OTHER SIDE
ASSET MANAGEMENT

Why yes, Jerome…

INDEED!!

True resolve

Long-time readers know the story of Ignaz Semmelweis, we've written about him on numerous occasions in 2018 here & 2021 here; to note a few…

Semmelweis is the father of germ theory … NO, it's not Pasteur as public schools continue to teach today.

While Pasteur's experiments led him to publish on germ theory in 1861 after discovering that food spoiled due to contamination via microscopic (invisible) bacteria, which proceeded his efforts in both pasteurization and vaccinology … Semmelweis had his finger on the pulse of germ theory in the early to mid 1840's! (more than 15 years earlier)

In April of 1847, the mortality rate in one of the clinics he oversaw was 18.3%, though, after implementing a policy requiring all doctors under his purview to wash their hands with a chlorinated lime solution (calcium hypochlorite) as they moved from performing autopsies to delivering babies on May 15th, 1847, mortality rates literally plummeted.

With June 1847 being the first full month of utilizing his new protocol, the mortality rate dropped to 2.2%, then 1.2% and 1.9% in July and August, respectively.

It's difficult for us to conceptualize that handwashing wasn't standard

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For those unfamiliar with the story, lifesaving results be damned … Semmelweis's findings were ridiculed, rejected and largely ignored by the medical community for not only was his protocol in stark conflict with the "established" scientific and medical opinions of the time; they also implicated these doctors in being responsible for countless 'unnecessary' deaths.

As the story goes, Semmelweis was dismissed from the hospital he had been working at; though, remained steadfast in speaking out against the establishment after being ostracized from the medical community, who eventually had him institutionalized in 1865 for the accusations he made against his former peers, often calling them "irresponsible murderers"! (tough to argue given their refusal to even test or acknowledge his results)

Semmelweis died 14 day following his forced admission into an insane asylum by his 'peers'. He was beaten severely while resisting the guards, as he made all efforts to express his sanity. Ironic that the very thing he proved to be causing so many deaths in his hospital is what ultimately claimed his life as germs poisoned his blood after the bludgeoning … he died of septic shock.

It was only after Pasteur further developed germ theory of disease, nearly 20 years after Semmelweis's initial findings and eventual death, when he was finally considered a pioneer of "antiseptic procedures"!

Imagine something as simple as handwashing had leaders so obtuse that it led to a man's death?!

Given this past weekend's Memorial Day celebration, we're reminded of yet another story of principles and bravery amidst the arrogance and ignorance of the elites and their proclaimed experts.

In October of 1925, Americans watched a highly decorated officer in General Billy Mitchell and his reputation be dragged through the mud during court martial hearings by top military "leaders".

Mitchell's honors were vast, among them, he received the nation's second highest award for valor given his selflessness and bravery during World War One when aerial combat was in its infancy. A staunch advocate for air power, Mitchell believed an independent Air Force should be formed to rival that of the Army and Navy for given his experience in the air, which shaped his perspective, it was his belief that airplanes carrying massive bombs was far superior and could easily destroy a naval fleet.

At the time, the White House and top Naval brass had lobbied Congress for massive taxpayer dollars to fund the build of more battleships! In the face of his persistence and massive scrutiny from Mitchell, top Naval brass orchestrated many exercises, in which, of course, the battleships came out on top.

Mitchell called foul … calling the demonstrations rigged; and insisted on a fair and unbiased test. His persistence eventually led to a series of *"airplane vs. battleship tests from 1921-1923, when his Martin MB-2 bombers proved the vulnerability of warships to air attack by sinking the captured German battleship Ostfriesland."* *(*National Museum of the United States Airforce*)*

Just as the medical community ignored Semmelweis's results, staunchly defending their "established" scientific and medical opinions of the time", Army and Navy leadership, in conjunction with the White House did the same.

While both Semmelweis and Mitchell's results proved to have the ability to save an overwhelming number of lives … in the face of overwhelming proof and empirical data … pride, arrogance, ignorance, and an outright failure to be objective refusing to even consider that 'prevailing thought' could be even the slightest bit wrong; there was zero objectivity … zero impartial thought.

Semmelweis's methods dropped mortality rates by a staggering percentage, while Mitchell emphatically proved the superiority of airpower; leading Semmelweis to be ostracized from the medical community, dying in an insane asylum while Mitchel was court martialed when he accused both Army and Navy leadership of, *"almost treasonable administration of the National Defense"*.

During Mitchell's court martial hearings, he argued an officer's moral, legal and ethical obligation to educate and inform military leadership on his position for he truly believed a failure to recognize what he believed to be the inevitable, given his perspective, was treasonous as our country would be left exposed and vulnerable to certain attacks.

Again, his perspective was formed, in part, while *"commanding 1,481 American and Allied planes where he won complete aerial superiority and devastated German ground troops in World War One";* and dismantling foreign Naval forces, too … so he knew it could be done! He then exposed the rigged demonstrations organized by US Naval leadership, who just happened to be lobbying for more money from Congress in an effort to expand their battleship fleets!

It's a good thing conflicts of interest don't adversely affect one's thought process or decisions, not in the past nor present (insert sarcastic face here))?!
Mitchell was eventually found guilty on all counts charged during his court martial proceedings … of the thirteen-member jury of military *leaders* who decided Mitchell's fate, only ONE voted to acquit Mitchell … that gentleman was Major General Douglass MacArthur, stating, ***"that a senior officer should not be silenced for being at variance with his superiors in rank and with accepted doctrine."***

Through it all, Mitchell continued to argue his position and on April 3, 1939, FDR approved Public Law 18 that allowed for an expansion of the Army Air Corp, and on July 26, 1947, roughly 22 years AFTER Billy Mitchell was court martialed, President Truman signed the National Security Act of 1947 on board the aircraft nicknamed the Sacred Cow (think Air Force One).

The NSA Act of 1947 established the US Air Force, which became effective on September 18, 1947, making the Sacred Cow the "birthplace" of the USAF with Brigadier General William "Billy" Mitchell being known as the father of the United States Air Force.

Both Semmelweis and Mitchell were pioneers who stood on principles, honor and truth … they didn't cower to the pressures of the masses or those lauded as "experts" … they didn't cow tail to their "leaders", blinded

by personal bias … they remained resolute in their stances based on empirical data, facts and results; in the end … they were right!

Traits like these appear to elude the vast majority of those who are paraded around as "leaders" … the majority of today's "experts" are truly nothing more than unelected, installed puppets; paid shills or lackeys of career politicians beholden to their handlers … be it corporate lobbyist, 3 letter agencies, or multi-billionaires with an agenda … money and self-interests drive the majority of decisions, not facts or data.

We're at a point where merely questioning literal statistical impossibilities, be it with 'science", election integrity, or as we've recently been discussing from the standpoint of economics … government BLS data, makes you a "conspiracy theorist"?! In the instances that need it the most, critical thinking has been replaced with thought police.

Earlier this year, the BLS had provided statistical anomalies for three consecutive months, only to negatively revise said data (MoM) … negative revisions have become the new normal for roughly a year and a half now … but hey, they're the authority so we should believe them, right?!

Anyone who is in charge of a group, that's been so wrong for so long, while directly in public purview should no longer hold that position … full stop, yet we see zero accountability. At the same time, they are merely puppets perpetuating the lies and mistruths current leaders of said government agencies and the current administration tells them to.

Sans an errant typo, the data provided in these notes are empirical facts.

We don't claim to be a Semmelweis, nor Mitchell, but for years we've remained amongst a very small minority, standing firm in our principles, calling strikes and balls amidst a mountain of misinformation and outright lies!

We have and will always be open and honest with readers, telling them what we would want to know if roles were reversed … contextualizing and presenting the empirical data and warning readers of the risks that are most likely to manifest due to newer structural market forces as well as historical outcomes.

While we remain part of a minority voice, the likes of Lacy Hunt, Hedgeye Risk Management, Danielle DiMartino Booth and Mike Green, to name a few, have emerged as leaders in the financial space trying to warn about the dangers of irresponsible government spending, extremely poor Fed policy and structural market deficiencies forming due to regulation and passive investing.

The goal?! To help individual investors sift through the noise, in order to take advantage of reckless government spending policies, while proactively preparing for the dangers that loom in markets … to protect and preserve capital when historical and structural inevitabilities take hold.

The question is always, when will that be?! My answer remains: I have no idea … I don't' believe anyone does?! At the same time, the data gives us solid insight, but as we fall deeper into the spending abyss, the behavior of government officials becomes even more desperate and erratic.

An example of this would be the current administrations effort to cancel student debt … which has already been ruled unconstitutional by the Supreme Court, yet they callously defy the rule of law (desperation).

Another example would be the concentrated hiring of government employees, funded via deficit spending borrowed at multi-decade high interest rates, which continues to send the national debt to epic and unsustainable levels ($35+ Trillion) as debt to GDP rockets higher, too!

As the old adage goes, markets can remain 'irrational' or as some have come to understand, 'structurally inelastic', longer than most can remain solvent! So, what to do?! As my good friend and colleague Christopher Moir (@thousandfairefx) recently wrote:

"Free of any priors or bias I don't care if Twitter says we are going into recession and my system is piling into high beta growth stocks. I have a system to get us out if we are wrong. It's a game of percentages. It's boring and often there is nothing to write about, but it beats trying to trade using stories that we tell each other."

So, we're going to ride the insanity … until the capital preservations strategies we utilize trigger! Stated differently, we strongly urge all investors to have a risk management system that allows you to capture the upside, yet helps you mitigate the drawdowns … for when the damn cracks, it will be holding back multiple decades of excess leverage which came at the hands of artificially suppressed interest rates … that soon needs to be repriced.

So, what 'story' is the data currently telling us?!

Arguably that today is a better timeframe to channel our inner Dickens than in 4Q2020 when we titled that quarterly, "The Epoch of Incredulity", writing:

"over the course of my recallable lifetime, my 25-year professional career, it is my opinion that we have entered into a period in which belief or a suspension of belief has never been more polarizing… Observing all facets of life, whether it be politics, COVID, family values, finance; I often wonder if I'm living in a Dickens rewrite."

At the same time, our focus then was geared more on a, *"period of time in one's life, marked by a notable event where it became nearly impossible to believe your own eyes"* which, as we then stated, "*is the literal definition of "Epoch of Incredulity"* … hence, why we chose that specific, less known excerpt from the infamous Dicken's opening paragraph that we did.

Today, the focus is less the disbelief, but more so the growing chasm between those with and without means! As Dicken's wrote:

*"It was the **best of times**, it was the **worst of times**, it was the age of wisdom, it was the age of foolishness, it was the **epoch of belief**, it was **the epoch of incredulity**, it was the **season of Light**, it was the **season of Darkness**, it was the **spring of hope**, it was the **winter of despair**, we had **everything before us**, we had **nothing before us**, we were all going direct to Heaven, we were all going direct the other way …" ~ Charles Dickens, 1859*

It just depends on which slope of the "K" you are one.

In short…

The data continues to tell us that we're staring at a Tale of Two Cities!

An increasing amount of data continues to show a ROC (Rate of Change) improvement globally, off of recessionary lows, as inflation continues to reaccelerate in the face of the Fed's 'bumpy' prognosis; thus further squeezing the bottom half of the "K" in the "K" shaped recovery we've been discussing, creating an even larger divide between the "HAVES" vs. the "HAVE NOTS".

We're witnessing the top percentage of the "K", reaccelerate their spending, while current government and federal reserve policy has created an environment as to where **…** *"Nearly 80% of Americans Say Fast Food Is Now a Luxury Because It's Become So Expensive"*!!

This ladies and gentlemen is downward slope of the "K"!

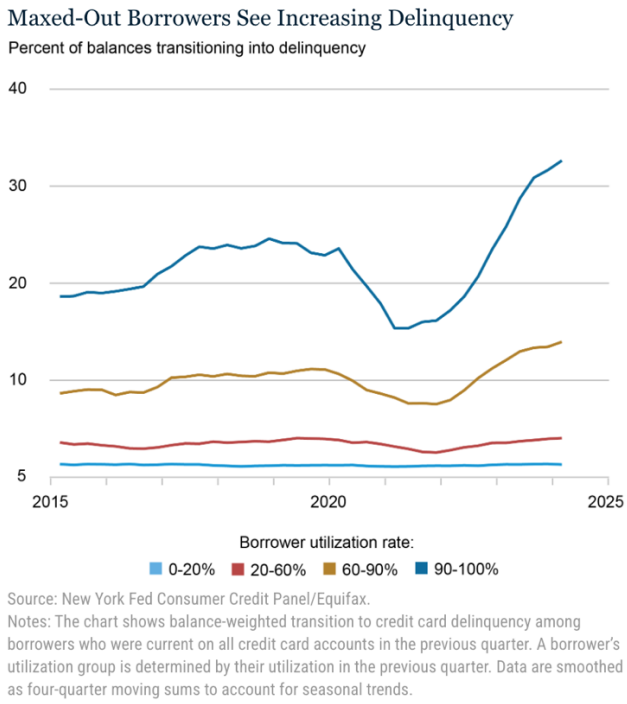
It's estimated that the top 20% of income earners account for nearly 40% of consumer spending in the U.S; the top 40% of income earners account for north of 60% of spending … which leaves the bottom half of the "K" (or nearly 60%) of our country responsible for slightly less than 40% of all consumer spending.

In a recent poll conducted by LendingTree.com, *"78% of consumers view fast food as a luxury because it's become increasingly expensive"* … a similar poll shows, *"a staggering 64% of Americans admit to living paycheck to paycheck at least intermittently — 46% of whom say they do all the time"* … supporting what we've written in the past when suggesting nearly 60% of Americans don't have the capacity to cover a $1,000 emergency.

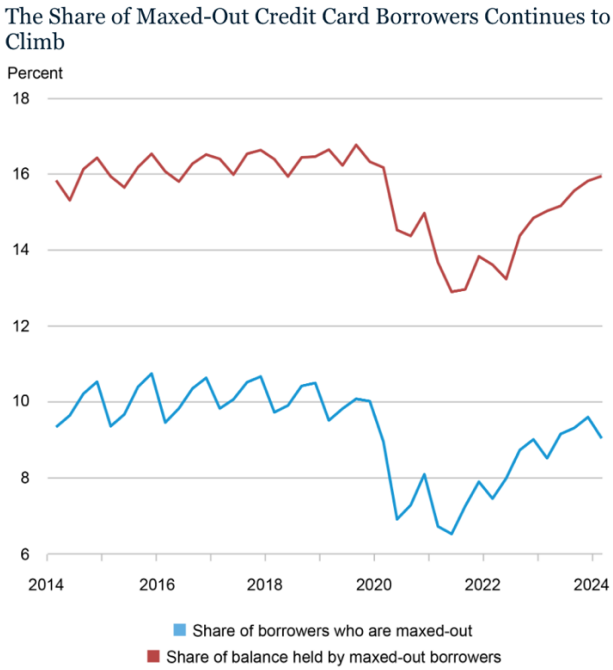
Interest payments to those in the bottom half of the "K" are exceeding interest income … remember, these people are leveraged, i.e., they have a ton of credit card debt with yields near all-time highs; which means the little money that they do have in their bank accounts is leaving faster than it's coming in (paycheck to paycheck), thus, earning NO interest income … ZERO!

Some might point to the recent weakness in revolving credit growth as a positive, suggesting people don't need the access to high-cost funds?! Current growth levels are the softest we've seen in nearly 3 years, … however, the work of Hedgeye's Josh Steiner suggests otherwise! While it doesn't dispute the RoC deceleration in revolving credit growth given the most recent 0.0% MoM change from +0.8%, this data alone doesn't mean that the need for money no longer exists!

Recent data out of the NY FEDERAL RESERVE shows the percentage of borrowers who are MAXED OUT is skyrocketing …



Source: New York Fed Consumer Credit Panel/Equifax.
Notes: The chart shows balance-weighted transition to credit card delinquency among borrowers who were current on all credit card accounts in the previous quarter. A borrower's utilization group is determined by their utilization in the previous quarter. Data are smoothed as four-quarter moving sums to account for seasonal trends.



Source: New York Fed Consumer Credit Panel/Equifax.
Notes: Maxed-out denotes borrowers who have 90 percent or higher utilization across all credit cards. Delinquent borrowers and balances are excluded. Data are not smoothed and reflect seasonal patterns.

Please see the footnote from the image on the right: ***"Delinquent borrowers and balances are excluded."***

I can't tell you if it's intentional, knowing most don't read footnotes or coincidental, but the Fed's graphs are grossly understating current reality!

As we've just entered the worst environment to find a new job since 2011 …

Jobs

Earlier this month the BLS reported the weakest jobs report since October of 2023, coming in at +175k, a near 45% decline from the upwardly revised March data. And yet again, in what has seemingly become a ritual, we bear witness to another negative revision for a previous month … with February being revised down by 34,000 jobs from +270k to +236k.

As noted above, March data was revised up 12k jobs from +303k to +315k … however, net net, given the month over month revisions in both February and March, the data remains 22k weaker than previously reported. The drag was largely due to a lack of government jobs being added; a paltry 8k jobs in April vs. the private sector which scraped together +167k.

And just when you think the agency was about to be honest in how weak the labor market truly is, the infamous birth/death model decided to add a mere 363k jobs!

Additionally, the arguably more reliable "household survey" showed a de minimis 25k jobs being added, which is a far cry from the near 500k the survey reported in March. This pushed the unemployment rate minimally higher from 3.8% to 3.9% … it's highest level since early 2022…

Couple this with the JOLTS (Job Openings and Labor Turnover) survey and you're getting a much clearer picture into the weakness in labor markets, with job openings collapsing to 8.488 million openings, nearly 325k below an upwardly revised 8.813 million … a 192k miss from consensus expectations of 8.690 million.

Don't worry though, per the report, miraculously, state and government education jobs INCREASED +68k while construction job openings cratered from 456k to 274k … a never before seen in recorded history MoM collapse of -182k MoM openings.

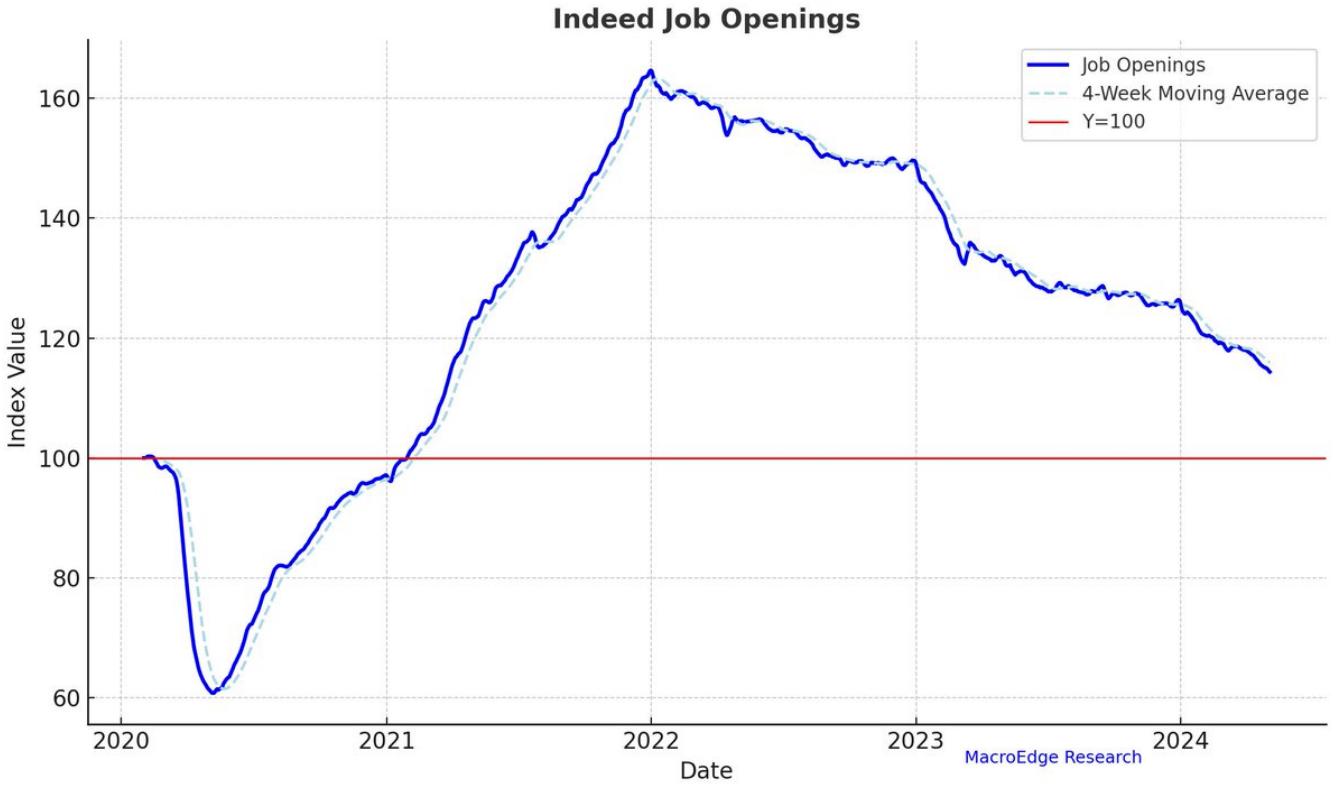
The report showed weakness across the board from the reliance on Birth/Death adjustments to the Hires vs. Quits rate! It's truly amazing what happens to the data when the government isn't juicing the numbers but is likely preparing us for another round of hiring!

It's almost as if those controlling the data finally woke up to the understanding that a collective knows they're full of **it?!

What's slightly more interesting to us, is that fact that with 785 PhD economists at the Federal Reserve, Fed Chairman Jay Powell, literally cited weakness in the Indeed.com labor data alongside the government's own JOLTS report: (abridged quote)

So, I do think the evidence shows, you know, pretty clearly that policy is restrictive and is weighing on demand, and there are a few places I would point to for that. You can start with the labor market. So demand is still strong … but it's cooled from its extremely high level of a couple years ago, and you see that in job openings. You saw it—more evidence of that today in the JOLTS report, as you'll know … But it has been coming down both in the ***Indeed report and the JOLTS report****. That's, that's demand cooling. The same is true of quits and hiring rates*

Chart below: per @MacroEdgeRes 5/8/2024



And that, indeed, is a major slap in the face!

NFIB

The current (restrictive) Fed policy stance through their use of their interest rate tool continues to show up in the NFIB small business data, which admittedly, showed an improvement, a very small one, but less bad can be a sign of something better on the horizon?! On a headline basis, the data accelerated +1.2 points to a reading of 89.7, with actual earnings increasing +2 points from -29 to -27 MoM! However, actual sales declined -3 points from -10 to -13 with the single most important problem continuing to be INFLATION.

The more persistent inflation remains, the more challenging it will be for all small to medium sized businesses to remain viable enterprises, let alone prosper, for more reasons than just one. Given the current environment, while the Fed attempts to flip flop back and forth on a rate decision, the market has a firm grasp on interest rates, ultimately hiking the 10-year treasury yield multiple times over the past few months, ultimately doing the Fed's job for them … again, higher for longer!

Within the most recent NFIB report, we'd note that while the average effective interest rate did see a decline of -50 basis points, it's still currently sitting at an eye watering 9.3%. In Mid 2020, this rate hovered just above a 4% … and from late 2020 to Mid 2022 it averaged roughly 5% +/- … 9.3% is roughly 86 to 100% greater for the average borrower, that's nearly double what it was a mere few years earlier (2020 to 2022).

Without a significant cut in rates, small and mid-sized businesses will cease to exist as we know them … gutted shells with limited employees offering sub-par service. At the same time, should the Fed decide to cut

rates, the inflationary pressures which are noted as the number one concern for these businesses will skyrocket, further choking these businesses out … which is what we've been describing ad nauseam when discussing margin compression.

Per the NFIB data, it should surprise not a single reader that small business 'hiring plans' have fallen off of a cliff corroborating the Jolts and labor data discussed above.

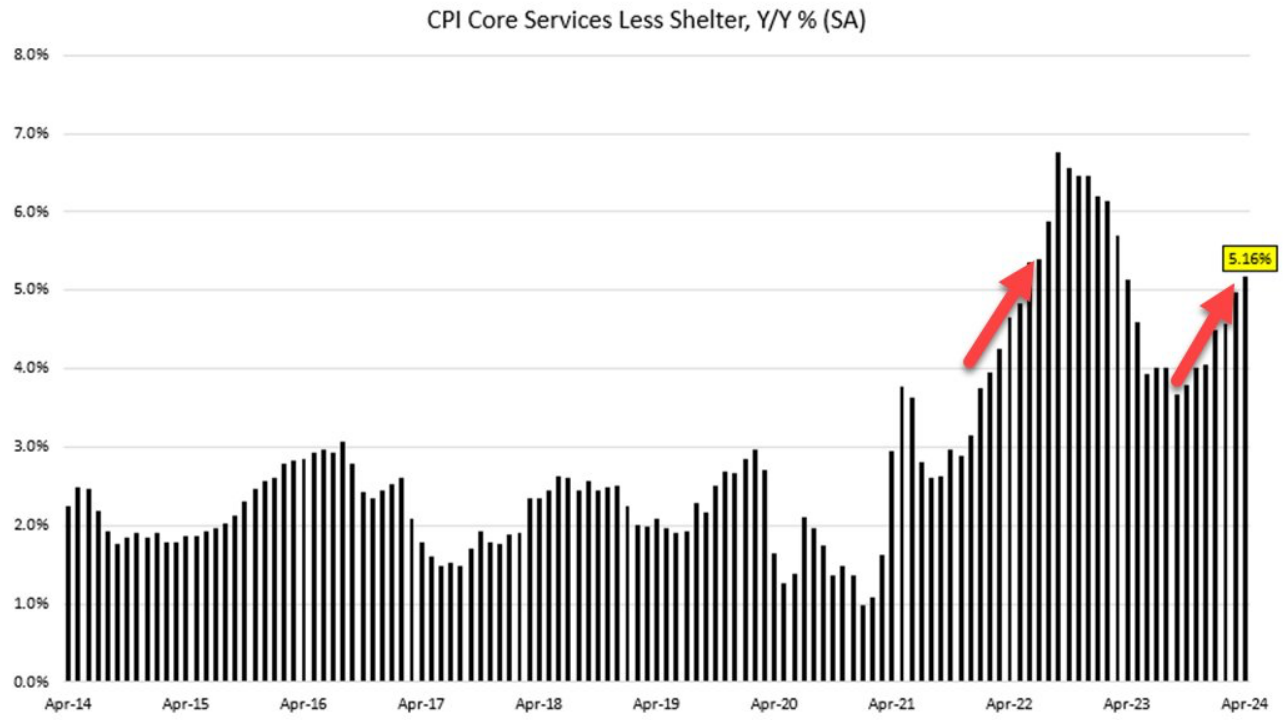
With that in mind, let's touch on that number one concern for the majority of small businesses:

Inflation

As the current unelected bureaucrat Du Jour would have you believe inflation will be "bumpy", just as they attempted to convince you it would be "transitory", we've been reporting reality … CPI data bottomed and has been re-accelerating since last June!

Most recently, headline CPI came in better than wall street expectations at +0.3% MoM … by a laughable 10 basis-points (+0.4% MoM) … it was up 3.4% YoY with Core, EX-food and Energy also up +0.3% MoM which was in line with expectations and +3.6% YoY. Again, this "beat" remains firmly entrenched in a higher for longer environment, and a FAR CRY from the Federal reserve's 2.0% target.

What should be more concerning to the Fed is their aggressively touted CPI Core services number came in at its highest reading in over a year; an eye watering +5.2% YoY! It's no coincidence that with the number no longer agreeable to their narrative, they've been downplaying it. Per @Hedgeye @KeithMcCullough



The largest deflationary pressure within the report came at the hands of used cars, which decelerated -6.9% YoY, removing roughly -20 basis points from the headline number.

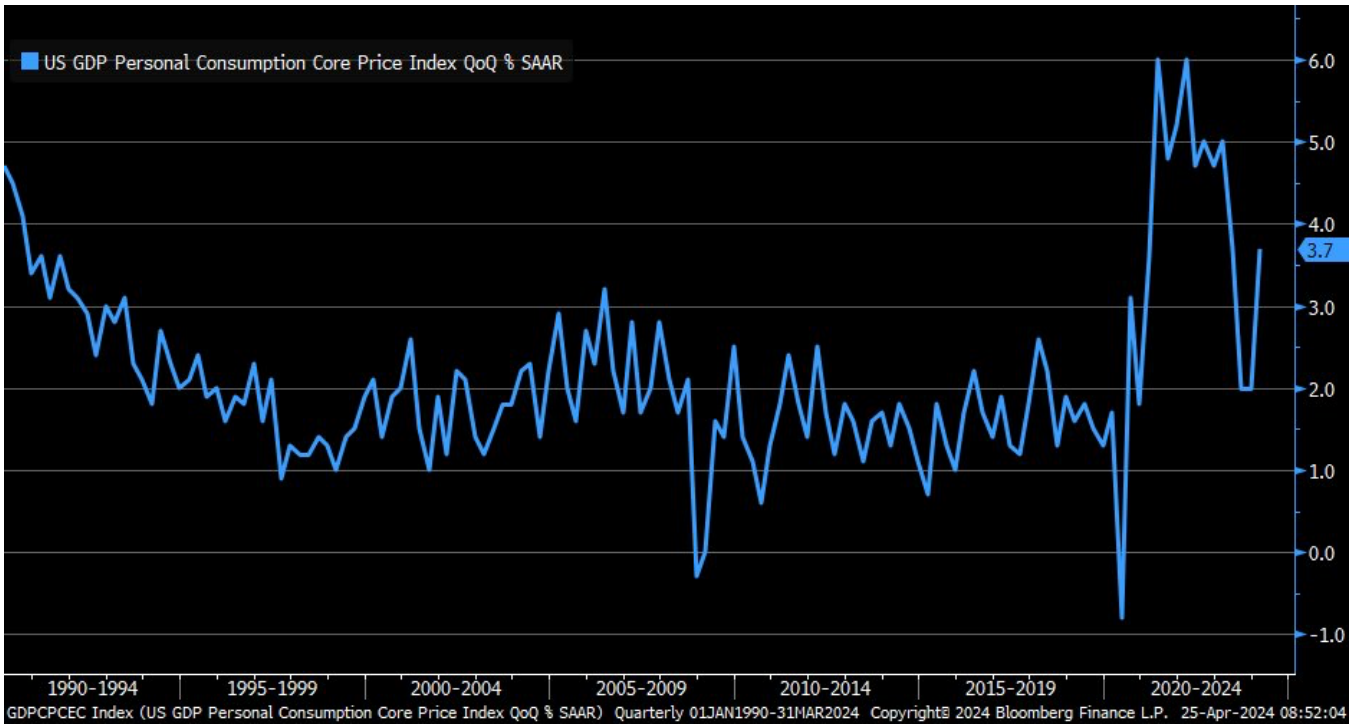
And while some may be waiting for housing to drag CPI down into the back half of the year, pointing to the NAHB Housing Market Index drop from 51 in April to 45 in May, with a MoM deceleration of roughly -10% … The Case-Shiller HPI for March, which was just reported, came in up +1.3% MoM and +6.5% YoY. The MoM acceleration was the largest MoM increase in just under a year with the YoY data in line with the previous month.

We're currently staring at all-time highs in home prices, above the 2022 peak, with mortgage rates through the roof. If you wonder how this could be?! Consider what we've written as far back as June 2023:

QE and the obscene amounts of MBS purchased by the Fed drove mortgage rates to levels that created an environment in which the vast majority of mortgagees are "rate locked" given current mortgage rate levels (as described above). This is not up for debate, and it's just one of many markets that's been distorted and mispriced.

The vast majority of home sellers remain rate locked with mortgages priced near 3% vs. where they currently are today?!

Speaking of inflationary pressures, chart courtesy of Schwab's Chief Investment Strategist, @LizAnnSonders Core PCE (Personal Consumption expenditures) increased +3.7% QoQ into 1Q2024! PCE measures the changes in prices of goods and services purchased by consumers in the United States



Additionally, this month's PPI came in much "hotter" than expectations, up +0.5% MoM and +2.2% YoY … with solid accelerations across the entire report. Again, PPI is typically a leading indicator for inflation as measured by CPI for as producer prices (PPI) rise or fall, producers are most likely to defray their costs by passing them along to the consumer (CPI).

Ironically, "Food" came in at -0.7% MoM, placing some pressure on the data series … for those curious as to why we find irony in this data point, it's because we've been noting price surges in just about everything 'food' for months now!

Mid-month, Tea, Orange Juice, Butter, Potatoes, Rice and Wheat were all UP +5.5%, +14,3%, +5.14%, +5.61%, +1.4% and +5.35% respectively IN A WEEK … Cotton was the laggard, down a whopping -2.28% … Again, we're seeing sharp rises in virtually all things food … this is on top of the massive spike in both Cocoa and Coffee we've also been noting for months now.

Food, housing, metals, Oil and gas … coupled with a significant rise in shipping and freight which will make its way into the data on a near 8-month lead/lag, as we've been noting since January; with a MASSIVE EASE IN BASE EFFECTS HEADING INTO THE BACK HALF OF THE YEAR?! These pressures aren't going anywhere anytime soon.

The Shanghai Containerized Freight Index (shipping) has accelerated roughly +170% YoY … what do you think that's going to do to all of the cheap "Goods" our country buys from China?! What do you think is going to happen given the current administrations new Tariffs on China?! (uhm, think INFLATIONARY)

Even more desperation

Again, please … make all efforts to remove your political bias here and try to think objectively. Last week the administration, via the Department of Energy made another desperate decision:

*"Today, the U.S. Department of Energy's (DOE) Office of Petroleum Reserves announced a **solicitation** for the sale and liquidation of 1 million barrels (42 million gallons) of gasoline in the Northeast Gasoline Supply Reserve (NGSR). This solicitation is strategically timed and structured to maximize its impact on gasoline prices, helping to lower prices at the pump as Americans hit the road this summer."*

In doing so, they have literally depleted the near "decade old reserve" which was created in 2014, following Hurricane Sandy. The narrative you're sold is that this release is something that had to be done, that it's being timed perfectly to reduce gas prices heading into the fourth of July week and we'll be better off for it!

The reality is this is being done as many global economies re-accelerate out of recession, which will create more demand as we give away our supply while already being under reserved, making us more reliant on middle eastern countries at a time of unrest in that region.

Again, these inflationary pressures are NOT going away unless someone attempts to deliberately bury them; it's mathematically impossible at this moment in time … the question I have though, is do you believe the

WoW, MoM and three-month trending surges in prices or the government employees searching for any possible way to tone inflation down?!

As we move on, let's quickly revisit something we said earlier:
"… as we fall deeper into the spending abyss, the behavior of government officials becomes even more desperate and erratic."

Social security

Full transparency, I didn't have the EXPANSION of a near a bankrupt social program in need of serious repair on my 2024 bingo card, that being said, desperate times call for desperate measures, I guess?!?!

To be clear, I'm quoting directly from the Social Security website dated May 9th, 2024:

"The Social Security Administration recently published a final rule, "Expand the Definition of a Public Assistance Household." This final rule announces one of several updates to Supplemental Security Income (SSI) regulations that will help people receiving and applying for SSI.

These benefits help pay for basic needs like rent, food, clothing, and medicine.

Under the final rule, beginning September 30, 2024, the agency will expand the definition of a public assistance household to include households receiving Supplemental Nutrition Assistance Program (SNAP) payments and households where not all members receive public assistance. The expanded definition will allow more people to qualify for SSI, increase some SSI recipients' payment amounts, and reduce reporting burdens for individuals living in public assistance households."

So, our current administration, who is attempting to blame all things inflation on "corporate greed", is now playing the MMT game at an epically dangerous level. The Social Security Administration, which is supposed to be an "independent" agency within the Executive branch of government, is now trying to expand its handouts to an additional 42 MILLION people … one month before the election!

Ladies and gentlemen, say hello to the newest UBI plan (Universal Basic Income) plan introduced without Congressional approval!

I truly do NOT care what your politics are … however, if you don't understand that expanding bankrupt programs, funded by deficit spending at obnoxiously high interest rates which simply hands money … that we don't have … to over 42 million people to be 'spent' and not 'lent' isn't inflationary, I don't know if there is a single word that I can write that might be of help to you?!

Whether eventually challenged in court or not, these policies in the very short term, along with the administrations most recent attempt (as of a week ago) to 'cancel' billions more in student loan debt is adding an accelerant to the already raging inferno that is inflation re-accelerating.

Green shoots

At the same time, should court challenges strike the legalities of these policies down from the expansion of the Social Security programs to SNAP participants or do so "AGAIN", in the case of the cancellation of student debt as SCOTUS already has, the outright defiance of the current administration to follow the law, coupled with newly introduced policies every day, are outright causing and perpetuating the very inflation they're attempting to blame on "corporate greed".

These policies are not just prolonging inflation. Spending, at least in the short run, will also provide an acceleration to some key data points, which will intermittently flow through to GDP. This has markets trying to decide whether or not we're economically in a reflationary market regime (both growth and inflation accelerating simultaneously) or in a stagflationary regime (growth decelerating as inflation accelerates)?!

Signs of bottoming and rate of change improvement can be seen in things like:

Manufacturing … which has improved across the globe with the Global manufacturing PMI registering 50 (expansionary) or higher for the last 4 months after being sub 50 (or contractionary) for the previous 16 months … it's notable that global trade volumes bottomed in September of 2023 and have also been incrementally accelerating since, most recently registering a positive +1.1% in February.

Additionally, ISM manufacturing is up 2.2% YoY with both pipeline activity and backlog/supplier deliveries trending higher. Moreover, the number of industries reporting growth within the ISM data recently registered 8 vs. 2 last November … Admittedly, this is down from the 11 and 12 in February and March, yet the trend remains positive.

It's also notable, that just as we've described the easing base effects surrounding inflation into the back half of the year, a similar dynamic exists with the year over year comps on freight given the prolonged weakness over the last year and a half.

So, the YoY, rate of change improvement in shipping, rail, and trucking should continue as global demand continues to reaccelerate … these easy comps should act as a tailwind for growth.

With equity markets elevated, CEO confidence has hit multi-year highs … remember, think upper leg of the "K" shaped recovery, these are large companies with cash earning significant interest income on investments! This is in stark contrast to those smaller companies which have extremely elevated effective interest rates as discussed above in the section titled NFIB.

Confidence, coupled with the massive amounts of deficit spending has also begun to loosen lending conditions which is providing a bit of a tail wind for the C&I (Commercial and Industrial) sectors.

When combined with the current 'favorable' employment conditions, be it artificially propped up via government hiring/deficit spending or not, money flows into retirement accounts have remained stable, while the incomes of those with jobs remain strong … in turn, creating an environment where equities find themselves elevated (for now)

This dynamic contributes to a 'wealth effect' for those on the upward sloping slant of the "K" … the more money one sees in their brokerage/retirement/bank accounts, the more comfortable they are with going out and spending money on (insert discretionary item here), while those buried in debt, will continue to spend on staples like food, shelter and gas, but little else.

As we've described, its truly a tale of two cities … we are living in a time where the rich are truly getting richer, taking on a larger portion of the consumption load as noted above, while those with limited to no funds and extremely high debt are literally starving as food banks have note a 30+% increase in need, with over 68% of food banks surveyed stating they've seen an increased need for assistance.

This massive divergence can also be seen in the corporate world when looking at businesses by size.

Current policy is literally dismantling the middle class as we know it, creating a massive divide between those either riding the top slope of the K higher or those holding on for dear life to the bottom slope of the "K"!

We're getting a bit longer in the tooth than we'd like with this note, so we'll save structural deficiencies for next month and head into:

Final thoughts

During a recent House Ways and Means Committee hearing, Treasury secretary Janet Yellen recently said, *"people generally are better off in spite of the price increases."*

Recently Minneapolis Fed President, Neel Kashkari stated, (per MarketWatch) *"the April job report, which showed job growth slowed to a six-month low of 175,000 was "not a soft report.""*

Nah, wasn't' soft at all Neel (palm meet forehead)

And lord only knows what the Federal Reserve Chairman is trying to do as he sends out smoke signals by citing sources like indeed.com outside of the prevue of his precious 785 PhD economists … admittedly, indeed.com has been more accurate, but just come out and speak the truth already, Americans are in desperate need of it!

Currently there are few adults in the room willing to stand up to the unelected bureaucrats currently playing very dangerous games with their poorly supported economic models and academic theory as living, breathing Americans suffer in real time.

- No leader is standing up at the Department of Energy, discussing the dangerous ramifications and impacts that draining the Northeast gas reserve could have on our country?!
- No one at the Department of Education is discussing the LEGAL repercussions for attempting to cancel legal and binding contracts, nor the precedent this sets, or how the administration is outright ignoring a ruling from the Supreme Court

- No one in a position of power at the Social Security Administration is speaking out about the true impact of unfunded liabilities and what effects their new policy will have on future federal deficits and a national debt of nearly $35 Trillion as foreign investors step away from buying US treasuries at an alarming rate.

There is little to no sign of life doing anything to fix the structural problems currently plaguing our system. Unfortunately, there's not a Semmelweis or Mitchell anywhere near the room with a voice loud enough to force the necessary change required to stop what history suggests to be an epic collapse that lies ahead.

Good time, gooood times!

With that in mind I share this final anecdote … prior to his court martial hearings, Mitchell made an eerie prediction … this is a true story per: *The National Museum of the United States Air Force*

"In an official report submitted after his trip around the Pacific Ocean in 1924, Mitchell warned that Japan's expansionism would lead to conflict with the United States, and he foretold how a war would start. He stated that the war would begin with a surprise attack by Japanese forces on Pearl Harbor, Hawaii in conjunction with an assault on the Philippines.

Attack will be launched as follows:

Bombardment, attack to be made on Ford Island (in Pearl Harbor) at 7:30 a.m. … Attack to be made on Clark Field (Philippines) at 10:40 a.m.

On Dec. 7, 1941, the Japanese attacked Pearl Harbor at 7:55 a.m. and Clark Field just hours later."

While it took 17 years for Mitchell's prediction to come true … it did so with eerie similarities and detail.

That being said, I don't know when the structural flaws will expose themselves, but I know the flaws exist. At the same time, very little surprises me as to the lengths those in a position of power will go in an effort to remain there!

What I can tell you is that our income/retirement plans are rooted in conservatism, while our growth/inflation verticals are risk managed to cut losers before they become problematic while giving investments showing strength the ability to run.

Barring outright financial catastrophe, we should be in much better shape than most as markets most frequently give us warning signs to get out, which we'll take our ques from and risk manage accordingly.

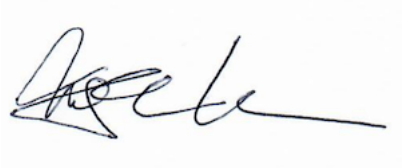
Hand washing in the medical community didn't exist until Semmelweis, it's now standard operating procedure … our U.S Air Force exists as it does today because of the courage of Mitchell … today we've got the strongest Air force in the world!

For the time being, we'll continue to do our best to educate readers on the rate of change in economic data, the looming structural dangers that lie ahead and risk manage appropriately buying strength and selling weakness, while standing with others like Hedgeye risk management who have built a process allowing others to do the same.

Be it next week (doubtful) or 2 years, we grind every day to make sure we're as prepared as we can be to protect, preserve and grow our clients hard earned capital!

Never be afraid to be a minority voice amongst a crowd, show true resolve when the facts, truth and data are on your side!

Good Investing,



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