Weekly Update

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- A bullish hard-landing?
- Delinquencies are trending
- We Work is a scary flashback
- Employment is slowing
- The government's (bogus?) adjustment to employment data is starting to stand out
- Not all Fed members have turned dovish as the market seems to think
- Oil has a new narrative (an ugly one)
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	4,238	3.4%	15.4%	17.0%
QQQ	$372.99	4.5%	40.7%	40.3%
US 10 YR	4.50%	4.73%	3.75%	4.10%
USD/DXY	105.5	106.6	104.5	110.6
VIX	14.5%	16.9%	22.9%	26.1%
Oil	$80.91	-6.3%	-6.1%	-15.3%

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

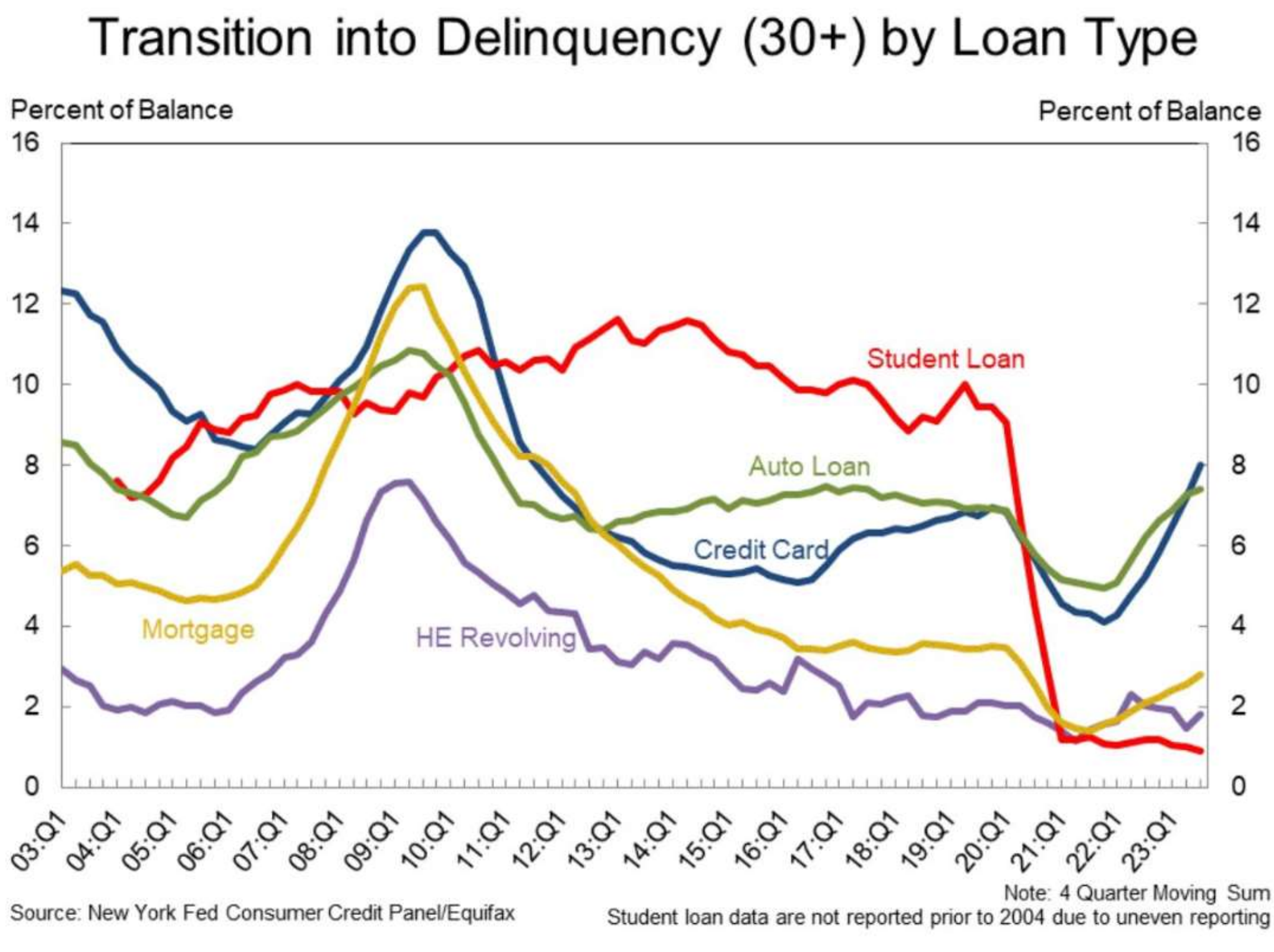
The market is still hopped up on the renewed soft-landing narrative. Actually, the market has been cheering on the ongoing hard-landing that is unfolding in front us. The proper labor market metric shows us that unemployment is spreading. Business surveys, while a bad indicator recently, are still pointing to nervousness if not outright fear (especially globally). Bank lending is still tightening according to the latest Fed Senior Loan Officer Opinion Survey (SLOOS) as well as the Fed's weekly loan data (aka H8 report). Consumer demand for credit is also shrinking. More to the point, delinquencies for auto and credit card loans are rising rapidly. We have doubted some reports about oil/gasoline demand falling, but it might be happening on the margin.

Before this recent dose of bad data along with renewed inflation worries, the market "was doing the Fed's job" by raising market interest rates. There was also a growing belief that the US government's self-made chaos was a legitimate hit to its credit worthiness. A few short weeks later, the market is now telling the Fed it should be cutting rates and that all is well in DC. While cuts might be justified sooner vs late, we doubt Fed chairman Powell is willing to jeopardize his legacy by not squashing inflation…especially when he has made it clear that is his top priority (dual mandate be damned). But more to the point, when the Fed cuts rates because of a cyclical downturn, that is not the time to buy stocks. But this market is conditioned to believe the opposite (or when the Fed cuts rates because of an emergency and after a sharp dislocation). And as for DC, we have nine days until the next budget deadline strikes.

Our base case remains that we will experience a mild slowdown (closer to a hard-landing than a soft-landing which really implies no weakness at all). Companies reliant upon low/zero interest rates will suffer if not disappear. Discretionary spending will finally acknowledge the absence of government largesse. The mega incumbents will become more entrenched. Stagflation could be giving way to Deflation which would not be great for our Energy longs. But we think the strong management teams could navigate these headwinds. And our other longs, not to mention our cash position, would be relative winners.

- Auto and Credit Card loan delinquencies

We have posted this data recently. But it is worth updating. Just imagine if student loans were ever forced to be repaid.



- We Work is a scary flashback

In a flashback to post-Virus Fear lunacy, We Work rallied 150% after a report stated that there was a takeover in the works for the beleaguered real estate company. Alas, it was fake news. Alas, We Work filed for bankruptcy two days later. We do not expect this to be another incarnation of meme frenzy or SPAC speculation. But it does reinforce our belief that there are lots of suckers out there propping up worthless stocks (but as Billy Ray Cyrus says, until they can't no more.)

- Employment is slowing

The October Employment Report was worse than expected with +150k new jobs added compared to the +175k expected (which was probably at the high end after the ADP report came in low). This is a drop from the +297k added in September. This was revised lower from +336k. August was also revised lower by 62k jobs. This makes nine months in a row of negative revisions. Private payrolls were worse (+99k, down from +246k), and Government jobs were unchanged (+51k). Government jobs have been the source of consumer strength all year long.

The industries with the largest gains were Ambulatory Healthcare, Social Assistance, and Hospitals. Not the first things you think of as booming economic activity. Meanwhile, the biggest losers were Transportation Equipment Manufacturing, and Warehousing and Storage. Further to this, the government has an index that tracks the split between industries that gain jobs vs losing them. The skew is at the lowest level since the Virus Fear and near one of the lowest levels in 15 years.

The Household Survey had the Unemployment Rate ticking higher to 3.9% from 3.8%. This means 348k fewer people held jobs. This survey (people working vs jobs held) tends to be more leading. If someone is completely out of work, that is more telling (and worse) than someone having one job instead of two.

Average Hourly Earnings cooled a touch to 0.2% growth from 0.3%. This brings the annual gain to 4.1% (down from 4.3%). Labor Participation was a touch worse at 62.7%. U-6 Unemployment continues to trend higher. It hit 7.2% from 6.5% in December. (U-6 measures the unemployed plus the underemployed plus those "marginally attached to the workforce.")

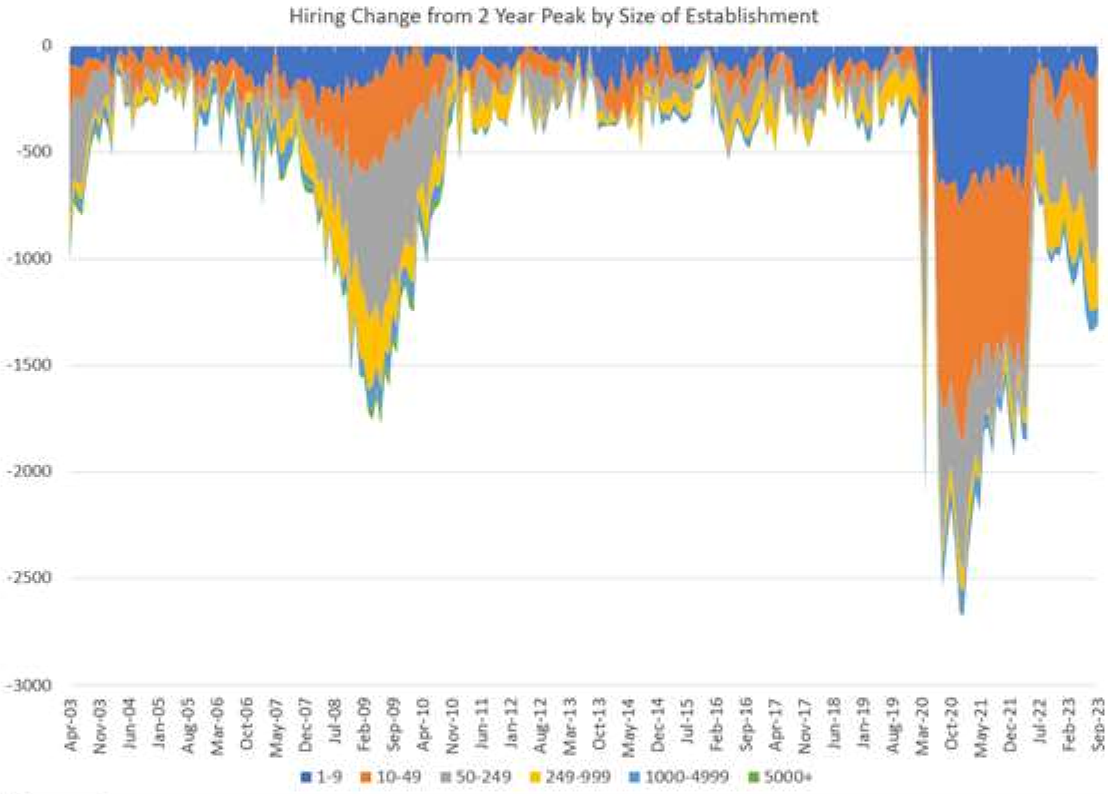
Continuing Jobless Claims are quietly ticking higher. They are back near the recent high of April which is the highest level in two years.

On the bright side, the Challenger Job Cuts number is slowing. This reinforces the veracity of the low Jobless Claims we have experienced recently.

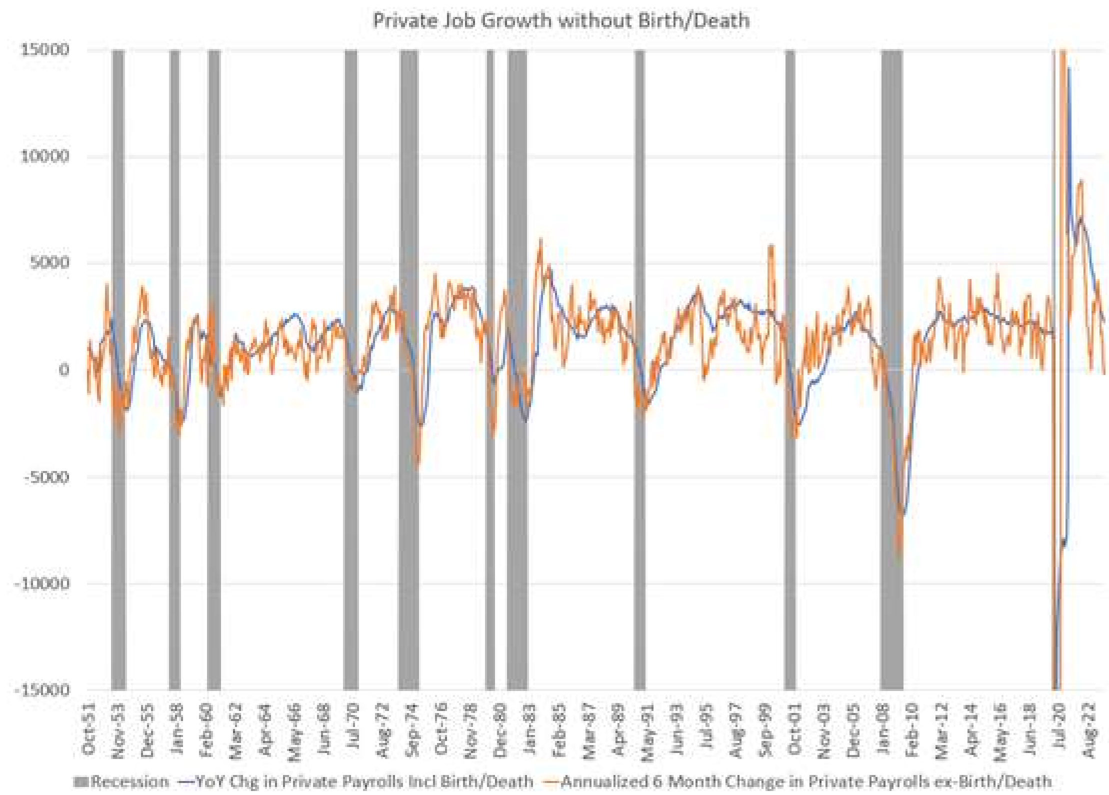
And Labor Productivity is increasing. It grew at a 4.7% annual pace in 3Q. Improving productivity is always seen as the magic elixir that pulls stronger growth and declining inflation together.

- The government's (bogus?) adjustment to employment data is starting to stand out

We often detail the statistical gyrations the government employs to keep data looking positive (who says the Chinese are the only ones that manipulate the numbers). Employment data is at the heart of this manipulation as the government uses its "Birth/Death" model (which adjusts for businesses created/disappearing). If we strip out this modeling effect, payrolls have turned negative. Here is a chart (from a great Twitter follow ProfPlum99). It can be hard to follow at first blush because it measures the change in employment on a rolling two-year basis always measured against the recent peak. In this light, everything will be negative. But it is the sharp degree of negativity that stands out (not compared to the Virus Fear or GFC but compared to everything else).



Plum uses another chart to show that recent job growth is negative. It is another tricky one that uses a six-moth rolling average for actual jobs created (not using the adjusted model, orange line) vs an annual change (including the adjustment, blue line). But the gist is the same. The raw data is deteriorating more quickly than the adjusted data.



- ➢ Other economic data is mixed but skewed slightly negative
  - The services components of the PMIs were split just like last week's Manufacturing PMIs. While the ISM, which represents more larger multinational companies, is still above the more US-focused S&P PMI (51.8 vs 50.6), the ISM is falling while the S&P is increasing. This matches our view of the world (the US is the best but not necessarily great).
  - The Euro Area Services PMI remained in negative territory
  - The US Trade Deficit in September worsened to -\$61.5b from -\$58.7b in August. Both Imports and Exports increased (with Imports increasing more).
  - Weekly Redbook Retail Sales increase at 3.1% (a sharp decrease from 5.3% last week, but still well above the 0% from the summer).
  - Factory Orders in September increased at a sharp 2.8% higher. This data is volatile month to month. But a sustained trend around this level would be a strong signal.
  - Wholesale Inventories ticked higher in September. This is the first monthly increase since November of last year.
  - Total Vehicle Sales in October slipped slightly to 15.5mm from 15.68mm (recall auto data is like Housing data, it is annualized).
  - Used Car Prices fell 2.3% in October.
  - Mortgage Applications nudged a touch higher as rates came down.

- ➢ Not all Fed members have turned dovish as the market seems to think

Neel Kashkari, traditionally one of the more dovish Fed members (always calling for easing rates) is warning about stubborn inflation. "We need to let the data keep coming to us to see if we really have got the inflation genie back in the bottle so to speak."

We highlight Kashkari because we think those voicing opinions that have varied from their normal tones warrant the most attention. Of course, the market is now 50/50 on a *rate cut* this May.

- Oil has a new narrative (an ugly one)

The mood in the oil market has turned ugly quickly. The non-reopening in China is apparently now of great importance. The EIA (Energy Information Administration inside of the Department of Energy, not to be confused with the IEA, International Energy Agency) is warning about gasoline demand falling to a 20-year low. The US government has turned a blind eye to sanctions on Russia oil (gas prices at home are more important than containing murderous regimes abroad). Crude inventories in the US have started moving higher according to the private API data (US government data is skipping this week for a system upgrade…who knows what is really happening). And a Saudi minister stated that normalization talks with Israel are still on the table. Peace in Gaza is an important sticking point, but apparently progress is still being made. Along these lines, the war premium (from the Middle East, not Ukraine) has completely vanished.

All of this is born out not just in the spot price of oil but also the shape of the futures curve. One month ago, December futures were trading at a $5 premium to June 2024 futures. This premium has now shrunk to $1. The collapse of this "backwardation" is a tell-tale sign of short-term traders losing their bullishness.

Our refrain is that supply constraints will outweigh any demand destruction in the near to medium term.

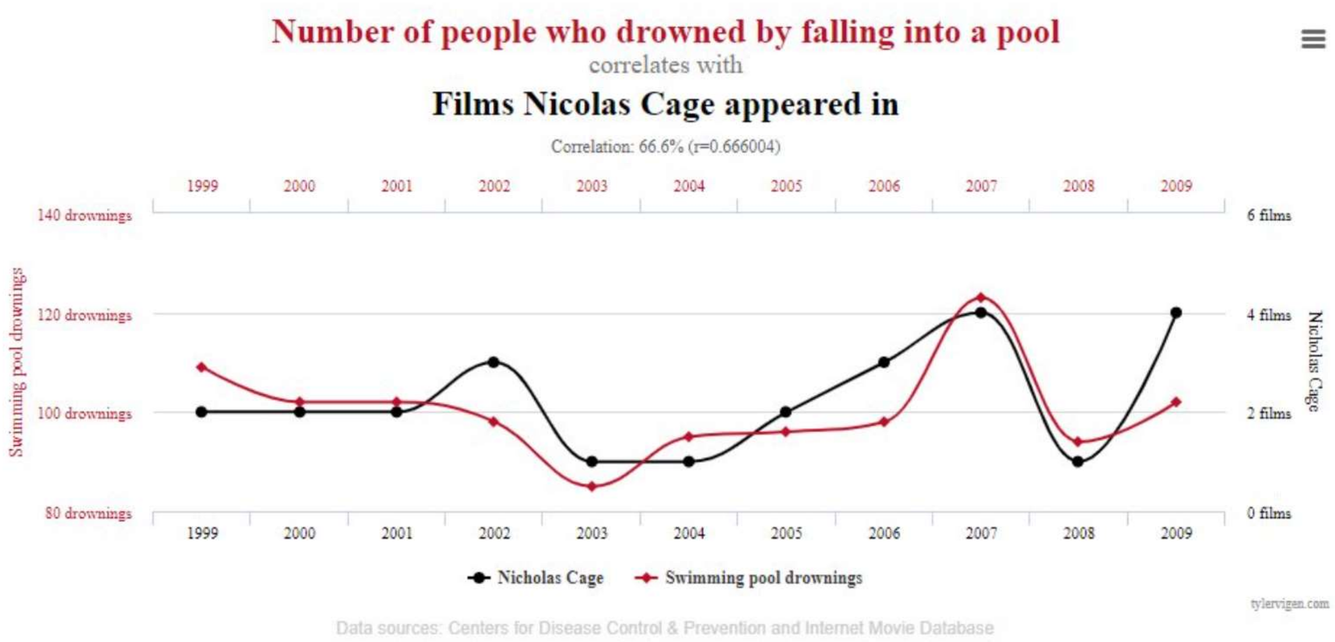
- Where did all the crypto money go?

It did not take long for another crypto scam to surface after our hiatus last week (although we really did want to show that ridiculous disparity in courtroom artist renderings). It involves the "token" Safe Moon. Apparently, this "token" had a 19,000% gain in a few weeks during 2021. Last week, the founders were arrested for stealing all the money. There were red flags everywhere before it imploded. There were roundtrip fees of 20% to prevent selling. The founders controlled the supply despite this being "decentralized" in theory. And half of those fees went to a "liquidity pool." That is code for slush fund.

And oh yeah, SBF of FTX was found guilty of fraud.

- Chart Crime of the week

An oldie that got refreshed this week (not by us). Too good to pass up.



- Quick Hits
  - The American Ornithological Society is going to change the names of 80 birds that were named after humans.
  - 66% of US households own a pet.
  - There has been an increase in disability claims from workers refusing to go back to working in the office. These "employees" are citing anxiety, depression, and post-traumatic stress disorder.
  - The Panama Canal is cutting its available "slots for transits" in half this winter because of drought conditions.
  - Over 25,000 people died during the 32 years it took to build the Panama Canal.
  - The CIA, through secret funding, used the works of Jackson Pollack, De Kooning, and other American modern artists ("abstract expressionists") as cultural weapons during the Cold War.
  - Guyana is the world's fastest growing economy.
  - It took the Houston Astros 55 years to win their first World Series. It only took the Rangers 52 years.
  - Arlington, TX had more fans at the Rangers parade than residents of the city.
  - Scorigami! Houston beat Tampa Bay 39-37. This is the 1080th unique final score in NFL history.
  - There were 280k car jackings in South Africa last year.
  - Citigroup has been ordered to pay a $26mm fine for discriminating against Armenians in Glendale, California that were applying for credit cards. $1.5mm will go to the consumers. The other $24.5m will go to the government.

Trading: We pulled the trigger on adding to some Energy longs. We have been waiting as the price in oil rolled overly violently. As we have repeated, we think the supply constraints will trump any impending recessionary weakness. We added to our new Event-driven long. We think the government will botch any attempt it makes to stop the deal…if they even find merit in trying to stop a merger between two luxury goods makers. We cut one of our last remaining Staples positions. good earnings are not enough for this sector. We added to some F&Fs that have been rallying on nothing. At the same time, we booked some profits on shorts that have gone our way. We will keep being nimble on the shorts and picky on adding to longs.

TSLAQ: There has been a lot of focus on Twitter and its potential impact on Tesla. The idea is that Twitter is suffering, and Musk will not be able to pay off the debt it holds. He could sell Tesla stock, but he is probably getting close to his limit on this considering he has so many loans outstanding against his stock. Lest people forget, Musk has margined his Tesla stock throughout time to build his empire of profitless stuff. SpaceX is the largest of these (Starlink, by most accounts, seems like a good product…that does not make the company profitable or worthwhile). Right on cue, Musk starts to float stories claiming SpaceX is turning cash flow positive. Perhaps he could use this cash to bail out Twitter? Is Tesla safe from Twitter contagion? Well, apparently Musk's definition of "cash flow positive" does not include the expenses incurred to actually make the rockets or satellites! If WeWork didn't have to pay rent…

- CVNA(Q)

This will not be a recurring segment. But we bet if we try a bit, it can make semi-regular appearances. Carvana, like most if not all profitless Fantasies & Frauds, uses all sorts of adjusted numbers in its financials. But these guys take it to a whole new level (dare we say to a Tesla level). While most companies routinely reconcile the difference between adjusted or non-GAAP (Generally Accepted Accounting Principles) numbers, Carvana forecasts these made-up numbers without reconciling them back to actual numbers using math and accounting. "We have not provided a quantitative reconciliation of forecasted GAAP measures to forecasted Non-GAAP measures within this communication because we are unable, without making unreasonable efforts, to calculate one-time or restructuring expenses. These items could materially affect the computation of forward-looking GAAP GPU and Net Income." In other words, we are going to make up numbers and we cannot reasonably tell you what the real numbers are because we are making gigantic assumptions in our made-up numbers."

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