



## MORNING BRIEFING

March 13, 2017

### Run, Bull, Run

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

(1) Bubba, Forrest, and the bull market. (2) Sprinting may not be healthy for aging bulls. (3) Among the best bull markets. (4) Bull market for job seekers. (5) Both soft and hard data confirming strength in labor market. (6) Another record high in full-time employment. (7) Earned Income Proxy also still rising in record-high territory. (8) Frackers have learned how to keep gushing at lower oil prices. (9) 27 Club. (10) Movie Review: "Kong: Skull Island" (- -).

**Strategy: Bubba Bull.** The Bubba Gump Shrimp Co. Restaurant and Market is a seafood restaurant chain inspired by the 1994 film "Forrest Gump," which is one of my personal favorite movies. The chain, which capitalized on the movie's popularity, is owned by Viacom, which owns Paramount, the studio that distributed the movie. In the movie, simple-minded Forrest likes to go for long runs, including from the East Coast to the West Coast and back. Along the way, crowds cheer him by chanting, "Run, Forrest, run!"

Everyone is certainly impressed with the endurance of the bull market in stocks, which has been running for the past eight years from March 9, 2009 through last Thursday ([Fig. 1](#)). We should all be chanting, "Run, Bull, run!" Then again, that might not be such a good idea since lots of soldiers died during the First Battle of Bull Run, fought on July 21, 1861 in Virginia. It was the first major battle of the American Civil War.

Nevertheless, Joe and I continue to cheer for the bull. We are still predicting 2400-2500 on the S&P 500 by the end of the year—or the end of the week. The index briefly poked the bottom end of our range on an intraday basis on March 1. If it gets to the top end of our range ahead of our schedule, we may recommend taking some profits. That might also force us to tone down our Stay Home investment strategy and recommend finding stocks with cheaper valuations abroad. We much prefer bulls that run at a more leisurely pace. They are more likely to endure. Aging bulls that suddenly decide to sprint may run the risk of having a major coronary. Instead of worrying about the future, let's review the bull's accomplishments over the past eight years:

(1) *Length.* The race most likely isn't over for the latest bull run, which is the third longest-running on record for the S&P 500, at 2914 days through the March 1 record high (data are available since January 1928 on a daily basis). There have been 23 bull markets since the start of these data (see our [S&P 500 Bull and Bear Markets](#), [Table 2](#)).

(2) *Return.* The S&P 500 is up 250.7% from March 9, 2009 through March 9 of this year ([Fig. 2](#)). So far, that's the third-best bull market performance since 1928. Using weekly data, the eight-year percentage change in the S&P 500 is the best such gain since December 2000 ([Fig. 3](#)).

(3) *Sectors.* Here is the performance derby of the sectors outperforming the S&P 500 since March 9, 2009: Consumer Discretionary (448.0%), Financials (390.5), Information Technology (347.3), Real Estate (326.9), and Industrials (321.5) ([Fig. 4](#)). Underperforming the S&P 500 have been Energy (64.2), Telecommunication Services (91.9), Utilities (124.0), Consumer Staples (181.4), Materials (198.7), and

Health Care (244.8).

**US Employment: Faster Pace.** The bull market in employment may have gotten recharged with some “animal spirits” as a result of Trump’s victory. Numerous surveys of consumer and business confidence soared after Election Day, as Debbie and I have observed. Those were widely deemed to be “soft data.” Now we may be seeing some “hard data” confirming that economic growth is improving. Consider the following:

(1) *Soft data.* Among the first signs of renewed strength in the labor market was the average of the employment components of the five regional business surveys conducted by the Federal Reserve Banks of New York, Philly, Richmond, Kansas City, and Dallas ([Fig. 5](#)). It rose from -0.6 during October to 9.9 last month, the highest since November 2014. Also registering strong readings during February were the employment components of the M-PMI (54.2, up from 51.8 during October) and NM-PMI (55.2, up from 52.2) ([Fig. 6](#)).

Over the past three months through January, 30.7% of small business owners said they have positions that they are unable to fill right now, the highest percentage since February 2001 ([Fig. 7](#)). This series is highly inversely correlated with the percentage of consumers saying that jobs are hard to get, which fell to 20.3% during February, the lowest reading since August 2007, according to the confidence survey conducted by the Conference Board.

(2) *Hard data.* Among the highest-frequency hard-data series for the labor market is weekly initial unemployment claims. During the week of March 4, the four-week average at 236,500 was little changed from the prior week’s 234,250—which was the lowest since April 1973 ([Fig. 8](#)). That’s quite extraordinary given that payroll employment is now nearly double what it was back then! February’s private-sector payrolls rose 227,000 according to the Bureau of Labor Statistics (BLS) and 298,000 according to ADP ([Fig. 9](#)). Boosting both surveys were jobs in goods-producing industries, including both manufacturing and construction, with gains of 95,000 in the BLS data and 106,000 in ADP’s ([Fig. 10](#)).

The payroll data counts the number of jobs, both full-time and part-time. The BLS household employment survey counts the number of people who are employed. This gauge rose 447,000 during February, following a decline of 30,000 during January. Most of the increase was attributable to full-time employment, which rose to yet another record high last month ([Fig. 11](#)).

(3) *Odd data.* Despite all the signs of a tightening labor market, there is one that isn’t confirming this picture. Wage inflation remains stuck under 3.0% y/y, as Debbie discusses below in detail ([Fig. 12](#)). However, that’s a pretty picture for the overall economy, implying that jobs are growing without generating inflationary pressures. The Fed is likely to respond by raising interest rates but at a gradual pace. This all increases the odds that the current economic expansion and bull market in stocks both have room to run.

(4) *Happy data.* The bottom line of the latest employment report is that our Earned Income Proxy for private-sector wages and salaries rose 0.4% m/m and 4.3% y/y during February to yet another record high ([Fig. 13](#) and [Fig. 14](#)). This augurs well for retail sales and the overall economy. Run, Forrest, run!

**Crude Oil: Still Gushing.** Last year, we surmised that technological advances in drilling for oil would keep US frackers pumping oil at prices much lower than most had expected would be economically feasible. That’s why we maintained our price forecast range of \$40-\$50 for a barrel of Brent Crude oil. We didn’t change our assessment when it rose above our range at the beginning of this year to a recent high of \$57.10 on January 6 ([Fig. 15](#)). It did so on optimism that OPEC’s agreement to reduce oil

production was working, while global oil demand was still growing. It was back down to \$51.37 on Friday.

US frackers have been doing what we expected them to do: They are increasing their production. The US oil rig count plunged 80% from a peak of 1,609 during the week of October 10, 2014 to the most recent low of 316 during the week of May 27, 2016 ([Fig. 16](#)). It's up 95% since the low. Much more impressive is that oil field production declined by just 12.3% from mid-2015 through mid-2016. In early March, it was back to 9.1mbd, only 5.4% below the 2015 high.

Meanwhile, US gasoline usage has softened in recent weeks ([Fig. 17](#)). US crude oil inventories have continued to rise to record highs since the start of the year ([Fig. 18](#)).

**Correction: Morrison in 27 Club.** My apologies to Jim Morrison fans. Last week, I incorrectly wrote that the rock legend died at the age of 25. He actually was a member of the so-called "[27 Club](#)," which includes an unusually high number of musicians and other artists who died at the age of 27, often as a result of drug and alcohol abuse. Also on this list are Jimi Hendrix and Janis Joplin.

**Movie.** "Kong: Skull Island" (- -) ([link](#)) is the latest King Kong movie confirming that the original can't be beat, no matter how hard the Kong wannabes beat their furry chests. The original premiered in 1933 as a remake of the "Beauty and the Beast" tale, and featured Kong climbing the Empire State Building, which was completed in early 1931. In the first version, Beauty killed the Beast. In this one, Beauty saves the Beast. The movie was beautifully filmed, mostly in Vietnam, with the action taking place during 1973. It actually seems more like a remake of "Apocalypse Now," except the battle scenes are between Kong and big ugly lizards.

## CALENDARS

**US. Mon:** None. **Tues:** NFIB Small Business Index 105.0, PPI-FD Total, Core, and Core Excluding Trade Services 0.1%/0.2%/0.3%, FOMC Meeting Begins. (Bloomberg estimates)

**Global. Mon:** Draghi. **Tues:** Eurozone Industrial Production 1.4%/m/m/0.9%/y/y, Germany CPI 0.6%/m/m/2.2%/y/y, Germany ZEW Economic Sentiment 13, China Retail Sales (ytd) 10.6% y/y, China Industrial Production (ytd) 6.2% y/y. (DailyFX estimates)

## STRATEGY INDICATORS

**Global Stock Markets Performance** ([link](#)): The US MSCI index fell 0.4% last week, ranking 30th of the 49 markets as 25 rose in US dollar terms--compared to 19th a week earlier, when it gained 0.6% as 25 markets moved higher. The AC World ex-US index outperformed the US MSCI for the fourth time in the past 17 weeks, rising 0.1% for the week versus a 0.2% decline a week earlier. EMU was the best-performing region last week, with a gain of 1.2%, followed by EAFE (0.4%) and EM Asia (0.2). The week's worst-performing regions: EM Eastern Europe (-3.7), EMEA (-2.9), EM Latin America (-2.5), and BRIC (-0.8). Last week's best-performing countries: Spain (3.4), Netherlands (2.9), Austria (2.8), and Belgium (1.0). Peru (-5.0) was the worst performer, followed by Egypt (-4.8), Russia (-4.6), and Brazil (-3.7). The US MSCI is up 6.1% ytd, which ranks 19/49, and has been outperforming the AC World ex-US (5.1) on a ytd basis for the past nine weeks. Forty-four of the 49 markets are positive ytd, led by Argentina (23.2), Poland (16.3), India (10.8), Hong Kong (10.7), Austria (10.6), Singapore (10.3), and China (10.1). The worst country performers ytd: Russia (-9.7), Greece (-4.9), Sri Lanka (-4.8), Colombia (-0.7), and Portugal (0.0). The best-performing regions ytd: EM Asia (8.7), EM Latin America (8.5), and BRIC (8.3). The worst-performing regions: EM Eastern Europe (-3.8), EMEA (-1.7), EAFE (4.7), and EMU (5.1).

**S&P 1500/500/400/600 Performance** ([link](#)): LargeCap and MidCap fell last week for the first time in seven weeks, and SmallCap dropped for a third week. LargeCap slipped 0.4%, recording smaller declines than MidCap (-1.6%) and SmallCap (-2.2). LargeCap fell the most in 10 weeks, but the declines for MidCap and SmallCap were their worst in 19 and 26 weeks, respectively. Three of the 33 sectors rose in the latest week, down from 16 rising a week earlier. LargeCap and MidCap ended the week 1.0% and 2.7% below their March 1 record highs, respectively, and SmallCap is 3.7% below its record highs on February 21. Last week's best performers among sectors: SmallCap Telecom (0.8), LargeCap Tech (0.5), and LargeCap Health Care (0.2). SmallCap Energy (-8.7) was the worst sector performer last week, followed by MidCap Energy (-6.2), SmallCap Real Estate (-5.1), and MidCap Real Estate (-5.0). Seventeen of the 33 sectors are positive ytd, with LargeCap (6.0) beating MidCap (3.0) and both easily ahead of SmallCap (-0.9). The biggest sector gainers ytd: LargeCap Tech (11.1), LargeCap Health Care (10.0), MidCap Health Care (9.0), MidCap Tech (7.1), and SmallCap Health Care (6.7). The worst performers ytd: SmallCap Energy (-17.9), MidCap Energy (-16.4), MidCap Telecom (-9.7), and SmallCap Telecom (-9.3).

**S&P 500 Sectors and Industries Performance** ([link](#)): Two of the 11 sectors rose last week, but five outperformed the S&P 500's 0.4% decline--compared to six sectors rising a week earlier, when three outperformed the S&P 500's 0.7% gain. Information Technology was the best-performing sector for the week with a gain of 0.5%, followed by Health Care (0.2%), Consumer Staples (-0.2), Consumer Discretionary (-0.3), and Telecom (-0.3). Real Estate was last week's worst performer, with a decline of 3.6%, followed by Energy (-2.6), Utilities (-1.2), Materials (-1.2), Industrials (-0.8), and Financials (-0.7). Eight of the 11 sectors are higher so far in 2017, and five have outperformed the 6.0% gain for the S&P 500. The best performers in 2017 to date: Tech (11.1), Health Care (10.0), Consumer Discretionary (6.5), Financials (6.3), and Consumer Staples (6.2). The six sectors underperforming the S&P 500: Energy (-8.0), Telecom (-3.6), Real Estate (-0.5), Utilities (4.1), Materials (4.6), and Industrials (4.8).

**Commodities Performance** ([link](#)): Four of the 24 commodities we follow rose last week, down from ten rising a week earlier. The week's best performers: Lean Hogs (12.6%), Natural Gas (8.3), Feeder Cattle (2.4), and Lead (0.6). Last week's laggards: Nickel (-9.9), Crude Oil (-8.3), Brent Crude (-7.7), and Sugar (-6.7). The best performers in 2017 so far: Lean Hogs (13.6), Lead (12.7), Aluminum (11.0), and Cotton (9.4). This year's laggards to date: Natural Gas (-17.8), Heating Oil (-12.6), Brent Crude (-9.2), and Cocoa (-9.0).

**Assets Sorted by Spread w/ 200-dmas** ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 3/24 commodities, 3/9 global stock indexes, and 1/33 US stock indexes compared to 9/24, 5/9, and 11/33 rising a week earlier, respectively. Thirteen commodities trade above their 200-dmas, down from 17 a week earlier as Natural Gas turned positive w/w and these five turned negative: Crude Oil, Heating Oil, Live Cattle, Nickel, and Soybeans. Commodities' average spread fell to 1.2% from 3.9%. Lean Hogs now leads all commodities and indeed all assets at 20.0% above its 200-dma, followed by Lead (10.5%), Zinc (10.2), Aluminum (10.2), and Copper (10.1). Lean Hogs also performed the best of all assets last week, improving 13.9ppts relative to its 200-dma. Commodities predominate the lowest-trading assets relative to 200-dmas, with Cocoa (-25.4) and Sugar (-10.8) at the steepest discounts of all. Nickel fell 11.0ppts w/w to -4.6% for the worst performance of all commodities and all assets. The global indexes trade an average of 6.5% above their 200-dmas, down from 7.1% above in the prior week. All nine of the global indexes trade above their 200-dmas, unchanged from a week earlier. Japan (11.4) leads the global indexes, followed by Germany (10.8). Chile (8.4) was the group's best performer last week, with a gain of 1.0ppt. Indonesia (2.4) is trading at the lowest relative to its 200-dma of the global assets, but Brazil (8.2) had the weakest performance of its country peers last week, as it fell 4.3ppts. The US indexes trade at an average of 4.1% above their 200-dmas, with 22 of the 33 sectors above, down from a 6.4% average a week earlier when 29 sectors

were above. Six turned negative last week: MidCap Consumer Staples, SmallCap and LargeCap Energy, and all three Real Estate market-cap indexes. The US stock indexes still mostly dominate assets trading above their 200-dmas. LargeCap Financials leads all US stock indexes at 17.3% above its 200-dma, followed by MidCap Financials (13.8), LargeCap Tech (12.5), SmallCap Financials (12.5), and MidCap Tech (12.4). SmallCap Telecom rose 0.7ppt w/w to -2.3% for the sole gain among US stock indexes. The following sectors trade at the deepest discounts to their 200-dmas among the US indexes: MidCap Energy (-9.3) and MidCap Telecom (-8.7). SmallCap Energy (-6.0) was last week's worst performer among US stock indexes, falling 9.3ppts.

**S&P 500 Technical Indicators** ([link](#)): The S&P 500 remained in a Golden Cross last week for a 46th week (after 17 weeks in a Death Cross) as the index's 50-day moving average (dma) improved relative to its 200-dma for a 14th straight week. Its 50-dma rose to a 23-week high of 5.1% above its 200-dma from 4.9% 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 March 2016. The S&P 500's 50-dma moved higher for a 17th week after six weekly declines, and the index closed the week above its 50-dma for a 17th week after nine weeks below. However, the S&P 500 weakened to 2.6% above its rising 50-dma from 3.6% a week earlier. That's down from a 38-week high of 4.8% above its rising 50-dma on December 13 and compares to a 52-month high of 6.2% in March 2016 and a five-month low of -7.8% in January 2016. The S&P 500's bounce off its 200-dma in early November weakened last week as the index closed the week at 7.9% above its rising 200-dma, down from 8.7% a week earlier and down from a 38-month high of 9.4% on March 1. The 50-dma and 200-dma both rose together for a 16th week after falling for eight weeks.

**S&P 500 Sectors Technical Indicators** ([link](#)): The short-term picture weakened for 10 of the 11 S&P 500 sectors last week, and the long-term picture slipped for 9/11. Eight of the 11 sectors trade above their 50-day moving averages (dmas), down from nine a week earlier, as Real Estate turned negative and joined Energy and Telecom. That's a big turnaround from 18 weeks ago, when all 11 sectors traded below their 50-dmas for the first time since December 11, 2015. Eight of the 11 sectors were above their 200-dmas last week, down from 10 a week earlier as Energy and Real Estate turned negative and Telecommunication Services remained below. Eight sectors are in a Golden Cross now, with 50-dmas higher than their 200-dmas, as Consumer Staples joined the club in the last week for the first time since early November and Telecom exited the club after a short-term membership of just over six weeks. Utilities has been a Death Cross club member since late October. All 11 had been in a Golden Cross during a 21-week streak that ended October 24, the longest such stretch since October 2014. Eight of the 11 sectors have rising 50-dmas, down from nine a week earlier as Real Estate started declining and Energy and Telecommunication Services continued falling. However, all 11 have rising 200-dmas, unchanged from a week earlier. That's an improvement from eight in mid-February when three sectors saw their 200-dmas stop falling: Real Estate, Telecommunication Services, and Utilities.

**YRI Weekly Leading Index** ([link](#)): Our Weekly Leading Index (WLI)—a good coincident indicator that can confirm or raise doubts about stock market swings—retreated 0.4% during the week of March 4 after a ten-week surge, totaling 10.1%, to a new record high. Our WLI is the average of our Boom-Bust Barometer (BBB) and Bloomberg's Weekly Consumer Comfort Index (WCCI). Our BBB slumped 1.1% after rising eight of the prior ten weeks by 15.8% to a new record high, as jobless claims edged up to 236,500 (4-wa) after sinking to 234,250 the prior week—which was the lowest since April 1973. The CRB raw industrials spot price index—another BBB component—has moved higher in recent sessions; meanwhile, the WCCI has surged five of the past six weeks, by a total of 12.0%, to a new record high.

## US ECONOMIC INDICATORS

**Employment** ([link](#)): February's employment gain was above expectations, advancing 235,000, following an upward revision to January (to 238,000 from 227,000) and a slight downward revision to December (155,000 from 157,000) payrolls, for a net gain of 9,000. Private employment climbed 227,000, though there were downward revisions to both January (221,000 from 237,000) and December (150,000 from 165,000), for a net loss of 31,000. Over the first two months of 2017, total payroll employment averaged monthly gains of 236,500 versus 147,700 during the final quarter of 2016, with private payroll numbers at 224,000 and 153,300, respectively. The breadth of job creation (percent of private industries increasing payrolls) for both the one-month (63.0%) and three-month (67.6) spans were back above 60% to their highest readings since December 2015 and January 2015, respectively. These measures continued to rebound for manufacturing, with the one-month span jumping from 39.7% last May to 65.4% in February and the three-month climbing from 31.4% to 61.5% over the comparable period.

**Earned Income Proxy** ([link](#)): Our Earned Income Proxy (EIP) continued to reach new record highs last month, climbing for the fifth time in six months by 0.4% m/m and 2.6% over the period. Average hourly earnings, one of the components of our EIP, climbed 0.2% and 1.4% over the comparable periods, while aggregate weekly hours, the other component, advanced 0.2% and 1.2%. Compared to a year ago, the EIP increased 4.3% y/y, with wages up 2.8% (accelerating from January's 2.6%) and aggregate hours 1.5% higher. Our proxy tracks income and spending closely and indicates solid gains for February.

**Employment by Industry** ([link](#)): Hirings in construction, professional & business services, private educational services, manufacturing, health care, and mining led February employment gains. Construction companies added 58,000 jobs—the most since March 2007—after hiring 40,000 in January. The two-month total of 98,000 is nearly half of last year's total increase of 219,000. Professional & business services employment continued to trend higher, climbing 37,000 in February and 597,000 the past 12 months. Private educational services companies hired 29,300 last month—a five-year high. Manufacturing payrolls increased for the third straight month, by 28,000 m/m and 57,000 over the period. Health care employment continued to trend up in February, advancing 26,800 m/m and 356,600 y/y. Mining joined the other goods-producing industries in moving forward, with employment up 7,700 last month, its fourth straight increase, for a total gain of 20,200; mining payrolls had fallen steadily from October 2014 through October 2016. Meanwhile, retail trade establishments cut payrolls by 26,000 after a two-month increase of 53,200. Employment in other major industries—including wholesale trade, transportation & warehousing, information services, financial activities, leisure & hospitality, and government—changed little last month.

**Unemployment** ([link](#)): The unemployment rate ticked down to 4.7% in February after ticking up from 4.6% in November (the lowest since August 2007) to 4.8% in January. The civilian labor force increased 340,000 last month and 600,000 the past three months; those not in the labor force fell 176,000 last month and 912,000 the past two months after a three-month jump of 841,000. The participation rate climbed for the third month to an 11-month high of 63.0% in February. February's adult rate (4.3%) continued to hover around November's cyclical low of 4.2%, while the teenage rate (15.0) was unchanged at just above December's cyclical low of 14.7%. The college-grad rate edged down to 2.4%, back near its cyclical low of 2.3% in November. Those working part-time for economic reasons (a.k.a. "involuntary part-time workers") slipped to 5.7 million (3.6% of the civilian labor force), falling for the fifth time in six months by a total of 323,000. The U6 rate—which includes marginally attached workers—fell back down to its cyclical low of 9.2%, while the sum of the underemployment and jobless rates slipped to 8.3%, near November's cyclical low of 8.1%.

**Wages** ([link](#)): Wage inflation—as measured by the average hourly earnings rate for all workers on private nonfarm payrolls (AHE)—climbed 0.2% in February, matching January's gain; the yearly rate

accelerated from 2.6% to 2.8%, remaining below 3.0%. Wages also rose 2.8% (saar) during the three months ending February. The wage rate for goods-producing industries (2.9% y/y) continued to bounce around 3.0%, while service-providing's rose from 2.5% to 2.8%, which matched its highest reading since June 2009. Within goods-producing, the natural resources (to 3.1% from 3.0%) rate ticked up, construction's (2.7 from 3.1) edged down, while manufacturing's was unchanged at 2.9%. Within service-providing, the rate for wholesale trade (3.4) remained on a volatile uptrend, while rates for leisure & hospitality (4.2) and transportation & warehousing (2.3) were stalled at recent highs. Rates for utilities (2.0) and retail trade (1.8) remained on volatile downtrends, while rates for information services (3.8), professional & business services (2.7), and education & health services (2.2) continued to move sideways. The rate for financial activities (2.4) continued its very volatile flat trend.

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