



## Weekly Update

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- Swirling narratives will not change the Fed's mind
- Antitrust action might be dead on arrival
- Google warning about the economy and the labor market
- Microsoft insiders are selling
- Europe is only going to get worse
- This Ark might sink
- Employment is slowing, but the reaction is always lagging
- Business Surveys are mixed but mostly bad
- International data: Germany is the worst of the bunch
- The Fed's Beige Book tells us what we already know
- Emotional trading in oil
- Quick Hits
- Chart Crime of the week #1
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	Last	5d %	YTD %	1yr %
S&P 500	3,980	0.6%	-15.9%	-11.0%
QQQ	\$298.97	-0.1%	-24.6%	-21.2%
US 10 YR	3.27%	3.21%	1.51%	1.34%
USD/DXY	109.5	109.0	96.0	92.7
VIX	24.6%	25.9%	17.2%	18.0%
Oil	\$81.97	-8.1%	9.0%	19.9%

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

\*\* Oil is front month futures, beware

The swirling narratives are back adding more choppiness to the markets. The August Employment Report was interpreted by the bulls as "Goldilocks." The Labor market was slowing just enough to tell the Federal Reserve to slow the rate hikes but not enough to send the economy into a recession. But this financial utopia was quickly supplanted by the more realistic dystopia: The first sign of unemployment rising rarely marks the bottom of the market. And make no mistake about it, the Fed has not changed its one-sided messaging: Fed governor Lael Brainard: "We are in this as long as it takes." The Fed Funds futures market is assigning a 75%

chance of a 75bps rate hike during the September 21 FOMC meeting. The end-of-year interest rate expectation is 3.75% - 4.00% (compared to today's 2.25% - 2.50% target range).

The market did get a nice boost on the government policy front. The antitrust bill (AICOA which is targeting Big Tech) seems to be stalling according to Amy Klobuchar, the relatively level-headed senator from Minnesota. She publicly lamented the over-the-top lobbying effort by the Silicon Valley titans to keep their gravy trains running. However, we think some comments from Google and actions by Microsoft are more important but were largely ignored. The Google CEO, Sundar Pichai, made some cautionary comments at a conference. Smartly, he submitted that the more Google was understanding the macro situation, the more they "feel very uncertain about it." And this macro backdrop is "correlated to ad spend, consumer spend, and so on." And to our theme that employment is going to continue to deteriorate, Pichai intimated the company will soon have to have wide-scale layoffs in the hopes of improving efficiency by 20%. And Microsoft insiders are telling us what they think of their own stock via their own actions: Last week the CEO sold \$14mm of stock, and yesterday the CFO sold \$20mm. They obviously have loads more of equity in the company. But the signals are clear.

- Some other backwards narratives:
  - Lower oil prices will help the economy. -> No, oil weakness is stemming from recession fears.
  - Long term interest rates are easing. -> No, the yield curve is still inverted and any strength in the long-end should be construed as fear of a recession (this is why we are long Treasury notes).
  - The USD has cooled which will help Growth equities. -> Huh? The DXY Index (USD) is about 1% off its high for the last 20 years.

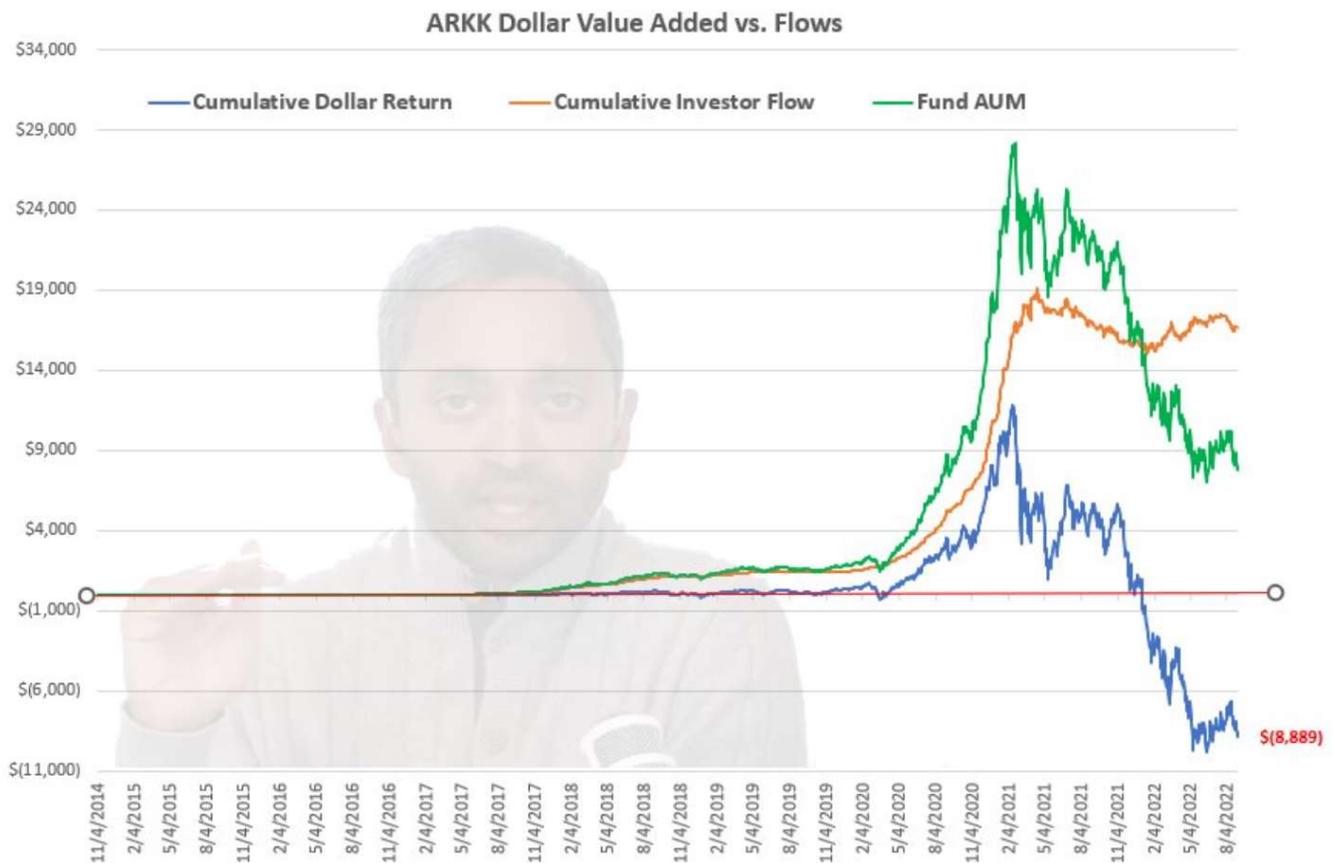
And one more fast-fact regarding the "are we in a recession" debate: Shipping rates from Southeast Asia to the west coast of the US have dropped 50% in two months.

- Europe is only going to get worse

The European energy crisis rages on. With governments stepping in to subsidize electricity bills, sovereign balance sheets will be put to the test. For all the talk of the ECB acting tough and hiking interest rates alongside the Fed (which we do not believe), the debt issuance necessary to keep the lights on (yes, literally) will be staggering. KBW research expects Greece to shell out 8% of GDP in subsidies. While Greece is seemingly stuck in a deadbeat-continuum, the United Kingdom will burn 7.7% of GDP under the new Conservative leader Liz Truss. This is good for our long USD position as the Euro and pound should continue to be under its thumb.

- This Ark might sink

This is one of our favorite charts which we commonly use. It comes from the great Keubiko on Twitter. It highlights bagholders that are clinging to their ARKK pearls which continue to shrivel. It is hard to tell on this chart, but August saw this fund have \$800mm in outflows. Even Chamath looks alarmed from his onlooking-perch. And we would add that the pump and dump in Bed bath & Beyond has likely chipped away a large portion of the perceived safety in HODLing meme or story-telling garbage. This is ARKK's bread and butter. We are obviously short ARKK.



- Employment is slowing, but the reaction is always lagging

The Employment Report for August showed a gain of 315k jobs which is about what was expected. This was better than the downbeat forecast from ADP, but it was still down vs the 526k jobs added in July. Private Payrolls expanded more than expected. The Unemployment Rate ticked higher to 3.7% from 3.5%. The Labor Participation Rate also moved higher marginally. Average Hourly Earnings continue to rise albeit at a slower pace (0.3% monthly vs 0.5% in July, 5.2% annually). And to our broken record refrain that Unemployment is a late cycle or lagging indicator, we found some numbers to back this up. During five of the last six recessions (we are excluding the government mandated recession from the virus-fear), Unemployment started to rise 15 months (on average) before the market bottomed! The range of months goes from three before the October 1990 bottom to 29 before the September 2002 tech bubble bursting (the first one). (There was no tick up in Unemployment before the 1987 crash, hence we are only using five of six).

- Business Surveys are mixed but mostly bad

The final reading for the August Manufacturing PMI (Markit's) was a touch higher than the preliminary one. But 51.5 is still a post virus-fear low. The same goes for the ISM Manufacturing PMI. But some of the internal numbers are not terrible (and not surprising). Employment is still expanding (but do not be fooled, see above). New Orders are no longer negative. And Prices Paid have dropped.

Services data is more confusing. The Markit survey (more reflective of all business sizes in the US) is hitting fresh lows. But the ISM (more large-cap/global) appears to have formed a bottom with a slight upward bias. WE personally like the Markit survey, but we will not dismiss the ISM trend if it continues.

Related data: Construction Spending remains negative. Factory Orders in July fell 1% vs a 2% increase in June.

- International data: Germany is the worst of the bunch

The German PMI continues to sink further into negative territory. Frankly, we are surprised it is not more negative despite the slight reprieve in inflation. Europe as a whole is slightly negative. Ex Germany it is about breakeven.

The China Services PMI jumped over four points representing a return to normal consumer/business behavior after lockdowns were eased. Of course, new lockdowns have been imposed. Only the Chinese could render quasi real-time data useless.

- The Fed's Beige Book tells us what we already know

The Fed's Beige Book, the data review compiled by the regional Fed banks two weeks before the next FOMC meeting, tells us that the economy is likely to weaken in the back half of the year. On inflation, there has been "some degree of moderation in price increases." They are noting "increased talk of recession." And yet they still think the job market is tight.

- Emotional trading in oil

OPEC+ officially decided to cut production by 100k barrels per day. This has been talked about for a couple of weeks. It is a marginal amount (about 0.1% of daily production). But the announcement comes on the heels of a slowdown in Iranian nuclear talks. In theory, these minor headlines should be supportive of oil. But the recession talk is in full gear. Or at least they are in commodities. Copper and nickel are down about 30% from their recent highs. Natural gas is down 20% in a few weeks. However, we still believe in the global shortage for oil and gas. Emotions might control the short-term trading, but ultimately it comes down to demand vs supply. The spread in global nat-gas prices says it all to us. In the US, it sells for \$7.84 MMBtu. In Asia, it is \$55.20. Europe settled today at \$62.56. This is why we have long exposure to the nat-gas infrastructure space in the US.

- Chart Crime of the week #1

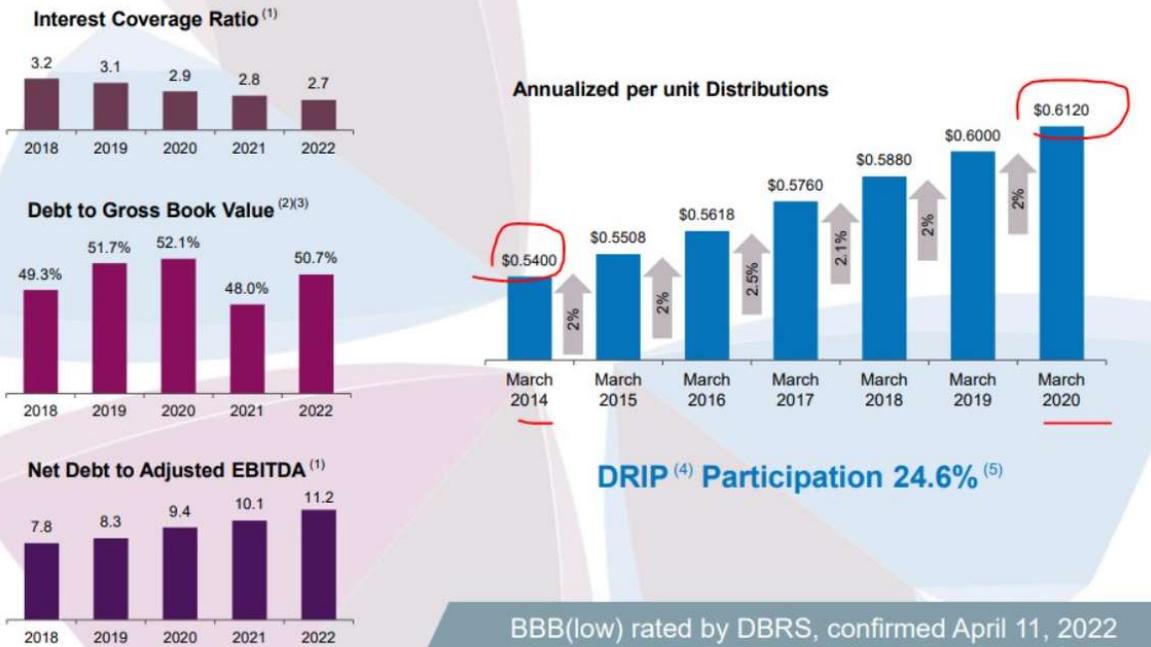
We are not sure which is worse, the fact that MoviePass is back. Or that they offer the worst deal to their best customers?



➤ Chart Crime of the Week #2

You would think Chartwell has more than doubled its cash distribution over six years! But no, that is just 13%. And why does the data end in 2020? Other parts of the presentation go to the present 2022.

## Historical Performance



(1) Rolling 12 months ended June 30, 2022, and 12 months ended December 31 for periods 2018-2021.  
 (2) As at the end of June for 2022 and as at the end of December for periods 2018-2021.  
 (3) Previously used Debt to Capitalization. In light of the current market conditions, this metric has been removed.

(4) Distribution Reinvestment Plan ("DRIP") allows unitholders to reinvest their distributions into new units of Chartwell, including a 3% bonus distribution and with no commissions.  
 (5) Average DRIP participation for the three months ended June 30, 2022.

➤ Quick Hits

- Lukoil, the Russian oil giant, was the first (only?) Russian company to call for the end of the invasion of Ukraine.
- The chairman of Lukoil jumped from his hospital window. It has been ruled a suicide. We are sure the late Magnitsky would have something to say about this.
- The CFO of Bed Bath & Beyond jumped from his 18<sup>th</sup> floor apartment in NYC.
- One of the all-time whacky murder/suicides stemming from fraud involved Bre-X, the Canadian gold mining company with supposed deposits in Indonesia. Days before the fraud was uncovered (that the \$6b company had zero gold), the lead exploration manager jumped out of a helicopter at 800 feet. Some think he is the DB Cooper of Canada/Indonesia...alive.
- California has passed a law that will give the power to set wages for fast food companies to a government panel. \$22 an hour is the preliminary wage (set to increase).
- The latest "covid" booster passed the FDA process after a trial on eight mice.
- Syracuse recently changed the name of its dome from Carrier. Carrier is an air conditioning company. The dome does not have air conditioning.
- The CEO of crypt exchange Kraken has proclaimed that the USD is going to zero. (We cannot come up with a smart-aleck line to describe this idiocy.)
- A University of Chicago professor thinks the reaction to the student loan forgiveness program has been overblown because she thinks, "a lot of those loans were never going to be repaid."
- Russia has sanctioned Ben Stiller and Sean Penn.
- Top Gun Maverick is now the fifth best grossing film of all time. It was the sixth movie we have seen in the theater since 2000.

**Trading:** We finally bought a smidge of Twitter. We were listening to the latest court proceeding and it seemed obvious to us that the judge does not like the Tesla lawyers (or their arguments). We added to our long Treasury position. This is not for the paltry yield but rather the potential for capital gains on the flight to quality (ironic). We cut some of our shorts on the airlines. But added some in Fantasy Tech. If the recent willful ignorance continues, we will buy more. And we plan on getting some short exposure in Europe. We had some a while back. We thought it was too late to put it back on. But the standoff with Russia seems to only be getting worse (anecdotal evidence from a friend says people are chopping wood for the winter).

**TSLAQ:** Musk lost his bid to delay the Twitter trial. The "whistleblower" will be allowed into discovery. But as we have noted, he has previously only testified to Twitter being a crappy company...not one that has fraudulently cooked the bot books. Otherwise, Musk has been spending most of his time bashing Amazon's Lord of the Rings.

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