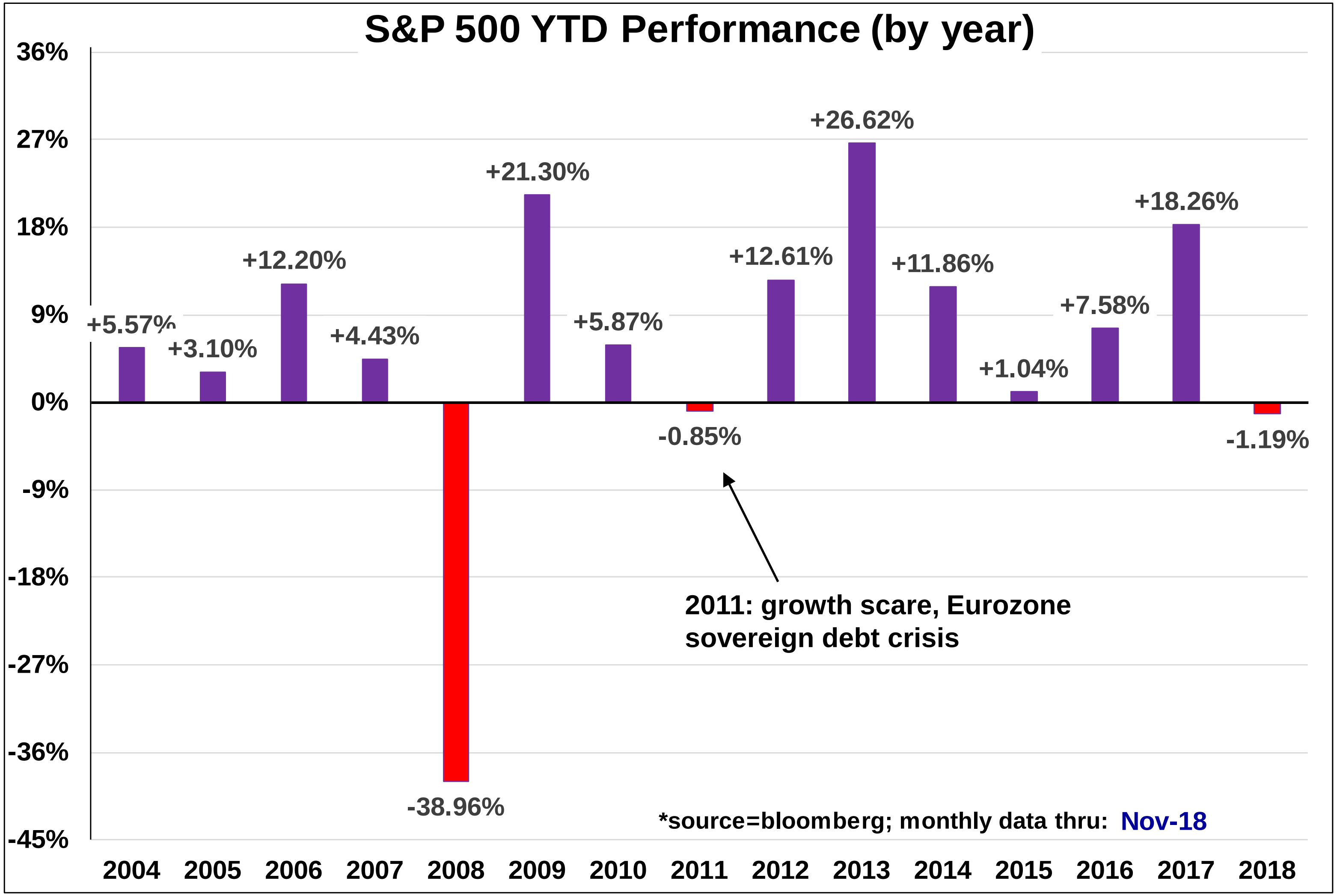
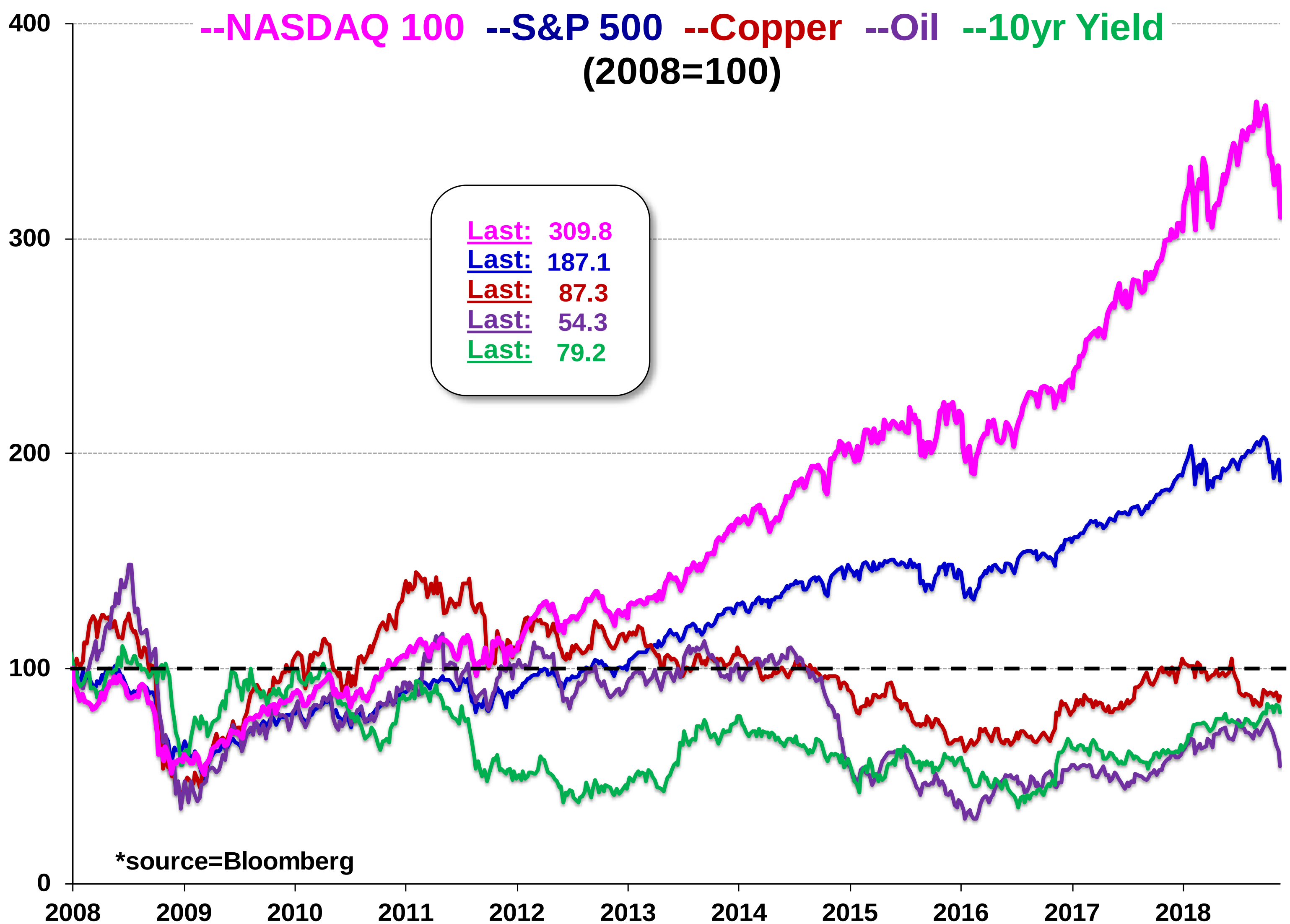
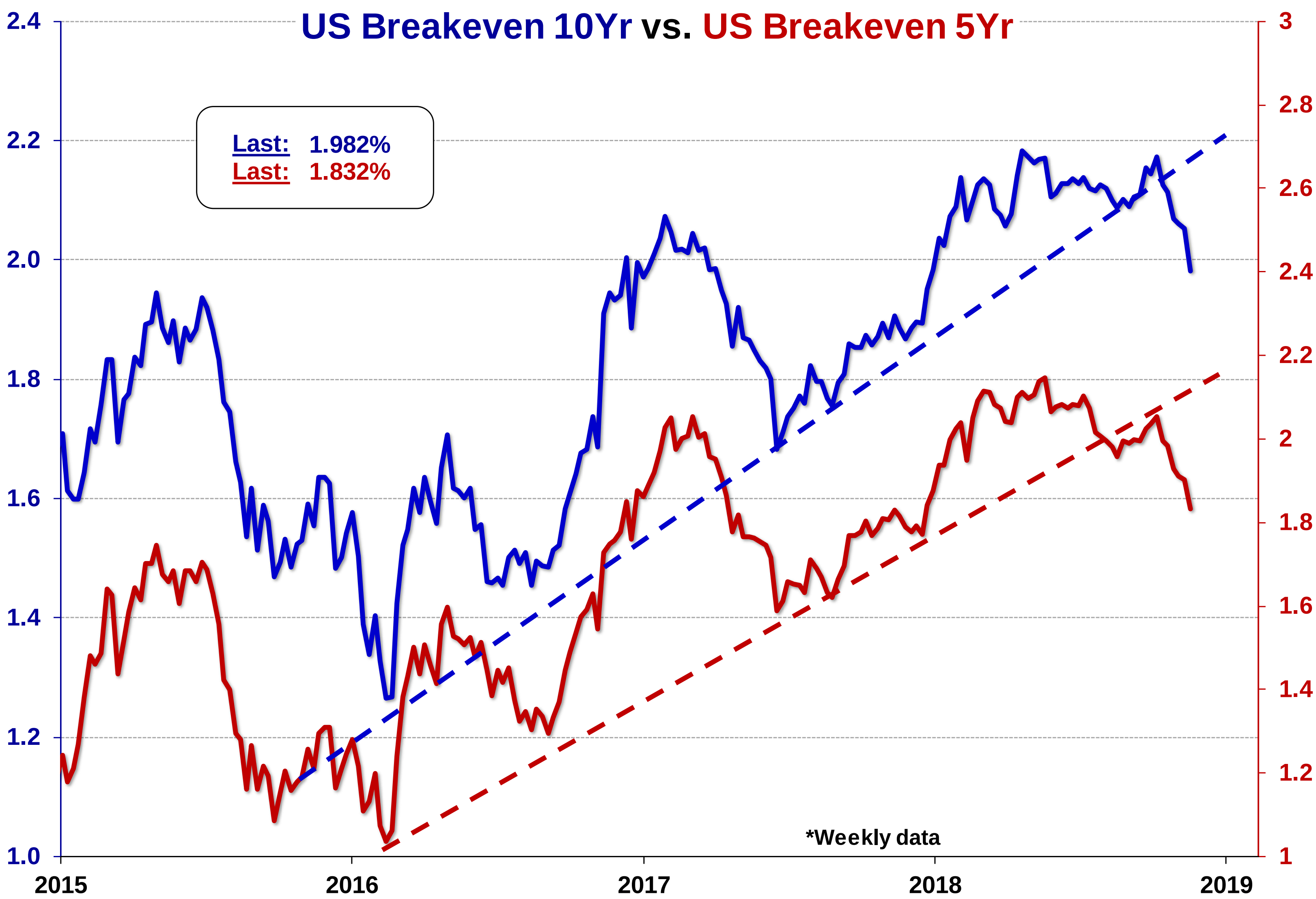
S&P 500 is now negative for the year; biggest YTD decline (data thru Nov. 20th for this year) since the recession. Tech and Energy account for just over ¼ of S&P 500 and both are reeling as investors weigh further rate hikes and signs of slowing growth. In our estimation, a retest of February lows seems almost certain at this point.



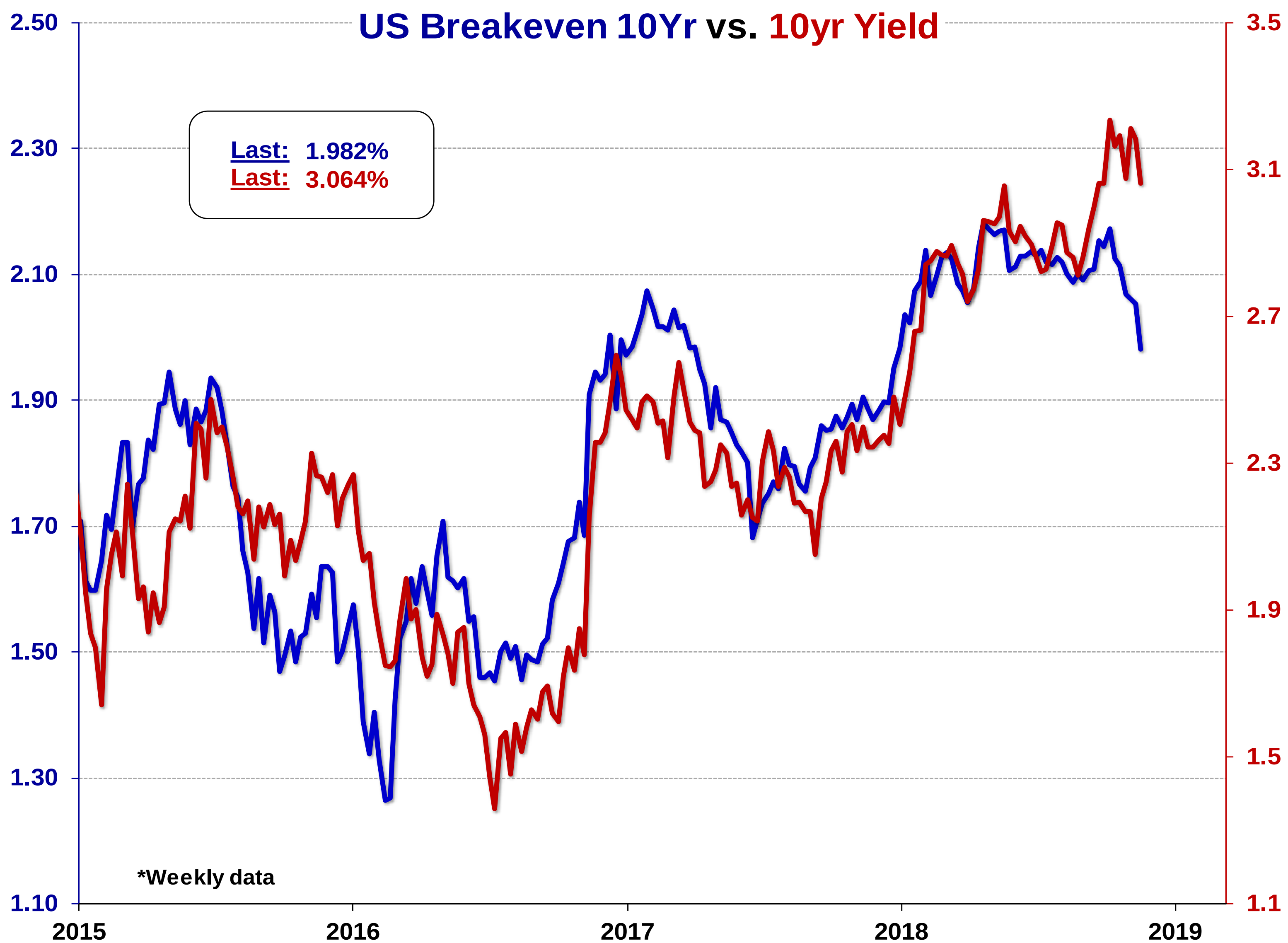
Tech Bubble 2.0: Unsustainably high valuations (courtesy cheap credit fueling record buybacks) now succumbing to gravitational pull of higher rates and slowing growth. Should the Tech bubble be bursting (as it certainly seems it is) the selloff yet to come will be anything but 'garden variety' as valuations are still very elevated.



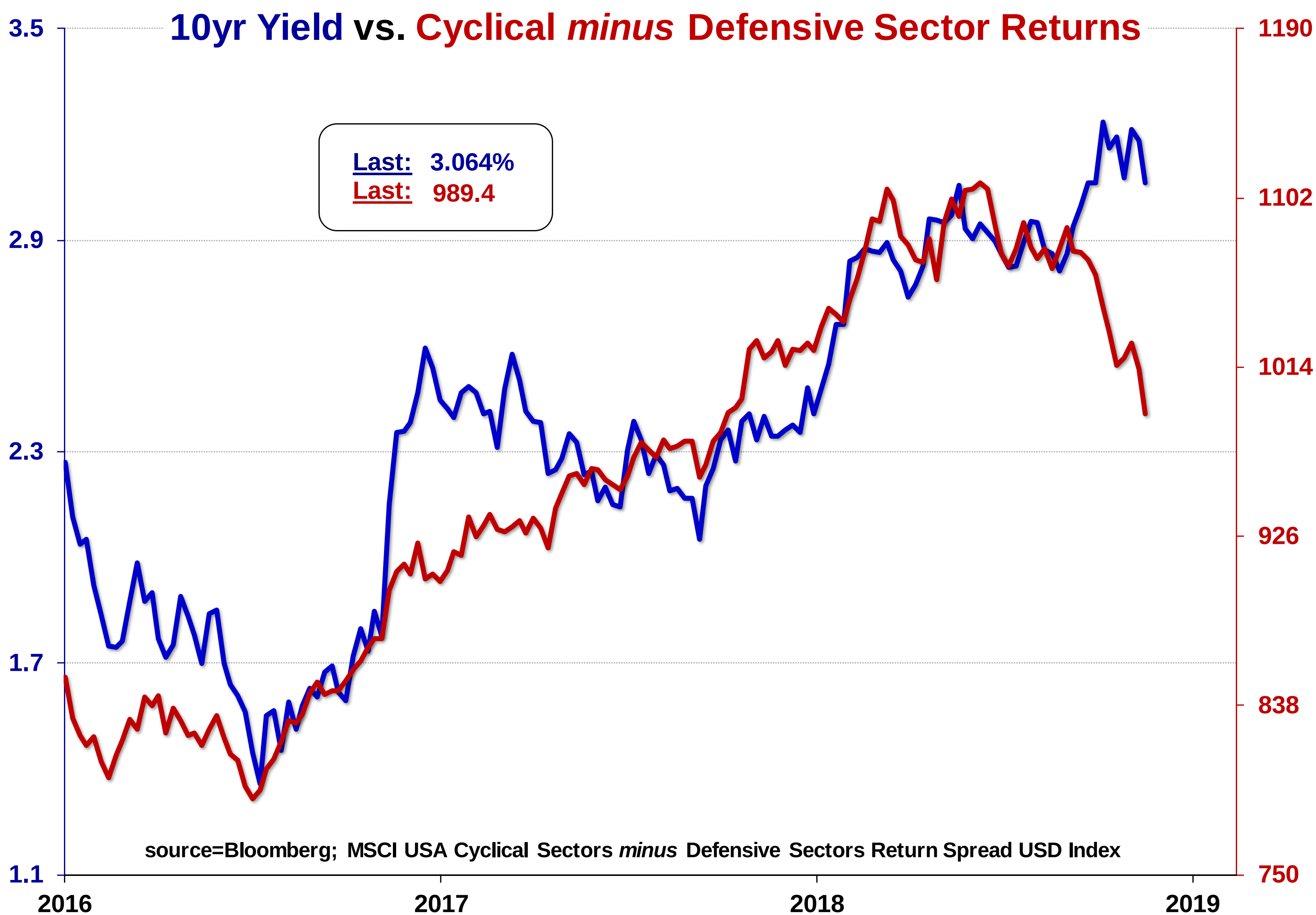
Growth Worries: 10yr Breakeven Inflation Rate falls below 2% to lowest since Dec. 2017; 5yr Breakeven also back to Dec. 2017 level. Both break below long-term trend.



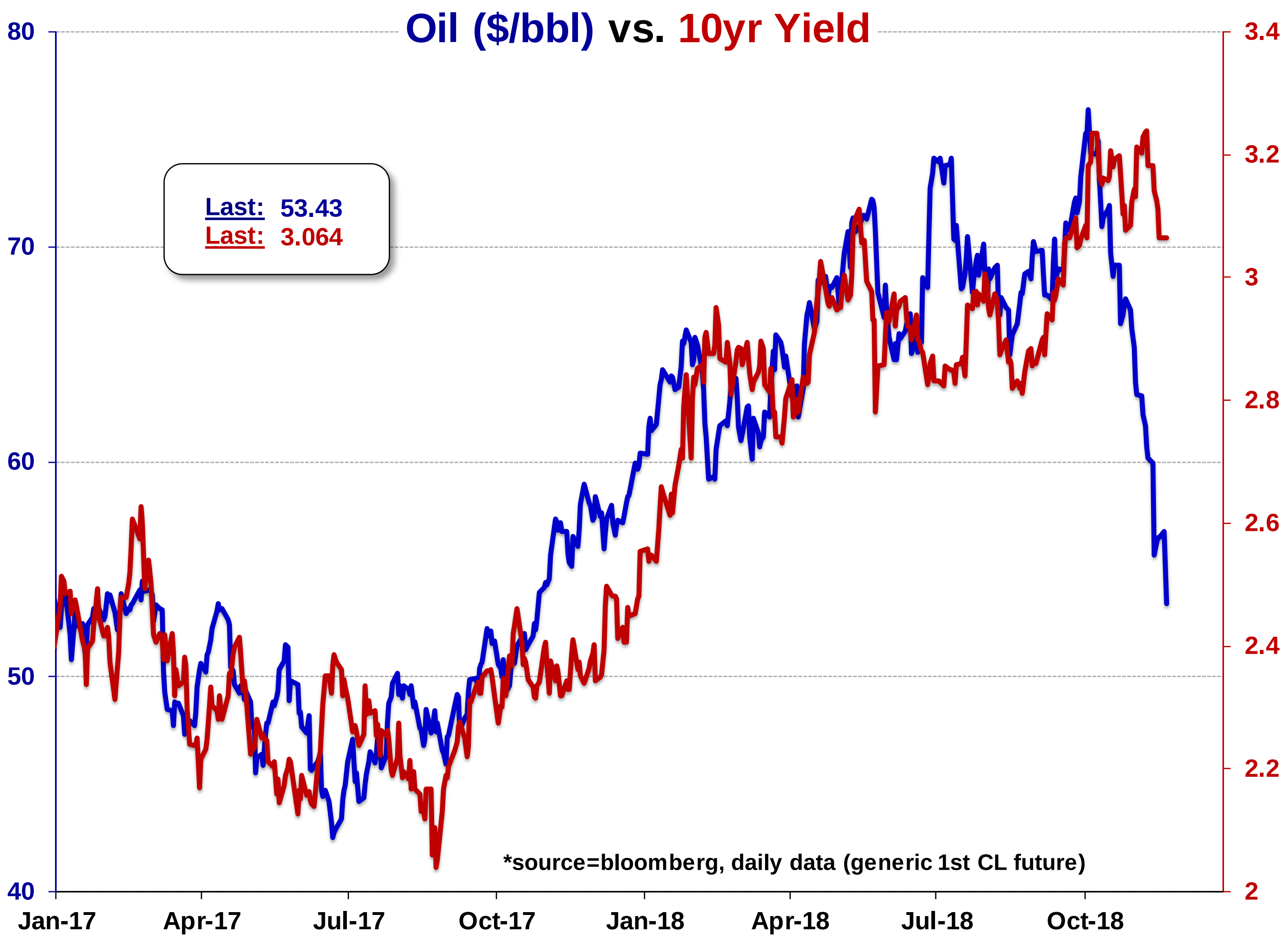
Yields set to follow Breakevens lower



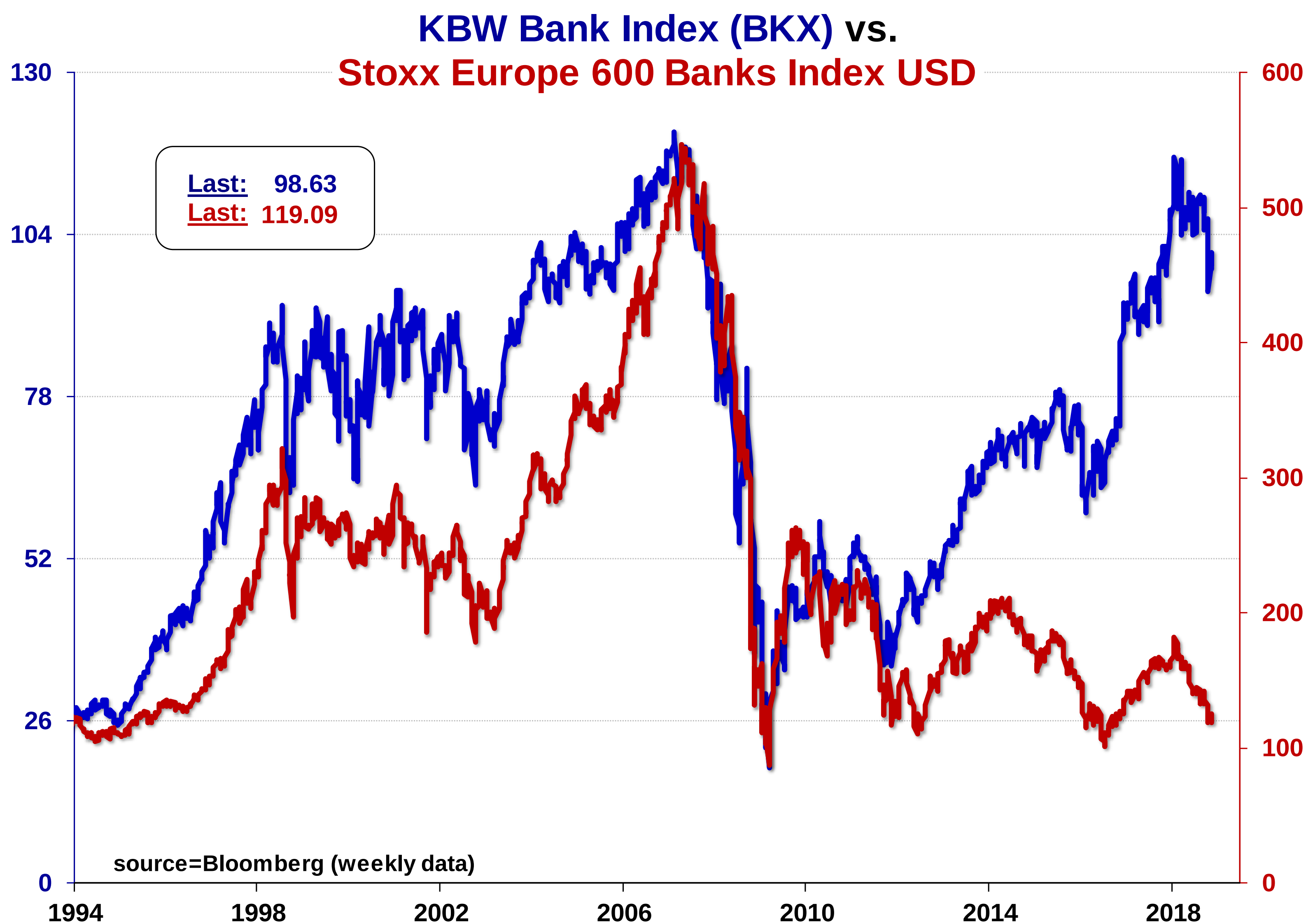
Cyclicals – Defensives also suggests yields set to turn lower



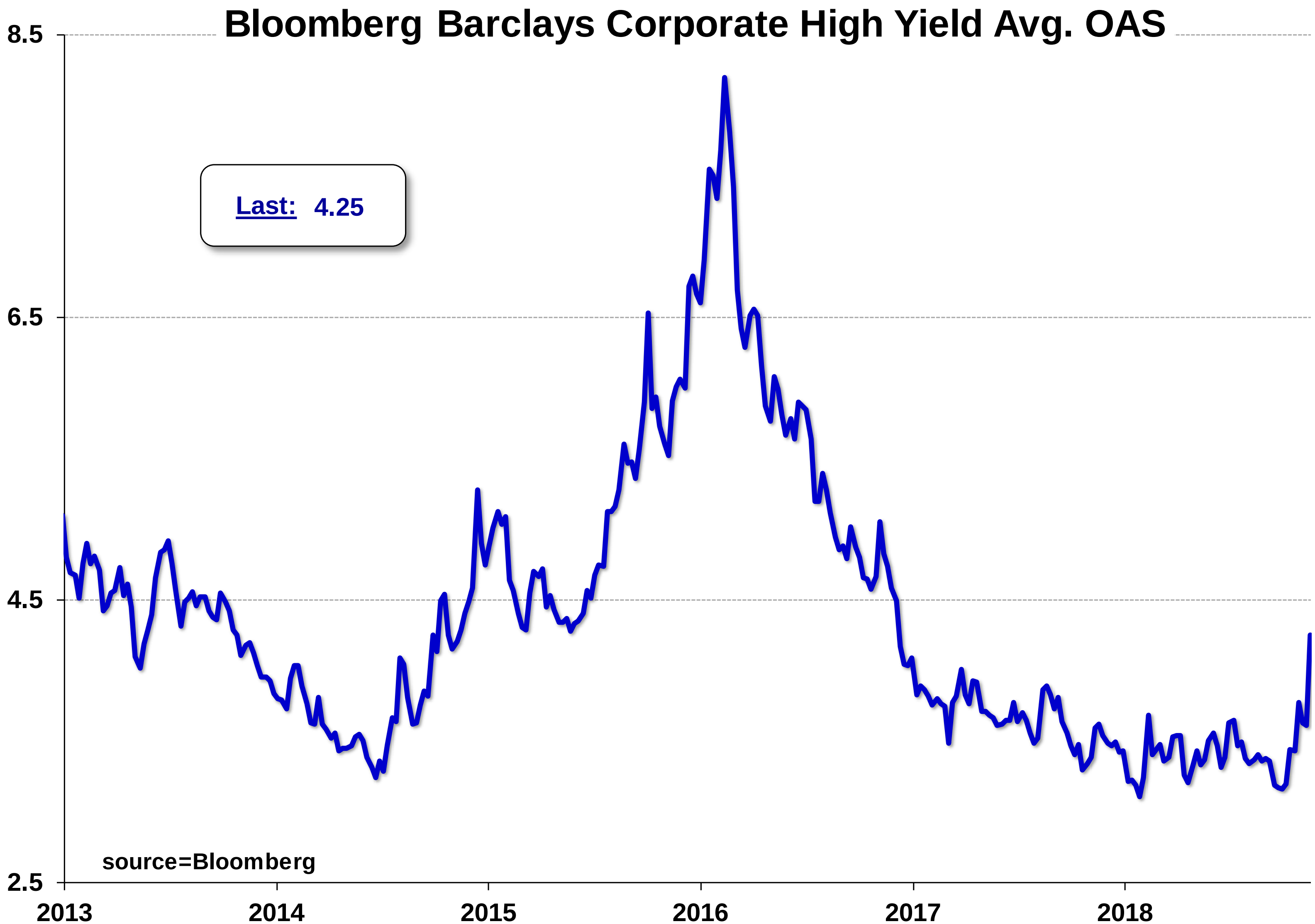
Oil plunge set to drag GDP expectations …and of course yields…lower



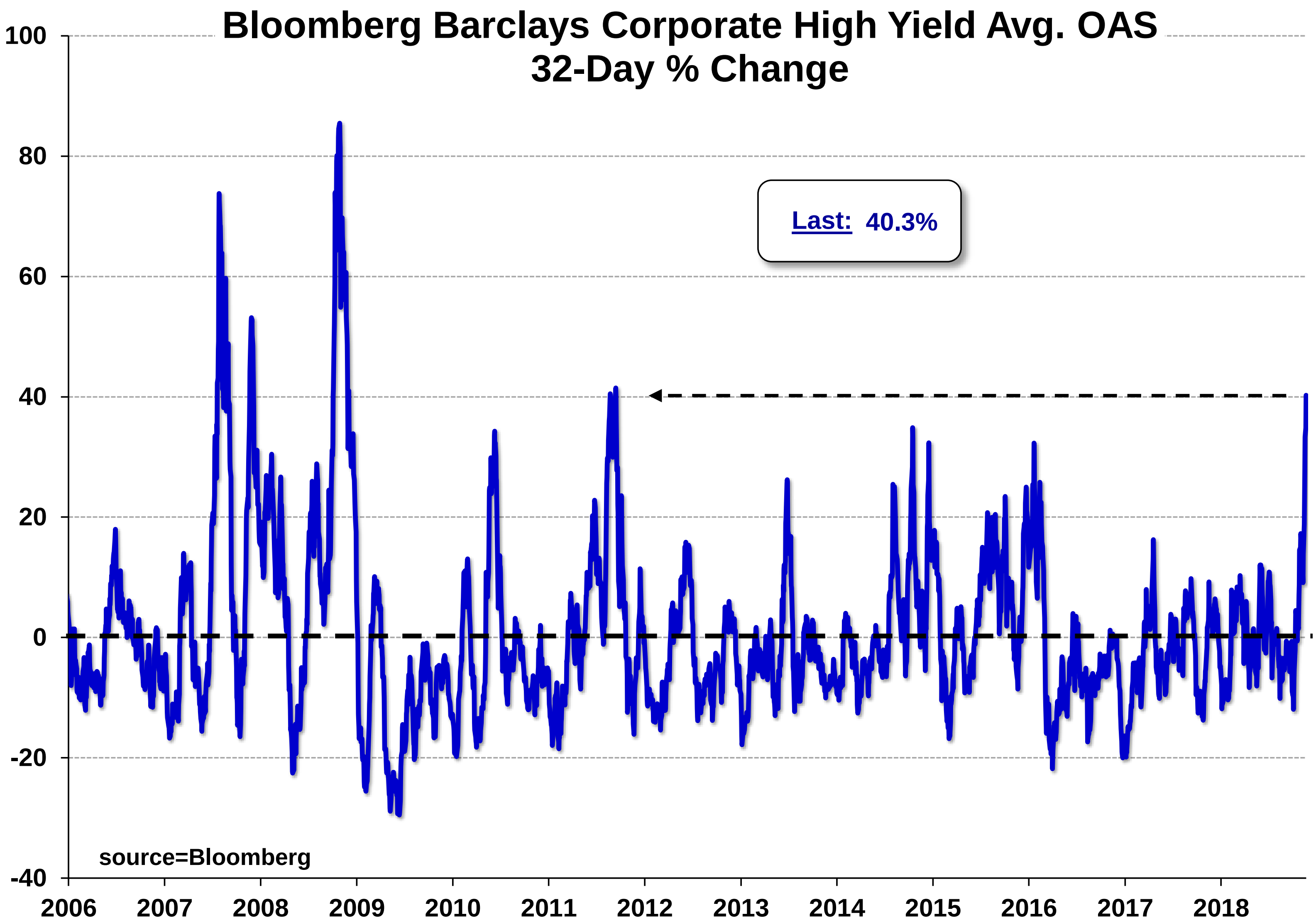
Should growth fears accelerate, financials poised to take a turn for the worse



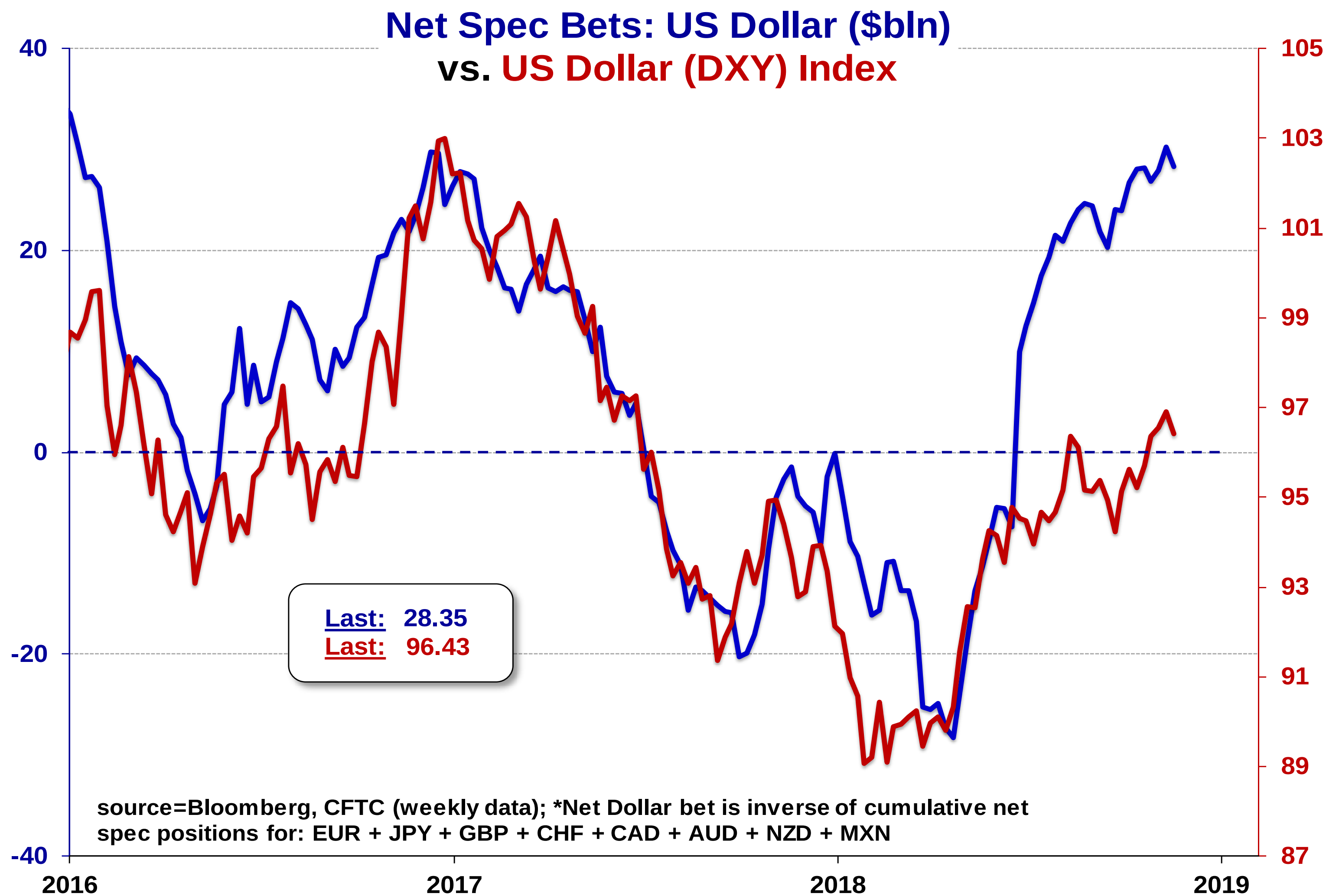
Bloomberg Barclays Corporate High Yield OAS: <u>was at lowest since July 2007 at start of October, now at **highest since Dec. 2016**</u>, suggesting more weakness may be ahead for equities.



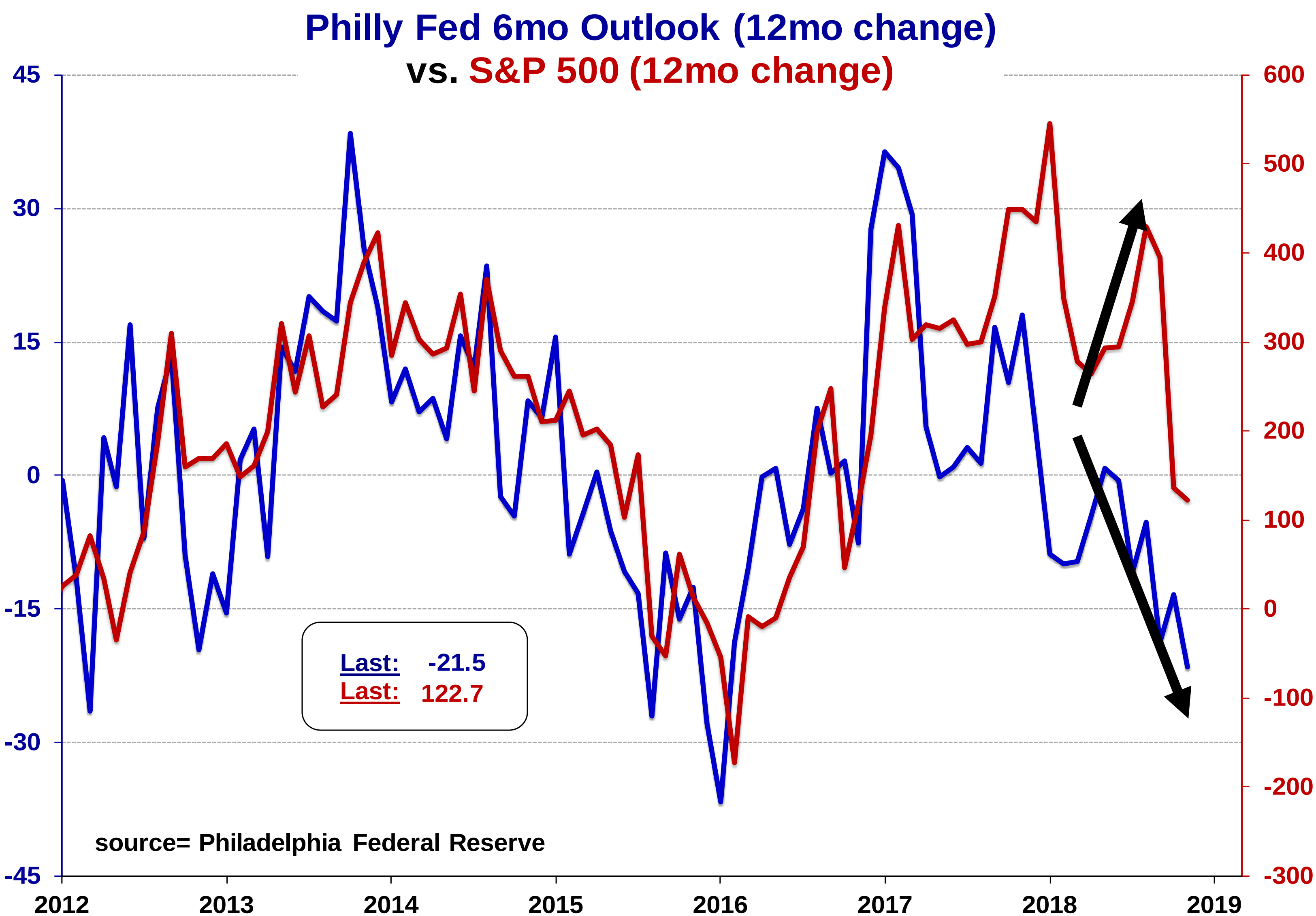
Widening fast: Since October 3rd (32 days ago), the spread has risen 40%...biggest 32-day jump since 2011, 2nd biggest % jump since the recession.



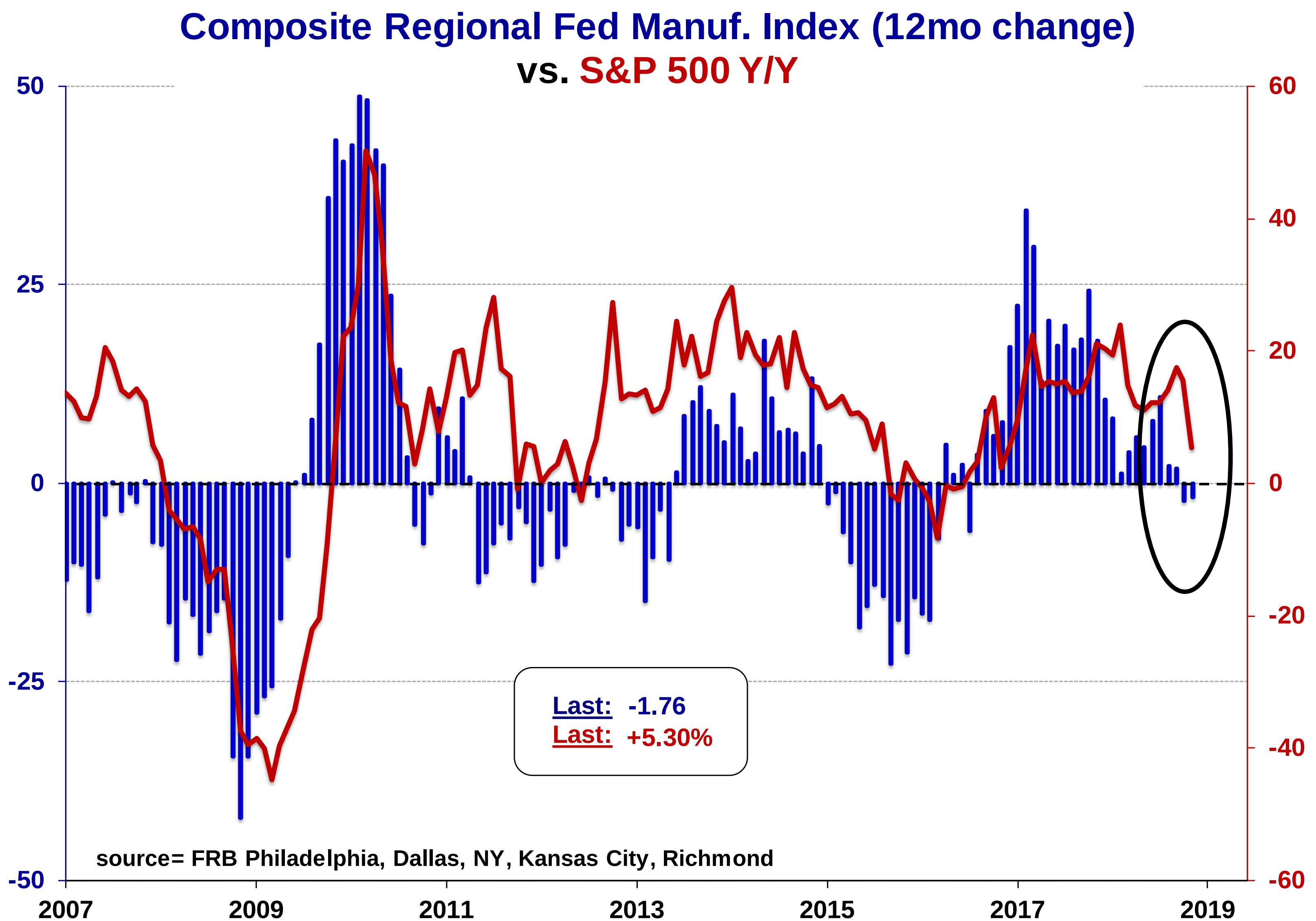
US Dollar Net Spec Bet drops -$1.87bln to $28.35bln as **Dollar Index (DXY) posts first down week in 5**. The anticipated dollar breakout may not materialize as market turmoil could pressure the Fed to put further rate hikes on hold. Last Friday, Patrick Harker (Philly Fed) said he's 'not convinced' a Dec. rate hike is prudent (per WSJ interview), and on Monday, John Williams (NY Fed) said they will likely raise rates 'somewhat' more. Should the Fed throw in the towel on further hikes, the dollar will no doubt tumble as biggest Spec Bet since 2016 unwinds.



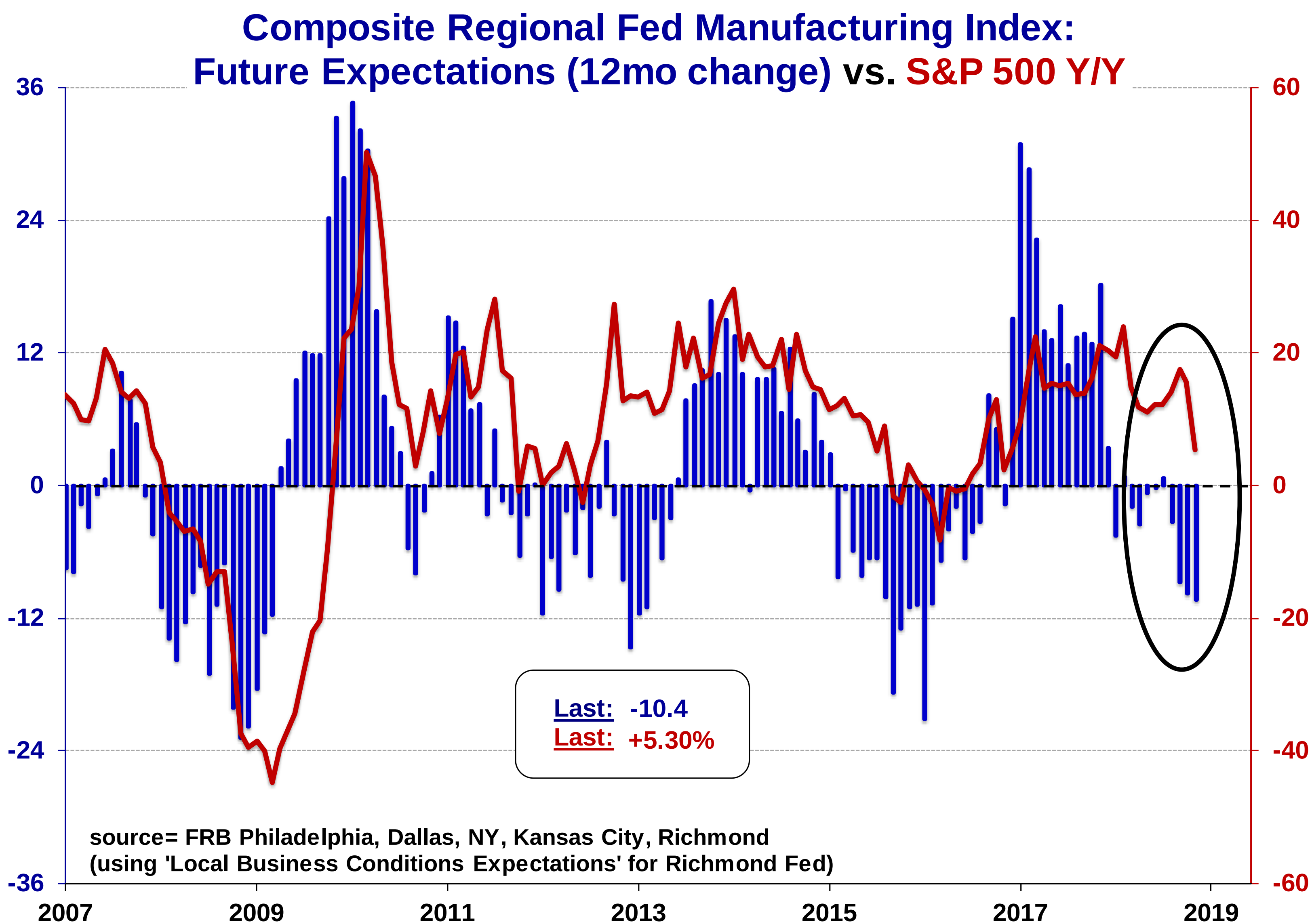
As we pointed out on a few occasions, the S&P 500 had largely decoupled (trending higher) vs. Philly Fed Outlook (trending lower) and cautioned equities may have to 'catch down' to the data. The gap is now closing.



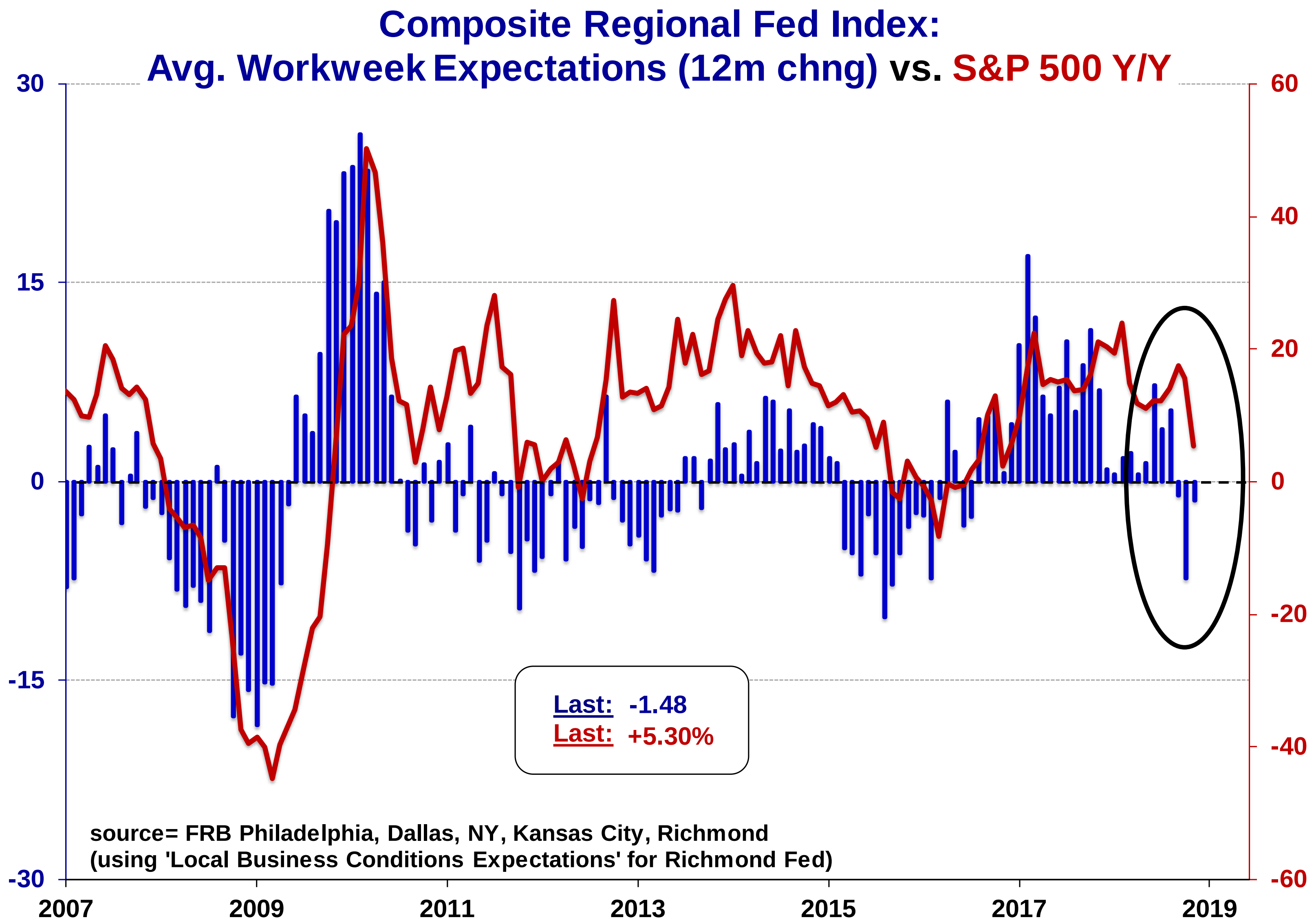
Cracks beginning to appear: Composite reading of 5 regional Fed Manufacturing Activity indices (12mo change): declines for 2nd month in a row; first negative readings since 2016



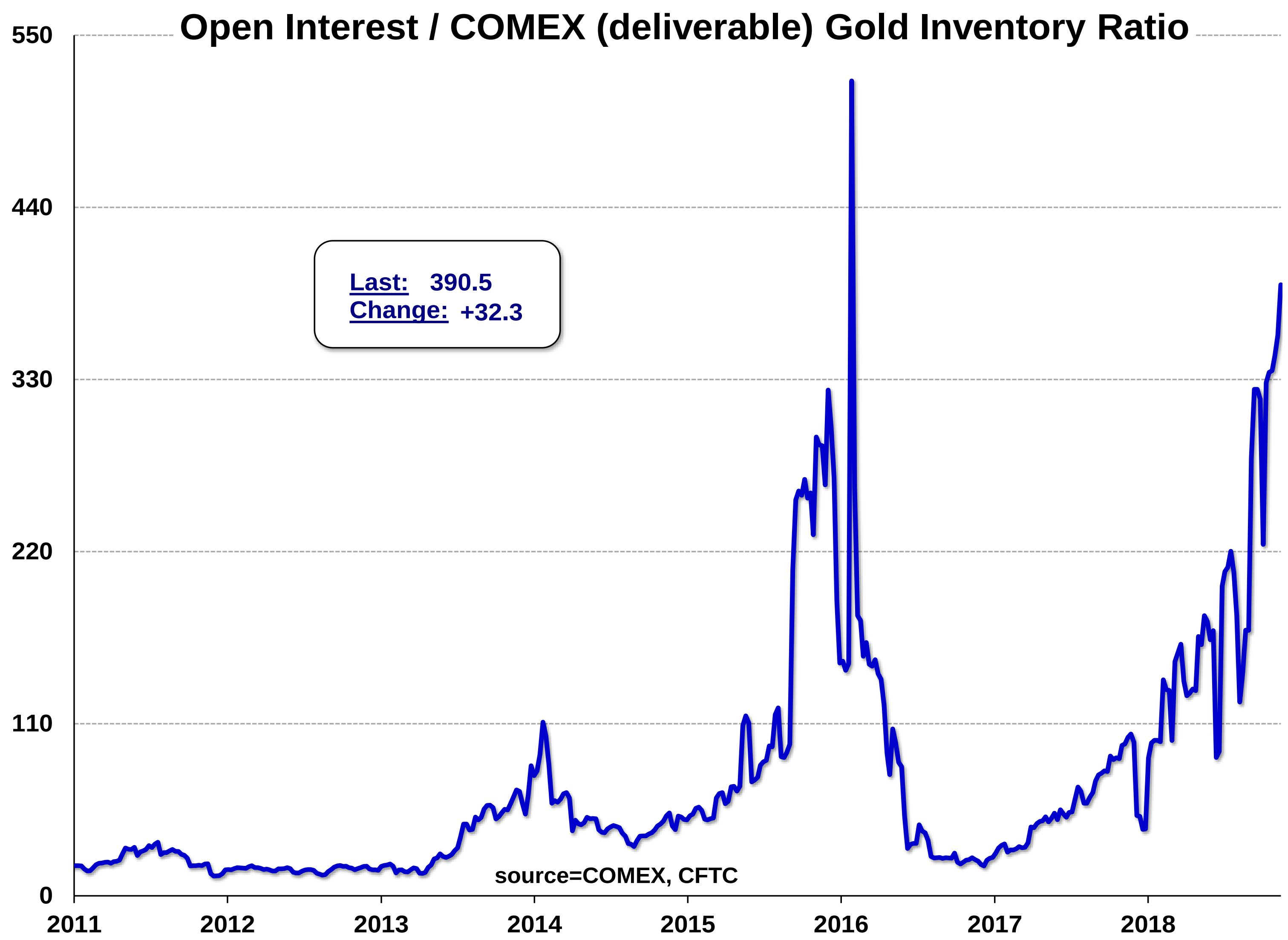
Composite reading of Future Expectations not very encouraging…



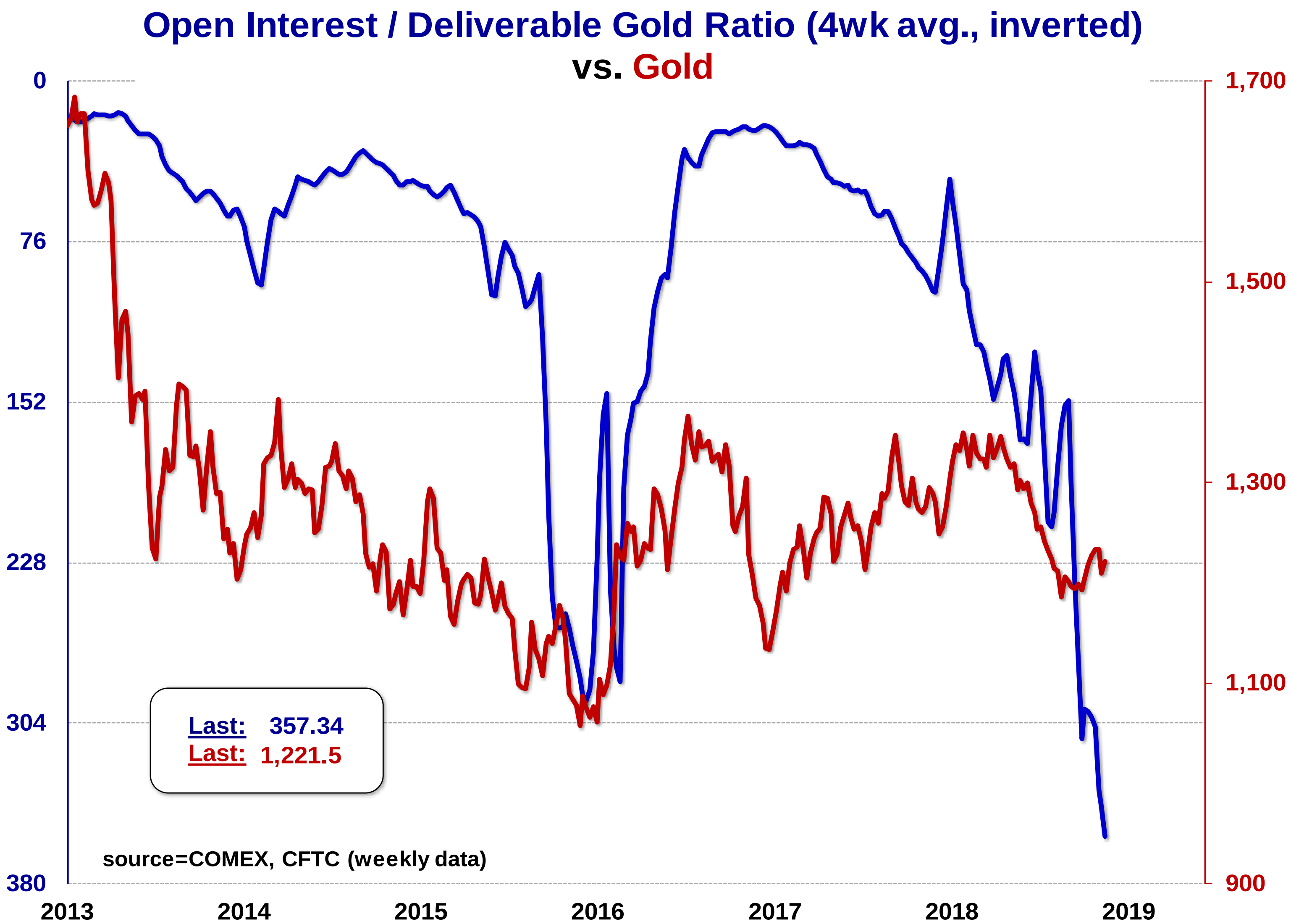
…and composite of Workweek Expectations is equally disappointing, all suggesting growth slowdown ahead. As such, the steady (216k 6mo average) payroll gains we've come to expect are likely to weaken in months ahead.



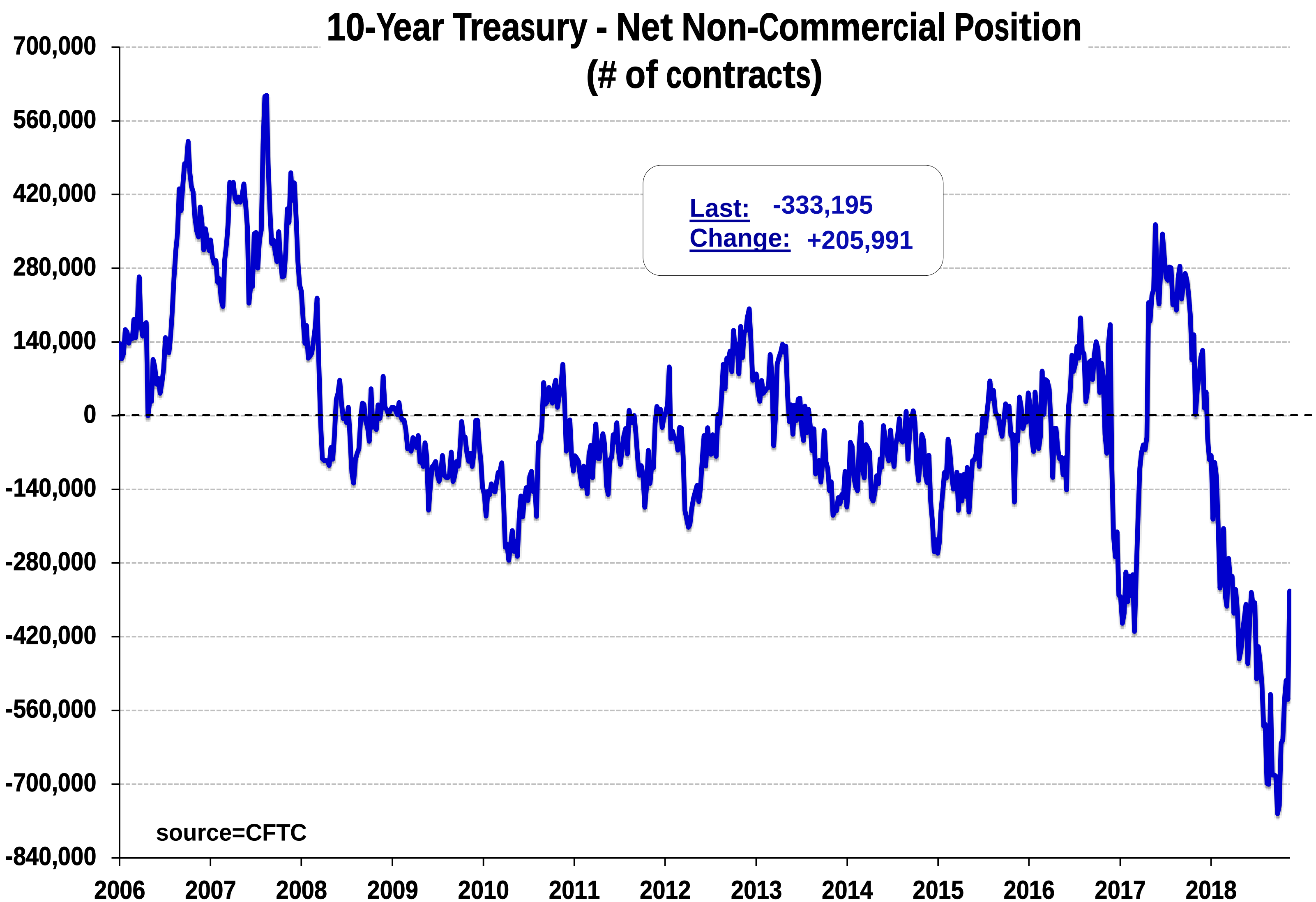
COMEX Gold Cover Ratio (Open Interest/Deliverable Gold) at **second highest level on record**: 390 claims per ounce of deliverable Gold. Record high was first week of January 2016 which signaled start of a 28.7% Gold rally over the following 6 months.



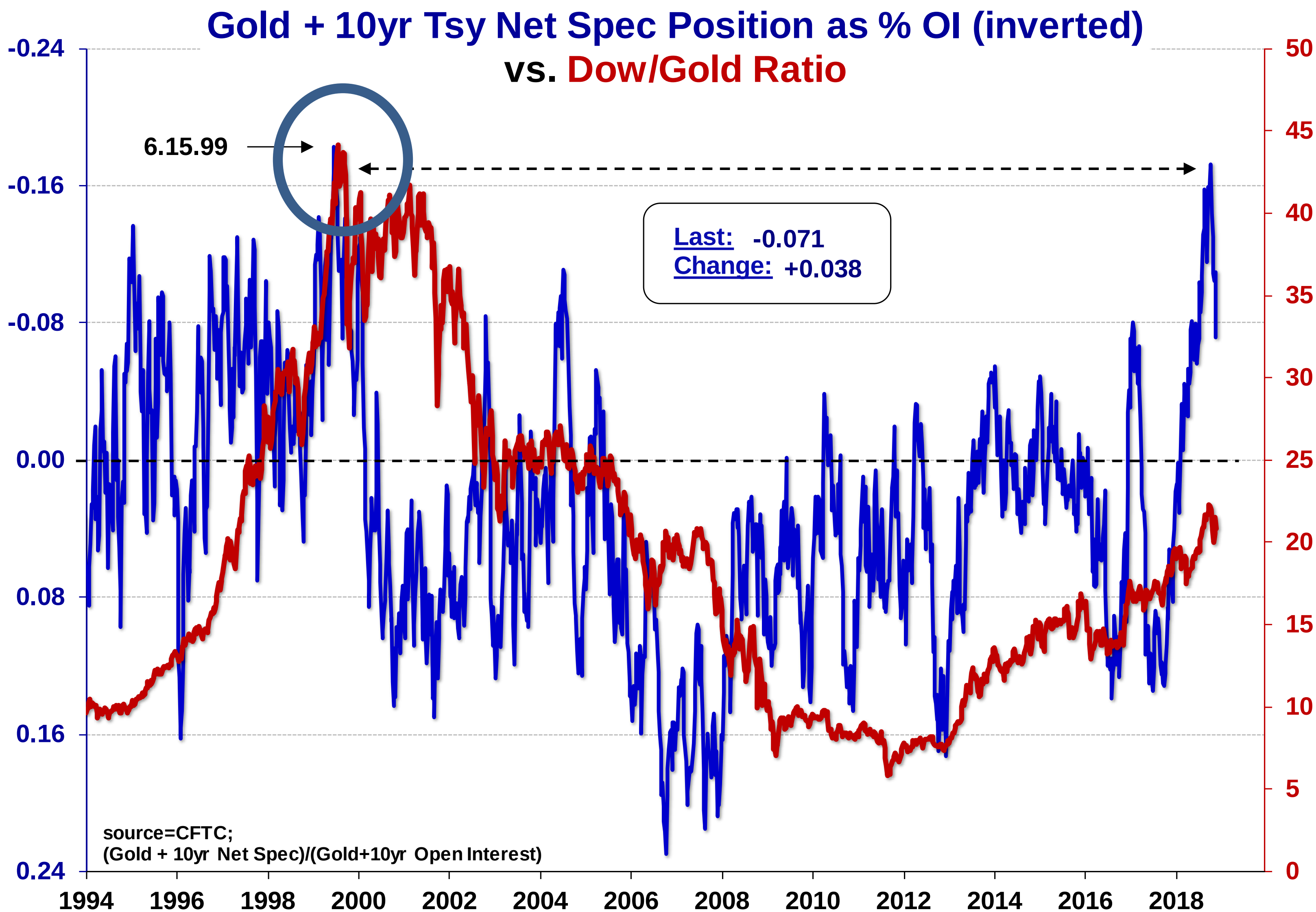
4-week average of Gold Cover Ratio is at **highest on record**. Pressure is no doubt building in favor of an upside spike in gold price.



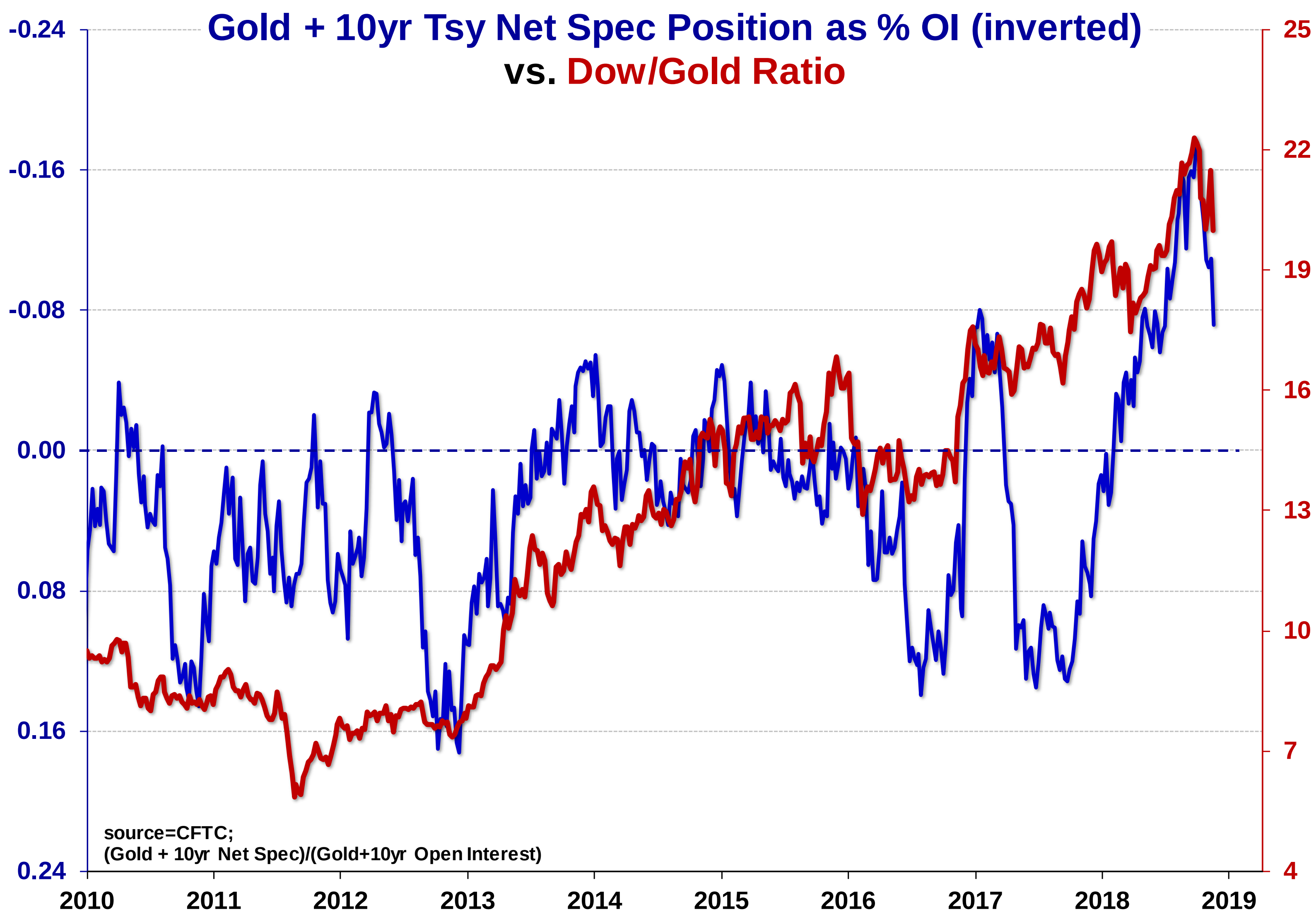
Complacent no more: As equities are in full retreat, speculators have cut their record net short 10yr Treasury position by more than half (record net short was -756k contracts week ending Sept. 25th). But it seems there may be something even bigger at play…



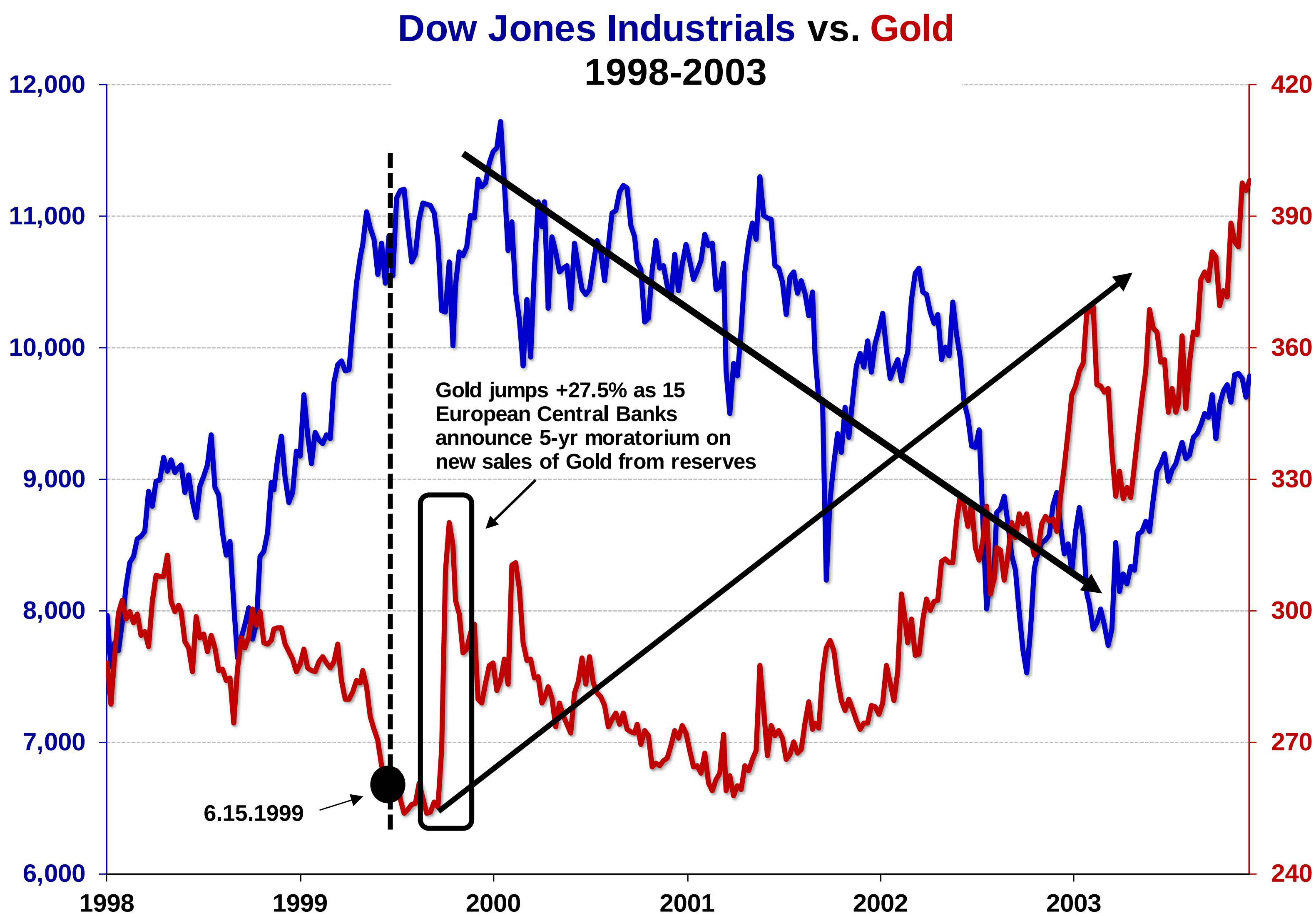
…which is a potential tectonic shift in market sentiment. At the start of October this year, Gold +10yr Treasury Net Spec Position as % Open Interest dropped to **2nd lowest reading on record** (record low was on June 15th 1999). As it turns out, another indicator hit a major inflection point at the same time in 1999: **the Dow/Gold Ratio**.



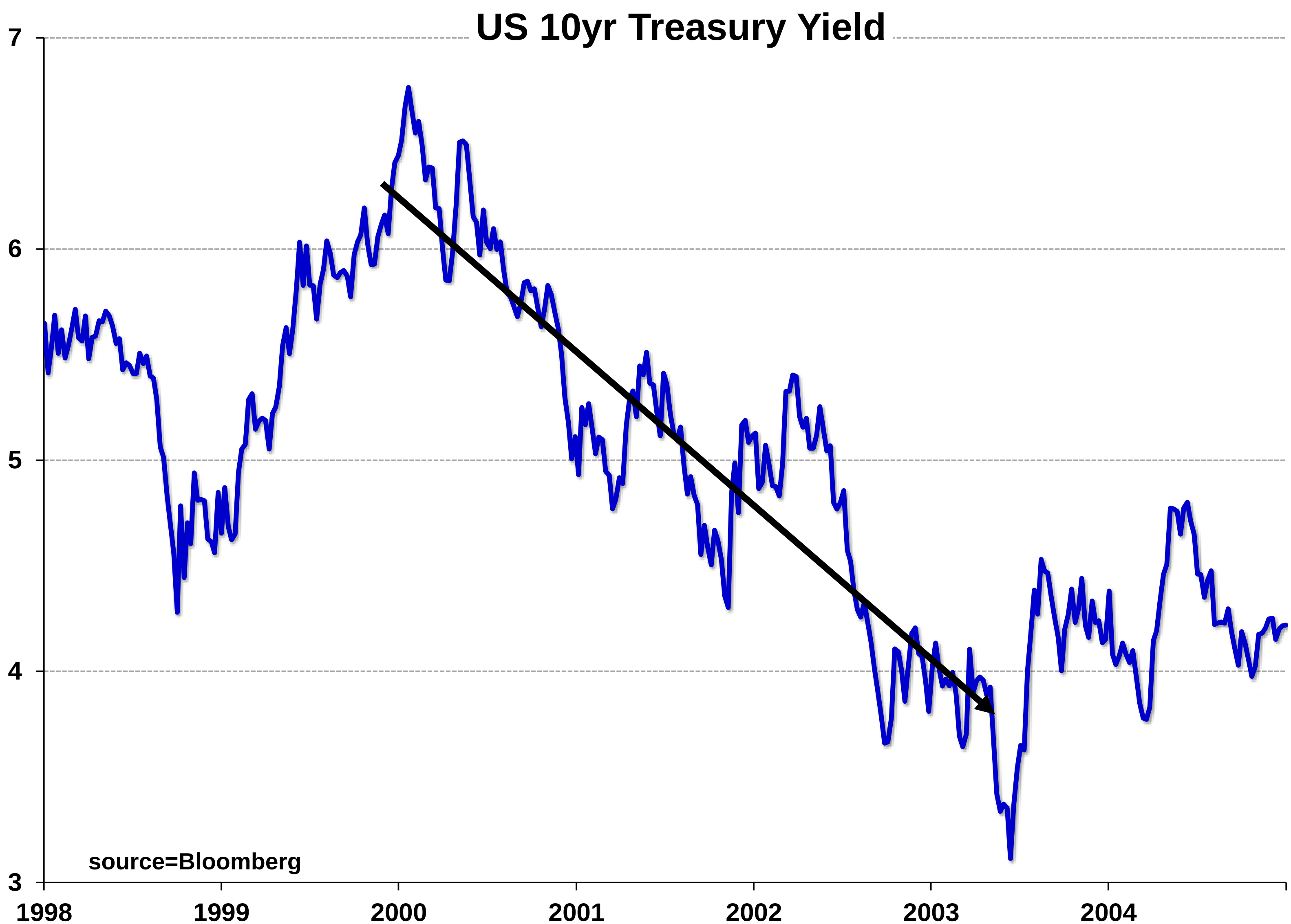
A look at the data since 2010: Dow/Gold now turning lower as speculators begin unwind of 2nd biggest bearish positioning in the ‘safety assets’ of Gold and Treasuries.



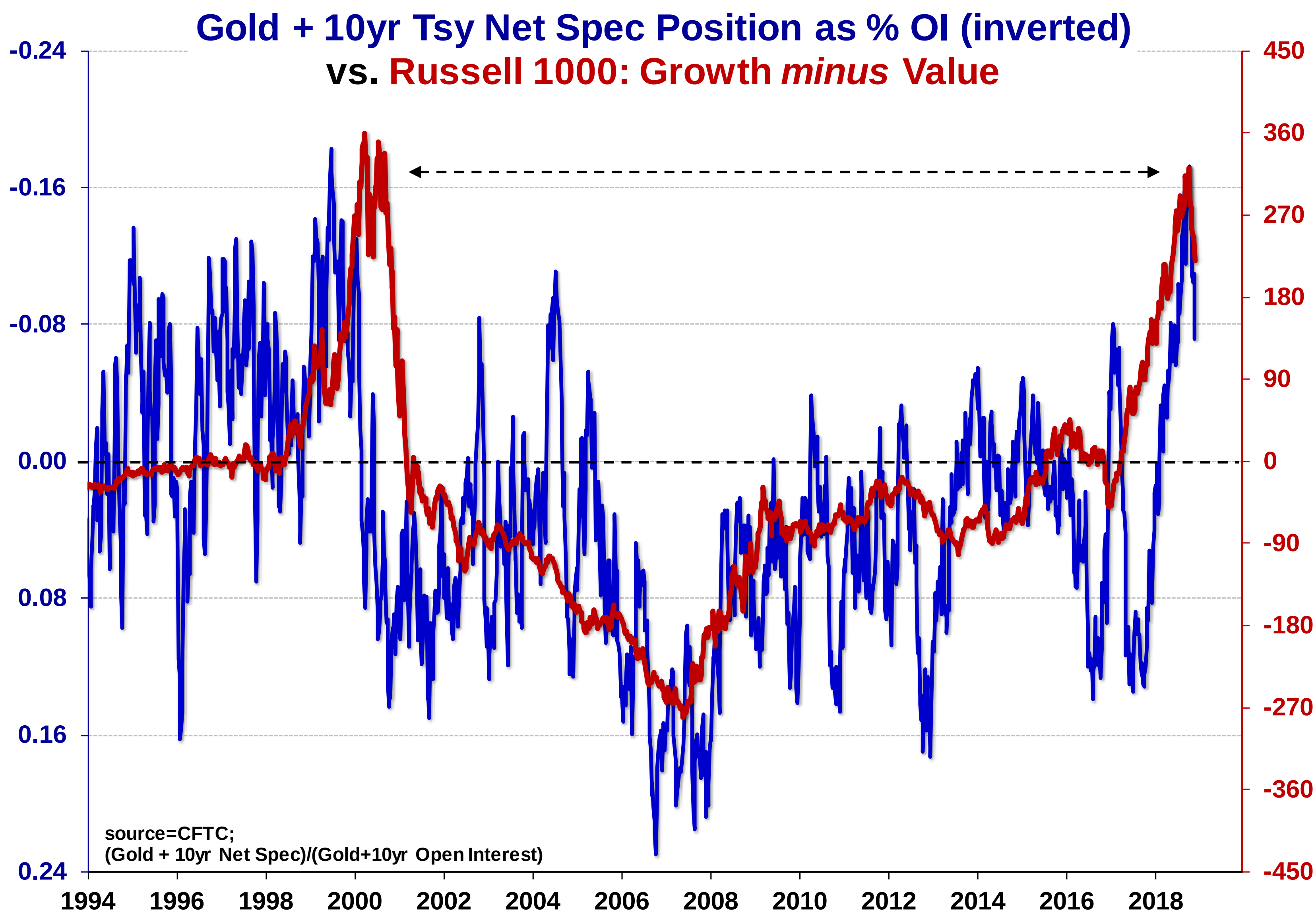
If past is prologue, stocks may perhaps have some life left in them in next couple months before entering a several year downturn. Chart: a closer look at how it played out in 1999…Gold bottomed early September 1999 then spiked +27.5% as 15 European Central Banks announce 5yr moratorium on reserve Gold sales; the Dow peaked in early January 2000.



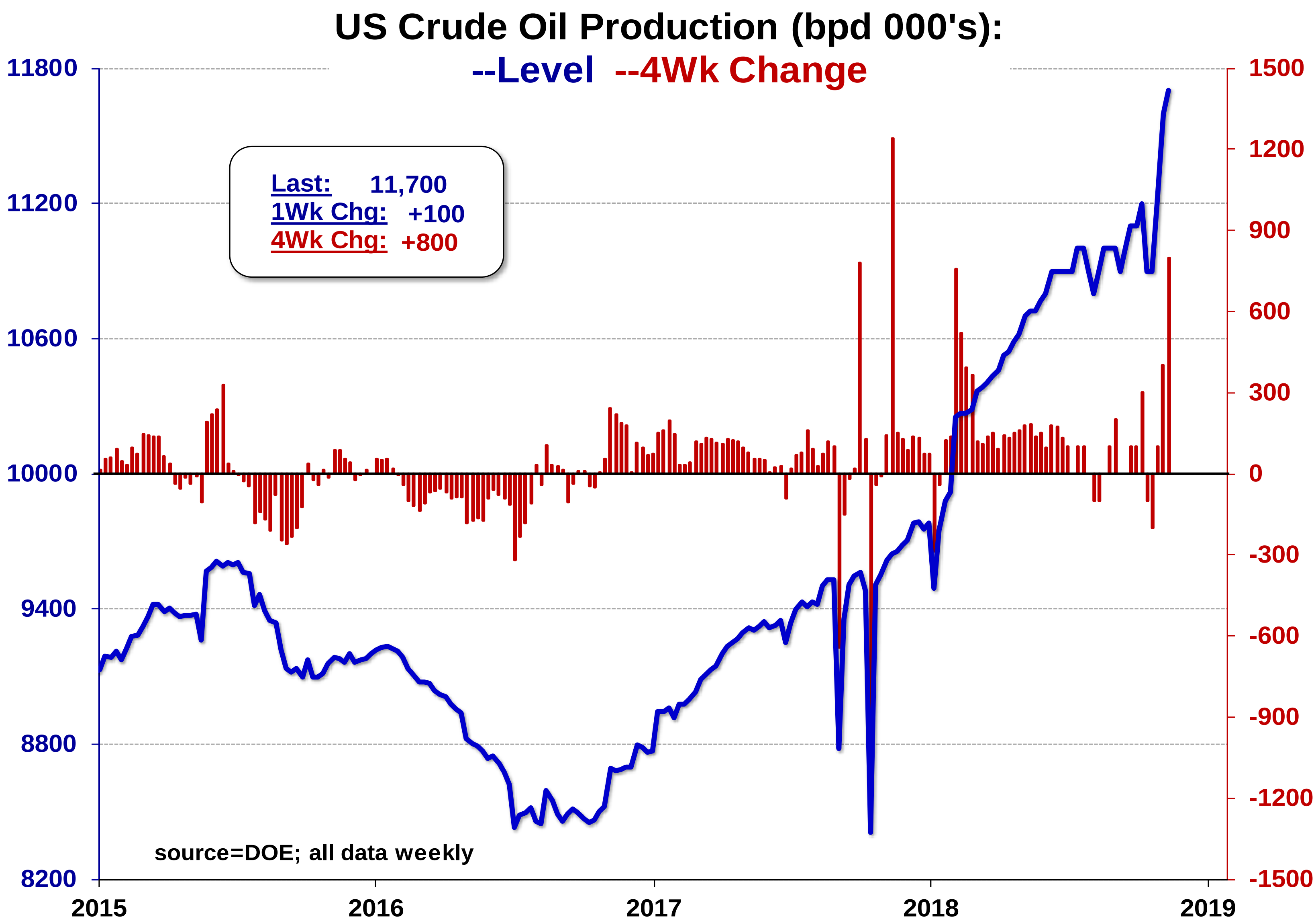
A look at 10yr yield over the same period



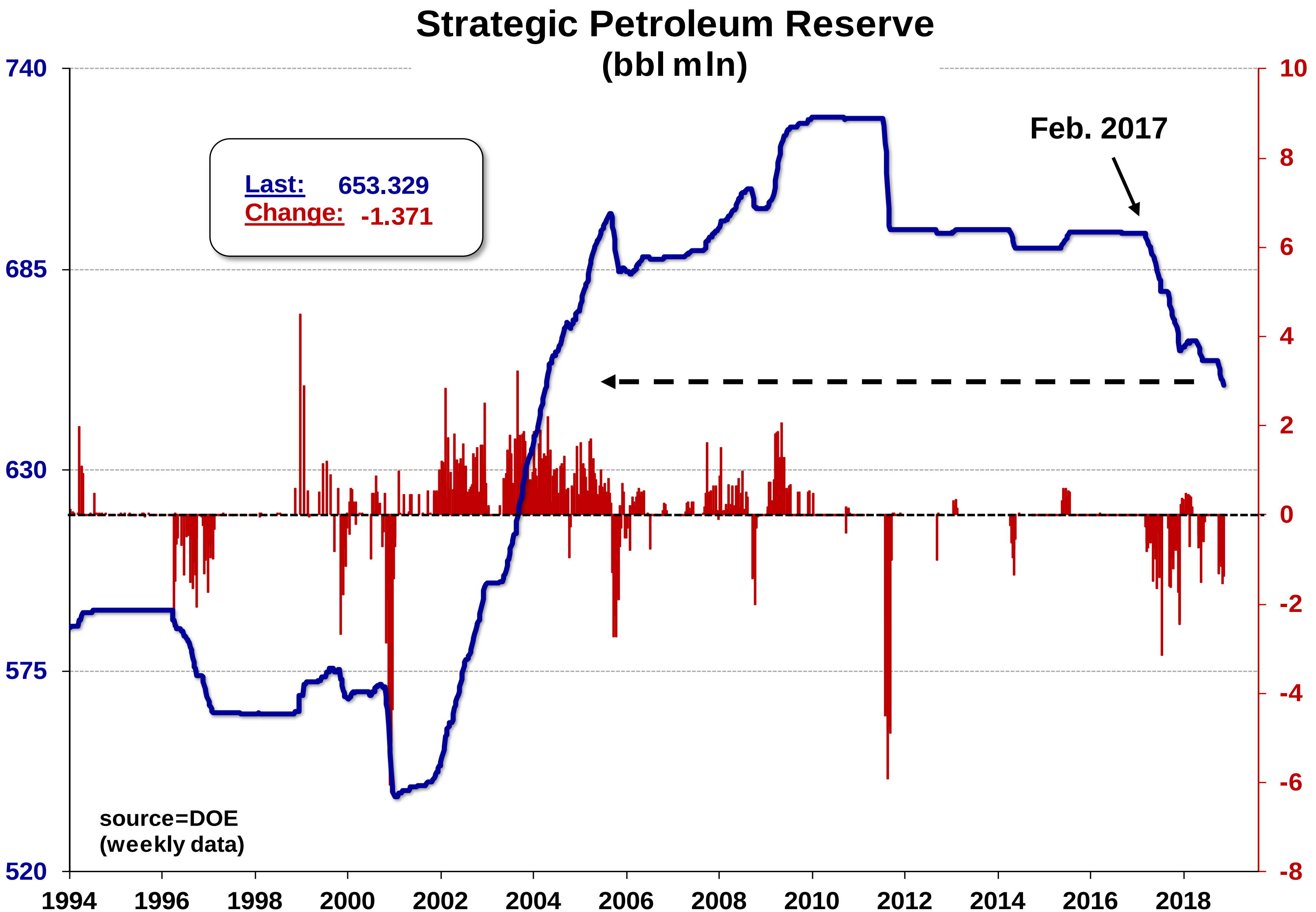
The setup also suggests favoring Value vs. Growth stocks going forward.
Chart: **Growth-Value gap touched 2nd highest level on record at end of September.**



Oil continues lower as US Crude Production hits highest level on record



In addition to record high production level, weak domestic oil & gasoline demand and global growth fears, sales from US SPR stockpile continue: barrels in reserve now at lowest since April 2004, down -42mln+ barrels since February 2017 (an average of 475k bbl reduction per week for last 88 weeks).



SPR sales since 2017 have acted to offset declining crude oil inventories and rising prices. As the chart shows, inventories began to rise starting Sept. 14 of this year, yet oil did not turn lower until about 4 weeks later just as SPR sales resumed (per DOE announced drawdown for FY 2018 beginning in October; see here for more: https://www.spglobal.com/platts/en/market-insights/latest-news/oil/082018-sale-of-11-million-barrels-from-us-spr-by-december-may-cushion-iran-sanctions-impact). SPR release no doubt playing a role in Oil's slide as we now have record production, rising inventories *AND* continued SPR sales.

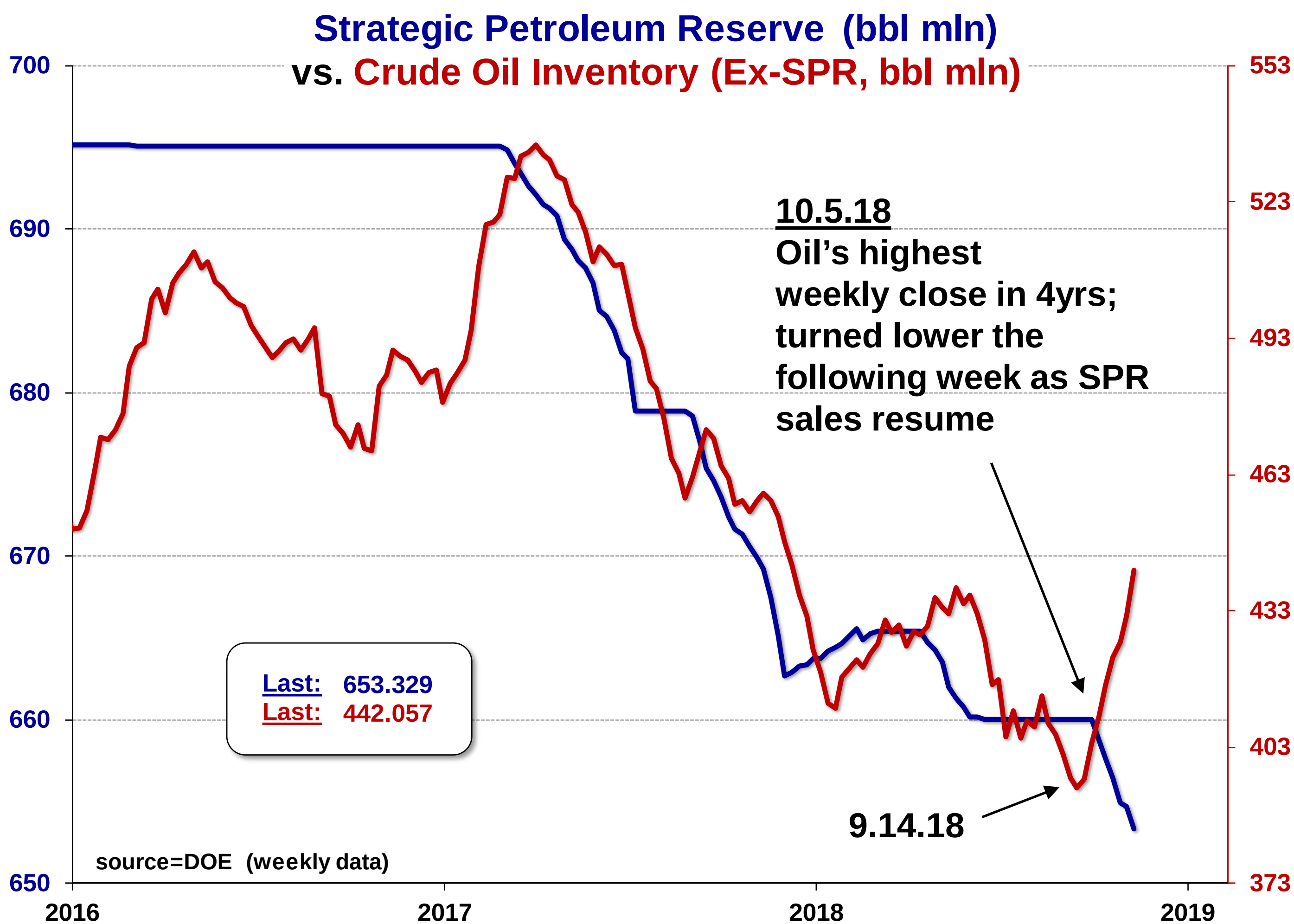
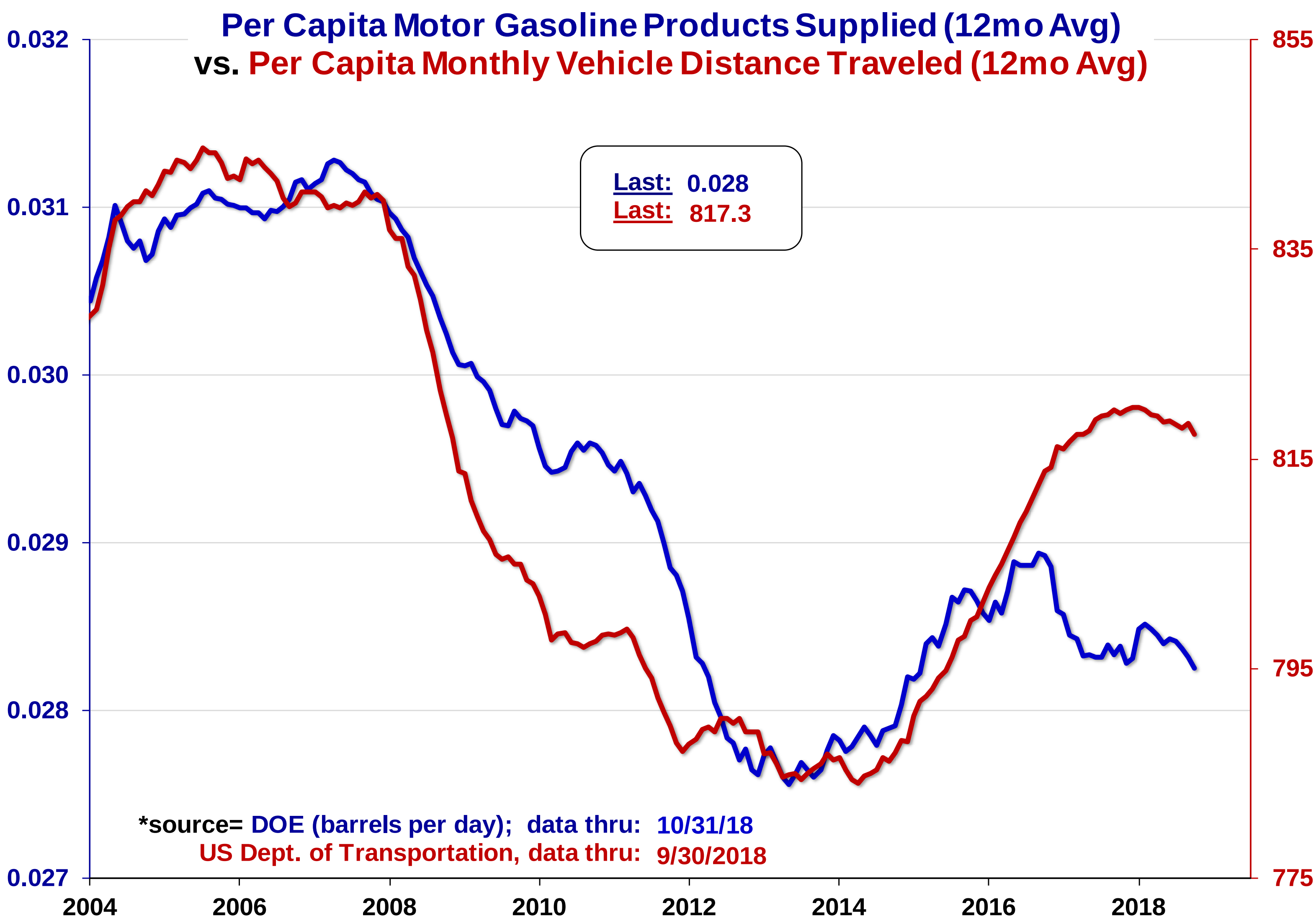
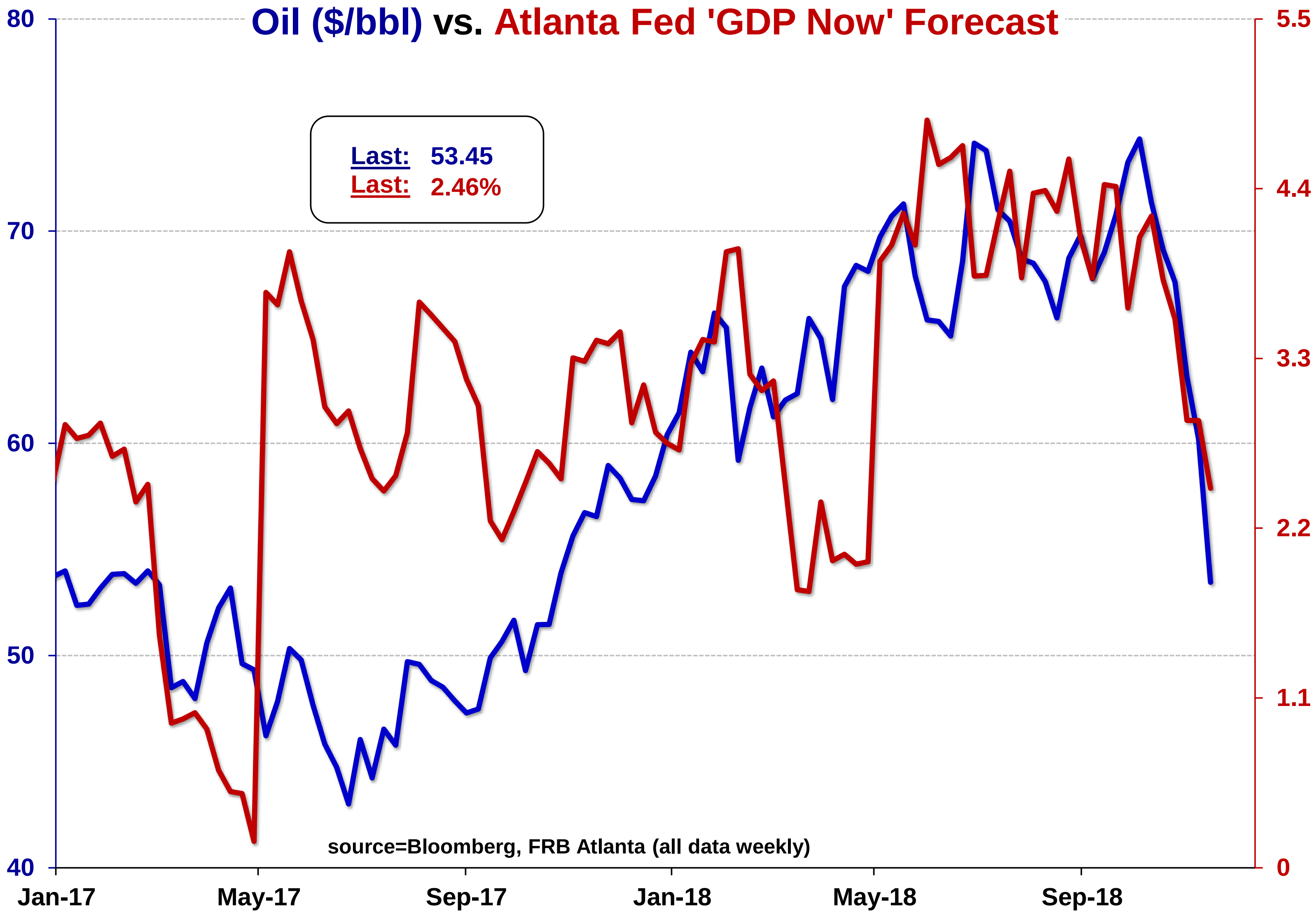


Chart: motor fuel demand in retreat as average driving distance also rolling over (now in negative y/y territory). Not exactly what you would expect to see in a strong economy.

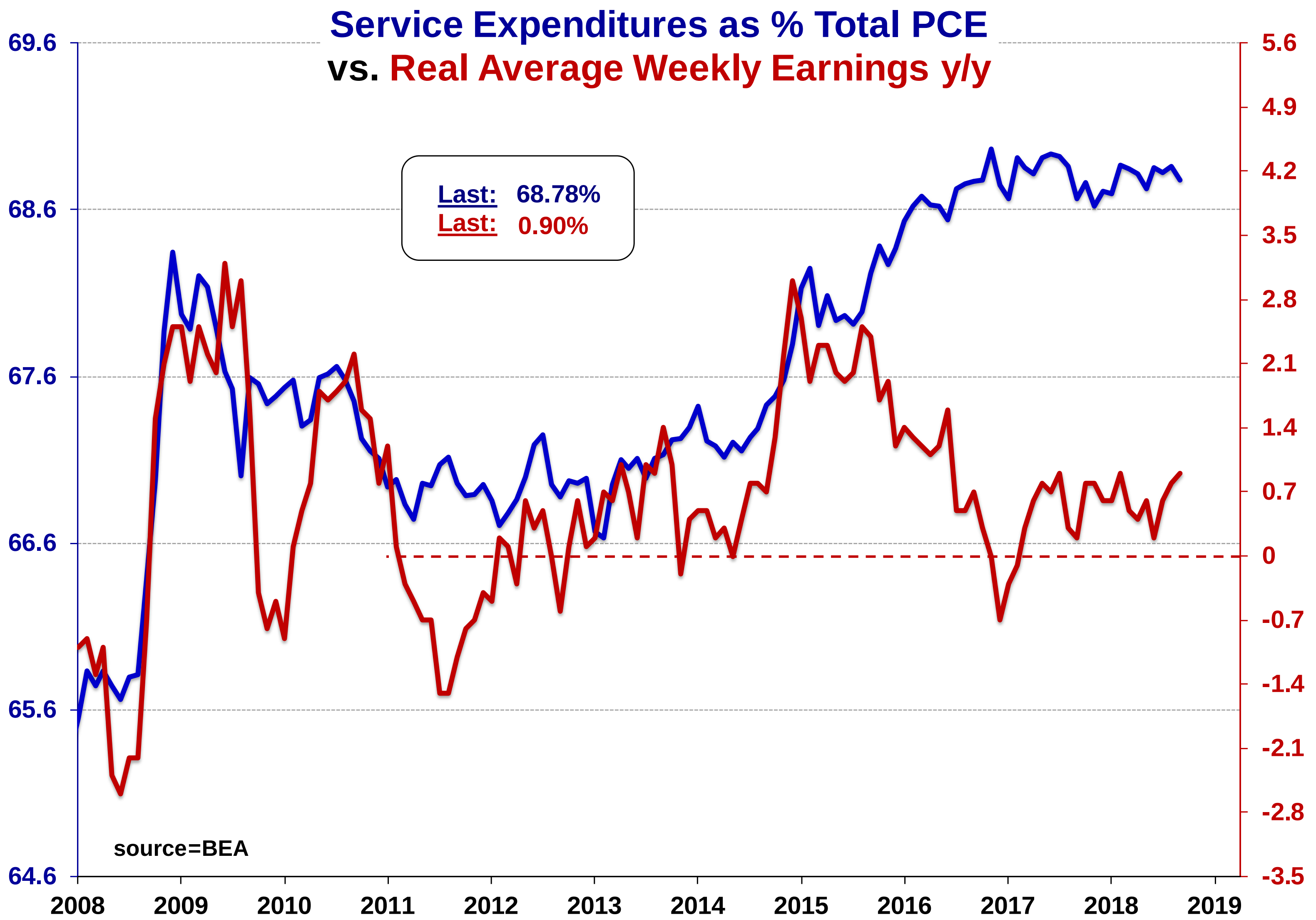


Should oil continue lower, it won’t be long before Atlanta Fed ‘GDP Now’ hits 2% (or below)

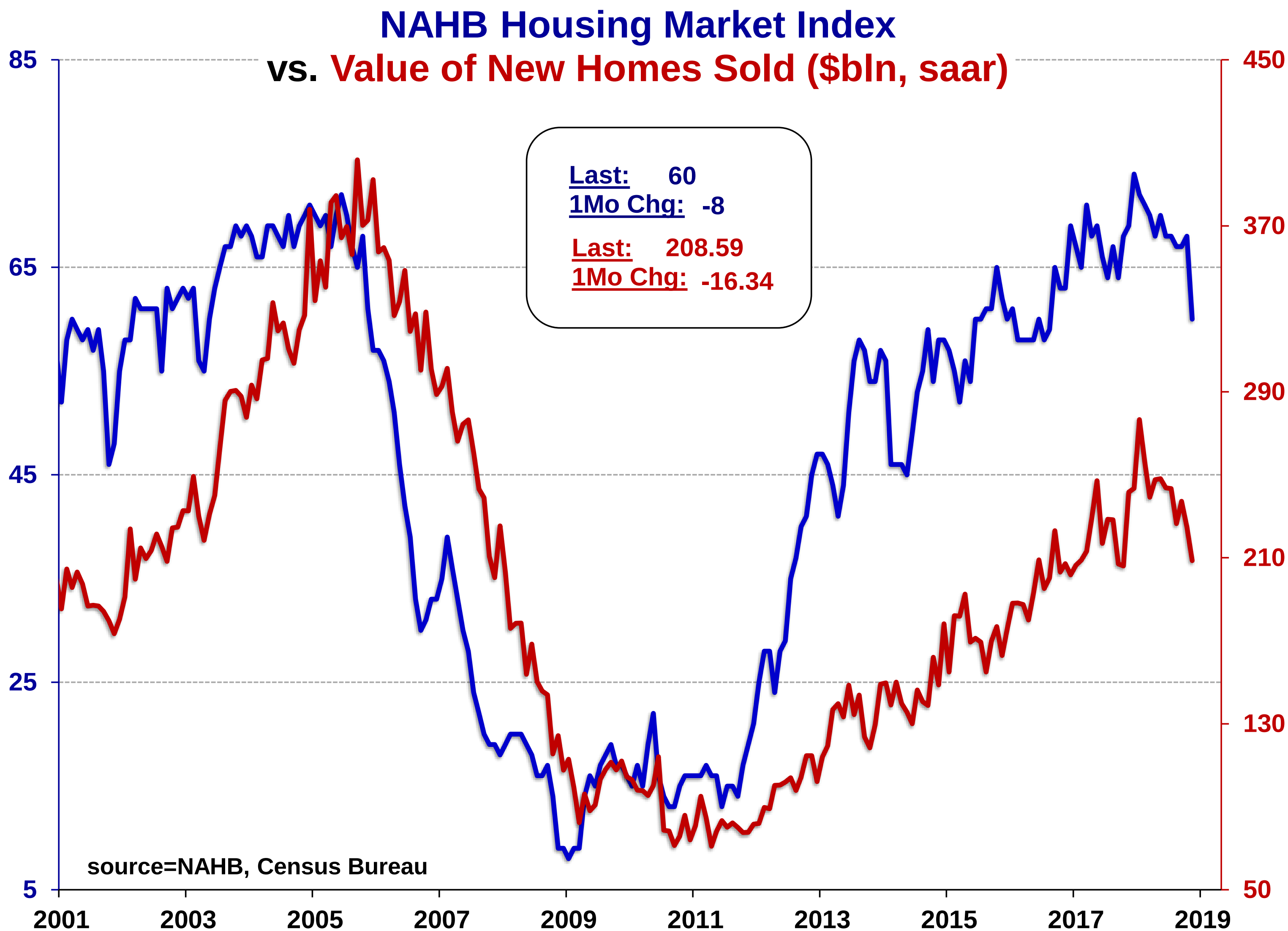


Along with latest CPI update, we find REAL Earnings rise +0.1pt to +0.9% y/y (September revised lower from 1.1% y/y to 0.8% y/y). These are fairly weak readings, with **not a single print above 1% y/y since July 2016**. However, Energy prices are coming down so this will certainly benefit consumers to some degree.

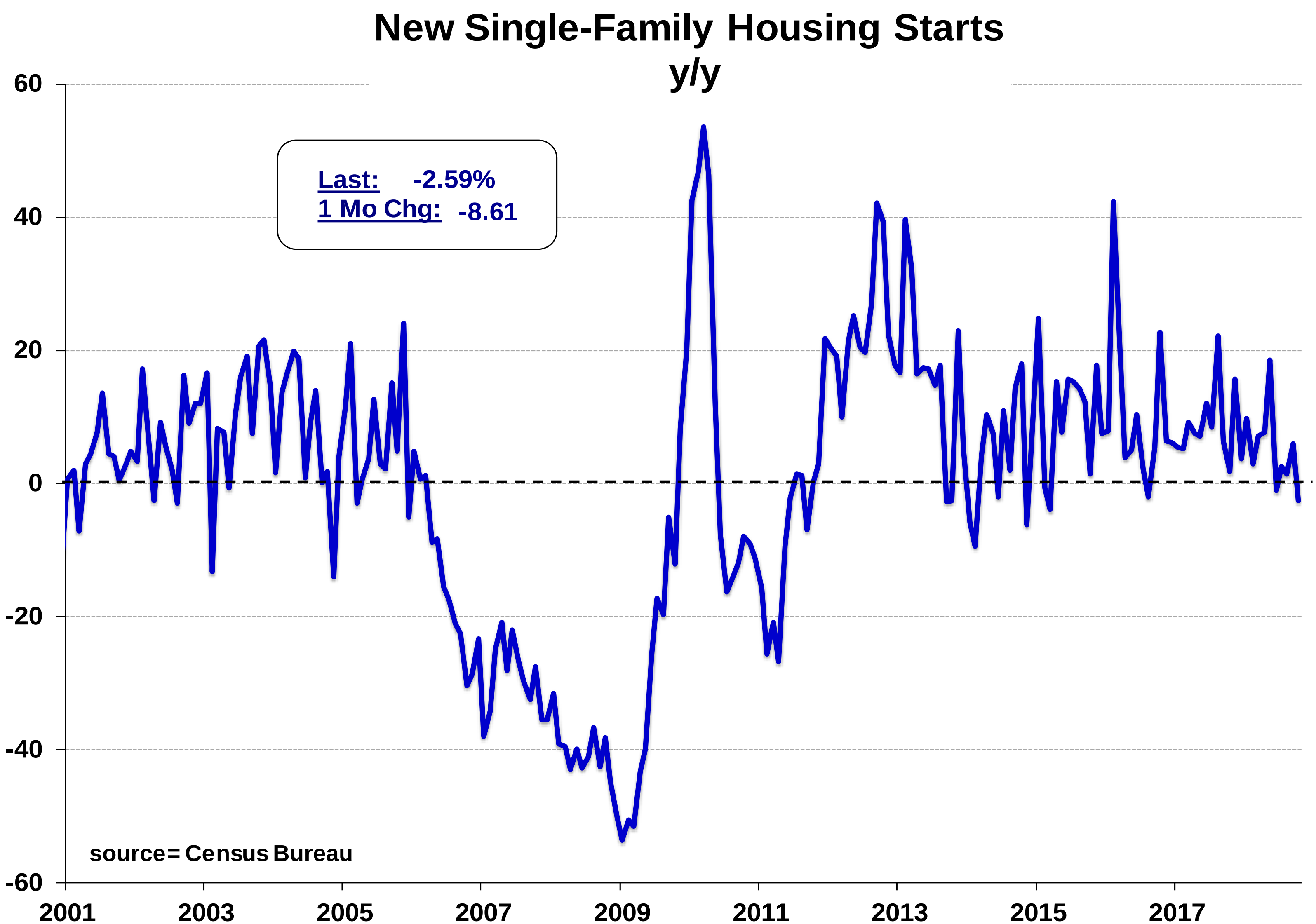
Mandatory spending on Services (housing, utilities, health care, insurance, etc.) remain the biggest headwind to consumer ability to spend on other things, and to save. Lack of significant Real Wage growth to help absorb these costs is certainly not helping matters.



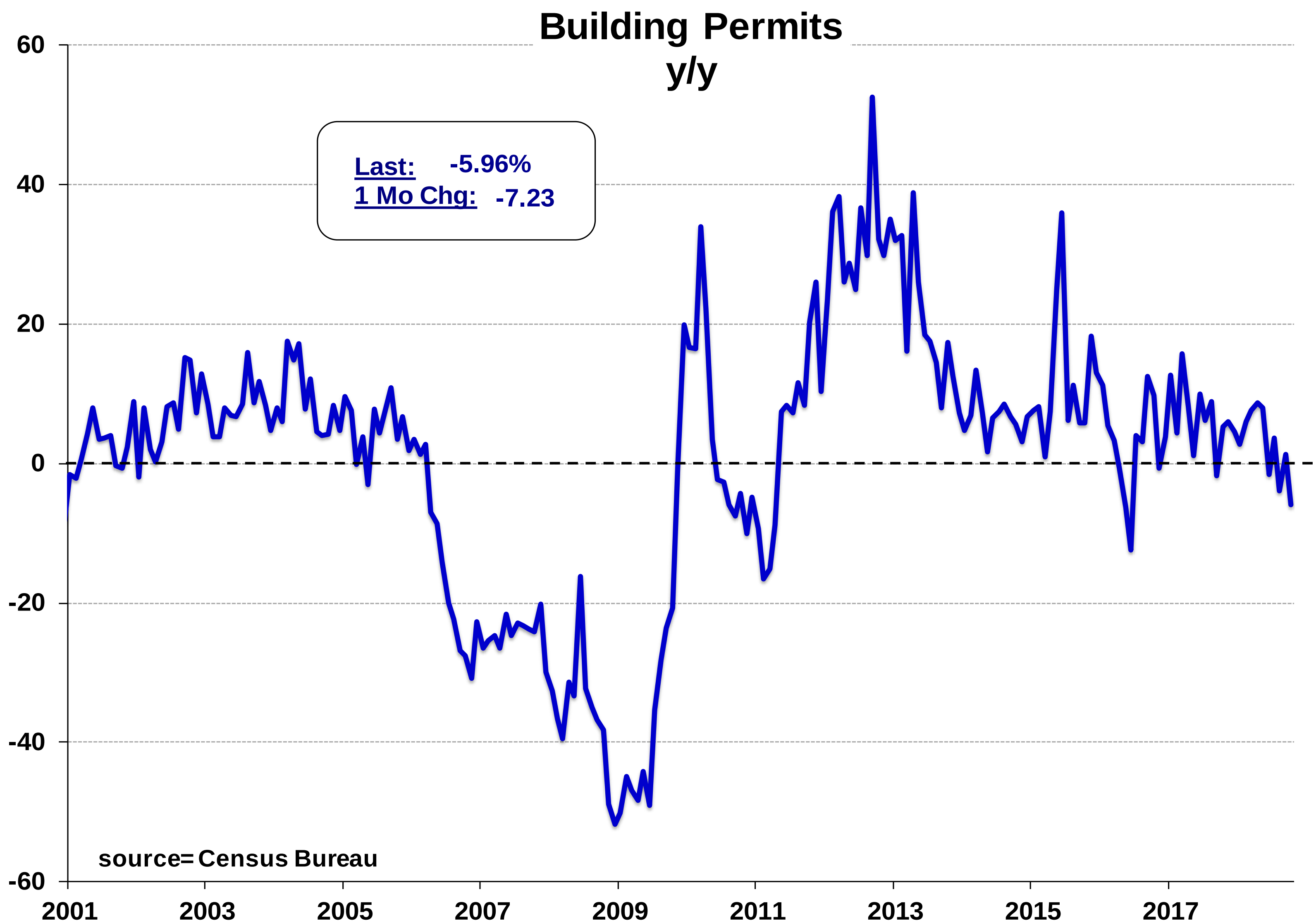
As noted in our latest Real Estate update, Homebuilder sentiment was sure to follow home sales lower…and so it has: **NAHB sentiment index tumbles -8pts to 60 vs expectations of -1pt drop to 67**.



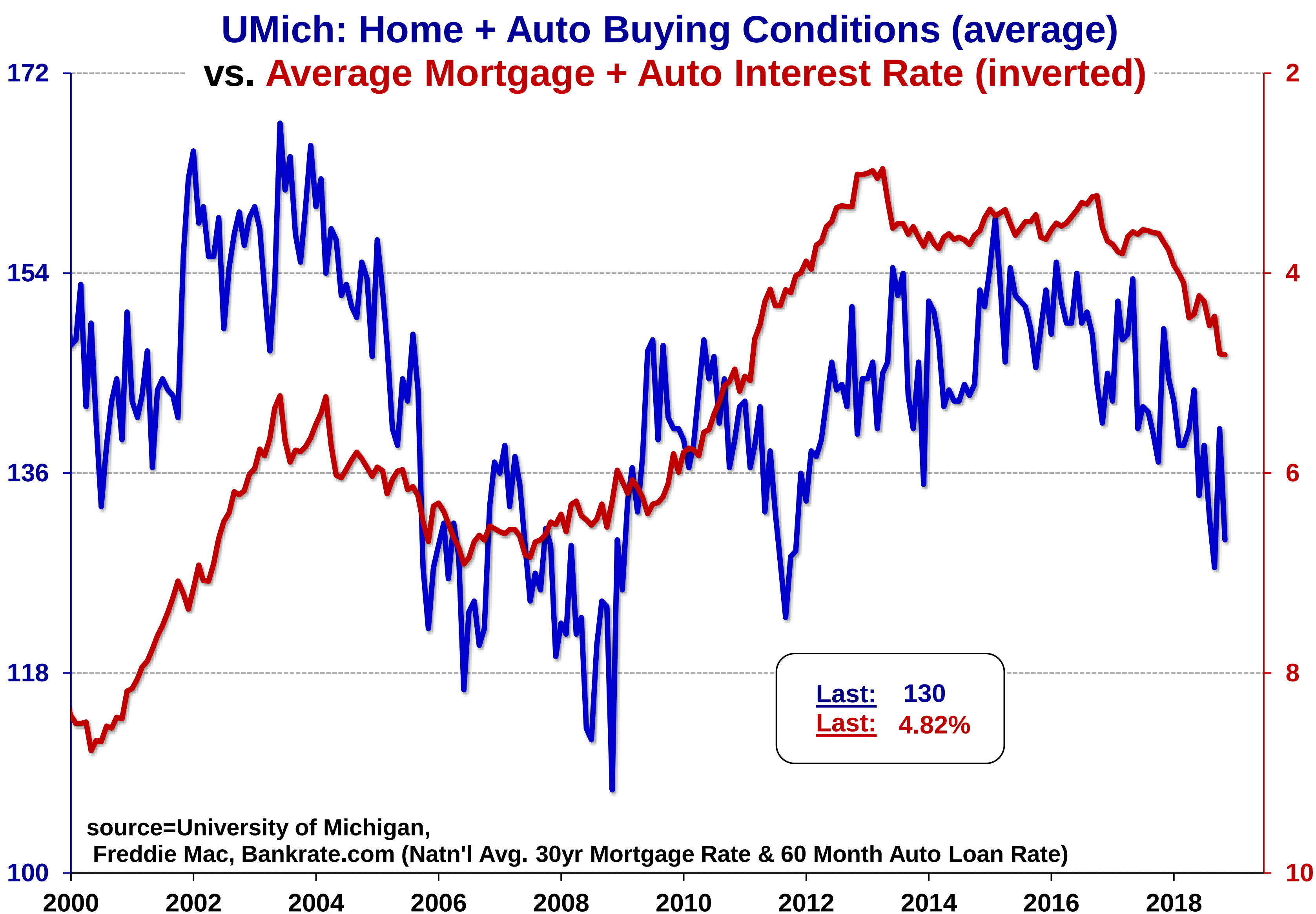
Housing Starts data continue to weaken:. Single Family Starts drop -8.6pts to -2.6% y/y



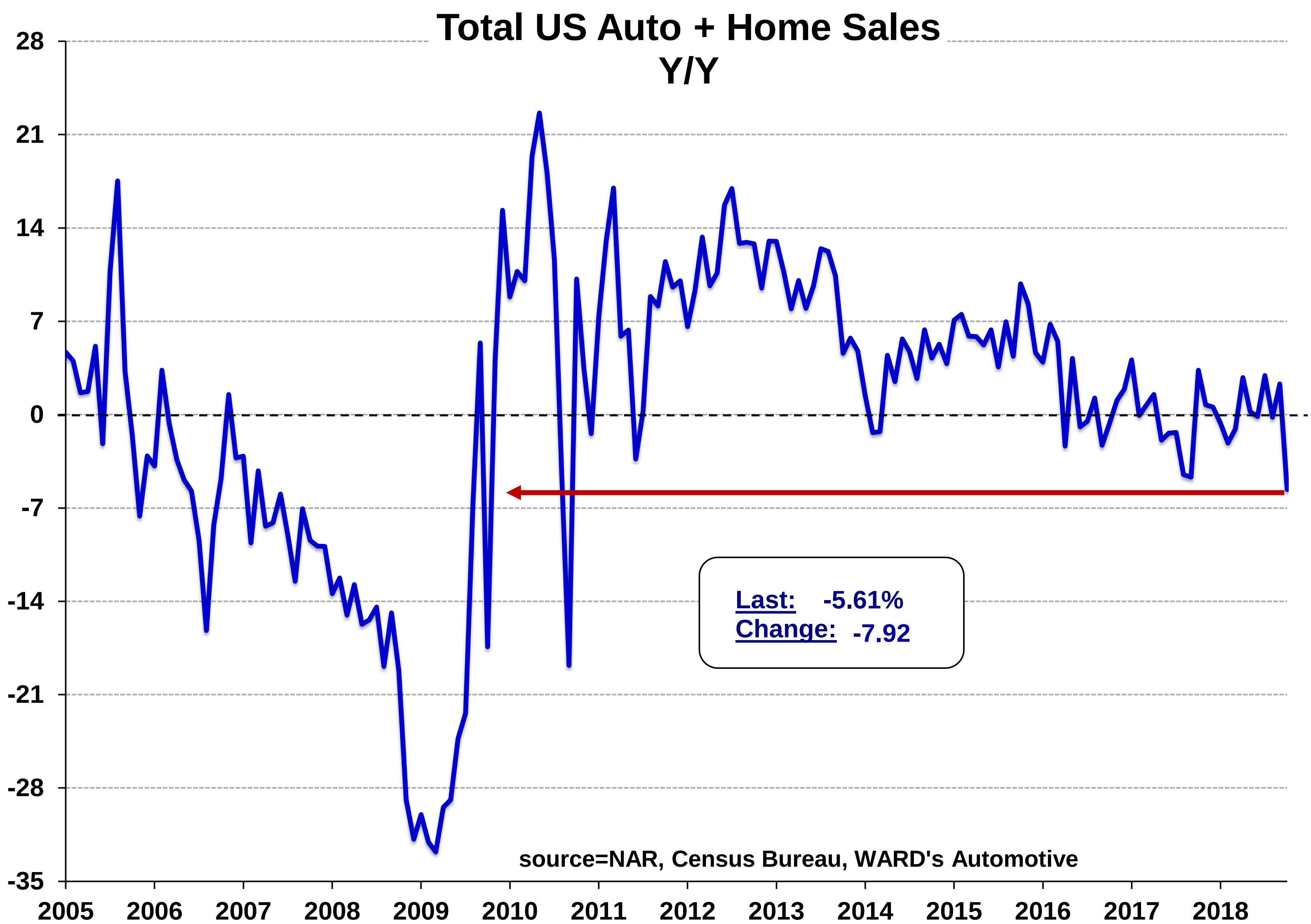
Building Permits also weakening: **-7.2pts to -6% y/y...one of lowest readings since the recession**



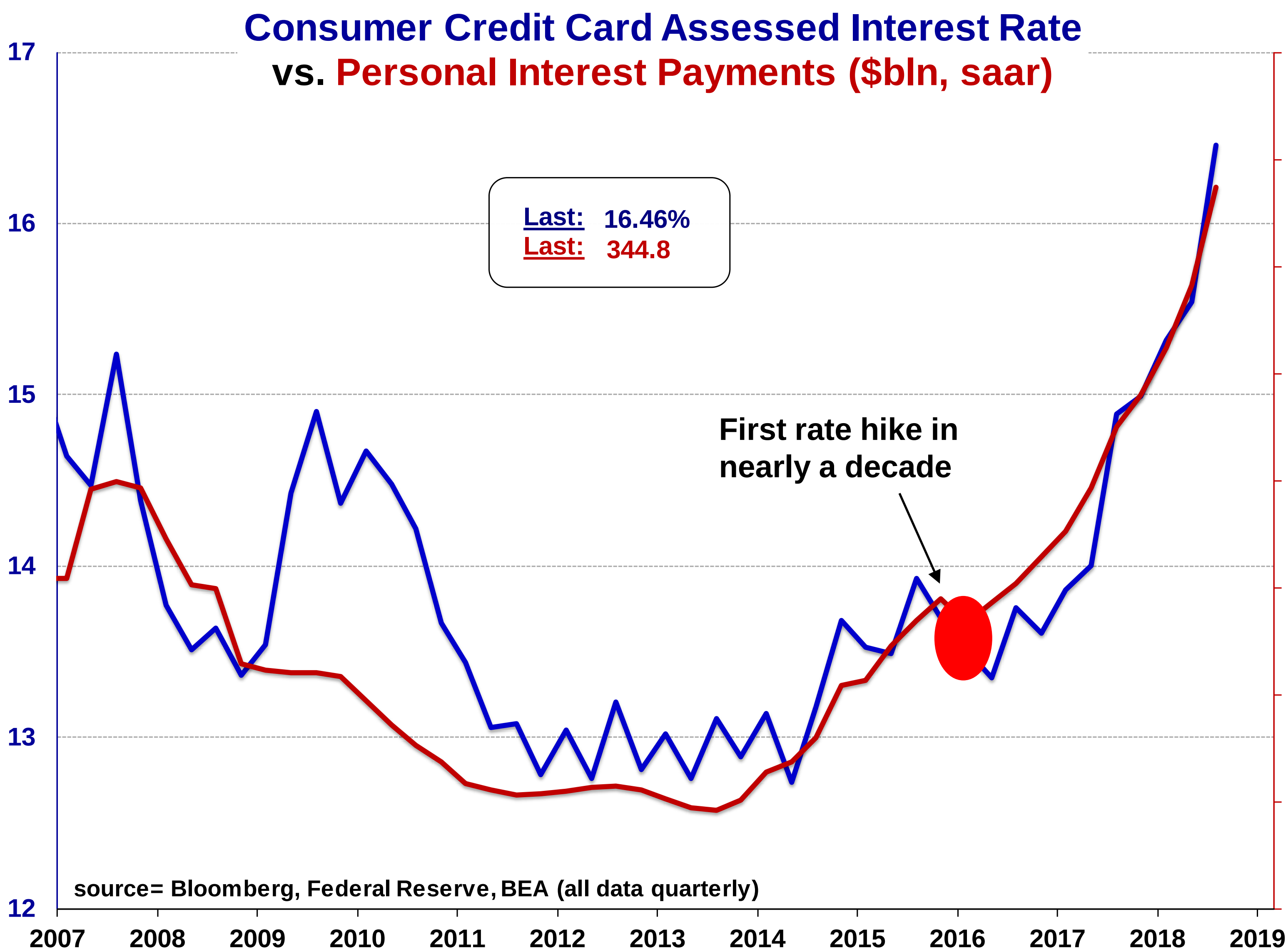
Home & Auto Buying Conditions in retreat as interest rates rise



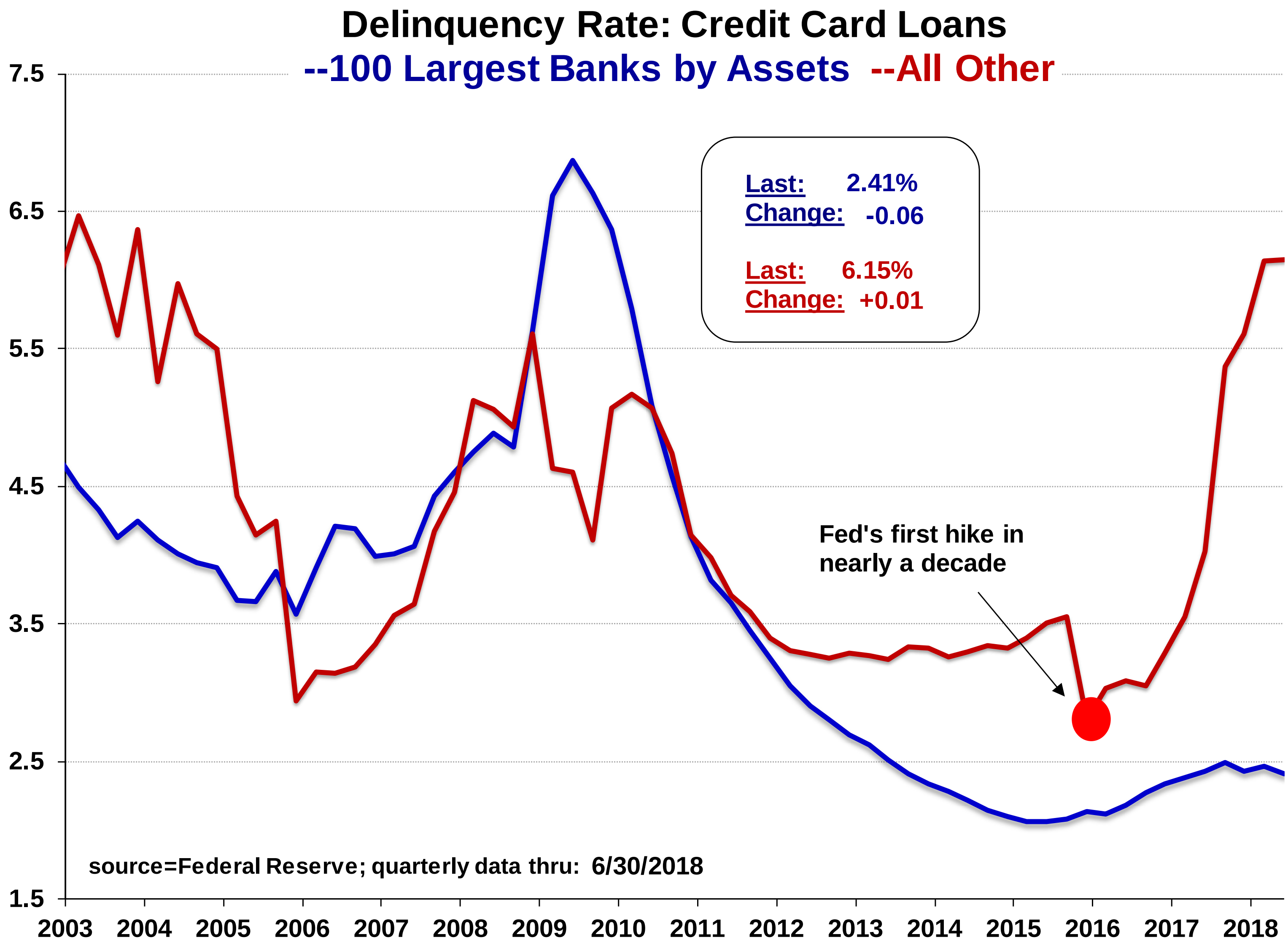
Total Home + Auto Sales: lowest y/y print since the recession



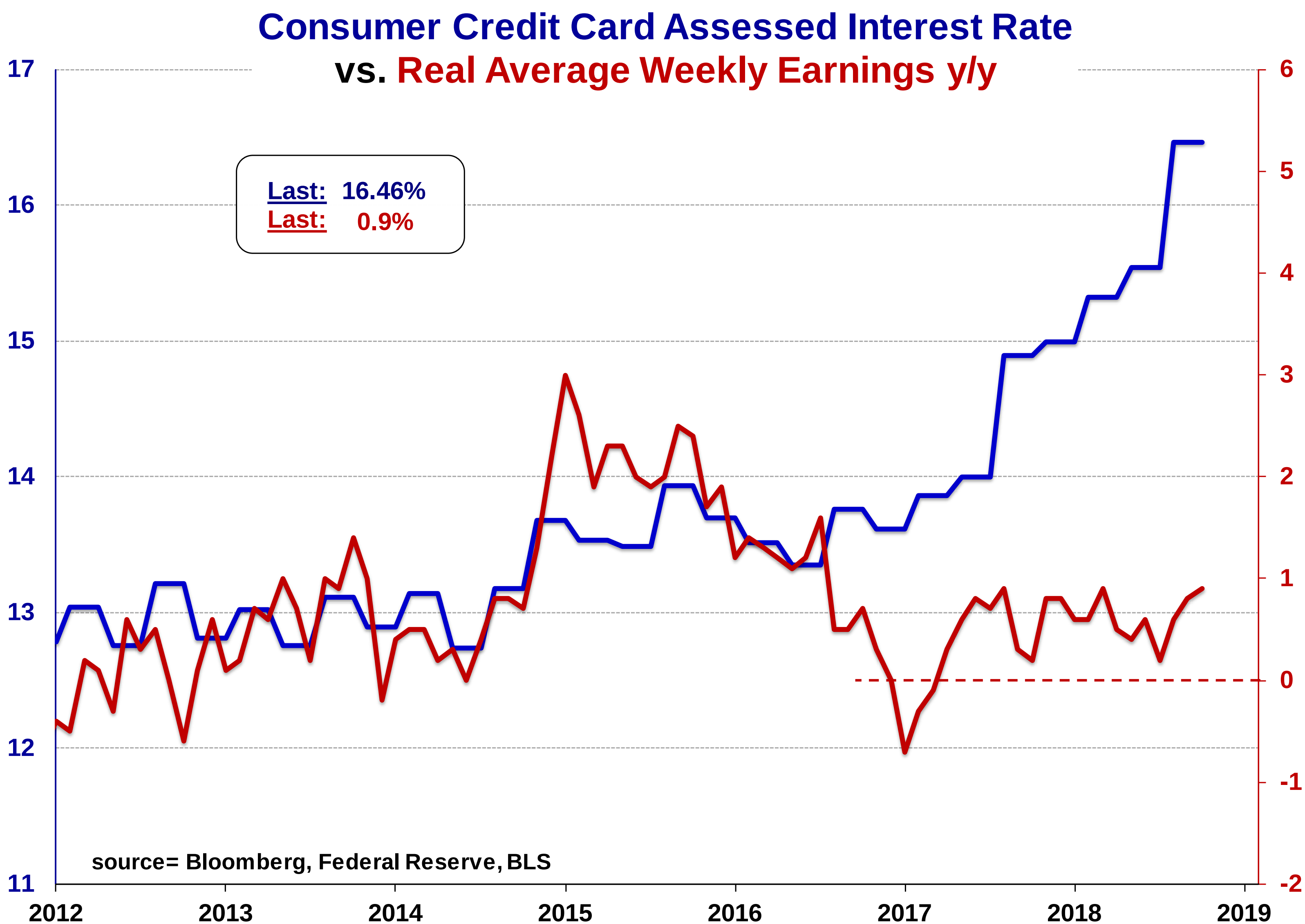
Spike in Credit Card interest rates is sending Personal Interest payments skyward. Consumers are the first to feel the pinch from higher rates as variable rate debt essentially moves in lockstep with Fed Funds Rate.



Rising Credit Card interest rates have led to a spike in delinquencies at smaller US banks (4,705 banks as of Q2) with high levels of poor credit borrowers. As one might expect along with rise in delinquencies, the Charge-Off rate has spiked to highest level since the financial crisis at 7.8%.



Rise in Credit Card Delinquencies and Charge-Offs not surprising as interest rate rising much faster than real wage growth



We'll end this week's roundup with this beauty:
Total US Unfunded Pension Liabilities are bigger than the world's 3rd largest economy. Nothing to see here.