



Weekly Update

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- An AI upswing along with better economic data pushes the markets higher
- Global interest rates are all over the place
- Employment bouncing around, but early signs of Private Payrolls improving
- Inflation cools quickly in November (maybe)
- Other hard data is better than soft data
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	6,835	0.1%	17.2%	17.8%
QQQ	\$617.42	0.6%	21.2%	20.2%
US 10 YR	4.15%	4.18%	4.57%	4.52%
USD/DXY	98.7	98.4	108.5	107.6
VIX	14.9%	15.7%	17.4%	18.4%
Oil	\$56.65	-1.4%	-21.0%	-19.0%

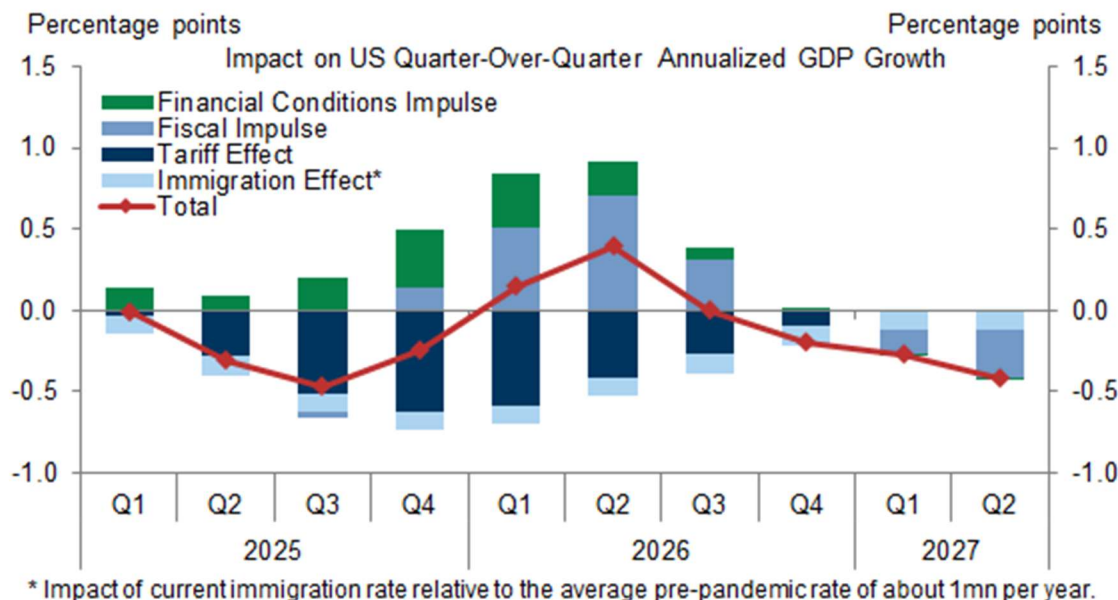
*10yr, DXY, and VIX are levels not changes

** Oil is front month futures, beware

The Artificial Intelligence see-saw continues. On the heels of the worries surrounding Oracle's access to funding given its negative free cash flow, one of the biggest providers of data center financing (Blue Owl) pulled out of a planned Oracle site in Michigan. But then we get news of chip shortages (Micron), more cash flowing into the AI buildout (Open AI potentially raising \$100b at an \$800b valuation), and strategic partnerships with the government (CoreWeave). And of course, predictably, Oracle denied the Blue Owl story. Even the TikTok saga looks to be coming to a conclusion (not an AI story, but a positive for Oracle). But we will not be surprised when the news swings in the other direction; the AI trade will remain choppy. We are still biased to believe in the Google side of the trade versus the OpenAI one. The general infrastructure trade will probably be just as choppy despite these companies being more traditional economy stocks. Ultimately, we think the market needs some time to pass onto the next stage of the trade where utilization and monetization become more widespread.

This renewed faith in AI just so happened to coincide with an extremely tame inflation report for November. The data is incomplete and there are lots of questions, but we have been calling for disinflation and that is what

we are getting. While some of the squishier soft data hint at weakening sentiment, the hard data continues to point to an accelerating economy. While 2025 has had crazy quarterly distortions in growth because of the tariffs, overall growth is expected to be around 2.1% for the year. Next year, Goldman estimates growth will be 2.6% for the year; they just increased this from 2.3% (to be fair, GS is on the high end of expectations, but they make the most compelling case). Much of the impulse will come early in the year. This chart focuses on some of the oscillating contributors/detractors to growth (it is not a great chart for looking at growth as a whole). We also need to point out that this uptick in growth is not directly from the AI buildout. While we expect enhanced productivity to drive gains down the road, technically the purchase of semiconductor chips is not included in GDP (they are considered intermediate inputs). Moreover, many of the other AI-related goods are imports, and these actually detract from GDP. In theory this will also change over time as foreign companies move plants to the US. But the larger more important picture is the *use* of AI not the construction of AI.



Source: Goldman Sachs Global Investment Research

➤ Global interest rates are all over the place

We obviously focus on the Federal Reserve and US interest rates. But as we have been highlighting recently, global rates play an important role. They are viewed on a relative basis to US rates, and they also set the risk tone for other equity markets (all of which impact US markets). The Bank of England (BOE) cut interest rates as expected. The European Central Bank (ECB) held rates steady. But given the improved growth outlook, many think the ECB's next move will be a rate hike.

Japan is still the wildcard. Japan hiked its short-term interest rate by 0.25% as expected. It now stands at 0.75%...this is the highest since 1995! The 10-year JGB (Japanese Gov Bond) is yielding around 2% which is the highest since 2006. But the Yen fell against the USD (USDJPY moved higher). The pundits say that the hike was priced in, and BOJ Governor Ueda would not commit to further rate hikes...the infamous "dovish hike" (not to be confused with the "hawkish cut" that did not happen last week in the US). But we think this is just more of the tug of war between Ueda's monetary policy (tighter money) and Prime Minister Takaichi's fiscal policy (easier money). We want to remain being long Japanese stocks in Yen terms (meaning short the Yen, long USDJPY).

➤ Employment bouncing around, but early signs of Private Payrolls improving

The delayed Employment reports were a mixed bag. October showed a large drop in Nonfarm Payrolls of -105k. November bounced back nicely to a gain of +64k vs an expectation of +50k. The large October drop was all from Government jobs which fell -157k. The delayed retirement offers from the DOGE cuts kicked in on October 1. Private Payrolls increased +52k in Oct and +69k in Nov. Manufacturing lost jobs in both months (-9k and -5k). Average Weekly Hours ticked up to 34.3 in Nov. Average Hourly Earnings dipped slightly to +3.5% (vs +3.7% which was also revised lower from 3.8%).

The Unemployment Rate moved higher to 4.6% in Nov from 4.4%. The Labor Participation Rate edged up again to 62.5%. This equates to +323k people reentering the labor market. The number of people working increased +96k. This gap (+323k vs +96k) accounts for the jump in Unemployment. While a higher Unemployment Rate is bad on the surface, an increase in people returning to the workforce is more important.

➤ Inflation cools quickly in November (maybe)

November Inflation (change in the Consumer Price Index) was +2.7% which is a large drop vs +3.0% in September. The “Core” annual inflation was even lower at +2.6% vs the +3.0% in September. The giant caveat is that the Bureau of Labor Statistics did not collect any data in October, so there is no monthly comparison. The effect of this was particularly strong in Shelter (BLS assumed a 0% increase in October). Moreover, November data did not start to be collected until Nov 14. In other words, prices were starting to be discounted for the holidays. We think this is a good report, but we will need to see this trend continue (which we believe will happen).

Food at Home stands out as price increases dropped to +1.9% from +2.7%. Dairy turned negative as prices dropped -1.6% (September had an increase of +0.7%). Fruits And Vegetables only increased +0.1% down from +1.3%. Beverage prices remain strong (bad) at +4.3%. Food away from Home prices remain elevated, too (+3.7%).

Shelter is also another big mover. Prices for the group still increased +3% on the year. But this is down from +3.6% in September. Rent increased +3% while the always nebulous Owners’s Equivalent Rent (OER, the guess at which a homeowner thinks he can rent his house) increased +3.4%. These are down from +3.4% and 3.8% in September. Used Car prices also slowed. Electricity and Utility Gas prices are still through the roof (+6.9% and +9.1%).

Goldman highlights that inflation is running at 2.3% if we take out the tariffs. But can you just remove something from a calculation? Actually, you can, since that is what will happen when the calendar laps the start of the tariffs. Some with political biases refuse to believe that tariffs only result in one-off impacts on prices (some tariffs had zero impacts on prices because of substitution or change in behavior, i.e. Americans did not need as much cheap Chinese junk as they thought). But that is what we are about to witness in the first half of next year.

➤ Other hard data is better than soft data

Retail Sales slowed to flat in October vs September. The brings the yearly increase down to +3.5%. However, sales in the “Control Group” increased +0.8% on the month. These are the items that feed into GDP (it excludes Food Services, Auto Dealers, Building Materials, and Gasoline). Strong sectors were Furniture, Sporting Goods, E-commerce, Miscellaneous, Clothing, and Electronics.

Business surveys were weaker in the early look in December. S&P Manufacturing dipped to 51.8 from 52.2. Services fell from 54.1 to 52.9. This leaves the composite at 53 down from 54.2. These are not terrible numbers; they are all still in positive territory (above 50). But since the peak in July, sentiment has been slowly

rolling over. The Philly Fed's Manufacturing index slipped further into negative territory (-1.7 to -10.2). But as we have been saying for a long time now...sentiment (weak) has not matched with activity (strong).

Existing Home Sales increased modestly in November. The annualized run-rate increased to 4.13mm from 4.11mm.

The average 30-year mortgage rate ticked up to 6.38% from 6.33%.

Weekly Mortgage Applications fell about 4%. While still a mile off their post-Virus Fear levels, the general trend is still ok.

➤ Where did all the crypto money go?

There have been plenty of stories about how North Korea has ramped up its crypto theft this year. Most reports have this number increasing by over 50% and reaching over \$2b. But an Amazon story highlights how the North Koreans are more active in cyber crime than they are in crypto. Apparently, Amazon monitors the keystrokes of all its remote workers. It detected that some remote laptops in Arizona were taking longer than they should to reach the servers in Seattle. The connections of these contract workers were taking around 100 milliseconds when it should only take 50 milliseconds at most. The operatives were employees of firms contracted by Amazon. Some are real people using fake documents who then direct their workloads back to Asia. Some are purely a fiction of the computer world: Bots. These cyber terrorists infiltrate networks, steal data and secrets, and sometimes just take money. And these infiltrations are not just one-offs. Amazon says it has blocked 1800 North Korean job applicants in the last year.

We recently highlighted the mounting losses in Bitcoin held for less than 155 days. Now we have some data that tells us the number of Bitcoin in dormant wallets that are no longer dormant has surged by 1.6mm. Rough estimates have the total number of dormant Bitcoin at 10mm. In other words, about 15% of the true believers / HODLERS have been selling.

➤ Chart Crime of the week

This table (close enough to a chart) lists the biggest college spenders on balloons. We have questions. Who in the world is tracking this? Yes, it is legitimate data because it came from FOIA requests. Why does the Texas and Nebraska data refer to All Sports while the others are just for Football? Of course, the big question is...balloons?

1		Texas \$170,489 - All Sports
2		Texas Tech \$56,369 - Football
3		Texas A&M \$55,540 - Football
4		North Carolina \$48,733 - Football
5		NC State \$43,854 - Football
6		Arkansas \$31,978 - Football
7		Virginia Tech \$28,148 - Football
8		Nebraska \$23,256 - All Sports
9		Colorado \$18,355 - Football
10		California \$17,808 - Football

➤ Quick Hits

- There is some “academic research” that claims the stock market does poorly on the days after popular streaming shows are released. The idea is that everyone stays up all night binging the new shows. And, apparently, sleepy people like to sell more than they like to buy.
- The cost to insure “war risk” for ships sailing through the Black Sea has jumped about 225% from November to December.
- Polymarket had a betting market called “Will the Time 2025 Person of the Year be leaked?”
- Ring Around the Rosie is not about the black plague.
- *White Christmas* is the best-selling single of all time.
- El Paso High School’s football stadium is considered one of the top 10 most beautiful in the nation. USA Today ranked it as #2 in 2019.
- In 2016, an eighth grader in Houston was confronted by school security for allegedly using counterfeit money in the cafeteria. Apparently, the school staff did not think \$2 bills were real.
- The Cayman Islands is the largest external holder of US Treasury debt.
- The Saturday before Christmas is called Super Saturday in Retail circles.
- Before the 1950s, lobster was called “poor man’s chicken,” and it was often fed to prisoners.
- People in Albany do not call hamburgers “steamed ham.”
- Streaming accounts for 46.7% of all TV viewership.

- The 1-point conversion safety is listed as a scoring opportunity on the CBS Fantasy Football platform.
- Bottlegate in Cleveland in 2001 was the first time an NFL game had been called over before the time expired...until commissioner Taglibue called the locker rooms and told the teams to go back out on the field for the final 48 seconds.
- Beer caps are now always removed by the vendor because of Bottlegate.
- The personalized license plate 370H55V was deemed offensive by the DMV in Texas.
- 60% of the Netherlands would be underwater if not for the engineering systems throughout the country.
- Holland is not one but two provinces in the Netherlands (North and South).
- Dutch comes from the word Deutsch.
- Alaskans carry the highest average credit card debt in the US (\$7,700).
- Lacrosse was a medal sport in the Olympics in 1904 and 1908.
- Read the license plate upside down. (Yes, true story.)

TLAQ: We left out the best part about the perhaps-pending SpaceX IPO. The company wants to put data centers in space. Previously, the conventional wisdom was that you wanted to put these data centers *near* an energy source. You also probably wanted them reasonably close to where humans live and/or work. Putting one in Greenland would probably not be as realistic as putting one halfway between the Permian and DFW (Abilene). Perhaps Musk wants them in space so they can be closer to his soon-to-be Mars colony.

California is forcing Tesla to stop using the term “Autopilot” because the cars do not have autopilot functionality.

Musk is also back to pumping the robotaxi story. He said Tesla is going to remove the safety monitor (human driver) from the handful of Teslas roaming the geofenced streets of Austin. Considering the 29 human-assisted robotaxis have been in eight crashes since June, there might just be another delay to Musk’s longest running pump. He first talked about full autonomy back in 2016. Morgan Stanley, one of the longest running bulls on Tesla stock, thinks Tesla will have one million robotaxis on the road...by 2035. This same long-running bull is vying for a top spot in the SpaceX IPO and secures Musk’s margin loans against Tesla stock.

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