Chalk Creek Partners LLC

Registered Investment Advisor

Weekly Update 7- October-2020

Carlisle C. Wysong, CFA *Managing Partner*

- Politics have taken over the market, no wonder we are range bound with volatility
- Are Dems better for Earnings in the short-term?
- Employment momentum continues to fade, Housing is still strong
- The Fed is still worried about the economy
- Chart Crime of the Week
- Click here for the full note

	Last	5d %	YTD %	1yr %
SPX	3419	1.7%	5.8%	16.4%
QQQ	279.9	0.7%	31.7%	48.7%
US 10 YR	0.78%	0.68%	1.88%	1.53%
VIX	28.1%	26.4%	23.2%	20.3%
Oil	39.98	0.3%	-34.5%	-24.2%

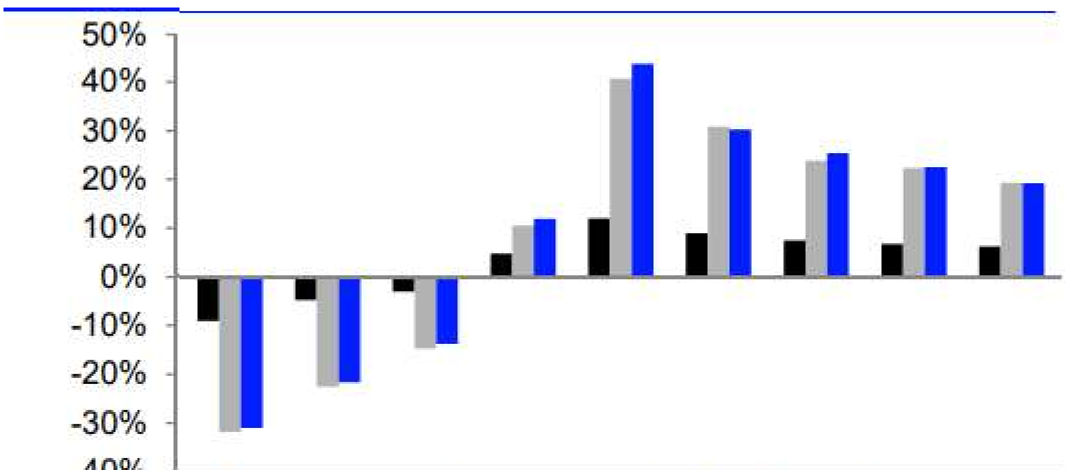
*10yr and VIX are levels not changes
** Oil is front month futures, beware

Politics have taken over the market narrative recently. Trump getting the virus seems to cut both ways – is he healthy enough to be President? Or conversely, he is so strong that the virus barely made a dent?* Or is it proof that the severity of the virus is overblown since a not-so-healthy looking old guy can survive so easily? We also have the back and forth of the stimulus. A friend of a friend said the stimulus talks are the new trade talks. That is, each tweet and/or off-handed comment will send the market moving violently. If Trump learns his lesson, he will realize that the stock market is swinging on stimulus talks. Since he considers the stock market an accurate measure of his success, he is likely to push for more stimulus. Or at least not sabotage the talks by randomly tweeting. We think this will be tough for Trump to do (keep his mouth/twitter shut). And of course, the virus is as political as ever. However, we will say that a trip to California has shown us that the fear is still running high. This is a major concern – the fear of the virus is what really matters economically speaking.

The other political narrative is the renewed anti-trust talk directed at Big Tech. A congressional panel has proposed barring these companies from owning different lines of businesses. Not exactly practical not to mention constitutional, so it will likely die on the vine. But it does create some short-term noise. Ironically, a break-up of these companies could be positive in the medium term.

- Are Dems better for Earnings in the short-term?

Some analysts are starting to say an infamous "blue sweep" by democrats would be positive for earnings. The thinking goes that despite democrats being seen as less favorable for the market in general, the prospect of more immediate fiscal relief (handouts) would outweigh any negatives from likely higher taxes down the road (corporate tax rate going higher from 21% to 28%? Overseas revenues back to being double taxed? Capital gains being taxed like ordinary income? Higher individual tax rates for the "wealthy?"). We sort of agree with the fiscal spending side of this argument (only sort of because we think either party will push for more stimulus once the election is done). But we are not so sure about this view on taxes. While we agree it could take time to change the tax code and there might even be some intentional delays, we think the market would price in this future drag on earnings almost immediately. Of course, regardless of who is in power, S&P 500 earnings will have sharp rebounds in 2021 compared to the ugly 2020. Here is a chart from Lipper showing quarterly growth expectations without any changes in govt policy (handouts or taxation).



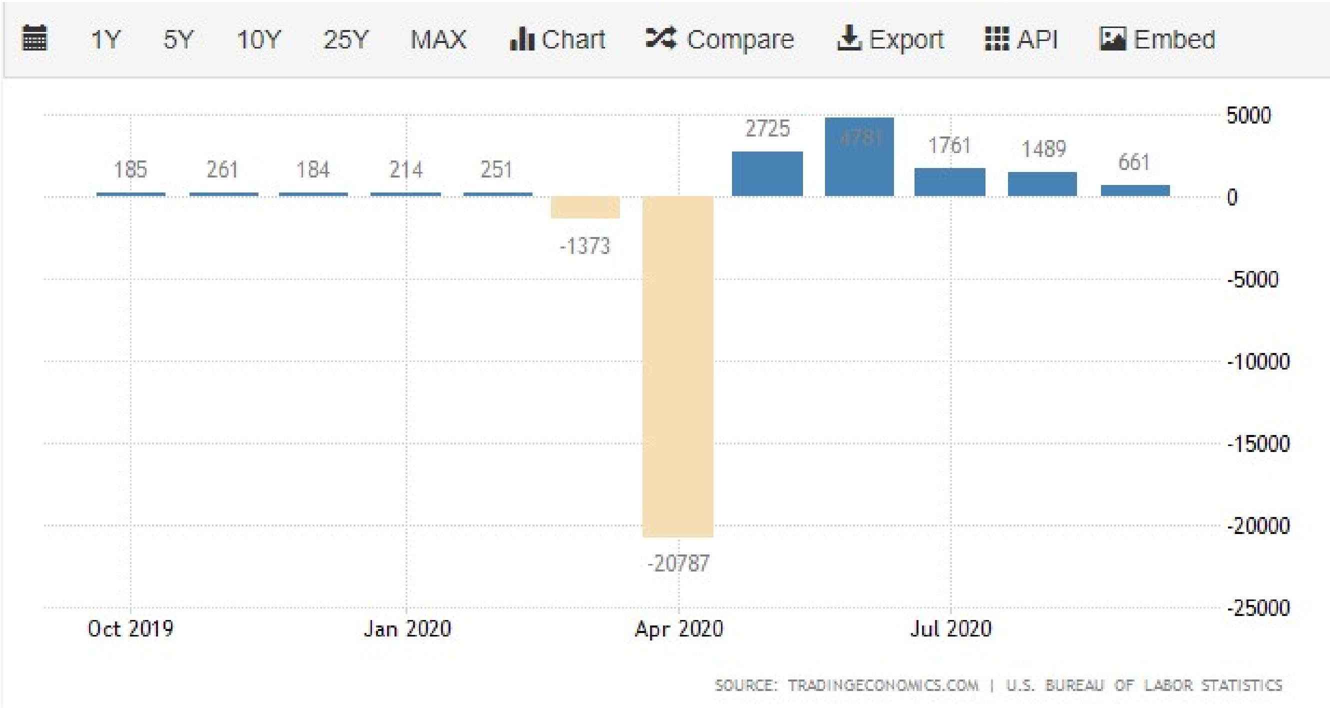
	20Q2	20Q3E	20Q4E	21Q1E	21Q2E	21Q3E	21Q4E	22Q1E	22Q2E
Revenue	-8.7%	-4.4%	-2.8%	5.0%	12.3%	9.3%	7.8%	7.1%	6.5%
Net Income	-31.4%	-22.1%	-14.3%	10.8%	41.0%	31.1%	24.1%	22.6%	19.6%
Earnings	-30.6%	-21.3%	-13.3%	12.3%	44.0%	30.5%	25.7%	22.8%	19.6%

- Employment momentum continues to fade, Housing is still strong

The October Unemployment Report showed a further "weakening" of the jobs market. Technically, 661k jobs were added during the month of September. But the momentum of job gains has faded and hence the term "weakness." 700k people dropped out of the workforce (the Participation Rate). This is why the headline UE rate of 7.9% looks better on the surface. And the same trend with temporary and permanent job losses continues…more people are returning from temporary layoffs while permanent job losses continue to climb.

The JOLTS (Job Openings and Labor Turnover Survey) showed that the postings for job openings fell slightly in August vs July after strong gains in previous months (+5+7%). The companies Indeed and Glassdoor showed similar trends occurring into September, as well.

Here is a basic chart showing the fading momentum in job gains:



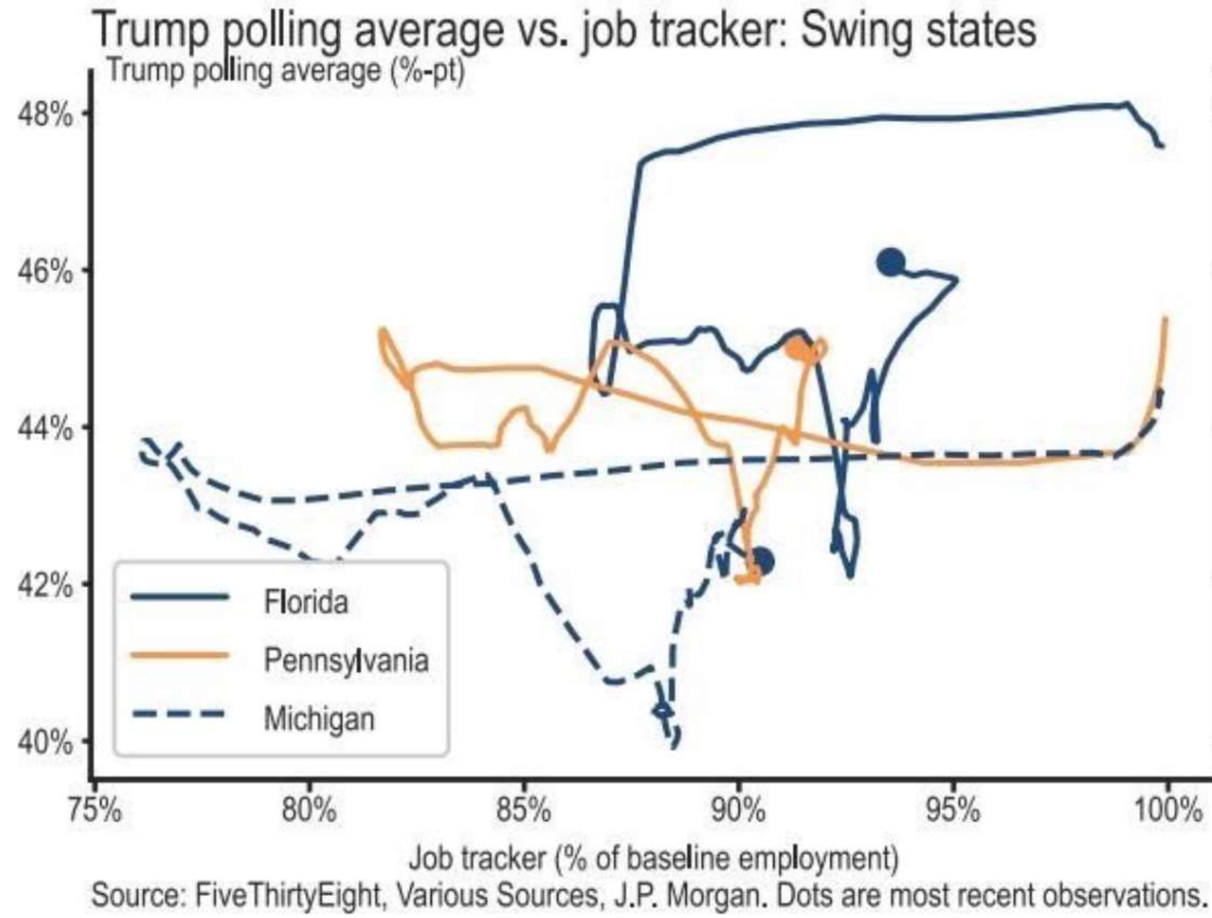
The Housing market continues to be resilient to say the least. Home prices jumped 5.9% in August annually (+1% monthly) according to CoreLogic. Entry-level home prices jumped 8.6% annually. The lack of supply continues to be the driver as it (supply) fell 17% vs last August. Idaho, Arizona, and Maine had the largest increases.

- The Fed is still worried about the economy

Fed chairman Powell continued with his political lobbying – he thinks more fiscal stimulus is necessary to avoid an economic retrenchment He thinks the economy has recovered more quickly than expected, but he added that it was "incomplete," and the rapid pace of recovery is likely to slow. He added, "there is more risk from doing too little than doing too much." Evans of Chicago echoed this sentiment: the slowing pace of recovery could "could trigger recessionary dynamics " which would result in weakness feeding upon weakness. Back to Powell, on the plus side, he said business Investment is on a renewed upward path and financial markets have returned to "normal functioning." On the negative side, he thinks Unemployment is likely closer to 11% vs the official 7.9%. He is adjusting for extraneous factors like the decline in the Participation Rate and the "misclassifications" we have talked about at length. The Fed Minutes unsurprisingly echoed all of these sentiments.

- Chart Crime of the Week

We thought this one was a parody at first.



- Quick Hits
    - A Seagram's heiress is going to jail for bankrolling a sex cult.
    - Public sector employees in Connecticut make 28% more than their private sector counterparts.
    - It is a federal crime to use non-hoofed mammals to carry equipment in a national park.
    - Carson Wentz of the football Eagles got booed at home despite no fans in the stadium (hat-tip to the AV guy in Philly).
    - A great twitter line: "Test the vaccine on politicians first. If it works, we are safe. It if doesn't work, we are safer."

*If Bolsonaro of Brazil is any signal, then Trump will gain in popularity. But if Boris of the UK is the standard, then Trump will likely fall more out of favor.

Trading: We added two long names recently. One is another stable pharma with great cash flows, cheap valuation, and a solid dividend. The other is more of a highflying growth story in the online retail space. We like the juxtaposition, and this maintains our portfolio balance. Otherwise, we have been placing orders to trade around the volatility, but we keep being "just a bit outside." That is ok with us. Trading for the sake of trading is always a kiss of death. We will stick to our guns and let the prices come to us. But we did manage to adjust our Put options on the QQQ. We used a strong day to roll up some of our long Puts. This just means that we increased our hedging exposure. We will do more of this. We also finally cut some of our trading names like airlines and housing. They were near the top of their ranges. We still have some housing related exposure and might add more on a dip. The airlines were becoming a time-drain, so it will take a big dip for us to get back involved. Not to mention, the loon in the photo shows just what reluctance to fly there is in some circles.

TSLAQ: Not much to report here. 3Q deliveries were right in line with expectations at 139k. Somehow the bulls are getting excited at the prospect of the company coming close to its stated annual target. Only in Tesla world is meeting expectations a victory. Nonetheless, we will wait for earnings to see if the company is anywhere near profitability ex-government handouts. As usual, insiders continue to sell stock left and right.

www.chalkcreekpartners.com

Carlisle's Twitter Financial List

Carlisle's LinkedIn