Weekly Update

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- Warch's hawkish tone on interest rates takes center stage
- Employment data is still soft
- Earnings remain robust
- Factor rotation in a picture
- Revenues are still accelerating higher
- Inflation metrics will likely start to merge (to the downside)
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

Despite it being another week of earnings following the blockbuster report from Nvidia last week, the central narrative involved interest rates and Fed policy. Federal Reserve Chiarman Kevin Warsh stayed true to his recent tone during a speech at Jackson Hole. The main takeaway is that he does not believe the recent softness in inflation has changed the underlying trend higher. And that the Fed will act to reach its 2% inflation target. But for all the overreactions in the media, the market took it in stride. The "dollar debasement" trade took a breather (USD was stronger, gold and materials were down) as yields edged higher (10-year Treasury is about 0.12% higher, and the 2-year is about 0.15% higher). But on the heels of the speech, more weakish economic data has emerged particularly in Employment. While interest rates did not move much, equities found some relief. The equity market has been known to do this at times…it assumes interest rates will do something that the bond market does not. But in this case, we think it is likely more of a function of strong Earnings keeping the ball rolling (the latest blowout report came from Dell which gives the whole AI/sever/cloud ecosystem a boost). It is worth adding that Software as a whole has not continued its boost from the Salesforce pop last week. But certain names have…seeing the space become more bifurcated into winners and losers makes sense to us (some companies will surely do better at incorporating AI).

Random bullet points:

The interesting twist to Meta's settlement with the state AGs (sewing for teen addiction policies etc.) is that it has a contingency…YouTube and TikTok have to deploy similar customer/teen protections or Meta's settlement goes down.

Utilities are under pressure from Trump's executive order restricting their use of foreign-made equipment (not to mention the continued backlash against datacenters…we suspect this will vanish come November 4th…after the midterms).

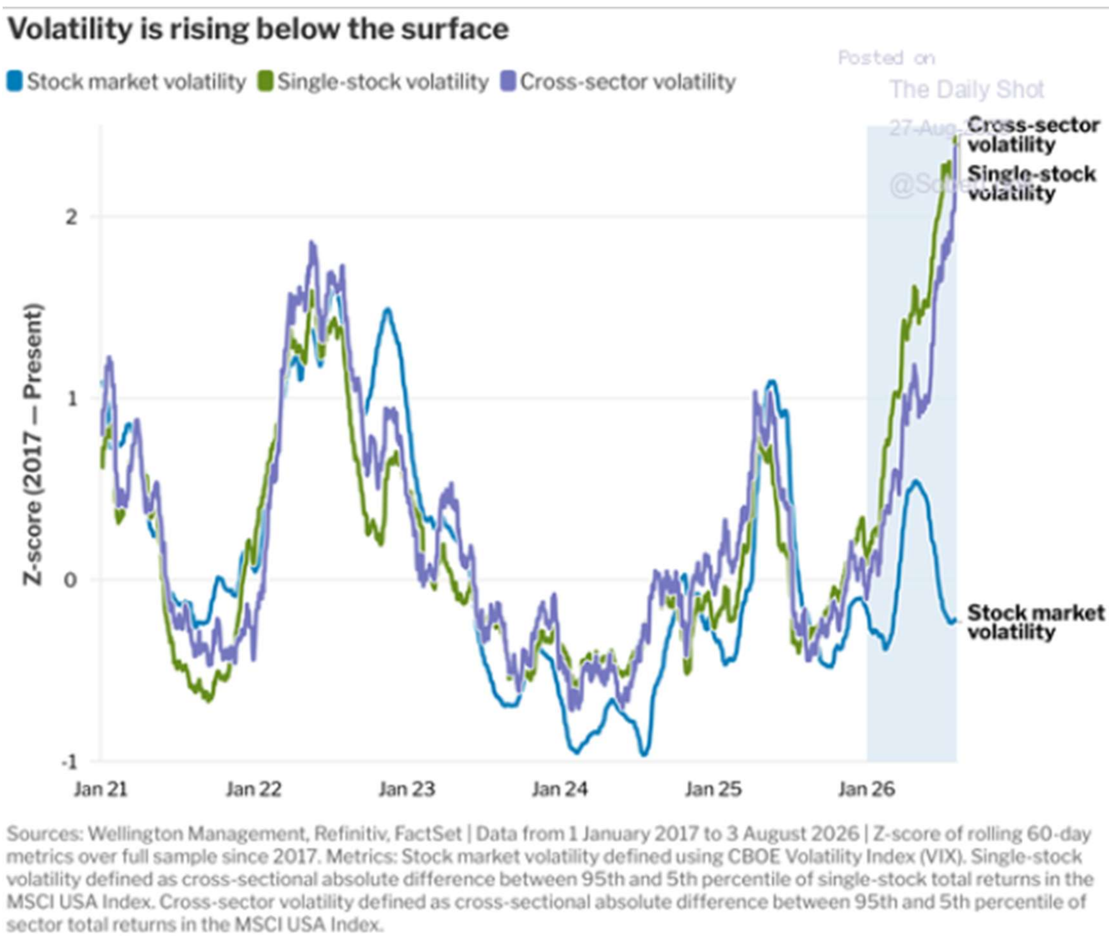
Other observations from Warsh at Jackson Hole: Inflation is more important than employment. Private Domestic final purchases are a key growth metric to watch. Rate of change of earnings is important. Economy is in good shape with AI. The Fed Funds Target is still the main monetary policy tool. Current monetary policy is not restrictive (in other words, no normalization is needed). No updates from any of the task forces (namely which inflation metrics we should be watching).

A Continuing Resolution (CR) to fund the government (through Dec 11) passed in the Senate, but it failed in the House over hemp regulations (this one should be in Quick Hits it is so ridiculous).

Leverage in the Korean equity market has reduced dramatically. Partially by government mandate, but also just by appetite. Leveraged single-stock ETFs have fallen out of favor (AUM down by ~70%) while new equity-linked notes with downside protection are the new flavor. This likely explains why Micron and all the memory names have been so tame since a month ago.

- Factor rotation in a picture

For much of this year, we have noted the large factor rotations and/or the lack of Volatility at the index level with lots going on underneath the surface. Here is a good chart from Wellington that makes it quite simple.



- Revenues are still accelerating higher

Revenues keep getting better. Growth is at +15.6%. (Two weeks ago, it was +14.8%.) This will be the strongest quarterly revenues growth in over 50 years (if we exclude the silly Virus Fear era).

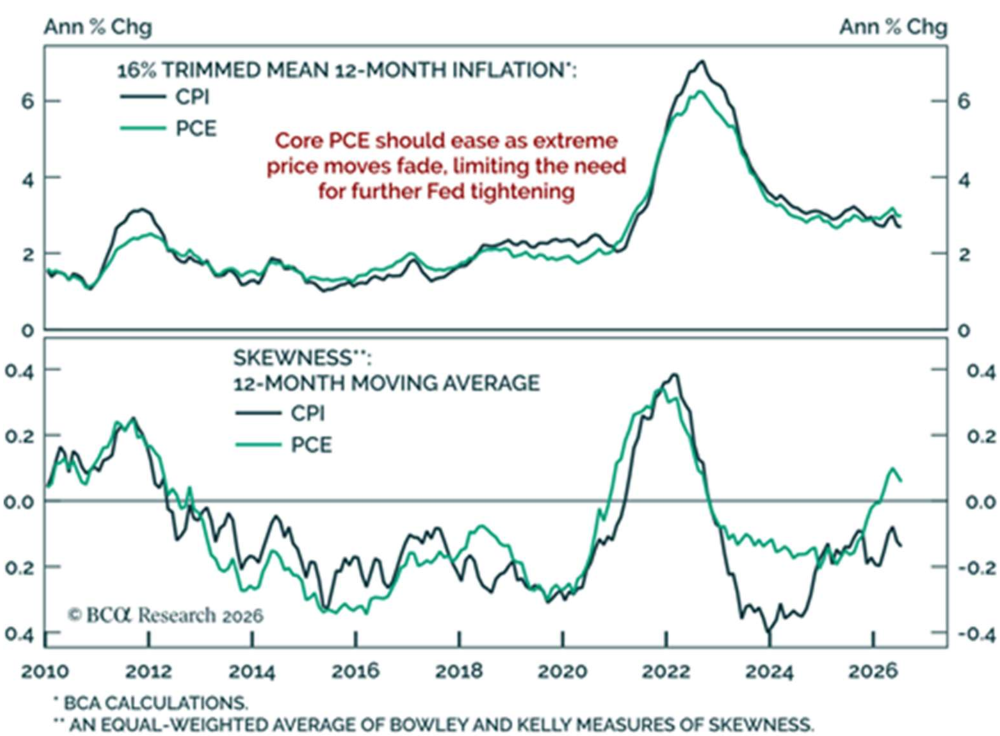
Exhibit 7. 2026Q2 Blended (Reported & Estimated) Revenue Growth

Sector	Today	1 Jul	1 Apr	1 Jan
Consumer Discretionary	9.0%	7.2%	6.7%	5.9%
Consumer Staples	8.4%	7.4%	6.5%	5.7%
Energy	42.2%	23.8%	3.5%	-1.3%
Financials	13.8%	6.9%	6.1%	5.5%
Health Care	7.4%	4.6%	4.7%	4.9%
Industrials	11.9%	8.2%	6.7%	5.5%
Materials	9.6%	7.9%	5.1%	3.4%
Real Estate	11.9%	9.7%	8.2%	7.0%
Technology	36.8%	33.8%	26.5%	19.2%
Communication Services	12.6%	11.9%	11.0%	8.8%
Utilities	5.3%	8.5%	8.4%	7.4%
S&P 500	**15.6%**	**11.7%**	**8.7%**	**6.9%**

Source: LSEG I/B/E/S

- Inflation metrics will likely start to merge (to the downside)

Here is an interesting chart showing why PCE inflation is running higher than CPI. The top chart shows that the two inflation rates are generally running at the same level when you strip out the outlier moves (“trimmed mean” which is where we expect Warsh to place his focus…but he has not confirmed this yet). BCA explains that this divergence is simply a function of the skew of the components. PCE skew is positive which pushes inflation higher. CPI is negative which suppresses the headline. And as Goldman has pointed out recently, some of these components contributing to the skew will have their calculation methodology changed. Moreover, history tells us that these moments of varying skew do not last long (but surely longer than plenty of mean reversion traders expect).



- Other economic data is mixed

ADP's guess for Private Payrolls in August is for only 38k new jobs. This compares to 46k last month and 47k expected this month. Friday's official Employment Report is expected to show a total gain of 60k vs -23k in July. Private Payrolls are expected to account for all the job gains.

Job Openings increased slightly in July (7.271mm from 7.182mm). Quits, however, decreased from 3.213mm to 3.056mm. We think we are back to not reading too much into this data. Discernible trends can be a value signal. But both of these have been pretty steady for a few years now.

Initial Jobless Claims ticked down to 203k. Continuing Claims edged down to 1.778mm. The lack of volatility in these numbers is unbelievable.

The Manufacturing PMIs in August diverged a bit. The S&P remained steady at 53.9. Despite being down a bit from April and May, it is still near the top of its 3-year range. But the ISM fell from 55.6 to 54.6. This is still a strong level on the surface. But Employment and New Orders both fell while Prices remained elevated.

The Kansas City Fed Manufacturing index remained steady at 17. The Chicago PMI sank sharply from 57 to 47. This is an ISM survey (not Fed). It combines Manu and Services. The Dallas Fed Manufacturing index increased from 1.3 to 11.6. Dallas Services slipped slightly from 6.6 to 4.2.

Construction Spending decreased -0.5% in July. This data is dominated by residential construction which we know has been lousy for a long time. But the lack of commercial construction is perplexing given all the strong manufacturing/expansion plans. Office Construction showed the most strength +2.9%.

Factory Orders grew +0.9% in July. This halts two months of declines.

U-Michigan Consumer Sentiment fell in August from 55.2 to 51.7. But the inflation outlook is still improving. The 1-year Inflation Expectation dipped from +4.2% to +4.0%. The 5-year expectation remained steady at +3.3%.

Weekly Redbook Retail Sales accelerated to +9.6% from +9.1%.

Total Vehicle Sales in August increased to an annualized run-rate of 16.8mm (this data is always seasonally adjusted). This is up from 16.3mm in July.

Weekly Mortgage Applications increased marginally +0.8%.

The average 30-year mortgage rate ticked up to 6.79%.

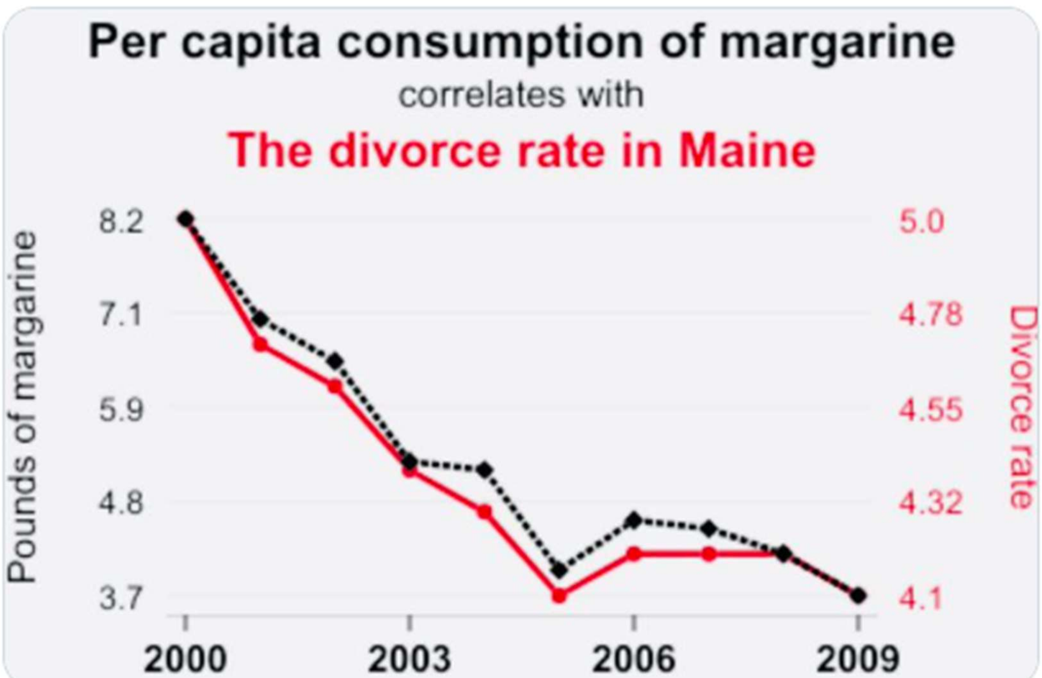
- Where did all the crypto/mac&cheese money go?

A good crypto-kidnapping always grabs our attention. But we missed one from 2025 (or at least we glossed over it and lopped it into our kidnapping bucket). Six kids (teens to early twenties) started a crypto grift after playing Minecraft together. Their ultimate heist involved tricking a crypto investor out of $243mm worth of Bitcoin. Yes, someone technologically sophisticated enough to amass and hold this kind of wealth online was duped into giving up his password credentials to an 18-year-old posing as an FBI agent. Of course, the 18-year-old and his partners had to flaunt their new-gotten wealth online…while using their real names. After driving his…what else…Lamborghini to school, the other five turned on him. They decided to kidnap his parents and ransom them for his share of the loot. Naturally, the parents were absconded off the streets of Danbury while driving *their*…what else…Lamborghini! Ultimately, the whole group got busted thanks in large part to their persistence in wearing $500k watches and throwing parties on yachts.

A former Chick Fil-A employee stole $80,000 in mac & cheese. After losing his job, he went back to the restaurant to eat lunch. He saw the cash registers were unattended. He went behind the counter and put in a fraudulent order for 800 orders of $100 trays of mac & cheese. He was then able to cancel the order and get the refund sent to his credit card. "As good and delicious as our mac & cheese is, it is unfortunately one of our most expensive items," said the culprit who hopes to work at Chick Fil-A again when he is out of prison in two years.

- Chart Crime of the week

This one was posted as a reply to a chart making the rounds in X. We will not repost it here since half of our readers are female (Michael Jordan: "Republicans buy shoes, too."). But the point is, correlation does not always mean causation.



- Quick Hits
    - According to Time magazine (there was one?), Paris Hilton is one of the most influential people in Artificial Intelligence.
    - Jensen Huang, the founder and CEO of Nvidia, did not make Time's top 100 list.
    - 17% of Americans think they have seen a UFO.
    - Pizza Hut was founded by two brothers in 1958. They borrowed $600 from their mother to open the first store.
    - 45% of Americans call generic athletic shoes "sneakers." 41% call them "tennis shoes." 6% call them "gym shoes." And 8% call them something else.
    - There is a high school quarterback in Hawaii named Fatboy Jesus-Kapesi. He is 6'1 and 268lbs.

- Last week, a high school football game in Riviera, Texas was played under a “rattlesnake advisory.”

TSLAQ: Tesla has quietly settled another wrongful death lawsuit related to its faulty non-self-driving “Full Self Driving” system. Electrek reports that Tesla is likely looking at $14b in settlements as the snowball keeps building. It is worth noting that Electrek was once a huge supporter of Musk but now is a virulent opponent. Needless to say, they have some political bias in their reporting. Then again, the NHTSA just confirmed yesterday that Tesla’s FSD was engaged in another fatal crash.