

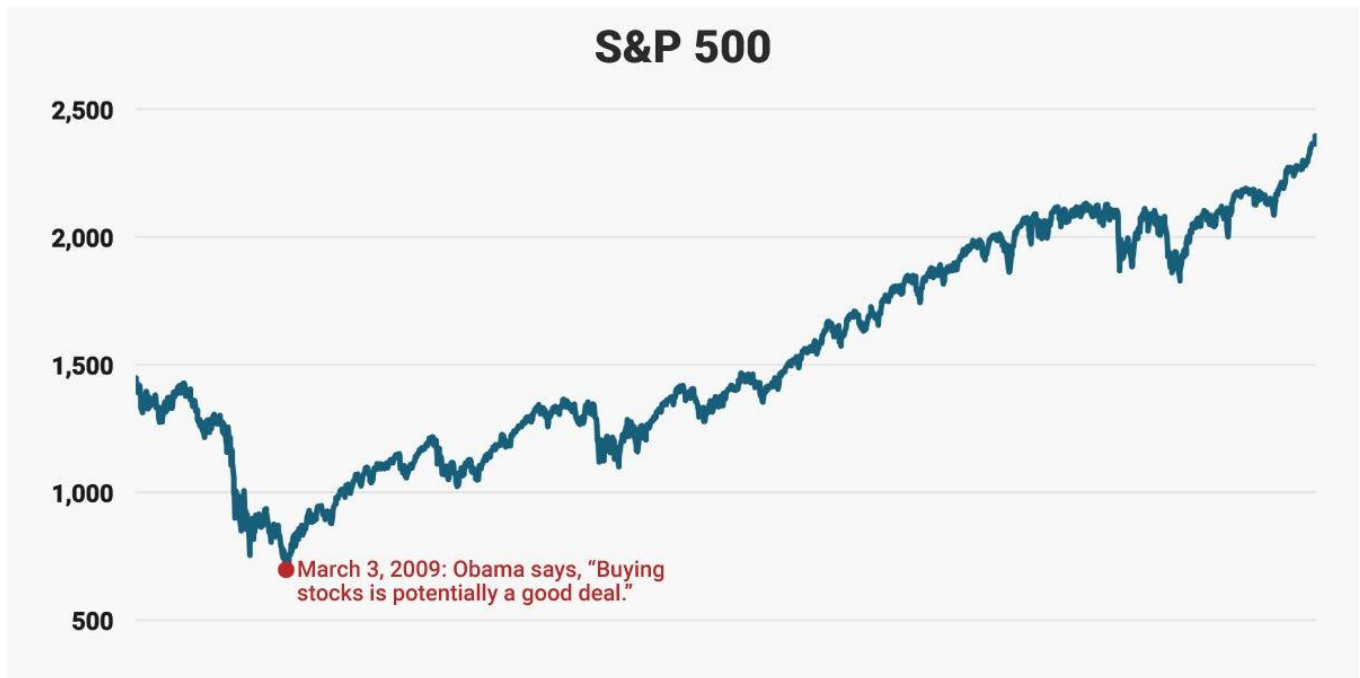
Here is your equation for what happened to the markets in the past week, and why it rallied so hard...

**(Unchained Inflation + Fed Tightening Forever) x 0 = Biggest Rally in Risk Since 2020**

The zero multiplier is the neutralizer to fears that had been throttling stocks and strangling risk. Six months ago, it was a 10. With the changes to both inflation and Fed expectations in the last two weeks, even if just at the margin, you had bulls coming off the top rope like Jimmy "Superfly" Snuka in his prime. Laying the full-frontal body slam on the bears who up until this point had been having a year like no other. That folding chair didn't stand a chance!

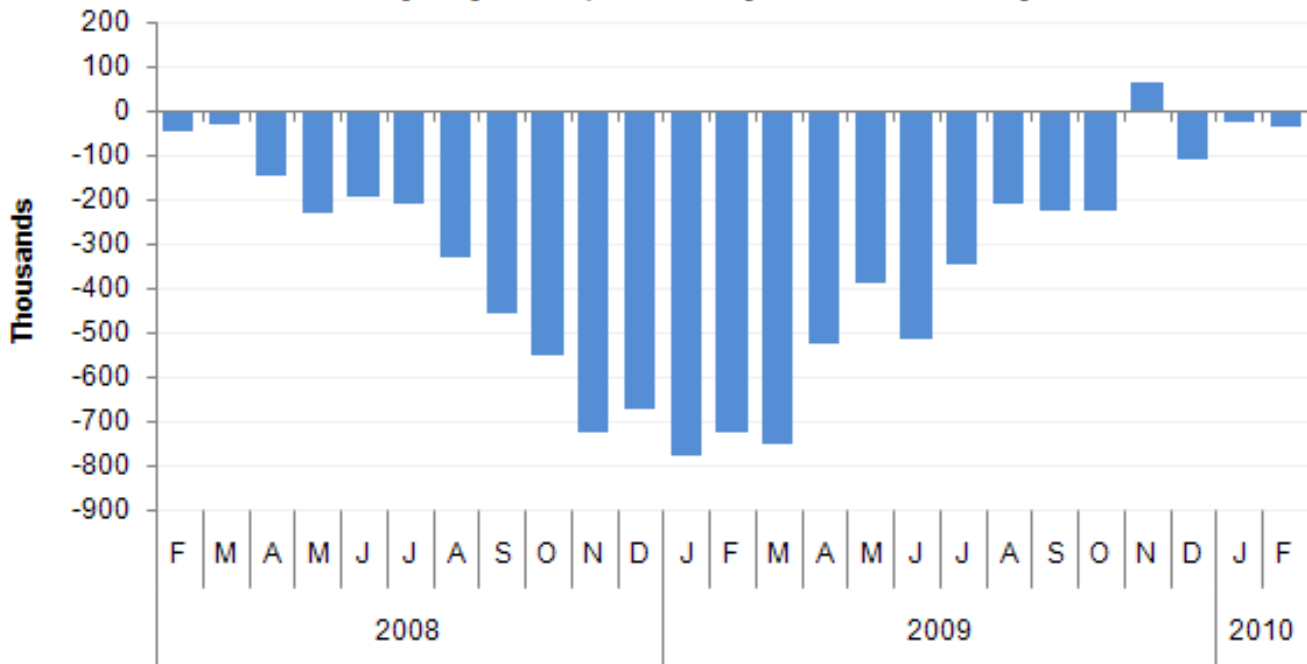


Here is the setup, and it's one that I find unbelievable important. It comes from a lesson learned in March of 2009, and it was a giant moneymaking bottom. It arrived on the 6<sup>th</sup> of that month, and the S&P 500 hit a frightening 666. The story would wind up writing itself, and it was legendary. The fact that our newly inaugurated President called the bottom three days before only added to the lore. It would be a four bagger from there. Nice trade, Barry.



And here is how it played out. After the six-month shock of the Global Financial Crisis, and a collapse in the economy, the employment situation stopped getting worse. It was an awful report at a loss of 725,000 jobs. But it wasn't materially worse than the 715,000 loss of jobs from the month before. And that's what it took for the equity market to bottom. It simply stopped getting worse.

### Nonfarm payroll employment over-the-month change, seasonally adjusted, February 2008–February 2010



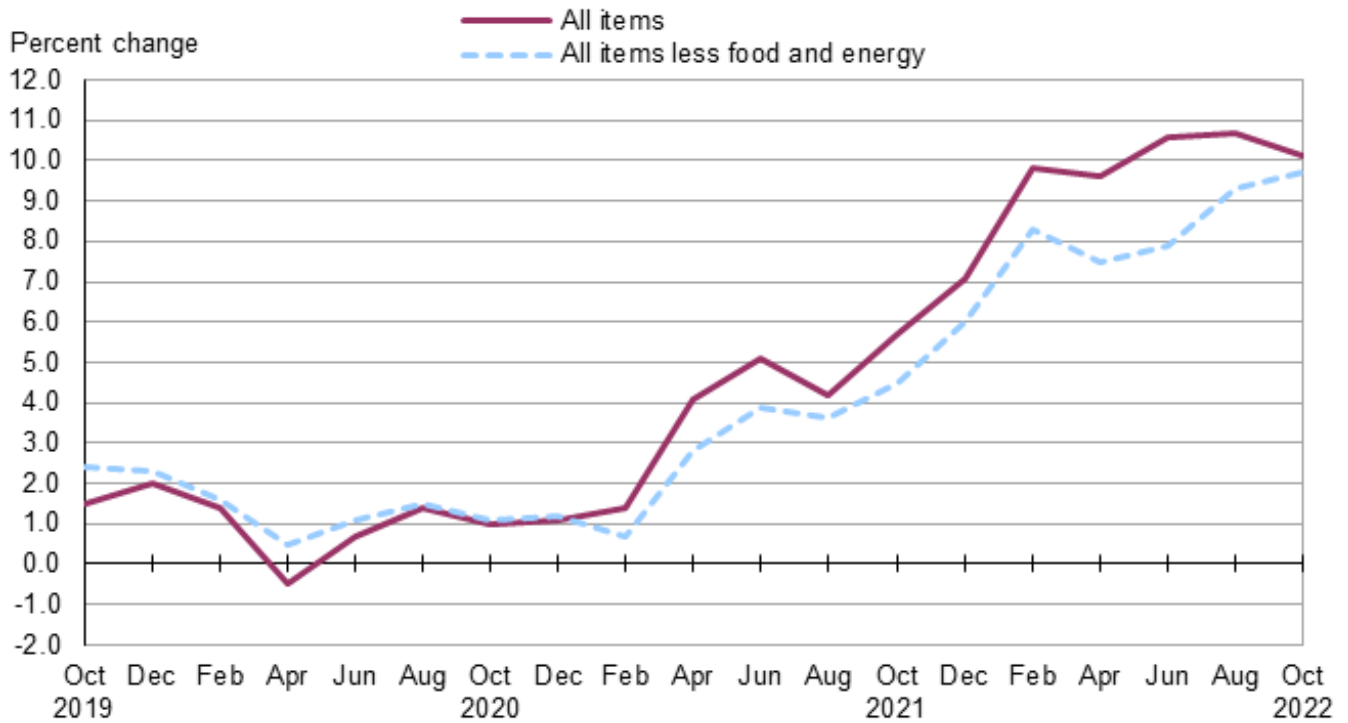
Source: U.S. Bureau of Labor Statistics

Last week there was a shift in Fed policy that the market somehow missed. There was way too much inflation noise, and too much lack of seeing the beginning of the end, and the signal was missed. But if you paid close attention, you could see the change at the margin. There were no more 75 basis rate hike nukes in the arsenal. They were used up. What's left is a couple of 50s and then a few more 25s, maybe. That's it, nothing more. It was here, the beginning of the end. Or at least the end of the beginning. Turn that frown upside down, Jerry. Your job is almost done.



If the shift from the Fed was your tinder, the match was the softer consumer inflation report on Thursday morning. It too was a brutally bad print taken on its own. But it was less brutally bad the last CPI print. And that too was all the market needed.

**Chart 1. Over-the-year percent change in CPI-U, Miami-Fort Lauderdale-West Palm Beach, FL, October 2019–October 2022**

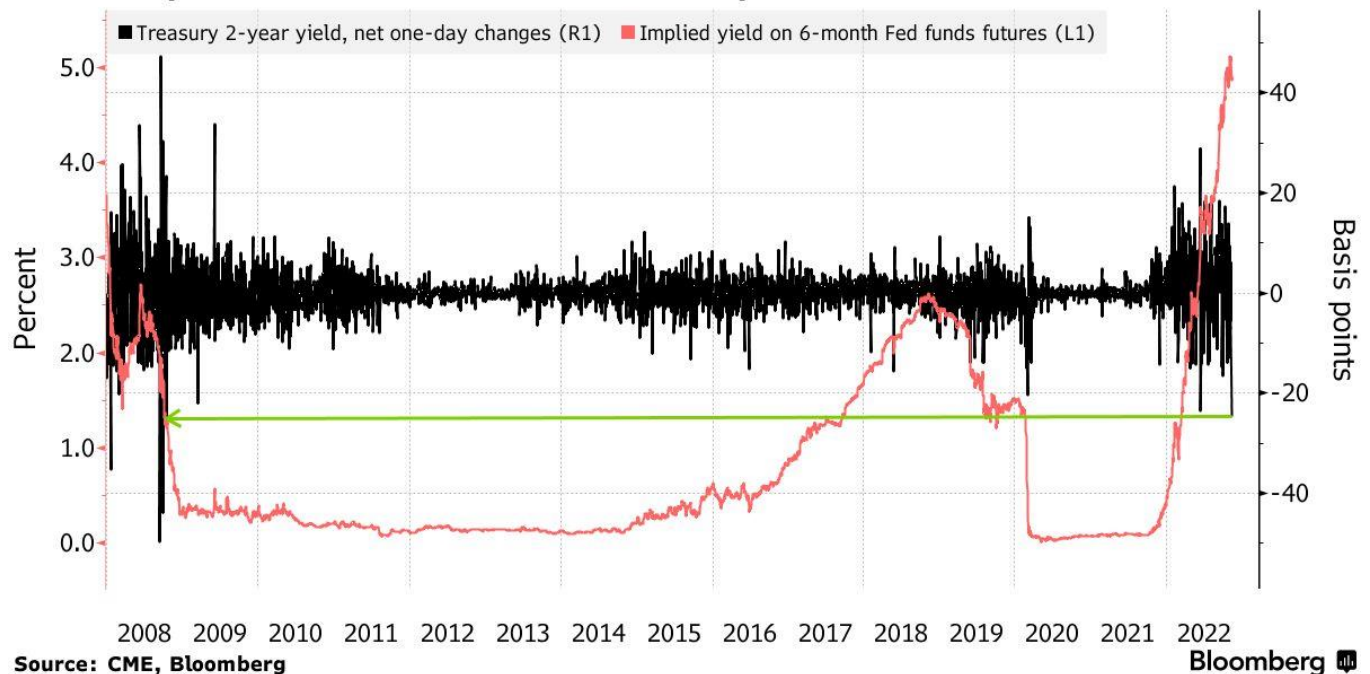


Source: U.S. Bureau of Labor Statistics.

Bonds got hip to the trade as well, posting their biggest one-day pop in more than a decade. A 25 basis point decline on the 2-year Treasury yield is shit ton of basis points. Shit ton of course being a technical term that should be on the CFA exam, IMHO.

## Pricing a Peak

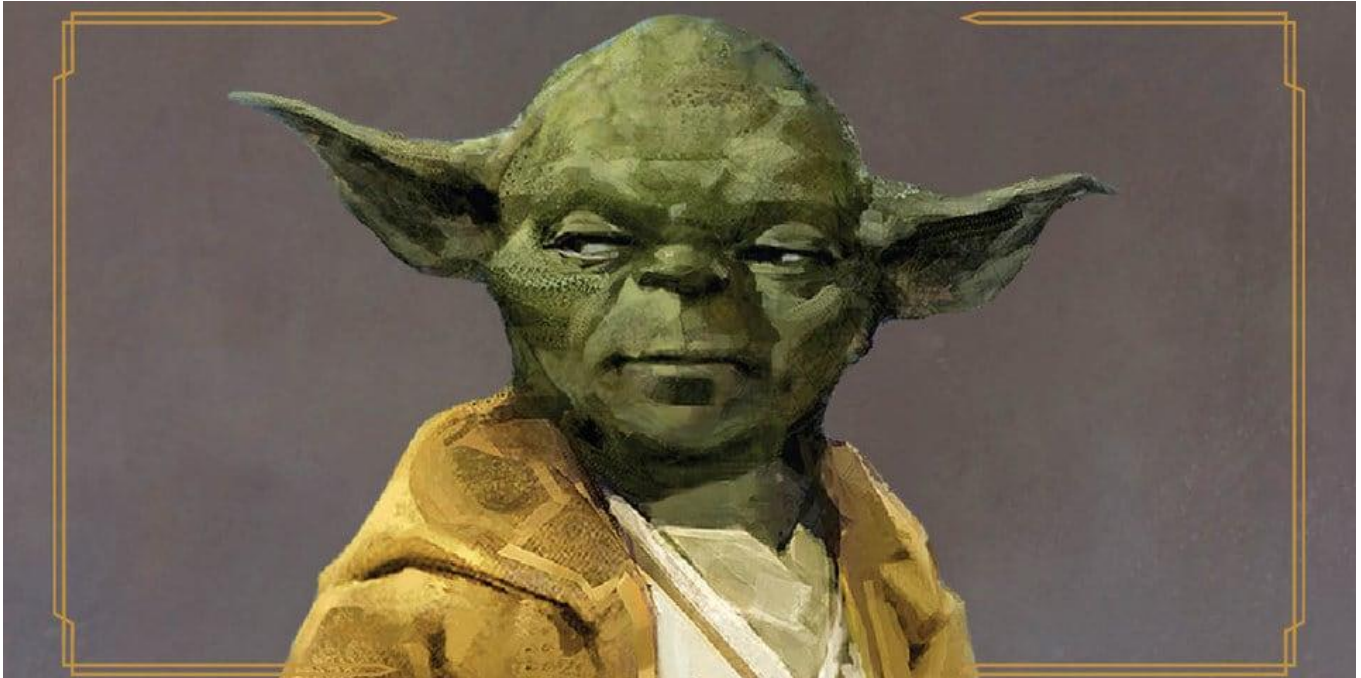
Yields drop most in more than a decade on hopes Fed hikes to end



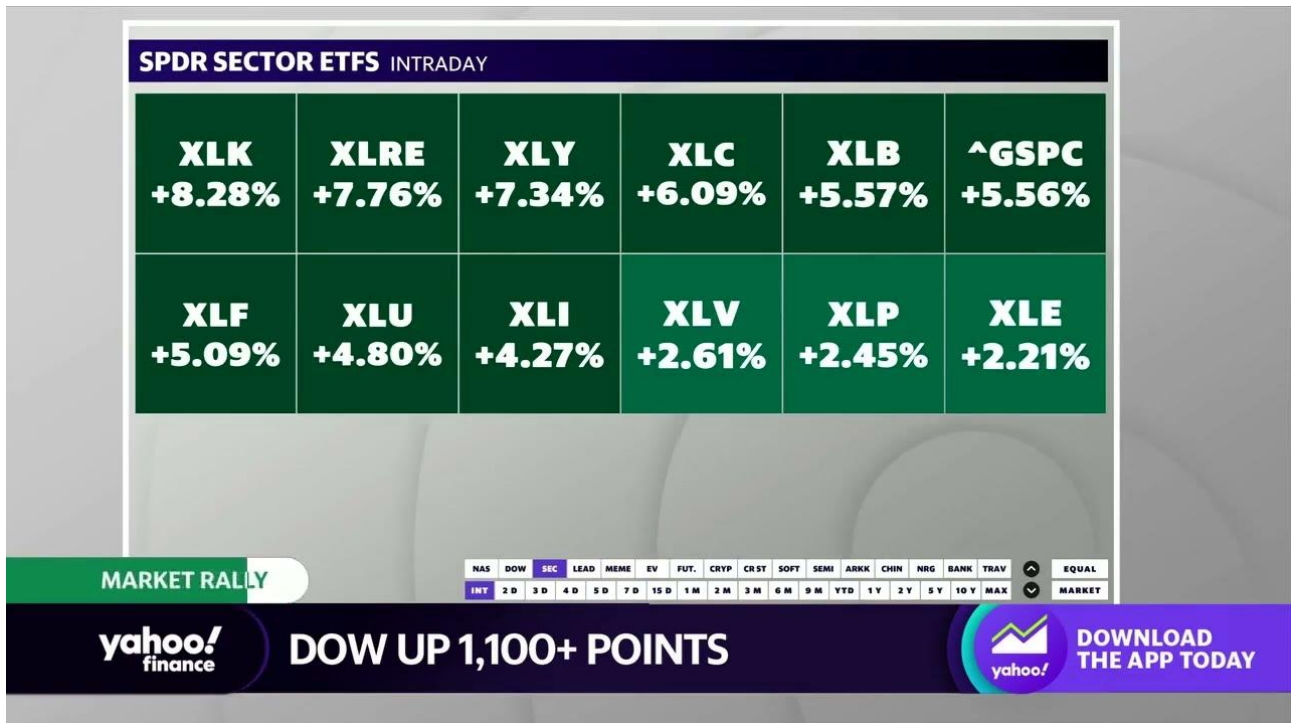
This is what I wrote on Prometheus, a hedge fund centric site and blog started by former SAC trader and Cypress hedge fund CIO Michael Wang. The day the news hit that the worst could be over in terms of cost spikes across the economy, I said buy em'. I meant it and so far so good.

“Buy em’! The Fed is almost done, they just don’t know it yet. Markets are going up big, I think. Not that it will last, but for now for the near term the path is higher.” And I followed that up with this. “Buy em’? Why, Master Yoda? Because this moment is similar to March 2009 when the jobs number was abysmal. Something like a loss of 800,000. But it was 50,000 better than the month before. And that’s what the market needed to bottom....the economy is going to suck, inflation will linger, and stocks will be volatile. But the end of the beginning is here. And that will make all the difference in the world.”

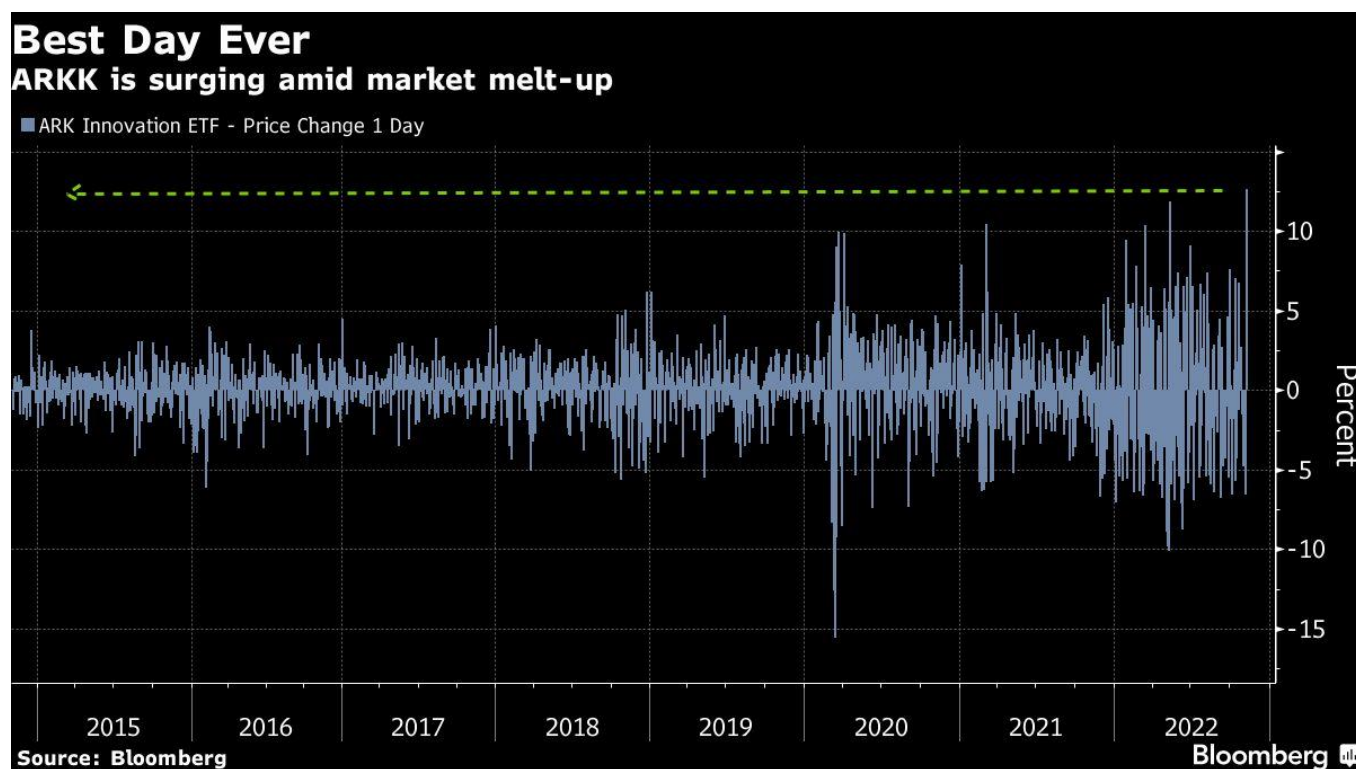
Master Yoda felt a disturbance in the Force, but it was a positive one. The same guy, I actually, is available for hire but needs to get paid in something other than Imperial Credit. American Greenbacks is prefeed. Make you money, I will.



Again, I'm seeing fear. I'm seeing demand destruction. I'm seeing myself put things back on the grocery shelf that look to cost 30% more than they should. But if only for a week, the winds of change were felt. Here is how the various sector ETFs performed given the news? This is as risk on as it can get. XLF is technology, XLRE is real estate, and XLY is consumer discretionary.



This is how it looked in another risk proxy, the Ark Innovation ETF as it logged its best single day move...ever. Not sure I've ever seen a thematic basket of mostly money losing companies that should never have been made public go up 14% in a single day. But alas, that's what happened. The previous spike was just a little less, but you get the idea. At least I hope you do.



Outside the shift in market sentiment, there emerged the early writings of the FTX saga. Which in a nutshell is a complete unhinging of the largest crypto exchange in the world, the breakdown of solvency in the markets, and write downs of quarter billion dollar positions by venture capital titan Sequoia Capital. This is how the FUBAR situation came across on Bloomberg, and it sounds like something out of a science fiction novel.

“Concerns about Alameda’s (Sam Bankman-Fried’s opaque crypto prop trading firm) balance sheet -- based on its exposure to FTT, the native token of FTX -- were triggered by a CoinDesk report on Nov. 2. On Sunday, Binance Holdings Ltd. founder Changpeng “CZ” Zhao announced plans to sell some \$530 million worth of FTT, citing “recent revelations.” Binance had received the tokens when it sold a stake in FTX last year.”

We would call this whole thing a freak show, but that would be insulting to all other freak shows. Nice hair, bro. And good job to the woke celebrities who got involved with this troll of a person. Did nothing about moments like this raise a red flag? Turns out it was all part of the façade. Too bad for Sam Bankman-Fried that his net worth went from \$16 billion to zero almost overnight as Gisele just changed her Facebook status to 'Single and ready to mingle'.



As one would imagine, the downfall of FTX has pushed the crypto market into crisis. Even though there was plenty of money to be made in the good times, these are very far from it. But reap what you sow, as they say. There were enough of us dinosaurs out there telling anyone who would listen that this was possible. And it could get much worse before it gets better. Here is the chart of Bitcoin through Thursday. Bid wanted, as they say.



In other news from the Land of Make-believe, Facebook announced a firing of 13% of its employee headcount, or 11,000 properly pedigreed tech bros and broettes. Turns out the Meta 'pivot' was far more costly than thought. Would love to see what the company chalkboard looks like today. It can't be all that good, or it ironically does and hope springs eternal, especially when you are freebasing pixie dust. See you at Peet's, ladies. Bring your resumes.



In another bit of irony, this week's commentary was written from the geographic floor of Silicon Valley. Not far from Apple, Google, and Facebook's corporate offices. While it has been a crisp sunny and 62, there for sure is a nip in the air as reality is coming home, and it wants to get paid it's due. Some of these names on this list are now BK candidates, so it better get paid soon or it will be in line with the rest of the creditors.



Per usual, the brothers Goligoski played television roulette this week at the Hillsborough residence, toggling from vintage Niner wins (glorious), White Lotus (dark), Dahmer (extremely dark), Shark Tank (sunny), and pedestrian Thursday night NFL games (necessary) where the only thing on the line was fantasy football points. But the crème de la crème, nay single best thing we watched by a landslide, was "Eat the Rich, the GameStop Saga" (must watch TV). Oh, dear Sweet Baby Jesus, this one is good.

A NETFLIX SERIES

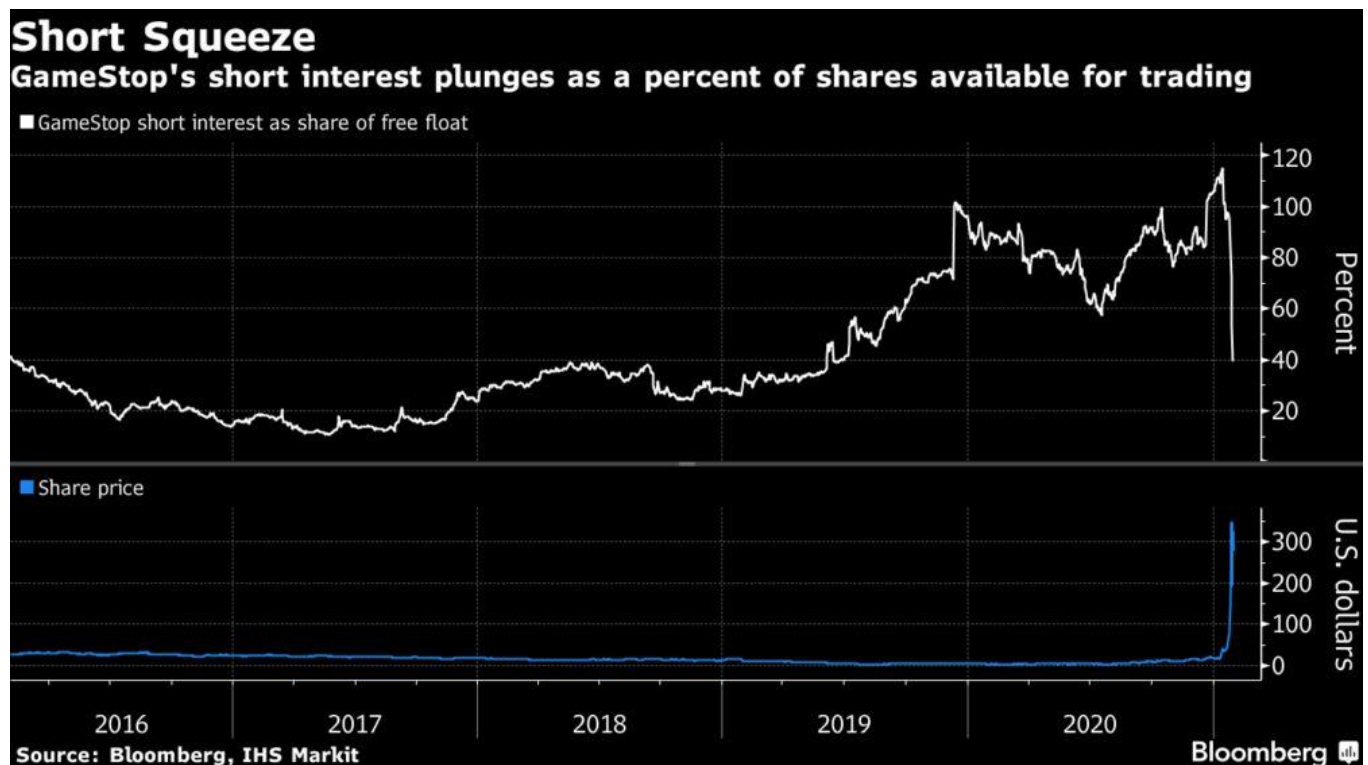


# EAT THE RICH

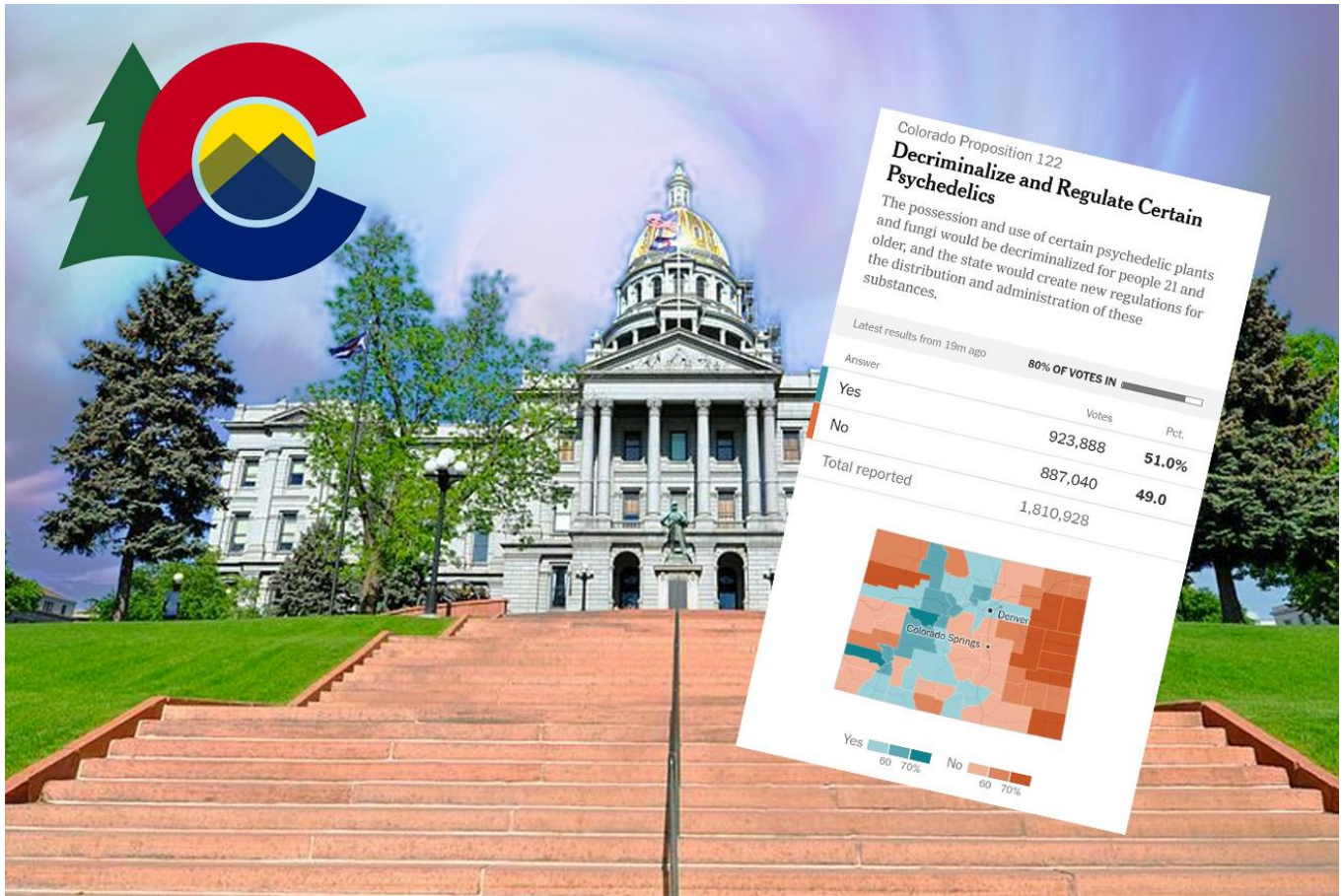
## The GameStop Saga

NETFLIX

We knew a lot of things about this short squeeze to end all short squeezes. What we somehow missed however was the fact that at its peak, a full 120% of the available shares were shorted. How is that possible? Turns out some of the original shares borrowed, where then borrowed again...and again. While I've done some stupid things in my short selling days, getting caught in something of this magnitude of a debacle is not on the list. Turns out, it could have been any stock, in any sector. It didn't matter. It was all about the technical aspect an overly shorted name to start the squeeze to end all squeezes.



Election night came and went, and while the balance of power truly does hang in the balance, it wasn't nearly as bad for Democrats as was projected. One thing that was indeed very good, especially for those with mental health challenges, was the passing of Measure 122 in Colorado which legalized a broad swath of uses for psilocybin, the active drug in magic mushrooms, for those 21 years and older.



As someone who was diagnosed as bi-polar, I can't advocate strongly enough for the advancement of the cause to have psilocybin legalized for medical purposes. Dosed properly, and not intended to send you on the trips we all took in high school, the drug slows intrusive thoughts, keeps the mind away from going manic, allows for greater focus, and calms the nerves. And it does so naturally. Put that up against the benzo class of anti-anxiety meds, with their brutal side effects, and it's not even a fair debate. Just ask this lineup of actors and performers who are now on the other side of living the dream.

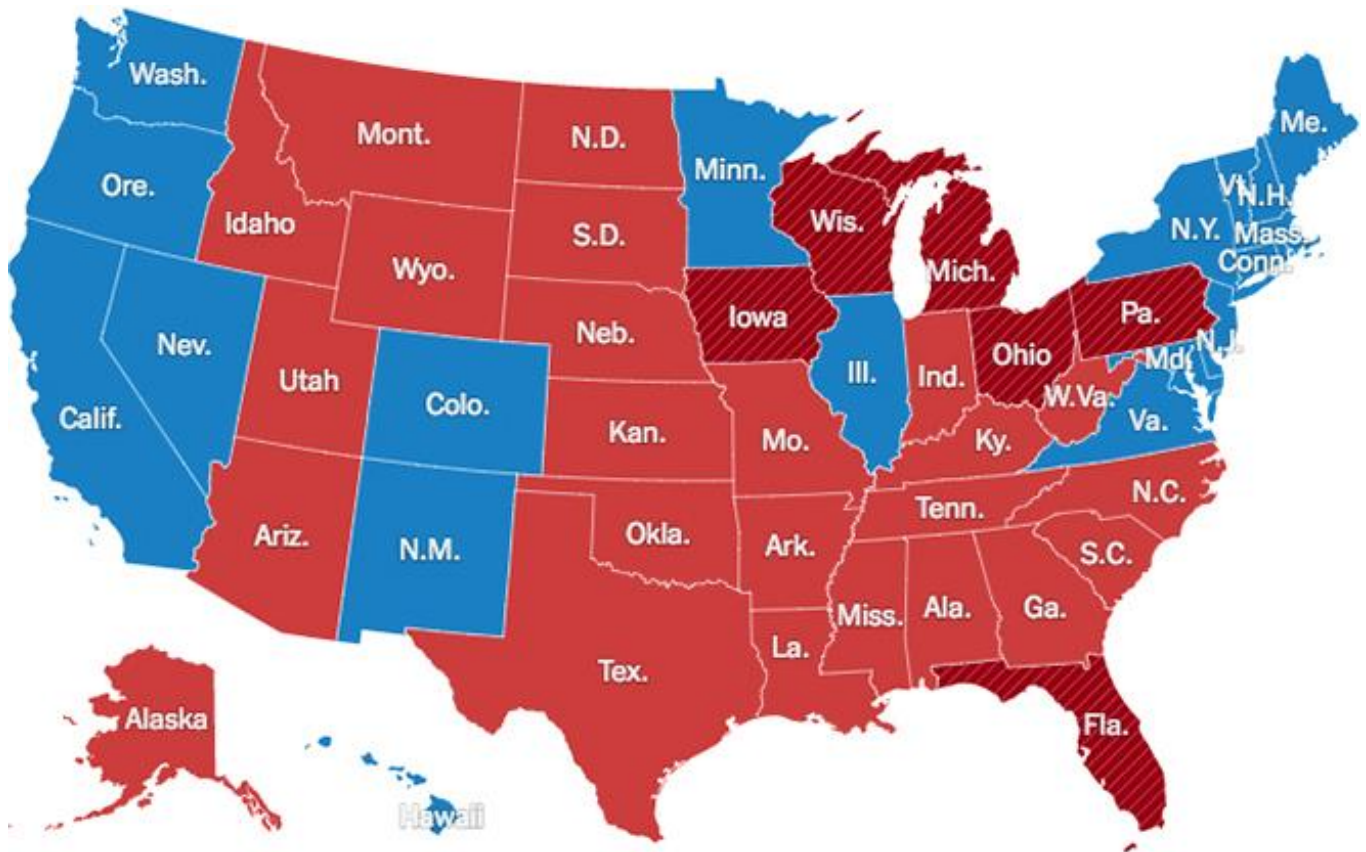
# CELEBRITY DEATHS AND BENZOS



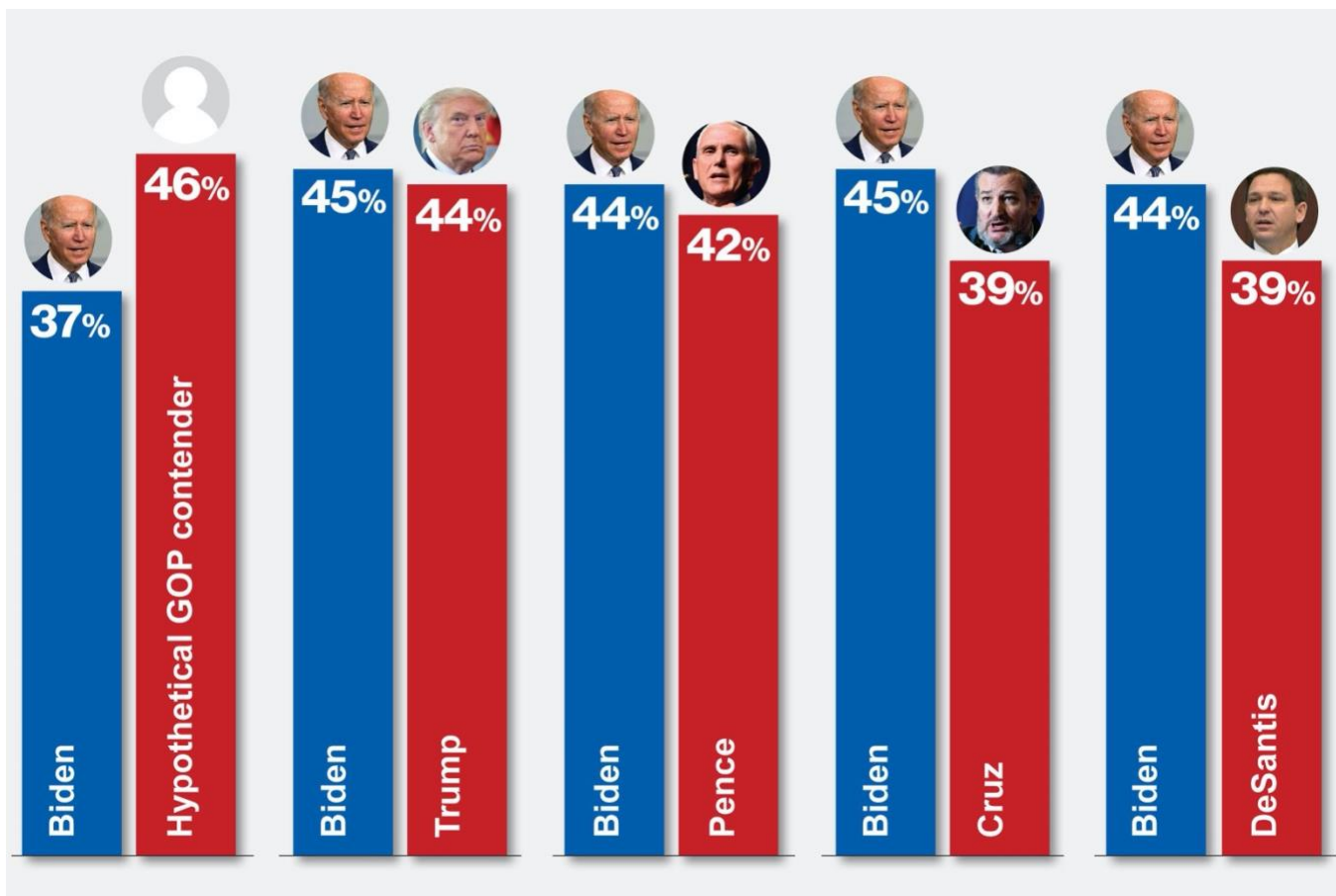
Quick digression into the parlor game of presidential predictions for the 2024 race to the White House. Please keep in mind, these are observations, and not necessarily what I hope or want. At the end of the day, it's a tough gig. But a gig nonetheless that comes with some great perks. Like meeting up with K-Pop global sensation BTS in the Oval Office, as weird as this picture might look.



Like it or not, it's Trump...and everyone else. He wants to run, he likes to run, and to back up his belief that the 2020 election was stolen, he needs to run. By the time things start to get serious the economy should be emerging from a mild recession, so Biden is going to be up against it out of the gate. And if you think Gavin Newsome or Kamala Harris will play well in the key eastern states that matter, and the flyovers, you are wrong. The map will look like this again, and the Donald will be back in charge, chaos and all.



Here are the loose percentage probabilities as reported by the venerable New York Post. It's interesting that Biden beats each named candidate but loses badly to a 'hypothetical GOP candidate'. Problem is, he won't run. Like it or not, age matters. And the process is picking up speed for Joe Biden. I too like him as a patriot, family man, and stable hand on the keel of the highest office in the land. But I also know what I see in terms of his rapid aging.



That ends it for this week, we hope Joe can out his feet up and relax. While there has been a lot of wealth destruction this year, the worst appears to have passed. There is change on the margin that supports stocks and bonds being in bull mode again. It's going to be bumpy, and at a lower altitude, but we will have enough lift under the economic wings to maintain the airspeed and velocity to keep this economic bird in the air. Signing off to enjoy a great fall weekend in the Golden State. Roger that?

