



Weekly Update

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- Forced selling exhausts itself
- But the rebound is in the economy sensitive stocks not Big Tech
- Retails Sales disappoint...but Employment shines
- Takaichi wins the mandate in Japan, and the market rewards her
- Earnings growth is still accelerating
- Software companies say their revenues are growing, but nobody believes them
- Delinquencies on consumer loans are on the rise, should we worry? (no)
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week
- This guy did not cause the panic

	Last	5d %	YTD %	1yr %
S&P 500	6,941	0.9%	1.4%	14.4%
QQQ	\$613.11	0.0%	-0.2%	16.1%
US 10 YR	4.18%	4.28%	4.17%	4.63%
USD/DXY	96.9	97.6	98.3	107.9
VIX	18.6%	17.7%	15.0%	15.9%
Oil	\$64.99	-0.3%	12.6%	-11.9%

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

** Oil is front month futures, beware

After last week's Artificial Intelligence scare, the buyers came roaring back. What exactly changed overnight from Thursday to Friday? Not too much fundamentally. But we feel more comfortable in our assertion that much of the panic was technical in nature. The positive momentum factor which had taken the brunt of the selling pressure regained its footing. This just means that all the puking from the quantitative funds, panicking hedge funds, and retail stop losses (after being too early to buy the dip) was exhausted at the exact same time. Adding to the chaos, the rate of change of gamma in the options market had increased sharply. This dynamic, known as "speed" in the options world and "jerk" in the physics world (the rate of change of acceleration), results in dealers chasing their tails more than just the usual gammas squeeze (forced to buy high and sell low). But unless something breaks structurally (usually resulting in funding stress), this type of acute pain is usually short-lived. And then when Volatility cools, the dynamic often reverses (sellers buy back in!).

Coming out of the mini tailspin, the market is refocused on the broadening trade. As we surmised last week, Software might not be dead yet, but traders are still shooting first and asking questions later. The hyperscalers are still under fire for all their insane capex plans despite good earnings (Amazon added to the growing list of capex explosions). More debt is being used to fund this spending (this time Google which included a 100-year bond). But the picks and shovels of the AI ecosystem are resuming their leadership. All the spending from Amazon, Microsoft, and Meta (and Google, but they are attempting to create their own vertical in the chip space) goes directly to Nvidia and Taiwan Semiconductor. The second derivate names are accelerating, as well (quality companies including Micron and Vertiv). Interestingly, with Google's recent weakness, there was another "leak" from OpenAI saying that its ChatGPT growth was reaccelerating. This is likely just Sam Altman bitterness after being blasted in Super Bowl ads.

Interestingly, the recent economic data had started to worry the market. As we noted last week, the market was worried about "cutting because we have to" instead of interest rate normalization. A poor Retail Sales figure reinforced this worry. This coincided with an update to the Atlanta Fed's GDPNow. The 4Q expectation was revised lower to +3.7% from 4.2% (it was 5.4% earlier). But then came a gangbusters January Employment Report. Even the typical backward revisions could not tarnish the luster of more jobs, more people working, and higher wages. This is just one month, but it should allay some market fears even if the odds of a rate cut are going down (June has gone from no-cut at 25% to 42%).

In addition to the weak Retail Sales, Synchrony Financial said its middle-income customers were struggling with affordability. (The company said its sub-prime customers were used to weathering the storm...interesting.) But at the same time, BofA, JP Morgan, and Capital One all said consumers were in good shape. But financial stocks remain under pressure because of the affordability issue.

There was not much talk of the Fed this week...even though the nomination of Kevin Warsh to be Fed Chairman is what first gyrated the market. Some old school Fed watchers have basically laughed at the notion that Warsh is going to be hawkish when it comes to the balance sheet of the Fed. He will likely reserve future QE (bond buying) for actual emergencies. But that is not to say he will quickly alter the current state. We will not get much color on this directly from the source since he effectively has a gag order to not speak until his confirmation hearing.

Internationally, Japan continues to be the focus. Prime Minister Takaichi's LDP party won a 2/3 supermajority in the Lower House of Parliament during the weekend's snap election. Including the seats from LDP's coalition partners in the JIP, her control is almost 75%. Takaichi is now the strongest Japanese leader since WW2. Her gamble paid off, and the markets responded with a +6.5% rally in two days. Equities were probably buoyed by the currency and the bond market. The Yen strengthened (USDJPY lower), and 10yr JGB's ticked higher but controllably. Defense spending is a focus along with the elimination of the food tax. She wants to amend the constitution to be able to possess a military. She is vowing to be responsible in her spending plans. The bond market will be the judge of that, but so far, everything is working in her favor. We are long and will look to buy dips.

Elsewhere, the Chinese want corporations to limit purchases of US Treasuries or even trim oversized holdings. This does not affect the government's holdings. We suspect it is more noise than anything else.

Iran tensions are rising again. CTAs have loaded up on oil futures. We always say to sell geopolitical premium in oil.

In addition to Japan, we also are long Latin America and want to buy any dips.

- Earnings growth is still accelerating

Exhibit 3. 2025Q4 Blended (Reported & Estimated) Earnings Growth

Sector	Today	1 Jan	1 Oct	1 Jul
Consumer Discretionary	-0.1%	-2.8%	-1.9%	-2.9%
Consumer Staples	2.5%	1.6%	5.4%	4.9%
Energy	2.2%	1.7%	0.6%	0.2%
Financials	12.2%	6.7%	4.7%	2.5%
Health Care	0.5%	0.7%	4.4%	8.8%
Industrials	15.9%	-1.7%	0.7%	1.1%
Materials	8.6%	8.2%	10.1%	14.9%
Real Estate	1.2%	0.8%	0.9%	1.2%
Technology	30.6%	26.5%	19.2%	14.7%
Communication Services	15.1%	7.3%	7.1%	3.8%
Utilities	2.5%	3.8%	10.5%	8.3%
S&P 500	13.5%	8.9%	7.7%	6.3%

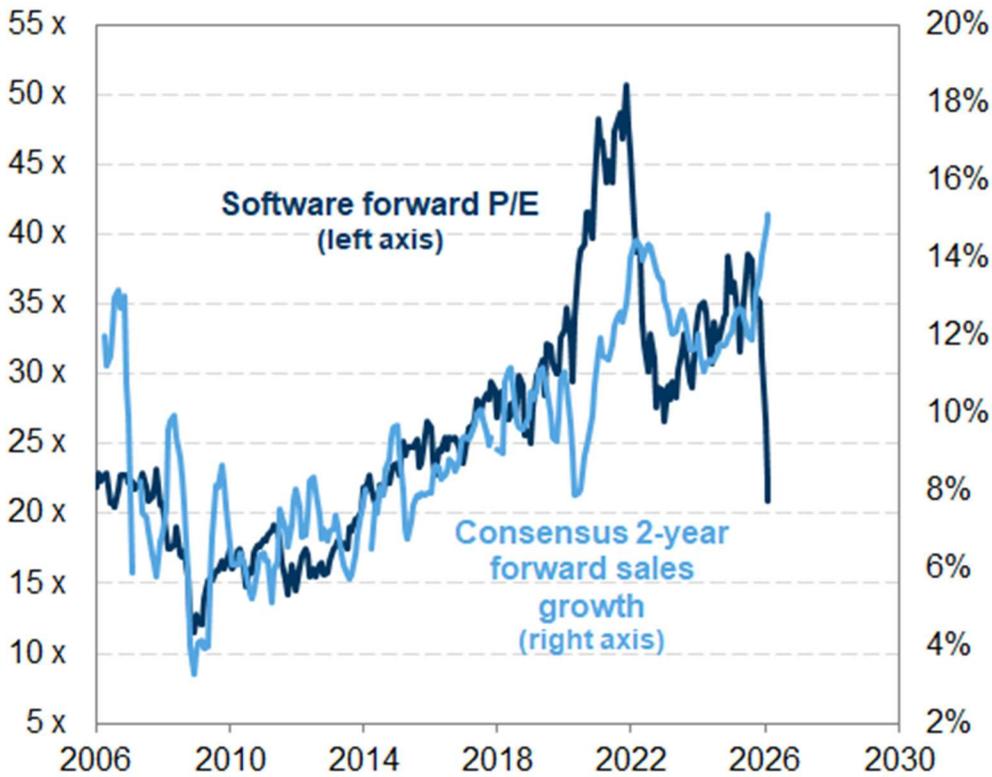
Source: LSEG I/B/E/S

- Software companies say their revenues are growing, but nobody believes them

Software Sales are expected to accelerate (the lighter blue line) ...but the market does not believe this (as seen in the market multiple – the dark blue line).

Exhibit 1: Software valuation de-rating implies a sharp decline in growth expectations

Software = IGV



Source: FactSet, Goldman Sachs Global Investment Research

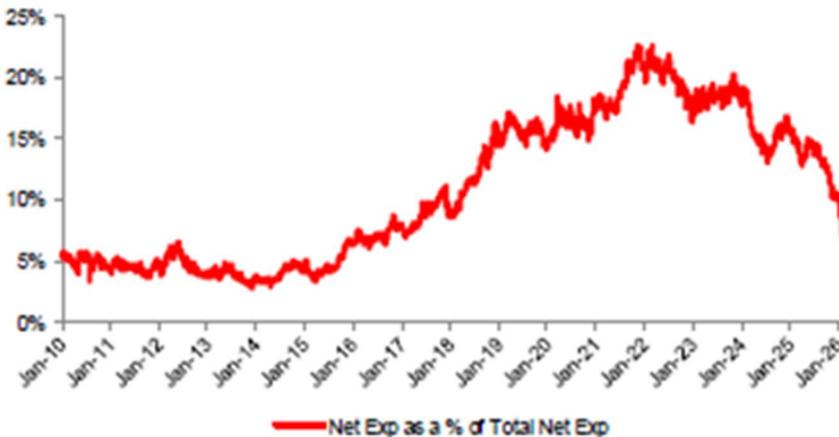
Here is the visual of hedge funds selling first and asking questions later. It also looks like there could be more selling to come.

HF Net Exposure: Software

HF Net Exp to N. America Industry as % of Total N. America Net Exposure

%-tile Rank since 2010: 42%

12M %-tile Rank: 0%

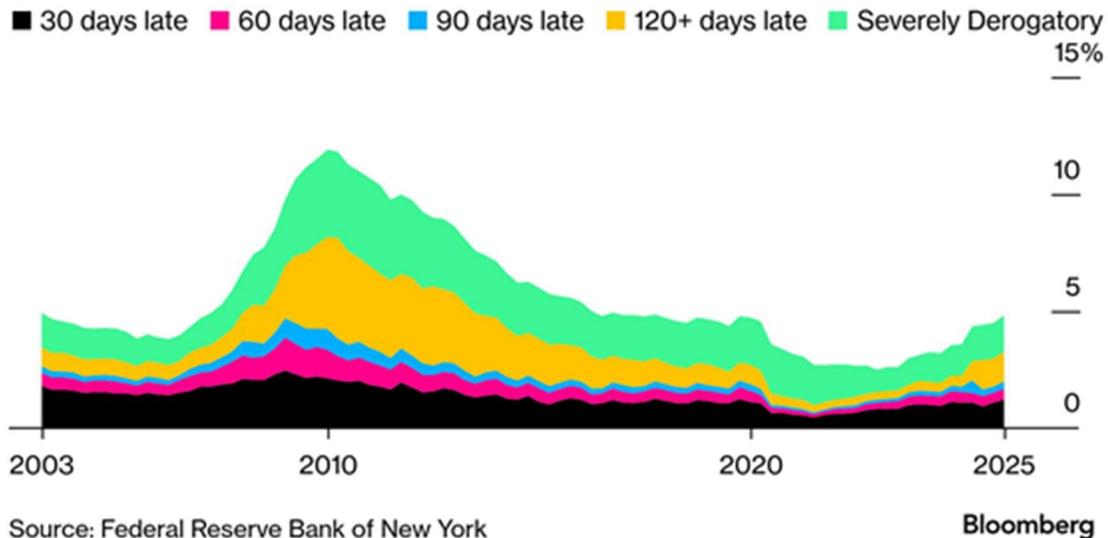


- Delinquencies on consumer loans are on the rise, should we worry? (no)

Delinquencies on consumer loans have been on the rise. Bloomberg is framing this as a warning sign that the strength of the consumer is eroding. But much of the normalization (after all, rates are barely back to the pre-Virus Fear level) has been driven by student loan defaults (this is what happens when you condition people to not pay their debts...they don't pay their debts). This jibes with diminishing employment data among college graduates...college just isn't worth what it used to be worth. But there has also been a rise in late mortgage payments. The NY Fed says this is more prevalent in lower-income zip codes.

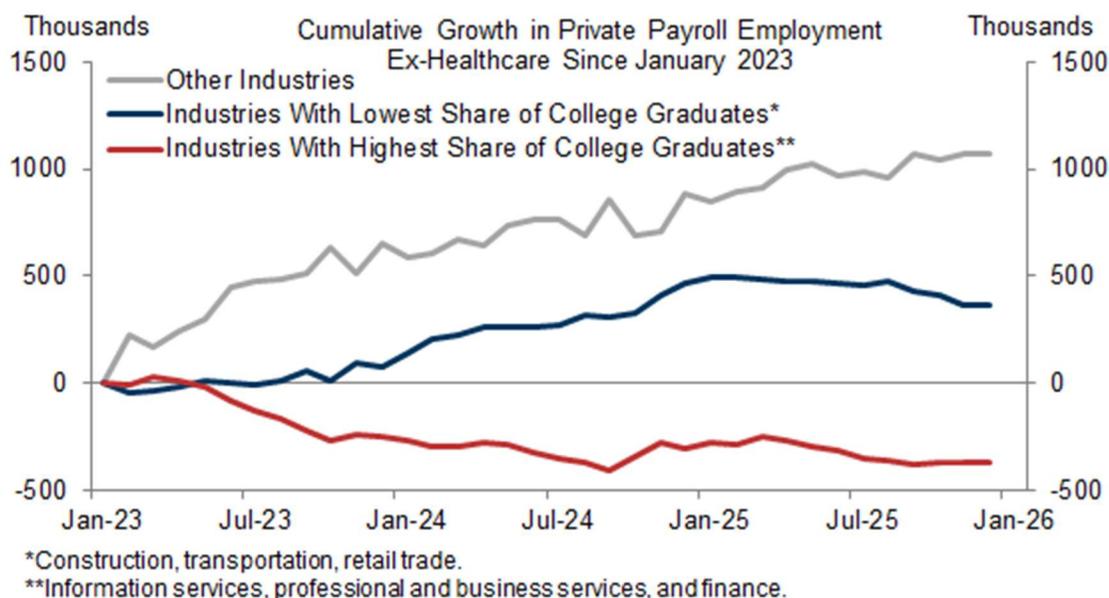
Debt in Default

The share of US loans in delinquency is at the highest since 2017



Here is the data on the value of college. There might be some implicit bias in the data if AI disruption is more prevalent in jobs typically held by college graduates. But this does not invalidate the data...it just explains it.

Exhibit 1: Industries That Disproportionately Employ College Graduates Have Reduced Hiring More Sharply Over the Past Few Years



Source: Goldman Sachs Global Investment Research, Department of Labor

➤ Employment surprisingly surges

The Employment report surprised to the upside with a gain of +130k Nonfarm Payrolls (NFP). The guess was for +70k, but the whisper was lower than this (probably around +40k). Even Kevin Hassett, Trump Director at the NEC, had hinted at a weak NFP number. While Private Payrolls (+172k) heavily outstripped Government jobs (total -42k, federal -34k), many of these job gains were in Health Care (+82k) and Social Assistance (+42k). Construction jobs were a bright spot at +33k. Financial Activity jobs declined by -22k (AI disruption). Manufacturing increased by +5k. Drilling down a bit, Manufacturing overtime jumped as did Temporary jobs. Part-time jobs fell while Full-time jobs increased. These are all strong leading indicators.

The Unemployment Rate improved slightly from 4.4% to 4.3%. The Labor Participation Rate edged up to 62.5% from 62.4%. All told, Employment jumped +528k in January with Unemployment falling -141k.

Average Weekly Hours ticked up to 34.3 from 34.2. Average Hourly Earnings increased +0.4% vs Dec. But Dec was revised lower to +0.1% from +0.3%.

Revisions, as always, grabbed the headlines. Total job gains for 2025 were revised lower by -403k. But the surge in Employment is important.

Before the Employment report, ADP Employment Change increased by 6.5k vs +5k last week. For the month, it predicted only +22k Private Payrolls compared to the +172k reported.

➤ Retail Sales slowed into the end of the year

Retail Sales were flat in December. This is a slowdown from +0.6% in Nov and less than expectations of +0.4%. Sporting Goods and Hobby stores were among the gainers at +0.4%. E-commerce only managed a +0.1% gain. Miscellaneous, Furniture, and Apparel all declined sharply (-0.9%, -0.9%, and -0.7%).

The Control Group, the set that is used to calculate GDP (it strips out Food Services, Auto Dealers, Building Material stores, and Gas Stations) fell -0.1%. And November was revised down to +0.2% from +0.4%.

Weekly Redbook Retail Sales increased +6.5% (down slightly vs +6.7% but still strong). Reminder that the Census Bureau Retail Sales tracks sales of all shapes and sizes. Redbook tracks same-store sales...if a store goes out of business it is not included. Redbook also focuses primarily on large box stores. We like using the two metrics together.

➤ Other economic data is positive

Consumer Inflation Expectations dropped from +3.4% to +3.1% (NY Fed's 1-yr).

Export Prices increased +3.1% for the year in December, and Import Prices were flat.

Small Business Optimism (NFIB) remained steady. It has been at a good level for nine months after the gyrations early in Trump2.0.

Mortgage Applications were flat after recent weakness.

The average 30-year mortgage rate remained flat at 6.21%.

➤ Where did all the crypto money go?

Where did all the gold jewelry go? Into gold "ATM" smelters on the Vegas Strip. Apparently, there will be kiosks in which you deposit your gold jewelry. The machine melts your gold at 2200 degrees. Then it weighs and verifies that it is, indeed, gold. Then the value is all yours (minus the fees, of course). Pawn Stars made their money while they could.

We like to lump the oddities of prediction markets into this category. Many of the stories detail legal (for now) insider trading. This one... not so much. Just a few hours before the Super Bowl, some rapper named Preme bet \$177k on Polymarket that Cardi B would not perform during the half time show. Apparently Preme is friends with the rapper Drake. And Drake is friends with Cardi B. The rumor is that Cardi B told Drake that she was not going to sing during the SB show. And Drake told this to Preme (Drake is known as a crazy gambler). But Preme made the mistake of confusing "perform" with "sing." Cardi B did not sing but she did dance during the halftime show. Preme lost the \$177k.

We were under the impression that the blockchain would save us from fat fingers and just generally sloppy settlement procedures. In Korea, a crypto exchange called Bithumb accidentally gave away \$40b of Bitcoin. A data-entry employee transferred 2,000 Bitcoin into hundreds of accounts that were eligible for a promotional deposit. The bonus was supposed to be for 2,000 Korean Won (KRW). This is worth about \$1.38. Oops. Some quick-fingered customers sold their newly gifted Bitcoin...about \$125mm in total. Most of this was recovered by the exchange, but it still lost about \$9mm with the blunder.

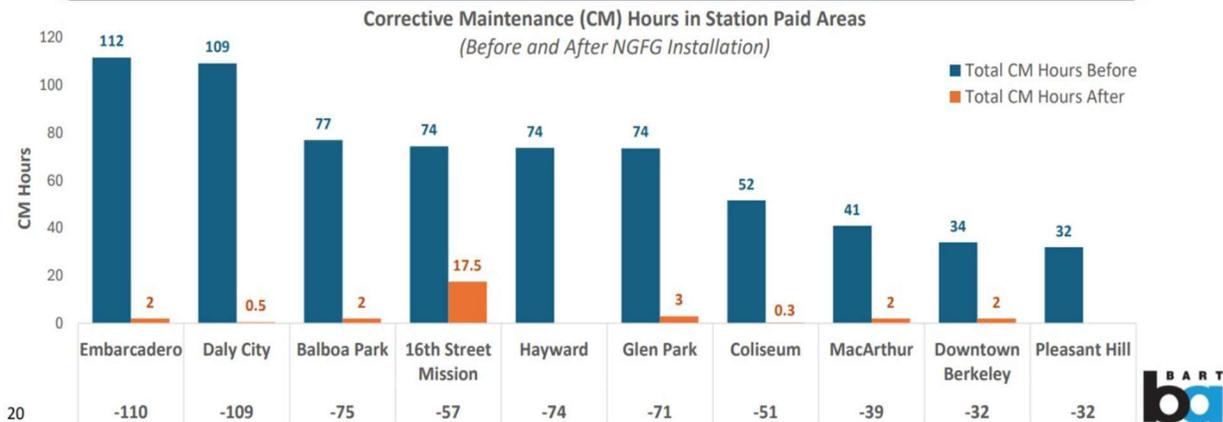
➤ Chart Crime of the week

This is a chart about actual crime. San Francisco recently installed new fare gates that make it almost impossible for turnstile jumpers to do their thing. The result was that "Corrective Maintenance" (CM) fell to almost zero. CM is applied to "vandalism, graffiti, broken things, and unusual large clean ups." In other words, turnstile jumpers do not just jump the turnstile.

Next Gen Fare Gate Successes

Hours spent on patron related Corrective Maintenance (CM) within the paid area of stations reduced significantly after NextGen Fare Gate (NGFG) installations

Systemwide Improvement: 961-hour reduction in 6 months post installation



➤ Quick Hits

- Chinese mutual fund managers reduce their risk during their zodiac years.
- Halley's Comet's next visible visit will be in mid-2061.
- The first two Christopher Reeve Superman Movies were filmed at the same time.
- No Scorigami in the Super Bowl. 29-13 has happened 12 times in NFL history.
- The last Scorigami in the Super Bowl was in XLVIII. It was the Seahawks's win over the Broncos 43-8.
- The Super Bowl broadcast said there had never been a first half without a touchdown. This was wrong – there had been four before SB LX.
- In fact, this non-fact was horribly wrong. The halftime score of Super Bowl IX was 2-0.
- Average daily trading in the US equity markets has tripled since early 2020.
- Kalshi and Polymarket were both running free grocery promotions last week.
- Switzerland is going to vote on a plan to limit its population to 10mm people.
- Finland has enough battery storage for electricity to last six minutes.
- Finland gets 25% of its electricity from wind.
- Italy is the only Olympic hockey team without any NHL players.
- 12 of the Italian hockey players are not from Italy (20 total players).
- Rory Sabatini, who is from South African, played golf for Slovakia in the 2021 because his wife was Slovakian. He won a silver medal. (To be fair, he was required to become a citizen of Slovakia).
- The alligator equivalent to hibernation is called brumation.

TSLAQ: Musk wants to launch the SpaceX IPO in mid-June. Other than this being an aggressive timeline, what stands out is his rationale. He wants the timing to align with a "conjunction" in space during which Jupiter and

Venus will appear right next to each other. This is not terribly rare (it last happened three years ago), but Musk will surely make it seem like the next visit from Halley's Comet. Silliness aside, this will be the IPO to watch (assuming it gets to market ahead of OpenAI, Anthropic, and Databricks which is now valued at \$134b on a revenue run-rate of \$5.4b).

Otherwise, SpaceX is already following in the footsteps of Tesla. It nonchalantly abandoned its plans to land on Mars. Instead, SpaceX wants to have a lunar landing without astronauts. The target date is March 2027. As for humans on the moon, it will be a "self-growing city on the moon" whatever this means. Actually, what he means is, "the overriding priority is securing the future of civilization, and the Moon is faster" than Mars. Musk also plans to build an xAI factory on the moon along with a massive catapult to launch satellites into space. We must admit; this would be extremely cool. The ultimate Pumpkin Chunkin.

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