Weekly Update

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Carlisle C. Wysong, CFA
Managing Partner

- The market was stable on higher rates, now poised to benefit from lower rates?
- The Fed signals some monetary policy easing ahead
- Other central banks join the party
- Merrill's Fund Manager Survey is giving us a warning (but should we listen?)
- What could go wrong
- Payrolls are growing, but not as fast as the government is saying
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	Last	5d %	YTD %	1yr %
S&P 500	5,225	1.5%	9.9%	35.3%
QQQ	$443.80	1.0%	8.5%	46.6%
US 10 YR	4.28%	4.19%	3.88%	3.61%
USD/DXY	103.4	102.8	101.3	103.3
VIX	13.0%	13.8%	12.5%	21.4%
Oil	$81.84	2.7%	14.0%	20.8%

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

The market's manic ascent has slowed as it has been chopping sideways for almost two weeks. But the mood remains upbeat as equities come to terms with higher interest rates. Then again, after Fed chairman Powell's press conference today, maybe the market thinks the Fed might cave and actually deliver some easier monetary policy sooner rather than later. Hotter than expected economic data (Payrolls despite revisions, Inflation, and Housing) had been shifting rate cuts further out into the future, and the equity market did not seem to mind. But today, Powell surprised the market by indicating the Fed might start to slow the runoff of assets from the balance sheet (or slow Quantitative Tightening). The Fed will start to reinvest some coupons and principal payments back into the Treasury market. In other words, the Fed will increase its bond buying. Otherwise, he reiterated that taming inflation was the number one goal right now. But with an increase in expected GDP for

2024, Powell does not seem overly concerned that the economy could get derailed while the Fed slowly shifts gears to cutting.

Other central banks are doing their best to push Powell and the Fed along (towards rate cuts). The Eurozone now expects more rate cuts than the US. And Japan just made history with the most dovish rate hike in history. The BOJ hiked rates for the first time in 17 years and abandoned its Yield Curve Control, but it will still be buying bonds with an aim to be accommodative (needless to say, we cut our Japanese exposure too soon…we were long equities and short the Yen (vs the USD) which continues to work). Elsewhere, geopolitics have seemingly quieted down (probably not in reality, but at least there is less airtime in the media). And China's economy is showing more signs of life. Even the US government is likely to avert a government shutdown (we always like government shutdowns, so this one is bittersweet).

One takeaway from the back and forth on interest rates (either Fed speak or actual moves in yields) is that Quality Tech seems to outperform no matter the environment (some sharp moves today notwithstanding). We doubt rates fall enough to reignite the "buy everything" rally that blossomed out of the Virus Fear (especially in Profitless Tech and Fantasies & Frauds). And rates are unlikely to move materially higher which would likely impede economic growth. In the meantime, large inflows back into US equities have been providing support on down days. Even the over-hyped PR-fest from Nvidia (announcing its new chips…which were already widely known) did not lead to any "sell the news" action…at least not yet.

- Merrill's Fund Manager Survey is giving us a warning (but should we listen?)

Merrill's Fund Manager Survey (226 money managers with about $525b in assets under management) tells us that sentiment is running hot. "Risk appetite" is at the highest level in two and half years. And 40% think we are in bubble territory. The most overcrowded trade is long Big Tech. Inflation and geopolitics are the top two tail risks (these do not seem like tail risks to us but rather probable medium-term risks). Merrill's chart below shows the peaks in sentiment for this survey. What Merrill omits is what the stock market has done following these peaks. We have added some data below.

Feb '04: Market rallied for another 3.5 years

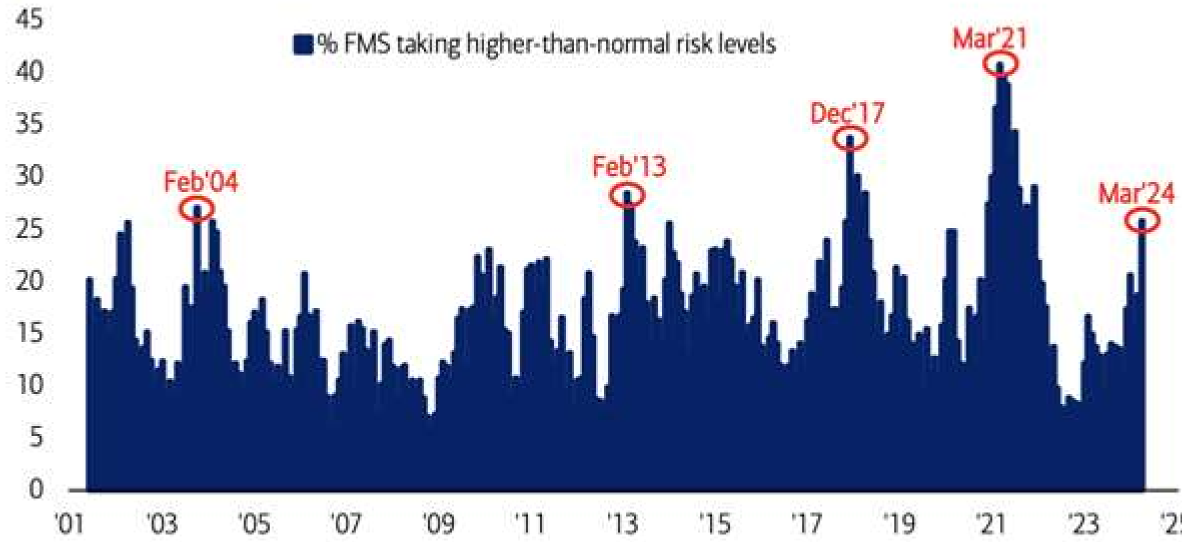
Feb '13: 2.5 more years

Dec '17: 10 more months (choppy)

Mar '21: 8 more months

Chart 1: BofA Global FMS risk appetite highest since Nov'21

% FMS respondents saying they are taking 'higher-than-normal' level of risks relative to their benchmark



Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

- What could go wrong

There is now an ETF (exchange traded fund) that has a goal of mimicking the Nasdaq 100 (QQQ) by selling 0DTE Put options (Zero Days Til Expiration). And now there are options available on this security that only shorts options. We are not sure if this fits in the Bizarro World or can be found at the Nexus of the Universe (corner of 1st and 1st).

- Payrolls are growing, but not as fast as the government is saying

February Nonfarm Payrolls increased by 275k. The expectation was for a gain of about 200k. Private Payrolls drove the growth with 223k vs 165k expected. Government jobs remained steady at 52k. But the biggest surprise on the jobs front was the massive downward revision to the January data. It was originally reported last month as a gain of 353k. But this was slashed back down to earth at 229k.

This is perhaps why more people are watching the Unemployment Rate. This ticked up to 3.9% from 3.7% while the Participation Rate remained steady at 62.5%. As has been discussed, the Payrolls data tends to overstate things. It double-counts people working multiple jobs, and it masks the quality of job creation by not distinguishing between part-time jobs and full-time jobs.

On the plus side, the Average Hourly Earnings only increased 0.1%. Obviously, this is not great for the workers, but the annual increase is 4.3% which is still trending above headline inflation. This is likely the sweet spot. Earnings are robust but not pushing overall inflation higher. Powell mentioned this dynamic in his FOMC press conference.

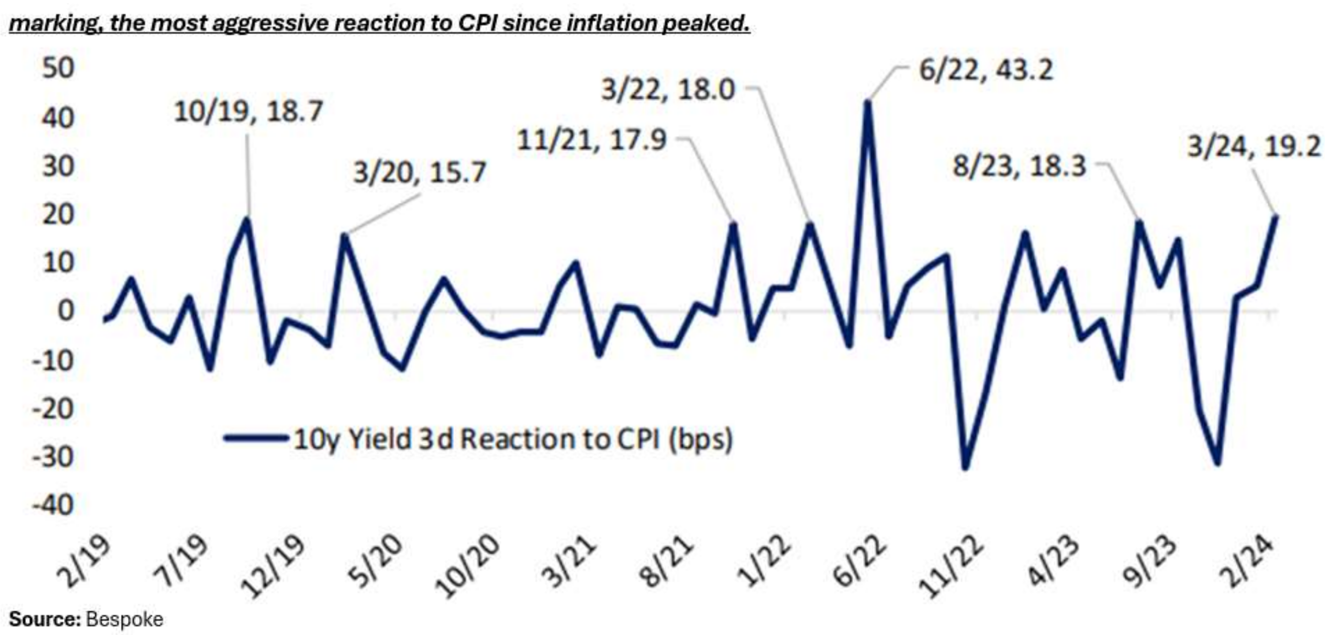
- Inflation remains sticky

The Consumer Price Index (CPI inflation) grew by 0.4% in February. The Core rate also climbed 0.4%. This brings the annual rates to 3.2% and 3.8%. These were all roughly in line with expectations (probably higher than the official guess but lower than the unofficial whisper guess). The monthly rates were about the same as last month. Food prices were unchanged on the month. Dairy, Fruits, and Vegetables were all negative. Energy increased 2.3% led by Gasoline at 3.8%. New Vehicles fell 0.1%. Used Cars increased 0.5% (after last month's large 3.4% drop). Shelter increased 0.6%. Rent was +0.4% and Owners's Equivalent Rent (the price at which people's houses could rent if they had to guess) was +0.6%. This is the category that everyone expects to come down. But without an increase in unemployment, house prices might remain stable as people get used to higher interest rates.

The change in the Producer Price Index (PPI or wholesale or input prices) increased 0.6%. This is back to the high end of the monthly range for the last two years. The Core PPI (stripping out Food and Energy) slowed a bit to 0.3% from 0.5% in January. The annual rates are 1.6% (headline) and 2.0% (Core).

5-year Inflation Expectations remain steady at 2.9% (four months in a row). 1-year Epectations are steady at 3.0%.

Here is a chart from Bespoke that shows the reactions of the 10-year yield after CPI announcements. The fact that the 10-year had one of its biggest moves post-CPI and the equity market held strong…this speaks volumes.



- Housing might be bouncing back from its recent lull

The Housing Market Index (aka the homebuilder survey) continued its bounce from the November low. The March reading crossed into positive territory. It was the 4th monthly improvement in a row. Current Traffic is still languishing (34 on the 50 breakeven diffusion index). But Current Sales (56) and 6-month Expectations (62) are both in healthy territory.

Housing Starts bounced back sharply in February. We were skeptical of pundits blaming the low January number (1.374mm annual run rate) on bad weather. But February's stronger number (1.52mm) despite higher interest rates might prove that theory correct. Building Permits continue to gradually improve.

Mortgage Applications have bounced back from their late February lull. Zooming out, the index is still at 20-year lows.

➢ China is showing more signs of life

China Retail Sales increased 5.5% in February vs last year. This is down from the7.4% increase in December, but it was better than expected. This was the 13th straight month of growth. Indistrial Production increased 7% in February which is an acceleration (6.8% in Dec) and better than expected (+5%). Fixed Asset Investment also accelerated (4.2% vs 3% in Dec) and beat expectations (+3.2%). On the downside, Unemployment ticked higher from 5.1% to 5.3%. 5.5% is the government target. We think China might have bottomed. And it might make for a trading long. But obviously you cannot own this market long-term.

China reports Jan and Feb data together as a two-month period. They do this to smooth out the lumps around the Lunar New Year which shifts every year.

➢ Other economic data is moderately better

- Retail Sales bounced back in February with a 0.6% gain after January's 1.1% decline.
- The Weekly Redbook Retail Sales ticked higher at 3.4%.
- Business Inventories were flat in January. Retail Inventories ticked up at 0.3%.
- NY Fed's Empire Manufacturing slumped deep into negative territory.
- Industrial Production in February had a small tick higher (0.1%) after a bad January (-0.5%). Manufacturing also rebounded (+0.8% vs -1.1%).
- U Mich Consumer Sentiment was flat (still near a two-year high

➢ Ukraine is hitting them where it hurts

Ukrainian drone attacks on Russian oil refineries continue to hamper Russia's oil exports. Some analysts think the recent attacks have added anywhere from $2.50 to $4 per barrel to global crude prices. Estimates peg the damage to Russia's export capacity in the range of 7% to 11% of its total volumes.

➢ Where did all the crypto money go?

Bloomberg ran a story detailing how an investment club at Stanford had invested in Bitcoin through one of the new ETFs. The gist of the story is that people thought the investment had been made through the Stanford endowment. This would be quite the signal…one of the bigger and better run endowments signing off on the new fake money. It turns out the investment was made from a student organization that gets its funding from something called the Expendable Funds Pool at Stanford. Maybe there is not such high conviction, after all.

Bloomberg's Matt Levine, who we often reference in this section since he is so good at uncovering these beauties, has outdone himself…again. He reports that a crypto token called Slerf run by a guy named Slorg has not functioned as designed. We will quote Slorg:

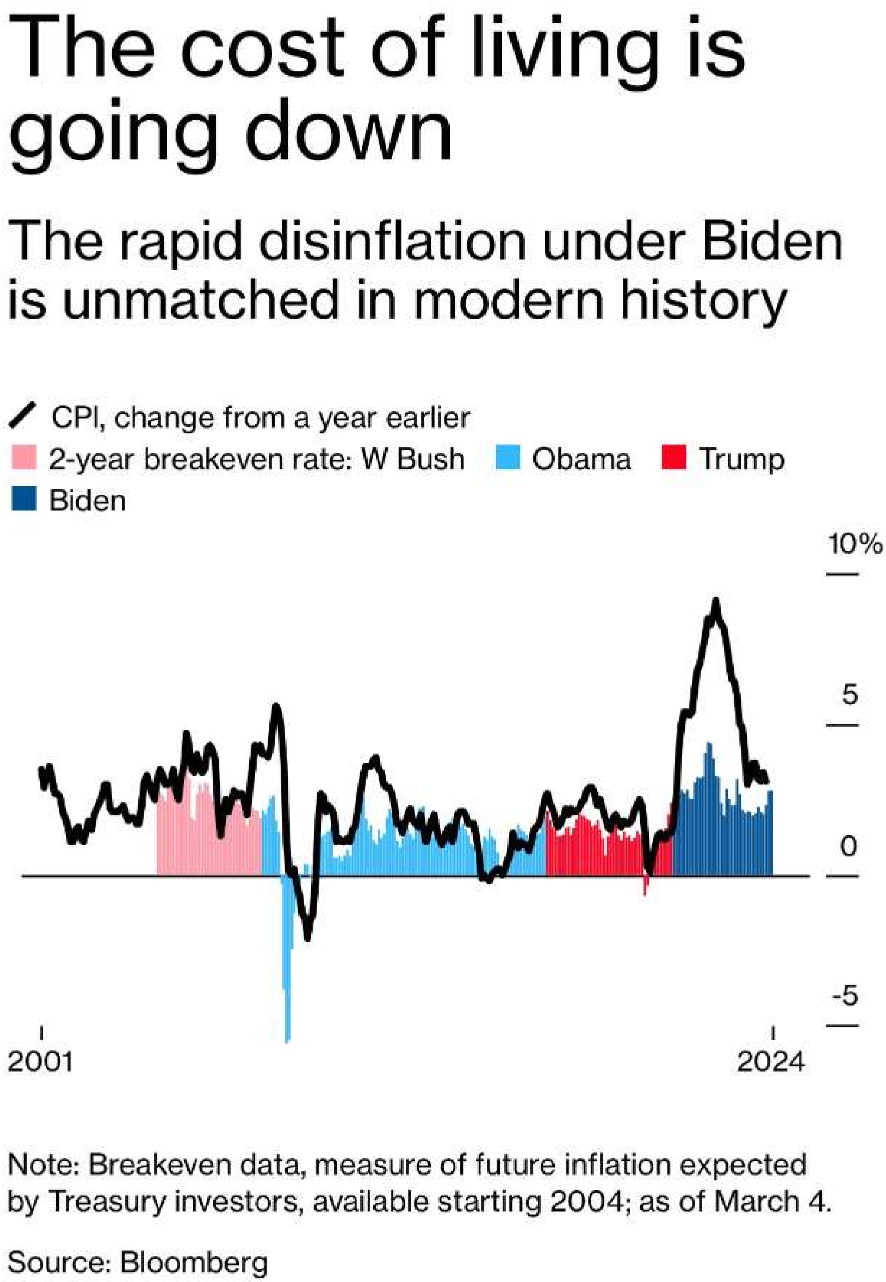
> Guys I f—ed up. I burned the LP and the tokens that were set aside for the airdrop. Mint authority is already revoked so I can not (sic) mint them. There is nothing I can do to fix this. I am so f---ing sorry.

To clarify. Slorg made up a token named Slerf. Idiots sent him $10mm. Slorg stole all the money.

Three lessons jump out at us: 1) Do not trust someone that spells "cannot" as "can not." 2) If you are gonna steal crypto money, admit it immediately. It is the coverup that always gets you. 3) Do not invest in something made up by someone with a made-up name.

➢ Chart Crime of the Week

Bloomberg is showing its political bias with this one. The cost of living is NOT going down when the increase in the cost of living is still going up albeit at a slower rate.



- Quick Hits
    - A scammer in Buffalo fraudulently filed bankruptcy for two other unrelated companies. Presumably this guy did so to make money by shorting the stocks involved. But he filed the petitions via mail…as in USPS.
    - 40% of India's 1.4b population is under the age of 25.
    - Ireland held a referendum to change some of the language in its constitution. Critics labeled the wording as being the equivalent of "the woman's place is in the home." The actual language is more contorted, "The State recognizes that by her life within the home, woman gives to the State a support without which the common good cannot be achieved." The vote was not successful.

- Ireland's population in 1961 was 95% Catholic. It was 69% in 2022.
- The CEO of Palantir said, "The best thing that could happen to short sellers is we will lead their coke dealers to their homes after they can't pay their bills."
- PETA is asking schools to stop saying "cheese" during photos. We are supposed to say "nutritional yeast" to get smiles from the children.
- Minneapolis has passed a city ordinance increasing the minimum wage for Lyft and Uber drivers. Lyft and Uber have announced plans to cease operations in Minneapolis.
- The NCAA pays about $2mm for each game of March Madness ($2mm for each team making the tourney, $2mm more for each win). The NCAA pays out this money to the conferences (not the teams) over six years.
- Cocoa prices have doubled in 2024.
- An 11 foot, 750lbs alligator was seized from a home outside Buffalo. No word if it was owned by the fake bankruptcy filer.

Trading: Over the last two weeks, we have tried to buy the small dips. This was mostly in Tech, but we did trim a touch more of Nvidia (still our largest position). We added to our long in Emerging Markets. We shuffled some Energy (sold some of our larger, more stable exposures and added some of our smaller, riskier exposures). We trimmed some Gold as expected. We also reshuffled some Health Care (reducing slower growth). Generally, we will keep riding the momentum wave. But as we have been saying, we are leaning towards dipping our toes back in on some Put protection.

TSLAQ: In addition to announcing that his illicit drug use was good for Tesla, Musk announced price hikes for some models across the US and Europe. The market took this as a positive sign. Of course, this was just an attempt to juice Q1 sales because the hikes do not go into effect until April.

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