



Weekly Update

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- The narratives are gone, and the market is higher
- The labor market is weakening, but not the economy
- The government shutdown will make it easier for the Fed to cut rates
- M&A activity is picking up
- Tariff threats are back, and nobody cares
- Is consumer credit in trouble?
- Positioning is still negative (somehow?!)
- Income and Spending are both outpacing inflation
- Not hiring, not firing persists
- Manufacturing sentiment is split along company size
- Business sentiment in China is oddly mixed
- Quick Hits
- Where did all the crypto money go?
- Chart Crime(s) of the week

Last week's slight market wobble is nary a memory. Not much has changed other than the typical shrugging off the narratives. That slight doubt about the circular nature of some parts of the Artificial Intelligence world has vanished. Nvidia and its closest cohorts have climbed to all-time highs. The economic data we are getting is mixed on the headlines. But GDP is tracking at +3.8% for the third quarter (this nowcast will move lower with more data, but it is still stronger than even the bulls imagined). We do not have all the data because the government has shutdown...and nobody noticed...except for maybe the Fed. The chances of two more rate cuts by the end of the year jumped to 92% from 60% last week (and 37% a month ago). The shutdown happened the same day as a weak ADP payrolls number. This combo led to some speculation that the consumer might not be in as good a shape as previously thought. But this slowing labor / growing economy dynamic is mostly a function of a change in demographics and an increase in productivity (AI). We think it is still a "not hiring, not firing" job market. Merger & Acquisition activity is picking up (the leveraged buyout for the video game maker Electronic Arts is the largest of all-time, and Buffett is buying out a chunk of OXY). This is typically a good sign for the markets. It is the kind of "risk on" sentiment that is on more stable footing compared to Fantasies & Frauds, SAPCs, crypto tokens, silly IPO valuations, etc. We will sum up this week's action with this: The pundits perfectly predicted all that happened...and they got the net results completely wrong! Perhaps the pundits will refocus their efforts on the latest Trump tariff threats. We think this is the same noise as it ever was. In fact, we have already seen Trump cut a deal to dispense with tariffs in exchange for lower drug prices. On the downside, there was some very weird stock action to end the quarter...not the typical marking higher of the winners (called window dressing). Perhaps there are more mini-rotations looming. But as long as the economy is growing fueled by the AI train, we will go along for the ride.

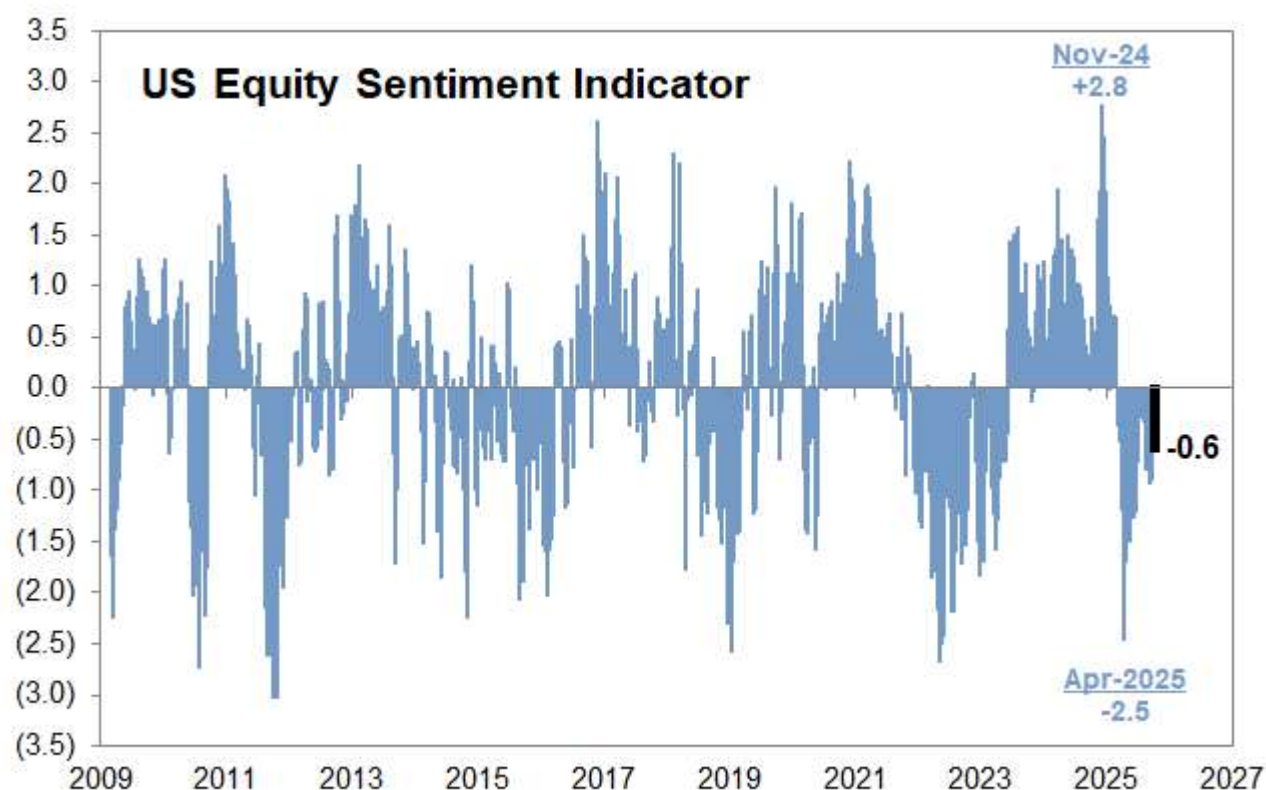
➤ Is consumer credit in trouble?

One of the negative narratives circulating involves recent bankruptcies in the auto sector (Tricolor, a dealer and auto lender, and First Brands, an auto parts company). The flashing red lights warn us that the consumer is in trouble and that there are credit problems lurking under the surface. We recently highlighted the dichotomy between rising bankruptcies (a bad thing) and falling credit spreads (a good thing). We thought the nominal uptick in bankruptcies was marginal and not representative of the broad credit market. Did we get this wrong with these latest bankruptcies? Probably not. Both of these companies got in trouble by borrowing the same money twice. They literally pledged the same collateral (the cars/parts) twice. It is unclear why these unrelated companies would bark up the same tree. Their first public answers point towards confusion (“we didn’t mean to”). We suspect it is fraud. Either way, we do not think all consumer finance related stocks should be punished for the criminal (or maybe just careless and stupid) acts of a few (to be fair, there might be more of these trade finance landmines out there, but again, that is not a sign of consumer stress).

➤ Positioning is still negative (somehow?!)

Here is a clear indication as to why dips are being bought. Sentiment, somehow, is still lousy. As we always say, there are a million ways to skin this sentiment data. But we do believe that many investors missed the manic bounce off the Liberation Day low (selling probably induced by political bias).

Exhibit 1: GS US Equity Sentiment Indicator of investor positioning



Source: Goldman Sachs Global Investment Research

➤ Income and Spending are both outpacing inflation

The change in the personal Consumption Expenditure index (PCE inflation) for August increased to +0.3% as expected vs +0.2% in July. “Core” inflation remained steady at +0.2%. This brings the yearly numbers to +2.7% and +2.9%. Personal Income continues to outstrip inflation with a +0.4% gain (same as last month). However, Personal Spending is also picking up steam with a +0.6% increase (+0.5% in July). This is great for the economy and the market in the short and medium terms. The question is how long can it be sustained? Goldman thinks about half of this consumption growth can be attributed to the gains in household wealth...stock market gains.

➤ Not hiring, not firing persists

Even without the official Employment data tomorrow, we can reasonably assume that not much has changed in the labor market. The private ADP data shows a contraction in new jobs. On the other hand, Jobless Claims have more than normalized lower after the weird surge in Texas claims. And the oddity of there being more unemployed people than Job Openings continues. As we have been saying, this labor market is “not hiring, not firing.”

ADP’s guess at the change in Employment for September was a drop of -32k. The market was expecting an increase of 50k.

Job Openings (per the JOLT survey) ticked higher in August to 7.23mm from 7.21mm (which was revised higher from 7.18mm). Quits, however, edged lower to 3.09mm from 3.17mm.

Challenger Job Cuts in September (54k) are much smaller than in August (86k). And the market was expecting a jump to 150k.

Initial Jobless Claims data was not released because of the shutdown. This data might jump when the government reopens. Furloughed government workers are allowed to file Jobless Claims and collect welfare checks. But they have to pay this money back if they receive backpay once they are brought back to work! We would love to know how much fraud is involved here!

➤ Manufacturing sentiment is split along company size

Smaller, domestically oriented manufacturing companies have a better outlook for their businesses than their larger international counterparts. The S&P PMI dipped a bit in September (53 to 52), but it has been slowly trending higher for three years (53 is the high during that time). The ISM increased a bit (48.7 to 49.1), but it is still in negative territory. Despite this mildly favorable rate of change improvement, New Orders slumped from positive last month (51.4) to negative this month (48.9).

The Dallas Fed Manufacturing index slipped deeper into negative territory in September (-8.7 vs 1.8 in Aug).

➤ Business sentiment in China is oddly mixed

China’s PMI diverged in September and not in the usual manner. The official government PMIs continue to hang right around the breakeven 50 level. The Manufacturing PMI is 49.8 (up slightly from 49.4) and Services is dead flat at 50.0 (down from 50.3). Hilariously, the official Composite is 50.6. (We are sure they can explain this mathematical oddity with some methodology quirk, but we are sure it is nonsense.) But the private PMIs (now called RatingDog which is such a funny name) continue to show growth optimism. Manufacturing is 51.2 (up from 50.5) and Services is 52.9 (down a tick from 53.0). The Composite is 52.5 which is up from 51.9.

➤ Other economic data is mixed

Pending Home Sales moved 4% higher in August.

Weekly Mortgage Applications fell almost 13%.

The average 30-year mortgage rate reversed higher to 6.46% from 6.34%.

Weekly Redbook Retail Sales ticked up to 5.9% from 5.7%.

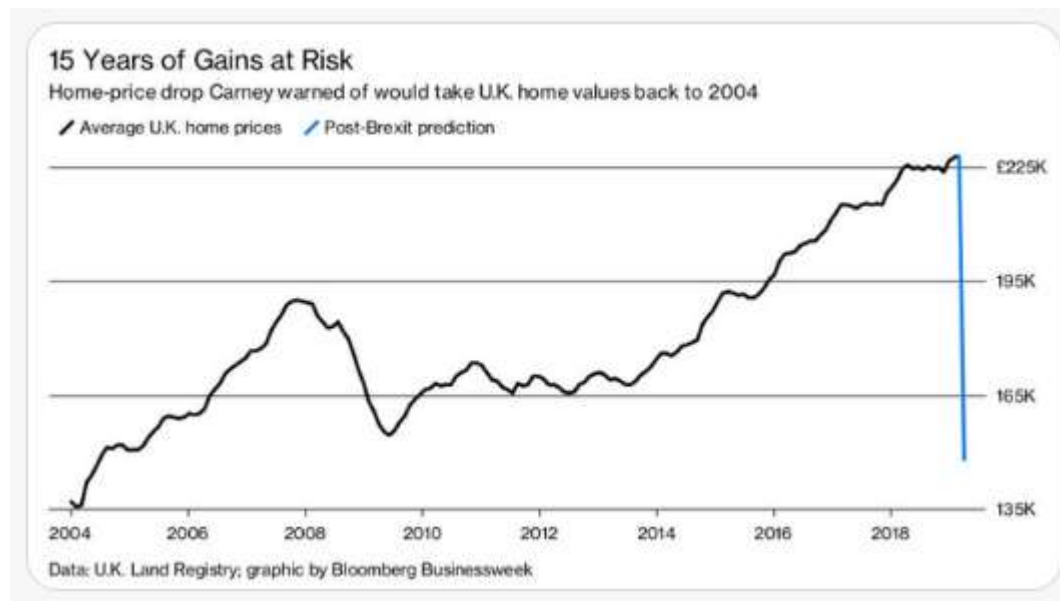
Consumer Confidence (the apolitical one) dipped in September. This survey focuses more on Housing and Employment, so its not a surprise that there is some mild weakness.

➤ Where did all the crypto money go?

Possibly the only thing more slippery than crypto is politics. Combining the two makes for comedy. Brock Pierce, a child actor who played a small role in the Mighty Ducks, has apparently made a fortune in crypto. He was one of the legacy founders of Tether which is now rumored to be close to a valuation of \$500b (but Pierce has not been involved for over a decade...woulda coulda shoulda!). In 2020, he decided to run for President...as in of the United States...to no avail. Since then, he has kept his political ambitions limited to donations. This brings us to this week. Apparently, he gave \$1mm to Eric Adams who is trying to be reelected mayor of NYC. The next day, Adams dropped out of the race. Poof!

➤ Chart Crime(s) of the week

The head of the Bank of England (central bank) in 2019 was serious with his prediction that UK home prices would tumble in the post-Brexit era. We are not so sure that he thought they would follow the path charted by BusinessWeek. As an aside, that central banker is now the Prime Minister of Canada. And the average house price in the UK is now GBP299k (up 30% instead of down 30%).



With Argentina in the news lately, we dug up this one from the local Buenos Aires news...the region of elites that does not like his libertarian populism (strange combo, we admit). This is the poverty rate which is dropping under Milei...but the media hates to acknowledge it (poverty is down to the low 30's now...still a long way to go, but it's a good trend.)



➤ Quick Hits

- Scorigami! We missed the opening week with the Bills beating the Ravens 41-40. This was the 1,092 unique score in NFL history.
- Scorigami! The Cowboys and Packers 40-40 tie was the 1,093 unique score in NFL history. It was the second highest tie score in league history (the Oakland Raiders vs the Boston Patriots tied 43-43 in 1964).
- The same amount of natural gas that can fit into a beach ball can fit into a golf ball when the gas is liquefied (LNG).
- There is a lady in California that charges \$30k to help you name your kid.
- MLB did not have any no-hitters this year. It was the first time since 2005.
- There have been 39 no-hitters since 2015. 10 of those were combo no-hitters (more than one pitcher).
- There have been 326 no-hitters in MLB history.
- Bad Bunny (?) will headline the Super Bowl halftime show. The prediction markets Polymarket and Kalshi somehow predicted this (somehow = insider trading).
- Some whacky investor has been standing outside of the rapper Drake's house for over a month (not 24-7). He is trying to get his attention to buy the meme stock Opendoor.
- McDonald's is bringing back its Monopoly game. One of our favorite stories was the rigging of the game back from 1989 to 2001. An insider at the company that made the game pieces just pocketed the winners and sold them to friends. There is a good documentary about this entitled McMillions.
- The new MCD Monopoly game will be done through its app. About 25% of MCD's sales are done through its loyalty program on its app.
- Part of Spain is completely enclosed within France.
- There is a small island on the Bidasoa River which forms part of the border between France and Spain. The island switches sovereignty every six months. Spain governs it from February through July. France governs it from August through January.
- China owns over 277k acres of US farmland.

- The NHS, the socialist run healthcare system in the UK, officially says first-cousin marriage is “linked to stronger extended family support systems and economic advantages.”
- The NHS does not believe in screening for prostate cancer.
- The Yogi Berra quote of the week by Falcons QB Michael Penix, “I gotta throw the ball to the wide open receivers when they’re open.” Yogi would be proud.
- Candle wax is flammable as a vapor (after you snuff out a candle, you can light the lingering “smoke” back on fire).
- It was illegal to eat meat from land animals in Japan from the year 675 to 1872.
- The Detroit Tigers lead the Cleveland Indians 1,168 to 1,167 in head-to-head action after their win today (boo!).

Trading: We bought the dips on some of the stocks that have succumbed to weird narratives lately. We still believe in the expanding growth story...and of course the AI story (for now). We want to be long while this momentum continues.

TSLAQ: Tesla reported a strong quarter of sales in Q3. This number is largely irrelevant because of the massive pull-forward in sales before the \$7500 EV credit disappeared on Sept 30. That said, there are hints of normalized sales in Europe. France and Denmark have started to increase. There are still trouble spots including Sweden. But Musk’s political impact seems to have faded away. The persisting problem is a stale product with loads of competition. But just ask any Tesla shareholder, they will tell you this is about robotics, robotaxis, or anything else that does not actually have any revenues (much less make money). Energy storage does appear to be growing. But all of this is a sideshow. It is all about Musk and his place in politics. When he quietly aligns with Trump, the stock does well. When he is loudly on Trump’s side, the stock is volatile. When he clashes with Trump, he has pissed off everyone and sales plummet.

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