



Weekly Update

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- Always fade the geopolitical storm
- The Fed is a little more divided now
- Trump's tax cuts, deregulation, and big spending are right around the corner
- Tariffs...who is really paying the price?
- Housing Supply is coming (and the price cuts)
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	6,092	2.1%	4.2%	13.2%
QQQ	\$541.16	2.4%	6.1%	14.8%
US 10 YR	4.30%	4.39%	4.58%	4.33%
USD/DXY	97.7	98.9	108.5	106.1
VIX	16.8%	20.1%	17.4%	12.2%
Oil	\$65.18	-13.2%	-9.5%	-19.7%

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

** Oil is front month futures, beware

One of our longest running themes has been to always fade geopolitical storms. But even we did not imagine that the US openly bombing Iran would result in a market rally! Of course, the optimism stems from the hope (maybe even likelihood?) that there might actually be some peace in the Middle East. We have also stated and still claim that there will never really be peace in that region, but all the world needs is for their skirmishes to remain just that. So even if the Trump-truce does not hold, we think the risk to the markets has largely passed (but volatility is always right around the corner).

Without much in the way of earnings (the few trickling in have generally been good) or economic data, the other major focus has been on the Fed. While Chairman Powell continues to push his "wait and see" approach, there are some opposing views starting to be voiced. Fed Governors Waller and Bowman have both expressed the likely need for a rate cut as soon as July. Chicago Fed President Goolsbee is also starting to shift into the cut sooner vs later camp. But some of the more traditional Fed thinkers are pushing back on this. John Williams, president of the NY Fed, thinks rate cuts "will eventually need to return to the more normal levels." But he thinks we first need to wade through the uncertainty of tariffs. What could be helping the rate cut cohort is that Europe has been cutting rates. Even though the European Central Bank hinted it might pause its rate cutting

program (last cut on June 5), other central banks are picking up the slack. Norway, Sweden, and Switzerland have all cut rates in the last week.

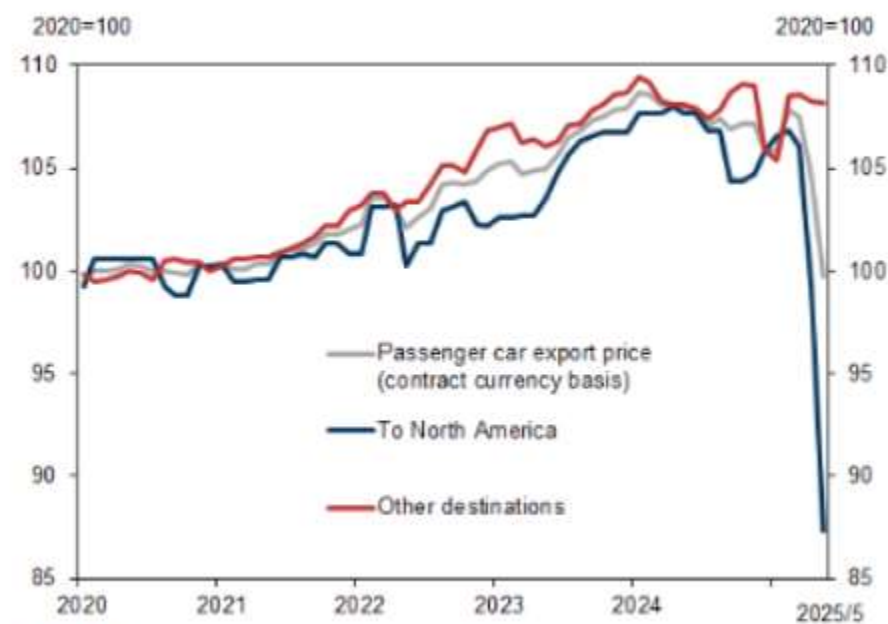
As for the trading in the markets, positioning still points to more buying. As we have been noting, just because hedge funds bought the rally (after selling the dip!), there is still plenty of room to buy from the quant funds (Volatility dropping automatically pushes them to buy more equities). Large institutions have been selling all year. And Retail Bearishness just turned higher while Bullishness dipped (small moves on the margin, but the sharp moves have stopped for now). Anecdotally, some of the recent highfliers have lost some luster. The recent IPOs that we have highlighted recently are down 15-30% in the last few days. Of course, there are still up hundreds of percent!

Our baseline view has not changed much. We expect a slight slowdown in growth and an uptick in inflation. So, the stagflation crowd will cry foul. But this likely will pass right when the Trump tax cuts hit, deregulation finally arrives (the Fed is lowering bank capital requirements as we speak...and Bitcoin might be an acceptable form of collateral for mortgage loans...whoa) and the big spending continues (a notable outlier here might be medical spending...we think it is getting cut). The latest online betting sites have the passage of the Big Beautiful Bill at around 75% (up from 66% last week). Clearly, we are bullish, but we also are slowly trimming some longs and keeping the exposure diversified considering we are back at all-time highs!

➤ Tariffs...who is really paying the price?

Much of the debate at the Fed revolves around who will pay the tax of tariffs and their impact on growth. This burden might fall on the consumer via higher prices (seemingly Powell's base case). It might result in lower sales...maybe people do not want cheap Chinese crap if it is not so cheap. There might be substitution effects. Or companies, foreign or domestic, might have to eat some margin. Here is a Goldman chart going around the Twittersverse (Xverse).

Japan Passenger Car Export Prices to North America showed a sharp decline



Source: GIR

➤ Housing Supply is coming (and the price cuts)

Existing Home Sales in May increased slightly (less than 1% to 4.03mm annualized). A large increase in supply contributed to the uptick in sales. 1.54mm houses are for sale which is up over 20% vs last May. This is about 4.6 months of supply. Supply was below two months in 2022 during the post Virus Fear housing bubble. 4.6 is still relatively low compared to long-term trends. But it is right back to the average level of the five years before the Virus Fear. We still maintain that supply is not a problem...it is pricing. On this note, the median sales price was \$422,800. This is a record for the month of May. The rate of change of the price increases is slowing...not much solace if you are looking to buy. The average time on the market is up from 24 days a year ago to 27 days now. All-cash purchases are up to 27%. First time buyers are down to 30%.

New Home Sales fell sharply in May (-13.7 vs April). The annualized rate went from 722k to 623k. The South saw the largest drop (-21%). The median price increased by 1.4% to \$507k. The amount of supply increased to almost 10 months. This is one of the highest levels in the last 80 years. Of course, this is a function of homes for sale *and* the number of homes selling. The 623k is near the bottom of the range of the last two years and below the pre-Virus Fear level.

The House Price Index (April) fell slightly. Prices have appeared to have peaked (accompanied/evidenced by the increase in supply).

The average 30-year mortgage rate increased slightly to 6.88% from 6.84% last week.

Mortgage Applications ticked up on the week.

New Home Inventory in months:



➤ Other economic data is mildly negative

Weekly Redbook Retail Sales increased 4.5%. We are back to thinking this is a downward trend (but certainly not terrible).

Consumer Confidence slipped in June. This is the more accurate survey. It leans more towards Housing and Employment than Inflation.

The Richmond Fed's Manufacturing Index increased slightly, but it is still negative.

The Philly Fed's Manufacturing index remained modestly negative.

The Economic Leading Indicator index is still negative, but the rate of change might be flattening (not that we put too much weight into this often wrong index).

➤ Where did all the crypto money go?

A Connecticut teenager was arrested for stealing \$245mm of crypto. Wow! This would be enough to make our files, but it gets better. The 19-year-old kid, nicknamed Wiz, was released on bail after he agreed to testify against his partners. While on bail, he ran the same crypto scheme and stole another \$2mm! He got caught (again) and his bail was obviously revoked.

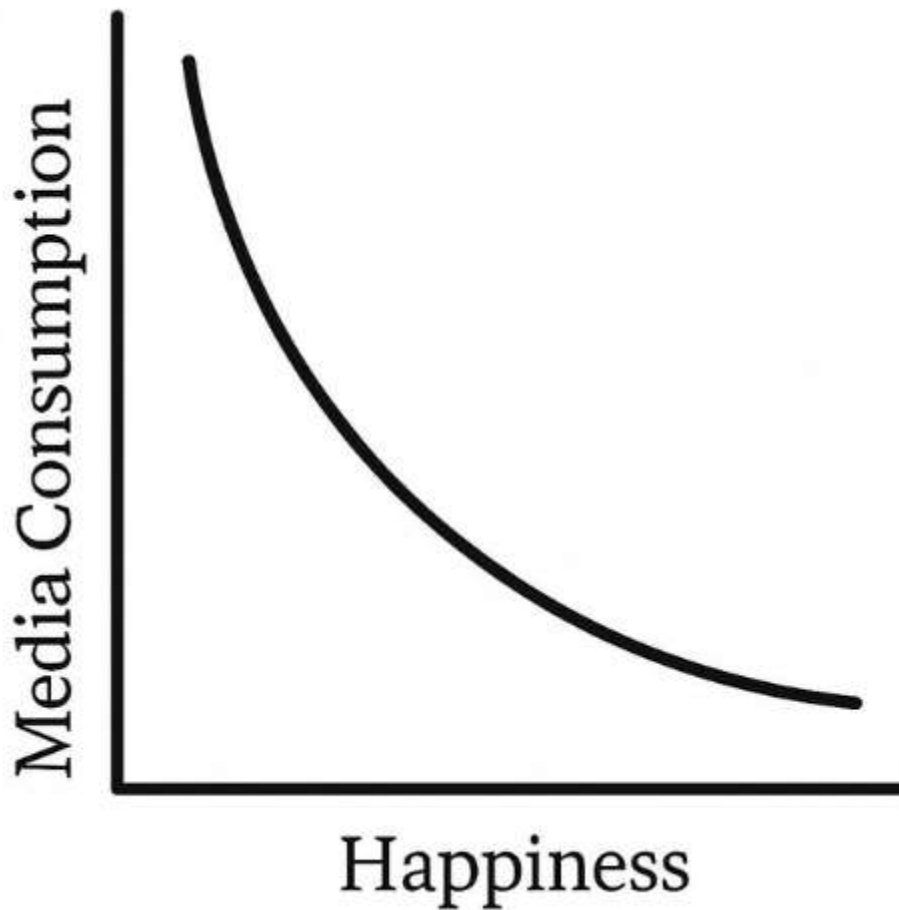
In unrelated news, a Maryland teen was arrested for breaking into 121 cars (either stealing the cars or some contents inside). The day he was released on bail, 17 more car break-ins were reported.

➤ Where did all the climate-finance money go?

The great Matt Levine points out that used cooking oil is worth more than virgin oil. The socialists in Europe decided that companies (think refiners or airlines etc.) could get "carbon credits" if they reused oil...be it vegetable oil or whatever. What the socialists forgot was that capitalism rules human nature. Naturally, across places like Malaysia, restaurants, food stalls on the street, households, factories, and mafia types all realized they could buy fresh palm oil which is subsidized by the government. It costs about \$0.60/pound. They can then sell it to European dummies for \$1/pound.

➤ **Not** Chart Crime of the week

In our accidental pursuit of ludicrousness, sometimes we stumble across perfect simplicity.



➤ Quick Hits

- An adult moose eats about 50lbs of vegetation a day.
- The former Chief Marketing Officer of the CFA Institute, the securities industry body that gives tests and preaches business ethics, was arrested for embezzling \$5mm.
- During WW2, the US government lowered the speed limit to just 35mph. It was called the Victory Speed to help ration rubber supplies.
- The Big Inch was an oil pipeline built in the US during WW2. It connected the oil fields of East Texas to the refineries in the Northeast.
- The little Inch was a pipeline for refined petroleum products.
- A global diamond thief has been arrested and found guilty in a NY court. His method was slight of hand. He would enter Tiffany's, ask to see a \$250k diamond, and then he would replace it with a fake.
- During the peak Virus Fear, Citadel built a trading floor in a Marriot ballroom in Florida. It took five days. It normally takes a year to build a trading floor.
- In Illinois, there are 80 schools without a single child that can perform math at grade level.
- Fernando Tatis Jr, the Padres superstar, is suing the company that "bought" a piece of his future earnings back in 2017. In 2018, Tatis praised the company and the contract for enabling him to be a better baseball player. Now he doesn't want to pay them the \$34mm he owes them.

- The Strait of Malacca sees the largest amount of petroleum transported through its waters. The Strait of Hormuz is second.
- The USA women's U16 basketball team beat Panama 131-12.
- We once lost a high school basketball game 125-40. That team was a NYC all-star team. All 12 players could dunk, all of them played in college, and a few played in the NBA. They took it easy on us.
- One of the billionaire founders of Jane Street was duped into giving millions of dollars to what he thought was a relief effort in (the) South Sudan. The Harvard professor behind the effort was actually buying guns and rocket launchers to stage a coup. Jane Street was the firm where Sam Bankman Fried got his start. (They must be very good at looking the other way.)
- A horse elevator in Manhattan (West 24th Street in Chelsea) that was built in the 1880's is finally going out of commission because of safety regulations.
- After watching a video of this elevator, we are convinced that our apartment building in NYC in the early 2000's had an old horse elevator in it. (Multiple readers have lived in this same apartment...please chime in...we are talking about the freight elevator to the basement.)

Trading: We have continued with shifting our Big Tech exposure. We think the leaders and laggards will change over time, so we probably have to be nimble (and diversified). We also trimmed some more of our speculative trading positions. If we do get an uptick in inflation and a slowdown in growth, these should underperform. We also rotated some Energy exposure. We also took advantage of the peace-dip in European defense to buy more. The Germans and their relative allies to the east stand committed to beefing up their own defenses. We also added to some Staples to keep some balance in the portfolio (and to protect against the aforementioned slowdown in growth/uptick in inflation).

TSLAQ: We are not sure what to say about the Robotaxi rollout by Tesla. Apparently, there were 10 cars confined to a 2x4 mile geofenced area. We knew there was going to be a monitor in a control tower somewhere. Little did we know that there was also going to be a supervisor in the passenger seat with a kill switch. Somehow the stock rallied 10% on this! Alas, that rally was gone two days later. We have not had a position in a while.

Elsewhere, some funny disclosures popped up in the lawsuit between Musk and OpenAI. In response to OpenAI asking for certain documents or communications, Musk asserted that he does not use a computer. It was not long ago that he was posting online (X) showing himself playing video games on a computer! Recall he claimed to be the world's best "Diablo" video game player last year.

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