OBSERVATIONS

- Facebook drops out of the $1 trillion market capitalization club, meanwhile Tesla joins the club after rallying over +10% last Monday on reports that Hertz would order 100k electric vehicles from Tesla. Hertz is just four months out of bankruptcy, while Tesla is still technically a junk-rated company – the company is expected to reach investment grade status within a year's time.[1]
- Microsoft now has a $2.49 trillion market capitalization and overtakes Apple as the most valuable company in the world, based on this measure. The company reported its seventeenth consecutive quarter of double-digit gains in sales after reporting YoY revenue growth of +22.0%.[1]
- Oil giant Exxon Mobile raised its dividend, keeping alive its now 39-year streak of increasing the annual dividend payout (roughly $15bn for 2021), only AT&T and Microsoft pay more in dividends in a year.[1]
- Nationwide home prices are now up +19.7% on a YoY basis, led by year over year gains in Phoenix (+33.3%), San Diego (+26.2%), Tampa (+25.9%), and Dallas (+24.7%).[2]
- The six largest U.S. banks have raised over $300 billion from corporate bond markets, the most in a calendar year since 2008. That figure accounts for over a third of total investment grade debt issuance (the largest share ever) and is a function of the significant deposits that banks have received over the course of the pandemic and requirements to keep specific amounts of liabilities in long-term debt — helping to reduce a bank's susceptibility to bank deposit runs.[3]
- Initial claims for jobless benefits declined to 281k, down 9k from the prior week. The 4-week moving average now rests at 299k, the first time below 300k since the week of 13-March-20.[1]
- Inflation, as measured by core Personal Consumption Expenditures (PCE) — the Federal Reserve's preferred measure — rose to +3.6% on a YoY basis and was slightly lower than market expectations of +3.7%.[1]

EXPECTATIONS

- Capital goods orders — orders placed for business equipment — rose for a seventh consecutive month and has increased in 16 of the last 17 months, since the pandemic's start. New orders continue to outstrip shipments, the backlogs typically portend future investment and productivity gains.[1]
- The European Central Bank holds policy steady despite inflation in the Eurozone reaching a 13-year high of 3.4%. The ECB holds a view that inflation is expected to be broadly transitory — the central bank sees inflation ebbing to 1.7% in 2022 and 1.5% in 2023, below the ECB's target of 2.0%.[4]
- Over half of the S&P 500 has now reported Q3 results, with 82% of companies reporting better than expected earnings. This week will see 167 companies report in what we expect will be a busy week. [5]

ONE MORE THOUGHT[6] *Slower growth in Q3 likely to be followed by Q4 acceleration*

The Bureau of Economic Analysis (BEA) released its advance estimate for Q3 GDP which registered a +2.0% gain from the previous quarter *(seasonally adjusted annual rate)*. The +2.0% gain was less than expectations for a +2.6% increase and in sharp contrast to the prior quarter gain of +6.7%. A significant portion of the quarter over quarter decline resulted from a sharp decline in personal consumption from the prior quarter. Personal consumption

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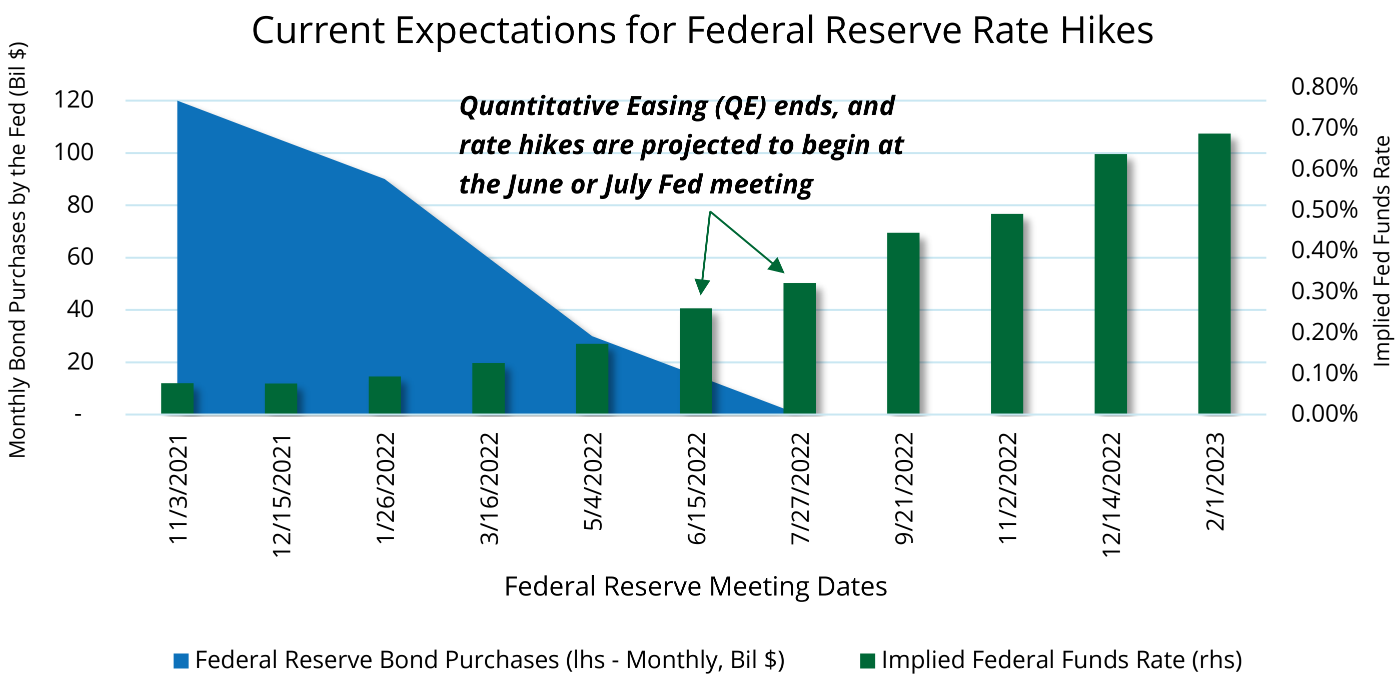
[1] *Bloomberg LP*
[2] *S&P CoreLogic Case-Shiller Home Price Index*
[3] *https://www.wsj.com/articles/banks-debt-sales-are-driving-the-corporate-bond-market-11635240601?mod=markets_major_pos14*
[4] *https://www.cnbc.com/2021/10/28/european-central-bank-holds-policy-steady-despite-soaring-inflation.html, Bloomberg LP*
[5] *Factset Earnings Insight, as of 29-Oct*
[6] *BEA, Bloomberg LP, Pantheon Macro*

expenditures only rose +1.6%, which was significantly lower than the +11.4% and +12.0% growth in spending in Q1 and Q2 of this year, respectively *(quarters in which spending was boosted by stimulus and pent-up demand)*. On balance, the report reinforced (1) the impacts supply chain disruptions are having in the economy, (2) consumer spending continues to normalize from the unsustainable pace witnessed earlier this year, and (3) we are still in a pandemic, and the economy continues to evolve around that fact. Overall, GDP is expected to reaccelerate in Q4 with estimates for growth between +5.0% and +8.0% and supported by business investment along with a recovery in consumer spending.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, Monthly bond purchase tapering based on Clearstead assumptions, Implied Federal Funds Rate based on Federal Funds Futures markets as of 27-Oct.

Federal Funds futures markets are projecting rate hikes to commence mid-2022 with expectations of three rate hikes of 0.25% by early 2023 — a move that would see the Fed's main policy rate rise from 0.0% to 0.75% over that period. This would be consistent with evolving market expectations for the Fed's bond buying program (QE) to end near mid-2022, a likely prerequisite for a commencement in rate hikes.

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