David A. Rosenberg
+1 416-583-5566
information@rosenbergresearch.com
rosenbergresearch.com

Rosenberg Research

Economic Research for Informed Investing

Early Morning with Dave

Economic Commentary **October 27, 2021**

IN THIS ISSUE

MORNING MACRO/MARKET MUSINGS

- Risk appetite has gone to the back burner as the buying seems to have exhausted itself — as we saw yesterday as the market gains reversed course
- The bottlenecks will ease even if it takes longer and, as we saw with the periodic inflation spasms in the 2009-2019 cycle, "transitory" could be 18-24 months if a timeframe had to be attached to the term
- The reason I don't believe in "new era" thinking like inflation, stagflation or hyperinflation is because the U.S. is run on a two-year political cycle
- Well, the bond market certainly got some relief from two different survey data points in the last 24 hours

MARKET CLOSINGS

Tuesday, October 26th, 2021

Equities

United States	Levels	% change
S&P 500	**4,574.8**	**0.2**
Energy	448.8	0.6
Materials	539.4	0.4
Industrials	882.8	-0.6
Consumer Discretionary	1,561.0	0.2
Consumer Staples	743.0	0.3
Health Care	1,544.0	0.5
Financials	675.2	0.2
Information Technology	2,800.3	0.3
Communication Services	269.4	-0.5
Utilities	342.1	0.6
Real Estate	300.3	0.5
Dow Jones Industrial Average	**35,756.9**	**0.0**
Dow Transports	**15,936.7**	**0.4**
Dow Utilities	**921.8**	**0.4**
Transports/Utilities Ratio	17.3	0.0
NASDAQ	**15,235.7**	**0.1**
Russell 2000	**2,296.1**	**-0.7**
VIX	**16.0**	**4.9**

International	Levels	% change
TSX	21,173.5	-0.5
Euro STOXX 600	475.7	0.7
DAX	15,757.1	1.0
CAC 40	6,766.5	0.8
FTSE MIB	26,971.0	0.6
IBEX 35	9,001.6	0.9
FTSE 100	7,277.6	0.8
Nikkei 225	29,106.0	1.8
MSCI Asia-Pac Ex. Japan	1,668.1	-0.1
Hang Seng	26,038.3	-0.4
Shanghai	3,597.6	-0.3
KOSPI	3,049.1	0.9
Straits Times	3,204.6	0.1
TAIEX	17,034.3	0.8
Sensex	61,350.3	0.6

Currencies

International	Levels	% change
U.S. Dollar Index (DXY)	93.94	0.1
Canadian dollar ($US/$C)	0.81	0.0
Euro ($US/€)	1.16	-0.1
Sterling ($US/£)	1.38	0.0
Swiss franc ($US/CHF)	1.09	0.0
Japanese yen ($US/¥)	0.01	-0.4
Australian dollar ($US/AUD)	0.75	0.1
New Zealand dollar ($US/NZD)	0.72	0.0

Bonds

United States	Levels	Basis points
Treasury curve (10/2)	**116.83**	**-2.7**
2-Year T-Note Yield	0.44	0.4
5-Year T-Note Yield	1.17	0.3
10-Year T-Note Yield	1.61	-2.3
30-Year T-Bond Yield	2.04	-4.0
10-Year TIPS Break-Even	**2.69**	**2.7**
High-Yield Spread	**316.63**	**1.7**
Investment-Grade Spread	**108.79**	**-0.4**

International	Levels	Basis points
10-Year GOC Yield	1.63	-2.3
10-Year Bund Yield	-0.12	-0.3
France-Bund Spread	34.30	0.7
Italy-Bund Spread	111.40	3.4
Spain-Bund Spread	64.10	1.6
Portugal-Bund Spread	53.30	2.9
Greece-Bund Spread	115.40	2.1
10-Year Gilt Yield	1.11	-3.2
10-Year JGB Yield	0.10	0.2

Commodities

International	Levels	% change
CRB Commodity Price Index	241.18	0.2
Gold (London Fixing)	1,792.91	-0.8
Silver	24.16	-1.7
Bitcoin	62,096.89	-0.7
Crude Oil (WTI)	84.51	0.9
Natural Gas	5.85	-0.8
Copper (COMEX)	4.49	-1.3
Nickel	190.19	-1.2
Bloomberg Industrial Metals Index	171.28	-1.2

MORNING MACRO/MARKET MUSINGS

HIGHLIGHTS

- Are we seeing a thaw in the "bottleneck" story?
- Risk appetite has gone to the back burner as buyers exhaust themselves
- Commodity prices are on their back heels — a rarity these days
- Bitcoin is back below the $60,000 mark (the entire cryptocurrency universe is lower overnight)
- Bonds have a bid, with 10-year yields down 2-4 basis across the Atlantic…
- … and down a smidge to 1.60% for the T-note
- Sorry to break it to everyone, but there are no "new eras"… including the "Great Resignation"
- Dallas Fed retail sector survey and Richmond Fed service sector survey provide relief to the bond market
- What's Keith seeing in the charts? Lots of green!

COMMENTARY

Requiem for a Supply Chain Bottleneck

Well, if a picture can tell a thousand words, then I have three thousand words here below. Watch the "bottleneck" narrative soon die down. Always bet with U.S. ingenuity, not against it. These photos come courtesy of a valued client [Jack Parsons-Vickery Creek / iR Research] and show the same thaw in the supply chains squeeze that has become evident of late in the expected supplier delivery delays from the various manufacturing diffusion indices.

CHART 1: Walmart Bike Aisle — January 25th, 2021

United States

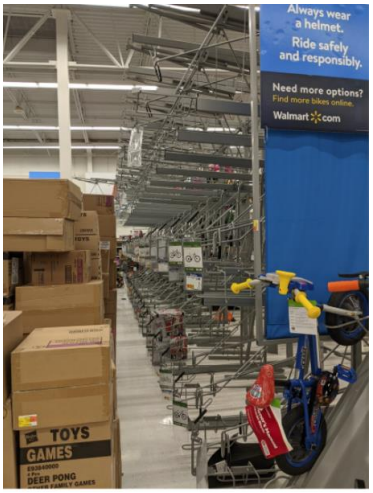


CHART 2: Walmart Bike Aisle — June 10th, 2021

United States

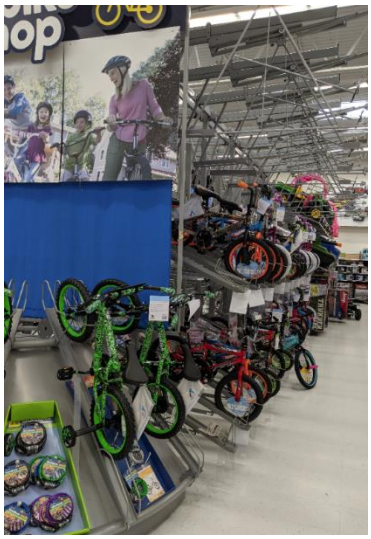
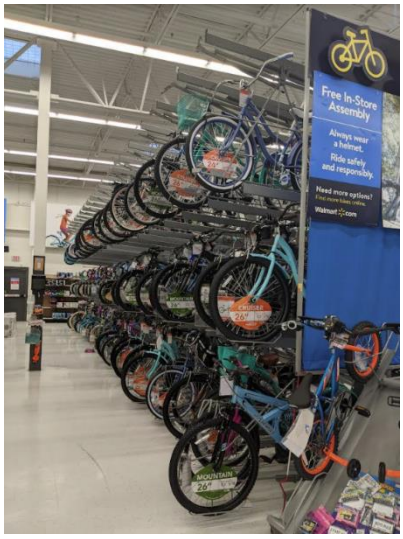


CHART 3: Walmart Bike Aisle — October 15th, 2021

United States



While We Were Sleeping

Risk appetite has gone to the back burner as the buying seems to have exhausted itself — as we saw yesterday as the market gains reversed course. Overnight, U.S. equity futures have swung from modest gains to modest losses, but the unexpected is happening in that growth is outperforming value. Europe is sputtering across the board — in aggregate, off 0.3%, with mining stocks leading the retreat. And it was mostly red arrows across Asia — Hong Kong (-1.6%), China's Shanghai Composite (-1.0%), Korea (-0.8%), Thailand (-0.5%). Japan's Nikkei 225 was flat and only Taiwan emerged with a gain of 0.2%. All in, Emerging Markets are on pace to close down 0.8% and Asia-Pacific by 0.5%.

The DXY dollar index is flat, at 93.95, and has basically been in consolidation mode all month long. The big winner in the FX sweepstakes was the Australian dollar (+0.3%, to 75.26 cents (U.S.)) on the back of CPI data showing the inflation rate spiking to 2.1%, well above consensus views of 1.8% (and the swaps market shows investors are now pricing in three RBA rate hikes in 2022, even as the central bank has been saying for the record that the first one isn't coming before 2024 — game of chicken, perhaps? The Australian 3-year bond yield briefly popped above 1% for the first time since 2019).

Commodity prices are on their back heels — a rarity these days; and Bitcoin is back below the $60,000 mark (the entire cryptocurrency universe is lower overnight). Brent crude has given back 1.1%, to $85.46 per barrel. Gold is off 0.3%, to $1,787 per ounce.

Bonds have a bid, with 10-year yields down 2-4 basis points across the Atlantic and down a smidge to 1.60% for the T-note. The outlier was New Zealand where the 10-year yield jumped 9 basis points, to 2.58%.

Outside of Australian inflation, the data calendar was very light. I'm not sure how to say "stagflation" in French, but we saw a touch of that with France's PPI jumping 1.7% MoM in September, taking the YoY trend up to 11.6% from 10.0% in August; meanwhile, the consumer confidence index in October dipped to 99 from 101.

Page B1 of the NYT is the latest of the hysteria surrounding the inflation file — *The Bond Market Says Inflation Will Last. You Should Be Listening*. **Look — what we have is a pandemic-induced supply squeeze on a global scale. Weather patterns haven't helped and neither has OPEC+ policy. But the bottlenecks will ease even if it takes longer and, as we saw with the periodic inflation spasms in the 2009-2019 cycle, "transitory" could indeed be 18-24 months if a timeframe had to be attached to the term.** The article focuses exclusively on 5- and 10-year inflation breakeven levels, without ever telling the reader that the entire correlation is with the oil price and little else.

Meanwhile, the fact that G.E. managed to report stronger profit growth with revenues declining 1% YoY (consensus was +4%) in Q3 was by cutting expenses 7%. Expect to see this as the next leg of this "inflation" story because round one to support margins was to sharply boost prices by the corporate sector; G.E. offers a window to round two, which is to cut costs and streamline operations where you can. If you actually do believe in a future of inflation and as such that the business sector won't manage to adapt to supply chain bottlenecks, have a look at *Retailers Look to Own Warehouses* on page B6 of the WSJ. And as for this widespread view that labor power has returned in 1970s-fashion, I say to that any company that pays its employees (and this worker revolt is in the lowest-skilled segment of the jobs market) above their marginal productivity growth rates doesn't deserve to stay in business.

The reason I don't believe in "new era" thinking like inflation, stagflation or hyperinflation is because the U.S. is run on a two-year political cycle. Joe Biden's approval rating has sunk 10 points since the spring — to only 37%. This spells trouble for the 2022 election, where fun-and-games as it pertains to the fiscal policy role in boosting inflation comes to an end. It's clear that the budget-busting handouts in March were a huge mistake and exacerbated the supply-demand imbalance and the price surge we are seeing today (planning on shelling out $160 for an admission ticket to Disney?). As we saw with Clinton in 1994 and Obama in 2010, the midterms promise to bring

in a return to fiscal probity and sanity. And with that, the demand-side of the inflation story as fiscal stimulus turns towards restraint, will play a big role in restoring some balance to the economy.

And keep in mind that the Fed is not going to be your friend anymore, from an asset inflation standpoint, past the early November FOMC meeting. Don't think so? Go back and read Governor Bowman's speech from October 13th as to the real reason why the Fed is going to unwind QE and do so rather quickly (in code: to redress the unstable bubbles in equities and housing… see *Individuals Keep on Playing the Market* on page B1 of the WSJ).

No New Eras

It seems completely ludicrous to me that we come out of the pandemic with a new theme called the "Great Resignation." That wide swaths of the labor market are deciding to retire early, or that somehow more bargaining power has come to labor, especially those who are unskilled and uneducated in low value-add consumer cyclical sectors. My sense — companies will end up automating these jobs away. A few thousand people go to the picket line this month, and so it's being dubbed "striketober." Good grief.

It reminds me of how the "new era" thinking in the 1990s would have had us believe that "dot com" stocks were some form of a new currency. Sure thing. We then went into the 2000s with a new label for the media to sell — the "commodity supercycle." That did last a few years, but not indefinitely. Then in the mid-to-late 2000s, it was all about the "democratization of mortgage finance" and the drive for anyone with a pulse to become a homeowner — that was my life at Merrill Lynch most of the time I headed up the economics team. I heard it all — including Robert Toll declaring that the housing market had ceased to become "cyclical." Oh, and does anyone remember "global decoupling," which was a major macro theme during China's ascent in the 2000s (the Merrill global econ team milked this for all it was worth) — how a U.S. housing-induced recession would never be felt across the Pacific. "Global Decoupling" — sure thing. How did that new era play out?

Then, we had "Occupy Wall Street" coincide with the Obama presidency — whatever happened to that group? I'll tell you what happened to them — they're trading meme stocks and cryptocurrencies with their government handouts. And, of course, the Tea Party — the group determined to balance the budget and reduce the size of government. That was a huge theme a decade ago and again — no new era. The exact opposite happened. Oh — and what about Hillbilly Elegy and the surge in "populism" that took hold when Donald Trump got elected? How far did that go? That book (turned

movie) was atop the New York Times best-seller list in January 2017; today, nowhere to be found. Go figure that!

And today — it's the "Great Resignation" and the "Revenge of the Nerds" and the "Social Awakening" all at once and all due to this alleged "wake up and smell the coffee" narrative coming out of the pandemic. Let's see how this all plays out. History suggests it's worthwhile to fade these labels and fade new era thinking at the same time.

Survey Says…

Well, the bond market certainly got some relief from two different survey data points in the last 24 hours.

The Dallas Fed retail sector survey showed hiring plans peeling back in October to 16.3% from 30.4% — the lowest since January 2021. What are companies doing instead? Automation. Capex plans went in the other direction and rose to 15.9% from 15.2% in September. Pricing plans slumped from 50.0% to 24.5%, the lowest inflation reading since the turn of the year. Larry Summers surely wouldn't approve.

The Richmond Fed service sector survey also showed employment plans faltering for the third time in as many months to 33% from 37% in September (the lowest in nine months). Wage plans hooked lower to the weakest level in three months (68% to 62%). Once again, companies are responding to any labor shortages by expanding their capex budget — up to 17% from 13% in September. And pricing plans fell to a three-month low of 4.37% from 4.76%. Intentions to raise prices in the manufacturing space also receded for the first time since October 2020 — to 5.73% from 5.82%. Still elevated, but a break in the action, nonetheless. Wage plans also dipped to 70% from 72%, and hiring plans slipped to 45% from 52% last month.

What's Keith Seeing in the Charts?

On Monday after the close, I hosted our technical analyst, Keith Edwards, for the third time in our webcast series on what the chart patterns are suggesting across an array of asset classes. We started this series several months ago and the feedback was so overwhelmingly positive that we decided to increase the frequency. As I like to say, what I do in the realm of economic forecasting and market strategy always contains a high element of subjectiveness and opinion, and in Keith's world of technical analysis, well as they say, the charts don't lie. As an aside, there is a replay for this call for those who missed it:

Short- and medium-term prospects are very positive for global equities. Keith sees new highs for the S&P 500 and for Emerging Markets, with a focus on Hong Kong and China in particular. Japan's near-term weakness ("sloppiness" due to political uncertainty) belies the positive near-term indicators.

The dollar's strength is subsiding, and he is overall bearish on the greenback (and sees potential for the Canadian dollar to head into a 82-83 cents (U.S.) band).

Metals are overbought and the stochastics point to a near-term reversal — though nothing "dangerous" and the **medium-term picture is constructive.**

The medium-term measures for oil and natural gas are "screaming positive" and all the charts point to further gains. Keith holds out the prospect of $100 per barrel for WTI (and there is firm support at $75-$80 per barrel).

Uranium is "very bullish" on both the near-term and medium-term measures — pullbacks are increasingly met by huge buy orders. Tons of upside room left even as it heads towards its 14-year high.

As for Bitcoin — there was a perfect test of support recently, which presaged the recent rally, and he doesn't see much to the downside. **Support is at $56,000-$58,000 and he recommends staying long** — that is what the charts are saying.

For gold — the short-term indicators are showing improvement but these, in the recent past, have proved to be fleeting. **The yellow metal needs to break above $1,830 per ounce and then a successful breach of $1,860** per ounce — a key level to open upside back to $2,000 per ounce and quite possibly into a $2,300-$2,400 per ounce range.

Silver looks good too, but Keith will be a real believer if $30 per ounce is breached.

Treasury yields are seen rising further, but only moderately so and Keith expects the short-term oversold rally to hold — keep an eye on 1.77% on the 10-year though, as that would open the door to 1.90%-1.95% before the pullback in rates would take hold. Keith is not of the view that we are into some pernicious run-up in bond yields, and holds the view that if we do see 1.90% — just 30 basis points away — he will be a willing buyer.

OUR PRODUCTS

Breakfast with Dave
Our flagship product, *Breakfast with Dave*, is an in-depth look into the global financial markets and the economy. You'll access Dave's deep data analysis and assessments of "big picture" trends, and his advice on how to invest around them.

Sample Report

Strategizer
A monthly report designed to produce actionable investment ideas based on our proprietary models. The report covers a wide range of asset classes and sectors and will help investors identify shifts and opportunities in the investment landscape.

Sample Report

Webcast with Dave
For these webcasts, David is joined by industry titans to share their views on the markets and the economy. Past and future speakers include Gary Shilling, Richard Bernstein, Niall Ferguson, Jeffrey Gundlach, and other legends.

Check out our guest line up

Early Morning with Dave
Dave and our team of economists get up early to prepare this analysis of the overnight markets and global events. Dave's take on macroeconomic trends from his global perspective will give you the insight you need to understand the investment landscape for the day ahead.

Sample Report

Technicals with Dave
Each week Dave and our technical analysts engage their charting expertise to identify both broad secular trends and near-term shifts across all markets, including equities, fixed income, currencies and commodities.

Sample Report

Special or Thematic Reports
Dave and the team produce periodic, high-level studies on the secular and structural shifts in the global economic and financial landscape.

Sample Report

Weekly Buffet with Dave
Cap off your investment week with Dave's digest of the key economic themes and investment ideas that moved the markets this week.

Sample Report

Charts with Dave
Charts with Dave provides regular access to our latest slide deck. Dave's charts capture the current and future trends in economic and market activity.

Sample Report

Deep Dives & Market Movers
This periodic, event-based report offers analysis of breaking news and/or data releases that are affecting the markets and your investments.

Sample Report

For pricing information on any of our products contact us at:

+1 (416) 583-5566
information@rosenbergresearch.com

CONTACT US

3080 Yonge Street, Suite 6060
Toronto, Ontario
M4N 3N1

+1 416-583-5566
information@rosenbergresearch.com
www.rosenbergresearch.com

OUR PEOPLE

ECONOMICS & STRATEGY

David Rosenberg
Chief Economist & Strategist

Brendan Livingstone
Senior Market Strategist

Ellen Cooper
Senior Economist

Krishen Rangasamy
Senior Global Economist

Marius Jongstra
Economist & Strategist

Vibhu Kapoor
Economist

Julia Wendling
Junior Economist

Keith Edwards
Technical Analysis Consultant

MARKETING, SALES & TECHNOLOGY

Enrique Flores
Chief Marketing & Technology Officer

Dinesh Vel
Business Intelligence and Technology Manager

Vandhana Parthasarathy
Data Analyst, Sales Enablement

Marcel Aulls
Vice President, Sales

Jacob Rosenberg
Client Relations Representative

OPERATIONS

Dana Habib
Office & Client Administration Manager and Executive Assistant to David Rosenberg

Rachael Zbar
Corporate Director

James Bergin
Special Advisor to the President

Jeff Burchell
Senior Advisor

IMPORTANT DISCLOSURES

This report comments on the economy and capital markets. The opinions are those of the author as of the date of the report and are subject to change without notice. Rosenberg Research & Associates Inc. (Rosenberg Research) will not necessarily update the report in the event facts or opinions change.

This report is for discussion purposes only.

Although Rosenberg Research may provide commentary relating to investment approaches and opportunities to buy or sell securities, you should not construe such commentary as legal, tax, investment, financial or other advice. Nothing contained in any Rosenberg Research report or any other content on our web site constitutes a solicitation, recommendation, endorsement, or offer to buy or sell any securities or other financial instruments. Consult your own advisors if you require such advice.

This report should not be regarded by recipients as a substitute for the exercise of their own judgement and readers are encouraged to seek independent, third party research on any companies discussed or impacted by this report.

This report is not a research report under applicable U.S. rules and regulations.

Rosenberg Research does not guarantee the accuracy of any information in this report. This report may contain links to third-party websites. These links are provided as a convenience only. By providing these links, Rosenberg Research is not expressly or impliedly endorsing or approving these other sites, nor warranting or guaranteeing the content of the materials on such sites or the services or products that may be offered on such sites.

Rosenberg Research reports are distributed simultaneously to internal and client websites and other portals by email and are not publicly available.

TERMS AND CONDITIONS OF USE

Your receipts and use of this report are governed by the Terms and Conditions of Use which may be viewed at [www.rosenbergresearch.com]

THIS ROSENBERG RESEARCH REPORT IS NOT PUBLICLY AVAILABLE. UNAUTHORIZED USE OR DISCLOSURE IS PROHIBITED.

This report is prepared for the exclusive use of Rosenberg Research clients, subscribers to this report and other individuals who Rosenberg Research has determined should receive this report. This report may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Rosenberg Research.

ANY USE OF THIS REPORT IS AT YOUR OWN RISK AND LIABILITY. NEITHER ROSENBERG RESEARCH, NOR ANY DIRECTOR, OFFICER, EMPLOYEE OR AGENT OF ROSENBERG RESEARCH, ACCEPTS ANY LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT, CONSEQUENTIAL, MORAL, INCIDENTAL, COLLATERAL OR SPECIAL DAMAGES OR LOSSES OF ANY KIND, INCLUDING, WITHOUT LIMITATION, THOSE DAMAGES ARISING FROM ANY DECISION MADE OR ACTION TAKEN BY YOU IN RELIANCE ON THE CONTENT OF THIS REPORT, OR THOSE DAMAGES RESULTING FROM LOSS OF USE, DATA OR PROFITS, WHETHER FROM THE USE OF OR INABILITY TO USE ANY CONTENT OR SOFTWARE OBTAINED FROM THIRD PARTIES REQUIRED TO OBTAIN ACCESS TO THE CONTENT, OR ANY OTHER CAUSE, EVEN IF ROSENBERG RESEARCH IS ADVISED OF THE POSSIBILITY OF SUCH DAMAGES OR LOSSES AND EVEN IF CAUSED BY ANY ACT, OMISSION OR NEGLIGENCE OF ROSENBERG RESEARCH OR ITS DIRECTORS, OFFICERS, EMPLOYEES OR AGENTS AND EVEN IF ANY OF THEM HAS BEEN APPRISED OF THE LIKELIHOOD OF SUCH DAMAGES OCCURRING.

If you have received this report in error, or no longer wish to receive this report, you may ask to have your contact information removed from our distribution list by emailing [subscriptions@rosenbergresearch.com].