Weekly Update

19-August-2026

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- The market is quiet, but not underneath the surface
- The AI positive news should outweigh the negative
- All is not quiet on the macro front
- Is Treasury fighting the Fed? More likely acting in concert
- Earnings continue to accelerate and impress
- But does everyone already know that Earnings are great?
- Tax refunds have shifted from individuals to corporations
- Are the spenders running out of money?
- Maybe that lower Savings Rate is biting into Retail Sales
- Quick Hits
- Where did all the crypto/arena/academic money go?
- Chart Crime of the week
- Is this the Fed facing off with Treasury?

	Last	5d %	YTD %	1yr %
S&P 500	7,708	-0.5%	12.6%	20.2%
QQQ	$716.08	-1.1%	16.6%	25.8%
US 10 YR	4.65%	4.70%	4.17%	4.30%
USD/DXY	98.8	100.0	98.3	98.2
VIX	14.9%	14.6%	15.0%	15.7%
Oil	$85.71	2.9%	49.5%	37.7%

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

The markets seemingly took a breather after the manic activity during the summer. Of course, that is just a headline observation as the factors underneath the surface continue to swirl. Artificial Intelligence remains the central investing theme. As usual, the narratives blow back and forth just like the headlines. Typically, positive news has more meat to it than the negative stories. Anthropic's revenues are accelerating to a $65b rate (annualized, which we often scoff at, but we think there is truth here). Even OpenAI, which is turning into the red-headed stepchild in the AI race, claims that its enterprise revenue has surpassed that of ChatGPT. Marvel and Google are joining forces to make customized chips (but with more circularity…Nvidia's deal to remover the circularity only includes *its* place in the AI ecosystem). Even South Korea has found some footing as SK Hynix announced a $29b stock buyback (so it will not be blowing all its new-found revenues on building more capacity). But there are plenty of negative stories. Pennsylvania has joined the ranks of the states pushing back on datacenters. Of course, there are currently 0.0 datacenters in the state with only five permits issued. Yes, Josh Shapiro wants to run for President in 2028. There was also a story floating around how datacenters can only get insurance coverage for a fraction of their costs. We do not think this should be surprising (not to mention, the datacenters would rather spend money protecting their assets rather than paying outlandish premiums). But this is not to say the market ignores these shallow negatives. The Tech momentum factor dropped 9% on Tuesday. Conversely, Software has been on a tear ever since Leopold blew up (with Workday being the new leader as it is now a takeover candidate despite being a $47b company).

This is not to say all is quiet on the macro front. Long-term Treasury yields have continued to move higher. Most think it is a combination of runaway fiscal policy, a less accommodative Fed (in action and communication), and massive corporate issuance from the hyperscalers to fund the AI buildout. Along with the move in rates, the USD is starting to retreat again. And gold is moving higher along with other hard assets (including silver, but I must make sure Chalk Jr. is not around when I mention it). Even weak economic data (slowing Employment, Retail Sales, and Inflation) has not been enough to halt the move in the long end. But Treasury Secretary Bessent is watching this keenly. Putting actions behind his words (he has criticizing Janet Yellen for not issuing enough long-term debt when yields were zero…and he is right), Bessent will be buying back Treasury bonds as their yields are close to their highs of the last 20 years.

And, of course, the news involving Iran still changes on a weekly/daily basis. We do not think this means much in the medium-term, but it does add some volatility to the equation.

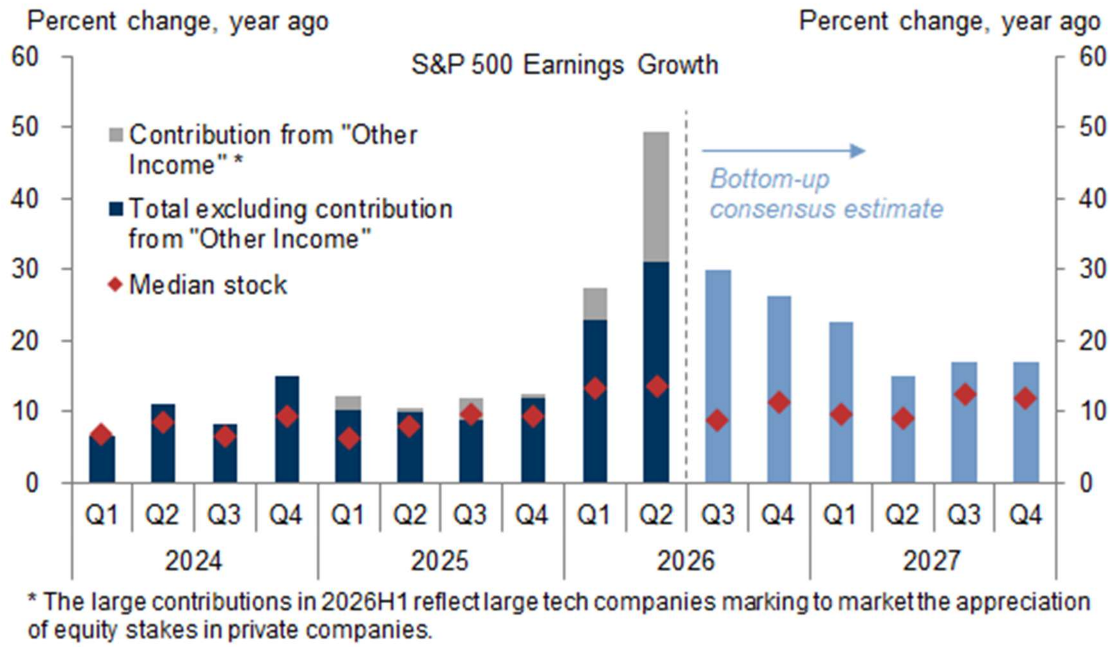
- Is Treasury fighting the Fed? More likely acting in concert

In a surprise move, Treasury announced that it is going to buy back some longer-dated Treasuries (10-30 years). Treasury will fund this "twist" by selling short-term bills (3-monthg and 6-month). This should flatten the yield curve by putting downward pressure on longer-term yields. While we think this is necessary to reaffirm the market's faith in the government's fiscal approach, on the surface it does contradict what we think new Fed Chairman Kevin Warsh wants to accomplish. That is, he wants to clean up the Fed balance sheet by stopping Quantitative Easing…he wants to stop buying bonds (and not just let expiring paper slowly roll off). Moreover, it goes against the K-shaped economy theory submitted by Ironisdes: Warsh wants to lower short term rates to help Main Street (credit card borrowers) while no longer extending cheap money to investors and asset holders (long-end borrowers). But this is no Mexican Standoff. We suspect Bessent and Warsh are acting in concert…or at least aware of the other. Each other's action will neutralize the others with the overall impact of a lowering of interest rates (the delta coming from a more reassured public/market and less volatility). (For clarity, Treasury cannot buy bonds in isolation. Only the Fed can do this.)

Of course, the Fed is certainly not on speaking terms with the public. The latest FOMC Minutes did not reveal any hidden clues from the last meeting. We know that three voters dissented and wanted to hike +0.25%. They think inflation, even ex-tariffs and ex-energy, is sticky high. Meanwhile, the nine that voted for no action think most of the recent inflation impulses have been temporary. They are still worried about a reemergence of higher prices. But for now, the data is on the side of the doves.

- Earnings continue to accelerate and impress

Q2 Earnings have now grown +31% after stripping out the one-time "other" gains derived from private equity stakes. This is up from +28% two weeks ago. And the median EPS growth is now at +14% (up from +12%). The equal-weighted EPS growth is slightly slower at 12.5% which means there is still some size bias in growth. GS says while we might hit a rate-of-change slowdown in 2027, the growth rates will still be above historical norms thus providing some stable footing.



Source: Standard & Poor's, Goldman Sachs Global Investment Research

Here are the Revenue growth rates:

Exhibit 7. 2026Q2 Blended (Reported & Estimated) Revenue Growth

Sector	Today	1 Jul	1 Apr	1 Jan
Consumer Discretionary	8.8%	7.2%	6.7%	5.9%
Consumer Staples	8.1%	7.4%	6.5%	5.7%
Energy	42.2%	23.8%	3.5%	-1.3%
Financials	13.8%	6.9%	6.1%	5.5%
Health Care	7.4%	4.6%	4.7%	4.9%
Industrials	11.8%	8.2%	6.7%	5.5%
Materials	9.6%	7.9%	5.1%	3.4%
Real Estate	11.8%	9.7%	8.2%	7.0%
Technology	35.6%	33.8%	26.5%	19.2%
Communication Services	12.8%	11.9%	11.0%	8.8%
Utilities	5.3%	8.5%	8.4%	7.4%
S&P 500	**15.4%**	**11.7%**	**8.7%**	**6.9%**

Source: LSEG I/B/E/S

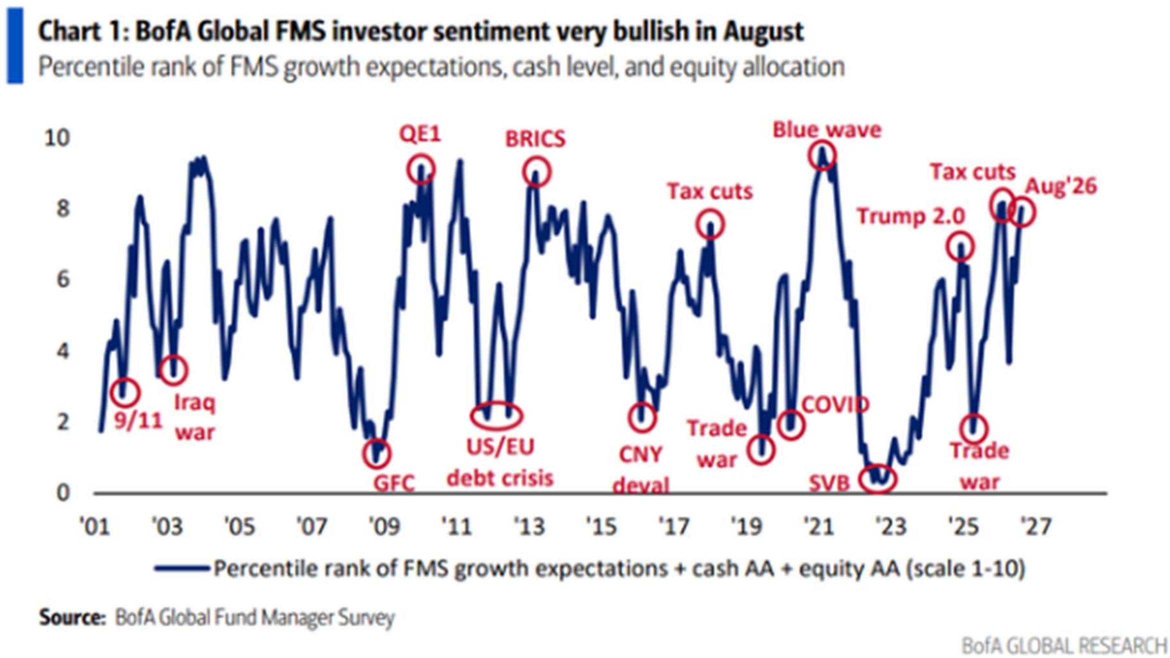
Exhibit 8. 2026Q2 Actual Revenue Growth

	S&P 500
Today	14.8%

Source: LSEG I/B/E/S

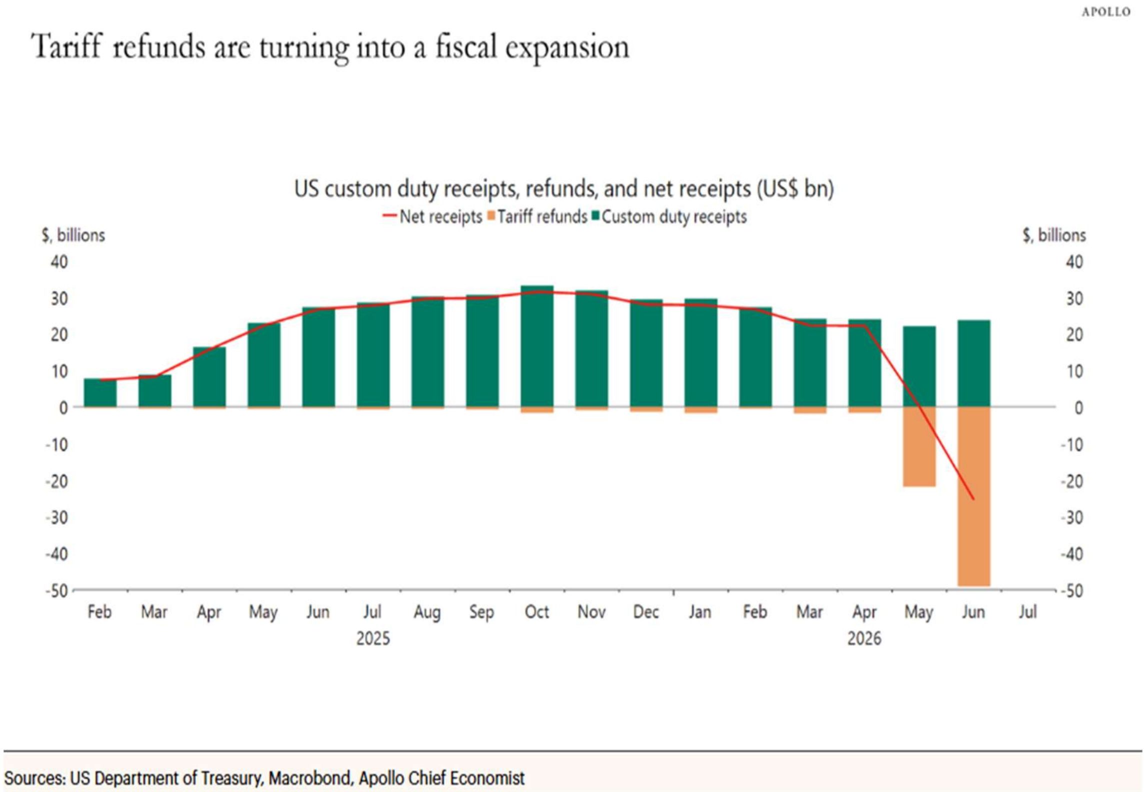
➢ But does everyone already know that Earnings are great?

With all the optimism around Earnings comes the crowded positioning. Merril Lynch's large Fund Manager Survey shows us that bullish allocations are near their extreme highs. And Cash levels are at their extreme lows (there is no such thing as aggregate cash levels, but it can apply with a limited and consistent subset of market participants). ML summarizes the broad view with, "no macro landing, no Fed hike, no AI capex cut, DEM sweep, and…no bears." ML makes the contrarian call to avoid adding risky assets. But our survey question would be: Was all the extreme bullishness washed out in July?



➢ Tax refunds have shifted from individuals to corporations

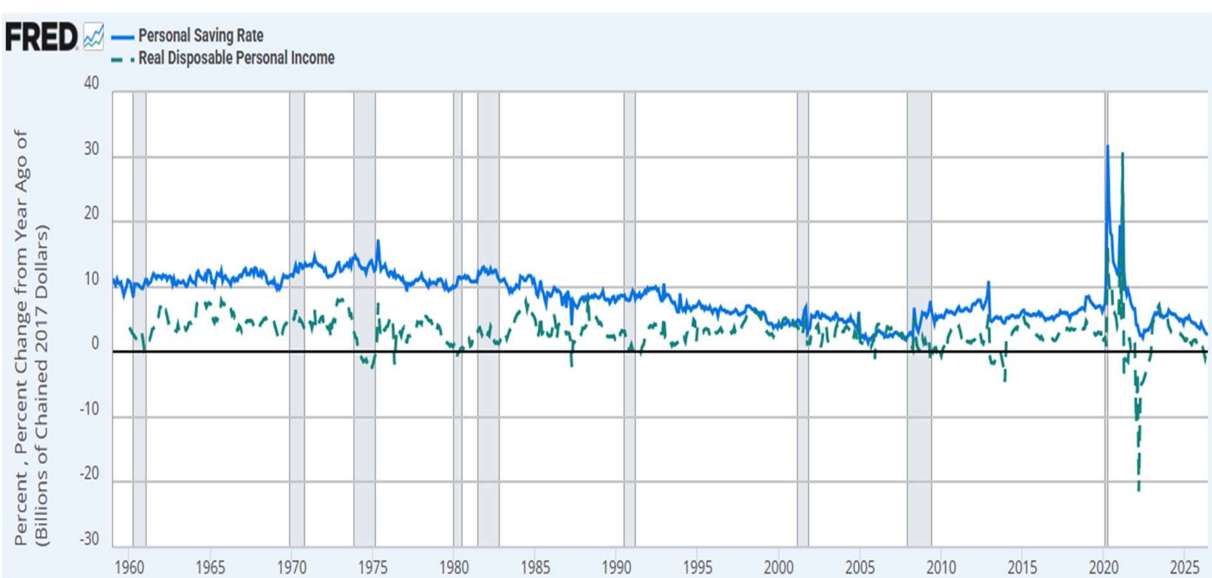
Many have noted that the economic tailwind that tax refunds provided earlier in the year is now in Lubbock (rearview mirror). But at the same time, tariff refunds are hitting the coffers of the companies that paid them last year. It is hard to gameplan anything with tariffs since the rules are always changing. But for now, these tariff refunds are taking over for tax refunds as an economic tailwind.



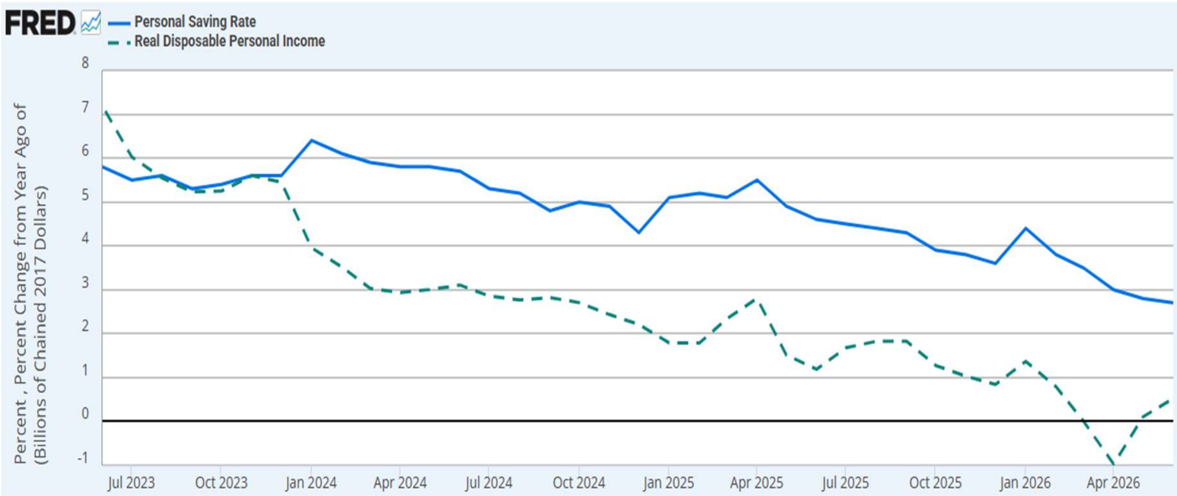
➢ Are the spenders running out of money?

One slow-moving trend that is getting worse is the Personal Savings Rate. Despite trending lower for almost 70 years (with a mini-resurgence post the 2008 Great Financial Crisis and excluding the Virus Fear lunacy), the trend has taken a marked turn lower in the last two years. At the same time, Real Disposable Income growth has slowed to a trickle. This is a bad combination. However, credit card metrics tell us that everything is still fine. Short-term borrowers are not being delinquent in repaying their loans much less defaulting on them.

Here is the long-term view of Savings (blue) and Real Disposable Income (green):



Here is a close-up of the 3-year trend:



Credit card metrics:

Company	Ticker	Type	July	June	May	3-month average	Jul. 2025	Jul. 2019
Capital One*	COF	delinquency	3.48%	3.39%	3.33%	3.40%	3.67%	3.49%
		charge-off	4.12%	4.37%	4.82%	4.44%	4.83%	4.25%
American Express	AXP	delinquency	1.10%	1.10%	1.10%	1.10%	1.30%	1.40%
		charge-off	1.70%	1.40%	2.00%	1.70%	2.00%	2.20%
JPMorgan	JPM	delinquency	0.81%	0.81%	0.82%	0.81%	0.86%	1.15%
		charge-off	1.58%	1.62%	1.73%	1.64%	1.54%	2.21%
Synchrony	SYF	delinquency	4.20%	4.20%	4.20%	4.20%	4.20%	4.10%
		adjusted charge-off	4.90%	5.20%	5.40%	5.17%	5.10%	5.40%
Bread Financial	BFH	delinquency	5.35%	5.25%	5.24%	5.28%	5.80%	5.50%
		charge-off	6.60%	6.88%	6.98%	6.82%	7.60%	5.70%
Citigroup	C	delinquency	1.32%	1.30%	1.29%	1.30%	1.42%	1.53%
		charge-off	1.90%	2.25%	2.28%	2.14%	2.07%	2.91%
Bank of America	BAC	delinquency	1.26%	1.28%	1.30%	1.28%	1.37%	1.57%
		charge-off	**2.13%**	**2.23%**	**2.19%**	**2.18%**	**2.25%**	**2.49%**
		Avg. delinquency	**2.50%**	**2.48%**	**2.47%**	**2.48%**	**2.66%**	**2.68%**
		Avg.charge-off	**3.28%**	**3.42%**	**3.63%**	**3.44%**	**3.63%**	**3.59%**
		Avg. delinquency ex-BFH	**2.03%**	**2.01%**	**2.01%**	**2.02%**	**2.14%**	**2.21%**
		Avg. charge-off ex-BFH	**2.72%**	**2.85%**	**3.07%**	**2.88%**	**2.97%**	**3.24%**

- Maybe that lower Savings Rate is biting into Retail Sales

Retail Sales in July slowed -0.6% vs +0.2% in June. The market was expecting them to increase +0.1%. E-commerce sales dropped -2.2%. Other spots of weakness were Motor Vehicles (-1.8%), Gas Stations (-0.9%), and Electronics (-0.5%). Clothing (+1.9%), Health & Personal Care (+0.7%) were the strongest. The important Control group did slightly better than the headline, but it still dropped -0.4% (and June was revised down a notch from +0.5% to +0.4%). This is the dataset that strips out those goods/services that are not part of the GDP calculation (Food Services, Auto Dealers, Building Materials, Gas Stations). Recall that Amazon's Prime Day was in June. This accounts for some of the weakness in July. But even after normalizing this spending, the trend is still lower. Inflation might be slowing, but high prices are still stinging.

(We acknowledge that Savings and Spending can sometimes zig and sometimes zag. If Savings is dropping, that could be a good sign for Spending! But in this case, we think the spenders are realizing they need to slow some of their spending as their Savings drops. But even then, a strong wealth effect might be enough to keep the spending going! This is one of the many conundrums right now.)

- Other economic data is mixed

U-Michigan's Consumer Sentiment fell back four points after staging a mini-recovery in June and July.

Inflation Expectations (1-year) increased slightly from +4.2% to +4.3%. The 5-year remained steady at +3.3%. (These are in the same U-Michigan survey).

Economic sentiment in Europe, however, is accelerating higher (according to Zew which just aggregates the professional guessers's guesses). Sentiment was strong to start the year, then it turned negative in March, April, and May (Iran). It has been positive and improving in June, July, and August. However, the subcomponent Current Conditions remains woefully weak.

The NY Fed's Empire Manufacturing index improved to 20.6 from 15.6. The NY Fed Services index has not been as strong, and it slipped to just above breakeven (8.7 to 0.5).

Industrial Production increased +0.2% in July vs June. This brings the annual gain to only +1.1%. Manufacturing Production is similar.

The Housing Market Index (aka homebuilder survey) ticked up a point which means it is still lousy (34 to 35). Builders have the most confidence in their six-month sales expectations, but it still is not great (43). 35% of builders cut prices in August. The average cut was 6%.

Housing Starts fell over -12% in July vs June. The annualized run-rate is down to 1.239mm. This is back near the lows of the last five years. On the bright side, Building Permits increased+5% to 1.443mm. But, Pending Home Sales fell -2.3% in July.

Mortgage Applications ticked lower.

The average 30-year mortgage rate remained steady at 6.77%.

Weekly Redbook Retail sales increased +7.6%. This was once considered a strong gain. But it is the rate-of-change slowdown from +11.4% in early July that is concerning.

The first weekly ADP employment change in August continues the same downward trajectory from July (only +9.5k, this data is a new series this year, but we thought the +30k in the spring was a strong sign).

Chinese economic data in July soured. Industrial Production only increased +4.5% vs +5.3% in June (+5.0% expected). Retail Sales grew +0.6% vs +1.0% in June (+1.5% expected). Fixed Asset Investment fell -6.7% vs -5.7% in June (-6.2% expected). The House Prive index declined -3.2% which is a hair better than -3.3% in June (not much solace in that 0.1% rate of change improvement). And the Unemployment Rate increased to 5.2% from 5.0%. Recall the communists stopped releasing the youth unemployment statistic a few years ago.

- Where did all the crypto/arena/academic money go?

The largest crypto "ramp" (platform) in the European Union, Revolut, has decided to remove tether USDT as an available and usable stablecoin. Tether is the largest stablecoin with almost $200b in assets. In theory, a large chunk of people who want to buy crypto or transact in it use a stablecoin as an intermediary currency. It basically just makes the otherwise arduous task of moving around the blockchain easy. For tether, it means it gets to hold a giant amount of real money. In theory, that cash is held in safe assets since it is immediately callable by the depositor. While Tether releases a partial rundown of its assets and they are always sure to proclaim that US Treasuries make up the bulk of their assets, they have also disclosed that they hold gold, Bitcoin, collateralized loans, corporate bonds, and private equity. In other words, your safe deposits are not so safe. If sketchy crypto platforms are deplatforming an asset, beware. (We think the rise of stablecoins is very real and the frictionless transactions are a net positive, but going down that road might be filled with some potholes.)

Somehow, Pokémon is all the rage on the blockchain these days. Crypto platforms are locating real world Pokémon cards that are deemed to have real value. They connect the real card to an NFT in the blockchain. You buy a random NFT, and you hope it is connected to a Pokémon card of real value. Apparently, primary trading volume (only counting new listings) was $290mm in July. Secondary market trading volume (yes, you can sell your NFT back to the platform…at a discount) almost reached $700mm in July. That is a billion dollars of real money buying fake assets that have a digital connection to a real-world fake asset.

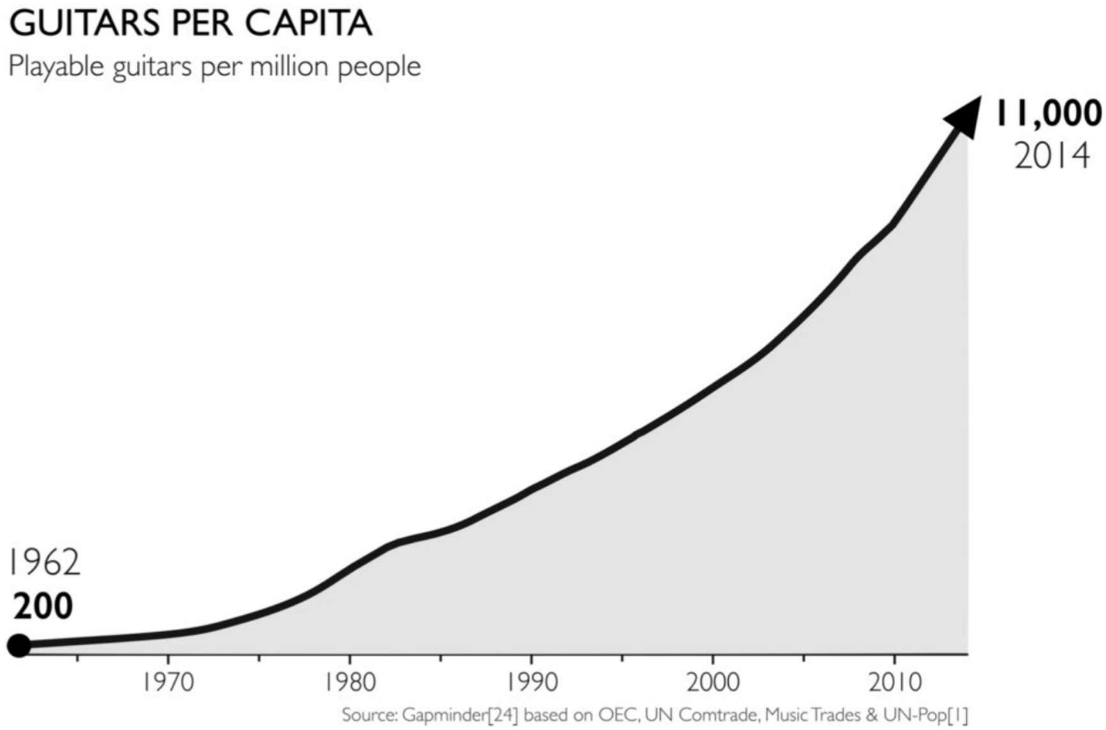
(We still think that NFTs can serve a valuable purpose in protecting intellectual property for artists, memorabilia, and other unique works. And all our homes will be tokenized one day. But most of this stuff today remains silly.)

We have a new addition to the sports arena naming curse (Enron and FTX will probably always be the posterchildren). The latest to fall victim to its own fleeting success is Gainbridge Arena in Indianapolis (the Pacers play there). This is one of the insurance companies controlled by Mark Walter. It (and he) has come under fire for self-dealing/intraparty loans. Walter borrowed a ton of money from his insurance companies to buy more stuff…like sports teams and Carvana stock. Unfortunately, in the heavily regulated world of insurance, you have to disclose this sort of stuff. He is now scrambling to pay back these shady loans with the proceeds from selling the Los Angeles Lakers and Chelsea Football Club – that is soccer (and who knows what else).

Harvard has settled a lawsuit brought by the families that had their corpses stolen. The cadavers were donated to the school for medical research. But an employee stole them and sold them. The school is paying $53mm. The employee was found guilty and sentenced to eight years in jail.

- Chart Crime of the week

This is surely not a chartcrime. But it still begs the question, why? Why is it true and why did someone care enough to create this? And why was it inserted into an X thread about Artificial Intelligence and the scaling of compute power?



- Quick Hits
  - When Jordan Spieth and Brian Harman were paired together during the PGA's St. Jude Classic, there was a lefthander playing right-handed and a right-hander playing left-handed.
  - The bourbon company Buffalo Trace is now making a body wash (oak barrel and amber scented).
  - Ferrari sold its first electric car, the widely panned Luce, for $40mm at Sotheby's auction. This is a record for a car. Ferrari is donating the proceeds to charity.
  - Colombia House, the direct-mail music company, is shutting down after 71 years. Through the years, it has been owned by CBS, Sony, Time Warner, Blackstone, BMG, JMCL, and Filmed Entertainment.
  - A Minnesota man has been arrested for a Medicaid fraud scheme. He previously won the state's "Outstanding Refugee" award.
  - There is a new battery company ($2b value) that converts rust into energy.
  - Harvard has a new grading policy aiming to limit the number of A grades given. No more than 20% (plus four more students) of a class can get an A
  - A couple of Harvard courses that might see their enrollments drop:
    Chocolate, Culture, and the Politics of Food
    Elves, Fairies, and UFOs: Dangerous Encounters with Otherworldly Beings in Folklore.
  - One way in which the CIA could tell if someone was a Russian spy was if they knew the capital of Illinois (the spies all studied hard enough to know it was Springfield…not Chicago like most Americans).
  - From 1927 to 1948, the size of the average donut hole shrunk from 1.5 inches to 3/8 of an inch.

TSLAQ: Musk's pinned tweet calls his Grok @Bot the "Chuck Norris of bots." He is referencing the fact that his Bot can pass the Google "I'm not a robot" test. This is that stupid configuration during which you must pick all the squares with a motorcycle or stoplight or whatever. Humans can rarely pass this thing on the first try! But the Grok @Bot can do it. Maybe Musk *is* saving humanity.

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