Weekly Update

14-May-2025

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- A China deal! (and UK, Saudi, Qatar, UAE sorta)
- Positioning was bearish
- Earnings keep accelerating
- No deal for Europe?
- Event-driven shock or cyclical downturn?
- Inflation keeps cooling, but we might see an uptick in the back half of the year
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	5,893	4.6%	0.5%	14.3%
QQQ	$518.68	7.3%	1.6%	17.8%
US 10 YR	4.54%	4.27%	4.58%	4.38%
USD/DXY	101.1	99.6	108.5	104.3
VIX	18.6%	23.6%	17.4%	12.5%
Oil	$62.87	8.3%	-12.0%	-19.1%

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

We have recently noted how the market was powering higher despite the lack of real progress on the tariff front. The other market dynamics all pointed to strength. Earnings were (and still are) accelerating higher. Economic data had inflected better (not hearing as much about the bad "soft data"). This includes inflation still moving lower (so much for the stagflation argument). Investor sentiment was still pretty sour…be it qualitatively (extreme levels of Bearishness from Retail investors) or quantitatively (hedge funds and quant funds had degrossed (sold) right at the bottom). Geopolitics have moved to the backburner, as well. This includes, Israel, (the) Ukraine, and Taiwan. Even the flare up in Kashmir went away as quickly as it appeared. All this market was missing was a small trade deal to prove that Trump really was moving forward. The market got what it wanted with the deal cut with the United Kingdom. Even though this was the lowest hanging fruit possible (we have a trade *surplus* with our longest running ally, after all), it was a positive sign. But then came the deal with China. While it is still just a "pause" at this point, we do not think anybody expected any real progress other than some glad-handing at the meet-up in Switzerland. In fact, Treasury Secretary Bessent had indicated that the real villain in all this trade remaking was China. Then again, Trump always says he personally likes communist leader Xi. Of course, Trump seized on the positive momentum and announced deals with Saudi, Qatar, and the UAE. These are not fully structured deals (none of them are, of course). But they are planned investments akin to coercing the global Tech giants to reshore more manufacturing (and Pharma, too). He also announced that many of the semiconductor chip export curbs would be lifted or retooled (meaning Tech can sell to the aforementioned countries that also play a pivotal role in keeping a lid on gasoline prices).

But not everything is rosy underneath the new-found optimism. Treasury yields have moved markedly higher. Equity bulls point to this as evidence of economic strength. But it very well could be renewed fears of runaway government spending. The DOGE movement has faded into the background (maybe it is still chugging along and the media just got bored with its as Elon shuffles back to Tesla?). And while the preliminary draft of the House's "big, beautiful bill" has the tax cuts that traditionally fuel the market…it also includes all the same-old spending. Of course, the equity market always likes spending in the short-term. It is just kicking the can down the road, but that is what government does best (and what the bond market signals).

Medicaid and Medicare spending is one of the biggest wildcards remaining (and that is saying something). The administration has not delivered a clear message on what it wants…other than cheaper drug prices. Maybe this comes in the form of dismantling the byzantine Pharmacy Benefits Manger (PBM) system (essentially cutting out the middleman). Or maybe it is a stricter form of price controls (or price "negotiations" as they like to say).

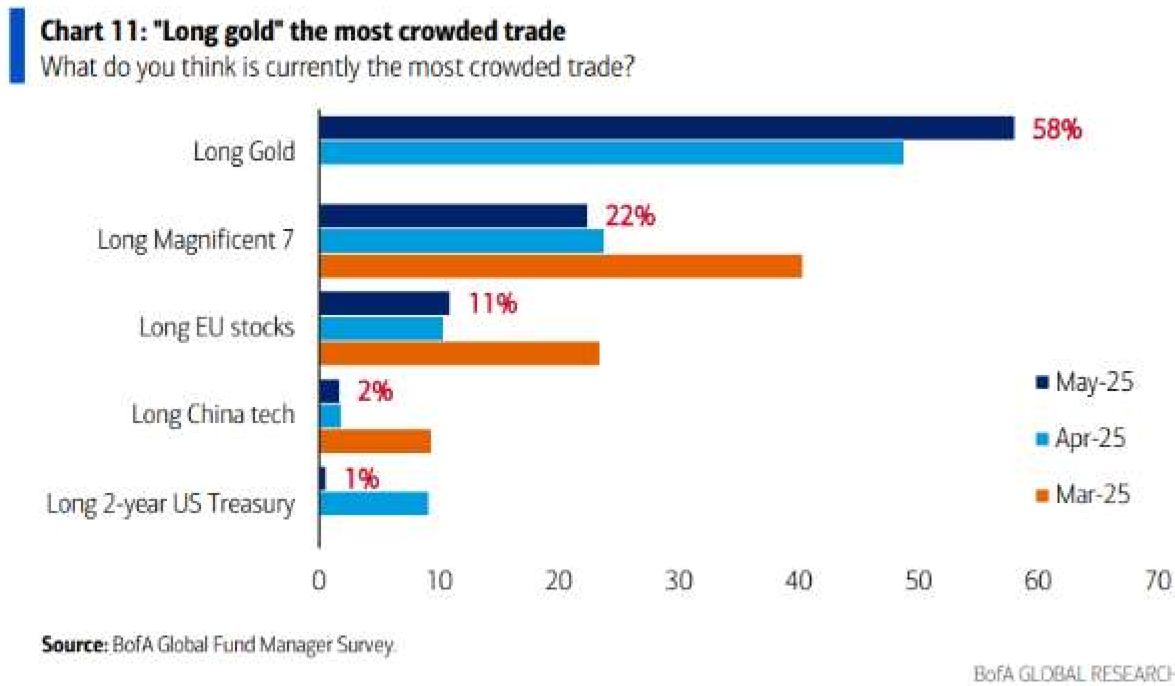
Also, we cannot help but notice that Europe has been left out in the cold in terms of tariff deals (the United Kingdom is no longer Europe…if you ask the limeys…they never really were). This might be a ploy to get a Ukraine peace agreement. It might be a way to get the socialists to lay off our Big Tech companies (their silly digital taxes, fees, and fines are becoming more cumbersome). Or maybe Trump is targeting many of the higher-skilled-labor jobs that Europe still holds (vastly different than the tee-shirt sweat shops in Bangladesh and Vietnam).

The bears also point to the best-case scenario for tariffs as being distinctly worse than the previous baseline. If some economic sluggishness does materialize, the Fed might be less likely to cut rates since their stated concern was inflation from the crazy-high tariffs (Fed Funds futures support this view). Of course, valuations are expensive all over again! Ultimately, the question to consider is whether this recent bear market was event-driven or cyclical. Did the onslaught of new and higher tariffs shock the system? Or was the economy already poised to slow, and this new tariff regime kicked the slowdown into gear? Goldman says these event-driven shocks are quick to recover…typically about six to seven months. But if this shock persists and has lasting effects on the economy, then this type of cyclical downturn could last around two years. We think the set-up was somewhere in between…we had a slowing economy, but the tariff acceleration was a one-off shock (so we can muddle through more quickly than a cyclical recession).

As for the trading in the market, the first move was the rotation out of Defensives into Tech, Discretionary and anything high beta (high sensitivity to market moves). Some were calling it a Buy America trade as the USD rallied as well as equities. But the aggressive selling in Treasuries refutes this. That said, we would expect the rotation to level off and some of the previous winners (Staples, Utilities, Healthcare, and REITS) might regain some of their strength. This might be evidence that some are still worried about growth, but it also might just be a mean reversion after this impressive rally (after an ugly collapse).

- ➢ Positioning was bearish

Here are two charts that show the defensive nature of positioning. Gold was the most crowded trade. That speaks volumes.



Retail investors were positioned similarly to where they were during the 2022 Tech disaster. And the ICI (Investment Company Institute which measures institutional and retail positioning) shows a level back to the depts of the Virus Fear.

- Earnings keep accelerating

We keep using this table as it shows the evolution of Earnings over the last six weeks. And they have accelerated again this week to 14.1% growth. Energy stands out as still a loser. Slower global trade (even with greatly reduced tariffs) is likely the cause here. Staples are also an outright loser (albeit slightly better relative to April 1). These stocks were big winners despite lofty valuations and these weak Earnings trends. So, one of our big questions is will these boring and defensive stocks unravel? We do not think so (at least not the ones that exhibit some earnings growth).

Sector	Today	1 Apr
Consumer Discretionary	9.5%	2.4%
Consumer Staples	-5.6%	-7.1%
Energy	-16.6%	-15.2%
Financials	7.0%	2.1%
Health Care	46.2%	38.3%
Industrials	10.4%	4.1%
Materials	1.0%	-7.2%
Real Estate	-6.6%	-3.0%
Technology	19.1%	16.1%
Communication Services	31.0%	6.2%
Utilities	4.6%	7.5%
S&P 500	**14.1%**	**8.0%**

Source: LSEG I/B/E/S

- Inflation keeps cooling, but we might see an uptick in the back half of the year

The headline change in the Consumer Price Index (CPI inflation) in April was lower than expected at +0.2% (+0.3% expected). While this is an uptick from the -0.1% deflation seen in March, it continues the trend of disinflation (especially compared to the accelerating trend late last year when we saw successive readings of +0.2%, +0.3%, +0.4%, and +0.5% in Sept through Dec. The annual rate fell to 2.3% from 2.4%. The "Core" inflation rate (stripping out Food & Energy) was also marginally better than expected at +0.2% (+0.3% expected). This also is up from the March reading of +0.1%. But the same cooling trend is prevailing. The annual rate remained steady at 2.8%.

Food prices dropped into deflation with a -0.1% decrease. Food at Home prices fell -0.4%. But Food away from Home increased +0.4%. Energy increased +0.7%. Gasoline prices fell -0.1%. But Electricity and Utility Gas increased (+0.8% and +3.7%!). Shelter increased by +0.3%. Rent increased +0.3%, and OER (that nebulous guess for how much you think your house could rent) increased +0.4%. Used Car prices fell -0.5%. (This contrasts with the private Manheim data which is showing a modest increase. We will stick with the private data.)

The New York Fed's Inflation Expectations remained steady at 3.6%. This is still elevated, but the survey was conducted in the second week of April.

Obviously, the key to the inflation outlook will be tariffs. Even with the new calmer, cooler heads, the base rate is still substantially higher. So we would expect some inflation in the back half of the year. But this might be on junk that nobody really wants (and certainly does not need).*

- Other economic data
  - Redbook Retail Sales increased +5.8%
  - Mortgage Applications improved slightly. The index has still been range-bound for almost three years.

- The average 30-year mortgage rate ticked up from 6.84% to 6.86%
- Initial Jobless Claims moved lower to 228k from 241k last week (spring break is over for those bus drivers in New York). Continuing Claims also moved lower to 1.879mm from 1.908mm.

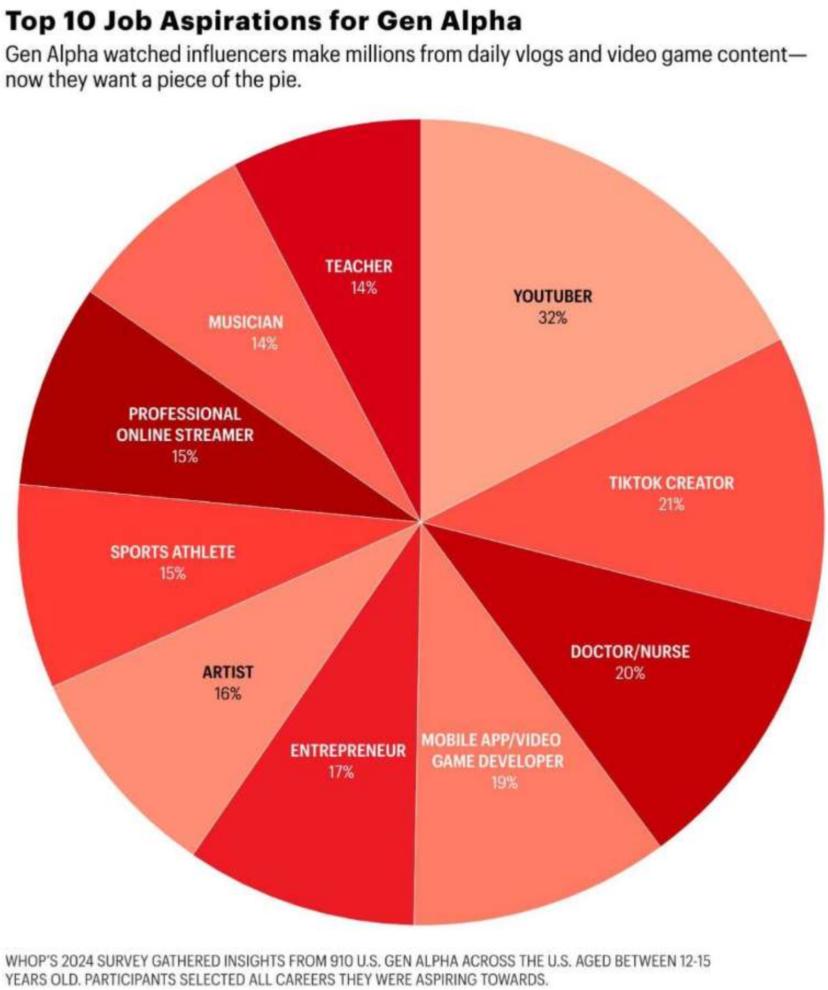
➢ Where did all the crypto money go?

The founder of crypto platform Celsius Network was sentenced to 12 years in prison. We have talked about this one a lot. This platform had $25b in "deposits." When crypto assets started to evaporate in 2022, Celsius was not able to meet withdrawals. $5b went missing. Apparently, $3b has been recovered. So much for the other $2b. The founder was convicted for his YouTube and Twitter videos emphasizing the safety of his platform. Meanwhile, he was pumping and dumping his own CEL "token" to the tune of $42mm in profits. It is always the fake-money token that exposes these fraudsters.

More and more often, we come across the Darkside of the crypto world (Crypto Tales from the Crypt). The latest involves a crypto "visionary" who videoed and published his own suicide. The sad and sordid affair was accompanied with an obituary delivered like you see in the movies: "If you are reading this, it's because my 72-hour deadman's switch triggered so I 'm not here , at least physically." But wait, the obituary also included details of a new coin released by the dead man. And there we have it. The guy faked his own suicide so he could pump his fake money. He got busted hiding out at his mom's house and cried foul that he had been "doxed…and harassed."

➢ Chart Crime of the week

Just your classic pie chart that adds up to 183%. But the parenting-crime here is that kids want to be YouTubers or Tik Tok'ers.



- Quick Hits
  - British people are called “limeys” because the Royal Navy was the first to treat (and later prevent) scurvy with citrus. Limes were the cheapest and most abundant.
  - College lacrosse’s all-time leader in assists is currently playing in the NBA for the Golden State Warriors.
  - Lacrosse is officially the national summer sport of Canada (literally a law passed in 1994).
  - When Bon Scott, the lead singer of AC/DC, died in 1980, the coroner’s report officially classified his death as “death by misadventure.”
  - Local governments in the UK are up in arms over a property tax avoidance scheme. Agricultural companies do not have to pay property tax. So, owners of office buildings without tenants have turned them into “snail farms.” These typically consist of one box holding two snails.
  - This story warms our hearts because as a former tenant in a residential building in the UK, we were responsible for paying the “council tax” (property tax).
  - If you do not pay your “council tax,” a collector will come to your flat and literally take your television and anything else of value to cover the liability (this happened to a friend).
  - A child in Ohio ordered 70,000 Dum-Dum lollipops on Amazon. His mom had given him Amazon-ordering privileges.
  - In England, a baby’s pacifier is called a dum-dum.

- NYU researchers tell us that your average retail investor spends six minutes researching a trade.
- 90% of all imports into the US fall under the de-minimis exemption of $800. The average shipment is only $54.
- Microsoft has a new metric for evaluating its workforce. They call it "good attrition." They measure if the company is happier after someone is laid off.

Trading: We did not make any wholesale position changes. We were positioned thinking the market had overreacted to the tariff stuff. We did add lightly to some of the defensive names when they sold off in the rotation.

TSLAQ: We noted that Musk has pulled back from DOGE to refocus on Tesla. Perhaps we overstated that. Some of Musk's recent X posts revolve around his playing video games. He qualifies it as a "continuity test" for his Starlink internet service. He claims to be #4 in Diablo Hardcore. He plays under the name Sandy Poon. We do not know what any of this means.

*Chinese junk…stuff we do not need. This is our one experience with Temu. Exact measurements for a knife sheath are pretty important.

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