



Weekly Update

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- The market only cares about AI
- The headlines are back and forth, with the good outweighing the bad
- No economic data
- No change in the Fed (they are cutting)
- No geopolitics (for now)
- Is inflation more pervasive than thought? Not really
- Business surveys diverge again
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	6,754	0.6%	15.8%	20.0%
QQQ	\$611.45	1.4%	20.1%	27.5%
US 10 YR	4.13%	4.10%	4.58%	4.06%
USD/DXY	98.9	97.7	108.5	102.9
VIX	16.3%	16.3%	17.4%	20.9%
Oil	\$62.40	1.0%	-12.8%	-15.0%

*10yr, DXY, and VIX are levels not changes

** Oil is front month futures, beware

For all the recent narratives, market action seems to be coalescing around Artificial Intelligence. Obviously, this has been a central theme for a while now. But there is a lack of economic data (mostly because of the government shutdown, but private data has been quiet, too). And while there has been a slew of Fed speakers along with the minutes from the last Fed rate-setting meeting, not much has changed on this front (the Fed will keep cutting rates despite persistent worries about inflation...some characterized the minutes as hawkish, but we disagree). Even geopolitics are quiet...might we really get peace in the Middle East? We doubt it, but the headlines are positive for now. (The) Ukraine has not been in the news much lately (but Putin is still crazy, so we want to buy dips in European defense).

With Artificial Intelligence, the news gyrates. We seemingly get a splashy new announcement every week (if not more often) about one AI company investing in another. This week it was AMD and OpenAI teaming up. To the bears's point, this deal is stranger than the last (Nvidia and OpenAI). AMD is selling chips to OpenAI, but AMD is also giving OpenAI 10% of the company. (A more desperate version of this from the recent past was Plug Power

giving Amazon stock warrants to buy its hydrogen-powered forklifts...that is how Plug managed to generate negative revenues!). While the market paused on this circularity for a moment, it mostly eschewed it as a detail to be worked out later. All that matters is that the flywheel is still spinning. But then a headline hits about Oracle losing money on its recent AI spending. But this vapid observation is met with rebuttals from the CEO of Nvidia and JP Morgan. Obviously, Jensen Huang of Nvidia is going to say the music has just started playing, but Jamie Dimon of JP Morgan said the bank is already saving the amount of money that it is spending on AI (\$2b a year...impressive). We are fairly confident that some of today's high-fliers are going to be zeroes just like from the dot.com era (can OpenAI really spend half a trillion dollars only to see revenues of \$1b a month?). But at the same time, many of today's winners are already fully entrenched in the AI ecosystem. Chatbots might not be the answer, but enterprise solutions are already working.

To repeat our now weekly refrain, we want to be long a market that has a growing economy with moderate inflation...and with a central bank easing monetary policy! Heck, we even got a Taylor Swift album release. Whether you like Travis Kelce or not, her albums and concerts stimulate the economy!

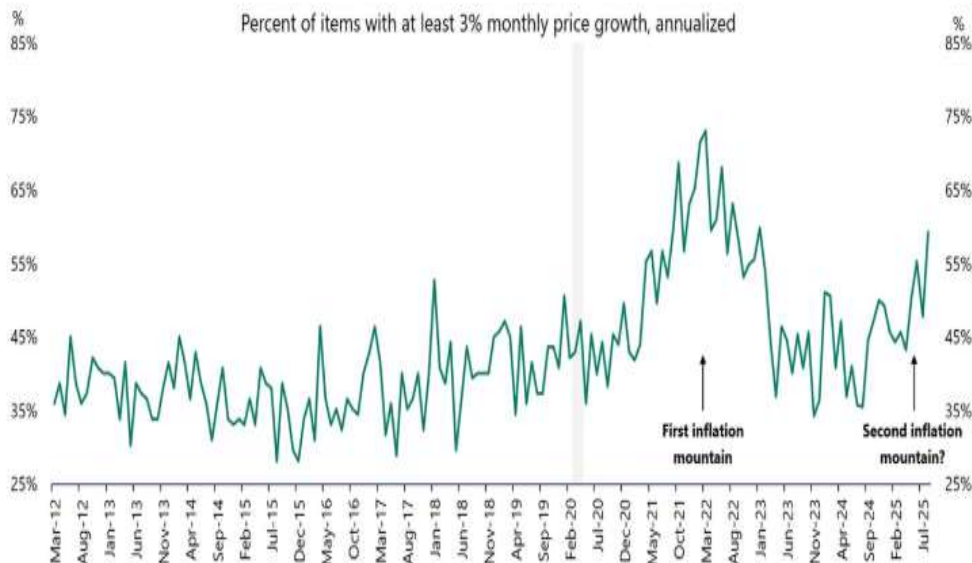
➤ Fed minutes point to more cuts

The minutes from the recent (Sept 16-17) Federal Open Market Committee meeting (FOMC...the Fed's rate setting meeting) did not shed a lot of new light on the future path for monetary policy. We know the Fed will cut interest rates again this year. The only question is whether it will cut once or twice. The 19-member committee (only 12 vote) leans 10-9 in favor of two more cuts. The futures market assigns a 80% chance of two cuts. We think the market probability is higher because of the impact from the government shutdown. And while we think inflation is slowly creeping higher, we think the Fed's tolerance for slightly higher inflation is also creeping higher (the old 2% target is likely closer to 2.5% if not under 3%).

➤ Is inflation more pervasive than thought? Not really

This Apollo chart is making the rounds. The percentage of items in the CPI basket (Consumer Price Index) that show at least a 3% price increase is accelerating quickly (about 60% now). This is somewhat startling considering all the talk about inflation being contained. We would add that some strategists have been saying that the 3Q earnings are going to be impacted by tariffs more severely than in 2Q (this is obvious as most tariffs were not in effect then and not all prices had adjusted in front of their implementation, but it serves as a reminder if nothing else). But we think this statistic could possibly qualify as a chart crime. "At least 3%" is much different than the 9.1% headline inflation from June of 2022. As we have been saying, we do think inflation is slowing ticking higher (for now).

About 60% of items in the CPI basket show at least a 3% price increase



➤ Business surveys diverge again

Business surveys for Services diverged similarly to Manufacturing (last week). The S&P PMI which more closely reflects the sentiment across domestic businesses of all sizes, continues to outpace the ISM which follows larger multinationals. S&P ticked down modestly to 54.2 from 54.5. But this is still a robust level. ISM, on the other hand, slipped from 52 to 50. New Orders fell the most (56 to 50.4). On the bright side, Employment ticked up slightly (any upticks in Employment data are welcome).

Jobless Claims for last week (which means through Sept 27) ticked up to 224k. This is not official data but rather a cobbling together of state data.

➤ Other economic data is mixed

Weekly Redbook Retail Sales were about flat with a +5.8% increase (+5.9% last week).

Consumer Inflation Expectations ticked up to +3.4% from +3.2%. June was the recent low at +3.0%. This is the more reliable survey from the New York Fed. This fits with what we expect...a slight increase in inflation but not enough to derail the Fed's gentle rate cutting.

Used Car Prices fell -0.2% in September vs August. This marks a +2% increase over the last year.

Consumer Credit barely budged in August with only a \$360mm increase. July's increase was over \$18b. September's expectation was for an increase of \$13b. While new credit balances continue to grow (5.5% on credit cards and 2% on auto and student loans), credit card balances declined. We think this is a generally positive trend.

Mortgage Applications slipped about 5% for the week.

The average 30-year mortgage ticked down to 6.43% from 6.46%.

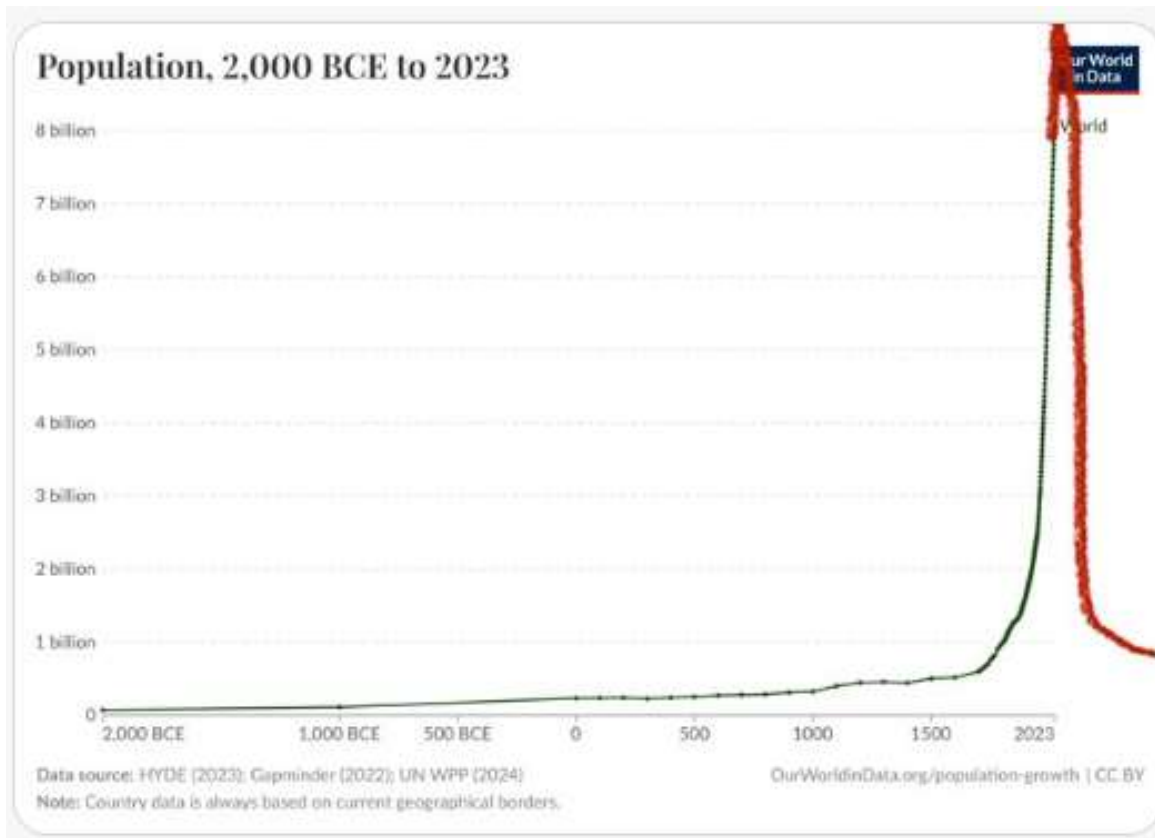
➤ Where did all the crypto money go?

The Russians have finally realized why crypto was invented: Money laundering! There is a Kremlin-connected token that has been loosely floating around. But it was starting to gain traction in oil and other commodity trading. The US and the UK sanctioned any exchanges that dealt in the “A7A5” token. They were even able to label the tokens used in violation of the sanctions. They had been flagged just like *French Impressionism* in the bookstore bathroom. But the token administrator (the friends of the Kremlin) was able to destroy the blacklisted tokens. Unlike Geroche’s attempt at the old swticharoo, the Kremlin was successful in reissuing different tokens into unsanctioned wallets.

We love to make fun of ridiculous crypto scams (not to be confused with Bitcoin...it might be inherently worthless like gold, but it is certainly not a scam). But every now and then we like to throw in a story of an old-school money incineration. Bloomberg reports that back in the Virus Fear times, a wild-west trader out of Singapore managed to put on trades worth \$2.6b. Actually, it was a single directional bet against US Treasuries. And the firm only had \$250k in assets! We doubled checked the Bloomberg math about a hundred times. Maybe Bloomberg has the exact size of the hedge fund wrong, but we would bet they are in the right zip code. When the bet soured (Treasuries did not go down in price), the fund lost \$250mm. Of course, he could not pay his counterparties on the other side of the trades. That is a cool 11,000x leverage resulting in a 1,000x loss.

➤ Chart Crime of the week

We randomly stumbled across a few different charts looking at the explosive growth in human population. One was titled “What goes up must come down.” Another chart showed the same growth but with the added red line (below). We could lambast the lack of a log scale or the use of crayon. But we think using “BCE” instead of BC is enough for us to ignore this chart.



➤ Quick Hits

- There is an ultramarathon in Denver which requires runners to eat at 9 Taco Bells along the race route.
- San Diego has banned digital coupons.
- Trading Places is based on the real story of Thomas Peterffy. Before he was the owner of the large online platform Interactive Brokers, he was a floor trader in NY. A film producer bet him \$10k that his random buddy (also a movie/music guy) could not last as a trader under his watch for a year. Peterffy took the bet and won the bet.
- Eastern Michigan University has a new baseball field that has grey turf for the base paths instead of the traditional brown dirt.
- Eastern Michigan has a grey football field.
- There are more private equity funds in the US than there are McDonald's.
- The starting running back for the Dallas Cowboys was the valedictorian of his high school.
- California has made it illegal for hedge funds to buy claims from insurance companies against utilities (typically for fire damage) without disclosing the price to the utilities and giving them the right to match the price. (This effectively will end the quick settlement periods and result in long, drawn-out litigations).
- One of the billionaire founders of massive hedge fund Jane Street and chess grand master Gary Kasparov accidentally funded an attempted coup against South Sudan last year.
- Jack Nicklaus's granddaughter is marrying a man named Todger Strunk.
- Lehman Brothers's London division is finally winding down as it exits the court-ordered "administration" after 17 years. The company was able to recoup almost \$38b. Most creditors have been repaid in full with an extra 8% interest.
- The real Rebecca DeMornay reused to guest star on Seinfeld.

Trading: We are still banking on a growing economy with a slight uptick in inflation. So, we added to some Financials and Consumer Discretionary. Generally speaking, trading has been quiet as we are positioned the way we want to be.

TSLAQ: This is not a Tesla story but rather just an excuse for us to use one of our long-time favorites from the old Best of the Web by James Taranto. Musk declared that "incarcerating repeat violent offenders causes violence to drop." Fox Butterfield, a New York Times employee for almost 30 years, often lamented at what he saw as a paradox: How could crime be falling if more criminals were in jail?

Back to Tesla, its secret Tuesday announcement was more disappointing than LeBron's Second Decision reveal. It was nothing but a slight quality and price change on its Model Y. As for the quality downgrades, here is a list of the items that have been removed.

Summary of things removed from new Model Y Standard

- ✗ Panoramic glass roof
- ✗ 7 speakers
- ✗ Subwoofer
- ✗ AM/FM radio
- ✗ Ambient lighting
- ✗ Closed center console
- ✗ Power adjusted steering wheel
- ✗ Suede decor
- ✗ HEPA filter
- ✗ Bioweapon Defense Mode
- ✗ Vegan leather seats
- ✗ Ventilated front seats
- ✗ Second-row touch screen
- ✗ Second-row touch controlled air vents
- ✗ Second-row power-folding seats
- ✗ Second-row heated seats
- ✗ LED front light bar
- ✗ LED rear indirect light bar
- ✗ Adaptive high beams
- ✗ Power-folding side-view mirrors
- ✗ Auto-dimming side-view mirrors
- ✗ Frequency dependent shock absorbers
- ✗ Autosteer 🙄

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