Weekly Update

16-Sept-2026

Carlisle C. Wysong, CFA
Managing Partner

- Treasury yields move higher
- Which forces the Fed's hand (with a strong economy)
- AI doomsdayers are protecting their moats
- AI volatility is driving the low implied correlation
- Inflation creeps back as expected
- Retail Sales bounce back
- Quick Hits
- Where did all the crypto/SPAC/Norway/Ponzi money go?
- Chart Crime of the week
- Getting rid of this made inflation go up?

	Last	5d %	YTD %	1yr %
S&P 500	7,552	-1.1%	10.3%	14.3%
QQQ	$704.72	-1.6%	14.7%	19.2%
US 10 YR	5.03%	4.85%	4.17%	4.09%
USD/DXY	100.3	98.8	98.3	96.9
VIX	17.6%	16.5%	15.0%	15.7%
Oil	$102.07	6.3%	78.4%	58.8%

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

The two central themes in the market continue to be the pressure on Treasury yields (higher) and the new-found fear over Artificial Intelligence. The first one is rooted in market-based data; the second one is self-serving political theater. Adding to last week's strong Employment Report, Retails Sales also bounced back strongly in August. More importantly, the August CPI inflation moved markedly higher (as expected). This all but sealed the deal on a Federal Reserve rate hike (moving the target range of the Fed Funds up +0.25% to 3.75%-4.00%). The market had increased the likelihood of this hike from 60% last week to almost 95% before the meeting. We changed our tune along with the market. If Fed Chairman Warsh has been clear on one thing, he wants to listen to the market. With the 2-year Treasury sitting almost a full 1% above the Fed Funds rate, Warsh could follow through on his hawkish rhetoric. Most notably, he does not think that the cooling inflation seen over the summer warrants keeping monetary policy unchanged. We had thought that Warsh wanted to wait until his "task forces" had given him the proper metrics to monitor. But ultimately, we changed our mind when we saw the market making the point to act now (and he has been very quiet on the "task forces"). The market reacted somewhat poorly to the action, but considering the S&P 500 is barely 3% off its all-time high in mid-August while the 2-yr yield has rallied 0.58% (4.16% to 4.74%), we do not think it matters much! With Warsh emphasizing that the economy was doing well, the market took the action in stride (we think it is all rather rational).

The other focal point is not as rational. The "AI is going to kill us all" nonsense being spewed by the AI model makers came to a boil this week. The spewers of the nonsense come in two forms. The companies themselves (OpenAI and Anthropic) who want to put up guardrails that are so strong that newcomers could never compete against them. They also want to make sure that through regulation they do not have any product liability. The other crowd is the politicians who just want to take cheap shots ahead of the midterms. But considering that enterprises are using maybe 5-10% of the current capabilities of the frontier models, any security curbs put in place would be unnoticeable. Jensen Huang (Nvidia CEO) made the case that companies should obviously be responsible for the safety of their own products. "Safety is an engineering problem." Even Mark Zuckerberg chimed in, "every lab has the responsibility and natural market incentive to train safely." When Zuck is the voice of reason, you know the other side of the argument must be quite silly. Ultimately, we still want to be watching the uptake on AI (token usage especially on the Frontier not the cheap Chinese models) and token pricing (there is a huge gap currently…the OpenAI Astra model costs $22/mm tokens while China's DeepSeek charges $0.29/mm tokens).

Random bullet points:

The European Central Bank (ECB) hiked 0.25% as expected. The market expects the ECB to keep hiking.

China bought 1mm tons of US soybeans this week.

Trump is talking about "paying an election dividend."

BofA CEO said the consumer remains resilient despite rising gas prices (again, diesel feeding into food prices). But he sees softness in lending and capital markets (trading). JP Morgan was much more positive across the board.

There have been three large Treasury auctions in the last week: The 10-year auction was good, 30-year auction was strong, and the 20-year auction was bad.

For all the talk about the Treasury buyback of notes and bonds, it only bought back $5.2b of the maximum $6b. Some thought this was weak, others thought it showed Treasury was being selective. We do not think it matters much until (if) they increase the size to something meaningful.

OpenAI is pushing back its IPO. With Anthropic saying it is making operating profits now (this does not follow GAAP reporting…not even close), no wonder OpenAI wants to keep its books concealed for a bit longer.

The average professional guesser is slowly raising his guess for Q3 GDP growth. The average sits around +2.6% with the range being +1.9% to +3.3%. Goldman raised its estimate 3.0%. GS tends to have one of the more accurate guessing models. The Atlanta Fed's GDPNow is tracking +5.1%. This number always changes throughout the quarter, but it has been moving higher over the last month.

Federal Reserve bullet points:

"Timeliness" in getting back to 2% inflation was emphasized.

Inflation is still persistent and above target

Economic activity is expanding at a solid pace. Good business capital investment. Positive job gains. Plentiful job Openings. Jobless Claims are low and consistent with full employment. Credit flows remain robust. The committee has an "attitude of optimism" regarding the economy.

"This committee will deliver price stability." Monetary policy is not restrictive with full employment. Labor side of the mandate is in good shape. But inflation has been running above target for 5 years. Primary focus is on inflation. Underlying trends have not meaningfully improved. Warsh is looking at 12-month trends not just a few months like this summer. Too many categories are posting increases on 6- and 12-month bases.

4.1% Fed Funds at the end of this year and next year (16 of 18 expect another hike this year)

- AI volatility is driving the low implied correlation (which is driving the low volatility)

When we talk about the low implied correlation in the market, this chart is it. This is realized volatility for the AI leaders-laggards basket. This see-saw provides a buffer for the broad market, but it makes the daily factor-whipping untenable.

- Inflation creeps back as expected

The Consumer Price index (CPI inflation) in August increased +0.4% as expected. This is up from the benign +0.1% increase in July. The annual rate remained the same at +3.4%. The "Core" rate increased +0.3% which is up from +0.2% (+0.2% was expected). The annual rate dipped from +2.5% to +2.4%. Energy prices were the big movers obviously (+2.1%). While Fuel Oil jumped +10.1%, Energy Services *fell* -0.4% (Electricity -0.2% and Utility gas -1.1%...so much for those evil data centers sending prices to the sky). Food prices were steady at only +0.1% (At Home 0.0%; Away from Home +0.3%). Inside the "Core," Shelter prices increased +0.3%. For all the cataclysmic reactions calling this a "hot" CPI, Cell Phone Services accounted for 0.10% of the increase (a third of the total). But this was just T-Mobile terminating some old phone plans that were not actually obtainable anymore…and yet they were still in the CPI calculation! Airfares were another hot item. Clearly this was energy related.

U-Michigan's Inflation Expectations increased in September (preliminary). The 1-yeat moved from +45% to +4.6%. The 5-year moved from +3.3% to +3.4%.

The August PPI (change in the Producer Price Index, wholesale or input prices) increased +0.4%. This was expected, but it is still a notable jump from +0.1% in July. The "Core" PPI was cooler at only +0.2% which is a deceleration from July's +0.3% (+0.3% was expected). Some of the details in the "Core" PPI pointed to a stronger (higher) CPI which came true.

- Retail Sales bounce back

Retail Sales in August bounced back sharply (+1.2%) after the dip in July (-0.5%). While Gas Stations had the largest increase at +3.1% (this data is not adjusted for inflation), almost every category posted strong gains. E-commerce (the government calls it Nonstore Retailers) bounced back +2.6%. Recall this was weak in July after Prime Day was moved to June. The only group to decline was Building Materials. Not surprisingly, the Control Group was strong at +1.4% after -0.4% in July. This is the group that contributes to the GDP calculation (it excludes Gas Stations, Autos, Building Materials, and Food Services).

Weekly Redbook Retail Sales ticked up to +8.5% from +8.3%.

- Other economic data is weaker

Initial Jobless Claims registered 206k. Continuing Claims are 1.774mm.

The weekly ADP Employment Change increased 16.3k. This is for the last week of August. None of the weekly reports showed the big burst in Employment seen in official August BLS report. Rosenberg might be right about the August revisions usually being negative (but still probably better than the original expectation).

Existing Home Sales in August fell -2%. The seasonally adjusted annualized run-rate dipped to 3.98mm. The pre-Virus Fear level was around 5.5mm. The level has been around 4mm since early 2023. The Northeast and Midwest fell the most. Supply increased by about 6% (1.62mm homes) vs last August. This is just under five months of supply. Prices are still climbing. The median price was $429k which is about +2% on the year. Homes are sitting on the market longer with the average wait of 31 days vs 29 days in July. The good news is that First Time Buyers are on the rise.

The Housing Market Index (aka homebuilder survey) for September turned lower. This 32 reading is so bad that we do not even need to go through the components.

Weekly Mortgage Applications fell 4%.

The average 30-year mortgage rate moved higher to 6.97% from 6.85%.

The NY Fed's Empire State Manufacturing index dropped from 20.6 to 7.6 in Sept.

U-Michigan's Consumer Sentiment dipped about 4 points (51.7 to 47.8).

Business Inventories increased +0.8% in July. (Bond investor Gundlach thinks this data is what is distorting GDPNow higher.)

- Where did all the crypto/SPAC/Norway/Ponzi money go?

Justin Sun is back in the crypto headlines. This is the crypto “billionaire” that has come under fire multiple times for sketchy dealings (nothing has stuck so far). He has been best known for buying the banana peel “art” for $6.2mm at Sotheby’s…and then eating it. But his latest news headlines are probably not part of a PR stunt. He is suing his former bride-to-be. Sun paid the Chinese woman’s parents $4.5mm as a betrothal gift. Once she had the money firmly in hand, she demanded $50mm as a surrogacy fee. Sun came to his senses and called off the marriage. He is trying to get his $4.5mm back under China’s rules for “bride-price disputes.”

Sometimes when you are dealing on the black market, you get what you deserve. In late 2023, Poland’s state-controlled oil company, Orlen, was trying to buy cheap oil from Venezuela. It agreed to send $230mm in Tether (USDT) via Dubai using USB memory sticks. Orlen did this without any collateral or bank guarantee of any sort. Shockingly, PDVSA, the Venezuela oil company, claimed they never got the fake money and did not deliver the oil. Poof!

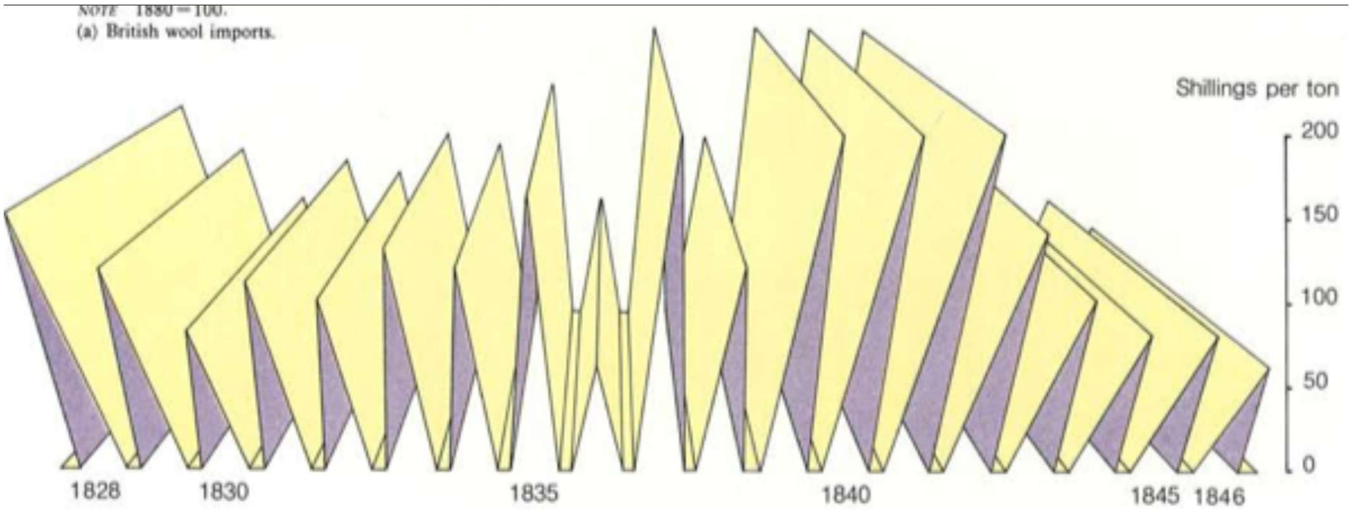
Swvl Holdings (not a typo) calls itself a “technology-driven disruptive mobility company.” It was a SPAC (special purpose acquisition company…what used to be called a blank check company) back in the heyday of 2022. It had a value of about $2.5b. It has rallied almost 500% in the last few weeks…to reach a value of $70mm. This technology company is an Egyptian bus company based in Dubai.

Blue Moon Metals is a Canadian company that is looking for gold and silver in arctic Norway. “Looking for” means they have permits and there is no current revenue. The key to its future rests on another permit it holds…the ability to dump the waste from its mining operations into the sea. This is very unNorwegian, and that is why short-sellers think this permit is going to be revoked.

We stumbled across a story about Travis Kelce being duped in a Ponzi scheme. Actually, he invested in a hedge fund that specialized in Emerging Markets. Moreover, this fund dabbled in Frontier Markets. It turns out, this fund invested 99% of its assets in a single stock, Phillip Morris Pakistan. Since Pakistan is a terribly illiquid market, as soon as the fund stopped buying, the stock price started dropping (we invested in Pakistan back in the day, so we can attest to its quirky/crappy dynamics). The fund instructed its administrator to mark the price at PKR$4,000 (Pakistan Rupee). Alas, the price kept dropping to PKR500. Naturally, the shysters at the fund had to convert to a Ponzi Scheme. As old investors got suspicious, new investors got duped. Crazy side note about this fund: The University of Texas Investment Management Company (UTIMCO) introduced these guys to us a decade ago! The investment management team changed, so we never came across the actual thieves. Thank goodness!

- Chart Crime of the week

We are not quite sure what is going on with this one. The x-axis is labeled as “Potato Prices.” Yet, the (a) at the top left reads “British wool imports.” Whatever the case, charting any two-dimensional data set in three dimensions is dumb. This is especially true if it is a commodity (potatoes or wool) price that fluctuates with the season. Perhaps this is the point? Who knows. This is another one that gives us a headache.



POTATO PRICES, VAN DIEMEN'S LAND 1828–1846

Because of the high costs of transport, prices of farm products fluctuated widely with the season.

- Quick Hits
  - Scorigami!!! Chicago's 59-37 win over the Carolina Panthers is the 1096th unique score in NFL history.
  - Scorigami!!! Minnesota's 39-22 win over the Packers is the 1097th unique score in NFL history.
  - For the first time ever (with 16 games being played), every NFL score differential was unique. Games were won by 1,2,3,5,6,7,8,12,13,14,17,18,20,21, 22, and 24 points.
  - Mr. Pibb is the fastest growing soda this year (up 11% points).
  - Mr. Pibb was originally named Peppo, but Dr. Pepper sued.
  - An ETF provider is trying to introduce funds that track stock prices over the course of *hours*.
  - Happy Days stayed on the air for seven more years until 1984 (six seasons) after the infamous Jump the Shark episode in 1977. It stayed in the top 20 TV shows for five years after The Shark.
  - Hungary is the only landlocked country to be ruled by an admiral (Miklos Horthy from 1920 to 1944).
  - 86% of students at Mt. Holyoke College claim to be "gay, lesbian, bisexual, or queer / questioning."
  - The average purchase price for a ticket to the UT vs Ohio State game was $822.
  - The low ticket price for the US Open men's semifinal match was $28. The same ticket was $300 two weeks ago.
  - Arion Carter, a defensive back for the other UT (Tennessee), was suspended one game for accepting a $427 plane ticket to an NFL training camp.
  - Arion Carter is donating $427 to cancer research for every tackle he makes this year. His girlfriend has cancer. He made eight tackles on Saturday.
  - James Madison beat Wagner 87-3.
  - NOAA discovered a yellow sponge and a pink sea star sitting side by side on the sea floor at a depth of 6200 feet. No Square Pants were seen.
  - Name Chage! Novo Nordisk is dropping Nordisk. The company was formed by a merger between Novo and Nordisk in 1989. Novo was founded by former Nordisk employees in 1925.
  - There is such a thing as Regular Strength Tylenol.

TSLAQ: Musk has already moved on to his next "reveal" for Tesla. The Roadster is coming back on October 1. The Roadster was Tesla's original production car back in 2008. The company sold 2500 of them over five years.

Check out our website to learn more about Chalk Creek Partners

Carlisle's Twitter Financial List

Carlisle's LinkedIn