Yardeni Research

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Morning Briefing

Oil, Investment Banks & Flying Cars

Check out the accompanying chart collection.

Executive Summary: If war erupts in the Middle East, the higher oil prices that OPEC+ has been unable to achieve will be realized. Jackie examines the market dynamics that have kept oil prices down as well as the EIA's outlook for them next year. … With a fiscal quarter ending a month before most, Jefferies Financial is always the first of its investment banking peers to report quarterly results. Good news: Jefferies' good Q3 bodes well for the industry as a whole. ... And: Cars can fly. Much investment has gone into launching flying car ventures. So when will airborne cars actually dot the skies? Look for them in LA in 2026.

Energy: Fighting Boosts Oil Price. Hostilities between Israel and Iran have pushed up the price of oil, something that rounds of production cuts by OPEC+ have failed to achieve.

Iran fired about 180 ballistic missiles into Israel on Tuesday, but they were mostly intercepted by Israel and its allies, causing minimal damage. The attacks came in response to Israel's recent strikes targeting Hezbollah leaders and their weapons in Lebanon. Now the world awaits Israel's response, if any. As of Wednesday, Israel was continuing its air strikes in Beirut and its ground offensive in southern Lebanon.

After Iran's April strike, Israel launched only a limited response that did not provoke Iran to retaliate. The oil market may be betting that that history will repeat. The Brent crude oil price has risen only modestly in recent days. At $74.55 per barrel, it's up 3.6% from Friday's close. It's still well off of this year's high price of $91.17 on April 5 and 2022's peak level of $127.98 (*Fig. 1*).

Since November 2022, OPEC+ has been trying in vain to lift the price of crude by cutting back on production. Here's a look at some of the reasons why OPEC's cuts haven't worked:

(1) *Production cuts by OPEC+.* Three different rounds of cuts have reduced OPEC+'s

production by roughly six million barrels a day (mbd), or roughly 6% of global production. The organization was expected to bring 180,000 barrels per day (bpd) of that production back onto the market in October and then bring another 540,000bpd back on the market by the end of the year. The increases were part of OPEC+'s plan to eventually reintroduce 2.2mbd of production back onto the market. But in early September, the organization decided to postpone any increase in production by at least two months.

(2) *OPEC+ foiled by soft demand.* World oil demand is expected to grow by 900,000 barrels per day this year and 950,000 next year, down from the 2.1mbd increase in demand experienced in 2023. Much of that slowdown can be attributed to China.

China's weaker-than-expected economy, its growing use of electric vehicles, and its national high-speed rail network—which has replaced some flying—have reduced the country's demand for oil. Chinese demand fell by 1.7%, or 280,000bpd y/y in July, which is vastly different from the country's 9.6% average consumption increase in 2023, according to IEA *data*. For 2024, the agency believes China's demand for oil will only grow by 1.1% or 180,000 barrels per day.

(3) *OPEC+ foiled by strong production.* Excess supply has also hurt the price of oil. US production has climbed 53% over the past decade to 13.2 mbd, which is near a record high hit at the start of this year (*Fig. 2*). Canadian production likewise has climbed sharply over the past 10 years, while production out of Russia and Saudi Arabia has been roughly flat (*Fig. 3*).

Libya is expected to add to global oil supplies soon when it restarts oil production that was shut down since late August for political reasons, an October 1 Reuters *article* reported. Roughly half of the nation's roughly 1.1mbd of production was halted.

And of course, there are the quota cheaters. Iraq and Kazakhstan failed to adhere to the cuts and pumped more oil than they had agreed to pump. "Both countries reaffirmed their commitment to now produce less than their agreed quotas to compensate," a September 5 *FT* *article* reported. Brazil, Buyana, Argentina and Venezuela all have increased production.

Saudi Arabia's oil minister said that the price of oil could drop to $50 a barrel if OPEC+s cheaters don't start adhering to the organization's agreed upon cuts, an October 2 *WSJ* *article* reported. The statement was interpreted as a threat that the Saudis would also stop adhering to the cuts if others didn't start towing the line.

(4) *EIA peers into its glass ball.* The US Energy Information Administration (EIA) estimates that global inventories will decrease by 1.0mbd through Q1-2025. As a result, the agency *expects* the price of Brent crude to rise from $74 per barrel at the beginning of September to an average of $83 in Q1-2025.

By mid-2025, the EIA sees a return to moderate inventory builds, followed by inventory rises averaging 0.5 million b/d in H2-2025, as production increases from OPEC+ members and other countries outweigh global oil demand growth. It sees the Brent price averaging $84 per barrel in 2025.

Of course, that forecast depends on the Israel/Iran skirmishes not escalating into war. While we've acknowledged the oversupplied oil market in the past, we've suggested using investments in oil as a hedge against the risk of war in the Middle East.

Financials: Time for a Breather? Jefferies Financial Group is always the first of the S&P 500 Financials sector companies to report quarterly earnings, making it a great bellwether, particularly for how other investment banks have been faring.

This time around, Q3 EPS missed analysts' consensus estimate by just a fraction, but Jeffries' stock price dipped about 1% in the wake of the September 25 *press release*. The lackluster response might partly reflect the stock's strong 53.1% ytd run-up through Tuesday's close. The shares subsequently recouped the decline.

Here's a deeper look at financials and at Jefferies' results:

(1) *Financials have come a long way.* Outside of tech-related sectors, the S&P 500 Financials sector has been among the top performers ytd through Tuesday's close: Utilities (28.5%), Communication Services (28.4), Information Technology (26.2), S&P 500 (19.7), Financials (19.7), Industrials (18.9), Consumer Staples (16.1), Consumer Discretionary (12.6), Health Care (12.4), Materials (12.3), Real Estate (10.7), and Energy (8.1) (*Fig. 4*).

The sector's best performing industry index ytd is Consumer Finance, up 31.3%, led by American Express' 43.4% gain. The Bank and Brokerage industry's ytd performance has been far more sluggish: Consumer Finance (31.3%), Insurance Brokers (23.0), Diversified Banks (17.5), Regional Banks (16.3), Asset Management & Custody Banks (16.0), Financial Exchanges & Data (14.4), Reinsurance (12.1). and Investment Banking & Brokerage (11.7) (*Fig. 5*).

The shares of Jefferies, up 53.1% ytd, are actually not in the S&P 500 Investment Banking & Brokerage industry, which counts the stocks of Goldman Sachs (up 27.1% ytd), Morgan Stanley (12.0), Raymond James Financial (10.3), and Schwab (-7.1) as members.

(2) *Jefferies brings good news.* Jefferies' Q3 (ended August) results were much better than a year earlier. Revenues jumped 42.4% y/y to $1.7 billion, and net income climbed 225.0% to $167.1 million. While EPS surged to 75 cents from 22 cents a year earlier, the result missed analysts' consensus forecast of 78 cents.

The company's results benefitted from a resurgence in investment banking, the revenues from which rose 47.3% y/y, pushed up by a 76.7% gain in the advisory business due to increased merger and acquisitions (M&A) activity. The firm also booked a 65.4% jump in debt underwriting revenues, offset by a small decline in equity underwriting revenues.

Revenues in the capital markets business grew 28.1%, with gains in both equities and fixed-income trading. Elevated expenses concerned some analysts, however.

The company's aggressive hiring during the market's downturn seems to be paying off. Jefferies executives said the firm benefitted from market-share gains. Analysts are forecasting fiscal (November) 2025 EPS of $4.46, up from a projected $2.95 this year and $1.10 last year. A joint *statement* by top brass mentions a strong investment banking pipeline, good momentum across business lines, and an expanded global team that's well positioned for the release of pent-up deal flow expected in a lower-interest-rate environment.

(3) *The big dogs are up next.* Jefferies' results bode well for other firms with large investment banking and underwriting operations. M&A volume rose during Q3 by 32.2% y/y globally and 14.9% y/y in the US (*Fig. 6* and *Fig. 7*).

Analysts are expecting the S&P 500 Investment Banking & Brokerage industry to grow revenues 8.7% this year and 6.3% in 2025 (*Fig. 8*). The industry's earnings are forecast to grow even faster, by 32.4% this year and 14.3% in 2025 (*Fig. 9*). At a recent 13.7, the industry's forward P/E is near the upper end of the range it has been in over the past decade (*Fig. 10*).

The S&P 500 Diversified Banks industry—home to Bank of America, Citigroup, JPMorgan, US Bancorp, and Wells Fargo—also has exposure to investment banking and markets, but expectations for the industry's earnings are much lower. It's forecast to increase revenues by 3.5% this year and 0.8% in 2025, and earnings are expected only to inch up 2.0% this year, then 4.1% in 2025, after posting extremely strong 18.9% earnings growth last year (*Fig. 11* and *Fig. 12*). The industry's forward P/E is a more reasonable 11.2, only slightly higher than the midpoint of its 20-year range (*Fig. 13*).

Disruptive Technologies: Flying Cars Still a Work in Progress. Flying cars are off the drawing board and still attracting lots of funding, but they aren't going to be in the ordinary Joe's garage anytime soon.

Here are some of the companies raising big bucks as they try to get flying cars off the ground:

(1) *Joby partners with Toyota.* Toyota Motor is investing another $500 million in Joby Aviation in addition to the $394 million it previously provided. The latest round is expected to fund the certification and commercial production of Joby's electric vertical takeoff and landing aircraft (eVTOL), an October 2 CNBC *article* reported. Toyota is Joby's largest investor and supplies the company with powertrain and other components for the eVTOL. News of the Toyota investment on Wednesday sent Joby shares up 27.9% to $6.14.

(2) *Stellantis bets on Archer.* Stellantis announced in July plans to invest an additional $55 million in Archer Aviation following another $175 million from Stellantis and United Airlines. Archer is developing a five-seater eVTOL that can operate for 20-50 miles at speeds of 150 miles per hour. With orders for 116 units valued at $580 million, the company has plans to develop an "air taxi network" around the Los Angeles region ahead of the area's plan to host the World Cup in 2026, the Super Bowl in 2027, and the Summer Olympics in 2028. Archer shares, which spiked briefly in 2021 to $17, now trade hands at $3.15.

(3) *Alef takes preorders.* Alef Aeronautics *announced* in September that it has preorders for 3,200 of its eVTOLS, which each sell for $300,000. Production of this pricey toy, which can drive for up to 200 miles and fly for 110 miles, is targeted for Q4-2025. The company anticipates the price will fall as production increases, and ultimately it shouldn't cost more than a Toyota Corolla, *noted* its CEO Jim Dukhovny recently.

(4) *Chinese companies in the mix.* Chinese companies are in the race to develop a flying car as well. Vertaxi raised $29 million in financing that brings its total funding to more than $57 million. The company says its eVTOL has a 150-mile range and expects to get a manned airworthiness certificate in 2027. Vertaxi says it has a $28 million order that could include 15 eVTOLS, maintenance, equipment, and training services, an October 2 IOT

World Today *article* reported. In addition, Xpeng Aeroht is developing the X2, a two-seater eVTOL. It can be seen zipping around in this *video*.

Calendars

US: Wed: ADP Employment Change 124k; MBA Mortgage Applications; Crude Oil Inventories & Gasoline Production; OPEC Meeting; Bowman; Barkin. **Thurs:** Initial Claims 221k; ISM NM-PMI 51.6; S&P Global C-PMI & NM-PMI 54.4/55.4; Factory Orders 0.1%; Bostic. (FXStreet estimates)

Global: Wed: Eurozone Unemployment Rate 6.4%; Italy Unemployment Rate 6.6%; Spain Unemployment Change 181k; De Guindos; Schnabel; Lane; Elderson; Balz; Pill; Noguchi. **Thurs:** Eurozone PPI 0.4%m/m/-2.4%y/y; Eurozone, Germany, and France C-PMIs 48.9/47.2/47.4; Eurozone, Germany, France, and Italy NM-PMIs 50.5/50.6/48.3/51.2; UK C-PMI & NM-PMI 52.9/52.8; Schnabel; Nagel. (FXStreet estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The *Bull-Bear Ratio* climbed for the third week to 2.61 this week, after sinking from 2.42 to 1.92 three weeks ago—which was the lowest since November 2023. *Bullish sentiment* climbed 12.2ppts the past three weeks to 55.7%—the most bulls since early summer, when there were seven straight weeks of bulls above 60%. Bullish sentiment was at 43.5% three weeks ago—which was the lowest percentage since last August. Meanwhile, *bearish sentiment* slipped to 21.3% this week from 22.9% in each of the prior two weeks, still far above the mid-July percentage of just 14.9%. The *correction count* fell for the third week, by 10.9ppts to 23.0%, after increasing over the prior two-week period from 24.2% to 33.9%. In the *AAII Sentiment Survey* (as of September 26), both bullish and bearish sentiment among individual investors about the short-term outlook for stocks fell during the latest week, while neutral sentiment increased. *Bullish sentiment* edged down 1.2ppts to 49.6%, unusually high for the second straight week and above its historical average of 37.5% for the 46th time in 47 weeks. *Bearish sentiment* slipped 2.7ppts to 23.7%—below its historical average of 31.0% for the sixth time in seven weeks. Meanwhile, while *neutral sentiment* climbed 3.9ppts to 26.7%, below its historical average of 31.5% for the 12th straight week.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin ticked down 0.1ppt during the September 27 week to 13.3% from a record high of 13.4% a week earlier. That was its first record since the June 9, 2022 week, and it is now 3.0ppts above its seven-year low of 10.3% during April 2020. Forward revenues rose 0.1% w/w, and forward earnings fell 0.5%. Revenues and earnings have been steadily making new record highs for just over 12 months now. That compares to its prior 16-month string of record highs from March 2021 to June 2022; prior to that, they peaked just before Covid-19 in February 2020. The consensus expectation for forward revenues growth was steady w/w at 5.7% and is down from a 23-month high of 5.8% during the August 1 week. It has gained 3.4ppts from its 33-month low of 2.3% during the February 23, 2023 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 was steady w/w at 13.9%, but is down 0.2ppt from a 35-month high of 14.1% the week before that. It's now 10.6ppts above its 31-month low of 3.3% during the February 16, 2023 week. That's down from its 23.9% reading at the end of April 2021, which was at 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 4.7% in 2024 (up 0.1ppt w/w) and 5.7% in 2025 (unchanged w/w) compared to a revenues gain of 2.1% in 2023. They expect an earnings gain of 9.9% in 2024 (up 0.1ppt w/w) and a 15.0% rise in 2025 (down 0.1pt w/w) compared to an earnings gain of 2.4% in 2023. Analysts expect the profit margin to rise 0.5ppt y/y to 12.4% in 2024 (down 0.1ppt w/w), compared to 11.9% in 2023, and to rise 1.1ppts y/y to 13.5% in 2025 (down 0.1ppt w/w). The S&P 500's weekly reading of its forward P/E rose 0.5pt w/w to a 33-month high of 21.6, and is up 1.9pts from a 14-week low of 19.7 during the August 8 week and 6.3pts 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 rose 0.05pt to 2.88, which matches its record high during the December 30, 2021 week. That's up from a six-month low of 2.22 during the October 26, 2023 week and compares to a 31-month low of 1.98 in October 2022. The latest reading matches its record high of 2.88 at the end of 2021 and is up from a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*): During the September 27 week, forward revenues rose for six of the 11 S&P 500 sectors and forward earnings rose for four sectors. This led to rising forward profit margins w/w for three sectors. Four sectors posted record-high forward revenues this week: Communication Services, Consumer Staples, Health Care, and Information Technology. Industrials and Real Estate had record-high forward revenues recently during the past few weeks. Financials' forward revenues would be at a record high too when adjusted for the incoming transfer of five former Tech sector firms in March 2023. Energy and Materials are the biggest laggards at 5.2% and 11.8% below, respectively. Communication Services is the only sector to have record-high forward earnings this week. These three sectors were in that club several weeks earlier: Industrials, Information Technology, and Utilities. These five sectors are less than 1.8% below their recent records: Consumer Discretionary, Consumer Staples, Financials, and Real Estate. Health Care's forward earnings is 3.7% below its high and improving now after stalling since late 2022. Forward earnings remains depressed for Energy and Materials; both are more than 21.5% below their post-pandemic highs. Looking at the forward profit margin, all of the sectors are showing signs of recovering from their early 2023 forward profit margin lows. Industrials is the only sector with a forward profit margin at a post-pandemic or record high this week. In recent weeks, the Consumer Discretionary, Financials, and Information Technology sectors were in that club. Among the laggards, Energy's forward margin has tumbled 0.9ppt from its six-month high of 10.9% in mid-June to a 30-month low of 10.0%; Consumer Staples' is 0.2ppt above its seven-year low of 6.7% in March 2023; and Health Care's is 0.3ppt above its 8.5% record low in April. The annual profit margin is expected to fall y/y in 2024 for Energy, Materials, and Real Estate and to improve for the other eight sectors. 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 (26.3 27.6%, a record high this week), Financials (19.3, down 0.1ppt w/w and from its 19.8 record high in August 2021), Communication Services (17.8, down 0.2ppt w/w and from its 18.1 record high during the August 8 week), Real Estate (17.3, down from its 19.2 record high in 2016), Utilities (14.1, down from its 14.8 record high in April 2021), S&P 500 (13.3, down 0.1ppt w/w and from its 13.4 record high during the September 20 week), Materials (11.2, down from a 20-month high of 11.6 in July and from its 13.6 record high in June 2022), Energy (10.0, down 0.2ppt w/w to a 30-month low and from its 12.8 record high in November 2022), Industrials (11.1, up 0.2ppt w/w to a new record high), Consumer Discretionary (9.1, down 0.1ppt w/w from its 9.2 record high a week earlier), Health Care (8.8, up 0.3ppt from its record low at the end of April and down from its 11.5 record high in February 2022), and Consumer Staples (6.9, down from its 7.7 record high in June 2020).

US Economic Indicators

ADP Employment (*link*): "Stronger hiring didn't require stronger pay growth last month," noted Nela Richardson, chief economist of ADP. "Typically, workers who change jobs see faster pay growth. But that premium over job-stayers shrank to 1.9 percent, matching a low we last saw in January." *Private payrolls* increased a larger-than-expected 143,000 in

September, exceeding the consensus estimate of a 120,000 increase and above August's 103,000. Service-providing jobs climbed 101,000 in September, while goods-producing industries increased 42,000. Within *servicing-providing* industries, leisure & hospitality (34,000) posted the biggest monthly gain, followed by education & health services (24,000), professional & business services (20,000), other services (17,000), trade/transportation & utilities (14,000), and financial activities (2,000), while information services (-10,000) was the only industry to post a decline during September. Within *goods-producing* industries, construction (26,000) jobs continued to lead the pack, while the employment in the natural resources/mining (14,000) and manufacturing (2,000) sectors rose after losing jobs in August. According to the report, the yearly pay increase for *job-stayers* fell slightly to 4.7%, while the rate for *job-changers* sank to 6.6% from 7.3% in August.

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