Weekly Update

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- Sell the bounce
- Foreign investors in Russia are being wiped out
- Positioning is still stretched
- Durable Goods continue to steam ahead (confoundingly)
- New Home Sales ok, Existing Sales are slowing, we are still skeptical
- Inflation keeps going
- Business Surveys (PMIs) improve as expected (head fake?)
- The market thinks the Fed is slowing its tightening, but we heard differently
- Russian oil (demand) is evaporating, OPEC is trying to pump
- Quick Hits
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	4,387	3.8%	-8.0%	13.9%
QQQ	$347.22	5.4%	-12.7%	7.8%
US 10 YR	1.88%	2.00%	1.51%	1.49%
USD/DXY	97.4	95.8	96.0	91.0
VIX	30.7%	31.0%	17.2%	26.7%
Oil	$92.25	20.1%	47.1%	85.1%

The S&P's 3.8% rally over the last five days is more than a little misleading. It was another wild ride with Volatility remaining elevated. Of course, everyone in the market is a geopolitical expert now. This always happens, and everyone always seems to get it wrong. But in this case, we do not think it matters too much. That is, the Fed has set the table for rate hikes and a slowing economy. Whether the situation in Ukraine proves transitory will only impact the degree to which things get worse. Clearly a prolonged war will exacerbate inflationary pressures given Europe's reliance on Russia gas and the agricultural output of the two countries. And supply chain costs will continue to increase as simple things like airspace and shipping lanes are cut off. But even if Putin snaps out of his psychosis and retreats (our unimportant guess is a coup is more likely than this), the global economy is already slowing, and the Fed is intent on slowing it further. The Atlanta Fed's nowcast for Q1 GDP (called GDPNow) is 0.0% which is down from +7% in 4Q2021. That is a slowing economy (rate of change for now, outright soon enough). The market seemingly got some relief today from Jerome Powell of the Federal Reserve. People seemed to think he was easing off the rate hikes during his testimony in front of Congress. We think he did no such thing (more below in our Fed section).

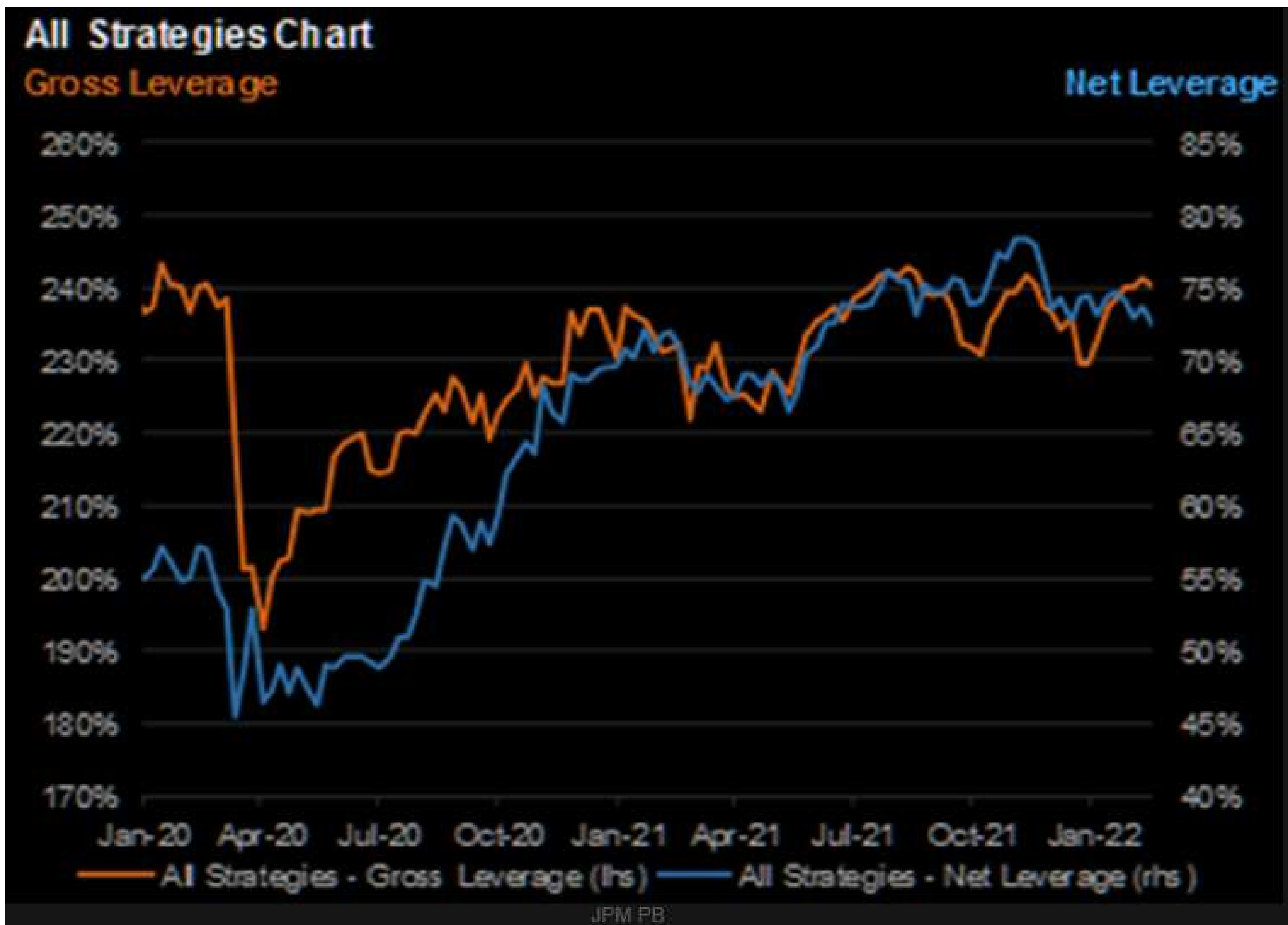
Much debate centers around whether the US and global economies will encounter stagflation (slowing growth with inflation) or deflation (slowing growth with prices dropping). We think it is irrelevant as both environments lead to crappy equity markets. Arguably stagflation is more desirable as there are some winners (Energy jumps out), but it is basically an ass-kicking contest between one-legged fools. For what it is worth, our screens show us that the market leaders are the most heavily shorted. In a reflating economy, this can persist for some time (like 2021 and all the GameStop and AMC mania). But during times of stagflation or impending deflation, short covering should be, well, shorted.

- Foreign investors in Russia are being wiped out

Russian stocks trading in London have collapsed to literally a penny…not a penny on the dollar but a penny. The (London listed) shares of Sberbank, Russia's largest bank, have sank from $14 to $0.01 in 10 days. This 99.9% loss has evaporated $100b in equivalent market capitalization (not all of the shares trade in London, so the company is not worthless…it is just worthless to anyone outside of Russia). And there really is no hope for a rebound because brokers will not allow you to place Buy orders (only short covering). Regime change is the only real hope. And even that might come with a wiping of the slate (foreigners still suffer total losses).

- Positioning is still stretched

Many pundits keep saying that investors have deleveraged, and the pain could be behind us. But the numbers say otherwise. Merrill says its "ownership data" for long-only institutions "shows barely a budge in Tech relative positioning." Also, buybacks in Tech are noticeably absent. They have historically accounted for about 33% of all buybacks. This year, they account for only 2%. This is surely a negative right now, although it could turn into a positive if mgmt. teams started supporting their stocks (buybacks are usually done at the wrong time). The JP Morgan data (below) shows "barely a budge" lower in leverage. The futures data (released by the Chicago Mercantile Exchange/CME) shows that leverage funds have some of the largest long positions I the S&P 500 on record. For what it is worth, Merrill says all client types bought the dip last week led by retail investors. We are not buying the dip.



- Durable Goods continue to steam ahead (confoundingly)

Durable Goods Orders in January showed surprising strength along with an improved revision for December. More importantly, the Core Capital Goods component (aka business spending) increased nicely with an upward revision to December, as well. Most positive data points we have seen in February have been rebounds from omicron dips. But these revisions are telling us that there was no omicron dip for business spending and large purchases. Moreover, this is the data point we keep saying is close to rolling over…but never does. Normally, we would say this is positive. But in this Fed environment, any strong data might push the Fed to be more inclined to hike rates. In theory, the Fed hiking into a strong economy is not the worst thing in the world. But this one strong datapoint notwithstanding, this is not a strong economy. Economic data in the aggregate is softening with Durable Goods being the outlier.

- New Home Sales ok, Existing Sales are slowing, we are still skeptical

New Home Sales for January came in right in line with expectations at 901k (annualized total). This is about the middle of the virus-fear era. Pending Home Sales (for existing homes) fell 5.7% in January vs December. The index level is back down near the bottom of the two-year range. The trend seems to be clearer with Existing Home Sales and Pending Home Sales (Existing) both slumping. Mortgage Applications continue to shrink, as well. New construction is still robust in terms of price and demand while the overall level of construction is still constrained. Ultimately Existing Homes Sales will weigh on new construction. We will remain on the sidelines regarding housing stocks.

- Inflation keeps going higher and higher

The Fed's preferred measure for inflation, the price increase in Personal Consumption Expenditures (PCE), moved higher to 6.1% in January vs last year. The reading in December was a 5.8% increase. And the monthly increase was 0.6% vs 0.4% in December. The "core" inflation, which strips out food and energy, also accelerated to a 5.2% annual gain. The monthly gain was flat at 0.5%. And this data was when oil was $25 lower. We have been noting that future inflation expectations remain anchored. Well, it seems the market is starting to lose a little hope. The inflation expectation for the next five years in the US is 3.23% which is up from 2.75% six weeks ago (it is called the 5-yr breakeven, FYI the FRED data always has breaks in the chart line for holidays…do not ask us why).

- Business Surveys (PMIs) improve as expected (head fake?)

Both the Market Manufacturing PMI and the ISM Manufacturing Index matched expectations and rebounded from their dismal January readings. But the bounces are likely of the dead cat variety. Backlogs were the largest contributor (which read as a positive even though we know they are not) and employment was the largest detractor. This is not music to an ailing economy's ears. And the global PMI has this same trend.

On a related note, Construction Spending remains range-bound at the +1% level (monthly increase). As is now the norm, residential construction led the spending. A new boost to spending was in oil & gas well drilling infrastructure (but still cannot move the needle on oil prices).

China Manufacturing PMI for February came in right at 50.0, the breakeven level. Remember, the Chinese lie about their economic statistics.

- Other Economic data looks good
  - 4Q2021 GDP was revised a touch higher to 7.0% (quarterly increase annualized).
  - The ADP guess at private payrolls is a gain of 475k jobs. The professional guesser consensus is for 390k. ADP has not been a good predictor mostly because the government numbers keep getting revised higher.
  - Weekly Jobless Claims ticked lower to 232k. The 4-week average is 236k.
  - Chicago Fed National Activity Index showed a nice bump higher in January (another data point seemingly unaffected by omicron). But the Chicago PMI for February had a big miss.
  - KC Fed improves to its best level since May of last year (and another).
  - Weekly Redbook Retail Sales slowed to their slowest level since the spring of 2021 (they are still increasing just not as fast…rate of change is slowing).
  - Consumer Sentiment in February hit another 10-year low. The reasons according to the survey: "Inflation, rising interest rates, falling confidence in government's economic policies, and the most negative long-term prospects for the economy in the past decade." Ugh.

- The market thinks the Fed is slowing its tightening, but we heard differently

Fed chief Powell, in what was surely a first, told Congress he was "inclined to propose a 0.25% rate hike." This was a first in that the Fed never says things so explicitly. When pressed about the basis for this view and what could alter it, he said "Inflation will peak and begin to come down this year." But in the event inflation remains stubbornly high, "we would be prepared to move more aggressively" than a 25bps hike at any meeting. So. it seems that the base case for the Fed is to hike 25bps at every meeting this year (there are seven meetings left this year). And if inflation does not come down, then it will hike more aggressively. Somehow the market took this dovishly…that the Fed will not be as aggressive merely because it will not hike 50bps from the onset later this month (March 16). But considering the market is pricing in only 5-6 hikes this year, we think the message was hawkish (signaling more hikes than expected). Obviously, Powell threw in the caveat about the situation in Russia and its impact on the global economy.

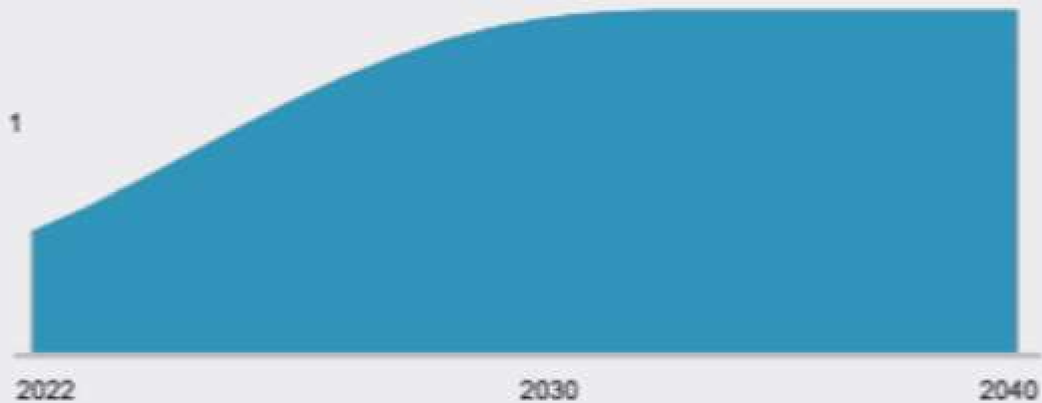
- Russian oil (demand) is evaporating, OPEC is trying to pump

As has been rumored, the US (and some allies) have decided to release more oil from its Strategic Petroleum Reserve. Naturally, oil prices powered to their highest level since 2014. Russian oil is virtually off the market before any sanctions have been levied. Urals (Russian oil) is presently trading at about a $14 discount to Brent (which is about a $3 premium to WTI). But I suspect this is being artificially supported. Goldman says not even China is willing to provide commodity trade financing to the Russians. Obviously there will be rogue nations that will take the oil (Iran jumps out). But with the Russian economy on the verge of collapse, there will not be any money to fund maintenance capex or to even operate the oil companies at all.

OPEC+ reports that the group increased crude production by about 425k barrels per day during February. This is the first time the group (remember when we used to call it OPEC/Rogue? We might have to find a more denigrating name) has increased more than the target (400k bpd). Unsurprisingly, Saudi made up for almost all of the net increase vs January. Nobody else has any space capacity (Iran does and it has been increasing as we have been noting / otherwise it is likely only the UAE that can pump more which it likely will). Surprisingly, Venezuela was able to increase production by 73% vs January. Recall buyers of the sludge were sending it back for being unusable. We suspect this months increase will not be repeated.

- Chart Crime of the week

We are not sure we have ever seen a y-axis with a single number on it! And there is not a lot of detail on those 28 years remaining. Leaves a lot to the imagination, we guess. And oh yeah, this chart is by Chevron - not some youtuber!

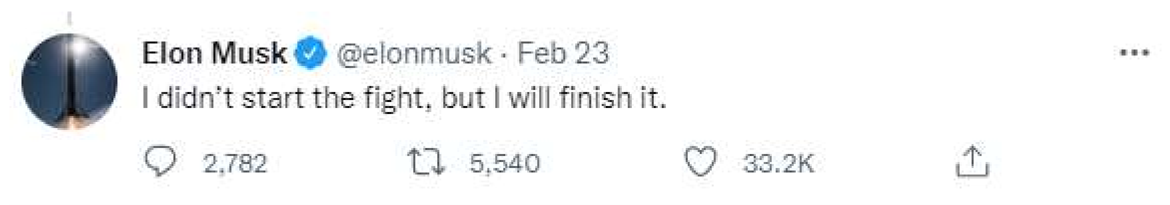


- Quick Hits
  - John Kerry gave an interview on BBC Arabic during which he warned about the emissions consequences of the Ukraine war.
  - Sean Penn is in Ukraine to film a documentary about the Russian invasion. El Chapo was unavailable for comment.
  - Nikola, the EV infamous for rolling a truck down a hill to prove (?) it actually had a product, said it was delivering products, but the financials show it has zero revenues.
  - Tickets for the Duke-UNC basketball game on Saturday are about $5k.
  - Derek Jeter is selling his 4% stake in the Miami Marlins for a loss after eight years.
  - The owner of the Chelsea football team in London, Russian Roman Abramovich, is handing over control of his team to a charitable foundation. No lawyer has been unable to untangle exactly what this means other than superficial politico-signaling.
  - Roman Abramovich, a close Putin ally, has structured his ownership of the Chelsea soccer team whereby he is the biggest creditor to the team. Thus, he effectively cannot be stripped of his ownership without sending the team into bankruptcy.
  - Roman Abramovich's latest super yacht, supposedly his eighth, is 460ft long and cost about $600mm. His previous yacht was 533ft long and cost $1.3b.

- There is a candidate for a school board in Texas that ran as a democrat and a republican. He is ineligible for the general election.
- US paper money had been privately printed before 1862.
- Two cofounders of the BitMEX cryptocurrency derivatives exchange have pleaded guilty to violating anti-money laundering laws.
- Someone has recited 110,700 digits of the number Pi.
- Almost every semiconductor chip has silicon from North Carolina in it.

Trading: We continued to increase our exposure to the safe havens like Gold, Treasuries, and Staples. We also added more Energy. We prefer to buy things on down days, but there are not many down days for these havens and sectors (Staples have been stumbling a bit, actually, because of inflationary fears). We sold a bit of our natural gas exporter-in-the-making only to see the stock rally aggressively. So, we think we will hold on for now. We also sold more of our broad, market exposure. This is more tactical in nature.

TSLAQ: In response to a tweet that read "starting a fight with the SEC is not a great look," Musk tweeted:



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