Weekly Update

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- Big Tech is stronger than the negative market narratives
- Economic Data is trending better
- Volatility is usually a warning sign but not always
- Job Openings galore, and small businesses are paying the price
- Maybe inflation is not so bad
- Retail Sales are starting to trend better after six months of choppiness
- Housing is trying to accelerate, but pricing is still the hurdle
- Quick Hits
- Chart Crime of the week
- Click here for the full note

	Last	5d %	YTD %	1yr %
SPX	4689	0.9%	26.1%	31.1%
QQQ	397.6	2.1%	27.2%	36.3%
US 10 YR	1.59%	1.57%	0.92%	0.87%
USD/DXY	95.8	93.9	89.9	92.3
VIX	17.1%	18.7%	22.8%	23.8%
Oil	78.3	-3.6%	61.5%	89.1%

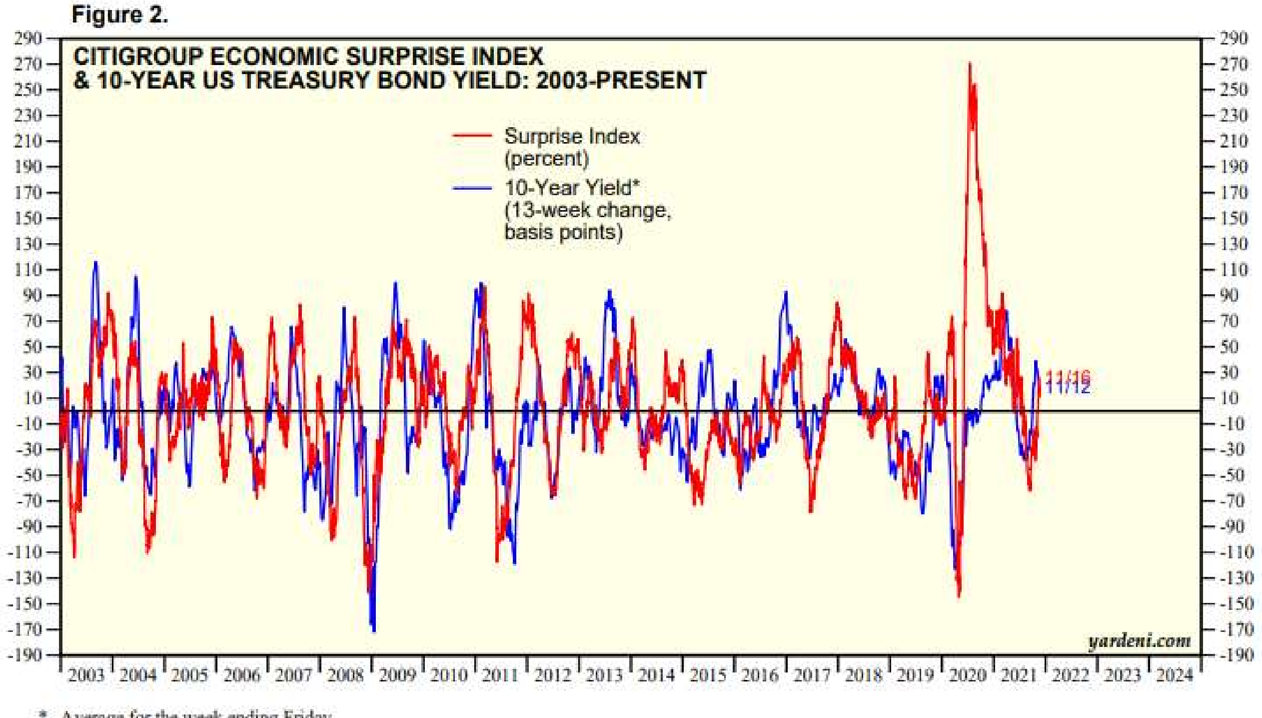
*10yr, DXY, and VIX are levels not changes
** Oil is front month futures, beware

As usual, the market shook off any worries and steamed back close to all-time highs. The fears of a rate hike cooled a bit. More importantly, economic data continues to impress thereby alleviating some of the stagflation worries (and thus not hiking rates into a slowing economy). The infrastructure bill got signed without too much clamoring about the fake infrastructure bill. Biden and Xi had an uncontentious video call. And Earnings continue to impress. Of course, one of the recent factor trends persists. Big Tech is seen as the safe-haven for growth despite rich valuations. High Growth stocks are ok unless they show a sliver of weakness, and then they get punished. And per the normal course of rotations, Value stocks are back underperforming: Energy and Financials are the laggards. But we still believe in these (more so Energy).

We noted that the market had been flattening the yield curve ahead of potentially imminent interest rate hikes from the Fed. This flattening had a small reversal this week. While the market still thinks the Fed is going to do its first rate hike in June, the probability has dipped a few percentage points. Part of this easing in hawkishness (less likelihood to increase rates) might stem from a lower probability of Jerome Powell's being reappointed Fed

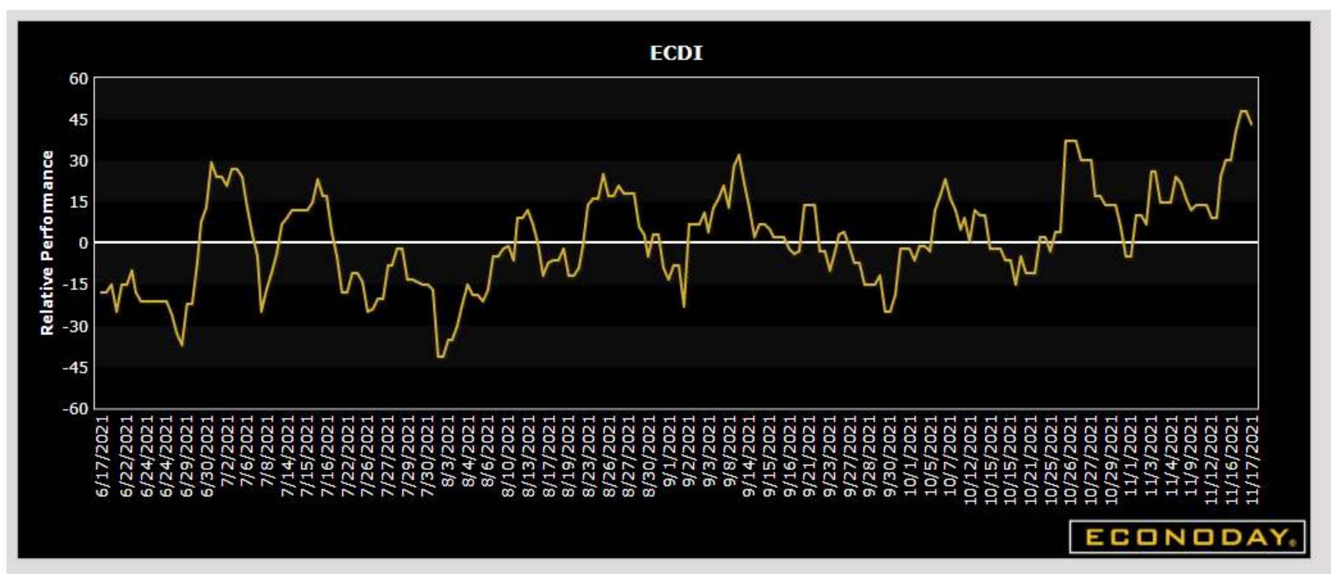
chair. A new Democratic chair is unlikely to hike interest rates before the midterm elections. Let us not forget that some large hedge funds were forced to unwind their steepening trades. These forced exits usually occur at the bottom. These together point to a more benign market backdrop (unless you are one of the former high-flying High Growth stocks that has a misstep…or one of the hedge funds forced to liquidate).

Economic data continues to beat expectations. It seems marginal, but it has quickly reversed from the poor data readings back in the late summer. It is worth noting that 10-year treasury yields have a strong correlation with the path of economic data (measure by the Citi Economic Surprise Index). We would expect yields on the long end to continue to grind higher (signaling strength in the economy). Quality growth can sustain this move, High Growth likely cannot. Yardeni Research puts it together:



* Average for the week ending Friday.
Source: Federal Reserve Board and Citigroup.

Here is a different surprise indicator from Econoday which shows the improving trend in more detail (June to November).



Econoday's ECDI provides a handy summary measure of how an economy has recently been evolving relative to market expectations.

- Volatility is usually a warning sign but not always

Some smart people have noted that the equity market and Volatility market (VIX) have moved in tandem over the last weeks. This only happens about 21% of the time (the norm is for Vol to rise as the market sells off and gets scared/feels the pain). And typically, this action portends some turbulence (these smart people did not lay out the magnitudes or durations of such instances, alas). But what this analysis is missing is the insanely high levels of recent Call Option buying. Usually, it is Put Protection which wags the tail of Volatility. But as we have noted several times, Call buying is at historic levels (by orders of magnitude), thus there is an underlying bid to Vol while the market is going higher.

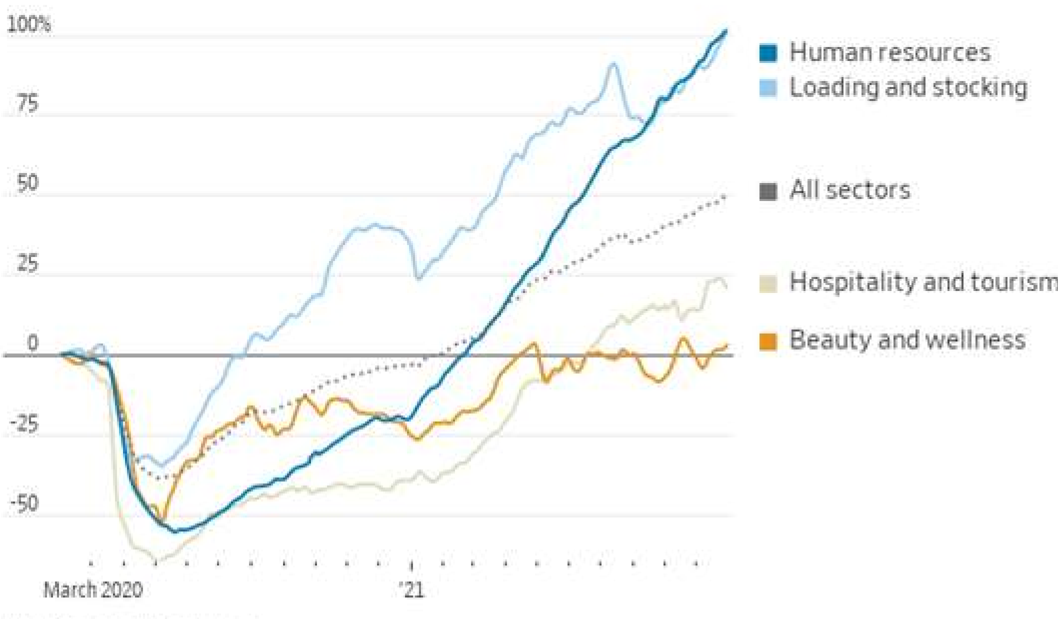
- Job Openings galore, and small businesses are paying the price

The JOLTS (Job Openings and Labor Turnover Survey) for September is still showing an enormous number of unfilled jobs at 10.4mm. And the number of "Quits" set a 20-year record at 4.4mm in September. The Accommodation and Food Services subsector has the highest percentage of Quit turnover. Retail is second place with most other subsectors trailing back near or below the average. Some politicians point to this data as more proof of inequality as blacks and women are the ones quitting. Alas, the Atlanta Fed points out that the largest wage gains are being had by the aforementioned "low wage workers." Quits are a good thing! You can see the surge in job postings in the Indeed data in the second chart. The third chart shows that the Quits are increasingly affecting small businesses. This reinforces our "rich get richer" or "big get bigger" themes for businesses.

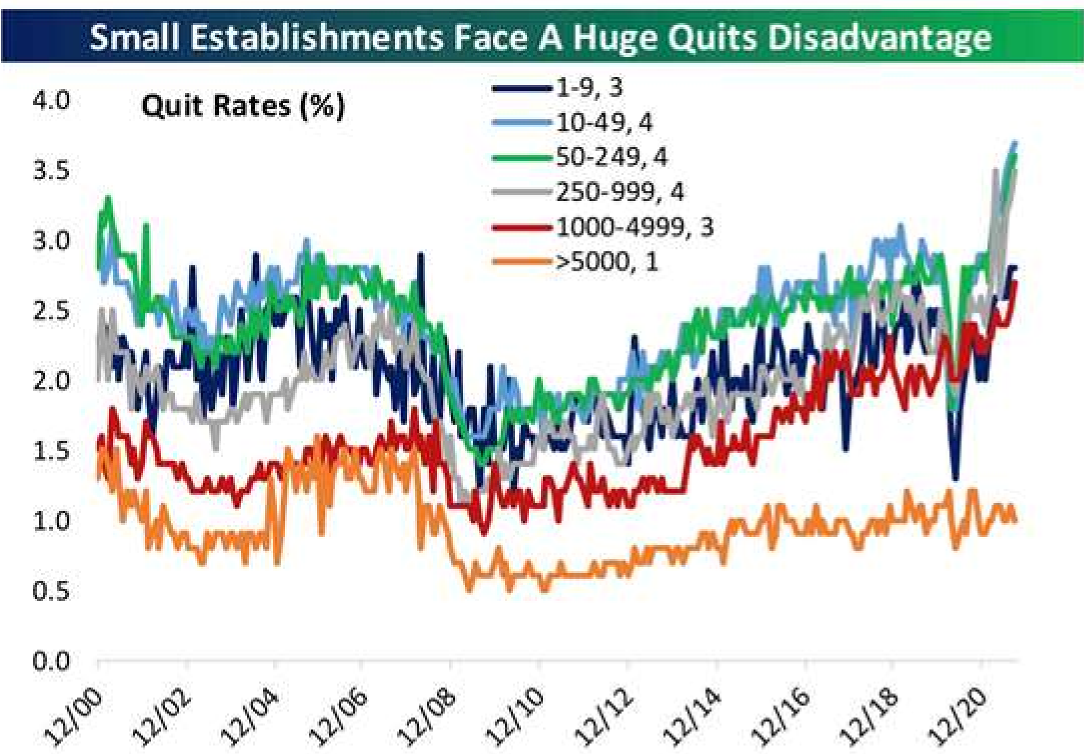
Number of job openings and number of unemployed, monthly

Note: Seasonally adjusted
Source: Labor Department via the St. Louis Fed

Change in job postings on Indeed since Feb. 1, 2020



Note: Seasonally adjusted
Source: Indeed



Source: Bespoke Investment Group *Source: Bespoke Investment Group*

- Maybe inflation is not so bad

Here is another look at some of the various inflation measures. As we have noted, even the Trimmed-mean (cutting off the outlier price moves) and Median (another way to cut off the outliers) measures have been accelerating. It is worth noting that the two previous inflation spikes in the last 35 years were just ahead of recessions (Oct 1990 and July 2008). John Mauldin (a good economist/writer) opined on this (the RSM chart below is courtesy of him) and puts the proper context around it: Will this be a strong enough economy when the fiscal stimulus is gone to survive inflation and interest rate hikes? We suspect he is right. For now, we think the Fed will take its time and the market will be able to sustain itself. Of course, as we always write, the Fed has made a mess of this by not recalibrating interest rates higher a long time ago.

Source: RSM

But Themarketear tells us that the market has done well after/despite inflation surges. The 1970's are the giant (and obvious) outlier. Some pundits are beginning to talk about the calendar effects on inflation early next year. That is, price changes in 2022 will not look so bad compared to the high prices of 2021. This does not provide much cover for the small businesses without pricing power. To this end, Walmart and Target just said that they plan on keeping prices low and just taking a margin hit on the higher input prices.

SPX Performance When Core CPI Trends Over +0.4%						
6M Into	3M Into	Incident	3M After	6M After	9M After	12M After
1.23%	0.06%	10/31/1973	-10.82%	-16.60%	-26.76%	-31.76%
-4.47%	-3.29%	4/30/1982	-8.03%	14.83%	24.11%	41.21%
5.36%	-0.58%	9/30/1988	2.14%	7.58%	16.94%	28.41%
-5.74%	-4.01%	2/28/1990	6.84%	-3.18%	-4.20%	10.60%
15.15%	8.56%	6/30/2021	0.23%	-	-	-
2.31%	0.15%	Average	-1.93%	0.66%	2.52%	12.11%

- Retail Sales are starting to trend better after six months of choppiness

Retail Sales moved higher by 1.7% in October vs September (which was 0.7% higher than August). And the number stripping out autos and gas was also robust at 1.4%. Of course, these Sales increases include price increases. But they still appear like a Reopening perhaps coupled with early Christmas shopping (people afraid of long delivery times, etc). Clothing sales were down, and restaurants were flat to round out the bottom.

- Housing is trying to accelerate, but pricing is still the hurdle

The Housing Market Index for November moved higher again. The August slump has completely reversed with home builder sentiment back near the spring level.

Housing Starts in October were a litter weaker than expected. But Permits were slightly stronger than expected. And the number of Permits sits at a 15-year high (recall that Housing data tends to be seasonally adjusted using annualized rates, so "highs" are often actually relative). But just like in Starts, the strength was centered around multifamily housing. This is a change from what has propelled the data higher…it used to be all single-family home building. Higher prices are the impediment to get more building going.

- Other data is mixed: weak consumer sentiment but strong Manufacturing
  - U Michigan's Consumer Confidence survey hit a 10-year low.
  - Empire State Manufacturing jumped higher in November. This data has turned very volatile on a monthly basis.

- Chart Crime of the week

There is so much wrong with this attempt at fitting data onto virtue signaling. But we will stick with rule number one of statistics: Correlation is not Causation!

Appointing more women to managerial positions improves firms' environmental performance 🌎
#GenderDiversity #ClimateChange #COP26🌍
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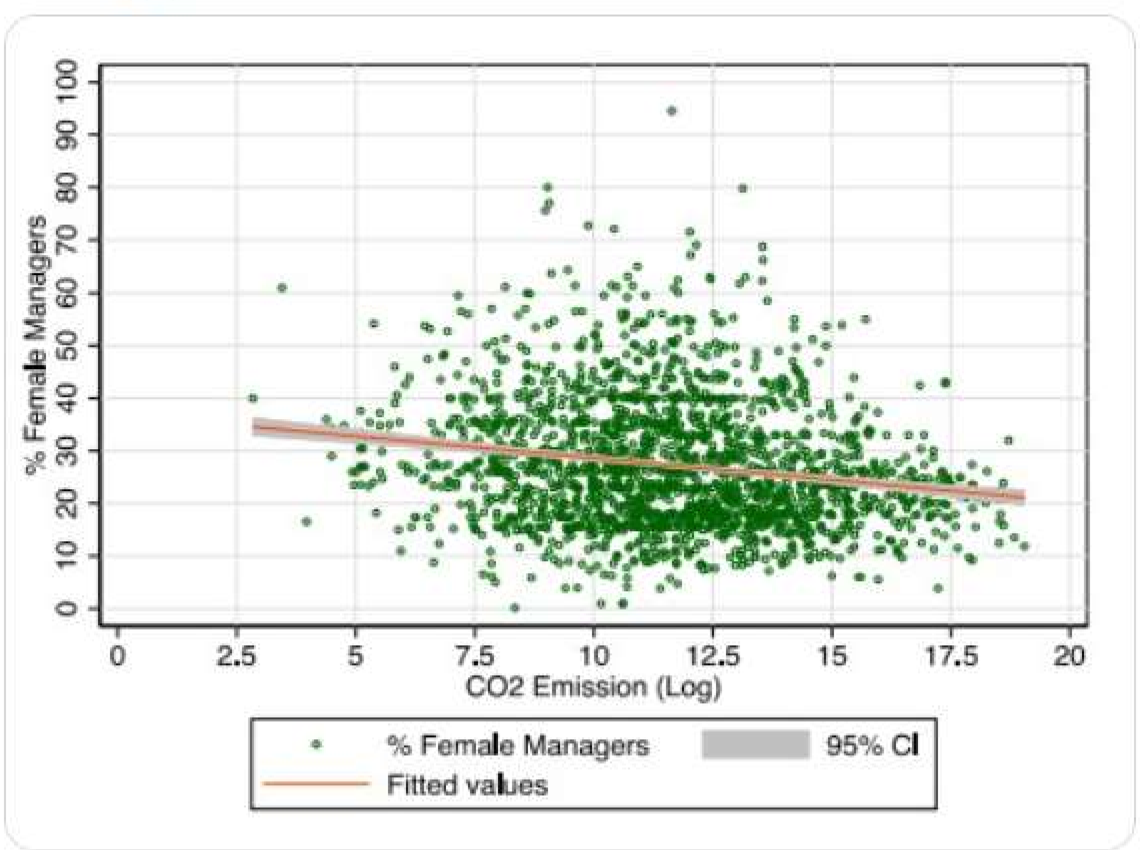

- Quick Hits
  - There are three different types of sharks living in the Thames River in England.
  - The Thames was declared "biologically dead" in 1957.
  - The Brits (including Chalk Creek Jr who was born there) call it the River Thames.
  - GE has paid Wall Street more than $7b since 2000 for investment banking advice (which companies to buy and sell).
  - The US has 5,000 miles of CO_2 pipelines.
  - Nancy Pelosi has banned Facebook lobbyists from her office. The only way to watch her press conferences is on her Facebook page (hat tip to Walnut Green for this one).
  - The Food, Beverage, and Tobacco industry in the S&P 500 has the second highest correlation to Bitcoin.

- Portugal has a new rule (notably not an actual law) that forbids employers from contacting work-from-home employees at certain times.
- Twitter's CFO said it does not make sense for the company to invest in crypto.

Trading: We trimmed one of our long-held Growth baskets. It fits in between Quality Growth and High Growth. We suspect it might correlate with the latter, so we want a little less exposure. We added to our auto long (not Tesla!) as it has pulled back despite the other autos still raging. We cleaned up some stale Puts. We have a few new short ideas (always via Puts) that we will start to layer in slowly. We think the market still might run hot into the end of the year, so we will be slow and methodical. Of course, we are hearing more people talk about the strong seasonality of November and December. This makes us want to lighten up a little bit quicker!

TSLAQ: How come nobody is talking about Elon's brother selling stock the day before Elon was preprogrammed to sell stock? We commented and knew that Kimball sold $110mm before the Twitter poll and subsequent selling. But we have since found out in an SEC filing that Elon set up the selling in mid-September! Moreover, Elon continues to take potshots at senators on Twitter. Apparently, he is untouchable. We certainly respect his free speech and some of his comments have merit and/or are funny. But we do not think a public CEO should be engaging in this type of activity. Elsewhere, JP Morgan is suing Tesla because the latter defaulted on an option/warrant trade. It is complicated, but Tesla sold JPM call options back in 2014 with an expiration of June 2021 (hence they are called warrants). The Calls were sold to help offset some Convertible Bonds that Tesla had issued but decided it did not want to be short (this is not unheard of in the capital markets). Needless to say, the calls are massively in the money. But Tesla has not paid JPM the $162mm that is due. Musk will probably pay it out of his pocket change (it is less than 0.05% of his estimated wealth).

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