Weekly Update

17-April-2024
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- Profit taking continues
- Technical selling dominating the flows
- USD strength is worrisome
- More evidence of tightening positioning (but maybe not tight)
- Cooler PPI Inflation tempers the hot CPI fears
- Retail Sales are still strong
- Housing is slowing again
- China is slowing again (do not believe the GDP “data”)
- The Fed is more cautious on rate cuts (again)
- Oil has a war premium in name only
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	5,022	-2.7%	5.6%	23.1%
QQQ	$425.84	-2.9%	4.1%	34.6%
US 10 YR	4.59%	4.55%	3.88%	3.57%
USD/DXY	105.9	105.2	101.3	101.8
VIX	18.2%	15.8%	12.5%	16.8%
Oil	$86.19	-3.9%	15.4%	2.3%

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

Profit taking continues to direct the market. Strong economic data is, ironically, still the root cause of the weakness in equities. Even though there was some relief in inflation and some softer Housing data, Retail Sales are powering ahead. The Fed is still backing the market away from imminent rate cuts, and the market is obliging. In effect, the bond market has priced in three rate *hikes* in the last two months. Some could argue this is just the reversal of the rate cut expectations. But the end result is the same: Tighter financial conditions. Meanwhile the ECB held rates steady, but the Europeans sound poised to cut sooner than the US. Typically, this might point to outperformance for European equities, but this has not been the case. This reinforces our theory that the market does not *need* rate cuts.

We think a lot of the selling is "technical." People are pointing fingers at CTAs. These are the momentum funds that supposedly are very long equities. And as the markets wobble with increasing Volatility, this herd-mentality group decides to reduce exposure. The 2-year Treasury approaching 5% has the same effect. We are also in the corporate buyback quiet period. And the chart guys say breaching the 50-day moving average (dma) is reason enough for weakness (we call this mumbo jumbo, but it can have short-term effects). Obviously, the multiple wars weigh on sentiment. And Biden is talking about new trade tariffs against the Chinese (aluminum and steel).

Despite our optimism driven by the strong economy with good Earnings over Fed narratives, we are somewhat concerned with the strong reaction of the USD. The dollar usually rallies in a low growth and deflationary environment. We surely do not believe this is the current "quad" (intersection of Growth and Inflation, made famous by some macro hedge funds). We suspect it is just a short-term blip (tell that to the Emerging Markets that have seen their currencies get hit hard). But the last time the USD rallied mightily, it was during the bloodbath in equities in 2022.

- More evidence of tightening positioning (but maybe not tight)

We have recently commented on a few research pieces showing that Big Tech might have some stretched positioning (Goldman and Merrill). A new Merrill's Fund Manager Survey (260 firms with over $700b in assets) tells us the same thing. Their aggregate metric of sentiment incorporates growth expectation, cash levels (no such thing for the market as a whole, but it is certainly a thing for a select group), and equity allocation. We have noted the limitations of similar charts before…it should have the market overlayed on it to know to what this overly bullish sentiment led. But our ocular inspection can confirm that most of the extreme points were, indeed, pivot points. The real question is whether we really are *that* stretched. We are far off the lows…but we are really only back to the middle of the long-term range. We think there are plenty of bearish voices out there. So, we need to see more euphoria for this kind of gage to be actionable.

- Cooler PPI Inflation tempers the hot CPI fears

Producer Prices increased more slowly than expected in March (PPI; wholesale or input prices). The headline rate increased 0.2% vs the 0.6% increase in Feb. The annual rate jumped to 2.1% from 1.6%, but this was lower than the 2.2% expected. This large increase is the base effects at work (we discussed last week, the monthly data that drops off last year is lower than this year's). The Core PPI (which is becoming more of a mainstream joke, thank goodness) also increased 0.2%. The Feb rate was 0.3%. The annual rate jumped to 2.4% from 2.1% (and 2.3% expected).

- Retail Sales are still strong

Retail Sales slipped to 0.7% growth in March vs 0.9% in Feb. But the market was expecting only 0.3%. Sales excluding Autos and Gas doubled from their February rates (0.5% to 1.1% and 1.0%). The annual rate jumped to 4% from 2.1%. General Merchandise and Nonstore Retailers (e-commerce) showed the best growth. Building Materials and Home Improvements also did well. Department stores continue to drag as do Grocery stores.

- Housing is slowing again

The Housing Market Index remained flat at 51. The components of the index remained relatively flat, as well (Current Sales up 1 to 57, Buyer Traffic up 1 to 35, 6-month Expectations down 2 to 60).

Housing Starts slowed almost 15% in March vs Feb. This is an annualized extrapolation. Small moves can be exacerbated. Nonetheless, the number of Starts is back near its three-year low. Single-family moderately outperformed multi-family (both bad at -12.4% and -20.8%).

Building Permits in March also declined (-4.3%). Multi-family did better (only down -1.2%).

Mortgage Applications increased 3.3% on the week. Purchasers were stronger than Refinancings.

None of this is too surprising. But it is important to note that interest rates were relatively flat in March. The move higher in rates in April could suppress these numbers some more. That said, we would be buyers of Housing stocks if they sold off more. We think the broad themes remain intact even with higher interest rates (or perhaps because of them…people are still reluctant to move and give up their low mortgage rates…even though we do think this phenomenon is fading). We do not have a position.

- Other economic data marginally better
  - Business Inventories climbed 0.4% in Feb vs 0% in Jan.
  - The NY Fed's Empire Manufacturing index improved but remains in negative territory (-20.9 to -14.3).
  - Industrial Production in March increased 0.4% (same as Feb).

- China is slowing again (do not believe the GDP "data")

China's trade surplus shrunk more than expected in March. It fell to $58.5b from $78.4b last year and $70b expected. Exports fell 7.5% while Imports fell 1.9%. Trade data is always the most reliable in China because it can be fact checked by its counterparties.

Industrial Production fell to an annual rate of 4.5%. This is down from 7.2%. Retail Sales fell to 3.1% from 5.5%. Fixed Asset Investment did tick higher to 4.5% from 4.2%. And a new data point in China (for us, at least) is Industrial Capacity Utilization. This fell to 73.6% from 75.9%. This is a Q1 number, but it does point to a

slowdown after the recent blip higher. And the House Price Index was negative again. China cannot experience a real economic recovery until its real estate sector heals (and they have dug themselves a huge hole).

China's GDP was called a bright spot at 5.3% growth in Q1 (vs Q4 annualized). But this is a communist fantasy. (Anecdotally, Rio Tinto says the Chinese steel market is going strong. We will watch for a trend in corporates reporting…that is certainly more believable than any government data.)

- The Fed is more cautious on rate cuts (again)

Fed chairman Powell continues to walk the market back from the rate cute narrative. He emphasized a few points on Tuesday. He noted the lack of progress in fighting inflation this year. In his language, the recent data has not given the Fed "greater confidence to cut rates." He added it was taking longer than he expected (obviously). But maybe the kicker was that he said the Fed can maintain its restrictive policy as long as needed.

There are more Fed voices cautioning against cutting interest rates too soon. Here is a sampling (almost every Fed member gave a speech this week):

The NY Fed president, John Williams, has reversed course, "Recent data suggest it may take more time than I had previously thought to gain greater confidence in inflation's downward trajectory before beginning to ease policy".

Thomas Barkin of the Richmond Fed has been hawkish for a while, and he is not reversing course. He added that recent data "did not increase my confidence" that pricing pressures were easing.

Boston Fed president Susan Collins said that a strong labor market "also reduces the urgency to ease."

Mary Daly of the San Francisco Fed reiterated there was "no urgency" in cutting rates due to the strong economy and higher than desired inflation.

And the Fed's Beige Book, which sums up recent data and is a precursor to the next Fed meeting, was recapped by Bloomberg with "The US economy has expanded slightly since late February and firms reported greater difficulty in passing on higher costs."

- Oil has a war premium in name only

Oil prices have been rallying into heightened tensions in the Middle East…only to pull back after an actual war with Iran is on the table. Paul Sankey, a veteran oil analyst, thinks nothing has really changed with Iranian oil. Iran's main counterparty is China, and this relationship remains intact (he did not mention India which is weird…they have been huge buyers of Iranian and Russian oil over the years). Moreover, Sankey says the Iran leaders are not popular at home. And militarily they are weaker than most people thought. We think this is more on the money. For decades, Iran has been blabbering about "wiping Israel off the map" or something to that effect. They finally launch a direct attack…and its grossly underwhelming (thank goodness). The market is telling us that Iran is not a serious threat anymore (we hope so).

One of the many market quandaries is how natural gas prices can remain below $2 while the war in (the) Ukraine rages. It is simple; Europe does not have any sanctions in place against Russian gas. The EU parliament recently voted to allow member countries to ban Russian LNG imports. No countries have opted for this. Moreover, France has increased its Russian gas imports more than any other European country.

Of course, US gas production is running wild and prices in the Permian have been negative for over a month. The bull case revolves around more export capacity and data center power demand. We think these are logical, but they may take some time.

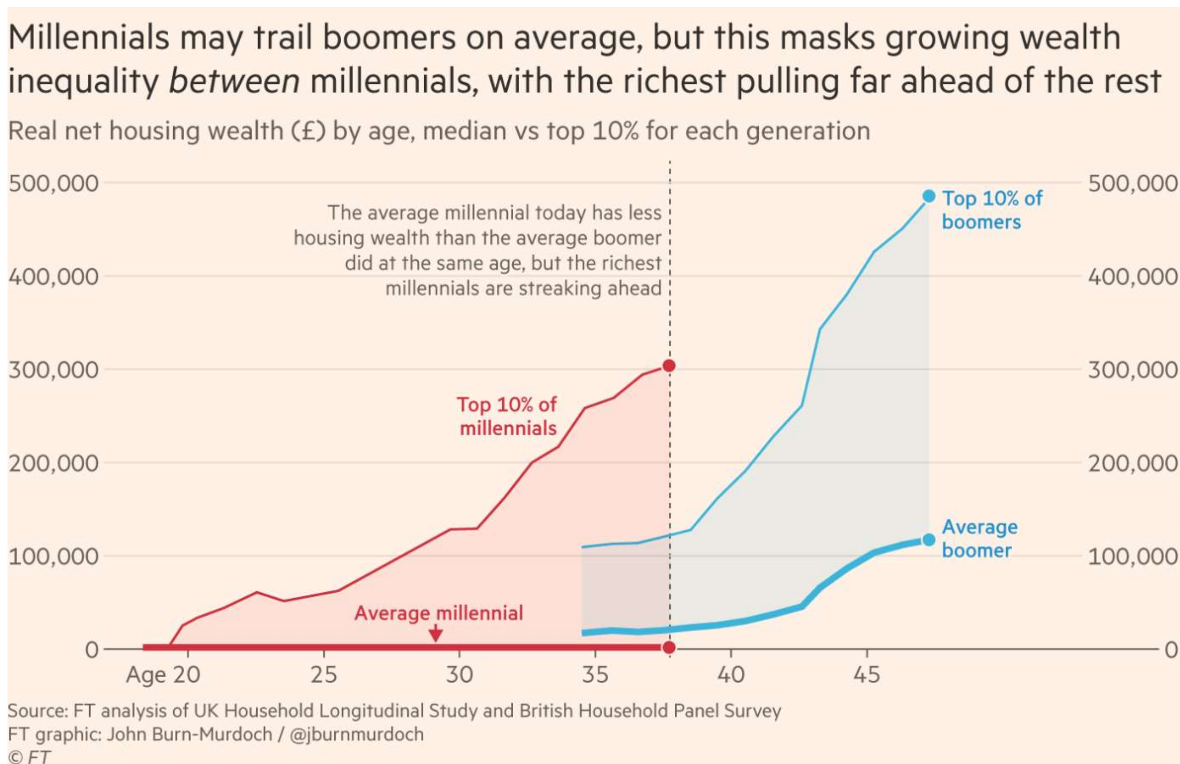
➢ Where did all the crypto money go?

This is a good old-fashioned pump and dump. A trader has been accused of manipulating the "Mango" token (MNGO) via the crypto platform "Mango Markets" (do not call it an exchange!). This guy pumped up the price of the play-money by 1300% in 20 minutes using different accounts. Then he borrowed against his inflated position. This guy was able to swindle $110mm from Mango! And maybe crime does pay…he only had to repay $67mm of it! Or as Matt Levine of Bloomberg posits, maybe this is not a crime at all? If you trade in the Wild, Wild, West of crypto…maybe "Buyer Beware" should rule the day?

(This one reminds us of an old Wall Street scam. Before after-hours trading was popular, crooks would trade amongst themselves at weird prices. Crook #1 would borrow heavily and trade at a bad price while Crook #2 would be on the other side of that trade (sell IBM at $0.01 or buy it at $1,000). Crook #1 would default on his margin loan and just disappear into the night. Crook #2 would skate off with huge "profits." We were always puzzled why there were screwball prices posted late in the day well after the close. When the arrests came down…it was quite clear!)

➢ Chart Crime of the week

We can always count on the FT to push a narrative…the facts be damned. They are claiming that the average net "housing wealth" for millennials is $0 despite the top 10% having a net worth of $300k. Perhaps this is some weird calculation including some negative wealth effects. But we still doubt the average would remain dead flat at $0 over 15-20 years.



➢ Quick Hits

- Congressman Sheila Jackson Lee thinks the moon is made up "mostly of gases."

- Minneapolis is rethinking its mandatory driver pay hike after Uber and Lyft decided to take their business elsewhere.
- US employees of TikTok cannot sell their stock awards, yet they are on the hook for the tax owed.
- Meta's Reels product has a 79% ad-hit ratio with Gen Z'ers…this is the percentage of users in this demographic that has purchased a product from an ad during a Reels view.
- More American adults drank coffee in the last day than water. (This is according to the national Coffee Association.)
- A single Las Vegas Sands casino property in Singapore had $1.2b in revenues in the first quarter.
- Homeowners being able to rent their homes for two weeks a year tax-free is called the Augusta Rule.

Trading: We did not do much with our net positioning. We remain long with a cash position for a buffer (instead of a larger short book…our few shorts are small). We trimmed some of our speculative Energy positions. We believe in sticky inflation and Energy benefitting from that. But we want to be higher up on the quality spectrum. We added some Growth in Consumer Discretionary. Some of these names have been hit hard in the last few weeks (and obviously we do not think the thesis has changed…growth and pricing power should be a good set up). We added to a Health Care / Inflation name. And we bought a touch more in Mexico.

TSLAQ: We have talked about the profitability of Musk's SpaceX thanks to its Star Link business. We knew that Musk backed out the cost to buy/build/ship the satellites into space. Ok. But now Bloomberg reports that the company also loses "hundreds of dollars on each of the millions of ground terminals it ships."

Tesla announced another price cut. This one is on its "Full Self Driving" vaporware. The price has been cut in half from $199 to $99 per month. Not too long ago, Musk called this "an appreciating asset." Most telling, Tesla is now calling this driver assistance package "FSD (supervised)."

Tesla is also cutting 10% of its workforce.

And to cap it off, two high-level executives have left Tesla. One of them was the VP of Powertrain and Energy. The fanboys admit he was most of the product brains at the company. His next mission was going to be the mass-market Model 2. But we know that this project was "filed under B" even if Musk will not admit it. The other executive resignation was the person in charge of Public Policy. This means the subsidy grave train has probably come to an end.

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