



Weekly Update

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Carlisle C. Wysong, CFA

Managing Partner

- The market sure knows how to punish the doubters
- The recent negative narratives are gone
- The Fed cuts; Powell tries to scare the market; it does not work
- Geopolitics are noisy again, but international markets are showing growth
- Bank credit rumblings are quieting down (but there might be other worries)
- Earnings are great!
- Inflation is still here, but it is still not a worry
- Housing prices are still high, and turnover is still low
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
S&P 500	9,840	0.7%	17.3%	21.4%
QQQ	\$629.07	1.9%	23.5%	30.7%
US 10 YR	4.08%	4.02%	4.58%	4.29%
USD/DXY	99.0	99.7	108.5	103.9
VIX	17.4%	16.4%	17.4%	22.0%
Oil	\$60.88	-1.0%	-15.0%	-12.3%

*10yr, DXY, and VIX are levels not changes

** Oil is front month futures, beware

The market sure knows how to punish the doubters. Two weeks ago, we dismissed most of the mini-narratives that popped up. We figured the latest tariff spat would blow over (it did). The turbulence in the credit markets would be fleeting since the hiccups appeared to be pure fraud (it was). Nobody cares about the government shutdown (there was one?). And, of course, the business of Artificial Intelligence was beginning to make more sense (and cents).

Monetary policy was one area that did not get relief from the accidental missteps by Fed Chairman Powell. We joked about the first rule of monetary policy is to not talk about tightening liquidity. As it turns out, Powell was dropping hints about his hawkish Fed statement at this week's FOMC meeting (Federal Open Market Committee...the rate and policy setting body). And Powell followed through with his most hawkish comments in a while. But lo and behold, the market responded like Lloyd Christmas in the lobby bar...it didn't care. Strong

Earnings in a growing economy with an interest rate cut (regardless of Powell's comments) spurred the market higher.

Internationally, some geopolitical noise is starting to surface again (surprise?). Peace in the Middle East is being tested. And the summit involving Trump and Putin has been cancelled. But the renewed "trade peace" with China is welcome on all fronts. Japan's new Prime Minister, Sanae Takaichi, is pushing easy money and fiscal stimulus. Mexico's Sheinbaum is talking positively about trade with the US and growth at home. Trump and Brazil's Lula met recently and are optimistic about a trade deal. And even Argentina looks like it will stick with Milei and his capitalist/libertarian ways a bit longer with big wins in midterm elections (particularly invigorating after the recent defeat in Buenos Aires).

Google, Meta, Microsoft, Apple, and Amazon prove that earnings are still strong and growing. Of course, the bar for stock performance success is still very high. And ultimately, the market is rewarding current success and not just endless capex (Amazon was the big winner; Meta was the big loser). On Thursday, there were 18 stocks that reported earnings that were down over 10%. And these were across a broad spectrum of industries (Meta was the headline drop, but medical devices, insurance, fast casual dining, HVAC subcontracting, grocery store, etc all had pockets of weakness).

➤ Other random bits from the last two weeks

OpenAI is talking about going public in the back half of 2026. We would do it sooner versus later (we think OpenAI is a potential disappointment in all this AI frenzy...hopefully the rest of the AI ecosystem can grow enough where it will not matter if it fails).

Nvidia is not quite back to selling Blackwell chips into China, but better China relations are real.

Gold and Silver have been hard to peg...rallying somewhat in fear of USD debasement but also with hard assets with rates dropping and inflation persisting. And then gold and silver get smoked as tensions ease! (We still like owning some hard assets.)

High Yield spreads (yields over Treasuries) were starting to widen with the credit worries. But that sign of worry was fleeting. Spreads are back near the low end of their range over the last 30 years.

Remember that Commerce Minister that was being called out by the US for being tough in trade negotiations (Bessent called him "unhinged")? He quietly has been disappeared from his role in the trade talks.

Beyond Meat rallied about 1250% in a week. Daily volume was 4x the entire float of shares outstanding. Profitless junk in general has been rallying like crazy. This part of the risk-on attitude scares us a bit. But considering BYND has collapsed 75% in a week, we think this junk can trade on its own without influencing the broad market.

There have been rumors that Renaissance Technologies lost 15% in October. This is the hedge fund company founded by the late James Simons (he was a math professor who did some code-breaking with the military until he decided to try his hand at making money...to end up being the greatest of all time). If true, this would explain a lot of the volatility in the middle of the month. These quant shops all have the same positions. So, when one of them trips up, they all fall down. (it also means our last sentence in the previous paragraph might not be right...but it also appears as though we are past the danger point).

➤ The Fed cuts; Powell tries to scare the market; it does not work

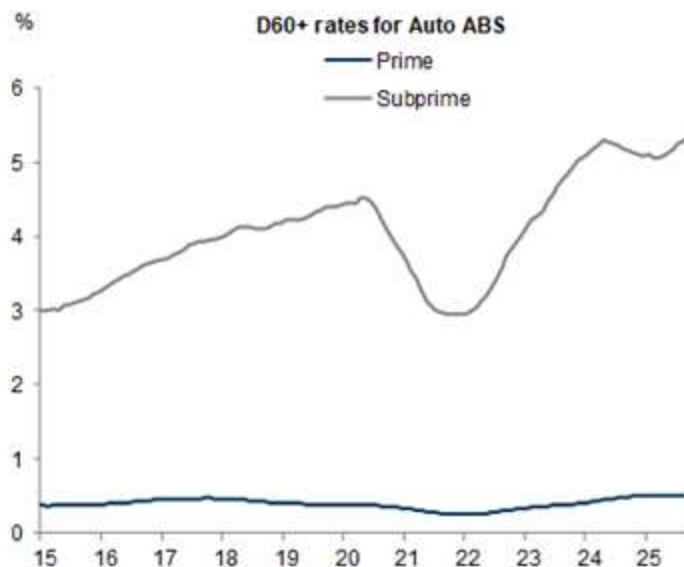
The Federal Reserve cut interest rates by 0.25% to 3.75%-4.00% (technically the Fed Open Market Committee sets a range for the Fed Funds target rate which is the level at which banks lend to each other.) But it was

Chairman Powell's press conference that made the immediate headline. He was more emphatic than usual when he proclaimed that a rate cut in "December is not a forgone conclusion, far from it." He continued with "Policy is not on a preset course...When driving through a fog, you slow down a bit." In other words, it was clear that Powell was trying hard to be hawkish and make a statement. But the market mostly "yawned" as David Zervos put it. Perhaps it was Powell's insistence that the economy was still growing despite some softness in the Labor market. Moreover, he noted that Services inflation was coming down. And he even started to acknowledge that Goods inflation from tariffs will likely start to ease. Also, the Fed will reverse its Quantitative Tightening program. It will continue to let its Mortgage-Backed Securities (MBS) holdings run off, but the Fed will buy Treasury Bills in their place. Quantitative Easing is back.

- Bank credit rumblings are quieting down (but there might be other worries)

Bank credit rumblings seem to be quieting down. Zions Bank reported good earnings without any further mention of troubles. In fact, its reserves for losses excluding the one case of fraud only amount to 0.04% of its total loans. As for the fraud, it is more obvious than we thought. The crux of the crime was borrowers pledged collateral twice to borrow twice. This much we knew. Now we know that the borrowers sold the loans to a related party (themselves) and defaulted on the original loans to the bank.

Of course, there are still chunks of the credit market that are more dubious. We have been moderately concerned about auto loans for a while now. Check out the difference between the 60-day delinquency rates for Prime and Subprime borrowers.



Source: Black Knight, Goldman Sachs Global Investment Research

- Earnings are great!

Earnings season continues to surprise to the upside. With 63% of the S&P 500 having reported, growth is on pace for +13.8% which is up from +8.8% just before the season kicked off. And actual growth reported (vs the blended growth incorporating expectations) is 15.7%. Technology is leading the charge with 25.3% growth. And only about half of these companies have reported (33 of 68). Financials are the other big standout with 22% growth. This group is mostly done for the season. Staples (+0.3%), Health Care (+1.6%), Utilities (+2.0%), and

Energy (-3.7%) bring up the rear. Revenues are showing the same impressive growth trends (with Energy being the only real downside outlier).

Exhibit 3. 2025Q3 Blended (Reported & Estimated) Earnings Growth

Sector	Today	1 Oct	1 Jul	1 Apr
Consumer Discretionary	9.2%	-0.2%	-1.5%	6.6%
Consumer Staples	0.3%	-2.5%	0.8%	3.5%
Energy	-3.7%	-6.0%	-8.5%	9.1%
Financials	22.0%	12.4%	8.2%	11.2%
Health Care	1.6%	0.1%	7.0%	13.1%
Industrials	8.2%	14.7%	19.3%	27.2%
Materials	14.8%	13.7%	19.2%	22.4%
Real Estate	22.2%	18.3%	19.9%	19.7%
Technology	25.3%	22.2%	17.0%	18.6%
Communication Services	16.8%	5.1%	2.5%	4.7%
Utilities	2.0%	-3.2%	-1.3%	-2.0%
S&P 500	13.8%	8.8%	8.0%	12.4%

Source: LSEG I/B/E/S

Exhibit 4. 2025Q3 Actual Earnings Growth

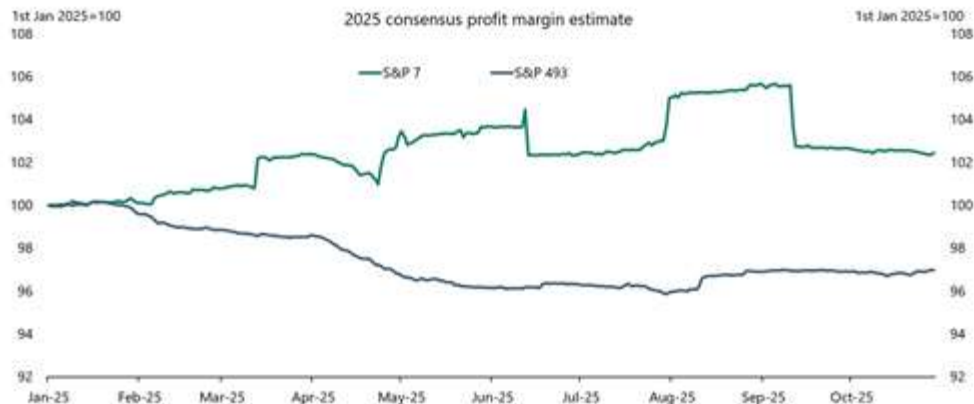
	S&P 500
Today	15.7%

Source: LSEG I/B/E/S

Furthermore, 69% of companies have beaten expectations by more than one standard deviation (of the estimates). The historical average is 49%. However, the one giant negative is that stocks are not reacting! Actually, stocks that beat are underperforming the market by 0.33% on the day. They usually beat the market by 1%. Obviously, this is the definition of short-term. And this data says nothing about how the stocks performed heading into their earnings releases. (This data is about a week old. We think the market has started to reward winners with better performance. This early data might be a result of the market always trading against Financials earnings which dominate the early Earnings season.)

Of course, the top of the food chain is still dominating Earnings. Here is a chart from Apollo detailing the trajectory of profit margins for the Mag 7 compared to the rest of the market. Obviously, the Mag 7 (top green line) is choppy quarter to quarter (with such a small sample size), but it has still improved by over 5%-points compared to the other 493.

Profit margins rising for the S&P 7 and declining for the S&P 493



➤ Inflation is still here, but it is still not a worry

The Consumer Price Index (CPI inflation) grew by 0.3% in September vs August. This is down from the +0.4% rate last month and slightly lighter than +0.4% expected. “Core” inflation was better at only +0.2% vs +0.3% last month and +0.3% expected. The annual headline and “core” rates are both 3.0%. This is a slight increase on the headline (vs +2.9%) and decrease on “core” (vs +3.1%).

Food Prices increased by +0.2% with Food at Home (+0.3%) outstripping Food away from Home (+0.1%). The combined yearly gain is 3.1%. Electricity prices fell -0.5%. We think the average consumer is focusing on this price as much as the traditional barometer of gasoline prices.

“Core” Goods prices increased +0.2% on the month and 1.5% over the last year. “Core” Services only increased +0.2% on the month, but the yearly gain is still high at 3.5%. Apparel prices jumped the most in the “Core” Goods category with a 2.6% increase in September. Airfares were the biggest mover in “Core” Services.

Interestingly, this dovish inflation data actually reads hawkishly for the PCE inflation data due to the composition/calculation differences.

U-Michigan’s inflation expectations, whatever this data is worth, ticked down in the short-term (1-year from 4.7% to 4.6% and increased in the long-term (5-year 3.7% to 3.9%).

➤ Housing prices are still high, and turnover is still low

Existing Home Sales increased by 1.5% in September vs August. The annualized run-rate is 4.06mm. Single-family home sales accounted for all the increase. Supply increased mildly to reach 4.6 months of inventory (still low). The median price increased by 2.1% vs last year to hit \$415,200. Prices have increased on an annual basis for 27 straight months. All in all, sales have not really budged for over two years. And sales are down about 1.5mm homes from the pre-Virus Fear trend. Pending Home Sales in September were flat on the month.

There was no New Home Sales data release. This is compiled by the Census Bureau (who knew?). The Existing Home Sales and Pending Home Sales data are from the National Assoc of Realtors (NAR).

Weekly Mortgage Applications moved marginally higher.

The average 30-year mortgage rate fell from 6.42% to 6.37% to 6.30%.

Goldman's national Vacancy index is at 7.1%. This is an all-time high dating back to 2017. This is a function of 600,000 multifamily units being added to the supply in 2024. This is the most since 1986 (not a perfect comparison given the population dynamic).

➤ Other economic data is better on the margin

ADP, the employment services company that also releases its own monthly payrolls data, has started producing a weekly Employment Change in private businesses. It has a two-week lag. The first release, which is as/of Oct 11, shows a gain of 14,250 jobs. This compares nicely to the 32k job losses reported for the month of September. However, two other private labor indicators are not so rosy. Intuit has a Small Business Employment number that showed job losses in September. And Manpower has a survey that showed Hiring Intentions fell to a 54-month low.

The S&P Composite PMI was better than expected in October (Flash/early read) at 54.8 vs 53.9 in September (expectation was for about unchanged). While Manufacturing just ticked up (52.2 vs 52.0), Services bounced nicely (55.2 vs 54.2).

The Dallas Fed Manufacturing index stayed in negative territory in October (-5.0 vs -8.7 in Sept). This business survey has been negative eight out of the last nine months. Oil & Gas is a heavy component of this survey/data. Dallas Fed Services dipped further into negative territory (-5.6 to -9.4). The Richmond Fed Manufacturing index improved nicely from -17 to -4. The Kansas City Fed Manufacturing index increased slightly from 4 to 6.

Weekly Redbook Retail Sales slipped to 5% growth and then bounced a bit to 5.2%. They had been trending closer to 6%. But this is still a decent range.

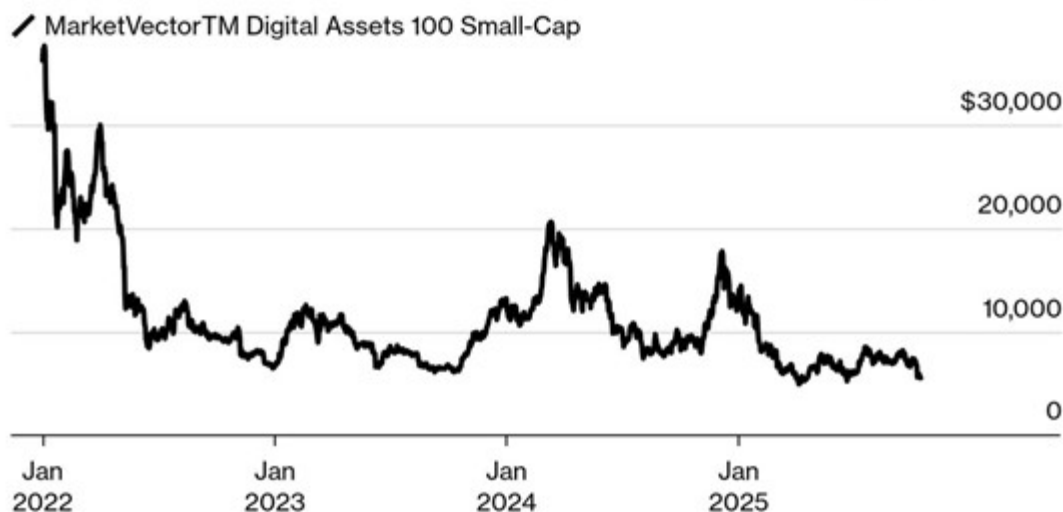
Consumer Confidence (the unbiased one) slipped a point to 94.6 from 95.6. This is better than expected. It is still in a flat range post the election spike higher and the inauguration pullback lower.

➤ Where did all the crypto money go?

Apparently, Initial Coin Offerings (ICO) are back in vogue. This was the branch of crypto pre-2018 that makes today's token mania look credible. The headline is that Coinbase (yikes, we have a position) is buying "digital asset investment platform" Echo for \$375mm. The owner of Echo calls himself an "influencer" using the handle "Cobie." Part of the transaction involves Coinbase buying a Nonfungible Token (NFT) for \$25mm. This NFT controls the broadcast rights of Cobie's podcast which has not aired anything since 2022. But now he will be compelled to make eight new episodes. It sounds like Coinbase is hoping its revitalization of ICOs can resuscitate the declining values of "altcoins."

Altcoins Drop Below FTX-Era Lows

The gauge tracks the performance of some of the smallest digital assets



Speaking of potential problems with tokens or coins or whatever, PayPal has a stablecoin. Paxos is the “issuer” of the dollar-backed experiment. Paxos accidentally minted (created out of thin air) \$300Trillion of the PYUSD token. \$300Trillion!

We have talked a lot about the Digital Asset Treasury theory: Companies buy or get gifted lots of crypto at the same time they are merging with a public company which is typically just a shell listing. It is the crypto world’s version of a SPAC. And just like the blank-check companies (that is the old name for SPACs), these DAT’s go on to trade at ridiculous multiples of their underlying assets. (Micro)Strategy (name change!) is the OG of this gift as they keep selling equity at a premium to Net Asset Value (good for them). But now, the jig might be coming to an end. Many of these stocks are actually trading at a discount to NAV. Clearly, they cannot keep the flywheel going. Enter ETHZilla. This is backed by Peter Thiel. Clearly, one of the smartest venture capitalists is not going to sell stock at a discount. So, he flips the script. The company is selling ETH to buy back its stock. This makes perfect sense in the real world. But it is a first in the digital world.

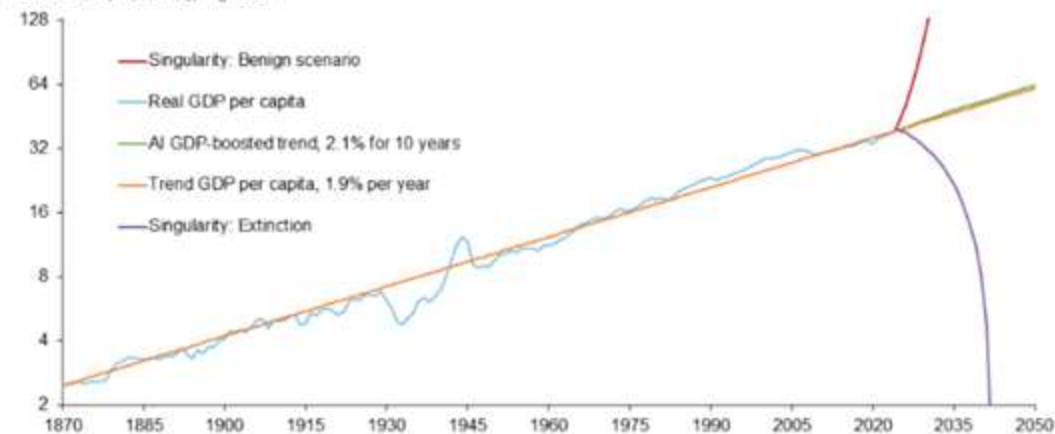
Speaking of the real world, we have been talking about the double-pledging of collateral for business loans. We have cautioned that while these episodes are fraudulent and not likely systemic, they do raise concerns about lending standards and the blind reach for yield in a cheap money world. It turns out, we had a pretty obvious instance of collateral fraud in 2023. It is in the news now because the perpetrator was just charged with fraud this week. This guy’s business (it was a fund) was in the structured settlements business (for lawsuits, judgments, lotteries, etc.) But unlike the recently uncovered auto sector frauds which at least tried to use the loans for legitimate business purposes, 777 Partners was using the borrowed money to buy multiple soccer teams, airlines (!) and a film studio. We would rather have half a box of car parts than a full share of any of these.

➤ Chart Crime of the week

There is a lot going on here for a rather simple looking chart. We think it plots GDP growth. We are not sure why it is plotted in 1990 dollars if the chart starts in 1870. But bottom line, apparently, there are only three scenarios for the future of the world: The status quo, Benign, and Extinction. Extinction? Yikes...

Chart 1
AI scenarios

1990 dollars (thousands), log scale



NOTES: The blue line is real gross domestic product (GDP) per capita in 1990 dollars. The orange line is a trend line fitted to the data for 1870-2024 with a trend growth rate of 1.9 percent per year. The red, green and purple lines are hypothetical paths for per capita GDP based on different scenarios.

SOURCES: Bureau of Economic Analysis; Haver Analytics; Macrohistory.net; United Nations; authors' calculations.

Federal Reserve Bank of Dallas

➤ Quick Hits

- X (Twitter) plans to start selling premium “handles” from \$2500 up to \$1mm.
- French law prohibits the Louvre from insuring its art collections.
- The Everglades are now home to thousands of pythons. In 1992, Hurricane Andrew destroyed a python-breeding facility, and the rest was history. (We have reported on this before, but it is back in the news because some are pushing for some sort of formal python hunt day).
- The Dallas Stars (1999 World Champions) have had six coaches that had two (or more) stints as head coach.
- 13,000,000 “memecoins” have been issued in 2025.
- When Manny Ramirez was with the Boston Red Sox in 2004, during training camp, he found a check for \$800,000 in his boot. It was from 2003.
- The country of Lesotho is the highest in the world when measuring to its lowest altitude. All of the African country is above 3,281 feet.
- The Malabar is the largest squirrel on earth. It typically measures three feet. It has blue, red, and orange hues.
- Kalshi, the federally regulated prediction market, argues that prop bets on individual player performance are legal swaps (and not sports bets) because these have “potential economic consequences.” They are referring to the players’s sponsorship deals!
- A new time interval has been recorded: The zeptosecond. It is one trillionth of one billionth of a second. It is the time it takes for light to traverse a hydrogen molecule.
- Bugatti made a Chiron entirely from Legos.
- Monday was the only day of the year that all four major sports leagues had games.
- There is a class action lawsuit against Hershey that claims consumers were defrauded. Buyers were deceived by the Halloween-themed “Reese’s peanut butter pumpkins” labels which depicted a “pumpkin-shaped chocolate with triangle eyes and a grinning mouth carved to reveal the filling beneath.” The suit was filed last year and dismissed. It has been refiled with new

claims of economic harm. (We thought this was another example of frivolous nonsense...until the Chalk Creek neighborhood kids, unsolicited, lamented that the Reese's pumpkins were a scam because they looked nothing like the packaging!!!).

- Footballs are called pigskins because they used to be made with pig bladders inside of a leather casing.

TSLAQ: Tesla car sales in Europe dropped 18% in September while all car sales in Europe increased 10%. Needless to say, Tesla's market share dropped again. It is now down to 1.4% of total sales (electric cars represent 16.1% of the market in Europe). But have no fear, Tesla is not a car company! (We do not have a position in the stock and have not had one for a while. To repeat, we think some of the Musk empire will be invaluable one day. It is just a matter of who/what participates in the economics of that empire!)

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