



*The data went dark ... **NOT REALITY!***

Forty-three days ... no scoreboard

There's something uniquely American about shutting down the government for more than 40 days ... only to emerge with the exact same deal you could have signed before shutting the entire place down. It's legislative tail-chasing at a national scale ... like watching a dog spin itself dizzy for six straight weeks, collapse in the yard, then proudly trot over with the look of "you see that? I did that." It would almost be funny if it weren't so familiar.

At this point, calling it "inefficient" feels generous. The whole episode felt like watching a Roomba trapped in a corner bumping into the same wall for six straight weeks while insisting it was accomplishing something meaningful ... except this Roomba cost taxpayers billions ... and when it finished bumping into the same wall for a month, it congratulated itself on resolving a "complex impasse."

And while Washington was busy spinning in circles, the scoreboard went dark. Literally!

Jobs data paused ... housing data paused ... inflation data paused ... PMI paused ... nearly every major indicator we rely on to track the health of the economy went silent. But of course... reality didn't pause.

The underlying economy kept moving... households kept spending (or not) ... companies kept firing ... and consumers kept feeling the pressure. When the

IN THIS ISSUE:

- Forty-three days ... no scoreboard
- Inflation didn't reignite ... most just can't escape it!
- Jobs: mixed signals ... visible stress
- Housing
- Durable Goods
- Manufacturing
- Mike Green's poverty-line analysis
- Equities & liquidity: the participation paradox
- The responsible participation dilemma
- Final thoughts: do you have a real plan

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scoreboard finally flickered back on, what we found wasn't surprising in the least.

In fact, it confirmed almost exactly what our process had already been tracking without the official prints.

Rate-of-change doesn't stop when reporting does ... and deterioration doesn't wait for permission.

So, let's turn the lights back on ... and walk through what actually happened while Congress was arguing with itself.

Inflation didn't reignite ... most just can't escape it!

Inflation didn't spiral out of control – no matter how many times Chair Powell warned it would. All through 2024, the Fed treated tariffs like they were the economic equivalent of lighting a match in a fireworks warehouse. We were told inflation would “reignite,” “accelerate,” “re-accelerate,” and (a personal favorite) “become unanchored.”

Meanwhile, we sat here saying... no, it won't. It'll just get annoying – especially for the lower slope of the K.

Because inflation was never going to explode again, but it was never going back to 2% either. We've written for years that the post-COVID economy is K-shaped – the upper slope collects risk-free income and shrugs at rising prices... the lower slope gets crushed by every incremental uptick in the cost of existing. And that divergence doesn't narrow when tariffs go up... it widens.

And sure enough: inflation never reignited – but it certainly hasn't “returned to normal.”

Even with a 40-day blackout, the rate-of-change data that *did* make it through is landing right in the middle lane we mapped out:

- ISM Services Prices just hit a 3-year high
- Services inflation is still hot MoM and YoY
- Shelter remains positive YoY
- Insurance inflation is still double digits
- Electricity prices are up more than 40% since 2020
- Tariff pressure is still running near 18%

None of this screams “runaway inflation,” and none of it whispers, “mission accomplished,” either.

Goods inflation has come down since the supply shock of 2020–2022... but goods are not life. “Goods” are not the household budget. “Goods” are not the thing slowly squeezing the air out of American families.

What's constricting households today is services – the things you cannot substitute, delay, or ignore:

- Auto insurance still double-digit YoY

- Home insurance premiums up 30–40% regionally
- Broadband at new all-time highs
- Medical care services accelerating
- Shelter inflation above pre-2020 norms

These aren't discretionary luxuries... these are the costs of existing – the participation costs we've been writing about for years.

It's why Americans consistently tell surveyors inflation is still their top concern... even when CPI prints a calm 3-handle – a YoY measure pretending consumers haven't been force-fed a 27%+ cumulative increase over five years.

It's the slow, sticky, K-shaped grind we've been laying out for some time ... here's what we had to say about it [in June of 2024](#):

"Those who fall into the upper slope of the 'K' are generating a windfall of risk-free income... the lower slant of the 'K' is the complete OPPOSITE story."

This K-shaped reality hasn't narrowed... it has widened. The upper slope has more cushion. The lower slope has less oxygen.

Powell warned of ignition. We warned of drag.

And the moment the data came back online, we learned – again – that drag won. Inflation didn't explode. It didn't collapse. It migrated into the parts of the economy households can't escape – the very parts where the lower slope of the K lives every day.

And the clearest place to see that K-shaped burden show up right now... is the labor market.

Jobs: mixed signals ... visible stress

Once the blackout ended, government claims data came in looking reasonably stable. Initial claims fell to 216k, the lowest since April. The four-week average ticked slightly lower. Continuing claims rose to 1.96 million (+6.8% YoY) ... elevated, but not alarming.

On the surface... nothing to panic about.

Except we've watched this movie before. Government labor data has been revised so many times over the last two years that calling it "stable" is like calling Jell-O "structurally sound."

So, to understand the real condition of the labor market, we have to look beneath the headline.

The underlying Rate-of-Change reality – your higher-frequency data shows:

- Full-time employment deteriorating
- Part-time and gig work filling the gap
- Wage growth decelerating YoY
- Job openings falling across multiple sectors
- Small business hiring weakening
- Payroll data repeatedly revised downward

Which is classic late-cycle behavior.

But we don't have to rely on government data to see the truth. Corporate America is showing us exactly what's happening as Challenger, Gray & Christmas continues to show us the pulse of the private sector even as the government was shut down!

The October report from CG&C was blunt:

- **153,074 job cuts in October:** worst October in 20+ years
- **~1.1 million YTD layoffs:** +65% YoY
- **Hiring plans down 35% YoY:** weakest since 2011

You don't get numbers like that when the labor market is "strong" ... you get numbers like this when companies are preparing for leaner years.

But what gets lost in the headlines is *where* the cuts are happening.

White-collar layoffs ... tech, finance, telecom, consulting ... are accelerating.

Meanwhile, low-wage workers aren't losing jobs at the same clip... but they're losing **hours**, which is the same deterioration delivered by different math.

It's the perfect example of why we watch rate-of-change, not headlines.

As we [wrote back in August 2023](#) ... long before the BLS spent two years revising job growth lower:

"We know full-time positions are in the higher paying 'white collar' space and the loss of these positions are largely being ignored by certain data sets."

And sure enough, that's exactly what happened. High-income, full-time white-collar jobs *were* being lost — they were simply buried under severance packages, model noise, and the always-magical birth/death adjustments.

The proof?

Two straight years of massive downward revisions to payroll data... confirming the deterioration we were tracking in real time while the headlines were still celebrating "strength."

Challenger didn't miss it ... private-sector data didn't miss it ... **we didn't miss it** ... only the government's initial prints have.

Hedgeye's labor modeling confirms the same fragility, reinforcing this slow deterioration, suggesting headline layoffs appear "static," but that's because population growth is masking the underlying weakness. Their alt-data reveals a plodding slowdown: openings softening, unemployment drifting higher, and wage growth normalizing. High-profile layoffs matter not only numerically but as signals, especially in rate-sensitive sectors.

The labor market is weakening at the edges even while traditional indicators appear deceptively calm.

In just the last few weeks, we've seen a continuation of a mass corporate layoff wave ... real names, real jobs:

- Verizon: 13,000+ layoffs
- Wendy's: 200–350 restaurant closures
- HP: 4,000–6,000 job cuts
- Additional cuts across tech, retail, manufacturing, transportation ... the list is quite extensive!

This isn't isolated ... this is systemic.

Government data says: "stable."

Private-sector data says: "stress."

Corporate America says: "prepare yourselves."

This isn't collapse ... but it's not stability either ... it's fragility! Which bleeds directly into:

Housing

If you only saw the headline numbers, you might be thinking ... hmmm, things don't look all that bad?!

- Mortgage apps +0.2% WoW
- Purchase apps +7.6% WoW

But WoW is typically noise ... YoY is signal, and YoY has been rolling over ... hard.

- Apps slowed to +52.7% YoY (from +62%)
- Purchase apps slowed to +18.8% YoY (from +24%)
- Refi's slowed to +117% YoY (from +124%)
- 30-year mortgage rate rose to 6.40%

This isn't what recovery looks like ... it looks more like a pause before we see another leg lower ... unless something is done quickly ... and wrapping a 50-year ~~noose~~, I mean mortgage around your neck, at 6.35% isn't the answer!

The Case-Shiller index is decelerating, FHFA is softening. Pending home sales are falling. Affordability remains structurally broken ... housing isn't a mobility ladder anymore ... it's a cage.

As we [wrote in June of 2024](#):

"78% of Americans living paycheck to paycheck... 60% with less than \$1,000 in the bank... the difference between the upper slope and lower slope of the K couldn't be more stark."

Housing now amplifies that divide.

When you stack this labor backdrop against housing, the picture gets even uglier. High-income earners – the cohort that actually drives home demand – are losing jobs or quietly losing hours, while the lower slope of the K is already drowning. Mortgage rates remain elevated, affordability is structurally broken, and now the construction pipeline is wobbling as job sites report noticeable labor gaps.

According to NAHB, more than **40% of builders** say labor shortages or unreliability are delaying projects – and that was *before* the recent surge in workers avoiding construction sites altogether. You simply can't reignite a housing market with income instability at the top ... financial strain at the bottom ... and the people who physically build the houses stuck in limbo.

The divide we highlighted back in June 2024 hasn't narrowed ... it has hardened. So, the idea that a couple of rate cuts or a 50-year mortgage will magically reset the market is wishful thinking. You can't stimulate demand when the people who *should* be buying can't, and the people who *want* to buy don't know if their job, their hours, or their income will be there next quarter. It takes more than cheaper debt to revive a market starving for stability.

And housing isn't the only place where the cracks are widening. When consumers are strained, labor is weakening, and credit conditions are tightening, the weakness doesn't stay confined to one sector ... it bleeds into everything upstream. Durable goods, manufacturing, capital spending ... all the areas that rely on confidence, income stability, and forward visibility ... they don't just soften in this environment ... they sag under their own weight. And that's exactly what the data is showing.

Let's take a quick look at Durable Goods – another place where the headlines show strength, but the underlying reality is artificial.

Durable goods

Recent Durable Goods Orders came in at:

- +0.48% MoM
- +9.64% YoY

But nearly all of the “strength” is policy-driven:

- Transportation orders: +19% YoY
- Defense aircraft: +30.9% MoM
- Autos: slightly positive
- Non-defense aircraft: -6.1% MoM

The One Big Beautiful Bill Act (OBBBA) turbocharged immediate expensing, bonus depreciation, and capital incentives.

It looks like growth ... but behaves like a tax rebate. Loud on paper ... quiet everywhere else ... VS.

Manufacturing

Which looks more like a quiet recession, where Chicago PMI came in at 36.3:

- lowest since May
- 24 straight months below 50
- 38 of last 39 in contraction
- three-month average falling again

This isn’t “recession risk” ... this isn’t “recession potential.”

Hedgeye’s mid-quarter work also flags the same fragility: tariff reshuffling and inventory pull-forward distort the headline prints, masking how weak true demand really is.

Additionally, regional Fed surveys: Dallas, Richmond, and Philly ... all remain in contraction, with global PMIs in Europe and Japan showing the same pattern. This is not a sector waiting for recession confirmation. It is already *in* recession.

It’s not a soft patch ... it’s a structural downturn ... it’s now a rolling industrial recession ... two years in the making, quietly grinding! Something we warned about in 2023:

“Manufacturing will likely be the first to crack... and the last to recover.”

And it’s exactly what’s unfolding.

But to truly understand why this slowdown feels heavier than a typical industrial recession, you have to step back from the charts and look at what’s happening inside the household. Because none of this ... not the weakening jobs backdrop, not the softening housing market, not the manufacturing contraction ... exists in a

vacuum. It all lands on real families ... in real budgets ... with real breaking points. And that's where Mike Green's recent work becomes so important! If you don't subscribe to [his Substack](#), you really should consider doing so!

Mike Green's poverty-line analysis

Long-time readers know we believe Mike Green, Chief Strategist and Portfolio Manager for Simplify Asset Management, to be one of, if not the brightest mind on wall street.

In his most recent Substack, Mike took the current "poverty line" to task. Where we have written for years about the challenges our middle class faces, and how few people have the ability to write a \$1,000 check in case of an emergency, Mike put numbers to spreadsheet and what he found is disheartening at best. We would urge all to read his [most recent note here](#).

"The Real Floor Isn't \$31,200... It's ~\$140,000"

This is where the conversation shifts from numbers ... to lived experience.

Because if the real functional poverty line is closer to \$140,000, then tens of millions of American households who believe they're "middle class" are actually operating below the threshold of economic stability.

And that's not a moral failing ... it's a math problem.

It's the cumulative effect of structurally rising fixed costs ... structurally stagnant real wages ... structurally deteriorating job security ... structurally weakening public services ... structurally inflated participation costs ... structurally fragile household balance sheets.

When fixed costs consume 85–95% of income for an "average" household, the difference between stability and collapse is a single shock: a job loss ... a health event ... a housing repair ... a rent increase ... a spike in insurance premiums ... or an unexpected caregiving obligation ... dare we say, a recession?!

As Mike put it: *"If you are earning \$80,000 with \$79,000 in fixed costs, you are not stable. You are super-cooled water. One shock... and you freeze instantly."*

This explains why survey data feels worse than economic headlines. It explains why consumer sentiment keeps falling even when GDP looks fine. It explains why layoffs feel catastrophic. It explains why housing feels out of reach. It explains why inflation feels worse than CPI says.

Because instability isn't a feeling. It's a condition.

And tens of millions are living inside that condition right now.

Equities & Liquidity ... The participation paradox

Here's the conundrum every investor – and every advisor who understands the system – is quietly wrestling with:

If the economy is weakening this broadly and so many individuals are struggling ... why are equity markets still elevated?

Why haven't markets cracked?

Why aren't stocks reflecting the same deterioration showing up in jobs, housing, manufacturing, and household balance sheets?

The primary answer is "equity markets" are no longer a true reflection of the economy.

Two forces are doing the heavy lifting in equity markets – and neither of them "fundamental."

1. Passive Investing Has Changed the Plumbing of Markets

As we've discussed before ... this is not your parents' stock market. It's not even *your* stock market from a decade ago.

Every single day:

- More shares are removed from the actively traded float
- More capital flows into passive vehicles
- More price movement is driven by rules-based, mechanical buying

And mechanically, this changes everything:

Each incremental dollar of passive inflow now has a larger price impact than it did in prior years.

We warned about this quite some time ago when analyzing index concentration:

"Passive doesn't care about valuation, fundamentals, margins, or profits. Passive buys because passive must buy."

That dynamic hasn't slowed ... It has accelerated. Passive flows mask fragility ... right up until the moment they don't.

2. Government Liquidity Is Still Being Injected – Even While the Fed Tightens

This is the pillar that traditional advisors frequently miss. While the Fed raises rates and tightens policy, the *Treasury* has quietly been injecting liquidity into the system through its operations.

This creates the paradox:

- Fiscal policy is easing.
- Treasury liquidity is supporting risk assets.
- Passive flows are auto-buying.
- The Fed is playing politics sending mixed signals.

Markets aren't signaling economic strength. They're signaling **liquidity + mechanical flows**.

This is not "price discovery."

This is plumbing.

And when plumbing drives markets, not fundamentals, it creates a very uncomfortable reality...

The responsible participation dilemma

The industry, via countless advisors suggests: "Staying the course always wins." But will it always?! The reality is, NO ONE KNOWS because no one has seen a market where passive investing comprises more than 50% of the overall markets ... until just recently!

Here's the uncomfortable truth: **When markets are being levitated by passive mechanics and government liquidity ... not earnings, not fundamentals, not organic growth ... the obligation is *not* to blindly participate.**

It's to participate responsibly.

Because when liquidity reverses ... when passive flows flip ... when boomers need to fund their retirements via retirement accounts instead of interest income ... should fundamentals ever matter again. Markets won't drift lower gently.

They will reprice reality in a blink!

And when that happens, the last place any household wants to be is fully exposed, **hoping** markets "come back" before their retirement plan breaks.

Everyone wants to "be the market" (i.e., capture market returns) until they're down 20-50% crying for the Federal Reserve to bail them out.

But this is why risk management exists. This is why solving for sequence-of-return risk matters.

This is why retirement plans fail: not because markets fall ... but because they fall at the *wrong time* for the *wrong household* ... because no single advisor can tell you exactly "when" as it relates to your individual retirement plans!

And in this environment — where fundamentals whisper and liquidity shouts — households need more than hope. They need a plan.

Final Thoughts: do you have a real plan?

To be blunt:

If this is the economic backdrop ... If Washington is this dysfunctional ... If traditional advisors aren't tracking any of it ... and if markets are being lifted by liquidity plumbing instead of fundamentals ... then the average household ... especially one 5–15 years from retirement ... is more exposed than they realize.

Your job ... your home equity ... your debt load ... your market exposure ... your retirement accounts ... they all sit squarely inside the zone of **sequence-of-returns risk**.

Don't be that Roomba stuck in the corner! A comprehensive retirement income plan isn't a luxury anymore ... it's a necessity.

Our free retirement income legacy plan provides clarity across:

- income vs. expenses
- pensions & Social Security optimization
- tax structure & planning opportunities
- health & long-term care planning
- insurance & risk management
- asset allocation & liability mapping
- sequence-of-returns stress testing
- multi-scenario outcome modeling
- estate, legacy & survivorship planning

We build it whether or not you ever become a client ... because this environment demands it ... and especially if you've recently lost a job ... or fear one may be coming ... clarity is everything!

[Schedule your free consultation](#) today ... we're here to help!!!

A Thanksgiving message

Before we close ... a moment of perspective.

We all just celebrated Thanksgiving — a holiday built on gratitude, reflection, and community and right now — community matters more than ever.

Millions of Americans are quietly:

- losing jobs
- draining savings
- struggling to keep up with rising costs
- carrying financial stress, you'll never see on their face

So, in the middle of economic noise and political theatrics, let's not lose the thread.

Be kind ... Pay it forward ... Give people grace.

You never know who is one shock away from freezing. You never know whose fixed costs already exceed their income. You never know who is silently carrying a burden they don't know how to talk about. And if you – or someone you love – has lost a job, feels financially exposed, or simply needs a plan to navigate what's coming ... We're here.

A real plan provides clarity. Clarity creates confidence. And confidence is something many families haven't felt in a long time.

Happy Thanksgiving to you and your family – and thank you for being part of this community.

As always ... Good investing!



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