Weekly Update

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- Choppy market, upbeat mood, cooling interest rates, strong AI markets
- K-shaped recovery, but maybe some improvement?
- Existing Home Sales better but New Homes slowing
- Leading Economic Indicators finally turn positive
- Business Spending is still stable
- But Business surveys are still mixed
- Not all of the Fed wants three cuts
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	5,248	0.5%	10.4%	34.1%
QQQ	$444.95	0.3%	8.8%	44.1%
US 10 YR	4.19%	4.28%	3.88%	3.57%
USD/DXY	104.3	103.4	101.3	102.4
VIX	12.8%	13.0%	12.5%	20.0%
Oil	$81.69	0.0%	13.5%	12.1%

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

More of the same this week as the equity market continues to chop around. The mood remains elevated despite the sideways action mostly because interest rates are still back to grinding lower. Apparently, many short-term traders had been expecting Fed Chairman Powell to only signal two rate cuts last week. Instead, he remained steady at three this year (on top of his comments about the likely resumption of bond buying). Shrugging off any worries about recent inflation data certainly emboldened the bond bulls. This has been born out in strong Treasury auctions. The five-year auction was the biggest on record, and its yield came in lower than the market. A seven-year auction was just as successful (but not as large). Even the USD has regained some footing (it tends to slide when people doubt the government's ability to fund itself at reasonable levels).

Of course, the massive ramping of computational power to enable Artificial Intelligence is still the driving force behind the market. With Earnings season behind us, corporate news has shifted to M&A, investment in the private markets, and general strategy around enhancing the uses of AI. There is even a mild cooling of tensions with the Chinese as American business leaders are visiting Xi. Even if this is a false dawn (and we think it is as

the original "trade war" with the Chinese was mostly all about the sharing/stealing of technology), almost every other country in the world is lining up to buy our chips and incorporate our technology (Nvidia rattled off a long list of governments wanting to buy its products).

We have voiced some caution about the market recently. But we have yet to act. As long as the largest, most profitable, and debt free companies in the world are the biggest spenders on AI, we are happy to go along for the ride. That said, if we start to get more frothy IPOs and more meme-frenzy, that might accelerate our cautionary action.

- It is still a K-shaped economy, but there are some signs of improvement

The monthly credit card data still supports the theory that the economy is split between the Haves and the Have Nots. The banks that lend to the higher end consumers (JP Morgan, AmEx, BofA, Citi) are still seeing their delinquency and charge off rates well below their Feb 2020 levels. But the lower end lenders (Capital One, Synchrony, Discover, Bread) all have rates above the pre–Virus Fear level. However, the deterioration of these rates (for the low-end card companies) is starting to level off. And there are some other credit metrics improving, too (the NY Fed has some data showing credit availability improving along with lower rejection rates). We are intrigued by the Capital One and Discover merger - basically introducing a third competitor to the duopoly of Visa and MasterCard. We will be watching closely to see if their credit quality metrics stop deteriorating.

			2024		2023				bps change, Feb. '20 to Feb. '23
Company	Ticker	Type	Feb.	Jan.	Dec.	Feb.	3-month average	Feb. 2020	
Capital One	[[COF]]	delinquency	4.72%	4.78%	4.61%	3.72%	4.70%	3.88%	84
		charge-off	5.95%	5.71%	5.78%	4.16%	5.81%	4.68%	127
American Express	[[AXP]]	delinquency	1.50%	1.50%	1.40%	1.10%	1.47%	1.60%	-10
		charge-off	2.40%	2.10%	2.50%	1.40%	2.33%	2.60%	-20
JPMorgan	[[JPM]]	delinquency	0.80%	1.07%	1.00%	0.88%	0.96%	1.14%	-34
		charge-off	1.58%	1.72%	1.69%	1.33%	1.66%	2.20%	-62
Synchrony	[[SYF]]	delinquency	5.00%	4.90%	4.70%	3.90%	4.87%	4.50%	50
		adjusted charge-off	6.50%	6.00%	5.60%	4.70%	6.03%	5.30%	120
Discover	[[DFS]]	delinquency	4.01%	4.02%	3.87%	2.74%	3.97%	2.64%	137
		charge-off	5.86%	5.23%	4.90%	3.40%	5.33%	3.84%	202
Bread Financial	[[BFH]]	delinquency	6.70%	6.80%	6.50%	6.00%	6.67%	5.90%	80
		charge-off	8.90%	8.00%	8.20%	7.80%	8.37%	6.80%	210
Citigroup	[[C]]	delinquency	1.49%	1.51%	1.45%	1.20%	1.48%	1.58%	-9
		charge-off	2.27%	2.65%	2.34%	1.55%	2.42%	2.64%	-37
Bank of America	[[BAC]]	delinquency	1.39%	1.35%	1.42%	1.14%	1.39%	1.58%	-19
		charge-off	2.05%	2.23%	2.27%	1.61%	2.18%	2.55%	-50
		Avg. delinquency	**3.20%**	**3.24%**	**3.01%**	**2.59%**	**3.15%**	**2.85%**	
		Avg.charge-off	**4.44%**	**4.21%**	**4.05%**	**3.24%**	**4.23%**	**3.83%**	

We will throw in an anecdote involving Five Below. This is a competitor to the Dollar stores…albeit its price point is $5. The company missed earnings expectations and blamed "shrink." This means theft. Typical shrink in recent years has been done by organized crime that resells the stolen products on Amazon or whatever. But

you cannot exactly resell $5 items in bulk anywhere. We think the term shrink has been overused in recent years to mask overall poor performance among some retailers. We are not sure if this is the case for Five Below. Either way, it's a bad sign for the lower end consumer (not shopping or having to steal).

- Existing Home Sales better but New Homes slowing

Existing Home Sales in February surprised on the upside increasing 9.5% (monthly). 4.38mm is the annual run rate. Supply increased over 10% vs last year. This is still only 2.9 months of supply. The "experts" think six months is healthy. But the nominal number of existing homes for sale is 1.07mm which is the highest since 2020. The median price increased 5.7% (vs last year) to $384,500. This was the eighth straight monthly gain. It is also an all-time high for February prices. Sales were strongest in the West and South. 20% of homes sold over list price. 26% of sales were with first-time buyers (40% is the historical norm…this seems crazy high to us). All-cash sales were at 33%. This data encapsulates contracts signed in December and maybe into January when interest rates were lower. We will have to see if this "people are used to higher interest rates" theory holds now that rates have moved back up a bit.

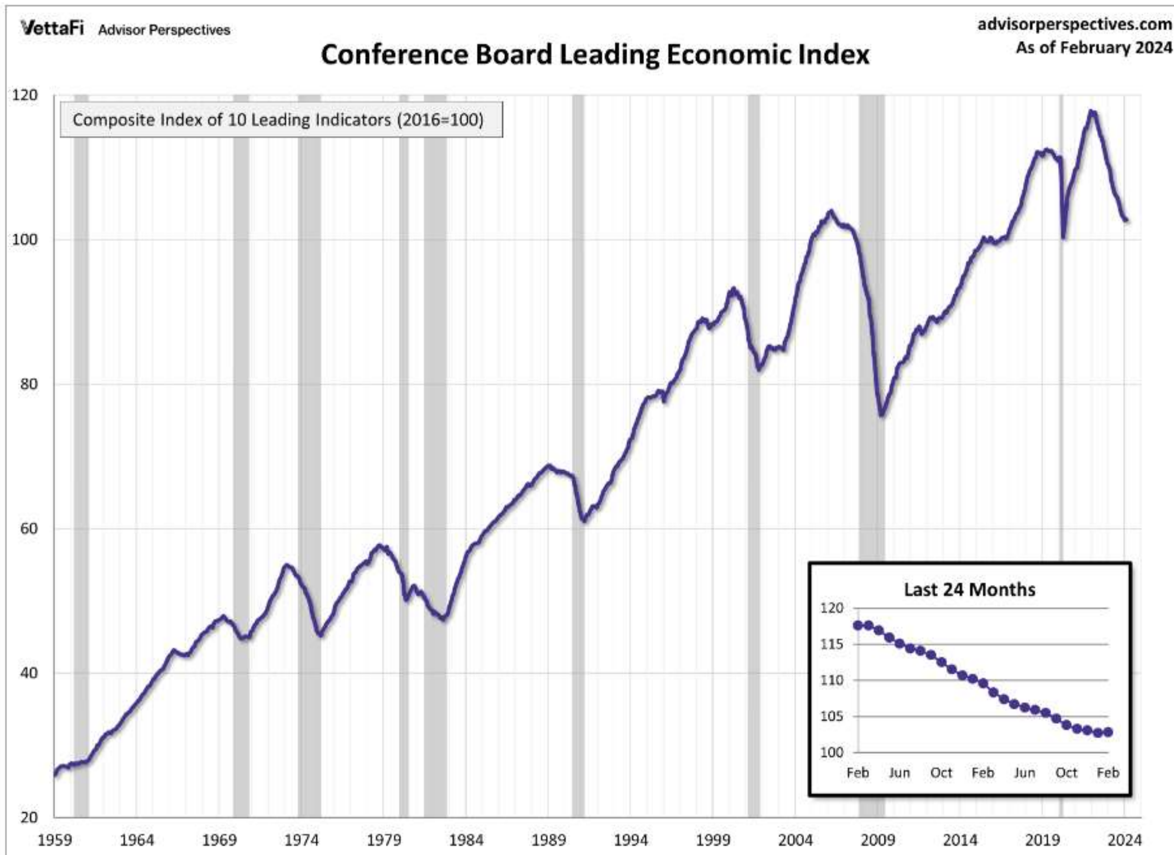
And just like that, higher interest rates are seen slowing New Home Sales. They slipped a bit in February (662k annual run rate vs 664k in Jan and 675k expected). The 7% mortgage rate was the deterrent during the month (this data is based on signed contracts not closings). Builders have said they are "buying down" mortgage rates into the 5.50% range, but this might not be enough (or not on enough houses). Prices did slip a bit. They fell 7.5% vs last year to $400,500. Supply moved modestly higher to 8.4 months vs 8.3. The number of homes sold but not yet started is also starting to fall. On the plus side, Building Permits were revised a touch higher.

Weekly Mortgage Applications fell slightly.

Our take on Housing is we are probably working towards some more balance between Existing and New Sales. It might be a slight headwind to homebuilders, but they have proved themselves pretty adept at capitalizing on demographic and cultural shifts. For the broad economy, we think this balance is positive and adds to the theory that employment is still steady. Unemployment, after all, is the real killer of the Housing market (and obviously the economy).

- Leading Economic Indicators finally turn positive

The Leading Economic Indicators Index has turned positive! After 23 months of negative monthly readings, it has finally flipped. Of course, we gave up on this data-point a while ago. It and business surveys have been horribly misleading in the post Virus Fear era (business surveys are a big part of this index!). Looking at the chart below, it is hard to find a period when this indicator was negative without a recession. But apparently, we have done it (ignoring the notion that we have had rolling sector recessions during the last two years). To be clear, we think this index can be informative. The largest contributor in February was the increase in Average Weekly Hours in the Manufacturing sector. One of the largest detractors was the New Orders component of the ISM business survey. We will take the side of what businesses are doing over what they say they might do in the future.



- ➢ Business Spending is still stable

Durable Goods Orders bounced back into positive growth in February (+1.4%) after a miserable Jan (-6.9% which was revised lower from -6.1%). The Core Capital Goods (aka business spending) also bounced back with a 0.7% gain vs the previous -0.4% drop. Both the headline and core were better than expected. The core has been grinding sideways for over a year and a half. We used to say this was resilient in the face of economic weakness. Ironically, this same sideways action might turn into weakness in the face of economic strength. But for now, we view it positively.

- ➢ But Business surveys are still mixed

The early read on the S&P PMIs still has Manufacturing doing better than Services. Manufacturing is increasing (52.5 vs 52.2 in Feb) while Services are slowing (51.7 vs 52.3). This is the first time Manufacturing mgmt. teams have shown more optimism in about 15 months.

But the Fed's regional surveys are not as optimistic. Both the Dallas and Richmond Fed's Manufacturing surveys slipped deeper into negative territory. The Dallas Services index was also worse.

On the plus side, the Philly Fed Manufacturing Index jumped aggressively. It was led by the Capex component. New Orders were also strong. Employment and Prices are still weak (that is bad and good respectively).

- ➢ Other economic data is mixed
  - Weekly Redbook Retail Sales improved again. The latest growth was +3.9%. This is up from 2.5% in early Feb. It is still down from the +5-6% range during the holidays.

- Consumer Confidence Is starting to trend a little lower. Confidence is more based on Housing. Sentiment (a separate indicator) is more based on inflation.

➢ Not all of the Fed wants three cuts

The Atlanta Fed's Bostic has turned more hawkish...or, rather, slightly less dovish. He has lowered his rate cut expectation for this year to one cut from two. "The economy continues to deliver surprises and it continues to be more resilient and more energized than I had forecast." And Lisa Cook, a Fed governor has an increasingly cautious approach to rate cuts. Fed governor Waller said he was "in no rush" to cut rates this year.

These voices have all strayed from the Powell message for some time. And for sure, Powell and the others have drifted more towards these rather than the other way around. But their hawkish stances is rooted in the strength of the economy and sticky inflation. From a market perspective, that is a good combination.

➢ Russia wants to slow its oil production and refining, and the Ukrainians are helping

The US has asked (the) Ukraine to not bomb Russia's oil refineries. (The) Ukraine summarily launched their 8th attack on refineries over the weekend. Despite the refining shortfall, Russia claims to be shutting off some oil production in Q2 in line with its OPEC+ pledge. This is more of a signaling gesture than a real promise. Russia will likely pump all the oil India and China can buy. (There is some nuance between producing oil and refining it, and often they are tied together. But we think Russia skips over any normal relationship and sells whatever it can.)

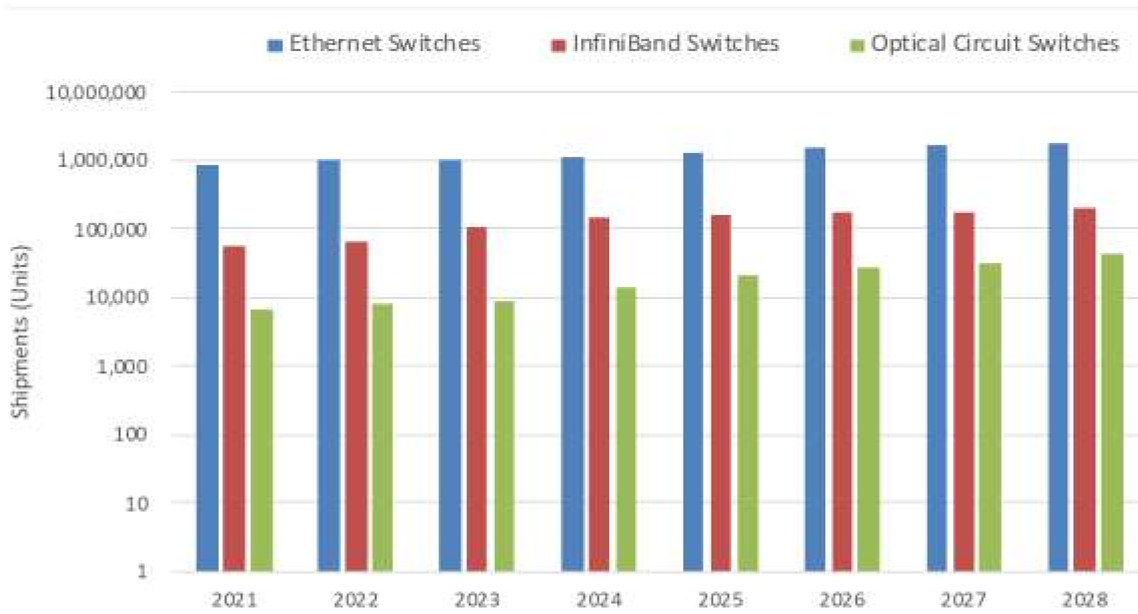
➢ Where did all the crypto money go?

The disgraced co-founder of Three Arrows Capital is back in the news. Kyle Davies has been on the run since the crypto platform (do not call it an exchange!) collapsed with a mountain of debt and troves of stolen investor money (over $3.5b). While hiding out, he went on a podcast. When asked if he was sorry for the collapse of his company, he replied with a grin, "Am I sorry for a company going bankrupt? No. Like, companies go bankrupt, almost every company goes bankrupt, right?" He went on to say, "We can even tell the next Three Arrows how to do things better when they go bankrupt."

Apparently, Davies did not heed his own advice. He started another crypto platform last year in April. Last month, OPNX, was shut down by the Dubai regulator for operating an unregulated exchange.

➢ Chart Crime of the week

Here is an interesting one sent to us by our friends at Hunters' Gate. This technology infrastructure firm is actually *downplaying* their growth by using a log scale! Usually, it is the opposite…someone uses an arithmetic scale over an obscenely long timeframe with a massive change in the base line numbers (a classic chartcrime involves population metrics over centuries). But these guys are actually making their growth look worse because they want to compare the growth across differently sized revenue segments. These guys need to separate the data into three charts…or just use percentages.



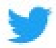
- Quick Hits
  - Lactose-intolerant coffee drinkers have filed a lawsuit against Starbucks for charging extra for plant-based milk.
  - It is illegal for Chinese nationals to gamble in Singapore casinos.
  - Petrobras, the national oil company of Brazil, spent $40b to build out 115k barrels of refining capacity. It could have bought 6mm barrels of refining capacity for the same amount of money.
  - In Oakland, there were almost 14,000 cars reported abandoned during g a six month stretch in 2023. The police will not respond to abandoned or stolen cars. The city is spending $1mm on excess storage for all the stripped cars.
  - Scottie Scheffler's caddie has made more money on the course than Rory McIlroy this year.
  - BYU could not be a 5-seed in the NCAA tournament because they will not play on Sundays.
  - Subway is dropping Coke for Pepsi.
  - The number of mentions of "ESG" during management conference calls has dropped from over 3,000 at the beginning of 2022 to about 1,200 now (probably round-tripping back to zero soon).
  - A Texas man has legally changed his name to "Literally Anybody Else," and he is officially running for president (he has filed with the FEC).
  - 5,000 shares of Trump's SPAC were exchanged for $10.87 instead of waiting one day and selling them at over $42.
  - Robinhood is issuing a gold credit card that is actually made of gold.

Trading: We shifted a little of our long Health Care exposure. Contract nursing rates are starting to tick higher which might squeeze hospital margins down the road. We bought some copper to diversify our "long economic growth" stance. We trimmed a touch of our Energy long (still have a large position). We traded around one of our event trades in the financial space.

TSLAQ: Now we know why Musk has been trying to pump Tesla's Q1 sales through April price hikes…there is no demand. Tesla is slowing production at its factory owned by the communists in China. This is its main export hub. Reports have the reduction pegged at 20-25%.

Apparently, Tesla has a new policy that requires its salesmen to demonstrate the poorly named Full Self Driving technology to each buyer. We applaud the idea as Tesla's self-driving is graded as level 2 which means it requires human attention at all times. We doubt the buyers will bother to sit through a demo / test drive.

Check out our website to learn more about Chalk Creek Partners

 Carlisle's Twitter Financial List

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