



Deficit Growth In Detail - RIA

The Bloomberg graphic below and their article entitled [Deficit Doubling as U.S. Economy Grows](#) provide excellent insight into factors that account for the significant deficit growth for the fiscal year ending October 2023. The most significant contributor to the deficit growth was a sharp decline in tax revenue. Specifically, individual tax receipts fell by \$456 billion from the prior year. Bloomberg credits much of the lost tax revenue, ergo deficit growth, on the financial markets. In 2021, stocks rose by nearly 30%, while stocks and bonds declined in 2022. Further, there was a delay for some 2022 tax revenue due to extensions granted in disaster areas. As shown below, Bloomberg estimates California alone accounts for about \$100 of delayed revenue.

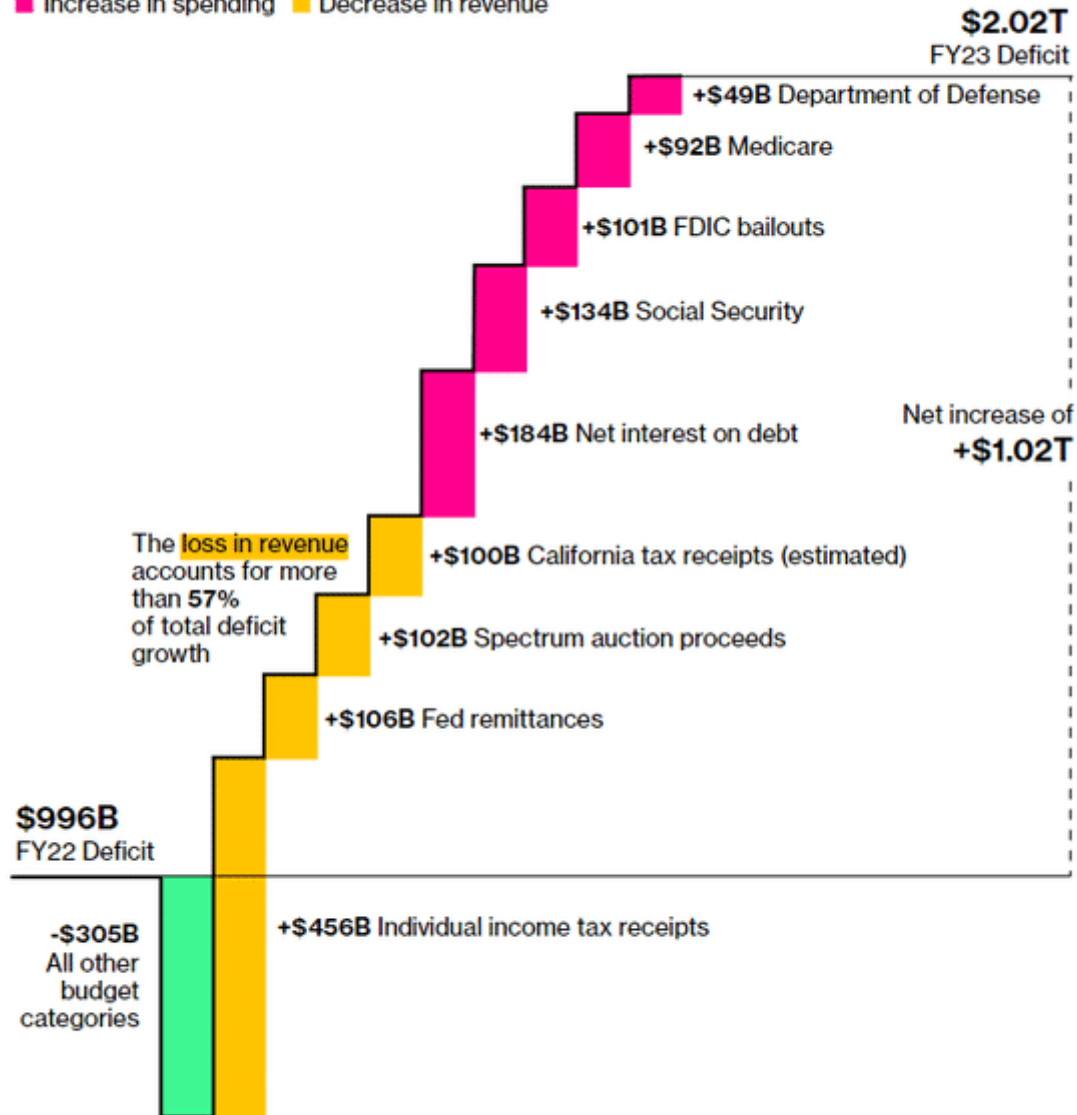
Increasing interest rates accounted for nearly \$200 billion in additional interest expenses versus the prior year. If interest rates rise or stay near current levels, this expense will keep rising through the current fiscal year. That said, rates could drop quickly if economic growth slows or declines and inflation normalizes. Consequently, the net increase in interest expenses could be less than in 2023. Social Security and Medicare expenses increased due to the sharp 8.7% cost of living adjustment. Lastly, the Treasury did not receive remittances from the Fed as the Fed lost money. While the deficit growth is large, some of the increases are temporary.

Per the article, The deficit for the fiscal year that began Oct. 1 will likely shrink, thanks in part to the positive performance of financial markets in the 2023 calendar year ? which ought to boost revenues when taxes are paid in 2024. The delayed California receipts will also help.

Underlying US Budget Gap Doubled in Latest Year

Change in adjusted federal deficit from FY2022 to FY2023

■ Increase in spending ■ Decrease in revenue



Source: Department of the Treasury

Note: Numbers are adjusted to remove the accounting impact of President Biden's student loan forgiveness program.

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+
🕒	META	Meta Platforms, Inc.	\$804,723,485,996	Sep/2023	\$3.62	14	10/26/2022	\$1.64
🌞	TMO	Thermo Fisher Scientific Inc	\$178,235,464,669	Sep/2023	\$5.60	11	10/26/2022	\$5.08
🌞	TMUS	T-Mobile US, Inc.	\$162,045,218,722	Sep/2023	\$1.75	8	10/27/2022	\$0.40
🕒	IBM	International Business Machines Corporation	\$124,243,031,011	Sep/2023	\$2.12	6	10/19/2022	\$1.81
🕒	NOW	ServiceNow, Inc.	\$110,441,520,000	Sep/2023	\$0.89	12	10/26/2022	\$0.50
🌞	BA	Boeing Company (The)	\$109,197,939,380	Sep/2023	(\$3.05)	8	10/26/2022	(\$6.18)
🌞	ADP	Automatic Data Processing, Inc.	\$99,354,753,569	Sep/2023	\$2.03	9	10/26/2022	\$1.86
🌞	CME	CME Group Inc.	\$77,120,697,884	Sep/2023	\$2.21	8	10/26/2022	\$1.98
🕒	CP	Canadian Pacific Kansas City Limited	\$65,691,642,000	Sep/2023	\$0.68	8	10/26/2022	\$0.77
🕒	EQIX	Equinix, Inc.	\$65,443,988,190	Sep/2023	\$6.78	5	11/02/2022	\$7.73
🌞	GD	General Dynamics Corporation	\$63,676,257,982	Sep/2023	\$2.87	9	10/26/2022	\$3.26
🕒	KLAC	KLA Corporation	\$63,241,237,429	Sep/2023	\$5.39	10	10/26/2022	\$7.06
🌞	SAN	Banco Santander, S.A.	\$57,777,401,430	Sep/2023	\$0.17	1	10/26/2022	\$0.14
🌞	MCO	Moody's Corporation	\$56,710,675,000	Sep/2023	\$2.35	8	10/25/2022	\$1.85
🕒	ORLY	O'Reilly Automotive, Inc.	\$52,947,197,365	Sep/2023	\$10.36	11	10/26/2022	\$9.17
🌞	ROP	Roper Technologies, Inc.	\$50,988,601,760	Sep/2023	\$4.21	6	10/26/2022	\$3.67
🌞	HES	Hess Corporation	\$49,528,944,300	Sep/2023	\$1.33	8	10/26/2022	\$1.89
🌞	APH	Amphenol Corporation	\$47,227,224,156	Sep/2023	\$0.74	6	10/26/2022	\$0.80
🌞	NSC	Norfolk Southern Corporation	\$44,699,308,041	Sep/2023	\$2.74	8	10/26/2022	\$4.10
🌞	ODFL	Old Dominion Freight Line, Inc.	\$42,358,864,280	Sep/2023	\$2.89	7	10/26/2022	\$3.36
🕒	EW	Edwards Lifesciences Corporation	\$41,976,620,515	Sep/2023	\$0.59	13	10/27/2022	\$0.61
🌞	BSBR	Banco Santander Brasil SA	\$39,337,539,457	Sep/2023	\$0.15	1	N/A	N/A
🌞	HLT	Hilton Worldwide Holdings Inc.	\$38,667,395,868	Sep/2023	\$1.67	7	10/26/2022	\$1.31
🕒	BKR	Baker Hughes Company	\$35,004,702,238	Sep/2023	\$0.39	9	10/19/2022	\$0.26
🕒	WCN	Waste Connections, Inc.	\$34,903,855,632	Sep/2023	\$1.14	11	11/02/2022	\$1.10
🕒	AMP	AMERIPRISE FINANCIAL SERVICES, LLC	\$31,952,637,169	Sep/2023	\$7.27	5	10/25/2022	\$6.43
🌞	OTIS	Otis Worldwide Corporation	\$31,667,307,873	Sep/2023	\$0.87	3	10/26/2022	\$0.80
🕒	URI	United Rentals, Inc.	\$27,919,429,149	Sep/2023	\$11.32	8	10/26/2022	\$9.27
🕒	VICI	VICI Properties Inc.	\$27,646,319,932	Sep/2023	\$0.53	10	10/27/2022	\$0.49
🌞	FTV	Fortive Corporation	\$24,645,226,493	Sep/2023	\$0.86	4	10/26/2022	\$0.79
🕒	AEM	Agnico Eagle Mines Limited	\$24,441,343,233	Sep/2023	\$0.47	4	10/26/2022	\$0.52
🕒	AVB	AvalonBay Communities, Inc.	\$23,692,455,541	Sep/2023	\$2.63	10	11/03/2022	\$2.50
🌞	DB	Deutsche Bank AG	\$20,706,000,000	Sep/2023	\$0.53	1	10/26/2022	\$0.57
🕒	ALGN	Align Technology, Inc.	\$20,336,535,826	Sep/2023	\$1.87	6	10/26/2022	\$0.98
🕒	MOH	Molina Healthcare Inc	\$20,092,512,000	Sep/2023	\$4.87	7	10/26/2022	\$4.36
🕒	RJF	Raymond James Financial, Inc.	\$19,674,961,766	Sep/2023	\$2.28	5	10/26/2022	\$2.08
🕒	INVH	Invitation Homes Inc.	\$18,725,861,188	Sep/2023	\$0.44	5	10/26/2022	\$0.42
🌞	UMC	United Microelectronics Corporation	\$18,557,047,493	Sep/2023	\$0.16	1	10/26/2022	\$0.35
🕒	ICLR	ICON plc	\$18,210,459,760	Sep/2023	\$3.10	5	11/02/2022	\$2.84
🌞	TDY	Teledyne Technologies Incorporated	\$18,126,078,965	Sep/2023	\$4.75	4	10/26/2022	\$4.54
🕒	VLTO	Veralto Corp.	\$17,691,839,393	Sep/2023		1	N/A	N/A
🌞	WAB	Westinghouse Air Brake Technologies Corporation	\$17,687,329,179	Sep/2023	\$1.46	5	11/01/2022	\$1.22

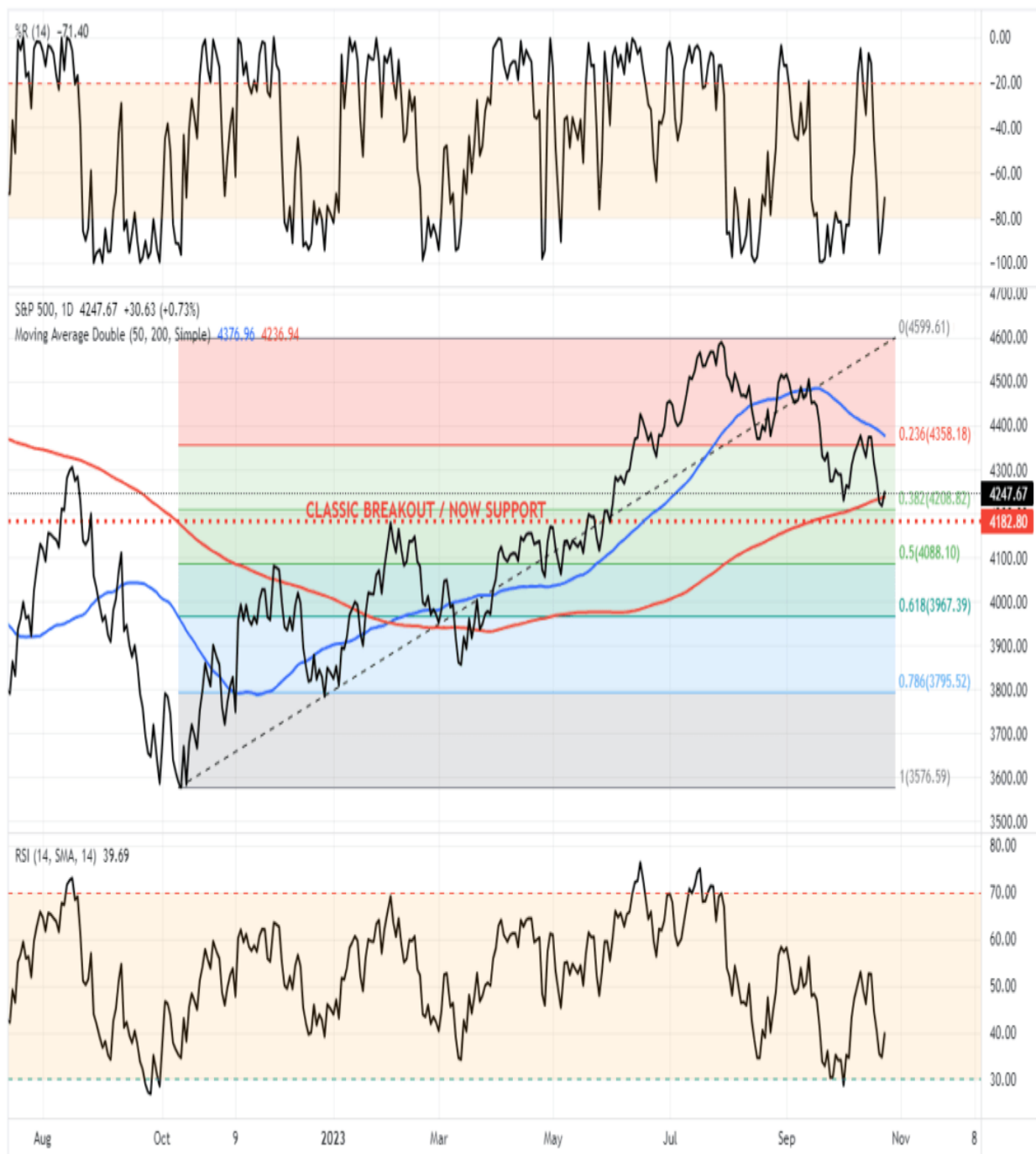
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Economy

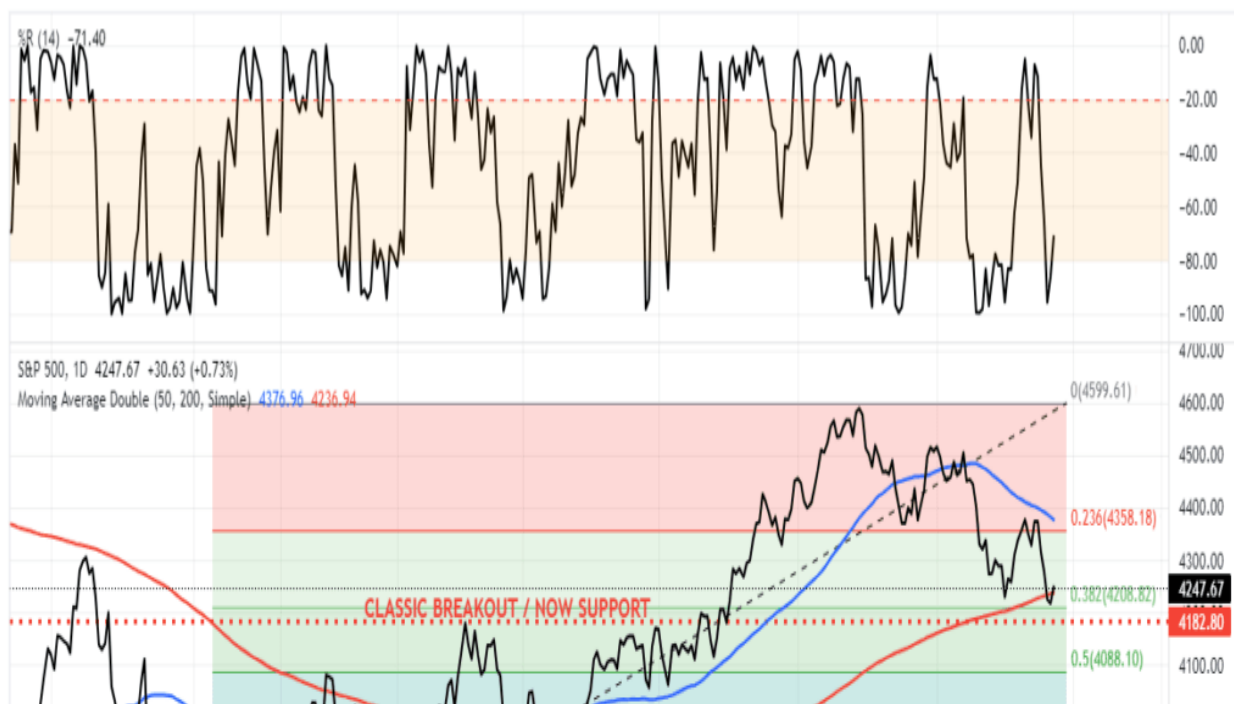
Time	Event	Impact	Actual	Dev	Consensus	Previous
WEDNESDAY, OCTOBER 25						
11:00	USD MBA Mortgage Applications(Oct 20)		-	-	-	-6.9%
14:00	USD New Home Sales (MoM)(Sep)		-	-	0.68M	0.675M
14:00	USD New Home Sales Change (MoM)(Sep)		-	-	-	-8.7%
14:30	USD EIA Crude Oil Stocks Change(Oct 20)		-	-	1.55M	-4.491M
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Market Trading Update

Over the last few days on our [Before The Bell video](#), we discussed that overreacting to an initial break of the 200-DMA can be detrimental. There are many instances where some support level is broken, and then the market immediately recovers. Such was the case yesterday as earnings pushed stocks higher into the afternoon, with the market reclaiming the 200-DMA. With the market oversold on multiple levels, there is fuel to catalyze a reflexive rally to the 50-DMA. A retracement to that level will be a more opportunistic level to reduce equity risk and raise cash levels if needed heading into year-end.



TradingView



As we discussed in [yesterday's blog post](#):

Heading into year-end, the historical probabilities of a year-end advance, particularly following summer weakness, outweigh bearish possibilities. There are many possibilities; bearish investors are betting on, which are unlikely to manifest themselves before year-end.

- *Inflation is about to surge higher, needing a more aggressive Fed response.*
- *The economy will drop into a recession, as suggested by the inverted yield curves (shown below.)*
- *The housing market is going to crash.*
- *Unemployment is about to increase.*
- *Households are drastically cutting spending.*
- *Corporate earnings and profits are going to reverse.*

Each concern is valid, and many will likely manifest themselves in 2024. Notably, since most of this year's market advance was valuation expansion, the markets must eventually correct to accommodate higher rates.

The point to be made is that while a rally into year-end is likely, next year will likely be another tough year for stock investors.

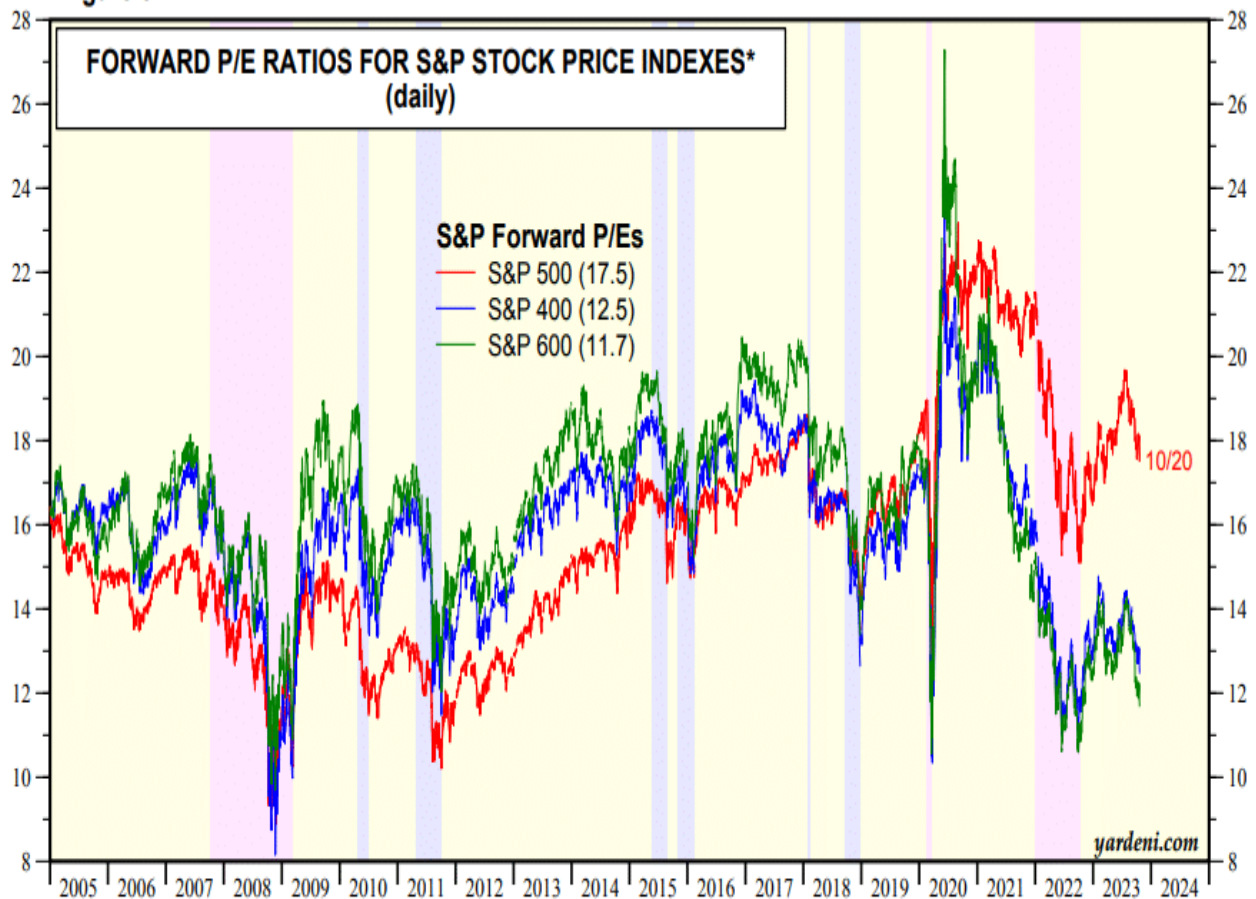


Value In Small And Mid-Cap Stocks

The graph below shows the substantial divergence in the forward valuations of large-cap stocks versus small (S&P 400) and mid-cap stocks (S&P 600). As shown, forward valuations are off their peaks for all three indexes, but small and mid-cap valuations have been cut in half from the 2020 peak and are not far from the 2020 and 2008 lows. While it may be tempting to buy small and mid-cap stocks, the concern is that higher interest rates are problematic for many highly indebted small and mid-cap companies. Further, credit spreads, or the difference between lower-rated corporate bond yields and Treasury yields, are still near historical lows.

If a recession hits, those spreads could widen significantly and more than offset a decline in Treasury yields. There are stocks with great value propositions in small and mid-cap space. Still, one must be careful of the debt situation and the possibility that valuations cheapen further as economic activity slows and credit spreads widen.

Figure 3.



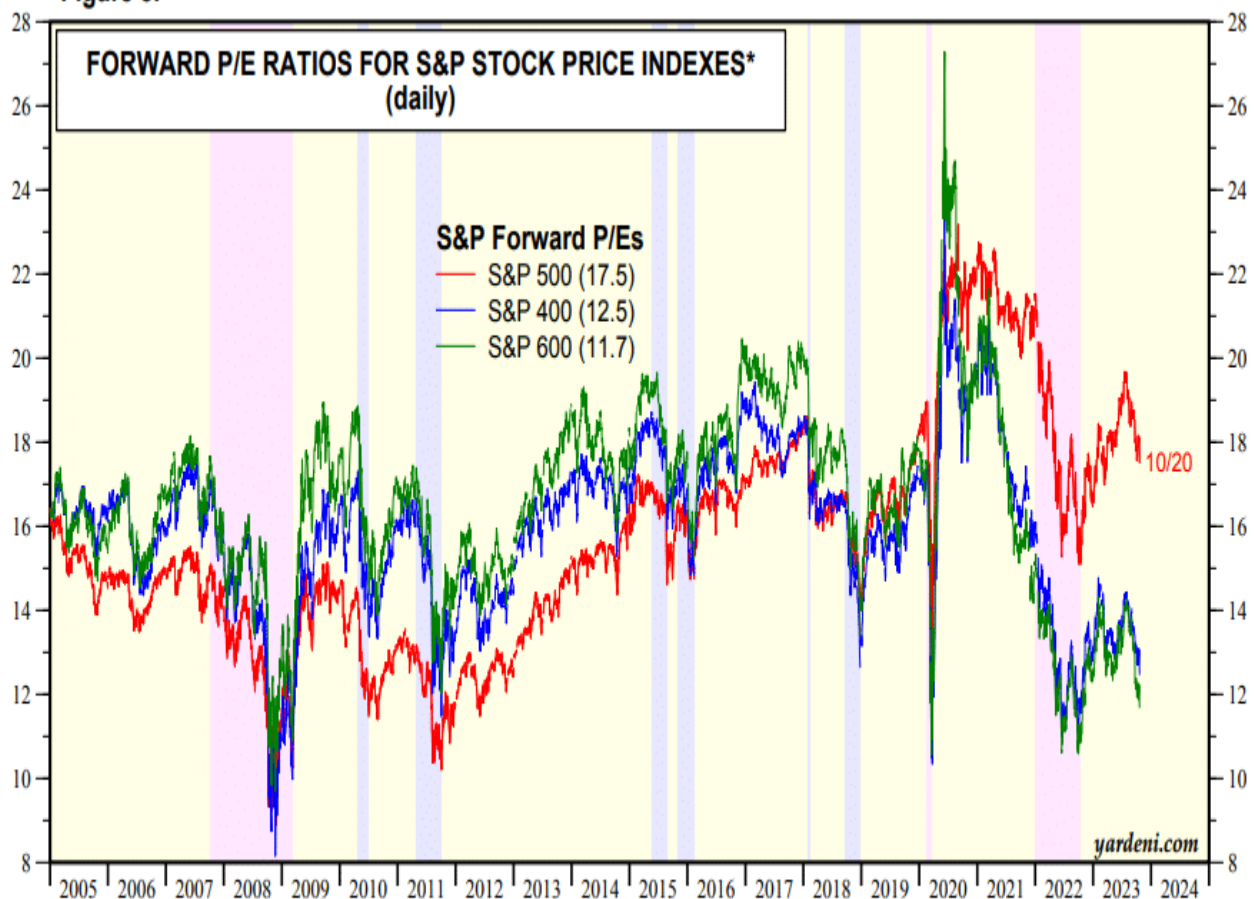
* Daily stock price index divided by 52-week forward consensus expected operating earnings per share.

Note: Shaded red areas are S&P 500 bear market declines of 20% or more. Blue shaded areas are correction declines of 10% to less than 20%.

Yellow areas are bull markets.

Source: Standard & Poor's and I/B/E/S data by Refinitiv.

Figure 3.



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RTX Rallies On Good Earnings

Shares in RTX opened up over 5% yesterday as it beat analysts' earnings expectations across the board. The graphic below summarizes its earnings. Earnings are clearly benefiting from Ukraine, rising tensions in Taiwan, and the Israeli war. Per the CEO:

"The historic demand across our commercial aerospace and defense businesses drove 12 percent organic sales"

Most importantly, they *"made significant progress on our assessment of the Pratt Whitney metal manufacturing matter,"* and they conclude the costs are in line with previously announced expenses. RTX was trailing competitors like LMT and GD as investors were concerned the issue would be more expensive than initially budgeted for. Thus far, that does not appear to be the case.

The graph below the earnings highlights shows that RTX did make up some ground on its competitors yesterday, but it still has a ways to go.

3Q 2023 Highlights

Q3 sales charge of \$5.4B resulting in a \$2.9B operating profit impact for the Pratt powder metal matter, in line with previously disclosed amount

No significant operational or financial impact expected on other GTF fleets or the V2500; impact to balance of Pratt fleet expected to be limited

Adjusted sales up 12% organically* year-over-year with 15% adjusted segment operating profit* growth

Commercial aerospace sales remain robust with OE up 26% and aftermarket up 25% year-over-year

Defense sales growth of 2% year-over-year; 1.21 Q3 book-to-bill

RTX record backlog of \$190B; Received \$22B of new awards; 1.19 Q3 book-to-bill

Returned \$2.3B of capital to shareowners in Q3; including \$1.4B of share repurchases

Full Year Outlook

Reported Sales	~\$68.5B Prior: \$67.5B - \$68.5B	↑
Adjusted Sales*	~\$74.0B Prior: \$73.0B - \$74.0B	↑
Organic sales growth %*	~10% Prior: 9% - 10%	↑
Adjusted EPS*	\$4.98 - \$5.02 ¹ Prior: \$4.95 - \$5.05	✓
Free cash flow*	~\$4.8B Prior: ~\$4.3B	↑
Share repurchase	~\$12.8B Prior: \$3.0B	↑

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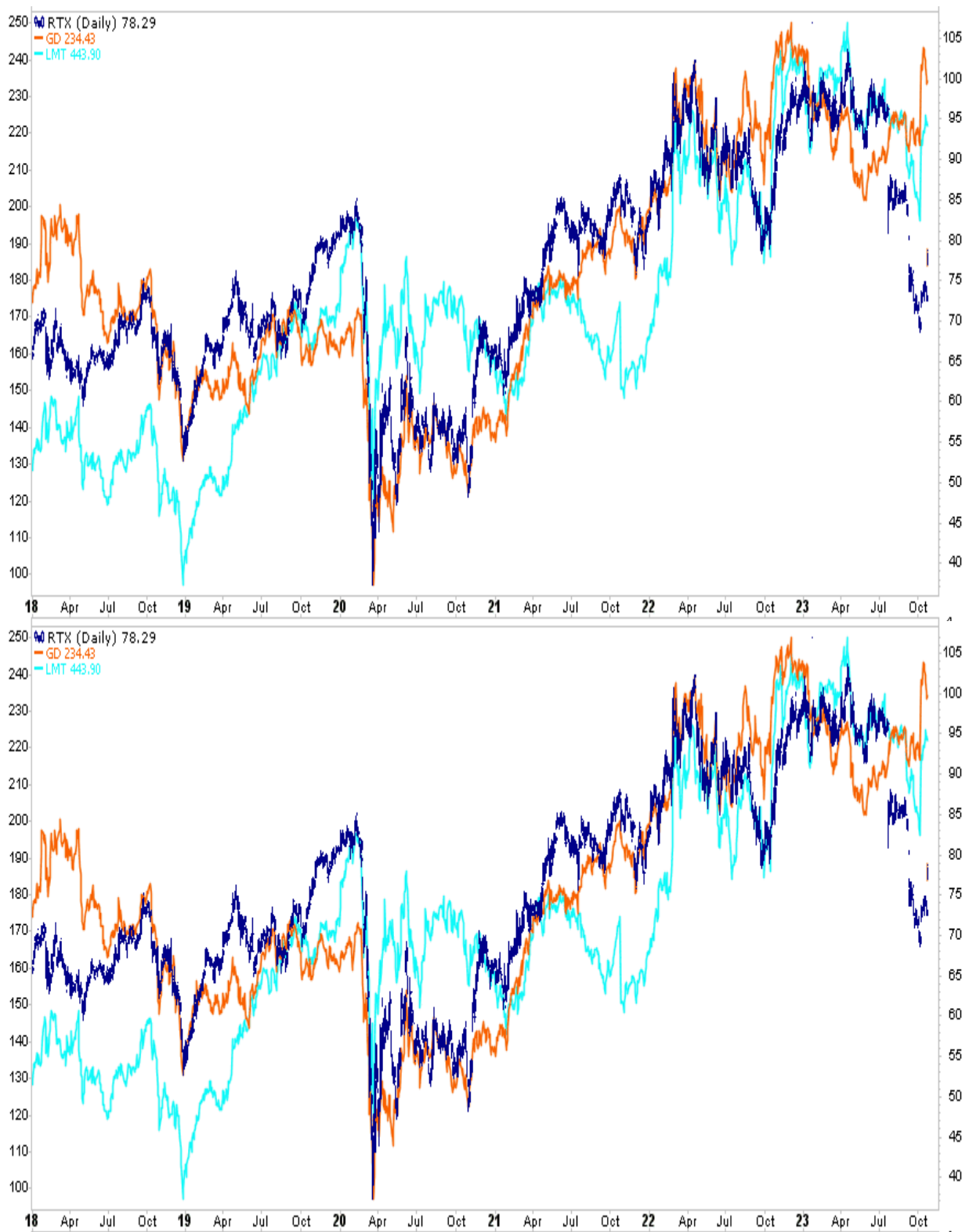
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Higher Mortgage Rates and House Purchase Cancellations

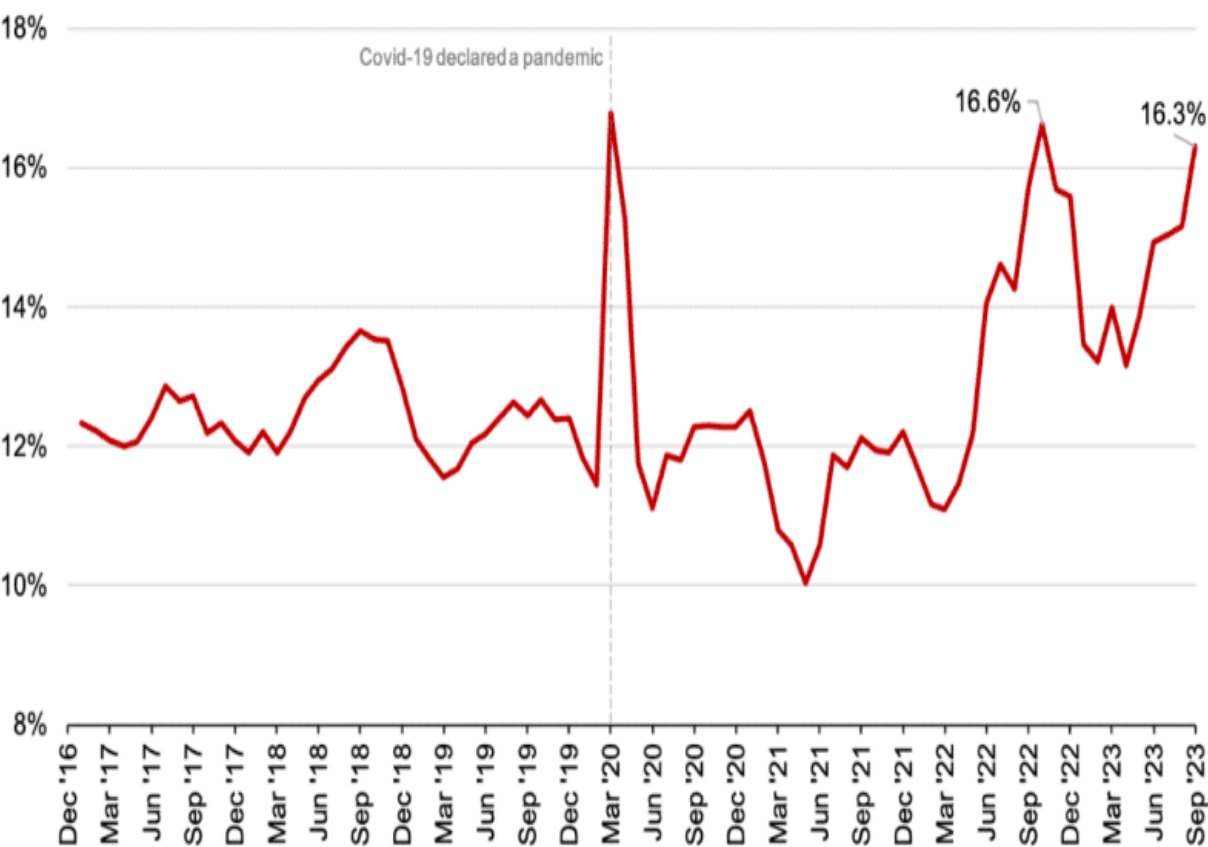
As we wrote in yesterday's Commentary:

30-year mortgage rates just eclipsed 8 percent. With higher mortgage rates, housing affordability tumbles. And, not surprisingly, the Mortgage Bankers Association (MBA) mortgage application index is at a multi-decade low

The graph below further confirms the housing market is troubling due to higher mortgage rates. 53k home purchases, equating to 16.3% of all home purchases, were canceled in September. Such is the highest cancellation rate since October 2022 and the peak of the pandemic shutdown before that.

Home Purchases Are Falling Through at the Highest Rate in Nearly a Year

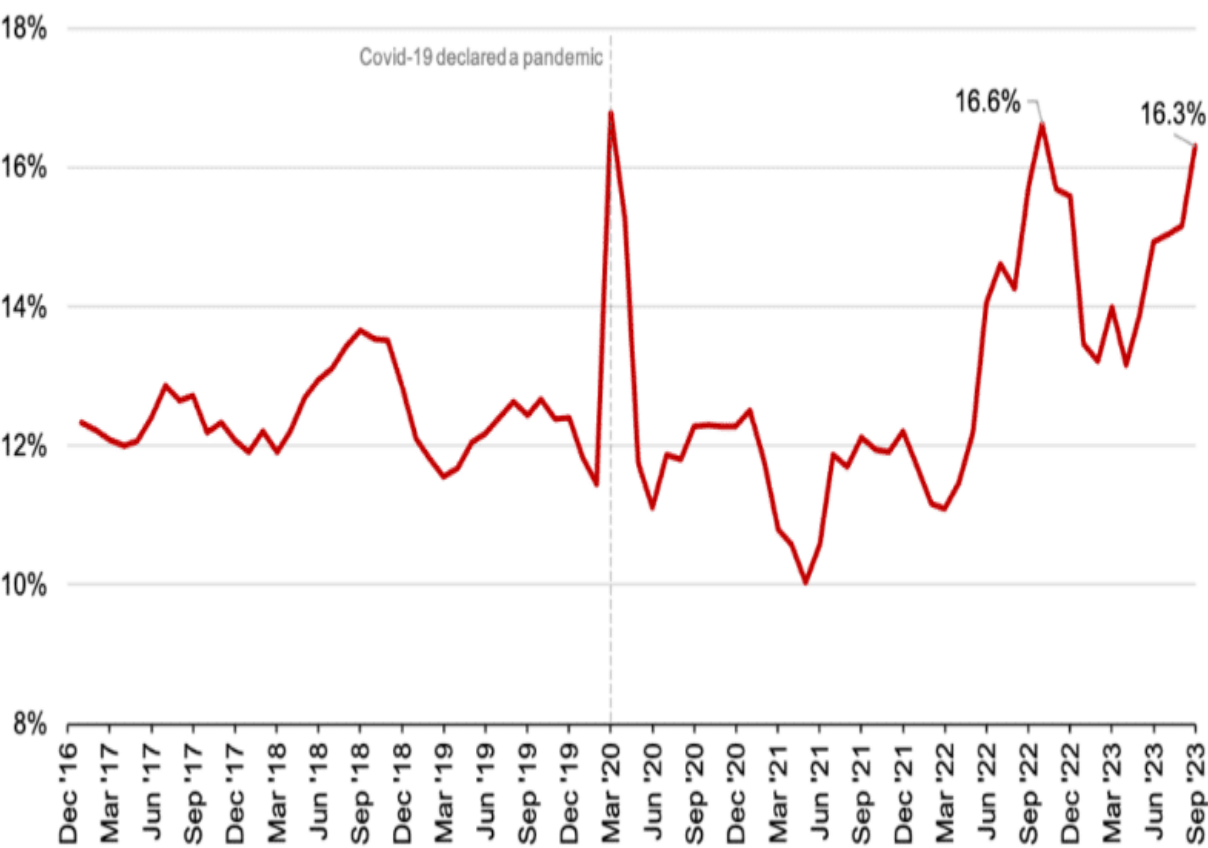
Monthly pending home sale that fell out of contract, as % of overall pending home sales



REDFIN

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Tweet of the Day



Ayesha Tariq, CFA  @AyeshaTariq · 25s · 

A little bit of Bill and a whole lot of ugly PMI numbers from across the globe.. where they actually matter.

From this morning's Breakfast Bites.

Bill Ackman closing out their bond shorts. Bill Gross however, said he's buying Mar2025 SOFR futures expecting a recession by year end.

In Global Macro news, we continue to receive signs of a slowdown with PMIs (Purchasing Managers' Index) falling back into contractionary territory for several countries (below 50). The PMIs are an indicator of the overall health of the economy.

- Australia Composite PMI at 47.3 vs. 51.5 prior
- Japan Jibun Bank Composite PMI at 49.9 vs. 52.1 prior
- Eurozone HOCB Composite PMI at 46.2 vs. 47.2 prior
- Germany HCOB Composite PMI at 45.8 vs. 46.4 prior

France and the UK are the only countries reporting today that showed a slight improvement. US numbers are set to be released at 9:45am ET.



Ayesha Tariq, CFA  @AyeshaTariq · 25s · 

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Please [subscribe to the daily commentary](#) to receive these updates every morning before the opening bell.

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2023/10/25

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