print any in 2021 or 2020.
- The Raiders were losing by 10 points with four seconds left. They decided to kick a meaningless field goal. Meaningless except the gambling spread in the game was eight points.
- Someone once turned in a bottle cap from a 22-year-old Mountain Dew promotion involving Nintendo. Nintendo honored the claim. The guy got a free Super Nintendo, Wii U, and some Mountain Dew clothing.
- Criminal trespass is sometimes called entering without breaking.

- Vigorish comes from the Russian Yiddish word meaning “winnings.”
- The DP World Tour turned a par 5 into a par 3 during today’s tournament.
- A Boston dentist created the wooden golf tee in 1890.
- The final 696 pennies minted have sold at an auction for almost \$17mm.
- Fiat made a custom electric car that is only 20 inches wide. The traditional Panda is about 5 feet wide.
- 48% of all golf courses in New Jersey are private. That is the most of any state.
- Tin Can Crab Nachos cost \$30 at today’s Army – Navy game. It is served in a Navy Destroyer.
- Hogs were traditionally slaughtered around Christmas time for food safety reasons. And, thus, the Christmas tamale was born.
- The St. Louis Cardinals hold the record for the longest NFL play from scrimmage without a touchdown: 98 yards.
- Jalen Hurts became the first quarterback in NFL history to turn the ball over twice in the same play.
- Tom Landry once wore a bullet proof vest during a game against the Rams.
- Lahaina Noon happens twice a year in Hawaii when the sun passes directly overhead without casting any shadows,
- Chalk Creek Jr. told me that the mesh on a microwave door is called a Faraday cage. The holes are too small for the length of the microwaves to pass. But they are small enough to let light waves pass.
- There is a sports “league” called Grand Slam Track. It owes about 90 vendors \$8mm.
- The Cowboys-Chiefs Thanksgiving game was the most watched regular season game in NFL history. It beat the previous record by 36%.
- Singing Second is the coolest thing in sports.

**Trading:** We think the AI trade is wearing a little thin. Much of the future revenue growth is potentially already baked into stock prices. So, we are diversifying a little more than we have been. We think some of the “old economy” sectors might do well in the growing economy without having any potential fluff in valuations. Junky stocks have not kept up with the broad market rally, either (the past few days notwithstanding). This gives us more confidence in the traditional economy. We are going to stay long what we perceive to be the ultimate winners (Google, Nvidia, etc). But we are reducing some of the fringe AI names.

**TSLAQ:** Talk of a SpaceX IPO is circulating. The rumor mill says Musk is targeting a \$1.5trillion valuation. A recent secondary share sale in the private market valued the company around \$800mm. Oddly, Musk seems to be focusing on his political messaging. While he confirmed the tentative IPO plans, he is being very tight-lipped. Perhaps he is reserving his pumping for when the timing is closer.

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