Chalk Creek Partners LLC

Registered Investment Advisor

Weekly Update 23-September-2020

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- The market swoons again…the FATMAAN might be singing.
- Housing continues to be the strongest part of the economy
- A political Fed is worried about the economy
- Some relief for Natural Gas producers
- Chart Crime of the week
- Click here for the full note

	Last	5d %	YTD %	1yr %
SPX	3237	-4.4%	0.2%	8.2%
QQQ	264.2	-3.8%	24.5%	38.7%
US 10 YR	0.68%	0.69%	1.88%	1.65%
VIX	28.6%	26.0%	23.2%	17.1%
Oil	39.77	-1.2%	-34.6%	-32.5%

*10yr and VIX are levels not changes

** Oil is front month futures, beware

The FATMAAN* is still feeling bloated. The action seems to still be dominated by momentum traders. Unfortunately, momentum works in both directions. They sell at the first sign of a reversal. But once any downdraft subsides, they pile back in with a vengeance. It seems that this gang is butting heads with the more traditional set of traders…the ones that care about the impending election, economic data (good Housing but terrible Employment), no fiscal stimulus (handouts) on the horizon, possible anti-trust action against Big Tech, financials getting drawn and quartered in the press again (fines for illegal trading tactics, more money laundering accusations, and possible dividend cuts) more European mimi-lockdowns, the Fed's worry about the economy, crazy IPO action (SNOW), impending civil unrest (look out Louisville), etc. And we would add that the FATMAAN has had such a monster run, it is only logical to take a break. Specifically, the T in FATMAAN, Tesla, is as volatile as ever which translates into the retail Robinhooders likely buying high and selling low. And we are right back where we started: momentum gone bad.

Some say the large Snowflake IPO contributed to the froth…this was one of the IPOs we were talking about last week. But we cannot blame SNOW alone. There have been 11 IPO's this year that have rallied 100% on the first day. All IPO's this year have gained an average of 36% on the first day of trading. This is a classic sign of an overheated market.

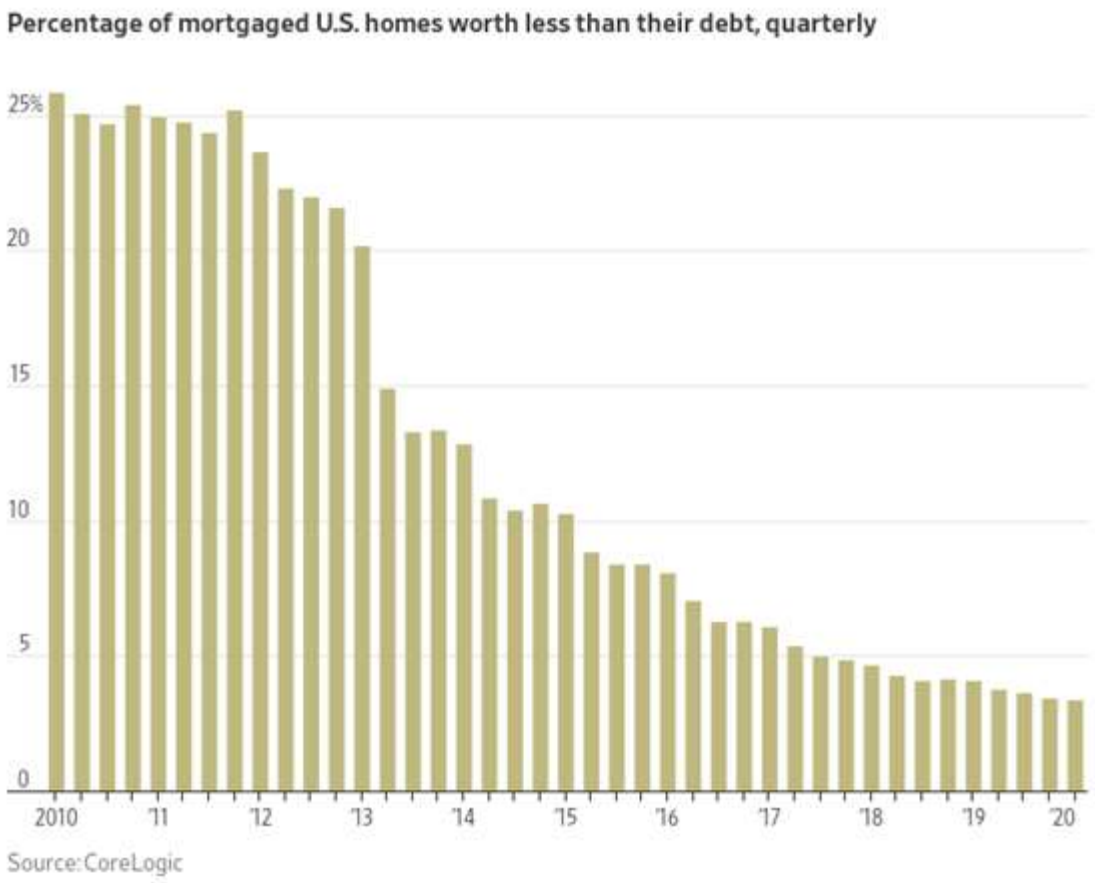
On the stimulus front, here is how spending habits changed when the money stopped flowing.

Change in credit- and debit-card spending among unemployment-benefits recipients since the week ended Jan. 7

Note: Unemployment-insurance recipients are those who received benefits via direct deposit between July 15 and July 31
Source: Cardify.ai

- Housing continues to be the strongest part of the economy

Housing continues its amazing performance. Existing home Sales reached the highest level in 13 years (6mm annual rate in August). The median sales price hit a record at $310k. Housing Starts and Permits slipped a bit in August, but they are both still near the upper end of the pre-virus range. And a drop in multi-family construction is to blame. Economists typically give less importance to multi-family because the series is more volatile. There is a potential catch to all the positives in the Housing market. Home equity has been on the rise over the last 10 years. But with about 7.5% of federally backed mortgages (federally backed means not jumbo mortgages - $510k is the new cutoff) in forbearance (about 3.5mm homes), the much talked about lack of supply could change quickly. That is, more people will be able to sell their homes in case the unemployment situation does not improve (recall that banks do not always allow you to sell your house for a loss if you owe too much on the mortgage). We still believe in the migration out of the cities so Housing will likely be supported. And some more supply on the margin is not a bad thing…especially when in the context of higher prices. But this is still a concern worth monitoring.



Initial Jobless Claims remained essentially unchanged at 860k. State Continuing Claims fell over 900k. The Total sits at 12.6mm. The total receiving benefits across all the programs moved higher again. We are back to almost 30mm. This is the most glaring risk to the economy (other than renewed virus fear).

Philly Fed dropped a bit as expected. This is the 4th month of a slowing increase. The reading is still ok at 15, but if the trend continues to deteriorate, that will be worrisome. The WSJ highlighted a contributing factor to this decline…factory workers are simply staying home. And this is not just a blue-collar phenomenon. CNBC highlighted a similar trend at investment banks.

- A political Fed is worried about the economy

The market is still digesting the Federal Reserve's concern for the economy. And hark, the Fed admitted it cannot solve all of the economy's ills. We do not like the Fed stepping into the political waters (by imploring more fiscal stimulus), and this group has proven that they are more activist than other Fed members from the past*. Even more oddly, the Fed voiced this concern while changing its economic forecast showing a less severe contraction and better employment. Fortunately, the new mantra of "Lower forever" with respect to interest rates is not held in consensus. Robert Kaplan of Dallas dissented on the action to keep rates at zero until 2023 (Perma-dove Neel Kashkari also dissented, but he is more concerned about keeping rates lower for longer, for real!). He (Kaplan) plainly stated he "would rather leave that judgement to future committees" given all the uncertainty. And Jim Bullard of the St. Louis Fed is questioning the need for more fiscal stimulus.

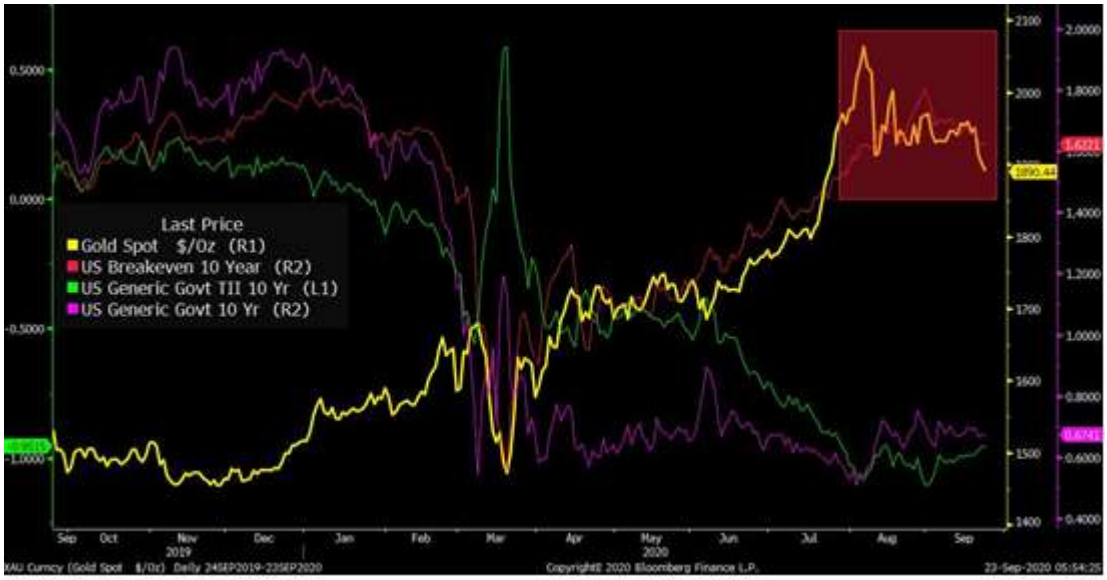
Recently we wrote about the knock-on effect on interest rates from the Fed's purchases of mortgage backed securities (MBS): The Fed is a buyer that does not hedge its interest rate exposure thus compounding the impact. But commercial banks are also contributing to the continued strength in rates (lower yields), too. With a surge in deposits (some stemming from financial concerns, but most from entities parking their lines of credit, PPP loans/grants, and other newly minted money by the Fed) and a decline in new lending, banks have been buying US Treasuries.

- Some relief for Natural Gas producers

In a positive sign for US gas producers, the spread in natural-gas prices across the globe has widened again (Qatar has the lowest cost of natgas, but the US is still the marginal producer of quantity). Pipeline and export terminal operators were feeling a pinch. Much of the recently built infrastructure was aimed at capitalizing on higher prices across Europe and Asia. But in the wake of the virus, this price spread collapsed. Even though the gas buyers were (and still are) contractually committed, producers feared the worst. But with a new price cushion, production and exports can resume.

- Chart Crime of the Week

We might have to change this somewhat recurring bullet-point to "Bloomberg Podcaster's Chart Crime of the Week." The same guy that did the Tesla and Lumber chart has done this one. It attempts to show the breakdown in the correlation between Gold and Inflation. But this is just a jumbled set of lines which basically tells us Gold does what it wants to do. And, of course, there are different y-axes. We shutter.



- Quick Hits
  - Another cryptocurrency scam has emerged in which fake domains mimicking crypto exchanges were set up. Customers unwittingly handed over their credentials. The scammers were not happy enough with the stolen bounty. But rather, they used the money to buy low-priced cryptocurrencies in an old school pump-and-dump scheme. This what got them caught.
  - Merrill is suggesting the return of the Dividend Discount Model will supplement the Price/Earnings ratio as the best metric to watch.
  - There will be futures on the California Water Index this fall.
  - McDonald's (MCD) has run out of Travis Scott burgers.
  - Who the heck is Travis Scott?
  - A judge has stopped bankrupt Hertz from paying more bonuses to executives and criticized a round of bonuses paid right before declaring bankruptcy. Hertz Declaring Bankruptcy
  - A recent "tweet of the day" in the WSJ was from a former economist at the Dept of Labor. She bemoaned the lack of infrastructure to properly count the number of unemployed. No comment from her on how to actually help the unemployed.
  - The net worth of US households hit a record $119t in June.
  - Apple believes Work-From-Home is here to stay and is a net positive.
  - Apple expects all of its Silicon Valley employees to be back in the office in 2021.
  - The Pac 12 conference paid bonuses to 50 employees prior to canceling sports and firing 94 of the 196 employees.

***FATMAAN**: **F**acebook, **A**pple, **T**esla, **M**icrosoft, **A**mazon, **A**lphabet (Google), and **N**etflix.

*The old Dallas Fed President used to blast the government for not reigning in its fiscal promiscuity. We loved this. So, we admit our tolerance for Fed posturing is biased.

Trading: With the market selling-off without a large spike higher in Volatility, we thought it was a good time to cover some of our short Calls on the Nasdaq. We were close to putting them back on when the market head-faked higher. Alas, we missed our spot (woulda-coulda-shoulda). But we will never complain about taking profits on a short option strategy (especially the ones we deploy which are typically low risk and low reward). We trimmed some of our S&P protection, but this was a conservative play from the onset. We still have our long Puts on the Nasdaq in place. This is the real source of our portfolio protection. We will likely roll these down with further weakness (thus monetizing some of the position while keeping the crash protection in place). And we are happy to report that we booked a 50% gain on our Nikola short. We are unhappy to report that it was a tiny position. Whatever the case, it is always good to be on the right side of fraud. For that matter, if the stock gets a second wind for some hairbrained reason, we will be ready to short it again. Speaking of frauds, we have been waiting for Tesla's "battery day" to re-short the stock. We figured the lemmings would give it one last gas (pun?). Alas, even the lemmings were not fooled. More below, obviously. If/when the market pressure continues, we will keep buying some of our conservative staples and healthcare stocks. We think these will outperform while still giving us growth. Of course, we still love FATMAAN for the long-term (ex the T and the N).

TSLAQ: We had two classic Tesla bait & switches going on at the same time this week. The end of the quarter is approaching, so we had the leaked email from the Villain about "working hard" to delivery more cars. Only Mush (typo, but we like it), who has an SEC enforcement order against him, can get away with continuing to break securities law via "leaked" emails. We also had the sillily-hyped "Battery Day" which obviously amounted to nothing of substance. In fact, Musk prepped his audience (sitting in Tesla cars in a parking lot) with the proclamation that Tesla would be increasing its purchases of batteries from third party suppliers. So much for inventing the million-mile battery. In other words, the most notable thing about Battery Day was there were no

batteries. Of course, the Wall St analysts all echoed the same “laid out lofty goals” while ignoring the reality that Musk always lays out lofty goals and never achieves them. But since Tesla has to raise billions of dollars to fund all this unprofitable expansion, the banks must be extreme sycophants to get that business.

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