Weekly Update

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- We are back to bad data and happy stocks
- Energy is riding the stagflation theme
- Japan is not serious about tightening monetary policy
- Europe probably is not serious, either
- Merrill says investors are overweight equities but are not bullish (?)
- Inflation is heating up again
- Retail Sales surprise on the upside
- Do not ignore government revisions to Jobs
- Fed speakers seem to be as contradictory as the market
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	4,505	1.2%	18.2%	16.4%
QQQ	$377.26	1.4%	42.1%	29.4%
US 10 YR	4.29%	4.25%	3.88%	3.46%
USD/DXY	105.3	105.1	103.5	109.7
VIX	12.8%	14.4%	21.7%	26.3%
Oil	$90.51	4.2%	12.3%	0.1%

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

Last week, we had a mixed bag of economic data and some market indecision. This week, we have notably bad economic data and a happy stock market despite elevated bond yields. Some of the shine has been removed from market leaders Apple and Nvidia (Apple because of problems in China, Nvidia because of stock exhaustion). But as a whole, the market is back to grinding upwards. On top of inflation accelerating higher again, Jamie Dimon of JP Morgan gave one of his periodic warnings about the economy and rising interest rates. He even added he “wouldn’t be a big buyer of banks. I would be ‘equal-weight’ or whatever you call it.” Oracle earnings were good, but like most companies trying to ride the AI train, concrete results are more elusive than hoped. Central Banks are still tightening monetary policies, but the Fed is seen as the only one with the will to keep moving forward on this fight.

On the bright side, the first of a wave of IPOs got off to a good start with Arm Holdings (the UK chip maker). It is richly valued to say the least. But with virtually every Tech company in the world buying shares of the limited float, the deck was stacked. Instacart is up next which will likely be well received, too. And we would be remiss to overlook some economic data which is holding up better than expected (Housing as we know, Retail Sales astonishingly). Somewhat ironically, surging oil prices are now being viewed as a positive. While demand might hold up ok along with tightening supplies, the market is really pushing the stagflation narrative. This is why we are long Energy stocks. It is also going to make it very difficult for the Fed to cut rates (they try to ignore short-term gyrations in Energy prices, but they cannot ignore sustained trends).

- Japan is not serious about tightening monetary policy

The Bank of Japan has started talking about ending its negative interest rate policy. Ueda (head of the BOJ) thinks the data will support a rate hike later this year. Clearly Japanese interest rates moved higher on the headline. But just like the other minor tweaks to Japanese monetary policy (slowly reducing the yield curve control), the market read through the headline. That is, the market knows the Japanese will be overly methodical in their normalization path. After a few days and right on cue, the prime minister of Japan, Fumio Kishida, intimated there will be more stimulus with the aim of increasing wages. Japan is growing with moderate inflation, a stimulating government, and an easy-money central bank. We remain long Japanese equities and short the Yen (vs the USD).

- Europe probably is not serious, either

The European Central Bank hiked 25bps to 4%. Some are calling this a surprise move. We figured it was a coin flip. But the key here was the reaction by the EUR (vs the USD) as it weakened. Rate hikes are supposed to strengthen a currency, unless, of course, the market thinks the central planners (or bankers) will turn tail and reverse course in due order. With Europe mostly teetering around recession (the ECB lowered its growth forecast while hiking rates!), we think this is likely. The Europeans may not be as squishy as the Japanese, but they are far squishier than the Americans.

- Merrill says investors are overweight equities but are not bullish (?)

Merrill reports that investors in its Fund Manager Survey now have the highest allocation to equities in 17 months. But Merrill asserts these same investors are “not yet bullish” with their average cash level up to 4.9% (there is no such thing as the cash level in aggregate!). The highest conviction views include a “soft or no landing.” Oddly, or in typical contradictory fashion, a majority of respondents are pessimistic on global growth. Short-term interest rates are going to fall – but sticky inflation is seen as the biggest tail risk. China is not going to grow (literally 0% expect growth from the communists). The market (as represented by this wide swath of investors) still likes Japan and Quality (however loosely defined). Big Tech is considered the most crowded trade.

- Inflation is heating up again

Inflation as measured by the Consumer Price Index accelerated in August. This was expected, but the increase in “Core” prices (stripping out Food & Energy) was a touch more than expected at 0.3%. The annual rate decreased to 4.3% from 4.7% despite this monthly increase (meaning the August increase last year was very strong and it dropped out of the calculation). The headline CP increase 0.2% (same as in July). This increased the annual rate to 3.7% from 3.2%. Looking at the components, Energy was obviously the biggest mover at (obvious just by looking at the underlying commodity movements). Gasoline increased 10.6% on the month. Electricity only experienced a small 0.2% increase. Used Cars & Trucks had the biggest monthly fall at 1.2% which brings the annual decrease to 6.6%. The Fed’s “Core Services Ex-Housing” accelerated a touch to 4.1% on

the year. Separately, the Producer Price Index (wholesale or input prices) accelerated higher on the headline. The "Core" was softer, but this is more of a normalization from a hot July.

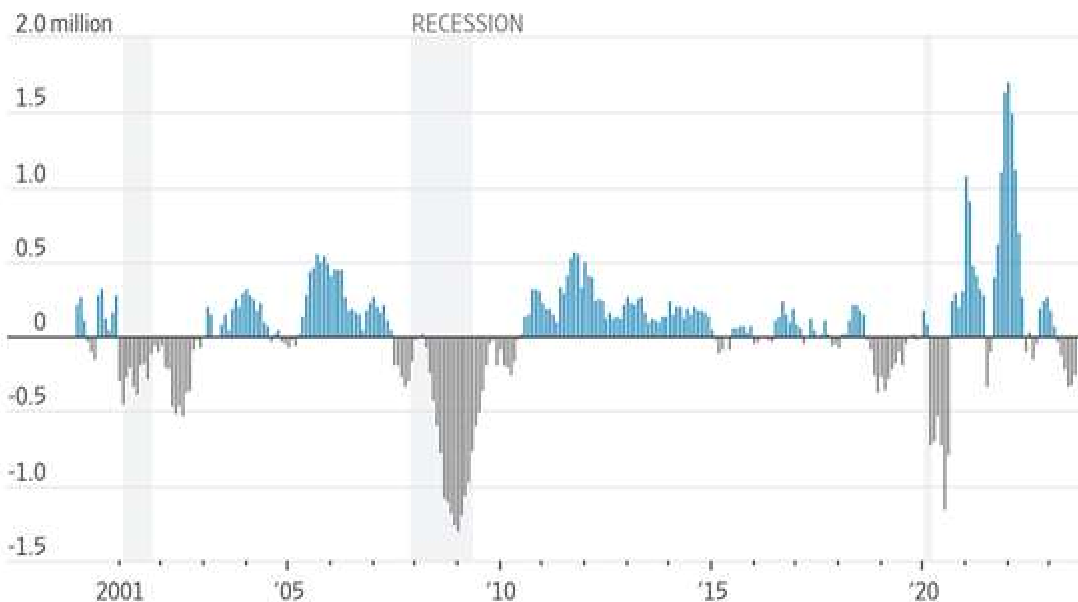
- Retail Sales surprise on the upside

Retail Sales in the month of August accelerated more than expected with a 0.6% gain vs an expectation of 0.2% (and 0.5% in July). Sale ex-Autos also beat expectations (but did slow a tick to 0.6%). E-commerce remains a source of strength as do Health & Personal Care Stores and Food Services and Drinking Places. Furniture is still the weakest segment.

This data is still surprising. For all the talk (which we have believed) of a consumer slow down thanks to student loan repayments, ballooning credit card balances, still elevated prices, and a softening labor market (albeit slowly), we are not seeing this in the numbers. Or at least not yet.

- Do not ignore government revisions to Jobs

We have commented recently about the government revising down the number of jobs added this year. We viewed this in isolation as a bad indicator (how else could it be viewed). But the WSJ zoomed out a bit and noted that revisions to payrolls correlate with the ebbs and flows of the economy. It is simple, when the economy is slowing or shrinking, negative revisions accelerate. When the economy is rebounding or booming, more jobs are added than originally thought. Of course, the recent Jobless Claims data just hit a seven-month low. So, for every time we think there is a weakening of the labor market (which we still broadly believe), there is some data that cushions the blow. This jibes with our view of the economy: It will slow for the myriad reasons we always cite, but it will be a measured slowdown without an implosion in the financial markets (commercial real estate and its potential effects on regional banks is the gigantic caveat here…we have been increasing our short exposure along this angle).



- China trade surplus

China's Trade Surplus fell again. It stands at $68.4b through August compared to $78.7b last year August. Both exports (-8.8%) and imports (-7.3%) fell in the month. Both of these were better than the market feared, but the trend is still ugly (fourth monthly decline in a row for exports, and the seventh monthly decline this year for imports). This data makes clear that the global economy is slowing. And all the stimulus measures in China have had very little impact in either the economy or the stock market.

- Other economic data is mixed
  - Mortgage Applications fell again on the week. Refinancings fell more sharply than new purchases.
  - Business Inventories remained flat in the month of July (both Wholesale and Retail).

- Fed speakers seem to be as contradictory as the market

Just like market participants, the members of the Fed seem to be split about the direction of the economy, inflation, and interest rates. Here is a snapshot of some of the speeches this past week.

Susan Collins, Boston Fed: She is worried about the economy slowing and "people's pandemic savings are dwindling and spending will become more sensitive to interest."

Austan Goolsbee, Chicago Fed: He is still one of the more optimistic Fed members as he thinks the economy is still on a "golden path." This is his version of the no-landing. This tends to get all the headlines, but his full commentary is more balanced.

John Williams, NY Fed: He expects unemployment to keep ticking higher to the "low 4% range" from the current 3.8%. He emphasized the need to still be data-dependent. But he also took a bit of a victory lap, "all that talk about we're about to have a recession has vanished."

Lorie Logan, Dallas Fed: She is still one of the more hawkish members. She expects the Fed to hold tight for another meeting. But she expects/wants another hike in the short-term.

Mchael Barr, Fed Governor in charge of bank supervision: He did not comment on interest rate policy, but he did say he was "deeply concerned" about crypto tokens masquerading as "stablecoins."

- Where did all the crypto money go?

The owner of failed crypto platform Thodex (do not call it an exchange!) was sentenced to 11,196 years in a Turkish prison. The ballpark guess as to how much he and his brothers stole is about $2b. We are not quite sure what to make of his comment after being given his sentence, "I wouldn't have acted so amateurishly if this were a criminal organization." We will give him grammar points for the proper usage of the subjunctive.

- Chart Crime of the week

The FT is giving the Economist a run for its money in terms of absurd charts. The FT ran a story about the USD losing its dominance in government FX reserves (what currencies the governments throughout the world hold). Other than the left and right y-axes being slightly different (60% vs 3%!), the chart does not tell you that the measure of "share" is some cockamamie "valuation adjusted reserves." These people just make stuff up.

- Quick Hits
  - The Biden admin is trying to get more women in construction jobs which stem from recent inflation spending. One of the tools to attract women to construction sites is the implementation of "lactation pods."
  - The presence of women on construction sites has increased about 50% since 2010. No word on pod growth.
  - Academic and industry research tells us that food labels are worthless if not misleading. We have been saying this for years!
  - A reporter in Chicago was robbed while doing a report on robbery.
  - India wants to rename itself Bharat or Hindustan.
  - Baltimore beat Houstin 25-9. This was the first time an NFL game ended with this score.
  - There have been 1076 unique scores in NFL history.
  - Pocket billiards is colloquially called "pool" because of the pool of money bet on the game.
  - India shut down the internet 84 times in 2022. There are 700mm internet users in India.
  - There are more Fiat dealerships in the US than Fiat cars sold in 2Q2023 (300 vs 144).
  - When we bought our Jeep in 2011 in NYC, the car salesman was going to give us a Fiat for free if we bought the Jeep and a Charger.

Trading: We are still rotating away from Staples, Health Care and Utilities that served us well last year but have been a drag on performance this year. We are increasing our international exposure (Japan and India). We are

also buying our preferred Big Tech names on weakness (however moderate). These are still valued richly compared to the rest of the market. But we think this is deserved and they are likely to hold up well during an economic downturn. On the flip side, we are increasing our shorts against commercial real estate. And we are tiptoeing back into betting against Fantasy Tech/Profitless Garbage. We also still have an elevated cash position.

TSLAQ: Call us conspiracy theorists, but every time the heat gets turned up on Musk potentially selling more TSLA stock (Musk saying Twitter ad revenues were down 60% fueled the latest focus on his finances), Morgan Stanley swoops in with an outlandishly bullish research note. Morgan Stanley, of course, is the investment bank that has funded the Musk empire via margin loans against his stock. Nobody has more to lose than MS (not to mention, MS is holding the bag on the loans Musk took out to partially fund the Twitter acquisition). As for the research note, the analyst is hanging his hat on the old "robotaxi" dream and "network services." Or in the new snake-oil parlance, it is the "Dojo supercomputer" and its use of AI in "training models for self-driving cars." The analyst thinks this vaporware business is worth $500b. Alas, this "Dojo" nonsense has never been mentioned in a company filing.

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