



MORNING BRIEFING

March 28, 2018

In the Spring, There Will Be Growth

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

(1) Goldilocks likes spring best of the four seasons. (2) Chauncey's economic forecast. (3) Q1 earnings season is coming, and it could be better than expected despite upward earnings revisions. (4) S&P 500/400/600 revenues outlook continues to improve. (5) Analysts still revising S&P 500 revenues higher on balance. (6) Earnings expected to grow around 20% for S&P 500 this year. (7) Still plenty of buybacks and dividend payouts to fuel bull market. (8) Consumers have the means to spend more. They also have the confidence to do so. (9) The unemployment rate is likely to fall further.

Strategy: Bullish Earnings Ahead. Spring started on March 20. Spring is Goldilocks' favorite season because it is neither too cold nor too hot. Chauncey Gardiner, antihero of Jerzy Kosinski's satirical novel *Being There*, also likes spring because that's when his flowers and plants start to blossom and grow. In the movie version ("Being There," 1979), Chauncey, played by Peter Sellers, is mistaken for an insightful economist with a penchant for gardening metaphors instead of the literally speaking gardener that he is. When asked by the President of the United States whether the government can stimulate economic growth with temporary incentives, Chauncey replies: "As long as the roots are not severed, all is well. And all will be well in the garden." He explains that "growth has its seasons." And "Yes, there will be growth in the spring!"

The President responds: "Hm. Well, Mr. Gardiner, I must admit that is one of the most refreshing and optimistic statements I've heard in a very, very long time. I admire your good, solid sense. That's precisely what we lack on Capitol Hill."

I presume that President Donald Trump is getting more informed economic advice than provided by Chauncey. He should be doing so now that my friend Larry Kudlow is in charge of the National Economic Council. Larry [interviewed](#) me about my book on Saturday, March 18:

"Welcome back folks, I'm Larry Kudlow, pleasure to be back with you. Old friend of mine, one of Wall Street's absolute top number-one economic and investment strategy forecasters—he's got a new book out—I'm talking about Dr. Ed Yardeni, president now of Yardeni Research (that's yardeni.com), previously economist with Federal Reserve Bank of NY and the US Treasury. I want to say that Ed Yardeni and I were—I don't know what we were—friendly rivals, but mostly friends. Down through the years—the 1980s, 1990s—there were three names at the top of the list of *Institutional Investor's* All Star Team, going back. One was Ed Hyman, the other was Ed Yardeni, and the other one was a wacko named "Larry Kudlow," so you are going to get some great stuff here. Ed has a new book, called "[Predicting the Markets: A Professional Autobiography](#)."

I mentioned that I remain bullish on the stock market because the outlook is bullish for earnings. Previously, in the 3/14 [Morning Briefing](#), Joe and I wrote:

"The Q4-2017 earnings season is over. Industry analysts received quite a bit of guidance on the positive impact of the corporate tax rate cut at the end of last year on earnings this year. There will be more to come during the Q1-2018 earnings season in April, which will provide more specific numbers showing how much the Tax Cut and Jobs Act (TCJA) boosted earnings during that quarter, and is likely to boost earnings over the rest of the year.

"In other words, Joe and I suspect that neither the analysts nor investors have fully discounted the big windfall the TCJA will provide to corporate bottom lines. That's because corporate managements probably weren't sure themselves about the full impact of the TCJA during their conference calls in January, which obviously focused on last year's final results. So while many of them were giddy about the coming earnings boost in their calls with analysts and investors, they might actually have toned down their giddiness!" Let's review the latest relevant data:

(1) *Revenues for S&P 500/400/600.* Industry analysts are expecting S&P 500 revenues to grow 6.8% this year and 4.6% next year. They are expecting S&P 400 revenues to grow 6.1% this year and 4.1% next year. For the S&P 600, they are predicting 6.5% in 2018 and 4.5% in 2019.

Forward revenues, the time-weighted average of consensus estimates for this year and next year, continue to move up in record-high territory for the S&P 500/400/600 ([Fig. 1](#)). On a y/y basis, forward revenues for the S&P 500/400/600 are up 8.0%, 11.9%, and 14.5% through the week of March 15.

(2) *Revenues for S&P 500 sectors.* Since the start of the data in 2006, forward revenues are at record highs for the following S&P 500 sectors: Consumer Discretionary (up 7.0% y/y), Consumer Staples (9.9%), Financials (8.8%), Health Care (7.4%), Industrials (8.5%), Information Technology (15.5%), Materials (11.3%), and Real Estate (2.7%) ([Fig. 2](#)).

(3) *Net Revenues Revisions Indexes.* Joe reports that March data are now available for our Net Revenues Revisions Indexes (NRRIs) for the S&P 500 and its 11 sectors over the past three months ([Fig. 3](#)). NRRIs are positive for all sectors with the exception of Real Estate and Utilities. Here is the performance derby for the NRRIs: Industrials (22.5%), Materials (20.5), Financials (16.4), Health Care (16.2), Information Technology (16.1), Energy (16.1), S&P 500 (14.7), Consumer Discretionary (14.1), Consumer Staples (12.9), Telecommunication Services (3.6), Real Estate (-2.7), and Utilities (-13.1). At 14.4 during March, the S&P 500's NRI is at a record high, slightly exceeding the previous record high during May 2004.

(4) *S&P 500 earnings.* We will soon find out whether Q1-2018 earnings turned out to be even better than industry analysts expected after receiving guidance last quarterly earnings season on the positive impact of the TCJA on earnings this year. They certainly raised their 2018 earnings-per-share estimates sharply during the 14 weeks after the TCJA was enacted on December 22 through the week of March 22 for the S&P 500/400/600 by \$11.58 (7.9%), \$7.41 (7.2%), and \$5.43 (11.6%) ([Fig. 4](#)). They now expect 2018 earnings for these three composites to grow 19.6%, 19.6%, and 23.6%.

(5) *S&P 500 buybacks.* Joe reports that S&P 500 buybacks data are now available through Q4-2017. He sliced and diced the data in yesterday's [Morning Briefing](#). We like to combine buybacks with dividends paid by the S&P 500 as a measure of corporate cash flow that is getting ploughed back into the stock market. We realize that not all dividends are reinvested in the stock market, but lots are reinvested, particularly by institutional investors.

The sum of buybacks and dividends last year was \$938 billion ([Fig. 5](#)). The four-quarter moving sum of this series has been hovering around \$900 billion since 2014. Buybacks totaled \$548 billion last year, continuing to hover around \$500 billion since 2014. Dividends rose to another record high of \$436

billion.

We expect that buybacks and dividends will continue to be bullish for the stock market. Both could get a lift from significant repatriated earnings from abroad resulting from the TCJA.

US Consumers: Lots of Happiness. In the spring, there should be more consumer spending. Retail sales were surprisingly weak during January and February. Debbie and I think that doesn't make much sense given the boost to incomes from solid employment gains and the TCJA's tax cuts for most taxpayers, other than those with high incomes residing in states with high taxes.

The March Consumer Optimism Index (COI) was certainly buoyant. Debbie and I derive this measure as the average of the Consumer Sentiment Index and the Consumer Confidence Index (CCI) ([Fig. 6](#)). The overall COI rose to 114.9, the highest since November 2000. It is up from 94.0 in October 2016, just before Trump was elected president. The current conditions component of the COI jumped to 141.4 during March to the highest reading since December 2000.

In the spring, there should be more jobs, and the unemployment rate should continue to fall. That's the implication of the CCI's series on jobs plentiful and jobs hard to get. The former rose to 39.9%, the highest since April 2001, while the latter fell to 14.9%, the lowest since July 2001 ([Fig. 7](#)). The jobs-hard-to-get series is highly correlated with the unemployment rate, which was 4.1% during February, and probably moved lower in March ([Fig. 8](#)).

CALENDARS

US. Wed: GDP & PCE 2.7%/3.8%, GDP Price Index 2.3%, Corporate Profits, Advance Goods Trade Deficit -\$74.0b, Pending Home Sales 2.7%, MBA Mortgage Applications, Wholesale Trade Inventories 0.5%, EIA Petroleum Status Report, Bostic. **Thurs:** Jobless Claims 228k, Personal Income & Outlays 0.4%/0.2%, Headline & Core PCED 1.7%/1.5% y/y, Consumer Sentiment Index 102.0, Weekly Consumer Comfort Index, Chicago PMI 62.8, EIA Natural Gas Report. (*Wall Street Journal* estimates)

Global. Wed: Germany GfK Consumer Confidence 10.7, UK GfK Consumer Confidence -10, Japan Retail Trade 0.6%/m/m/1.7%/y/y. **Thurs:** Germany Unemployment Change & Unemployment Rate - 15k/5.3%, Germany CPI 0.5%/m/m/1.7%/y/y, UK Mortgage Approvals 66k, Canada GDP 0.1%/m/m/2.9%/y/y, Japan Jobless Rate 2.6%, Japan Industrial Production 5.0%/m/m/2.3%/y/y. (DailyFX estimates)

US ECONOMIC INDICATORS

Consumer Confidence ([link](#)): Consumer confidence eased a little this month after reaching more than a 17-year high in February. According to the Conference Board, "Despite the modest retreat in confidence, index levels remain historically high and suggest further strong growth in the months ahead." Confidence slipped to 127.7 after climbing the prior two months from 123.1 in December to 130.0 last month—which was the highest level since November 2000. The present situation was little changed, ticking down to 159.9 from 161.2 in February, which was the highest since March 2001. The expectations component fell from 109.2 to 106.2 this month, bouncing around March 2017's 112.3 cyclical high for the past year. The current job outlook remains the best since 2001: Jobs plentiful rose to 39.9% this month, the highest percentage since April 2001, while jobs hard to get fell to 14.9%, the lowest since July 2001. The six-month jobs outlook showed the percentage expecting more jobs (19.1%) continued to surpass those expecting fewer jobs (12.6), though the spread narrowed to 6.5ppts this month from 10.0ppts last month; it was at a cyclical peak of 11.1% a year ago.

Regional M-PMIs ([link](#)): Five Fed districts now have reported on manufacturing activity for March—New York, Philadelphia, Kansas City, Dallas, and Richmond—and they show growth in the sector slowed a bit, but remained at a relatively high level. We average the composite, orders, and employment measures as data become available. The composite index eased to 19.6 this month from 24.2 last month, which was the highest rate since July 2004. The New York (22.5 from 13.1) region showed faster growth, while Philadelphia's (22.3 from 25.8), Dallas' (21.4 from 37.2), and Richmond's (15 from 28) slowed, with the latter the weakest of the group. Meanwhile, growth in Kansas City (unchanged at 17.0) matched February's pace. The new orders gauge (15.4 from 21.3) expanded at a slower pace, as an acceleration in orders in both the Philly (35.7 from 24.5) and New York (16.8 from 13.5) regions was more than offset by big moves down in Dallas (8.3 from 25.3), Richmond (17 from 27), and Kansas City (-1 from 16)—with the latter turning negative for the first time since August 2016. The employment measure (16.6 from 20.6) showed a slowing in hiring from last month's record pace, posting the fourth best reading in the series' history going back to 2004. Kansas City (26 from 23) manufacturers added to payrolls at a record pace in March, while manufacturers in both the Philadelphia (25.6 from 25.2) and New York (9.4 from 10.9) regions added to their payrolls at about the same pace as in February—though the rate in Philadelphia was considerably faster than in New York and virtually matched Kansas City's rate. Meanwhile, Dallas (10.8 from 19.1) and Richmond (11 from 25) manufacturers hired at a considerably slower rate than last month.

GLOBAL ECONOMIC INDICATORS

Eurozone Economic Sentiment Indicators ([link](#)): March's Economic Sentiment Indexes (ESI) for the Eurozone and the EU fell for the third month since reaching 17-year highs in December, but remained at elevated levels. The Eurozone's ESI fell from 115.3 to 112.6 over the three-month period, the EU's from 115.1 to 112.5. This month, ESIs weakened in all of the five largest Eurozone economies; significantly in Germany (-2.4 points to 112.0), Italy (-1.8 to 109.8), and Spain (-1.2 to 109.0), and less so in the Netherlands (-0.5 to 112.8) and France (-0.4 to 109.5). All remained near their cyclical highs. At the sector level, only construction (+0.9 to 5.2) confidence rose last month; retail trade (-2.9 to 1.6), industry (-1.6 to 6.4), and services (-1.3 to 16.3) confidence fell, while consumer confidence was unchanged at 0.1. Confidence in all sectors remained at high levels, with construction at a new cyclical high.

Contact us by [email](#) or call 480-664-1333.

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, 570-775-6823

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