MORNING BRIEFING
October 23, 2017

From Seinfeld to Sinatra

See the collection of the individual charts linked below.

(1) The last stock market correction until the next one. (2) Seinfeld market goes from flat (nothing happening) to new highs on nothing bad happening. (3) Investors to bull: Fly us to the moon. (4) Four times more bulls than bears. (5) S&P 500 sectors: Widespread bull market momentum in 200-dmas. (6) Leading the charge this year are IT, Industrials, Financials, and Materials. (7) Fed head tossup: winning whether it's heads or tails. (8) Republicans scrambling to get tax reform done. (9) American demographics: The Fifties are so over. (10) Movie review: "Blade Runner" (+).

Strategy: Bull's Theme Song. The last significant correction during the current bull market occurred from November 11, 2015 through February 11, 2016, when the S&P 500 fell 13.3% to bottom at 1829.08 (*Fig. 1*). The S&P 500 is up 40.8% since then, which in normal times would be a decent bull market all by itself. It is up 22.7% y/y, near the best readings since the beginning of 2013 (*Fig. 2*).

Last year on May 23, when the S&P 500 was back up to 2048.04, Joe and I observed that it still had failed to take out the previous record high 2130.82 reached on May 21, 2015. We wrote: "While these flat market trends suggest that it has been a 'Seinfeld market'—i.e., nothing much happening over the past year—there has been significant volatility on occasions, which could certainly recur." When the S&P 500 broke to record highs during the summer of 2016, we amended our spin as follows on July 12: "The rally in stock prices to new record highs is somewhat reminiscent of a *Seinfeld* episode. It is happening because not much is happening other than interest rates are at record lows."

This year on May 3, we elaborated on our theme as follows: "'The Pitch' is the 43rd episode of the TV sitcom *Seinfeld*. It is the third episode of the fourth season. It aired on September 16, 1992. In it, NBC executives ask Jerry Seinfeld to pitch them an idea for a TV series. His friend George Costanza decides he can be a sitcom writer and comes up with the idea of "a show about nothing." The bull market in stocks since March 2009 has had a fairly simple script too. As a result of the Trauma of 2008, investors have been prone to recurring panic attacks. They feared that something bad was about to happen again, so they sold stocks. When their fears weren't realized, the selloffs were followed by relief rallies to new cyclical highs and to new record highs since March 28, 2013."

With nothing bad happening, the path of least resistance for the stock market has been up to new record highs. Perhaps it is time to move on from the Seinfeld analogy. Instead, consider the possibility that the bull market has a theme song now, namely "Fly Me to the Moon," sung by Frank Sinatra:

Fly me to the moon
Let me play among the stars
Let me see what spring is like
On Jupiter and Mars ….

Stock investors are certainly singing along:

Fill my life with song
And let me sing for ever more
You are all I long for
All I worship and adore
In other words, please be true
In other words, I love you.

Until this year, the bull market had been widely described as the most hated bull market in history. Now it seems to be one of the most beloved. Go figure! The bull continues to return the love to his adoring fan base, which seems to be growing rapidly. Consider the following:

(1) *Bull-Bear Ratio.* The bull market has plenty of supporters, as is obvious by its unidirectional move to the upside since late last year. Investors Intelligence reports that the Bull-Bear Ratio rose to 4.00 during the week of October 10 and remained elevated at 3.95 last week (*Fig. 3*). The percentage of bears is just north of 15.0 over the past two weeks.

(2) *Leading the way.* This year, investors have certainly fallen in love with Information Technology, Industrials, Financials, and Materials. Joe and I gauge the momentum of the S&P 500 sectors by tracking their 200-day moving averages (*Fig. 4*, *Fig. 5*, and *Fig. 6*). Here are their 200-dma ytd performance derbies: Information Technology (23.9%), Financials (23.4), Industrials (14.7), Materials (12.9), S&P 500 (12.9), Consumer Discretionary (11.2), Health Care (8.5), Utilities (6.0), Consumer Staples (3.4), Real Estate (0.3), Energy (-1.7), and Telecommunication Services (-5.1). Lagging, but with admirable gains, are Consumer Discretionary and Health Care. The focus on cyclical stocks suggests that investors are expecting that the economic expansion may last for a while.

(3) *Fed heads.* The question of who will replace Fed Chair Janet Yellen should be troubling the stock market. It seems to have gotten the attention of the US Treasury 10-year bond yield, which is up from this year's low of 2.05% on September 7 to 2.39% on Friday (*Fig. 7*). That's largely on anticipation that Stanford University Professor John Taylor is leading the pack of candidates for the Fed's top job. He is deemed to be more hawkish than some of the other ones under consideration. This might be why he won't get the job after all. In any event, the prospect of higher bond yields has been a big positive for the Financials, much more so than it has been a negative for the other sectors.

The *WSJ* quoted President Trump late last week on this subject as follows: "Most people are saying it's down to two: Mr. Taylor, Mr. Powell. I also met with Janet Yellen, who I like a lot. I really like her a lot. So, I have three people I'm looking at, and there are a couple of others." Federal Reserve Governor Jerome Powell is widely viewed as a clone for Yellen on monetary policy.

(4) *Trump card.* Also driving the market higher recently are rising expectations that there will be tax reform by early next year that will include a cut in the corporate tax rate. On Thursday, the Senate passed a budget resolution that may expedite tax legislation. The budget proposal includes $1.5 trillion in tax reductions over the next 10 years. It might be possible to pass it with a simple 51-vote majority in the Senate, without a conference committee with the House of Representatives.

(5) *The four phases.* While we are all singing Sinatra's happy go-lucky song, let's not forget the always relevant observation of Sir John Templeton: "Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria."

American Demographics: Slicing & Dicing. Every now and then, Melissa and I like to update our analysis of demographic trends in the US. These trends change slowly, but they do change, and they certainly do have an impact on the economy. The obvious conclusion is that the profile of American households has changed dramatically since the 1950s. Let's review some of the more important trends focusing on the characteristics of total households:

(1) *Families and nonfamilies.* Family households as a percentage of total households has declined from 89.4% during 1947 to 65.3% during 2016 (*Fig. 8*). The percentage of nonfamily households has increased from 10.6% to 34.7% over this same period. These trends reflect that Americans are living longer, so there are more seniors who live in nonfamily arrangements. Millennials are staying single longer than previous generations.

(2) *Married couples.* Married couples as a percentage of total households has fallen from 78.3% during 1947 to 47.9% during 2016 (*Fig. 9*). Over the same period, all other (households excluding married couples) rose from 21.7% to 52.1%.

The percentage of family households with a father only or mother only has increased from 11.1% to 17.4% (*Fig. 10*).

(3) *Children.* Most of the drop in the percentage of households that are families has been attributable to families with children. The percentage of families with children has declined 46.7% to 27.6% of total households from 1950 through 2016 (*Fig. 11*). Married couples with children as a percentage of total households has fallen from 43.2% to 18.9% over this same period (*Fig. 12*). The percentage of other families with children has risen from 3.4% to 8.7%. The percentage of married-couple households without children has been relatively flat around 30% since the 1950s (*Fig. 13*).

(4) *Average size.* The percentage of households with only one person has increased from 13.1% during 1960 to 28.1% during 2016 (*Fig. 14*). The percentage with two persons rose from 27.8% to 34.0% over this period. The percentage with three or more persons dropped from 59.1% to 37.9%.

There was a big drop in the average number of children per family from about 2.3 in the early 1970s to about 1.8 in the late 1980s. It's been ranging between 1.8-1.9 since then (*Fig. 15*).

The conclusion is that in the decades since the 1950s, the profile of the average American household has changed dramatically. At the start of the 1950s, families accounted for 90% of all households, with close to 80% of all households having married couples. Today, families are down to 65% of households and married couples are down to 48% of households.

Children have been going out of fashion. Families with them dropped from 47% to 28% of all households since the early 1950s. Married couples with children fell from about 43% to 19%.

Smaller households, fewer kids, and fewer married couples: That's the profile of Americans today. Most of these trends can be explained by the rising percentage of the working-age population that is single, which has increased from 38% at the start of the data during 1976 to about 50% since 2013.

Movie. "Blade Runner 2049" (+) (*link*) is a sequel to the 1982 flick starring Harrison Ford. This one stars Ryan Gosling. In both movies, the world is full of "replicants," which are biorobotic androids. They are virtually identical to adult humans, but are stronger, speedier, more agile, and more resilient. They come in different models with varying degrees of intelligence. The only way to recognize them is by their lack of emotional responsiveness. Yet, just as I found myself rooting for the apes in the "Planet of the Apes" movies, I found myself rooting for the replicants.

CALENDARS

US. Mon: Chicago Fed National Activity Index -0.10. **Tues:** Composite, Manufacturing, and Nonmanufacturing PMI Flash Estimates 54.8/53.4/55.2, Richmond Fed Manufacturing Index 20. (Bloomberg estimates)

Global. Mon: Eurozone Consumer Confidence -1.1. **Tues:** Eurozone, Germany, and France Composite PMI Flash Estimates 56.5/57.5/57.0, Eurozone, Germany, and France Manufacturing PMI Flash Estimates 57.8/60.0/56.0, Eurozone, Germany, and France Nonmanufacturing PMI Flash Estimates 55.6/55.5/56.9, Japan Manufacturing Flash PMI, ECB Bank Lending Survey. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): The US MSCI index rose 0.9% last week, and ranked a very impressive sixth out of the 49 markets as 14 countries rose in US dollar terms. That compares to 39th a week earlier, when it rose 0.1% as 40 countries moved higher. The AC World ex-US index, with a -0.4% decline, underperformed the US MSCI for the fifth time in eight weeks; that result compares to a 1.7% gain a week earlier. All regions fell w/w, but EM Asia performed best last week as it edged down 0.1%, followed by EAFE (-0.3%) and EMU (-0.3). EM Eastern Europe was the worst-performing region as it fell 1.9% w/w, followed by EMEA (-1.4), EM Latin America (-1.2), and BRIC (-0.5). Pakistan was the best-performing country, with a gain of 5.6%, followed by Denmark (1.2) and Finland (1.0). South Africa was the worst performer as it fell 2.7%, followed by Poland (-2.2), New Zealand (-2.2), Russia (-2.2), and Greece (-2.1). The US MSCI is up 15.1% ytd, with its ranking up one place w/w to 32nd of the 49 markets, but continues to trail the AC World ex-US (20.6) on a ytd basis. Forty-five of the 49 markets are positive ytd, led by Argentina (67.0), Austria (50.5), Poland (47.1), China (46.6), Korea (38.9), Chile (36.9), and Hungary (35.9). The worst country performers ytd: Pakistan (-22.9), Israel (-4.6), Russia (-3.3), and Jordan (-3.2). BRIC and EM Asia are the best-performing regions ytd with gains of 35.2%, ahead of EM Latin America (25.1) and EMU (24.7). The worst-performing regions, albeit with gains: EMEA (8.6), EM Eastern Europe (9.0), and EAFE (18.6).

S&P 1500/500/400/600 Performance (*link*): Last week, the LargeCap and MidCap indexes rose for a sixth straight week and the eighth time in nine weeks, SmallCap rose after falling a week earlier. LargeCap's 0.9% rise barely edged out MidCap's 0.9% gain and SmallCap's 0.6% advance. LargeCap and MidCap ended the week at new record highs, but SmallCap was down 0.5% from its October 3 record. Twenty-one of the 33 sectors rose w/w, compared to 18 a week earlier. Last week's biggest gainers: MidCap Consumer Discretionary (2.7), MidCap Health Care (2.3), SmallCap Consumer Discretionary (2.2), SmallCap Health Care (2.1), and LargeCap Financials (2.0). Last week's worst performers: MidCap Energy (-3.2), SmallCap Energy (-3.1), and MidCap Consumer Staples (-2.3). Twenty-six of the 33 sectors are positive ytd, unchanged from a week earlier, as LargeCap (15.0) continues to outperform both MidCap (10.5) and SmallCap (9.0). Tech and Health Care dominate the biggest sector gainers ytd: LargeCap Tech (30.9), SmallCap Health Care (27.6), MidCap Health Care (21.8), LargeCap Health Care (21.8), MidCap Tech (21.6), and SmallCap Utilities (19.2). Telecom and Energy dominate the worst performers ytd: MidCap Telecom (-39.2), SmallCap Energy (-34.4), MidCap Energy (-28.1), LargeCap Telecom (-12.4), and LargeCap Energy (-9.4).

S&P 500 Sectors and Industries Performance (*link*): Six of the 11 sectors rose last week, and six outperformed the S&P 500's 0.9% gain. This compares to six sectors rising a week earlier, when five outperformed the S&P 500's 0.2% rise. Financials was the best-performing sector for the first time in 11 weeks as its 2.0% gain beat these outperforming sectors: Health Care (1.8%), Utilities (1.4), Industrials (1.3), Telecom (1.1), and Tech (1.0). Consumer Staples (-1.2) was the worst performer, and was followed by these underperformers: Real Estate (-0.8), Energy (-0.4), Consumer Discretionary (-0.2), and Materials (0.6). So far in 2017, nine of the 11 sectors are higher, but only four have outperformed the S&P 500's 15.0% gain. The best performers in 2017 to date: Tech (30.9), Health Care (21.8), Materials (17.9), and Industrials (15.2). The seven sectors underperforming the S&P 500 ytd: Telecom (-12.4), Energy (-9.4), Consumer Staples (4.4), Real Estate (6.2), Consumer Discretionary (12.2), Utilities (12.8), and Financials (14.4).

Commodities Performance (*link*): Ten of the 24 commodities we follow rose last week as the S&P GSCI commodities index edged down 0.1%. That compares to 17 commodities advancing a week earlier, when the GSCI index rose 2.8% for its best gain in 11 weeks. The week's strongest performers: Lean Hogs (4.3%), Unleaded Gasoline (2.7), and Cocoa (2.4). Last week's biggest laggards: Zinc (-4.0), Kansas Wheat (-3.1), Wheat (-3.1), and Sugar (-2.8). Industrial metals-related commodities dominate the best performers in 2017 so far: Aluminum (26.1), Copper (25.6), Lead (22.8), Zinc (21.2), Feeder Cattle (21.0), and Nickel (17.2). This year's laggards: Sugar (-28.2), Natural Gas (-16.4), Coffee (-8.6), and Cotton (-5.3).

Assets Sorted by Spread w/ 200-dmas (*link*): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 8/24 commodities, 4/9 global stock indexes, and 20/33 US stock indexes compared to 16/24, 6/9, and 17/33 rising a week earlier, respectively. Sixteen commodities trade above their 200-dmas, down from 17 a week earlier as Silver fell below. Commodities' average spread fell w/w to 2.5% from 3.3%. Nickel leads all commodities and all assets at 15.8% above its 200-dma, followed by Copper (14.9%). Sugar (-12.1) trades the lowest of all commodities relative to its 200-dma, followed by Cotton (-8.5) and Lean Hogs (-8.5). However, Lean Hogs performed the best of all assets it improved 3.9ppts w/w. Zinc (10.3) fell 5.1ppts last week for the worst performance of all commodities and all assets. The global indexes trade at an average of 7.9% above their 200-dmas, unchanged from the prior week. All nine of the global indexes trade above their 200-dmas, also unchanged from a week earlier. Brazil (14.0) leads the global indexes, but fell 1.5ppts for the worst performance among the global indexes. Japan (9.1) gained 1.3ppts for the best performance among its peers. The UK (2.1) trades the lowest among its country peers followed by closely by Canada (2.8). The US indexes trade at an average of 4.0% above their 200-dmas, with 26 of the 33 sectors above, up from an average of 3.8% a week earlier, when 26 sectors were above. SmallCap Health Care leads all US stock indexes at 12.1% above its 200-dma, followed by LargeCap Tech (11.7) and SmallCap Utilities (10.5). MidCap Consumer Discretionary (5.4) rose 2.6ppts w/w for the best performance of the US stock indexes. MidCap Telecom trades 20.3% below its 200-dma, the lowest among the US stock indexes and all assets, followed by SmallCap Energy (-11.3). MidCap Energy (-7.6) and MidCap Consumer Staples (-2.4) each dropped 2.2ppts for the worst performance among US assets last week.

S&P 500 Technical Indicators (*link*): The S&P 500 index remained in a Golden Cross last week for a 78th week (after 17 weeks in a Death Cross) as both the short-term and long-term technicals improved w/w. The index's 50-day moving average (50-dma) relative to its 200-dma edged up w/w to 3.5% from 3.4%, and is up from a nine-month low of 3.3% in early October. That also compares to a 34-month high of 5.4% in early April, 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 and 200-dma both rose together for a ninth straight week, after failing to rise together in mid-August for the first time in 36 weeks. The index closed above its 50-dma for an eighth week after three weeks below, which was its worst streak since it closed below its 50-dma for 10 straight weeks from September 2016 until the November election. The S&P 500 rose to a 33-week high of 3.1% above its rising 50-dma from 2.6% a week earlier, which compares to a four-month low of 1.0% below its falling 50-dma in mid-August. These 50-dma readings compare to 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 rose to a 13-week high of 6.7%% above its rising 200-dma from 6.0% a week earlier, which compares to a post-election low of 3.0% above its rising 200-dma in mid-August. That's down from a 38-month high of 9.4% on March 1, but up from an eight-month low of -0.1% immediately before the election.

S&P 500 Sectors Technical Indicators (*link*): Among the 11 sectors, seven improved w/w relative to their 50-dma and 200-dma. These three weakened: Consumer Staples, Energy, and Real Estate. Nine of the 11 sectors trade above their 50-day moving averages (50-dmas), up from eight a week earlier as Utilities moved above for the first time in five weeks. Telecom was below for a second straight week and Consumer Staples for a fifth week. Still, that's a turnaround from mid-August when just three sectors traded above their 50-dmas, matching mid-April's reading, 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 similarly strong: Nine of the 11 sectors were above their 200-dmas last week, unchanged from a week earlier. Energy traded above its 200-dma for a fourth week after 29 weeks below; Consumer Staples was below its 200-dma for a fifth week after 32 straight weeks above; and Telecom ended the week below its 200-dma for a 30th straight week. Eight sectors are in a Golden Cross, with 50-dmas higher than their 200-dmas, down from nine a week earlier. Consumer Staples' 50-dma fell below its 200-dma for the first time since early March; Telecom was out of the club for a 32nd week; and Energy for a 28th week. All 11 sectors 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, unchanged from a week earlier. Consumer Staples' 50-dma has been falling for five weeks, and Telecom's for three weeks. Nine sectors have rising 200-dmas, unchanged from a week earlier. Energy's 200-dma fell for a 25th straight week, and Telecom's dropped for an eighth week.

US ECONOMIC INDICATORS

Leading Indicators (*link*): Leading indicators in September fell for the first time in just over a year, partly reflecting the temporary impact of the recent hurricanes. The Conference Board noted, "Despite September's decline, the trend in the US LEI remains consistent with continuing solid growth in the US economy for the second half of the year." The Leading Indicators Index (LEI) slipped 0.2% last month after a 12-month gain of 4.4% to a new record high. September's weakness was concentrated in the labor markets and residential construction, with jobless claims (-0.21ppt), building permits (-0.14), and the average workweek (-0.13) all big drags on the index. (Worth noting, jobless claims should be a big positive contributor to October's LEI; jobless claims for the week of October 14 sank to 222,000—the lowest level since March 1973, pushing the 4-week average down to 248,250.) The only other component that subtracted from September's LEI was real core capital goods orders (-0.02), which had little impact. The positive contributions were led by the new orders diffusion index (0.19) and the interest-rate spread (0.12), with stock prices, the leading credit index, and consumer expectations contributing from 0.5ppt to 0.6ppt; the contribution from real consumer goods orders (0.01) was negligible.

Coincident Indicators (*link*): September's Coincident Indicators Index (CEI) edged up 0.1% in September to a new record high, after showing no growth in August. Over the past 18 months, the CEI has posted only one decline—advancing 2.8% over the period. Three of the four components contributed positively last month as hurricanes accounted for the first decline in nonfarm payroll employment since July 2010. Here's how the remaining three components fared: 1) Real personal income—excluding transfer payments—continued its upswing after stalling early last year, rising 2.6% since declining the first two months of 2016. 2) Industrial production climbed 0.3% in September after a hurricane-related drop of 0.7% in August. According to the Fed, September's gain would have been 0.25ppt higher if not for the continued effects from Hurricanes Harvey and Irma. 3) Real manufacturing & trade sales rebounded 1.7% in the five months through September—setting new record highs along the way.

Regional M-PMIs (*link*): Two Fed districts so far have reported on manufacturing activity for this month—New York and Philadelphia—and they show growth in the sector accelerated for the third straight month at a robust pace. We average the composite, orders, and employment measures as data become available. The composite index rebounded from 14.7 in July to 29.1 this month, just shy of February's 31.0—which was the highest reading since July 2004. Both the New York (to 30.2 from 24.4) and Philadelphia (27.9 from 23.8) measures accelerated last month, with the former's recording its strongest growth since September 2014. The employment measure (23.1 from 8.6) posted its best employment gain since May 2011 as Philadelphia (30.6 from 6.6) manufacturers hired at their best pace in the history of the series going back to May 1968. New York (15.6 from 10.6) factories continued to expand payrolls at a robust pace, though paled in comparison. Meanwhile, the new orders gauge showed billings expanded at a solid, but slower pace, slipping from 27.2 in September to 18.8 this month as orders growth in both the New York (18.0 from 24.9) and Philadelphia (19.6 from 29.5) districts eased.

Existing Home Sales (*link*): Existing home sales in September rose for the first time in four months, though the gain was modest. According to NAR's chief economist, "Home sales in recent months remain at their lowest level of the year and are unable to break through, despite considerable buyer interest in most parts of the country." Existing home sales—tabulated when a purchase contract closes—edged up 0.7% to 5.39mu (saar) last month after a three-month decline of 4.8% to a 12-month low of 5.35mu. Single-family sales climbed 1.1% to 4.79mu (saar) after sliding the previous three months by 4.8%, while multi-family sales continued its up-and-down pattern, falling 1.6% last month to 600,000 units (saar), after a 1.7% gain and a 4.8% loss the previous two months. Year to date, total sales are down 2.1%—all single-family, as multi-family sales showed no change. The number of existing single-family homes on the market at the end of September rose 1.2% to 1.68mu, but was still 6.2% below a year ago—recording y/y declines for the 28th consecutive month. Unsold inventory was at 4.2 months' supply for the fifth month. (Note: According to the NAR, sales activity last month would have been somewhat stronger if Hurricanes Harvey and Irma hadn't caused notable declines in Texas and Florida.)

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