

Stocks Climb Toward Highs As Earnings Roll In

Yesterday, stocks advanced for the 6th day heading towards previous highs as earnings roll in. With little economic news on the calendar, there was little to worry traders currently. The S&P closed inches shy of a record high, while the Dow Jones Industrial Average did set a new high. The NASDAQ fell slightly as technology got weighed down by rising interest rates.

The volatility and downward momentum of just a few weeks ago seems like a long-lost nightmare. The trend is clearly upward, although a test of the 50-dma is still in order to confirm the recent break above resistance.



[dmc]

What To Watch Today

Economy

- 8:30 a.m. ET: [Initial jobless claims](#), week ended Oct. 16 (297,000 expected, 293,000 during prior week)
- 8:30 a.m. ET: [Continuing claims](#), week ended Oct. 9 (2.548 million expected, 2.593 million during prior week)
- 8:30 a.m. ET: **Philadelphia Fed Business Outlook**, October (25.0 expected, 30.7 in September)
- 10:00 a.m. ET: **Leading Index**, September (0.4% expected, 0.9% in August)

- 10:00 a.m. ET: **Existing Home Sales**, September (6.09 million expected, 5.88 million in August)

Earnings

Pre-market

- 6:00 a.m. ET: **Danaher (DHR)** to report adjusted earnings of \$2.16 per share on revenue of \$7.03 billion
- 6:00 a.m. ET: **Dow Inc. (DOW)** to report adjusted earnings of \$2.56 per share on revenue of \$14.25 billion
- 6:00 a.m. ET: **Alaska Air Group (ALK)** to report adjusted earnings of \$1.36 per share on revenue of \$1.94 billion
- 6:30 a.m. ET: **Valero Energy (VLO)** to report adjusted earnings of 94 cents per share on revenue of \$25.13 billion
- 6:30 a.m. ET: **AT&T (T)** to report adjusted earnings of 79 cents per share on revenue of \$40.48 billion
- 6:45 a.m. ET: **Quest Diagnostics (DGX)** to report adjusted earnings of \$2.88 per share on revenue of \$2.45 billion
- 6:45 a.m. ET: **Southwest Airlines (LUV)** to report adjusted losses of 26 cents per share on revenue of \$4.64 billion
- 7:00 a.m. ET: **American Air Lines (AAL)** to report adjusted losses of \$1.03 per share on revenue of \$8.94 billion
- 7:00 a.m. ET: **Pool Corp. (POOL)** to report adjusted earnings of \$3.84 per share on revenue of \$1.37 billion
- 8:00 a.m. ET: **Union Pacific (UNP)** to report adjusted earnings of \$2.48 per share on revenue of \$5.39 billion

Post-market

- 4:00 p.m. ET: **Intel (INTC)** to report adjusted earnings of \$1.11 per share on revenue of \$18.36 billion
- 4:05 p.m. ET: **Whirlpool (WHR)** to report adjusted earnings of \$6.12 per share on revenue of \$386.20 million
- 4:10 p.m. ET: **Chipotle Mexican Grill (CMG)** to report adjusted earnings of \$6.35 per share on revenue of \$1.94 billion

Bitcoin ETF Sets Record Climbing To \$1 Billion In AUM In 2-Days

Amazing....and yes, there is no speculation in the market.

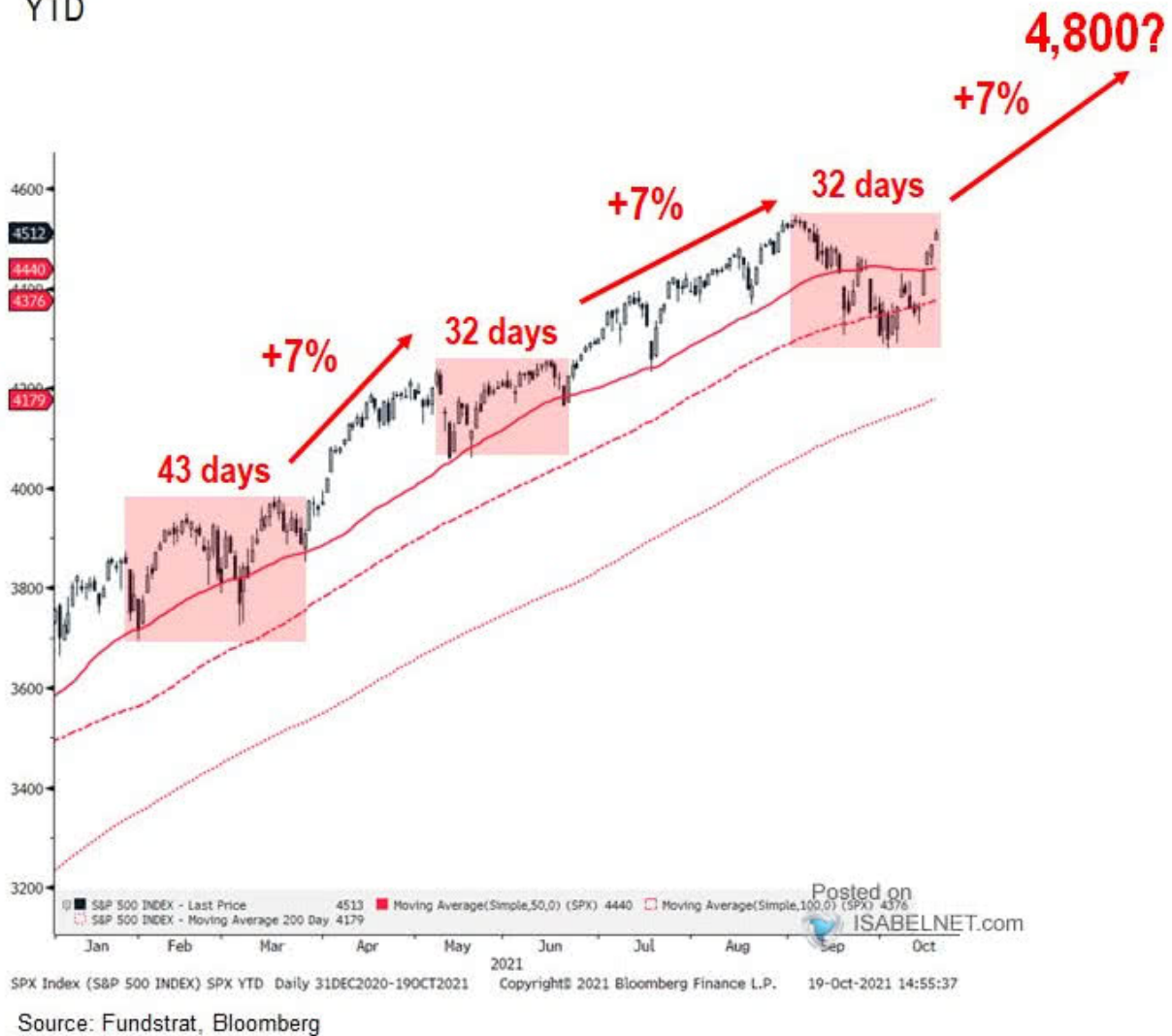
<https://twitter.com/EricBalchunas/status/1450879729070923779?s=20>

A Rally To 4800?

Heading into year-end, if the market continues its current advance, consolidation, advance profile from earlier this year, the current year-end target could be as much as 4800.

S&P 500: ~100 days in "consolidation" YTD

YTD



While that is a very bullish outlook, it is likely much of the upside has already gotten priced in. With inflationary pressures rising, the threat of a Fed taper, and weaker economic growth, further gains could become more challenging.

However, this year has been a year of *"bullish exuberance,"* so we aren't ruling out the possibility of a sharp advance into year-end in hopes of a stronger 2022.

Verizon (VZ) Earnings

VZ reported third-quarter GAAP EPS well above consensus at \$1.55 versus expectations of \$1.35. Revenue was \$32.9B (+4.4% YoY), which missed estimates of \$33.2B. Wireless retail net adds surprised to the upside with 699K net adds versus 566K expected.

Guidance for FY21 adjusted EPS was raised to \$5.35-\$5.40 from \$5.25-\$5.35. The new range is well above the consensus estimate of \$5.29. Management also narrowed FY21 guidance to a 4% increase in total wireless revenue from the previous range of 3.5%-4%. VZ is trading 2.1% higher this morning following the results. **We hold a 1.5% position in the Equity Model.**



NextEra Energy (NEE) Earnings

NEE reported third-quarter GAAP EPS of \$0.23, which missed analyst estimates of \$0.71. Adjusted EPS did beat estimates, however, at \$0.71 versus expectations of \$0.67. Revenue came in short of consensus at \$4.4B (-8.8% YoY) versus expectations of \$5.4B.

Guidance for FY21 adjusted EPS remains unchanged at \$2.40-\$2.54, with the mid-point slightly below the consensus of \$2.52. NEE expects adjusted EPS growth of 6%-8% from FY21 in 2022 and 2023. NEE is trading 2.3% higher this morning after the release. **We hold a 2% position in the Equity Model.**



Abbott Labs (ABT) Earnings

ABT reported third-quarter GAAP EPS of \$1.17, which beat analyst estimates of \$0.67. Revenue of \$10.9B (+22.8% YoY) also beat the consensus of \$9.56B. Revenue growth was driven, in part, by strong results in COVID-19 testing products. Excluding COVID-19 related testing products, organic sales grew 11.7% versus the third quarter of 2019.

Guidance for FY21 GAAP EPS was set to \$3.55-\$3.65, while FY21 adjusted EPS guidance was boosted to \$5.00-\$5.10 from a prior range of \$4.30-\$4.50. This compares to a consensus estimate of \$4.45. Following the positive results and guidance, the stock is trading 3.9% higher this morning. **We hold a 2% position in the Equity Model.**



Why Stocks and Bonds Do Not Agree



Tweet Of The Day

<https://twitter.com/LanceRoberts/status/1450778053152497664?s=20>

Stocks Should Be 40% Lower

In an upcoming article, I am discussing the chart below which shows the decomposition of the S&P index returns over the last decade. From the article:

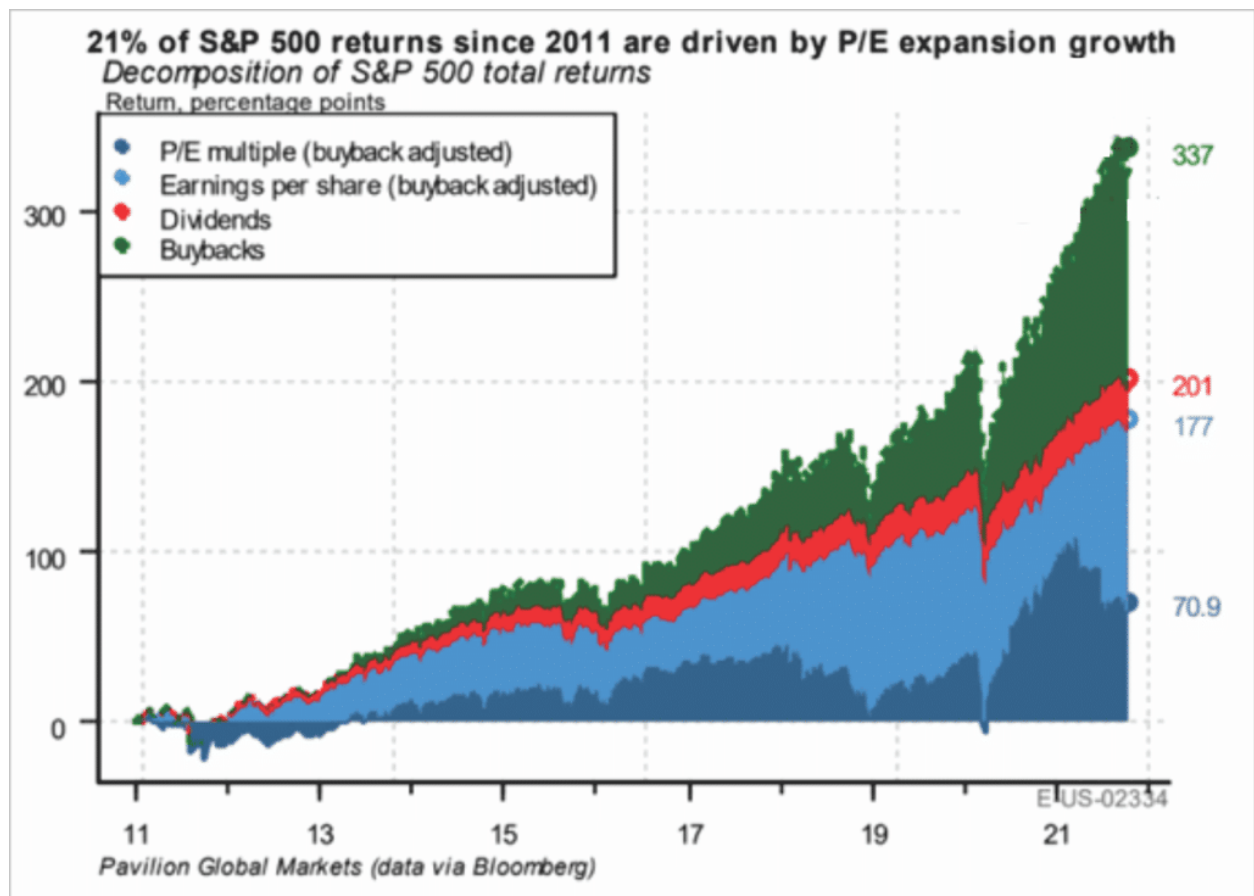
- 21% from multiple expansion,
- 31.4% from earnings,
- 7.1% from dividends, and
- **40.5% from share buybacks.**

"In other words, in the absence of share repurchases the stock market would not be pushing record highs of 4600, but rather levels closer to 2700.

To put that into context, the high water mark for the S&P 500 in October 2007 was 1556. In October 2021, after 14-years, the market would be 2700 without share

buybacks. Such would mean that stocks returned a total of about 3% annually or 42% in total over that 14-year period.

Before you scoff at a 3% annualized return, such would equate to an economy growing at 2% with a roughly 1-2% dividend yield. Such would align with historical norms going back to 1900."

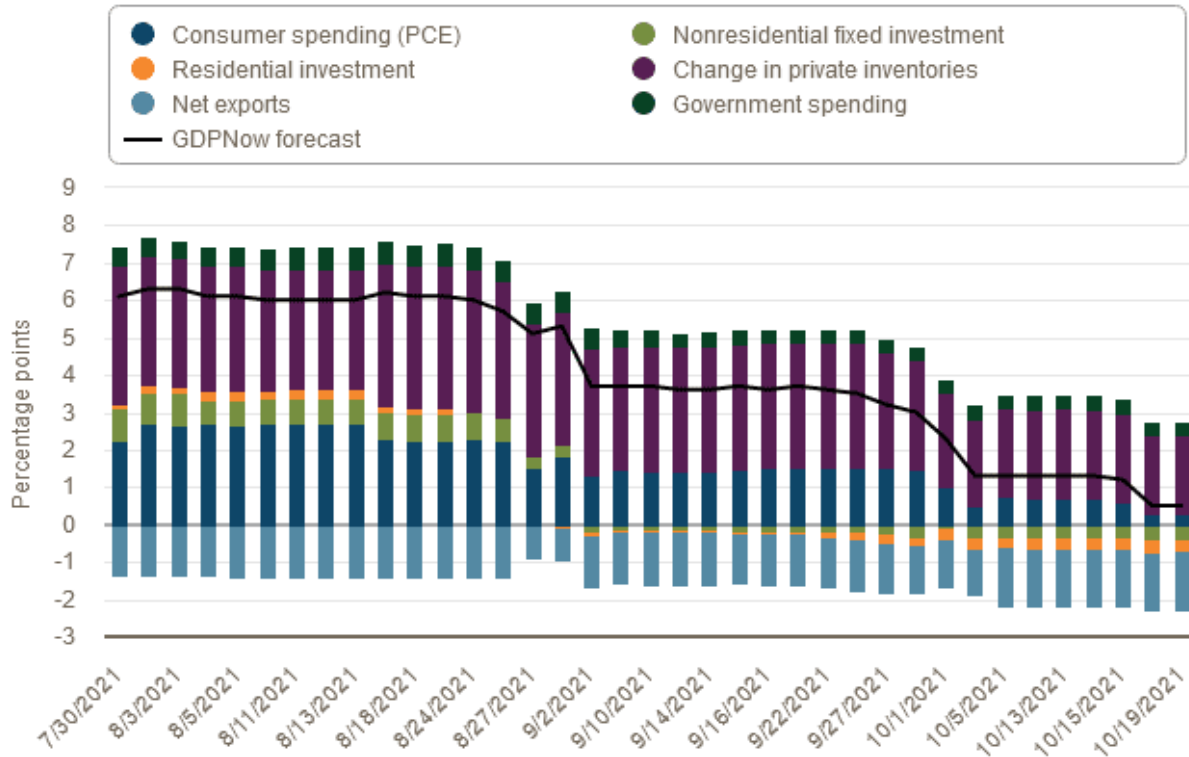


Paltry Growth Forecast

The Atlanta Fed [GDPNow](#) forecast for Q3 economic growth fell to 0.5%, down from 1.2%. The chart below shows how each major subcomponent contributed to the forecast. Increasing private inventories, adding 2.1%, is keeping the GDP forecast above zero. Typically accounting for two-thirds of GDP, Consumer Spending is only contributing 0.31% to the forecast, well off the 2.70% rate in August.

Subcomponent contributions to GDPNow real GDP growth forecasts

Export

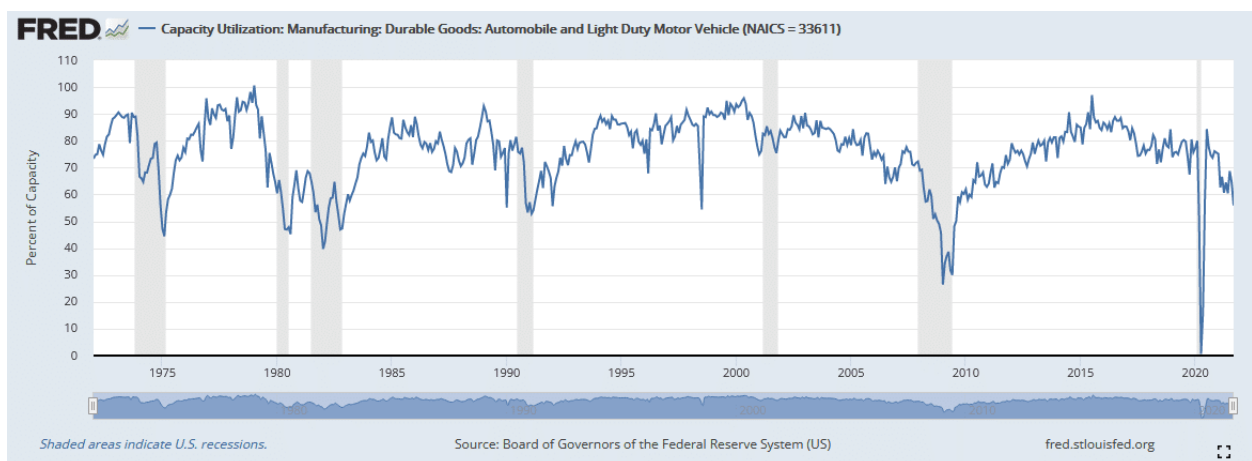


Source: Atlanta Fed



Industrial Production

In Monday's Industrial Production report, Industrial Production fell 1.3%, and the lesser followed capacity utilization fell from 76.4% to 75.2%. The data is a little surprising given the shortage of goods available to the public. At first blush, one would think factories would be running at maximum capacity and production rising rapidly. Unfortunately, manufacturers face the same problem as their consumers, a shortage of goods needed to produce products. For example, it is well documented most auto manufacturers are cutting production due to a chip shortage. The graph below shows capacity utilization for the auto industry is at recession levels of 55%. It was running between 70-80% before the pandemic and had prior peaks over 90%. Auto manufacturing contributes about 3% to GDP.



Shaded areas indicate U.S. recessions.

Source: Board of Governors of the Federal Reserve System (US)

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