



Weekly Update

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- Momentum crashes
- Maybe from increasing interest rates...or maybe just because it went up so much
- Hedge funds are still wrong-footed
- Revenues are accelerating and not just Tech
- Consumer sentiment is mixed which is an improvement
- Credit trends are improving
- Retail Sales are still strong
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	7,433	-0.2%	8.6%	25.1%
QQQ	\$713.15	-0.2%	16.1%	37.1%
US 10 YR	4.58%	4.47%	4.17%	4.61%
USD/DXY	99.1	98.5	98.3	99.6
VIX	17.4%	17.9%	15.0%	20.9%
Oil	\$98.48	-2.5%	71.1%	57.1%

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

** Oil is front month futures, beware

The tepid -0.2% drop in equities over the last week is not indicative of the crazy moves underneath the surface. Strangely, not even Volatility looks volatile on the surface. After a market rally on the heels of the uneventful Trump-Xi summit, momentum stocks crashed. At one point, a custom basket that tracks the popular momentum longs versus the momentum shorts unwound by over 22% in a matter of days. People suddenly were questioning the earnings durability of the memory chips and data center infrastructure stocks. The publicly disclosed SEC filings showed some wavering sentiment in the Big Tech names. Some offhand comments made by Xi in the aftermath of the summit had people worried about Taiwan and whether Nvidia chips were going to be allowed in China. Of all the musings, the worry about climbing interest rates rings the most plausible. With Iran dragging on, inflation worries mounting, and the fragile state of the US debt, rates have been pushing higher.

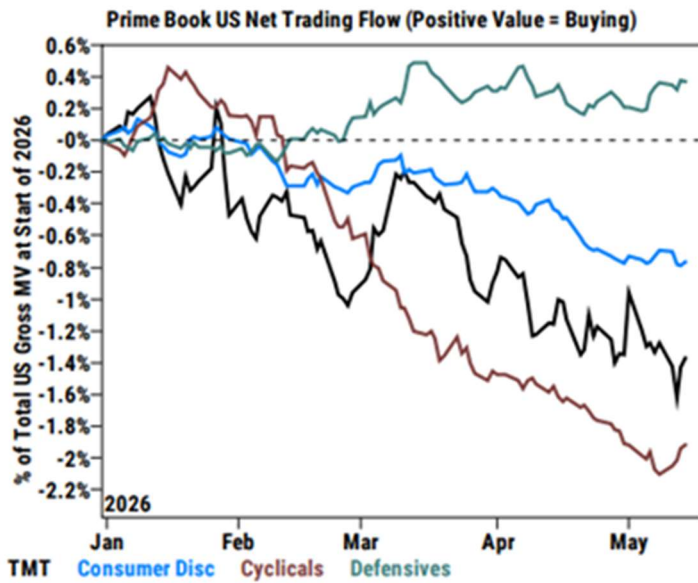
But the root cause of the volatility is much simpler: Momentum crashed because it had been performing so incredibly well. We turned cautious recently because of this. But earnings and revenues are still accelerating

(and tonight's Nvidia report proves that the AI trade is still alive and well). Watching hedge fund filings from six weeks ago is a futile mission...especially when people are trading off the whims of a 24-year-old newly minted hedge fund manager (an ex-OpenAI guy is apparently all the rage in the Wall Street Bets crowd). Taiwan is still a delicate matter. But it is also a perfect example of the Nash Equilibrium at work (a suboptimal, protectionist equilibrium prevails, but it also results in a stable relationship that does not escalate). With the mounting inflation worries have come a strong economy. The latest GDPNow from the Atlanta Fed is screaming +4% growth for Q2! Professional guessers (economists) expect growth to be below +2%. The Atlanta Fed nowcast will surely come back to earth, but the early data during the quarter is above anyone's expectations. And with respect to the hot CPI and PPI inflation numbers from last week, the professional guessers deep in the weeds say that the data points to *lower* PCE inflation. (The Fed has long preferred this measure of inflation. But new Chairman Warsh might emphasize "trimmed mean" measures which would dampen outlier moves even more.) We do not expect rate cuts any time soon (the market is pricing a 50% chance of a hike by December). But as long as inflation remains in check (something the Fed is not sure about now...but their track record on timing inflation moves is downright horrible), strong growth will remain more important than lower interest rates. And with another extension of the ceasefire in Iran and perhaps some ships transiting the Strait of Hormuz, inflation might not be a runaway problem.

Elsewhere, the US and the EU finalized their trade deal. China is already buying Boeing planes after the recent summit. The Baker Hughes rig count has increased four weeks in a row (gas rigs down, all oil rig additions were in the Permian). Oil companies have been reluctant to chase the rally in oil, but they are slowly coming around to believing in higher for longer (something we believe...not necessarily headline oil prices but a general increase in demand for natural gas and other NGLs, hence we are long oil & gas infrastructure stocks like pipelines and exporters. 40% of gas production comes as a byproduct to oil production). The IPO market is heating up. The Cerebras IPO (AI infrastructure) was hot with a +57% gain in the last week. And just tonight, SpaceX filed for its IPO. A funny anecdote about the momentum in the market: It took Cisco 25 years to regain its dot.com price peak. But it only took two months to rally 40% this spring.

➤ Hedge funds are still wrong-footed

Primebroker flows point to more pain at hedge funds. Selling before the massive rally was bad enough. But now it appears that they chased Tech last week at the top (still net sellers on the year). Financials were finally bought...first time in 17 weeks. And Defensives were bought after the market panicked. As we always say, this stuff is more art than science. But we believe from the price action that lots of players have been chasing their tails.



- Revenues are accelerating and not just Tech

Last week, we commented on the importance of revenue growth (especially with some of the earnings growth being exaggerated from one-off items). Revenues continue to accelerate with the rate now at +11.1%. Interestingly, the acceleration in Tech revenues from April 1 through Friday is underwhelming compared to many of the other moves (Tech ranks 8th). This plays into our view that some of Tech is overheated, and we might be better served with some “broadening” positioning.

Sector	Today	1 Apr
Consumer Discretionary	9.3%	8.1%
Consumer Staples	6.9%	6.3%
Energy	4.3%	0.6%
Financials	9.6%	6.7%
Health Care	7.0%	5.8%
Industrials	9.1%	6.3%
Materials	10.8%	6.7%
Real Estate	11.7%	9.1%
Technology	28.8%	27.0%
Communication Services	13.6%	11.6%
Utilities	13.7%	8.5%
S&P 500	11.1%	9.0%

Source: LSEG I/B/E/S

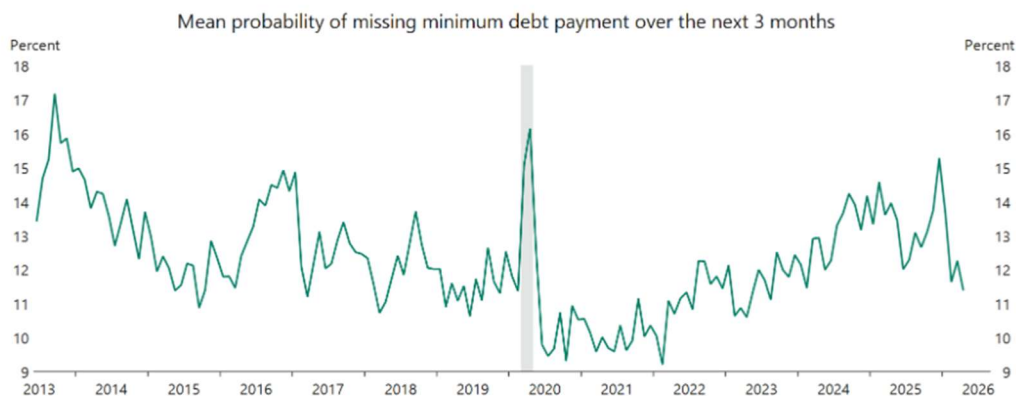
- Consumer sentiment is mixed which is an improvement

The health of the consumer remains central to many debates. On one hand, the soft data has been deteriorating (either through the media or surveys). But the hard data has been strong. Even with worries over Chalk Creek Partners LLC

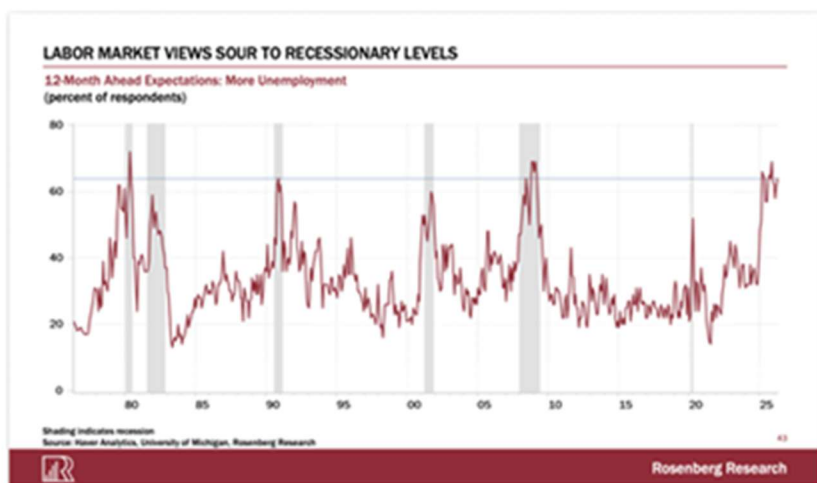
gas prices mounting, Retail Sales continue to be robust (with an accelerating trend...notwithstanding some of the commentary about the lower-income consumer). And credit metrics have been improving (the average delinquency rate dropped from 2.69% to 2.55% and the average charge-off rate dropped from 3.84% to 3.70% April vs March of this year, and better vs April of last year). But now a NY Fed survey tells us that people are feeling more comfortable with their debt obligations.

APOLLO

Households getting more bullish on their finances



But right when we see this improvement in sentiment, we get blasted from David Rosenberg (super smart, always too early). Here he shows that unemployment expectations are already at recessionary levels. We have been torn on the recent employment trajectory. While the March and April data have been much better than the disastrous February data, there are still a lot of holes (jobs up but employment down etc). Rosenberg also points out that only 40% of Americans expect a pay raise next year, and wage growth is returning to anemic levels. Moreover, Rosenberg sides with Ironsides Macro: The combo of enhanced productivity and supply shocks lead to disinflation if not deflation. (John Mauldin presented the Rosenberg charts.)



With this conflicting survey data, we will stick with the hard (actual) data. Historically, we have used survey data as leading indicators. But just like with business surveys, we think these surveys have lost some predictive powers (our guess is because of political biases).

➤ Credit trends are improving

On top of the credit cards trends across all the card companies, BofA details its specific credit trends (the bank has 70mm customers!). In April, spending growth accelerated to +4.8% (+4.3% in March). This was the fastest rate in three years. Ex-gas, spending still moved +4% higher (vs 3.6% in March). This is also the fastest pace in three years. The data goes further and is broken down by income levels. Spending in the bottom third increased by +3.1%, the middle +3.6%, and the top at +4.9%. BofA also tracks wage growth (after tax). Bottom +1.5%, middle +2.3%, and top +6% (fastest in five years, and vs March +5.6%). The spending in the top 10% grew +10%. Wage growth is at the highest in the last 11 years (which is the opposite of what Rosenberg says for all wage-earners). Credit card usage for the lowest bucket is at the highest level since 2019 (when this data series began). There clearly are discrepancies. And some of the increased credit usage might not be healthy in the medium/long term. But for now, the American consumer remains undefeated.

➤ Retail Sales are still strong

Retail Sales in April increased +0.5%. This is a slowdown from the +1.6% burst in March, but it is still a good number (and in line with expectations). Even though gasoline prices surged which skewed overall sales higher, the Control group still increased +0.5%. (This group strips out items that are not included in the GDP calculation: Food Services, Auto Dealers, Building Materials, and Gas Stations.) Other large increases include Sporting Goods, Electronics, and E-commerce. Furniture and Apparel were the losers.

Redbook Retail Sales slowed to +8.1% from 9.6% (still a great number even if it not adjusted for inflation).

➤ Other economic data is mostly better

Initial Jobless Claims increased to 211k from 199k. Continuing Claims also increased to 1.782mm from 1.758mm. These are both low numbers.

Export Prices in April increased +3.3%. Import Prices increased +1.9%.

The Fed's Empire Manufacturing index in May increased from 11 to 19.6.

Industrial Production in April increased +0.7% vs -0.3% in March. Manufacturing Production increased +0.6% vs -0.1%.

The Housing Market Index (aka homebuilder survey) ticked up in May. Surprisingly, all three components (current sales, six-month expectations, and current traffic) improved.

Pending Home Sales in April increased +1.4% vs March.

Mortgage Applications dropped -2.3% in the week.

The average 30-year mortgage rate increased from 6.46% to 6.56%.

The weekly ADP Employment Change increased 42k (as of May 2) vs 33k the previous week.

➤ China data slows

Data in China weakened in April (some outright, some on a rate of change basis). The house Price index fell -3.5% (vs -3.4% in March). Industrial Production increased by +4.1% (down from +5.7% in March). Retail Sales

just ticked up +0.2% (+1.7% in March). Fixed Asset Investment turned negative -1.6% (+1.7% in March). The only positive number in the monthly “data dump” was Unemployment. It decreased in April to 5.2% (5.4% in March).

➤ Where did all the crypto money go?

We have not heard much about digital asset treasury (DAT) companies lately. But one has been in the news lately for a...name change! Alt5Sigma has changed its name to AI Financial. The company was originally formed to hold World Liberty Financial tokens (WLFI). But now it plans to “run a fintech business of crypto payment processing and related services.” What is it going to do with its \$700mm in tokens (down from \$1.5b worth when it made the seed investment with the Trump family)? Nothing, it cannot legally do anything with the tokens. They are contractually locked up for at least a year. The new payment processing company does not actually have any business. How is it surviving? It borrowed \$15mm. It pledged all \$700mm “worth” of fake money as collateral. The lender? World Liberty Financial. The CEO of WLF just so happens to be the chairman of AI Financial.

There has been plenty of media coverage about a new trading platform, called Perpetuals, in which you submit trading ideas (in real money assets like stocks and bonds). You do not commit any capital. The platform sorts through the ideas and makes the trades on behalf of itself. If it picks your trades, you share in the profits with downside risk. There have been numerous excursions like this before (some hedge funds do it by soliciting ideas from their salesmen). Why is this one different? One of the top guys from failed crypto scammer FTX is running the platform. “No downside” means different things to different people.

➤ Chart Crime of the week

We do not have a good chart for this one, but this table has been presented as fact.

 Italy population, by year:

1950: 46M
1980: 56M
2014: 60.7M (peak)
2024: 59.3M
2050: 51.9M
2100: 35.4M

We stumbled across last week’s chartcrime on Twitter (the completely nonsensical comparison between Google revenues and Anthropic projections). The comments are great. Here is our favorite with respect to the extrapolation of “run-rate” into actual future numbers (Anthropic’s hopes vs Google’s reality).

My 3-month-old son is now TWICE as big as when he was born.

He's on track to weigh 7.5 trillion pounds by age 10



➤ Quick Hits

- Retail brokerage accounts make up 10% of all equity assets in the US. Retail trading makes up about 20% of all equity trading.
- The head of Starbucks in South Korea was fired this week for having a “Tank Day” promotion on the same day as a holiday that commemorates a painful episode in SK history when tanks squashed a democratic uprising in 1980.
- Alaskan oil production peaked at 2mm barrels per day in 1988. It now sits under 500k bpd.
- Nepal recently increased the price to climb Mt. Everest from \$11k to \$15k. Technically, it is a season pass.
- The license plate of the car in which the Archduke Franz Ferdinand was riding when he was killed was A111-118. This just so happened to be the day WWI ended (Armistice 11/11/18).
- A former Greek Minister of Health sat on a panel during World No Tobacco Day about 10 years ago. He was smoking throughout the presentation.
- After Aaron Rai had wrapped up the PGA Championship, Alex Smalley made a meaningless birdie putt on 18...meaningless except for the extra \$822k it earned him.
- Nashville has 62,000 hotel rooms.
- A neuroscientist recently proved that writing information by hand is better than typing the same information.
- Barry Manilow has 13 Billboard #1 hits.

TSLAQ: A Cybertruck was driven into Grapevine Lake to test out the “Wade” mode. It did not work. The driver was arrested. Back in 2022, Musk posted on X, “Cybertruck will be waterproof enough to serve briefly as a boat, so it can cross rivers, lakes & even seas that aren’t too choppy.”

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