

Market Commentary

By Art Cashin

Prepared by UBS Financial Services Inc.

Statistics:

Fair Value	=	N.A.
Buy Program	=	N.A.
Sell Program	=	N.A.

Cashin's Comments An Encore Presentation

On this day in 1860, America was embroiled in a divisive presidential campaign. There were two candidates that were capturing most of the press attention. Each was looking for a gimmick to turn the tide in his favor. Anything - - anything at all.

And, on this day, one candidate got a great piece of campaign advice from a non-political source. It was a letter from a young girl, named Grace Bedell. She suggested a way for the Republican nominee to look more presidential. Her suggestion was - - grow a beard. In her letter she wrote - - "All the ladies like whiskers and they will tease their husbands to vote for you and then you would be president".

The candidate's name was Abraham Lincoln and he not only liked the idea so much that he grew a beard - - he carried the letter for the rest of his life.

Myth and folklore says the beard worked and Lincoln won a smashing victory. The truth is something else. Even Lincoln couldn't kick his hormones into overdrive and grow a credible beard in time for the election. And as to the election - - well Lincoln won by getting the necessary electoral vote, but he didn't have a majority of the popular vote.

Gee, coming up short on the popular vote but winning the Electoral College - I wonder if that will ever happen again.

It was not elections or even the Electoral College that fascinated traders on Tuesday. Rather, traders looked to the start of earnings season and they were cheered when the early results came in better than expected.

Stocks gapped higher on the opening bell, led by the healthcare sector as well as the banks and financials.

United Healthcare and Johnson & Johnson led the health stocks after they reported solid earnings and a good outlook. JPMorgan led the financials higher after it reported solid results in almost all of their business sectors.

The opening pop was not enough and markets continued to move higher into midmorning as electronic buy programs followed one after the other.

The post-opening buying peaked around 11:00 and a bit later, I sent this note to some friends:

They seem to find some resistance just before testing record highs - - Resistance Dow circa 27100 and S&P circa 3010.

Octobers are known for volatility with some history of false spikes and reversals.

May be best to wait until after tonight's debate to see if there are signs of a leadership change.

The Dow did manage to poke a shade above its resistance, ticking up to 27120 for a brief minute or so.

While the indices kept pounding on the resistance throughout the afternoon, the end results were a bit inconclusive. They never broke out nor were they clearly repelled leading to a downward reversal.

Traders saw it as a bit of a work in progress and will see how it resolves in coming days.

A Signal From The VIX – The always insightful Jason Goepfert of SentimenTrader noted this in his letter overnight:

Low vol. The VIX closed below 14 for the first time in three weeks. Since 1990, this has led to gains in the S&P 500 over the next 6-12 months 27 out of 28 times.

Quantitative Easing? – Several weeks ago the Fed repo market virtually exploded, shooting overnight rates spectacularly higher, well, well above the Fed's target rate.

Appearing puzzled about the cause, the Fed announced it would add about \$65 billion a month to provide liquidity for the short term market.

When he announced the added liquidity, Chairman Powell protested over and over again that this was not a restart of QE and should not be assumed to be QE.

With the help of some friends, I checked back to see what QE looked like. Back in 2013, when QE was at full throttle, the Fed was inserting about \$85 billion a month. Yes that is larger than the current \$65 billion but there is more to the story.

The whole \$85 billion didn't go into Treasury bills. Forty-five billion went to bills, while \$40 billion went into mortgage backed securities. Today the whole \$65 billion goes into bills, making this bigger than the old QE.

So, let's review. In QE, the Fed bought treasury bills. Each month they now buy more treasury bills than they ever bought in QE. So what exactly is different?

The answer – nothing mechanically. They are both identical. Only the announced goal is different.

Further, some think that the repo problems may not be about liquidity. It may be about new personnel or policies on the repo desk itself. We'll see.

Overnight And Overseas – In Tokyo, stocks rallied smartly, building on the solid rally seen yesterday. In China, markets were mixed. Hong Kong rallied, while Shanghai saw a moderate selloff. India closed with a modest rally.

Renewed Brexit doubts are bringing slightly lower equity prices in London, Paris and Frankfurt.

Among other assets, Bitcoin is slightly softer, trading around \$8150. Gold is a touch firmer but is still below \$1500. Crude is trying to stabilize with WTI trading just below \$53. The euro is flat against the dollar and yields are unchanged.

Consensus – Brexit appears to have hit another bump in the road.

Hong Kong may complicate the trade talks.

Stick with the drill – stay wary, alert and very, very nimble.

Trivia Corner

Answer - It was simple! Assume the three games Billy won were the first three. Dick would then need three games to break even plus three more to win the \$3. So they played nine games.

Today's Question - Take the shortcut - The Yukon River flows 2400 to the sea. How far away from the sea is it where it starts (within 50 miles)?

NO COMMENTS THURSDAY/FRIDAY MORE MEDICAL STUFF

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