



The runway lights are lying!

The Runway Lights Are Lying

On a clear day, any pilot can land a plane. It's the hazy nights that separate instinct from discipline. Pilots call it the *"runway-lights illusion"* ... the brighter the lights, the more your eyes insist you're perfectly lined up, even as the instruments tell a different story. That's when you decide what to trust: either the glow... or the gauges?!

Lately, markets have been flying by the glow. For months on end, headlines have stated the labor market was "balanced," Trumps tariffs would significantly "raise inflation," and the Fed would be "patient." The story was tidy, reassuring... and dangerously imprecise.

Our instruments ... the rate-of-change data we track across openings, wages, claims, and pricing... aren't blinking "balanced." They're quietly flashing late-cycle. The Rate of Change is what matters, and the RoC doesn't lie.

This month's flight plan is simple: we'll trust the gauges.

First, labor... where the Fed's narrative work is happening, blaming "supply" to hide weakening demand. Then inflation... where a noisy headline pop masks a softer core and a producer pipeline that never truly re-heated. And finally, what that means for portfolios, policy, and planning as the Fed, once again prepares to reach for the "cowbell" ... as Hedgeye Risk Management CEO Keith McCullough often says!

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Labor: Signal vs. Story (and why the first cowbell rings)

If you've ever watched a pilot on short final in patchy fog, you know how treacherous runway illusions can be. The lights suggest you're perfectly lined up; the instruments insist you're not. Trust the instruments.

Lately, the market's been flying by lights. the public story has only recently shifted from the language of "balanced," as it relates to labor, but our rate-of-change instruments disagree. The labor side is weakening in ways a supply-shortage narrative can't explain, while the inflation track hasn't delivered the significant rise the Fed implied it would. That mismatch is why you should expect the Fed to reach for more cowbell ... not because labor supply broke, but because labor demand is rolling over.

Let's start with the tape, not the talk.

Openings vs. bodies: By late summer, there were fewer job openings than unemployed people. August prints show openings around 7.227 million vs. unemployed around 7.384 million... that pushes the openings-to-unemployed ratio toward 1.0x, the weakest since early post-pandemic normalization. A shortage doesn't look like that; cooling demand does.

Duration is stretching: While initial claims stayed low, the continuing claims trend rose into mid-year ... our June update flagged a cycle high near 1.956 million with the 4-week average rising and YoY acceleration to roughly +6.6 percent ... a classic rate-of-change tell that it's taking people longer to find new work. That's not "too few workers," that's too few hires.

Wage momentum is decelerating ... ADP's detail shows job-stayers up around +4.5 percent YoY, while job-changers slowed to +6.6 percent YoY from 7.1 percent prior... a sequential deceleration where you'd expect re-acceleration if supply were the constraint. Employers aren't bidding up marginal labor; they're tightening.

Layer on composition... goods-producing jobs flat to negative, services hiring plateauing ... and the picture is late-cycle demand fatigue, not a worker drought. The NFIB Small Business Confidence Index just hit its lowest level since July, while the Uncertainty Index spiked +7 points. Those aren't supply-side dynamics; they're the fingerprints of cooling demand and tightening credit – exactly what we'd expect this late in the cycle.

And that late-cycle signal is flashing elsewhere too. The CAPE ratio (the Cyclically Adjusted Price-to-Earnings measure) ... remains historically elevated (40x) even as labor and income growth decelerate on a rate-of-change basis.

When the CAPE stays this high while real economy momentum fades, history tells us it's not a crash call ... it's a compression call. Valuations don't implode all at once; they erode as earnings flatten and hope lags process. It's the same picture you get from the gauges: slowing labor demand, softening wages, weaker hiring plans, stretched multiples. That combination isn't equilibrium ... it is exhaustion dressed up as stability.

And while we'll discuss inflation in greater detail below ... this is where the cover story gets written ... Hedgeye's monthly CPI nowcast pegged September at roughly +3.10 percent YoY, an +18-bps sequential acceleration ... and even then, the October path was only +3-bps around +3.13 percent YoY in the base case.

That's hardly the kind of re-accel that bars easing... it's a wobble inside a broad moderation that keeps the Fed short of victory laps and long on labor-based justifications to cut.

So, when Chair Powell leans into "lower immigration and participation" to explain slower hiring, that emphasis isn't random. It's a politically safer bridge to easing... acknowledge a "less dynamic" market, blame supply where possible, and downplay the inconvenient demand signals: falling openings, slower wages, longer unemployment. The result is a narrative that can deliver cuts without yelling "demand is cracking."

Now, he's been playing politics ... we're reading the instruments.

The global context explains why the supply story gets airtime... a G20 skew toward Quad 2 to Quad 3 (growth slowing with sticky pockets of inflation) plus tariff pass-through and electricity costs make it easier to talk supply than admit demand is the issue. But none of that reconciles a falling openings/unemployed ratio, decelerating ADP wages, and rising duration. Those are demand internals.

Continuity with our prior guidance: We said months ago that the AI-capex pop could mask the real-economy slowdown for a time, but it wouldn't rewrite late-cycle math ... revisions and hires-minus-separations have been deteriorating underneath the headline prints ... the same process signal we're seeing now, just farther along.

So what? Expect the Fed to feature labor in guidance... "less dynamic," "downside risks," "structural constraints" ... code for we're cutting.

Uncharacteristically, earlier this month [Powell stated](#):

"the Fed will likely cut its key interest rate twice more this year!"

So, while market instruments suggest deterioration ... "COWBELL" is tactically friendly to duration-sensitives and selective risk!

But at peak multiples, it's important to be mindful of the first earnings or pricing-power disappointments as they are often a "danger ... multiple compression ahead"?!

As I type, out of 145 companies within the S&P 500 that have reported, 84% have "beat" earnings expectations, showing RoC improvement as we head into year end and Q1 with easing base affects ... with a meager 14% missing ... Couple this with cowbell and we should have clear skies for some time, as the "Pro's" position bearishly (another bullish catalyst ... as markets run, net neutral hedge funds have to cover and chase markets higher which perpetuates bubbles)!

We'll keep the focus where the instruments are ... openings/unemployed, wage ROC, continuing claims, and services-ex-shelter. If those rivets loosen, even while the cowbell rings, we'll let our signals guide us and our adjustments should our final approach be off center.

What's Next: Inflation & the Tariff Mirage

If labor tells us altitude, inflation tells us airspeed... and right now, the gauges say we're slowing, not stalling... but the captain keeps announcing "cruising altitude achieved."

Headline CPI ticked higher again in September, up +0.31 percent MoM and +3.01 percent YoY... its sixth consecutive monthly gain and the highest since May 2024. Energy rose +1.51 percent MoM, +2.85 percent YoY; food edged up +0.25 percent MoM, +3.11 percent YoY.

Those moves grabbed headlines, but the underlying thrust came from tariffs and fuel volatility, not a new demand surge. The core engine actually eased back: Core CPI slowed to +3.02 percent YoY (from +3.11 percent) ... its slowest pace since June... and Super Core (core services ex-shelter) cooled to +3.30 percent YoY from 3.52 percent.

Shelter costs, the 35 percent weighting that dominates CPI, also decelerated: +0.21 percent MoM, +3.58 percent YoY versus 3.63 percent prior. Rents rolled over again, and Owners' Equivalent Rent fell to 3.76 percent YoY, the softest since early spring. When the biggest component of inflation is slowing, the risk isn't overheating... it's running out of thrust.

Producer prices tell the same story from the other side of the cockpit. Headline PPI gained +0.24 percent MoM, +2.38 percent YoY, while Core PPI was essentially flat at +2.31 percent. That's not re-acceleration, that's drift. The production pipeline isn't delivering inflationary lift; it's bleeding altitude. You can't get sustainable consumer inflation without producer inflation leading it. We haven't had that since early 2023.

Back in Q1, we wrote that any apparent "reheat" in inflation would be muted, tariff-led, and transitory ... a base-effect mirage, not a new cycle. Tariffs would lift certain goods categories briefly, but broad PPI was decelerating, and the pass-through would fade.

This is exactly what we're seeing. The Fed's "firm footing" story assumed tariff bumps would behave like demand-driven inflation... they haven't. They've behaved like taxes—one-time friction that corporations/consumers have absorbed, not a self-reinforcing price spiral.

So, when Powell now frames the economy as "balanced" and hints that "supply constraints" justify a gentler policy stance, it's less about victory over inflation and more about narrative navigation. If inflation's cooling, the Fed can't cut because of prices; it can only cut because of people. Hence the pivot to labor, participation, and immigration. It's not misdirection—it's survival instinct for Jerome.

The lights on the runway say one thing: the instruments another.

When inflation moderates for the right reasons ... productivity, efficiency, genuine supply expansion ... that's healthy descent. When it moderates because demand is softening and pricing power is slipping, that's structural fatigue. We're currently in the latter camp.

The Fed can talk “balance” all it wants, but the combination of cooling labor demand, softening core inflation, and flat producer pricing adds up to one thing: late-cycle deceleration... not crisis, not collapse, just the slow recognition that the economy’s flying on momentum, not thrust.

Signal vs. Story: Flying by the Instruments

Every pilot eventually learns the hardest truth in flight: the first thing to go bad in zero visibility isn’t the weather... it’s your instincts. You can feel level while the plane’s banking, sense altitude where there isn’t any, and swear you’re lined up with the runway when the instruments insist otherwise. It’s called spatial disorientation, and it’s fatal if you keep trusting your gut.

Markets/investors have the same problem.

Right now, the runway lights look beautiful. The Fed says, “balanced,” the media says, “soft landing,” and Wall Street says, “buy the dip.” But the gauges ... the rate-of-change work that actually measures pitch, speed, and altitude ... are suggesting otherwise.

- Labor: demand is fading not supply
- Inflation: core and producer prices are cooling, not re-accelerating.
- Policy: the cowbell is coming ... not because growth is strong, but because it’s slowing quietly enough to need cover.

That’s what makes this phase dangerous. When the instruments diverge from the lights, it’s not the next print that gets you... it’s the comfort of believing what you want to see.

For investors, that comfort is everywhere right now... in valuations priced for endless resilience, in narratives built around “soft landings,” and in policy guidance that sounds like precision but reads like positioning.

Markets are flying by the glow ... we’re flying by the gauges ... and the gauges say we’re late cycle, not lost... but close enough that every decision needs to be grounded in process, not persuasion.

Final Thoughts: Stability Built on Data

Here’s the reality ... there’s not a single valuation metric that represents anything close to a market timing tool ... from the CAPE (40x) to traditional P/E models (nearing 32x times for S&P large cap companies) ... to equity risk premium, the Fed model or the Buffett indicator.

The bridge looked fine until it didn’t. The plane felt level until it wasn’t ... and right now, the economy feels “balanced” ... until?!

For months, policymakers have been flying by lights: calling labor “resilient,” inflation “behaving,” and risk “contained.” But the gauges... the rate of change in jobs, wages, and prices... say otherwise. Demand is cooling, policy is repositioning, and the crowd is still applauding the approach.

That’s fine for headlines. It’s fatal for retirement plans that assume smooth skies.

At Other Side, we don’t navigate by noise. We follow data, coupled with short term momentum and intermediate term trend signals ... we build plans that account for what happens when the lights fade ... and follow our process in order to adjust for when markets EVENTUALLY roll over and reprice when both growth and inflation decelerate.

A 40x CAPE ratio may very well be at elevated levels ... but has gotten to north of 44 in the past ... and what if it gets to 50x before an eventual correction?! What if the correction occurs in 2Q2026 and you have the ability and process to capture upside until markets roll?! DO YOU HAVE A PROCESS TO MITIGATE DRAWDOWNS WHEN MARKETS CRASH?!

Financial stability isn’t built on forecasts or what if’s; it’s built on preparation and process.

That’s exactly why we start with a Comprehensive Retirement Income Plan for anyone who walks through our process ... FREE OF CHARGE ... whether you utilize our services or you don’t.

It’s a full structural inspection of your financial aircraft: Every predictable income source and expense mapped out against future needs ... from those you consider ... pensions, social security, insurance ... to those most don’t ... like ... long-term care!

Not so fun fact ... a meager 5% of the US utilizes some form of long-term care as part of their overall legacy plan ... with monthly expenses for private rooms ranging from \$8k - \$12k per month depending on state, add another \$5k-7k for something like dementia care, that can destroy any surviving spouse’s future retirement.

We consider all of the above and more ... all built into one future flight plan!

The eyes of a 30-year industry professional provides a full structural inspection of your financial aircraft! From simple retirement planning to clients worth \$10’s to \$100’s of millions, the expertise and partnerships exist to land your plane safely.

Assets, liabilities, real estate, and accounts calibrated for both partners... so both spouses and families know exactly how the plan holds together when the weather changes.

Whether or not you ever work with us, you’ll walk away knowing your true altitude... and what to adjust before the fog rolls in.

Because balance isn’t an illusion when it’s build on data ... and in markets like these, trusting the instruments isn’t just smart ... its survival!

[CLICK HERE TO BOOK YOUR FREE CONSULTATION NOW!](#)

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

Good investing!

Sincerely,



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