MORNING BRIEFING
November 26, 2018

Turbulence

See the collection of the individual charts linked below.

(1) A week in London. (2) Pence attacks China again. (3) Xi expects to outlive Trump politically. (4) Powell is Trump's regrettable. (5) The Dow Vigilantes may not matter to Powell, but credit market stress cracks should get his attention. (6) Plunging oil prices depressing inflationary expectations. (7) Stock prices could stall along with our Boom-Bust Barometer. (8) Panic Attack #62 similar to #61, but with more of an attack on FAANGs. (9) Value likely to outperform Growth for a while. (10) Movie review: "Green Book" (+ + +).

Strategy I: Headwinds. I will be meeting with our accounts in London all week. Given the tortuous Brexit negotiations that have just been completed, it is an interesting time to be here. Now it's up to Parliament to say "nay" or "yah." There are reportedly more of the former than the latter votes. I asked Sandra Ward, our contributing editor, to provide an update on this thorny issue, which she will do on Wednesday.

My flight here had a fair bit of turbulence. The same can be said about the stock market this year. The question is: Will it last into next year? The short answer is: Probably.

Joe and I curbed our enthusiasm for the bull market at the end of October. We lowered our earnings outlook for 2019 and 2020. We are currently estimating that S&P 500 operating earnings growth will drop from 22.7% this year to 4.9% in 2019 and 5.3% in 2020. Industry analysts are currently predicting 8.8% for next year and 10.3% for 2020 (*Fig. 1*). We lowered our 2019 target for the S&P 500 from 3500 to 3100, which had been our year-end target for this year.

During October, we concluded that the two major issues hanging over the market since the start of this year could continue to do so through 2019. Meanwhile, there are other issues that have come to the fore lately that may linger well into 2019. Consider the following:

(1) *China.* I identified the first problem in the 10/1 *Morning Briefing* titled "China's Syndromes." I concluded that the US was aiming to thwart China's superpower ambitions by challenging not only China's trade practices but also its aggressive foreign policy.

My analysis was validated only three days later by a belligerent 10/4 speech delivered by Vice President Michael Pence detailing all the major complaints that the Trump administration has with China. He did it again in an 11/16 speech at the 2018 APEC CEO Summit. President Trump will meet with China's president-for-life Xi Jinping this weekend at the G-20 gathering in Buenos Aires. Given that Xi expects to outlive Trump, at least politically, the Chinese President is unlikely to give Trump any reason to declare that the trade war is over. So Trump is bound to make good on his threat to impose a 25% tariff on all Chinese goods imported by the US at the start of 2019. Then again, with Trump anything is possible.

(2) *Central banks.* Trump is clearly upset with Fed Chairman Jerome Powell's interest-rate hikes.

Trump appointed him to that position at the beginning of the year. Since then, Powell raised the federal funds rate in March, June, and September. He is expected to do so again in December, bringing the top of the fed funds rate range up from 1.50% to 2.50% this year. If he keeps going at this pace, the top of the range will be 3.50% by the end of 2019 (*Fig. 2*).

However, the Dow Vigilantes are starting to scream that history shows that Fed rate hikes inevitably cause a financial crisis, which often turns into a credit crunch (even for good borrowers) and a recession (*Fig. 3*). They want the Fed to pause for a while to give the economy time to adjust to the rate hikes so far and to provide more data for assessing whether the "neutral" federal funds rate may be closer to 2.00% than to 3.00%. We side with the Dow Vigilantes.

Powell may not be as sensitive to the needs of the Dow Vigilantes as were his three predecessors. However, he can't ignore recent signs of stress in the credit markets. For example, the yield spread between high-yield bonds and the 10-year US Treasury bond has started to widen recently from a very low and narrow range since early October (*Fig. 4*). The extraordinary 27% plunge in the price of a barrel of crude oil since October 3 may be contributing to this development, as it did in a similar episode during the second half of 2014 through early 2016. The latest oil price freefall is reducing the inflationary expectations spread between the 10-year US Treasury bond yield and the comparable TIPS yield (*Fig. 5*). It has dropped 21bps since October 9 to 1.96% on Friday.

As Melissa and I noted last Monday, the Fed announced on November 15 a program to reassess the process of making monetary policy that should be completed by mid-2019. This should provide a good excuse for Powell to pause rate-hiking during the first half of next year. (See the press release, "Federal Reserve to review strategies, tools, and communication practices it uses to pursue its mandate of maximum employment and price stability.")

On Wednesday, Powell addresses the Economic Club of New York. If he hints that a pause is coming, that should at least stabilize stock prices for a while and possibly allow them to recover some of what they lost since late September. The problem is that the Fed probably won't pause in tapering its balance sheet by $50 billion per month (*Fig. 6*). In addition, the European Central Bank and the Bank of Japan are expected to terminate their QE programs in coming months. So central bank liquidity may remain a headwind for the stock market during 2019 (*Fig. 7*).

(3) *Commodity prices.* The plunge in the price of oil shouldn't be a big surprise (particularly with the benefit of hindsight), since it tends to be highly inversely correlated with the trade-weighted dollar (*Fig. 8*). The surprise this year was that the price of oil rose sharply even as the dollar soared. That might have had something to do with Trump's decision on May 8 to drop out of the Iran nuke deal and to impose sanctions on Iran's oil exports. He did so in early November, but also provided six-month waivers for six countries that are major buyers of Iranian oil. Meanwhile, US frackers continued to frack, pushing US oil production up to a record 11.7mbd, up 3.0mbd over the past two years (*Fig. 9*). An 11/21 Bloomberg story reports that OPEC's recent nightmare may get worse next year, "when Permian producers expect to iron out distribution snags that will add three pipelines and as much as 2 million barrels of oil a day."

So while the recent freefall in the price of oil may be contributing to the stress cracks in the credit markets, it's unlikely to be signaling a significant drop in global oil demand. The problem is too much supply rather than a sudden weakening in the global economy.

Nevertheless, the weakness in the CRB raw industrials spot price index (which does not include petroleum or lumber products) since the start of this year has been signaling that the mighty dollar, rising interest rates, and the trade war are weighing on global growth (*Fig. 10*). Debbie and I derive our

Boom-Bust Barometer (BBB) by dividing the CRB index by US initial unemployment claims (*Fig. 11*). It has been highly correlated with the S&P 500 since 1998, and exceptionally tight since 2014. It is currently confirming the stock market's stalling in record-high territory.

Looking toward 2019, it's hard to imagine that jobless claims can fall much lower. So the outlook for our BBB will be mostly (or solely) determined by the CRB index, which will be determined by the strength or weakness of the global economy. Our outlook is for more of the same mediocre growth with neither boom nor bust, as US strength continues to offset weakness elsewhere in the world economy.

(4) *Credit quality.* Melissa and I are researching and updating our analysis of the credit markets, and expect to have more to say about it all tomorrow. The recent stock market correction has raised lots of concerns about credit-quality issues. We are concerned enough to spend some time examining the potential for trouble. However, we aren't convinced that another financial crisis is imminent, as the reenergized bears are warning. We also believe that distressed asset funds can act as a shock absorber in the credit markets, as they did during 2015. More on this tomorrow.

Strategy II: Value Holding Up Better Than Growth. Panic Attack #62 of the current bull market started after September 20, the day that the S&P 500 rose to a record high of 2930.75. On Friday, it closed at 2632.56, down 10.2% from that record high, making #62 an outright correction that has lasted 64 days so far (*Fig. 12*). Earlier this year, Panic Attack #61 also saw the S&P 500 down 10.2% (putting it also above the 10% correction threshold), but over a 13-day period.

Both selloffs shared common worries about President Trump's escalating trade war, especially with China, and the Fed's seemingly set course to hike the federal funds rate every quarter through 2019. The latest one, however, was exacerbated by significant selling of the FAANG (Facebook, Amazon, Apple, Netflix, and Google's parent Alphabet) stocks as investors worried about mounting calls for government regulation of their activities, even by a few of their very own CEOs! In addition, the FAANGs' Q3 earnings results reported in October suggested that their growth rates were slowing, a sign that they are maturing companies that have saturated their established markets.

Even mighty Amazon may be running out of running room. Reflecting this concern, its stock price peaked at a record $2039.51 on September 4, giving it a market capitalization of $988 billion. On Friday, its stock price was down 25.6% to a market cap of $734 billion. Apple's share price peaked at $232.07 on October 3, giving it a market cap of $1.1 trillion. On Friday, its price was down 25.8% to a market cap of $818 billion. Apple cut its orders from suppliers, suggesting that the latest iPhone models aren't sexy enough to stimulate cell phone users to ditch their older models. Even mighty Apple may be facing a global cell phone market that has become commoditized. An escalating trade war with China is also bad news for Apple. Both Amazon and Apple are validating the curse of building new corporate headquarters.

The FAANGs have been powering the S&P 500 Growth stock price index, which has been outperforming the S&P 500 Value index during most of the current bull market. It may now be Value's turn to outperform. Consider the following:

(1) *Since the start of the bull market on March 9, 2009,* S&P 500 Growth is up 329.8%, while S&P 500 Value is up 247.7% (*Fig. 13*, *Fig. 14*, and *Fig. 15*).

(2) *Since Election Day on November 8, 2016*, Growth is up 30.3%, while Value is up 14.7%. Since the start of the year through the 9/20 record high in the S&P 500, Growth (led by the FAANGs) rose 15.7%, while Value edged up 3.2%. Since that record high, Growth is down 11.8% (again, led by the FAANGs), while Value is down 8.2%.

(3) *The forward P/E* of Growth is down from its bull-market peak of 21.8 during the 1/26 week to 17.7 currently (*Fig. 16*). The forward P/E of Value peaked at 16.6 during the 1/5 week, and is down to 13.0 now. Our Blue Angels analysis shows that the forward earnings of both continued to set record highs during the 11/15 week (*Fig. 17* and *Fig. 18*).

(4) *How many companies are counted as Growth versus Value in the S&P 500?* I asked Joe, and he reports that companies can be in both indexes. There are 500 companies in the S&P 500 with 300 in Growth, and 376 in Value. "The same goes for Russell too," says Joe. According to Refinitiv, there are 958 companies in the Russell 1000, with 535 in Growth and 704 in Value.

Here are the top 10 S&P 500 Growth stocks by market value: Apple ($818 bn), Microsoft ($791 bn), Amazon ($734 bn), Alphabet ($714 bn), Johnson & Johnson ($381 bn), Facebook ($379 bn), Visa ($293 bn), Bank of America ($265 bn), UnitedHealth Group ($252 bn), and Pfizer ($250 bn).

Here are the top 10 Value stocks: Berkshire Hathaway ($510 bn), Johnson & Johnson ($381 bn), JPMorgan Chase ($355 bn), Exxon Mobil ($320 bn), Walmart ($279 bn), Bank of America ($265 bn), Pfizer ($250 bn), Wells Fargo ($244 bn), Verizon Communications ($242 bn), and Procter & Gamble ($228 bn).

Movie. "Green Book" (+ + +) (*link*) is a very entertaining and mostly comic movie about Dr. Don Shirley, an African-American classical piano virtuoso played stoically by Mahershala Ali. Shirley hired Italian-American Tony "Lip" Vallelonga, a night club bouncer played by Viggo Mortensen, to drive him through southern states on an eight-week music tour before Christmas in the 1960s. It's funny notwithstanding the ugly reality of racism the two encountered. The script was written mostly by Tony's son, so his character is more fully developed than is Shirley's. Still, Tony remains a knucklehead during the entire film, though he overcomes some of his racism as a result of the road trip. Shirley's patrician character also connects with Tony, but remains mostly disconnected from all but his music, though his tour de force in the South at that time was clearly gutsy.

CALENDARS

US. Mon: Dallas Fed General Activity Index 28.6, Chicago Fed National Activity Index 0.20. **Tues:** Consumer Confidence Index 136.9, S&P Core Logic Case-Shiller HPI 0.3%m/m/5.3%y/y, Clarida, Bostic, George, Evans. (Econoday estimates)

Global. Mon: Germany Ifo Business Climate, Current Assessment, and Expectations Indexes 102.3/105.6/99.3, Japan M-PMI Flash Estimate, Draghi, Carney. **Tues:** Germany Retail Sales. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): The US MSCI index fell for the seventh time in nine weeks, as its 3.8% decline ranked 37th out of the 49 markets and only five countries rose in US dollar terms. That compares to the prior week's 37/49 ranking, when the US MSCI fell 1.7% and 20 markets rose. The AC World ex-US index fell 1.3% for the week; that compares to a 0.8% drop a week earlier. EMEA was the best performer for the week, albeit with a drop of 0.7%, ahead of EM Eastern Europe (-1.1%) and EAFE (-1.1). EM Latin America (-4.1) was the worst performer, followed by EMU (-2.1), BRIC (-1.9), and EM Asia (-1.6). The Philippines was the best-performing country, rising 4.5%, followed by Poland (2.9), Turkey (0.2), Indonesia (0.2), and Denmark (0.1). Of the 31 countries that underperformed the AC World ex-US MSCI last week, Colombia fared the worst, falling 6.1%, followed by Peru (-5.3), Norway (-5.3), and Brazil (-4.4). The US MSCI's ytd ranking improved one place last week to an impressive 2/49 ytd, with its 1.6% decline far ahead of the AC World ex-US (-13.5) performance. Nearly all countries—48/49—and all regions are in negative territory ytd. Among regions, those that have fallen less on a ytd basis than the AC World ex-US are: EM Eastern Europe (-6.8), EM Latin America (-9.6), EMEA (-10.2), and EAFE (-12.6). Those that have fallen more: EM Asia (-17.0), the biggest laggard, followed by EMU (-15.2) and BRIC (-14.6). The best country performers ytd: Israel (6.5), the US (-1.6), Russia (-2.5), Peru (-2.7), and Brazil (-3.5). The worst-performing countries ytd: Argentina (-50.3), Turkey (-42.4), Greece (-37.4), Pakistan (-28.0), and South Africa (-26.6).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes are in a correction now. LargeCap tumbled 3.8% last week, lagging the declines for both SmallCap (-2.5%) and MidCap (-2.2) for a second straight week. LargeCap entered a correction on Friday and is now 10.2% below its record high on September 20. MidCap and SmallCap are 11.0% and 14.6% below their August 29 records, respectively. All 33 sectors moved lower w/w, compared to eight rising a week earlier. The smallest decliners in the latest week: MidCap Utilities (-0.7), SmallCap Real Estate (-0.7), SmallCap Utilities (-0.7), and MidCap Real Estate (0.8). SmallCap Energy (-7.9) was the biggest decliner last week, followed by LargeCap Tech (-6.1), MidCap Energy (-5.7), and LargeCap Energy (-5.1). In terms of ytd performance, only SmallCap is in the black and barely, up 0.1%; LargeCap is down by 1.5%, far less than MidCap's 4.0% decline. Thirteen sectors are now positive to date in 2018, down from 18 a week earlier and compared to just three in early February. The best-performing sectors ytd: SmallCap Health Care (25.0), MidCap Health Care (17.0), SmallCap Communication Services (13.7), LargeCap Health Care (8.3), and MidCap Utilities (7.8). The worst performers ytd: SmallCap Energy (-24.8), LargeCap Communication Services (-14.5), MidCap Materials (-13.5), LargeCap Materials (-12.1), and SmallCap Materials (-12.0).

S&P 500 Sectors and Industries Performance (*link*): All 11 sectors fell last week, but seven outperformed the S&P 500's 3.8% decline. That compares to two rising a week earlier, when seven outperformed the S&P 500's 1.6% drop. Utilities was the best-performing sector, albeit with a decline of 1.3%, ahead of Real Estate (-1.5%), Consumer Staples (-2.4), Health Care (-2.6), Financials (-3.0), Industrials (-3.2), and Materials (-3.5). Tech (-6.1) was the biggest decliner, followed by the also-underperforming Energy (-5.1), Consumer Discretionary (-4.3), and Communication Services (-4.0). Four sectors are in the plus column so far in 2018, down from five a week earlier and down from nine in mid-September, which had matched the best ytd count also achieved in early March. However, these five sectors are outperforming the S&P 500's 1.5% ytd decline: Health Care (8.3), Utilities (2.2), Consumer Discretionary (2.1), Tech (1.4), and Real Estate (-0.3). The six ytd underperformers: Communication Services (-14.5), Materials (-12.1), Energy (-11.9), Industrials (-8.4), Financials (-7.2), and Consumer Staples (-4.6).

Commodities Performance (*link*): Last week, the S&P GSCI index tumbled 6.7% to a 13-month low and its worst weekly decline in four years as seven of the 24 commodities moved higher. That compares to a 1.9% decline a week earlier when 13/24 commodities rose. Last week's strongest performers: Feeder Cattle (1.9%), Lean Hogs (1.6), Natural Gas (1.5), Live Cattle (1.0), and Aluminum (0.5). Unleaded Gasoline (-12.3) was the biggest decliner, followed by Brent Crude (-11.9), Crude Oil (-11.0), GasOil (-9.6), and Heating Oil (-9.5). The S&P GSCI commodities index is now down 8.8% ytd, and is approaching a bear market with its current level down 19.7% from its four-year high on October 3, which was just half of its record high in July 2008 before the financial crisis. The top performer so far in 2018 remains Natural Gas (47.5), followed by Wheat (18.8), Kansas Wheat (13.8), Cocoa (12.2), and Corn (5.6). The biggest laggards of 2018 to date are dominated by industrials metals: Zinc (-23.7), Unleaded Gasoline (-23.4), Lead (-20.9), Sugar (-17.7), Crude Oil (-16.6), Silver (-16.2), Nickel (-14.5), Aluminum (-14.5), and Copper (-14.0).

Assets Sorted by Spread w/ 200-dmas (*link*): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 6/24 commodities, 1/9 global stock indexes, and 0/33 US stock indexes, compared to 13/24 commodities, 5/9 global stock indexes, and 8/33 US stock indexes rising a week earlier. Commodities' average spread fell w/w to -5.8% from -2.9%, and five commodities ended the week trading above their 200-dmas, down from seven a week earlier. Commodities took home all the trophies among the asset classes last week (highest and lowest trading relative to 200-dmas as well as best- and worst-performing): Natural Gas leads all commodities and all assets at 46.5% above its 200-dma, but Feeder Cattle (1.0%) rose 2.0ppts w/w for the best performance among all assets. Unleaded Gasoline (-30.9) trades at the lowest relative to its 200-dma among commodities and all assets, while Brent Crude Oil (-20.1) fell 10.8ppts w/w for the worst performance among commodities and all assets. The global indexes trade at an average of 5.0% below their 200-dmas, down from -3.9% in the prior week. Just one of the nine global indexes trades above its 200-dma, unchanged from a week earlier. Brazil (6.4) leads the global indexes, but fell 3.0ppts w/w for the worst performance among global assets. Indonesia (0.0) gained 0.1ppt for the best performance among global assets. China (-12.1) trades at the lowest point relative to its 200-dma among global assets. The US stock indexes trade at an average of 4.6% below their 200-dmas, with 11 of the 33 sectors above, down from -2.0% a week earlier, when 11 sectors were also above. MidCap Utilities (6.3) now leads the US stock indexes. SmallCap Energy (-25.9) trades the lowest among all US stock indexes relative to 200-dmas, but SmallCap Real Estate (-1.1) dropped just 0.8ppts w/w for the best performance among US stock indexes last week.

S&P 500 Technical Indicators (*link*): The S&P 500 price index fell 3.8% last week, and remained solidly below its short-term 50-day moving average (50-dma). It also moved solidly below its 200-dma after being above briefly in early November for the first time in five weeks. The index remained in a Golden Cross (50-dma higher than 200-dma) for a 135th straight week (after 17 weeks in a Death Cross), but the S&P 500's 50-dma relative to its 200-dma fell for a seventh straight week. The current Golden Cross reading of 1.0% is at a 31-month low; it's down from 1.8% a week earlier and a 27-week high of 4.1% in early October. That's 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 fell for a sixth week following 19 straight weekly gains, which compares to declines during eight of the 10 weeks from mid-March to late May in what was then the worst performance since before the 2016 election. The index weakened to a three-week low of 5.6% below its falling 50-dma from 2.7% below a week earlier and compares to a 33-month low of 7.0% below at the end of October. That 33-month low had surpassed the then-25-month low of 5.6% below the index's falling 50-dma near the end of March, and is down from a two-year high of 6.2% above its rising 50-dma on January 29. The 200-dma resumed falling after two weekly gains, and has dropped in four of the past six weeks in the first downtrend since May 2016, when it had been slowly declining for nine months. The S&P 500 had successfully tested its 200-dma in early April, but may not do so this time around. It ended the week at a 33-month low of 4.7% below its now-falling 200-dma, down from 1.0% below its rising 200-dma a week earlier. That's down from a six-month high of 6.4% above its rising 200-dma during the week ending September 21 and remains well below the seven-year high of 13.5% above its rising 200-dma on January 29.

S&P 500 Sectors Technical Indicators (*link*): All 11 S&P 500 sectors weakened last week relative to their 50-dmas and 200-dmas. Just two are now trading above their 50-dmas, compared to three a week earlier. All 11 had been below at the end of October for the first time since late March and only the second time since February 2016. In late July, all 11 sectors had traded above their 50-dmas, the most since early December. Consumer Staples moved below its 50-dma in the latest week and left Real Estate and Utilities as the only members in that club. The longer-term picture—i.e., relative to 200-dmas—shows four sectors trading above currently, unchanged from a week earlier. That compares to three at the end of October in the lowest count since all 11 were below in January 2016. That's a relatively swift reversal from the September 26 alignment, when all 11 sectors were above their 200-dmas. Two long-term 200-dma leaders left the building during October: Tech fell below its 200-dma for the first time in 121 weeks last month, and Consumer Discretionary fell below its 200-dma in October for the first time in 102 weeks, briefly rejoining the above-200-dma club a week earlier after just a two-week absence. The four sectors trading above their 200-dma: Health Care (26 straight weeks), Utilities (22), Consumer Staples (6), and Real Estate (4). Seven sectors are still are in a Golden Cross (with 50-dmas higher than 200-dmas), down from eight a week earlier, as Industrials left the club for the first time since early September. Among the remaining laggards, Financials has been out of Golden Cross territory for six straight weeks and during 18 of the past 22 weeks, Materials has been out for 30 straight weeks, and Energy for one week. 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). None of the sectors have rising 50-dmas now, down from three a week earlier, as Real Estate and Utilities turned lower and Consumer Staples turned flat. That's down from eight sectors with rising 50-dmas in early October and compares to all 11 sectors with falling 50-dmas during late October and early April (the worst counts since before the election in November 2016). Three sectors had rising 200-dmas at the end of last week, down from seven a week ago and two during early November in what was then the lowest count since January 2016, when all 11 sectors had falling 200-dmas. In the latest week, Consumer Discretionary, Consumer Staples, Energy, and Tech left the rising 200-dma club now occupied by Health Care, Real Estate, and Utilities.

US ECONOMIC INDICATORS

Leading Indicators (*link*): The Leading Economic Index (LEI) reached yet another new record high in October, though the pace slowed. The LEI edged up only 0.1% last month, following upwardly revised gains in September (to 0.6% from 0.5%) and August (0.5 from 0.4)—continuing its streak of no declines since May 2016. The LEI is up a solid 4.7% ytd, exceeding the previous record high posted in March 2006 by nearly 10%. "The US LEI increased slightly in October, and the pace of improvement slowed for the first time since May," said Ataman Ozyildirim, director of Economic Research and Global Research chair at The Conference Board. "The index still points to robust economic growth in early 2019, but the rapid pace of growth may already have peaked. While near term economic growth should remain strong, longer term growth is likely to moderate to about 2.5 percent by mid to late 2019." Five of the 10 LEI components contributed positively in October, with the largest contributions once again coming from consumer expectations (0.15ppt), interest rate spread (0.11), and the leading credit index (0.09). Meanwhile, stock prices (-0.16) and jobless claims (-0.11), which have been positive contributors, were the biggest negative contributors last month, joined by building permits (-0.02); the average workweek and real consumer goods orders were neutral.

Coincident Indicators (*link*): October'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 1.9% since January's -0.1% dip. Once again, all four components contributed positively last month—and all continued to reach new record highs: 1) Nonfarm payroll employment was the biggest positive contributor to October's CEI, as payroll employment jumped 250,000 last month, bouncing back from September's hurricane-related slowdown of 118,000. 2) Real personal income—excluding transfer payments—rose for the 13th time in 16 months, by 0.3% m/m and 3.4% over the period. 3) Real manufacturing & trade sales increased for the 17th time in 18 months, by a total of 5.3% over the period. The yearly growth rate, however, slowed to 2.3% y/y—roughly half November's recent peak of 4.2%. 4) Industrial production in October climbed less than expected, but there was a big upward revision to Q3 production. Total production ticked up 0.1% after a downwardly revised 0.3% (from 0.2%) increase in September—however, upward revisions to both August (to 0.8% from 0.4%) and July (0.4 from 0.3) pushed Q3's growth rate up to 4.7% (saar) last quarter from the preliminary gain of 3.3%.

Durable Goods Orders & Shipments (*link*): Core capital goods orders in October remained stalled just below its cyclical high, while core capital goods shipments reached a new cyclical high; both are within striking distance of new record highs. Nondefense capital goods orders ex aircraft (a proxy for future business investment) was unchanged last month after falling -0.7% during the two months through September; billings had jumped 5.1% over the prior four-month period. The comparable shipments measure (used in calculating GDP) recorded its first increase in three months, up 0.3% to a new cyclical high—and only fractionally below its record high posted during September 2014. Core capital goods orders expanded only 2.9% (saar) during the three months through October (based on the three-month average), slowing from the double-digit gains posted during the summer months. The comparable shipments measure grew 4.0% (saar), half of August's recent peak of 8.4%, though more than double May's recent low of 1.6%. Total durable goods orders fell at the fastest pace in 15 months last month as bookings for both commercial (-21.4%) and fighter (-59.0) jets fell sharply. Excluding transportation, orders rose for the eighth time in nine months, by 0.2% in October and 4.2% over the period.

Consumer Sentiment (*link*): Consumer sentiment this year has remained largely unchanged at very favorable levels, with the November reading nearly at the center of the 11-month range from 95.7 to 101.4. The Consumer Sentiment Index (CSI) fell to 97.5 in November from 98.6 in October and 100.1 in September—which was only the third time in the past 14 years it exceeded 100.0; it's within 3.9 points of January's 14-year high of 101.4. November's decline was related to income rather than political party: Sentiment rose by 10.4 points among those with incomes in the bottom third of the income distribution and fell -6.6 points among those with incomes in the top third; meanwhile, sentiment remained unchanged among Republicans and Democrats prior to and following the election. Both the present situation and expectations components fell for the second month—the former by -2.9 points to 112.3, not far from its record high of 121.2 in January, and the latter by -2.4 points over the period to 88.1, little changed from its recent high of 90.5 posted this September and last October.

Housing Starts & Building Permits (*link*): The underlying trend in housing activity remained weak last month, pushing builder optimism this month down to 27-month lows. "Builders report that they continue to see signs of consumer demand for new homes but that customers are taking a pause due to concerns over rising interest rates and home prices," said NAHB Chairman Randy Noel. Starts rose 1.5% to 1.228mu (saar) last month, boosted by a 10.3% jump in volatile multi-family starts to 363,000 units; single-family starts slumped for the second month by a total of -2.8% to 865,000 units. Starts have shown little movement so far this year, with total and single-family starts up 1.5% and 2.1% ytd, respectively, while multi-family starts were flat. Home completions dropped -7.2% ytd to 1.111mu—the lowest in just over a year. Building permits slipped -0.6% to 1.263mu (saar) in October, following a 1.7% gain and a -4.1% loss the prior two months; single-family permits showed a similar pattern, also edging down -0.6% last month, to 849,000 units, after a 3.3% increase and a -5.3% decrease. Meanwhile, multi-family permits fell for the seventh straight month, by -0.5% m/m and -21.3% over the period, to 414,000 units (saar). Meanwhile, the National Association of Home Builders/Wells Fargo Housing Market Index (HMI) for November tumbled 8 points to 60—the lowest reading since August 2016. All three index components fell sharply this month: current sales conditions (to 67 from 74), expected sales (65 from 75), and buyer traffic (45 from 53).

Existing Home Sales (*link*): Existing home sales in October rose for the first time in seven months, but was 5.1% below year-ago levels, as the market continues to face headwinds. Lawrence Yun, chief economist of the National Association of Realtors, is urging the Fed to consider pausing its interest-rate hikes. "Rising interest rates and increasing home prices continue to suppress the rate of first-time homebuyers. Home sales could further decline before stabilizing. The Federal Reserve should, therefore, re-evaluate its monetary policy of tightening credit, especially in light of softening inflationary pressures, to help ease the financial burden on potential first-time buyers and assure a slump in the market causes no lasting damage to the economy," says Yun. Existing-home sales rebounded 1.4% in October to 5.22mu (saar), after a six-month slide of -8.0%. Regionally, sales rebounded in three of the four regions last month, though were below year-ago levels in all: West (2.8%m/m & -11.2%y/y), South (1.9 & -2.3), Northeast (1.5 & -6.8), and the Midwest (-0.8 & -3.1). October single-family sales climbed 0.9% to 4.62mu (saar), after a six-month slump of -8.2% to its lowest level since November 2015. Meanwhile, volatile multi-family sales rebounded 5.3% to 600,000 units (saar) after falling two of the prior three months, by a total of -8.1%, to its lowest level since January 2015. The number of existing single-family homes on the market at the end of October slipped to 1.63mu, 1.9% above a year ago. Unsold inventory is at a 4.2-months' supply at the current sales pace, holding just below its recent high of 4.3 months' supply recorded in each of the prior four months.

GLOBAL ECONOMIC INDICATORS

US PMI Flash Estimates (*link*): US private-sector growth eased for the fifth time in six months in November, according to flash estimates, though still expanded at a respectable rate—well above the 50.0 no-growth threshold. This month's C-PMI fell to 54.4 after increasing in October (to 54.9 from 53.9) for the first time in five months; the C-PMI peaked at a 37-month high of 56.6 in May. Over the same six-month period, the NM-PMI dropped from a three-year high of 56.8 to 54.4, while the M-PMI slipped from a 43-month high of 56.5 in April to 55.4 this month. According to the report, "The November survey does raise some warning flags to suggest growth could slow in coming months. In particular, growth of hiring has waned as companies grew somewhat less optimistic about the outlook. Goods exports also appear to ... be coming under increasing pressure, often linked to trade wars having dampened demand." The report, however, did note that some pullback in growth was to be expected after October's numbers were boosted by a post-hurricane rebound, especially given the historically high levels of production, order books, and employment. Meanwhile, strong input price inflation persisted across the private-sector economy, though did ease to a three-month low, on a drop in commodity prices.

Eurozone PMI Flash Estimates (*link*): Eurozone business activity this month grew at the weakest rate in 47 months, according to preliminary estimates, fueled by the weakest new business inflows since the start of 2015, which was linked to a second straight decline in new export orders across both the manufacturing and service sectors. The Eurozone's C-PMI slowed for the eighth time since reaching a 139-month high of 58.8 at the start of this year, slumping to 52.4 this month. The M-PMI sank to a 30-month low of 51.5, with manufacturers blaming slower growth on weak global demand, rising political and economic uncertainty, trade wars, and especially sluggish car sales; it was just above 60.0 at the end of last year. Service-sector growth remained more resilient than that of the manufacturing sector. Still, the Eurozone's NM-PMI dropped to a 25-month low of 53.1; it had peaked at 58.0 at the start of this year. Across the region, C-PMIs show that growth in Germany (to 52.2 from 53.4) and France (54.0 from 54.1) expanded at their slowest rates in 47 months and two months, respectively. Germany's economy showed a slowing of growth in both the manufacturing and services sectors, though the latter continues to outperform the former. This month's M-PMI (51.6 from 52.2) fell to a 32-month low, while the NM-PMI (53.3 from 54.7) was at a six-month low. In France, the NM-PMI (55.0 from 55.3) and M-PMI (50.7 from 51.2) measures were the lowest in two months and 26 months, respectively, with manufacturing output contracting again this month. Meanwhile, especially sluggish growth was recorded across the rest of the Eurozone, where the rate of expansion was the slowest since November 2013, easing in both sectors and registering only modest expansions.

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