



MORNING BRIEFING

October 15, 2018

Panic Attack #62?

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

(1) Panic Attack #62 or something more bearish? (2) Unlike past selloffs, there are lots of explanations but the main cause is elusive. (3) A broad consensus: the 10-year US Treasury yield is going to 4.00%. (4) Dow Vigilantes vs Bond Vigilantes. (5) Policies in conflict: Supply-side fiscal stimulus vs Fed's monetary tightening. (6) Saturday morning with Jim Cramer, who blames the Fed for last week's selloff. (7) PPG earnings warning set stage for last week's stock market plunge. (8) Threat to supply chains running through China could be troublesome for tech hardware companies. (9) ETFs didn't have a meltdown, but they spread the pain. (10) FANG ache. (11) Valuation multiples get Banksy-ed. (12) Movie review: "First Man" (-).

Stocks I: Rounding Up the Usual & Unusual Suspects. The current bull market in stocks, which started on March 9, 2009, has been widely described as "the most hated bull market in history." Google-search that phrase, and you'll see over 15 million results. It's been that way because ever since the financial crisis of 2008 and the resulting severe recession, the next downturn has been the most widely anticipated recession of all time. It's been widely feared to be lurking just around the corner since the last recession.

As a result, there have been almost countless corrections and selloffs during the current bull market. Actually, Joe and I have been keeping track of them in our [S&P 500 Panic Attacks Since 2009](#). By our count, there have been 62 panic attacks since the start of the bull market including last week's plunge. These include five outright corrections with the S&P 500 down by 10% or more but not 20% or more (which would mark a bear market) ([Fig. 1](#)). The panic attacks include the two-day Brexit selloff and lots of other minor downdrafts.

We've had no trouble identifying the major events/fears that triggered the first 61 of the panic attacks, all of which were followed by relief rallies. Most of the relief rallies since February 2013 swept the market to new record highs. But Joe and I are struggling to identify the main cause of last week's freefall specifically on Wednesday and Thursday October 10 and 11. There are lots of candidates, and we may need to identify the cause as "all of the above." For now, we're labeling it "Global growth slowdown fears."

We are kicking ourselves because we actually listed and discussed potential "bear traps" for stocks in the 9/24 [Morning Briefing](#) titled "Bear Tracks." By the way, we also listed a bunch of bear traps for bonds. However, we stuck with our relatively upbeat outlooks for both. We didn't anticipate that a recession is imminent, so we remained bullish on stocks, and still are. We listed lots of reasons to hate bonds, but argued that US yields would be held down by near-zero yields in Japan and Germany. In the 10/8 [Morning Briefing](#), we sanguinely acknowledged that while the tether to bunds and JGBs may be fraying, it was holding still.

Now, there's a widespread, perhaps even consensus, forecast that the 10-year US Treasury bond yield is heading toward 4.00%. Last Friday, JPMorgan Chase & Co. (JPM) CEO Jamie Dimon reiterated his

view that this yield is heading to 4.00% and maybe 5.00%. However, he stressed that this is just a reversion to normal yield levels, consistent with solid economic growth. The Dow Vigilantes kept the Bond Vigilantes in check as the yield dropped back down to 3.16% at the end of last week from an intraday high topping 3.25% on Tuesday.

Without further ado, let's assess all the reasons proffered for last week's stock market selloff, to assess whether it was just the latest panic attack (i.e., #62) or the first growl of a newborn bear market:

(1) *Blame the Fed and Trump's supply-siders.* The 10-year US Treasury bond yield rose decisively above 3.00% on September 18 ([Fig. 2](#)). It topped 3.25%, on an intraday basis, on Tuesday, October 9 for the first time since late April 2011. Along the way, on Wednesday, October 3, stronger-than-expected increases in September's ADP payrolls and the ISM nonmanufacturing PMI contributed to the rout in the bond market in subsequent days ([Fig. 3](#) and [Fig. 4](#)). These and other strong economic indicators have been boosting the Atlanta Fed's [GDPNow](#) forecast for Q3, which was 4.2% on October 10.

Meanwhile, since the last meeting of the FOMC ended on September 26, Fed officials have been reiterating their commitment to continue to gradually normalize monetary policy. That means getting the federal funds rate up to a "neutral" level of 3.00% and paring the Fed's balance sheet. They've suggested that by 2020, they might have to overshoot the neutral rate and push the federal funds rate to 3.40% to keep a lid on inflation by slowing the economy down.

Not surprisingly, President Trump and his supply-side economic advisers aren't happy with what the Fed is doing. In their opinion, their tax cuts are working to boost real economic growth without reviving inflation. They can point to last week's batch of inflation indicators showing tame increases in the PPI and CPI, with the latter up just 1.8% at an annual rate during the three months through September excluding food and energy ([Fig. 5](#)). Helping to hold down the PPI finished goods inflation rate is the recent moderation in the import price index excluding food and energy to only 0.6% y/y through September ([Fig. 6](#)). That may seem surprising given that Trump has been imposing tariffs. It's not so surprising given that the trade-weighted dollar is up 3.8% y/y through the end of last week.

The bottom line for the stock market is that monetary policy is in conflict with fiscal policy. On Saturday, I spoke at Jim Cramer's investment conference in NYC. Jim is convinced that the economy is slowing based on what he is hearing from companies. As a result, he blames the Fed for last week's market plunge. While he therefore is very concerned about the market, he believes it could rebound sharply once the Fed comes around to its (or his) senses.

(2) *Blame PPG.* While the US economy's macroeconomic indicators support the supply-siders' spin that tax cuts are boosting economic growth, Cramer mentioned that a few companies warned last week about rapidly deteriorating economic conditions. Certainly helping to set the stage for last week's stock market freefall on Wednesday and Thursday was depressing earnings guidance by PPG Industries after the market close on Monday, October 8.

The company reported "we saw overall demand in China soften, and we experienced weaker automotive refinish sales as several of our U.S. and European customers are carrying high inventory levels due to lower end-use market demand." Margins are getting squeezed as a result of "significant raw material and elevating logistics cost inflation, including the effects from higher epoxy resin and increasing oil prices....inflationary impacts increased during the quarter and, as a result, we experienced the highest level of cost inflation since the cycle began two years ago."

So while Trump is stepping on the accelerator with his supply-side policies, he is also stepping on the

brakes as his trade war with China is slowing that economy down and his sanctions on Iran are boosting oil prices. The US economy might still be doing well on balance, but the increases in interest rates, the dollar, and oil prices are clearly depressing the global economy as evidenced by the drop in the CRB raw industrials spot price index to the lowest readings since early November 2016. This index is highly correlated with the Emerging Markets MSCI stock price index (in local currencies), which fell last week to the lowest reading since May 2017 ([Fig. 7](#)). The relative performance of the S&P 500 Materials sector (which includes PPG) is also highly correlated with the CRB index and has taken a dive in recent days ([Fig. 8](#)).

Meanwhile, here in the US, Jackie and I observed last week on Thursday that several cyclical S&P 500 sectors have been signaling trouble for a while this year. They include Copper (-32.8% ytd), Homebuilding (-29.8), Paper Packaging (-26.7), Semiconductor Equipment (-26.6), Automobile Manufacturers (-26.5), and Hotels, Resorts & Cruise Lines (-9.4). "Some of these industries take the pulse of the consumer," we noted. "Others home in on the health of manufacturing. All may be reacting badly to rising interest rates and oil prices."

(3) *Blame Mike Pence and Businessweek*. Also setting the stage for last week's selloff was a 10/4 [speech](#) by Vice President Mike Pence detailing the Trump administration's long list of complaints against China. It wasn't just about trade. He started out by warning: "Beijing is employing a whole-of-government approach, using political, economic, and military tools, as well as propaganda, to advance its influence and benefit its interests in the United States." In other words, Pence's speech made it clear that the problem is that China aspires to be a superpower at the expense of the US.

While Trump seems to be winning his trade wars with most of America's major trading partners, the conflict with China is likely to worsen because it isn't just about trade. It is about national security. That's raising alarms, particularly among US technology companies that have integrated China into their supply chains. A 10/5 *Bloomberg Businessweek* [report](#) alleging that the country's spooks have been planting spyware into widely used motherboards only heightens the national security concerns.

(4) *Blame the tech sector and the FANGs*. The hardest hit sectors of the S&P 500 during October's witching season so far have been Consumer Discretionary (-7.7%) and FANG-less Information Technology (-6.0) ([Fig. 9](#)). Also underperforming so far is the new Communication Services sector (-5.3). They've been led down by their FANG components, which Joe discusses below. The FANGs (Facebook, Amazon, Netflix, and Google's parent Alphabet) don't have supply-side issues in China. However, numerous other tech companies do rely on China for lots of what they make. Scrambling to get out of China is expensive and could hinder companies that do so from conducting business in China. Nevertheless, the tech selloff, and especially the drop in the FANGs, may be overdone, as Joe explains below.

By the way, the S&P 500 was recently rearranged with some stocks moved out of the Consumer Discretionary and Information Technology sectors into the new Communications sector, which replaces the Telecom Services sector. We doubt this had anything to do with last week's selloff.

However, it is interesting to note that all three affected sectors' earnings shares of the S&P 500 were in line with their market-cap shares prior to the selloff, suggesting that they aren't out of whack on a valuation basis ([Fig. 10](#), [Fig. 11](#), and [Fig. 12](#)). Here are the market-cap and earnings shares of the 11 sectors as of the 10/4 week: Communication Services (10.0%, 9.4%), Consumer Discretionary (10.0, 7.8), Consumer Staples (6.6, 6.3), Energy (6.1, 6.3), Financials (13.4, 18.5), Health Care (15.0, 15.3), Industrials (9.8, 10.0), Information Technology (21.1, 19.5), Materials (2.4, 2.7), Real Estate (2.6, 1.2), and Utilities (2.8, 2.9).

(5) *Blame valuation multiplies*. Notwithstanding the recent burst of bearishness, the earnings outlook remains bullish overall, which is why Joe and I remain bullish. Our Blue Angels show that the forward earnings of the S&P 500/400/600 continued setting new altitude records through the 10/4 week ([Fig. 13](#)).

The Blue Angels show that last week's plunge was entirely attributable to sharp declines in the forward P/Es of the S&P 500 (by 0.7ppt to 15.8), S&P 400 (by 0.8ppt to 15.1), and S&P 600 (by 0.9ppt to 15.8), as Joe discusses below. If you liked stocks a week ago, you have to like them even more now that they sport lower valuation multiples partly because their prices fell while their earnings outlook continues to improve. That improving outlook is the consensus of industry analysts, with whom we concur by the way.

(6) *Blame artificially unintelligent bearishness*. Last but not least (and maybe not even last), we can always blame ETFs and algorithms. We wouldn't attribute last week's selloff to an ETF meltdown. But ETFs undoubtedly worsened and broadened the selloff. As noted above, the FANGs don't have supply-chain issues, yet they got whacked because they are the biggest components of the most popular ETFs. The same can be said for the S&P 500 Health Care sector, which was down 3.5% last week. Algorithms might have been triggered to sell stocks by the 3.00% threshold on the bond yield or some other variables.

(By the way, Cramer asked the audience of 200 mostly individual investors if any of them sold stocks last week. Two people raised their hands.)

The S&P 500 swung from being 4.4% above its 200-day moving average a week ago Friday to less than 0.1% below it at the end of last week ([Fig. 14](#)). Will that trigger even more selling this week? Perhaps, but since the start of this bull market, such selloffs to the 200-dma have been buying opportunities. We think that's the case again now.

Stocks II: FANGs Get Root Canals. Since the week ended July 13, the share of the S&P 500's market capitalization attributable to the FANG stocks has fallen from record highs as their lofty valuations were cut substantially. Importantly, however, their forward revenue and earnings are still trending higher ([Fig. 15](#), [Fig. 16](#), and [Fig. 17](#)). Let's put some numbers behind that observation:

(1) *FANG valuation hits*. The FANG index's aggregate forward P/E of 49.2 is the lowest since January 2017. It's down by 24% from a 2018 high of 65.1 (in late January) and by 31% from a record high of 71.8 (February 2014).

The S&P 500's forward P/E of 16.1 looks substantially cheaper without the FANG stocks—it drops to 15.0. However, the current 1.0ppt P/E boost contributed by the FANGs is the lowest such boost since mid-April and down from a record high of 1.3ppts in mid-July. Since the market's peak in late January, the S&P 500's P/E with FANGs is down 13%, from 18.6, and the ex-FANG P/E is down 14%, from 17.4.

(2) *No commensurate hits to FANG fundamentals*. While valuations have come down sharply for the FANG aggregate, their revenue and earnings performance remains unsullied. Since the end of 2012, forward revenues have gained 270% for the FANGs vs a 25% rise for the S&P 500, and forward earnings has soared 504% vs a 55% jump for the S&P 500.

The FANGs now account for 9.4% of the market cap for the S&P 500, down from a record high of 10.5% in mid-July. The FANGs' share of S&P 500 forward revenues and earnings continues to rise to record highs—0.4% for revenues and 3.1% for earnings, up from 0.3% and 2.6%, respectively, at the end of 2017.

Stocks III: SMidCap Valuations Get Banksy-ed. On September 28, one of the most recognized works of the England-based street artist known as “Banksy,” “Girl With Balloon,” sold at a Sotheby’s auction in London for \$1.37 million (£1.04 million). In a bizarre twist after the auctioneer’s hammer fell, the painting was cut into strips by a shredder hidden inside the picture frame by the artist. On his Instagram account, Banksy dubbed the painting “Going, going, gone ...” in a captioned photo of the work. Banksy also released a video of the stunt with a caption he attributed to Pablo Picasso that read: “The urge to destroy is also a creative urge.” In a statement on the auction house’s website, Alex Branczik, Sotheby’s head of contemporary art in Europe, said: “It appears we just got Banksy-ed.”

S&P MidCap and SmallCap valuations got Banksy-ed recently too ([Fig. 18](#)):

(1) After last week’s selloff, MidCap ended the week with its forward P/E at 15.1, the lowest since February 2016 and below those of LargeCap and SmallCap. LargeCap’s and SmallCap’s forward P/E were as low as 15.6 and 15.8 on Wednesday before both settled at 15.8 at Friday’s close. Those readings were also their lowest levels since February 2016. Through Friday’s close, LargeCap’s premium to MidCap’s P/E rose to 4.6%, the largest since February 2009. SmallCap now trades at a discount to LargeCap for the first time since September 2004, with LargeCap’s 0.6% P/E premium to SmallCap the largest since August 2004.

(2) Since 1999, SMidCap’s forward revenue and earnings have easily outperformed LargeCap’s ([Fig. 19](#)). The recent shredding of SMidcap valuations suggests that investors may be surmising that SMidCap companies are more susceptible than LargeCap firms to the impact of higher labor costs. On the other hand, we still believe that they benefit more from deregulation and the corporate tax rate cut than bigger companies do.

In the art world, beauty is in the eye of the beholder. The same could be said of the investing world and valuation. After the head-turning display at the Sotheby’s auction, social media commenters suggested that the shredded Girl With Balloon will soar in value once the shredded pieces are patched back together. Perhaps SMidCaps will recover and do the same once the latest correction is over.

Movie. “First Man” (-) ([link](#)) is a very disappointing movie. It is very slow and undramatic for a film about the US space program. Perhaps that’s because the story is well known. Not so well known is that Neil Armstrong, who was the first man to land on the moon, was emotionless and wasn’t a great husband or father. That’s if the movie’s depiction of him is true, as played by Ryan Gosling, who is especially good at playing unemotional roles. The film does raise the question of what was accomplished by the program, but doesn’t attempt to answer it. We learn that the moon’s surface is covered with a fine white powder. Elon Musk wants to go to Mars. We already know that it is covered with red dust. Perhaps we should stay on the Planet Earth and make it a better place so we don’t have to leave on short notice.

CALENDARS

US. Mon: Retail Sales Total, Ex Autos, Ex Autos & Gas, and Control Group 0.6%/0.4%/0.4%/0.4%, Business Inventories 0.5%, Empire State Manufacturing Index 19.3. **Tues:** Total & Manufacturing Industrial Production 0.2%/0.2%, Capacity Utilization Rate 78.2%, Job Openings 6.900m, Housing Market Index 67, Treasury International Capital. (Econoday estimates)

Global. Mon: Japan Industrial Production. **Tues:** Eurozone Trade Balance €14.7b, Germany ZEW Current Situation & Expectations Indexes 74.4/-12.0, UK Employment Change (3m/3m) & Unemployment Rate (3m) 11k/4.0%, UK Average Weekly Earnings (3m) 2.6% y/y, China CPI & PPI 2.5%/3.6% y/y, RBA Meeting Minutes (Oct 2). (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): The US MSCI index tumbled 4.1% last week for its worst decline since late March; that follows a 1.1% drop a week earlier. The index ranked 36th out of the 49 markets in a week when five countries rose in US dollar terms; that compares to the prior week's 9/49 ranking when just three markets rose in the lowest count since early February. The AC World ex-US index fell 3.5% for its biggest drop in eight months; that compares to a 2.8% decline a week earlier. EM Latin America rose 1.0% for the week, easily outpacing the declines for EMEA (-1.2%), BRIC (-1.7), EM Eastern Europe (-1.9), and EM Asia (-3.0). Developed regions were the biggest underperformers relative to the AC World ex-US last week: EMU (-4.4) and EAFE (-4.0). Turkey was the best-performing country as it soared 5.4%, followed by Brazil (3.2), South Africa (2.0), India (1.4), and Indonesia (0.3). Of the 25 countries that underperformed the AC World ex-US MSCI last week, Pakistan fared the worst, falling 9.9%, followed by Ireland (-5.6), Sweden (-5.0), and Finland (-4.8). Despite last week's decline, the US MSCI still ranks an astounding 2/49 ytd with its 3.5% gain far ahead of the AC World ex-US (-11.1). Most countries—43/49—and all regions are in negative territory ytd. Falling less on a ytd basis than the AC World ex-US are: EM Eastern Europe (-5.4), EM Latin America (-6.0), EAFE (-9.8), and EMEA (-10.6). EM Asia (-16.1) is now the biggest laggard relative to the AC World ex-US's performance, followed by BRIC (-15.5) and EMU (-11.7). The best country performers ytd: Israel (6.3), the US (3.5), Norway (2.9), Finland (0.7), and Russia (0.1). The worst-performing countries ytd: Argentina (-53.6), Turkey (-47.0), Greece (-33.3), Pakistan (-30.7), and South Africa (-28.0).

S&P 1500/500/400/600 Performance ([link](#)): All three of these three market-cap indexes tumbled last week as SmallCap entered correction territory. SmallCap (-5.4%) and MidCap (-4.9) were the worst performers as they registered their biggest declines since January 2016 and mid-March, respectively. LargeCap (-4.1) had its biggest decline since mid-March and ended the week 5.6% below its record high on September 20, ahead of MidCap (-8.7, August 29) and SmallCap (-12.1, August 31). All 33 sectors moved lower in the latest week for the first time since early February, down from eight rising a week earlier. The best performers in the latest week, albeit with declines: LargeCap Utilities (-1.3), LargeCap Consumer Staples (-1.9), SmallCap Utilities (-2.3), MidCap Utilities (-2.4), and MidCap Consumer Staples (-2.6). SmallCap Materials was the biggest decliner last week, falling 7.5%, followed by SmallCap Communication Services (-7.4), SmallCap Industrials (-7.2), MidCap Industrials (-7.2), and LargeCap Materials (-6.6). LargeCap is up 3.5% ytd and is now leading both SmallCap (3.1) and MidCap (-1.5). Eighteen sectors are now positive to date in 2018, down from 24 a week earlier and compared to just three in early February. The best-performing sectors ytd: SmallCap Health Care (28.0), MidCap Health Care (22.3), MidCap Energy (16.3), SmallCap Communication Services (14.8), LargeCap Tech (12.4), LargeCap Health Care (10.2), and LargeCap Consumer Discretionary (10.2). The worst performers ytd: SmallCap Real Estate (-11.2), LargeCap Materials (-10.9), MidCap Materials (-10.0), MidCap Consumer Discretionary (-8.6), and LargeCap Communication Services (-8.4).

S&P 500 Sectors and Industries Performance ([link](#)): All 11 sectors fell last week, but seven outperformed the S&P 500's 4.1% decline. That compares to four rising a week earlier, when seven outperformed the S&P 500's 1.0% decline. Utilities was the best-performing sector, albeit with a drop of 1.3%, ahead of Consumer Staples (-1.9%), Real Estate (-2.9), Communication Services (-3.1), Health Care (-3.5), Consumer Discretionary (-3.5), and Tech (-3.8). Materials was the biggest underperformer, with a drop of 6.6%, followed by Industrials (-6.4), Financials (-5.6), and Energy (-5.4). Despite last week's decline for the S&P 500, five sectors are still in the plus column so far in 2018, down from seven a week earlier. That compares to nine in mid-September, which had matched the best ytd count also achieved in early March. However, just three sectors have outperformed the S&P 500's 3.5% ytd gain: Tech (12.4), Health Care (10.2), and Consumer Discretionary (10.2). The eight ytd underperformers: Materials (-10.9), Communication Services (-8.4), Consumer Staples (-8.2), Real Estate (-6.5),

Financials (-5.3), Industrials (-2.6), Utilities (0.5), and Energy (1.3).

Commodities Performance ([link](#)): Last week, the S&P GSCI index fell 2.8% in its biggest decline since mid-July as 11 of the 24 commodities that we follow moved higher. That ended a four-week winning streak, the index's best in over 12 months, and compares to 1.7% gain a week earlier when 15/24 commodities rose. Last week's strongest performers: Coffee (7.0%), Cocoa (6.7), Sugar (3.5), Lead (3.3), and Cotton (3.0). Last week's biggest decliners: Unleaded Gasoline (-7.0), Feeder Cattle (-4.9), Brent Crude (-4.8), Lean Hogs (-4.4), and Crude Oil (-4.2). The S&P GSCI commodities index is up 8.6% ytd and near its highest level since December 2014, but remains at half of its record high in July 2008 just before the financial crisis and is down 4.4% from its four-year high on October 3. The top performer so far in 2018 is now Kansas Wheat (22.7), followed by Wheat (21.1), Brent Crude (19.7), GasOil (18.6), and Crude Oil (17.8). The biggest laggards of 2018 to date: Lean Hogs (-23.4), Zinc (-20.1), Lead (-17.1), Silver (-14.6), Sugar (-13.8), and Copper (-12.9).

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, 0/9 global stock indexes, and 2/33 US stock indexes, compared to 15/24 commodities, 3/9 global stock indexes, and 8/33 US stock indexes rising a week earlier. Commodities' average spread fell w/w to -1.8% from -0.8%, and 10 commodities trade above their 200-dmas, down from 11 a week earlier. Natural Gas now leads all commodities and all assets at 15.1% above its 200-dma, but Coffee (-1.8%) rose 5.5ppts w/w for the best performance among all assets. Lean Hogs (-19.7) still trades the lowest of all commodities and all assets, but Unleaded Gasoline (-4.2) fell 8.7ppts w/w for the worst performance among commodities. The global indexes trade at an average of 6.0% below their 200-dmas, down from -1.7% in the prior week. Just two of the nine global indexes trade above their 200-dmas, unchanged from a week earlier. Brazil (3.1) now leads the global indexes, and fell just 0.3ppts w/w for the best performance among global assets. China (-16.3) continues to trade at the lowest point relative to its 200-dma among global assets as it dropped 7.9ppts for the worst performance among global assets last week. The US stock indexes trade at an average of 2.0% below their 200-dmas, with 10 of the 33 sectors above, down from 3.5% a week earlier, when 22 sectors were above. MidCap Energy (7.5) now leads the US stock indexes, but LargeCap Utilities (3.6) and SmallCap Utilities (5.0) each edged up 0.1ppt last week for the best performances among US stock indexes. LargeCap Materials (-9.4) and MidCap Materials (-9.4) are both now trading the lowest among all US stock indexes relative to 200-dmas, but SmallCap Communication Services (7.0) tumbled 10.4ppts w/w for the worst performance among US stock indexes and indeed all assets last week.

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index tumbled 4.1% last week to solidly below its short-term 50-day moving average (50-dma) trend line and a hair below its long-term 200-dma. The index remained in a Golden Cross (50-dma higher than 200-dma) for a 129th straight week (after 17 weeks in a Death Cross) as the S&P 500's 50-dma relative to its 200-dma fell for just the second time in 19 weeks. The current Golden Cross reading of 4.0% is down from a 27-week high of 4.1% a week earlier, but well below its 55-month high of 7.2% in early February; these compare to its 25-month low of 1.0% at the end of May and four-year low of -4.5% in March 2016. The S&P 500's 50-dma fell for the first time in 20 weeks, which compares to declines during eight of the 10 weeks from mid-March to late-May in what was then the worst performance since before the 2016 election. The index successfully had tested its 50-dma at the end of June, but was down in the latest week to a 28-week low of 3.8% below its now-falling 50-dma from 0.2% above its rising 50-dma a week earlier. That compares to a 25-month low of 5.6% below its falling 50-dma near the end of March and a two-year high of 6.2% above its rising 50-dma on January 29. The 200-dma continued to rise last week, as it has done since May 2016, but at near its slowest pace since October 2011. The S&P 500 had successfully tested its 200-dma in early April, but ended the week at a 29-week low of less than 0.1% below its rising 200-dma, down from 4.4% above its rising 200-dma a week earlier and a six-month high of 6.4%

during the week ending September 21. That compares to 0.6% below the index's rising 200-dma on April 3 (the lowest reading since June 2016) and a seven-year high of 13.5% above its 200-dma on January 29.

S&P 500 Sectors Technical Indicators ([link](#)): All 11 S&P 500 sectors deteriorated last week relative to their 50-dmas and 200-dmas. All 11 sectors are trading below their 50-dmas now for the first time since the end of March and only the second time since February 2016; that compares to six sectors below their 50-dma a week ago. These five sectors fell below their 50-dma in the latest week: Communication Services, Energy, Health Care, Industrials, and Utilities. In late July, all 11 sectors had traded above their 50-dmas, the most since early December. The longer-term picture—i.e., relative to 200-dmas—shows four sectors trading above currently, the lowest since June 19 and down from eight a week earlier. That's a swift reversal from 11 sectors above their 200-dmas on September 26 and matches the lowest count since January 2016. The four sectors still trading above their 200-dmas: Tech (119 straight weeks), Consumer Discretionary (101), and Health Care (20), and Utilities (16). All 11 sectors had been above both their 50-dmas and 200-dmas briefly in mid-December 2017 (for the first time since July 2016). However, ten sectors are still in a Golden Cross (with 50-dmas higher than 200-dmas), unchanged from a week earlier. Materials is the sole laggard, out of the Golden Cross club for a 24th week, but its 50-dma is just 0.8% below its 200-dma. All 11 sectors had been in a Golden Cross back in mid-January (for the first time since a 26-week streak ended in October 2016). Communication Services and Health Care are the only sectors with rising 50-dmas now, down from eight a week earlier, as six sectors joined Financials, Real Estate, and Materials in the declining 50-dma club. That compares to all 11 sectors with falling 50-dmas during early April (the worst count since before the election in November 2016). Just four sectors have rising 200-dmas (Consumer Discretionary, Health Care, Tech, and Utilities), down from seven a week earlier and the lowest count since March 2016. These three sectors joined the declining 200-dma club this week: Energy, Financials, and Industrials.

US ECONOMIC INDICATORS

CPI ([link](#)): The core CPI rate in September matched August's rate, remaining above the Fed's target rate of 2.0% y/y for the seventh straight month. September's rate held at 2.2% y/y, after easing in August from July's 2.4%—which was the fastest pace since September 2008. Meanwhile, the three-month rate moved further below 2.0%, at 1.8% (saar), after moving back above in July for the first time in four months. On a monthly basis, core prices rose 0.1%, matching August's four-month low, after rising 0.2% during each of the prior three months. The shelter index increased last month, along with prices for apparel, motor vehicle insurance, recreation, and air fares; the medical care index also increased, though its components were mixed. Partially offsetting these gains was a sharp drop in prices for used cars & trucks, with new vehicle prices edging lower. The headline CPI rate slowed for the second month to a seven-month low of 2.3% from 2.9% during both June and July—which was the highest since February 2012; the headline rate had been mostly trending upward since falling to 1.6% in June 2017.

PPI ([link](#)): The PPI for final demand advanced last month for the first time in three months. Prices ticked up 0.2% in September after ticking down -0.1% in August—the first decline since February 2017; prices were unchanged in July. Prices for final demand services rose for the first time since June, by 0.3%, after falling -0.1% in each of the prior two months; prices for final demand goods fell -0.1% (the first decline since May 2017), after showing no change in August. September's advance in the former was widespread, with one-third of the gain attributed to the index for airline passenger services; the decline in final demand goods was driven by a -3.5% slide in gasoline prices. The yearly inflation rate for the headline series eased for the third month from June's recent peak of 3.4% to 2.6% y/y, as the goods rate fell for the second month from 4.5% in July to 3.2% last month; the services rate ticked up to 2.4% y/y after falling the prior two months from 2.8% to 2.2%. The core rate accelerated 2.5% y/y after

slowing from 2.8% in June (the highest since September 2011) to 2.3% in August. Meanwhile, the core ex trade services rate was unchanged at August's record high of 2.9% y/y (also recorded in March of this year), up from a recent low of 2.6% in April.

Import Prices ([link](#)): Import prices rose in September for the first time in four months as petroleum prices rebounded. Total import prices jumped 0.5% after falling -0.4% and -0.1% the prior two months; June prices were unchanged. Petroleum prices accelerated 4.2% last month after falling in August (-2.3%) for the first time since March. Nonpetroleum prices were unchanged after falling the previous three months by a total of -0.6%. The yearly rate for import prices eased for the second month in September, to 3.5% y/y, from 4.9% in July—which was the highest since February 2012. Yearly rates for both petroleum (to 32.1% from 35.0% y/y) and nonpetroleum (0.6 from 1.0) imports slowed—with the latter the lowest since January 2017. The rate for capital goods imports (0.0% y/y) eased for the fifth month after a steady acceleration from -2.5% at the end of 2015 to 1.1% during March and April of this year, while the rate for industrial materials & supplies (14.8) slowed further from July's 17-month high of 21.0%. Meanwhile, the yearly rate for consumer goods ex autos (0.6) continued to bounce around recent highs just below 1.0%, while autos' (0.1) rate remained in a volatile flat trend around zero; the rate for food prices (-3.2) turned negative in June for the first time in two years, and continued to decline in September.

Consumer Sentiment ([link](#)): Consumer sentiment took a small step back in mid-October but remained near its highest levels in the post-recession era. The Consumer Sentiment Index (CSI) ticked down to 99.0 this month from 100.1 last month—which was only the third time in the past 14 years that it exceeded 100.0; it's now within 2.4 points of January's 14-year high of 101.4. Both the present situation (to 114.4 from 115.2) and expectations (89.1 from 90.5) components slipped a bit this month, though the former remained near its record high of 121.2 in January while the latter was little changed from its recent high of 90.5 posted both this September and last October. The small decline in sentiment this month reflected less favorable assessments by consumers on their personal finances, along with an upward revision in the year-ahead expected inflation rate—weakening real income expectations. Meanwhile, confidence in the government's economic policies rose this month to the highest level in the past 15 years, reflecting the strong performance of the national economy. When asked about the upcoming election's potential impacts on the overall economy, consumers more frequently attributed a favorable impact to Republicans than Democrats (34% vs 24%), though a substantial percentage replied there was no difference. (Note: According to the report, the sharp selloff in equities overlapped interviewing by only one evening—having virtually no influence on the early October data—and there was no evidence of a spillover from the Kavanaugh hearings to economic prospects.)

GLOBAL ECONOMIC INDICATORS

Eurozone Industrial Production ([link](#)): Output rebounded in August following a two-month slide, continuing to bounce around recent highs. Industrial production (excluding construction) jumped 1.0% in August after sinking -1.4% during the two months through July; it's only fractionally below November's cyclical high. All the main industrial groups were in the plus column in August. Production of capital goods rose for the fourth time in five months, by 1.4%/m/m and 3.8% over the period, while energy output advanced for the fourth month by 1.9% in August and 3.0% over the period. Meanwhile, output of both consumer durable (1.5%) and nondurable (1.4) goods production posted solid gains after each declined -2.0% the prior two months; industrial goods output edged up 0.4% after dropping -1.5% the prior two months. Data available for the top four Eurozone economies show output rose for the second month in both France (0.3) and Spain (0.8) in August, advancing 1.1% and 0.9%, respectively, the past two months. Meanwhile, output in Italy rebounded 1.7%, more than reversing July's -1.6% decline; it had increased 1.0% during the two months ending June; German output was flat after contracting -2.2% during the two months through July. Among the Eurozone countries for which data

are available, the biggest gains in industrial production were registered in Malta (9.9%), Ireland (8.0), and Portugal (2.7); not one country recorded a decline.

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