

Strategist's Handbook

Yardeni Research, Inc.

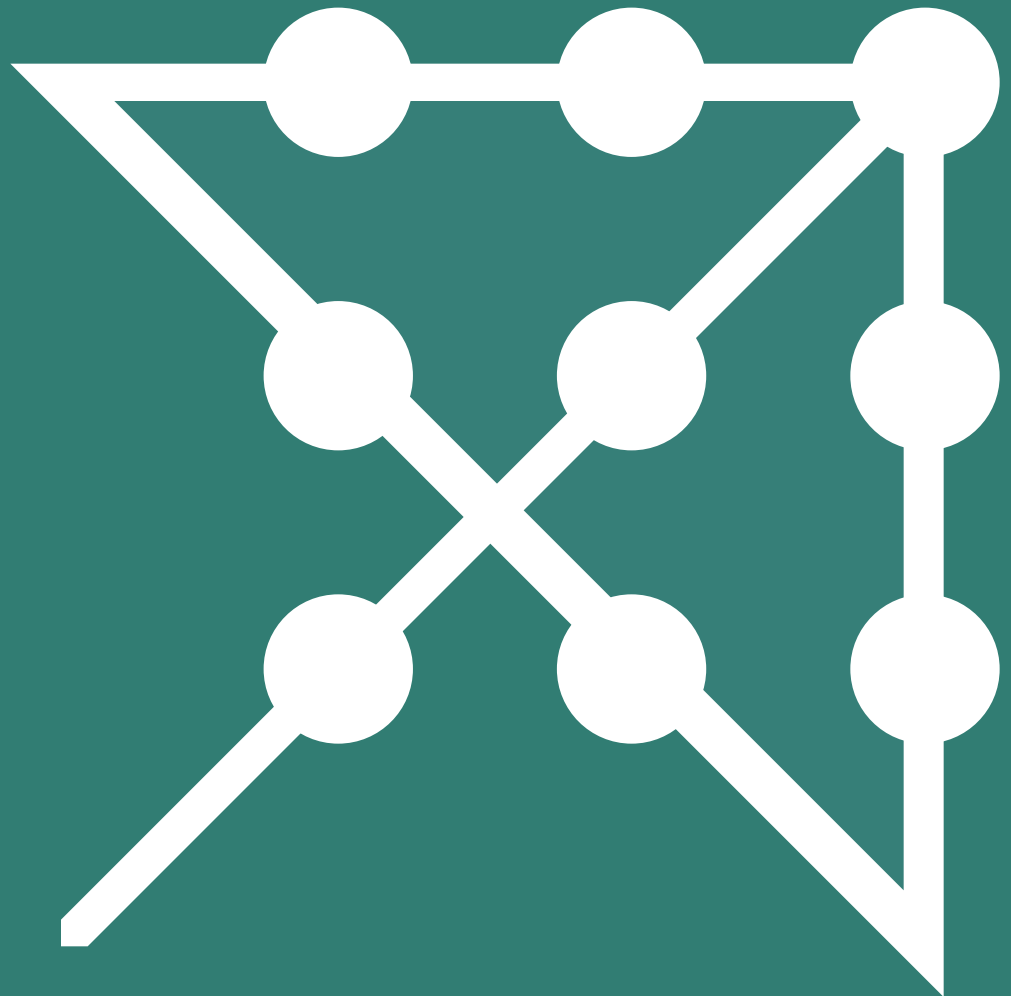
January 30, 2018

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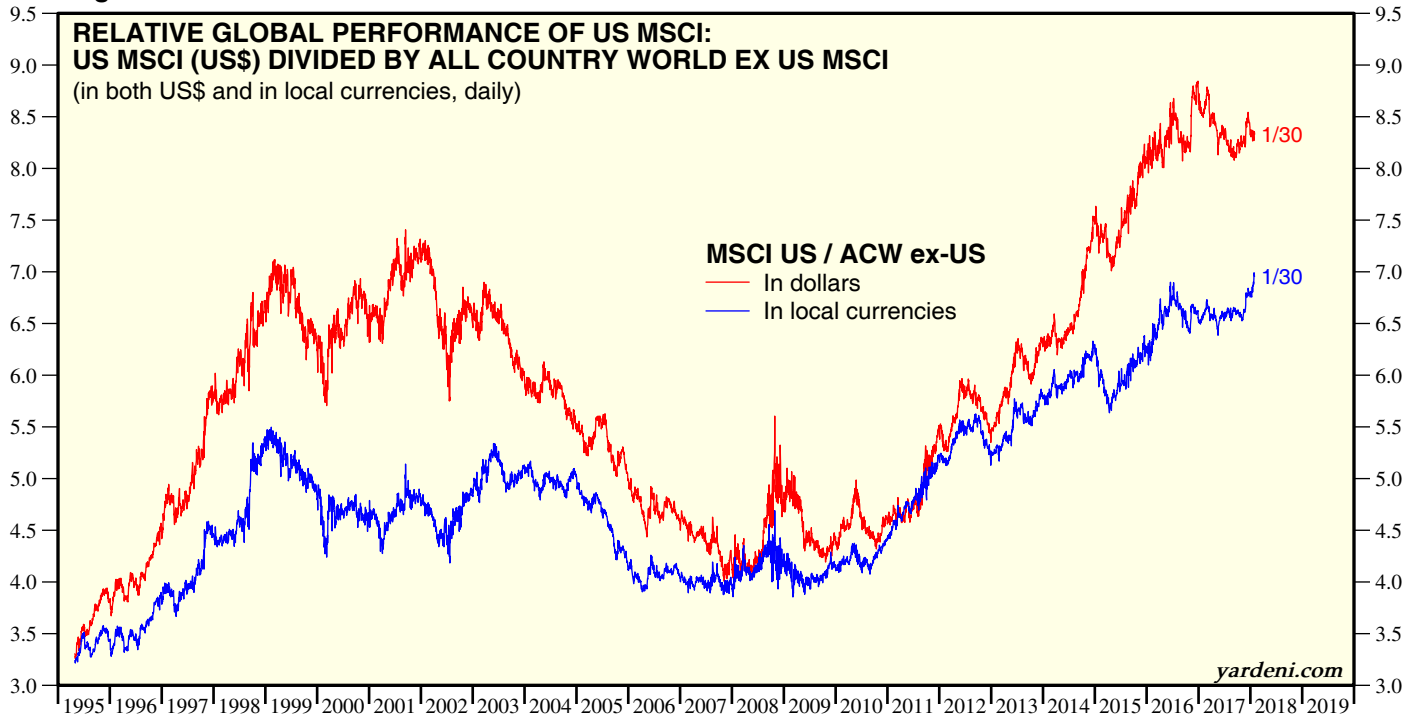
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thinking outside the box

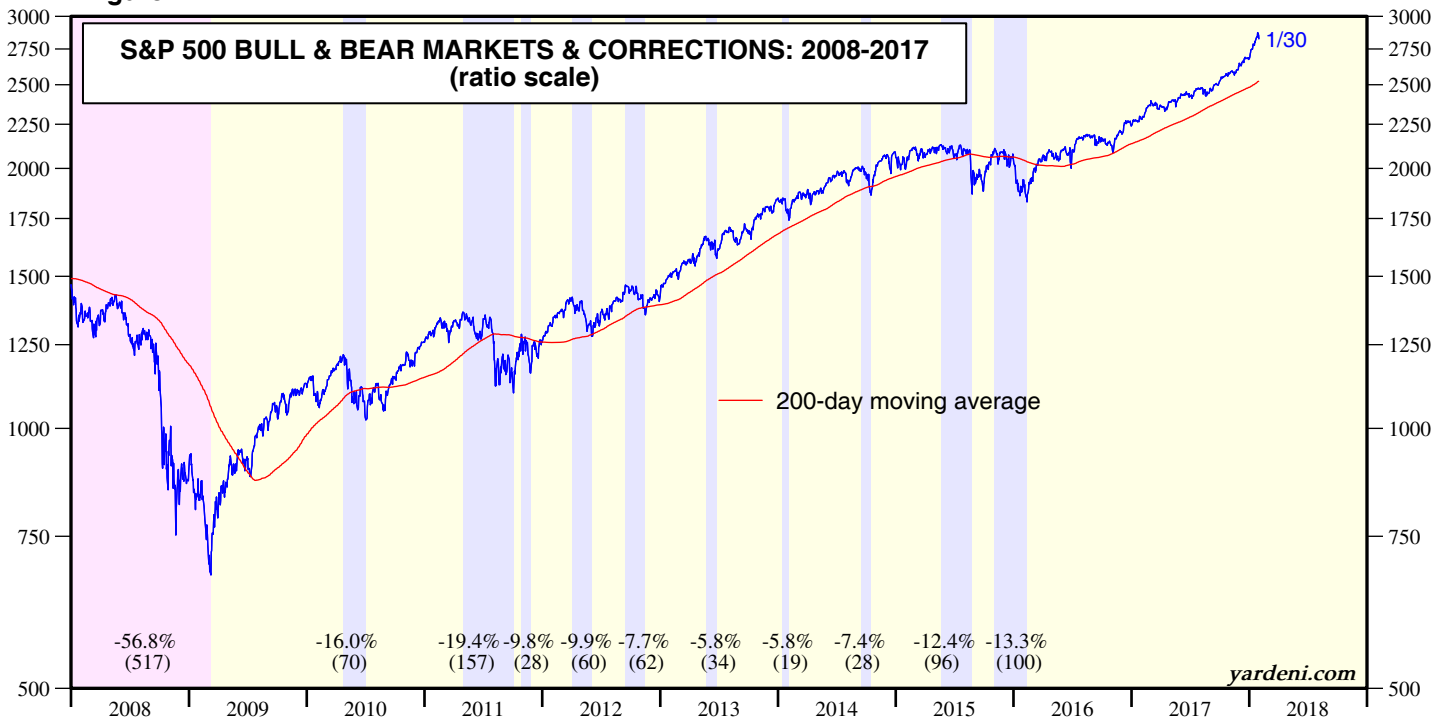
Stock Prices

Figure 1.



Source: MSCI.

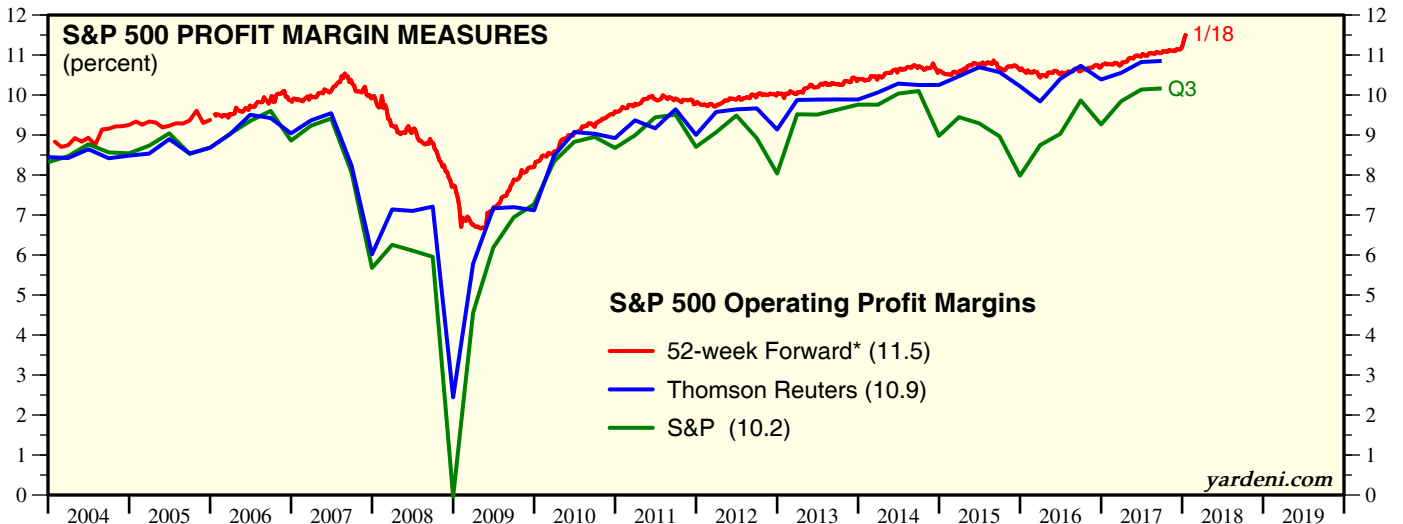
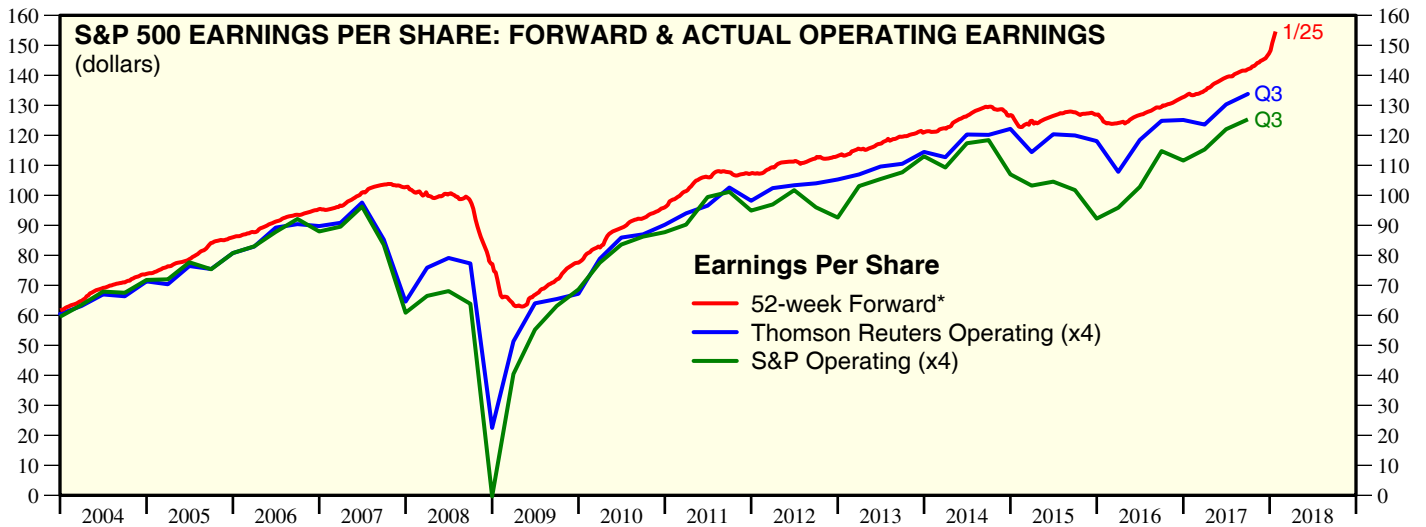
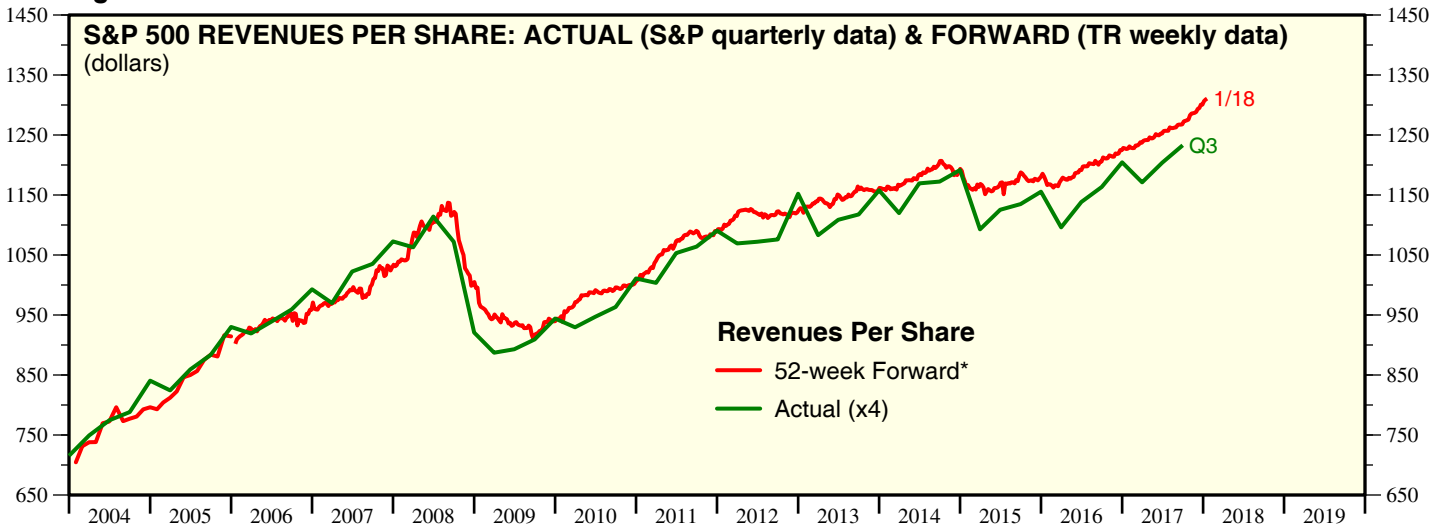
Figure 2.



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.

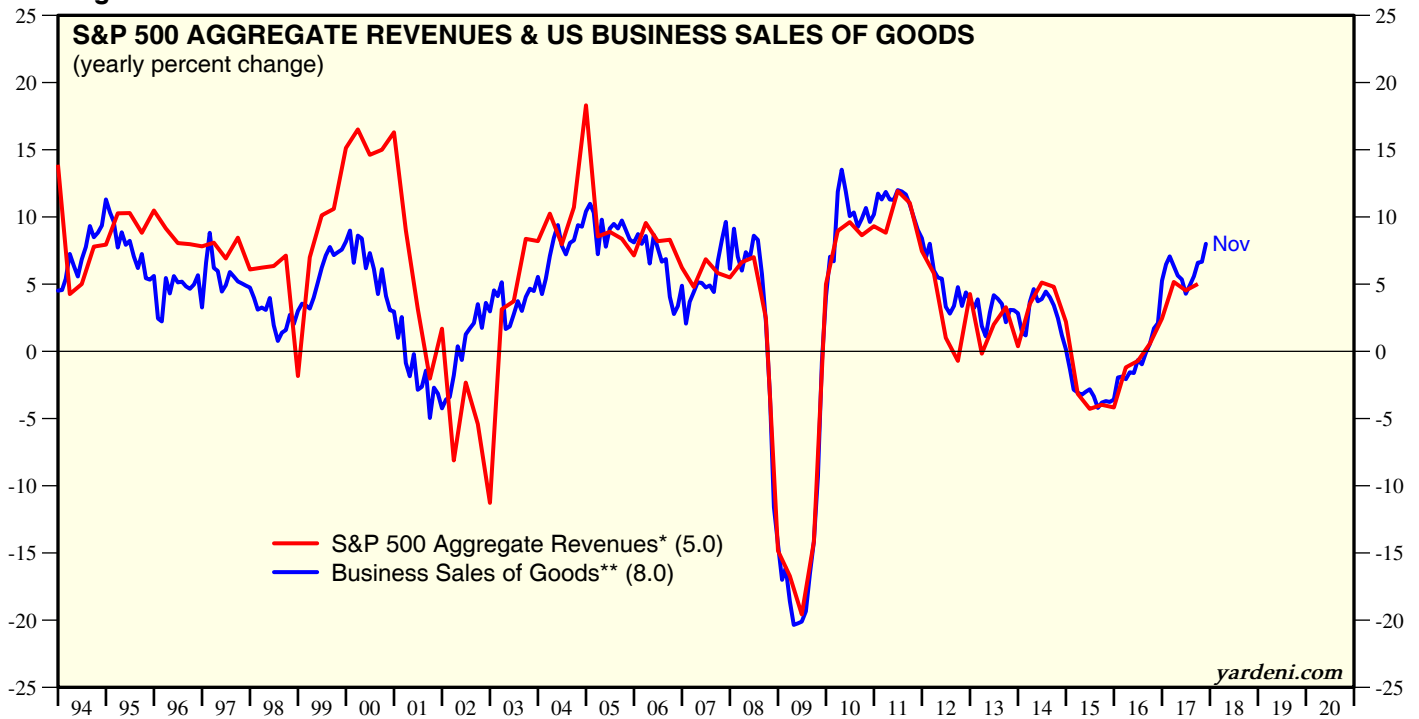


* Time-weighted average of consensus operating earnings estimates for current and next years.

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.

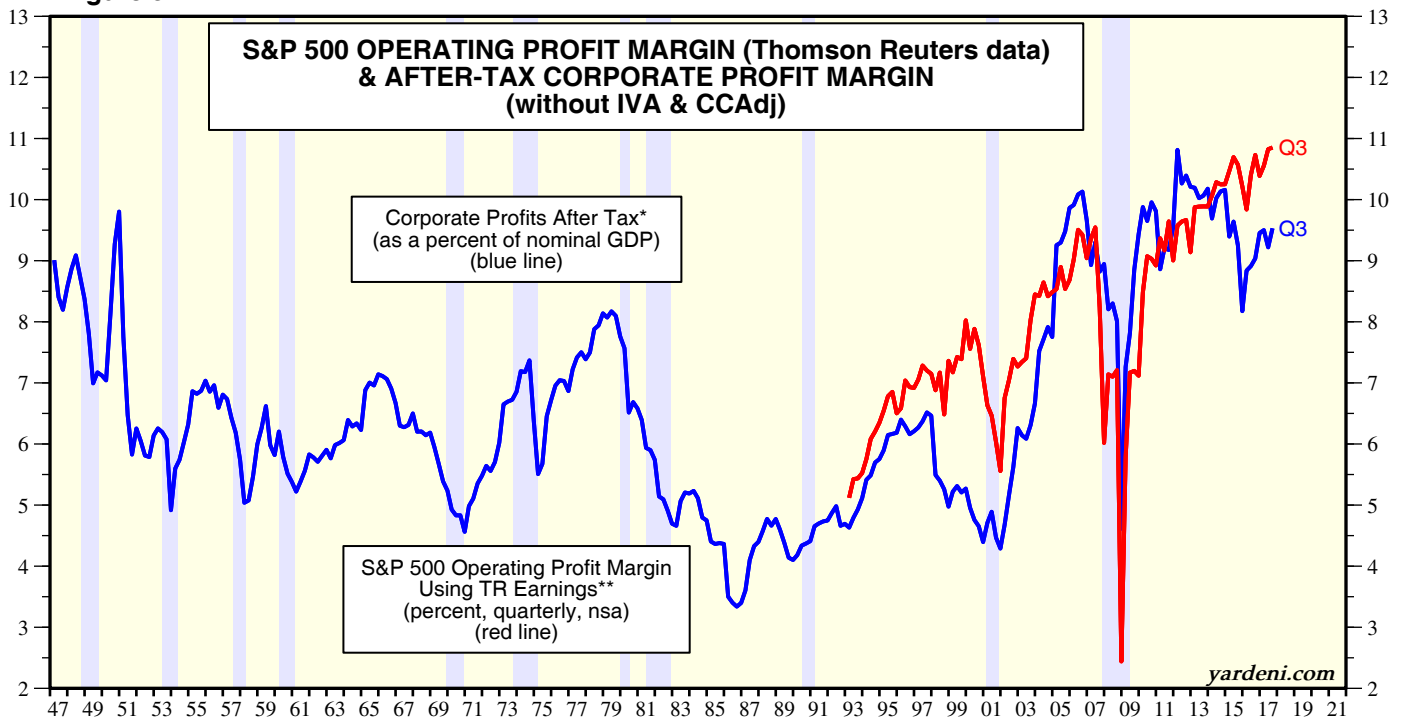


* Revenues are derived by multiplying S&P 500 revenues per share by the S&P 500 divisor for each quarter.

** 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.

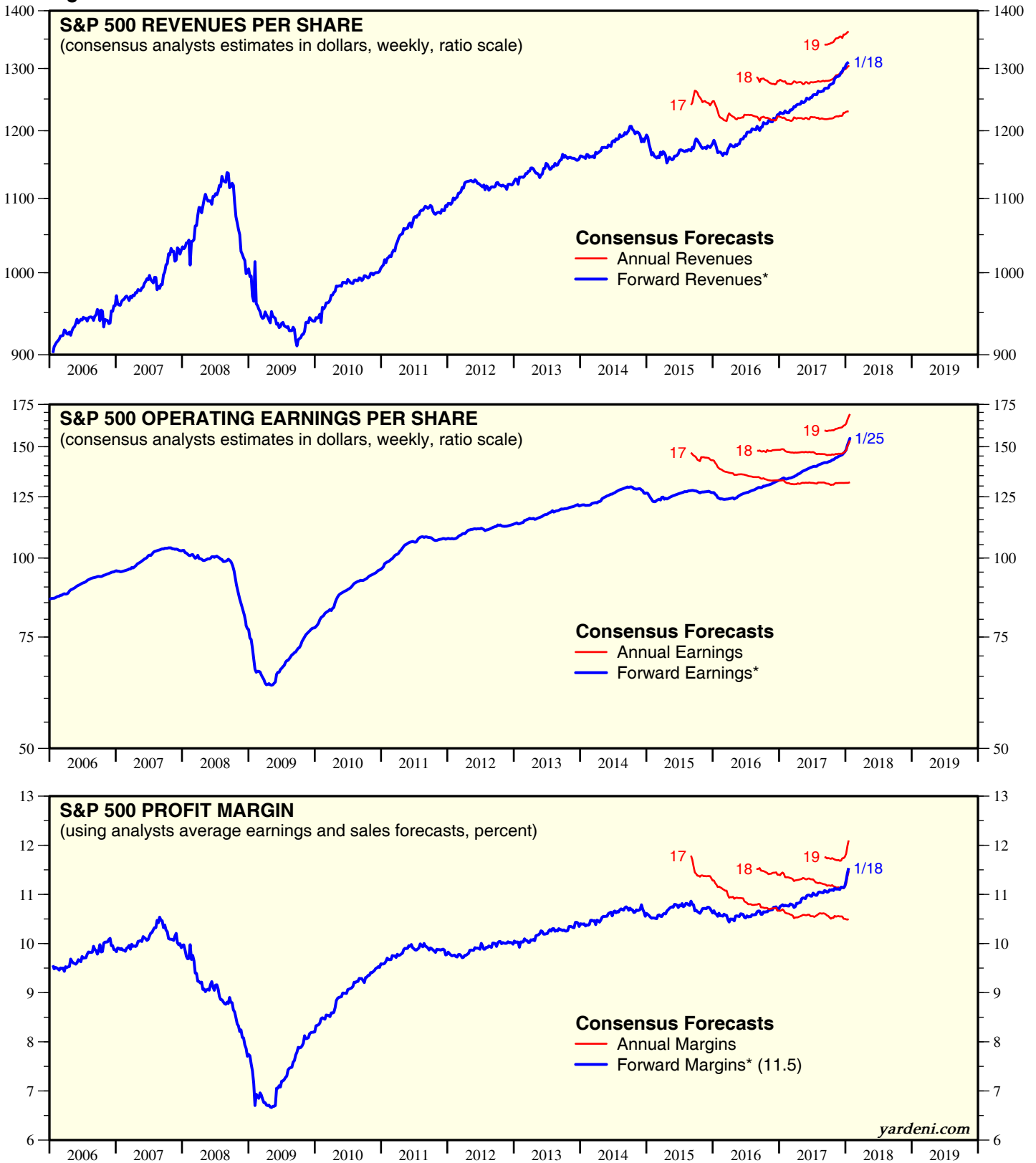
** Operating Profit Margin derived using revenues from S&P and earnings from Thomson Reuters I/B/E/S.

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

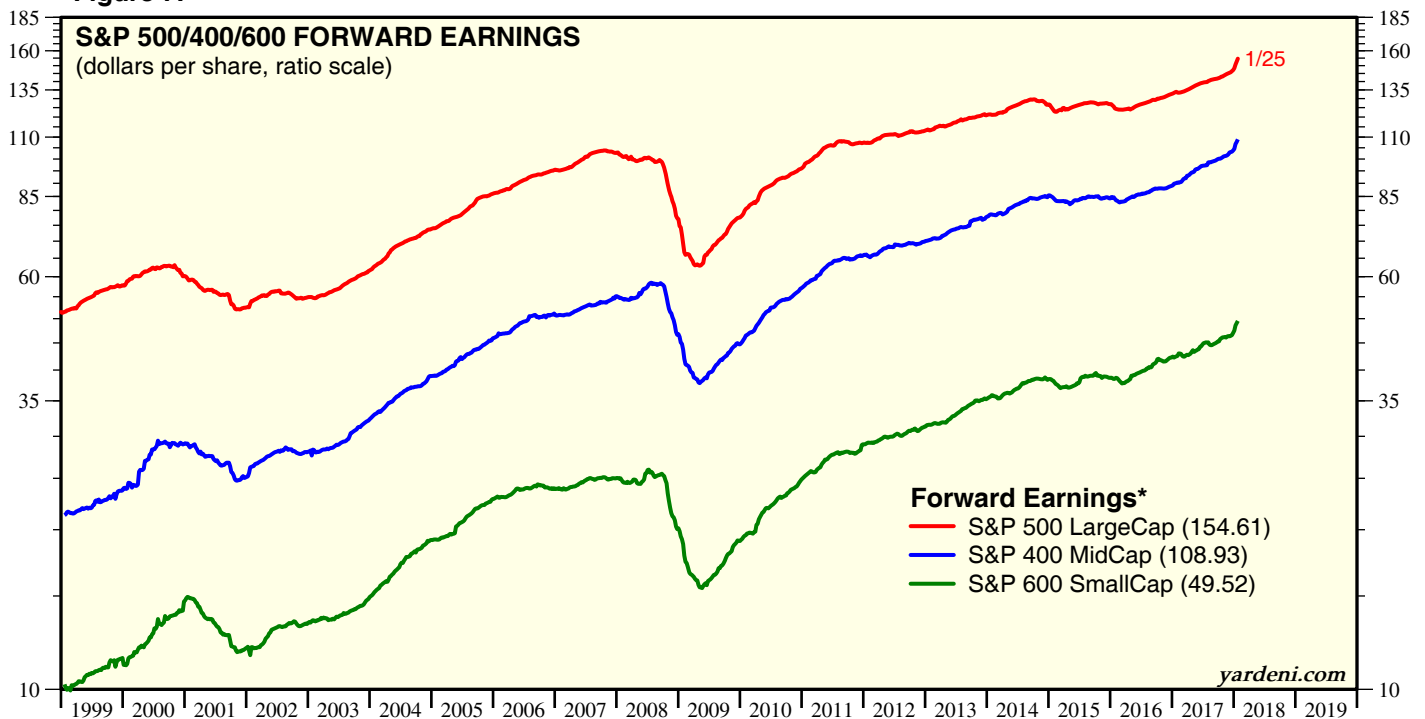
Figure 6.



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

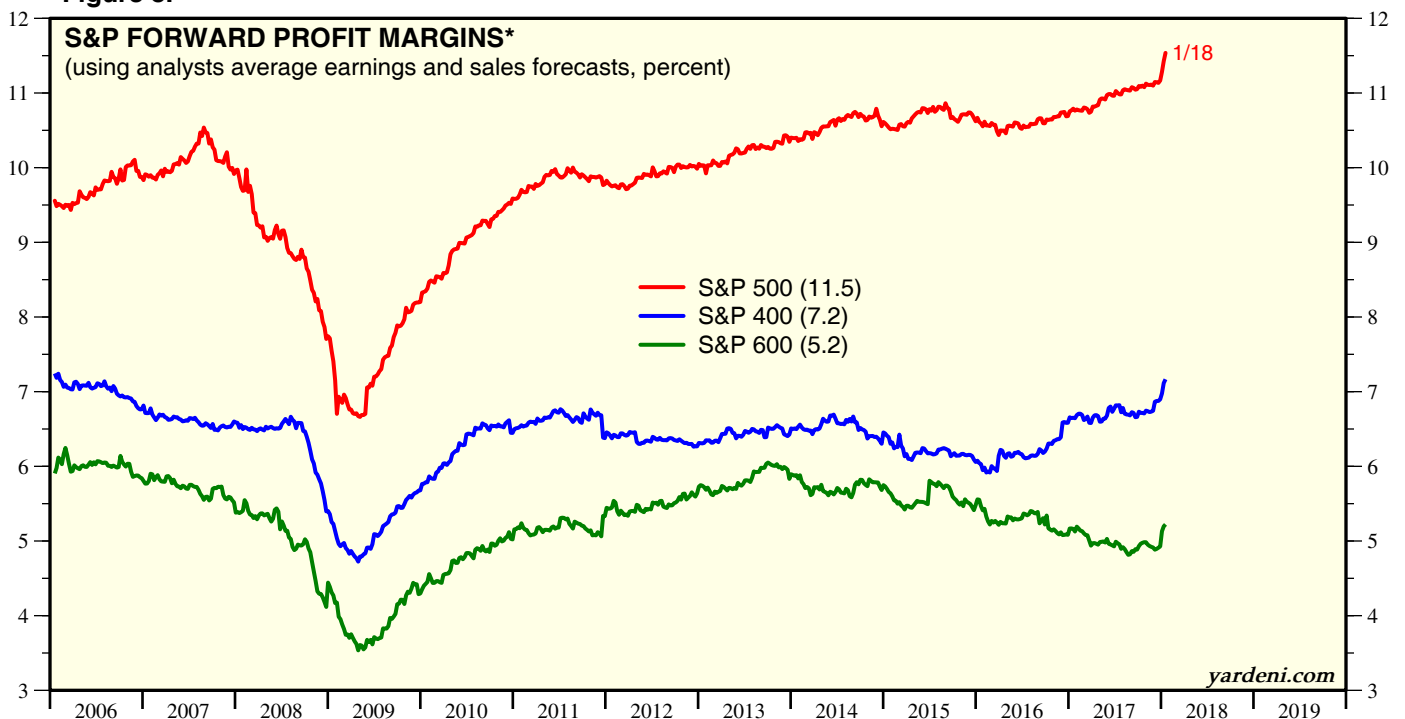
S&P 500/400/600 Forward Earnings & Margins

Figure 7.



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

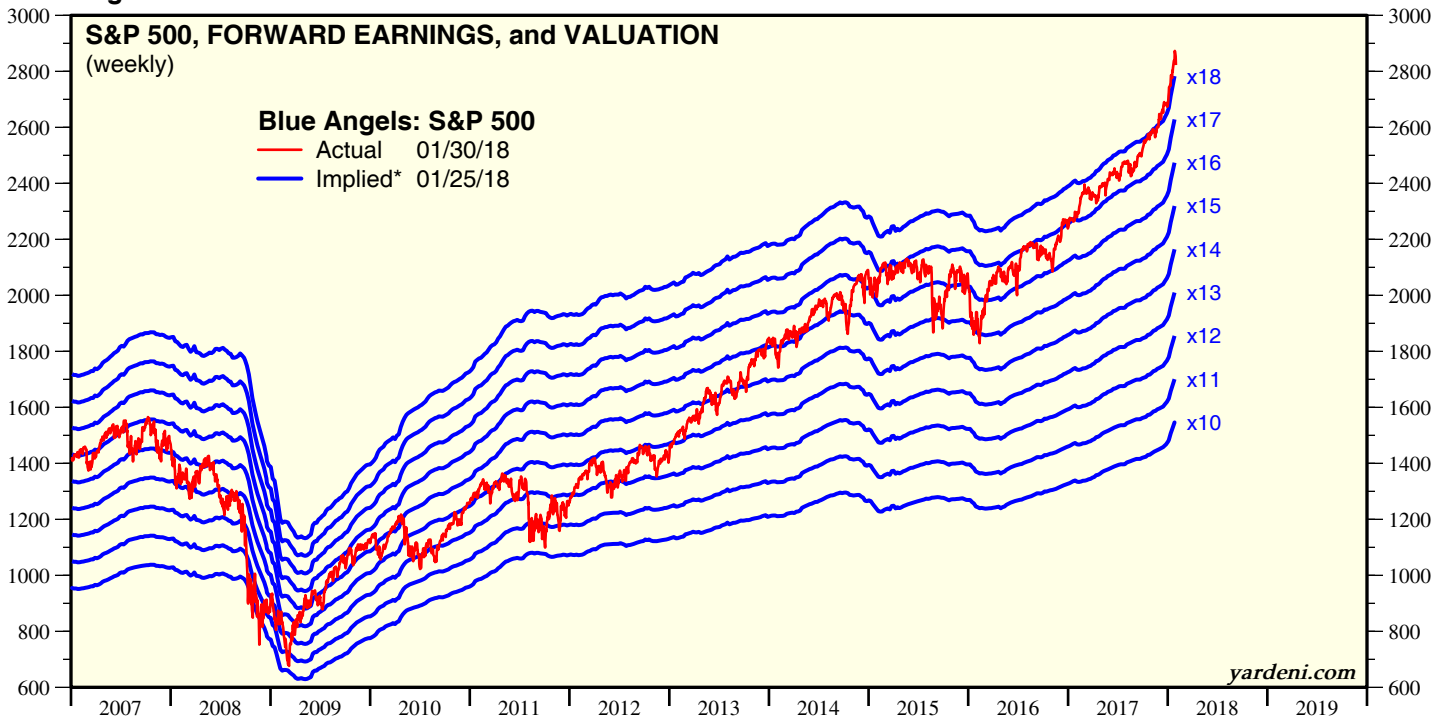
Figure 8.



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

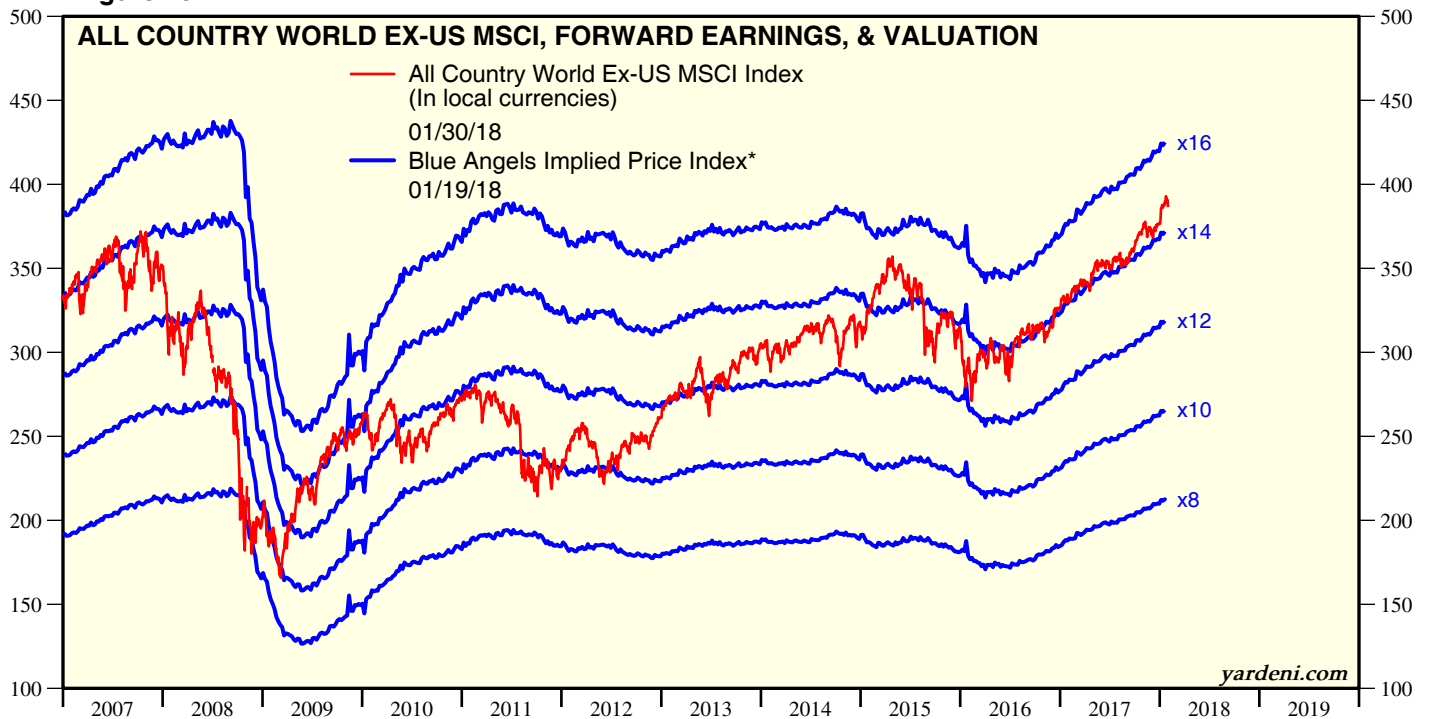
Blue Angels

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.

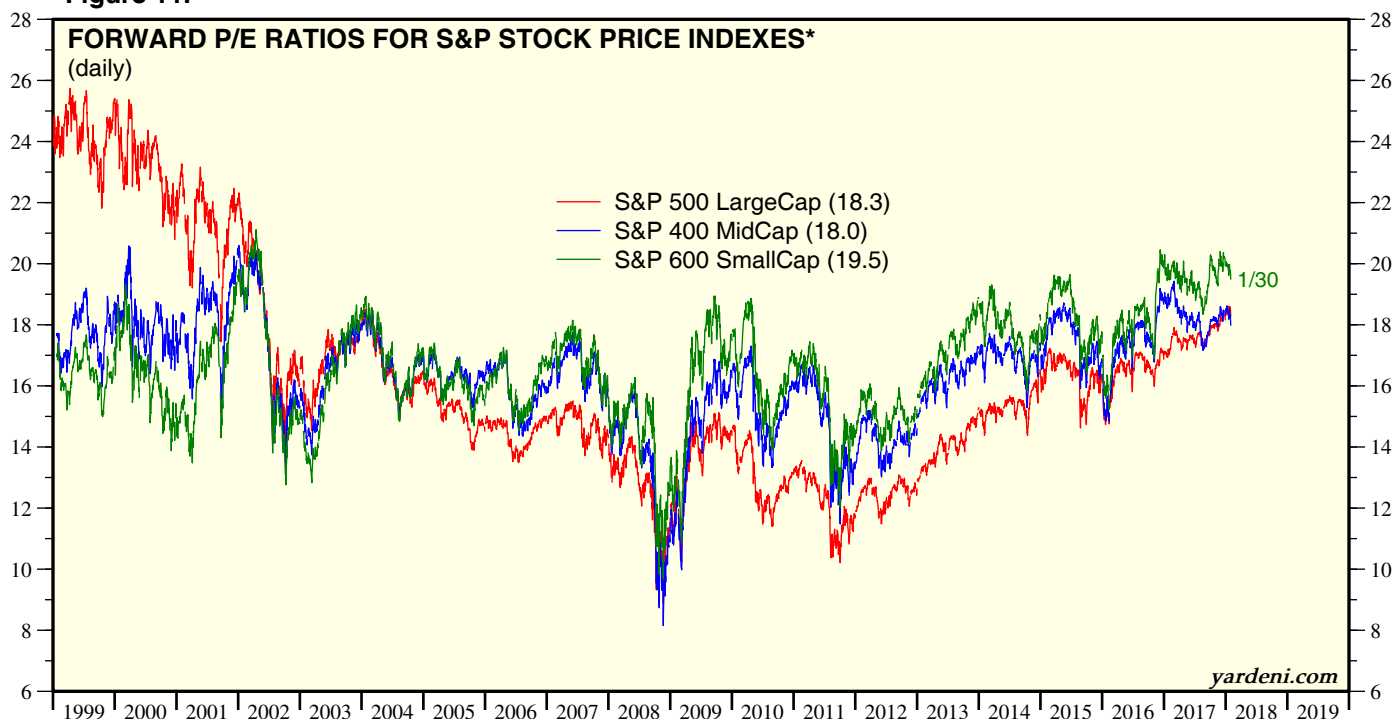
Figure 10.



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

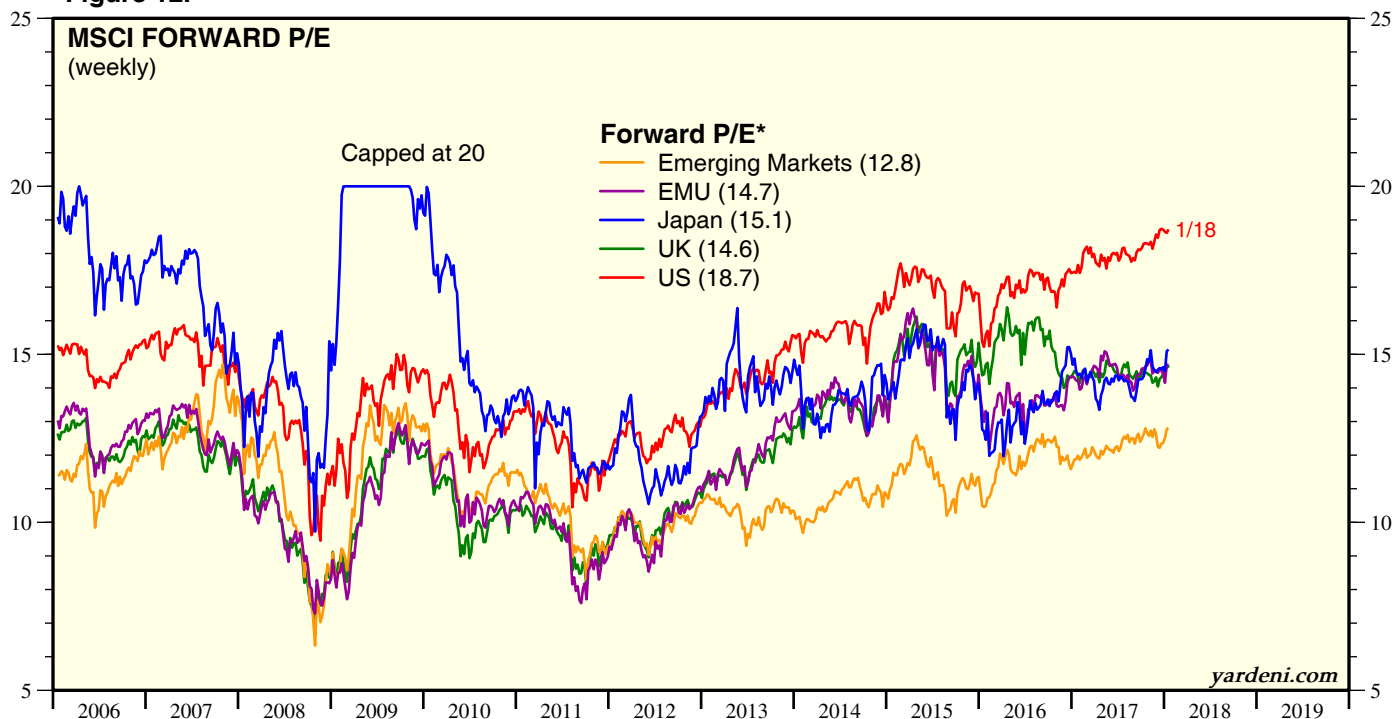
Valuation

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.

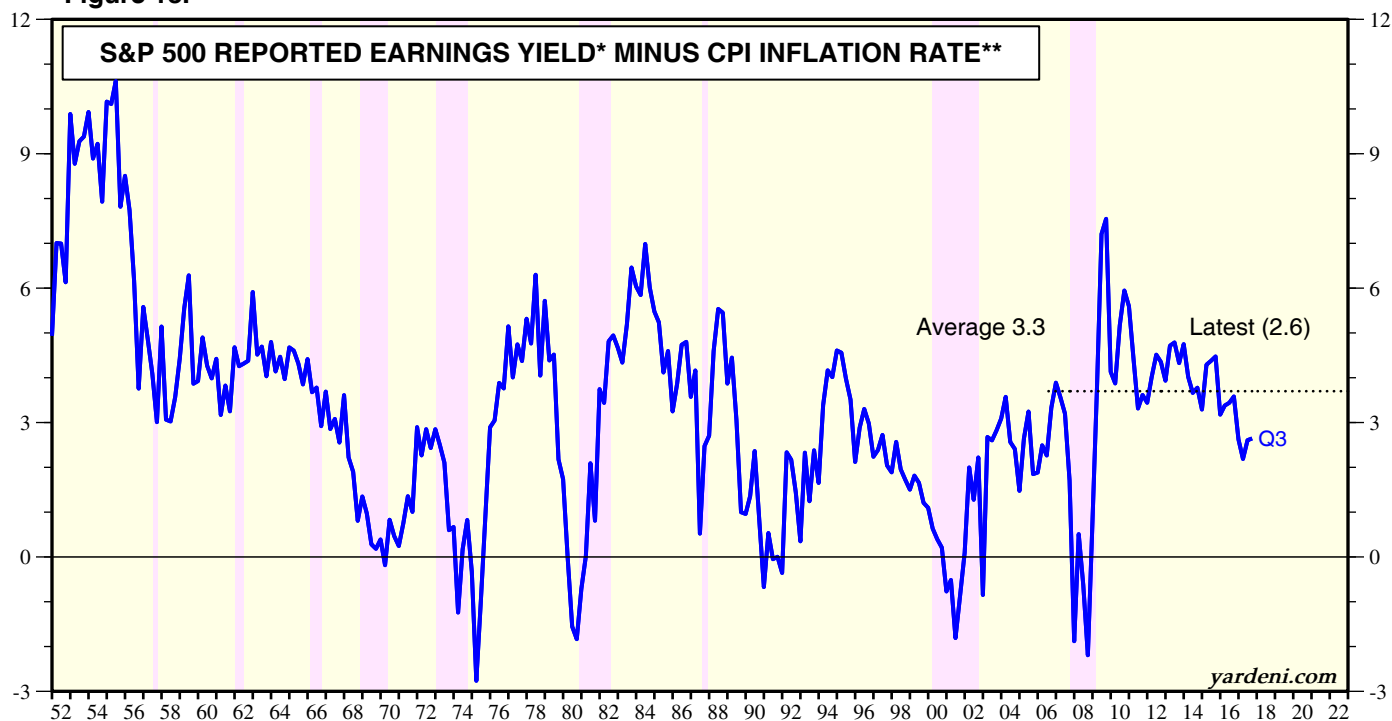
Figure 12.



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

Valuation

Figure 13.



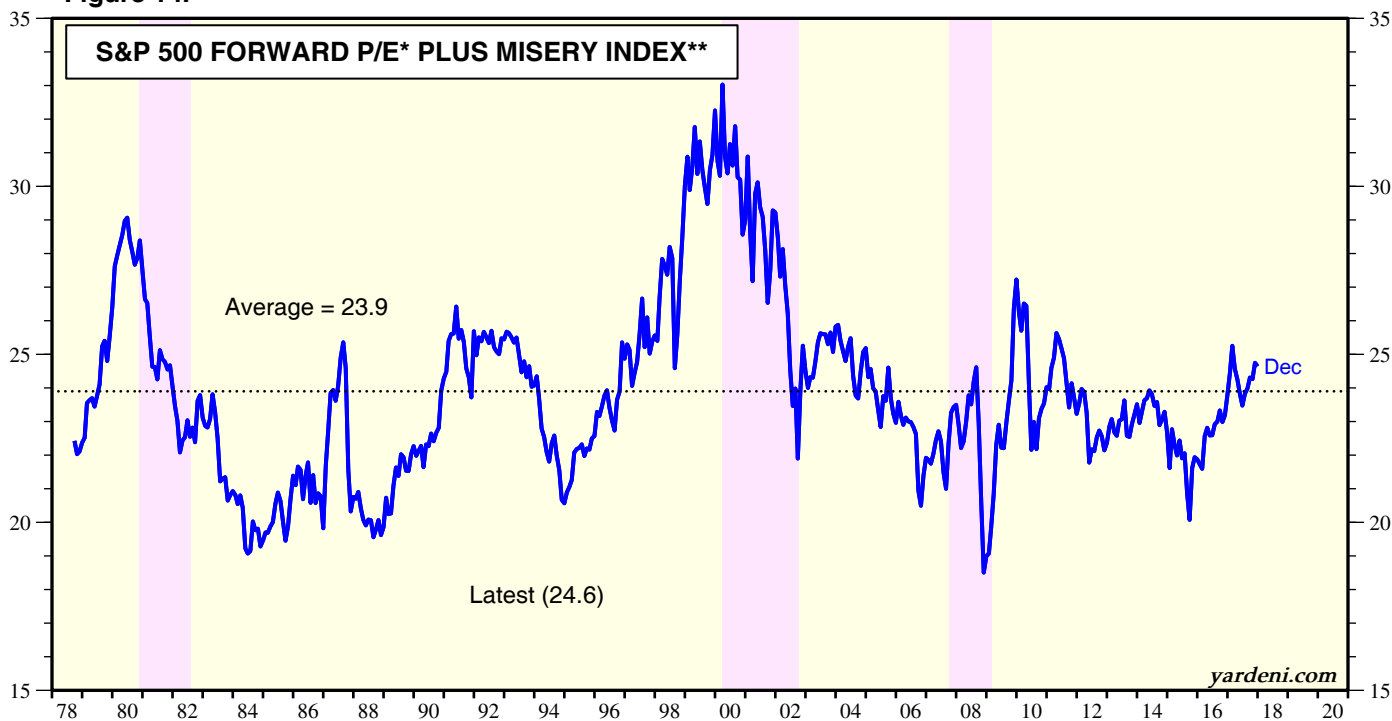
* S&P 500 reported earnings as a percent of quarterly average S&P 500 index. Q4-2008 dropped because of negative value.

** Year-over-year percent change in three-month average of each quarter.

Note: Shaded red areas denote S&P 500 bear market declines of 20% or more. Yellow areas show bull markets.

Source: Standard & Poor's and Bureau of Labor Statistics.

Figure 14.



* Average monthly S&P 500 stock price index divided by S&P 500 12-month forward consensus expected operating earnings per share.

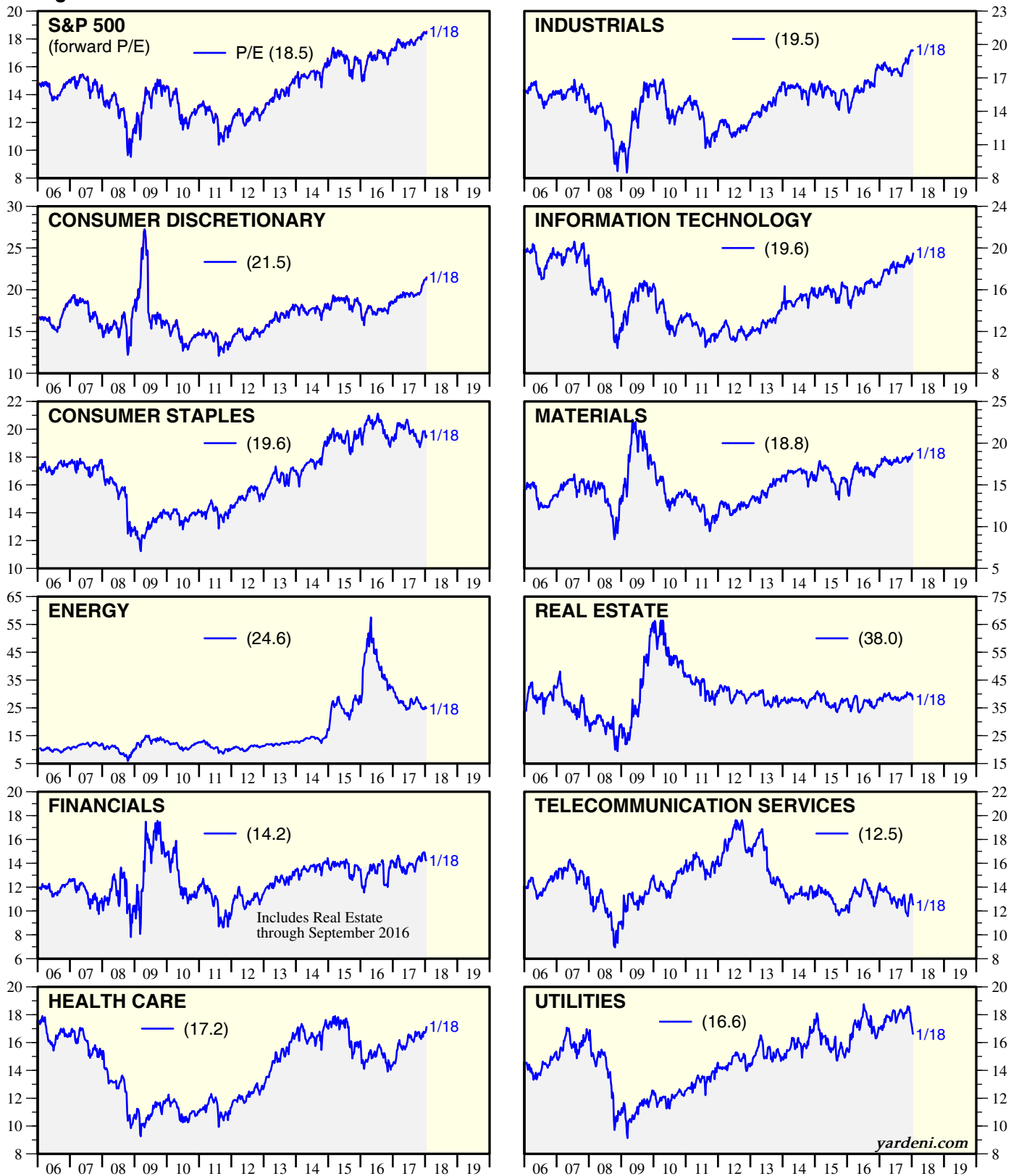
** Unemployment rate plus yearly percent change in consumer price index.

Note: Bear markets are declines of 20% or more (in red shades).

Source: Bureau of Economic Analysis, Bureau of Labor Statistics, and Thomson Reuters I/B/E/S.

S&P 500 Sectors Forward P/Es

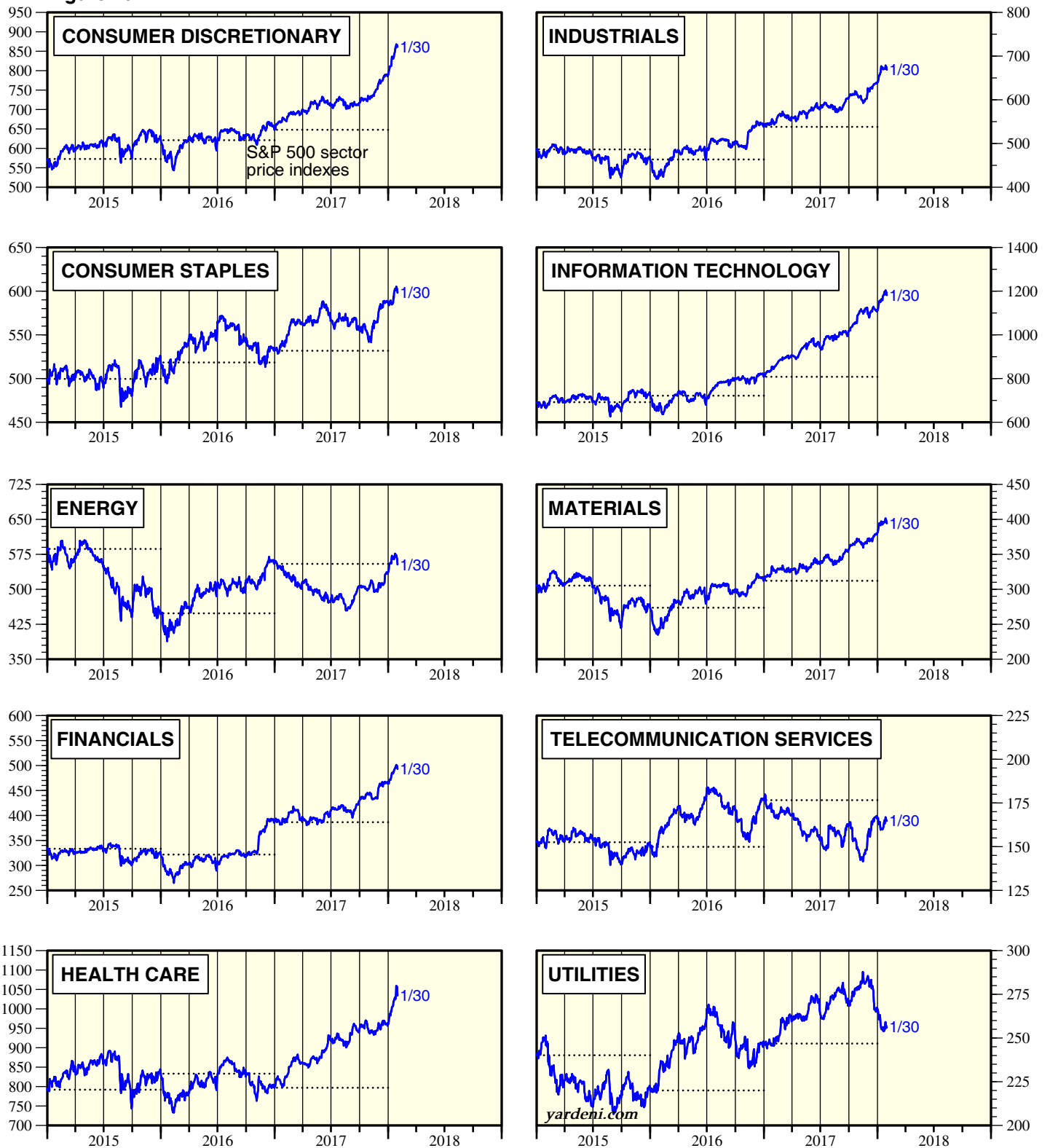
Figure 15.



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

S&P 500 Sectors Price Indexes

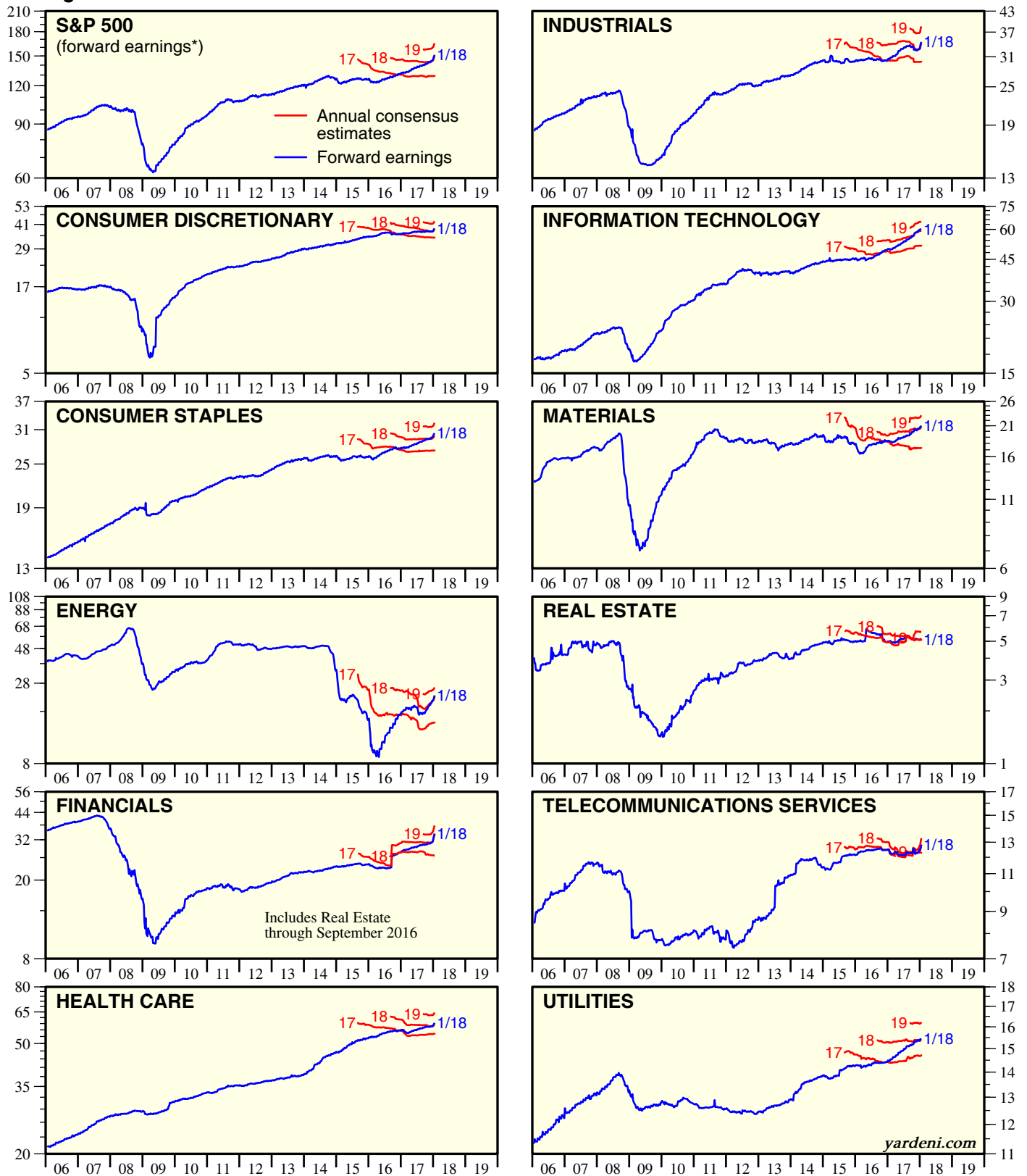
Figure 16.



Source: Standard & Poor's and Haver Analytics.

S&P 500 Sectors Forward Earnings

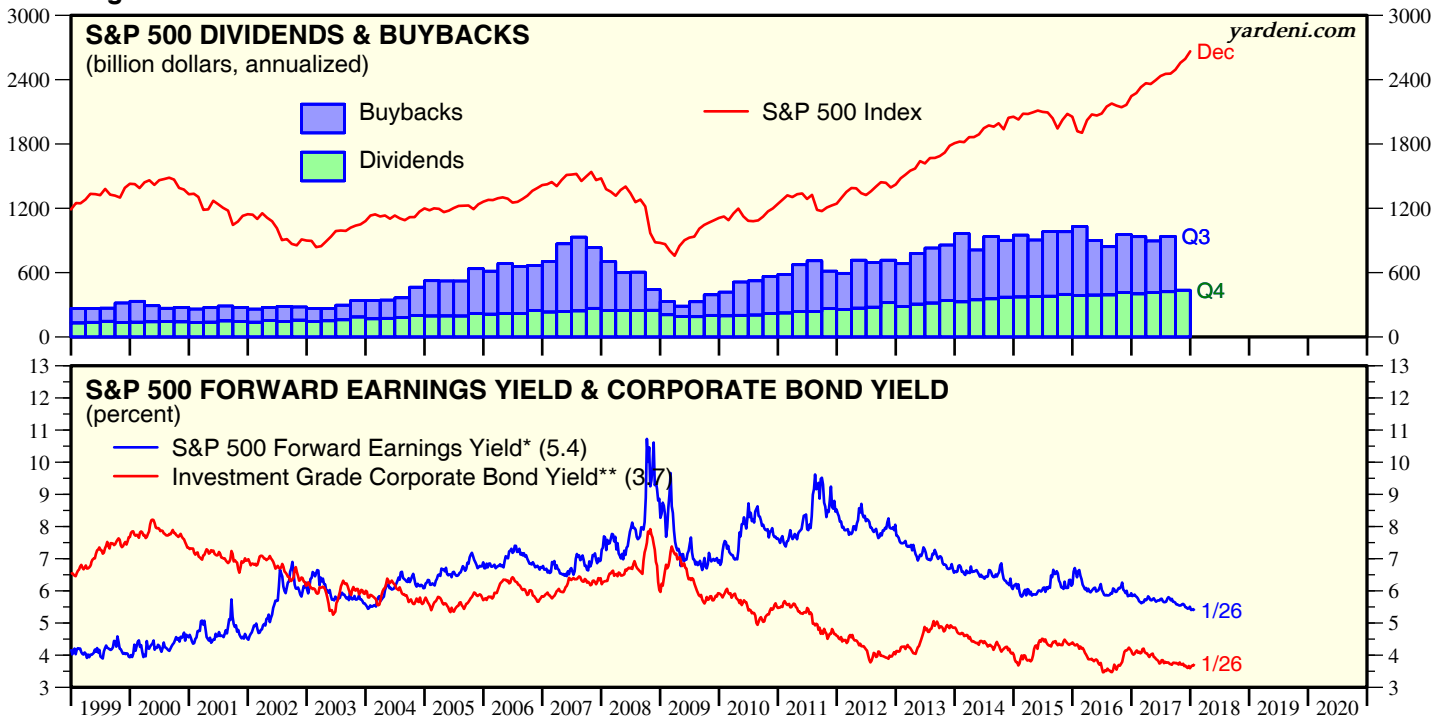
Figure 17.



* 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 18.

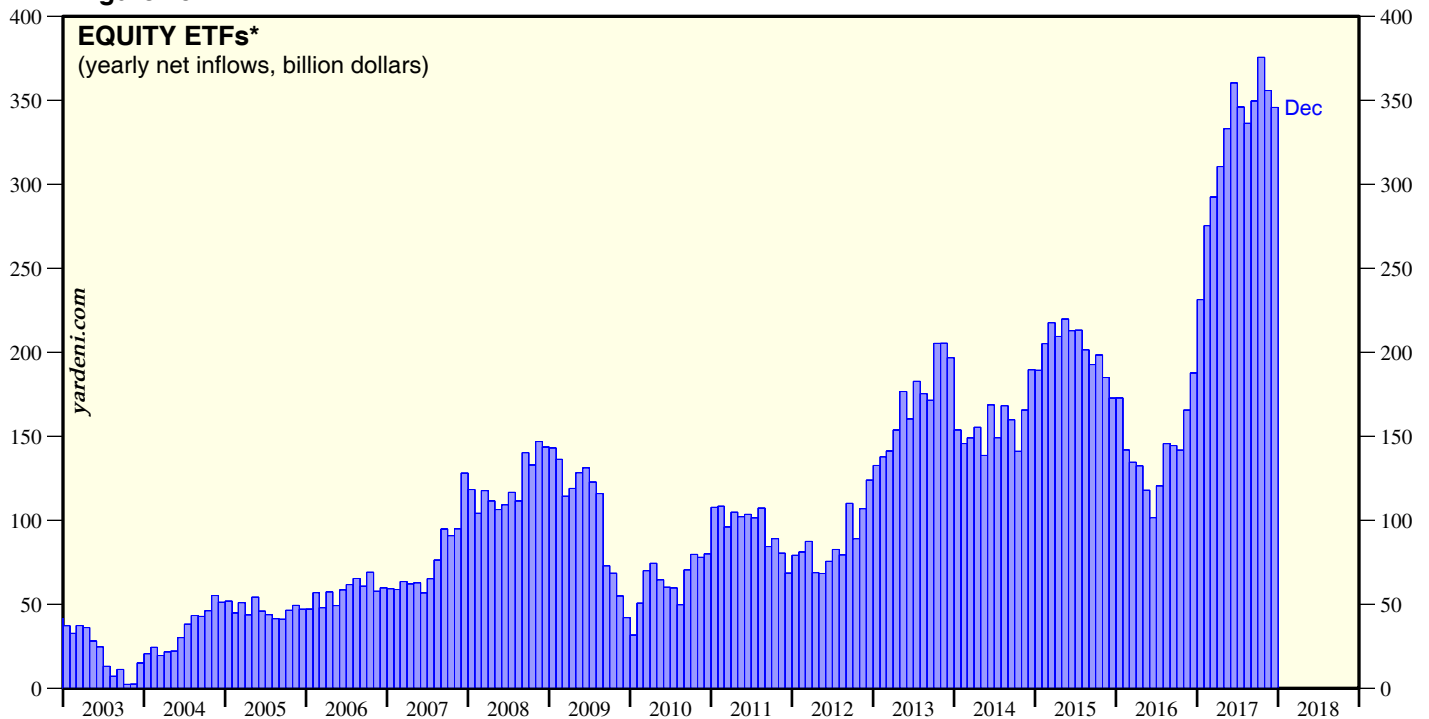


* Forward earnings (time-weighted average of consensus operating earnings estimates for current and next year) divided by S&P 500 index.

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

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

Figure 19.

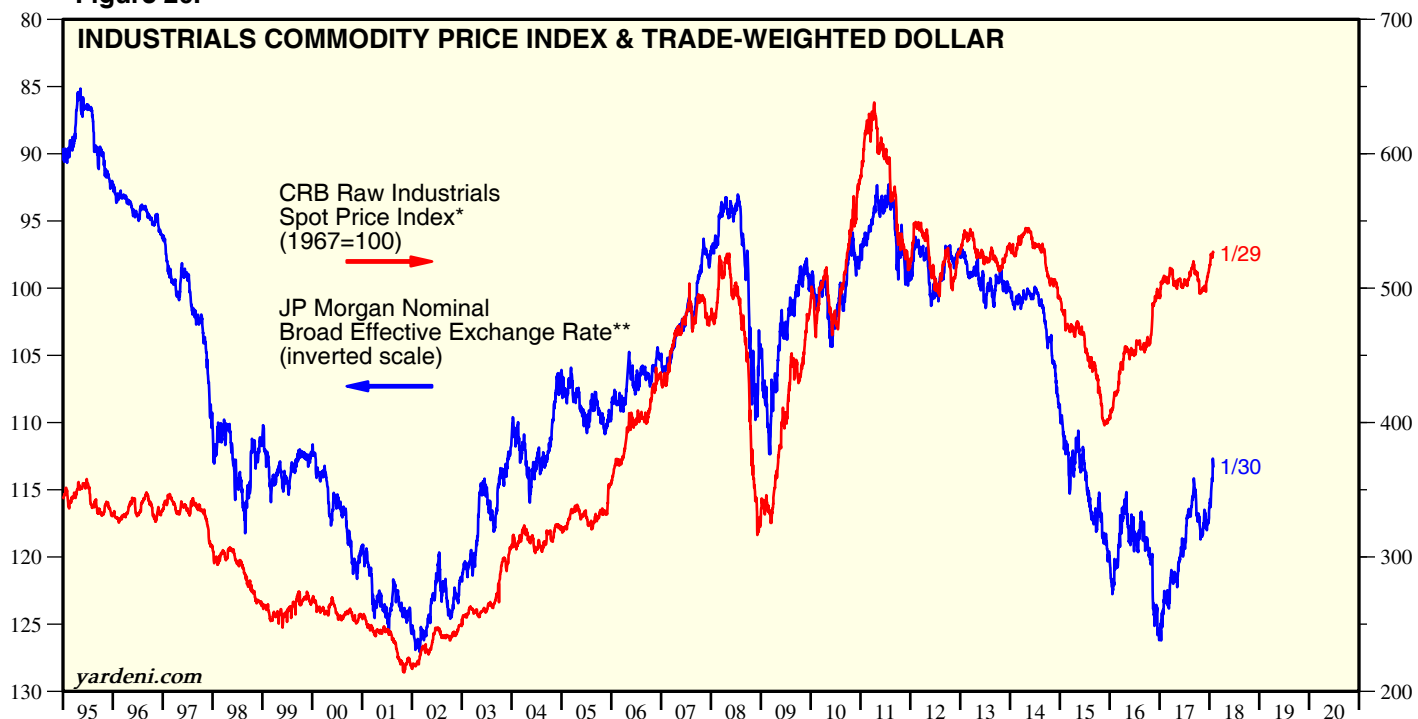


* Net share issuance by equity ETFs.

Source: Investment Company Institute.

Dollar & Commodities

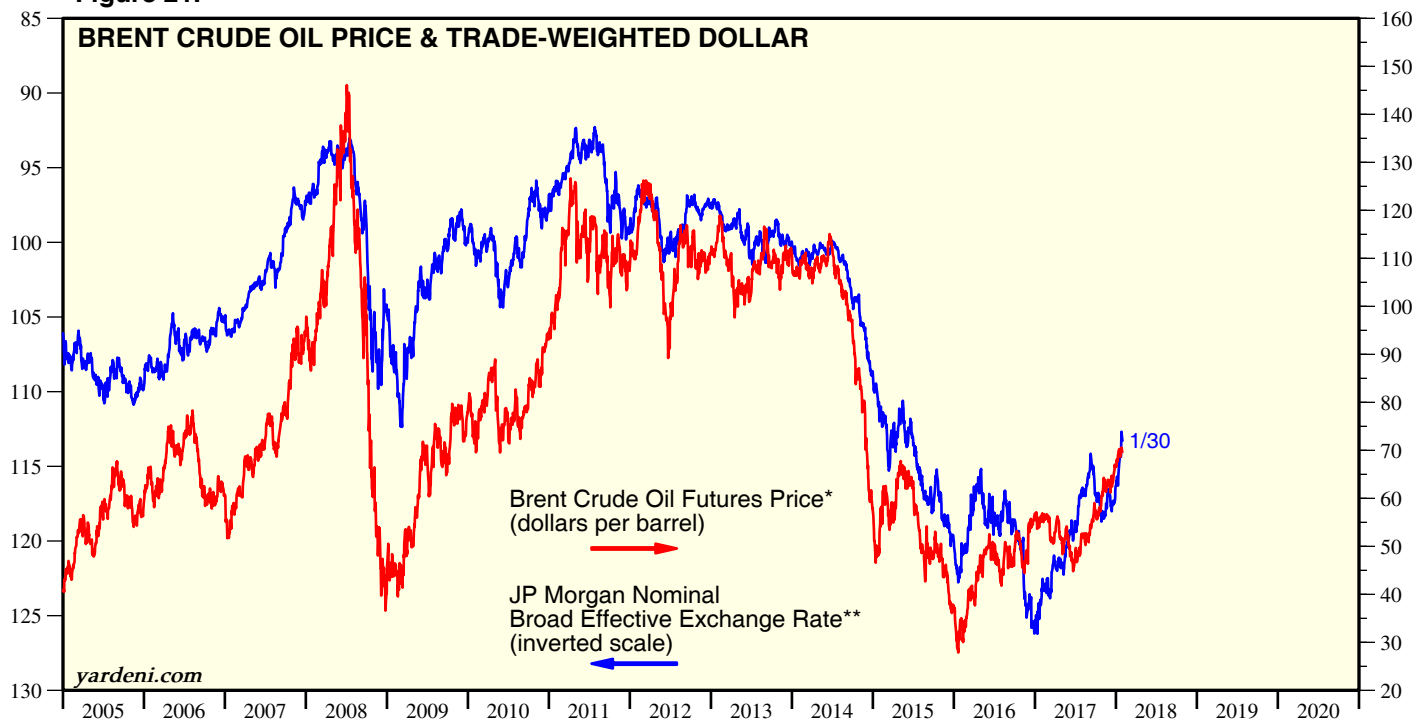
Figure 20.



* 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 21.

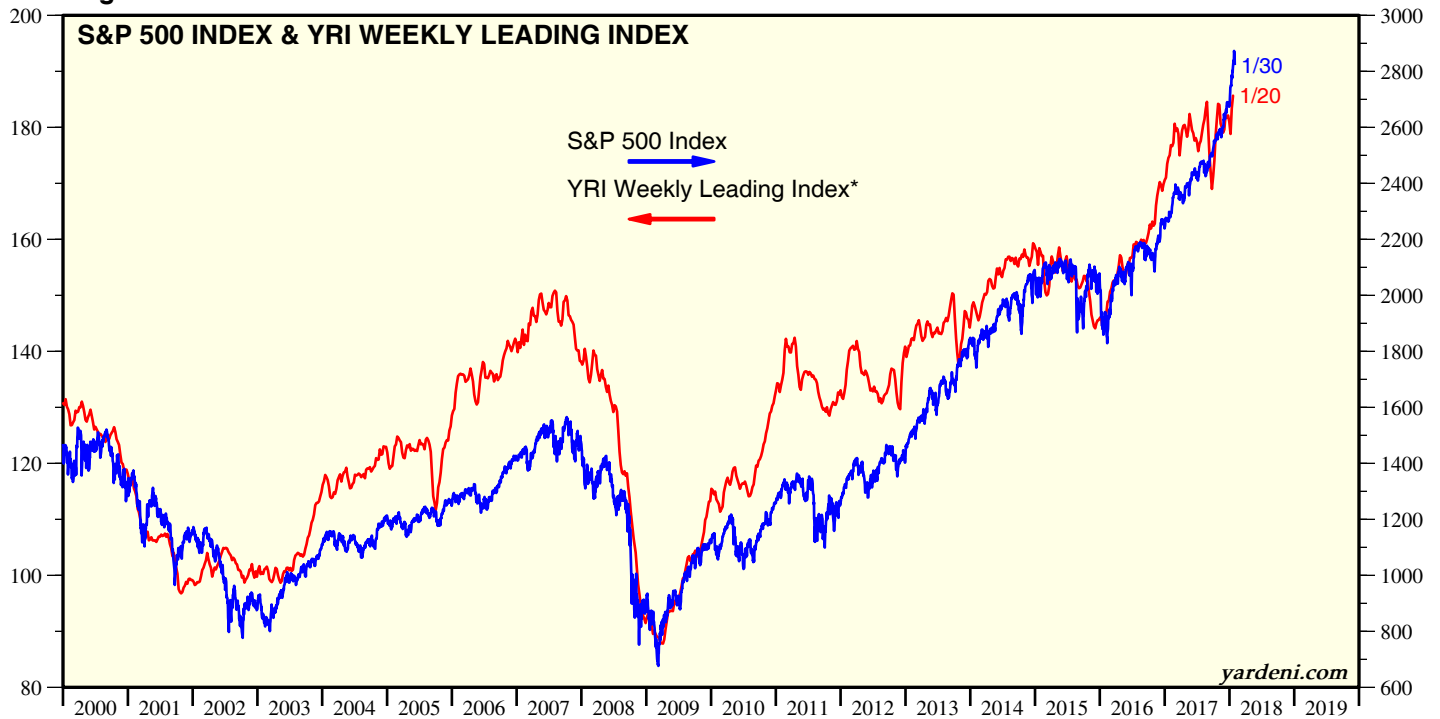


* Nearby futures price.

** 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.

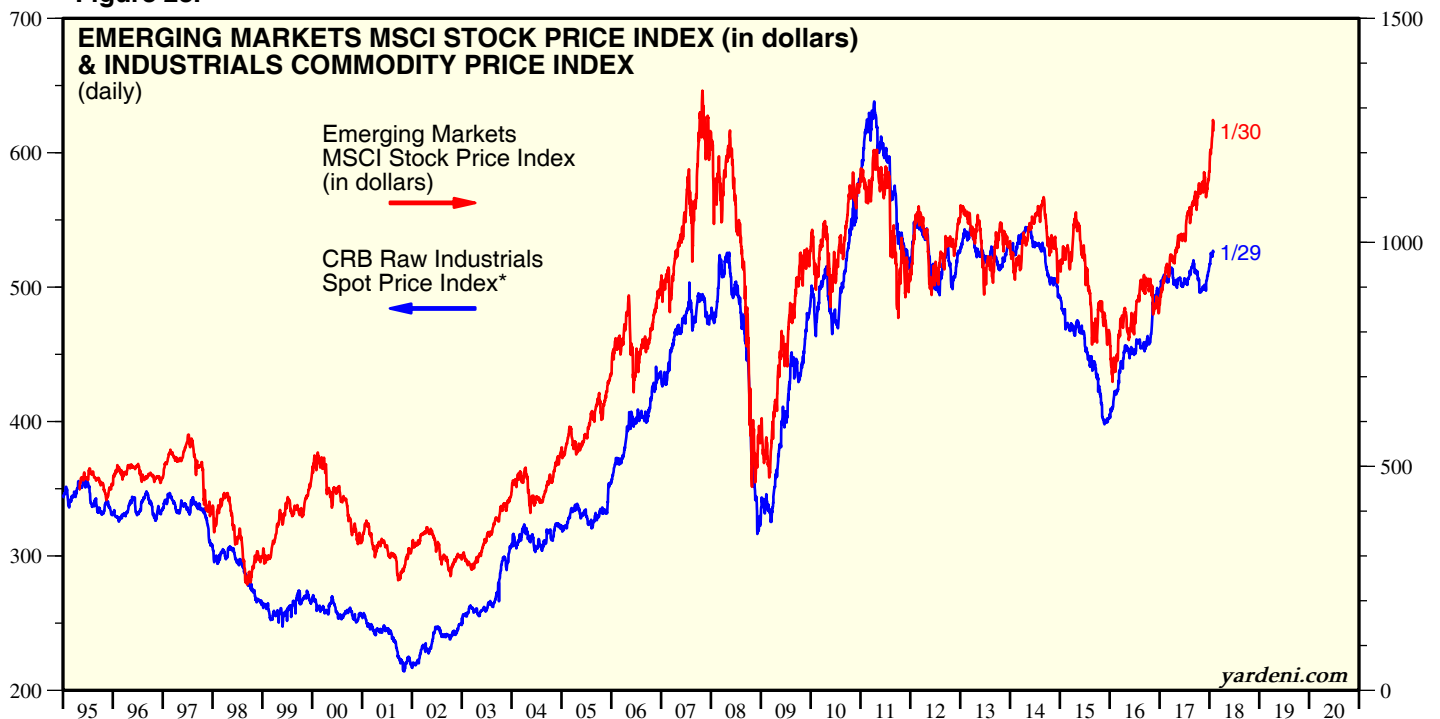
Stocks & Commodities

Figure 22.



* 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.

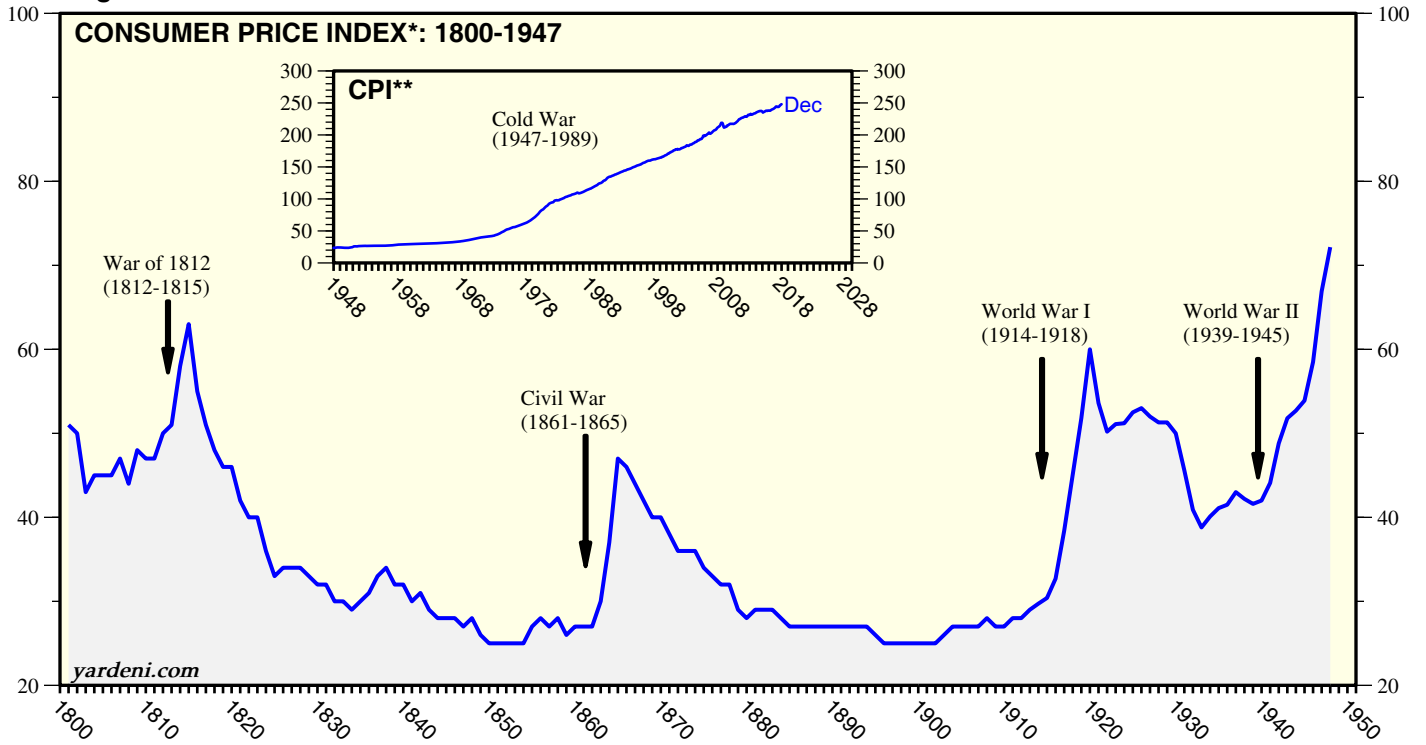
Figure 23.



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

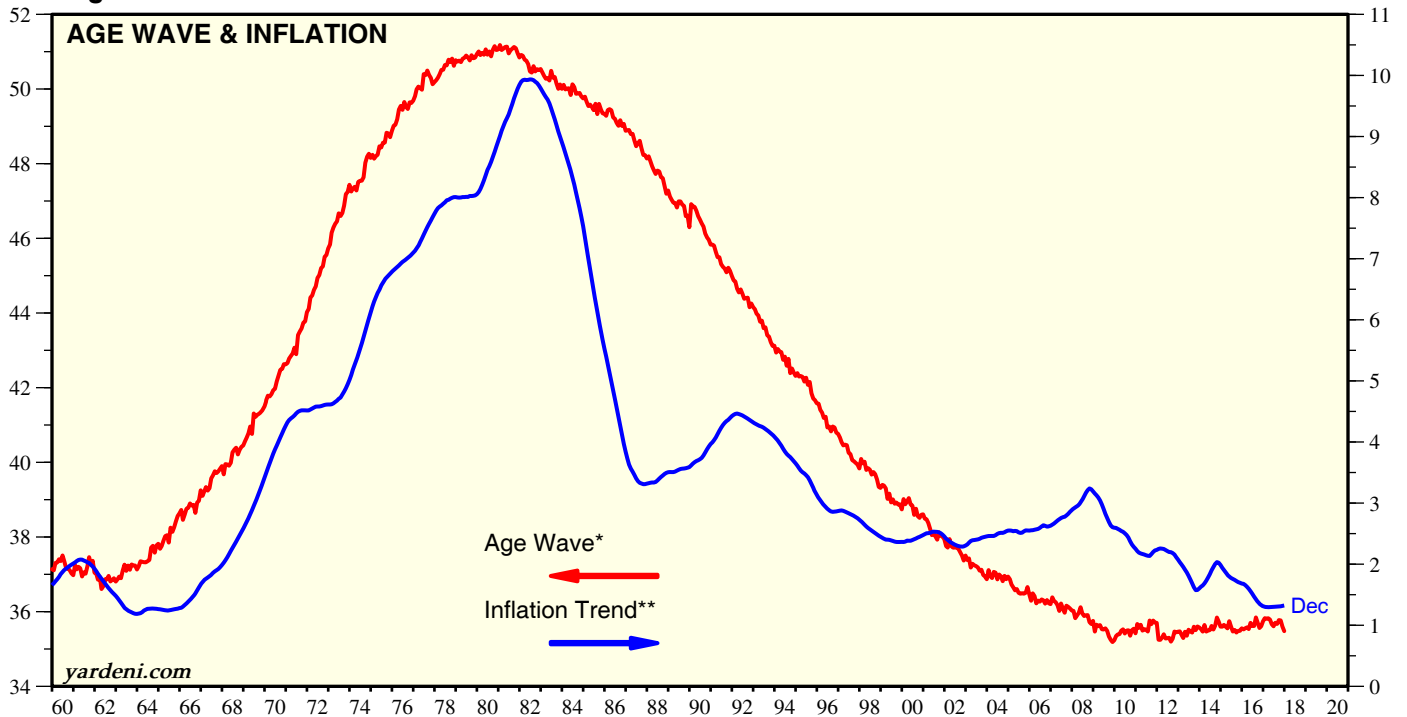
Big Picture

Figure 24.



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

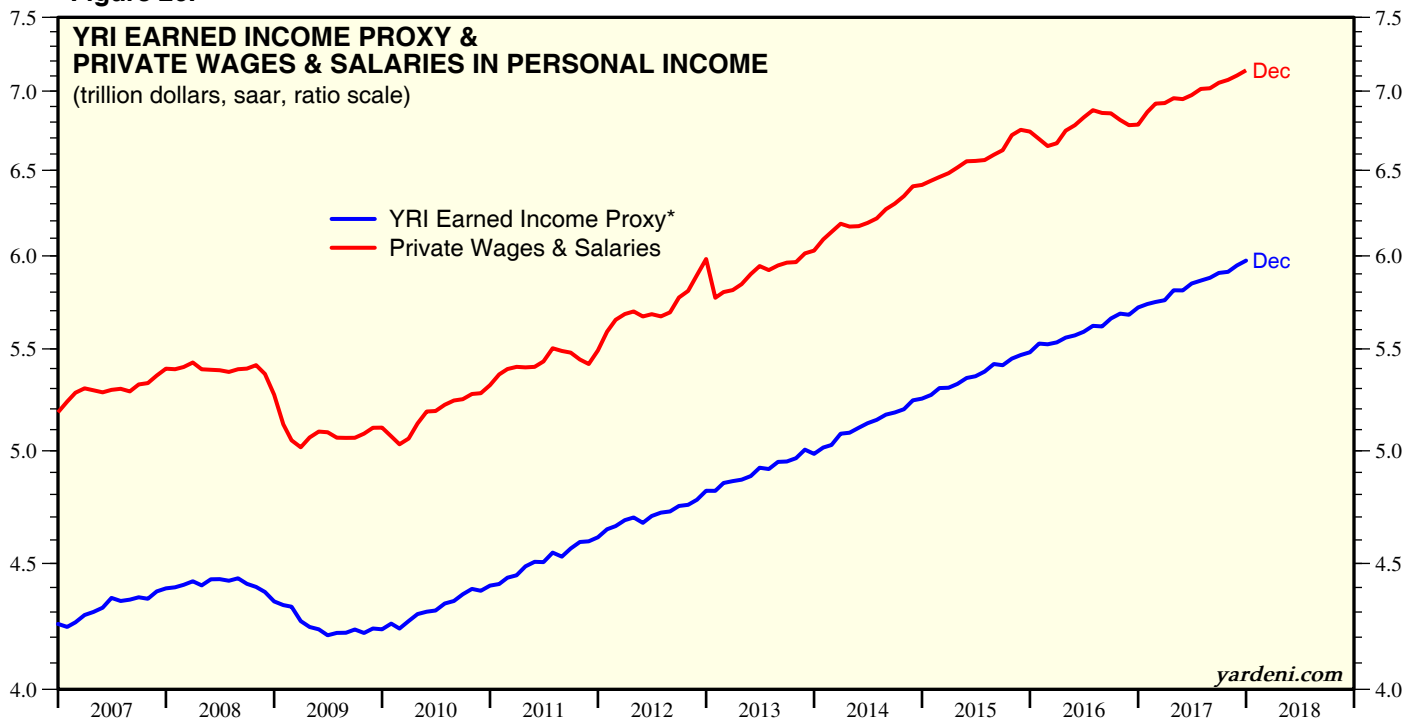
Figure 25.



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

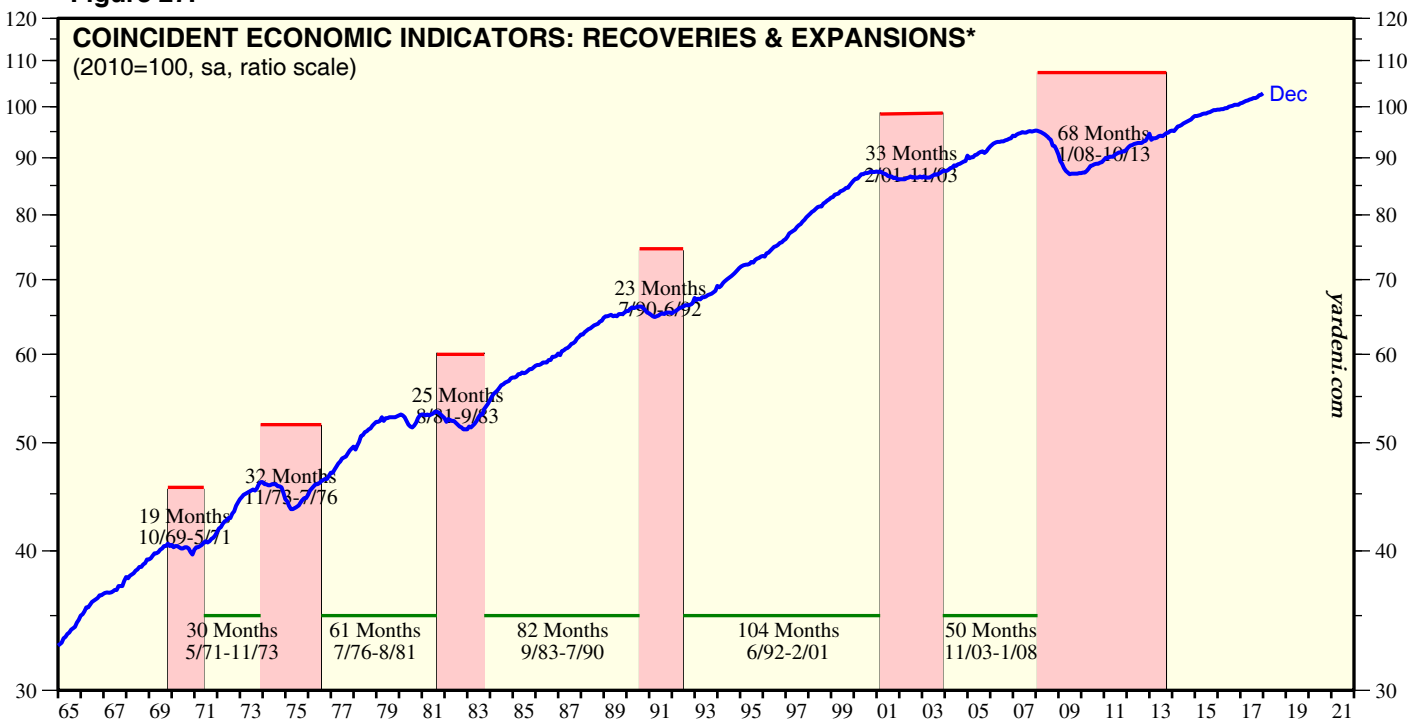
US Economic Indicators

Figure 26.



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

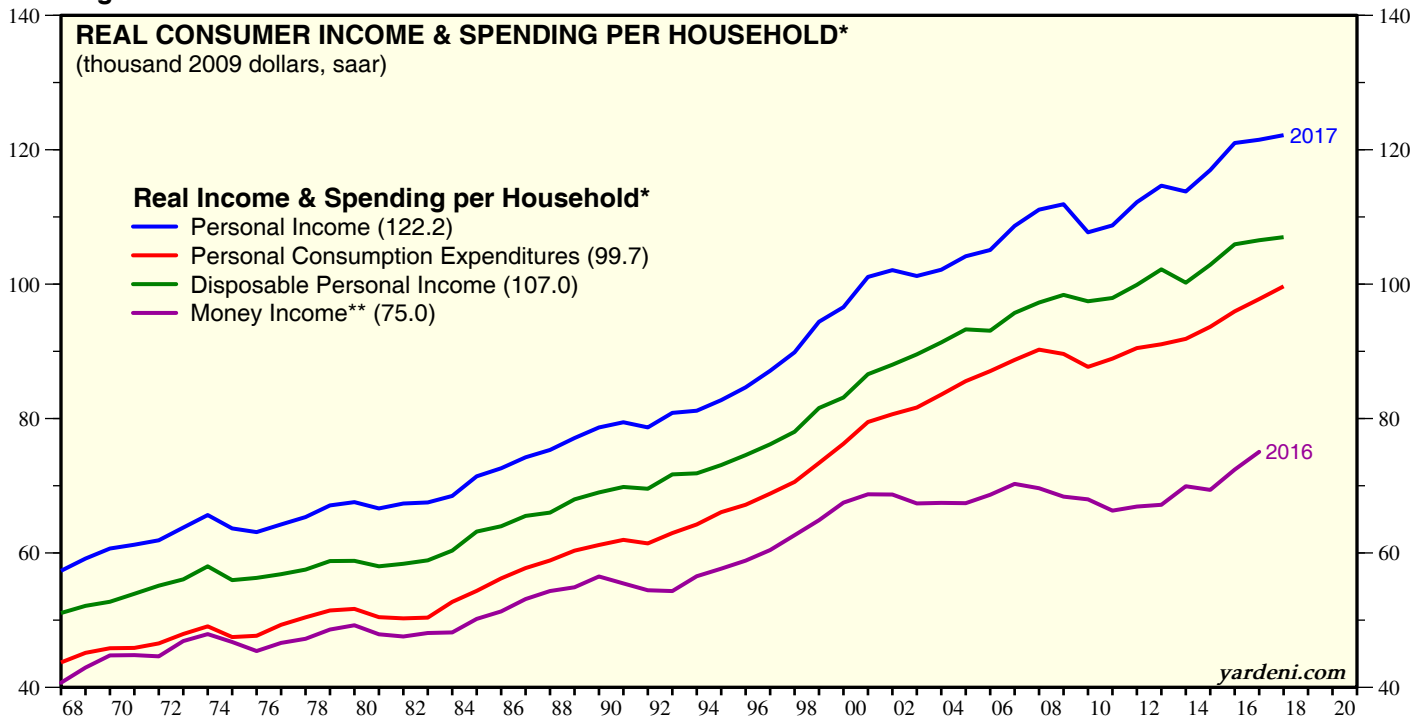
Figure 27.



* 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 28.

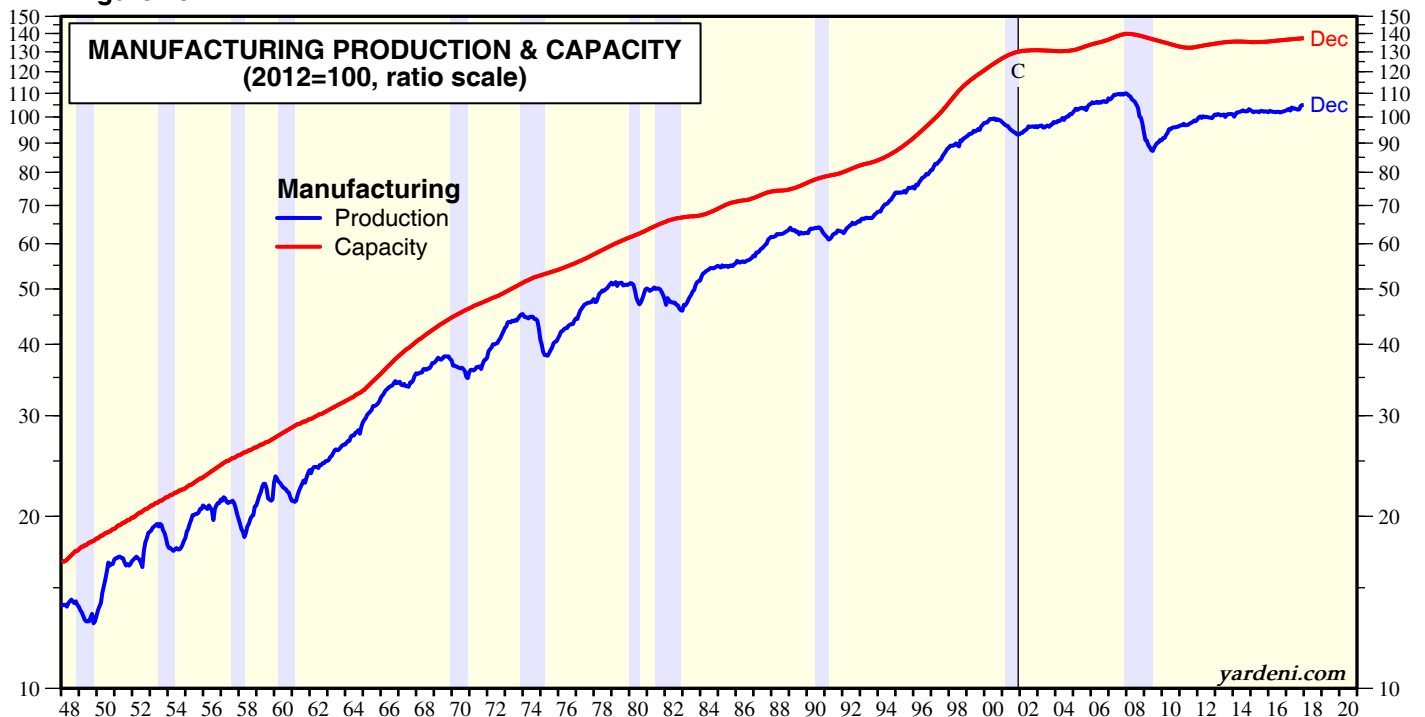


* All series deflated using Personal Consumption Expenditures Deflator.

** Mean household income.

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

Figure 29.

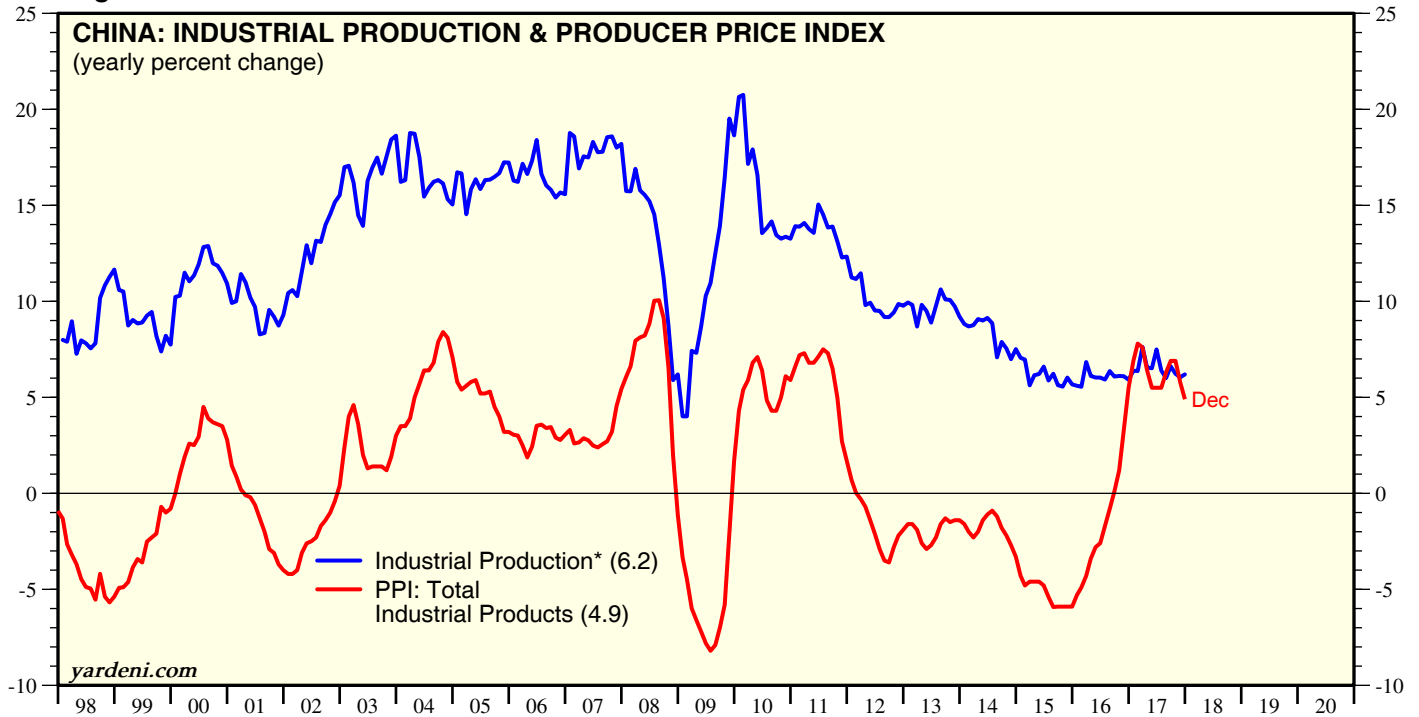


Note: C = China joined WTO on December 11, 2001. Shaded areas denote recessions according to the National Bureau of Economic Research.

Source: Federal Reserve Board.

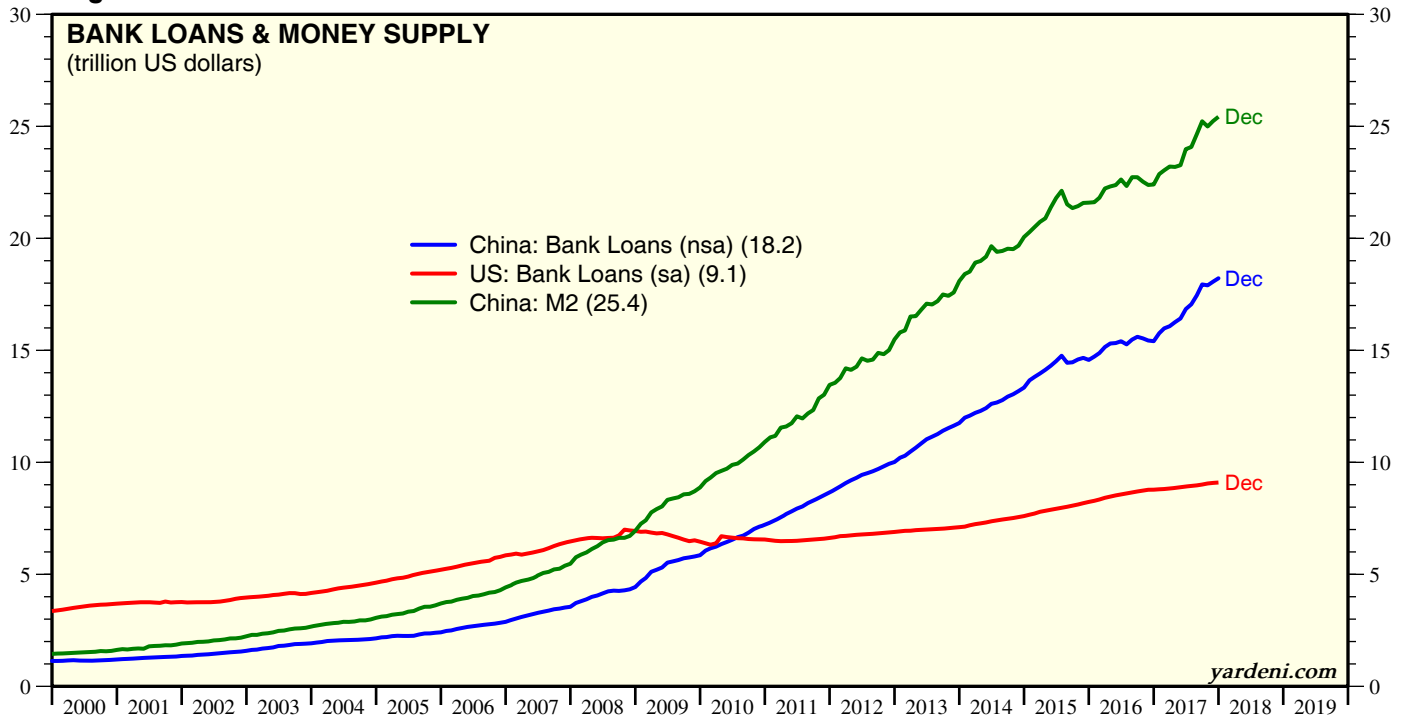
China

Figure 30.



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

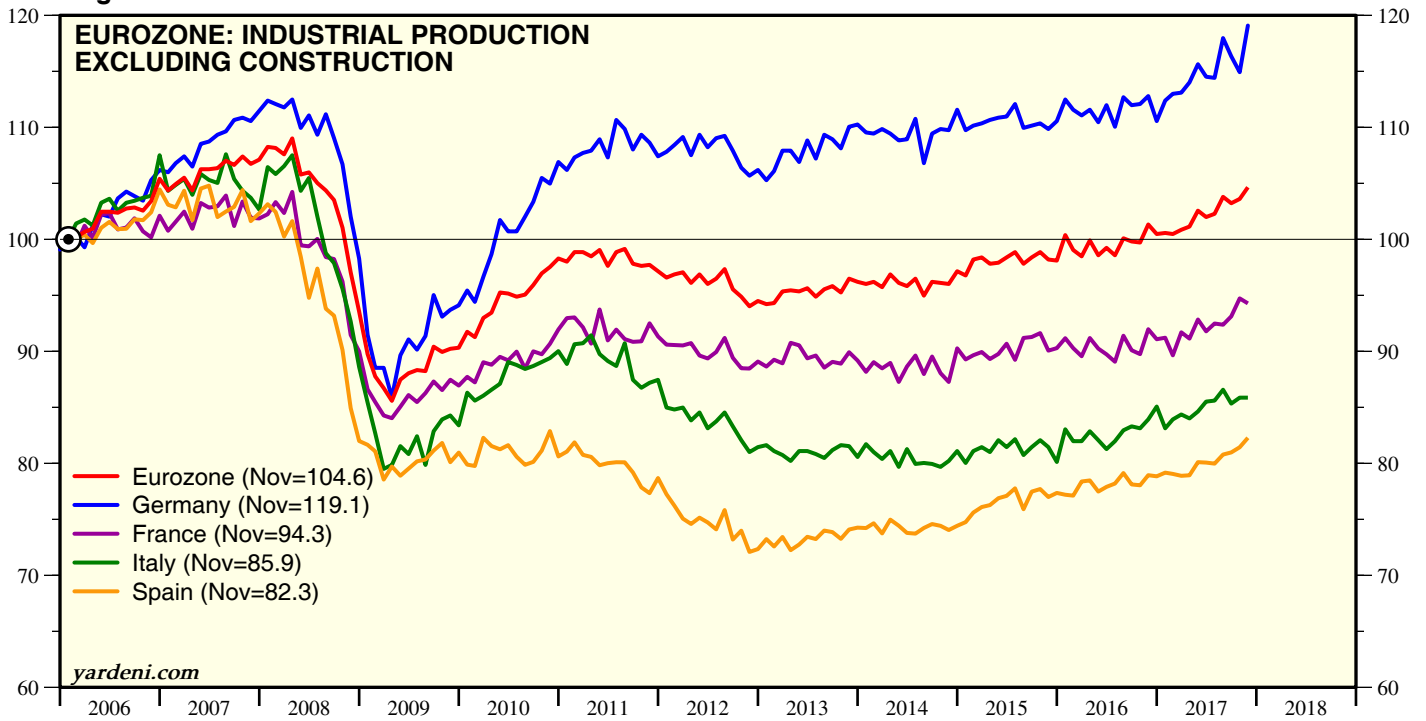
Figure 31.



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

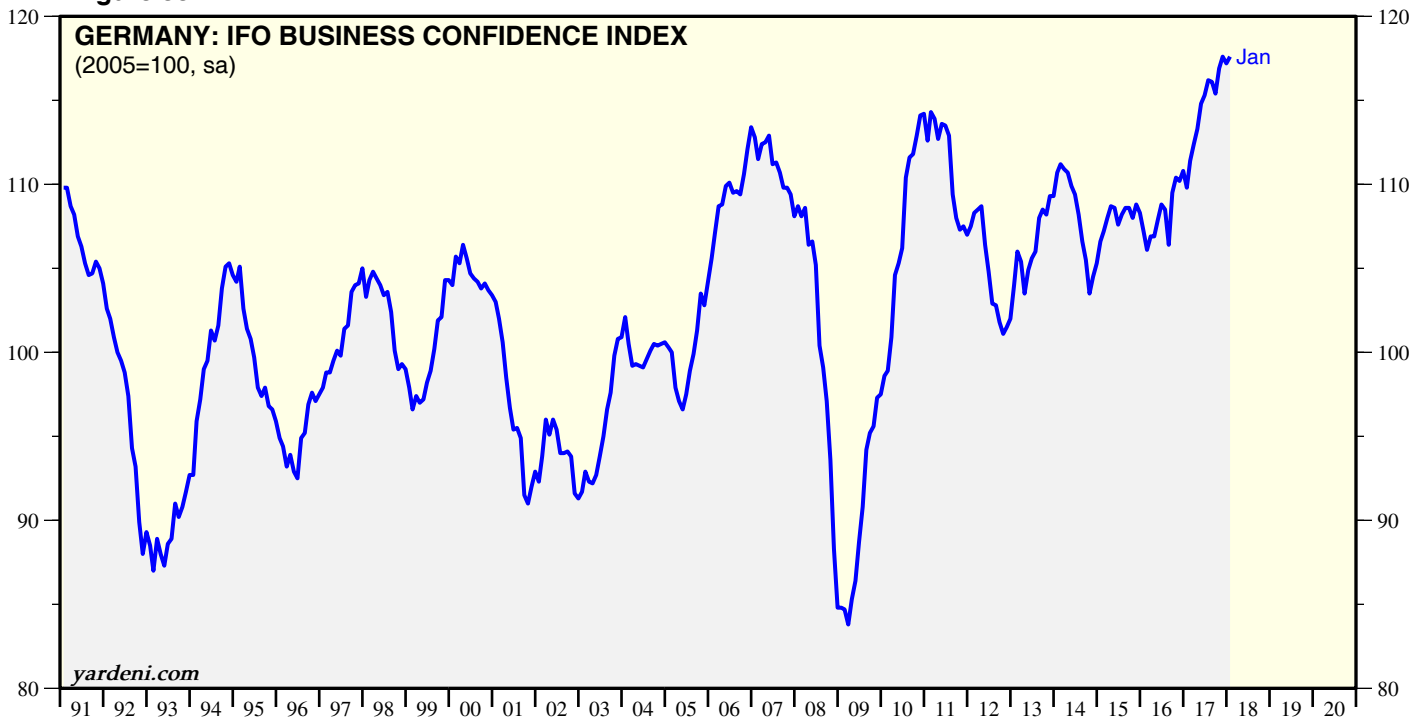
Eurozone

Figure 32.



Source: Haver Analytics.

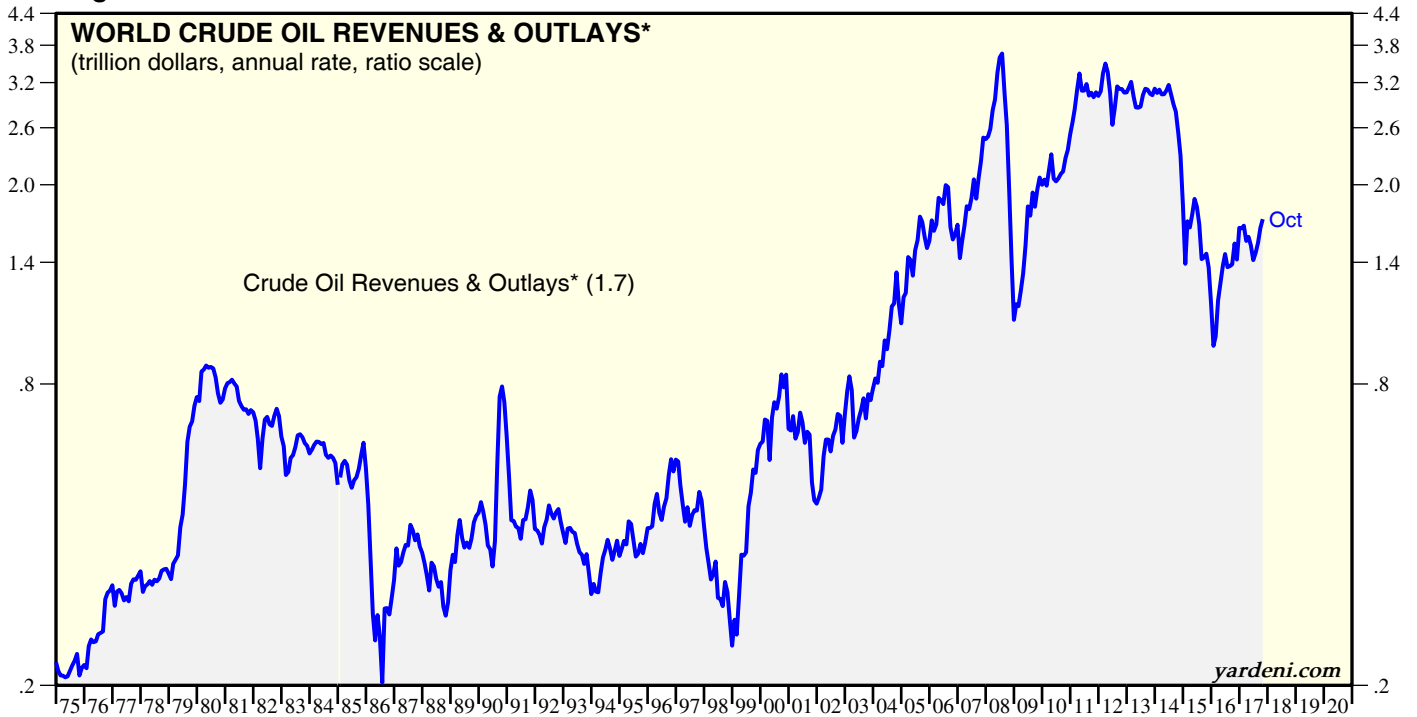
Figure 33.



Source: Institut Fur Wirtschaftsforschung.

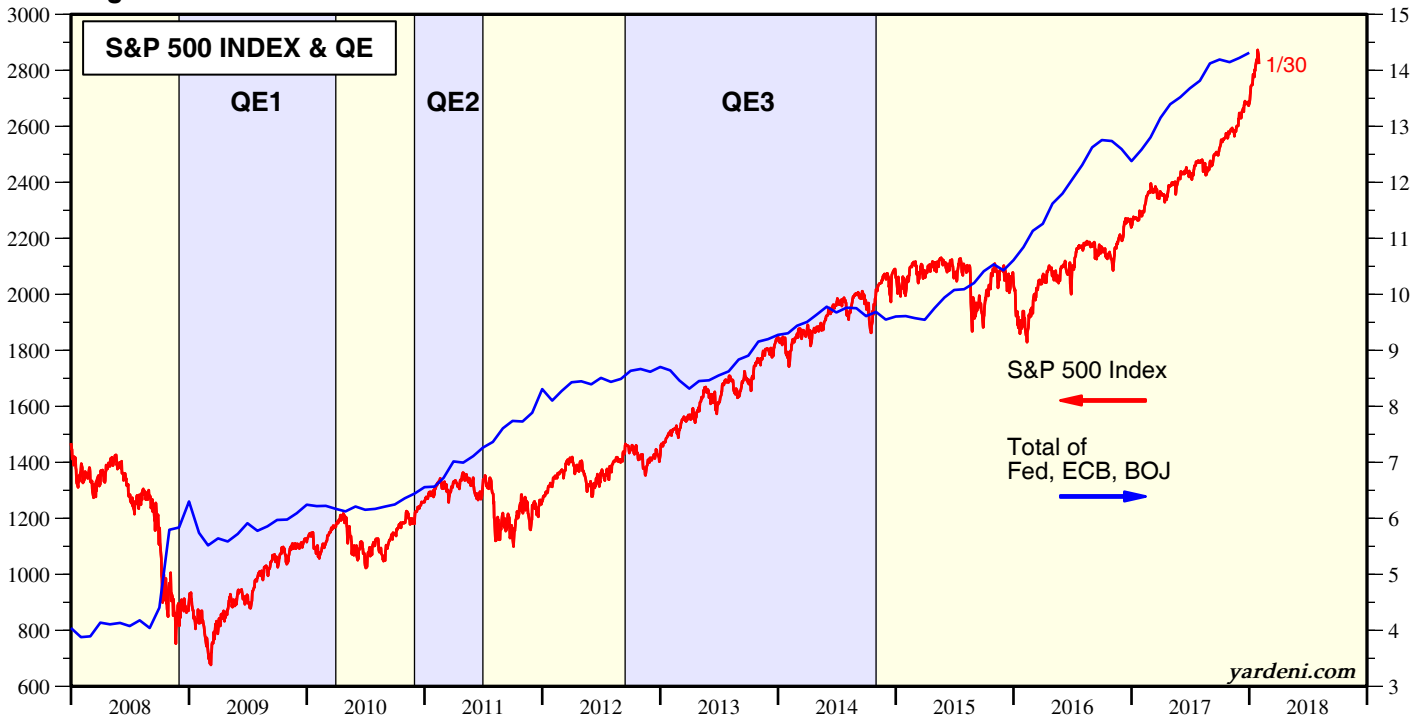
Global

Figure 34.



* Monthly crude oil production (in mbd) times 365 days times dollar price of a barrel of Brent crude oil.
Note: West Texas Intermediate Spot Price from 1975 TO 1984, Brent Crude oil price thereafter.
Source: Energy Intelligence Administration.

Figure 35.



Note: QE1 (11/25/08) = Fed starts buying \$1.24tn in mortgage securities. QE1 expanded (3/16/2009) = Fed starts buying \$300bn in Treasuries.
QE2 (11/3/10) = Fed starts buying \$600bn in Treasuries. QE3 (9/13/12) = Fed starts buying \$40bn/month in mortgage securities (open ended).
QE3 expanded (12/12/12) = Fed starts buying \$45bn/month in Treasuries.
Source: Federal Reserve Board, Standard & Poor's and Haver Analytics.



Movie Reviews

American Made (+ + +) is loosely based on the true story of Barry Seal, who worked as a TWA pilot for a short stint before finding gainful employment as a drug runner, money launderer, and gun trafficker. He was employed (often at the same time) by the Columbian drug cartels, the CIA, the Sandinistas, the DEA, the Contras, and the Reagan White House. It's fun watching Tom Cruise have fun playing Seal. It's just another side of the bizarre and disturbing drug-infested relationship between the US and some Latin American countries, which also is entertainingly depicted in the Netflix docudrama "Narcos."

Atomic Blonde (+) features Charlize Theron playing a spy working for M16 British intelligence just as the Berlin Wall is coming down. The movie is intentionally campy with lots of pop hits from the late 1980s. Charlize leaves a long trail of dead bad guys as the one-woman death squad mercilessly pursues her mission impossible. This could be the beginning of a new spy thriller series. After all, James Bond must be ready for the nursing home of retired spies by now. The movie starts slow, but the pace of mayhem speeds up along the way.

Blade Runner 2049 (+) is a sequel to the 1982 flick starring Harrison Ford. This one stars Ryan Gosling. In both movies, the world is full of "replicants," which are biorobotic androids. They are virtually identical to adult humans, but are stronger, speedier, more agile, and more resilient. They come in different models with varying degrees of intelligence. The only way to recognize them is by their lack of emotional responsiveness. Yet, just as I found myself rooting for the apes in the "Planet of the Apes" movies, I found myself rooting for the replicants.

Detroit (+ +) is a very intense movie about intense racial tensions that flared up in major riots in Detroit, and elsewhere around the country, during the mid-1960s. It starts out in a documentary fashion chronicling the turmoil that engulfed Detroit and turns into a docudrama about one harrowing incident one night when a couple of cops entrapped several law-abiding African-American citizens and behaved more like murderous vigilantes than officers of the law. A great deal of progress has been made in race relations since then, though clearly not enough.

The Big Sick (+) is a funny movie about a young Pakistani-American stand-up comedian, who is also an Uber driver. He falls in love with an American girl from the South. She loves him too, but his parents insist on arranging his marriage to a Pakistani girl. Will love conquer all? It often does in the movies. In the real world, we are reminded by the violence in Charlottesville that hate remains a very destructive force in our society.

Tulip Fever (- - -) is a very disappointing film. It has an all-star cast of very fine actors. The fundamental flaw is with the convoluted story, which is set in Amsterdam during the tulip bubble, which burst in 1637. During such manias, people tend to lose their minds. In this film, they've lost their minds while pursuing love, lust, and revenge. My wife and I left before it ended, and before the crash in the tulip market's bubble. I hope I do as well exiting markets before the next bubble that forms suddenly bursts.

Wind River (+ +) is a murder mystery set in an Indian reservation in Wyoming. It's well written. It is also well paced, taking the time to develop the lead character, who is well played by Jeremy Renner. It was filmed during the winter, and clearly demonstrates why Fed officials schedule their annual meeting in Jackson Hole, Wyoming late in August.

Viceroy's House (+ + +) is the kind of movie my wife and I especially enjoy. It is based on remarkable historical events and personalities with a remarkable cast, direction, and cinematography. This one is about the final Viceroy of India, Lord Mountbatten, who is tasked with overseeing the transition of British India to independence. The challenge is to accomplish it as quickly and smoothly as possible. It happens all too quickly, but not too smoothly. The situation spirals out of control, resulting in a mass migration between India and Pakistan that turns into a human tragedy of epic proportions.