



MORNING BRIEFING

July 23, 2018

Color War

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

(1) Green light: New record highs for LEI and CEI. (2) Yield curve spread in LEI remains solidly positive. (3) Amber light: Weak payroll employment growth—from slow recovery to labor shortages. (4) Fed's Beige Book showing moderate wage gains despite tight labor supply. (5) "Shortage" mentioned 26 times. (6) Relaxing drug testing and training ex-cons. (7) Black & blue: The trade war morphs into currency war. (8) "Tariff" mentioned 31 times. (9) South of the Border: Incoming President ALMO not as radical as feared, so far. (10) Movie review: The Equalizer 2 (+ +).

US Economy I: Green. As Debbie reports below, the Index of Coincident Economic Indicators (CEI) rose to a new record high during June ([Fig. 1](#)). If it continues doing so over the next year through July, that will mark the longest economic expansion on record. The Index of Leading Economic Indicators (LEI) tends to lead the CEI by about three to six months. The former also rose to a new high in June, suggesting that the latter has a good shot at making the history books. So the LEI is flashing a bright green light for the US economy. Here are two related points:

(1) *GDP growth.* The Atlanta Fed's [GDPNow](#) is also flashing green. The July 18 estimate shows real GDP up 4.5% q/q (saar) during Q2, and 3.1% y/y. However, the CEI y/y growth rate, which tends to closely track the comparable growth rate in real GDP, continues to mosey along around 2.0%-2.5% ([Fig. 2](#)).

(2) *Yield curve spread.* As Debbie and I have observed before, the yield curve spread is one of the 10 components of the LEI, yet it has been getting all the attention recently. That's because it has been falling closer to zero this year, and EVERYBODY knows that if it turns negative, a recession is inevitable.

Not so fast. In the LEI, the yield curve component was still 109bps during June ([Fig. 3](#)). Then again, it was down to 98bps on Friday. Keep in mind that it doesn't weigh on the LEI until it actually turns negative. By the way, the ratio of the LEI to CEI also rose to a cyclical high during June. The ratio is essentially a de-trended version of the LEI and seems to provide a longer lead time for predicting recessions.

US Economy II: Beige. The CEI has four components: payroll employment, real personal income less transfer payments, real manufacturing & trade sales, and industrial production. Keeping a lid on the CEI's growth rate has been the growth in payroll employment, which has been subpar compared to previous expansions ([Fig. 4](#)). For a long while, that was because the demand for labor recovered relatively weakly from the previous recession. However, now that the unemployment rate is down to around 4.0%, the supply of labor seems to be weighing on employment growth.

The July issue of [The Beige Book](#)—a summary of commentary on current economic conditions from the Federal Reserve Bank Districts—confirms that labor shortages are constraining growth. The word

“shortage,” referring to labor, was mentioned 26 times, up from 20 instances in the previous [report](#) during May. Nationwide labor shortages were “cited across a wide range of occupations, including highly skilled engineers, specialized construction and manufacturing workers, IT professionals, and truck drivers.”

Fed District contacts attributed the labor shortages to a lack of qualified workers. To attract and retain talent, many contacts mentioned “modest to moderate” wage increases. Only “a couple of Districts cited a pickup in the pace of wage growth.”

Increasing pay isn’t solving the labor shortages in all cases. Employers are also employing other methods to fill open positions, like implementing training programs and lowering job standards, according to July’s *Beige Book*. During May, one District reported that some firms were “relaxing drug testing standards and restrictions on hiring felons to alleviate labor shortages.” See [Table 1](#) for more comments from July’s *Beige Book* about labor market dynamics, including shortages and wage pressures, in each of the 12 Fed Districts.

US Economy III: Black & Blue. The trade war morphed into a currency war last week as the Chinese yuan plunged by 1.3% ([Fig. 5](#)). It is down 3.9% since the start of the year. That will certainly offset some of the Trump administration’s threatened 10% tariff on all goods imported from China. Just a week ago, I wrote: “To add insult to injury, Trump could revive his attacks on China as a ‘currency manipulator.’ However, in my opinion, it is US trade policies, not Chinese intervention, that is weakening the yuan.” On Friday, President Trump complained in a tweet that “China, the European Union and others” are manipulating their currencies. The trade-weighted dollar is up 3.0% since the start of the year ([Fig. 6](#)).

Uncertainty about US trade policy and the impact of recently implemented tariffs are a growing concern for most of the Fed Districts, according to July’s *Beige Book*. The word “tariff” was mentioned 31 times in the most recent report, up from 22 times in May’s report (our [7/18](#) and [6/5 Morning Briefings](#) covered Fed Districts’ trade-related comments in the May *Beige Book*). That was down from 36 times in April’s report. March’s report didn’t mention the word “tariff” at all.

Two primary effects of the tariffs already have occurred. According to July’s *Beige Book*, firms are experiencing input pricing pressures and supply-chain disruptions. Another widely expected effect of the tariffs is a reduction in capital spending. Yet Fed District contacts reported either increasing or maintaining capital spending plans. Let’s have a closer look at the 12 Fed Districts’ July comments on these three key topics:

(1) *Pricing pressures rising.* The key input prices, which reportedly have increased, include fuel, construction materials, freight, metals and other raw materials. In the Cleveland Fed District, for example, manufacturers and builders “commented widely that import tariffs were lifting steel and aluminum prices. ... To a lesser extent, construction contacts also noted lumber price increases.” According to recent surveys in the Richmond Fed District, “manufacturers’ input prices increased sharply. In particular, prices for raw materials such as steel, aluminum, polyester, wool, acrylic, lumber, and caustic soda were on the rise.” Minneapolis “[m]anufacturing contacts reported that steep increases continued in aluminum and steel material input costs in reaction to tariff announcements.”

In some Fed Districts, pricing pressures are expected to further “intensify.” Not all of those pressures are a direct result of trade policy, although the tariffs are compounding the problem. St Louis Fed District construction contacts “lamented that rising prices pressured the industry before this tariff-induced inflation of metal costs.” Looking ahead six months, in the Philadelphia district, “manufacturing firms continued to anticipate higher prices, with two-thirds expecting increases in prices paid and over

half expecting increases in prices received for their own goods.” Dallas contacts said that the “new tariffs had heightened uncertainty” around expectations for prices.

(2) *Supply chains disrupted.* In addition to the pricing pressure, trade uncertainty has disrupted supply chains, reported several Fed District contacts. In Philadelphia, one machinery manufacturer said that the effects of the tariffs have been “chaotic to its supply chain—disrupting planned orders, increasing prices, and prompting some panic buying.” Cleveland manufacturers “remarked that concerns about future trade- and inflation-related price increases had prompted some customers to accelerate purchases.”

(3) *Capital spending strong.* Despite the trade uncertainty, capital spending plans are going strong, according to July’s *Beige Book*. In the Philadelphia Fed District, about 40% of manufacturing firms “expected increases in future capital expenditures, which represented an improved outlook for capital expenditures since the prior period.” So too, Kansas City manufacturers’ capital spending plans “grew moderately.” Most energy firms in Kansas City reported “continued strong capital spending plans.”

The anticipated strength in capital spending is partially due to the labor shortages discussed above! In the Cleveland Fed District, one commercial builder “stated that the firm boosted spending to use drones for surveying to make up for the shortage of workers.” Further, Cleveland contacts in business advisory and software development “remarked that their services were in demand because businesses were modernizing their IT infrastructures and attempting to understand the implications of worker scarcities.”

Mexico: Let’s Be Neighborly. A funny thing happened after Andres Manuel Lopez Obrador’s (a.k.a. “AMLO”) landslide victory in Mexico’s July 1 presidential election: The peso strengthened. At the same time, stocks rallied to their highest level since late May ([Fig. 7](#) and [Fig. 8](#)).

In dollar terms, the MSCI Mexico Share Price Index is the fifth-best-performing country index in July, up a robust 5.1%, bringing its ytd performance through Friday to 1.2% ytd. (Only Argentina, Brazil, the Czech Republic, and Denmark have posted better results so far this month.)

It’s been a totally unpredictable response to a widely predicted outcome. Swept into office on promises of radical social change and the slogan “Together We Will Make History,” the charismatic populist President-elect struck fear in the business and investment communities with his anti-establishment and anti-corruption rhetoric.

So far, President-elect AMLO is proving to be more conciliatory than candidate AMLO. Since the election, AMLO and his cabinet members have sought to reassure financial markets that his administration will exercise fiscal discipline, maintain the autonomy of the central bank, and honor government contracts, according to a 7/5 [piece](#) in the *WSJ*. Also, his administration will support continued talks to renegotiate the North American Free Trade Agreement (NAFTA).

AMLO’s term in office begins December 1. Yet the new congress—with AMLO’s Morena (National Renewal Movement) party claiming a majority in both houses—will be sworn in September 1. AMLO has already provided the party members with a list of his legislative priorities.

I asked Sandra Ward, our contributing editor, to take a look at recent developments in Mexico as the transition of power gets underway. Here is her report:

(1) *Co-Presidente.* AMLO has hit the ground running, skipping the customary waiting period until the election is ratified and pushing his agenda immediately during the transition phase. He essentially is co-governing with outgoing President Enrique Peña Nieto, as a 7/16 [piece](#) in Bloomberg points out. The

President-elect met on Friday, July 13 with a group of US officials including Secretary of State Mike Pompeo, Treasury Secretary Steven Mnuchin, Homeland Security Secretary Kirstjen Nielsen, as well as White House adviser and No. 1 son-in-law Jared Kushner following a meeting with Pena Nieto. AMLO presented the delegates with his proposals on a number of issues—including trade, migration, and security—but didn't reveal specifics publicly, according to the Bloomberg piece.

(2) *Migration*. The high-profile US contingent visiting AMLO so soon after the election, and in the wake of a widely criticized zero-tolerance policy of separating families found to be crossing the border with Mexico illegally, signals the importance of the immigration issue to each country, a 7/13 [WSJ piece](#) observed. Many of those making the illegal trek are refugees from Central America, who are fleeing violence and cross Mexico's southern border from El Salvador, Guatemala, and Honduras before making their way north.

While the numbers are down from the peak of 2014, it is largely because of stepped-up enforcement by Mexico on its southern border, an effort funded by the US, wrote Shannon O'Neil, a senior fellow for Latin American Studies at the Council on Foreign Relations, in a 7/5 [op-ed](#) on Bloomberg. O'Neil contends that Mexico's next crisis could be an immigration crisis rather than a financial crisis. AMLO has said he will refuse to do the "dirty work" of the US by detaining asylum seekers on Mexico's southern border, suggesting that he will back away from some of the enforcement efforts practiced by Pena Nieto. Yet with the US strengthening its border security, Mexico may become home to tens of thousands of refugees for which it is unprepared.

(3) *Oye, Trump*. AMLO has published a book of speeches he delivered in American cities last year while on the campaign trail called "*Oye, Trump*," which translates as "Listen Up, Trump." In it, he outlines his humanitarian response to solving the immigration crisis in contrast to what he calls the "xenophobic" and "racist" approach of Trump's policy, according to the *WSJ* article cited above. AMLO sees economic development and job creation as the keys to combating the poverty that leads to a cycle of violence and migration. He would like to collaborate with the US on an Alliance for Progress that focuses on developing jobs and opportunities in Mexico's southern region and Central America as a way to stem migration. "We have to address the causes that lead to migration," AMLO declared when he announced the meeting with US officials, according to the *WSJ*. "People move and leave their place of origin out of need, not for pleasure."

AMLO is also critical of the US approach to the war on drugs. He has proposed offering youngsters scholarships to stay in school and creating jobs to prevent them from working with the drug cartels. Amnesty for farmers growing drug crops such as marijuana and poppies is something he has also discussed, according to a 6/30 [story](#) in the *Washington Post*.

(4) *Twelve legislative priorities*. AMLO is pursuing an ambitious agenda aimed at lifting the fortunes of Mexicans and boosting economic growth by raising workers' salaries, enhancing pensions for the elderly, providing educational grants to Mexico's youth, and subsidizing farmers, as a 7/1 [report](#) in the *NYT* explained. He expects to be able to fund many of these initiatives by cracking down on corruption.

In the past week, he sent a list of his legislative priorities to the recently elected Morena party members of Congress, according to a 7/12 [article](#) in *Mexico News Daily*. On the agenda: reducing the salaries of federal deputies and senators and even that of the President; slashing bureaucratic positions; regulating minimum-wage increases in the northern border region; repealing Pena Nieto's education reform measures; reviving the Secretariat of Public Security and investigating corruption in the security forces; overturning an executive decree privatizing water supplies; guaranteeing the right to free public education; branding corruption, electoral fraud, and petroleum theft as serious criminal offenses with no right to bail; and eliminating political immunity for government officials.

(5) *NAFTA is possible.* Secretary of the Economy in the new administration Graciela Marquez told the *FT* in a 7/8 [interview](#) that a NAFTA deal is possible by October. That echoes a view voiced by the new government's chief negotiator, Jesus Seade. Marquez cautioned such a deal would likely be "NAFTA-lite," locking in changes already agreed to and leaving much of the original treaty unchanged. Marquez and Seade will join the negotiations as soon as the election is ratified and ahead of taking office on December 1.

(6) *No mas US gas.* Mexico's energy regulator recently urged President-elect AMLO to reduce dependence on US natural gas imports by producing more domestically and diversifying suppliers, according to a 7/11 Bloomberg [article](#). Mexico relies on US imports for 85% of its natural gas needs. The National Hydrocarbons Commission (CNH) suggested that the state oil company Pemex should spin off a portion of its exploration and production arm to focus on natural gas development and outlined fiscal incentives that would encourage development. The CNH estimated Mexico could produce an additional 3 billion cubic feet to 10 billion cubic feet a day.

(7) *Higher inflation.* Mexico's inflation rate rose in June for the first time this year, to 4.65% y/y, after falling steadily from 6.77% in December to 4.51% in May, pushed higher by energy and transportation costs, according to a piece in the 7/9 *WSJ*. Gasoline, propane gas, and electricity were the main drivers, and higher airfares pushed transportation costs up ([Fig. 9](#)).

(8) *Higher rates.* The Bank of Mexico lifted rates in June to 7.75% from 7.50%, noting the inflation risks of higher gasoline prices and fuel prices ([Fig. 10](#)).

The momentum is with AMLO now. Let's see if it continues beyond December 1.

Movie: "The Equalizer 2" (+ +) ([link](#)) stars Denzel Washington as Robert McCall, a former CIA operative who hides in plain sight as a Lyft driver. It's a genre movie where the good guy is a vigilante who does bad things to bad people, inflicting often-lethal justice on them for their crimes against the exploited and oppressed. Robert De Niro was among the first to play this role in "Taxi Driver" (1976). The problem with genre movies is that they become increasingly predictable. However, Denzel Washington remains a class act.

CALENDARS

US. Mon: Existing Home Sales 5.450mu, Chicago Fed Nationality Activity Index 0.23. **Tues:** C-PMI, M-PMI, and NM-PMI Flash Estimates 56.3/54.9/56.4, Richmond Fed Manufacturing Index, FHFA Price Index 0.4%. (*Wall Street Journal* estimates)

Global. Mon: Eurozone Consumer Confidence -0.7. **Tues:** Eurozone, Germany, and France C-PMI Flash Estimates 54.8/54.8/54.9, Eurozone, Germany, and France M-PMI Flash Estimates 54.7/55.5/52.5, Eurozone, Germany, and France NM-PMI Flash Estimates 55.1/54.5/55.7, Japan M-PMI Flash Estimate. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): The US MSCI index edged up less than 0.1% last week, ranking 28th out of the 49 markets in a week when 28 countries rose in US dollar terms and the AC World ex-US index increased 0.3% for its third straight weekly gain. That compares to the US MSCI's 1.5% rise a week earlier, which ranked 11th as 28 markets rose and the AC World ex-US index gained 0.5%. EM Latin America performed best with a gain of 2.8%, followed by EAFE (0.6%) and EMU (0.4%).

The underperforming regions relative to the AC World ex-US were EM Eastern Europe (-4.6), EMEA (-2.5), BRIC (-1.1), and EM Asia (-0.8). Turkey was the best-performing country as it rose 5.3%, followed by Brazil (5.0) and Argentina (2.9). Of the 24 countries that underperformed the AC World ex-US MSCI last week, Russia fared the worst as it tumbled 7.0%, followed by Egypt (-4.4) and Greece (-2.1). On a ytd basis, the US MSCI was steady w/w at a 5.1% gain, and was unchanged in the ytd performance ranking of 4/49. The US MSCI is ahead of the AC World ex-US (-4.3) in the ytd period; 38/49 countries and all other regions are in negative territory ytd. EMU leads all regions with a decline of 2.9% so far this year, putting it ahead of EAFE (-3.2). EMEA (-10.1) is now the biggest laggard relative to the AC World ex-US's performance, followed by EM Eastern Europe (-7.0), EM Asia (-6.8), EM Latin America (-6.3), and BRIC (-6.2). The best country performers ytd: Colombia (9.8), Finland (8.2), Israel (6.6), the US (5.1), Peru (4.7), and Portugal (4.7). The worst-performing countries ytd: Argentina (-40.3), Turkey (-37.2), the Philippines (-19.7), Indonesia (-19.3), and Hungary (-18.6).

S&P 1500/500/400/600 Performance ([link](#)): All three of these market-cap indexes rose last week as SmallCap, with a 1.0% gain, outperformed MidCap (0.1%) and LargeCap (less than 0.1%). SmallCap is down 0.3% from its record high on Thursday, while MidCap is 0.5% below its record on July 9. LargeCap is the biggest laggard, down 2.5% from its record high nearly six months ago on January 26. Seventeen of the 33 sectors rose in the latest week, up from 16 rising a week earlier. The best performers in the latest week: SmallCap Financials (2.9), LargeCap Financials (2.2), and MidCap Financials (2.1). MidCap Telecom (-5.0) was the biggest decliner this week, followed by these underperformers: SmallCap Telecom (-3.4), MidCap Energy (-2.9), and SmallCap Energy (-2.3). LargeCap is now up 4.8% ytd and catching up to MidCap's 5.1%, but both are significantly trailing SmallCap's 12.8% gain. Twenty-two sectors are now positive to date in 2018, up from 21 a week earlier and compared to just three in early February. The best-performing sectors ytd: SmallCap Health Care (37.8), MidCap Health Care (23.6), LargeCap Tech (15.4), SmallCap Tech (13.7), and LargeCap Consumer Discretionary (13.6). The worst performers ytd: MidCap Telecom (-12.2), LargeCap Telecom (-12.0), LargeCap Consumer Staples (-7.7), LargeCap Materials (-3.6), and SmallCap Real Estate (-2.5).

S&P 500 Sectors and Industries Performance ([link](#)): Four sectors rose last week, and four outperformed the S&P 500's less than 0.1% rise. That compares to eight rising a week earlier, when five outperformed the S&P 500's 1.5% gain. Financials, with a gain of 2.2%, was the best-performing sector for the first time since mid-December, and ahead of the performances of Industrials (0.9%), Tech (0.1), and Consumer Staples (0.1). Energy was the biggest underperformer, with a drop of 1.9%, followed by Telecom (-1.8), Real Estate (-1.6), Health Care (-0.8), Utilities (-0.5), Materials (-0.5), and Consumer Discretionary (-0.4). Four sectors are in the plus column so far in 2018, unchanged from a week earlier and down from nine in early March. Just three sectors have bested the S&P 500's 4.8% ytd gain: Tech (15.4), Consumer Discretionary (13.6), and Health Care (4.9). The eight ytd underperformers: Telecom (-12.0), Consumer Staples (-7.7), Materials (-3.6), Industrials (-1.9), Real Estate (-1.6), Financials (-1.4), and Utilities (-0.9).

Commodities Performance ([link](#)): Last week, the S&P GSCI index fell 1.2% w/w for its seventh drop in nine weeks as 11 of the 24 commodities that we follow moved higher. That compares to the prior week's 3.6% decline, which was its biggest since early February as only 8/24 commodities rose. Last week's strongest performers: Corn (4.1%), Wheat (3.8), Soybeans (3.7), Kansas Wheat (3.4), and Live Cattle (2.7). Last week's biggest decliners: Cocoa (-7.6), Lean Hogs (-7.3), Nickel (-3.2), Lead (-3.0), and Brent Crude (-2.8). The S&P GSCI commodities index is up 3.4% ytd and near its highest level since December 2014, but remains about 50% below its record high in July 2008 just before the financial crisis. The top performer so far in 2018 is Cocoa (22.7), followed by Wheat (20.8), Kansas Wheat (19.0), Unleaded Gasoline (13.3), and Crude Oil (13.0). The biggest laggards of 2018 to date: Lean Hogs (-28.6), Sugar (-26.6), Zinc (-22.4), Copper (-15.1), and Lead (-14.2).

Assets Sorted by Spread w/ 200-dmas ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 11/24 commodities, 6/9 global stock indexes, and 13/33 US stock indexes, compared to 3/24 commodities, 8/9 global stock indexes, and 14/33 US stock indexes rising a week earlier. Commodities' average spread fell w/w to -3.1% from -2.5%, and 11 commodities now trade above their 200-dmas, unchanged from a week earlier. Wheat now leads all commodities at 10.3% above its 200-dma, while Corn (-3.7%) performed the best among commodities and all assets last week, rising 3.8ppts. Lean Hogs now trades at 28.6% below its 200-dma, the lowest of all commodities and all assets. Cocoa (1.2) had the worst performance of all assets last week, tumbling 8.7ppts. The global indexes trade at an average of 2.2% below their 200-dmas, up from 2.3% below in the prior week. Three of the nine global indexes trade above their 200-dmas, unchanged from a week earlier. Canada (3.3) leads the global indexes, but Brazil (-0.7) gained 2.5ppts last week for the best w/w improvement among global assets. China (-11.2) is the biggest laggard among global indexes, but Indonesia (-4.6) dropped 1.1ppts w/w, the biggest decline among global indexes. The US indexes trade at an average of 4.8% above their 200-dmas, with 27 of the 33 sectors above, down from 5.4% a week earlier, when 26 sectors were above. SmallCap Health Care (22.7) continues to lead the US stock indexes and all assets, but SmallCap Financials (6.6) rose 2.7ppts w/w for the biggest gain among US stock indexes last week. MidCap Telecom (-10.0) now trades the lowest among all US stock indexes as it fell 4.2ppts for the worst performance among US stock indexes.

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index was essentially flat last week and weakened relative to both its short-term 50-day moving average (50-dma) trend line and its long-term 200-dma for the first time in three weeks. However, the index remained in a Golden Cross (50-dma higher than 200-dma) for a 117th straight week (after 17 weeks in a Death Cross) as the S&P 500's 50-dma relative to its 200-dma rose for the sixth time in seven weeks following 17 straight weekly declines. The current Golden Cross reading of 2.1% is up from 2.0% a week earlier, but well below its 55-month high of 7.2% in early February; these compare to its 25-month low of 1.0% at the end of May and four-year low of -4.5% in March 2016. The S&P 500's 50-dma rose for a seventh week, but has fallen in eight of the past 17 weeks—including four straight weeks of decline through mid-April that constituted its worst performance since before the 2016 election. The index appears to have successfully tested its 50-dma in recent weeks, but fell to 1.8% above its rising 50-dma from 2.2% a week earlier. That compares to an eight-week low of slightly below its rising 50-dma at the end of June, a 25-month low of 5.6% below its falling 50-dma near the end of March, and a two-year high of 6.2% above its rising 50-dma on January 29. The 200-dma continued to rise, as it has done since May 2016 but near the slowest pace since October 2011. The S&P 500 successfully tested its 200-dma in early April, but fell to 4.0% above its rising 200-dma from a four-week high of 4.2% above its rising 200-dma a week earlier and an 11-week high of 4.6% in early June. Those readings compare to 0.6% below the index's rising 200-dma on April 3 (the lowest reading since June 2016), a seven-year high of 13.5% above its 200-dma on January 29, and a four-year low of -10.1% in August 2015.

S&P 500 Sectors Technical Indicators ([link](#)): Among the 11 S&P 500 sectors, last week all but two, Financials and Industrials, weakened relative to their 50-dmas and 200-dmas. Eight sectors now trade above their 50-dmas, unchanged from a week earlier. However, Financials and Industrials moved above their 50-dmas, and these two moved below: Energy and Telecom. All 11 sectors had been trading below their 50-dmas at the end of March (a first since February 2016). The longer-term picture—i.e., relative to 200-dmas—shows 6/11 sectors trading above, also unchanged from a week earlier. That's up from just four sectors trading above their 200-dmas in early May (which matched the lowest count since January 2016). Financials was below its 200-dma for a sixth week and for the first time in 10 months after being mostly above since early 2016. Telecom remained below its 200-dma in the latest week, where it's been for most weeks since April 2017. Industrials and Materials were below too, but only for a fifth week. Sectors trading the longest above their 200-dmas: Tech (above 200-dma

for 107 straight weeks), Consumer Discretionary (89 straight weeks), and Energy (14 weeks). Those trading below for a long time include Consumer Staples (below for a 22nd week) and Telecom (18th week). All 11 sectors had been above both their 50-dmas and 200-dmas briefly in mid-December (for the first time since July 2016). Just five sectors are in a Golden Cross (with 50-dmas higher than 200-dmas), unchanged from a week earlier. All 11 had been in a Golden Cross in mid-January for the first time since a 26-week streak ended in October 2016. Telecom was out for a 16th week, Consumer Staples for an 18th, and Utilities for a 26th. Just six sectors have rising 50-dmas now, down from 10 a week earlier as these four joined Financials and turned lower in the latest week: Energy, Industrials, Materials, and Telecom. That compares to all 11 sectors with falling 50-dmas during early April (the worst count since before the election in November 2016). Six sectors have rising 200-dmas, down from eight a week earlier and matching February's count, which was the lowest since May 2017. Sectors that still have a rising 200-dma: Consumer Discretionary, Energy, Financials, Health Care, Industrials, and Tech. In the latest week, the 200-dma turned down for Materials and Real Estate. The 200-dma for Consumer Staples dropped for a 22nd week, and Telecom's fell for an 11th week, though it has been mostly declining since December 2016.

US ECONOMIC INDICATORS

Leading Indicators ([link](#)): The Leading Economic Index (LEI) reached another new record high in June, not posting a decline since May 2016. The LEI rebounded a larger-than-expected 0.5% last month, after being revised down in May (to 0.0% from 0.2%) to show no change; it's up a solid 2.5% ytd and 5.8% y/y. "The U.S. LEI increased in June, pointing to continuing solid growth in the U.S. economy," noted Ataman Ozyildirim, director of Business Cycles and Growth Research at The Conference Board. "The widespread growth in leading indicators, with the exception of housing permits which declined once again, does not suggest any considerable growth slowdown in the short-term." Aside from building permits (-0.06ppt) subtracting from June's LEI, seven components contributed positively, while the average workweek and real core capital goods orders were unchanged. Leading gainers were the ISM new orders diffusion index (0.16), interest rate spread (0.12), leading credit index (0.10), consumer expectations (0.08), and stock prices (0.08), while real consumer goods orders (0.02) and jobless claims (0.01) were small contributors. Looking ahead, jobless claims dropped to a near 50-year low in mid-July, suggesting that claims will be a more prominent positive contributor to July's LEI.

Coincident Indicators ([link](#)): June's Coincident Economic Index (CEI) also hit another new record high; it has posted only one decline since January 2014, and that was at the start of this year. The CEI advanced for the fifth straight month, by 0.3% m/m and 1.1% since January's -0.1% dip. All four components contributed positively last month—and all rose to new record highs: 1) Industrial production, which was the only negative contributor to May's CEI, was once again the biggest positive contributor to June's. Production rebounded 0.6% after falling a revised -0.5% in May—steeper than the -0.1% initial estimate. Output expanded 3.8% y/y—the strongest yearly growth since July 2014. 2) Nonfarm payroll employment shot up to new record highs. June's 213,000 increase slowed from May's 244,000 advance, though held around its average monthly gain so far this year. 3) Real personal income—excluding transfer payments—rose for the eighth time in 10 months, by 0.2% m/m and 1.7% over the period. 4) Real manufacturing & trade sales increased for the 12th time in 14 months, by a total of 4.1% over the period, setting new record highs along the way.

Regional M-PMIs ([link](#)): Both Fed districts that have reported on manufacturing activity for July so far—New York and Philadelphia—showed continued robust growth, the former slowing from June's pace and the latter accelerating. We average the composite, orders, and employment measures as data become available. The composite index (to 24.2 from 22.5) wasn't far from its recent high of 28.5 recorded in October—which was the best reading since July 2004. The Philadelphia (to 25.7 from 19.9) region accelerated back toward May's (34.4) vigorous pace—which was the fastest in a year, while

New York's (22.6 from 25.0) slowed slightly from June's eight-month high. The new orders gauge (24.8 from 19.6) rebounded back toward May's 14-year high, as an acceleration in orders growth in the Philadelphia (31.4 from 17.9) region more than offset a deceleration in New York's (18.2 from 21.3). The employment measure (17.0 from 24.7) eased after recording its best showing in the history of the series going back to 2001. Manufacturers in both the Philly (16.8 from 30.4) and New York (17.2 from 19.0) regions showed slower, but still robust, jobs growth, though Philly's hiring pace was closer to New York's this month after rising at nearly double New York's rate in June.

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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