



Weekly Update

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- Quiet week until Volatility sprung back to life
- Higher inflation and AI/SI worries stoke the fears
- But GDP growth is still tracking higher
- The banks are saying the consumer is just fine
- Agentic AI/SI might be sticking
- Inflation accelerates in all the obvious places
- Europe's energy policies are a mess
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week
- CPI report says you might not have to do this

	Last	5d %	YTD %	1yr %
S&P 500	7,719	-1.1%	12.8%	16.2%
QQQ	\$728.95	-3.9%	18.7%	21.9%
US 10 YR	5.20%	5.30%	4.17%	4.03%
USD/DXY	102.5	102.3	98.3	98.8
VIX	16.9%	15.1%	15.0%	20.6%
Oil	\$95.07	7.7%	65.6%	62.0%

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

** Oil is front month futures, beware

It was a relatively quiet week until Volatility sprung back to life today. The impetus was a higher-than-expected CPI inflation report for September. Interest rates instantly shot higher as the chances for an October rate hike increased quickly and dramatically (from 20% to 50%). This move brought the debt-fueled Artificial/Super Intelligence infrastructure trade back into doubt. Gartner, an independent research company, tossed some gas on the fire by proclaiming that "80% of neocloud providers will cease independent operations" by the year 2030. These resellers of compute were all hit hard. CoreWeave suffered the most (-15%) as Chamath (one of the "All In Pod" guys) raised the question on X why its debt was trading so poorly (he did this on Tuesday). This is not a novel observation, but Musk thought it warranted a reply of "Yikes." Adding to the AI/SI uncertainty was the anticipation of Anthropic holding an investor day. There have been conflicting reports about its revenues lately (it appears that different media outlets have been reporting on different accounting items which is beyond silly,

but it added to the uncertainty). Lastly, there was a broad downgrade of Tech stocks by a likeable strategist at RBC.

As usual, the noise was louder than the signal. Interest rates started to move *lower* after about 30 minutes. By lunchtime, rates across the curve were *below* where they were before the CPI release! Fed Funds futures retraced to pricing in an October hike at about 33%. December is still priced as a lock (90%). But this fits with the tone of the Fed speakers ("if we need more hikes, they will be spread out as we monitor the changing data"). We think the reversal of rates today makes sense in light of the CPI details under the surface. Most notably, Food prices were dead flat. Obviously, Energy prices are still the most strained price point (more below). Just when we think the oil is flowing and the "war" is coming to an end, more ships are sunk and anxieties are cranked higher.

The AI/SI fears seem overdone if not irrational. Some more bellwethers in AI/SI Tech, Samsung and ASML, show that revenues are still accelerating with supply being the only factor capping the growing demand. But this has been true for a while...high expectations are hard to beat, and the stocks often need to consolidate before moving higher. Of course, there are still pockets of worry. There are rumors that OpenAI is looking to buy a cybersecurity company. While not bad news, it might signal that the AI model makers will be prone to beef up their own security versus outsourcing. Cybersecurity stocks have been a notable area of strength in software, so this has removed a bit of the shine. We made light of the mood ring company Oura canceling its IPO. But a Nvidia-backed datacenter in Australia, Firmus, did the same. More and more people are pointing to the giant supply coming to the market. Old school trader Paul Tudor Jones said this was his biggest worry heading into next year. This all ties back to the concentration in the market. With the median stock performance at -16% this year, investors do not have many places to hide once the highfliers start to wobble. And we are getting to the part of the year where people start to lock in gains at the first sign of trouble. Usually this presents opportunity. We want to watch for a bit, but we are inclined to buy this dip.

Looking at the economy, growth is still tracking higher for Q3. The professional guessers (economists) expect growth of around +2.6%. The range of guesses is from +1.8% to +3.4%. The Atlanta Fed's GDPNow is ticking down as the data comes in...this is normal. But it still sits at +3.6%. The New York Fed nowcasts growth at +2.7%. This has improved from +2.5% over the last two weeks. But one sign of weakness is in junk bonds. The yields of the worst of the bunch (CCC or lower) are climbing at a breakneck pace. In May, the yield of the BofA index was around 9%. Today it sits at 12.67%. But as long as employment is stable and inflation is somewhat tame (plenty of assumptions and caveats in here), we think the macro backdrop matches up with our desire to slowly buy the AI/SI dip (in certain areas).

➤ The banks are saying the consumer is just fine

The earnings of the big banks were generally viewed as weak. But most of this was a slower trading environment later in the quarter when the spike higher in interest rates moved a lot of traders to the sidelines (Goldman, of course, was the notable exception). But the consumer side of the businesses appears to be firing on all cylinders across all the large banks. Here are some one-liners:

Citigroup: "The consumer is still driving much of the growth..."

JP Morgan: "The consumer has been quite resilient..."

Wells Fargo: "The consumer remains one of the economy's most important sources of resilience..."

B of A: "Consumers are spending and the economy is resilient."

All these banks also stated credit quality is strong and improving. They also all pointed to strong commercial loan growth. We think this bodes well for the economy. (But we could do without all the “resilient” references...a colleague quipped that maybe AI wrote these comments!)

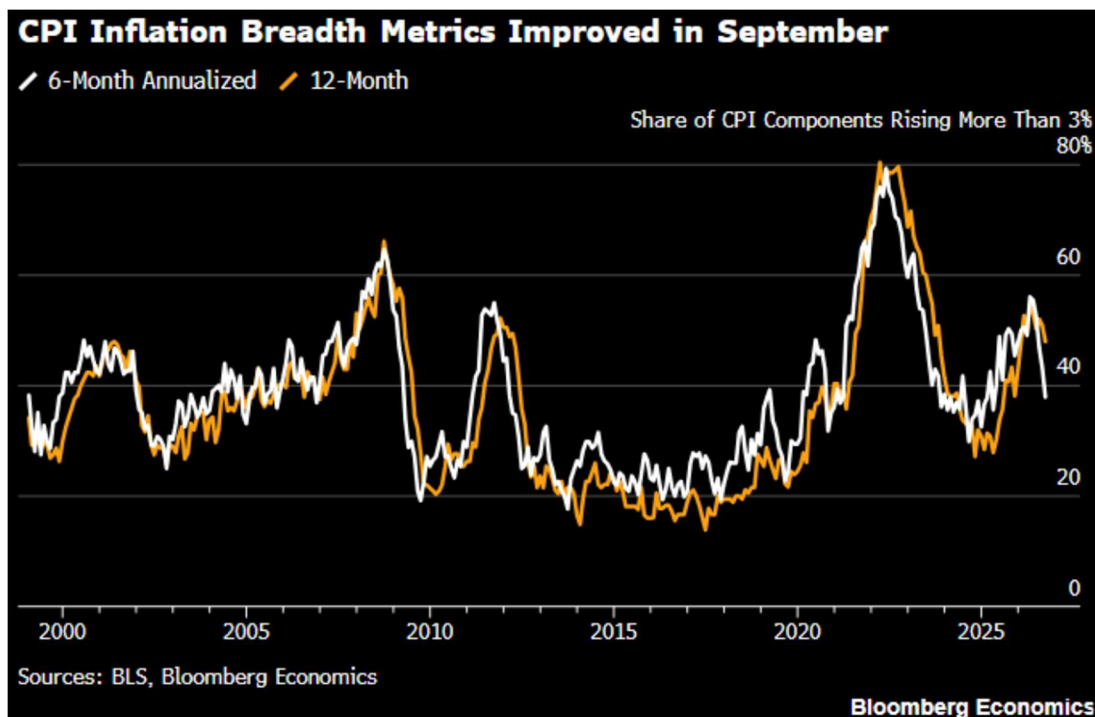
➤ Agentic AI/SI might be sticking

It is early days, but Meta’s Muse has a strong retention rate so far. Sensor Tower data shows that about 30% of users are still active after seven days after first downloading the app. 22% are still active after 14 days. These rates are not great compared to the stalwarts YouTube (59%), Instagram (54%), and Tik Tok (37%). But Muse’s rates do rival those of ChatGPT. We would guess that the ones dropping off are the people looking at it as a fund gadget (“find me a good hotel”). Small businesses are the ones who are looking to optimize the new-found efficiency.

➤ Inflation accelerates in all the obvious places

CPI inflation (change in the Consumer Price Index) increased by +0.6% from +0.4% in August. It has increased +3.7% over the last year (vs +3.4% previously). “Core” CPI was +0.3% which was the same as August. It has increased +2.6% over the last year (vs +2.4% previously). Half of the monthly increase was from Gasoline which increased +9.1% in the month. Fuel Oil (which includes Diesel) increased by +15.3%. Electricity prices, however, only increased +0.2%. Utility gas fell -0.3%. The whole Energy component increased +5.2% which was up from August +2.1%. Conversely, Food prices were flat on the month. At Home decreased by -0.1%. Away from Home increased by +0.2%. Shelter prices continue to accelerate with an increase of +0.4%. July was +0.1% and August was +0.3%. But this is skewed higher by Lodging Away from Home at +2.0%. Rent prices only increased +0.2%. Owners’s Equivalent Rent (OER, that quirky stat that tries to guess how much you would rent the house that you own) increased +0.3%. Other than Lodging, other recreational components were higher, too (Airlines, Reading Materials (!?), Bicycles, and Toys).

Alternate inflation data keeps showing that the problem might not be that deep rooted. Here is a chart that shows what percentage of components in the CPI are above +3.0%. While still above the lower region of the modern trend, it has fallen sharply recently. The main relevance of this chart is that it matches with what Warsh has said is important to him. (He has still not clarified what the Fed’s path forward will be with respect to which data sets to monitor more closely, but this is what he has referenced in the past.) Whatever the case, as long as isolated, supply-driven inflation impulses (ie diesel because of Iran) are the cause of the bad data, the Fed might eventually relax its frame of mind...not hike and maybe even cut. But we do not plan on positioning for that until the Fed actually says as much! (To this end, “Sticky-Price CPI” remains elevated, so this might be a while.)



1-year Inflation Expectations (according to U-Michigan) ticked up to +4.7% from +4.6%. The 5-year ticked up from +3.4% to +3.5%. The NY Fed's 1-year Inflation Expectation increased by +0.3% to +3.9%. The 5-year horizon is unchanged at +3.0%. This survey has an Uncertainty component. It increased in the 1-year (and 3-year). It decreased in the 5-year. Gas, Food, and Medical Care prices are expected to increase the most (+5.5%, +4.8%, and +9.2%).

➤ Other economic data is better

The Weekly ADP Employment Change increased almost 25k. This data continues to grind steadily higher from the low seen in late July (+8k). This contrasts with the government data which saw the big bounce in August and then the quick cooling in September.

Initial Jobless Claims are still dead flat around 200k (the four-week average is 198k). Continuing Claims ticked up to 1.716mm, but they are still trending lower. The recent peak was about 2mm in November.

Small Business Optimism (NFIB) softened slightly. It is still higher than the hangover from the free-money give away after the Virus Fear. But it is still much lower than the pre-Virus Fear state.

Consumer Sentiment (U-Michigan) fell again. Yawn: Sentiment continues to be way worse than reality.

To wit: Redbook Retail Sales jumped +10.4% vs +8.6% last week.

Existing Home Sales ticked up slightly in September +1.5%. The annualized run-rate is just shy of 4mm. The trend was around 5.5mm pre-Virus Fear.

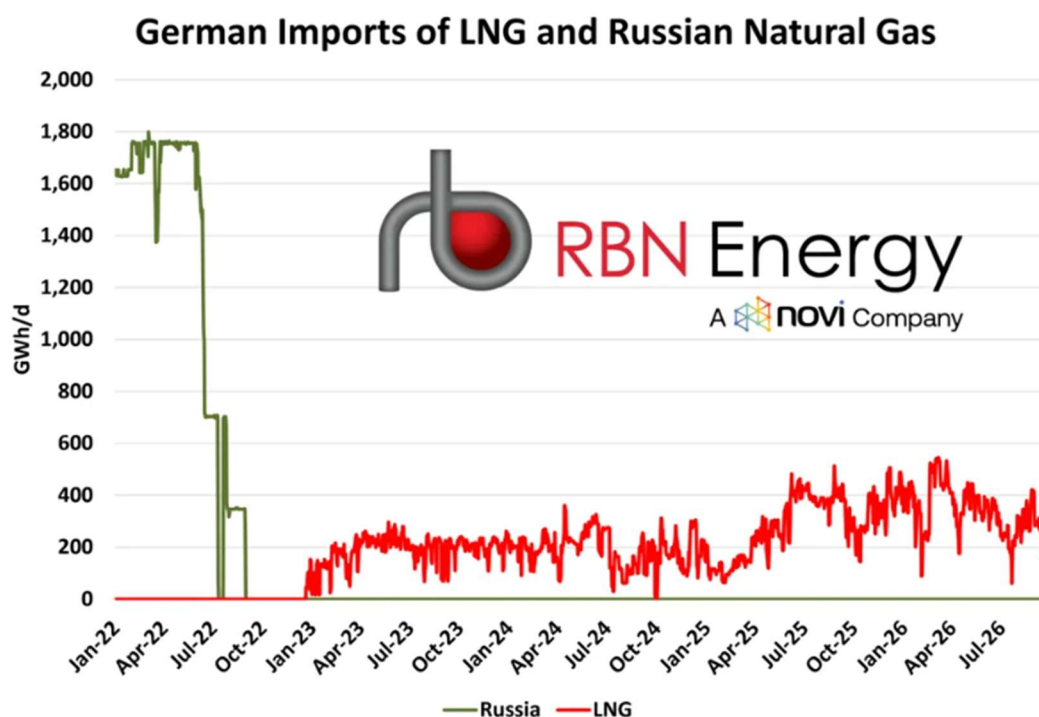
Weekly Mortgage Applications fell again. They have been up for 15 weeks this year and down 25 weeks.

The average 30-year mortgage rate ticked up to 7.50% from 7.49%.

Car sales in China dropped 24% in September vs last year. They are down 21% year-to-date.

➤ Europe's energy policies are a mess

We have been writing about Europe's energy crisis. We know that the war in Iran has had a sharp impact on fuel supplies around the globe. We highlighted England's foolhardy decision to eliminate most of its pipelines and storage facilities. Germany looked strong in comparison despite being woefully prepared for the winter in terms of fuel storage. But it is worse than expected, and they only have themselves to blame. When Germany cut off gas deliveries from Russia, it created some LNG import facilities (floating storage and regasification units, FSRU). A good idea, but you must execute. This chart from RBN (great insights on energy logistics) shows the difference between what Germany got from Russia and how much they have replaced with LNG.



➤ Where did all the crypto money go?

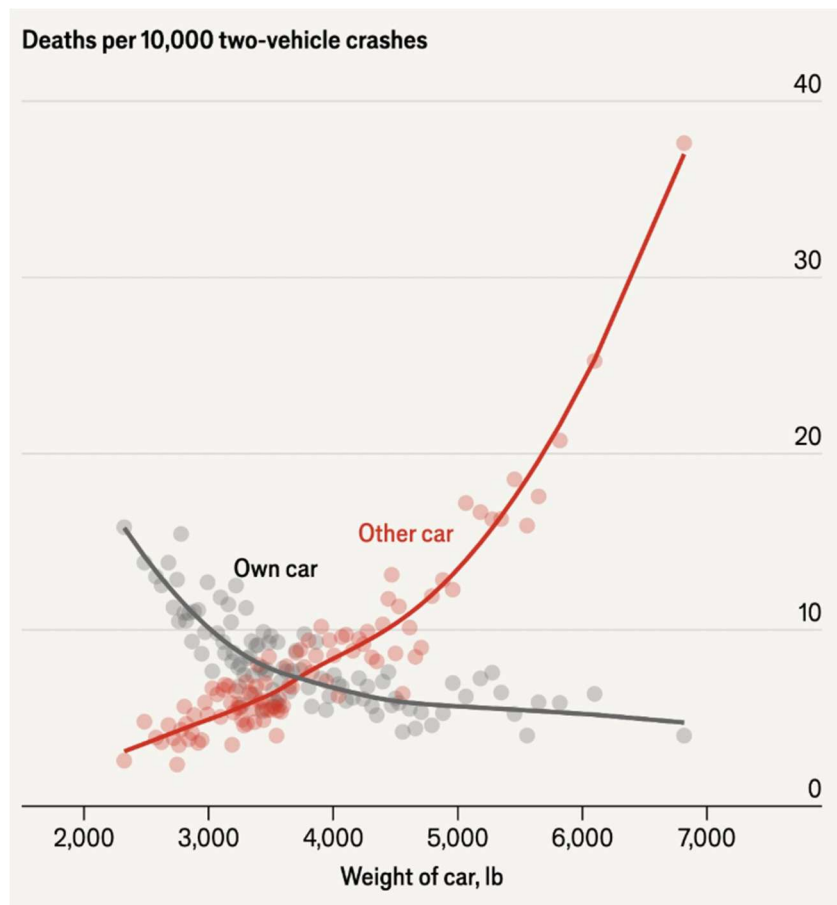
This style of crypto theft is one of our favorites (certainly not as bloody as kidnapping and torture). There is a French company called Ledger. It makes "crypto hardware wallets." This means it makes devices that store the keys to your cold wallet crypto holdings. The idea behind holding your crypto away from an exchange is that nobody can hack the exchange...you are the only one that can control the wallet. Unless, of course, the device in question was somehow hacked by the retail reseller. The devices proceeded to drain all the wallets upon set up and deposit. Over the last week, the tally is up to \$86mm. We would rather lose our wallet in a garbage dump in England than have it hacked by the device meant to protect us.

Another ho-hum crypto hack was in the news this week. A Long Island man hacked a few platforms back in 2021, and he was found guilty this week. The part of the story that caught our eye was on what he spent the money. No, it was not Lamborghinis, Rolexes, and parties. It was on "collectibles." He spent millions on rare Pokémon cards. After one of his hacks, he texted a friend about what he had done. He concluded with "Crypto is all fake internet money anyway." Yet a complete first-edition Pokémon base set is definitely worth \$750k! He

also spent \$137k on a piece of fabric from the Wright brothers's airplane. The fabric traveled to the moon with Neil Armstrong. (We are not into collectibles, but this is pretty cool.)

➤ Chart Crime of the week

This chart is meant to bemoan the horridities of "big cars." It is associated with a long rant about fuel standards in the US and how lobbyists are responsible for larger cars taking over the roadways. It was published in the Economist, of course. It is a bit tricky to grasp...but we think it means that we want to be in the larger car when there is an accident.



➤ Quick Hits

- A man was arrested at Miami airport for smuggling 10 live birds in his pants.
- Animal smuggling is a \$20b business in the US.
- About half of the volume wagered on Kalshi since the start of 2025 has been taking longshot odds of at least 10:1.
- Since mid-September, the percentage of Kalshi gamblers seeking mega returns is now over 65%.
- A passenger on a flight out of John Wayne airport in California decided to go on to the tarmac and go for a joyride in a "tug" mobile.
- San Marino is the oldest sovereign country in the world.
- Dire Straits's *Money for Nothing* was written by Mark Knopfler after he overheard a deliver guy complaining about MTV inside of an electronics store (it was on all the TVs).
- Sting sang the intro and the chorus on the song of the summer 1985.

- The head of the public school system in California said, “if students at top universities are at elementary level math, it’s the college professors’s job to catch them up.”
- Thieves stole 30,000 bottles of wine from an Italian winery. It is reportedly worth almost \$6mm (\$200 a bottle/wholesale which seems very high to us).
- While both are federal holidays, Veterans Day is more widely observed than Columbus Day. About 20% of private businesses close for Veterans vs about 13% for Columbus.
- A New York Fed “economist” wrote a paper claiming that Starbucks is responsible for more “inventions.”
- An oceanfront compound in Palm Beach just sold for \$83mm. It is expected to be torn down.
- The Red Sox have gone 57-51 in four straight seasons.
- In 2024, the Red Sox won their 58th game before losing their 51st game in real time. But after a rain-suspended game was finished, the team’s record was retroactively corrected to 57-51.
- American teenagers drink an average of 1.54 energy drinks per week. This is up from 1.39 a year ago.
- American teenagers rank Dr. Pepper as the #1 soda brand.
- Apparently, the shipwreck that washed ashore on Nantucket recently is not from the Warren Sawyer. But it is likely from a ship built in the late 1800s or early 1900s.
- The guy in charge of the maritime institute investigating the wreckage is named Carlisle.

TSLAQ: After SpaceX bought spectrum to potentially compete in the mobile carrier business, Musk declared SpaceX is on a “path to being worth orders of magnitude more than the current **EARTH** economy.” The emphasis is ours.

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