



MORNING BRIEFING

July 24, 2017

Summertime Lullaby

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

(1) Porgy, Bess, and all that bullish jazz. (2) Bull to bear: “Hush up, little baby.” (3) Summertime, and the bears are still hibernating. (4) The 2-by-2-by-2 scenario is the consensus. (5) Worry list: Central banks’ balance sheets, reflation, and the swamp. (6) ECB and BOJ not rushing to normalize. (7) S&P 500 Financials stall on flatter yield curve, lack of volatility for trading desks, and lackluster loans. (8) Movie Review: “Dunkirk” (+ + +).

Strategy I: Jazzy Opera. “Summertime” is the aria in the opera *Porgy and Bess* (1935) composed by George Gershwin. The song became a popular and much-recorded jazz standard, with more than 33,000 covers by groups and solo performers. During these hot summer days, I sometimes like to listen to Ella Fitzgerald [sing](#): “Summertime, and the livin’ is easy. Fish are jumpin’, and the cotton is high. Oh, your daddy’s rich, and your ma is good-lookin’. So hush little baby, don’t you cry.”

For stock investors, the living has been relatively easy since March 2009, when this great bull market started. It would have been far easier if we all fell asleep since then and just woke up occasionally to make sure we were still getting rich. There have been plenty of reasons to wake up crying. But the bull kept singing a lullaby that hushed us all up. Now it seems that we are all getting lulled to sleep by the monotonous advance of stock prices. They just keep heading to new record highs with less and less volatility ([Fig. 1](#) and [Fig. 2](#)). Consider the following:

(1) *Vix*. The S&P 500 VIX fell to a record low 9.36 last Friday ([Fig. 3](#)). It had spiked to 28.14 early in 2016 on fears of four Fed rate hikes that year. The Brexit scare last summer caused it to spike to 25.76.

(2) *High-yield spread*. The yield spread between the high-yield corporate bond composite and the US Treasury 10-year bond remains extremely low around 325bps despite the recent weakness in the price of oil ([Fig. 4](#)). That spread widened dramatically from 253 bps on June 23, 2014 to 844 bps on February 11, 2016, when the price of oil plunged. Not surprisingly, the spread is highly correlated with the VIX ([Fig. 5](#)). Both suggest that investors are enjoying a summertime siesta.

(3) *Sentiment*. So does the Investors Intelligence survey, which shows that only 16.7% of investment advisers are bearish ([Fig. 6](#)). This series is also highly correlated with the VIX. The Bull/Bear Ratio was back above 3.00 last week ([Fig. 7](#)).

Strategy II: Hot Towns. It certainly is summertime in DC, Baltimore, Wilmington, Philly, and NYC. I was visiting our accounts in those hot cities last week. The heat is making all of us drowsy. That’s especially since the consensus seems to be very much at ease with an economic outlook that’s bullish for stocks. It’s easier to fall asleep when one has few worries. There’s also no noise coming from the VIX to wake us up. However, I found that some accounts are concerned about the lack of volatility and the proliferation of bullish sentiment from a contrarian perspective, but they don’t seem to be losing too much sleep over it.

Almost everyone seems to share my view, which I first mentioned in early 2013, that the risk is a melt-

up that might set the stage for a meltdown. A few wondered why I still viewed it as a risk rather than a reality or at least a clear and present danger. Of course, the only trouble with a melt-up is that we must be wide awake to decide when to get out of stocks. I conceded that we might very well be starting a melt-up.

The consensus scenario that seems to be lulling everyone to sleep this summer is as follows: The economy will continue to grow at a leisurely pace, with real GDP rising 2.0% and inflation remaining just below 2.0%. This is certainly not a boom, which therefore reduces the risk of a bust. No boom, no bust (NBx2)! So the economic expansion could last for a long while. Back in 2014, Debbie and I explained why it might last until March 2019. It will be the longest expansion on record if it lasts until July 2019. Everyone has plenty of explanations for why wage inflation hasn't rebounded and might remain subdued while the unemployment rate is so low and might stay that way. The Fed should continue to raise rates, but monetary normalization will remain very gradual, and the federal funds rate might peak at only 2.00% this cycle.

I am officially dubbing this the "2-by-2-by-2" scenario, with real GDP growing 2.0%, inflation at 2.0%, and the federal funds rate at 2.00%. This is the consensus currently, in my opinion, based on my discussions with some of our accounts, most recently in the Mid-Atlantic states.

So what could go wrong? What might lead to a meltdown (either a nasty correction or a bear market) without a stage-setting melt-up first? Consider the following:

(1) *Central bank balance sheets.* A few accounts last week raised some concerns about the adverse consequences on the stock and bond markets if the Fed, ECB, and BOJ all were to start to reduce the sizes of their balance sheets from June's levels of \$4.4 trillion, \$4.7 trillion, and \$4.5 trillion, respectively ([Fig. 8](#)). While the Fed is set to proceed, Fed officials seem to be signaling that they might slow or postpone rate hikes once they start to reduce their balance sheet. Neither the ECB nor the BOJ seem to be in any rush to halt their ultra-easy policies.

Last week, ECB President Mario Draghi expressed concern about the risk of a slowdown in bank lending and low annual CPI inflation in the Eurozone ([Fig. 9](#) and [Fig. 10](#)). During his 7/20 [press conference](#), Draghi observed that inflation was 1.3% y/y in June, down from 1.4% in May, mainly due to lower energy price inflation. That's below the ECB's target of close to, but just below 2.0%. Measures of underlying inflation remain low, he further noted, and do not appear likely to pick up.

Answering a question about inflation expectations, Draghi explained: "[B]asically, inflation is not where we want it to be, and where it should be. We are still confident that it will gradually get there, but it isn't there yet." Reiterating his prepared introductory statement, he continued: "Therefore a very substantial degree of monetary accommodation is still needed for underlying inflation pressures to gradually build up and support headline inflation developments in the medium term."

Draghi added: "But let me just make clear one thing: after a long time, we are finally experiencing a robust recovery, where we only have to wait for wages and prices to move towards our objective. Now, the last thing that the Governing Council may want is actually an unwanted tightening of the financing conditions that either slows down this process or may even jeopardise it." Reading from the introductory statement again, Draghi repeated: "If the outlook becomes less favourable or if financial conditions become inconsistent with further progress towards a sustained adjustment in the path of inflation, we stand ready to increase our asset purchase programme in terms of size and/or duration." Citing the Bank Lending Survey for Q2, however, Draghi observed that bank lending rates are currently at supportive levels, credit standards have further eased, and loan growth continues to be supported by demand.

Also last week, despite a recent slowdown in the pace of monthly purchases, the BOJ [maintained](#) its annual purchase target of “more or less the current pace” of 80 trillion yen in Japanese Government Bonds (JGBs). The bank also maintained its “QQE with YCC” policy, targeting 10-year JGB yields at around zero percent, with the short-term rate held at -0.1%. No change was made to the inflation target of 2.0%. However, the BOJ lowered its median CPI inflation forecasts last made during April as follows: to 1.1% from 1.4% for 2017, to 1.5% from 1.7% for 2018, and to 2.3% from 2.4% for 2019 ([Fig. 11](#)). Excluding the effects of the consumption tax hike, the bank expects CPI inflation to reach just under 2.0% around 2019. While the forecasted growth rates for Japan’s economy were somewhat higher than the previous ones, risks “to both economic activity and prices are skewed to the downside,” according to the BOJ’s “[Outlook for Economic Activity and Prices \(July 2017\)](#).”

(2) *Inflation*. While the major central banks are struggling to push inflation up to their 2.0% targets, I did run into one person in NYC last week who believes that both growth and inflation soon will make comebacks in the US because he is convinced that the Millennials are on the verge of getting married, having kids, and buying houses. I was skeptical, but remain open-minded about that possibility. I told him when I see it in the data, I’ll believe it.

My friend and I agreed that there are three possible scenarios. There’s the consensus sleepy, but bullish, 2-by-2-by-2 scenario. There’s my sleep-depriving melt-up scenario. There’s his sleep-jarring inflation scenario, which would force the Fed to tighten monetary policy at a more normal rate and might trigger a meltdown. My subjective probabilities on these three currently are 40%, 40%, 20%. I’m thinking about raising the odds of a melt-up above 50%, but the summer heat is slowing me down.

(3) *The swamp*. It’s certainly the dog days of summer in Washington, DC. President Donald Trump has called on members of Congress not to flee the city to go on their summer vacations but to stay and work until health care reform has been accomplished. It was mighty hot there last week when I stayed overnight at the Watergate Hotel, just for the fun of it. Even hotter is the political fighting between the Republicans and Democrats and infighting among the Republicans. However, the bull market couldn’t care less. There’s always the possibility of a selloff if the latest round of gridlock is so bad that another debt-ceiling deadlock could force yet another government shutdown. Then again, this bull market seems so charged up that a shutdown might be welcomed: If we can’t drain the swamp, then let’s shut it down.

Banks: Hits & Misses. High expectations and low interest rates and volatility are putting a damper on S&P 500 Financials’ Q2 earnings season. While most EPS results beat expectations, they failed to light a fire under the sector’s stock index. While it is up 29.7% y/y through Friday’s close, making it the second-best-performing S&P 500 sector over that period, over the last week the sector fell 0.3%, making it the third-worst-performing sector ([Fig. 12](#)).

Here’s the performance derby for the S&P 500 and its 11 sectors over the past week through Friday’s close: Utilities (2.6%), Tech (1.1%), Health Care (1.1), Consumer Discretionary (1.0), Telecom Services (1.0), Real Estate (0.8), Consumer Staples (0.6), S&P 500 (0.5), Materials (0.0), Financials (-0.3), Energy (-0.5), and Industrials (-1.0) ([Table 1](#)).

Despite the disappointment, forward earnings expectations for Financials remain optimistic. Analysts expect the sector’s revenues to grow 3.7% over the next 12 months, and earnings to increase by 12.3% ([Fig. 13](#)). As a result, Financials boasts the third-highest forward earnings growth of the 11 S&P 500 sectors ([Table 2](#)).

At 13.9, the industry’s forward P/E has rebounded from its recessionary lows, which will make further

expansion tougher to come by ([Fig. 14](#)). However, the sector's stocks should climb along with earnings, bolstered by higher dividend payments, stock buybacks, and a friendlier political environment. Here's a quick look at some of the highlights of the Q2 earnings Financials have reported so far:

(1) *Flattening spreads*. Hopes were high that interest rates on long-term bonds would have risen by now, giving a boost to banks' net interest margins. However, the 10-year Treasury yield is lower today than it was in December, while short-term interest rates have continued to climb ([Fig. 15](#)). As a result, the spread between the fed funds rate and the 10-year Treasury, which ran up to 213 bps on December 14, 2016, fell back to a low of 98 bps during June 26 of this year. The spread widened slightly in recent weeks to 111 bps ([Fig. 16](#)).

Bank of America's Q2 net interest income may have risen by 8.6% y/y to \$11.0 billion, but it fell by \$72 million from Q1. The bank warned in May that the sale of a business and the interest-rate environment would weigh on results, the 7/18 *WSJ* [reported](#). Banks earnings have room to improve dramatically if long-term interest rates rise. Their best chance may come this fall if the Fed goes through with reversing quantitative easing. Wall Street remains optimistic about the S&P 500 Diversified Banks industry, penciling in forward revenue growth of 4.0% and forward earnings growth of 12.2% ([Fig. 17](#)).

(2) *Unprofitable VIX*. Record-low volatility in the stock market and a sharp drop in the price of oil combined to hurt trading results for most financial players. As we mentioned above, the CBOE Volatility Index hit its lowest level since 1993 on Friday, July 14, in part because the stock market in the past year has gone only in one direction: up. The three major stock indexes in the US, Europe, and Asia have yet to pull back by 5% or more this year. "Never in at least the past 30 years have all three indexes—the S&P 500, MSCI Europe and MSCI Asia-Pacific ex-Japan—gone a calendar year without falling at some point by at least 5%," a 7/19 *WSJ* [article](#) reported.

The markets took their biggest bite out of Goldman Sachs' results; Q2 revenue in its fixed-income, currency, and commodities trading business fell 40% y/y. The declines were less dramatic at other shops, but the area was a drag nonetheless. FICC revenue fell 6% at Citigroup, 14% at Bank of America, and 4% at Morgan Stanley. Goldman still beat analysts' estimates for the quarter, but leaned on profits from its private equity division to do so.

Wall Street's analysts are forecasting 6.2% forward revenue growth and 14.4% forward earnings growth for the S&P 500 Investment Banking & Brokerage industry ([Fig. 18](#)).

(3) *Languishing loans*. There has been some concern about slowing loan growth given that we're in the eighth year of an economic expansion. The y/y increase in C&I loans at banks was 1.4% in mid-July, slower than the 12% increases enjoyed just two years ago ([Fig. 19](#)). At BAC, Q2 loan growth was only 1.5% y/y, but at JPMorgan and PNC loans grew a bit faster, at 4.1%. The Pittsburgh-based bank said it expects loans to rise by a mid-single-digit rate for the full year.

Wall Street analysts are projecting some of the strongest results in the Financials sector to come from Regional Banks. Revenues is expected to grow 6.3% over the next 12 months for the S&P 500 Regional Banks industry, and earnings should jump 14.3% ([Fig. 20](#)).

Movie: "Dunkirk" (+ + +) ([link](#)) is one of the best-made war movies I've seen because it depicts the brutal intensity of war with no time for frivolous banter. It certainly shows how, for Britain, World War II was from the start about fighting first for survival, then for victory on the beaches, on the seas, and in the air, just as Winston Churchill proclaimed on May 13, 1940. There are plenty of British heroes, particularly the owners of small boats and ferries who participated in evacuating more than 330,000

mostly British and French soldiers in about 11 days from the beaches of Dunkirk before Hitler's forces could annihilate them.

CALENDARS

US. Mon: Composite, Manufacturing, and Non-Manufacturing PMI Flash Estimates 53.2/52.0/54.1, Existing Home Sales 5.580mu. **Tues:** Consumer Confidence 117.0, Richmond Fed Manufacturing Index 8, S&P Case-Shiller HPI 5.8% y/y, FHFA House Price Index 0.6%, FOMC Meeting Begins. (Bloomberg estimates)

Global. Mon: Eurozone, Germany, and France Composite PMI Flash Estimates 56.2/56.3/56.4, Eurozone, Germany, and France Manufacturing PMI Flash Estimates 57.2/59.2/54.6, Eurozone, Germany, and France Non-Manufacturing Flash Estimates 55.4/54.3/56.7, Japan Manufacturing MPI Flash Estimate, BOJ Minutes of June 15-16 Meeting. **Tues:** Germany Ifo Business Climate, Current Assessment, and Expectation Indexes 114.9/123.8/106.5. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): The US MSCI index rose 0.6% last week, ranking 28th of the 49 markets as 34 rose in US dollar terms—compared to 38th a week earlier, when it rose 1.4% for its best gain in seven weeks as 42 markets moved higher. The AC World ex-US index outperformed the US MSCI for just the third time in seven weeks, rising 0.7% compared to a 2.9% surge a week earlier. EM Asia led all regions with a gain of 1.3%, followed by BRIC (1.2%), and EM Latin America (0.9). EM Eastern Europe (-0.7) was the week's worst-performing region, followed by EMU (-0.2), EMEA (0.0), and EAFE (0.5). Czech Republic (3.3) was the best-performing country, followed by Norway (2.9), Korea (2.9), South Africa (2.4), and Portugal (2.2). Argentina (-3.4) was the worst performer for a second week, followed by Sweden (-3.2), Sri Lanka (-2.2), Indonesia (-1.6), and Ireland (-1.5). The US MSCI is up 10.6% ytd, with its ranking steady w/w at 37th of the 49 markets, but continues to trail the AC World ex-US (15.8) on a ytd basis. Forty-six of the 49 markets are positive ytd, now led by Poland (37.4), Turkey (36.2), Korea (36.2), Austria (36.0), Greece (35.9), and Argentina (34.7). The worst country performers ytd: Russia (-13.1), Pakistan (-10.7), Jordan (-0.3), Morocco (6.2), and Canada (6.2). EM Asia is the best-performing region ytd with a gain of 27.4%, ahead of BRIC (22.5), EMU (18.3), and EM Latin America (17.0). The worst-performing regions: EM Eastern Europe (-0.8), EMEA (4.8), and EAFE (14.5).

S&P 1500/500/400/600 Performance ([link](#)): All three indexes rose last week as SmallCap's 0.6% gain edged out those of LargeCap (0.5%) and MidCap (0.5). Twenty-four of the 33 sectors rose w/w, down from 25 rising a week earlier. LargeCap ended the week 0.1% below its July 19 record high since June 19, MidCap was 0.4% below its June 19 high, and SmallCap was 0.5% below its June 20 peak. Utilities shares dominated last week's top gainers: SmallCap Utilities (7.2), Small Telecom (4.3), SmallCap Consumer Staples (3.2), MidCap Utilities (2.9), LargeCap Utilities (2.6), and MidCap Consumer Staples (2.6). Energy dominated last week's worst performers: SmallCap Energy (-3.2), LargeCap Industrials (-1.0), LargeCap Energy (-0.5), MidCap Energy (-0.3), LargeCap Financials (-0.3), and MidCap Financials (-0.3). Twenty-four of the 33 sectors are positive ytd, with LargeCap (10.4) beating MidCap (6.8) and both easily ahead of SmallCap (3.6). Health Care and Tech dominate the biggest sector gainers ytd: MidCap Health Care (22.9), LargeCap Tech (22.8), SmallCap Health Care (20.5), LargeCap Health Care (17.5), and MidCap Tech (15.9). Energy and Telecom dominate the worst performers ytd: SmallCap Energy (-38.1), MidCap Telecom (-35.0), MidCap Energy (-30.1), LargeCap Telecom (-14.7), and LargeCap Energy (-13.5).

S&P 500 Sectors and Industries Performance ([link](#)): Seven of the 11 sectors rose last week, and

seven outperformed the S&P 500's 0.5% gain. This compares to nine sectors rising a week earlier, when four outperformed the S&P 500's 1.4% gain. Utilities was the best-performing sector for the first time in eight weeks as its 2.6% gain was ahead of these outperforming sectors: Tech (1.1%), Health Care (1.1), Consumer Discretionary (1.0), Telecom (1.0), Real Estate (0.8), and Consumer Staples (0.6). Telecom's gain snapped a four-week losing streak. Industrials (-1.0) was the worst-performing sector, followed by Energy (-0.5), Financials (-0.3), and Materials (0.0). So far in 2017, nine of the 11 sectors are higher, and four have outperformed the S&P 500's 10.4% gain. The best performers in 2017 to date: Tech (22.8), Health Care (17.5), Consumer Discretionary (11.9), and Materials (10.9). The seven sectors underperforming the S&P 500: Telecom (-14.7), Energy (-13.5), Real Estate (5.4), Financials (6.5), Consumer Staples (6.7), Industrials (9.2), and Utilities (9.5).

Commodities Performance ([link](#)): Thirteen of the 24 commodities we follow rose last week as the S&P GSCI commodities index fell 0.6%, down from 16 commodities rising a week earlier, when the GSCI index rose 2.2%. Precious Metals commodities dominated the week's best performers: Silver (3.3%), Cocoa (2.8), Cotton (2.8), Gold (2.1), Coffee (2.1), and Soybeans (2.1). Last week's laggards: Lead (-3.4), Kansas Wheat (-3.4), Wheat (-2.3), and Crude Oil (-2.1). The best performers in 2017 so far: Feeder Cattle (22.4), Wheat (22.4), Kansas Wheat (18.5), Aluminum (13.0), and Lead (11.3). The energy-related commodities still dominate this year's laggards: Sugar (-26.2), Natural Gas (-20.5), Brent Crude (-15.0), Crude Oil (-14.8), Heating Oil (-12.0), and GasOil (-10.3).

Assets Sorted by Spread w/ 200-dmas ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 11/24 commodities, 3/9 global stock indexes, and 20/33 US stock indexes compared to 13/24, 2/9, and 4/33 rising a week earlier, respectively. Eleven commodities trade above their 200-dmas, unchanged from a week earlier. Commodities' average spread edged down w/w to -0.6% from -0.5%. Among assets, Commodities walked away the top two spots last week: Feeder Cattle leads all commodities and all assets at 14.3% above its 200-dma, followed by Wheat (13.8%). Cocoa (-7.3) performed the best of all commodities last week as it improved 3.3ppts. Sugar (-19.9) trades the lowest of all commodities, but Kansas Wheat (11.4) tumbled 4.5ppts last week for the worst performance of all commodities and all assets. The global indexes trade at an average of 5.6% above their 200-dmas, down from 6.1% above in the prior week. Eight of the nine global indexes trade above their 200-dmas, unchanged from a week earlier. South Korea (13.8) leads the global indexes and had the best performance among its peers as it gained 1.1ppts. Canada (-1.0) trades the lowest relative of the global assets to their 200-dmas, but Germany (3.4) performed the worst of its country peers last week, falling 3.7ppts. The US indexes trade at an average of 2.4% above their 200-dmas, with 28 of the 33 sectors above, up from a 1.8% average a week earlier, when 25 sectors were above. These three turned positive w/w: SmallCap Telecom, SmallCap Consumer Staples, and MidCap Consumer Staples. MidCap Health Care leads all US stock indexes at 13.7% above its 200-dma, followed by SmallCap Health Care (13.4), LargeCap Tech (12.6), and SmallCap Utilities (11.0). SmallCap Utilities improved 7.0ppts w/w, the most among the US stock indexes and all assets. SmallCap Energy trades 26.3% below its 200-dma, now the lowest among the US stock indexes and all assets; it fell 1.9ppts w/w for the worst performance of the US stock indexes.

S&P 500 Technical Indicators ([link](#)): The S&P 500 index remained in a Golden Cross last week for a 65th week (after 17 weeks in a Death Cross). However, the index's 50-day moving average (50-dma) relative to its 200-dma weakened for a third week, falling to 4.6% above its 200-dma from 4.7%. That's down from a 34-month high of 5.4% in early April and compares to a six-month low of 2.0% in early December and a 52-month low of -4.5% in March 2016. The S&P 500's 50-dma moved higher for a 35th week as the index closed above its 50-dma for a 13th week, after trading below for two weeks during late April for the first time since the November election. The S&P 500 improved to 1.8% above its rising 50-dma from 1.6%, but is down from an 11-week high of 2.5% in early June. These readings compare to a 23-week low of -1.0% in mid-April, a 38-week high of 4.8% on December 13, and a 52-

month high of 6.2% in March 2016. The S&P 500 rose to a six-week high of 6.5% above its rising 200-dma last week from 6.3% above the week before, but is down from an 11-week high of 7.4% in early June. That's up from mid-April's 19-week low of 4.2%, but down from a 38-month high of 9.4% on March 1. The 50-dma and 200-dma both rose together for a 33rd week.

S&P 500 Sectors Technical Indicators ([link](#)): Seven of the 11 sectors improved w/w relative to their 50-dmas and 200-dmas (all but Energy, Financials, Industrials, and Materials). Eight of the 11 sectors trade above their 50-day moving averages (50-dmas), up from seven a week earlier, as Utilities turned positive after three weeks below. These three sectors remain below their 50-dmas: Consumer Staples, Energy, and Telecom. Energy was below for a 27th straight week; Telecom has been below in 17 of the past 18 weeks; and Consumer Staples has been below for a fifth week. During mid-April, just three sectors were above their 50-dmas, which was the lowest since the election. All 11 sectors had been above their 50-dmas during mid-January, and all 11 were below the week before the election, for the first time since December 11, 2015. The longer-term picture is better: Nine of the 11 sectors were above their 200-dmas last week, unchanged from a week earlier, as Energy remained below its 200-dma for a 22nd week, and Telecom was below for an 18th week. Nine sectors are in a Golden Cross, with 50-dmas higher than their 200-dmas, unchanged from a week earlier and leaving Energy and Telecom still out of the club. All 11 had been in a Golden Cross during a 21-week streak that ended October 24, the longest such stretch since October 2014. Nine of the 11 sectors have rising 50-dmas, up from eight a week earlier, as Consumer Staples turned up after falling for two weeks. Energy's 50-dma dropped for a 24th week, and Telecom's fell for a 23rd week. Nine sectors have rising 200-dmas, unchanged from a week earlier. These two sectors continued their 200-dma downtrends: Telecom's fell for an 16th week, and Energy's for a 13th.

US ECONOMIC INDICATORS

Leading Indicators ([link](#)): "The U.S. LEI rose sharply in June, pointing to continued growth in the U.S. economy and perhaps even a moderate improvement in GDP growth in the second half of the year," according to the Conference Board. The Leading Indicators Index (LEI) advanced for the tenth straight month, by a better-than-expected 0.6% in June and 3.6% over the period, to another new record high. June's advance once again was broad-based, with eight of the 10 components in the plus column; jobless claims (-0.05ppt) was the only negative, while the average workweek was unchanged. The biggest positive contributions came from building permits (0.21), ISM's new orders diffusion index (0.17), the interest-rate spread (0.13), leading credit index (0.09), consumer expectations (0.06), and stock prices (0.06); the remaining indicators—real nondefense capital goods orders and real consumer goods orders—both added 0.01 ppt.

Coincident Indicators ([link](#)): The Coincident Indicators Index (CEI) in June also advanced to yet another new record high. The CEI has posted only one decline in 15 months, increasing 0.2% m/m and 2.6% over the time span. All four components contributed positively last month: 1) Nonfarm payroll employment continues to head straight up to new record highs; it hasn't posted a decline since July 2010. 2) Real personal income—excluding transfer payments—remains on its upswing since stalling in early 2016 at record highs; it's up 3.2% since declining by 0.4% the first two months of 2016—to a new record high. 3) Real manufacturing & trade sales rebounded 0.5% in the two month through June, climbing back toward its record high posted at the end of last year. 4) Industrial production rose for the fifth straight month, by 0.4% in June and 1.6% over the period to its highest level since February 2015.

Regional M-PMIs ([link](#)): Two Fed districts so far have reported on manufacturing activity for this month—New York and Philadelphia—and they show growth in the sector slowed after improving the prior two months. We average the composite, orders, and employment measures as data become available. The composite index sank to 14.7 in July after climbing from 13.6 in April to 23.7 in June; it

was at 31.0 in February—which was the highest reading since July 2004. The New York (to 9.8 from 19.8) measure eased after moving from contraction to expansion in June, while Philadelphia’s (19.5 from 27.6) fell to a low for this year; both continued to show healthy growth. The new orders gauge dropped to 7.7 after rebounding from 10.5 to 22.0 in June, as Philadelphia billings (2.1 from 25.9) slowed to a near standstill, while New York’s (13.3 from 18.1) held near recent highs. The employment measure slowed for the third month from April’s cyclical high of 16.9 to 7.4 this month, though Philadelphia (10.9 from 16.1) manufacturers continued to expand payrolls at a solid pace, while growth in New York hirings (3.9 from 7.7) slowed to a five-month low.

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