Weekly Update

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- Quiet index, more rotations
- AI productivity and cyclical growth continue
- Trump cranks up the populist rhetoric, probably Art of the Deal
- Are Earnings expectations still too low?
- Divergences in Earnings growth
- Are higher interest rates helping equities? (No, but they are not hurting)
- Real Disposable Income Growth is accelerating (for now)
- Inflation is still cooling
- Housing Data is still not going anywhere
- Retail Sales are still good
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week
- The economy is starting off 2026 like this guy

	Last	5d %	YTD %	1yr %
S&P 500	6,940	-0.4%	1.4%	18.0%
QQQ	$621.26	-0.9%	1.2%	20.8%
US 10 YR	4.23%	4.17%	4.17%	4.58%
USD/DXY	99.4	99.1	98.3	109.4
VIX	15.9%	14.5%	15.0%	15.1%
Oil	$59.30	0.3%	3.5%	-23.7%

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

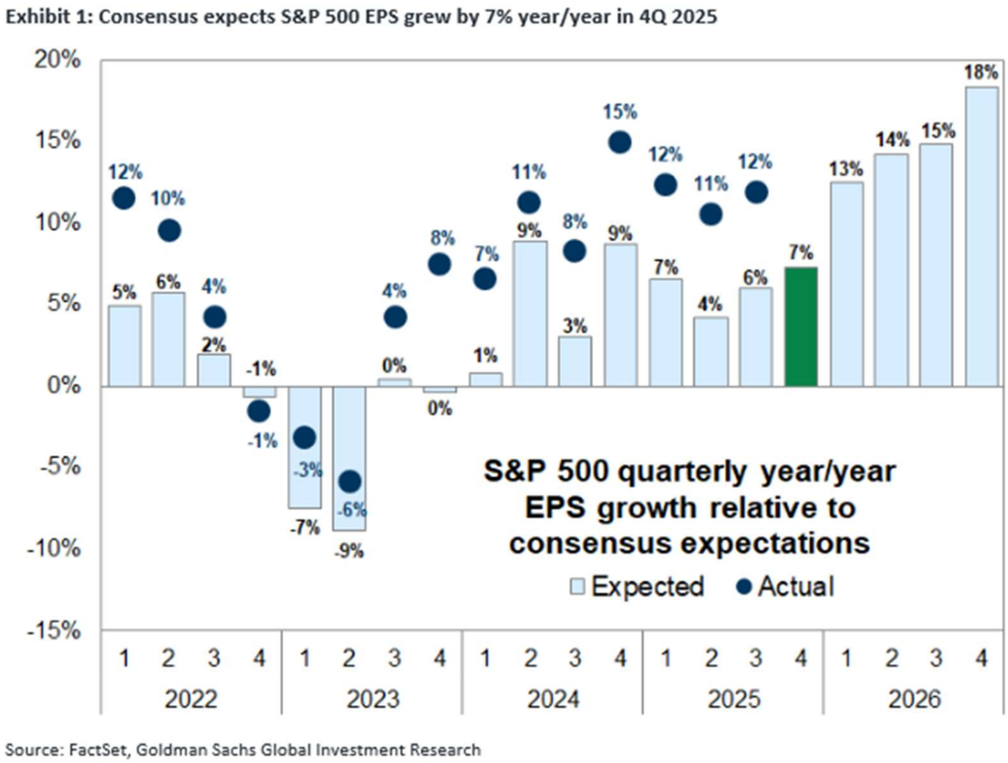
It was another quiet week on the headline index, but there were plenty of headlines and rotations under the surface. The big picture points to the same theme we have been touting: Stronger, more broad economic growth with cooling inflation. And this growth still overlaps among Artificial Intelligence and traditionally cyclical sectors. On the AI front, Taiwan Semiconductor (TSM) reported great earnings and boosted its forecast over the foreseeable future. As we have said many times, TSM sits at the center of the AI universe (more so than Nvidia now…which is saying a lot). The rotation out of software continues. Anthropic (one of the leaders in creating AI for businesses) is using its Claude Code engine to write code to improve its Claude Code engine. And the economic data supports the cyclical acceleration: Strong Retail Sales, strong Real Disposable Income growth, and cooling inflation are the headliners. Even the flakey business surveys are showing improved sentiment (on top of the strong spending).

But with this growth comes the anomalous softening in Employment. Citigroup is looking to cut 1,000 jobs this week. Blackrock is going to cut 250 jobs. Meta is cutting 10% of its virtual reality staff…but they are reallocating the resources to its AI division! Saks, which also owns Neiman Marcus and Bergdorf Goodman, is filing for bankruptcy (Chapter 11, so it is not going away, but it will surely be a leaner company). None of these numbers are huge. And Jobs are still being created across the economy. But there are patches of softness.

We also have the Trump factor. He has really cranked up the populist rhetoric in the early days of the year. But we still think this is mostly bluster and is just the first step in the Art of the Deal. We doubt credit card interest rates will ever be capped (Congress will never do this as it would only serve to remove credit from lower income individuals). But it might help with legislation aimed at reducing credit card swipe fees. Another big focus is electricity prices. We think Trump is on the right path potentially making the hyperscalers build and/or buy their own electricity for their data centers. We are still waiting to see what Trump says in Davos about Housing. But there are reports that he wants people to be able to withdraw money from their retirement plans to use on a downpayment for a house. There are plenty of details to work out here…and plenty of landmines. More broadly in politics, Congress did pass three more appropriations bills. Six more to go before the Jan 31 deadline. Internationally, temperatures in Iran have cooled which knocked oil prices back down. Russia and (the) Ukraine are nowhere near a peace deal (positive for defense companies). And China may or may not allow Nvidia's chips in the country. Getting the green light would obviously be good for Nvidia, but it would also likely boost Chinese growth. We expect it to happen. It is probably not a coincidence that Trump has cooled the rhetoric on restricting minerals and other commodity trading.

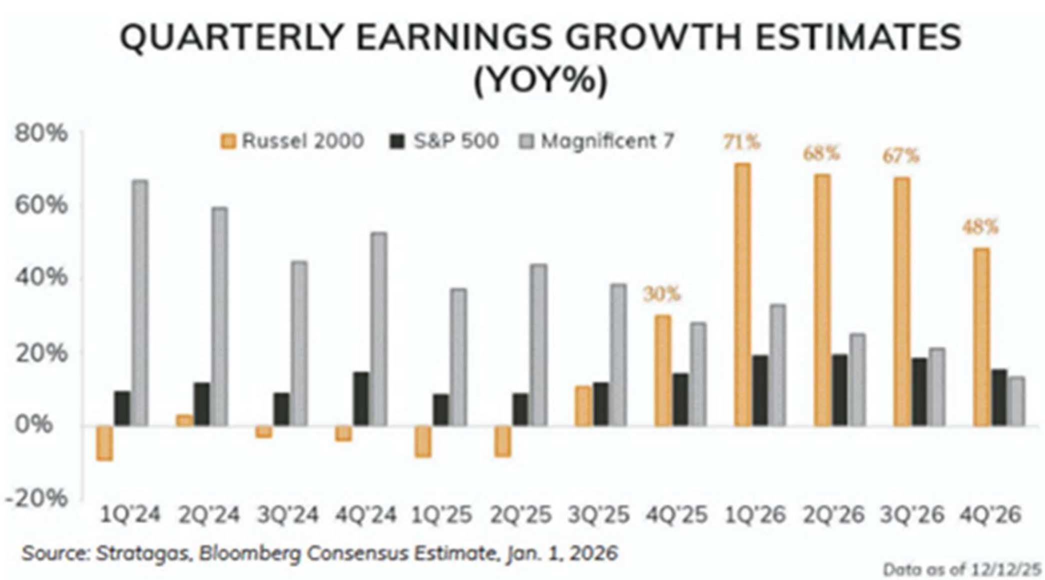
- Are Earnings expectations still too low?

One of the themes of 2025 was that analyst estimates were routinely too low. Actually, this is a longer-term trend. Even when Earnings fall, the expectation is worse than reality. But it is worth noting that pinning down expectations can be more of an art than science. For example, Refinitiv shows 4Q expectations sit at +9.0% (the +7% below is form FactSet). We think this provides another tailwind to equities in the medium-term (notwithstanding the mixed reactions to strong Earnings reports so far…we would say this is typical of the early-reporters including Financials).



➢ Divergences in Earnings growth

Here is a different perspective on Earnings growth (h/t John Mauldin). It supports our view that there will be more broad-based growth. Small-cap growth bursts higher. The 500 largest companies grind higher. And the giant Mag-7 stocks show a slow-bleed lower. Rate of Change matters!



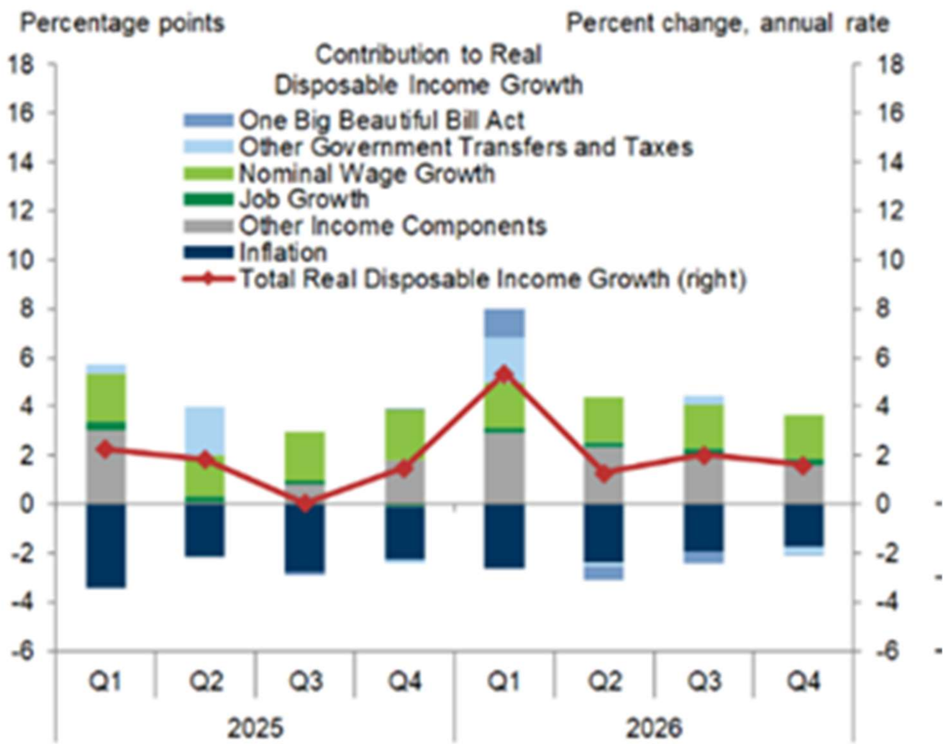
Source: David Bahnsen

➢ Are higher interest rates helping equities?

Not exactly. But higher interest rates are not hurting equities, either. Expectations for a Fed rate cut in March have fallen from about 53% a month ago to about 20% now. Naturally, the 2-year Treasury rate has moved from 3.44% to 3.59% in the last couple of weeks. The 10-year has also started moving higher. But the pace of these movements has been very slow and deliberate. This can be seen in the MOVE index which measures Treasury volatility (across four different maturities). It is sharp, violent moves in rates that shock the system. Equities cannot withstand this disruption. But a smooth and orderly move higher does not derail the growth narrative (even with the Fed maybe not cutting as much because this means the economy is on better footing).

➢ Real Disposable Income Growth is accelerating (for now)

We have written endlessly about the accelerating economy early in 2026. Goldman breaks down the sources of income growth. Government stimulus and tax relief drive a lot of the increase. Clearly, this is composed of some one-offs. Goldman expects this growth trend to normalize in the rest of the year. We think there is upside to their estimates via enhanced productivity.



- Inflation is still cooling

The Consumer Price index (CPI inflation) increased +0.3% in December vs November as expected. The "Core" increased at a slower rate +0.2%. The annual headline increased +2.7%. The annual "Core" increased +2.6%. This was slightly better than expected. Shelter was the biggest contributor on the "Core" as prices increased +0.4%. But Rent and OER (Owner's Equivalent Rent, that quirky stat that has you guess the rental value of your home) both only increased +0.3%. This means Hotels and other lodging were the big delta…it increased 3.5% on the month. But the data should not be taken as gospel. Recall that the October data collection (for Shelter) was skipped because of the government shutdown. The last report assumed 0.0% price change! Shelter prices increased +3.2% during 2025. Food was the other big mover (but the Fed does not focus a lot on this "non-Core" category). It increased +0.7%. Food Away from Home and Food at Home both increased +0.7%. Food prices were up 3.1% in 2025. Energy prices increased +0.3%. Looking ahead, the base effects point to more cooling (early months from last year with higher inflation will be dropping out of the annual calculation).

Producer Prices (PPI aka wholesale or input prices) accelerated a bit in November. But the "Core" prices slowed to 0.0%. Just like the CPI data, there is a gap in the collection, so we do not think it is worth much.

- Housing Data is still not going anywhere

New Home Sales were flat in October (yes, October). The annual run-rate is 737k which is just a tick down from September's 738k. These numbers look decent compared to August's 711k…until you realize this was revised down from 800k. Moreover, the October sales took 2.7 months to close (which is longer than usual). Supply reached almost eight months. The median sales price increased 8% vs last year. Volumes have been steady for about three years.

Existing Home Sales increased by +5.1% in December.

Zillow points out that when adjusted for inflation, home values are near a five-year low (all homes, not just New).

Building Permits were flattish in October. Decent Sept and Oct data might be halting the year-long slide in Permits.

The Housing Market Index (aka homebuilder survey) fell a couple of points in January. Oct-Dec showed some modest improvement in sentiment over the awful May-Sept period. Current Sales, six-month Expectations, and Current Traffic all fell. The only bright spot is that the Expectations category is still the highest. But it is now below the breakeven level (52 to 49).

The average 30-yr mortgage rate dropped to 6.18% from 6.25%.

Weekly Mortgage Applications jumped sharply (but this is just a rebound from the Christmas lull).

- Retail Sales are still good

Retail Sales in November increased +0.6% vs October. This was a notable uptick from the -0.1% decline in October. The annual growth remained the same at +3.3%. The Control Group (those items which contribute directly to GDP, the group excludes Food Services, Auto Dealers, Building Materials, and Gas Stations) increased +0.4%. While strong, this was down from the +0.6% move in October (which was revised down from +0.8%). Holiday Sales were the obvious driver of stronger sales. Sporting Goods, Musical Instruments, and Book Stores saw large increases. But General Merchandise and Electronics were weak. The weekly Redbook Retail Sales slowed to +5.7% from +7.1%. This is still a good number.

- Other economic data is positive

Small Business Optimism (NFIB) ticked up slightly in December. I has been steady for about eight months.

The ADP Weekly Employment increased 11.75k. This is the fifth straight week of gains.

Industrial Production in December increased +0.4%. This is the same pace as November. Manufacturing slowed a tick to +0.2% from +0.3%.

The NY Fed’s Empire Manufacturing index for January improved from -3.7 to +7.7.

The Philly Fed’s Manufacturing index for January improved from -8.8 to +12.6. Notably, Prices dipped, New Orders jumped, and Employment sagged. This is the economy in a nutshell!

- Where did all the crypto money go?

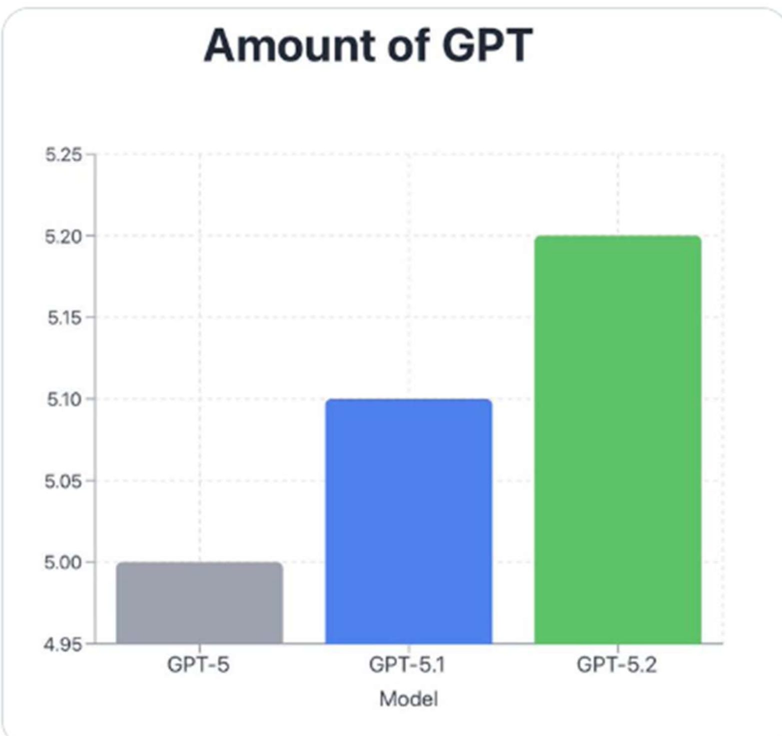
The great Matt Levine highlights a SAPC called M3-Brigade that has gone from looking to buy an energy company to looking to become a Digital Asset Treasury (DAT…that foolhardy notion that crypto should trade at a premium if it is bundled in a public equity). Unfortunately, DAT’s have lost their luster, and nobody wants to pay a premium for a readily attainable commodity. But in M3-Brigade’s case, some investors are on the hook for $750mm…they agreed to the deal back when gobbledygook was in vogue. Importantly, they own private shares/warrants and do not own the common stock of the SPAC. These investors are now buying common stock in the SPAC for the sole purpose to vote *against* the deal closing. They do not want to have to fork over $750mm. And SPAC common shareholders get their money back if the deal does not close (and they can even if it does). However, the company sponsor and its banker have sniffed this out. They, too, are buying shares in the SPAC common. They do not get paid unless the deal closes! The bottom line: Do not buy a Digital Asset Treasury. And always be aware of market participants’s incentives even if cleverly disguised.

Just when you thought silly tokens and meme-coins were a thing of the past, the former may or New York City Eric Adams enters the scene. He created the NYC token…not to be confused with the failed NYC Coin which was issued by Adams back when he was in office. The idea behind the new token is/was to fight "growing antisemitism and anti-Americanism." Noble idea. Of course, there was no plan to fight anything. Immediately upon its launch, the coin surged to a value of $580mm. 30 minutes later, it dropped 88%. What caused the reversal? The NYC Token team said they had to "rebalance the liquidity" which means they stopped buying. Adams is reported to have made $3.3mm personally. Pump and Dump at its ugliest.

Here is a follow-up to one of our favorite crypto name-change / business-change stories. Innovation Beverage – the former beverage distribution company that is turning itself into an oil & gas company to support Bitcoin mining and AI data centers – has received a noncompliance notice from NASDAQ. The company has not held a shareholder meeting since 2024. The company has lost 88% of its value since its IPO in the fall of 2024.

- Chart Crime of the week

This is OpenAI's response to hearing that Claude Code is writing more Claude Code.



- Quick Hits
  - The share of Americans taking a GLP-1 drug (for diabetes or weight loss) has doubled from 6% in May of 2024 to 12% in November of 2025.
  - According to data firm Circana, GLP-1 households spend more money eating out than non-GLP-1 households…25% more!
  - DraftKings just lost a Massachusetts Gaming Commission ruling that forces it to pay out ~$930k in baseball bets to a single bettor. This bettor discovered that DraftKings did not price different "total hits in a playoff series" separately. That is, DraftKings did not think if a player had seven hits in a series, then that same player would definitely have six hits in the series!

- Propane production in the US has almost quintupled in the last 15 years (500k bpd to almost 2.5mm bpd).
- Amazon is suing Saks and trying to stop it from getting new cash. Amazon invested $475mm in Saks when it bought Neiman's.
- Matthew McConaughey has trademarked himself (eight specific trademarks have been approved by the US Patent and Trademark Office…these include short video and audio clips).
- U-Haul has a Growth Index which tracks which cities see the most inbound moving trucks. Dallas, Houston, and Austin were the top three in the country in 2025.
- Stan Kroenke, owner of the Los Angeles Ram, Denver Nuggets, Colorado Avalanche, and Arsenal FC, is now the largest private landowner in the US after buying over 900k acres in New Mexico recently. He owns a total of over 2.7mm acres. This is twice the size of Delaware.
- Part of California's budget to rectify homelessness includes about $10mm a year on alcohol.
- The former mayor of Chicago Lori Lightfoot is being sued by JP Morgan for an unpaid credit card balance of $11k.
- This season the Chicago Bears are 3-3 when down by 10 points or more in the final five minutes of the game. The rest of the NFL is 3-158.
- Kurt Cobain loved Weird Al Yankovic's parody of Smells Like Teen Spirit.
- In a game of chess, there are approximately 10^40 possible board outcomes.
- Puissance means "raise to the power of."
- The Alcohol and Gaming Commission of Ontario has fined FanDuel $350k for failing to identify "match fixing activity" in the Czech Table Tennis Star Series.
- Scientists have determined that people with peanut allergies should "microdose" on peanuts to build up tolerance.
- The Oakland A's, who are moving to Vegas, have been denied the trademarks "Las Vegas Athletics" and "Vegas Athletics." The names were deemed to be too generic.
- Winston Churchill was allowed to drink alcohol in America during Prohibition because he got hit by a car on Fifth Avenue (he looked the wrong way!). His doctor prescribed him alcohol which was a legal exemption in the Volstead Act.
- The Indianapolis Colts ran fake punts on back-to-back plays. After getting the first down on the first fake punt, the Colts left the punt team out there and ran a play. They caught the Texans defense with too many players on the field.
- Trader Joe's tote bags can sell for as much as $10k on eBay in Korea (according to the WSJ, but we are skeptical).

TSLAQ: Right when Tesla's sales have their worst growth ever and people are starting to question the robotaxi dream, Musk takes his new visions and goes a step further. And by further we mean a lot further. When talking about his humanoid robot business (which does not exist other than a few prototypes)), he reiterated that they will "eliminate poverty" and nobody will have to work again. That is all well and good, but investors want to have something more tangible. Right on cue, Musk told them his army of robots could generate " infinite" revenue.

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