CHALK CREEK PARTNERS

Weekly Update

26-Aug-2026

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- Quiet week ahead of Nvidia earnings…
- Nvidia earnings look great and so does software
- Still lots of noise in AI
- Bessent vs Warsh…probably does not matter
- AI is coming! But it is not here yet
- Inflation remains subdued
- Business surveys improve and spending is still off the chart
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week
- Treasuries are Even Steven

	Last	5d %	YTD %	1yr %
S&P 500	7,676	-0.4%	12.1%	18.7%
QQQ	$711.37	-0.7%	15.8%	24.2%
US 10 YR	4.65%	4.65%	4.17%	4.24%
USD/DXY	99.1	98.8	98.3	98.2
VIX	15.2%	14.9%	15.0%	14.9%
Oil	$81.79	-4.7%	43.2%	30.0%

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

Both the headline market moves and gyrations underneath the surface were subdued this week. But that is not to say the narratives were not coming and going as usual. The highlight of the week was Nvidia's earnings which came out tonight. As usual, growth was great, guidance was strong, and margins are still incredible (with a slight downtick due to memory costs). And the stock is actually responding well (it might be too early to tell, but Nvidia has not responded well to its amazing earnings reports for almost two years now). Moreover, some high-profile software companies reported strong earnings and are rallying, too. This is one of the first hints that the see-saw battle between AI infrastructure (chips, memory, equipment) and Software might not be a zero-sum game. We also found out that Citadel is basically out of the giant positions it bought from Leopold when he proved that he had no idea how to run a hedge fund. Perhaps this removed a forced wedge between the two sides of the AI trade.

Before the Nvidia earnings, we had the usual AI headlines that left most people confounded about when the return on investment will become apparent. There are new challengers in the AI space, both on the chip side and the model side. OpenAI has supposedly made a chip that can rival Nvidia's…of course they are comparing it to Nvidia's old chip. But the real story here is that OpenAI used its AI to help develop the chip which will run its AI. In other words, sometimes circularity is a good thing. Funnily enough, Nvidia probably wishes there were some more circularity since it is invested heavily in OpenAI. And yet OpenAI made a product to directly compete with Nvidia. Then again, OpenAI is cutting prices and Nvidia is hiking prices. On the model side, a new open-sourced one called Ox Alpha is apparently the new kid on the block. Strangely, nobody knows who made it or who runs it.

On the macro front, most of the talk revolved around Treasury Secretary Bessent's plan to buy back some longer-dated Treasury bonds and replace them with shorter-term bills. Opponents of the administration took a victory lap when famed investor Stan Drunkenmiller (who happened to be Bessent's boss back in the day) wrote an op-ed imploring the government to let the market dictate interest rates. We agree with this sentiment. But it largely ignores the fact that the government is still responsible for issuing new debt and managing existing debt as smartly and practically as possible. The end result will likely just be some mild USD weakness as the market waits for more clarity on supply (and credibility). Fed Chairman Warsh will be giving his annual speech from Jackson Hole later this week, but we do not expect much from this (as he has vowed to cut down on Fed communication). If anything, we still think the Fed and Treasury are on opposite sides of the coin (Fed wants to reduce the amount of long-term bonds it *holds* while Treasury wants to reduce the amount of long-term bonds that it has *issued*). This means any short-term effects will be even more muted. A week after Bessent's announcement, the 10-year Treasury yield is Even Steven.

With respect to the economy, some of the data has turned for the better. We have noted that the Employment and Retail Sales have been notable weak spots. But Income, Consumer Spending, and Durable Goods are all showing growth. And inflation remains subdued. While the Q2 GDP growth was marginal at best (+1.5%), Q3 GDP is tracking closer to +3%. Tariffs are back to being a nominal wildcard. But just like last year, we expect this to be mostly noise. (Trump already lowering tariffs on beef because of extreme price increases in the US is a perfect example of the reflexivity of these policies.)

Random bullet points:

The Clarity Act, which will redefine crypto rules, is getting closer to reality

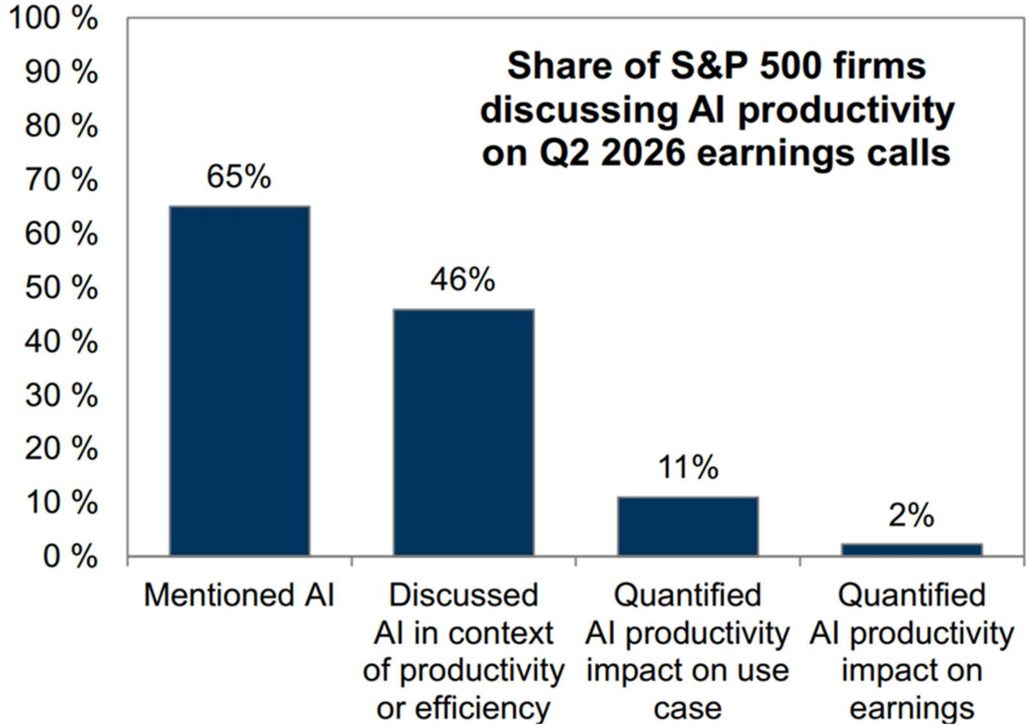
US-Venezuela oil trade is surging (from 0 barrels per day to over 500k).

Here is a good stat that underscores the volatile nature of the underlying factors in the market. Software currently has the largest weighting on the *long* side of the 3-month momentum basket. But it also has the largest weighting on the *short* side of the 12-month momentum basket.

Samsung is planning $80b in shareholder returns…but the Korean government is still considering implementing an excess tax structure on AI earnings (calculated using a benchmark of tax receipts from the last 10 years).

- AI is coming! But it is not here yet

Here is a simple table from Goldman. The vast majority of companies are talking about AI, but hardly any are quantifying its impact. We suspect this will change markedly over the next few years. If not…



- Inflation remains subdued

Inflation as measured by the change in the Personal Consumption Expenditure index (PCE) ticked up to +0.2% in July vs -0.1% in June (and +0.1% expected). The "Core" also ticked up to +0.2% from +0.1%, but +0.2% was expected. But almost half of the increase is attributed to portfolio management fees stemming from higher equity prices! Hardly a reason for concern! Moreover, the Bureau of Economic Analysis (BEA) is going to change the calculation methodology next month, so we should see a downward revision.

The yearly increases both remained steady: +3.7% on the headline and +3.3% on the prices excluding Food & Energy. These monthly changes are roughly the same as the July CPI from two weeks ago (headline +0.1% and "Core" +0.2%). But the yearly increases on the PCE remain higher than CPI (+3.4% vs +2.5%). As we tend to mention, the market cares more about the CPI because it comes out first. But the Fed typically cares more about the PCE. But this might be a wash given the impending recalculation. That said, we might get more rate-hike voices in the coming weeks. Then again, new Fed Chairman Warsh has not even determined what inflation metrics he wants the Fed to use going forward. We doubt Warsh provides any clarifying tidbits during his speech in Jackson Hole in the coming days. If by chance he wants to lean on something like the Dallas Fed Trimmed Mean, it is running at +2.3% over the last year.

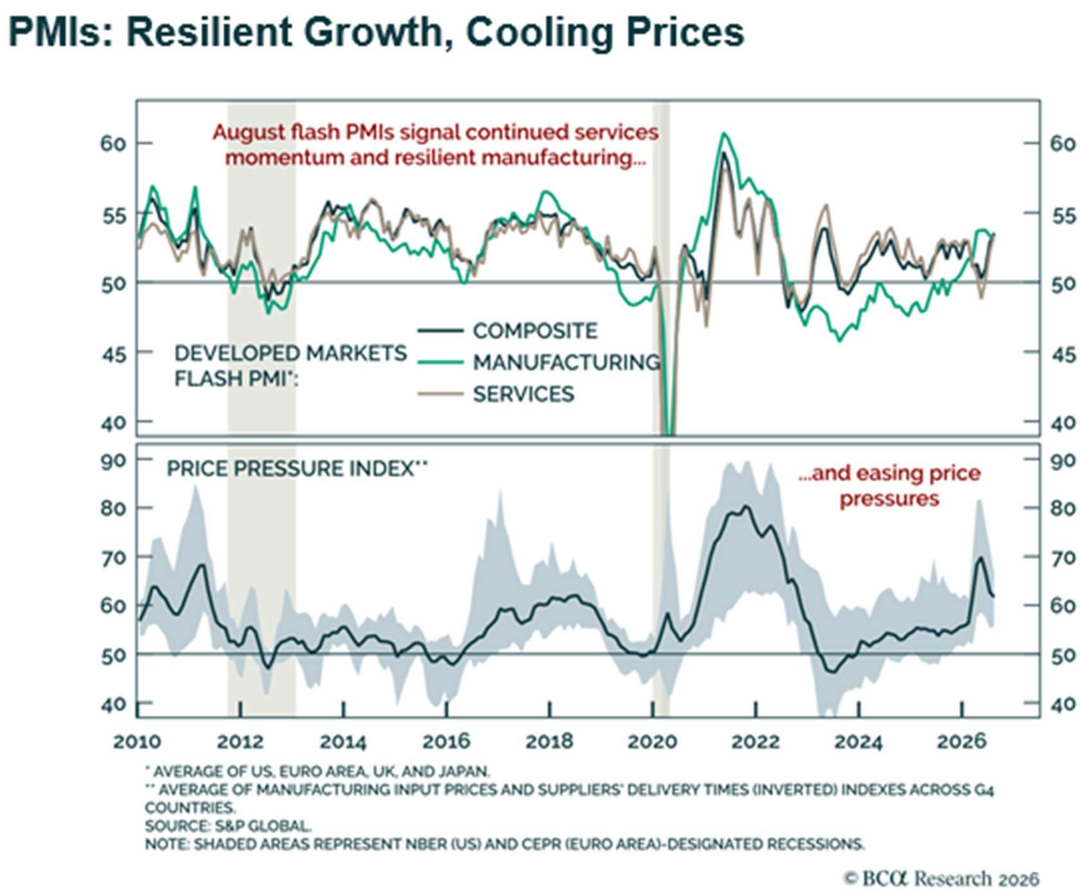
Personal Spending cooled a bit in July (+0.2% vs +0.3% in June) but not as much as expected (+0.1%). Real Personal Spending (adjusted for inflation) was flat 0.0%. Personal Income, however, accelerated higher (+0.4% vs +0.2% previous and expected). Real Disposable Income increased +0.4% (vs +0.3% in June). This translates into an increase in the Personal Savings Rate of +0.4% to 3.0%.

- Business surveys improve and spending is still off the chart

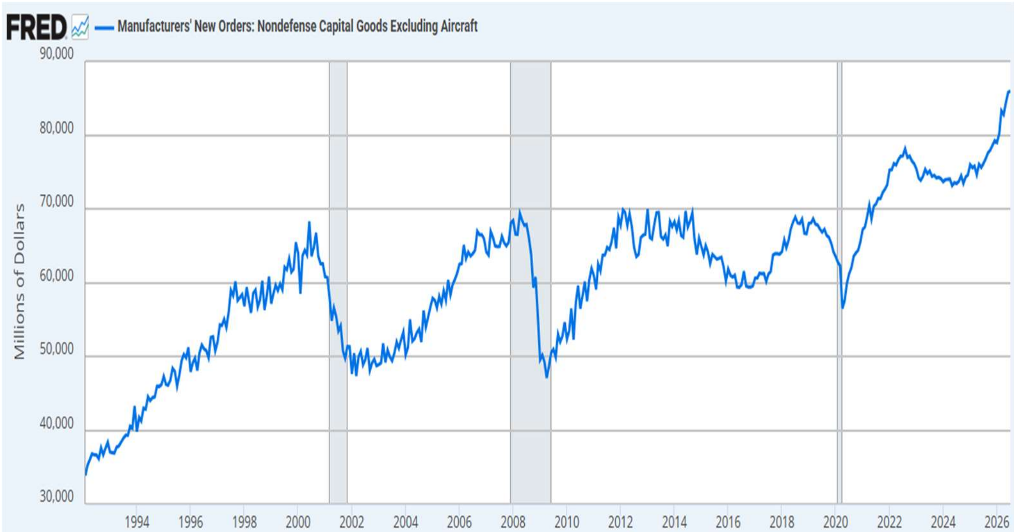
The early read (Flash) on the S&P Composite PMI in August increased from 54.5 to 56. The upside came from Services which improved from 54.6 to 56.8. Manufacturing slipped a bit from 53.9 to 53.2. This yang-yang dynamic (Manufacturing was strong during the early days of the war and summer, and now Services are taking over as Manufacturing fades a bit) is largely following the price of oil. But it also shows the natural ebbs and flows in a balanced economy.

The Philly Fed Manufacturing index improved to 47.4 from 41.4. Orders softened, but Employment (up) and Prices (down) improved. The Chicago Fed's National Activity index dipped into negative territory (we have never found any accurate economic signal in this datapoint). The Richmond Fed's Manufacturing index decreased slightly to 4 from 5. Its Services component dipped further into negative territory (-3 to -8).

European PMIs improved slightly (Euro Area Composite 52.1 vs 52). But it is continued strength in Manufacturing (52.8 vs 51.9) rather than Services (flat at 51.7). Here is an aggregate look at global PMIs (developed nations) with their Price components.



Durable Goods Orders in July look good on the surface with a +1.1% increase vs June (+0.5%). But Transportation Orders (airplanes) juiced the numbers. The core Capital Goods Orders (aka business spending which strips out Airplanes and Defense) only increased +0.2%. This is down from +1.7% in June. On the bright side, this number was revised up from +0.9%. We always say the headline number is lumpy and volatile, but the Core Capital Goods also bounces around. The trend is what is important. And while there might be a rate-of-change slowdown in this data, you must zoom in pretty closely to see it.



- Other economic data is mixed

The second official estimate for 2Q GDP remained the same at +1.5%. Domestic Sales grew +2.2% (same as in the preliminary read).

Initial Jobless Claims are still flat at 206k. Continuing Claims are a touch under 1.8mm (also flat for years somehow).

The Weekly ADP Employment Change increased by +12k job. This is the second month of improvement off the low in late July. But it is a far cry from the +30-40k per week back in the spring.

Weekly Redbook Retail Sales accelerated to +9.1%. This is the sharpest upswing since the explosive June period (during which it peaked at +11.5% thanks to Prime Day).

New Home Sales fell over 10% in July. The annual run-rate is down to 607k (near the bottom of the 3-year range).

Building Permits bounced +4.3% in July. Originally, they were thought to be +5.0%. This is still a welcome improvement from -2.6% in June.

Mortgage Applications dropped 1% on the week.

The average 30-year mortgage rate ticked up to 6.78%

Consumer Confidence ticked lower from 90.2 to 89.4. This data is dominated by Employment and Housing, so it is no surprise to see some weakness.

- Where did all the crypto money go?

In the old-school world of fraud, two advisors in Lubbock have pleaded guilty to numerous counts of fraud. They basically were running the traditional Ponzi scheme. The two snookered most of their victims through a radio show boasting their investment prowess. The radio host also plead guilty for promoting the scam. One of the selling approaches included dropping lines such as, “It would take Jesus himself coming back for this to be a risky investment.” This line was used on the deacon at their church. No word on where or how the criminals spent the money…but it is surely in the rearview mirror (Lubbock!).

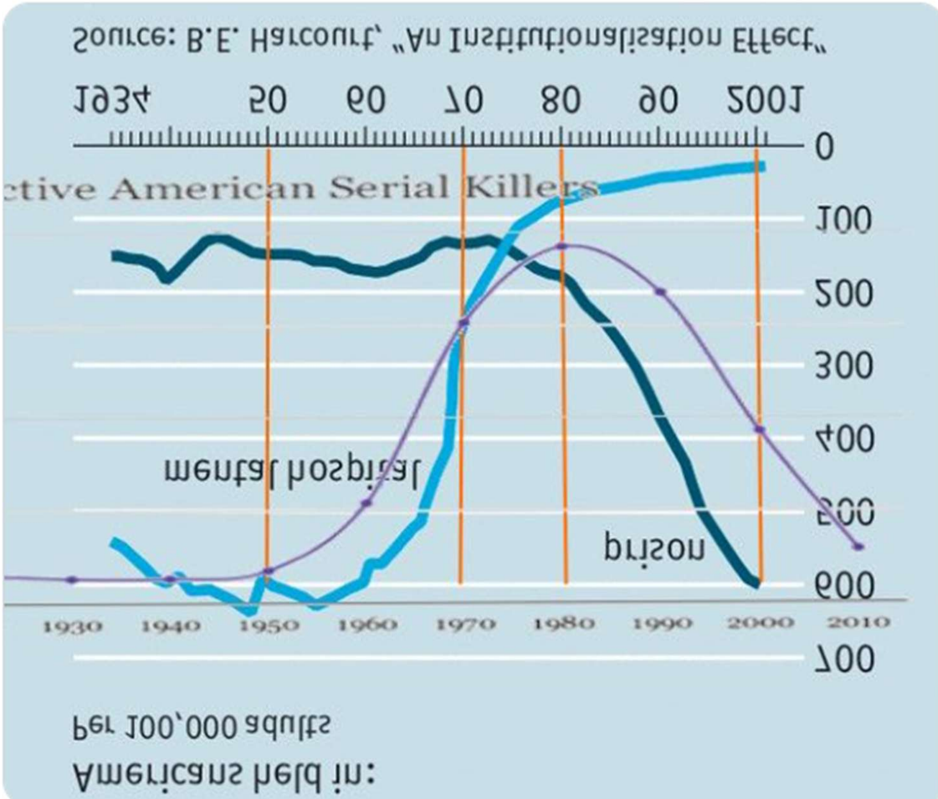
Forbes is under the microscope for how it conducts its financial advisor ratings among other "research." A top editor at Forbes has been fired because he accepted a $6mm "gift" from a research firm that was responsible for compiling some of the lists. In other words, the firm paid to have its customers ranked highly. The research firm stands by its use of the "gift" as it was simply an exchange between two individuals.

Coindesk ran an article detailing how some crypto traders took big losses when Bitcoin and Eth finally bounced this week. The story is pretty dumb…obviously short-sellers lost money, but they also had made a ton of money on the way down. What grabbed our attention was the complete lack of understanding by the author on how trading works. He writes that the short-seller lost money due to "five separate forced sales." After detailing some of the transactions that closed out his trade, the author states with some sort of dramatic posing, "By the end there were no buyers left for the last 1,417 ETH." Forced Sales? No buyers left? The short-seller was *forced to buy* not sell. If the lead news authority on all things crypto does not know the difference between buying and selling, it is no wonder that so many people get their clocks cleaned in this space. It is also worth noting that the platform (Hyperliquid…do not call it an exchange!) "Absorbed the last ETH position into a fund it keeps for exactly that purpose." Oh boy.

Being competitors in the crypto world can be rough business. Thousands of customer accounts at Kraken were frozen when sanctioned "funds" were detected across the platform. Kraken is a licensed and legitimate crypto platform in the US, so this was a big hit. Well, it turns out that all the sanctioned "funds" were sent from a sanctioned platform, HTX. In the crypto world, you can simply send anything to any crypto address (and you can tell which addresses are linked to which platforms). Most of these deposits were worth only a few cents. In other words, HTX sent the deposits in what is called a "dust attack" to make its competitor come under regulatory scrutiny.

- Chart Crime of the week

This one took a long time for us to figure out. Someone was trying to make the point that as the number of people in mental hospitals fell, the number of people in prison increased. Someone chimed in with this altered chart. They somehow took the mirror image of the original and added the purple line which is Active American Serial Killers. In other words, as people were let out of mental hospitals, the number of active serial killers jumped. But then as imprisoning people finally caught up, the number of active serial killers plummeted. We do not know if someone is making a political statement (there always seems to be a political statement), but we are still stuck on trying to decipher the mirror image. It is definitely a chartcrime, but we think it is pretty cool.



- Quick Hits
  - Political satire is now illegal in New Mexico. A new law states it is a crime to share “materially deceptive media that is likely to injure” a politician’s electoral chances.
  - “Anchors aweigh” is the proper phrase.
  - Oregon has suspended reading, writing, and math proficiency tests for high school graduation.
  - Harvey Mudd is the most expensive college in the US at $104,512 per year.
  - MLB players, managers, coaches, and umpires earn a “gold card” after eight years of service. The card provides them with free access to any and all MLB games.
  - There are about 5,000 clouded leopards in the world.
  - Australian dollar (AUD) denominated bonds issued by non-Australian entities are called “kangaroo” bonds.
  - Apparently, Saudi Arabia stopped funding LIV golf after seeing Sergio Garcia tear up a sign at the Masters.
  - The first non-Indian settlement in Las Vegas was established by Mormons.
  - The Mormon Church owns about 2mm acres in America.
  - The top 5 highest paid college football quarterbacks make more money than the top 5 rookie quarterbacks in the NFL ($25mm vs $18.6mm).
  - You will sometimes encounter a red quarter because it was once used in an arcade to test a machine…the owner wanted to make sure the $0.25 was not counted as revenue.
  - UT has the most expensive average ticket price in college football ($388!).
  - Northwestern somehow ranks #9 on the list with an average price of $248.
  - Dolly Parton had 25 #1 hits on the Top 100 for Country songs.

- Whitney Housont's rendition of "I will Always Love You" made Dolly about $10mm just in the 1990s. It is thought to be the fifth highest royalty pay out of all time and the largest over a short window.
- Irving Berlin's "White Christmas" tops the list with an estimated $66mm in Royalties.
- Bed, Bath & Beyond is now called Neighborhood Intelligence (Name Change!).
- The Iowa Attorney General is suing the California Attorney General for trying to block the Paramount/Warner Brothers merger.

TSLAQ: Musk is shutting down Tesla's solar roof tile business. This used to be one of the central themes in the pumping of Tesla stock. Musk promised that Tesla would be installing 1,000 solar roof systems a week. Of course, this business became a part of Tesla when Musk bought out Solar City which just so happened to be owned by his brother and cousins. Ultimately, Tesla installed about 3,000 roof systems *in total*. Musk still wants to be in the solar business…he is just shifting the promotion to focus on the novel concept of residential solar panels. Musk has declared that Tesla wants to build a solar panel factory outside of Houston. Apparently, the company has promised the facility will create and maintain almost 10k jobs. This would make it the largest solar manufacturing plant in the world (surpassing the massive Chinese factories that are essentially self-contained towns).

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