# Weekly Update

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- The stagflation narrative flips back to growth
- Earnings are eclipsing the high bar
- Inflation has peaked?
- Retail Sales jump in March (just like the Employment data)
- Employment continues to improve
- Housing is still stuck
- Business Surveys might be catching up with Business Spending
- Private credit is really private distressed equity?
- Name change / business change Hall-of-Fame candidate
- But not all 600% gains are equal
- Quick Hits
- Where did all the crypto/prediction money go?
- Chart Crime of the week
- Is this the market singing about Earnings?

| | Last | 5d % | YTD % | 1yr % |
|---|---|---|---|---|
| S&P 500 | 7,165 | 0.5% | 4.7% | 30.6% |
| QQQ | $663.57 | 2.3% | 8.1% | 42.1% |
| US 10 YR | 4.31% | 4.25% | 4.17% | 4.24% |
| USD/DXY | 98.5 | 98.1 | 98.3 | 99.5 |
| VIX | 18.7% | 17.5% | 15.0% | 25.2% |
| Oil | $94.88 | 13.2% | 64.4% | 50.3% |

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

We recently lamented the perils of this market environment. War-induced stagflation, hard-to-beat Earnings expectations, private credit worries accelerating, software death-spiraling down the drain, a Fed stuck in limbo with a possible bias to hike… the market was on edge. But perhaps our most important one-liner from mid-April was calling out the hedge funds for the sheer panic in their epic puking of stocks (more selling than during the Virus Fear). And just like that, the markets have exerted maximum pain on the doomsdayers. The back-and-forth in Iran is no longer the top story of the day. Earnings have been great…even better than the lofty expectations (this coming week is the most important). The Fed might get its new man in Kevin Warsh. While he will not cut interest rates haphazardly, he most certainly will look at the data more objectively than outgoing

Chairman Powell (not to mention, he will generally let the market dictate long-term rates). Moreover, he has stated that he likes to observe "trimmed mean" inflation readings. These are currently running cooler than the headline "Core" PCE. The probability of a rate cut by December almost doubled when the DOJ announced it was dropping its investigation into Powell (this was the big hang-up for one of the Republican senators, Tom Tillis). There had been some data showing that much of the tax savings/refunds from the Big Beautiful Bill were being used to pay down debt. But new credit card data and Retail Sales show that the consumer is alive and well…and this includes March data during the thick of war. The GDP nowcasts bottomed two weeks ago and have turned higher. Even Software has bounced with the market. While we think the sector is still troubled with AI pressures continuing, an improved macro backdrop cures a lot of short-term ills (Service Now's shrinking margins notwithstanding).

Beyond the narrative changes, the market-specific dynamics indicate that the stagflation fears have been overblown. Cooling equity Volatility (VIX) gets most of the attention, but Treasury Volatility has completely reversed its war-time spike, too. The USD index has done the same. Equity sectors are screaming economic growth with the leaders being Big Tech, Industrials, and Consumer Discretionary. The laggards have been Energy and Healthcare. This move in Energy stocks is particularly telling since oil prices are still elevated: Supply shortages are expected to be relatively short-lived. We are not convinced of this, but our Energy exposures are concentrated in natural gas infrastructure rather than large E&P multinationals. As for the quantitative flows in the market, the normalized Vol has pulled more technical buyers back into the market. And there is some dispersion in option positioning which dampens moves on the downside but not on the upside. Some explain this as math on the downside (dealers are long gamma) and behavioral economics on the upside (many investors still are not long the market…and thus FOMO kicks in). For us, we have tweaked our macro exposures around the edges inside of our balanced portfolio. We think most of the stagflation fears will take a break until they reemerge later in the year (mostly on calendar effects, nothing overly sinister).

- Earnings are eclipsing the high bar

Two weeks ago, we showed a chart detailing the high bar for Earnings season this quarter and beyond. One thing we omitted was the concentration of Big Tech in the +12-14% growth expectation. If we strip out Big Tech growth, Earnings growth was only expected to be +4-5%. Of course, this somewhat negative set-up is no longer particularly negative! The growth rates for nine of the 11 sectors have accelerated in the last three weeks. Only Energy and Healthcare are softening (and both outright negative…no wonder these are the laggards in terms of stock performance).

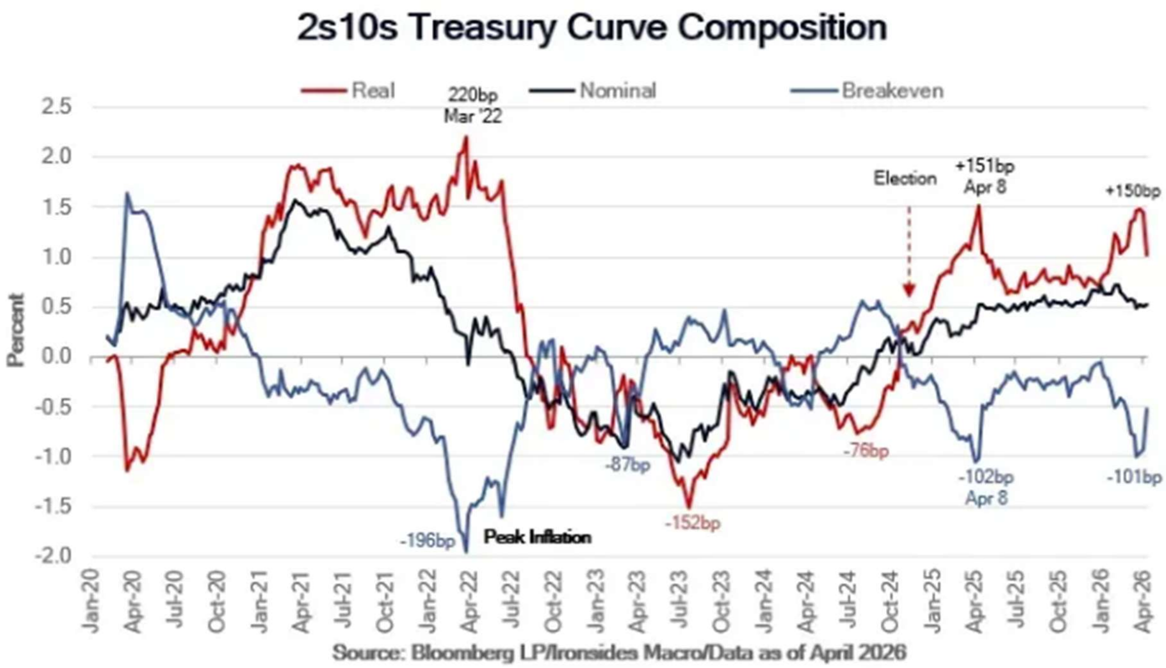
| Sector | Today | 1 Apr |
|---|---|---|
| Consumer Discretionary | 2.4% | 1.9% |
| Consumer Staples | 3.4% | 1.9% |
| Energy | -8.4% | 5.5% |
| Financials | 22.1% | 17.8% |
| Health Care | -9.7% | -8.9% |
| Industrials | 8.9% | 4.9% |
| Materials | 32.2% | 21.6% |
| Real Estate | 13.7% | 12.6% |
| Technology | 48.2% | 46.3% |
| Communication Services | 1.0% | -2.4% |
| Utilities | 9.8% | 6.6% |
| **S&P 500** | **16.1%** | **14.4%** |

Source: LSEG I/B/E/S

Revenues have also been accelerating. As of April 1, the expectation was for 9% growth. Now this is approaching 9.8%.

- Inflation has peaked?

Here is an interesting chart from Ironsides Macro. It looks confusing, but it is just another way of saying that when real interest rates (nominal interest rates minus inflation) are expanding rapidly in the long end vs the short end (the "real" curve is "steepening"), this usually marks the peak in inflation. This is somewhat tautological in that the Breakeven rate is just the market-imputed inflation expectation. But we think analyzing the shape of the curves (real vs nominal) is useful. While we expect inflation to continue in the short-term, the rate of change is likely to slow.




PPI inflation (change in the Producer Price index, aka wholesale or input prices) in March increased much less than expected at +0.5% (+1.1% exp). The same is true for the "Core" PPI with a +0.1% increase (+0.5% exp). The headline was the same as February's increase. The "Core" was down (+0.3% in Feb).

- Retail Sales jump in March (just like the Employment data)

Retail Sales increased +1.7% in March vs Feb. This is up from +0.7% in Feb (revised up slightly from +0.6%). The Control Group, which only includes sales that contribute to GDP (which strips out Food Services, Auto Dealers, Building Materials, and Gas Stations), increased a solid +0.7%. Ex-Autos +1.9%. Every single top-level category recorded positive growth. Even though this data Is not adjusted for inflation, this was strong spending from the consumer during the thick of the war in Iran with surging gasoline prices. It was the third strongest monthly gain in the last three years.

Redbook Retail Sales dipped to +7% and 6.7% over the last two weeks. These levels are still near the top of the three-year range.

- Employment continues to improve

The last two Weekly ADP Employment Change readings (ending March 28 and April 4) increased by 40k and 55k. Every week in March accelerated (reinforcing the strong Nonfarm Payrolls data from March). The average over the last year is about 10k. That February Payrolls scare is fading into the background. (To be clear, we need to see job growth outside of health care, government, and other non-multiplier industries. We are not there yet.)

Initial Jobless Claims have been 208k and 214k in the last two weeks. Continuing Claims are sitting around 1.81mm. Nothing new in this strong data (not many people being fired).

- Housing is still stuck

Existing Home Sales for March fell about 4% to 3.98mm (annualized run-rate). This is near the lower end of the three-year range. It is still well below the pre-Virus Fear level of about 5.5mm.

The Housing Market index for April (aka homebuilder survey) dropped after six mediocre months of slight improvement (38 to 34). The Prospective Buyers sub-index fell again to 22. Sales Expectations had climbed to 49 last month, they fell back to 42.

Pending Home Sales in March increased modestly at +1.5%.

Weekly Mortgage Applications have been positive for two weeks in a row after a month of declines.

The average 30-year mortgage rate moved lower from 6.51% to 6.42% to 6.35%

Housing stocks have rallied lately along with the market (and lower bond volatility). But we are still waiting for turnover to improve.

- Business Surveys might be catching up with Business Spending

The S&P Composite PMI for April (Flash/early reading) showed surprising strength moving from 50.3 to 52. Manufacturing increased from 52.3 to 54. Services went from 49.8 to 51.3.

The NY Fed's Empire Manufacturing index bounced from negative to positive (-0.2 to +11). The Philly Fed Manufacturing index improved from 18.1 to 26.7. Employment was soft, Prices were high, but New Orders were super strong (so not a stagflation indicator). The KC Fed Manufacturing index ticked down from 11 to 10.

Industrial Production contracted in March -0.5% vs the +0.7% gain in Feb. Manufacturing was only slightly better at -0.1% in March.

Small Business Optimism (NFIB) in March fell to its lowest level in a year. This one is strange. With robust Retail Sales, you would think small businesses would be happy. This might be another case of the sentiment being disjointed from the data (which we have long observed in Consumer Sentiment and Business PMIs).

- Private credit is really private distressed equity?

Bond investor Jeffrey Gundlach has been highlighting an anomaly in the private credit world lately. He has been calling out a "bottom tier credit sponsor" for marking *up* the value of its Red Lobster debt for five quarters in a row. Red Lobster went bankrupt about six quarters ago. This has come to light because this unnamed private credit firm just now marked its equity position in Red Lobster down by 98%. At the same time, as Red Lobster has been unable to pay interest on its defaulted loans, the lender has been booking this lapse in cash flow with "payment-in-kind (PIK)" accounting. This means they took it upon themselves to assume that they would be receiving more bonds to make up for the missing interest payments (PIK payments are not novel, but they are usually up front and declared…but still not a good sign! We first came across them trading Emerging Market

Brady bonds back in the 1990s…we were amazed they were a thing.) They did all this while keeping the price of the bonds at 100c par.

Gundlach finishes his tweet-thread with "How does an equity position find its way into a private credit fund? Bankruptcy."

- Name change / business change Hall-of-Fame candidate

Most readers know that we typically lambast companies that do silly name changes or worse yet business model changes. These moves almost always signal weakness in the company…a last gasp of desperation. They always follow the sign of the times…dot.com, quantum computing, metaverse (Facebook kept the dumb name change, but it reversed its business change), AI, etc. The latest entry into this infamy is All Birds. This is the "wool-based" shoe company that shot up to a $4b valuation shortly after becoming public (Nov 2021). A year later, it was down to about $400mm. Last Tuesday, it was worth about $20mm. But then it announced it was changing its name to NewBird AI! It was raising $50mm and changing its business to acquiring "AI-compute hardware," and it would then lease out this compute to customers. The stock rallied almost 600%. It has retraced some of this, but there are still believers.

- But not all 600% gains are equal

One of the meme stocks from 2021 is having a second act. Avis Rental is echoing one of the greatest short squeezes in history. No, not GameStop, but Volkswagen. Back in 2008, Porsche secretly bought about 74% of the VW stock. With a local German government entity owning about 20%, there was about 6% of the stock left to satisfy the borrowing needs of the 12% short interest. VW stock zoomed higher. Of course, it later collapsed, but not until the trade ruined many hedge funds. At the end of the saga, VW owned the Porsche brand, but the Porsche family controlled VW. It still confuses people to this day.

Back to Avis. Simply put, two different shareholders have amassed more than the total outstanding shares of the company. While their giant stakes have been public and growing steadily for a while now, the recent exercising of options and disclosing of swap positions have put the shorts in an awkward position. Like VW shorts, there simply are no shares to lend to short-sellers, so they are forced to buy. Alas, the stock has already retraced 75% of its up move as some borrow has finally been "located". This new pool of stock largely comes from the same suckers that chased this rally. That is, once the retail traders bought the stock and it was sitting in their Fidelity or Schwab or Robinhood accounts, this stock was automatedly lent out to the primebrokers (fancy word for hedge fund custodian), so hedge funds could short it. Needless to say, we are staying away from this stock …other than to marvel at the trading dynamics.

- Where did all the crypto/prediction money go?

Prediction market Polymarket is back on the hot seat with the resolution of one if its largest "events" (bets) being disputed (again). This one is whether US forces will enter Iran by April 30. Loose wording like this is what gets Polymarket in trouble. Nonetheless, the UMA powers-that-be have ruled that the special ops excursion to rescue the downed pilot counts as YES. Recall that Polymarket uses the crypto token UMA to settle disputes. Holders of the token discuss the matter on the Discord app and then vote. The idea is that the decentralized, peer-reviewing process will be open and honest because this will increase the value of the UMA token. One small problem. The total market cap of the UMA token is about $40mm. The total value of open wagers on this single bet (US forces into Iran) is $269mm.

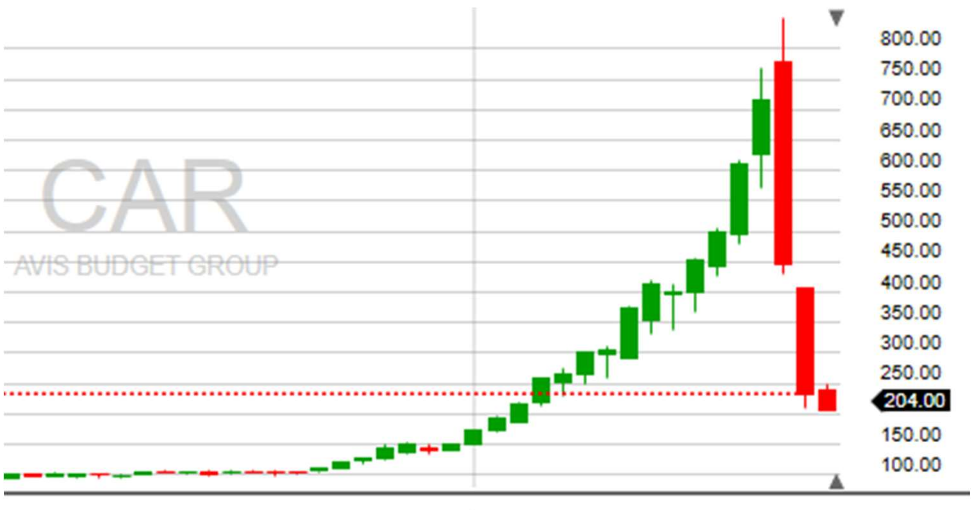
One of the silly categories of bets on the predictions markets involves "guessing the temperature" recorded at a certain place during a certain timeframe. Seems pretty random, right? Well, not if you disclose the place and exact method of recording the temperature. An enterprising man bet $2k at $0.05 (to be paid $1 per bet) that the maximum temperature in Paris would hit a certain level. He took his portable hair dryer to the temperature sensor by the airport. He heated it for a few seconds during the timing-window, hit his temp, and collected $40k.

In a completely unshocking revelation, researchers conclude that only 6% of crypto traders report sales to the IRS.

Back in the real world, the organizer of SantaCon is going to jail. This is a big bar-crawl in NYC during which everyone dresses up as Santa. Apparently, it has raised almost $3mm for charity over the last seven years. Unfortunately, most of the charities include his luxury car, vacations, apartment rentals, and his Jersey Shore house.

- Chart Crime of the week

We thought we would show you the Avis ($CAR) chart. For the suckers that bought at $800, this sure feels like a crime.




- Quick Hits
  - The central business district of Austin has an office vacancy rate of 31.1%.
  - Supposedly, 73.4% of all Polymarket events resolve as "No."
  - The EU plus the UK and Norway (EU+2) produces about half the natural gas that it consumes.
  - There are only two US companies with AAA-rated balance sheets: Microsoft and JNJ.
  - The "Gordie Howe hat trick" in hockey includes scoring a goal, making an assist, and getting in a fight.
  - Red Lobster is bringing back its Endless Shrimp menu item.
  - Red Lobster went bankrupt in 2024 because of its Endless Shrimp menu item. (Red Lobster is one of our repeat story lines…we cannot get enough of the continued saga.)
  - A single guy in Italy printed over $10mm in fake Euros from a printing press in his garage.
  - The winner of the Boston Marathon ran his fastest mile during his last mile! 4:19).
  - The #3 corporate officer at McDonald's (Chief Restaurant Experience Officer) is named McDonald.

- Long Beach, California has canceled its 4th of July fireworks show because of "pollution" concerns.
- New York City has denied permits to large gatherings for 4th of July celebrations (from June 11 to July 19 because of the World Cup…allegedly).
- On April 15, the S&P 500 reached an all-time high with only 12 stock making new 52-week highs.
- On April 17, the Nasdaq index rallied for the 13th straight day (longest since 1992).
- A 14-year-old kid who watched Jaws in 1996 was fascinated by Quint's monologue about the sinking of the *Indianapolis*. Apparently, he researched the topic so intensely that he was able to prove that the captain of the ship was innocent of wrongdoing and never should have been court-martialed. He presented his findings to Congress in 2000. The deceased captain was legally exonerated by the Navy.
- The Situation from The Jersey Shore went to jail for tax evasion.
- A baseball bettor recently parlayed a $30 wager into $1.86mm by correctly predicting that six different MLB players would hit homeruns on the same day.
- In 1970, an Australian farmer got into a dispute with the government over how much wheat he could sell. E effectively seceded declared his farm a sovereign territory. This was recognized by Australia and the Queen of England.
- The Orioles ran out of homerun fireworks after beating up on the Red Sox last week.

**TSLAQ**: We recently talked about how Musk is making his investment bankers buy Grok and xAI services. Following on this theme, SpaceX bought 18% of all Cybertrucks sold in 4Q2025.

Check out our website to learn more about Chalk Creek Partners

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