Weekly Update

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- The November Volatility is long gone (for now)
- The Fed is still going to cut interest rates next week
- Google vs OpenAI
- Earnings have been great…and not just in the Mag 6
- Holiday sales look good especially compared to the dour projections
- Business surveys are mixed and confusing (so we focus on the spending)
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	6,870	0.3%	17.8%	14.5%
QQQ	$625.48	1.0%	22.8%	20.5%
US 10 YR	4.14%	4.02%	4.57%	4.20%
USD/DXY	99.0	99.5	108.5	106.1
VIX	16.4%	15.4%	17.4%	14.2%
Oil	$60.14	2.7%	-16.2%	-10.6%

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

The market is looking at November the way Mac Davis looked at Lubbock in the rearview mirror…all smiles. The cracks in the labor market are still evident. But both businesses and consumers are spending money. Even an outage at Shopify could not slow e-commerce sales during the kickoff to the holiday season. Some pundits are pointing to the longer-term interest rates creeping higher as a danger sign. This is likely just a macro reaction to the continued face-off in Japan which has pushed global rates higher (loosening fiscal policy vs tightening monetary policy…BOJ Governor Ueda signaled a rate hike is coming December 19). But the shape of the Treasury yield curve is more important. And while the steepening has slowed, the level is probably sitting in that goldilocks zone (not restrictive, not euphoric, just right). This is just another way of saying the Fed is cutting rates (pushing the 2-year lower) into a growing economy (long-term rates move higher). To be fair, there is a big chunk of Treasury supply coming to the market during the rest of this year. But the Fed has stopped its QT (Quantitative Tightening); it will start buying more Treasuries as mortgage-backed securities (mbs) roll off the Fed's balance sheet. Even Bitcoin has found a little support. True Believers still want to think that it is an uncorrelated asset. While we think it is not tethered to the hip of interest rates like it used to be, it is still a strong signal for risk appetite. We now also like to say that Gold is the new Bitcoin, and it has resumed its rally higher. Silver is the new leveraged Bitcoin! Even oil shows signs of life although much of this is supply related. The Saudis are pulling back on some of their production hikes and a damaged export terminal in Kazakhstan has cut global supply on the margin. With the tailwinds of the Big Beautiful Bill kicking in to gear in the new year, we expect more market ebullience. But we also expect continued volatility around the AI carousel. We will probably broaden our exposure to cover more parts of the economy.

Random notes for the week:

"Vibes" is a new buzz word. We will add it to our red flag list if people keep tossing it around in lieu of facts.

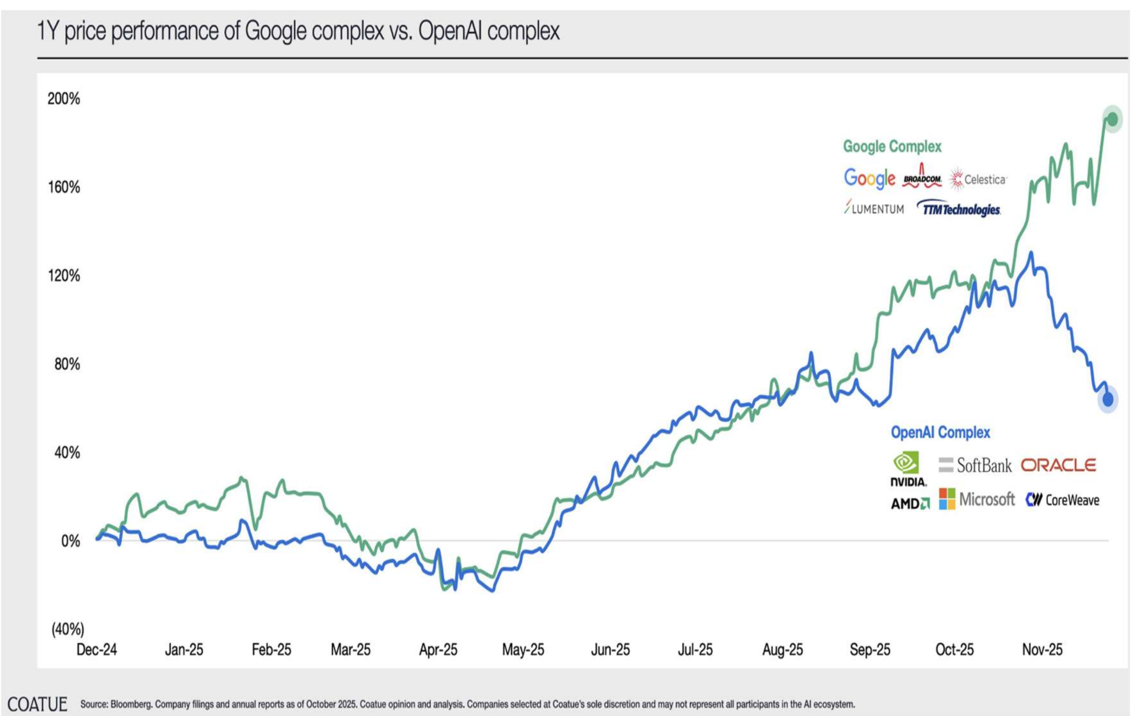
Open AI called for a "code red" to fend off its competition. Sam Altman must not know the fate of Colonel Jessup.

India is leasing a nuclear submarine from the Russians for $2b. We are long-term bulls on India but not if they continue to align themselves with the new axis of evil.

Looking to China, there are more worries about the real estate market. China Vanke was one of the giant developers that did not run into trouble over the last few years (remember the names Country Garden and Evergrande?). But now it is succumbing to the financial gravity of trying to be a capitalist in a communist society. It is trying to rework some debt that is due in two weeks.

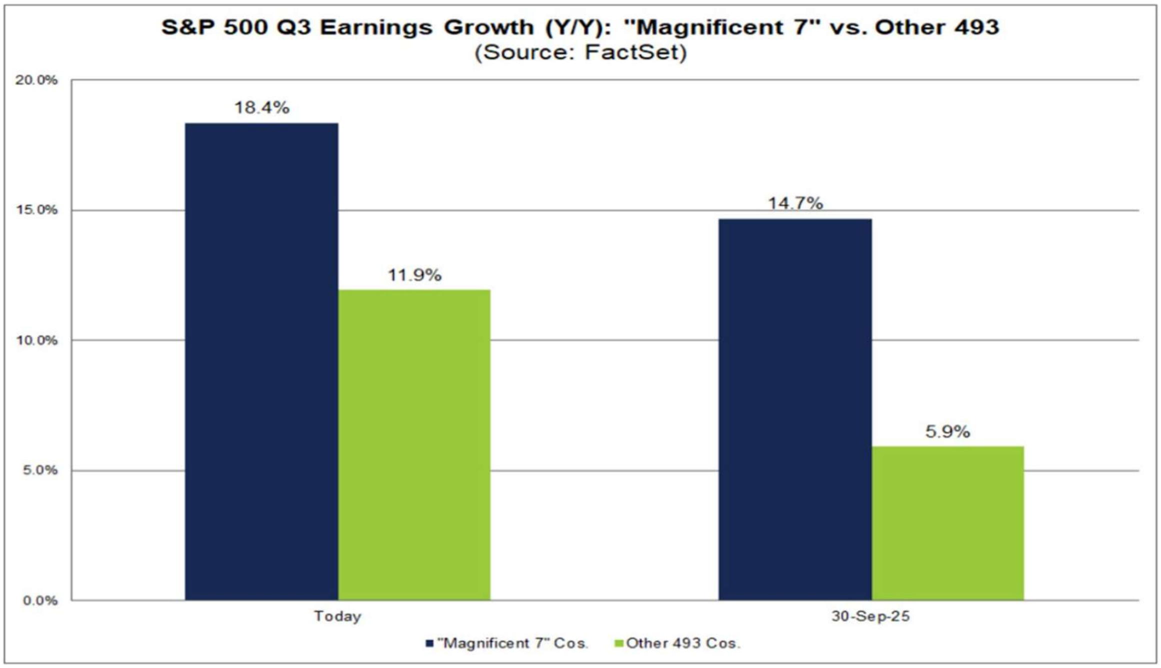
- Google vs OpenAI

We have been talking a lot about the divergence among the leading names in the AI ecosystem. We have highlighted the breakdown in correlations among the stocks. We have looked at capex spending and monetization trends. We have surmised that OpenAI might not be the ultimate winner. It might be another AOL or even MySpace. Below is a chart showing this unfolding in real time. Of course, this theme might be old news now.



➢ Earnings have been great…and not just in the Mag 6

The Mag 6 have had great earnings this year (Tesla's revenues and earnings have both shrunk this year hence our use of 6 not 7). Given the market concentration in these names, it is natural to highlight this fundamental performance. But it is not just these top names doing the heavy lifting. They are obviously leading the charge outright, but the Other 494 are no slouches themselves. Their gains vs expectations are more impressive.



(We might add that Energy is a tremendous slouch: Flat revenues and negative earnings growth. That is the downside to Energy Secretary Chirs Wright's drill-baby-drill platform. Ironically, it is the same tearing down of restrictions and beefing up of supply that has boosted nuclear stocks.)

➢ Holiday sales look good especially compared to the dour projections

The potpourri of early holiday Retail Sales data has been positive. Recall there were plenty of professional guessers (economists) guessing that seasonal employment was going to be lower this year, and sales would crumble. Right off the bat, e-commerce sales during Cyber 5, that's the new name for what used to just be e-commerce sales on Cyber Monday, were up +8% vs last year. According to Goldman, the highlighted areas of strong performance include "agentic shopping," highly discounted items, and Buy Now Pay Later. Per usual, higher-end consumers are shopping more than lower-end consumers (Generalissimo Franco…still dead). Amazon appears to be getting shoppers on both ends of the spectrum…not necessarily by income classification, but across discretionary and nondiscretionary sales. Adobe noted strong increases in high priced items including Appliances, Exercise Equipment, Headphones and Speakers, Televisions, etc. Adobe also highlighted the use of discounting. Thanksgiving Day spending increased by about 8% according to Salesforce. It pegs US sales on Thursday of around $10b (with about 85% being online shopping).

Weekly Redbook Retail Sales unsurprisingly jumped to +7.6% vs +5.9%.

Total Vehicle Sales in November increased to 15.6mm from 15.3mm (annualized run-rate).

- Business surveys are mixed and confusing (so we focus on the spending)

The S&P Manufacturing PMI for November fell a bit but not as much as expected (52.2 vs 52.5 in October and 51.9 from the early read/expectation). The ISM Manufacturing PMI fell and missed expectations (48.2 vs 48.7 last and 48.6 exp). The sub-components were all bad with Employment and New Orders slumping while Prices Paid went higher.

Services diverged between the two surveys. The S&P saw sentiment drop from 54.8 to 54.1. A small increase was expected. The ISM, however, increased slightly from 52.4 to 52.6. A small decrease was expected. The components are confusing. New Orders fell, Employment increased, and Prices Paid dropped.

It sounds like survey respondents are just as confused as the markets in terms of the path for growth, employment, productivity, etc. But as we have been saying for a while now, Business Spending remains resilient (and improving lately) while these surveys bounce around. (We can also draw the analogy to consumer sentiment…the surveys are softening, but the spending remains robust.)

- Other economic data is mixed

ADP's Private Payrolls change for November dropped -32k vs the gain of 47k in October. An increase of 10k was expected.

The Challenger Job Cuts in November dropped to about 71k from 153k in October. October was abnormally high, so this number is not as good as it looks (but still ok, especially considering these cut announcements do not always materialize).

Initial Jobless Claims dropped sharply to 191k from 218k. Thanksgiving might have abnormally depressed this number some. The 4-week average is down to 215k. Continuing Claims ticked down to 1.939mm from 1.943mm.

The average 30-year mortgage rate moved lower to 6.32% from 6.4%.

Weekly Mortgage Applications fell 1.4%. Purchases are trending better while Refinancings are trending lower.

Industrial production for September inched up +0.1%. This brings the annual increase to +1.6%.

Factory Orders increased +0.2% in September vs August.

PCE inflation for September increased +0.2% as expected and the same as in August. "Core" PCE increased +0.3% as expected, also. This is the same as August. The yearly rates are both 2.8%. Obviously these are higher than the 2% Fed target, but we still believe the Fed has quietly shifted its target higher.

Used Car Prices in November increased +.1.3%. They are flat over the last year.

U Michigan Consumer Sentiment actually increased in December. 1-year inflation expectations fell from +4.5% to +4.1%. 5-year expectations fell from +3.4% to +3.2%. (Mrs. Chalk Creek likes to sing a song with the verse "we don't give a damn about the whole state of Michigan…". We might write some lyrics about not giving a damn about the whole U Michigan sentiment surveys.)

- Where did all the crypto money go?

The world of prediction markets has taken off since the election and the mysterious French guy who bet a ton on Trump.* From betting on sports to whether Volodymyr Zelensky will wear a suit by a certain date, you can almost bet on anything these days. In fact, on Polymarket, you can bet on whether there will be a legal bet made on Polymarket in the US! How does this tie to the world of crypto you ask? The offshore prediction markets (including Polymarket) pay the winnings in crypto. But the real kicker here is that disputed outcomes are decided by a vote among anonymous holders of a crypto token called UMA. This group of unknowns ruled that Zelensky had not worn a suit by July 31 despite plenty of photos showing one of the world's richest men in a suit (Teddy KGB ran his casino with more honesty than this secret cabal). Believe it or not, there was $240mm wagered on this! In theory, these UMA holders vote with the best interest of the network in mind. If they make silly rulings, the value of the token will fall. UMA is technically classified as an "optimistic oracle" (we cannot make this stuff up). As for the bet made on Polymarket betting on a bet on Polymarket, the UMA oracles are yet to divine us with their fate. (This topic is more than just comical to us. We follow the gambling industry closely. We thought the legacy online sports betting firms would come under pressure from a Trump administration that would push for easy regulations on prediction markets. We still think this is true, but if we hear more crazy stories about bets not getting paid off, we could change our mind.)

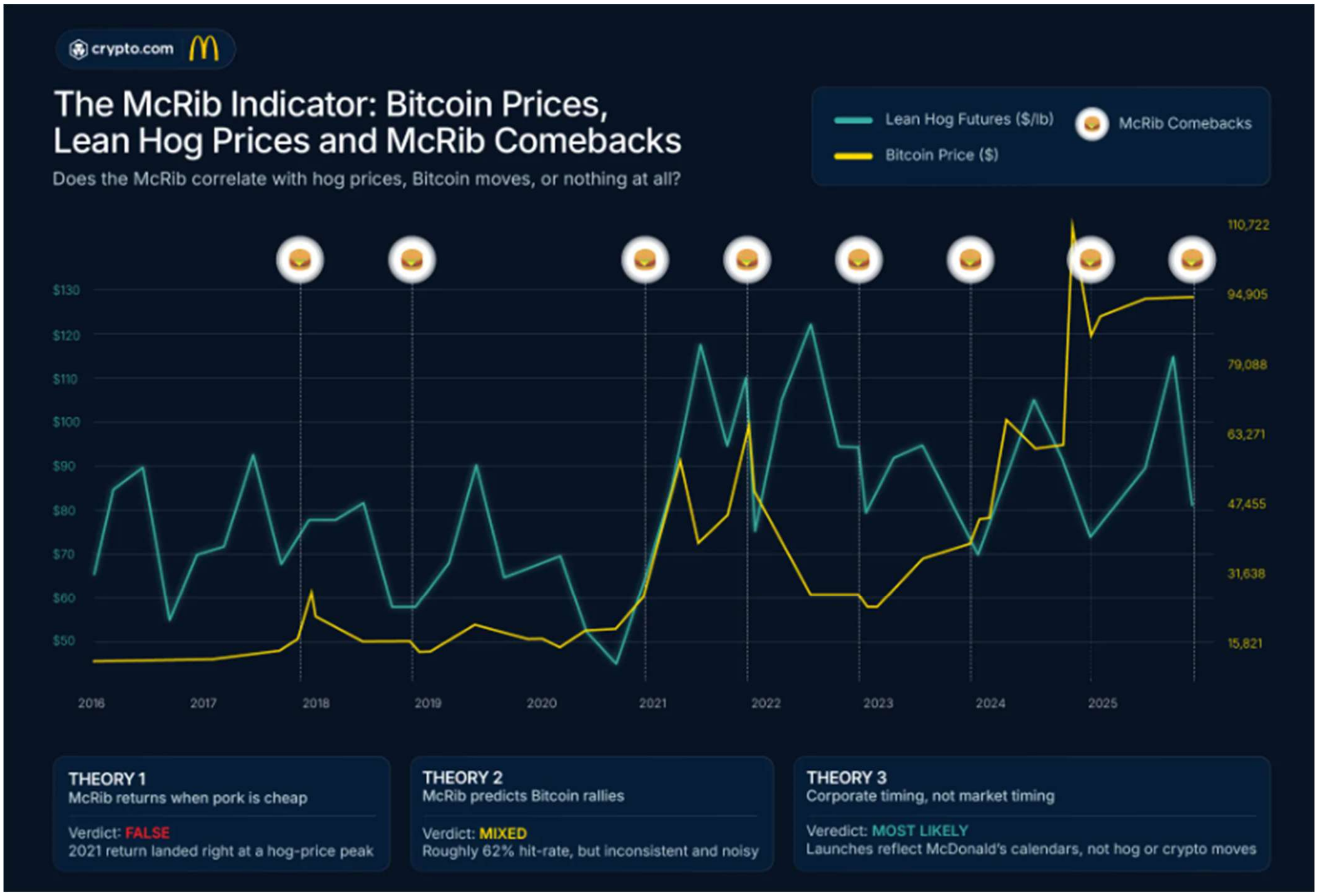
Michael Saylor's 9th rule of Bitcoin (he has 21) is "Only buy Bitcoin with the money you ***can't*** afford to lose." That emphasis is ours. But considering MicroStrategy (name change to Strategy!) has opened Pandora's box with respect to potentially selling Bitcoin to pay off its leverage, he might want to edit this rule.

- Where did all the real money go?

One of our recent discussions on criminal activity in the real world with real money centered around RCI Hospitality. This is the adult nightclub operator (Name change alert! It used to be called Rick's Cabaret. This was probably one of the few good name changes.) Its CEO and CFO were recently indicted for bribery, tax fraud, conspiracy, and more. The latest twist is that these two officers have stepped down from their leadership roles at the company. However, they will still be employed by the company with the same compensation schemes and stock awards. But these new jobs remain "undefined." These guys are taking "no-show jobs" to a new level. Vito Spatafore would be proud.

- Chart Crime of the week

You know times are tough in the crypto world when the diehards coalesce around a nonsensical narrative. Traditionally, they have cast side-eyes toward the nonbelievers with lines including "have fun staying poor" or "don't miss the next rocket to the moon" or whatever. Despite the shallowness of these battle cries, they were at least unassailable from a logic point of view (how can you argue with a shout-out to Ralph Cramden?). Now, however, they are hinging their hopes on the McRib. And this is not just in the outer fringes of the cryptoverse. This is a fairly mainstream idea!



- Quick Hits
  - The Minnesota Wild (NHL) broadcast a recent game in an Ojibwe language which is spoken by the Anishinaabe people in the upper Midwest.
  - Pan Am used to run a helicopter shuttle from its namesake building in Manhattan to JFK airport. A tragic malfunction in 1977 ended the service.
  - The Talatan solar farm in China sits on 162 square miles. It has over 7mm panels.
  - A full-grown Bison can be over six feet tall and weigh 1500 pounds.
  - It is possible for an NFL team to score a single point in a game.
  - Army threw a touchdown to its tight end for the first time in 17 years.
  - Scotland is selling bonds to the public for the first time since 1695. “Freedom!”
  - The NASCAR driver Kyle Busch is suing his life insurance company for turning $10mm of premiums into $1.5mm in value.
  - The Ho-Chunk tribe in Wisconsin is becoming one of the louder voices against prediction markets.
  - Canada has a Minster of Environment and Climate Change, Minister of Canadian Identity and Culture, and Minister Responsible for Official Languages.
  - A Bloomberg analyst calls for silver to either rally to $75 or fall to $40. (Helpful?)
  - One of the prominently featured Chicago Bears in its Super Bowl Shuffle video was backup QB Steve Fuller.

- Here is a non-exhaustive list of some of the names that received write-in votes for the mayor of New York City: Lou Gehrig, Hank Aaron, LeBron James, Sandy Koufax, Walt Frazier, Bad Bunny, Harriet Tubman, Jesus Christ, and Bart Simpson.
- Wall Street has lots of silly names, acronyms, and phrases. A new one (at least to us) describes the scenario when two or more creditors are vying for better terms from one borrower: Creditor-on-creditor violence.
- Jack Nicholson made $5mm during his 10 days of work filming A Few Good Men in 1992.
- Jason Alexander (Costanza) was originally cast as Lt. Weinberg.

TSLAQ: Tesla sales continue to plummet in Europe. Despite price cuts and a modest refresh in the Model Y and 3, registrations in France declined 58%. They declined 49% in Denmark. However, Tesla is reporting that its sales from its Chinese factory were up 10% in November. We are very curious to where these final sales are being made.

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