Chalk Creek Partners LLC

Registered Investment Advisor

Weekly Update 11-November-2020

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- Market rally continues, manic rotation under the surface
- The labor market is still improving, but the pace is slowing
- Will the Fed covertly create more fiscal stimulus?
- Chart Crime of the week
- Click here for the full note

	Last	5d %	YTD %	1yr %
SPX	3573	3.8%	10.6%	15.7%
QQQ	289.8	1.0%	36.3%	44.2%
US 10 YR	0.98%	0.77%	1.88%	1.91%
VIX	23.5%	29.6%	13.8%	12.7%
Oil	41.63	6.6%	-32.1%	-27.1%

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

The post-election rally turned into a vaccine rally as Pfizer announced major progress towards its vaccine (not to mention progress by Eli Lilly on its virus treatment). This quickly shifted the market from rally mode to rotation mode. All the recent winners were sold aggressively. This included the Work-From-Home names as well as the "long duration" Big Tech stocks. Collectively, the concentrated Momentum factor fell 20% on Monday which is the worst single day of performance ever (since it has been tracked since 1999). The beneficiaries of the rotation can broadly be described as Recovery or Value stocks. This latter bucket was obviously all the recent laggards. Some were obvious moves like the travel and hotel names. Other large movers were in the financials and non-delivery consumer retailers. But it did not take long for investors to start "buying the dip" on the growth names. Headline Volatility might have compressed massively (30% to 24%, a drop that has only happened three times in the last 18 years), but volatility in the rotations is extreme.

Merrill highlighted the stalling of the rotation as investors voiced the Growth narratives (literally voiced them in conversations with Merrill): Low rates forever, delayed/lighter stimulus, Value is just a short-term trade (aka "rental"), etc. While we believe in the growth names and like to "buy dips," we are wary of the crowdedness in the space. But as usual, we firmly believe in the power of the Fed to create and perpetuate asset bubbles. The high-flying Growth names…aka the long duration assets which thrive in a low-inflation world, are still appealing.

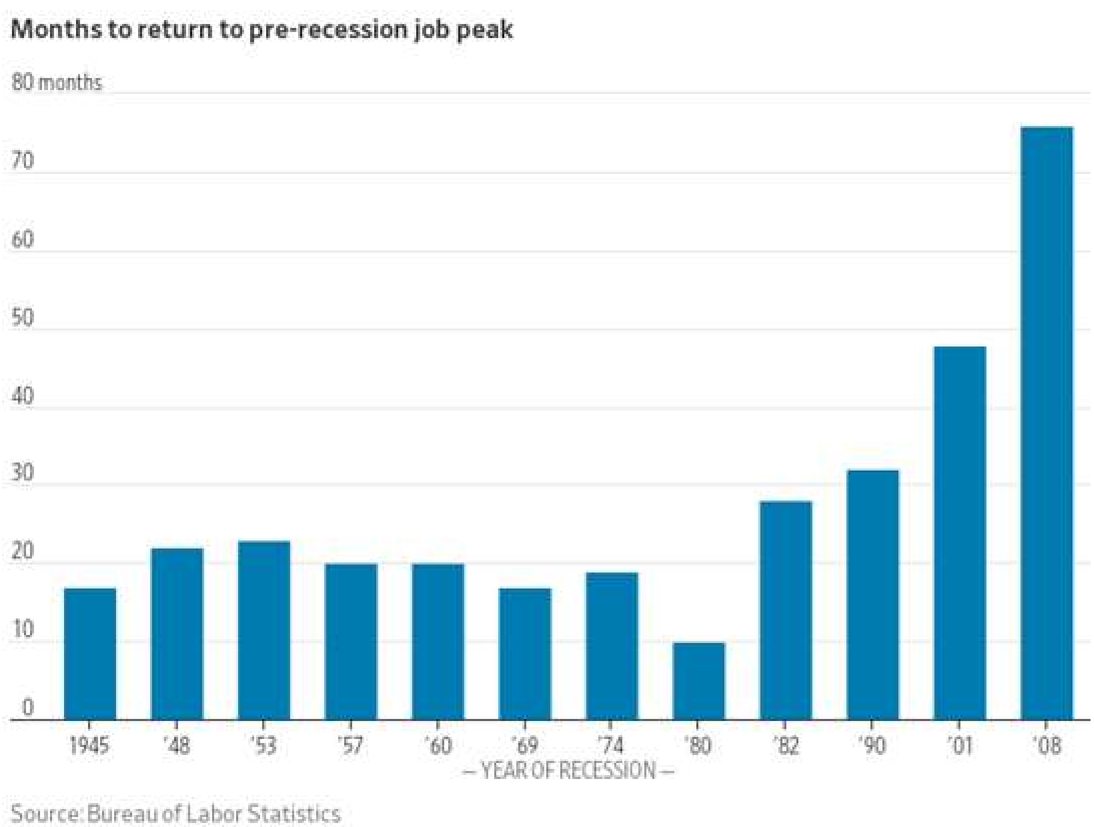
- The labor market is still improving, but the pace is slowing

The Unemployment report for October was slightly better than expected with 638k jobs gained (Non-farm Payrolls). September had +672k. Private Jobs were the surprise factor. The Unemployment Rate dropped to 6.9% from 7.9%. This large drop represents a gain of over 2mm jobs. Recall that these two datapoints – the Non-Farm Payrolls and the UE rate - are gathered from different surveys. The NFP counts jobs – if a person has two jobs this counts as two payrolls. The Unemployment Rate counts the people that have jobs – if a person has two jobs this counts as one person employed. Neither methodology is necessarily better. But the takeaway here is that more unemployed people are finding primary jobs and more employed people are leaving their secondary jobs. This sounds like a good mix to us. And this reverses the trend of more temporary jobs and fewer permanent jobs.

Jobless Claims remained flat at 751k and State Continuing Claims fell from 7.8mm to 7.3mm. This has steadily trended lower from around 12mm in the middle of September. But this data is misleading since half of the reduction in claims is a function of benefits hitting their 26-week maximum. This is why we always refer to the total number of people receiving some sort of benefits. This stands at 21.5mm. While this has been trending lower, it is still a terrible number. Some downplay the 21.5mm number and point to there being *only* 10mm fewer jobs now than in January. But this ignores the economic pain of the self-employed who technically still have their jobs but have suffered.

The JOLTS report (Job Openings and Labor Turnover Survey) showed a slight uptick in Job Openings in September. Hiring dipped but so did Layoffs. Private data from ZipRecruiter showed online job postings almost back to February levels.

This chart sums up our concerns about the labor market. Recessions usually do not heal quickly.

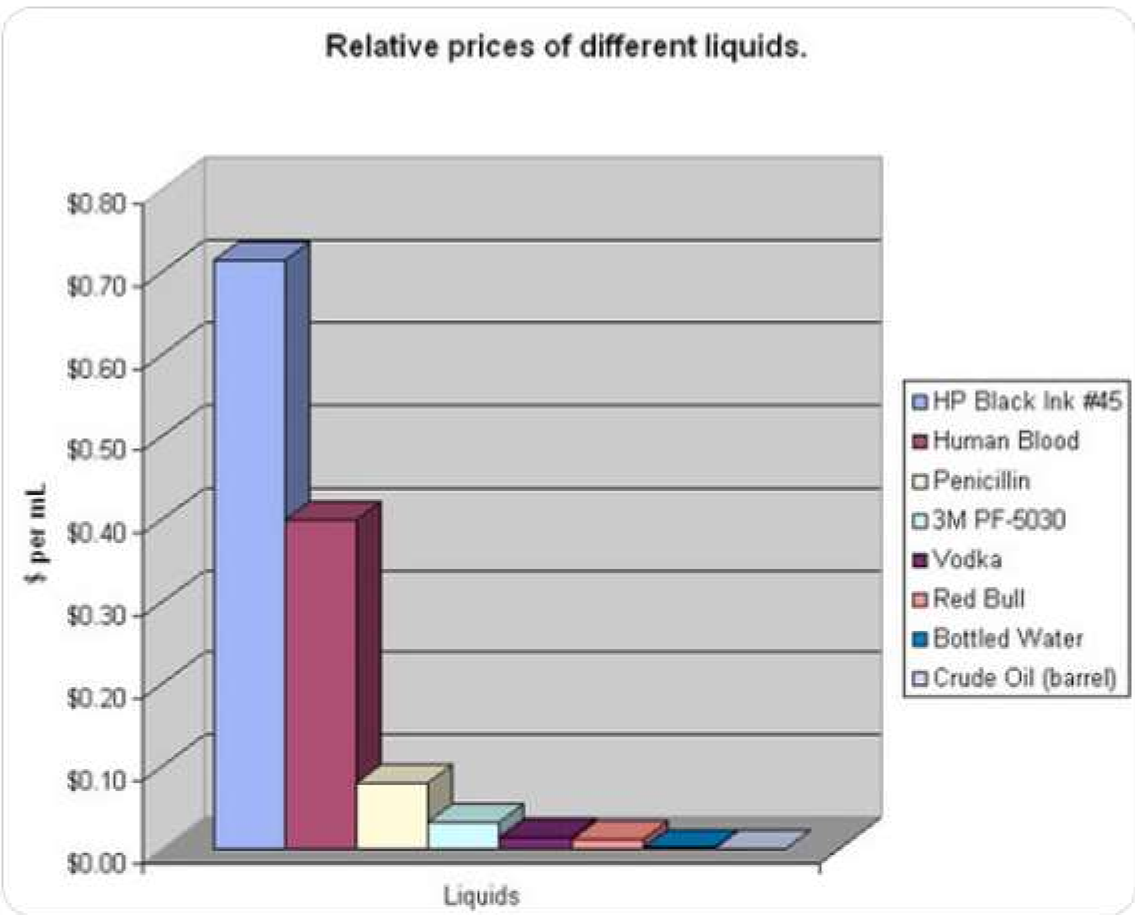


- ➢ Will the Fed covertly create more fiscal stimulus?

The Fed Open Market Committee (FOMC) kept interest rates unchanged. This certainly is not news. But the Fed did keep up its urging of congress for more fiscal measures (stimulus/handouts) while not announcing any new monetary policy mechanisms of its own. To ameliorate this conflict (wanting something it cannot legally do), there is growing speculation that the Fed will increase its lending programs in lieu of new congressional spending. But with many of its current lending programs meant to be more of a backstop signal, incentives and motivations could get skewed quickly with the Fed deciding who to help directly. Ultimately, these programs always benefit the large entities (be they in the private sector or local governments) and further promote asset inflation. They do little to help the small businesses that have suffered the most. We still expect the K-shaped recovery (rich get richer).

- Chart Crime of the week

We can sympathize with the outrageous cost of printer ink. And it this is not really a crime insomuch as it is just silly and pointless. Nonetheless, it is worth making fun of:



- Quick Hits
  - Costco is dropping a brand of coconut milk because of allegations of forced monkey labor.
  - Turkey's president Erdogan fired his finance minister who happens to be his son-in-law.
  - Beyond Meat announced it was a co-creator of McDonald's McPlant. MCD said it "crafted McPlant exclusively for McDonald's, by McDonald's."
  - The Pfizer vaccine must be stored and transported at -94 degrees. It goes bad in five days after thawing.

- The CDC recommends bringing your own plates and utensils to Thanksgiving dinner.
- Tiger Woods picked sushi and fajitas as his Masters Champion's Dinner.

Trading: We used the post-election and potential vaccine strength to trim some longs. The names we sold were the ones we think will not be cured overnight by a vaccine or a stimulus. This include some of the financials and leisure-related names. But we also added to some of our Value names that did not participate as much as the other names (Energy and Staples…not exactly traditional Value but defensive). The performance differential probably rests in the short interest. (The really hated names had sharp short covering as a risk management exercise. These names will likely come back under fire.) We also used some of the weakness in Growth to add to these names. Our weighting towards Value had increased recently, so we are happy to balance this back closer to a neutral stance. We would be inclined to reduce our Value weight even more, but reports like the Merrill one mentioned above give us pause. That is, we would rather be contrarian in the face of uncertainty rather than blindly go along for the ride.

TSLAQ: Not much to report here. Tesla has been extremely quiet with all the other noise in the market. Its Volatility has compressed which might make for a good opportunity to buy more Puts. We usually do not act without concrete datapoints, but it seems that Honda and Google's Waymo are making great strides in the "Self-Driving" arena. Given Musk said Tesla will have 1mm "robotaxis on the road in 2020," perhaps the market starts to realize he is full of it and the other market players have passed them by?

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