



## Weekly Update

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- “The pain could be very real.” And it continues
- Most fundamental factors are positive
- The technical or structural carnage is overwhelming (for now)
- We will be buying slowly unless the data changes
- Earnings are still well above expectations
- Inflation should continue to cool (probably more than expected)
- Manufacturing surveys are improving rapidly
- Employment data is softer all around
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week
- Don’t panic like this lady

	Last	5d %	YTD %	1yr %
S&P 500	6,798	-2.5%	-0.7%	12.2%
QQQ	\$597.03	-5.2%	-2.8%	13.3%
US 10 YR	4.19%	4.24%	4.17%	4.45%
USD/DXY	97.8	96.3	98.3	108.0
VIX	21.8%	16.9%	15.0%	15.5%
Oil	\$63.20	-3.4%	10.2%	-10.9%

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

\*\* Oil is front month futures, beware

Our closing of last week’s market recap section was “the pain could be very real.” And then some. We knew the markets were tightly wound because of the performance chasing in precious metals and memory stocks and the ongoing carnage in crypto and software stocks. But the unwinding of momentum runs the gamut. Making matters worse, over the last week or two, we have heard a ringing chorus about wanting to “buy the dip” in software. While Anthropic’s claim to be dismantling the software ecosystem might be premature (but they might do some serious damage along the way), this recent buying has proven the age-old adage that being early is just another way of being wrong. And traders are not sticking around to test that hypothesis. Some parts of the market that held up during the first mini-panic after the Kevin Warsh nomination to be Fed Chairman also started showing some weakness. Notably, high yield bonds decreased in price. They also widened in spread as

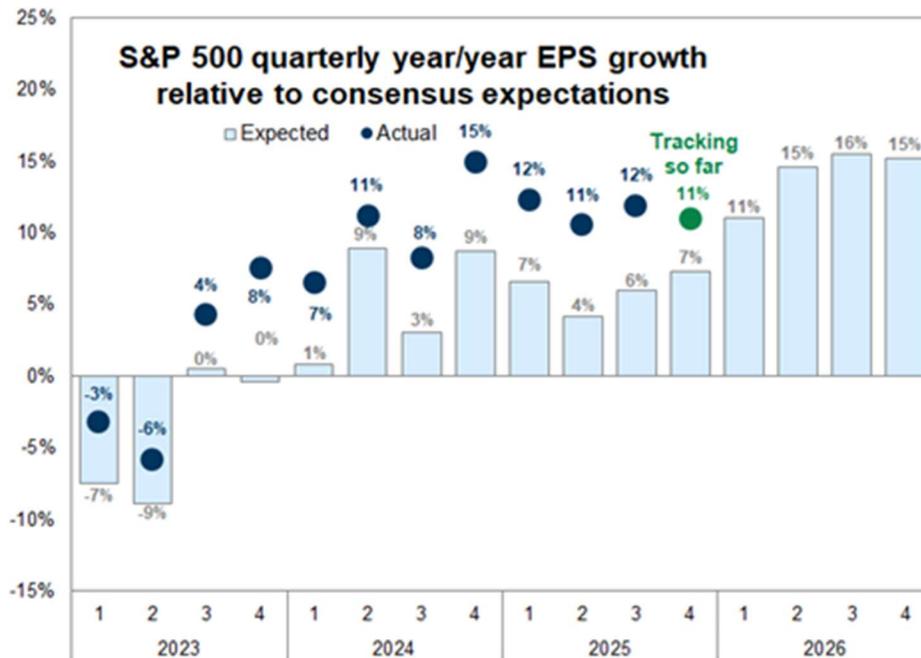
Treasuries rallied on the week (their rates went up while Treasury rates went down). And part of the rally in Treasuries can be attributed to more weakness in the labor market. Even though the monthly Employment Report has been postponed from tomorrow until next week because of the government shutdown (yawn), Jobless Claims moved higher and Job Openings moved lower. When the market is nervous already, data like this makes people rethink the status quo of “not firing – not hiring.” Moreover, the probability of a rate cut has ticked up marginally (about 10% over the next few months). The market appears to be flirting with the “cutting because we have to” instead of cutting to “normalize” rates.

Not all was lost on the week. 11 of the 12 appropriations bills have passed which means we (the people) get a break from a lot of the political nonsense until the end of September (just in time for the mid-terms). The US and Indian trade deal is back on after falling apart. Treasury bond Volatility (MOVE index) remains suppressed. Japanese rates have been flat and Yen has weakened some (USDJPY stronger) ...so the infamous Yen-carry trade does not appear to be unwinding with any more urgency. Economic data (other than in the labor market) is still accelerating (the downtick in the Atlanta Fed’s GDPNow notwithstanding) along with cooling inflation. And Earnings continue to be strong and better than expected. Of course, market reaction to Earnings has been less than stellar, especially on the down-market days (Google today, Amazon tomorrow). While somewhat disheartening, we think it is just further proof that the market is being driven by quantitative factors. With the Volatility above 20, CTAs, Risk Parity, and Volatility Control funds (all quant models that are heavy on momentum and dial exposure up or down depending on Volatility) have all been forced sellers. Leveraged ETF products are evaporating. Stop-loss selling from recent dip buying is adding insult to injury. Hedge fund “pods” (quasi-independent trading books inside of giant hedge funds like Citadel, or our old Point 72, Millennium, and Balyasny) are likely unwinding indiscriminately and rapidly (these shops all have strict risk management rules that kick in during times of stress.) But if they were doing this in isolation, the heavily shorted stocks would be rallying. But now this group is under pressure, too. The selling is widespread - what hedge funds are often short are the meme stocks that Retail is often long. We think the storm will pass. Who knows when, but we will be buying slowly unless the data changes.

- Earnings are still well above expectations

This is the Goldman chart that shows how Earnings have been beating expectations for a few years now. And so far this quarter, that trend is continuing.

Exhibit 1: S&P 500 4Q year/year EPS growth is tracking at +11%

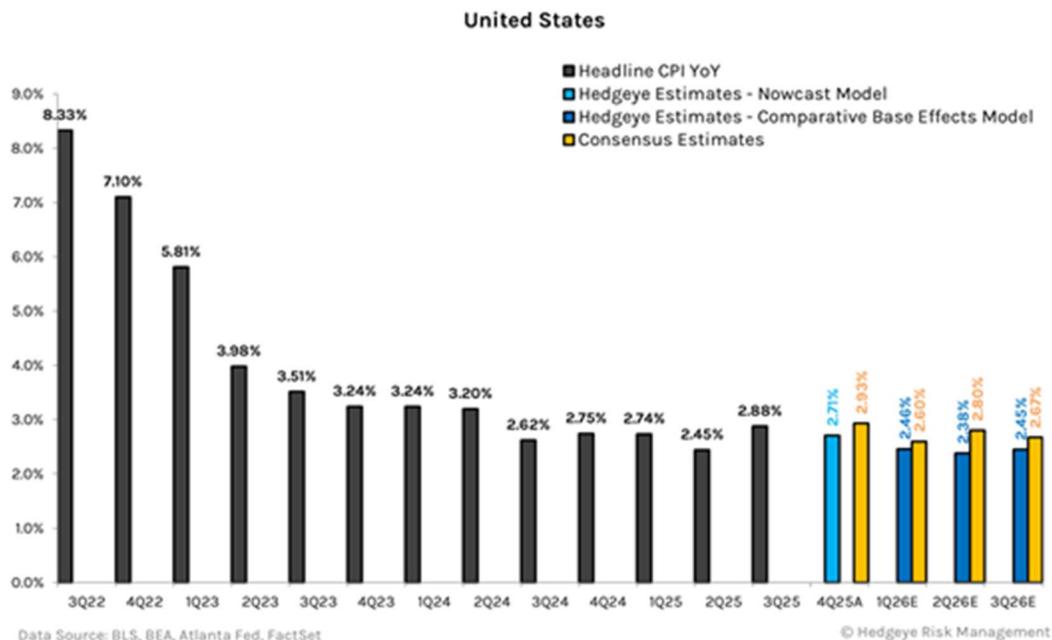


Source: FactSet, Goldman Sachs Global Investment Research

- Inflation should continue to cool (probably more than expected)

Here is the recent trajectory of inflation and the forecast from Hedgeye. They have been dead-on with predicting inflation lately. The declines from here might be gradual, but the overall trajectory when accompanied with good growth makes a good combination. And Hedgeye is below the Street, so this should provide an extra boost if they are correct (without much downside if they are wrong).

# US Headline CPI YoY Projections



- Manufacturing surveys are improving rapidly

The ISM Manufacturing PMI for January bounced strongly to 52.6 from 47.9 (expectation was only for a small increase to 48.5). This is the strongest level since August of 2022. New Orders jumped to 57.1 from 47.4. This is the strongest level since February of 2022. Employment remains weak. Prices remain elevated but they have cooled from the recent peaks (first half of last year). The S&P Manufacturing PMI increased more modestly (51.9 to 52.4). This is still near the 3-yr peak. Perhaps it really is a matter of turning the machines on (ala NEC Director Hassett).

ISM Services remained flat in January vs December (both 53.8). Unlike Manufacturing, New Orders softened (but still at 53.1 which is decent). The S&P Services PMI fared a touch better in rate of change terms with a small increase from 52.5 to 52.7.

- Employment data is softer all around

Job Openings according to the JOLT survey fell to 6.54mm from 6.93mm. For all the doom and gloom over this number dropping from over 12mm in March of 2022, the level is back to the pre-Virus Fear level. And we will remind everyone that many of the Openings during the reinflation days were inflated if not fake. Quits are relatively stable and are back at the 2019 levels, too.

The weekly ADP Employment Change gained 22k. The guess was for a gain around 45k.

The Challenger Job Cuts increased from 35.5k in December to 108k in January. Part of this increase is likely seasonal.

Jobless claims increased to 231kl from 209k. Soe of this is the typical seasonal rebound. Continuing Claims also ticked higher.

➤ Other economic data is mostly better

According to the Senior Loan Officer Opinion Survey (SLOOS), banks continue to ease up on lending standards. And demand for credit is growing.

Redbook Retail Sales slowed marginally to +6.7% from +7.1%.

Total Vehicle Sales in January dropped to 14.9mm from 16mm (annualized run-rate).

The 30-year average mortgage rate declined to 6.21% from 6.24%.

Weekly Mortgage Applications fell again. The index is still at a decent level, but the recent uptick in rates as slowed the improvement.

The Atlanta Fed's GDPNow has slipped back to reality. We knew the +5.4% was probably not going to last, but the current 4.2% is still very strong. While this would be a slight deceleration from the robust 4.3% growth in Q3, the professional guessers still have Q4 growth slated to be only +1%.

➤ International data is getting better (except for China)

Japan's Manufacturing PMI in Jan increased from 50.0 to 51.5.

India's Manufacturing PMI increased from 55 to 55.4. This is still one of the lowest readings over the last three years. But the early seeds of a turnaround are appearing.

Manufacturing PMIs in Europe are improving but they are still generally below the breakeven level.

The RatingDog Manufacturing PMI in China increased to 50.3 in January from 50.1 in December. However, the government's official Manufacturing PMI fell below the breakeven to 49.3 from 50.1. the official Services PMI fell similarly (50.2 to 49.4).

In China, 19 of 26 provinces have lowered their growth targets for 2026. The "around 5%" growth target for the communists is going to be lowered to 4.5% most likely (down from "around 5%" in 2025).

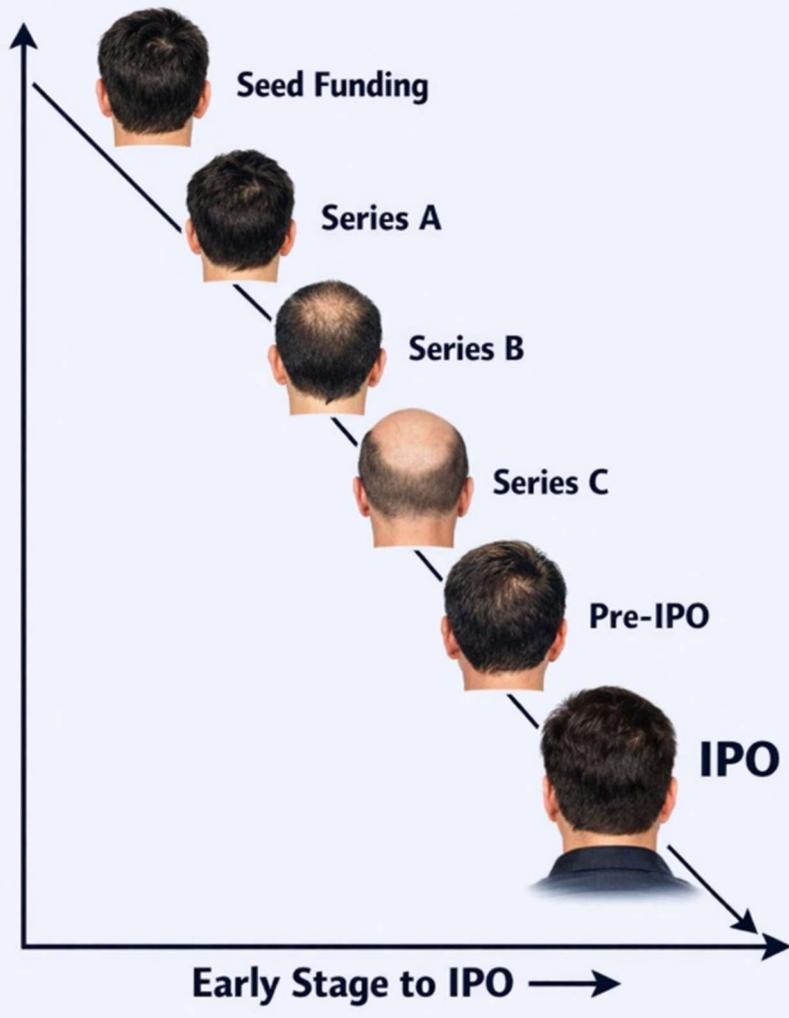
➤ Where did all the crypto money go?

Crypto, just like Jon Krakauer wrote, has disappeared Into Thin Air. But that has not stopped the thieves from trying to steal what is left. This past week, two teens (under 18) in Scottsdale posed as delivery drivers and tried to con their way into a home. When it was obvious they were not real delivery drivers, they forced their way inside. They duct-taped and "assaulted" the homeowners in an attempt to get access to their crypto wallet. Somehow, TMZ is reporting that the victims have \$66mm worth of crypto (maybe \$33mm now). But the attack was foiled when a child in another room called the police. The weird twist is that apparently the teens were extorted into committing this crime by two men only known as "Red" and "8." This is a developing story. We doubt it will reach the levels of the abduction of the Italian tourist on the streets of Greenwich Village, but it might come close.

➤ Chart Crime of the week

We are not quite sure what this one means. Perhaps the idea is that the most stressful part of a start-up is the middle years? But what is the Y-axis and why the downward slope? We'd guess that maybe the Hims & Hers IPO followed this pattern but not many others.

## Startup Founder Hairline at Different Funding Levels



### ➤ Quick Hits

- As of Feb 1, 95% of Lake Erie is frozen over.
- Update: The San Francisco initiative to establish a reparations fund for black residents has received \$0 in private funding. By mandate, it will receive \$0 public funding.
- Land-use regulation in Housing accounts for about 40% of the productivity gap between construction vs the rest of the economy.
- The winter Olympics are considering adding “cyclocross” and cross-country running because of “global warming.”
- Microsoft data tells us that white collar workers are digitally interrupted (emails/instant messages/chats/etc) at work every two minutes.
- Minute Maid (Coca Cola) is discontinuing its line of frozen juice concentrates after 80 years.
- The former CEO of Citigroup has pledged \$120mm to the Vet school at UC-Davis. Their dog received cancer treatment at the school’s hospital in 2018. The dog did not survive.

- Of the 389 billionaires who have died since 2015, six were in helicopter crashes.
- According to X, baby stingrays look like aliens trapped in ravioli.
- The world's largest flower has finally bloomed after a decade in the making. It is the Rafflesia in Indonesia.
- There is a website dedicated to the countdown of McDonald's McNugget-Caviar release.
- On Feb 1, Orlando (24 degrees) was colder than Juneau (33).
- The US has the largest wild sea scallop industry in the world.
- Most of the scallops eaten in the US are imported.

**TSLAQ:** It turns out the rumors were partially correct: SpaceX is buying xAI. The new conglomerate will seek to list an IPO valuing the company around \$1.25t. The fundamental thinking around the merger...other than to extend a lifeline to xAI which is hemorrhaging money...is to put the xAI data centers into space. The "infinite access" to solar energy has a similar ring as "infinite profits" from humanoids.

As for the old, boring car company, Tesla's hidden door handles have been banned in China for safety reasons.

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