

Strategist's Handbook

Yardeni Research, Inc.

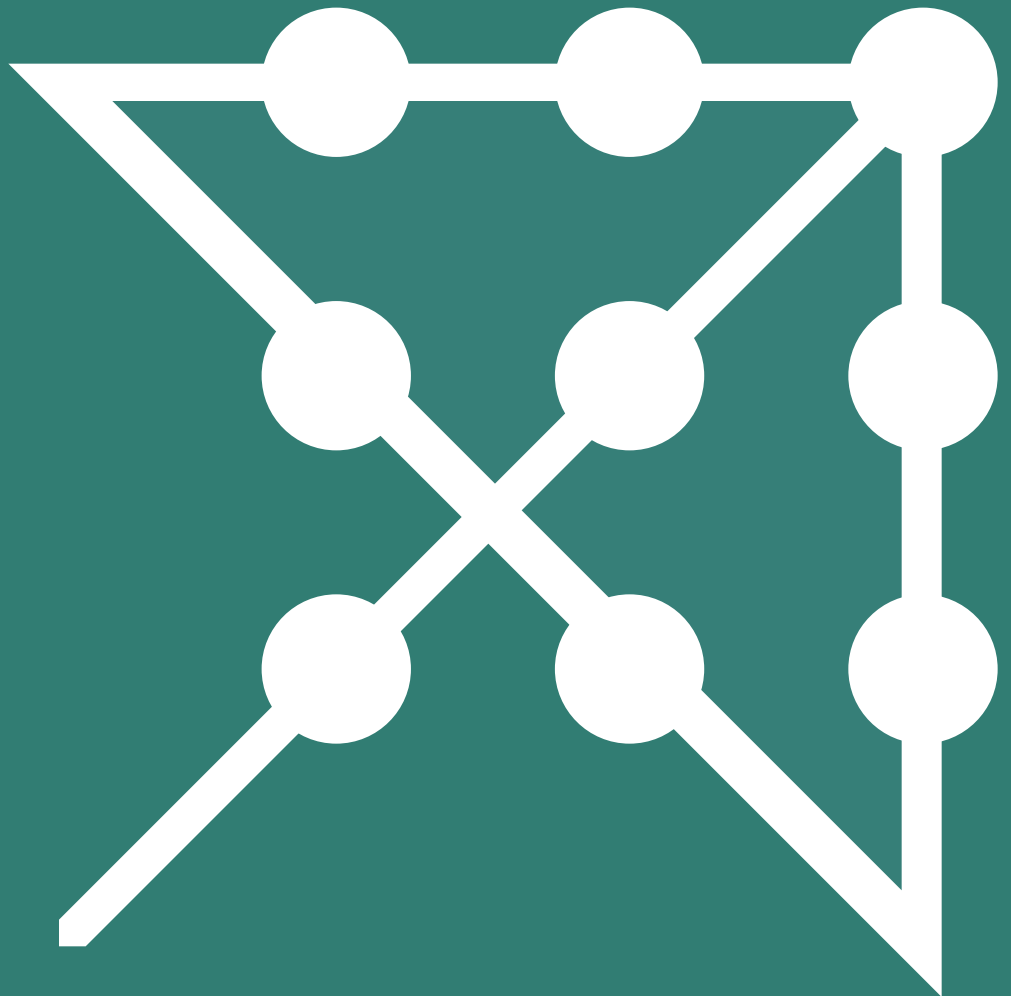
February 2, 2019

Dr. Edward Yardeni

516-972-7683

eyardeni@yardeni.com

Please visit our sites at
www.yardeni.com
blog.yardeni.com



thinking outside the box

Figure A: Yardeni Research Economic Forecasts (1/3/2019)

Item (1)	2018				2019				2018e/	2019e/
	Q1a	Q2a	Q3a	Q4e	Q1e	Q2e	Q3e	Q4e	2017a	2018e
Real GDP	2.2	4.2	3.4	2.8	2.9	3.1	2.7	3.0	2.9	3.0
Final Sales	1.9	5.4	1.0	2.0	3.2	3.2	2.7	3.1	2.7	2.8
Gross Domestic Purchases	2.2	2.8	5.3	2.7	2.8	3.0	2.7	2.8	3.0	3.1
Finals Sales to Domestic Purchasers	1.9	4.0	2.9	2.6	3.0	3.1	2.6	2.9	2.9	2.9
Personal Consumption Expenditures	0.5	3.8	3.5	3.0	3.0	3.4	2.4	2.9	2.7	3.1
Durable Goods	-2.0	8.6	3.7	8.6	8.9	7.8	6.9	6.8	5.8	7.6
Nondurable Goods	0.1	4.0	4.6	2.8	2.1	3.7	1.9	2.2	2.8	2.9
Services	1.0	3.0	3.2	2.0	2.2	2.4	1.7	2.4	2.1	2.3
Nonresidential Fixed Investment	11.5	8.7	2.5	2.6	5.4	2.7	3.6	4.3	6.7	3.9
Structures	13.9	14.5	-3.4	0.4	7.5	1.8	0.7	2.9	5.3	2.9
Producers' Durable Equipment	8.5	4.6	3.4	2.5	2.5	2.2	3.1	4.3	7.2	2.9
Intellectual Property Products	14.1	10.5	5.6	4.0	8.1	3.9	6.1	5.1	7.1	5.9
Residential Fixed Investment	-3.4	-1.4	-3.5	-0.7	0.5	4.3	2.6	2.0	-0.1	0.7
Inventory Investment (billion dollars)	30.3	-36.8	89.8	94.8	84.8	80.8	82.8	77.8	44.5	81.6
Net Exports (billion dollars)	-902.4	-841.0	-949.7	-951.7	-954.0	-956.5	-960.0	-957.0	-911.2	-956.9
Total Government Purchases	1.5	2.5	2.6	1.7	1.8	2.3	2.7	1.6	1.6	2.1
Federal Government	2.6	3.6	3.5	2.3	2.6	3.2	3.9	2.0	2.7	3.0
State & Local Government	0.9	1.8	2.0	1.3	1.2	1.6	2.0	1.4	1.0	1.6
Real GDP (y/y)	2.6	2.9	3.0	3.1	3.3	3.0	2.9	2.9	3.1	2.9
Light Vehicle Sales (million units)	17.2	17.2	17.0	17.4	17.3	17.2	17.2	17.4	17.2	17.3
Housing Starts (million units)	1.3	1.3	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.3
Unemployment Rate (%)	4.1	3.9	3.8	3.7	3.6	3.6	3.5	3.4	3.9	3.5
Nonfarm Productivity	0.3	3.0	2.3	2.1	2.5	2.7	2.5	2.9	1.4	2.5
PCE Core Deflator	2.2	2.1	1.6	2.0	1.9	2.0	1.7	2.0	1.9	1.9
Fed Funds Target Rate (%)	1.63	1.88	2.13	2.38	2.38	2.38	2.38	2.38	2.00	2.38
10-Year Government Yield (%)	2.76	2.92	2.93	3.03	3.00	3.00	3.00	3.00	2.91	3.00

a=actual. e=estimate.

(1) Quarterly and annual average percent change.

Estimates based on limited information and are subject to frequent and large revisions as new information becomes available.

Source: Yardeni Research, Inc.

Figure B: S&P 500 Operating Earnings*: YRI vs. Consensus Forecasts (2/2/2019)

	Yardeni Research-post tax cut		Analysts' Consensus	
	Level	YOY %	Level	YOY %
2009	60.80	-7.3	60.80	-7.3
2010	85.32	40.3	85.32	40.3
2011	97.82	14.7	97.82	14.7
2012	103.80	6.1	103.80	6.1
2013	109.68	5.7	109.68	5.7
2014	117.86	7.5	117.86	7.5
2015	117.46	-0.3	117.46	-0.3
2016	118.04 a	0.5	118.04 a	0.5
Q1	26.96 a	-5.7	26.96 a	-5.7
Q2	29.61 a	-1.6	29.61 a	-1.6
Q3	31.21 a	4.1	31.21 a	4.1
Q4	31.28 a	6.0	31.28 a	6.0
2017	131.98 a	11.8	131.98 a	11.8
Q1	30.90 a	14.6	30.90 a	14.6
Q2	32.58 a	10.0	32.58 a	10.0
Q3	33.45 a	7.2	33.45 a	7.2
Q4	36.02 a	15.2	36.02 a	15.2
2018	163.00 e	23.5	161.56 e	22.4
Q1	38.07 a	23.2	38.07 a	23.2
Q2	41.00 a	25.8	41.00 a	25.8
Q3	42.66 a	27.5	42.66 a	27.5
Q4	42.00 e	16.6	40.30 e	11.9
2019	170.00 e	4.3	170.68 e	5.6
Q1	40.00 e	5.1	38.95 e	2.3
Q2	42.00 e	2.4	42.17 e	2.9
Q3	43.00 e	0.8	44.10 e	3.4
Q4	45.00 e	7.1	44.80 e	11.2
2020	179.00 e	5.3	189.72 e	11.2

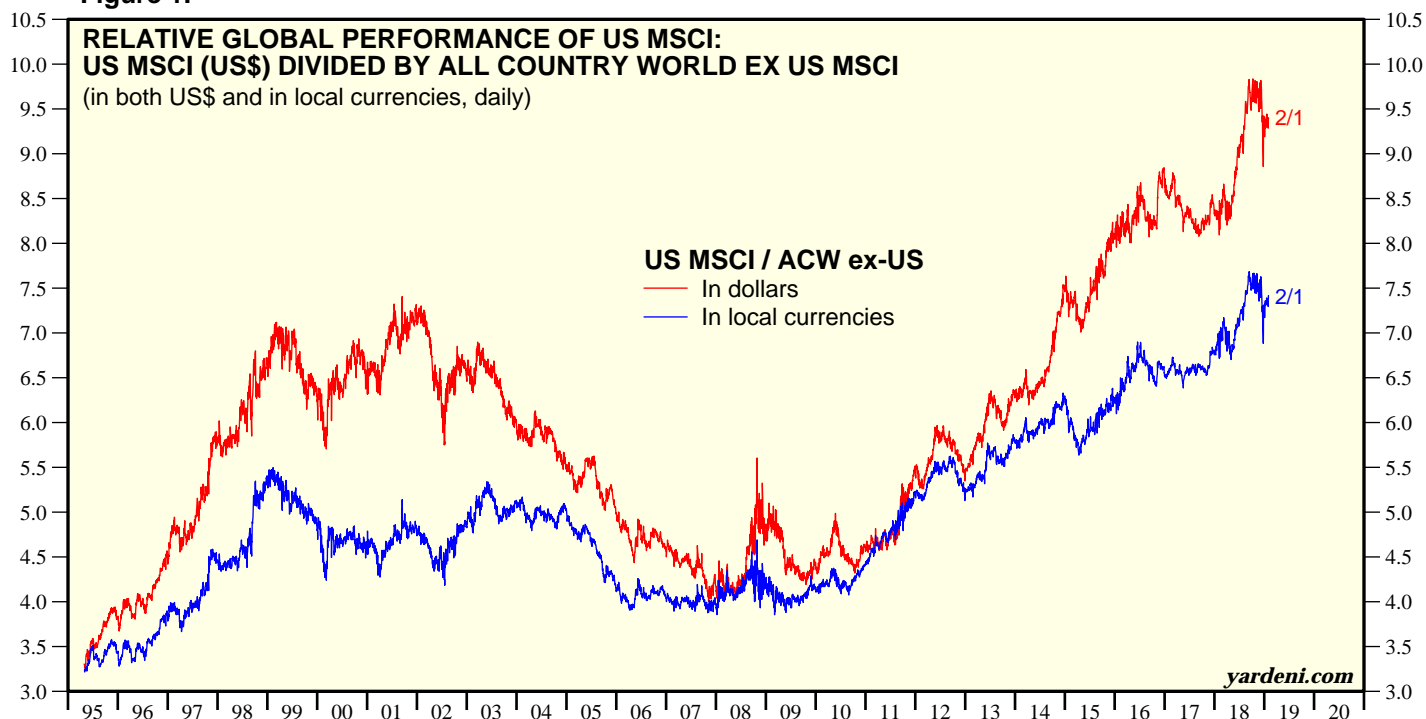
e=estimate.

* Historical earnings growth rates and earnings are not adjusted for accounting and index composition changes.

Source: Yardeni Research, Inc. and I/B/E/S data by Refinitiv.

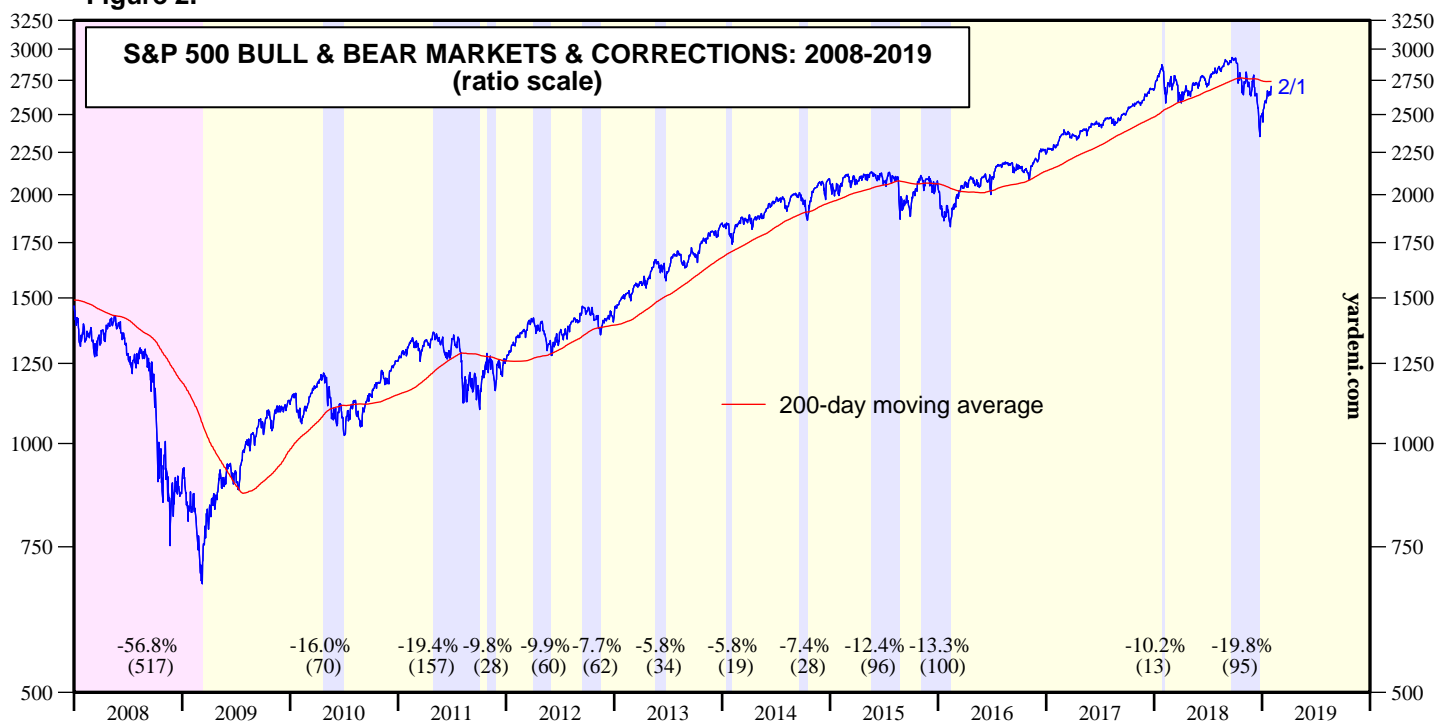
Stock Prices

Figure 1.



Source: MSCI.

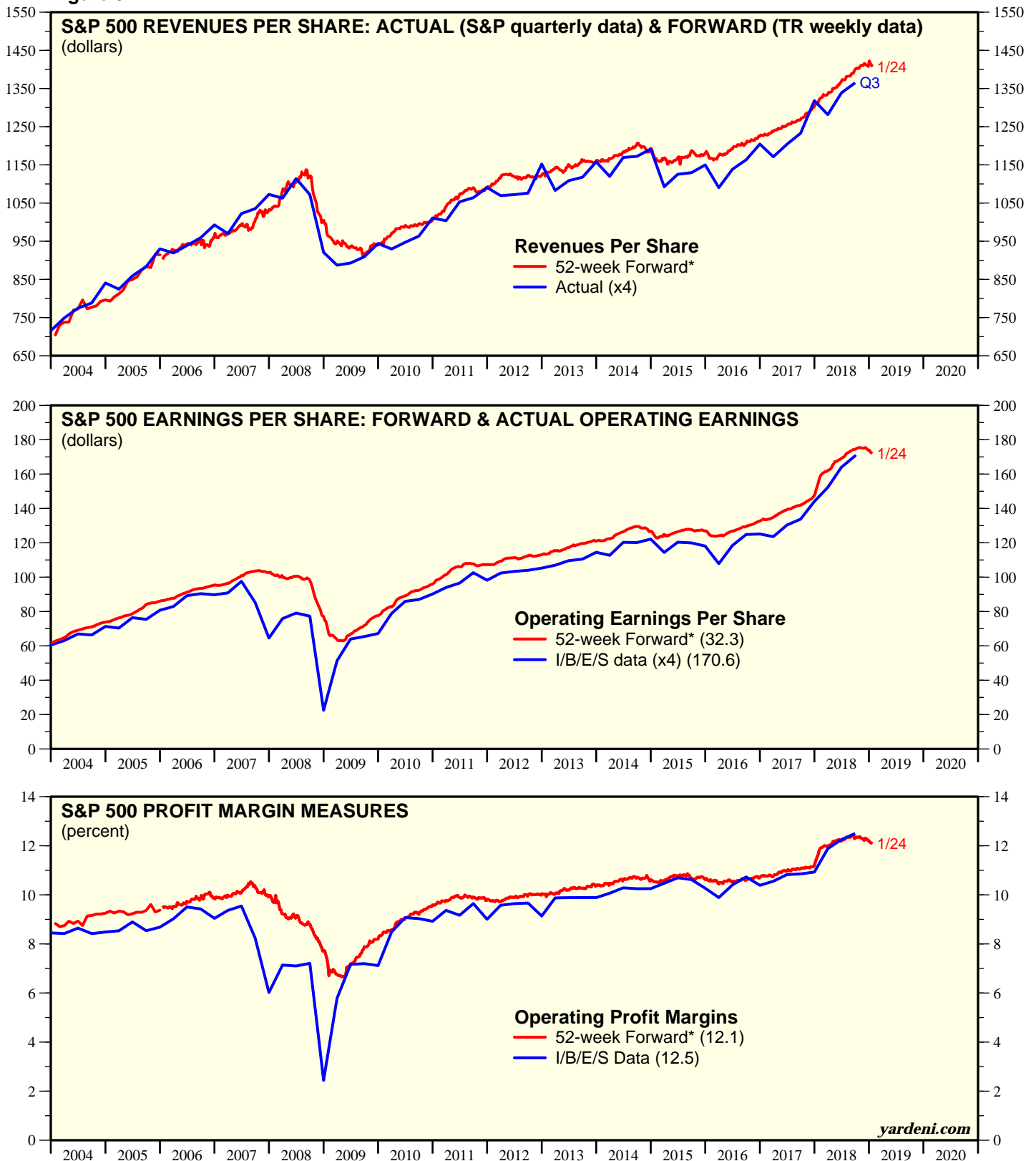
Figure 2.



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

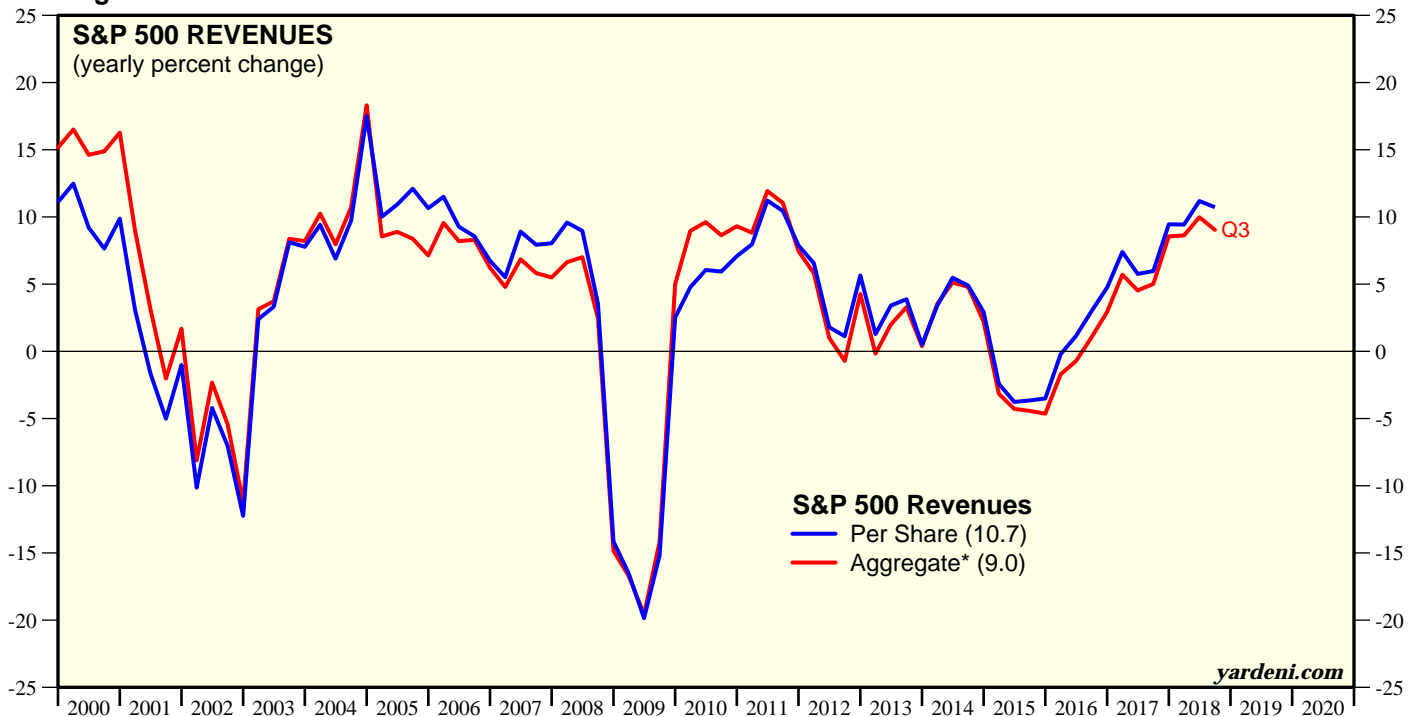
Figure 3.



* Time-weighted average of consensus operating earnings estimates for current and next years.
 Source: Standard & Poor's and I/B/E/S data by Refinitiv.

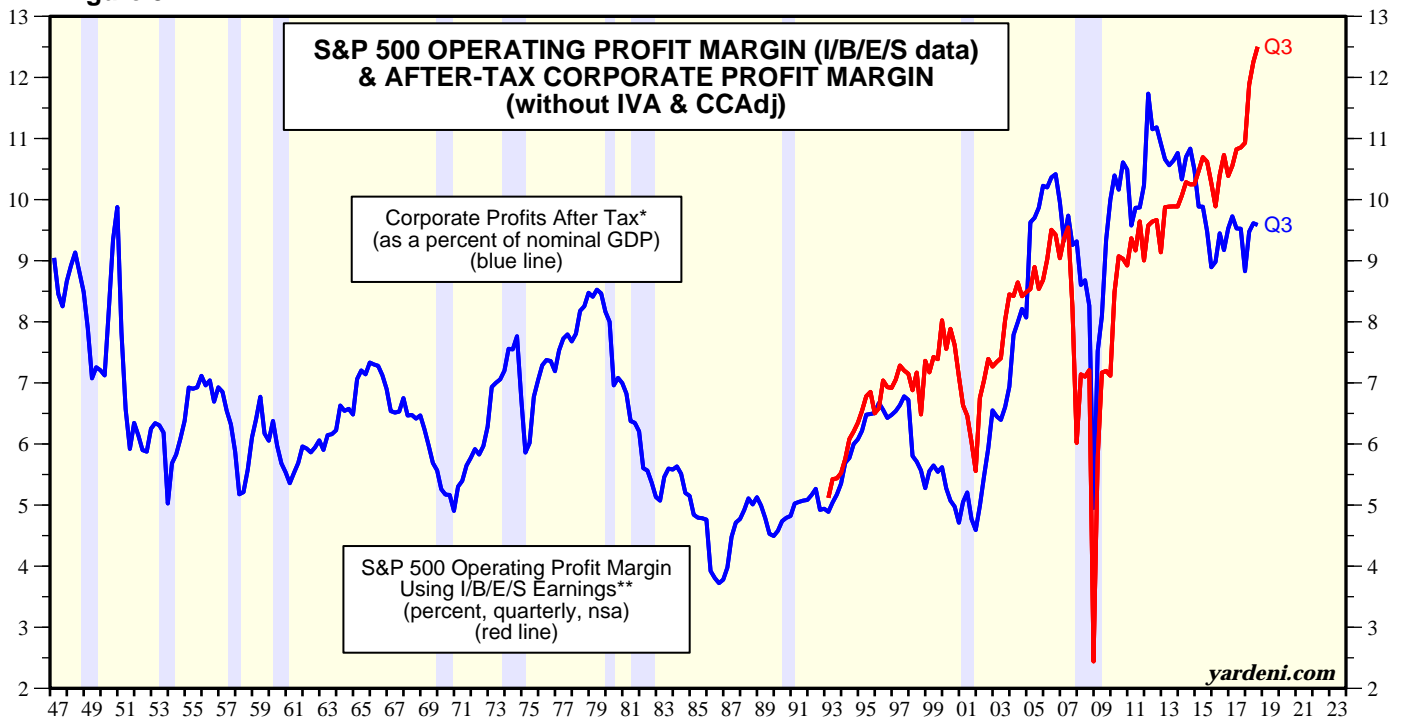
S&P 500 Revenues & Margins

Figure 4.



* S&P quarterly data, not per share.
Source: Standard & Poor's.

Figure 5.

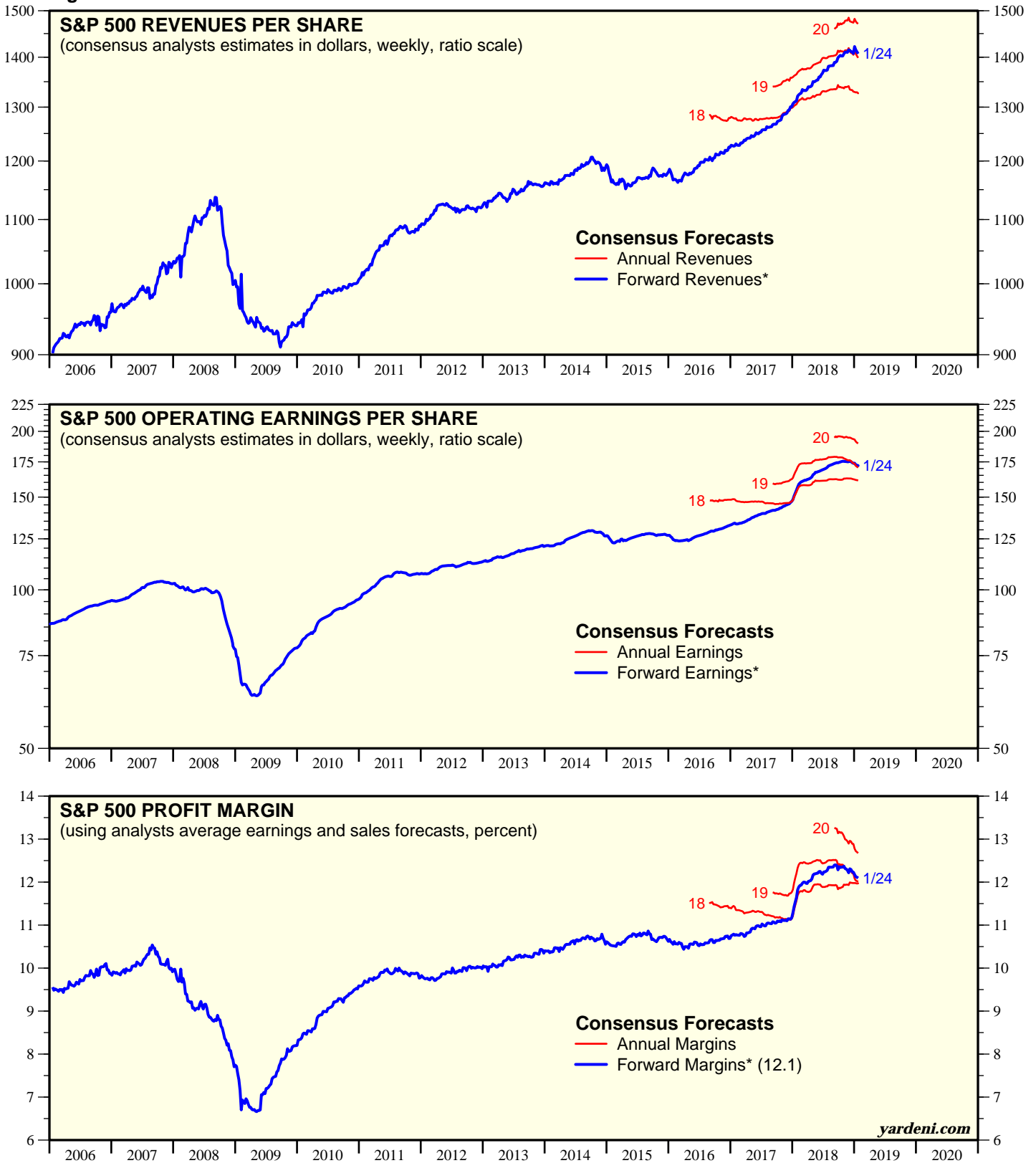


* After-tax profits as reported to IRS excluding Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj), which restate the historical cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current cost measures used in GDP.

** Operating Profit Margin derived using revenues from S&P and earnings from I/B/E/S.
Note: Shaded areas denote recessions according to the National Bureau of Economic Research.
Source: Standard & Poor's, Bureau of Economic Analysis, and I/B/E/S data by Refinitiv.

Forward Revenues, Earnings, & Margins

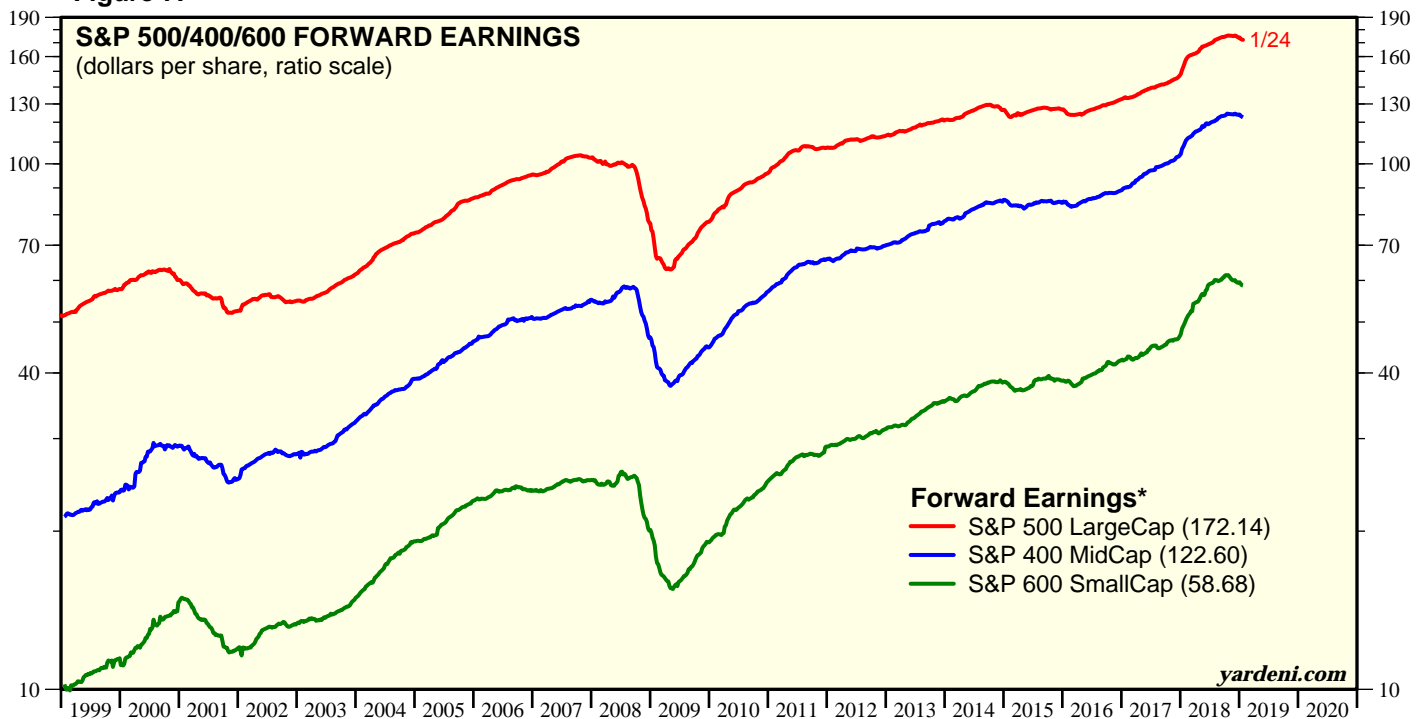
Figure 6.



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

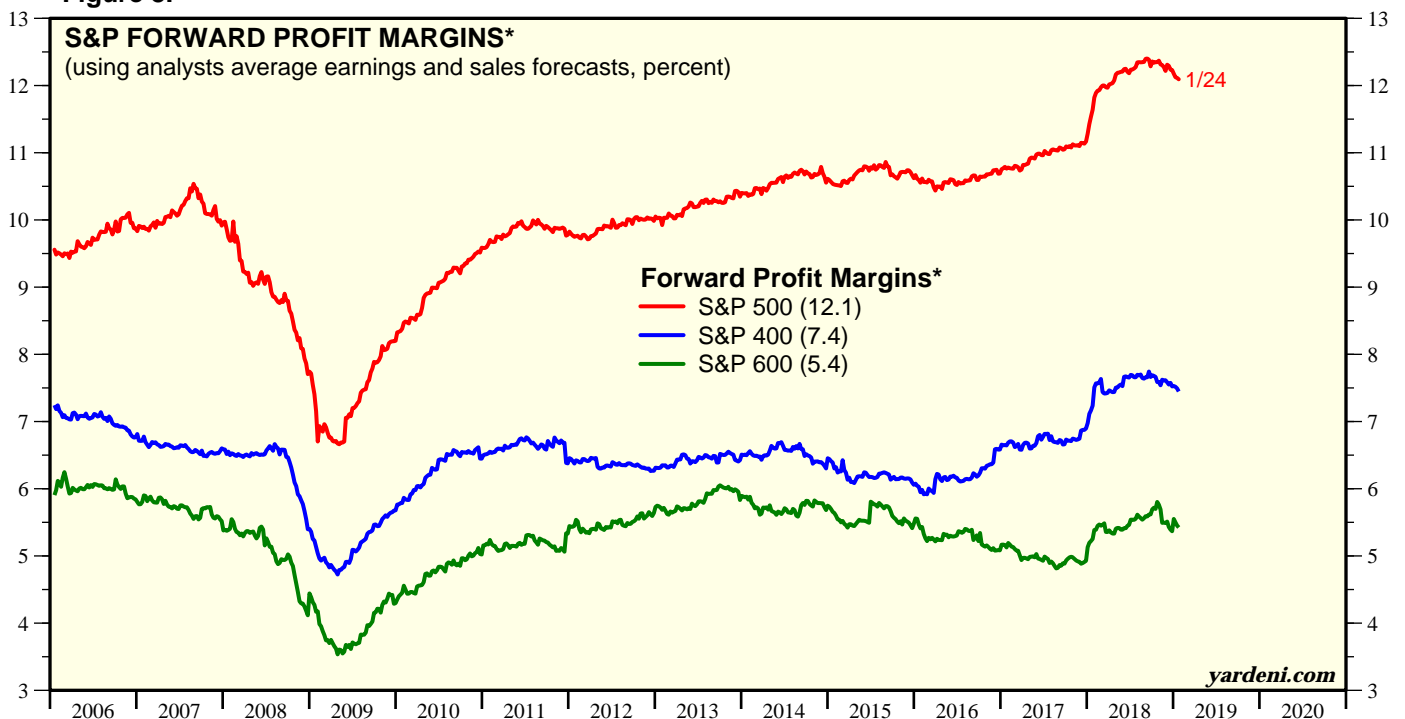
S&P 500/400/600 Forward Earnings & Margins

Figure 7.



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

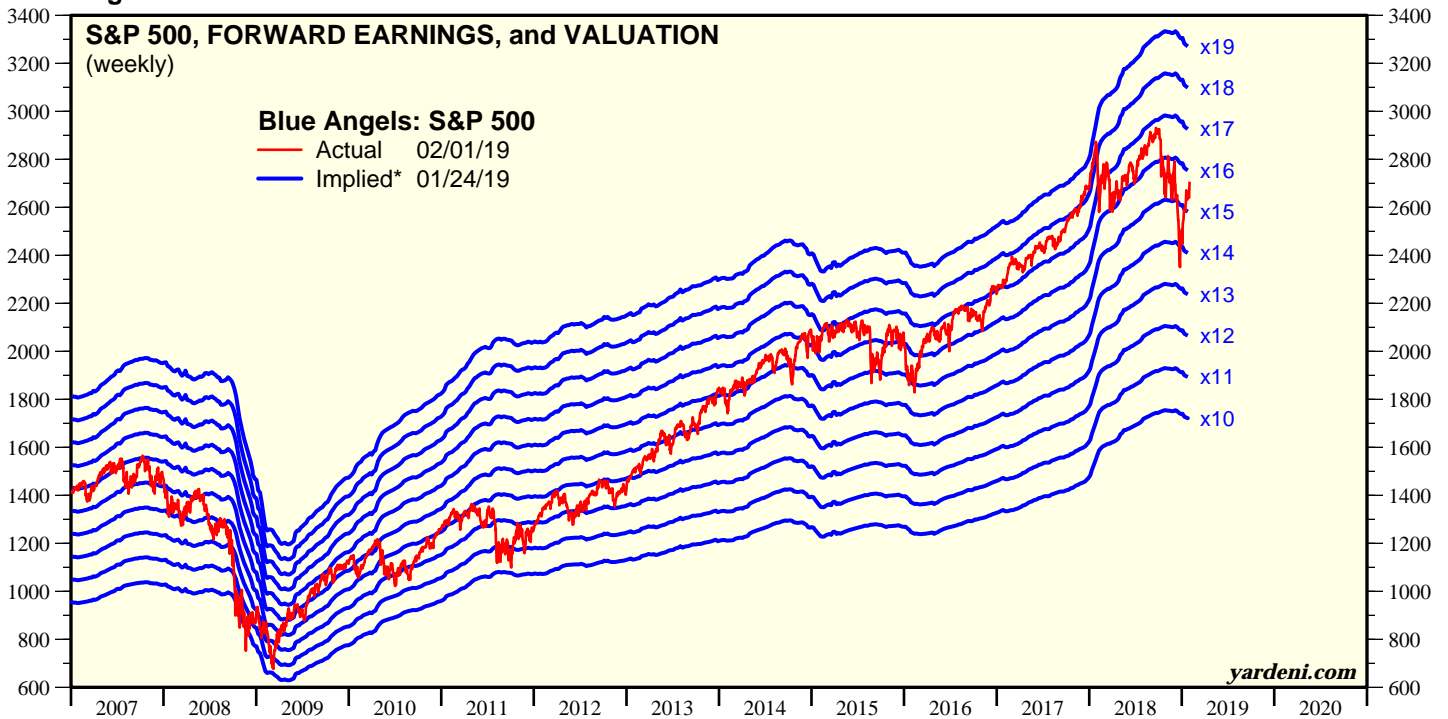
Figure 8.



* Time-weighted average of the consensus estimates for current and next year using forward earnings divided by forward revenues.
Source: I/B/E/S data by Refinitiv and Standard & Poor's.

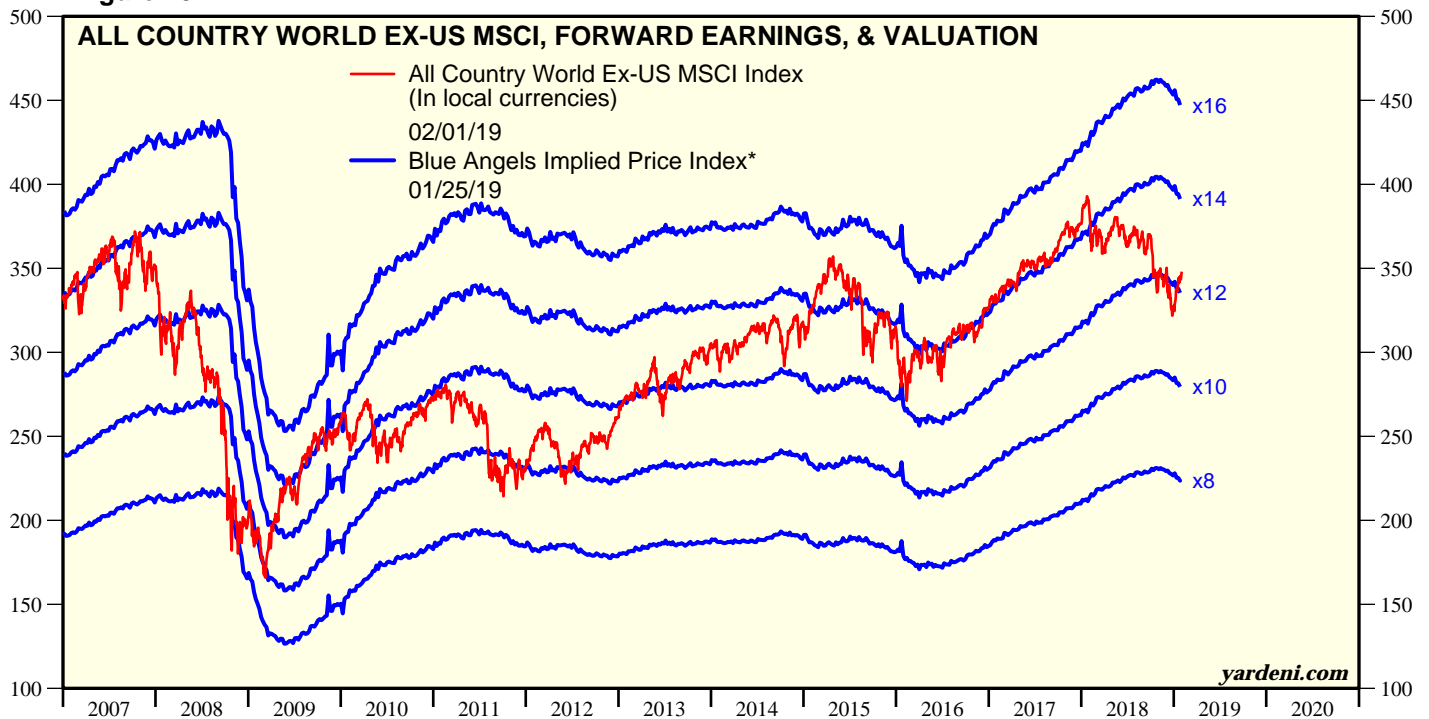
Blue Angels

Figure 9.



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

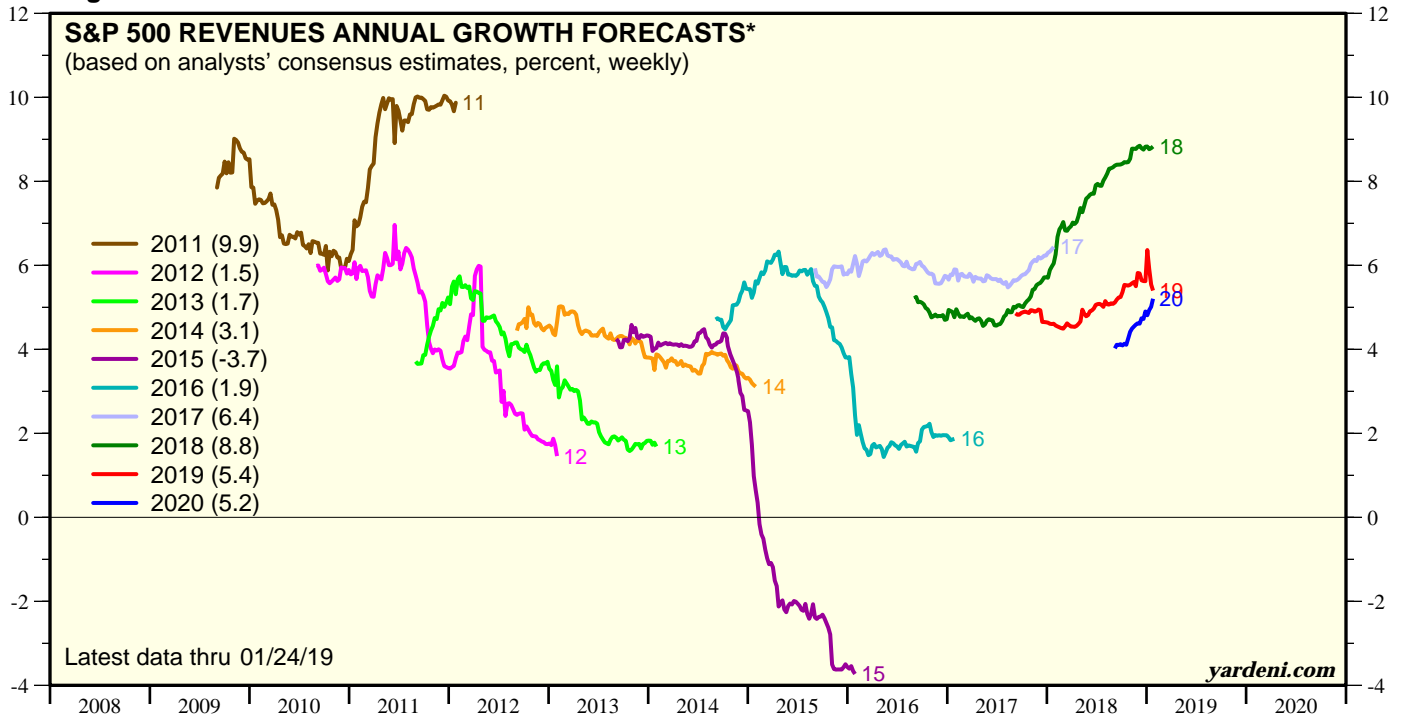
Figure 10.



* Implied price index calculated using forward earnings times forward P/Es. Monthly through December 2005, weekly thereafter.
 Source: Standard & Poor's Corporation and I/B/E/S data by Refinitiv.

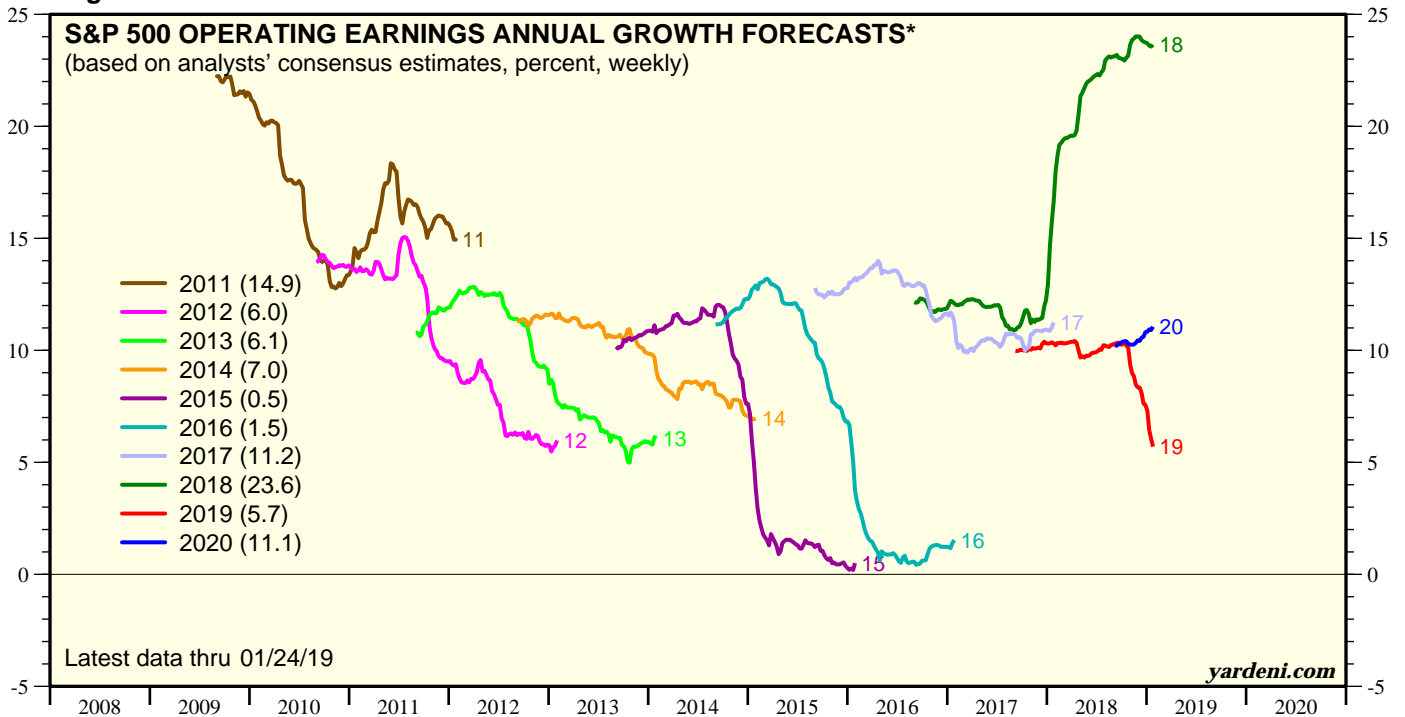
S&P 500 Growth Squiggles

Figure 11.



Source: I/B/E/S data by Refinitiv.

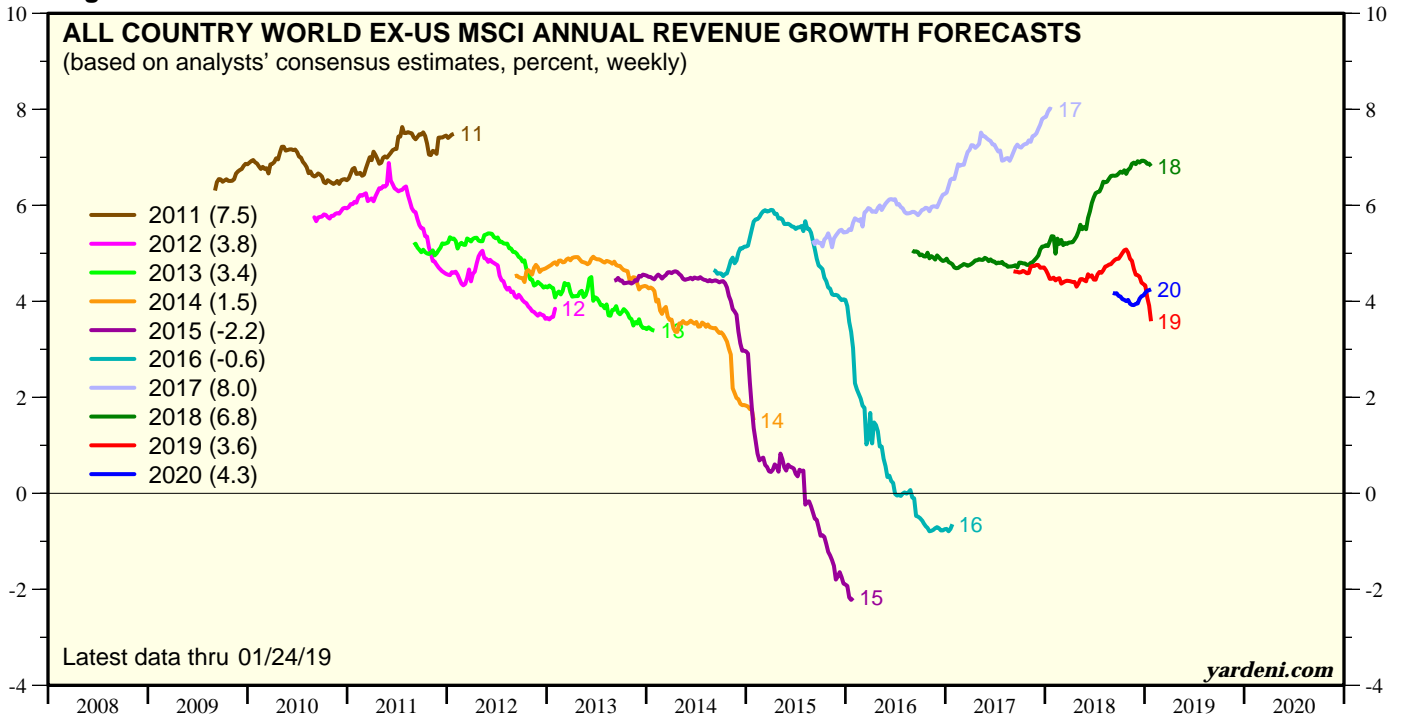
Figure 12.



Source: I/B/E/S data by Refinitiv.

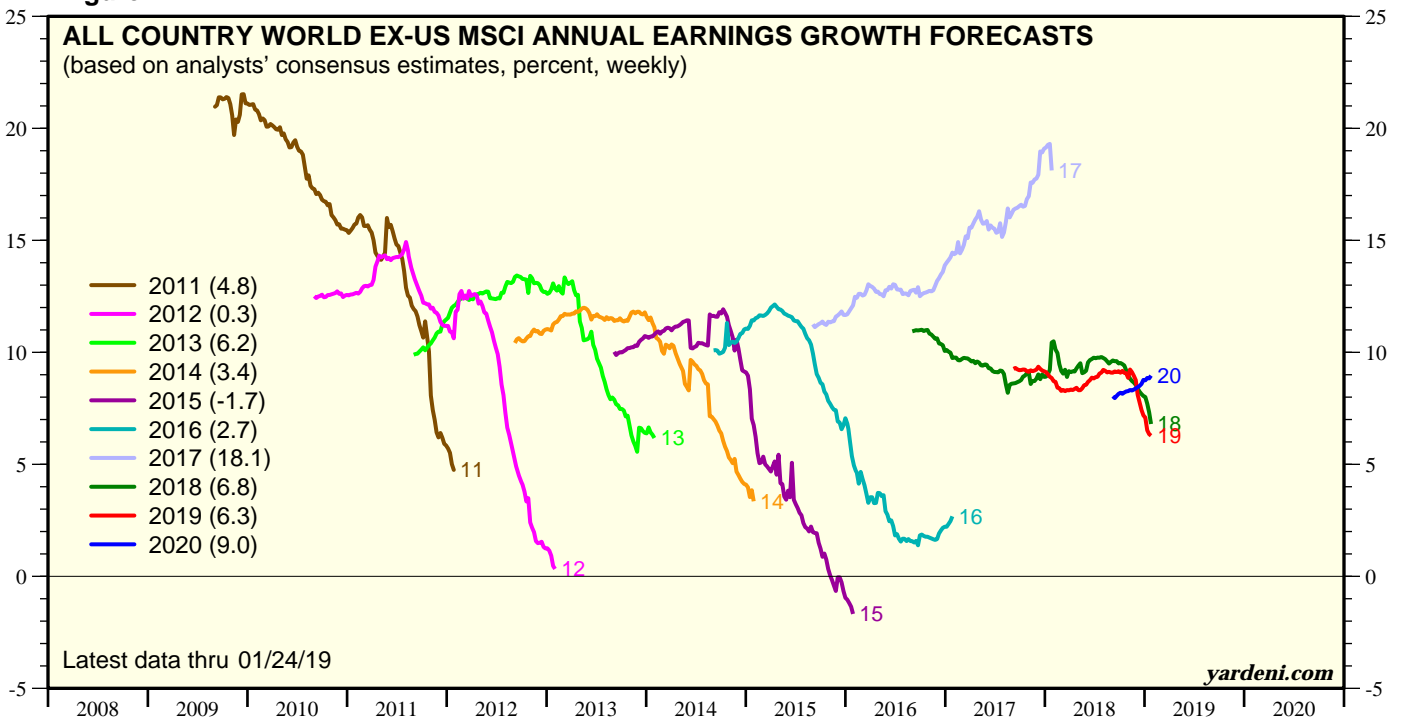
MSCI ex-US Growth Squiggles

Figure 13.



Source: I/B/E/S data by Refinitiv.

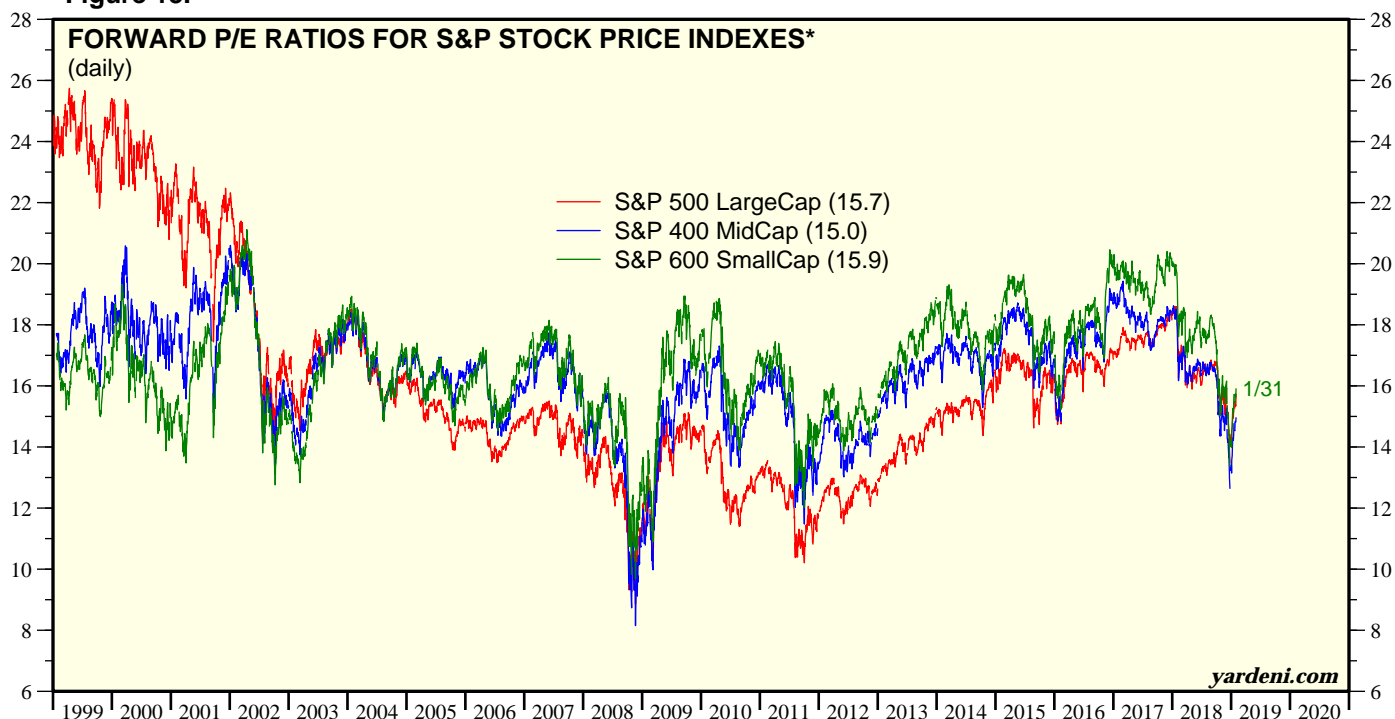
Figure 14.



Source: I/B/E/S data by Refinitiv.

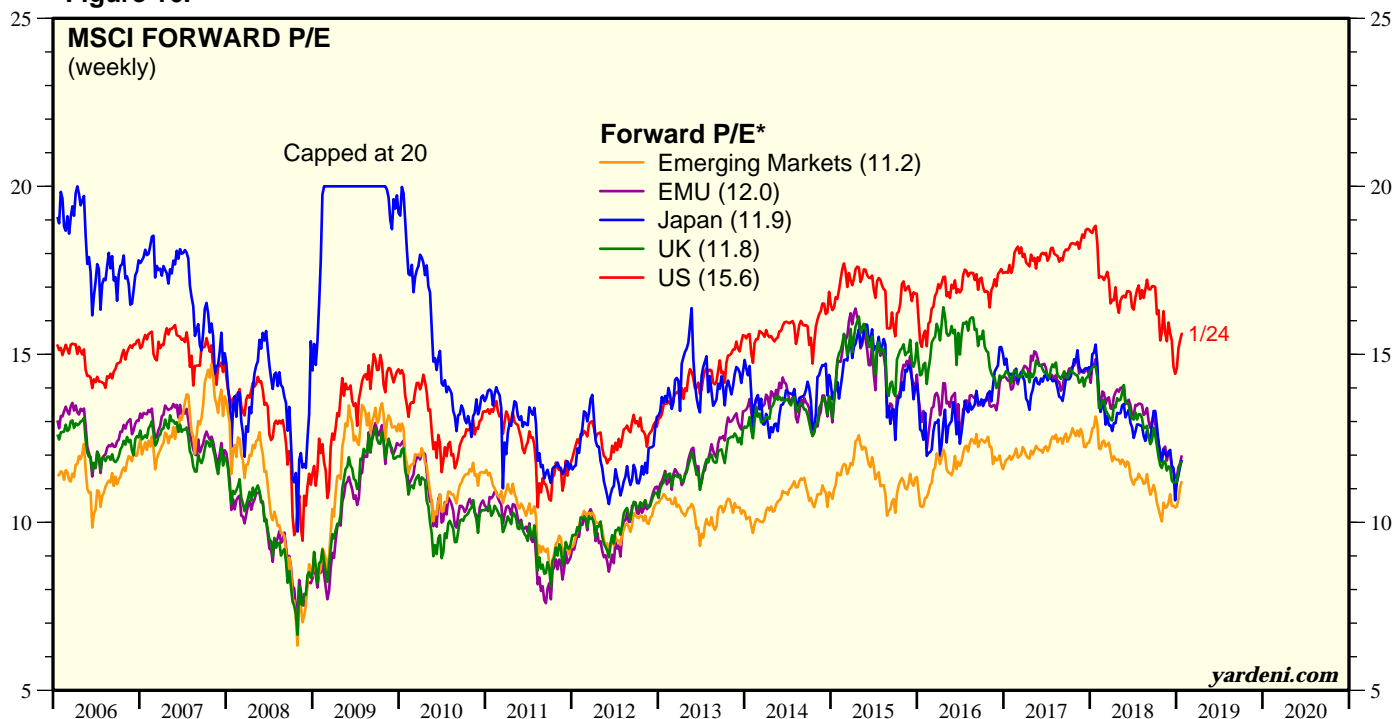
Valuation

Figure 15.



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

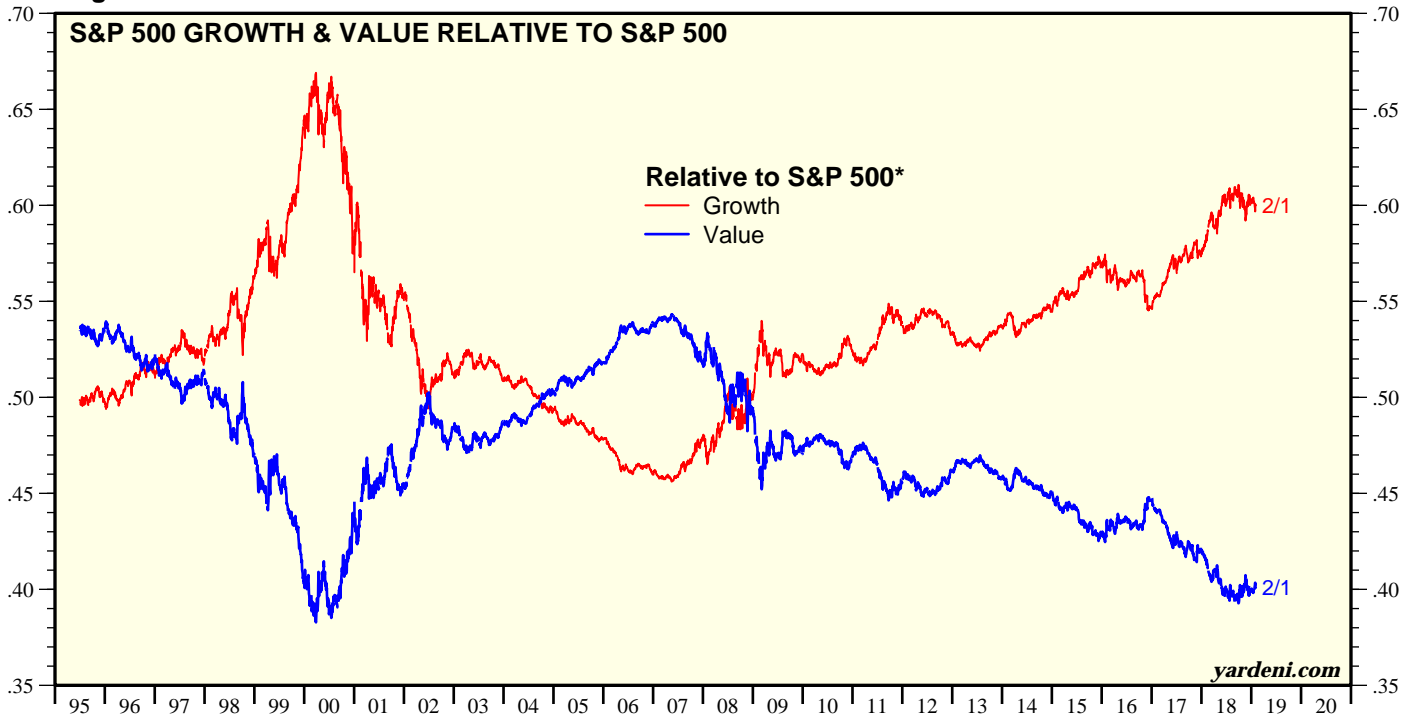
Figure 16.



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

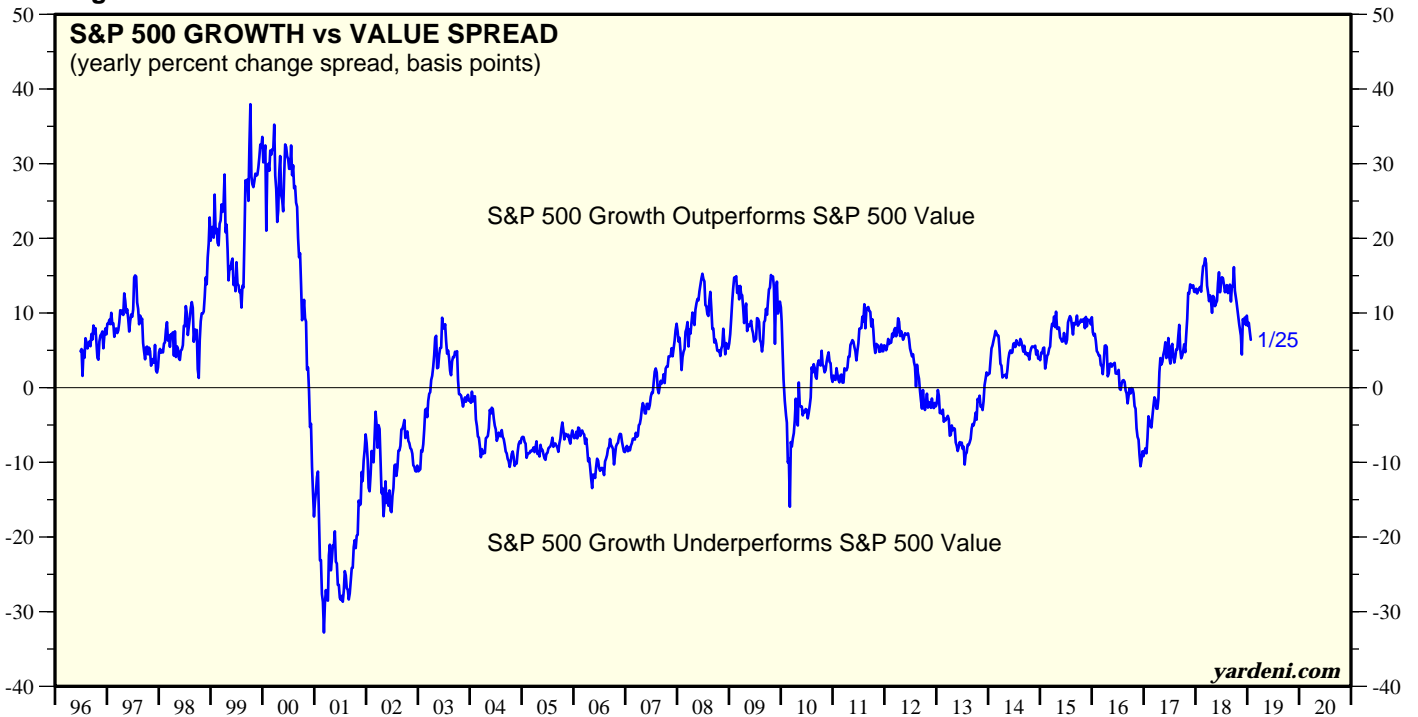
Growth vs Value

Figure 17.



* Rising (falling) line indicates that the index is outperforming (underperforming) the S&P 500.
Source: Standard & Poor's and Haver Analytics.

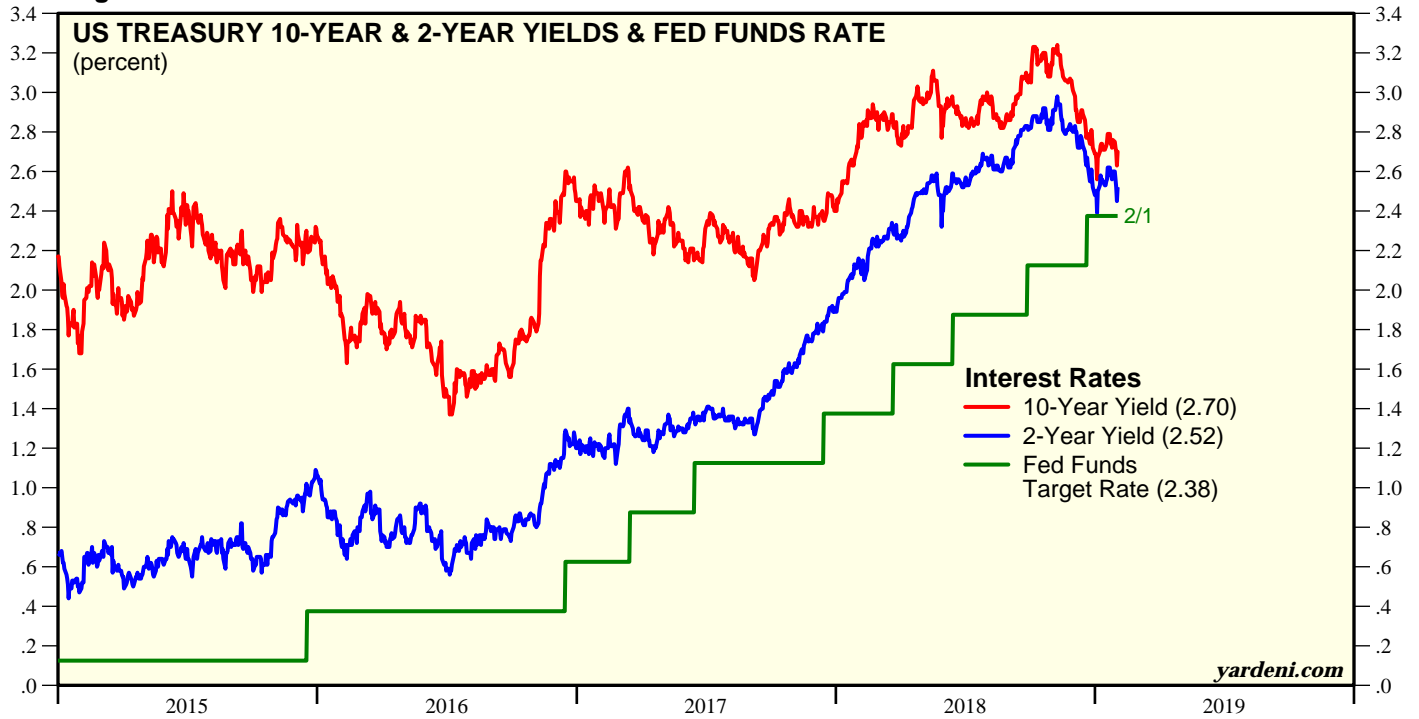
Figure 18.



Source: Standard & Poor's and Haver Analytics.

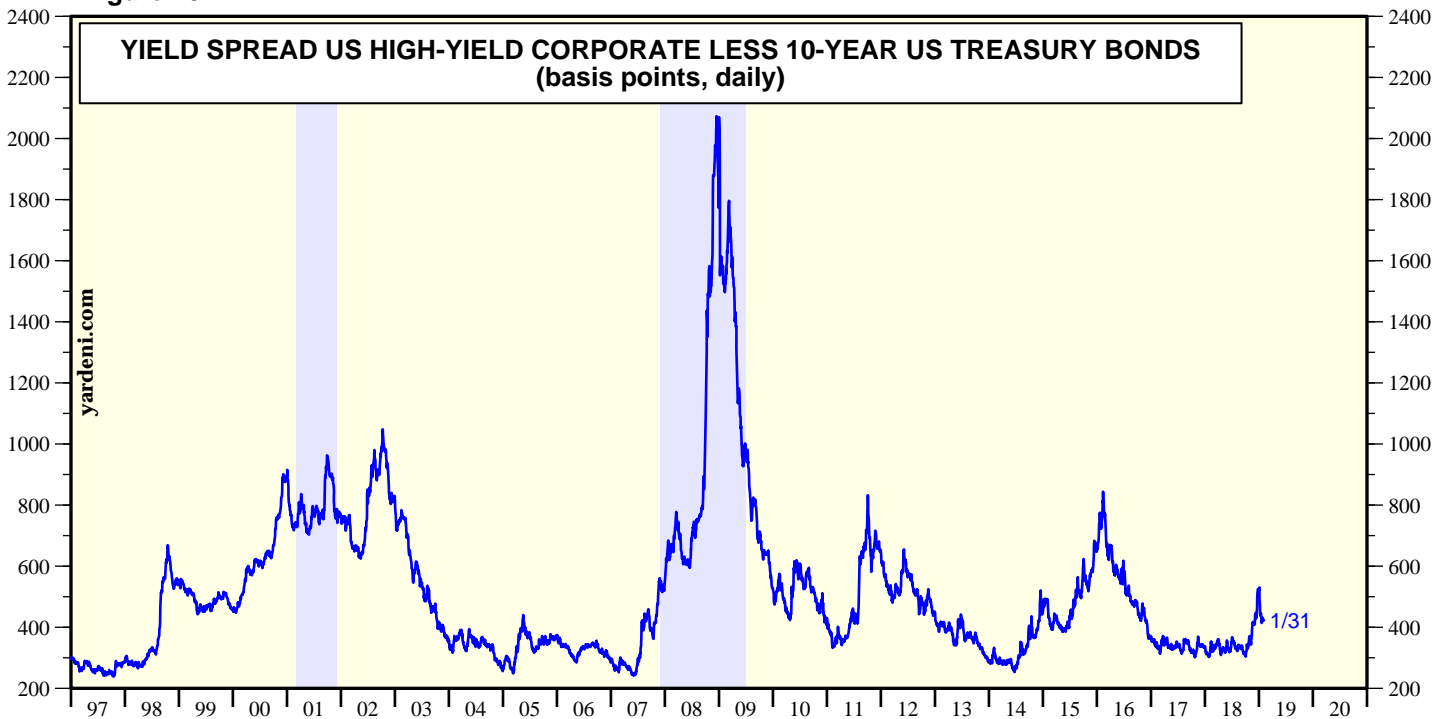
Interest Rates

Figure 19.



Source: Federal Reserve Board.

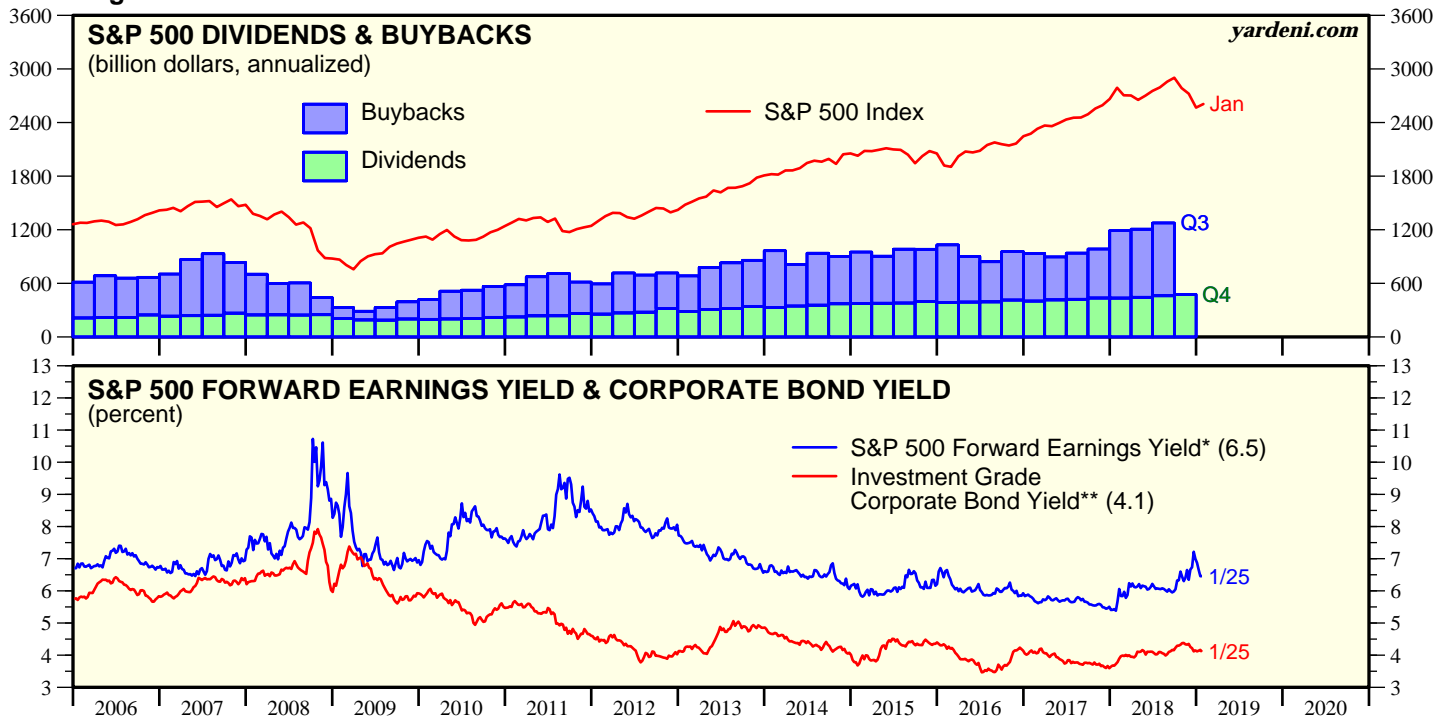
Figure 20.



Note: Shaded areas denote recessions according to the National Bureau of Economic Research.
 Source: Bank of America Merrill Lynch and Federal Reserve Board.

Equity Flows

Figure 21.

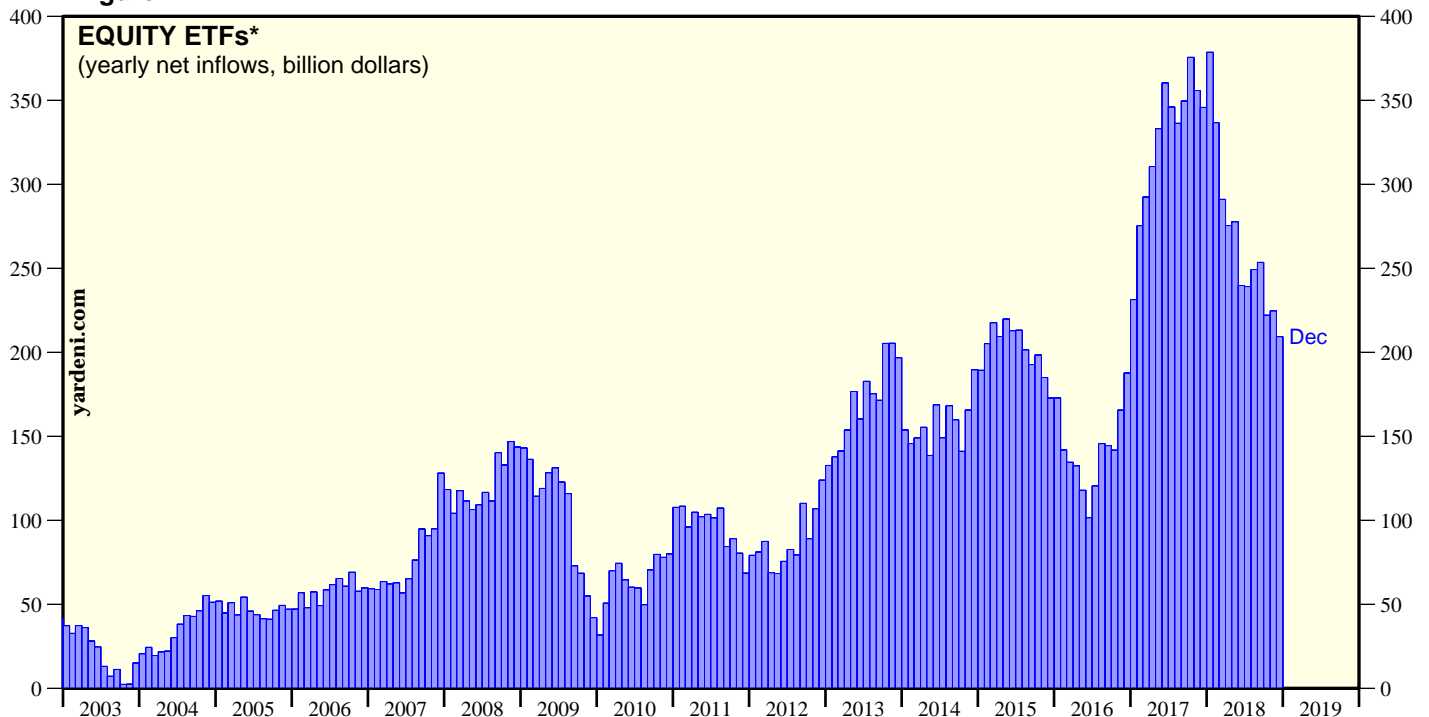


* Forward earnings (time-weighted average of consensus operating earnings estimates for current and next year) divided by S&P 500 index.

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

Source: I/B/E/S data by Refinitiv, Federal Reserve Board, and Standard & Poor's.

Figure 22.

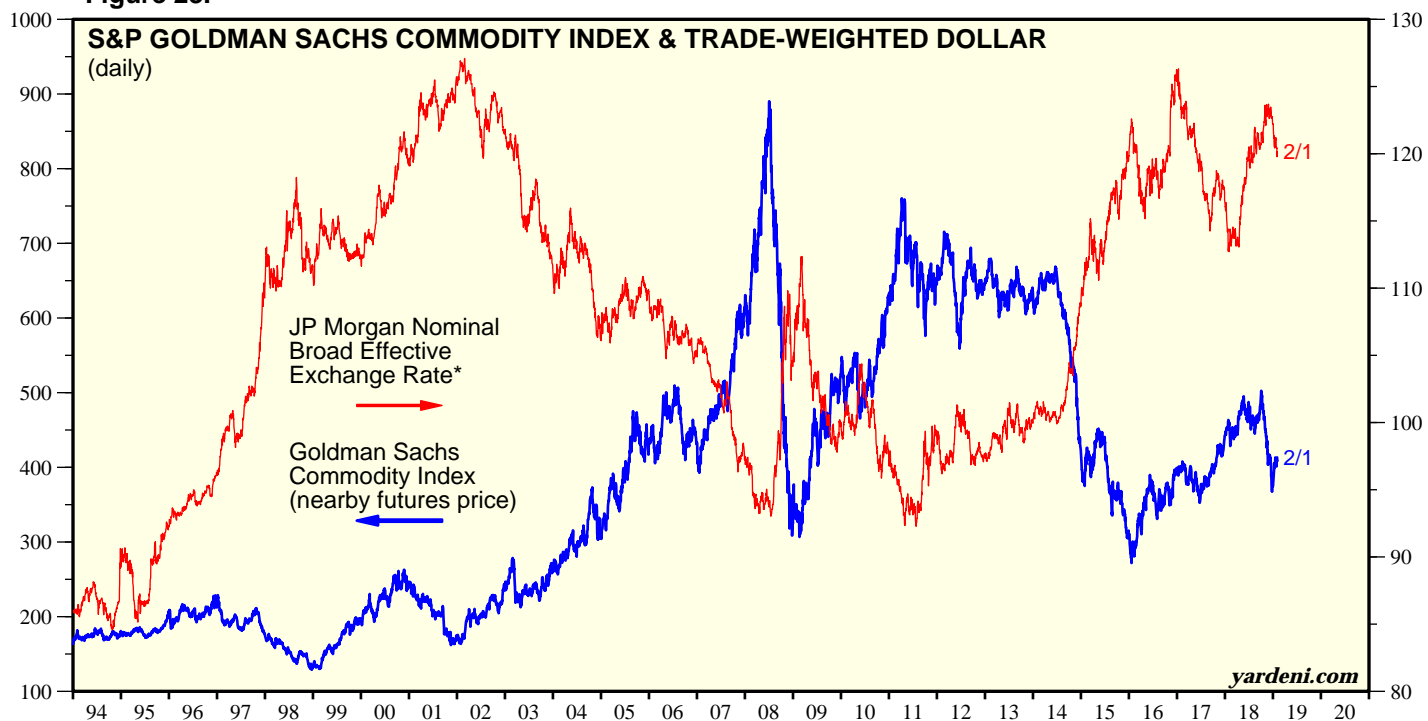


* Net share issuance by equity ETFs.

Source: Investment Company Institute.

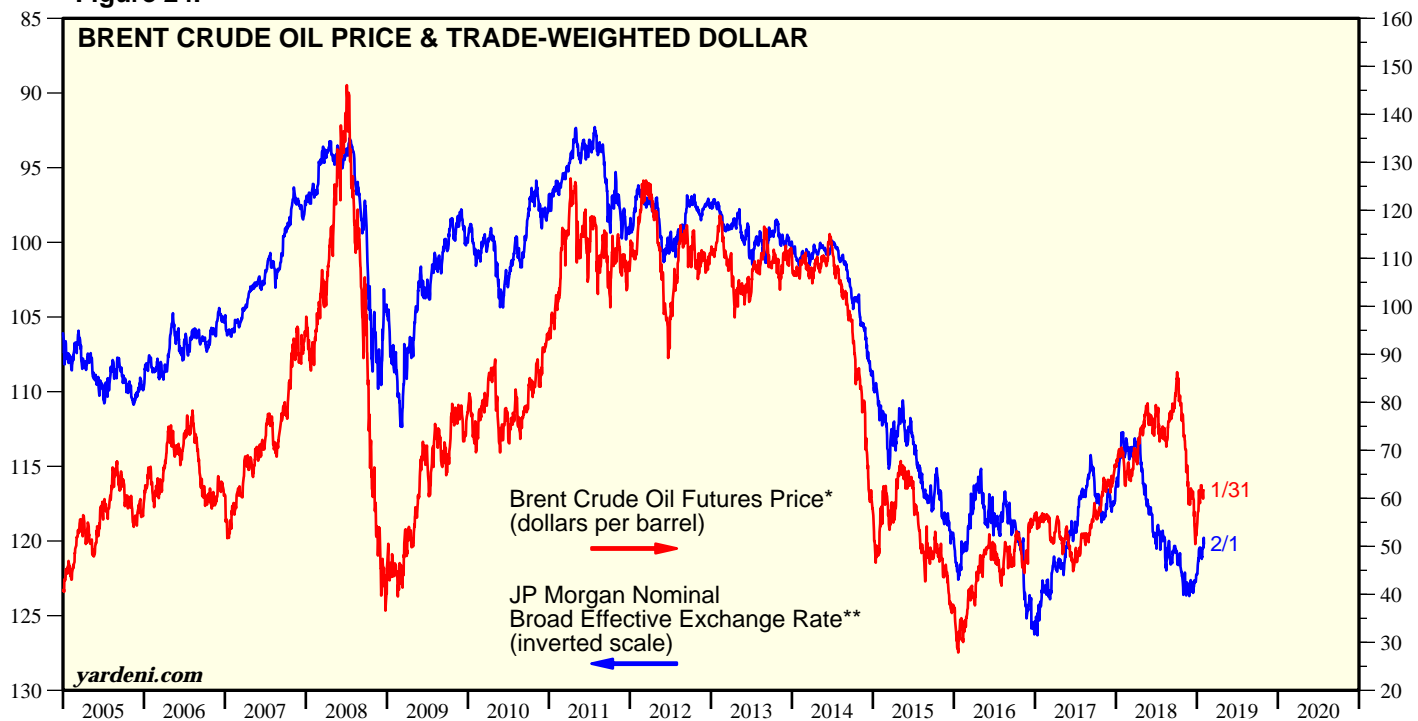
Dollar & Commodities

Figure 23.



Source: Standard & Poor's, JP Morgan, and Haver Analytics.

Figure 24.

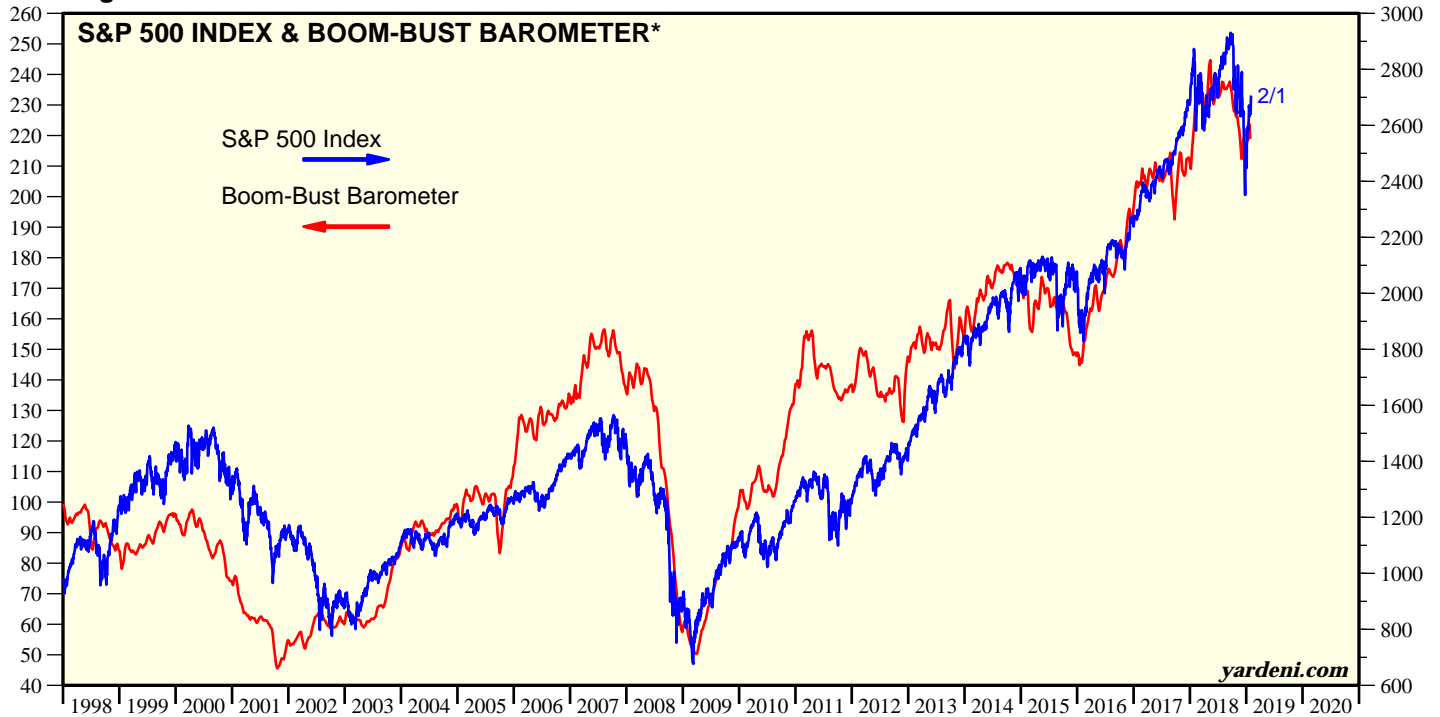


* Nearby futures price.

** 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.

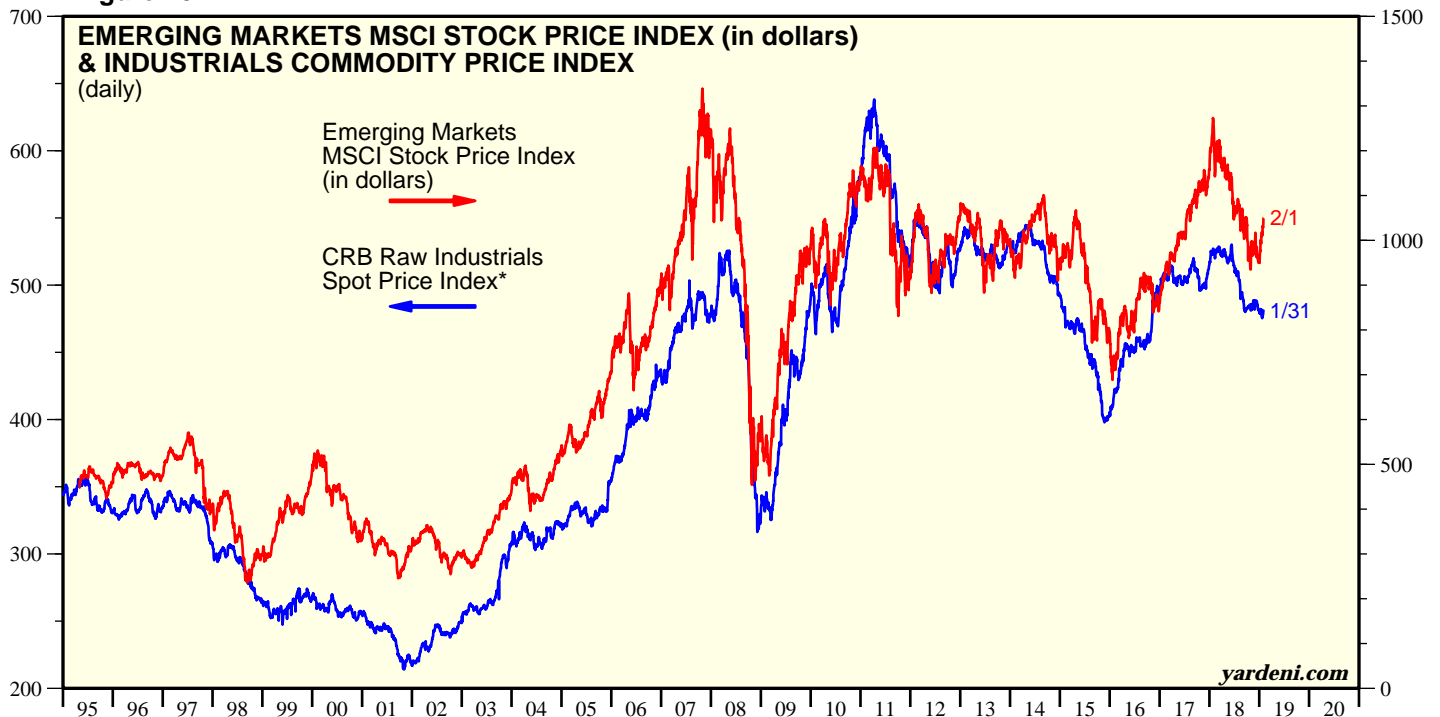
Stocks & Commodities

Figure 25.



* CRB raw industrials spot price index (weekly average) divided by weekly initial unemployment claims, showing four-week moving average. Source: Commodity Research Bureau, Bureau of Labor Statistics, and Standard & Poor's.

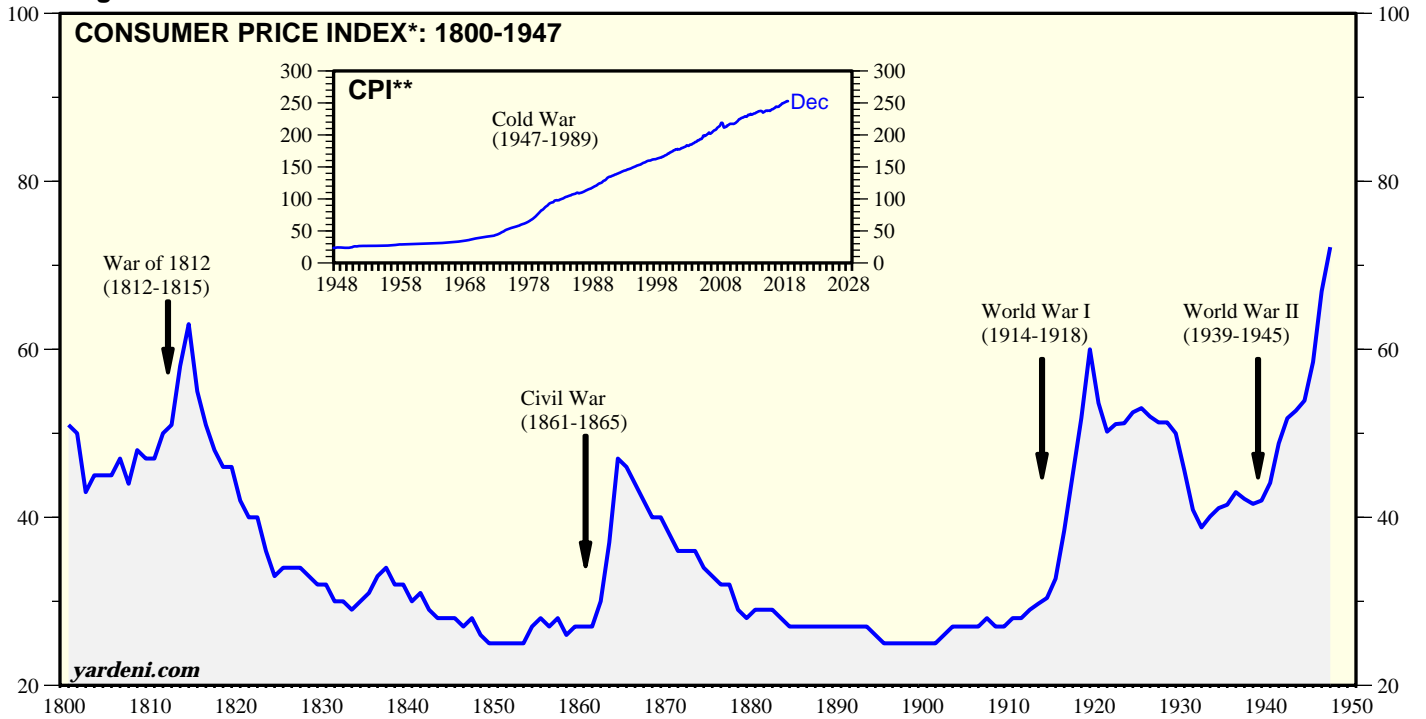
Figure 26.



* 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.

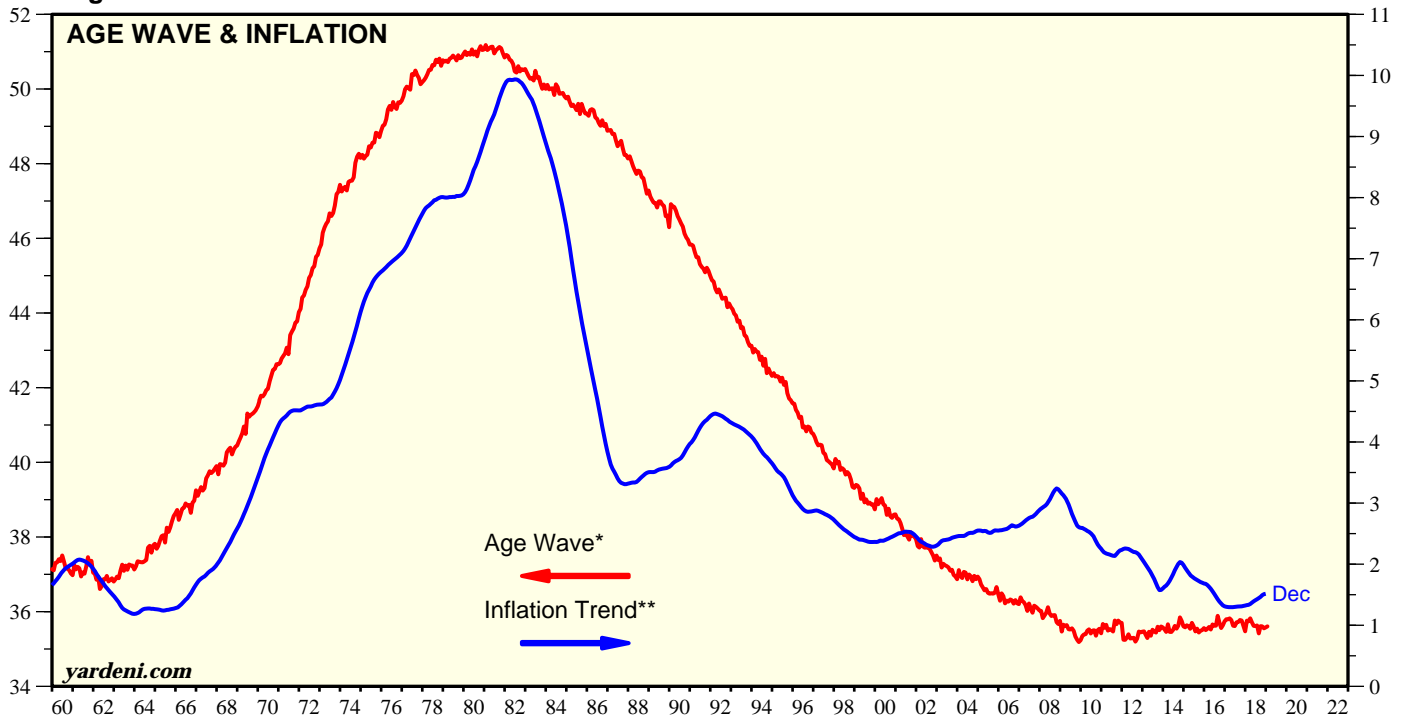
Big Picture

Figure 27.



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

Figure 28.



* 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 29.

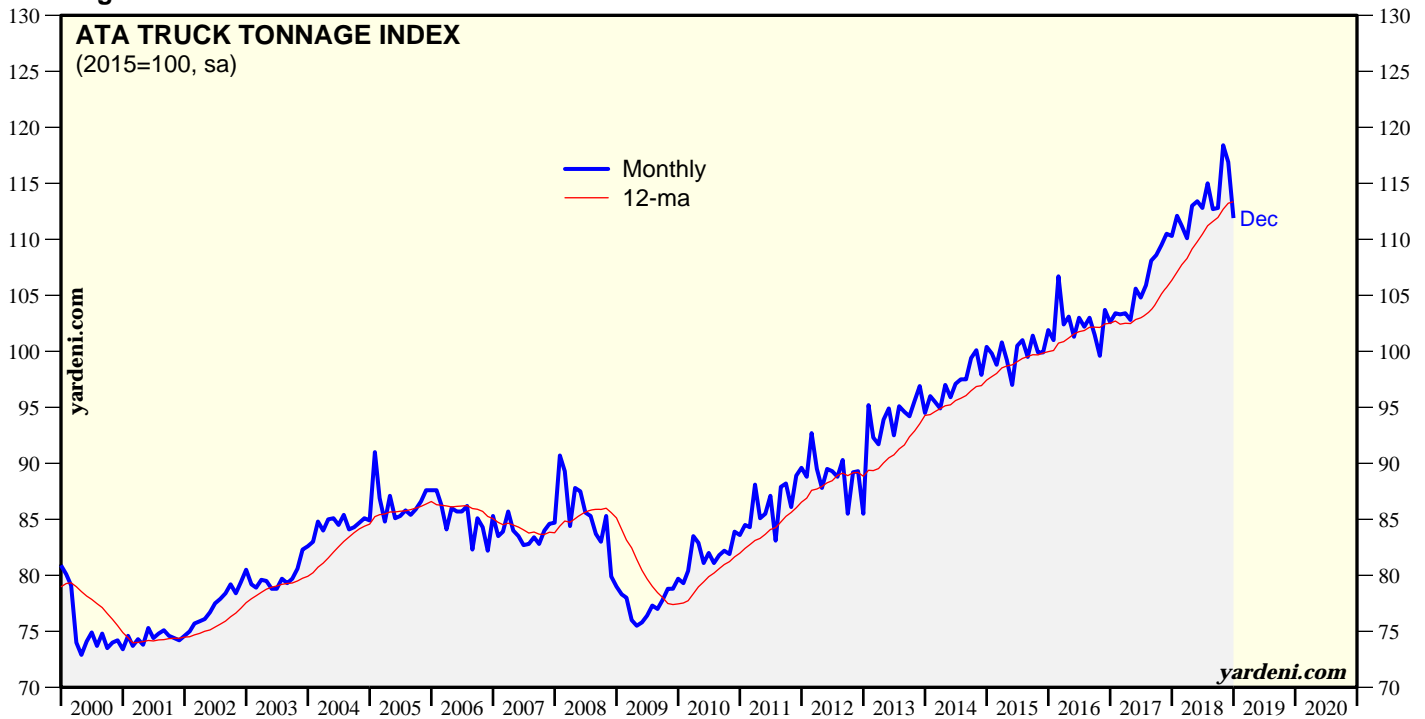
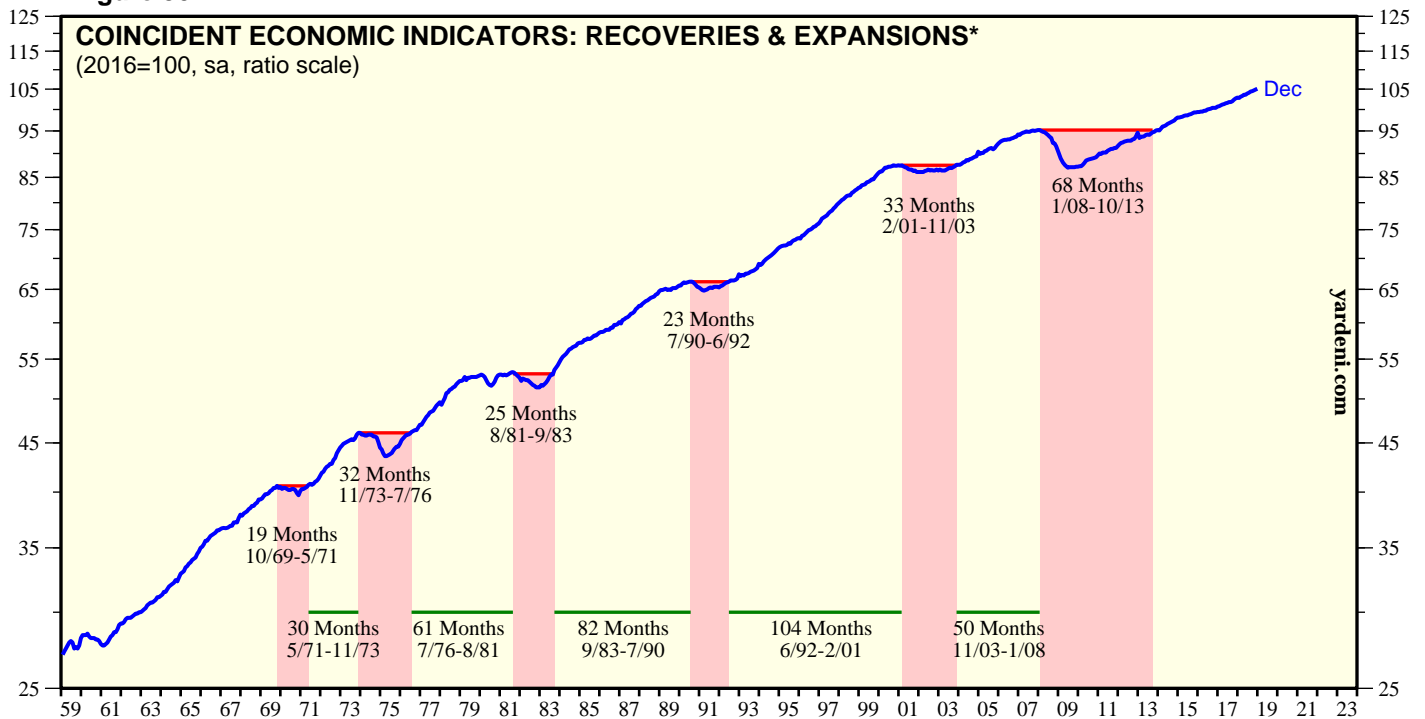
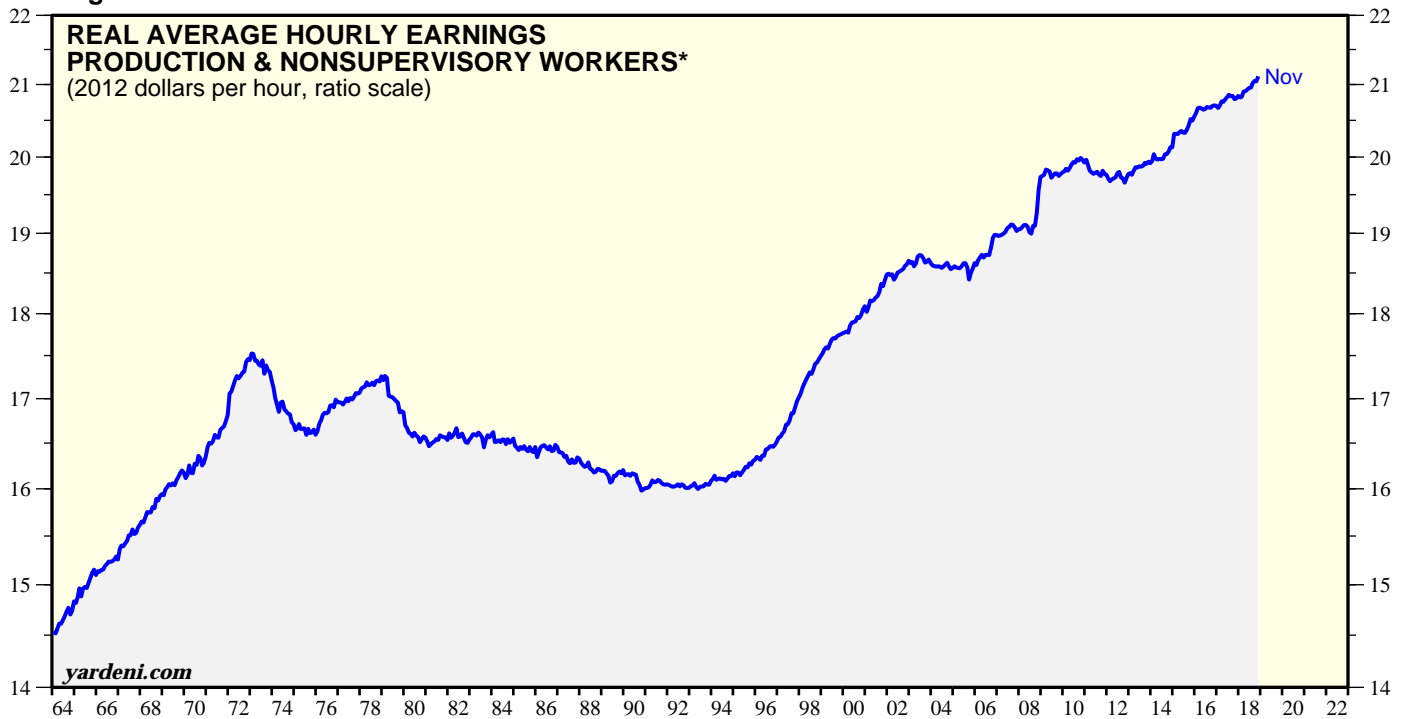


Figure 30.



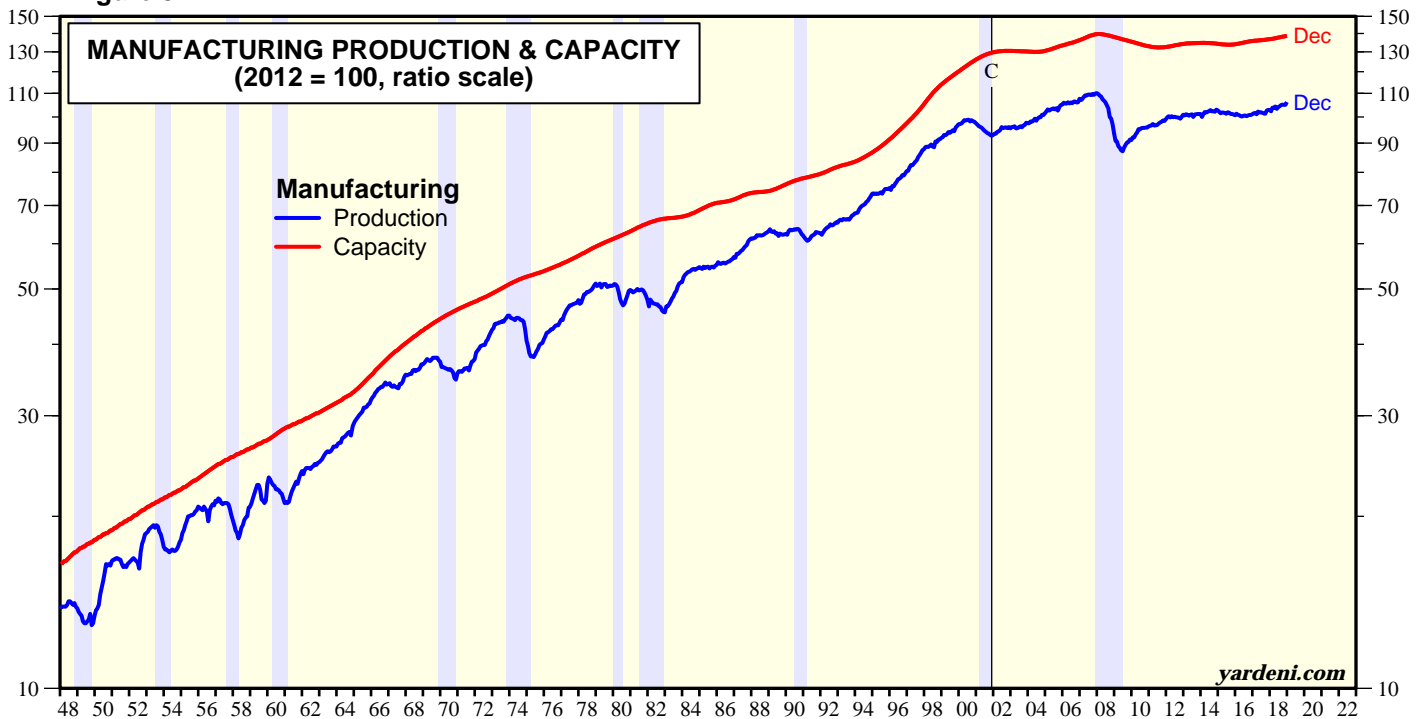
US Economic Indicators

Figure 31.



* Average hourly earnings deflated by personal consumption expenditures deflator.
Source: Bureau of Labor Statistics, Bureau of Economic Analysis, and Haver Analytics.

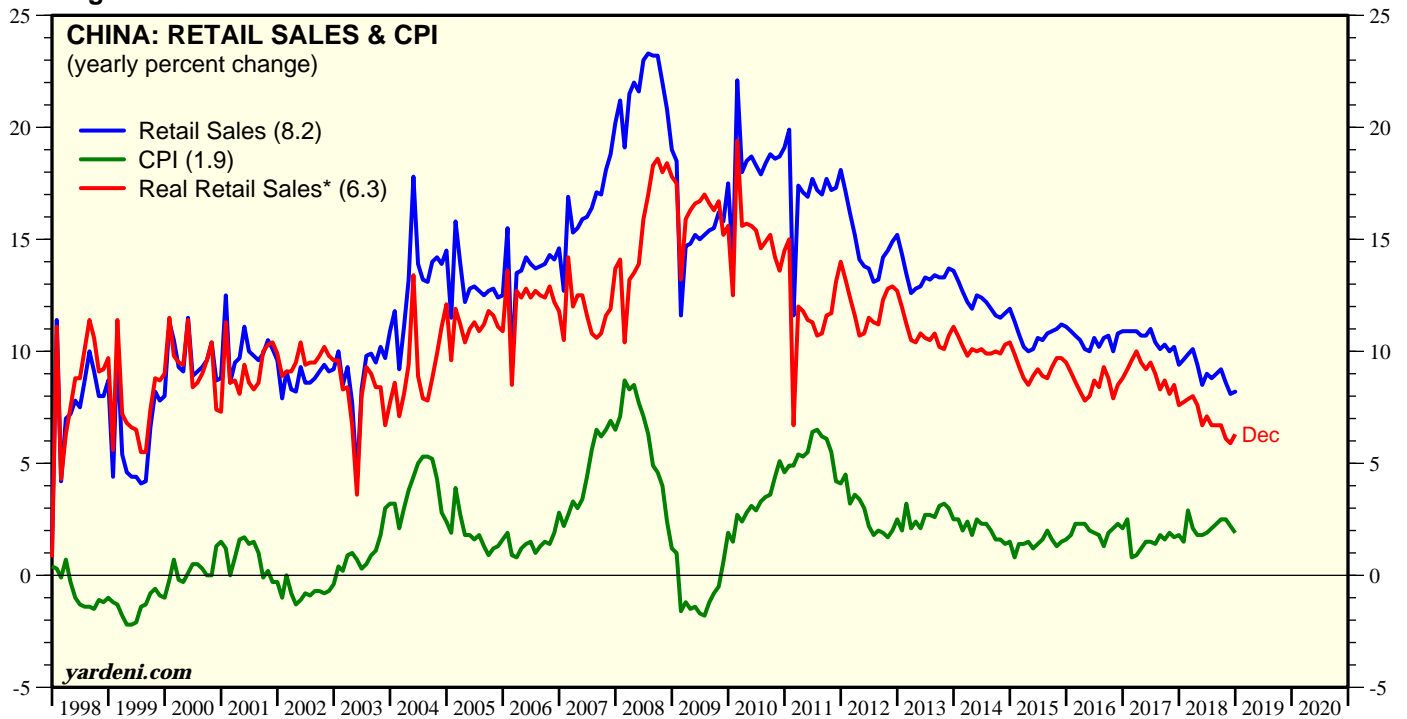
Figure 32.



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.

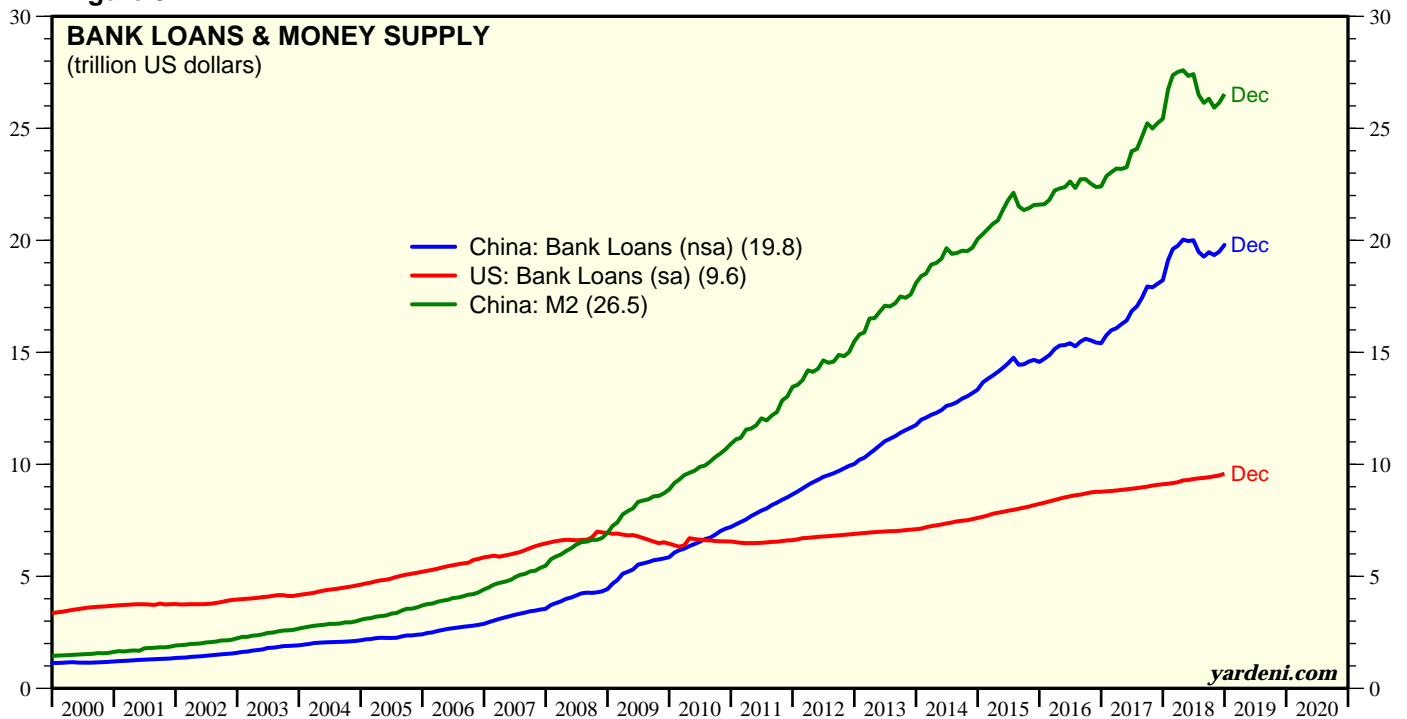
China

Figure 33.



* Yearly percent change in retail sales minus yearly percent change in CPI.
Source: China National Bureau of Statistics.

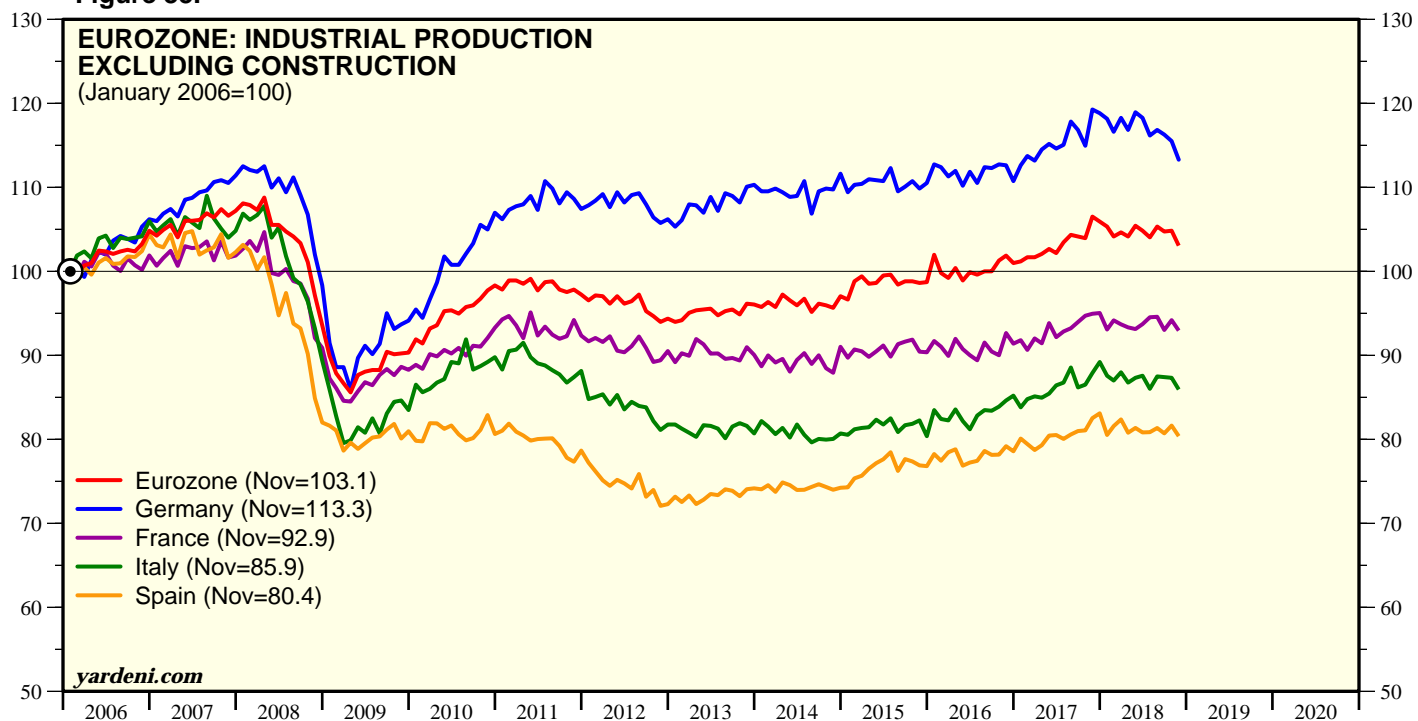
Figure 34.



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

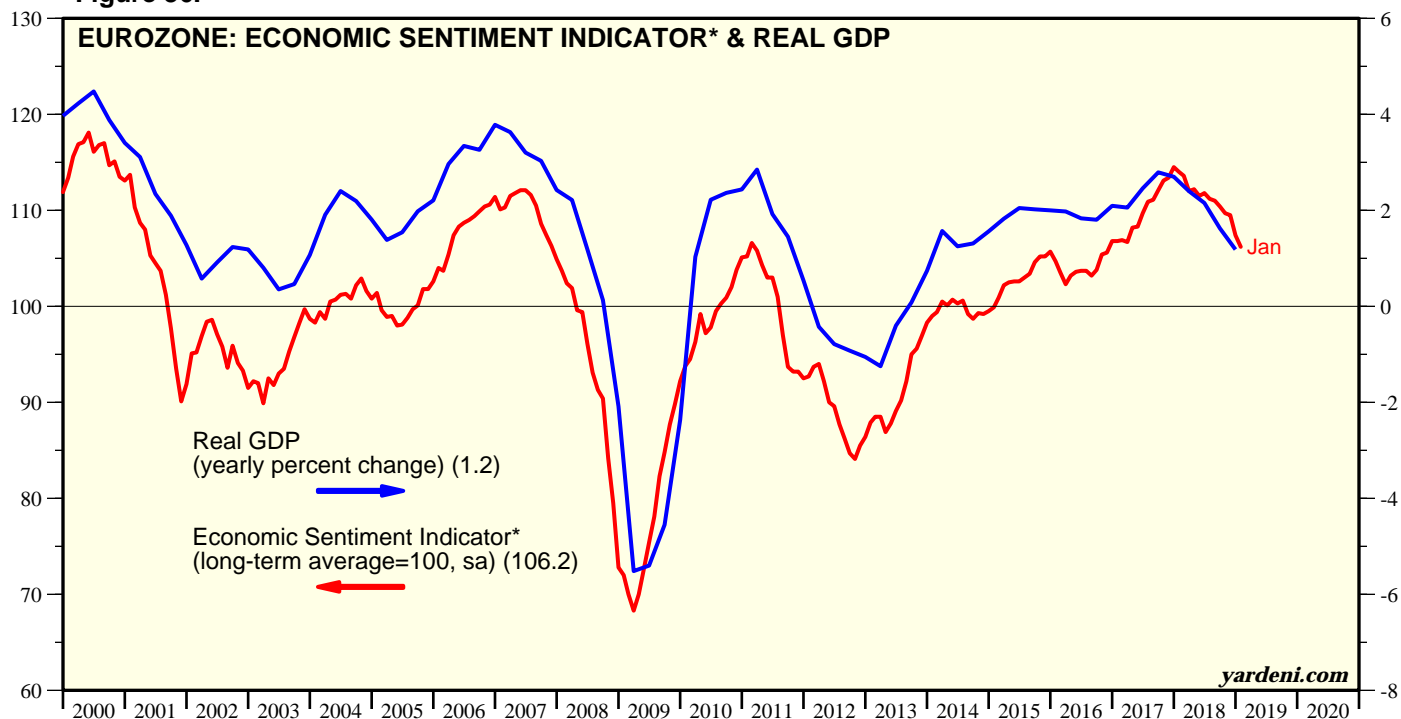
Eurozone

Figure 35.



Source: Haver Analytics.

Figure 36.

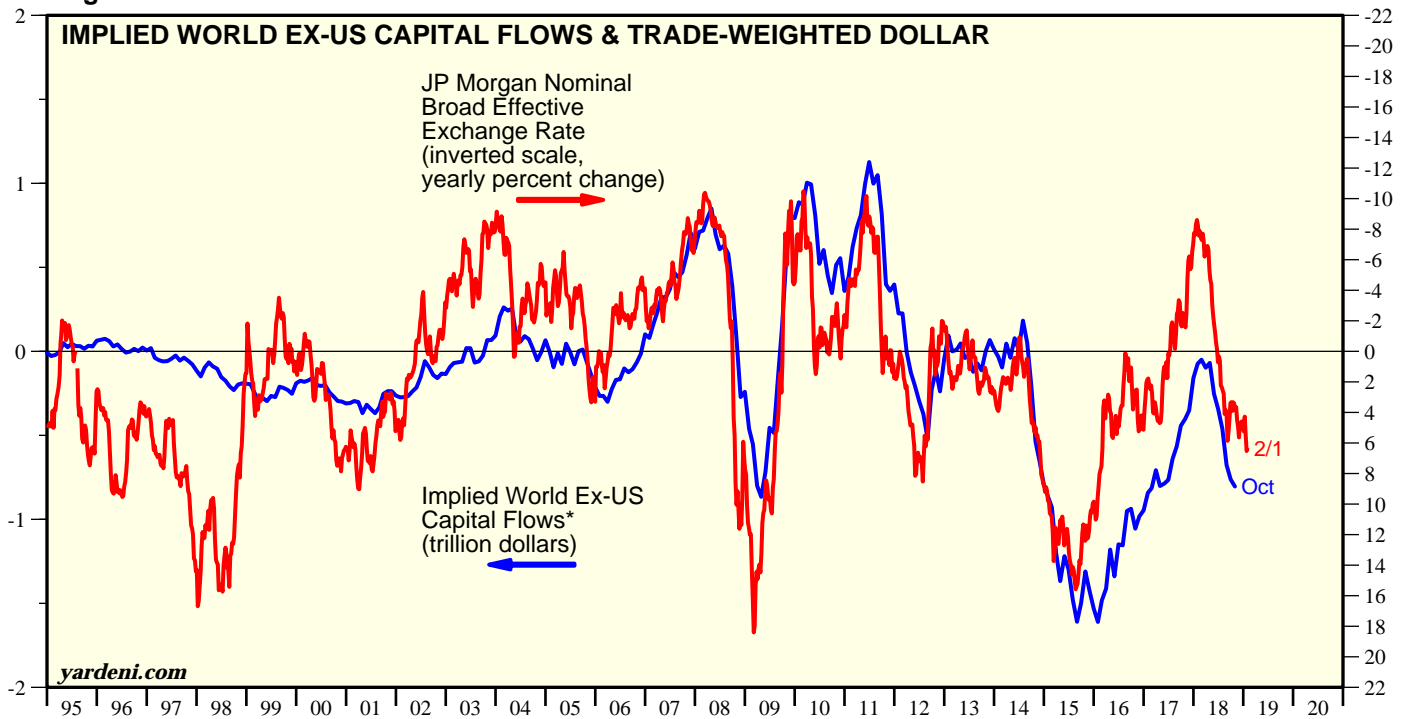


* The overall economic sentiment indicator (ESI) is derived from the industrial (weight 40%), service (30%), consumer (20%), construction (5%), and retail trade (5%) confidence indicators.

Source: Statistical Office of the European Communities, European Commission, and Haver Analytics.

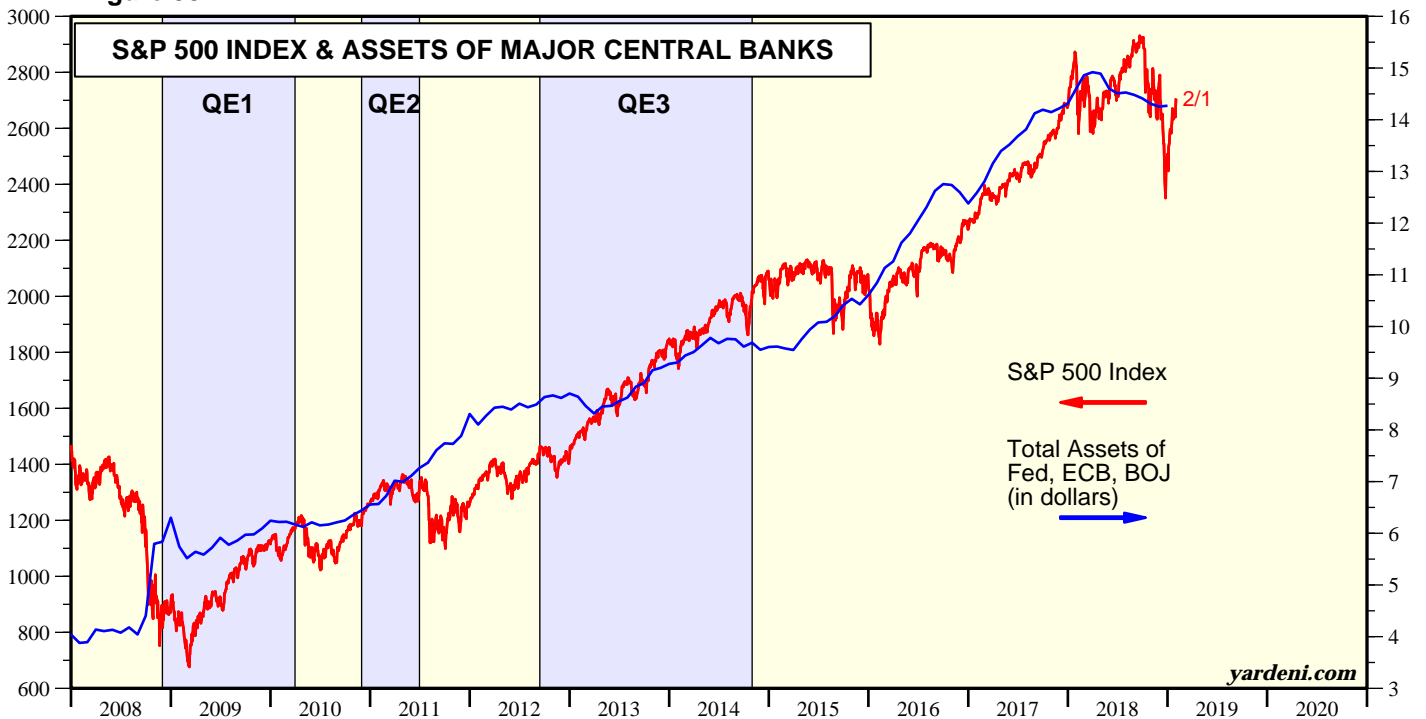
Global

Figure 37.



* 12-month change in non-gold international reserves minus 12-month sum of the merchandise trade surplus (deficit). US trade deficit multiplied by -1.0. Source: International Monetary Fund and JP Morgan.

Figure 38.



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.



“Mary Queen of Scots” (+) has a great cast working with a disappointing script that is rife with historical inaccuracies. Top-notch performances are delivered by Saoirse Ronan as Mary Stuart and Margot Robbie as Elizabeth I. There’s lots of bad blood in the relationship of these two royal sisters, especially since Mary was a Catholic and Elizabeth was a Protestant. The movie does remind us that as awfully uncivil as our political divisions have become in the US today, it was often much worse in the past when monarchs reigned supreme. There was constant intrigue, deception, and backstabbing both in and among their courts. It hasn’t gotten that bad yet in our nation’s capital. Then again, as George Santayana observed, “Those who cannot remember the past are condemned to repeat it.”

“On the Basis of Sex” (+ +) is an interesting, if formulaic, biopic about the life and times of Supreme Court Justice Ruth Bader Ginsburg. The film stars Felicity Jones in the title role of a young woman who excelled at Harvard Law School, but couldn’t find a job at a law firm. Instead, she accepted a teaching position at Rutgers. However, she teamed up with her husband, a prominent tax attorney, to bring a precedent-breaking case before the US Court of Appeals. They won their case, overturning a century of gender discrimination. The movie reminds us of the importance of the rule of law in America. When the rules become antiquated and even oppressive, it’s good to be reminded that there is a very civil legal process for adapting them to conform to our society’s changing needs. It may be a slow process, but it beats the alternatives of radical change.

“Serenity” (+) is a controversial movie. Some reviewers loved it, while others hated it. I thought it was interesting. The first hour is slow and quirky. But then it starts to make sense, though it remains somewhat contrived. The fun is seeing how early on you can figure out the premise of the movie. On a remote island, Matthew McConaughey plays a fishing boat captain who is obsessed with catching a big fish he calls “Justice.” His ex-wife, played by Anne Hathaway, tracks him down over the Internet and begs him to kill her current abusive husband for the sake of their son, who is a computer geek. The movie is reminiscent of “Body Heat,” “Moby Dick,” “Tron,” and “Key Largo” (with Bogart and Bacall).

“Stan & Ollie” (+ +) is a very sweet movie about two sweet comedians, Laurel & Hardy, played with great affection by Steve Coogan and John Reilly. They remind us of bygone days when people laughed at jokes, slapstick, and skits that weren’t political, crass, and vulgar. They were very close friends, which occasionally led to disappointments and inevitable reconciliation. We need more of their simple humor in our lives and close friendships even with people with different political views.

“They Shall Not Grow Old” (+ + +) is a truly remarkable documentary about World War I directed by Peter Jackson. He and his team transformed 100 hours of mostly low-quality black-and-white footage of the war into a crisp color film that documents the horror of trench warfare. The carnage is graphic. The dedication of the soldiers, who were mostly in their teens, to one another is inspiring. That’s especially in the face of the horrendous conditions of living and dying in the trenches. The film is about the Western Front and is narrated by men who fought there. After the credits, Jackson spends about 30 minutes discussing how his film was produced and the choices that were made. He has enough material left for several more documentaries about the war effort. The movie should be required seeing for all of us.

“Vice” (-) is another historical docudrama that is rife with inaccuracies, which reduces its credibility. The movie is about the political life of Dick Cheney, who served as vice president under George W. Bush. The movie’s unflinching theme is that Cheney was power hungry and was directly responsible for the war in Iraq, waterboarding, global warming, and everything bad that has happened to us since 9/11. At the end of the movie, Cheney’s character, played eerily well by Christian Bale, addresses the movie’s audience directly. He snarls and growls that he does not care how he is portrayed because he made the country safe. One person stands out as able to have stood up to Cheney, Secretary of State Colin Powell. He gave a speech at the UN on February 5, 2003 to drum up support for overthrowing Saddam Hussein. It was based on flimsy intelligence, and Powell knew it. In September 2005, Powell was asked about the speech during an interview with Barbara Walters and responded that it was a “blot” on his record. Imagine if he had refused to support the war.

Copyright (c) Yardeni Research, Inc. 2019. All rights reserved. The information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness, or correctness of the information and opinions contained herein. The views and the other information provided are subject to change without notice. All reports and podcasts posted on www.yardeni.com, blog.yardeni.com, and YRI's Apps are issued without regard to the specific investment objectives, financial situation, or particular needs of any specific recipient and are not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Past performance is not necessarily a guide to future results. Company fundamentals and earnings may be mentioned occasionally, but should not be construed as a recommendation to buy, sell, or hold the company's stock. Predictions, forecasts, and estimates for any and all markets should not be construed as recommendations to buy, sell, or hold any security--including mutual funds, futures contracts, and exchange traded funds, or any similar instruments.

The text, images, and other materials contained or displayed on any Yardeni Research, Inc. product, service, report, email or website are proprietary to Yardeni Research, Inc. and constitute valuable intellectual property. No material from any part of www.yardeni.com, blog.yardeni.com, and YRI's Apps may be downloaded, transmitted, broadcast, transferred, assigned, reproduced or in any other way used or otherwise disseminated in any form to any person or entity, without the explicit written consent of Yardeni Research, Inc. All unauthorized reproduction or other use of material from Yardeni Research, Inc. shall be deemed willful infringement(s) of this copyright and other proprietary and intellectual property rights, including but not limited to, rights of privacy. Yardeni Research, Inc. expressly reserves all rights in connection with its intellectual property, including without limitation the right to block the transfer of its products and services and/or to track usage thereof, through electronic tracking technology, and all other lawful means, now known or hereafter devised. Yardeni Research, Inc. reserves the right, without further notice, to pursue to the fullest extent allowed by the law any and all criminal and civil remedies for the violation of its rights.

The recipient should check any email and any attachments for the presence of viruses. Yardeni Research, Inc. accepts no liability for any damage caused by any virus transmitted by this company's emails, website, blog and Apps. Additional information available on [request](#).