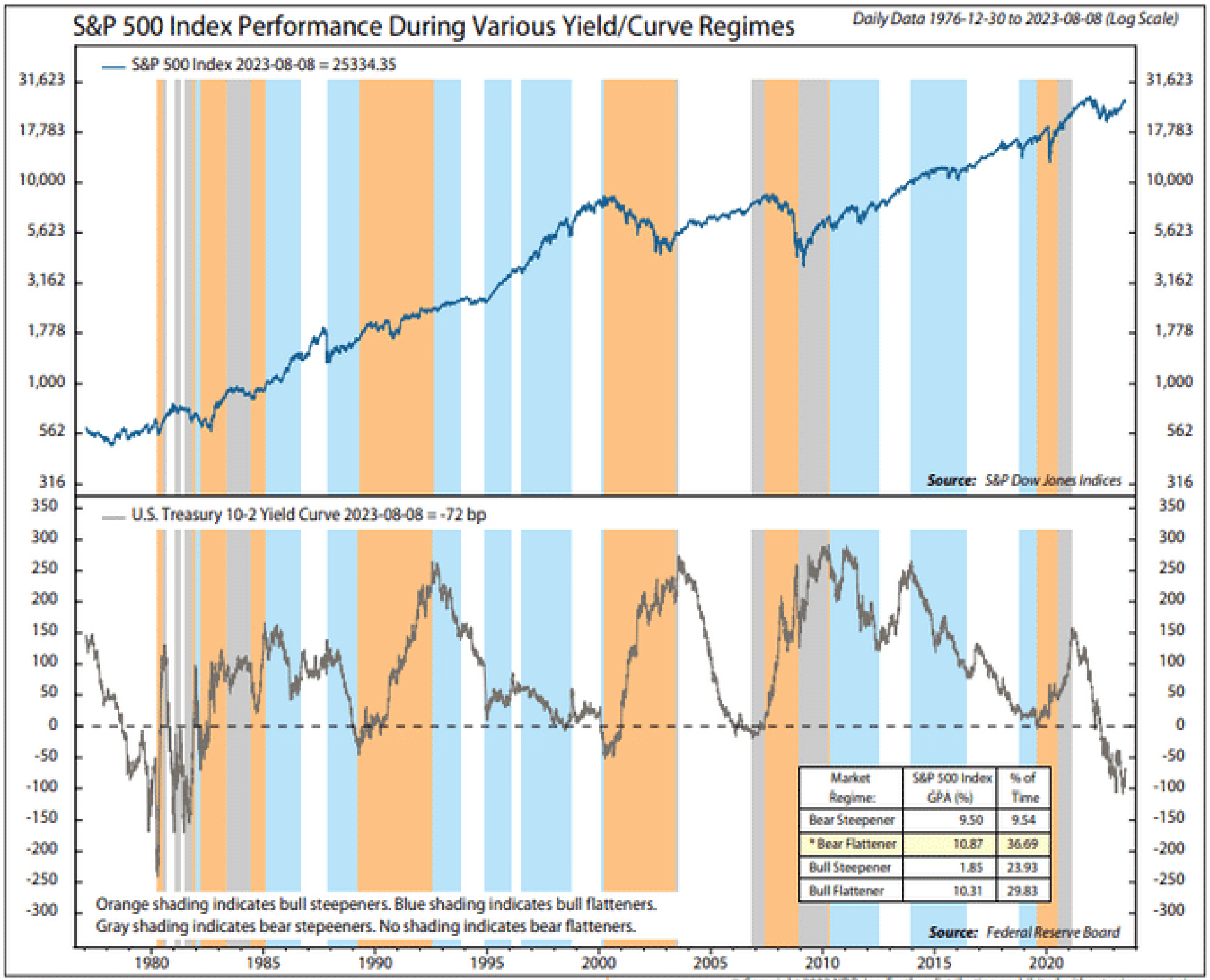
A Bull Steepener Is An Omen For Stocks

The 3-month/10-year U.S. Treasury yield curve has been inverted for 216 consecutive trading days, the longest streak since at least 1960. In bond lingo, a yield curve inversion coupled with increasing bond yields is called a bear flattener. Bear, denoting the direction of bond prices, and flattener describing the shape of the yield curve. Yield curve inversions lead to recessions. However, they are poor timing signals. Further, as shown below, courtesy of NDR, the stock market tends to do well during bear flatteners despite a coming recession. A bull steepener (uninversion) is the more imminent recession signal and warning for stock investors. Monday?s Commentary cautions a steepener may be close (see Tweet of the Day below).

A bull steepener occurs when bond prices rise (yields decline) and short-term yields fall more than long-term yields. Bull steepeners usually result from the Fed lowering interest rates or the market anticipating such actions. As shown in orange below, the last three bull steepener trades coincided with significant stock market declines and recessions. Recently, the yield curve entered a bear-steepening trade- long-term yields are rising while short-term yields remain relatively stable. Until we see a bull steepener with yields falling across the bond maturity spectrum and the market anticipating Fed rate cuts, the stock market should be on safe ground.

SPX posted solid gains, except during bull steepeners



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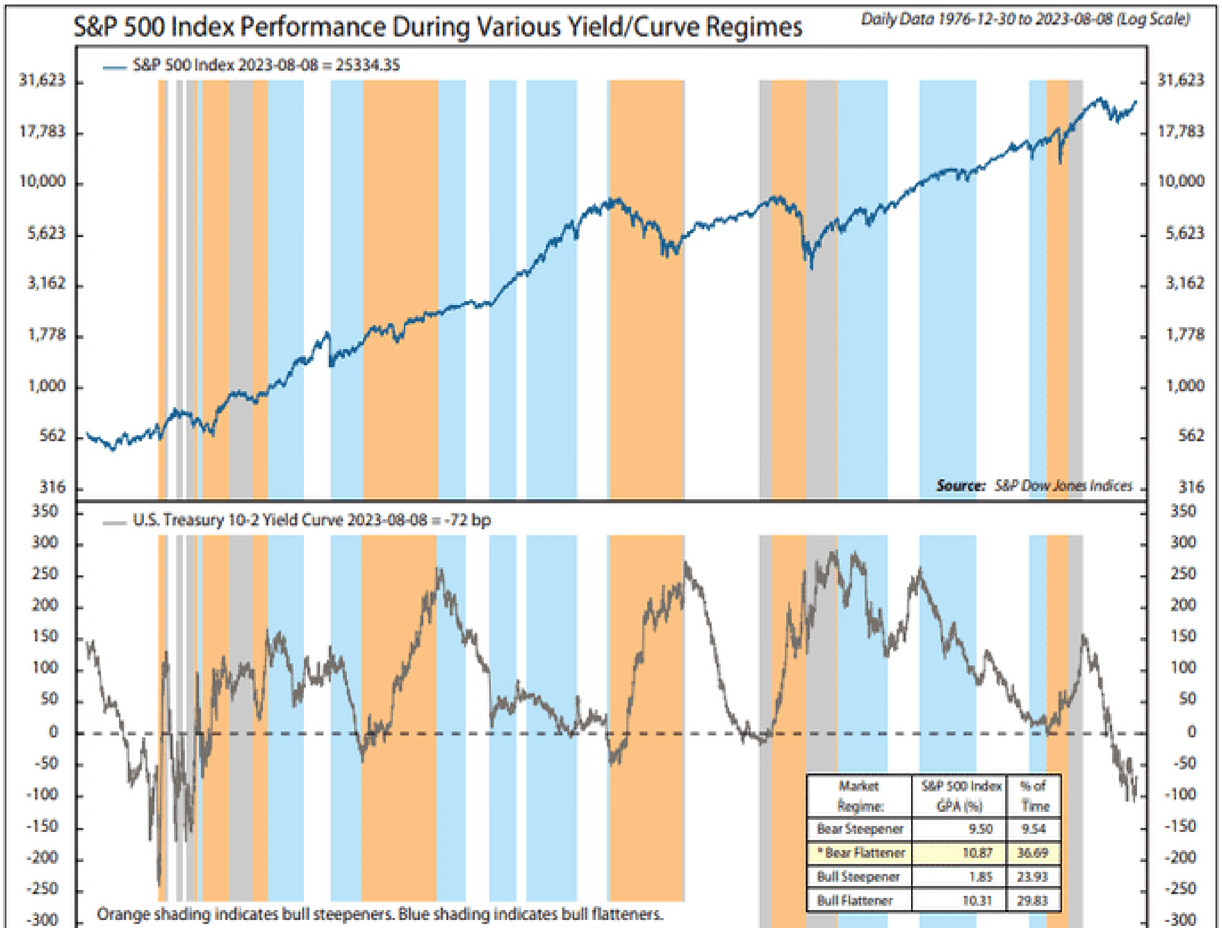

What To Watch Today

Earnings

Time	Symbol	Company Name	Market Cap▾	Fiscal Quarter Ending	Consensus EPS* Forecast	# Of Ests	Last Year's Report Date	Last Year's EPS*
	COST	Costco Wholesale Corporation	$245,982,858,833	Aug/2023	$4.72	14	9/22/2022	$4.20
	CTAS	Cintas Corporation	$51,321,497,128	Aug/2023	$3.65	9	9/28/2022	$3.39

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Economy

Time	Event	Impact	Actual	Dev	Consensus	Previous
	TUESDAY, SEPTEMBER 26					
12:55	**USD** Redbook Index (YoY)(Sep 22)		-	-	-	3.6%
13:00	**USD** Housing Price Index (MoM)(Jul)		-	-	0.1%	0.3%
13:00	**USD** S&P/Case-Shiller Home Price Indices (YoY)(Jul)		-	-	-0.5%	-1.2%
14:00	**USD** Consumer Confidence(Sep)		-	-	-	-
14:00	**USD** New Home Sales (MoM)(Aug)		-	-	0.7M	0.714M
14:00	**USD** New Home Sales Change (MoM)(Aug)		-	-	-	4.4%
14:00	**USD** Richmond Fed Manufacturing Index(Sep)		-	-	-6	-7
17:00	**USD** 2-Year Note Auction		-	-	-	5.02%
17:30	**USD** Fed's Bowman speech			SPEECH		
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Market Trading Update

As we enter the last week of the month and the quarter, we are starting to see a lot of positioning for quarter-end reporting. September also marks the fiscal year-end for many fund managers, adding to the sloppy trading in stocks and bonds. While bonds took a hit yesterday, stocks rallied at the close, which is a good sign for the bulls. I would discount most of the action over the course of this week and pay attention to how markets react in October once we start seeing earnings reports and we get the revisions to GDP, which will likely be negative. For now, the market held support at the June lows, which keeps markets on a bullish footing for now.

TradingView

More On The Labor Market

Yesterday?s Commentary shared data from the ECRI highlighting some leading labor market indicators pointing to weakness. In the Commentary, we asked if it was simply a normalization of labor conditions or the beginning of a more concerning trend. The following graph from Tavi Costa sheds more light on the question.

The rate of annual change of permanent job losses is positive for six months running. Further, it aligns with the early warnings from the last three recessions. Permanent job losses, as defined by the BLS, are shown below. While the recent increase in year-over-year terms is low, it is starting to become consistent. Other than two months in 2016, sustained positive readings in this indicator precede and accompany recessions.

We caution the pandemic-related volatility in economic activity makes comparing historical data to current data difficult. That said, this is a reason for caution but not yet outright concern.

1. **Job losers**

   Job losers consist of the following subgroups.

   - People on temporary layoff

     These are people who have been given a date to return to work or who expect to return to work within 6 months. Unlike the other unemployed subgroups, those on temporary layoff do not need to be looking for work to be classified as unemployed.

   - People not on temporary layoff
     - Permanent job losers—people whose employment ended involuntarily
     - People who completed a temporary job

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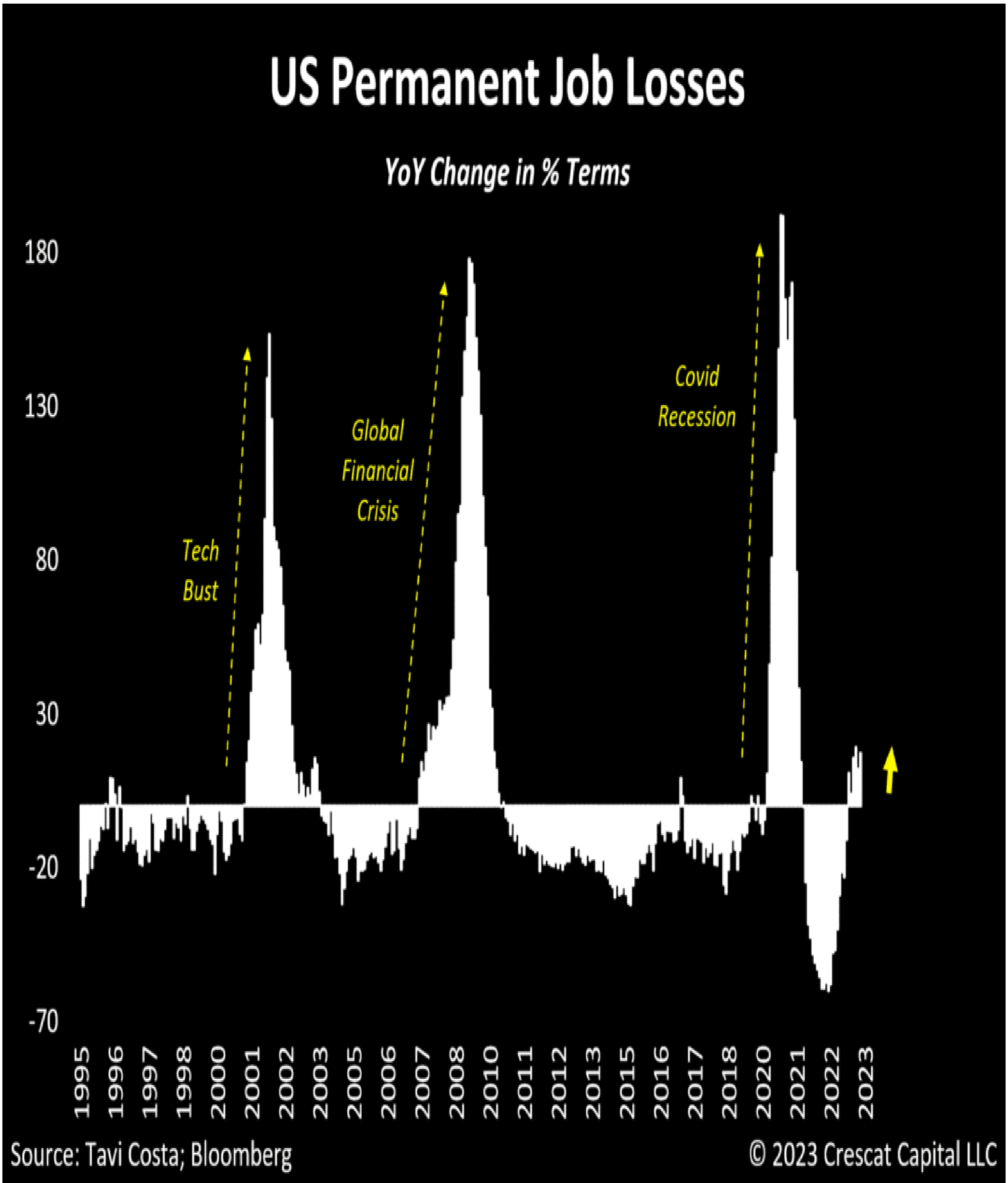
US Permanent Job Losses
YoY Change in % Terms
180
130
80
30
-20
-70
Tech
Bust
Global
Financial
Crisis
Covid
Recession
1995
1996
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Source: Tavi Costa; Bloomberg
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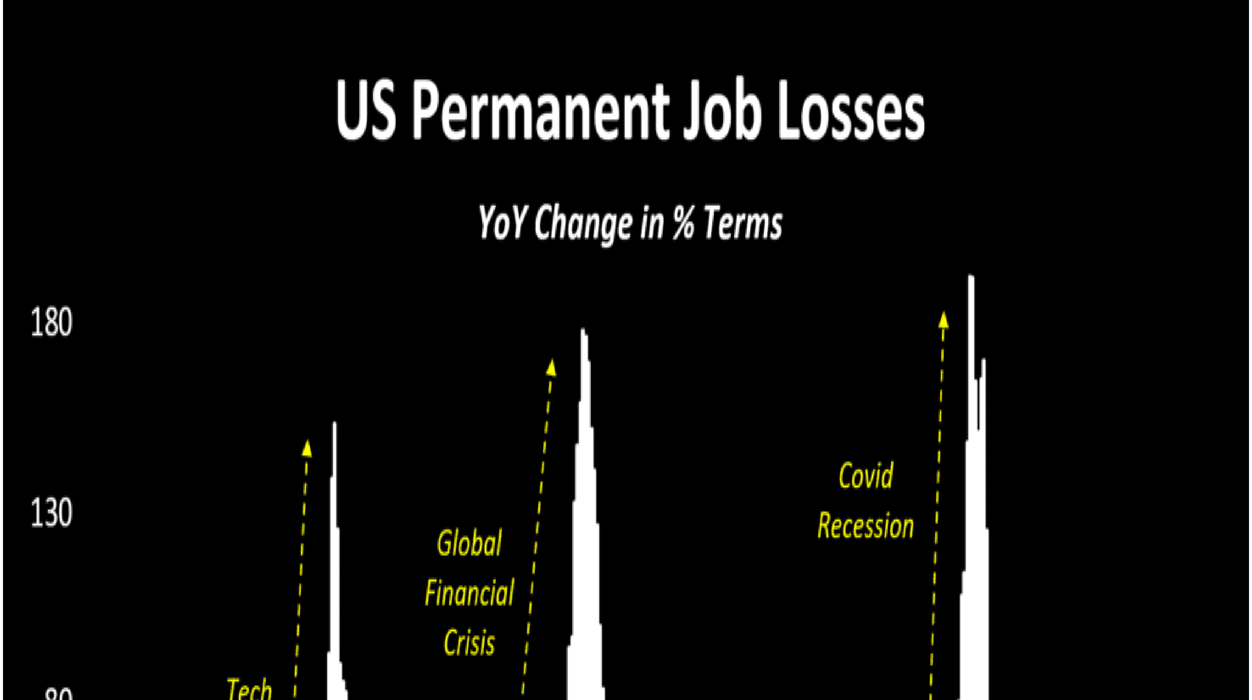
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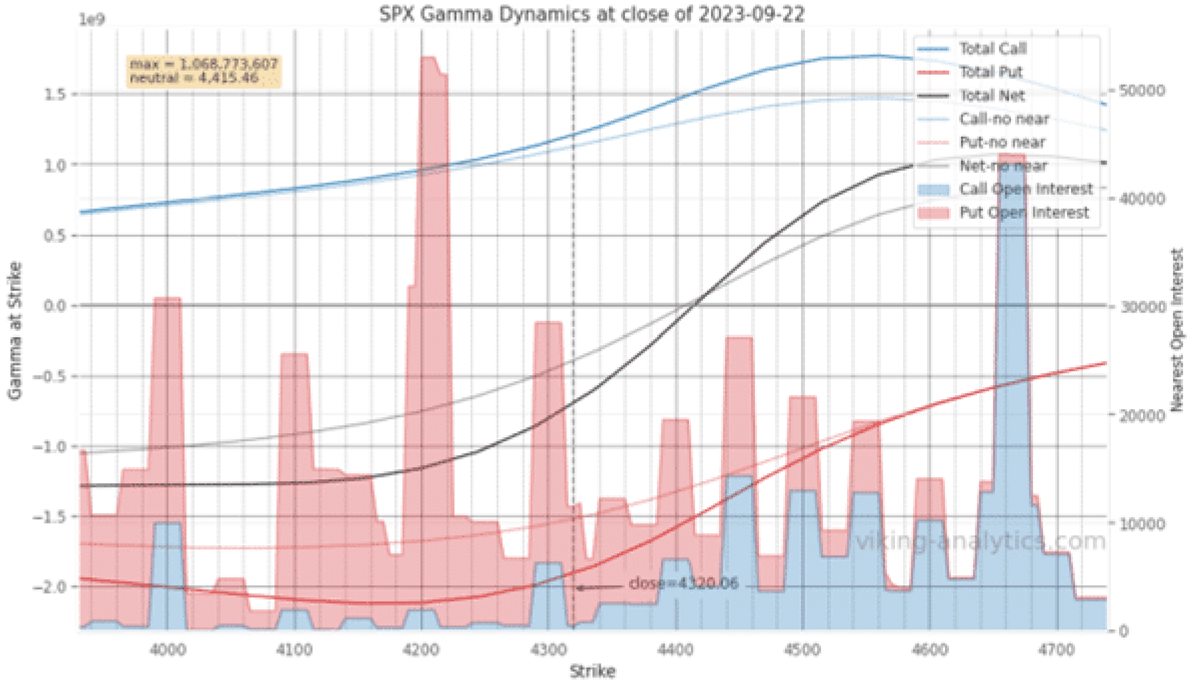
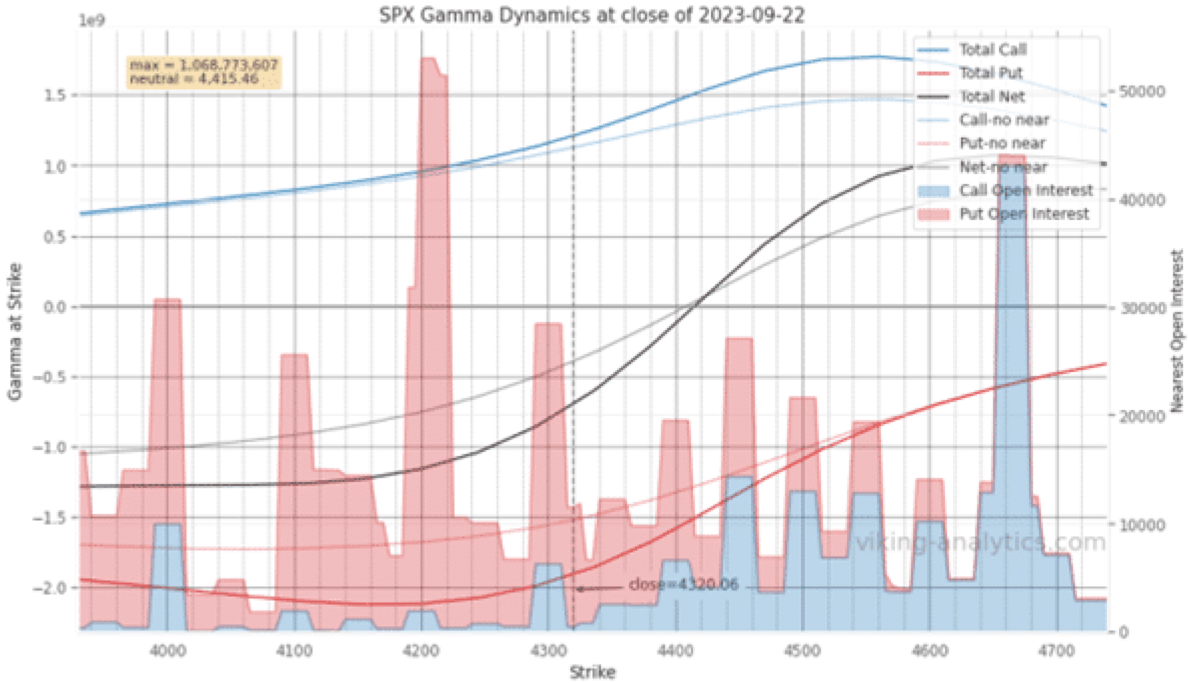
Gamma Dynamics And JP Morgan

Every Monday, SimpleVisor subscribers get access to the latest Viking Analytics report. Viking Analytics uses options market activity to assign equity allocations. This week?s report shares a dynamic in the options market that might be volatility-inducing.

> *Next Friday?s end of quarter option expiration includes the now-famous end of quarter structural collar from JP Morgan. Not surprisingly, put gamma bottoms near 4,200 which is near the put leg of JPM?s collar, which is at 4215. We could see amplified moves where dips get sold and rallies get bought due to the large open interest in expiring puts.*

JP Morgan runs a $15 billion hedged equity fund. It uses options, which reset at the end of each quarter, to limit the fund?s exposure to declines. Because of the size of the fund, the options it owns, and the proximity of recent prices to their option strikes, dealers exposed to JP Morgan?s options trades may need to buy or sell to hedge their positions. As Viking notes, such hedging activity could lead to pronounced volatility.





Don?t Bet Against A Fourth Quarter S&P 500 Rally

The table below from Carson and ISABEL.NET.com speaks for itself. When year-to-date S&P 500 returns through September are similar to current levels, the rest of the year promises a 5.1% return on average, with only three of nineteen instances producing a negative return. In all cases, they were small.

Don't Bet Against A Fourth Quarter Rally Just Yet

S&P 500 Performance When Up YTD Between 10-20% At the End of September

		S&P 500 Index Returns	
Year	YTD Return End of September	October	Q4
1950	15.8%	0.4%	5.0%
1951	13.9%	-1.4%	2.2%
1961	14.8%	2.8%	7.2%
1963	13.6%	3.2%	4.6%
1964	12.2%	0.8%	0.7%
1976	16.7%	-2.2%	2.1%
1979	13.7%	-6.9%	-1.3%
1980	16.2%	1.6%	8.2%
1983	18.1%	-1.5%	-0.7%
1988	10.0%	2.6%	2.1%
1991	17.5%	1.2%	7.5%
1996	11.6%	2.6%	7.8%
2003	13.2%	5.5%	11.6%
2009	17.0%	-2.0%	5.5%
2012	14.6%	-2.0%	-1.0%
2013	17.9%	4.5%	9.9%
2017	12.5%	2.2%	6.1%
2019	18.7%	2.0%	8.5%
2021	14.7%	6.9%	10.6%
2023	12.8%	?	?
	Average	1.1%	5.1%
	Median	1.6%	5.5%
	% Higher	68.4%	84.2%

Source: Carson Investment Research, FactSet 09/24/2023
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Posted on ISABELNET.com

Source: Carson Investment Research, FactSet 09/24/2023
@ryandetrick

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Tweet of the Day

Michael Lebowitz, CFA @michaellebowitz · 3s

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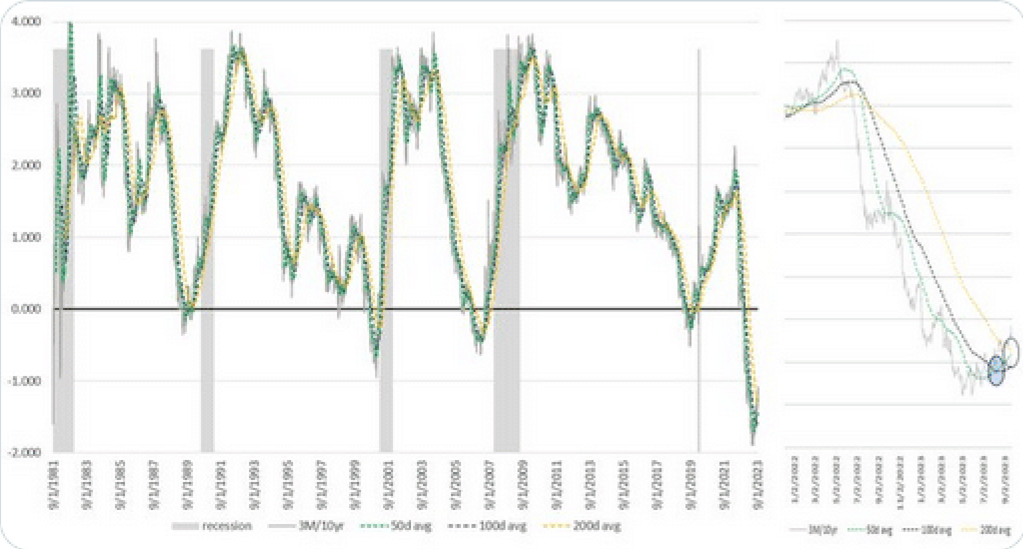

Michael Lebowitz, CFA @michaellebowitz · 3s

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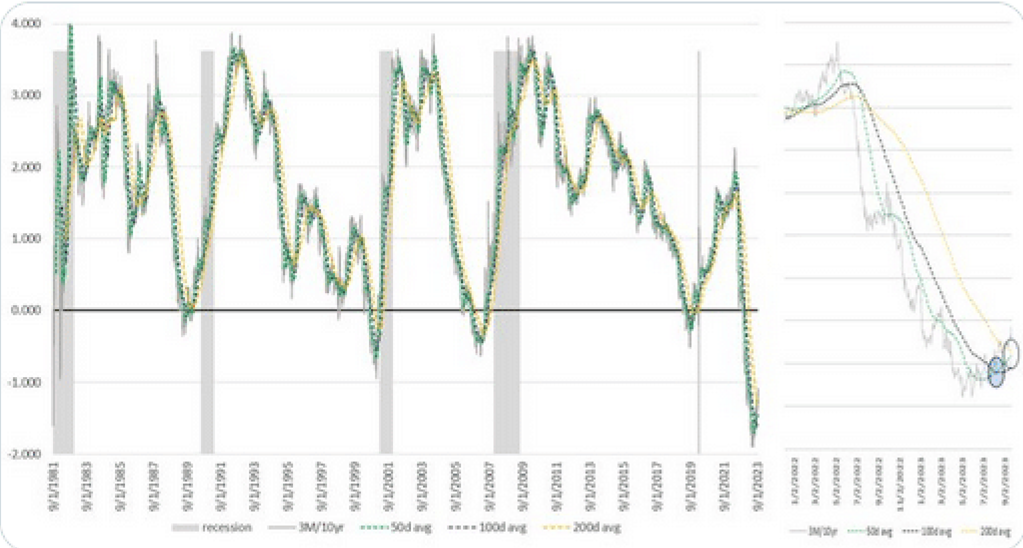

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