Weekly Update

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- Low Equity Vol but increasing macro uncertainty
- Our view in four charts
- Employment Report shows a weakening labor market
- Jobless Claims have been much higher than previously reported
- Inflation is cooling but not where it counts
- Lots of Fed speakers saying the same thing (with one exception)
- The Department of Energy is useless
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	4,092	0.0%	7.0%	-5.7%
QQQ	$313.00	-0.9%	17.7%	-7.5%
US 10 YR	3.41%	3.34%	3.88%	2.70%
USD/DXY	101.6	101.6	103.5	99.9
VIX	19.1%	20.0%	21.7%	22.7%
Oil	$83.23	3.3%	3.7%	-17.2%

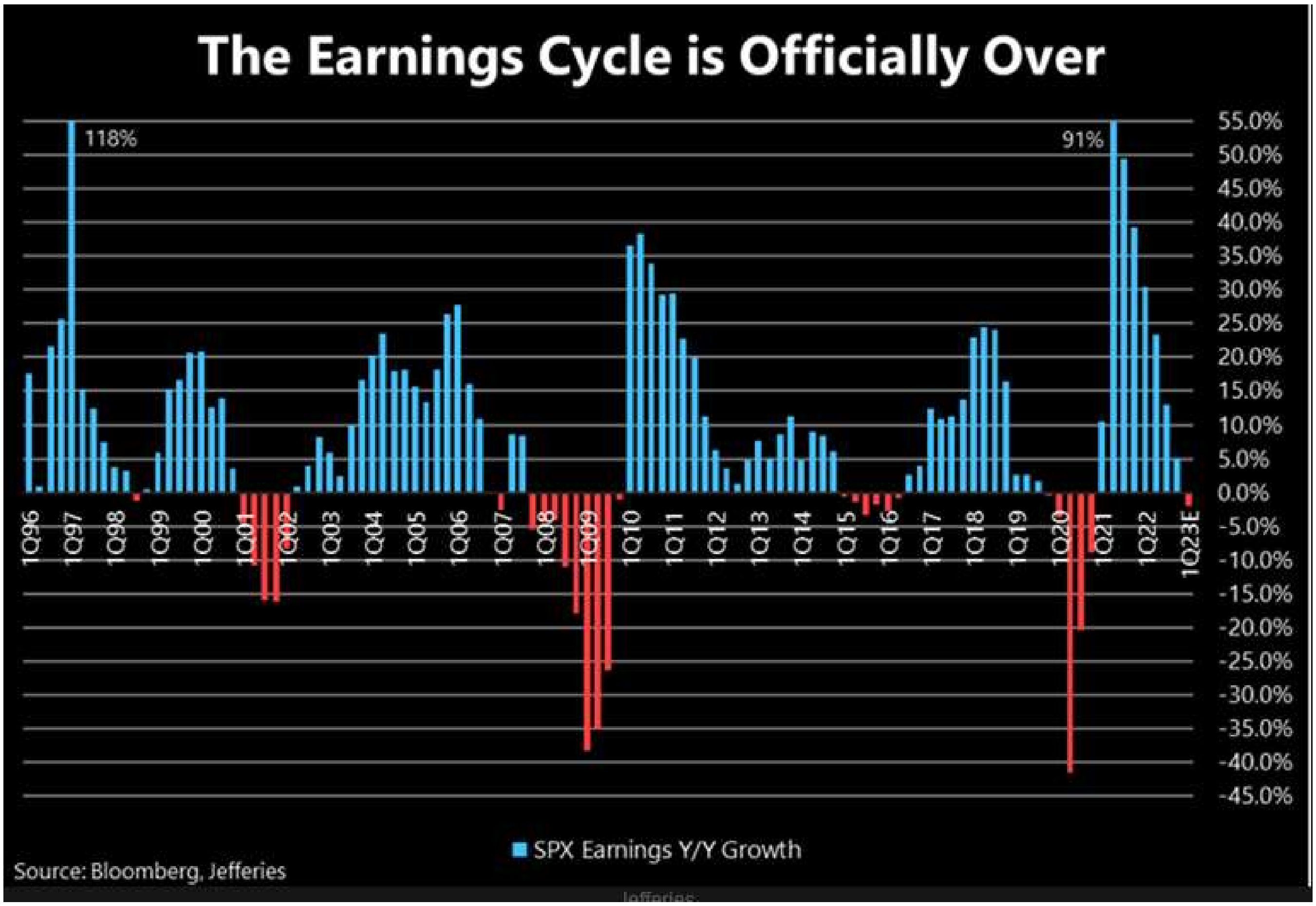
*10yr, DXY, and VIX are levels not changes
** Oil is front month futures, beware

The broad market has settled into a fairly tight trading range. However, this decrease in headline market volatility (VIX) is masking the moves under the surface with more sector rotations. And macro indicators are all over the board. Bizarrely, the market is expecting earnings to grow throughout the rest of the year while the economy is thought to be cooling. Gold has been rallying as a safe haven. But Big Tech acts like there will not be any economic recession much less an earnings recession. Commodities as an asset class are reflecting recessionary fears (ex-oil which has been boosted artificially by the Saudis). But risk-taking inspired by low interest rates is appearing in the shallowest of financial assets, crypto.

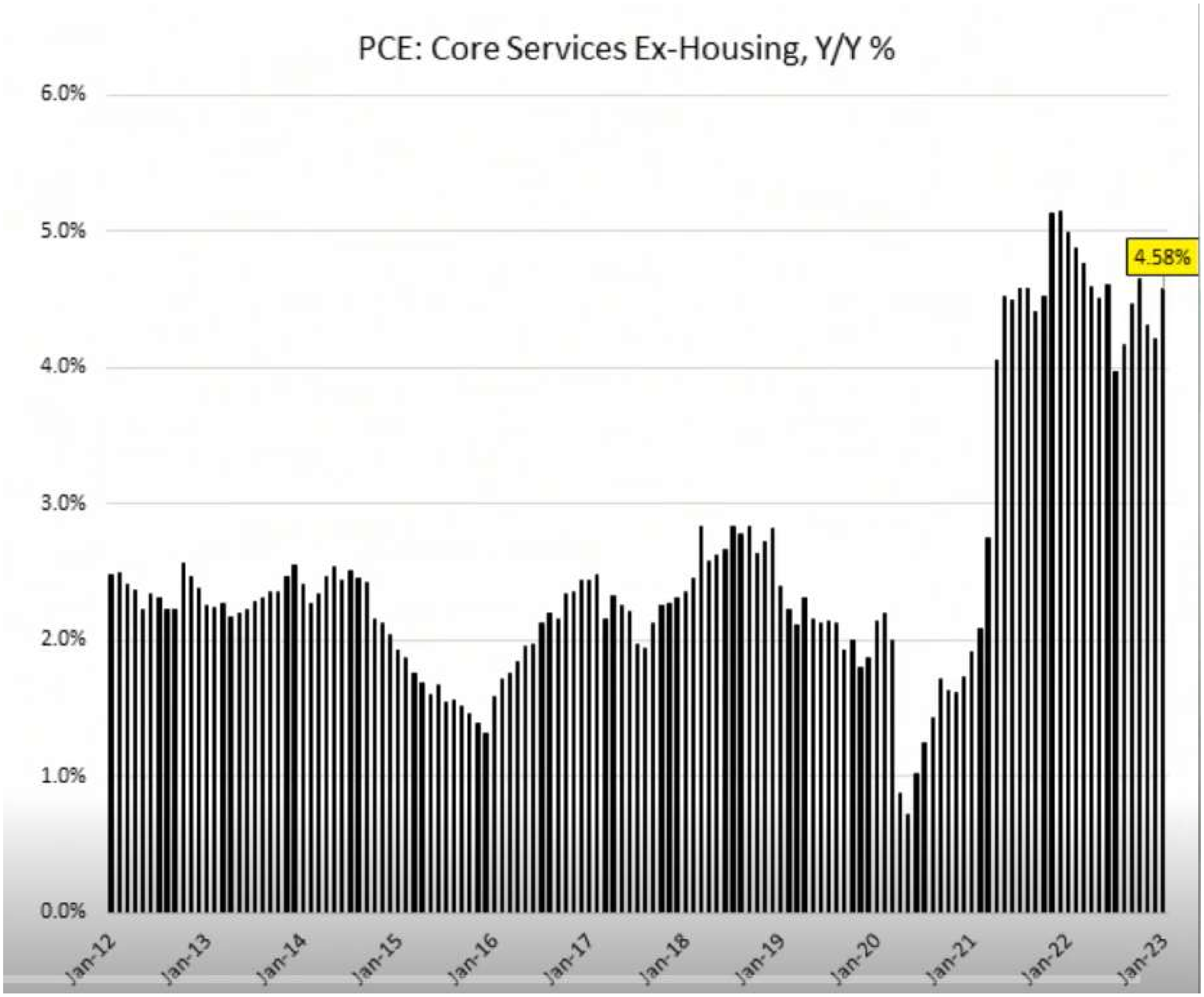
The equity market is still fixated on inflation and the Fed. It has been ignoring the slowdown in growth. But so far this month, we are seeing more Fed officials warn about higher rates for longer (nothing new here). The ECB is going to hike more than originally communicated. The US's labor market is showing more signs of slowing. And while headline inflation might look like the problem is abating, persistent pockets of high prices are a central worry to policy makers. And let us not forget, slowing growth with slowing inflation is a bad outcome for the market. If this inflation is volatile, this will only lead to further economic weakness.

- Our view in four charts

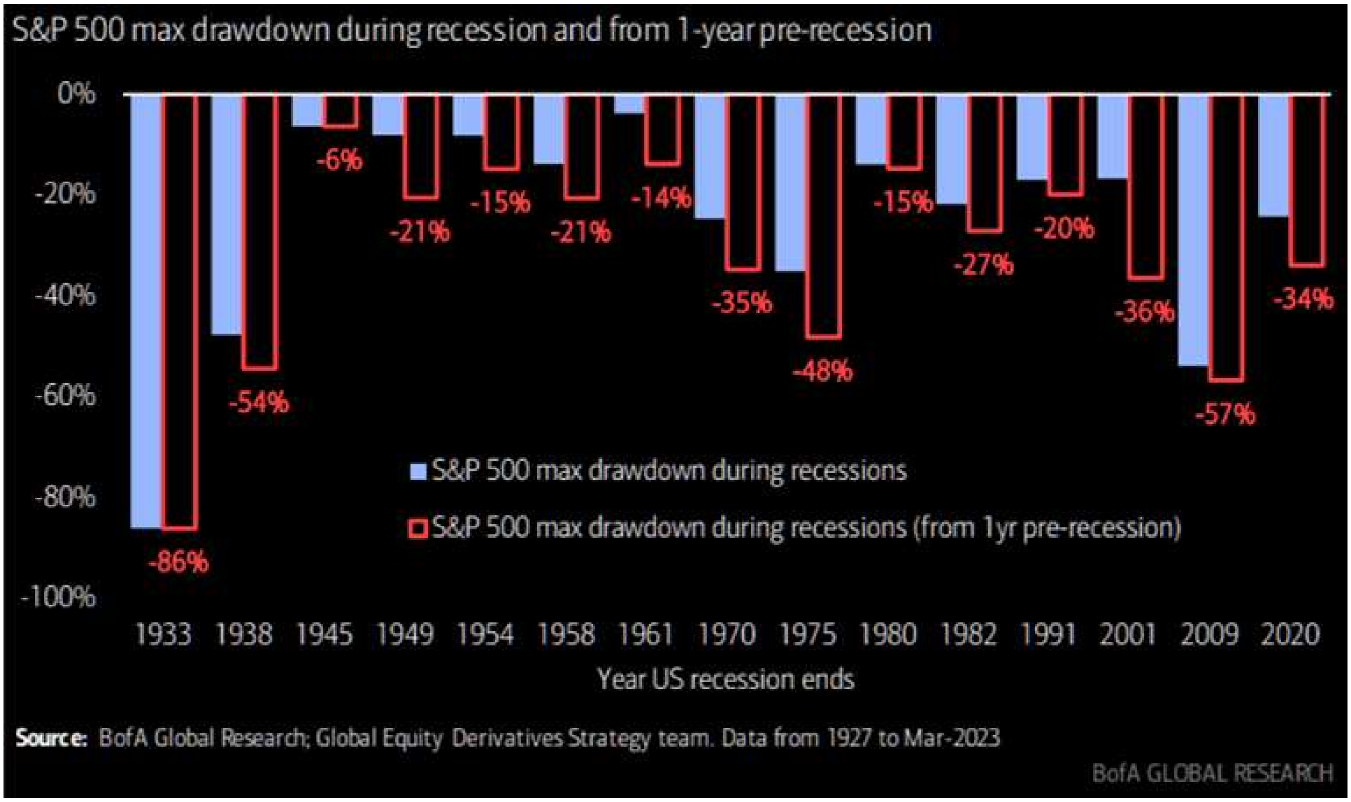
Earnings stink. While the bar has been lowered in the short-term, we are not buying the narrative that the consumer is in good shape and thus earnings will recover in the next quarter (ie now).



Despite our disdain for cherry picking inflation data, this Hedgeye cahrt shows we have a long way to go:



The market has always gone down during a recession:



Commercial real estate is not looking so good:

➢ Employment Report shows a weakening labor market

The Employment Report for March was just about as expected with a headline gain of 236k jobs added. February was revised up marginally from 311k to 326k. Private Payrolls were worse than expected as the ADP report predicted. The Unemployment Rate dropped a touch to 3.5% from 3.6%. The Participation Rate ticked higher to 62.6%. Average Hourly Earnings increased at a 0.3% monthly clip which brings the annual change to 4.2%. This monthly increase is a slight acceleration from February's 0.2%. Hours worked dipped a touch. In general, we think this data and the trends show that demand for labor and wage inflation are cooling…that is the good news for the Fed but not necessarily for the workers. The Fed is banking that it can continue to keep this wage inflation under wraps without crushing more of the demand for labor. One random observation: The Labor Participation rate among blacks is much higher than whites.

➢ Jobless Claims have been much higher than previously reported

Jobless Claims is always an important data…it is the most real-time of labor indicators. Of course, the data must be reliable to be of value. The Labor Department explains, "For consistency, the published seasonal factors are presented as multiplicative with additive factors converted to implicit multiplicative factors." Got it? In plain English, this means the Virus Fear messed with the traditional seasonality of Jobless Claims, so the government undid their tweaking during the panic. The takeaway is that the Labor market this year has been weaker than previously thought as Claims have been revised higher. The chart below does not include this morning's release showing new Claims of 239k. So that brief dip lower is no more.

Note: Initial claims for unemployment benefits, seasonally adjusted
Source: Bureau of Labor Statistics

➢ Inflation is cooling but not where it counts

The headline CPI for March showed prices increasing 0.1% vs February. This compares to the 0.4% increase in Feb vs Jan. The market was expecting prices to only cool to 0.3%. This brings the annual change to 5.0% vs 6.0% in Feb. "Core" prices did not cool as much as they lifted 0.4% vs the 0.5% in Feb. While we mock the notion of "core," we understand the need for it considering energy prices can be so volatile. The March data has this dropping 3.5% vs Feb. But we know that these prices have already reversed much higher given the move in oil prices (thanks a lot, Bin Salman). Food, on the other hand, remained dead flat (Food at Home experiencing deflation while Food away from home increasing strongly). But this monthly flatness is still an 8.5% increase on an annual basis. The other big detractor (after Energy) was Used Cars. The biggest increase was in Shelter. As we have been saying all along, our biggest worry in inflation is the volatility from one segment to the other. Even with a general disinflationary trend, it is incredibly difficult to make policy when things are moving so rapidly.

The Atlanta Fed Business Inflation Expectations slowed to 2.8% in April vs 3.1% in March.

- Other data is still bad
  - The ISM Services followed last week's ISM Manufacturing number…much lower than expected. It is still above the breakeven sentiment level (50). But it did drop from 55.4 to 51.2.
  - NFIB Small Business Optimism remains stable. But the subcomponent involving credit availability sunk sharply.
  - Mortgage Applications remain near their lowest level in 25 years. The volatility in interest rates is impacting the weekly data, but the trend is still broad-based weakness.
  - The Challenger Job Cuts report continues to move higher.
  - The Eurozone Services PMI zoomed higher in March. It hit 55, its highest level since May of last year. Oddly, Germany had a slower Services number while also having a much higher than expected Factory Orders and Industrial Production.

- Lots of Fed speakers saying the same thing (with one exception)

Loretta Mester of the Cleveland Fed, aka Carol Burnett, reiterated her stance to hike rates above 5%. She also wants to hold rates at restrictive levels "for some time."

John Williams proclaimed the Fed's work is not done.

Tom Barkin of the Richmond Fed laid out the view of the Fed. He said the "core" was top of mind. Demand is cooling but prices are remaining high. Without saying it directly, he is pushing for another rate hike in May (the two day meeting is 2nd-3rd). He also reiterated the need to be data dependent.

Mary Daly of the San Francisco Fed said they would likely have to raise rates further due to "persistently high inflation" and a strong economy.

But Austan Goolsbee, the new head of the Chicago Fed and ex Obama economist, thinks the Fed needs to exhibit some "prudence and patience." This is the first call for the Fed to wait on more rate hikes. We have always found Goolsbee likable (he is a Waco guy, after all). But he also seems to always be driven by emotion or politics and not data.

- The Department of Energy is useless

Energy Secretary Jennifer Granholm is starting to showcase her qualifications to be in the cabinet. When oil was at $85 last year, she said the US government would think about refilling the Strategic (Tactical?) Petroleum Reserve around $67-$70. When oil hit $65 in mid-March, she proclaimed the US was not going to be refilling the SPR any time soon. And, in fact, it would take years to replenish the country's emergency energy supply. Now that oil is back to $83, she says the US wants to start refilling the reserve if "prices are attractive." Meanwhile, the SPR actually decreased another 1.6mm barrels last week.

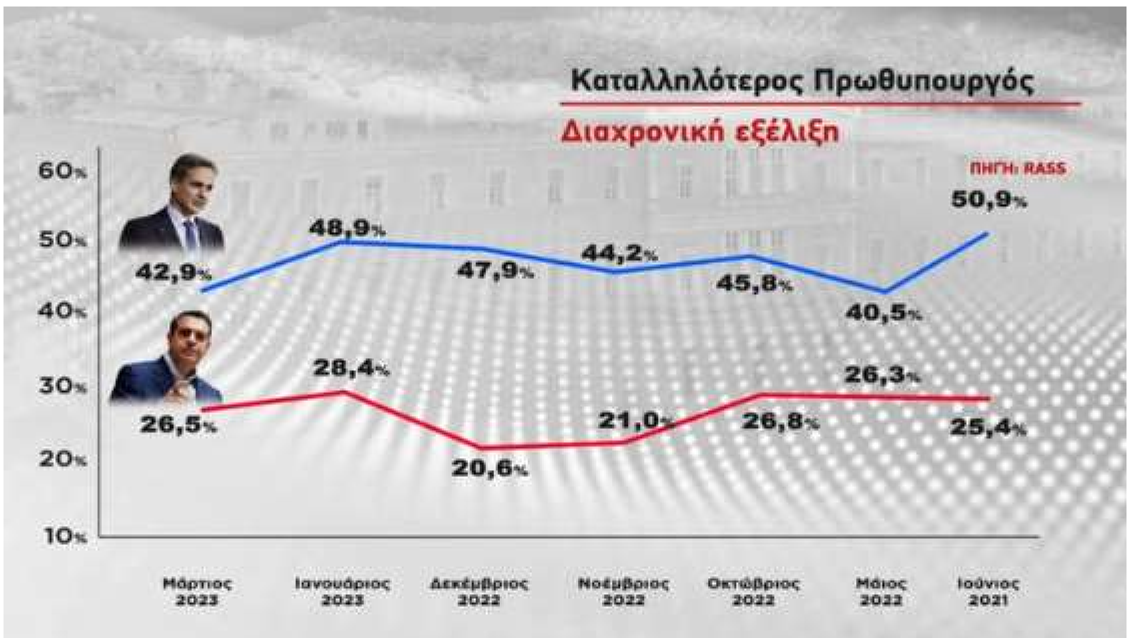
As we repeat, we do not understand why this department exists in the first place. We definitely do not understand how someone with zero energy experience (other than lecturing at Cal Berkley) can lead it. (This sounds political, but it is more of an indictment of crony politics.)

- Where did all the crypto money go?

We do have an idea to where the crypto money did *not* go. In FTX-related court documents, SBF and his cohorts took out billions in payments and loans right before the collapse. SBF picked up a cool $2.2b. Other officers received about a billion dollars. But Caroline Ellison, the co-CEO of Alameda Research…the FTX affiliate that did all the money losing and stealing…and occasional lover of SBF…only received $6mm. If nothing else, she could have a gender discrimination lawsuit to pursue.

- Chart Crime of the week

We love it when the media gets into the chartcrime business. This chart depicts the popularity of the current prime minister in Greece. But notice the x-axis…it is in reverse chronological order!



- Quick Hits
  - Chipotle successfully sued Sweetgreens to force it to change the name of its Chipotle Chicken Burrito Bowl.
  - The BBC and NPR are protesting Twitter's labeling these media outlets as "state-affliated" or "government funded."
  - 1.3mm Americans have top-secret security clearance.
  - One of the secrets to Chick Fil A is it uses much smaller birds than the traditional chicken sandwich places (4lbs birds vs almost 8lbs.).
  - The average number of parking spaces per 1,000 sq feet of new US office construction has fallen by almost 40% in the last 20 years.
  - Atlanta's airport is still the busiest in the world with a 28% lead in millions of passenger miles over #2 DFW.

- The Whole Foods in downtown San Francisco has been closed out of safety concerns for its workers.
- Walmart is closing four of its eight stores in Chicago because of "underperformance." None of the stores have ever turned a profit since they first opened 17 years ago.
- An insider trading scheme involving SPACs has bene uncovered. The Alleged tipper was paid by the tippee with private jet flights and luxury vacations. These guys must have never seen Goodfellas.

Trading: We continued to trim some of our Energy longs taking advantage of the artificial boost to oil prices thanks to the Saudis. As we have been saying, we are still positive on the sector in the medium to long-term. But there could be some short-term headwinds because of the slowing economy. We did not do much with our options. The year-to-date rally has eroded much of the value. We want to reload…and we will…but we need to see the risk-taking environment cool. Perhaps the beginning of earnings season later this week will be the tell-tale sign.

TSLAQ: Reporters did some investigative journalism and discovered that Tesla employees have been viewing and sharing video footage from customers's car cameras. These include a child being hit by a car, a naked man walking to his own car, and inside Musk's garage.

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