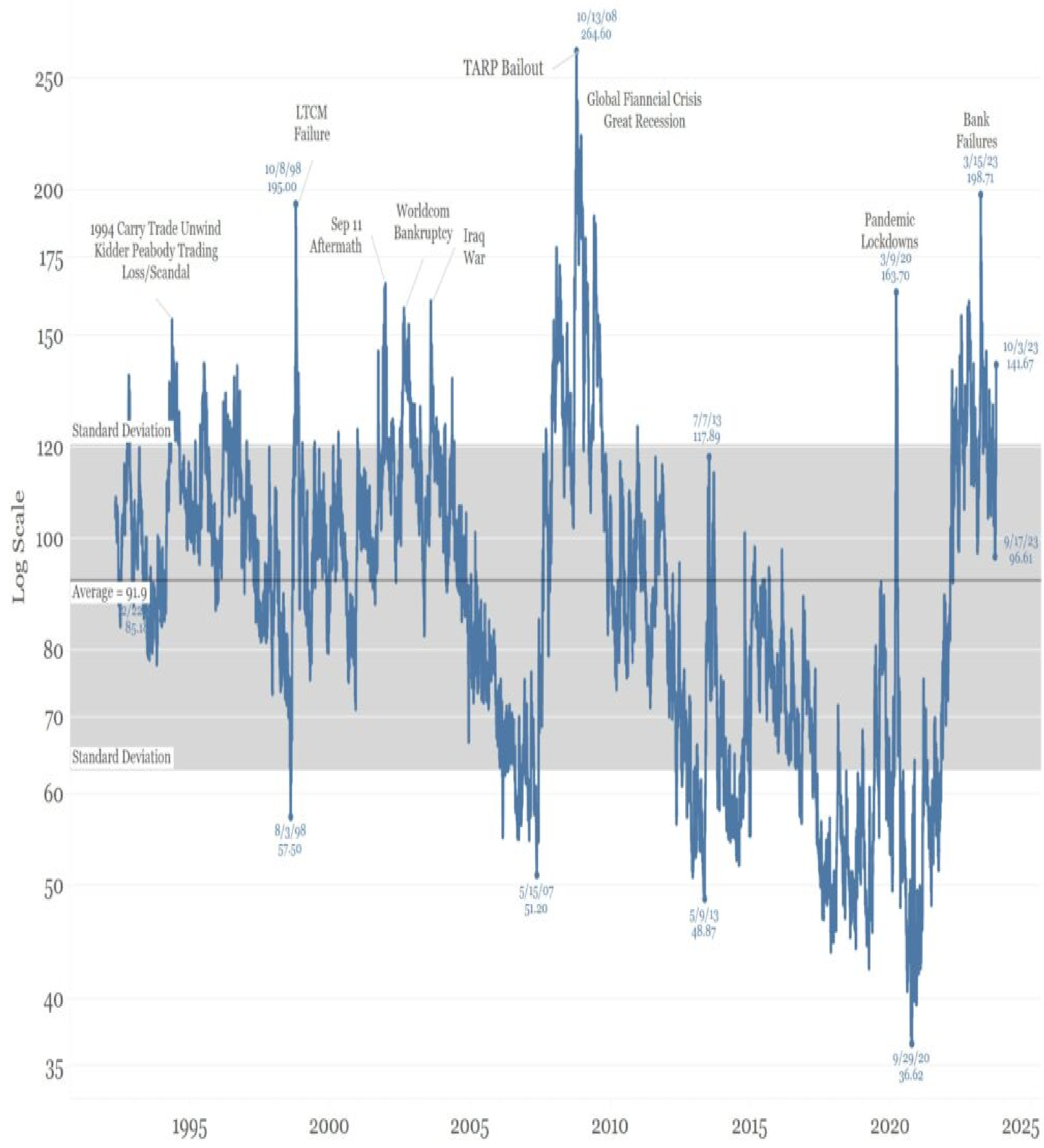
Bond Volatility And Crises - RIA

Note the series of financial crises in the graph below that have occurred when the bond volatility index (MOVE) is elevated by more than one standard deviation. We wrote two articles in recent weeks linking Fed rate hike cycles to crises. The first, A Crisis Is Coming: Who Is Swimming Naked?, helps appreciate why a financial crisis occurs every time the Fed hikes rates. We followed with From LTCM To 1966. The Perils Of Rising Interest Rates. The summary of two such crises stresses the importance of the Fed?s reaction function to quell a situation before it gets out of control. The high bond volatility raises our concerns.

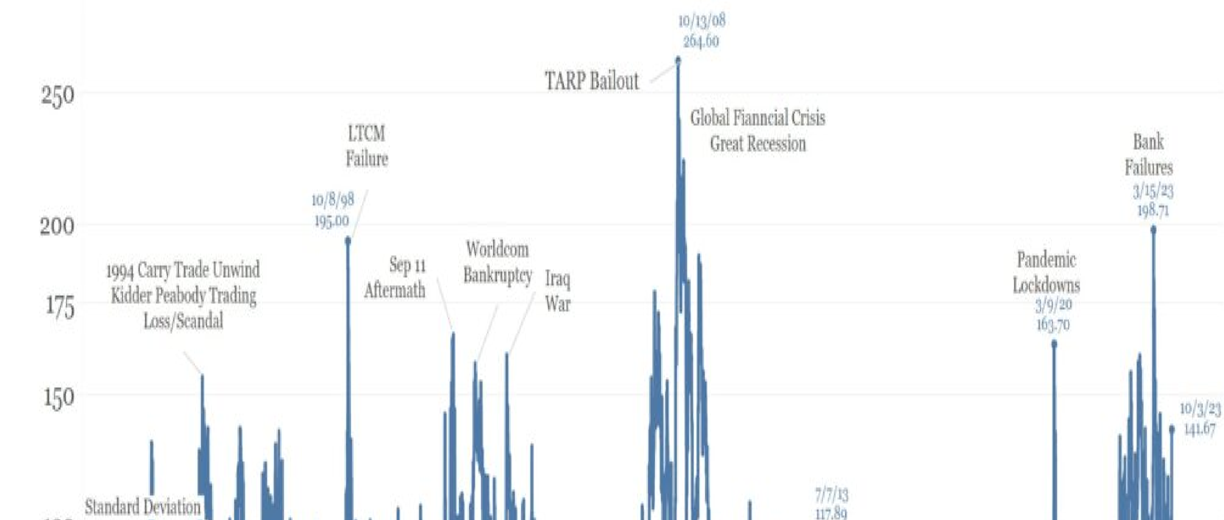
The graph shows that bond option pricing currently implies significant interest rate volatility in the near future. For leveraged investors, stock or bond volatility increases the collateral required to maintain leverage. When collateral calls can not be met, liquidation events can occur. Some are market-moving. As if bond market volatility wasn?t causing enough stress, the market is also dealing with a surge in interest rates. The ingredients for a crisis are in place. The question isn?t whether we will have trouble. It?s when it will occur, which firm, sector, or country it will involve, and how quickly the Fed will react. Such may sound scary, but a reactive Fed, as we saw last March, can quickly offset the consequences of a crisis.

MOVE Index



Source: Bloomberg

MOVE Index



What To Watch Today

Economy

Time	Event	Impact	Actual	Dev	Consensus	Previous
	THURSDAY, OCTOBER 5					
11:30	**USD** Challenger Job Cuts(Sep)		-	-	-	75.151K
12:30	**USD** Continuing Jobless Claims(Sep 22)		-	-	1.675M	1.67M
12:30	**USD** Goods and Services Trade Balance(Aug)		-	-	$-62.3B	$-65B
12:30	**USD** Goods Trade Balance(Aug)		-	-	-	$-84.3B
12:30	**USD** Initial Jobless Claims(Sep 29)		-	-	210K	204K
12:30	**USD** Initial Jobless Claims 4-week average(Sep 29)		-	-	-	211K
14:30	**USD** EIA Natural Gas Storage Change(Sep 29)		-	-	-	90B
15:30	**USD** 4-Week Bill Auction		-	-	-	5.29%

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Earnings

Time	Symbol	Company Name	Market Cap▾	Fiscal Quarter Ending	Consensus EPS* Forecast	# Of Ests	Last Year's Report Date	Last Year's EPS*
	STZ	Constellation Brands Inc	$45,524,883,934	Aug/2023	$3.38	9	10/06/2022	$3.17
	LW	Lamb Weston Holdings, Inc.	$13,053,193,255	Aug/2023	$1.09	5	10/05/2022	$0.75
	CAG	ConAgra Brands, Inc.	$12,656,412,305	Aug/2023	$0.60	8	10/06/2022	$0.57
	LEVI	Levi Strauss & Co.	$5,236,000,730	Aug/2023	$0.27	6	10/06/2022	$0.40
	AEHR	Aehr Test Systems	$1,241,659,294	Aug/2023	$0.18	1	10/06/2022	$0.02
	IDT	IDT Corporation	$681,772,051	Jul/2023		1	N/A	$0.69

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Market Trading Update

The market rebounded a bit yesterday as weaker employment data offset stronger service sector data. Interest rates also reversed after the recent thrashing boosting stock prices. The stock/bond correlation remains elevated for now.

Notably, the last two weeks of September and the first two weeks of October are generally weak in nature. However, as the end of next week approaches, earnings season will begin, which should support equity prices near term. With a large short position against equities, negative sentiment, and oversold technicals align, such provides the fuel for a counter-trend rally into November. We suggest using that rally to reduce and rebalance risk as needed for now. As discussed yesterday, if the recent bout of selling was indeed a liquidation event, we may not be out of the woods just yet. Therefore, keep a watch on the 200-DMA as a warning level near term.

TradingView

The ADP Employment Report

> *?We are seeing a steepening decline in jobs this month. Additionally, we are seeing a steady decline in wages in the past 12 months.?* ? Nate Richardson- Chief Economist, ADP

The September ADP report shows job growth for September of 89k, almost half of what was expected. That is the slowest growth rate in over two and a half years. As shown below, large companies, in the aggregate, let go of 83k employees. The second graphic, courtesy of Bloomberg, shows that the Leisure and Hospitality industry accounted for 100% of the job growth. Many jobs in that industry tend to be temporary and low-paying. Consequently, slight changes in economic activity can quickly reverse the strong job growth we have been witnessing in the industry and in the entire labor market.

Yesterday, we shared the bullish jobs report from JOLTS. In particular, we highlighted the importance of focusing on the trend, not single-month data points. Furthermore, ZeroHedge backs us up on the importance of not reading too much into any one report. Per ZeroHedge:

> *According to ADP, Professional and Business services jobs plunged 32K. Why is this hilarious? Because JOLTS reported a 509K increase in Professional and Business Service job openings*

Change by Establishment Size

Small

1-19 employees	↑ 67,000
20-49 employees	↑ 28,000

Mid-sized

50-249 employees	↑ 55,000
250-499 employees	↑ 17,000

Large

500+ employees	↓ 83,000

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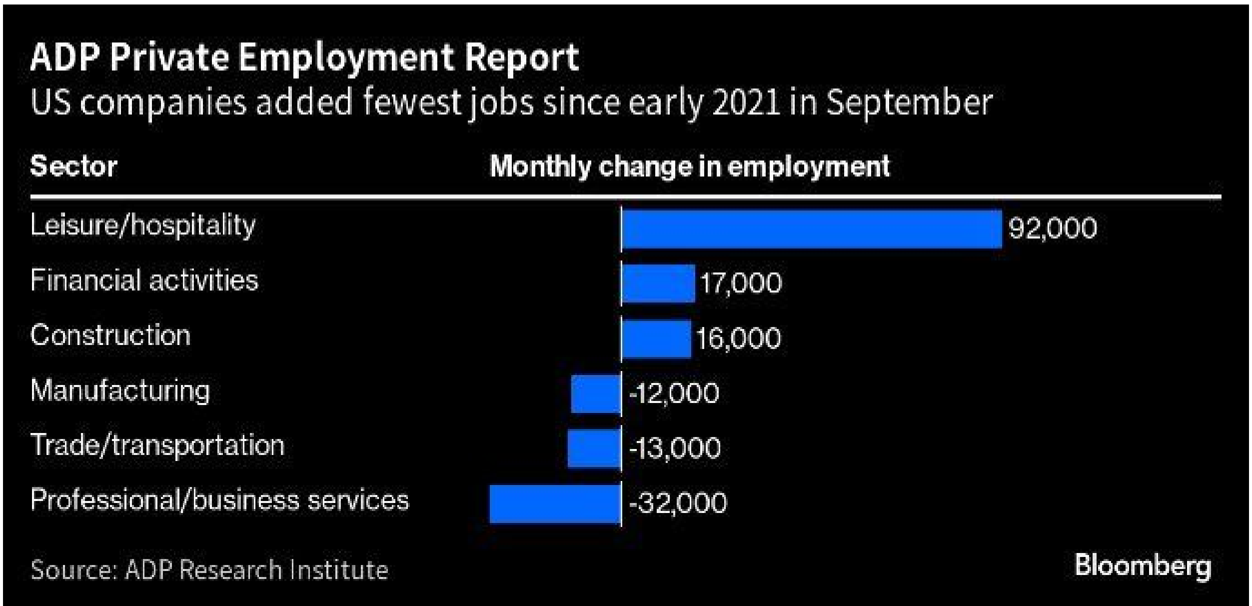
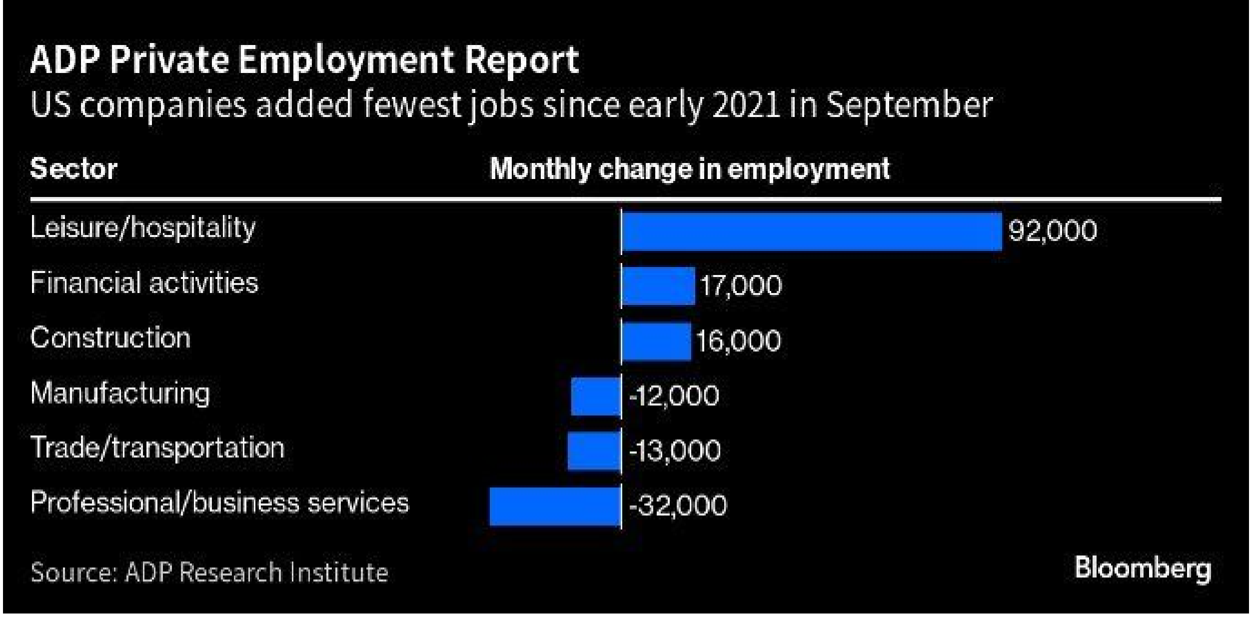
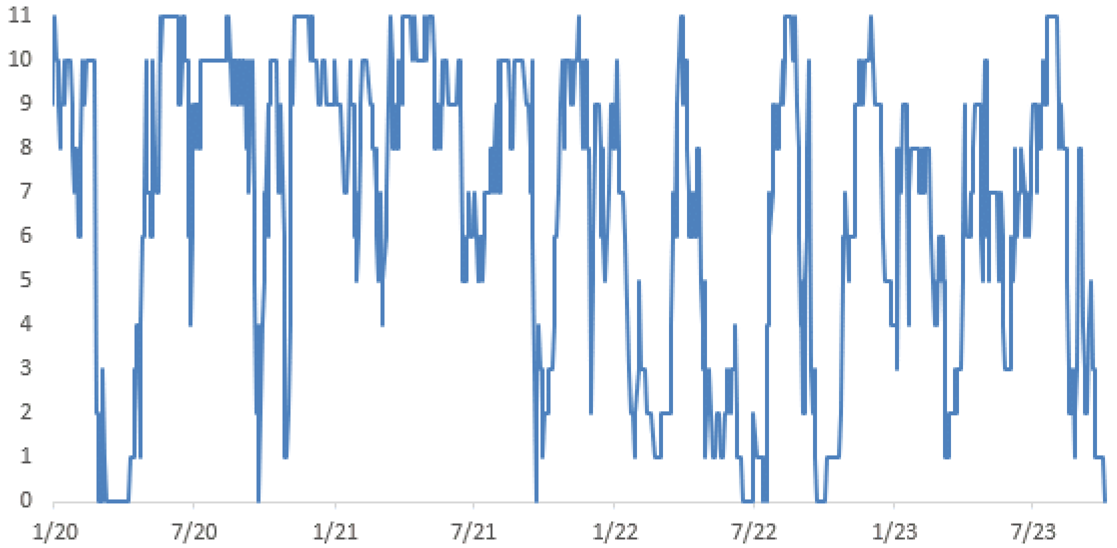




All Sector ETFs Are Below Their 50dmas

The graph below, courtesy of Bespoke, shows that every S&P 500 sector ETF is below its respective 50dma. The last time we had a similar occurrence was in early October 2022. That instance was a prelude to a nearly year-long rally in the S&P 500. Similarly, the second graph shows that 93% of stocks are below their 50dma. Further, it highlights with arrows what occurred in the S&P 500 after the last four instances. The markets appear washed out and are overdue for a bounce.

Number of S&P 500 Sector ETFs Trading Above 50-DMA: 2020 - 2023



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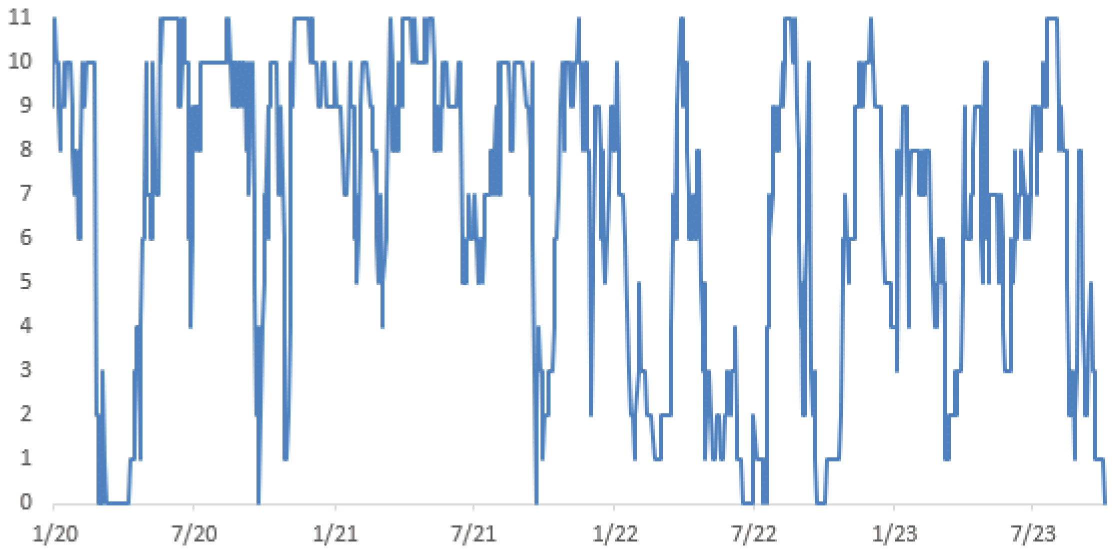

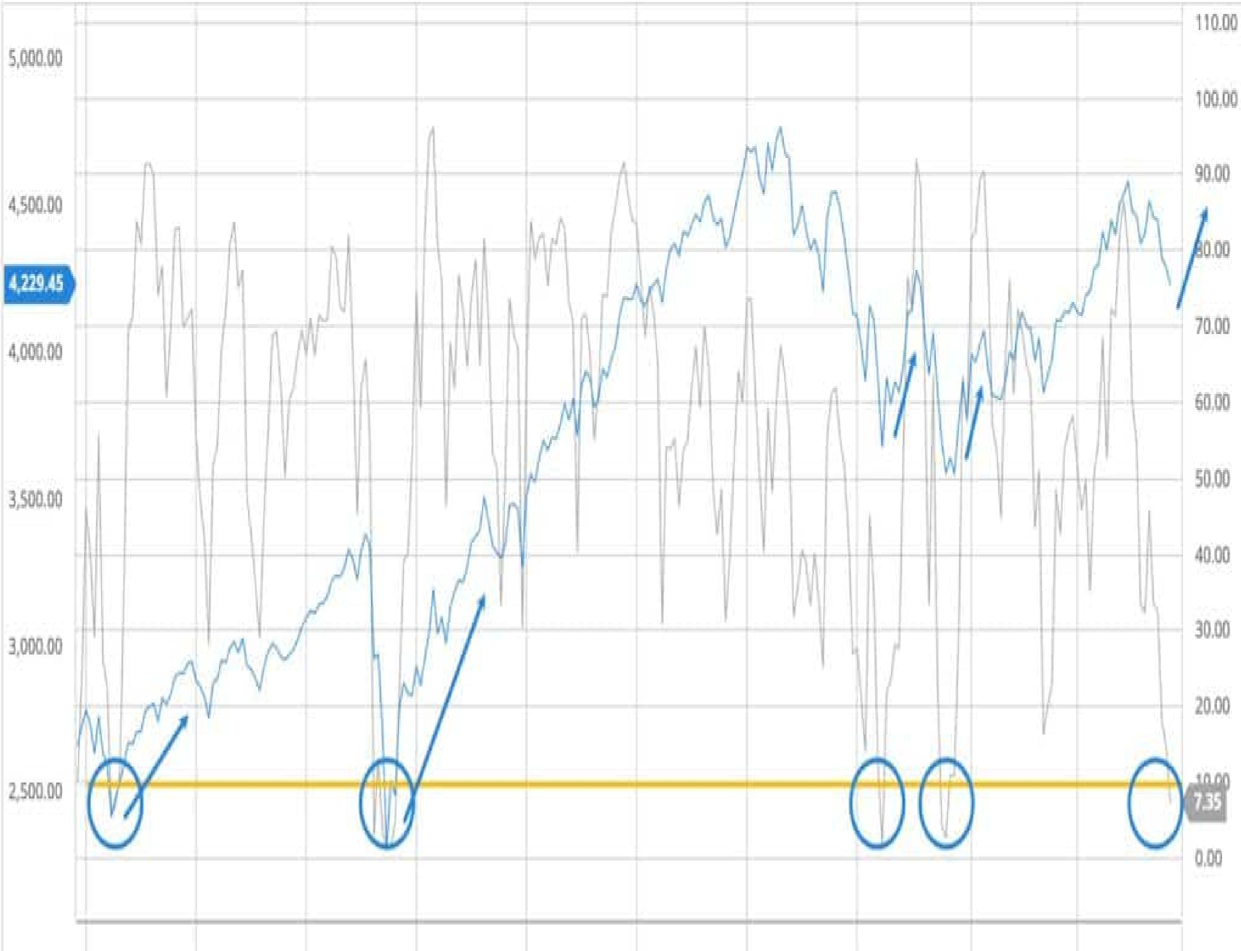
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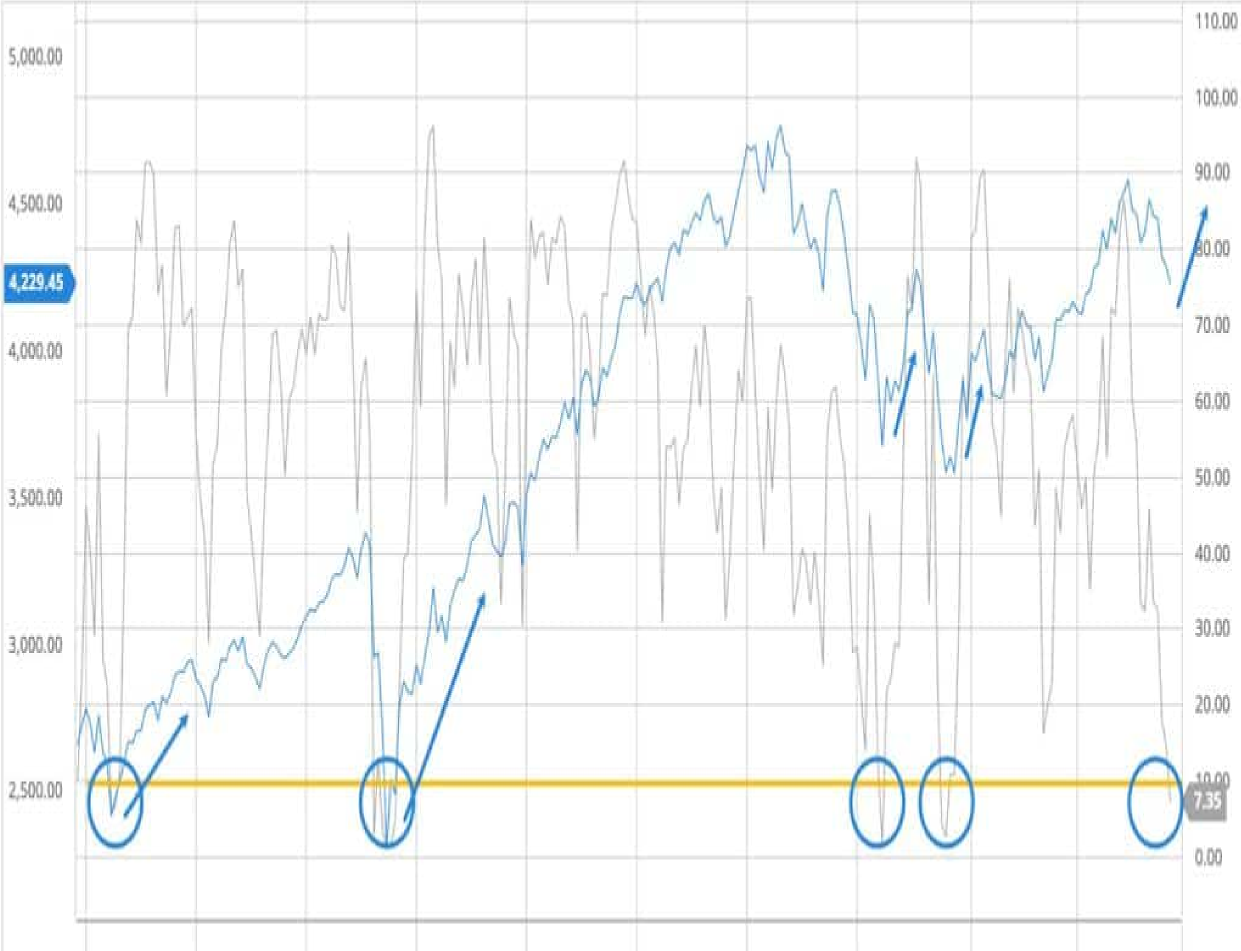
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Tweet of the Day

Althea Spinozzi reposted

Bob Elliott @BobEUnlimited · 1h

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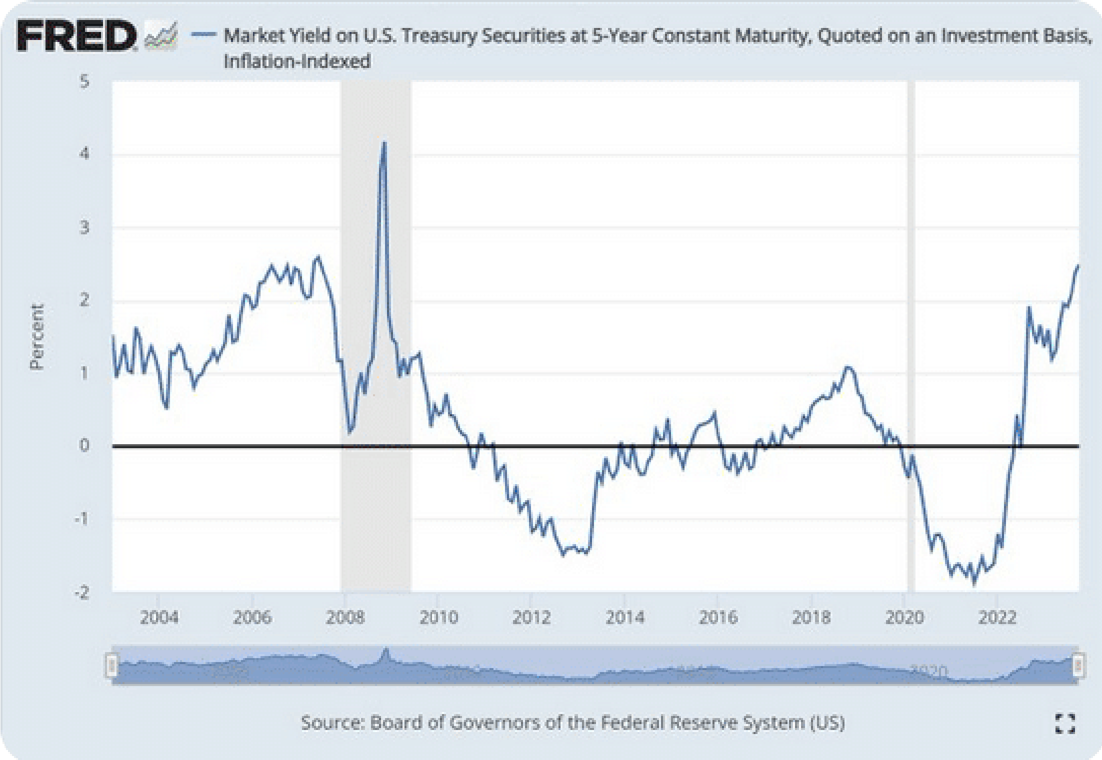

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2023/10/05

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