A Proper Growth/Tech Scare

And Why I’m Not In A Hurry To Go Swing Long Yet

When I said it was time for a growth scare, it sure did not disappoint!

> **Goldman’s High Beta Momentum Pair (GSPRHIMO) down 7%, its second worst day of the year and worst day since DeepSeek**.
> via ZeroHedge

The reset for growth plays over the past month has been brutal!• $RGTI -53%• $RR -50%• $SMR -49%• $IONQ -47%• $DUOL -44%• $CRWV -44%• $QBTS -43%• $OKLO -41%• $ONDS -41%• $UUUU -36%• $BMNR -35%• $HIMS -34%• $ASTS -34%• $RKLB -33%• $GLXY -32%• $OSCR -30%• $ORCL -30% etc.

Good thing I caught it early for clients:

https://youtu.be/HOLEmrEEK1I

And stuck with the theme that consensus bulls may be too bullish:

- SEPT 30: Consumer Lending Sector Is In Trouble
- OCT 7: Breadth Weakens, Dollar Bounce Looms
- OCT 8: Can The US Avoid A Major Recession?
- OCT 10: Risk Happens Fast
- Oct 14: Bear Market Rallies
- Oct 17: That Timing Was Gold
- Oct 24: US Exceptionalism's Last Hurrah
- Oct 28: Too Much Of A Good Thing
- Oct 29: Volatility Just Needs A Trigger
- Oct 30: Slow Bleed
- Nov 1: Rise in Repo Rates Matters to Liquidity & Collateral Values - In Everything
- Nov 4: Market Is Getting Nervous
- Nov 11: Zero Dollar Club Update
- Nov 12: Market Is Still Nervous
- Nov 13: Price Discovery Is Not Allowed

Now many of you are chomping at the bid to catch the bottom in this pullback, but if you read my trading room reviews last week, then you know I said ***we are likely only halfway on this pullback of -6% in NDX and -4% SPX from ATH.***

Long story short, I'm not in a hurry to recommend longs because I don't see the stabilization yet in growth names. Especially now that my growth:value ratio has firmly broken down below my line-in-sand 2.3.

That doesn’t mean I don’t expect we could stabilize next week when Nvidia announces earnings 11/19, but I’m really not seeing the reason to catch these knives just yet.

It could take several weeks for FOMO bulls to lick their wounds and decide if they really want to chase into the holidays when emotions and credit card bills are highest.

As I warned: “Buyers have stepped away” and “they are taking profits”. Some are in the cut bait territory, and more than a few could be forced to sell - especially if credit default rates on tech bonds are any signal.

Credit Default Market			
ORCLCP CDS USD SR 5Y D14 (	88.140y	+5.46%	+4.57
CRWV CDS USD SR 5Y D14 (CR	562.830y	+5.70%	+30.38
SOFTB CDS JPY SR 5Y D14 (S	245.760y	+2.65%	+6.34
AMD CDS USD SR 5Y D14 (AMD	37.427	+1.85%	+0.68
TAISEM CDS USD SR 5Y D14 (T	68.625y	+6.61%	+4.26
INTC CDS USD SR 5Y D14 (INT	64.450y	+2.32%	+1.46
AMZN CDS USD SR 5Y D14 (AM	34.365y	+5.97%	+1.94
IBM CDS USD SR 5Y D14 (IBM	↓42.920	+1.97%	+0.83
MSFT CDS USD SR 5Y D14 (MS	31.110y	+0.73%	+0.23
GOOG CDS USD SR 5Y D14 (GO	35.770y	+0.13%	+0.05

Tech bond holders are buying tail risk protection.

> ***"When CDS blows out like this, equity investors may still be cheering, but credit is already bracing for impact. In every cycle, credit sees the truth first."***
> @TheCoastalJournal

MOJO also highlights articulately in **Scooby Doo & The Case Of The Mysterious Oracle CDS**, why here and now risk is starting to get priced into Oracle's bonds:

> ***"They're taking on leverage to build capacity for customers whose own demand is contingent on the continued enthusiasm of another layer of customers. It's vendor financing, but Oracle's not financing its own ecosystem—it's financing someone else's.***
>
> ***If the music were to ever stop, Microsoft could slow Azure buildouts and cloud spending simultaneously. Oracle will be saddled with data centers of dubious worth and debt."***

Sidebar: That short I highly recommended post earnings gap up Sept 10th from 339.69 to 243.49 as ***"not if but when"*** keeps falling BECAUSE of banks hedging their exposures to Oracle's debt. I just didn't see it then. But we can all see it now.

The tricky part is figuring out their motivations… and whether these 'cheap hedges' get unwind as ORCL reaches support at its 200D near 210.

MOJO again:

> ***"Speculators, or individuals deep within Oracle's network—lenders, operational partners, enterprise customers, maybe competitors—with detailed knowledge of the exposure are buying insurance while it's still cheap.***
>
> ***Buying CDS on Oracle, AWS's debt, or the high-yield tranches of data-center CLOs is one way to own cheap convexity on that unwind.***
>
> ***If the trade works, you make multiples on a small premium. If it doesn't, you're out basis points.***

What could be ***prudent risk management for hedge***rs is now going mainstream as ***AI bubble concern.*** Maybe both are true, but it's also possible that credit default spread protection is helping to cause the price to move lower. Time will tell.

Collateral Crunch Can Turn Credit Crunch

The bigger issue at hand, and one Geoffrey is tracking very closely, is whether a potential collateral crunch (sudden collapse in value of the assets underpinning all those loans) morphs into a credit crunch (when bankers and investors are too scared to lend).

> ***"At the moment, cashflow seems irrelevant to the AI sector and the spending boom continues apace. But one day the ability to monetize all this spending and transform capex expenditure into revenue is actually going to matter.***
>
> ***If those profits don't materialize - if consumers switch to cheaper Chinese alternatives, if the value of GPUs falls - the sector could face a collateral crunch."***

This excerpt is taken from a podcast Dr Alex shared: ***The Artificial Intelligence Prisoner's Dilemma***

Awareness of all these risks - including the AI bubble as private credit cracks widen - is what both Geoffrey and I are tracking closely.

From CONCENTRATION RISK to CHINA DOMINATION RISK to COLLATERAL RISK to PRIVATE CREDIT RISK to PUBLIC CREDIT RISK to SOVERIGN DEFAULT RISK

Geoffrey also highlight a fabulous podcast between ***Gundlach and Rosenberg*** that says we are at this stage in the risk matrix:

> ***GUNDLACH: THE SYSTEMIC RISK WILL COME FROM PRIVATE CREDIT***

THIS is why I continue to warn not to be blindly bullish and portfolio complacent.

Getting back to the GROWTH SCARE we have underway, most expecting new all time highs and 7100+ by year end forgot that a crowded trade can turn south quick as OUTLIERS REVERT WITH VELOCITY.

Jim Chanos summed it up best with this sentiment check:

> ***If you were crowing about your stocks being up 200-400% Y/Y a few weeks ago, but are now wondering why they are suddenly down 30-50% (with the market 2% off its ATH)...you might want to read-up on beta.***