Markets were little changed yesterday and overnight despite the weaker than expected ADP employment. As many traders take time off this week, we suspect volatility and prices will remain muted with the possible exception of tomorrow morning's post-employment report trading.

Click HERE to receive our daily market commentary in your email every morning.

What To Watch Today

Economy

- 7:30 a.m. ET: **Challenger Job Cuts,** year-over-year, August (-92.8% in July)
- 8:30 a.m. ET: **Initial jobless claims,** week ended August 28 (345,000 expected, 353,000 during prior week)
- 8:30 a.m. ET: **Continuing claims,** week ended August 21 (2.808 expected, 2.862 million during prior week)
- 8:30 a.m. ET: **Unit labor costs,** 2Q final (0.9% expected, 1.0% in prior print)
- 8:30 a.m. ET: **Trade balance,** July (-$70.9 billion expected, -$75.7 billion in June)
- 10:00 a.m. ET: **Factory orders,** July (0.3% expected, 1.5% in June)
- 10:00 a.m. ET: **Durable goods orders,** July final (-0.1% expected, -0.1% in prior print)
- 10:00 a.m. ET: **Non-defense capital goods orders**, **excluding aircraft**, July final (0.0% in prior print)
- 10:00 a.m. ET: **Non-defense capital goods shipments**, **excluding aircraft,** July final (1.0% in prior print)

Earnings

Pre-market

- 8:00 a.m. ET: **American Eagle Outfitters (AEO)** is expected to report adjusted earnings of 54 cents per share on revenue of $1.22 billion

Post-market

- 4:05 p.m. ET: **DocuSign (DOCU)** is expected to report adjusted earnings of 39 cents per share on revenue of $485.53 million
- 4:05 p.m. ET: **MongoDB (MDB)** is expected to report adjusted losses of 40 cents per share on revenue of $184.00 million
- 4:15 p.m. ET: **Broadcom (AVGO)** is expected to report adjusted earnings of $6.85 per share on revenue of $6.76 billion

Politics

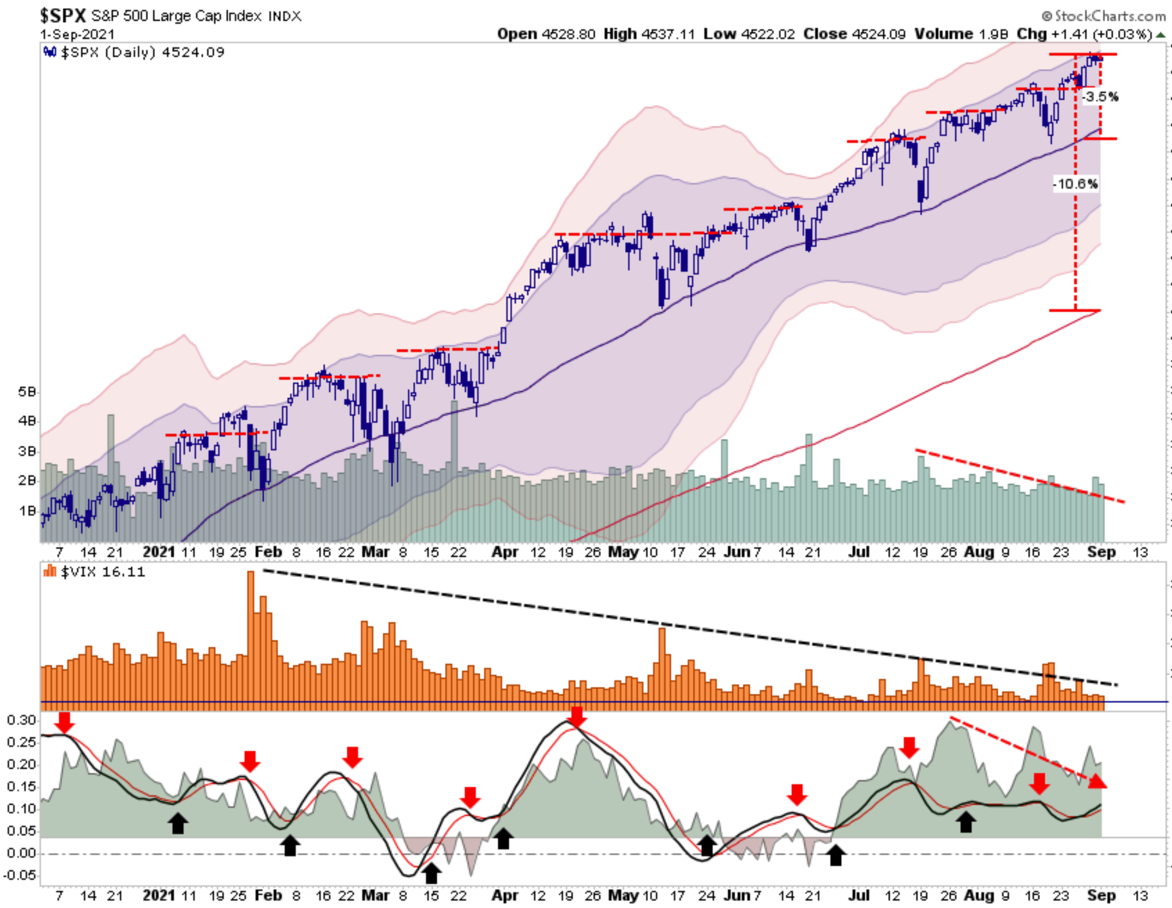
- Two committees in the **U.S. House of Representatives** ? **Natural Resources** and **Oversight** ? will be the first on Capitol Hill to formally ?mark up? their portion of the Democrats? proposed $3.5 trillion Build Back Better Act today. All relevant House committees will offer their proposals in the coming weeks, which will then be combined and finalized by **House Speaker Nancy Pelosi** and other senior lawmakers. [Next week, the tax-writing committee] will consider key tax increases.

- Pelosi will be in Texas today, holding a press conference in Austin at 2:30 p.m. CT to highlight her health care priorities for the Build Back Better Act.
- **President Biden** has meetings at the White House today ahead of a trip to Louisiana to see firsthand damage from Hurricane Ida. At 11 a.m. ET today, Biden will deliver a speech on his administration's response to the storm.

Courtesy of Yahoo.

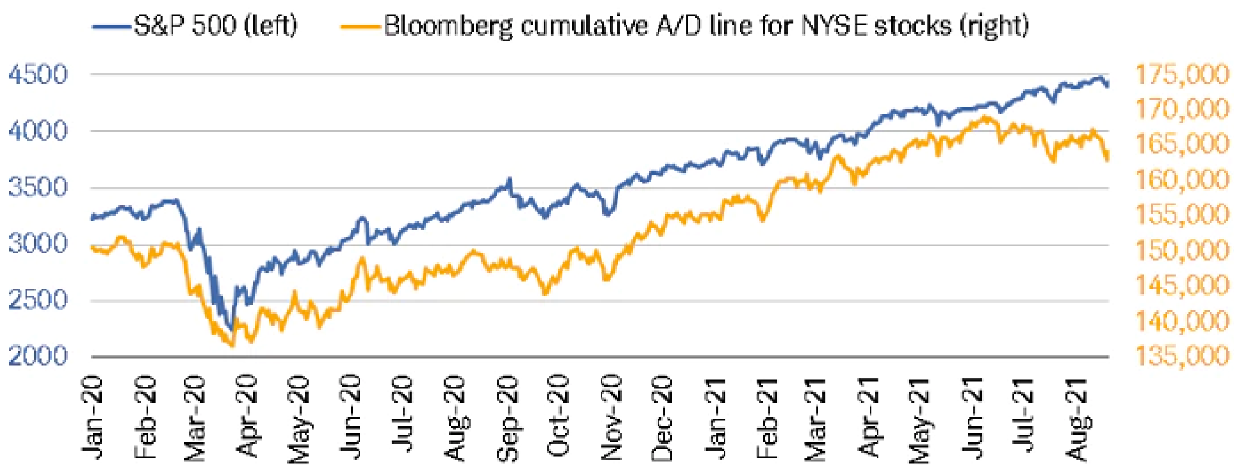
Stair-Step Advance Continues

As we discussed previously, the stair-step advance in the markets continues with each breakout leading to slightly higher-highs and then a stall at the 2-standard deviation mark from the 50-dma. Volume continues to contract on up days and expand on down days as volatility becomes more compressed. A correction to the 50-dma is 3.5% and near 11% to the 200-dma.

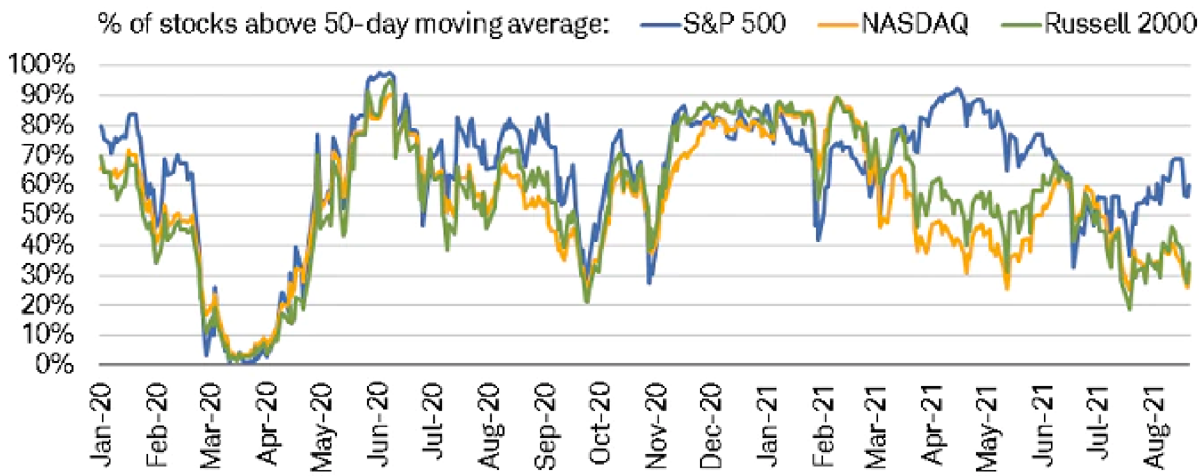


Breadth Remains Weak As Market Advances

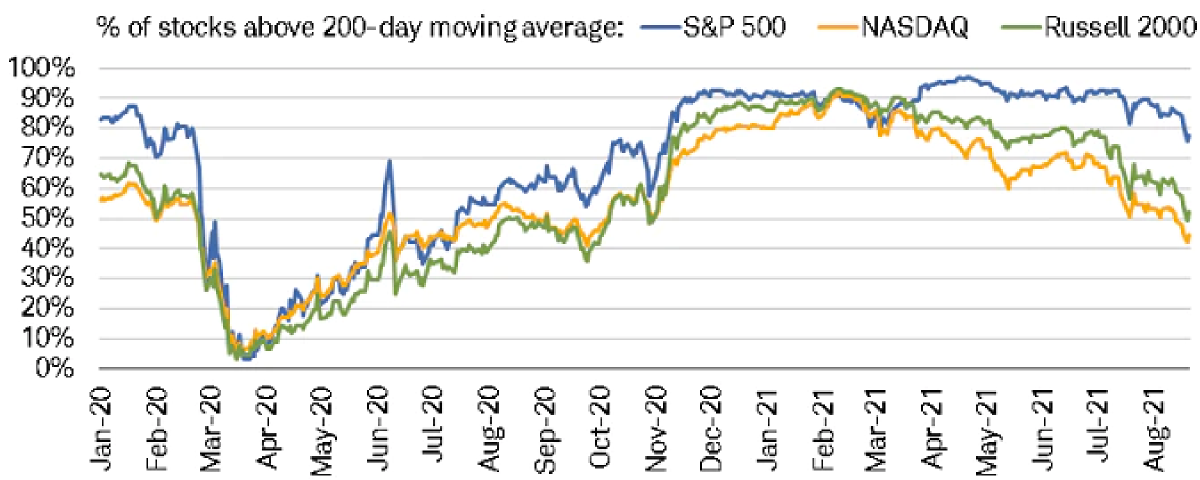
> *" As shown in the chart below, although the S&P 500 traded at an all-time high as recently as last week, the cumulative advance/decline (A/D) line for the broader NYSE universe peaked on June 11 this year. The divergence between the two looks similar to early-September last year?the point at which it was mostly the ?big 5? stocks within the S&P 500 (the ?generals?) that had powered the S&P 500 to its September 2, 2020 high." - Charles Schwab*



"The percentage of S&P 500 stocks trading above their 50-day moving averages peaked in April, troughed in June, improved until recently, but has come under pressure again. The same can?t be said for the NASDAQ and Russell 2000, which both peaked in early February, since which time they?ve generally been descending."

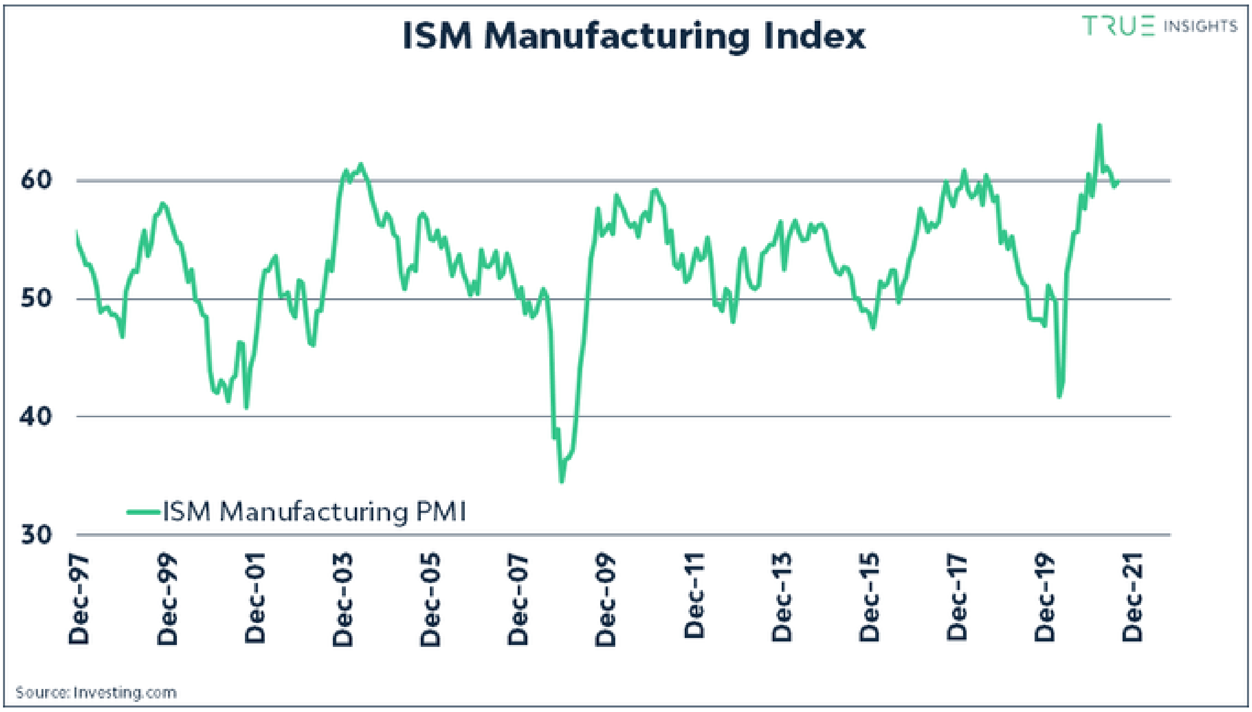


"Relative to their 200-day moving averages (DMA), all three indexes have been generally trending lower since April, as shown in the second chart below." - Charles Schwab

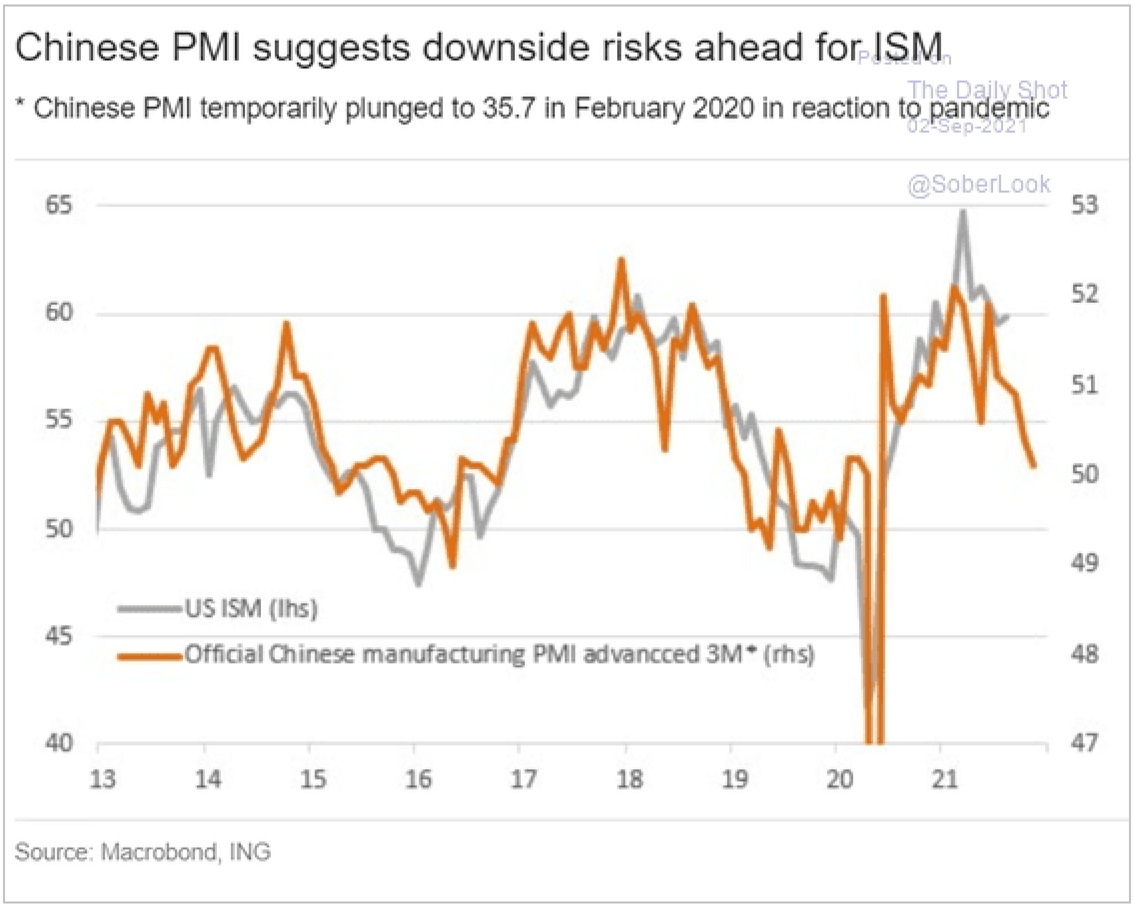


ISM Bucks The Trend

Unlike weakening manufacturing surveys from other countries and various regional surveys within the U.S., the ISM manufacturing survey is slightly higher versus last month (59.9 vs 59.5). In a sign shortages are abating, inventories rose to their highest level since 2018. The only concern in the report is employment fell back to contractionary levels at 49. The broad ISM index, while off the peak from earlier this year, is still near the highs of the last 20+ years. The lesser followed PMI Manufacturing survey is slightly higher than ISM, but lower versus last month (61.1 vs 63.4).



However, given the recent weakness in China, there is a high probability, given the historical correlation and dependence on China for imports, we will see further softness in the months ahead.



Major Market Review

A Weak Precursor to Friday's Employment Report

The ADP report is well short of expectations at +374k jobs versus expectations for over +600k. The coming BLS report and ADP have not been well correlated over the last year, so do not read too much into this report. However, the timetable for taper hinges in part on continued substantial improvement in the labor market. A corresponding weak number in the Friday BLS data will likely push back market expectations for the start of tapering QE.

TIPS

Over the last year, we have gotten a lot of questions on TIPS. In particular, readers want to better understand how they can protect themselves from inflation. **Lyn Alden has an excellent paper describing how TIPS work as well as their pros and cons. CLICK HERE to read it.**

In the article, she stresses that while TIPS can provide some protection when inflation is greater than expectations for inflation, they are still likely to result in a decline in purchasing power. One reason is the BLS CPI Index does not accurately capture inflation. Two, the yields on all TIPS are now negative. Negative carry offsets some of the bond's inflationary benefits.

Negative Real Yields In Germany

The graph below compares the German central bank main rate (similar to Fed Funds) versus year-over-year inflation. Like the U.S., its lending rate is at zero and CPI is soaring. The last time their CPI was at its current level in the early 1990s, the lending rate was about 6%. Not shown, German 10-year bonds yield -0.40%, resulting in a real yield of -4.40%. Absurdly low-interest rates and rising inflation is a global phenomenon and one that could prove dangerous if the recent rise in inflation is not transitory.