



Weekly Update

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- War and stagflation setting in
- The Fed will not be helping with the stagnation part
- There are still problems in private credit
- Flows are as confusing as ever
- Are Earnings too concentrated?
- Just when it looked like inflation was cooling (we did not think it was)
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week
- This guy wants his value meal

	Last	5d %	YTD %	1yr %
S&P 500	6,625	-2.2%	-3.2%	18.0%
QQQ	\$594.90	-2.1%	-3.2%	25.4%
US 10 YR	4.27%	4.23%	4.17%	4.24%
USD/DXY	100.3	99.2	98.3	103.4
VIX	25.1%	24.2%	15.0%	19.9%
Oil	\$100.45	15.1%	67.8%	44.0%

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

** Oil is front month futures, beware

As the war drags on, stagflation fears are becoming more tangible. We are also starting to see hints of higher inflation in the data before the outbreak of the war. Jerome Powell and the Federal Reserve acknowledged as much today. The rate-setting committee (FOMC) left the target range for the Fed Funds interest rate (the rate at which banks lend to each other in the overnight market) unchanged at 3.50% to 3.75%. Powell acknowledged that the current monetary policy was “modestly restrictive,” but the Fed needs to wait and see if the price effects from last year’s tariffs fade away as most expect. Of course, Powell was reluctant to comment on any expected impact from the war, but it was obvious that he and the committee are still more concerned about inflation than any wobbling in the Labor market. He made this clear when he emphasized the relative stability in the Unemployment Rate while dismissing the abysmal rate of job creation (lower immigration being the offsetting factor). Of course, everyone knew that Powell was not going to cut rates or even sound remotely dovish (leaning towards rate cuts). The real impact of today’s press conference was Powell defiantly saying he

was going to stay on as a Fed Governor until the investigation into him was resolved. With the nomination of Kevin Warsh for the next Fed Chair still being held up in the senate, Powell will also continue to lead the Fed (and the separately elected head of the FOMC). And as we have been saying, the last thing Powell wants to do is cut interest rates and be seen as caving in to Trump. The market puts the chances of a rate cut in December as a coin flip. A month ago, it was coin flip to have three rate cuts by then.

➤ Fed bullet points:

Why is the bias still leaning towards cuts? The median forecast did not change, but some members reduced their number of cuts. Progress has been made on inflation. Tariffs should be passing.

The oil shock is not all of the inflation...Core Goods (from tariffs) inflation still persists.

Economy has been solid...we just don't know the effects of the war yet.

More worried about inflation or consumer spending – thinks there is a balance. Same goes for employment and inflation.

Rates are still modestly restrictive.

Not stagflation but rather some tension between the two goals (growth and prices).

Non-Housing Services have not come down...not sure why.

A period of much higher gas prices would weigh on consumption.

Activity in the housing sector has remained weak.

Powell had to explain to one of the reporters in the pool that tariffs staying in place was not a source of inflation...only new price hikes cause inflation.

➤ There are still problems in private credit

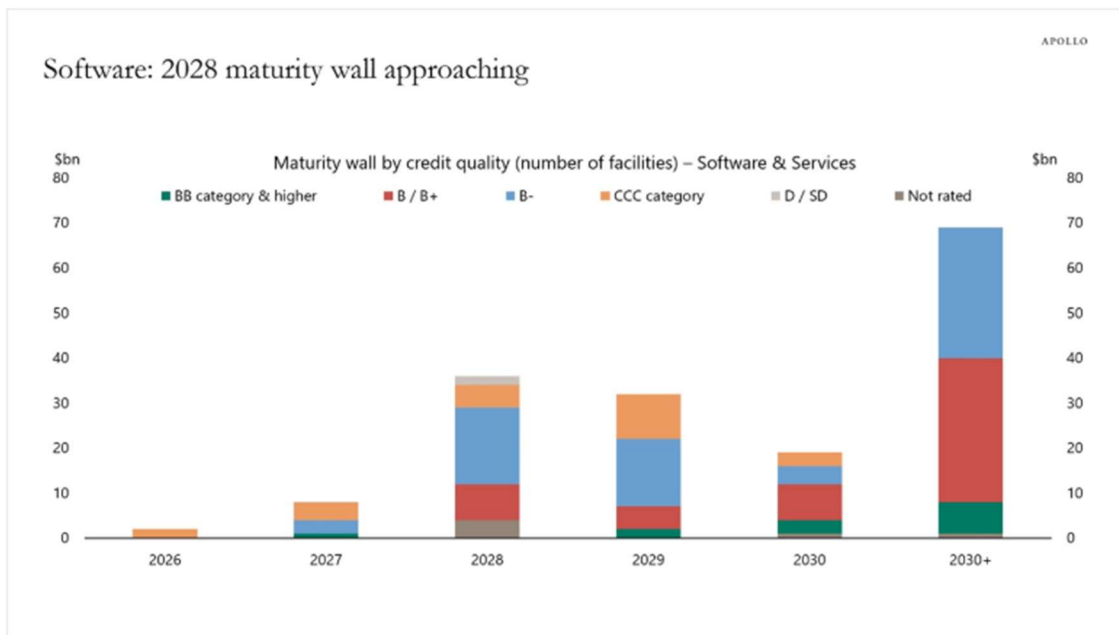
Investor angst in private credit is not going away. A Morgan Stanley credit fund has started to restrict redemptions. Blue Owl is still under pressure with new allegations that many of its loans are mispriced. And we are now seeing the different private equity/credit mgmt. teams point the finger at other private equity/credit mgmt. teams. This is the qualitative equivalent of a bank run. Everything is fine as long as everyone holds the line and says everything is good. But if they all start pointing fingers at each other...

As a reminder, this private lending space currently has about \$1.8 trillion in assets (assuming we take the marks at face value!). This total has grown from about \$50b in 2010. Naturally, the often-dreaded financial innovation has crept into the space. The Cliffwater fund we mentioned last week is apparently a fund of funds in private credit. This is akin to the CDO-squared mess back from the Global Financial Crisis almost 20 years ago. We heard the "bond king" Jeffrey Gundlach make reference to this. But it was the first thing we thought of as we remember sitting a row over from a guy who was packaging mortgages into CDO's back in the heyday of that disaster (we do not think this gets anywhere near that).

Here is a look at the publicly listed vehicles in private credit (courtesy of the Macro Tourist). We would not be surprised if another shoe were to drop (especially if equity markets are weakish with \$100 oil/ \$4 gas).



And this is the root cause of the pain in private credit. Software companies must start repaying their debt...maybe not tomorrow, but it will be here before they know it.



Note: Data through February 2026. Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index, Apollo Chief Economist

➤ Random notes:

McDonald's is coming out with a \$4 value meal for breakfast. Its \$5 value meal has been gangbusters.

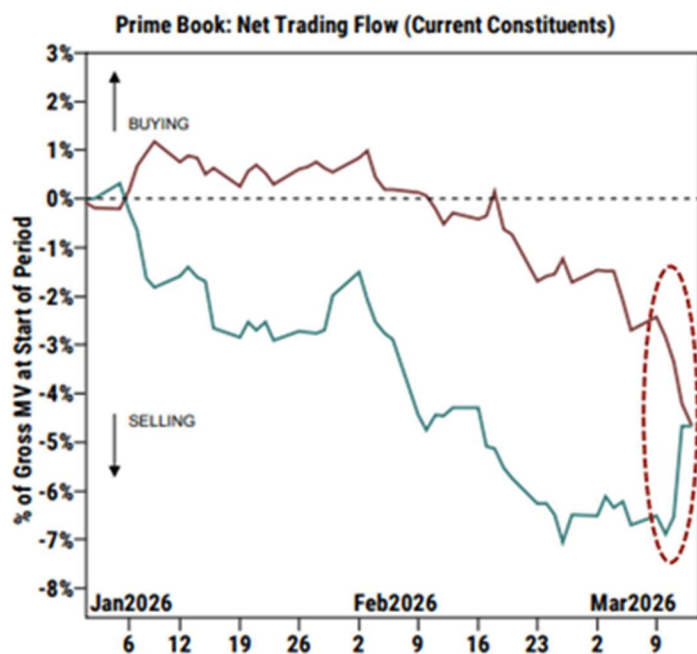
Australian software company Atlassian is going to cut 10% of its workforce to “invest in AI and enterprise sales.” But it is just another bloated software company like Block (alert: name change!) This 10% culling only brings the employee count back to last year’s level.

Merrill Lynch is drawing the analogy between '08 and now. ECB hiked rates in July of 2008 which is considered one of the biggest monetary policy blunders of all time. They cut rates 74 days later.

Apparently, the software bulls are calling for companies in this universe to dispense with the non-GAAP accounting that has dominated the industry since inception. This industry has somehow always got away with excluding stock-based-compensation from tis earnings. It would be a welcome change if they were held to the same standard as everyone else (not to mention, private credit would probably benefit from lending to companies with actual earnings instead of almost-earnings).

➤ Flows are as confusing as ever

Each morning, we try to summarize the basic narrative and driving force behind the daily factor moves. Hopefully we can string together a trend that matches the underlying macro set up (the intersection of growth, inflation, monetary policy, and fiscal policy...the Bridgewater or Hedgeye process). When the war first broke out, sectors and factors followed the stagflation playbook (slowing growth and rising prices...not necessarily of the 1970's ilk but rather just changes in the rate of change). In fact, this was just a continuation of the trend before the first bombs were in the air. But now, the sectors and factors are all going in opposite directions without much rhyme or reason. Point of fact, today we received two distinctly different commentaries about what is happening with Industrial stocks. Goldman say their hedge fund clients have been aggressively selling Industrials since mid-February. But Merrill says the exact opposite...its clients bought more Industrials stocks last week than any other week in the last 18 years (since they started tracking this data). For sure, this is not exactly apples to apples as Goldman is just talking about its hedge fund clients while Merrill is referencing its broad client spectrum. Adding to the confusion, JP Morgan says the Retail dip-buying which has been evident all year has suddenly vanished. Net buying dropped 30% last week compared to the week before. AAIL's survey (which is skewed towards older Retail investors) shows pessimism jumped 10% in the same week. And Jim Chanos (short seller and all-around practical skeptic) points out that Robinhood clients probably lost about 5% in February...never mind the pain in the markets so far in March. All this tells us what we already know...market participants are jittery and are trading all over the place. This usually makes us want to buy. But we think we need more of the stagflation shake-out to occur before we meaningfully buy the dip (we have raised our cash over the last few weeks, so we have some ammunition).



Cyclicals (GSXUCYCL) Defensives (GSXUDEFS)

- Are Earnings too concentrated?

The giant caveat to the new negativity permeating the market (some from us) is that Earnings are still supposed to grow robustly this year. But the touch of grey here is that this growth is still dominated by the mega-cap companies. Small-cap growth rates started rolling over in October (still strong, just not as strong). And even though Mag-7 (or whatever basket of mega-cap stocks you want to use) stocks have been pretty flattish /terrible lately, their Earnings growth has still been great. In other words, this Earnings data might not be of much help in the short to medium term. (We had some hard data to show here, but we cannot find it. Ai is failing us, too. We will keep looking for it!)

Exhibit 21. Estimated Earnings Growth for 2026

Sector	Today	1 Jan	1 Oct	1 Jul	1 Apr
Consumer Discretionary	9.8%	11.4%	13.0%	15.2%	16.5%
Consumer Staples	6.4%	7.3%	8.1%	7.9%	8.4%
Energy	1.2%	7.8%	16.3%	19.1%	19.3%
Financials	10.7%	9.5%	11.5%	13.2%	13.4%
Health Care	5.9%	9.2%	9.8%	10.7%	10.3%
Industrials	10.2%	15.6%	17.2%	16.3%	16.5%
Materials	26.3%	20.9%	17.3%	16.5%	18.2%
Real Estate	6.0%	7.7%	9.7%	9.1%	9.1%
Technology	36.4%	30.8%	22.1%	18.7%	17.7%
Communication Services	10.7%	10.5%	7.9%	9.5%	14.3%
Utilities	10.8%	9.4%	9.1%	8.3%	8.0%
S&P 500	16.2%	15.6%	14.1%	14.0%	14.5%

Source: LSEG I/B/E/S

- Just when it looked like inflation was cooling (we did not think it was)

PCE inflation (change in Personal Consumption Expenditure Price index) registered +0.3% in January. This is a slight cooling from +0.4% in December. The annual rate is down to 2.8%. But the “Core” inflation still increased at +0.4% (same as Dec) which brings the annual rate to +3.1% (up from +3%). This is hotter than the CPI data on the surface...but it is also a month older than the CPI. None of this matters too much given the impending jump in prices come the March data. On the bright side, Personal Income and Personal Spending both increased +0.4%.

Inflation Expectations inside of the U-Michigan Consumer Sentiment report (March) are still slowing normalizing. The 1-year is at +3.4% (same as Feb, but down from +6.6% last May). The 5-year is +3.2% (down from +3.3% in Feb). This is down from +4.4% a year ago.

The PPI (Producer Price Index; wholesale or input prices) for February accelerated to +0.7%. This is up from +0.5%. And it is the fourth monthly increase in a row. The “Core” PPI was a little better at +0.5% (down from +0.8%). But this is not much solace considering the annual increase is +3.9%. The headline increase is +3.4%. We have stated that we do not put too much weight on the PPI because it can be volatile and the price changes do not always translate into CPI price changes. But the more the PPI numbers stretch and the longer they stay higher, CPI will certainly be affected.

- Housing data is still stuck

The Housing Market Index (aka homebuilder survey) is still mired in negativity with a 38 reading in March. Current Traffic is still terrible (25). But sales Expectations (next six months) are almost back to the breakeven level (49). So you are telling me there is chance (that is about how we feel on Housing right now)!

Housing Starts jumped nicely in January following the improvement in December. The annualized run-rate is 1.487mm. Building Permits fell in January. Both of these data series have been choppy lately.

Pending Home Sales in February increased +1.8%. They are still down over the last year.

The average 30-year mortgage moved higher to 6.3% from 6.19%.

Weekly Mortgage Applications fell sharply (-11%) after a couple of strong weeks.

- Other economic data is soft

GDP growth in 4Q is much lower than previously thought. 3Q growth was +4.4%. Professional guessers (economists) had thought 4Q growth would be +3.0%. But the first official government estimate was only +1.4%. The second estimate is down to only +0.7%. All components of GDP were revised lower: Consumption, Government Spending, Investment, and Exports. Current GDP (1Q) is bouncing around. The Atlanta Fed had it over +3.0% in early March. Then it dropped to +2.1%. Now it is +2.7%. We suspect the new oil-induced inflation will suppress growth back down to the lower part of this range (if not lower). Rosenberg expects +1.15 growth in Q1

Durable Goods in January were flat vs Dec. Core Capital Goods (aka business spending which strips out Defense and Transportation) were also flat. But the nominal level in business spending is still at all-time high.

Job Openings (JOLT survey) surprisingly jumped by about 400k from 6.55mm to 6.95mm. But Quits fell from 3.23mm to 3.1mm.

The weekly ADP Employment Change only added 9k jobs.

Initial Jobless claims remain steady at 213k. Continuing Claims decreased to 1.85mm from 1.871mm.

The NY Fed's Empire Manufacturing index dropped into negative territory in March ((7.1 to -0.2).

Industrial Production in February slowed to +0.2% from +0.7% in Jan. Manufacturing production also slowed to +0.2% from +0.8%.

Weekly Redbook Retail Sales increased to +6.4% from +6.2%.

➤ Where did all the crypto money go?

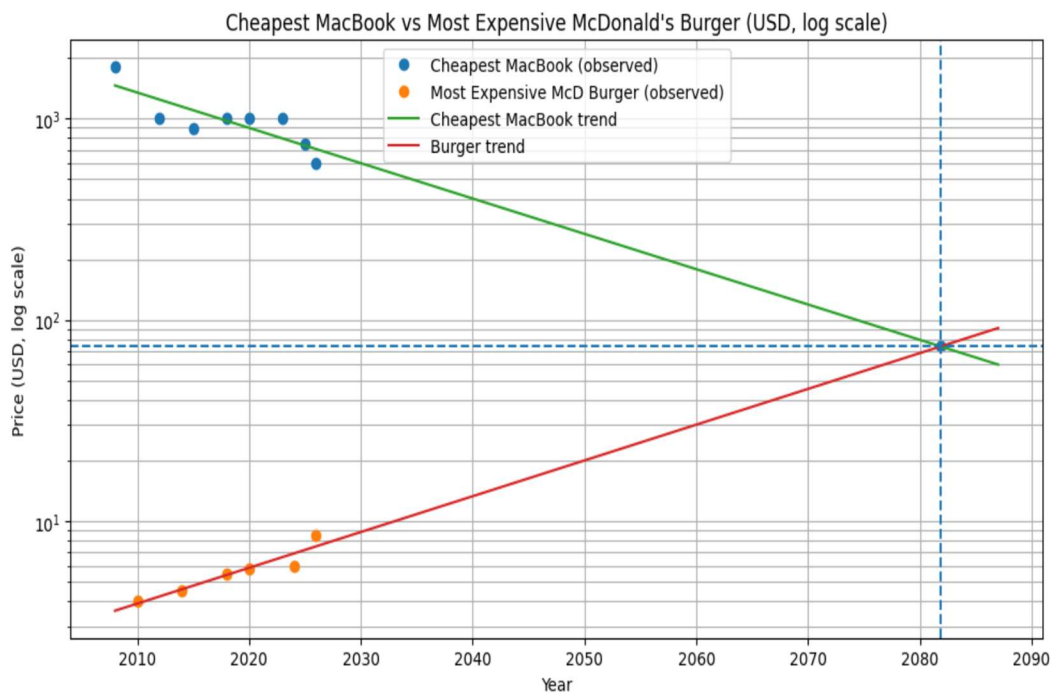
Just when we thought we had reached the depths of the crypto world (similar to the way we sometimes feel about reaching the depths of the world wide web when coming up with Quick Hits), a new doozy comes along. It is not a matter of fraud. No Lamborghinis are involved. This one involves the simple matter of a crypto guy wanting to buy a token using his stablecoins. This anonymous crypto guy had \$50mm in stablecoins (ok, there probably is some fraud in here somewhere), and he wanted to buy a token called Aave through the Aave platform (red flag!). Apparently this guy was using some aggregator interface...which tried to stop him from doing the transaction! He got multiple pop-up warnings about the size of the transaction being too large for what he was trying to buy. Not one to be thwarted by an annoying pop-up, he proceeded to try and buy \$50mm worth of this token. When it was all said and done...we honestly cannot believe this one...this might just be the all-timer in the fake or real money worlds...**the guy was left with \$36,000 worth of Aave tokens**. Yes, his slippage on the trade was \$49,964,000. Basically, the crypto bots of the world were alerted to this guy's purchase...not through some illegal activity, but just because they saw the order displayed on the Aave platform as the buyer instructed. They went and front-ran him into oblivion.

We cannot imagine the depths of despair of this guy.

We once were forced to use the internal Fx trading desk for "risk management" purposes. We had some Egyptian Pounds to buy (against USD), and these guys tried to execute the order on a Friday. These guys did not know that Fridays are part of the weekend in Muslim countries, and we got clipped for about 20%. We bitched and moaned and got the robbery reduced to something more manageable. More importantly, the risk management guys realized they did not know what the heck they were doing, and they let us do our own Fx trading from then on.

➤ Chart Crime of the week

This was presented as a serious chart. And we kinda get it. But we still doubt a Big Mac will cost more than a MacBook computer in 2082.



➤ Quick Hits

- Six of the 10 largest moves in the price of oil (in dollar terms) have happened in the month of March.
- The ACC is the only conference that rewards the teams that make the March Madness tournament with all the NCAA money. All other conferences split the money equally among their teams (whether they make the tournament or not).
- The most western county in the Oklahoma panhandle is the only county in America that borders four other states.
- This land was once called No Man's Land after Texas ceded the land in 1850 to comply with the Missouri Compromise. Nobody wanted the land until 1890 when it became part of Oklahoma.
- New York City spent \$368mm on 4504 homeless people in 2025. This is \$81,705 per person.
- The median household income in New York City is \$81,228.
- The United Kingdom is yanking Winston Churchill from the currency. He will be replaced with hedgehogs (and other wildlife).
- The estate of late Colt's owner Jim Irsay sold his memorabilia collection for almost \$94mm.
- Josh Johnson has played for 26 different football teams since 2008. This includes three stints in the spring "minor leagues" below the NFL.
- A Minnesota state senator has introduced a bill which will grant "inherent rights" to Manoomin, a natural wild rice.
- Back from 1912 to 1918, the US government would wash and iron your money upon demand.
- Chunky peanut butter is more popular on the West Coast of the US than the East Coast.
- One in 10,000 clovers has four leaves.
- In England, it is good luck for a bride to find a spider in her wedding dress.
- Eating 12 grapes on New Year's Day is considered good luck in Spain.
- The head of a peanut-head bug looks like an unshelled peanut.

- Theodore Roosevelt added tennis courts to the White House.

TSLAQ: After making fun of Nasdaq for changing its rules to grab a piece of the Musk empire, S&P has announced that it is exploring the same idea (allowing IPOs to enter indices much more quickly). To be clear, we do not begrudge Musk for pursuing this. The exchanges and index providers are lemmings for doing it.

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