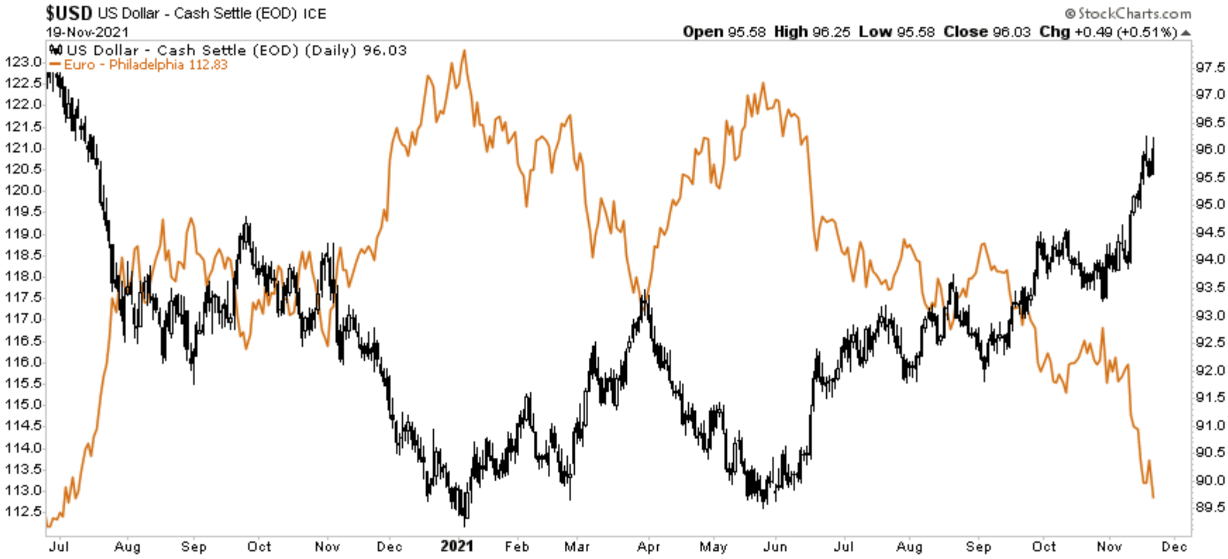
RIA Advice

The Euro continues to tumble versus the dollar as Covid cases in Europe are spiking. Austria declared they are going into lockdown and mandating vaccines. Other nations will likely follow. The euro was already struggling versus the dollar as their central bank seems much less willing than the Fed to reduce monetary stimulus. **The resulting stronger dollar will help temper inflation, especially on imported commodities. Crude oil is lower by another $2 while bond yields fall, partially as a result of the stronger dollar.**



Fed Vice Chair Richard Clarida echoed other Fed members calling for the Fed to discuss a *"faster taper"* at the December FOMC meeting. While he had a softer tone than some other Fed members, **Clarida is clear the economy is robust and the Fed should consider speeding up the removal of monetary stimulus.**

[dmc]

What To Watch Today

Economy

- 8:30 a.m. ET: **Chicago Federal Reserve National Activity Index,** October (-0.13 in September)
- 10:00 a.m. ET: **Existing home sales,** October (6.20 million expected, 6.29 million in September)

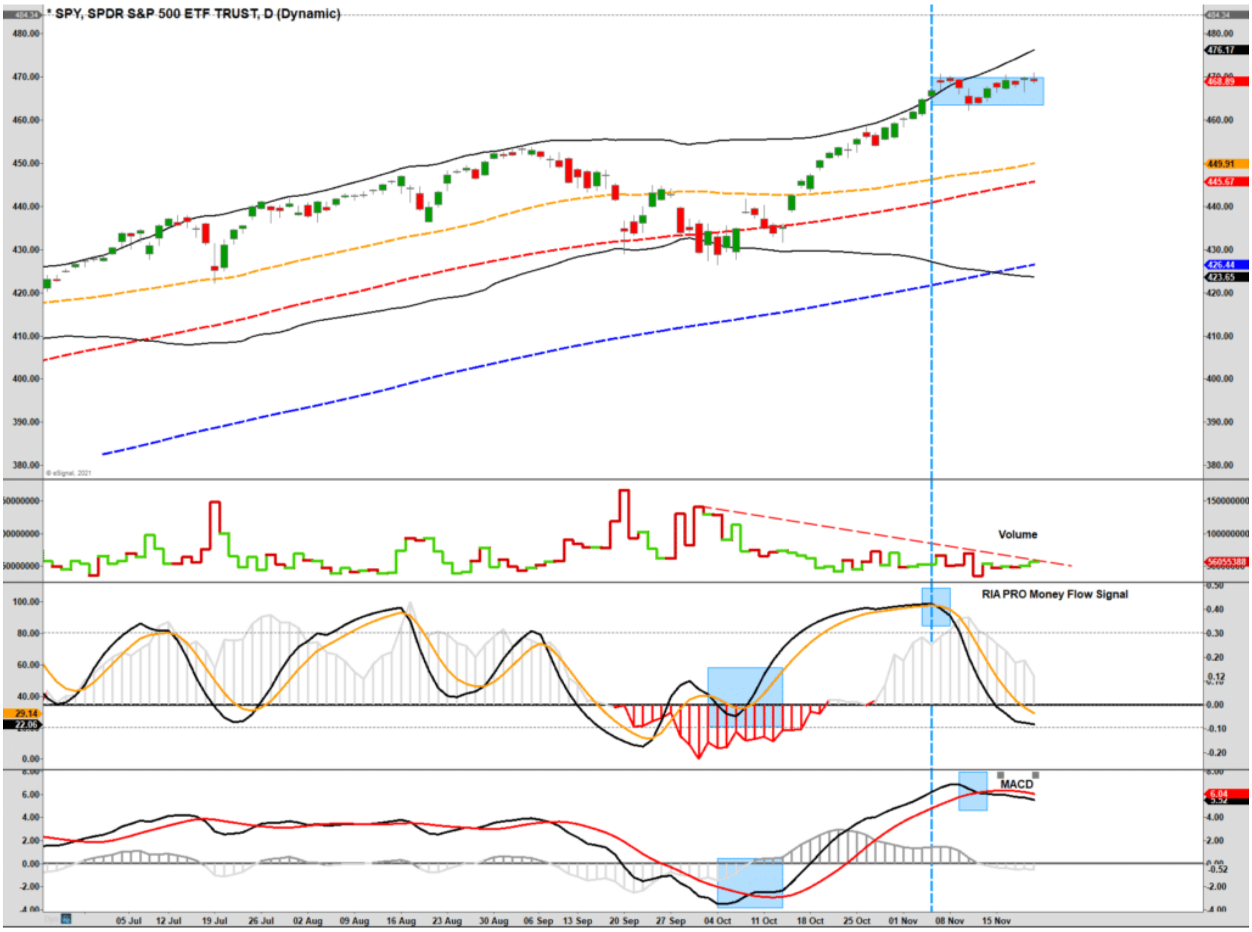
Earnings

- 4:05 p.m. ET: **Agilent Technologies (A)** to report adjusted earnings of $1.18 on revenue of $1.66 billion
- 4:05 p.m. ET: **Zoom Video Communications (ZM)** to report adjusted earnings of $1.10 on revenue of $1.02 billion

Market Consolidates Gains Near Highs

The FOMO is back. Previously, we discussed the speculative nature of the market, from record call option activity to historical highs in equity allocations. However, such occurs when the Fed is tapering bond purchases, futures are predicting three rate hikes, and inflation is surging.

There seems to be nothing that can derail this *?freight train.?* Consequently, such is usually about the time something happens. For now, we are maintaining our equity exposure as the consolidation of October?s advance continues. As shown, our biggest concern has been the absolute lack of volume during the recent advance.



The only concern we have is the lack of breadth as of late. As shown, the number of stocks above the 50-dma turned sharply lower this week. Furthermore, they are well below levels when markets typically make new highs. The same goes for the number of stocks trading above their 200-dma?s.

Notably, downturns in breadth were previously often aligned with market corrections. It is the flood of money into FAANG stocks keeping the markets elevated. So, while the lack of breadth in the short-term may not seem problematic, in the longer term, it likely will be.

As Bob Farrell quipped:

> *?Investors tend to buy the most at the top, and the least at the bottom.?*

More Bad Breadth

The graph below shows that despite the NASDAQ hitting new highs, the number of new lows is now the highest since March of 2020.

Faster Taper

The more hawkish Fed members are finally expressing their views and it seems they want to speed up tapering. For instance, Fed President Chris Waller said:

> *"The rapid improvement in the labor market and the deteriorating inflation data have pushed me towards favoring a faster pace of tapering and a* ***more rapid removal of accommodation in 2022****."*

A "more rapid removal of accommodation" implies raising interest rates. He also mentions the Fed should consider "*contracting its balance sheet*", aka selling bonds. As noted in this ***past weekend's newsletter:***

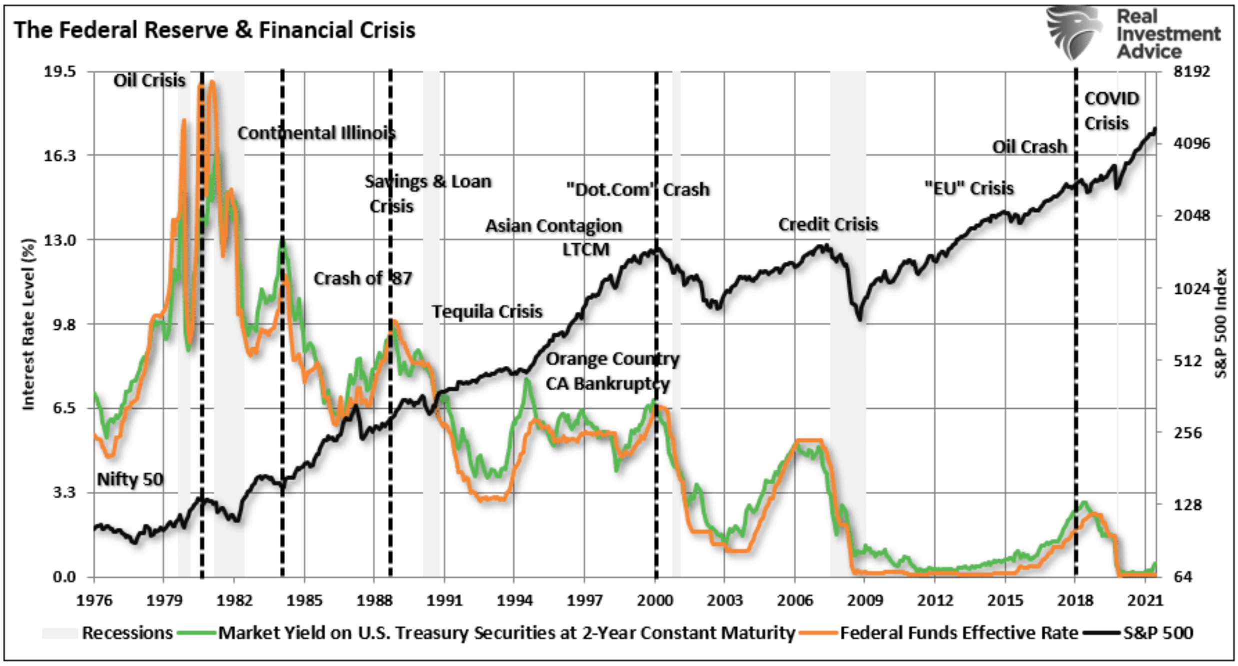
*"The **?stability/instability paradox?** assumes all players are rational and implies avoidance of destruction. **In other words, all players will act rationally, and no one will push ?the big red button.?***

The Fed is highly dependent on this assumption. After more than 12-years of the most unprecedented monetary policy program in U.S. history, they are attempting to navigate

[the](#) [risks built up in the system.](#)

Simply, the Fed is dependent on ?everyone acting rationally.?

Unfortunately, such has never been the case.

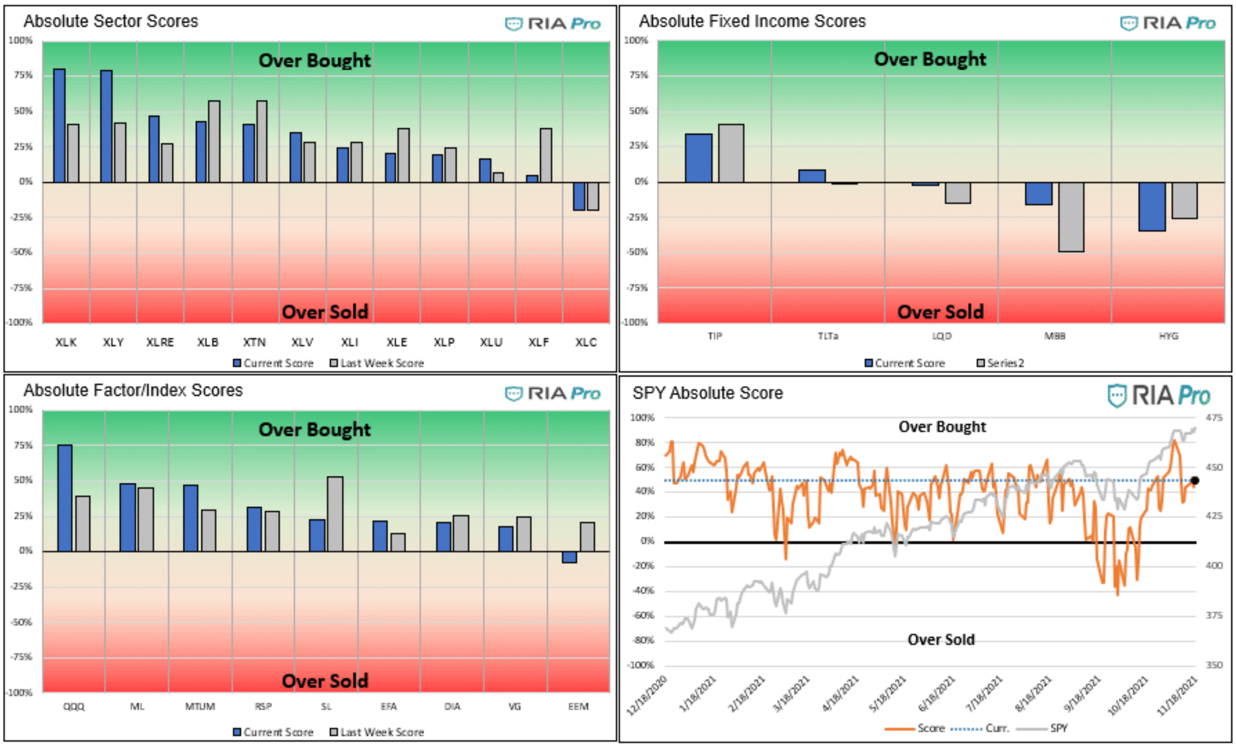


What's Ailing Europe?

Covid infections are on the rise in Europe and we are now learning Austria is going on a full lockdown. We suspect other European nations may follow their lead. The Euro has traded poorly over the last week, in part due to the rising number of infections and their economic implications. As we show below, the Euro/USD is down about 4% since the start of the month. More importantly, it has fallen about 10% versus the dollar since early June. Europe's economy is not rebounding as strongly as the U.S. which helps explain part of the underperformance. As a result, the ECB has been more dovish (if that's possible) than the Fed.

This morning ECB President Christine Lagarde essentially ruled out rate hikes in 2022. Per her speech- "*conditions to raise rates are very unlikely to be satisfied next year."* Currently, the Fed's "dot plots" call for one rate hike next year. The markets see as many as three hikes.

[Technical Value Scorecard]



Buybacks > Investments

The Bloomberg graph below shows that the stocks spending the most on buybacks (orange) are outperforming the S&P 500 (white). The chart also shows that companies investing the most in R&D and Capex are considerably lagging the market. Investors should be concerned that the companies investing the most into their future are essentially being punished. Slowing productivity growth is a big factor limiting future economic growth. This chart highlights the personal incentive for most executives with equity-based salaries to buy back stock instead of engaging in productive investments.

Covid Infections are Spiking Again in Europe

The graph below from Longview Economics shows that Covid infections in many European countries are rising rapidly and in some cases at the highest levels since the pandemic began. The sharply increasing number of cases will likely result in lockdowns in Europe, which will stunt economic activity in Europe and to a much lesser degree worldwide. The big question for U.S. investors is will the high rate of infections spread across the Atlantic? Further, the euro versus the dollar has been declining rapidly. If the high rate of infections continues and European economic growth suffers, will the dollar continue to appreciate versus the euro?

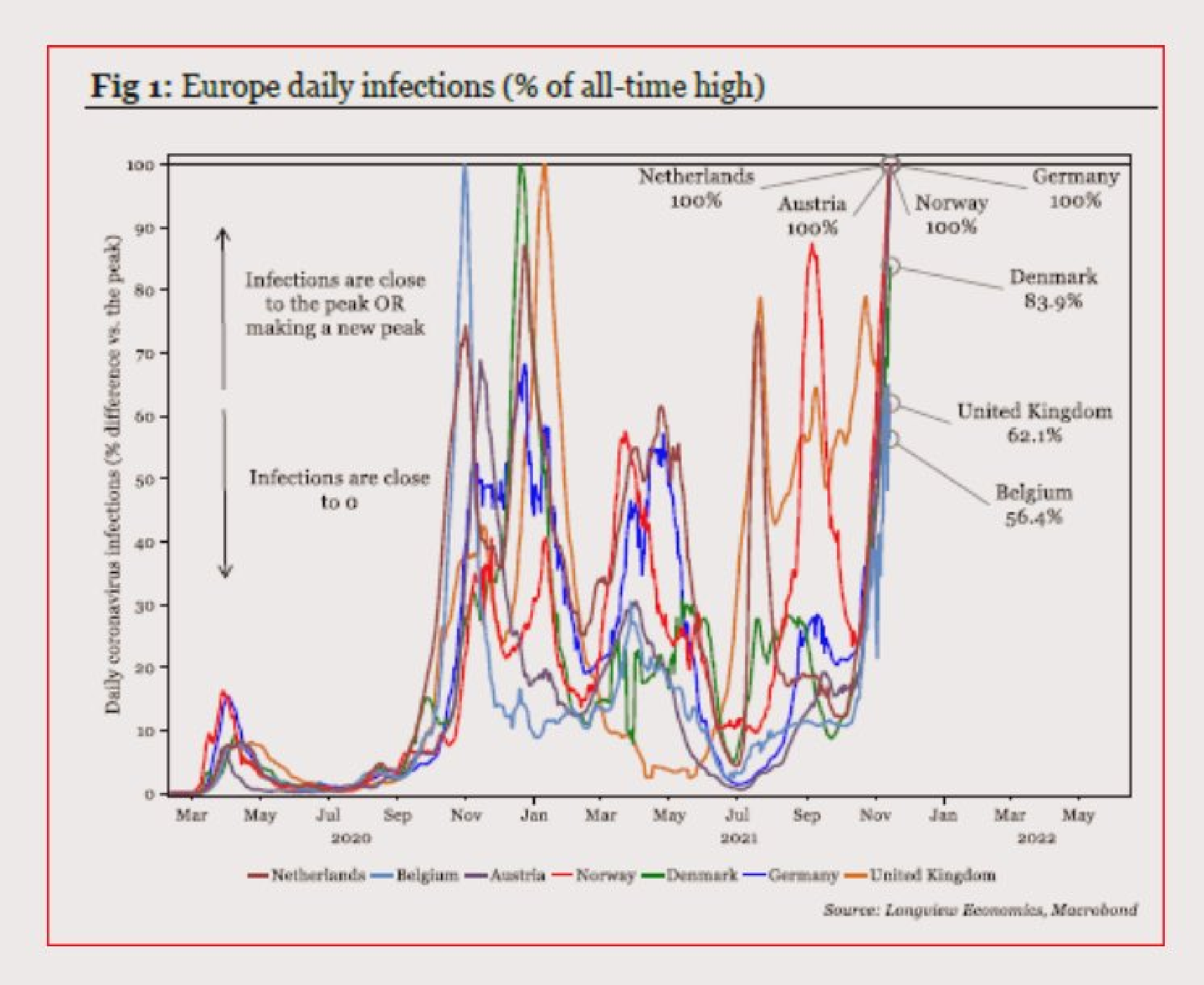


Fig 1: Europe daily infections (% of all-time high)

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