

Noise → Clue → Signal → Actionable Opportunity

Signalgeist Weekly Signal Drops 23rd May 2025

1. Money Supply Contraction Hits Historic Extremes

Category: Macro (Monetary Policy)

Signal Source: Nasdaq (via Federal Reserve data)

 Key Insight: The U.S. M2 money supply is shrinking year-on-year for the first time in decades, marking the steepest decline since the Great Depression. This unprecedented monetary contraction (over -2% YoY) follows aggressive Fed balance sheet reduction and deposit outflows.

 Second-Order Effect: Such a rapid money supply pullback historically coincided with deflationary pressures and recessions. It suggests tighter financial conditions ahead, potentially slowing credit growth and consumer spending, although modern factors (like lower cash usage) may mute its predictive power.

 Trade Idea: Consider a defensive stance or modest long positions in long-term Treasuries, anticipating that a sharp money supply drop could drive disinflation and eventually lower yields.

Confidence Rating: Medium-High – The data is clear, but its significance is debated due to structural changes in money demand.

Note: This contrasts with our fiscal analysis in Signal 2. Markets may soon face a tug-of-war between deflationary money supply trends and inflationary deficit financing — a dynamic worth watching closely.

2. U.S. Deficit Surges in Peacetime

Category: Macro (Fiscal Policy)

Signal Source: Brookings (citing CBO data)

 Key Insight: The U.S. federal budget deficit jumped to roughly 7.5% of GDP in FY2023, up from 3.9% the prior year after adjusting for a one-off student loan change. This surge occurred despite a growing economy, driven by a sharp revenue drop (from extraordinary 2022 highs) and higher interest costs on debt.

 Second-Order Effect: Running such a large deficit outside of a recession is an anomaly that could stoke long-term inflation or crowd out private investment. It raises concerns about debt sustainability and may put upward pressure on treasury yields as the government's borrowing needs remain elevated. Credit rating downgrades (like Fitch's in 2023) reflect these worries. Policymakers might face pressure to tighten fiscal belts or risk further market backlash on U.S. debt.

 Trade Idea: A cautious approach to long-duration U.S. bonds is warranted – consider inflation-protected securities or short positions in Treasuries, anticipating that persistent deficits and heavy issuance could push yields higher.

Confidence Rating: High – The fiscal trend is well-documented; the main uncertainty is how soon markets demand a premium (higher rates) for continued heavy borrowing.

3. Safety Trade: Money Market Assets at Record High

Category: Fund Flows / Monetary Anomaly

Signal Source: Investment Company Institute (ICI)

 Key Insight: Assets in money market funds have ballooned to an all-time record around \$7.03 trillion as of early March 2025. Inflows have been robust – over \$50 billion in a single week – as investors flock to the safety and attractive yields of short-term instruments amidst market volatility.

 Second-Order Effect: This hoarding of cash suggests a risk-off mentality and provides dry powder on the sidelines. High yields on risk-free cash are incentivizing investors to park funds, which could sap liquidity from equities or bonds in the short term. However, it also means there is significant fuel for a future rally if confidence returns – a large cash pile that could rotate into risk assets when conditions improve. Central banks will note the ample cash as a sign of tighter financial conditions equivalent to rate hikes.

 Trade Idea: Lean into quality and defensive assets (e.g., money market funds themselves or ultra-short bond ETFs) for yield, but remain ready to pivot – a sustained market recovery could trigger some of these cash assets to flow back into equities.

Confidence Rating: High – The data on asset levels is concrete. The implication of cautious investor sentiment is clear, though timing of any rotation out of cash is uncertain.

4. Central Banks on a Gold-Buying Spree

Category: Macro (Global Reserve Trends)

Signal Source: World Gold Council

 Key Insight: Global central banks added 1,045 tonnes of gold to reserves in 2024, marking the third consecutive year of 1,000+ tonnes in net purchases. This sustained wave of gold buying – led by emerging-market central banks (e.g. Poland with 90t) – is extraordinary, far exceeding the ~473t annual average from 2010–2021. Reported gold sales by central banks have been minimal in comparison.

 Second-Order Effect: Central banks appear to be diversifying away from

traditional reserve currencies (like the USD) in favor of hard assets. This reflects concerns about geopolitical risks, sanctions, and inflation. Their steady demand provides a structural support to gold prices and signals declining confidence in fiat assets' long-term value. It could also foreshadow a gradual shift in the international financial order, with more countries hedging currency exposure.

💡 Trade Idea: A bullish bias toward gold and gold-mining stocks is supported by this trend – consistent official-sector demand may put a floor under prices. Long positions in gold or gold ETFs can be justified as central banks continue to accumulate.

Confidence Rating: High – Verified multi-year data shows an unmistakable trend. The implication of reserve diversification is logical, though gold's short-term price can still swing with market sentiment.

5. Hedge Funds' Massive Short Bets on Treasuries

Category: Market Anomaly (CTA/Leveraged Positioning)

Signal Source: New York Federal Reserve

📊 Key Insight: Leveraged funds (hedge funds) have built an enormous \$1 trillion notional short position in U.S. Treasury futures (up to 10-year maturities) by March 2025. This figure, linked to a popular "basis trade" (short futures vs long cash bonds), far exceeds the levels seen even in early 2020. Speculative net shorts on 5-year and 10-year Treasury futures hit record or near-record levels in mid-late 2024.

🧠 Second-Order Effect: Such one-sided positioning presents a vulnerability. If market conditions shift (e.g. a sharp drop in yields or stress in funding markets), a rapid unwinding of these short-future trades could trigger a spike in volatility or a liquidity crunch in Treasuries. While the basis trade itself is intended to be arbitrage-neutral, the concentration of these short positions may be amplifying perceived yield pressure, especially during volatile or illiquid periods. The Fed's stable repo facilities have so far prevented

disruption, but the situation underscores latent fragility in the bond market structure.

💡 Trade Idea: Stay nimble in bond trading – a contrarian rally in Treasuries (yields falling) could squeeze these shorts, benefiting long Treasury positions or bond proxies. At the same time, monitor credit spreads and volatility indices (MOVE index) as early warnings of any stress from a basis trade unwind. Confidence Rating: Medium – The positioning data is solid, but predicting when or if a large unwind occurs is uncertain. It's a risk factor to watch rather than a timing signal.

6. Insider Selling at Multi-Decade Highs

Category: Insider Trading / Market Sentiment

Signal Source: Washington Service data via Anchor Capital

📊 Key Insight: Corporate insiders (executives and directors) are offloading shares at a pace not seen in over 35 years. The insider buy-to-sell ratio plunged to 0.22 (for every \$1 of insider buying, there were ~\$4 of insider selling) – the lowest ratio since at least 1988. This coincided with equity indices reaching record or cycle highs, suggesting insiders are using elevated valuations as an opportunity to lock in gains.

🧠 Second-Order Effect: Heavy insider selling often sends a cautionary signal about equity valuations. Insiders might be signaling that they view their companies' stocks as fully valued or that they foresee headwinds. While one should not panic on insider moves alone, this broad-based trend implies potential market vulnerability – insiders historically have timing advantages or superior information. It could presage increased volatility or a market top if fundamentals don't soon catch up with prices.

💡 Trade Idea: Consider tightening stop-losses or reducing exposure to high-flying stocks where insider selling is particularly pronounced. Sector rotation into more reasonably valued or defensive sectors (where insider activity is neutral or positive) could be prudent. One might also explore buying volatility

hedges (e.g., VIX calls) as insiders' pessimism grows.

Confidence Rating: Medium-High – The ratio is a factual extreme. While not a short-term market timing tool, such extremes have correlated with overvalued markets in the past, warranting vigilance.

7. "AI" Mentions Skyrocket in Earnings Calls

Category: Corporate Trends (Earnings Transcripts)

Signal Source: FactSet Earnings Insight (Q4 2024)

 Key Insight: 241 S&P 500 companies cited the term "AI" in their Q4 2024 earnings calls, the highest number in at least a decade and more than double the 5-year average of 105. This represents almost half the index, a record streak of quarters (4 in a row) with 200+ companies discussing artificial intelligence on calls. The surge was broad-based across sectors (9 of 11 sectors increased their AI mentions in Q4).

 Second-Order Effect: The corporate focus on AI suggests that businesses are racing to portray themselves as AI-savvy or to actually invest in AI capabilities. On one hand, this reflects genuine opportunities – AI-driven efficiency and innovation could boost productivity and create winners in tech, healthcare, finance, and beyond. On the other hand, the ubiquity of "AI" buzz could indicate a hype cycle peak. If many firms are invoking AI to excite investors without solid plans, it could lead to disappointment or a bubble in "AI-themed" stocks. Overall, it signals a paradigm shift in corporate strategy, akin to past trends like "internet" or "cloud" – those who execute well on AI could gain competitive edge, while laggards risk being left behind.

 Trade Idea: Long AI enablers – consider ETFs or companies providing the hardware (semiconductors), software platforms, or cloud infrastructure for AI, as demand is clearly booming. Caution on AI hype-chasers. Some companies may be overemphasizing AI in communications without substantive integration, creating valuation risks if expectations aren't met. Stock picking is key in this theme.

Confidence Rating: High – The data on mentions is robust. The second-order

implications (widespread tech investment) are likely, though the magnitude of AI's impact will vary by company.

8. Recession Talk Returns to Corporate America

Category: Corporate Outlook (Earnings Transcripts)

Signal Source: FactSet Earnings Insight (Q1 2025)

 Key Insight: After a year of relative calm, recession worries have resurfaced in boardrooms. 121 S&P 500 companies mentioned “recession” on their Q1 2025 earnings calls, a sharp jump – over 9× the prior quarter’s count (just 13 in Q4 2024). This is well above the 5-year average (79) and marks the most recession discussions on calls since late 2022. Sectors like Financials and Industrials led the spike in recession references, indicating broad economic concerns.

 Second-Order Effect: This uptick suggests CEOs and CFOs are growing cautious about the economic outlook, likely due to higher interest rates, inflation, or early 2025 disruptions (e.g., tariffs or geopolitical tensions). Companies might respond by curbing hiring, cutting costs, or lowering guidance – potentially creating a self-fulfilling slowdown if enough firms pull back. Investor sentiment could also be dampened by this chorus of caution, increasing market focus on defensive sectors and economic data. Some economists argue that widespread recession concerns may reduce shock risk, as businesses and policymakers front-load caution. While speculative, it's a dynamic to monitor.

 Trade Idea: Tilt toward defensive sectors (e.g., consumer staples, utilities, healthcare) and high-quality dividend payers that can weather an economic dip. Within equities, underweight cyclicals (e.g., deep industrials or consumer discretionary) until there's clarity on growth. Alternatively, consider long volatility or put options as insurance, since a rise in recession rhetoric can precede higher market volatility.

Confidence Rating: Medium – The signal that executives are worried is clear. The implication (recession odds are rising) aligns with historical patterns, but

economic outcomes depend on many factors (Fed policy, external shocks), so it's a caution flag rather than a guarantee.

9. Federal Austerity Triggers R&D Job Pullback

Category: Labor Market Shift (Policy-Driven)

Signal Source: Indeed Hiring Lab (May 2025 Labor Market Update)

 Key Insight: The new U.S. administration's aggressive federal spending and job cuts have led to an "unprecedented surge" in federal employees seeking new jobs outside government. Correspondingly, job postings in research & development roles – many of which depend on federal contracts – have plunged 18% since January 20, 2025 (inauguration day), even as overall postings fell only 4%. By mid-May, scientific R&D job openings were 27% below pre-pandemic norms, versus a slight surplus in overall jobs. Washington D.C. and consulting firms have been hit hardest by this decline in demand.

 Second-Order Effect: These data points signal an immediate ripple effect from fiscal tightening. Highly skilled workers in government and government-adjacent sectors are flooding the labor market, potentially benefiting private sector employers who can snap up talent. However, the brain drain from public research and consulting roles could slow innovation or disrupt ongoing projects (e.g. in healthcare, science, defense). For the broader economy, a contraction in R&D hiring might reduce future productivity gains. Regionally, the D.C. area could see a drag on its economy as both government and contractor jobs recede. It also sets a tone: public-sector caution may spread a more austere mindset to the private sector.

 Trade Idea: Short consulting firms or contractors heavily reliant on federal spending, as their pipelines may shrink (e.g., consider an ETF or basket of federal IT or R&D service providers to underweight). Conversely, look at tech or healthcare firms that could scoop up laid-off researchers – an influx of talent might boost innovation for those companies (bullish for select biotechs or AI firms hiring PhDs).

Confidence Rating: Medium-High – The shift in job postings is clearly

quantified and directly tied to policy changes. The exact pace at which these second-order impacts play out (e.g., innovation slowdown or private absorption of talent) will need monitoring over months.

10. **Regional Weakness: D.C. Job Postings Slide**

Category: Labor Market / Regional Indicator

Signal Source: Indeed Hiring Lab

Key Insight: Building on Signal #10's R&D labor trend, the D.C.-specific data shows just how concentrated and visible this pullback is becoming. The drop is led by declines in sectors like administrative support, HR, and accounting – roles often tied to government or government-facing businesses. This contrasts with relatively flat hiring in industries like construction or manufacturing nationally over the same period.

🧠 **Second-Order Effect:** As a bellwether for government-related employment, D.C.'s slump suggests belt-tightening. Reduced hiring (and possibly layoffs) in admin and white-collar support roles indicates organizations are scaling back overhead, likely in response to fiscal cuts or economic uncertainty. The local D.C. economy (and by extension, the suburban Maryland/Virginia region) could feel pressure in retail, housing, and services if fewer workers are being hired or if some lose jobs. It's a microcosm of what broader public sector austerity can do: suppress labor demand in certain geographies and professions. If this trend spreads beyond D.C., it might signal emerging softness in the labor market overall, particularly in office roles.

💡 **Trade Idea:** Watch regional bank stocks or real estate investment trusts (REITs) focused on the D.C. area; a cooling job market could hurt loan growth or occupancy rates there. Alternatively, consider short positions on D.C.-centric economic exposure or municipal bonds in the region, anticipating weaker tax revenues if employment softens.

Confidence Rating: Medium – The data for D.C. is clear, but it's one region. It's a strong signal of specific policy impact, though national extrapolation requires

caution. Keep an eye on upcoming employment reports for government vs. private hiring splits.