



Weekly Update

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- Market grinds higher, yawn, again
- Should we worry about margin debt?
- The short bets against the USD keep pressing
- Housing data continues to be mixed
- Happy New Year
- [Click here for the full note](#)

	Last	5d %	YTD %	1yr %
SPX	3732	1.1%	17.7%	17.3%
QQQ	313.0	1.6%	48.2%	47.6%
US 10 YR	0.93%	0.95%	1.88%	1.92%
VIX	22.8%	23.2%	13.8%	13.8%
Oil	48.31	0.2%	-20.7%	-21.5%

*10yr and VIX are levels not changes

** Oil is front month futures, beware

The market grinded higher again. The market also had some internal rotations as we have seen lately. Trump backed down from his veto threat on the long-awaited stimulus package (attached to the pork-filled budget). The high growth, high valuation, high-fliers suffered in the rotation as investors bought the old economy stocks like airlines and hotels. Of course, this was all just trading as many of the high growth stocks are not just work-from-home or lockdown stocks. They had simply run too far too fast, and the money needed to come from somewhere (we will not go down the rabbit hole of “cash on the sidelines” this week!). On top of the stimulus was the new bill attempting to boost the checks to the unwashed (and washed) masses. In short, the asset inflation, feeding frenzy continues.

- Should we worry about margin debt?

A record level of margin debt made the headlines this week. But this is a classic stat crime as the number is always presented as a notional number. The fear-mongering pundits always forget to point out that what really matters is the margin debt as a percentage of the market. Moreover, margin debt is not just borrowed money to buy stocks (using said stock as collateral), but short selling also uses margin debt. We would also like to debunk another related myth that margin debt has increased because of the increase in option trading. Options cannot be bought on margin (shorting options uses margin because of the unlimited nature of the exposure). The first chart shows the margin debt climbing with the total stock market value. The second chart shows that margin debt as a percentage of the market is just off the lows of the last 13 years (thanks to Yardeni Research).

Figure 1.



* Debit balances in margin accounts at broker/dealers. Beginning in 1997 data are debit Balances in customers' securities margin accounts. Source: New York Stock Exchange through December 1996, FINRA thereafter, and Haver Analytics.

Figure 2.



* Debit balances in margin accounts at broker/dealers. Source: New York Stock Exchange through December 1996, FINRA thereafter, and Haver Analytics.

Of course, we have been hammering home the long-leveraged nature of the market right now as evidenced by hedge fund positioning (using tons of leverage). So, we are not completely dismissive of the margin debt level. It just needs to be put into perspective. Moreover, Household Debt as a percentage of GDP has been fairly level after the huge run-up into the housing crisis starting 15 years ago. Of course, when forbearance ends, all of the unpaid rents and debts will finally hit the books. This will be the number to watch.

United States Households Debt To GDP 1952-2020 Data | 2021-2022 Forecast



➤ The short bets against the USD keep pressing

Asset managers and leveraged funds cut their moderately sized bets on the USD (long bets on the DXY index) back in the spring when the Fed and congress ramped up the free money parade. And except for a brief reprieve during the summer, short bets have been increasing. As you can see from the shaded area of the chart below, it is rare for traders to go too short for too long. This is largely a function of traders having more faith in the US government to maintain some prudence and thus the strength in the USD. Needless to say, this faith has started to disappear. We would add that is not for a lack of effort from other countries to debase their currencies...we are just much better at it. FYI, the composition of the DXY: EURO 58%, Japanese Yen (JPY) 14%, Great British Pound (GBP) 12%, Canadian Dollar (CAD) 9%, Swedish Krona (SEK) 4% and Swiss Franc (CHF) 3%.

What is the investable theme behind the USD weakening? US exporters will see their revenues increase in USD terms thus translating into better USD earnings for about half of the S&P 500.

Net speculative bearish bets on U.S. dollar index at most since 2011



➤ Housing data continues to be mixed

Housing data continues to be mixed. A month ago, we voiced some caution about the slowing Pending Home Sales Index. Since then, New Home Sales and Existing Sales both dipped along with a drop in home builder sentiment. On the positive side, corporate earnings have been strong for the most part with only some worrying about slowing demand due to the high prices. But now we have a third month in a row of declining Pending Sales (November). Nonetheless, prices are continuing to rise with the latest indicator being the Case-Shiller House Price Index. It increased more than expected with a 1.6% monthly gain (+7.9%). This Index is comprised of 20 metropolitan cities. We can expect this to lag other pricing measures that cover more of the suburbs.

Our view has been that while we will see volatility in the monthly data, we are still bullish the overriding trends (urban flight, work-from-home, regional migration). We maintain this view because the declines in activity have been from supercharged peaks. If the activity continues to fall, then we will have to revisit our thesis.

➤ Other Economic data is good

The Chicago PMI for December ticked higher after two months of declines. The overall level is good (59.5), so all this needs to do is remain steady (recall PMI indices are mean reverting, so if they remain stable at a good level, this means growth is actually accelerating).

➤ Quick Hits

- MIT, Cornell, Dartmouth, and some other colleges require a swim test to graduate.
- It is a federal crime to sell pinworm treatment without including information on the typical life cycle of pinworms.
- Chinese citizens have laundered over \$153b this year through online gambling sites and, of course, cryptocurrencies.
- The Chinese government estimates that there are 5,000,000 people involved in the money laundering business in China (not the ones whose money is laundered, but the actual infrastructure of people doing the laundering).

- Maine's Pandemic Unemployment Assistance (PUA) claims increased by 646% in late November.
- The Valuations of E-sports companies remained flat in 2020 after jumping 60% in 2019. The lack of in-person spectators is to blame.
- South Africa has shut down all alcohol sales three times because of the virus.
- 25% of alcohol in South Africa is made and sold on the black market.
- Mariah Carey's "All I want for Christmas is You" is at the top of Billboard Global chart.

Trading: Not a lot of trading. With growth stocks coming under pressure, we added a small bit. We balanced this with a touch less Big Tech / Nasdaq. We trimmed some of our SPACs which all had strong pops for no particular reason. We bought back some of the energy we had recently trimmed. And we added a small touch to our small caps.

TSLAQ: With 2020 coming to a wrap, the Villain missed his promise of "1,000,000 robo-taxis on the road in 2020 " by 1,000,000.

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