



Weekly Update

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- South Korea rocks the US
- Is AI already failing? (No)
- But Microsoft is tempted to dance with the devil
- Warsh's inflation bar is higher than people think
- If the memory chip makers can get Apple to take their prices, they can get anyone
- Token-maxing no more
- Dash for trash?
- Volatility is screaming in some parts of the market
- Economic data is better on the margin
- Quick Hits
- Where did all the crypto/fake AI/political scammers/meme money go?
- Chart Crime of the week
- Does Warsh drink White Russians like Reggie Hammond?

	Last	5d %	YTD %	1yr %
S&P 500	7,358	-2.0%	7.5%	20.8%
QQQ	\$710.62	-3.0%	15.7%	31.7%
US 10 YR	4.50%	4.40%	4.17%	4.29%
USD/DXY	100.1	101.6	98.3	97.7
VIX	18.6%	18.4%	15.0%	16.8%
Oil	\$69.84	-9.0%	22.5%	9.3%

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

** Oil is front month futures, beware

It is not often that the international tail wags the domestic dog, but this happened on Tuesday as the memory stocks were hit hard overseas. A slew of negative one-liners hit the South Korean chipmakers, and the US memory stocks followed suit with ~10% plunges. Of course, this was only reversing two days of gains! The hyperscalers succumbed to the new weakness. The reasoning was simply that they have spent too much money with too little to show for it. Lending some credence to this narrative is that AI token prices have started to fall. But this is likely a recalibrating of excess usage (we noted that Uber and Amazon were spending on AI without any restraint...until they got the bill). We are hearing more stories of real-world use cases for AI. So, any hiccups in the short term will likely be dwarfed in the medium term. Then again, Microsoft has already floated the idea

of potentially hosting a version of China's DeepSeek. This might be good for the users of AI, but not the ones who have invested a trillion dollars into the frontier models that compete with the Chinese. (We own small bits of the hyperscalers, and we are not buying the dip.) There are also stories that Nvidia chip prices are starting to fall in the secondary market. We have not seen any concrete evidence of this. And lest we forget, Micron reported earnings tonight that knocked the cover off the ball. In other words, we still like the infrastructure side of the trade vs the model building/housing (hyperscalers).

Last week, we thought the initial reaction to new Fed Chairman Warsh was wrong, and many of the pundits have since doubled down. They keep talking about Warsh's focus on price stability (half the dual mandate). And almost everyone has trotted out "there's a new Sheriff in town" (which we joked about last week, but everyone is saying it!). However, everyone seemed to overlook what Warsh really said. He wants inflation to be back in the 2's...that could be 2.9%! He is not trying to get inflation back to the old Fed target of 2%. We said this a while ago under Powell...2.5% was the new 2.0%. Now it seems the bar to go under is even higher. Moreover, through parsing recent public statements, most of the Fed members that want to hike rates (as shown in the "DOT" plot which Warsh wants to eliminate) are not voting members of the Fed this year. And of course, the 2-year Treasury is still about 50bps higher than the Fed Fund target range. In other words, the market has already done the work of hiking interest rates. But as we noted last week, the USD is still strong, and the assets anchored to lower rates are still going down. Hedgeye says this odd dynamic is born out of a pending slowing economy in July. But this is more of a function of the calendar effect compared to last July. Others say the strength in the Artificial Intelligence ecosystem is masking the underlying weakness across large chunks of the economy. We are not sure about this given the incredible growth in earnings across the board. That said, sector and factor rotations after narrow rallies are very natural.

Geopolitically, there are plenty of doubts about the latest Iran peace deal. Over the weekend, there were flip-flopping stories every hour. But ultimately, oil appears to be flowing semi-freely through the Strait. This is all that really matters. Paradoxically, some of those same professional guessers that are predicting weaker economic growth are pointing to lower oil prices. Just a few weeks ago, it was a massive supply problem. But these same people now say it is a demand problem (in the US; most agree Chinese demand has been weak).

➤ South Korean leverage is real (but so are the companies)

Here are the South Korean stories: SK Hynix, an AI memory chip maker and now the largest company in South Korea, was rumored to be downshifting away from the high bandwidth memory (HBM) business. They would be reigniting the more mundane and historically cyclical side of the DRAM business (dynamic random-access memory). On top of this, a Korean regulator (FSC) commented that he wishes they had not allowed the leveraged, single stock ETFs (on SK Hynix and Samsung). The FSC has been voicing this regret ever since these ETFs have exploded in size (and thus leverage). Lastly, MSCI, the index provider to the giant Blackrock funds, determined that South Korea would remain an emerging market (it is considered a developed market at Russell/Vanguard). We doubt the first story is true, and it has not been confirmed. The second story is definitely true, and leverage is always a risk. The third story does not mean much. Perhaps some thought SK moving up to developed status was inevitable, but MSCI has held firm on its view for decades now (and any impact from different index inclusion would likely be temporary).

A random memory chip headline: Apple is raising prices specifically to pass on inflated memory costs. One of the doubts about the memory trade is that they will not be able to continually pass on prices. If you can get Apple to take your prices, you can probably get anyone to do it.

Random bits:

There have been 44 SPAC mergers so far in 2026. This compares to 33 deals during the same time last year. This year's deals total \$37b. Last year's (to date) were only worth \$15b. This is never a good sign.

Almost \$5.2t of options expired Thursday. This was a record. The amount is notional, meaning the real amount is much lower. But this is still an enormous number. This is not a good sign, either.

Apollo and Morgan Stanley are capping redemptions to the private credit funds again. This story will not go away, but nobody seems to care.

And this just in, one of the Wall Street strategists (professional soothsayers as compared to guessers) thinks there might be a Yen-carry trade unwind this summer!

- Token-maxing no more

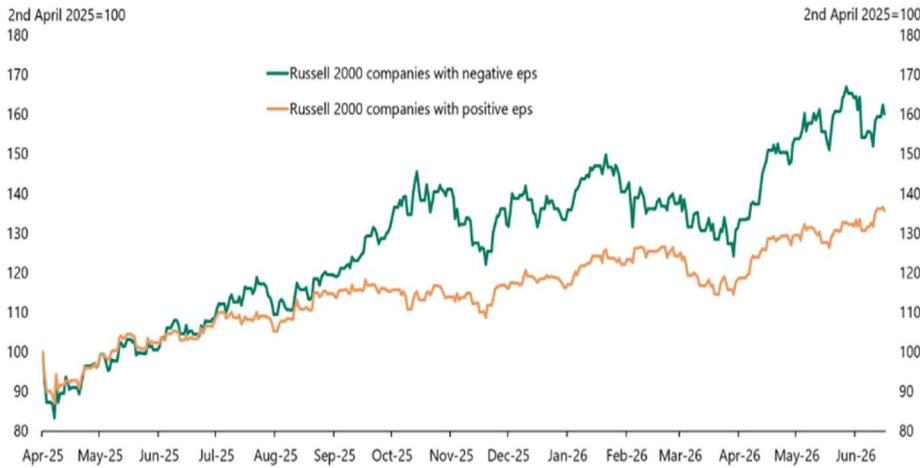
This chart is not perfect (whacky dual axes). But the hyperscalers do seem to be tracking the cost of tokens as their usage gets reigned in. Part of the theory, on top of cost control at big firms, is that the Chinese open-sourced models are gaining traction. Microsoft even said it was considering hosting a version of China's DeepSeek! This is some kind of corporate suicidal empathy...to intentionally blow a hole in their own capex : past, present and future! But the leading AI investors say this is a natural bifurcation. People will use the cheap open-sourced models for easy chatbot stuff. But custom enterprise agents will stick with the frontier models with the US government providing some protection/guardrails. We certainly have no intention of every using a Chinese model (we never downloaded Tik Tok either).



- Dash for trash?

This chart underscores what is happening in the market outside of the AI-centric trade. Apollo shows us that unprofitable companies are outperforming profitable ones by a large margin since the market started accelerating out of the Iran war drawdown. Apollo leaves out that these are small-caps. With 40% of the index being unprofitable, it is not uncommon for this dynamic to exist. Nonetheless, the current market is split between AI and small-caps on one side, and everything else on the other.

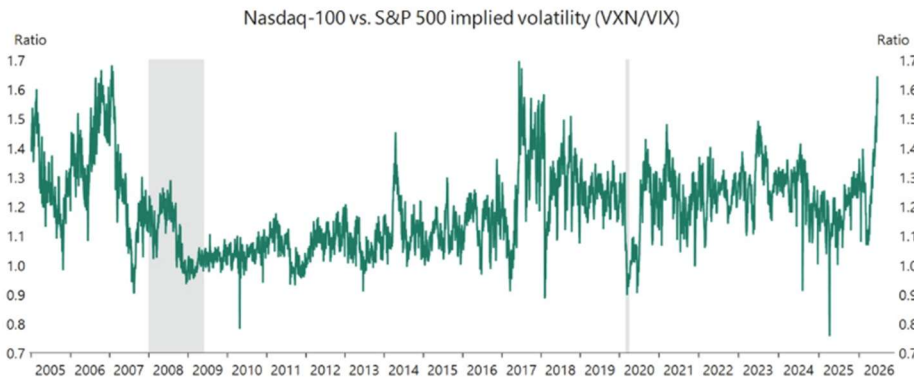
Companies with negative earnings continue to outperform companies with positive earnings



- Volatility is screaming in some parts of the market

Here is another Apollo chart. It shows the extreme premium of Nasdaq volatility to S&P. We would guess this is a combination of protection on Tech that people own and a directional bet against the hyperscalers.

Market is getting worried about tech



Looking at our proprietary tracking of market Volatility, we see some conflicting signals. Obviously, short-term Vol has moved higher. The 1-standard deviation move over 30 days has reached its highest level since November. But oddly, the number of outliers has fallen (only 7 instances which does not keep pace with the 65 instances over the last year). The same dynamic appears with The Woodchipper’s ARKK (our proxy for junky stocks). We think the inner-rotations are keeping a lid on the big moves. This reinforces the need to keep some diversification in the portfolio.

- Economic data is better on the margin

Initial Jobless Claims remained steady at 226k. Continuing Claims ticked up slightly to 1.81mm.

The S&P PMIs both accelerated in June. The composite reached 52.2 up from 51.5. Manufacturing kept steaming along hitting 55.7 up from 55.1 (highest in years). But Services improved to 51.3 from 50.7. This is still barely above the breakeven level, but the trend has been down for about a year. The last few months look like business sentiment is troughing if nothing else.

The Philly Fed's Manufacturing index improved into positive territory in June (-0.4 to +10.3). New Orders showed the most improvement. The Richmond Fed's Manufacturing index dropped sharply from 16 to 3. Services also dropped (14 to -1).

The Weekly ADP Employment change (for the first week of June, so the first one after the strong May Employment report) showed a gain of almost 31k jobs.

Redbook Retail Sales accelerated to +10.0%.

New Home Sales in May fell over 7%. The annualized run-rate is 580k (down from 626k).

Building Permits in May fell about 1%. The annualized run-rate is 1.41mm down from 1.423mm. (The watered down housing bill will not do much to relieve the lack of housing turnover and/or building.)

Mortgage Applications ticked up slightly on the week.

The average 30-year mortgage rate ticked down to 6.59% from 6.60%.

➤ Where did all the crypto/fake AI/political scammers/meme money go?

Digital Asset Treasury companies do not get much press these days. DATs are the shell companies that hold crypto. "Investors" in them then hope the pot of crypto trades at a premium to the value of the crypto. If this seems dumb, you're smart. The most recent DAT is called Avalanche Treasury. It was created through a SPAC that was approved and closed on June 11. Who knows why the shareholders approved the deal. They could have gotten their \$10 back (SPACS are priced at \$10 and you get your money back if there is no deal signed). Instead, they can get about \$0.71 now.

We enjoy writing about the extravagant expenditures of financial charlatans (be they formed in the crypto world or the real world). Lamborghinis, Rolexes, fancy parties, maybe even sports teams...these are the usual irresistible itches being scratched. Politicians are usually a little more subtle...but they still tend to hit the Caribbean or dine with the stars. Unless you are the former chief executive of the Scottish National Party. After stealing about \$500k, his choice of luxuries included, "two toilet seats, seven vacuum cleaners, a four-and-half pound jar of Nescafe, and 108 rolls of toilet paper." Near the end of the WSJ article, some of the Tartan Army lament why the thief had not, "gotten a Lamborghini." Ha!

Name change! Two months ago, we laughed at the wool-based shoe company Allbirds changing its name to NewBird AI. The company sold its shoe inventory and entered the AI and cloud computing race. Its stock went up about 600% in a day. The stock had given up about 90% of this move until last week. Not to be defeated, the company changed its name again! Smartbird is still looking for its first customers. But first it must buy the AI infrastructure (GPUs) it hopes to resell to others. The stock jumped about 50% on the latest announcement. When the stock ultimately gives back this rally, we expect another name change might be in the works.

When asked about potentially getting out of prison early, Sam Bankman-Fried told Matt Levine, “not only does (he) not wish to exit prison a changed person, it is more or less (his) greatest fear.”

We briefly touched on the CIA officer that got busted for running a fake operation that funneled him \$40mm in gold bars. Apparently, he got busted because he filled out false timecards at work. He wanted payment as a Navy reservist pilot on top of his \$40mm. He had not been in the military for over a decade. And he was never a pilot.

Back in April we chronicled the rise (and subsequent fall) of Avis as it reentered memedom. Two funds owned over 100% of the outstanding stock thanks to short sellers. Once the short sellers realized they were short shares that did not exist, they scrambled to cover their short positions.* And one of the funds (Pentwater), the one that had jacked its holding from under 10% to over 50% in a few months, decided to unload on the unsuspecting short sellers covering their shorts. This was a clear violation of the SEC’s “short-swing profit rules” (you cannot sell stock for six months once you breach the 10% ownership threshold). But they argued different funds had bought shares than the ones that had sold shares. Nice try. But it sorta worked! Pentwater’s total profits from their (almost) day-trading half the company was about \$1b. This week, they settled with Avis to disgorge \$650m. Avis got its money for nothing, and Pentwater is probably getting a lot of chicks for free.

➤ Chart Crime of the week

You can always count on the media for unbiased reporting.

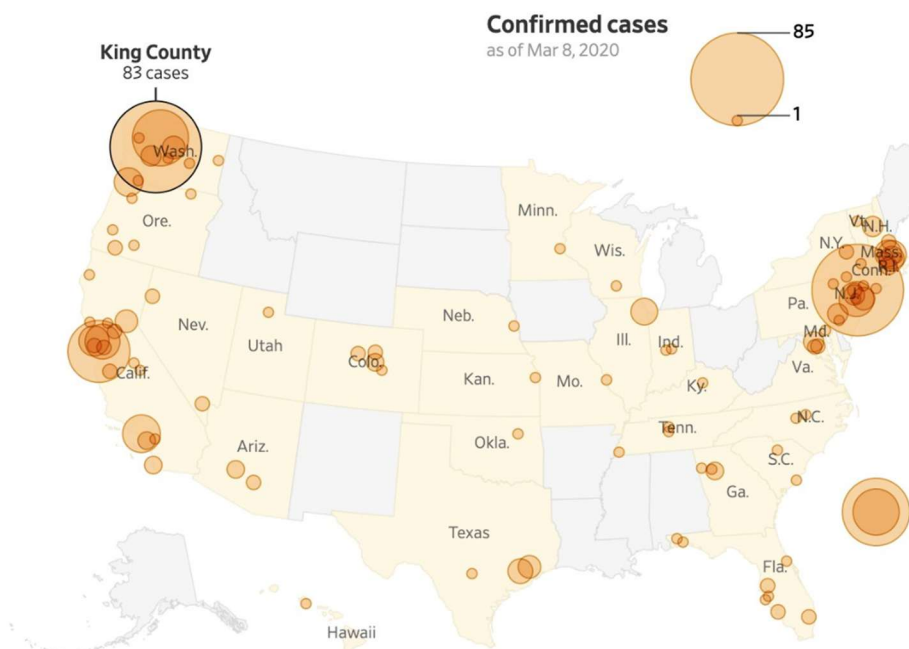
Ohio Referendum Election Results ›

Answer	Pct.
✓ No	59.5%
Yes	40.5

It is always worth revisiting some Virus Fear lunacy. Check out the size of some of those bubbles showing massive infection. Or rather, this chart represents only 500 cases of the virus.

Tracking U.S. Cases of the New Coronavirus

Authorities are closely tracking confirmed positive cases of the virus in America.



➤ Quick Hits

- 10,202 people tried to qualify for the US Open.
- Smuckers says that a majority of its Uncrustables are eaten by adults and not kids (we have previously marveled at the giant NFL budgets for them).
- The US Open broadcast shows all 156 participants.
- Oregon is trying to ban hunting, fishing, trapping, scientific research on animals, pest control, and livestock production.
- The UK has had 10 prime ministers since Brexit in 2016.
- 56 million years ago, horses were the size of cats.
- The jeweled peacock spider can jump 40x the length of their bodies.
- The Great Blue Hole is an underwater cave off the coast of Belize. It is 1,000 feet wide and 400 feet deep.
- Our old boss once mused at buying the country of Belize (or at least controlling 100% of its debt).
- The gaur is the largest wild cattle species. It often fights tigers (and wins).
- The oceanographer that found the sunken Titanic in 1985 was actually on a secret Navy mission looking for two missing submarines.
- Holland is the name of a region in The Netherlands that comprises two provinces.
- It is improper grammar to say, "comprised of."
- The term Dutch comes from the German word Deutsch which was meant to label commoners that spoke German (as compared to Latin spoken by the elites).
- According to Adam Carolla, the strongest similarity between rich guys and poor guys is that both know the price of copper.
- An eighth area code is being added to New York City. Elaine has never lived down getting a 646.

- The Chinese government brought “corruption” charges against almost 1mm government officials in 2025.
- Lawyers in California are pursuing a class action lawsuit against gas stations for high prices. Trump is starting an investigation, too.
- Carnival Cruise has reported passenger traffic with over 100% capacity for 12 quarters in a row.
- Cruise capacity is based on two people per cabin.
- Nick Reiner is petitioning the court to have access to a trust fund his parents set up for him. Apparently, he needs the money for his defense after murdering his parents.
- A piece of cake from JFK’s inauguration sold for \$160. If only it had been from his wedding...
- School House Rock reminder: If a President does not sign a bill that has passed both houses of Congress, after 10 days (excluding Sundays), it automatically becomes law (unless Congress adjourns during those 10 days).
- Casey’s is the 3rd largest convenience store chain in America. It has the 4th most liquor licenses among retailers. And it is the 5th largest pizza chain.
- There are about 150k convenience stores in the US. About 90k of them are in chains of 10 or fewer stores.

TLAQ: SpaceX received the lowest ESG rating from index provider MSCI. If you recall, ESG stands for Environmental, Societal, and Governance. This was that silly creation used to help sell investment funds to the public. Blackrock and other virtue signalers would deem their funds ESG compliant. You were shamed if you deviated from their stated views of the world. Of course, these funds only excluded coal stocks...nothing else. But now SpaceX is the posterchild for being affiliated with the wrong political party. As Matt Levine writes, SpaceX most definitely has a governance problem (Musk has control)...but that is by design! As for the rest of the nonsense, it is probably easier to understand where USAid money goes than to track the whims of the ESG crowd.

*We like to retell the story of how our old boss once owned the entire issuance of a Venezuelan bond. Every so often, a broker would call the trading desk to get a borrow on the bonds (in bond parlance, it is doing a repo). The boss would chuckle and say not only could you have the borrow, but he would gladly be the buyer of the same bonds that the borrow was going to short. A week later, the broker would come crawling back hat in hand asking to buy the bonds back from us. Our boss was a good guy and usually let the counterparty out of the trade for a small ignorance penalty.

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