



## MORNING BRIEFING

January 17, 2017

### Happy Daze

See the [collection](#) of the individual charts linked below.

(1) Harry, Dwight, and Donald. (2) The Donald and the Fonz. (3) Happy days in Bull-Bear Ratio and P/Es. (4) Will investors soon be dazed and confused? (5) Trump's tax plan is very similar to Ryan's "A Better Way." (6) Corporations won't be able to deduct interest expense under Ryan plan, and will have a choice in Trump plan. (7) Both plans would allow for current expensing of equipment. (8) Border tax is confusing and controversial. (9) Ross/Navarro have a plan to attract VCs and private-sector players to invest in infrastructure. (10) Trump is a one-man good-cop/bad-cop. (11) Trump's "team of rivals" agree more with one another than with Trump. (12) Melissa compares Reaganomics and Trumponomics. (13) Movie review: "Lion" (+ + +).

**Strategy: Illusion, Control & Confusion.** Last week, I was inspired by the recent election of Donald Trump to make some references to songs and TV shows about the 1950s. Needless to say, Trump is no Harry Truman or Dwight Eisenhower. Indeed, he is like no other president we have ever had. He certainly is among the quirkiest, and the first twittering one.

The following lyrics of "Grease" seem particularly appropriate so far for the man who will be our new president on Friday: "This is a life of illusion, a life of control / Mixed with confusion, what're we doin' here? / We take the pressure, and we throw away conventionality, belongs to yesterday."

"Happy Days" was a TV sitcom that aired originally from January 15, 1974 to September 24, 1984 on ABC. It presented an idealized vision of conventional life in the mid-1950s to mid-1960s in the United States. One of the lead characters was Arthur Herbert Fonzarelli, better known as "Fonzie" or "the Fonz." "The Donald," whose ducktail hairstyle is similar to that of the Fonz, won to a large extent because many of his supporters would like to bring back those happy days again, when America was great, or greater than it seems to be today from their perspective.

The S&P 500 staged an impressive rally after Election Day, rising 6.4% to a new record high of 2276.98 on January 6 ([Fig. 1](#)). The forward P/Es of the S&P 500/400/600 also surged and remained in near recent cyclical highs at 17.1/18.9/19.8 on Friday ([Fig. 2](#)). Investors Intelligence's Bull-Bear Ratio has exceeded 3.0 for the past five weeks, with the percentage of bulls over 58.0% for the past six weeks ([Fig. 3](#)).

It certainly seems like another episode of "Happy Days" for the latest bull market in stocks, which started in March 2009. However, there has been lots of buzz feed from skeptics since the start of this year suggesting that the market is naively betting that Trump's pro-growth economic policy proposals will be implemented rapidly and will work. They warn that there could be lots of dazed and confused investors once they realize that Trump might not succeed in implementing his program so easily, and that if he does, it won't work as well as the bulls seem to expect.

Maybe so, but until Debbie, Joe, and I see a recession coming, we'll stick with our long-held view that this bull market will continue to be a series of panic-attack sell-offs followed by relief rallies to new highs. Indeed, after the election, we raised our target for the S&P 500 for this year from 2300-2400 to

2400-2500. We did so because we raised our forecast for the S&P 500's earnings this year significantly from \$129 per share to \$142, betting that Trump's tax-cutting proposals will be implemented. We think they will be retroactive to the start of the year, though it shouldn't matter much to the market if they start in early 2018.

Admittedly, 2017 is already starting out as a promising year mixed with illusion and confusion. It is enough to make one's head spin. Given the elevated level of bullish sentiment, another panic attack wouldn't surprise us. However, the market seems to be keeping as cool as the Fonz despite the ongoing illusion and confusion in Washington. We are doing so as well. Consider the following:

(1) *Tale of two plans.* Last year, on June 24, House Speaker Paul Ryan (R, WI) unveiled his party's sweeping [tax reform plan](#). Called "A Better Way," it shared some of the themes promoted by Trump, who was still just a candidate for the highest post in our land at the time. The Ryan plan calls for reducing the number of tax brackets from seven to three--12%, 25%, and 33% for married joint-filers. Trump would do the same, according to his 8/8 [speech](#) at the Detroit Economic Club and the [tax plan](#) posted on his website. The top statutory corporate rate would be lowered from 35% to 20% by Ryan. Trump would lower it to 15%, and make that available to the half of all US businesses that are not incorporated. Both would offset the cost of the tax cuts by eliminating most deductions for individuals and businesses while capping a few.

Ryan's plan would terminate the tax deductibility of net interest expenses by corporations, but would allow for the immediate expensing of capital spending. According to the Ryan plan: "Allowing investments to be immediately written off provides a greater incentive to invest than is provided through interest deductions under current law; allowing both together would be distortive as it would result in a tax subsidy for debt-financed investment."

Under Trump's plan, businesses could either expense equipment or take a net interest deduction. This would represent a move toward a VAT-like cash flow tax for business taxpayers. It might be limited to manufacturers. The idea is to make the US more attractive.

The S&P 500 corporations had interest expense of \$19.87 per share during 2015, which amounted to only 8.8% of their EBITDA ([Fig. 4](#) and [Fig. 5](#)). According to the latest data compiled by the Bureau of Economic Analysis, monetary interest paid by nonfinancial corporations totaled \$486.6 billion during 2015 ([Fig. 6](#)). That implies that on average they paid a pre-tax rate of 3.9%, the lowest since 1961 ([Fig. 7](#)). Current-dollar spending on equipment in GDP totaled \$1.05 trillion (saar) during Q3-2016 ([Fig. 8](#)).

Obviously, deducting equipment outlays rather than interest expense would be more stimulative for capital spending. It might also reduce bond issuance by corporations, which might keep bond yields from rising much. That would keep mortgage rates down, which would be good for housing sales.

(2) *Borderline confusion.* Trump has frequently threatened to impose a 35% import tax on US companies that move factories abroad. Ryan's plan proposes to shift to a territorial system that would only tax companies based on the location where goods are sold. Companies would not be taxed on income earned overseas. Trump's pre-election economic plan included a special one-off tax holiday allowing US firms to repatriate funds held overseas with only a 10% payment versus the current 35% rate. That would cause corporations to repatriate much of the \$2.6 trillion held overseas.

Some of Trump's unofficial economic advisers are already railing against the border tax, which Trump hasn't endorsed yet. It's clear what Steve Forbes thinks given his 1/11 [Forbes article](#) titled "OMG! House Republicans Are Preparing To Hit Consumers With A Horrible New Tax That Will Harm Trump And Hurt The Economy." He observes that "this sneaky, anti-consumer tax" would mean that importers,

like most retailers, would no longer be allowed to deduct an imported item as a business expense. The additional cost would have to be passed on to the consumer. That would apply to imported crude oil, which would push up the pump price of gasoline. Exporters would reap a huge windfall since they wouldn't be subjected to any tax on their revenues. Forbes reckons that it is all a sneaky way of imposing a VAT in the US.

(3) *Fiscal fandango*. Trump gave his first press conference since Election Day on January 11. The next day, the S&P 500 edged down by 0.2%. Yet the financial media reported that investors were disappointed that he didn't provide more specifics on his economic plan or infrastructure spending, even though the S&P 500 rose 0.3% on the day of his presser. Perhaps the most detailed proposal available currently is a 10-page [analysis](#) titled "Trump Versus Clinton on Infrastructure" dated 10/27/16 by Wilbur Ross and Peter Navarro. Ross is Trump's pick for Commerce secretary, and Navarro, a strident China critic, will lead a new White House office overseeing American trade and industrial policy.

You have to be a venture capitalist like Ross to fully grasp his proposal. A 10/28 *Bond Buyer* [article](#) hit the main points: "The linchpin of Trump's 'American Infrastructure First' plan would be \$137 billion of tax credits that Congress would be asked to authorize if he is elected president. The credits could be used by investors to leverage \$167 billion in private funds, said Trump advisors Wilbur Ross and Peter Navarro. The tax credits would lower the total cost of financing a project by as much as 20%, they said.

....

"Investors that put up 17% of each project's cost as 'skin in the game' would receive tax credits equaling 82% of the equity funds invested, according to the plan's authors. Private sector lenders would provide the remaining financing.

"The \$137 billion of federal tax credits would be offset by the incremental payroll taxes paid by construction workers on the projects and Trump's lower, 15% business tax rate on contractors and suppliers, 'which will generate massive new tax revenues,' Ross and Navarro said. 'Trump would also quickly cut through any unnecessary bureaucratic red tape delaying projects and complete them faster and at lower cost,' they said. 'It would be handled by the private sector so there would be no sweetheart deals for politically connected people.'

"Companies would be able to bring overseas earnings back to the U.S. at Trump's proposed reduced tax rate of 10% rather than the current 35%. With the credits, companies could avoid any tax liability by investing \$122 million of the repatriated profits in infrastructure projects, Ross and Navarro said."

(4) *Good and bad cop*. Trump is a truly unusual person in all sorts of ways. I am impressed by how he seems to have mastered the unique art of being a one-man good-cop/bad-cop tag team. For example, on December 5, Trump sent the following tweet criticizing China for its exchange-rate policy and its operations in the South China Sea: "Did China ask us if it was OK to devalue their currency (making it hard for our companies to compete), heavily tax our products going into their country (the U.S. doesn't tax them) or to build a massive military complex in the middle of the South China Sea? I don't think so!"

Two days later, good-cop Trump picked Iowa Governor Terry Branstad as his nominee to be ambassador to China. In accepting the offer, Branstad said, "I have known [Chinese] President Xi Jinping for many years and consider him an old friend. I look forward to building on our long friendship to cultivate and strengthen the relationship between our two countries and to benefit our economy."

Then on December 21, 2016, Trump selected Peter Navarro to serve as director of the National Trade Council. By appointing him to a key trade position, Trump sent a bad-cop message to the Chinese. Navarro has been professor of economics at the Paul Merage School of Business, University of

California, Irvine. He produced a [movie](#) for Netflix titled “Death By China: How America Lost Its Manufacturing Base.” (Ironically, it was narrated by Martin Sheen, who is rabidly anti-Trump.)

(5) *Team of rivals*. Media commentators have observed that Trump’s foreign policy appointees seem to be like Lincoln’s team of rivals. Actually, they seem mostly to agree among themselves that Russia is a bad actor on the geopolitical stage. They seem to support NATO. They are in no rush to impose prohibitive tariffs on foreign goods. In other words, Trump seems to be putting together a team that mostly disagrees with some of his campaign rhetoric and pledges.

**US Economy: Reagan 2.0?** Given that this is Inauguration Week, I asked Melissa to take a close look at comparing Trump to Reagan. There are lots of similarities on the economics front. On the foreign policy front, Reagan was much tougher on the Soviets than Trump has been so far on the Russians. Melissa focused on the similarities between Reaganomics and Trumponomics:

(1) *Band of brothers*. In a 12/7 [interview](#) with the *FT*, Art Laffer, the father of supply-side economics, predicted economic nirvana will result from Trump’s tax cuts. By no coincidence, it’s Laffer and his close friends that are behind the connection of Reaganomics to Trumponomics. “Reaganomics Band Gets Back Together to Advise Trump on Plan,” was the title of a 5/26 Bloomberg [article](#). “Dr. Arthur B. Laffer, Larry Kudlow, Steve Forbes, and Steve Moore, launched CommitteeToUnleashProsperity.com,” a 9/30/15 PR Newswire [release](#) stated. It’s founded on similar principals to Reaganomics, and its executive members are decidedly pro-Trump.

(2) *Tax cuts*. Reagan’s Economic Recovery Tax Act of 1981 (a.k.a. the “Kemp-Roth Tax Cut”) was an across-the-board 25% reduction in marginal income tax rates over three years. Everyone got tax relief. The top rate fell from 70% to 50%. The Tax Equity and Fiscal Responsibility Act of 1982 (a.k.a. “TEFRA”) rescinded some of the effects of the Kemp-Roth Act passed the year before to stem the rapid rise in the federal deficit. The Tax Reform Act of 1986 closed tax loopholes and reduced the number of tax brackets to two--15% for the middle class and 28% for the wealthy. It was one of the biggest rate reductions in American history.

Trump’s plan would reduce the number of tax brackets from seven to three, according to his [website](#). Reagan’s cuts seemed significantly more dramatic than Trump’s are expected to be. Pre-Reagan, the highest marginal tax rate for top earners was 70%, which Reagan slashed to 50% initially and to 28% by 1988. Currently, the top rate stands at practically 40% (i.e., 39.6%), which Trump intends to cut to 33%.

However, Reagan’s policies did not significantly reduce the tax burden on higher-income individuals. Nor should Trump’s policies. In an [article](#) for the 12/4 *Washington Post*, Larry Summers explains that with the rate cuts, Reagan “raised capital-gains rates, scaled back investment incentives, increased corporate tax collections, curtailed shelters, and left estate and gift taxes alone.” Trump won’t follow exactly the same formula, particularly as it pertains to capital gains (which he plans to retain), corporate taxes (which he plans to lower), and death taxes (which he plans to repeal, with exceptions). But he does plan to eliminate personal exemptions and cap itemized deductions. Trump’s Treasury pick Steve Mnuchin told CNBC in an 11/30 [interview](#): “Any reductions we have in upper-income taxes will be offset by less deductions so that there will be no absolute tax cut for the upper class.”

(3) *Deregulation*. Pages within the *Federal Register*, the official daily record of government regulations, skyrocketed during the 1970s and peaked at 73,258 during 1980. The page count declined during the Reagan administration to a low of 44,812 in 1986. It began to rise again during the Bush administration. It rose further during the Clinton administration. Now, the count is the highest in history, reaching 80,260 pages in 2015 under Obama.

These data were obtained from the Competitive Enterprise Institute's helpful 7/14 [analysis](#) of the use of executive order powers titled "Channeling Reagan by Executive Order: How the Next President Can Begin Rolling Back the Obama Regulation Rampage." It concluded: "The next administration will need to set the momentum for regulatory reform. An executive order like Reagan's Executive Order 12291 is a start." Reagan's EO 12291 imposed a cost-benefit analysis upon agencies setting regulatory priorities.

Its bare bones remain essentially in place today, though Presidents Clinton and Obama modified it with executive orders of their own. A 1/22/11 [article](#) in *New Republic* explained: The modifications provided "plenty of wiggle room" to be "exploited by pro-regulatory forces." Unlike Reagan's original order, which simply asked agencies to perform cost-benefit analysis, Clinton's allowed agencies also to take account of "equity." Obama's added that agencies should take account of "human dignity" and "fairness," values that are "difficult or impossible to quantify."

Based on the deregulation themes that Trump carried throughout his campaign, he is likely to leave less room for subjectivity when the benefits of regulation don't quantifiably outweigh the costs. During a town hall in New Hampshire, Trump stated that "70 percent of [federal agency] regulations can go," according to a 10/7 Reuters [article](#). During an online discussion with Reuters earlier in the day, a Trump campaign adviser said: "We need regulation but immediately every agency will be asked to rate the importance of their regulations and we will push to remove 10% of the least important."

(4) *Trade*. The Cato Institute published an eye-opening policy [analysis](#) on Reagan and trade back in 1988. It noted: "Calling oneself a free trader is not the same thing as being a free trader. ... Instead, a president deserves the title of free trader only if his efforts demonstrate an attempt to remove trade barriers at home and prevent the imposition of new ones. By this standard, the Reagan administration has failed to promote free trade. Ronald Reagan by his actions has become the most protectionist president since Herbert Hoover, the heavyweight champion of protectionists." Now that's very strong language, maybe even too strong. However, the analysis does include several interesting examples where Reagan diverged from his pro-trade mantra.

As a 12/6 [article](#) in *Forbes* discussed, Trump might be backing off of several of his extreme anti-trade positions taken during his campaign. In other words, calling oneself a fair trader is not the same thing as being a protectionist. But we shall see.

**Movie:** "Lion" (+ + +) ([link](#)) is a really wonderful movie about five-year-old Saroo, an Indian boy who falls asleep on an empty train that finally stops in Calcutta, more than a thousand miles from his home. He is lost in this big city and struggles to survive. He is eventually adopted by an Australian couple. However, he continues to feel lost and 25 years later seeks to find his home and family with the help of Google Earth. It is all based on a remarkable true story.

## CALENDARS

**US. Tues:** Empire State Manufacturing Index 8.0, Dudley, Brainard. **Wed:** Total & Manufacturing Industrial Production 0.6%/0.3%, Capacity Utilization Rate 75.4%, Headline & Core CPI 0.3%/0.2%, Housing Market Index 69, MBA Mortgage Applications, Treasury International Capital, Beige Book, Yellen, Kashkari. (Bloomberg estimates)

**Global. Tues:** European Car Sales, Germany ZEW Survey (Current Situation) 65, UK Headline & Core CPI 1.4%/1.4% y/y, UK Prime Minister May Speaks on Her Brexit Approach. **Wed:** Eurozone Headline & Core CPI 1.1%/0.9% y/y, Germany CPI 0.7%/m/m/1.7%/y/y, UK Unemployment Rate 4.8%, UK

Jobless Claims Change & Claimant Count Rate 5k/2.3%, Australia Employment Change & Unemployment Rate 10k/5.7%, BOC Rate Decision 0.50%. (DailyFX estimates)

## STRATEGY INDICATORS

**Global Stock Markets Performance** ([link](#)): The US MSCI index fell 0.1% last week, ranking 37th of the 49 markets as 35 rose in US dollar terms--compared to 30th a week earlier, when it rose 1.8% as 45 markets moved higher. The AC World ex-US index outperformed the US MSCI for just the second time in the past nine weeks, rising 1.0% for the week versus a 1.9% gain a week earlier. EM Asia was the best-performing region last week with a gain of 1.8%, followed by EM Latin America (1.7%) and BRIC (1.7). The week's worst regions: EM Eastern Europe (-0.7), EMEA (-0.2), EMU (0.6), and EAFE (0.8). Last week's best-performing countries: Argentina (8.5), Korea (3.4), South Africa (3.3), Brazil (3.0), and Chile (2.8). Indonesia (-1.7) was the worst performer, followed by Greece (-1.6), Russia (-1.5), and Egypt (-1.4). The US MSCI is up 1.7% ytd, which ranks 33/49, and began underperforming the AC World ex-US (3.0) on a ytd basis in the latest week. Forty-four of the 49 markets are positive ytd, led by Argentina (15.4), Morocco (9.4), Brazil (6.9), Philippines (6.4), Korea (6.0), and Singapore (5.9). The worst country performers ytd: Mexico (-3.7), Turkey (-2.5), Sri Lanka (-2.1), Jordan (-0.5), and Russia (-0.1). The best-performing regions ytd: BRIC (4.3), EM Asia (4.3), and EM Latin America (3.6). The worst-performing regions, albeit with gains: EM Eastern Europe (1.2), EMEA (1.2), EMU (1.9), and EAFE (2.6).

**S&P 1500/500/400/600 Performance** ([link](#)): MidCap was the only index to rise last week after all three rose last week when most had their best gains in four weeks. MidCap rose 0.3%, ahead of SmallCap (0.0%) and LargeCap (-0.1). Fifteen of the 33 sectors rose in the latest week, down from 27 rising a week earlier, which was then the highest total in four weeks. LargeCap ended the week 0.1% below its prior week's record high, but MidCap and SmallCap remained 0.5% and 2.1% below their respective record highs in early December. Last week's best performers: MidCap Health Care (3.6), SmallCap Industrials (1.5), MidCap Tech (1.2), and SmallCap Tech (1.1). MidCap Energy (-4.1) was the worst sector performer last week, followed by SmallCap Energy (-3.4), MidCap Telecom (-3.2), and SmallCap Consumer Staples (-2.9). Twenty-two of the 33 sectors are positive ytd with MidCap and LargeCap tied with a gain of 1.6%, ahead of SmallCap (0.2). The biggest ytd gainers: MidCap Health Care (5.4), LargeCap Tech (3.2), LargeCap Consumer Discretionary (3.2), MidCap Telecom (3.1), and LargeCap Health Care (2.8). The worst performers ytd: SmallCap Consumer Staples (-3.1), LargeCap Telecom (-2.2), and SmallCap Utilities (-2.0).

**S&P 500 Sectors and Industries Performance** ([link](#)): Four of the 11 sectors rose last week, and five outperformed the S&P 500's 0.1% decline--compared to 10 sectors rising a week earlier, when five outperformed the S&P 500's 1.7% gain. Consumer Discretionary and Tech were the best-performing sectors for the week with 0.8% gains, followed by Materials (0.5%), Industrials (0.1), and Health Care (-0.1). Real Estate was last week's worst performer with a decline of 2.2%, followed by Energy (-1.9), Consumer Staples (-1.1), Telecom (-1.1), Utilities (-0.7), and Financials (-0.1). Six of the 11 sectors are higher so far in 2017, and four are outperforming the 1.6% gain for the S&P 500. The best performers in 2017: Tech (3.2), Consumer Discretionary (3.2), Health Care (2.8), and Materials (2.3). The sectors underperforming the S&P 500: Telecom (-2.2), Energy (-1.4), Consumer Staples (-0.5), Utilities (-0.2), Real Estate (-0.2), Financials (1.1), and Industrials (1.5).

**Commodities Performance** ([link](#)): Seventeen of the 24 commodities we follow rose last week, with Industrial Metals dominating the week's best performers: Lead (12.5%), Lean Hogs (8.8), Zinc (6.8), Copper (5.8), and Aluminum (5.7). Last week's laggards: Heating Oil (-2.4), Cotton (-2.3), Cocoa (-2.1), and Brent Crude (-2.1). Eighteen of the 24 commodities are higher so far in 2017, compared to 18 and seven higher during 2016 and 2015, respectively. The best performers in 2017: Lead (14.8), Coffee

(8.9), Zinc (8.5), Kansas Wheat (7.3), Aluminum (6.9), and Copper (6.7). This year's laggards: Natural Gas (-8.8), Heating Oil (-3.8), GasOil (-2.5), and Unleaded Gasoline (-2.0).

**Assets Sorted by Spread w/ 200-dmas** ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 16/24 commodities, 4/9 global stock indexes, and 9/33 US stock indexes compared to 14/24, 9/9, and 25/33 rising a week earlier, respectively. Eighteen commodities trade above their 200-dmas, up from 15 a week earlier as these three turned positive w/w: Coffee, Lean Hogs, and Soybeans. Commodities' average spread surged to 6.2% from 4.2%. Zinc trades 22.9% above its 200-dma, which is the highest of all commodities and all assets, but Lead (19.4%) improved 12.6ppts w/w for the best performance among all commodities and all assets. Cocoa (-20.8) trades at the lowest of all commodities and all assets relative to its 200-dma, but Heating Oil fell 3.8ppts to 11.7% for the worst performance among all commodities. The global indexes trade an average of 7.0% above their 200-dmas, up from 6.8% above in the prior week. All nine of the global indexes trade above their 200-dmas, unchanged from a week earlier. Japan (12.8) leads the global indexes, but the UK was the group's best performer last week as it gained 1.5ppts to 9.9%. Indonesia had the weakest performance of its country peers last week as it fell 1.7ppts to 2.3%, but China (1.6) is trading at the lowest relative to its 200-dma of the global assets. The US indexes trade an average of 7.6% above their 200-dmas, with 29 sectors above, down from an 8.5% average a week earlier, also a week when 29 sectors were above. SmallCap Materials leads all US stock indexes at 20.8% above its 200-dma, but MidCap Health Care was last week's best performer among US stock indexes, as it improved 3.4ppts w/w to 7.6%. LargeCap Real Estate (-3.4) trades the lowest among US indexes relative to its 200-dma, but SmallCap Energy was last week's worst performer among US stock indexes and all assets as it fell 5.5ppts to 20.6%.

**S&P 500 Technical Indicators** ([link](#)): The S&P 500 remained in a Golden Cross last week for a 38th week (after 17 weeks in a Death Cross) as the index improved relative to its 50-day moving average (dma) and 200-dma for a sixth straight week. Its 50-dma improved to an 11-week high of 3.6% above its 200-dma from 3.1% a week earlier and a six-month low of 2.0% in early December. That's down from a 30-month high of 5.4% in mid-September, but up from a 52-month low of -4.5% in early March. The S&P 500's 50-dma moved higher for a ninth week after six weekly declines, and the index closed the week above its 50-dma for a ninth week after nine weeks below. However, the S&P 500 dropped to 2.0% above its rising 50-dma from 3.0% a week earlier and a 38-week high of 4.8% above its rising 50-dma on December 13; that compares to a 52-month high of 6.2% on March 21 and a five-month low of -7.8% in mid-January. The S&P 500's bounce off its 200-dma in early November lost steam last week for the third time in four weeks: The index fell to 5.8% above its rising 200-dma from 6.2%, but remains below the 17-week high of 6.9% above its rising 200-dma on December 13. That compares to a 20-month high of 7.1% in mid-August and a six-month low of -10.0% in mid-February. The 50-dma and 200-dma both rose together for a ninth week after falling for eight weeks.

**S&P 500 Sectors Technical Indicators** ([link](#)): The short-term and long-term technical pictures were mostly steady for the 11 S&P 500 sectors last week. All 11 sectors still trade above their 50-day moving averages, unchanged from a week earlier. That's a big turnaround from 10 weeks ago, when all 11 sectors traded below their 50-day moving averages (dma) for the first time since December 11, 2015. Seven of the 11 sectors were above their 200-dmas last week, also unchanged from a week earlier. The four sectors still trading below their 200-dmas: Consumer Staples, Health Care, Real Estate, and Utilities. Only six sectors are in a Golden Cross now, with 50-dmas higher than their 200-dmas. The Golden Cross club members: Consumer Discretionary, Energy, Financials, Industrials, Information Technology, and Materials. All 11 had been in a Golden Cross during a 21-week streak that ended October 24, the longest such stretch since October 2014. Ten of the 11 sectors have rising 50-dmas, unchanged from a week earlier, but Consumer Staples 50-dma is flat now instead of falling. Eight have rising 200-dmas, unchanged from a week earlier. None of the sectors have a falling 50-dma, but these

three have a falling 200-dma: Consumer Staples, Real Estate, and Utilities.

## US ECONOMIC INDICATORS

**Retail Sales** ([link](#)): Retail sales in December were just below expectations, while there were slight upward revisions to November and October gains. Headline retail sales advanced 0.6%, slightly below the consensus estimate of 0.7%, following increases of 0.2% (vs. 0.1%) in November and 0.7% (vs. 0.6) in October. Core retail sales--which excludes autos, gasoline, building materials, and food services--were on the weak side, advancing 0.2% after no change in November and a 0.6% expansion in October. (BEA uses this core retail sales measure to estimate personal consumption expenditures each month.) Seven of the 13 major retail sales categories increased in December, led by sales at automotive (2.4%), gasoline (2.0), and nonstore (1.3) retailers; also in the plus column were sales of furniture, building materials, health & personal care products, and sporting goods--posting gains ranging from 0.2% to 0.5%. Falling during the month were sales at miscellaneous store retailers (-1.0), food service & drinking places (-0.8), general merchandise stores (-0.5), electronic & appliance stores (-0.5), and food & beverage stores, while sales at clothing stores were unchanged. We estimate real core retail sales were flat in December, following declines of 0.1% the prior two months. These sales contracted 0.7% (saar) during Q4, slowing from gains of 2.2%, 5.2%, and 7.8% the prior three quarters. Real headline retail sales expanded 2.4% (saar) last quarter, slowing from Q3's 4.9%.

**Business Sales & Inventories** ([link](#)): Nominal business sales increased in November for the eighth time in nine months, while October real sales continued to set new record highs. The details: Nominal manufacturing & trade sales (MTS) advanced 0.1% in November and 4.0% the past nine months; prior to March's increase, these sales hadn't posted a gain since June 2015. Inflation-adjusted MTS rose for the fifth straight month, by 0.3% m/m and 2.0% over the period. Real sales of both retailers and wholesalers reached new record highs in October--the latter had been stalled around its high in recent months. Manufacturers' sales continue to lack momentum. October's real inventories-to-sales ratio sank to an 18-month low of 1.42, down from May's 1.45, which was its highest since July 2009. November's nominal inventories-to-sales ratio ticked up from a 15-month low of 1.37 in October to 1.38 in November, still below its cyclical high of 1.41 recorded during the first three months of the year.

**Consumer Sentiment Index** ([link](#)): Confidence in early January maintained the post-election surge, holding around the highest levels since 2004. The Consumer Sentiment Index ticked down to 98.1 in mid-January after rebounding from a 13-month low of 87.2 in October to 93.8 in November and a cyclical high of 98.2 in December. Richard Curtin, the Surveys of Consumers chief economist, said "actual changes in the economy" will have the most impact on sentiment, noting, "We're going to start to see either a positive or negative reaction after Trump has been in office for three or for months." The present situation component climbed for the third month, by a total of 9.3 points, to 112.5 in mid-January--the highest reading since July 2005. The expectations component dipped to 88.9 this month after soaring 12.7 points in the two months through December to a 23-month high of 89.5.

**PPI** ([link](#)): The PPI for final demand in December rose 0.3% after a 0.4% advance in November. The breakdown shows final demand services edged up 0.1% after rebounding 0.5% in November, which was the largest gain since the start of 2016; final demand goods jumped 0.7% after slowing from 0.5% in September to 0.2% in November. Roughly 70% of December's gain in the former can be attributed to prices for final demand services less trade, transportation & warehousing; conversely, prices declined for final demand transportation & warehousing services. Sixty percent of December's broad-based increase in final demand goods can be traced to the index for final demand energy, which jumped 2.6%; prices for final demand goods less food & energy rose 0.3%. The goods rate accelerated 1.9% y/y in December, a 29-month high; the services rate held at 1.5% y/y, near its high for the year. The increase in final demand ex food & energy remained at November's 22-month high of 1.6% y/y; the rate

for these core prices excluding trade services was 1.7% y/y, up from near zero at the end of 2015.

**Import Prices** ([link](#)): Import prices in December rebounded 0.4% after falling 0.2% in November. Petroleum prices remained volatile, jumping 7.9% last month after falling 3.0% in November and rising 7.5% in October. Nonpetroleum prices (which include natural gas) slipped 0.2% after no change in November and an identical 0.2% decrease in October. The yearly rate for total imports was 1.8% y/y last month, turning positive in November (0.1% y/y) for the first time since July 2014. Nonpetroleum prices were flat y/y after two years in negative territory. Import prices from Japan increased 1.5% y/y, turning positive in August for the first time in 43 months; import prices from NICs (-0.8% y/y) and China (-1.7) are still falling, though at a slower pace.

## GLOBAL ECONOMIC INDICATORS

**Eurozone Industrial Production** ([link](#)): Output in November jumped to its highest reading since September 2009. Industrial production (excluding construction) expanded 1.5% in November after a 0.1% gain in October--first reported as a 0.1% loss, and a slightly narrower loss in September (to -0.8% from -0.9%). November's advance was led by solid gains in consumer nondurable goods (2.9), intermediate goods (1.6), and energy (1.2) output; production of capital goods edged up 0.1%, while consumer durable goods edged down 0.1%. Production in the four largest Eurozone economies showed robust advances in France (2.2%), Spain (1.7), and Italy (0.7), while Germany's output edged up 0.3%. Of the remaining countries where data are available, Ireland (16.3) led the pack by a wide margin, followed by Croatia (3.7), the Netherlands (3.5), and Latvia (2.8); only Portugal and Greece posted declines, with both falling 0.9%.

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