



MORNING BRIEFING

August 20, 2018

The Long Good Buy

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

(1) Benchmark framework remains bullish on economic expansion. (2) The longest bull market in history? Sure, why not? (3) Discounting what may soon be the longest economic expansion in history. (4) Age of bulls doesn't predict their DOD. (5) Stock prices high on record-high revenues, earnings, and profit margin. (6) The yield curve is just one of 10 leading indicators. (7) Coincident economic indicators showing moderate growth. (8) What if they call a trade war and everyone declares a ceasefire? (9) Might productivity be making a comeback? (10) Movie review: "BlackKkKlansman" (+ + +).

US Stocks I: Bull for the Ages. All together now: "Bull markets don't die of old age. They are usually killed by recessions" ([Fig. 1](#) and [Fig. 2](#)).

It was back in October 2014 that Debbie and I projected that the current economic expansion could last through March 2019. We noted that the expansion phases of the business cycle—which follow the recovery phases back to the previous peak—historically have lasted 65 months, on average (that's based on the past five cycles of the Index of Coincident Economic Indicators). Applying that average duration to this cycle would put its peak in March 2019. Notably, this isn't a model but rather a benchmark based on recent history ([Fig. 3](#)).

However, given what we know today, we believe that the current expansion could continue past next March, well into next year and beyond. There is a very good chance that the expansion will continue through July 2019, which would make it the longest one on record.

If so, then it's no wonder that the current bull market in stocks is on track to be the longest one on record. There is some controversy about whether that milestone is about to be reached this week on Wednesday, August 22. Consider the following:

(1) *Still second longest.* The S&P 500 will exceed that previous longest bull market on that day assuming that the previous one lasted from October 11, 1990 through March 24, 2000. The problem is that the "bear market" from July 16, 1990 through October 11, 1990 was actually a correction, with the S&P 500 down 19.9% rather than by the 20.0% or more that's widely accepted as the definition of a bear market.

Joe and I start the clock on the previous longest bull market (and still the reigning champ) not on October 11, 1990 but on December 4, 1987, following the 33.5% plunge in the S&P 500 since August 25, 1987. So the longest bull market lasted 4,494 days. The current one has lasted 3,448 days through Friday, and thus isn't about to overtake the champ on Wednesday. It will in time, assuming of course that the record high set on January 26 will be surpassed without an intervening bear market!

(On the website of my book, see [Appendix 15.3 S&P 500 Bull Markets Since 1928](#) and [Appendix 15.4 S&P 500 Bear Markets and Corrections Since 1928](#). I also discuss this subject in a short video podcast:

["The longest bull market in history? Sure, why not?: It is discounting what may soon be the longest economic expansion in history."](#))

(2) *Feeding on earnings.* Bull markets are driven by rising earnings (E). Along the way, corrections can occur often because of drops in the earnings valuation multiple (P/E) triggered by fears that a recession may be imminent. When these panic attacks pass, investors regain confidence in the earnings uptrend as the P/E rebounds. Of course, when recessions do occur, the E drops and the P/E takes a dive, resulting in a bear market. This simple narrative is handily demonstrated with our [Blue Angels](#) charts.

Quarterly data available since 1935 show that reported S&P 500 earnings are very procyclical ([Fig. 4](#)). During the current economic expansion, this series has increased 369% since Q1-2009.

(3) *No predictive value.* Ben Levisohn included some of my views on this subject in his 8/16 *Barron's* [column](#):

"But even if this really was about to become the longest bull market on record, there's another reason to ignore the milestone: It has no predictive value. That's why it's important to focus not on the length of the bull market, but on the length of the economic expansion instead, says Ed Yardeni, chief investment strategist at Yardeni Research.

"All I'm interested in is how long the expansion lasts,' Yardeni says. 'Because the longer it lasts, the longer the bull market lasts.' This economic expansion will become the longest on record in July 2019.

"If anything, the obsession about the length of the bull says more about investor psychology than about the market. This bull has been described as the most hated one in history, and investors have found reason after reason not to buy in, even as the S&P 500 has quadrupled. It's not too difficult to see the same dynamic in play. 'Lurking behind the argument that this is about to be the longest bull is a bearish notion that it could drop dead at any time,' Yardeni says.

"And that's just bull."

US Stocks II: Another Great Earnings Season. Joe reports that S&P 500 revenues and earnings are out for Q2-2018. It's all good news across the board. No wonder the S&P 500 is just 0.8% below its record high set on January 26. Let's review:

(1) *Revenues at all-time high.* Most extraordinary is that S&P 500 revenues jumped 10.3% y/y last quarter to a new record high ([Fig. 5](#) and [Fig. 6](#)). Normally this far into an economic expansion, revenues growth tends to be around 4%-6%.

(2) *Earnings at all-time high.* S&P 500 earnings as measured by Thomson Reuters I/B/E/S soared 25.6% y/y last quarter, reflecting the strength in revenues as well as the cut in the corporate tax rate ([Fig. 7](#) and [Fig. 8](#)).

(3) *Profit margin at all-time high.* Notwithstanding all the chatter about rising costs, the S&P 500 corporate profit margin rose once again to a record high of 10.9%. It was at a record 10.1% during Q4-2017 before the tax cut. It jumped to 10.5% during Q1-2018 thanks to the tax cut. Yet here it is at yet another record high. The bears (remember them?) have been growling during most of the current bull market that the margin is about to revert to the mean.

(4) *Lots of happy sectors.* I asked Joe to drill down into the 11 sectors of the S&P 500. He reports the following y/y growth rates for revenues: Energy (33.6%), Materials (17.8), Health Care (15.4),

Information Technology (14.9), S&P 500 (10.4), Industrials (9.7), Financials (9.3), Consumer Discretionary (8.5), Real Estate (6.1), Consumer Staples (-1.6), Utilities (-3.0), and Telecommunication Services (-6.4) ([Fig. 9](#)).

Here is the comparable performance derby for operating earnings as compiled by S&P: Energy (142.2%), Telecommunication Services (39.3), Information Technology (36.9), Materials (35.6), Financials (30.5), S&P 500 (26.8), Industrials (21.0), Consumer Discretionary (16.7), Consumer Staples (13.0), Utilities (12.4), Real Estate (12.4), and Health Care (7.2) ([Fig. 10](#)).

And here are the latest trailing four-quarter profit margins based on S&P's operating earnings data: Information Technology (22.1%), Real Estate (18.9), Financials (14.7), Utilities (12.0), Telecommunication Services (11.5), S&P 500 (10.9), Materials (10.1), Industrials (9.7), Health Care (8.7), Consumer Discretionary (7.8), Consumer Staples (7.0), and Energy (5.2) ([Fig. 11](#)).

US Economy: Extended Expansion. The bears have been warning all year that the flattening of the yield curve increases the risk of a recession. They've cautioned that the escalating trade war could trigger the expansion's downfall. They've been expecting rising labor costs and commodity prices to squeeze profit margins. Nonetheless, they've been sounding the alarm that rising costs will boost inflation, which would send bond yields higher. They've touted the worrisome notion of "peak earnings," which really means that the growth rate of earnings is bound to slow next year. And of course, the bull could drop dead at any time, they say, simply because it is so old. Consider the following counter-arguments:

(1) *Leading higher.* The yield curve is just one of the 10 components of the Index of Leading Economic Indicators, which has been setting fresh record highs for the past 17 months through July ([Fig. 12](#)).

That augurs well for the Index of Coincident Economic Indicators, which is also at a record high. This index's y/y growth rate is highly correlated with the comparable growth rate for real GDP ([Fig. 13](#)). The former was 2.4% through July, confirming that the underlying growth of the economy continues to fluctuate between roughly 2%-3%, i.e., at a sustainable pace. The latest [GDPNow](#) estimate shows real GDP growing 4.3% (saar) during Q3. That translates into a 3.2% y/y growth rate.

(2) *Trade war.* President Trump unilaterally has called a ceasefire in his trade war with Europe. Progress is reportedly being made in negotiations with Mexico. Talks will resume with China later this month. Perhaps it's time to stop using the adjective "escalating" to describe the trade war? What if this all leads to less protectionism once the fog of war clears? This possibility sure helps explain why the US stock market has performed so well so far this year, with the S&P 500 up 6.6% ytd!

(3) *Inflation.* It's true that there are more signs of mounting inflationary pressures. They just aren't bubbling up into the CPI, PPI, and wages. To have cost pressures rising even as profit margins likewise are rising without discernably higher price inflation is a curious set of circumstances. Could it be that productivity is finally making a comeback? That certainly would explain things well. Also, the strong dollar is helping to keep a lid on inflation. Recently, commodity prices have been falling, not rising.

(4) *Earnings.* There's no doubt that earnings growth will fall from over 20% this year to under 10% next year. So what? Earnings should still be growing in record-high territory in 2019. Stock prices should follow suit.

Movie. "BlacKkKlansman" (+ + +) ([link](#)) is Spike Lee's disturbing movie about a black undercover cop who infiltrated a local chapter of the Ku Klux Klan in Colorado Springs during the early 1970s—a true story. He did so with the help of a white surrogate, who eventually became head of the local branch. He

has several phone conversations with the KKK leader, David Duke, and acts as Duke's bodyguard at one event. Lee makes a compelling case along the way, especially at the end of the film, that race relations in America haven't improved much, if at all, over the past half century. That's very sad and reflects that all too often race issues have been politicized with the aim of exacerbating rather than ameliorating the problem.

CALENDARS

US. Mon: Bostic. **Tues:** None. (*Wall Street Journal* estimates)

Global. Mon: None. **Tues:** RBA Meeting Minutes. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): The US MSCI index rose 0.5% last week for its 10th gain in 13 weeks, ranking third out of the 49 markets in a week when eight countries rose in US dollar terms and the AC World ex-US index fell 1.7%. That compares to the US MSCI's 0.2% decline a week earlier, which ranked 13th as 10 markets rose and the AC World ex-US index fell 1.4%. EAFE performed the best among markets abroad, albeit with a decline of 1.2%, followed by EM Eastern Europe (-1.3%) and EMU (-1.7). The underperforming regions relative to the AC World ex-US were BRIC (-4.3), EM Asia (-3.7), EM Latin America (-2.5), and EMEA (-2.1). Israel was the best-performing country as it rose 3.2%, followed by New Zealand (0.6), and the US (0.5). Of the 25 countries that underperformed the AC World ex-US MSCI last week, South Africa fared the worst as it tumbled 7.9%, followed by Greece (-7.3), Indonesia (-6.7), Argentina (-5.8), and China (-5.7). On a ytd basis, the US MSCI rose to a 6.8% gain, and picked up one spot in the ytd performance ranking to 2/49. The US MSCI remains way ahead of the AC World ex-US (-7.3) in the ytd period; 43/49 countries and all other regions are in negative territory ytd. EAFE leads the AC World ex-US with a decline of 6.0%. EMEA (-14.7) is the biggest laggard relative to the AC World ex-US's performance, followed by EM Latin America (-11.6), BRIC (-11.1), EM Eastern Europe (-10.4), EM Asia (-10.1), and EMU (-7.4). The best country performers ytd: Israel (9.9), the US (6.8), Finland (4.2), Colombia (3.8), Portugal (2.2), and Peru (1.5). The worst-performing countries ytd: Turkey (-53.2), Argentina (-49.5), South Africa (-25.0), Greece (-22.0), and Indonesia (-21.1).

S&P 1500/500/400/600 Performance ([link](#)): All three of these market-cap indexes rose last week, SmallCap by the most—1.0%—beating MidCap's (0.7%) and LargeCap's (0.6) gains. SmallCap ended the week at a record high, while MidCap ended up 0.2% below its record on August 7. LargeCap is down the most from former pinnacles—off 0.8% from its record high nearly seven months ago on January 26. Twenty-five of the 33 sectors rose in the latest week, up from 15 rising a week earlier. The best performers in the latest week: SmallCap Telecom (5.3%), LargeCap Telecom (3.7), SmallCap Real Estate (3.4), LargeCap Consumer Staples (3.2), and MidCap Real Estate (3.1). MidCap Energy (-4.9) was the biggest decliner last week, followed by SmallCap Energy (-4.5), LargeCap Energy (-3.6), and LargeCap Materials (-0.5). LargeCap is now up 6.6% ytd and ahead of MidCap (5.8) in recent weeks after trailing it for much of the year, but both are significantly trailing SmallCap's 14.6% gain. Twenty-eight sectors are now positive to date in 2018, up from 23 a week earlier and compared to just three in early February. The best-performing sectors ytd: SmallCap Health Care (39.9), MidCap Health Care (29.4), SmallCap Telecom (19.4), LargeCap Tech (15.6), SmallCap Consumer Discretionary (14.8), and SmallCap Industrials (14.6). The worst performers ytd: LargeCap Telecom (-5.0), LargeCap Consumer Staples (-4.0), LargeCap Materials (-3.4), and MidCap Materials (-1.9).

S&P 500 Sectors and Industries Performance ([link](#)): Seven sectors rose last week, and seven matched or outperformed the S&P 500's 0.6% gain. That compares to three rising a week earlier, when

four matched or outperformed the S&P 500's 0.2% decline. Telecom, with a gain of 3.7%, was the best-performing sector and beat the performances of Consumer Staples (3.2%), Real Estate (2.9), Utilities (2.5), Health Care (1.6), Industrials (1.4), and Financials (0.6). Energy was the biggest underperformer, with a drop of 3.6%, followed by Materials (-0.5), Consumer Discretionary (-0.2), and Tech (-0.2). Seven sectors are in the plus column so far in 2018, up from five a week earlier and down from nine in early March. However, just three sectors are outperforming the S&P 500's 6.6% ytd gain: Tech (15.6), Consumer Discretionary (13.9), and Health Care (10.1). The eight ytd underperformers: Telecom (-5.0), Consumer Staples (-4.0), Materials (-3.4), Energy (-0.2), Industrials (0.3), Financials (0.6), Real Estate (2.5), and Utilities (2.9).

Commodities Performance ([link](#)): Last week, the S&P GSCI index fell 1.4% w/w for its sixth decline in seven weeks as nine of the 24 commodities that we follow moved higher. That compares to the prior week's 0.9% decline when 10/24 commodities rose. Last week's strongest performers: Lean Hogs (14.5%), Soybeans (3.6), Corn (2.7), and Wheat (2.6). Last week's biggest decliners: Zinc (-6.3), Lead (-5.4), Cotton (-4.5), Coffee (-4.3), and Copper (-4.3). The S&P GSCI commodities index is up 2.1% ytd and near its highest level since December 2014, but is down 8.8% from its high in May and remains about 50% below its record high in July 2008 just before the financial crisis. The top performer so far in 2018 is Kansas Wheat (38.6), followed by Wheat (35.8), Cocoa (13.6), Corn (8.0), and Crude Oil (7.9). The biggest laggards of 2018 to date: Sugar (-32.8), Zinc (-28.1), Lead (-20.1), Lean Hogs (-18.4), and Copper (-18.2).

Assets Sorted by Spread w/ 200-dmas ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 9/24 commodities, 0/9 global stock indexes, and 24/33 US stock indexes, compared to 11/24 commodities, 2/9 global stock indexes, and 11/33 US stock indexes rising a week earlier. Commodities' average spread fell w/w to -3.8% from -2.8%, and nine commodities now trade above their 200-dmas, down from 10 a week earlier. Wheat leads all commodities and all assets at 20.8% above its 200-dma, but Lean Hogs (-16.9%) performed the best among commodities and all assets last week, rising 10.8ppts. Zinc trades at 23.4% below its 200-dma, the lowest of all commodities and all assets. Cotton (-0.9) had the worst performance of all commodities last week, tumbling 5.1ppts. The global indexes trade at an average of 4.4% below their 200-dmas, down from -2.9% in the prior week. Just two of the nine global indexes trade above their 200-dmas, unchanged from a week earlier. Canada (2.3) now leads the global indexes; its unchanged performance last week was the best w/w performance among global assets. China (-16.6) trades the lowest among global assets, but Indonesia (-6.0) was the worst performer among the global indexes, falling 4.7ppts w/w. The US stock indexes trade at an average of 6.2% above their 200-dmas, with 29 of the 33 sectors above, up from 5.4% a week earlier, when 28 sectors were above. SmallCap Health Care (19.8) continues to lead the US stock indexes, but SmallCap Telecom (14.9) rose 5.3ppts w/w for the biggest gain among US stock indexes last week. LargeCap Materials (-1.5) trades the lowest among all US stock indexes, but MidCap Energy (5.8) dropped 5.9ppts last week for the worst performance among US stock indexes and indeed all assets.

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 0.6% last week and improved relative to both its short-term 50-day moving average (50-dma) trend line and its long-term 200-dma for the third time in four weeks. The index remained in a Golden Cross (50-dma higher than 200-dma) for a 121st 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 tenth time in 11 weeks following 17 straight weekly declines. The current Golden Cross reading of 2.6% is at a 17-week high and up slightly from 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 12th week, but has fallen in eight of the past 22 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

at the end of June, and improved to 2.1% above its rising 50-dma from 1.8% a week earlier. That compares to 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 at a pace near its slowest since October 2011. The S&P 500 successfully tested its 200-dma in early April, and ended the week at 4.8% above its rising 200-dma, up from 4.4% a week earlier. Those readings compare to a 20-week high of 4.9% the week before that and 0.6% below the index's rising 200-dma on April 3 (the lowest reading since June 2016). Looking back further, the S&P 500 had been at 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, seven improved last week relative to their 50-dmas and 200-dmas. These four weakened relative to both measures in the latest week: Consumer Discretionary, Energy, Materials, and Tech. Nine of the 11 sectors are trading above their 50-dmas, unchanged from a week earlier and down from all 11 the week before that, which had been the most since early December. Materials and Energy are currently the only sectors trading below their 50-dmas. 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 9/11 sectors trading above, up from eight 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). Consumer Staples moved above its 200-dma in the latest week, where it has resided in just three of the last 28 weeks. Energy moved below for the first time in 19 weeks Telecom was above for the first time in 23 weeks. Sectors trading the longest above their 200-dmas: Tech (above 200-dma for 111 straight weeks), Consumer Discretionary (93 straight weeks), and Health Care (12 weeks). All 11 sectors had been above both their 50-dmas and 200-dmas briefly in mid-December (for the first time since July 2016). Six 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 20th week and Consumer Staples for a 22nd. Eight sectors have rising 50-dmas now, down from nine a week earlier as Industrials reversed lower and joined Energy and Materials. That compares to all 11 sectors with falling 50-dmas during early April (the worst count since before the election in November 2016). Ten sectors have rising 200-dmas, up from eight a week earlier and six in mid-July (which was tied with a count in February for the lowest since May 2017). The 200-dma turned higher in the latest week for Consumer Staples and Materials, which leaves Utilities the sole member of the declining 200-dma club.

US ECONOMIC INDICATORS

Leading Indicators ([link](#)): It's getting repetitious: The Leading Economic Index (LEI) reached yet another new record high in July, continuing its streak of no declines since May 2016. The LEI jumped a larger-than-expected 0.6% last month, after an unrevised 0.5% advance in June. It's up a solid 3.4% ytd and 6.3% y/y—matching its best yearly growth rate in four years. “The U.S. LEI increased in July, suggesting the US economy will continue expanding at a solid pace for the remainder of this year,” said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. “The strengths among the components of the leading index were very widespread.” Nine of the 10 LEI components contributed positively in July, with the average workweek unchanged. The biggest contributions came from jobless claims (0.15ppt), the leading credit index (0.12), the interest-rate spread (0.11), and the new orders diffusion index (0.10).

Coincident Indicators ([link](#)): July'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 sixth straight month, by 0.2% m/m and 1.4% since January's -0.1% dip. All four components contributed positively last month—and all rose to new record highs: 1) Nonfarm payroll

employment was the biggest positive contributor to July's CEI. Last month's gain slowed to 157,000, after large upward revisions pushed the May/June average increase to 258,000. July's gain is also likely to be revised higher. 2) Real personal income—excluding transfer payments—rose for the 12th time in 13 months, by 0.2% m/m and 3.0% over the period. 3) Real manufacturing & trade sales increased for the 14th time in 15 months, by a total of 4.5% over the period, setting new record highs along the way. 4) Industrial production ticked up 0.1% last month—its fifth increase in the past six months. Output expanded 4.2% y/y—the strongest yearly growth since February 2012.

Regional M-PMIs ([link](#)): Both Fed districts that have reported on manufacturing activity for August so far—New York and Philadelphia—showed growth slowed this month, with the former accelerating from July's pace and the latter decelerating. We average the composite, orders, and employment measures as data become available. The composite index fell to 18.8 this month after averaging readings of 24.6 the prior three months; it peaked at 28.5 last October—which was the best reading since July 2004. The New York region's composite index accelerated (to 25.6 from 22.6), putting it within 2.5 points of last October's 37-month high of 28.1; Philadelphia's (11.9 from 25.7) sank to a 21-month low, down sharply from May's 12-month high of 34.4. The new orders gauge (13.5 from 24.8) slowed sharply from July, and has been more than cut in half since May's 14-year high of 28.3, because of weakness in the Philly region. Orders in the New York (17.1 from 18.2) region virtually matched July's pace, while Philly's (9.9 from 31.4) slowed dramatically this month. The employment measure (13.7 from 17.0) also eased this month, as manufacturers in both the Philly (14.3 from 16.8) and New York (13.1 from 17.2) regions showed slower, though still healthy, jobs growth.

Housing Starts & Building Permits ([link](#)): July housing starts barely budged, after plunging to a nine-month low in June, as builders remained challenged by a shortage of lots and rising labor & materials' costs and buyers by rising home prices and mortgage rates. Total starts rose a disappointing 0.9% last month to 1.168mu (saar), while revisions show June's decline (to -12.9% from -12.3%) was slightly larger and May's gain (4.2 from 4.9) slightly smaller. Builders broke ground on 862,000 single-family units (saar) last month, recovering only 0.9% of June's -9.0% plunge, while multi-family starts edged up 0.7% to 306,000 units (saar) after plummeting -22.3% in June. Building permits rose for the first time in four months to 1.311mu (saar) after a three-month slide of -6.2%. Single-family permits rebounded 3.1% during the two months ending July to a five-month high of 869,000 units (saar), while multi-family permits edged up only 0.7% to 442,000 units after plunging -16.5% the previous three months. Meanwhile, NAHB's housing market index ticked down a point in August to 67—with all three HMI indexes edging down: current sales conditions (to 73 from 74), sales expectations (72 from 73), and buyer traffic (49 from 52). "The good news is that builders continue to report strong demand for new housing, fueled by steady job and income growth along with rising household formations," NAHB Chairman Randy Noel said. "However, they are increasingly focused on growing affordability concerns, stemming from rising construction costs, shortages of skilled labor and a dearth of buildable lots."

Consumer Sentiment ([link](#)): Consumer sentiment in mid-August sank to its lowest level since last September, with the decline concentrated among households in the bottom third of the income distribution, amid concerns of rising prices—though the expected inflation rate was unchanged at 2.9% y/y this month. Richard Curtin, the survey's chief economist notes, "The data suggest that consumers have become much more sensitive to even relatively low inflation rates than in past decades. As is usual at this stage in the business cycle, some price resistance has been neutralized by rising wages, although the falloff in favorable price perceptions has been much larger than ever before recorded. Overall, the data indicate that consumers have little tolerance for overshooting inflation targets, and to the benefit of the Fed, interest rates now play a more decisive role in purchase decisions." The Consumer Sentiment Index (CSI) fell for the fourth time since reaching a 14-year high of 101.4 in March, sliding to 95.3 in mid-August. Over the period, the present situation index dropped from a record high 121.2 in March to a 21-month low of 107.8 this month. Meanwhile, the expectations index

continues to move sideways around recent highs, unchanged at 87.3 this month.

GLOBAL ECONOMIC INDICATORS

Eurozone CPI ([link](#)): July's CPI rate matched its flash estimate, accelerating 2.1% y/y—its highest reading since the end of 2012 and above the ECB's target rate of just under 2.0%. Looking at the main components, energy (to 9.5% from 8.0% y/y) once again had the highest annual rate in July—nearly quintuple March's recent low of 2.0%. Also moving higher, though modestly, were rates for non-energy industrial goods (0.5 from 0.4) and services (1.4 from 1.3), while the rate for food, alcohol & tobacco (2.5 from 2.7) moved lower. The core rate—which excludes energy, food, alcohol, and tobacco—edged up from 0.9% to 1.1%, matching May's eight-month high. Of the top four Eurozone economies, inflation rates in France (2.6% y/y) and Spain (2.3), were above the Eurozone's 2.1% rate, while Germany's (2.1) matched it and Italy's (1.9) fell below. Ireland (1.0) and Greece (0.8) posted the lowest rates among the Eurozone countries.

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