Weekly Update

20-December-2023
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- Interest rates go lower, but for how long?
- Bank lending is still slowing, but it is still positive
- Retail Sales dominated by drinking
- The recent Housing weakness (in sales) might be stabilizing
- China data is better, but not where it counts (real estate)
- Global Central bankers are not in lockstep
- The Red Sea is a problem, but oil prices were also due a bounce
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	4,698	0.2%	24.2%	24.9%
QQQ	$403.06	0.0%	52.3%	50.4%
US 10 YR	3.85%	4.03%	3.75%	3.67%
USD/DXY	102.4	102.9	104.5	104.4
VIX	13.7%	12.2%	22.9%	20.1%
Oil	$73.77	5.7%	-7.5%	-2.5%

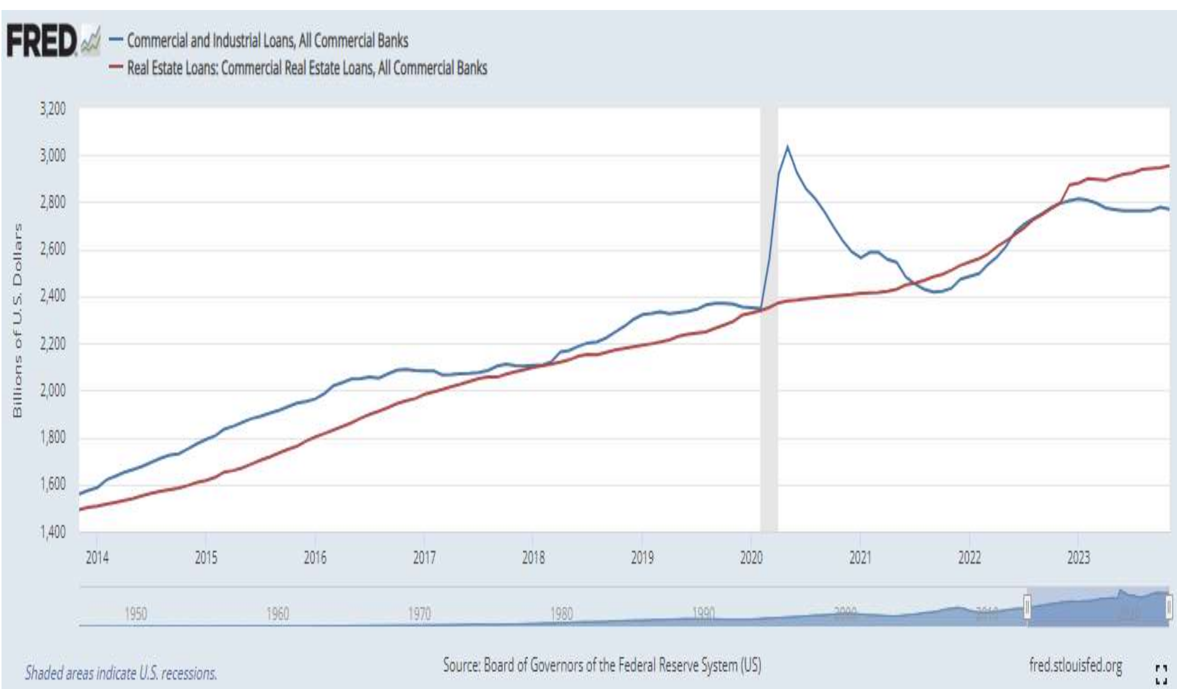
*10yr, DXY, and VIX are levels not changes
** Oil is front month futures, beware

The headline moves for the last week indicate a quiet, pre-holiday market environment. But the moves under the surface were more volatile. The broad sentiment was driven by cooling interest rates after Fed chairman Powell seemingly gave the all-clear for rate cuts next year. But the action saw some toggling between the top mega caps and the rest of the market. And the complete junk stocks were still the best performers (Long/Short hedge funds had their worst two-day stretch since March of 2020). Today, the market experienced its first real down day since this rally started in late October. CNBC dubbed the market as having been "too tightly wound" which makes some sense. Maybe it was traders acknowledging the great divide between the Fed's expectations and the market's. As we have discussed, the "dot plot" shows a median forecast (of all the Fed members) of the Fed Funds target rate by the end of 2024 sits at 4.60%. The market's expectation (there is literally a tradeable market for this) is around 3.90%. This was 5.1% as recently as September. Something has gotta give. Two Fed members did make strong statements that rate cuts were not being discussed presently. But considering the two highest "dots" from December are much lower than the two highest from September (6.1% and 5.6% down to two at 5.4%), we think this is mostly semantics and/or timing. One other important line from Powell last week was, "You're getting now back to the point where both mandates are important." He means the Fed has been focusing on inflation for almost two years. But now it is also considering its other mandate, a strong economy (full employment, technically). This gives more credence to the rate-cut camp. Of course, history tells us that rate cuts usually come too late…the economy is already struggling. We have been big believers of this. But we must acknowledge that time can do a lot of work to help muddle through weak spots in the economy. Put another way, the long and varied lags of monetary policy are not infinite. And the Fed is not alone in its diminishing fear of inflation. The latest WSJ poll indicates voters do not care as much about Inflation: It is a distant fourth with 7%. The Economy is still #1 with 21%. Immigration is 2nd at 13%.

Our base case remains mild economic weakness with strong companies becoming stronger (rich get richer) and interest rate sensitive zombies go back into their graves.

- Bank lending is still slowing, but it is still positive

The Fed's weekly report on bank lending shows a further slowdown in lending. Or at least that is the narrative from the uber bears out there. The rate of change is slowing again (it seemed to level off in November, but it has resumed its slowing speed). But it is still positive! All of the categories of lending are following this trend (Commercial & Industrial, Credit Card, Commercial Real Estate, Auto), but even this trend might be somewhat misleading. The rise of private credit and another nonbank lending are likely filling the gaps. This fits our "muddle through" theory. If the economy can survive and extend this mild slowing, then it can power through the other side. But we also think this data is not clear cut. Credit cards and auto loans are likely in much worse shape than business loans. The lower end consumer might have more trouble with this slowing economy than others (not a shocking revelation!). Here is a 10-year chart of Commercial & Industrial and Commercial Real Estate loans.



- Retail Sales dominated by drinking

Retail Sales increased 0.3% in November vs the -0.2% decline in October. In a nutshell, people drank more. So they shopped online and drove less.

Autos and parts were strong (this data is often excluded from adjusted readings). Food Services & Drinking Places was the biggest gainer with a 1.6% increase. Gas Stations was the biggest decliner at -2.9%. Electronics was also a bad category with a 1.1% drop. Furniture and Home Furnishings turned positive surprisingly. Nonstore Retailers (+1.0%) far outpaced Department Stores (-2.5%).

Much of this data is consistent when you look at it against November of 2022. For example, Food Services and Nonstore Retailers are both up a lot over the year (+11.3% and 10.6%). But there are two notable outliers: Electronics is up 12% (vs the -1.1% monthly loss), and Furniture is down -7.3% (vs the +0.9% monthly gain). We think both categories will remain under pressure given the still low housing turnover.

The weekly Redbook Retail Sales increased 3.6% up from 3.4% last week.

- The recent Housing weakness (in sales) might be stabilizing

The Housing Market Index improved for the first time since its recent downturn began in August. We do not have a position in Housing right now, but it is obviously one of the engines of the economy. We have stayed away from the Housing stocks because of the severe negativity in this survey despite the otherwise positive set up (high mortgage rates are suppressing secondary house turnover which boosts the value of new houses). But this survey covers 900 builders. It makes sense to us that the majority of these builders could be suffering (in a bad regional market, input inflation, worker shortages, etc) while the mega builders reap the benefits of scale.

Following on the heels of the improved home builder sentiment, Housing Starts jumped in November. The annualized rate increased by over 200k houses since October (1.359m to 1.56mm). Single Family Homes led the charge, but Multifamily did well, also. But the data is not all rosy. Mortgage subsidies and price cuts/incentives are helping drive the increase. And Building Permits slowed a bit. But they remain steady.

Existing Home Sales in November increased slightly from October. This stops a nine-month slide after hitting its recent peak in February of this year. The median home price increased 4% to $387,600.

Weekly Mortgage Applications dipped slightly after six weeks of gains.

- Other economic data is mixed
  - Weekly Jobless Claims fell 19k to 202k. But Continuing Claims increased 20k to 1876k.
  - Business Inventories fell 0.1% in October (this series has been volatile, so it does not tell us much right now).
  - Retail Inventories fell 0.9%. This series has been more sluggish, so it is more signaling. (Consumers are buying, but businesses do not believe it will last).
  - The New York Empire Manufacturing Index sank bank into negative territory. This data series has been very volatile month to month.
  - Industrial Production in November increased 0.2% which is a bounce back from the -0.9% drop in October. Manufacturing drove the improvement.
  - The Flash readings for the S&P PMIs diverged. Manufacturing fell over a point (more negative at 48.2) while the Services improved half a point to 51.3.
  - December Consumer Confidence shot higher to almost 111 from 101. This survey focuses on employment (whereas Consumer Sentiment focuses on inflation.)

- China data is better, but not where it counts (real estate)

Chinese industrial Production increased to 6.6% in November vs 4.6% in October (annual numbers). Retail Sales increased to 10.1% from 7.6%. Fixed Asset Investment remained steady at 2.9%. Probably most importantly, Housing Prices fell again. They have had one positive month in about two years.

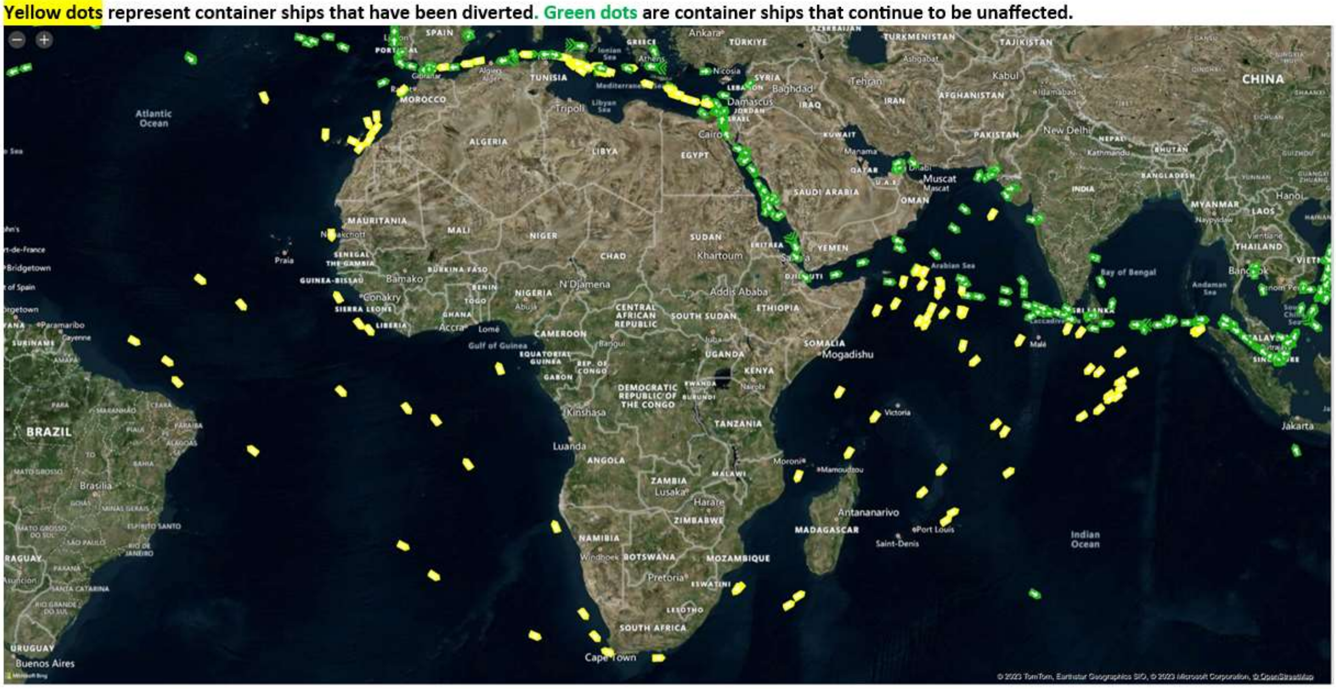
- Global Central bankers are not in lockstep

Central bankers are a little more divided than usual…they tend to move in lockstep as much as they can. The Fed typically leads the charge. But the European Central Bank did not even discuss rate cuts at its last meeting. The ECB chief Lagarde said, "There is a whole plateau of "hold" in between hike and cut." (Stop the presses, we agree with a European central banker!). On the flip side, quickly shrinking inflation in the UK is likely to give the Bank of England room for a rut. The market is putting the odds of a March cut at 50%. It is pricing it as a done deal by May. And we have noted the mixed messages delivered by the Bank of Japan lately. The off-the-record reports appear to be the correct…the BOJ held interest rates steady (still negative!). Moreover, Governor Ueda did not indicate there would be any monetary policy tightening coming around the corner. The Yen weakened (the USDJPY strengthened), bond rates fell, and the Nikkei (equity index) strengthened. Also, with the Fed cutting, there is less of a need for the BOJ to hike (as the spread between the rates will narrow with the US cutting).

- The Red Sea is a problem, but oil prices were also due a bounce

The headline mover on oil prices is the increased terrorist activity in the Red Sea. This is likely more noise than reality (yes tankers are being diverted, see below, and freight prices are climbing higher). Obviously, the Iranians are turning up the pressure on the US/West in the wake of the attack on Israel. But oil prices were probably "over sold" insofar as the short-term futures market is dominated by financial players (not actual energy merchants). And these momentum traders know rate cuts and a softer dollar will be headwinds, so they book their profits when they can. Our friends at BTIG sent us this.

Yellow dots represent container ships that have been diverted. Green dots are container ships that continue to be unaffected.



- Where did all the crypto money go?

Apparently, many “top tier Apes” have been stolen. These NFTs, nonfungible tokens for those that have forgotten about these relics of the crypto boom, had their ownership addresses hacked and changed. It happened on one “exchange” (do not call it an exchange!). These Apes had values around $60k each. It looks like millions of dollars in total.

Obviously, valuing things like this with these absurd prices is silly. But we have stated and still believe that NFTs have some value in the art world. They are more above board than silly tokens created by fraudsters with the only intent being to steal.

- Chart Crime of the week

If you need to know the dietary breakdown of Amerindians, this will not help.

- Quick Hits
    - MLB phenom Shohei Ohtani selected LA over San Francisco partly because of the deterioration of San Francisco the city (according to his agent).
    - Ohtani also has a “key man” escape clause. If the principal owner or president of the club leave, Ohtani can opt out of his contract.
    - Scorigami! The Raiders demolishing of the Chargers 63-21 is the 1083rd unique final score in NFL History.
    - Falcons, the birds, are issued passports in the UAE and elsewhere in the Middle East.
    - A bull, a literal bull, was spotted running down the train tracks in Penn Station.
    - The academic “research” that claimed Hamas shorted the Israeli stock market has been completely debunked.
    - Billionaire Bill Ackman gave Harvard $10mm in some pre-IPO stock. He also gave Harvard a Put option on the stock at $10mm. If the pre-IPO stock collapsed, Harvard would still get its $10mm. So, Harvard had all the upside and zero upside. Instead, Harvard decided to sell the stock in the pre-IPO market at the same $10mm…thus giving away the upside. When the stock was listed publicly, it was worth $85mm.

- 26% of the Cleveland Browns salary cap is on injured Reserve.
- The annual chicken consumption per person in the US in 1965 was 33lbs. Today it is 100lbs.

Trading: We added slightly to some positions. But we are mostly holding tight. We still have our large cash position and a small pit of Put protection.   So we are bar-belled in that regard. We also have some barbell positioning within our long equities: Big Tech juxtaposed with Energy, Staples, and Health Care.

TSLAQ: Apparently, Elon still has some friends in the government. The NHTSA is allowing minor corrections to the faulty vaporware sold as Full Self Driving (or Autopilot). These include, "Improved visibility of driver monitoring warning alerts on the touchscreen by increasing the text size…"

On the other hand, there is intensifying scrutiny on Tesla's complete disregard for defective parts and other mechanical failures. There is starting to be some mainstream pushback (the underbelly of TSLAQ has been clamoring about this for years!) on Tesla's quietly dismissing these claims as "driver abuse." We doubt this will amount to much on its own. But just add it to the list of growing gripes that might one day convince investors that Tesla is, indeed, just a crappy car company.

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