MORNING BRIEFING
March 30, 2017

Jeff Bezos, The Terminator

See the collection of the individual charts linked below.

(1) Jeff Bezos and Sigourney Weaver both have powerful exoskeletons. (2) Amazon is killing its competitors and inflation. (3) A short history of the plot to murder inflation. (4) From the Walmart price to the China price to the Amazon price. (5) Killing more and more categories. (6) Nearly one-third of GAFO online now. (7) More jobs at risk in retailing than manufacturing. (8) The hole in the mall. (9) Will theaters die along with anchor stores? (10) Autos getting weighed down by debt. (11) Used car prices falling.

Amazon: Piranha Tank. At a conference last week, Amazon.com CEO Jeff Bezos climbed into the control cockpit of a giant, 14-foot-tall robot and moved its arms menacingly, waving them back and forth. According to a 3/20 CNN article, he quipped: “Why do I feel so much like Sigourney Weaver?,” referring to the epic scene in “Alien” when she wore an exoskeleton to battle and beat the alien.

In the business world, Bezos has no need for such armor, but his competitors must identify with the alien and feel the creature’s pain. Started in 1994 as a book retailer, Amazon now sells just about everything you can imagine at prices that make it a fierce competitor. It offers furniture for the living room, cookware for the kitchen, and tools for the garage. It hawks arts and crafts, food, electronics, toys, sporting equipment, and towels. Amazon created the Kindle, has us talking to Alexa, and became a web-hosting powerhouse. Bezos even attended the Academy Awards because Amazon Studios distributed “Manchester by the Sea,” which won two Oscars.

Amazon is killing lots of businesses. In the process, it may also be killing inflation. In the early 1980s, Paul Volcker seriously wounded inflation with killer interest rates (*Fig. 1* and *Fig. 2*). This monster has struggled to raise its ugly head only to be subsequently whacked back down by deregulation that started under President Jimmy Carter and continued under President Ronald Reagan. Then came the end of the Cold War in 1989, unleashing globalization, which increased global competition. Walmart’s “everyday low prices” reflected the disinflationary impact of the retailer—which became a publicly traded company in 1970—distributing cheap imported goods in the US. Then the “China price” continued to put downward pressure on inflation after the country joined the World Trade Organization in 2001. Now Amazon has turned into the price killer in retailing and increasingly in other businesses.

As the world’s largest retailer and the sixth-largest publicly traded company, Amazon has single-handedly disrupted the retailing industry, the tech industry, and the entertainment industry. It employs 341,400 people, but it has caused competitors to close their stores and lay off countless employees. The company arguably has done as much as the Chinese to kill jobs and keep a lid on inflation by enabling fast and easy price discovery for anyone with a cell phone. I’ve asked Jackie to look at the impact Bezos and Amazon have had on us mere mortals so far. Here is what she found:

(1) *Retail’s category killer*. Last year, Amazon sold $94.7 billion worth of products around the world, and it continues to expand its offerings. One area of growth is private-label brands for men’s, women’s and children’s clothing, according to a 3/27 Business Insider article. It cites a Cowen & Co. research report that estimates Amazon will become the biggest apparel seller this year. “The company’s clothing and accessory sales are expected to grow nearly 30%, to $28 billion. Macy’s apparel sales, by comparison,

are expected to drop 4%, to $22 billion, in the period," the article states.

Amazon is also experimenting with a small-format, bricks-and-mortar grocery store, Amazon Go. Consumers would use their phones to pay, eliminating cashiers and checkout lines. The rollout of Amazon Go has been pushed back due to technological hitches the company is addressing, but it envisions opening roughly 2,000 stores if the format is ultimately successful. The company also announced earlier this week that it's launching a grocery store that offers curb-side pickup, dubbed "AmazonFresh Pickup," according to a 3/28 *WSJ* article. Watch out, Walmart!

The online retailer's impact on the bricks-and-mortar set is hard to overstate. A 3/15 MarketWatch article looked at retailers that fell into the GAFO category, General Merchandise Apparel and Accessories, Furniture, and other stores. Sales at GAFO retailers have "stalled, falling $1.8 billion (or 0.6%) in the past year. … Meanwhile, online sales jumped by $13.7 billion through the third quarter of 2016, with Amazon accounting for most of that," the article reported.

The US Census Bureau reports that online shopping rose to a record $521 billion (saar) during January (*Fig. 3*). Debbie calculates that it now accounts for a record 29.1% of total online and in-store GAFO sales (*Fig. 4*). Sales at general merchandise stores were relatively flat as a percentage of GAFO from 1992 through 2008 at around 43%, while the percentage at warehouse clubs and super stores (which are included in general merchandise stores) rose from about 7% to 27% over that same period (*Fig. 5*). Since 2009, the percentages of the former and the latter are down to 37.8% and 25.2%, respectively.

Some retailers have been laying off workers, but overall headcount has grown. "While sales fell 0.6% in 2016, employment at GAFO stores increased by 1.6%, or about 95,000," according to the MarketWatch article cited above. That implies more layoffs are needed, the article states.

Amazon may absorb some of those laid-off employees. Earlier this year, it announced plans to hire more than 100,000 people in the US over the next 18 months. But the MarketWatch article contends that Amazon needs about half as many workers to sell $100 worth of merchandise as Macy's does. Amazon has automated much of the work done in its warehouses, it hopes to eliminate grocery store cashiers at Amazon Go, and it's working on using drones to deliver packages, endangering the local delivery guy.

The monthly employment report shows that 15.9 million workers are employed in retail trade (*Fig. 6*). There are 6.2 million people working in GAFO stores, 3.4 million workers in grocery stores, and another 700,000 or so working at pharmacies and drug stores. That might still be less than the 12 million folks employed by manufacturers, but the numbers are large enough that President Trump might want to start paying attention. If nothing else, he should think long and hard about introducing a border adjustment tax at a time when the industry is already under intense financial pressure due to the competition from Amazon.

(2) *Dearly departed and walking dead.* All manner of retailers have gone bust during Amazon's expansion over the last two decades. Granted, some retailers accelerated their demise by taking on too much debt, and others were felled by the drop in demand during the Great Recession. But the competition from Amazon shouldn't be underestimated. The list of deceased over the past 13 years includes Tower Records, CompUSA, Circuit City, KB Toys, Linens 'n Things, Blockbuster, Borders, and RadioShack.

What's notable today is that retailers are going bust or shuttering stores at a pace that would normally indicate an economic recession. Current moderate economic growth and strong consumer confidence haven't helped some retailers improve their fortunes. Bebe Stores, a women's apparel chain, recently

announced plans to shutter its physical stores and sell exclusively online, while shoe retailer Payless is expected to file for bankruptcy protection and close 500 stores. Many department stores have been shuttering stores as they face competition from Amazon as well as discount and fast-fashion retailers like T.J. Maxx, H&M, and Zara.

Sears, which has been closing stores for years, warned investors in its annual report that "'substantial doubt exists related to the company's ability to continue as a going concern,'" reported a 3/22 *WSJ* article. "Sears quickly added that it is 'probable' that cost cuts, asset sales and other actions would mitigate its problems." Sears is shutting 108 Kmart stores and 42 Sears early this year, in addition to closures in previous years. "[T]he retailer will have fewer than 1,500 stores left by early 2017. That's down nearly 60% from 2011, when Sears had more than 3,500 stores," calculated a 1/4 Business Insider article.

Sears may face the most dire situation, but it's not the only department store shutting stores. Earlier this year, J.C. Penney announced plans to close 130 to 140 stores and two distribution centers. And after Macy's reported that same-store sales fell 2.1% over the November-December holiday period, it warned that it could lay off as many as 10,000 workers, noted a 1/4 *FT* article. The retailer is in the midst of closing 100 stores.

(3) *Hole in the mall.* Investors in real estate also have begun to fear the Amazon threat. Shares of the FTSE NAREIT Equity Regional Malls Index are down 15.8% over the past year as of Tuesday's close, compared to the 17.6% gain in the S&P 500.

Store closures affected 97.8 million square feet of retail space in 2016, more than double the 41.4 million affected in 2015. So far, strong malls have managed to replace closing stores with other tenants. The net absorption rate in 2016 was 105.7 million square feet, more than the 97.8 million square feet of closed stores, according to a JLL research report. Strong malls have replaced closing stores with new, expanding retailers or with new types of tenants, like grocery stores or bowling alleys. Weak malls, however, have had a tougher time.

"For malls in strong locations, these vacancies may actually be a boon, allowing them to trade up to a more productive anchor (like Nordstrom or Saks) or shift to a strong non-traditional anchor, like Bass Pro Shops. However weak malls will likely struggle to replace these tenants, resulting in a domino effect of decreasing performance and increasing vacancy." The market may be anticipating tougher times ahead, even for strong malls: Shares of Simon Property Group, known for its high-end properties, are down 17.25% over the past year.

(4) *Hollywood's horror show.* Were its domination of the retailing industry not enough, Amazon has expanded into and is disrupting new areas, including the entertainment and technology industries. It's producing award-winning TV shows and movies, and throwing around big bucks to attract talent and distribution rights. Amazon purchased the distribution rights to "Manchester by the Sea" at last year's Sundance Film Festival for $10 million, the second-largest sum paid to acquire a film at the festival in 2016. "The e-tailer has also made the biggest acquisition so far of this year's Sundance: $12 million for comedy 'The Big Sick,' according to a person close to the deal," the 1/24 *WSJ* reported.

As is industry custom, Amazon has released its movies in traditional theaters and waited before allowing access to the videos online. To watch a streamed movie over the Internet, Amazon customers must have a Prime membership, at the cost of $99 a year, which also gives them free two-day shipping. Netflix, another recent comer to the Hollywood game, streams its films the same day they are available in the theater.

The competition is pushing Hollywood studios to change the way they release films. Today, movies are available for at-home on-demand viewing 90 days after opening in theaters. Releasing the films with a lag time insulates theater ticket sales from competition. By yearend, however, studios may make films available on demand just a few weeks after they've appeared in theaters for between $30 and $50, the 3/26 *WSJ* reported. The *Journal* article explained: "To compensate theaters for lost box office, studios may share 10% to 20% of premium VOD revenue with them if the window is less than 30 days after the cinema debut, people with knowledge of the talks said. A key sticking point is for how many years theaters would be guaranteed to receive their share and that prices for early home release won't fall too low." Of course, empty movie theaters would be yet another blow to malls.

(5) *Shoot-out in Westworld*. It became clear that Amazon could do tech devices well when its Kindle e-reader outsold Barnes & Noble's Nook. And now we're all talking to Alexa, not to Siri, at home. But Amazon's most impressive tech offering is certainly Amazon Web Services (AWS), its cloud-computing business that's growing 50% annually and is expected to generate $13 billion in revenue this year, according to a 1/19 Information Week article. The business goes toe-to-toe with Microsoft and has a lead on both Google and IBM. And perhaps most importantly, AWS's juicy operating profit margin of more than 25% gives Amazon a way to fund its new ventures and a retail business that has notoriously skinny margins. The cash and financial flexibility AWS provides ensures that Amazon will be a lethal competitor in the retailing industry for many years to come.

Auto Industry: Stalling Out? Auto sales may be running out of gas. Moody's Investors Service believes auto sales have peaked at an annual high of 17.55 million units in 2016 and will decline ever so slightly to 17.40 million this year (*Fig. 7*). And, it warns, fewer car loans presumably will mean greater competition among lenders to make loans. Heightened competition could prompt lenders to extend credit on even riskier terms than they have in recent years. Let's take a look at what might drive the industry down a slippery slope:

(1) *Higher loan-to-value*. Car loans already have grown riskier in recent years because they represent a larger percentage of the automobile's value. "In the first nine months of 2016, around 32 percent of US vehicle trade-ins carried outstanding loans larger than the worth of the cars, a record high," according to a 3/27 article in Reuters, citing Moody's and Edmunds, an auto website. "Typically, car dealers tack on an amount equal to the negative equity to a loan for the consumers' next vehicle. To keep the monthly payments stable, the new credit is for a greater length of time. Over the course of multiple trade-ins, negative equity accumulates. Moody's calls this the 'trade-in treadmill,' the result of which is 'increasing lender risk, with larger and larger loss-severity exposure.'"

Loan amounts also increased because the average price of a new vehicle jumped by 30% from 2009 to an all-time high of $35,309 in December, a 3/23 Bloomberg article reports. "Car buyers tend to make buying decisions based on monthly payments instead of sticker price," a 3/23 *WSJ* article. "Edmunds.com estimates the average monthly car payment for a vehicle purchased in February was $515, up only 6% from the $487 buyers paid in February 2007. Over the same period, the amount financed by new car buyers has skyrocketed 23%, from $25,003 to $30,753, the firm said."

(2) *Lower used car prices*. The treadmill is also under pressure because the price of used cars is falling. The National Automobile Dealers Association's seasonally adjusted used vehicle price index fell 8% in February y/y, marking its eighth straight month of declines (*Fig. 8*). The drop was the biggest for any month since November 2008, and news of the decline sent the stock price of car rental company Hertz Global Holdings tumbling, a 3/27 Bloomberg article reported. Used car prices have come under pressure as a surge of cars have come off their leases. The number of cars coming off lease jumped by 33% last year and is expected to increase another 9% this year, a 1/23 Bloomberg article estimated.

The first potential signs of a problem are showing up in subprime loans that are more than 60 days past due. A 3/22 Business Insider article noted that the 60-day-plus delinquency rate for subprime auto loans has gradually risen over the past seven years to almost 6% in Q4-2016, as measured by the Fitch Auto ABS index. Delinquencies among prime loans have risen much less dramatically and remain below 3%. "Subprime credit losses are accelerating faster than the prime segment, and this trend is likely to continue as a result of looser underwriting standards by lenders in recent years," said Michael Taiano, a director at Fitch.

The decline in used car prices is aggravating loan losses. Lenders are losing more money on delinquent loans because the cars securing those loans have fallen in value. Annualized losses for subprime loans bundled into bonds were 9.1% in January, up from 8.5% in December and 7.9% in January 2016, S&P Global Ratings reported. A 3/10 Bloomberg article reported that S&P noted the losses were the highest since January 2010 and were "largely driven by worsening recoveries after borrowers default."

(3) *Trimmed earnings estimates.* Auto manufacturers could offset this problem by subsidizing the auto lenders or by increasing incentives to reduce the purchase price, but that would hurt the bottom line. Ford Motor recently warned that Q1 results would miss targets, in part because it expects sales to slow as auto affordability declines due to higher interest rates and a decline in used-car values, the 3/23 *WSJ* article stated. The company, which expects auto sales to decline in the US and China in 2017 and 2018, also blamed higher engineering costs, the strong dollar, commodity price increases, and rising warranty costs. It expects FY2017 operating profits of $9 billion, a 14% decline y/y.

Ford isn't alone. Ally Financial, the former auto-financing arm of General Motors, warned investors to expect 2017 earnings growth of 5% to 15%, a touch more subdued than the company's January estimate for earnings growth of up to 15%. It too blamed the decline in used car prices and an increase in auto loan defaults among lower credit tiers. About a third of its retail auto loans in Q4 were made to subprime or near-subprime borrowers, noted a 3/21 *WSJ* article. That said, its stock is still up roughly 10% over the past year.

Is this a problem the size of the 2007 housing crisis? No. Consumers have $1.1 trillion of auto loans in Q4, which is 7.4% of all household debt (*Fig. 9* and *Fig. 10*). That's the highest percentage in more than a decade, but it still pales in comparison to the $9.75 trillion of home mortgage debt outstanding. Also, with the unemployment rate down to 4.7%, a major crisis is unlikely. Furthermore, as explained in our 5/3/16 *Morning Briefing*, cars aren't houses. Cars are much easier to repossess and liquidate to cover outstanding loans. Our 2016 note concluded: "[I]f what's driving auto sales is easier credit, then auto sales could slow if credit tightens."

Could the consumer auto debt problem put a damper on new car sales, dampen economic growth, and hurt the stocks of auto manufacturers and lenders? We continue to think that it certainly could do so. It may be hard to make America much greater if the auto industry shifts into a lower gear.

CALENDARS

US. Thurs: Real GDP & Price Deflator 2.0%/2.0%, Corporate Profits, Jobless Claims 247k, Weekly Consumer Comfort Index, EIA Natural Gas Report, Kaplan, Dudley. **Fri:** Personal Income & Consumption 0.4%/0.2%, Headling & Core PCED 2.1%/1.7% y/y, Consumer Sentiment Index 97.6, Chicago PMI, Baker-Hughes Rig Count, Kashkari. (Bloomberg estimates)

Global. Thurs: Eurozone Business Climate Index 0.87, Germany Retail Sales 0.7%m/m/0.4%y/y, Germany CPI 0.4%m/m/1.8%y/y, UK Consumer Confidence -7, Japan Jobless Rate 3.0%, Japan

Industrial Production, Japan Household Spending -1.7% y/y, Japan Headline, Core, and Core-Core CPI 0.3%/0.2%.0.1% y/y. **Fri:** Eurozone Headline & Core CPI Flash Estimates 1.8%/0.8% y/y, Germany Unemployment Change & Unemployment Rate -10k/5.9%, Germany Retail Sales 0.4%, UK GDP 0.7%q/q/2.0%y/y, Canada GDP 1.8% y/y, China M-PMI 51.7. (DailyFX estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators (*link*): The Investors Intelligence Bull/Bear Ratio (BBR) sank from 3.28 to 2.73 this week, a four-month low. The BBR had been above 3.00 for 15 straight weeks; four weeks ago it was at 3.82—which was the highest reading since April 2015. Bullish sentiment tumbled 7.2ppts this week (to 49.5% from 56.7%)—the fewest bulls since the election. Bullish sentiment is now 13.6ppts below the 63.1% reading four weeks ago, which was the most bulls since 1987! Most of this week's move from the bulls went to the correction camp, which jumped 6.4ppts from 26.0% to 32.4%. There was a small increase in bearish sentiment from 17.3% to 18.1%, though it was the highest reading since early January. The AAII Bull Ratio increased for the second week last week from 39.2% to 53.6%. Over the two-week period, bullish sentiment rose from 30.0% to 35.3%, while bearish sentiment fell from 46.5% to 30.5%.

S&P 500 Earnings, Revenues & Valuation (*link*): S&P 500 consensus forward revenues rose 0.3% last week to a record high, but forward earnings edged down again to 0.2% below its early March record. The forward profit margin forecast dropped to 10.7% from a 16-month high of 10.8%, but remains near the record high of 10.9% in September 2015 and is up from its 24-month low of 10.4% in March 2016. Forward revenue growth for the S&P 500 improved w/w to 5.6% from 5.5%. That compares to 5.8% in late January, which was the highest since May 2012 and up from a seven-month low of 2.7% in late February 2016. Forward earnings growth edged up to 10.7% from 10.6%, but is down from 11.7% in early January; that was the highest since October 2011 and compares to an 11-month low of 4.8% in February 2016. Valuation fell to 17.7 from 17.9, which compares to a 13-year high of 18.0 in early March and a 15-month low of 14.9 in January 2016. S&P 500 forward revenues and forward earnings are enjoying a tailwind now from easier y/y comparisons for Energy and improving prospects for Financials, but currency translation looks likely to remain a challenge. Looking at last week's results ex-Energy, the forward revenue and earnings growth rates are lower at 4.2% and 7.7%, respectively. However, the ex-Energy forward profit margin improves to 11.3%, which is close to its record high of 11.5% in August 2007.

S&P 500 Sectors Earnings, Revenues & Valuation (*link*): Consensus forward revenue forecasts rose last week for 7/11 sectors, and forward earnings rose for 4/11. Industrials and Tech saw both measures improve w/w, while Energy and Real Estate had both declines. Forward revenues and earnings are at or around record highs for 5/11 sectors: Consumer Discretionary, Consumer Staples, Health Care, Industrials, and Tech. Energy's forward revenues and earnings are at or near 15-month highs. Forward P/S ratios rose w/w for just 3/11 sectors, and P/Es gained for two. Real Estate and Utilities had both valuation measures rise w/w. All but Health Care remain a hair below their recent multi-year highs. Financials' P/E is up from 12.0 before the election to 13.7, but that's down from a post-election high of 14.6 in early March. Health Care's P/E of 15.8 and P/S of 1.65 are down from week-earlier 19-month highs of 16.1 and 1.70, respectively, and remain well below their early 2015 highs of 17.9 and 1.88, respectively. With Energy's forward revenues and earnings improving, its valuation is beginning to come back to Earth; its P/S ratio of 1.31 compares to a record high of 1.56 in May 2016, and its P/E of 26.9 is down from a record high of 57.5 then. Higher y/y margins occurred for only 7/11 sectors in 2016 and are expected to improve in 2017 for all but Real Estate, Telecom, and Utilities. However, Real Estate's forecasted margin should improve as the year progresses when gains on property sales are included in the forecasts. Here's how the 11 sectors rank based on their current 2017 forecasts: Information Technology (to 19.8% in 2017 from 19.2% in 2016), Real Estate (16.2, 25.2), Financials

(15.6, 14.4), Telecom (11.2, 11.2), Utilities (10.8, 11.4), S&P 500 (10.5, 10.1), Health Care (10.4, 10.3), Materials (10.1, 9.4), Industrials (9.0, 8.8), Consumer Discretionary (7.3, 7.2), Consumer Staples (6.7, 6.5), and Energy (4.5, 1.1).

S&P 500 Buybacks (*link*): S&P 500 quarterly buybacks fell 7.3% y/y to $135.3 billion during Q4-2016, but improved 20.6% q/q from a 14-quarter low of $112.2 during Q3-2016. That was the 10th highest quarterly buyback amount on record dating back 74 quarters to Q1-1998, but was 21.3% below the record high of $172.0 billion recorded during Q3-2007. However, the four-quarter sum of buybacks dropped for a third straight quarter from Q1-2016's record high of $589.4 billion, which was the first since Q4-2007. The four-quarter sum fell 1.9% q/q to $536.4 billion from $547.0 billion in Q3-2016. S&P 500 buybacks in Q4 accounted for 0.70% of the total market capitalization, up from a 26-quarter low of 0.60% during Q3, but below the cyclical peak of 1.15% in Q3-2011 and the record high of 1.28% during Q3-2007.

S&P 500 Sectors Buybacks (*link*): Buybacks rose q/q during Q4-2016 for seven of the 11 sectors and fell for four. That compares to three rising and seven falling during Q3-2016 when there were 10 sectors with comparable data (Real Estate was added during Q4). The biggest q/q buyback gainers in Q4-2016: Utilities (up 248% q/q to $50.8 million from a 29-quarter low of $14.1 million), Health Care (121%, $28.9 billion), and Consumer Staples (38%, $11.6 billion). The biggest q/q decliners: Telecommunication Services (-72%, 20-quarter low 69mn), Real Estate (-33%, 303mn), and Energy (-27%, record low 979mn). Health Care accounted for the biggest portion of total S&P 500 buybacks in Q4-2016, improving to a 21.4% share from 11.7% in Q3 and taking over the top slot for the first time since Q3-2012. Tech slipped to second (21.2%) from first during Q3, when it was 23.2%.

S&P 500 Cash Return (*link*): The four-quarter sum of buybacks and dividends, or cash returned to investors, exceeded operating earnings for a sixth straight quarter in Q4-2016, and fell for a third quarter to $932.0 billion from a record high of $974.6 billion in Q1-2016. While the cash return was still 1.3% higher than trailing-four-quarter operating earnings during Q4, that was down from 6.4% above during Q3-2016 and down from the 28-quarter high of 13.5% above operating earnings during Q1-2016. The cash return results were skewed again by the Energy sector, which reported a fifth straight trailing-four-quarter loss in operating earnings in a data series that starts in 2002. On an ex-Energy basis, however, the S&P 500's cash returned to investors was below operating earnings for a second straight quarter in Q4-2016, falling to a five-quarter low of 95.7% from 97.7% in Q3-2016 and down from a 28-quarter high of 102.2% in Q2-2016. The buyback yield was down to a 23-quarter low of 2.78% from 2.91% in Q3, and the dividend yield edged down to six-quarter low of 2.05% from 2.09% in Q3. Adding both together, the buyback + dividend yield (or cash return) was down to a 12-quarter low of 4.84% in Q4 from 5.01% in Q3.

S&P 500 Sectors Cash Return (*link*): During Q4-2016, four of the 10 sectors paid out a higher amount in buybacks and dividends (cash returned to investors) than their operating earnings, on a trailing-four-quarter basis. Energy's cash return exceeded earnings for a seventh straight quarter as the sector lost money on a GAAP operating earnings basis for a fifth straight quarter. Other sectors with a cash return also exceeding earnings: Consumer Discretionary (12th straight quarter), Consumer Staples (9th), and Industrials (7th). Materials' earnings covered their cash return in Q4 for the first time in the 12 quarters since Q1-2014, and Tech's did so for only the second time over that same time period. Here's how the sectors' cash returns relative to earnings ranked: Industrials (118.6%), Consumer Staples (107.5), Consumer Discretionary (104.6), S&P 500 (101.3), Health Care (96.0), S&P 500 ex-Energy (95.7), Information Technology (94.9), Materials (86.8), Financials (82.4), Telecommunication Services (81.5), and Utilities (65.4). The buyback + dividend yield rose q/q for Health Care and Utilities, was flat for Consumer Discretionary, and fell for the remaining seven sectors. Here's how the 10 sectors ranked: Industrials (6.02% [six-quarter low]), Financials (5.68 [four-quarter low]), Consumer Discretionary

(5.47), Consumer Staples (5.14), Health Care (5.07 [14-quarter high]), Telecom (4.55), Tech (4.50 [17-quarter low]), Materials (3.68 [13-quarter low]), Utilities (3.61), and Energy (2.96 [record low]).

US ECONOMIC INDICATORS

Pending Home Sales (*link*): "Buyers came back in force last month as a modest, seasonal uptick in listings [was] enough to fuel an increase in contract signings throughout the country," according to Lawrence Yun, NAR's chief economist. The Pending Home Sales Index—measuring sales contracts for existing-home purchases—rebounded 5.5% to 112.3 in February, the highest reading since last April and the second-highest level in over a decade. All regions—the Midwest (11.4%), South (4.3), Northeast (3.4), and West (3.1)—saw a notable hike in contract activity during the month. Yun noted that the warmest February in decades may have played a role in "kick-starting prospective buyers' house hunt," though he also added that the stock market's continued rise and steady hiring in most markets is spurring significant interest in buying, as are expectations of higher interest rates later this year.

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