MORNING BRIEFING
September 13, 2017

Another Seinfeld Episode

See the collection of the individual charts linked below.

(1) Less panic-prone bull. (2) Seinfeld stock market happiest when nothing happens. (3) Fundamental Stock Market Indicator remains bullish. (4) S&P 500/400/600 forward revenues moving forward to new highs. (5) JOLTS reports record number of job openings, matching number of unemployed workers. (6) More job quitters confirm tight labor market. (7) So why aren't wages rising faster? (8) Some quitters, such as Baby Boomers, may be retiring rather than moving to better-paying jobs.

Strategy: Back to Basics. The panic-prone bull market in stocks since 2009 has been less panic-prone. The bull turned a bit anxious again last week as Hurricane Irma threatened to level all of Florida after Hurricane Harvey swamped all of Houston and surrounding areas. Irma did lots of damage, but so have previous hurricanes without any consequences for the US economy and stock market. There was also some lingering anxiety about geopolitical tensions with North Korea. However, for now, the US continues to seek nonlethal options, particularly more UN-imposed trade sanctions. Immediate worries about the US federal debt ceiling vanished last Wednesday, when President Donald Trump cut a deal with congressional Democrats to raise the ceiling for three months and agreed to provide emergency funds for Texas and Florida.

When *Seinfeld* aired on television, millions of Americans viewed the show that was mostly about nothing. Nothing ever happened, which viewers found very entertaining. The bull market has turned into the Seinfeld market. During every episode, investors are watching for something to happen. When nothing happens, especially nothing bad, investors are bemused and show their appreciation by throwing more money at the bull. So it's back to some of the basics that continue to drive the bull market:

(1) *Fundamental Stock Market Indicator.* Our Fundamental Stock Market Indicator edged down in early September, but remains in record-high territory (*Fig. 1*). It has been highly correlated with the S&P 500 since 2000. Its two components declined slightly in early September (*Fig. 2*).

The Boom-Bust Barometer has been rising in record-high territory since late September 2016 (*Fig. 3*). It is simply the ratio of the CRB raw industrials spot price index to initial unemployment claims. The commodity index has been moving higher recently, led by the soaring price of copper (*Fig. 4*). Initial jobless claims remain near recent cyclical lows, but rose in early September as a result of Hurricane Harvey, according to the Bureau of Labor Statistics (BLS) (*Fig. 5*).

The Weekly Consumer Comfort Index rose at the end of August to a 16-year high, but edged down at the start of September. This index has been highly correlated with the S&P 500 forward P/E since 1995 (*Fig. 6*). When consumers are happy, investors tend to be willing to pay more for earnings.

(2) *Forward revenues.* S&P 500/400/600 forward revenues all rose to record highs last month (*Fig. 7*). Also impressive is that analysts' consensus expectations for S&P 500 revenues remain remarkably stable at elevated levels, with current estimates implying a solid gain of 5.0% in 2018, following 5.6% this year.

Also impressive is that analysts have been raising their 2017 and 2018 revenues estimates for S&P 400/600 since the start of this year.

(3) *Forward earnings.* The forward earnings of the S&P 500/400/600 continue to trend higher in record-high territory (*Fig. 8*). During the first week of September, forward earnings for the S&P 500/400 both rose to record highs.

Interestingly, the forward profit margin was 11.0% at the end of August for the S&P 500, near recent record-high readings (*Fig. 9*). The margin for the S&P 400 remains near its cyclical high at 6.7%. Joe and I are trying to figure out why the forward profit margin for the S&P 600 SmallCaps has declined from a cyclical high of 6.1% during October 2013 to 4.8% currently.

US Labor Market: Help Wanted. Yesterday, the BLS released its JOLTS report with July data on job openings and turnover. Also yesterday, the National Federation of Independent Business (NFIB) released its monthly survey of small business owners with August data. Both confirm that the job market remains tight with lots of job openings, as Debbie reviews below. Let's look at the key takeaways from both:

(1) *Job openings.* There's a high correlation between the NFIB's series on the percentage of small business owners reporting that they have job openings and both the number of job openings and the job openings rate in the JOLTS report (*Fig. 10* and *Fig. 11*).

The advantage of the NFIB series is that it starts in 1974, while the JOLTS data are only available since December 2000. In any case, all three job openings series show that the labor market is as tight as it was in late 2000, when the unemployment rate was at 3.9% during the final four months of that year (*Fig. 12*).

During July, the number of job openings was a record-high 6.17 million, while the number of unemployed workers totaled 6.98 million. The ratio of the number of unemployed workers to the JOLTs job-openings series sank to 1.13 during July, the lowest since January 2001 (*Fig. 13*).

(2) *Quitters.* In the JOLTS report, the quits rate edged down during July (*Fig. 14*). But it remains on an uptrend and near its cyclical high during May. It is highly correlated with both the Consumer Sentiment Index and the Consumer Confidence Index. That makes sense since workers tend to be most confident when the job market is tight. That creates opportunities for them to quit their job to take a better one.

(3) *Wages.* Presumably, when most workers quit their jobs, it is to take better-paying ones. So a tight labor market with lots of job openings and a rising quits rate should be associated with rising wage inflation. The Atlanta Fed's Wage Growth Tracker (WGT) shows that job switchers tend to enjoy bigger wage gains than job stayers (*Fig. 15*).

Yet the yearly percent change in average hourly earnings (AHE) for production and nonsupervisory employees remains subdued around 2.5% even as the NFIB job openings measure is the highest since May 2001 (*Fig. 16*). Back then, this measure showed wages rising 4.0%.

On the other hand, the WGT showed a wage inflation rate of 3.7% during July. It is based on median rather than average wages, and may be doing a better job of adjusting for the impact of retiring high-wage Baby Boomers being replaced by low-wage Millennials. When Baby Boomers quit, more and more of them are likely to be leaving the labor force rather than moving to higher-paying jobs.

CALENDARS

US. Wed: PPI-FD Headline, Core, and Core Less Trade Services 0.3%/0.2%/0.2%, MBA Mortgage Applications, Treasury Budget, EIA Petroleum Status. **Thurs:** Jobless Claims 300k, Headline & Core CPI, Weekly Consumer Comfort Index, EIA Natural Gas Report. (Bloomberg estimates)

Global. Wed: Eurozone Industrial Production 0.1%m/m/3.3%y/y, Eurozone Employment, Germany CPI 0.1%m/m/1.8%y/y, UK Jobless Rate 4.4%. **Thurs:** European Car Sales, China Retail Sales 10.5% y/y, China Industrial Production 6.6% y/y, Japan Industrial Production, Australia Employment Change & Unemployment Rate 20k/5.6%, BOE Rate Decision, Asset Purchase Target, and Corporate Bond Target 0.25%/435b/10b. (DailyFX estimates)

STRATEGY INDICATORS

S&P/Russell LargeCaps & SMidCaps (*link*): These LargeCap price indexes are back at record highs, but the SMidCaps have pulled back slightly from their late-July records. The SmallCap market-cap indexes have outperformed LargeCaps since the election, and MidCaps are trailing both slightly. However, on a ytd basis, the LargeCaps are easily beating the SMidCaps. Here's the ytd score through Monday's close and their percentage changes since Election Day: S&P LargeCap 500 (11.1% ytd, 16.3% since the election), Russell LargeCap 1000 (11.0, 16.4), Russell MidCap (8.4, 14.7), S&P MidCap 400 (4.7, 14.9), Russell SmallCap (4.3, 18.4), and S&P SmallCap 600 (1.2, 16.8). Momentum remains strong as the yearly change in forward earnings is up from six-year lows in early 2016, but the easy y/y comparisons may be waning. In the latest week, LargeCap's forward earnings edged down w/w to 9.5% y/y from 9.6%, which compares to a 64-month high of 10.2% in mid-May and a six-year low of -1.8% in October 2015; MidCap's was down to 13.2% from 13.5% y/y, which compares to a 66-month high of 14.0% in early August and a six-year low of -1.3% in December 2015; and SmallCap's dropped to an eight-month low of 9.5% from 10.4%, which compares to a 39-month high of 13.0% in mid-July and a six-year low of 0.3% in December 2015. LargeCap's consensus growth rates expected for 2017 have been edging higher lately, leading to a slight decline in the 2018 growth rates. However, 2018 should improve if the corporate tax rate changes. Here are the latest consensus earnings growth rates: LargeCap 11.5% and 10.9%, MidCap 11.5% and 12.9%, and SmallCap 5.7% and 20.5%.

S&P 500 Growth vs. Value (*link*): The S&P 500 Growth index is up 17.4% ytd, well ahead of the 4.0% gain for its Value counterpart. Growth had trailed Value in the four months following the election. Now, Growth's 19.6% gain since the election is leading the 11.9% increase for Value. During 2016, the S&P 500 Growth index underperformed its Value counterpart by a wide margin, rising just 5.1% vs Value's 14.3% gain. Growth is expected to deliver higher forward revenue growth (STRG), but lower forward earnings growth (STEG), than Value over the next 12 months: 7.8% STRG and 11.0% STEG for Growth, respectively, vs 4.0% and 10.5% for Value. Growth's P/E of 20.2 is near the highest since February 2004, while Value's 15.2 is down from early March's 14-year high of 16.2. Regarding NERI, Growth's was positive in August for a fourth month as it dropped to 5.5% from 7.9%, but remains close to June's six-year high of 8.0%; that compares to a five-year low of -16.2% in April 2015. Value's NERI was also positive in August for a fourth month, following 33 months of negative readings, but dropped to 1.4% from 3.8% and is down from June's six-year high of 4.7%; that compares to a five-year low of -20.3% in April 2015.

US ECONOMIC INDICATORS

NFIB Small Business Optimism Index (*link*): August's Small Business Optimism Index (SBOI) kept intact a string of historically high performances extending back to last November. "Consumer demand is very strong, and the regulatory relief has been dramatic. Small business owners still expect progress on tax reform and health care, and they will be watching closely," according to NFIB's president. The SBOI advanced for the second month, from 103.6 in June to 105.3 last month, back near January's cyclical high of 105.9. Four of the 10 components contributed positively, five negatively, while better business conditions (37%) was unchanged. Sales expectations (to 27% from 22%) once again was the biggest positive contributor, followed closely by now is a good time to expand (27 from 23) and capital spending plans (32 from 28)—with the latter reaching its highest level since 2006. Expected credit conditions (-3 from -4) inched higher. Both employment measures—job openings (31 from 35) and job creation (18 from 19)—took a step back in August after big gains in July. Other negative contributions came from both the current (-5 from -2) and expected (2 from 5) inventory components, as well as earning trends (-11 from -10).

JOLTS (*link*): Job openings advanced for the sixth time this year, jumping 54,000 in July and 631,000 ytd to yet another new record high of 6.170 million. Meanwhile, hirings more than reversed June's decline, rebounding 69,000 to 5.501 million—its best reading since December 2015. Separations climbed 324,000 in the three months through July to 5.332 million—its highest since May 2006. The latest hirings and separations data yielded an employment advance of 169,000 for July, 20,000 below July's payroll gain of 189,000—coming in below payroll employment for the third time in four months. July's job-opening rate reached a new record high of 4.4%, while the total hires rate (4.2%) was back up at its cyclical high; the quit rate (2.4) held just below May's cyclical high of 2.5%. The ratio of unemployed workers per job opening (1.13) sank to a new cyclical low—only slightly above January 2001's record low of 1.12; it peaked at 6.65 during July 2009.

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