Weekly Update

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- So much for the labor market weakening!
- The market now believes the Fed
- Fed Minutes focus on the strong economy
- But the Fed is still cutting
- Is breaking up Google a real possibility?
- That strong Employment Report has plenty of warts
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	5,792	1.4%	22.0%	36.3%
QQQ	$493.15	2.3%	20.9%	36.1%
US 10 YR	4.07%	3.79%	3.88%	4.66%
USD/DXY	102.9	101.6	101.3	105.8
VIX	20.9%	18.9%	12.5%	17.0%
Oil	$73.45	3.5%	2.2%	-15.2%

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

So much for that labor market weakening! The news of the week was a robust Employment Report that showed stronger payrolls, more people working, and stronger earnings! What is not to love…other than bonds which were hit hard (higher yield, lower price). With the central fear (slowing labor market) losing some of its bite, the Fed might not want to cut interest rates as aggressively as thought. Even though the Fed's Powell had explicitly told the market to expect 0.50% more in cuts this year, the market was still pricing 0.75%. But with this latest data, the market realigned itself with the Fed's outlook. Looking to March, the market was pricing in around 1.25% of cuts...now it is about 0.75% (not to mention, this week's note and bond auctions from Treasury were lackluster). We were modestly worried about the market being disjointed from the Fed. But this bad news (the market being wrong) was quickly turned on its head…and rightfully so. If the Fed is going to keep cutting rates while the economy is doing well (more jobs, less inflation), that could be the goldilocks scenario. Of course, the labor market still has plenty of blind spots (more part-time workers, fewer full-time workers, more low paying jobs, fewer temp workers, etc.). And we have talked about a possible reacceleration in inflation thanks to global stimulus measures (everyone but Japan). As far as stimulus goes, China is going about its in about the worst way possible (juicing stocks with no real structural reforms). It is no surprise the Chinese market tanked after being closed for a week. The US does not face the same problems, but rate cuts will be slow to help shelter, electricity, and medical prices (to name a few). Schwab points out that we need to focus on discretionary inflation vs nondiscretionary inflation (instead of Goods vs Services). This is just another way of pointing out the K-shaped economy. Of course, the port strike is already over (told you so). That is one less source of inflation to worry about (not that it really was one). And just when hedge funds get long the Yen (short USDJPY), they get whipsawed back in the other direction. This is only relevant in that it creates short-term volatility. We will try to use this to our advantage.

- Fed Minutes focus on the strong economy

The Fed's FOMC Minutes show that along with the obvious desire to jumpstart the rate cutting cycle, there was a strong consensus to convey that this 50bps cut "should not be seen as a sign of a more negative economic outlook." They qualified this by saying this large cut would not indicate a future path for interest rates. But this sounds more like the typical Fed-speak. They are "recalibrating" and "normalizing" monetary policy.

- Is breaking up Google a real possibility?

The DOJ is apparently pursuing a full breakup of Google. Instead of remedying the harm from the illegal behavior (exclusive deals to monopolize search), the DOJ wants to punish the company and essentially ruin it (not an exaggeration…it has designs on harming the parts of the company that are struggling under fierce competition). Of course, this is just the first salvo from some government zealots. A different solution is likely when the "sentencing" aspect of the trial comes next summer.

We heard a great analogy from a member of the Supreme Court Bar about breaking up Google: It would be akin to forcing Tom Brady to play for the Dolphins as a penalty for the team stealing a few plays.

- That strong Employment Report has plenty of warts

The September jobs report surprised to the upside with a gain of 254k in the Nonfarm Payrolls (Establishment survey). This compares to the 159k new jobs in August which was revised up from 142k. And July was revised up 55k. The expectation was for 150k jobs to be added in September. Private Payrolls accounted for the bulk of the increase (+223k). But do not feel bad for Government workers. Another 31k jobs were added to bring the level to an all-time high (needs to be adjusted for population growth, but our point still stands). Manufacturing is still suffering with a drop of -7k.

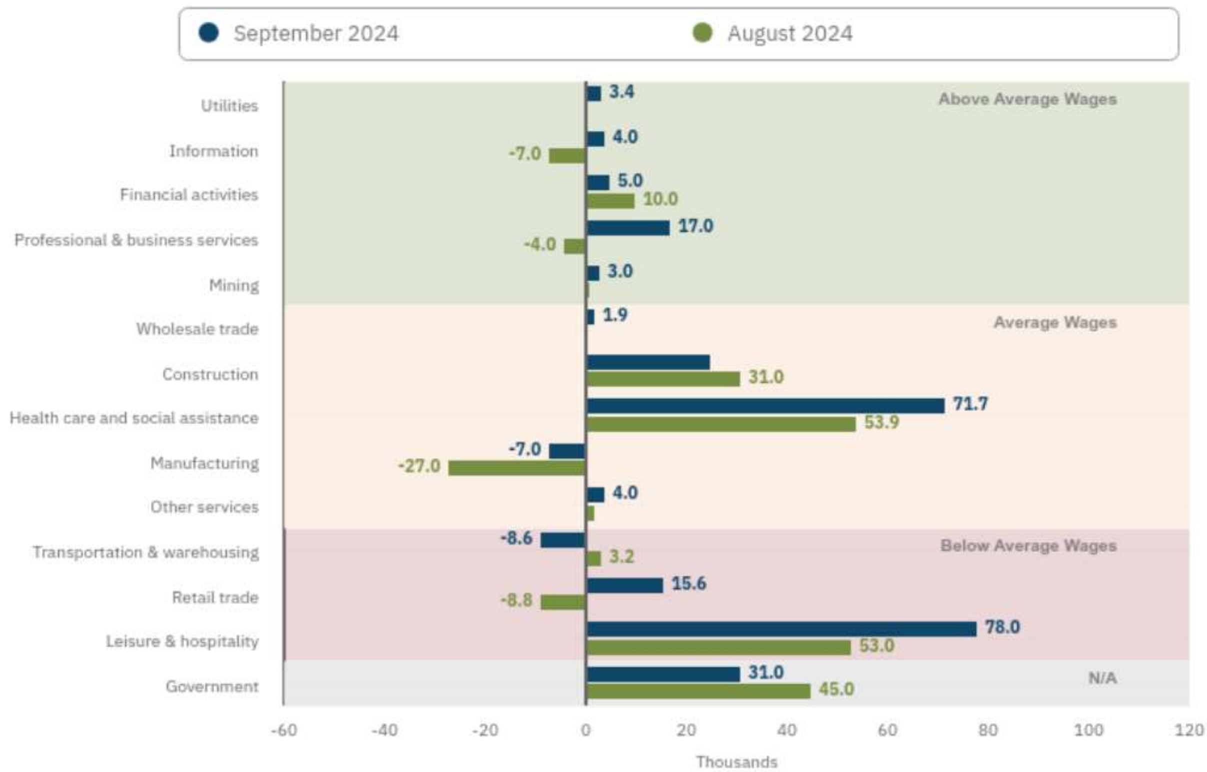
The Unemployment Rate fell to 4.1% from 4.2% in August. The Labor Participation Rate remained steady at 62.7%. These percentages translate into 150k people entering the labor force and 430k more people being employed. These are obviously strong numbers.

One quirk to the data is that the on-time response rate to the Establishment survey has fallen to 62% (from 68% last year). Pantheon (macro research boutique) thinks this drop-off is skewed towards small businesses which have been the ones cutting back. So, we are likely to see downward revisions in the months ahead.

Average Hourly Earnings increased 0.4% vs August. This makes the annual gain 4%. But Average Weekly Hours fell to 34.2 from 34.3. This might not seem like a lot, but it means total time worked (across all workers) went down despite the jump in jobs.

Of course, the quality of the jobs gained is paramount. The big sector gainers were Health Care (average wages) and Leisure & Hospitality (below average wages).

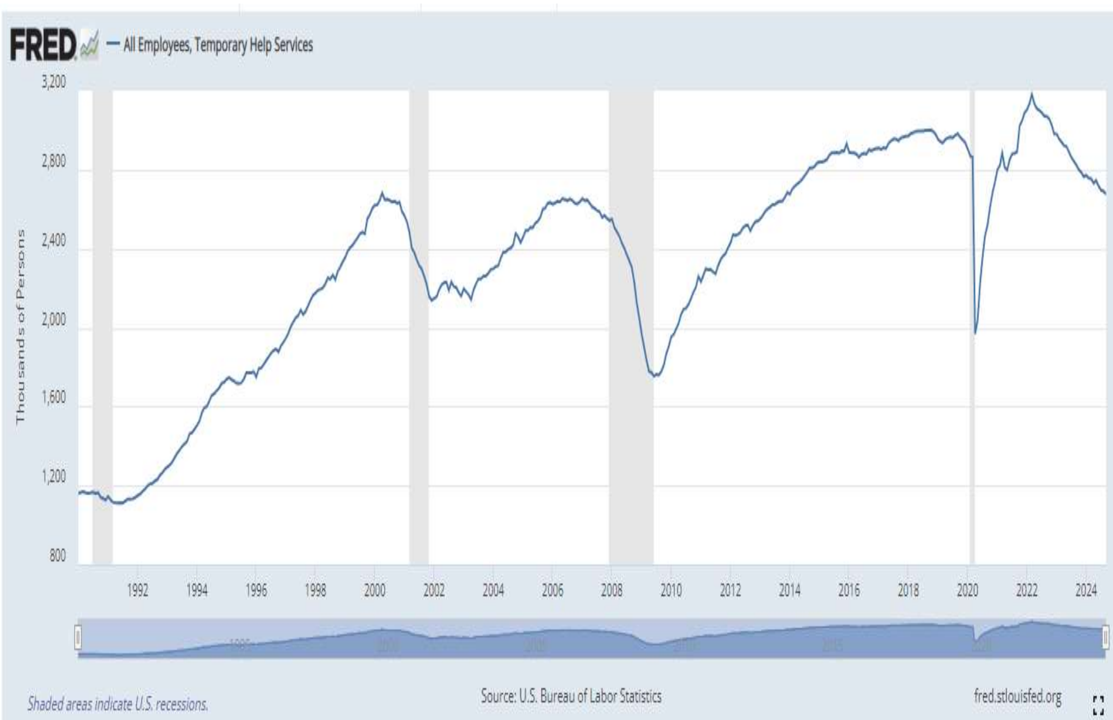
One-Month Employment Change Ranked by Industry Hourly Earnings



Note: Private-sector industries are ordered from highest to lowest based on 2021 average hourly earnings seasonally adjusted data.
Sources: US Bureau of Labor Statistics Summary Table B and Table B-3, Establishment data; Haver Analytics; Atlanta Fed calculations

It is also worth noting that Multiple Job Holders hit an all-time high. This ties into the trend of more part-time jobs but fewer full-time jobs. This is another one that should be adjusted for population growth. So, the stat sounds more alarming than it is. But it is still accelerating.

Contrary to the surge in part-time work, temporary work continues to decline. This usually presages a recession. Obviously, the data set is small (only four official recessions in the last 35 years), but it is not a good sign. Of course, this could just be a structural change in the workforce: Companies might be relying on part-time work instead of temp work.



Challenger Job Cuts in September decreased from 76k to 73k. This is still an elevated level of announced layoffs. There has been a lot of volatility in this data over the last two years (20k to 95k). The run rate pre-Virus had a range of about 30k-50k.

Jobless Claims ticked up to 225k for the week. Continuing Claims remained flat at 1.826mm.

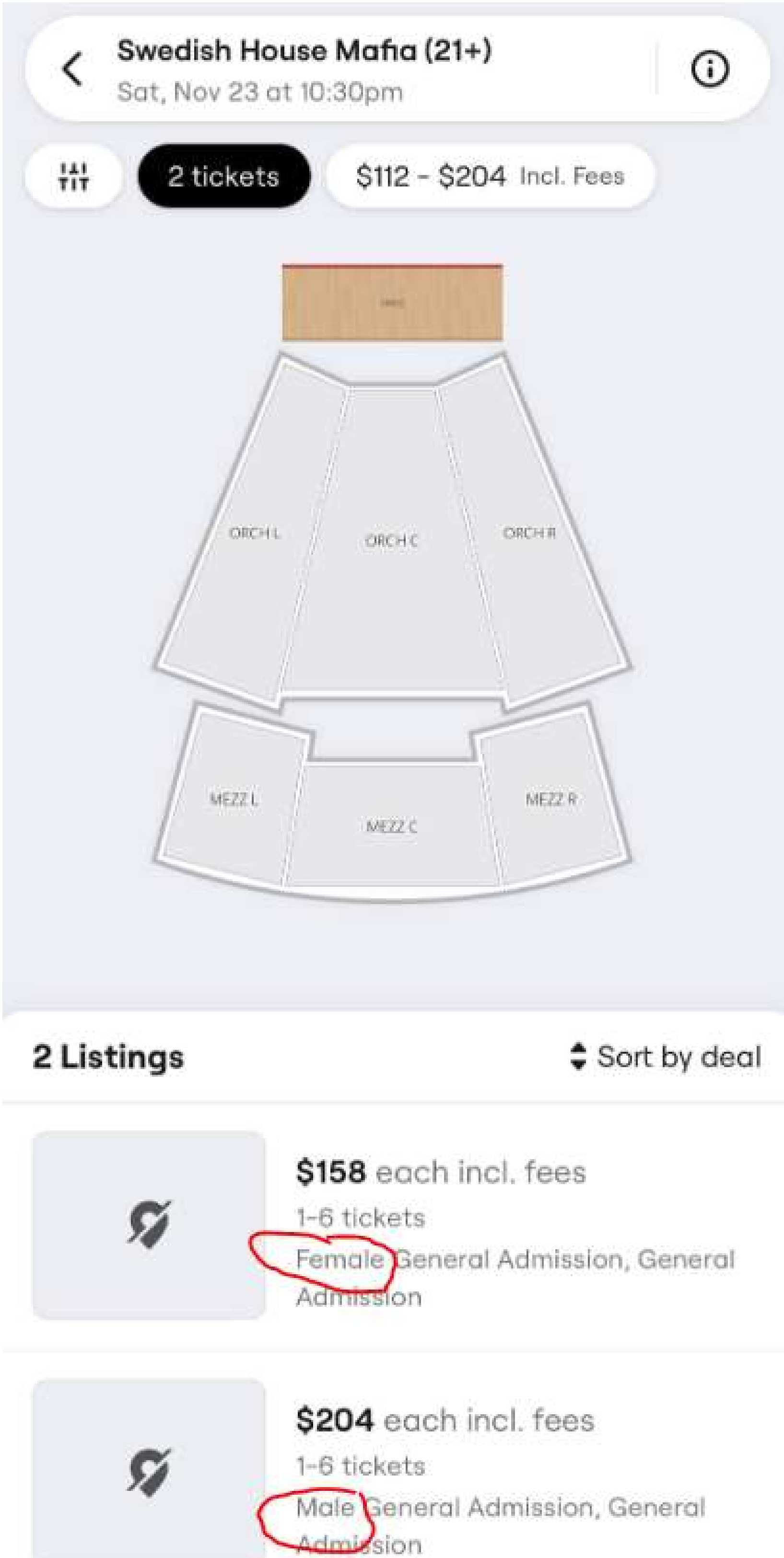
- Other economic data is mixed
    - Used Car Prices fell -0.5% on the month. Theu are down -5.3% over the past year.
    - Small Business Optimism (per NFIB) was roughly unchanged at a lousy level. Inflation is sited as the biggest headwind (23% think this). But 15% of companies plan to hire more workers (15% is an increase despite not sounding like a big number). It is a mixed bag which makes sense.
    - Weekly Mortgage Applications declined 5%.
    - Weekly Redbook Retail sales increased 5.4%.
    - The Services PMIs remain strong. The S&P was revised lower by 0.5 which brings it down about the same for September. The ISM jumped 3.5 points higher. These are both at strong levels. New Orders and Business Activity are strong in the ISM survey. Employment is the only weak component.

- Where did all the crypto money go?

Sam Bankman-Fried's bankrupt FTX is back in the news. We have talked about this bankruptcy before: The freezing of the firm's balance sheet coincided with a rally in crypto and other assets. So, some of the victims of the fraud are likely to be repaid in full (debt holders, ie depositors or customers, will get repaid, but equity holders will only receive a fraction depending on further rulings). Many are lauding this as proof that the crypto ecosystem is safe and the collapse of FTX was only a liquidity problem and not a solvency problem.   Of course, stealing money from your customers and then paying them back years later still makes you guilty. But even looking at this silly claim at face value (that all crypto is safe), it is worth noting which assts have appreciated and which have not. FTX owned a stake in Anthropic…this is one of the AI companies into which Amazon and Google are investing billions. FTX also owned a stake in Robinhood. This has done very well (although there was some disagreement as to who actually owned the shares…obviously). And all the frivolous real estate had value. Of course, none of these assets have anything to do with crypto. FTX's biggest asset was the FTT token...the make-believe money that the criminals invented to facilitate their crimes. Alas, this was and still is worthless.

- Chart Crime of the week

This is not our typical chartcrime…nor are we saying it is an actual crime. It just seems strange to us.   This is a screenshot of concert ticket prices at the Wynn in Las Vegas.


Swedish House Mafia (21+)
Sat, Nov 23 at 10:30pm
2 tickets
$112 - $204 Incl. Fees
ORCH L
ORCH C
ORCH R
MEZZ L
MEZZ C
MEZZ R
2 Listings
Sort by deal
$158 each incl. fees
1-6 tickets
Female General Admission, General Admission
$204 each incl. fees
1-6 tickets
Male General Admission, General Admission

- Quick Hits

- 23mm American taxpayers stopped itemizing deductions after 2019.
- A Canadian man is suing his broker for evaporating his $415mm account. This 35-year-old had built his fortune from $88k in 2019 by trading options. Recap: $88k -> $415mm -> $0.
- Sunday's NFL slate lasted 15 hours and 27 minutes.
- Vanderbilt has been fined $100k for its students charging the field after its upset over Alabama.
- Vanderbilt is auctioning off pylons, game balls, and goal posts from the game.
- Uber announced that it will take you from Manhattan to LaGuardia for $18. The small print: you have to ride with strangers with specific pick-up and drop-off locations.
- A funny guy on X posted: "Uber has invented buses."
- The biggest holder of Donald Trump shares on the betting site Polymarket is an account named Fredi9999. He has $6.4mm in positions. There is speculation that it is Musk!
- Korea has banned short selling until March 31 of next year. Penalties include life in prison.

Trading: We sold a little more Energy, Health Care, and Big Tech. We think the China turnaround (or potential) is helping Energy. But we also think there is a tailwind from the Middle East tension. We almost always want to fade this kind of emotional trading (unless Biden really is talking about bombing the Iranian oil infrastructure…who knows but we doubt it). We still like some Health Care, but we think earnings estimates have caught up with the stocks. So there might be some weakness ahead. And Big Tech keeps fighting the same regulatory battles. If nothing else, these are costly distractions. We still love the space and have some large positions. But we think trimming is prudent. We also added to some commodity longs. This is our way of playing the China stimulus and/or hedging the reemergence of global inflation (not our base case, but possible).

TSLAQ: Musk'a artificial intelligence company, xAI, is being investigated by environmentalists for burning natural gas (without permits) to fuel his new data center in Tennessee.

Musk is revealing his silly "Cybercab" tonight. There have been some leaks indicating it is just another pipe-dream.

And the news story is that is getting the least amount of press is the final opinion and order in the legal case before the Delaware Court of Chancery. This is the case in which the court is going to determine if Musk's ridiculous pay package was done properly. Even though Tesla did a re-ratification of the pay plan, judge McCormick can toss this out and award damages, a reversal of the stock award, and who knows what else. Legal experts (including some biased with TSLAQ leanings) think Musk is going to lose. We will get the ruling any week now.

There is also another case looming against Musk. This one is from the SEC with respect to his improper filings when buying Twitter stock. Musk finally gave in and interviewed with the SEC. This is a slam-dunk case (he literally filed one thing and did the opposite), but it might not amount to anything other than bad press. Then again, Musk seems to relish bad press these days (and sometimes deservingly so).

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