



MORNING BRIEFING

January 29, 2018

Don't Worry, Be Wealthy

See the [collection](#) of the individual charts linked below.

(1) Meltups don't have to be followed by meltdowns if they are fundamentally based. (2) A brief chronology of our meltup call. (3) Let's try a different analogy: simmering and boiling water. (4) HUGE increase in stock market wealth y/y. (5) Trickling up and down. (6) One-shot bonuses won't boost wage inflation. (7) Sentiment as bullish as in early 1987. (8) The next bear market could be like 1987, when stocks recovered rapidly because there was no recession in earnings. (9) Movie Review: "Hostiles" (+).

Strategy I: Boiling Hot. Over the past few days, Joe and I have been fielding lots of questions from our accounts about our meltup scenario. The "quirers" are worriers. They are concerned because if it is under way, that might increase the odds of a meltdown. We all know that economic booms tend to be followed by busts. The economic boom-bust cycle tends to be associated with speculative excesses during the booms. Financial and real estate asset prices tend to soar to valuation levels that aren't justified by the underlying incomes generated by these assets. Something inevitably pops the bubble, causing big losses for speculators and for the financial institutions that provided the credit that allowed speculators to leverage their bets. So the boom-bust cycle is very much tied to the meltup-meltdown credit cycle.

The short answer to the meltup question is that the stock market is in a meltup, in our opinion; but as we've been noting since the beginning of the year, it's a very unusual earnings-led meltup. Past stock market meltups, particularly the ones that occurred during 1929, 1987, and 1999, were P/E-led meltups. That's why we've been raising the odds of a meltup recently without raising the odds of a meltdown. Here is a brief recap of our subjective odds on a normal bull market, a meltup, and a meltdown:

(1) [January 16, 2018](#) meltup odds raised to 70%. We changed the odds of steady/meltup/meltdown from 20/55/25 to 5/70/25.

(2) [October 9, 2017](#) meltup odds raised to 55%. We changed from 30/50/20 to 20/55/25.

(3) [August 2, 2017](#) meltup odds raised to 50%. We changed from 40/40/20 to 30/50/20.

(4) [March 6, 2017](#) meltup odds raised to 40%. We changed from 60/30/10 to 40/40/20.

(5) [May 9, 2013](#) meltup odds at 30%. Established odds at 60/30/10.

Perhaps the meltup/meltdown terminology isn't relevant to the current bull run in stock prices. Joe and I welcome all phrase makers to come up with more descriptive terminology. An analogy might be water that has been simmering in a pot on a cooktop. The fire has been provided by earnings. Trump, along with the improvement in the global economy, raised the heat significantly, so stock prices are boiling hot. Once the one-shot corporate tax cuts are discounted in the market, stocks might stop boiling, but resume simmering. Work with us here.

Strategy II: Wealth Creator. As long as the stock market continues to be earnings-led rather than P/E-led, we can all sing Bobby McFerrin's 1988 song "Don't Worry, Be Happy." Actually, the lyrics for stock investors should be "Don't Worry, Be Wealthy." Consider the following:

(1) *Trickle up.* The S&P 1500's market capitalization has increased by a whopping \$6.6 trillion to \$27.2 trillion since Trump was elected ([Fig. 1](#) and [Fig. 2](#)). It is up 73.5% since the prior bull market's peak on July 19, 2007. Yes, the rich have gotten much richer, but so have working stiffs with 401(k) accounts invested in stock.

(2) *Trickle down.* On Friday, Adam Shell wrote an [article](#) in *USA Today* titled "Did your company pay you a bonus with tax savings? Check the list." By his count, "[m]ore than three dozen of the biggest American companies have shared their tax-cut windfalls with employees, mostly through one-time bonuses but also with hourly wage increases and bigger 401(k) matches following the new tax law passed in December.

"As of Friday, at least 39 companies in the Standard & Poor's 500 index—comprising 500 of the nation's largest companies—have said they are providing additional financial rewards to workers, citing benefits from the new tax law, according to a USA TODAY analysis of corporate press releases and company statements, as well as other forms of publicly available communications tracked by multiple sources, including Americans for Tax Reform, FactSet and S&P Global Market Intelligence."

Most of the cash payments are one-time bonuses rather than wage increases. So they won't lift wage inflation. The bonuses won't boost the widely watched average hourly earnings (AHE) because irregular bonuses are not included in this measure of wages.

(3) *Bullish squiggles.* The good news is that this meltup might be sustainable. Granted, valuation multiples are high. However, most of the gain in stock prices over the past year has been attributable to rising forward earnings rather than rising forward P/Es, as clearly shown by our Earnings Squiggles analysis ([Fig. 3](#)).

Over the past six weeks since passage of the Tax Cuts and Jobs Act through the 1/25 week, industry analysts have raised their 2018 consensus earnings-per-share estimate by \$7.16 to \$153.42. Their 2019 estimate is now \$168.94, up \$7.87 over this period ([Fig. 4](#)). This year's quarterly estimates have increased \$1.63 to \$35.83 (Q1), \$1.81 to \$37.90 (Q2), \$1.83 to \$39.33 (Q3), and \$1.93 to \$40.52 (Q4) since the tax cut ([Fig. 5](#)).

(4) *Bullish sentiment.* On the negative side, from a contrarian perspective, is that everyone is bullish, or so it seems based on the latest readings of the Investor Intelligence Bull-Bear Ratio ([Fig. 6](#)). The ratio rose to 5.25 during the 1/16 week and edged down only slightly to 5.05 during the 1/23 week. Both are the highest readings since the start of 1987. The good news is that this ratio works much better as a contrary buy signal when it is down to 1.00 or lower. It can stay quite elevated along with levitating stock prices when it is at 3.00 or higher. We don't have any experience with readings this high since 1987, which started out great, but then got hit with Black Monday on October 19.

Strategy III: 1987 All Over Again? Last year, in the 10/9 [Morning Briefing](#), we wrote: "By the way, a meltup followed by a meltdown won't necessarily cause a recession. It might be more like 1987, creating a great buying opportunity, assuming that we raise some cash at the top of the melt-up's ascent. Our animal instincts will have to overcome our animal spirits." As noted above, the Bull-Bear Ratio was very high in early 1987. Back then, it was 4.92 during the week of March 3. By the end of the year, it was down around 1.00.

(1) *Tax reform & takeovers*. Back then when Reagan was president, as now under Trump, investors were excited by a tax reform package, which cut taxes significantly for individuals. It was enacted on October 22, 1986. There was also a wave of takeovers funded by junk bonds issued by Drexel Burnham during 1987. The DJIA soared 50.5% from the passage of the tax reform plan to peak at 2722.42 on August 25, 1987 ([Fig. 7](#)).

(2) *Interest rates*. The government bond yield was relatively low at 7.18% at the beginning of 1987 ([Fig. 8](#)). Yields rose on inflationary concerns to peak at 10.23% on October 23. Contributing to the upward pressure on bond yields is that Alan Greenspan, who became Fed chairman on August 11, 1987, raised the federal funds rate by 50bps on August 27 ([Fig. 9](#)).

(3) *Stock valuations*. The S&P 500 forward P/E rose from 10.1 at the start of 1986 to peak at 14.8 during August 1987 ([Fig. 10](#)). It then plunged to 10.5 by the end of that year. The rising bond yield, Greenspan's first policy action at the Fed, and relatively high valuations certainly set the stage for Black Monday. But the triggering event was a proposal in the House Ways & Means Committee the prior Wednesday to eliminate the deductibility of interest expense in takeovers.

(4) *Forward earnings*. Despite all the commotion, analysts' consensus earnings estimates for the S&P 500 continued to move higher during 1987 ([Fig. 11](#)). There was no recession. Stocks were deemed to be a bargain once the House committee killed the tax proposal in early December.

Movie. "Hostiles" (+) ([link](#)) is the slowest paced Western I've ever seen. There's plenty of fighting between US soldiers and Indians, and lots of people die in this woeful 1892 tale about Army Captain Joseph Blocker reluctantly escorting a dying Cheyenne war chief and his family back to their tribal land. During the long trek, even the horses proceed at a slow pace, suggesting that they know that the trip is pointless. Christian Bale plays the Army captain, mumbling most of his lines, though in a thought-provoking way. At least the scenery is nice.

CALENDARS

US. Mon: Personal Income & Consumption 0.3%/0.5%, Headline & Core PCED 1.7%/1.6% y/y, Dallas Fed Manufacturing Index 25.4. **Tues:** Consumer Confidence 123.4, S&P Corelogic Case-Shiller HPI 0.6%*m/m*/6.4%*y/y*, FOMC Begins. (*Wall Street Journal* estimates)

Global. Mon: Japan Jobless Rate 2.7%, Japan Retail Trade -0.2%*m/m*/2.1%*y/y*. **Tues:** Eurozone GDP 0.6%*q/q*/2.7%*y/y*, Eurozone Economic Confidence 116.2, Germany CPI -0.6%*m/m*/1.7%*y/y*, France GDP 0.6%*q/q*/2.3%*y/y*, Japan Industrial Production 1.5%*m/m*/3.2%*y/y*, BOJ Summary of Opinions, Carney. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): The US MSCI index rose 2.2% last week for its ninth gain in 10 weeks. The index ranked 18th out of the 49 markets in a week when all but three countries rose in US dollar terms. That compares to 31st a week earlier, when it rose 0.9% as 46 countries moved higher. The AC World ex-US index rose 1.9% and has risen for seven weeks in a row, but underperformed the US MSCI for only the second time in six weeks. However, that matches the best winning streak for the AC World ex-US index since it rose for seven weeks through June 2017. All regions rose last week for a third week as EM Latin America performed the best with a gain of 5.5%, followed by BRIC (4.2), EM Asia (2.8), EMEA (2.5), and EM Eastern Europe (2.0). EMU (1.4) and EAFE (1.5) also rose, but were the worst-performing regions. Brazil was the best-performing country, with a gain of 7.4%, followed by Turkey (6.9), Colombia (5.1), and South Africa (5.0). Argentina was the

worst performer among countries, falling 2.3%, followed by slight declines for Egypt (-1.1) and Pakistan (-0.2). On a ytd basis, the 7.5% gain for the US MSCI improved w/w to 23/33 from 28/33, and is now ahead of 7.1% gain for the AC World ex-US as all regions and 48/49 countries are higher. EM Latin America (14.6) now leads BRIC (13.1), Eastern Europe (11.4), EMEA (10.1), EM Asia (9.3), and EMU (7.9). EAFE (6.5) is the only laggard relative to the AC World ex-US's performance.

S&P 1500/500/400/600 Performance ([link](#)): All three market-cap indexes ended the week at record highs. LargeCap surged 2.2% and easily beat the gains for MidCap (0.8%) and SmallCap (0.4). Twenty-six of the 33 sectors rose w/w, compared to 24 a week earlier. Health Care dominated last week's biggest gainers: MidCap Health Care (4.9%), SmallCap Health Care (4.5), LargeCap Health Care (3.5), and LargeCap Telecom (3.5). Last week's worst performers: SmallCap Tech (-1.8) and SmallCap Financials (-0.5). LargeCap has risen 7.5% so far in 2018, ahead of the gains for MidCap (5.0) and SmallCap (4.6). The best performers to date in 2018: SmallCap Health Care (13.4), MidCap Health Care (11.1), LargeCap Health Care (10.8), LargeCap Consumer Discretionary (10.5), LargeCap Tech (8.8), and SmallCap Energy (8.8). The Utilities and Real Estate sectors dominate the worst performers and are the only sectors down ytd: SmallCap Utilities (-4.4), SmallCap Real Estate (-3.7), MidCap Utilities (-3.3), LargeCap Utilities (-3.1), MidCap Real Estate (-2.9), LargeCap Real Estate (-2.4), and MidCap Telecom (-1.9).

S&P 500 Sectors and Industries Performance ([link](#)): All 11 sectors rose last week for the first time in nine weeks, and four outperformed the S&P 500's 2.2% gain. That compares to seven sectors rising a week earlier when five outperformed the S&P 500's 0.9% gain. Health Care was the best-performing sector as its 3.5% gain fractionally edged out Telecom's (3.5) and beat the advances of Consumer Discretionary (3.2%) and Real Estate (2.3). Consumer Staples (1.1) was the biggest underperformer followed by Industrials (1.2), Materials (1.3), Energy (1.5), Tech (2.0), Utilities (2.1), and Financials (2.2). Eight sectors are higher so far in 2018, and five are ahead of the S&P 500's 7.5% ytd gain. The best performers to date in 2018: Health Care (10.8), Consumer Discretionary (10.5), Tech (8.8), Financials (8.1), and Energy (7.5). These sectors are underperforming the S&P 500 ytd: Utilities (-3.1), Real Estate (-2.4), Telecom (0.5), Consumer Staples (3.0), Materials (6.0), and Industrials (6.4).

Commodities Performance ([link](#)): The commodities markets rallied last week: 22 of the 24 commodities we follow rose for the week as the S&P GSCI commodities index rose 2.9% for its fifth gain in the past six weeks. That compares to a 0.6% decline in the prior week, when 12/24 commodities rose. Last week's strongest performers: Natural Gas (8.0), Nickel (7.3), Crude Oil (4.5), and Wheat (4.3). Last week's decliners: Cotton (-3.5) and Lean Hogs (-2.3). The S&P GSCI commodities index is off to a decent start this year, rising 4.7% ytd. The best performers so far in 2018: Crude Oil (9.5), Natural Gas (7.5), Unleaded Gasoline (7.3), and Nickel (7.0). 2018's laggards: Sugar (-11.9), Copper (-2.2), Coffee (-0.8), and Aluminum (-0.6).

Assets Sorted by Spread w/ 200-dmas ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 20/24 commodities, 4/9 global stock indexes, and 23/33 US stock indexes, compared to 11/24 commodities, 7/9 global stock indexes, and 21/33 US stock indexes rising a week earlier. Commodities' average spread rose w/w to 8.8% from 6.7%. However, more commodities trade above their 200-dmas now, 17 compared to 16 a week earlier. Crude Oil leads all commodities and all assets at 27.5% above its 200-dma, but Nickel (26.5%) rose 7.6ppts w/w for the best performance of all commodities. Crude Oil and Nickel are followed closely by Brent Crude (24.8), GasOil (23.3), and Heating Oil (23.2). Sugar (-7.3) trades at the lowest of all commodities relative to their 200-dmas, but Cotton (11.0) fell 4.2ppts last week for the worst performance of all commodities and indeed all assets. The global indexes trade at an average of 10.2% above their 200-dmas, up from 9.5% in the prior week. All nine global indexes still trade above their 200-dmas, the same as a week earlier. Brazil (21.1) still leads the global indexes as it rose 5.3ppts for the best performance among

global indexes. The UK (2.8) continues to trade the lowest among its country peers, but Japan (12.7) dropped 1.6ppt for the worst performance among global indexes. The US indexes trade at an average of 9.0% above their 200-dmas, with 26 of the 33 sectors above, up from an average of 8.0% a week earlier, when 26 sectors were above. SmallCap Health Care (23.3) still leads all US stock indexes relative to their 200 dmas, followed by SmallCap Energy (18.2), LargeCap Consumer Discretionary (17.6), LargeCap Financials (17.5), LargeCap Tech (16.8), and MidCap Energy (16.5). MidCap Health Care (13.0) rose 4.7ppts w/w for the best performance among the US indexes last week. MidCap Telecom trades at a sharp discount relative to its 200-dma of 11.6%, the lowest among not just the US stock indexes but all assets. SmallCap Tech (4.2) weakened 2.2ppts 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 91st week (after 17 weeks in a Death Cross) as both the short-term and long-term trends improved for a third straight week. The index's 50-day moving average (50-dma) relative to its 200-dma rose to 6.8% from 6.2% a week earlier. That's its highest reading since August 2013 and compares to a four-year low of -4.5% in March 2016. The S&P 500's 50-dma and 200-dma both rose together for a 22nd 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 a 21st 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 improved 6.4% above its rising 50-dma from 5.1% a week earlier. That's the highest reading since November 2011 and is up from a four-month low of 1.0% below the index's falling 50-dma in mid-August. The S&P 500 surged to 13.6% above its rising 200-dma from 11.7% a week earlier. That's the highest it has traded above its 200-dma since February 2011, which compares to a post-election low of 3.0% in mid-August and a four-year low of -10.1% in August 2015.

S&P 500 Sectors Technical Indicators ([link](#)): Among the 11 sectors, last week saw 10 improve w/w relative to their 50-dmas and all 11 to their 200-dmas. Industrials was the sole exception. Nine of the 11 sectors traded above their 50-dmas for a sixth week, unchanged from a week earlier. Utilities was below its 50-dma for a seventh week and Real Estate for a sixth week. Still, that's up sharply from six at the end of November and contrasts real favorably with the week before the 2016 election, when all 11 were below (for the first time since December 11, 2015). The longer-term picture—i.e., relative to 200-dmas—shows nine sectors trading above, also unchanged from a week earlier, as Real Estate was below for a fourth week and Utilities for a sixth week. All 11 had been above in mid-December for the first time since mid-February. Ten sectors are in a Golden Cross (50-dmas higher than 200-dmas), down from all 11 a week earlier, which was the first time since a 26-week streak ended in October 2016. Utilities left the Golden Cross club last week for the first time in 46 weeks, but Telecom was in the Golden Cross club for a second week after being out for 45 weeks. Nine sectors have rising 50-dmas, unchanged from a week earlier, as Real Estate fell for a fourth time in six weeks and Utilities dropped for a sixth straight week. Nine sectors have rising 200-dmas, up from eight a week earlier as Telecom's rose for the first time in 22 weeks. The 200-dmas for Real Estate and Utilities fell for a third week, and Energy's rose for a sixth week after falling for 34 weeks.

US ECONOMIC INDICATORS

GDP ([link](#)): Real GDP growth last quarter was below expectations, but recent history suggests it will likely be revised higher. The economy expanded 2.6% (saar) during Q4 after gains of 3.2% and 3.1% the prior two quarters—which was the first time in three years that growth posted two consecutive quarters of 3.0% plus growth. Real consumer spending accelerated 3.8% (saar) last quarter—the strongest rate in six quarters—led by an 8.2% jump in goods consumption; services spending rose 1.8%, a slight improvement from Q3's 1.1% advance. Within goods consumption, spending on consumer durable goods (14.2%, saar) was the best since Q3-2009, while nondurable goods outlays

(5.2) was the highest since Q4-2010. Real nonresidential fixed investment expanded 6.8% (saar), driven by its second consecutive double-digit gain (11.4) in equipment spending; investment in intellectual property products (4.5) was in line with prior quarters, while structures rose 1.4% after contracting 7.0% during Q3. Residential investment rebounded 11.6% (saar), nearly reversing declines of 4.7% and 7.3% the previous two quarters. Real government spending accelerated at a 10-quarter high of 3.0% (saar), with both federal (3.5) and state & local (2.6) government spending picking up. Trade subtracted from GDP growth as imports (13.9) grew at double the pace of exports (6.9). Inventory investment was also a drag on growth, slowing to \$9.2 billion (saar) from \$38.5 billion during Q3.

Contributions to GDP Growth ([link](#)): Real consumer spending once again was the number-one contributor to real GDP last quarter, while trade and inventory investment were drags on growth. Some details: (1) Real consumer spending accounted for 2.58ppts of real GDP growth during Q4 as goods consumption added 1.76ppt—durable (1.02ppt) and nondurable (0.74)—while services contributed 0.82ppt. (2) Nonresidential fixed investment (0.84ppt) was the number-two contributor to growth, driven by spending on equipment (0.62) and intellectual property products (0.18); spending on structures (0.04) was neutral. (3) Real government spending (0.50) was an important positive contributor to economic growth last quarter, reflecting positive contributions from both state & local (0.28) and federal (0.23) spending. (4) Residential investment (0.42) ended 2017 as it began, contributing positively to growth after subtracting from growth the prior two quarters. (5) Trade (-1.13) was the biggest negative contributor to growth during Q4, after contributing positively the previous two quarters—as imports (-1.96) grew at a faster pace than exports (0.82), a net drag. (6) Inventory investment (-0.67) also subtracted from growth last quarter—all nonfarm related (-0.71).

Leading Indicators ([link](#)): "The U.S. LEI continued rising rapidly in December, pointing to a continuation of strong economic growth in the first half of 2018. The passing of the tax plan is likely to provide even more tailwind to the current expansion," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. The Leading Indicators Index (LEI) continued to reach new record highs last month, climbing a better-than-expected 0.6%, after gains of 0.5% and 1.3% the prior two months. It's currently 4.5% above its previous record high recorded in March 2006. The LEI hasn't posted a decline in 20 months. Of the 10 components, seven contributed positively; only the manufacturing workweek (-0.07ppt) contributed negatively, while jobless claims and building permits were unchanged. The biggest positive contributions were recorded by the new orders diffusion index (+0.29), leading credit index (+0.13), interest-rate spread (+0.12), stock prices (+0.11), and consumer expectations (+0.09); real core capital (+0.02) and real consumer (+0.1) goods orders were modest contributors.

Coincident Indicators ([link](#)): December's Coincident Indicators Index (CEI) climbed 0.3% to another new record high. It hasn't posted a decline since January 2014, rising 8.1% over the period. All four components contributed positively last month: 1) Industrial production increased three of the final four months of 2017, rising 0.9% m/m and 2.8% over the period, surpassing 2014's record high. 2) Nonfarm payroll employment continues to head straight up to new record highs; it hasn't posted a decline since September 2010. 3) Real personal income—excluding transfer payments—rose 0.3% in December and 2.6% y/y after falling the last five months of 2016. 4) Real manufacturing & trade sales increased the last eight months of 2017, by a total of 3.4%, setting new record highs along the way.

Durable Goods Orders & Shipments ([link](#)): Both core capital goods shipments and orders in December remained at high levels, though the latter took a minor step back. Nondefense capital goods orders ex aircraft (a proxy for future business investment) edged down 0.3%—only the second decline posted during all of last year. The comparable shipments measure (used in calculating GDP) climbed for the 11th straight month—up 0.7% m/m and 8.4% y/y—to its highest reading since the end of 2014.

Both core capital goods orders and shipments expanded at double-digit rates for the second consecutive quarter, up 11.5% and 12.0% (saar), respectively, after gains of 12.7% and 11.5% during Q3. Headline durable goods orders blew past forecasts, jumping 2.9% (vs a 0.7% expected gain) as military (55.3%) and civilian (15.9) aircraft orders soared. Excluding transportation, orders rose 10 of the 12 months of 2017, jumping 0.6% in December and 8.2% y/y to its highest level since July 2008.

Regional M-PMIs ([link](#)): Four Fed districts have reported on manufacturing activity for this month—New York, Philadelphia, Richmond, and Kansas City—and they show growth in the sector remains robust. We average the composite, orders, and employment measures as data become available. The composite index slipped this month for the third month in a row, though remains high at 17.5, down from 22.7 in October (which was the highest since May 2004); it has averaged 20.6 over the past six months. Of the four regions, Kansas City's was the only one to show a slight acceleration in activity, with its composite index climbing from 13 to 16; Philadelphia (to 22.2 from 27.9), New York (17.7 from 19.6), and Richmond (14 from 20) all showed growth eased, though remained solid. The new orders gauge (13.0 from 18.6) slowed to an eight-month low after averaging 21.5 the prior five months. Kansas City (14 from 11) showed a slight pickup in activity, while both the Philly (10.1 from 28.2) and New York (11.9 from 19.0) regions showed orders' growth continued to slow from recent highs; meanwhile, Richmond's reading was unchanged at 16—though down from November's recent peak of 35. The employment measure fell from 19.7 to 12.2 this month as manufacturers in the Philadelphia (16.8 from 19.7) and Kansas City (10 from 20) regions continued to add to payrolls at a steady, though slower pace, while jobs' growth in the New York (3.9 from 22.9) region slowed dramatically this month. Once again, Kansas City was the outlier, with its employment index advancing from 16 to 18—back near its recent high of 19.

New Home Sales ([link](#)): December new home sales posted its biggest decline since August 2016, likely reflecting unseasonably cold weather and a dwindling in the hurricane-related boost as flood-damaged homes in parts of the South were replaced. New home sales fell 9.3% at the end of last year to 625,000 units (saar) after soaring two of the prior three months by a total of 23.3% to 689,000 units. (New home sales are tabulated when contracts are signed, making new home sales a timelier barometer of the residential market than existing home sales.) For calendar year 2017, sales increased 8.3% to 608,000 units—a decade high. In December, there were 295,000 homes on the market, with the supply of homes at the current sales rate rising to 5.7 months from 4.9 in November. Meanwhile, NAHB's builder confidence for January slipped 2 points to 72—holding near December's 18-year high. According to the report, "Builders are confident that changes to the tax code will promote the small business sector and boost broader economic growth. Our members are excited about the year ahead, even as they continue to face building material price increases and shortages of labor and lots."

GLOBAL ECONOMIC INDICATORS

Germany Ifo Business Climate Index ([link](#)): "The German economy entered the new year with verve," according to Ifo's Clement Fuest. The Ifo business climate index unexpectedly climbed from 117.2 to 117.6 this month—the highest in the history of the survey, going back to 1991. The present situation component advanced for the second consecutive month from 124.6 in November to a record high 127.7 in January. The reading was at 116.8 a year ago. Meanwhile, the expectations component fell for the second month from 111.0 to 108.4 over the period, remaining in record territory. Ifo's expectations component correlates closely with German factory orders and production; the overall index tracks exports more closely. Recent Ifo data continue to support a further acceleration in German activity.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor & Webmaster, 570-775-6823

Copyright (c) Yardeni Research, Inc. Please read complete [copyright and hedge clause](#).