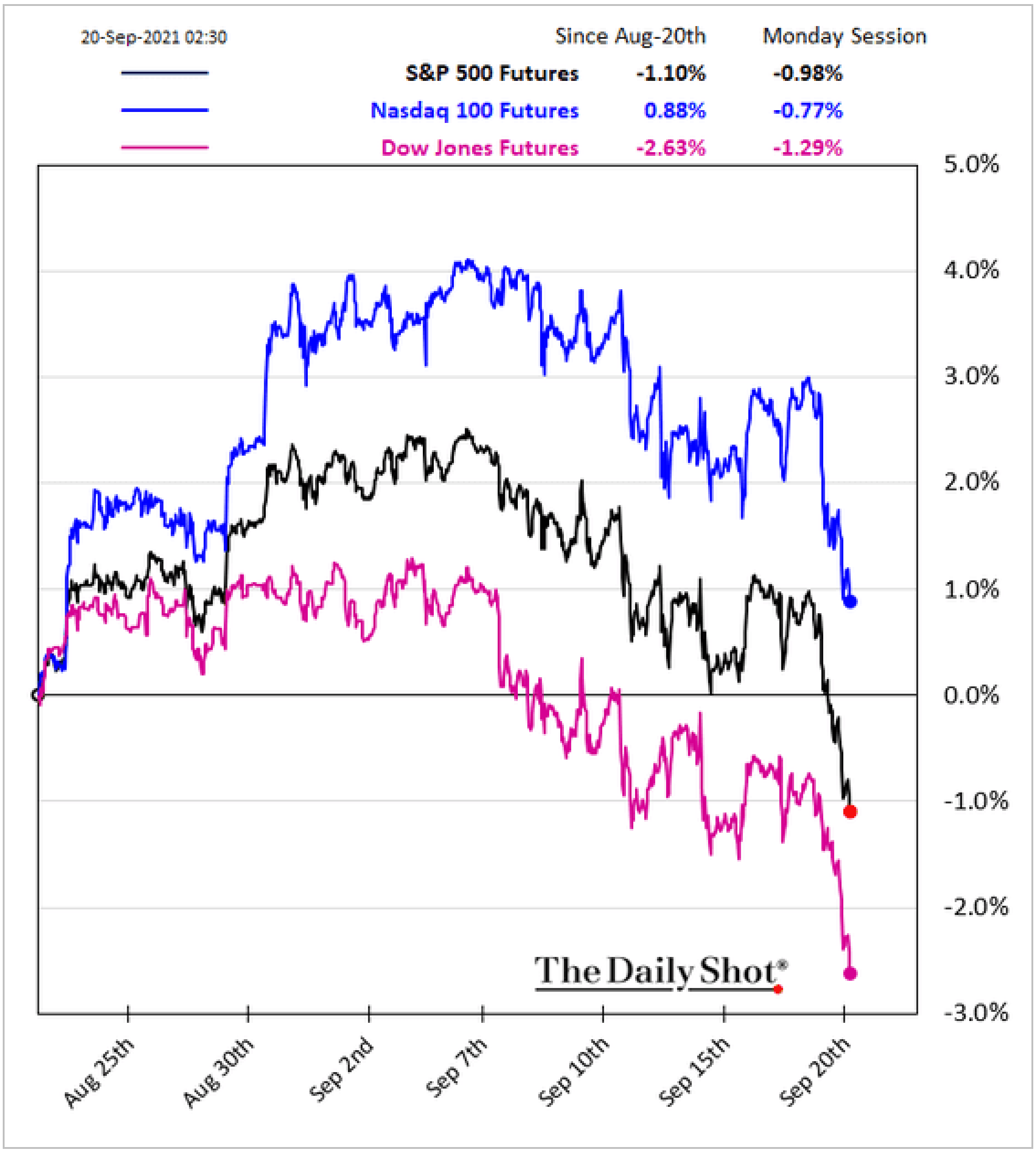
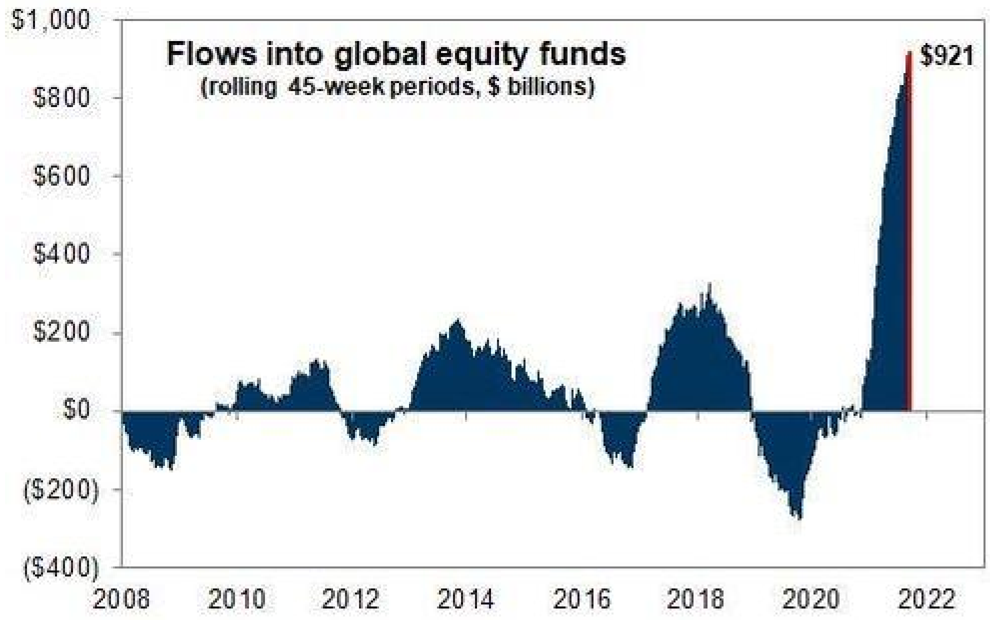
Markets are set to drop this morning as the Fed *"taper"* announcement approaches. Market bulls spent the better part of Friday trying to hold 50-dma but failed. At the time of this writing, futures are down sharply point to steep losses at the open.



The sell off isn't a surprise, as we have noted previously, given the more extreme length of time without a correction of 5% of more. September is historically a weak month, and there has been a steady drumbeat of corporate earnings warnings. While the retail sales numbers were strong, they were primarily a function of *"back to school"* shopping. Consumer sentiment remains soft, and market internals have been very weak.

The one thing that has remained incredibly strong has been the flow of money into equities this year which has been a literal *"off the chart"* record. **Despite the weak opening this morning,**

unless something changes that flow of capital into equities, the current correction will likely not be very deep.



[dmc]

What To Watch Today

Economy

- 10:00 a.m. ET: **NAHB Housing Market Index**, September (74 expected, 75 in August)

Earnings

- *No notable reports scheduled for release*

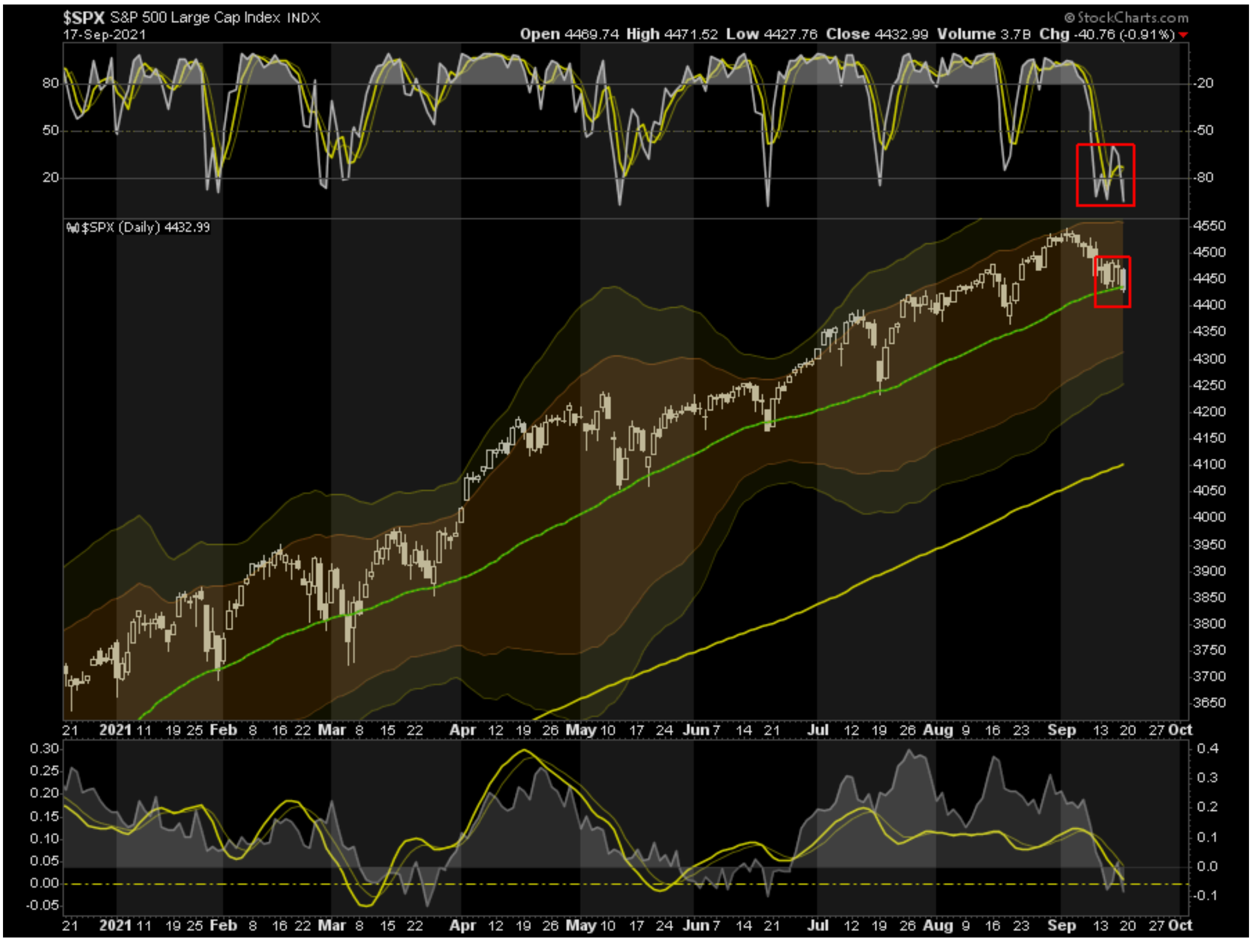
Politics

- **President Biden** will make his way to New York City for three days of meetings at the **United Nations General Assembly**. The president kicks things off with a bilateral meeting with **UN Secretary-General Ant•nio Guterres**this evening. Biden will then speak to the assembly Tuesday and host a virtual COVID-19 Summit on Wednesday.
- Both the **U.S. House of Representatives** and the **Senate** return to Washington this afternoon with deadlines looming. The lawmakers want to avoid a government shutdown and pass the infrastructure deal by the end of the month. They also hope to avoid a government debt default and pass Biden?s package of social spending soon afterwards.

Will Market Bulls Buy The Dip?

As noted, the market is set to slide sharply at the open, but cracks of the 50-dma are not unprecedented. In March we saw a similar break that quickly recovered. **As shown below, the market is oversold on a short-term basis with the TRIX indicator *(lower-panel)* approaching levels where decent entry points previously existed.** Such does not mean the market can not go lower over the next few days, but the recent decline reduced much of the short-term risk. **If the Fed disappoints this week with a more *"hawkish"* statement than anticipated we could well**

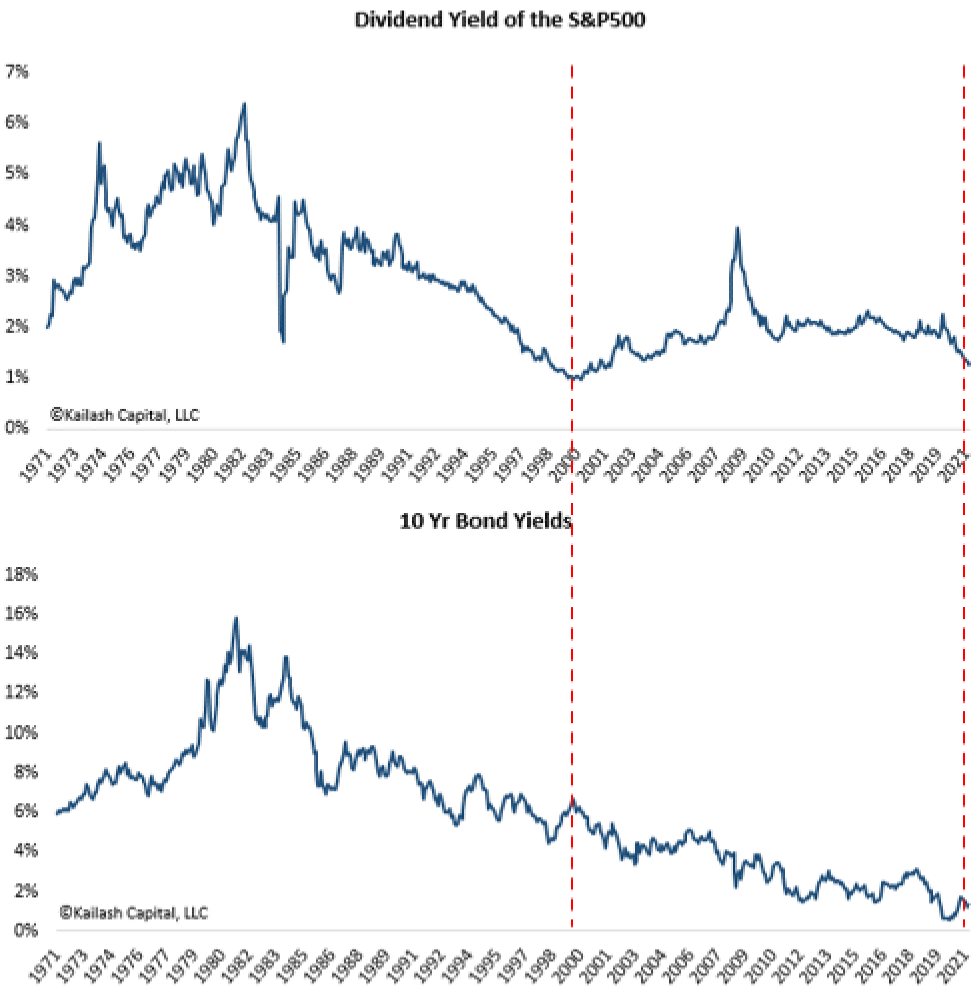
see a move lower. A more *"dovish"* statement, which we expect, will likely see a quick recovery.



With September wrapping up the *"seasonally weak"* period of the year, we are looking to start increasing our equity exposure opportunistically over the next couple of weeks. **While 2021 will almost undoubtedly end on a positive note, the risks into 2022 continue to build.**

Yields Are So Low, And That "Ain't" Necessarily A Good Thing

> *"Charlie Bilello noted that the dividend yield of the S&P500 was at its lowest point since the stock market bubble of 2000. With the treasury bond market offering so little in interest rates, it begs the question: Is there anywhere to find yield today?*
>
> ***In his 2020 letter to shareholders, Buffett stated ?Fixed-income investors worldwide ? whether pension funds, insurance companies or retirees ? face a bleak future**.? We quote him extensively in our piece examining the [inflation of the 1970s]() and believe the charts below tell the story with brutal clarity." - [Kailash Concepts]()*



The S&P500?s dividend yield is approaching the lowest level in over 40 years. Unfortunately, yield-starved investors seeking income have few alternatives.

In the dot.com bubble, you could buy risk-free 10 year Treasury Bonds with ~7% interest payments. Today, those same bonds offer virtually no return for record duration risk.

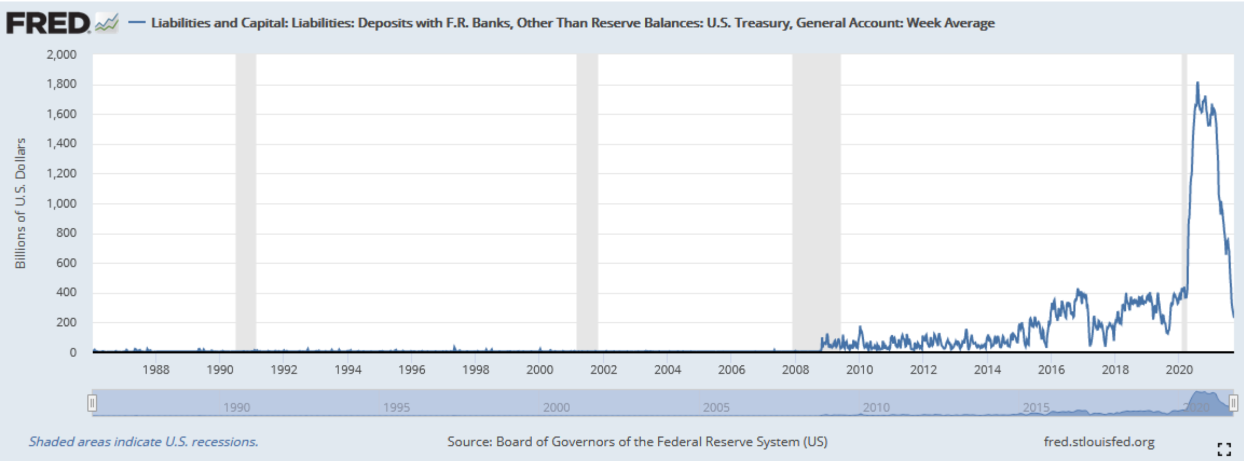
> ***"These dismal bond yields have investors chasing returns in the most expensive equity market in history. One that also offers all-time low dividend yields.***
>
> ***The timing could not be worse.*** *With over 10,000 Americans turning 65 every day, we are reminded of legendary value Investor Jean-Marie Eveillard. He once quipped,* ***?Life?s bills do not come at market tops.?*** *We believe these are times for avoiding the behavioral errors that have plagued investor returns where people crowd in at the highs and panic out at the lows."*

University of Michigan Sentiment Survey

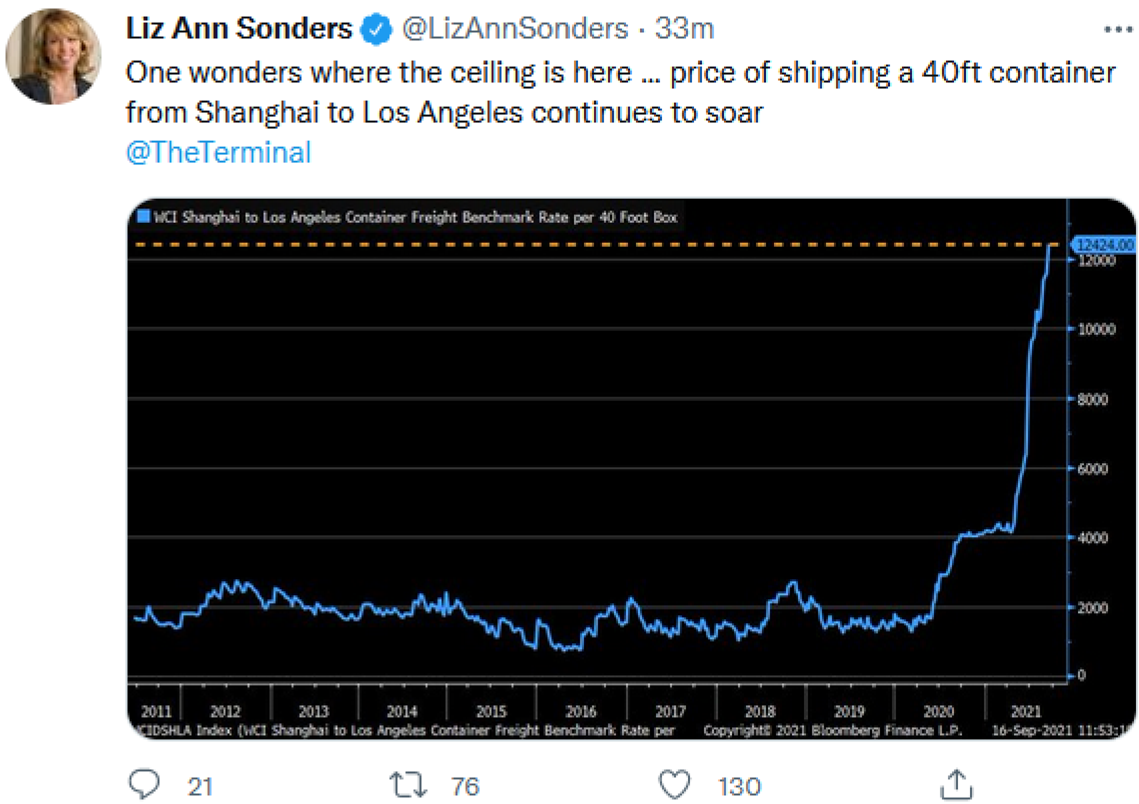
After last month's plunge, the University of Michigan Consumer Sentiment Survey was stable at 71.0, up slightly from last month. The index is well off the 110-120 rate it was running at for most of 2018 and 2019. Of focus, one year expected inflation seems to be stabilizing albeit at a high 4.7% rate. Longer-term 5-10 year expectations are 2.9%. Per the survey, inflation concerns are spreading to a broader chunk of the population. Consider the following quote: "*over the past few months, complaints about rising prices have increased among younger, richer, and more educated households*"

Excess Cash No More

On many occasions this year we noted how the Treasury is carrying excessive levels of cash. The graph below shows the spike in cash due to the massive pandemic-related debt issuance and slow-to-follow spending. Federal spending has caught up, and cash balances are back to normal. The result will be an increase in the supply of Treasury debt. This dynamic is occurring at the same time the Fed is contemplating buying fewer bonds. Over the last six months, Treasury supply has not been a concern for the market due to large Fed purchases and reduced issuance. The supply/demand equation will change in the months ahead possibly pressuring yields higher.



Shipping Costs Soar



Is It Time To Buy The Dow?

The ratio of the Dow Jones Industrial Average to the NASDAQ is approaching levels last seen at the peak of the Tech Bubble. Favoring the Dow over the NASDAQ paid handsome dividends from

2000 to 2003. Are we nearing a similar opportunity? The composition of the Dow has changed over the last 20 years.

Unlike, the late 90s the Dow now has more tech exposure, like Microsoft at 5.7% of the index and SalesForce at 4.8%. It also holds Apple, albeit at a lesser weight. The Dow's three top holdings, accounting for a fifth of the index. Those are UNH, GS, and HD. That compares to the NASDAQ's top three holdings AAPL, MSFT, and AMZN account for nearly a third of the index. While the Dow has MSFT and other tech companies, a bet on the Dow is a bet against the world's largest technology companies. Currently, the FAANG stocks driving the NASDAQ's outperformance are considered both high growth and safety stocks. That narrative must change before the Dow has a fighting chance.