OTHER SIDE
ASSET MANAGEMENT

"Next Play Thinking..."

It "feels" like we're stuck in a loop … always talking about the importance of process. That word shows up in everything we do: in the signals markets are sending, in the rate of change (RoC) of the data, yet more importantly, it's stark in contrast to the narrative-choked headlines that dominate the news cycle.

With all the unfiltered noise swirling around, we couldn't think of a better time to re-center on what actually matters.

As Nick Saban would say: *"Ignore the scoreboard. Focus on the next play."* In our world, that means ignoring the media circus and focusing instead on the slow, steady grind of empirical data.

Unfortunately, the media … financial and otherwise … has largely abandoned its original role as an unbiased distributor of facts. Instead, it's become a fear machine. The goal isn't to inform; it's to trigger, to sensationalize, and ultimately, to monetize. CNBC and its ilk have turned every market move into a political debate. What used to be analysis is now agenda.

And this matters … because in investing, process beats opinion every time. Kobe Bryant trained like a man possessed, obsessed with the routine. "Atomic Habits" author, James Clear wrote, "You do not rise to the level of your goals. You fall to the level of your systems." We'd argue that applies to portfolios too.

We've been flagging the reacceleration in inflation as the most probable outcome since October/November of last year … not because of "tariffs" or TV

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talking points, but because the data, courtesy of Hedgeye Risk Management led us there**.** Lead-lag structures, base effects, and RoC signals aren't clickbait … but they're far more predictive than headlines.

Meanwhile, the noise machine rolls on: elections, geopolitical flashpoints, Fed guessing games, and a revolving door of "BREAKING" stories designed to hijack attention. Jeff Bezos built Amazon by ignoring Wall Street's quarterly noise … we try to do the same.

As investing legend Ray Dalio might remind us, process gives clarity. Principles help filter signal from noise. And today, that filter is more essential than ever.

Over the past 30 years, I've watched an entire nation become conditioned to chase the next shiny object**,** like a herd of cats chasing a laser pointer. Everyone's an "expert" now on everything … until it counts.

That's why we focus on process and empirical facts. Not narratives. Not noise.

And yes … there's irony ahead. Because while we highlight how the most successful experts rely on process, we'll also examine a few "revered" names who, despite their reputation, fail with stunning consistency**.**

Because when it comes to judging your experts, it's not their brand that matters. It's their process, and whether it actually works.

But Inflation, because Tariffs…

Speaking of "experts", last month we talked about the Fed and their reluctance to cut rates due to the ***"POTENTIAL"*** of increased inflation, after all … if it were lurking out there, it would show up in the data, right?!

While we never rely on just one thing in the world of economics and investing … as we've discussed over the years, there are some indicators that lead as others lag. The (PPI) or producer price index is referred to as a leading indicator for it is telling us a real bed-time story about the current happenings taking place on the production-side of the equation; what it takes to produce something it is consumed (or purchased) by said consumer.

As we reflect on this month's most recent PPI report, headline PPI encountered a deceleration for the first time in 14 months, down -0.01% MoM, while YoY indices decelerated to +3.17% from an upward revision of +3.70%.

Core PPI metrics also presented a cooler visage than anticipated, with both maintaining an unchanged MoM trajectory, starkly below the expected +0.2% MoM with Headline PPI ascending +2.3% YoY, slipping from a revised +2.7% in May, marking the most subdued annual increase since September 2024.

Final demand goods experienced a +0.3% MoM uptick, the most significant shift since February, driven predominantly by core goods excluding food and energy. This segment, alongside energy prices rising +0.6%

MoM and food prices edging up +0.2% MoM, underscores triangulating pressures within the goods inflation spectrum.

Simultaneously, prices for final demand services decreased by -0.1% MoM, reversing a previous +0.4% MoM rise in May. This dip was spearheaded by traveler accommodation services, which tumbled -4.1%, alongside declines in areas such as transportation and warehousing services (-0.9%). Yet, some segments, such as portfolio management fees, resisted these overarching declines with a +2.2% increase.

Core PPI sans food and energy, too, manifested a slackening, easing to +2.6% YoY, its gentlest rise noted since March 2024.

This data underscores a disinflationary tone … quite possibly short lived or not … that aligns with broader economic expectations. At the same time, we wouldn't rule out this de minimis deceleration in PPI may be met with a similar story in July's CPI data … right before the reacceleration in data into the back half of the year … as we've been detailing for months.

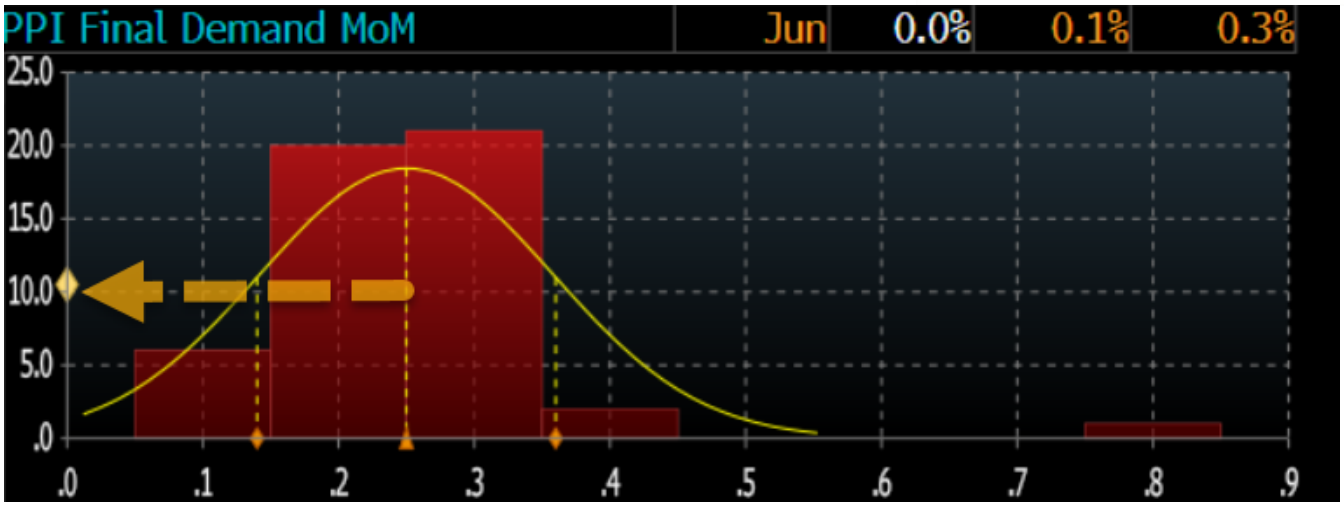
Now, to be clear … we're not suggesting inflation skyrockets as all those "revered experts" at the Fed, legacy media and fear mongering politicians will have you terrified into believing we're about to see the kind of inflation that riddled our economy from 2020 through 2024, we're merely pointing out that the Fed, their academic PhDs, along with the aforementioned continue to be perpetually wrong … to my point:

Last month we said:

"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****."*

Long time readers know our views often contradict and, at times, rail against the majority of PhD academics, which include the countless over-paid Federal Reserve PhD's and their nearly 20k employees around the world, so our above words from last month are not out of the ordinary … making what we're about to share, feel almost … routine?!

100% of the 50 "expert" economists Bloomberg surveyed for the most recent PPI report MISSED …. every one of them was WRONG … to the HIGH SIDE … as illustrated by @zerohedge … EVERY SINGLE ONE!



Their narrative of tariff-flation's significant reemergence has yet to erupt, though, I will bet dollars to donuts that should we see even the slightest increase in inflationary data over the ensuing months, every mainstream media outlet will have you believe we're in the midst of a 5-alarm fire!

Our advice, don't bite, don't get emotional, a **mild** increase is to be expected.

CPI Ticks Higher — but the Fire's Mostly Smoke, Not Flames

While the talking heads continue to chase headlines like a dog after a drone, actual inflation data … the kind rooted in process, not panic … tells a more nuanced story.

Headline CPI accelerated +32bps in June, rising to +2.67% YoY (vs. +2.35% prior), driven by a mix of energy (+0.95% MoM), food (+0.33%), and the always-reliable pressure from shelter. Core CPI (ex-food and energy) also ticked higher: +0.23% MoM, now +2.93% YoY (up from +2.79%).

So yes … on paper, inflation reaccelerated, which matters, but so does context.

As discussed above, recent PPI data, which should lead CPI, decelerated for the first time in over a year. Translation: We may see a modest reacceleration in CPI into the back half of the year (as we've been writing about), but the fire everyone's panicking about?! It's more smoke than flame … and could be relatively short-lived.

Shelter was still Sticky … Surprise, Surprise!

Shelter (which makes up 34.9% of CPI) refuses to roll over. Prices increased for the 62nd straight month, up +0.18% MoM, now +3.80% YoY. Rent and OER remain elevated (but slowing ever so slightly), and Lodging Away from Home fell nearly -3.00% MoM … the only place inflation's catching a break is in vacation plans (that TSA data is uh-gly declining -1.44% YoY in June with 0% growth)!

Some may be thinking … PLEASE JUST STOP!!! the recent real estate data (which we'll discuss below) is poor at best, it's bound to drag CPI down! That's today's data … but shelter's contribution to CPI is typically on an 18-month lead/lag (yes, we've discussed this over the years, also yes, it's archaic)?!

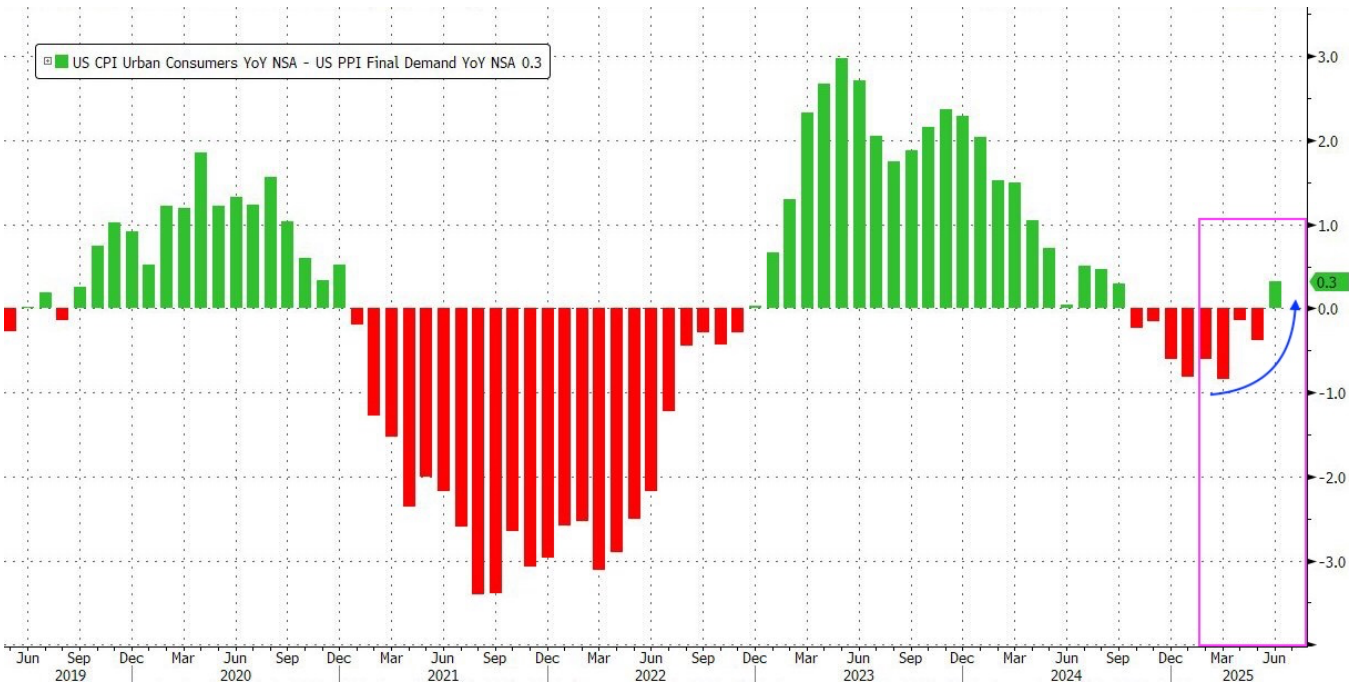
Think about this for just a moment … the Fed is currently working on an obnoxious $2.6-to-$3.1-billion-dollar renovation to their facilities (depending on which political party you listen to), every economist just whiffed on the PPI survey, the Fed has ZERO concept as to how to NowCast and the largest input component to the CPI is on an 18-month lag?! How they have any credibility left is beyond us?!

So sure, there's upward movement. But again: nothing is running away here. If anything, we're in the messy middle … not too hot, not too cold … and still below where the Fed cut last September, whoopsies?!

We'll say it clearly: CPI is not exploding … it's wobbling, and as PPI data cools, so too should the next backward looking CPI print. Will we see another pop in late Q3 or early Q4? Probably. But the magnitude looks muted … not the inflationary boogeyman legacy media keeps whispering about between ad breaks and Fed-fueled fear segments.

So Where Are We?

With inflation sitting above the Fed's target blaming tariffs for price pressures yet to materialized … it's important to remember that narrative of tariff-flaion was the tariffs would be a tax on the American people, sending prices soaring … yet, when coupled with the most recent CPI and PPI reports, it appears as if foreign countries are eating the tariff expenses with profit margins beginning to expand … also noted by @zerohedge:



In summary:

- Inflation reaccelerated slightly in June … as expected.
- But the PPI pipeline is softening … a lead indicator of cooling in July?!
- Shelter remains sticky … but it's no longer rising aggressively.
- Noise remains deafening … and the experts, again, are off the mark.

Again, 100% of surveyed economists were wrong on last month's PPI… 100% … which, in fairness is impressive in its own right!

We're not buying the tariff-flation narrative … we're watching the data and the data … at least for now … says: Panic not required!

And if the largest component of CPI is stuck in time, maybe we should fast-forward. Real-time housing data is showing us what's *actually* happening through the windshield, not just what the rearview mirror reflects … it's definitely got our attention, but just because something is on the radar, it doesn't mean you panic, we remain buoyed to our risk management process!

So, what about housing has our interest piqued?!

Strength in Spots, Cracks in the Foundation

Housing continues to deliver a mixed bag of signals … a little bit of acceleration, a lot of deceleration, and a fair amount of noise in between. While the mainstream media cheers every weekly uptick in mortgage apps like it's the second coming of '21, a closer look at the rate of change paints a different picture: this isn't a broad-based recovery … it's a sector struggling to find its footing.

Mortgage applications have seesawed week to week, but on a year-over-year basis, we've seen notable acceleration: apps are up +22.1% YoY, with purchases leading the charge (+22.5% YoY) as rates flirted with 3-month lows. That's the good news. The bad? Refis are rolling over again (-2.6% W/W), and mortgage rates are quietly creeping back up (now 6.84%).

But don't let apps fool you. Applications ≠ closings. Recent data shows that even as apps rise, pending home sales haven't followed … suggesting either credit standards are tightening or buyers simply can't seal the deal. If those apps aren't converting, that's not demand. That's just hope getting rejected at underwriting.

Builder sentiment remains anemic, still pinned below 50 for the 15th straight month. Sure, the NAHB index ticked up, but let's not confuse "less bad" with good … especially when 38% of builders are cutting prices, the highest on record since 2022.

On the construction front, Housing Starts jumped +4.6% MoM, but that entire move came from multi-family. Single-family starts? Down -10% YoY, lowest in a year. Permits continue to deteriorate,

especially in single-family, where we've now seen four straight monthly declines. Meanwhile, total homes under construction fell for the 18th time in 19 months … a slow bleed, not a snapback.

Even more telling, existing home sales just broke below the 4M SAAR threshold … falling to 3.93M in June, the lowest level since October. That's now the third test of this cycle low. It's a clear psychological break, not just another seasonal wiggle.

New Home Sales are down -6.6% YoY, and Median Prices have now turned negative YoY … a clean reversal from last year's inflation-fueled surge. According to AEI, home price appreciation went negative YoY in June (-0.4%) for the first time since mid-2023. That shift? Driven by subdued purchase activity, high rates, and a shrinking pool of qualified buyers.

And seller behavior confirms it. Redfin's telling buyers to make lowball offers … because they're getting accepted. When sellers blink first, the power dynamic has changed.

Even existing home sales, often touted as a bellwether, fell -2.7% MoM in June. The only "green shoot"? Prices, which rose +2.0% YoY … but that's not a victory when it comes at the cost of affordability and locked-in inventory. Supply remains tight, but not getting tighter, with inventory growth slowing to +15.9% YoY (vs. +20.3% prior).

And then there's labor … the hidden pulse behind housing. Construction firms added jobs in June, but BLS data shows openings are shrinking, and the Chicago Fed's latest regional survey flagged a sharp economic slowdown. Hiring sentiment hit a new cycle low. Growth is rolling over in places like the Northeast and Midwest, where housing weakness mirrors employment drag.

Again: RoC Matters … if housing is showing strain, labor markets … especially in cyclical pockets like construction and manufacturing are showing the pressure too.

While housing isn't falling apart … it's not recovering with any conviction either. Strength is isolated (multi-family, purchase apps), while the core health of the housing cycle … single-family demand, builder confidence, permits, and starts … remains soft. The rate of change confirms it: there's no breakout here, just a sector treading water in the shadow of elevated rates.

Labor: Fire Beneath the Surface, Smoke on the Field

If the CPI is wobbling and housing is treading water, labor … particularly in cyclical sectors like construction and manufacturing … is smoldering beneath the surface. The June jobs report may have flashed a headline beat, but traders celebrating early might want to revisit the details … or better yet, the revisions.

For the fourth month in a row, the *real* story was downward revisions. Since January 2023, 79% of initial private-sector NFP figures have been revised lower. And the Hires-Separations spread from JOLTS isn't exactly giving the Fed much to cheer about either. If anything, the labor market is quietly deteriorating under the weight of tighter credit and waning demand.

Let's start with construction. While the BLS shows net positive gains … about +5K jobs per month YTD … the Hires-Separations spread has now been negative in three of the last four months. That's not a rotation. That's

a retrenchment. Meanwhile, private construction spending (residential + nonresidential) is down -5.4% YoY … marking 12 straight months of contraction. That's not noise. That's a rare signal only seen during major recessions.

And while single-family construction has already rolled, the broader sector looks vulnerable. Lennar says it. The YoY trends say it. And history backs it. Any time private construction spending compresses this hard, labor follows.

In manufacturing, it's more of the same. ISM Employment slid again in June (now 45.0), and the New Orders-Inventories spread just posted its fourth inverted reading in five months. That combo … alongside rising inventories and collapsing new orders suggests the third quarter will bring more layoffs and less output. Payrolls in the factory sector have stalled, and Hires-Separations show weakening conviction across the board as noted above.

And if you needed a cherry on top, look no further than the growing number of Americans working multiple jobs (now nearly 9 million), or the 6.05 million not in the labor force but who still want a job … both indicators at cycle highs. Long-term unemployment and UI exhaustion are also climbing, reminiscent of the early innings of the GFC.

It's easy to get caught in the euphoria of a single print, but like arguing balls and strikes without looking at the stat sheet, it misses the deeper narrative.

Bottom line: The labor market is softening … not crashing, but bending under the weight of fiscal hangovers, policy tightening, and eroding demand. If you're in construction, manufacturing, or anything remotely cyclical, we'd suggest buckling up. The job market isn't breaking … but the cracks here are echoing what we're seeing in housing.

Final thoughts

The smoke is thick … but the sails are still full.

With markets hovering at all-time highs and volatility scraping cycle lows, it's easy to forget the fire smoldering beneath the surface. Labor's bending. Housing is uneven. Inflation's wobbling. The economic data is clearly cracking … but the market? Still ascending … quietly, confidently.

And that's exactly why we focus on process.

Because when the headlines get loud, and the data gets messy, it's the system … not sentiment … that guides us. The greats we referenced earlier … Saban, Kobe, Dalio … didn't build their legacies on vibes and headlines. They built them on discipline, repeatability, and trust in process. That's the company we aim to keep.

Which is also why we've never been ones to blindly follow the "proverbial experts." Did we mention, just last month, 100% of surveyed economists missed on PPI. Every. Single. One. That's not bad luck … that's bad

process. These are the same voices the media continues to elevate … the same models the Fed leans on … the same narratives that scare investors into making emotional decisions at the exact wrong time.

It's not the scoreboard we watch … it's the playbook.

Price. Volume. Volatility. Signal over story. Systems over speculation.

And right now? The signals remain bullish. Volatility isn't just compressing … it's collapsing. The path of least resistance is still up. The market is speaking clearly, even if the data is mumbling.

This disconnect … between deteriorating fundamentals and bullish price action … doesn't mean markets are irrational. In part, it reflects a deeper structural force we've discussed in the past: the passive investing machine. As Brightman and Harvey highlighted in their recent paper, passive flows have become a dominant market force, absorbing capital irrespective of economic conditions. This creates a feedback loop where mechanical buying perpetuates price trends, narrows diversification, and disconnects price from fundamentals … at least temporarily.

In today's market, price can rise not because of better fundamentals, but because it's simply in the index. Volatility can stay low not because risk has disappeared, but because price-insensitive flows are dominating liquidity. That's not a narrative … that's structural.

So yes, data can crack. But if signals don't break, we don't blink.

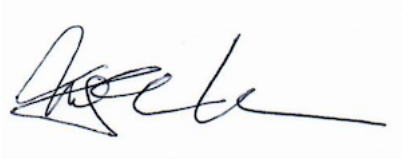
That doesn't mean we're complacent. If signals break, we'll adjust … that's the point of having a system. But we won't guess. We won't flinch. And we definitely won't outsource our thinking to a group of "experts" who seem more interested in narrative than accuracy!

Process, not panic. Signal, not smoke.

As always, never hesitate to call with any questions or concerns!

Good investing!

Sincerely,



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