Weekly Update

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- The Big Beautiful Bill defies the political critics and powers the market higher
- The market ignores the death rotation
- More progress on tariffs
- The Fed might not cut in July, but they will be cutting
- Immigration policy might be helping the consumer?
- Speculation is running hot
- Inflation might be slowly returning (very slowly)
- Business Spending is strong and increasing
- Other: Soft data is better, hard data is marginally worse
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	6,279	2.3%	8.6%	14.4%
QQQ	$556.22	1.8%	9.0%	14.8%
US 10 YR	4.24%	4.35%	4.58%	4.29%
USD/DXY	97.2	97.2	108.5	105.1
VIX	16.4%	16.6%	17.4%	12.5%
Oil	$67.15	2.9%	-6.6%	-20.1%

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

The market rages on thanks to tax cuts, government spending, and deregulation. As the politicians and Twitterverse debate the merits of the Big Beautiful Bill, the market does what Colonel Jessop wishes: It says thanks and goes on its way. While there was a brief moment when it looked like the momentum trade was unwinding, this hiccup has proved temporary. Some had pointed to renewed Tesla weakness thanks to Musk's feud with Trump. The macro guys noted that the USD stopped falling. We think it was less cerebral than this. It was just a minor hangover from the gangbusters rally after the Liberation Day lows. We do not necessarily believe that window-dressing happens on a large scale (the notion that underperforming funds buy the winners of the quarter during the last few days of the quarter to show their investors they own the good positions), but we do think people take some profits and lock in gains after some marking points on the calendar.

Progress on tariff negotiations is also a tailwind. The so-called revenge tax was nixed. The Europeans realized that charging US companies a global minimum tax was not as harsh as the US doing the same to them. China is actually doing what it agreed to do…notably the flow of rare earths is back. Canada tried to enact a digital tax on US companies. But this lasted about a day until Trump threatened higher tariffs across the board. A deal with Vietnam was completed. Believe it or not, the US's third largest trade deficit is with Vietnam. India is apparently close to a deal…they have already agreed to scrap many artificial barriers. It seems that Japan might be the scapegoat or at least the last nation willing to challenge Trump's resolve.

We also might get that magic market elixir of good economic data coupled with rate cuts. The labor market is proving more resilient than most feared (but Microsoft laying off 3-4% of its workforce is noteworthy). Inflation might be ticking up slightly, but there has hardly been any impact from tariffs. Business Spending is strong and improving. And even the less reliable survey data has been improving. Even with more Fed voices starting to call for a July rate cut, we think this is unlikely (and the futures market agrees). But more members are indicating that if we do not see the tariff-inflation by the fall, then we should probably start to normalize monetary policy (cut rates). And it is worth noting that all the major banks passed the government stress tests. This comes on the heels of the Fed cutting one of their collateral requirements.

- Immigration policy might be helping the consumer?

Goldman has a very interesting observation about immigration. The politically driven narrative is that a crackdown on immigration will bring on stagflation as businesses struggle to find labor at the right price. But Goldman turns this upside down by saying that, "A smaller US labor supply could boost worker leverage and keep the US consumer buoyant." Furthermore, GS notes that immigrant labor force participation has actually increased by 2% this year despite the pace of immigration having plunged this year to 600k from the peak of 3.5mm-4mm in 2023. GS sums it up with, "immigrants already in the US may be benefiting from the reduction in immigration."

- Speculation is running hot

We have discussed the return of meme-type trading. From hot IPOs to SPACs to more M&A (mergers and acquisitions), the RobinHooders appetite for risk is back to voracious. But it goes much deeper than this. According to Bespoke, the 858 money-losing companies in the Russell 3000 have rallied 36% since the early April low. The easy analogy is the rally in Profitless Tech after the Virus Fear. But the major difference is that era was fueled by stimulus…fiscal and monetary alike. This rally has been fueled by an absence of bad news…a market counterfactual. While we agree with this, it does not tell the whole story. Tax cuts, increased spending, deregulation, easier bank capital requirements, and interest rate cuts will all kick in shortly. Nonetheless, the absent-minded rally on the periphery does give us pause.

- A strong Employment report…a little mixed under the surface

Job growth in June surprised to the upside with an increase of +147k NonFarm Payrolls (NFP). This was better than the 110k expected. And April and May were revised *up* by +16k (total). The market cheered this headline growth especially in light of the ADP's guess of a *decline* of -33k private jobs (with -66k coming out of Services). Private Payrolls grew by 73k which was a big relief…albeit quite a bit shy of the original estimate before the ADP (+110k was expected). This means Government jobs increased by +73k in June compared to the +7k in May. But the DOGE impact is still in effect…all of the government job growth was at the state and local levels. Federal jobs fell again (and federal workers receiving severance pay are still counted as employed). The largest Private gains were in Education & Health and Leisure & Hospitality. Manufacturing and Business Services were small losers (not a good mix). Also, Average Weekly Hours ticked down. This is typically a way for employers to avoid layoffs. One positive data point is that Full-time jobs are increasing (+437k) while Part-time are decreasing (-367k). For what it is worth, David Rosenberg (super smart, usually right, always early), thinks there are some calculation quirks that are masking what should be a decline of 400k jobs.

(We have long been torn on the veracity and usefulness of the ADP data. On the one hand, ADP just uses its own data and tries to extrapolate it onto the population. On the other hand, the government's official numbers are flimsily composed survey data which always seem to be wrong. But as we often say, the market follows the official data, so we grin and bear it.)

The Unemployment Rate fell a tick to 4.1% from 4.2%. It was expected to tick higher. Overall Employment rose by 93k. Unemployment fell by 22k. This is a bit misleading as the Labor Participation Rate declined to 62.3%. And the largest segment of the unemployed is the group that has been unemployed for the longest (more than 27 weeks). The number of people who are "marginally attached" to the workforce or are "discouraged" are both on the rise (1.8mm and 637k).

Initial Jobless Claims dropped marginally over the last two weeks to 233k. Continuing Claims have moved higher to 1.96mm from 1.9mm five weeks ago.

The JOLTs (Job Openings and Labor Turnover survey) improved in May. Job Openings jumped by 374k to 7.769mm. And Quits also improved. These have been stagnant, so a little more job mobility would be welcome.

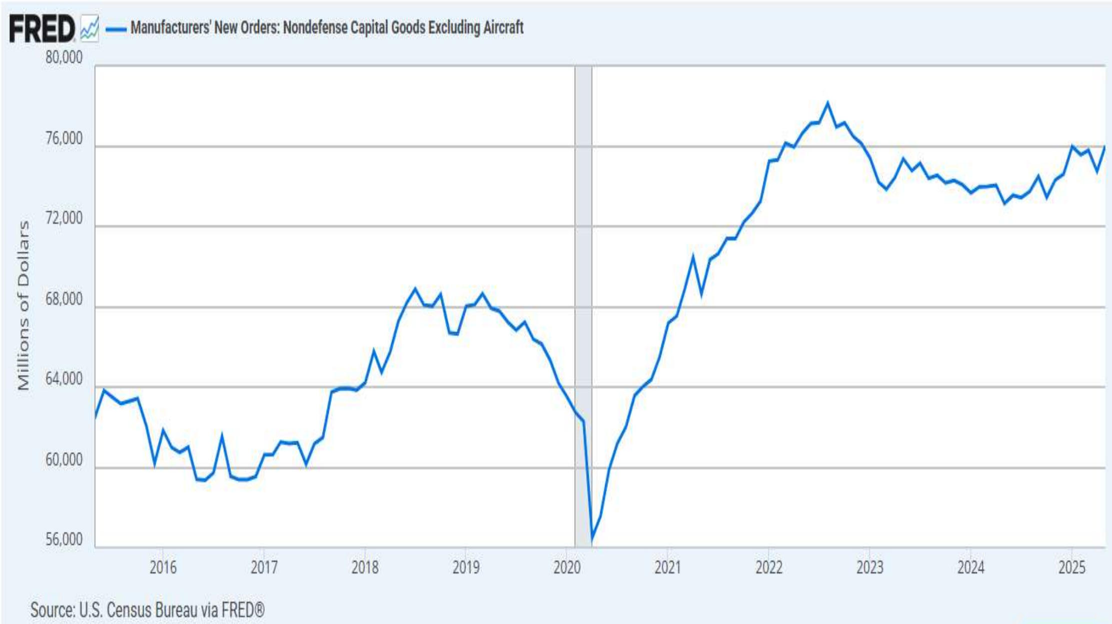
Overall, we think the labor market has cooled from the government-induced hiring spree. But it is still stable and growing at a slightly net-positive pace. The make-up of jobs will be the key looking ahead. (Will businesses be hiring? Will AI be killing jobs? What about reshoring after all the trade and tariff upheaval? When will Rosenberg be right?) Of course, in the short-term, the market is lazy and only watches the headline.

- Inflation might be slowly returning (very slowly)

Inflation in May, as measured by the PCE (the rate of change of the Personal Consumption Expenditure index), was slightly hotter than expected. The headline remained flat at +0.1% vs April. But the "Core" ticked up to +0.2% vs +0.1% last month. The annual changes are now headline +2.3% (up from +2.2%) and "Core" +2.7% (up from +2.6%). Both annualized figures from April were also revised up a tick. The stagflation crowd does not have much to stand on. The bigger news is that Personal Spending fell -0.1% vs April. This is down from +0.2%. And Personal Income collapsed into negative territory (-0.4%) for the first time since the Virus Fear. Moreover, the last three months had seen growth of about +0.65% per month. As is typical, much of this data is cloudy. One of the drags on Income was a 2.3% drop in "propietors's income with inventory valuation and capital consumption adjustments." Whatever this means, we will see if it persists next month.

- Business Spending is strong and increasing

Durable Goods Orders in May jumped a staggering 16.4% vs April. But once you strip out Transportation goods (which are usually one-offs) and Defense Orders (which leaves us with the Core Capital Goods aka business spending), the increase was only 1.7%. But this is still a good number! Overall, business spending has been flattish for three years. But it is still at an elevated level and improving.



- Other: Soft data is better, hard data is marginally worse

The final reading for Q1 GDP is a decrease in growth of -0.5%. A preliminary reding showed it at -0.2%. Recall this is largely a result of the quirky calculation around the timing of imports and sales. Large movements of gold also negatively impacted the data. Q2 is on pace for a 2.6% gain per the Atlanta Fed. Economists (professional guessers) are lower at about 2% growth. Back to Q1, Real Consumer Spending grew 0.5% vs Q4. This is not a gangbusters number. But it does show that the-0.5% decline in the headline GDP is understating activity.

The Goods Trade Deficit in May was worse than expected at -$96.6b. This is up (in negative terms) from -$87b in April. This was a result of lower exports of industrial supplies. Recall the deficit was running around -$150b in the first three months of the year. The average for the last three years is around -$90b per month.

Pending Home Sales in May increased about 2% vs April.

The S&P Manufacturing PMI hit its highest level in about three years (52.9). The ISM Manufacturing PMI also increased, but it is still negative (48.5 to 49). Services slipped a bit in the S&P survey (53.7 to 52.9). But Services increased in the ISM (49.9 to 50.8). Some were calling the Manufacturing data as weak because the New Orders component (ISM) slipped. But the New Orders and Business Activity components surged higher in Services (Employment, conversely, moved lower). These surveys always have a lot of moving parts. As we have stated, we are more focused on the hard data rather than this soft data.

The Kansas City Fed Manufacturing flipped from negative to positive (a solid 15-point swing).

The Chicago PMI in June was unchanged from April. It still sits at a depressed level.

The Dallas Fed Manufacturing Index rebounded a bit in June, but it is still negative and has been for 10 out of the last 12 months.

Construction Spending fell for the seventh month in a row through May. Some point to this as a leading indicator. We think it is a function of low Housing turnover (not a good thing, but not endemic of a weak economy).

The weekly Redbook Retail Sales improved to an increase of 4.9%.

Total Vehicle sales in June slipped to an annualized rate of 15.3mm from 15.7mm.

The average 30-year mortgage rate fell to 6.79% from 6.88%.

Mortgage Applications increased slightly.

China's official PMIs improved slightly in May. Manufacturing is still negative (49.7), but it is getting closer to the breakeven level. Services are marginally positive and improving slightly (50.7 vs 50.4). The private Caixin PMIs were mixed as Services fell but Manufacturing rose.

Weighing a bit on the Chinese market is some hawkish leanings from the central bank. The PBoC indicated it might slow down its stimulus programs / monetary policy.

- Where did all the crypto money go?

One of our recent favorites is still making news, SharpLink. The $2mm marketing company for sports betting that turned itself into a multibillion-dollar crypto treasury company (by absorbing $425mm in Eth and using SharpLink's public stock listing) wants to add leverage to its balance sheet. It will either sell convertible equity or straight bonds. Of course, adding debt when you do not have any operating income can create a sticky situation. But the orchestrator behind the new SharpLink, Joe Lubin…the guy who just so happened to create Ethereum and has a bunch of it laying around…wants to mimic Michael Saylor and his Microstrategy flywheel. And just like Saylor, Lubin knows how to spin a tale, "Bitcoin is decentralized digital gold. But Ethereum represents the next generation of the internet, the next evolution of protocols." Unlike Bitcoin, Eth is down about 25% this year.

In other news, a company called Linqto is in trouble. It specializes in selling stakes in private companies to everyday investors. While these boiler-room guys do not operate exclusively in the crypto world, one of the deals that got them in hot water involved Ripple (a crypto platform that provides liquidity, "protocols." and other gobblygook). Linqto sold a stake to retail investors at a 60% markup (SEC guidelines point to a maximum 10% markup). Some of the CEO's lines in emails to his salesmen are classics:

> "Take no prisoners!"
>
> "This is guerrilla warfare!"
>
> "Throw everything we have at this one targeted date…influencers, marketing, ads, social, calls and ***smoke signals!***" (emphasis is ours!)
>
> "Forget what legal says!"

- Chart Crime of the week (sorta)

We always get a kick out of separatist movements by states or areas in the US. Most are nonsense. But sometimes they get some financial backing, and referendum-talk swirls. Ultimately, nothing happens (West Virgina leaving Virginia was the last one…in 1863). We especially liked the "Six states of California" that was first promoted in 2016. Eastern Oregon leaving the whackos in Portland and joining up with Idaho is another entertaining one. The latest is Alberta wanting to leave Canada. We think this one actually has a chance of happening (or rather, the talk might linger longer than Ottawa desires). So, while this chart is certainly a crime, we most certainly hope the story behind it continues!

- Quick Hits
    - The Golf Channel claims that Detroit and Atlanta are the only large cities to host regular PGA Tour stops (within the city boundaries was the disclaimer).
    - Fort Worth is 50% larger than Detroit and almost 100% larger than Atlanta. (We wish FW were smaller, but the absurdity of the statement was annoying.)
    - The financial advisor who stole client funds to buy a mini-golf / putt-putt operation in New Jersey has been sentenced to more than eight years in prison.
    - Six Americans were arrested in South Korea for trying to send miniature bibles, rice, and USD into North Korea. The contraband was in 1600 bottles aboard ships.
    - An Abraham Lincoln-signed copy of the 13th Amendment sold for $13.7mm. It is one of four copies held by private collectors.
    - Since 2018, the average age of a casino visitor has dropped from 50 to 42.
    - One of the schemers involved in the rigging of the Texas Lottery (we discussed this previously, some smart but shady investors bought up all the possible combinations a few years ago) touted himself as a “crypto thought leader.”
    - Ozzy Osborne is coming out with a cosmetics line.
    - Pumpkin seeds have more protein than beef.
    - McDonald’s has a promotion in Canada called the International Menu Heist. It is colloquially called the Axis Menu. It consists of food from Japan, Germany, and Italy.
    - Jaguar’s European sales fell 97.5% in April. They sold 49 cars across the continent.

Trading: We tweaked some exposures after the momentum rotation calmed. We think we might see some more of these during the summer, so we want to balance out the portfolio a bit. These are small moves on the margin.

TSLAQ: Musk has fired the head of North American and European Sales at Tesla. With a 40% drop in sales in Europe in May stemming from Musk's polarizing persona, Musk decided to promote himself to this position.

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