MORNING BRIEFING
May 25, 2017

Fueled by Apple Juice

See the collection of the individual charts linked below.

(1) The Great Race to be the Apple of the auto industry. (2) How much metal and rubber are in the code? (3) Ford: Hackett's job as Fields put out to pasture. (4) Andreesen Pac Man Theory of software. (5) Who will be the Nokia of the auto industry? (6) Can we get Trump to pitch for YRI? (7) The best defense is more weapons for US allies. (8) Disappointing budget for US defense spending. (9) Bitcoin's fans and fiends.

Auto Industry: Racing To Be Apple. Could our cars evolve into commoditized metal vessels that are distinguished primarily by the software they run? That should be the nightmare keeping auto executives awake at night, as Silicon Valley titans like Google, Tesla, and Uber all are working furiously—and committing billions of dollars—to become the Apple of autos.

The ripple effects of the car-tech tsunami reached Detroit this week when Ford and its CEO Mark Fields parted ways. It's not that Fields wasn't making software and tech inside cars a priority. He was. The car company had made a number of acquisitions, including the purchase of Chariot, a van ride-sharing service, and Argo AI, with its autonomous software-writing employees. Ford has a plan to introduce an autonomous vehicle by 2021 and, like most of the other major auto companies, opened offices in Silicon Valley.

But regardless of these progressive moves, Ford stock fell by roughly a third over the past three years through Tuesday's close. Over the same period, GM shares fell much less, -1.2%, and the S&P 500 is up 26.2% (*Fig. 1*). The real kicker: Tesla's stock is up 46.6% over the past three years, and its market cap eclipses Ford's despite Tesla's lack of profits.
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Fields was replaced by Jim Hackett, former CEO of Steelcase, an office furniture company. Hackett had been on the Ford board of directors from 2013 to 2016, and last year moved on to head Ford's Smart Mobility unit, where he was tasked with turning Ford into the auto company of the future. As he embarks on his new road trip, Hackett might want to listen to Barry Ritholtz's recent interview with legendary high-tech venture capitalist Mark Andreesen on Bloomberg. Here are some highlights:

(1) *It's the software, Stupid*. In the interview, Andreesen revisited the ideas he laid out almost six years ago in an 8/12/11 *WSJ* essay dubbed "Why Software is Eating the World." In it, he argues that every product or service that can become software will become software. Therefore, every company that makes those products or services will become a software company first and foremost. Accordingly, in any industry, the best company will be the one that writes the best software.

(2) *Apple envy*. His theory applies to the movie industry (Netflix), the retail industry (Amazon), and now the auto industry. The most successful company in the auto industry will be the one that has the best software, he speculated. And he who writes the best software will reap most of the profits from the sale of the car.

The situation may be analogous to the cell phone industry. A mobile phone can be manufactured for about $5 in Asia. But Apple captures the remaining profits by writing the software for the phone and the software for the apps ecosystem. Ford—and GM, for that matter—don't want to become the Nokia of the auto industry. They want to become the Apple of the auto industry.

The problem is that so does every other tech titan with a dream of developing automated cars. And tech companies aren't saddled with a legacy car manufacturing business that could potentially hold back their progress.

(3) *Slowing sales.* Ford and GM are facing a market where traditional auto sales look like they're plateauing or about to decrease slightly as easy auto loan financing goes away and pent-up demand has been satiated. Ford's earnings are expected to plateau in 2018 and 2019. Analysts expect revenue in the S&P 500 Automobile Manufacturers industry (F and GM) will decline by 0.8% this year and decline by 1.8% in 2018. Meanwhile, earnings this year are expected to fall 5.8% and to increase slightly, by 3.2%, in 2018 (*Fig. 2*). That's a tough environment in which to revolutionize one's company. But that is indeed the environment Hackett faces.

Defense Industry: Salesman-in-Chief. As President Trump toured the Middle East this week, it was clear he is the nation's top traveling salesman, and the Aerospace & Defense industry is enjoying the benefits. One of the best-performing S&P 500 Industrials' industries, Aerospace & Defense, has gained 13.1% ytd through Tuesday's close, almost twice the S&P 500's 7.1% return (*Fig. 3*). Let's take a look at how the industry has benefitted from having the President in its corner:

(1) *Saudis spending*. President Trump visited Saudi Arabia with the CEOs of Boeing, Lockheed Martin, and Raytheon in tow. The visit launched defense deals for roughly $100 billion. Granted, that figure includes some deals that were already in the works during the Obama administration, proposed sales, and deals that need final approvals. But it's an eye-popping sum nonetheless.

Saudi Arabia is the world's second-largest arms importer by value, according to a 5/21 *WSJ* article. And US contractors should make hay while the sun is shining, because the Saudis aim to build their own defense industry. The Saudi's goal: to source "half of its defense requirements from domestic suppliers, compared with just 2% at present."

Lockheed Martin stated that it received $28 billion of potential new business from Saudi Arabia, including littoral combat ships and Black Hawk helicopters. Boeing is selling the country helicopters.

(2) *NATO pays attention*. Early in his administration, President Trump made headlines by scolding North Atlantic Treaty Organization (NATO) members for not spending the required amounts on defense. It looks like his tough love didn't fall on deaf ears.

According to another 5/21 *WSJ* article, NATO members are being "required to submit national blueprints detailing how they will meet alliance targets, which say each country should devote 2% of economic output to military spending. In addition, they are to specify how money will be used to fill existing gaps in weaponry identified by the alliance, such as shortages of warships, air-defense systems and advanced tanks. The plans will also track commitments of troops to NATO missions." The plans are to be submitted in time for Trump's meeting with NATO today.

Five NATO countries spend 2% of GDP on defense: US, UK, Greece, Poland, and Estonia. Romania, Latvia, and Lithuania should hit 2% by next year. France's new President Emmanuel Macron says the country will get to the required amount by 2025, and Germany is increasing its defense spending by 8% annually.

(3) *Questionable proposal*. The Trump administration's budget proposal for fiscal 2018 got a Bronx

cheer from Washington's politicians, primarily because it slashed costs radically to balance the budget. While it is very unlikely to survive in its present form, the budget does provide insight into the President's priorities. His proposal slashes spending, maintains Social Security spending, and modestly increases defense spending.

The budget requests $575 billion to spend on the military and an additional $65 billion for overseas contingency operations, i.e., US operations in Afghanistan, Iraq, and elsewhere. The $575 billion budget is a 10% increase from the current fiscal year's budget. That's a solid increase, but less than some had hoped Trump would ask for given his speeches about bolstering the country's defenses. The request is about $15 billion more than former President Barack Obama's administration had forecast for FY2018, the 5/23 *WSJ* reported.

The proposal includes spending to build two submarines, two Aegis destroyers, and a littoral combat ship. However, more was expected, as Trump has suggested that the Navy fleet needed to grow from roughly 280 today to at least 350 ships. The budget also buys 70 new F-35 joint strike fighters, nearly 1,400 new Hellfire missiles, 34 Tomahawk cruise missiles, and 12,822 smart bombs.

(4) *The numbers*. All in all, the week was a good one for the S&P 500 Aerospace & Defense industry index, which continued its streak of outperformance. Over the week, the Aerospace & Defense industry index gained 1.1% vs the S&P 500's 0.1% decline, and y/y the industry has risen 27.4%, well above the S&P 500's 17.1% gain.

Analysts are penciling in numerous years of improving growth for the industry. They're expecting revenues to grow 2.2% this year and 4.4% in 2018. Likewise, earnings growth of 6.5% this year is expected to be followed by 10.4% earnings growth in 2018 (*Fig. 4*).

The industry's forward P/E remains near its highs, at 18.6 (*Fig. 5*). While that may limit multiple expansion, industry shares should continue to climb with earnings, something we've maintained since the 2/23 *Morning Briefing*. As long as the Republicans—and Trump—remain in control of Washington, DC, and the world remains a dangerous place, higher spending levels are likely.

Bitcoin: Double-Edged Currency. Bitcoin has made numerous headlines recently. Some good, some bad. The price of one bitcoin surged past $2,000 to a new record last week, and Fidelity's CEO revealed the firm accepts bitcoin in its cafeteria. Then again, hackers have made bitcoin their currency of choice when demanding ransom. Let's take a look:

(1) *New heights*. After tumbling for most of 2014 and 2015, bitcoin has regained favor in the markets, rising more than 125% ytd to a new high of $2,291.48 as of Tuesday's close (*Fig. 6*).

Why the surge of popularity? One might look to Japan, where the yen is the largest currency being exchanged for bitcoin, according to a 5/20 article on CoinDesk.com. More than 45% of the money flowing into bitcoin has been exchanged for yen. The US dollar has been exchanged for about 30% of the bitcoins.

CoinDesk attributes the jump in yen transactions to the country's bitcoin regulation: "This increase in the use of the Japanese yen comes after Japan moved to formally recognize bitcoin as a legal method of payment starting 1st April. The country's lawmakers enacted legislation that both classified the cryptocurrency as a type of prepaid payment instrument, and also caused it to fall under anti-money laundering and know-your-customer rules."

That said, all cryptocurrencies are on fire. The market cap of digital currencies has risen more than

50% to more than $90 billion over the past seven days, a 5/24 Bloomberg article reported. These currencies, with snazzy names like Zcash, Monero, and Ethereum, may be benefitting from increased adoption of the technology and from the political uncertainty around the world.

(2) *Abigail is a fan*. Fidelity's CEO Abigail Johnson's enthusiasm for bitcoin was apparent in a speech she delivered to a bitcoin conference last week. While acknowledging the currency's flaws, she said she is "still a believer."

"Fidelity has worked with bitcoin platform Coinbase Inc. to allow charitable giving in bitcoin and enabled bitcoin payments in its cafeteria. Ms. Johnson said the firm will soon make it possible to display bitcoin assets held through Coinbase on Fidelity.com," a 5/23 *WSJ* article reported. It continued, "Yet fewer than 100 employees at the firm have completed bitcoin transactions, she said. Potential users of the technology, she said, are also confused or frustrated by it. Ms. Johnson's speech stopped short of making firm recommendations on ways to make the currency more mainstream."

(3) *The dark side*. Bitcoin followers have a little problem. Bad guys are hijacking the currency. The hackers are demanding that victims pay in bitcoin if they want their computers unlocked. They're using bitcoin because it's hard to detect who owns the accounts.

The hackers behind the worldwide WannaCry ransomware infection earlier this month demanded payment in bitcoin from users looking to free their computer systems. There was $51,000 deposited in bitcoin accounts as of 5/15, but that amount hadn't yet been taken out of the accounts, perhaps for fear of detection after the incident alerted law enforcement and financial regulators around the world, a 5/15 *WSJ* article reported.

But many hacks are much smaller. We personally have heard of one individual and one small company whose computers were frozen and bitcoin demanded as payment to unlock the computers. Those incidents didn't make headlines, but they happened nonetheless.

The 5/15 *WSJ* explained, "Ransomware dates to the late 1980s, but attacks spiked last year amid the growing use of bitcoin and improved encryption software. According to the U.S. Department of Justice, ransomware attacks were on a pace to quadruple in 2016 from a year earlier, averaging 4,000 a day, according to a Wall Street Journal article last August."

Even the largest of companies can find itself vulnerable. Disney confirmed that its film, *Pirates of the Caribbean: Dead Men Tell No Tales* was taken by hackers who threatened to release it in small increments over the Internet before Disney's planned release date. The hackers were demanding an "enormous amount" be paid in bitcoin, according to a 5/15 article in Deadline. Disney refused to pay. Next time, the hackers should poach a film with better reviews.

CALENDARS

US. Thurs: Jobless Claims 237k, Advanced Merchandise Trade Balance -$64.7b, Kansas City Fed Manufacturing Index 7, Weekly Consumer Comfort Index, EIA Natural Gas Report, Brainard, Kaplan. **Fri:** Real GDP & Real PCE 0.8%/0.4%, GDP Price Index 2.3%, Corporate Profits, Durable Goods Orders Total, Ex Transportation, and Core Capital Goods -1.0%/0.4%/0.2%, Consumer Sentiment Index 97.6, Baker-Hughes Rig Count. (Bloomberg estimates)

Global. Thurs: UK GDP 0.3%q/q/2.1%y/y, Japan Headline, Core, and Core-Core CPI 0.4%/0.4%/0.0% Y/Y, OPEC Meeting. **Fri:** G7 Leaders Meeting. (DailyFX estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators (*link*): The Investors Intelligence Bull/Bear Ratio (BBR) sank to 2.84 this week, reversing the climb from 2.84 to an 11-week high of 3.40 over the prior four weeks. It was the first reading below 3.00 in five weeks and only the third this year. Bullish sentiment dropped from 58.1% to 51.9% this week, near the late-March reading of 49.5%, which was the fewest bulls since the November election. Bearish sentiment remained in its narrow range prevalent since early January, edging up from 17.1% to 18.3%. Meanwhile, the correction count climbed for the third week from a nine-week low of 23.6% to 29.8% over the period—near its high for the year of 32.4% at the end of March. The AAII Bull Ratio fell for the second week to 41.0% last week, after advancing the previous two weeks from 39.9% to 56.0%. Bullish sentiment fell from 38.1% to 23.9% over the two-week period, while bearish sentiment rose from 30.0% to 34.3%.

S&P 500 Sectors Net Earnings Revisions (*link*): The S&P 500's NERI was positive in May for the first time in seven months as it soared to a six-year high of 5.3% from -1.6% in April. However, NERI was positive for 7/11 sectors and improved m/m for 10 (compared to three positive and eight improving in April). That was the highest number of sectors with positive NERI since July 2014, and the most to improve m/m since May 2016. Industrials topped all sectors in May with its highest reading since August 2011, but Telecom was the worst performer and recorded its lowest reading since December 2008. Real Estate turned positive for the first time in 21 months, and Materials for the first time in 10 months. Tech has the longest positive NERI streak of 10 months, followed by Financials (8) and Industrials (3). Telecom is the worst, with 13 straight months of negative NERIs, followed by Consumer Discretionary (11) and Consumer Staples (9). Here are the sectors' May NERIs compared with their April readings, ranked in descending order: Industrials (14.9% in May, up from 2.4% in April), Financials (14.1, 7.4), Tech (10.7, 6.3), Health Care (6.4, -4.1), Real Estate (4.1, -5.8), Utilities (2.4, -1.0), Materials (1.0, -6.4), Consumer Discretionary (-1.5, -8.2), Energy (-2.7, -4.0), Consumer Staples (-4.0, -8.7), and Telecom (-34.7, -34.1).

S&P 500 Earnings, Revenues & Valuation (*link*): S&P 500 consensus forward revenues edged down for a second week from a record high, but forward earnings was at a record high for a seventh straight week. The forward profit margin forecast was also at a record high, but steady w/w at 10.9%. The profit margin's record high is its first since September 2015 and up from a 24-month low of 10.4% in March 2016. Forward revenue growth for the S&P 500 was steady w/w at 5.3%, but that's down from 5.8% in late January, which was the highest since May 2012 and compares to a cyclical low of 2.7% in February 2016. Forward earnings growth edged down again w/w to 11.1% from 11.2%, which is down from 11.7% in January; that was the highest since October 2011 and compares to a cyclical low of 4.8% in February 2016. S&P 500 forward revenues and forward earnings growth are enjoying a tailwind now due to easy y/y comparisons for Energy and improving prospects for Financials, but currency translation is likely to be a slight drag. However, Energy's contribution to forward growth peaked at the start of 2017. Looking at last week's results for the S&P 500 ex-Energy, the forward growth rates for revenues (4.5%) and earnings (8.7) are lower. The ex-Energy forward profit margin was steady at 11.5%, matching its record high of 11.5% in August 2007. Valuation fell w/w to 17.3 from 17.6, which compares to a 13-year high of 18.0 in early March and a 15-month low of 14.9 in January 2016. Ex-Energy valuation fell to 17.0 from 17.2, which is down from a 13-year high of 17.6 in early March.

S&P 500 Sectors Earnings, Revenues & Valuation (*link*): Consensus forward revenue forecasts rose last week for 5/11 sectors, and forward earnings rose for 6/11. Consumer Staples, Industrials, Tech, and Utilities had both measures rise w/w, while these four had both measures decline: Energy, Health Care, Materials, and Telecom. 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 stalling recently near 15-month highs. Forward P/S and P/E ratios fell w/w for all but Utilities. Financials' P/E is up from 12.0 before the election to 13.1, but that's down from a post-election high of 14.6 in early March. Health Care's P/E of 15.5 and P/S of 1.63 are down from early March's 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 1.32 compares to a record high of 1.56 in May 2016, and its P/E of 25.6 is down from a record high of 57.5 then. Higher y/y margins occurred for only 7/11 sectors in 2016, and margins are expected to improve in 2017 for all but Real Estate 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 19.7% in 2017 from 19.2% in 2016), Real Estate (16.8, 25.2), Financials (15.7, 14.4), Telecom (11.3, 11.2), Utilities (10.9, 11.4), S&P 500 (10.6, 10.1), Health Care (10.4, 10.3), Materials (10.2, 9.6), Industrials (9.1, 8.8), Consumer Discretionary (7.4, 7.2), Consumer Staples (6.7, 6.5), and Energy (4.5, 1.1).

AC World ex-US MSCI (*link*): This index is up 12.4% ytd in dollar terms after rising 1.7% in 2016. In local-currency terms, the index has risen a lower 7.7% ytd compared to its 4.1% gain for all of 2016. Local-currency forward revenues has risen 5.8% from a five-year low in March 2016 to an 18-month high, but has been more stable longer term and is down just 5.0% from its October 2014 record high. Local-currency forward earnings has performed better, with a 15.0% rise from its six-year low in March 2016 to a nine-year high, but remains 10.6% below its September 2008 record. Revenues are expected to rise 7.5% in 2017 and 4.9% in 2018 following a 0.8% decline in 2016, and earnings are expected to rise 18.1% (2017) and 9.4% (2018) after rising 1.2% (2016). Analysts are forecasting STRG of 6.5%, down from a seven-year high of 6.8% in March and up from a cyclical low of 2.3% in March 2016. Their STEG forecast of 13.8% is down from a four-year high of 14.1% in March, but up from their 6.3% forecast in January 2016, which was the lowest in seven years. The implied profit margin is expected to rise to 7.5% in 2017 from 6.9% in 2016 before improving to 7.9% in 2018. NERI was positive for a fifth month in May and for the first time since March 2011, and improved to a 76-month high of 2.7% from 1.7% in April. That compares to a 51-month low of -11.3% in March 2016. The P/E improved to a 22-month high of 14.4 from 13.9 in April, which compares to a 16-month low of 12.4 in February 2016 and a six-year high of 15.3 in April 2015. The index's 9% discount to the World P/E has improved from a record-low 13% discount in early March.

EMU MSCI (*link*): The EMU's MSCI price index has gained 17.6% ytd in dollar terms after falling 1.2% in 2016. In euro terms, the price index is up a lower 10.5% ytd following a 1.8% gain for all of 2016. Euro-based forward revenues has improved 2.9% from its six-year low in May 2016, but remains 1.3% below its cyclical high (August 2015) and 8.0% from its record high (September 2008). Euro-based forward earnings had stalled since 2011—but is now 4.5% above its prior cyclical high in September 2015 to its highest level since October 2011. It remains 24.7% below its record high (January 2008), but has improved 11.7% from its 23-month low in June 2016. Analysts expect revenues to rise 5.8% and 3.6% in 2017 and 2018, respectively, after falling 1.8% in 2016, but think earnings will rise 23.5% in 2017 and 9.9% in 2018 following a 7.0% decline in 2016. Forecasted STRG of 4.9% is at a six-year high and up from 2.0% last May. Forecasted STEG of 17.1% is down from a 78-month high of 21.0% in February, which compares to a seven-year low of 5.7% in April 2016. STEG has been higher than LTEG (10.2%) since July after trailing it since late 2015. The forward profit margin has improved 1.6ppts to a six-year high of 7.8% from a cyclical bottom of 6.2% in May 2013. The implied profit margin is expected to improve to 7.1% in 2017 from 6.1% in 2016 before rising another 0.4ppt to 7.5% in 2018. NERI was positive for a sixth straight month in May, improving 3.2ppts m/m to a 131-month high of 8.1% from 4.9% in April, which compares to a 24-month low of -13.2% in April 2016. The P/E of 15.0 is down from a 13-year high of 16.4 in April 2015, but up from a 30-month low of 12.2 in February 2016. That represents a 5% discount to the World MSCI's P/E now, up from a record-low 25% discount during 2011. But the current reading is still well below the 1% premium during April 2015—the post-euroinception record high.

Emerging Markets MSCI (*link*): The EM MSCI price index is up 16.5% ytd in US dollar terms after rising 8.6% in 2016. In local-currency terms, EM has gained a lower 12.3% ytd compared to a 7.1% gain in 2016. Local-currency forward revenues is up 4.7% from a four-year low in June 2016 to 11.8% below its November 2014 record. Local-currency forward earnings has improved 17.8% from April 2016's six-year low and is down just 3.7% from its January 2014 record. Revenues are expected to rise 10.2% in 2017 and 8.1% in 2018 following a 2.6% gain in 2016, leading to earnings gains of 20.0% (2017) and 11.2% (2018) following a 7.5% rise in 2016. Forecasted STRG of 9.5% is back on an uptrend since early 2016, but is down slightly from a four-year high of 9.6% in late January. STEG of 16.3% is near a six-year high, but is below LTEG (17.0%) again. The implied profit margin is expected to improve to 6.8% in 2017 from 6.3% last year before edging up to 7.0% in 2018. The forward profit margin of 6.9% is more than 3ppts below its 10.3% record high (December 2007), but up from a record low of 6.0% in February 2016. NERI—negative for 75 months—improved m/m to a 75-month high of -0.6% from -1.3% in April, which compares to an 83-month low of -10.2% in March 2016. Emerging Markets' valuation has been more stable recently than that of the rest of the world. The P/E was up to a seven-month high of 12.3 from 12.2 in March, which compares to a 17-month low of 10.2 in August 2015 and a four-year high of 12.6 in April 2015. The index is trading at a 23% discount to the World MSCI P/E, up from a 10-year-low 30% discount in August 2016.

MSCI World & Region Net Earnings Revisions (*link*): Analysts' recent earnings revisions through May suggest rising optimism about profits across the world as all regions improved m/m except EM Eastern Europe, which remained unchanged. The AC World MSCI's NERI was positive for a fourth month and for the first time since June 2011, as it improved 2.5ppts to a 74-month high of 3.4% from 0.8% in April. The AC World Ex-US was positive for a fifth month, improving 1.0ppt to 2.7% from 1.7%. EM Eastern Europe and Europe were positive for an eighth straight month; EAFE and EMU were positive for a sixth month. May's scores among the regional MSCIs: EMU (131-month high of 8.1%, compared to 4.9% in April), Europe ex-UK (131-month high of 7.4, 3.9), Europe (82-month high of 6.3, 3.6), EAFE (83-month high of 5.6, 4.7), United States (70-month high of 5.0, -1.3), AC World (74-month high of 3.4, 0.8), AC World ex-US (76-month high of 2.7, 1.7), EM Eastern Europe (7-month low of 2.3, 2.3), EM Asia (71-month high of -0.3, -0.9), Emerging Markets (74-month high of -0.6, -1.3), and EM Latin America (3-month high of -3.8, -5.5).

MSCI Countries Net Earnings Revisions (*link*): NERI was positive for 27/44 MSCI countries in May, the most since June 2010, and up from 22/44 in April and 24/44 in February and March. NERI improved m/m in May for 32/44 countries, the most since June 2016, and up from 19/44 improving in April. Spain's NERI was at a record high in May, followed by those of Italy (131-month high), Hong Kong (91), Turkey (90), Poland (85), Switzerland (83), France (80), Germany (80), Netherlands (80), Finland (76), Korea (76), Sweden (76), and Singapore (75). On the flip side, Portugal was at a 27-month low, followed by those of Egypt (15), Russia (13), and Taiwan (10). The 14-month positive NERI streak for Hungary is the best, followed by Peru (13), Austria (12), the UK (10), and China (9). NERI turned positive for seven countries: Belgium, Canada, Indonesia, Ireland, Malaysia, Singapore, and Sweden. NERI turned negative for two countries: Australia and Russia. Hungary's NERI is the strongest recently, with positive readings in 24 of the past 25 months. Brazil's NERI has been negative for 83 straight months, followed by the negative streaks of Chile (70), South Africa (36), India (31), and Philippines (30).

US ECONOMIC INDICATORS

Existing Home Sales (*link*): Existing home sales—tabulated when a purchase contract closes—fell in April after reaching a 10-year high in March. "Last month's dip in closings was somewhat expected," said NAR's chief economist, "given that there was such a strong sales increase in March at 4.2 percent, and new and existing inventory is not keeping up with the fast pace homes are coming off the market. … Demand is easily outstripping supply in most of the country and it's stymieing many prospective buyers from finding a home to purchase." Existing home sales fell 2.3% in April to 5.57mu (saar) from 5.70mu in March, which was the best sales pace since February 2007. Sales of single-family homes fell 2.4% to 4.95mu (saar), while multi-family sales were 1.6% lower at 620,000; both were 1.6% above year-ago levels. Sales dipped in every region except the Midwest in April; only sales in the South (3.6% y/y) and West (3.5) were above year-ago levels. The number of existing single-family homes on the market rose for the fourth month from 1.45mu in December to 1.71mu in April, still 8.6% lower than a year ago. Unsold inventory was a low 4.1 months' supply.

New Home Sales (*link*): April new home sales retreated from March's nine-and-a-half-year high as sales plunged in the West. New home sales sank 11.4% to 569,000 units (saar) after soaring 17.2% the first three months of the year to 642,000 units, which was the highest reading since October 2007. (These sales are tabulated when contracts are signed, making the statistic a timelier barometer of the residential market than existing home sales.) Regionally, sales fell in every region, led by a 26.3% slide in the West, with these sales at the lowest level since October 2015. In April, there were 268,000 new single-family homes on the market, the highest level since July 2009 but still less than half the peak during the housing boom in 2006. The months' supply of homes jumped from 4.9 in March to 5.7 in April, the highest since September 2015. Builders remained optimistic in May, with the NAHB reporting that "builders' optimism in the housing market is solidifying, even as they deal with higher building material costs and shortages of lots and labor." Its housing market index climbed 2 points this month to 70, just shy of March's cyclical high of 71. Two of the three components of the index rose, sales expectations (to 79 from 75) and current sales (76 from 74) with the former the highest since June 2005.

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