Weekly Update

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- The markets continue to act erratically
- Now lower bond yields are signaling slower growth?
- There is still a lot of leverage in the AI/SI trade
- Lots of forced selling
- Maybe the Fed will not be hiking rates any time soon?
- Project finance is a growing source of AI/SI funds
- A disaster can be a good thing
- Earnings are rocking (still)
- Retail Sales stay strong (but in all the wrong places)
- Housing data is not getting better
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week
- Not that kind or real!

	Last	5d %	YTD %	1yr %
S&P 500	7,624	-0.5%	11.4%	12.3%
QQQ	$704.40	-0.7%	14.7%	14.2%
US 10 YR	5.00%	5.09%	4.17%	3.98%
USD/DXY	101.8	101.8	98.3	98.8
VIX	19.5%	20.0%	15.0%	15.8%
Oil	$103.44	2.0%	79.9%	68.0%

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

The markets continue to act erratically. Artificial/Super Intelligence-related earnings are still real and spectacular. Interest rates have cooled after their inflation-inspired panic. But now the narratives have been flipped upside down. Sustained capex from Big Tech is now a bad thing for infrastructure names (despite good numbers from SpaceX and Supermicro, Meta's increased capex guidance rocked the complex). An increase in AI/SI usage is exposing some flaws in the business model of the giant large language model (LLM) builders. That is, the cost of compute remains stubbornly high, but the cost to use the AI/SI tokens is falling. Obviously scale matters, and the new-on-the scene agentic bots were supposed to cure all. But there is more pushback on these than expected (more banks and e-commerce sites are blocking their access). We suspect this will be a short-

term hurdle just like the political opposition to building the datacenters. Vendors will not restrict access…they will just demand a cut of the action. At the same time, Anthropic tried to diffuse some of the mixed messages about its revenue growth. The bulls are happy with the 45% growth in Q3. But the bears point to the rate-of-change slowdown from Q2's 145% growth. Both Anthropic and OpenAI are seeing pressure on their private market valuations.

The move in interest rates is even more puzzling. Oil and rates were positively correlated. The back and forth in Iran was moving oil, which moved interest rates, which moved equities. But now the oil/rates correlation has broken. Bonds are now the flight-to-safety asset class when the equity market freaks out about future AI/SI revenues. In other words, the market is telling Warsh and the Federal Reserve that inflation is no longer the problem. Bonds (and the flattening yield curve) are pricing slower growth. We think this is a reasonable concern in the medium term, but growth in the short term is still accelerating. At the same time, growth appears to be broadening (not just in AI capex).

We think there is still a lot of leverage in global equities. South Korea is back to leading the other semiconductor chip stocks (which is ok on the way up…but certainly not on the way down). And most of this action continues to be deleveraging. There was a datacenter IPO, Elice, that was over 400x oversubscribed. But it plummeted 32% in its debut. It was only a $150mm deal, but the headline move was enough to rattle the global markets. But there are plenty of problems in US hedge funds, too. The "pod shops" are shutting down lots of internal investing teams that continue to be wrong-footed on these factor rotations…the relative strength in small-caps screams short-covering. (Pod shops are the giant hedge funds that have taken on much of the risk taking that traditionally took place at banks pre-Dodd-Frank reform and other restrictions on capital requirements.) Not to mention, we warned about Leopold reentering the equity market with large option positions. And with Volatility moving near that dangerous 20 level on the VIX, quant funds are forced sellers. Even the multi-strategy hedge funds have been unwinding positions…these guys are typically more comfortable with volatility and enjoy massive diversification. (Multi strategy funds trade equities, bonds, convertible bonds, option volatility, quant strategies, MBS bundling, bets on the weather, life insurance products, SPAC arbitrage, prediction markets…you name it.) Goldman and Morgan Stanley report that over the last week, selling has accelerated to its highest level in two months. No surprise there. But the Tech selling was the largest seen in over a decade. AI/SI net exposure is down to the 35th percentile (over the last year). Of course, hedging spiked higher during this episode of selling.

One qualitative observation from us is that the day after the one-day blowups, the market is relatively stable. But there are no strong bounces. One step forward and two steps backwards is a bad recipe. But ultimately, time washes out these misallocations of capital. We have been buying some of the Tech names. But we are moving slowly and trying to keep our exposure neutral.

- Maybe the Fed will not be hiking rates any time soon?

Warsh spoke on Thursday and of course made no direct mention of his rate policy intentions. He did, however, signal that hikes might be on hold since the market has "broadly conformed to our expectations." In other words, the market has already done the work of tightening lending and credit standards. The probability of a rate hike this Wednesday dropped to about 10%. But the market does not believe this softer side of Warsh. It is still pricing in an 80% chance of a hike in December.

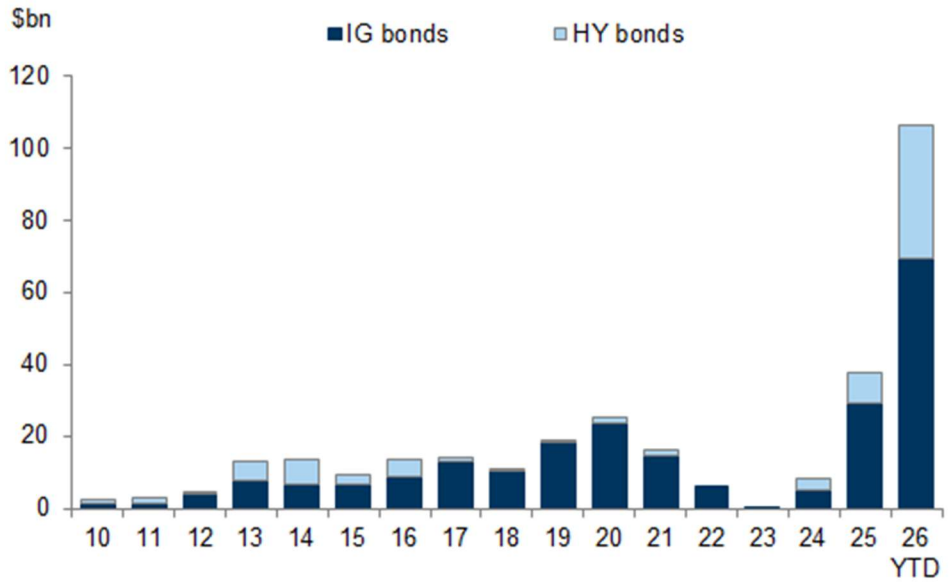
- Project finance is a growing source of AI/SI funds

This chart shows the explosion of project finance debt. 2027 issuance is forecast to eclipse $300b. This is in addition to the $420b in corporate issuance. In theory, project finance is a better option for the market. Debt is

isolated and there should not be contagion if politics derail a certain datacenter or it simply is a money loser. Of course, the giant caveat is that the AI/SI ecosystem must work and become profitable. If this does not happen, then all the different projects will become correlated very quickly.

Exhibit 1: Project finance issuance in the USD IG and HY bond markets has already surpassed $106 billion—nearly 3x the full-year 2025 level of $37 billion

USD IG and HY project finance gross issuance volumes ($bn)



Note: As of October 13, 2026.

Source: Dealogic (ION Analytics), Goldman Sachs Global Investment Research

- A disaster can be a good thing

Bloomberg reports that Apple's iPhone Duo preorders "were an absolute disaster." This grabbed our attention. Maybe the two-sided foldable phone is not as cool as we thought. Or perhaps it was too expensive. Uh – no. The demand was so strong that delivery dates have been pushed back weeks and maybe months. This might be a logistical misstep by Apple, but having too much demand for a new, expensive product should hardly be called a disaster.

- Earnings are rocking (still)

It is still relatively early in the Earning season, but the beat rolls on. We will not see the huge "other income" line items that fueled the almost +54% EPS growth in Q2. But with a current growth rate of +31%, core earnings are keeping pace with last quarter (roughly +28% to +32% after stripping out the large private equity / mark-to-market gains). And it is not just Technology. Revenues are slowing marginally, but +11.7% is still great (down from +13.6%, this excludes Energy).

Exhibit 3. 2026Q3 Blended (Reported & Estimated) Earnings Growth

Sector	Today	1 Oct	1 Jul	1 Apr	1 Jan
Consumer Discretionary	4.0%	3.3%	2.7%	6.4%	7.2%
Consumer Staples	4.7%	3.2%	6.7%	7.8%	6.7%
Energy	135.7%	114.7%	77.8%	18.0%	6.9%
Financials	6.8%	5.2%	3.1%	3.5%	3.2%
Health Care	1.6%	5.1%	9.2%	10.5%	9.5%
Industrials	20.2%	18.5%	16.7%	16.3%	16.1%
Materials	32.4%	30.9%	43.2%	29.8%	18.8%
Real Estate	4.0%	3.8%	3.5%	3.7%	3.7%
Technology	66.9%	66.5%	58.8%	44.1%	28.5%
Communication Services	37.7%	49.0%	51.7%	49.9%	31.7%
Utilities	7.9%	6.0%	7.9%	7.5%	5.6%
S&P 500	**31.0%**	**30.6%**	**27.6%**	**21.3%**	**15.1%**

Source: LSEG I/B/E/S

- Retail Sales stay strong (but in all the wrong places)

Retail Sales in September slowed to +0.8% from +1.3% in August. But this is still a strong number and better than the +0.5% expected. However, the Control Group, which contributes to GDP (and excludes Gas Stations, Auto Dealers, Food Services, and Building Materials), only increased +0.1%. This means Gas Stations were the driver of the headline with a +6.4% gain. Obviously, this data is not adjusted for inflation. The positives include Furniture, Food Services & Drinking Places, Health & Personal Care, and Electronics & Appliances. The categories with slowing sales include Clothing Stores, Miscellaneous, Building Materials, and Sporting Goods.

This weaker data does not necessarily derail the strong-consumer theme as it can be choppy month to month. But with tax refunds fading and tariffs still biting, we might see a slowdown around the holidays which might be worrisome.

- Housing data is not getting better

The October Housing Market Index (aka home builder survey) slumped again. The headline fell to 29 from 32 which is the weakest sentiment since 2012. Current Conditions, Six-month expectations, and Current Buyer Traffic were all poor (Traffic being the worst at 18). 43% of builders cut prices. The average cut in price was 6% (same as the last seven months…strange). The NAHB economist summed up the report with, "Housing remains squeezed by supply-side constraints and significant affordability challenges. Demand persists, but higher mortgage rates, elevated construction costs and weaker consumer sentiment are keeping more buyers on the sidelines." Not a lot of bright spots in there.

Housing Starts in September registered 1.22mm (annualized). This is down from 1.29mm in August. Building Permits were flattish at 1.4mm.

Pending Home Sales fell -7.3%.

Weekly Mortgage Applications fell -5.3%.

The average 30-year mortgage rate moved lower to 7.41% from 7.50% (not much solace).

- Other economic data is modestly weaker

PPI increased much more than expected at +1.3%. This is up from +0.5% in August. +0.5% was expected. The "Core" PPI also accelerated from +0.2% to +0.7%. The components in the PPI that affect the PCE were slightly worse. PCE estimates will likely tick higher (not to mention from the higher CPI).

The S&P Composite PMI decreased a bit in October from 58.4 to 57.6. Manufacturing ticked up to 56 from 55.9. Services moved lower from 58.8 to 57.9.

The NY Fed's Empire Manufacturing index increased from 7.6 to 25.5. The NY Fed's Services Activity Index slumped from -8.7 to -20.7. The Philly Fed Manufacturing index slumped from 37.8 to 20.9. The Kansas City Fed Manufacturing Index decreased slightly but it is still solid (20 to 16)/

Industrial Production in September increased +0.7% vs +0.1% in August. Manufacturing also flipped from -0.2% to +0.3%. (Industrial Production = Manufacturing + Mining + Utilities)

The Weekly ADP Employment Change slowed a bit to +19k. This is for the first week of October. It breaks the weekly streak of steady improvement from late July.

Jobless Claims were 199k and 194k as usual. Continuing Claims were 1.7mm and 1.73mm as usual, too.

U Michigan Consumer Sentiment (October) remained flat (which is terrible, but we ignore this one).

U Michigan's Inflation Expectations ticked up slightly. The 1-year went from +4.6% to +4.7%. The 5-year went from +3.4% to +3.5%. (This one is biased also, so we prefer other expectation measures. But we still use it marginally. It is similar to Chinese data…the actual numbers are irrelevant, but the direction of the numbers can be insightful.)

- Where did all the crypto money go?

A few weeks ago, hackers broke into the crypto platform Bitget (not to be confused with Bridget!). Apparently, this platform (not an exchange!) has over 120mm users. All of these users woke up to their fake money being frozen without access. The Seychelles-based company (wow is that a red flag) noticed "unauthorized transfers" to the tune of $350mm. But fear not, all of the customer fake money is backed by Bitdget's fake money reserves. Unless it got hacked also.

The latest old-school theft involved over $1mm of "graded" sports cards sitting in a FedEx truck outside of the grading facility. These might be harder to resell than the Italian wine or the Nvidia chips. But some of the cards were Pokemon! Maybe last week's scoundrel is/was surreptitiously preparing to unload his bounty!

Sometimes, crypto hacking is just old school stealing. Two thieves in Australia physically stole a Bitcoin ATM from a laundromat.

- Chart Crime of the week

When you really want to make up a narrative, just use two variables with no correlation, slap them on a chart without a y axis for either variable, and proclaim that an event in time is responsible for whatever those two variables do.



Apparently, the love for chartcrimes is expanding. We found a tool that can create chartcrimes from regular charts. It uses a "Trust Me Bro" benchmark with an imbedded "lie factor" so you know how much you are distorting the truth.

- Quick Hits
  - An American running his second marathon finished 10th in the Chicago Marathon. He did the vast majority of his training on a treadmill in a Planet Fitness.
  - The unicorn is the national animal of Scotland.
  - King Tut's dagger was made from a meteorite.
  - KFC is shifting to Coke from Pepsi.
  - Pepsi has been the drink of KFC since 1986 when it bought the chain. It already owned Pizza Hut and Taco Bell.
  - KFC sales in the US accounts for less than 5% of parent company Yum's total sales.
  - Lula's election tactic in Brazil is to push a bill to shorten the workweek (the election is today, and it looks like Lula is gonna stage a big comeback and win).
  - The Kaliningrad Oblast is part of Russia. It sits to the west of Lithuania. It has ports on the Baltic Sea. It does not connect with the rest of Russia.
  - Under Coach Sark, UT football has a 3-and-punt rate of 62.5% when leading in the game. When UT is trailing, their 3-and-punt rate drops to 20% (this was before Saturday's squeaker against Oile Miss…we suspect the ratio is even worse now).
  - Since 2014, NFL teams have run 16,178 plays when leading with under 6:00 left in the game. Last week, Bo Nix became the first QB to run out of bounds behind the line of scrimmage under these circumstances.
  - The impending release of Grand Theft Auto VI is predicted to cost the US economy $1b in a single day (Nov 19). 1.5mm people are expected to "call out sick" in order to play the game.
  - During the last 30 months, the Old South Diner on Nantucket has sold six scratch-off lottery tickets that have cashed for at least $500k.

- VIP tickets to the Sick New World Texas music festival cost $4700. Slayer was the headliner.
- Just as a reminder, the Chalk Creek Weekly has previously highlighted the Eddie Murpjhy film *The Distinguished Gentleman*. It was about a conman with the same name as a dead congressman. He ran for reelection (in his place) with the tagline "The name you know." Sometimes fiction becomes truth (Alaska).

TSLAQ: The Roadster finally made its debut. After nine years in the making, our first response is WOW! That said, it is not really a car. It is just a tricked-out shell that can semi-fly with some spinning in the air. But it is still a cool feat of engineering as it has enough finely tuned rocket-booster power to catch itself while it is falling upside down. It is slated for 2028, but we doubt it ever makes it to production. We (and lots of pundits) think this demonstration was just to provide enough wow-factor to win over people to get a merger done between SpaceX and Tesla (which is becoming more and more likely).

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