

Ominous: why yields reversed after a hot CPI

TLDR: The S&P 500's longest calm streak since 2020 is over — the AI trade is sinking. CPI came in hot (**3.7%** headline, 2.6% core); yields and oil popped first, but by the close the **30-year collapsed** and overnight the 2-year went negative. In his view this is the most dangerous rotation: managers move from stocks into bonds, gold and the Swiss franc, the dollar and Bitcoin fall — "insiders are sniffing a blowup." A second pin in the AI bubble is active: **credit risk** (CoreWeave bonds tumble, and CoreWeave is tied to NVIDIA), after Monday's loss of pricing power in memory. Korea is -8% and halted, NASDAQ couldn't hold 30,000. The options flow bets on oil above 100, then a crash and recession by the end of Q1 2027 (TLT 85 calls, SMH 550/500 puts). Tomorrow: PPI, retail sales, jobless claims, Warsh's speech, TSM earnings.

CPI

3.7%core 2.6% ·
biggest jump in 5
months

30-YEAR

collapsefor the wrong
reasons

OIL

~93

diesel at a record

KOREA

-8%

trading halted

VIX

popdays-a week of
selling

RSP

211the inverse H&S
shoulder

WHY YIELDS FELL AND WHO IS BUYING PROTECTION his explanation

HOT CPI, YET YIELDS DOWN

- ✗ Expensive oil → weaker consumer → job losses → **recession risk**. That's why the long end falls, as he said in the morning brief. The 2-year popped first, then reversed too.
- Headline 3.7% (in his view the real figure is far higher) vs core 2.6%: either stagflation (energy lifts the headline while the economy slows), or just a lag — diesel will seep into core later. He's not rushing to a conclusion.
- ⚠ The Fed (Warsh) will talk hawkish; the dot plot is far below the market — it needs +50 bp this year and +50 in Q1 just to catch up. Hiking into a weak consumer raises recession odds, but the alternative is the 1970s.
- ✗ Survey: at 6% on the 10-year investors shift to bonds; 19% say current levels already suffice. His bet: managers rebalanced from stocks into bonds — the most dangerous rotation, and it lasts for weeks.
- ✗ The 2-year negative overnight = the market pricing that the Fed won't be able to hike because "something is about to crash."

THE AI-BUBBLE PINS — TWO ARE ACTIVE

- ✗ **Pricing power** (Monday): Chinese memory makers are ramping supply — no need to pay Samsung/Hynix/Micron/SanDisk prices.
- ✗ **Credit risk** (today): CoreWeave bonds fall = yields rise = the equivalent of rising CDS. The problem is the link to NVIDIA.
- ⚠ "Booked through 2030" in his view isn't organic demand but circular financing from the same customers, who can walk away. CoreWeave insiders sell tens of millions while the CEO calls the market "irrational"; he expects layoffs.
- Under the surface: a weak consumer and layoffs; the biggest pin — **CapEx cuts** after earnings. A hidden pin: fraud, usually exposed after the crash (Enron, Lehman, dot-com).
- The dates (2027, 2028...) don't matter to him — what matters is whether the pins press together.
- ⚠ His opinion: the crash will be a massive wealth transfer from retirement accounts to insiders.

THE DEFENSIVE FORMATION

- ⚠ The dollar sells off overnight, **gold and the Swiss franc** rise, Bitcoin (the risk-on pulse) falls, VIX pops (SPY puts 30+ days out), bonds get bought.
- His read: insiders smell an event — a crash, a blowup, or hedging ahead of the midterms.
- ⚠ The regime flips daily (rotation ↔ "both markets down"). If the shift holds for a week or two, the end is near.

TODAY'S ROTATION

- Up: healthcare (the safest sector), staples, utilities, telecoms, McDonald's, some financials, defense (RTX, LMT, NOC), waste management.
- ✗ Down: tech and everything that worked in September. Earnings are fine (Micron), but the bar is far too high.

OIL — FUNDAMENTALS FINALLY IN THE CHART

- ✗ Futures ignored the shortage for a long time on hopes of a deal; the longer there's no resolution on Iran, the more the arbitrage forces traders to reflect reality.
- ✗ Retail diesel is at a record — above the Russia-Ukraine war highs. In his view the "Putin deal" gave sanctions relief until April with no supply in return.
 - Diesel exporters: Russia, Saudi Arabia, India, South Korea — out (Hormuz). Only the US is left → an export ban would rattle global markets and could lift prices here too.
- ⚠ His read: rumors of a surprise strike on Iran before the midterms; the only "solutions" are surrender, or something blowing up and a recession taking oil down.

THE OPTIONS FLOW — CONFIRMING THE THESIS

TRADE	HIS READ
Crude: bought Nov 95 calls (~\$1.5M) + sold Mar 2027 95 calls (~\$1.8M credit)	a spike above 100 now, then a crash below 95 by spring — recession
TLT 85 calls for Nov 30 (~\$2M; TLT at 78)	long yields keep collapsing → "something blew up"
SMH 550 puts + 500 puts for Oct 30 (SMH at 570)	another ~11% drop in chips within a week or two

His overall conclusion: a market crash and the start of a recession by the end of Q1 2027.

THE WEALTH EFFECT

- 10% of consumers do more than half of the spending. Even a correction (not a crash) in AI stocks kills the wealth effect → core deflation → the 30-year falls. That's why every tech sell-off pulls yields down.

THE CHARTS

INDEX	PICTURE
Korea	–8%, trading halted; margin calls → dominoes
NASDAQ	30,000 didn't hold; flat since May; MACD and Vortex bearish on the daily, the weekly about to flip
S&P 500	weekly rising wedge, failed bull flag; momentum rolling over
VIX	MACD curl like last year's pop → days to a week of selling in the indices
Russell 2000	losing the trend, –10% from the peak; support ~2700, Fibonacci ~2600
Equal weight (RSP)	the inverse H&S is valid until a close below the shoulder: ~8600 / RSP 211

THURSDAY'S CALENDAR

DATA	WHAT HE WATCHES
PPI	expects hot (energy)
Retail sales	strong because of gasoline — don't be fooled
Weekly jobless claims	higher → yields keep falling
Empire, Philly Fed	manufacturing sentiment
Warsh speech	hawkish tone to push rate expectations up
TSM earnings	the next input for the AI bubble

WHAT IT MEANS FOR POSITIONS

- Healthcare, staples, utilities, defense — where the rotation goes.
- TLT is finally working; gold and the franc get bought as the dollar falls.
- ✗ Chips, memory, AI infrastructure — the sellers aren't done; watch RSP 211 as the last line of defense for the broad market.