(1) Americans collectively have never been wealthier. This statement doesn’t come with a money-back guarantee, nor does it take a stance on income and wealth inequality. It is a simple observation based on the latest data, for Q2, published in the Fed’s September 2019 Financial Accounts of the United States.

US household wealth rose to a record $113.5 trillion during the quarter (Fig. 1). That’s up 88% from its cyclical low during Q1-2009. Even compared to the previous cyclical peak, during Q3-2007, household wealth is up 59%. The ratio of household net worth to disposable personal income was 6.9 during Q2, continuing to hover near the record high of 7.0 recorded during Q4-2017 (Fig. 2). Let’s have a closer look:

(1) Assets. A big contributor to the rebound in household net worth since the Great Recession has been equities directly held by households as well as indirectly held by them in mutual funds and other accounts (Fig. 3). Equities directly held totaled $18.3 trillion during Q2, while mutual fund holdings (which include equity and bond funds) totaled $9.1 trillion. Both were just shy of their record highs during Q3-2018.

The stock-market rally has worsened wealth inequality, since the wealthiest households own the most equities. Life isn’t fair. However, lots of households have pension entitlements, which jumped to a record $27.1 trillion during Q2.

Also at a record high, of $18.7 trillion during Q2, was owners’ equity in household real estate, which tends to be more equitably distributed than stock-market wealth. Small business owners are also prospering, as evidenced by the record high of $13.2 trillion in equity in noncorporate business.

The downside to this litany of prosperity is that of the $27.1 trillion in pension entitlements, a whopping $6.2 trillion is unfunded (Fig. 4). However, thanks to the dramatic rally in stocks and bonds, the unfunded portion of pension entitlements was 22.8% during Q2, down from a recent high of 34.2% during Q1-2009 (Fig. 5).

The good news is that private pensions, with $10.4 trillion in liabilities, are close to 100% funded (Fig. 6). The bad news is that state & local pensions, with $8.8 trillion in liabilities, are only 52% funded (Fig. 6).
Also for the good-news column: Americans have a record $9.4 trillion in Individual Retirement Accounts *(Fig. 8).*

(2) **Liabilities.** From Q1-2009 through Q2-2019, household assets are up 71%, while household liabilities are up only 13% *(Fig. 9).* Home mortgage debt, currently at $10.4 trillion, has been essentially unchanged over this entire period *(Fig. 10).* As a result, household liabilities as a percentage of household assets was 12.5% during Q2, down from a record 19.2% during Q1-2009 *(Fig. 11).*

**FOF II: Nonfinancial Corporations.** While it is widely recognized that the household sector is in good shape, there is a great deal of controversy about nonfinancial corporations (NFCs). The litany of concerns includes that they aren’t investing enough, that they are borrowing excessively, and that they are spending too much on buybacks. Yet, the latest data from the Fed’s *Financial Accounts of the United States* show that nonfinancial corporations also are doing well, overall. Consider the following:

(1) **Cash flow and capital spending.** The four-quarter sum of NFC cash flow and of capital expenditures both rose to record highs of $2.1 trillion through Q2 *(Fig. 12).* Contrary to the popular myth, net fixed investment during the current economic expansion has been comparable to that of the previous two economic expansions *(Fig. 13).*

(2) **Bonds and loans.** As we’ve noted before, the record amount of NFC debt has been of widespread concern for a while. It rose to $10.0 trillion during Q2, with outstanding bonds at $5.7 trillion and loans at $3.5 trillion *(Fig. 14).*

Of course, most of the bonds were either issued or refinanced at record-low interest rates, reducing the burden of servicing all that debt. That means that the upward trend in the ratio of NFC debt to internal cash flow exaggerates the burden (and risk) of the debt *(Fig. 15).*

(3) **Buybacks.** As for buybacks, Joe and I wrote a detailed study titled *“Stock Buybacks: The True Story,”* during May of this year. Our basic finding was that since the start of 2011, roughly two-thirds of S&P 500 buybacks were done to offset dilution from employee stock compensation, with the remainder to boost earnings per share. In other words, the widespread view that corporations have been borrowing in the bond market to boost their earnings per share is mostly wrong.

The Fed’s *Financial Accounts of the United States* has contributed to the confusion by showing only the net issuance of equities, which has been significantly negative for many years, without also accounting for the offsetting purchases of equities by employee stock compensation plans. I brought this issue to the attention of the Fed’s staff. One fellow acknowledged the problem and told me it will be investigated.

**Draghi: Give MMT A Chance.** Outgoing ECB President Mario Draghi *told* European lawmakers that Modern Monetary Theory (MMT) should be considered to stimulate the slowing economy of the Eurozone. “It’s a government decision, not [that of] the central bank,” he said. During his tenure, Draghi’s monetary policy commitment to “do whatever it takes” to save the Eurozone economy hasn’t been enough, so Melissa and I aren’t surprised that before his 10/31 departure he is calling on fiscal policy to save the day.

The basic tenet of MMT is that a government may borrow and spend to infinity and beyond because it controls the creation of money. Under MMT, governments can never run out of money to pay their debts, say MMT advocates. Draghi has set the stage for MMT in Europe by setting the bank’s interest rates at ultra-low levels (i.e., negative on the key policy rate) and restarting the asset-purchase program to encourage not only private, but public borrowing and spending.
The problem is that German leaders won’t readily succumb to pressure from the ECB, let alone its outgoing president, to consider an idea like MMT. Officials of the EU’s largest economy deeply value fiscal discipline. They undoubtedly will protest that MMT violates the principles of the Maastricht Treaty, the official treaty on the European Union signed in 1992, which emphasizes sound fiscal policies and limits on debt.

Some German officials have publicly opposed Draghi and his unconventional policies. They are particularly upset by the impact on German savers. Eventually, they may not have much of a choice but to consider fiscal options, especially if the ECB’s latest stimulus package fails to jumpstart the Eurozone’s manufacturing sector and broader economy, as we discussed in our 9/16 Morning Briefing.

The only real limit on MMT kicks in if and when running government deficits begins to cause inflation to overheat. That doesn’t seem like it will be a problem in Europe anytime soon, because even highly aggressive monetary policy has failed to stimulate inflation toward the central bank’s 2.0% target. (For more on MMT, see our 4/19/18 Morning Briefing.)

CALENDARS

US. Wed: New Home Sales 660k, MBA Mortgage Applications, DOE Crude Oil Inventories. Thurs: Real GDP & PCE 2.0%/4.7%, GDP Price Deflator & Core PCED 2.4%/1.7%, Jobless Claims 211k, Advance Merchandise Trade Balance-$73.4b, Pending Home Sales 1.0%, Kansas City Fed Manufacturing Index, Wholesale Inventories 0.2%, EIA Natural Gas Storage, Bullard, Clarida, Kashkari, Kaplan. (DailyFX estimates)

Global. Wed: Eurozone Consumer Confidence 102, Coeure, Lautenschlaeger. Thurs: UK Gfk Consumer Confidence -14, Japan Headline, Core, and Core-Core CPI 0.5%/0.6%/0.6% y/y, China Industrial Profits, ECB Publishes Economic Bulletin, Draghi, Carney, Kuroda, Cunliffe. (DailyFX estimates)

STRATEGY INDICATORS

S&P 500 Earnings, Revenues, Valuation & Margins (link): Consensus S&P 500 forward revenues and earnings rose w/w to new record highs. Analysts expect forward revenues growth of 5.4% and forward earnings growth of 8.5%, with the earnings measure down 0.1ppt w/w. Forward revenues growth is down 0.9ppt from a seven-year high of 6.3% in February 2018 but is up from a 31-month low of 5.0% in mid-February. Forward earnings growth is down 8.4ppts from a six-year high of 16.9% last February but has improved from a 34-month low of 5.9% in late February. Prior to the passage of the Tax Cuts and Jobs Act (TCJA), forward revenues growth was 5.5% and forward earnings growth was 11.1%. Turning to the annual growth expectations, analysts expect revenues growth to slow from 8.5% in 2018 to 4.3% in 2019 and 5.5% in 2020. They’re calling for earnings growth to slow sharply from 24.0% in 2018 to 2.0% in 2019 before improving to 10.1% in 2020. The forward profit margin was steady w/w at 12.1% and is down just 0.3ppt from a record high of 12.4% in mid-September. That compares to 11.1% prior to the passage of the TCJA in December 2017 and a 24-month low of 10.4% in March 2016. Analysts are expecting the profit margin to drop 0.3ppt y/y from 12.0% in 2018 to 11.7% in 2019 before improving to 12.2% in 2020. The S&P 500’s forward P/E rose less than 0.1pt w/w to an eight-week high of 17.1 and compares to an 18-month high of 17.4 in late July. That’s up from 14.3 during December, which was the lowest reading since October 2013 and down 23% from the 16-year high of 18.6 at the market’s valuation peak in January 2018. Similarly, the S&P 500 price-to-sales ratio rose less than 0.01pt w/w to an eight-week high of 2.07 and compares to an 11-month high of 2.10 in late July. That’s up from 1.75 during December, when it was the lowest since November 2016, and
down 19% from its then-record high of 2.16 in January 2018.

**S&P 500 Sectors Earnings, Revenues, Valuation & Margins (link):** Consensus forward revenues rose w/w for 3/11 S&P 500 sectors, and forward earnings was higher for 5/11 sectors. Real Estate had both measures rise w/w. Forward revenues and earnings are at or around record highs for 4/11 sectors: Consumer Discretionary, Health Care, Industrials, and Tech. Forward P/S and P/E ratios have declined from recent multi-year or record highs for four sectors: Communication Services, Real Estate, Tech, and Utilities. However, all sectors remain well above their multi-year lows during December 2018. Due to the TCJA, the profit margin for 2018 was higher y/y for all sectors but Real Estate. The outlook for 2019 shows higher margins are expected y/y for just one sector now: Financials. The forward profit margin rose to record highs during 2018 for 8/11 sectors, all but Energy, Health Care, and Real Estate. Since then, it has moved lower for nearly all of the sectors. During the latest week, it was unchanged for the 11 sectors, and at record highs for Industrials and Utilities. Here’s how the sectors rank based on their current forward profit margin forecasts versus their highs during 2018: Information Technology (21.8%, down from 23.0%), Financials (18.5, down from 19.2), Real Estate (15.9, down from 17.0), Communication Services (15.0, down from 15.4), Utilities (13.0, record high), S&P 500 (12.1, down from 12.4), Health Care (10.6, down from 11.2), Industrials (10.4, record high), Materials (10.2, down from 11.6), Consumer Discretionary (7.5, down from 8.3), Consumer Staples (7.4, down from 7.7), and Energy (6.8, down from 8.0).

**S&P 500 Sectors Net Earnings Revisions (link):** The S&P 500’s NERI weakened for a fourth straight month in September and was negative for the ninth time in 11 months as nearly half of the sectors fell to cyclical lows. NERI edged down to a six-month low of -6.0% in September from -5.9% in August, which compares to February’s recent low of -7.9% and a record high of 22.1% in March 2018. However, NERI improved m/m for six of the 11 sectors; that compares to three improving in August and July. All 11 sectors had improved m/m in May, which was the first time that had happened since January 2018. NERI was positive in September for 3/11 sectors, unchanged from August and July and down from five in June. That compares to negative readings for all 11 sectors from February to April. Materials has the worst track record, with 12 months of negative NERI, followed by Industrials (11), Financials (10), and Utilities (10). Here are the sectors’ September NERI readings: Health Care (12.5% in September [17-month high], up from 11.5% in August), Real Estate (9.4 [62-month high], 7.8], Communication Services (1.0, 1.1 [10-month high]), Consumer Staples (-0.9, -0.5), Tech (-3.5, -5.0), Utilities (-4.6, -6.1 [40-month low]), Consumer Discretionary (-6.8, -7.3 [28-month low]), Industrials (-10.3 [33-month low], -8.9), Materials (-10.8, -14.7), Financials (-16.6 [41-month low], -14.2), and Energy (-26.5 [41-month low], -23.0).

**US ECONOMIC INDICATORS**

**Consumer Confidence (link):** “The escalation in trade and tariff tensions in late August appears to have rattled consumers. However, this pattern of uncertainty and volatility has persisted for much of the year and it appears confidence is plateauing. While confidence could continue hovering around current levels for months to come, at some point this continued uncertainty will begin to diminish consumers’ confidence in the expansion,” according to Lynn Franco, senior director of economic indicators at the Conference Board. Consumer confidence fell for the second month, from 135.8 in July to 125.1 this month—fluctuating in a volatile flat range from 121.7 to 136.4 since reaching a cyclical high last October. The present situation (to 169.0 from 176.0) component sank 7.0 points from August’s 19-year high, while the expectations (95.8 from 106.4) component tanked 10.6 points—remaining in a very volatile flat trend around recent highs. Consumers’ appraisal of business conditions softened this month, with the percentage of respondents saying business conditions are good (to 37.3% from 40.9%) down and the percentage saying conditions are bad (12.7 from 9.9) up—though the former remained at a relatively high level, while the latter held at a relatively low level. Meanwhile, the percentage of
respondents expecting conditions to be better (19.0 from 21.6) six months from now wasn’t too much greater than the percentage expecting conditions to worsen (14.3 from 10.2)—with two-thirds expecting conditions to stay the same. The consumers’ assessment of the job market was less favorable than during August, though with a caveat: The percentage saying jobs are plentiful (to 44.8 from 50.3) fell 5.5ppts to a three-month low this month, while respondents saying jobs are hard to get (11.6 from 12.0) edged down 0.4ppt to a new cyclical low. The job outlook also was less favorable, with the percentage of respondents expecting more jobs (to 17.5 from 19.9) continuing to outpace those expecting fewer jobs (15.7 from 13.7)—though the spread between the two was the second smallest since October 2016.

**Regional M-PMIs (link):** The three Fed districts that have reported on manufacturing activity for September so far—Philadelphia, New York, and Richmond—show activity slowed to a near standstill. The composite (to 1.7 from 7.5) index showed activity was the slowest since October 2016, other than during June (-2.1), when it dipped into negative territory for the first time since August 2016. Philadelphia’s composite (12.0 from 16.8) index showed activity remained at a healthy, though slower, rate, while Richmond’s (-9.0 from 1.0) fell back below zero—near July’s -12.0, which was the weakest performance since January 2013. Meanwhile, New York’s (2.0 from 4.8) composite fell back toward zero, indicating little growth in that region. New orders (4.8 from 11.5) expanded at less than half the rate of August and one-fifth the pace of a year ago, with only the Philadelphia (24.8 from 25.8) region showing robust growth. New York (3.5 from 6.7) billings barely grew this month, while Richmond’s (-14.0 from 2.0) contracted sharply. Employment (9.5 from -1.3) is increasing, led by Philadelphia (15.8 from 3.6) factories, which hired at quadruple the pace of August, while New York (9.7 from -1.6) and Richmond (3.0 from -6.0) manufacturers are hiring again after cutting payrolls the prior three months and two months, respectively.

**GLOBAL ECONOMIC INDICATORS**

**Germany Ifo Business Climate Index (link):** “The downturn is taking a breather,” Ifo President Clemens Fuest said in a statement. But he added: “In manufacturing, the business climate has only one direction: downward.” Sentiment rose in September for the first time in six months, and only the second time in 13 months, ticking up to 94.6. It had dropped the prior five months, from 99.8 in March to 94.3 in August—which was the lowest reading since November 2012; it was at a cyclical high of 105.1 at the start of 2018. The expectations (90.8 from 91.3) component continued to deteriorate, plunging to its lowest level since mid-2009, while the present situation (98.5 from 97.4) component improved slightly from August’s reading—which was the weakest since November 2014. Manufacturers remained the most pessimistic, with their sentiment sliding from a record high of 34.2 in November 2017 to -6.4 this month, the most pessimistic reading since the crisis year of 2009. Sentiment in the service sector (to 16.6 from 13.0) moved slightly higher, after posting its lowest reading since March 2010 in August; it was at 32.6 less than a year ago. Meanwhile, the business climate index for trade dropped to -3.7 this month—the lowest since July 2013—after bouncing in a volatile flat trend the first half of this year. Sentiment in the construction industry improved slightly this month from 21.5 to 22.2—holding above its recent low of 18.4 in February; it peaked at 32.2 last October.

**Japan PMI Flash Estimates (link):** “The resilience of Japan’s service sector to the struggles of the country’s manufacturers continued to shine through during September,” according to the report. Jibun Bank’s flash C-PMI (in conjunction with IHS Markit) was little changed in September, at 51.5, after improving four of the prior five months from 50.4 in March to a high for this year of 51.7 in August. The NM-PMI (to 52.8 from 53.4) took a minor step back from August’s 22-month high, trending higher from its recent low of 50.2 a year ago. While new orders advanced at a slightly faster rate this month, employment fell for the first time in three years (on reports of increased retirements), and future output expectations slowed to a 25-month low. Meanwhile, the M-PMI (48.9 from 49.3) was below 50.0 for the
fifth straight month (and the seventh month this year), matching its lowest reading since June 2016, amid concerns regarding US-China trade tensions, Hong Kong protests, Brexit, and the diplomatic dispute between Japan and South Korea.