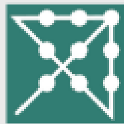

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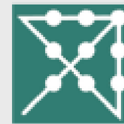

MORNING BRIEFING
November 3, 2022

On Powell, China, Consumers & AI

Check out the accompanying chart collection.

Executive Summary: Fed Chair Powell's hawkish press conference yesterday deflated the stock market, but we think the S&P 500 bottomed on October 12 and see a few potentially uplifting developments to come. … Also: What might it take for the China MSCI to start performing better? Jackie considers this question and examines two big issues holding it back. … And: The shift in consumer purchasing patterns from stuff to services was apparent in the Q3 earnings of companies affected both positively and negatively. … Finally, today's Disruptive Technologies piece showcases the rapidly advancing technology of AI.

The Fed: What Powell Said. During his *press conference* yesterday, Fed Chair Jerome Powell continued to read from the Volcker 2.0 script. His punchline appeared in his prepared remarks: "[W]e still have some ways to go, and incoming data since our last meeting suggest that the ultimate level of interest rates will be higher than previously expected."

During the Q&A portion of his presser, Powell repeated "some ways to go" several times to describe the Fed's path for tightening monetary policy. He also reiterated that the terminal federal funds rate is likely to be higher than suggested by September's *FOMC Summary of Economic Projections*, which showed a median forecast of 4.6% next year.

He didn't rule out smaller rate hikes than the latest 75bps hike, but he did rule out any easing, saying, "The historical record cautions strongly against prematurely loosening policy. We will stay the course, until the job is done." That statement seemed to rule out any pause in rate-hiking anytime soon. The Fed's goal is to "moderate demand so that it comes into better alignment with supply" to bring inflation down to 2.0%. In his Q&A, Powell clearly stated that he isn't convinced that the federal funds rate is restrictive enough yet to do the job.

Stocks sank on Powell's unwavering hawkishness. Nevertheless, we still believe that the S&P 500 bottomed on October 12. We expect that other Fed officials soon will be speaking publicly in less hawkish terms, effectively toning down Powell's hawkishness. We also expect that a red wave in the midterm congressional elections will boost the stock market. Additionally, we think that the inflation indicators to be released over the rest of the year should show more signs of moderating, which likewise should buoy the market.

China: Looking for a Reason To Bounce. China continues to be plagued by new Covid-19 cases and a zero Covid policy that's causing economic havoc. Defaults by its overleveraged developers are piling up and depressing the country's real estate market. Chinese stocks have fallen so far for so long that just a hint that the country might end its zero Covid policy from an unsubstantiated source sent shares rallying recently—until the rumor was debunked.

Here's a quick update on the status of Covid and real estate developers in China as well as a look at what actual developments could send shares sustainably higher:

(1) *Covid continues.* New daily cases of Covid in China have risen slightly, bouncing around 2,000, and the country's zero Covid policy has forced many cities to shut down. The cities of Urumqi and Xining have been under lockdown since August, prompting online complaints by citizens. In Urumqi, more than 210 infections were reported on Saturday, an October 31 *South China Morning Post* (*SCMP*) *article* reported.

In Zhengzhou, a Foxconn Technology Group iPhone assembly plant was operating under strict Covid controls, with daily testing and a ban on dining in the cafeterias after a "small number" of the 300,000 employees on the campus came down with Covid. After some viral social media clips showed workers fleeing the plant on foot with their luggage (in China, factory workers often bunk at work), the factory said it would arrange safe transportation for those who wanted to leave and a clean environment for those who wanted to stay, an October 30 *SCMP* *article* reported. The plant is offering to quadruple daily bonuses to entice workers to stay at the factory through November. The city around the plant is locked down as well.

After one visitor tested positive for Covid, the Shanghai Disney Resort was closed. Nomura estimates that there were lockdowns and restrictions in 28 Chinese cities last week, affecting almost 208 million people and 8.5% of China's GDP, a November 1 Reuters *article* reported.

There are a few signs that the government will slightly ease the zero Covid policy. Next month, priority travelers entering China reportedly will be able to quarantine for just seven days instead of ten under the current policy. There are also reports that the number of international flights will double this winter.

As of mid-October, 90% of Chinese were fully vaccinated, but only 57% had received a booster shot. The country recently introduced a new, inhaled vaccine produced by Chinese company CanSino Biologics that will be used as a booster. It's hoped that the inhaled booster will attract those who are fearful of injections.

(2) *Real estate still sliding.* Covid-19 shutdowns and distressed developers have resulted in real estate prices that continue to drop. In Shanghai, some landlords are offering discounts of up to 20% on high-end rental properties as expats and high-income workers have left the city because of the constant threat of Covid shutdowns.

The average monthly home rent in Shanghai fell 5.6% m/m in September to $14.20 per square meter. Prices may continue to drop because the inventory has climbed to 52,600 flats available for lease, an October 30 *SCMP* *article* reported.

The distress among Chinese developers continues, with the *WSJ* reporting on November 1 that the price of dollar-denominated bonds sold by developers has fallen to new lows. Bonds sold by China Evergrande Group, CIFI Holdings Group, and Country Garden, for example, are trading below 10 cents on the dollar. On Tuesday, CIFI became the latest developer to suspend payments on its offshore debt.

New home sales in China continue to suffer as well, as confidence in the developers and the entire real estate sector has deteriorated. New home sales in China's 100 largest cities fell 28.4% y/y in October to $76.7 billion, the *WSJ* noted.

(3) *Economic activity slows.* Covid, a declining real estate sector, and falling exports have hurt Chinese economic activity. The Caixin/S&P Global manufacturing purchasing managers' index rose slightly to 49.2 in October from 48.1 in September but remained below the 50.0 mark, signifying a slowing of manufacturing activity. The components of the October index were all below 50.0: new orders (48.1), employment (48.3), and output (49.6) (*Fig. 1*). The country's bank loans have also fallen to $30.3 trillion, down from their peak in March of $31.7 trillion (*Fig. 2*).

The China MSCI stock price index continues to reflect country's woes, having fallen 39.0% ytd (*Fig. 3*). But the market has sold off so sharply that it seems ready to bounce at the first indication that anything is about to improve. That became evident earlier this week when Chinese stocks rallied on an unverified social media post claiming that a committee was being formed to determine how to end zero Covid. Chinese shares fell back after Chinese Foreign Ministry spokesman put a pin in the rumor, saying that he's not aware of such a committee, a November 1 Bloomberg *article* reported.

Investors looking for a reason to buy Chinese stocks might want to consider the price of copper, which often foretells economic activity, particularly in China where it's used in construction. The price of copper has been moving sideways after falling sharply in the first half of 2022 (*Fig. 4*). In addition, the yuan has fallen by 13% since its peak in early 2022, which should help the country's substantial export business (*Fig. 5*). And if the government ever announced a looser Covid policy or a large restructuring fund to help clean up its real estate problem, Chinese shares very likely would head higher.

Consumer Discretionary: Buying Services. The notion that consumers have been spending more on services and less on stuff was borne out by last week's economic data releases, and now it's been confirmed by many of the Q3 corporate earnings reports.

Real personal consumption expenditures rose 1.9% y/y through September, with spending on services jumping by 3.1%, while spending on goods fell 0.5% (*Fig. 6*). We need look no further than the recent earnings reports of Amazon, Uber, and Airbnb to see the impacts of this shift:

(1) *No more stuff needed.* Amazon warned last week that sales in the current quarter will miss analysts' expectations. The company forecast Q4 sales of $140.0 billion to $148.0 billion, a y/y increase of 2%-8%. Analysts were expecting a result closer to $155 billion. The company's shares have fallen 12.8% since last week's earnings news, and they're 41.9% lower ytd through Tuesday's close.

Amazon executives said foreign exchange rates would hurt sales by 4.6ppts and noted that consumers' budgets are tight, hurt by high inflation. The company plans to prepare for a period of slower growth by cutting costs. Amazon's disappointing results could also be the result of stiff competition from the likes of Walmart and Target, a October 28 *WSJ* *article* reported. It added that consumers may be more willing to return to brick-and-mortar stores this holiday than they were last year, when Covid was more prevalent. And consumers may spend more on experiences this holiday season instead of buying more stuff if current trends hold through Q4.

(2) *Consumers are out and about.* After two years of being cooped up, consumers are hitting the road, many in Ubers. The company reported Q3 revenue that jumped 72% y/y to $8.3 billion. But management expects growth to slow from here, as y/y comparisons get tougher. The slowdown is apparent in Uber's gross bookings, which are expected to grow 16%-20% in Q4 versus 26% growth during Q3 and 56% in Q4-2021.

Investors were still pleased with the forecast, sending Uber shares up 12.0% after the results were announced on Tuesday. Consumers haven't reduced or stopped taking Uber rides even though inflation is straining budgets. Nationwide, prices for a standard Uber or Lyft ride were 36% higher y/y in September, according to YipitData quoted in a November 1 *WSJ* *article*. Uber executives do think that tighter consumer budgets prompted more drivers to join Uber last quarter. As a result, the number of active ride-share drivers in Q3 equaled the number of drivers in 2019.

(3) *Consumers go on vacation.* Airbnb reported record revenue of $2.9 billion in Q3, up 29% y/y, or 36% y/y excluding the impact of foreign exchange. Results were boosted by more bookings in cities, stronger cross-border travel, and longer stays. The nights and experiences booked in the quarter grew 25% y/y and the value of those nights and experiences grew 31% to $15.6 billion. The company generated almost a billion dollars of free cash flow in the quarter.

Based on its bookings for future stays, Airbnb expects revenue growth to continue and forecasts Q4 revenue of $1.80 billion to $1.88 billion, the midpoint of which is slightly below the analysts' consensus forecast of $1.87 billion. The y/y Q4 revenue growth forecasted—17%-23%, or 23%-29% excluding the impact of foreign exchange—is slower than Q3's actual revenue growth.

In the wake of the earnings news, Airbnb shares fell 5.4% in after-market trading on Tuesday, and they're down 34.5% ytd through Tuesday's close. The big questions surrounding the company are whether business will slow as more people return to working in offices, instead of in rented condos on the beach, and whether the economy will enter a recession, which presumably also would slow business.

So far, however, Airbnb management isn't seeing either negative scenario. "Even with more companies requiring employees to return to the office, nights booked from long-term stays remained stable from a year ago at 20% of total gross nights booked," the company wrote in its quarterly *letter*.

Disruptive Technologies: AI Gaining Momentum. Programs using artificial intelligence (AI) have gotten smarter, moving beyond recognizing images or patterns in data to creating pictures and text in what's become known as "generative AI." Large companies are paying attention, and M&A activity is robust. Some believe that as AI evolves, it will lead to a new surge in corporate productivity. Here's a look at the rapidly developing area:

(1) *AI companies getting acquired.* Large, established companies are actively investing in startups specializing in various areas of AI. Google, Microsoft, and Deloitte are either negotiating or have completed an investment in AI startups recently.

Alphabet's Google is in talks to invest at least $200 million into AI startup Cohere. "Founded in 2019, Cohere creates natural language processing software that developers can then use to build AI applications for businesses, including tools for chatbots and other features that can understand human speech and text," an October 21 *WSJ* *article* reported. Google's cloud division supplies the computing power needed for Cohere to train its software models. Cohere has also held talks with Nvidia about the chipmaker making an investment.

Deloitte US last month acquired SFL Scientific, a consulting firm focused on AI strategy and data science, for an undisclosed amount, an October 5 *article* on Consulting.us reported. The company helps businesses evaluate areas for AI investment and identify how AI can transform their businesses. The firm addresses more than 20 industries and has more than 60 employees. It joins the much larger Deloitte Global AI and analytics business, which has more than 27,000 practitioners focused on AI strategy, data and analytics modernization, cloud machine learning, and intelligent automation.

Meanwhile, Microsoft reportedly is considering adding to the $1 billion investment it made in OpenAI in 2019, an October 20 *WSJ* *article* reported. The two companies have preexisting relationships. Microsoft has integrated OpenAI's Dall-E2, which allows users to generate art from strings of text, into Microsoft Design, a new graphic design app, and into the image creator for Bing. And OpenAI uses Microsoft's Azure as its exclusive cloud provider.

(2) *AI getting creative.* Like Dall-E2, Stable Diffusion creates images from text, and it was integrated into Adobe's Photoshop. We experimented with Craiyon, an AI program available for free on the web. Type in "dog juggling popcorn," and back comes nine moderately different pictures of said request. You can also request the style in which you'd like the picture created. Warhol and Picasso must be turning in their graves. Pretty amazing stuff.

AI-created video has also arrived. Meta's Make-A-Video and Google's Phenaki are AI programs that generate video from a string of words. Google is using LaMDA to build an AI writing tool, Wordcraft, that can be used to generate ideas for a piece of fiction or suggest ways to improve upon the writing. "Google describes it as a sort of 'text editor with purpose' built into a web-based word processor. Users can prompt Wordcraft to rewrite phrases or direct it to make a sentence funnier. It can also describe objects if asked or generate prompts. In a nutshell, it's sort of like wrapping an editor and writing partner into a single AI tool," a November 2 *article* in *The Verge* reported.

(3) *AI to boost productivity?* Stanford University's Erik Brynjolfsson believes that AI is about to drive a boom in productivity. Companies may have needed to change their business processes, workflows, data infrastructure, and workers to use AI and run machine-learning

models in their operations. These efforts, he notes, can be costly and mean that there's no return on investment during initial stages of adoption.

But when these changes reach their turning point, they result in sudden increases in productivity, something he describes as a "J-curve." Brynjolfsson believes that we're near the bottom of the AI J-curve and turning up, implying that productivity improvements should be forthcoming, a January 31 TechTalks *article* states.

Calendars

US: Thurs: Trade Balance -$72.1b; Factory Orders 0.3%; Initial & Continuous Jobless Claims 220k/1.45m; Productivity & Unit Labor Costs 0.6%/4.1%; ISM NM-PMI 55.5; Natural Gas Storage. **Fri:** Payroll Employment Total, Private, and Manufacturing 200k/200k/15k; Average Hourly Earnings 0.3%m/m/4.7%y/y; Unemployment Rate 3.6%; Average Workweek 34.5 hours; Consumer Credit $32.2b; Baker-Hughes Rig Count; Rosengren. (Bloomberg estimates)

Global: Thurs: Eurozone Unemployment Rate 6.6%; Italy Unemployment Rate 7.8%; UK C-PMI & NM-PMI 47.2/47.5; BOE Interest Rate Decision 3.00%; RBA Monetary Policy Statement; Lagarde; Panetta; Elderson; McCaul; Bailey; Mann; Nagel. **Fri:** Eurozone, Germany, and France C-PMIs 47.1/44.1/50.0; Eurozone, Germany, and France NM-PMIs 48.2/44.9/51.3; Eurozone PPI 1.7%m/m/42.0%y/y; Germany Factory Orders -0.5%; France Industrial Production -1.0%; Spain Industrial Production 3.7% y/y; Canada Employment Change & Unemployment Rate 10k/5.3%; Lagarde; Enria; Pill. (Bloomberg estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The *Bull-Bear Ratio* was below 1.00 this week for the seventh successive week, holding at 0.96 this week, after falling steadily from 1.15 in mid-September to 0.57 three weeks ago—which was the lowest since March 2009. *Bullish sentiment* dipped to 35.8% after increasing the prior two weeks from 25.0% (the fewest bulls since early 2016) to 36.9%. *Bearish sentiment* exceeded bullish sentiment for the seventh week, though fell for the third week, by a total of 6.8ppts (to 37.% from 44.1%). It was the largest group for the fifth consecutive week, unseating the correction count—which held the top spot for the prior four weeks. The *correction count* increased to 26.9% after retreating the prior four weeks by 15.7ppts (24.6% from 40.3%). In the meantime, the *AAII Sentiment Survey* (as of October 27) showed optimism about the short-term direction of the stock market, rising to a nine-week high, while pessimism sank to a nine-week low. The *percentage expecting stocks will rise over the next six months* climbed for the second week to 26.6% after falling from 23.9% to 20.4% the previous week, though optimism held below its historical average of 38.0% for the 49th consecutive week; it was unusually low for the ninth successive week and for the 32nd time in 43 weeks. (The breakpoint between typical and unusually low readings is currently 27.6%.) The *percentage expecting stocks to fall over the next six months* fell to 45.7% after rising the prior two weeks by 1.4ppts (to 56.2%

from 54.8%). Bearish sentiment has been above its historical average of 30.5% in 48 of the last 49 weeks, and is at an unusually high level for the 33rd time in 41 weeks. (The breakpoint between typical and unusually high readings is currently 40.7%.)

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin fell 0.1ppt last week to a 17-month low of 12.8%. That's down 0.6ppts from its record high of 13.4% achieved intermittently from March to June. Since the end of April 2020, it has exceeded its prior record high of 12.4% in September 2018. It's now up 2.5ppts from 10.3% during April 2020, which was the lowest level since August 2013. Forward revenues dropped 0.4% w/w to a nine-week low and is now 0.7% below its record high in mid-October. Forward earnings tumbled 1.2% w/w to a seven-month low and to 3.6% below its record high in mid-June. Both had been steadily making new highs from the beginning of March 2021 to mid-June; prior to that, they peaked just before Covid-19 in February 2020. The consensus expectations for forward revenues growth fell 0.3ppt w/w to a 26-month low of 4.6% as companies have guided forecasts lower during the Q3 earnings season. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. Forward earnings growth tumbled 0.9ppt w/w to a 27-month low of 5.7%. That's down from its 23.9% reading at the end of April 2021, which was its highest since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. So far this year, analysts' revisions to their forecasts for 2022 revenues have outpaced their revisions for 2022 earnings, so the imputed 2022 profit margin estimate that we calculate from those forecasts has fallen 0.7ppt to 12.5% (down 0.1ppt w/w). They expect revenues to rise 11.6% (down 0.1ppt w/w) in 2022 and 3.5% in 2023 (down 0.4ppt w/w) compared to the 16.5% gain reported in 2021. They expect earnings gains of 8.1% in 2022 (down 0.4ppt w/w) and 5.6% in 2023 (down 1.0ppt w/w) compared to an earnings gain of 50.5% in 2021. Analysts expect the profit margin to drop 0.5ppt y/y to 12.5% in 2022 (down 0.1ppt w/w) compared to 13.0% in 2021 and to improve 0.3ppt y/y to 12.8% in 2023 (down 0.01ppt w/w). The combination of a rising market in the face of falling revenue and earnings forecasts caused valuations to jump w/w. The S&P 500's weekly reading of its forward P/E rose 0.8pt w/w to 16.8, up from a 30-month low of 15.3 in mid-October. That's down from a 15-week high of 18.2 in mid-August and also compares to 23.1 in early September 2020, which was the highest level since July 2000 and up from a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio rose 0.08pt w/w to 2.13 and is up from a 31-month low of 1.98 in mid-October. That's down from a 15-week high of 2.38 in mid-August and also compares to a record high of 2.88 at the end of 2021 and a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*): Last week saw consensus forward revenues rise for three of the 11 S&P 500 sectors as forward earnings fell for all 11 sectors for a second straight week. Energy was the only sector to have its forward profit margin improve w/w. Nearly all of the sectors are below recent record highs in their forward revenues, earnings, and profit margins. Consumer Staples is the only sector with forward revenues at a record high this week. Forward earnings for Consumer Staples, Energy, Financials, and Utilities are the closest to their recent record highs. Since mid-August, all sectors have forward profit margins below their record highs. Those of Energy, Industrials, and Tech remain closest to their post-pandemic highs. Only three sectors posted a higher profit margin y/y during 2020: Consumer Staples, Tech, and Utilities; during 2021, all of the sectors but Utilities posted a y/y improvement. Just three sectors are expected to see margins improve y/y for full-year 2022, followed by seven sectors in 2023.

Here are 2022's gainers: Energy, Industrials, and Utilities. Here's how they rank based on their current forward profit margin forecasts along with their record highs: Information Technology (24.2%, down 0.2ppt w/w and from its 25.4% record high in early June), Financials (18.2, down 0.1ppt w/w and from its 19.8 record high in August 2021), Real Estate (17.9, down 0.2ppt w/w and from its 19.2 record high in 2016), Communication Services (14.5, down 0.6ppt w/w and down from its 17.0 record high in October 2021), Utilities (13.7, down 0.1ppt w/w and from its 14.8 record high in April 2021), S&P 500 (12.8, down 0.1ppt w/w and from its record high of 13.4 achieved intermittently from March to June), Materials (12.1, down 0.1ppt w/w and from its 13.6 record high in June), Energy (12.1, down from its 12.3 record high in August), Health Care (10.4, down 0.1ppt w/w and from its 11.5 record high in March), Industrials (10.1, down from its 10.5 record high in December 2019), Consumer Discretionary (7.4, down 0.1ppt w/w and from its 8.3 record high in 2018), and Consumer Staples (7.2, down from its 7.7 record high in June 2020).

S&P 500 Q3 Earnings Season Monitor (*link*): The Q3-2022 earnings season is off to the poorest start of a quarterly reporting season since Q1-2020, assessed by the four surprise metrics we measure for both earnings and revenues. With 69% of S&P 500 companies finished reporting revenues and earnings for Q3, revenues are ahead of the consensus forecast by just 1.6%, and earnings have exceeded estimates by only 4.8%. At the same point during the Q2 season, revenues were 2.5% above forecast and earnings had beaten estimates by 5.6%. For the 344 companies that have reported Q3 earnings through mid-day Wednesday, the aggregate y/y revenue and earnings growth rates have slowed from their readings of Q2-2021 to Q2-2022. The 344 reporters so far collectively has a y/y revenue gain of 10.7% but an earnings gain of only 5.1%, as higher costs are pressuring profit margins. Excluding Energy, S&P 500 revenue growth falls to 7.3% y/y from 10.7% and earnings growth drops to -2.9% from 5.1%. Just 67% of the Q3 reporters so far has reported a positive revenue surprise, and 71% has beaten earnings forecasts. Furthermore, significantly fewer companies have reported positive y/y earnings growth in Q3 (58%) than positive y/y revenue growth (78%). These figures should change less markedly than they've been doing as more Q3-2022 results are reported in the coming weeks.

MSCI World & Region Net Earnings Revisions (*link*): Analysts' recent earnings revisions through October suggest a tad higher optimism about profits in the EMU but increasing pessimism about profits in the rest of the world. The US MSCI's NERI was negative in October for a fourth month following 23 straight positive readings, falling to a 28-month low of -12.4% in October from -9.4% in September. That compares to post-pandemic high of 21.1% in July 2021 and an 11-year low of -36.9% in May 2020. The AC World ex-US MSCI's NERI was negative for an eighth month following 17 straight positive readings, as it dropped to -3.5% from -3.0% in September, but is above its 22-month low of -3.8% in May. NERI was negative again in October for EM Asia and Emerging Markets. EM Latin America also weakened m/m but was positive for an eighth month. EM Eastern Europe turned negative again in October. Here are October's scores among the regional MSCIs: EMU (3.7% in October, up from 3.6% in September), Europe (1.1, 1.2), EM Latin America (0.7, 1.1), Europe ex-UK (0.5, 1.1), EAFE (0.0, 0.2), EM Eastern Europe (-2.5 [26-month low], 0.4), AC World ex-US (-3.5, -3.1), Emerging Markets (-5.5, -4.9), AC World (-5.9 [27-month low], -4.8), EM Asia (-6.1, -5.5), and the US (-12.4 [28-month low], -9.4).

MSCI Countries Net Earnings Revisions (*link*): NERI was positive for 20/41 MSCI countries in October. That's up from 19 in September, which was the lowest count since October 2020. It had peaked at 35/41 during May 2020, which nearly matched the record-high 36/41 from June 2004. That also compares to zero countries with positive NERI from April to June 2020. NERI improved m/m in October for 14/41 countries, the lowest count since April and down from 23/41 countries in May and June. These countries had relatively high NERIs in October: Greece (33-month high), India (eight-month high), and the United Kingdom (eight-month high). Norway has had positive NERI for 27 straight months, followed by the UK (26), Italy (24), Turkey (24), Austria (23), France (22), and Chile (21). New Zealand has the worst negative-NERI streak, at 25 months, followed by Hong Kong (17), China (14), Belgium (13), and Brazil (12). NERI flipped back into positive territory in October for Hungary and Ireland. It turned negative m/m for Poland. The highest NERI readings in October: Turkey (17.6%), Portugal (14.6), Austria (10.5), France (10.6), Greece (10.5 [33-month high]), and Italy (8.7). The weakest NERIs occurred this month in Peru (-21.4 [28-month low]), Switzerland (-17.6 [28-month low]), Hong Kong (-15.1), Taiwan (-12.5 [28-month low]), and Canada (-9.6 [27-month low]).

AC World ex-US MSCI (*link*): This index is up 4.1% in local-currency terms so far in Q4 to a 14.9% decline ytd. In US dollar terms, the index is up a similar 4.1% so far in Q4 but has declined a substantially greater 25.3% for 2022 to date. Local-currency forward revenues has risen 17.6% since it bottomed in January 2021 and is just 0.1% below its record high in mid-October. Local-currency forward earnings is down 0.8% from its record high in early September but has soared 57.8% since it bottomed in July 2020. Revenues are expected to rise 12.7% in 2022 and 3.1% in 2023 following a 17.0% gain in 2021, and earnings are expected to increase 14.1% (2022) and 2.4% (2023) after soaring 57.3% (2021). The industry analysts' sales forecasts imply short-term 12-month forward revenue growth (STRG) of 5.0% and short-term 12-month forward earnings growth (STEG) of 4.5%, compared to 4.1% and 10.0% before Covid-19 hit the news. These measures bottomed at -0.1% and -0.3%, respectively, during May 2020. The profit margin implied by analysts' earnings and revenue estimates calls for 9.2% in 2022 and 9.1% in 2023, compared to 9.1% in 2021. The forward profit margin forecast of 9.1% is down 0.2ppt from its record high of 9.3% during March but remains well above its 10-year low of 6.6% at the end of May 2020. The Net Earnings Revision Index (NERI) for the AC World ex-US MSCI was negative in October for an eighth straight month following 17 positive readings and weakened to a five-month low of -3.5% from -3.0% in September. It remains near its 22-month low of -3.8% in May, which compares to a 12-year high of 6.4% in July 2021 and an 11-year low of -23.9% in May 2020. The forward P/E of 11.2 is up from its 29-month low of 10.8 in mid-October. That compares to an 18-year high of 17.1 in February 2021 and its March 2020 low of 10.8. The index is at 21% discount to the World MSCI P/E, still near its record-low 22% discount during the first half of 2022.

Emerging Markets MSCI (*link*): The EM MSCI price index is down 0.9% in US dollar terms so far in Q4 to a 29.6% decline ytd. In local-currency terms, EM is down a lesser 0.8% quarter-to-date to a smaller ytd loss of 23.3%. Local-currency forward revenues has risen 10.2% since its bottom in January 2021 but remains 5.4% below its record high in May 2019. Local-currency forward earnings is up 28.3% since its bottom in June 2020 but is now 10.3% below its record high in early March. Revenues are expected to rise 12.4% in 2022 and 5.0% in 2023 after jumping 21.1% in 2021. That's expected to lead to an earnings gain of 8.7% in 2022 and 3.6% in 2023, following a 52.5% recovery gain in 2021. Forecasted

STRG of 6.2% is down from April 2021's 11-year high of 12.6%, which compares to a five-year low of 3.6% at the end of April 2020. STEG has dropped to a 13-year low of 4.2% from a record high of 33.7% in December 2020. The implied profit margin is expected to drop to 7.4% in 2022 from 7.6% in 2021 and fall another 0.1ppt in 2023 to 7.3%. The forward profit margin of 7.3% is up from a four-year low of 6.1% at the end of May 2020 and compares to its 10.3% record high in December 2007. NERI was negative in October for a 12th straight month and weakened to -5.5% from -4.9% in September. It's up from a 23-month low of -7.3% in June, which compares to an 11-year high of 6.0% in February 2021 and an 11-year low of -18.7% in May 2020. Emerging Markets' forward P/E of 10.2 is at a 29-month low now, which compares to a record high of 16.3 in February 2021 and its March 2020 low of 10.1. The index is trading at a 28% discount to the World MSCI P/E. That's up from a 33% at the start of the year, which was its biggest discount since 2005.

EMU MSCI (*link*): The EMU MSCI price index has soared 8.6% in local-currency terms so far in Q4 but has fallen 17.5% ytd. In US dollar terms, EMU is up a greater 9.5% so far in Q4 to a bigger ytd drop of 28.3%. Local-currency forward revenues remains close to its first record high since September 2008 and has risen 23.2% since its bottom in January 2021. Local-currency forward earnings is up 77.5% from its bottom in July 2020 to just 0.2% below its first record high since January 2008. Revenues are expected to rise 13.0% in 2022, but slow sharply to just 1.9% in 2023 after gaining 17.3% in 2021. That's expected to lead to earnings gains of 17.1% in 2022 and 2.8% in 2023, following a recovery gain of 75.5% in 2021. Forecasted STRG of 3.6% is down from a record-high 8.3% during April 2020, but that's up from an 11-year low of -0.9% during April 2020. STEG has dropped to 5.1% from a record high of 47.4% in December 2020, but that's up from a record low of -6.7% in April 2020. The implied profit margin is expected to rise from 8.4% in 2021 to 8.7% in 2022 and 8.8% in 2023. The forward profit margin has dropped to 8.8% from a 13-year high of 8.9% in July, which compares to a 12-year low of 6.0% at the end of July 2020 and its 9.1% record high in October 2007. EMU's NERI was positive in October for a 22nd month after 27 straight negative readings but leads all regions; it edged up to 3.7% from 3.6% in September. That compares to a record low of -35.9% in May 2020 and is down from a record high of 15.2% in September. EMU's forward P/E of 11.0 is up from a 29-month low of 10.3 in mid-October, which compares to a record high of 18.3 in July 2020 and a low of 10.2 in March 2020. The index is trading at a 23% discount to the World MSCI P/E, which is near an 11-year low and among its worst readings since 2001.

China MSCI (*link*): The China MSCI price index is the second-worst performer of the 49 MSCI countries so far in Q4, with a decline of 11.7% in local currency terms. Its 39.0% ytd decline ranks as third worst of the 49 countries. Local-currency forward revenues has risen only 0.5% since its five-year low in June 2021 and is now 37.1% below its record high in October 2014. Local-currency forward earnings is 3.6% below its June 2020 low to a five-year low and is now 20.8% below its record high in June 2018. Revenues are expected to rise 10.5% in 2022 and 6.8% in 2023 after surging 19.3% in 2021. That's expected to lead to earnings gains of 8.7% in 2022 and 14.8% in 2023, following a 9.2% increase in 2021. Forecasted STRG of 7.3% is down from an 11-year high of 13.5% in April 2020, but that's up from a five-year low of 5.0% at the end of April 2020. STEG has dropped to 13.9% from a 10-year high of 18.6% during December 2020, which compares to a four-year low of 8.0% in April 2020. The implied profit margin ranks as one of the lowest in the world; it's expected to remain unchanged y/y at 4.3% in 2022 and to rise to 4.6% in 2023. The forward profit margin of 4.5% is down from a record high of 5.2% in July 2021 and now matches its

pandemic low of 4.5% in May 2020. NERI was negative for a 14th straight month in October and dropped to -7.1% from -6.3% in September. That compares to a 23-month low of -11.7% in May and ranks as eighth worst among the 41 MSCI countries that we follow. China's forward P/E is down to a seven-year low of 8.5. That compares to 12.1 at the start of the year and its March 2020 pandemic-low of 10.5. The index is trading at a 40% discount to the World MSCI P/E, up from a 22-year low discount of 46% in mid-March.

US Economic Indicators

Auto Sales (*link*): Auto sales have risen for four of the last five months, by 11.4% m/m in October and 20.0% over the period, climbing to 15.3mu (saar) last month from 12.7mu in May—back up at January's pace, which was the strongest since May 2021. Sales averaged 15.1mu for all of last year—with last year's sales reaching a high of 18.4mu and a low of 12.4mu. Domestic light-truck sales increased 11.4% and 17.1% over the comparable periods to 9.2mu (saar)—also the highest since the 9.5mu reading at the start of this year. Meanwhile, domestic car sales moved out of its recent flat trend, climbing for the third consecutive month, by 16.0% in October and 28.1% over the period to a 17-month high of 2.5mu (saar). Sales of imports are also showing signs of life, climbing for the fifth successive month, by 21.8%, to a nine-month high of 3.6mu (saar) in October.

Global Economic Indicators

Global Manufacturing PMIs (*link*): Global manufacturing activity remained in contractionary territory in October as new orders fell at its steepest pace in 28 months, while business optimism sank to nearly a two-and-a-half year low. The JP Morgan Global M-PMI fell for the eighth time this year, from 54.3 in December to 49.4 by October. The report notes that China, the Eurozone, and Japan were among the larger manufacturing economies to see a contraction, while the US showed only a slight expansion. Here's how October M-PMIs ranked by country/region from highest to lowest: India (55.3), Australia (52.7), Indonesia (51.8), Thailand (51.6), Kazakhstan (51.5), Ireland (51.4), Brazil (50.8), Russia (50.7), Japan (50.7), Vietnam (50.6), US (50.4), Mexico (50.3), Colombia (50.0), WORLD (49.4), China (49.2), Canada (48.8), Malaysia (48.7), South Korea (48.2), Greece (48.1), Netherlands (47.9), France (47.2), Austria (46.6), Italy (46.5), EUROZONE (46.4), Turkey (46.4), UK (46.2), Myanmar (45.7), Germany (45.1), Spain (44.7), Poland (42.0), Czech Republic (41.7), and Taiwan (41.4).

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