



Weekly Update

7-Oct-2026

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- The market is in a good mood again
- Goldilocks economy?
- Interest rate fears might be tempering
- AI/SI is still accelerating
- Diesel is a problem...more so with an export ban
- Is the IPO market stumbling?
- Almanac stuff does not always work
- A mismatch in Operating Cash Flows across sectors?
- Inflation cools, Income cools, Spending remains robust
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- Where did all the crypto money go?
- Chart Crime of the week
- Did the Nvidia truck thieves eat the sand?

	Last	5d %	YTD %	1yr %
S&P 500	7,802	1.9%	14.0%	16.2%
QQQ	\$757.73	2.4%	23.4%	25.4%
US 10 YR	5.30%	5.29%	4.17%	4.12%
USD/DXY	102.3	101.5	98.3	99.5
VIX	15.1%	16.3%	15.0%	16.3%
Oil	\$88.94	-1.6%	53.7%	43.0%

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

** Oil is front month futures, beware

The market mood is smiling again as the major indices flirt with all-time highs. The freak-out over interest rates has ebbed. Cooler inflation along with slower (but still ok) employment growth removes some of the pressure on the Federal Reserve (goldilocks?). The Artificial/Super Intelligence doomers have quietly slipped back into the shrubs. Meanwhile, AI/SI earnings are still accelerating higher. Geopolitically, Iran is only a problem if oil cannot flow...and the oil is flowing (JPM and GS estimate that 98% of exports from the region have been restored; diesel and shipping rates are still problems). And for all the talk about another round of the tariff war, Brazil, India, and China have all had positive developments (offset by the overly dramatic tiff with Canada).

The most notable development in the US Treasury market is the continued reinverting of the yield curve. The short-end of this trade reflects the normal state of the Federal Reserve Open Market Committee. That is, the 12-0 vote in favor of hiking rates in September was likely the committee making a unified stance to thwart any political backlash. But as we surmised back in the summer, the split amongst the 12 voting members is likely an even 6-6. The probability of a rate hike in October has fallen to 20%. It was 40% last week and 70% the week before that. A December hike is still on the table and likely (80%, but see our point below about rate Volatility). The long-end of the curve remains pressured (staying high). This is a function of fiscal irresponsibility, massive corporate debt issuance (AI funding), Yen-carry trade unwinding...and a positive outlook for growth! (Yes, we think the Yen-carry trade unwinding is real, but we think it has been orderly...no panic or eject buttons being pushed.)

As we always say, the volatility of rates matters as much as the level (at least in the short-term). And the Treasury Volatility index (MOVE) has stabilized (still elevated, but showing signs of rolling over). Of note is the breakdown in the correlation between oil/rates and equities. When oil and rates started moving higher in late August, equities (especially those sensitive to rates like small caps, Utilities, Industrials, Staples, Discretionary) suffered. But now we are seeing the rates/oil correlation loosen. And equities appear to be freed (and consumption data is not as bleak as many had feared back in the summer). On a different note, whenever the financial media latches onto something esoteric like French OATs (Treasury bond equivalent: Obligations Assimilables de Tresor), that is usually a sign that the opposite will soon happen (in this case, fewer fears surrounding interest rates).

In the AI/SI world, Micron's earnings told us that the demand for compute (and thus its high bandwidth memory) is still accelerating. Marvel, a company that helps move data across chips and server racks, set a revenue target 10x what it brings in today. Granted, this is a five-year target of which we are always leery. But it bodes well for the broad ecosystem. The power side of the trade is back on stable footing as the hyperscalers are signing new nuclear contracts. And the US government is helping the financing in this arena (Vistra). As for people actually using this stuff, Merrill detailed the recent mobile daily active users of the bunch. In September, ChatGPT's users grew +69% year-over-year (y/y) and +7% vs August (m/m). Gemini experienced a jump of +321% y/y and +11% m/m. Meta AI burst +646% higher y/y and +2% m/m. Grok increased +145% y/y and +2% m/m. The total daily active users are: ChatGPT 664mm; Gemini 151mm; Meta AI 6mm (Muse is an additional 2mm); Grok 2mm. We are still worried about the end game...when the financing money runs out (Amazon just sold some chips and then leased them back...vintage off-balance sheet maneuvering), will the revenues be sufficient? But for now, we think there are plenty of positive signs of momentum (notwithstanding OpenAI's dud of a developer day). One odd twist is that Nvidia announced an additional \$150b buyback. This is great for the dynamics of the stock, but does it signal that Nvidia is lacking places to invest? Probably not. It just announced a new set of cyber security protocols embedded in its systems as well as a venture with Microsoft's Surface computer.

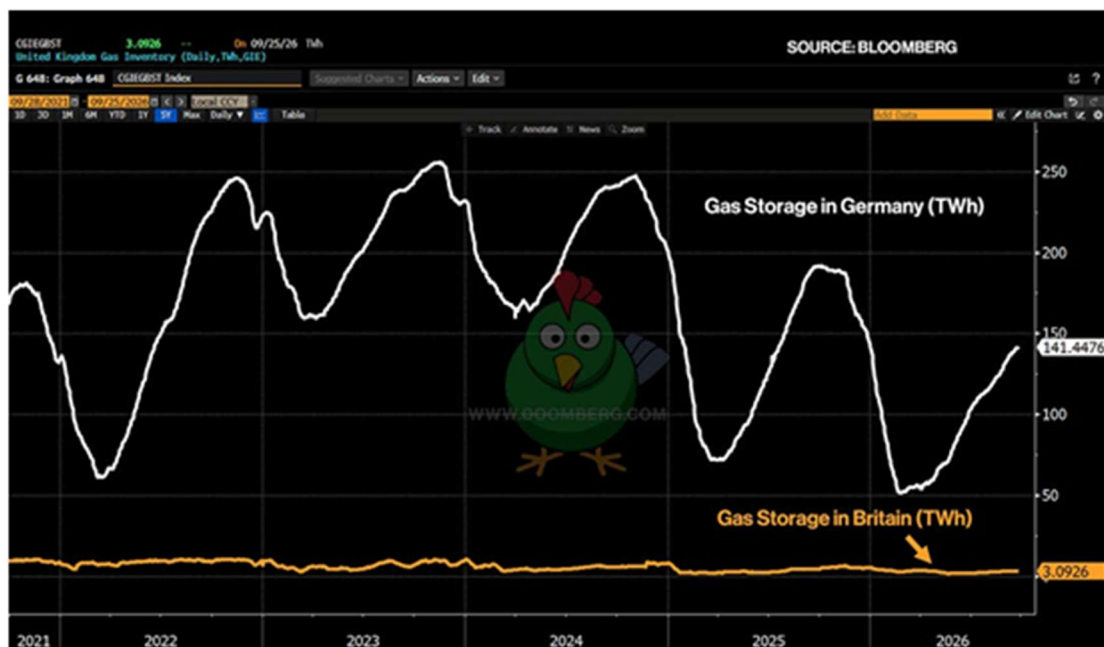
We are seeing the market concentrate back into Big Tech with the monetization theme. It is also starting to ignore the oil and rate environment. We think this makes sense and we are positioned this way.

➤ Diesel is a problem...more so with an export ban

When the idea was floated that the US might ban exports of diesel, we said it could work in the short-term but have unintended consequences in the medium term. Refineries are likely to keep producing diesel in the short-term despite the tick lower in price. But much of the pipeline capacity in the US is already full. Soc Gen notes that of the 3mm barrels per day of diesel that is refined along the Gulf Coast, about 1mm is exported, 1mm is kept regionally, and 1mm is transported to other regions (PADDs). The East Coast receives about 900k of these

barrels. But the catch here is that the Colonial Pipeline, which runs from Houston to New Jersey, is already running at full capacity. The Gulf refineries could put some diesel in storage. But when this fills, the only thing left for them to do is to cut production. And voila, up goes the price of gasoline (a barrel of oil makes about 12 gallons of diesel which is about 30% of the production coming out of a barrel). Goldman quantifies this to be an immediate \$0.30 price jump at the pump.

As usual, Europe is making matters worse. In case you thought the Brits were smarter about their energy independence than the rest of Europe, Doomberg points out that they are at the bottom of the heap when it comes to energy storage. (We have previously detailed the continual closure of gas storage facilities across the country. It is one thing to not have the infrastructure...it is absolute lunacy to permanently mothball your pipeline network and storage capacity.)



- The broadening is dead, long live the concentration

The number of stocks in the S&P 500 that are above their 200d moving average (a somewhat arbitrary technical indicator that many people like to monitor) is currently only about 51%. This is one of the lowest percentages ever with the market near all-time highs. The last time it was this bad was March 2000...the peak right before the dot.com bubble burst. Funnily enough, the guy who posted this on X also reminds us that this concentration anomaly existed in December 1998. The market gained another 30% before the bursting. We always note that concentration can look scary and the media loves to harp on it, but there is nothing intrinsically bad about it (not to mention, it is self-fulfilling with the increase in passive investing).

- Is the IPO market stumbling?

Oura, the maker of those modern-day mood rings, pulled its planned IPO. The company cited “market conditions” which is crazy. The company is profitable on \$11b of revenues, so we are not passing judgement on the prospective stock...it is just weird that they are worried about the market when it is at an all-time high. The relevance for us is that this negative sentiment has started to weigh on the investment banking stocks. We think this might be overplayed (they also get lumped into the “AI agents will pull their deposits” trade which does not make any sense as they do fund themselves with deposits.)

➤ Almanac stuff does not always work

We always say we are not almanac believers...be it seasonality of stock returns or which conference wins the Super Bowl etc. But this data from OddStats (X) certainly grabs our attention. When the QQQ (Nasdaq 100) is up at least 2.75% and its Volatility index (VIX) is up at least +1 point, the subsequent returns are uninspiring. Of course, In the two weeks since this anomaly occurred in late September, the market (QQQ) is up about 2.2%.

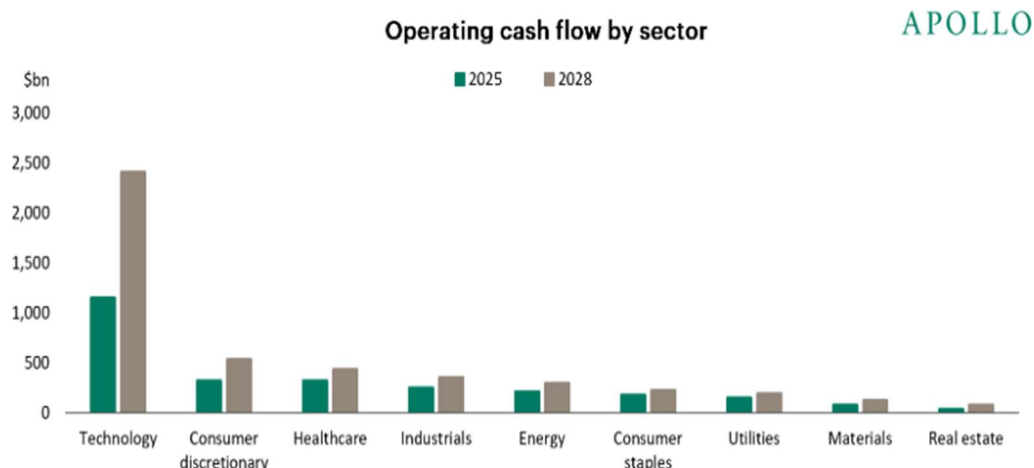
Date	VIX	Return That Day	2wk Forward Return	1mo Forward Return	Worst Draw Down Next 5d
Mon, Sep 21 2026	20.39	2.75%	??	??	??
Thu, Feb 2 2023	25.06	3.59%	-2.70%	-5.81%	-3.7%
Mon, Jun 1 2009	30.72	2.85%	-1.33%	0.17%	-1.3%
Fri, Sep 19 2008	34.26	3.27%	-15.66%	-24.70%	-6.3%
Mon, Jul 7 2003	33.51	4.26%	-3.16%	-4.95%	-1.8%
Mon, Jul 15 2002	67.85	3.09%	-6.79%	-4.07%	-9.7%
Thu, Jul 11 2002	68.99	3.74%	-10.29%	-5.96%	-4.2%
Mon, Jun 17 2002	54.98	3.40%	-12.98%	-10.17%	-11.7%
Tue, May 1 2001	65.46	4.10%	-6.03%	-4.17%	-6.1%
Thu, Apr 19 2001	71.83	6.04%	-3.13%	-0.55%	-10.9%
Tue, Oct 31 2000	77.84	6.43%	-7.17%	-21.66%	-3.1%
Thu, Oct 19 2000	80.34	9.05%	-3.60%	-14.38%	-13.5%
Fri, Oct 13 2000	76.78	8.16%	-1.88%	-11.55%	-8.2%
Median		3.92%	-4.82%	-5.88%	-6.2%

@OddStats Source: stooq.com (QQQ) / CBOE (VIX) Sept 21, 2026
This information is solely for entertainment purposes. This is the past, not the future.
Drawdown is the lowest point over the period (intraday) from the close of the date on the far left

➤ A mismatch in Operating Cash Flows across sectors?

Apollo is asking the question, if AI/SI is so great, how come only the sellers of the services are the ones projecting an increase in operating cash flow by 2028? It is a fair question to raise, but I think the answer is merely timing with a dash of ego. The Tech Bros think they are changing the world and there is little doubt that their AI/SI-induced growth will continue to impress. Meanwhile, regular management teams are not counting their chickens before the eggs are even laid. (As we always include, we are big believers in AI/SI. But the timetable for everyday use might not be as near as some hope.)

Tech's operating cash flows are expected to soar, but its customers' are not?



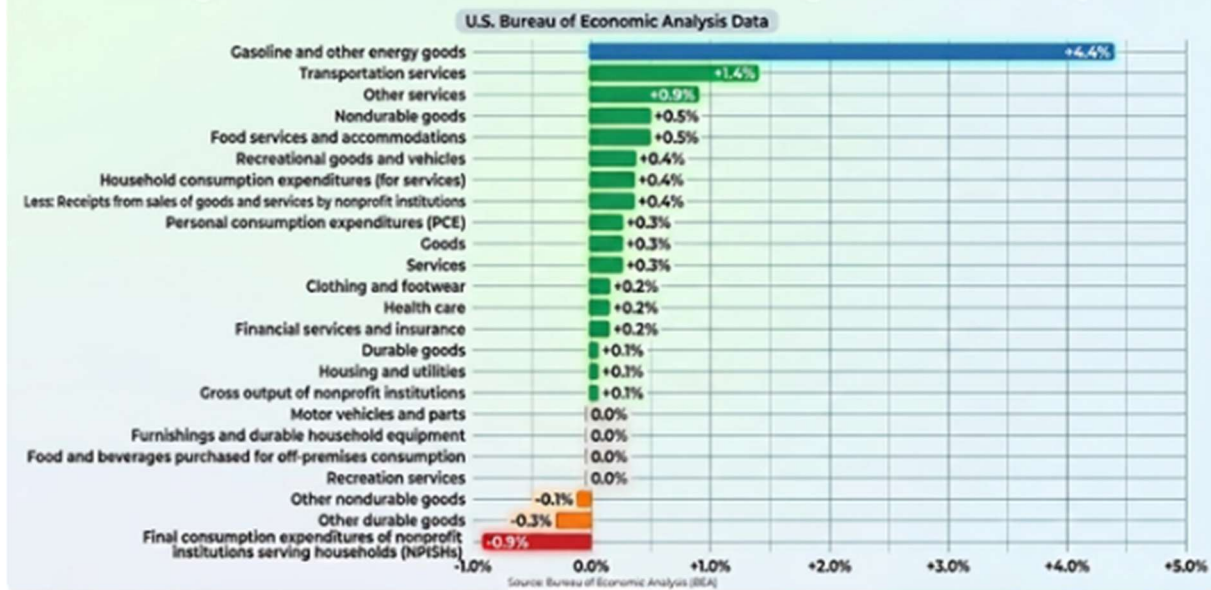
Note: Technology includes Information Technology and Telecommunications. Sources: FactSet, Apollo Chief Economist

➤ Inflation cools, Income cools, Spending remains robust

Inflation according to the change in the Personal Consumption Expenditure Index (PCE) was tamer than expected. August prices increased by +0.3%. While this is up from +0.1% in July, it was below the +0.4% expected (not to mention, July was revised lower from +0.2%). The “Core” monthly increase was +0.2% vs +0.3% expected. July was also revised down from +0.2% to +0.1%. The annual increases were +3.4% (same as July which was revised down from +3.7% and lower than +3.7% expected) on the headline and +3.0% on “Core” (+3.0% vs 3.0% in July which was revised down from +3.3% and vs +3.3% expected). Some of this was the change in calculation methodology we wrote about a month ago (portfolio mgmt. fees primarily, but there were a few other items including legal services and software). But it also signals that the second order effects from higher energy prices (diesel) are not happening (at least not yet).

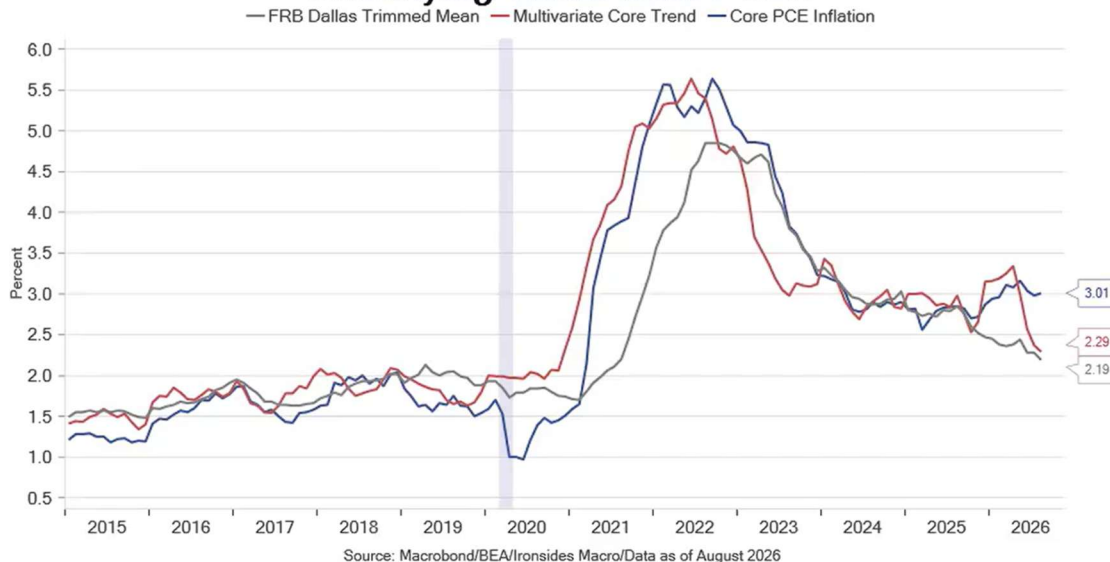
Personal Spending and Personal Income, however, were not as rosy. Income only increased +0.2% vs +0.3% in July (which was revised down from +0.4%). Disposable Income was slightly better at +0.3%. Spending, however, increased +0.9% vs +0.1% (July revised down from +0.2%). The uptick in Spending was across the board. Obviously, this is good for the economy today, but the sustainability comes into question. The Personal Savings Rate dipped back to 4.1% from 4.6% in July. Savings have been trending lower since January 2024. Solid personal balance sheets (improving credit card delinquency and charge off metrics) and the strengthening wealth effect (high stock prices, higher real estate values) have both been buffers to this dropping Savings Rate. But the rubber will meet the road at some point.

August 2026 PCE Price Changes, Monthly



If Fed Chairman Warsh ever gets around to using the modified inflation gauges that he has expressed a desire to implement, he might not be so keen to keep hiking rates (dare he might even be tempted to cut rates!). But for now, the Core PCE is the one to track. (Ironsides (Barry Knapp's chart) keeps pounding the table that the Fed *should* be cutting. He goes so far as to say that the fed was probably thinking that hiking in the short end would help contain the long end of the curve. Of course, this has not worked.)

Underlying Trend Core PCED



➤ Employment slows but not enough to worry about

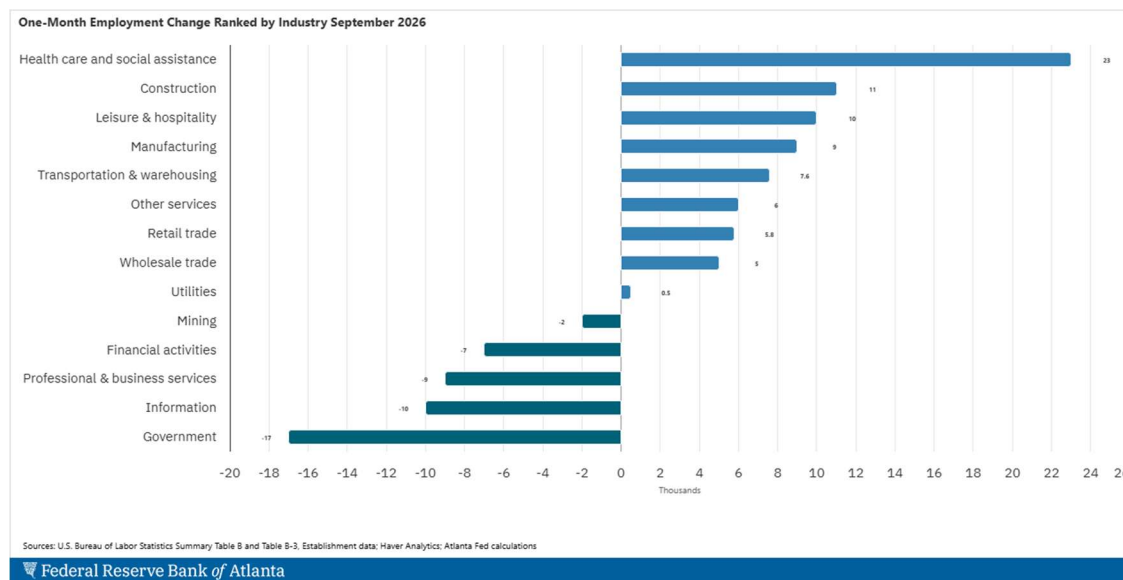
The September Employment Report was softer than expected, declining to +29k jobs vs +90k expected. This is down from +133k in August which was revised lower from +162k. July was also revised down by 31k to hit -10k. Private Payrolls gained +46k which is the silver lining (ADP's guess was +90k, so certainly a touch of gray, as well). But this was still down from +89k last month (which was also revised down from +127k). Government Payrolls declined -17k reversing from the +44k gain last month. Manufacturing eked out +9k new jobs. On the bright side, the 3-month and 6-month average job gains (+51k and +66k) are both greater than the 12-month average (+41k). Apollo estimates that the breakeven job growth level is now flat or around 25k jobs. This is down from 200k as recently as two years ago. This has been driven by lower immigration and more boomers retiring. John Mauldin thinks the immigration dynamic will reverse within a year or two. (Not sure why unless this is a political gambit? But he usually has a good read on demographic stuff.)

The Unemployment Rate ticked up to 4.2% from 4.1%. The Labor Participation Rate increased to 61.8% from 61.6%. The math points to strength. 406k people became employed in the month. But since 485k people entered the labor force, the unemployed rate ticked up. But more jobs and more people having the confidence to reenter the workforce are positive (the glass-is-half-empty view might be that more people are desperate for jobs after spending their savings...this is plausible but not probable).

Average Weekly Hours remained steady at 34.4. Average Hourly Earnings only increased +0.1% vs +0.3% last month.

The first Weekly ADP Employment Change number in October was +24k.

Job Openings (JOLTS) fell slightly in August to 7.08mm down from 7.34mm in July. Quits ticked up modestly from 3.066mm from 3.056mm. The net move (fewer Openings vs not as many Quits) is mildly bearish for labor data. But considering the number of new jobs in August, it is logical that there would be fewer Openings (we have not drilled down on this to see if the timing of the data makes sense – we will try to check it out).



➤ Other economic data is mixed

The final reading for the September S&P Services PMI was stronger than last month as expected (58.8 vs 56.5 in August). This brings the Composite for the month to 58.4 up from 56.0. This is the strongest reading in over five years. New Orders, Employment, and Prices all shot higher.

The ISM Services PMI for September decelerated slightly (55.4 to 54.9). Employment was better. But New orders slipped, and Prices were higher.

The Dallas Fed Services Index flipped to negative albeit in a smallish range (+4.2 to -1.8). Services fared a touch worse at +6.6 to -0.9.

Weekly Mortgage Applications fell again (-4.2% this week and -6% last week).

The average 30-year mortgage rate is now at 7.49% (7.3% last week).

Weekly Redbook Retail Sales increased +8.6% (vs +8.2% last week and +7.6% the week before).

Consumer Confidence ticked lower in September. We do not pay too much attention to these surveys. Nonetheless, this one is more centered on Employment, so we would have thought it would be more stable. It has some weight on Housing which could be a drag.

➤ Where did all the crypto/Burning Man money go?

The SEC is investigating a firm called Broadstreet for running a Ponzi scheme. The allegations point to all the normal red flags. The company, which raised over \$1.2b from over 1,000 investors, promised returns of 28% (or more) by investing in real estate development and small business lending. The fund promised monthly distributions in cash (what else?) and targeted retirees. Alas, most of the money went towards investments in a Dogecoin mining company called Z Squared and a SPAC called Soulpower Acquisition. Once the monthly distributions stopped and the jig was up, investors wanted their money back. Not having any cash nor any liquid investments that could be sold, Broadstreet decided to distribute the shares of Z- Squared to its investors. These shares are down about 75% since the distribution. The entire company SOUL is worth about \$320mm. Things are not looking great for the investors that put their entire net worths into this scam.

There is a new crypto platform on the scene...we guarantee we will be writing about this one in the future. It is called Papertrade. Nice way to dupe suckers into thinking it is not real money. It offers the product that is all the rage now...perpetual futures on crypto. It offers 1000x leverage. 1000x. The crazy part is that it brags about not matching customer orders. It wants to serve as a market maker for these products. It will mirror the payouts from other platforms including HyperLiquid (a platform we have laughed at before). But ultimately, you are betting against the house. 1000x.

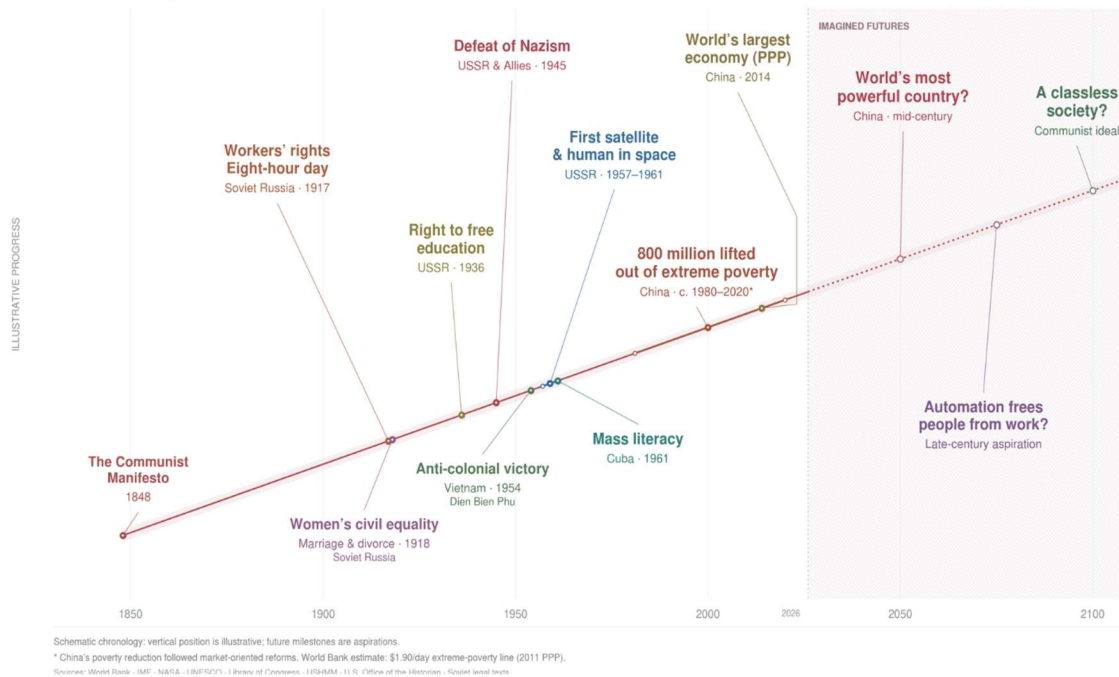
Here is a good one from Matt Levine. The board of a company called Automattic fired its CEO while he was (wasting) away at Burning Man in the Nevada desert. The board had to act quickly and under the cover of darkness because the CEO owns 84% of the stock. Naturally, when the CEO got back to reality, he fired the board (since he was the controlling shareholder). So why bother with this Nevada two-step? The CFO and the CLO wanted to get paid! While the CEO was away, they drew up severance packages for themselves to the tune of \$8mm.

➤ Chart Crime of the week

Communists are not good at much...including making charts that make sense. Basically, it is just a list of "accomplishments"...more like things that happened...and then they put them on a line tilted from bottom left to top right.

COMMUNISM

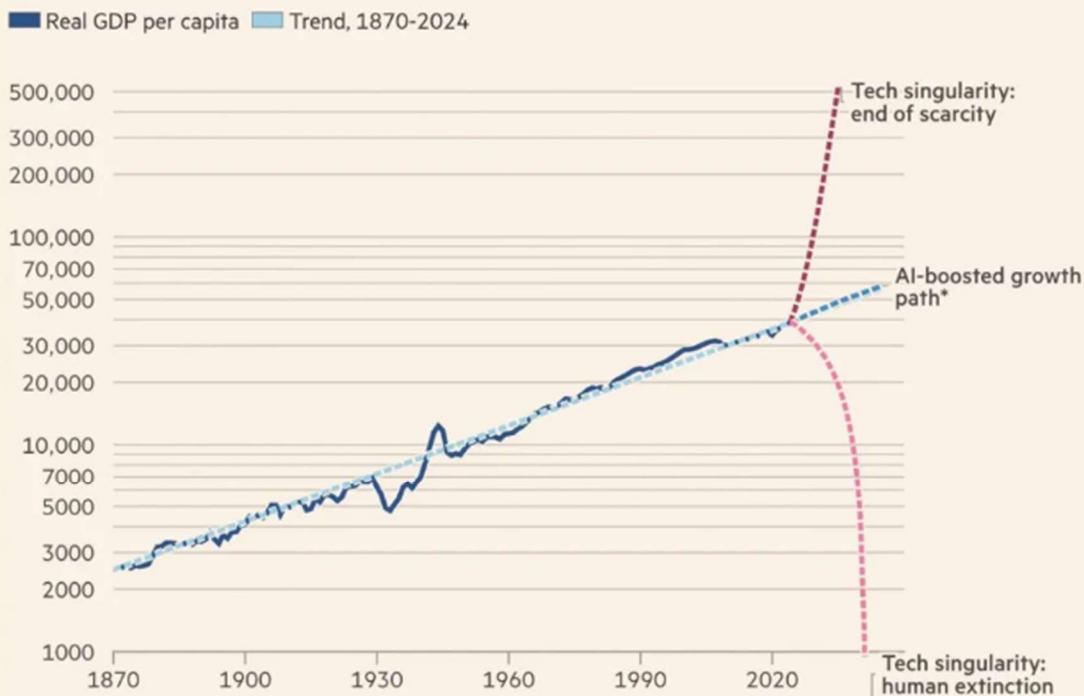
Selected achievements and imagined futures



This one is from last year. Yes, there have been AI/SI doomers for a while. But just as silly is the other end of the binary outcome...Real GDP per Capita goes up 10x in the span of a year. We will take that over death. But both are pretty unlikely.

AI could end scarcity, end humanity - or boost trend growth by 0.2 percentage points

US real GDP per capita (1990 \$), log scale



FINANCIAL TIMES

Source: Wynne & Derr, 'Advances in AI will boost productivity, living standards over time' (Federal Reserve Bank of Dallas, 2025) • Trend 1870-2024 = 1.9% pa. * AI-boosted path = 2.1% for ten years, then trend

➤ Quick Hits

- The Fontainebleau in Vegas sells a \$1,000 steak.
- Stephen Tobolowsky, the actor best known for playing Ned Ryerson in Ground Hog Day, told some crazy stories to David Byrne of Talking Heads while they were working on the movie True Stories. Byrne wrote the song Radio Head. 23 years later, the band RadioHead adopted it as its name.
- Tobolowsky played guitar in high school with Stevie Ray Vaughn.
- Caracas suffered a golf club shortage as “hundreds of executives and diplomats descended on the Venezuela capital for a sold-out energy conference.”
- Vanderbilt and Virginia played an exhibition basketball game on an outdoor tennis court (Jerry Jones reportedly loved the sun and its long shadows cast over the court).
- Mariano Rivera is the only pitcher in MLB history to record the final out of four different World Series (1998, 1999, 2000, 2009).
- The REM song “What’s the Frequency Kenneth” is about a madman that attacked Dan Rather on the streets of New York. He was shouting, “Kenneth, what is the frequency?” He was later arrested for murder.
- “We Built This City” by Starship is considered the worst #1 song of all time.

- The late great Dusty Hill of ZZ Top worked as a baggage handler at DFW airport between concert tours.
- Thieves hijacked an Nvidia trailer. It was not full of GPUs...it was full of sand.
- The recent heavy winds and rainstorm in the Northeast washed ashore the remains of the Warren Sawyer shipwreck onto the south shore of Nantucket. It originally crashed in 1884.
- The New York Stock Exchange was open on Saturdays up until 1952.
- Almost 40% of all vehicles in the UK are diesel (16mm of 42mm).
- The UK only has four diesel refineries (down from 18 in the 19070s).
- Kalshi is now worth about twice what DraftKings and Fanduel (Flutter) are worth combined.
- McDonald's feeds about 1% of the world's population every day.
- Sunday was the first time in NFL history that four cat-mascot teams played each other (Lions vs Panthers, and Jaguars vs Bengals).
- The San Jose Sharks sell beer in an ice skate.
- McDonald's will be giving away pickle juice to everyone at the Chicago Marathon (runners/watchers/pickle-lovers).

TSLAQ: Tesla has pushed back its Roadster reveal event by two weeks. Tesla claims the event can only be held outside, and the weather forecast is looking ugly. Rumors still persist that Tesla is going to put a SpaceX rocket booster (cold-gas thruster) on the prototype. We must admit, this would be cool. If we had not already used a photo from the classic Burt Reynolds flick *Hooper* for our cover image, we would be all over it. But the Roadster is still irrelevant for Tesla finances.

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