



Weekly Update

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- The narratives are swirling
- But it is still all about AI...Nvidia to the rescue
- But a confused Fed does not help
- Trading dynamics are the driving force, not fundamentals
- Not the Yen-carry trade again!
- Not all AI stocks are created equal
- Credit card data worsens slightly after some strong months
- Homebuyers are getting older (and have been for a long while)
- The economic divergence is not just in the US
- Christmas hiring looks glum (according to professional guessers)
- Foreclosures add to the woes in Housing
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week
- Positioning

	Last	5d %	YTD %	1yr %
S&P 500	6,642	-3.0%	13.9%	14.1%
QQQ	\$599.79	-3.4%	17.8%	20.6%
US 10 YR	4.14%	4.08%	4.57%	4.41%
USD/DXY	100.2	99.5	108.5	106.7
VIX	23.8%	17.5%	17.4%	16.9%
Oil	\$59.54	1.8%	-17.1%	-14.3%

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

** Oil is front month futures, beware

It is amazing how quickly narratives change these days. But as we have highlighted, we think the nervousness around the monetization of Artificial Intelligence is pushing and pulling the market's levers. For whatever reason, the market has been focused on the negative aspects of the AI trade. That is, the big spenders, the debt users, and those without any path to profitability (very legitimate worries). In what has been called another DeepSeek moment, China's Moonshot AI's "Kimi K2 Thinking" model is faster than any other model at a fraction of the price. Similar to when DeepSeek told the world back in January that it could outmaneuver the great powers of the West for only a few million dollars, people forget that making a model and being able to deploy it

at scale are vastly different things. On the contrary, Google's Gemini 3 release probably best shows what AI can do in an ecosystem. Connecting all the "distribution" channels of Google makes the experience interactive. Of course, competitors can only buy ads in this closed loop, not join it. Gemini's Antigravity platform makes coding for dummies come to life. Somehow, all this technical jargon that is normally over our head tends to make sense in the Google world. Or we could just look at Nvidia's earnings tonight. The commentary highlights include, "Blackwell sales are off the charts, and cloud GPUs are sold out. Compute demand keeps accelerating and compounding across training and inference – each growing exponentially. We've entered the virtuous cycle of AI. The AI ecosystem is scaling fast." Ok there might be some hyperbole in here...CEO Jensen Huang is not short on optimism. But as long as the central figures in this race (Nvidia and Google) are advancing rapidly, we are not worried about short-term narratives.

The volatility in Fed policy and the path for interest rates has also added another layer of uncertainty. That is, the Fed members seem to be focusing on the strong 3Q growth rather than the apparent wobbliness in 4Q. What is odder is that the Fed is erring on the side of caution that the economy is too strong for rate cuts. One would think caution would be on the other side of that argument (even if some of the mild weakness stems from the temporary shutdown and mild inflation is still a concern). Today's minutes from the Fed's October monetary policy meeting (FOMC) further damped rate cut enthusiasm...even as the government said it would not be releasing some of the October data including the Employment Report (we get September's report tomorrow). The probability of a cut in December is down to 32%. It was 94% just one month ago! In this short time period, the market has swung from viewing this economy as strong with rate cuts coming to this economy is weak with no more cuts coming.

There have been some ancillary storylines that have not helped the markets lately. We have talked about the increase in debt by some players in the AI trade. This week Amazon sold \$12b of debt. This is a drop in the bucket...for now. Credit Default Swaps on Oracle continue to move higher (CDS are insurance against bonds, so prices moving higher means it costs more to insure the debt in case of default). Private credit is back in the news. This time people are worried about Blue Owl. They have been involved in much of the financing of the add-on data centers. But this worry stems from the company rolling two Business Development Companies (BDC) together. This was an event six months in the making and should not have disturbed anyone in the market (not to mention, the shareholders voted against it). A slight uptick in credit card delinquencies also brought back the worries about the lower-end consumers.

But there are also some positive headlines that are not getting as much attention. The tariff noise has reversed direction. The US lowered tariffs on agricultural products across Latin America. And Switzerland got a deal to not much fanfare. The prospect of government helicopter money is gaining some traction. Affordability is the latest Trump administration theme (inflation be damned). With his approval rating at its lows, we expect some action. That said, most of the One Big Beautiful Bill's stimulative effects do not kick in until next year. These amount to the \$4k average tax refund we have referenced. And of course, the government is back open (yawn).

Ultimately, we think most of the action has been trading related. Hedge funds with gains on the year wanted to lock in gains. Individual investors (per AAIL, Schwab, and some other fund flow research) are supposedly not "buying the dip." Momentum traders and quantitative funds driven by Volatility (CTAs, Risk Parity, Vol Control, Stat-Arb to a lesser extent) are always "short gamma" and are emotionless when it comes to buying high and selling low. This is evident in the performance of the previous big winners...they are now the big losers. Look no further than crypto and its ongoing crash. The same goes for Fantasies & Frauds, Profitless Tech, SPACs, recent IPOs etc. And it would not be a semi-correction without all the chart gurus spewing their mumbo-jumbo (we think some technical analysis can be augmentative...blindly following the phases of the moon can be less rigorous). Last week we mentioned the fallacy of reading too much into any one trader's cryptic tweets. This

week, the Big Short's Michael Burry closed his hedge fund after disclosing short bets against Nvidia and Palantir (but he will still manage his own personal money).

For now, the economy is growing along with Earnings and Revenues. Inflation is moderating and/or normalizing. The AI ecosystem is still expanding (likely to have some hurdles or blow-ups down the road). The Fed is squarely in easing mode whether or not they deliver a cut in December. They are starting to expand the Fed balance sheet by slowing their Quantitative Tightening (which is the unwinding of their bond buying program). Who knows if we get the Santa Claus rally, but the macro and micro set ups are promising.

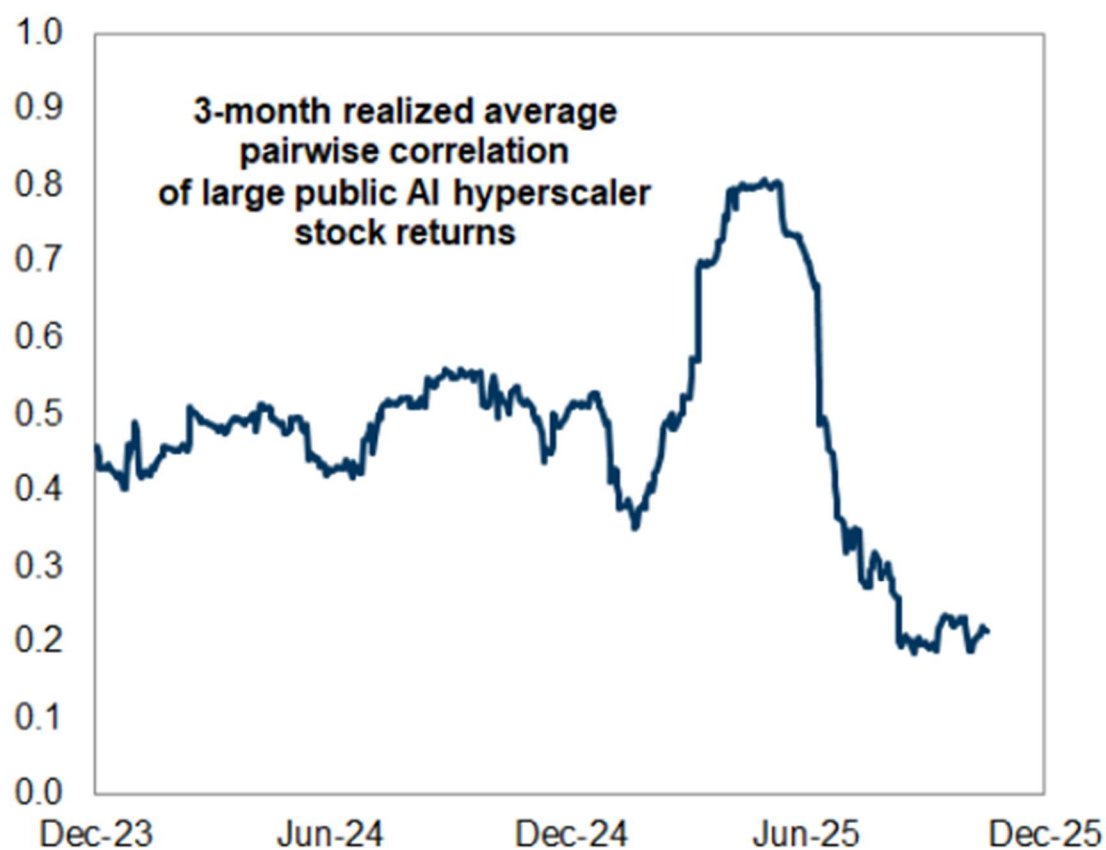
➤ Not the Yen-carry trade again!

Whenever we talk about Japan, it tends to be in a negative light. Ironically, we have traditionally made money on the long side in Japan. But it is when the country's macro picture gets a jolt that it reverberates around the world. Yes, that is right, we are back talking about the Yen-carry trade. For the last 30 years, funding in Japan has been cheap. Usually this has involved a combination of low relative interest rates (including negative rates at times...both nominal and real (inflation adjusted)) and a weak Japanese Yen (either against USD or EUR). These two (low rates and weak Yen) often go hand in hand. But the situation is a little different now...and this is why the market is caught off guard. It boils down to monetary policy and fiscal policy butting heads. The head of the Bank of Japan (BOJ), Kazuo Ueda, is worried about inflation. The BOJ hiked rates in 2024 and January of 2025, but they have taken a break. But now they have signaled that hikes are likely to resume next month or early next year. On the flip side, the new Prime Minister, Sanae Takaichi, wants to be aggressive with fiscal stimulus to ward off any slowing growth or unemployment. This has kept pressure on the Yen. This pressure has masked the viability of the Yen-carry trade. Traditionally, casual market watchers ("macro tourists" as they are called) just watched the Yen. But with the monetary side of the equation pushing rates higher, the spread of returns on foreign assets vs domestic Japanese assets has closed. So, the open spigot on a massive source of global liquidity (borrowing cheap in Japan to invest in better yielding assets) has slowly been tightening. We have not seen the August 2024 moment because the Yen is still weak. But a slow tightening can still cause the one-way trade to reverse. While we think Japan is in a tough position (it has a much higher debt to GDP ratio than the US...yikes), we think this current situation is short-term in nature.

➤ Not all AI stocks are created equal

Not all AI stocks are created equal. And even though the all-for-one narrative persists, the market is starting to discriminate appropriately. Correlation among the hyperscalers has collapsed.

hyperscalers include AMZN, GOOGL, META, MSFT, ORCL



Source: Goldman Sachs Global Investment Research

- Credit card data worsens slightly after some strong months

Here is the monthly credit card data we like reference in the opening salvo. While metrics worsened for most, one thing missing from the interpretation of the data is that August and September were strong months on a seasonal basis. We think it was only natural for this data to mean-revert a bit in October. We will watch for any trends.

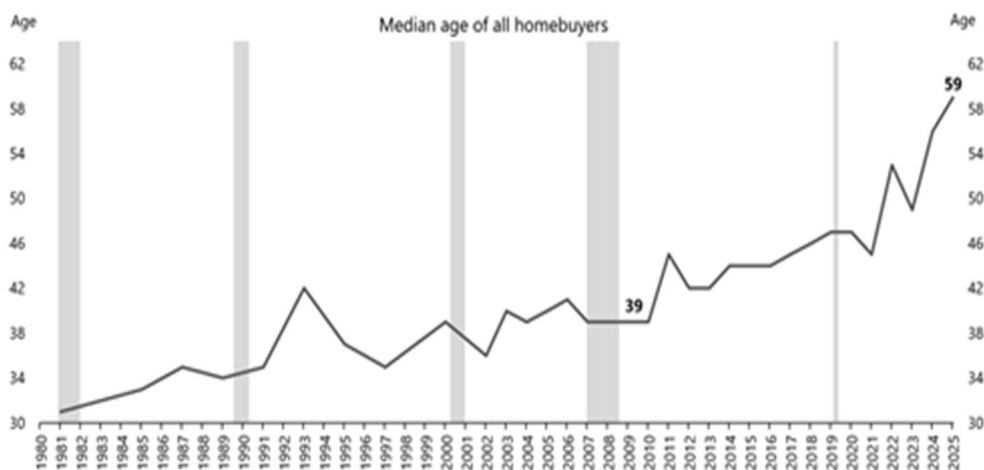
Company	Ticker	Type	2025				2019
			Oct.	Sept.	Aug.	3-month average	
Capital One*	[[COF]]	delinquency	3.99%	3.89%	3.73%	3.87%	3.79%
		charge-off	4.77%	4.35%	4.70%	4.61%	3.95%
American Express	[[AXP]]	delinquency	1.4%	1.4%	1.3%	1.37%	1.60%
		charge-off	2.2%	1.9%	2.0%	2.03%	2.30%
JPMorgan	[[JPM]]	delinquency	0.88%	0.85%	0.83%	0.85%	1.16%
		charge-off	1.44%	1.68%	1.78%	1.63%	1.61%
Synchrony	[[SYF]]	delinquency	4.5%	4.4%	4.3%	4.4%	4.5%
		adjusted charge-off	5.0%	5.1%	5.3%	5.1%	5.1%
Bread Financial	[[BFH]]	delinquency	6.1%	6.0%	5.8%	5.97%	5.90%
		charge-off	7.5%	6.9%	7.6%	7.33%	6.60%
Citigroup	[[C]]	delinquency	1.42%	1.38%	1.36%	1.39%	1.58%
		charge-off	1.95%	2.50%	2.38%	2.28%	2.61%
Bank of America	[[BAC]]	delinquency	1.38%	1.34%	1.36%	1.36%	1.62%
		charge-off	2.11%	2.46%	2.41%	2.33%	2.41%
		Avg. delinquency	2.81%	2.75%	2.67%	2.74%	2.88%
		Avg. charge-off	3.57%	3.56%	3.74%	3.62%	3.51%
		g. delinquency ex-B	2.26%	2.21%	2.15%	2.21%	2.38%
		vg. charge-off ex-BF	2.91%	3.00%	3.10%	3.00%	3.00%

*Capital One data includes Discover starting in June 2025; prior periods' data reflect Capital One card performance before its acquisition of Discover.

- Homebuyers are getting older (and have been for a long while)

We knew millennials and Gen-Y'ers were living in the basement, but we did not know this trend has been going on for 45 years! As we are thinking about buying homebuilders, does this trend tell us to avoid the entry level builders? We need to chew on this one.

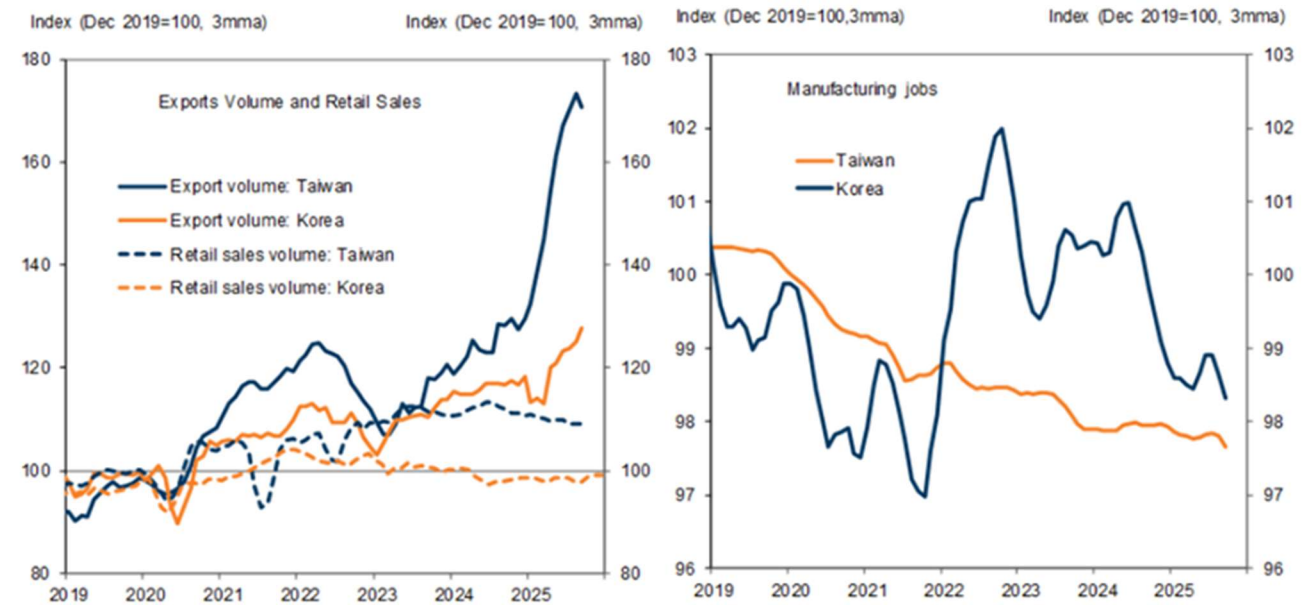
Median age of all US homebuyers: 59 years old



- The economic divergence is not just in the US

Taiwan and Korea are ramping up exports while losing Manufacturing jobs. Goldman uses the dreaded “K-shaped” term. While we believe this to be true, the corollary to this is the AI or productivity impact.

Exhibit 9: A K-shaped recovery--rising real exports but falling manufacturing jobs and weak retail sales



Source: Haver Analytics, Goldman Sachs Global Investment Research

➤ Christmas hiring looks glum (according to professional guessers)

Lots of professional guessers are proclaiming that seasonal holiday hiring will be slower than last year and below the pre-Virus Fear trend. The economist at the National Retail Federation is adding up what large companies have announced. They get a total between 265k-365k versus 442k last year. Indeed (the company) adds that Retail-related job postings have dropped 16% vs last year (October). The reasons given are tariffs, the government shutdown, and weak consumer sentiment. Holy Moly, they are hitting on the mighty triumvirate of fake news stories.

➤ Foreclosures add to the woes in Housing

We have long commented on the stagnant state of the Housing market (high prices, high supply, but low turnover). Adam, a property data firm, adds to the bad news with some new data on Foreclosures. In October, they jumped 19% vs last year. Foreclosure Starts jumped 20% vs last year. The overall number is still low at around 37k. But considering October was the eighth straight month of increases, the trend is worrisome. Florida and Cleveland have the most. Ultimately, we still need a bit of a washout to lower prices and kickstart turnover. Trump has floated the idea of forcing mortgages into being portable from bank to bank. This would be a cool idea, but it might be very difficult to implement.

(Poor Cleveland. During the Housing bust of 2008, after the banks foreclosed on properties, the same banks defaulted to the government. The taxes and general costs were more than the properties were worth. The city of Cleveland brought out the bulldozers and razed whole neighborhoods. About 6,000 houses were demolished.)

The Housing Market Index (aka homebuilder survey) is still full of pessimism. While Current Traffic and Current Conditions are miserable, 6-month Expectations are still above the breakeven level (although it did dip slightly).

Weekly Mortgage Applications fell 5%.

The average 30-year mortgage rate increased from 6.34% to 6.37%.

➤ Other economic data is mixed

The NY Fed's Empire Manufacturing index improved from 10.7 to 18.7 in November.

Construction Spending increased +0.2% in August vs July (August is not very helpful).

Factory Orders (for August again) increased +0.1%.

Initial Jobless Claims for the week ending Oct 18 moved higher to 232k. This compares to 219k as the last point in this series before the shutdown (Sept 20 is the reference date). 232k is about the media level for the last 6-8 weeks before the shutdown.

Redbook Retail Sales accelerated to +6.1%

➤ Where did all the crypto money go?

Maybe stablecoins are not so stable after all? A crypto platform called Stream Finance got caught with its hand in the cookie jar. Stream had a different version of stablecoin called a yield-bearing stablecoin. In Stream's case, it was offering a yield of 18%! Somehow, this Stream stablecoin was still supposed to be pegged to the USD. Well, you can only imagine what kind of investment strategies Stream was deploying in order to get this "guaranteed" 18%. Depositors found out quickly when one of the external investments lost \$93mm. The whole stablecoin base was \$200mm. The secondary trading value of the Stream coin went from about \$125 to about \$0.06. Poof...

➤ Chart Crime of the week

The chartcrime is not that this is the fuzziest, most illegible chart ever. But the top 10 only comprises nine cities! And why is Fargo included? It appears to be an outlier?



➤ Quick Hits

- Scorigami! Buffalo beat Tampa Bay 44-32 to make the 1095th unique score in NFL history.
- There is a company called Gopuff that apparently delivers cash to you from your bank account (they literally go to the ATM for you).
- Robinhood is looking to partner with Gopuff so you can take a margin loan in cash and have it delivered to you.
- Back in the mid 1990's, we had a Colombian broker that said he could get our stranded money out of Venezuela. He would go into the jungle with a duffle bag. We opted not to go down this route. Hindsight tells us that we should have!
- Target has a new holiday smile policy for their workers. If a customer walks within 10 feet of an employee, the worker must smile, make eye contact and wave. If the shopper enters a four-foot window, the worker must greet them and "initiate a warm helpful interaction." We will be avoiding Target at all costs this holiday season.
- One of the three parts of government that has been funded for the next year is Congress. They get paid even if the government shuts down all over again. Dept of Ag is another one which means we don't have to hear about SNAP for another 10 months. The Department of Veteran Affairs is the third one.
- Two things being considered for the next wave of government funding (before Jan 31) include allowing Senators to sue the government (?) and the airport trust fund can be used to pay air traffic controllers (we told you flight cancellations was a bridge too far for politicians).
- When a CEO returns to his former company, the average performance of that stock is 10.1% points worse per year than his original stint at the company.
- The Oakridge Boys sang back-up on Paul Simon's *Slip Sliding Away*.

- Mariah Carey's "All I want for Christmas is You" has already entered the Billboard Hot 100.
- There is a random guy on X that only replies to tweets that incorrectly use the term cement. He simply replies to strangers with "concrete."
- Russia supplies 20% of the enriched uranium used in US commercial nuclear reactors.
- The UK only has four oil refineries.
- The UK levies a 78% marginal tax rate on oil and gas producers.
- The UK Health security Agency recommends yoga and climate cafes to help alleviate anxiety and mental disorders stemming from climate change.
- A former Alaska Airlines pilot who tried to crash a plane while in flight with 83 passengers has been sentenced to time served (46 days).
- The company responsible for "Baby Shark" just IPO'd in Korea at a valuation of \$400.
- China is the global leader in the production of preserved mackerel.
- There are over 4,000 varieties of potatoes in Peru.
- Guinea pig is considered a delicacy in Peru. Here is our boots-on-the-ground contact's confirmation:



TSLAQ: Musk is looking to raise another \$15b for his xAI business. This raise will be made at a \$230b valuation. Earlier this year, the company was valued at \$115b! This mark came when Musk rolled X into xAI. The values were considered equal at that time. Tesla has long been rumored to be a buyer of xAI equity...no confirmation yet.

There is nothing nefarious in this story...you just never know which entity it going to come out on top inside of the Musk empire.

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