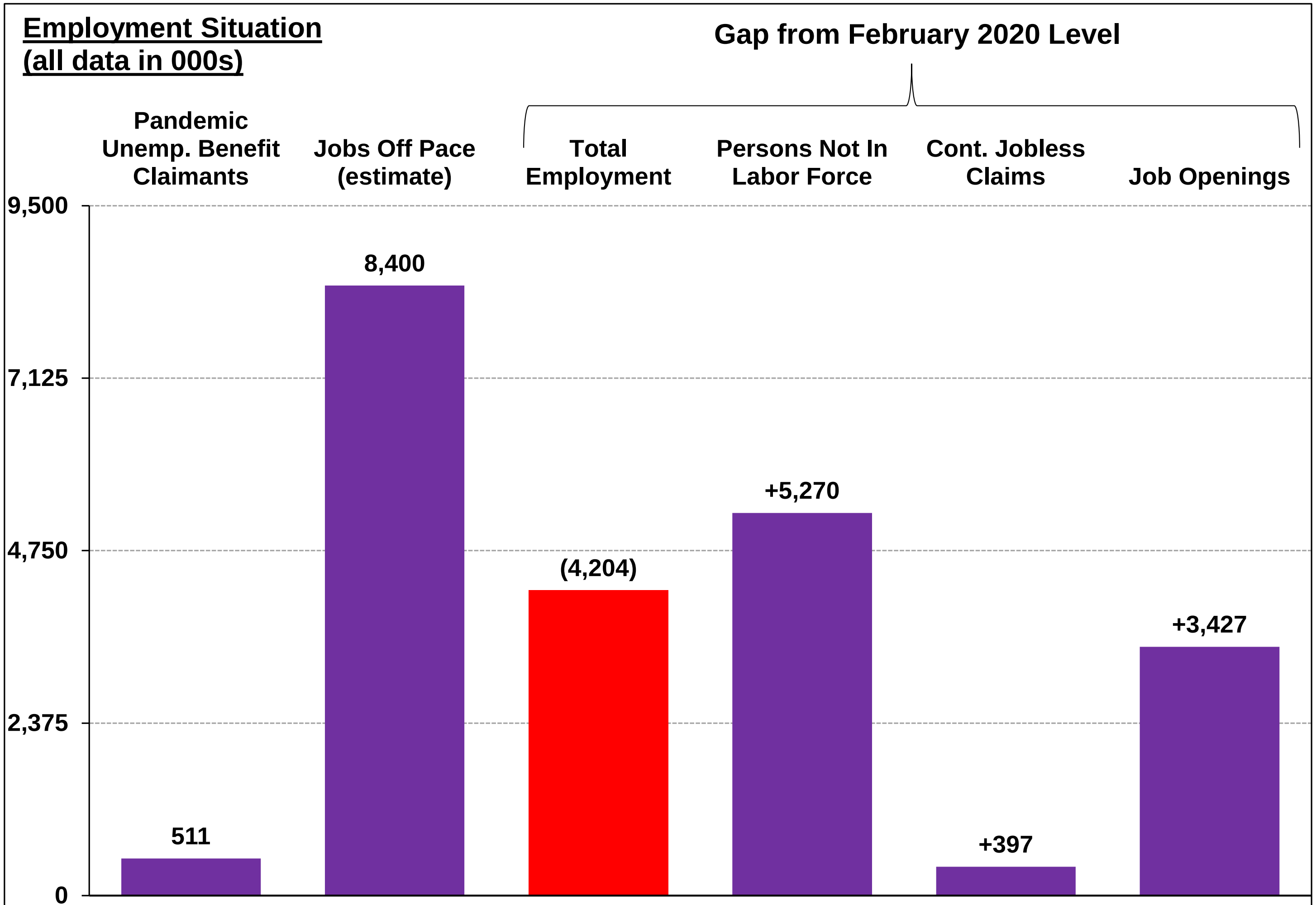
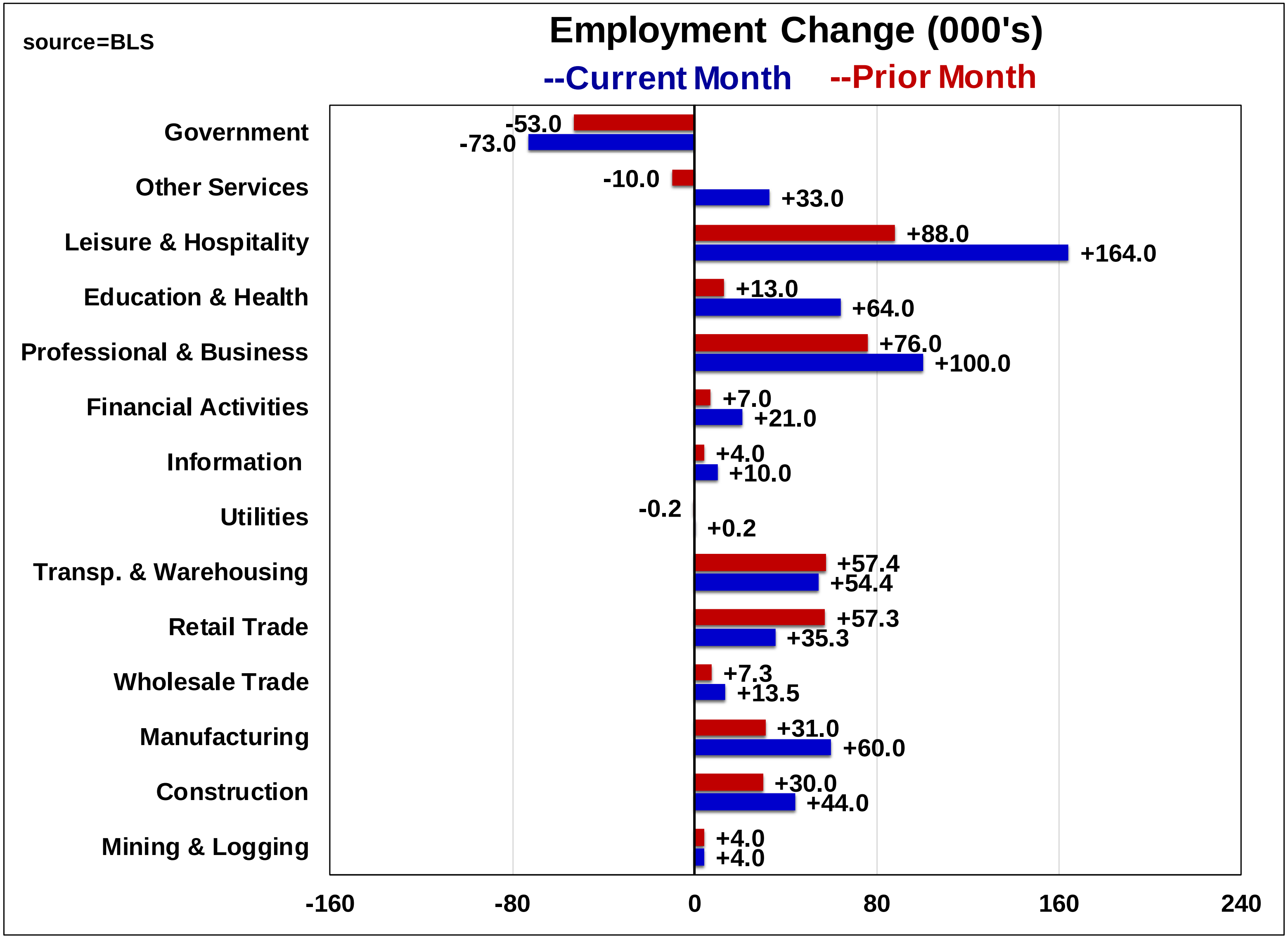
Continuing Jobless Claims have nearly 'normalized' to pre-2020 levels (Pandemic-related claims now down to 511k) and a strong October jobs report brings us closer to Feb. 2020 employment levels…yet still approximately 8.4 million shy of pre-2020 trend.

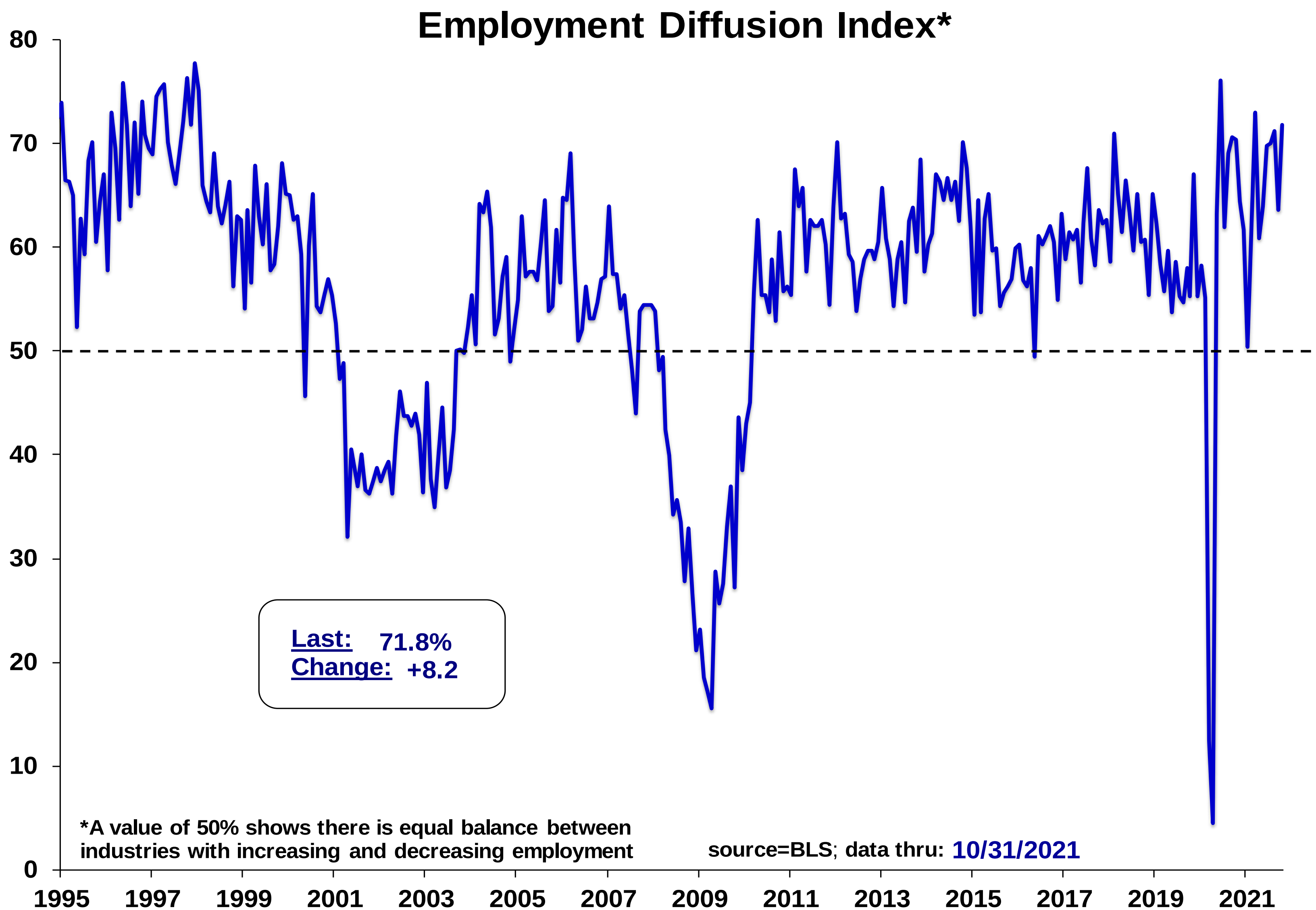


source: BLS; using Total Payrolls data (Private + Gov't Employment); Pandemic Claims = PEUC + PUA

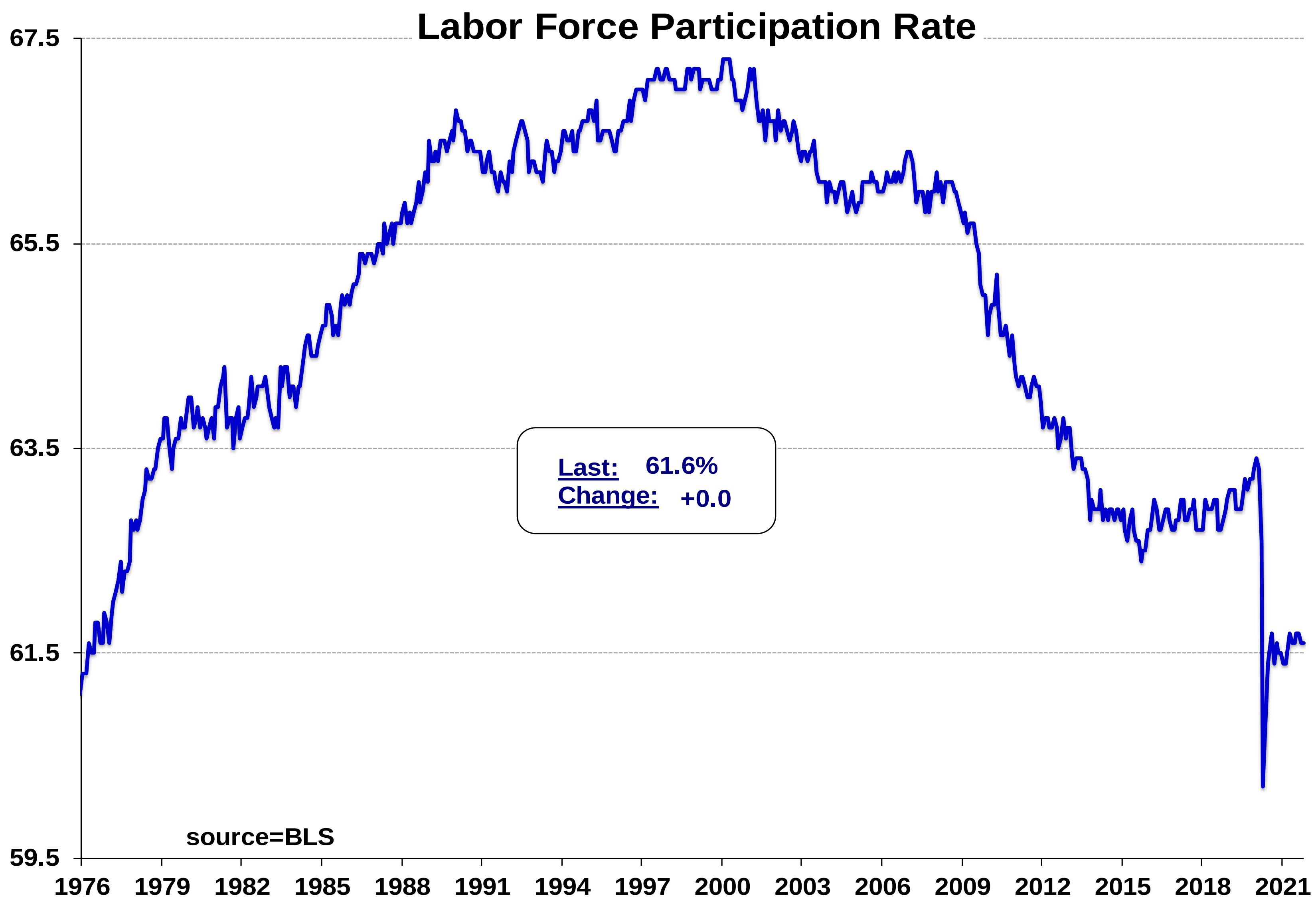
As we noted in recent reports, strong jobs reports (in the 500k+ area) should be forthcoming…and October did not disappoint: 531k vs. 450k expected (Private payrolls handily beat expectations: +604k vs. expectations of +420k). A strong report as job gains spread across all major categories (except Gov't which saw a 73k decline)



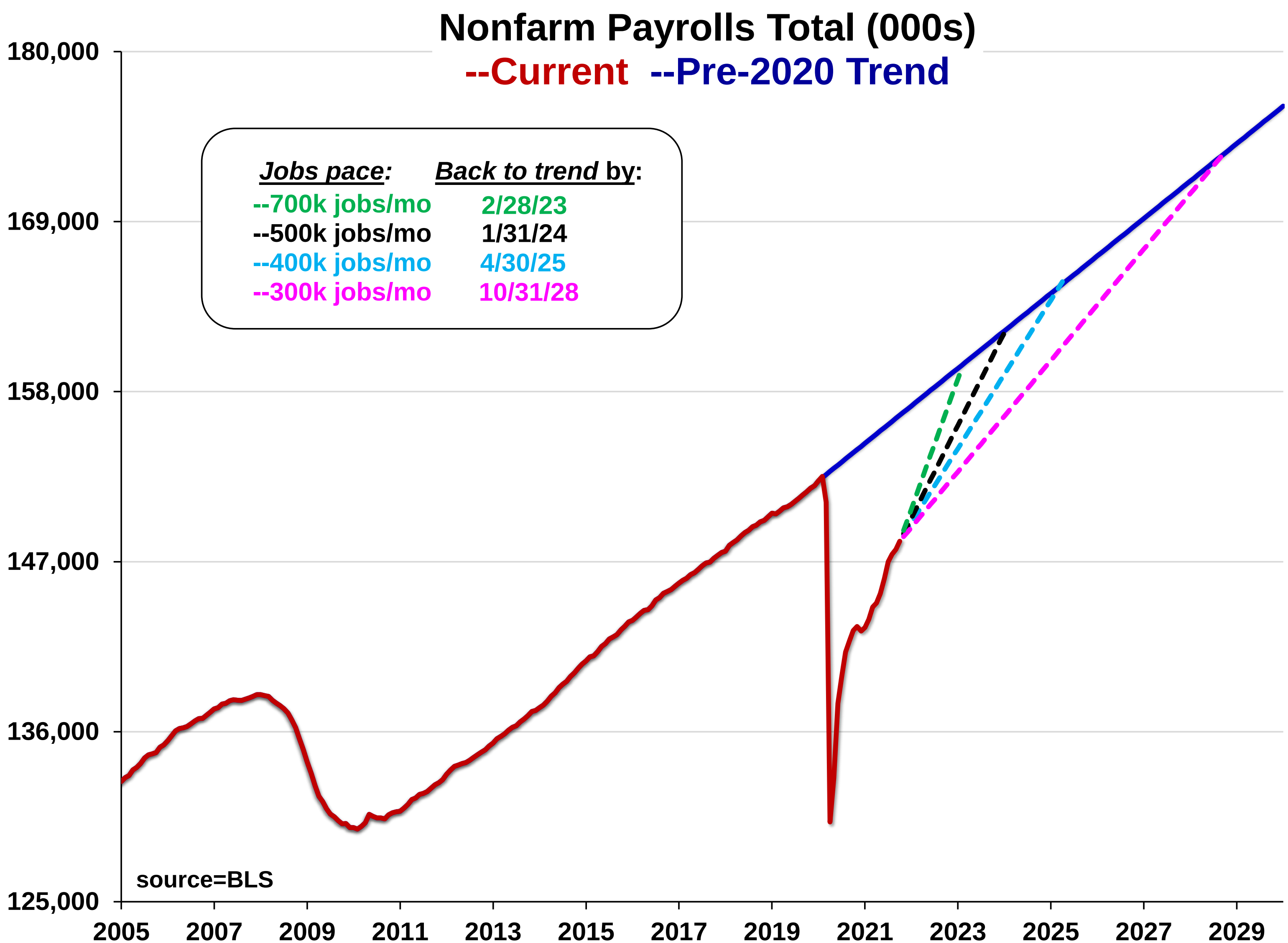
Gains spread out across all sectors sends Employment Diffusion Index up 8.2pts to 71.8%; remains elevated.



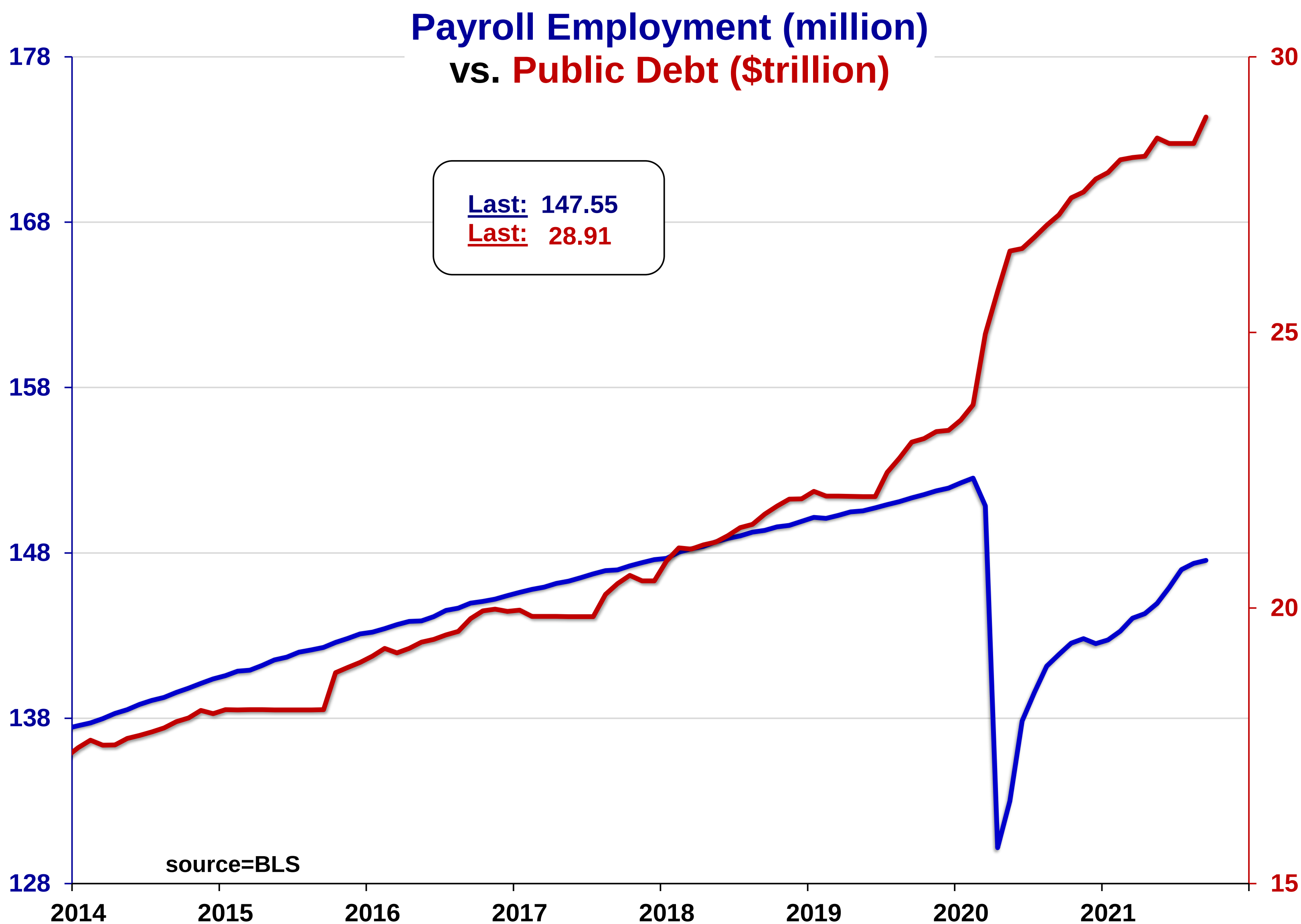
The bad news: Labor Participation Rate holds at 61.6% (exactly unchanged from year ago) vs. expectations of 0.1pt rise to 61.7%



At 500k/month jobs pace we will be back to pre-2020 employment trend by January 2024. Should this slip to 400k/month, we will not be back to trend until April 2025.



Strong employment reports are welcome news of course, however in the big picture with respect to potential Fed rate hikes it's not about employment…it's about debt and the negative impact of tighter policy.



The Fed announced Wednesday they will begin tapering asset purchases later in November by $15bln per month (Treasury: 10bln; MBS 5bln). However, it was a rather 'dovish' or even 'non-committal' taper announcement from Chair Powell as he used wording including: "if we need to deviate from taper", "change the pace of taper", and "telegraph any [taper} changes". Not exactly an aggressive taper tone. Following the Fed's announcement, the BoE surprised the market with an announcement they were not only not hiking rates but would maintain their QE bond buying program. Combined, the two announcements were no doubt the main catalyst sending yields lower for the week.

Powell's 'dovish' taper announcement suggests he not only doesn't want to upset the market…but that when it comes to actual rate hikes, he will likely be even less aggressive. In our estimation, the Fed's taper program simply pulls-forward the moment at which they admit they cannot raise rates…that is if they even make it through taper without any 'accidents'.

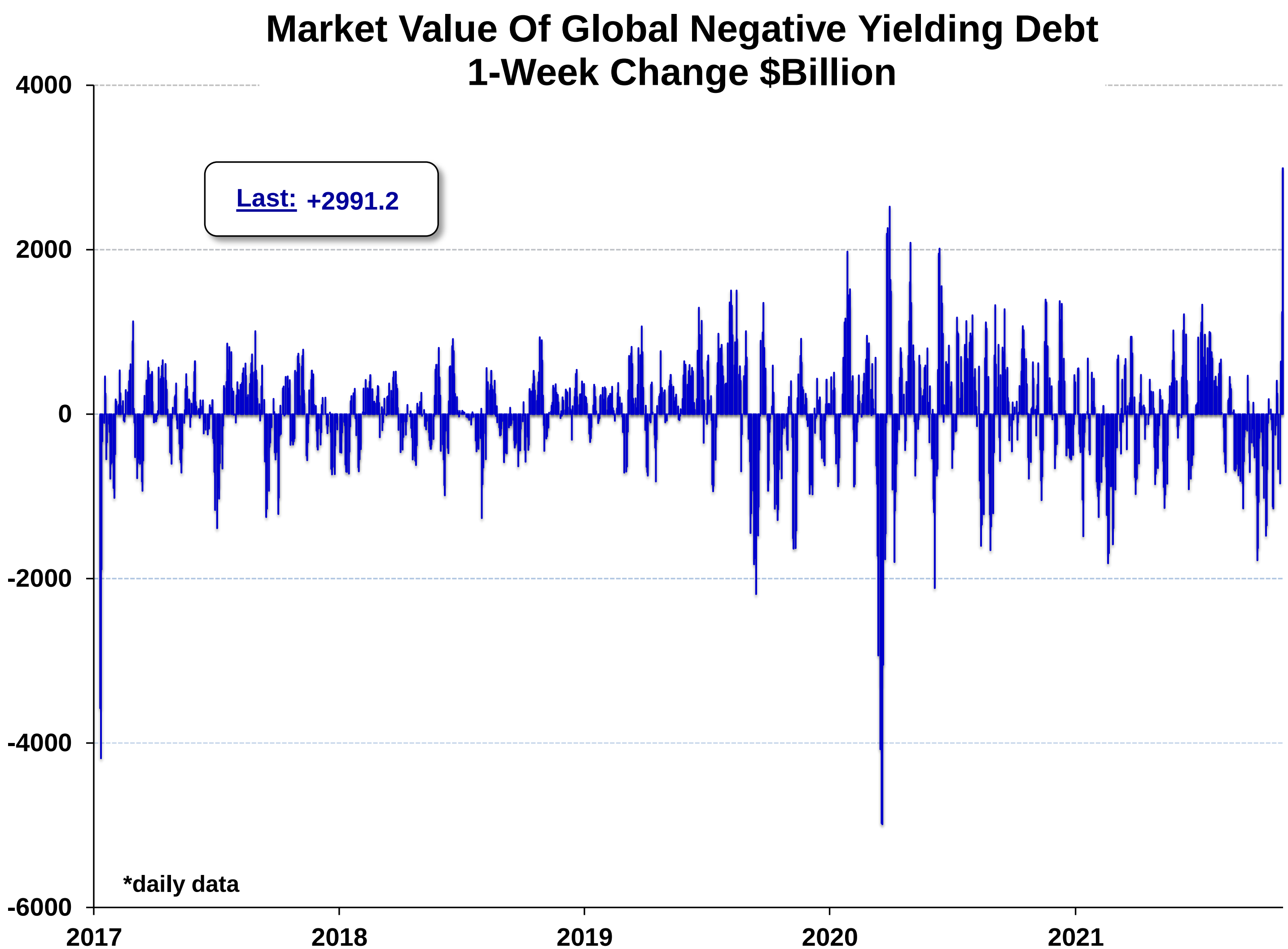
In addition, the IMF recently downgraded 2021 global growth outlook….and the market is also likely eyeing events unfolding in China: resurgence in covid cases, plus continued contagion/fallout re: Evergrande which is sending China real estate indicators tumbling. Could a wider fallout soon ripple across global markets? The table certainly looks set for perhaps a major risk-off episode: US Stocks surge to record highs…just as China's troubles mount and as bond yields pull an about-face. Will taper end before it begins? We shall see.

21) IMF Trims View on Growth Rebound as 'Dangerous Divergence' Seen
22) *IMF TRIMS '21 WORLD GROWTH OUTLOOK, SEES `DANGEROUS DIVERGENCE'
23) *IMF TRIMS CHINA GDP GROWTH EST. TO 8% IN 2021, 5.6% IN 2022
24) *IMF CUTS U.S. '21 GDP GROWTH EST. TO 6%; RAISES 2022 AT 5.2%
25) *IMF SEES WORLD ECONOMY GROWING 5.9% IN 2021 VS 6% JULY EST.

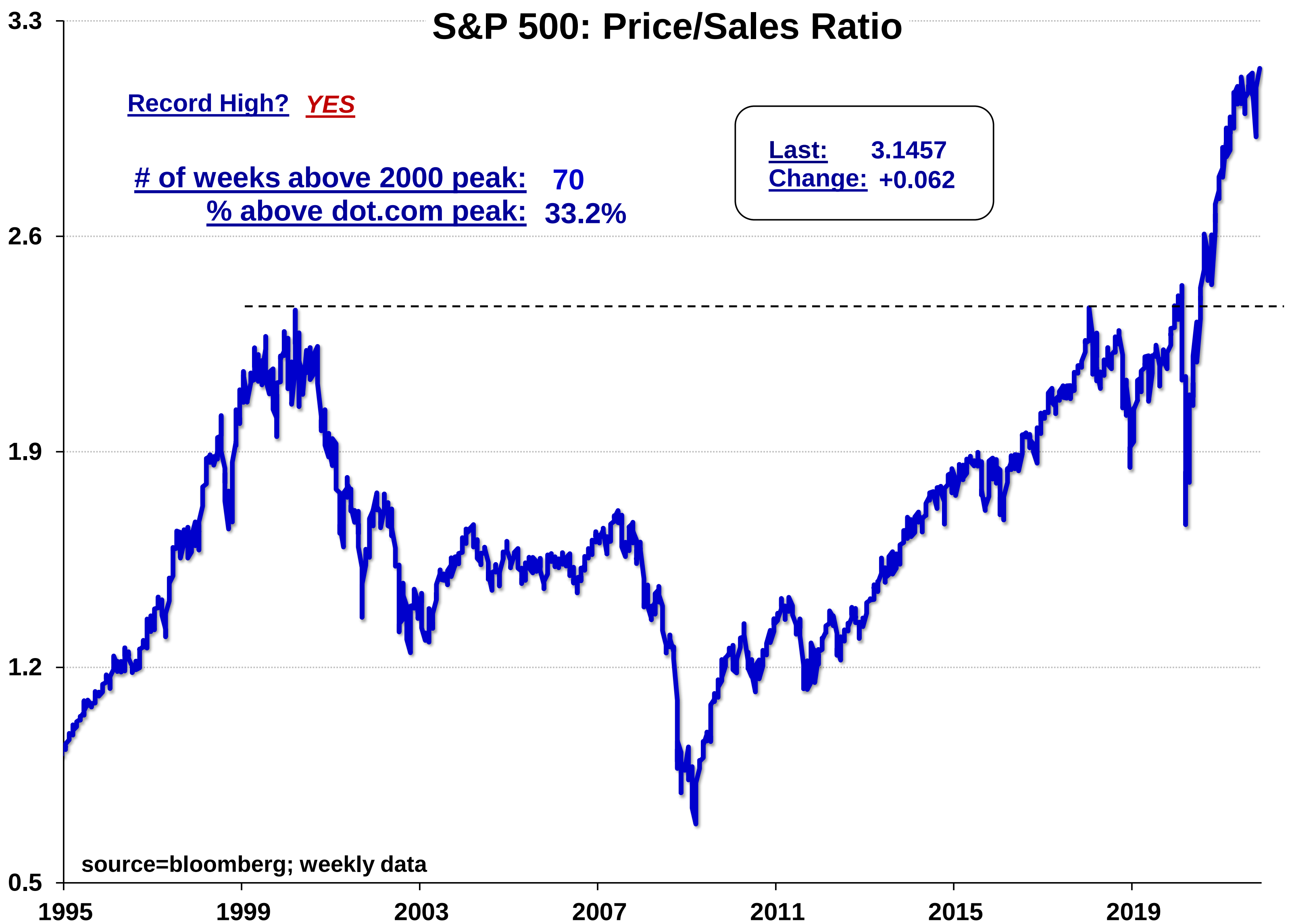
Following the taper announcement on Wednesday, yields rose 4bp to finish the day at 1.6%. Thurs-Friday was a different story as yields tumbled: 10yr nominal yield fell 15bp Thurs-Friday to finish at lowest since 9/24, 10yr Real Yield fell more than 4bp to -1.1% (now less than 10bp from record low), and G-10 Real 10yr yield finished the week at a record low -2.3%. (G10 real yield is average of G10 + USA real *CPI adjusted* yields)

Tumbling yields sent Market Value of Negative Yielding Debt up $3 Trillion w-w (+28%) to $13.71 Trillion.

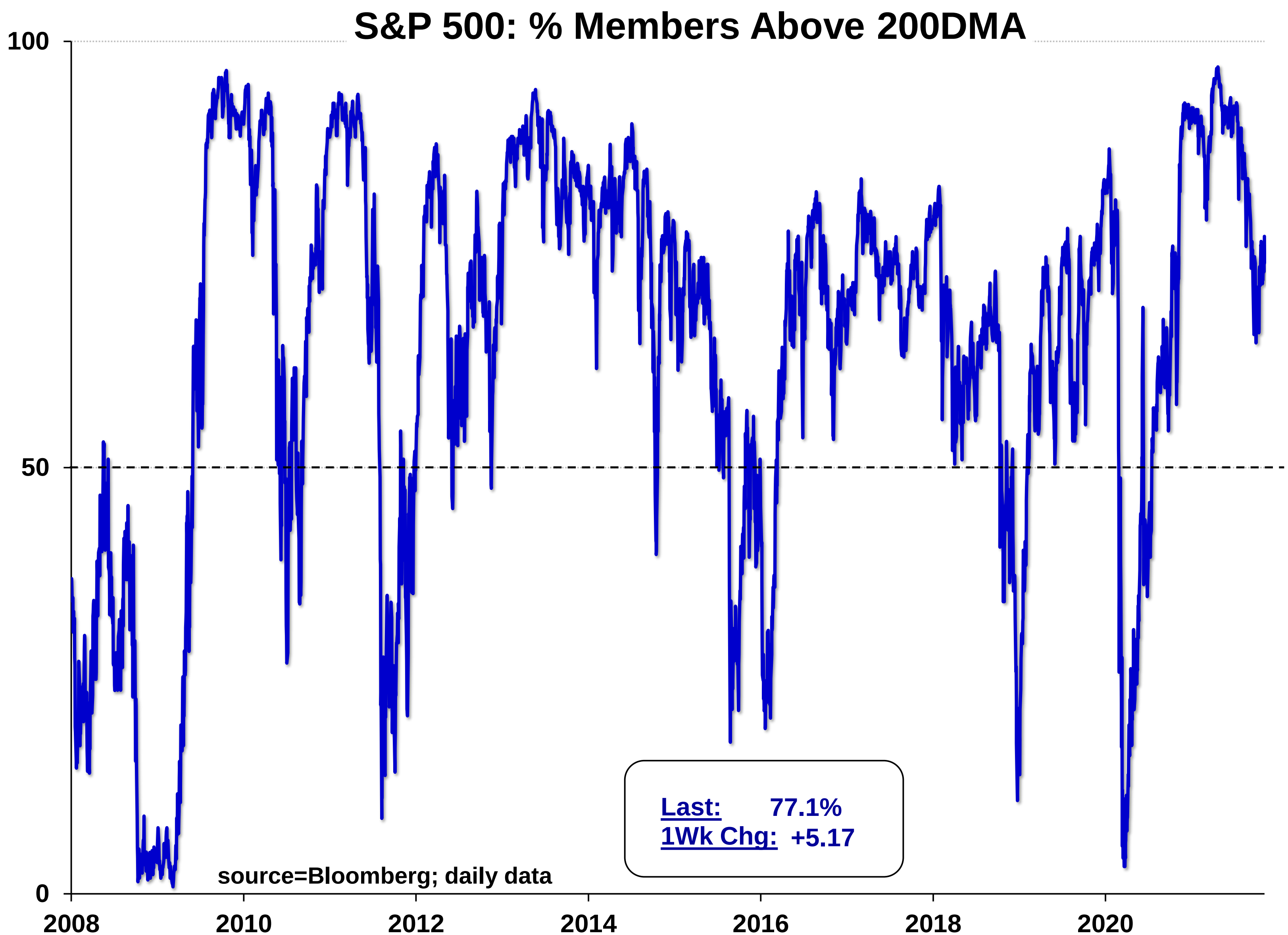
This was the biggest weekly jump in Negative Yielding Debt on record. Tumbling yields this week suggest a notable reversal in sentiment following both Fed and BoE announcements. The 'dovish' Fed taper, BoE surprising the market by keeping QE in place, plus signs of slowing global growth and potential contagion risk out of China…all suggest central banks signaling hesitance to tighten into what looks to be weaker growth.



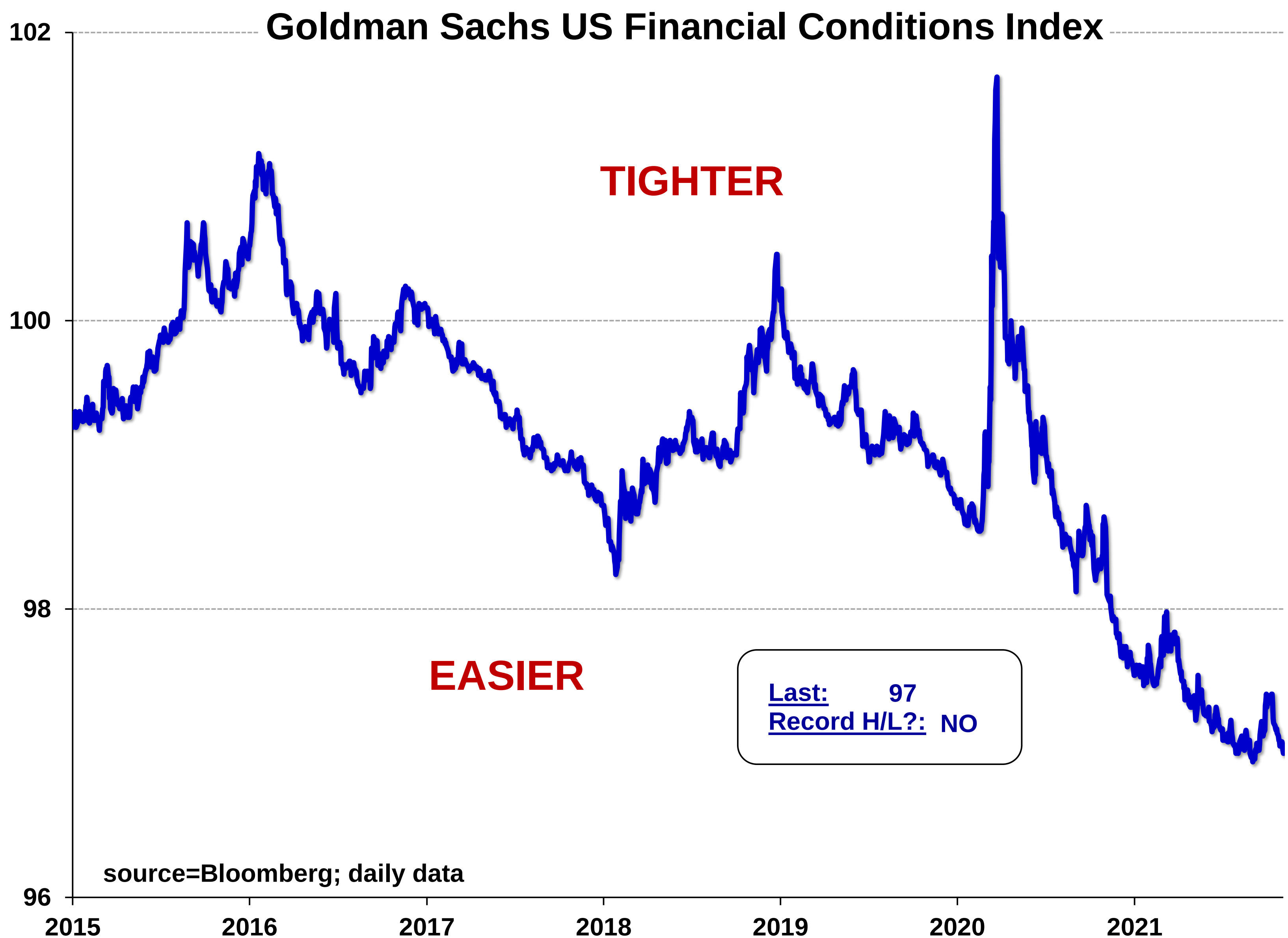
S&P 500 Price/Sales Ratio finishes the week at a **record high**.



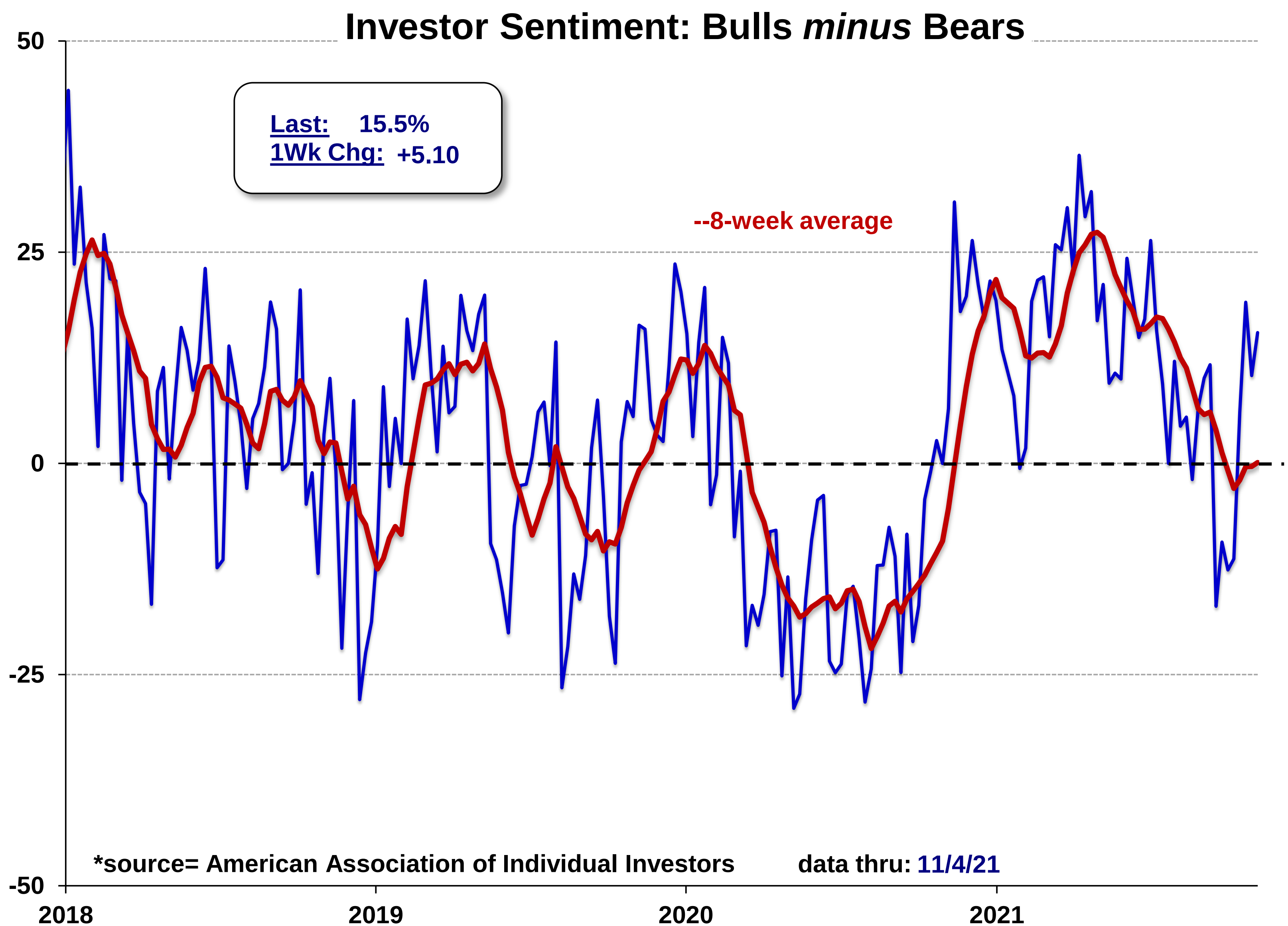
S&P 500 % Members above 200dma up 13pts since start of October to 77%



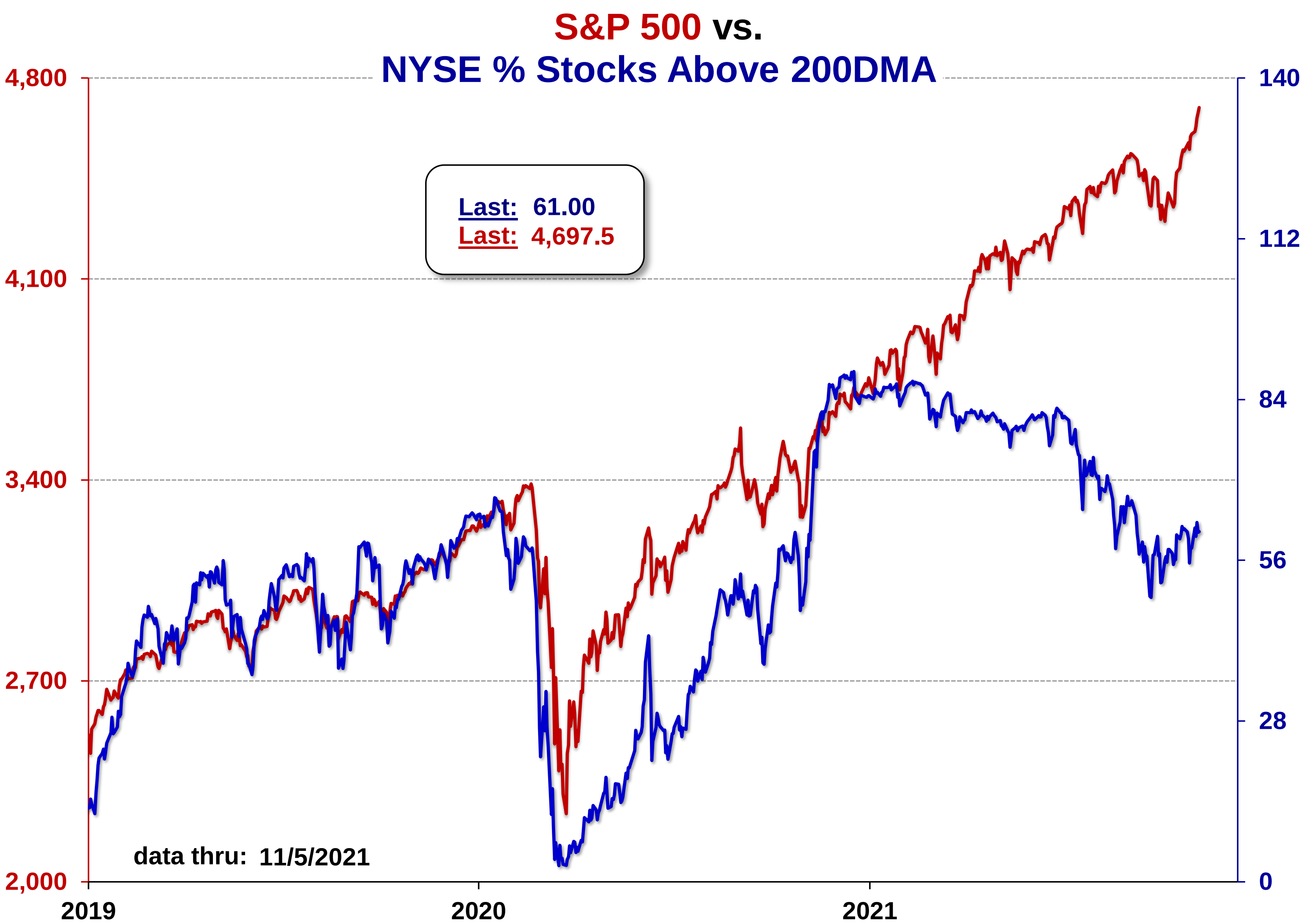
Financial Conditions Index now 0.06pts from 'easiest' level on record



Net investor (bullish) sentiment turns up for the week; 8-week average turns slightly positive



NYSE % Stocks above 200DMA rise for the week, however big divergence remains vs. S&P 500

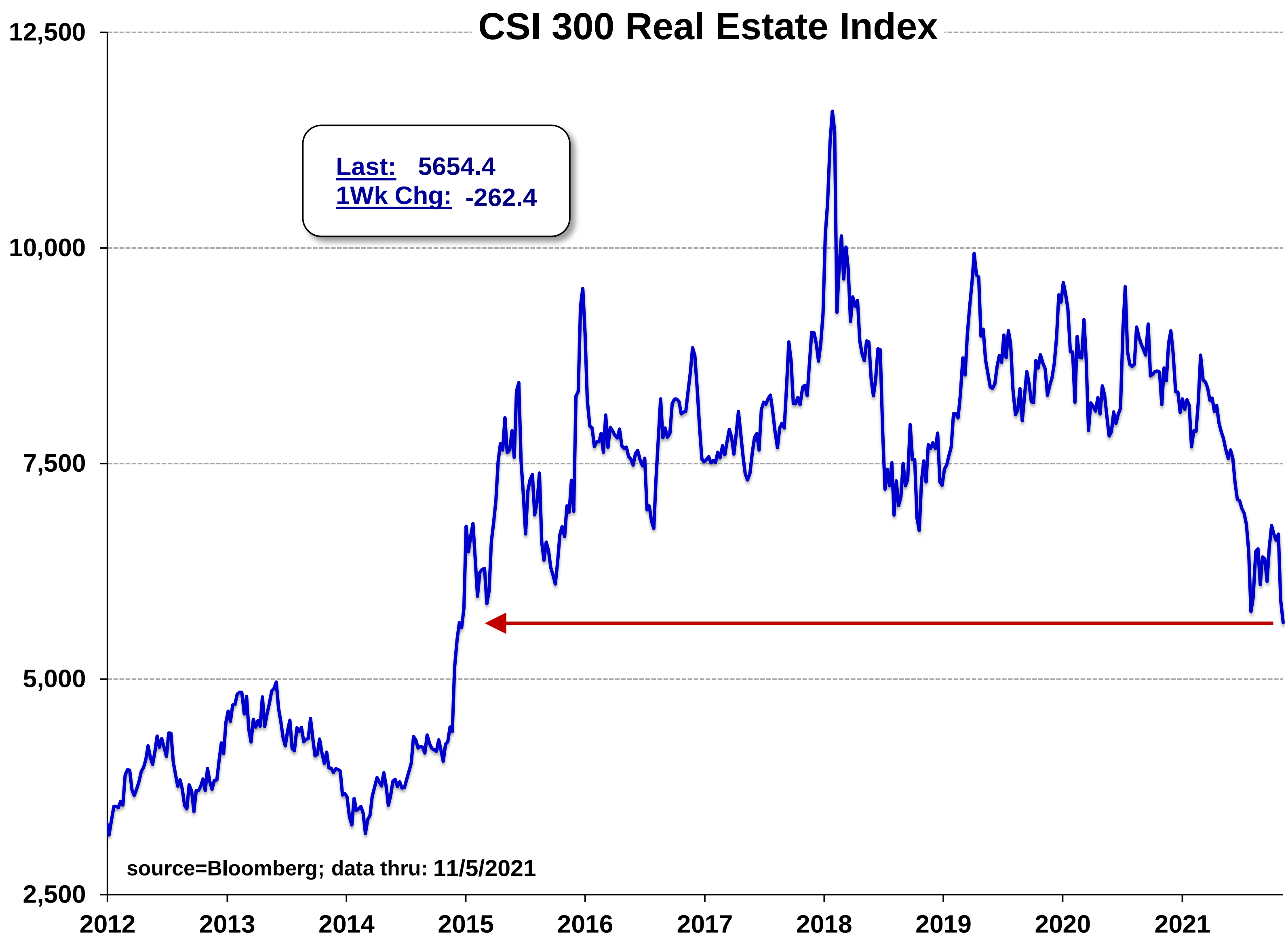


SHANGHAI/BEIJING, Nov 2 (Reuters) - Chinese developers' shares and bonds stumbled on Tuesday on worries over spreading financial contagion, as sources said one of the country's top 20 homebuilders is seeking a new extension for its onshore debts.

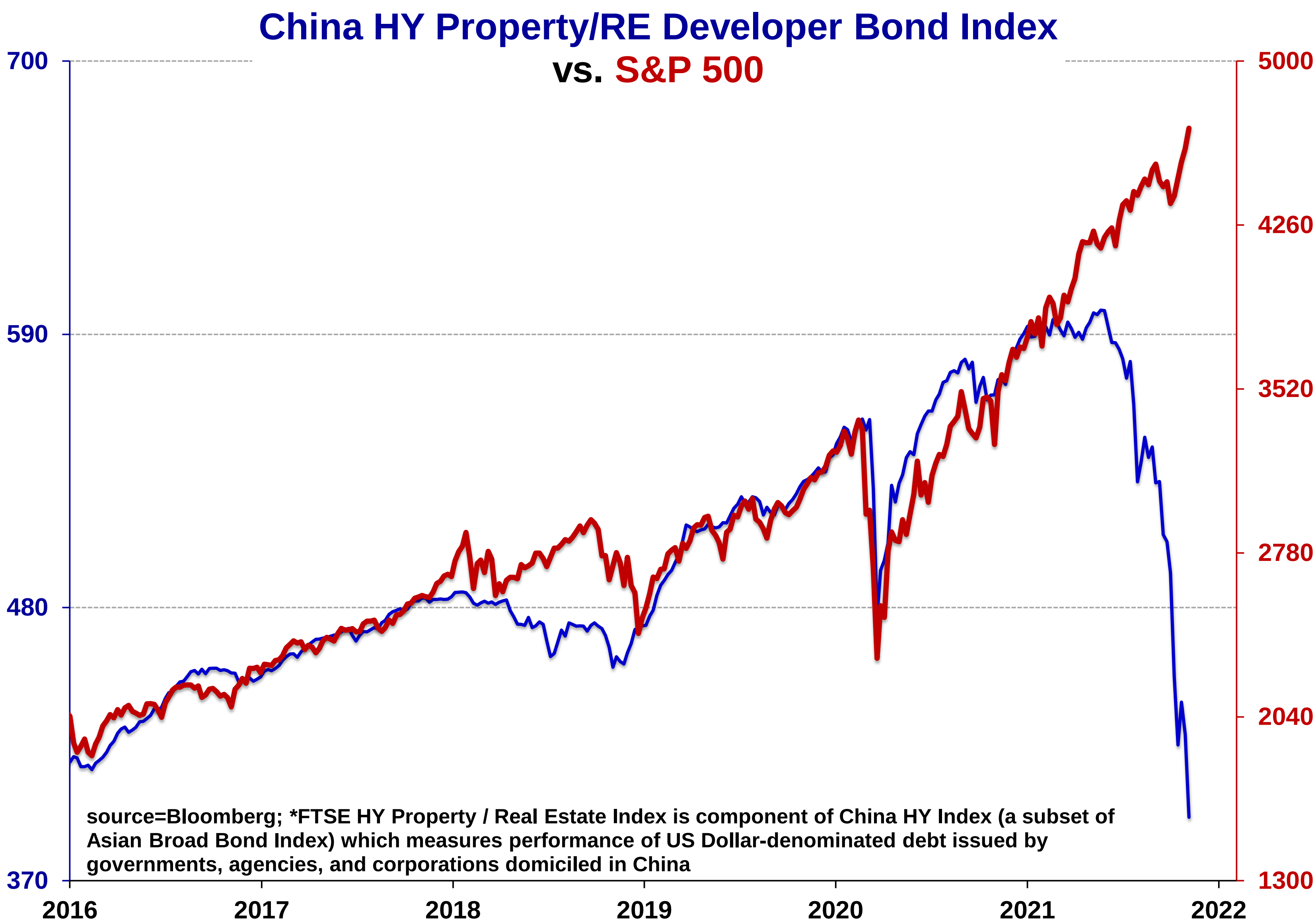
Evergrande fallout may just be in early stages as contagion fears heat up. The latest headline: Yango Group Co., Ltd., one of China's biggest homebuilders, seeks to extend debt payments. It seems crisis averted, for now, as an agreement was reached for the developer to pay 10% of principal and full interest on notes due in November…"with the remaining principal to be rolled over by one year".

Is the Evergrande fallout subsiding? It seems not: "Evergrande's woes have brought collateral damage to China's property sector, with some Chinese developers forced into formal default on their dollar bonds last month and others proposing extended payment schedules." See here for full Reuters article re: Yango Group.

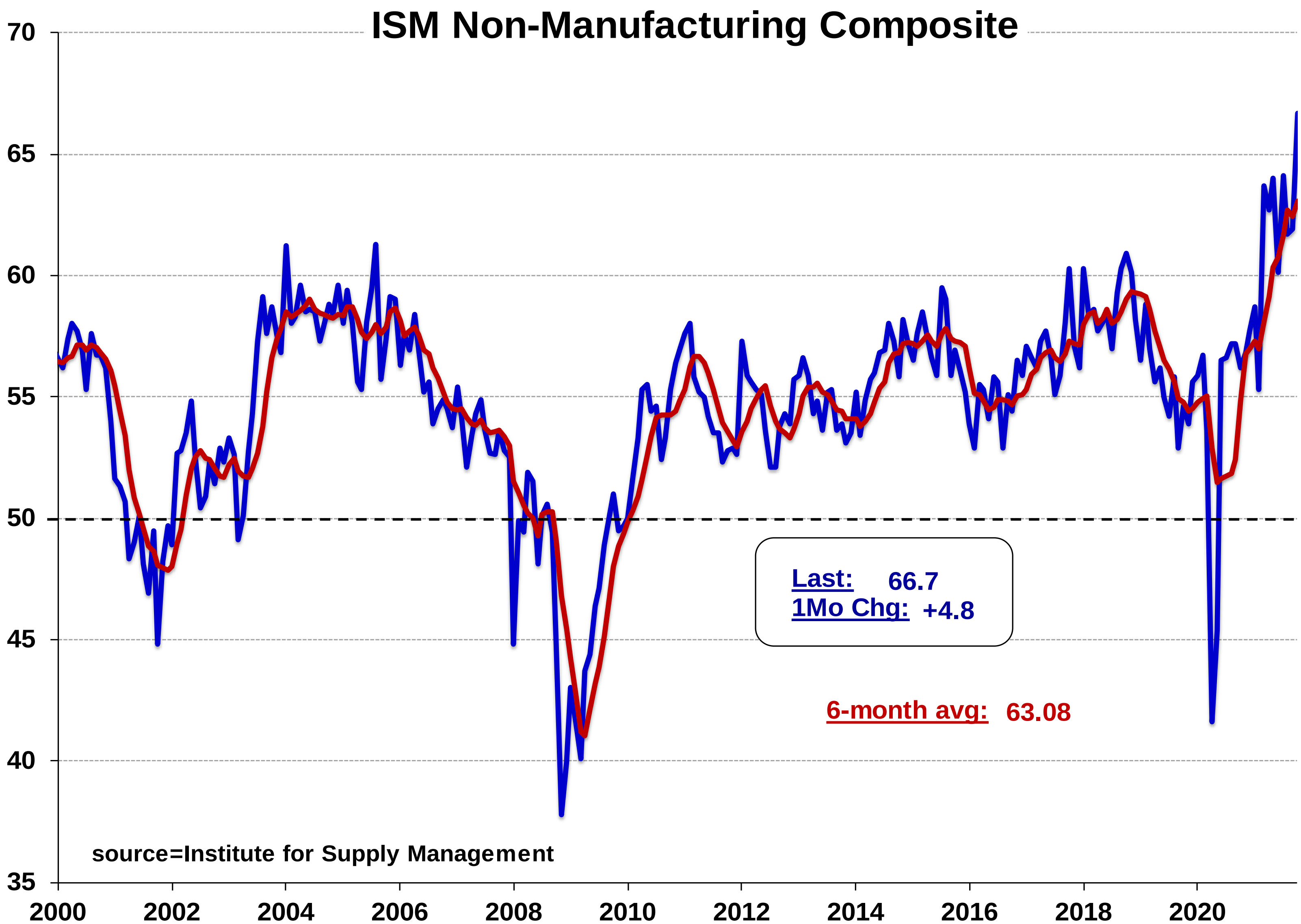
CSI-300 Real Estate index finishes the week at 7-year low



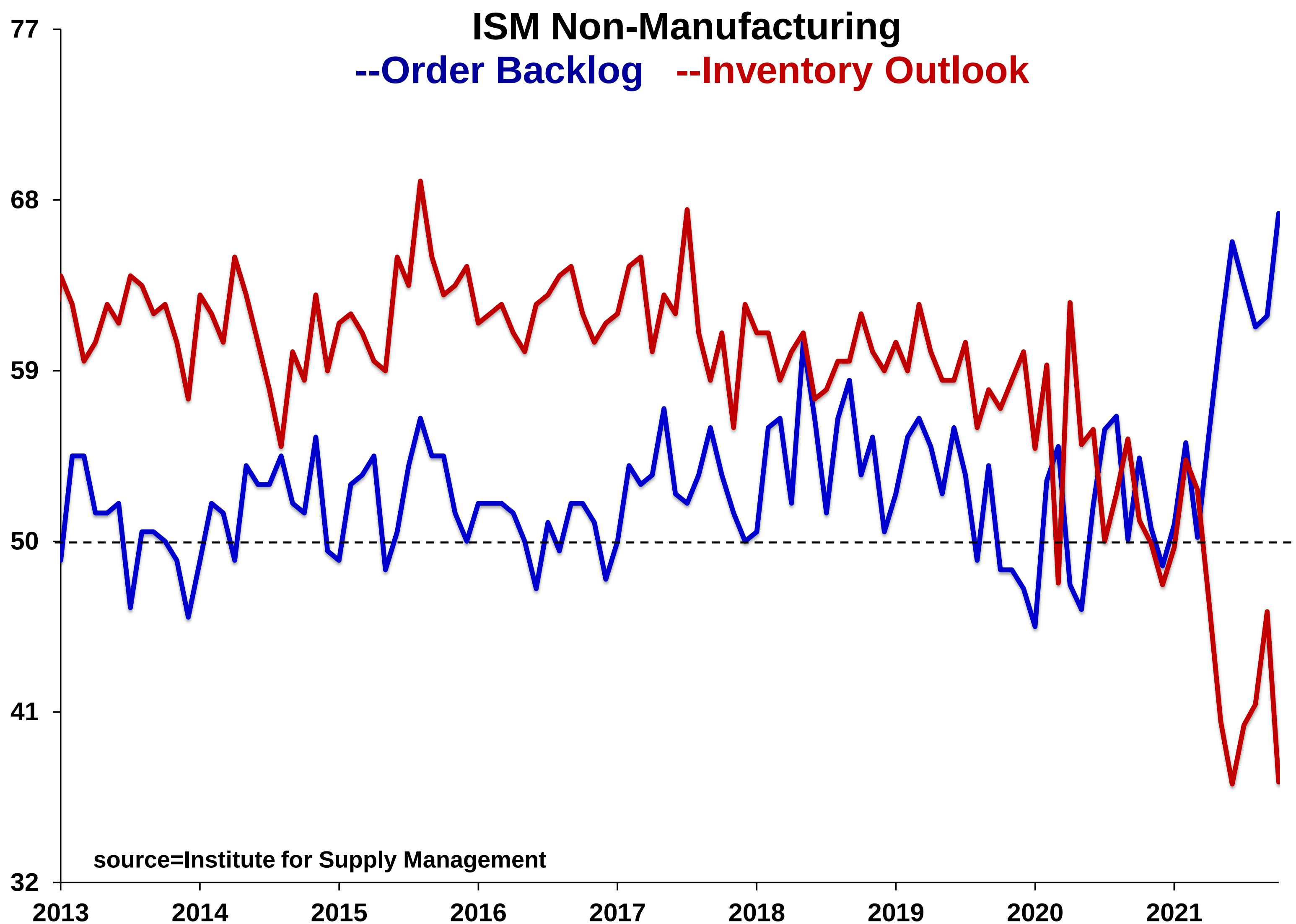
Mind The Gap: China High Yield Property/Real Estate Developer Bond Index finishes the week at 6-year low, down -34% from record high on May 26th.



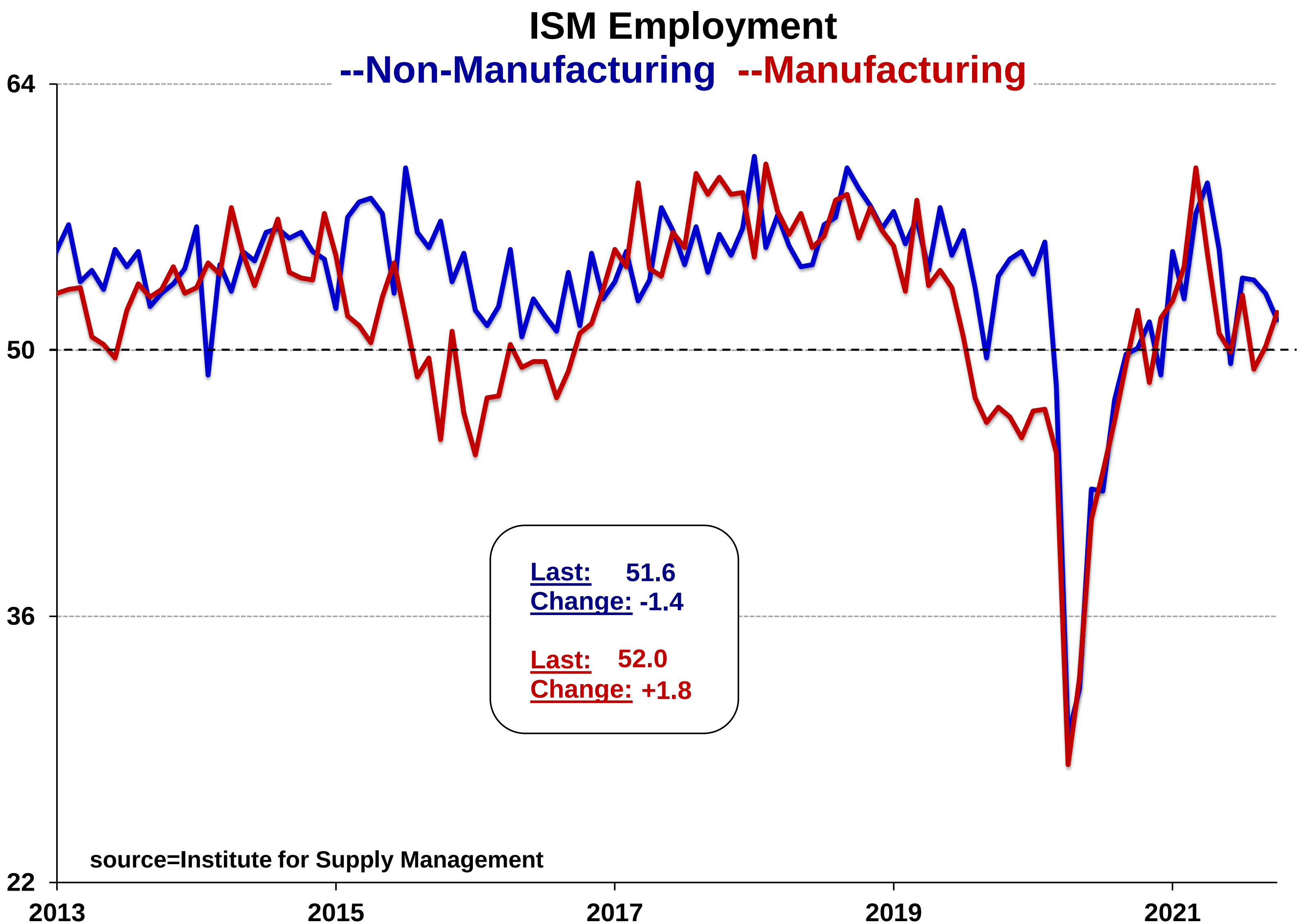
ISM Non-Manufacturing composite index beats expectations, hits record high as Business Activity, New Orders jump to record highs.



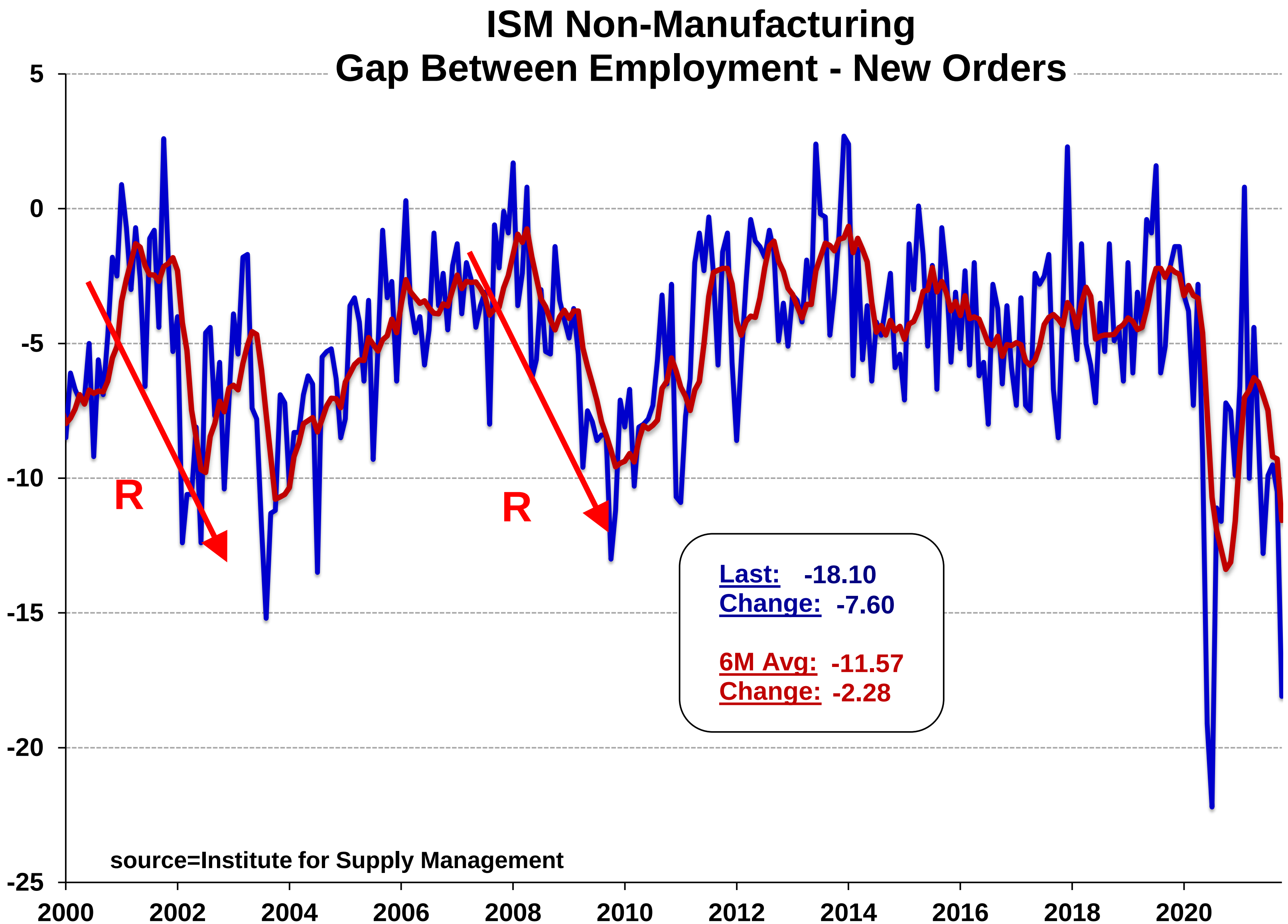
The bad news in the report: Order Backlogs jump to record highs as Inventory Sentiment slips to just shy of record low reading. From ISM: *"…ongoing challenges — including supply chain disruptions and shortages of labor and materials — are constraining capacity and impacting overall business conditions."*



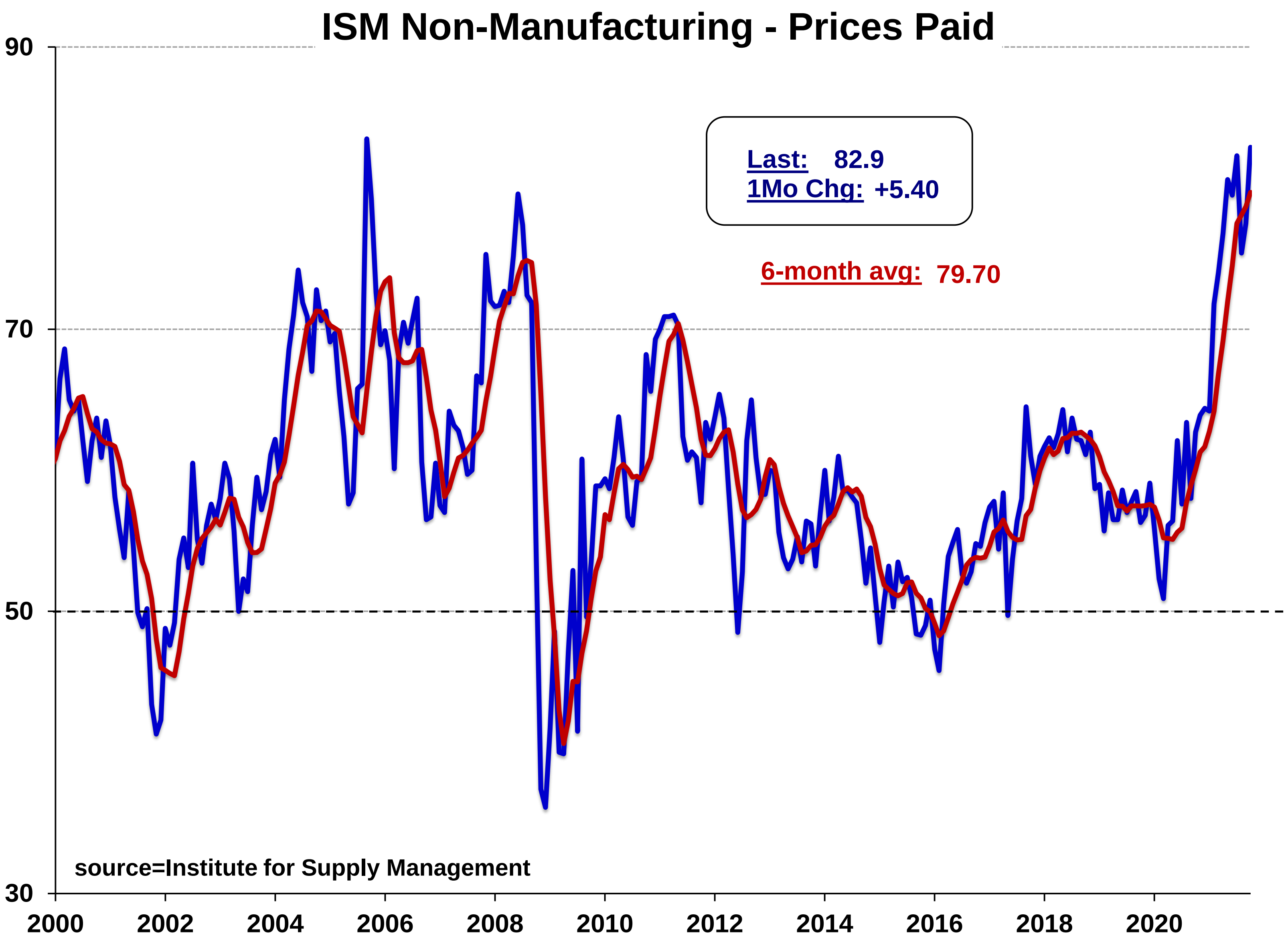
Speaking of employment/labor shortage issues: ISM Non-Manufacturing employment slips -1.4pts to 51.6…



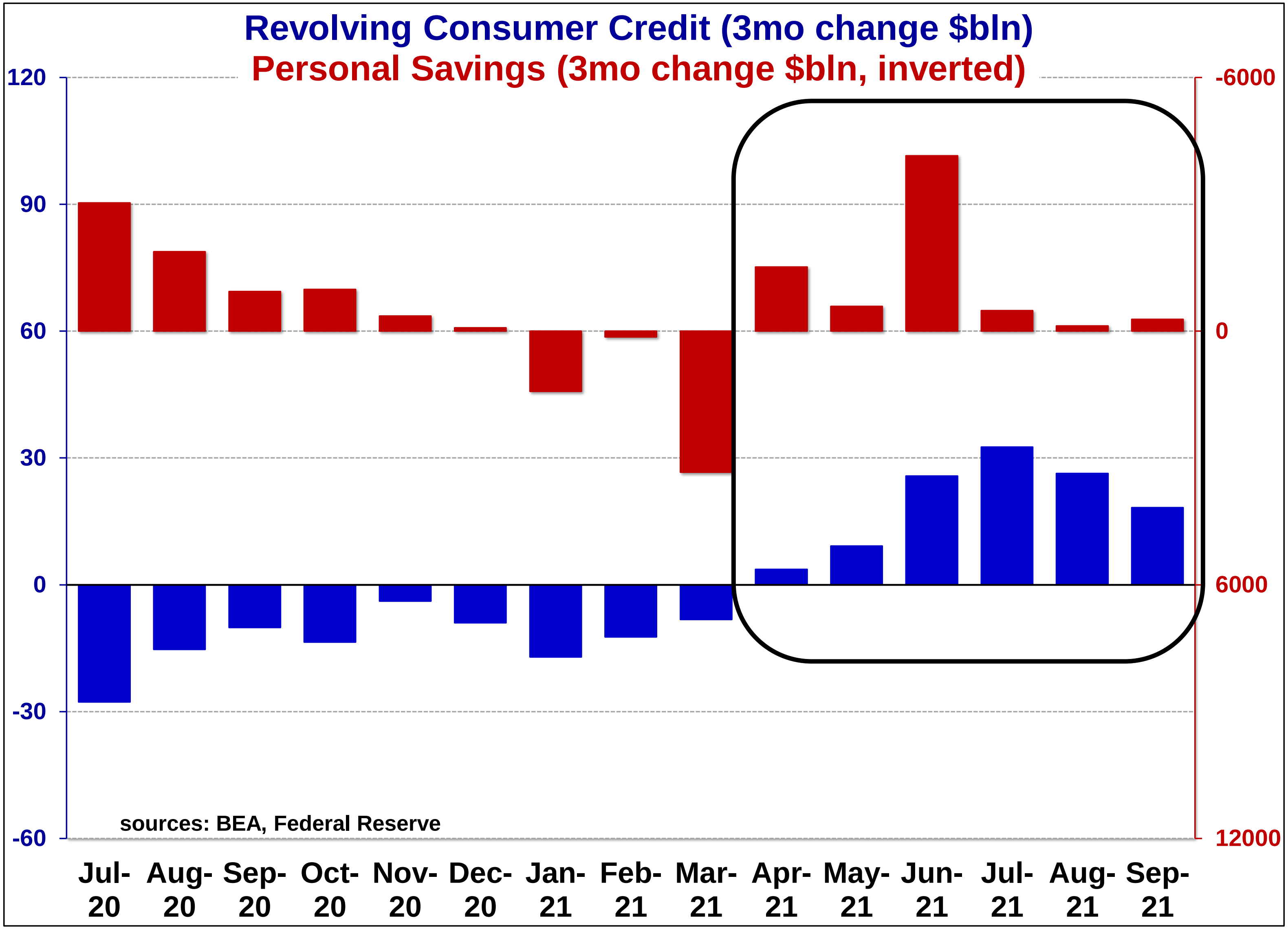
…creating the 3rd biggest gap on record between New Orders – Employment indices.



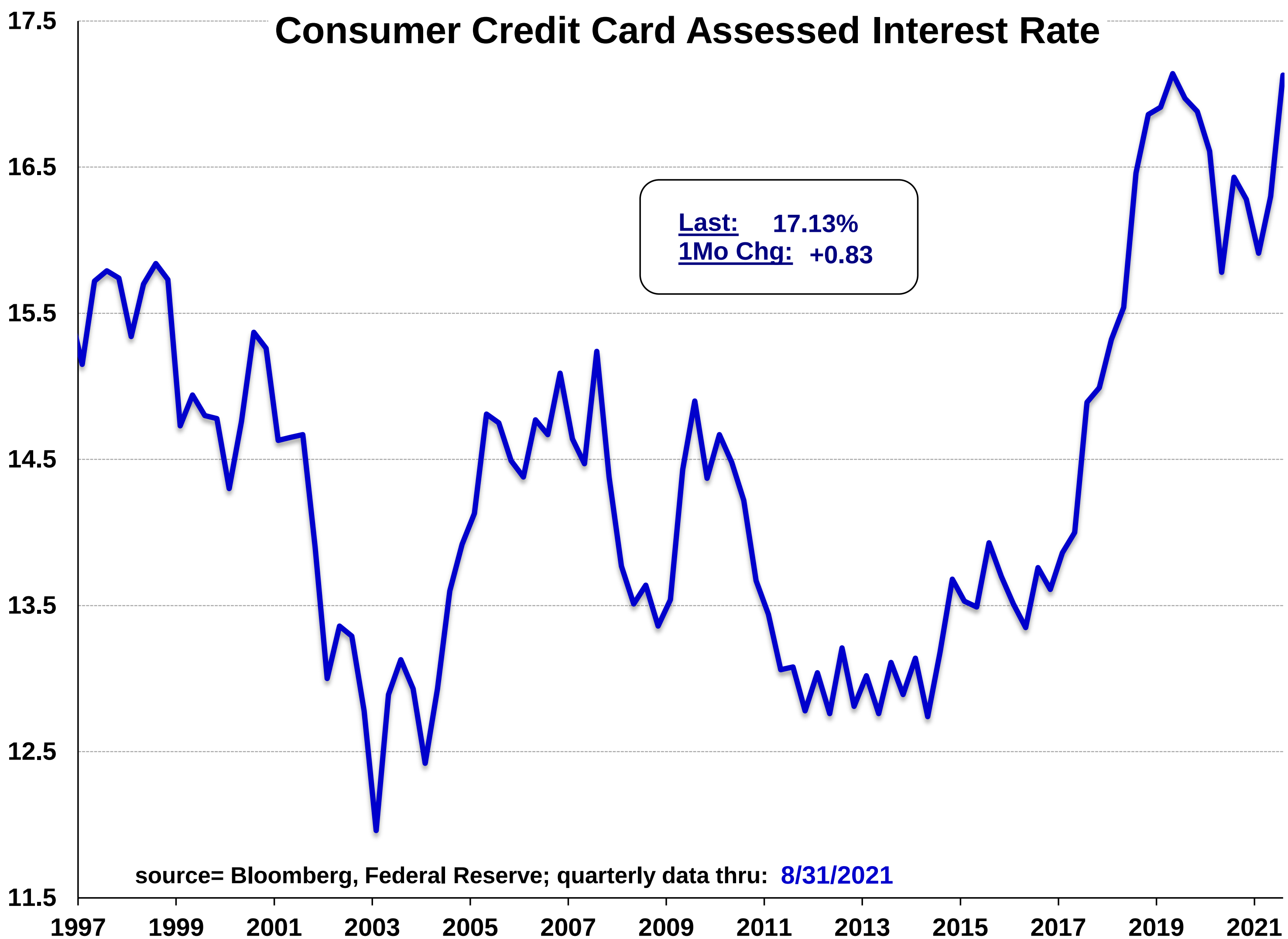
Inflation Watch: ISM Non-Manufacturing Prices Paid hits 2nd highest reading on record behind Sept. 2005



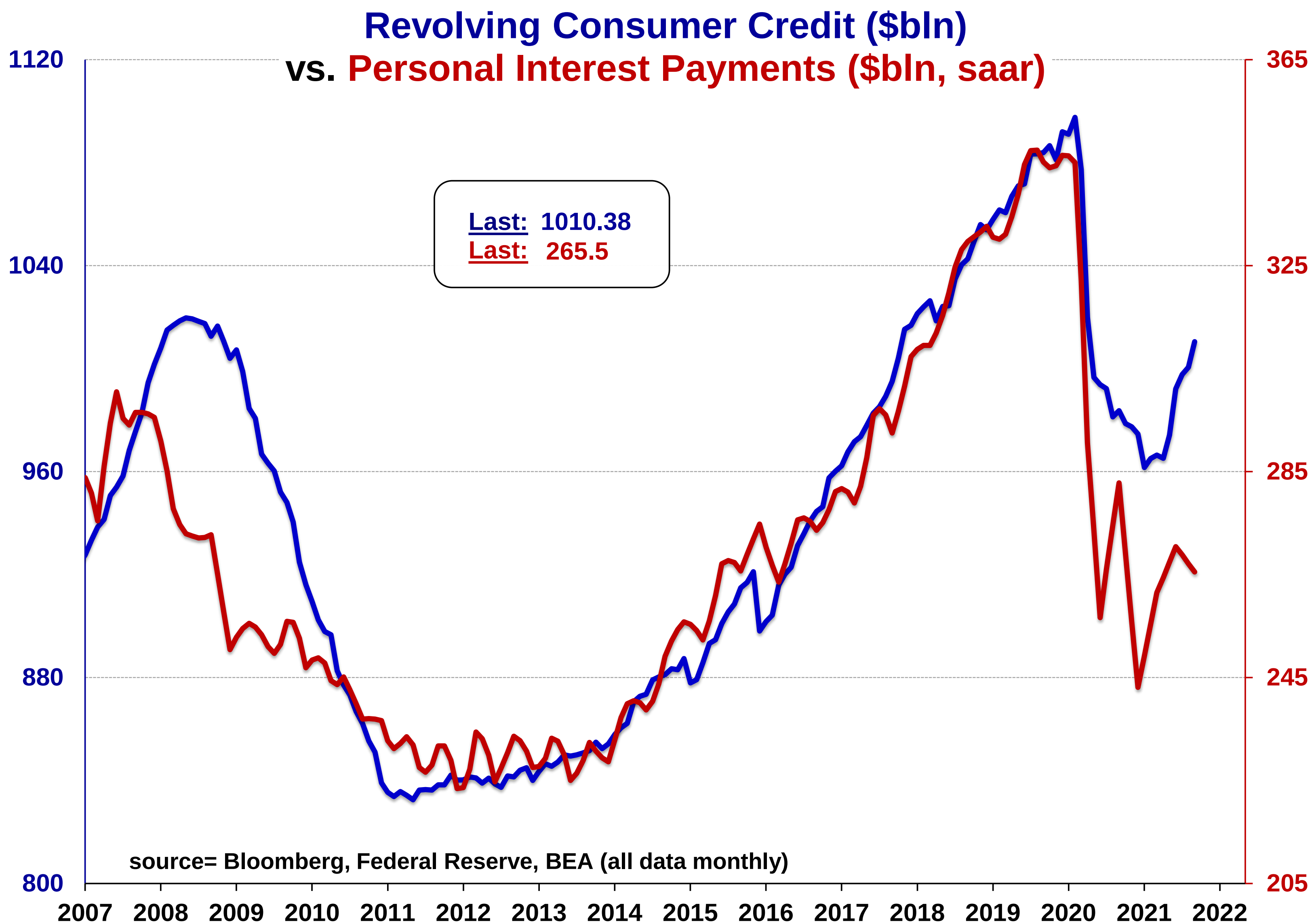
As Personal Savings tumble -20% m/m (back to Jan. 2020 levels), credit card usage continues to pick up.



As if rising food & energy costs weren't enough of a hit to consumers, another headwind arrives in the form of near record high credit card interest rates. Total interest paid by consumers is in fact at a 5-year low, however with Revolving credit back on the rise, indebted consumers will feel the squeeze from higher rates in coming months. Chart: credit card assessed interest rate hits 2nd highest on record for quarter ending 8/31: 17.13%.

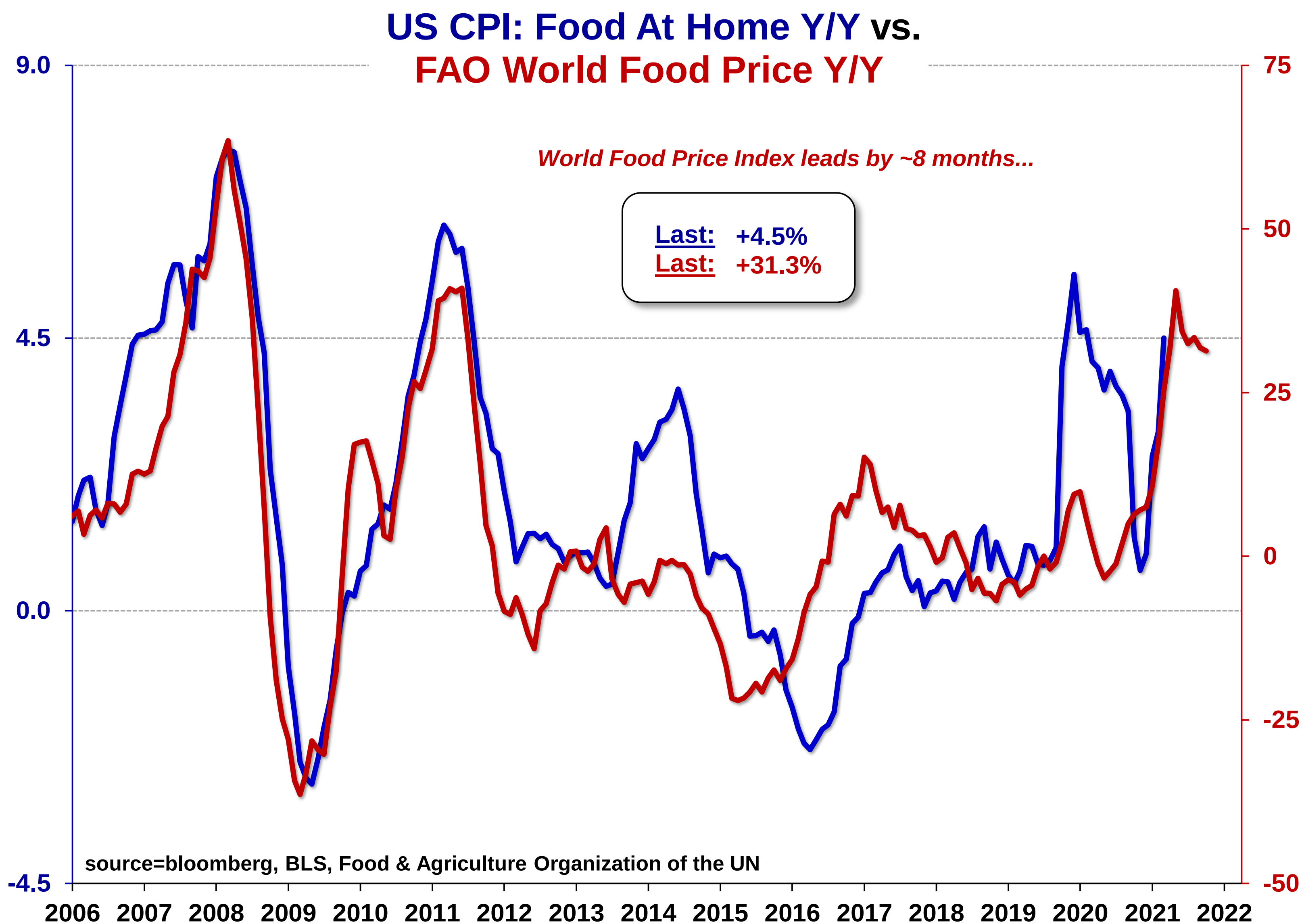


**Revolving credit back on the rise; Interest Payments set to follow

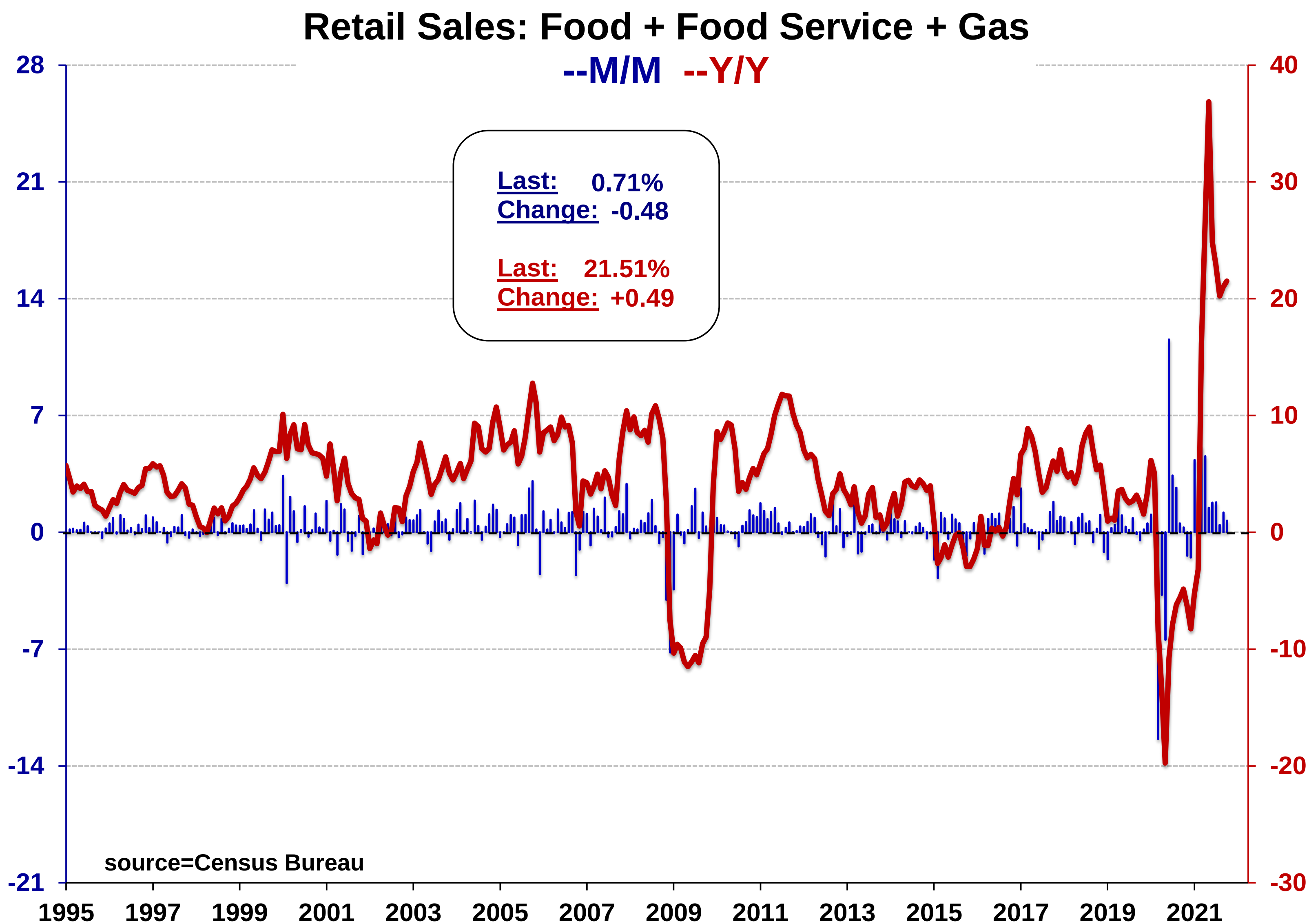


Inflation Watch:

World Food Price index hits record high, up 31.3% y/y…<u>double-digit y/y readings every month so far in 2021.</u>



Inflation Watch: Feeling The Squeeze:
Food & Gas outlays up 21.5% y/y....a record 8 straight months of double-digit y/y readings.



Motor Gas prices rise to fresh 7yr high and, considering prices jumped 6.3% in October, we will surely see food & gas outlays continue to take a bite out of disposable income.