Weekly Update

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	Last	5d %	YTD %	1yr %
S&P 500	4,080	0.2%	-14.4%	-12.0%
QQQ	$293.36	1.6%	-25.9%	-26.1%
US 10 YR	3.64%	3.70%	1.51%	1.41%
USD/DXY	106.0	1059.0	96.0	96.0
VIX	20.5%	20.4%	17.2%	31.1%
Oil	$80.55	3.4%	7.1%	21.7%

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

Just last week, we wrote that the market was starting to make some sense. Old economy stocks, dare we call them profitable companies, continued to outperform the Fantasies and Frauds (aka Profitless Tech). The Fed pivot narrative was only really helping stocks with positive cash flows other than the random bout of short-covering. On top of this, the market was starting to trade sideways. Narrative-driven bounces were less emotional and thus less impactful. Looking at today's reaction to Fed chairman Powell's speech, we might have jumped the gun on calling this market rational. Powell reiterated the consensus view of the Fed: Rate hikes would be smaller going forward, but a more restrictive policy is needed and only time will tell when the balancing point is reached. Higher rates for longer. But some pundits oddly interpreted this as a pivot. Glenn

Hutchins, a successful private equity investor who sponsored the Powell speech, said with a straight face that the intended message was that the December hike was going to be the last hike. He thinks Powell's use of the phrase "softish landing" was a nod towards optimism (we think "softish" sounds more like a recession than "soft"). And somehow the Fed was going to "feel" its way to and through the proper path of monetary policy rather than relying on "analytical models" (aka data). We normally would not focus so much on one pundit, but we suspect his comments embody the warped mentality of hearing things that were not said. Put another way, the market is twisting itself into thinking the refutation of the null hypothesis, that the Fed will over-hike in the short-term, is the same as the Fed doing the pivot. Chalk Creek will wait for the data. The intersection of Growth and Inflation will be our marker buoy. And oh yeah, another crypto exchange declared bankruptcy. As much as this is laughable, what is happening in crypto is a real destruction of wealth.

- Shopping update is mixed

US Black Friday online sales hit a record of $9.1b according to Adobe. This is an increase of 2.3% (none of this data is adjusted for inflation). Shopify announced that its Black Friday sales hit another record (+17%). Shopify is usually a good barometer for small business (as it is an Amazon-like platform which builds websites and integrates the shopping experience along with handling the logistics – it does not have a front-end like Amazon). Its total sales were $3.6b. This trend continued throughout the weekend. Monday, online sales were almost $11.8b. Apparently, toys were a big driver of the increased sales.

On the flip side, brick and mortar foot-traffic fell sharply. Indoor malls fell over 14% vs 2019. Outlet shopping dropped almost 18%. Department store traffic at Nordstrom, Macy's, Kohl's, and Dillard's fell close to 30% (26% to 36% range). Big Box stores had similar declines with more variability (Costco and Target faring the best while Dome Depot and Lowe's doing the worst). Off-price retailers like TJ Maxx and Ross saw traffic growth. Electronics retailers traffic jumped 25%. But Best Buy did not participate as its traffic fell over 27%.

Urban Outfitters claimed that shoppers were holding back until these sales events (not just for their products but retail in general.) We think this sounds right. And we expect traffic to drop off dramatically resulting in a bad holiday season. We remain short Retail.

- China Authoritarianism is now bullish?

The other lunacy-laced narrative is "China is reopening." The best twist here is that the communists shutting down the anti-0-Covid protests is bullish! The authoritarians have control over their people, so the planned reopening is to proceed smoothly. The background: First there were worker "riots" at Foxconn's mega-factory which is one of the main assemblers of the iPhone. We thought this was a bit sensationalist (from the reporting perspective) including worker pay demands. But then there were protests in the wake of a deadly apartment fire in Urumqi. The thought is the 0-Covid lockdown measures contributed to the fatalities (people unable to leave their buildings and/or firemen being restricted from entering). These protests grew over the weekend…it seemed like a new movement was in the making. But then come Monday, all protests were gone, and the news had been scrubbed. The police presence was obvious in the major cities. No more pesky issues with freedom (with thanks to Apple for helping shutdown the dissemination of information via its Airdrop feature). China could slowly lift its anti-human measures slowly and methodically.

The only policy shifts so far have been minor. Quarantined apartment buildings will no longer be locked to prevent emergency personnel from entering. A concerted effort will be made to increase vaccinations among the elderly. And on the financial side, real estate developers will be allowed to use equity financing once again. It is sad that the first one has to be a policy. It is ironic that the second one does not come with a mandate. And

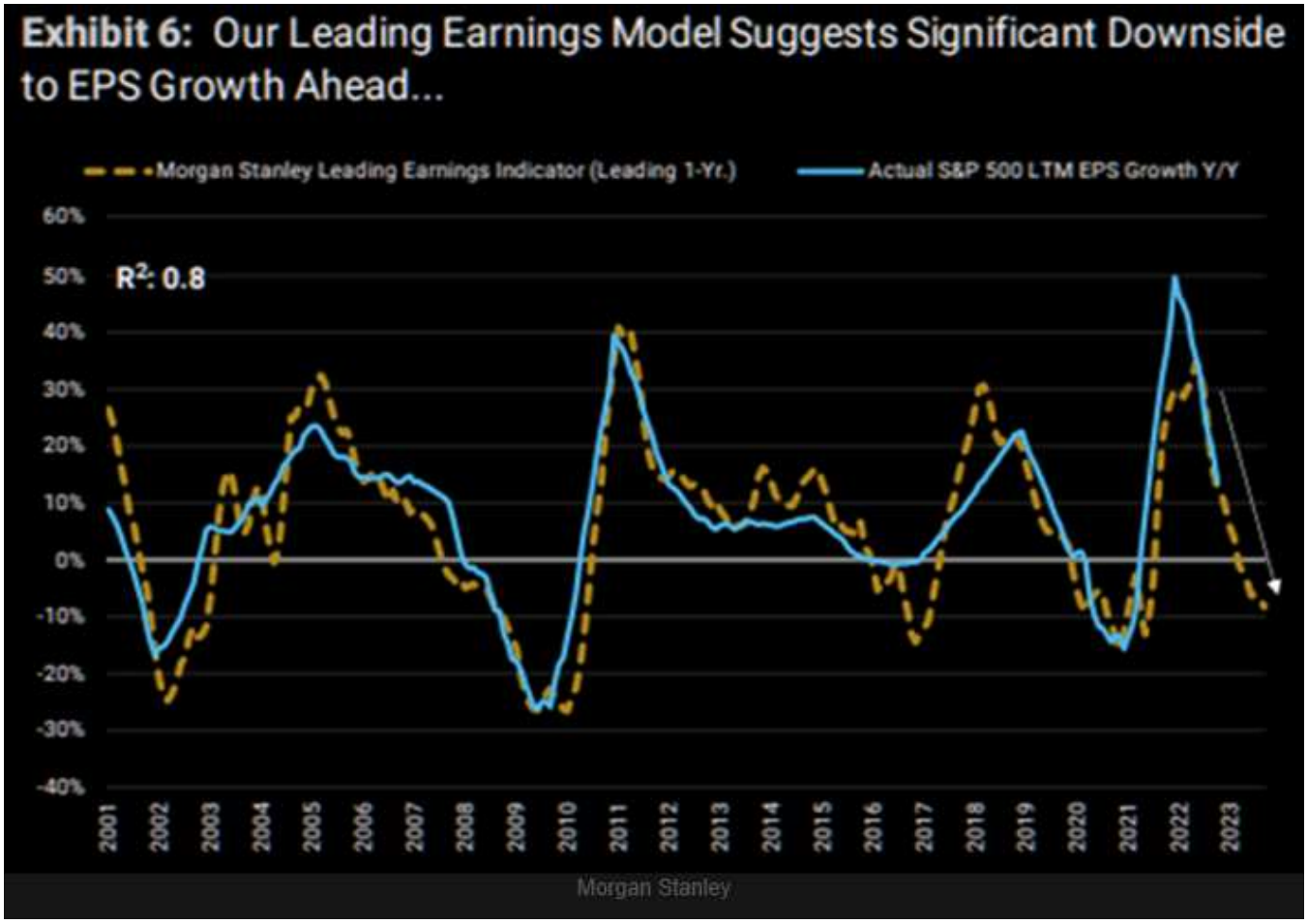
more real estate speculation. None of these make us think there will be a surge in aggregate demand behind the great wall of communism.

0-Covid was designed to be a covert excuse to kill inflation (and ironically blame the West). More ironically, much of the 0-Covid policies are driving workers to push for higher salaries (at Foxconn being the most public). So, the inflation-killing policy to keep people in line while blaming the West is doing the opposite on all counts.

Our short in China is focused on China Tech. This is the most logical target of the communists. In fact, we suspect the PBOC (central bank) will conduct purchases of state-owned enterprises (SOEs) to prop up the old economy stocks (banks, real estate, insurance, etc). But the evil capitalist will be left out to dry (especially those with listings in the US). For what it is worth, this is a contrarian stance. Banks and pundits have been pitching the "coiled spring" narrative as China will rebound sharply once 0-Covid is lifted. We are happy taking the other side (we are long Energy stocks which will benefit from a reopening, so we are balanced). We also plan on broadening our short exposure to more domestically rooted businesses if the crazy manipulation continues.

- We think the Earnings trajectory is obvious

We have written extensively about the decline in earnings. More to the point, we think earnings are going to continue to decline (that is what recessions do). Morgan Stanley, a vocal bear who lately has been pushing a bullish narrative, charts out their earnings expectations. This chart shows the correlation between their model and trailing earnings (LTM means Last Twelve Months in Wall Street jargon).



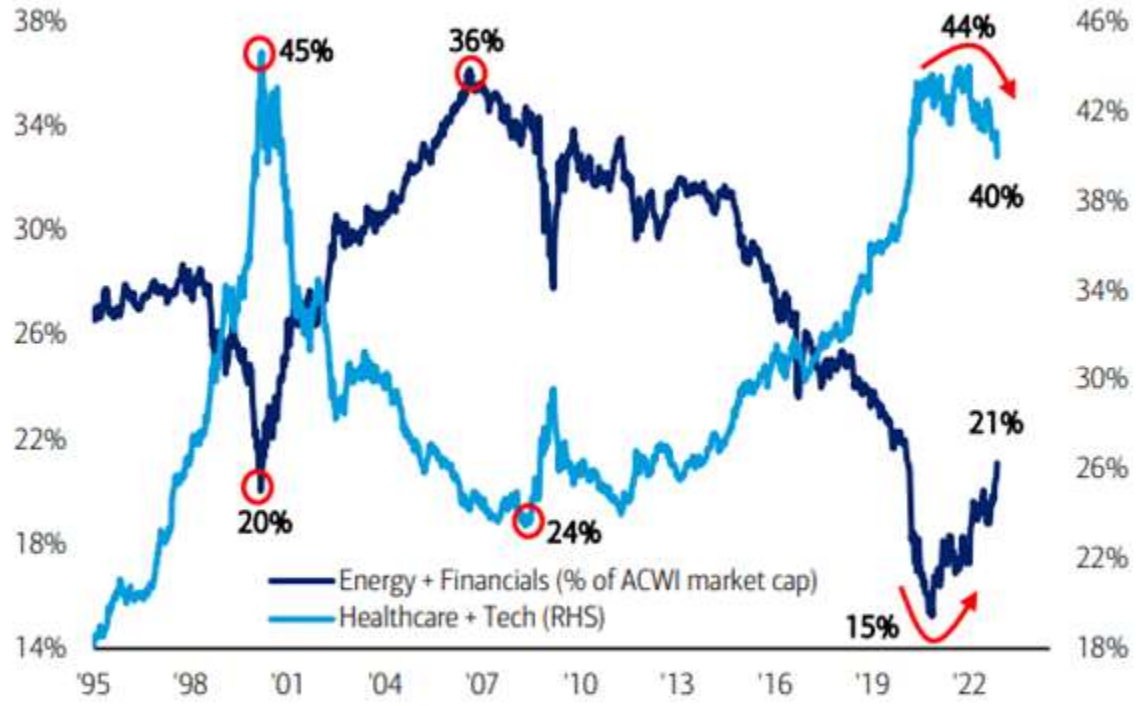
For what it is worth, the only two sectors that have seen estimate revisions higher are Financials and Energy.

- Positioning is all about rotation

Merrill dives into the sector rotation we have been espousing. The below is for global stocks (All Country World Index). We are not sure why Healthcare is included with Tech…it does not have the same characteristics (primarily it does not rely on 0% interest rates). The same goes for Financials. Merrill specifically likes European ones which we think are ripe for failure – but we have been wrong (governments becoming increasingly more socialist impeding free trade for starters). But we think the crux of the rotation, out of Tech and into Energy, is positioned to work more.

Chart 5: Secular rotation from Healthcare/Tech to Energy/Financials

Share of MSCI ACWI market cap (%): Energy + Financials vs Healthcare + Tech



Source: BofA Global Investment Strategy, Datastream.

BofA GLOBAL RESEARCH

We have noted the disconnect between what investors are saying about USD positioning (everybody says everybody is long) and reality (futures data shows investors are overly short the USD). Morgan Stanley supports our fact-based opinion (via themarketear despite their poor graphics). Below, the blue line shows the extreme short positioning of the USD via options. Just as importantly, the sharp drop shows how quickly the mood has changed. Much of this change has been driven by the misnamed CTAs (Commodity Trading Authorities who are just chart-chasers) who have been aggressive sellers.

We are long the USD and will add more on dips (more dips). We also use this information to help gage earnings trajectories for US companies that have international exposures. Traditionally, Fx impacts on earnings have been dismissed as random or one-offs. But investors have started to consider these impacts not-so-temporary.

- European positioning – now that is a short squeeze

The most-shorted stocks in Europe (compiled by Barclays) have outperformed the broad index (Euro Stoxx 600 aka SXXP) by almost 20% in the last month. This month-long rally has retraced half the losses/underperformance since the peak of the market a year ago. We have been run over in this trade as we are short European financials. Much of this has been driven by the weather forecasts and ECB pivot narratives. We are not sure which is more fanciful, but we might rejigger our exposure to focus more on blowup candidates instead of slow bleeds.

- Housing data is not improving

The FHFA (Federal Housing Finance Authority) House Price Index was flat in September vs August. This index only includes houses with mortgages that have been purchased or securitized by Fannie Mae or Freddie Mac. The baseline loan maximum is about $650k with exceptions for high-cost areas up to $970k.

Pending Home Sales in October (signed contracts but not closed) fell almost 5% vs September. This was better than the expected drop. But it is still approaching the all-time lows on the index.

Mortgage Applications turned back to their negative trend. Although, the divide between Purchases and Refinances is stark: The former was up 3.8% and the latter was down -12.9%. The Refi part is obvious. We will see if the Purchase element becomes more of a trend.

- Employment is starting to sour (maybe)

The early guess on private payrolls by ADP was much lower than expected at only 127k jobs being added. 200k is the guess ahead of Friday's Employment Report.

The Job Openings and Labor Turnover Survey (JOLTS) headline dropped from 10.7mm Job Openings to 10.3mm. This is October data. Our stance has been that this will continue to normalize back towards the 7mm pre-virus-fear norm. Healthcare continues to be the sector with the highest openings. The Fed has repeatedly said that is has no tool to improve the Labor Supply. But it can surely kill the demand for Labor. The net result is the same (companies will not be hiring).

- Other economic data is getting worse
  - The Chicago PMI was a disaster as it fell to 37.2 from an already terrible 45.2. 37.2 is the lowest PMI reading we can ever remember outside of some virus-fear one-offs. The Dallas Fed's Manufacturing Survey improved in November compared to its dismal reading in October. But it is still deeply negative.
  - The second estimate of the 3Q GDP was higher at 2.9% growth (quarter vs quarter annualized) vs the first guess of 2.6%. This is stale data and will only serve to increase the disappointment down the road.
  - Consumer Confidence (the one that more closely tracks jobs vs inflation) is continuing to slowly move lower. But the subcomponent Expectations is doing worse than Present Situation…this has been true for about seven years. But the chasm is becoming larger. The most interesting subcomponent of this data is that of inflation expectations. These are starting to move higher.
  - Retail and Wholesale Inventories diverged in October. Retail dropped and September was revised to negative, also. Wholesale continued to grow (+0.8% monthly). We think this means retailers are discounting to clear out inventory. And Wholesalers have not gotten the clue yet.
  - China's PMI dropped further into negative territory. Services are becoming more of a drag. This is the government data, so you know the real situation is even worse.

- Oil is being whipped around by Policy

Policy dominated the headlines this week. The EU price cap on Russian oil has quietly lost its momentum…if it ever had any. Poland is rumored to be the latest country to draw a red line…it wants much lower prices. The US chimed in saying there is no need for a cap as low as the Eastern European countries desire. We cannot quite figure this one out.

The White House quietly turned down the sanctions heat on Venezuela. Chevron will be allowed back into the country with exports coming back to the US. Venezuela has promised to continue talking about maybe holding

free and fair elections. This sounds like we are wandering into political weeds here. But as along as the administration does not want US oil companies to produce oil here, we want to be long US oil companies!

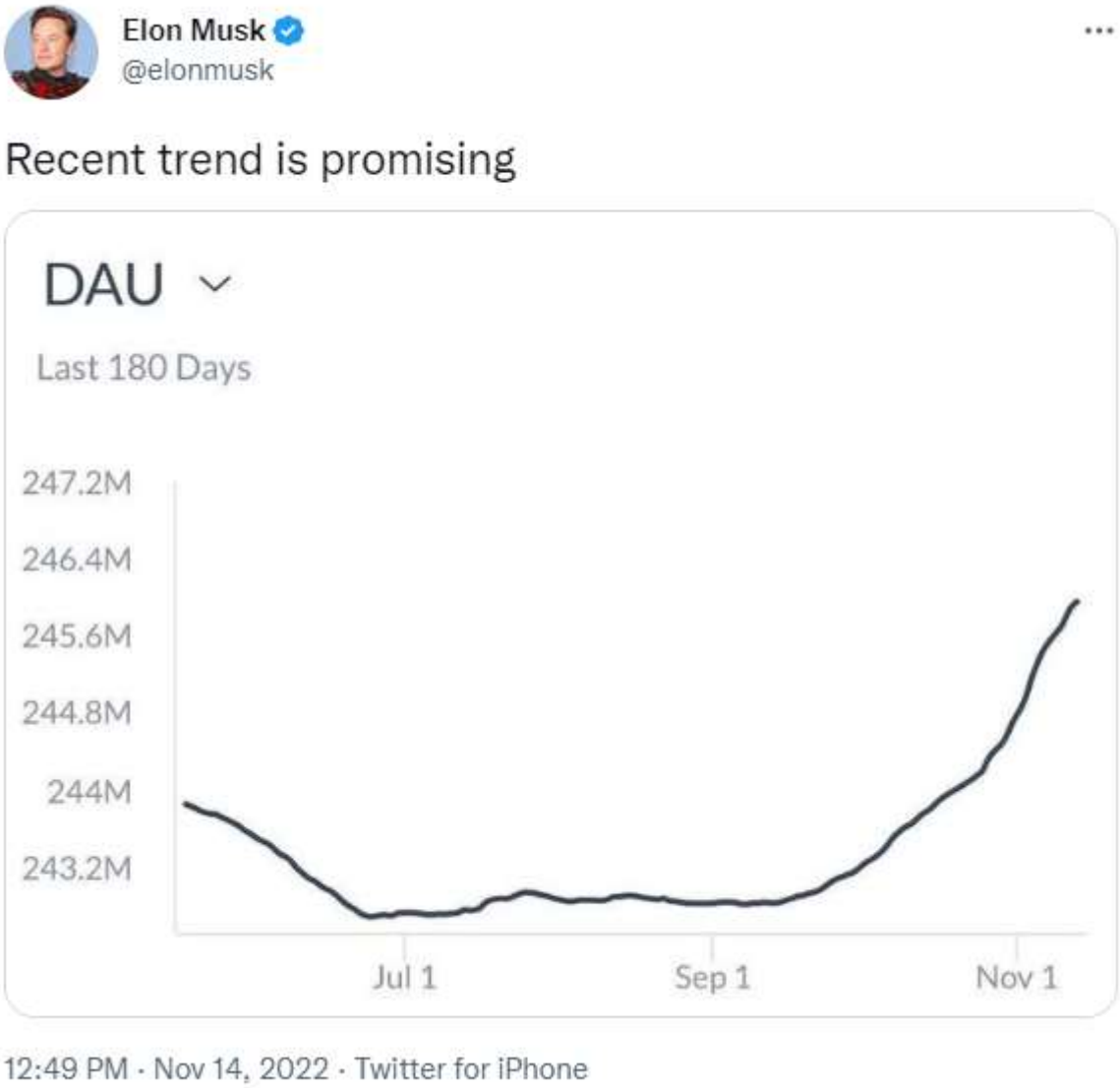
Conversely, the administration is opening up more oil drilling in Alaska. The DOE (Dept of Energy) announced there will be an auction for 958k acres of potential drilling. The WH has kept this move very quiet to not disturb its greenie support. But it has also probably helped pressure oil. Ideologically, we want open markets. But as far as our Energy longs are concerned, we want more lunacy.

- Crypto…where did all the money go?

The short answer is nobody knows other than yachts and houses and stadium naming rights. But one trade that went belly up was a classic arbitrage that looked too good to be true. BlockFi, the latest bankrupt exchange (we need to stop using this term exchange…they were banks, traders, custodians, market-makers, speculators etc.) lost a lot of money buying GBTC, a publicly traded trust which simply holds bitcoin (it trades OTC not on an exchange, but it is still very liquid). Due to the odd structure of GBTC, BlockFi, amongst other shysters, was able to buy into the GBTC fund at net asset value while public schmoes had to pay a 30-40% premium. BlockFi could not collapse this arbitrage immediately, it had to wait 6-12 months (again, this is all predicated on the weird structure mandated by the SEC). But BlockFi would immediately account for this large gain. And it would market this trading prowess to unsuspecting investors. The worst part is, BlockFi would not actually use cash to buy the cheaper GBTC shares. It would use customers's bitcoin to deposit into the GBTC trust (again, the weird structure allowed for this investment in kind). This was as Ponzi as it gets. And it worked marvelously while the price of bitcoin was going up. But once the Terra/Luna collapse struck the market, large holders of the GBTC trust had to swallow their pride and cut their losses. Of course, ultimately it was the customers getting taken to the woodshed. These same customers thought they were being paid 10%+ interest on their bitcoin deposits.

- Chart Crime of the week

For a self-proclaimed engineer, Elon Musk does not seem to understand the most basic of math principles and thus charting principles. His chart shows about a 0.8% increase with no context before this short time period.



- Quick Hits (original version but with lots of crypto)
  - Celsius, the crypto exchange that went bankrupt this summer (it is hard to keep track), used a Google Sheet to monitor its assets. It did not attempt to segregate customer custody accounts from one another.
  - Depositor claims in the FTX bankruptcy are trading in the 5-8% range (5-8 cents on the dollar).
  - Identical bitcoin futures on different exchanges have recently traded with a 100% funding spread between them.
  - The government of Singapore's investment arm, Temasek, has written down its entire $275mm investment in FTX.
  - A 30-year-old founder of a "crypto finance service provider," Amber group, died in his sleep.
  - The World Health Organization is renaming monkeypox, mpox. The old name was deemed racist.

- The Securities and Exchange Commission is the fourth largest creditor in the BlockFi bankruptcy. The SEC has a $30mm unsecured claim stemming from unpaid fines. Unpaid fines probably should have been a red flag.
- FTX is the second largest creditor to BlockFi.
- SBF (FTX owner pre-bankruptcy) pledged his Robinhood shares as collateral for a loan from now-bankrupt BlockFi. During the early days of the FTX downfall, SBF was trying to sell its Robinhood shares (much to the chagrin of BlockFi).
- Some FTX customers were told to wire money directly to Alameda Research, SBF's trading company. Silvergate Capital, the intermediary bank, obliged.
- We once sadly laughed at the existence of carbon credits being sold to not cut down forests which were never going to be cut down. The updated version of this scam is *not* using coal counts as a negative carbon credit.
- Chicken breast prices have fallen 70% since June.
- Germany plans to claw back 90% of profits from "clean power generators."
- Goldman Sachs paid a $4mm fine to the SEC for not following its own ESG policies and procedures.
- According to a bar industry associations, the Wednesday before Thanksgiving is the biggest grossing night of the year (bigger than New Year's Eve).
- About 200 small towns in France are using horse-drawn carriages to collect the garbage and take kids to school.

Trading: We continue to trim some of our larger longs. This is just being prudent – our view on Energy and Healthcare has not changed. We are starting to get more bearish China. We have just started to put on some short exposure. China is a beast to trade given its nonsensical volatility and government manipulation. So we will be picky and slow. And given today's return of misplaced euphoria, we will start to rotate out of some of our recession shorts and back into more Fantasies and Frauds.

TSLAQ: Musk is turning some of his attention back to Tesla. He is probably sick of the constant bombardment from his long line of enemies in the Twitterverse. But he also wants to see if he still has the magic Musk pump when it comes to promoting unattainable promises. Since he has been dumping Tesla shares, the pumps are more important than ever. The latest involves the Semi. It has been five years since the Class 8 truck was announced. We are seeing the first delivery this week. Musk has claimed that he will be producing 50k in 2024. Tesla is also now claiming it will be rolling out a new Model 3. We will believe it when we see it. He originally promised it would be $30k. The current average price depends on which "enhancements" you get duped into adding, but the prices range from $47k to $70 (with most estimates of the average around $59k). Our point is, we do not expect much to change.

However, it looks like we were Musked again with respect to where his attention lies. On Monday, Musk decided to turn his ire towards Apple and Tim Cook under the auspices of its lack of advertising on Twitter. In the same vein, Musk teased that he would be disclosing Twitter's former censorship policies. Tesla has a bit of a bounce lately (with the rest of the Fantasies and Frauds). So we welcome his antics.

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