Yesterday, the *"Bulls"* gained control of the ball from the *"Bears"* as earnings season got underway. After a successful retest of the 100-dma, the bulls charged to the critical 50-dma resistance level. The S&P 500 remains stuck between the 50-dma and the 100-dma over the last month. However, with the *"seasonally strong"* period of the year underway, the bulls look like they will attempt a run to all-time highs.

There are quite a few headwinds that could still trip up the bulls, so it is worth keeping some risk controls in place. In addition, as we have noted previously, breath and participation remain weak, which historically tends to limit upside in the near term.

[dmc]

What To Watch Today

Economy

- 8:30 a.m. ET: **Empire Manufacturing,** October (25.0 expected, 34.3 during prior month)
- 8:30 a.m. ET: **Retail sales,** month-over-month, September (-0.2% expected, 0.7% during prior month)
- 8:30 a.m. ET: **Retail sales excluding autos and gas,** month-over-month, September (0.4% expected, 1.8% during prior month)
- 8:30 a.m. ET: **Import price index,** month-over-month, September (0.6% expected, -0.3% during prior month)
- 10:00 a.m. ET: **University of Michigan sentiment,** October preliminary (73.5 expected, 72.8 during prior month)

Earnings

Pre-market

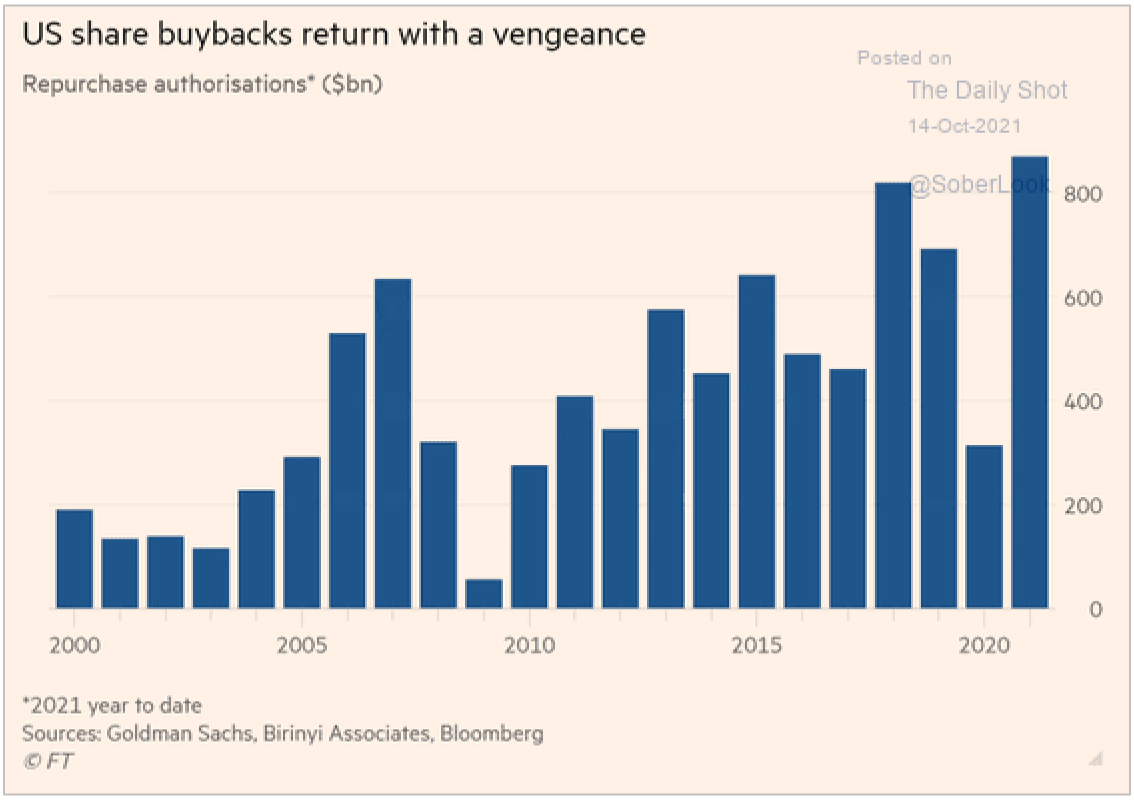
- 5:45 a.m. ET: **Truist Financial Corp. (TFC)** is expected to report adjusted earnings of $1.18 per share on revenue of $5.52 billion
- 6:45 a.m. ET: **PNC Financial Services (PNC)** is expected to report adjusted earnings of $3.59 per share on revenue of $5.03 billion
- 8:30 a.m. ET: **Goldman Sachs (GS)** is expected to report adjusted earnings of $9.92 per share on revenue of $11.60 billion
- 8:45 a.m. ET: **The Charles Schwab Corp. (SCHW)** is expected to report adjusted earnings of 81 cents per share on revenue of $4.52 billion

Courtesy Of Yahoo

Markets Sustain Key Support, as Banks Soldier On

A Major Support Of Asset Prices Remains

With companies struggling with slower economic growth, higher input costs, and weaker consumption, the need to manufacture earnings to beat estimates remains a high priority. Therefore, it is not surprising to continue seeing companies utilize their cash hoards to buy back stock at a record pace.

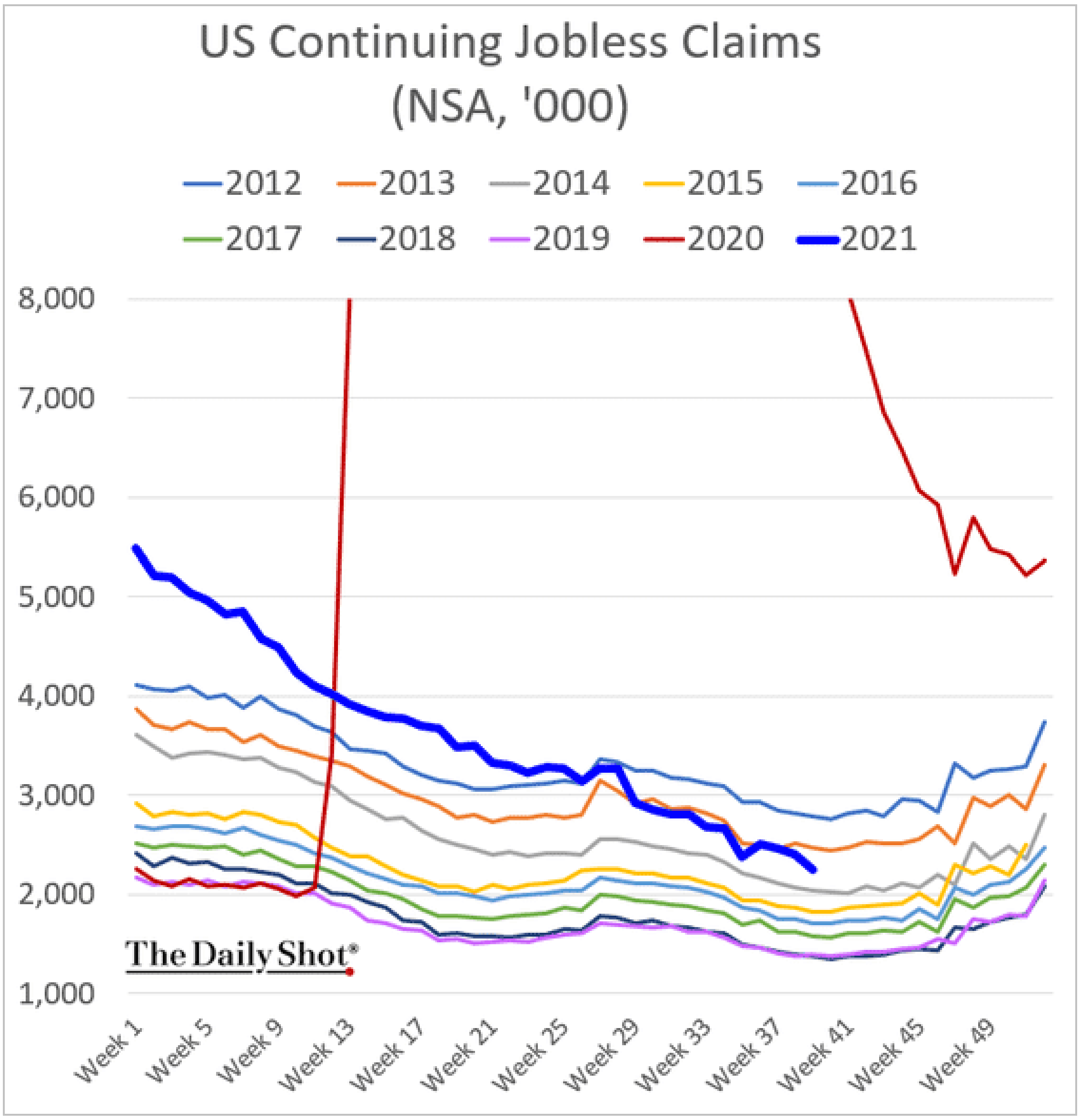


As note previously, it is the corporate insiders who benefit from these activities.

> *"**It?s the insiders, of course,** as changes in compensation structures since the turn of the century became heavily dependent on stock-based compensation. Insiders regularly **liquidate shares that were ?given? to them as part of their overall compensation structure to convert them into actual wealth.** As the Financial Times recently penned:*
>
> *'Corporate executives give several reasons for stock buybacks but none of them has close to the explanatory power of this simple truth: **Stock-based instruments make up the majority of their pay and in the short-term buybacks drive up stock prices.**'*
>
> *A recent report on a study by the Securities & Exchange Commission found the same:*
>
> *'SEC research found that **many corporate executives sell significant amounts of their own shares after their companies announce stock buybacks,** Yahoo Finance reports.'*
>
> *What is clear, is that **the misuse and abuse of share buybacks to manipulate earnings and reward insiders has become problematic**."*

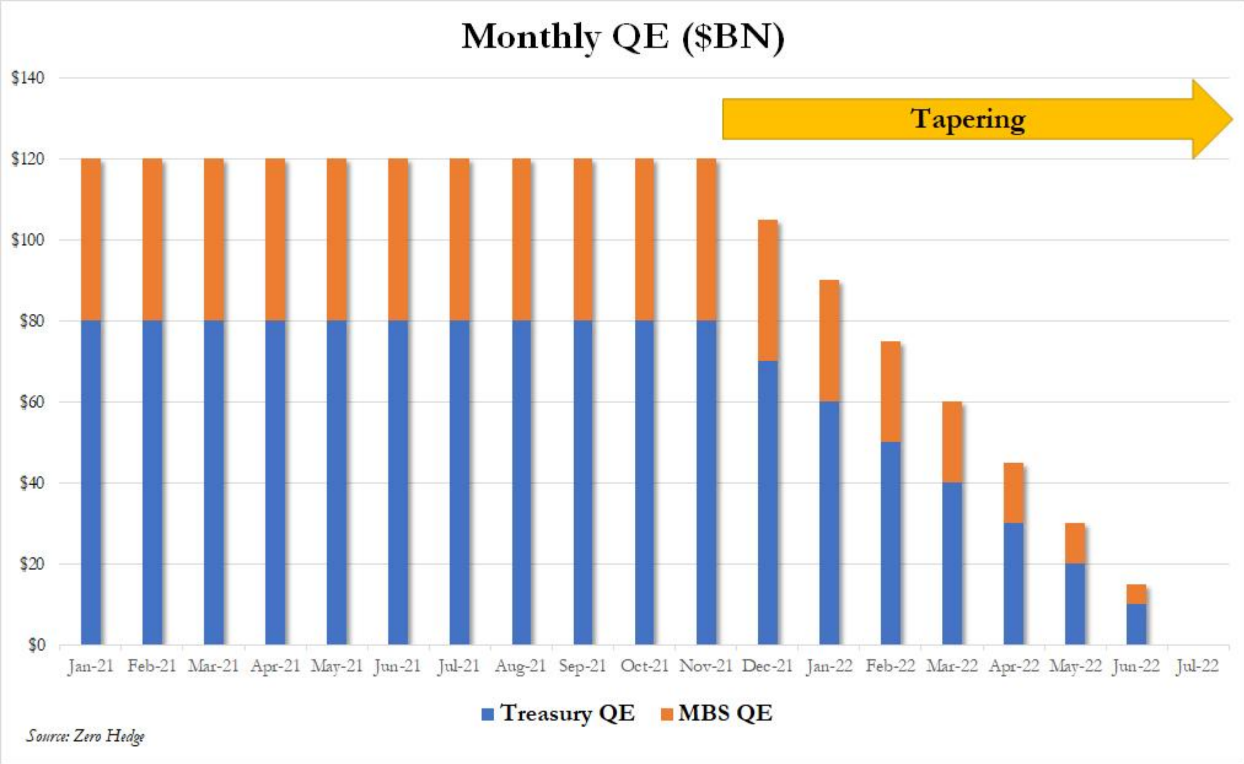
Jobless Claims and PPI

Initial Jobless Claims had another nice decline and now sits at +293k, the lowest level since the pandemic. The last two weekly claims reports bode well for the upcoming unemployment report. Unlike CPI, PPI was generally weaker than expectations. The headline number rose 0.5% versus +.07% last month. However, the year-over-year number was +8.6%, lower than expectations for +8.7% but above last month's +8.3%. Core PPI, excluding food and energy, rose 6.8% on an annual basis.



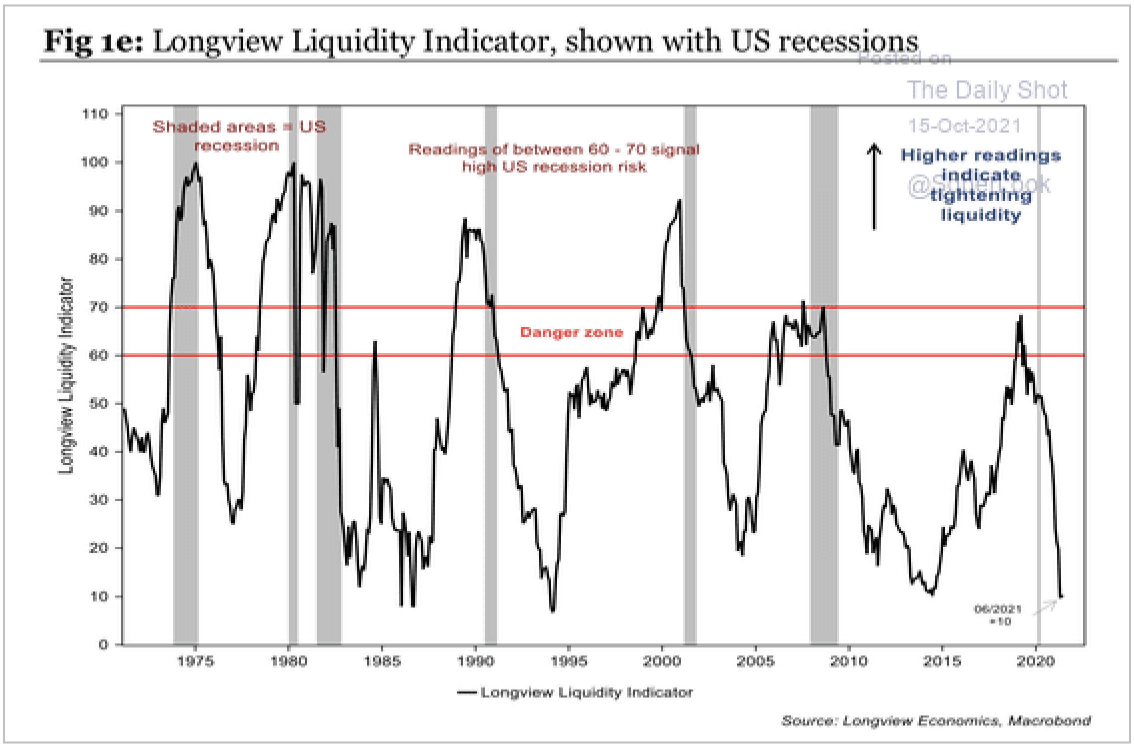
$15 Billion Is The Benchmark

The latest Fed minutes show that tapering of QE purchases is likely to begin in November. It appears they will reduce purchases by $15 billion a month, which should eliminate this round of QE by July 2022. $15 billion now serves as a benchmark. Any changes to that amount will help us gauge if they are becoming more aggressive or conservative. Some members prefer a faster pace. Per the minutes- *"Several participants indicated that they preferred to proceed with a more rapid moderation of purchases than described in the illustrative examples."*



Liquidity Remains Very Accommodative

Despite the Fed beginning to *"taper"* their balance sheet purchases, monetary accommodation remains extremely *"accommodative"* currently. As discussed previously in ***"3-Triggers Of The Next Recession,"*** monetary accommodation is the key to determining the start of the next recession and bear market. As shown, such is not the case currently but will become a more significant concern when the Fed begins to hike rates.



#FedGrammarMatters

We often note how the Fed uses language at times to complicate matters. Their word choice often puts their policies and forecasts beyond the grasp of many non-economics or finance professionals. Fed members use vague terminology, allowing them to be technically correct through a wide range of outcomes.

In our latest article, ***What Causes "Transitory" Inflation to Become "Persistent,"*** we write:

> *"Transitory is a vague term. It can mean minutes or hours. Or, it can infer years or decades. Over 400 economics Ph. D.s can not be dumb. They likely chose the word because it has no clear-cut definition.*"

The Fed itself supports our notion of the high-level language they use. For example, in a recent article, the Fed states:

> "*Hern•ndez-Murillo and Shell (2014) showed that the complexity of the language used in the FOMC statement increased towards the end of Bernanke's tenure to a reading grade level of 20 to 21, equivalent to a least a doctoral degree level of education.* ***The circles in Figure 2 illustrate that since then the Flesch-Kincaid grade level for the FOMC statement language gradually declined under Yellen and has averaged between grades 16-17 thus far under Chair Powell, equivalent to a bachelor's or master's degree level of education.***"

The following graph accompanies the article. In short, Fed communications remain technical. In normal times, such may not matter. However, with inflation running hot and the word stagflation used regularly, the Fed may want to simplify their language. Otherwise, they risk creating even more confusion, fear, and behaviors that foster even more inflation.