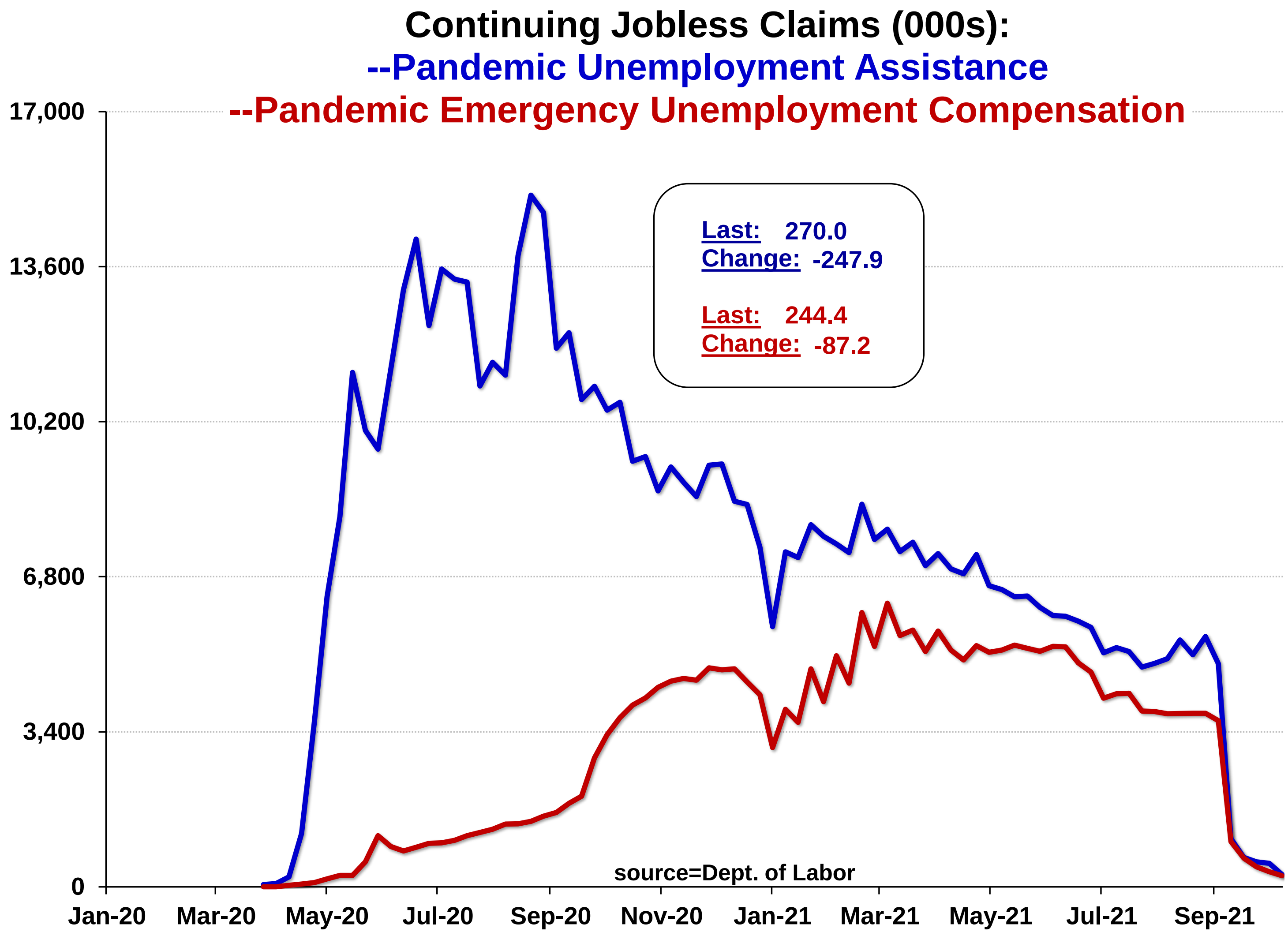
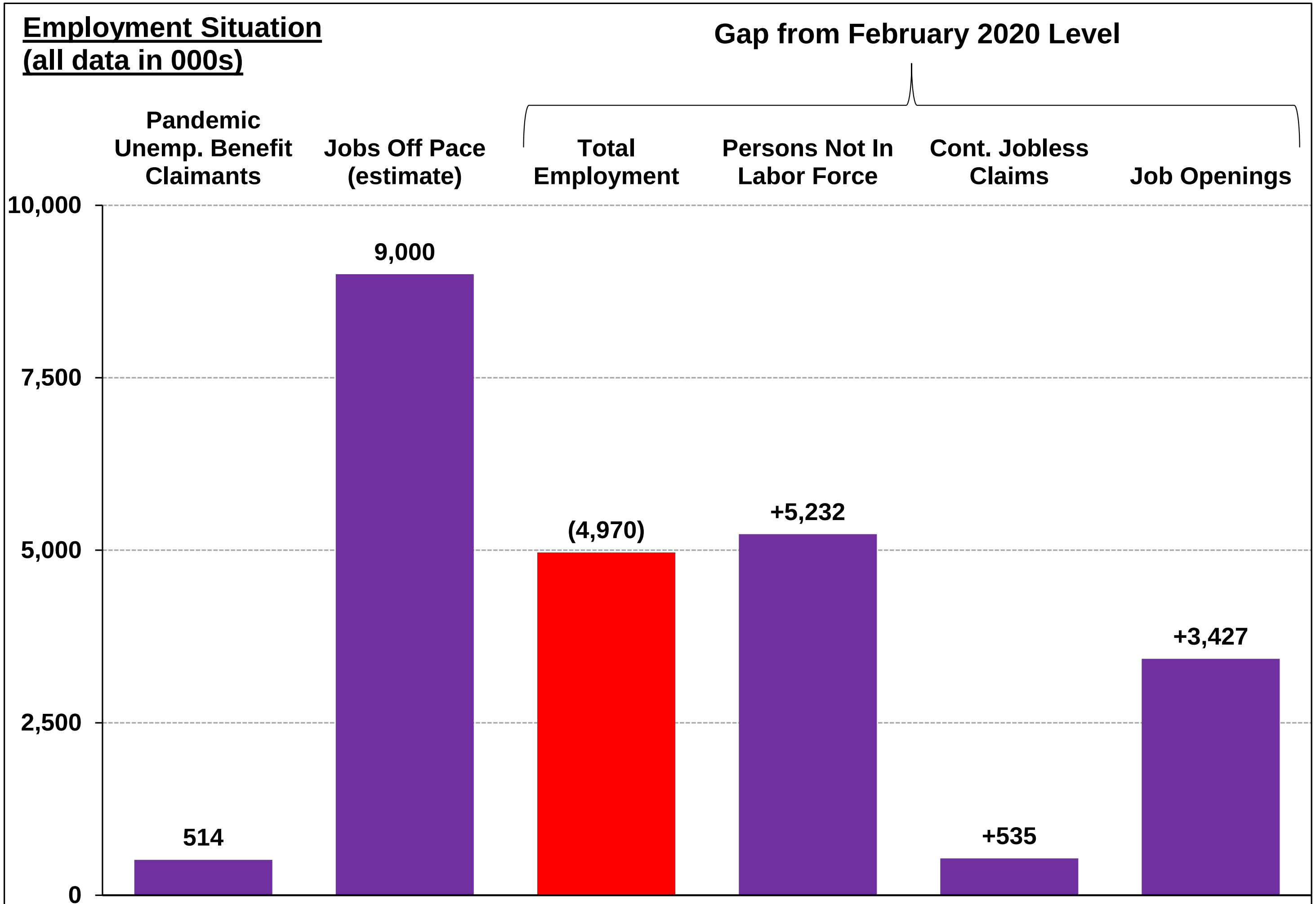
Initial and Continuing Jobless Claims continue to slide, nearing pre-2020 levels as PUA + PEUC claims drop -65% w/w to just 514k.

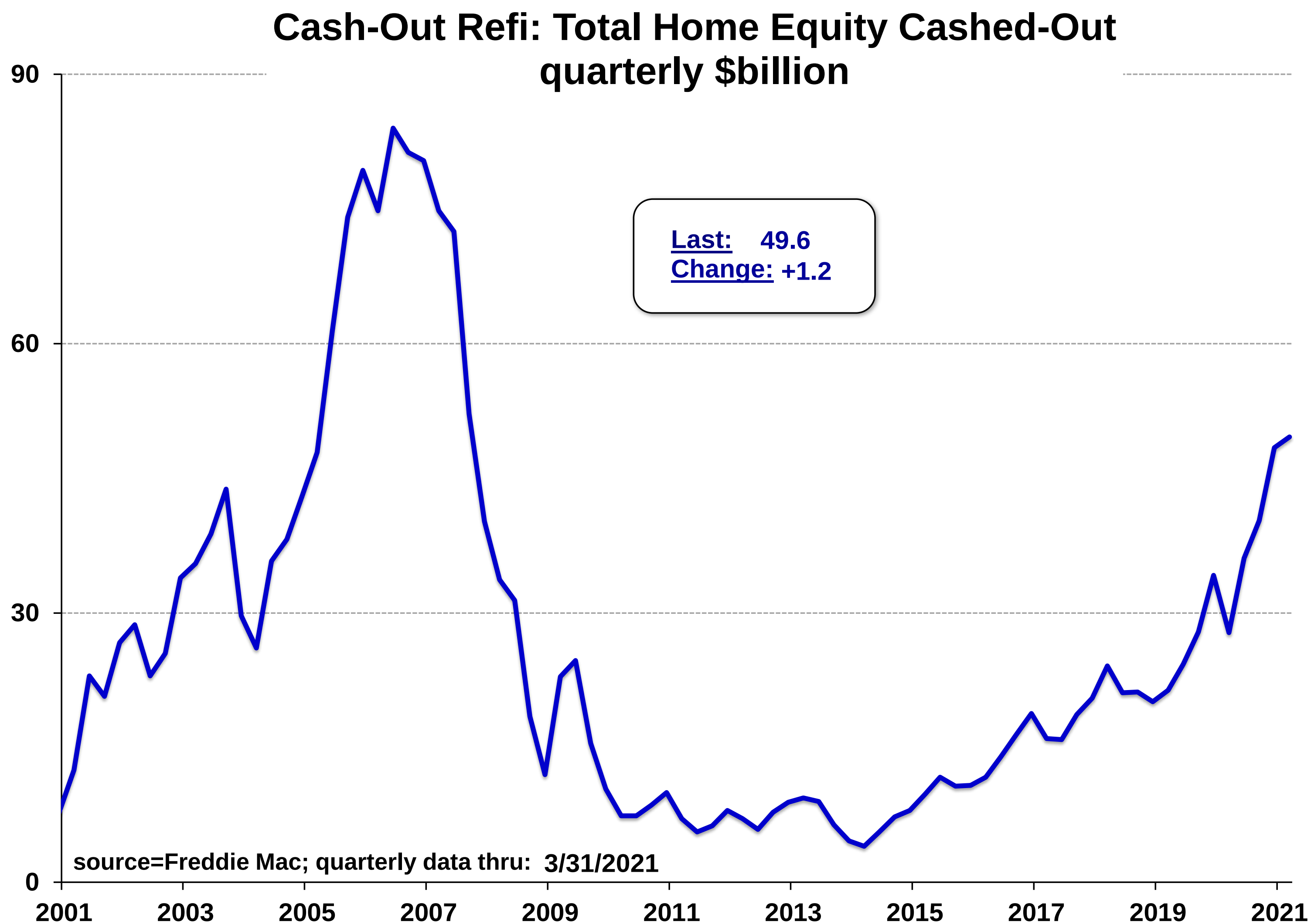


The Fed has apparently seen 'substantial progress' with respect to employment, enough to begin taper and eventual rate hike plans. The data beg to differ as we're still ~9 million off pre-2020 employment pace. However, we should expect strong employment numbers in months ahead (in the 500k/mo range, if not higher). Should we see a string of reports falling short of what should be strong employment gains, this would no doubt be a cause for concern as it would suggest more business set to close as labor shortages persist.

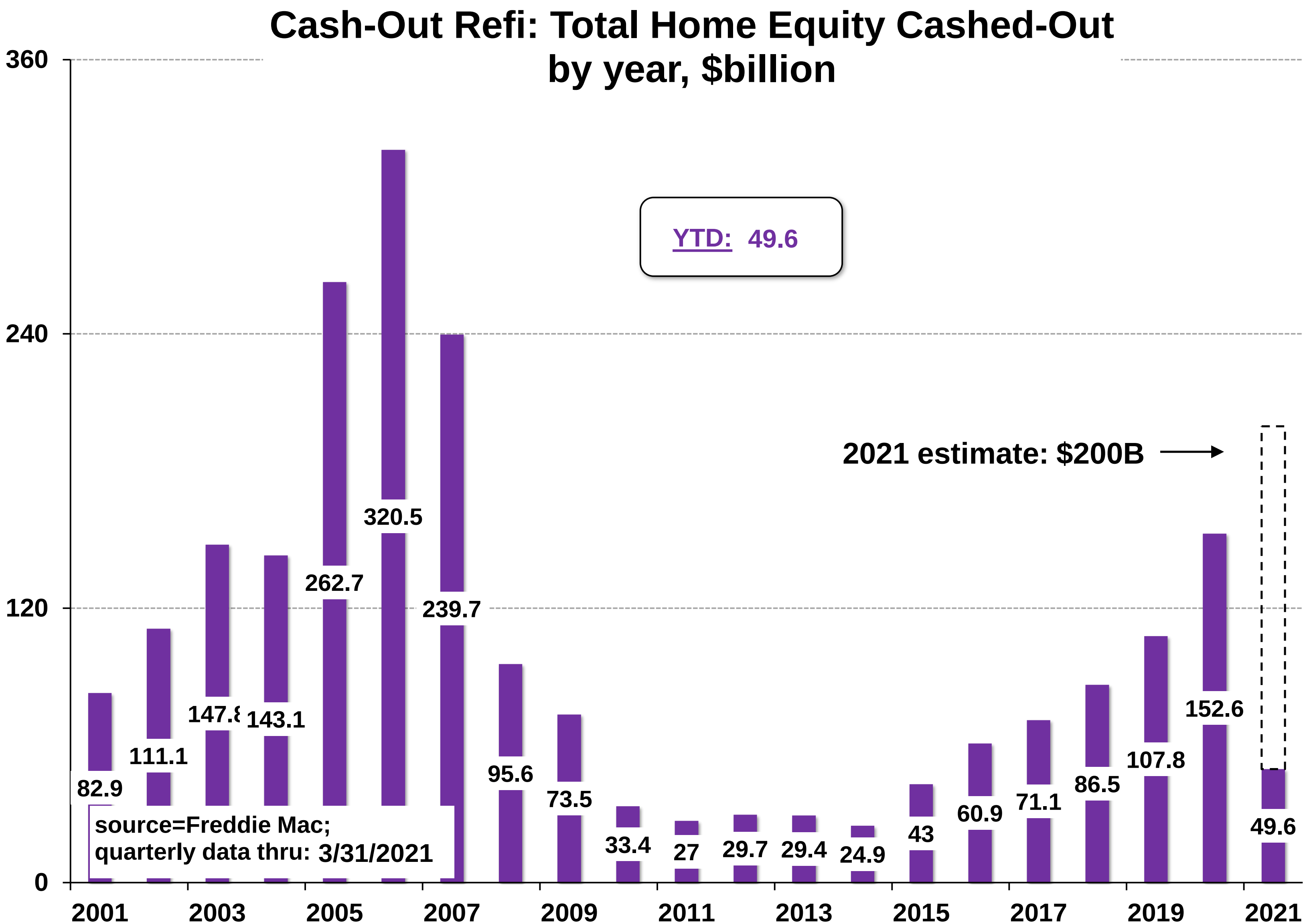


source: BLS; using Total Payrolls data (Private + Gov't Employment); Pandemic Claims = PEUC + PUA

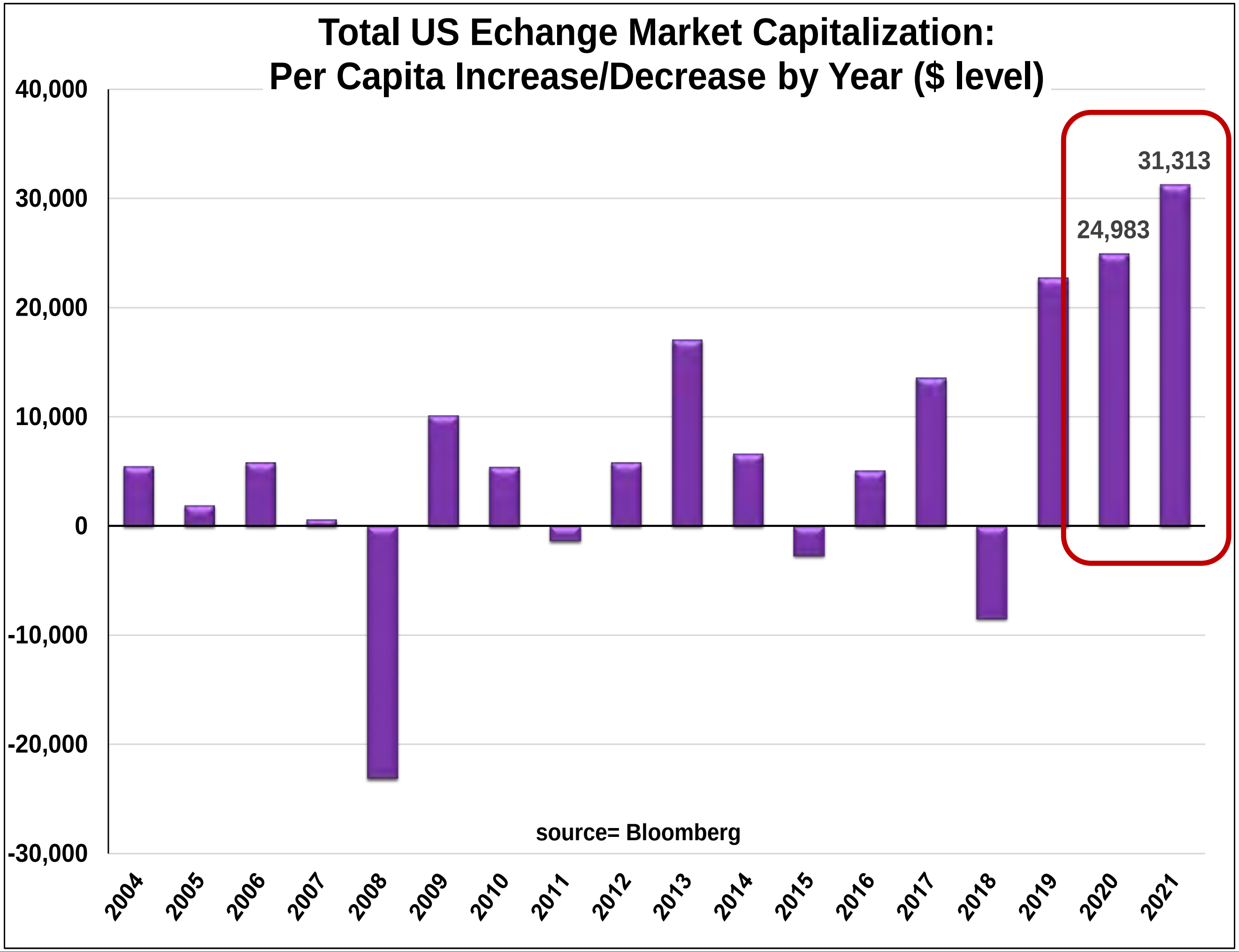
For now, there seems to be no rush for millions to head back to work. And really, why go back to work when other sources of income will do just fine. Outside of record stimulus programs in 2020-2021, the consumer has two alternate 'income' sources courtesy the Federal Reserve's asset inflation. First, the 'Housing ATM' is back: refi's have risen back to housing bubble territory (biggest Q1 cash-out total since 2006: $49.6B)…



…and saw a 42% jump y/y in 2020 to highest since 2007: $152.6B. Chart: 2021 cash-out refi is on pace for a 30% increase y/y…and a near doubling vs. 2019.

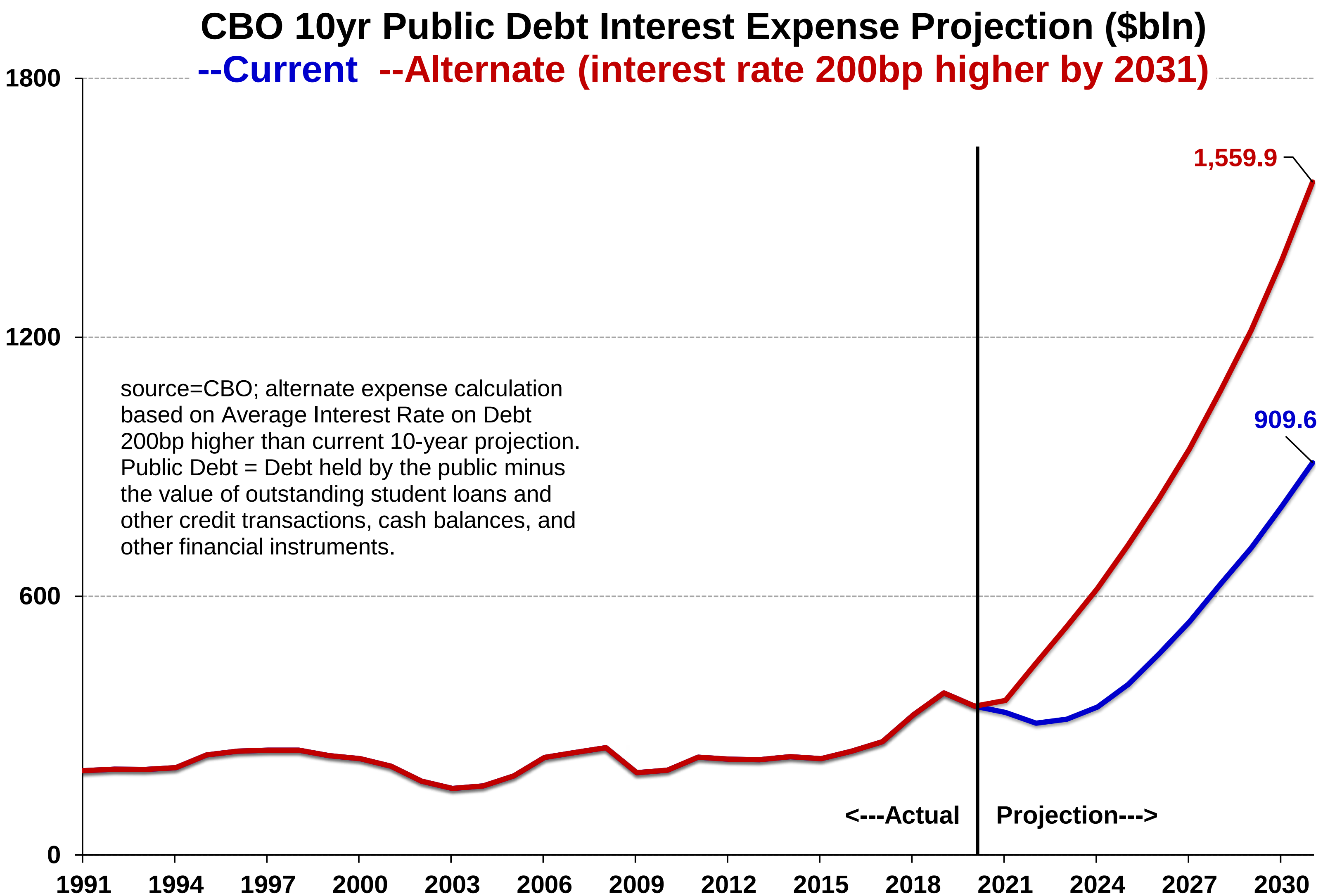


In addition, we effectively have a 'Stock Market ATM'. Excluding the expected 2019 market rebound following the 2018 rout (S&P 500 was down ~6% in 2018, biggest annual loss since 2008), we are experiencing two consecutive years of biggest market gains on record. On a per capita basis, total US Exchange Market Cap. rose $25k in 2020 and is up $31k so far in 2021. As you may recall in early summer 2020, online brokerage platforms reported a record jump (in the millions) in new accounts. It seems many of these folks haven't left their newfound trading gig in favor of re-entering the workforce. Why go back to work when the market provides free money?

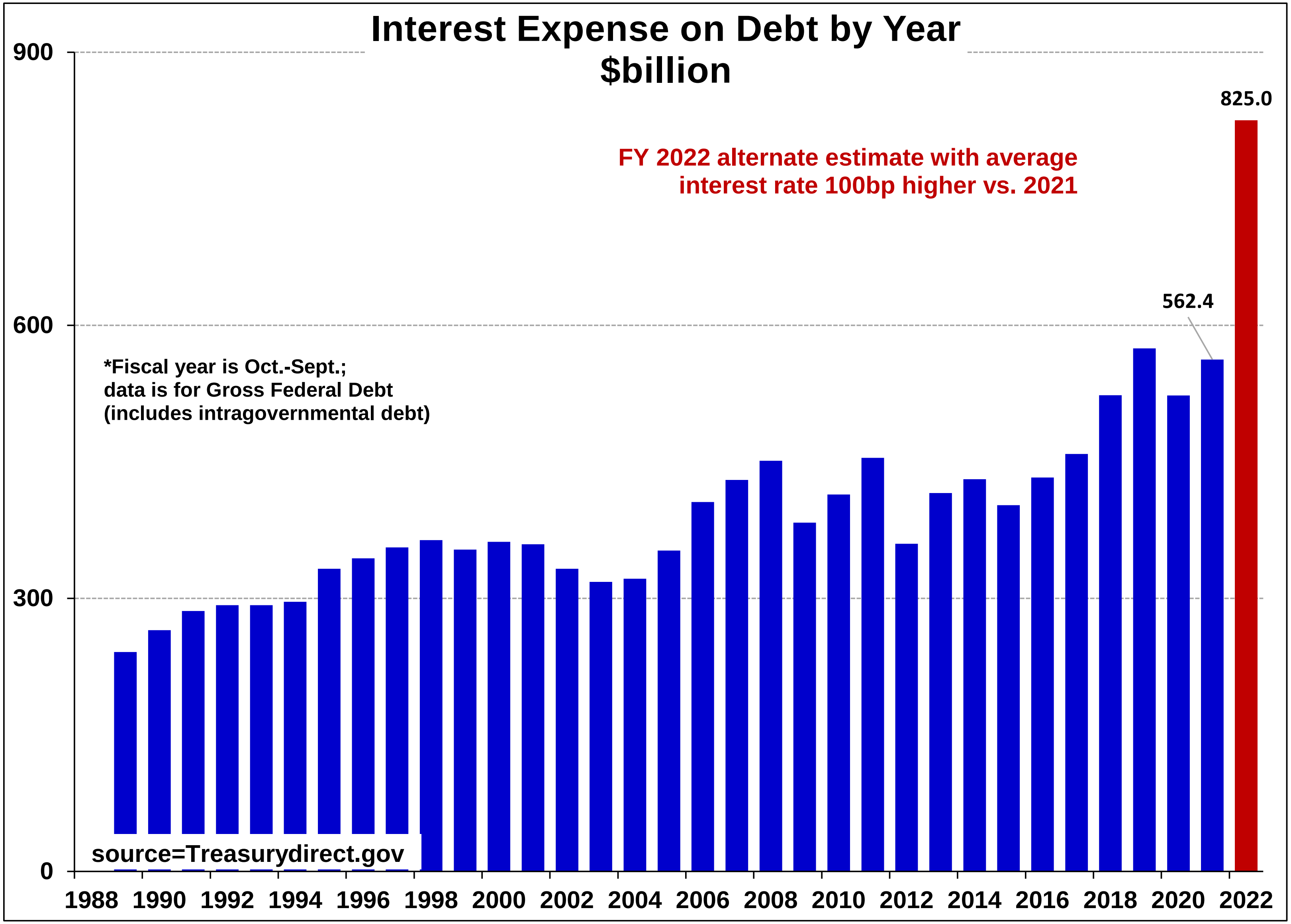


One could certainly argue that, in the central-bank-distorted reality we find ourselves in, *a market (& housing) correction would actually* _**improve**_ *labor market conditions and help the real economy as fading asset appreciation would send people scrambling back into the labor force.* However, such a transition would be short-lived as higher rates with debt levels where they are would crush both asset prices *and* the economy before long. The Fed is no doubt in a bind: ensure the unceremonious demise of the 'everything bubble' via higher rates, or maintain 'lower for much longer' and let inflation take a big bite out of US debt burden. We'll guess the latter.

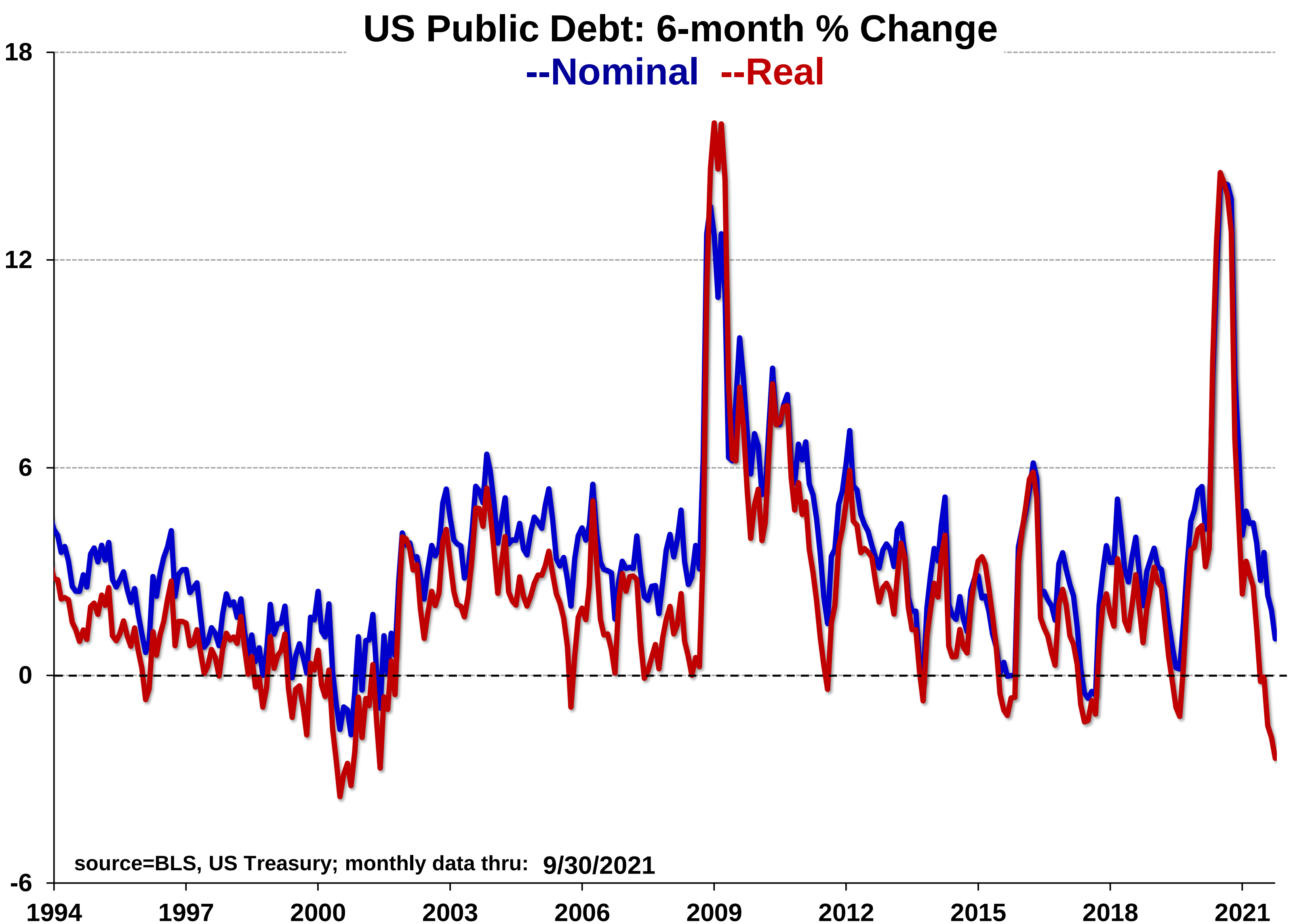
Speaking of debt levels, should interest rates rise to 200bp above what CBO has projected by end of 2031, interest expense will be 71% higher than current projections…which already stands at just under $1 Trillion (*based on Public Debt only).



In a more extreme scenario, should average interest rate for FY 2022 be 100bp higher than projected, interest expense would explode 47% y/y to record $825 billion (based on Gross Federal Debt).

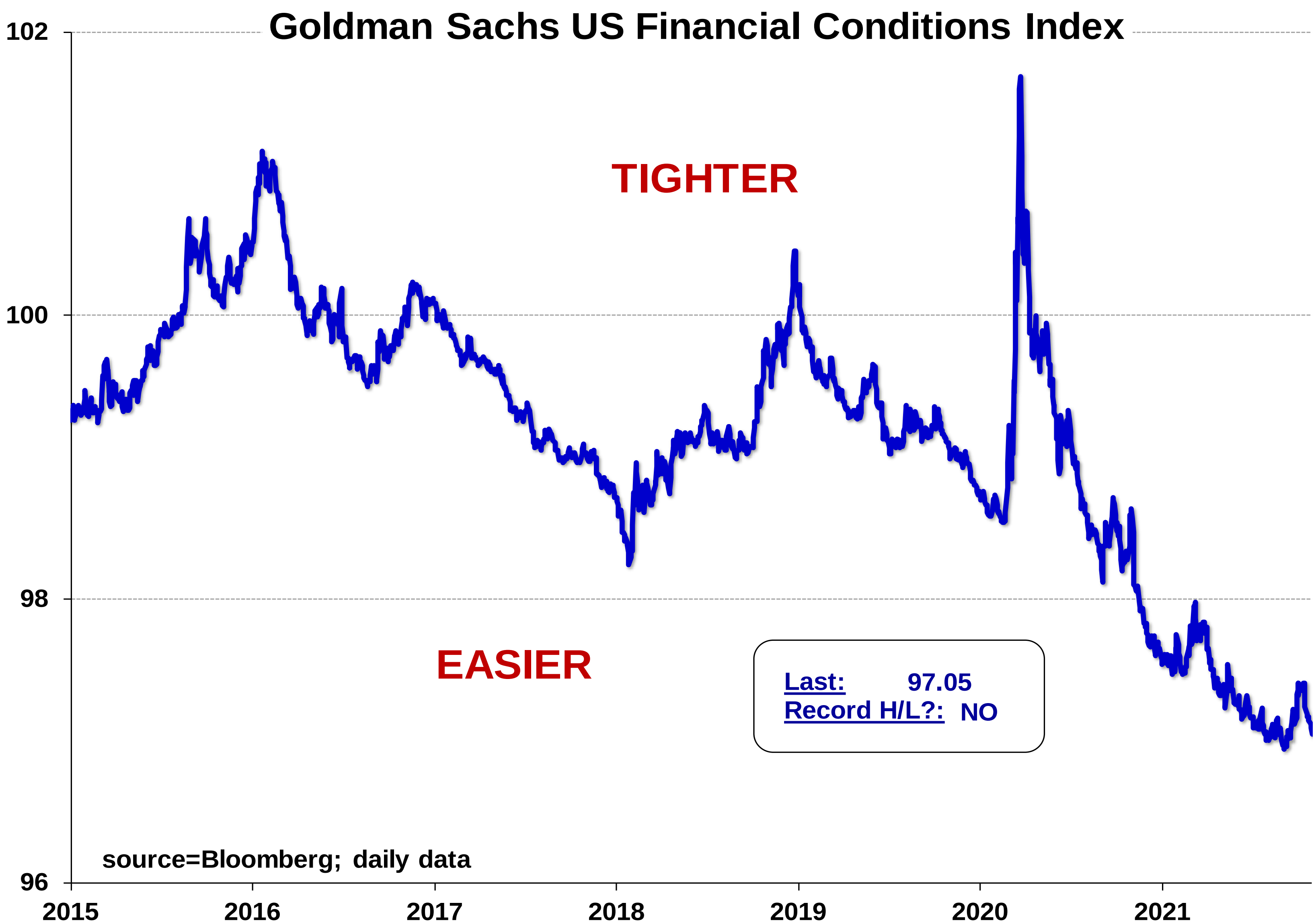


If reducing US debt burden via some degree of 'soft default' inflation is a goal of the Fed (or, ***the*** goal), then their plan has been working as of late. Chart: Real (inflation-adjusted) debt is falling at fastest (6mo) pace since 2001.

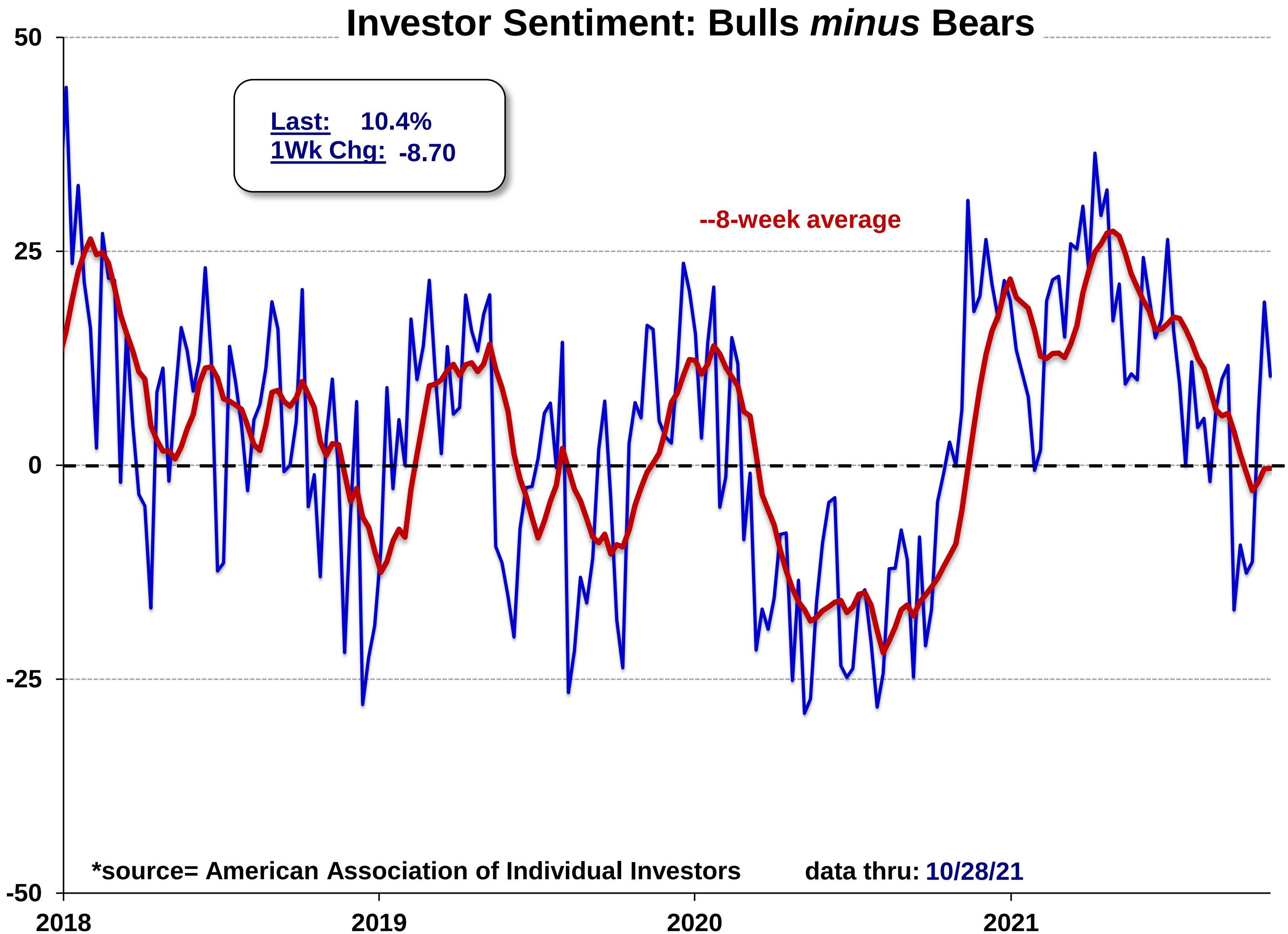


S&P 500 Price/Sales Ratio finishes the week at a record high as Taper looms.

US Financial Conditions index turns lower again in October, now just 0.11pts from ‘easiest’ level on record.

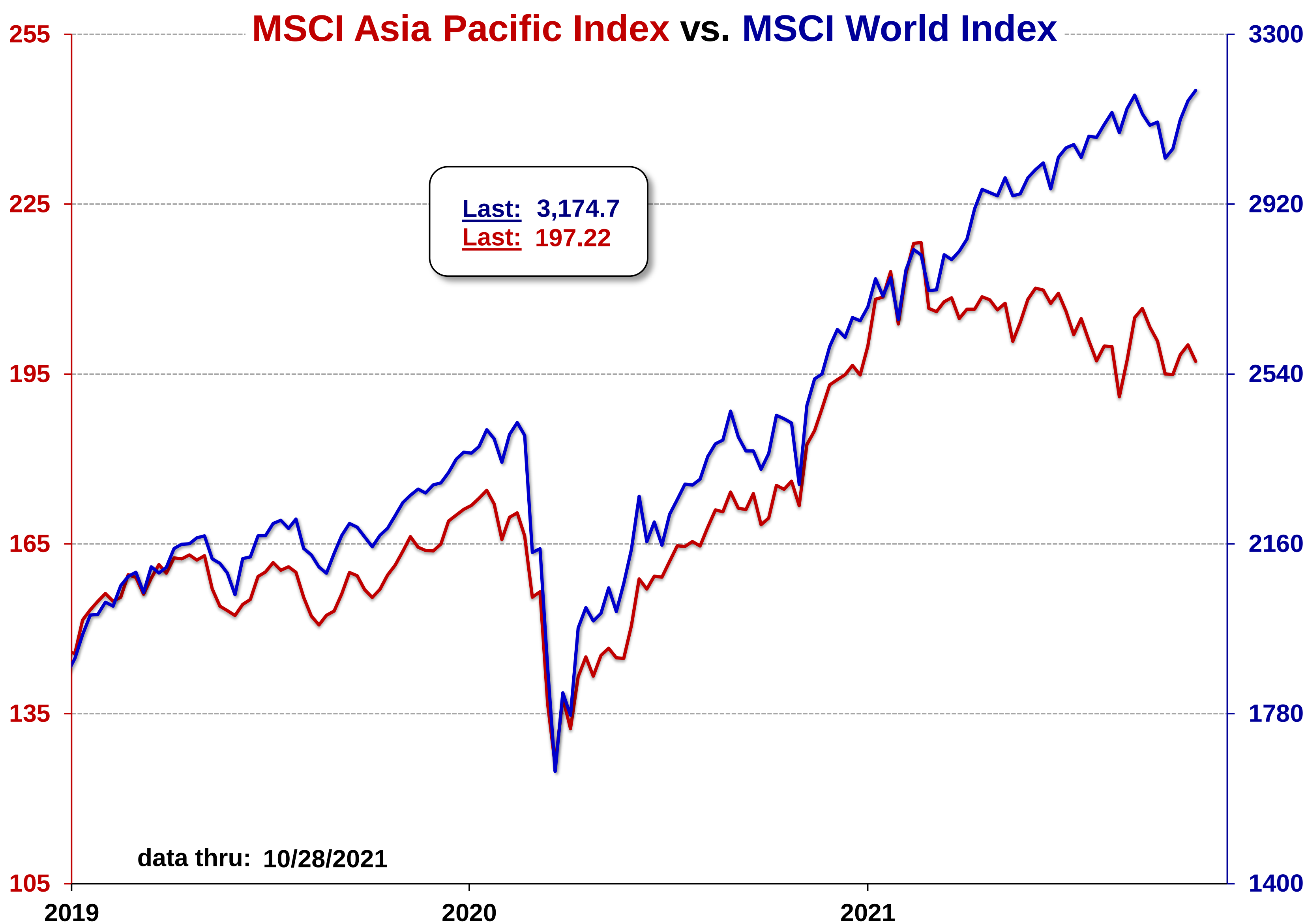


Investor Sentiment slips for first week since end of September; 8-week average remains negative



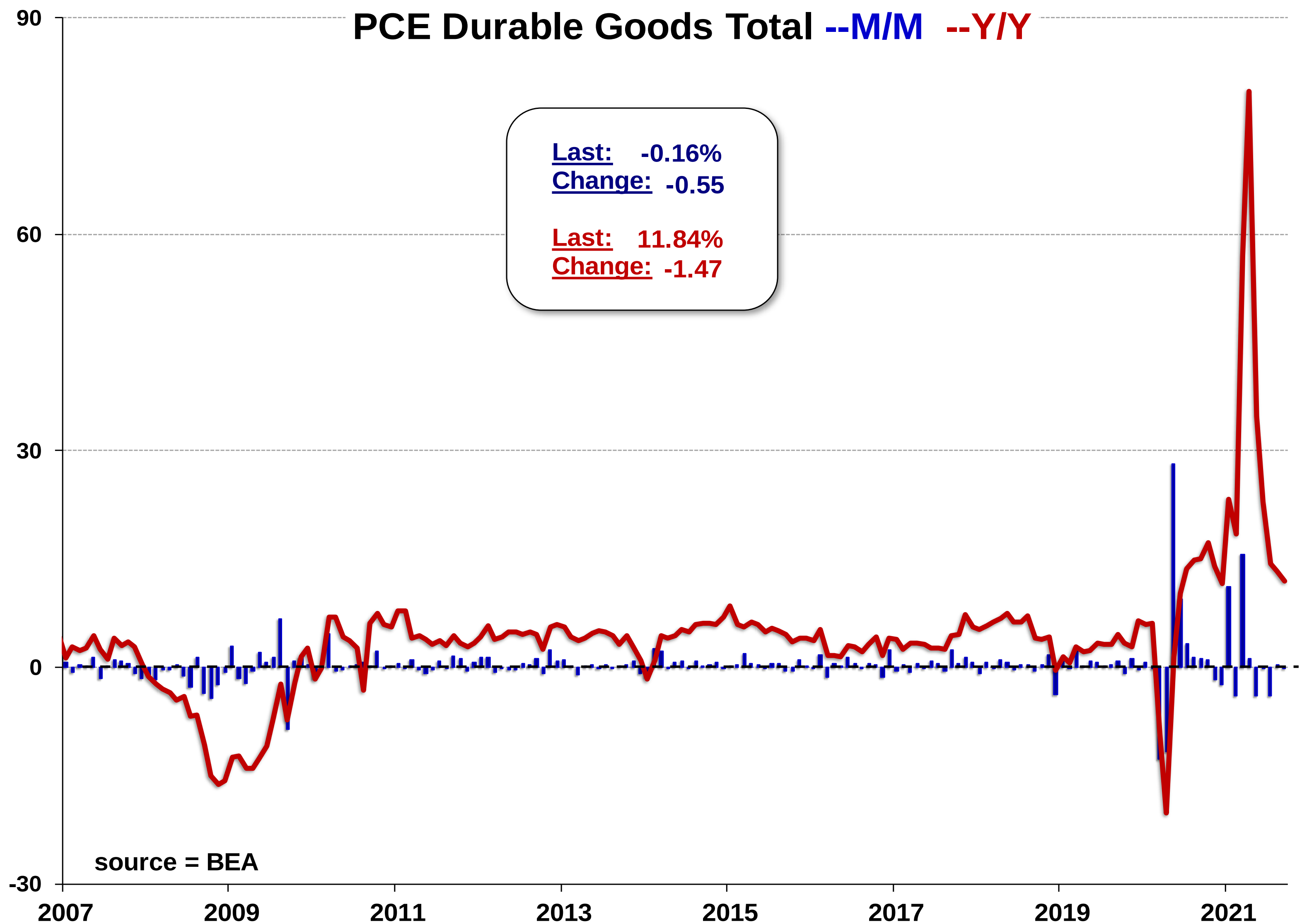
NYSE % Stocks Above 200DMA slips 3.4pts w-w to 58.1% as S&P 500 finishes the week at record high

Mind The Gap: divergence between MSCI World and MSCI Asia Pacific widens…

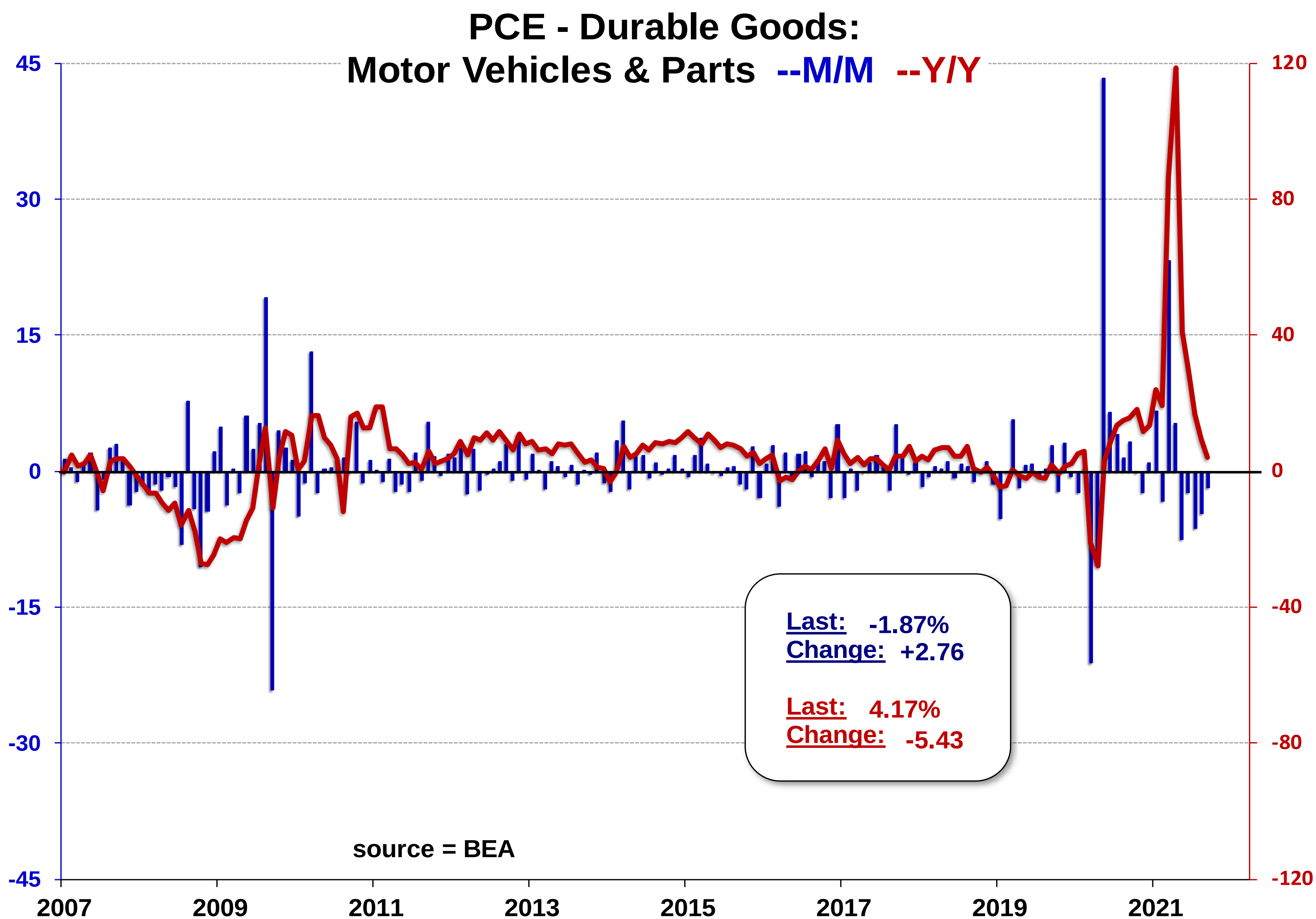


…led by MSCI China which is down 29% since mid-February. The Evergrande situation has not been resolved yet, and a disorderly bankruptcy could signal the beginning of the end of China's debt-fueled asset bubble which would no doubt ripple across global markets.

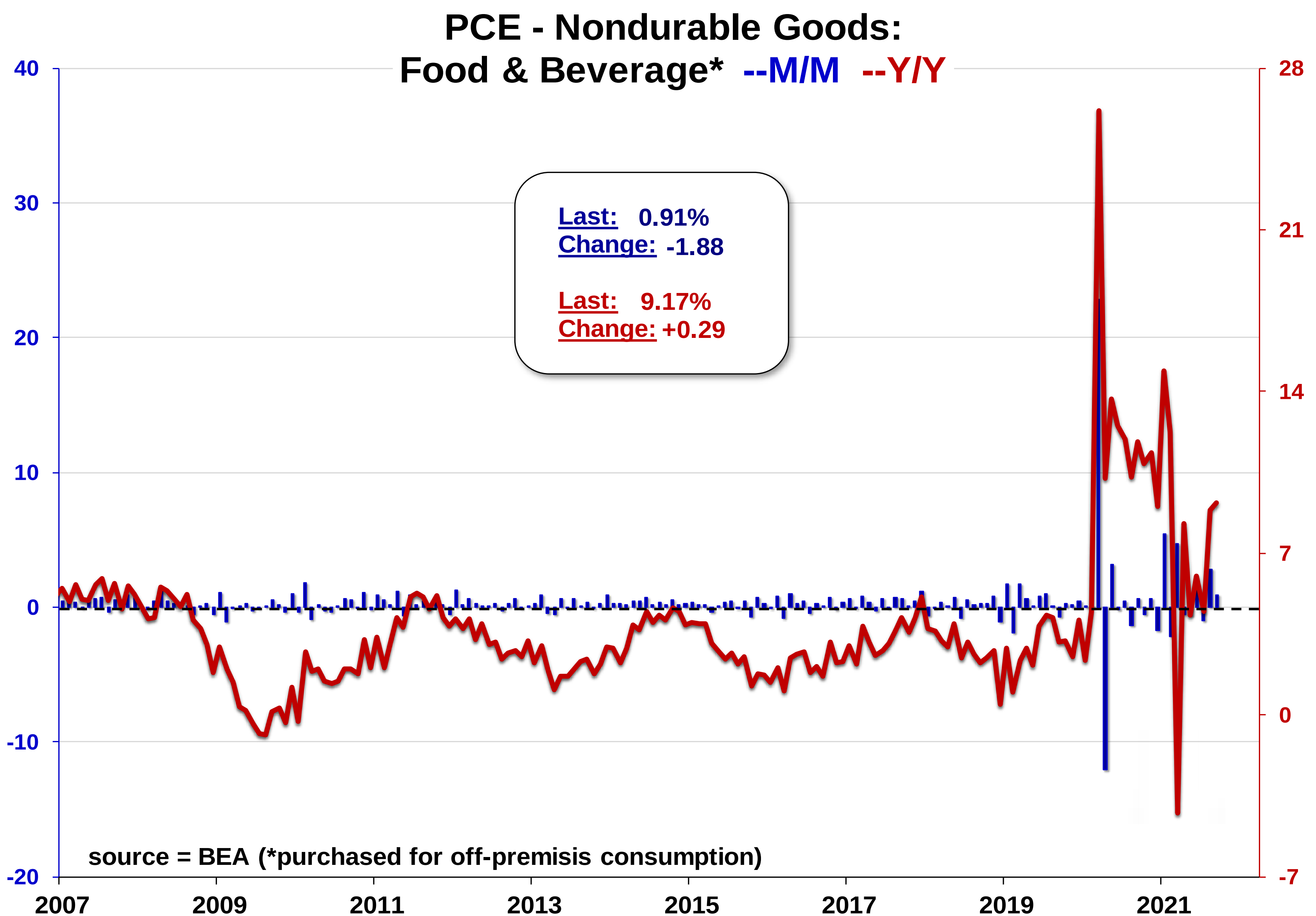
Consumer Spending (September data): +0.6% m/m as expected, August revised higher from +0.8% m/m to +1%, and Core PCE holds at 3.6% y/y. Chart: Durable Goods spending continues to weaken, -0.2% m/m and down 4 of last 5 months…



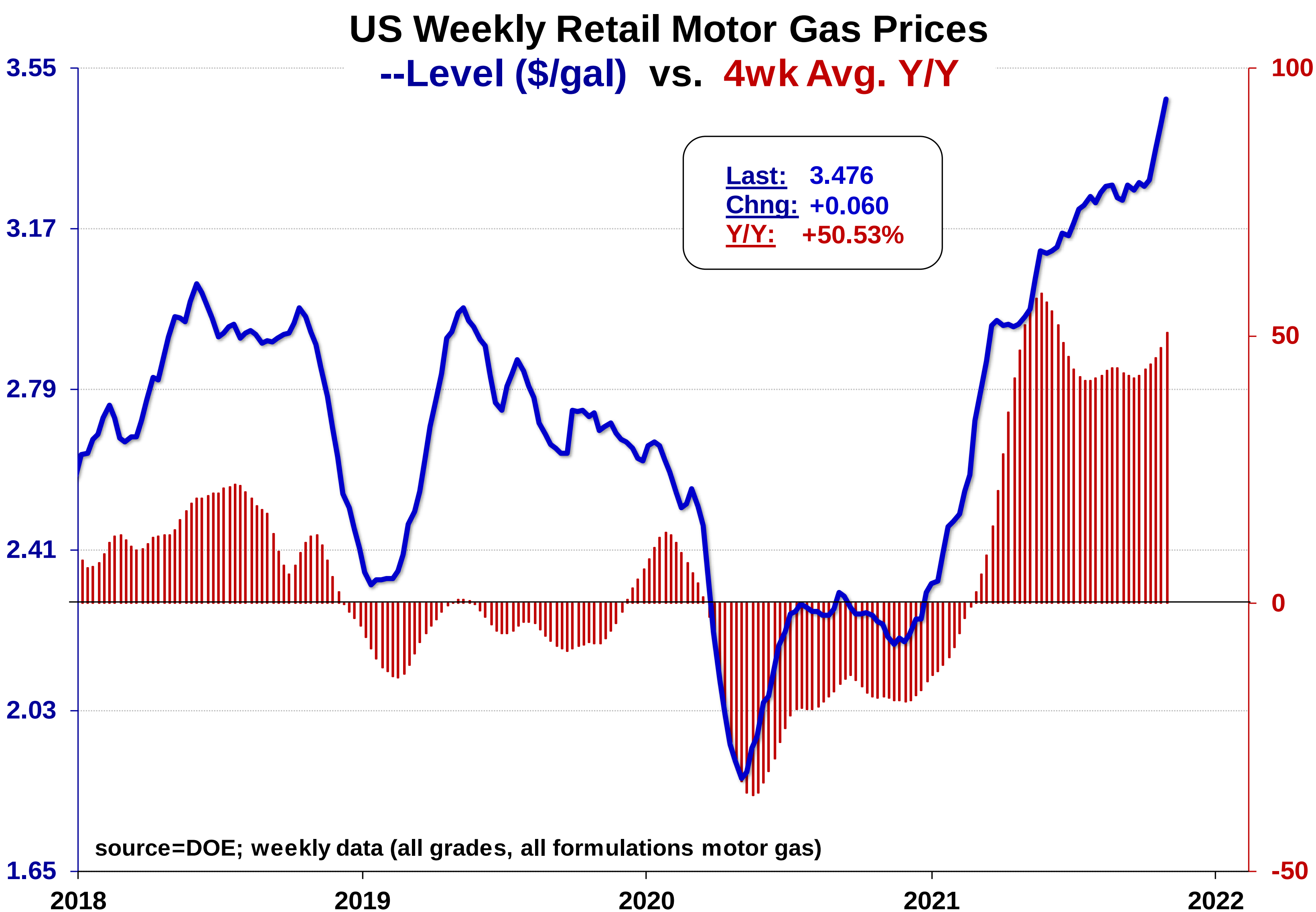
…led by Motor Vehicle Spending which fell for 5th straight month: -1.9% and nearing negative y/y territory



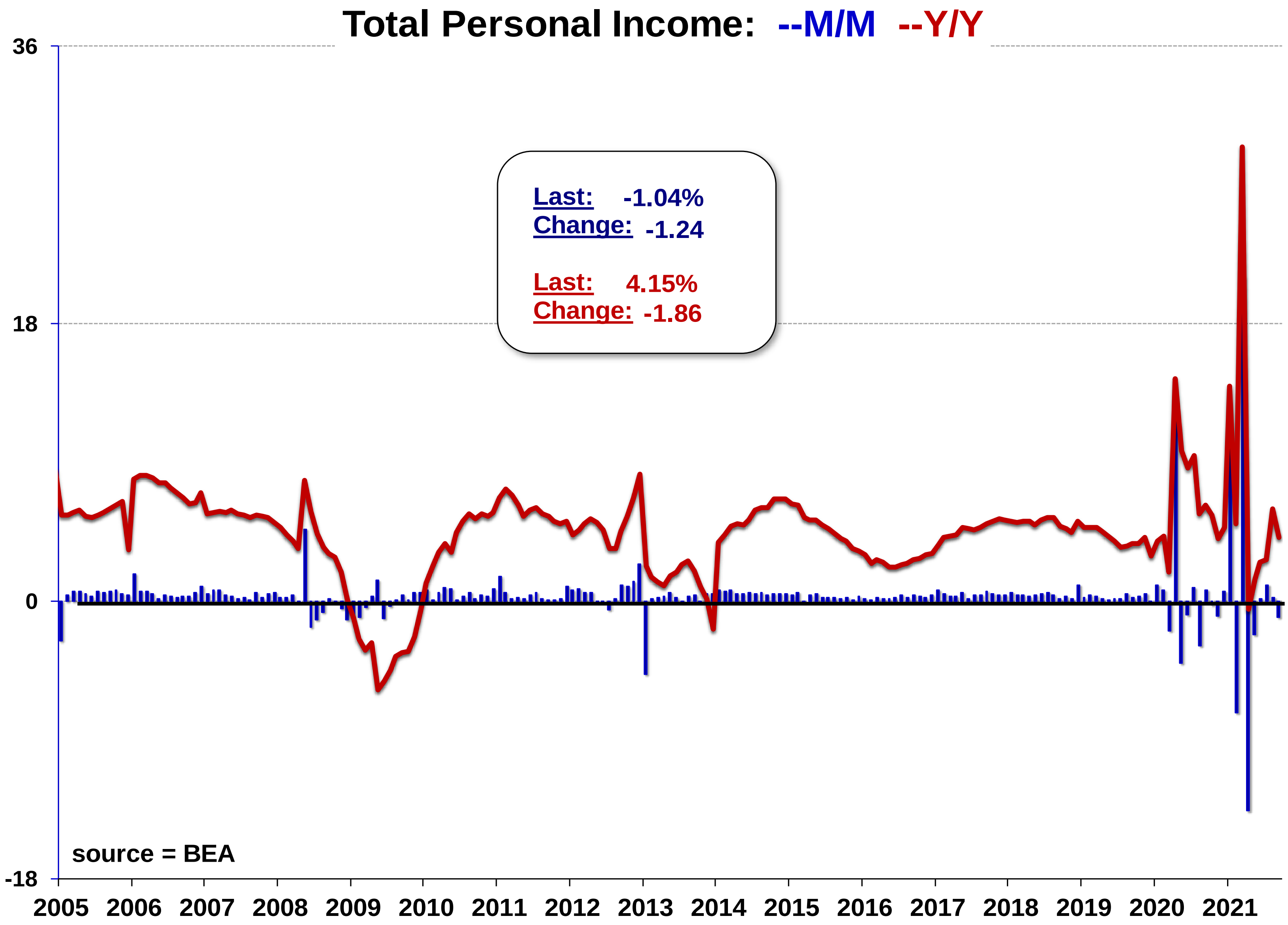
Inflation watch: Food & Beverage Spending continues to rise: +0.3pts to +9.2% y/y (historically very high), and Gas spending rises for 5th straight month, up 50% y/y…



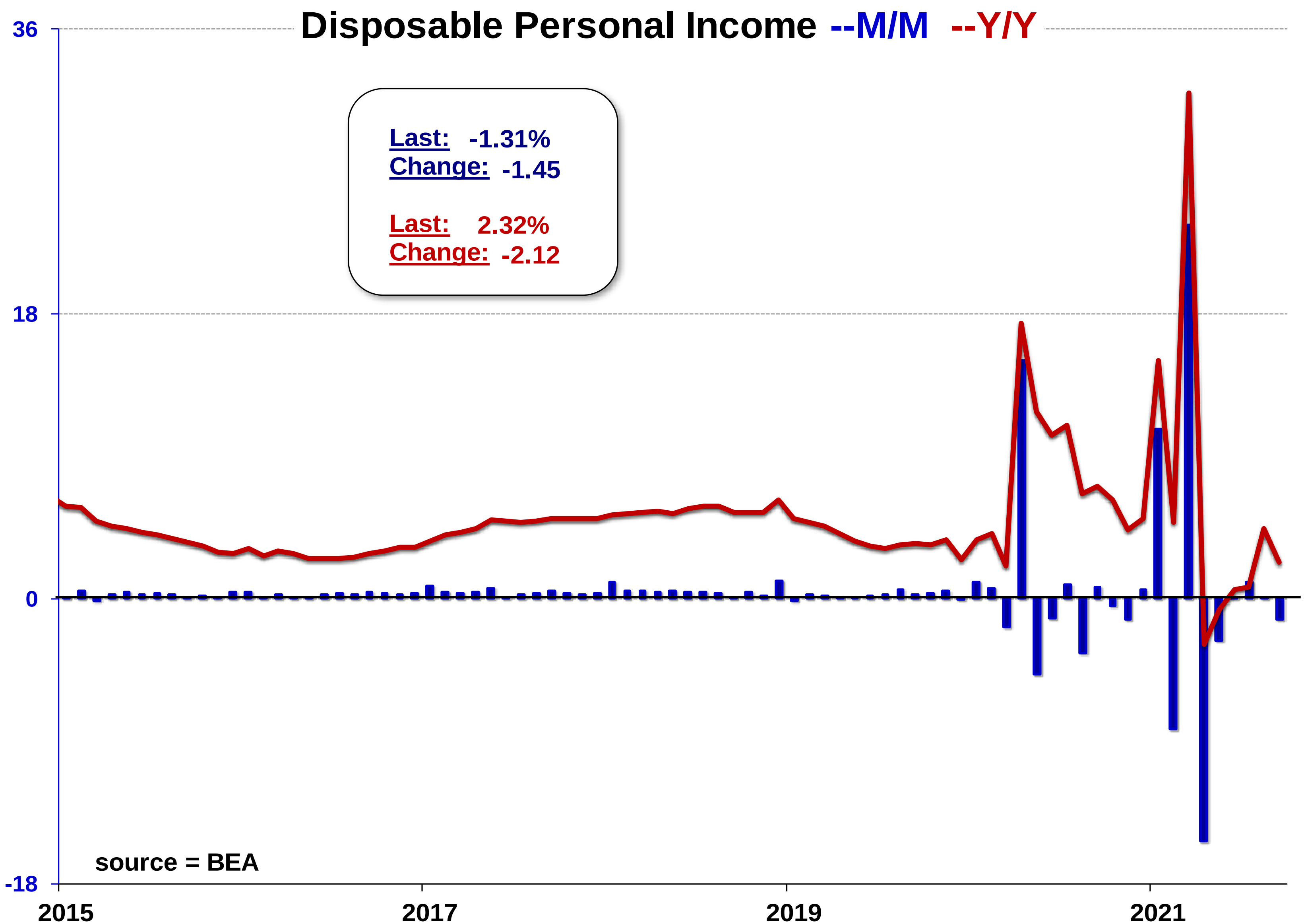
…and looks like October gasoline PCE could rise as much as 5% based on recent price spike.



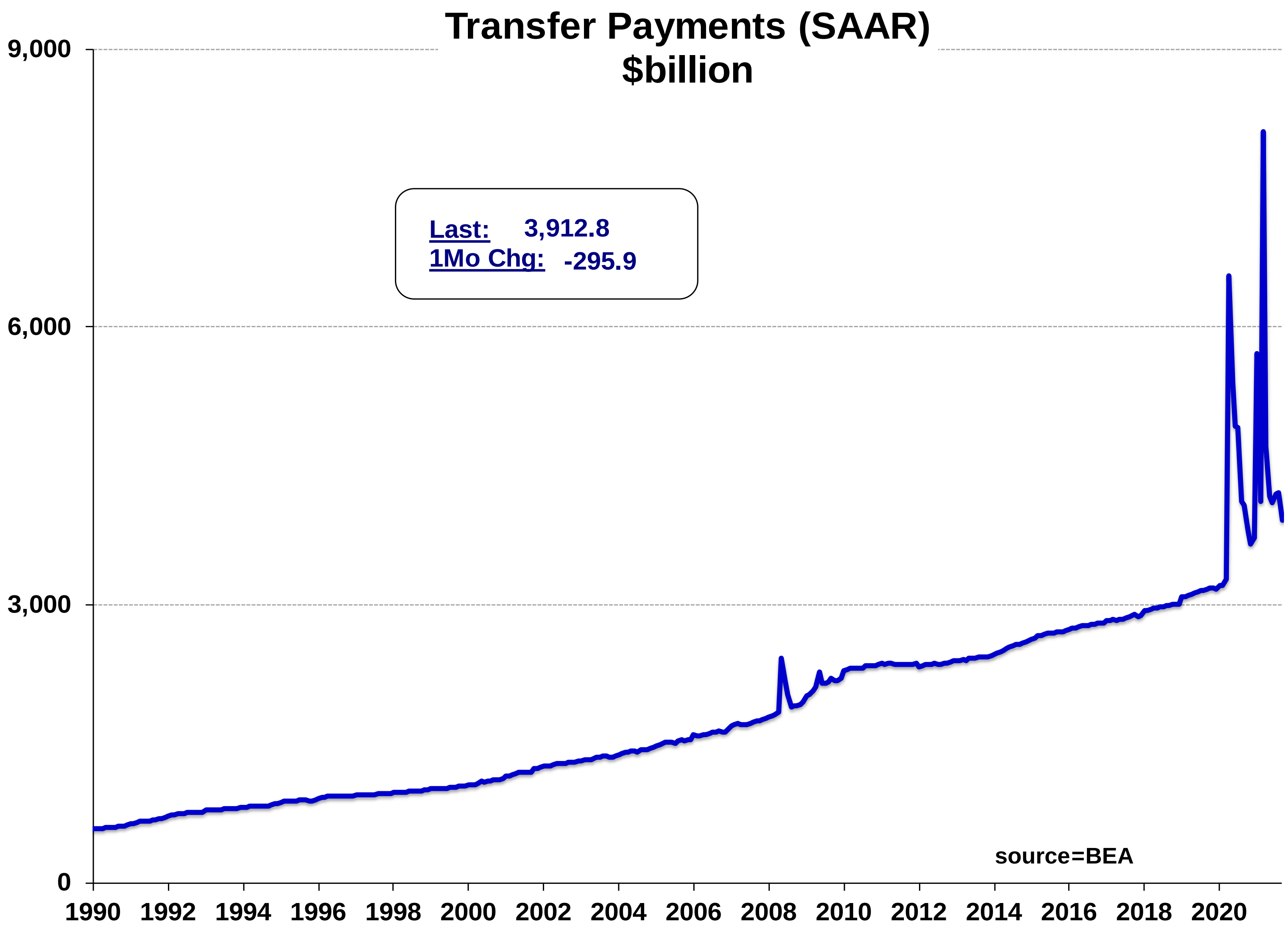
Income data disappointed, turning negative for first time in 4 months: -1% m/m vs. expectations of -0.3%...



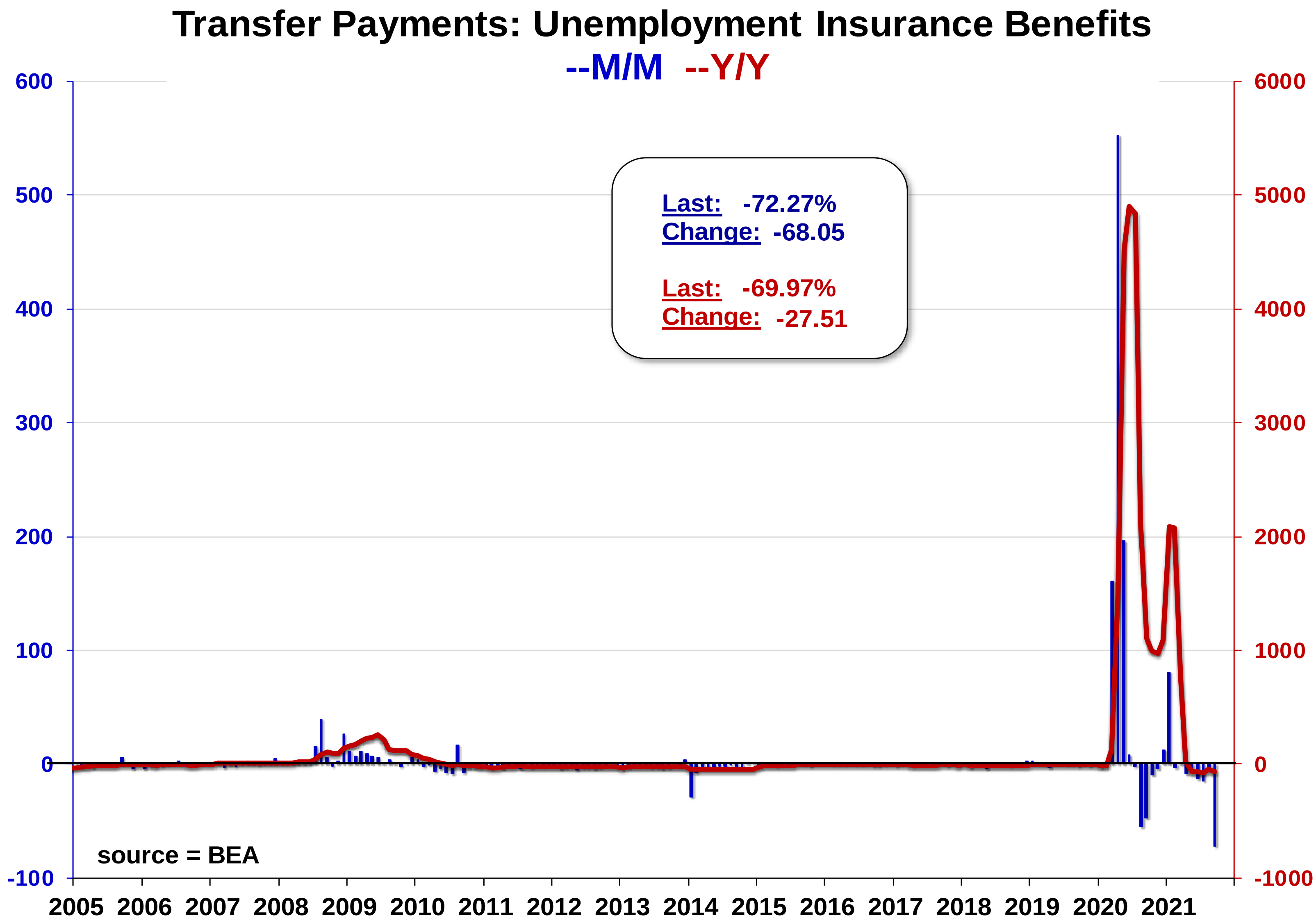
…and Disposable Income fell -1.3%



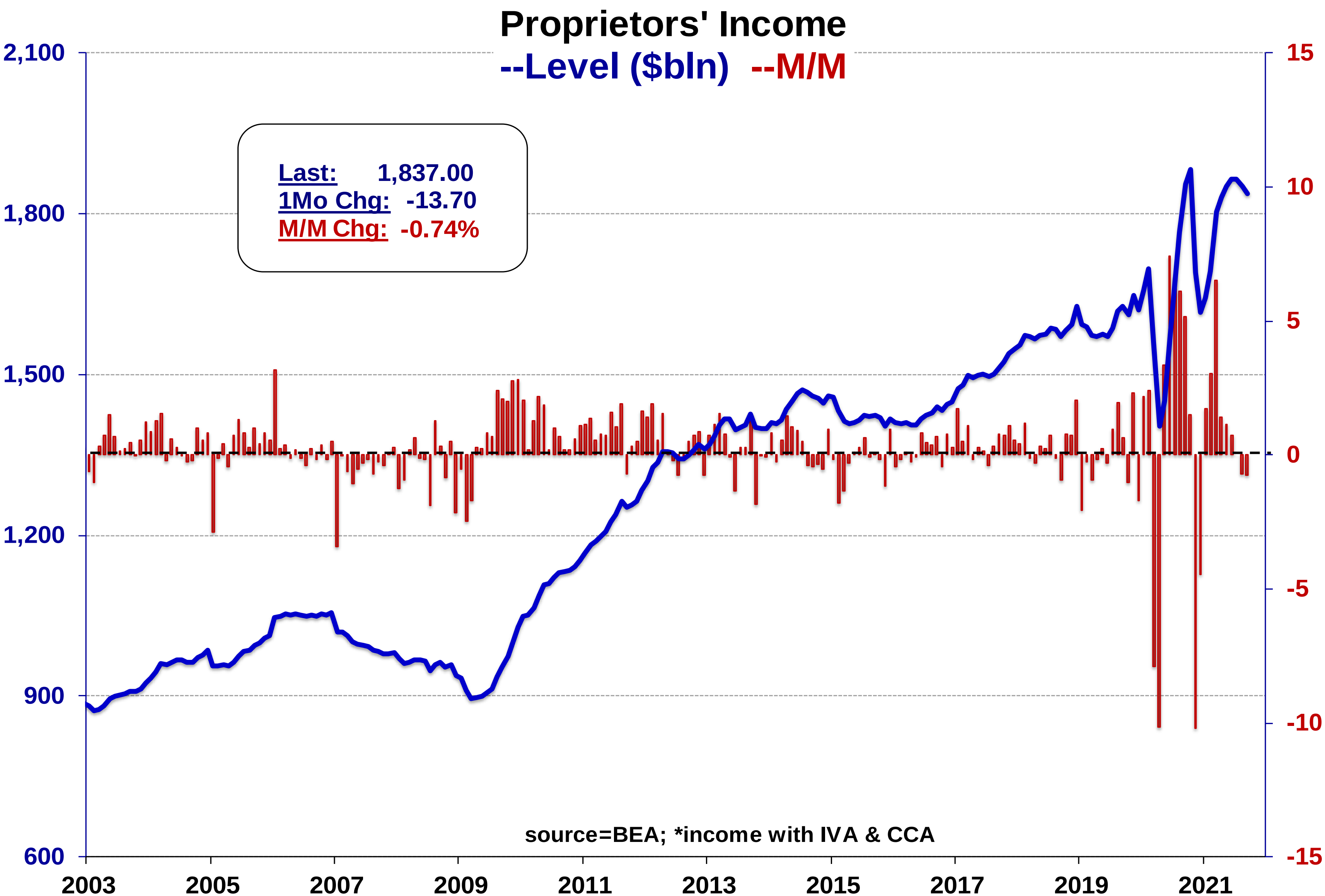
Transfer Payments remain elevated vs. pre-2020 trend levels, however continuing to decline …



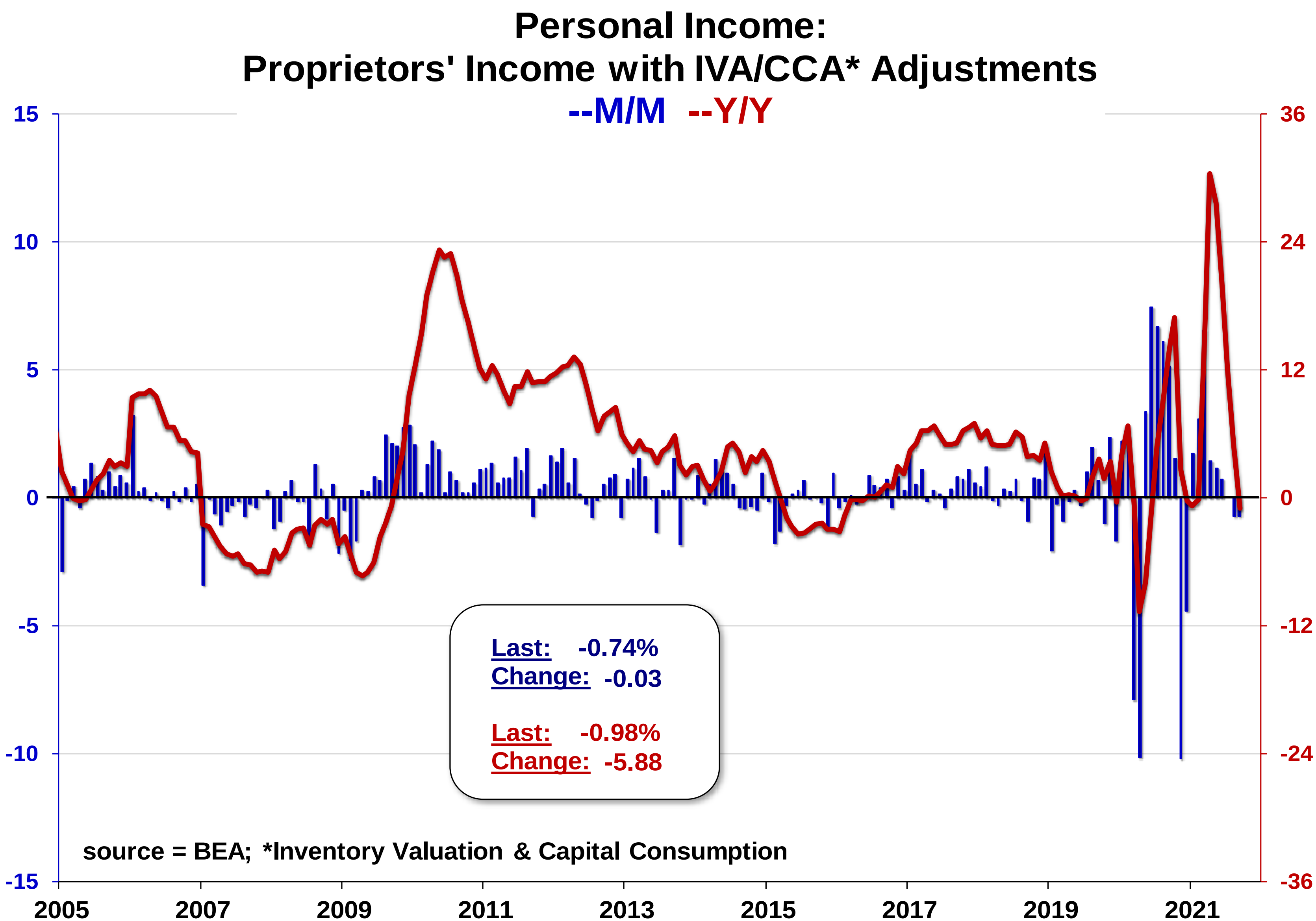
…as Unemployment Insurance Benefits tumble a record -72% m/m to just under $100 billion (now $70bln away from pre-2020 levels). With the last of PUA + PEUC emergency jobless claims set to roll off in the next few weeks, plus overall claims soon to 'normalize', this data set will no doubt take another big dive into year-end.



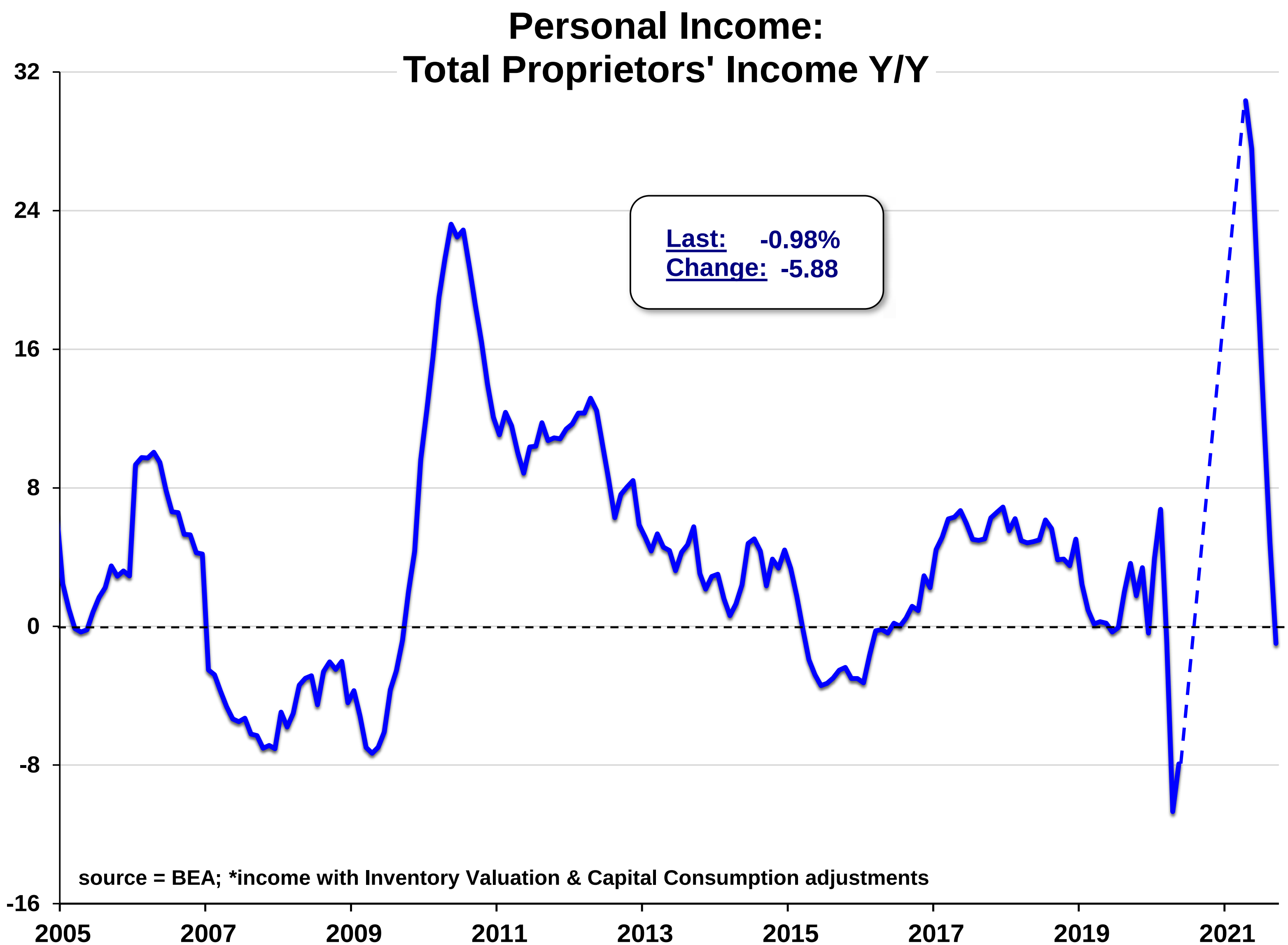
Proprietors' Income falls for 2nd straight month…



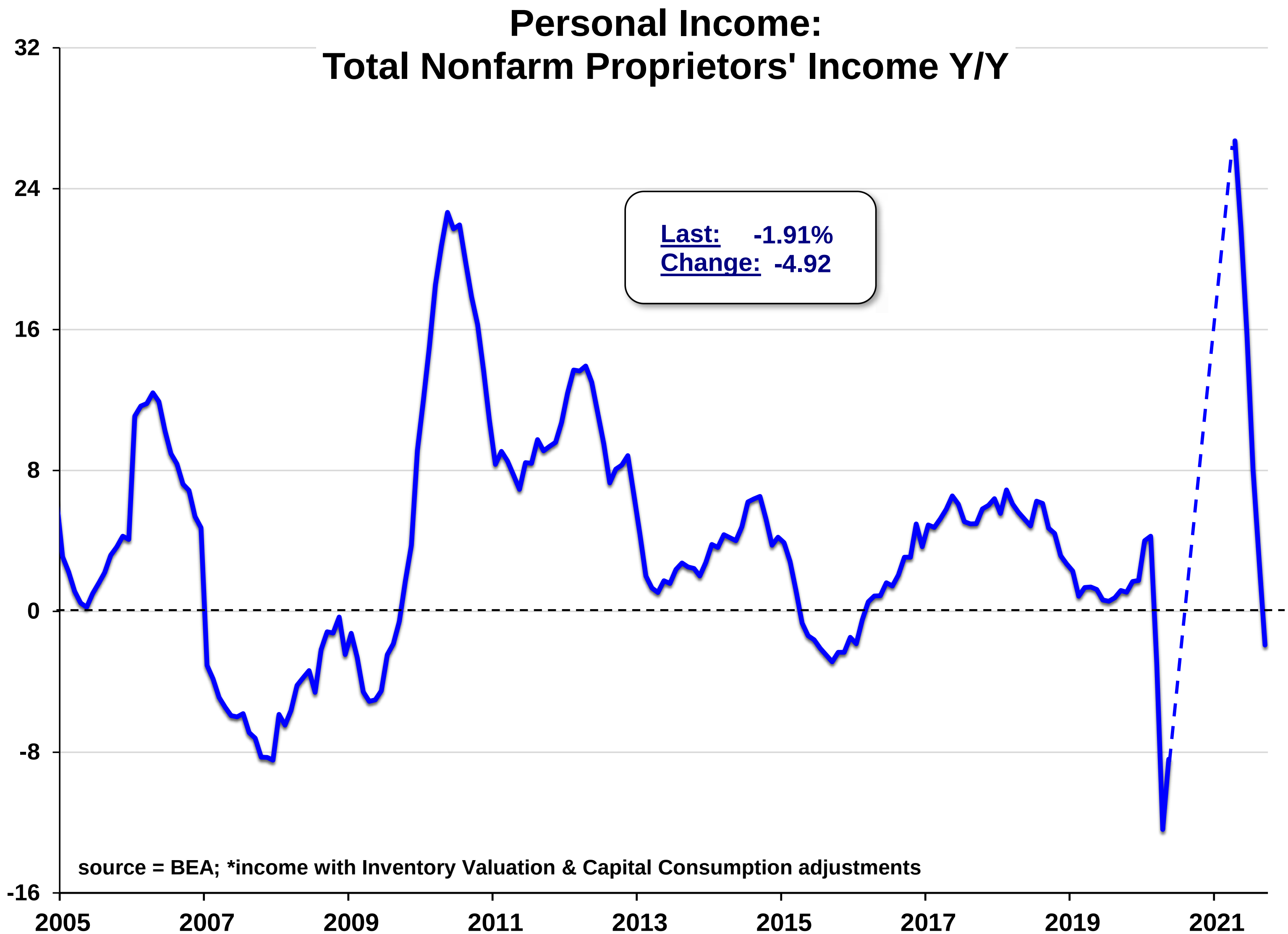
…and turns negative y/y: -1%...biggest y/y decline since May 2020



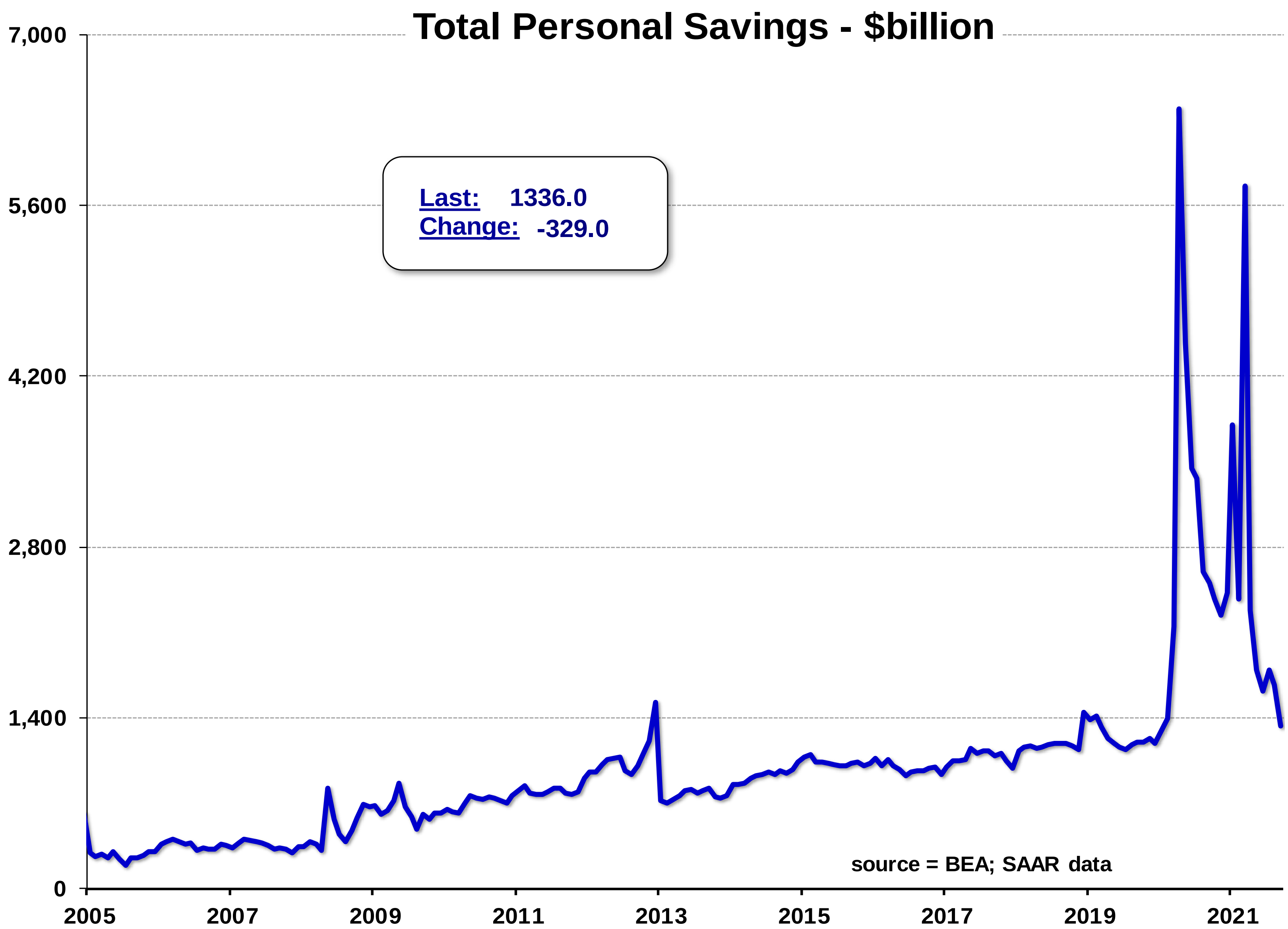
When we strip-out 10 months of recovery 'noise' data (massive bounce off 2020 lows followed by an expected give-back, and then another bounce off that level), we see that…for now…Proprietor Income growth has stalled.



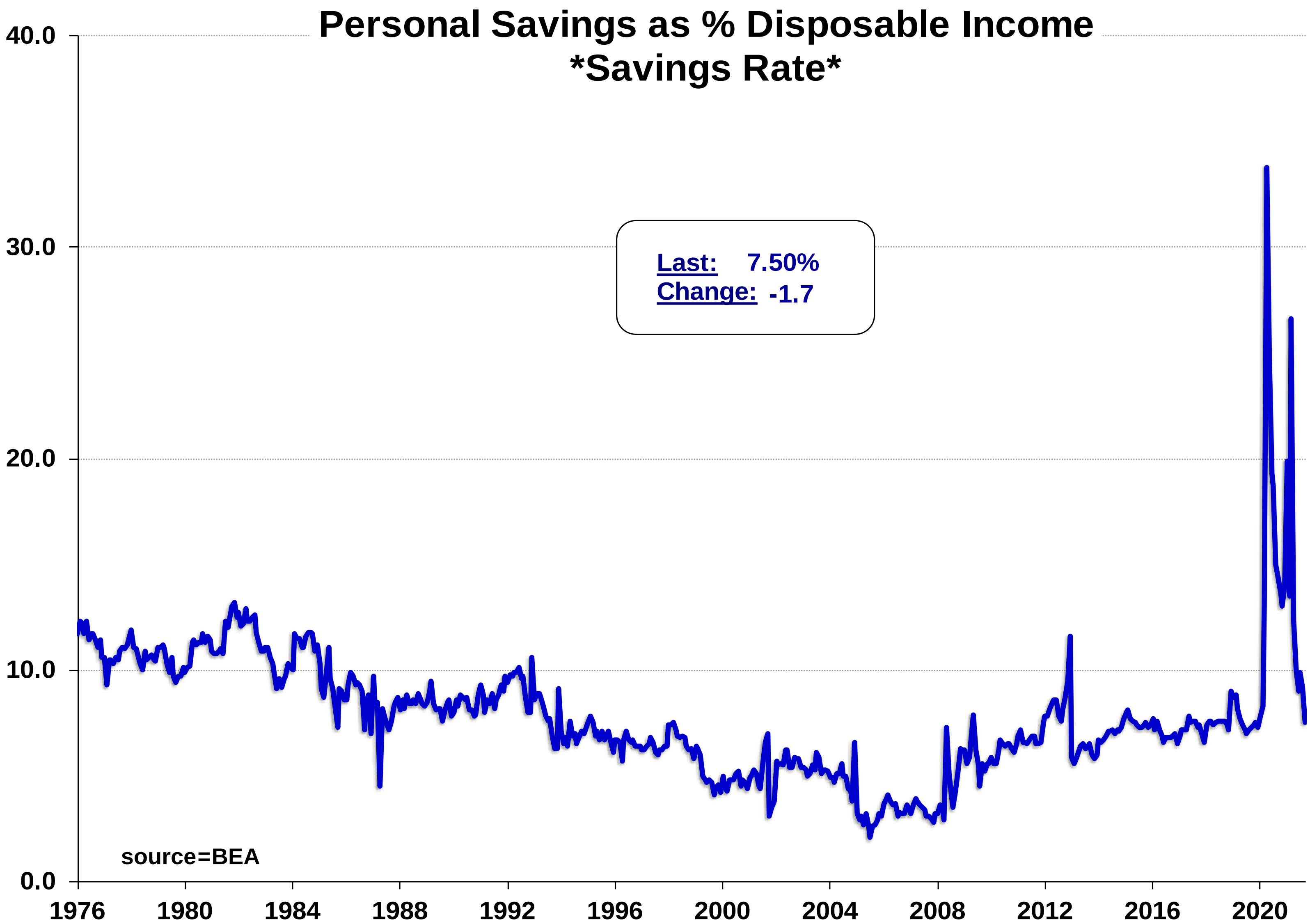
The good news is Proprietor Income $-level is still elevated near record highs. Given y/y comps, we should see 1 or 2 more months of negative y/y readings and then a stabilization at pre-2020 trend. If not, and income levels deteriorate, this could suggest recession ahead. Chart: income still negative y/y if focusing just on Nonfarm data.



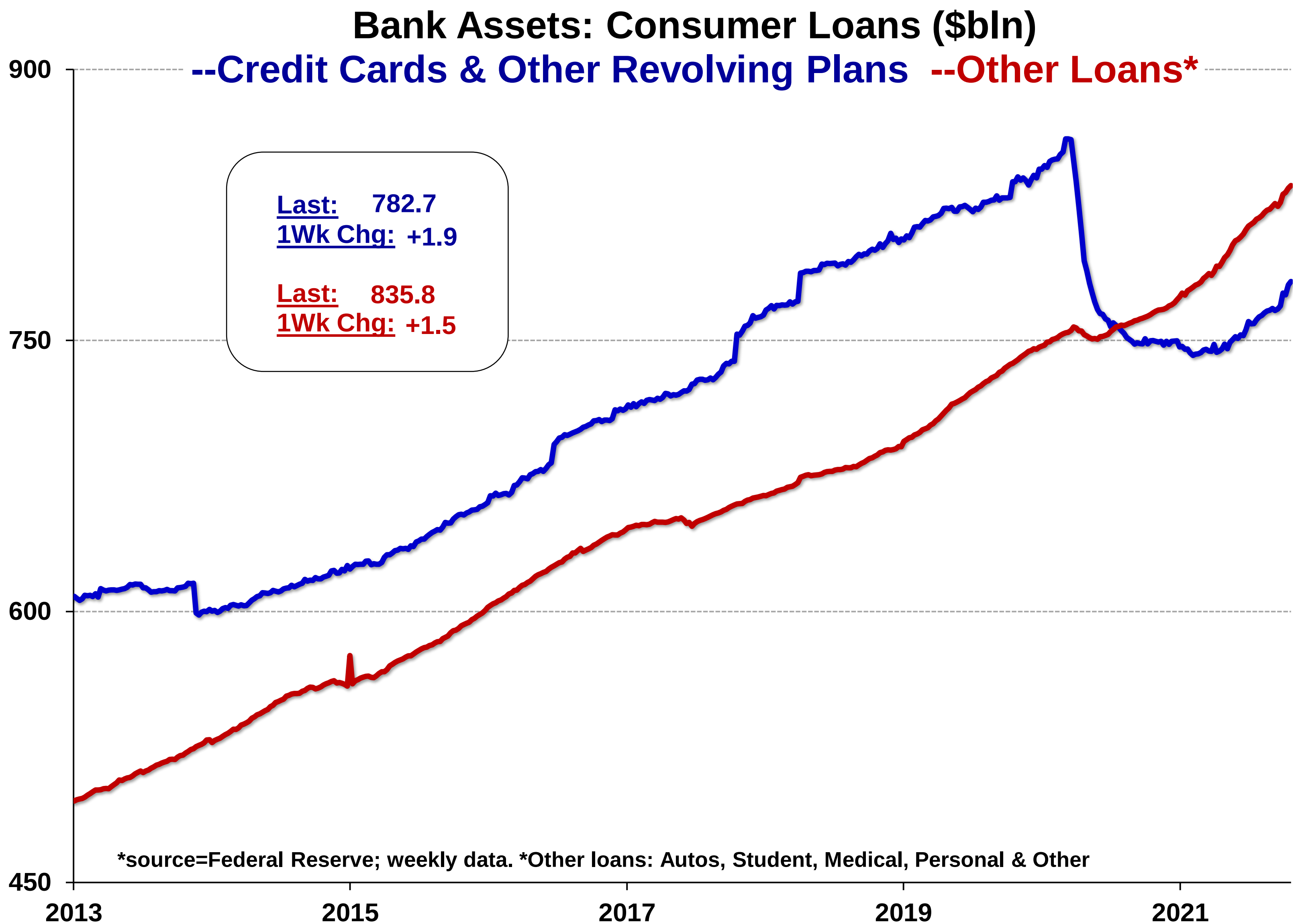
Are consumers set to tighten their belts soon? Massive increase in savings over last 18+ months have completely evaporated, down -20% m/m and back to Jan. 2020 levels.



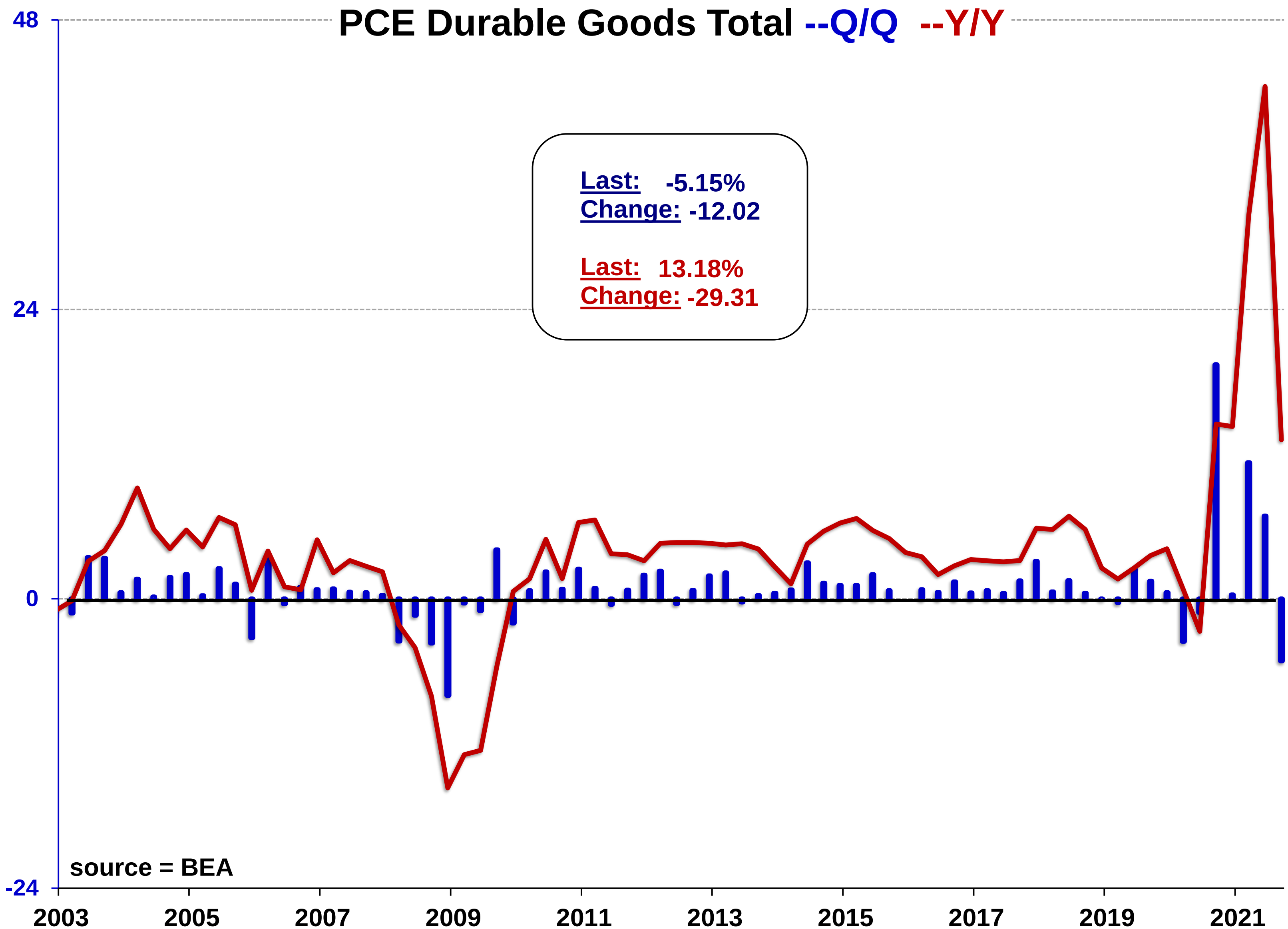
Savings Rate drops to Dec. 2019 level: 7.5%



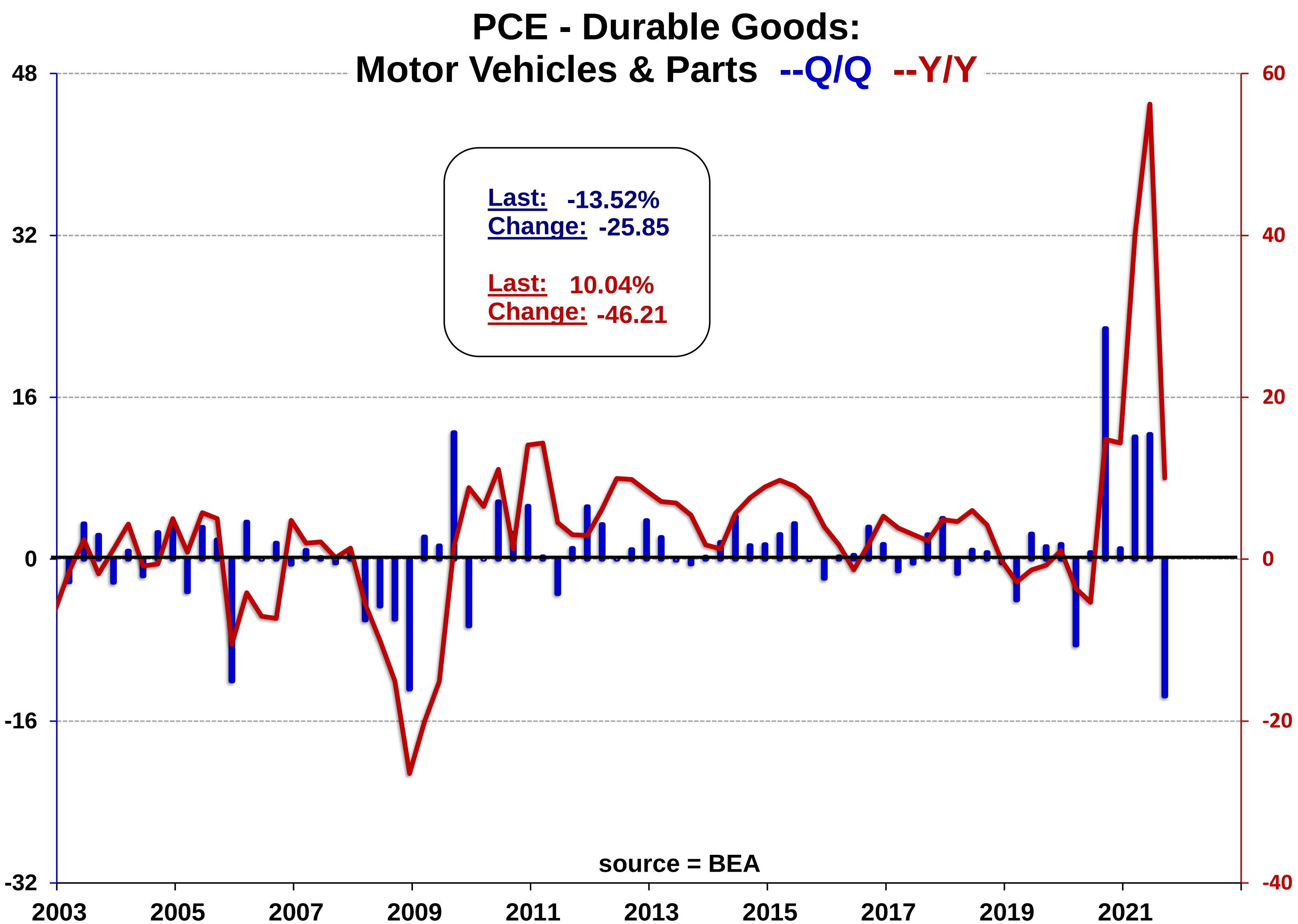
Along with deteriorating savings, we find consumers turning to credit card spending again.



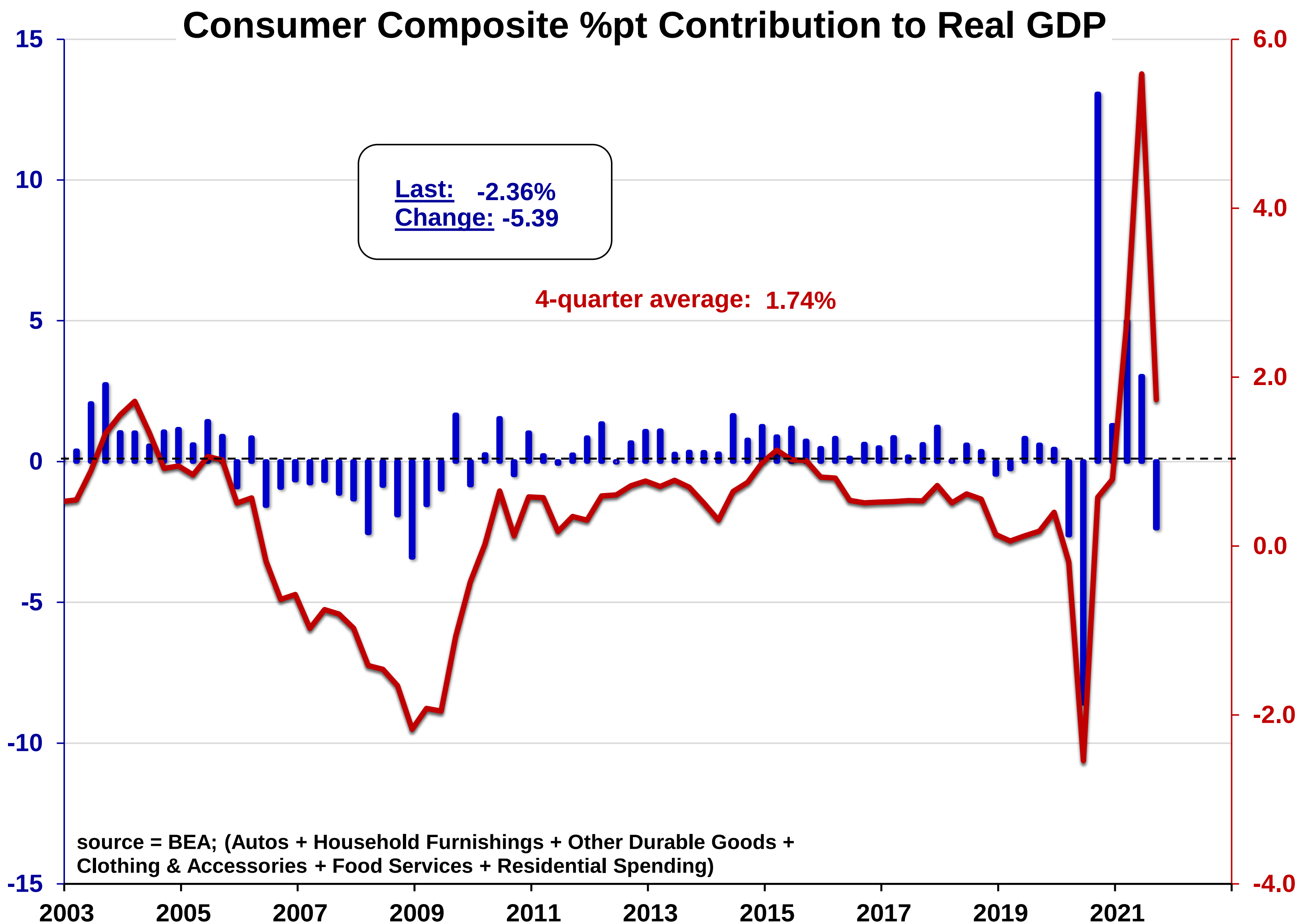
GDP: PCE Durable Goods: tumbles -5.2% q/q, biggest drop since 2008…



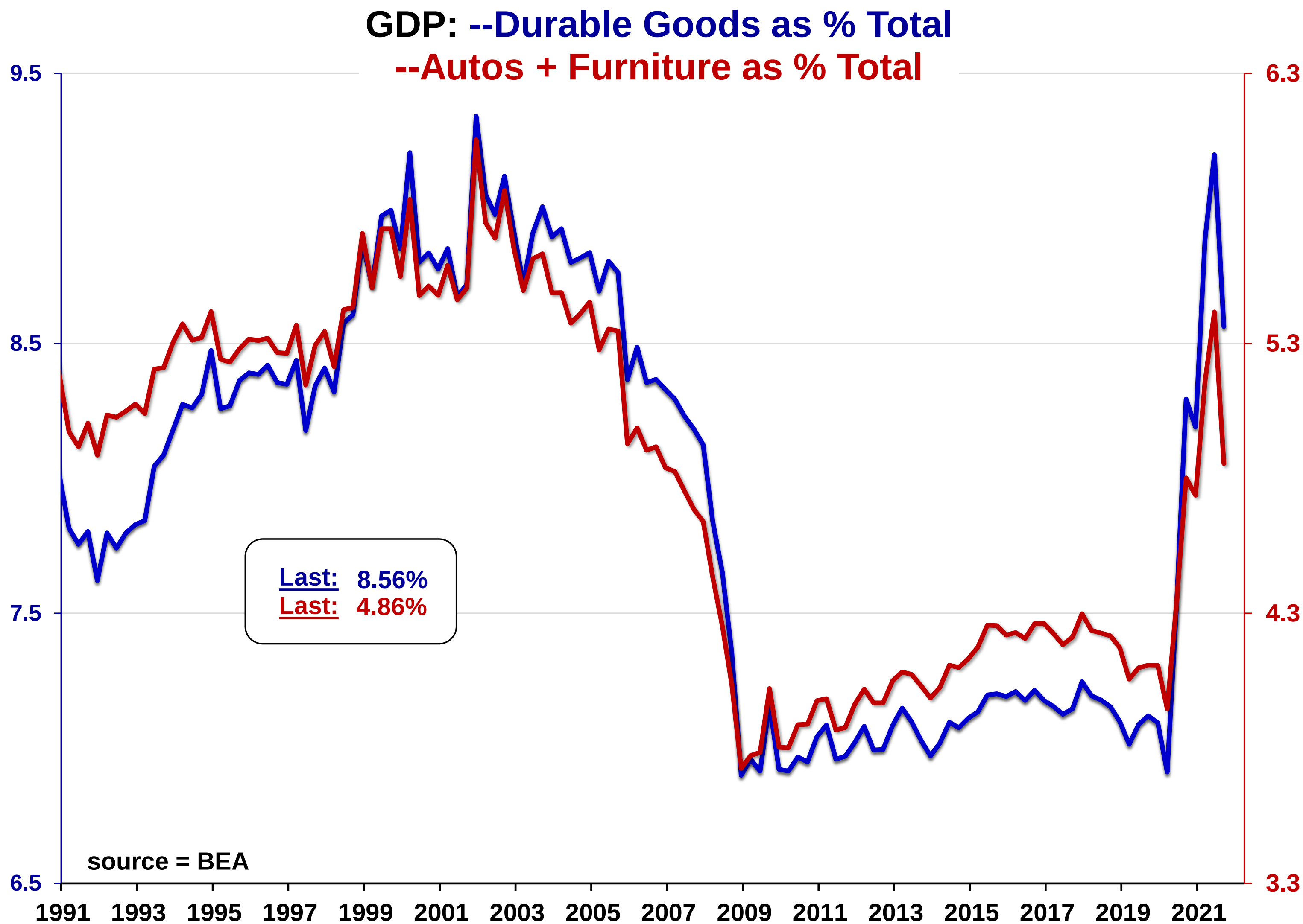
…led by Motor Vehicles & Parts which tumbled -13.5% q/q, biggest decline since Q2 1980



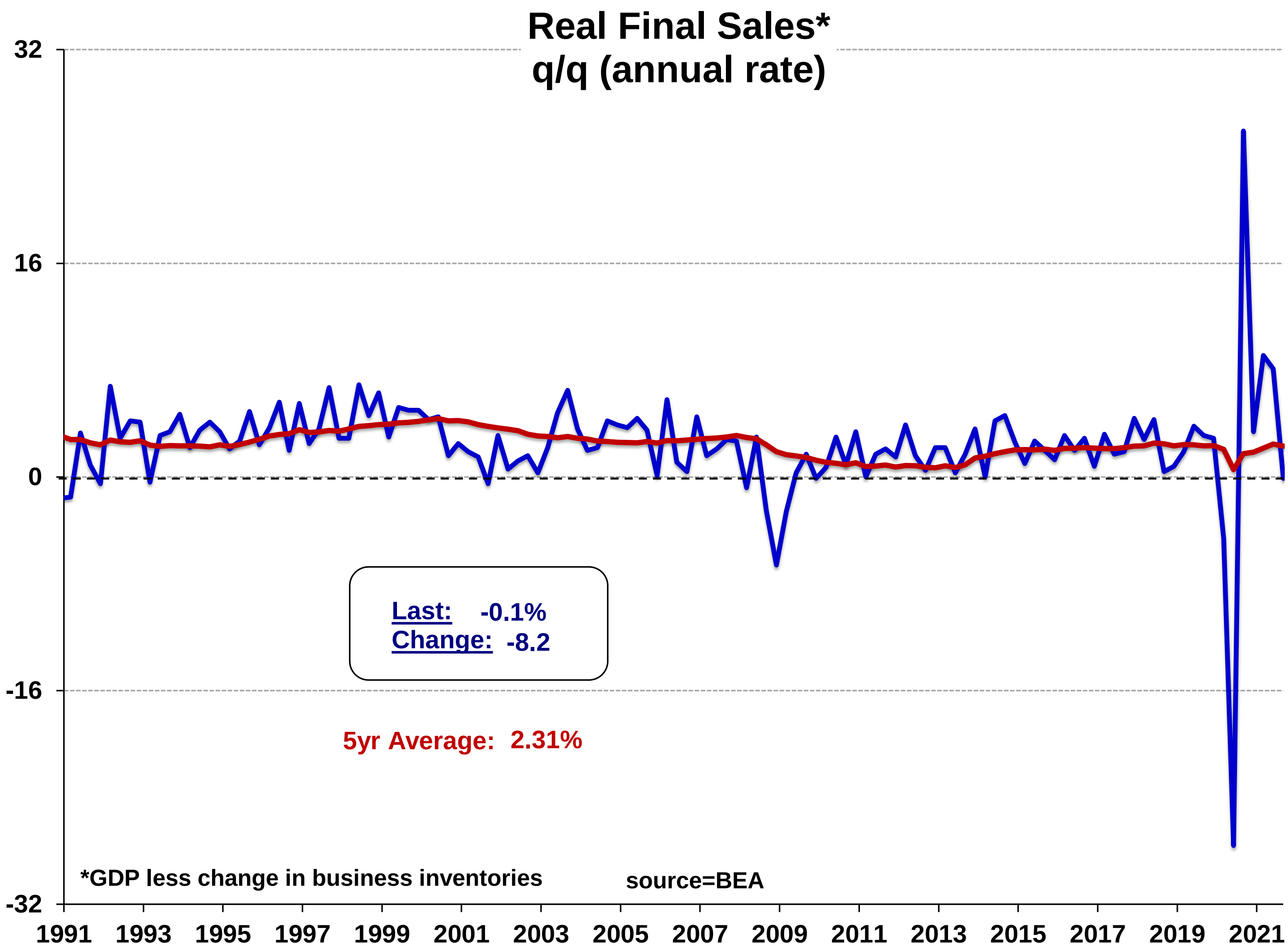
Consumer Composite contribution to GDP turns negative for first time since Q2 2020…



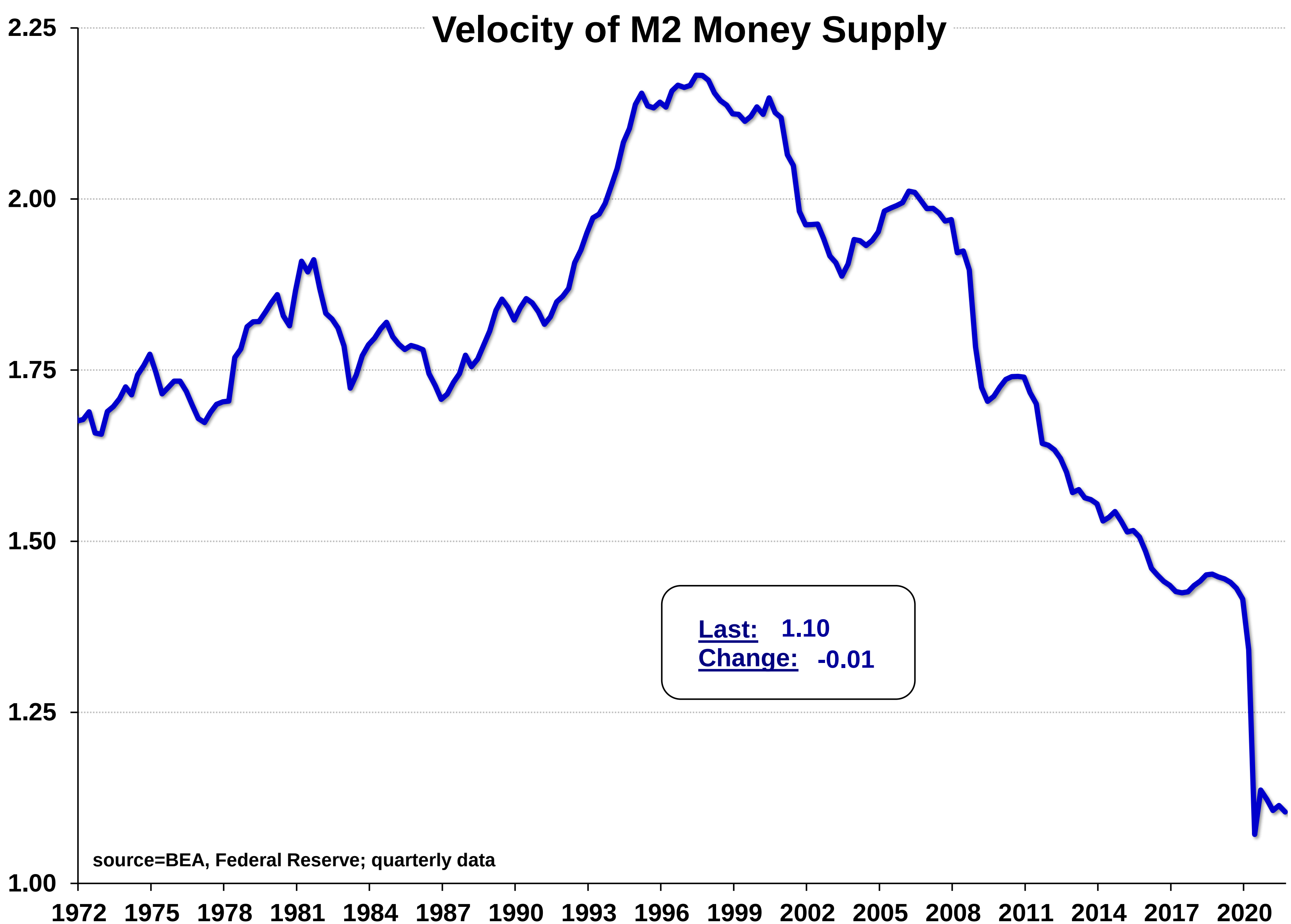
…with Durable Goods leading the decline. While this decline can, in part, be blamed on supply chain issues, we remain negative on durable goods spending going forward as demand is likely to fall by the wayside even before supply chain issues clear up…especially with the weak labor market backdrop, low savings levels, rising food & energy expenditures, and deteriorating overall consumer sentiment.



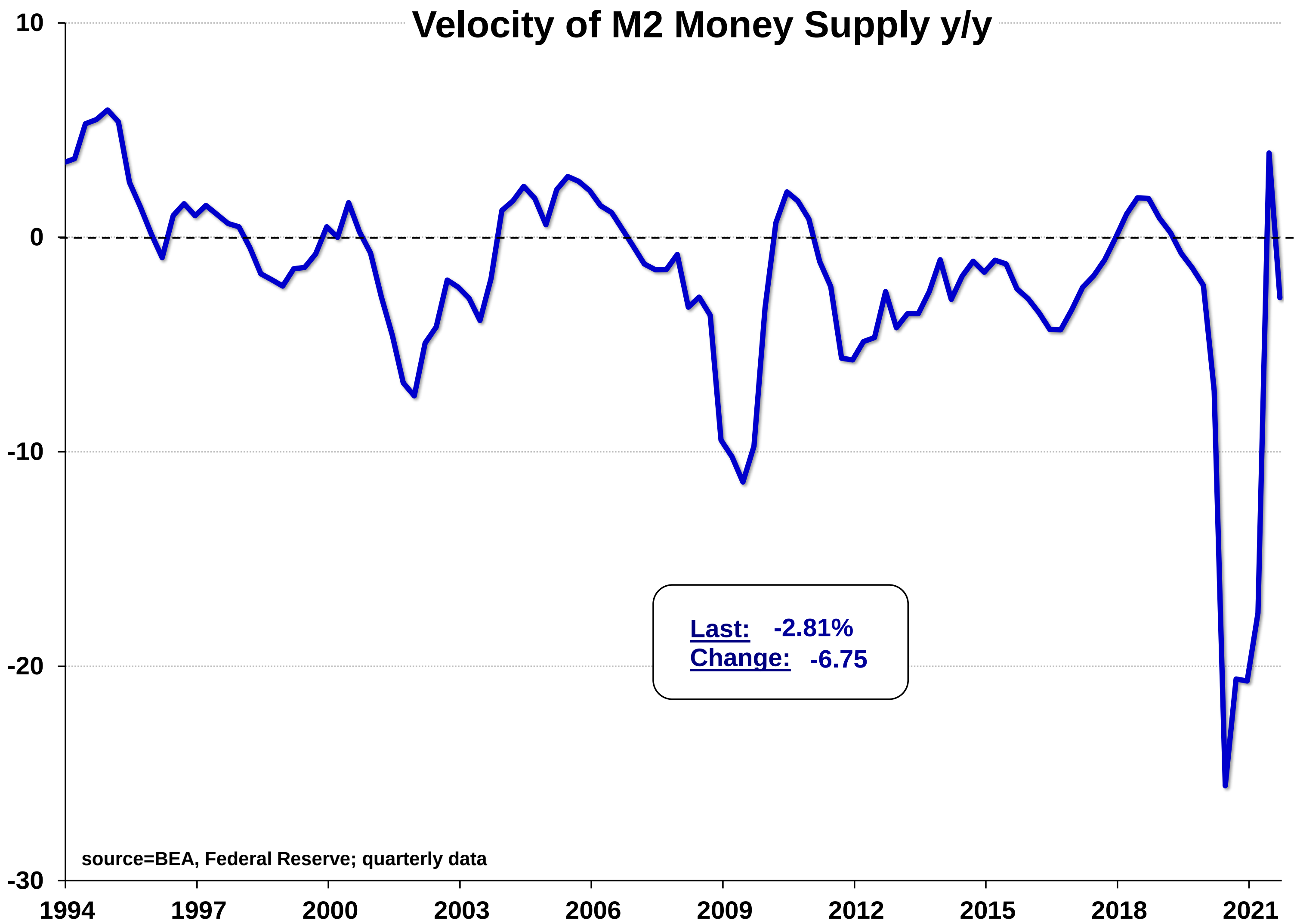
Real Final Sales slip -0.1% q/q, first negative print since Q2 2020. The good news: this is a small pullback from record high nominal Sales level and is not of concern just yet…but something to keep an eye on.



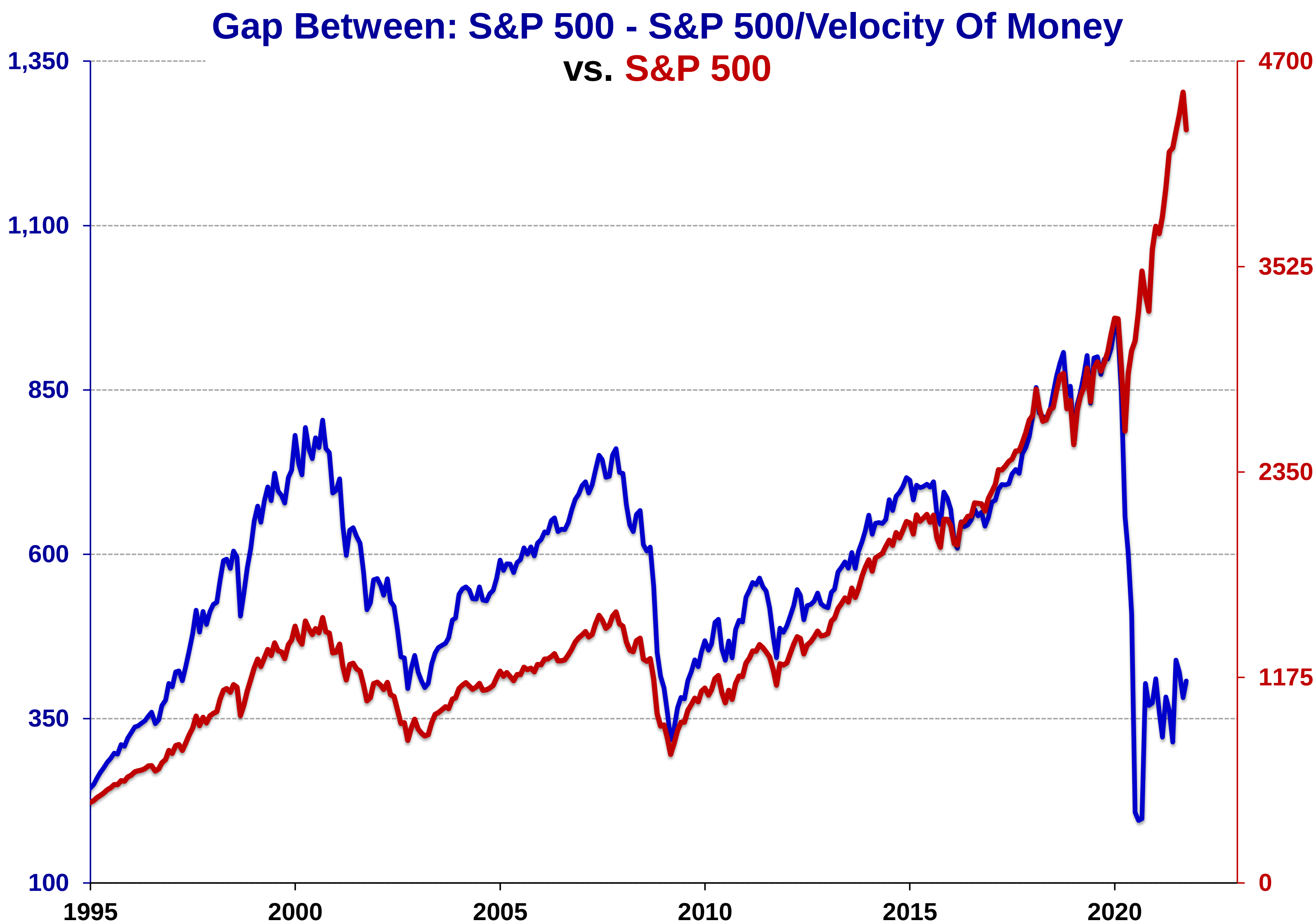
Velocity of Money (Q3 data) continues lower…



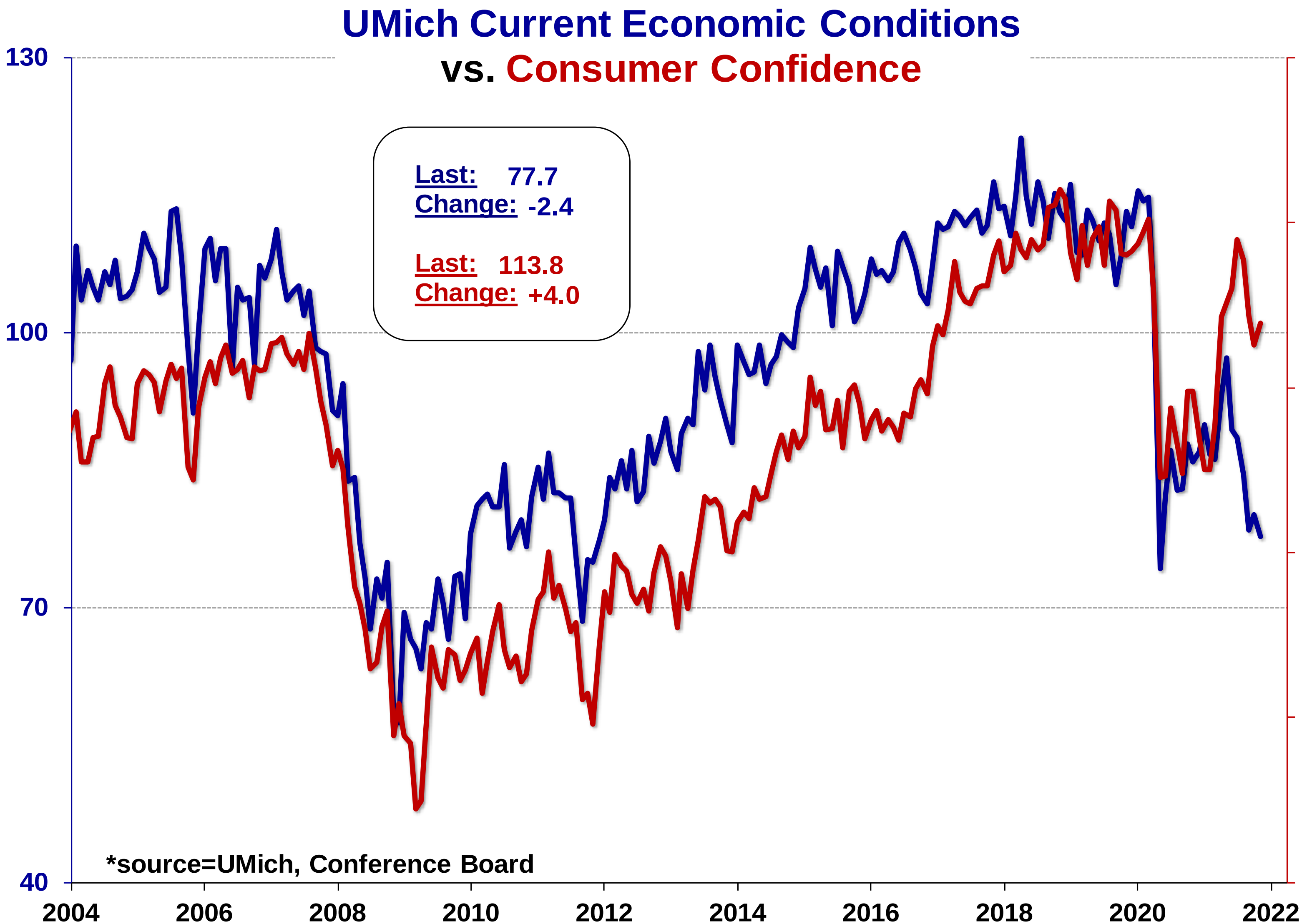
…and turns negative y/y again. As far as we can tell, this is the first time on record VM has spent just one quarter in positive y/y territory following an economic downturn before turning negative again. Given this was the single biggest economic implosion on record, the fact that VM cannot hold in positive y/y territory for more than one quarter is both disappointing and troublesome.



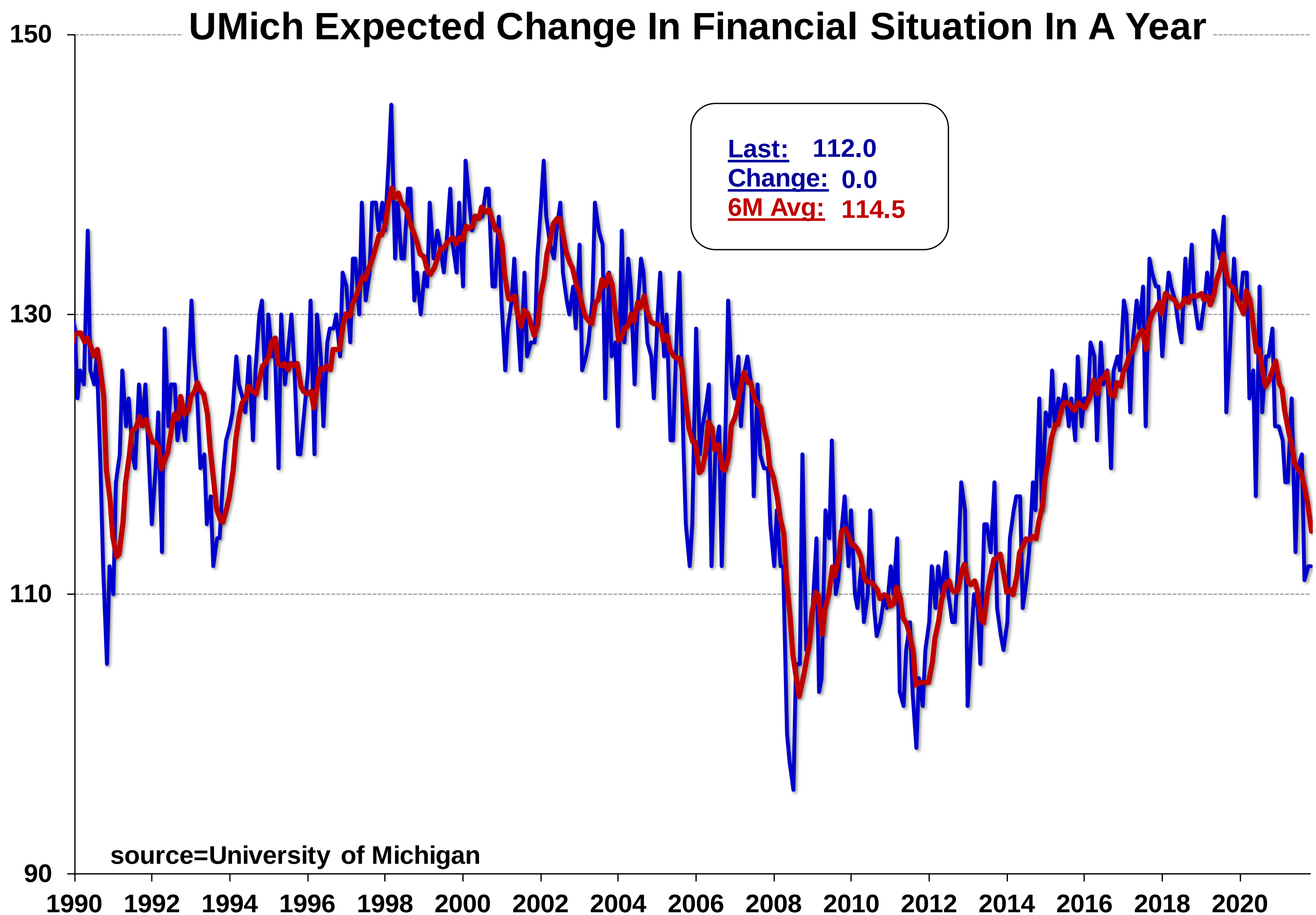
Historic divergence remains: the typical ebb and flow relationship of stocks and velocity of money has been shattered and showing little sign of returning to normalcy anytime soon. In short: stocks remain wildly decoupled from economic reality.



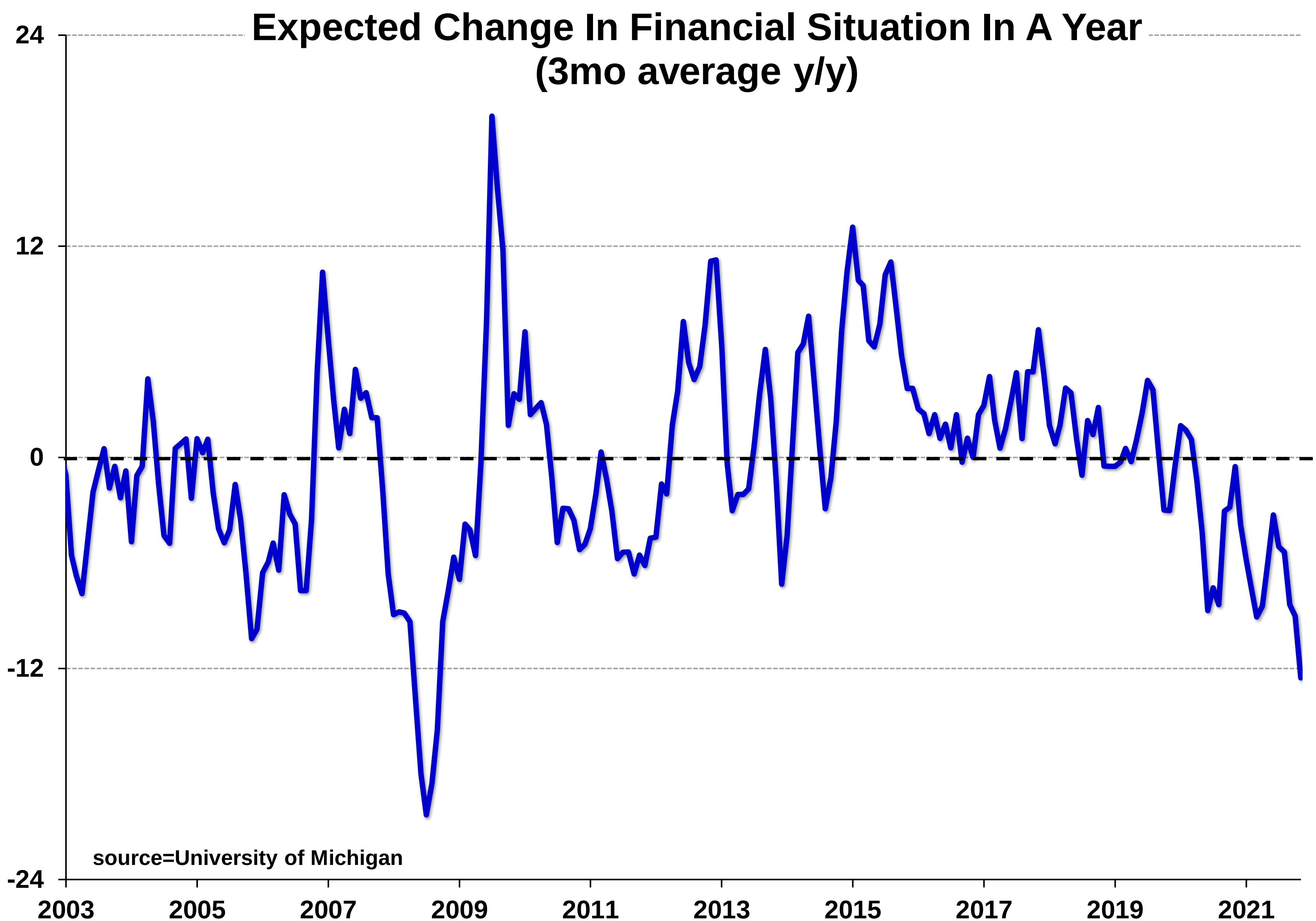
UMich consumer survey data (October, final reading) shows overall sentiment slipping to 71.7…which, outside of August data, is lowest level since 2011. Current Conditions index drops -2.4pts to 77.7, lowest reading since last April implosion, and 2nd lowest in a decade



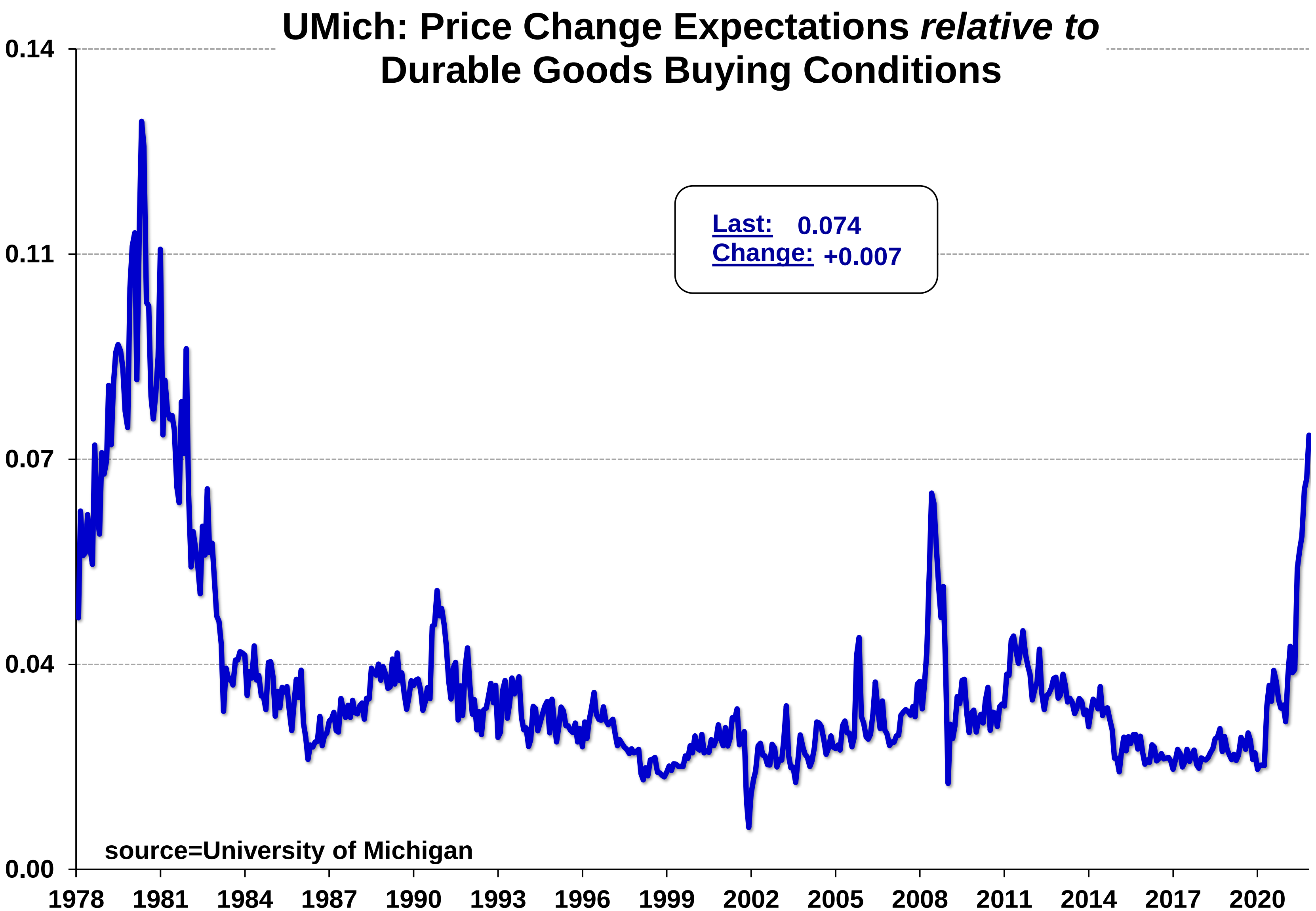
Financial Situation outlook continues to slide…



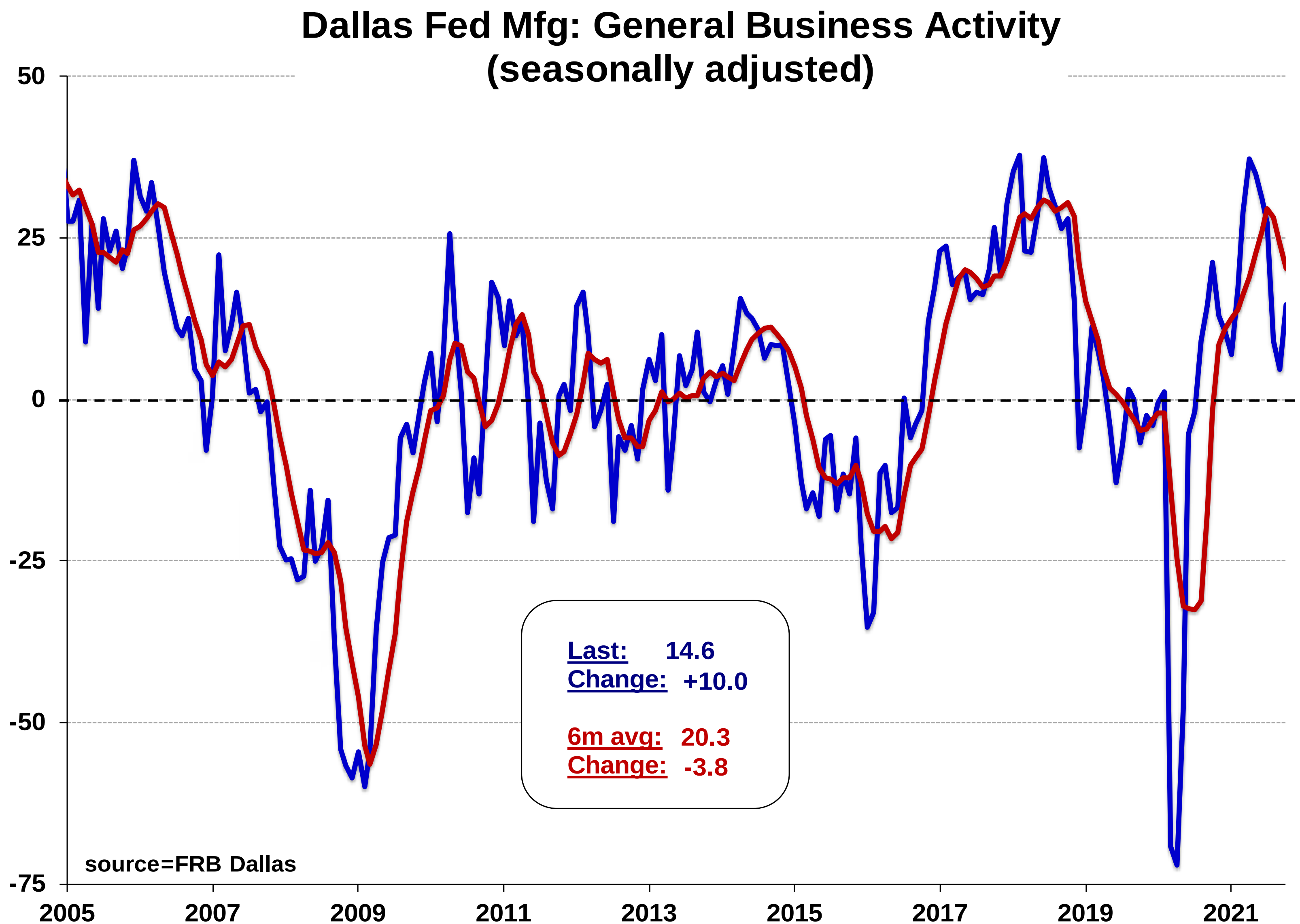
…and sees biggest (3mo average) y/y decline since 2008



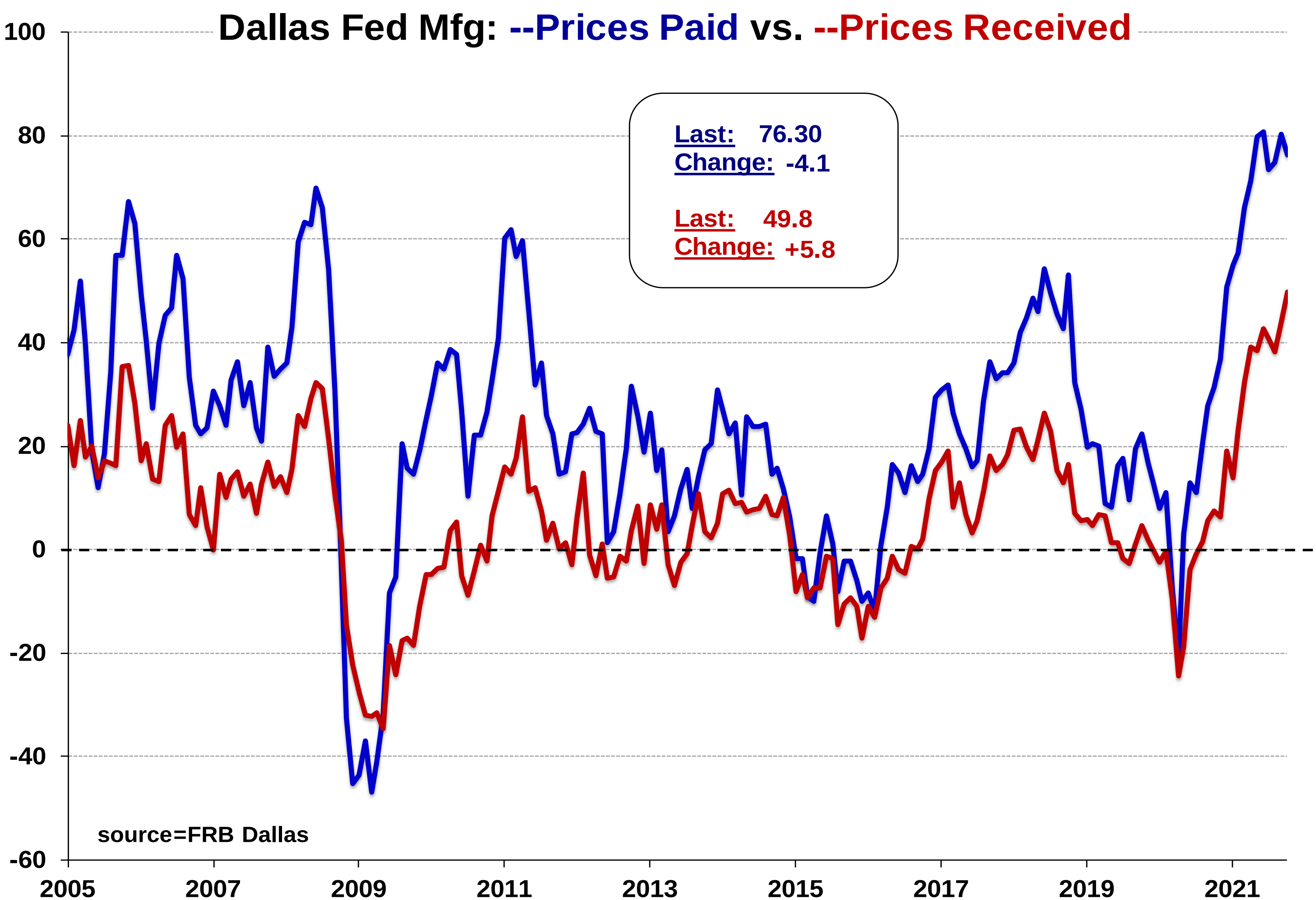
Inflation Watch: Price Expectations – Durable Buying Conditions gap hits fresh 40yr high



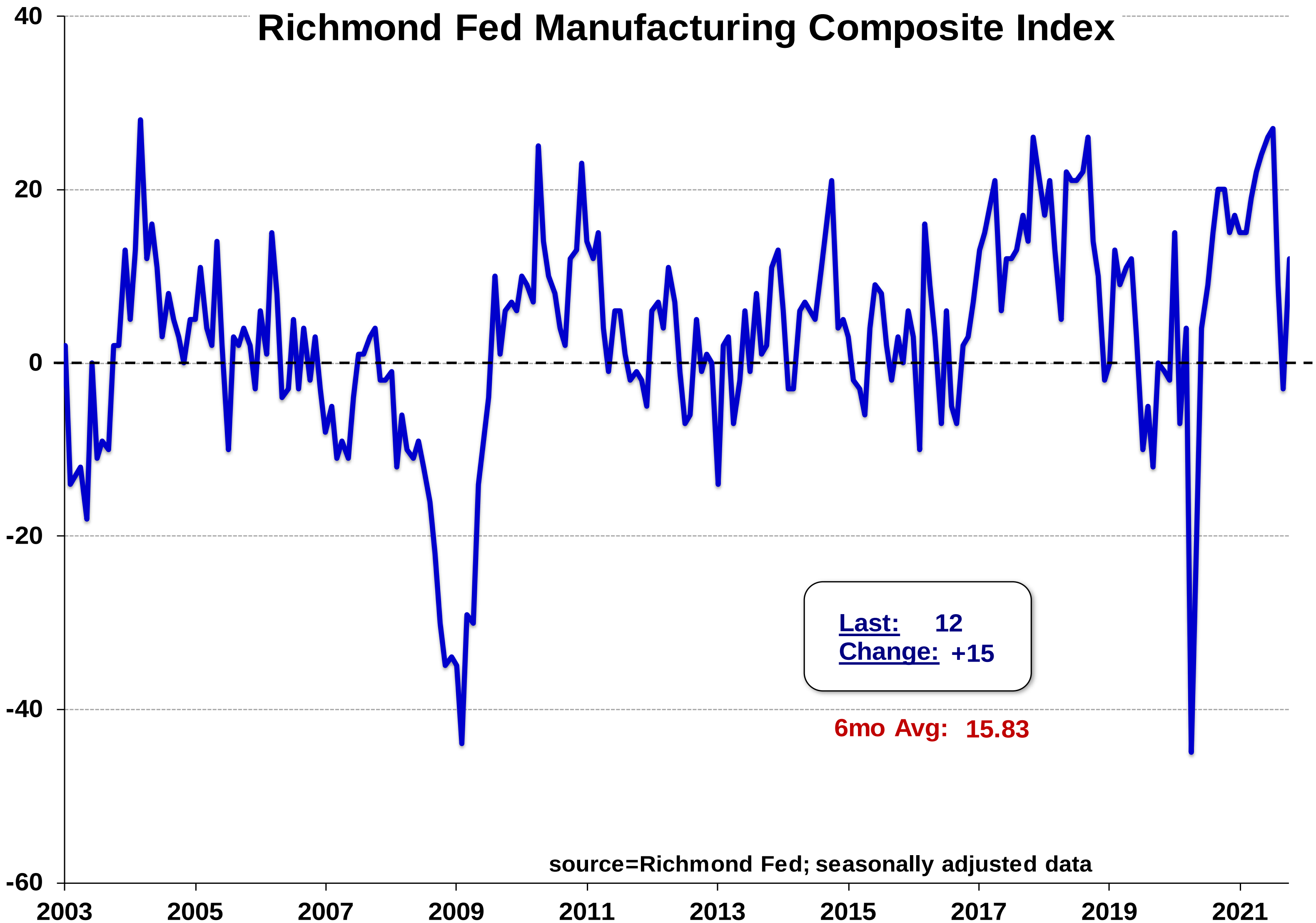
Dallas Fed Manufacturing handily beats expectations in October:
Composite index rises +10pts to 14.6 vs. expectations of 1.4pt rise to 6



Inflation Watch: Prices Paid slips -4.1pts to 76.3, holding just below record high; Prices Received: +5.8pts to record high 49.8



Richmond Fed data also beats expectations: composite index jumps back into positive territory, + 15pts to 12 vs. expectations of +8pts to 5…



…as New Orders spike

Inflation Watch: Prices Paid pull back only slightly from record high