

Strategist's Handbook

Yardeni Research, Inc.

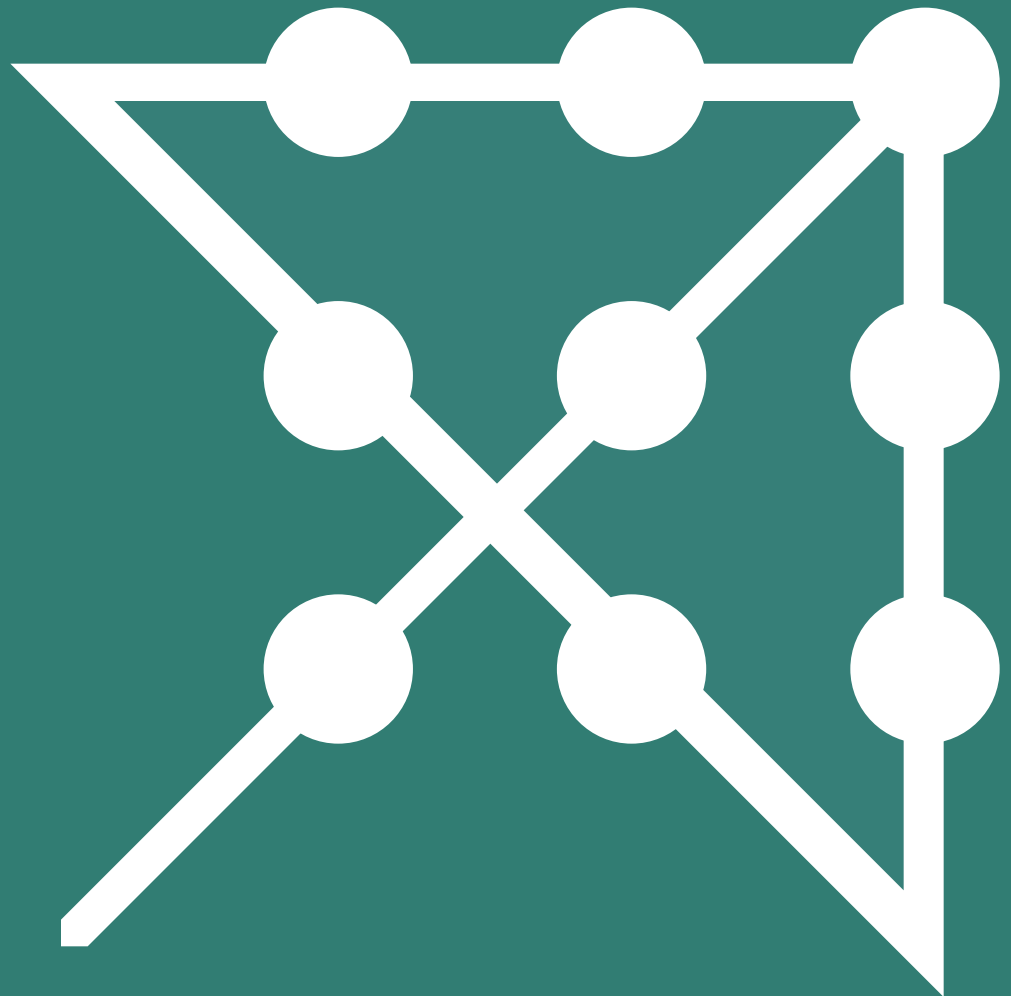
July 16, 2017

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Please visit our sites at
www.yardeni.com
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thinking outside the box

Introduction to Services

Our Firm

Founded on January 1, 2007 by Dr. Ed Yardeni, Yardeni Research, Inc. provides in-depth empirical and analytical research on the global economy, which is the basis for our investment strategy and asset allocation recommendations.

Many of our clients rely on us to be their primary outsource for financial and economic research. They use our insights in developing their own global investment and business strategies. Our clients include institutional portfolio managers, industry and credit analysts, managers of financial institutions, CEOs and CFOs, corporate business strategists, corporate treasurers, and government policymakers. They work for some of the world's leading asset management companies, mutual funds, trust companies, insurance companies, hedge funds, banks, and industrial corporations.

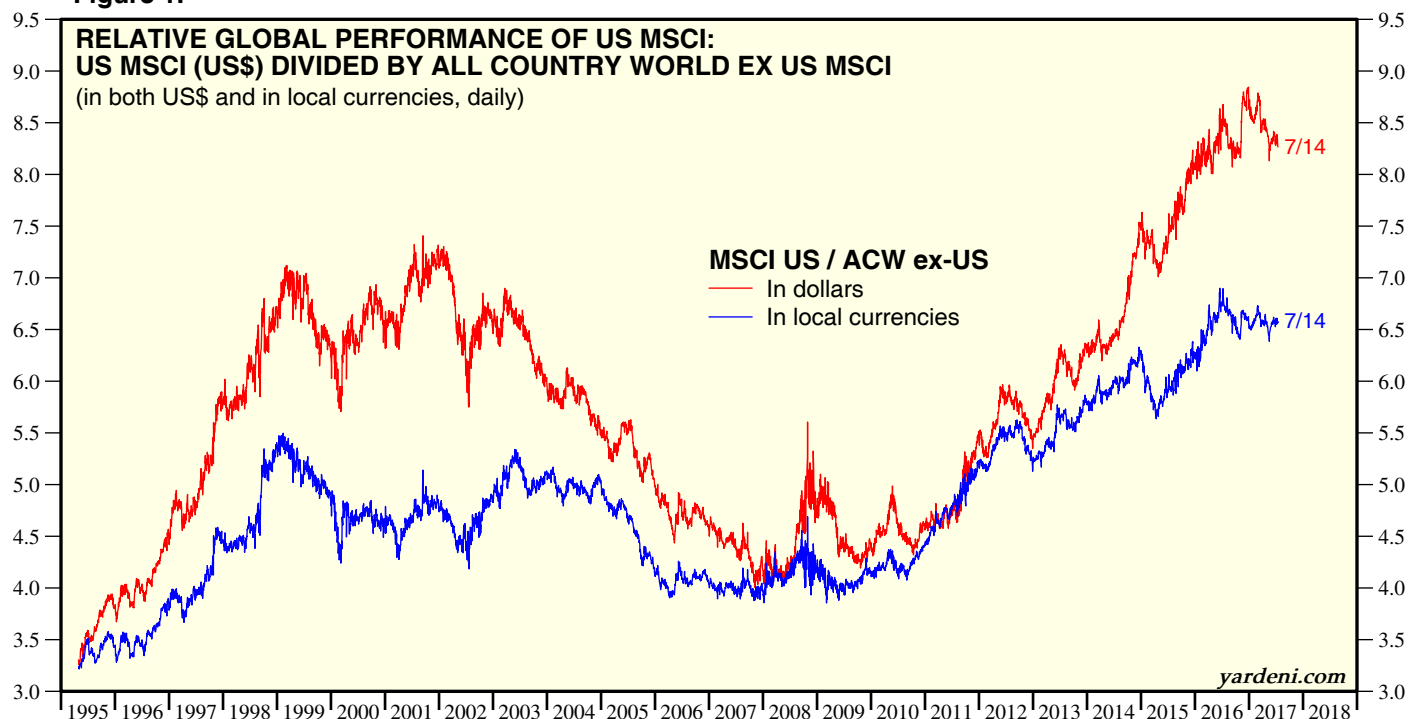
Our Services

Our comprehensive package of consulting services is designed to provide you with a unique, personalized, and valuable resource. As our client, you can expect the following:

1. ***Dr. Ed's Morning Briefing.*** Our daily analysis of the latest economic and investment issues is delivered by email promptly at the start of the business day, with a weekly compilation each Friday morning. The commentary provides objective, fact-based analyses of unfolding economic, political, and investment-related developments and draws conclusions about their short- and long-term ramifications for investment and business strategies. The focus is on actionable insights that decision-makers can put to use daily and for long-term planning purposes as well.
2. ***Dialogue with Dr. Ed.*** Our daily morning commentary is designed to stimulate an ongoing dialogue with you. We welcome questions and comments by email or phone. Dr. Ed is frequently on the road, meeting with accounts in major cities on a regular basis. The views of institutional investors and business leaders who participate in the ongoing dialogue are often discussed in the *Morning Briefing*, informing and enhancing the analysis.
3. ***Exclusive Online Information Library.*** Our website and our iPad/iPhone App provide you with access to a rich library of research reports, such as our Strategist's and Analyst's Handbooks, as well as a vast bank of user-friendly information tools, such as chart books on key economic and financial indicators featuring useful data comparisons and proprietary data indexes.
4. ***Personalized Tools and Resources.*** The website includes MyPage, which allows you to easily design your own portal of the information you most value on our website. At your request, we maintain customized charts and presentation materials on your secure page. You can also receive regular emails with the latest updates of your MyPage information through our Home Delivery service.
5. ***Top-Notch Outsource for Research.*** You can rely on us for the most thorough analysis of the economic and financial issues that matter most to you. Our consulting service provides you with direct access to Dr. Ed and our staff on a 24/7 basis. Please contact us to discuss your individual professional needs.

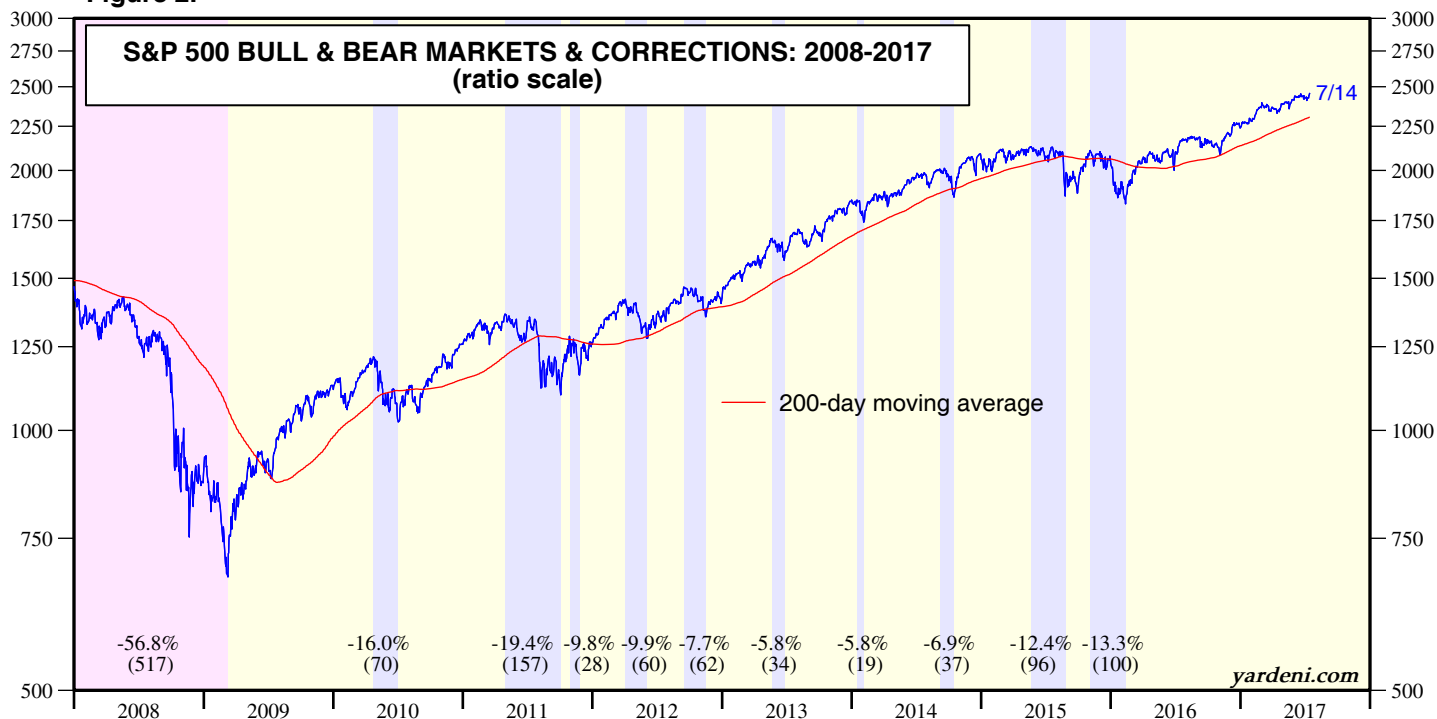
Stock Prices

Figure 1.



Source: Morgan Stanley Capital International.

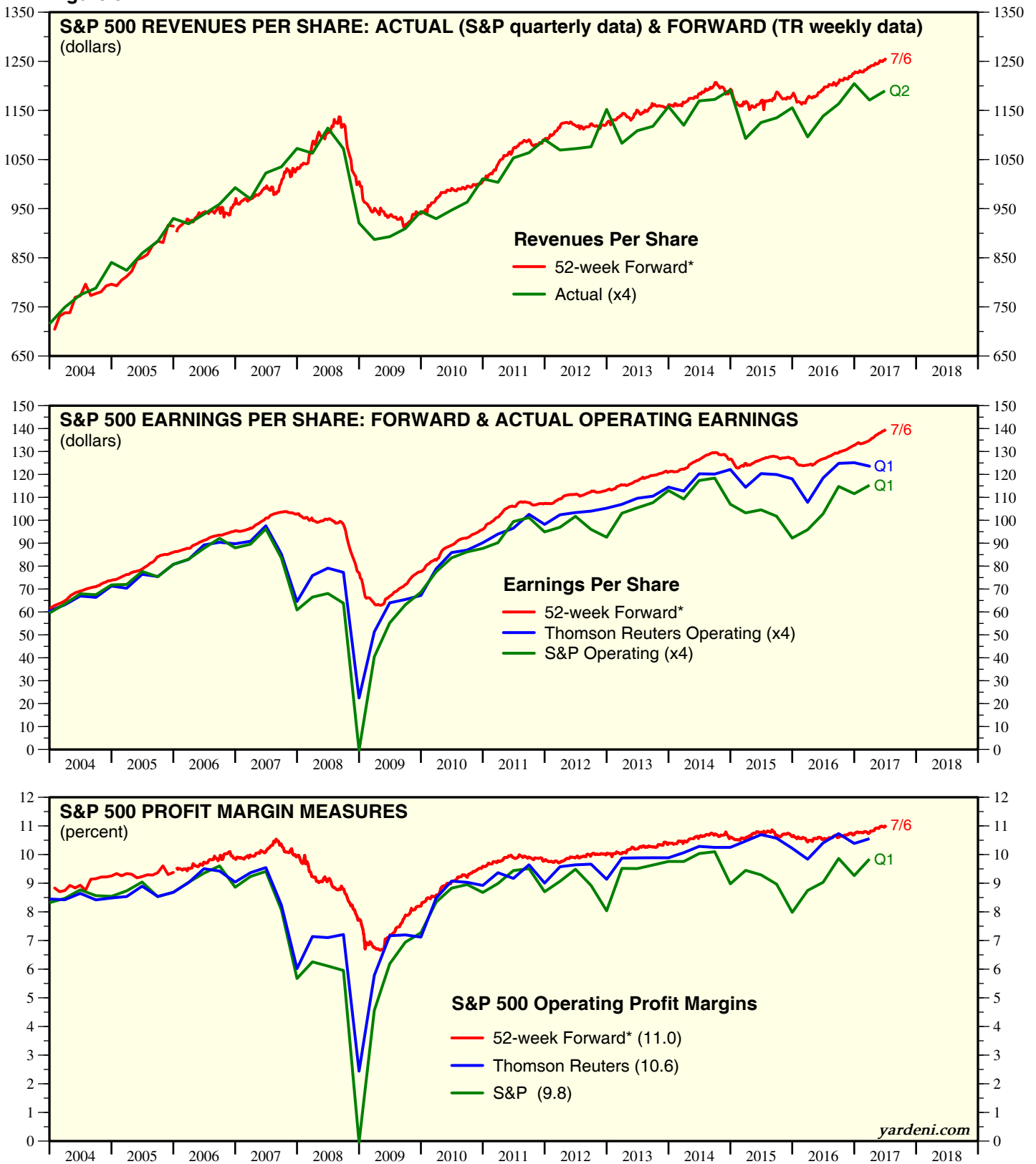
Figure 2.



Note: Corrections are declines of 10% or more, while minor ones are 5%-10% (all in blue shades). Bear markets are declines of 20% or more (in red shades). Number of calendar days in parentheses.
 Source: Standard & Poor's.

S&P 500 Earnings, Revenues, Margins

Figure 3.

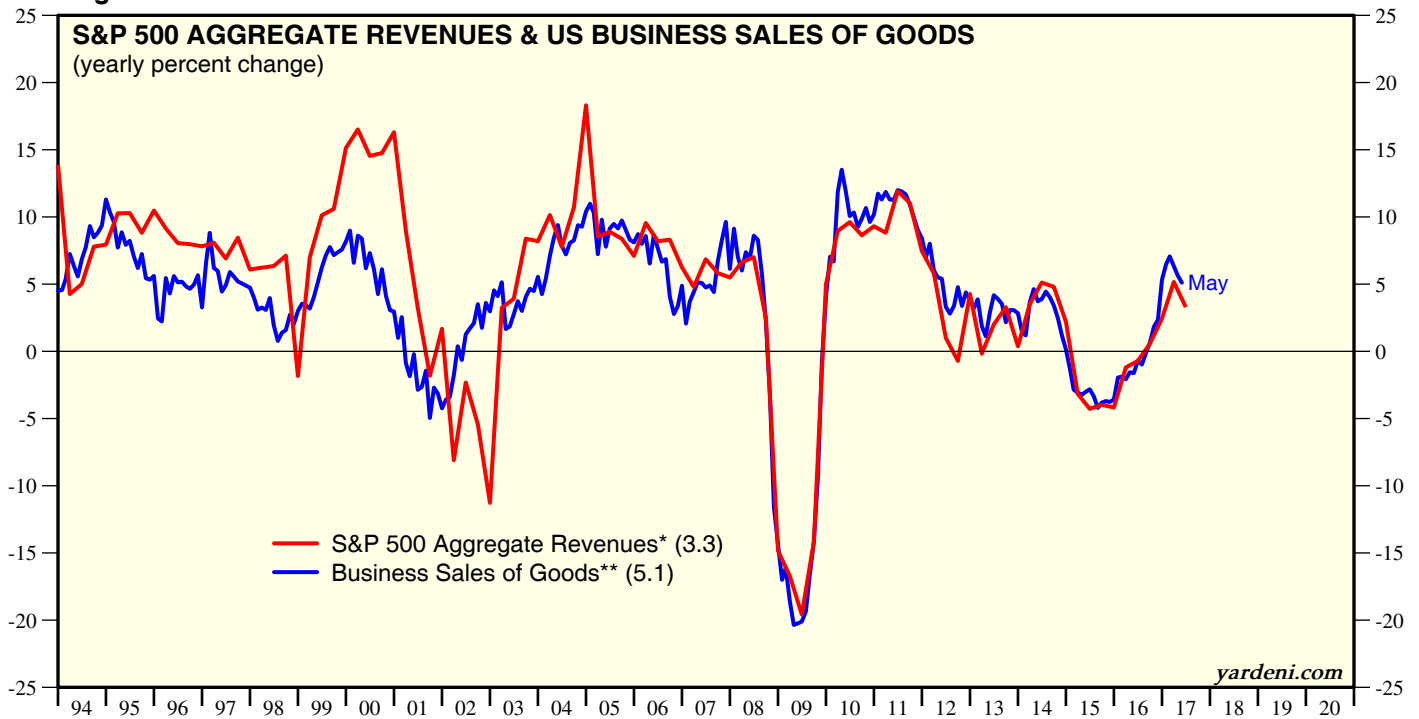


* Time-weighted average of consensus operating earnings estimates for current and next years.

Source: Standard & Poor's (for actual revenues) and Thomson Reuters I/B/E/S (for forward revenues), and Bureau of the Census.

S&P 500 Revenues & Margins

Figure 4.

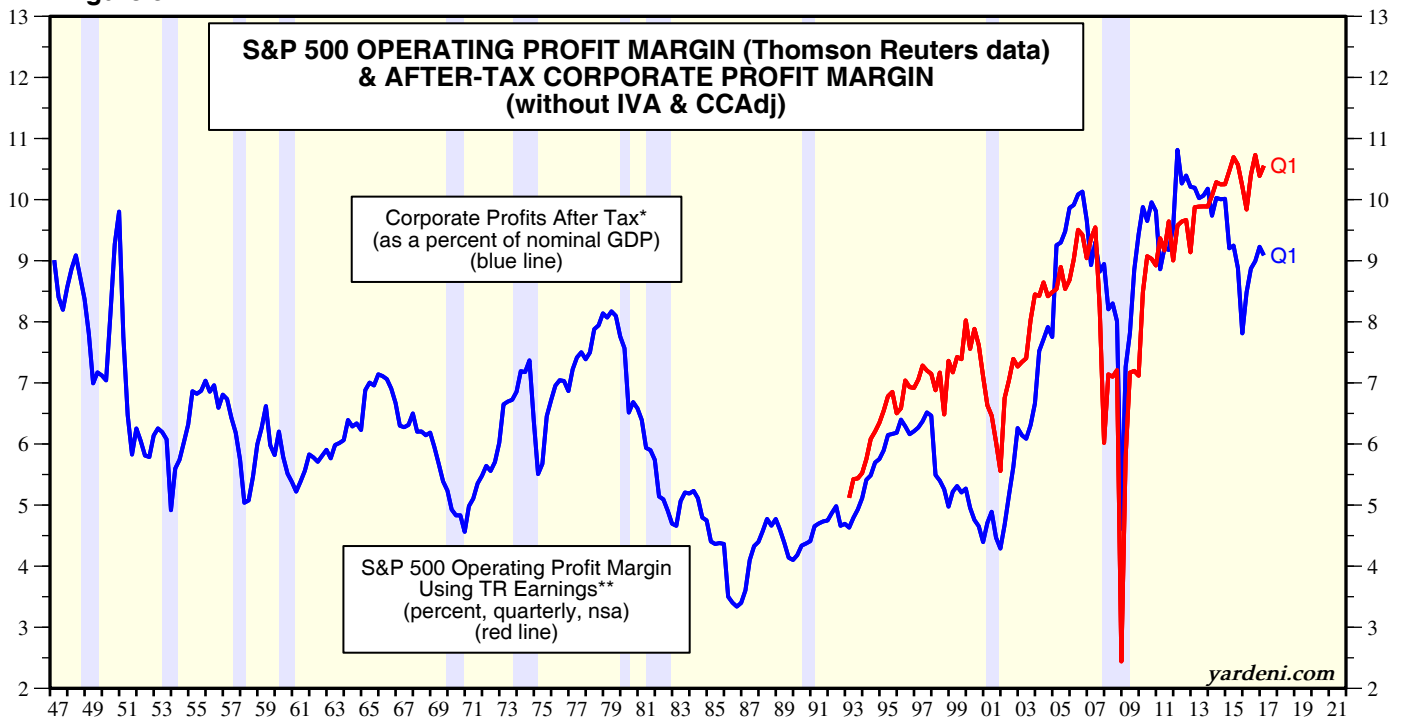


* Revenues are derived by multiplying S&P 500 revenues per share by the S&P 500 divisor for each quarter.

** Manufacturing and trade sales.

Source: Census Bureau and Standard & Poor's.

Figure 5.



* After-tax profits as reported to IRS excluding Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj), which restate the historical cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current cost measures used in GDP.

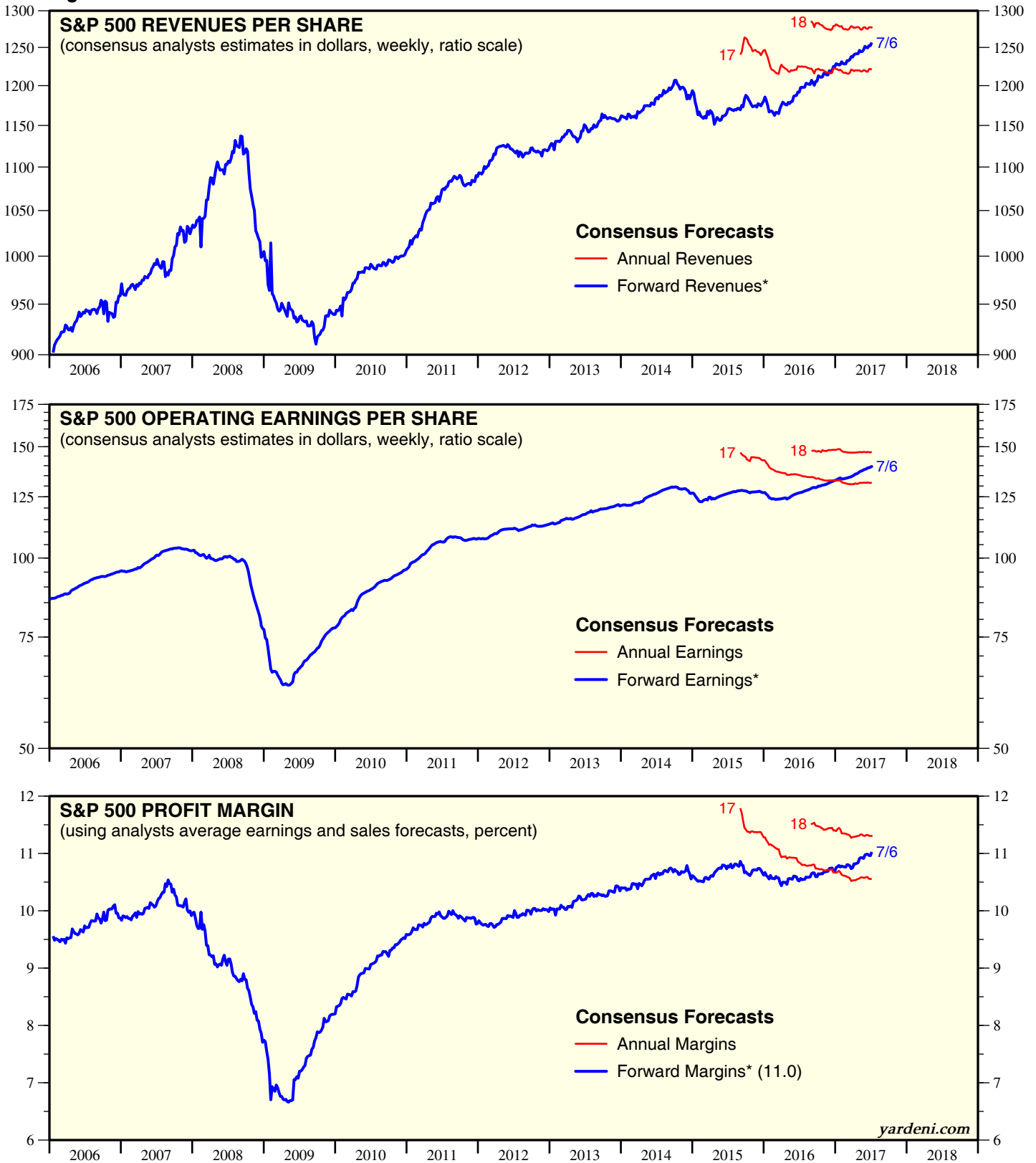
** Operating Profit Margin derived using revenues from S&P and earnings from Thomson Reuters I/B/E/S.

Note: Shaded areas denote recessions according to the National Bureau of Economic Research.

Source: Standard & Poor's, Thomson Reuters I/B/E/S and Bureau of Economic Analysis.

Forward Revenues, Earnings, & Margins

Figure 6.

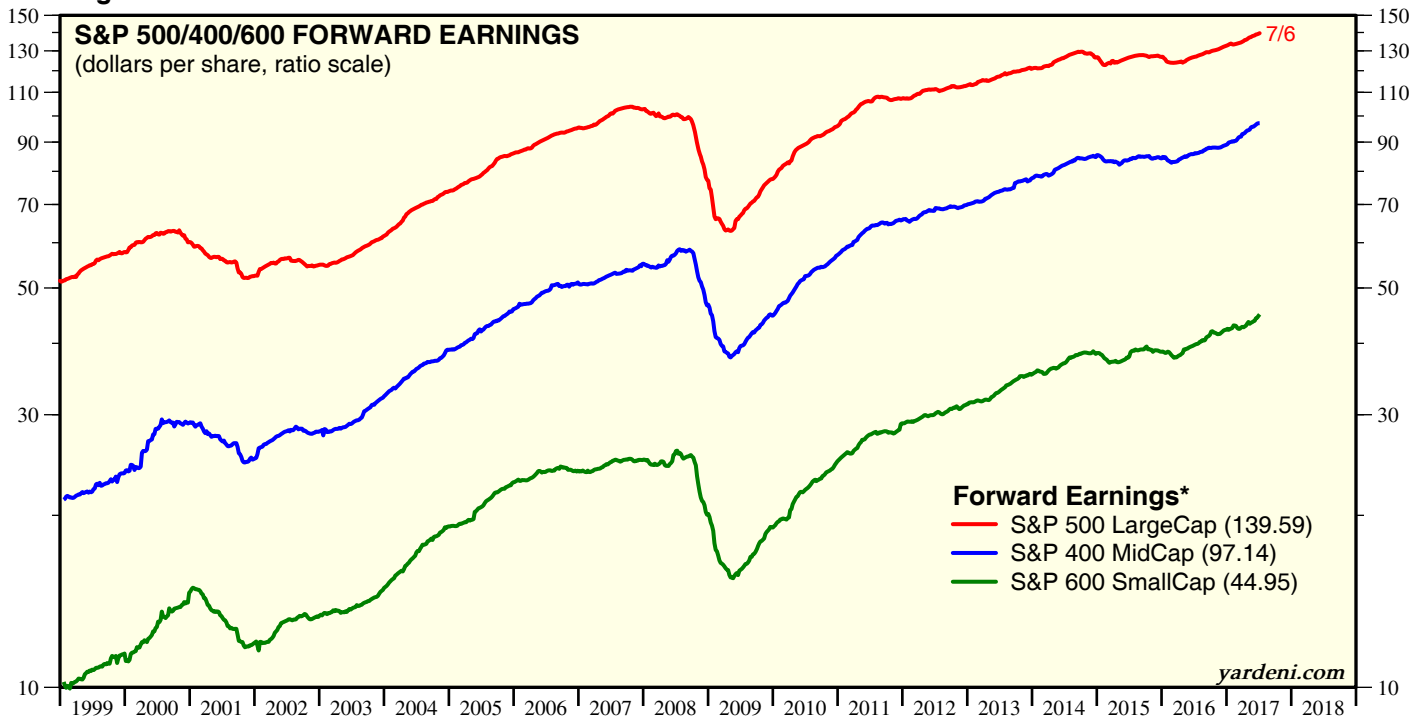


* Time-weighted average of the consensus estimates for current and next year.

Source: Thomson Reuters I/B/E/S and Standard & Poor's.

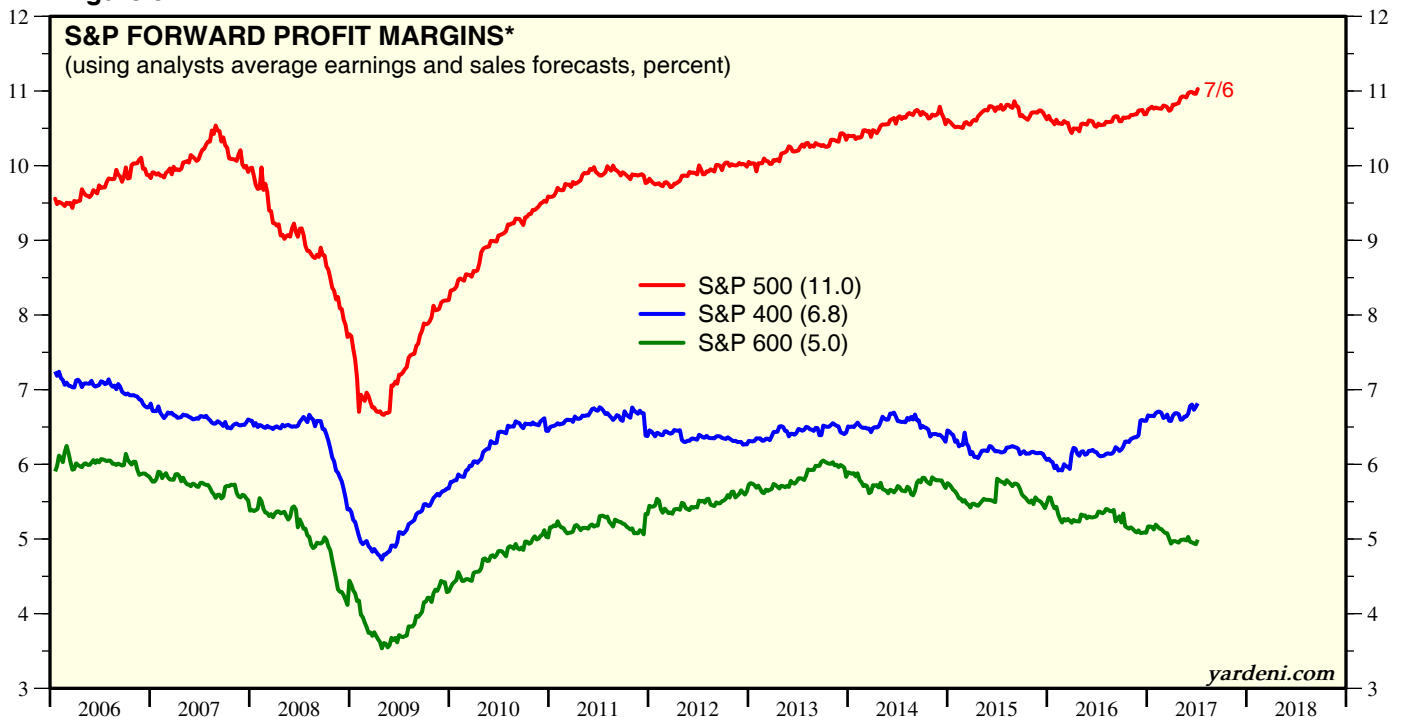
S&P 500/400/600 Forward Earnings & Margins

Figure 7.



* Time-weighted average of consensus estimates for current year and next year.
Source: Thomson Reuters I/B/E/S.

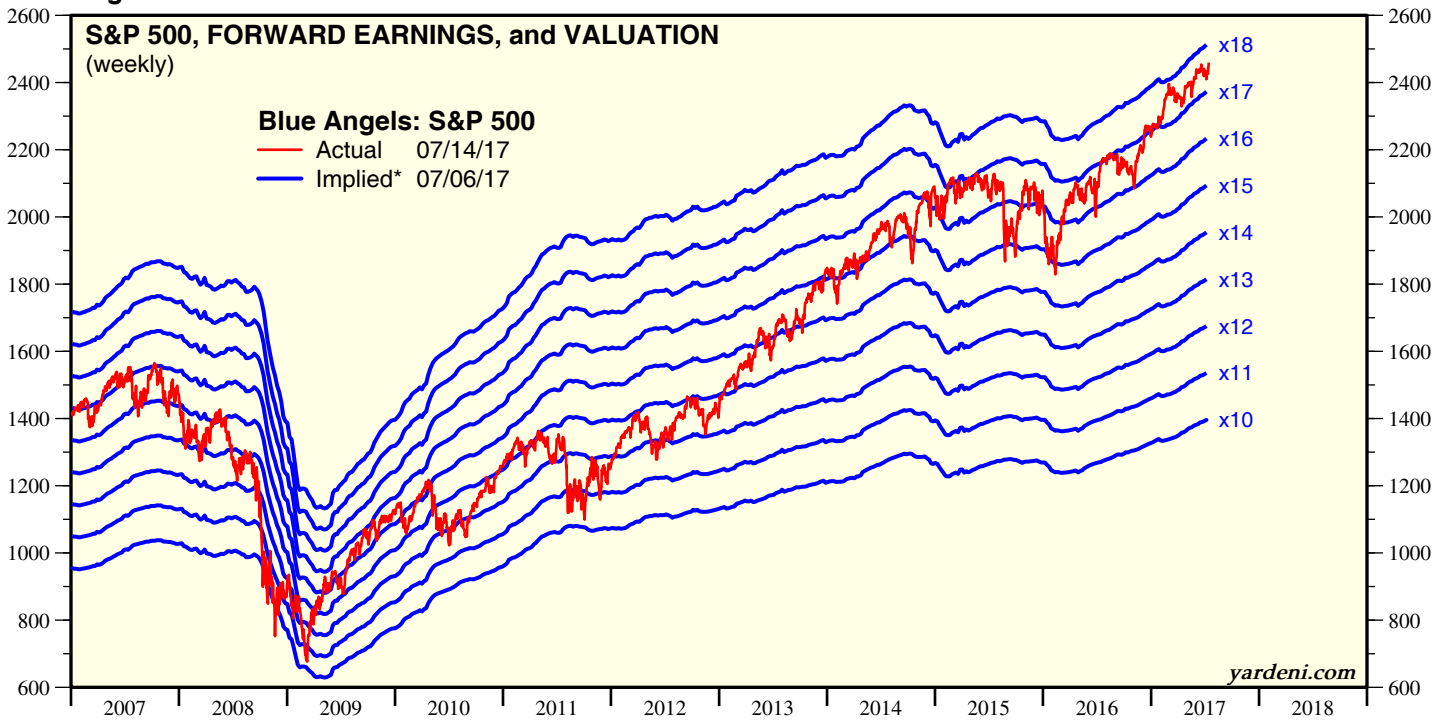
Figure 8.



* Time-weighted average of the consensus estimates for current and next year.
Source: Thomson Reuters I/B/E/S and Standard & Poor's.

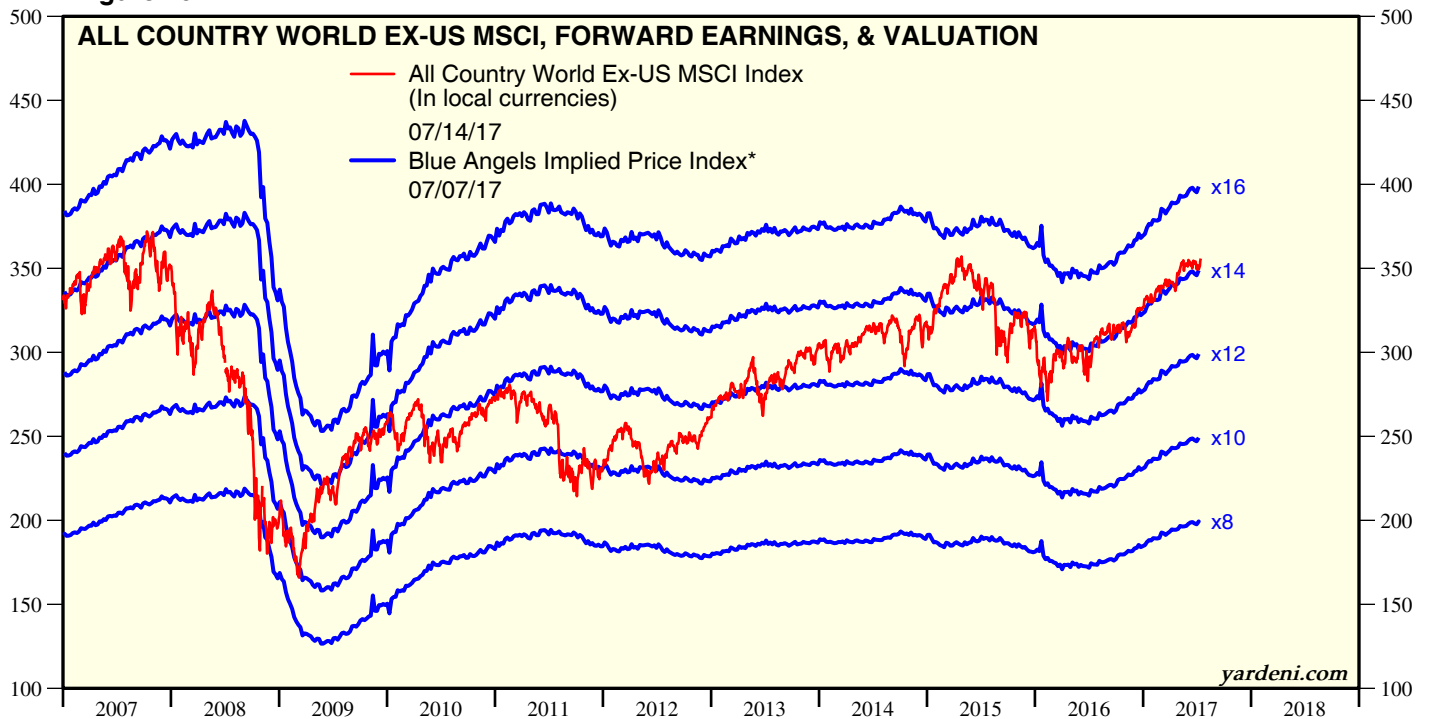
Blue Angels

Figure 9.



* Implied price index calculated using forward earnings times forward P/Es. Weekly data start January 2007.
 Source: Standard & Poor's and Thomson Reuters I/B/E/S.

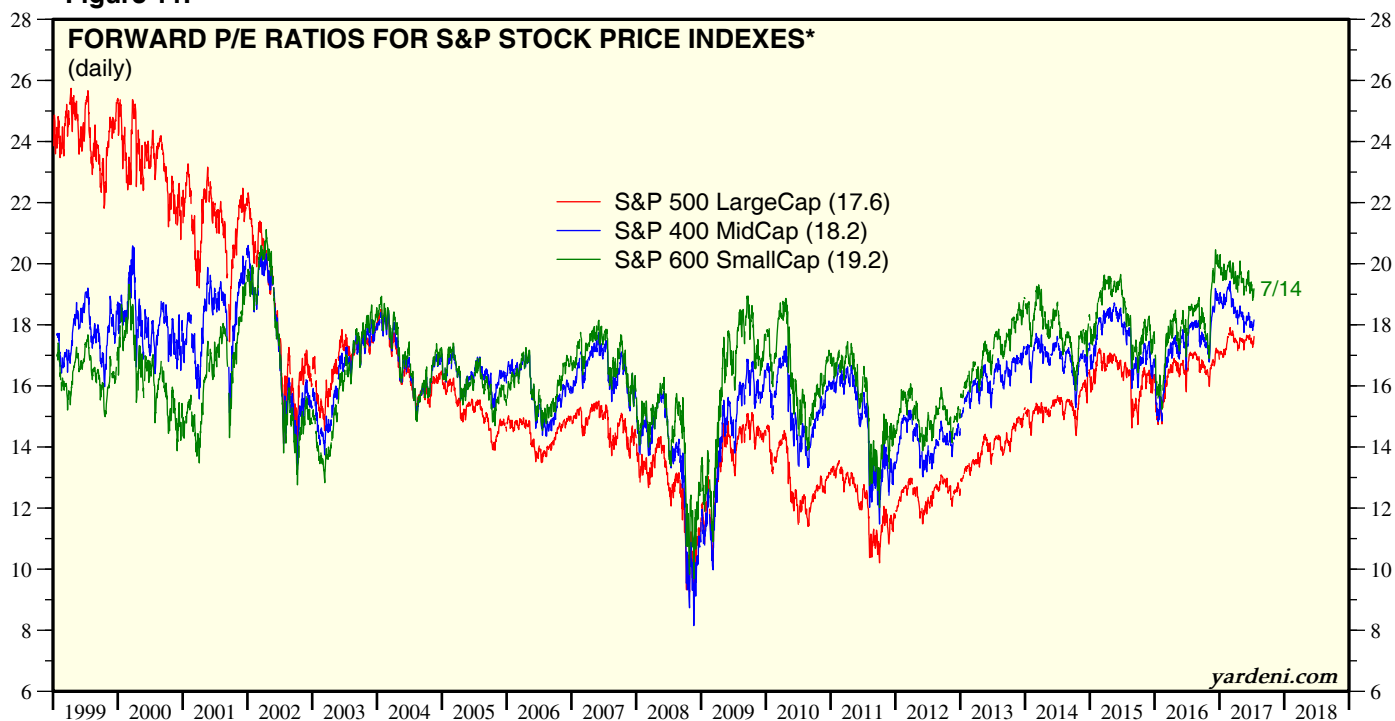
Figure 10.



* Implied price index calculated using forward earnings times forward P/Es. Monthly through December 2005, weekly thereafter.
 Source: Morgan Stanley Capital International and Thomson Reuters I/B/E/S.

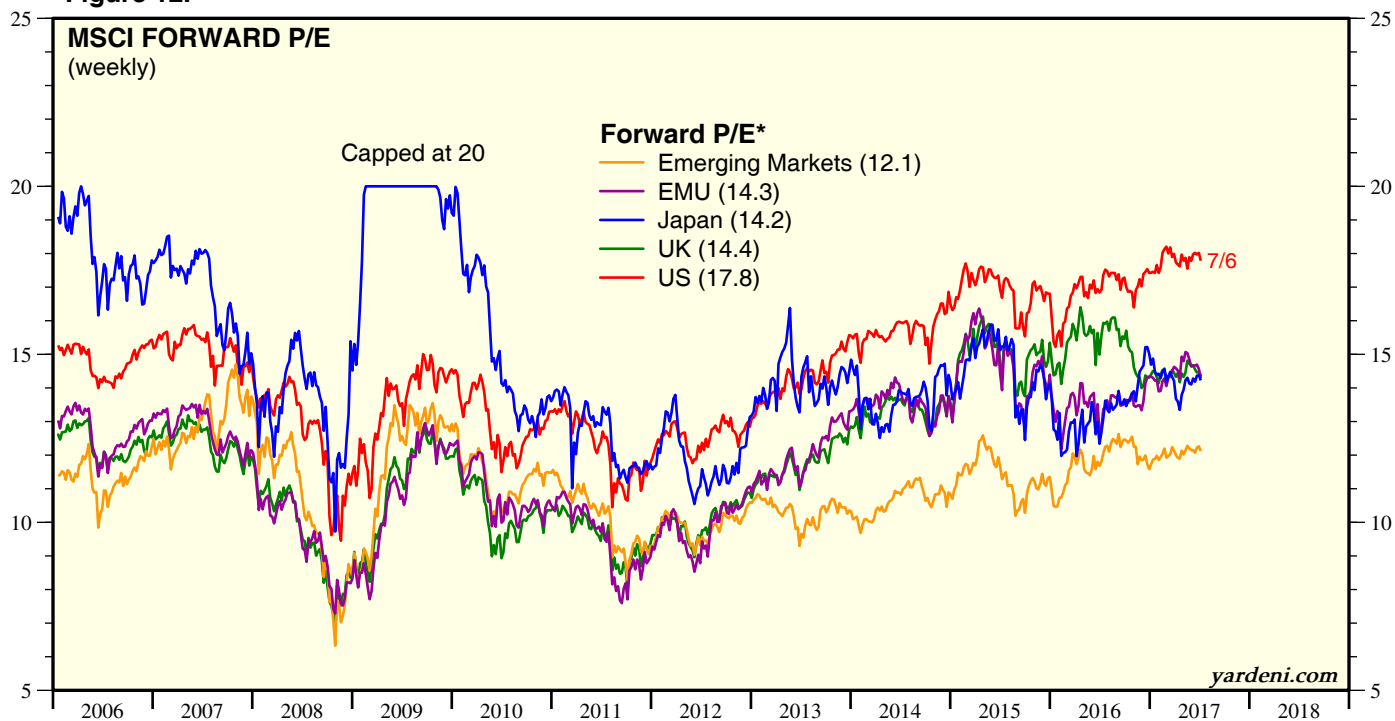
Valuation

Figure 11.



* Daily stock price index divided by 52-week forward consensus expected operating earnings per share.
Source: Thomson Reuters I/B/E/S and Standard & Poor's.

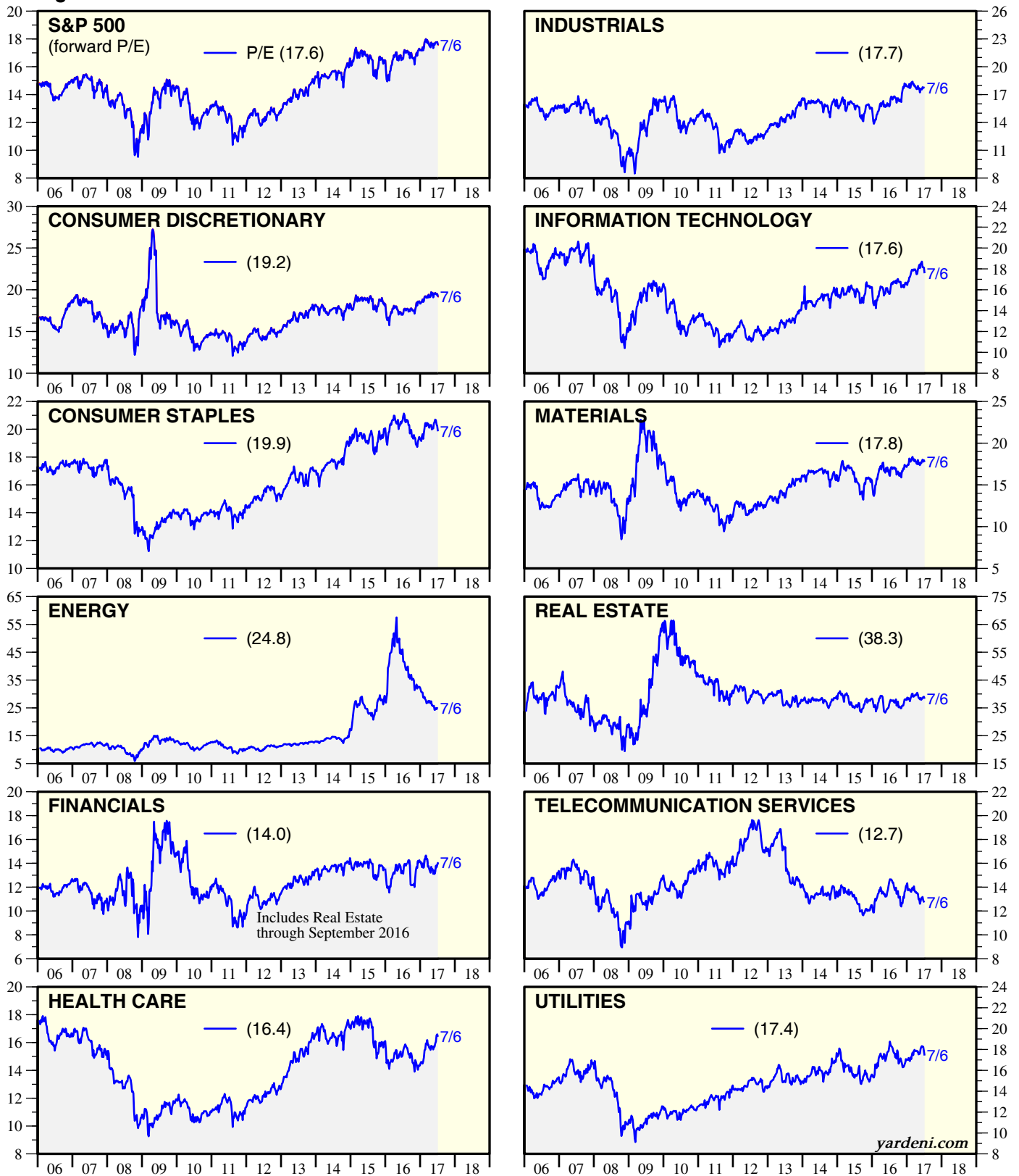
Figure 12.



* Price divided by 12-month forward consensus expected operating earnings per share.
Source: Thomson Reuters I/B/E/S.

S&P 500 Sectors Forward P/E's

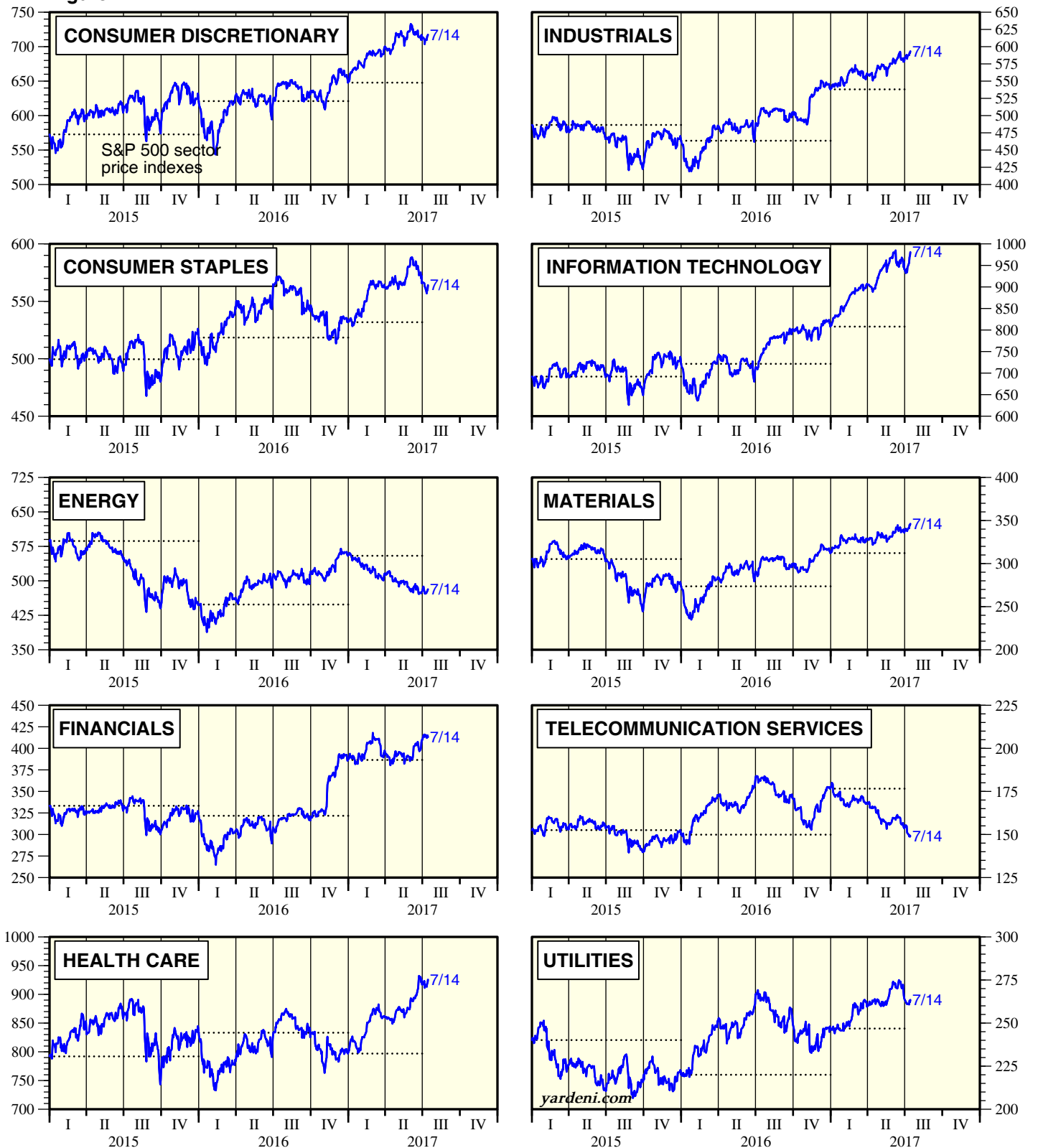
Figure 13.



Source: Thomson Reuters I/B/E/S and Standard & Poor's.

S&P 500 Sectors Price Indexes

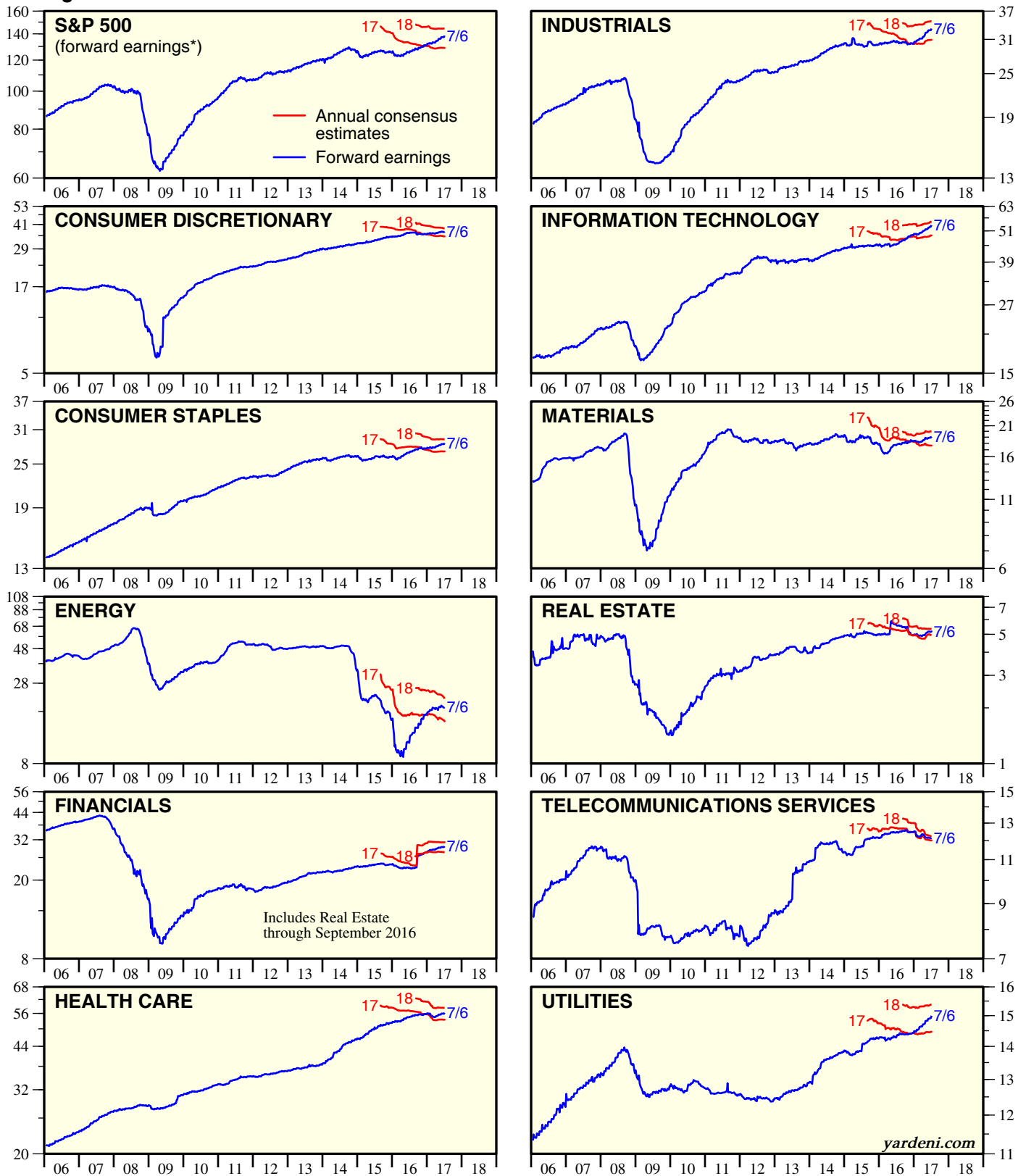
Figure 14.



Source: Standard & Poor's and Haver Analytics.

S&P 500 Sectors Forward Earnings

Figure 15.

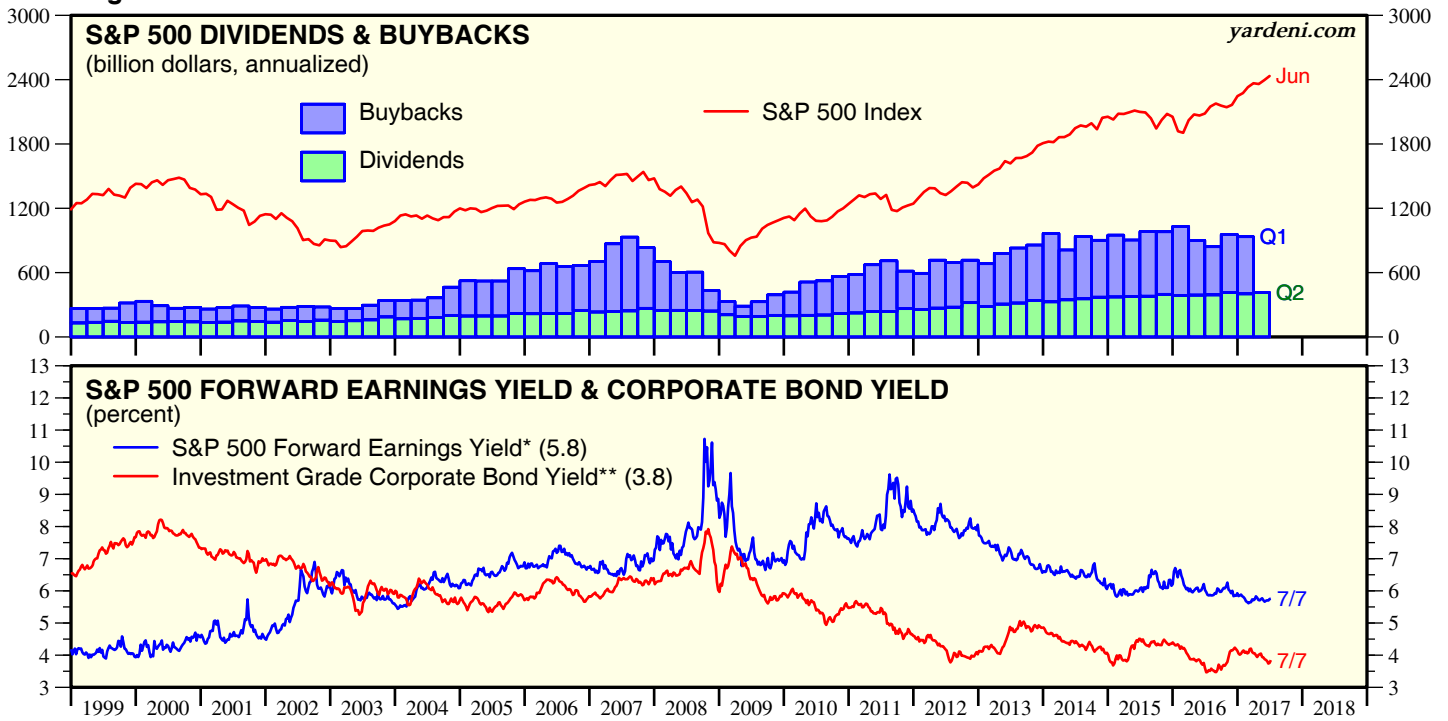


* Time-weighted average (in blue) of consensus operating earnings estimates for current and next year (in red).

Source: Thomson Reuters I/B/E/S.

Equity Flows

Figure 16.

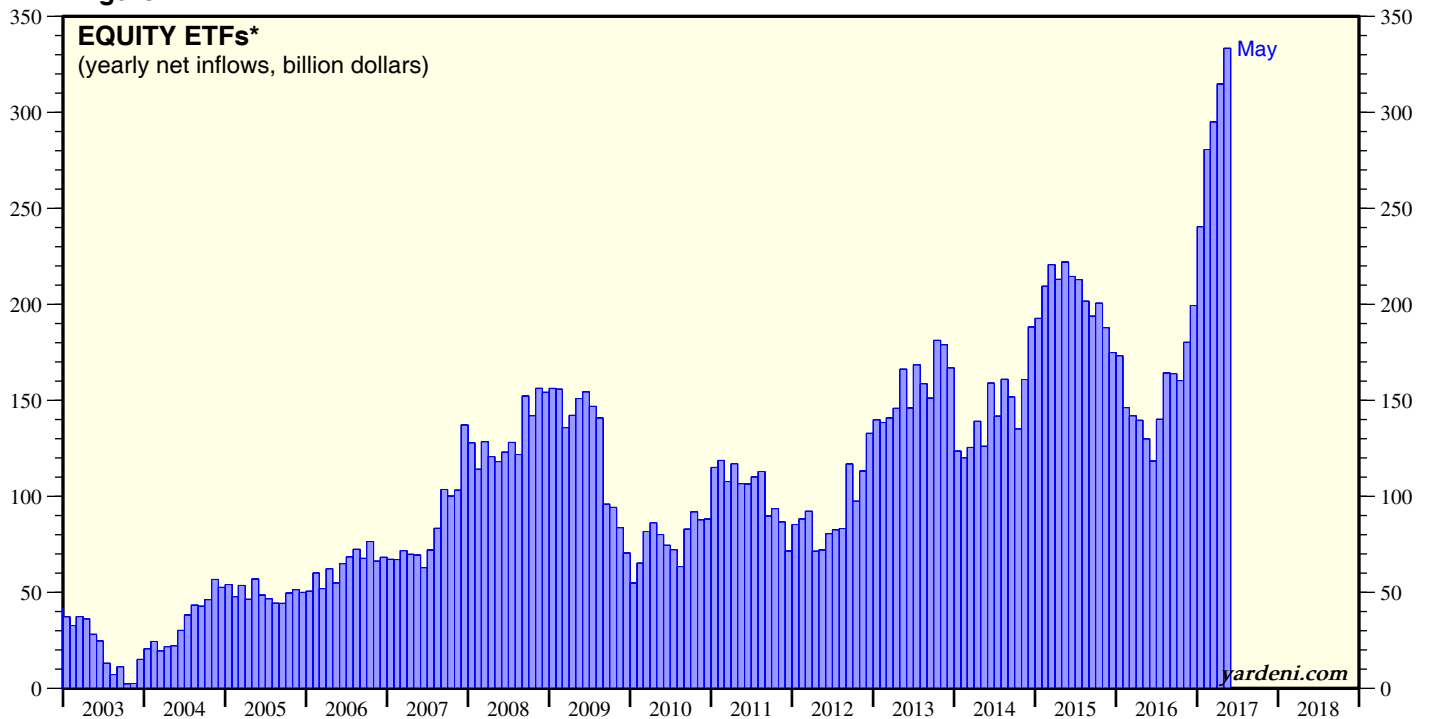


* Forward earnings (time-weighted average of consensus operating earnings estimates for current and next year) divided by S&P 500 index.

** BoA Merrill Lynch data for AA-AAA yields.

Source: Thomson Reuters I/B/E/S, Federal Reserve Board, and Standard & Poor's.

Figure 17.

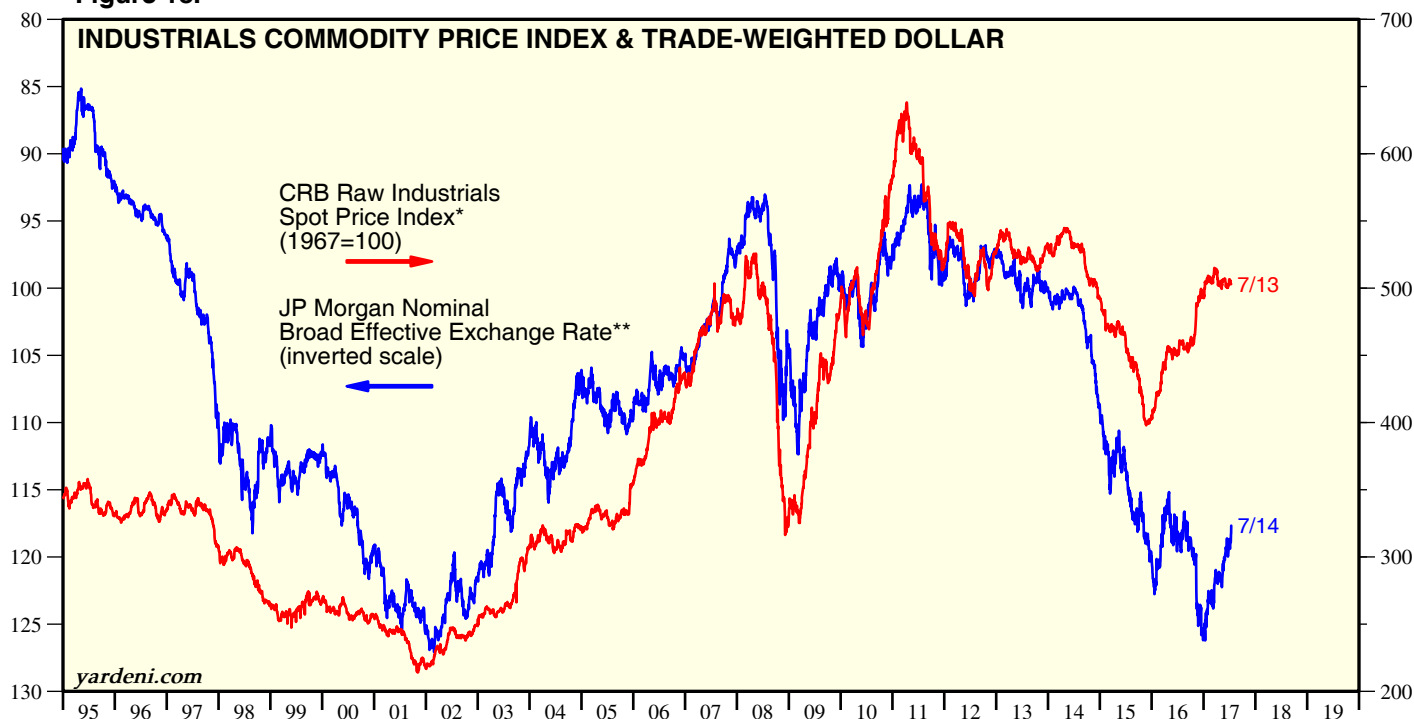


* Net share issuance by equity ETFs.

Source: Investment Company Institute.

Dollar & Commodities

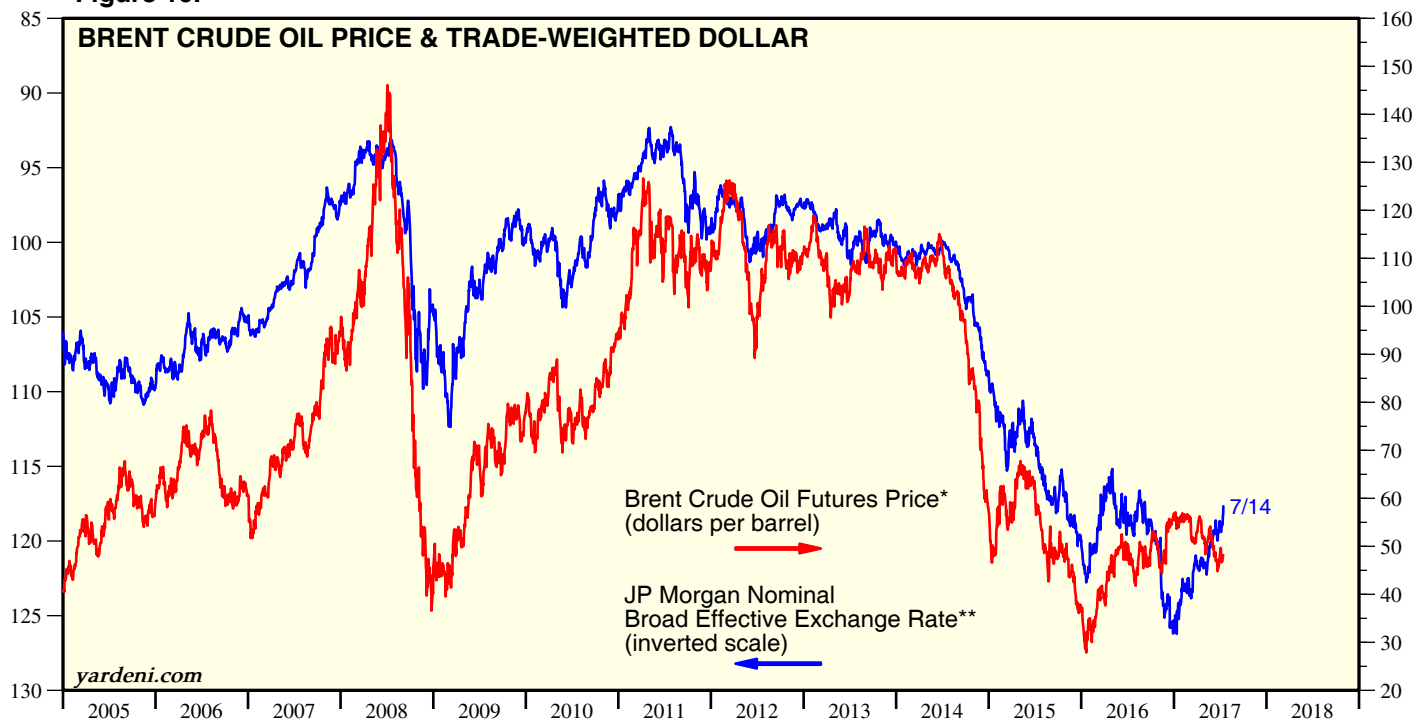
Figure 18.



* Includes copper scrap, lead scrap, steel scrap, tin, zinc, burlap, cotton, print cloth, wool tops, hides, rosin, rubber, and tallow.

** Argentina, Australia, Brazil, Bulgaria, Canada, Chile, China, Colombia, Croatia, Czech Republic, Denmark, Ecuador, Egypt, France, Germany, Hong Kong, Hungary, Japan, India, Indonesia, Israel, Italy, Korea, Kuwait, Malaysia, Mexico, Morocco, New Zealand, Nigeria, Norway, Pakistan, Panama, Peru, Philippines, Poland, Romania, Russia Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Kingdom, Ukraine, Uruguay, Venezuela, Vietnam, and United States. Source: Commodity Research Bureau and JP Morgan.

Figure 19.

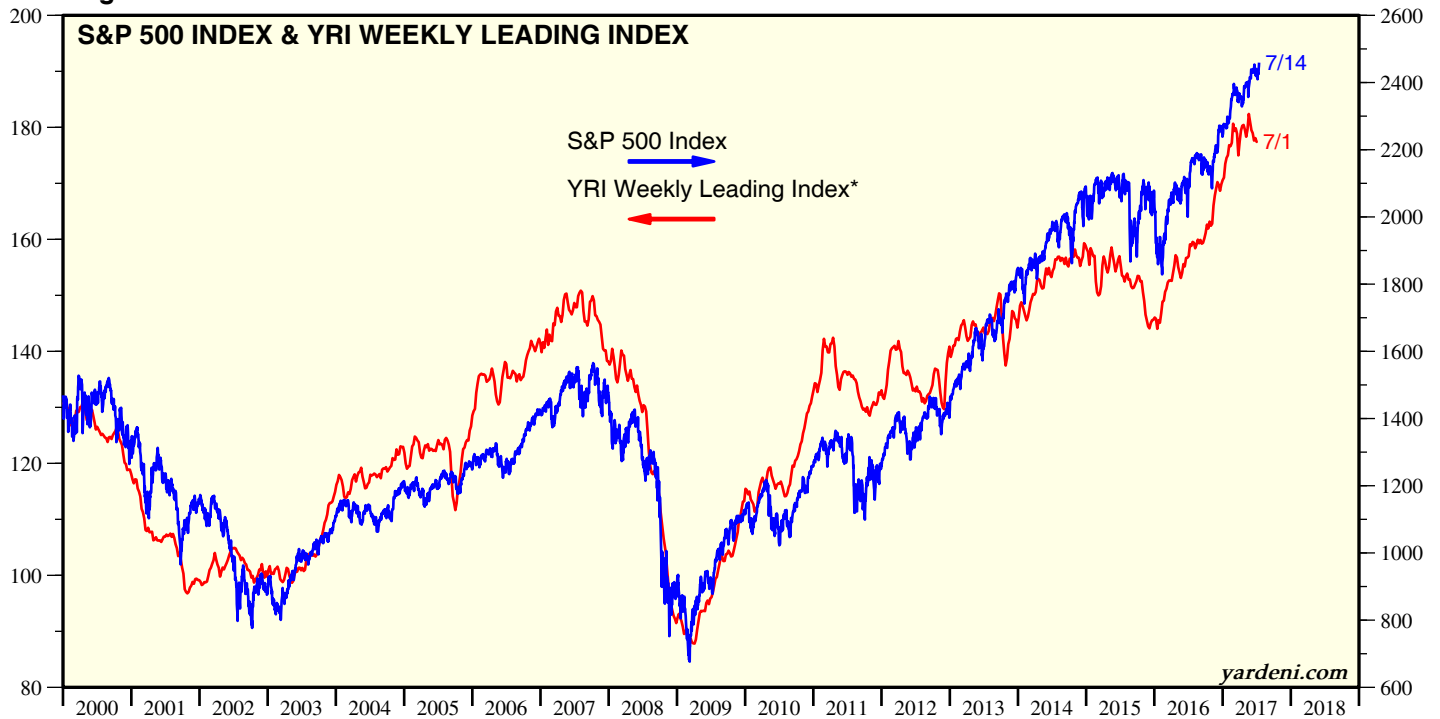


* Nearby futures price.

** Argentina, Australia, Brazil, Bulgaria, Canada, Chile, China, Colombia, Croatia, Czech Republic, Denmark, Ecuador, Egypt, France, Germany, Hong Kong, Hungary, Japan, India, Indonesia, Israel, Italy, Korea, Kuwait, Malaysia, Mexico, Morocco, New Zealand, Nigeria, Norway, Pakistan, Panama, Peru, Philippines, Poland, Romania, Russia Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Kingdom, Ukraine, Uruguay, Venezuela, Vietnam, and United States. Source: JP Morgan and Haver Analytics.

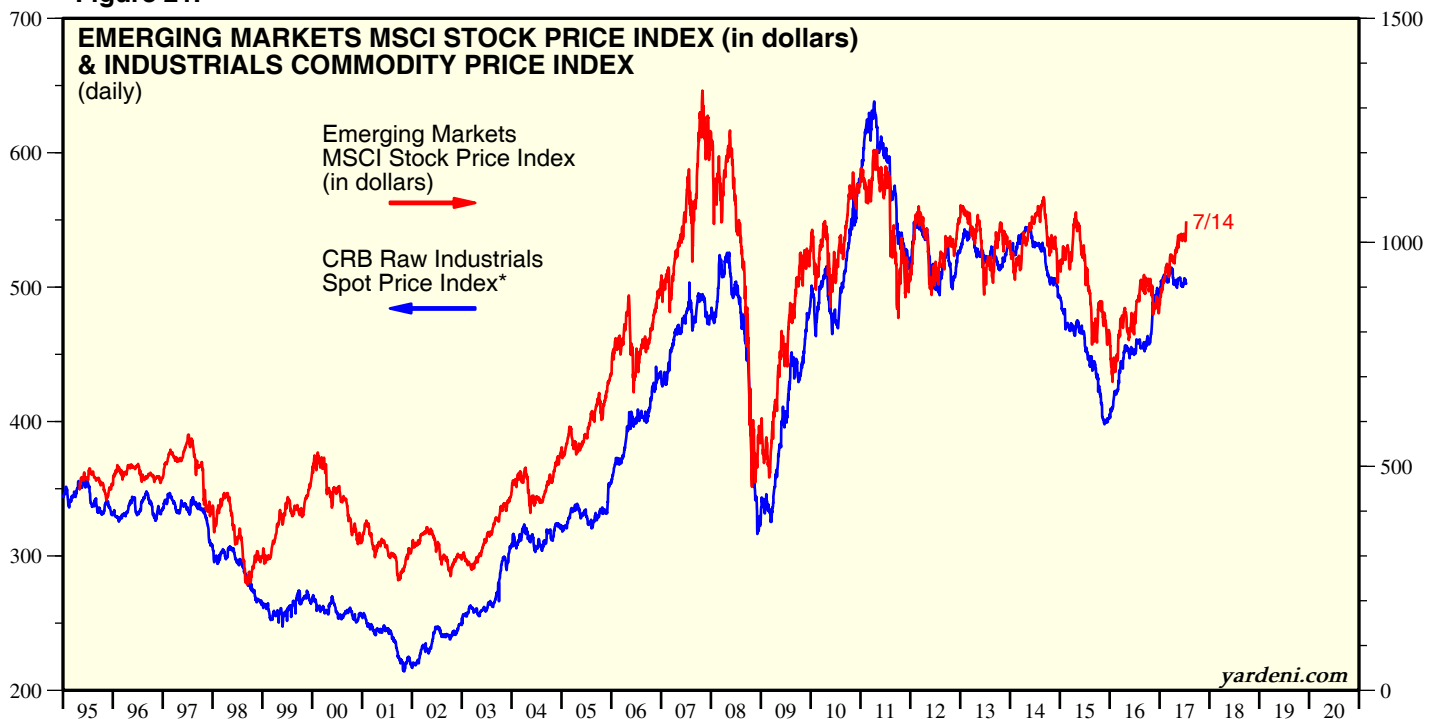
Stocks & Commodities

Figure 20.



* Average of Consumer Comfort Index (which is a four-week average) and the four-week average of Boom-Bust Barometer, which is CRB raw industrials spot price index (weekly average) divided by weekly initial unemployment claims.
Source: Bloomberg, Commodity Research Bureau, Bureau of Labor Statistics, and Standard & Poor's.

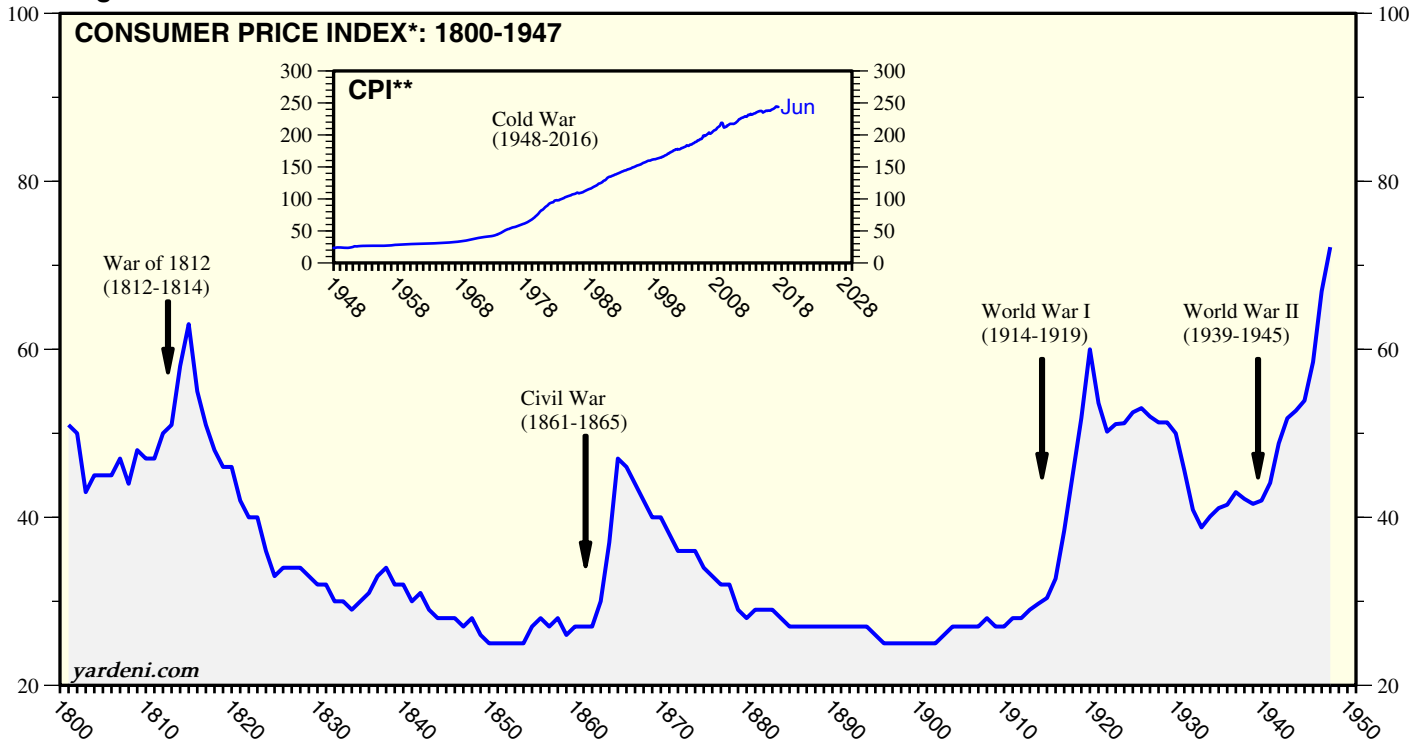
Figure 21.



* Includes copper scrap, lead scrap, steel scrap, tin, zinc, burlap, cotton, print cloth, wool tops, hides, rosin, rubber, and tallow.
Source: Morgan Stanley Capital International and Commodity Research Bureau.

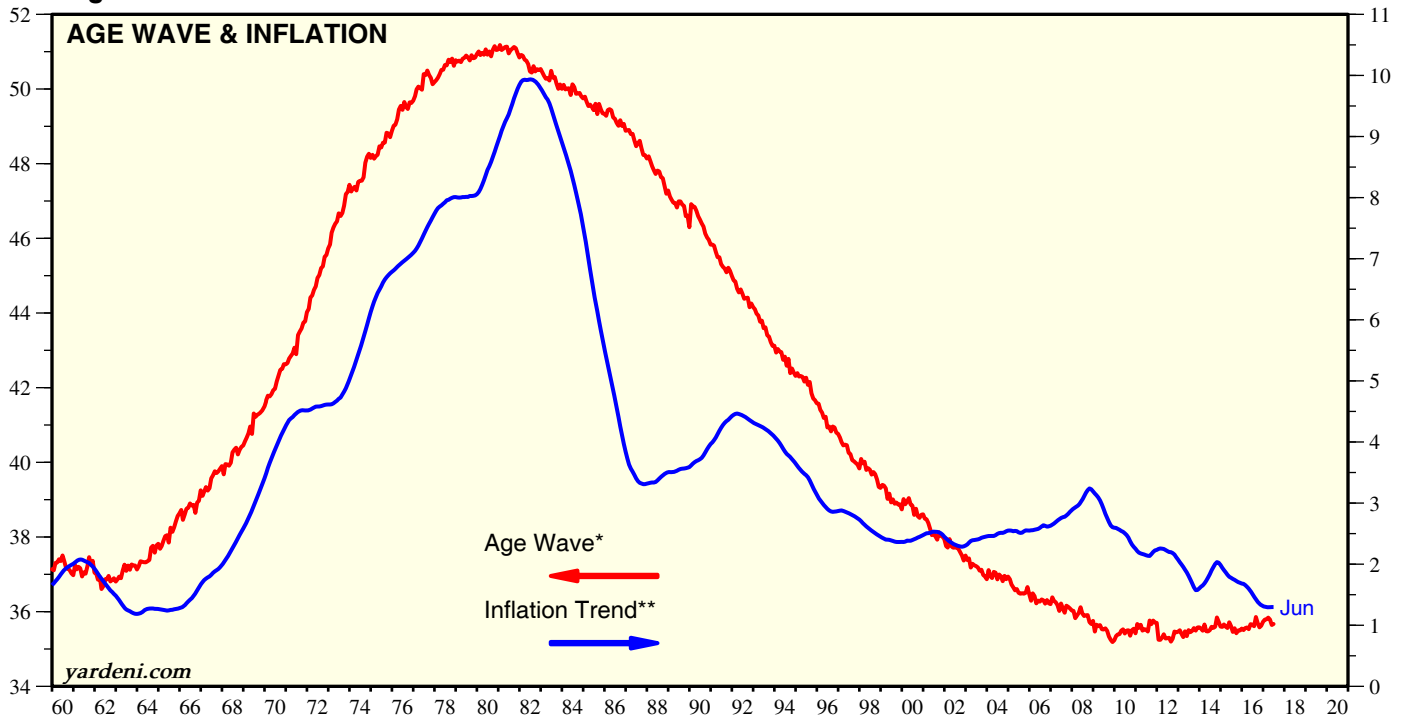
Big Picture

Figure 22.



* Base index from 1800 to 1947 is 1967 = 100.
 ** 1982-84=100.
 Source: Census Bureau, Historical Statistics of the United States

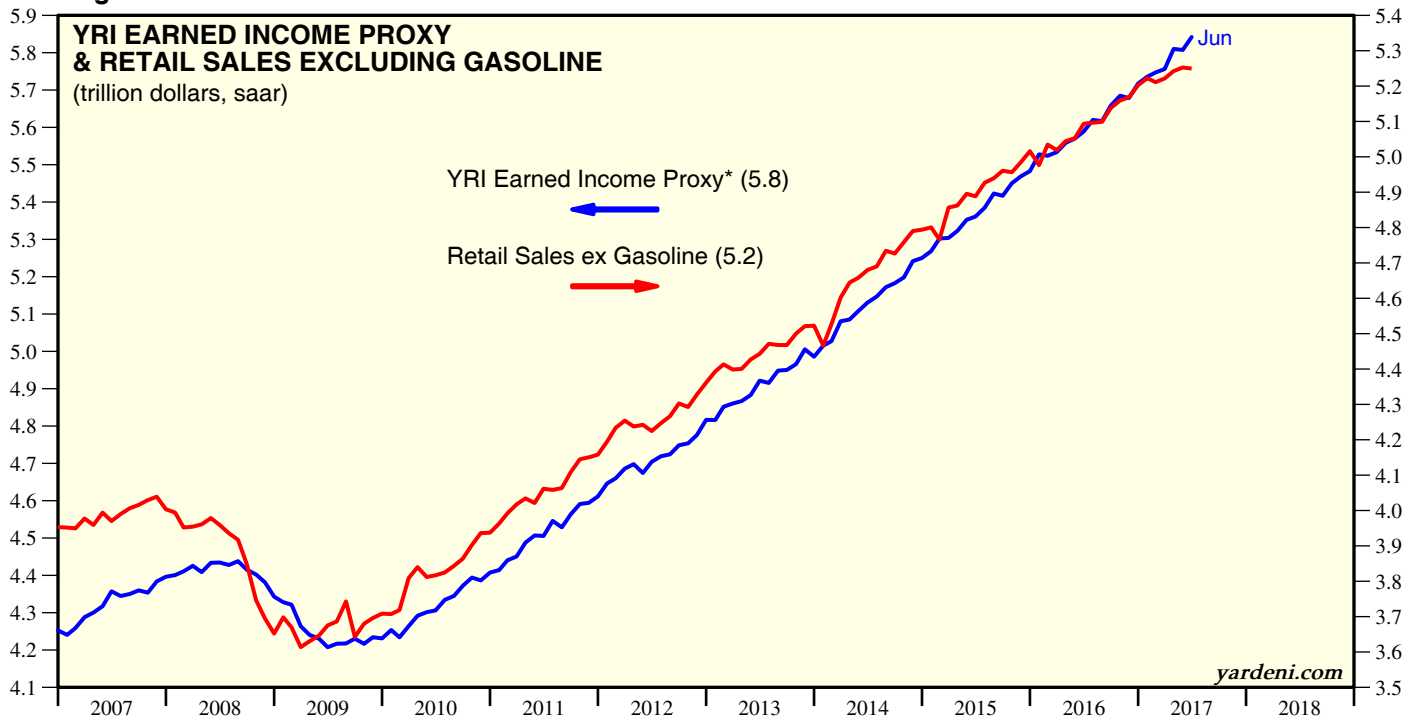
Figure 23.



* Percent of labor force 16-34 years old.
 ** Five-year moving average of yearly percent change in CPI.
 Source: Bureau of Labor Statistics.

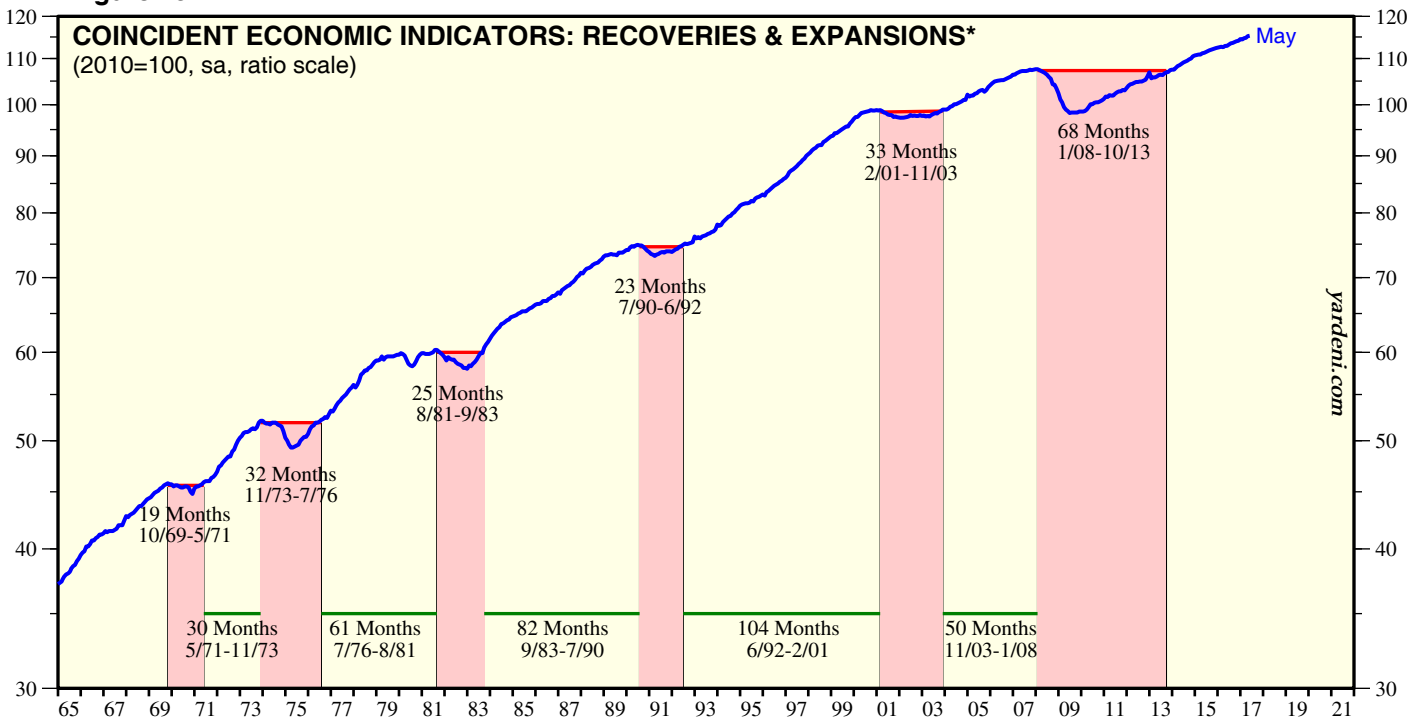
US Economic Indicators

Figure 24.



* Aggregate weekly hours times average hourly earnings of total private industries times 52.
Source: Bureau of Labor Statistics and Bureau of the Census.

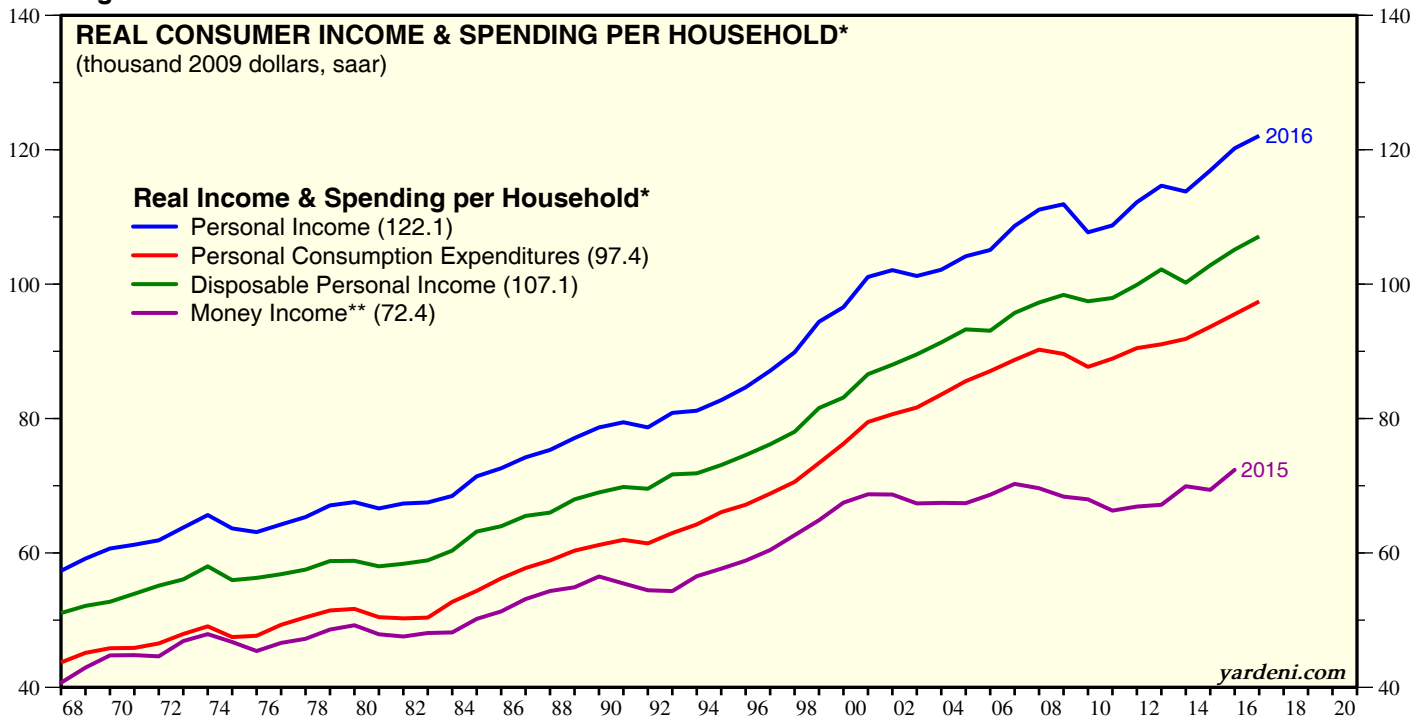
Figure 25.



* Red horizontal lines span cyclical peaks through subsequent cyclical recoveries. Green horizontal lines are expansion periods following recoveries.
Source: Conference Board, Haver Analytics, and YRI calculations.

US Economic Indicators

Figure 26.

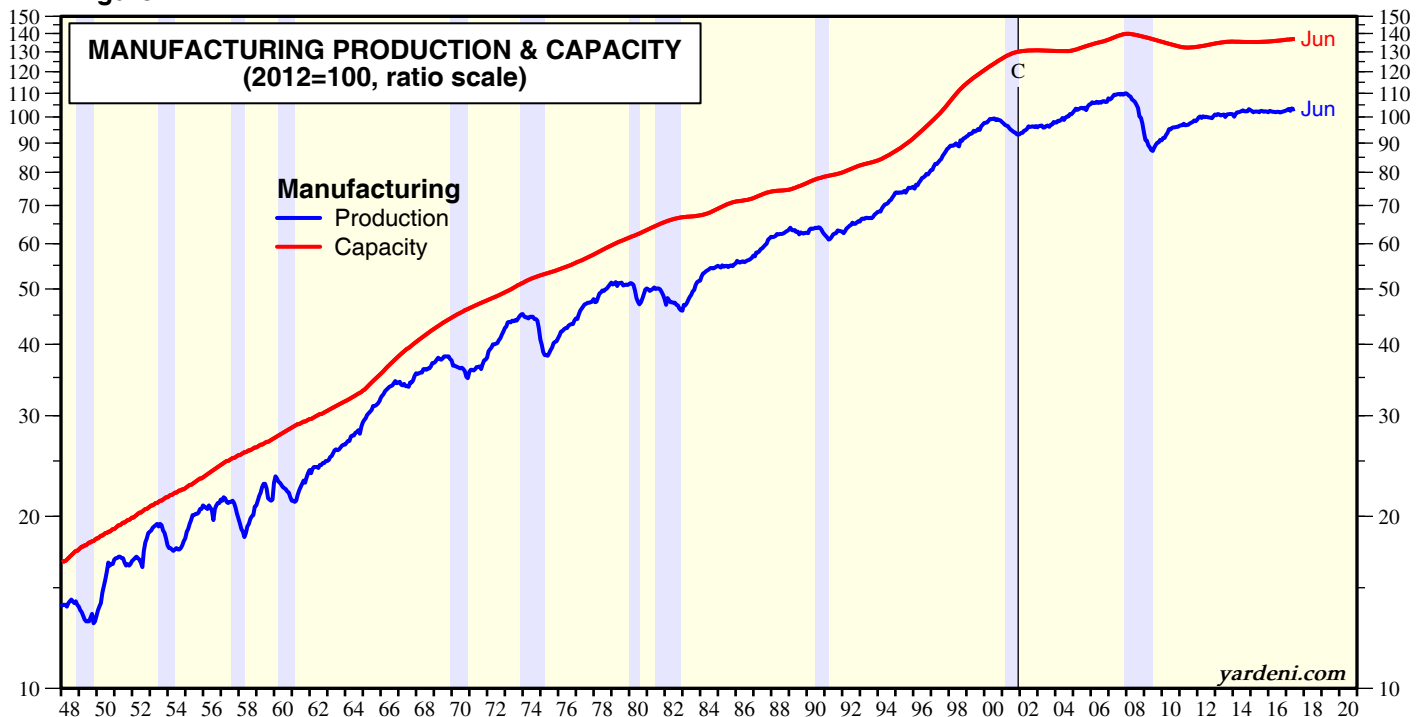


* All series deflated using Personal Consumption Expenditures Deflator.

** Mean household income.

Source: Bureau of Economic Analysis, Bureau of the Census and Current Population Reports.

Figure 27.

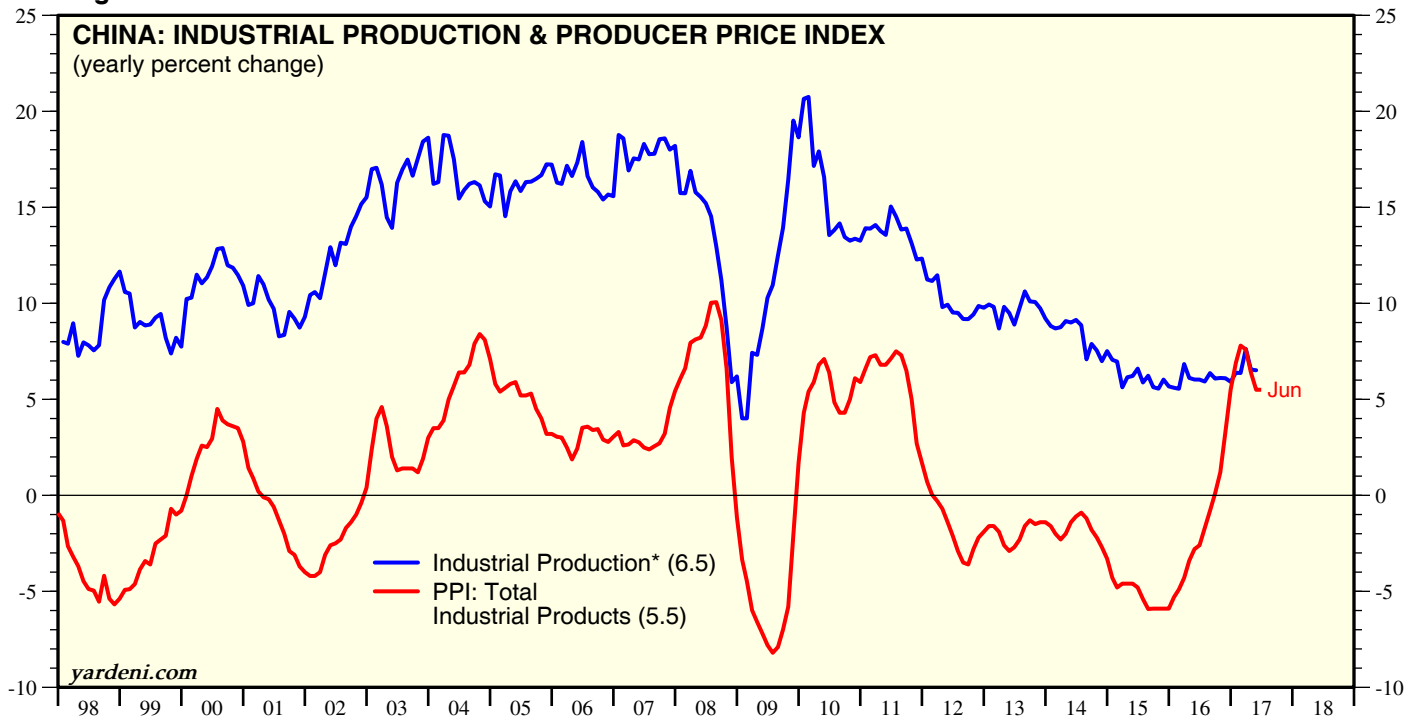


Note: C = China joined WTO on December 11, 2001. Shaded areas denote recessions according to the National Bureau of Economic Research.

Source: Federal Reserve Board.

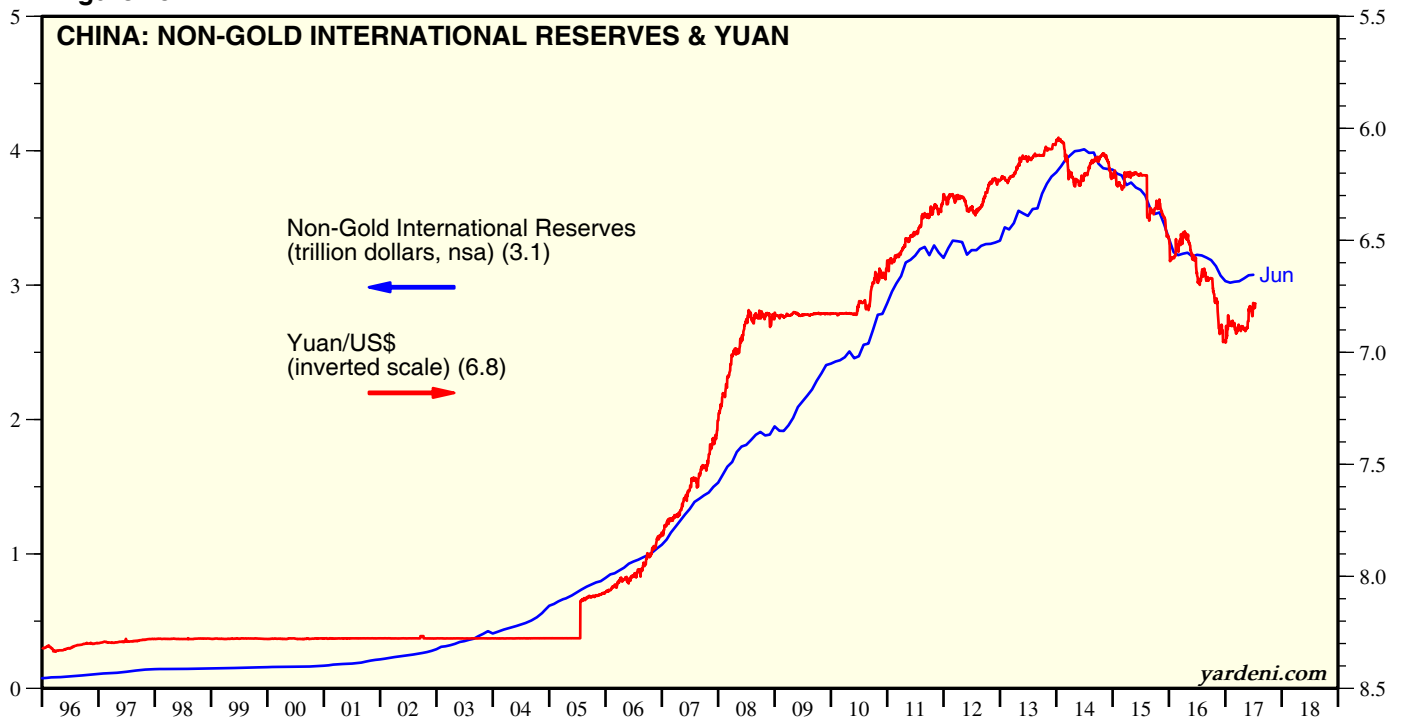
China

Figure 28.



* Value added basis.
 Source: IMF International Financial Statistics and China National Bureau of Statistics.

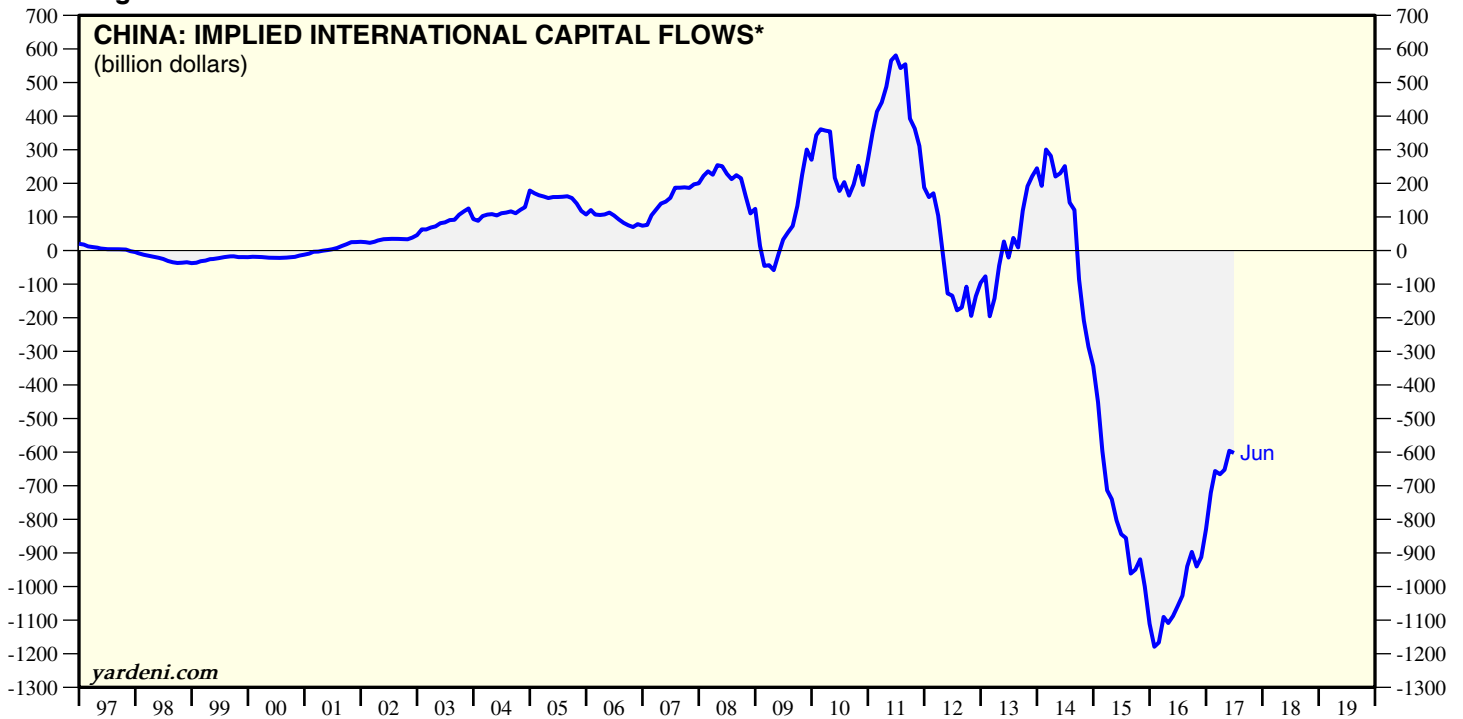
Figure 29.



Source: International Monetary Fund and Haver Analytics.

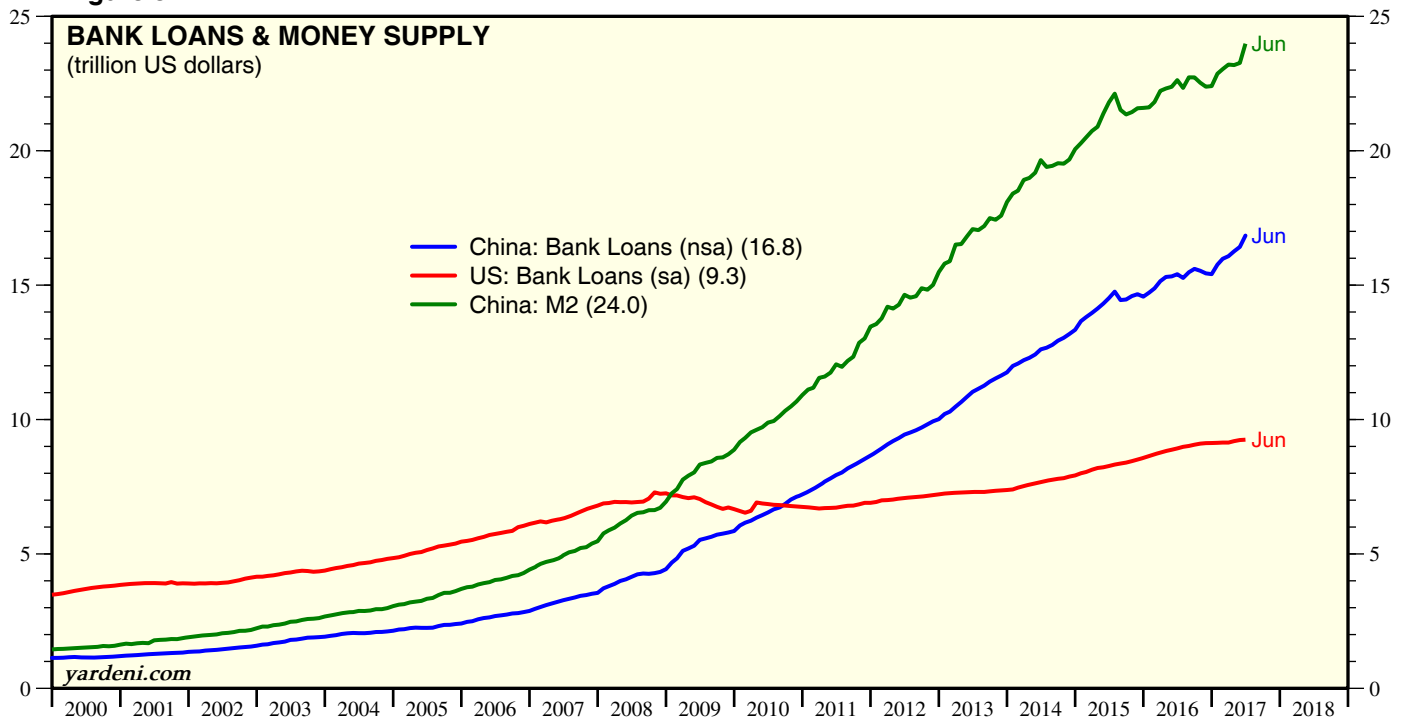
China

Figure 30.



* 12-month change in non-gold international reserves minus 12-month sum of the merchandise trade surplus (deficit).
Source: China Customs and Haver Analytics.

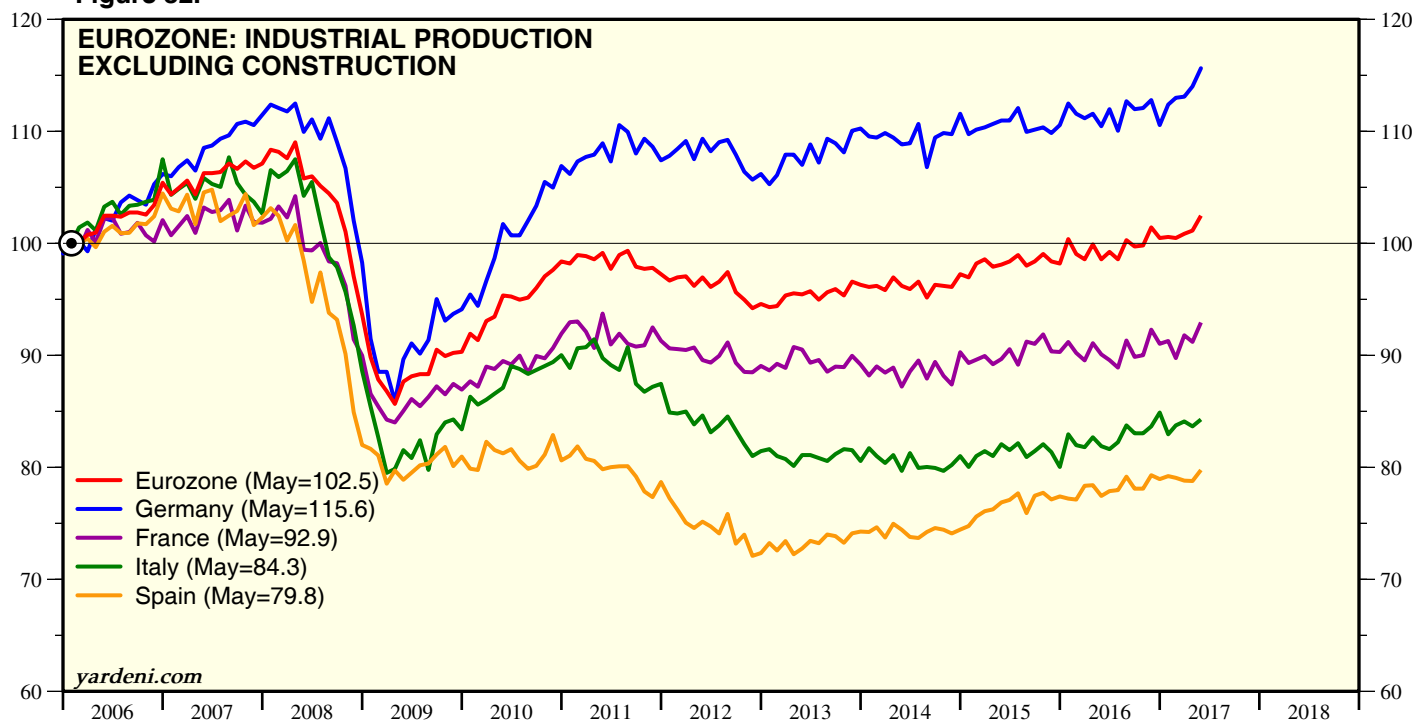
Figure 31.



Source: Federal Reserve Board and People's Bank of China.

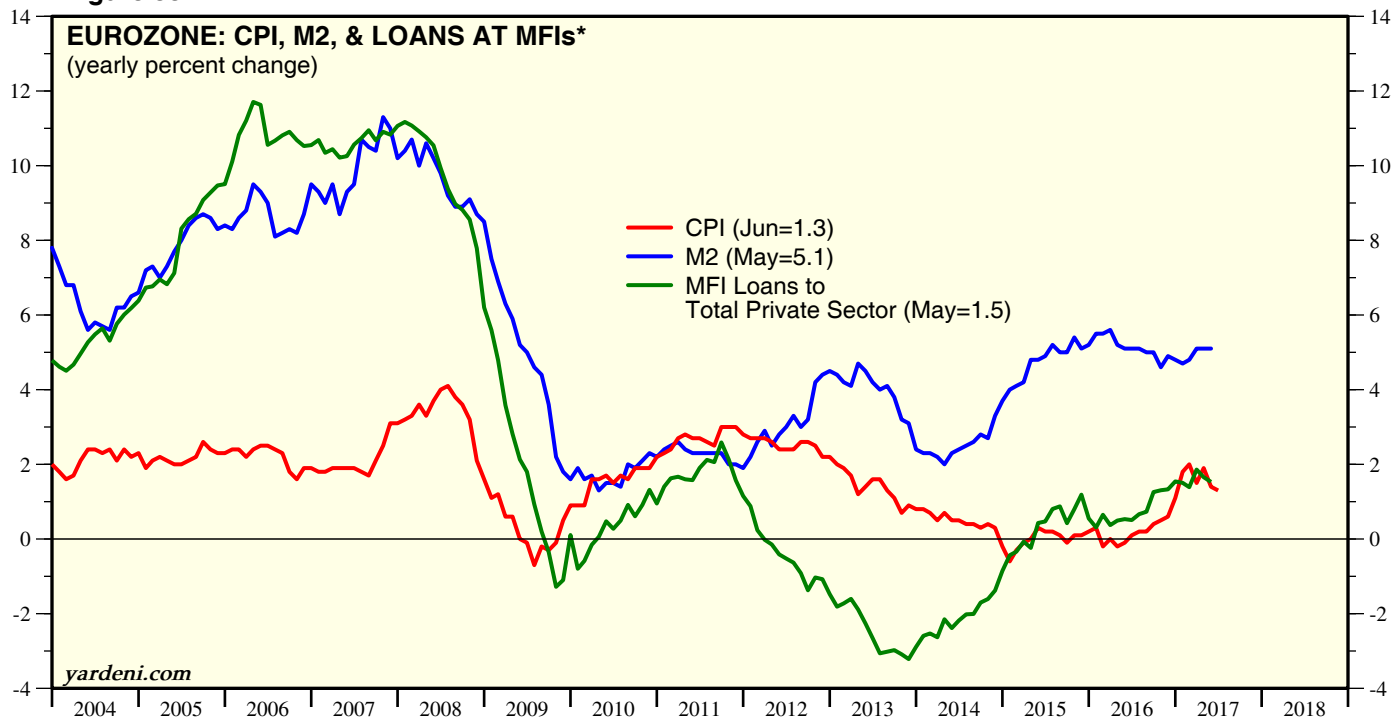
Eurozone

Figure 32.



Source: Haver Analytics.

Figure 33.



* Monetary Financial Institutions (MFIs) exclude Euro System of Central Banks (ESCB) and Money Market Funds (MMFs).
Source: Statistical Office of the European Communities.



Movie Reviews

A Dog's Purpose (+ +) is a movie for dog lovers. Our family includes a Cocker Spaniel and two Cavalier King Charles Spaniels. So my wife and I really enjoyed the film very much. It confirms the age-old adage that if you want a true friend for life, get a dog. President Harry Truman reportedly said that about Washington, though there is no proof that he ever did say so. Nevertheless, it applies to Washington more than ever. Maybe if all our red and blue politicians got dogs, they finally would have something in common. After all, there are no red dogs or blue dogs.

Bitter Harvest (- -) is a badly executed movie about a very important tragic historical event that has received all too little attention and is particularly relevant today. Millions of Ukrainians died during a 1932-33 famine that was exacerbated by the collectivist policies of Stalin's Soviet regime. Ukraine has a long history of suffering from imperialist intervention by its Russian neighbor. Ukraine gained its independence from the Soviet Union in 1991. Yet Russia under Putin annexed the Crimean Peninsula in 2014 and has been using military force in eastern Ukraine. History continues to rhyme.

Fences (+ +) is about a working-class African-American man struggling to support his family in the 1950s. He missed out on becoming a great baseball star, and works in Pittsburgh's sanitation department. He talks a good game about how much he loves his wife and provides for her and their son. However, he cuts some corners along the way. Like the rest of us, he is only human. The movie, which features Oscar-nominated performances by Denzel Washington and Viola Davis, is based on a play, and has that feel. It is somewhat reminiscent of "Death of a Salesman" and "A View from the Bridge."

Hidden Figures (+ +) is a film based on a true story about three remarkable African-American women who worked at NASA at the start of the space program during the early 1960s. One of them was an extraordinary mathematician, who made John Glenn's orbit around the earth possible. Another supervised the space agency's use of its first IBM mainframe computer. The third was an accomplished aeronautical engineer. They performed their jobs with amazing tenacity and dignity despite lots of obstacles they faced because of their color. It is truly a great American story.

Lion (+ + +) is a really wonderful movie about five-year-old Saroo, an Indian boy who falls asleep on an empty train that finally stops in Calcutta, more than a thousand miles from his home. He is lost in this big city and struggles to survive. He is eventually adopted by an Australian couple. However, he continues to feel lost and 25 years later seeks to find his home and family with the help of Google Earth. It is all based on a remarkable true story.

Moonlight (- -) is an Oscar contender for Best Motion Picture. I'm not sure why. It is a very slow-paced movie about a sensitive African-American kid doing the best he can to stay out of trouble while growing up in a poor neighborhood infested with drug dealers. Even his mother is an addict. He finds a safe haven with a very nice fellow and his girlfriend, but leaves when he finds out that his mother has been buying drugs from his new friend. I suppose the movie is about coming of age. However, the characters are totally uninteresting and don't seem to learn much as they come of age. Much more interesting are the stories of the director and screenwriter, who both grew up and out of that same neighborhood, and had mothers who were crack addicts. Someone should make a movie about their lives.

Rogue One (-) was really dull because it is the seventh movie in the "Star Wars" series of flicks about the never-ending wars between the freedom-loving rebels and their totalitarian adversaries, who rule the Empire. I didn't give it my worst rating out of respect for the passing away of Carrie Fisher. She was Princess Leia in the original three films. She makes a digitally recreated appearance in this film, as does Peter Cushing, who died in 1994, after playing the nefarious ally of Darth Vader and the commander of the Death Star. In the future, movie studios will save lots of money by casting digitally recreated dead stars in their movies. My wife, who is a fan of the intergalactic series, also pressured me to raise my rating, observing that fans appreciate how this prequel set the stage for the very first movie.

The Founder (+ + +) is a great biopic about Ray Kroc, the founder of McDonald's. He was a remarkable entrepreneur. One of his more famous quotes was: "Nothing in the world can take the place of Persistence. Talent will not; nothing is more common than unsuccessful men with talent. Genius will not; unrewarded genius is almost a proverb. Education will not; the world is full of educated derelicts. Persistence and determination alone are omnipotent." The only problem was that he lifted it verbatim from Calvin Coolidge. He also bamboozled the McDonald brothers to sell him their rights to the company including their name. His genius was the ability to take other people's great ideas and turn them into an extremely profitable business.