



MORNING BRIEFING

April 4, 2018

Trump's Bumps, Slumps, and Thumps

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

(1) Still looks like a solid global synchronized boom. (2) The world's economies are too interdependent for protectionism to prevail. (3) Good growth in global trade stats. (4) Lots of upbeat M-PMIs in March around the world. (5) Forward revenues of All Country World MSCI rising rapidly in record-high territory, led by the US. (6) Net Revenues Revisions Indexes remain positive, with lots of the upward revisions in the US. (7) Is Trump bullish or bearish for the stock market?

Global Economy: Growth Fundamentals Remain Strong. Economies around the world continue to experience synchronized growth, as they have since the second half of 2016. However, there is some chatter going around about a slowdown in the global economy. We aren't seeing it in the stats we follow. Consider the following:

(1) *Global trade at record levels.* We don't expect a trade war. Global trade remains at a record high. We believe that countries have become too interdependent to resort to widespread prohibitive protective barriers. The volume of world exports rose 4.5% y/y to a record high during December 2017 ([Fig. 1](#)). The sum of inflation-adjusted US imports and exports closely tracks the global measure of world exports. It was up 3.0% y/y during January, edging down from December's recent high. The growth rates of both measures have been running around 4.0% since late 2016, a significant improvement from the near-zero growth rates during late 2015 and early 2016 ([Fig. 2](#)).

Given the importance of China in world trade, we also note that the sum of Chinese imports and exports, in nominal terms, rose 19.3% y/y to a record high of 30.0 trillion yuan during February ([Fig. 3](#) and [Fig. 4](#)).

(2) *Global M-PMI remains high.* Some of the recent concerns about global growth focused on the decline in March's global M-PMI to 53.4 from a recent high of 54.5 at the end of last year ([Fig. 5](#)). The weakness was led by a drop in the M-PMI for advanced economies from 56.3 during January to 54.9 in March. However, the March readings for both the global and advanced M-PMIs remain solidly above 50.0.

The March levels for the US (59.3), Eurozone (56.6), the UK (55.1), and Japan (53.1) all were down from recent cyclical highs but solid nonetheless ([Fig. 6](#)). The March M-PMIs for the major emerging economies were more muted for Russia (50.6), India (51.0), China (51.5), and Brazil (53.4) ([Fig. 7](#)). But again, they all exceeded 50.0. Keep in mind that PMIs are diffusion indexes. That means that if the current month was just as good as the previous month, the diffusion index will be around 50.0.

By the way, we found that the sum of the US M-PMI sub-indexes for new export orders and imports is highly correlated with the growth rate of the volume of world exports on a y/y basis ([Fig. 8](#)). The former rose to a record high of 123.3 during February and edged down to 118.4 in March. The US is experiencing a trade boom, with both real merchandise exports and imports in record-high territory ([Fig.](#)

[9](#)). The problem is that the latter exceeds the former by \$837 billion (saar).

(3) *MSCI forward revenues moving higher*. We've also found that we can track the global economy on a weekly basis using analysts' consensus expectations for revenues over the next 52 weeks for the major MSCI stock price indexes. To derive these "forward revenues" series, we use a time-weighted average of analysts' consensus expectations for the current year and the coming year. The current year has more weight than the coming year at the present time. By the middle of the year, they will be equally weighted. By year-end, forward revenues will be the same as the consensus expectations for 2019.

The broadest measure of forward revenues per share is the one for the All Country World MSCI (in local currencies) ([Fig. 10](#)). It dropped sharply from its record high during the summer of 2014 and bottomed in early 2016. That drop reflected the depressing impact of the plunge in oil prices on the world energy industry. Since then, oil prices have recovered but remain well below the levels of early 2014. The revenues measure also has recovered and has been rising in record-high territory this year. Industry analysts have been raising their global revenues estimates for both 2018 and 2019.

(4) *NRRIs are in positive territory*. We also track Net Revenues Revisions Indexes (NRRIs) for the major MSCI stock price indexes. Keep in mind that analysts have a tendency to be too optimistic, so it isn't unusual to see NRRIs in negative territory even as the global economy is growing and stock prices are moving higher.

The NRRI for the All Country World MSCI has been positive since February 2017, and increasingly so since late 2017 ([Fig. 11](#)). This measure of net revenues revisions was in negative territory every single month from July 2012 through January 2017!

(5) *Slicing and dicing global forward revenues*. Now let's have some fun by comparing forward revenues of the US MSCI (in dollars) to the All Country World ex-US MSCI (in local currencies) ([Fig. 12](#)). What we see is that since early 2016, industry analysts have been—and continue to be—much more bullish on the revenues of corporations included in the US MSCI than on those of all the corporations in the rest of the world. The forward revenues of the former has been soaring in record-high territory since early 2017. The rest of the world's forward revenues has been lagging behind the US.

Not surprisingly given the above, the NRRI for the US MSCI has been more positive since early 2017 than the comparable index for the All Country World ex-US MSCI ([Fig. 13](#) and [Fig. 14](#)).

If you want to have even more fun with all these MSCI forward revenues and NRRI comparisons, see [Major MSCI Comparisons of Forward Revenues](#) and [Global Index Briefing: Net Revenue Revisions](#).

Strategy: Trump Thump. Is President Donald Trump bullish or bearish for the stock market? In a little over a year into his first term, he has been both. Since Election Day (November 8, 2016), the S&P 500/400/600 rose 34.3%, 31.8%, and 34.9% through January 26 of this year, when all three hit record highs ([Fig. 15](#)). The stock market was discounting a more pro-business White House with fewer regulations on doing business and possibly tax reform.

The Tax Cut and Jobs Act (TCJA) was enacted on December 22, 2017, and stock prices proceeded to melt up during January as analysts scrambled to raise their earnings estimates as a result of the cut in the statutory corporate tax rate from 35% to 21%.

The forward P/Es of the S&P 500/400/600 soared after Election Day through early 2017 but then meandered lower as investors lost confidence in the likelihood of tax reform. Their confidence

rebounded during the second half of last year, and was rewarded with the passage of the TCJA.

The meltup during January of this year ended abruptly during February and March as Trump turned toward his America First protectionist agenda. As of this past Monday, the forward P/Es of the S&P 500/400/600 have fully retraced their “Trump bump” after Election Day, dropping to 15.9/16.0/16.9 ([Fig. 16](#)).

However, the post-TCJA bump in forward earnings remains intact ([Fig. 17](#)). In our opinion, the P/E correction has been overdone and may be over soon. Meanwhile, the outlook for earnings remains bullish. That’s as a result of the TCJA and solid global synchronized growth.

CALENDARS

US. Wed: ADP Employment 180k, Factory Orders 1.7%, ISM & Markit NM-PMIs 59.0/54.1, MBA Mortgage Applications, EIA Petroleum Status Report, Mester. **Thurs:** Merchandise Trade Balance - \$56.7b, Jobless Claims 229k, Weekly Consumer Comfort Index, Challenger Job-Cut Report, EIA Natural Gas Report, Bostic. (*Wall Street Journal* estimates)

Global. Wed: Eurozone Headline & Core CPI 1.4%/1.1% y/y, Eurozone Unemployment Rate 8.5%. **Thurs:** Eurozone Retail Sales 0.6%*m/m*/2.3%*y/y*, Germany Factory Orders 1.5%*m/m*/6.3%*y/y*, Eurozone, Germany, France, and Italy Composite PMIs 55.3/55.4/56.2/54.9, Eurozone, Germany, France, and Italy NM-PMIs 55.0/54.2/56.8/53.9, UK Composite & NM-PMIs 53.9/54.0. (DailyFX estimates)

STRATEGY INDICATORS

YRI Weekly Leading Index ([link](#)): Our Weekly Leading Index (WLI)—a good coincident indicator that can confirm or raise doubts about stock market swings—remains stalled around its record high posted during the week of March 10. The WLI ticked up 0.1% during the final week of March after a 0.3% loss the previous week; it had soared eight of the prior nine weeks, by 8.2%, to a new record high. Our WLI is the average of our Boom-Bust Barometer (BBB) and Bloomberg’s Weekly Consumer Comfort Index (WCCI). Our BBB is fractionally lower since reaching a record high during the week of March 10, following a nine-week jump of 13.0%. Jobless claims, one of the components of our BBB, ticked down from 225,000 to 224,500 (4-wa) during the week of March 24, continuing to hover around the 223,000 reading recorded at the end of February—which was the lowest level since 1973. Meanwhile, the CRB raw industrial spot price index, another BBB component, remains in a volatile flat trend near the bottom of the range. The WCCI is fluctuating around its cyclical high—at the highest levels since February 2001.

S&P 500/400/600 Forward Earnings ([link](#)): Forward earnings rose to record highs last week for all three indexes. LargeCap’s forward earnings has been up in 35 of the past 36 weeks, and MidCap’s was higher last week for a 31st straight week, which now exceeds its prior record streak, ended in mid-2002. Earnings momentum remains healthy, as the yearly change in forward earnings is up from six-year lows in early 2016 and should remain strong in 2018. In the latest week, the rate of change in LargeCap’s forward earnings was steady at 20.1% y/y, down slightly from a seven-year high of 20.3% in mid-March, and compares to a six-year low of -1.8% in October 2015; MidCap’s dropped to 23.3% from a seven-year high of 24.0% and compares to a six-year low of -1.3% in December 2015; and SmallCap’s edged down to 26.9% from 27.1%, which was the highest since April 2011, and compares to a six-year low of 0.3% in December 2015. Here are the latest consensus earnings growth rates for 2018 and 2019: LargeCap 19.7% and 10.1%, MidCap 19.4% and 12.1%, and SmallCap 23.2% and 16.8%.

S&P 500/400/600 Forward Valuation ([link](#)): Last week saw forward P/E ratios improve from post-election lows for these three indexes. LargeCap's weekly forward P/E rose to 16.3 from 16.0 the prior week, but is down from 18.6 on January 26—the highest since May 2002. These recent levels are well above the post-Lehman-meltdown P/E of 9.3 in October 2008 but well below the tech-bubble record high of 25.7 in July 1999. MidCap's forward P/E improved to 16.4 from a 25-month low of 16.1, but remains down from a 15-year high of 19.2 in February 2017 and the record high of 20.6 in January 2002; however, it is up from a three-year low of 15.0 in January 2016. MidCap's P/E has been at or below LargeCap's P/E since August for the first time since 2009. SmallCap's P/E increased to 17.3 from a post-election low of 17.0 from 18.5. That's well below its 51-week high of 20.2 in December (which wasn't much below the 15-year high of 20.5 in December 2016, when Energy's earnings were depressed), but is comfortably above its three-year low of 15.5 in February 2016. Looking at their forward price/sales (P/S) ratios, the three indexes were unchanged w/w and remain well below their recent highs in January: LargeCap's P/S of 1.98 is down from a record high of 2.19 on January 26; MidCap's 1.29 compares to its record high of 1.40, also on January 26; and SmallCap's 0.97 is down from 1.05 then, which compares to its record high of 1.17 in November 2013, when Energy revenues were depressed.

S&P 500 Sectors Quarterly Earnings Outlook ([link](#)): With the Q4 earnings season and post-TCJA guidance complete, the Q1-2018 earnings forecast showed a surprising uptick w/w for the first time in four weeks. The S&P 500's Q1-2018 EPS forecast was up to \$36.16 from \$36.13 a week earlier. That's up 5.1% since the end of Q4 and 5.7% since the passage of the TCJA. The \$36.16 estimate represents a forecasted pro forma earnings gain for Q1-2018 of 18.5%, up from 18.4% a week earlier, and compares to Q4-2017's blended 14.8%, Q3-2017's 8.5%, Q2-2017's 12.3%, and Q1-2017's 15.3% (which then was the strongest growth since Q3-2011 owing mostly to easier comps for Energy). Since the end of Q4, Q1-2018 estimates are higher for 10 sectors and down for one. Energy's Q1 forecast has jumped 15.2%, followed by the forecasts for Telecom (up 14.4%), Financials (12.2), and Utilities (5.6). Real Estate is the sole decliner, with its Q1-2018 forecast down 6.0%, followed by small gains for Consumer Staples (0.3), Materials (0.7), Tech (1.9), Consumer Discretionary (3.5), Health Care (3.9), and Industrials (4.2). The S&P 500's Q1-2018 forecasted earnings gain of 18.5% y/y would be its seventh straight gain after four declines and its strongest since Q1-2011. All 11 sectors are expected to record positive y/y earnings growth in Q1-2018—with nine rising at a double-digit percentage rate—and four are expected to beat the S&P 500's forecasted y/y earnings gain of 18.5%. That's better than the 10 sectors rising y/y during Q4-2017, when seven rose at a double-digit pace or better. Analysts expect Energy to report another large profit jump in Q1 relative to very low earnings a year ago, but the pace will slow from triple digits in Q4. All 11 sectors last rose y/y during Q2-2017, which was the first time that had happened since Q3-2011. The latest forecasted Q1-2018 earnings growth rates vs their blended Q4-2017 growth rates: Energy (70.9% in Q1-2018 vs 120.4% in Q4-2017), Materials (27.5, 35.9), Financials (24.4, 14.6), Tech (23.4, 20.1), S&P 500 (18.5, 14.8), Industrials (14.5, 1.8), Telecom (12.9, 4.8), Consumer Staples (10.8, 12.1), Health Care (10.7, 9.1), Utilities (10.0, 12.9), Consumer Discretionary (9.4, 10.7), and Real Estate (3.0, -4.1). On an ex-Energy basis, S&P 500 earnings are expected to rise 16.7% y/y in Q1, up from a blended 12.7% in Q4 and 6.1% in Q3 (which was the slowest growth since ex-Energy earnings rose just 2.2% in Q2-2016).

US ECONOMIC INDICATORS

Auto Sales ([link](#)): Motor vehicle sales in March rebounded to 17.5mu (saar) after falling sharply from 17.9mu in December to 17.1mu by February. Sales reached a 12-year high of 18.6mu last September—boosted by consumers' replacement of flood-damaged vehicles in areas hit by the hurricanes. Light-truck sales climbed from 9.1mu to 9.6mu (saar) last month, just shy of September's 9.7mu peak, which was the strongest showing since the summer of 2005. Sales of imports fell to 3.7mu

(saar) from 3.9mu in February, which matched September's eight-year high. Domestic car sales were at 4.1mu (saar) again last month, after falling steadily from last year's high of 5.0mu in September to 4.1mu in January—which was the lowest sales pace since August 2011.

GLOBAL ECONOMIC INDICATORS

Global Manufacturing PMIs ([link](#)): Global manufacturing activity eased in March for the third month, to its lowest level since October 2017, as companies reported slower growth of output, new orders, and employment. March's JP Morgan M-PMI fell from a near seven-year high of 54.5 in December to 53.4 last month. Developed nations (to 54.9 from 55.7) continued to record much stronger growth than emerging markets (51.3 from 51.9), though both have slowed in eased months. According to the report, March data showed slower rates of expansion in both the consumer (three-month low) and intermediate (seven-month low) goods sectors, while investment goods rose to the highest level so far this year. Among the larger industrial nations, manufacturing sectors in the US (55.6 from 55.3) and UK (55.1 from 55.0) showed slightly faster growth last month, while Japan's (53.1 from 54.1) and the Eurozone's (56.6 from 58.6) slowed. Within the Eurozone, M-PMIs decelerated across the board, but still showed robust growth: the Netherlands (61.5, 5-month low), Germany (58.2, 8-month low), Austria (58.0, 10-month low), Italy (55.1, 8-month low), Greece (55.0, 3-month low), Spain (54.8, 6-month low), Ireland (54.1, 12-month low), and France (53.7, 12-month low). Meanwhile, the manufacturing sectors in Brazil (53.4 from 53.2) and Russia (50.6 from 50.2) showed stronger growth, while China's (51.0 from 51.6) and India's (51.0 from 52.1) showed weaker growth; manufacturing activity contracted in Malaysia (49.5), South Korea (49.1), and Thailand (49.1).

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