Weekly Update

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- The rotation is over for now (and so is the sideshow)
- Earnings estimates are on the rise, but stock reactions are not
- The Chinese are micro-managing their macro-policy
- Housing trend is intact
- Business Surveys (PMIs) are still strong
- China's fake economic data is starting to rollover. Who knows how bad it really is.
- Chart Crime of the week
- Here are some parting comments on Reddit/WallStreetBets/GameStop/Robinhood/etc

	Last	5d %	YTD %	1yr %
SPX	3830	2.1%	2.0%	24.3%
QQQ	326.4	2.2%	4.0%	50.1%
US 10 YR	1.13%	1.03%	0.92%	1.60%
VIX	22.9%	37.2%	22.8%	16.1%
Oil	55.79	5.6%	14.8%	11.1%

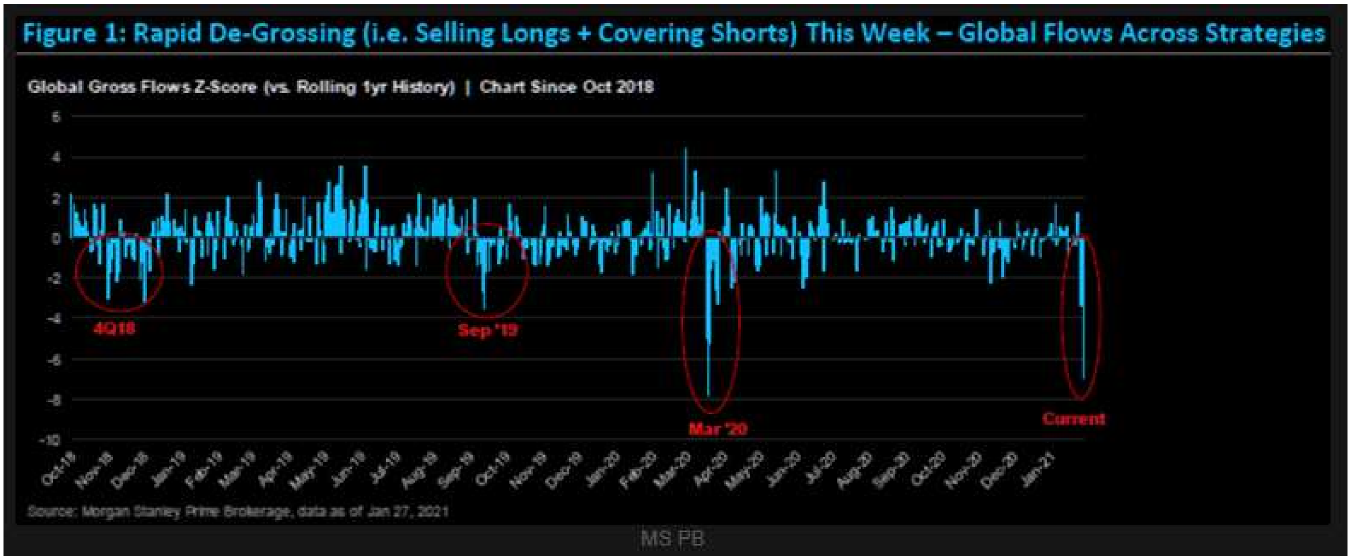
*10yr and VIX are levels not changes
** Oil is front month futures, beware

And just like that, the market rotation is over! Last week we wrote, "we will know we have reached the bottom (of the rotation) when the chest thumping, finger wagging…have vanished …" We think the financial media's utterance of "this is the death of short selling" might just well have been that moment. Just as we posited last week, there will likely be more fits and starts in either GameStop or some other "target," but the sideshow element is likely gone.

As for the stuff that really matters, the market is getting hopeful on a juiced-up stimulus. With the moderate Repubs balking at many of the spending measures, the Dems have abandoned negotiations and plan on going this alone. They will use the Reconciliation process to pump another $1.9t into their economy. (We have detailed this in the past, but recall it is the process by which the Senate only needs a simple majority to pass budget matters…and it can only be used sparingly under the current rules which were established in the 1980's). And, of course, the Fed is not going anywhere anytime soon (god help us when they finally do reverse course). Of course, we think the market will continue to have swings based on factor rotations (Growth vs Value to dumb it down). We will continue to trade against these swings.

Not to downplay the impact of the Reddit sideshow, Jan 27 was the largest hedge fund unwinding on record according to Goldman. Of course, given the record high Gross positioning (total portfolio leverage), this might not mean as much as it first sounds. And of course, JP Morgan still maintains that positioning is at historic *lows*.

But we think JPM is wrong and positioning was stretched. Here is a chart from Morgan Stanley showing the size of recent dislocations. Goldman, JPM, and MS are the largest hedge fund prime-brokers (fancy word for all-purpose custodian). We suspect that much of this Gross has already been put back on (ex the few hedge funds that lost massive amounts of money).



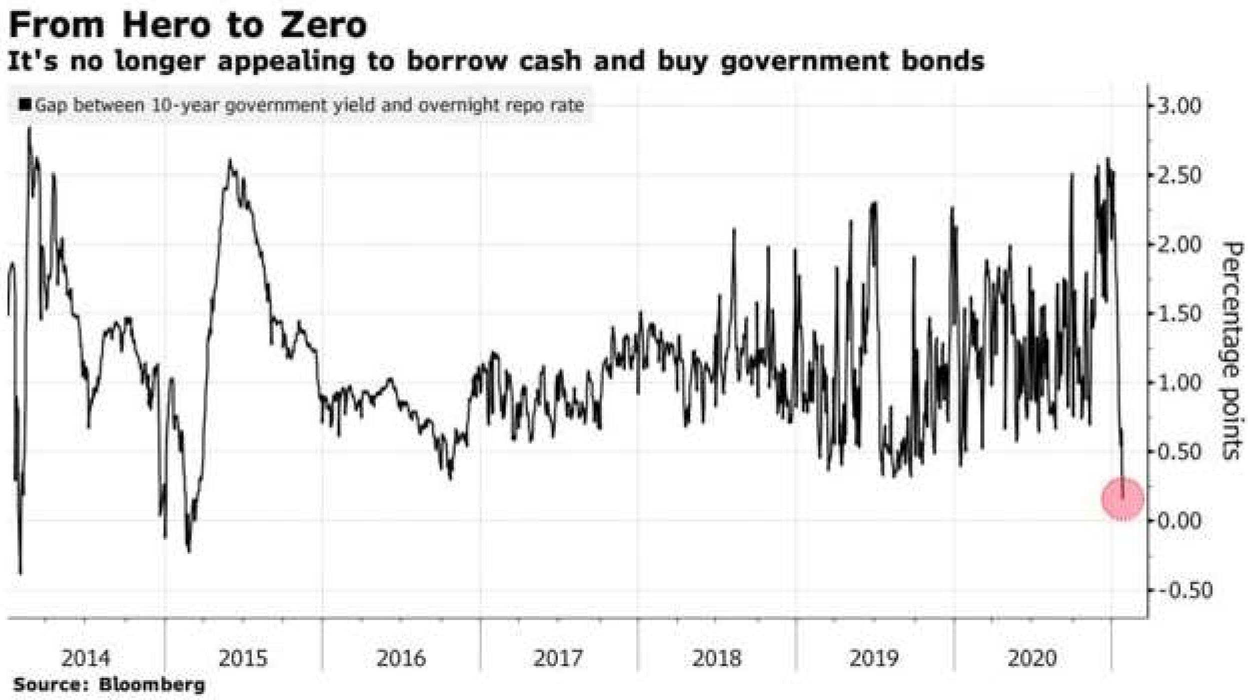
➢ Earnings estimates are on the rise, but stock reactions are not

Earnings estimates from analysts saw surprising increases during January. As we have noted before, analysts typically lower estimates during the first month of a quarter. This is a function of company managements trying to set a lower bar for their earnings to beat. But January saw a 3.2% increase in estimates for S&P 500 companies. This was the second strongest first-month-of-a-quarter revision in 11 years (the first was 1Q2018 which was driven by the corporate tax cuts).

One of the things we like to monitor is a stock's reaction to its earnings. We noted at the beginning of earnings season that the Financials reported stellar numbers, but their stocks slumped. Bespoke points out that for the earnings season as a whole, stocks that beat expectations have opened up +0.4% yet closed down 1.3%. Bespoke rightfully calls this 1.7% swing "indicative of a 'sell the news' reaction."

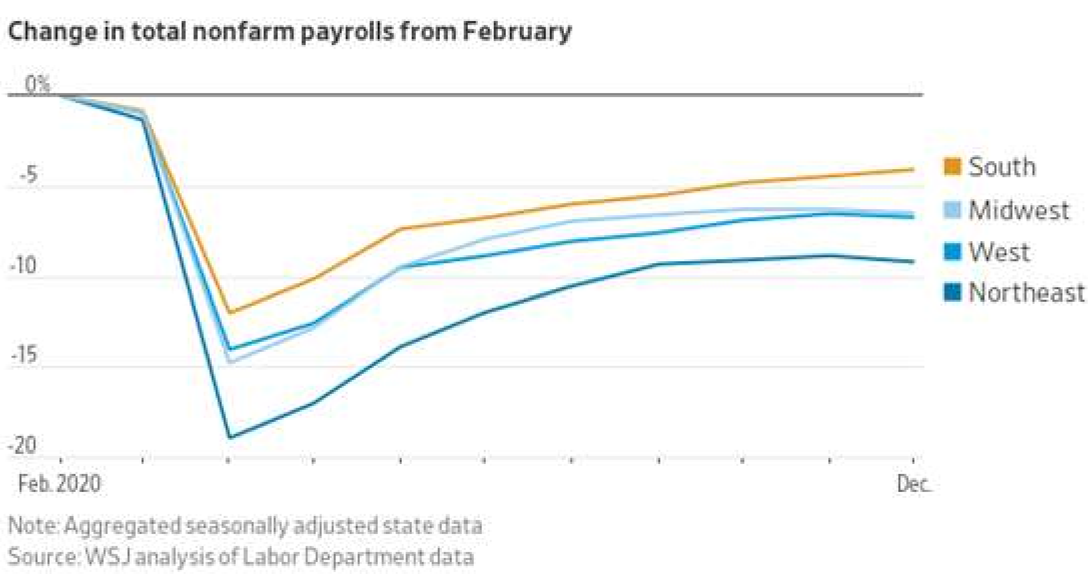
➢ The Chinese are micro-managing their macro-policy

The People's Bank of China (central bank aka PBOC) has recently withdrawn almost $50b in liquidity effectively boosting overnight lending rates from about 0.60% to over 3%. The aim was to shut down an arbitrage banks were using: they would borrow at 0.60% and buy Chinese government bonds yielding 3.2%. Free money. The communists do not like free money in the free market. Of course, the communists had their media mouthpieces (media) get word out that this was only temporary yada-yada-yada. And, in fact, the communists have started to drip some liquidity back into the system after the stock market started to feel the effects. But the overall draining of liquidity will likely be a theme which reminds the global markets just how tenuous the whole Chinese financial system is (potential pot calling the kettle black, for sure). Here is a chart from Bloomberg showing the crunching of the arbitrage spread.



- ➢ Housing trend is intact

New Home Sales for December registered 842k on an annualized basis. This is still off the late summer peak of almost 1mm. But it is an increase from November. And December is usually a slow month in Housing. Recall that New Home Sales are counted when a contract is signed not when the sale closes. ∴, this is a leading indicator in the housing space…akin to Pending Home Sales in the existing home segment. Speaking of which, Pending Home Sales fell for the fourth straight month. (The Midwest was the sore spot.) But the monthly drop was only 0.3%. The tally versus December of 2019 was a gain of 21%. We still believe in Housing largely based on the migration theme (and Work-From-Home). This employment chart speaks volumes.

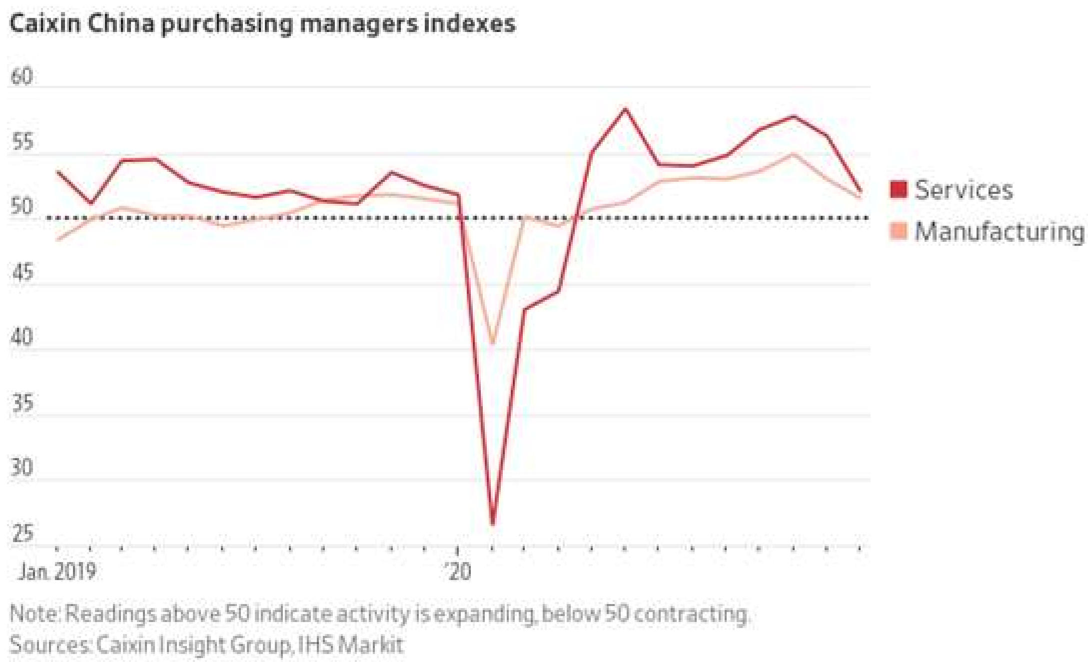


- ➢ Business Surveys (PMIs) are still strong

The final Markit PMI survey for January did not disappoint after the strong Flash (early) reads. Both Manufacturing and Services showed positive expectations...Services were even better than the surprising Flash reading. The ISM Manufacturing reading did show a slight decrease, but Services surprised on the upside.

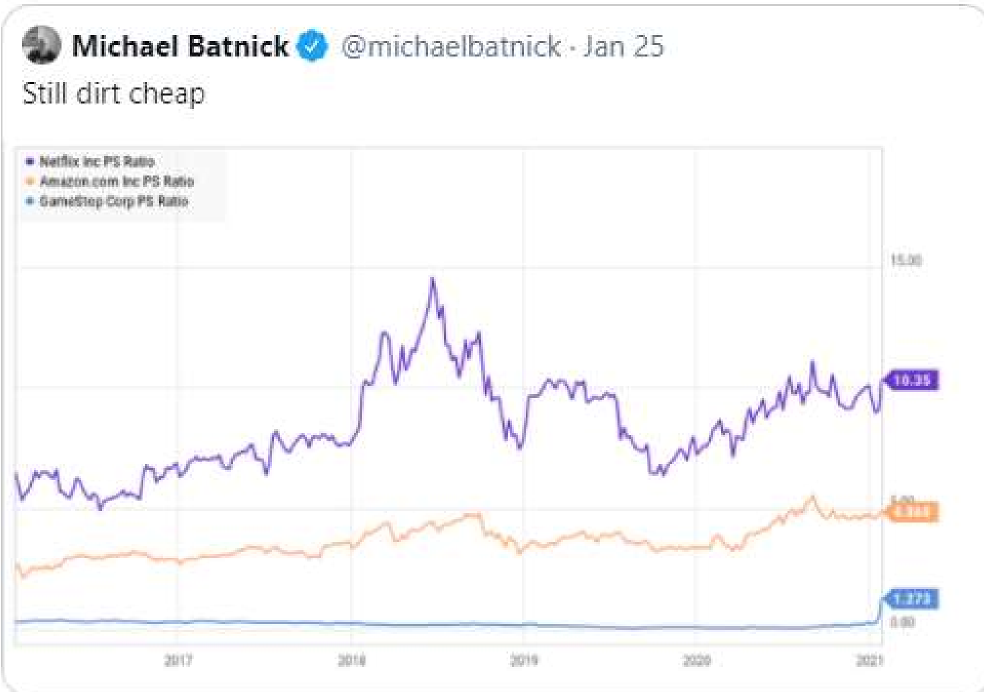
The first read on 4Q GDP is growth of 4%. More importantly, this slight miss probably means that 1Q (now) will be slightly better than expected. There is not a tight consensus among the professional guessers (economists). The range is from about 2.5% to about 5.5% growth. But if the PMIs continue to surprise to the upside, those guessers in the bottom half will likely start increasing their expectations.

- China's fake economic data is starting to rollover. Who knows how bad it really is.



- Chart Crime of the week

Twitter is catching on to this Chart Crime game. This one is squarely tongue-in-cheek.



- Here are some parting comments on Reddit/WallStreetBets/GameStop/Robinhood/etc:
    - Many people are blaming Robinhood for driving the price of GME lower and by doing so helping hedge funds. This is precisely wrong. Robinhood *needs the price of GME high* or at least stable to fend off margin calls. Brokers lose money when margin calls happen because retail customers often walk away from their margin debt…especially customers that are basement-dwelling "weirdos" (one of the words the Reddit crowd calls itself collectively). Robinhood gets left holding the bag when these meme stocks drop instantaneously.
    - Robinhood could have done a better job explaining that the decision to restrict trading was based on regulatory measures forced upon it. But it certainly was not acting in bad faith to *hurt itself*. Selling its customer flow to Citadel is important, but not nearly as important as surviving as an entity.
    - Many politicians are likely to pick the easiest target in this virtue-signaling battle-royale: High Frequency Traders (like Citadel). As usual, the politicians will have it exactly backwards. High Frequency Trading helps the small investor by facilitating small trades at better prices. Large institutions are the ones that have to pay higher prices because the illusory liquidity provided by the HFTs disappears when sizeable orders enter the market.
    - The hedge funds that over-shorted these names deserve what they get. Why did they not at least partially cover their butts with some cheap out-of-the-money Call options?
    - The Reddit crowd also deserves what they get. That is, hopefully they all sold and made a fortune. If they got greedy, tough luck.
    - To repeat an earlier point, the Reddit guys were not driving this trade after the initial few days. Hedge funds (others that were not short…or maybe even some that were short originally but flipped quickly) jumped on the bandwagon and pushed this as hard as they could.
    - The WallStreetBets guys did nothing illegal. The only exception to this broad statement (surely one of the 9mm users did something criminal) is if the WallStreetBets posts were

manipulated/generated by some nefarious entity trying to make it look like an army of traders were about to buy stock XYZ.

- The silly attempt to "squeeze" silver has nothing to do with WallStreetBets. The silver futures started gapping higher before the trading of the silver ETF SLV. With a great deal of certainty, we shall proclaim that virtually zero of the WallStreetBets crowd has a brokerage account enabled for trading futures (not to mention the financial means to trade a contract with the notional size of approx. $150k). Again, this was an attempt by "professional" traders to goose the silver market higher riding the coattails of Reddit.
- Many people are confused by the notion of being able to short more stock than exists. It is simple, synthetic long shares are created by short-selling. To wit: 100 shares of DUFF exist, and Homer owns all of them*. He lends all 100 shares to Flanders who shorts them. Lisa buys them. Lisa lends them to Bart who shorts them. Marge buys them. Tally: 300 total long shares (Homer + Lisa + Marge) – 200 short shares (Flanders + Bart) = 100 original DUFF.
- We are pretty happy with our sales from $38 to $52 In GameStop after buying at $19 before the mania started. But we woulda/coulda/shoulda been larger!

➢ Quick Hits

- The news ran a catchy headline about some healthcare workers delivering the virus vaccine were stranded in a snowstorm. It was going to be a calamity if the vaccines went bad while stuck in the snow! They were "transporting" six doses.
- New Jersey has overtaken Nevada as the sports-betting capital of America. If you have ever been to Jersey, this should not surprise you.
- After Robinhood halted trading in the crazy stocks, it gave each of its employees a $40 Doordash gift card.
- The Secretary of the Commonwealth of Massachusetts (fancy title for state securities regulator) has called for GameStop stock to be suspended for 30 days.
- John Kerry's private jet emitted as much "carbon" in 2020 as 36 typical passenger cars. John Kerry is Biden's Special Envoy on Climate Change.
- When asked about taking his private jet to Iceland to receive a climate award in 2019, John Kerry said it was the "only choice for somebody like me."
- 70% of silver is a byproduct from other metal mining.
- A New York man recently received a FACE transplant (it was not John Travolta or Nicolas Cage).
- The disgraced ex-CEO of Boing has started an aviation-focused SPAC.

*Time for a story re-hash. Our old boss (multiple world leaders actually called him the smartest man they ever met…and they were unaware of his 1980's pop-culture banter with yours truly) once owned an entire Venezuelan bond issuance. A repo desk (equivalent to stock loan) called asking him to borrow the bonds. He said sure. This short seller of the bonds unwittingly sold them right back to the lender (us). After the trade, our boss politely started to place bids in the market. The bonds were being marked higher every day. Obviously the short-seller could not cover his bonds anywhere because our boss literally owned every single one! After a little bit of pain and groveling from the broker ("we promise this short-seller is not a bad guy!"), boss-man sold the poor(er) dope some bonds to cover his short.

Trading: Not a lot of trading despite the volatility. And we are happy about this because it means we are not positioned in a lot of crowded trades. Obviously, our Big Tech positions were pushed around, but the moves were still pretty small in relative terms. However, we did increase our put protection slightly when things calmed down (both in terms of higher stock prices and lower Volatility). We added to our Energy long and Healthcare longs during the mild unwind. We also added to our long commodity exposure – this is a basket of commodities to capture the ever-elusive inflation (non-equity inflation, that is). We took one name out of our High Growth basket as it was a Chinese name, and we do not want that added layer of uncertainty. Our recovery-based Retail longs were correlated with the unwind. That is, they appear to be heavily shorted names (the death of Retail trade we suppose) which we like. And our beloved Chewy tends to move with GameStop a bit now (obviously a fraction of the magnitude, needless to say). We think this is funny – the founder of Chewy is what kickstarted the whole GameStop saga when he bought 13% of the company and got three seats on the board. Needless to say, we will buy Chewy on any GME-induced dips.

TSLAQ: Tesla was so yesterday. We still monitor it closely as it might be the canary that brings down the market (used to be a "when" but now it might just be an "if"). But with the Villain off Twitter, it is boring. Speaking of boring, we will do a quick blast from the past (2017) to showcase the Villain's foresight. Or rather, his sociopathic lying:

www.chalkcreekpartners.com

Carlisle's Twitter Financial List

Carlisle's LinkedIn

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