Yardeni Research

MORNING BRIEFING
September 24, 2018

Bear Tracks

See the collection of the individual charts linked below.

(1) Goldman's Bear-Market Risk Indicator and others like it suggest it may be time to get out of stocks. (2) By our count, there have been 61 panic attacks in this bull market, yet it is still making new highs. (3) The most obvious bear trap for the bull market is a recession. (4) Yet both leading and coincident indicators are still making record highs. (5) Current bull market charged right through 2015 growth recession and this year's emerging markets crisis (so far). (6) Six good reasons to dump bonds and one really good reason to hold onto them (because doing so is still working!). (7) Movie review: "White Boy Rick" (+ +).

Strategy I: Bear Traps for Stocks. In the past, the worst time to buy stocks typically has been when the unemployment rate was making a cyclical low (*Fig. 1*). Needless to say, initial unemployment claims was doing the same at the same time—and screaming "Get out! Get out!" (*Fig. 2*). Buying stocks when the yield curve was flat and on the verge on inverting has also been a bad idea (*Fig. 3*). Buying stocks when the Fed is raising interest rates can work okay for a while, until higher rates trigger a financial crisis, which often turns into a credit crunch and a recession (*Fig. 4* and *Fig. 5*). Rising bond yields aren't always bad for stocks, until they are (*Fig. 6*). Those times late in an expansion when the profit margin exceeds its mean tend to set it up for a bruising reversion to the mean and even below, which is bad for profits and bad for stocks (*Fig. 7*). As for buying stocks when valuations are extremely high, anyone could tell you "fuhgeddaboudit!" (*Fig. 8*).

All of the above bear traps may be set to snare the current bull market. A 9/10 Bloomberg article was titled "Goldman Bear-Market Risk Indicator at Highest Since 1969: Chart." The Goldman indicator neatly converts all of the major bear traps into one series:

"A Goldman Sachs Group Inc. indicator designed to provide a 'reasonable signal for future bear-market risk' has risen to the highest in almost 50 years. The firm's Bull/Bear Index, which is based on measures of equity valuation, growth momentum, unemployment, inflation and the yield curve, is now at levels last seen in 1969. While the gauge is at levels that have historically preceded a bear market …"

So why does the stock market bull continue to charge ahead? On Friday, the S&P 500 closed a whisker below its record high of 2930.75, hit on Thursday—rapidly approaching our 3100 target for this year (*Fig. 9*). It is up 9.6% ytd. It has recovered smartly from the nasty 13-day correction earlier this year with a gain of 13.5% since the year's low on February 8 (*Fig. 10*). During the current bull market, Joe and I count five corrections (exceeding 10%), one near correction (that rounds up to 10%), and a total of 61 "panic attacks" that were followed by relief rallies.

The latest relief rally reflects mounting confidence that Trump's trade war won't escalate into one that depresses the economy and corporate earnings, which continue to soar. In addition, there is less fear lately that the Fed's policy normalization will trip up the bull market. Earlier this year, there was fear that a 10-year US Treasury bond yield above 3.00% would be bearish for stocks. It recently rose back slightly above that level, yet it was widely deemed to be bullish for financial stocks. Go figure!

So what will it take to snare the bull in the bear traps? It will take a recession. That's all there is to it. While Goldman and everyone else is on the lookout for this event, both the Index of Leading Economic Indicators (LEI) and the Index of Coincident Economic Indicators (CEI) rose to new record highs during August, as Debbie discusses below (*Fig. 11*). The LEI did so even though the yield curve spread, which is only one of this index's 10 components, has been narrowing fairly steadily since 2013, but remains positive. It only subtracts from the LEI when it is negative. So it is still contributing positively to the LEI, though to a lesser extent. History shows that the CEI, which is a good monthly proxy for quarterly real GDP, falls when a financial crisis occurs, triggering a credit crunch and a recession. There's no sign that scenario is about to play out again anytime soon.

We have argued that there was a growth recession during 2015 caused by the collapse in commodity prices. Credit quality yield spreads widened dramatically, especially in the junk bond market. Yet here we are at a record high in the S&P 500. Arguably, there has been an emerging markets crisis this year, yet here we are at a record high in the S&P 500.

Strategy II: Bear Traps for Bonds. Perhaps this will all end badly when the 10-year US Treasury bond yield soars from 3.00% to 4.00% or higher. There is absolutely no reason to like bonds when the 10-year Treasury yield is hovering around 3.00%. Actually, there is one good reason. But before we go there, let's list all the reasons why bond yields "should" be moving higher:

(1) *Bond Vigilantes Model says so.* There has been a good (not great) correlation between the y/y growth rate in nominal GDP and the 10-year Treasury bond yield (*Fig. 12*). We've used this simple model since the early 1980s to explain why the two have often diverged rather than converged, as they eventually tend to do. However, "eventually" can be a long time. In any event, nominal GDP rose 5.4% y/y during Q2. This could be a good time for the bond yield to converge with this growth rate. (To keep track of this relationship for the US, UK, Germany, France, and Japan, see our *Bond Vigilantes Model*.)

(2) *Inflationary pressures may be mounting.* Perhaps the biggest bear trap for bonds, and therefore for stocks, is a significant rebound in price inflation. Wage inflation is finally showing some signs of picking up as the labor market continues to tighten. However, as we have observed many times before, technological innovation, global competition, and aging demographic factors are keeping a lid on both wage and price inflation. Even if wage inflation continues to move higher, it might not be passed through into price inflation if companies absorb the costs by lowering their profit margins. More likely, in our view, is that companies will finally boost their productivity, allowing them to increase labor costs without raising prices.

(3) *The Fed is tightening and tapering*. Fed Chairman Jay Powell has clearly communicated to financial market participants that the FOMC will continue to gradually normalize monetary policy by raising the federal funds rate to 3.00% by the end of next year while tapering the Fed's holdings of Treasury and mortgage-related securities. The two-year Treasury note yield reflects expectations for the federal funds rate a year from now (*Fig. 13*). It rose to 2.81% at the end of last week. As of October this year, the pace of tapering will increase from $40 billion to $50 billion per month, with Treasuries pared by $30 billion per month and mortgage securities holdings cut by $20 billion per month through 2024 (*Fig. 14*).

(4) *The federal deficit is out of control*. The Fed is cutting back on its holdings of Treasury securities at an annual rate of $360 billion just as the federal deficit is on course to average around $1.0 trillion per year over the next 10 years (*Fig. 15*).

(5) *Pensions funds have stopped buying*. An 8/21 CNBC article observed: "But now that it's getting into

September, many pension funds, after diving in big time, may be ready to get out of the pool temporarily—or at least slow fixed income investments as summer moves into fall. That's because when the tax law changed last year, many companies were given until mid-September to deduct their pension contributions at last year's tax rate instead of the new 21 percent rate."

(6) *The Chinese have stopped buying*. Last week on Tuesday, US government bond yields rose to 3.06% on news that Chinese investors had been net sellers of US Treasuries during July. The trade war might be turning ugly for the US if foreigners retaliate by reducing their holdings of US Treasuries. In fact, US Treasury data show that foreign holdings rose $39.9 billion during July. China was the biggest holder, with $1,171.0 billion in US Treasuries, down just $7.7 billion for the month.

(7) *The bottom line*. So why aren't we there yet, i.e., closer to 4.00%? The most obvious answer is the one we have been coming up with all year: The US 10-year government bond yield has been tethered to the comparable yields in Japan and Germany, which are around 0.00% (*Fig. 16*). Last week, Melissa and I reviewed the latest policy positions of the ECB and BOJ, and neither central bank seems intent on raising their slightly negative official interest rates anytime soon.

Movie: "White Boy Rick" (+ +) (*link*) is based on a true story about a teen growing up in a very rough neighborhood in Detroit during the 1980s. It stars the talented Matthew McConaughey as the father of Richard Wershe, Jr., who is played well by Richie Merritt. Richard became an undercover informant for the FBI and was encouraged by the agency to get involved in the local narcotics trade. Yet he was ultimately arrested for drug trafficking and sentenced to life in prison. He'd thought he had a deal with the FBI, but he was wrong. The moral of the story: When you cut a deal with the FBI, get it in writing.

CALENDARS

US. Mon: Dallas Fed General Activity Index 31.2, Chicago Fed National Activity Index 0.20. **Tues:** Consumer Confidence 131.7, Richmond Fed Manufacturing Index 20, S&P Corelogic Case-Shiller HPI 0.5%m/m/6.3%y/y, FHFA Home Price Index 0.3%, FOMC Meeting Begins. (Econoday estimates)

Global. Mon: Germany Ifo Business Climate, Current Assessment, and Expectations Indexes 103.2/106.0/100.5, BOJ Minutes of September 19 Policy Meeting. **Tues:** Kuroda. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): The US MSCI index rose 0.8% last week following a 1.2% increase a week earlier, and has risen in 14 of the past 18 weeks. The index ranked 36th out of the 49 markets in a week when 41 countries rose in US dollar terms, compared to the prior week's 27/49 ranking when 31 markets rose. The AC World ex-US index recorded its best gain since mid-February, rising 2.7% for the week compared to a 1.4% gain a week earlier. EM Latin America performed the best among markets abroad with a gain of 4.6%, followed by EM Eastern Europe (3.6%), EMU (2.9), EAFE (2.9), and BRIC (2.8). Regions underperforming the AC World ex-US last week, albeit with gains: EM Asia (1.7) and EMEA (2.2). Argentina was the best-performing country as it soared 20.8%, followed by Brazil (7.5), Chile (6.3), and Peru (6.2). Of the 30 countries that underperformed the AC World ex-US MSCI last week, Egypt fared the worst, falling 6.0%, followed by Sri Lanka (-5.9) and India (-3.8). With a gain of 9.6% ytd, the US MSCI ranks 3/49 and remains way ahead of the AC World ex-US (-4.4); 34/49 countries and all other regions are in negative territory ytd. EAFE (-2.7), EMU (-2.9), and EM Eastern Europe (-3.9) lead the AC World ex-US. EM Latin America (-9.9) is the biggest laggard relative to the AC World ex-US's performance, followed by EMEA (-9.8), BRIC (-9.7), and EM Asia (-7.8). The best country performers ytd: Israel (14.7), Finland (11.6), the US (9.6), Norway (6.8), and Peru (4.6). The worst-performing countries ytd: Turkey (-49.8), Argentina (-44.8), Greece (-23.7), South Africa (-

22.0), and the Philippines (-20.1).

S&P 1500/500/400/600 Performance (*link*): Two of these three market-cap indexes moved lower last week after rising broadly a week earlier. LargeCap (0.8%) was the sole gainer, ahead of the declines for MidCap (-0.3) and SmallCap (-1.1). LargeCap ended the week a hair below its record high on Thursday, ahead of MidCap (-0.4, August 29) and SmallCap (-2.2, August 31). Thirteen of the 33 sectors rose in the latest week, down from 28 a week earlier, which had been the best count in 10 weeks. The best performers in the latest week: MidCap Energy (4.5), SmallCap Energy (2.9), LargeCap Materials (2.3), and LargeCap Financials (2.3). SmallCap Industrials was the biggest decliner last week, falling 2.2%, and followed by SmallCap Health Care (-2.1), SmallCap Real Estate (-2.1), and MidCap Health Care (-1.9). LargeCap is now up 9.6% ytd; it has been beating MidCap (7.4) on a ytd basis in recent weeks after trailing it for much of the year, but both are significantly trailing SmallCap's 14.7% 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 (42.5), MidCap Health Care (30.4), SmallCap Telecom (20.4), LargeCap Consumer Discretionary (18.7), and LargeCap Tech (18.5). The worst performers ytd: LargeCap Telecom (-4.3), LargeCap Consumer Staples (-3.5), SmallCap Real Estate (-3.3), and MidCap Materials (-0.3).

S&P 500 Sectors and Industries Performance (*link*): Eight sectors rose last week, and six outperformed the S&P 500's 0.8% gain. That compares to ten rising a week earlier, when five outperformed the S&P 500's 1.2% gain. Materials and Financials were the best-performing sectors with gains of 2.3%, ahead of Energy (1.9%), Industrials (1.3), Health Care (1.2), and Consumer Staples (1.2). Utilities was the biggest underperformer, with a drop of 1.5%, followed by Real Estate (-0.4), Tech (-0.1), Telecom (0.2), and Consumer Discretionary (0.4). Nine sectors are in the plus column so far in 2018, up from eight a week earlier and down from nine in early March. However, just three sectors are outperforming the S&P 500's 9.6% ytd gain: Consumer Discretionary (18.7), Tech (18.5), and Health Care (14.2). The eight ytd underperformers: Telecom (-4.3), Consumer Staples (-3.5), Materials (0.3), Utilities (0.7), Real Estate (0.8), Financials (2.9), Energy (4.3), and Industrials (5.1).

Commodities Performance (*link*): Last week, the S&P GSCI index rose 2.0% w/w for only its fifth gain in 12 weeks. Twenty of the 24 commodities that we follow moved higher, the highest count since late April. That compares to the prior week's 0.7% gain when 12/24 commodities rose. Last week's strongest performers: Natural Gas (8.1%), Zinc (7.4), Copper (6.8), and Nickel (4.7). Last week's biggest decliners: Cotton (-3.3), Sugar (-2.8), and Cocoa (-2.3). The S&P GSCI commodities index is up 7.1% ytd and near its highest level since December 2014, but is down 4.3% from its high in May and remains at half the ytd performance of its record high in July 2008 just before the financial crisis. The top performer so far in 2018 is Kansas Wheat (22.9), followed by Wheat (22.2), Crude Oil (17.1), Brent Crude (17.0), Cocoa (14.5), and GasOil (14.4). The biggest laggards of 2018 to date: Zinc (-24.7), Sugar (-23.0), Coffee (-20.8), Lean Hogs (-20.0), Lead (-17.9), and Silver (-16.2).

Assets Sorted by Spread w/ 200-dmas (*link*): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 20/24 commodities, 9/9 global stock indexes, and 12/33 US stock indexes, compared to 10/24 commodities, 7/9 global stock indexes, and 26/33 US stock indexes rising a week earlier. Commodities' average spread rose w/w to -2.6% from -4.1%, and ten commodities trade above their 200-dmas, up from eight a week earlier. Brent Crude leads all commodities at 8.8% above its 200-dma, but Natural Gas (5.3) improved 7.7ppts w/w for the best performance among all assets. Zinc (-17.3) trades the lowest of all commodities and all assets, but Cotton (-5.1) fell 3.4ppts w/w for the worst performance among commodity assets. The global indexes trade at an average of 1.2% below their 200-dmas, up from -3.7% in the prior week. Just two of the nine global indexes trade above their 200-dmas, unchanged from a week earlier. Japan (6.4) leads the global indexes, but Brazil (-0.7) and China (-9.7) both improved 4.9ppts w/w for the best performance among global assets. Despite that improvement, China (-9.7) continues to trade at the lowest point relative to its 200-dma among global assets. Indonesia (-2.9) performed the worst among global assets last week, rising only 0.5ppt. The US stock indexes trade at an average of 6.2% above their 200-dmas, with 32 of the 33 sectors above, down from 6.5% a week earlier, when 29 sectors were above. SmallCap Health Care (16.2) continues to lead the US stock indexes and all assets, but dropped 3.6ppts last week for the worst performance among US stock indexes and all assets. MidCap Energy (12.1) rose 4.3ppts w/w for the biggest gain among US stock indexes last week. MidCap Financials (-0.5) now trades the lowest among all US stock indexes relative to 200-dmas.

S&P 500 Technical Indicators (*link*): The S&P 500 price index rose 0.8% 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 ninth time in 12 weeks. The index remained in a Golden Cross (50-dma higher than 200-dma) for a 126th 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 15th time in 16 weeks following 17 straight weekly declines. The current Golden Cross reading of 3.8% is at a 24-week high and up from 3.6% 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 17th 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 successfully tested its 50-dma at the end of June, and rose to 2.5% above its rising 50-dma from 2.0% 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 last week, 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. It ended the week at a 27-week high of 6.4% above its rising 200-dma, up from 5.7% 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, six improved relative to their 50-dmas last week and seven relative to their 200-dmas. Telecom weakened relative to its 50-dma last week, and these four dropped relative to both measures: Consumer Discretionary, Real Estate, Tech, and Utilities. Ten of the 11 sectors are trading above their 50-dmas now, a count unchanged from a week ago, as Energy turned positive for the first time in eight weeks and Utilities fell below for the first time since mid-June. All 11 sectors were trading above their 50-dmas in late July, the most since early December. Just a few months prior, the picture was the opposite: All 11 sectors were 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 all 11 sectors trading above currently, up from 10 a week earlier, as Materials turned positive after being mostly below since late March. That's up from just four sectors trading above their 200-dmas in early May (which matched the lowest count since January 2016). Sectors trading above their 200-dmas for the longest timespans: Tech (116 straight weeks), Consumer Discretionary (98), and Health Care (17). All 11 sectors had been above both their 50-dmas and 200-dmas briefly in mid-December (for the first time since July 2016). Nine sectors now are in a Golden Cross (with 50-dmas higher than 200-dmas), up from eight a week earlier, as Financials' 50-dma moved above its 200-dma for the first time in 13 weeks. All 11 sectors had been in a Golden Cross back in mid-January (for the first time since a 26-week streak ended in October 2016). Telecom was out for a 25th week, followed by Materials (21). Ten sectors have rising 50-dmas now, the same number as a week earlier, as Energy continued a descent begun in mid-July. That compares to all 11 sectors with falling 50-dmas during early April (the worst count since before the election in November 2016). However, seven sectors now have rising 200-dmas, down from nine a week earlier and compared to six in mid-July (which was tied with a count in February for the lowest since May 2017). Real Estate's and Telecom's 200-dma zigged back down again last week, joining Consumer Staples and Utilities as the four members 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 August, continuing its streak of no declines since May 2016. The LEI climbed 0.4% last month, following upward revisions to both July (to 0.7% from 0.6%) and June (0.6 from 0.5) readings. It's up a solid 3.8% ytd and 6.4% y/y—matching its best yearly growth rate in four years. "The leading indicators are consistent with a solid growth scenario in the second half of 2018 and at this stage of a maturing business cycle in the US, it doesn't get much better than this," said Ataman Ozyildirim, director of Business Cycles and Growth Research at The Conference Board. Seven of the 10 LEI components contributed positively in August, with the largest contributions coming from the new orders diffusion index (0.20ppt), leading credit index (0.13), interest rate spread (0.11), consumer expectations (0.09), and stock prices (0.09); building permits (-0.17) had the largest negative contribution, with the average workweek (-0.07) and real core capital goods orders (-0.02) the only other components detracting from the LEI.

Coincident Indicators (*link*): August'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 0.2% last month and 1.5% since January's -0.1% dip. Once again, all four components contributed positively last month—and all rose to new record highs: 1) Nonfarm payroll employment was the biggest positive contributor to August's CEI. Last month's 201,000 increase was above July's 147,000 but below Q2's average monthly gain of 217,000. 2) Industrial production rose 0.4% last month—its sixth increase in the past seven months. Output expanded 4.9% y/y—the strongest yearly growth since December 2010. 3) Real personal income—excluding transfer payments—rose for the 12th time in 14 months, by 0.3% m/m and 3.1% over the period. 4) Real manufacturing & trade sales increased for the 15th time in 16 months, by a total of 4.5% over the period, setting new record highs along the way.

Regional M-PMIs (*link*): Both Fed districts that have reported on manufacturing activity for September so far—Philadelphia and New York—showed growth picked up this month, with the former accelerating from August's pace and the latter decelerating. We average the composite, orders, and employment measures as data become available. The composite index rose to 21.0 this month from 18.8 last month; it peaked at 28.5 last October—which was the best reading since July 2004. The Philadelphia region's composite index (to 22.9 from 11.9) shows growth was roughly double the pace of last month, though held below May's 12-month high of 34.4; New York's (19.0 from 25.6) gauge eased from August's 10-month high, remaining at an elevated level. The new orders gauge (19.0 from 13.5) climbed back toward May's 14-year high of 28.3 this month, because of a sharp acceleration in billings in the Philly (21.4 from 9.9) region; orders in New York (16.5 from 17.1) virtually matched August's pace. The employment measure (15.5 from 13.7) shows job gains were slightly better than in August, as manufacturers in the Philly (17.6 from 14.3) region hired at a faster rate and those in New York (13.3 from 13.1) hired at virtually their August pace.

Existing Home Sales (*link*): Existing-home sales remained steady in August after four straight months of decline. Existing home sales—tabulated when a purchase contract closes—remained at 5.34mu (saar) last month, after sliding 4.6% the prior four months from 5.60mu. On an annual basis, this result represented the fifth straight month of decline, down -1.5% y/y—narrowing from May's -3.4%. Lawrence Yun, NAR chief economist, says the decline in existing home sales appears to have hit a plateau with robust regional sales. "Strong gains in the Northeast and a moderate uptick in the Midwest helped to balance out any losses in the South and West, halting months of downward momentum," he said. "With inventory stabilizing and modestly rising, buyers appear ready to step back into the market." Both single- and multi-family sales were unchanged in August at 4.57mu and 590,000 units (saar), respectively, after sliding -4.8% and -3.3% the previous four months. The number of existing single-family homes on the market at the end of August held at 1.70mu, 3.0% above a year ago. However, Yun notes that's still far from a healthy level, and new home construction is not keeping up to satisfy demand.

GLOBAL ECONOMIC INDICATORS

European Car Sales (*link*): EU passenger car registrations (a proxy for sales) were released for both July and August last week. In July, demand for new passenger cars expanded 10.5% y/y, with almost 1.3 million cars registered. All major EU markets posted increases in sales, led by double-digit gains in Spain (19.3% y/y), France (18.9), and Germany (12.3); growth rates in Italy (4.7) and the UK (1.2) were in the low single digits. Sales in August, which is usually the slowest sales month of the year, posted a significant 31.2% y/y gain. According to ACEA's report, the most likely explanation for August's "exceptional growth is the introduction of the new WLTP test that applies to all new car registrations from 1 September 2018. Hence, some auto manufacturers offered pre-WLTP vehicles at extremely attractive prices." As a result, double-digit gains were recorded in many EU countries, while four of the five largest markets posted substantial yearly gains: Spain (48.7% y/y), France (40.0), Germany (24.7), and the UK (23.1); Italy's (9.5) gain was much smaller. During the first eight months of this year, sales increased 6.1% y/y to 10.8 million units. Among the five major markets, sales rose in Spain (14.6% y/y), France (8.9), and Germany (6.4) and fell in the UK (-4.2); car sales in Italy (-0.1) were unchanged from a year ago.

US PMI Flash Estimates (*link*): US private-sector growth eased this month for the fourth straight month, according to flash estimates, while prices-charged inflation hit a survey-record high. This month's C-PMI sank to a 17-month low of 53.4 since reaching a 37-month high of 56.6 in May. Over this same period, the NM-PMI dropped from a three-year high of 56.8 to an 18-month low of 52.9. Meanwhile, the M-PMI climbed to a four-month high of 55.6 this month after slowing steadily from a 43-month high of 56.5 in April to a nine-month low of 54.7 in August. Stronger rates of output and new order growth were the main factors boosting the M-PMI in September. Stock building also contributed positively to the headline index, with pre-production inventories rising their fastest since December 2016. Looking ahead, business expectations for the coming year dropped sharply during the month; the report noted that the darker outlook partly reflected the escalation of trade wars and accompanying spike in prices, to at least nine-year highs.

Eurozone PMI Flash Estimates (*link*): Eurozone business activity this month grew at the second-weakest rate since late 2016, according to preliminary estimates, as manufacturing growth was hampered by export orders stagnating for the first time in over five years. The Eurozone's C-PMI (to 54.2 from 54.5) was little changed again 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 (53.3 from 54.6) sank to a 24-month low, with production increasing at the slowest rate since May 2016 and new orders the weakest since February 2015—as new export orders failed to grow for the first time since June 2013. Meanwhile, the NM-PMI (54.7 from 54.4) improved for the second successive month to reach a three-month high, with job creation the best since October 2007. However, it remained well below rates seen earlier this year. Across the region, C-PMIs show growth in Germany (55.3 from 55.6) and France (53.6 from 54.9) expanded at their slowest rates in two months and 21 months, respectively. Both, however, continued to outperform the rest of the Eurozone as a whole, where the pace of expansion held close to two-year lows. Germany's economy showed a contrast in performance between the manufacturing and service sectors, with the latter gaining growth momentum and overtaking a slowing manufacturing sector. This month's M-PMI (53.7 from 55.9) fell to a 29-month low, while the NM-PMI (56.5 from 55.0) rose to an eight-month high. In France, the NM-PMI (54.3 from 55.4) and M-PMI (52.5 from 53.5) measures were the lowest in four months and three months, respectively—

though France's manufacturing output index sank to a two-year low.

Japan M-PMI Flash Estimate (*link*): Japan's manufacturing sector this month accelerated for the second month, according the flash estimate, though business confidence sank to a 22-month low. The M-PMI rose to 52.9 this month after falling to an 11-month low of 52.3 in July. According to the report, although recent demand pressures have been driven primarily by the domestic market, latest flash data pointed to the first rise in export sales since May amid ongoing global trade frictions.

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