



## Weekly Update

30-Jan-2026

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- The new Fed chief scares (the tightly wound parts of) the market
- Earnings are good but with some big misses
- Economic data is still getting better
- Silver was definitely the new GameStop or crypto or whatever meme
- Fed bullet points
- Are layoffs mounting?
- Japan policies might be coalescing
- Private credit probably lends to companies that banks question
- Business spending is picking up (and so is sentiment)
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week
- FTX was missing this watchdog

	Last	5d %	YTD %	1yr %
S&P 500	6,939	0.3%	1.4%	15.6%
QQQ	\$620.24	-0.2%	1.2%	19.1%
US 10 YR	4.24%	4.23%	4.17%	4.56%
USD/DXY	97.2	97.5	98.3	109.0
VIX	17.4%	16.1%	15.0%	18.6%
Oil	\$65.74	7.7%	13.6%	-10.1%

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

\*\* Oil is front month futures, beware

This week had it all. The Fed held rates steady as expected. Japan seems to be focused on rates and the Yen...perhaps with the help of Trump. The US government might be partially shutdown, but nobody really cares (especially since this one is likely to be short-lived with only DHS being the sticking point). Economic data is still strong and accelerating with little inflation. Geopolitical tensions are high again with Iran back in focus. Trump is threatening more tariffs this time on Canada and South Korea. Earnings have been strong, but Software continues to be the notable underperformers (lowlighted by Microsoft this week). Meta was the big surprise on the upside. Apple had great earnings without any real market reaction. Private credit worries resurfaced as

BlackRock took a big write-down on one of its funds. OpenAI is looking to raise \$100b at an \$850b valuation as it races to beat Anthropic to the IPO market.

Ultimately, Trump's nomination for Federal Reserve Chairman, Kevin Warsh, dwarfed all the other stories. On one hand, the market was relieved that a Fed insider was chosen - he previously served on the Fed's Board of Governors from 2006 – 2011. The risk to Fed independence immediately vanished (we thought this narrative was silly all along). But on the other hand, he is seen as the least dovish of the list of candidates (least likely to keep cutting interest rates). Some are even calling him an inflation hawk. We think he wants to cut interest rates but also reduce the size of the balance sheet. Moreover, he has a libertarian streak and believes in letting the market dictate interest rates with less Fed intervention (he will likely cut down on the amount of Fed-speak that is delivered to the market). But he firmly believes in the Fed operating as the safety net when necessary. Whatever the case, the combination of continued Fed independence and potentially tighter monetary policy down the road crushed the "debasement" trade. Hard assets like gold and silver plummeted like FTX's crypto trades. These had obviously run way too far way too fast. And the leverage in these products can be gigantic. When one hot trade unravels, it tends to unravel some of the other tightly strung segments of the market. The world-beating memory stocks reversed sharply, too. All this happened at the end of the month, so the flows were exacerbated.

We are still broadly bullish on the market. Our north star is the intersection between growth, inflation, and monetary/fiscal policy (Hedgeye does good research on this). All of these point to strong returns going forward despite the daily noise. That is not to say some of the noise is not real. There is a good chance that the collapse in gold and silver might be temporary. But considering the amount of money that flowed into these assets recently, the pain could be very real.

- Silver was definitely the new GameStop or crypto or whatever meme

Last week we mentioned silver and how it is an important input into industrial trade (not just Artificial Intelligence). We dug a little more, and it turns out that China controls about 65% of the global market for refined silver exports. And the communists are now restricting who can export the newest hoarded metal. And from a technical trading perspective, the amount of volume traded in the markets has far surpassed the amount of silver sitting in vaults. George Nobel (and old school Fidelity turned hedge fund investor) thinks the paper-to-physical silver ratio is over 350:1. In other words, silver is a highly leveraged asset controlled by the communists.

- Fed bullet points

The Federal Reserve's Open Market Committee (FOMC) kept interest rates unchanged with a Fed Funds target range of 3.50%-3.75%. This was widely expected. The message was mildly hawkish insofar as the economic projections are slightly better. But given Fed Chairman Powell's lame duck status, the market is looking ahead to any Fed action come June with Warsh at the helm.

The economy expanded, improved since last meeting. The imbalance between inflation and employment has narrowed but is still not quite there.

Risks to Employment are no longer worsening - showing signs of stabilization but job gains remain low.

Inflation remains somewhat elevated, but disinflation in Services is continuing.

Consumer Spending has remained resilient.

Activity in the Housing sector remains weak.

Neutral rate is probably lower but not something they focus on.

Nobody has a rate hike as his base case.

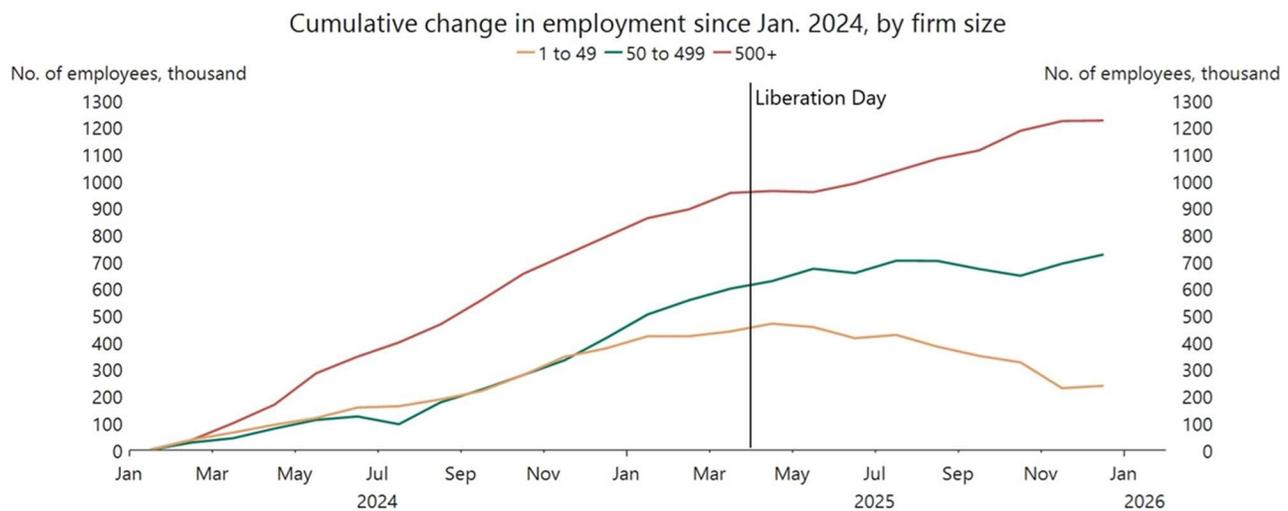
No official Summary of Economic Projections (does not happen at all meetings).

➤ Are layoffs mounting?

For all the talk about stabilizing labor markets, we are still seeing a decent amount of anecdotal evidence to the contrary. This week, UPS announced it is cutting 30k jobs; Goldman is going to slow its hiring in 2025; Dow is cutting 4500 jobs; OpenAI is going to “dramatically slow down” the pace of hiring; MasterCard is cutting 4,000 workers. We do not think this is systemic but rather just the natural ebbs and flows in Employment. However, it is worth noting that the vast majority of employment growth over the last two years has come from large companies. And these three size segments employ the same number of people roughly (45mm in small, 50mm in mid, and 55mm in large). But the ADP numbers do show continued hiring (albeit modest) and Initial Jobless Claims are stagnant. So, for now at least, these layoffs or hiring freezing announcements really are just one-offs.

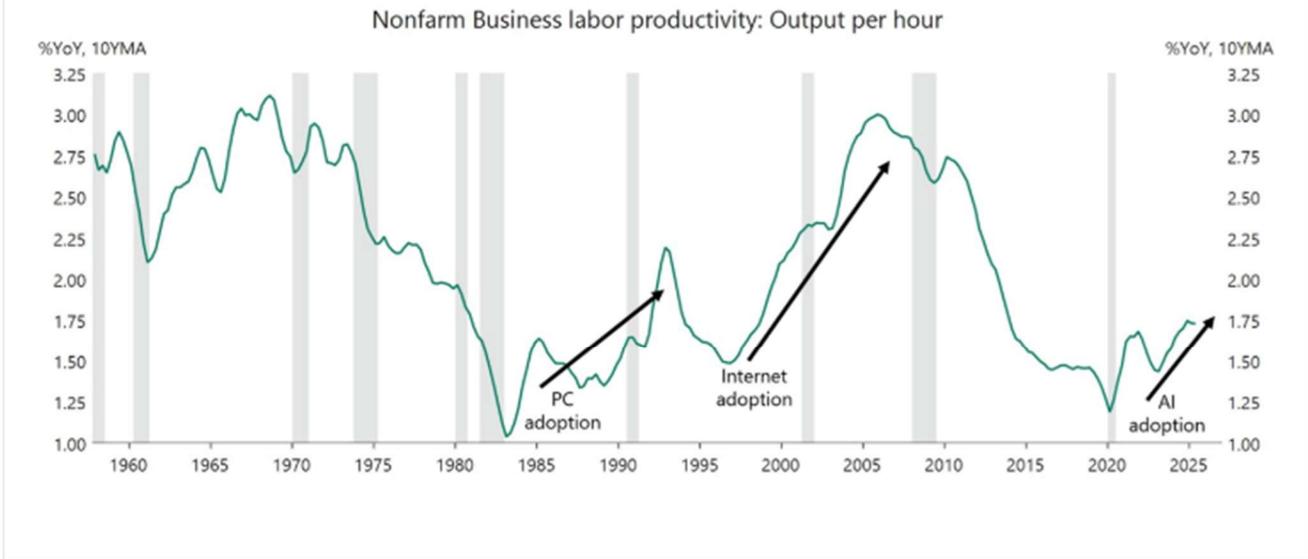
APOLLO

### Cumulative change in employment since Jan. 2024



Of course, as we have been saying, there is a reason companies might be able to do more with fewer workers.

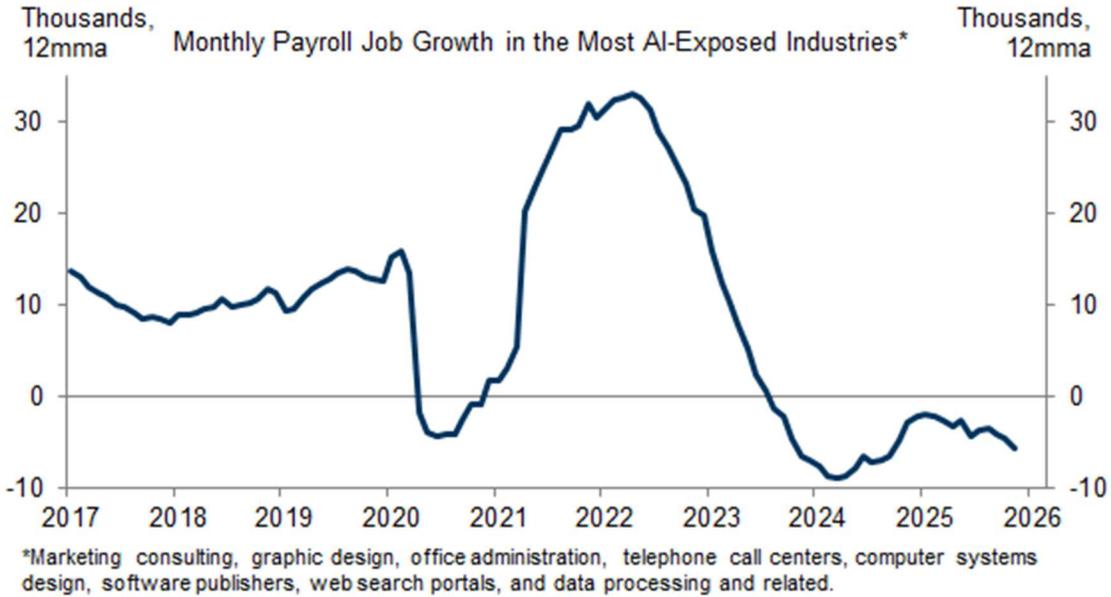
### We are likely in the early stages of another productivity boom



Sources: US Bureau of Labor Statistics (BLS), Macrobond, Apollo Chief Economist

Expand

Of course, we will need turbo-charged productivity if hiring is going to remain stagnant.



\*Marketing consulting, graphic design, office administration, telephone call centers, computer systems design, software publishers, web search portals, and data processing and related.

Source: Goldman Sachs Global Investment Research, Department of Labor

➤ Japan policies might be coalescing

Japan remains in the headlines. For all the back and forth between expansionary fiscal policy and tightening monetary policy, both sides (Prime Minister and central bank) apparently agree on trying to strengthen the Yen (against the USD and EUR mostly). PM Takaichi expressed the same concern as the BOJ's Ueda with respect to squashing government bond yield volatility (JGB) and possible intervention to support the Yen. Even Trump got in on the game by saying the weakening USD was "great" and it should "seek its own level." There were even reports that the NY Fed (which conducts the trading for the Federal Reserve) was checking levels on USDJPY swaps (looking to sell USD and buy JPY). No action has been taken on either side (Fed or BOJ), but the rumbling has been enough to move the currencies. Treasury Secretary Bessent refuted Trump's stance a bit (the US still supports a strong USD policy). But this might be an instance in which we do not do what Bessent says (he usually speaks through he bluster). We still like being long Japan as Takaichi is likely to strengthen her control of parliament and push her stimulus agenda. But new purchases will likely be done with a different vehicle which is long the JPY (short USDJPY).

- Private credit probably lends to companies that banks question

Private credit continues to be a potential source of distress in the markets. BlackRock wrote down the net asset value of one of its publicly traded funds by 19% (retroactive to the end of 2025). This fund is invested in companies that manage bundles of Amazon sellers which turned out not to be a good idea. Perhaps this is not representative of economic weakness. But there is a good chance there are more of these landmines looming.

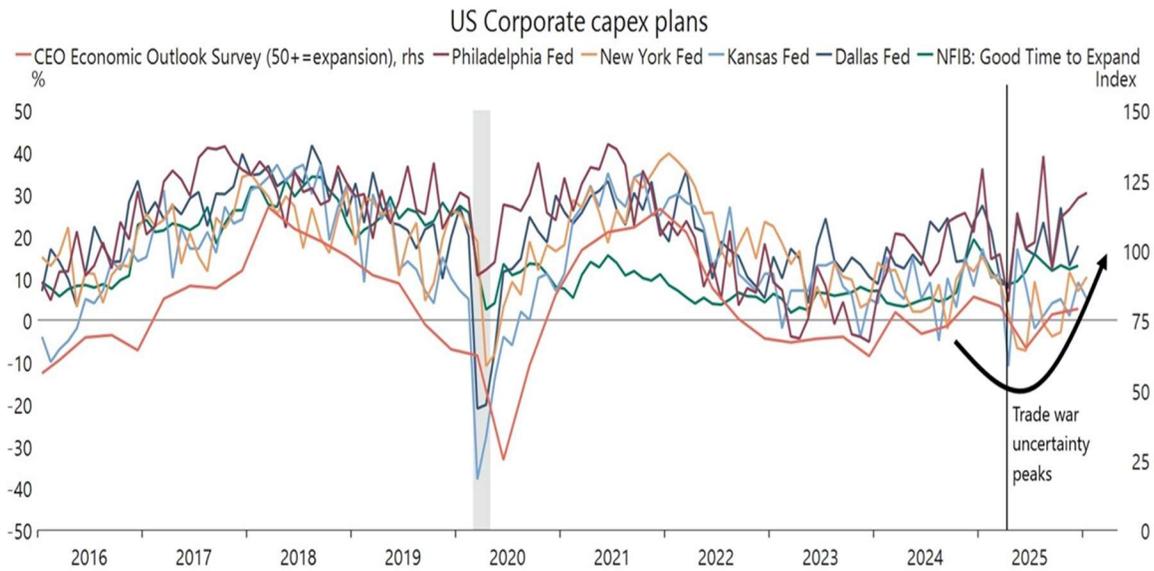
- Business spending is picking up (and so is sentiment)

Durable Goods Orders jumped +5.3% in November. This compares to a drop of -2.1% in October. This data can be volatile, so we want to watch Core Capital Goods (aka business spending which strips out Defense and Aircrafts). This category increased +0.7%.

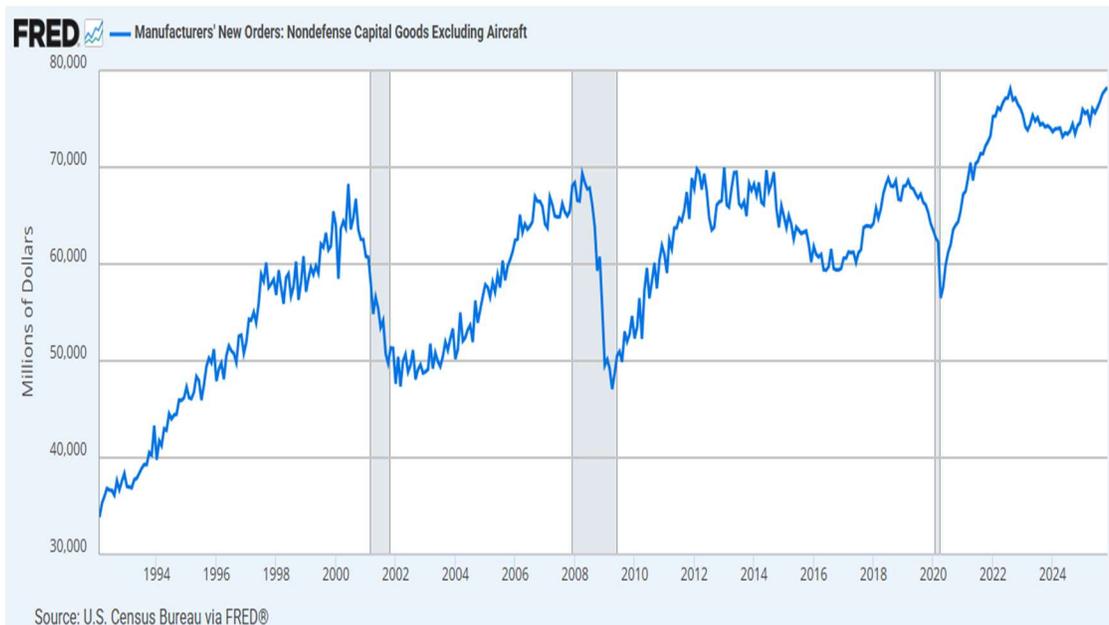
And businesses are planning for more spending. Of course, these surveys have not been reliable...but that is because they have showed caution while the spending was happening. So, if the spending is happening (and improving) and sentiment is getting better...that is a good combination. The Dallas Fed Manufacturing index improved in January to -1.2 from -11.3. Services also increased from -5 to +2.7. The Richmond Fed Manufacturing index improved slightly to -6 from -8.7. The Richmond Services index improved a little more to -5 from -11. The Chicago PMI in January (private business survey for the region) jumped sharply for the second straight month. It has gone from 36.3 to 42.7 to 54. November was particularly low, so the data is slightly distorted. But it is still the first time sentiment (it is a composite index of Manufacturing and Services) has been above the breakeven level of 50 since Nov of 2023. Of course, that occurrence proved to be episodic as it reversed lower instantly.

Here is an Apollo chart. The uptick is more subtle than the black arrow (chartcrime?), but the surveys have inflected...

## Capex boom started once trade war uncertainty abated



...at the same time spending has increased:



➤ Other economic data is better

Weekly Redbook Retail Sales +7.1%. This halts the temporary slide post the holidays (but probably aided by pre-storm shopping).

The average 30-year mortgage rate increased from 6.16% to 6.24%.

Weekly Mortgage Applications dropped -8.5%. Refinancings are slowing.

The ADP Weekly Employment added another 8k jobs (same as last week).

Initial Jobless Claims increased to 209k. continuing Claims fell to 1.827mm from 1.865mm.

Nonfarm Productivity in Q4 increased to +4.9% from +4.1% in Q3.

Factory Orders in November increased by +2.7% vs Oct which had fallen -1.2% from Sept.

The PPI (Producer Price Index inflation, aka wholesale or input prices) increased +0.5% in December vs November. The “Core” PPI accelerated to +0.7%. the market was expecting +0.2% on both. We do not spend too much time on PPI because it can be volatile (not to mention it has a weird calculation). We do not expect this to translate into a jump in CPI.

➤ Where did all the crypto money go?

Last week we wrote about the anonymous \$GAS token creator who directed all of his Bags platform commissions to the creator of the Gas Town coding engine (that is a mouth-full). The great Matt Levine has been writing about this stuff (sometimes we beat him to the punch). Naturally, someone has created a token that Levine joked about. And the creator has directed the platform commissions to Levine! Levine says he will not collect the commissions, and he does not endorse this silliness. It looks like the peak market cap of this worthless coin hit \$600k. It is now worth about \$6k. The commissions that Levine is leaving on the table? They are about \$25k or 4x the current market cap!

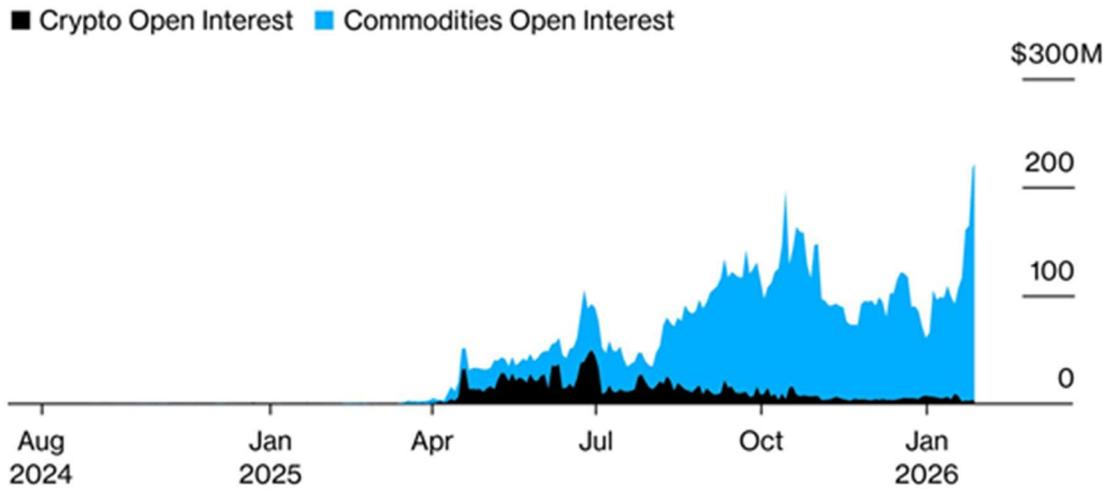
Back in the real world, a giant Ponzi scheme was busted in Georgia. The scam had the standard red flags: Guaranteed returns (10% every three months) with a full backstop (collateralized with real estate). Astonishingly, when the SEC started investigating, the fraudsters, who knew they were under investigation, kept running his scheme until they were arrested five months later. All told, they stole \$380mm from over 2,000 victims. Of course, they spent the money on cars, yachts, ranches, “beauty treatments”, and ads at Tampa Bay (Devil) Rays baseball games.

Back in the make-believe world, the Human Fund has come to life! Before FTX imploded 3.5 years ago, it employed a guy to direct its charitable giving. He was paid handsomely (over \$1mm). He would receive half in cash and half would be directed to a charity of his choice. He had not designated the charity for 2022 before FTX went bankrupt, but a judge ruled he could do so as a creditor in the bankruptcy (and FTX has the money to pay). Naturally, it being FTX and all, he designated a charity that was operated by a competitor of FTX. Moreover, he sat on the board of this charity and directed its distributions. Costanza would be proud.

We have suspected that part of the bull run in precious metals was money getting sucked out of crypto. And here is the proof. Considering the open interest in metals is far bigger than crypto ever was, we think it is fair to assume a lot of leverage is at stake.

## Crypto Traders Pivot To Gold, Silver

Open interest of commodities surpasses that of crypto on trading platform Ostium



Source: Ostium

Bloomberg

### ➤ Chart Crime of the week

This chart was created by ChatGPT. It was prompted to plot the famous people from each European Country. There is a lot of good stuff in here. (We fact-checked this with Gemini...ChatGPT knows that Marie Curie is not a man, but apparently it hallucinates when it comes to image generation with poor prompting.)



➤ Quick Hits

- Mixue Ice Cream & Tea is the world's largest restaurant chain (by number of locations).
- Kaja Kallas, the Prime Minister of Estonia when Russia invaded (the) Ukraine, was one of the most vocal critics of Russia. It turns out, her husband's company made over \$1.5mm in profits in direct dealings with Russia after her call for cutting off all ties with the country.
- Michael Saylor, the CEO of Strategy (fka MicroStrategy...name change!) and resident pumper of Bitcoin, bought the website hope.com.
- The sticker price for 1-year tuition to Yale is about \$72k. When you add room & board and others fees, it is almost \$99k.
- 3.58 billion people use Facebook (or Instagram) every day.
- Patek Philippe watches sell for an 11% premium in the secondary market. This is down from 19% last year and 38% in 2024.
- Tik Tokker Khaby Lame (???) signed a \$975mm deal to monetize his 360mm social media followers.
- When asked why Manufacturing was still showing sluggish activity, Kevin Hassett (director of the National Economic Council) said companies will "turn those machines back on."
- Saudi Arabia and the rest of the Middle East burn 1.8mm barrels of oil per day for electricity.
- The Middle East flares (burns for no reason other than to get rid of it) over 5 billion cubic feet per day of natural gas.
- 2026 will be only the second year in MLB since 1922 without an active player who has won a World Series with the Yankees. 1995 is the only other year.
- A Bexar County (San Antonio) judge has been indicted for handcuffing a defense attorney in court. She has previously been reprimanded for decorating her courtroom and for congratulating winning attorneys on social media. Her name is Speedlin Gonzalez.

**TSLAQ:** Musk is busy revamping his empire. Tesla is reportedly investing \$2b into xAI. At the same time, the IPO plans for SpaceX are developing. The latest is that the company is targeting a \$1.5trillion valuation. This comes on the heels of an equity raise valuing the company at about \$850billion. The twist might be that Musk rolls Tesla, xAI (which owns X/Twitter), and SpaceX into one giant conglomerate. And this comes as Tesla is inching towards getting out of the car business. It will stop making its S and X models (the best cars Tesla has made) to use the factory space to build the "humanoids." The company is going to spend \$20b this year on capex. He expects the production of 1mm Optimus "humanoids" to have a "significant impact on US GDP." Just last week, he subtly hinted that revenues for the "humanoids" would be pushed back to 2028. The GDP boost will have to wait. He also said the Cybercab would go into production in April. The often-promised Semi is apparently back on the slate for this year. And a "next generation" Roadster is also coming.

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