After six exciting green days, stocks hit all-time highs on Thursday as the rally continues. This morning, futures are softer following weak earnings reports from Snapchat (SNAP) and Intel (INTC).

Earnings continue to dominate the news feeds and push individual stocks and markets around. Expect those stocks with earnings announcements to have larger than normal moves. Jerome Powell speaks this morning at 11 am ET. Pay attention to whether or not he sticks with the plans for QE as the recent Fed minutes discuss.

We suspect he will.

[dmc]

What To Watch Today

Economy

At 9:45 ET this morning we will see:

- **Markit U.S. Manufacturing PMI**, October preliminary (60.5 expected, 60.7 in September)
- **Markit U.S. Services PMI**, October preliminary (55.2 expected, 54.9 in September)
- **Markit U.S. Composite PMI,** October preliminary (55.0 in September)

Earnings

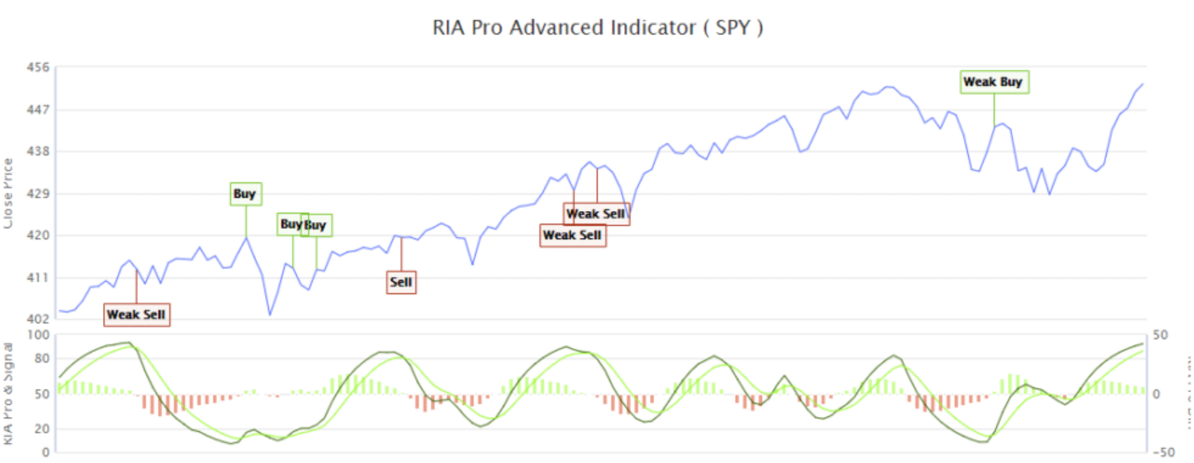
Pre-market

- 6:30 a.m. ET: **Honeywell International (HON)** to report adjusted earnings of $2.00 per share on revenue of $8.64 billion
- 6:55 a.m. ET: **VF Corp (VFC)** to report adjusted earnings of $1.15 per share on revenue of $3.50 billion
- 7:00 a.m. ET: **American Express (AXP)** to report adjusted earnings of $1.77 per share on revenue of $10.54 billion
- 7:00 a.m. ET: **Schlumberger (SLB)** to report adjusted earnings of 36 cents per share on revenue. of $5.94 billion

Courtesy Of Yahoo

Market Getting Very Overbought Near Term

Very shortly, we will be releasing our Money Flow Indicator for all RIAPRO users. However, for now, I wanted to show you the current setup which is suggesting the current market rally may be approaching a short-term peak, and consolidation, following the recent run.



While the index has not turned negative yet, it is currently at a very high level. Normally, such positioning suggests more limited upside to markets near term. As you will notice, not all signals immediately result in a rally or correction, however, more often than not, the signals are worth paying attention to.

Federal Reserve Trading Policy

With the cat out of the bag, and many high-ranking Fed officials caught actively trading the markets with inside knowledge of what the Fed would say and/or do, the Fed is finally taking action. Per the press release below, Fed members are now subject to a number of strict rules that will greatly limit their ability to trade markets. For what it's worth, the banks they regulate have had trading rules in place, like the ones below for decades.

Press Release

October 21, 2021

Federal Reserve Board announces a broad set of new rules that will prohibit the purchase of individual securities, restrict active trading, and increase the timeliness of reporting and public disclosure by Federal Reserve policymakers and senior staff

For release at 2:00 p.m. EDT

Share

Following a comprehensive review, the Federal Reserve Board on Thursday announced a broad set of new rules that will prohibit the purchase of individual securities, restrict active trading, and increase the timeliness of reporting and public disclosure by Federal Reserve policymakers and senior staff. As a result of the new policies, senior Federal Reserve officials will be limited to purchasing diversified investment vehicles, like mutual funds.

The new restrictions will apply to both Reserve Bank and Board policymakers and senior staff and prohibit them from purchasing individual stocks, holding investments in individual bonds, holding investments in agency securities (directly or indirectly), or entering into derivatives. The new rules are expansive and are designed to place the Federal Reserve's investment and trading rules at the forefront among major federal agencies.

"These tough new rules raise the bar high in order to assure the public we serve that all of our senior officials maintain a single-minded focus on the public mission of the Federal Reserve," said Federal Reserve Board Chair Jerome H. Powell.

To help guard against even the appearance of any conflict of interest in the timing of investment decisions, policymakers and senior staff generally will be required to provide 45 days' advance notice for purchases and sales of securities, obtain prior approval for purchases and sales of securities, and hold investments for at least one year. Further, no purchases or sales will be allowed during periods of heightened financial market stress.

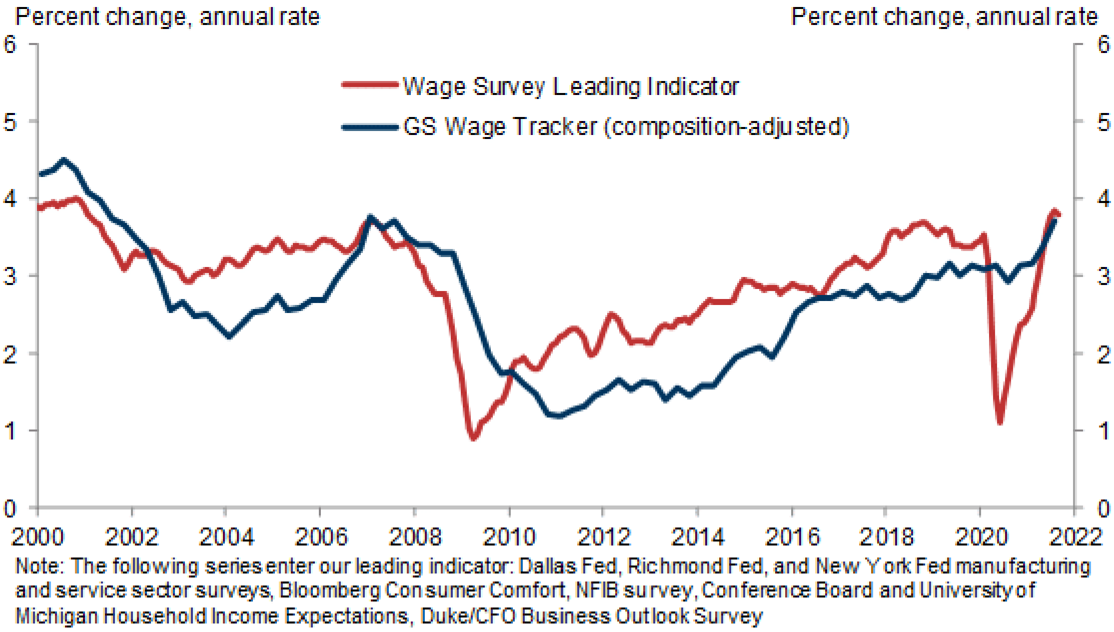
Reserve Bank presidents now will be required to publicly disclose financial transactions within 30 days, as Board Members and senior staff currently do.

The Board and the Reserve Banks will incorporate these new restrictions into the appropriate Federal Reserve rules and policies over the coming months.

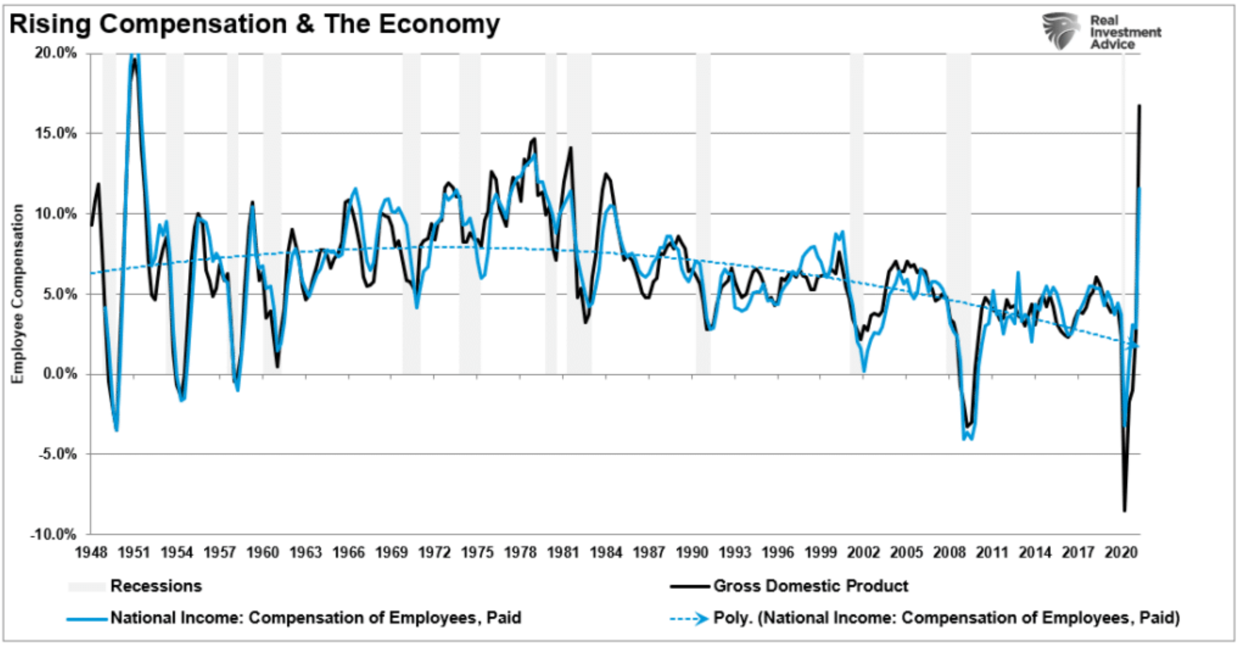
Tight Labor Market Leading To Higher Wages - More Inflation

"People are quitting low-paying jobs for higher-paying jobs. They are quitting great jobs for even better jobs. People are quitting to become their own boss. People are quitting because they don?t actually need the income.

To summarize, workers are not only quitting at historically high rates, but they?re also being increasingly choosy about picking their next jobs. The tight labor market is creating a self-reinforcing loop: Demand is strong, and prices are rising everywhere, but so are wages, as desperate employers trip over themselves to hike pay in a bid to retain and attract talent." - YahooFinance



It is worth noting there is an almost PERFECT correlation between incomes and economic growth. When wages rise, particularly when that increase is fast, it has preceded economic slowdowns.



With Q3 GDP dropping sharply, and Q4 unlikely to accelerate much, high wages will continue to pressure economic growth slower. As a consequence, employers will begin to reduce CapEx, employment, etc. in order to protect profitability. *(Also why stock buybacks are at a record.)*

Philly Fed

The Philadelphia Fed Manufacturing index came in below expectations at 23.8 down from 30.7 in October. However, the details were not as bad as the headline. Employment, new orders, and the 6-month outlook for capital spending all rose.

The index is composed of indicators that tend to lag economic activity and ones that lead economic activity. The graph below, courtesy of Nordea, shows how the difference between the leading and lagging indicators leads the broader index by about 10 months. As shown, the leading-lagging differential portends the index will fall back into economic contraction in the coming months. This chart affirms the sharp deceleration in growth currently being forecasted by the Atlanta Fed GDPNow.

[Third Quarter Earnings Pageant Continues]

$BITO is Not Perfect

Subscribers have asked our thoughts on the new Bitcoin ETF (BITO) as a substitute for Bitcoin. The biggest drawback appears to be the cost structure is not as friendly as owning Bitcoin. First, the ETF's management fee is 0.95%. Second, and this is a flaw with many commodity ETFs, holders pay to "roll" contracts. BITO is fully invested in the October Bitcoin futures contract. Accordingly, they will have to buy the November contract and sell October. Currently, the

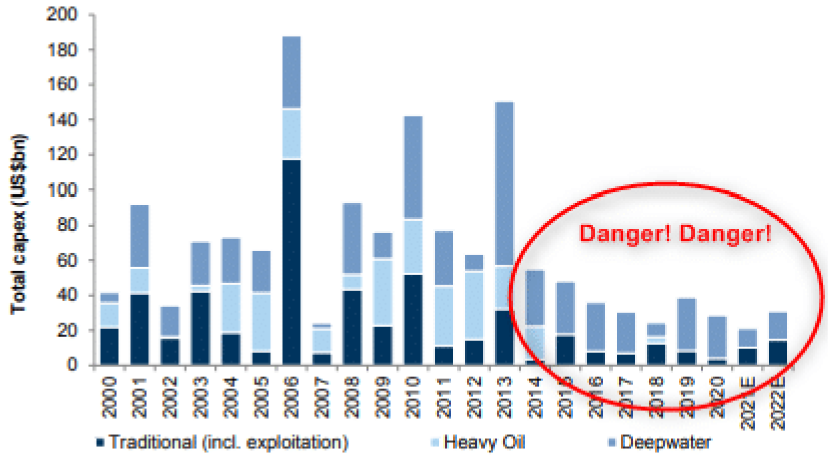
November contract is trading at a premium of 1.27% to the October price. If the futures curve remains steep, holders of BITO will pay 15% or more annualized to roll contracts. Including the management fee, BITO could underperform Bitcoin by nearly 20%. Obviously, that estimate will change based on the shape of the futures curve. Click HERE for Bitcoin futures prices for current and ou**t months**.

Oil CAPEX Declining

On Tuesday we shared a [WSJ article] that discusses the lack of investment in energy exploration (CAPEX). We just stumbled upon the graph below which shows the problem has been brewing for about five years. Political and economic incentives favor green energy, leading us to believe that unless oil prices stay at current levels or higher and can sustain such levels, there is little reason to expect investment to pick up.

Exhibit 8: Since 2014, energy capex has declined as ESG concerns rose

Oil capex by winzone, $ bn



Source: Goldman Sachs Global Investment Research