



Update

Earnings Kick the Market into Rally Mode

Much of what investors focused on during a flat third quarter remains unchanged. The supply chain remains gridlocked. The volume of the inflation narrative remains at a high pitch. Resident CNBC media personalities and many of their guests continue to press the Fed to hastily employ a shift in *monetary* policy to solve a problem that, with a broken supply chain, actually falls in the bailiwick of *fiscal* policy makers and the White House. There we find the legislative process stalled, with rumors of the National Guard being deployed to offload ships offering the only hope of averting disappointment for the Holidays. However, what has changed is the direction of the equities market and we have earnings to thank for that.

The earnings season kicked off last week, pushing the broad market into Rally Mode. Stocks have advanced across the board on impressive Q3 results, even though accompanied by less-than impressive forward-looking guidance. That was expected for many bell-weather companies that lead the averages. What wasn't expected was the marked advance of the S&P 500, led by the Financials, Tech, and Industrials, that took the index to a new record intraday high on Thursday. All sectors have registered positive returns for the month-to-date despite a few stumbles from some notable companies. Among those were Boeing, Disney, Netflix, IBM, a few cruise lines and selected air travel companies.

We're looking for the trend in earnings results to continue. Whether the market continues to reflect that trend as it has the past couple of weeks is another question. We usually see headline risk come to the forefront as earnings reports dwindle and fade. That puts tapering, the supply chain disruption, the paused fiscal policy/infrastructure initiative, and Fed Chair Powell's reappointment among the "noise" items that could dampen investors' enthusiasm in the next few months. Investors should be wary of stagflation concerns overcoming inflation worries. That could trigger a significant shift of investor sentiment. For now, we'll enjoy whatever advance stocks mount from here with a view to rebalance if necessary. Stay tuned.

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