



Kailash Cautions About Profit Margins

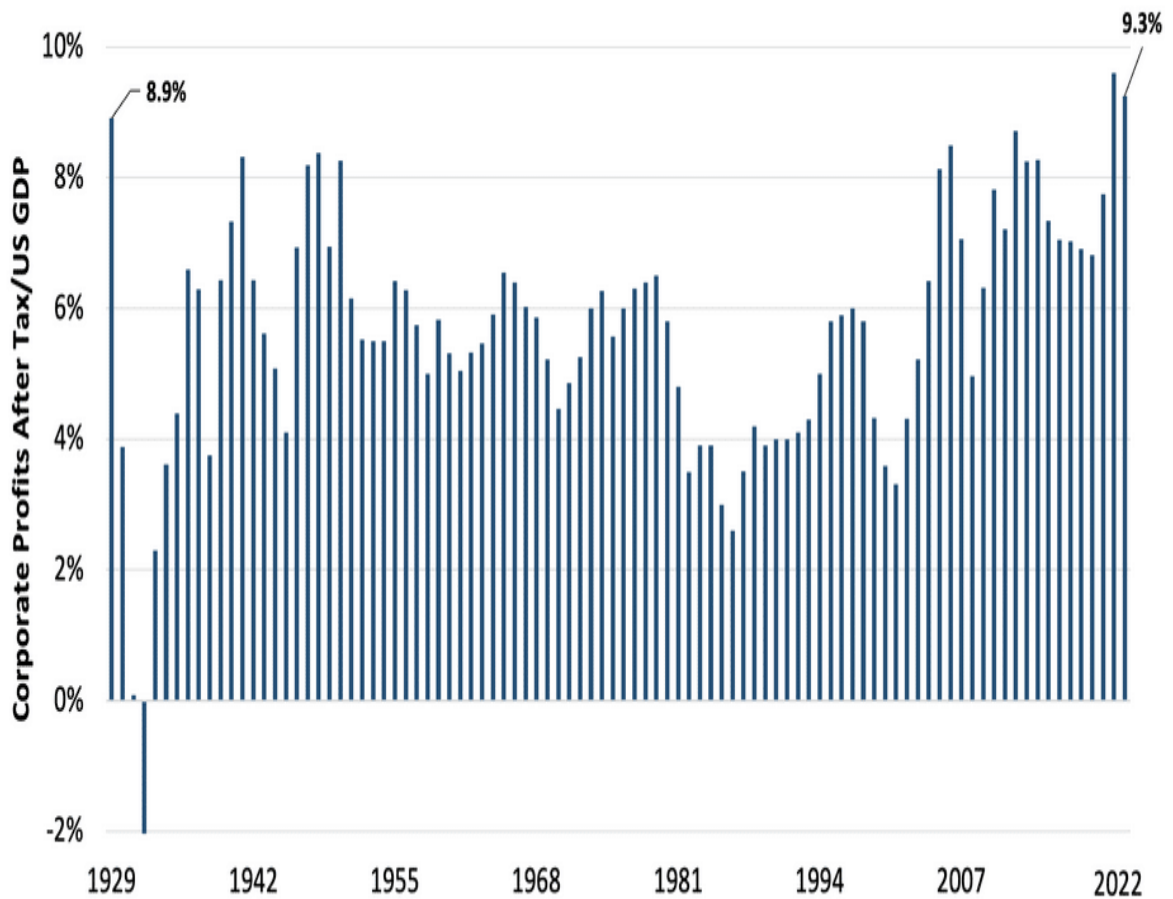
Our friends at [Kailash Concepts](#) recently opined on record high-profit margins. Kailash's graph below shows that corporate profit margins, measured by total corporate profits as a percentage of economic activity, are at the highest levels in nearly 100 years. Kailash highlights that similar margins were seen in the run-up to the Great Depression. There are multiple reasons for the higher-than-normal profit margin. Before we get into some of them, consider that if companies are garnering a larger share of the economic spoils, then by default, individuals must get the short end of the stick. Hence, it's not a coincidence that we have seen a spate of high-profile strikes and contract renegotiations.

The Kailash article notes three important contributors to outsized margins. Per Kailash Concepts:

Across numerous pieces of research, we have cautioned that these record margins were sourced from a combustible mix of leverage, falling interest rates, falling labor costs and that all three secular trends could be stalling or ending.

If interest rates are at a new higher plateau, as some suggest, corporations must either face profit pressures from high-interest expenses or pass said costs onto consumers. However, if interest rates are higher, inflation is likely higher. Under this circumstance, corporations will struggle to pass through rising materials and production costs and higher interest and labor expenses. The labor market is historically tight, with unemployment hovering at 50-year lows. If labor market dynamics do not revert to pre-pandemic norms, employees will continue to have leverage. Labor strikes will become even more commonplace.










Corporate Profits After Tax/Total US GDP












Source: Kailash Capital, St. Louis Fed, Fortune Magazine; Data from 12/31/1929 - 12/31/2022

What To Watch Today

Economics

Time	Event	Impact	Actual	Dev	Consensus	Previous
MONDAY, OCTOBER 30						
14:30	 USD Dallas Fed Manufacturing Business Index(Oct)		-	-	-	-18.1 
15:30	 USD 3-Month Bill Auction		-	-	-	5.31% 
15:30	 USD 6-Month Bill Auction		-	-	-	5.325% 

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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*
🌞	HSBC	HSBC Holdings plc	\$734,155,040,000	Sep/2023		N/A	10/25/2022	\$0.48
🌞	MCD	McDonald's Corporation	\$186,439,553,925	Sep/2023	\$2.99	14	10/27/2022	\$2.68
🌙	ANET	Arista Networks, Inc.	\$52,572,982,586	Sep/2023	\$1.41	10	10/31/2022	\$1.13
🌙	WELL	Welltower Inc.	\$43,075,262,637	Sep/2023	\$0.89	9	11/07/2022	\$0.84
🌙	PSA	Public Storage	\$41,984,559,891	Sep/2023	\$4.21	9	11/01/2022	\$4.13
🌞	ON	ON Semiconductor Corporation	\$35,726,282,101	Sep/2023	\$1.35	14	10/31/2022	\$1.45
🌙	SPG	Simon Property Group, Inc.	\$34,787,801,932	Sep/2023	\$2.98	8	11/01/2022	\$2.97
🌙	ACGL	Arch Capital Group Ltd.	\$30,750,078,984	Sep/2023	\$1.54	5	10/26/2022	\$0.28
🌙	MPWR	Monolithic Power Systems, Inc.	\$19,305,178,680	Sep/2023	\$2.41	7	10/27/2022	\$2.64
🌙	PINS	Pinterest, Inc.	\$16,147,153,854	Sep/2023	(\$0.03)	8	10/27/2022	(\$0.09)
🌞	CHKP	Check Point Software Technologies Ltd.	\$15,998,284,800	Sep/2023	\$1.75	13	10/27/2022	\$1.51
🌞	L	Loews Corporation	\$14,428,043,427	Sep/2023		5	N/A	\$0.86
🌞	WDC	Western Digital Corporation	\$12,315,739,467	Sep/2023	(\$2.10)	5	10/27/2022	(\$0.02)
🌞	RVTY	Revvity, Inc.	\$12,283,134,502	Sep/2023	\$1.19	8	11/08/2022	\$1.51
🌞	CNA	CNA Financial Corporation	\$10,896,767,679	Sep/2023	\$0.92	3	10/31/2022	\$0.78
🌙	BCH	Banco De Chile	\$9,864,317,979	Sep/2023	\$0.66	2	10/28/2022	\$0.74
☹️	FMS	Fresenius Medical Care Corporation	\$9,717,853,430	Sep/2023	\$0.37	3	10/30/2022	\$0.40
🌙	LSCC	Lattice Semiconductor Corporation	\$9,527,286,735	Sep/2023	\$0.38	4	10/31/2022	\$0.37
🌙	PEAK	Healthpeak Properties, Inc.	\$9,157,688,781	Sep/2023	\$0.44	9	11/01/2022	\$0.43
🌙	QGEN	Qiagen N.V.	\$8,377,818,800	Sep/2023	\$0.49	7	11/07/2022	\$0.53
🌞	XPO	XPO, Inc.	\$8,015,650,790	Sep/2023	\$0.63	8	10/31/2022	\$1.45
🌙	FMC	FMC Corporation	\$7,152,220,896	Sep/2023	\$0.45	5	11/01/2022	\$1.23
🌙	VFC	V.F. Corporation	\$6,933,523,821	Sep/2023	\$0.65	10	10/26/2022	\$0.73
🌞	SOFI	SoFi Technologies, Inc.	\$6,555,789,146	Sep/2023	(\$0.07)	9	11/01/2022	(\$0.09)
🌙	ZI	ZoomInfo Technologies Inc.	\$6,226,791,805	Sep/2023	\$0.15	8	11/01/2022	\$0.12
🌙	BRX	Brixmor Property Group Inc.	\$6,102,034,672	Sep/2023	\$0.50	7	11/01/2022	\$0.49
🌙	TREX	Trex Company, Inc.	\$5,967,710,473	Sep/2023	\$0.49	9	10/31/2022	\$0.14
🌙	THC	Tenet Healthcare Corporation	\$5,422,991,827	Sep/2023	\$1.20	8	10/20/2022	\$1.44
🌙	CACC	Credit Acceptance Corporation	\$5,268,898,834	Sep/2023	\$12.88	2	11/01/2022	\$13.36
🌙	RMBS	Rambus, Inc.	\$5,263,411,087	Sep/2023	\$0.33	2	10/31/2022	\$0.40
🌙	AMKR	Amkor Technology, Inc.	\$5,216,840,809	Sep/2023	\$0.53	1	10/31/2022	\$1.24
🌙	RIG	Transocean Ltd.	\$5,128,923,154	Sep/2023	(\$0.22)	5	11/02/2022	(\$0.06)
🌙	WK	Workiva Inc.	\$5,020,861,005	Sep/2023	(\$0.35)	5	11/02/2022	(\$0.53)
🌙	KRG	Kite Realty Group Trust	\$4,455,467,336	Sep/2023	\$0.49	6	11/02/2022	\$0.48
🌙	AGNC	AGNC Investment Corp.	\$4,321,331,648	Sep/2023	\$0.56	4	10/24/2022	\$0.84
🌙	WOLF	Wolfspeed, Inc.	\$3,837,661,072	Sep/2023	(\$0.87)	8	10/26/2022	(\$0.22)
🌙	BSM	Black Stone Minerals, L.P.	\$3,764,926,984	Sep/2023	\$0.44	4	10/31/2022	\$0.46
🌙	VNO	Vornado Realty Trust	\$3,753,714,160	Sep/2023	\$0.66	9	10/31/2022	\$0.81
🌙	BCC	Boise Cascade, L.L.C.	\$3,595,152,008	Sep/2023	\$3.47	3	10/31/2022	\$5.52
🌙	INST	Instructure Holdings, Inc.	\$3,523,453,187	Sep/2023	\$0.15	6	11/01/2022	\$0.23
☹️	GT	The Goodyear Tire & Rubber Company	\$3,498,110,091	Sep/2023	\$0.17	3	10/31/2022	\$0.40

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Market Trading Update

Possibilities and probabilities are currently difficult to evaluate. The drubbing the market took this week is certainly disappointing. However, the market is approaching deep oversold conditions with some minor support heading into next week. Since March, whenever the market reached such oversold levels, a reflexive rally has ensued.



TradingView



But there are many concerns weighing on sentiment currently. The Stocktrader Almanac summed up our current thinking well.

?What?s the history when turmoil grips the planet in October, heading into the Best Six Months of the year? Since WWII, there has been an ongoing war or international conflagration going on practically all the time. Things have come to a head in October many times, with several happening in the Mideast. Current events in the Middle East are especially tense.

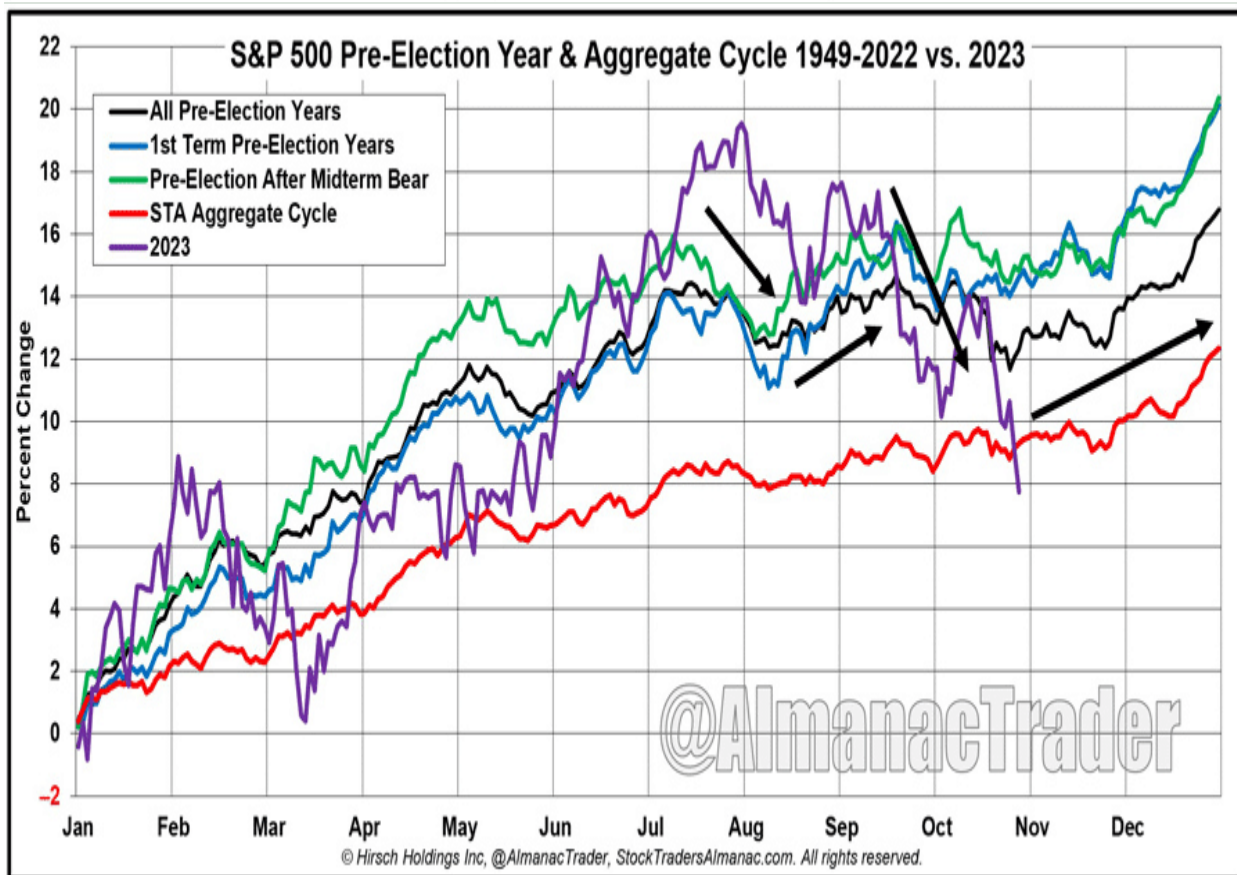
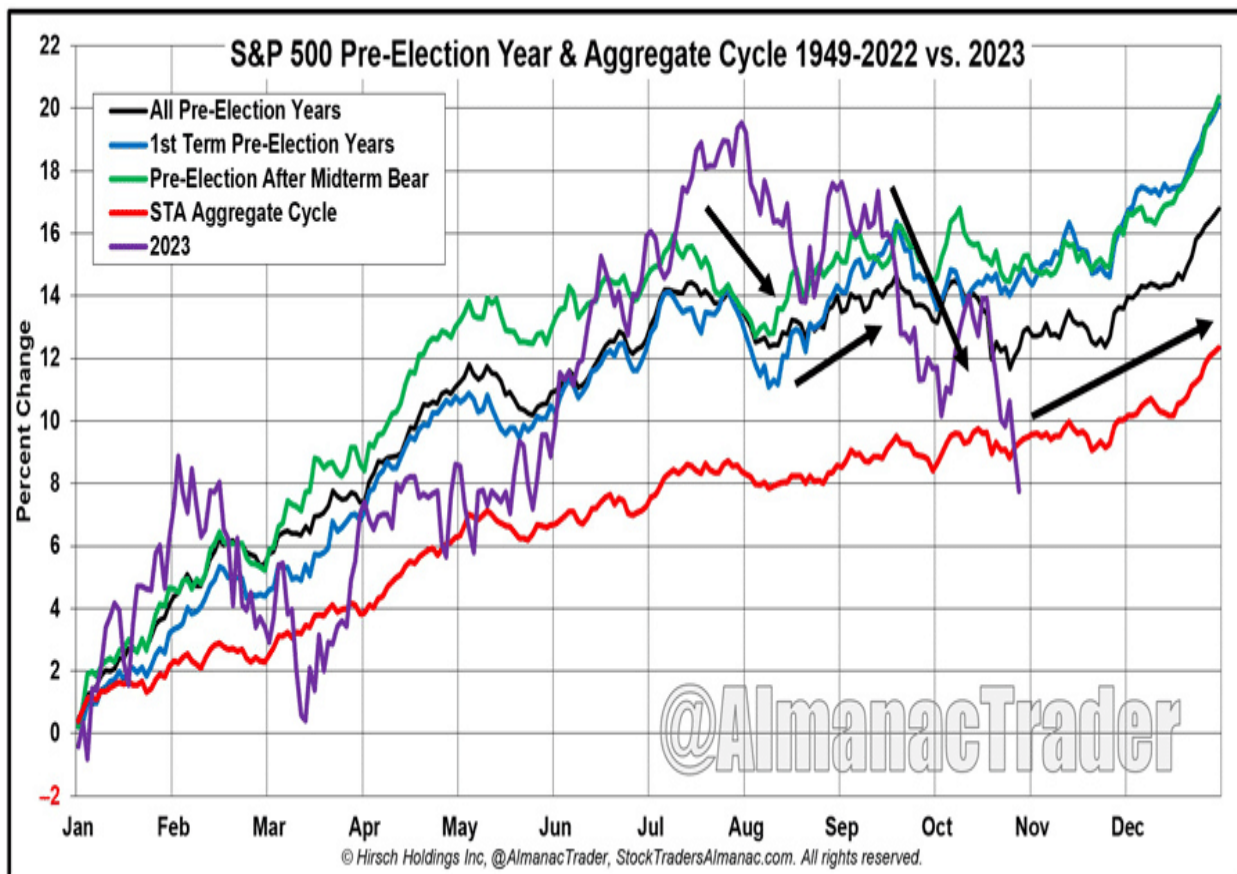
We?ve tried to pinpoint the Recent High related to the crisis and then the nearest Subsequent Low around October. We included the nearest Crisis Low, the Q4, Year, Best Six Months, and Next Year % Changes.

*We find ourselves today at a similar crossroads with the Hamas attack, Israel?s reaction and unrest in Mideast and on the world stage. **If this situation can be contained the market will likely rally sharply. If it drags on or escalates that will likely negatively impact the market.***

Best Six Months Global Turmoil S&P 500 Performance Since WWII													
Date	Crisis	Recent High	Close	Subseq Low	Close	% Change	Crisis Low	Close	% Change	Q4%	Year %	BSM%	Next Year%
10/29/1956	Suez Crisis/Russia Invades Hungary	8/2/1956	49.74	11/29/1956	44.38	-10.8	2/12/1957	42.39	-14.8	2.9	2.6	0.4	-14.3
10/15/1962	Cuban Missile Crisis	8/22/1962	59.78	10/23/1962	53.49	-10.5	6/26/1962	52.32	-12.5	12.1	-11.8	23.5	18.9
10/6/1973	Arab-Israeli War/Oil Embargo	8/1/1973	106.83	12/5/1973	92.16	-13.7	10/3/1974	62.28	-41.7	-10.0	-17.4	-16.6	-29.7
11/3/1979	Iran Hostage Crisis/USSR-Afghan War	10/5/1979	111.27	11/7/1979	99.87	-10.2	3/27/1980	98.22	-11.7	-1.3	12.3	4.4	25.8
8/2/1990	Iraq Invades Kuwait	7/16/1990	368.95	10/11/1990	295.46	-19.9	10/11/1990	295.46	-19.9	7.9	-6.6	23.5	26.3
9/11/2001	Terrorist Attack USA/Afghan War	5/21/2001	1312.83	9/21/2001	965.80	-26.4	9/21/2001	965.80	-26.4	10.3	-13.0	1.6	-23.4
10/16/2002	Iraq War Resolution	3/19/2002	1170.29	10/9/2002	776.76	-33.6	10/9/2002	776.76	-33.6	7.9	-23.4	3.5	26.4
10/9/2007	2007-2009 GFC Bank Failures Mount	10/9/2007	1565.15	11/26/2007	1407.22	-10.1	3/9/2009	676.53	-56.8	-3.8	3.5	-10.6	-38.5
9/15/2008	2007-2009 GFC Lehman Bros Fails	9/2/2008	1277.58	11/20/2008	752.44	-41.1	3/9/2009	676.53	-47.0	-22.6	-38.5	-9.9	23.5
10/7/2023	Israel-Hamas War*	7/31/2023	4588.96	10/26/2023	4137.23	-9.8	* As of 10/26/2023 Close. Not in Averages.						
						Average:	-18.6	-29.4	0.4	-10.3	2.2	1.7	
						Median:	-12.3	-26.4	2.9	-11.8	1.6	18.9	
						Up:	0	5	3	6	5		
						Down:	9	4	6	3	4		
						% Up:	0.0	55.6	33.3	66.7	55.6		

Best Six Months Global Turmoil S&P 500 Performance Since WWII													
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						Median:	-12.3	-26.4	2.9	-11.8	1.6	18.9	
						Up:	0	5	3	6	5		
						Down:	9	4	6	3	4		
						% Up:	0.0	55.6	33.3	66.7	55.6		

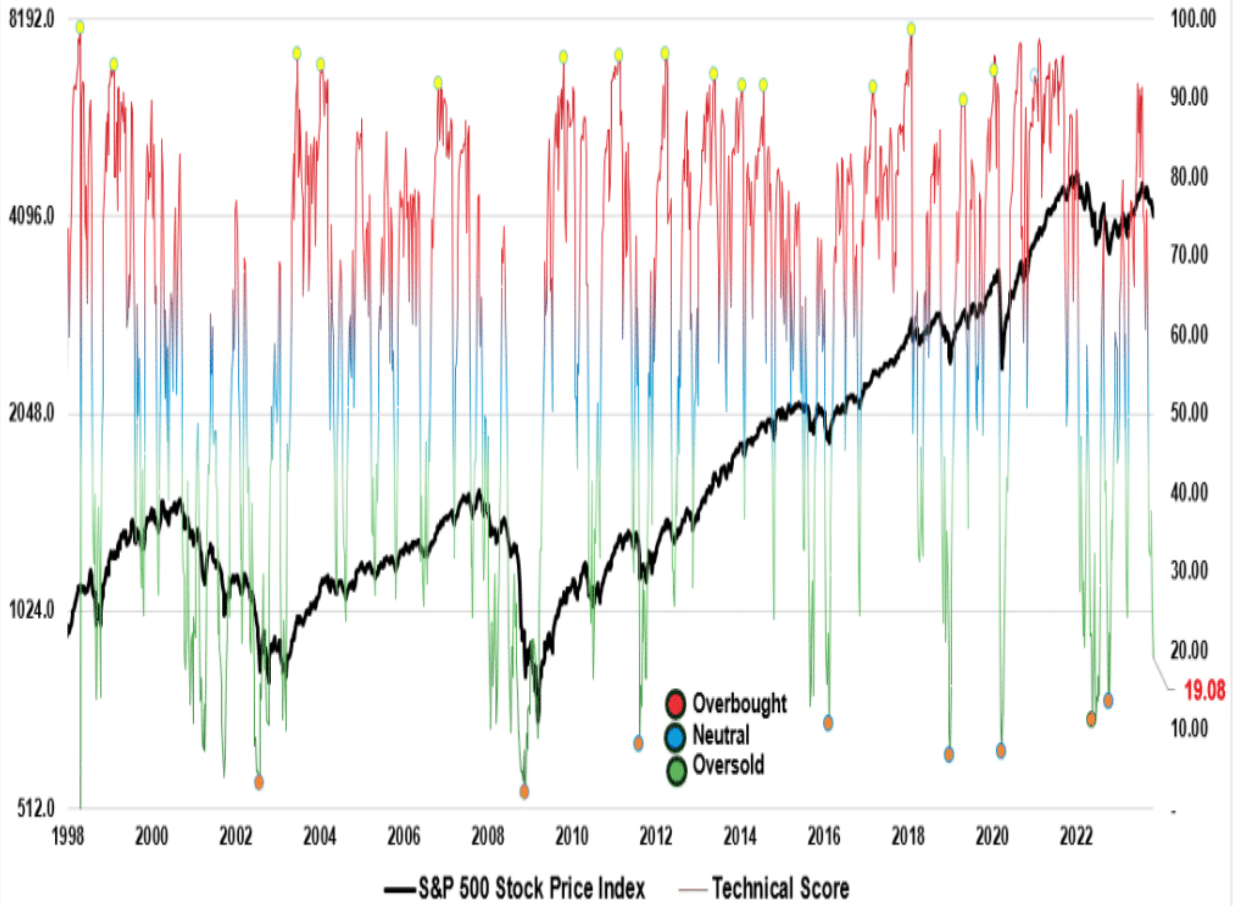
We are still in the window of October weakness, but many seasonal factors should help support the markets.



Given the very negative levels of investor sentiment and oversold technical conditions, as shown, the possibility of a counter-trend rally is decent. Our weekly technical composite indicator has not been this oversold since October 2022 and is near levels that have historically always marked correction and bear market bottoms.

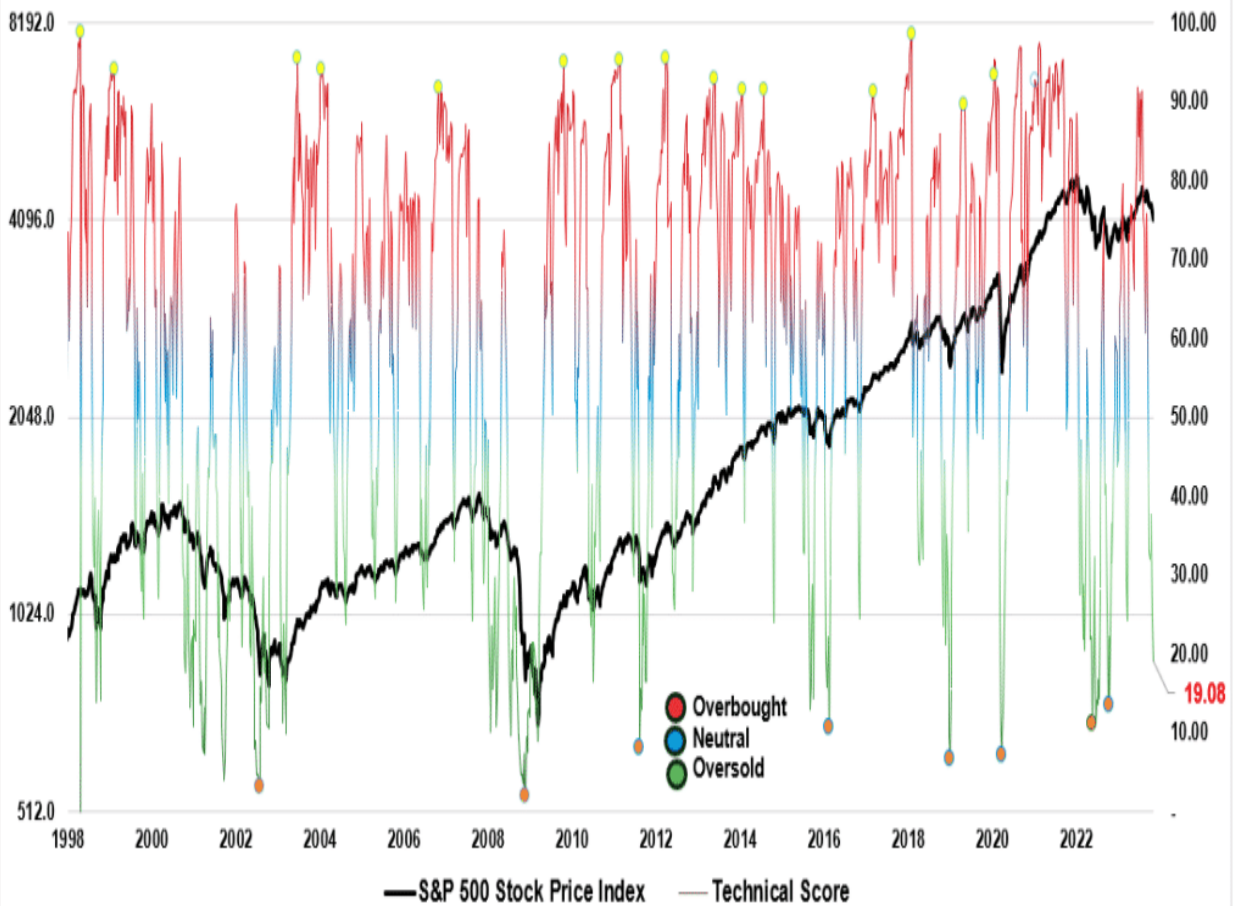
Technical Overbought/Sold Composite

(Composite Of Weekly Technical Measures)

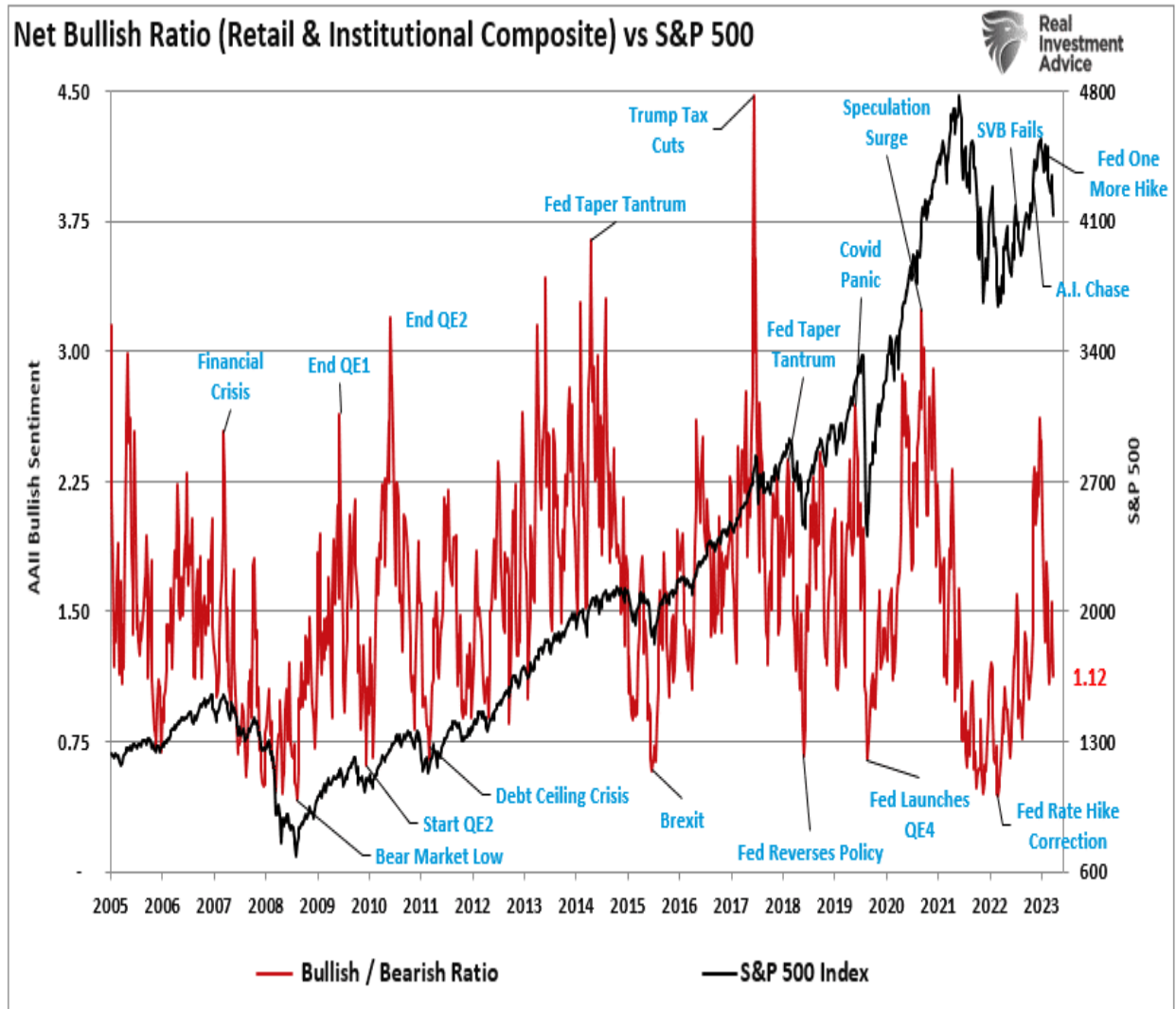


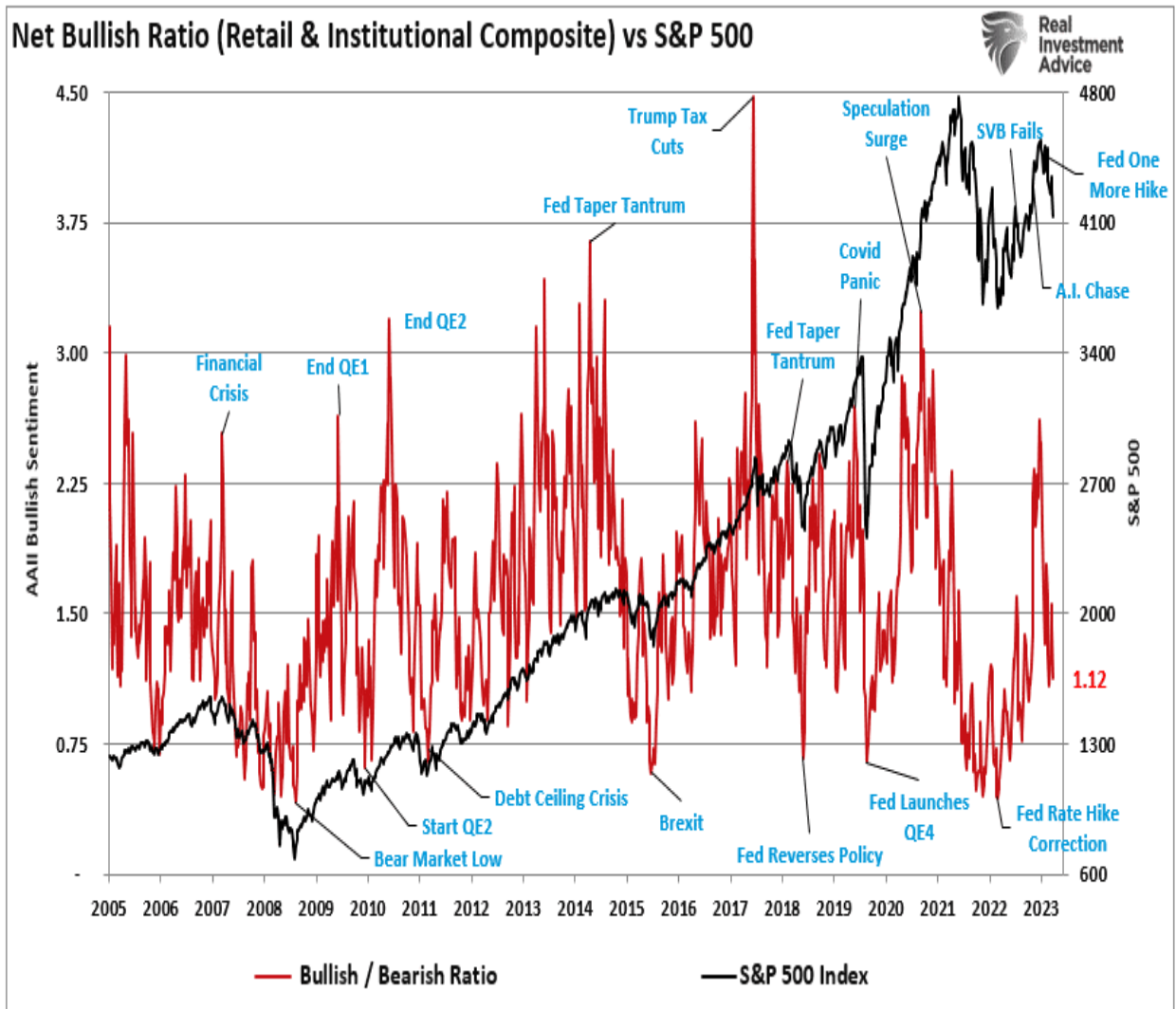
Technical Overbought/Sold Composite

(Composite Of Weekly Technical Measures)



Investor sentiment is also extremely negative, which, when it reverses, provides the fuel for a rally.





However, use rallies into year-end to rebalance equity risk as needed.

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The Week Ahead

In addition to earnings from some of the largest companies, the markets must also digest the Fed's FOMC meeting on Wednesday and the BLS labor report on Friday.

Of interest on the earnings front will be Apple's announcement on Thursday after the close. Given the volatility around the other mega-cap stocks' earnings announcements this past week, we suspect Apple's results may induce significant market gyrations.

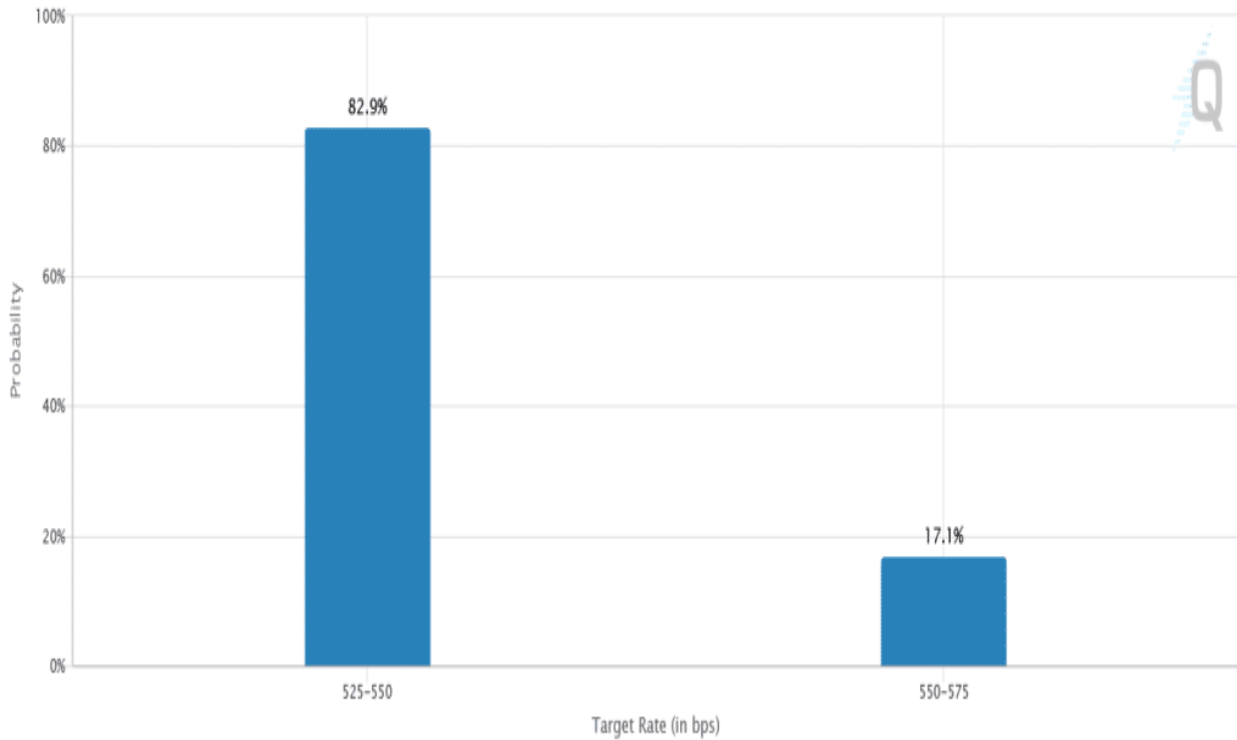
The FOMC is expected to keep rates firm at 5.50%. We suspect Jerome Powell will provide more thoughts on how the recent increase in long-term rates affects Fed policy. While many Fed members are alluding to a pause, we see no reason for the Fed to back off of their higher for longer

threat. The odds of a hike at the December 13th meeting have fallen from nearly 40% to 17%. The market appears to be buying recent Fed commentary about higher long-term interest rates doing the Fed's job for them.

Economists expect the BLS to report the economy added 172k jobs in October. Such would be more in line with recent trends. Temporary/part-time employment, wages, and hours worked will be closely followed as they tend to be good leading indicators for employment. The ADP and JOLTs job openings data on Wednesday will also be given a lot of scrutiny.

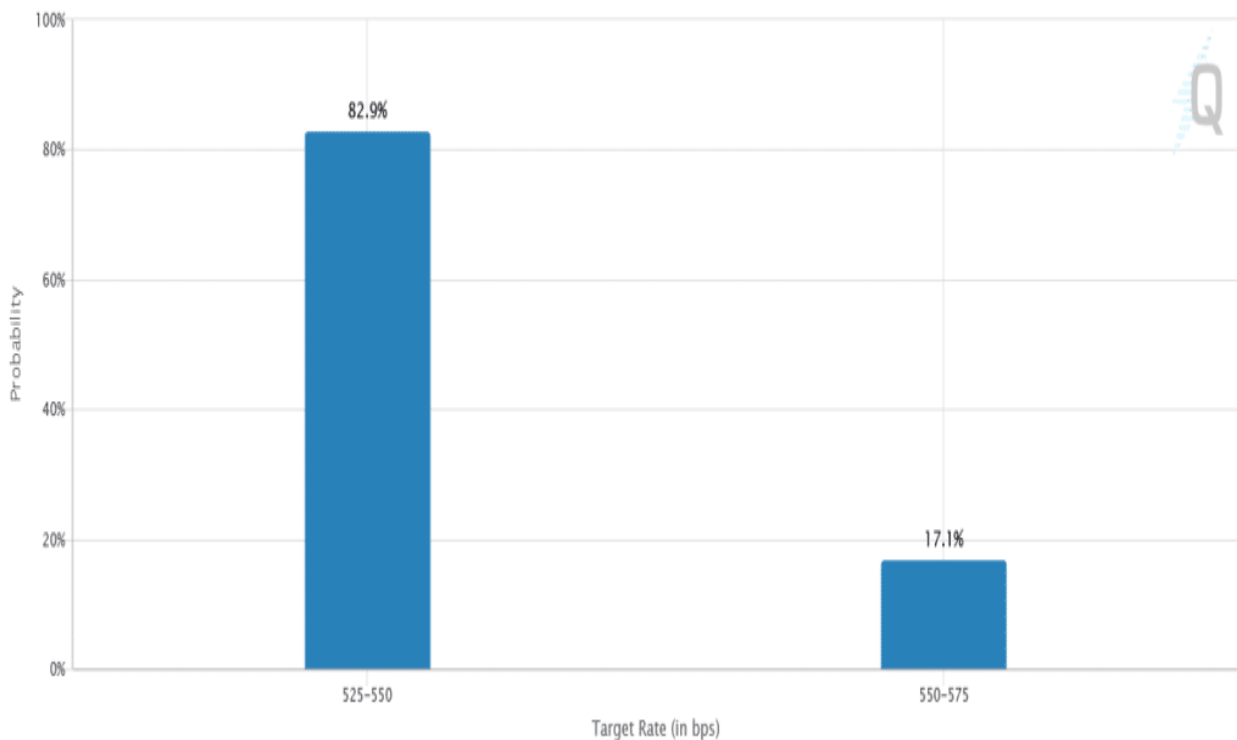
TARGET RATE PROBABILITIES FOR 13 DEC 2023 FED MEETING

Current target rate is 525-550



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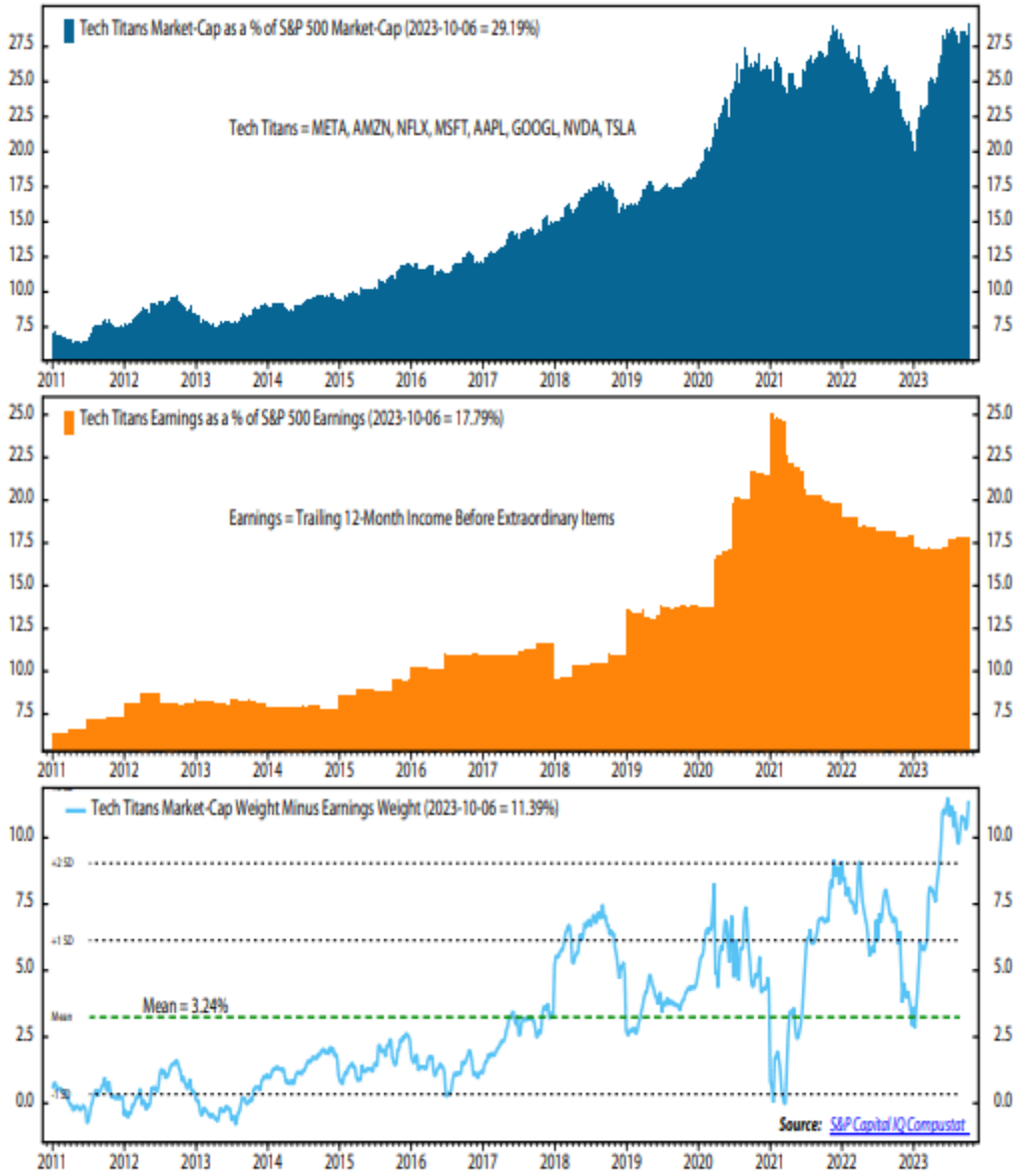
The Largest Market Cap Stocks Aren't Pulling Their Weight

The graphs below, courtesy of Ned Davis Research, are an interesting way to show that valuation expansion has been the culprit behind the significant outperformance of the top market cap stocks. The bottom graph shows the largest companies comprise a higher percentage of the S&P 500 market cap. However, their earnings are not keeping up. Currently, the stocks listed below account

for about 27.5% of the price of the S&P 500 but only 17.5% of the earnings. The recent rally that kicked off in October 2022, in which the largest cap stocks led the way, showed a remarkable 8% increase in their price contribution yet a negligible change in their earnings contribution. In the longer run, either the valuations of said stocks will decline or earnings will rise much faster than the remainder of the index.

Tech Titans: Market-Cap vs. Earnings

Weekly Data 2010-12-31 to 2023-10-06



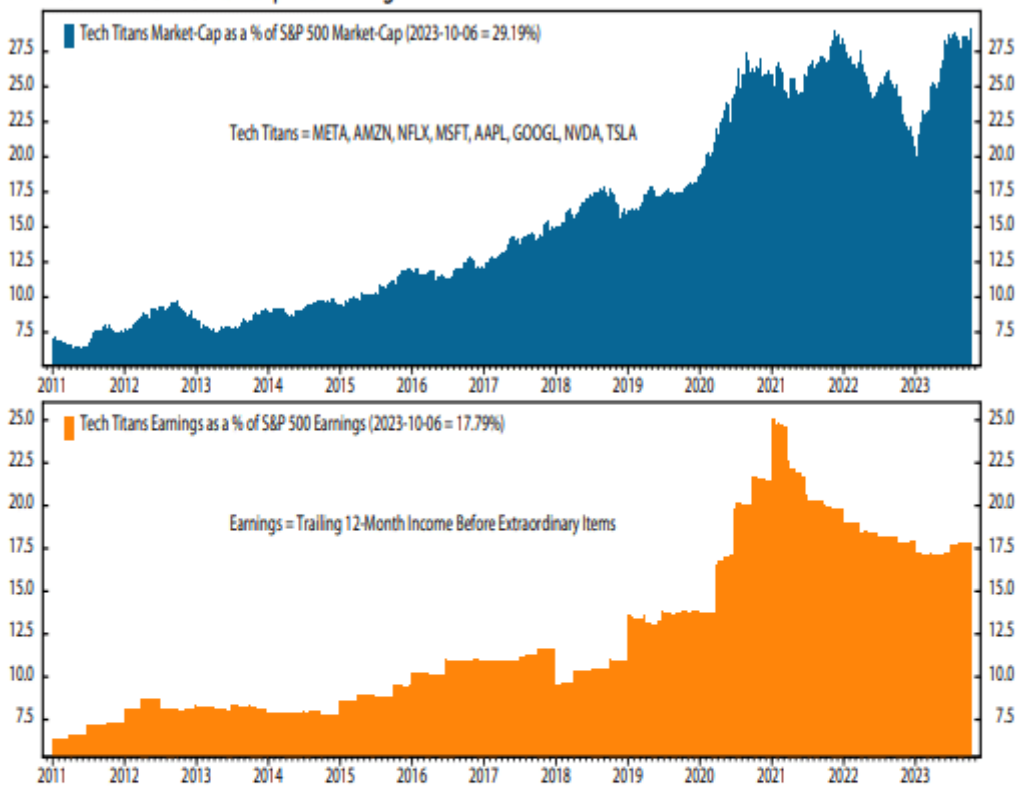
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Tech Titans: Market-Cap vs. Earnings

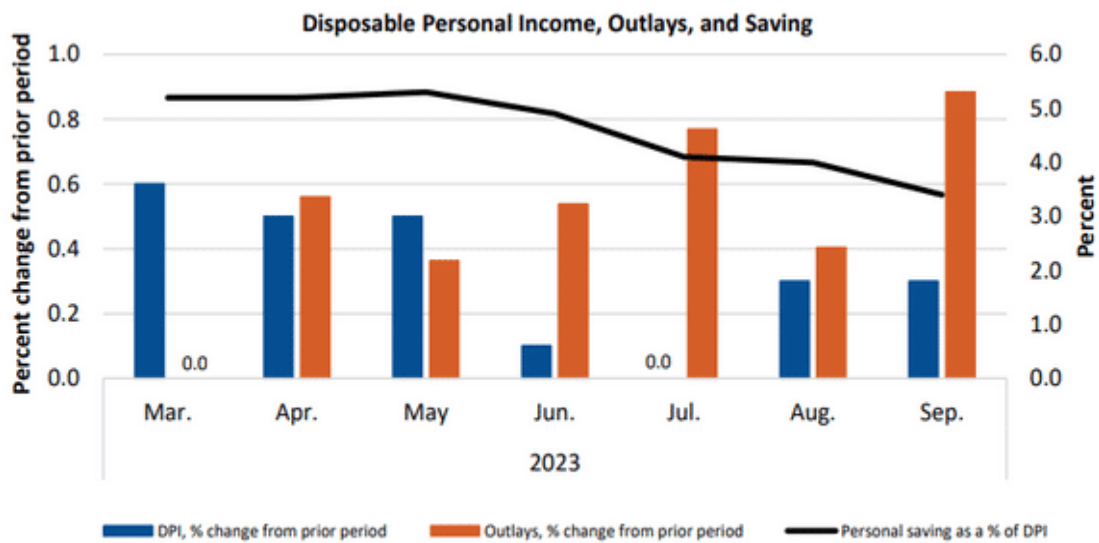
Weekly Data 2010-12-31 to 2023-10-06



PCE Prices

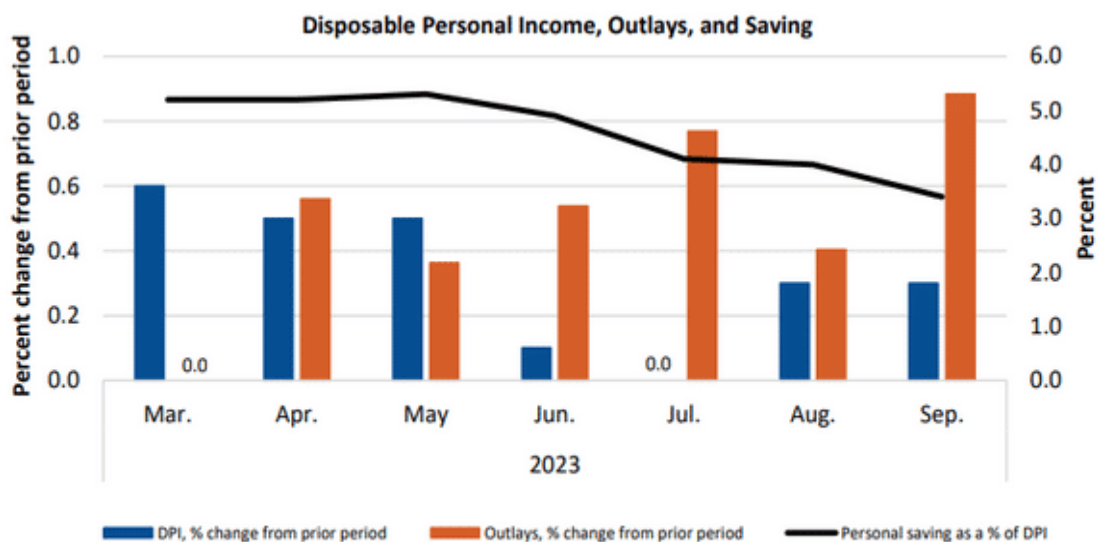
The Fed's preferred gauge of inflation, the PCE prices index, shows that prices continue to moderate but seem to be getting hung up a bit. The Core PCE index was +0.4%, and the year-over-year rate was 3.4%. Both were a tenth of a percent higher than expectations.

Also, within the report, personal income rose by 0.3%, yet personal spending rose by 0.7%. The first graph below shows that personal outlays (orange) are growing more than disposable personal income (blue). As a result, the black savings line is falling, and credit usage (third graph) is rising. The recent spate of strong personal consumption data, like retail sales, is not sustainable. Also, higher credit balances and interest rates are taking a bite out of consumption. As the second graph shows, personal interest payments, excluding mortgage payments, have risen significantly. The third graph below, courtesy of Hedgeye, shows credit card balances are rising sharply despite the surge in interest rates.



U.S. Bureau of Economic Analysis

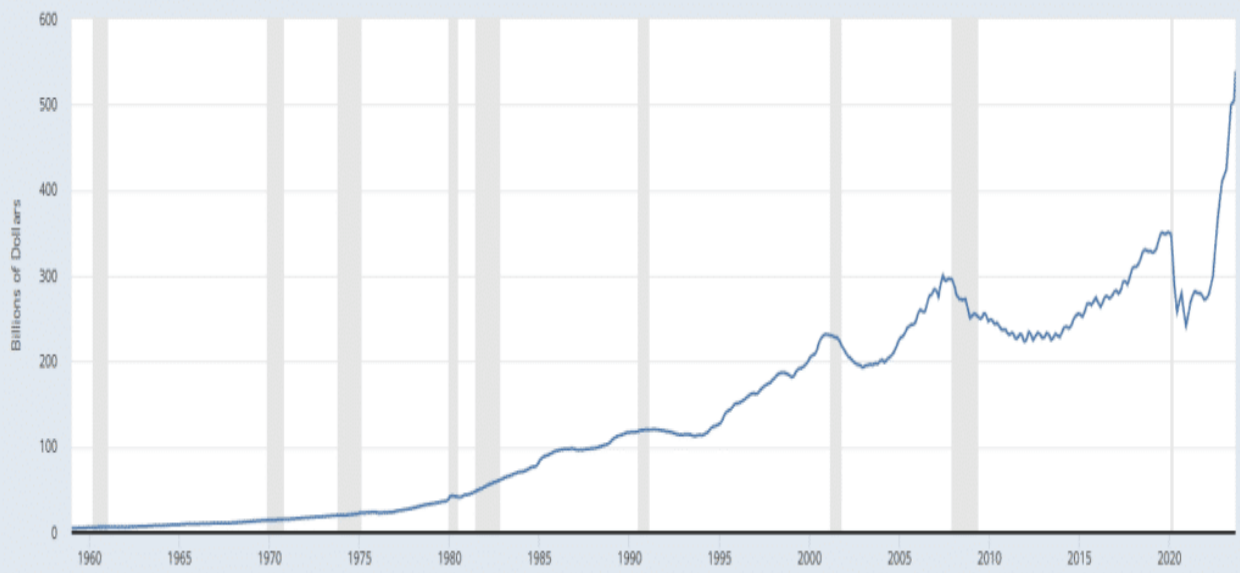
Seasonally adjusted



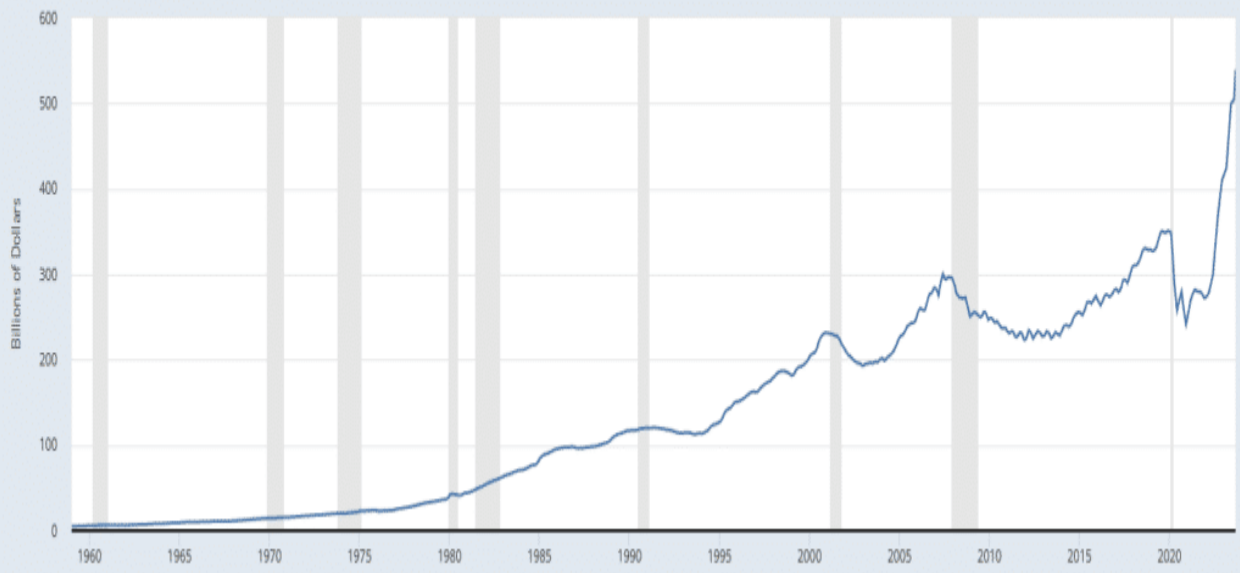
U.S. Bureau of Economic Analysis

Seasonally adjusted

FRED  Personal interest payments



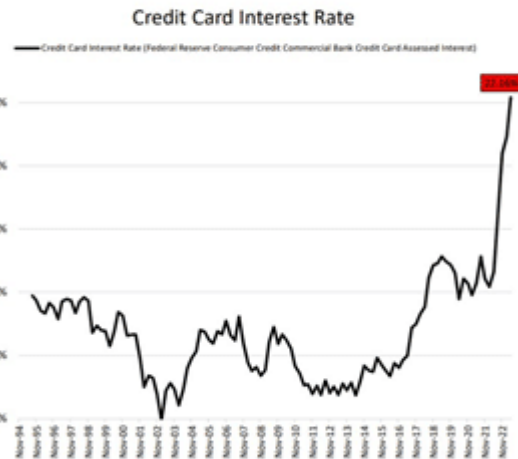
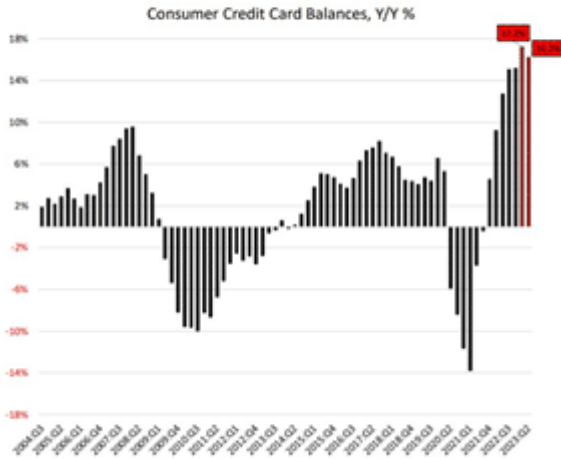
FRED  Personal interest payments



Squeeze = Intensifying: We're Just Going To Keep Updating This Chart

HEDGEYE

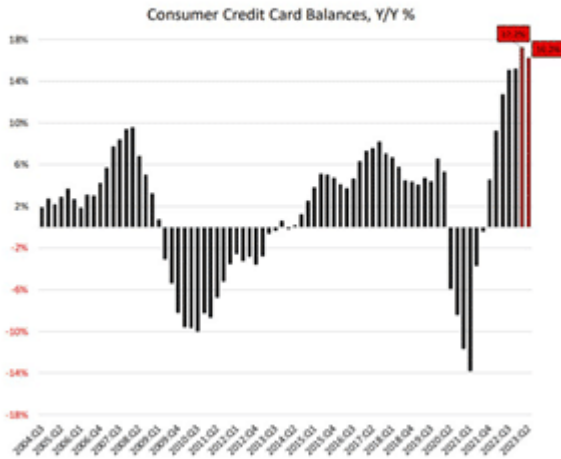
Balance ↑, Interest Rate ↑. Either consumers continued to borrow more as interest rates rose further in an attempt to smooth consumption or the increase is due to accrued interest, in which case those balances will continue to compound and further strain the capacity for discretionary/pseudo-discretionary consumption.



Squeeze = Intensifying: We're Just Going To Keep Updating This Chart

HEDGEYE

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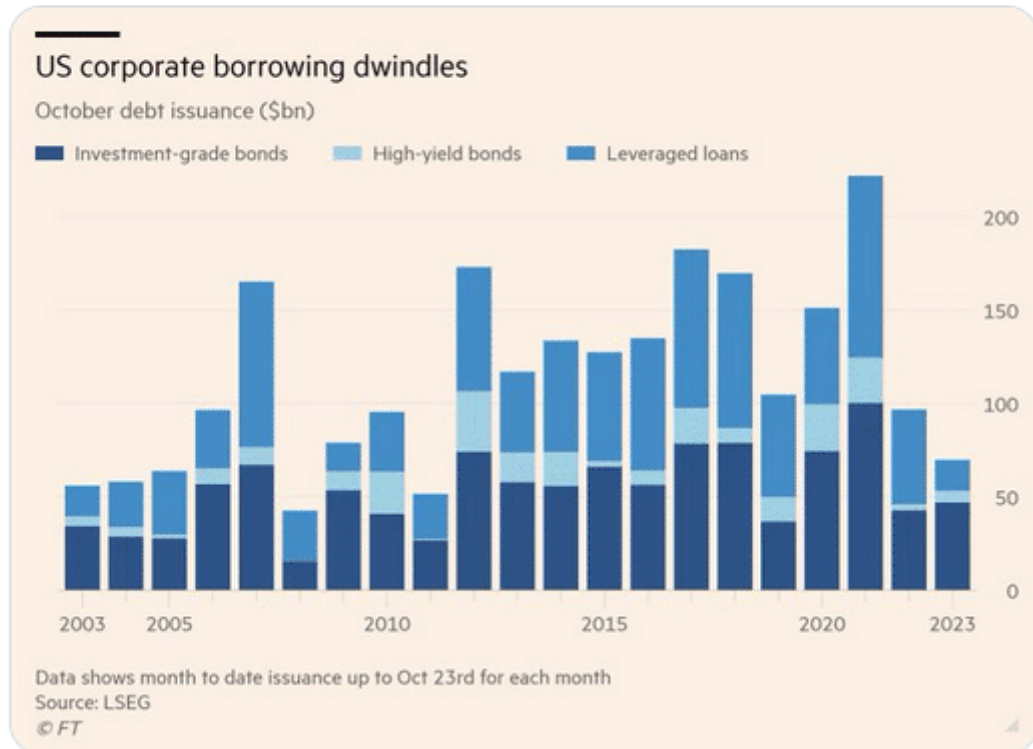
Tweet of the Day



Jesse Felder @jessefelder · 36m

...

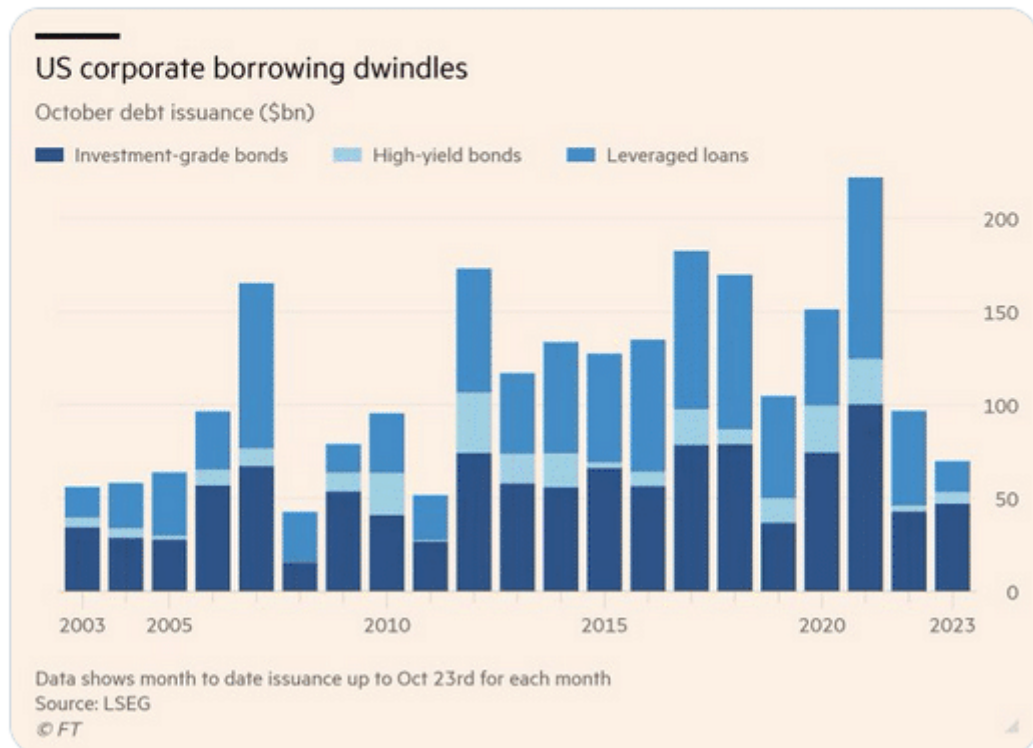
'US firms have raised just under \$70bn from sales of bonds and leveraged loans so far this month, the weakest pace of borrowing since Oct. 2011. By number of deals, the total of 50 is the lowest at this point in the month in records going back 20 years.' ft.com/content/cf98c2...



Jesse Felder @jessefelder · 36m

...

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