



*Eventually, the **TRUTH** always comes out!*

"Whoopsies ... did Jay Powell just signal yellow lights/proceed with caution on rate cuts to Wall Street?!" ~ [OSAM 11/30/24](#)

The truth often hurts

This opener will more than likely win me zero popularity contests, at the same time, there were few other thoughts that came to mind in order to succinctly illustrate my point.

Do you think your spouse would react more favorably to statements such as: you look stunning (or handsome!) That dress (or outfit) looks beautiful/dapper on you! All of that time you've been spending working out is really paying off, you look fantastic. Do you have any idea how gorgeous your smile is?! It's infectious ... it literally lights up the entire room!

OR

You look like you've gained a good 15-20lbs this holiday season?! You might want to consider cutting back on all that dessert you've been eating?!

I would hope the answer to be obvious?!

At the same time, what if the latter was actually more truthful and had the potential to save your life?!

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My wife is one of the kindest human beings on the face of the earth. I can't think of a person who meets her that doesn't like her. She's stunningly beautiful, in tremendously good shape, works out constantly (I'd argue too much) and her infectious smile is as radiant today as it was when it captivated me the instant I laid eyes on her nearly 2 decades ago. She doesn't have a mean bone in her body.

Over the course of our time together, I ballooned from roughly 260 pounds to well in excess of 335, it didn't happen overnight ... it was gradual, yet it happened. For years she attempted to kindly and respectfully help me but who wants to admit that they are uncomfortably obese, regardless of how the truth is delivered?!

Following the death of my brother in October of 2020, she looked at me and said, "please, I need you to be healthier ... I need you to be around for a long time, for myself as well as our two girls." Her words pierced my heart ... they hurt to hear and acknowledge, yet deep down I knew she was right!

After running from the truth for so many years, my first full blood panel in decades revealed that I was a 45-year-old with the body and health markers of a 72-year-old (metabolically). I was a stone's throw from being pre-diabetic (among countless other ailments) ... I couldn't touch my toes, my back spasmed regularly, I snored obnoxiously when I did sleep and wheezed when walking a flight of steps! The truth was unsettling, and boy, did it hurt!

For years I didn't want to hear or accept the truth, and in the end, I couldn't outrun it ... this was my reality which manifested over time; without intervention, an early grave was highly probable!

So, what in the heck does this have to do with finance?!

We've always tried to provide readers with the information we'd want to hear if roles were reversed and much of the information, we present is often contradictory to what larger Wall Street firms, financial media outlets and the Federal Reserve is saying.

We won't go so far as to say, "fake news", but there is without question a narrative predominantly presented which differs greatly from the rate of change in data we follow. As we've noted in the past, the data is empirical ... which by definition is verifiable vs. theoretical ... per Oxford: *"based on, concerned with, or verifiable by observation or experience rather than theory or pure logic."*

It's what allowed us to point out the massive "[disconnect](#)" between Wall Street and Fed expectations last December ... and we were right. From early on in the year we [were detailing how the base effects](#) created an extremely high probability of inflation reaccelerating into *"the back half of the year"*!

We also detailed the transitory weakness in inflation through August and September, telling readers this weakness was likely to provide the Federal Reserve an excuse to implement a few rate cuts before it should become undeniable that inflation was reaccelerating on a rate of change basis ... this didn't happen by accident either.

As we [wrote in July](#):

*“We’ve been discussing the importance of base effects and their easing **into the back half of the year**, thus a persistently higher inflation for longer... with the help of Hedgeye’s Josh Steiner, we’ve also highlighted the August, September time frame to be the exception to this trend with base effects flat to mildly accelerating ...*

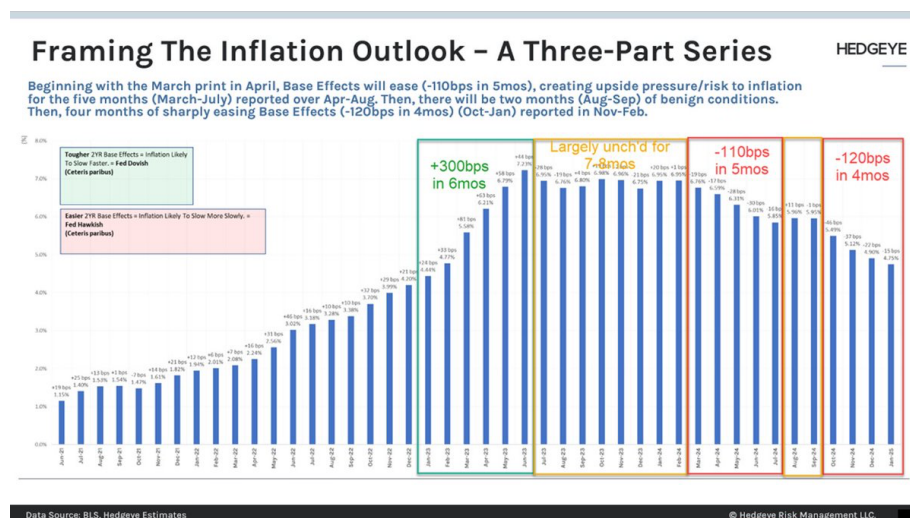
Wall Street continues to beg for rate cuts, and given the current set up, and given the likelihood that we see another deceleration in the August, and quite possibly September data, Wall Street is most likely going to get it?!

Though, don’t be surprised when you have to jump back on that seesaw?!”

When Powell uttered the quote, we opened our piece with on November 14th, he literally jumped back on the very **seesaw** we spoke of in July ... it was only a matter of time before he was forced to acknowledge the truth (if only half-heartedly).

Though, there was a reason we felt it important to highlight his statement in our November monthly after informing readers it was more than likely to happen nearly 6 months prior ... it was IMMINENT and PREDICTIBLE ... they were setting markets up for their upcoming December FOMC meeting!

The narratives Powell and his minions attempt to sell to the public, with the help of his bought and paid for media outlets, infrequently match up with rate of change analysis of the data. Their models are archaic, yet the recent data has been too obvious to ignore ... which is exactly what we’ve been attempting to explain to readers from as early on as [February](#) when we presented the below illustration showing what would likely turn out to be one of the largest historical easing’s of the Base Effects (courtesy of Hedgeye’s Josh Steiner) [we stated](#):



“... given the easing base effects into the back half of the year, and rising pressures in things like shipping (which is on an approximate 8-month lead/lag flowing through into the data), and other commodities, like meat, eggs, milk, copper, etc ... it becomes extremely difficult mathematically to get anywhere close to the Fed’s 2% inflation target! Thus, we remain in the “higher for longer” rates camp ... UNLESS ... something “markets related” breaks bringing us much larger issues.”

Eventually the truth becomes extremely difficult to outrun in all facets of life ... be it your personal health or financial wellbeing!

While we have the ability to control our own health, frustratingly, the Fed's lies and mistruths eventually have a negative impact on the vast majority of Americans, especially when it comes to their ability to put food on the table or heat their homes given the cumulative price increases over the last 4 years; and now we are being presented with a reacceleration in the cost-of-living kicker!

Inflation

The most recent Headline CPI accelerated yet again, increasing +0.3% on a MoM basis (in line with consensus) and +2.75% YoY. Core CPI remains stubbornly high, also accelerating +0.3% MoM and +3.3% YoY with "shelter" accounting for the majority of the gain.

Headline CPI troughed in September with its +2.44% YoY print and has been reaccelerating since. At the same time, Headline PPI (Producer Price Index) accelerated +0.38% MoM and +2.98% YoY for the month of November vs. an upwardly revised October number of +2.63% YoY making it six consecutive months of increases.

Both "Goods" and "Services" prices increased with goods up +0.73% MoM and +1.14% YoY vs. +0.18% YoY in the prior report) and services prices increased +0.26% MoM and +3.87% YoY (vs. +3.79 YoY in the prior report)

There was a slight acceleration in Energy prices, increasing +0.20% MoM, with YoY data being "less bad" coming in at down -6.20% YoY vs. -8.24% YoY in the prior data set (less bad = rate of change acceleration) with Food prices also higher +3.07% MoM and +5.02% YoY vs. the +2.57% previously! Even still, Core PPI Excluding Food and Energy accelerated +0.22% MoM and +3.45% YoY.

Additionally, from the BEA (Bureau of Economic Analysis) the Core PCE deflator saw a mild acceleration of +0.11% MoM, while the headline PCE deflator increased 13 basis points MoM from +2.31% YoY to +2.44% YoY as Core PCE increasing (nominally) from +2.79% YoY to 2.82% YoY.

Inflation is REACCELERATING and the Fed has delivered 100-basis-points of cuts since September! In response, the 10-year treasury bond has responded with a big:

NOT ON MY WATCH!

We [noted in October](#) that the 10-year had jumped from 3.61% to 4.27% ... today, we stand a tick shy of 4.62%!

United States Government Bond 10Y

US10Y 4.619% +3.2 (+0.70%)

23.04%

21.91%

Last Updated • Fri Dec 27 1:30PM EST

Total Return (3M)

Total Return (1Y)



The continued accent of the 10-year treasury yield in the face of the Federal Reserve's most recent 25-basis-point cut at their December 18th FOMC meeting was something we've been anticipating. What apparently surprised much of Wall Street was the Hawkish tone and forward guidance attached to the cut ... INCREASING inflation expectations into 2025, while simultaneously REDUCING future interest rate cut expectations via their "DOT PLOT" from 4 cuts to 2!

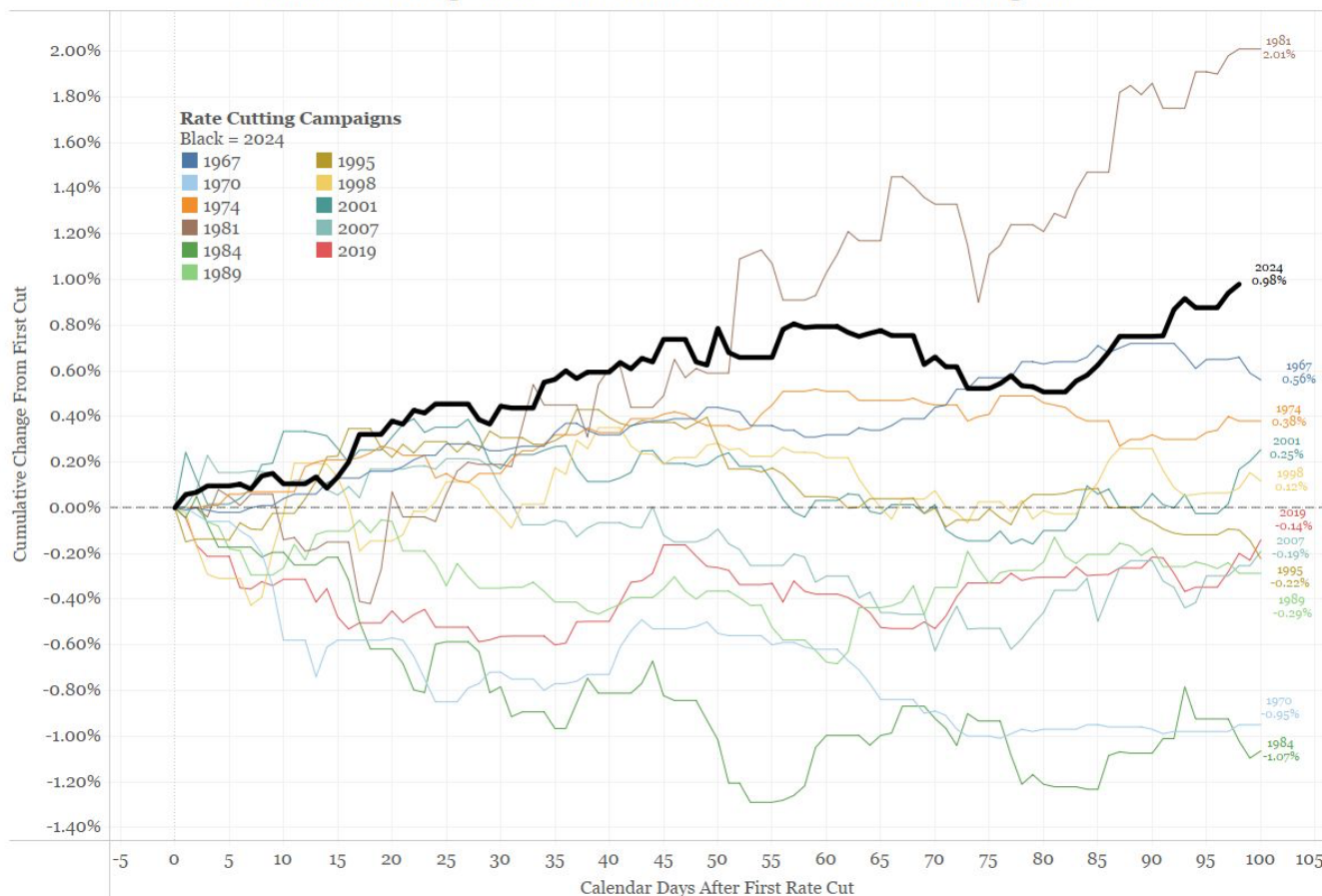
Remember what we've noted in the past in regard to the Fed's "DOTS":

"the FOMC dot plot is a formally updated chart published by the Federal Reserve (quarterly), which reflects each Federal Reserve official's forward-looking projection as to where they foresee the central bank's short-term interest rate (the Fed Funds Rate), literally with DOTS ... it's their "crystal ball".

Here's the thing: I can't remember a time where the Fed's forecasts were accurate, the "dots" are literally perpetually wrong!" ~ OSAM December 2023 ... [D.I.S.C.O.N.N.E.C.T](#)

Recently, Jim Bianco of Bianco research, shared both his thoughts on this most recent interest rate move with the below supporting [illustration](#) on LinkedIn, which shows ... dating back to 1961, there has only been a single time period that has seen an accent in yields this large over the first 100 days following the Fed initiating a rate cut cycle a Fed cutting cycle larger than what we've witnessed today ... which was in 1981!

Cumulative Change in 10-Year Yields After the Fed Starts Cutting Rates



Source: Bloomberg

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My professional and respectful disagreement with Jim's argument remains ... in October Jim's thoughts regarding the rise in rates were tied to, *"a Trump win brings with it an abundance of fiscal and inflationary stimulus, the current administration has been spending like drunken sailors with the National Debt increasing by \$473 BILLION over the last 3 weeks alone"* as we noted in October.

Jim's most recent phrasing on the cause of the continued rise in yields following a "Trump win" has now shifted to Fed officials continued discussion surrounding more rate cuts in 2025 ... from Jim's post:

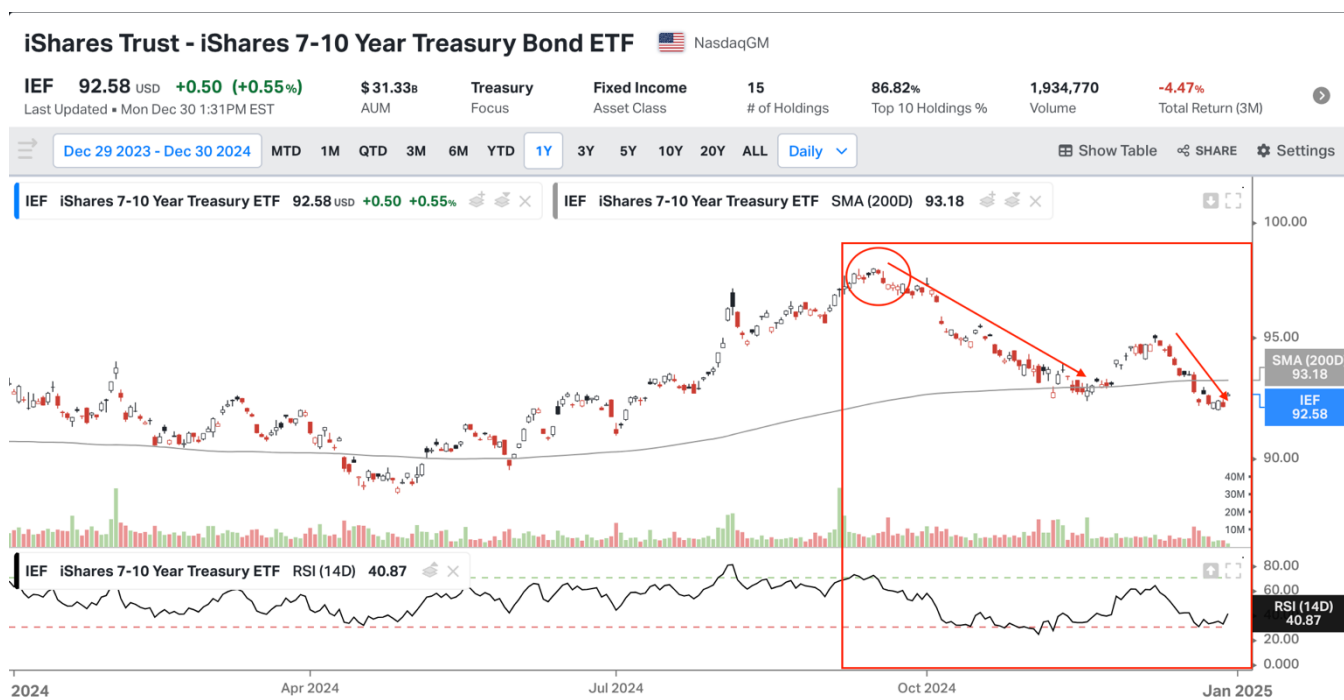
"The bond market will keep selling (higher yields) the more the Fed talks about rate cuts in 2023. If the Fed does not back off the rate-cut talk, bond yields will go as high as needed to start breaking things, to break inflation."

In our October note we also wrote, *"As we've mentioned in the past, market moves create Wall Street narratives!"* ... which have to change as the events discussed are no longer relevant! The elections over, Trump, through DOGE is rambling about cutting over a trillion in cuts and 1929 like economic stresses (more unproven rhetoric) ... and yet rates continue to march higher.

Our argument on rising yields remains simple, the crux of which being ... “*accelerating data, increased commodity prices, (&) base effects*”; a direct quote from our October note in the section titled, “*and, right on time*” (referring to the reacceleration in inflationary data showing up exactly as we’ve been suggesting it would as we have been writing about since January).

ZERO NARRATIVE ... just data!

Now, the *narrative* we remain committed to surrounding current market action lies in market structure! I’m sure long-time readers are shocked by this last sentence (sarcasm), though, all kidding aside. As yields continue to rise with the reacceleration of inflation and the Fed stoking the fire having already cut 100-basis-points, bond PRICES have been pushed LOWER (as illustrated below via \$IEF).



Recent price action in a defined “passive” investing world, heading into year-end would likely suggest bonds need to be bought at the expense of equities being sold (i.e., rebalanced).

For example, a 60/40 bond portfolio would need to own more bonds given their price decline since mid-September ... as would a target date fund which shifts bond/equity percentages based upon years until retirement. When nearly 90% of individuals hold a single investment strategy (that being a target date fund) ... that’s a fair amount of rebalancing given the move in yields.

December’s weakness in equity markets has led our models to hold a larger than normal cash position (which has been beneficial).

All of this could change as the calendar flips ... as we noted [last month](#):

"we've been shifting back and forth between a reflationary and stagflationary economic investing regime ... described in @Hedgeye vernacular, #Quad 2 or #Quad 3. We know the inflation is accelerating, with the genesis of the choppiness coming from the growth side of the equation."

The above quote remains true ... at the same time, the dynamics of passive always exist and can become much more prevalent at certain times for many different reasons! Even still:

Absurdity remains...

Earlier this month at the [Wall Street Journal's CEO Council's Summit](#) (December 10, 2024), outgoing Treasury Secretary, Janet Yellen recently stated: "I am concerned about fiscal sustainability, and I am sorry that we haven't made more progress. I believe that the deficit needs to be brought down."

Immediately following this ridiculous statement, Zerohedge brought some perspective and TRUTH to the absurdity that is the Washington establishment.

"U.S. debt rose by \$8.2 trillion while Yellen was Fed Chair or Vice Chair, and by \$8.5 trillion while she was Treasury Secretary ... in other words, Janet Yellen has personally overseen \$16.7 trillion, or 46% of all the debt increase in the history of the USA ... but she is "sorry!" ~ [@zerohedge 12/10/24](#)

While the truth can at times be exposed very quickly, there are definitely truths which can be masked for quite some time. There's a reason Powell speaks industry vernacular ... it aids in his efforts to hide or mislead by talking over the heads of the majority of the public ... unfortunately for him, you can only obfuscate the truth for so long!

Similarly to how we've been highlighting the weakness in labor despite "better-than-expected" job reports ... which have been revised negatively for nearly two years ... the truth was eventually revealed that after all of the pomp and circumstance surrounding "a strong labor market", we saw more than 800k jobs wiped away in revisions last year.

If that wasn't revealing enough, the Philly Fed just found the initial jobs report estimated for 2Q2024 of 653k was actually negative, declining by -0.1% vs. the reported +1.1% increase.

Among other things, the importance of chasing the truth and calling things like the fabrications in the NFP (Non-Farm Payroll) and labor data out, as we have for the last year and a half, isn't for pats on the back, but more so lies in the other data it feeds.

For example, an overstated NFP equals an inaccurately reported Personal Income report which, when the truth catches up, will also see a downward revision ... as will things such as consumption and savings (which harbors even more lies as it excludes Federal deficit spending) ... this number is WAY off.

Job openings have virtually collapsed ... well known businesses such as Party City and Big Lots are shuttering their doors, impacting over 1500 locations and nearly 70k employees ... massive auto manufacturers Nissan

and Honda are exploring a merger which would create the third largest auto manufacturer in the world (think cost saves by firing people) ... plans to hire have plummeted ... nearly 7 in 10 companies are exploring some form of cost save into 2025! Eventually the damn breaks ... eventually the truth always catches up ... eventually!

Final thoughts

Over the course of time, little lies pile a top more little lies turning them into much bigger lies ... the hole being dug just continues to get deeper and deeper making it exponentially harder to get yourself out of it!

While it can often take some time, in the end, the truth most always reveals itself ... unfortunately, the longer the little lies are perpetuated, the HARDER they are to both face and fix.

Had I been open and receptive to my wife when she first tried to help me, and I accepted and acknowledged the need to live a healthier lifestyle, not only would the path forward been easier form myself, but maybe I could have been an advocate to help my brother get healthier at an earlier age?!

And that's the thing about life ... in some cases, you simply don't get "do-overs" ... it should never have taken the death of my brother and wife pleading with me to get healthy for me to do so ... luckily, I was able to receive the message before it was too late!!

We're \$36+ trillion in debt (not counting unfunded liabilities) ... Janet Yellen and the current administration issued nearly \$2 trillion in debt over the last two years in short term bills which provided collateral to overstimulate the economy as it drained reverse repo markets.

Now that liquidity is running on empty and bills will be replaced with longer dated coupons at much higher rates, the political machine will once again play the blame game for whatever happens next, never explaining the background or set up.

Until the next hand is played, no one really knows with certainty as to where markets are headed in the year ... that's the reality. Given the data and a decent understanding of passive investing dynamics, we know where the probabilities suggest the fishing will be best, but ultimately, markets will show us the way.

As mentioned earlier, the oscillating dynamics between @Hedgeye quad 2 and quad 3's that we wrote about last month, along with the year-end passive rebalancing dynamics given the selloff in bonds led to internal weakness in equities which has had us in a larger cash position than usual ... well before one of the largest VIX (volatility) spikes on record!

Should the passive dynamic of bond buying/equity selling pass and markets regain their upward momentum ... the models have been pretty good at finding the newer, emerging market leaders which we'll buy ... it then becomes a rinse, repeat process as we move higher!

However, in the event that this “dip” become more than just “a dip”, for a host of reasons both mentioned above, such as weaker than expected labor/unemployment, leading to negative revisions elsewhere that drive GDP as inflation reaccelerates, something just structurally breaks or a host of reasons that would make this note longer than most are willing to read ... I’d argue that we’re positioned exponentially better than the majority of Wall Street!

Whether Powell, Yellen, PhD economists or Wall Street executives tell the truth or not?! Whether the truth is easily exposed in the minute or revealed over a longer time frame, markets will eventually expose it!

We just hope it’s sooner than later for while it may be painful to occasionally hear, we’d prefer to be prepared and hope it’s not too late to fix without significant pain to the masses. Unfortunately, knowing how the masses are largely positioned, we’re not hopeful ... for them. Given that we can only control what we can control, we’ll risk manage appropriately for us!

As always ... Good investing!



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