**MORNING BRIEFING**
**August 7, 2017**

## Lil' Kim & Big THAAD

*See the collection of the individual charts linked below.*

(1) Geopolitical crises tend to be buying opportunities for stock investors. (2) Next stock market crisis more likely to be internal than external. (3) Still rooting for the long good buy. (4) Worrying about a melt-up/meltdown. (5) 1987 all over again? (6) The market has chosen to tune out the swamp people. (7) Fewer negative surprises. (8) US exports set a record. (9) Frackers making America great again. (10) Wage indicators are better than wage income. (11) Taking Lil' Kim seriously. (12) THAAD says, "Make my day!" (13) Movie review: "Detroit" (+ +).

**Strategy: Looking for Trouble.** In the past, I've frequently noted that geopolitical crises since the start of the 1960s have often created buying opportunities for stock investors (*Fig. 1*). Stocks would sell off quickly and sometimes sharply for a brief period, then rebound when the crises passed. The two major exceptions were the oil price shocks of 1973 and 1979, which triggered severe recessions as US consumers retrenched in the face of soaring gasoline prices, which boosted inflation, forcing the Federal Reserve to raise interest rates significantly (*Fig. 2*).

In recent meetings with our accounts in the Mid-Atlantic states, I found that they all were fully invested in stocks and believed that the bull market could last for quite some time longer. Based on the S&P 500, on April 11, it became the second-longest bull market since the data started in 1928 (*Fig. 3*). On June 29, 2021, it would be the longest on record, if the bull continues to charge ahead that long.

In the past, the bulls were tripped up by recessions. The investors I've met with recently are all hard-pressed to see what might cause the next recession anytime soon. A geopolitical crisis is not on their worry list. When they asked me for my opinion, I noted that Debbie and I started to predict back on October 27, 2014 that the expansion could be one of the longest on record, and we still think so. It is currently the third longest since the end of WWII. In May 2018, it would become the second-longest expansion and in July 2019 the longest, if it lasts so long (*Fig. 4*).

Barring a major geopolitical crisis, if there is trouble ahead for the stock market, it might be internally generated. The bulls could get too cocky, continuing to pour money into equity exchange-traded funds (ETFs), setting new records for 12-month net inflows over the rest of this year and into next year. They have been doing just that since January, as we discussed last week (*Fig. 5*). That could cause a P/E-led melt-up, especially given the extraordinary complacency, as evidenced by the record-low readings for the S&P 500 VIX recently around 10.0, with Investors Intelligence reporting that only 16.2% of their respondents were bearish last week (*Fig. 6*).

Based on the record inflows continuing into ETFs and widespread complacency, Joe and I raised the odds of a Melt-Up scenario last week from 40% to 50%, while lowering the odds of a Nirvana scenario to 30% from 40%. We left the Meltdown scenario at 20%. But we will have to raise it, taking points away from the Melt-Up, if stocks do go into orbit first.

The Melt-up/Meltdown tag team could set the bull up for a nasty fall. However, that would not necessarily cause a recession. So it might very well be like 1987 all over again, with a fast and furious bear market setting the stage for a resumption of the secular bull market, as earnings should continue to move higher if the economic expansion continues to set records and maybe break the record for the longest run.

In my conversions with our accounts, we all seemed to agree that this may be the most obvious and plausible outlook for stocks and the economy. But surely, it can't be that simple? What about geopolitical risk?

Before we go there, let's consider domestic politics first. Then again, why bother when the stock market seems to be disinterested and totally tuning out all the melodrama? After all, the checks-and-balances system is working just as our Founders designed it to work; it is causing gridlock so that extremist policy initiatives on both sides of the aisle are stymied. Investors seem to agree with my long-held view: "Look how well our economy is doing despite all the meddlers in Washington!" Consider the following recent developments:

(1) *Various indicators*. The Citigroup Economic Surprise Index has rebounded from this year's low of -78.6 on June 16 to -40.8 on Friday (*Fig. 7*). Earlier this year, this was a widely followed indicator because it suggested that US economic growth might be slowing more than anyone expected. Turns out that real GDP rose 2.6% (saar) during Q2, well outpacing Q1's lackluster gain of 1.2%. On a y/y basis, real GDP growth continues to hover around 2.0%, as it has since mid-2010.

Another weak indicator earlier this year was commercial and industrial, or C&I, loans at commercial banks (*Fig. 8*). The growth rate of this series definitely has slowed so far this year, but it remains in record-high territory.

Inflation-adjusted exports rose to a record high during June (*Fig. 9*). Imports also edged up and are just below January's record high. Incredibly, US exports of crude oil and petroleum products rose to a record 5.9mbd during the four-week period through January 6 of this year, up from a low of 0.8mbd during late 2005 (*Fig. 10*). Net imports of this category is down to 4.5mbd currently from a record high of about 13.0mbd during 2005. Frackers continue to make America a great oil producer again.

(2) *Employment & wages.* As we do every month, Debbie and I go straight to the bottom line of the monthly employment report. Friday's data for July showed that the Earned Income Proxy (EIP) for private-sector wages and salaries rose 0.5% m/m and 4.6% y/y (*Fig. 11*). Our proxy was tracking wages and salaries very closely until mid-2016, but has been stronger than wages and salaries since then. Our hunch is that the latter variable could be revised higher substantially.

While wage inflation remained subdued at 2.5% y/y during July, as Debbie discusses below, it has been outpacing price inflation. As a result, real average hourly earnings (using the PCE deflator) rose to another record high in June (*Fig. 12*). This measure of purchasing power (and the standard of living) is up 0.9% y/y, 5.7% since January 2009, and 17.4% since January 2000. In other words, the notion that wages have been stagnating for several years is a HUGE myth.

**Geopolitics: Bay of a Pig.** Now let's consider geopolitical risk. President Donald Trump and his agenda are sinking in the swamp of domestic politics. He seems to score more points when he goes abroad, such as when he lobbed some cruise missiles into Syria on April 7, when he met with leaders in the Middle East and Europe during May, and when he gave his praiseworthy Western Civ speech in Warsaw on July 6. When he met with President Barack Obama on November 10 last year, the outgoing president told his successor that his number one geopolitical challenge would be posed by North Korea's nuclear missile ambitions.

Sure enough, North Korea conducted its second ICBM test a week ago Friday in what it called a warning to the “beast-like US imperialists.” It came less than a month after its first test, on July 4. This could develop into a geopolitical crisis that could have a bearish impact on the stock market, though more likely triggering a correction and a buying opportunity rather than a bear market. Consider the following:

(1) US Secretary of State Rex Tillerson hit back on Saturday, July 29, describing North Korea’s launch as a “blatant violation” of multiple UN Security Council resolutions. He also blamed Beijing and Moscow: “As the principal economic enablers of North Korea’s nuclear weapon and ballistic missile development program, China and Russia bear unique and special responsibility for this growing threat to regional and global stability.”

(2) This past Saturday, Trump’s National Security Adviser H.R. McMaster said in an interview with MSNBC that the US is preparing for all options to counter the growing threat from North Korea, including launching a “preventive war.”

(3) A week ago Sunday, the US conducted a test of its Terminal High Altitude Area Defense (THAAD) defense system in Alaska by launching a ballistic missile over the Pacific Ocean. The weapon was fired by a US Air Force plane and intercepted by the system, the Missile Defense Agency (MDA) said, describing the test as “successful.”

THAAD is designed as a “bullet to hit a bullet.” It carries no warhead, relying on its kinetic energy to destroy an enemy’s incoming missile. That’s to reduce the chances of exploding a conventional warhead or detonating a nuclear one. The system is designed, built, and integrated by Lockheed Martin Space Systems, acting as prime contractor. Key subcontractors include Raytheon, Boeing, Aerojet Rocketdyne, Honeywell, BAE Systems, Oshkosh Defense, MiltonCAT, and the Oliver Capital Consortium.

(4) China's state-owned Xinhua news agency blasted the South Korean government on Friday over its decision to deploy additional THAAD launchers. The Chinese are convinced that the system’s very sophisticated radar will be used to track missiles launched from China. That’s a fear that Trump could heighten for the Chinese by convincing Japan to install a THAAD system, in an effort to pressure the Chinese to stop the North Koreans.

(5) On Saturday, the UN Security Council passed a resolution imposing new sanctions on North Korea. It targets the country's primary exports, including coal, iron, iron ore, lead, lead ore, and seafood. Also targeted are other revenue sources, such as banks and joint ventures with foreign companies. The sanctions will slash North Korea's annual export revenue of $3 billion by more than a third, according to a statement from the office of Nikki Haley, the US ambassador to the UN. Though it’s doubtful, let’s hope the sanction approach works.

(6) This rapidly evolving crisis remains under the stock market’s radar screen for now. In many ways, it reminds me of the Cuban Missile Crisis during October 1962. Emboldened by America’s botched April 17, 1961 Bay of Pigs fiasco, aimed at toppling Fidel Castro, Soviet leader Nikita Khrushchev put nuclear missiles in Cuba. President John Kennedy called his bluff by imposing a naval blockade around the island nation. Khrushchev blinked and withdrew the weapons.

This time, the US is moving antimissile systems close to China, not only to defend against North Korean missiles but also to spur the Chinese to get rid of North Korean leader Kim Jong Un, who is certainly cruel and dangerous and probably crazy too. The deal: Make Kim go away, and we won’t deploy THAAD.

(7) If China fails to make the deal, then the US might very well use THAAD to shoot down a North Korean missile test. That would certainly get everyone's attention, including complacent stock investors'. It would also unambiguously resolve the question about Kim's sanity. If he does nothing to retaliate other than to kick and scream, he is sane. If he attacks South Korea with an artillery barrage, he is insane.

**Performance: Running of the Bulls.** The Dow broke through 22,000 last Wednesday for the first time on the strength of Apple and its better-than-expected earnings. So this seems to be an opportune time to look back at what has driven the stock market to this large, round number and what today's earnings forecasts could mean for the future:

(1) *Leading the charge.* Since the S&P 500 bottomed on March 9, 2009, five of its sectors have outperformed the broader index's gain of 266.1%: Consumer Discretionary, up 476.1%, Financials (402.4%), Information Technology (395.7), Real Estate (352.7), and Industrials (343.0). The remaining six sectors have lagged behind the S&P 500's return since that fateful day. Here's how the remaining sectors performed: Health Care (262.7), Materials (214.3), Consumer Staples (183.4), Utilities (139.9), Telecom Services (82.8), and Energy (55.5) (*Table 1*).

Since the most recent correction bottom on February 11, 2016, Financials led the way (58.9%), followed by Tech (55.3), Materials (40.0), and Industrials (38.9), S&P 500 (35.4), Consumer Discretionary (33.3), Health Care (25.3), Real Estate (21.1), Energy (19.0), Utilities (18.0), Consumer Staples (11.9), and Telecom Services (2.2) (*Table 2*).

(2) *Earnings power.* With the benefit of hindsight, it's easy to see why the S&P 500 Tech sector has led the way for most of the past 10 years: The sector's earnings growth has outpaced the earnings growth generated by the S&P 500's 10 other sectors. And over the past year, that earnings outperformance has accelerated (*Fig. 13* and *Fig. 14*).

Going forward, Tech again is expected to generate strong earnings growth, but Energy, Materials, and Financials may do even better. Here's the earnings growth forecasted for the S&P 500 sectors over the next 12 months: Energy (81.8%), Materials (14.0), Financials (12.1), Tech (11.0), S&P 500 (10.8), Industrials (9.9), Consumer Discretionary (9.5), Health Care (7.7), Consumer Staples (6.9), Utilities (4.0), Telecom Services (0.6), and Real Estate (-10.3) (*Table 3*).

(3) *High on life*. Over the past year, the Tech sector's forward earnings multiple has increased by almost two percentage points, to 18.6. Even so, it's not much higher than the S&P 500's earnings multiple, nor is it much higher than the P/Es of other sectors in the index. Here's where forward earnings multiples stand today and where they were a year ago for the S&P 500's 11 sectors: Real Estate (38.8, N/A), Energy (28.3, 39.8), Consumer Staples (19.9, 20.5), Consumer Discretionary (19.7, 17.7), Tech (18.6, 16.7), Materials (18.1, 17.1), S&P 500 (18.0, 17.1), Utilities (17.9, 18.3), Industrials (17.7, 16.7), Health Care (16.4, 15.9), Financials (14.0, 13.9), and Telecom Services (12.6, 14.6) (*Table 4*).

See you at Dow 23,000. But keep an eye on the crazy guy in North Korea.

**Movie.** "Detroit" (+ +) (*link*) 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.

## CALENDARS

**US. Mon:** Consumer Credit $16.0b, Kashkari. **Tues:** NFIB Small Business Optimism Index 103.2, Job Openings 5.6m. (Bloomberg estimates)

**Global. Mon:** Eurozone Sentix Investor Confidence 27.6, Germany Industrial Production 0.2%m/m/2.7%y/y. **Tues:** Germany Trade Balance (euros) 23.0b, China Trade Balance $23.0b, China Foreign Direct Investment. (DailyFX estimates)

## STRATEGY INDICATORS

**Global Stock Markets Performance** (*link*): The US MSCI index edged up less than 0.2% last week, ranking 29th of the 49 markets as 30 rose in US dollar terms—compared to 34th a week earlier, when it fell less than 0.1% as 33 markets moved higher. The AC World ex-US index outperformed the US MSCI for a fourth straight week, rising 0.6% compared to a 0.1% gain a week earlier. EM Eastern Europe led all regions with a gain of 1.3%, followed by EMU (1.3%), BRIC (1.3), EM Latin America (1.2), EMEA (0.9), and EAFE (0.8). EM Asia was the week's worst-performing region, albeit with a gain of 0.5%. Portugal (4.7) was the best-performing country, followed by Hungary (2.8), Brazil (2.6), Italy (2.4), Hong Kong (2.0), and Greece (1.7). Israel tumbled 12.1% for its worst decline since September 2001, followed by South Africa (-2.8), Egypt (-1.7), and Sri Lanka (-1.7). In July, the US MSCI rose 2.0%, ranking 34/44 and behind the 3.3% gain for the AC World ex-US index as all regions rose. That compares to a 0.5% gain in June, when it ranked 24/44 and was ahead of the 0.1% rise for the AC World ex-US in a month when most regions rose. The best regions in July: EM Latin America (7.9), BRIC (7.3), EM Asia (4.5), EMEA (4.3), and EMU (3.7). July's worst-performing regions, albeit with gains: EAFE (2.6) and EM Eastern Europe (3.2). The US MSCI is up 10.8% ytd, with its ranking up one place w/w to 37th of the 49 markets, but continues to trail the AC World ex-US (16.8) on a ytd basis. Forty-five of the 49 markets are positive ytd, now led by Austria (42.8), Poland (41.0), Turkey (37.8), China (34.1), Greece (33.3), and Argentina (33.1). The worst country performers ytd: Russia (-12.7), Pakistan (-11.2), Israel (-3.4), and Jordan (-0.2). EM Asia is the best-performing region ytd with a gain of 28.3%, ahead of BRIC (25.6), EMU (21.0), and EM Latin America (18.7). The worst-performing regions, albeit with gains: EM Eastern Europe (0.5), EMEA (5.9), and EAFE (15.7).

**S&P 1500/500/400/600 Performance** (*link*): LargeCap was the only index to rise last week as its 0.2% gain outperformed MidCap (-0.6%) and SmallCap (-1.2). Twelve of the 33 sectors rose w/w, the lowest in four weeks and down from 14 rising a week earlier. At the week's end, LargeCap stood a shade below its July 26 record high, MidCap was 2.3% below its July 25 high, and SmallCap was 2.4% below its July 25 peak. SmallCap Telecom was last week's best performer as it soared 3.5%. Also performing well were SmallCap Utilities (1.9), LargeCap Financials (1.8), MidCap Telecom (1.7), LargeCap Utilities (1.5), and MidCap Financials (1.0). Last week's worst performers: SmallCap Tech (-3.7), MidCap Energy (-2.8), MidCap Consumer Staples (-2.4), SmallCap Energy (-2.2), MidCap Tech (-2.1), and MidCap Health Care (-2.0). All three market-cap indexes moved higher in July as LargeCap rose for a fourth straight month. LargeCap's gain of 1.9% was its best in five months, and ahead of SmallCap's (0.9) and MidCap's (0.8). Twenty-five of the 33 sectors advanced in July, the most since 25 rose in February and up from 18 rising in June. July's best performers: SmallCap Utilities (5.7), LargeCap Telecom (5.1), LargeCap Tech (4.3), SmallCap Tech (4.1), and MidCap Tech (3.6). July's laggards: SmallCap Telecom (-3.8), MidCap Health Care (-2.6), MidCap Telecom (-2.5), and SmallCap Health Care (-1.4). Twenty-two of the 33 sectors are positive ytd, with LargeCap (10.6) easily beating both MidCap (5.5) and SmallCap (2.0). Tech and Health Care dominate the biggest sector gainers ytd: LargeCap Tech (22.5), MidCap Health Care (17.5), SmallCap Health Care (16.6), LargeCap Health Care (15.3), SmallCap Utilities (14.6), and MidCap Tech (13.6). Energy and Telecom dominate the worst performers ytd: SmallCap Energy (-37.4), MidCap Telecom (-33.0), MidCap Energy (-30.7), LargeCap Energy (-12.8), and LargeCap Telecom (-8.8).

**S&P 500 Sectors and Industries Performance** (*link*): Four of the 11 sectors rose last week, and four outperformed the S&P 500's 0.2% gain. This compares to six sectors rising a week earlier, when six outperformed the S&P 500's less than 0.1% decline. Financials was the best-performing sector for the third time in six weeks as its 1.8% gain was ahead of these outperforming sectors: Utilities (1.5%), Industrials (0.8), and Tech (0.4). Energy (-1.0) was the worst-performing sector, followed by Materials (-0.8), Health Care (-0.6), Consumer Staples (-0.6), Consumer Discretionary (-0.4), Real Estate (-0.2), and Telecom (-0.1). The S&P 500 rose 1.9% in July for its best gain in five months as all 11 sectors moved higher and four beat the index; that compares to five sectors rising and five beating the S&P 500's 0.5% gain in June. The leading sectors in July: Telecom (5.1), Tech (4.3), Energy (2.4), and Utilities (2.4). Industrials was the biggest laggard in July as it barely edged higher, followed by gains for Consumer Staples (0.4), Health Care (0.7), Real Estate (1.1), Materials (1.4), Financials (1.6), and Consumer Discretionary (1.8). So far in 2017, nine of the 11 sectors are higher, but only three have outperformed the S&P 500's 10.6% gain. The best performers in 2017 to date: Tech (22.5), Health Care (15.3), and Consumer Discretionary (11.8). The eight sectors underperforming the S&P 500 ytd: Energy (-12.8), Telecom (-8.8), Real Estate (5.7), Consumer Staples (6.5), Financials (8.9), Industrials (9.4), Materials (9.6), and Utilities (10.6).

**Commodities Performance** (*link*): Fourteen of the 24 commodities we follow rose last week as the S&P GSCI commodities index fell 0.5%, unchanged from 14 commodities rising a week earlier, when the GSCI index rose 4.2%. Livestock-related commodities were among the week's strongest performers: Cotton (2.6%), Feeder Cattle (2.5), Lead (1.7), Coffee (1.7), and Live Cattle (1.5). Last week's laggards: Natural Gas (-5.7), Soybeans (-5.6), Wheat (-5.5), Kansas Wheat (-4.5), and Cocoa (-3.2). July saw 15 of the 24 commodities climb, up from nine rising in June and led by Heating Oil (12.4), GasOil (11.8), Coffee (10.8), Unleaded Gasoline (10.8), Crude Oil (9.0), and Nickel (8.8). July's laggards: Lean Hogs (-21.2), Kansas Wheat (-10.3), Wheat (-9.8), Natural Gas (-7.9), and Live Cattle (-3.7). The best performers in 2017 so far: Feeder Cattle (20.6), Lead (17.3), Copper (15.0), Aluminum (12.4), and Wheat (11.5). The energy-related commodities still dominate this year's laggards: Sugar (-27.5), Natural Gas (-25.5), Brent Crude (-7.7), Crude Oil (-7.7), and Cocoa (-6.2).

**Assets Sorted by Spread w/ 200-dmas** (*link*): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 10/24 commodities, 5/9 global stock indexes, and 8/33 US stock indexes compared to 15/24, 3/9, and 10/33 rising a week earlier, respectively. Thirteen commodities trade above their 200-dmas, down from 15 a week earlier, as Brent Crude turned positive and these three turned negative: Corn, Crude Oil, and Soybeans. Commodities' average spread fell w/w to 0.2% from 1.0%. Feeder Cattle leads all commodities at 11.2% above its 200-dma, followed by Copper (10.6%). Lead (5.8) performed the best of all commodities last week as it improved 1.5ppts. Sugar (-19.4) trades the lowest of all commodities, but Wheat (3.0) tumbled 6.3ppts last week for the worst performance of all commodities and all assets. The global indexes trade at an average of 5.4% above their 200-dmas, up from 5.1% above in the prior week. Eight of the nine global indexes trade above their 200-dmas, unchanged from a week earlier. Chile (11.5) leads the global indexes and all assets, but Brazil had the best performance among its peers as it gained 2.1ppts to 5.2%. Canada (-0.7) trades the lowest relative of the global assets to their 200-dmas, but Indonesia (4.9) performed the worst of its country peers last week, falling 1.2ppts. The US indexes trade at an average of 1.4% above their 200-dmas, with 26 of the 33 sectors above, down from a 2.1% average a week earlier, when 28 sectors were above. These three US indexes turned negative w/w: MidCap Consumer Staples, MidCap Real Estate, and SmallCap Materials. SmallCap Utilities now leads all US stock indexes at 11.2% above its 200-dma, followed by LargeCap Tech (11.2), and SmallCap Health Care (8.6). SmallCap Telecom (4.0) improved 3.2ppts w/w, the most among the US stock indexes and all assets. SmallCap Energy trades

24.5% below its 200-dma, now the lowest among the US stock indexes and all assets; SmallCap Tech (3.1) fell 4.5ppts w/w for the worst performance of the US stock indexes.

**S&P 500 Technical Indicators** (*link*): The S&P 500 index remained in a Golden Cross last week for a 67th week (after 17 weeks in a Death Cross). The index's 50-day moving average (50-dma) relative to its 200-dma weakened for the fifth time in six weeks, edging down to 4.5% above its 200-dma from 4.6%. That's down from a 34-month high of 5.4% in early April and compares to a six-month low of 2.0% in early December and a 52-month low of -4.5% in March 2016. The S&P 500's 50-dma moved higher for a 37th week as the index closed above its 50-dma for a 15th week, after trading below for two weeks during late April for the first time since the November election. However, the S&P 500 weakened to 1.3% above its rising 50-dma from 1.4%, and is down from an 11-week high of 2.5% in early June. These readings compare to a 23-week low of -1.0% in mid-April, a 38-week high of 4.8% on December 13, and a 52-month high of 6.2% in March 2016. The S&P 500 fell to 6.0% above its rising 200-dma from 6.1% a week earlier, and is down from an 11-week high of 7.4% in early June. That's up from mid-April's 19-week low of 4.2%, but down from a 38-month high of 9.4% on March 1. The 50-dma and 200-dma both rose together for a 34th week.

**S&P 500 Sectors Technical Indicators** (*link*): Four of the 11 sectors improved w/w relative to their 50-dmas, and three improved relative to their 200-dmas (Financials, Health Care, and Utilities). Tech was mixed, improving relative to its 50-dma and weakening relative to its 200-dma. Ten of the 11 sectors trade above their 50-day moving averages (50-dmas), unchanged from a week earlier as Energy was positive again after 27 weeks below. Consumer Staples traded below its 50-dma for a seventh week. During mid-April, just three sectors were above their 50-dmas, which was the lowest since the election. All 11 sectors had been above their 50-dmas during mid-January, and all 11 were below the week before the election, for the first time since December 11, 2015. The longer-term picture is better: Nine of the 11 sectors were above their 200-dmas last week, unchanged from a week earlier, as Energy was below for a 22nd week and Telecom for a 20th week. Nine sectors are in a Golden Cross, with 50-dmas higher than their 200-dmas, unchanged from a week earlier and leaving Energy and Telecom still out of the club. All 11 had been in a Golden Cross during a 21-week streak that ended October 24, the longest such stretch since October 2014. Nine of the 11 sectors have rising 50-dmas, down from 10 a week earlier, as Consumer Staples turned down again and Energy's 50-dma fell for a 25th week. Ten sectors have rising 200-dmas, unchanged from a week earlier as Telecom's fell for an 18th week.

## US ECONOMIC INDICATORS

**Employment** (*link*): Job growth beat expectations again in July, while there was an upward revision to June payrolls and a downward revision to May's—with the net two-month gain negligible. US companies expanded payrolls by 209,000 last month (31,000 above the consensus estimate of 178,000), after an upward revision to June payrolls (to 231,000 from 222,000) and a downward revision to May's (145,000 from 152,000), for a net gain of 2,000. Private payroll employment climbed 205,000 after gains of 194,000 (vs 187,000 preliminary) and 153,000 (159,000) the prior two months, for a net addition of only 1,000. The breadth of job creation (percent of private industries increasing payrolls) for both the one-month (63.2%) and three-month (64.9) spans moved further above 60.0%, with the former the second highest since the end of 2015.

**Earned Income Proxy** (*link*): Our Earned Income Proxy (EIP) continues to soar to new record highs each month, rising for the 14th time in 17 months, by 0.5% in July and 6.4% over the period. Average hourly earnings, one of the components of our EIP, climbed 0.3% and 3.9% over the comparable periods, while aggregate weekly hours, the other component, advanced 0.2% and 2.5%. Our proxy tracks income and spending closely and continues to predict robust gains in both.

**Employment by Industry** (*link*): Hirings in restaurants, professional & business services, and health care led July job gains. Employment in restaurants and professional & business services continued to trend higher, with the former expanding by 51,100 in July—the biggest monthly gain since March 2014—and 313,000 over the past 12 months, while the latter added 49,000 and 580,000 jobs over the comparable periods. Health care boosted payrolls by 39,400 last month—the most since last July—and has averaged 30,900 the past four months; employment is up 182,800 year to date. Meanwhile, mining companies hiked payrolls for the ninth consecutive month by a total of 54,300, after falling steadily from October 2014 through October 2016, though the pace slowed last month. Employment in other major industries—including construction, manufacturing, wholesale trade, retail trade, transportation & warehousing, information services, financial activities, and government—showed little change last month.

**Unemployment** (*link*): July's unemployment rate (to 4.3% from 4.4%) ticked back down to May's 16-year low. The civilian labor force expanded by 710,000 during the two months through July, while those not in the labor force dropped by 326,000 over the same period. The participation rate ticked up for the second month to 62.9%, but has shown little movement on net over the past year. July's teenage rate sank for the third month to 13.2%, its lowest reading since December 2000. The adult (4.0%) and college grad (2.4) rates held just above their May cyclical lows of 3.9% and 2.3%, respectively. Those working part-time for economic reasons (a.k.a. "involuntary part-time workers") barely budged, edging down 44,000 to 5.28 million in July (3.3% of the civilian labor force), back near May's 5.22 million, which was the lowest level since April 2008. The sum of the underemployment and jobless rates (7.6) was back down at May's cyclical low, while the U6 rate—which includes marginally attached workers—was unchanged at 8.6%, just above May's cyclical low of 8.4%.

**Wages** (*link*): Wage inflation—as measured by the average hourly earnings rate for all workers on private nonfarm payrolls (AHE)—was at 2.5% y/y in July for the fourth month, below February's 2.8%. The wage rate for goods-producing industries (2.6% y/y) edged higher for the second month after falling to a 19-month low of 2.1% in May, while service-providing's was at 2.6% for the third month, remaining just below its recent high of 2.8%. Within goods-producing, the manufacturing rate (2.6) moved further above 2.0%, after falling from a recent high of 3.5% in October to 2.0% in May, while the natural resources rate accelerated 3.0% y/y after dipping below zero in May; the construction rate (2.5) held around recent lows. Within service-providing, rates for information services (4.9) and education & health services (2.5) accelerated out of their recent flat trends, while rates for financial activities (2.2) and professional & business services (2.3) continued to move sideways. The rate for transportation & warehousing (2.5) remained stalled at recent highs, while wholesale trade's (1.7) sank to a 23-month low. The utilities' rate (1.6) remained on a volatile downtrend, while retail trade's continued to bounce around recent lows.

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