Chalk Creek Partners LLC

Registered Investment Advisor

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- Market breaks out (again) on no news?
- Earnings off to a bumpy start despite good earnings
- Chinese consumer behavior is telling us we have a long way to go
- It is all Intangible Assets now a days (not ball bearings)
- Shaq SPAC Attack
- Big City Recession
- Click here for the full note

	Last	5d %	YTD %	1yr %
SPX	3489	2.0%	8.0%	17.6%
QQQ	292.1	4.3%	37.4%	52.8%
US 10 YR	0.73%	0.78%	1.88%	1.77%
VIX	26.4%	28.1%	23.2%	13.5%
Oil	39.98	2.8%	-32.8%	-23.4%

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

The market snapped out of its recent trading range with a vengeance. There was some pro-stimulus talk that might have helped propel the Nasdaq almost back to all-time highs. But we think the lack of news was actually the catalyst! Apple had a 6.5% rally on Monday ahead of its new product reveal on Tuesday. Nobody expected any cool new form factors…and there were none revealed. Amazon rallied 5% ahead of its Prime Day event…usually a mundane event for the stock. It seems like it was just a momentum fest without any virus stories (vaccine trial delays notwithstanding), political noise, or influential economic data to get in the way. To this end, we even got "the mystery Call option buyer is back in the market" story. On the other hand, news of AMD trying to buy Xilinx is a concrete positive (M&A, merger and acquisitions, is always seen as a positive).

- Earnings off to a bumpy start despite good earnings

Away from the momentum chasing fluff in the market, we had some undeserving bearishness on the earnings front. The Financials started reporting 3Q earnings. They have all delivered much smaller loan-loss provisions (expecting fewer loan defaults) and strong trading revenues. But apparently the market now cares about low interest rates and the pressure on net interest margins (difference between deposit rates and loan rates). In other words, the market narrative has shifted to the only real negative for the space.

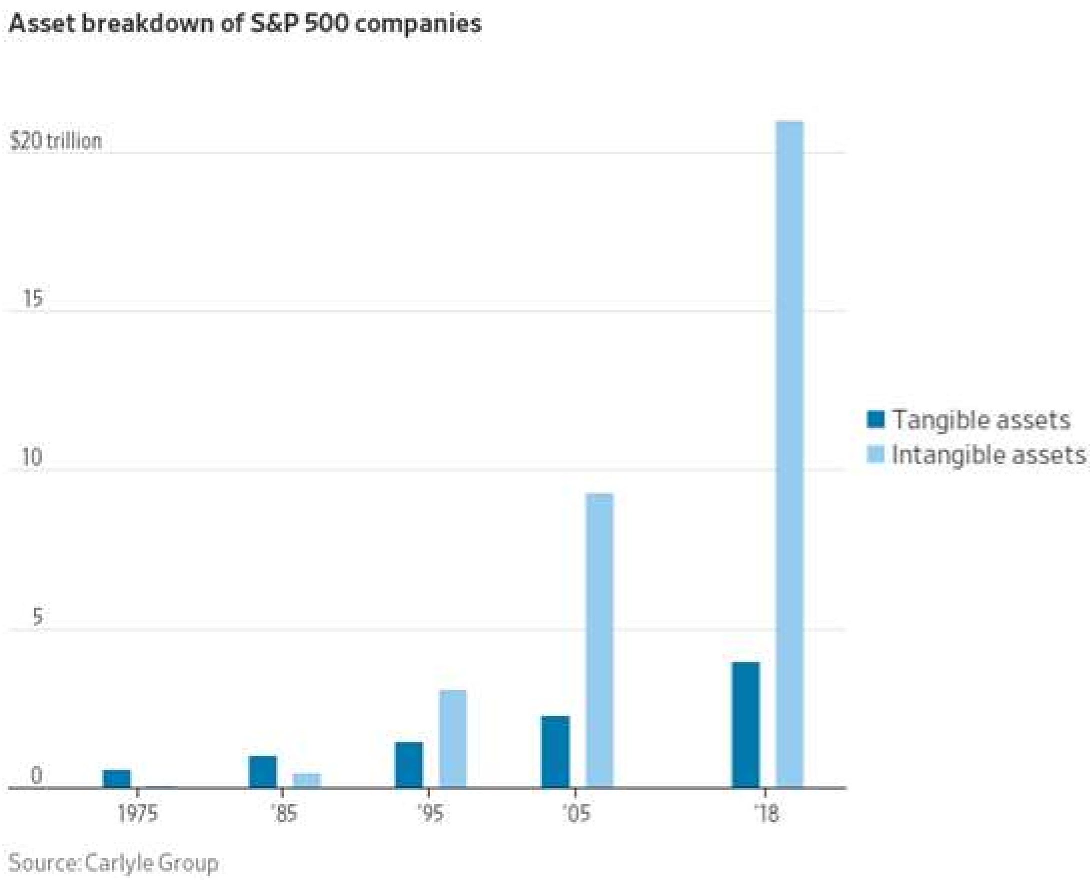
- Chinese consumer behavior is telling us we have a long way to go

Chinese travel to Macau during Golden Week (one of the many weeklong holidays in communist China) was down 85.7% vs last year. Obviously, this bodes poorly for the casino operators, but on a higher level it reinforces a theme on which we have been harping: the fear of the virus is still rampant in some areas. The

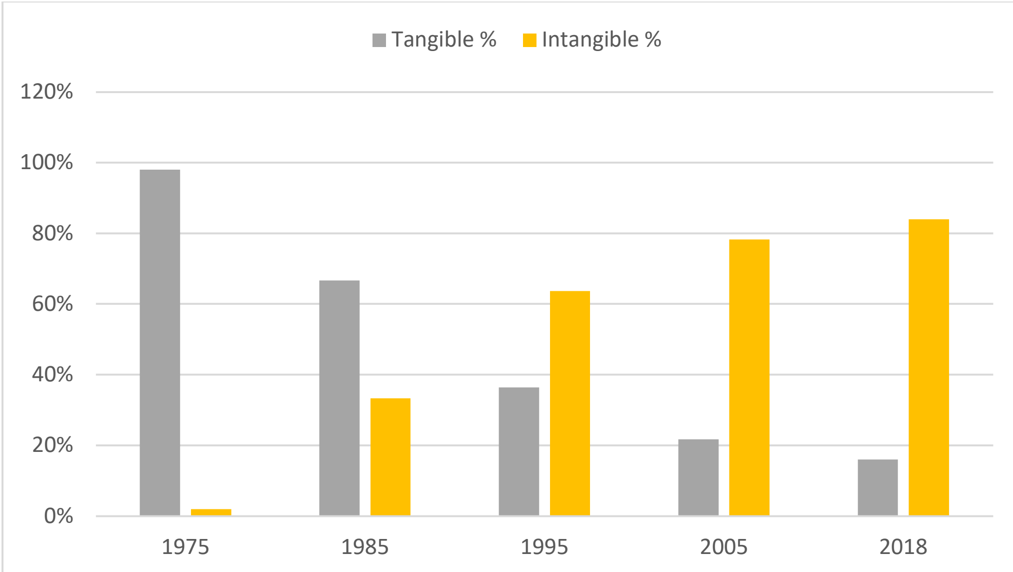
Chinese central planners can say they have recovered fully, but much of the data tells us otherwise. A complete economic recovery will be difficult.

- It is all Intangible Assets now a days (not ball bearings)

Here is an interesting chart from the Wall Street Journal showing the evolution of the breakdown in assets of large corporations. Clearly Intangible assets have far outgrown Tangible assets. Examples of Intangible Assets are digital platforms, software, virtual businesses, etc.



Of course, we would be remiss if we did not identify the Chart Crime evident here. These are gross dollars and not relative percentages. We re-did the chart. Not quite as amazing, but still powerful.

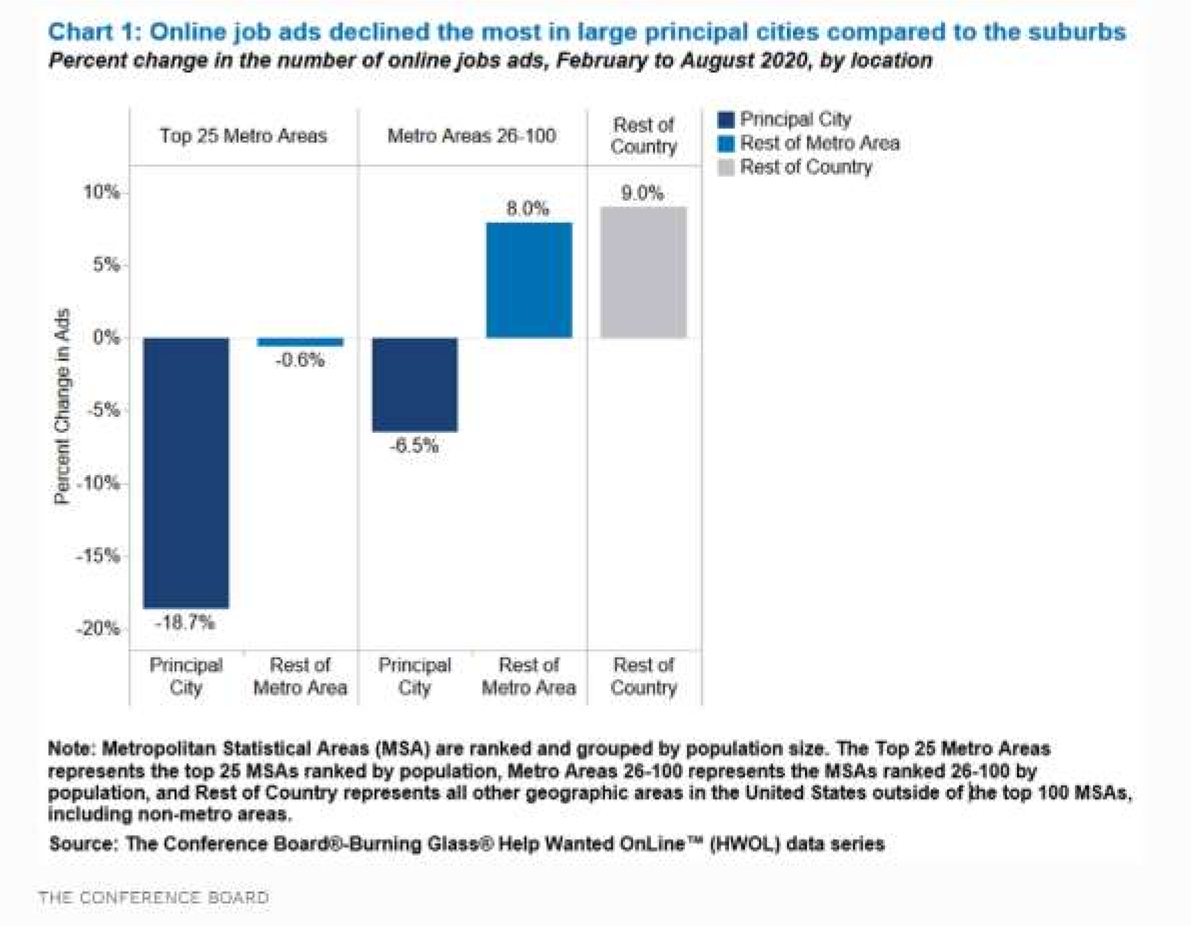


- Shaq SPAC Attack

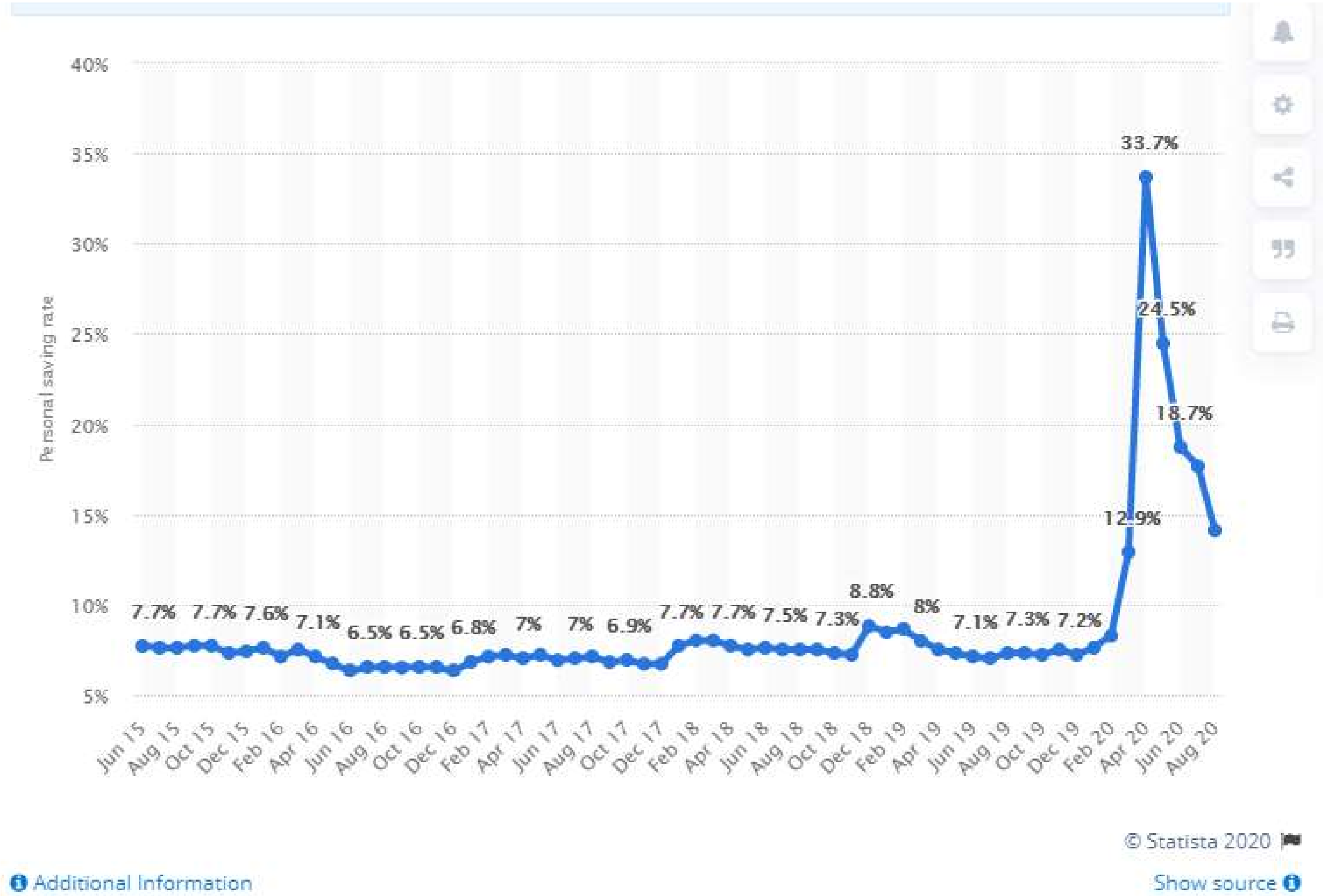
We have talked about the onslaught of SPACs before. The latest SPAC is being led by SHAQ. We like Shaquille O'Neill and think he has some surprisingly good business savvy. But that is not to say he knows what the hell he is doing in this space. As a refresher, these are the so-called blank check companies that raise money in the hopes of eventually finding a target company to buy. The money sits in escrow for a predetermined amount of time. If a deal is not reached, you get your money back. Fair enough. In the old days…way back in the early 2000's…a common hedge fund strategy was to buy a SPAC that was trading below its $10 reference price (SPACs are almost always priced at $10 for simplicity). Then, presumably, you get a return of the $10 over the price you paid. But not today. SPACs often trade at a premium to their cash level! The theory goes that you are paying a premium to have some smart guy figure what company to buy (meanwhile that smart guy stands to collect a lot of fees). Call us crazy, we would rather buy the discounted cash than the premium fee generator.

- Big City Recession

We keep pointing to the slowing of the rebound in the labor market. Through all of the various numbers, the most troubling continues to be the lopsided trade-off between fewer temporary job losses and increased permanent job losses. There is also a large geographical divide in terms of where these permanent job losses are occurring. Research by the Conference Board (a non-profit that publishes economic research and indicators) shows that job postings in big cities have fallen sharply. Suburbs to these hard-hit areas are doing well. This is the same migration theme that is boosting housing. The authors called this phenomenon a Big City Recession.



Other than strong Housing (we still think there is a chance it cools once unemployment picks up again), the other nice cushion in the economy is the Personal Savings Rate. While people might have been lazy and opted for government money over their old jobs (hey, who are we to condemn them if they are getting more money doing nothing!), at least they were smart and saved an outsized portion of it. The rate has obviously fallen dramatically after the initial spike, but it is still about twice the pre-virus average.



Jobless Claims are still sitting around the 850k mark. And this number excludes California – recall they temporarily shut down their unemployment insurance system to remove the backlog (we still recommend California do something to actually resolve the unemployment problem instead of just the bureaucratic handling of it). Continuing Claims dipped a bit. But many of the jobless have exhausted their 26-week maximum (on the state level).

Inflation as measured by the CPI increased 1.4% in September vs Sept last year. The Core (ex-food and energy) rate was +1.7%. The Fed's target is 2% with plenty of tolerance for an overshooting. We have a long way to go…the Fed has no intention of tightening monetary policy any time soon.

Shockingly (in a good way), the Small Business Optimism Index is back to pre-virus levels. In contrast to this, Homebase, a payroll software provider for restaurants, shows that there has been zero growth in open restaurants since June. This is one more reason why we like McDonald's (despite not being cheap).

Weekly Mortgage Applications fell but this data series is very volatile.

Eurozone Industrial Production has been steadily improving since the depths in April, but the August data shows this improvement has leveled off.

- Quick Hits
  - The NHL makes 50% of its revenues from fan attendance.
  - The NFL makes about 35% of its revenues from attendance.
  - The Cowboys make 4x the league average in attendance revenues.
  - NBA Finals viewership fell about 50% vs last year.

- Twitch (Amazon) controlled 91% of live video game streaming in 3Q.
- The hottest shoe brand in Italy is Travis Scott…he of the McDonald's branded lunch fame.
- The UN's World Food Program (WFP) has been awarded the Nobel Peace Prize.
- Nobel had no comment on the WFP contractors in Somalia stealing $160mm worth of food and being the region's largest arms dealer.
- Peloton is worth more than the entire gym industry revenues in 2019.
- The maker of the popular game Fortnite will be the brain inside GM's new electric Hummer.
- Disney Land and Disney World are both in Orange County
- Another Softbank investment is seeking funds after disclosing it is "facing client defaults, regulatory scrutiny, and loosening ties from partner firms" according to the WSJ.
- The company Square bought $50mm of Bitcoin.
- Twitter will not publish NY Post articles but it will publish Wikileaks.

Trading: We covered more of our Short Calls on the Nasdaq (QQQ). We did not get the short-term weakness we expected…we got the opposite! With the delta hovering around 50% and Vol likely to pick up, we are more comfortable holding our Long Puts. This is fancy talk for we covered some of our shorts as the market was rallying. We still think the medium terms risks are there with the Unemployment situation not improving. But we also still think the "big will get bigger" with a K-shaped economic recovery (two distinct paths of recovery for different segments of the economy). However, after the Nasdaq went nuts for a few days, we turned sellers. We sold some of our Long Calls on QQQ. In trader-speak, we had been short a Call Spread and we legged out of it successfully (covered the Short leg lower, watched the market move higher, then sold the long leg higher). When the banks started to not react well to strong earnings, we took that as a cue to trim some exposure. We still like the banks, but they had a mini-run into their earnings. We will wait for some weakness to increase our position again. We dumped the last of our airlines. We might get back involved, but it will take some extreme weakness to make up for the brain-drain of watching this headline-driven sector. We also added to some of our long Pharma exposure when we trimmed the Nasdaq. We are still balanced between Recovery and Lockdown stocks. We trimmed our long equity exposure, and we still have a healthy cash position.

TSLAQ: The stock is moving higher on reports of increased EV growth in China. Somehow the bulls miss the other headline detailing the large price cuts Tesla is making...not to mention GM and others are the ones selling more cars…not Tesla. But that is par for the course. We will sit on the sidelines (small direct short exposure right now more than balanced by our long QQQ exposure) and wait for some actionable facts. Do not get in the way of a Tesla narrative train!

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