



MORNING BRIEFING

August 27, 2018

Teamsters & the Stock Market

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

(1) Social media can be downright anti-social. (2) Bull-market haters. (3) How many Teamsters does it take to change a light bulb? (4) Charles Dow is resting in peace. (5) The breadth issue rises again despite record highs for S&P 500/400/600 and several key sectors. (6) Stock buybacks and dividends continue to pump lots of liquidity into stock market. (7) S&P 500 share count is down for the count. (8) Record-high forward revenues and earnings driving stock prices to record highs. (9) Raising our 2019 S&P 500 earnings-per-share estimate by \$4 to \$173.

Strategy I: Record Highs for Stock Prices. I've posted a few short bullish articles on social media recently. The editor of MarketWatch warned me not to read the comments that are posted below my articles. So of course, that's what I did. Some border on uncivil and even deranged, though there are also plenty of civil and thoughtful comments.

Scanning other social media discussions of the bull market, I see that there's often a similar barrage of hostility from the bull-market haters. One of their major gripes is that the bull market has been making record highs on the backs of a few stocks. The haters also complain that the bull market isn't based on fundamentals, but rather on too much fiscal debt and too much monetary easing.

Time for an old joke: "How many Teamsters does it take to change a light bulb?" Time's up. The answer is: "Ten. You gotta problem with that?"

Let's say that the bears have been right all along: The bull market has been rigged by fiscal and monetary policies. "You gotta problem with that?" If so, then you've been missing the greatest bull market in history or the second greatest so far, depending on how you measure it. Whether a bull market ought to have been going on, and for so long, is moot; the fact is, it has been. Investing isn't a moral pursuit. It isn't about good-vs-bad, but rather about bullish-vs-bearish.

Joe and I have been arguing since the beginning of the bull market that corporate earnings were driving the bull market. No one should have a problem with that. In addition, we've observed that corporate share buybacks also have fueled the bull's run. That has led some bears, especially those on the political left, to complain that corporations have been spending all of their after-tax profits on buybacks and dividends. As a result, they haven't been investing enough in their capital and labor, which has got to be bearish in the long run!

Now consider the following:

(1) *Breadth*. On Friday, the S&P 500/400/600 all rose to record highs, with y/y gains of 17.7%, 19.1%, and 31.9% ([Fig. 1](#)). So did the Russell 1000/2000/3000, with y/y gains of 17.9%, 25.3%, and 18.5% ([Fig. 2](#)).

As we noted last Thursday, Charles Dow must be resting in peace. While the Dow Jones Industrial Average is just 3.1% below its record high of January 26, the Dow Jones Transportation Average was at a new record high last week ([Fig. 3](#)). On the other hand, the S&P 500 Industrials Composite—which excludes Financials, Transports, and Utilities—has been rising to new record highs since July 25 and the S&P 500 Transportation Composite since last week ([Fig. 4](#)).

Meanwhile, joining the S&P 500 in record-high territory are the following three big sectors of the composite: Consumer Discretionary, Health Care, and Information Technology ([Fig. 5](#)). Among the S&P 400 sectors, Health Care, Information Technology, and Utilities have been leading the way to record highs this year ([Fig. 6](#)). The breadth among the S&P 600 sectors really stands out, with new record highs for Consumer Discretionary, Consumer Staples, Financials, Health Care, Industrials, Information Technology, Telecom Services, and Utilities all leading the way to higher ground ([Fig. 7](#)).

(2) *Liquidity*. The bears have been arguing since the beginning of the bull market that the bull was on a “sugar high” and “running on fumes.” Their favorite chart showed a close correlation between the S&P 500 and the Fed’s rising holdings of Treasury and mortgage securities as a result of the QE programs ([Fig. 8](#)). Sure enough, the stock index flattened out during 2015 and 2016 after the Fed terminated QE at the end of October 2014. However, even though the Fed started to taper its balance sheet last October, here we are at new record highs for the major US stock market benchmarks ([Fig. 9](#))!

I suppose that the bears still can growl that the ECB and BOJ continue to pump liquidity into financial markets ([Fig. 10](#)). My response: “You gotta a problem with the resultant record highs we’re now making yet again?”

(3) *Buybacks*. Since the start of the current bull market during Q1-2009 through Q1-2018, S&P 500 corporations repurchased \$4.1 trillion of their shares ([Fig. 11](#)). Over the same period, they paid \$2.9 trillion in dividends. During Q1-2018, the sum of the two was a record \$1.2 trillion at an annual rate, undoubtedly boosted by the repatriation of profits earned abroad. No wonder the market is at a record high.

It is true that buybacks and dividends have been about the same as after-tax operating profits for the S&P 500 in recent years ([Fig. 12](#)). However, focusing on this fact overlooks the record amount of corporate cash flow provided by depreciation allowances, which has been fueling corporate capital spending.

In any event, Joe reports that the number of S&P 500 shares outstanding is down 3.3% since Q2-2006 through Q4-2017, and down 7.7% from its post-financial crisis peak in Q1-2011 ([Fig. 13](#)).

Strategy II: Record Highs for Earnings. Of course, the major drivers of the bull market have been forward revenues and earnings, which are at record highs for the S&P 500/400/600 ([Fig. 14](#) and [Fig. 15](#)). Weekly forward revenues tend to be coincident indicators of actual quarterly data, while weekly forward earnings tend to lead the actual results ([Fig. 16](#)).

For the S&P 500, forward earnings per share rose to record \$172.95 during the 8/23 week ([Fig. 17](#)). Industry analysts are expecting a record \$178.68 next year. Of course, Trump’s tax cuts at the end of last year provided a HUGE boost to earnings this year, which are on track to soar by 23% this year ([Fig. 18](#)).

Joe and I don’t have a problem with any of that. The S&P 500 only needs to rise by 7.8% over the rest of the year to get to our 3100 target ([Fig. 19](#)). A forward P/E multiple of 18.0 times the latest reading for forward earnings would get us there; so would a 17.4 P/E on next year’s consensus expected earnings.

Strategy III: Raising Earnings Forecasts. In appreciation of the bull market's latest achievement, Joe and I are raising our S&P 500 earnings-per-share forecasts for this year by \$4 from \$158 to \$162, and for next year by \$4 from \$169 to \$173 ([Fig. 20](#)).

This move reflects the strong results during the first half of this year, which certainly were bolstered by the cut in the corporate tax rate at the end of last year. However, something is also boosting organic earnings growth. It might be Trump's business deregulation. It might also be that the tax cuts for consumers are boosting business revenues. Moreover, there's not much evidence, so far, that the strong dollar and the escalating trade war are weighing on profits. (See [YRI S&P 500 Earnings Forecasts](#).)

CALENDARS

US. Mon: Dallas Fed Manufacturing Index 28.0, Chicago Fed National Activity Index 0.38. **Tues:** Consumer Confidence Index 126.5, Advance Merchandise Trade Balance -\$69.1b, Richmond Fed Manufacturing Index 19, S&P CoreLogic Case-Shiller HPI 0.2%/m/m/6.5%/y/y. (Econoday estimates)

Global. Mon: Germany Ifo Business Climate, Current Assessment, and Expectations Indexes 101.8/105.3/98.4, Germany Retail Sales -0.2%/m/m/1.3%/y/y. **Tues:** None. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): The US MSCI index rose 0.9% last week to its first record high since January 26 as the increase was its 11th in 14 weeks. The index ranked 37th out of the 49 markets in a week when 42 countries rose in US dollar terms and the AC World ex-US index gained 1.7%. That compares to the US MSCI's 0.5% gain a week earlier, which ranked third as eight markets rose and the AC World ex-US index fell 1.7%. EMU performed the best among markets abroad with an increase of 3.4%, followed by EM Asia (2.6%), EM Eastern Europe (2.5), EMEA (2.0), and BRIC (1.8). The underperforming regions relative to the AC World ex-US were EM Latin America (-0.4) and EAFE (1.5). South Africa was the best-performing country as it rose 10.3%, followed by Poland (6.9), Greece (4.8), Finland (4.6), and Indonesia (4.4). Of the 22 countries that underperformed the AC World ex-US MSCI last week, Argentina fared the worst as it fell 3.6%, followed by Brazil (3.4), Australia (-1.4), Egypt (-0.5), and Hong Kong (-0.1). On a ytd basis, the US MSCI rose to a 7.7% gain, but dropped up one spot in the ytd performance ranking to 3/49. The US MSCI remains way ahead of the AC World ex-US (-5.7) in the ytd period; 38/49 countries and all other regions are in negative territory ytd. EMU (-4.3) and EAFE (-4.6) lead the AC World ex-US. EMEA (-13.0) is the biggest laggard relative to the AC World ex-US's performance, followed by EM Latin America (-11.9), BRIC (-9.5), EM Eastern Europe (-8.2), and EM Asia (-7.8). The best country performers ytd: Israel (10.7), Finland (9.0), the US (7.7), Colombia (7.1), Portugal (5.1), and Mexico (2.9). The worst-performing countries ytd: Turkey (-52.1), Argentina (-51.3), Brazil (-19.8), Greece (-18.3), and Indonesia (-17.7).

S&P 1500/500/400/600 Performance ([link](#)): All three of these market-cap indexes rose last week, SmallCap by the most—1.8%—beating MidCap's (1.2%) and LargeCap's (0.9) gains. All three indexes ended the week at a record high, with LargeCap marking the occasion for the first time since January 26. Twenty-three of the 33 sectors rose in the latest week, down from 25 rising a week earlier. The best performers in the latest week: MidCap Energy (6.6%), SmallCap Energy (5.5), SmallCap Tech (3.1), and MidCap Tech (2.9). LargeCap Consumer Staples (-1.8) was the biggest decliner last week, followed by MidCap Utilities (-1.4), LargeCap Utilities (-1.4), and LargeCap Real Estate (-1.1). LargeCap is now up 7.5% ytd and ahead of MidCap (7.1) in recent weeks after trailing it for much of the year, but both are significantly trailing SmallCap's 16.6% gain. Twenty-nine sectors are now positive to

date in 2018, up from 28 a week earlier and compared to just three in early February. The best-performing sectors ytd: SmallCap Health Care (43.6), MidCap Health Care (31.1), SmallCap Telecom (19.4), LargeCap Tech (17.6), and SmallCap Consumer Discretionary (17.2). The worst performers ytd: LargeCap Telecom (-5.7), LargeCap Consumer Staples (-5.7), LargeCap Materials (-2.3), and MidCap Materials (-0.6).

S&P 500 Sectors and Industries Performance ([link](#)): Seven sectors rose last week, and four outperformed the S&P 500's 0.9% gain. That compares to seven rising a week earlier, when seven matched or outperformed the S&P 500's 0.6% gain. Energy, with a gain of 2.6%, was the best-performing sector and beat the performances of Consumer Discretionary (2.0%), Tech (1.7), and Materials (1.2). Consumer Staples was the biggest underperformer, with a drop of 1.8%, followed by Utilities (-1.4), Real Estate (-1.1), Telecom (-0.7), Financials (0.2), Industrials (0.5), and Health Care (0.8). Eight sectors are in the plus column so far in 2018, up from seven a week earlier and down from nine in early March. However, just three sectors are outperforming the S&P 500's 7.5% ytd gain: Tech (17.6), Consumer Discretionary (16.3), and Health Care (10.9). The eight ytd underperformers: Telecom (-5.7), Consumer Staples (-5.7), Materials (-2.3), Industrials (0.8), Financials (0.8), Real Estate (1.4), Utilities (1.5), and Energy (2.8).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 2.7% w/w for only its second gain in eight weeks as 14 of the 24 commodities that we follow moved higher. That compares to the prior week's 1.4% decline when 9/24 commodities rose. Last week's strongest performers: Cocoa (10.0%), Zinc (6.3), Brent Crude (5.6), Crude Oil (5.4), and GasOil (5.1). Last week's biggest decliners: Lean Hogs (-11.6), Kansas Wheat (-7.6), Wheat (-7.5), Corn (-4.2), and Soybeans (-4.2). The S&P GSCI commodities index is up 4.8% ytd and near its highest level since December 2014, but is down 6.3% 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 (28.0), followed by Wheat (25.6), Cocoa (24.9), Brent Crude (13.8), Crude Oil (13.7), and GasOil (13.2). The biggest laggards of 2018 to date: Sugar (-32.5), Lean Hogs (-27.9), Zinc (-23.6), Coffee (-17.0), and Lead (-16.1).

Assets Sorted by Spread w/ 200-dmas ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 14/24 commodities, 9/9 global stock indexes, and 21/33 US stock indexes, compared to 9/24 commodities, 0/9 global stock indexes, and 24/33 US stock indexes rising a week earlier. Commodities' average spread rose w/w to -3.4% from -3.8%, and 10 commodities now trade above their 200-dmas, up from nine a week earlier. Wheat leads all commodities and all assets at 11.2% above its 200-dma, but Cocoa (2.7%) performed the best among commodities and all assets last week, rising 9.2ppts. Lean Hogs now trades at 26.2% below its 200-dma, the lowest of all commodities and all assets. Kansas Wheat (10.5) had the worst performance of all commodities and all assets last week, tumbling 9.9ppts. The global indexes trade at an average of 3.1% below their 200-dmas, up from -4.4% in the prior week. Just three of the nine global indexes trade above their 200-dmas, up from two a week earlier. Canada (2.4) leads the global indexes, but its 0.1ppt gain w/w was the weakest among global assets. China (-13.7) trades at the lowest point relative to its 200-dma among global assets, but improved 2.9ppts last week for the best w/w performance among global assets. The US stock indexes trade at an average of 7.0% above their 200-dmas, with 31 of the 33 sectors above, up from 6.2% a week earlier, when 29 sectors were above. SmallCap Health Care (21.7) continues to lead the US stock indexes and all assets, but MidCap Energy (12.1) rose 6.4ppts w/w for the biggest gain among US stock indexes last week. LargeCap Materials (-0.4) trades the lowest among all US stock indexes relative to 200-dmas, but LargeCap Consumer Staples (0.8) dropped 1.8ppts last week for the worst performance among US stock indexes.

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 0.9% 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 fourth time in five weeks. The index remained in a Golden Cross (50-dma higher than 200-dma) for a 122nd 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 11th time in 12 weeks following 17 straight weekly declines. The current Golden Cross reading of 2.7% is at an 18-week high and up from 2.6% 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 13th week after mostly declining from late March to late May—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 a 10-week high of 2.7% above its rising 50-dma from 2.1% 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 a 23-week high of 5.4% above its rising 200-dma, up from 4.8% a week earlier. That compares to 0.6% below the index's rising 200-dma on April 3 (the lowest reading since June 2016) and a seven-year high of 13.5% above its 200-dma on January 29.

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 Staples, Real Estate, Telecom, and Utilities. Ten of the 11 sectors are trading above their 50-dmas, up from nine a week earlier as Materials turned positive w/w. This leaves Energy as the only sector trading below its 50-dma. All 11 sectors had traded above their 50-dmas in late July, which had been the most since early December. 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 10/11 sectors trading above, up from nine 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). Energy last week moved above where it has been in 19 of the past 20 weeks, but Materials remained below for the ninth time in 10 weeks. Sectors trading the longest above their 200-dmas: Tech (above 200-dma for 112 straight weeks), Consumer Discretionary (94 straight weeks), and Health Care (13 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. Consumer Staples was out for a 23rd week, followed by: Telecom (out for 21 weeks), Materials (17), Industrials (13), and Financials (9). Ten sectors have rising 50-dmas now, up from eight a week earlier as Energy and Industrials reversed higher, and Materials continued falling. That compares to all 11 sectors with falling 50-dmas during early April (the worst count since before the election in November 2016). Eight sectors have rising 200-dmas, down from 10 a week earlier and compared to six in mid-July (which was tied with a count in February for the lowest since May 2017). The 200-dma turned lower in the latest week for Consumer Staples and Real Estate, as they joined Utilities as members of the declining 200-dma club.

US ECONOMIC INDICATORS

Durable Goods Orders & Shipments ([link](#)): Both core capital goods orders and shipments climbed to new cyclical highs again last month, while overall durable goods orders fell for the third time in four months. Nondefense capital goods orders ex aircraft (a proxy for future business investment) expanded its string of gains to four months, climbing 1.4% in July after unrevised increases of 0.6% and 0.7% the prior two months. The comparable shipments measure (used in calculating GDP) also advanced for the fourth month, climbing a strong 0.9% for the second straight month. Core capital goods orders accelerated 10.4% (saar) during the three months through July, based on the three-month average, the fastest three-month pace since last November; the comparable shipments measure accelerated 5.4%

(saar), more than triple May's rate. Total durable goods orders contracted for the third time in four months, by -1.7% last month and -2.3% during the four months ending July, as volatile aircraft orders remain a drag on overall billings. Excluding transportation, orders climbed for the 11th time in 13 months, by 0.2% in July and 9.0% over the period, to a new cyclical high.

New Home Sales ([link](#)): New home sales—tabulated when contracts are signed—fell to a nine-month low in July, 11.9% below November's cyclical high. New home sales sank for the third time in four months, slumping -1.7% last month and -6.7% over the period. Regionally, new home sales in the South—which accounts for the bulk of transactions—fell -3.3% last month, while sales in the Northeast (the smallest market) tumbled -52.3% to the lowest level since September 2015; sales rose in the West and Midwest by 10.9% and 9.9%, respectively. In July, there were 309,000 new homes on the market, the most since March 2009, and up 12.0% y/y; the months' supply climbed for the second month to 5.9—the highest since last August. Meanwhile, the number of properties sold in which construction hasn't started yet jumped to an eight-month high of 212,000. The median sales price rose for the first time in four months, jumping 6.0% during July to \$328,700; the price is 1.8% above a year ago. In August, the NAHB's housing market index ticked down a point to 68—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.”

GLOBAL ECONOMIC INDICATORS

US PMI Flash Estimates ([link](#)): US private-sector growth eased for the third straight month this month, according to flash estimates, with manufacturing leading the slowdown, though the service sector also has come off second-quarter highs. This month's C-PMI (to 55.0 from 55.7) lost momentum for the third month after reaching a 37-month high of 56.6 in May. Still, the latest reading was still well above the 50.0 breakeven point and broadly in line with its post-crisis average of 55.2. The M-PMI sank to a nine-month low of 54.5 in August, slowing steadily from April's 43-month high of 56.5. According to the report, output and new orders growth accounted for much of the slowing in manufacturing activity, though job creation also moderated. A widespread shortage of truck drivers has led to a lengthening of suppliers' delivery times. Meanwhile, price pressures remain elevated—though input price inflation eased further from April's seven-year peak, while output price inflation slowed to a five-month low. The NM-PMI edged down for the third month since reaching a three-year high of 56.8 in May, slipping to a four-month low of 55.2 this month. New business volumes increased at the slowest pace so far this year, but the rate of expansion was in line with the average since the survey began. Weaker growth in client spending contributed to a sustained fall in backlogs of work, with the latest decline the greatest since March 2017. Moreover, service providers signaled the slowest rise in payroll numbers for eight months.

Eurozone PMI Flash Estimates ([link](#)): The Eurozone economy continued to grow this month, though the rate of expansion remained one of the weakest seen over the past year and a half, while companies' expectations of future growth was the lowest in nearly two years. The Eurozone's C-PMI (to 54.4 from 54.3) was little changed this month, not far from May's 18-month low of 54.1, and considerably below the 139-month high of 58.8 at the start of this year. The Eurozone's M-PMI (54.6 from 55.1) sank to a 21-month low this month, with manufacturing looking susceptible to a trade-led slowdown in coming months. Optimism in the manufacturing sector was the lowest in nearly three years, as a near-stalling of exports corroborated escalating trade war worries. The NM-PMI (54.4 from 54.2) edged up, though growth has slowed dramatically from January's 58.0 peak. Optimism in this sector is the lowest in nearly two years. C-PMIs show growth accelerated in both Germany (55.7 from

55.0) and France (55.1 from 54.4) this month, with the former improving for the third straight month to its highest level in six months, while the latter was at a four-month high. Germany's service sector accounted for this month's improvement, with its NM-PMI (55.2 from 54.1) climbing to a six-month high and its M-PMI (56.1 from 56.9) recording its second-lowest reading in the past 20 months (albeit considerably higher than the long-run series average). The acceleration in France was widespread, with its NM-PMI (55.7 from 54.9) and M-PMI (53.7 from 53.3) moving higher, though both have eased considerably from readings at the start of the year. Elsewhere in the Eurozone, output and new orders growth rates weakened to 22-month lows, with future expectations hitting a five-year low. For the Eurozone as a whole, input cost and selling price inflation rates remained among the highest seen over the past seven years, though both cooled to three-month lows. Output price inflation eased in both the manufacturing and service sectors.

Japan M-PMI Flash Estimate ([link](#)): Japan's manufacturing sector this month expanded at a slightly faster pace than last month, according to the flash estimate, as domestic demand more than offset the contraction in export orders. The M-PMI ticked up to 52.5 this month after falling four of the prior six months from 54.8 at the start of the year to 52.3 in July. According to the report, weaker international sales weighed on business confidence, with panelists citing potential trade conflicts as a key risk to their outlook over the coming year. Positive sentiment eased to the lowest level since November 2016. On the pricing front, input and output price inflation were at multi-year highs this month.

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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