One-Man Plunge-Protection Committee

See the collection of the individual charts linked below.

(1) Chronology of recent trade war of words (TWW). (2) China and US playing tit for tat. (3) It takes two to tango. (4) Kudlow playing role of good cop on trade. (5) Kudlow hopes he can beat the Mooch. (6) Never a dull moment in the Trump House. (7) Noise vs signal and signal vs signal. (8) Corrections are followed by rebounds or they turn into bear markets. (9) Counting on better-than-expected earnings to offset TWW. (10) Fundamental Stock Market Indicator remains fundamentally strong. (11) “Chappaquiddick” (+ + +) is a remarkable movie reminding us that the Kennedy clan’s Camelot was anything but.

Trade I: Kudlow Agonistes. The stock market continues to be buffeted by mounting trade tensions between the US and China. Let’s review a few of last week’s key developments:

(1) Tuesday, April 3. On Tuesday, the USTR announced approximately $50 billion in proposed tariffs on imports from China as an initial means to obtain the elimination of policies and practices identified in the USTR’s investigation of China’s unfair trade activity. The DJIA actually rose 1.6%, after falling 1.9% the previous day (Fig. 1). Daily swings continue to be much greater than during 2017 (Fig. 2).

(2) Wednesday, April 4. Last Wednesday, stock prices were diving in the morning after China said it would impose an additional 25% tariff on about $50 billion of US imports, including soybeans, automobiles, chemicals, and aircraft. The move matched the scale of proposed US tariffs announced the previous day. The US is allowing 60 days for public feedback and hasn’t specified when the tariffs would take effect, leaving room for talks. Chinese Ambassador to the US Cui Tiankai said Wednesday his country is ready to negotiate: “Negotiations would still be our preference, but it takes two to tango.” (The Chinese written response also included this zinger: “As the Chinese saying goes, it is only polite to reciprocate.”)

Stock prices rebounded sharply before the close on Wednesday after National Economic Council Director Larry Kudlow said that there is no trade war with China. “None of the tariffs have been put in place yet, these are all proposals,” Kudlow said in an interview with Bloomberg. “We’re putting it out for comment. There [are] at least two months before any actions are taken.” Kudlow suggested there are trade negotiations underway between China and the US.

The DJIA fell more than 2.0% on Wednesday’s open. Yet it finished the day up 1.0%.

(3) Thursday, April 5. Stock prices continued to rise on Thursday, with the DJIA up 1.0%. Thursday evening, the White House released a statement upping the ante in the war of words with China: “Rather than remedy its misconduct, China has chosen to harm our farmers and manufacturers. In light of China’s unfair retaliation, I have instructed the USTR to consider whether $100 billion of additional tariffs would be appropriate under [S]ection 301 and, if so, to identify the products upon which to impose such tariffs.”
(4) Friday, April 6. Stock futures tanked before Friday’s open. China’s commerce ministry on Friday said it would fight the US at “any cost” after Trump threatened to impose tariffs on an additional $100 billion in Chinese imports. The President’s statement said he is committed to “level[ing] the playing field” after an investigation by the USTR found that certain Chinese policies have given the country an unfair advantage over the US.

I was on Bloomberg TV from 9:00-10:00 a.m. on Friday. The show was hosted by Jon Ferro, who interviewed Kudlow at 9:30 a.m. Jon repeatedly interrupted Kudlow, asking him to confirm that China and the US are discussing trade issues. Kudlow didn’t do so convincingly. After the heated interview, I said that Kudlow seems to be the Trump administration’s “one-man plunge-protection committee.” I expressed some concern that he didn’t confirm that serious negotiations were actually taking place.

Later on Friday, Kudlow met with reporters at the White House. The Hill reported that Kudlow joked that he’s “gotta beat” former Communications Director Anthony Scaramucci’s 11-day tenure in the White House. According to Politico, when Kudlow was asked by reporters Friday when he first learned of the President’s decision to instruct his top trade official to consider the new tariffs, Kudlow took a lengthy pause before responding: “Last evening.” The White House statement announcing the move went out shortly after 6:30 p.m. EST on Thursday.

The DJIA sank 2.3% on Friday. It was down 0.3% for the week. Larry had a tough first week in his new job. Let’s hope he doesn’t get “Mooched.”

Trade II: Trump’s War Games. While Trump has been heating up trade tensions with China, he also has imposed more sanctions on Vladimir Putin’s oligarch pals. He is sending the National Guard to our border with Mexico to stop a “caravan” of woebegone desperados, women, and children from crime-infested Honduras. He is having second thoughts about withdrawing US troops from Syria. Palestinians in the Gaza Strip are picking a fight with the Israelis, presumably incited by Trump’s decision to recognize Jerusalem as Israel’s capital. Oh, and there are Stormy and Mueller lurking in Trump’s shadow (i.e., the alleged Stormy Daniels affair cover-up and Special Counsel Robert Mueller’s investigation into the Trump campaign’s Russia ties).

There’s never a dull moment at the White House. Trump certainly knows how to keep the drama going with his daily tweets. The stock market has tuned it all out, with the exception of Trump’s protectionist initiatives. Investors always must find the signal and tune out the noise.

There are two important conflicting signals right now emanating from the White House: The pro-business signal has been powered by deregulation and tax cuts. The protectionist signal raises the prospects of a trade war, which would be bad for business.

Joe and I aren’t tuning out the protectionist signal, but we are going to stick with the bullish signal for business, as most clearly measured by S&P 500 earnings. We expect it will prevail over the bearish signal, which we expect will soon turn into background noise. In other words, we don’t expect that the war of words over trade will turn into an outright trade war. It should remain a war of words until negotiations quietly resolve the issues raised by the USTR.

Strategy: Technicals & Fundamentals. Friday’s big selloff brought the S&P 500 back down to its 200-day moving average. However, Friday’s close of 2604.47 left the index slightly above its 2018 low of 2581.00 on February 8 (Fig. 3 and Fig. 4). If it closes at a new low for the year today, then Joe and I will have to conclude that the 10.2% correction since January 26 didn’t end on February 8, but remains underway. All of us also will have to worry about the potential for the correction to turn into a bear
market if it continues to drop by 20% or more from its record high.

We are counting on the current earnings season, which has just started, to deliver better-than-expected Q1-2018 earnings. We’ve noted before that analysts raised their 2018 estimates significantly during the previous earnings season based on guidance provided by management. That guidance might actually have been too conservative since managements are usually advised by their lawyers not to hype up earnings expectations. Now consider the following:

(1) **Expected 2018 earnings.** The analysts’ consensus earnings estimate for the S&P 500 jumped $11.73 per share, or 8.0%, from $146.26 just before the passage of the Tax Cut and Jobs Act (TCJA) on December 22, 2017 to $157.99 during the week of March 30 (Fig. 5). This estimate has been flat since then. Let’s see if it gets revised still higher in coming weeks, as we expect.

(2) **Blue Angels.** S&P 500 forward earnings, which is the time-weighted average of the consensus estimates for 2018 and 2019, rose by $11.18 per share since TCJA passage (Fig. 6). We derive our Blue Angels by multiplying forward earnings by forward P/Es of 10.0 to 19.0 in increments of 1.0 (Fig. 7).

This analytical framework shows that the drop in the P/E during the current correction was offset by the jump in the forward earnings, bringing the S&P 500 back to where it was just before the TCJA was passed (Fig. 8).

(3) **Weekly fundamentals.** While stock market volatility clearly has been driven by trade war chatter, the underlying weekly fundamentals for the stock market remain very strong. Our Boom-Bust Barometer (BBB) rose to a new record high in March (Fig. 9). It is equal to the CRB raw industrials index divided by initial unemployment claims (Fig. 10). The Weekly Consumer Comfort Index (WCCI) rose to the highest reading since February 17, 2001.

Our BBB has been highly correlated with the S&P 500 since 2000 (Fig. 11). So has our Fundamental Stock Market Indicator (FSMI), which averages the BBB and the WCCI (Fig. 12).

By the way, both our FSMI and BBB are highly correlated with S&P 500 forward earnings (Fig. 13 and Fig. 14).

**Movie.** “Chappaquiddick” (+ + +) ([link](#)) is a very well made docudrama about Ted Kennedy, who committed negligent manslaughter when he drove his car into a tidal channel and left Mary Jo Kopechne to die. He got off scot-free after pleading guilty to leaving the scene of the crash and failing to notify police until the next morning. Mary Jo could have been rescued had the 37-year-old senator gone to get help right away. He became recognized by his fellow Democrats as “The Lion of the Senate” owing to his long tenure and influence.

**CALENDARS**

**US. Mon:** None. **Tues:** NFIB Small Business Optimism Index 106.5, PPI-FD Headline, Core, and Core Less Trade Services 0.1%/0.2%/0.3%, Wholesale Trade Inventories 1.1%. ([Wall Street Journal](#) estimates)

**Global. Mon:** Germany Trade Balance (euros) 20b, Japan Consumer Confidence 44.5, Canada Housing Starts 218k. **Tues:** China New Yuan Loans 1200b, China Aggregate Financing 1900k, China M2 8.9% y/y, Japan Machine Orders. ([DailyFX](#) estimates)
STRATEGY INDICATORS

Global Stock Markets Performance (link): The US MSCI index fell 1.4% last week, ranking 39th out of the 49 markets in a week when 21 countries rose in US dollar terms and the AC World ex-US index edged up 0.1%. That compares to the index’s 1.9% gain a week earlier, which ranked fourth as 32 markets rose and the AC World ex-US index gained 0.6%. EMU performed best week with a gain of 0.8%, ahead of EM Eastern Europe (0.4%), EAFE (0.4), and EMEA (0.3). The underperforming regions were EM Asia (-1.0), BRIC (-0.9), and EM Latin America (-0.1). Colombia was the best-performing country as it rose 6.0%, followed by Greece (3.7), Mexico (3.6), Peru (3.1), and India (2.8). Of the 28 countries that underperformed the AC World ex-US MSCI last week, Jordan fared the worst, falling 4.7%, followed by Egypt (-3.6), Israel (-2.6), Turkey (-2.5), and Morocco (-2.3). On a ytd basis, the US MSCI weakened w/w to a 2.4% decline from -1.1% a week ago, and slipped in the performance ranking to 31/33 from 29/33. The US MSCI trails the AC World ex-US (-1.7) again in the ytd period. Most of the emerging market regions and 26/49 countries are in positive territory ytd. EM Latin America has risen 7.1% ytd and leads EM Eastern Europe (4.5), EMEA (1.4), BRIC (1.0), EMU (0.2), and EM Asia (-0.4). EAFE (-1.8) is the only laggard relative to the AC World ex-US’s performance.

S&P 1500/500/400/600 Performance (link): All three market-cap indexes fell last week as SmallCap performed best with a decline of 0.4%, ahead of MidCap (-1.3%) and LargeCap (-1.4). LargeCap is now down 9.3% from its record high on January 26, worse than the declines of MidCap (-7.1) and SmallCap (-4.6) since then. Seven of the 33 sectors rose in the latest week, down from 31 rising a week earlier. The best performers in the latest week: SmallCap Telecom (1.9), SmallCap Utilities (1.4), SmallCap Consumer Discretionary (1.4), SmallCap Consumer Staples (0.9), and MidCap Consumer Discretionary (0.6). The biggest underperformers for the week: MidCap Tech (-2.6), LargeCap Tech (-2.3), MidCap Financials (-2.1), and LargeCap Industrials (-2.0). Six sectors are still positive to date in 2018, down from nine a week earlier and up from just three in early February. The best-performing sectors ytd: SmallCap Health Care (12.5), MidCap Health Care (4.0), LargeCap Consumer Discretionary (2.1), MidCap Telecom (1.3), MidCap Tech (1.2), LargeCap Tech (0.8), and SmallCap Financials (0.3). The worst performers ytd: SmallCap Real Estate (-11.8), SmallCap Energy (-11.4), LargeCap Telecom (-8.8), MidCap Energy (-8.2), and LargeCap Consumer Staples (-8.0).

S&P 500 Sectors and Industries Performance (link): All 10 sectors fell last week as seven outperformed the S&P 500’s 1.4% decline. That compares to all 10 rising a week earlier, when five outperformed the S&P 500’s 2.0% gain. Energy and Utilities were the best-performing sectors with drops of 0.1%, ahead of Telecom (-0.2%), Consumer Staples (-0.3), Real Estate (-0.6), Consumer Discretionary (-0.7), and Materials (-0.7). Tech was the biggest underperformer with a drop of 2.3%, followed by Industrials (-2.0), Health Care (-1.7), and Financials (-1.4). Just two sectors are in the plus column so far in 2018, down from nine in early March but up from just one a month earlier. In an unusual twist, only two sectors are ahead of the S&P 500’s 2.6% ytd decline: Consumer Discretionary (2.1) and Tech (0.8). The nine sectors that are underperforming the S&P 500 ytd: Telecom (-8.8), Consumer Staples (-8.0), Energy (-6.7), Materials (-6.6), Real Estate (-6.4), Utilities (-4.3), Industrials (-4.0), Health Care (-3.3), and Financials (-2.8).

Commodities Performance (link): The S&P GSCI index fell 2.0% w/w for its biggest drop in five weeks as nine of the 24 commodities we follow moved higher. That compares to a 0.5% decline in the prior week, when 10/24 commodities rose. Last week’s strongest performers: Kansas Wheat (9.3%), Wheat (5.4), Feeder Cattle (2.1), Aluminum (2.0), and Cotton (1.2). Last week’s biggest decliners: Crude Oil (-4.4), Lean Hogs (-4.3), Cocoa (-3.7), and Brent Crude (-3.3). The S&P GSCI commodities index is up 0.3% ytd, but that’s down from its peak 4.7% ytd gain on January 26. The best performers so far in 2018: Cocoa (30.1), Kansas Wheat (19.5), Wheat (11.4), Corn (11.2), Unleaded Gasoline (8.9), and Soybeans (7.7). The biggest laggards of 2018 to date: Sugar (-18.5), Live Cattle (-15.8), Aluminum (-
10.2), Natural Gas (-8.2), Copper (-6.7), and Coffee (-6.6).

**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, 4/9 global stock indexes, and 8/33 US stock indexes, compared to 9/24 commodities, 2/9 global stock indexes, and 17/33 US stock indexes rising a week earlier. Commodities' average spread fell w/w to 3.3% from 4.0%. Sixteen commodities trade above their 200-dmas, up from 14 a week earlier. Cocoa leads all commodities and all assets at 19.1% above its 200-dma, but Kansas Wheat (11.4%) rose 9.5ppts w/w for the best performances of all commodities and all assets. Live Cattle trades at 12.6% below its 200-dma, the lowest of all assets. Crude Oil (11.4) fell 6.1ppts w/w for the worst performance among all commodities and all assets. The global indexes trade at an average of 0.6% above their 200-dmas, up from 0.5% in the prior week. Four of the nine global indexes trade above their 200-dmas, up from three a week earlier. Brazil (11.8) still leads the global indexes, but fell 1.6ppts w/w for the worst performance among global indexes. Japan (0.5) and the UK (-2.9) both improved 1.8ppts for the global assets' best performance. Germany (-3.4) trades the lowest among global assets. The US indexes trade at an average of 0.2% below their 200-dmas, with 15 of the 33 sectors above, down from 0.5% below a week earlier, when 17 sectors were above. SmallCap Health Care (14.2) still leads all US stock indexes relative to their 200 dmas; SmallCap Consumer Discretionary (5.8) is a distant second, followed by LargeCap Consumer Discretionary (4.7). SmallCap Telecom (-4.2) rose 1.9ppts for the biggest gain among US stock indexes last week. SmallCap Real Estate (-9.6) trades the lowest among all US stock indexes, but MidCap Tech (2.4) fell 3.0ppts for the worst performance among US stock indexes.

**S&P 500 Technical Indicators (link):** The S&P 500 price index fell 1.4% last week and deteriorated relative to its short-term 50-dma and long-term 200-dma trend lines. The index remained in a Golden Cross (50-dma higher than 200-dma) for a 101st straight week (after 17 weeks in a Death Cross), yet the index’s 50-day moving average (50-dma) relative to its 200-dma dropped for a ninth week to a 22-week low of 3.9% from 4.9%, and is down from a 55-month high of 7.2% in early February. This Golden Cross reading compares to a four-year low of -4.5% in March 2016. The S&P 500’s 50-dma fell for a third straight week, the worst performance since it fell for seven weeks before the 2016 election. The 200-dma continued to rise, as it has done since May 2016, but near the lowest pace since October 2011. The index weakened to 3.6% below its falling 50-dma from 3.1% below a week earlier, which compares to a 25-month low of 5.6% the week before that and a two-year high of 6.2% above its rising 50-dma on January 29. The S&P 500 is testing its 200-dma again, falling to 0.1% above its rising 200-dma from 1.7% above its rising 200-dma a week earlier. That compares to 0.6% below on Tuesday, which was the lowest reading since June 2016. That compares to a seven-year high of 13.5% on January 29, the prior post-election low of 3.0% in mid-August, and a four-year low of -10.1% in August 2015.

**S&P 500 Sectors Technical Indicators (link):** Last week saw five sectors improve relative to their 50-dmas, but all 11 weakened relative to their 200-dmas. At the week’s end, nine of the 11 sectors traded below their 50-dma (all but Real Estate and Utilities), unchanged from a week earlier and compared to all 11 below the week before that (for the first time that has occurred since February 2016). The longer-term picture—i.e., relative to 200-dmas—shows 8/11 sectors trading below, the lowest since January 2016; that compares to 7/11 below a week earlier. Industrials reversed course again and moved below above its 200-dma in the latest week. That left three sectors trading above their 200-dmas: Tech (92 straight weeks), Consumer Discretionary (74 straight weeks), and Financials (30 weeks). Consumer Staples was below for a seventh week, Real Estate below for a 14th week, and Utilities below for a 16th week. All 11 sectors had been above both their 50-dmas and 200-dmas briefly in mid-December for the first time since July 2016. However, seven sectors are still in a Golden Cross (50-dmas higher than 200-dmas), down from eight a week earlier. All 11 had been in a Golden Cross in mid-January for the first time since a 26-week streak ended in October 2016. Telecom was out of the Golden Cross club for
the first time in 12 weeks, Consumer Staples was out for a third week, Real Estate was out for a ninth week and the first time since last April, and Utilities was out for an 11th week and for the first time since March 2016. All 11 sectors have had falling 50-dmas in two of the past three weeks; that’s the worst sector count since before the election in November 2016. Real Estate fell for the 14th time in 16 weeks, and Utilities moved lower for a 12th straight week. However, seven sectors still have rising 200-dmas, unchanged from a week earlier. That’s up from six in early February, which was the lowest since May 2017. The 200-dmas for Real Estate and Utilities fell for a 13th week, and those for Consumer Staples and Telecom dropped for a seventh week.

US ECONOMIC INDICATORS

Employment (link): Employment growth in March was much weaker than expected, with some of the slowdown likely weather-related. (Weather distortions are common for March—payrolls were up only 73,000 in March 2017 and 78,000 in March 2015.) US companies added only 103,000 to payrolls this March, while the gain in February (to 326,000 from 313,000) was stronger than first reported and January’s (176,000 from 239,000) was weaker, for a net loss over the three months of 50,000. Private payrolls added 102,000 jobs last month—considerably lower than ADP’s 241,000 count—following gains of 320,000 (vs 287,000) and 188,000 (vs 238,000) the prior two months, for a net loss of 17,000 over the three-month span. After revisions, job gains averaged 202,000 over the past three months. Meanwhile, the breadth of job creation (percentage of private industries increasing payrolls) for the one-month span fell from 71.1% to 62.6%—still a relatively high level—while the three-month span was little changed at 71.5%.

Earned Income Proxy (link): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, continued to soar to new record highs in March. Our EIP rose for the 12th straight month, climbing 0.4% in March and 5.1 y/y. Average hourly earnings (AHE), one of the components of our EIP, keeps setting new highs, advancing 0.3% last month; aggregate weekly hours—the other component—rose 0.1% after posting a four-year high of 0.6% in February. Over the past year, the AHE climbed 2.7% y/y while aggregate hours were 2.4% higher—indicating that consumers will continue to be major contributors to economic growth.

Employment by Industry (link): Leading gains in March payrolls were professional & business services, manufacturing, health care, and mining. Professional & business services continued to trend higher, expanding payrolls by 33,000 last month and 502,000 over the past 12 months. Manufacturers added to payrolls for the 16th time in 17 months, climbing 22,000 in March and 295,000 over the period to the highest level since the end of 2008, with the durable goods component accounting for nearly three-quarters of the gain. Health care also added 22,000 jobs last month, about in line with its average monthly gain over the prior 12 months. Employment in mining has declined only once in the past 15 months; it rose 8,500 last month and 76,800 over the period. Construction and retail trade employment were both little changed in March after sizable gains of 65,000 and 47,300, respectively, in February. Employment in other major industries— wholesale trade, transportation and warehousing, information, financial activities, leisure and hospitality, and government—showed little change last month.

Unemployment (link): March’s unemployment rate was at a 17-year low of 4.1% for the sixth month, while the participation rate ticked down from 63.0% to 62.9%. The latter has showed little movement on net over the past two years. The adult unemployment rate held at its cyclical low of 3.7%, while the college grad rate slipped from 2.3% to 2.2%; it was at a cyclical low of 2.0% in October. Meanwhile, the volatile teenage rate fell to 13.5% after climbing the prior two months from 13.6% to 14.4%; the rate was at 13.0% in September—which was the lowest since fall 2000. Those working part-time for economic reasons (a.k.a. “involuntary part-time workers”) declined 141,000 to 5.0 million (3.1% of the civilian labor force). The sum of the underemployment and jobless rates (7.2) held just above its 7.1%
cyclical low posted in October and November, while the U6 rate—which includes marginally attached workers—was back down at its cyclical low of 8.0%, also recorded during October and November.

**Wages** (link): March wage inflation— as measured by the average hourly earnings (AHE) rate for all workers on private nonfarm payrolls— increased 2.7% y/y, below the 2.8% rate in January, but up from a recent low of 2.3% in October. The wage rate for goods-producing industries (2.2% y/y) was little changed for the fourth month, while the service-providing rate (2.8) remained in a volatile flat trend but at the top of the recent range. Within goods-producing, the manufacturing rate (1.7) held around recent lows, while construction’s (2.9) moved back below 3.0%; the natural resources rate (1.9) rose to a 15-month high after hovering around zero for six months. Within service-providing, the rate for financial activities (5.3) remains on a steep accelerating trend—reaching its highest rate since March 2007, while rates for leisure & hospitality (3.0) and wholesale trade (1.2) remained on downtrends, though the latter may be finding a bottom. Meanwhile, rates for utilities (2.7), professional & business services (2.3), transportation & warehousing (3.0), and education & health services (2.6) continued to move sideways, with the latter two hovering around recent highs. Up from recent lows were rates for information services (3.8) and retail trade (2.4).