Weekly Update

25-May-2022
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- The markets gyrate with the headlines – the data is still bad
- Earnings Revisions are negative, but people are being lazy or dumb
- Credit card delinquencies are rising for all the wrong people
- Housing data continues to deteriorate…waiting to buy?
- Businesses are slowing hiring
- People are trading down their cars
- Inflation is the important indicator…but which inflation?
- Even the Fed's most dovish want to hike aggressively
- The ECB is talking hawkish, but they are still doves in disguise
- China is proving there is no shortage of oil demand. And do not blame the oil companies
- Quick Hits
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	3,979	1.4%	-16.3%	-3.9%
QQQ	$291.26	-0.7%	-27.2%	-12.6%
US 10 YR	2.75%	2.97%	1.51%	1.61%
USD/DXY	102.1	103.8	96.0	90.0
VIX	28.4%	31.0%	17.2%	17.4%
Oil	$110.91	1.1%	46.7%	67.0%

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

The markets keep gyrating with the ebb and flow of news. Or rather, the market gets a lift from some technical aspect impacting the market. Then investors wise up and realize the underlying theme remains the same: The Fed is going to keep hiking rates into a slowing economy. As for the good news, last week's headline was Musk trying to back away from the Twitter deal. But since there is a contract signed, most legal experts think Musk is on the hook (so Tesla shares remain under pressure since they are part of the collateral, even if he changes the equity structure). Along these lines, we got more research (guesswork) on where sits Musk's Mendoza line (the point at which he will have to sell more Tesla shares). Bernstein puts its around $385 (many others are much higher). On Friday, we saw a huge rally during the last 45 minutes of the session. This was heralded as marking the bottom. But that heightened Volatility was related to options expiration. Moreover, the rumor was that the action was driven by a single buyer moving the market! The natural reaction was for the market to reverse on

Monday. Looking ahead, some strategists are expecting month-end buying from pension funds to create inflows of $6-8b a day until next Tuesday. Maybe. But the SPY ETF alone trades $40b a day. China cut a mortgage lending rate which got the red bulls stomping. But China has not budged on its commercial bank lending rate or massaged its currency. And for all the talk of reopening the economy, Covid-0 (or is it 0-Covid…we keep seeing both) seems to still be a thing. As for the Fed, chairman Powell has been quite clear that they will keep hiking until inflation is under control. And the market believes him and expects the Fed to be successful. Forward estimates of inflation have come down. And the 2-yr Treasury has fallen from 2.85% to 2.50% in three weeks. Of course, that is why the market is under so much pressure. Powell being successful necessarily means the economy suffers! But today, there was an afternoon rally because the Fed was unanimous in its chorus to hike interest rates. Or at least this was the interpretation of the FOMC minutes and the subsequent market rally. We suspect investors will scratch their heads and fade this mini-rally.

On the China reopening, some are pointing to improving protocols in Macau as a sign that relative freedom is imminent (everything is relative). For the record, Macau will now allow entrance to Portuguese non-resident nationals who have not traveled outside of China, Hong Kong, or Portugal in the last 21 days. Not exactly an opening of the floodgates. The communist "election" in November will likely be the tell-tale sign if Xi (if "re-elected") clamps down further on gambling. We remain short the sector in Asia. In other China news, China has warned about a "dangerous situation" if the US increases its support for Taiwan. We also have a short in Taiwan for this reason.

Another sign of impending trouble is in the junk bond market. We are seeing more evidence of the widening of the spreads to Treasuries. Carnival (the cruise liner) just issued debt at 10.5%. It issued debt at 6% just seven months ago. Famed short-seller Jim Chanos summed up Carvana's falling debt (in prices, yields are going higher) perfectly:

Somewhat analogous to the junk bond market is the CDS market in the Financials. CDS prices on the big banks have increased (credit default swaps are insurance against bond default, so a higher CDS price means a more costly price to insure against default). 5-year CDS were sitting around 0.50% a month ago. Today they are around 1%. Citigroup is the worst of the bunch around 1.4% (it has more international/emerging market exposure). The so-called Lehman Line is around 3%. This is the point at which counterparties start to worry.

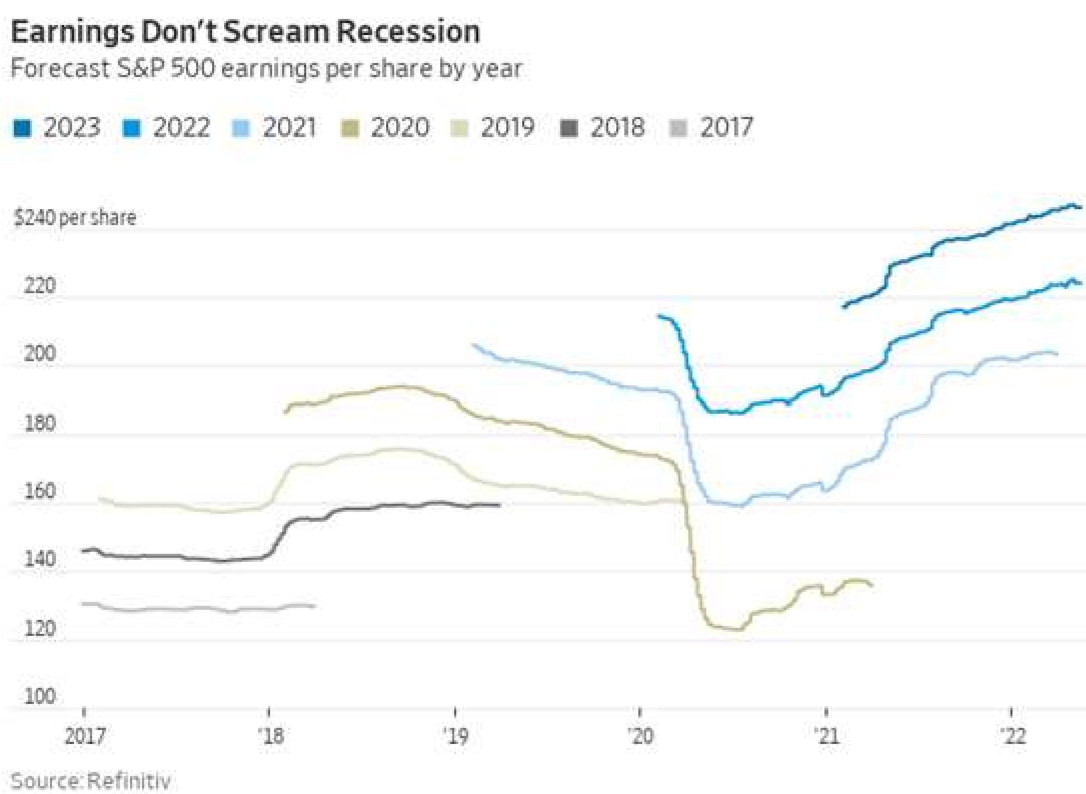
We have made the point recently that the Volatility index (VIX) has been cooling on down days in the market. This is anomalous and perhaps a sign that a bottom is forming. Alas, the VIX is now moving higher on up days in the market (their moves should be inversely correlated). We think this points to a range bouncd market. People are willing to buy the dip (cooling Vol on bad days). But they are ready and willing to sell the rally (increasing Vol on good market days). Given the Fed's stance and the deteriorating economic data, we will be slow to buy the dip but pretty quick to sell the rally.

- Earnings Revisions are negative, but people are being lazy or dumb

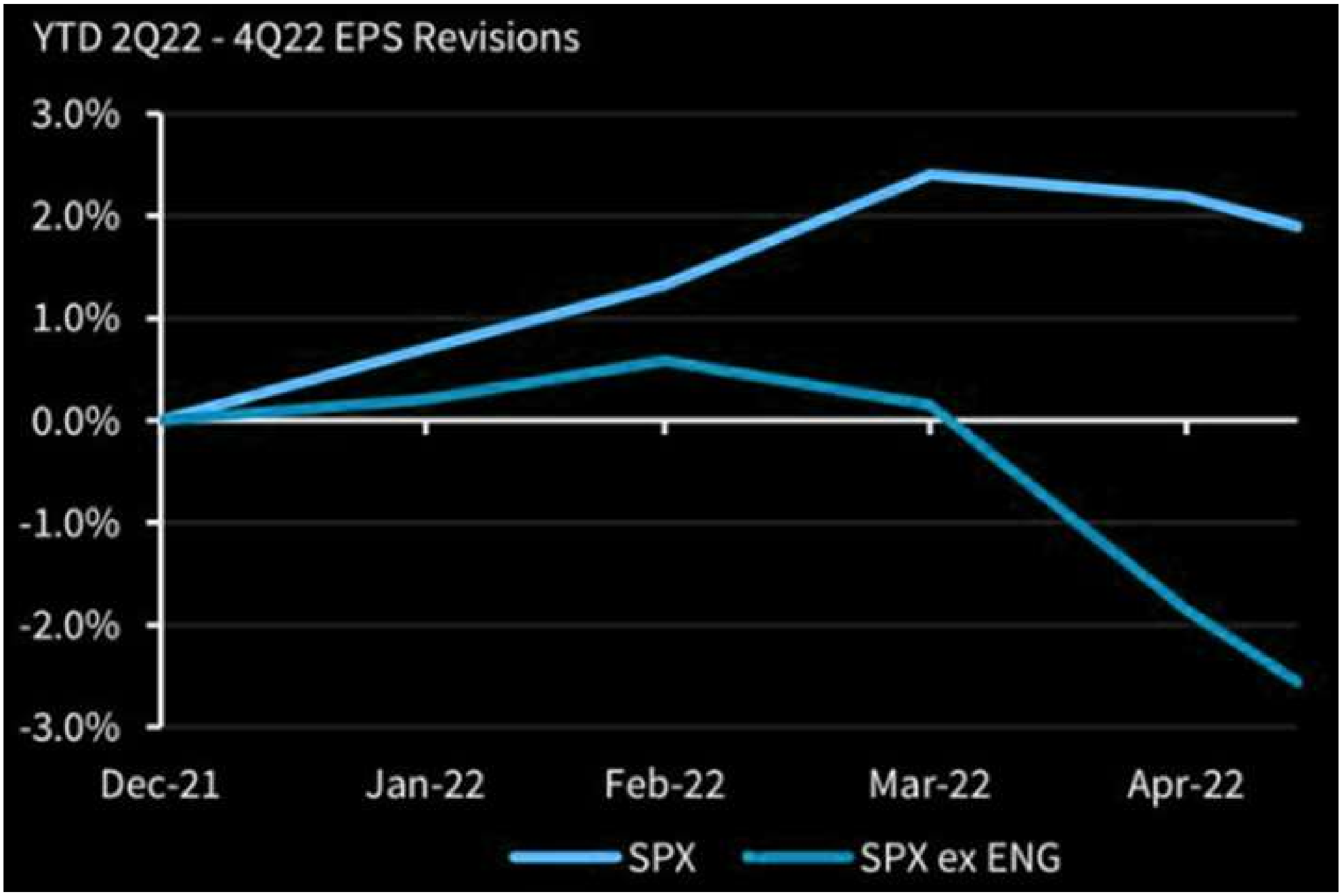
The earnings onslaught continues to pressure the market. Whether it be Target's inability to manage inventory (something it traditionally has done very well) or SNAP's signal that online advertising might be making a dramatic turn for the worse, the market remains on edge. But very few are talking about the negative outlook for earnings.

For example, Fidelity's head of macro said Earnings have been good without negative revisions. He even said Earnings estimates have been going up. We need to know at what he is looking. If nothing else, he is ignoring the drastic rate-of-change slowing in EPS growth. We would add that he made a good comment about the Fed: if they stop moving the goalposts on the end-goal (in terms of rate hikes), the market would consider this a Fed pivot and would feel more comfortable.

The Wall Street Journal gets in on the act, too.



But Barclays gives us the real scoop. SPX earnings revisions ex-Energy are now negative. In other words, the consensus that earnings have been good is biased by the massive move in Energy. Stripping out these numbers (and we will note that when Energy earnings were abysmal during the last umpteen years, most sensible earnings research stripped out their negative impact) shows us that revisions are, indeed, negative.



Morgan Stanley research also supports this view accurately. The charts are hard to read. But the gist is the same: Earnings are going lower.

- Credit card delinquencies are rising for all the wrong people

Equifax data tells us that credit card delinquencies are rising for subprime borrowers. In fact, data in March marked the eighth month in a row of declining on-time payments. Delinquencies on subprime car loans hit an all-time high in February. The outright increases are not terrible (credit cards from 9.8% in March 2021 to 11.1% in March 2022, car loans 7.9% to 8.5%), but the trends are ominous. This is especially true in light of all "the consumer is in good shape" talk. On that note, JP Morgan did give a bright outlook for the consumer during its earnings release. But JPM does not serve the vulnerable parts of society. Its credit card and loan customers have much higher credit quality/scores.

- Housing data continues to deteriorate…waiting to buy?

Housing Starts and Permits matched consensus guesses which means they declined again. The drops were modest on the surface, but the devil is in the detail. Single family builds fell 7.3% to 1.1mm (annual pace), while multifamily projects rose 16.8% to 612k (a record since 1986).

30-year Mortgages rates ticked down to 5.25%. But mortgage apps still dropped 17% last week vs a year ago which was also a 11% decline vs the prior week. This week was a smaller decrease of 1.2%. But the trend is unrelenting.

Existing Home Sales in April also fell. They declined 2.4% vs March and 5.9% vs a year ago.

New Home Sales in April also fell. The decline was 16.6% vs March. It was the worst month since the onset of the virus fear. And it was the fourth straight monthly decline. Builders now have nine months of supply - up from six months in March.

Redfin has some interesting data that shows there is an increasing number of active listings with price drops. The percentages are small (2021 was flat around 2% while this year has increased from 2% to almost 5%). Along the same lines, the demand for second homes (rich getting richer was a theme until this year) has plummeted after skyrocketing early in the virus-fear era. Part of this drop has been driven by government policy. Fannie and Freddie now provide financing on second homes a full point higher than on primary residences (6.25% vs 5.25%).

The average monthly mortgage payment (on the median asking price) is up 43% vs last year.

The simple take-away is that Housing is slowing despite the underlying good themes (low supply, work-from-home, interstate migration). However, while thinking about when to short this sector (since we missed the early move – we sold our longs at the right time, but we failed to reverse into shorts), we came across some data that has us rethinking the strategy. Looking at the last four interest rate shocks (1994, 1999, 2013, and 2018), the Housing sector began to rally exactly at the top of each of these cycles. As soon as the 30-year mortgage rate stopped going higher, Housing took off. The market did not wait for rates to go lower.

- Businesses are slowing hiring

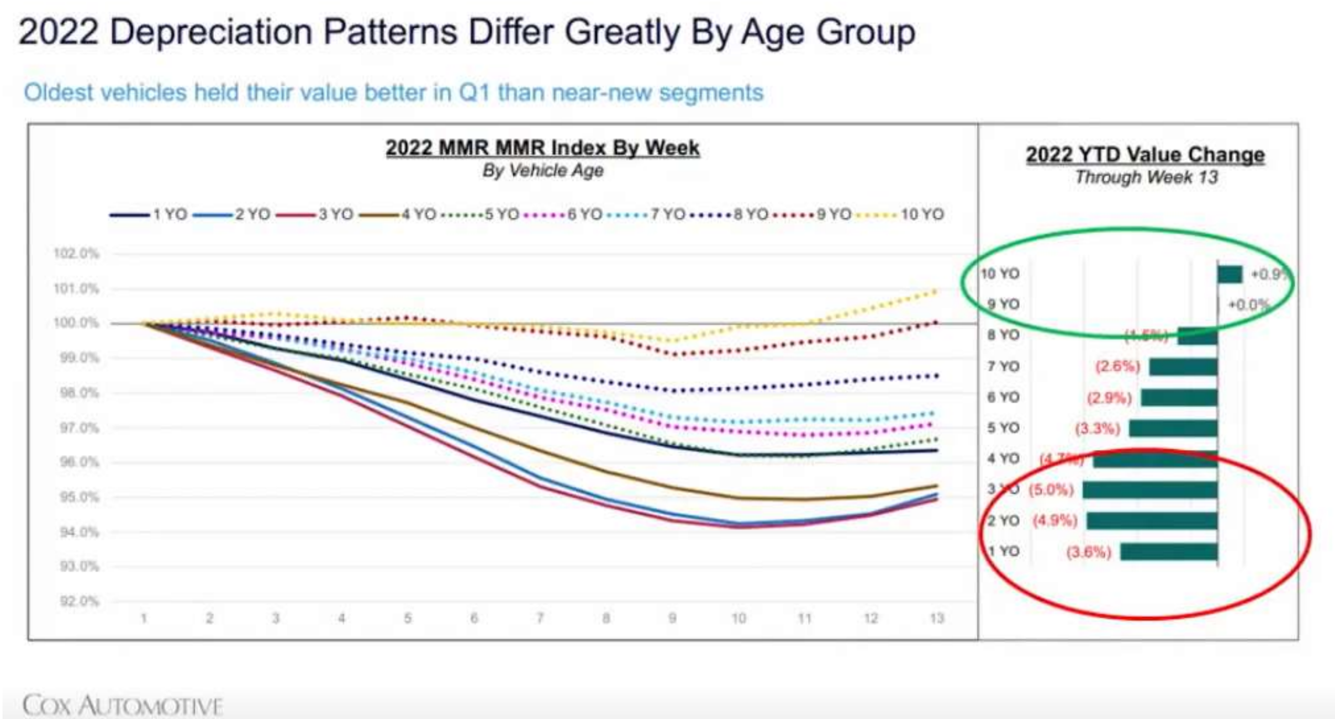
The early read of Markit's Composite PMI showed continued slowing. The numbers are not quite in contraction territory, but Manufacturing dropped 1.4 points to 57.5 and Services dropped 1.8 points to 53.5.

The Richmond Fed Manufacturing index fell into negative territory in May (14 to -9).

Despite the record Job Openings in the JOLTS report, Indeed's 'Hiring Lab" data shows Job Postings have been steadily falling all year. Indeed (the company) measures it as a percentage increase from pre-virus-fear (Feb 1, 2020). The peak was +64% in December 2021. It now is 56%. And we obviously take more heed from private industry data than we do government guesses.

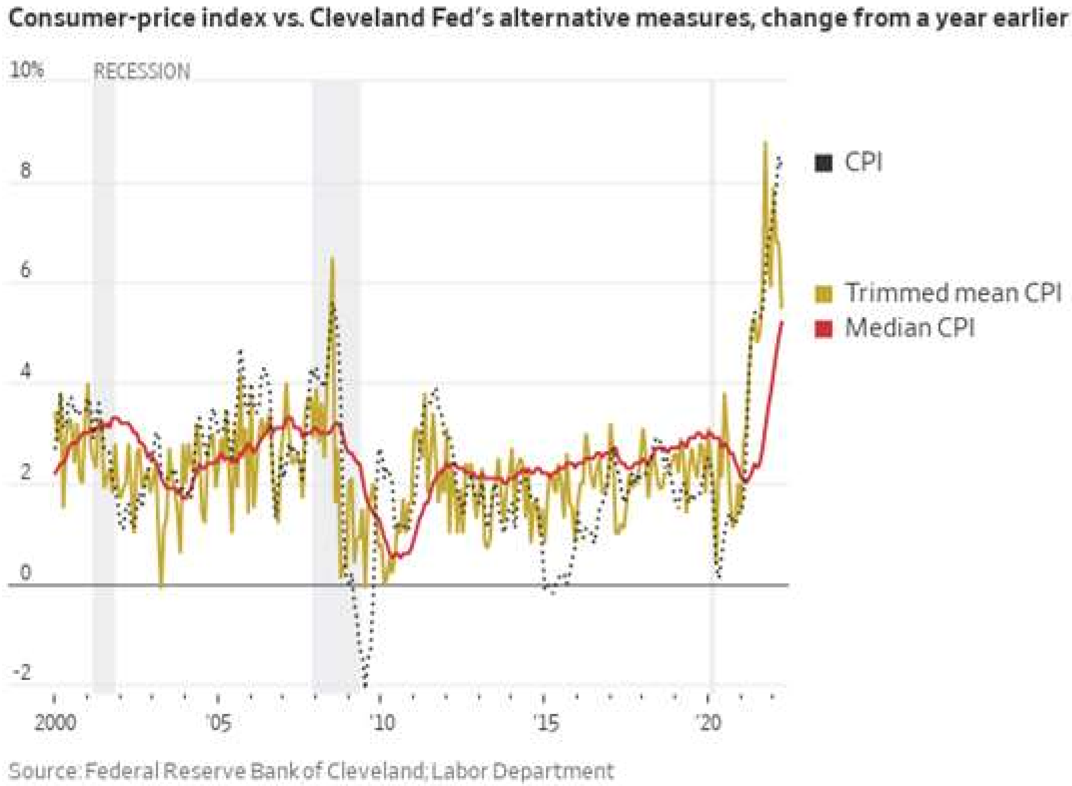
- People are trading down their cars

This chart from Hedgeye shows that newer vintage used cars are depreciating faster than older cars. The purple and blue lines at the bottom are near vintages while the dotted yellow line is 10-years old (the chart is year-to-date). The idea here is that people are getting priced out of late model used cars and are having to opt for the older varieties. Just last year, some recently used cars were selling at premiums to new cars.



- Inflation is the important indicator…but which inflation?

As we keep lamenting, the Fed will keep hiking rates to squash inflation. But as we continually try to illuminate, the sea of inflation data is murky and choppy. We think it will be hard for the Fed to follow its usual playbook and ignore the "noncore" stuff like food and energy. But if they do, the Fed could signal a pivot (like Fidelity says) which would be a massive buying opportunity…assuming they are right about inflation. We will remain cautious on Growth and other long duration assets reliant on low interest rates.



- ➢ Even the Fed's most dovish want to hike aggressively

Neil Kashkari (Minneapolis Fed), once the most dovish member of the Fed system (always calling for more rate cuts) thinks the Fed must be more aggressive to cool the strong Consumer. Clearly, he has not been following the Earnings reports of Walmart or Target. He added that he doesn't know if the Fed can pull off the "soft landing." At least he has that part right.

Esther George repeated this blind sentiment by saying the Fed will have to keep hiking rates until the Consumer stops spending which would in turn cool inflation. The Fed might have to go to 4% for this to happen (consensus view is that the Fed goes to 3% by next summer). She added that she was not surprised at the market's reaction to the rate hikes.

- ➢ The ECB is talking hawkish, but they are still doves in disguise

The ECB's Christine Lagarde said the European Central Bank will likely lift its negative interest rates (-0.50%) back to around 0% by September. Rates could go higher if inflation is not tempered. We think this is a *small* IF as Europe faces much different inflationary pressures given their green dreams are up in coal smoke thanks to Russia. And the European economy has behaved better than expected (in light of war). For example, the Composite PMI in May is sitting at 54.9 down a bit from 55.8 in April. So, we think Lagarde is right in looking to raise rates assuming things remain on this trajectory. But we doubt things do. Moreover, the most hawkish stance for the ECB is still behind the Fed to the tune of 1.00% of hikes. And the ECB always shows it true socialist colors in not wanting to inflect any necessary short-term pain for the greater good. We will keep our long USD position and expand it with more weakness (Euro strength).

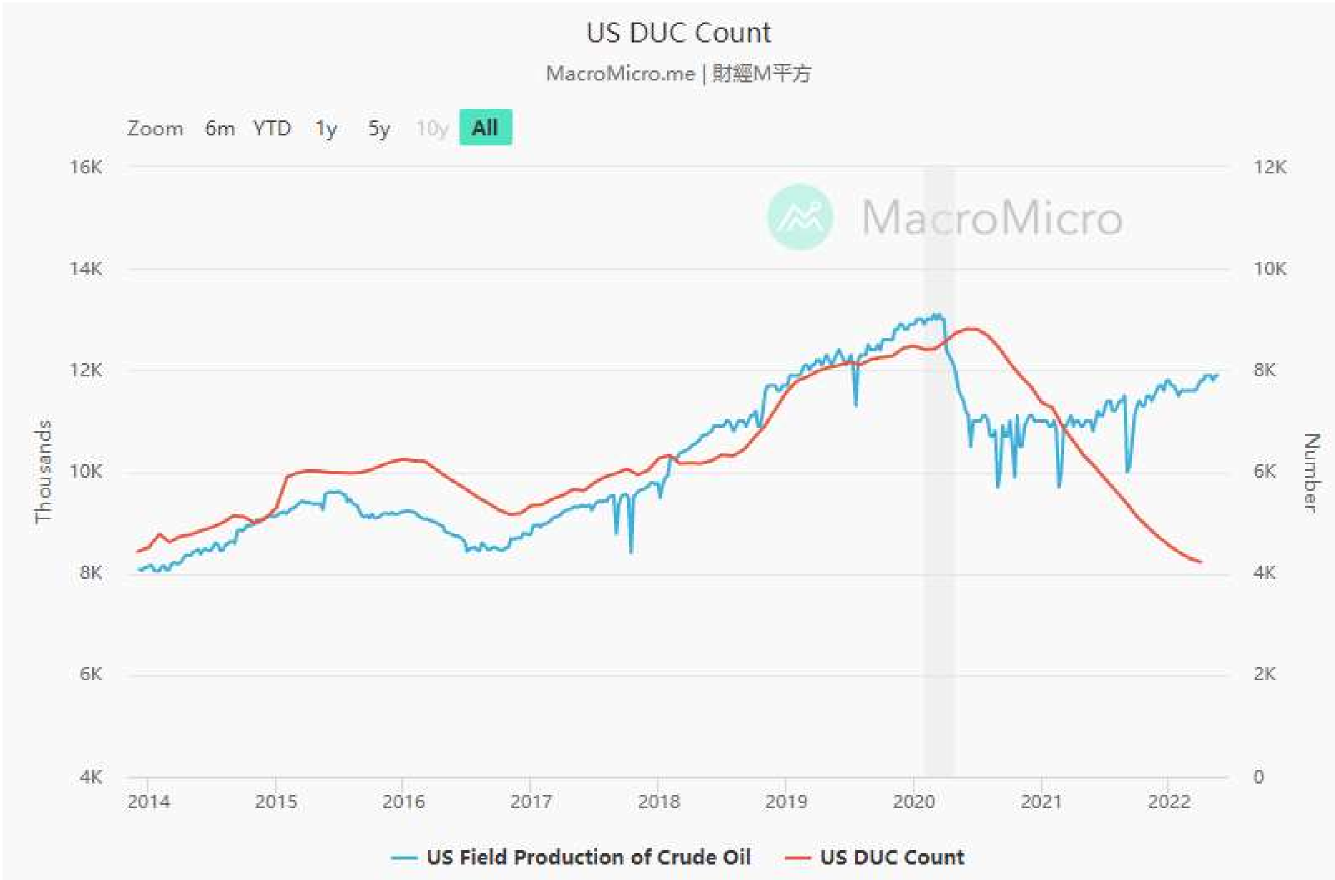
- ➢ China is proving there is no shortage of oil demand. And do not blame the oil companies

Crude inventories in the US dropped vs an expected increase. This was the government's thumb on the scale as it was unloading oil from the Strategic Petroleum Reserve (not Tactical Petroleum Reserve). It is mulling the release of 1mm barrels of diesel from the government's emergency stockpile. This reserve is called the Northeast Home Heating Oil Reserve. I guess the government is counting on it being a warm winter (global warming?).

China is puzzling the commodity markets by drastically slashing its exports of refined products like diesel and gasoline. With China's fuel consumption plummeting because of the lockdowns, one would think China would export its massive refinery output. The working theory is that China is trying to destroy demand for crude oil if there is a lack of refinery capacity (exports are down 50% vs last year). At the same time, China is starting to take more Russia oil. Its pipelines are already filled to capacity, but there is tracking data showing more seaborne shipments into China. This sounds like the ultimate government policy run amok. The communist thumb on the scale (not too different than our thumb) will create more distortions in the short term but ultimately result in the mother of all unintended consequences (they will have to buy oil at much higher prices and potentially damage their own refining capacity in the meantime).

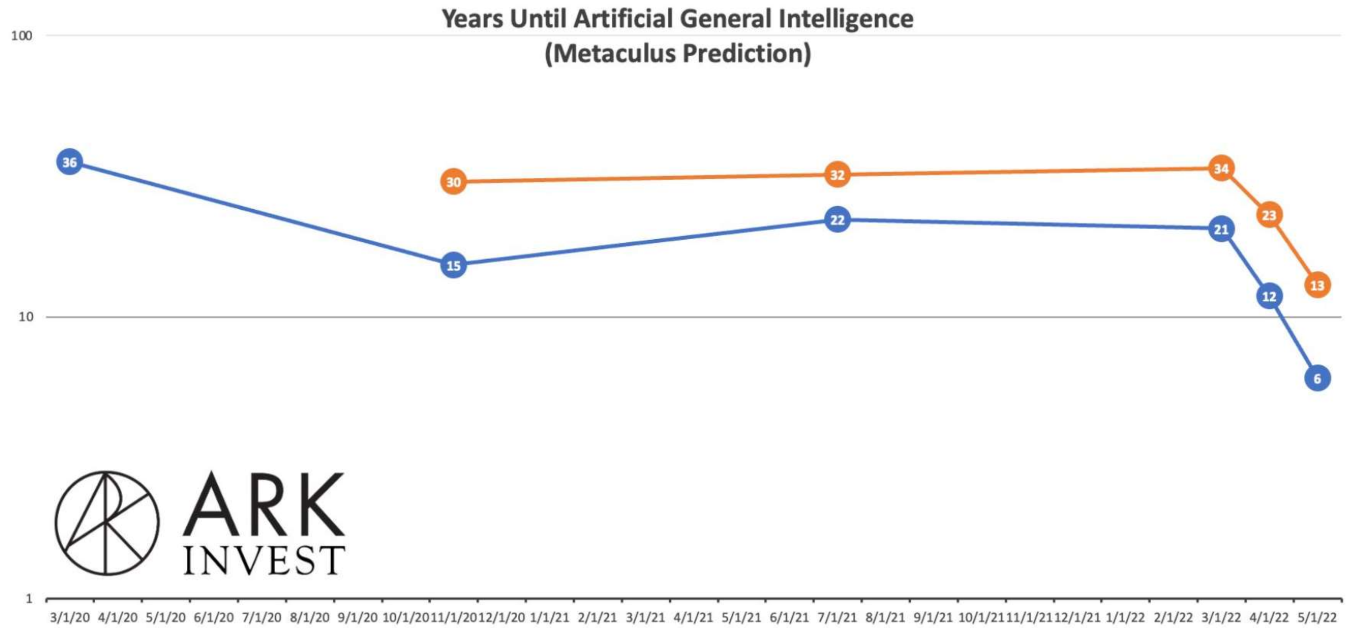
Jeff Currie of Goldman Sachs (he has been dead right for a long while now) said there has been no demand destruction of gasoline whatsoever. He points to the recession in China…if that didn't kill demand then what will? And given the communists have started to show signs of reopening the economy, we could see an acceleration. His math is that global demand for oil decreased by 2.5% because of the China lockdowns. He thinks recent loosening in China has improved the decrease to about 1-1.5%. The assumption is that this returns to normal just about the same time that seasonal gasoline demand in the US really picks up steam. Currie did note that the US's idea for tariffs instead of sanctions on Russia could tame some of the bullishness for oil. He also threw in the potential for the improving of relations with Venezuela. We dismiss this as Judd Clampett has more energy expertise than the Bolivarians. Currie thinks we will see $125 WTI crude oil in the summer.

For all the government bluster about Big Oil not doing its part to cure the government's problems, DUCs (drilled but uncompleted wells) fell another 70 in April while the rig count increased by 13 last week. The chart below is clear (despite a bit of a chart crime with the disjointed axes).



➢ Chart Crime of the week

This chart was posted by the director of "research" at ARK (home of the bubble-stock ETFs which have all crashed). He presents this as proof that Artificial General Intelligence (loosely defined…i.e., no definition) will be adopted sooner than anyone expects. Well, he is just plotting the results of a crowd-sourced guessing game. This is not research.



Source: ARK Invest, Metaculus
https://www.metaculus.com/questions/5121/date-of-general-ai/
https://www.metaculus.com/questions/3479/date-weakly-general-ai-system-is-devised/

But let us not stop there.   The queen bee of ARK, Crazy Cathie Wood aka the Woodchipper, follows up her minion's chart with a proclamation that within 6-12 years, AGI (whatever that is) could "accelerate growth in GDP from 3-5% per year to 30-50% per year." 30-50%!

On the lighter side, here is a good one from one of our contributors at Walnut Green:

- Quick Hits
  - CNBC compared TSLA to Beyond Meat. It was meant to be a positive comparison.
  - Gold held at the Bank of England is trading at a discount to benchmark prices. This typically means EM central banks that hold their gold in the BOE vault have been selling.
  - Junior employees of Goldman Sachs (im)famously complained about the grueling work schedule they endured. GS's solution? Reward senior employees with unlimited vacation days.
  - The SEC estimates that it will cost small, publicly listed companies an extra $420k to comply with proposed "climate disclosure" rules. Companies will be responsible for knowing the "greenhouse-gas emissions" of their suppliers and customers.
  - Door Dash announced a $400mm buyback. DASH lost $415mm in the last year (operating earnings, net income was worse at -$525mm).
  - Pelosi has been banned from receiving communion by the San Francisco Archbishop.
  - India raised export tariffs on iron ore to help curb domestic prices. Prices shot up 5-7%.
  - The head of the International Energy Agency (IEA, not to be confused with the EIA which is the Energy Information Administration inside of the Department of Energy in the US…why does this exist!), blamed high oil & gas prices on the current "heatwave."
  - NASA's Global Land-Ocean Temperature Index is at an eight-year low.
  - Morgan Stanley research on Carvana has a bear case of $5 and bull case of $352.
  - Carvana lost $3,255 on every car sold in Q1.
  - A $1600 Gucci umbrella is being criticized for not being…waterproof.
  - HSBC's head of "responsible investment" and research at its asset management division was suspended for giving a speech entitled "Why Investors need not worry about climate risk." One of his better lines, "Unsubstantiated, shrill, partisan, self-serving, apocalyptic warnings are ALWAYS wrong."

Trading: We continued our pattern of lightly buying the dips. We added to some Retailers before their earnings reports. This is a risky strategy, but we think these names are uniquely situated to report strong earnings and to surprise the market. One of these names, Caleres, jumped 30% on its good earnings. We added a bit to our short exposure via Puts. We have been wanting to act quickly on rallies because they have mostly been fleeting. But we still want to be diligent in the face of possible month-end buying. We will chip away. We also kept adding to our long bonds, gold, and USD currency positions. We trimmed a little of our direct commodity exposure. We will look to add more commodity equity exposure.

TSLAQ: The Bond Villain is doing his best to ostracize his fanboys and the drooling Tesla lemmings. For starters, Musk has declared that he is a Republican now. Right on cue, Tesla was booted out of S&P's ESG index (Environmental, Societal, and Governance…only for the pure). S&P noted Tesla's lack of a firm policy detailing its carbon reduction commitment. And S&P also noted Tesla's poor working conditions. Musk responded by calling ESG a scam that has been "weaponized by phony social justice warriors." We have been calling ESG a fraudulent asset-gathering scheme for years now. Musk is ignoring the outlandish mining costs to create EV batteries and magnets…not to mention the obvious question as to what about the electricity need to run the rich-person toys. But still, we find ourselves sympathizing with him. Of course, we subsequently learn he has been accused of sexual harassment. Apparently, before paying off the victim $250k, he tried to buy her a horse. He is squarely back in the scumbag camp.

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