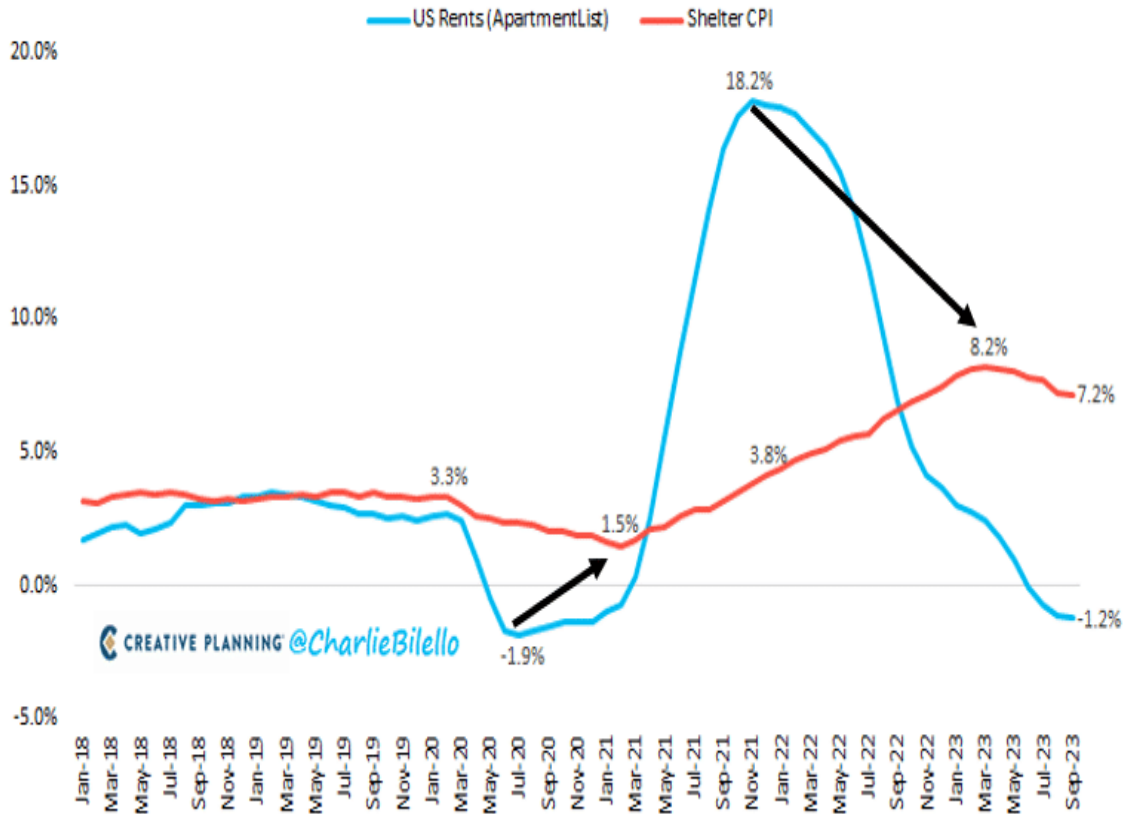


Inflation Report Draws Unnecessary Concern

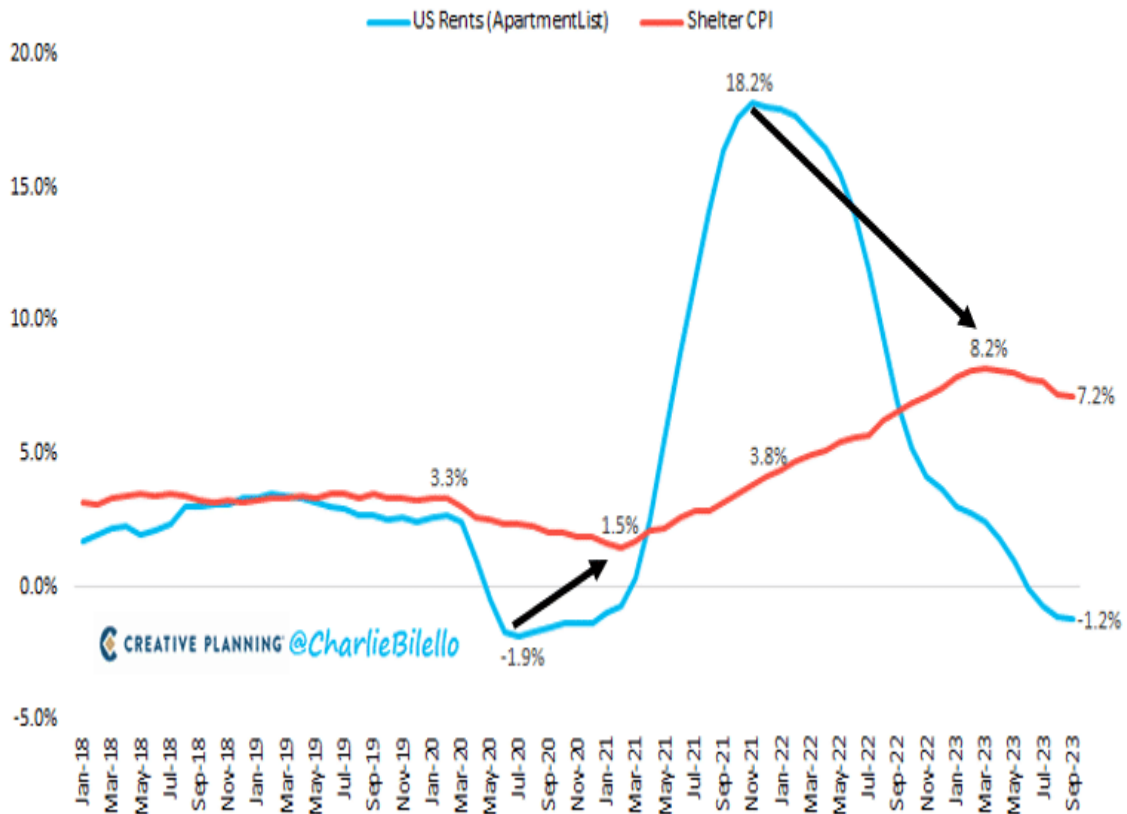
Wednesday's PPI inflation report exceeded expectations, predominately due to higher gasoline prices. As noted in yesterday's Commentary, the BLS price data on gasoline lags by about three months. Therefore, the boost to inflation from gas is old news. The market saw through PPI as stocks and bonds rallied despite the higher inflation number. Thursday's CPI inflation report was at the higher end of expectations. This time, however, gasoline wasn't the culprit. Shelter prices, accounting for over 40% of CPI, also lag real-time market data and, like gas in PPI, were greater than expected.

In Thursday's September inflation report, shelter prices rose 0.6% monthly and are up 7.2% on a year-over-year basis. Such compares to an average of +0.33% over the last three months. Had shelter risen by +0.3%, the inflation report would have been about 0.12% lower and slightly below expectations. The graph below, courtesy of Charlie Bilello, shows that annual rental prices peaked at 18.2% in 2021. At that time, shelter prices in the CPI report were only up 3.8% and would continue upward for another year and a half. The black arrows highlight the lags between actual shelter prices and those used in the CPI inflation report. Currently, rental and home prices are declining. Therefore, it's highly likely CPI shelter prices will track the trend in rental and house prices lower. Do not mistake a blip higher in one or two monthly inflation reports for what is likely to be a sustained trend lower in the CPI data.

U.S. Rents vs. U.S. Shelter CPI, YoY % Change



U.S. Rents vs. U.S. Shelter CPI, YoY % Change

















































What To Watch Today

Earnings (Season Officially Starts)

Time	Symbol	Company Name	Market Cap▼	Fiscal Quarter Ending	Consensus EPS* Forecast	# Of Ests	Last Year's Report Date	Last Year's EPS*
	UNH	UnitedHealth Group Incorporated	\$485,504,312,504	Sep/2023	\$6.33	10	10/14/2022	\$5.79
	JPM	J P Morgan Chase & Co	\$424,724,362,648	Sep/2023	\$3.89	11	10/14/2022	\$3.12
	BLK	BlackRock, Inc.	\$95,952,323,150	Sep/2023	\$8.52	6	10/13/2022	\$9.55
	PGR	Progressive Corporation (The)	\$84,206,096,011	Sep/2023	\$1.63	9	10/13/2022	\$0.49
	C	Citigroup Inc.	\$79,974,424,160	Sep/2023	\$1.26	13	10/14/2022	\$1.50
	WFC	Wells Fargo & Company	\$72,355,986,757	Sep/2023	\$1.25	9	10/14/2022	\$1.30
	PNC	PNC Financial Services Group, Inc. (The)	\$48,881,768,867	Sep/2023	\$3.18	9	10/14/2022	\$3.78
Time	Symbol	Company Name	Market Cap▼	Fiscal Quarter Ending	Consensus EPS* Forecast	# Of Ests	Last Year's Report Date	Last Year's EPS*
	UNH	UnitedHealth Group Incorporated	\$485,504,312,504	Sep/2023	\$6.33	10	10/14/2022	\$5.79
	JPM	J P Morgan Chase & Co	\$424,724,362,648	Sep/2023	\$3.89	11	10/14/2022	\$3.12
	BLK	BlackRock, Inc.	\$95,952,323,150	Sep/2023	\$8.52	6	10/13/2022	\$9.55
	PGR	Progressive Corporation (The)	\$84,206,096,011	Sep/2023	\$1.63	9	10/13/2022	\$0.49
	C	Citigroup Inc.	\$79,974,424,160	Sep/2023	\$1.26	13	10/14/2022	\$1.50
	WFC	Wells Fargo & Company	\$72,355,986,757	Sep/2023	\$1.25	9	10/14/2022	\$1.30
	PNC	PNC Financial Services Group, Inc. (The)	\$48,881,768,867	Sep/2023	\$3.18	9	10/14/2022	\$3.78

Economics

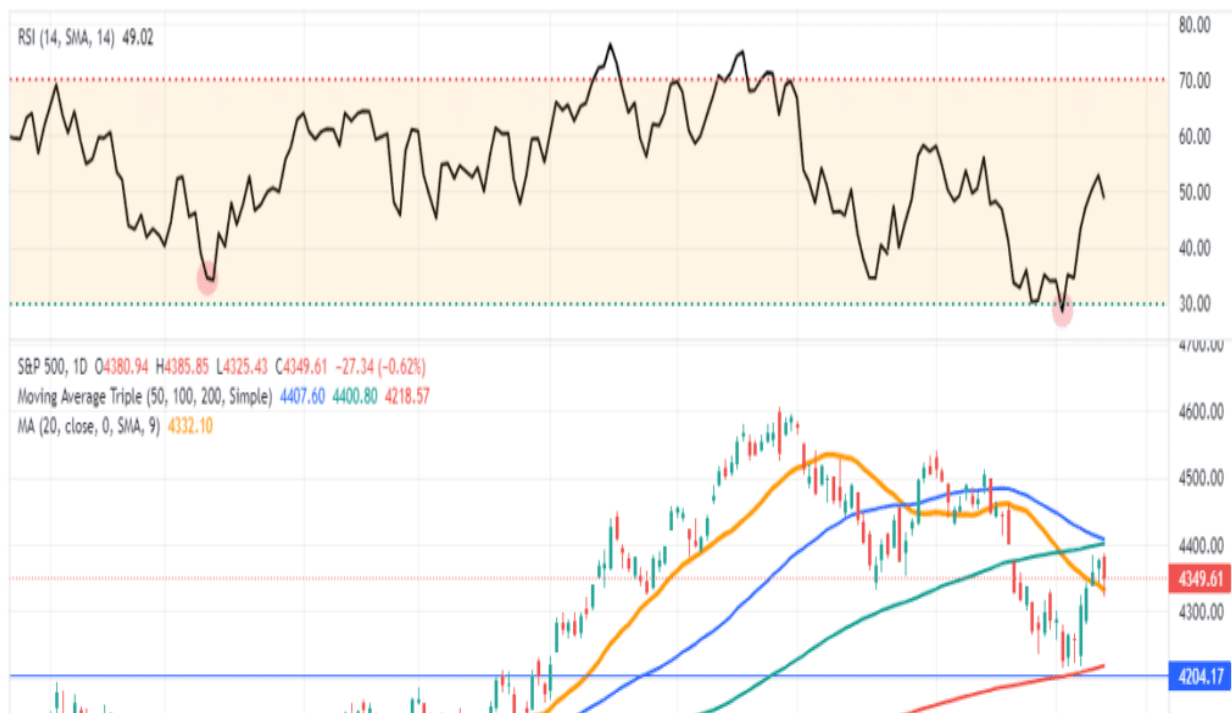
Time	Event	Impact	Actual	Dev 	Consensus	Previous	
FRIDAY, OCTOBER 13							
00:00	 USD IMF Meeting	<div><div></div></div>	-	-	-	-	
12:30	 USD Export Price Index (MoM)(Sep)	<div><div></div></div>	-	-	0.5%	1.3%	
12:30	 USD Export Price Index (YoY)(Sep)	<div><div></div></div>	-	-	-	-5.5%	
12:30	 USD Import Price Index (MoM)(Sep)	<div><div></div></div>	-	-	0.5%	0.5%	
12:30	 USD Import Price Index (YoY)(Sep)	<div><div></div></div>	-	-	-	-3%	
14:00	 USD Michigan Consumer Sentiment Index(Oct) PREL	<div><div></div></div>	-	-	67.4	68.1	
14:00	 USD UoM 5-year Consumer Inflation Expectation(Oct) PREL	<div><div></div></div>	-	-	-	2.8%	
17:00	 USD Baker Hughes US Oil Rig Count	<div><div></div></div>	-	-	-	497	
20:30	 USD CFTC Gold NC Net Positions	<div><div></div></div>	-	-	-	\$91.2K	
20:30	 USD CFTC Oil NC Net Positions	<div><div></div></div>	-	-	-	349.6K	
20:30	 USD CFTC S&P 500 NC Net Positions	<div><div></div></div>	-	-	-	-\$73.2K	
Time	Event	Impact	Actual	Dev 	Consensus	Previous	
FRIDAY, OCTOBER 13							
00:00	 USD IMF Meeting	<div><div></div></div>	-	-	-	-	
12:30	 USD Export Price Index (MoM)(Sep)	<div><div></div></div>	-	-	0.5%	1.3%	
12:30	 USD Export Price Index (YoY)(Sep)	<div><div></div></div>	-	-	-	-5.5%	
12:30	 USD Import Price Index (MoM)(Sep)	<div><div></div></div>	-	-	0.5%	0.5%	
12:30	 USD Import Price Index (YoY)(Sep)	<div><div></div></div>	-	-	-	-3%	
14:00	 USD Michigan Consumer Sentiment Index(Oct) PREL	<div><div></div></div>	-	-	67.4	68.1	
14:00	 USD UoM 5-year Consumer Inflation Expectation(Oct) PREL	<div><div></div></div>	-	-	-	2.8%	
17:00	 USD Baker Hughes US Oil Rig Count	<div><div></div></div>	-	-	-	497	
20:30	 USD CFTC Gold NC Net Positions	<div><div></div></div>	-	-	-	\$91.2K	
20:30	 USD CFTC Oil NC Net Positions	<div><div></div></div>	-	-	-	349.6K	
20:30	 USD CFTC S&P 500 NC Net Positions	<div><div></div></div>	-	-	-	-\$73.2K	

Market Trading Update

Market action yesterday was sloppy, which was unsurprising given the recent surge in asset prices since Monday. The initial attempt at resistance of the 50- and 100-DMA capped the recent run, but the 20-DMA acted as support. It will be unsurprising to see a bit more sloppiness in trading until we get further into earnings season next week.



TradingView

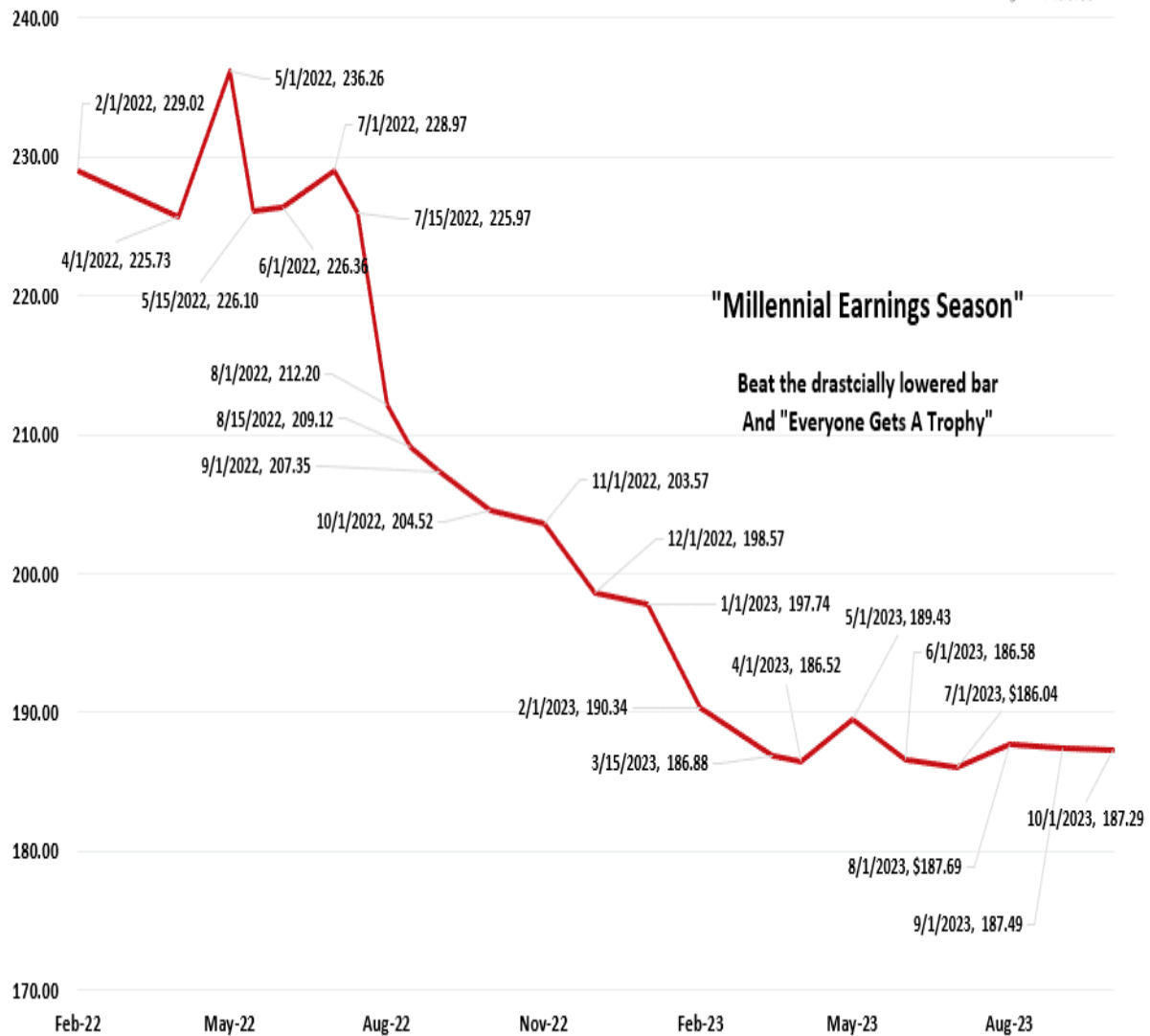


Speaking of earnings, as discussed in [**?October Weakness Before Year-End Run,?**](#) earnings season is always a game of *?beat the estimate.?*

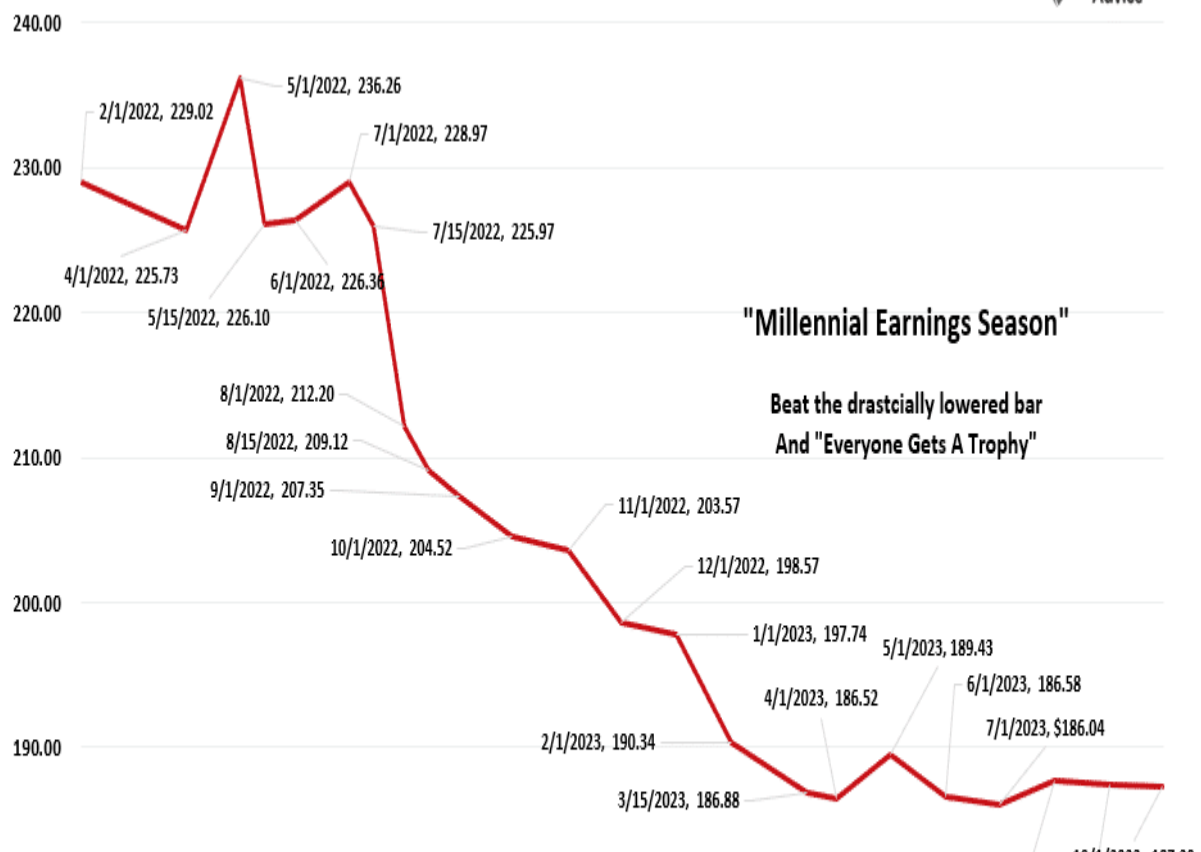
*?As is always the case, analysts have significantly lowered the earnings bar? heading into reporting season. As noted in [**?Trojan Horses,**](#) analysts are always wrong, and by a large degree. This is why we call it **?Millennial Earnings Season.** Wall Street continuously lowers estimates as the reporting period approaches so **?everyone gets a trophy.?***

The chart below shows the changes in Q3 earnings estimates from February 2022, when analysts provided their first estimates. Given that estimates for Q3 have fallen from a peak of \$236 to \$187, a 20% decline, such should generate a high *?beat rate?* by companies. In turn, those *?beats?* will boost investor confidence, which will help fuel stock prices in the short term.

Analysts Estimates For Q3 - 2023 Over Time



Analysts Estimates For Q3 - 2023 Over Time

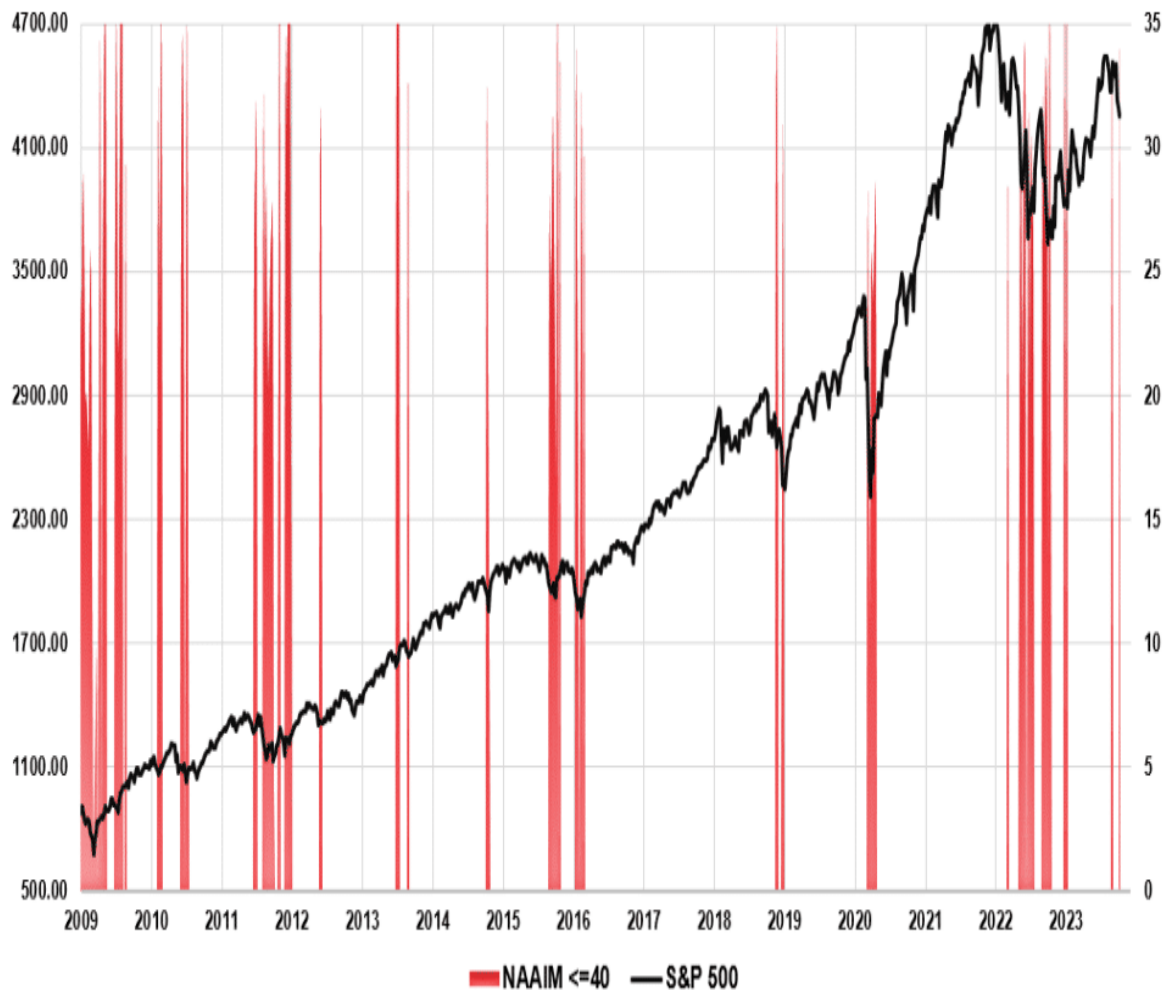


With markets heading into earnings season with oversold conditions, more negative short-term sentiment, and reduced equity allocations by professional managers, such should add further support to the rally. [As noted last week,](#)

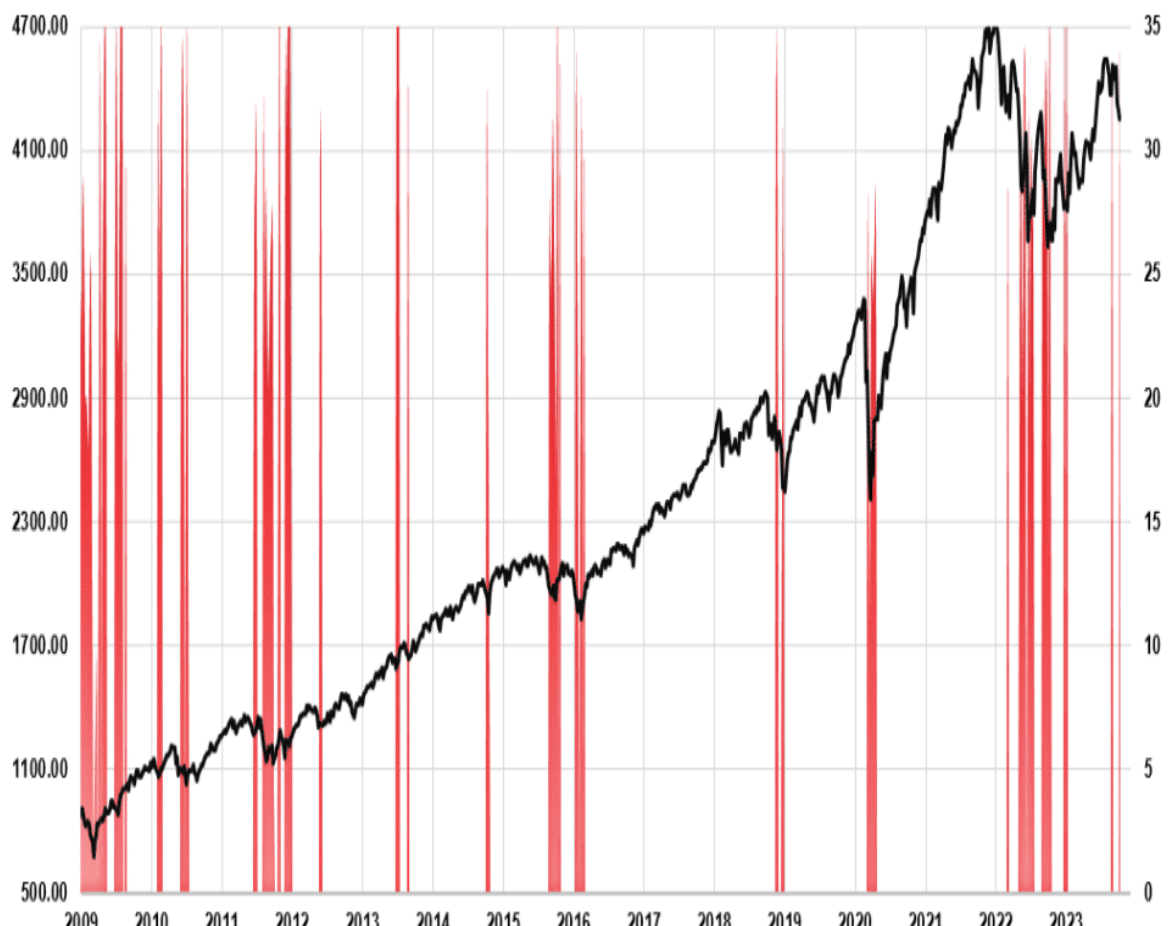
?Professional money managers tend to?Sell

Bottoms.?#2013266080;Last week, the equity exposure index fell below 40%, which is normally close to or at market bottoms.?

PROFESSIONAL MANAGERS SELL BOTTOMS



PROFESSIONAL MANAGERS SELL BOTTOMS



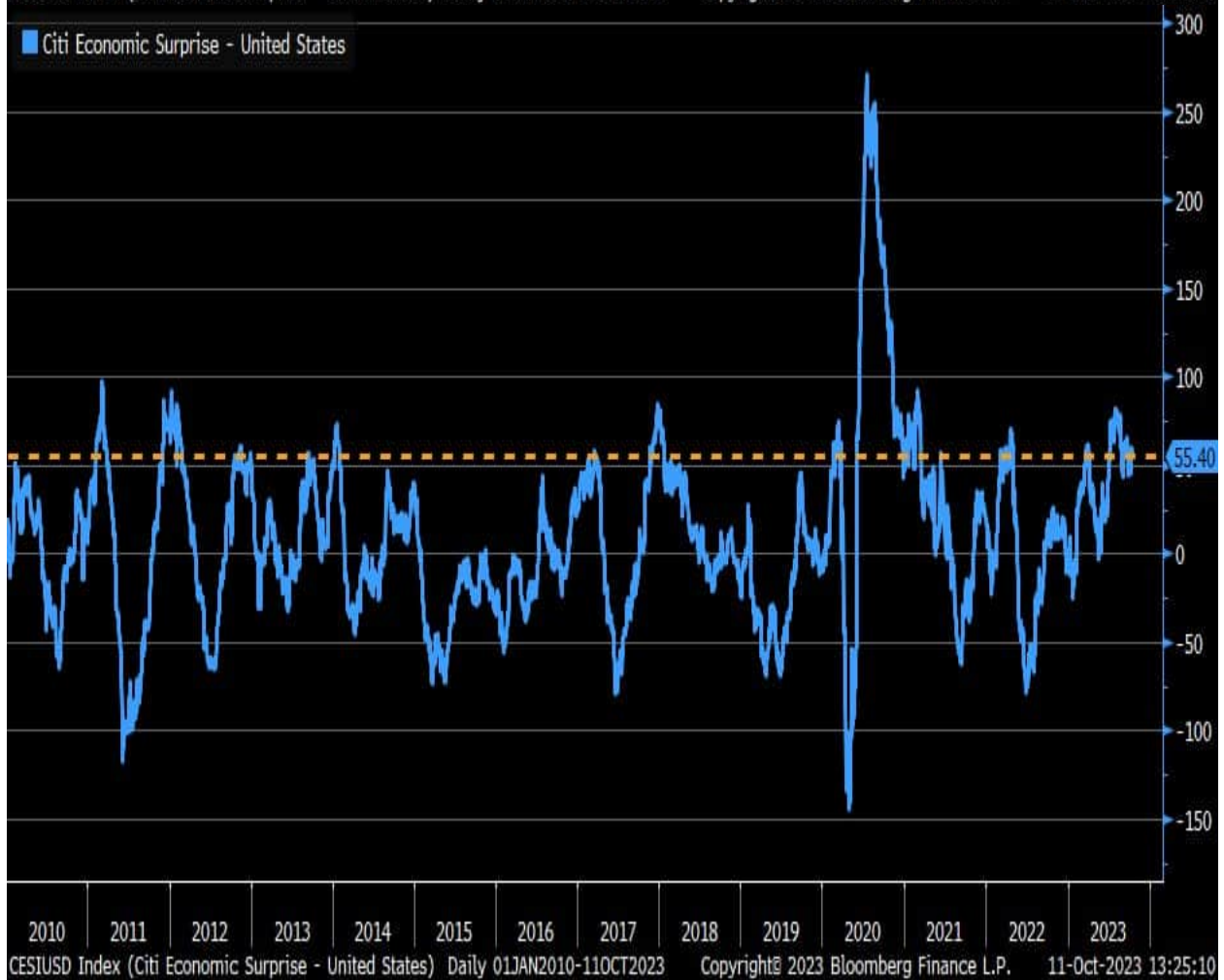
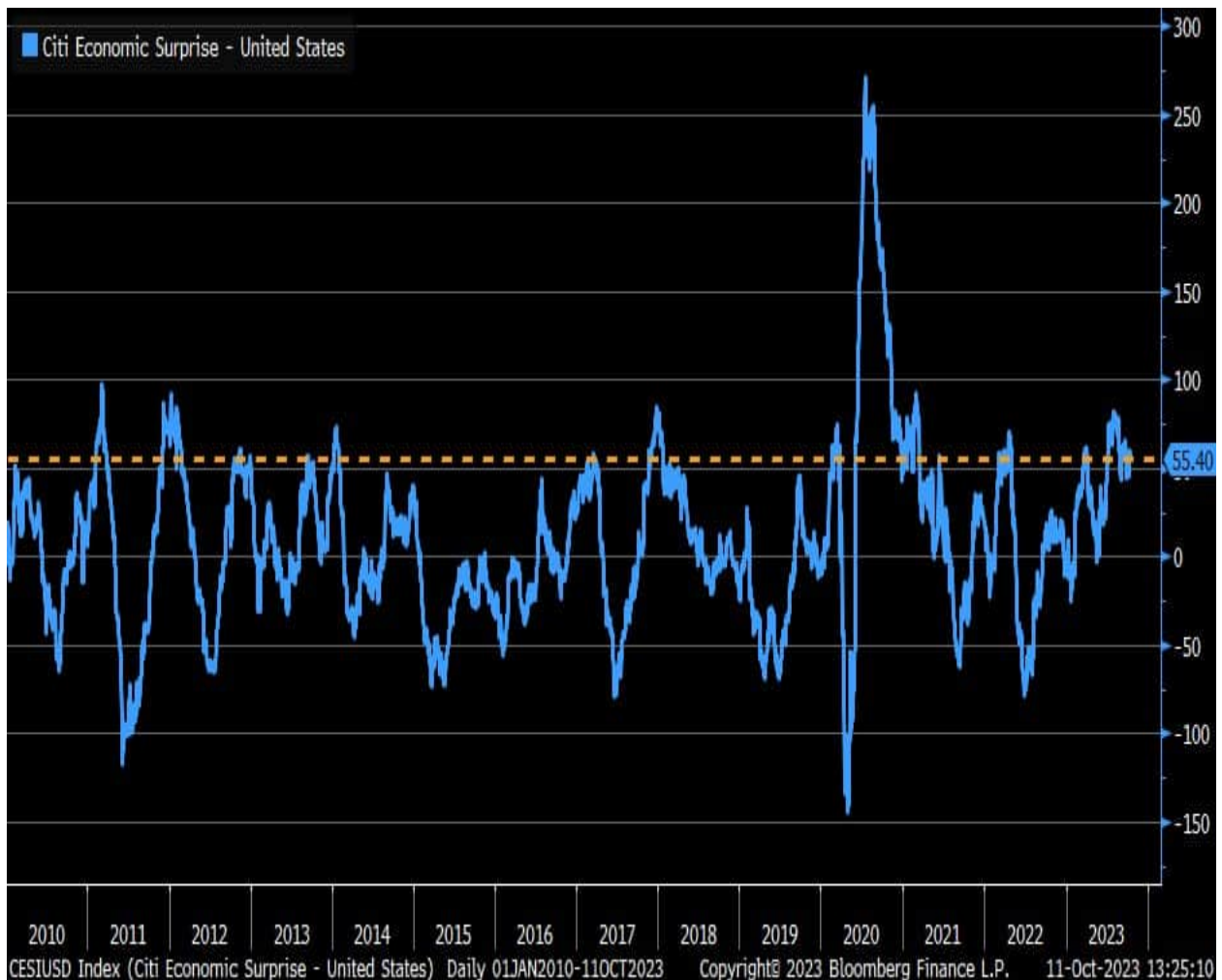
Since professional managers have lagged in performance this year due to the narrowness of the S&P rally, they potentially suffered *career risk* when end-of-the-year reporting comes. Therefore, we will likely see a reversal of positioning by these managers to chase stocks higher. For now, the 20-DMA is temporary support, and a break above the 50-DMA should set the markets up to rally into year-end.



Citi Economic Surprise Index

The Citi Economic Surprise measures economic data to economists' forecasts for said data. When economists go through periods where they consistently underestimate economic statistics, the index rises. Conversely, when they are overly optimistic, it falls. The index fluctuates as economists are constantly reevaluating their models and forecasts in changing environments.

As shown below, the index is approaching levels that marked peaks over the prior 13 years. If the index is indeed topping, we are in for a period where economic data is weaker than forecasts. Consequently, if that is to occur, weaker-than-expected economic data should take some pressure off the Fed to keep hiking rates. It should also be positive for the bond market as weaker economic data alleviates inflationary pressures.



?Tis The Season For A Rally

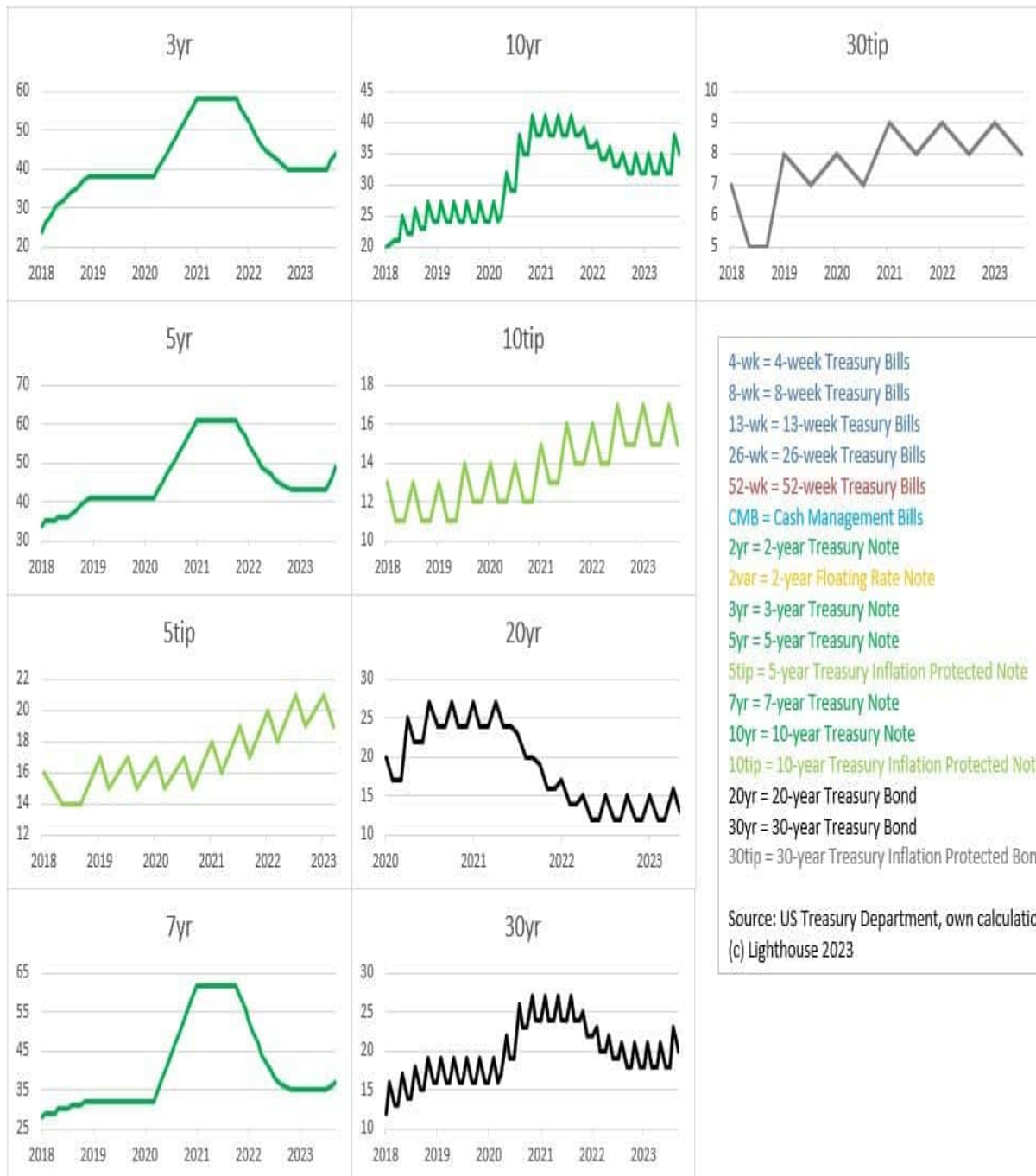
As we share below, this year, the S&P 500 has been closely following the average market path of the last thirty years. Assuming the correlation continues, the recent downward trend is likely over, and the S&P 500 should rally through year-end. While the markets often produce positive fourth-quarter returns, we must not get too complacent as there are unique factors this year that could derail the trade.



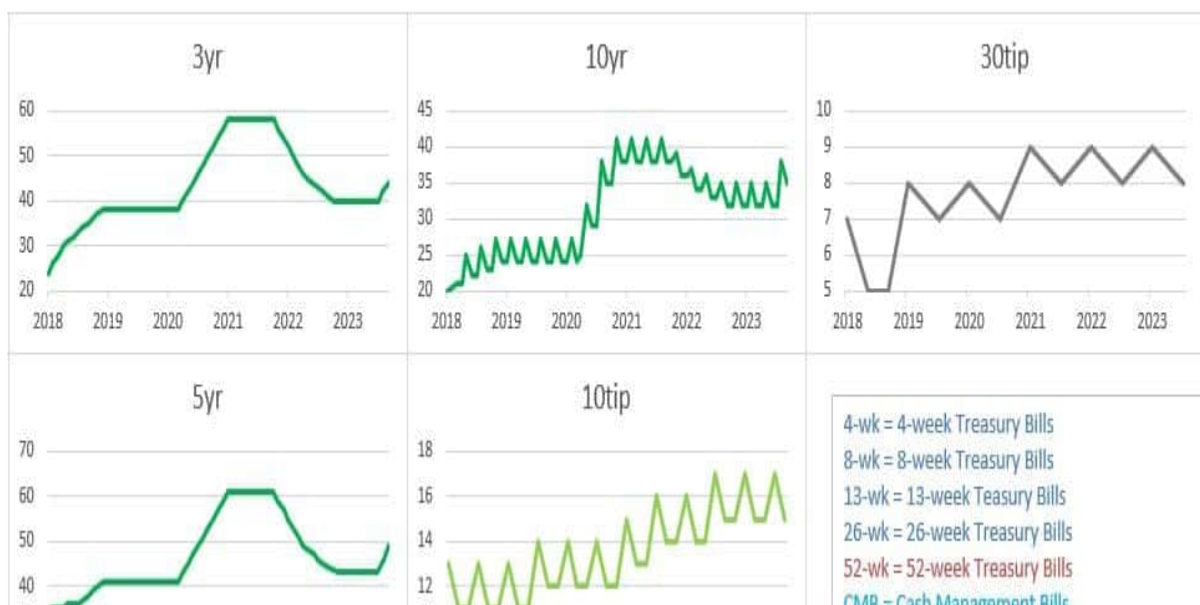
More On False Bond Narratives

The last two daily Commentaries explored popular narratives being used to explain why long-term bond yields are rising. Yesterday's Commentary led with a discussion of Treasury debt issuance. In particular, we showed that concerns that the Treasury is issuing massive amounts of debt are overblown. The two graphs below add credence to our thoughts. Note that auction sizes for longer-term bonds in the first graph are above pre-pandemic levels but below their 2021 peaks. The second graph shows that the Treasury is focusing its increased funding needs on shorter maturity bills.

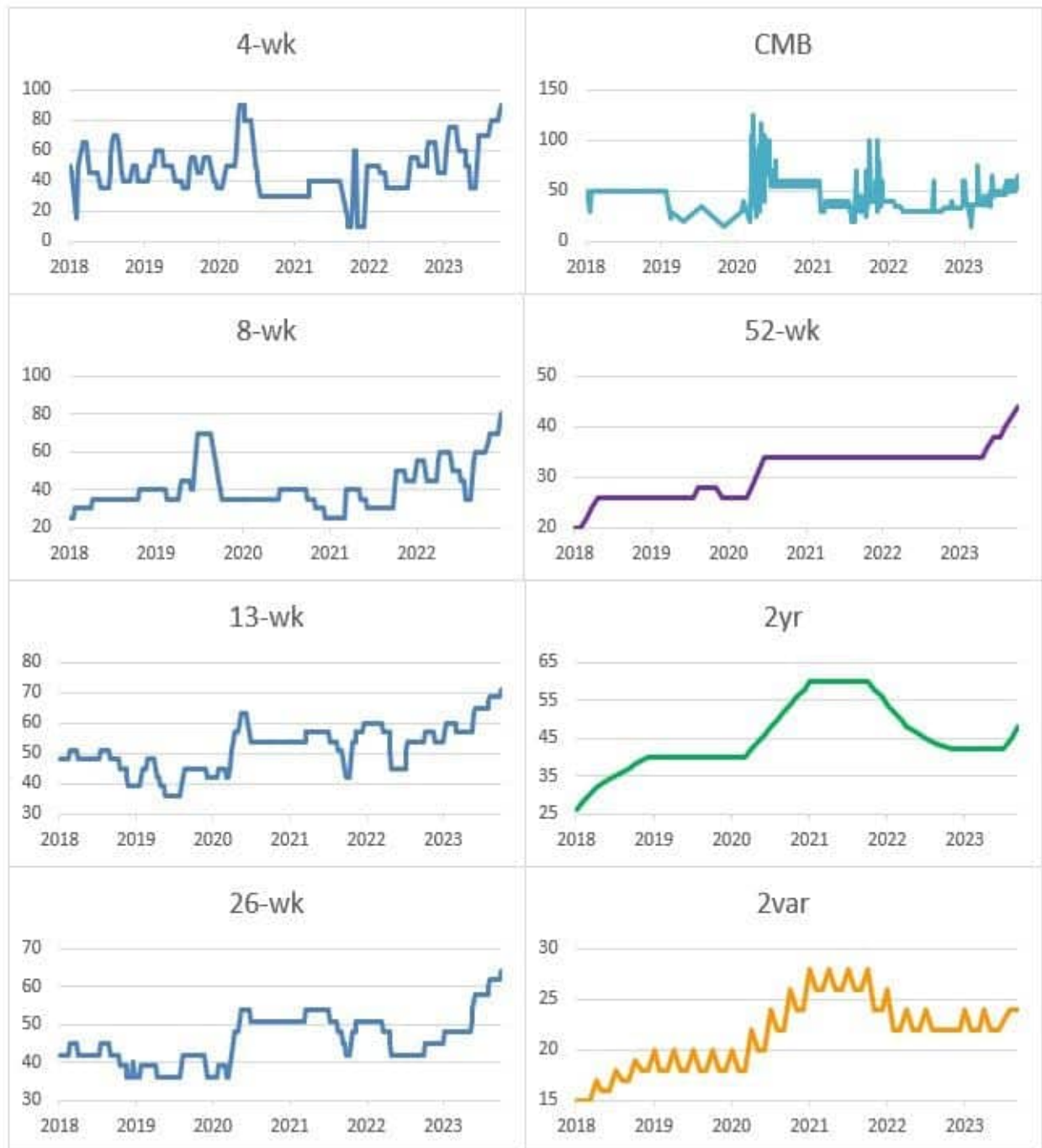
US Treasury Auction Sizes



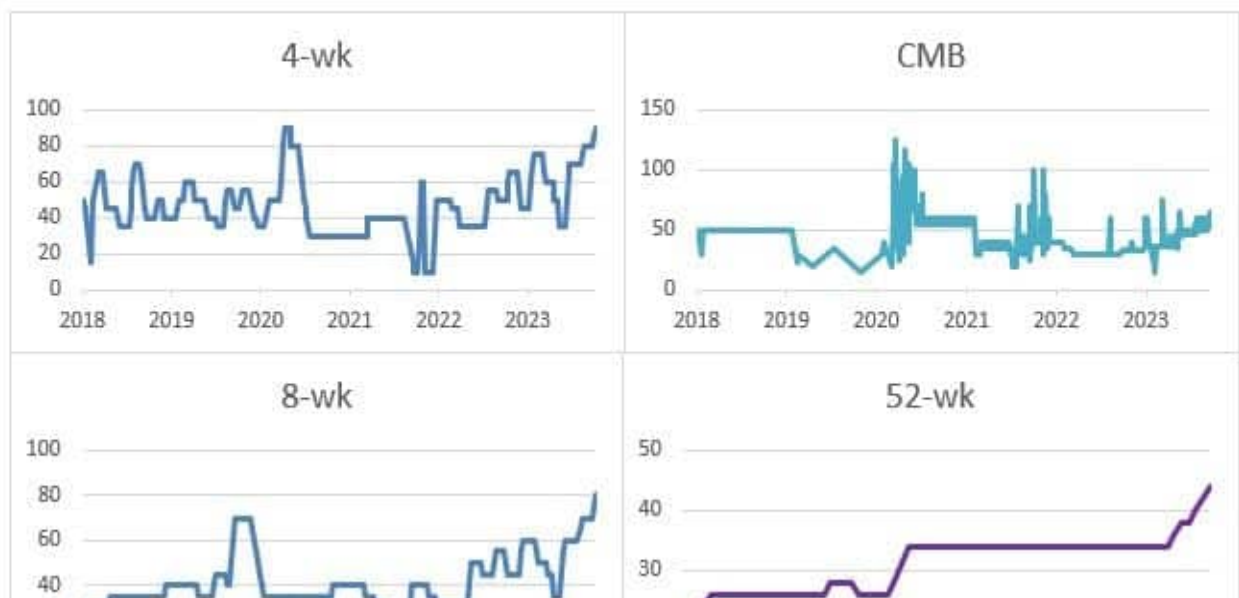
US Treasury Auction Sizes



US Treasury Auction Sizes




US Treasury Auction Sizes



Tweet of the Day



Meb Faber  @MebFaber · Oct 6



Investing quote of the day:

“The function of economic forecasting is to make astrology look respectable.”



John Kenneth Galbraith



Meb Faber  @MebFaber · Oct 6



Investing quote of the day:

“The function of economic forecasting is to make astrology look respectable.”



John Kenneth Galbraith

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

If you found this blog useful, please send it to someone else, share it on social media, or contact us to set up a meeting.

Post Views: 0

2023/10/13

[> Back to All Posts](#)