Weekly Update

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- Great earnings are still not good enough
- The market is punishing both sides of the AI/SI narrative
- Cash is king
- Warsh is voicing the need for patience
- Positioning is light
- Inflation jumps as expected
- GDP growth has accelerated
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week
- Birkins are the new Lambos

	Last	5d %	YTD %	1yr %
S&P 500	7,569	-2.0%	10.6%	10.5%
QQQ	$685.28	-4.9%	11.6%	8.4%
US 10 YR	4.97%	5.00%	4.17%	4.09%
USD/DXY	101.9	102.3	98.3	100.2
VIX	20.8%	17.5%	15.0%	19.0%
Oil	$96.77	-3.2%	67.4%	57.4%

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

** Oil is front month futures, beware

Great earnings are still not good enough. The mega-cap hyperscalers are reporting strong growth that is beating expectations. But they are also signaling that capex spending on Artificial Intelligence is still accelerating. And this spending is being paid for by equity and debt issuance not cash flow. And that is the problem. The market's patience has worn thin. While these market leaders have mostly been moving in sync with each other, there is starting to be some differentiation. Logically, this comes down to which companies can monetize their spending. Oddly, the recipients of this AI/SI largesse are also being punished. This strange anomaly is likely a function of traders still unwinding once-successful positions. We also think there has been a heavy dose of equity guys all of a sudden becoming fixed income experts. The neoclouds are glaring examples of this (not that we own any of the resellers of compute, but they all get lumped together regardless of their balance sheets and/or growth prospects. See comments from Musk below). The elections have also added another layer of uncertainty. Despite all the negativity (the positioning data points to extreme selling), we have not reached that

pure panic moment. The market always needs one last gasp that flushes out the last of the bahgholders. We had that in Leopold in July. We need another one.

Through all this, the economy is still humming along. GDP growth in the 3Q surprised to the upside (+3.4%), and the early reads on Q4 growth point even higher. Employment and spending data do not reflect any "k-shape" dynamic (but Savings is dropping…this needs to be monitored closely). The strong performance of Staples (and Discretionary to a lesser extent) supports this. Inflation is still stubbornly above the Fed's target (+3.1% vs +2.0% target). But Fed chief Kevin Warsh does not seem to be as concerned as he had been voicing. When the Fed held interest rates steady at 3.75% - 4.00% (Fed Funds target range), Warsh pointed to a strong economy along with the need to accumulate more information. He was stressing patience! Importantly, there were only two dissenters (Hammack of Cleveland and Cook on the board, both expected). The market had been fearing three or even four dissenters who wanted to hike now. It is also important to remember that the Fed does consider the behavior of equity markets when aggregating its "Financial Conditions" data. Warsh repeatedly espouses the value of listening to the markets. That said, the probability of a December rate hike is around 75%-80%. But the probability of three hikes by March has fallen from 30% to 10%.

We are espousing patience, too. We are still buying the fallen AI/SI names very slowly. And we are sticking to quality. But we are also adding to Staples and other defensive names on weakness (very much a bar-bell approach).

- Random bullet points

Meta finally announced its stock offering (has been rumored for months). It is $95b in various forms (Class A, C, and convertibles). Meta explicitly said it wanted to do the offering ahead of others as capital is becoming scarcer. And Zuck created a new share class so he could sell stock without losing control to pay the California wealth tax.

The Brazilian presidential election did not go as planned (prediction markets had Bolsonaro at 80%). Lula winning wreaked havoc on the Brazilian markets. Early on Monday, the Real dropped about 10% vs the USD (USDBRL up). The Bovespa (equity index) was down almost 20%. We felt some of this pain in our small allocation to some pan-Latam consumer names. But the early panic subsided.

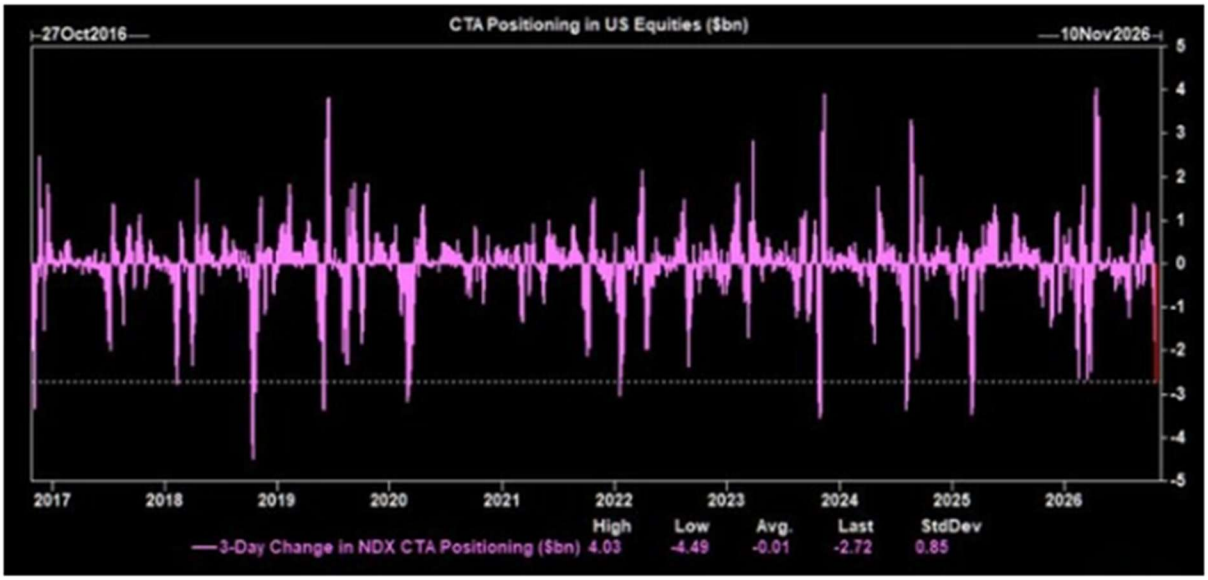
According to Goldman, only 24% of businesses have adopted any form of AI/SI.

Microsoft is offering buyouts to 60k employees.

Anthropic's public IPO filing (S-1) garnered much of the attention. It was mostly positive in so far as its customers base is a little more diverse than previously thought: top 5 customers only make up 25% of its total sales. And 30% of the largest 2,000 companies in the world use the product. Its Operating Loss is falling quickly. Of course, the governance factor is still a mess with a special class of votes just for the founders not to mention a nod to being a "Public Benefit Company."

- Positioning is light

Here is CTA positioning. These are the quant-types that base most of their trading on momentum. As you can see, they tend to freak out once or twice a year. These freakouts are almost always short-lived.



Daily Chartbook

Along these lines, Morgan Stanley reports that hedge funds are now Underweight AI/SI names. This is not to say these fast traders are short AI/SI…but they have been leveraged long, so this pullback is notable. Both GS and MS have started to see some short-covering…but this is mostly in macro positioning (probably bonds). They are still seeing long selling in single stocks.

- Inflation jumps as expected

Inflation in September as measured by the change in the Personal Consumption Expenditures Index (PCE) accelerated to +0.5% from +0.3% in August. This brings the annual increase to +3.6% up from +3.4%. The "Core" PCE (stripping out Food and Energy) *only* increased +0.3% which was the same as August. The annual "Core" increased to +3.1% from +3.0%. While these headlines are rough, this was all completely expected given the price in oil and gas and their spillover effects. And even though the Fed likes this metric, we always say the market reacts more to the CPI inflation report because it is released earlier.

We also get the Personal Income and Spending data in this release. Income has slowed to +0.2% growth vs +0.3% in August (+0.3% was expected). Spending also slowed, but it is still growing +0.5% (down from +0.9% in August and +0.6% expected). Strong spending is a great dynamic…while it lasts. The Personal Savings Rate has fallen to 3.8% (Sept). It was over 7% in early 2024 and has declined steadily since.

- GDP growth has accelerated

The first reading (Advanced) of Q3 GDP growth surprised to the upside with +3.4%. This is up from +2.2% in 2Q and better than +3.2% expected. Real Consumer Spending increased +3.8% which is the same as 2Q. The early read for the Atlanta Fed's 4Q GDPNow is +3.7%. We take this early now-cast with a grain of salt, but it usually does provide a good point of comparison to the previous quarter.

- Housing data is still blah

Building Permits dipped in September (-0.4%) while Housing Starts increased modestly (+0.3%)

New Home Sales dipped a hair in September. The seasonally adjusted annualized rate (SAAR) was 676k down from 680k. The median sales price was $400k which is down -3.9% vs last year. There are 476k units for sale in inventory. This is 8.4 months of supply which is on the high side (15-year range is 3-10 months).

Weekly Mortgage Applications finally increased with a +3.4% gain.

The average 30-year mortgage rate ticked down from 7.41% to 7.37%.

- Business Spending is strong and Sentiment mixed (but still ok)

Durable Goods Orders in September increased +1.8% vs +0.1% in August. Core Capital Goods Orders (aka business spending), however, only increased +0.5% which is down from +1.6%. Both of these spending figures are near all-time highs with steady increases and only small, occasional decreases.

Construction Spending in September fell -1.9% from +32% in August. Residential construction slowed while commercial/non-resi increased (Office being the strongest).

Factory Orders increased +1.8% in September vs +0.3% in August.

The ISM Manufacturing for October (business survey that encompasses mostly large caps with international exposure) increased to 55.5 from 54.5. The S&P Manufacturing PMI (more domestically focused with larger variability in company size) moved lower to 54.9 from 55.9.

The Dallas Fed Manufacturing Index for October improved from +9.8 to +13.4. This one is heavily influenced by the Oil & Gas sector. Its Services index moved into positive territory from -1.8 to +4.0) The Richmond Fed Manufacturing Index remained at -0.2. Its Services Index ticked up to +2 from 0.

The Senior Loan Officer Survey reflected the decrease in Residential spending as demand for mortgages fell sharply. Demand for Commercial & Industrial loans is softening. Lending standards for large C&I firms remains unchanged. But standards are tightening for smaller firms. Demand for consumer loans is split with strength in credit card debt but decreases in auto.

- Other economic data is mostly strong

Job Openings (JOLT survey) jumped from 7.19mm to 7.52mm. Quits also had a nice bump from 3.04mm to 3.36mm.

The Weekly ADP Employment Change increased 17k. We get the Employment Report on Friday.

Initial Jobless Claims were, ho hum, 194k. Continuing Claims, ho hum, were 1.7mm.

Consumer Confidence increased from 84.2 to 91.7 in October.

Weekly Redbook Retail Sales increased to +9.3% from 9.0%.

China's PMIs fell in October. Notably, the survey data from the government shows both Manufacturing and Services dipping into negative territory. The moves are small (50.1 to 49.3 on Manu and 50.2 to 49.7 on Services), but as we always say, the direction is what matters. The private sector survey (RatingDog!) for Manufacturing is a little better at 52.0, but it slipped a tick.

- Where did all the crypto/prediction money go?

We recently recalled the story of the six kids that stole $240mm in crypto. As usual, they got busted for flaunting their wealth and not hiding their identities. This one involved the kidnapping where five of them turned on the other and decided to take his parents for ransom. But we missed some details of the spending. Apparently, one guy was dropping $500k at nightclubs four times a month. He would also toss Birkin bags into crowds of ladies to watch them scramble for the female version of Lamborghinis. When one of the criminals

first appeared in court (in Miami, obviously), the judge proclaimed, "I could only think of Ferris Buehler's Day Off." We are not sure we get the reference, but we appreciate the effort.

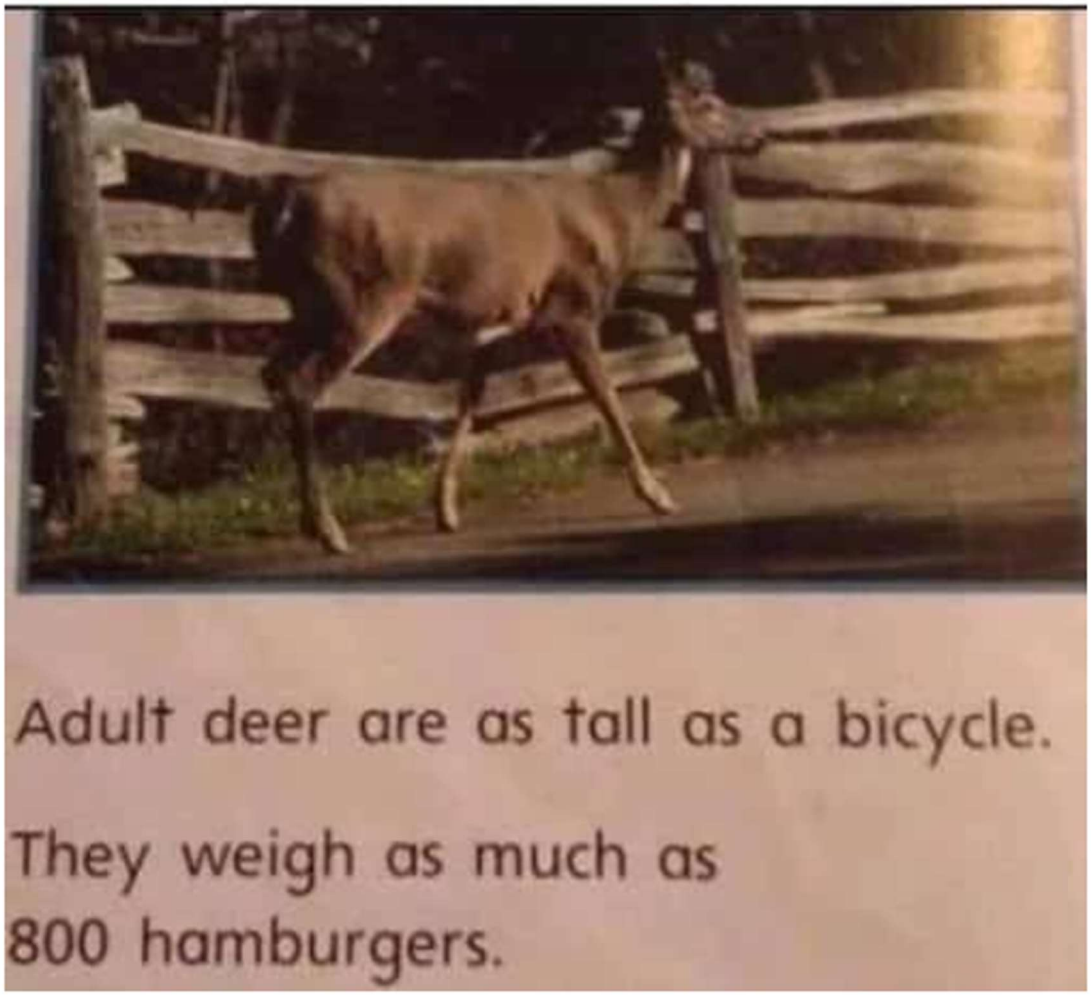
Ho hum. Binance got hacked for $6.36b. 10 crypto wallets syphoned the fake money. It was obviously the North Koreans.

We have not talked about digital asset treasury companies (DATs) since that boneheaded investment scheme imploded. But the great Matt Levine has uncovered a new one with a special twist. This DAT combination was typical: A holder of Bitcoin (Scilex) put its crypto ($150mm) into a publicly listed company's coffers (Datavault), and Scilex received shares in Datavault. The hope was that this combination would be more highly valued than the underlying asset value of the Bitcoin. Of course, it was not. The idea unraveled, and Datavault started selling the Bitcoin to salvage any value left in the company. Datavault sold a third of its Bitcoin back to Scilex. This was done via a transfer at the platform at which the Bitcoin was housed (Biconomy). When Datavault went to sell the remaining two thirds in the market…poof…there was no Bitcoin in their account. We do not know if the platform Biconomy hoodwinked them or if it was their "partner" Scilex. Either way, it's all gone.

Long time readers know that we have lampooned pre-election polling for a very long time. This theory truly came together in 2000 when whacky, small, never-heard-of polls would announce results and the S&P futures would move the markets +/-1%. We joked that we could put together a poll, make sure the results were skewed or at least headline-grabbing, and, of course, bet on the markets ahead of the time. This seemed entirely illegal, and this was nothing more than a humorous exercise. Fast forward to today, and someone has stolen our joke. Wedgewood Polls has been publishing completely fake poll results (Michigan, Maine, and Kansas Senate races were the focal points). When pressed on the veracity of the data, the company responded that it was an "experimental project." Who knows how much money was made with this fake news. Perhaps it really was just a playful ruse to confuse people. Either way, these folks might be facing the CFTC (prediction market regulator) who might not think experimenting with elections is such a funny idea.

- Chart Crime of the week

Not a chart, but this is real. And it is great.



- Quick Hits
  - Scorigami! Cincinnati's win over Tennessee 43-36 is the 1098th unique score in NFL history. It is the third Scorigami this year.
  - Dictionary.com has named "maxxing" as its word of the year.
  - Maxxing is not a real word.
  - Anthropic's public IPO filing has a risk section 100 pages long.
  - The 2026 Brewers now hold the record for the most 2-out runs scored in a World Series game (8).
  - In 2014, a tight end for the 49ers, Vernon Davis, sold 10% of his future earnings for $4mm. Before the platform collapsed, he paid out a total of about $1.263mm to shareholders.
  - There is a new trading platform on which you can buy tokens that pay out a portion of a YouTube star's income.
  - James Dolan, the once-hated chairman of both the Knicks and the Rangers, received a $10mm bonus for separating the teams into different public companies.
  - Someone or something called Swiss Tony is the biggest and most successful sports gambler on Polymarket.

- The Mississippi has over 250 named tributaries. Including its unnamed creeks and streams, it reaches 31 states.
- The mother of Mike Nesmith (of The Monkees fame) invented Liquid Paper.
- The Monkees were formed to star in the TV show of the same name.
- The Kingdom of Poyais had bonds that traded on the London Stock Exchange. There is no Kingdom of Poyais (nor ever was one).
- Johns Hopkins football beat Muhlenberg with a fair-catch field goal. This is that bizarre rule whereby if you fair-catch a punt, you can attempt a free kick field goal on the next play. Fee kick means the defense cannot rush.
- In Lewis Carrol's *Alice's Adventures in Wonderland*, The Hatter character is never called or referred to as The Mad Hatter.
- The CEO of Anheuser-Busch is leaving to become the CEO of the fitness chain Equinox. (Oh how the mighty have fallen.)

TSLAQ: Musk chimed in about the strains in acquiring datacenter financing in the market. In particular, he surmised that most of the neoclouds are facing "guppy-level death and consolidation." Of course, he is talking about his direct competitors to xAI (which is part of SpaceX). And he also happened to mention this right after he secured $40b in financing from Apollo.

Elsewhere, Musk is catching some grief for price increases (via usage throttling) on his Grok bot. This was low-hanging fruit for his critics after he just commented that there will be no need for money in the not-so-distant future.

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