Weekly Update

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- Soft-landing? Or just an overreaction to earnings
- The Fed is still hawkish despite some balanced language
- The Bank of Japan does not want to tighten too quickly
- Earnings have been ok but are signaling down
- Interest rates have varying impacts on companies of different sizes
- Durable Goods are hanging on
- Inflation remains elevated
- Business Surveys say the US is not great but better than elsewhere
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	Last	5d %	YTD %	1yr %
S&P 500	4,238	1.2%	11.6%	11.2%
QQQ	$356.96	1.9%	34.6%	29.3%
US 10 YR	4.73%	4.96%	3.75%	4.06%
USD/DXY	106.6	106.5	104.5	112.9
VIX	16.9%	20.2%	22.9%	25.9%
Oil	$80.91	-5.3%	0.2%	-9.0%

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

The market bounced a bit after three straight down months. Apparently, the soft-landing narrative is back with interest rates cooling a bit (the 10yr Treasury going from 5% to 4.73%). Some think Fed chairman Powell furthered this with his balanced comments after the Fed left rates unchanged (more below…but we do not really think they were that balanced). And some recent weak economic data is encouraging people…as ludicrous as that is. While the war in the Middle East has not extended its reach, it surely rages on which elicits a flight to quality (US Treasuries…as ludicrous as *that* is given the chaos in DC). We have noted that Earnings season has been decent, but the reaction to these earnings has been bad. Nonetheless, we do think the negative reaction to the mega caps so far this earnings season has been overdone. Or at worst, the earnings were good but not quite up to the high expectations. In this light, a pullback was warranted…a pullback which should be bought. We still have Apple and Nvidia to go. These two will dictate the near term which could carry over into the near year. Apple is a toss up given the conflicting reports coming out of China. We would be shocked if Nvidia reported poorly given the amount of hype they heaped upon themselves. But none of this should impact profitless companies with limited access to funding.

The Federal Reserve left interest rates unchanged as expected (Fed Funds target rate of 5.25% to 5.50%). Fed chairman Jerome Powell emphasized that the fight against inflation was not yet complete. He explicitly dismissed the notion of a potential rate cut. But the punditry take-away was that Powell was the most dovish he has been since this rate-hiking cycle started. There were a few changes in the message. Primarily, Powell noted that while policy is clearly restrictive, the risks between the upside and downside are now balanced. Moreover, the interpretation is that the Fed can afford to be more patient now. Powell did add, "We have come very far with this rate hike cycle and are close to the end of the cycle." We understand the urge to regrasp the soft-landing narrative. But ultimately, we hang our hat on this Fed not wanting to lose the fight against inflation.

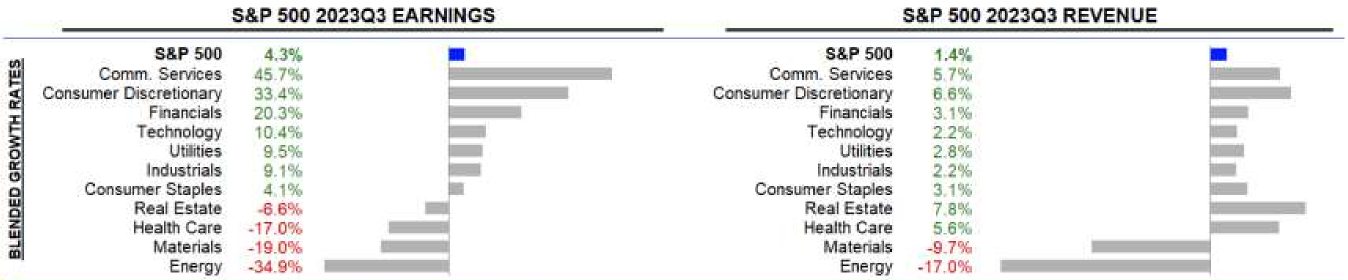
Another factor impacting interest rates was Treasury's quarterly "refunding statement." The overall borrowing of the US government is expected to be marginally lower than in the previous quarter. It is still an absurd $776b. Smartly, the government is going to skew issuance in shorter term paper. With some recent heat on Treasury Secretary Yellen (and her predecessors) for not issuing more debt when rates were low, Treasury is becoming more aware of managing the curve/durations of its obligations.

- The Bank of Japan does not want to tighten too quickly

The Bank of Japan tweaked its monetary policy. The BOJ now says that 1% on the 10yr JGB (Japanese Government Bond) is only a reference point. Previously, it had been a definitive line in the sand at which it would buy bonds to keep long-end yields contained (recall the BOJ had moved the top end of the 10yr higher from 0% incrementally to 1%...this whole exercise is called Yield Curve Control). The market had been expecting a more forceful shift in policy. But the BOJ kept the benchmark (short-term) interest rate negative at -0.1%. And they threw in some dovish language about wanting prices to a run a bit, so the Yen weakened through the 150 line against the USD. This reversed the recent slide in Japanese equities (don't fight the BOJ might be more powerful than not fighting the Fed currently).

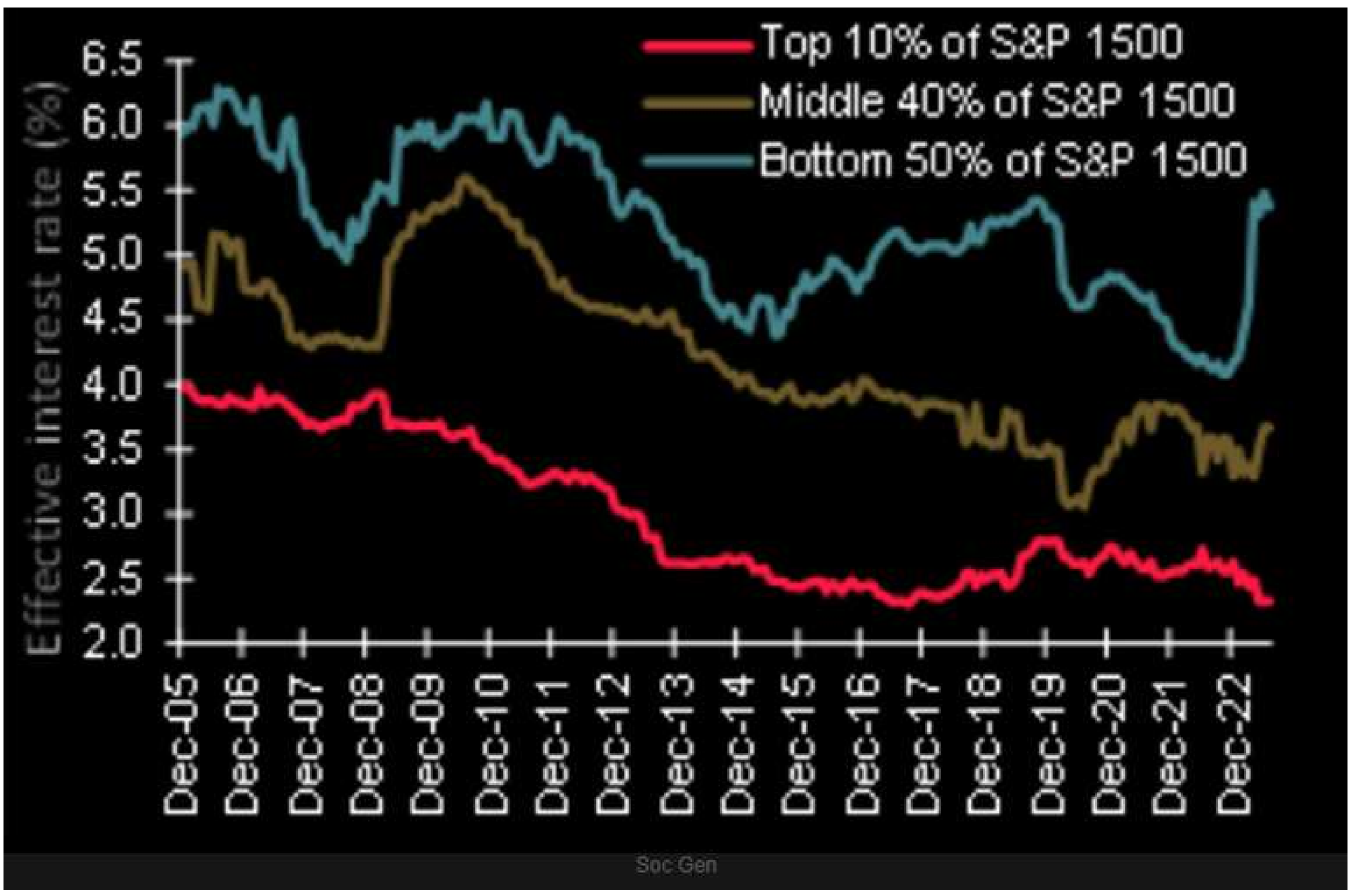
- Earnings have been ok but are signaling down

We are about halfway done with Earnings season. Below is a recap of growth rates for Earnings and Revenues. Both are better than expected so far. But both are expected to sink in the back half of the reporting season (this is not an uncommon phenomenon). S&P Earnings have grown 8.9% vs the 4.3% blended rate (actual and expectation combined). Revenue growth has been 2.2% vs the 1.4% blended. And we know stocks have been reacting poorly to Earnings. This is mostly attributable to poor management guidance. The ratio of negative to positive pre-announcements is 1.9x. This was 1.6x last quarter and 1.2x during the 3Q2022. Despite this weakening trend, Earnings are still expected to grow 8.5% in 4Q with an upward trajectory thereafter.



➢ Interest rates have varying impacts on companies of different sizes

Circling back to our point about different companies being able to navigate higher interest rates differently, Soc Gen puts this into a chart for us. You can see that the top 10% of the largest 1500 companies have very little interest rate risk (little impact on them). While the bottom half have always been more sensitive to rates, they have worsened significantly during this recent rate-hiking cycle.



➢ Durable Goods are hanging on

Durable Goods Orders surged in September at +4.7% vs the negative -0.1% in August. But if you strip out the airplanes and defense orders, Core Capital Goods (aka business spending) only increased at 0.6%. This is a deceleration from August's 1.1% increase. We think this data is decent. As we have been noting, business spending remains stable (although not adjusted for inflation) despite the negative PMI surveys and other ominous leading indicators.

- Inflation remains elevated

Inflation as measured by the growth in the Personal Consumption Expenditure index remains elevated. The headline increased 0.4% in September vs August (August vs July was 0.4%). The Core increased 0.3% (vs 0.1% in August vs July). The yearly totals are 3.4% and 3.7% respectively.

Maybe most importantly, Personal Income decelerated from a 0.4% gain to a 0.3% gain while Personal Spending accelerated from 0.4% to 0.7%.

- Business Surveys say the US is not great but better than elsewhere

Manufacturing PMIs for October are diverging a bit. Larger, multination companies are more pessimistic. The 3Q increases in sentiment have faded (not to mention they never reached the breakeven point). New Orders and Employment also erased the 3Q gains. The more US-centric PMI (S&P Global which also encompasses smaller businesses) moved slightly higher to hit the breakeven 50 level. This supports our theory that the US, while not doing great, is better than Europe and Asia.

The Dallas Fed Manufacturing index fell deeper into negative territory. The Kansas City Fed Manufacturing index improved in October but it is still negative.

- Employment has yet to crack

The Job Openings and Labor Turnover Survey (JOLTS) for September was basically unchanged vs August with about 9.5mm openings. We still think that many of these "jobs" are fake or stale postings. The collapse in job listings on private sites supports this. The Quits rate is almost down to its pre-Virus Fear level (and arguably well below the prior trajectory given the increase in job mobility).

ADP's guess on Private Payrolls for October was lower than expected at 113k vs 150k. But this was better than the 89k from September.

The Employment Report is on Friday. New jobs are supposed to slow from about 336k to 180k (probably lower now given the ADP guess). Average Hourly Earnings are expected to increase.

- Housing data is not improving much from its recent slide

Pending Home Sales in September grew slightly at a 1.1% clip. But this was much better than the -7.1% decline in August. They are still down 11% on the year. But this is the best month in over a year. Pending Sales have been negative since early 2021.

Construction Spending in September slowed as expected (a 0.4% increase vs August's monthly increase of 1% which was revised higher from 0.5%). Residential spending is still growing. Manufacturing projects are slowing.

Mortgage Applications fell again. The index is still making new all-time lows.

- Are real estate commissions going down?

A jury in Kansas City has found the National Association of Realtors and two large brokerages guilty of conspiring to inflate realtor commissions. This is an interesting case and not just because the verdict calls for over $5b in damages. Ultimately, we might see the dismantling of the standard commissions that are typically baked into the sales price. This is obviously not good for realtor stocks in the short term. But it might lead to more transparency and lower transaction friction which could be good for the consumer and ultimately the industry.

- Other economic data is mixed

The first reading on Q3 GDP surprised to the upside with a 4.9% boost vs Q2 (annualized). Personal Consumption Expenditures were not quite as robust, but still solid at 4.0%. Most forecasts had a strong summer bearing economic fruit. It is the current quarter that is more looming. The Atalanta Fed's GDPNow has the 4Q running at a 1.2% rate.

Redbook Retail Sales increased 5.3% in the week.

Consumer Confidence (the one geared towards Housing and Employment not Inflation) slipped mildly but remained stable.

- The China stabilization might be fading already

China's Manufacturing PMI fell below the breakeven level to 49.5 in October from 50.2 I September. This is the official data, so you know it is bad if they are willing to admit it is negative. The Services PMI is also approaching the breakeven level as it fell to 50.6 from 51.7. Unsurprisingly, the private Caixin Manufacturing MPI also slipped into contraction. Anecdotally, YUM China (Pizza Hut and KFC) warned about softening demand in the mainland.

- Oil supply might be increasing in the short term but not in the medium term

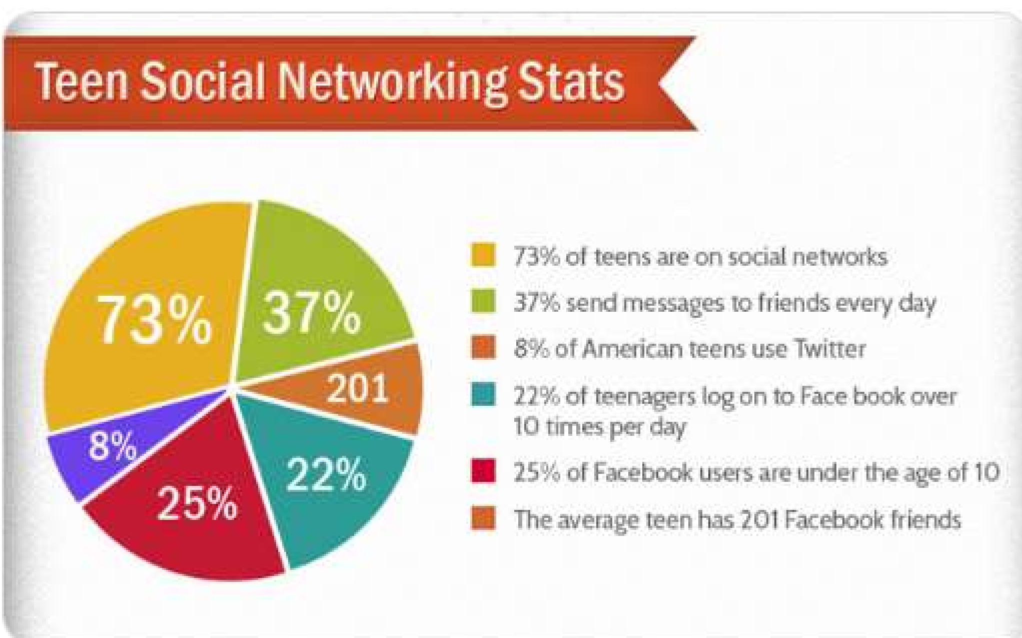
Crude oil prices are below where they were before the Hamas attack on Israel. This is not terribly unexpected considering Iran has turned tail and not entered the fray. But Saudi was on the cusp of increasing production which surely is off the table. Maybe oil from Russia, Iran, and Venezuela is making its way onto the world markets. We think it is more likely that the recent move is just short-term trading dynamics. Speculators are long oil (not to be confused with hedge funds being short oil stocks as we noted last week). They probably jumped on the trade during the outbreak of the terrorist attacks in Israel. And now with the war seemingly being localized (no solace to those *in* the war), these speculators are under water and are bailing out.

- Where did all the crypto money go?

While we are waiting on the verdict of SBF, we thought we would just share the courtroom renderings of SBF and Ellison. We think the Twitterverse has framed it accurately:

- Chart Crime of the week

We find it fitting that something trying to quantify social networking is so full of math gibberish



- Quick Hits
  - The Cowboys win over the Rams was a Scorigami. A game had never finished 43-20 before. This was the 1079th unique score in NFL history.
  - Monday was the only day of the year on which all four pro sports leagues played a game. This has happened 30 times.

Trading: We have followed the same plan. We have been adding to select Big Tech names on weakness. We have been rotating our short exposure. This is almost always the way when dealing with options. There are too many variables to just sit idle. We are thinking about trimming our long Japanese exposure. The BOJ has bailed out the equity market which is great. But the economic data is not quite as robust as it was earlier this year. We will probably let the BOJ stimulus ride for now. But we will have a quick trigger the next time they decide to tighten things. We still like Energy on the long side. We have not added much lately as we might see more weakness with crude oil faltering.

TSLAQ: Reality seems to be hitting Tesla and the whole EV space. GM and Ford have both backtracked on EV expansion siting a lack of demand. Panasonic cut its EV battery sales forecast. And Muks is doubling down on the difficulty in making EV's at scale. Stop the presses!

Twitter is again a central figure in Tesla. Fidelity has written down its Twitter stake by 65%. Valuation is thought to be around $19b which pales in comparison to the $44b price tag Elon coughed up. And it is down from the roughly $25b valuation the company was seeking during a recent attempt at raising capital (failed attempt). Revenues are believed to be less than half pre-Musk. This matters because the banks are sitting on $13b of underwater debt, and Musk must come up with the cash somewhere (Tesla shares).

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