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*Your eyes and ears on the markets*

October 25th 2021

# BACK TO THE BAD OLD DAYS

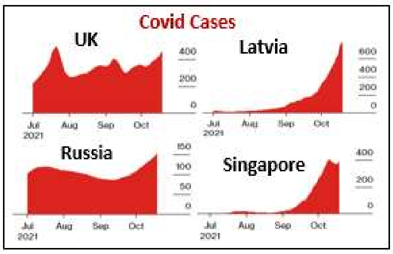
So far, Wall Street has been able to climb against a wall of growing worries, thanks to the first series of 3Q earnings reports + continuous inflows.

Meanwhile however, the fundamental background continues to worsen with, among others, the comeback of labour unions (following a decades-long decline) which increases the risk of higher corporate input costs + strikes/stoppages that would slow production and push consumer prices up. We could also add the threat of Covid resurgence with delta plus variant + winter nearing in the Northern hemisphere. Not only are countries such as Latvia (given its too low vaccination rate) and Russia already impacted, but China is now also concerned (with three districts falling victim to new covid outbreaks) while the country's zero-tolerance policy could further exacerbate the supply chain issues.

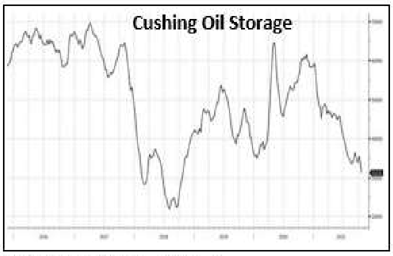
The list is so long unfortunately, leaving a sour taste of bad old days, and it is happening when the world is slowing down + while crude inventories/Cushing storage are low in the US + whereas Powell confirmed (at last!) that tapering is granted + etc. In spite of strong household & corporate balance sheets, the growing combination of all these factors (that we have been enumerating so often over the past weeks/months) is increasingly calling for caution. We may now enter a long series of vicious circles, following the secular change that is taking shape with, for instance, higher interest rates which will increase the cost of gvt debt servicing + the implementation of a property tax in China that will put an end to 40 years of rising house prices and reshape the business/growth model of the country + etc.

**Not sure that Wall Street will win this tug of war, not sure either which straw will break the camel's back, and not sure when this will occur, but the number of potential culprits/candidates for that purpose is increasing; especially as 4Q earnings guidance have been far from encouraging until now, whereas this week should/will be a real test in the US with the reports of the biggest cap techs + 30% of the S&P 500 companies + 1/3 of the Dow companies.**

COVID CASES + US OIL & DIESEL STORAGE + GERMANY WAGE GROWTH vs CPI
+ US GDP ESTIMATES + ASIA EPS ESTIMATES



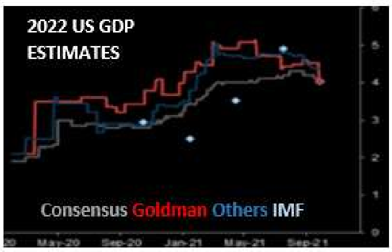
Source Bloomberg - **Chart 1**



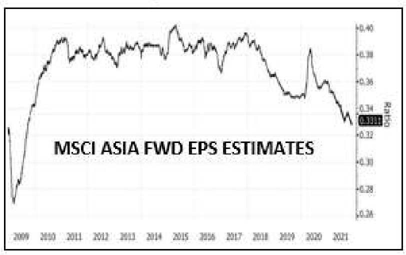
Source Bloomberg - **Chart 2**

Source Bloomberg - **Chart 3**

Source WSJ - **Chart 4**



Source Goldman - **Chart 5**



Source Bloomberg - **Chart 6**

So, covid cases are rising again (chart 1). Fortunately, fatalities are much lower and people are getting used to live with the virus. However, any 4th covid wave in developed regions during the winter would weigh further on economic growth + input costs + bottlenecks; while 2022 growth forecasts + EPS estimates continue to be revised downwards (chart 5 + 6).

Not much is needed in such a strained context to spark off a crisis, and close attention will be paid to the price of oil; in particular when inventories/storage are so low (chart 2 + 3).

Ditto with the ongoing annual salary negotiations in Germany. Despite the labour-market slack (as the jobless rate is still 0.7% above its pre-pandemic level), the CPI increase may lead to less moderate pay agreements (chart 4) while Germany’s minimum wage could be boosted by 25%, with the new coalition that may soon take control of the government.

Times are changing in Germany and, following the departure of Weidmann & Merkel, the focus in the future may be more on an united Europe rather than a balanced budget, with less concerns about gvt debt & inflation (long gone is the memory of hyperinflation of the 70’s and the 20’s), and with the implications this will have on interest rates etc. Hence the secular change we are talking about…

**EUROSTOXX FUT – DAILY**


So, five uplegs can develop since the low of October, but it does not change the overall picture, as drawn above.

## NIFTY FUT – DAILY


Another opportunity to form a top of larger degree is at hand. Possible as long as the key resistance holds, and first confirmation below the 1st key support.

## US HIGH YIELD HYG INDEX – DAILY


Any break down through the support levels above will confirm another decline is under way. Valid as long as the key resistance holds.

**NASDAQ FUT – DAILY**


Three uplegs since the low of October would now be complete, while 3/4 of "wave 1 or A" has been retraced. The US tech index is at a crossroads. Confirmation on the downside below the key support will however be required.

**US BANKS KBW INDEX – DAILY**


We have been strongly pleading for a resumption of the banking sector outperformance. However, following our negative overall view, we were cautious with regard to an immediate extension of the uptrend on a standalone basis. However, we must acknowledge that the sector may now be in for higher levels as drawn above, as long as the key support holds.

***DISCLAIMER:***