



Weekly Update

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- September seasonality?
- More likely temporary macro rotation
- Google beats the government
- Despite impending Fed cuts, monetary liquidity is thinning
- There is always another side to a story
- What are trucking volumes telling us?
- Inflation remains in check; Income and Spending are robust
- GDP has been better than everyone thought (everyone but the market which usually knows)
- Business Sentiment improves
- Some Business Spending is improving
- Employment is still softish
- Housing turnover is still stuck in the mud (can Trump fix this?)
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- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	6,448	-0.5%	10.3%	15.6%
QQQ	\$569.99	-0.6%	11.8%	20.4%
US 10 YR	4.22%	4.24%	4.58%	3.75%
USD/DXY	98.1	98.2	108.5	101.4
VIX	16.4%	14.9%	17.4%	21.3%
Oil	\$63.92	-0.4%	-10.8%	-9.1%

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

** Oil is front month futures, beware

Last week's Powell rally hit some bumps in the road this week. The easy narrative was that September seasonality was to blame...it is the market's worst month historically, so naturally it has to go down on the first day of the month. While this silly almanac stuff can be entertaining and we never dismiss it entirely, it is mostly silly. We think USD strength and higher long-term rates forced the macro guys to rotate. And with Quant funds fully leveraged to equities presently, a slight dislodging of the set-up exacerbated the selling (Volatility moving higher triggers more selling). Of course, the market came to realize that lower rates in the short end and longer

rates in the back end usually means the Fed is cutting rates into a growing economy! We think there will be more of these mini-hiccups in the coming months as inflation proves more persistent than the most optimistic hope. But as long as it remains moderate along with growth, this is a good backdrop for the market. We will get a good look at the economy on Friday with the August Employment Report. It is also worth noting that some global bond yields are also facing upward pressure (particularly UK Gilts and Japanese JGBs). And there has already been a ton of bond issuance in September (in the US). Add on that the Fed's Reverse Repo facility is almost at zero at the same time that the government will be refilling the Treasury General Account (TGA), and it is no wonder that there has been some slight pressure on the macro variables. But we think these dynamics are short-term in nature.

Away from the macro, Big Tech got some major regulatory relief. Google won its case against the government in a landslide fashion as the status quo was all but upheld (one analyst called it a "slap on the wrist with a feather"). And somehow, Apple, the victim in the government's case, also came out on top as it can still collect countless billions from Google and anyone else that wants to pay for internet traffic. Google is still facing another case involving its ad-tech. But this was the big one. Lost in the shuffle, Italy will be reducing a fine it imposed on Amazon. Trump's aim at unfair digital taxes might already be working.

There are still some headlines and narratives that are more worrisome. The Fed's Beige Book, which is a collection of business surveys from the 12 regional Fed banks to help prepare for the next monetary policy meeting, showed "little or no change" in economic activity since the last pre-meeting. The media summed it up as a stagflationary report with slowing growth combined with inflationary pressures (with think this is overplaying the negatives in the report). A chunk of Trump's tariffs has been deemed illegal...but they can remain in place until Oct 14...or until whenever the Supreme Court takes up the case. Of course, the administration will likely just shift the statutory bases for the tariffs. Not to mention, many of the affected countries might not rattle the cage as they are happy with the new agreements. The tariffs affected are about half of the total tariff increases. One country that continues to fall in the middle is India. It wants cheap oil and guns from Russia. But it also wants trade with the US. In the meantime, it is trying to implement tax reforms just in case. Conoco has announced that it might cut 25% of its global workforce because of low oil prices. And the media is still fascinated with the Fed independence story (and some banks feel the story is responsible for the recent downshift in momentum...we do not agree).

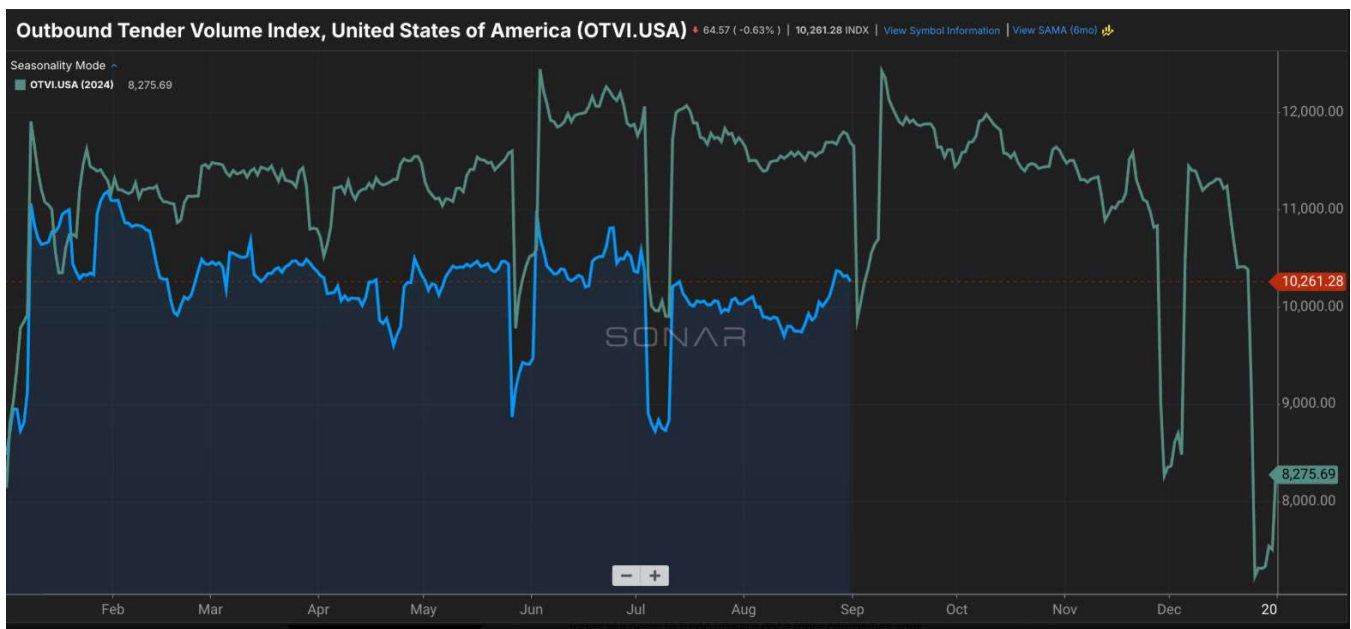
➤ There is always another side to a story

Here is a poorly labeled chart from themarketeer. It purports to show a correlation between a large increase in bets against Volatility (Net specs, an increase in negative positioning is the green line going down) and a subsequent drop in the market (red arrows showing the orange line declining). But a smart Volatility expert points out that this is only one side of the trade. Vol funds are, indeed, short the VIX, but they are also long forward volatility and variance. In other words, this is an arbitrage trade, and only one side of the trade shows up in current positioning statistics. (* side note below).



➤ What are trucking volumes telling us?

Trucking volumes have been 10-20% below 2024 levels (blue is this year so far, green is last year). And other than a modest uptick in August, the trend has been worsening. This data is interesting given the otherwise strong consumer spending data. Maybe it signifies a shift in spending habits. As we have said, if nothing else, tariffs will stop people from buying cheap Chinese junk they do not need (which need to be transported by truck after they are imported). And even though there have been a handful of comments from management teams talking about tariffs hitting sooner than expected, most retailers have said they have already started to mitigate the effects of tariffs. And more importantly, many retailers are saying that consumer strength remains resilient. Goldman sums up its Global Retailing conference with this line, “The constructive tone was broad-based...with consumers’s favorable response to newness and innovation ushering in what many see as a continuation of 2Q trends into 3QTD.” We want to keep watching this data to confirm any underlying consumer trends.



➤ Inflation remains in check, Income and Spending are robust

Inflation as measured by the change in the Personal Consumption Expenditure index (PCE) in July decelerated marginally vs June (+0.2% vs +0.3% last). The “Core” was steady at +0.3%. This leaves the annual headline at +2.6%. The annual “Core” ticked up +0.1% to +2.9%. “Core” Goods prices were flat on the month. “Core” Services prices were up +0.36%. The largest move in Services was Portfolio Management prices...a rallying stock market will do this! Reluctant investors coming off the sidelines and investing more in the market has the same effect! Overall, Goods prices being flat on the month does not jibe with the tariff narrative...especially not considering spending was up (see next paragraph).

Personal Income ticked back up to a +0.4% gain. Broadly speaking, earned income was strong while government transfer receipts were flat. Personal Spending also ticked up reaching +0.5%. Spending on Goods outpaced that on Services (+0.9% vs +0.1% in Real terms which varies slightly from the headline).

U-Michigan’s August survey on 5-year inflation expectations remained flattish at 3.5% (vs 3.4% in July). The same goes for the 1-year expectation at 4.8% (down from 4.9%). We still believe (with evidence from Goldman) that these surveys are politically biased. Even so, they remain well off their peaks but above their pre-Trump levels.

➤ GDP has been better than everyone thought (everyone but the market which usually knows)

The second estimate for 2Q GDP showed growth of 3.3% vs the “advanced” reading of 3.0%. The broad breakdown shows that growth was driven by Consumption and Capex. Housing, Government, and Inventories were revised lower. Other than the Housing component, which is not surprising, this is a good setup. Furthermore, Real Domestic Final Sales growth was revised higher from 1.1% to 1.6%. 2Q inflation was also revised down a bit from 2.6% to 2.5% (“Core” PCE). And Corporate Profits grew 2% (no official preliminary estimate, but we would venture to guess this is higher than most expected). Obviously, this stuff is backward looking. But if 2Q was supposed to be the slow growth quarter with a decent acceleration in the back part of the year, then things are probably on better footing in the first place. The perfect set up for the markets in the

short-term combines good economic data (but not great) with slowing inflation so the Fed can cut rates as planned.

➤ Business Sentiment improves

ISM Manufacturing improved marginally in August (48.7 vs 48 previous) although it fell just shy of the expectation (49). Employment improved marginally, but New Orders had a strong increase. And Prices fell nicely. The S&P Manufacturing PMI for August was close to the midmonth reading which was a nice jump (53 vs 49.8 previously, 53.3 was the midmonth number).

The Kansas City Fed Manufacturing index improved slightly to the breakeven level (-3 to 0).

➤ Some Business Spending is improving

Construction Spending in July fell -0.1% vs the -0.4% fall in June.

Factory Orders in July fell -1.3% which is a decent improvement from the -4.8% decline in June. Ex-Transportation, Orders increased +0.6% which is better than the previous +0.4% (and the expectation of around +0.3%).

➤ Employment is still softish

The July JOLTS report disappointed with only 7.181mm Job Openings. This is down from 7.357mm which was also revised down from 7.437mm. 7.4mm was the expectation. Quits were better at 3.208mm. This is about the same as the June number which was revised higher from 3.142mm.

Initial Jobless Claims dipped to 229k from 234k. Continuing Claims also fell slightly to 1.954mm from 1.961mm. This is still the not-firing-not-hiring dynamic in a nutshell.

The August Employment Report is Friday. We do not expect as many fireworks as last month's report when all the large negative revisions came out of nowhere. A steady gain of 75k jobs will likely overshadow a modest uptick in the Unemployment Rate (this fits the weakish Labor market narrative that supports rate cuts). Then again, we know better than to "expect" anything when it comes to government data.

➤ Housing turnover is still stuck in the mud (can Trump fix this?)

Pending Home Sales fell -0.4% in July vs June. The Midwest saw a large drop of -4% with the West increasing +3.7%. The ugly line item was that contract cancellations surged 15%. This is the highest rate since this started being tracked in 2017.

The average 30-year mortgage rate dipped further to 6.64%. The high from earlier this year was 7.09%

Weekly Mortgage Applications dipped.

On the political front, Trump is considering declaring a state of emergency in Housing. Basically, the government would aim to open up federal lands to more home building (with attempts to lower overall red tape associated with Housing...we think this might be difficult since much of the hassle is born at the local level). This might have the same effect as Trump pushing for more oil drilling. You may not want to be in the homebuilding business if there is suddenly a lot more supply. We wanted to buy a dip in Housing, but we missed the rally. We might get that dip...we just are not sure if we want to buy it now.

➤ Other economic data is ok

Weekly Redbook Retail Sales increased at 6.5% again (same as last week).

China's official PMIs (business surveys) showed a modest increase in optimism. The Composite increased to 50.3 from 50.1. The private sector PMI (fka Caixin, now Called RatingDog!?!?) for Services accelerated to 53 from 52.6.

U-Michigan's Consumer Sentiment was weaker at 58.2 in August vs 61.7 in July. This is garbage data.

➤ Where did all the crypto money go?

Oh boy, we have another doozy. This one involves an heiress to the Thomson family...the richest family in Canada with a net worth of about \$100b (more than the Oh Henry family). The 66-year-old middle child (who will never actually control the family business because it only passes to the eldest born male...???) is suing her ex-friend because she got her into some bad crypto investments. And that is putting it mildly. Apparently, her once-rich / now-an-uber-driver friend got a hot crypto tip from a newsletter authored by a celebrity psychic. The recommendation was to invest in the "Persistence" coin. Knowing not to blindly trust a newsletter recommendation, the Thomson woman decided to vet the investment idea...through her own psychic. And that was when she flushed the first \$40mm down the toilet. Not to let sleeping dogs lie, she quadrupled down on another \$160mm of crypto bets based on more recommendations from her friend. Her crypto acumen managed to only lose another \$40mm. It is alleged that the friend received kickbacks from the controllers of these fake money coins. That is, after all, usually how it works.

➤ Where did all the climate finance money go? The NBA!

We did not see this one coming. Back in the spring, we detailed the demise of Aspiration Partners. It described itself as offering, "green banking products and sustainability services." We wrote, "whatever this means." It just meant tree planting services for businesses. The IPO was never to be...and the chairman went to jail for defrauding UBS with fake loan documents (actually he got a friend to provide fake proof that he could payback half the loan himself if the collateralized shares dropped in value).

Now we have learned what this company did for real. It was a shell company to pay for a no-show job for Kawhi Leonard of the San Diego Clippers of the NBA! To the tune of \$28mm! Steve Ballmer, Microsoft co-founder and owner of the Clippers (always will be San Diego to us), invested in Aspiration with the apparent stipulation that the money go directly to Leonard so the team could circumvent salary cap rules. Obviously, the team denies this. But considering Aspiration has apparently run a whole host of similar no-show scams, we bet where there is smoke...

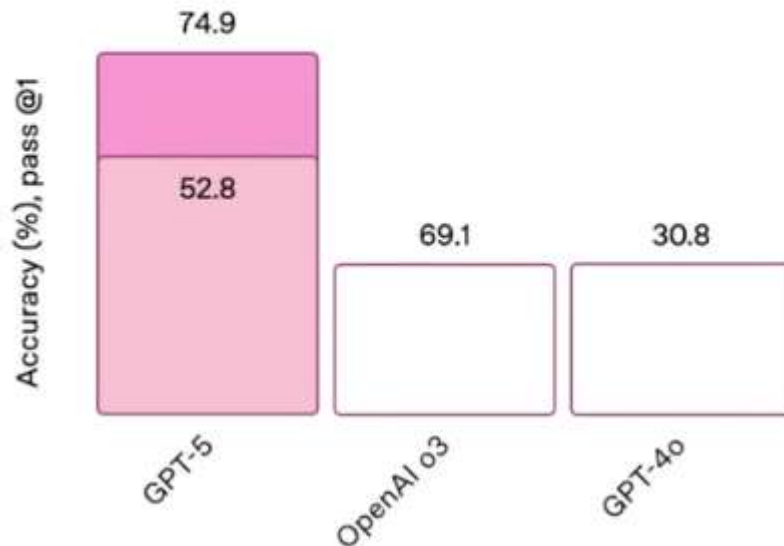
➤ Chart Crime of the week

This is standard chartcrime fare. But the entertaining part is that OpenAI created it to exhibit the power of making your own charts with OpenAI. Perhaps OpenAI should hire a human to vet the output from OpenAI.

SWE-bench Verified

Software engineering

○ Without thinking ● With thinking



➤ Quick Hits

- 3400 college football players changed teams via the transfer portal for this season.
- Box turtles are notable for their ability to completely enclose their bodies within their shells.
- Chalk Creek's father once made us late for preseason football practice when he stopped to rescue a box turtle in the middle of the road.
- A former Premier League soccer player is trying to be a pro golfer. He shot +34 over par through two rounds in a qualifying tournament. He did not qualify.
- Dollar General reported an improvement in margins partially because of "shrink improvements." Dollar General recently ripped out their self-check-out kiosks.
- Sam Altam, the self-anointed king of machine learning and thinking, recently blamed human error for inaccurate charts and numbers in a presentation. (We do not know if this is our chartcrime, or if there is a whole proliferation of bad charts from the geniuses at OpenAI.)
- Tough Mudder, a series of grueling races in bad terrain with physical challenges, has incorporated an electric shock obstacle involving dangling wires that deliver 10,000-volt electric shocks.
- A single bet of \$550k on Texas +1 moved the line against Ohio State to Texas -1.
- The five most-bet games in college football all lost against the spread.
- The Australian bank ANZ accidentally sent an email to the 100 staffers that were about to be fired. The bank apologized and offered to pay for "psychological counseling." The workers were still fired.
- The Limbo was created in Trinidad and Tobago as a funeral ritual.
- A chipotle pepper is just a jalapeno that has been smoked and dried.

Trading: We changed some more of our macro positioning. German growth is slowing just as inflation is ticking higher. Despite what should be a tailwind from increased budget spending, Germany might have hit its stall speed (we are still long European defense in Germany which is the main beneficiary of the new budget spending). So, we exited the position. Australia, on the other hand, is showing strong and resilient global growth. We added to the small position. We also added to some of our Big Tech.

TSLAQ: Tesla's European sales fell 40% in July. This was the seventh month in a row of declining sales in the region. The July slump comes at a time when overall EV sales increased. BYD, the biggest Chinese EV maker, saw its sales jump 225%. Small base-effect, perhaps? Not really. Its sales were 1.5x those of Tesla (13,503 vs 8,837). And there is a first look at August: Tesla's sales in Sweden dropped 80%!

For all of our ambivalence towards Musk, (we truly are torn from story to story), Tesla's sales stink. And as we have pointed out, with all of Musk's various entities intertwined, it is hard to figure out which entity comes out on top (who makes the \$ and who gets screwed).

*Never believe uncorroborated positioning data...especially not when it pertains to hedge funds. Way back when we were working for a giant hedge fund, we started noticing our large short positions would show up as long positions in the government filings. The simple answer was that to be able to hold onto large stock borrows (necessary to short a stock), firms had to structure their borrows in a manner which technically transferred ownership to a related entity. In the SEC filings, the hedge funds show up as the owners!

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