Weekly Update

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- Is good economic data good for equities?
- Probably after the dust settles
- Another Dimon warning without a timetable
- Earnings estimates are strong…too strong?
- Inflation is not cooling, and it is likely to keep heating
- Employment is still growing (but with some underlying problems)
- The Fed minutes are probably stale, but it probably will not matter
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	5,161	-1.0%	9.5%	27.5%
QQQ	$438.36	-0.8%	7.2%	38.7%
US 10 YR	4.55%	4.36%	3.88%	3.31%
USD/DXY	105.2	104.3	101.3	102.2
VIX	15.8%	14.3%	12.5%	19.1%
Oil	$86.19	0.9%	20.3%	8.1%

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

The market is still wrangling with strong economic data and its impact on interest rates. After last week's profit taking spurred on by the strong business surveys, a stronger than expected labor report was met with equity buying. But this positive sentiment reversed again when a steady inflation number did not cool as expected. Interest rates, which did not react at all to last week's good data, moved higher after the inflation report by the most in about a year and a half (our eyeball estimate).

The probability of a Fed rate cut in June has fallen from 62% a week ago to just 19% now. David Zervos of Jefferies says the Fed is not as restrictive as the market thinks. He is calling any rate cuts this year "victory cuts." Jim Bianco and some others have been beating this drum for a while. This echoes our theme that the market does not need interest rate cuts. But it is only natural for some short-term noise when baselines get recalibrated. The ones calling for rate cuts point to the history of real interest rates typically averaging around 1% (nominal rates minus inflation). We think this group is using the Fed's inflation *target* instead of the current or forward-looking rates. Not to mention, this old average never included a Fed balance sheet bloated with trillions of dollars in Quantitative Easing (bond buying). We remain long Growth and Inflation.

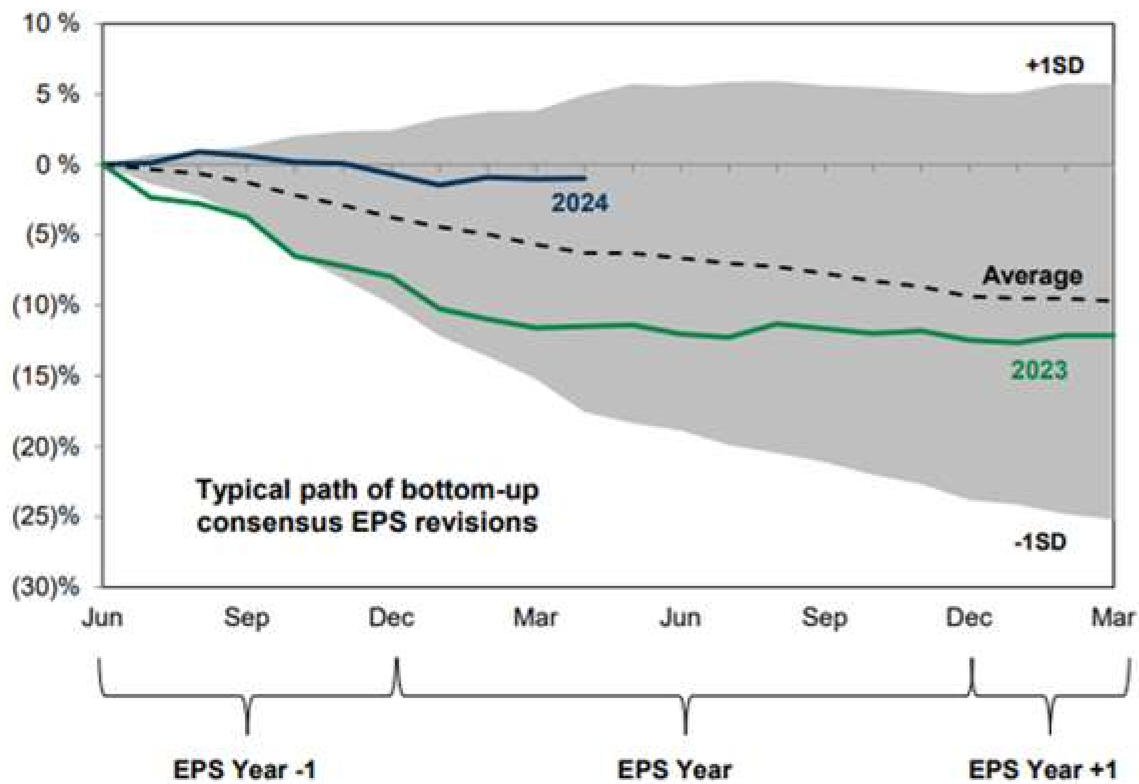
- Another Dimon warning without a timetable

Jamie Dimon is sounding some alarm bells again. He tends to do this every so often. He thinks 8% interest rates are possible. Record deficit spending (he is traditionally a democrat for what that is worth) and geopolitical stress could compound the current inflation outlook. The cynic in us says it is just Dimon trying to make his rivals weaker so he can pounce and add to his kingdom. Nonetheless, his argument is compelling. What is missing is the timing of this financial locust swarm.

- Earnings estimates are strong…too strong?

Here is an updated chart we show every so often. It is the path of earnings revisions. Even though some point to 2024 still being negative, it is usually more negative (especially at this point in the year with one quarter under our belts and most companies having provided full year guidance). This cuts both ways. On one hand, it means companies are more confident in their business prosepcts. On the other hand, it reduces the room for error.

Exhibit 5: Earnings revisions for 2024 have been above average …
as of April 4, 2024



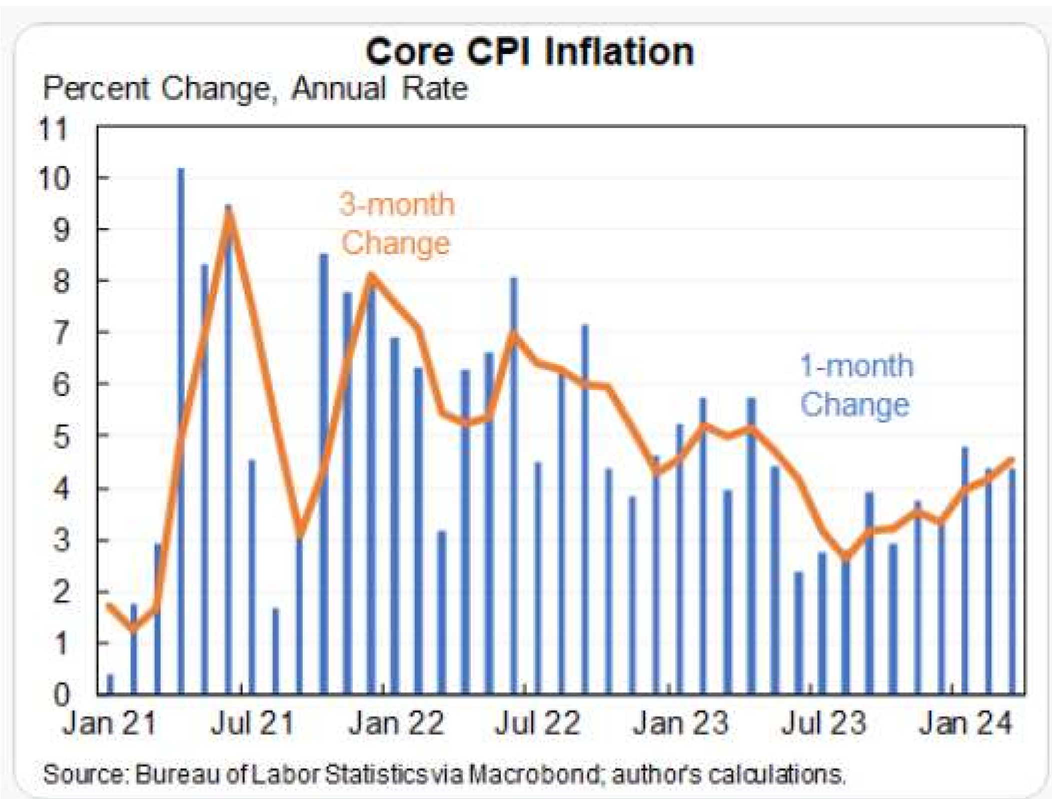
Source: FactSet, Goldman Sachs Global Investment Research

Random note: Piper Sandler notes that when Energy leads the market, multiples tend to compress. So, if we do not get the earnings growth that is projected, and Energy continues to be a leader, that could spell trouble for the rest of the market (we are not sold on this theory, but we are thinking about it).

- Inflation is not cooling, and it is likely to keep heating

Inflation remained steady with 0.4% monthly growth (headline CPI). The market was expecting a slight cooling to 0.3%. These are the same numbers for the Core. The headline annual rate moved higher from 3.2% to 3.5%. The Core annual rate remained steady at 3.8%. Core Services ex-Shelter accelerated to 5.02% from 4.46%. This is the Fed's focus. Shelter fell slightly across the board except for Homeowners Insurance. The biggest monthly gainers were Gasoline, Motor Vehicle Insurance, and Motor Vehicle Maintenance (there is a theme in there). The biggest detractors were Used Cars (so much for that theme) and Cereals.

Looking ahead, the monthly base effects are stacked against us. There will not be an easy hurdle until August. Recall this is simply the math of replacing the monthly inflation from a year ago with the latest reading. And last spring and summer was a stretch of low inflation. The latest uptrend in inflation is likely to last for a while.

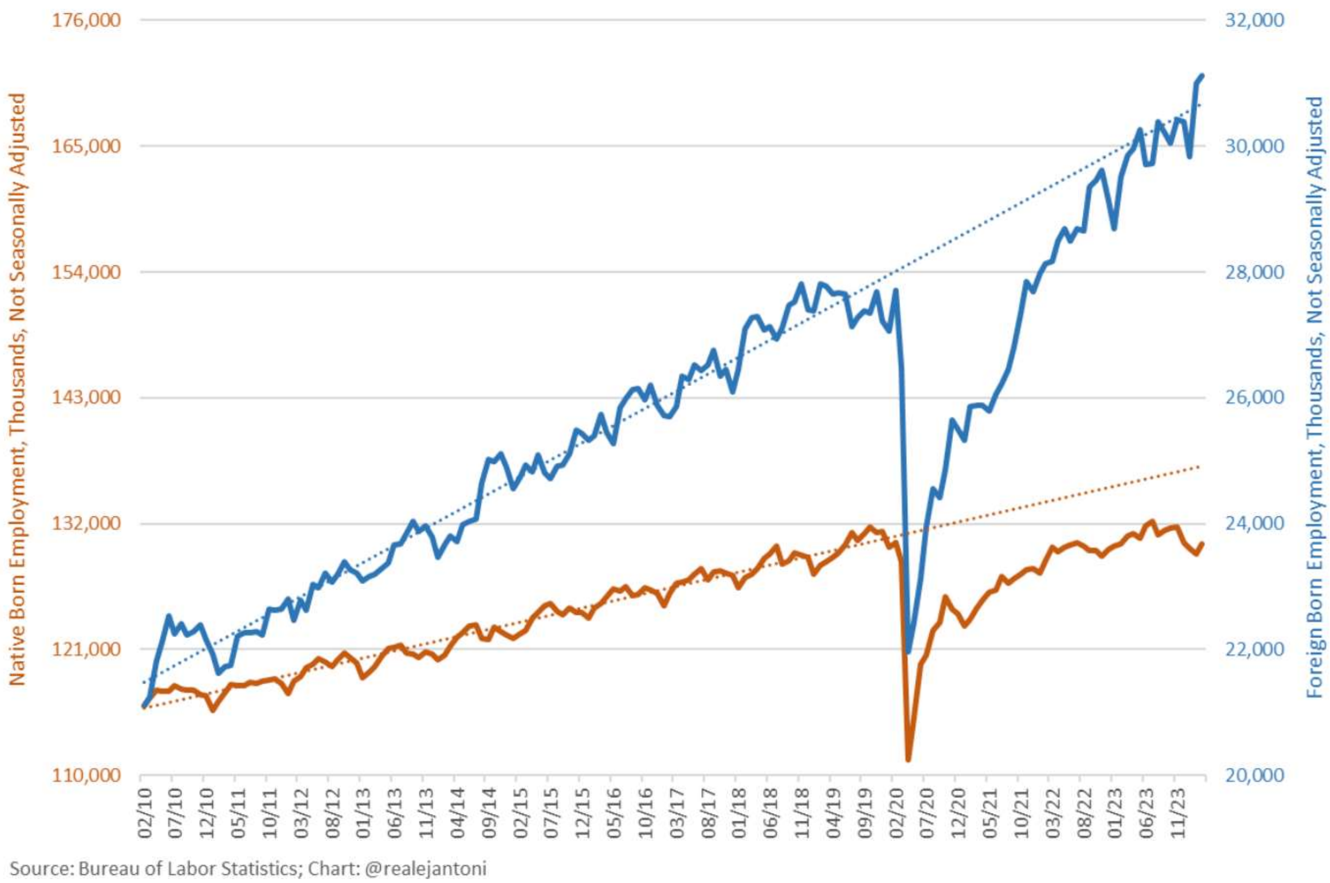


We would add that there has not been much focus on the Biden administration's effort to squash inflation. That is probably because the administration seems to want to perpetuate it. Quietly, another student debt relief is in the works. Early talks center around dismissing $20k for 30mm people. The Supreme Court shot down the last en-masse attempt ($20k for 40mm borrowers). On top of doing targeted relief efforts, this latest idea will be done under a different law, making challenges more difficult (Higher Education Act this time vs HEROES Act last time). Our point here is not political but rather that a $600b handout will certainly goose inflation.

- Employment is still growing (but with some underlying problems)

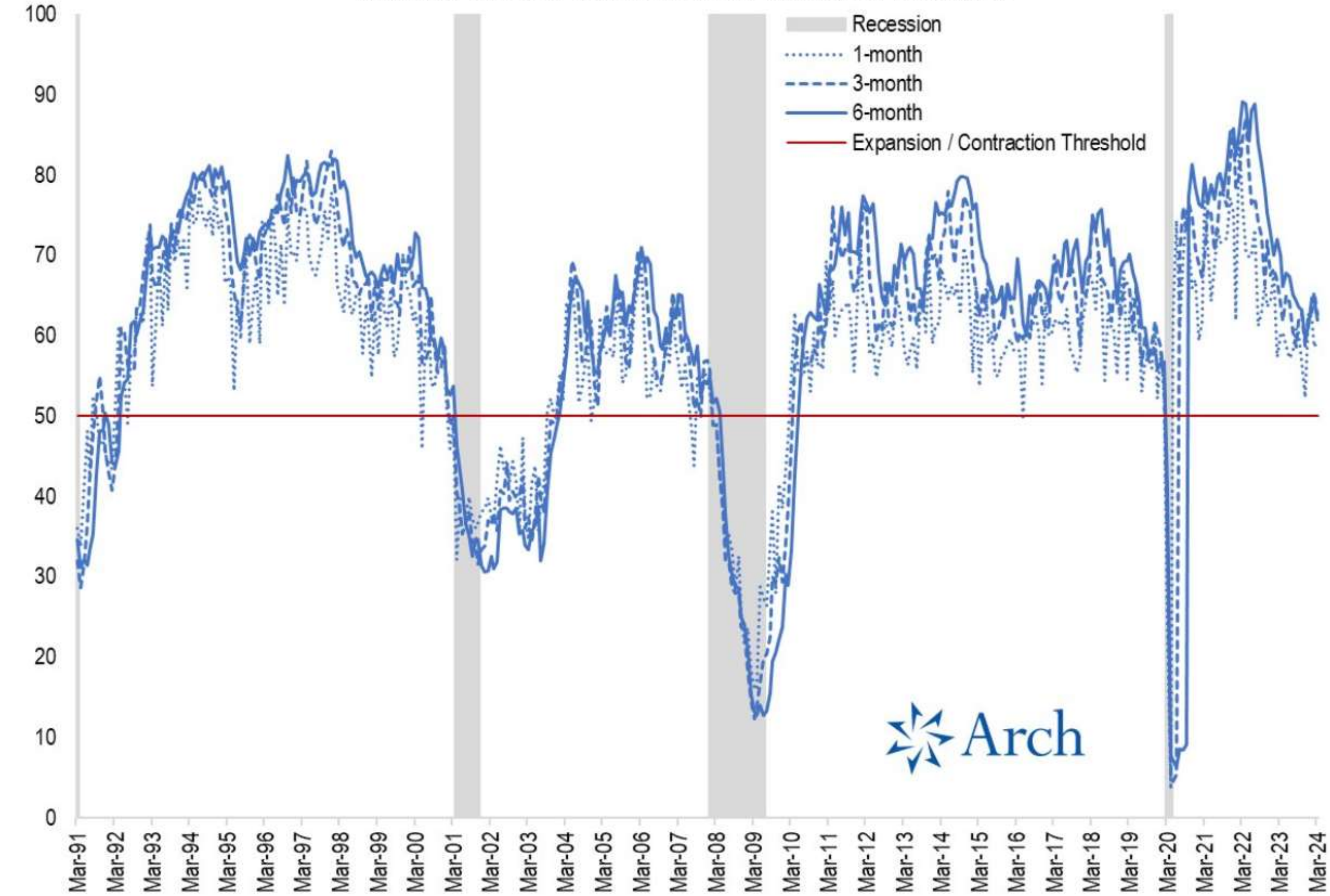
Nonfarm Payrolls surprised to the upside again. 303k new jobs were added during March vs 270k in February (which was only barely revised lower from 275k…that is a win). 200k was the expectation, but the whisper was probably higher given the strong ADP guess. Private Payrolls were stronger than expected. Government jobs grew, also. The Unemployment Rate dropped to 3.8% from 3.9%. Labor Participation ticked higher to 62.7% from 62.5%. Average Hourly Earnings ticked higher to 0.3% on the month vs 0.2% last month. The yearly increase fell to 4.1%.

Now for the bad news. Full-time employment continues to fall while part-time jobs are still on the rise. And Immigration is still the primary driver of new jobs. Here is a chart that breaks down foreign-born job growth vs American-born (a bit of a chart crime since it does not use percentages). We acknowledge this does not necessarily correlate with current immigration. But we suspect it is pretty darn close. And our point is not political. It is that most of the new jobs being created are low paying jobs.



Job growth also appears to be highly concentrated...this obviously follows the immigration trends. Here is a chart that compresses the breadth of industry job growth into a single number. The higher the number, the more sectors are increasing jobs. Government, Health Care, and Hospitality & Leisure accounted for 64% of the new jobs.

Private Sector Job Growth Diffusion Indexes



Sources: Bureau of Labor Statistics (BLS), Arch Global Economics

➢ Other economic data mixed
- Weekly Redbook Retail Sales increased 5.4% on the week (strong).
- Small business optimism (NFIB) declined in March. This has been in decline since 2020 (with nary a blip higher in the last two years).
- Mortgage Applications were flat on the week.
- Wholesale Inventories grew 0.5% as expected (two out of the last three months have seen growth vs the negative trend over the last year).

➢ The Fed minutes are probably stale, but it probably will not matter

The minutes from the last Federal Open Market Committee meeting came with no surprises. The Fed still thinks three rate cuts are on the table for this year. GDP growth has been revised higher from 1.4% to 2.1%. And the inflation forecast remains unchanged at 2.4%.

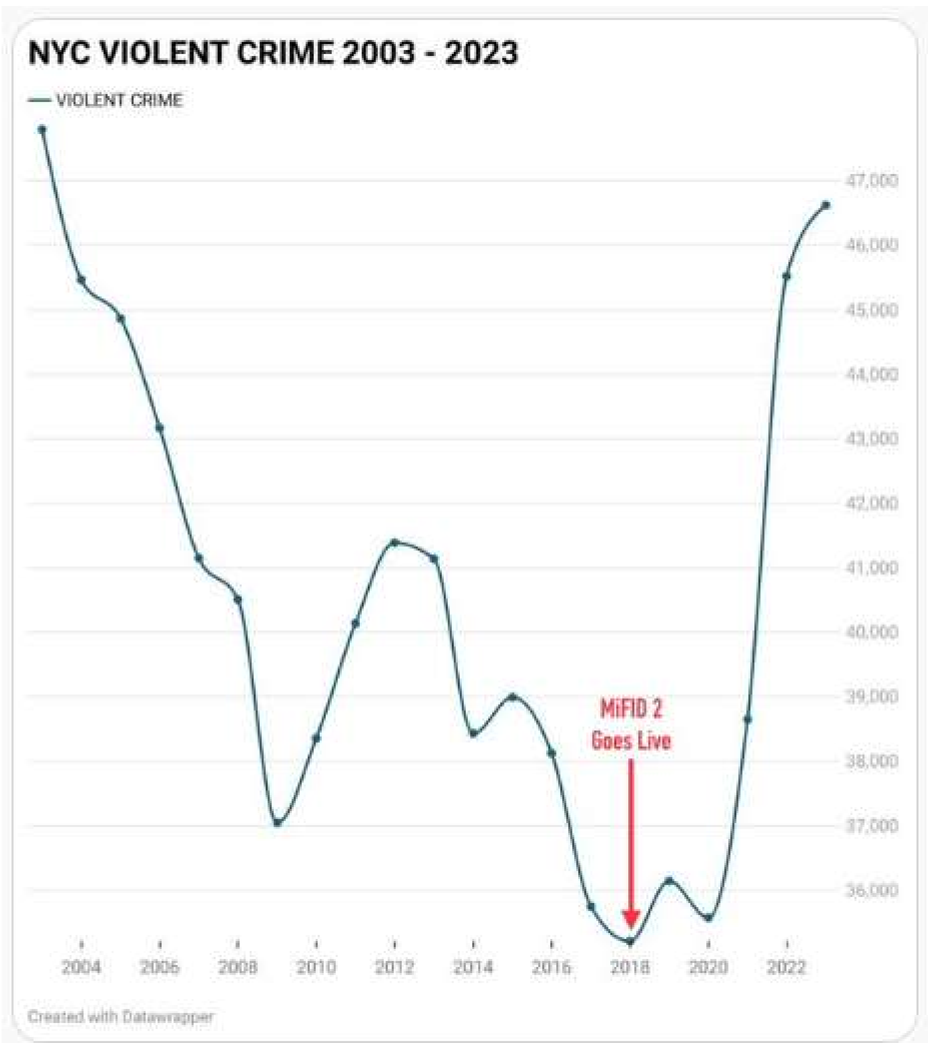
We think the median forecast has tilted away from these notes from the March 19-20 meeting. We have seen hotter inflation data, stronger employment numbers, and better business surveys. That said, more Fed watchers are commenting on how Fed chairman Powell has painted himself into a corner. By giving "calendar guidance," the Fed must quietly paint over its "data dependency." Not to mention, the Fed does not want to act right before an election. We think they cut just because they said they would.

➢ Where did all the crypto money go?

We have talked a little about crypto bankruptcy claims. Many that slogged through the arduous process have only been paid out what their claims were worth at the point of bankruptcy. Any gains beyond those levels are being reaped by the scoundrels that fleeced the investors in the first place. These claims often trade in the secondary market, and now we have some context. In the FTX case, the WSJ reports that there have been over $2.3b of claims traded. Many of these have traded around $0.10 on the dollar. And now they are worth over $0.90. Some expect to be paid closer to $1.30…if they can out-scoundrel the scoundrels.

➢ Chart Crime of the week

This one is probably a joke (we can never say for sure). But MiFID stands for Markets in Financial Instruments Directive. It is a set of rules in the EU to "increase transparency" in the financial markets. New Yorkers must not have taken the increase in regulation lightly.



➢ Quick Hits

- Mass General Hospital thinks it is racist to drug test newborn crack babies.
- Jersey Mike's is reportedly for sale. The asking price is $8b.

- The CEO founder bought a single sandwich shop in 1956. He was 17 years old.
- Overdue property taxes in New York City have jumped over 30% in three years (almost $900mm in total).
- TikTok's parent company had $120b in revenues in 2023 and $40b in operating income (EBITDA).
- There are over 420 submarine fiber cables under the world's seas that transmit over 99% of the internet network.
- The aggregate length of these cables is more than three times the distance from the earth to the moon.
- The Regent International apartment building in Hangzhou, China houses approximately 20,000 people.

Trading: We added to our long in European defense. There was a Goldman report detailing the future prospects of the sector, but they thought it might have moved too much too soon. We took the opportunity to add to this strong theme. We also added to one of our longs in Consumer Discretionary (it benefits from a two-sided network which continues to expand). We added to Big Tech. We added a touch back to one of our Health Care names. It dropped 5% after a 0.8% profit warning. And we sold another bit of Gold. We don't have much left. But considering we do not think real interest rates are going any lower, and the Chinese might have stopped buying, we do not think we need the emotional hedge (not that we are emotional, but that is how people view it).

TSLAQ: The hits keep on coming for Tesla. Reports circulated that the car company was ditching its plans for the "affordable" Model 2. This was supposed to be the next growth catalyst considering the Semi, CyberTruck, dancing robots, solar energy and every other far-flung idea has failed. Some disputed this story with no official word from Tesla. Musk did, however, announce a Robotaxi reveal event for August. Musk previously announced that the Robotaxi network would be ready in 2020 (he said this in 2019). As for the CyberTruck, the company has essentially stopped production. If you buy a car on the website today, you can take delivery in 2025.

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