Peanuts & Lula

This weekend's T-Report will be mercifully short as I'm in Patagonia on vacation.

Last week, we saw consistently weak economic data. On Thursday, the market decided that this was good news (lower inflation, the Fed off the table, etc.), but it didn't feel like the squeezes of past weeks. Shorts got cut, but there wasn't a fear that the market was going to run away with things (like we've seen in past squeezes). There were even some moments where it felt like the Russell 2000 could significantly outperform the Nasdaq 100. Yields were also higher across the board by the end of the week (which made sense).

Peanuts – Charlie Brown & Lucy

Charlie Brown (hoping that Lucy wouldn't lift the football before he kicked it) always struck me as absurd. Couldn't he just buy a "kick-off tee"? Just put the ball on the tee and kick it without relying on Lucy! Yet time after time, he ran to the ball only to have it snatched away with him winding up on his back wondering what had happened.

I feel like both bulls and bears have experienced multiple "Lucy" moments in the past year. Every time it looked like we were going to break one way or the other, there goes the ball and we found ourselves on our backs as markets reversed course.

I continue to believe that it is the bulls (this time) who are about to get "Lucy'd". This Fed has no intention of cutting rates and might have every intention of remaining hawkish. Inflation, like the Monty Python Knight, has been utterly vanquished, but the Fed seems to think that "it's only a flesh wound." I think that they are wrong and we've already gone too far, but they don't see it that way. The market seems to have gotten ahead of itself on the "weaker inflation data is good" theme because:

1. The Fed is going to remain hawkish. Even if hikes are almost done, it is difficult to imagine cuts without serious data deterioration (which may be coming, but they will be slow to respond). Stopping at current levels will remain a headwind for the economy.
2. The inflation data is "good" because the economy is showing many signs of weakness. Given where we saw freight and shipping data a few weeks ago (along with OPEC+ needing to cut), I expect that the weak data will continue, but this will not be enough to support stocks.

I recommend that positioning should remain unchanged from last week (Davy Jones and the Six).

Peanuts – Actual Peanuts

On flights within Argentina, peanuts are served to passengers. In one country, "free" peanuts on flights still exist. However, in another country, people are asked not to even open anything that might have touched a peanut because someone on board might have an extreme allergy.

Not sure what to make of this, but **maybe it is a reminder that when we evaluate geopolitics, we really need to work hard to see it from the perspective of the other country.**

Lula and Xi

China and Xi seem to have taken the lead in global diplomacy. Xi has gone far beyond just meeting with Putin and submitting peace proposals (albeit fake and self-serving). The Chinese deal with Brazil and their influence in encouraging the Iran deal with the Saudis have positioned China well on the world's stage.

Many will focus on the "disparagement" of the dollar.

While that is important, there is a much clearer message being sent when you look at the headlines around the autos.

For all who keep arguing that "China needs us as much or more than we need them" I say bah humbug!

- **China made things for American companies under the brand names of those companies.**

That is what China did and continues to do.

- **China is also going to sell Chinese brands to other countries**.

China will manufacture their own brands and find willing buyers.

- The autocratic/resource rich nations of the world have potential trade surpluses with China that can be spent on Chinese manufactured goods (especially as trade is increasingly done between those countries in Yuan).
- The Chinese goods, which are generally cheaper (and not of the same quality, in my opinion) may be better priced for the citizens of those resource rich nations (where the wealth is often concentrated).

Our view that "China is aligning itself with the autocratic/resource rich nations" continues. We have argued that while the dollar will remain the reserve currency, there is increasingly a "dark web" of business shifting to the Yuan.

This doesn't impact us much today (or tomorrow) and there is still plenty of time to change the direction of these trends, but we better get our act together sooner rather than later!

Bottom Line

Still medium bearish (last week's recommended positioning and trading style remain the same).

I am increasingly concerned that we are missing China's ascendence on the global stage and are too inward looking to recognize it.

Academy was on Bloomberg TV last Monday and not only did we get to discuss markets, banks, and the Nasdaq 100 versus the Russell 2000, but we also got to **discuss geopolitics and Academy's edge on that front** (starts around the 51 minute mark). As we stated last week (and the Lula visit supports), people are paying lip service to geopolitics, but aren't worried enough. Admittedly some geopolitics will take time to develop and shift economies and markets, but companies need to be taking into account these potential (and even likely) shifts in their current planning.

I can't help but think about peanuts and my reaction to them on a flight versus the typical Argentinian's view. I need to make sure that I'm applying the viewpoints of others correctly in my geopolitical analysis.

I plan to enjoy Buenos Aires next! **In the meantime, before aggressively kicking the football, think about who is holding it and if they can be trusted!**

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