Tesla Stock Soars as The Market Drifts

Once again, the stock of Tesla soared on the back of options traders. The call volume on Tesla alone last week was 8 million, which accounts for about 8% of total options volume. Because of Tesla's high stock price and implied volatility, the 8% figure grossly understates its influence on the options markets and market indexes. As we share below, the total premiums outstanding on Tesla call options are over 50x that of the next largest premium, Amazon. Dare we say, as goes Tesla as goes the market?

[dmc]

What To Watch Today

Economy

- *No notable reports scheduled for release*

Earnings

Pre-market

- 6:40 a.m. ET: **Marathon Petroleum (MPC)** to report adjusted earnings of 70 cents per share on revenue of $25.65 billion
- 6:45 a.m. ET: **Estee Lauder (EL)** to report adjusted earnings of $1.69 per share on revenue of $4.25 billion
- 6:45 a.m. ET: **Pfizer (PFE)** to report adjusted earnings of $1.08 per share on revenue of $22.68 billion
- 6:55 a.m. ET: **Under Armour (UAA)** to report adjusted earnings of 15 cents per share on revenue of $1.48 billion
- 6:55 a.m. ET: **Groupon (GPN)** to report adjusted earnings of $2.15 per share on revenue of $2.00 billion
- 7:00 a.m. ET: **Bloomin' Brands (BLMN)** to report adjusted earnings of 54 cents per share on revenue of $1.04 billion
- 7:00 a.m. ET: **Apollo Global Management (APO)** to report adjusted earnings of $1.10 per share on revenue of $1.05 billion
- 7:00 a.m. ET: **ConocoPhillips (COP)** to report adjusted earnings of $1.52 per share on revenue of $10.82 billion
- 8:00 a.m. ET: **Ralph Lauren (RL)** to report adjusted earnings of $2.00 per share on revenue of $1.47 billion

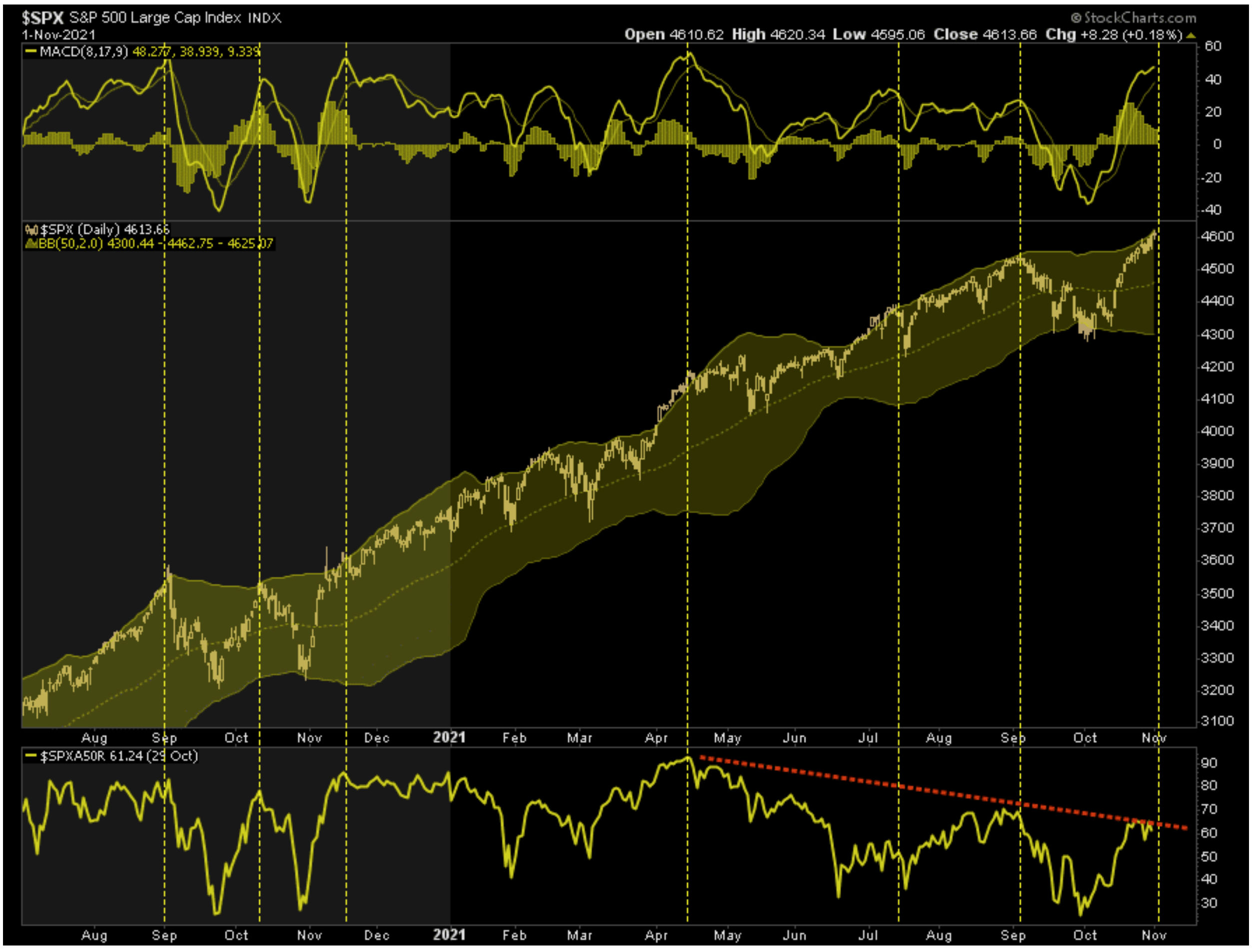
Post-market

- 4:00 p.m. ET: **Akamai (AKAM)** to report adjusted earnings of $1.39 per share on revenue of $852.27 million
- 4:00 p.m. ET: **Chesapeake Energy (CHK)** to report adjusted earnings of $1.68 per share on revenue of $945.75 million
- 4:00 p.m. ET: **Amgen (AMGN)** to report adjusted earnings of $4.27 per share on revenue of $6.69 billion
- 4:00 p.m. ET: **Match Group (MTCH)** to report adjusted earnings of 57 cents per share on revenue of $802.31 million
- 4:05 p.m. ET: **Mondelez (MDLZ)** to report adjusted earnings of 70 cents per share on revenue of $7.06 billion
- 4:05 p.m. ET: **T-Mobile (TMUS)** to report adjusted earnings of 51 cents per share on revenue of $20.13 billion
- 4:05 p.m. ET: **Activision Blizzard (ATVI)** to report adjusted earnings of 70 cents per share on revenue of $1.88 billion
- 4:05 p.m. ET: **Zillow Group (ZG)** to report adjusted earnings of 16 cents per share on revenue of $2.01 billion
- 4:05 p.m. ET: **Lyft (LYFT)** to report adjusted losses of 3 cents per share on revenue of $862.00 million
- 4:05 p.m. ET: **Devon Energy (DVN)** to report adjusted earnings of 93 cents per share on revenue of $2.97 billion
- 4:10 p.m. ET: **Coursera (COUR)** to report adjusted losses of 9 cents per share on revenue of $108.42 million

Courtesy Of Yahoo

Bull Markets Suck In The Most Investors Near Tops

The market rallied again yesterday with only a handful of big cap names pulling the S&P 500 higher. Tesla (TSLA) which is in the top-5 largest holdings rallied nearly 9%, with Facebook (FB) pushing higher by almost 2%. The rest of the market was mixed between gainers and losers. Volume remains weak along with breadth *(number of stocks above their respective 50-dma)* turning lower.



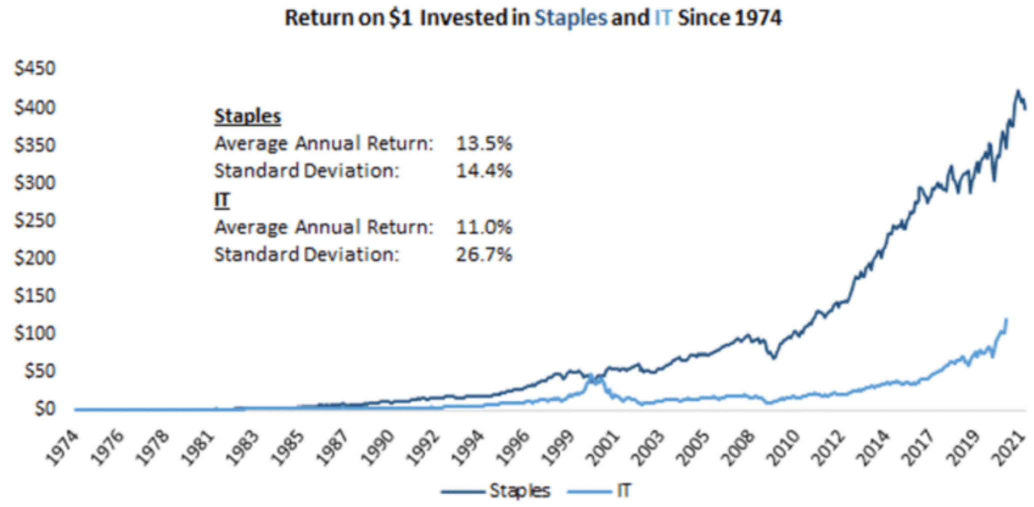
As the old saying goes, *"bull markets tend to suck in the most investors at the top."* As noted in today's [***"Technically Speaking,"***]() the third quarter will likely mark the peak of earnings, liquidity, and economic growth.

Best Stocks To Own Over The Long-Term - Staples Or Technology

Just recently, *[Kailash Concepts posted]()* a fascinating chart on the long-term returns of Staples versus Technology. So naturally, one would assume that with the market bubbling higher in recent years, technology would be the clear outperformer. Unfortunately, that assumption, as Kailash notes, would be wrong.

> *"**The chart below shows that Consumer Staples, the stocks that make and sell groceries, diapers, and dog food have absolutely trounced the tech sector.** Consumer staples have not provided the sizzling returns investors have come to expect recently. **What they have provided is robust and reliable earnings per share, and healthy compound returns year over year."***

Fig. 1: Buying What You Need vs. What You Want Wins Over the Long Haul

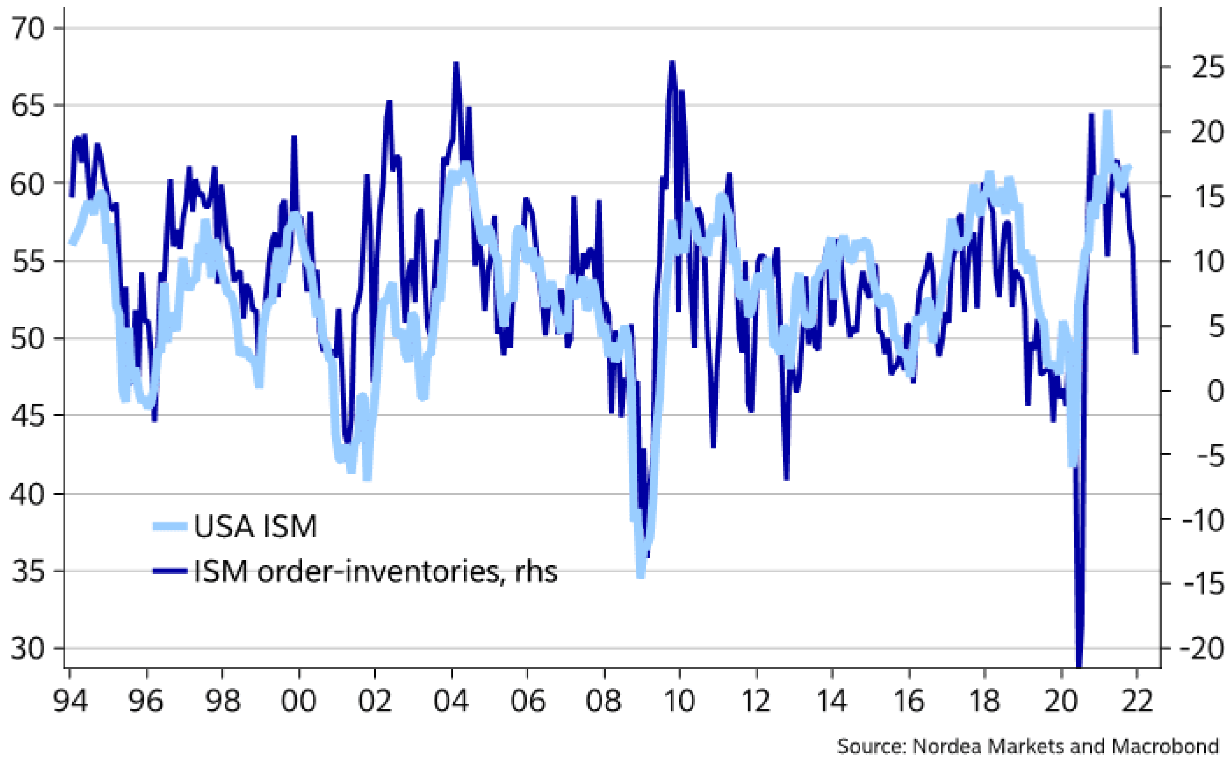


Source: Kailash Capital; Data from 4/30/1989 – 9/30/2021

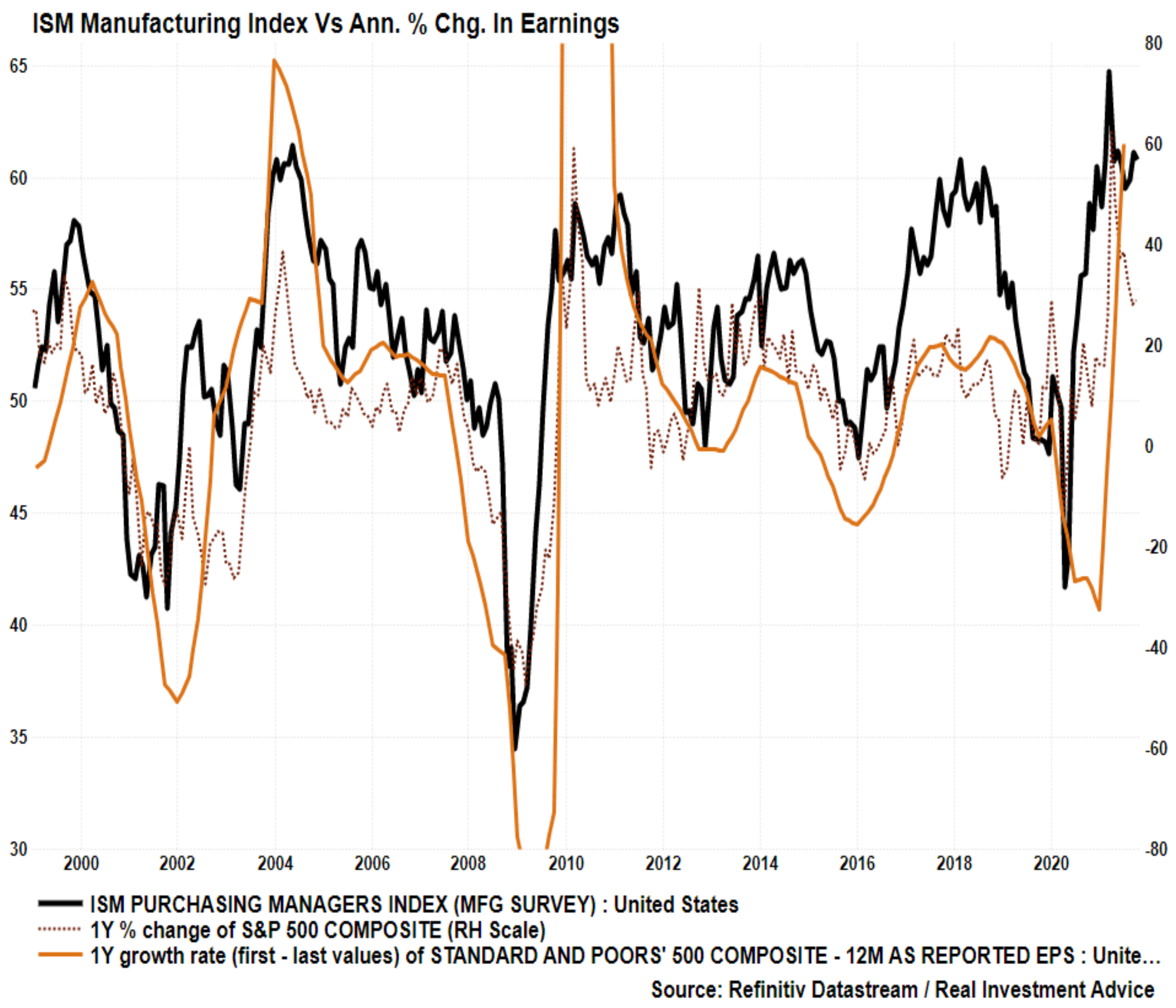
Manufacturing Growth Slowing

The ISM and Markit's PMI Manufacturing surveys fell slightly as manufacturing growth continued to moderate. The more highly followed ISM index shows that price pressures continue, with the sub-index rising from 81.2 to 85.7. Inventories rose while new orders dropped considerably from 66.7 to 59.8, indicating that output will slow in the months ahead. Along the same lines, ISM output expectations are now at a 12 month low. PMI notes, "*the pace of new order growth is the slowest for ten months."* Regarding inflation, they state, *"the latest increase was the fastest since data collection began in May 2007."*

The graph below, courtesy of Nordea Markets, highlights that the drop in new orders and increase in inventories portends ISM could turn below 50, signaling that a contraction in the manufacturing sector might occur in the next few months.



Don't dismiss slowing in the manufacturing index as there is a high correlation to the annual change in S&P 500 earnings and the annual change in market returns.

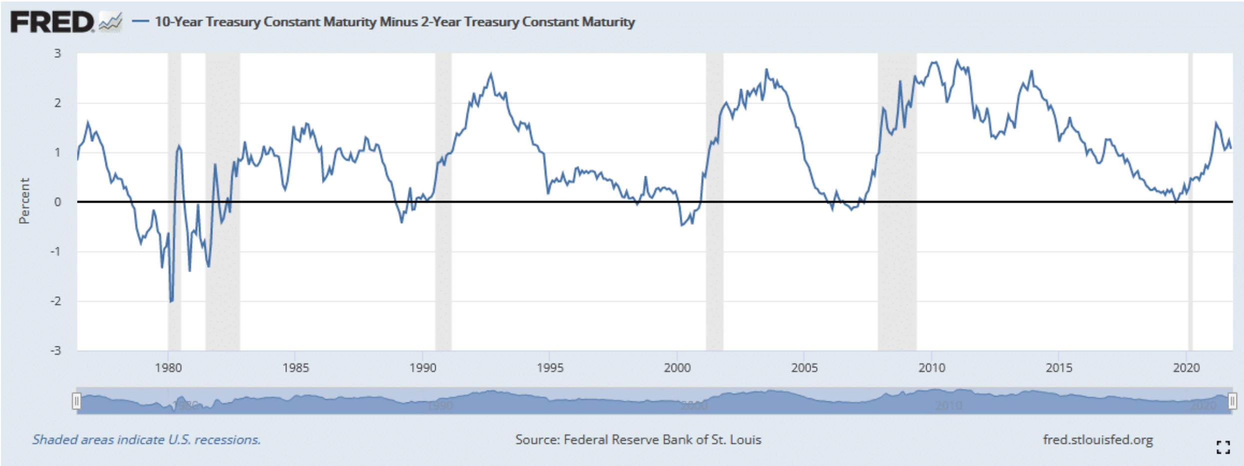


Three Minutes on Markets & Money is Back!!

[Markets Continue To Rally, Despite Weak Internals]()

The Yield Curve is Inverting

The yield curve is starting to invert, albeit not in a well-followed part of the curve. Currently, the 30-year yield is 1.98%, below the 20-year yield (2.015%). Historically, as shown below, an inversion between the 2yr and 10yr maturities (blue line is negative) signals a recession is coming in the next six months to a year. The current 20-yr/30-yr inversion is only a start. We will watch to see if more well-followed curve inversions start occurring. The most followed, 2-yr/10-yr curve still has over 100 bps before it inverts.



The Week Ahead

The event of the week will be the Fed's FOMC policy meeting on Wednesday. Most expect the Fed will announce a $15 billion reduction in its schedule of asset purchases. Assuming they follow through, the market will see if continued inflationary pressures are moving them to speed up the taper schedule and/or begin discussions on raising interest rates sooner than expected. A taper reduction of greater than $15 billion per month will be a surprise for the markets.

The ISM manufacturing survey on Monday and Markit PMI survey on Wednesday will provide further light on manufacturing sentiment. In addition to the headline numbers, traders will focus on the surveys' inflation, deliveries, inventories, and employment subcomponents. On Wednesday, ADP will release their employment report, followed on Friday by the BLS. While still essential data, employment may now be taking a back seat to inflation regarding the path of monetary policy.

Europe May Have To Tighten Too

Euro-area inflation rose to 4.1%, the highest level in ten years, and above estimates for a gain of 3.7%. ECB President Christine Lagarde stated that she did not think the ECB would have to raise rates next year. **However, traders feel differently as they are now pricing in a rate increase for later next year.** Per Bloomberg:

> "*Based on market pricing, investors are expecting the ECB to raise borrowing costs for the first time in more than a decade to bring the deposit rate to minus 0.3% within a year."* Keep in mind, rates are negative and still will be even after a rate hike.