Weekly Update

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- Market rotation is back (the good kind, for now)
- Option volumes point to trouble, and people are still bullish (or not as bearish)
- Housing is still buckling (except for price)
- Business sentiment is souring but not spending (not yet anyway)
- Has the Fed messaging changed? Nor from what we see
- Oil narratives are swirling, we think it is range-bound
- Quick Hits: More FTX lunacy
- Quick Hits
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	4,027	1.7%	-14.5%	-12.7%
QQQ	$288.82	1.2%	-27.0%	-27.2%
US 10 YR	3.70%	3.70%	1.51%	1.64%
USD/DXY	105.9	106.3	96.0	96.8
VIX	20.4%	24.1%	17.2%	28.6%
Oil	$77.84	-9.0%	3.5%	-0.7%

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

The market is seemingly beginning to separate the wheat from the chaff. Over the last month, the S&P 500 is up about 10%. Junk stocks, we are using ARRK as the ultimate junk proxy as it is loaded with Fantasies and Frauds, is up about 3%. Over the last three months, the broad market is down about 2% while Crazy Cathie, aka the Woodchipper, has lost about 17%. What this division tells us is that people do not really believe the silly "Fed pivot" narrative. If they did, Profitless Tech with infinite duration would be leading the charge higher. Sure, these names can have jaw-dropping rallies in isolation. But the trend is still lower (or towards bankruptcy in many cases). But old economy stocks/companies remain resilient. We think this is somewhat misplaced as the Fed is still hiking rates into a recession. But we understand the rotational aspect of the market (selling junk and buying real companies). This notwithstanding, we think the recent two-day rally is another pivot pipedream which we will fade (sell into). We would rather share a hotel room with Del Griffith during Thanksgiving travel than blindly buy into a market that thinks bad data is good, believes anything China says, and wants to fight the Fed.

- Option volumes point to trouble, and people are still bullish (or not as bearish)

Last week we noted the surge in option trading. What we have learned since then is that options with Zero Days-to-expiry (0-DTE), options that expire that day, now make up about 40% of all option volume. 40%! This only ends one way.

The AAII survey shows that retail investor sentiment jumped to its highest reading of the year after the recent 7.7% CPI print. Of course, bears still outnumber bulls. They now have for 33 weeks in a row which is the second longest streak since this data was created in the mid 80's. The record is 34 weeks from the virus-fear times. Nonetheless, the recent rate of change (bulls increasing) is telling us that investors are not nearly as bearish as the narratives suggest.

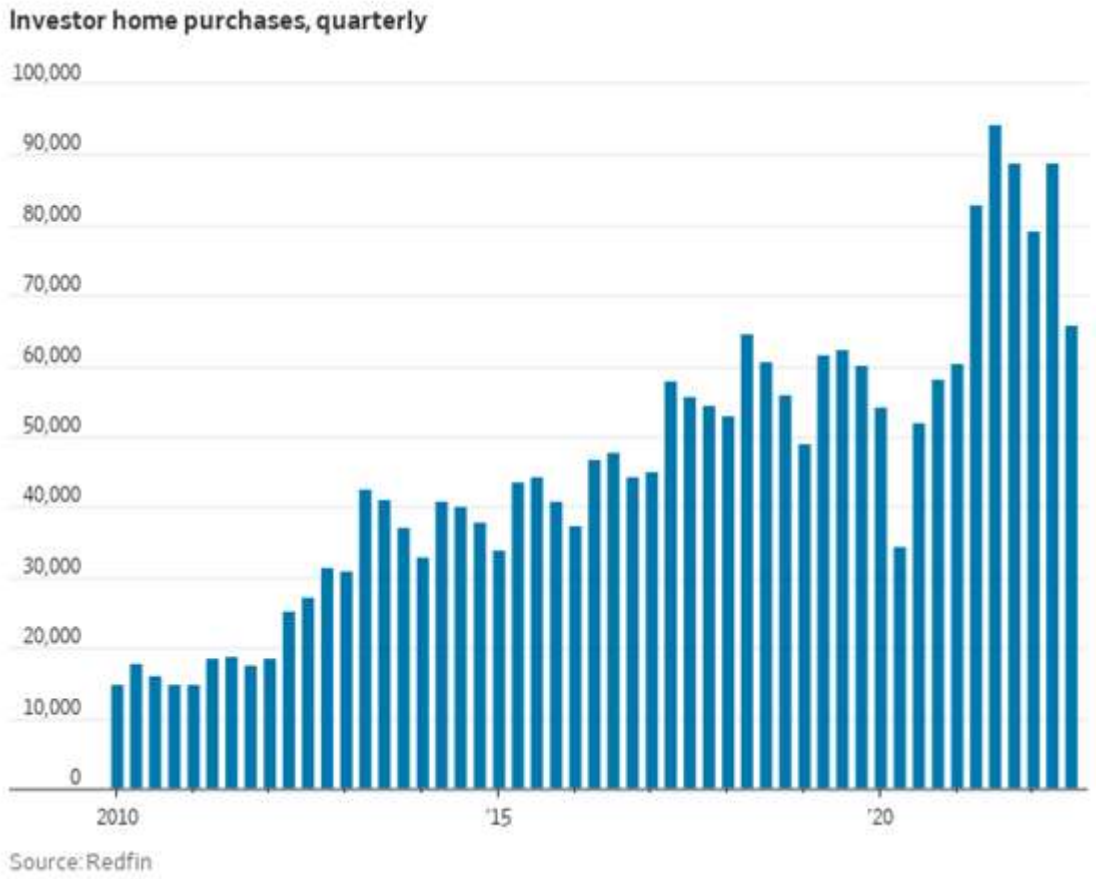
Last week we noted there is often a discrepancy between what investors say in surveys and how they are positioned. Specifically, we noted that investors think being long the USD was a crowded trade (and we did not like that, but we also thought the crowd was wrong for calling it overvalued). But this week's data from the Commodity Futures Trading Commission (aka CFTC, a government agency that regulates derivatives markets) shows us that long positioning in the USD is more than two standard deviations below its one-year average. People are not long the USD!

- Housing is still buckling (except for price)

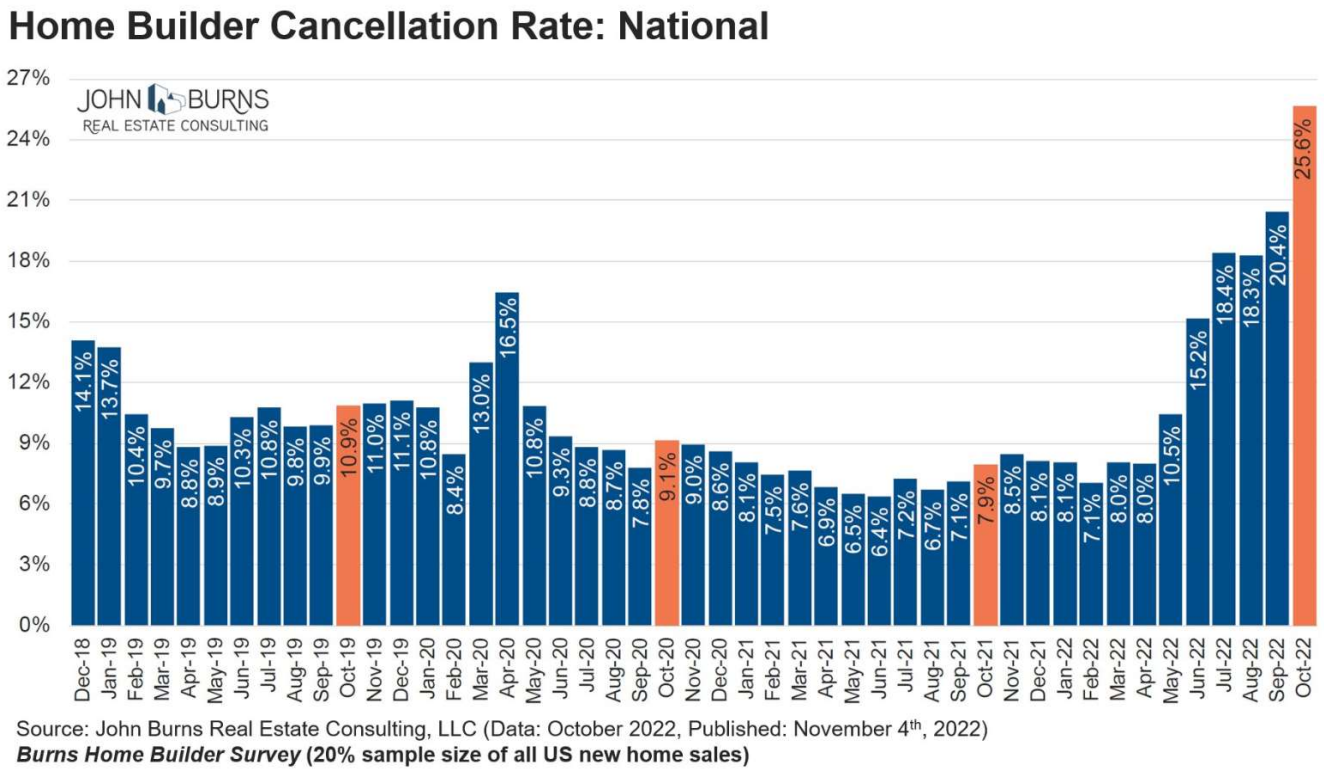
Housing Starts and Permits both dropped in October vs September. The drops were modest. Both remain near the low end of their recent ranges (post initial virus-fear plunge).

Existing Home Sales in October fell again. The drop was about 6% vs September and over 28% vs last year. This was slightly better than expected (the direction and trend are far more important than judging against a one-off average of professional guessers). The supply of homes for sale sits at 1.22mm which equates to about 3.3 months of inventory. Six months is considered in balance (this data does adjust for current sales pace). This constrained supply is keeping prices high as the median price increased 6.6% to just over $379k. The lowest priced homes ($100k to $250k) are experiencing the largest drop in sales. But no bracket is holding up particularly well (the best is $500k-$750k at -21%).

One of the biggest sources of home buying in recent years is starting to evaporate. Home purchases by investors fell 30% in 3Q vs last year. It is still at a relatively high number, but the market will surely miss the new marginal buyer.



We did have two relative bright spots in Housing. New Home Sales in October moved higher. They are still well below the two virus-fear peaks (summer 2020 and Dec 2021). Perhaps there is some stabilization happening? We do not think so. Check at the builder cancellation rate:



Mortgage Applications have been positive for two weeks in a row. But we would caution against thinking this was a rebound in the making given the index level is still near a 25-year low. It will take a long stretch of modest rebounds to get back to normal activity. Below is a comparison of the Mortgage Applications Index and the 30-year Fixed Mortgage rate. Online, the chart is great because it is interactive. Alas, that functionality does not copy and paste well. So, for context, that virus-fear spike higher almost hit 1100. The current reading is 205. The 6-year average from 2014-2019 was about 400.

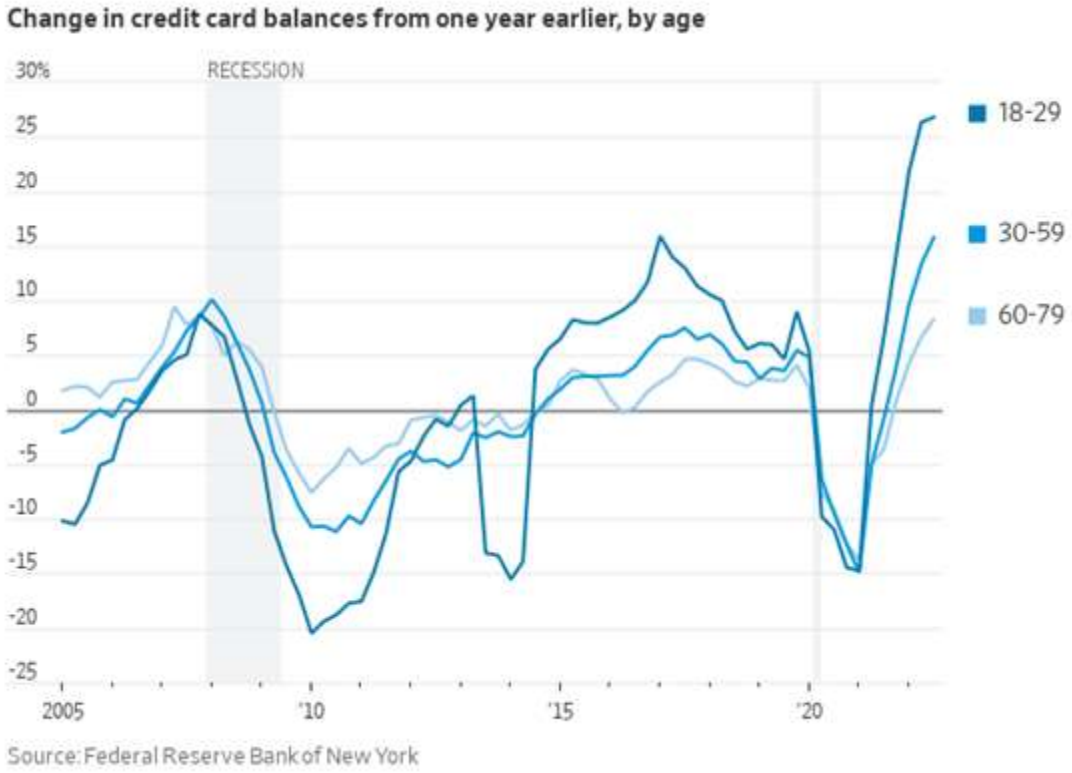
- Business sentiment is souring but not spending (not yet anyway)

Business sentiment is starting to cave. Markit's early (Flash) read on November has the Composite falling by almost two points. The Manufacturing PMI fell into negative territory with an almost three-point drop. Services almost fell two points to remain in negative territory. Of course, the market took this bad news as good news as though the Fed will change its mind after seeing data that it is intending to see!

The Philly Fed Manufacturing Index plunged deeper into negative territory. The Kansas City Fed Manufacturing Index remained at about the same negative level. Chicago Fed National Activity index dropped into negative territory. The Richmond Fed stayed deeply negative.

Durable Goods Orders for October exhibited ok growth at 1%. The important Core Capital Goods, aka business spending, jumped by the most compared to last month. It went from -0.7% in September to +0.7% in October. We noted recently that this data is not adjusted for inflation. But this October pace is outstripping price moves.

- Other economic data is not getting better
  - E-commerce Retail Sales for Q3 showed an increase of 3% vs Q2. This is obviously old data. And It is not adjusted for inflation.
  - U Michigan's Consumer Sentiment remains near the wallowing lows of the last 65 years.
  - Leading Economic Indicators (leading but already known) for October dropped 0.8%. This is the sharpest drop since the heart of the virus-fear (April 2020). This is the 8th monthly drop in a row. This is the longest stretch since the housing crisis (WFC).
  - We have been warning about increased credit card usage/balances/delinquencies. Unsurprisingly, it is the younger cohort that is setting themselves up for failure.



- Has the Fed messaging changed? Not from what we see

Part of the recent rally has been driven by a perceived change in language from Fed speakers. We honestly do not know from where the pundits or traders get this nonsense. The ongoing message is that rate hikes will be small. This is not new. More to the point, the ultimate level will be higher and last for longer!

Jim Bullard of the St. Louis Fed is really dropping the hammer on the pivot people. He thinks rates need to go to at least the 5-5.25% range (current target rate range is 3.75%-4.00%). He said current monetary policy had only "limited effects on observed inflation." He concluded by adding that rates might have to go to 7% under "stricter assumptions." The pivot is higher?! Some discount Bullard because he has been on the extreme end of the hawkish scale. But he has also been dead right.

- Oil narratives are swirling, we think it is range-bound

The biggest unknown story in energy over the last couple of weeks has been the pipeline problems in Texas. Shell's Zydeco pipeline network in the Houston area is down for maintenance. While other specific grades of crude along the Gulf Coast surged in price, West Texas Intermediate futures are under pressure. It is complicated, but essentially traders had some calendar trades that are being forced to be unwound because new supply is being sent to Cushing for storage (instead of being bought right now). In other words, it is another technical quirk in the oil market which should be alleviated with some time.

On top of this, Russia is dumping oil frantically ahead of more sanctions. Apparently, there is an additional 25mm barrels of oil at sea waiting for a home. Of course, the new sanctions will likely be more of the same…a toothless gesture. This is certainly true of the "price cap" that the non-economists are trying to implement. And as we have noted, the 0-covid rollback has reversed back into full force. This is a huge suck on global demand.

Somebody started the baseless rumor that Saudi Arabia was going to boost production in December. Never mind that Saudi is going to *cut* production starting in December. And Saudi did officially deny the rumor and reiterated its current goal of cutting production throughout 2023.

Goldman Sachs tries to quantify these moving parts. They think China's demand has dropped about 1.2mm barrels per day. Russia has been dumping an extra 300k bpd. But the market is discounting a change of 2mm bpd (obviously a GS estimate).

Given our baseline economic forecast is one of malaise rather than a deep recession, we still think the tight spare capacity will overcome weakened demand. And going back to Russia, we expect its infrastructure to start to have problems without the help of expertise from the West. So even with the Chinese and Indians always ready to buy cheap Russian oil, Russia might have a diminishing capacity.

We have not been playing directly in the oil market, but this range-bounce, narrative-driven trading does provide us signals for trimming and adding to our Energy stock positions (still long, recently trimmed, will be looking to add on more weakness).

- Chart Crime of the week

Back to the lighter side of crimes…

- Quick Hits – More FTX lunacy exposed in the bankruptcy filing
    - FTX did not know how many employees it had
    - FTX's auditor touted its "metaverse office."
    - There was no record keeping of corporate bank accounts
    - Alameda Research, SBF's hedge fund which borrowed customer funds from FTX, lent SBF $1b.
    - FTX bought houses and cars for FTX employees (nothing explicitly wrong with this, but there is no record keeping of the purchases).
    - Veteran short-seller Mark Cohodes exposed the FTX fraud to Bloomberg back in July. Bloomberg declined to run the story.
- Quick Hits
    - Bloomberg published an article this week positing what might happen to Europe if the weather is warmer than expected this winter.

- Another crypto exchange, Gemini, has frozen withdrawals. Ho-hum.
- The CEO of Warner Brothers Discovery said the ad market is worse than the depths of the virus-fear.
- Softbank controller, Masayoshi Son, owes the company $4.7b for bad bets on the company's performance (his net worth is estimated at $30b).
- Beer has been banned at the World Cup stadiums. Budweiser is the official beverage of the World Cup. Alcohol is not banned outright in Qatar.
- There is research that shows hedge fund managers with fancy cars "take on more investment risk but do not deliver higher returns."
- There is another study that shows "mutual fund managers increased allocations to companies manufacturing automobiles they have purchased."
- We drive a 2011 Jeep. We are not long any Stellantis (parent of Chrysler).
- Coinbase does not have a headquarters according to the firm.
- Egypt is trying to cutback its own energy consumption by 15% so it can ship the new excess to Europe.
- The American Railway Association is responsible for the US dividing into four time zones (continental US).
- This year's flu shot was a pretty accurate guess for what this year's flu strain would be. Unfortunately, this year's flu shot is not working against the flu for which it was designed.
- Mt. Gox, the original bitcoin trading platform – also the first bitcoin fraud/scam, stands for Magic The Gathering Online Exchange. Where were the signs?
- The Senate is talking about investigating Ticketmaster's snafu with selling Taylor Swift tickets.

Trades and Tesla will be back next week!

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