Weekly Update

10-July-2026

Carlisle C. Wysong, CFA
Managing Partner

- The market is still broadening
- But AI is not dead yet
- Economic data is still strong except…
- Employment takes a surprising hit
- Inflation is stable but expected to slow
- Quick Hits
- Where did all the crypto/prediction/AI/scammer money go?
- Chart Crime of the week
- This is what happens when the Labor Participation rate drops

	Last	5d %	YTD %	1yr %
S&P 500	7,575	1.2%	10.6%	20.6%
QQQ	$723.23	1.8%	18.1%	30.6%
US 10 YR	4.57%	4.49%	4.17%	4.35%
USD/DXY	101.0	100.9	98.3	97.7
VIX	15.0%	16.2%	15.0%	17.2%
Oil	$71.53	4.1%	24.4%	7.3%

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

The broadening theme in the market continues to play out. After Micron's stellar earnings two weeks ago, stories of increased memory chip supply have hit the market. There were also rumors that Meta was planning on reselling some of its excess datacenter compute. We have talked about the hyperscalers and their crazy spending…this was the first hint that they might be nearing their breaking point (or at least the slowing point). Zuck confirmed that the company is exploring the idea. Of course, the slowing of spending does not impact the already committed spending, so the AI infrastructure backlogs are still very real until the future commitments start to slow.

Economic data has had some headline misses lately. Importantly, the Employment Report was weak on the headline (fewer jobs added) and under the surface (total employment falling). But in aggregate, the Citi Economic Surprise index remains near three-year highs. PCE Inflation went up slower than thought. We maintain that disinflation is taking hold (even with the recent mild uptick in Energy prices). Business Spending and Surveys are good. Retail Sales are accelerating. Q1 GDP was stronger than expected. On the flip side, Q2

GDP is falling short of expectations (after incredibly strong early reads on the data). As always, everything comes down to the Employment situation.

With this mostly stronger data, the market is still pricing an 85% probability of a rate hike by the end of the year. In fact, it is almost a coin flip that the Fed will hike twice to a range of 4.00%-4.25% (+0.50%). Moreover, in a recent speech, new Fed Chairman Warsh doubled down on price stability. But he also acknowledged that inflation (and expectations) has come down in the last 4 weeks. The minutes from the Fed's Open Market Committee meeting echoed the fear of inflation. Most did not think there has been that much progress on cooling inflation other than with Energy prices. Moreover, most thought a rate hike might be necessary if inflation persisted. And yet, most Fed members also see a scenario in which inflation falls to the 2% target by itself (without a rate hike)! In other words, "price stability" and "hike might be necessary" grab the headlines. But the reality is that the Fed is squarely in "wait and see" mode. Not to mention, Warsh has made it clear that he wants to reform the Fed process. It has been seven weeks, and we have not seen hide nor hair of any progress (have they even started?).

The positioning in the market seems to be changing every day. We recently joked (not really) about how the Korean market has been leading the US market in their daily moves. This week, we heard a stat that local Korean traders account for a majority of the trading in the levered semiconductor ETF in the US! The "Seohak Ants," as thy are known, are truly manic in their trading. But this massive use of leverage explains a lot of the volatility. According to Goldman, hedge funds have been trimming their Tech and AI winners with this increase in Vol. Retail traders, of course, are buying any dips. We hate to be aligned with the panicky hedge funds, but we think trimming some of the big winners (and rebalancing into the "broadening" market) has been a prudent move.

AI bullet points:

Trump has floated the idea of taking stakes in the companies.

SpaceX and Amazon debt traded poorly after issuance.

The SK Hynix (the other Koran memory chip maker) listing in the US was 7x oversubscribed and traded well today (+13%, this is roughly in line with its expected premium to its local shares).

As for the potential new supply of memory chips, the Korean government wants to expand its chip-making capacity. Apple is looking at using a Chinese memory chip maker for its iPhones sold in China (in addition to lobbying the US government to use these CXMT chips in products sold in the US). Micron also announced it was going to increase its planned domestic capex from $200b to $250b. Some of this will go towards the direct buildout of its own chip-making facilities. Some of it will come in the form of financing other companies seeking to expand in the US. Samsung, one of the Korean giants that will be increasing its supply, also reported amazing earnings…with a market reaction that saw aggressive profit taking.

A follow up to Micron earnings: The question about cyclicality has been softened with the strategic customer agreements…locking in customers with long term contracts at incredible margins. The negative is they are giving up some future upside (hardly a negative with record margins). The pressing question: Is this all priced into the stock? (We think partially hence we have trimmed.)

Open AI continues to retreat from its IPO timeline. Somehow, they cite SpaceX as the reason to not forge ahead. SpaceX was a wildly successful IPO according to almost everyone else (unless you bought in the immediate aftermath…but that is your fault not their fault).

New employment data shows that companies that are spending the most on AI over the last two years are expanding their labor forces the most.

Other bullet points:

Anecdotal data points to a strong ad market in June thanks to the World Cup and lower gasoline prices.

Gasoline prices have been supported by refinery disruptions (including Ukraine bombing of Russia facilities). Some blame the rocket-feather effect (gas prices go up like a rocket but only come down like a feather) on high crack spreads. But this tautology does not explain why crack spreads are higher!

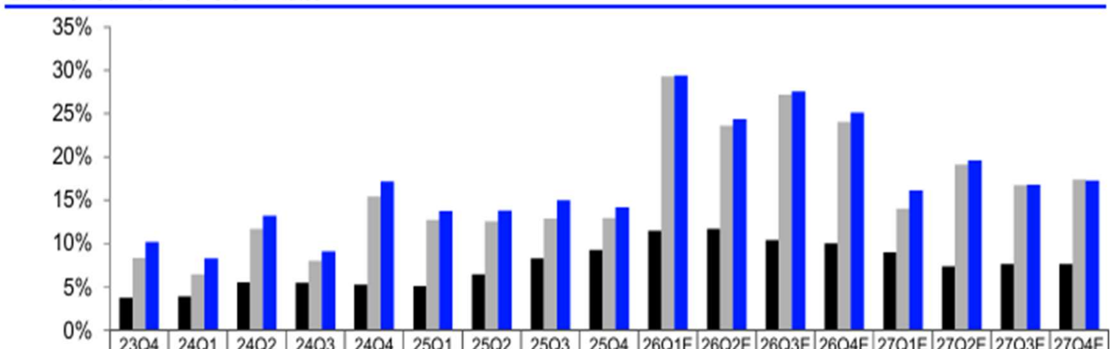
All 32 banks passed the Fed's stress test.

The Yen is making new lows (USDJPY new highs). The Bank of Japan has been notably absent in action and voice. We joked about someone predicting another Yen-carry trade unwind hitting the market this summer. Despite the silliness in predicting such a thing…we think it might happen!

- ➢ Earnings kick off next week, the bar is high

Some of the bearish types are worried about the high bar for Earnings growth in Q2. This is a legitimate concern. And the rate-of-change crowd (of which we are members usually) will point to the likely slowdown from the gangbusters growth in Q1. But when growth is so strong in absolute terms, small misses or relative slowdowns do not mean as much (especially if stocks have cooled off heading into Earnings as they mostly have recently). That said, valuation is still a concern if the outlook is not as rosy. (Technically Pepsi and Delta reported earnings this week. Pepsi disappointed as expected. Delta had good numbers, but the stock reaction was mildly poor.)

Exhibit 5. S&P 500 YoY Growth Rates



	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1	25Q2	25Q3	25Q4	26Q1E	26Q2E	26Q3E	26Q4E	27Q1E	27Q2E	27Q3E	27Q4E
■ Revenue	3.7%	3.9%	5.5%	5.5%	5.2%	5.0%	6.4%	8.3%	9.2%	11.4%	11.7%	10.4%	10.0%	9.0%	7.3%	7.6%	7.6%
■ Net Income	8.3%	6.4%	11.6%	8.0%	15.4%	12.7%	12.5%	12.9%	12.9%	29.2%	23.6%	27.1%	24.0%	14.0%	19.0%	16.7%	17.4%
■ Earnings	10.1%	8.2%	13.2%	9.1%	17.1%	13.7%	13.8%	14.9%	14.1%	29.4%	24.3%	27.6%	25.1%	16.1%	19.6%	16.8%	17.3%

Source: LSEG I/B/E/S

- ➢ Employment takes a surprising hit

The NonFarm Payrolls (NFP) report showed a gain of only 57k jobs in June. This was down from the +129k jobs added in May. And this (May) was revised down from +172k originally. April was also revised down by 31k. This halts three months of better-than-expected gains (albeit with a slowing rate of change from March to May). The +57k total was slightly better than the average over the previous 12 months (+36k) which was considered just above the breakeven level for growth. The hiring was split across industries. On the plus side, Business Services gained +36k. But Social Assistance (+25k) and Health Care (+22k) also gained. Leisure & Hospitality was a big loser with -61k jobs vanishing. This is a telling sign that perhaps the Consumer is slowing as most of these jobs were summer/seasonal ones (despite all the recent data saying otherwise, including an uptick in Meta ad revenue in June). Private Payrolls only added 49k jobs (ADP had guessed +98k which was considered weak). Manufacturing had a small gain of 3k. Government jobs reverted back to their slowing trend (only +8k after the jump in local jobs last month).

Underneath the surface, the numbers are even worse. The Household survey reports that Total Employment fell by 507k even though the Unemployment Rate fell from 4.3% to 4.2%. The number of Total Unemployed fell by 213k. But the math-kicker here is that the labor force fell by 720k (61.8% to 61.5%, the lowest since the Virus Fear and miles below the pre-Virus trend of around 63%). On the plus side, the number of part-time workers (for economic reasons) declined.

Initial Jobless Claims are still hovering around 215k. Continuing Claims are around 1.815mm (up from their recent lows, but still very low).

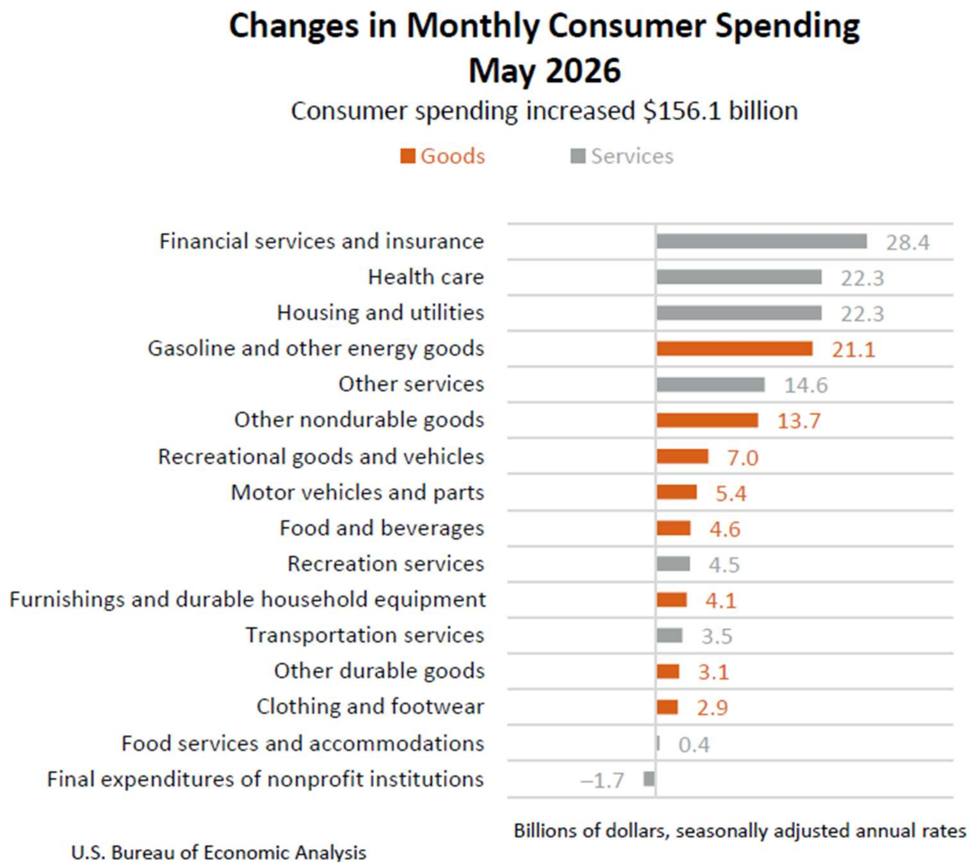
Job Openings (per the JOLT survey) in May remained flat around 7.59mm. Quits ticked up marginally from 2.98mm to 3.065mm. It will be interesting to watch this data (assuming the Virus era fluff is all washed out).

- Inflation is stable but expected to slow

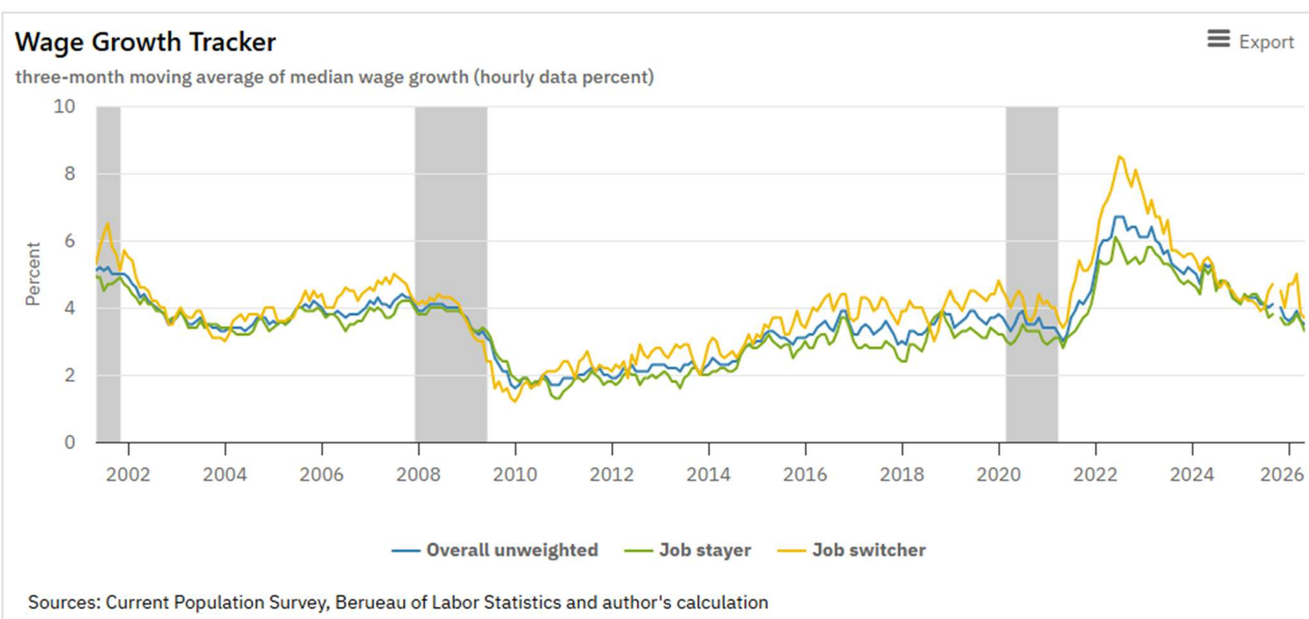
PCE inflation (change in Personal Consumption Expenditure index) increased +0.4% in May which was the same as April but slower than expected (+0.5%). The annual rate increased to +4.1% as expected (up from 3.8% as May 2025 rolled out of the calculation). The "Core" PCE increased at +0.3%. This is the same as April and as expected. The annual rate ticked up to +3.4% from +3.3%.

U-Michigan Inflation Expectations cooled again. The 1-year went from +4.8% to +4.6%. The 5-year went from +3.9% to +3.3%. Despite what the Fed says, inflation is slowing (notwithstanding any new spikes in Energy prices).

Personal Income jumped to +0.7% from 0% in April. Personal Spending also jumped +0.7% from 0%.



We have referenced the Atlanta Fed's Wage Tracker recently. Wages have been coming down since the crazy free-money giveaway in 2021-2022. Until recently, they appeared to have stabilized. But now they have ticked lower again. It is too soon for us to jump on the deflation bandwagon. But if Job Switcher wages keep falling fast, that might be a concern…but only if there is not a counterbalancing increase in productivity.



- Other economic data is mostly better

Durable Goods dropped sharply in May -4.5%. But this was expected after the burst higher in April +8.5%. the steadier (and more important) Core Capital Goods Orders (aka business spending stripping out Defense and Airplanes) increased +1.6%. April was -0.7%. Only +0.6% was expected.

The final reading for GDP in Q1 was +2.1% which was much better than the previous estimate of +1.6%. A drop in imports and an increase in exports provided much of the bounce. But Private and Business Investment were both stronger, too. Consumer Spending, however, came in much weaker than previously thought (only +0.5% v +1.4% expected). In a separate report, Real Personal Spending increased +0.3% in May, This compares to 0% in April. (This data is confusing as it contradicts most of the other strong Retail Sales data. We are more inclined to believe privately sourced data than government data.)

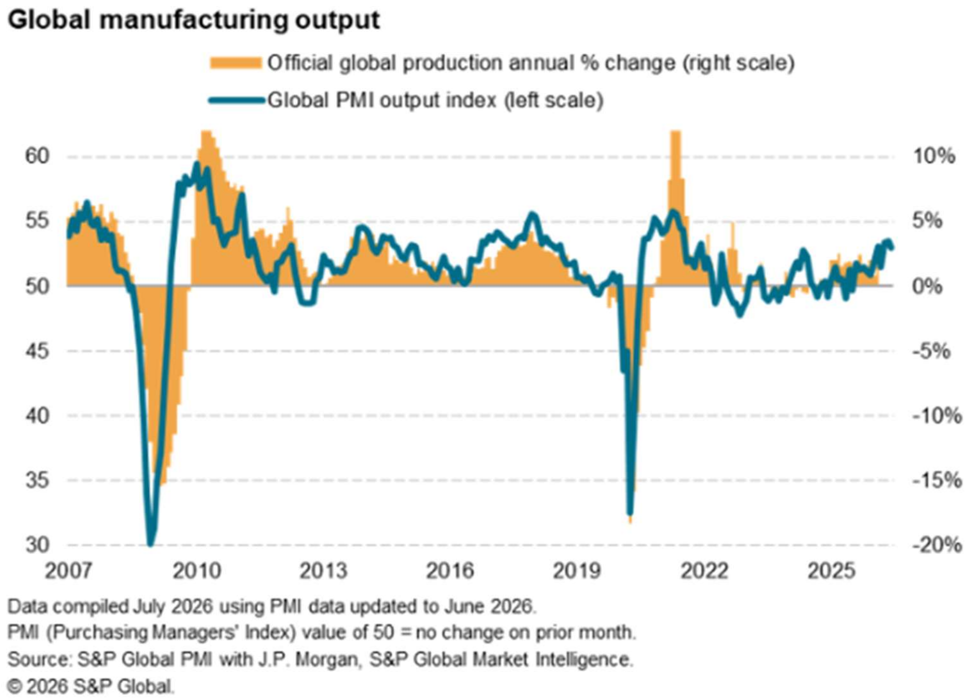
The ISM Manufacturing PMI moved lower from 54 to 53.3 in June. This is still a good level especially with strong New Orders, Better Employment, and easing Prices. The S&P Manufacturing PMI was weaker, dropping from 55.1 to 53.9. Again, this is a decent number. Together, these reinforce the idea that Manufacturing has been strong and accelerating over the last 3-4 months (despite these downticks). The ISM Services PMI dropped slightly from 54.5 to 54. Employment was the bright spot here while New Orders sagged. Prices also cooled. The S&P Services improved slightly from 50.7 to 51.2. Services remain weakish (at least not accelerating higher).

The regional surveys echo this Manufacturing strength. The Kansas City Fed Manufacturing index in June increased from 9 to 19. The Dallas Fed Manufacturing index for June remained flat, but this is still better than the extreme softness seen from 2023-2025. Dallas Services inflected back into positive territory (-7.7 to +2.9). The Chicago PMI in June (run by ISM, not a Fed survey) moved down to 56.7 from 62.7. But this was better than expected and still a strong number (trend is still higher).

Factory Orders fell -1.3% in May (down from the +5.3% jump in April).

Construction Spending in May increased +0.1% (down from +0.3%)

Here is a look at the JPM Global PMI. Despite a modest downtick in July, it has been steadily ramping for over a year. Global Manufacturing Production (the yellow line) should follow suit (while we have lost some faith in these surveys over the years, this is mostly based on short-term noise. Medium-to-long-term correlations mostly remain intact.



U-Michigan Consumer Sentiment jumped almost five points. This biased report is driven by inflation, so even the academics cannot ignore the disinflation! (They will undoubtedly reverse with more bombs flying in the Middle East.)

The Baker Hughes Rig Count increased by 10 last week. This is the biggest gain in four years. In other words, now that the price of oil has retraced all of its war premium, companies are starting to drill for more oil (or did they know more attacks were coming!?).

Weekly Redbook Retail Sales accelerated to +10.5% and +11.5%. This is the highest level in years.

Total Vehicle Sales in June accelerated to an annualized run-rate (seasonally adjusted) to 16.5mm from 16.1mm.

The House Price Index for April ticked down -0.1%. The Case Shiller Home Price index for April increased +1%. This data is old, but it supports the notion that houses are not getting any cheaper. High turnover is typically associated with increased spending around the home. But it might also mean people will opt for a new home, We still do not have a position in Housing as we need to see turnover increase (along with prices remaining resilient…we are probably asking for too much).

The average 30-year mortgage rate is 6.58%. It has been flat for almost two months.

Mortgage Applications remain tepid.

- Where did all the crypto/prediction/AI/scammer money go?

Name change! BlockchAIn Digital Infrastructure has changed its name to AIB Data Centers. It is a microcap with no earnings and de minimis revenues (about $20mm). These guys do not get it. They need to be in a different business with no connection to AI but then add "AI" to the name.

Somebody thinks it is a good idea to package SpaceX shares and then sell this package to the public. Triller Group calls itself an AI company that offers a video sharing app and some text messaging. It likes to say it offers "AI-powered customer engagement, cross platform marketing, digital streaming" and on and on. Whatever it does, it lost $174mm on $25mm in revenues last year. Somehow it has been able to borrow $400mm to buy $600mm worth of SpaceX. It is getting the SPCX shares at a discount which is the value proposition here. But it probably cannot sell its shares any time soon since it bought pre-IPO shares (its lockup period is not known, but it is likely similar to most other locked-up stock). The Triller company traded up to a market capitalization of about $90mm which is up from about $15mm pre the deal. So, the gimmick worked, But now it is trading at $46mm. So, this one will be continued. Ultimately, we suspect we will find out the terms of the $400mm loan…and what exactly it had to give up to secure this funding.

It was about a year ago that Michael Saylor of (Micro)Strategy (Name Change and Business Change!) told his minions to sell a kidney before they sold their Bitcoin. With the Ponzi running thin earlier in June, he backtracked on this absolute and declared that (Micro)Strategy might sell some Bitcoin, "just to inoculate the market, just to send the message that we did it." He followed this with a small sale of about $2.5mm of Bitcoin. Last week, the company upped the ante by saying it might sale $1.25b of Bitcoin…and that might just be the beginning. Old Michael Saylor knows how to buy'em high and sell'em low.*

Speaking of (Micro)Strategy, Polymarket found itself in a pickle again. There was an "event" on the platform questioning whether (Micro)Strategy would sell any Bitcoin by May 31, 2026. On June 1, (Micro)Strategy disclosed that it had, indeed, sold Bitcoin during the previous week ending May 31. Polymarrket ruled "No" for the event outcome because it was not known that (Micro)Strategy had sold any Bitcoin by May 31. Or more likely, the owners of the UMA coin had all bet "No" on the event, and the bet-resolvers always resolve with their wallets. (Recall that Polymarket is crypto-based. If an event is disputed, thholders of the UMA token get to vote. Only a handful of entities control the UMA token. It is good to be the king).

The details of another Ponzi scheme in the real world have shed some light on how these financial frauds are perpetrated. And the account comes directly from the fraudster who took meticulous notes on his scheme! One big takeaway is to not fall for the misdirection when it comes to the risks of an investment. While guaranteeing returns of 10-15%, he did warn about the risks: "It's the same risk that we have of, you know, being ripped apart by a saber-tooth tiger or, you know, stepped on by a dinosaur."

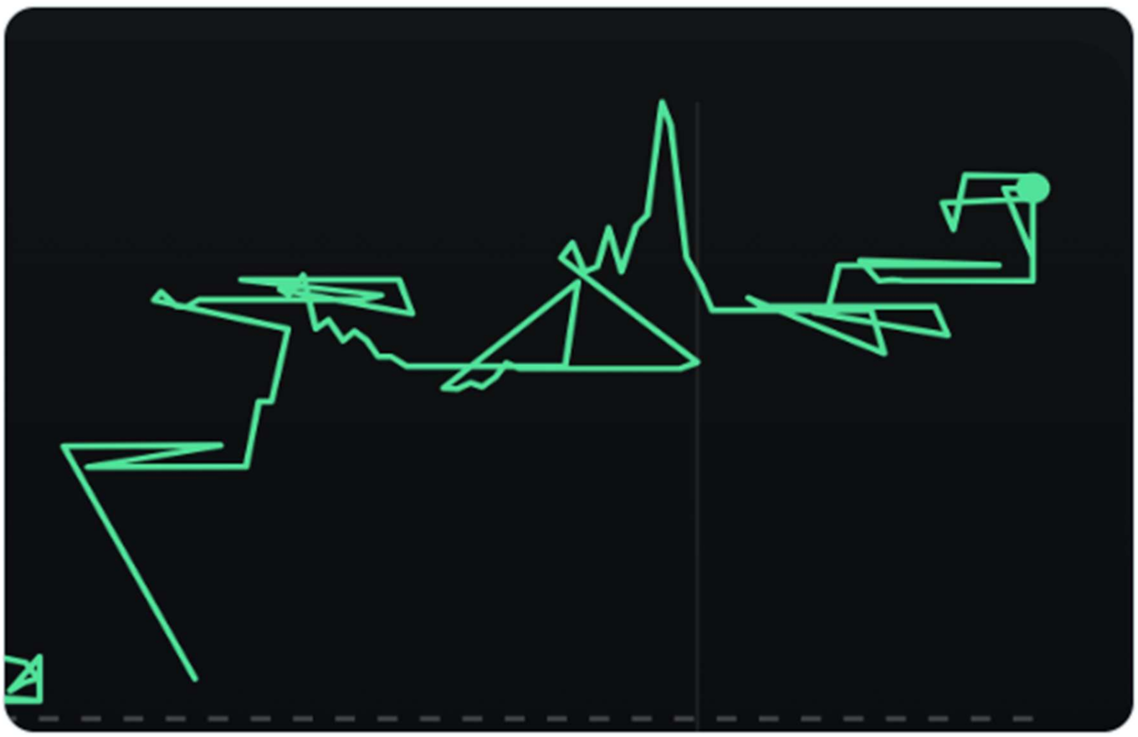
We have talked about the disastrous acquisition of Frank by JP Morgan. The creator of Frank duped JP Morgan into buying her firm that comprised fake customer accounts. She was sentenced to seven years in jail. While her appeal winds its way through the courts, she has been living off JP Morgan. We detailed how she was charging hotel rooms, coffees, toiletries and even things like gummy bears to her JP Morgan legal defense account. Part of her contract when her firm was bought guaranteed her that JP Morgan would foot her legal bills. And a court just ruled that this still holds even after being found guilty of defrauding JP Morgan! She has racked up $74mm in legal fees so far. We suspect this amount will climb precipitously now that she has the green light from the courts.

Sometimes, the regulators get something right. Binance, the world's largest crypto platform which has previously pled guilty in the US for money laundering and sanctions violations, is now banned in the EU. On top of being suspected of tax fraud and drug trafficking, the latest allegations include helping Iran evade sanctions. Of course, Binance has been furiously lobbying the US to expand its presence here.

A firm called S2 started a real estate fund in 2022 and raised $400mm. The fund is closing with zero capital returned to investors. The fund says interest costs on its 20 properties went up 50% and its rents dropped 24%. Stupidity can be just as damaging as fraud.

- Chart Crime of the week

This is a real chart by some guy on X trying to sell AI-fueled trading strategies. Seriously, this is a real chart tracking his progress against the S&P. We probably won't be subscribing.



- Quick Hits
    - There was a recent Tech IPO called Bending Spoons. It owns AOL.
    - In Alaska, the two men running for Senate have the same name. Where's Eddie Murpy when you need him: "The name you know!"
    - Potato prices are down about 90% over the last month.
    - Only 25% of homes in France have air conditioning.
    - The CEO of Axon (the taser maker) made $164mm in 2024. He made $40k last year.
    - The NBA is going to test a new rule in the summer leagues. A fouled player will only get one free throw. If he gets fouled on a two-point shot, the one free throw will be worth two points. If he gets fouled on a three-point shot, his one free throw will be worth three points.

- Bald eagles were taken off the endangered species list in 2007.
- Apparently, the most used word in online dating profiles in the state of Texas is “oil.” It is “lounge” in New Jersey.
- The only song to never leave Apple Music’s Top100 since 2017 is Come Closer by Wizkid.
- Eric Stoltz was originally cast as Marty McFly in Back to the Future. They shot for five weeks before firing him and replacing him with Michael J Fox.
- There is a movement in California to incorporate “Girl Math” into the K-12 curricula.

TSLAQ: In Musk lawsuit land, a federal judge signed off on his settlement with the SEC over his Twitter purchase. Musk was clearly in violation of multiple laws with respect to disclosing his stake in Twitter (and the type of stake it was, active or passive). Rough estimates peg Musk’s savings at $150mm with his “accidental” failure to file the proper forms. The judge said she had “serious misgivings” about approving the settlement. Ultimately, she said the proposed consent judgement did meet the minimum standards “of fairness and reasonableness.” Musk must pay $1.5mm. The judge added, “Whether the Executive Branch has done enough to hold Musk to account for his alleged violation is, like many other issues, for out citizenry to decide at the ballot box.” (Sometimes we like Musk; sometimes we think he is a shyster. But we also do not think this judge should insert her politics into the equation.)

*That is not how the late, great Fran Santangelo used to do it. There was a long-running song amongst NY traders that went something like this, “Old Fran San-tan-gelo, he sells ‘em high and buys ‘em low…”

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