Weekly Update

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- The Fed to the rescue, again, for now
- Market Value is now pulling away from profits
- Small Caps do not earn a lot of profits
- The Family Guy might have to get off the couch soon
- Housing is still just ok
- PMIs and Fed surveys point to a slowdown
- Personal Income surging, Consumption slowing
- The Fed is still all about Powell
- Biden tries the NIMBY approach on oil and gets denied
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
SPX	4537	1.5%	21.6%	30.6%
QQQ	380.4	2.1%	21.5%	27.5%
US 10 YR	1.29%	1.36%	0.92%	0.64%
USD/DXY	92.2	93.0	89.9	92.7
VIX	16.4%	18.0%	22.8%	33.6%
Oil	69.71	3.4%	44.3%	68.6%

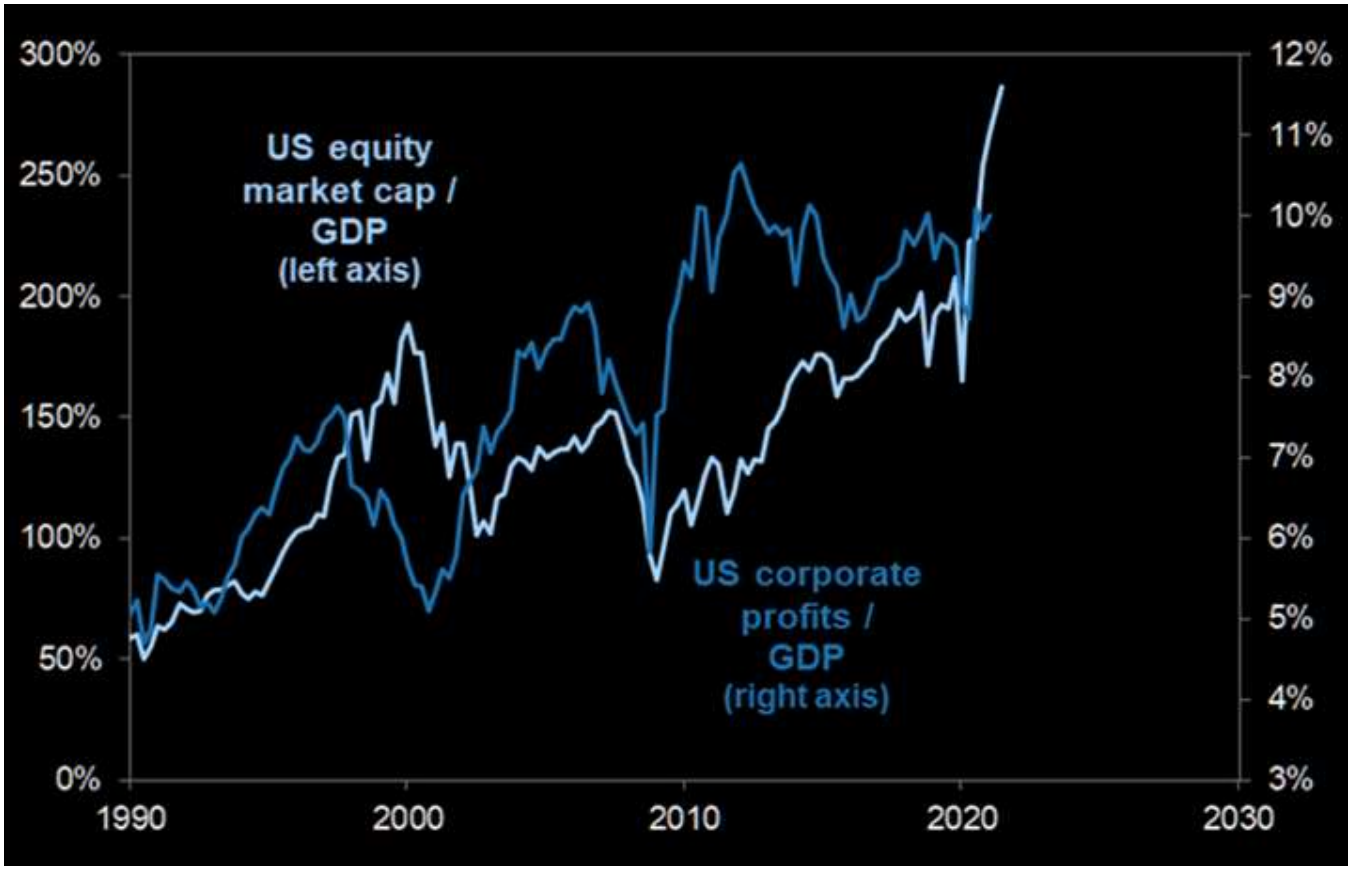
*10yr, DXY, and VIX are levels not changes
** Oil is front month futures, beware

The last two weeks have seen the narratives swirl around more than normal. The main point of gyration has been the Fed and its plans to taper its bond buying. In mid-August, the expected tapering talk ended up being not-so expected. The market thought the Fed was wrong and that it should not be considering a "tightening" of monetary policy ("tightening" is relative, of course). A flattening yield curve, slumping oil, lower GDP projections, peak earnings, and a strong USD coupled with more virus-fear sent stocks lower. But the more the Fed talked, the more the market came to terms with the impending tapering. That is, the market found some solace in the Fed's likely slow and deliberate pace in slowing its bond purchases. Moreover, Fed chairman Powell seems to have calmed any fears that a rate hike would come on the heels of the bond tapering. Investors remember the "taper tantrum" of 2013, but they also remember the rate hikes of late 2018 leading to the carnage on Christmas Eve. To sum it up, the market reacts negatively to potential bad news for a day or two, and then it goes about its merry business (marching higher). Of course, there are still rotations underneath the

surface of the market. Growth (and thus the Nasdaq) have outperformed Value by almost 3% during the last two weeks (this still flies int eh face of the inflation narrative). The S&P 500 (a "blended" index) sits right in the middle.

- Market Value is now pulling away from profits

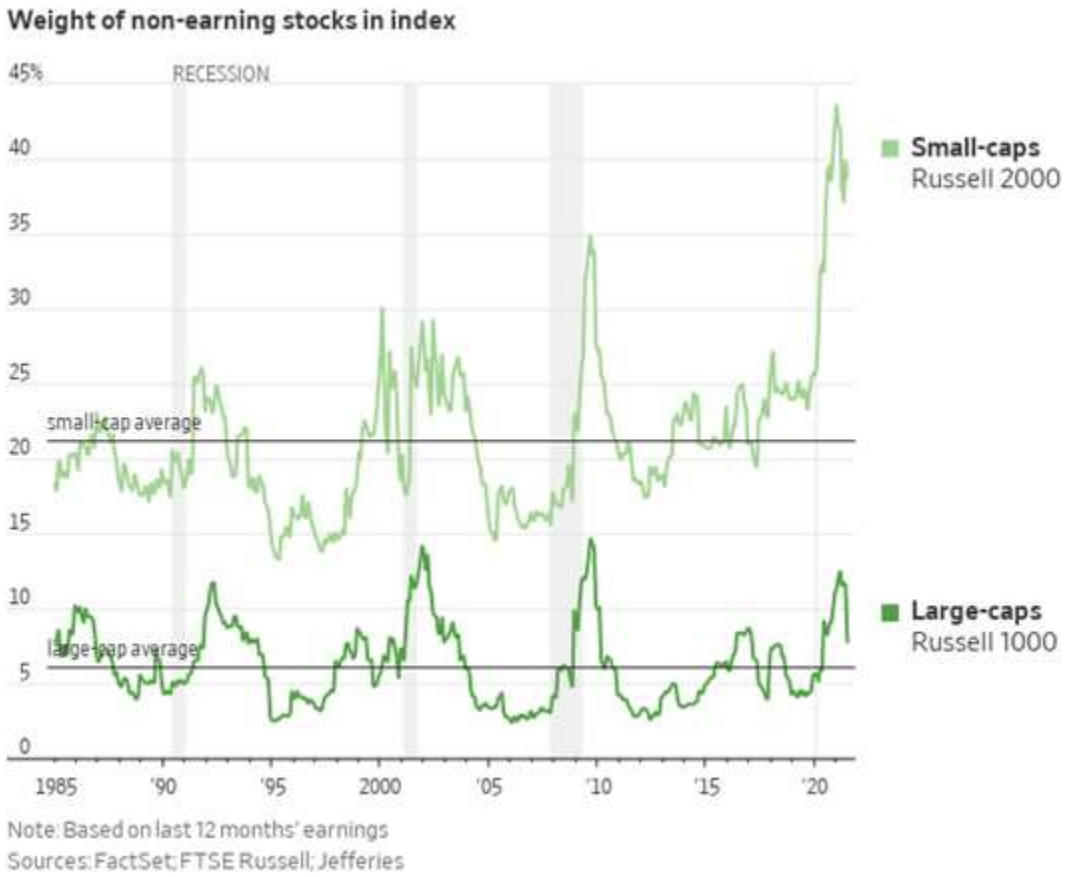
Pundits often point to what is called the Buffett Indicator (as in Warren of Berkshire). It is a pretty basic: the US equity market cap divided by US GDP. This has plenty of flaws including its oversimplification. Below is a chart that juxtaposes US corporate profits as a percent of US GDP. In theory, the market cap should track the corporate profits. The previous dislocation to the upside (market cap was too high) was obvious in hindsight: 2000 was the dot.com bubble. The dislocation to the downside (market was too low) was in the aftermath of the World Financial Crisis when investors were still scarred and scared despite companies operating very well. It seems that we have finally overcome this undervaluation and are rapidly approaching the dot.com style overvaluation. This is not rocket-science, and these dislocations can last a long time. But considering we are thought to be at or near the peak of earnings growth, caution is warranted. And while the Fed will remain accommodative, their foot is easing off the pedal. (This has some chart crime elements to it, but the patterns are clear.)



- Small Caps do not earn a lot of profits

We found this comparison startling. The weight of non-earning companies in the Small Cap index (Russell 2000) is around 40%. It is about 8% for Large Caps (the Russell 1000 which we acknowledge is not perfect since

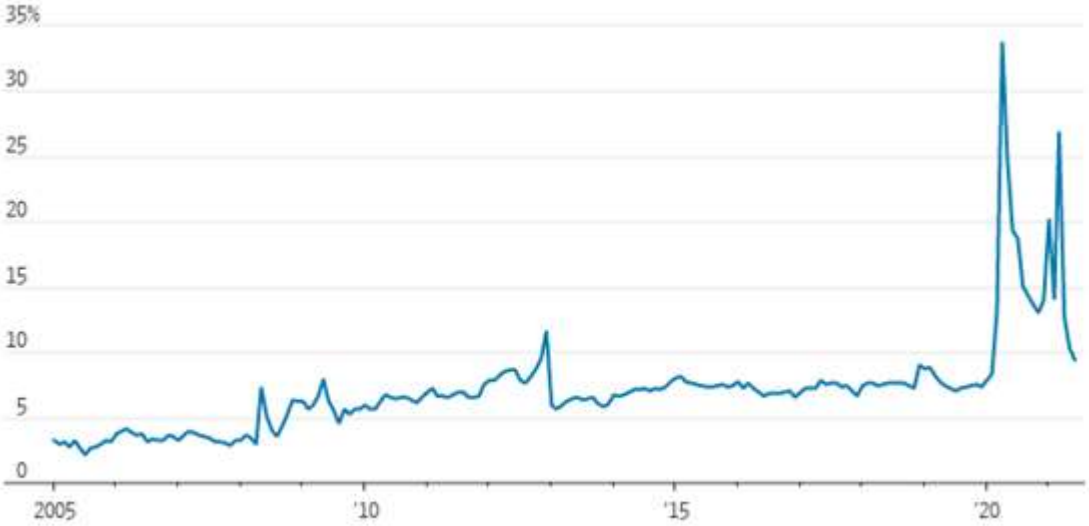
the size of the companies after the first 500 drops off quickly). This is one reason we are long Small Caps that make money and are short the Small Cap index.



- The Family Guy might have to get off the couch soon

Personal Savings have been a noted point of future economic strength (money to spend). But as you can see below, piggie banks are being drained. With the federal eviction moratorium being overturned (Biden calling the moratorium illegal probably did not help his cause) and the end to all federal pandemic unemployment assistance expiring this Sunday, people might just have to start working again.

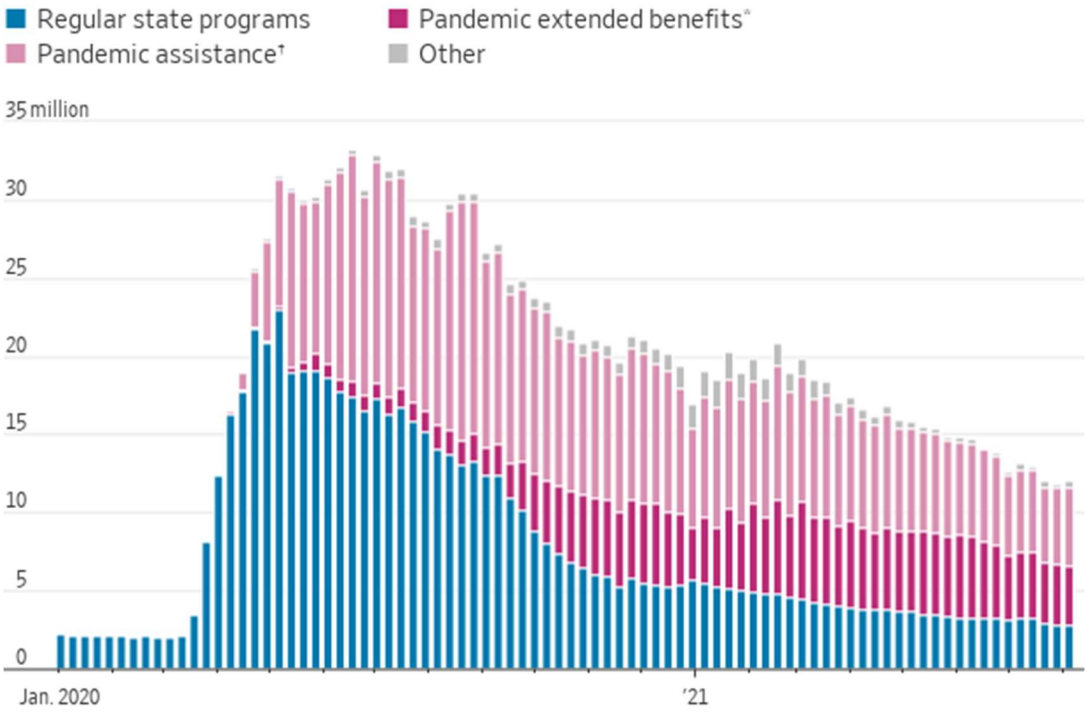
Personal saving as a share of disposable personal income



Note: Seasonally adjusted annual rate
Source: Commerce Department via the St. Louis Fed

And the data is slowly starting to prove it. Jobless Claims continue to trend better with three straight weeks around the 350k level. Continuing Claims are slowing shrinking. The pink numbers will be gone next week (with a reporting lag).

Number of continuing unemployment benefit claims, by program



Note: * Reflects Pandemic Emergency Unemployment Compensation for those who exhausted other programs. † Reflects Pandemic Unemployment Assistance for self-employed and others not typically eligible.
Source: Labor Department

- Housing is still just ok

Existing Home Sales managed to grow in July by 2% vs June. This is the second month in a row of growth after about seven months of declines from the Oct 2020 peak. But we have also now passed the low point last year meaning the year-on-year comparisons are much more apples to apples. For example, June Sales grew 23% vs June of 2020. But this July only grew 1.5% vs July 2020.

New Home Sales also eked out a small gain. But the annualized run rate is still below the pre-virus-fear levels.

Pending Home Sales fell in July. This is two negative months in a row. The Index level is just about where it was before the virus-fear.

Of course, for all the sluggishness in the Housing market, prices are still on fire. The 20 city Case Shiller Home Price index hit an all-time high in June with a 19% gain vs last year.

Fox Butterfield, is that you? (The NYT reporter was infamous for asking why the prison population was so high if crime was going down.)

- PMIs and Fed surveys point to a slowdown

The four Fed Manufacturing Indices recently released all point to optimism shrinking. Philly, Richmond, Dallas, and KC all saw levels fall and miss expectations.

The PMI Composite for August disappointed. Both Manufacturing and Services slipped vs July and missed expectations for flat/sustained growth outlooks.

- Personal Income surging, Consumption slowing

In July, Personal Income jumped with a 1.1% gain compared to June's 0.2% gain. Consumption was about the mirror opposite with a 0.3% gain compared to June's 1.1% gain. The PCE climbed 0.4% in July vs 0.4% in June. The "Core" inflation increased 0.3% vs 0.5%. These amount to still very large annual increases (4.2% and 3.6%). But again, the rate of change is starting to slow a bit.

- Durable Goods

Durable goods Orders for July fell into negative territory (fell vs June). More importantly, Business Spending (Core Capital Goods) remained flat vs an expectation for a small increase. But this leaves us right at the running quandary: the rate of change of Business Spending is slowing/flattening, but the outright level of spending is still at an all-time high.

- The Fed is still all about Powell

We have commented frequently about the growing dissent among the Fed members. Powell leads the dovish crowd wanting easy monetary policy and beating the term "transitory" (as in inflation) to death. But the hawks have been growing louder in their attempts to persuade an earlier and possibly more aggressive tapering of bond purchases. Jim Bullard of St. Louis recently went so far as to say, "we want to get going on the taper" and to be done with by 1Q2022. The consensus is for it to end around June of next year.

Esther George of the Kansas City Fed proclaimed that the economy has made "further substantial progress" which is the official tag line. Carol Burnett of the Cleveland Fed (aka Loretta Mester) echoed this sentiment but seems a little less pressed on the speed of the taper. On inflation, she warned about some of the transitory

price spikes taking hold (as we always say, inflation expectations control actual inflation). Robert Kaplan of Dallas said he is "observing excesses and imbalances in the financial markets." On top of this, he thinks rates should be hiked next year. But he tempered his commentary shortly after – he is ok with an 8-10 month tapering duration.

But none of this matters! Powell convinced the market that the taper will be slow and that there are no interest rate hikes anywhere in sight. We bother following and noting all these conflicting opinions because *they will matter* at some point. Specifically, and sadly, Powell is actively campaigning for his job. His term as Fed chief (chair of the Board of Governors of the Federal Reserve System) is up in February. But Janet Yellen, the Secretary of Treasury and former Fed chief, has made it clear that the administration will make a decision on Powell's fate in the coming weeks. And while renominations are typically a walk in the park, he is getting pressure from the likely culprits. Elizabeth Warren thinks he has not done enough on deregulation (that is her job, not his). And some of the crackpots in the House think he has not done enough to "mitigate the risk climate change poses to our financial system" (not sure whose job this is).

- Biden tries the NIMBY approach on oil and gets denied

Recently, Biden asked the Saudis to *increase* their oil production to give some relief to American consumers. It turns out, the Saudis are contemplating *decreasing* their production to help the slumping oil prices (in their eyes…it is all relative). We are still chuckling at Mean Joe Green Biden asking others to *pump more oil*. As it turns out, OPEC+ will be sticking to its original plan and increasing production by 400k barrels per day in October.

- Chart Crime of the week

This chart is bad. But the accompanying commentary is legendary. The creator of this abstraction expects Silver to make an all-time high in the short term followed by an eight-year low into 2024 followed by a "big move higher late in the decade." Free money! (In case the regulators read this: please note the sarcasm.)

- Quick Hits

- Food stamp benefits are calculated through the Thrifty Food Plan which is managed by the USDA. In order to make the recently announced increase in benefits work mathematically, the USDA had to increase its assumption for daily calories by 200.
- The USDA only increased the caloric assumptions for children and males not adult females.
- A federal judge blocked a Conoco project on the North Slope (Alaska) because of potential harm to polar bears. The polar bear population in Alaska has been growing for 40 years thanks to Conoco because it helped lobby against polar bear sport-hunting (which has been illegal since 1973).
- ESPN is looking to license its name/brand to a casino for $3b.
- Corporate buybacks year-to-date are back at their 2018 peak.
- New York state has created its own eviction moratorium after the federal one was deemed illegal.
- New York and California accounted for half of all the pandemic unemployment assistance programs. They make up about 18% of the population.
- European banks are borrowing from the European Central Bank at -1% (getting paid) and depositing the money immediately back at the ECB and getting negative interest of -0.5% (depositors pay the bank).
- Lotus, the supercar maker owned by a Chinese company, has a $2mm EV with 2,000 horsepower.
- Macy's said its in-store business in areas of the country with lower vaccination rates is performing better than high vaccination areas.
- The Japanese investment bank Nomura is banning workers from smoking at home during office hours. Nomura still has smoking rooms in its offices.
- There are still 100,000 working payphones in America.
- New York City is working on removing the last of its payphones except for four on West End Ave in Manhattan. A single constituent successfully lobbied to keep them.
- Scientists have "confirmed" that female octopuses throw stuff at male octopuses to fend off their sexual advances.

Trading: We continue to slowly retrench. We still believe in Big Tech. In fact, we still think it will rule the day in good times and bad (regulatory headwinds notwithstanding). But we continue to clip some of the riskier long positions in our Trading strategy. Many of these companies have had very good fundamental performance. But the stocks are just not reacting. Our retailers are prime examples of this. On top of decreasing our Trading positions, we have also shifted some of the small-cap exposure to more established, Old Tech companies. These include some of the chip-makers. We are still long our speculative LNG exporter. This one is volatile as heck. And we are likely to lose some money on our long Call options. But we still like the stock and will probably rotate our Call option exposure (take some losses and reposition to longer-dated options).

TSLAQ: Musk flatly admitted that his "Full Self Driving" or "Autopilot" is "not great." Remember, people have been paying for this vaporware for years. And now he wants to have a monthly fee that costs roughly the same amount as the payment on a Hyundai EV…for the whole car. Elsewhere, Musk felt it necessary to rip on the prospective valuation of another EV start-up, Rivian. Seriously, Musk is talking about valuation?

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