



“When Doves Cry”

“Maybe I’m just too demanding, maybe I’m just like my father, too bold ... Maybe you’re just like my mother, she’s never satisfied. Why do we scream at each other? This is what it sounds like, when doves cry!” Prince, When Doves Cry ... 1984

When Doves Cry

Prince is widely regarded as one of the most influential and talented artists in music history, often considered part of the pantheon of musical royalty. His impact spans multiple genres, including funk, rock, pop, and R&B, showcasing his versatile talent. Known for his exceptional musicianship, innovative production, and distinctive style, Prince revolutionized the music industry with his creativity and independence. His legendary status is reflected in his numerous awards, chart-topping hits, and lasting influence on subsequent artists.

Overall, Prince is indeed celebrated as a musical royalty—an icon whose legacy continues to shape and inspire the music world.

His chart-topping hit, “When Doves Cry” ... written for his semi-autobiographical film, *Purple Rain* in 1984, is known for its emotional depth and lyrical ambiguity. While the lyrics seem open to interpretation, given Prince rarely did interviews ... Prince has stated that the song was inspired by personal experiences and emotional struggles!

Many listeners see the song as a reflection on the pain of complicated love, and relationships filled with tension, emotional distance, or loss, as themes of song include love, heartbreak, confusion, and emotional vulnerability.

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Prince contrasts the symbolism of peace, purity and love, with the emotional pain expressed in the lyrics, “crying” doves suggesting lost innocence ... with lines such as, “This old heart of mine been broke a thousand times”, underscores themes of emotional pain.

A tumultuous relationship where the feeling of longing and pain are intertwined, highlighting the complexities of love and separation ... a deeply troubled relationship filled with pain, confusion, and longing.

Welcome, kind reader, to the current relationship between the Doves of Wall Street and in Washington, (inclusive of Secretary of the Treasury Bessent, FHFA Director Pulte and President Trump) with Federal Reserve Chairman Powell and the Federal Reserve board (FOMC)!

The rich irony here being those who are current doves vs. those who were doves just 8 short months ago who actually got 3 cuts totaling -100bps over a 4-month time frame?!

While the political players have flip-flopped teams (we’d argue due to the power shift in D.C.) the Wall Street doves appear to be the same, usual suspects who have literally been crying for rate cuts for the last few years ... as Powell defiantly refuses to deliver (in spite of the data)!

As we head into a traditionally slow trading week due to the 4th of July here in the US, we’ll take a brief lap around the data Powell suggests that he and his Federal Reserve minions look at when determining the outcome of Fed policy given their maximum employment/price stability “dual mandate”, while simultaneously exploring the heartbreak, confusion and deeply troubled relationship between Powell and the doves on Wall Street and why, those doves are crying?!

**** Note:** for those unaware, a financial “dove” is anyone who promotes monetary policies that advocate for lower interest rates (i.e., rate cuts). Doves look towards lower interest rates and an expansion of the Fed’s balance sheet via the use of monetary policy as the solution for all thing financial related ... reckless debt fueled spending be damned!

We’ll start off with the “price stability” side of the Fed’s dual mandate coin ...

Inflation

In the world of inflation metrics, where subtle beats and rapid crescendos mark the rhythm, we turn our gaze to the latest Consumer Price Index (CPI) data. With a nod to insights from the OSAM library, let’s dive into the current tableau of inflation, accentuating both acceleration and deceleration trends informed by the recent document.

May’s CPI numbers bring a narrative of reacceleration within the broader picture of cyclical fluctuation. Headline CPI edged up slightly, capturing a +0.08% MoM increase and rising to +2.35% YoY, subtly accelerating from the prior +2.31% YoY. As for Core CPI, which excludes food and energy, it continues its steady climb, increasing for the 60th consecutive month. This measure notched a +0.13% MoM gain in May and accelerated marginally to +2.79% YoY from +2.78% YoY prior.

Among the intricacies of the inflationary landscape, shelter costs, a heavyweight in the CPI calculus at 34.9%, advanced again—seeing a +0.25% MoM and +3.86% YoY rise—though they exhibit signs of deceleration on a YoY basis from +3.99%. Meanwhile, nuanced movements in transportation and auto prices show mixed dynamics. Prices for transportation services dropped -0.20% MoM but accelerated to +2.81% YoY, showcasing the complex dance of acceleration in broader inflation.

Recently released Personal Consumption Expenditures (PCE) data echoes that of CPI, with May's PCE data revealing Core PCE inflation accelerating +20 bps to +2.7% YoY, adding another layer of complexity to our inflation landscape.

Crucially, the recent PCE data reflected a +14bps acceleration in headline PCE inflation to +2.34% YoY. Meanwhile, personal income decelerated by -80 bps to +4.5% YoY, and real consumption declined by -78 bps to +2.15% YoY. These figures illustrate the intricate interplay and divergence between CPI and PCE, underscoring the evolving consumption and wage trends that define our current economic moment, which we'll also touch upon further below as it relates to labor trends.

Looking through the lens of rate-of-change (RoC) analytics, which weaves in lead/lag considerations and base effects, we notice a distinct narrative—May's CPI-PCE upturn exemplifying the intricate interplay defining our economic moment, while it also aligns with a broader reacceleration expectation into the latter half of 2025 ... as we've been suggesting for some time now.

While Headline CPI is poised to average +2.40% for Q2, the May uptick marks a pivot towards greater inflationary momentum that is anticipated to pick up pace, at least through June and more than likely into the back half of 2025.

Mindful of base effects—those cheeky historical comparisons that can skew perceptions—it's clear these metrics are underscored by not just shifts in pricing, but intricate dance sequences dictated by sequential data. These nuances in data, where acceleration bears the baton, exemplify the delicate interplay defining our economic moment.

This RoC acceleration has been a predictable one, with Hedgeye Risk Management's NowCast being rails on accurate for quite some time now! Again, well before the mere mention of tariffs, yet ... the "*POTENTIAL*" of "*FUTURE*" price stability continues to be a key talking point Fed Chair Powell has been regurgitating ad nauseum for the last 2 and a half months in his bid to hold interest rates at current levels.

An unbiased mind may consider, the Fed cut rates at their September, November and December 2024 meetings, -50bps, -25bps and -25bps respectively, even with September 2024 CPI coming in "hotter than expected" at 2.44% YoY (vs. the street's 2.30% YoY expectation), then subsequently 2.75% YoY in November and 2.89% YoY in December of 2024.

Today, as noted above, we sit at 2.35% YoY, well BELOW inflation rates that had Powell cut -100bps in 3 out of the last 4 months of 2024, with Powell staunchly against cutting rates at the moment!

Politically motivated or not, in the spirit of the old adage, “even a broken clock is right twice per day” ... we’ve anticipated this reacceleration in the data for some time now, sans any politically driven narrative, because the data, comps/base effects have been suggesting so (and we’ve been detailing all along the way)!

Powell’s suggestion of a possible reacceleration in inflation is likely accurate, but considerations such as, to what level might it reaccelerate to?! What is the cost/expense to the economy in keeping rates where they currently are?! Are we seeing cracks in any other sector due to elevated rates and what might those repercussions be?! These are all key questions many doves are asking and that should be considered when looking at the health of the overall economy ... so let’s!

Housing

As dawn breaks over the housing market, a stark landscape emerges filled with sharp declines and scarce sunlight breaking through the clouds. Let’s delve into the data and decipher the undercurrents in one of the largest sectors which contributes to the economy, shall we?

Beginning with housing starts, the scene is rather bleak. In May, there was a -9.8% decline MoM, marking a significant -4.6% dip YoY to 1.256 million SAAR. Single-family starts managed to eke out a minor +0.5% MoM growth but remained down -7.3% YoY. Meanwhile, multi-family starts nosedived by -29.7% MoM, providing an accelerated decline, though they held onto a modest +4.1% gain YoY. Regionally, it’s a mixed story, with the West advancing +15.1% MoM while the rest wrestled with double-digit declines.

Building permits, known as the crystal ball for future construction, aren’t faring much better. They’re down -2% MoM and -1% YoY. Single-family permits decreased -2.7% MoM, with multi-family permits slightly more stable at -0.8% MoM but improved +10.5% YoY. It seems like we’re clinging to straws here, folks!

New Home Sales came in at 623k vs. an expected 693k, plunging -13.7% MoM (743k) to their lowest level since October 2024, and existing home sales are caught in a similar eddy—slightly buoyed by a +0.8% MoM uptick, they’re still down -0.7% YoY overall.

Financially speaking, mortgage applications have been on a merry-go-round ride; they’re up +1.1% week-over-week (WoW) recently, although they had previously been on a declining trend for several weeks. Refinancing has been a prominent feature, now accounting for 38.4% of new loans, thanks to a +3.0% WoW and a healthy +29.1% YoY rise. Meanwhile, purchase applications didn’t enjoy the same kindness, sliding -0.4% WoW.

The irony? Despite sales trailing behind, home prices are reaching new heights. Median new home prices leaped +3.7% MoM, and existing home prices climbed +2.1% MoM. Affordability, well, let’s just say it’s tightening the belt on family budgets in an already tense economic climate.

The housing market resembles a turbulent rollercoaster with perhaps too many steep drops. Builders are understandably hesitant to accelerate with inventories and interest rates maintaining their peaks, while consumers cautiously tiptoe on the purchasing edge. Until the economic winds shift favorably, we can expect more luffing sails ahead for housing.

And should the challenges continue, how does that fare for ...

The Fed's other mandate

With price stability being one side of the dual mandate, labor/employment is the other ... which on the surface suggests strength, yet a gradual and concerning deterioration, well-supported by recent Rate of Change (RoC) data, beginning with the most recent Jobless Claims data, where Initial Claims have reached a peak of 247,000, marking a steady ascent. Moreover, the rolling 4-week average has climbed to new highs since October, offering a stark indicator of labor market strain.

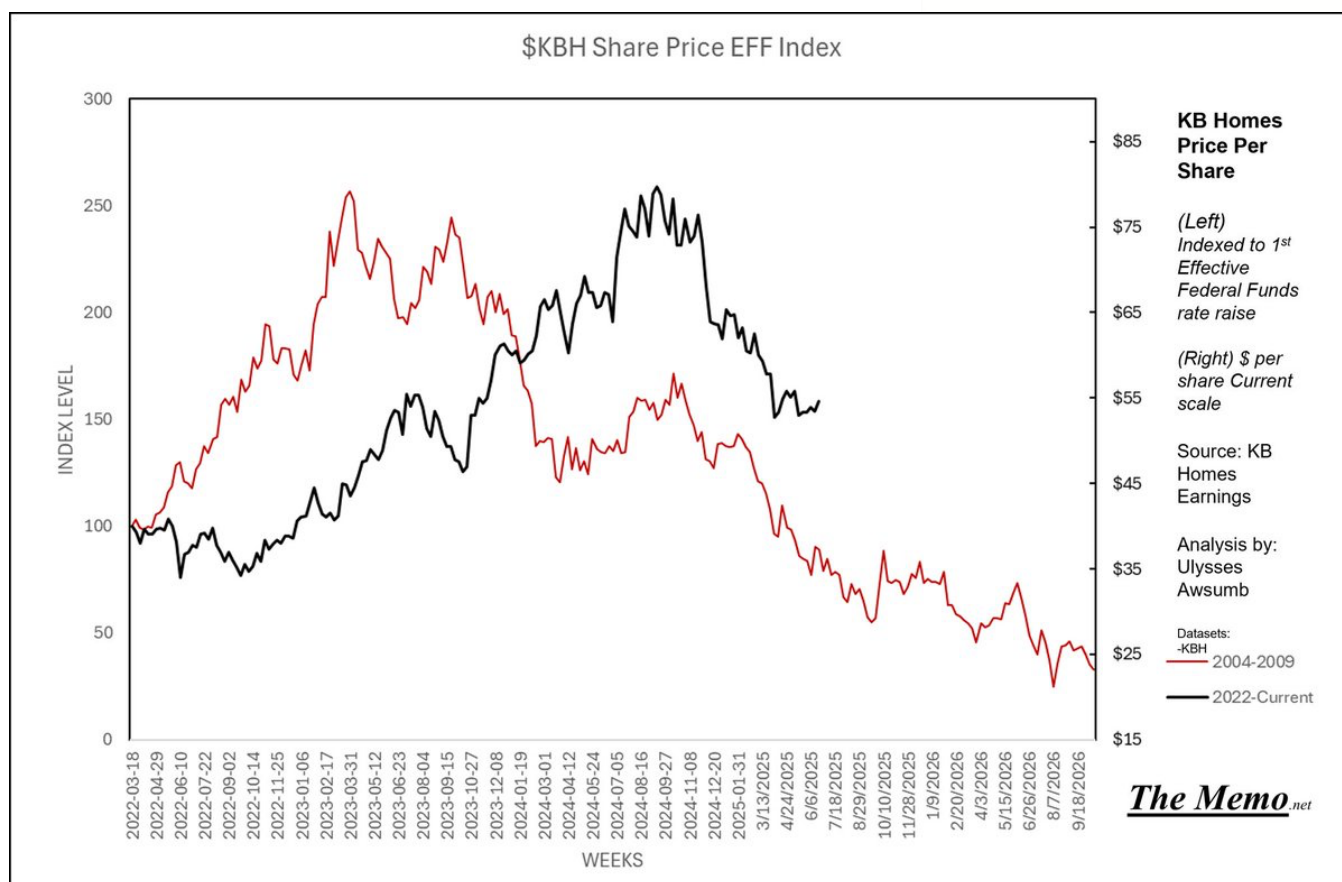
Continuing Claims have also ratcheted higher, touching a cycle high of 1.956 million, increasing +54k WoW pushing the four-week average to 1.915 million (up +20k and +6.6% YoY vs. 5.5% YoY previously). This escalation corroborates the deepening downturn flagged by other labor metrics, such as weak ADP data.

Compounding this outlook are concerns over the widespread government policy impacts. With government hiring turning negative, jobs tied to contracts and other government-adjacent positions in places like DC and Maryland have seen significant slowing. The notable deceleration in Continuing Claims and potential impacts from Temporary Protected Status (TPS) reversals—estimated to affect 200,000 to 500,000 workers—pose further threats to stability.

RoC data highlights a sustained deceleration in wage growth while illuminating the plodding government policy oscillations impacting labor supply. In fact, the employment growth arc remains unchanged at its slow creep, characterized by employers hesitating to fire but refraining from new hirings. This translates to persistent enhancement in the duration of unemployment and slight upticks in permanent job losses—a theme mirrored over recent years.

Tying labor with the housing section above ... with nearly 13% of GDP tied to housing and the housing industry seeing some significant cracks, how will this affect that second mandate of the Fed?! Which also should beg the question from every dove that's crying ... why does Powell fear the POTENTIAL of increased inflation more so than that of the very real POTENTIAL of labor markets cracking, where significant warning signs are already flashing?!

To paraphrase a recent post and question posed on X ... with KB homes and Lennar both anticipating a -30% decline in Net Income, [at what point does building contraction affect employment?](#)!



Outside of housing as it relates to labor ... per Challenger, Gray & Christmas ... US based employers announced 93,816 job cuts in May, up 47% YoY but down -12% vs. April. No big deal I guess?!

Remember when we said higher paying executive jobs > Uber drivers?! Well, [Microsoft just announced](#) another head count reduction of nearly 17,000 jobs globally in under 60 days ... as we continue to bear witness to the continuation of what we've been discussing on the bankruptcy front with more abnormally large filings throughout the country?! Notably Corvias Campus Living, CareerBuilder & Monster just filed over the last week!

While the interplay of domestic factors remains at the fore. Immigration's reversal exacerbating labor supply compression, predictions of slower aggregate nominal income growth, and the baseline for household spending all interweave narratives of labor market fragility. While external pro-growth policies may offer some buoyancy, the path ahead suggests continued caution in evaluating immediate labor market prognosis.

But I thought Powell said the labor markets were solid?!

Powell and payrolls

Fed Chairman Jerome Powell's recent statements at June's FOMC press conference, underscores a measured approach to economic policy, emphasizing stability (of all things) amidst uncertainty.

Which his testimony to Congress on June 24, 2025, echoed ... the economy's solid position, with a low unemployment rate and inflation moderately above the Fed's 2% target, while acknowledging elevated uncertainties, especially concerning trade.

Something we've been calling BS on for quite some time as the Fed's approach conveniently ignores countless underlying economic vulnerabilities as noted above ... specifically, the deterioration in underlying labor market data and the broader economic outlook.

Powell's repetitive and canned responses, which appear to be on a loop, also misses significant structural issues and latent risks that appear obvious to many. These risks apparently elude the Fed's current data projections, powered by more than 24,000 global employees littered with scores of overpaid PhDs.

Recent Rate of Change (RoC) data has shown a creeping deceleration in payroll growth and limited upside in wage growth. Trends suggest a potential slowdown in aggregate nominal income growth, while also noting that consumer sentiment and household spending growth, are areas where RoC analysis shows varying degrees of stagnation or decline, presenting a contrast to Powell's portrayal of economic resilience.

At the same time, we know from previous notes ([June 2023 being merely one example](#)) that recent shifts in labor data doesn't fully reflect reality given the absurdity that is the Birth/Death modeling ([written about at length August 2023](#)) which continues to cast and opaque shade on the true labor data.

A deceleration in payroll growth, presents a challenging outlook for aggregate nominal income. This trend, casts a shadow on the baseline outlook for household spending growth. Specifically, as hiring continues to slow, with Continuing Claims, Duration of Unemployment, and Permanent Job Loss indicators showing an upward trajectory (as noted above).

Government and government-adjacent hiring are also in decline, particularly in areas like DC and Maryland ... which, when combined with the reversal of immigration trends of 2022-2024, remove two of the largest drivers to the façade that was dubbed strength (in labor supply and hiring) over that time frame, something else we discussed in great detail in real time.

One of numberless examples was in [April of 2024](#), after nearly 13 months of pounding the table on the farce labor data was, we highlighted:

"In February alone, a record 1.2 million [foreign-born jobs](#) were added"

This reversal is expected to have adverse effects, exacerbated by the revocation of Temporary Protected Status (TPS), potentially affecting 200,000 to 500,000 workers, thus adding further pressure on employment data in the coming months. Overall, the RoC data portray a progressively deteriorating labor market environment under the surface, highlighting the increasing risks of a broader economic slowdown.

Powell's optimism about inflation being in a "good place," while blaming tariffs for inflation yet to come, is lazy at best. He and the Fed's propensity to be historically LATE with their "tools" (i.e., their response to

economic distress) due to the Fed's lack of ability to accurately NowCast anything is almost impressive given the frequency in which a bunch of overpaid PhDs are perpetually wrong.

So, when Powell talks about the economy being in a solid position, but fearful of a reacceleration of inflationary pressures, given his dual mandate, he seems to be completely ignoring there is another side of his dual mandate coin ... where the data seems to be screaming just a little bit louder?!

Among other things, the labor side of the equation is suggesting a deceleration in payroll growth as indicated by a slowing trend in hiring (slowing momentum in payroll jobs). This phenomenon is exacerbated by ongoing issues noted above (rising Continuation Claims and increasing Duration of Unemployment, etc.). The data shows a deceleration in aggregate nominal income growth, which in turn dampens projections for household spending growth...

Anyone up for a just a pinch of irony!

For as strong as Powell will have you believe the labor market to be ... no more than 4 to 5 weeks after stating the Federal Reserve itself was adequately staffed, Powell and [the Fed recently announced a 10% reduction in their global workforce of 24k employees over the next few years](#).

[Watching him squirm his way through this Q&A at the FOMC's most recent press conference is something to be seen!](#) (Minute 35:07)

And if we needed any more fuel to add to the already burning fire:

- Recent Case-Shiller data tells us home prices have declined for sequential months during peak selling season (March and April) with May setting up for a trending third month of declines with home inventories on the rise as mortgage rates remain perched at ~6.80% (remember while Shelter is the largest input to CPI ... it does so on a massive 18 months lead/lag)
- The BLS (Bureau of Labor statistics) benchmark revisions show nearly -800,000 fewer jobs created through March than initially reported and continuing claims are up more than 25% year over year ... something we've been writing about this (as noted above) continually ... for nearly 2 ½ years!
- Bankruptcies of unusually large size continue to accelerate! (Corvias Campus Living, CareerBuilder & Monster also as noted above, just a mere few of many of a disturbing trend)
- Student loan stress is a major underappreciated macro threat with more than 6,000,000 federal borrowers now 90 days delinquent, up from 1.2 million in earlier May with another 2 million which possibly could default in July.
- The discussion of higher earning individuals defaulting, affecting US consumption that is 70% of GDP continues ... BUT WHEN?!

These are ALL items we've discussed at one time or another over the last two years. Yes, they are more prevalent now ... yes, markets saw a swift drawdown to start the year, but nothing of lasting, long term significance materializing just yet. Given all the negativity out there, this is where the importance of having a flow-based system is imperative.

"Dig if you will the picture, of you and I engaged in a kiss ... The sweat of your body covers me, can you my darling ... can you picture this?"

Dream, if you can, a courtyard, an ocean of violets in bloom ... animals strike curious poses ... they feel the heat, the heat between me and you!!!" Prince, When Doves Cry ... 1984

Final thoughts

Having said all of the above, and while the doves may have extremely valid reasons to shed a few tears ... just as we recommend when building retirement/legacy plans for our clients, a delicate balance should be struck between the somber doves and hawks kee-ahhing from above (those advocating for elevated interest rates in an effort to firmly squeeze out inflation).

While rate cuts would loosen economic conditions and reduce interest income expense the U.S. government is currently paying on their now, more than \$37 trillion of debt ... lowering rates to levels that Wall Street and Washington Doves are whimpering for, (1%) would immediately scalp a large wedge of interest income many retirees are utilizing to live on – courtesy of those high interest-bearing treasuries and secure money market funds that hadn't existed for more than two decades!

A funding source necessary for countless, simply to cover routine household expenses given our current inflationary environment, one which has seen a cumulative increase of more than 24% over the last 4 ½ years ... but consumption also drives GDP.

THIS IS ONE OF THE REASONS WE'VE BEEN SO VOCAL IN ADVOCATING FOR PRE-RETIREEES TO REFINANCE THEIR RETIREMENT INCOME STREAMS WITH RATES STILL NEAR MULTI-DECADE HIGHS!

Recent testimony out of Powell's own mouth indicates no recent or visible inflationary effects from tariff price increases, at the same time, the US treasury is reportedly gaining \$30 billion monthly from the administration's tariffs. An arrow in the quiver which bolsters arguments for those championing a lower rate domain in an effort to reduce the deficit and stimulate economic growth.

We don't know who wins ... hence, the balanced, hedged approach!

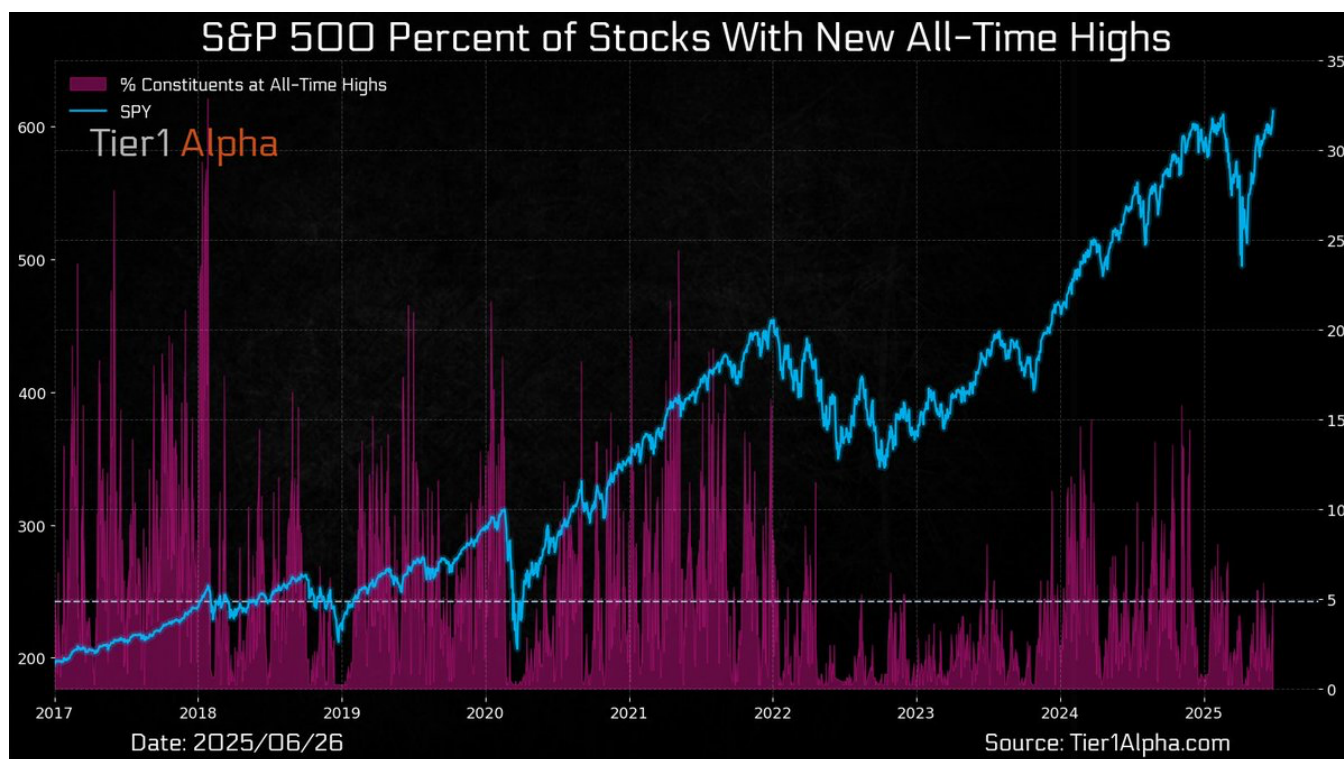
At the same time, having stated all of the above, we're more heavily invested in equities than we've been all year as the momentum and flows continue to signal higher highs and higher lows. CTA and Volatility control funds have been steady buyers of equities (which they remain underweight in).

The short-term volatility curve has collapsed from ~14 to roughly ~11 with the longer end of the vol curve coming in from 18 to roughly ~16.8, signaling a sustained path for said CTA and vol controlled funds to allocate money towards equities.

I'm old enough to remember the majority of Wall Street was calling for a recession at the same time we've been noting the shift in winds sending us back out to sea with a fully stocked boat ... [just last month for example](#):

The initial "rally" was narrow at first, though has begun to broaden ... allowing us to let our sails out in an effort to fill them more wind. Eventually, we hope our sails will be fully opened with a strong tailwind at our backs.

When we said the rally was "narrow at first", [Tier1Alpha recently contextualized this](#) below ... noting the S&P is nearing all-time highs again, with only ~5% of their constituents doing the same!



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Will markets collapse under the weight of a distressed labor market, increasingly tight credit markets and accelerating inflationary pressures?! Or will the 5% of names within the S&P reaching new highs become 15%, 20% or 30%, catapulting markets to levels yet to be seen?!

The answer remains, NO ONE KNOWS! NO ONE! Not me, Merrill, Morgan, Goldman ... NO ONE!

Which is why we advocate for a plan which largely insulates you from needing to worry about this, “deeply troubled relationship between the collective of *doves that cry*, the FOMC and Federal Reserve Chairman Jay Powell ... a relationship “filled with pain, confusion, and longing”.

Have your emergency funds protected, predictable income streams set up for retirement ... some with the potential to grow throughout your retirement years that largely mitigate market volatility ... an inflation hedge bucket properly risk managed in markets and finally, protection to preserve your legacy and generational wealth, protecting your family against government taxes.

Hope isn’t an investment strategy; plan appropriately and largely remove “hope” from the equation.

We’re here to help!

As always ... Good investing!



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