Weekly Update

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- Is bad good or bad?
- Has student loan repayment already started?
- Employment cracks a little more
- Inflation follow-up
- Other economic data is mostly positive (except for China and Europe, of course)
- Oil and inflation are inextricably linked
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- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	4,465	-0.7%	17.2%	15.7%
QQQ	$374.74	0.0%	41.2%	27.9%
US 10 YR	4.30%	4.11%	3.75%	3.26%
USD/DXY	104.9	103.2	104.5	109.8
VIX	14.5%	13.9%	22.9%	24.6%
Oil	$87.61	7.3%	9.1%	0.8%

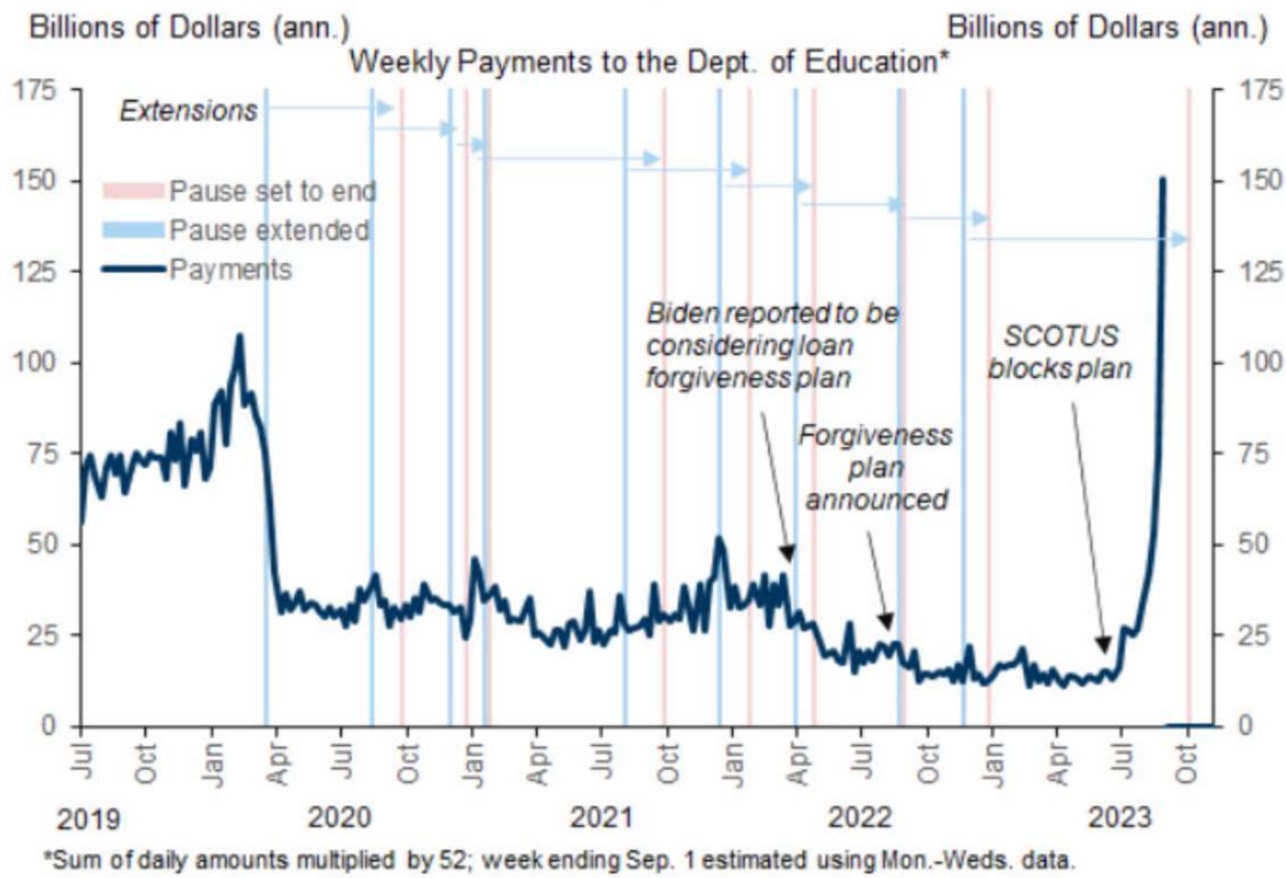
*10yr, DXY, and VIX are levels not changes
** Oil is front month futures, beware

Economic data and interest rates dominated the short week. Of course, any recent trends seem to be in flux. That is, the market cannot make up its mind if good economic news is good for the market or if good news is bad (and vice versa). Just last week, the sharp drop in Job Openings was viewed as a potential catalyst for rate cuts coming (notwithstanding Fed chairman Powell saying there would be no rate cuts anytime soon). But this week's Employment Report was a mixed bag. More jobs were created on the surface, but the Unemployment Rate also moved higher. At first, the market clung to its narrative…the strong jobs were a sign of the soft-landing. Interest rates were down, and Tech was up. But after parsing the data a bit more, some weakness became more apparent. Maybe the long and variable lags of monetary policy were just starting to manifest themselves in the labor market. Of course, Big Tech was viewed as being able to weather the storm. Staples were hit as valuations might be stretched without the pricing power they had last year. But then today there was a strong ISM survey (Services were particularly strong). And the market, including Big Tech, hated this! We do not tend to put too much significance into a single market reaction. But this back and forth does seem to indicate more indecision rather than blind narrative chasing. And Volatility is usually a bad thing. We will stick to our bar-belled approach as we add slowly to some Big Tech, reduce exposure to Staples, increase some shorts, and keep a hefty cash position.

- Has student loan repayment already started?

We have been making much of the impending resumption of student loan repayments. The frozen $1.6t in balances has been become unfrozen with interest accumulating again. We have been arguing that this will be a big fiscal hurdle to overcome. Last week we showed some Hedgeye research that shows that roughly 2/3 of the PCE growth since 2021 has been due to this frozen debt. But Goldman has some research showing that many debtors have already started repaying their debt. The following chart is a bit confusing because it annualizes the weekly payments. A few single weekly bursts can skew the data. But clearly some debtors have started repaying early. We are still inclined to think that this reduction in disposable income will hit discretionary spending sharply. But perhaps consumers have started to cushion the blow. Or they are just spending more on credit cards. If nothing else, this chart shows the absurdity of the government intervention with all the stops and starts (vertical red and blue lines).

Exhibit 1: A Sharp Rise in Student Loan Payments Well Before the Official Restart



Source: Treasury , Department of Education, Goldman Sachs Global Investment Research

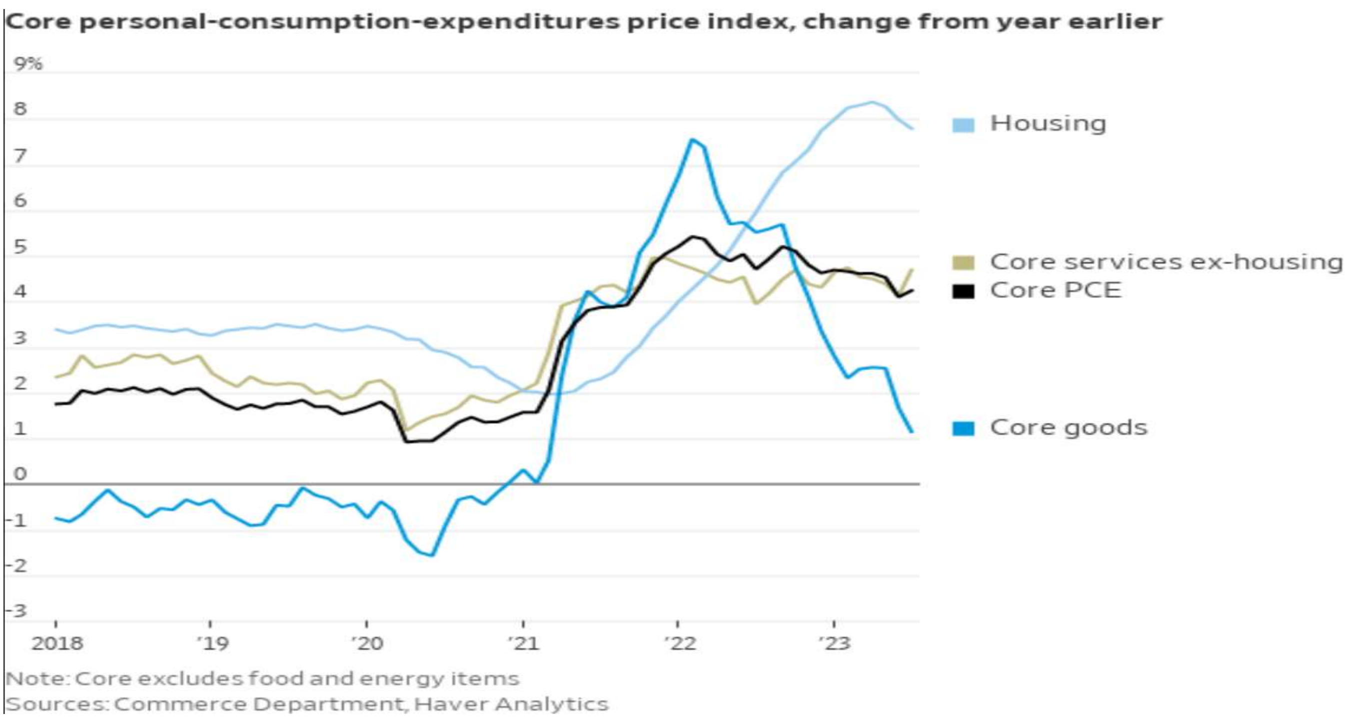
- Employment cracks a little more

The Employment Report was strong on the headline with 187k jobs gained compared to the 157k in July. But last month's number was revised down from 187k. And June was revised down by 80k jobs. This was the seventh month in a row of past revisions. The Unemployment Rate jumped to 3.8% from 3.5% as more people are back looking for work. Health Care attracted the most new jobs. Administrative Services (more managerial than support) was the category with most jobs lost. Much of this data was skewed by the ongoing strikes (most workers at strike since 2003) and some mass layoffs (Yellow Trucking bankruptcy).

Wage growth is slowing. That is not good for the workers, but the Fed likes to see it. Then again, the three-month average is 4.8% which is way above the 2% target (perhaps the fed would like to see wage growth outpace other inflation, but they have not said this explicitly). But the Average Work Week ticked higher. One reason for it trending lower for two years was that employers were afraid to fire people, but they didn't need as much work. Most economists view this report as the "soft-landing." In isolation, we could agree. But the trend seems to be worsening. And we know the labor market is the slowest and last dynamic to change.

- Inflation follow-up

Digging a little deeper into the recent PCE inflation data, we find more evidence that the Fed is not going to sleep on its mission. We often joke about the various slicing and dicing of inflation data to fit your own narrative. But the reality is that the Fed has expressly stated that Core Services ex-Housing is an area of focus. And this metric stands out as the one that is accelerating (or at least not cooling). The counter to this is that the strong stock market in July contributed to some Services inflation. Ok. But this means the only reprieve for the data will be a crappy stock market? Talk about cutting off the nose to spite the face.



- Other economic data is mostly positive (except for China and Europe, of course)
    - ISM's PMI data showed some improvement. Manufacturing improved from 46.4 to 47.9. But New Orders was the weakest segment. The Services survey jumped by almost two points to 54.5 (all segments strong…including Prices).
    - Redfin says the median home price has moved up to $380k which is up 5% from last year (and the highest level since October).
    - Redbook Retail Sales have accelerated for two months in a row. This is likely a calendar distortion.

- China's privately conducted Caixin PMI survey for Services decelerated more than expected in August. The number is still in positive territory (51.8), but the economic deterioration continues (54.1 in July)

➢ Oil and inflation are inextricably linked

Refinitiv is out with a simple chart showing the correlation between oil prices and future inflation as measured by the 5-yr Breakeven (which is the differential between 5-yr Treasury yields and 5-yr Inflation-Indexed Treasury yields). The chart does not go back very far. And we know correlation is not the same as causation (just because things move together does not mean one thing makes the other thing move). But 0.88 is incredibly high (scale of -1 to +1). And it sure is intuitive. As for the chart, this relationship appears to be breaking down. This would make us expect inflation to turn back higher to follow oil. Obviously, there is lots of short-term noise in this relationship. But we think the fundamental backdrop for oil supports this basic thesis.

The Saudis and Russians are extending their production cuts and export limitations until the end of the year. This is helping boost oil prices. It is an old story for the most part. (The Russians are unable to increase exports because of technical inefficiencies. And the Saudis have made it obvious they are serious in getting prices higher.) But is reinforces one side of the fundamental backdrop: Supply is constrained. And just today, the US canceled more leases in Alaska. On the demand side, the US government keeps trying to refill the depleted

Strategic Petroleum Reserve (aka TPR not SPR). Of course, they are bidding below market prices so there are not any sellers.

- Where did all the crypto money go?

We missed a good one from earlier in the year (or we have already used it and simply forgot…there are a lot of these stories!). A man was arrested for money laundering and was forced to forfeit his bitcoin (apparently, he was stealing bitcoin while laundering it for others?). He ran a "coin mixer" which makes tracking bitcoin transactions even more difficult. While the government was in possession of the stolen bitcoin, the arrested man's brother broke into the crypto wallet (remotely) and stole the bitcoin. The first brother was hit with a $60mm fine. When the second brother was forced to return the twice-stolen bitcoin, the bounty was only worth $20mm.

- Chart Crime of the week

This chart is from a company presentation extolling one of the virtues of coal prices (in its mind). Miraculously, the volatility is going to disappear overnight and basically flatline for the next year. We happen to like the coal business (especially met coal which is used in steel making…thermal coal is used for electricity), but that does not excuse a mgmt. team getting out its crayon and drawing a dotted line on a chart.

- Quick Hits
    - The governor of New Jersey, Phil Murphy, who campaigned on turning the state into a "sanctuary state," has refused to accept federal immigrants from NYC.
    - Over half of the college quarterbacks in Power 5 conferences are transfers.
    - 3,284 college football players entered the transfer portal this past off season.
    - Jimmy Buffet wrote Margaritaville in a Mexican food joint in Austin.
    - Axon, a taser company, used to tase its employees for kicks (not product testing).

- 24% of all summer flights in the US were delayed. The average delay is 55 minutes. Delta had the fewest delays (20%). Frontier had the most (35%).

Trading: We bought a little more select Big Tech, sold some more Staples, and added some short exposure. This has been our playbook. We still have a barbell approach with lots of cash.

TSLAQ: Tesla is slashing prices again. The model S and X are taking the brunt of this week's slashing. But Musk tried to bury this news by announcing the long-awaited new Model 3. Other than the cutting-edge addition of a monitor in the back seat and some new turn signal buttons, they decided to change the look. Or maybe not. We will leave that to you (below). Otherwise, Musk intimated he might sue the Anti-Defamation League (ADL). Apparently, he blames it for Twitter's 60% decline in ad revenue. He joked about the "irony" of the ADL defaming Twitter. The aforementioned advertisers probably do not want to wade into these treacherous waters.

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