Weekly Update

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	Last	5d %	YTD %	1yr %
S&P 500	4,275	-2.9%	12.6%	18.8%
QQQ	$355.04	-2.6%	33.9%	30.3%
US 10 YR	4.62%	4.41%	3.88%	3.74%
USD/DXY	106.7	105.4	103.5	112.6
VIX	18.2%	15.1%	21.7%	30.2%
Oil	$93.71	3.8%	16.7%	19.3%

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

The equity market is still reverberating from last week's Fed meeting. Interest rates being "higher for longer" might be starting to sink in. It does not help when Jamie Dimon of JP Morgan doubles down on his warning to the economy and the market. Last week he joked (not really) that he would not be a buyer of any bank stock (presumably including his own). This week he said the "world is not ready for a 7% Fed." (7%! We are only at 5.25%!) Some of the charts and data we have been posting for a while now are starting to make their way into the mainstream financial media. Excess Savings is all but gone for 80% of the population. Student loan sticker-shock is coming home to roost: According to Jefferies, 87% of debtors plan to cut back their spending. (Apparel and footwear rank as the top areas for budget slashing.) Oil prices are reigniting inflation fears. Striking workers continue to way on output and push up prices (stagflation at its finest). And some policy analysts are saying the government shutdown is a certainty. All this said, we still like buying the Quality spectrum of the market slowly. We will also look to add to shorts in the segments of the market that rely on 0% interest rates. Hege funds starting to panic is a good thing for putting on trades.

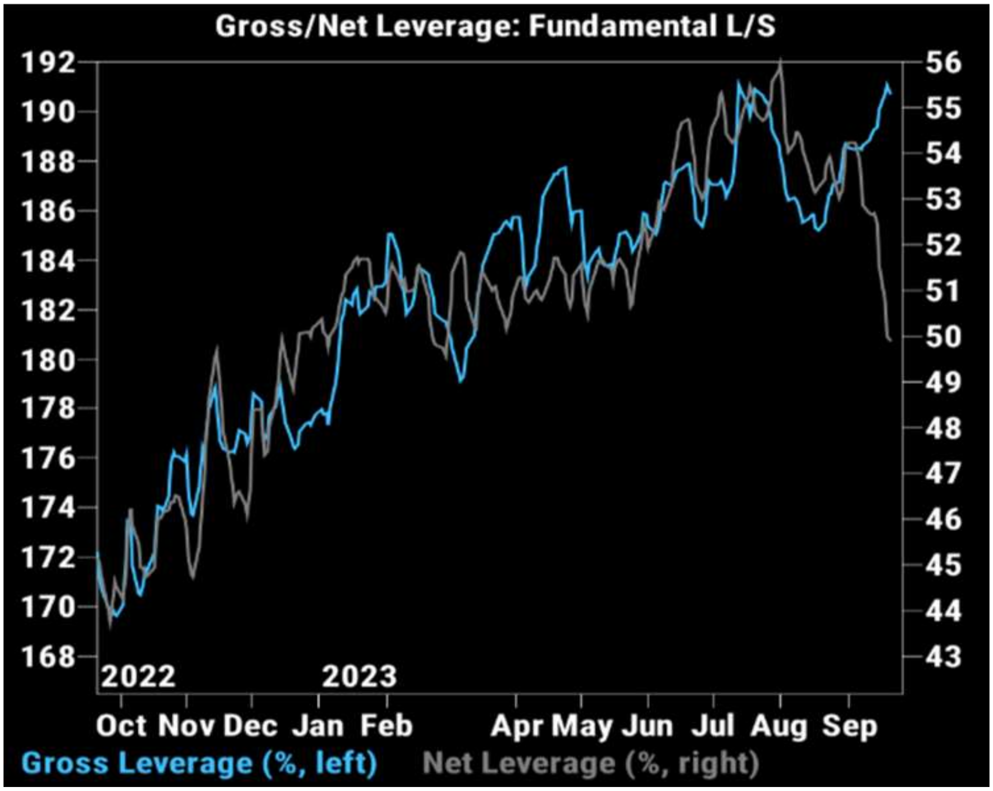
- China is trying to create "free trade zones"

For all the negativity surrounding China and president Xi's insistence on punishing capitalism (along with the will of the masses), there have been a few positives...at least on paper. Most notably, the Chinese are trying to enhance the benefits of its newly formed "free trade zones." The rub is that expats and even companies in these zones can invest money without registering with the government. More importantly, these people can get their money out of the country without restrictions. (This is a difficult concept for most Americans to grasp…many countries including developed ones restrict the flow of money/currency.) Of course, this is probably just a trap set by Xi. The communists are tracking all of this and will clamp down on those they deem against the national interest.

The heat on the Chinese real estate market is intensifying. China Evergrande might be liquidated as it struggles to repay creditors (never mind the blood bath in the equity). Ping An is the latest real estate company to have missed a loan payment. China Oceanwide is going to liquidate. Most importantly, local bond holders are now in jeopardy of losing out. We have long stated that it would be the foreigners that are left holding the bag. If the government is willing to extend the pain to local entities, that is a game changer.

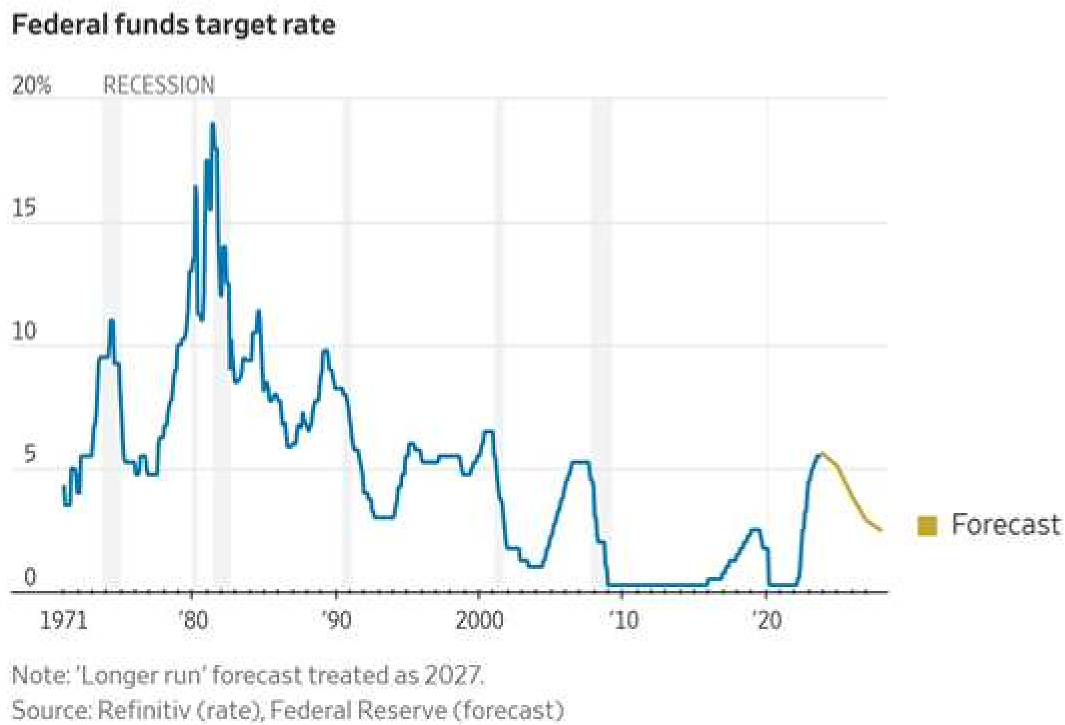
- Hedge funds are getting nervous

Goldman Sachs prime brokerage data (fancy word for hedge fund custodian that provides leverage) shows hedge funds are getting nervous. To be clear, we think this is a bit of a chartcrime. Net leverage has only moved from 56 to 50 (In other words, we have some y-axes problems.) Nonetheless, this was a fast move which might not be done. Interestingly, short interest on single stocks has not increased at all. But Goldman says short selling has increased…strange but perhaps this means retail has been covering shorts to keep the overall level balanced. Funds have certainly increased their use of index protection. More importantly, they are not selling their longs (Gross leverage is still near the recent peak of 190%). We think this is a positive backdrop (negative for the market, that is). We would welcome a little more panic, but that is still not our base case (except for garbage companies that rely on 0% interest rates).



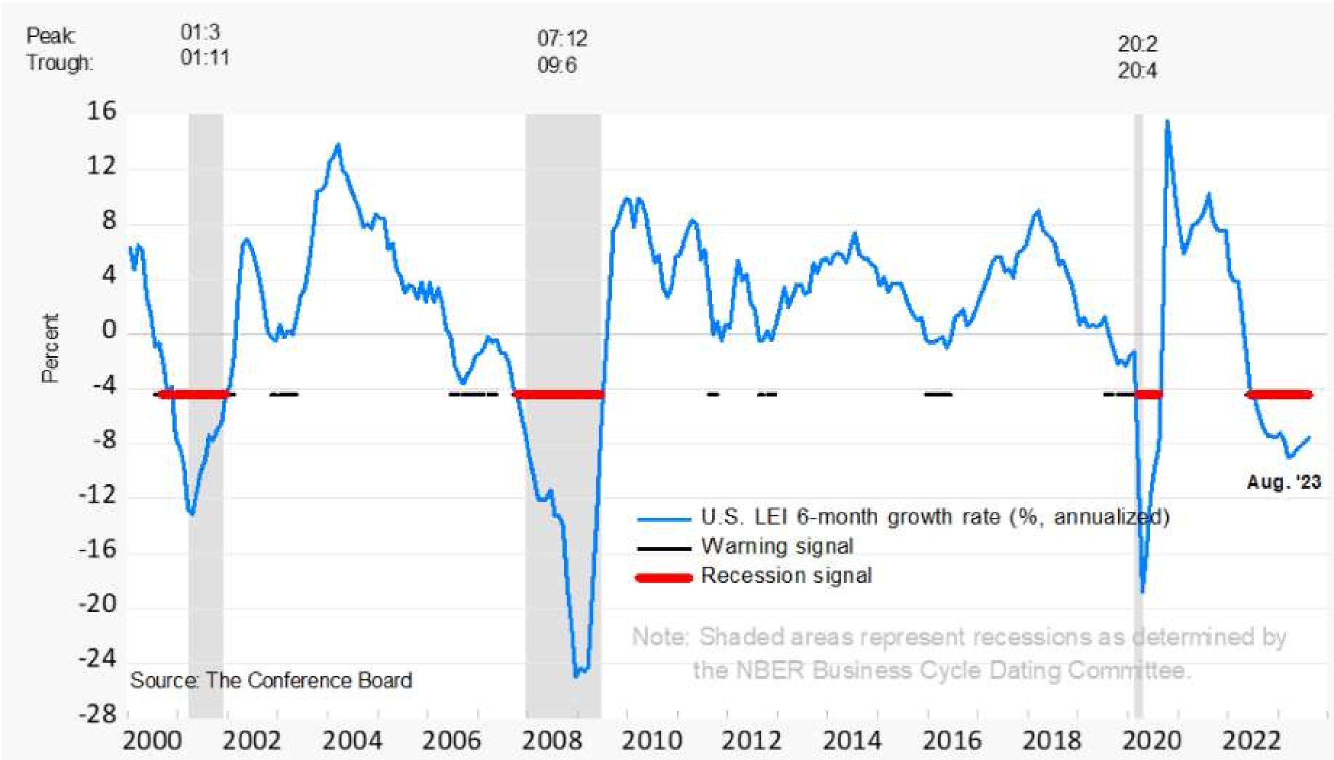
- Rate cuts are not necessarily a good thing

We have been discussing this one for a while. Basically, when the Fed cuts rates, it typically means the economy has deteriorated quickly. The Fed, however, thinks this time will be different. Almost every rate cutting cycle over the past 50+ years has been sharp and deep in response to things having gone to hell. But the Fed insists on its ability to gently land the economy accompanied with a slowly flattening Fed Funds target rate.   Do not get us wrong. If the Fed were to cut rates tomorrow, the market would scream higher. But reality would soon strike.



- Leading Economic Indicators have slowed their decline but are still ominous

The Leading Economic Indicators (LEI) for August fell again. This is the 17th consecutive monthly decline. The Conference Board, the entity that compiles this data (which is already previously released), analyzes the data in a manner that shows when warning signs are triggered and when full blown recession shots are fired. The composition of this data is a little complex (it combines the duration, depth, and diffusion of the data). As you can see, there are some head-fakes when the data slows. But when it really accelerates to the downside, the outcome is usually grave. Of course, the current 6-month LEI growth rate has already started to turn higher without the recession! This is the conundrum the market faces. We think the uptick higher is ephemeral. Or at least not relevant until the data turns positive (not just less bad).



- Housing data is still slowing

Existing Home Sales fell slightly in the month of August. The -0.7% decline was an improvement from the 2.2% drop in July. But this improvement is just a rounding error. The 4.04mm annualized run-rate pales in comparison to the 6.5mm Virus Fear peak and the 5.25mm pre-panic. Of course, prices have been moving higher for the last few+ months.

U.S. existing-home sales

Note: Seasonally adjusted annual rate
Source: National Association of Realtors

New Home Sales fell 8.7% in August vs July. July was a strong month (highest over the last two years, but still well off the Virus Fear peak), so perhaps this is just some normalization. But it adds to the mounting wall of data that indicates a slowdown across the board (New and Existing).

- Business Surveys are still cautious

The September Flash (early) reading for the S&P PMIs remained relatively stable. The Composite ticked down from 50.2 to 50.1. The split was an increase in Manufacturing (48.9 vs 47.9) and a decrease in Services (50.2 vs 50.5 in Aug).

The Philly Fed Manufacturing Index swung back to sharply negative in September. That burst higher in August was, indeed, a head fake. The Dallas Fed Manufacturing Index fell further into negative territory.

- But Business Spending is stable

Core Capital Goods Orders (sometimes called Non-Defense Goods Orders ex Aircraft…we just call it business spending) in August increased 0.9% on the month. This data is volatile (not as volatile as the headline Durable Goods Orders which we mostly ignore except for long term trends). But it mostly has been hovering around 0% growth. This still surprises us. Even though this data is not adjusted for inflation, the level of spending remains fairly robust. Or at least it is not collapsing which many thought might happen. And it is still well above the pre–Virus Fear level. We have attributed some of this to the nascent reshoring effort. And we suspect a breakdown of company sizes would tell a different story (small ones cutting back while large ones continue to invest).

- Interest rate direction can be as important as the notional level

After Powell dropped the hammer on the market last week, some of his lieutenants echoed his sentiments. Michele Bowman, a Fed governor, said, "We should remain willing to raise the federal funds rate at a future meeting if the incoming data indicates that progress on inflation has stalled or is too slow to bring inflation to 2% in a timely way." Susan Collins of the Boston Fed said it more succinctly, "I expect rates may have to stay higher, and for longer, than previous projections had suggested."

This upward pressure on US rates is exacerbated by some softening moves by central bankers around the world. The Bank of England (BOE) left rates unchanged for the first time in two years. The 5.25% rate matches that of the US despite the UK inflation rate still dwarfing that of the US (6.7% vs 3.7% using the headlines, but this is an overly simplistic analysis). Switzerland also left its rate unchanged at 1.75%. Some emerging markets are cutting rates (Brazil and China). Of course, the European Central Bank and Japan have indicated tighter monetary policy to come. But the market does not believe them. And Japan does not even follow through with its own warning (below).

- Japan does not have the will to tighten

The Bank of Japan (BOJ) surprised the market and did nothing. Many had thought the runaway Yen (vs the USD…a currency cannot be viewed in isolation) would prompt the BOJ to be more forceful in its attempts to tighten monetary policy and this stop the Yen's slide). But it left its rates negative (-0.1%) and yield curve control unchanged (they have previously bumped up the ceiling on the 10yr Japanese Government Bond (JGB) from 0.50% to 0.75% to 1%). The central bankers even said more stimulus was a possibility if needed. The exact opposite! To be fair, the market was not expected a change from the BOJ…but there was a lot of "what if" questioning before the meeting.

Separately on Japan, the prime minister (Fumino Kishida) is actively courting financial firms around the world. The idea is to beef up Tokyo as a global hub of financial services. Loosely translated, Japan wants to end some of its "unique business practices." This means it is very difficult to do business as a foreigner in Japan presently. Some of the changes will allow for more English to be spoken, back-office jobs may be outsourced, and a general emphasis on better corporate governance. Tokyo has fallen from the 3rd largest financial center in 2020 to 21st this year.

- Oil might be getting close to a top

The market continues to debate if oil has been rallying because of a better demand outlook (soft-landing) or because supply is so constrained. We think oil has rallied *despite* the demand picture (notwithstanding last week's story about China refining oil at an all-time high clip). Its outperformance against other commodities and industrial metals in particular tells the story. Crude oil has outperformed the Bloomberg Commodity Index by about 23% this year. And crude has outperformed the industrial metals by about 34%!

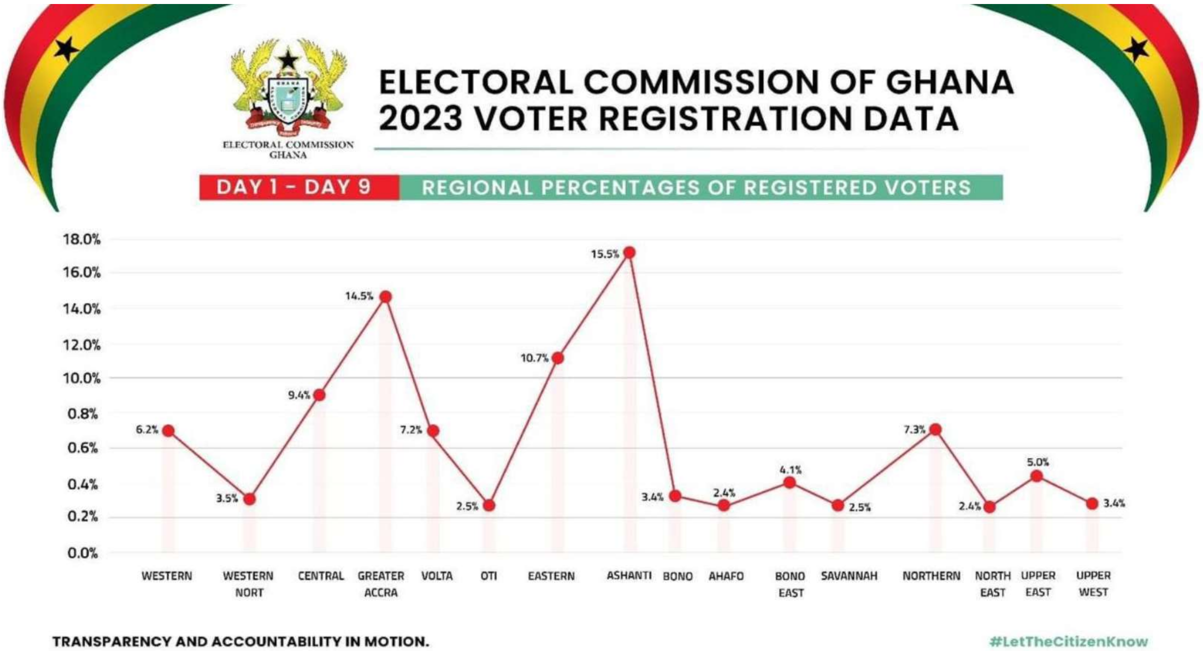
There are classic signs of a near-term top in oil, however. For starters, there is talk of another "oil super-cycle" with some analysts calling for $150 or even $200 oil. And the official oil futures data shows a record low in short positions held by speculators (that data is split from commercial hedgers who are almost always short futures contracts…that is why futures were invented). The net long positioning in oil future is over 2.6 standard deviations above its norm (mean). When people get too optimistic, we know what happens (in this case, the Saudis start dipping into their 3mm barrels of excess capacity now that they have sufficiently punished the short sellers).

- Where did all the crypto money go?

Here we go again. Tether, one of the so-called "stablecoins" is back making loans. The premise behind the "stablecoin" is that it can be immediately and fully redeemed for USD ("straight cash homey"). Tether and others have always been coy about where they hold these USD (one might call them deposits…that is as misleading as calling FTX an exchange!). They claim they are in Treasuries and other short-term, super liquid, near-risk-free instruments. In other words, they are the equivalent of money markets with the difference being that Tether keeps the interest…not you. But now Tether is veering away from this policy. It is making loans again. Tether owners do not know who is borrowing their dollars or what collateral, if any, these borrowers have pledged. There is speculation (Matt Levine of Bloomberg loves writing about this stuff) that Tether is lending USD to other crypto firms that are in trouble. This most likely means large crypto traders need more USD to buy more of the crypto junk that is withering away on the digital vine to prevent margin calls or fire sales of their "assets." These firms will do just what FTX did…they will throw good money after bad.

- Chart Crime of the week

The electoral commission of Ghana is touting its "Transparency and Accountability in Motion" as you can see at the bottom left. But if you check out the y-axis, it skips from 10% to 0.8%. But the dots on the graph do not match the axis points. Maybe this is a typo? Considering it was a Ghanian policy researcher who flagged this, it is more likely an example of a lack of transparency and accountability.



- Quick Hits
    - There is a proposal in the UN to create veto power for the body over the Security Council. The Security Council must approve this change.
    - 17 prominent authors are suing Chat GPT for having their work stolen. (We have been saying for a while that this AI/Chat/Bard stuff is just anonymously curated, unattributable search…the last thing anyone should want.)
    - The last time Syracuse football started consecutive seasons 3-0 was 1959.
    - Dollar General had a bird infestation in a store. Its remedy was for the employees to take home and wash the pillows that had been riddled with bird droppings.
    - The Savanah Bananas's regular opponent, the Savanah Party Animals, has more Tik Tok followers than the New York Yankees.
    - Giant mutual fund company Blackrock is no longer using the term ESG (environmental, social, governance) because it has become too politicized (by Blackrock, we might add).
    - A $10,000 bill from 1934 recently sold for $480k. Salmon Chase is featured on it.
    - $10k is the highest circulated currency in US history. There has been a $100k bill created for banks to transact with the Federal Reserve.
    - The Dolphins's thumping of the Broncos 70-20 was a Scorigami (first time that score has happened). It is the 1077th unique score in NFL history. It was also the first time a team has scored at least 70 points since 1966.
    - The Eagles winning 25-11 over Tampa was also a Scorigami.
    - The last time there were two Scorigamis in the same week was 1920.
    - Lionel Messi, the Argentine soccer star now playing in Miami, is getting a cut of the broadcast revenue from Apple's MLS Season Pass.
    - The Canadian parliament invited a WWII veteran to appear in the House of Commons during which he received a rousing standing ovation. The 98-year-old Ukrainian fought for the Nazis.

- Two years ago, we laughed when a rather unscrupulous artist took his $86k museum commission and turned in a blank canvas entitled "Take the Money and Run." This week, a court in Denmark ordered him to repay the bulk of the ill-gotten sum.
- Sports betting platforms have 3x the "hold" (how much/often they win) on parlay bets. PSA: Do not bet parlays.
- Target is closing nine stores because of theft and violence. They are in New York City, Seattle, Portland, and San Francisco.
- Lululemon announced it was discontinuing its Mirror fitness product. Lulu paid $500mm for the idiotic Mirror in 2020.

Trading: We keep adding very slowly to our barbell portfolio. We added some Quality Tech (not just blindly long Tech) and Energy. We bought some more Japan and India on dips (these dips are always too small!). We cut some small periphery positions that were more of a distraction than anything. And we added to our short exposures. These remain split between the Fantasy & Frauds and more typical Recession plays.

TSLAQ: The SEC recently brought charges against five companies for failing to disclose their insider transactions in a timely manner. These were mostly passive transactions…they were not related to earnings or guidance or mergers-in-the-making. The companies and their officers are just guilty of sloppy record keeping (that is not to say they are not violations…they are). Of course, the most notable name missing from the list is Elon. His filing violations with respect to Twitter are numerous, comical, and outrageous. He first filed his buying 11 days late. This allowed him to buy more stock without the market knowing his intentions. Then he changed the type of filing only to change his mind again. Matt Levine puts the savings thanks to these shenanigans at $143mm on $2.6b worth of transactions. The total amount of transactions in the cases brought by the SEC was $90mm with no word on whether these trades made or lost money.