



Weekly Update

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- A good start to the new year
- AI or pro-cyclical growth? Both can work
- Geopolitics are turning into a tailwind
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	Last	5d %	YTD %	1yr %
S&P 500	6,966	1.6%	1.8%	19.1%
QQQ	\$626.70	2.2%	2.0%	22.2%
US 10 YR	4.17%	4.20%	4.17%	4.77%
USD/DXY	99.1	98.4	98.3	109.7
VIX	14.5%	14.5%	15.0%	19.5%
Oil	\$58.77	2.5%	2.9%	-20.0%

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

** Oil is front month futures, beware

It has been a good start to the new year after a choppy Christmas period. The Artificial Intelligence trade is volatile and becoming more bifurcated, but the root growth story remains intact. The headlines are still flowing (Softbank finds the money to invest in OpenAI, Nvidia is likely to get access to China again, Nvidia put on a show at the poorly named Consumer Electronics Show, Meta is contracting a giant amount of nuclear power for future buildout, etc.). But the rotational swings are not following the Google Vs OpenAI playbook like they were. The economic data remains robust. Employment appears to be stabilizing (an improving Employment report this morning but still not out of the woods), and inflation forces are still cooling. The Atlanta Fed's GDPNow has 4Q GDP tracking at a whopping +5.4% growth (and the second read on 3Q GDP growth was much stronger than expected at +4.3%). This nowcast is always skewed early in the data collection period, but considering the average professional guesser (economist) expects growth to be under +1%, 4Q data is shaping up nicely. The NY

Fed's nowcast is around 2.1% growth. The NY expectation tends to be slower moving and less reactive to individual data points. Atlanta is surely too hot. But NY might be too cool. We think Productivity remains at the center of this economic growth.

Much of the debate/rotation in the market seems to center around the path of economic growth. Will it just focus on the enhanced productivity stemming from Artificial Intelligence? And will bringing this forward shorten the timeline to monetization? This would also lengthen the runway for more AI infrastructure buildout. On the flip side, some argue for more traditional, pro-cyclical growth. Tax relief and deregulation are chief among the catalysts. Financial, Industrials, and Consumer Discretionary are the likely beneficiaries. We think both forms of growth can be true. But we do think some of the AI trade got ahead of itself, and those are the areas that we have pared back. We started leaning more heavily into the other sectors in December and will likely buy dips (assuming economic trajectory remains the same).

There are certainly some trading dynamics involved in the early gains to the year. The much-ballyhooed Santa Claus rally never materialized, so maybe it was pushed into the new year. The junk stocks have been squeezed hard. Sometimes people like to say this is a red herring. But this is usually only true when it happens in isolation (hedge funds are selling longs and covering shorts because of bad performance, etc). But right now, the buying impulse is deep and wide. One example of rampant risk taking is the IPO market in Hong Kong. Any new stock remotely involved in Artificial Intelligence is seeing its price at least double on its debut. Another catalyst for potential rotation was kicked down the road: The Supreme Court did not pass down its ruling on some of the Trump tariffs. No timetable is set.

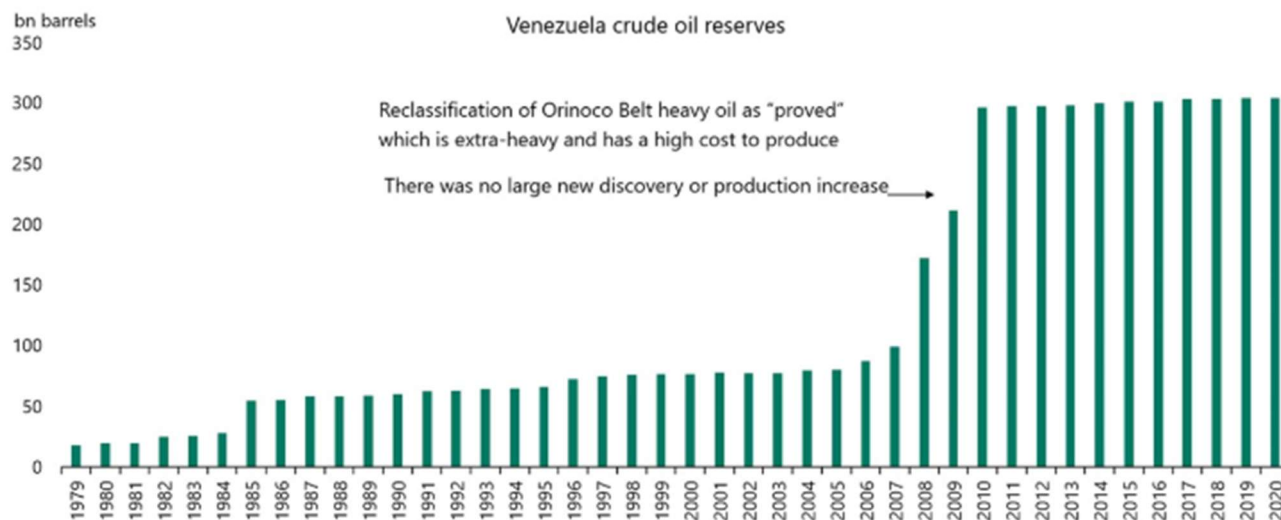
And we cannot forget the Fed. The recent FOMC Minutes point to more cuts ahead if prices continue their disinflationary path. Of course, they throw in the usual Fed-speak: Most participants see risks to inflation "remain elevated." At the same time, risks to employment point to more downside. We think the most recent headline data points will win the day and lead to more cuts (soft-ish labor market with cooling inflation).

➤ Geopolitics are turning into a tailwind

Geopolitics have been front and center, too. Right when Trump was losing some ground towards achieving peace in (the) Ukraine, he pivots to reasserting the Monroe Doctrine with the snatch-and-grab of the Venezuela dictator, Nicolas Maduro. This is clearly aimed at revitalizing the dying oil industry there. The country was a founding member of OPEC in 1960 along with Saudi Arabia, Iraq, Iran, and Kuwait. Before Hugo Chavez was elected president in 1999 (he was actually elected fairly...he only went full-dictator a few years in), its annual daily production used to be about 3.5mm bpd. It is now down to about 900k. We think the liberation of a once rich and prosperous country is another tailwind to a growing Latin America. We remain long e-commerce and financials across the region.

Of course, we must temper some of the optimism when it comes to the unleashing of the captive oil. For some reason, the media has believed Chavez's lie about its oil reserves for years. He simply ordered the state-run oil company, PDVSA, to change the number of barrels of "proved" oil reserves. Just as Michael Scott did not really declare bankruptcy by shouting it out loud, Venezuela did not magically have more oil just by saying so.

Jump in crude oil reserves due to reclassification



Elsewhere, the tensions in Iran remain elevated. We have never given much credence to these mild uprisings. But this series of protests is proving to have more legs. The worst thing for a dictator regime is to let the voice of the opposition fester. If the Ayatollah were to fall, the immediate impact would be downward pressure on oil prices. The longer-term view would be increased global economic growth with the freeing of another historically intelligent and prosperous population.

➤ Trump populism is picking up steam

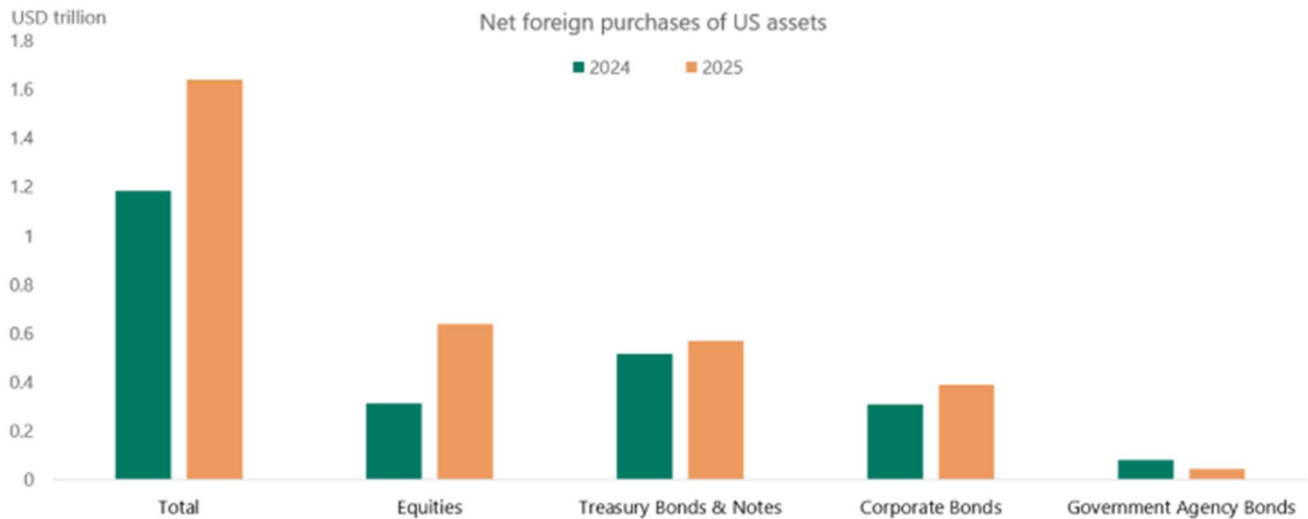
It looks like Trump is cranking up his populist ways for the midterms later this year. He is primarily targeting Housing, Energy, and the Defense industry. On Housing, he plans to roll out a slew of initiatives when he speaks in Davos in two weeks (this might be the first time we ever care about anything coming out of Davos). He has not-so-subtly hinted that he wants to restrict institutions from buying single-family homes. He wants the Government Sponsored Enterprises (Fannie Mae and Freddie Mac) to buy another \$200b in mortgage-backed securities (MBS). They currently own about \$240b worth. This would be pretty easy to pursue since their combined mandates already have a top capacity of \$450b. But this is more headline fodder than anything else. When Fannie or Freddie buy MBS, they hedge the interest rate risk (sell Treasuries). So the impact on Housing affordability comes from spread compression. Most estimates have this impact to be around 0.25% on the average 30-year mortgage rate (which is trading at 6.25%). Not to mention, the Federal Reserve currently owns \$2t worth of MBS, and they want to sell these (\$35b a month in the current pace of runoff). Lastly on Housing, Trump might hint at some sort of subsidies for first time homebuyers. For Energy, Trump is clearly focusing on the gasoline angle with more supply coming from Venezuela (and perhaps Iran). On Defense, Trump wants to restrict contractors from paying dividends or doing buybacks. But he also wants to jack up spending by \$600b. This does not quite fall under the populist umbrella, but it is asserting control over a large industry that reaps lots of government money.

➤ Ignore the politically driven narratives

Remember when the narrative was foreigners were going to sell every US asset because of Trump? US “excellence” was a thing of the past? Reason #1000 for not anchoring on a political bias when it comes to investing.

APOLLO

Higher foreign demand for US assets in 2025 than in 2024

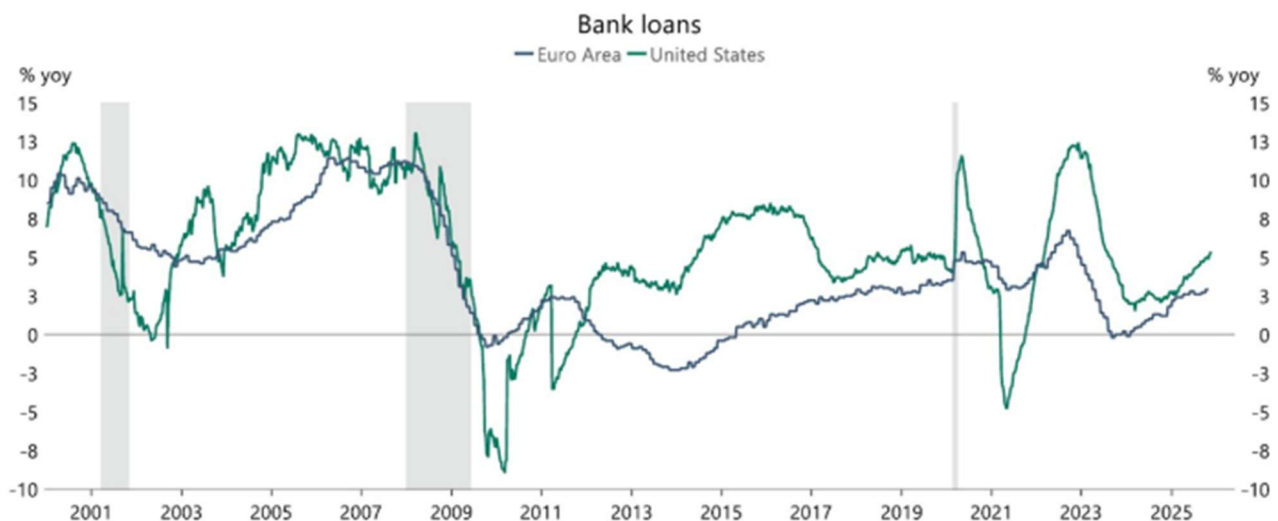


➤ Bank lending is accelerating

Here is another chart from Apollo. Bank lending seems to be accelerating with plenty of runway left.

APOLLO

Gradual recovery in bank lending



➤ Employment might be stabilizing

The December Employment Report showed improvement for the second month in a row compared to the abysmal October data (which was a drop of -173k jobs). November jobs increased by +56k and December increased by +50k. And this October number was revised down -68k (from -105k) and November was revised down -8k (from +64k). Private Payrolls accounted for +37k new jobs. But like the headline, there were negative revisions. October went from +69k to +50k. Government jobs gained 13k (mostly local), and the October number was revised higher (-5k to +6k). Manufacturing jobs have declined steadily since 2023. Multiple job holders fell by 444k. This is the second biggest since the Virus Fear. We think this is broadly a positive if our base case is correct that the economy is growing (people feel less of a need to work extra jobs).

The Unemployment Rate dropped a notch to 4.4% from 4.5% which was a surprise. But the Labor Participation Rate declined a notch to 62.4% from 62.5%. The math works out to an additional 232k people became employed in the month. And this is tempered by a continued constraint on labor supply. Employment among recent college graduates is trending better. Some joke that this means they can start repaying their dead-beat student loans.

Average Hourly Earnings increased +0.3% vs +0.2% last month (which was revised up from +0.1%). This brings the annual increase to 3.8% vs 3.6% last month (which was revised up from 3.5%). This is a good trend, but it is countered by a sagging Average Weekly Hours below the 10-year trend (stripping out Virus Fear quirks).

In other Employment data, Job Openings fell in November (from 7.45mm in Oct to 7.15mm). Quits, however, had their largest jump in year. We have long said we do not believe the outright levels of this data. But we think there is some value in the trends. This Quits number is the first data point to reverse a long, negative trend. We will need a few months to make a new trend.

Challenger Job Cuts in December were about half as many in Nov (71k to 35k).

The last three weeks of Initial Jobless Claims have been 215k, 200k, 208k. This also might be season, but the overall trend is still bucking the narrative that the labor market is softening (we think it is, but it has been a no-hiring – no firing market for a while...we shall see if more companies follow the Microsoft layoffs path.)

Continuing Claims have been bouncing all over the place. We need to wait for a trend.

This data supports the broad theme developing: Labor is softer than it has been, but it is still expanding without government jobs (at least not federal). There are still supply constraints, and wages are improving. Productivity appears to be at the heart of everything.

➤ Productivity on the rise

Nonfarm Productivity increased +4.9% in Q3. This is an old number, but it meshes with recent survey data that tells us a much higher percentage of sectors and companies are reporting increased usage of AI. This is on top of the post-Virus Fear uptick in productivity. As Goldman puts it, “the pandemic may have revealed for some companies just how few workers they needed to sustain their business, potentially prompting management teams to run leaner.” On the heels of this analysis comes the headline that Microsoft is looking to cull another ~5% of its global workforce.

➤ Business surveys are mixed

The business surveys (PMIs or Purchasing Managers Index) diverged between Manufacturing (weaker) and Services (better) and domestic (weaker) and international (stronger). The S&P Manufacturing index for December fell slightly from November (52.2 to 51.8). The ISM Manu fell to 47.9 from 48.2. Employment improved slightly, but it is still the weakest component. Prices remain high. The S&P Services (domestic) are still at a moderately strong level, but they fell from 54.1 to 52.5. ISM Services (more large cap and international) jumped from 52.6 to 54.4. it was strong across the board including a slight moderation in Prices.

The Richmond Fed Manufacturing index in December improved but remained negative (-15 to -7). Its Services index worsened a bit (-4 to -6). The Dallas Fed Manufacturing index remained flat in negative territory (-10.9, recall that this survey is heavily influenced by oil & gas). Dallas Services slipped from -2.3 to -3.3.

This is a long way of saying these surveys are all over the place and do not provide a ton of value.

➤ Other economic data is mostly better

The last three weeks of Redbook Retail sales show gains of 7.2%, 7.6%, and 7.1%. These are all strong numbers.

The average 30-year mortgage rate dropped from 6.32% to 6.25%.

Weekly Mortgage Applications have taken a leg lower. This is likely a seasonal factor.

Pending Home Sales in November climbed modestly at +3.3%. This brings the annual gain to +2.6%.

China's official PMIs "surprised" to the upside with readings above 50 in December (both Manufacturing and Services). The private survey conducted by RatingDog (!!!) also bounced into positive territory. Needless to say, we are highly skeptical of this data. China has been struggling to accelerate from the massive stimulus injected into the economy (fiscal and monetary).

➤ Backward-looking data was strong

Durable Goods Orders in October fell -2.2% vs September. But the more important Core Capital Goods Orders (non-defense, non-transport, aka business spending) increased +0.5%. This is a decent number considering expectations were for a negative number. But it is still a slowdown from last month's +1.1% move. The overall level of spending remains robust. We just need to be leery of any slowing trend.

Industrial Production slipped -0.1% in October and increased +0.1% in Nov. Manufacturing Production fell -0.4% in Oct and were flat in Nov.

The second estimate for Q3 GDP growth was much better than expected a +4.3% growth vs +3.3% from the initial estimate. And it is an acceleration compared to +3.8% in Q2. Core PCE prices did accelerate to +2.9% as expected. GDP Sales (which strips out the change in Private Inventories) increased +4.6% which is one of the largest increases in years (ex the crazy +7.5% jump in Q2 which was the tariff rebound from Q1 which was -3.2%). Real Consumer Spending was +3.5%. All this data is backward looking obviously. But it supports our view that the tariff drag was more of a political dream than an economic reality. One catch to this data is that most of the revisions came in the July data. That was a long time ago (but the more current data still supports the growth theme).

December Consumer Confidence (the more reliable one) technically dropped by over three points. But the November data was revised up by over 4 points (88.7 revised to 92.9 vs 89.1 last).

➤ Where did all the crypto money go?

FundStrat is a strategy research shop. They give big picture advice and sometimes drill down on factors or certain aspects of the market. For sure, you can always count on its CIO, Tom Lee, to be bullish. He also has some side-hustles in the crypto world. Naturally, he is super bullish and expects crypto to go higher with Bitcoin reaching a new high as soon as this month. Unfortunately for Tom, his chief head of Digital Asset Strategy recently released a report warning about Bitcoin potentially dropping 50% in the coming months. This is certainly not a problem isolated in the crypto world...old Wall Street has done this shell game for years. But crypto is the only arena in which one side of the mouth screams victory while the other side cries defeat.

A recent favorite of ours from the real money world involves JP Morgan buying the startup Frank. This was the company that said it had about 4.25mm customers when in reality it had about 300k. The “other” 4mm customers were fake users that the company created in order to entice a buyer. JPM paid \$175mm for the company in 2021. It did not take JPM that long to figure out that Frank founder Charlie Javice was a complete fraud. However, a Delaware court compelled JP Morgan to pay Javice’s legal bills when she was sued for this fraud and charged with a litany of crimes. This was stipulated in Javice’s contract with JPM. But since Javice was convicted on multiple counts and sentenced to about seven years in prison, she must give back the \$175mm plus another \$110m in legal expenses. Some of the legal expenses she charged, collected, and now must repay include \$530 on gummy bears, \$214 on ice cream, \$60 for the delivery of four cookies, \$284 for a half-mile car-service ride, and “copious amounts of alcohol.” The actual legal bill includes billables calculated at \$2700 an hour.

There was a real-world blowup right before Christmas, this time in the options market. A guy who welcomed the nickname, “Captain Condor,” blew up after he deployed the age-old Martingale strategy with options. Martingale is the old roulette strategy (or any gambling game) in which you simply double your bet after you lose a bet. Just like in roulette, Captain Condor mistakenly thought his odds were always at least 50/50. He also made the mistake of not realizing he did not have infinite capital. If you lose at the wrong time, you can get wiped out. Captain Condor and his tag-along lemmings found out the hard way to the tune of \$50mm.

This week’s reminder that prediction markets are dominated by inside information. The day before Maduro was no longer the ruler of Venezuela, someone bet \$30k on Kalshi that he would be ousted within a month. He made \$400k in a day. This story is not to be confused with those betting on whether the US would invade Venezuela. Polymarket has ruled that the “yes” bettors on this topic have **not** won their bets!

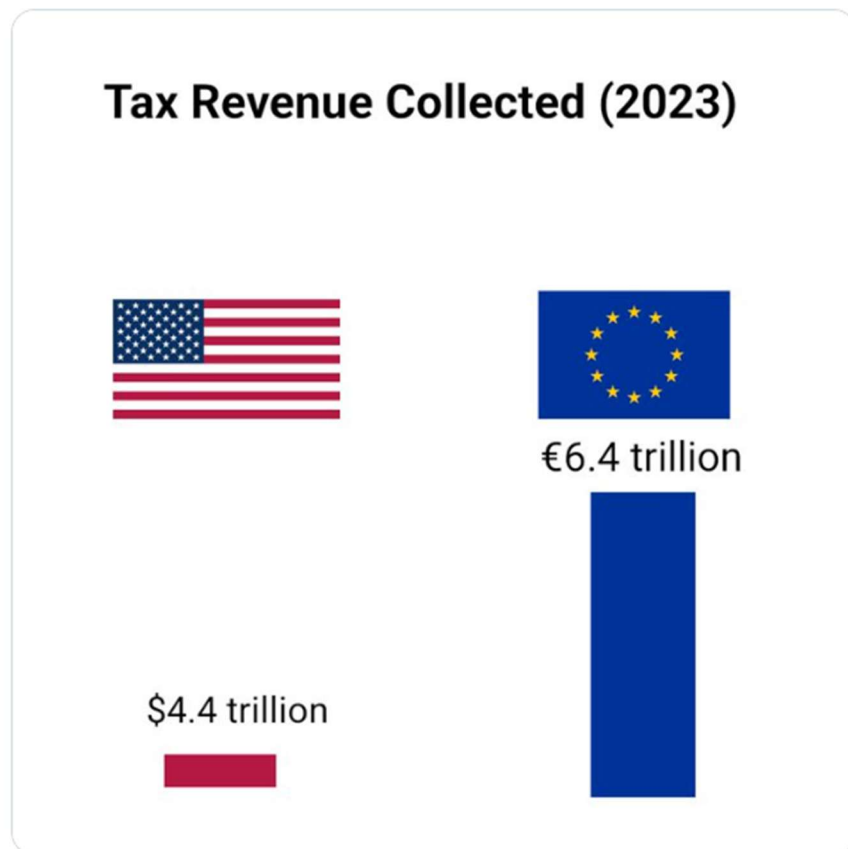
And with Venezuela in the news, we will retell one of our now favorite (worst at the time) stories from the past. We were a market-maker/trader on the Latin American trading desk. It was the Friday before the Boston Marathon aka Patriots Day in 2002. Dictator Hugo Chavez had been overthrown by the CIA, and Venezuela stocks were skyrocketing. A customer called the desk about 30 minutes after the market had closed. She had forgotten to place a large sell order of VNT (the monopoly telecom operator that was listed on the NYSE). In the old days, banks would oblige and buy the stock from the mutual fund trader. We would cover the mistake and hope for the best come Monday. We had a bad feeling reading the news all weekend. Naturally, the coup was reversed, the stock plummeted, and we lost a bundle. Not even a thank you!

➤ Chart Crimes of the week

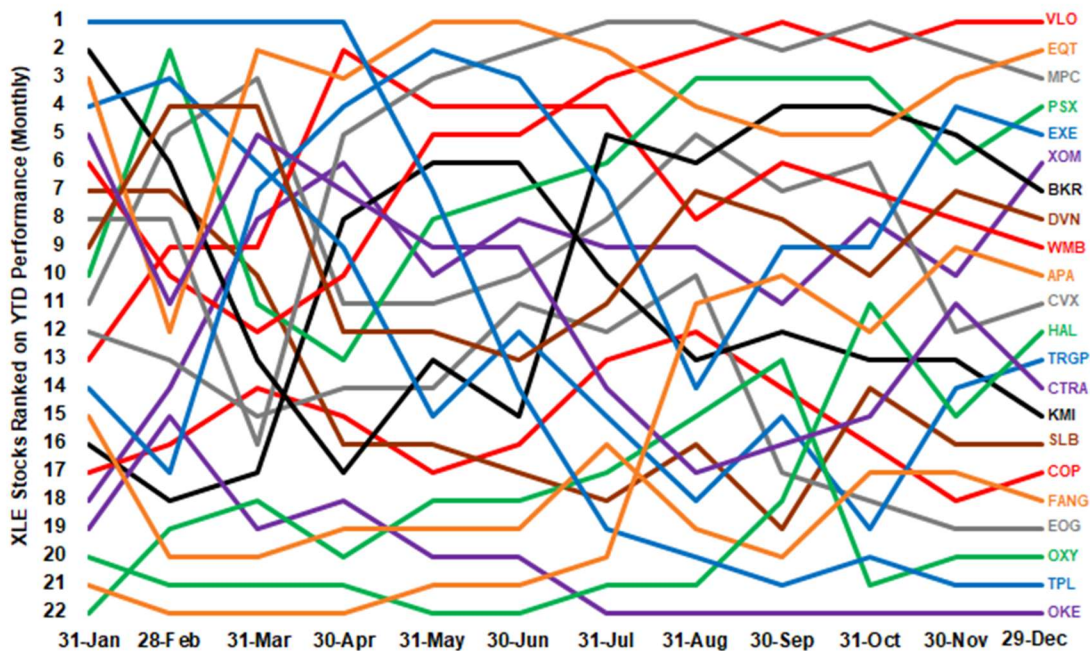
The comment on this chart is satire (we think). But the creator of the chart was serious!

Proof that Europe is way richer than America

If the USA has such great businesses, why doesn't the government collect more taxes from them?



This one does not fit the funny or unintentionally ironic category, but it surely fits the absurd. And it is from Goldman!



Source: Goldman Sachs Global Investment Research, FactSet

➤ Quick Hits

- The Seahawk's beat the Rams with the first 2-point conversion in overtime history.
- China has increased its auto exports from about 300k in 2010 to about 7mm in 2025.
- The Fairmount area in Fort Worth is considered the largest "bungalow-neighborhood" in America.
- 10,000 people showed up at Ryan's Place in Fort Worth in 1911 to witness the city's first airplane landing. The pilot was named Roland Garros. The French Open tennis center is named after him.
- Roland Garros was a rugby player...not a tennis player.
- Jim Beam is shutting down its main bourbon distillery indefinitely. It accounts for about 33% of the company's total production.
- The production cycle of a bottle of Jim Beam is about four years.
- The US Postal System introduced the zip code in 1963.
- The Boston Bruins players that climbed into the stands to fight the Madison Square Garden fans after a game against the Rangers in 1979 were fined \$500.
- There are no bridges over the Amazon River.
- Gulf of America oil production has almost doubled since the dip in 2020.
- No hurricanes made landfall in the US in 2025.
- There are 36 candidates to be President of Peru.
- American households currently have an average of 2.8 subscriptions. This is down from 4.1 in 2024 and 4.4 in 2023. This category includes streaming, delivery, apps, and more.
- The kicker for San Diego State had the highest accuracy rate of any kicker in history earlier this season. His nickname is "The Hefty Lefty."
- There was a previous player nicknamed "The Hefty Lefty." It was Jared Lorenzen (a quarterback who had a cup of coffee with New Jersey's Football Giants).

- Nevada passed a law that eliminates the mandated middleman rule in disseminating horse racing data. Bugsy Siegel started this government enforced grift back in the 1940s.
- New York has banned single-use Styrofoam coolers.
- Pets can be included in restraining orders in Pennsylvania.
- California has changed the law pertaining to plastic bags at grocery stores five times in the last 11 years.
- Plastic waste increased by 47% in 2024 because of one of these California laws.
- A new law in California allows you to return a rental car whenever you want (within a few days).
- Another new California law: Pets must be at least one year old to be sold.
- And another California law: Corn tortillas must contain folic acid.
- And another: Declawing cats is now illegal.
- And one more: Diwali is now an official holiday in California.
- Virginia's 6% sales tax now goes to 10% in restaurants or on other prepared food.
- Video Killed the Radio Star was the first and last song every played on MTV.
- Jim Harbough has more career rushing yards than Bo Jackson.
- About a third of all college football players entered the transfer portal on the first day.
- The Boston Marathon did not allow women to run the race until 1972. In 1966, a woman jumped out of the bushes and unofficially ran the race. In 1967, a woman entered the race with her initials. When she was discovered, an official tried to tackle her. Her friends fought him off, and she finished the race.
- First-cousin marriage is legal in New York and California (among others).
- Austin has 19 buildings taller than 492 feet. In 2017, it only had three.
- There is a golf course in South Dakota that abuts a school football field. There is a track around the field. There is a fence around the track. The end zone of the football field is considered "in bounds" on the golf hole.
- A \$400k shipment of lobsters was recently hijacked in Massachusetts.
- The term "Dixie" comes from the \$10 bills issued by Citizens Bank in Louisiana in the 1850s and 1860s. "Dix" is the French word for 10. The bills were not legal US tender. But they were widely accepted in the riverboat trade.
- Airport rides account for 15% of Uber's mobility bookings.
- Utah allows AI to renew medical prescriptions.
- Barnes & Noble is looking to become a public company again. It has 721 stores in the US.

TSLAQ: Not much new to report here. Tesla's auto sales in 4Q were terrible as expected. Musk is spending his free time on politics again. And his various private entities are all in money-raising mode.

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