Higher than expected inflation data smacked the stock and bond markets. The CPI inflation data weighed on the U.S. Treasury 30-year bond auction. In the minutes before the auction, bonds were trading at a yield of 1.888%. The auction went off at 1.940%, over .05% higher than expected.

CPI came in at 6.2%, well above expectations of 5.8%, and the stock market tumbled on the news. Concerns are rising the Fed may be well behind the curve and will have to hike rates more aggressively than previously expected.

[dmc]

What To Watch Today

Economy

- *No notable reports scheduled for release*

Earnings

Pre-market

- 6:00 a.m. ET: **Yeti Holdings (YETI)** to report adjusted earnings of 59 cents on revenue of $356.93 million
- 6:45 a.m. ET: **Tapestry (TPR)** to report adjusted earnings of 70 cents on revenue of $1.44. billion
- 7:00 a.m. ET: **Organon & Co. (OGN)** to report adjusted earnings of $1.44 on revenue of $1.58 billion

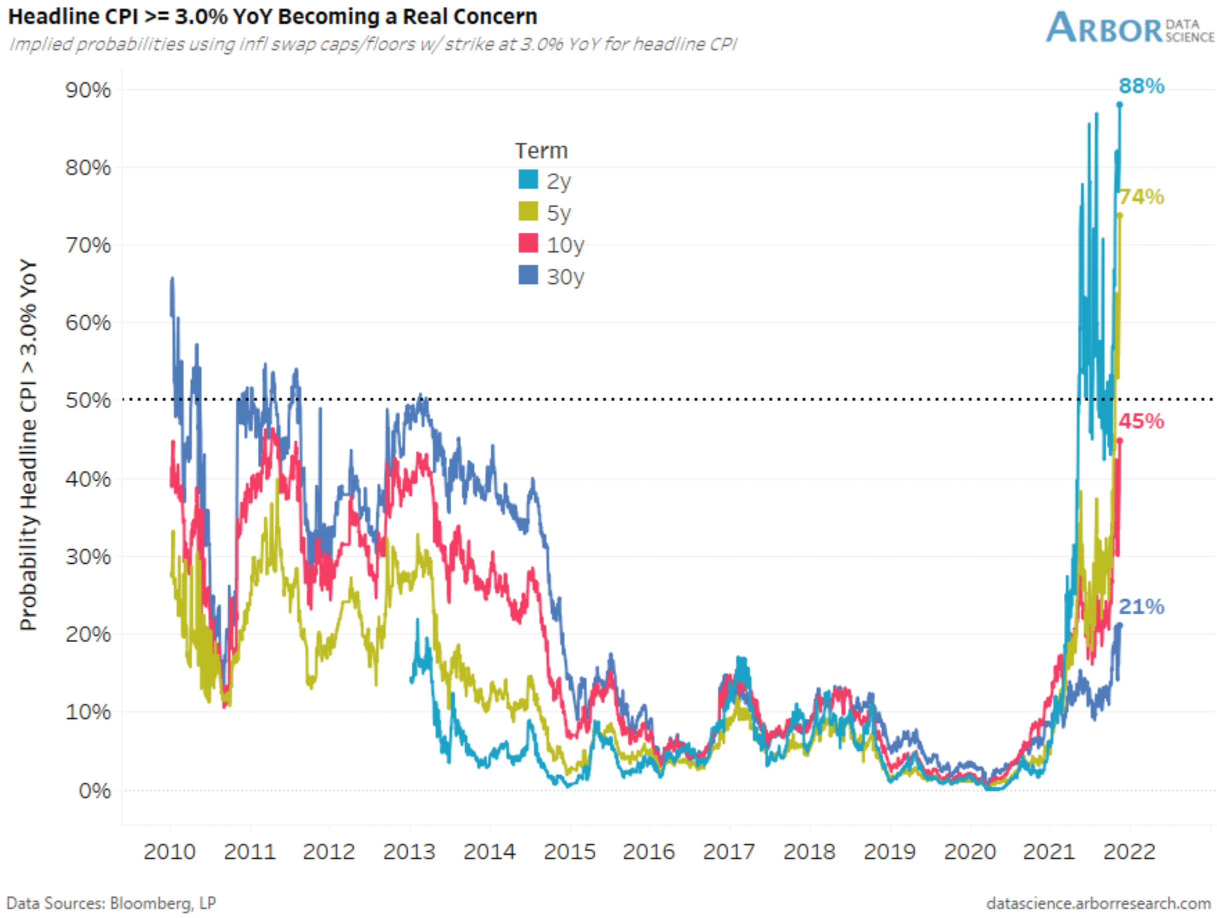
Post-market

- 4:05 p.m. ET: **Blink Charging Co. (BLNK)** to report adjusted losses of 27 cents on revenue of $4.72 million

Courtesy of Yahoo

The Fixed Income Derivative Markets Imply Persistent Inflation

The graph below, courtesy of Arbor Research, shows the derivatives markets are increasingly pricing greater odds that inflation runs 3% or greater. Currently, the market implies odds of 88% that inflation will persist above 3% for two years. Even longer periods, such as five and ten-year terms, have good odds of greater than 3% inflation for those respective periods.



[**Will Markets Further Correct?**]

CPI En Fuego

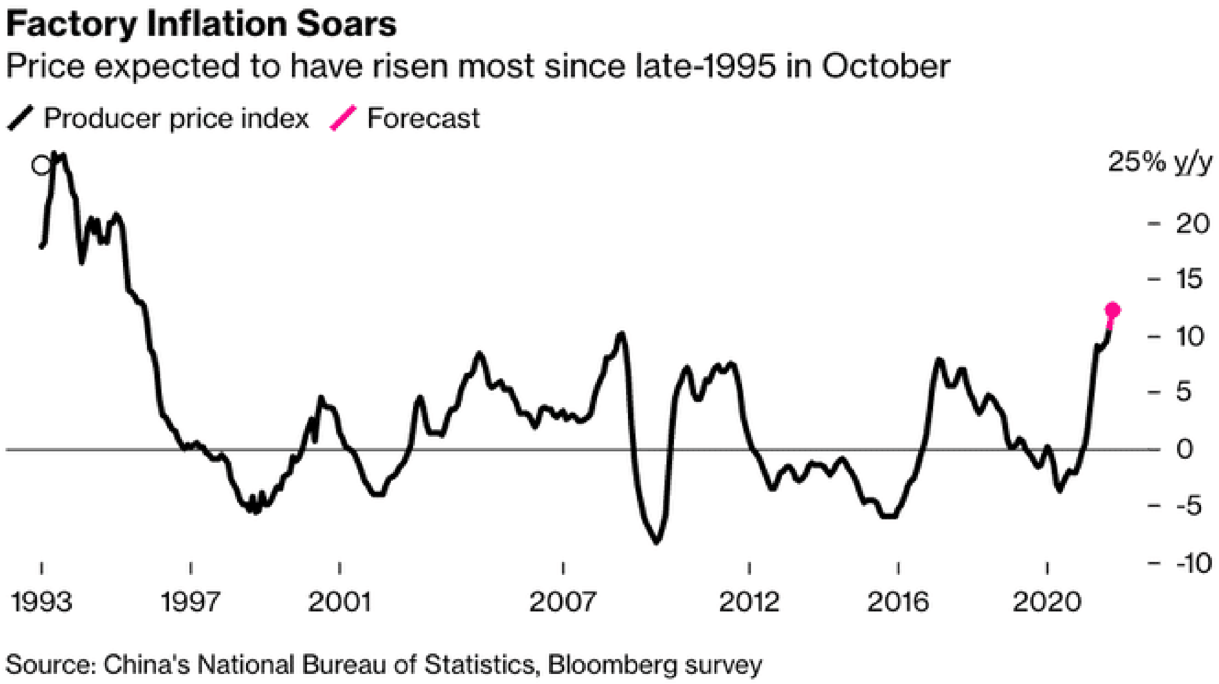
CPI is running much higher than expectations, as shown below. The 6.2% annual rate of inflation is the highest since October 1990. The core rate, excluding food and energy, is also higher than expected. **The Fed favors excluding volatile food and energy prices when assessing inflation. CPI, and yesterday's PPI, will add to the pressure on the Fed to speed up the pace of taper and raise rates.** Some of the pressure may come from the White House, which is increasingly vocal about inflation.

Released On 11/10/2021 8:30:00 AM For Oct, 2021

	Prior	Consensus	Consensus Range	Actual
CPI - M/M	0.4 %	0.5 %	0.4 % to 0.7 %	**0.9 %**
CPI - Y/Y	5.4 %	5.8 %	5.5 % to 5.9 %	**6.2 %**
Ex-Food & Energy- M/M	0.2 %	0.4 %	0.2 % to 0.5 %	**0.6 %**
Ex-Food & Energy- Y/Y	4.0 %	4.3 %	4.1 % to 4.4 %	**4.6 %**

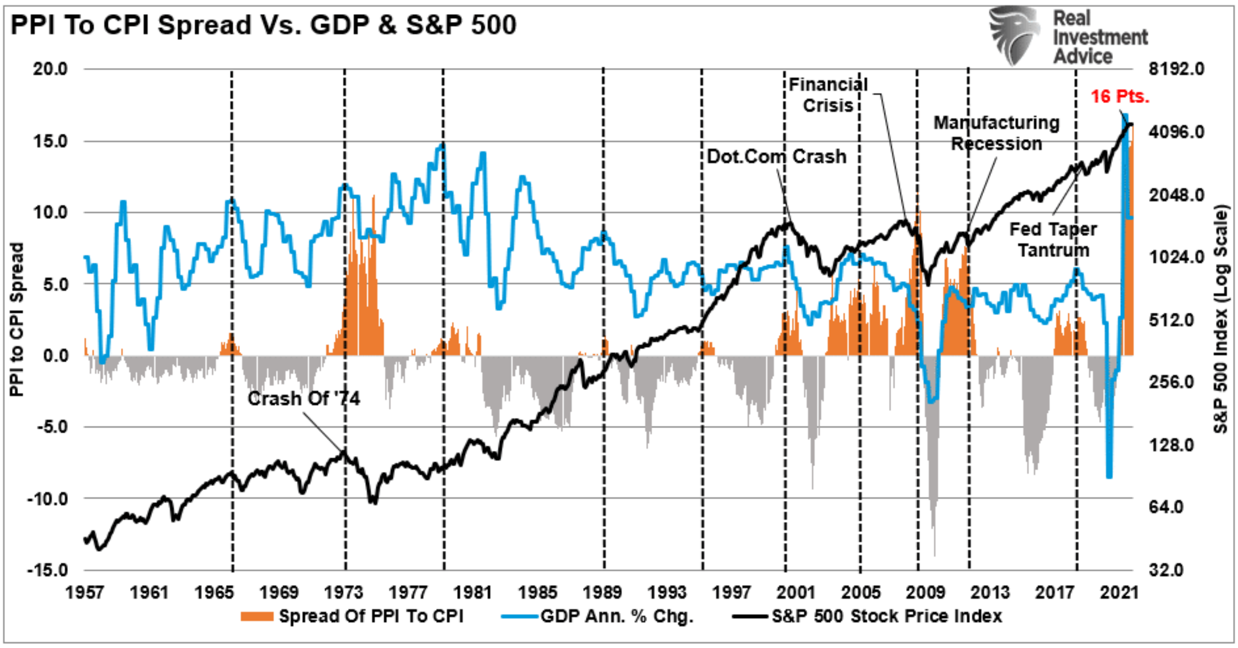
PPI

Yesterday the BLS reported PPI is running at 8.6%, insinuating the prices of goods used to produce final products are rising rapidly. PPI data from China confirms the data, showing inflation for manufacturers is running hot. Since China is a massive exporter of goods, they are likely to pass some inflation our way. China's PPI rose 13.5% year over year, the highest pace in over 25 years.



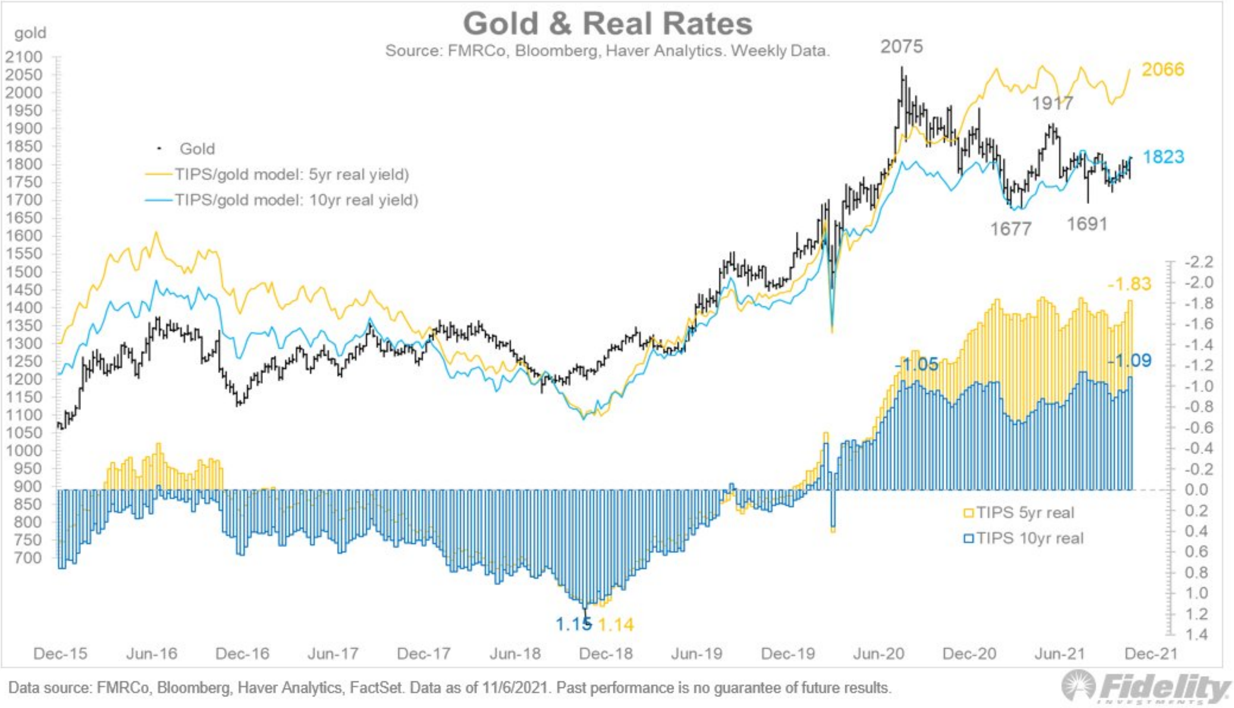
The Spread Is Not Good

As we have noted previously, the spread between PPI and CPI suggests that producers have an inability to pass along inflation to consumers. Therefore, there is an extremely high probability that going into next year, corporate profit margins will contract sharply. The spread between PPI and CPI is now 16 points which is the highest level on record by a large margin. Such suggests that inflation will not be kind to stock and bond investors.



Is Gold a Buy?

The Fidelity graph below shows the strong correlation between real interest rates and the price of gold. 5 and 10-year real rates (inflation-adjusted) are on the bottom with an inverse y-axis on the right side. Per Jurrien Timmer (Director of Global Macro- Fidelity) -"*If the Fed is ultimately forced to* *accept higher inflation as the cost of financial repression, then real rates could fall further, much like they did during the 1940s. This creates an opportunity for gold and silver, not to mention Bitcoin."*



Party Like Its 1999

The graph below, courtesy of the Leuthold Group, shows many stocks are trading at extreme valuations. At 73 S&P 500 stocks, almost twice as many companies are trading at greater than 10x sales than in 1999. The current median price to sales ratio is 3.5x versus 2x in 1999. By almost all historical valuation standards, 1999 is considered the peak. Recently more and more valuation measures have been surpassing those levels.


No. Of S&P 500 Stocks
Trading Above 10x Sales
(right scale)
40
73
S&P 500 Median
Price/Sales Ratio
(left scale)
© 2021 The Leuthold Group
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
80
70
60
50
40
30
20
10
0
-10
-20
-30
-40
-50
1990
2000
2010
2020