

Despite China's economic growth coming to a standstill, with only 0.2% growth in Q3, the S&P 500 was in rally mode. While stocks grind higher, bond traders are warning of slowing growth in the U.S. ahead. Treasury yields curves are flattening as the probability for the Fed to increase interest rates rises. Based on the market-implied expectations, traders now think the Fed will raise rates by 25 basis points **twice** next year.

U.S. stock futures ticked up as a slew of companies released earnings, which investors parsed for insight into how corporates are faring with inflation and supply-chain disruptions. Via the WSJ:

"Futures for the S&P 500 rose 0.4% Tuesday, indicating that the broad market index will rise after the New York opening bell. Contracts for the tech-focused Nasdaq-100 gained 0.4% and futures for the Dow Jones Industrial Average also rose 0.4%.

Shares of Johnson & Johnson rose 1.6% premarket after it logged a larger profit in its third quarter from a year earlier, lifted by higher sales in its pharmaceutical, medical-device and consumer-health divisions. Travelers shares rose 3.4% after the insurance company beat estimates for revenue and core income per share.

Procter & Gamble's shares fell 1.1% premarket after the consumer-product giant said it was raising prices on a host of household staples, as costs for freight and raw materials rose faster than anticipated. Netflix will report earnings after the closing bell.

Investors are using earnings and companies' guidance for the future to assess how corporations are faring with a number of issues. Inflation is expected to be stickier than originally anticipated by central-bank officials, exacerbated by continued supply-chain disruptions, higher energy costs and labor shortages."

[dmc]

What To Watch Today

Economy

- 8:30 a.m. ET: **Building permits**, month-over-month, September (-2.4% expected, 5.6% in August)
- 8:30 a.m. ET: **Housing starts**, month-over-month, September (-0.2% expected, 3.9% in August)

Earnings

Pre-market

- 6:00 a.m. ET: **Synchrony Financial** ([SYF](#)) to report adjusted earnings of \$1.49 per share on revenue of \$2.5 billion
- 6:30 a.m. ET: **Bank of New York Mellon** ([BK](#)) to report adjusted earnings of \$1.00 per share on revenue of \$3.96 billion

- 6:30 a.m. ET: **Fifth Third Bancorp (FITB)** to report adjusted earnings of 90 cents per share on revenue of \$1.99 billion
- 6:45 a.m. ET: **Johnson & Johnson (JNJ)** to report adjusted earnings of \$2.37 per share on revenue of \$27.74 billion
- 6:45 a.m. ET: **Halliburton (HAL)** to report adjusted earnings of 28 cents per share on revenue of \$3.90 billion
- 6:55 a.m. ET: **Procter & Gamble (PG)** to report adjusted earnings of \$1.59 per share on revenue of \$19.89 billion
- 6:55 a.m. ET: **The Travelers Cos. (TRV)** to report adjusted earnings of \$1.94 per share on revenue of \$8.61 billion
- 7:00 a.m. ET: **Phillip Morris International (PM)** to report adjusted earnings of \$1.56 per share on revenue of \$7.99 billion
- 8:00 a.m. ET: **Kansas City Southern (KSU)** to report adjusted earnings of \$2.07 per share on revenue of \$730.91 million

Post-market

- 4:00 p.m. ET: **Netflix (NFLX)** to report adjusted earnings of \$2.63 per share on revenue of \$7.48 billion
- 4:30 p.m. ET: **United Airlines (UAL)** to report adjusted losses of \$1.61 per share on revenue of \$7.64 billion

S&P 500 In Rally Mode

The S&P 500 started off weakly yesterday morning but rallied all day after briefly reaching the 50-dma moving average for support. We have now completed a bulk of the retracement from the recent lows, and markets are now moving back into the overbought and extended territory.

While we are not ready to start taking profits just yet, it is likely a good bit of the rally has occurred which makes chasing stocks here a bit riskier. We like our positioning currently, and our increased bond exposure provides us with some hedging capabilities if markets do reverse suddenly. Upside remains limited to recent highs where fairly heavy resistance will get encountered.

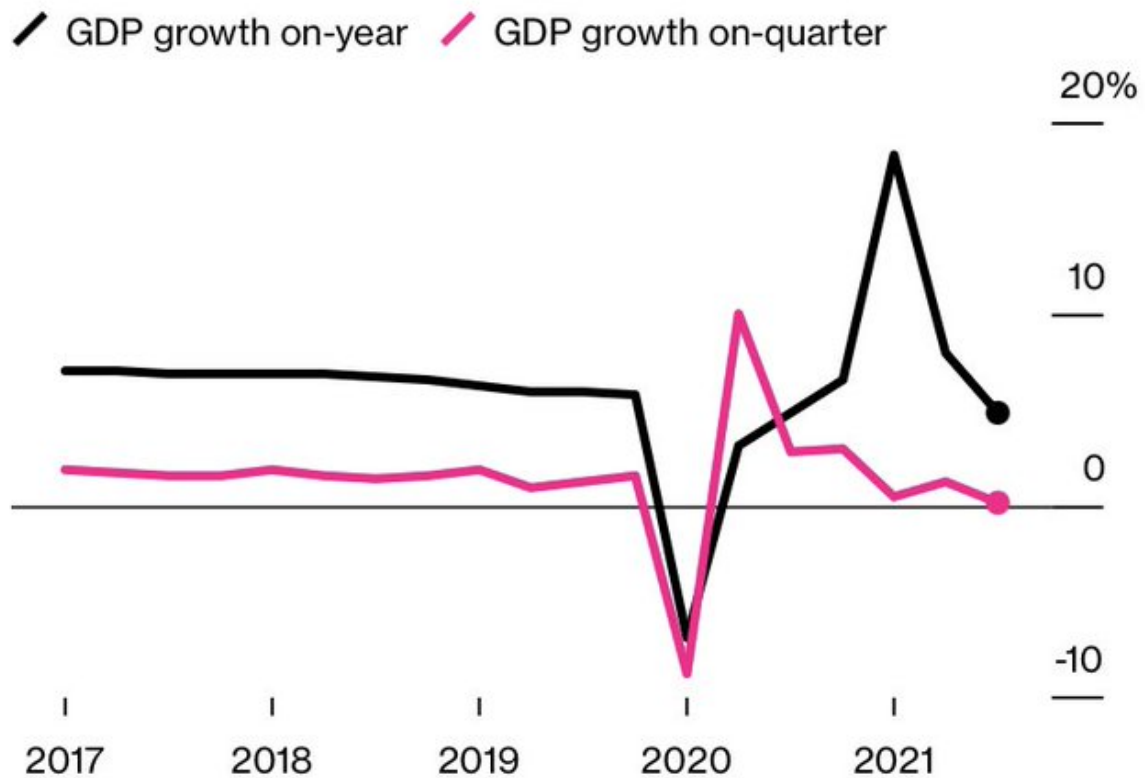


China's Economic Growth is Slowing Rapidly

As shown below, China's economic growth rate for the third quarter was negligible at +0.2%, bringing the annual growth rate to just 4.9%. While still high, the annual rate is down from 7.9% last quarter. China's economic slowdown bears watching as they are the marginal driver of global economic growth.

Recovery Slows

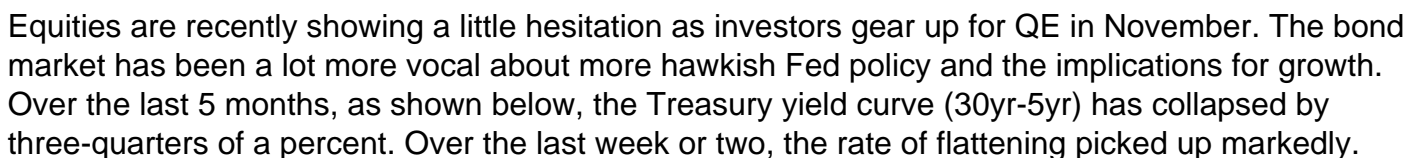
China's on-quarter growth momentum weakens to 0.2%

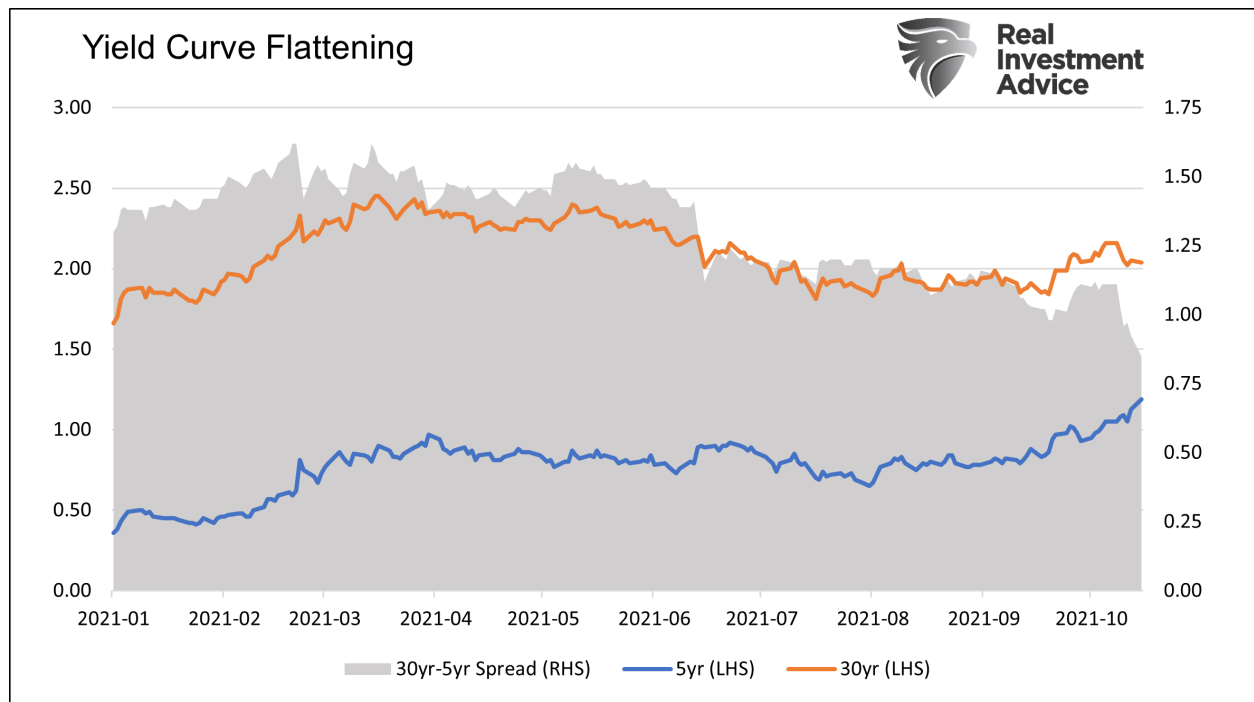


Source: National Bureau of Statistics

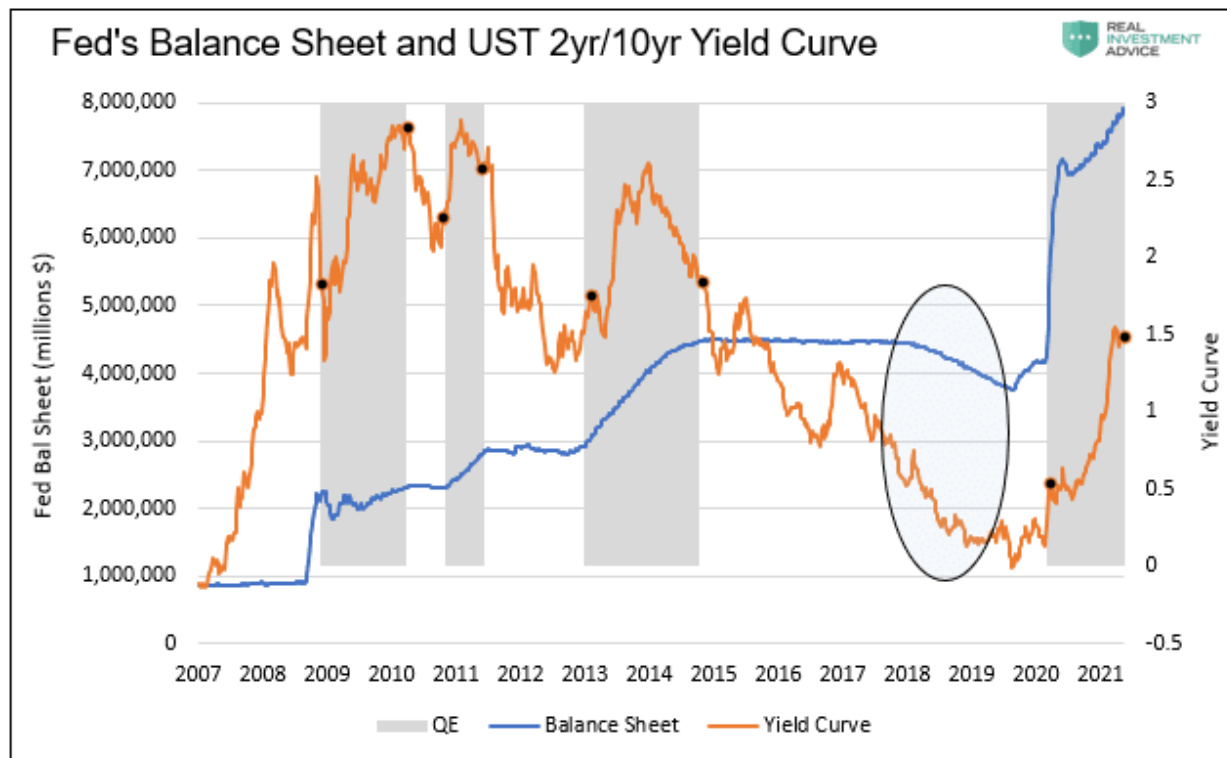
Will You Trade The First Bitcoin ETF?

As noted in our 3-minutes video below, the SEC has approved the first Bitcoin Futures ETF which will open cryptocurrency to a much wider investor base. On the news, bitcoin moved above \$60,000.





A yield curve flattening trade should not be surprising. In [Taper is Coming, Got Bonds?](#) we wrote: "The yield curve and yield graphs look similar. Short-term yields were relatively constant during QE while long-term yields rose. **In all three QE examples, the yield curve quickly flattened after QE ended.**" The graph below, from the article, shows how the 10yr-2yr yield curve fell rapidly after the three prior episodes of QE ended.



The Earnings Week Ahead

We take a bit of a break this week after last week's full calendar of important economic data. On the docket is Industrial Production on Monday, Housing and Building Permits on Tuesday, and Jobless Claims on Thursday.

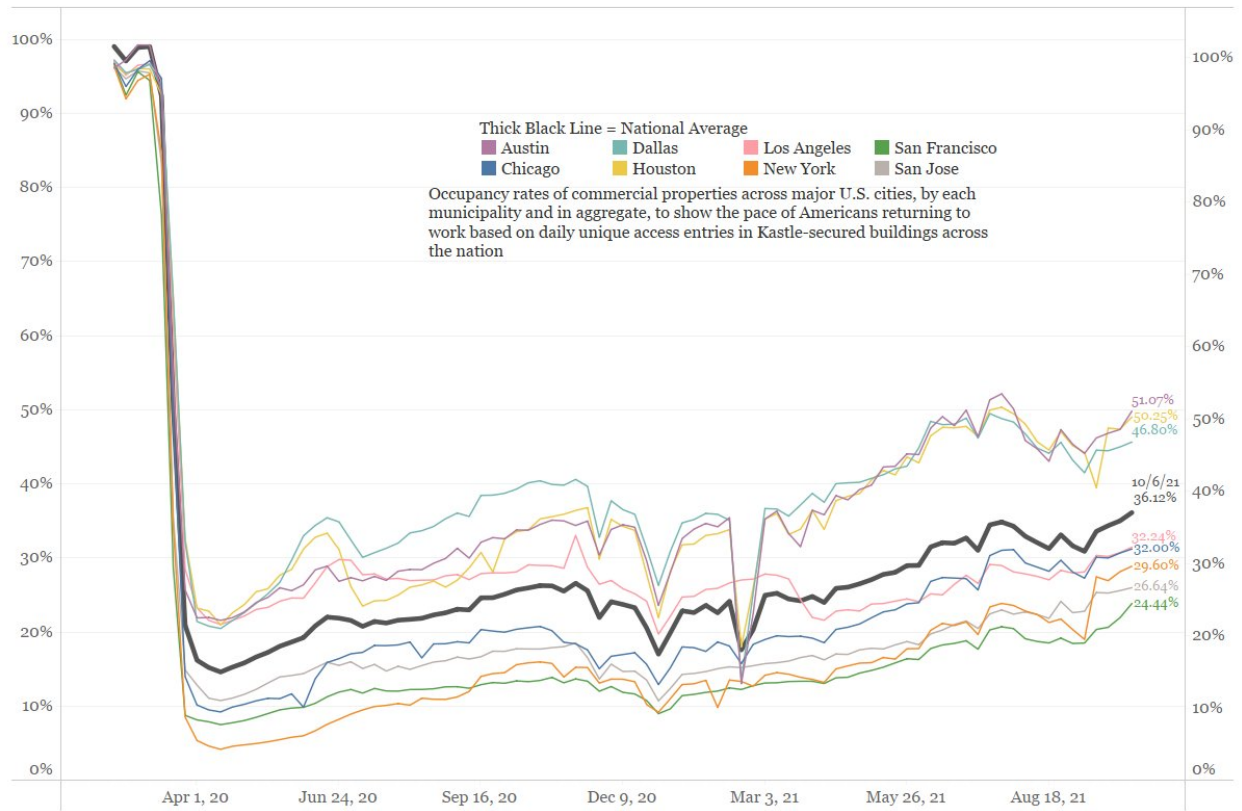
This is will be the first of a few important weeks for corporate earnings as shown below.



The graph below, courtesy of Jim Bianco, shows that a majority of employees in eight major cities are still not going back to their offices. While the number of employees going back to their offices will rise we think it's likely the number falls well short of pre-pandemic levels. Per Jim Bianco "*What a year at home did was open our eyes to what we are were capable of outside the office and what it was really like in the office. Few were ready to do this pre-pandemic.*"

Kastle Back to Work Indices

Percentage of City Office Space Currently in Use



Source: Kastle
<https://www.kastle.com/getting-america-back-to-work/>

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