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Your eyes and ears on the markets

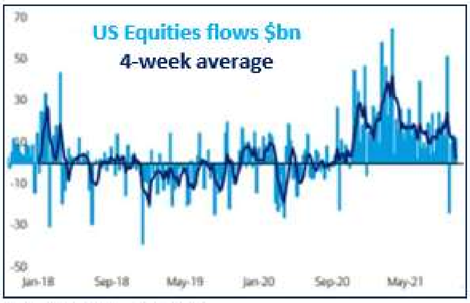
October 18th 2021

CLEARER VIEW

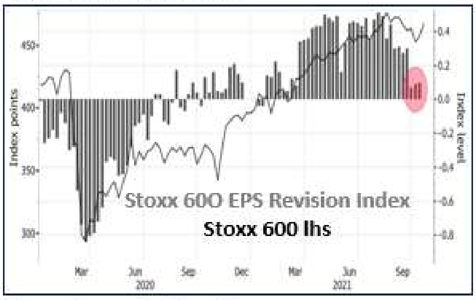
Last week's rally was all about the US banks' striking earnings. However, only 8% of the S&P 500 companies have reported so far, and we should have a clearer (and more realistic) view of the current background this week (with 15.6% of the S&P 500 companies set to report). Forget therefore the stronger data published last Friday, with (until now) 82% of the S&P 500 companies beating EPS estimates versus 66% on average (and 85% in 2Q21) + the 3Q blended S&P 500 EPS now expected to be up +30% versus +27.5% a week ago. These figures mean nothing so far (or at least they require confirmation), as explained last week.

S&P 500 EARNINGS + US EQUITY FLOWS + STOXX 600 EARNINGS

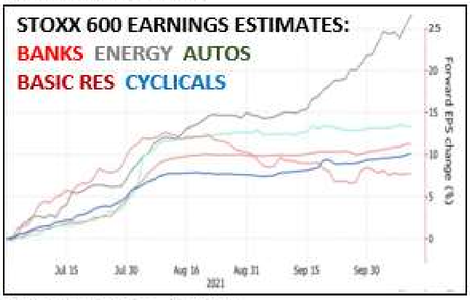
Source FactSet - **Chart 1**



Source BOA - **Chart 2**



Source Barron's - **Chart 3**



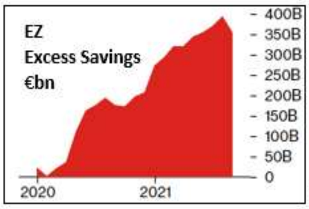
Source Barron's - **Chart 4**

The improvement in S&P 500 EPS growth only results from the banking sector indeed (chart 1), and it cannot be extrapolated to the other sectors & the rest of the season. The story is similar in Europe, as the slight rebound in EPS estimates over the very past weeks (chart 3) is only due to the energy sector (chart 4) while, whether in the US or the EZ, the combination of both sectors' weightings (financials + energy) does not exceed 15% of major indices.

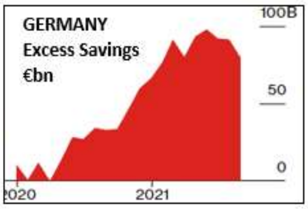
Meanwhile, US banks published their earnings at a time when investor sentiment was low (and positioning was defensive) as witnessed, among others, by the recent drying up of equity inflows (chart 2). Hence the rebound/short squeeze that followed suit, which however now requires to be confirmed (a positive outcome we do not believe in).

Ps: so far in the UK, profit warnings for 3Q have almost tripled versus 2Q with the consumer staples sector as the first victim, due to much higher costs.

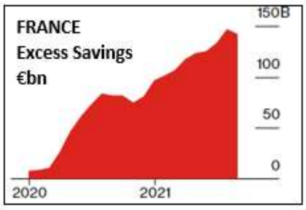
EXCESS SAVINGS (US & UK & EZ) + US PERSONAL INCOME



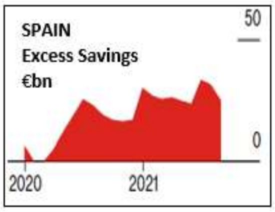
Source Bloomberg - **Chart 1**



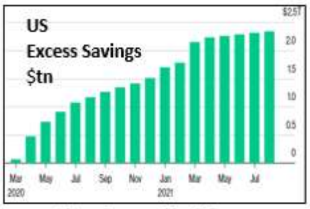
Source Bloomberg - **Chart 2**



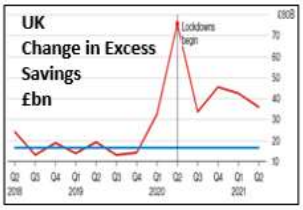
Source Bloomberg - **Chart 3**



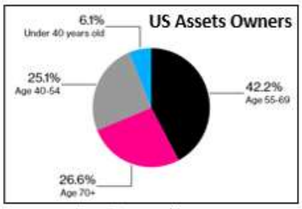
Source Bloomberg - **Chart 4**



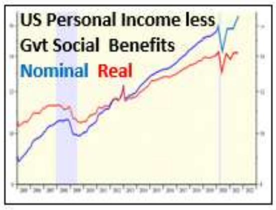
Source Bloomberg - **Chart 5**



Source Bloomberg - **Chart 6**



Source Bloomberg - **Chart 7**



Source Yardeni - **Chart 8**

The main arguments of the bullish camp are based on the following ideas: inflation & supply chain matters are temporary + massive excess savings (which today amount to $2.7tn, Europe & US combined) are still to be spent + inventories will have to be rebuilt + strong household & company balance sheets will allow to cope with higher energy prices. And these elements would easily balance the drag stemming from tighter fiscal & monetary policies.

However, so far, signs of a comeback of the savings accumulated during the covid crisis into the economies have been very subdued (charts 1 to 6), and this speaks against hopes of a consumption-fuelled economic growth in DM next year. Three factors (that we already evoked) are weighing: 1) as household real income is now stagnating (chart 8), expect them to remain cautious, especially as long as inflation is biting, 2) consumer mentalities/preferences may have changed post-covid (with a lower focus on rampant consumerism) then 3) as shown on chart 7, the ones who enjoyed the most the increase in savings (the wealthiest + the elders) are not the ones who need to spend the most (the youth + the low incomers + the minorities).

In the end, the current excess in savings is undoubtedly a buffer, and it is at the root of the massive inflows into equities since March 2020. However, it does now warrant strong GDP growth in the future, while any savings depletion to the benefit of consumption should immediately lead to equity outflows.

CHINA A 50 FUT – DAILY

Source Trading View

We like what we see. Any break down through the key support would/will confirm that a downwave 5 is now under way within the decline since high of mid-February.

COPPER FUT – DAILY

Beware the copper which, after 5 months of sideways consolidation, is getting ready to resume its uptrend. Much higher levels should now be in the cards, as long as the support levels above hold.

EUROSTOXX FUT – DAILY

We don't know whether five uplegs are set to develop for the moment since the bottom of the beginning of October but, in any case, we will stick to our negative bias (based on the idea that the overall rally since October 2020 is over, suggesting that a larger setback is set to develop on the downside). Meanwhile, at this stage, any reversal below the top of "wave 1 or a" would start to look bad.

DOW JONES FUT – DAILY

Same comment than on the Eurostoxx.

Ps: graphical analyses made last week on indices such as the S&P 500 + the Nasdaq are unchanged and still valid.