Weekly Update

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- A quick rotation to start the year
- The Fed says not so fast!
- The market is up one year later after a one year rebound
- Robust Factory Spending continues
- But Manufacturing surveys are still tepid
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	4,704	-1.6%	-1.4%	24.4%
QQQ	$398.33	-3.2%	-2.7%	50.6%
US 10 YR	3.92%	3.80%	3.88%	3.69%
USD/DXY	102.5	100.9	101.3	104.3
VIX	14.0%	12.4%	12.5%	22.0%
Oil	$73.02	-1.4%	2.0%	-5.5%

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

The end-of-year ramp to conclude 2023 has started to reverse itself in the early days of 2024. Apparently, the sellers have been waiting for the new year to push out their capital gains taxes. There has also been lots of chatter that the market is overcrowded in last year's winners: Big Tech, Big Weight Loss, and Big Junk. Despite some of the positioning data telling us otherwise, it does make sense that many rushed into these names for the standard "window dressing" (so they could tell their investors they own all the winners…never mind at what price they bought them). All in all, we think this rotation is natural and necessary. But we do not think this is one of the infamous death rotations during which hedge fund mangers are blowing up and/or other positioning dislocations are occurring. That said, some of the late year price action was surely driven by this type of forced trading. Again, it is only natural some of this reverses.

We also had some Fed commentary (and FOMC Minutes) that interest rate cuts are not as much of a done deal as the market is pricing. We expect to hear more of this…the Fed walking back much of the euphoria imbedded in prices. As we have been stating, the gap between what the Fed expects (4.60% rates at the end of the year) and what the market expects (3.85%) must be closed. We think the reaction to this will be underperformance by those companies that do not have fortress balance sheets or are simply more sensitive to changes in the business cycle.

- ➢ A few other notable bullet points:
- Japan is restarting its Kashiwazaki-Kariwa nuclear power plant. It was shut down after the Fukushima mess. Nuclear stocks and commodities have been strong performers. More demand could lengthen this trend (which traditionally has been fleeting).
- Richmond Fed president Thomas Barkin reminded everyone that the path to rate cuts is not as smooth and predetermined as many expect: "The potential for additional rate hikes remains on the table. Soft landing is increasingly conceivable but in no way inevitable."
- Apple was downgraded and Moderna was upgraded. The stocks reacted violently despite neither report revealing anything new or material. The moves were more likely driven by the broader rotation, but the timing is still newsworthy.

- ➢ The market is up one year later after a one year rebound

We are not big in almanac type of stuff (farming or stock market), but we found this one interesting. According to Ned Davis Research, if it takes the market at least one year (252 days) to make a new high, then the market is higher 92.9% of the time one year later. And the average gain is 14%.

First new high after 1 year bullish going forward, on average

S&P 500 Index Performance After First Record High in at Least One Year

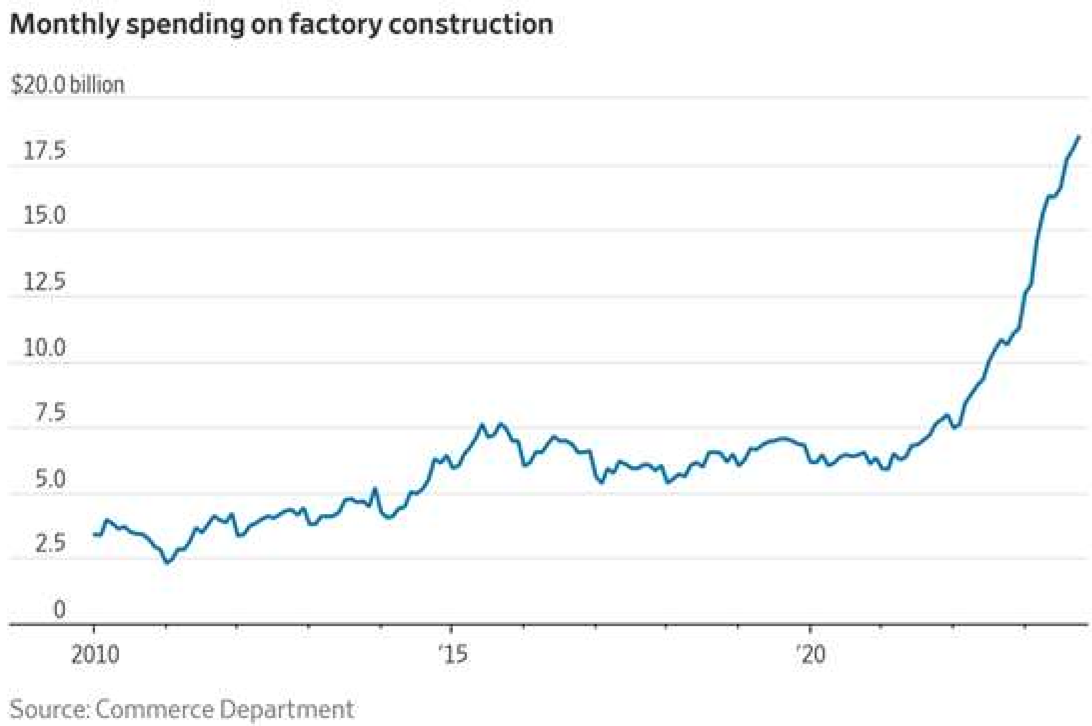
Date	# Days Since Previous High	21 Days Later (%)	63 Days Later (%)	126 Days Later (%)	252 Days Later (%)
9/22/1954	7261	0.4	10.4	14.5	41.8
9/24/1958	539	2.4	8.7	11.4	14.1
1/27/1961	374	3.6	6.7	9.0	11.3
9/3/1963	433	-0.5	1.6	7.4	13.3
5/4/1967	309	-6.2	1.4	-1.7	4.9
3/6/1972	819	0.2	0.1	2.5	5.0
7/17/1980	1897	3.5	10.1	11.0	7.7
11/3/1982	487	-2.9	0.3	14.3	14.5
1/21/1985	323	3.4	3.1	10.9	17.4
7/26/1989	484	4.0	1.7	-2.3	5.6
2/14/1995	259	2.7	9.5	15.8	36.9
5/30/2007	1802	-1.6	-6.4	-6.7	-8.6
3/28/2013	1375	1.6	2.8	8.3	18.4
7/11/2016	285	2.1	0.8	6.2	13.5
Mean		**0.9**	**3.6**	**7.2**	**14.0**
Median		**1.8**	**2.2**	**8.6**	**13.4**
% Positive		**71.4**	**92.9**	**78.6**	**92.9**
All Periods Mean		**0.6**	**1.8**	**3.6**	**7.5**

One year = 252 trading days. Start date 1/3/1928. Source: S&P Dow Jones Indices

Ned Davis Research Group T_HOT202312261.1

- ➢ Robust Factory Spending continues

Construction spending in November slowed more than expected from its strong October pace (0.4% vs 1.2%). But spending on single family increased by almost 3%. And spending on factories hit a record. Nonresidential excluding Manufacturing was the big loser. As for the factories, some of this is being funded by government subsidies. But some is the reshoring efforts companies have been making.



- But Manufacturing surveys are still tepid

The S&P Manufacturing PMI for December stayed in negative territory. Each time sentiment improves back near the breakeven level, it quickly reverses lower. The ISM Manufacturing improved a bit, but it also remains negative. The Chicago PMI fell sharply from 55.8 to 46.9.

This prolonged and pervasive negative sentiment is hard to explain given the economy's resilience…not to mention companies are voting with their wallets in terms of the factory spending above. WE have long maintained that these business surveys are great leading indicators. Our confidence in this has been greatly diminished.

- Other economic data is mixed
  - Job Openings remained roughly the same in November at 8.8mm. Quits hit their lowest level in three years. They are below their pre-Virus Fear trend.
  - Initial Jobless Claims ticked higher to 218k up from 206k. Continuing Claims did the same going from 1.861mm to 1.875mm.
  - Retail and Wholesale Inventories in November improved slightly but both remain negative.
  - Pending Home Sales were flat in November. They were expected to grow after a poor October.
  - Weekly Mortgage Applications fell sharply after a strong two months. But this data is not seasonally adjusted…nobody is getting a mortgage during Christmas.
  - Weekly Redbook Retail Sales increased 5.6%. These have been trending higher since the 0% growth this summer.
  - China's official PMI ticked lower in December. Manufacturing was a touch worse (49) with Services a touch better (50.4). Oddly, the private Caixin Manufacturing PMI stayed positive at 50.8. This has

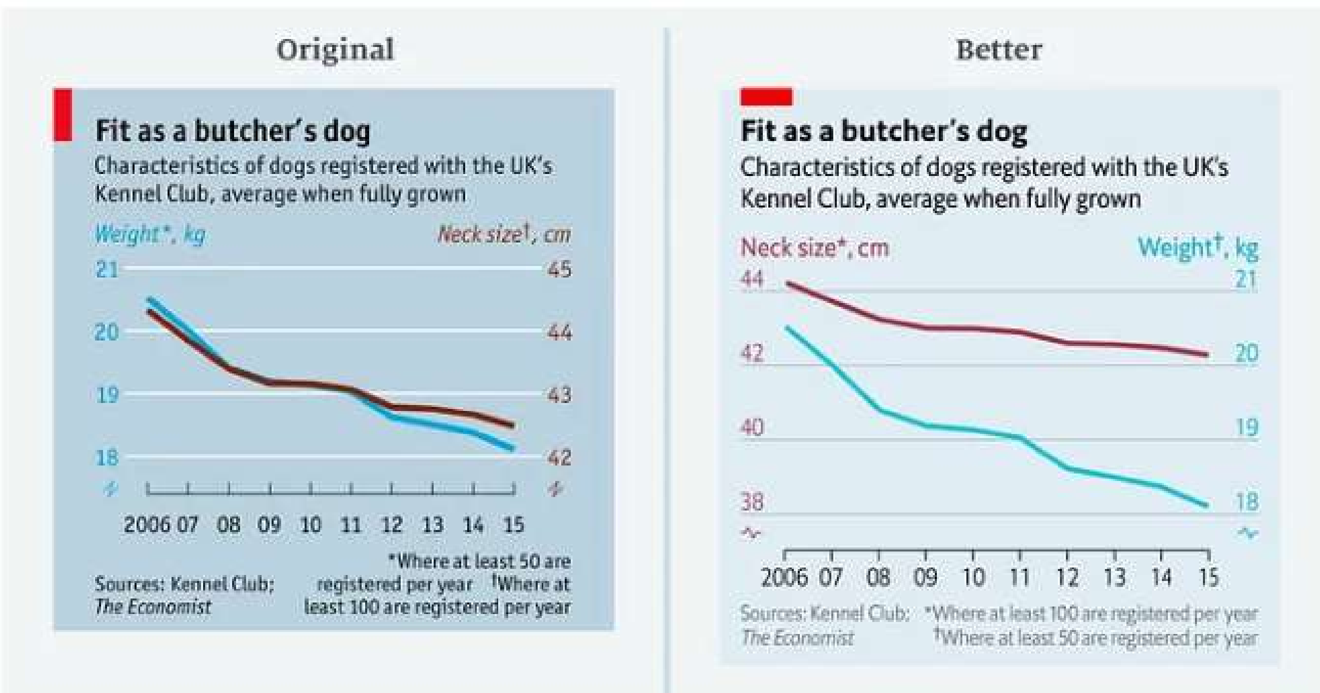
hovered around this level for the last year and a half. (It is odd given the official reading is usually more optimistic than the private one.)

➢ Where did all the crypto money go?

This week's installment will be a quote from an attendee at the CoinAgenda conference in Puerto Rico. According to Bloomberg, the attendees were focused on the less flashy aspects of the blockchain: "Crashes have a way of forcing out the trash and forcing the scammers to go elsewhere. Now they're all busy peddling AI."

➢ Chart Crime of the week

We often uncover some gems in the Economist. Sometimes, the Economist realizes what they have published is nonsense, and they wish to correct their errors. But why they care about the correlation between the weight of a dog and its neck size is lost on us.



➢ Quick Hits

- There is an apple native to Tibet called the Black Diamond. It is a dark purple color.
- Nunchakus are a training device more so than a weapon.
- 3% of the world's population has gray eyes.
- India is the only country that has both lions and tigers in the wild.
- White tigers only exist in captivity (and are not a separate species).
- Scorigami! Baltimore beat Miami 56-19, It was the 1084th unique score in NFL history.
- The US Navy has the world's second and fifth largest air forces.
- Juul's private share price has collapsed from $279 in 2018 to $1.07 today.

Trading: We have not been too active. We added to one of our consumer discretionary names…this is one of the names that has come under pressure since having a strong rally last year. We will likely buy more names like this since the fundamentals remain the same. We have a much smaller short book now. This will likely remain this way unless new trends emerge.

TSLAQ: 4Q deliveries were higher than the recently downgraded expectations. The bulls rejoiced. But the stock did not do much...and ultimately sold off. Every so often, investors are reminded that selling more cars at lower prices with tiny margins is something that…car companies do.

Twitter/X is now valued at less than $15b according to Fidelity who purchased a stake when the company went private. Musk bought it for $44b fifteen months ago. Advertising revenue for 2023 is thought to be about $2.5b. This is down from $4b pre-Musk. For perspective, Microsoft's LinkedIn saw its revenues gain 10% in 2023 to hit $4b.

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