



Weekly Update

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- Artificial Intelligence fears disappear (for now)
- Meta the first to show monetization is possible
- Pressure on yields persists
- Is China pressuring Iran?
- Positioning has become more bearish (or at least less bullish)
- Earnings expectations are still accelerating, and P/E ratios are falling
- Housing is stable (but still not great)
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week
- Jake can smell the oil burning

	Last	5d %	YTD %	1yr %
S&P 500	7,743	1.2%	13.1%	17.2%
QQQ	\$744.50	3.3%	20.6%	25.4%
US 10 YR	5.16%	5.00%	4.17%	4.18%
USD/DXY	101.0	100.2	98.3	97.9
VIX	14.9%	14.8%	15.0%	15.3%
Oil	\$92.42	-7.8%	60.9%	42.2%

*10yr, DXY, and VIX are levels not changes

** Oil is front month futures, beware

This week in the markets was a perfect example of the recent choppy action as the narratives ebb and flow. Last week's fear and loathing over Artificial Intelligence killing humanity quickly faded. Cooler heads prevailed – it was obvious that much of the doom and gloom was a scare tactic by the incumbents (Anthropic and OpenAI) to entrench their moats and shield themselves from liability. Maybe more importantly, Meta released a product that might show there is light at the end of the AI tunnel in terms of monetizing all this insane capex spending. It is too early to tell when “Agentic AI commerce” will be adopted. And there will likely be numerous competitors traveling down this path with countless potholes: How will it affect the ad business which is the backbone of the internet? Will fraud run roughshod (people are already “joking” about setting up agents to file millions of fraudulent refund claims for products they never bought)? Will merchants adopt and accept this new technology – Amazon has already kicked Meta's Muse off its platform; Shopify has embraced it. But overall, this

step was what the market wanted to see...real life applications and not just silly chat bots. Also, the much-feared collapse in compute prices is still not imminent. Neocloud Nebius (basically a reseller of compute) is raising prices...the demand is still rampant. But not all the AI talk was positive. Oracle is warning its data center partner (Blue Owl who is providing much of the equity financing) that it might not pay for the datacenter. Or at least that was the headline. Of course, Oracle said it would not pay for the datacenter if it was not up and running on time.

On the macro front, the pressure on Treasury yields persists. More strong economic data (strong PMIs/business surveys and accelerating business spending on the heels of the improving labor market and consumer spending) has pushed the probability of another Fed rate hike in October to 67%. It was 11% a month ago. Moreover, some hawkish Fed voices are becoming louder (Barr, Paulson, and Williams). There was a very poorly received 5-year Treasury auction. All this has resulted in a flattening of the yield curve. Recall that conventional wisdom says an inverted yield curve (2-year rates being higher than 10-year rates) is a sign of a slowing economy. We have never really believed this, but it can explain some short-term noise (and the curve started to reinvert slightly late in the week). It is important to add that the equity market has not really cared about interest rates (notwithstanding the move lower in Financial stocks)! The first down move after the Fed hiked rates reversed the next day (the first move after Fed action is almost always wrong). One positive spin is that the market has faith in Warsh to tame inflation without hitting the economy. Or perhaps the market thinks Warsh is wrong to worry about second-order inflation effects which have not materialized (and thus the Fed will be able to reverse course). Perhaps it is just light equity positioning that is enabling/encouraging more buying.

Oil is whipping around as quickly as the Iran headlines hit the newswires. And the markets have been taking their cues from oil, rates, and AI. But we think we see the first real signs of peace (using that term loosely): China is subtly exerting some influence on Iran. Notably, China is encouraging Iran to reign in the Houthis and their attacks on Saudi infrastructure. Along these lines, the Saudis are now able to ship more oil through the Strait without interference from Iran. There was much anticipation ahead of the Trump-Xi summit. And it appears that the only material progress was a two-month truce on the ongoing trade dispute. We think the lack of splashy headlines on Iran probably means the two sides are in agreement.

Bullet points:

The Bank of Japan (BOJ) hiked 0.25% to 1.25% as expected. Likely more hikes to come. But two of the nine BOJ voters dissented against the hike...so the Yen actually weakened. August inflation increased +1.9% and its "core" increased +1.7%.

BOE held rates steady at 3.75%, but the tone was hawkish...but they also decided to slow their QT program. They are pausing Gilts (government bonds) sales for six months and will unwind more slowly going forward. Common theme is "inflation is here, but we are going to move slowly."

Leopold apparently bought \$100mm worth of short-term Call options on his favorite AI plays

A Wendy's franchisee with over 300 restaurants across 15 states has filed for bankruptcy. Consumer or Wendy's?

➤ The diesel refining problem is everywhere

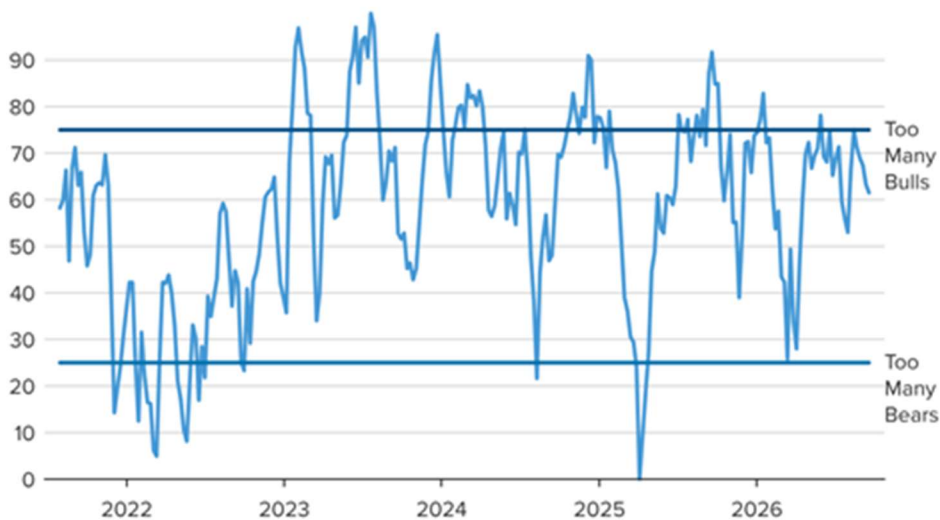
Doomberg points out that even US refineries, safe from the ravages of war, are subject to shutdowns from overuse. Jake Blues might not have been able to see the black smoke from his jail cell, but he certainly could smell the flaring of excess crude when Exxon's diesel refinery in Joliet, Illinois was shut down from a power outage. This took 300k barrels offline (per day). There is speculation that the Trump administration might

implement a diesel export ban just in time for the midterms. This would likely translate into a short-term boost in popularity at home. But it would further exacerbate the pain at the pump abroad.

- Positioning has become more bearish (or at least less bullish)

The AAI survey, Greed & Fear index, and GS sentiment indicator have all leaned more bearish recently. This chart from Macro Risk Advisors aggregates what investors are saying *and* doing. While it is not as lopsided as the other gauges, it does show that bullish sentiment has waned recently. Of course, the Vix (colloquially known as the fear index) still sits at low levels, but that is a function of the correlation dynamic we have been describing lately. (Bearish sentiment is bullish for the market.)

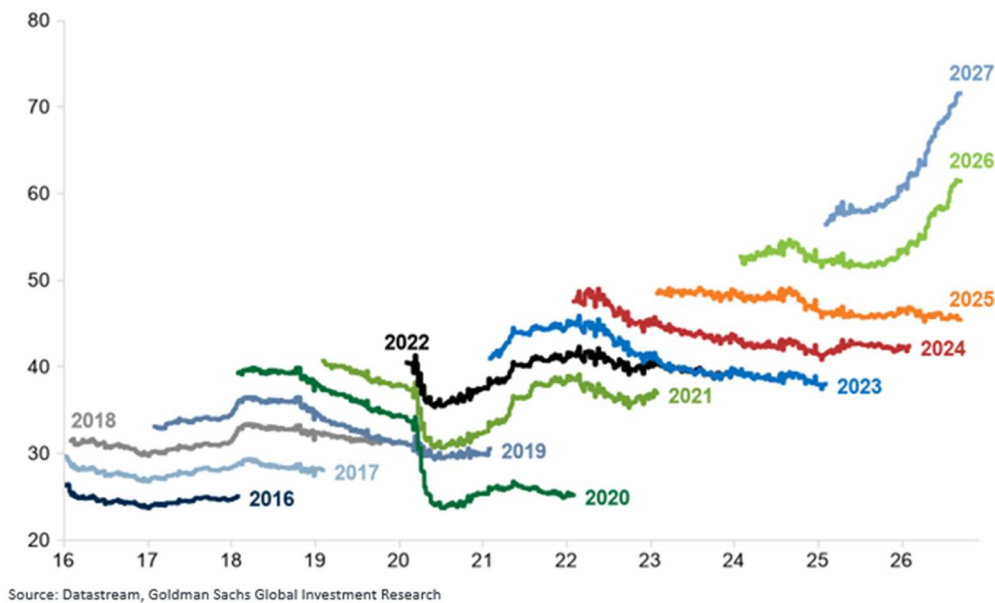
Market sentiment model



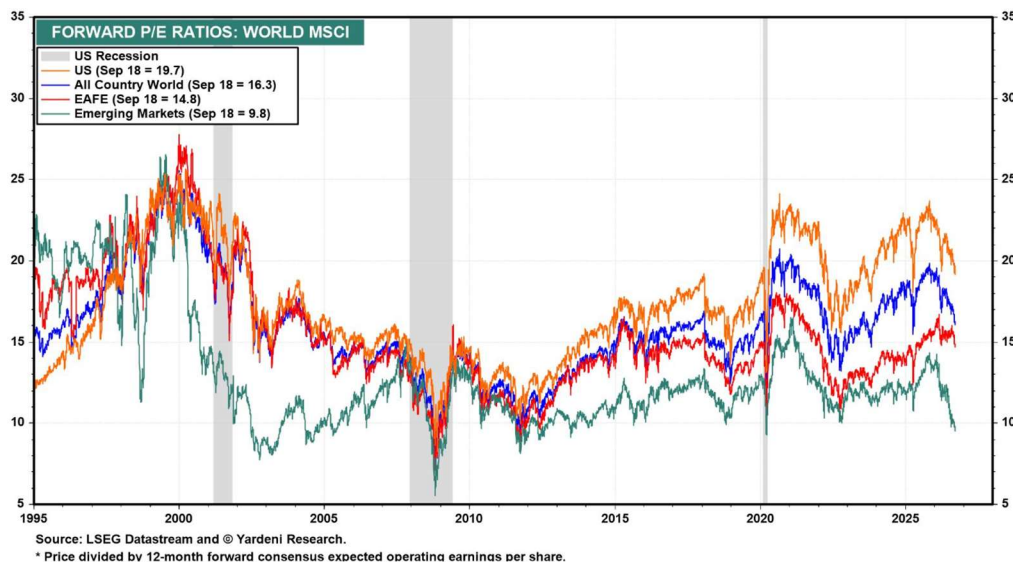
- Earnings expectations are still accelerating, and P/E ratios are falling

This chart is a little hard to read, but there are two easy takeaways. 1) Global earnings have been moving higher steadily (with plenty of short-term bumps). 2) The rate of acceleration in earnings this year and next year (expected) is spectacular. Obviously, there are skews and biases in the data (and this rapid pace will surely slow). But considering the P/E of the global market is trading at a discount to its recent history (call it in the middle of the range...certainly not near its peak), it is hard to argue that the market is overestimating the earnings power in the global economy.

Exhibit 1: Earnings revisions have unusually been positive
Consensus estimates in USD. MSCI AC World EPS



Here is the P/E chart for the US, World, EAFE (Europe, Australia, Far East), and Emerging Markets (courtesy of Yardeni who is a very level-headed voice in macro research).



➤ Housing is stable (but still not great)

Housing Starts fell -2.6% in August. The annualized run-rate is 1.275mm. This is somewhat misleading because July was revised higher to 1.31mm. Also, Single Family Starts jumped by +7.6%. Conversely, this means Multifamily Starts fell by -22.5%. Building Permits fell -2.1% in August. The run-rate is 1.403mm. All of these are well off their Virus Fear peaks. But they are at least sustaining the levels from 2019 unlike Existing Home Sales. And the Single-Family data is encouraging.

Pending Home Sales edged up +0.3% in August (contracts are signed but not closed).

New Home Sales increased +6.4% in August. The seasonally adjusted annualized rate (SAAR) is 684k.

Weekly Mortgage Applications fell -1.5%.

The average 30-yr mortgage rate is 7.12% vs 6.97% last week.

We still do not have any direct positioning in Housing. The locked-mortgage environment is still too challenging. In the past, we have said that people will get used to higher rates...the anomaly of 0% interest rates is a thing of the past. While we still think this makes sense...the data tells us otherwise.

➤ Other economic data is better

The Weekly ADP Employment Change increased +20k. The trend of this data bottomed in late July and has been improving steadily.

Initial Jobless Claims dipped to 196k and 197k over the last two weeks. Continuing Claims dipped to 1.730mm and 1.72mm. This is the lowest level in three years.

The early reads (Flash) on the S&P PMIs for September showed surprising strength across Manufacturing (57 vs 53.9 last month and 53.6 expected) and Services (58.7 vs 56.5 last and 56 expected). This brings the Composite up to 58.4 from 56. This is the highest level in over 10 years (if you strip out the silliness in the Virus Fear rebound).

The Philly Fed Manufacturing index dropped from 47.4 to 37.8. The Richmond Fed Manufacturing index dipped into negative territory (+4 to -2). Its Services index fell more sharply from +11 to -5. The Kansas City Fed's Manufacturing index bumped up to 20 from 17.

Industrial Production was flat in August which is down from +0.2% in July and +0.3% expected. On the bright side, the Utilities component was strong which correlates with GDP growth.

Durable Goods Orders were flat in August after a strong +0.9% move in July (this was revised down from +1.1%, but still strong). However, Orders were expected to slow -0.4%. More importantly, Core Capital Goods (aka business spending) jumped +1.6% (vs +0.6% last month and +0.5% expected).

Weekly Redbook Retail Sales slowed to +7.6% from +8.5%. We are waiting for a trend to develop as this series has been bouncing around lately (similar to headline Retail Sales on a monthly basis).

U Michigan Consumer Sentiment ticked down below the breakeven line.

➤ Where did all the crypto money go?

You do not hear much about the giant crypto hacks anymore...but they are still here and massive in size. Last week, the Liquid Network was hacked for \$320mm. The decentralized platform was approached by a merry band of "white hats." In theory this group was going to help the platform fortify its security to protect the 4,000 Bitcoin held in its wallet. Instead, the hackers stole the coins. In some sort of public negotiation (literally in chat messages on public sites), the hackers returned 3,400 Bitcoin and kept the rest for themselves. A cybersecurity consultant said, "This attack could just as easily have been carried out by a malicious group with no intention of returning the funds." This is the crypto equivalent of the soft bigotry of low expectations.

Food Never Arrives is a real website. You order food online. Nothing gets made. Nothing gets delivered. You pay nothing. Ok, so there is no money disappearing right now. But just wait. This will be a paid-for feature before we know it.

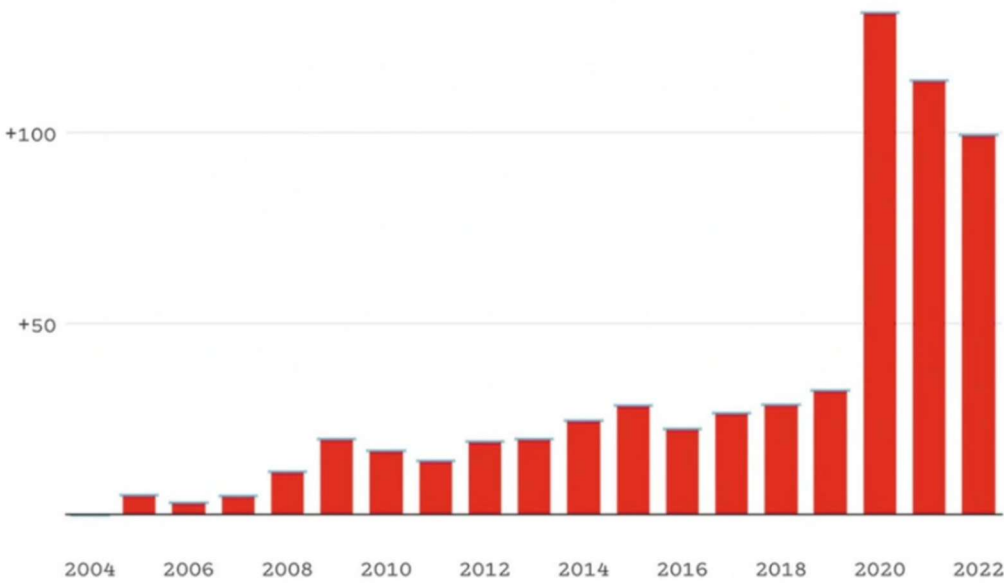
We saw the headline that Nike has ended its lawsuit against Lululemon. Nike claimed that Lulu’s Mirror “product” was infringing upon six of Nike’s patents. Mirror, you may recall, was the fitness apparatus that Lulu bought for \$500mm back in 2020. We are not sure why Nike pursued this for so long. While the patent tribunal upheld most of Nike’s case, Lulu gave up on the silly venture in 2023. Lule wrote off \$440mm of the purchase price and has discontinued the product completely. Poof!

➤ Chart Crime of the week

This chart shows the increase in the average number of minutes spent at home. We assume it means per day, but the labeling stinks. Obviously, it spiked higher during the Virus Fear. And obviously it has started to decline. Alas, the chart stops at 2022. It has likely continued to decrease. The author adds a rant about “the decline of everything – friendships, excitement, spontaneity, dating?” Ok, maybe he has a point...until we realize his real point. He is pitching his “internet country club.” Other than being an idiotic idea, would this not add to more time spent at home...which he does not like?

Time Spent at Home

Change in average minutes spent at home compared with 2003



Source: Analysis of the Bureau of Labor Statistics’ American Time Use Survey by Patrick Sharkey, Princeton University

➤ Quick Hits

- Prediction market Polymarket is paying LeBron \$15mm per year. This is almost 4x his salary.

- Apparently, a good way to vet someone that has virtually pitched you a crypto-related idea is to have them put in writing that “Kim Jong Un is fat and ugly.”
- Old El Paso is the new sponsor for the Sun Bowl in El Paso.
- Stevie Ray Vaughn got his big break playing guitar for David Bowie.
- The caddie for PGA pro Alejandro Tosti dropped the bag and walked off the course in the middle of the round on Thursday. No explanation was given other than it is known that Tosti is a jerk.
- Tosti once made a caddie wear the words “Need a wife” on his official caddie bib.
- There is a Women’s Professional Baseball League in the US. That’s it. That’s the quick hit.
- Nirvana gets 40mm monthly listeners on Spotify which leads 90s artists.
- The band Cracker posted the Nirvana stat. They have 1mm monthly listens.
- There is one French-speaking (majority) town in the US: Grand Isle, Maine.
- The recurring beat of the *Mission: Impossible* theme song is MI in morse code.
- When touting the success of the University of California, the New York Times writes, “Students on University of California campuses may struggle with basic math, but they are graduating at record rates.”
- There is an NFL play rating system (PFF) that grades each player’s play. When TJ Watt intercepted a pass and returned it for a touchdown, it was graded as a negative play because he did not pressure/sack the quarterback.
- When Boise State introduced its blue football field in 1986, critics complained that it might attract ducks that would crash into it.
- California’s average price of electricity is double the national average (\$0.27/kWh vs \$0.12/kWh as of 2024).
- The Chicago Bear’s 56-point-scoring differential in back-to-back weeks (won 59-3 and then lost 9-3) is only the third largest in NFL history.
- The 1973 Atlanta falcons hold the record. They opened the season with a 62-7 win and then had a 31-0 loss the next week.
- Stanford University has (allegedly) digitally altered the race and gender of students in its marketing material.
- Kalshi is asking the CFTC if it can offer margin trading to its predictors (gamblers).
- People Inc (yes, owner of People Magazine among other publications) owns 27% of MGM (the casino company). People was bidding to buy all of MGM. People recently dropped its bid. Now there are reports that MGM wants to buy People.
- The Washington Redskins are selling merchandise with the old name and logo.

TSLAQ: Crazy Cathie Wood aka “The Woodchipper” is back. She was best known for parroting Elon’s ridiculous revenue projections for Tesla. She still has a price target of 10x the current price by 2029. But now she is trumpeting SpaceX. She thinks the company can generate \$1b for every Starship launch. She thinks the company can achieve 10,000 launches a year. That is a cool \$10trillion per year by 2030. SpaceX had about \$19b in revenues last year. (To be fair, we think SpaceX might be successful; we are intrigued by its potential. But \$10t in four years is otherworldly.) Elon’s response was “Not impossible.” The old Elon would have used a Rocketship emoji or said the projection was way too low.

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