Weekly Update

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Carlisle C. Wysong, CFA
Managing Partner

- The soft-landing is back
- Commodities are catching up
- Earnings start off strong with the big banks
- Inflation is still cooling, but this might be changing soon
- New Housing actually slows, sorta
- Other economic data is weakening
- International data continues to soften
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week
- We appear to be having some website difficulties while we are on vacation…bear with us!

	Last	5d %	YTD %	1yr %
S&P 500	4,566	2.1%	19.8%	21.1%
QQQ	$385.65	3.4%	45.3%	34.2%
US 10 YR	3.75%	3.86%	3.75%	3.03%
USD/DXY	100.3	100.5	104.5	107.1
VIX	13.8%	13.5%	22.9%	23.9%
Oil	$75.35	-2.0%	-6.1%	-27.7%

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

The no-inflation/soft-landing narrative is back driving this market. Even commodities are back in vogue as they are naturally tied to the economic cycle. Of course, agricultural commodities are getting an additional boost from renewed and heightened tensions in (the) Ukraine. But one would think oil would be sputtering under the weight of the buckling Chinese economy. More half-baked stimulus measures are doing nothing for an economy faltering under sever communist direction. We are long oil stocks, so we are not complaining. But we expected more weakness (because of China) before the tight supply constraints around the globe took hold. But travel data continues to surprise to the upside. And with our base case for a mild recession only, perhaps oil has found its footing already (not to mention the US has to buy back the 180+mm barrels it sold to suppress the price at the pump going into the 2022 elections).

Do not confuse this mildly optimistic take for bullishness. We still think the leaders of the market are overvalued (that is not to say valuation is a good starting point…it rarely is). The crazy short squeezes in the unprofitable junk are seemingly never-ending. But short squeezes are usually contrarian indicators - not cause for celebration. And oh yeah, Artificial intelligence is still a catalyst whenever it is uttered despite being almost entirely mythical at this stage. As we have been saying, we do not want to fight this nonsensical momentum. But we do want to be long segments of the market that have their own momentum for all the right reasons (facts over fiction).

- Earnings start off strong with the big banks

The mega banks have kicked off the earnings season in fine fashion. As has been our contention, large banks stand to gain market share without the commensurate loss in margin. This is exactly what we have seen from the likes of JP Morgan and the rest. The regional banks are showing that their deposit base is more flighty and thus more expensive. And the regional banks are the ones holding 80% of the commercial real estate debt, so they are the likely losers when these ticking time bombs get detonated.

- Inflation is still cooling, but this might be changing soon

Producer Prices (PPI inflation – wholesale and/or input prices) moved back into positive territory in June after a dip into deflation in May. But the move higher was less than expected. The headline rate is now 0.1% price growth over the last year. The "Core" is higher at 2.4%, but this is down from 2.8% and approaching the Fed's target. Obviously, the Fed is more concerned about consumer prices. But this PPI report is a good one. We do not want rampant deflation (a sign of plummeting demand), but we also need this inflation-leading indicator to be subdued. Of course, we still believe that the upcoming inflation data will not be as sanguine. Prices ar remaining high and the high comparison months are dropping out of the calculations (so it will appear as though inflation is reaccelerating again).

- New Housing actually slows, sorta

The New Housing data slowed in June. Starts and Permits both went negative on the month. But to be fair, this preliminary June data is just a step back from the booming May data. The central theme remains intact: Supply is low. This might not be enough to sustain the strong housing stocks, but it bodes well for one of the few bright spots in the economy.

- Other economic data is weakening

Industrial Production in June was negative for the second month in a row. This comes after strength during the first four months of the year.

Retail Sales in June slows to just 0.2% growth (not adjusted for inflation). This is down from January's spike higher of 2.8% which happened to be one of the biggest monthly increases ever (ex the Virus Fear gyrations).

Empire Manufacturing fell to just above the breakeven level (but better than expected)

CU Michigan's Consumer Sentiment for July (this is the preliminary release, like other data sources, they, too have multiple releases with revisions etc) improved. This one follows inflation, so it is not too surprising to see sentiment tick higher.

- International data continues to soften

Euro Area Industrial Production fell 2.2% in May.

UK inflation slowed to just 7.9%.

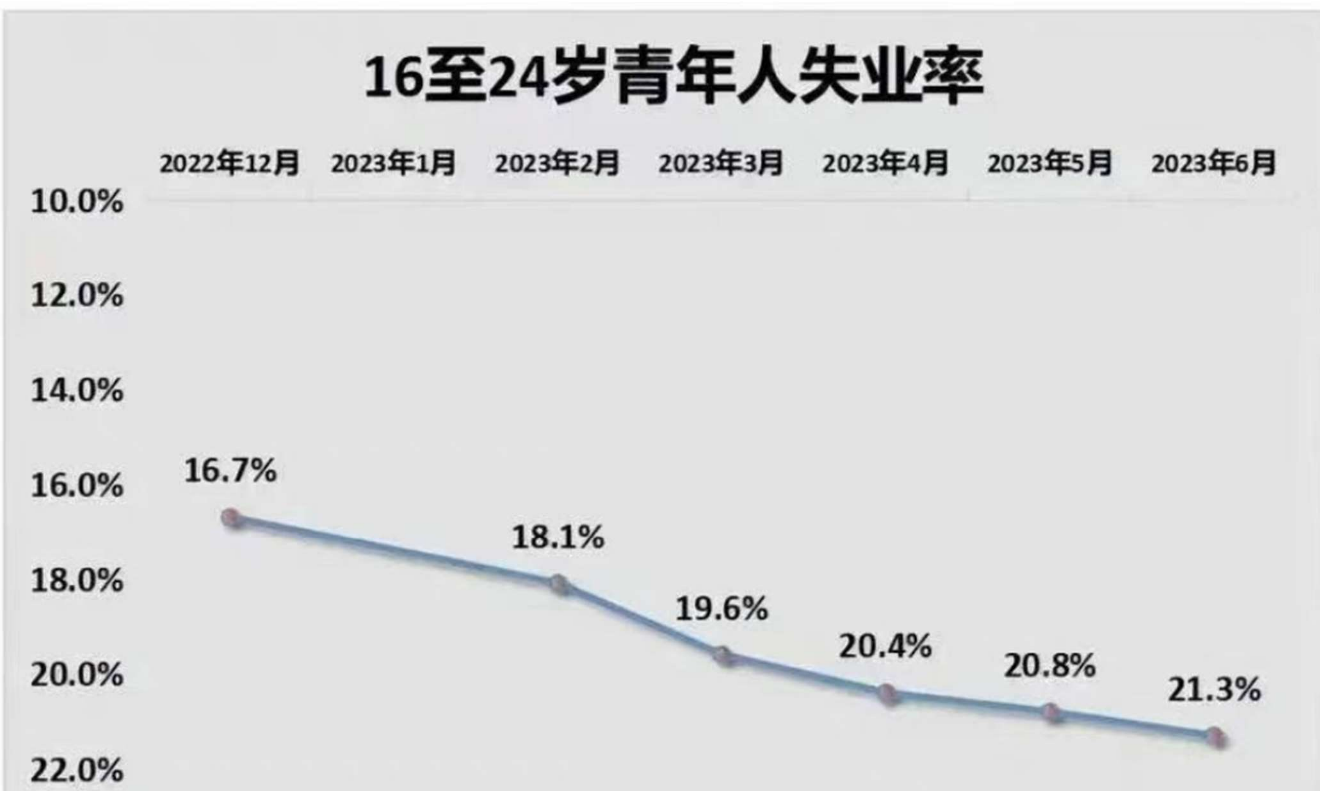
Chinese data continues to point towards a global slowdown. Its trade surplus is down sharply because of falling exports – lower global demand for its junk. Exports fell 12.4% in June vs last year. This is an acceleration (to the downside) from May's 7.5% drop. Imports sank 6.9% after a 4.5% drop in May. 2Q GDP only increased 0.8% compared to 1Q. Growth was 6.3% compared to last year's 2Q, but this was short of expectations. And growing versus a locked down economy is not particularly relevant. Retail Sales increased 3.1% in June vs last year. This is down from May's 12.7% increase. Industrial Production actually ticked higher on the month.

- Where did all the crypto money go?

The DOJ filed multiple charges against the bankrupt crypto platform (not an exchange!) Celsius and its founder. The laundry list of crimes is long. But one of the more ridiculous ones includes promoting the 18% yielding deposit account as riskless. Of course, not only did the company not pay depositors the 18%, but they took the money, gambled with it, and blew it all. The company has settled with the government for $4.7b (criminal charges still ongoing). Laughably, the company says the settlement will not affect its current chapter 11 bankruptcy proceeding. Yes, they want you to believe that the company can dig up $4.7b out of thin air and keep operating as a solvent entity.

- Chart Crime of the week

We always say you cannot trust Chinese data. But we do say the direction of the data is somewhat reliable. Well, the Chinese are now onto us! Below is a chart of youth unemployment in China. See, it is going down! (Be sure to check out the ordering of the y-axis.)



- Quick Hits

- In order to conserve energy, Finland is encouraging residents to only take saunas when the wind is blowing.
- Taylor Swift has four albums in the Billboard top 10 currently. Prince holds the record with five albums in the top 10 back in 2016 (after his death).
- Taylor Swift has had 12 number 1 albums. This is the most by a female. The Beatles hold the record with 19.
- Crazy Cathie Wood's (aka The Woodchipper) ARK has written down its private investment in Twitter by 47%.

Trading: We continue to add to our longs in Japan and India. We have trimmed some of our defensive positioning to fund these purchases. This means we are keeping our cash position at a high level. We still do not want to fight the rally, so we are adding even less to our short exposures (we even cut some losses on some positions that just keep rolling…namely in the short squeeze stocks). We added to some of our newer long names. These include banking, health care (growth, we have trimmed some of our more defensive health care exposure), and real estate. These are all fairly idiosyncratic names. Everyone always says this, ad it is rarely true (the market forces always have the ability to overwhelm fundamentals in the short to medium term)

TSLAQ: Tesla reported earnings largely in line with expectations. Margins continue to compress as revenues push higher. Car companies are particularly sensitive to the laws of supply and demand. Of course, just like our view on the market, we do not see a strong reason to fight the Tesla bulls. Maybe when its "Full Self Driving" is debunked for being nothing other than blind spot monitoring might the car company start being valued as one.

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