MORNING BRIEFING
November 2, 2023

Burritos, Stocks & Hydrogen

Check out the accompanying chart collection.

Executive Summary: Packaged and fast food companies keep raising their prices, but consumers at nearly all income levels aren't blinking at paying more. That was a common theme Jackie heard in the Q3 earnings calls of McDonald's, Chipotle, and Unilever. … Also: What a difference a date makes! The stock market's leaders and laggards among sectors over the first seven months of the year—prior to the S&P 500's July 31 peak—bear little resemblance to those since July 31; former laggards-turned-leaders Health Care and Energy are cases in point … And: The discovery that large stores of pure hydrogen exist in nature holds exciting potential for powering the planet without polluting it.

Consumer Discretionary: Hamburgers, Burritos & Ice Cream. Prices on everything from hamburgers to burritos and ice cream are still rising, pushed up by companies passing on their own rising costs to customers. While price increases have been moderating since last year, they will likely continue to rise, particularly at restaurant chains with locations in California. The Golden State has passed a new law that will increase the minimum wage to $20.00 an hour for workers at restaurant chains starting in April. California's fast-food workers currently earn an average of $16.60 an hour, and the state's minimum wage is $15.50 an hour.

Prices for food services and accommodations rose 6.0% y/y in September as measured by the PCED. That's higher than the 4.3% y/y rise in the non-housing services component of the PCED in September, but the increase in food services and accommodations prices has been decelerating since it peaked at 8.8% y/y in May 2022 (*Fig. 1* and *Fig. 2*).

Chipotle, McDonald's, and Unilever recently reported Q3 earnings. Here's some of what their managements had to say on the demand and pricing front:

(1) *Customers still eating out.* For the most part, Chipotle and McDonald's customers didn't blink when facing pricier hamburgers and burritos. Chipotle's Q3 sales rose by more than 11% y/y to $2.5 billion, including a 5% jump in same-store sales and a 4% increase in transaction growth. Adjusted earnings per share soared 19% y/y.

The company boosted prices by 3% in October, marking the fourth time it has hiked prices since June 2021, an October 30 CNBC *article* reported. Last year's price increases were "mostly offset" by food cost inflation, including for beef and queso, said CFO Jack Hartung in the company's earnings *conference call*. With that in mind, the company anticipates mid- to high-single-digit same-store sales growth in Q4.

McDonald's Q3 revenue rose 14% y/y to $6.7 billion, with same-store sales increasing by 8.8% and US same-store sales increasing 8.1%. McDonald's raised prices in the US by about 10% for all of 2023. Adjusted earnings per share rose 16% y/y.

(2) *Different observations on low-income consumers.* Chipotle's Hartung noted that sales are doing well across all consumer income levels. He specifically noted that sales to lower-income consumers are "holding up really well. They're really hanging in there at about the same level as our medium- and high-income levels." The strong performance indicates that the company's food remains affordable despite recent price increases.

McDonald's US traffic fell y/y during Q3, which was attributed to tough comparisons to last year and reduced visits from customers who make less than $45,000 a year. Conversely, McDonald's officials said it gained market share with middle- and high-income customers, who may be trading down to McDonald's from more expensive dining options.

(3) *California: The land of rising wages.* California is raising the minimum wage earned by restaurant workers to $20.00 an hour in April. Chipotle's average wage in the state is about $17.00 an hour, and about 15% of its restaurants are in the Golden State. To pay for the required wage increase, Chipotle will raise prices by percentages in the mid- to high single digits, Hartung estimated on the conference call.

In addition to higher prices, the company can improve its profitability via more use of drive-throughs and technology. Meals sold via the Chipotlane have better margins than those sold in the restaurants. Chipotle is also experimenting with advanced automation, including an "Autocado," which cuts, cores, and scoops avocados, and Hyphen, a robotic assembly line that makes burrito bowls and salads.

McDonald's also expects to increase prices to offset some of the wage pressures it will face due to the new California law. It too will be looking for ways to increase productivity, said CEO Chris Kempczinski on the company's recent *conference call*. In general, McDonald's hopes it will weather the change better than its competitors and increase its market share as a result.

(4) *A look at restaurants.* Chipotle and McDonald's both are members of the S&P 500 Restaurants stock price index, which after a strong run for most of 2022, has fallen 12.8% from its peak on May 2 (*Fig. 3*). Analysts are still optimistic that revenues will grow 9.8% this year and 8.7% in 2024 (*Fig. 4*). Earnings are also expected to grow sharply, by 16.3% and 11.1% this year and next (*Fig. 5*). The industry's forward P/E, which spiked up to 23.2 during the Covid pandemic, has been falling in the ensuing years to a recent 17.6 (*Fig. 6*).

(5) *Problematic price increases.* Unilever brought in new CEO Hein Schumacher earlier this year to help turn around the struggling European consumer products company. Schumacher laid out his turnaround plans during the company's Q3 earnings conference call, during which the company announced that sales grew 5.2% last quarter, with product prices climbing 5.8% and volume declining 0.6%.

One problem area in the company's product portfolio was the Nutrition business, home to Hellmann's and Knorr products. The business line's sales rose 5.6%, reflecting a 9.8% increase in prices partly offset by a 3.8% sales volume decline. The company increased prices in response to "continued material cost inflation," CFO Graeme Pitkethy said on the earnings *conference call* .

Meanwhile, ice cream sales dropped 2.8%, as a price increase of 8.2% was more than offset by a volume decline of 10.1%. Unilever owns Ben & Jerry's, among other ice cream brands. The price increases did not offset all of the cost inflation the company faced, and higher prices pushed cost conscious consumers to trade down to value and private-label brands.

Schumacher's restructuring plans include focusing on the company's top 30 brands, emphasizing innovation, spending more on marketing, and pruning brands that underperform. He believes inflation will normalize "back to the levels that we had before we entered the inflation spike," which should limit the price increases the company will need to take going forward.

The clock is ticking: Activist investor Nelson Peltz joined the company's board of directors in July. Unilever's shares have fallen 6.0% ytd through Tuesday's close, compared to the S&P 500's 9.2% gain over the same period.

Strategy: A Look at the Damage. The S&P 500 is up 9.2% ytd through Tuesday's close, but that strong performance disguises much of the turbulence the market has experienced since its July 31 peak, at which point the index was up 19.5% for the year.

Here's a look at how the performance data of S&P 500 sectors and industries have changed since the end of July and a bit about what investors were thinking to produce those shifts:

(1) *Sector switches.* Interest rates had been rising since early May, but this summer they shot higher, and stocks flinched. Every single sector in the S&P 500 has fallen since July 31; however, on a relative basis the Energy and Health Care sectors went from laggards in the first seven months of the year to leaders in the August-through-October timeframe.

S&P 500 sectors with stocks that typically are purchased for their dividend payments performed poorly both before and after July 31 this year. The dividend yields on the Real Estate, Utilities, and Consumer Staples sectors have lost their luster compared to today's elevated Treasury yields.

Here's the performance derby for the S&P 500 sectors as they've performed from July 31 through Tuesday's close: Energy (-2.5%), Communication Services (-5.6), Health Care (-7.1), Information Technology (-8.3), Financials (-8.5), S&P 500 (-8.6), Consumer Staples (-9.7), Industrials (-10.9), Utilities (-11.1), Materials (-11.3), Consumer Discretionary (-11.4), and Real Estate (-13.3) (*Table 1*).

Note how different—and meager—those August-through-October performances are compared to the sectors' performances in the year's first seven months: Information Technology (45.8%), Communication Services (44.7), Consumer Discretionary (35.5), S&P 500 (19.5), Industrials (12.3), Materials (10.2), Financials (3.1), Real Estate (3.1), Consumer Staples (1.9), Energy (-0.5), Health Care (-1.5), and Utilities (-5.0) (*Table 2*).

(2) *Insurance dominates.* Everyone needs insurance, and the industry often performs well in good times and bad. Four of the top 15 best performing industries in the S&P 500 since July 31 hail from the insurance business, including the two best performing industries. They've benefitted from the ability to raise prices.

Here are the 15 S&P 500 industries that have performed the best from July 31 through Tuesday's close: Property & Casualty Insurance (9.9%), Reinsurance (9.7), Technology Distributors (7.1), Oil & Gas Refining & Marketing (5.3), Publishing (4.9), Managed Health Care (4.7), Wireless Telecommunication Services (4.4), Integrated Telecommunication Services (4.3), Health Care Distributors (4.2), Communications Equipment (3.0), Multi-Line Insurance (2.7), Insurance Brokers (2.3), Data Processing & Outsourced Services (1.6), Apparel Retail (1.6), and Internet Services & Infrastructure (1.0).

(3) *Picking through the rubble.* Among the worst performing S&P 500 industries from July 31 through Tuesday's close are Passenger Airlines (-34.0%) and Casinos & Gaming (-25.7%), which have fallen as oil prices rose and investors came to believe that the post-pandemic pent-up demand for travel has been satiated.

High interest rates keeping homeowners in homes with low-rate mortgages have taken a bite out of share prices in home-related industries including Household Appliances (-27.5%), Home Furnishings (-24.4), Building Products (-17.1), Home Improvement Retail (-15.9), and Homebuilding (-15.8). High interest rates have also hurt stocks industries that depend on financing to fund purchases, including Automobile Manufacturers (-25.1%). The high cost of financing has even hurt Health Care Supplies (-36.4%), the S&P 500's worst performing industry of the period, as consumers often finance purchases of dental products like braces.

Rounding out the list of the S&P 500's 15 worst August-through-October performers among industries are: Personal Care Products (-31.5%), Independent Power Producers and Energy Traders (-31.1), Leisure Products (-30.1), Drug Retail (-29.7), Apparel, Accessories & Luxury Goods (-24.7), Copper (-24.3), Office REITs (-23.9), Automotive Parts & Equipment (-20.5), and Regional Banks (-20.3).

Disruptive Technologies: White Hydrogen. Using naturally produced hydrogen to power our world would be beneficial because when hydrogen combusts, it throws off only water, with no carbon dioxide pollution. One of the knocks against the gas is that it often exists in nature in combination with other elements. Separating out the hydrogen requires energy that's often provided by fossil fuels—like coal or natural gas—that do throw off greenhouse gases when they combust.

The pure hydrogen found in nature is called "white" hydrogen, while hydrogen produced by burning fossil fuels is called "blue" or "gray" hydrogen, and hydrogen produced by using solar or wind power is called "green" hydrogen.

Until recently, it wasn't thought that white hydrogen occurred in nature in volume. But a recent discovery has scientists questioning that assumption and wildcatters digging wells. Read on for details:

(1) *Explosive discovery.* Researchers from France's National Centre of Scientific Research discovered a large reservoir of hydrogen in northern France that could contain between 6 million and 250 million metric tons of the gas, an October 29 article in CNN reported. The

researchers went looking for hydrogen deposits because they had heard about a water well in Mali that was spewing hydrogen. The hydrogen in the well was harnessed in 2011 to power a village and continues to do so today.

Scientists believe large deposits of hydrogen are formed when water molecules break down as a result of reacting with iron-rich rocks or coming into contact with radiation. White hydrogen deposits have also been found in the US, Eastern Europe, Russia, Australia, and Oman.

Geoffrey Ellis, a geochemist with the US Geological Survey, "estimates globally there could be tens of billions of tons of white hydrogen. … [I]f just 1% can be found and produced, it would provide 500 million tons of hydrogen for 200 years..." Only 100 million tons a year of hydrogen is currently being produced, and production isn't expected to hit 500 million until 2050.

(2) *A new gold rush.* A number of startups are scouring the Earth to find large hydrogen deposits, the CNN article states. Australia-based Gold Hydrogen is drilling in South Australia. Denver-based Koloma hasn't disclosed where it's drilling, but it has received funding from Bill Gates' Breakthrough Energy Ventures and others. And Natural Hydrogen Energy is another hydrogen wildcatter, based in Denver.

Corrigendum. In yesterday's *Morning Briefing*, there was an error in the MegaCap-8's share of the S&P 500. The affected areas are reproduced below with corrected text underlined and italicized:

Strategy: MegaCap-8's Growing Share of S&P 500. In spite of the stock market's decline back to correction territory from its July 31 high, the MegaCap-8 group of stocks (Alphabet, Amazon, Apple, Meta, Microsoft, Netflix, Nvidia, and Tesla) remains *at or* near its recent record-high shares of the S&P 500's market capitalization, forward revenues, and forward earnings (*Fig. 6*). It's helpful to remember how high these shares are when considering S&P 500 performance, valuation, and earnings data: A good chunk of that data is attributable to just eight stocks! (FYI: Forward revenues and earnings are the time-weighted average of analysts' consensus projections for the current and following years; forward profit margins we calculate from forward revenues and earnings.)

Specifically, the MegaCap-8's collective market-cap share of the S&P 500 was 27.1% during the October 27 week, little changed from its record high 27.4% during the October 6 week. *The group's forward revenue share dropped by just a hair in recent weeks to 10.63% from 10.65% (August 31 week), while its forward earnings rose to a record high 17.54% share.*

Calendars

US: Thurs: Nonfarm Productivity & Unit Labor Costs 4.0%/0.8%; Factory Orders 1.9%; Motor Vehicle Sales 15.3mu; Initial & Continuous Jobless Claims 210k/1.795m; Natural Gas Storage. **Fri:** Employment Total, Private, and Manufacturing 188k/145k/0k; Unemployment Rate 3.8%; Average Hourly Earnings 0.3%/m/4.0%y/y; Average Weekly Hours 34.4; S&P Global C-PMI & NM-PMI 51.0/50.9; Baker-Hughes Rig Count; Barr. (FXStreet estimates)

Global: Thurs: Eurozone, Germany, France, Italy, and Spain M-PMI 43.0/40.7/42.6/46.4/47.3; Germany Unemployment Rate 5.8%; BoE Interest Rate Decision 5.35%; Lane; Bailey; Fernandez-Bollo; Schnabel. **Fri:** Eurozone Unemployment Rate 6.4%; Germany Trade Balance 16.3b; France Industrial Production -0.1%; France Nonfarm Payrolls 0.2%; Italy Unemployment Rate 7.4%; UK C-PMI & NM-PMI 48.6/49.2; Canada Employment Change 20k; Canada Unemployment Rate 5.6%; Pill. (FXStreet estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The *Bull-Bear Ratio* moved down for the second week to 1.67 after rising the prior two weeks from 1.77 to 2.32. *Bullish* sentiment slipped for the second week by 8.5ppts to 42.9% after a two-week climb to 9.1ppts (to 51.4% from 42.3%). Bullish sentiment was just above the late September count of 42.3%, which was the fewest bulls since late February, when they dipped below 40%. Meanwhile, *bearish* sentiment rose for the second week by 3.5 ppts to 25.7% after falling the prior two weeks by 1.7ppts (to 22.2% from 23.9%)—with the 23.9% reading the highest percentage since the end of May. The *correction count* rebounded 5.7ppts this week to 31.4%, after dropping the prior three weeks by 8.1ppts (25.7% from 33.8%); it was 24.3% 13 weeks ago, which was the lowest since mid-January. Turning to the *AAII Sentiment Survey* (as of October 26), optimism continued to decline in the latest survey, while pessimism increased. The *percentage expecting stock prices to rise over the next six months* fell for the second week by 10.7ppts to 29.3%, after rising the prior two weeks by 12.2ppts (to 40.0% from 27.8%)—with the 27.8% reading the lowest since May 25. Optimism is below its historical average of 37.5% for the sixth time in seven weeks. The *percentage expecting stocks to fall over the next six months* rose 8.6ppts to 43.2% after falling the prior two week by 7.0ppts (to 34.6 from 41.6). Pessimism is at unusually high level, above its historical average of 31.0% for the sixth time in eight weeks. The *percentage expecting stock prices will stay essentially unchanged over the next six months* fell 3.8ppts to 27.5% after increasing the prior week by

7.8pts to 31.3%. It was below its historical average of 31.5% for the fourth time in eight weeks.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin was unchanged w/w at 12.6% during the October 26 week, and is now 0.2pt below its 11-month high of 12.8% during the September 21 week. That's up from a 24-month low of 12.3% during the March 30 week, but is down 0.8pt from its record high of 13.4% achieved intermittently in 2022 from March to June. It's now 2.3pts above its seven-year low of 10.3% during April 2020. Forward revenues ticked down less than 0.1% w/w from its record high a week earlier. Forward earnings ticked down 0.1% w/w to 1.2% below its record high during the September 21 week, which had been its first since the June 16, 2022 week nine months ago. Both had been steadily making new highs from the beginning of March 2021 to June 2022; prior to that, they peaked just before Covid-19 in February 2020. The consensus expectations for forward revenues growth was unchanged at an 11-month high of 4.6% and is now up 2.3pts from its 33-month low of 2.3% during the February 23 week. 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. The forward earnings growth forecast dropped 0.3pt w/w to 10.5% from a 24-month high of 10.8% a week earlier, and is now 7.0pts above its 31-month low of 3.5% in mid-February. 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. Analysts expect revenues to rise 2.2% in 2023 (unchanged w/w) and 4.9% in 2024 (unchanged w/w) compared to a revenues gain of 12.4% in 2022. They expect an earnings gain of 0.6% in 2023 (up 0.1pt w/w) and an 11.7% rise in 2024 (down 0.3pt w/w) compared to an earnings gain of 7.3% in 2022. Analysts expect the profit margin to fall 0.2ppt y/y to 11.9% in 2023 (unchanged w/w), compared to 12.1% in 2022, and to rise 0.8ppt y/y to 12.7% in 2024 (unchanged w/w). The S&P 500's weekly reading of its forward P/E fell 0.5pt w/w to a seven-month low of 17.5 and is down from a 17-month high of 19.8 during the July 20 week. That's still up from a 30-month low of 15.3 in October of 2022. It also compares to 23.1 in early September 2020, which was the highest level since July 2000, and to a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio was down 0.06pt w/w to a six-month low of 2.22 and compares to a 15-month high of 2.46 during the July 27 week. That's up from a 31-month low of 1.98 in October 2022 and 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*): Looking at the S&P 500 sectors, the October 26 week saw consensus forward revenues rise for three of the 11 sectors and forward earnings rise for four sectors. The forward profit margin moved higher for three sectors. Two sectors have forward revenues at post-pandemic or record highs this week: Communication Services and Information Technology. Among the remaining nine sectors, only Energy and Financials have forward revenues more than 5.0% below their post-pandemic highs, while Materials is nearly falling into that doghouse. Communication Services is the only sector with forward earnings at a record high this week, as these four sectors have eased from that mark over the past six weeks: Consumer Discretionary, Industrials, Information Technology, and Utilities. Among the remaining six sectors, only Energy and Materials have forward earnings down more than 10.0% from their post-pandemic highs, while Financials exited that club in early October. Among the 11 sectors, only Industrials has weathered a broad margin retreat from post-pandemic or record highs. Now nearly all of the sectors are showing signs of recovering from their early 2023 lows, though it has stalled recently. None of the sectors had a forward profit margin at a record high this week. That's down from these three sectors in that club in early October: Consumer Discretionary, Industrials, and Information Technology. The forward profit margins of Communication Services, Consumer Discretionary, Industrials, and Information Technology remain close to their post-pandemic highs. Energy is surging higher now off its low in July, but Consumer Staples and Health Care remain at or close to their record lows. Energy and Industrials were the only two sectors to have their profit margins improve y/y for full-year 2022. The forward profit margin is expected to be flat y/y in 2023 for Consumer Staples, but these six sectors are expected to see their margins improve: Communication Services, Consumer Discretionary, Financials, Industrials, Information Technology, and Utilities. Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (25.2%, down from its 25.7 record high in September), Financials (18.2, down from its 19.8 record high in August 2021), Real Estate (17.0, down from its 19.2 record high in 2016), Communication Services (16.4, down from its 17.0 record high in October 2021), Utilities (13.0, down from its 14.8 record high in April 2021), S&P 500 (12.6, down from its record high of 13.4 achieved intermittently in 2022 from March to June), Energy (11.3, down from its 12.8 record high in November), Materials (10.9, down from its 13.6 record high in June 2022), Industrials (10.7, down from its record high 10.8 in September), Health Care (9.1, a record low and down from its 11.5 record high in February 2022), Consumer Discretionary (8.1, down from its 8.4 record high in mid-September), and Consumer Staples (6.8, down from its 7.7 record high in June 2020).

S&P 500 Sectors & Industries Forward Profit Margin Since March 30 Bottom (*link*): The S&P 500's forward profit margin was unchanged w/w at 12.6% during the October 26 week, and is 0.2ppt shy of its 11-month high of 12.8% during the September 21 week. It's now up 0.3ppt from a two-year low of 12.3% during the March 30 week. Six of the 11 sectors' margins have improved since then, with the S&P 500's gain paced by four sectors. It's still down 6.0%, or 0.8ppt, from its record-high 13.4% during the June 9, 2022 week, as seven of the 11 sectors' margins are down since then, with the S&P 500's drop paced by three of the 11 sectors. Here's the sector performance since the S&P 500's forward profit margin bottom on March 30: Communication Services (up 13.3% to 16.4%), Consumer Discretionary (up 11.3% to 8.1%), Information Technology (up 7.7% to 25.2%), Industrials (up 3.8% to 10.7%), S&P 500 (up 2.7% to 12.6%), Real Estate (up 2.4% to 17.0%), Consumer Staples (up 1.5% to 6.8%), Materials (down 0.7% to 10.9%), Utilities (down 1.3% to 13.0%), Financials (down 1.4% to 18.2%), Energy (down 3.5% to 11.3%), and Health Care (down 5.1% to 9.1%). These are the best performing industries since the March 30, 2023 bottom: Casinos & Gaming (up 87.0% to 7.2%), Apparel & Accessories (up 25.3% to 11.0%), Wireless Telecommunication Services (up 21.5% to 13.9%), Publishing (up 20.6% to 2.9%), Personal Care Products (up 18.6% to 10.1%), Interactive Media & Services (up 18.2% to 23.6%), Brewers (up 17.1% to 9.3%), Homebuilding (up 16.9% to 12.5%), Semiconductors (up 16.2% to 31.0%), and Hotels, Resorts, & Cruise Lines (up 15.7% to 13.5%).

S&P 500 Q3 Earnings Season Monitor (*link*): With the Q3-2023 earnings season over 61% complete, the indications from the companies that have reported so far suggest a stronger earnings surprise compared to Q2-2023 but a weaker revenues surprise. During Q4-2022, the earnings surprise was the lowest since Q4-2008, and the revenue surprise the smallest since Q1-2020. Furthermore, the earnings surprise failed to outpace the revenue surprise in Q4-2022 for the first time since we began tracking that data in Q1-2009. With 308 of the S&P 500 companies finished reporting for Q3-2023, revenues are ahead of the consensus forecast by 0.8% and earnings have exceeded estimates by 8.3%. At the same point during the Q2 season, revenues were 1.6% above forecast and earnings had beaten estimates by 7.2%. Just 58% of the 308 Q3 reporters through mid-day Wednesday has reported a positive revenues surprise, while 80% has reported an earnings beat. That's on pace for the weakest revenues surprise reading since Q3-2019; but the percentage with positive earnings surprises would be near the highest since Q3-2021 if it holds to the end of the season. The early reporters' aggregate y/y growth rates have ticked up for revenues from their Q2-2023 readings and improved for earnings: to 1.6% from 0.6% for revenues growth and to 3.7% from -7.0% for earnings growth. Over the past 58 quarters through Q2-2023, y/y earnings growth has trailed y/y revenues growth in only 16 quarters and for six straight quarters, but earnings growth is ultimately likely to outpace revenue growth in Q3-2023 as the Energy sector becomes less of a drag on overall results. Slightly fewer companies have been reporting positive y/y earnings growth in Q3 (64%) than positive y/y revenues growth (65%). With three-quarters of the MegaCap-8's results complete, they have been a net positive contributor to the S&P 500's revenue and earnings surprise and the y/y growth rates. While the surprise metrics remain positive without the MegaCap-8 reporters, the y/y growth rates are flat or negative without them. Looking at the S&P 500 excluding the MegaCap-8 reporters to date, the revenue surprise remains steady at 0.8%, the earnings surprise falls to 6.6% from 8.3%, revenue growth drops to 0.1% from 1.6%, and earnings growth falls to -3.8% from 3.7%. These figures will continue to change as more Q3-2023 results are reported in the coming weeks. While we expect y/y revenues growth rates to remain positive yet again in Q3, earnings growth will be positive on a y/y basis for the first time in four quarters.

US Economic Indicators

ADP Employment (*link*): "No single industry dominated hiring this month, and big post-pandemic pay increases seem to be behind us," noted Nela Richardson, chief economist, ADP. "In all, Octobers number's paint a well-rounded jobs picture. And while the labor market has slowed, it's still enough to support strong consumer spending." *Private payrolls* in October increased a smaller-than-expected 113,000 (vs 150,000 forecast), though was stronger than September's 89,000, which was the weakest performance since January 2021. Service-providing and goods-producing jobs rose only 107,000 and 6,000 last month, with the latter little changed from September's 5,000 gain, which was the weakest this year. Within *servicing-providing* industries, education & health services (45,000) posted the biggest gain, followed by trade, transportation & utilities (35,000), financial activities (21,000), and leisure & hospitality (17,000), while professional & business services (-10,000) and other services (-1,000) were in the red, with information jobs showing no change. Leisure & hospitality, education & health services, trade, and transportation & utilities all reached new record highs, with other services only 1,000 shy of its record high. Payrolls of professional business services remained near its record high. Within *goods-producing* industries, construction jobs advanced for the ninth successive month, though the pace slowed; the industry averaged monthly gains of 12,500 the past four months through October—after averaging monthly gains of 62,800 the prior five months. As for manufacturing payrolls, they increased just 3,000 in October after contracting six of the prior seven months by 201,000 over the period, though the level remains relatively high—within 237,000 of January 2019's record high. Natural resources and mining jobs slipped 1,000 last month after reaching a new record high in September. By *company size*, medium (78,000), small (19,000), and large (18,000) all added jobs last month, with medium and small at new record highs. Turning to ADP's *median annual pay* measures, the yearly rate for *job-stayers* slowed to a 25-month low of 5.7% this October, down from last September's 7.8% peak, while the rate for *job-changers* eased to 8.4%, 8.0ppts below last June's 16.4% peak.

JOLTS (*link*): Job openings remained elevated in September, reflecting a tight labor market. *Job openings* climbed for the second month, by 633,000 over the two months through September to 9.6 million, after falling five of the first seven months of this year by 2.3 million to 8.9 million. The series peaked at a record-high 12.0 million last March. Prior to the pandemic, in early 2020, the highest level of job openings recorded was 7.6 million. Openings reached 10 million in June 2021 for the first time in the history of the series going back to 2000. There were 6.4 million people unemployed in September, so there were 1.50 available jobs for each unemployed person, little changed from August's 1.49—which was the lowest since September 2021 though still a strong number. This ratio was at a recent high of 2.01 during March 2022. By industry, the *biggest increases* in September occurred in accommodations & food services (+141,000), trade, transportation & utilities (+88,000), finance & insurance (+69,000), and construction (+56,000). The biggest declines occurred in professional & business services (-105,000), health care & social assistance (-50,000), and information services (-41,000). Separations fell 157,000 to 5.5 million in September. Separations include quits, which are generally voluntary separations initiated by employees—serving as a measure of workers' willingness or ability to leave jobs. Total quits have been in a downtrend since peaking at 4.5 million during April 2022, falling to 3.7 million in September—back near pre-pandemic levels. Hirings increased 21,000 in September to 5.9 million versus a recent peak of 6.8 million during February 2022.

Construction Spending (*link*): Construction spending continued to reach new record highs in September, rising every month so far this year; the gains were driven by public construction spending and private nonresidential spending, with private residential investment joining the party in recent months. *Total* construction spending climbed 0.4% in September and 8.5% ytd, while private construction investment rose 0.4% and 7.4% over the comparable periods—also to a new record high. *Public* construction spending hasn't posted a decline since August 2022, climbing 0.4% in September and 16.5% over the period to another new record high. Within *private construction*, residential investment rose in September rose for the fifth successive month, by a total of 5.7% over the period, breaking out of an 11-month slump. Meanwhile, nonresidential investment has declined in only two months since the end of 2021, soaring 32.8% over the period to yet another new record high. Within residential investment, *single-family* construction rebounded 10.3% during the five months through September, after a 12-month plunge of 26.5% to its lowest level since November 2020. *Home improvement* spending has been in a volatile flat trend around recent lows the past few months, though remains at a very high level. Meanwhile, *multi-family* construction remains on a steep uptrend, soaring 22.3% y/y, though stalled in September around August's record high.

US Manufacturing PMI (*link*): October's M-PMI deteriorated unexpectedly after improving the prior three months, remaining below 50.0 for the 12th straight month—the longest string of readings below 50.0 since the Great Financial Crisis (2007-09). The M-PMI fell to 46.7 (vs 49.0 expected) after climbing from a recent low of 46.0 in June to 49.0 in September. Looking at October's report, the *new orders* (45.5 from 49.2) and *employment* (46.8 from 51.2) measures contracted the most, probably reflecting the UAW strikes at the assembly plants of the Big Three automakers. (The Big Three automakers reached a *tentative deal* early this week, after six weeks of striking.) The *production* (50.4 from 52.5) measure remained above the breakeven point of 50.0, but barely. The *supplier deliveries* (47.7 from 46.4) measure continued to show faster deliveries, down sharply from May 2021's peak of 78.8. (A reading below 50.0 indicates faster deliveries to factories.) Meanwhile, inventories (43.3 from 45.8) continued to accumulate at a slow pace, as businesses continued to manage inventories carefully. ISM's *prices-paid* (45.1 from 43.8) remained below 50.0, signifying continued overall price reductions despite the turbulence in the energy market.

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