

Stock futures slump to kick off the seasonally strong fourth quarter of the year. As expected, the market did sell off to the 5% correction level in September, as discussed in August. We do not expect a major correction in October, but a further correction is possible with the 200-dma the likely limit of that decline. That would be in the vicinity of the 10% decline from the recent August/September highs noted previously.

It is important to keep emotions under control and maintain the proper perspective of the current correction. Such can be difficult with the media pumping headlines about the correction, making it seem like we are in the middle of a full-on crash. However, this remains a well-controlled, normal, and needed correction to work off the recent overbought conditions.

Dow drops 500 points on September's final day, S&P 500 suffers worst month since March 2020

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As noted, with markets now very oversold, we are watching for the next MACD buy signal to suggest the seasonally strong period of the year is getting underway. However, while we are maintaining a more optimistic outlook momentarily, we are well aware of the risks and the numerous headwinds ahead.

[dmc]

What To Watch Today

Economy

- 8:30 a.m. ET: **Personal income**, August (0.2% expected, 1.1% in July)
- 8:30 a.m. ET: **Personal spending**, August (0.7% expected, 0.3% in July)
- 8:30 a.m. ET: **Personal consumption expenditures core deflator**, month-over-over, August (0.2% expected, 0.3% in July)
- 8:30 a.m. ET: **Personal consumption expenditures core deflator**, year-over-year, August (3.5% expected, 3.6% in July)
- 9:45 a.m. ET: **Markit manufacturing PMI**, September final (60.5 in prior estimate)
- 10:00 a.m. ET: **Construction spending**, month-over-month, August (0.3% expected, 0.3% in July)
- 10:00 a.m. ET: **University of Michigan sentiment**, September final (71.0 expected, 71.0 in prior print)
- 10:00 a.m. ET: **ISM Manufacturing**, September (59.5 expected, 59.9 in August)

Earnings

- *No notable reports scheduled for release*

Politics

- A government shutdown was averted after Congress passed a bill to keep the lights on and **President Biden** [signed it into law](#) just hours ahead of last night's midnight deadline. The new government funding is effective today but only lasts until Dec. 3.
- Also, late last night, **U.S. House of Representatives Speaker Nancy Pelosi** [delayed the vote](#) on the \$1.2 trillion infrastructure bill as moderates and liberals in her caucus failed to come to an agreement on the measure that had passed the Senate with bipartisan support. Biden is set to continue working the phones to push lawmakers to reach an agreement on the infrastructure bill and the larger package of social spending.

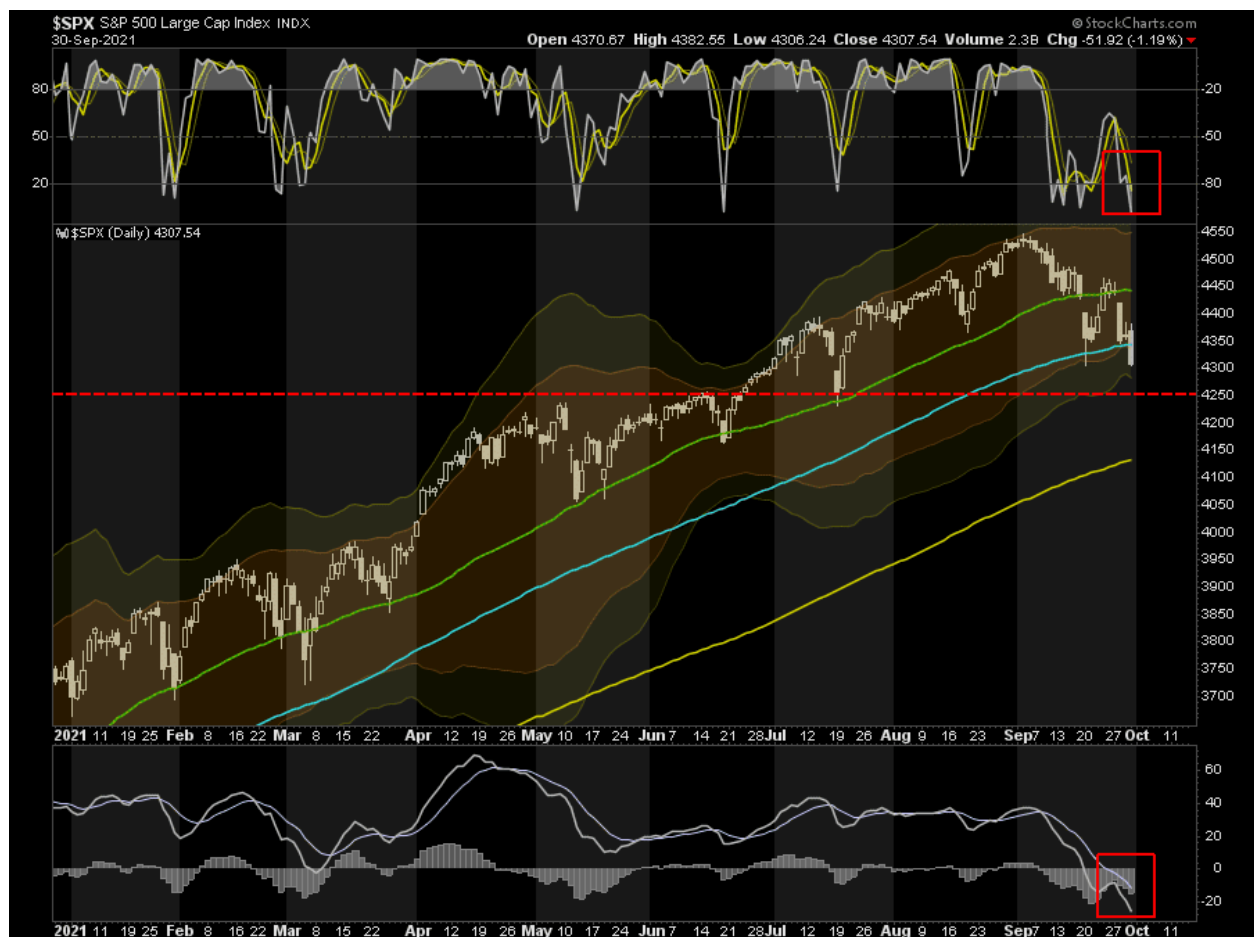
Watching For A MACD Buy Signal

We agree with Stocktrader's Almanac this morning:

*"Many of the same geopolitical, political, fundamental, and technical headwinds we highlighted in the September and October Outlooks remain present. Congress passed the funding bill to avert a government shutdown just before the market closed today ahead of the September 30 midnight deadline. **The biggest risk to the market remains the Fed. An uptick in taper talk or chatter about the Fed raising rates ahead of schedule could trigger another selloff.**"*

However, it is worth noted there are two primary support levels for the S&P. The previous July lows (red dashed line) and the 200-dma. Any meaningful decline occurring in October will most likely be an excellent buying opportunity particularly when the MACD buy signal gets triggered.

"Seasonality is alive and well. So we stick with system. " - Stocktrader's Almanac

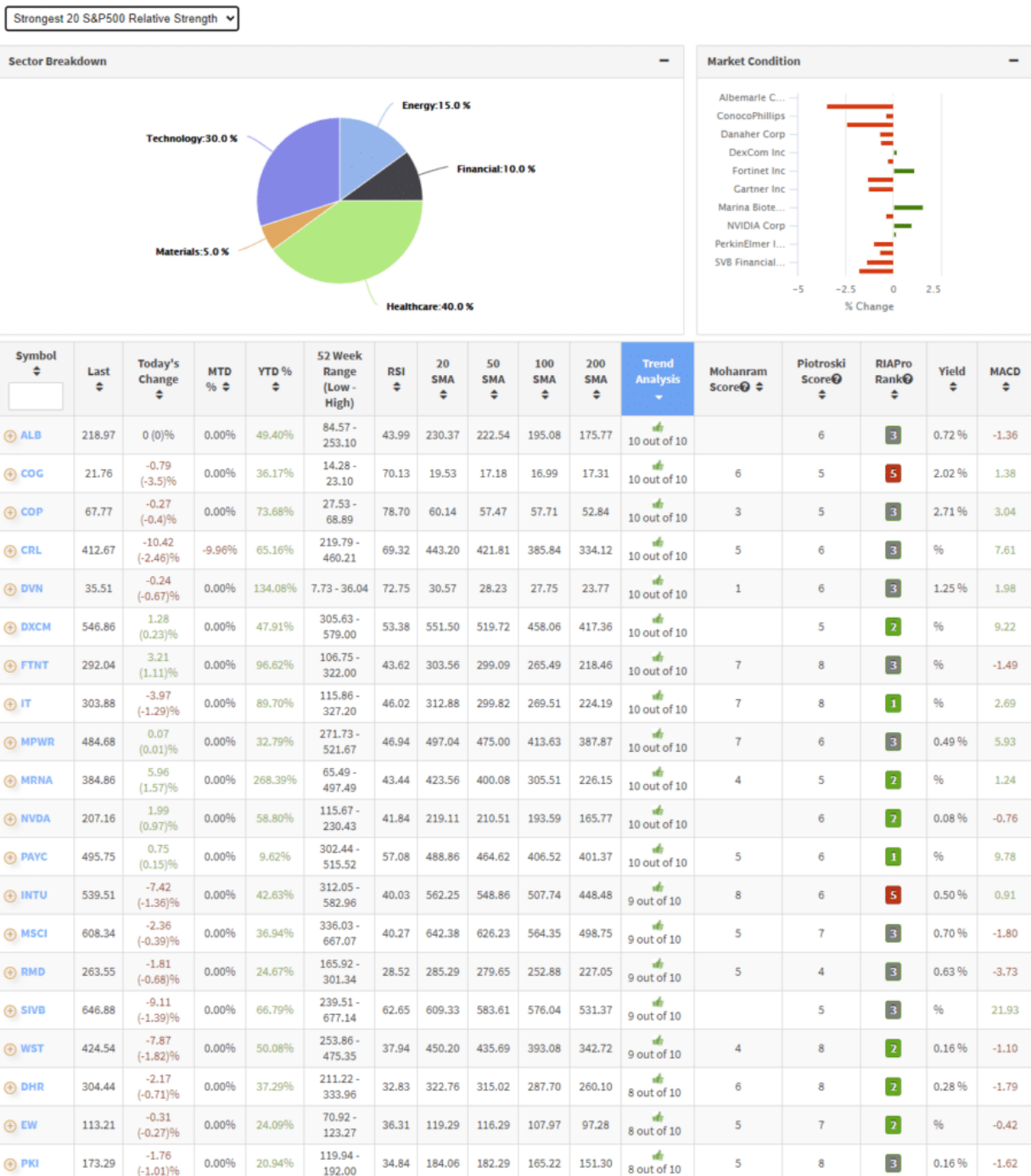


[How to Play the Dodging Debt Game](#)



Stocks Worth Watching

A quick screen of the S&P 500 stocks [on RIAPRO](#) with the strongest relative strength AND the strongest trends turns up some interesting candidates to watch for a potential buying opportunity.



QE Is In The Budget Fray

As if the Democrats did not have enough trouble passing a budget deal, they have a new hurdle per the headline below. Fed independence continues to weaken as it is now a pawn in the budget battle.

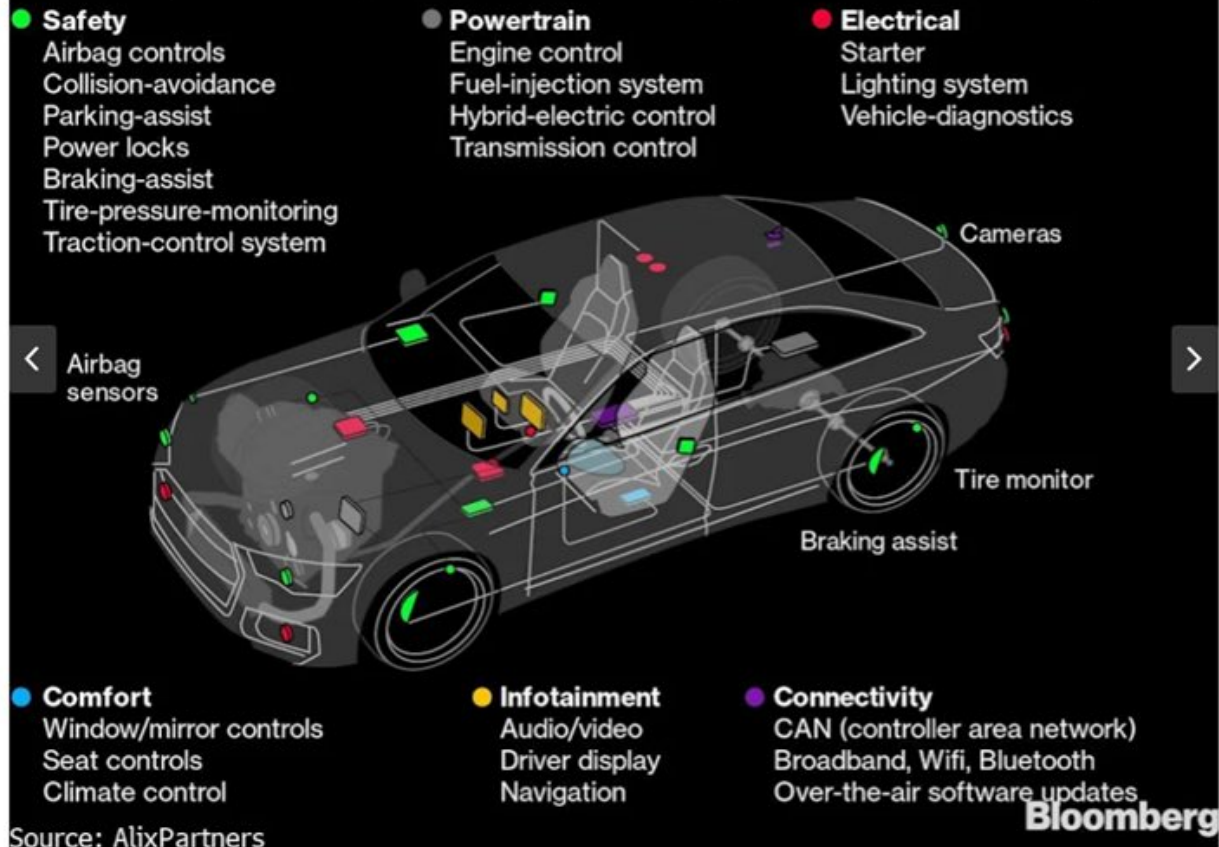
MANCHIN TOLD SCHUMER HE WANTED THE FED TO END QE AS A CONDITION FOR A BUDGET DEAL

Chip Shortage For Autos

Want to know why production at most major auto manufacturers is being sharply reduced? The Bloomberg illustration below shows the average car uses 1,400 chips. Some estimates claim the chip shortage may not be fully resolved until 2023.

A Computer on Wheels

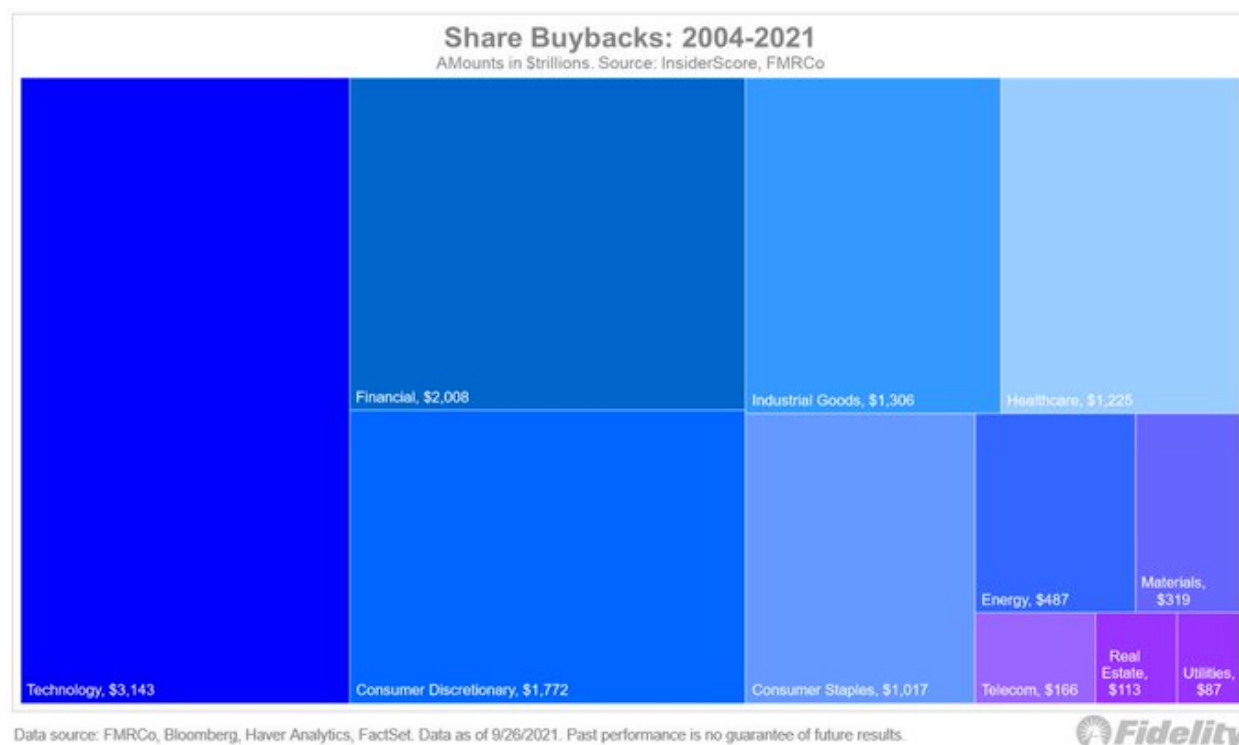
The average car is packed with 1,400 semiconductors that control everything from airbags to the engine. Modern cars simply cannot run without chips.



Lost Productivity

Yesterday we published [China Plays The Long Game While The U.S. Blows Bubbles](#). The article discusses recent actions China is taking to boost productivity. Also, in the article, we criticize the U.S. and other capitalistic countries for failing to prioritize productivity. For example: *"For the better part of the last five years, S&P 500 companies have given back to investors via dividends and buybacks about 100% of their earnings. Why not? Executives are paid handsomely to boost share prices today, not to be more productive and profitable in the future."*

To further emphasize the point we share the Fidelity graph below which breaks down buybacks by industry. Since 2004, U.S. companies have spent \$11 trillion to buy back their own shares. Instead, imagine if they invested \$11 trillion into productive ventures. Corporate earnings, economic growth, and wages would certainly be higher today and more sustainable.



Claims on the Rise

[Initial Jobless Claims](#) rose for a third week in a row to 362k. We are not overly concerned with the recent increase as there are seasonal aspects and hurricane Ida affecting hiring/firing patterns. However, we do not want to see the recovery in claims stop at this relatively high level. Prior to the pandemic, initial claims ran in the low 200k range.

Dollar Breakout?

The dollar was up over .60 cents yesterday and is now hitting formidable resistance as we show below. The dollar appears to be forming a head and shoulder bottom. Based on the pattern, a breakout above the red resistance line (neckline) might likely result in the dollar index moving up another \$5. Commodities and possibly equities are at risk if that occurs.



Stocks and Bonds Travelling Together

Bonds typically fall in yield during measurable declines in the stock market, making them a great diversifier. The graph below shows that on average, annual "sell-offs" over the last ten years saw bonds rise in price. That is not the case in 2021. It's early to claim bonds will not diversify equities if the current decline continues, but it bears watching.

