Weekly Update

19-May-2021
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- Market wrestling with deviating narratives
- Fund Manager Survey talks about inflation but does not fear it
- Housing stumbles a bit, but not really
- Jobless Claims still improving, Retail Sales look flat but are still hot, Industrial Production cools
- Businesses are feeling inflation and expecting more
- The Fed blinks for a second, the market does not care
- Are pipelines going to make a comeback?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
SPX	4116	1.3%	8.6%	41.6%
QQQ	322.6	1.8%	3.0%	42.7%
US 10 YR	1.67%	1.70%	0.92%	0.68%
VIX	22.1%	27.6%	22.8%	28.0%
Oil	63.4	-3.5%	30.6%	95.0%

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

The market is still wrestling with the deviating narratives. The market tried to bounce from the inflation fears of last week. But virus-fears continue to stir in Asia, so the global, economic rebound is thought to be in jeopardy. Perhaps the stalling of progress on the fiscal stimulus side in the US is eating away at optimism. And the messaging from the Fed may not be as clear cut as thought. To this end, pundits are saying that the market is expecting a rate hike even though market interest rates have barely budged! Funnily (but seriously), we blame Elon Musk. His flippant attitude towards Bitcoin has wreaked havoc on the riskier parts of the investing curve. At one point this morning, Bitcoin was down almost 50% from the recent high just two weeks ago! We ultimately think all these worries will be short lived. We maintain our biases towards Reopening plays (Value, Energy, Financials, old school Retail, etc) and Quality Growth (huge profit margins and investing moats) with only a smattering allocated to the profitless High Growth. Actually, our High Growth companies mostly make money now. But their valuations are insane. We still have our speculative small-caps and growth stories hedged with Put options.

- Merrill Fund Manager Survey echoes the inflation worries

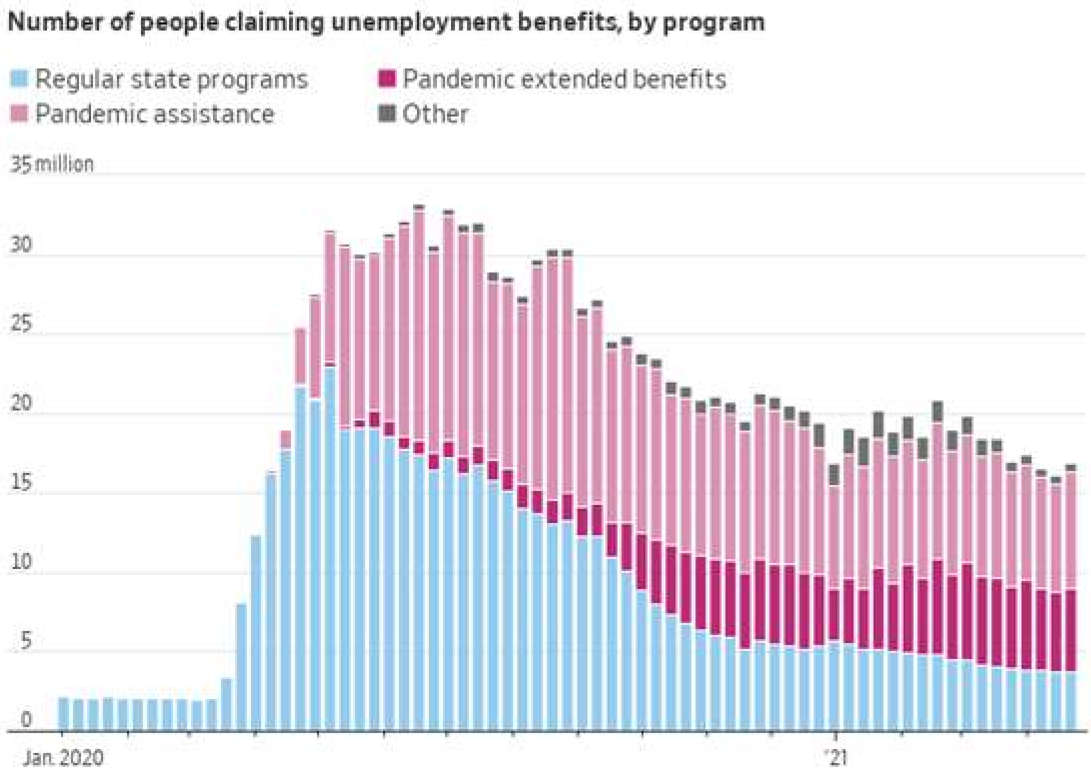
The latest Merrill Fund Manager Survey was fairly prescient. Respondents called Bitcoin the most crowded trade with 75% calling it a bubble. On the flip side, there also seems to have been a peak in macro optimism (growth, margins, capex spending, and inflation). This coincides with what we wrote last week about inflation being "mainstream" now. And we want to be selling into the inflation chasers. However, we still do not think we are there yet. In fact, despite the macro optimism, only 35% think Inflation is the biggest risk to the market.

- Housing stumbles a bit, but not really

Surprisingly, Housing Starts fell in April. The miss was led by Single Family Houses which has been the source of strength. This sounds like an ominous tolling of the bell for Housing. But the Home Builder Survey tells us that builders are plagued by a labor shortage which is slowing construction. Moreover, with the surge in commodity prices (lumber grabs the headlines, but concrete, copper, you name it are all aggressively higher), many builders have decided to put off construction. But builder optimism remains high and at its recent average. More stable/strong Pending Home Sales back this up. We think the homebuilder theme remains intact: migration out of the cities; migration to more accommodative states, more work-from-home, growth in millennial home ownership.

- Jobless Claims still improving, Retail Sales look flat but are still hot, Industrial Production cools

Jobless Claims fell again registering 473k. The 4-week moving average is 534k. And more states are dropping out the Pandemic programs, so these numbers are going to keep dropping.



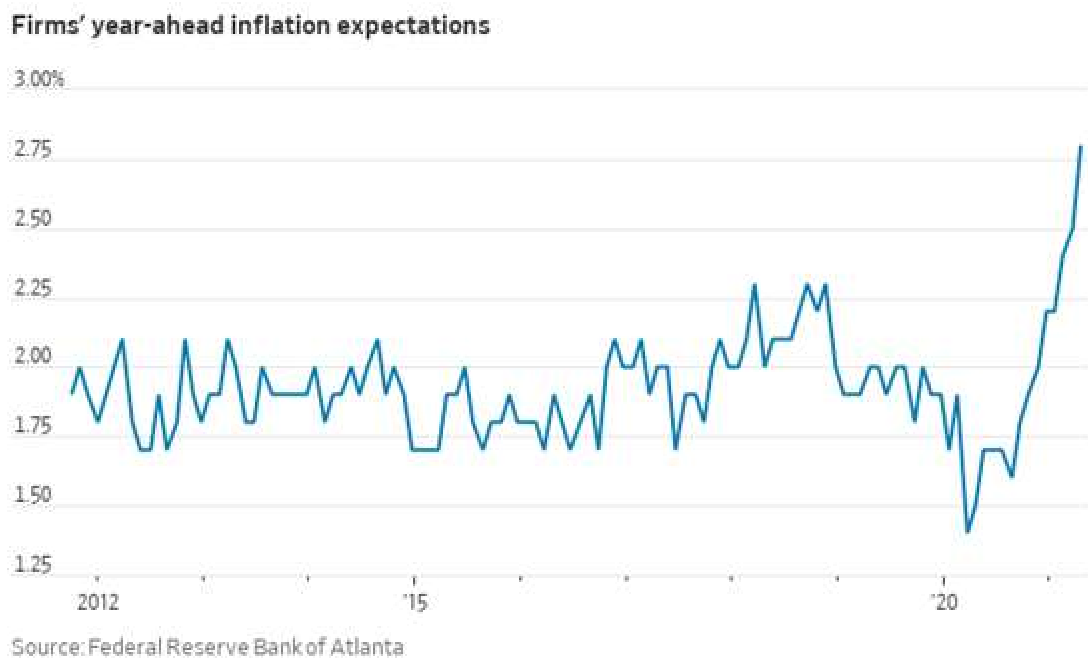
* Reflects Pandemic Emergency Unemployment Compensation for those who exhausted other programs. + Reflects Pandemic Unemployment Assistance for self-employed and others not typically eligible.
Source: Labor Department

Retail Sales stayed flat in April vs March. But this means they are still running hot since March was so hot (+10.7% vs Feb). Vehicle Sales remain robust. This is a function of price and not volume.

Industrial Production missed expectations in April with only a 0.7% gain vs March. March saw a 1.4% gain. Manufacturing Output was the source of the relative weakness. Autos were the source of weakness given the semi-conductor shortage. The other components of Industrial Production are Mining, Utilities and what the Fed calls "market groups" which include Energy and Chemicals. Like most government data, it is overly complex.

- Businesses are feeling inflation and expecting more

The Producer Price Index (PPI) followed in the footsteps of the CPI. This wholesale inflation jumped 6.2% in April (vs last year or "y/y") vs the 4.2% climb in March. The "core, ex-food & energy" increased 4.1%. And we will repeat our view of inflation: it is not prices going higher today that cause inflation, but it is the fear that prices will go higher tomorrow. The American Enterprise Institute wrote a piece on this titled, "Fear of Inflation can make it happen."



The Empire State Manufacturing Index remains robust like all the other PMI surveys. What is most noteworthy (yet obvious) is the Prices Paid component which hit an all time high.

- The Fed blinks for a second, the market does not care

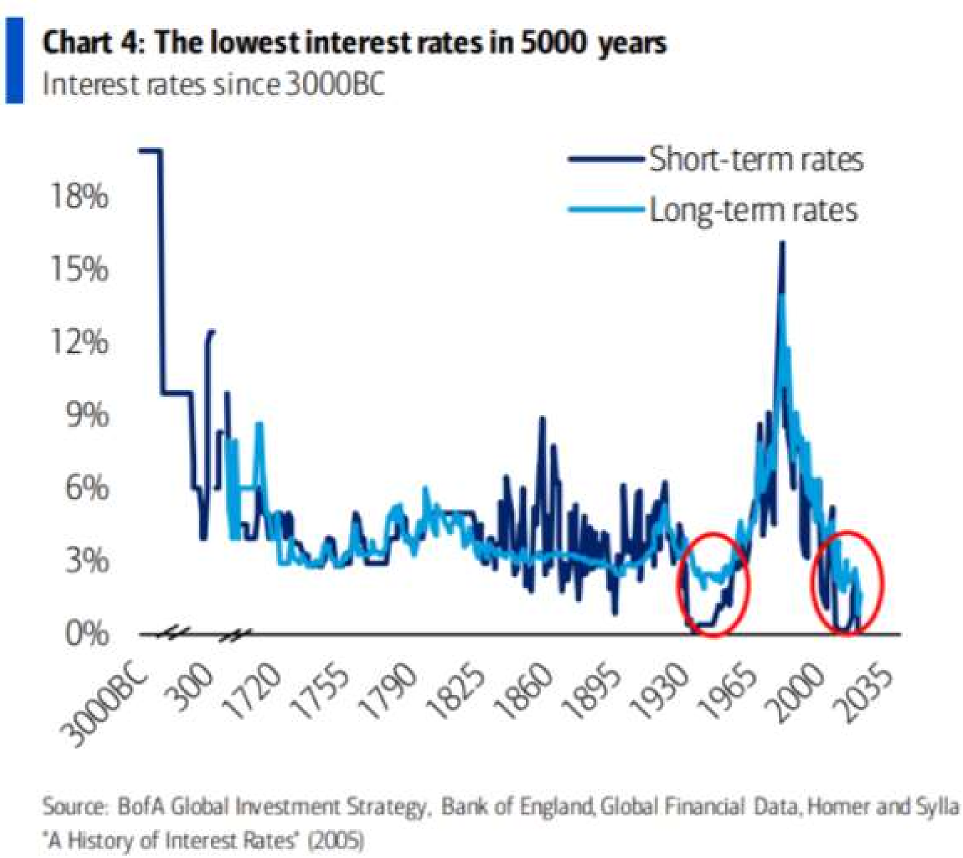
The Fed Minutes noted a few members are starting to push back on the "inflation is transitory" narrative. And the Fed even admitted that it "might be appropriate at some point" to consider tapering bond purchases if the economy shows "rapid progress." But the long-duration, growth equities felt nary a brief tremor. This tells us that despite some recent calls of an imminent Fed tightening (JP Morgan calling for a tapering announcement in August to be started in January), the market knows that Powell & Co will keep the money train going. We think this is especially true if Congress hits some snags in enacting more fiscal stimulus (which we think it will).

- Are pipelines going to make a comeback?

With the Colonial Pipeline shutdown fresh in the news, we thought we would revisit the controversy over the North Dakota Access Pipeline (DAPL). For those not wanting to hoard gas but also not wanting to ruin the lives of 16k Indians, we present the map of the DAPL. The yellow area is the reservation.

- Chart Crime of the week

This is a 5,000-year chart. 5,000 years.



- Quick Hits
  - Apparently, stock traders are confusing the symbol ETH (Ethan Allen Interiors) for the crypto ETH (Ethereum).
  - The FAA might require airlines to randomly weigh passengers.
  - A tiny Chinese IPO (EJH, apparently a concierge service for nannies, maids, etc) listed in the US gained 1,100% on its first day of trading.
  - The $2b New Jersey deli issued a filing with the SEC reading, "Hometown disavows the price of its publicly quoted stock."
  - When Kiawah island was sold to the Kuwaitis in 1974, it was the largest nominal real estate transaction in US history.
  - The FTC reports that 7,000 consumers have been scammed out of about $80mm in crypto in the last seven months. These scams are of the ilk: "send me one coin and we will send you two."
  - Everyone thinks of Newark, New Jersey when it comes to some of the best BBQ in the US, apparently.

Trading: We cut our Nasdaq Put protection. We rotated it into the more speculative wing of the market, the High Growth, profitless companies. This meshes with our belief that quality Big Tech/Growth will outperform the more speculative wing of the Growth cabal. Otherwise, we added slightly to our Energy and Materials. And we increased our long in the health care name that recently de-SPAC'ed but is still trading like a busted SPAC (this means it should trade on its new fundamentals instead of the old speculation of what it would buy). We trimmed some AT&T after the news of it spinning off its media assets. We trimmed right after the news hit when the market was still taking it positively. But now we think the market is undervaluing the media assets, so it might be worth buying back in (the telco and fiber assets are staying at T, these are boring but stable businesses – the angle here is purely in the media assets).

And thanks to the lunacy/stupidity of Musk (below), we dumped our small position in Bitcoin and Ethereum. We made a big gain (big %, small $). But seeing that the multi-trillion-dollar market was swinging wildly on one crazy man's single word tweets, we got the heck out. We will revisit when Musk is out or at least stops tweeting about it (the former is far more likely than the latter).

TSLAQ: There is a new brand of twitter crazies that spew more vitriol towards The Villain that the standard TSLAQ crowd (the cheeky Q is added to the ticker to signify bankruptcy). The Bitcoiners are up in arms after Musk said or hinted 1) Tesla would stop taking payment in Bitcoin 2) Tesla might sell its Bitcoin because of the environmental damage Bitcoin mining causes through massive electricity usage 3) Tesla has sold all its Bitcoin 4) Tesla has not sold its Bitcoin but still has problems with it. Only Musk could manage this situation so poorly.

Lost in the shuffle was more data out of China. The pressure by the communists is having a direct impact on sales. Tesla is not a growth story. Or a tech company. It is a car company.

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