Weekly Update

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	Last	5d %	YTD %	1yr %
S&P 500	5,106	0.7%	7.0%	28.1%
QQQ	$438.86	0.8%	7.2%	47.5%
US 10 YR	4.11%	4.27%	3.88%	3.97%
USD/DXY	103.4	104.0	101.3	105.6
VIX	14.5%	13.8%	12.5%	19.6%
Oil	$79.12	0.7%	10.4%	-1.7%

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

This week was marked by the same grind higher interrupted by a strong but brief shock to the system (-2% to -5% on the growth spectrum). The pervasive trend is still being driven by the notion that the economy does *not* need any immediate rate cuts. Earnings continue to beat expectations and improve to healthy levels (+10%). Other economic data remains steady (some recent weakness in Retail is being offset by solid labor data and the now-nebulous business surveys which are better on balance). And, of course, spending on artificial intelligence continues at its blistering pace.

The drawdown on Tuesday was attributed to fear ahead of Jerome Powell's testimony in front of Congress on Wednesday. (We always fear these testimonies…the thought of having to listen to Maxine Waters is terrifying.) The fear, we presume, was that Powell would pivot to rate hikes? This theory did not hold a lot of water considering interest rates moved *lower* on Tuesday. The yield curve has started to invert again (the 10yr has come down in yield more than the 2yr has, however this has been marginal so far). This is the old recessionary red light. But we have always found this indicator more coincidental than telling. Alas, Powell held the party line on Wednesday (strong economy, maybe rate cuts later; more below). There was some talk that a large quantitative fund was reducing its long equity positioning. Some option positioning apparently exacerbated the selling (gamma flipped negative which means dealers had to sell dips). Of course, call option buying (and/or put selling) has been a tailwind to this market. We chalk it up to normal profit taking.

- Gold is sending mixed signals

Contrary to the general bullishness, the move in gold is somewhat confounding. All-time highs in gold are usually accompanied by drastically falling real interest rates (nominal rates minus inflation). Or there is fear of some sort of real shock to the monetary system. We doubt the imminent failure (or total restructuring) of New York Community Bank is driving that thought. But it might be conjuring up more worries in the regional banks or commercial real estate market (but these fears are not evident anywhere else other than punditry and anecdotes…even though we have been waiting for more implosions). Some point to gold going up while the gold ETFs are shrinking in size (not price). Foreign central banks could be the buyers. The theory goes that everyone else in the world knows the US cannot sustain its fiscal policy path. So, they sell their dollars and buy gold (bullion, not ETFs). Or it could just be that Bitcoin has rallied like crazy. Even though we like to keep a core long in gold, we might sell our small position given the Fed's stance (slow and measured rate cuts if any).

- Down to four market leaders now?

All the market talk is how the magnificent 7 is now the marvelous 4 (or use whatever silly names you want). Out of the mix are Apple, Google, and Tesla. Apple is suffering under the perceived slowdown in China (probably true to a certain degree, but certainly not a surprise). And the reception to its Vision Pro goggles apparently is underwhelming (we read more positive reviews than negative ones, for what that is worth). Google is facing a mounting onslaught of regulatory pressures and botching its AI rollout for the second time. We think the short-term headaches are real. But we also think Google has the grandest treasure trove of data. It might take a Zuckerberg type of reshuffling (Google has 182k employees, after all), but it is doable (and we think likely). As for Tesla, well, it never belonged in this group which includes products that people use on a daily basis. It was just a momentum stock with a lot of fanboys (we will spare you further Tesla comment outside of its dedicated section).

- Earnings growth conitnues

Earnings growth has hit 10% with almost all the S&P 500 being reported. Revenue growth flattened out at 3.7%. 76% of companies have beaten expectations on the bottom line (EPS). And 63% have beaten on the top line (sales). Here is the latest table pf winners and losers with previous expectations:

Exhibit 3. 2023Q4 Blended (Reported & Estimated) Earnings Growth

Sector	Today	1 Jan	1 Oct	1 Jul
Consumer Discretionary	36.3%	22.3%	28.5%	19.9%
Consumer Staples	5.7%	1.8%	5.2%	7.4%
Energy	-21.9%	-25.6%	-20.6%	-24.0%
Financials	8.7%	6.0%	11.7%	11.4%
Health Care	-14.1%	-18.9%	2.4%	2.3%
Industrials	8.3%	-1.6%	6.3%	8.3%
Materials	-18.9%	-20.9%	-7.6%	-1.4%
Real Estate	9.8%	11.0%	14.3%	15.9%
Technology	23.8%	16.7%	14.7%	12.8%
Communication Services	53.4%	49.0%	49.5%	42.2%
Utilities	35.4%	49.1%	55.4%	48.2%
S&P 500	**9.8%**	**4.7%**	**11.0%**	**9.5%**

Source: LSEG I/B/E/S

Exhibit 4. 2023Q4 Actual Earnings Growth

	S&P 500
Today	10.0%

Source: LSEG I/B/E/S

➢ Employment tightness is easing but solid

Friday’s Employment Report is the looming data point. The ADP guess for the private payrolls figure indicates a gain of 140k jobs. This is a little lower than the 160-170k expected (headline expectation is for a gain around 200k which includes government jobs). Meanwhile, Job Openings (JOLTS report) fell slightly by 26k to 8.863mm. The Quits rate continues to fall (lowest in three years). This indicates a softening of the labor market. As long as it is steady, that is ok (relieves/slows wage inflation). One potential area of worry continues to be that layoffs are extremely low. While we have certainly changed our tune on the strength of the labor market, we still think there could be pockets of weakness (no layoffs now is great, we just think this might change).

➢ Housing: Are higher rates finally becoming the phycological norm?

Two under-the-radar data points jumped out us in the Housing market this week. Mortgage Applications bounced 9.7%. This weekly data is volatile, and you will get burnt extrapolating short-term moves. But this week’s gain was driven by FHA loans which are typically taken by first-time borrowers. This group is thought to be more interest rate sensitive. Considering interest rates were mostly flat to higher during this data period, it might be signaling that people are getting used to higher rates. The same goes for House listings. These are on the rise. The February total jumped 15% vs last year. The leading price point is $200k-$350k which grew 25%.

➢ Other economic data is mixed to slightly better

- The final release of the January Durable Goods Orders confirmed the -6.2% preliminary number. Core Capital Goods (aka business spending) was flat as expected.
- The S&P Services PMI for January rebounded more than expected hitting 52.3 (vs 51.3 in Jan and expected). The ISM Services, however, did not meet expectations as it slipped from 53.4 to 52.6 (Prices Paid and Employment were lower, New Orders were higher which is key).

- Factory Orders fell more than expected in January (-3.6% vs -0.3% in Dec which was also revised lower marginally from +0.2%).
- February Vehicle Sales increased to 15.81mm from 14.92mm (these are annualized numbers).
- Weekly Redbook Retail Sales increased 3.1% (slight acceleration).

➢ The Fed's Powell is toeing the line (keeping rates the same)

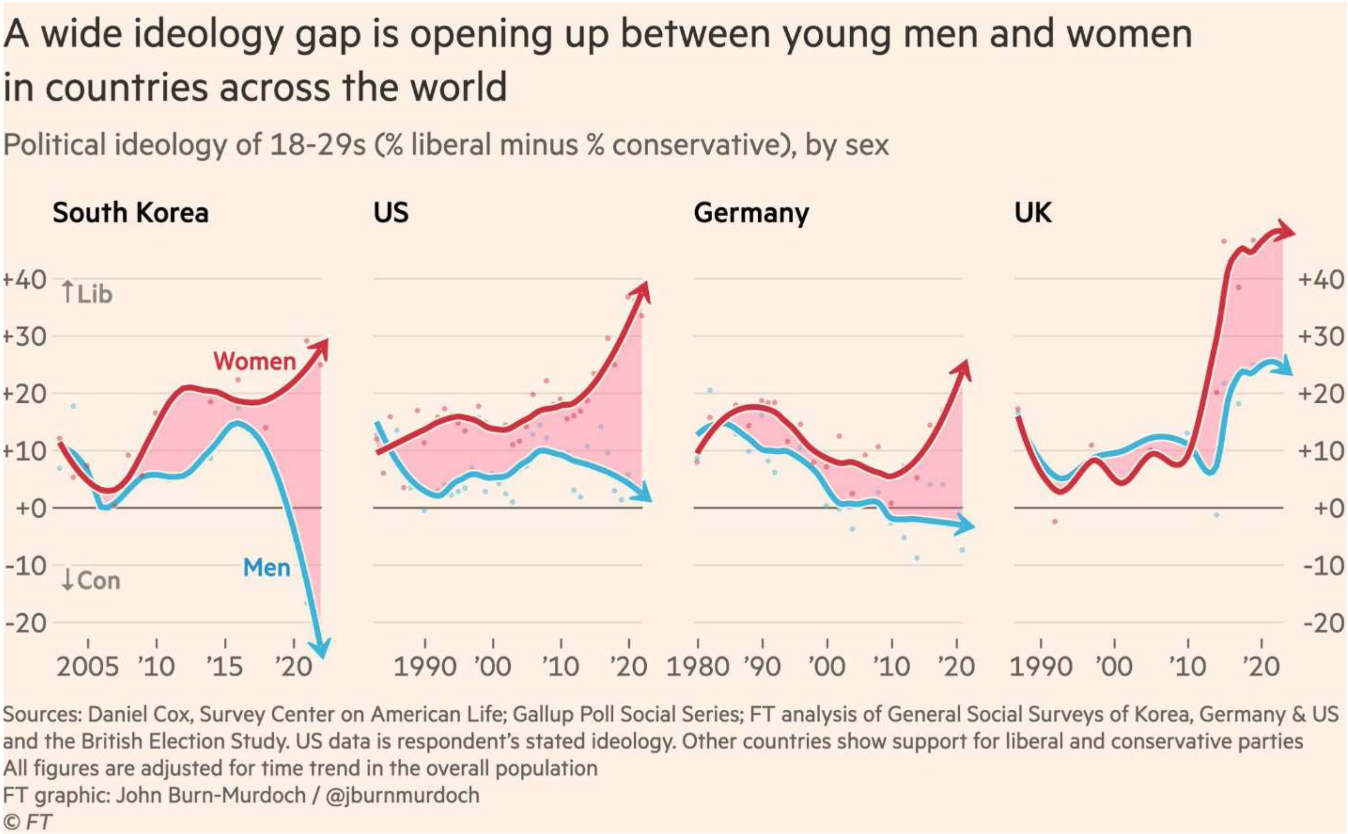
Fed chairman Powell's testimony in front of Congress came as expected. When he had a chance to answer questions related to monetary policy instead of sidestepping stupid political theater, he explained that the economy and labor market remain strong all the while inflation is falling. He thinks this is a long-term trend (multiple years). Powell wants a bit more evidence on the inflation front. But the Fed can commence cutting before inflation hits its 2% target. One area of concern is the geopolitical impact on things like shipping costs. These costs have moved higher, and they may start to influence the prices of the products being shipped. Hedgeye has said that this freight lag has been as much as 18 months int eh past. We think cycle times are shorter now, so we can expect to seem a mild shift higher sooner rather than later. On the regulatory front, Powell expects broad changes to Basel III – the global framework that dictates bank capital requirements.

➢ Where did all the crypto money go?

Here is another scam that conjoins the real world with the fake world. It involves a Chinese crypto company called Bit Brother (need we say more?). This used to be a tea company. But the urge to get in on the racket was too strong to resist. Its website reads "Infinite blockchain make future simpler." We are too leery of going to the website ourselves, but we are quoting the Wall Street Journal. But the real scam here is that this company is listed on the NASDAQ. It is a penny stock that tends to do reverse splits to remain listed. In late December, it traded over 3.5 billion shares. That was 28% of the total volume of the entire stock market that day! Of course, there is no real business. It is just a ticker. Christopher Moltisanti could not have done it any better.

➢ Chart Crime of the week

This one is not a chartcrime. But it reminds us of a funny story from our New York City days. We were in line with some neighbors to vote in a primary election. When the line split between Dem and Repub, the married couple went in opposite directions. The look of horror on each other's faces was classic! They were not Korean.



- Quick Hits
    - Rihanna was paid $6mm (some reports have it at $9mm) to perform at a wedding in India.
    - Rihanna has not performed a concert in eight years.
    - A student housing building in College Station has a $47mm note on it. It has 173 units ($272k per unit).
    - In 2019, San Francisco had more drug users (injection, not smoking) than high school students.
    - San Francisco has just passed a referendum to require a drug test to receive welfare (presumably you need to not have drugs in your system, but maybe it is the other way around).
    - California is proposing a bill that will provide interest free mortgages to illegal immigrants. No downpayment. No monthly payments at all.
    - Otter Tail County, MN has 1,000 lakes, the most in the country.
    - There is a proposed law in Canada that will criminalize the promotion of fossil fuels (speaking nicely about them).
    - The Dartmouth men's basketball team voted to unionize (not many NIL deals coming down the pipe for the Ivy League).
    - In India, 78% of people over the age of 15 have a bank account. This is up from 44% in 2011.
    - Renderings of the prospective ballpark for the A's in Las Vegas do not have bullpens, air conditioning, luxury suites, or lighting.

Trading: We did the unthinkable and we trimmed a little Nvidia. It is still our largest position, but a 100% gain in 3-4 months for one of the largest companies in the world is pretty crazy. We know this is a momentum market, so we are only doing this in small size at higher intervals. At the same time, we are spreading out our "AI" bets.

TSLAQ: The lawyers representing the shareholder who successfully sued Tesla to rescind Musk's $55b pay package are asking for $6b in fees. Apparently, that is $288k per hour of legal work.

Musk, one of the founders of OpenAI, is suing the leading artificial intelligence platform for wandering from its mission to "benefit humanity" rather than for profit (which was why Microsoft teamed up with them). Of course, Musk never lets facts get in the way of a good story. Open AI released emails from Musk years ago stating the exact opposite. The company should raise external money and pivot towards profitability. And in the spirit of Muskian disclosure, he writes that OpenAI should "start being less open" about sharing its technology with the public. Of course, Musk wanted to be the majority shareholder and CEO.

Tesla's factory in Germany has been shutdown because of an arson attack. We call it 50/50 that Musk is behind it.

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