Stocks rally nearly 1% higher yesterday despite a surprisingly hawkish tone from Fed Chair Jerome Powell teasing taper. Next on the horizon for the bulls is the 50-day moving average at 4435. With taper looming on the horizon will the moving average act as resistance?

If overnight trading is any indication we may answer that question this morning. The NASDAQ is leading the way, up .75% this morning with the S&P and Dow closely behind. S&P 500 futures are less than ten points below the key moving average. The dollar is weaker this morning as the currency markets appear to be taking Powell's word that the Fed remains on course to start tapering in November and finish in mid-2022.

Futures	Last	Change	Change %
Crude Oil	71.91	-0.32	-0.44%
Natural Gas	4.7990	-0.0060	-0.12%
Gold	1773.70	-5.10	-0.29%
Dow	34288.00	+159.00	+0.47%
S&P 500	4407.75	+23.75	+0.54%
Nasdaq 100	15255.75	+92.25	+0.61%

[dmc]

What To Watch Today

Economy

- 8:30 a.m. ET: **Chicago Fed National Activity Index,** August (0.50 expected, 0.53 in July)
- 8:30 a.m. ET: **Initial jobless claims,** week ended September 18 (320,000 expected, 332,000 during prior week)
- 8:30 a.m. ET: **Continuing claims,** week ended September 11 (2.600 million during prior week)
- 9:45 a.m. ET: **Markit Manufacturing PMI,** September preliminary (61 expected, 61.1 in August)
- 9:45 a.m. ET: **Markit Services PMI,** September preliminary (54.9 expected, 55.1 in August)
- 10:00 a.m. ET: **Leading Index,** August (0.7% expected, 0.9% in July)

Earnings

Pre-market

- 7:00 a.m. ET: **Darden Restaurants (DRI)** is expected to report adjusted earnings of $1.65 per share on revenue of $2.24 billion

Post-market

- 4:05 p.m. ET: **Vail Resorts (MTN)** is expected to report adjusted losses of $3.50 per share on revenue of $169.36 million
- 4:15 p.m. ET: **Costco (COST)** is expected to report adjusted earnings of $3.55 per share on revenue of $61.57 billion

- 4:15 p.m. ET: **Nike (NKE)** is expected to report adjusted earnings of $1.12 per share on revenue of $12.47 billion

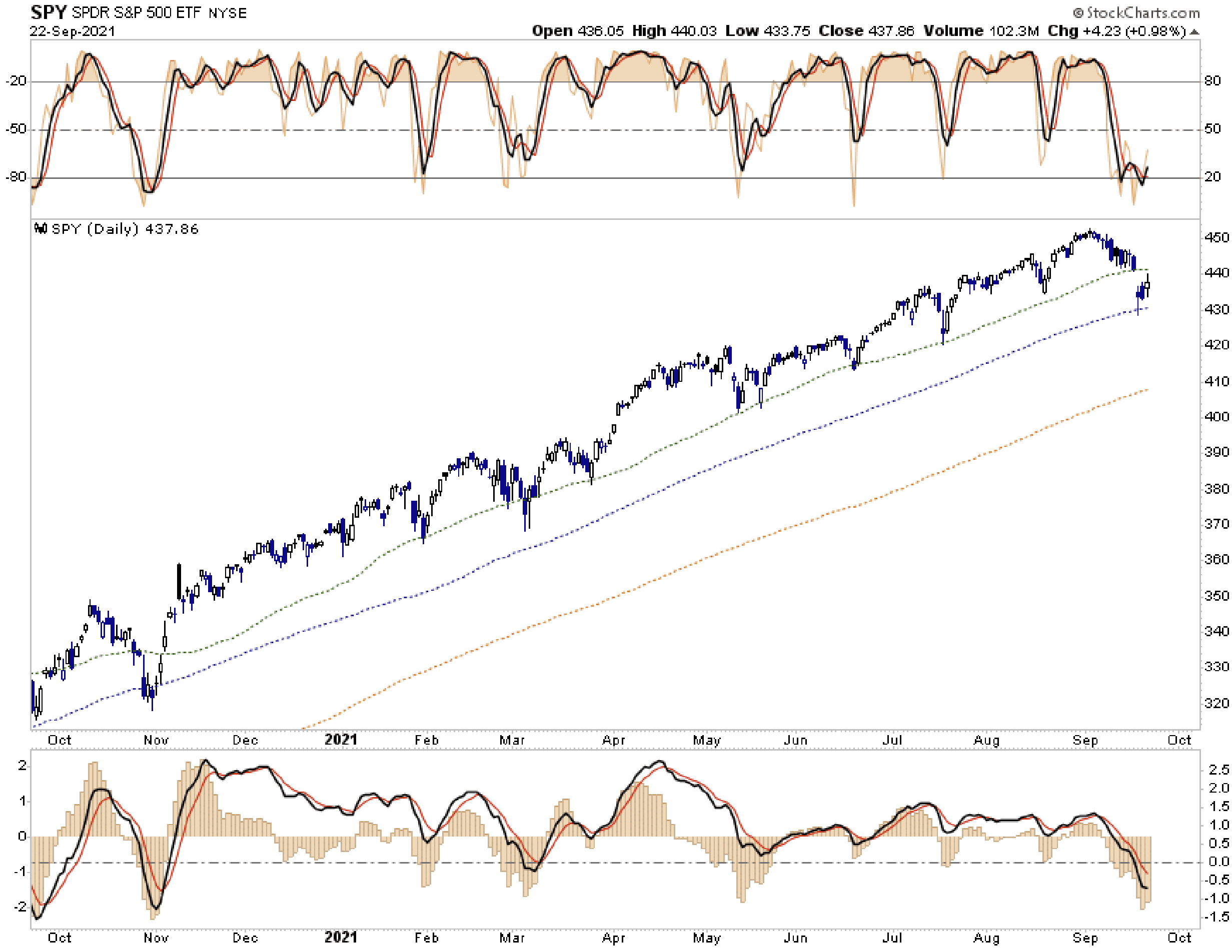
Courtesy Of Yahoo!

Buy Stocks As The Fed Put Is Alive And Well

The Federal Reserve did exactly as expected yesterday and threaded the needle well on putting "taper on the table" and assuring markets the "punch bowl" wasn't being taken away just yet.

> *?There has been a great deal of handwringing by some market participants over the potential market implications of the Fed?s eventual tapering of asset purchases, and a great deal of ink spilled on the topic too. But at the risk of merely contributing to the latter, we hope to assuage those who worry about the former.*
>
> *In sum, we think that the tapering of Fed asset purchases (likely a $10 billion reduction in U.S. Treasury purchases and a $5 billion reduction in agency mortgages per month) is likely to have minimal market impact at this stage. This is partly because the Fed has done a decent job of telegraphing when tapering is likely to begin (most market participants believe the announcement will come this year), but more importantly it?s because the asset purchase reductions are likely to be trivial when seen in the context of how large the fixed income markets are today, and how overwhelming the demand for income has become.? - Rick Rieder, BlackRock?s CIO of Global Fixed Income*

With stocks deeply oversold on a short-term basis, as noted yesterday, and the threat of "taper" largely baked into the recent decline, there is a decent entry point for traders to add exposure near term. As noted, the 50-dma is the only really challenge ahead but will likely be resolved today.



Powell Q&A Session: A More Hawkish Picture

Following a vague reference to taper in the FOMC statement, Jerome Powell made some hawkish comments during his press conference:

- With respect to progress towards taper, Powell commented, *?In my own thinking, the test is all but met?.*
- *?I think if the economy continues to progress broadly in line with expectations and the overall situation is appropriate for this, we could easily move ahead [with taper] by next meeting, or not??*
- Again, with respect to a decision for November taper, *?I don?t need to see a good employment report next month; I just need to see a decent employment report?.* Powell is clearly signaling that Fed is likely to announce taper in November barring an unexpected deterioration in economic conditions.
- Powell commented that it may be appropriate for taper to conclude by mid-2022.
- As expected, Powell is leaving a back door open in case taper doesn?t go over well. ?If necessary, we can accelerate or decelerate the taper?.

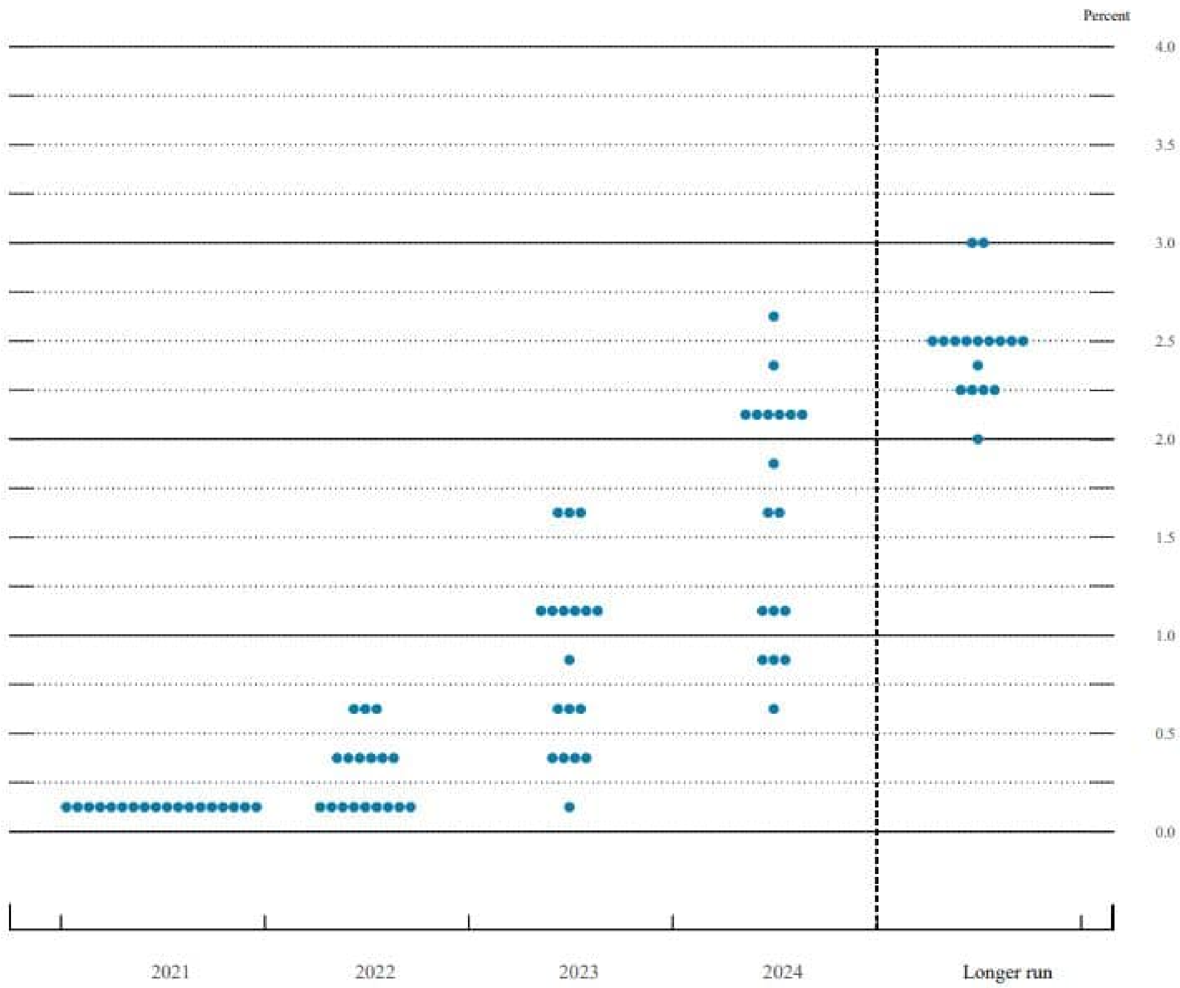
Taper Talk Continues

Changes to the FOMC statement are highlighted below. Of note, the Fed signaled taper could be around the corner, but did not drop any hints in the statement with respect to timing. ?Since then, the economy has made progress towards these goals, and if progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted". However, in the FOMC press conference Q&A session, Powell noted that taper could come "as soon as the next meeting".

The Fed reduced their projection for 2021 real GDP growth to 5.9% from 7%. Further, the Fed raised their core PCE inflation forecast for 2021 to 3.7% from 3.0%. The "dot plot" graph below shows the level of Fed Funds that each Fed member expects by year. There are now 9 FOMC members that think the Fed will hike rates as soon as next year, compared to only 7 in June. This represents an even split between members that see liftoff in 2022 and those who don?t, and could have implications for the pace of taper once initiated.

For release at 2:00 p.m., EDT, September 22, 2021

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

With progress on vaccinations and strong policy support, indicators of economic activity and employment have continued to strengthen. The sectors most adversely affected by the pandemic have ~~shown improvement~~improved in recent months, but ~~have not fully recovered.~~the rise in COVID-19 cases has slowed their recovery. Inflation ~~has risen~~is elevated, largely reflecting transitory factors. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy continues to depend on the course of the virus. Progress on vaccinations will likely continue to reduce the effects of the public health crisis on the economy, but risks to the economic outlook remain.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation having run persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. Last December, the Committee indicated that it would continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward its maximum employment and price stability goals. Since then, the economy has made progress toward these goals~~, and~~. If progress continues broadly as expected, the Committee ~~will continue to assess progress~~ judges that a moderation in ~~coming meetings~~the pace of asset purchases may soon be warranted. These asset purchases help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Thomas I. Barkin; Raphael W. Bostic; Michelle W. Bowman; Lael Brainard; Richard H. Clarida; Mary C. Daly; Charles L. Evans; Randal K. Quarles; and Christopher J. Waller.

FOMC Pre-Taper Market Review

Adobe Q3 Earnings

ADBE reported earnings for the 3rd quarter yesterday after the close. GAAP EPS of $2.52 easily beat the consensus estimate of $2.29. Similarly, revenue of $3.94B (+22% YoY) beat expectations of $3.54B, driven by a 24% increase in subscription revenue. Management guided to Q4 revenue of $4.07B- slightly above the consensus of $4.05B. Guidance for non-GAAP EPS is also above consensus, at $3.18 vs. an expected $3.09. **ADBE** is down ~4% in pre-market trading despite beating expectations across the board and guiding above consensus for Q4. We hold a 1.5% position in the Equity Model.

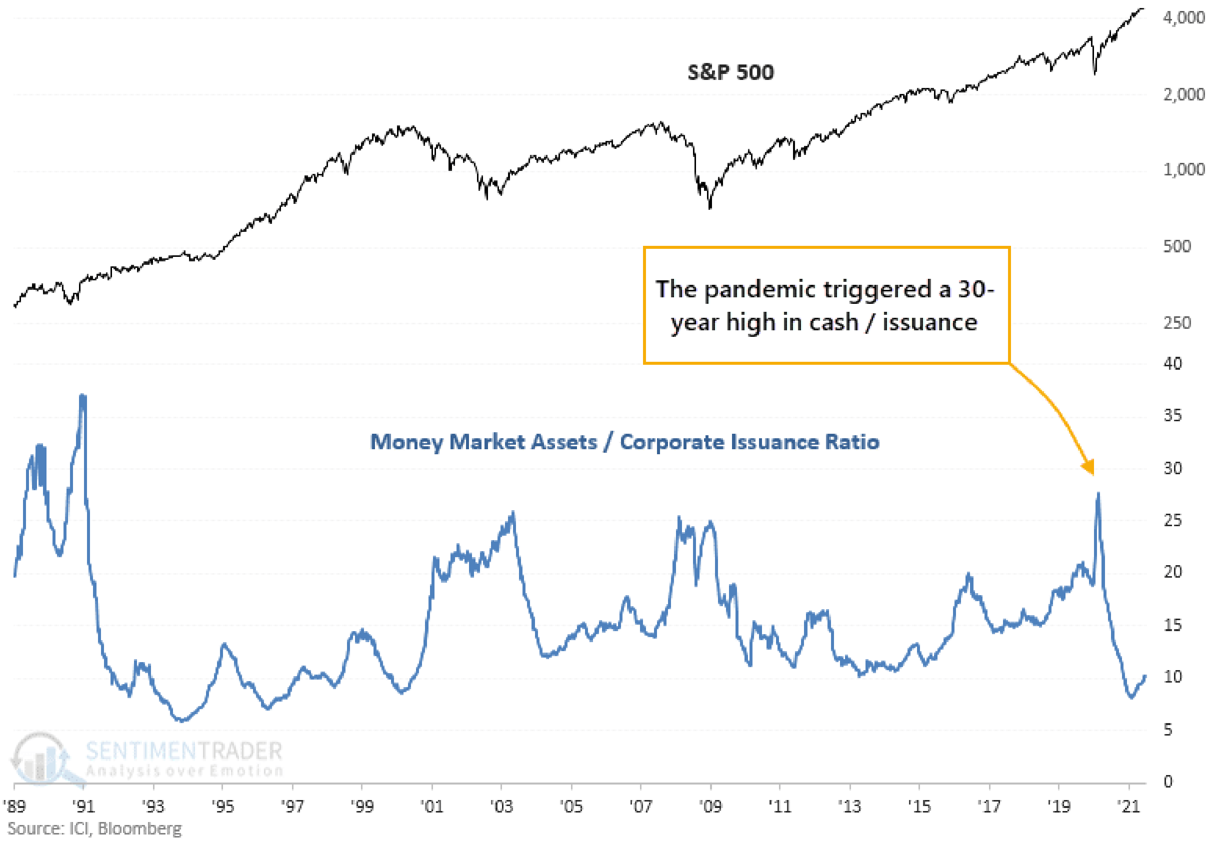
FedEx is Raising Prices

Federal Express announced that effective January 2022, FedEx Express, FedEx Ground, and FedEx Home Delivery shipping rates will increase by an average of 5.9%. FedEx Freight rates will increase by an average of 5.9% to 7.9%. We suspect UPS and other carriers will take similar action. Given a large number of goods are now ordered online, the increase in shipping costs will inevitably work its way into higher prices next year.

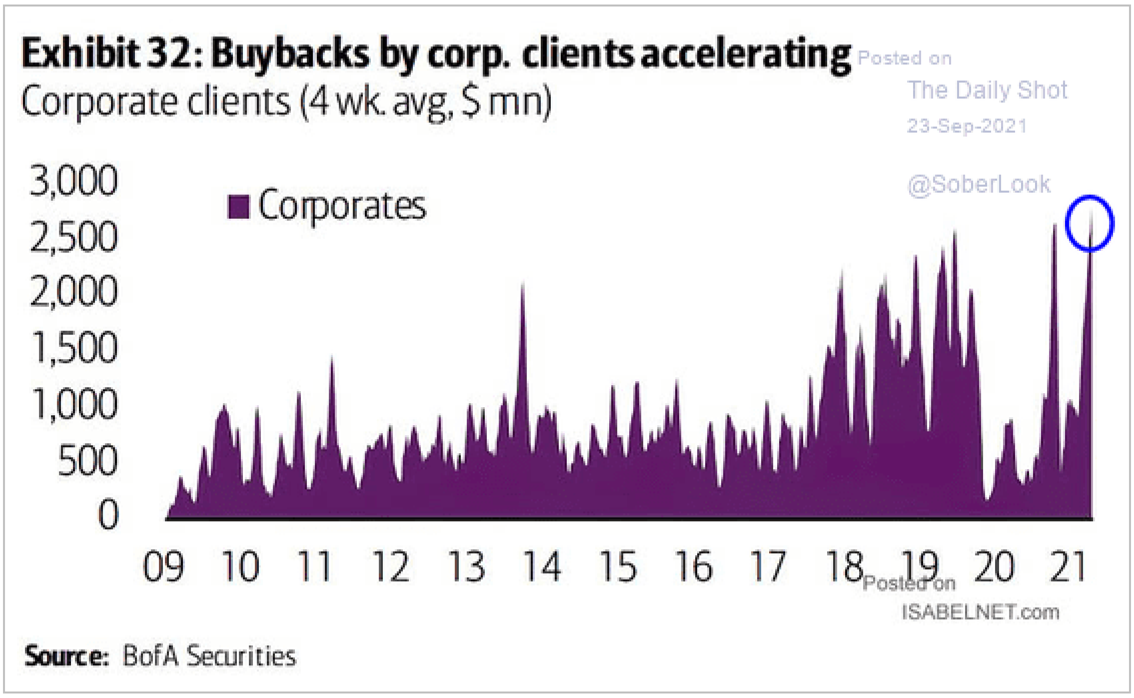
Cash on the Sidelines

The graph below from Sentimentrader compares the amount of cash in money market funds to corporate equity issuance. Per Sentimentrader:

> *"During the pandemic panic, the ratio neared 30 and was the highest in 30 years. In other words, there was 28 times more cash available than shares offered in supply. There are ways to quibble with the technicals, but it's simply meant as a reflection of sentiment.*
>
> *Over the past year, the ratio has declined steadily as supply ramped up. Corporations are "feeding the ducks," as the saying goes. Even though money market assets haven't been drained much, the skyrocketing supply has caused the ratio to drop below 10 for the first time since the year 2000."*

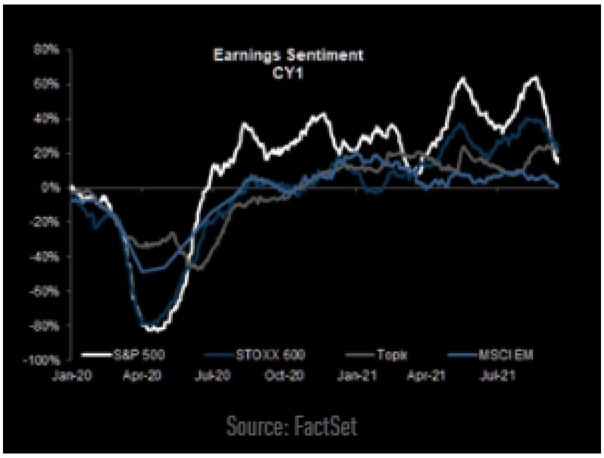


Record buybacks have been a major support of asset prices this year.



Declining Earnings Confidence

The graph below, courtesy of the Market Ear, shows declining sentiment towards earnings expectations. Each line representing the four major global equity markets shows the number of earnings upgrades less the number of downgrades, divided by the total number of estimates. Each line is approaching zero but still above it, denoting net confidence remains positive but if falling.


Earnings Sentiment
CY1
80%
60%
40%
20%
0%
-20%
-40%
-60%
-80%
-100%
S&P 500
STOXX 600
Topix
MSCI EM
Jan-20
Apr-20
Jul-20
Oct-20
Jan-21
Apr-21
Jul-21
Source: FactSet