



MORNING BRIEFING

February 4, 2019

Recession: Gone in a Flash

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

(1) Fed goes from alarmingly hawkish to remarkably dovish. (2) Is the stock market looking at 2020 earnings? (3) Valuation has been on a rollercoaster. (4) Rounding up more suspects for 2018's year-end crash. (5) Self-induced selloff. (6) Flash crashes create buying opportunities. (7) Perma-bears waiting for Godot. (8) No recession in employment, wages, and M-PMI. (9) Kudlow for Fed governor! (10) Fed moving to the supply side? (11) Powell is flexible and patient after all. (12) Movie review: "They Shall Not Grow Old." (+ + +).

YRI Video Podcast. In [Recession: Waiting for Godot](#), I discuss the latest recession scare, which seems to have come and gone.

Strategy: Fed & China Fears Ebbing. The S&P 500 is now up 15.0% from the December 24 low, following the 19.8% correction from September 20 through the Christmas Eve massacre ([Fig. 1](#)). So it has recovered 61% of what was lost during the correction, mostly as a result of more dovish forward guidance from Fed Chairman Jerome Powell, who was alarmingly hawkish in a 10/3 [interview](#) and at his 12/19 [press conference](#) last year. If the S&P 500 gains 8.4% to match its 9/20 high, that would most likely be attributable to an amicable resolution of US-China trade talks before the start of March. Consider the following related developments:

(1) *Earnings season less disappointing than feared.* Helping to boost stock prices is the current Q4 earnings-reporting season. Industry analysts lowered their expectations significantly late last year and early this year, so disappointments haven't been so disappointing ([Fig. 2](#)).

Nonetheless, the resilience of the current stock market rebound is impressive given that consensus earnings expectations have been cascading downward for all four quarters of this year in recent weeks through the 1/24 week ([Fig. 3](#)). Growth rates are now expected to be in the low single digits for the first three quarters but double digits again during the final quarter: Q1 (2.3%), Q2 (2.9), Q3 (3.4), and Q4 (11.2) ([Fig. 4](#)).

(2) *2020 earnings estimates remain too high.* At the beginning of the current year, the analysts' consensus earnings estimate for this year was at \$173.90 per share ([Fig. 5](#)). It has dropped sharply to \$170.68 during the 1/24 week, almost matching our forecast for 2019. Of course, the stock market discounts the future, so the earnings estimate for 2020 will become increasingly important, while the 2019 estimate will become less so, as this year progresses. Analysts are currently projecting \$189.72 for next year. Joe and I think they are likely to lower this estimate to \$179.00, which is our current estimate.

(3) *Valuation rollercoaster ride isn't over.* The latest correction was attributable to fears of an imminent recession, which caused valuation multiples to dive, triggered by a trigger-happy Fed and a trade-warmongering US president ([Fig. 6](#)). The relief rally since December 26 has boosted the forward P/Es

of the S&P 500 (from 13.5 to 15.7), the S&P 400 (12.6 to 15.0), and S&P 600 (13.4 to 15.9).

Using our 2020 earnings estimate of \$179.00 per share, the S&P 500 would end this year at 2685 with a 15 multiple or at 3222 with an 18 multiple. In our Goldilocks outlook, the index would get to 3100 with a 17.3 multiple.

(4) *Blaming hedge funds.* Admittedly, 3100 was our year-end target for last year. We got close (“but no cigar”) when the S&P 500 hit a record high of 2930.75 on September 20. Needing to blame someone for our not seeing the correction coming (though we did curb our enthusiasm for the earnings outlook at the end of October), we picked on the Fed, which is always easy pickings. We blamed computer-driven algorithmic trading, which is also easy to do. Easiest of all is to blame Trump, who has been blamed for everything, especially by his many critics.

When rounding up the suspects for last year’s selloff, we might have overlooked hedge funds. The 1/13 [FT reported](#), “Data from the consultancy eVestment indicated that the hedge fund industry registered its third worst year. The 10 largest hedge funds delivered an average loss after fees of 4.5 per cent, a weaker performance than the S&P 500.” Many hedge funds allow their investors to bail out only in the final weeks of any year, which might have contributed to the intensity of the year-end selloff.

(5) *A flash crash followed by a relief rally.* The bottom line is that last year’s selloff might have been self-induced. Investors feared that it might signal an impending recession. Recall all the chatter about how the flattening of the yield curve was a full-proof sign of that outlook. So plummeting stock prices confirmed the recession scenario, causing more selling.

However, such flash crashes don’t last long because they tend to trigger policy responses. Sure enough, the Fed flipped from a hawkish stance to a dovish one. The Dow Vigilantes wanted the Fed to pause, and seem to have gotten their way. And President Trump and his advisers repeatedly repeated that trade talks with China are going well, clearly in a concerted effort to boost stock prices. Like most flash crashes, the latest one created some mighty good buying opportunities.

US Economy: Never Mind. Like Vladimir and Estragon, the lead characters in Samuel Beckett’s play “Waiting for Godot,” the stock market’s perma-bears seem to be waiting in perpetuity for something that fails to show up, i.e., a recession. They’ve hated the current bull market since it started way back in March 2009, and have been predicting an imminent recession ever since. They were jubilant late last year, but now are disappointed and frustrated once again.

Debbie and I have observed that the US economy might have experienced a “flash recession” triggered by the flash crash in stock prices, particularly during December. Friday’s strong employment report certainly helps to discredit the full-blown recession scenario that the perma-bears had been touting. So did Friday’s solid ISM M-PMI report. New home sales jumped 16.9% during November. However, auto sales fell during January to 16.7 million units (saar) from 17.6 million units the month before.

Debbie discusses these developments below. Let’s review a few of the higher highlights of the latest batch of economic indicators:

(1) *GDPNow.* On Friday, the Atlanta Fed’s [GDPNow](#) model projected a 2.5% (saar) increase in real GDP during Q4-2018, down from 2.7% previously. The model’s webpage cited as reason for the revision the decrease in real nonresidential structures investment growth from -1.2% to -5.4% after Friday’s construction spending report. Apparently, neither the big gains in employment and the M-PMI, nor the dip in auto sales, announced on Friday have been accounted for yet, but they should boost the GDP estimate on balance once they are reflected in the model.

(2) *Employment and wages*. Once again, the latest employment report challenged the widespread view that the US labor market is so tight that we are running out of workers, which is bound to cause wage rates to soar. Undoubtedly, it is taking longer to find workers with the right skills to match job requirements, but employment gains remain robust. Payroll employment jumped 304,000 during January, and 223,000 per month on average during 2018, up from 179,000 per month during 2017 ([Fig. 7](#)). The labor force rose 2.60 million last year, up from 857,000 the prior year.

Wage inflation was relatively subdued at 3.2% y/y considering that 19 states raised their minimum-wage rates during the month ([Fig. 8](#)). Nevertheless, wage gains are well outpacing price inflation of roughly 2%. That's a big plus for workers' purchasing power. In current dollars, our Earned Income Proxy for private-sector wages and salaries rose 0.4% m/m and 5.7% y/y, which augurs well for retail sales ([Fig. 9](#)).

(3) *M-PMI*. The national M-PMI confirms our narrative of a December flash recession. The overall index dropped from 58.8 during November to 54.3 during December, led by a plunge in the new orders index from 61.8 to 51.3 ([Fig. 10](#)). During January, it bounced back to 56.6, with the new orders index soaring back to 58.2.

The latest M-PMI's prices-paid index registered 49.6 in January, a decrease of 5.3ppts from the December reading of 54.9, indicating a decrease in raw materials prices for the first time in 34 months ([Fig. 11](#)). This index has dropped 22ppts over the past three months.

By the way, the ISM [report](#) observes: "The past relationship between the PMI® and the overall economy indicates that the PMI® for January (56.6 percent) corresponds to a 4-percent increase in real gross domestic product (GDP) on an annualized basis." The recession has gone in a flash.

The Fed I: Back to One-and-Done? Fed Governor Herman Cain? National Economic Council Director Lawrence Kudlow said Thursday that Cain, a former Republican presidential candidate, is being considered for one of two vacancies on the Fed's Board of Governors, but another White House official dismissed that notion on Friday. Kudlow said that the White House is seeking Fed candidates "who understand that you can have strong economic growth without higher inflation." So why not Fed Governor Lawrence Kudlow?

Friday's employment and M-PMI reports certainly give credibility to Kudlow's long-held supply-side views. Employment was strong during January, while wage inflation remained moderate. The production and orders components of the M-PMI survey rebounded sharply during January, while the prices-received index fell just below 50.0 last month.

Why would Fed Chairman Jerome Powell and his colleagues on the FOMC want to put the brakes on this happy scenario? There is only one good reason for doing so: Raising the federal funds rate creates room to lower it during the next recession. It makes sense to raise it as high as possible as long as that effort doesn't cause a recession.

Late last year, the financial markets protested that Powell & Co. seemed to have placed the process of gradually normalizing monetary policy on autopilot during 2018, well into 2019, and even into 2020, thus increasing the risks of a recession. The FOMC got the message, with Powell strongly signaling last week that the next rate hike won't be based on a three-month schedule as in 2018. There will be a pause, which could mean that the next rate hike won't occur until June or later.

But that will depend on whether incoming data show the economy able to handle higher interest rates

without risking a recession. Perhaps Fed officials need to simplify their message to sensibly state that monetary policy is data dependent, period. It will no longer be driven by economic models based on imaginary variables like the neutral real interest rate or the nonaccelerating inflation rate of unemployment. For color, they can add that strong growth may not be reason enough to tighten if inflation remains moderate. That would certainly please Kudlow and the President.

The Fed II: Powell Before & After. Powell's 1/30 [press conference](#) confirms that he is becoming more patient and flexible regarding rate-hiking this year, consistent with the FOMC consensus stance apparently emerging. His opening remarks included lots of reasons to pause interest-rate increases, notwithstanding December's signs of economic strength.

The presser, especially the Q&A session, seemed to Melissa and me to be more scripted than his prior ones. The Fed chair obviously learned that his words can move markets after his 10/3 [interview](#) and at his 12/19 [press conference](#). Commenting that the federal funds rate was a long way from neutral in the interview and that the Fed's balance-sheet reduction is on "automatic pilot" in the press conference clearly upset investors. He later walked back those comments, calming the markets by using the word "patient" on a 1/4 [panel](#) and adding that the Fed is open to changing its approach to balance-sheet reduction if necessary.

I asked Melissa to compare Powell's remarks from his December press conference to the January one for insights on his softening policy approach. Here's her review:

(1) *From two hikes to a pause.* Powell's take on the stance of monetary policy shifted from "gradual" in December to "patient" in January. In December, "two interest rate increases over the course of next year" was his expectation. In January's presser, he called the current policy stance "appropriate" several times. "[T]he case for raising rates has weakened somewhat," he said. Citing "growing evidence of cross-currents," Powell said that "common sense risk management suggests patiently awaiting greater clarity." The word "patient" seems to mean taking a "wait-and-see approach" to future policy changes. "We think there's no pressing need to change our policy stance and no need to rush to judgment."

(2) *From below neutral to at neutral.* December's presser found Powell implying there was room to raise interest rates, as he said they'd reached the "bottom end" of what might be considered a "neutral" range—i.e., where rates would neither accelerate nor slow the economy. He also mentioned the possibility of "circumstances in which it would be appropriate" for the Fed to raise rates "past neutral." In January's presser, he said: "[O]ur policy rate is now in the range of the Committee's estimates of neutral." No intention of moving toward a restrictive stance was indicated as it was in December.

(3) *From upside risks to downside risks.* In December, Powell dismissed the economy's emerging downside risks, or "cross-currents"—including financial market volatility and tightening financial condition—as impactful. They didn't fundamentally alter the outlook, he said. At the latest press conference, however, Powell changed his tune, saying that cross-currents could result in a "less favorable outlook." Slow growth in Europe and China, Brexit, ongoing trade negotiations between the US and China, and the effects from the partial government shutdown coupled with weakness in surveys of businesses and consumer sentiment give "reasons for caution," he said. He also suggested that the upside risks to the economic outlook, including the "risk of too-high inflation" had diminished.

(4) *From economic to market focus.* "Data dependence" remains the Fed's mantra, but its meaning seems to have changed slightly from December to January. In December, Powell suggested it meant the Fed's estimate of neutral might be updated based on incoming economic data—specifically noting inflation and labor market participation data and not sounding much focused on financial market data.

He said financial market changes really only matter “if [they’re] sustained over time.” In January, Powell reiterated the importance of inflation as a “big part” of justification for further rate increases but attributed more importance to financial conditions than previously. “[F]inancial conditions matter” because that has “implications for the macro economy,” especially if they are sustained, Powell said.

(5) *From autopilot to changeable.* In December, Powell said that he “would effectively have the balance sheet runoff on automatic pilot,” adding “I don’t see us changing that.” That changed in January, when he stated that “we will not hesitate to make changes” to balance-sheet policy. He added that “no decisions have been made” on the plan for balance-sheet normalization and that there are a lot of moving “pieces.”

One thing hasn’t changed: Powell said again in January that he would not use the balance sheet as an “active” tool for tightening monetary policy, as doing so could confuse markets, as it did during the 2013 taper tantrum. The Fed would be willing to use balance-sheet adjustments for policy accommodation if warranted, however—e.g., in the event of a recession.

(6) *Lots of patience.* During his latest presser, Powell mentioned the words “patient and “patience” a total of eight times, four times in his opening remarks and four times during the Q&A. He mentioned the first word once during the Q&A of the December presser.

Movie: “They Shall Not Grow Old” (+ + +) ([link](#)) is a truly remarkable documentary about World War I directed by Peter Jackson. He and his team transformed 100 hours of mostly low-quality black-and-white footage of the war into a crisp color film that documents the horror of trench warfare. The carnage is graphic. The dedication of the soldiers, who were mostly in their teens, to one another is inspiring. That’s especially in the face of the horrendous conditions of living and dying in the trenches. The film is about the Western Front and is narrated by men who fought there. After the credits, Jackson spends about 30 minutes discussing how his film was produced and the choices that were made. He has enough material left for several more documentaries about the war effort. The movie should be required seeing for all of us.

CALENDARS

US. Mon: None. **Tues:** ISM & IHS Markit NM-PMIs 57.1/54.2. (Econoday estimates)

Global. Mon: None. **Tues:** Eurozone Retail Sales, Eurozone C-PMIs & NM-PMIs, Japan C-PMI & NM-PMI, RBA Cash Target Rate 1.50%. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 1.6% for its fifth gain in six weeks. That performance ranked 21st of the 49 global stock markets we follow in a week when 38/49 countries rose in US dollar terms. That compares to the prior week’s 39/49 ranking, when the US MSCI dropped 0.2% for its first decline in five weeks at that point and 36 markets rose. The AC World ex-US index rose for a sixth straight week, gaining 1.2% compared to a 0.7% rise a week earlier. EM Latin America was the best-performing region with a gain of 2.5%, ahead of BRIC (2.4%), EM Asia (1.7), EM Eastern Europe (1.5), and EMEA (1.3). EMU was the worst performer, albeit with a gain of 0.5%, followed by EAFE (0.9). The Czech Republic was the best-performing country, rising 4.5%, followed by Argentina (3.9), Denmark (3.7), Sri Lanka (3.7), and Colombia (3.6). Of the 24 countries that underperformed the AC World ex-US MSCI last week, Spain fared the worst, falling 1.8%, followed by Finland (-1.6), Germany (-0.9), Greece (-0.7), and New Zealand (-0.6). In January, the US MSCI soared 8.1% for its best gain since October 2011, ranking 22/44. All regions rose in January as the AC

World ex-US index jumped 7.5% for its best performance since March 2016. That compares to the US MSCI's 9.2% decline in December, which was the worst since February 2009 and ranked 45/49, ahead of the 7.2% decline for the AC World ex-US in a month when all regions fell. The best-performing regions in January: EM Latin America (14.9), EM Eastern Europe (11.0), BRIC (9.8), and EMEA (9.7). January's worst-performing regions, albeit with healthy gains: EAFE (6.5), EMU (6.5), and EM Asia (7.3). The US MSCI ranks 21/49 so far in 2019, with its 8.2% ytd gain ahead of the AC World ex-US (7.4). All regions and nearly all countries are in positive territory ytd. Among the regions, those outperforming the AC World ex-US ytd include: EM Latin America (15.0), EM Eastern Europe (11.0), BRIC (10.2), EMEA (9.5), and EM Asia (7.5). Regions underperforming the AC World ex-US: EAFE (6.4) and EMU (6.7). The best country performers ytd: Argentina (19.7), Brazil (18.1), Pakistan (17.1), Turkey (15.7), and Colombia (14.8). The worst-performing countries so far in 2019: India (-1.3), Morocco (1.0), Jordan (1.3), Malaysia (1.3), and Sri Lanka (1.5).

S&P 1500/500/400/600 Performance ([link](#)): LargeCap and SmallCap posted gains for the week after edging down a week earlier, but MidCap extended its gains to a sixth straight week. LargeCap rose 1.6%, ahead of the gains for MidCap (1.3%) and SmallCap (1.1). However, all these indexes remain well below their record highs. LargeCap ended the week 6.2% below its record high on September 20, while MidCap and SmallCap are 12.5% and 9.8% below their August 29 records, respectively. Among the 33 sectors, 28 moved higher last week compared to 16 rising a week earlier. The biggest gainers in the latest week: SmallCap Materials (3.4%), MidCap Materials (3.3), LargeCap Energy (3.2), LargeCap Consumer Staples (2.9), and LargeCap Real Estate (2.9). MidCap Energy (-0.8) was the biggest decliner last week, followed by SmallCap Consumer Discretionary (-0.5), MidCap Communication Services (-0.4), and LargeCap Consumer Discretionary (-0.1). All three of these market-cap indexes moved higher in January after falling in December. SmallCap and MidCap soared 10.6% and 10.4%, respectively, ahead of the 7.9% gain for LargeCap. All 33 sectors advanced in January in the broadest gains since March 2016. That's up from all 33 falling in December in what was then the lowest count since August 2015. January's best performers: MidCap Energy (17.6), SmallCap Materials (16.8), SmallCap Energy (16.8), SmallCap Real Estate (13.9), and MidCap Materials (12.6). January's laggards, albeit with gains: LargeCap Utilities (3.4), SmallCap Utilities (3.8), LargeCap Health Care (4.7), MidCap Utilities (4.9), and LargeCap Consumer Staples (5.0). In terms of 2019's ytd performance, all three indexes are off to a great start: MidCap (10.7), SmallCap (10.5), and LargeCap (8.0). All 33 sectors are positive ytd, with Energy dominating the top performers: MidCap Energy (19.1), SmallCap Energy (18.2), SmallCap Materials (17.4), MidCap Materials (13.4), SmallCap Real Estate (13.1), and LargeCap Energy (13.1). Utilities dominate the biggest underperformers so far in 2018: SmallCap Utilities (2.6), LargeCap Utilities (3.1), MidCap Utilities (4.4), LargeCap Consumer Staples (4.7), and LargeCap Health Care (4.9).

S&P 500 Sectors and Industries Performance ([link](#)): Ten of the 11 of the sectors rose last week, and seven outperformed the S&P 500's 1.6% gain. That compares to three rising a week earlier, when six outperformed the 0.2% drop for the S&P 500. Energy was the best-performing sector with a gain of 3.2%, ahead of Consumer Staples (2.9%), Real Estate (2.9), Industrials (2.6), Communication Services (2.4), Utilities (2.2), and Health Care (2.0). Consumer Discretionary (-0.1) was the sole decliner, followed by slight gains for Financials (0.1), Materials (0.8), and Information Technology (1.1). The S&P 500 soared 7.9% in January for its best month since October 2011 and its best January since 1987. All 11 sectors moved higher for the first time since July as six beat the index. That compares to all 11 falling and six beating the S&P 500's 9.4% decline in December, the worst performance for the index since the bull market started in March 2009. The leading sectors in January: Industrials (11.4), Energy (11.0), Real Estate (10.7), Consumer Discretionary (10.2), Communication Services (10.1), and Financials (8.6). January's laggards, albeit with gains: Utilities (3.4), Health Care (4.7), Consumer Staples (5.0), Materials (5.5), and Information Technology (6.9). All 11 sectors are also higher so far in 2019, compared to just two sectors rising during 2018, when the S&P 500 fell 6.3%. These six sectors

are outperforming the S&P 500's 8.0% rise ytd: Energy (13.1), Industrials (11.6), Real Estate (10.0), Communication Services (9.7), Financials (9.1), and Consumer Discretionary (8.3). The ytd laggards, albeit with gains: Utilities (3.1), Consumer Staples (4.7), Health Care (4.9), Materials (6.0), and Information Technology (7.5).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 0.9% for its fourth gain in five weeks as 13 of the 24 commodities moved higher. That compares to a 0.8% decline a week earlier, when 13 commodities moved higher. However, the index is still in a correction with a drop of 17.8% from its high in early October after being down as much as 26.9% on December 24. Nickel was last week's strongest performer, rising 5.8%, followed by Zinc (4.0%), Crude Oil (2.9), Unleaded Gasoline (2.3), and Brent Crude (1.9). Natural Gas was the biggest decliner, with a drop of 11.0%, followed by Lean Hogs (-3.2), Coffee (-2.9), and Cocoa (-2.2). January saw 20 of the 24 commodities climb, the most since September 2016, as the S&P GSCI Commodities index surged 9.0% higher. That compares to seven rising in December, when the index fell 7.9%. January's best performers were Crude Oil (18.5), Nickel (16.8), GasOil (13.9), Brent Crude (13.1), and Heating Oil (11.8). January's laggards: Cocoa (-10.3), Natural Gas (-4.3), Feeder Cattle (-2.9), and Lean Hogs (-1.2). S&P GSCI commodities index is up 10.4% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Crude Oil (21.7), Nickel (18.5), Brent Crude (16.6), Heating Oil (13.9), and Zinc (13.0). The biggest laggards in 2019: Cocoa (-10.3), Natural Gas (-7.0), Feeder Cattle (-2.9), and Lean Hogs (-1.4).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 1.6% last week, and improved relative to its short-term 50-day moving average (50-dma) and its long-term 200-day moving average (200-dma). The index's 50-dma relative to its 200-dma improved for the first time in 17 weeks, but was in a Death Cross for a ninth week; it had been in Golden Cross for 137 weeks through late November. It was last in a Death Cross for 17 weeks through April 2016 when its 50-dma bottomed at a then-four-year low of 4.5% below its 200-dma in March 2016. The current Death Cross reading of -5.1% is up from -5.2% a week earlier, which had been the lowest since November 2011. It's still down from a 55-month high of 7.2% in February 2018. The S&P 500's 50-dma rose for the first time in 17 weeks, ending its worst downtrend since before the 2016 election. The index closed above its 50-dma for a third week after being below for 14 weeks, improving to a 12-month high of 4.0% above its now-rising 50-dma from 2.5% above its falling 50-dma a week earlier. That compares to a seven-year low of 12.0% below at the end of December and is down from a two-year high of 6.2% above its rising 50-dma during January 2018. The 200-dma started rising again too, but has been falling during 11 of the past 16 weeks in the first downtrend since May 2016, when it had been slowly declining for nine months. The S&P 500 improved to a nine-week high of 1.2% below its now-rising 200-dma from 2.8% below its falling 200-dma a week earlier, but remains well below the seven-year high of 13.5% above its rising 200-dma during January 2018.

S&P 500 Sectors Technical Indicators ([link](#)): Ten of the 11 S&P 500 sectors improved last week relative to their 50-dmas and their 200-dmas. Consumer Discretionary was the only sector to weaken relative to both measures. All 11 sectors traded above their 50-dmas for the first time since early August, up from nine a week earlier and a dramatic improvement from four weeks ago when all 11 were below. The longer-term picture—i.e., relative to 200-dmas—shows five sectors trading above currently, up from three a week earlier. When Utilities was the only sector above its 200-dma during December, that had been the lowest count since all 11 were below in January 2016, and was a relatively swift reversal from the September 26 alignment, when all 11 sectors were above their 200-dmas. During the recent correction, two long-term 200-dma leaders left the building: Tech fell below its 200-dma for the first time in 121 weeks, and Consumer Discretionary fell below its 200-dma for the first time in 102 weeks. They're still out, but Communication Services and Consumer Staples rose above their 200-dma last week after being out briefly. Just three sectors remain in the Golden Cross club (with 50-dmas higher than 200-dmas), down from four a week earlier, as Consumer Staples left the club for the first

time in 21 weeks. Still in the club are Health Care and Real Estate (30 straight weeks), Utilities (26), and Consumer Staples (21). At the end of November, Consumer Discretionary and Tech left the club for the first time since April 2016. Among the laggards, Financials has been out of Golden Cross territory for 16 straight weeks and during 28 of the past 32 weeks, Materials has been out for 40 straight weeks, Energy for 12 weeks, and Industrials for 11 weeks. All 11 sectors had been in a Golden Cross in January 2018 (for the first time since a 26-week streak ended in October 2016). Consumer Staples is the only sector with a falling 50-dma now as eight rejoined that club in the latest week. Six sectors had rising 200-dmas at the end of last week: Consumer Discretionary, Energy, Health Care, Information Technology, Real Estate, and Utilities. That's unchanged from a week earlier, but up from two sectors rising in early January in what was then the lowest count in two years, when all 11 sectors had falling 200-dmas.

US ECONOMIC INDICATORS

Employment ([link](#)): Hiring began 2019 on a strong note, blowing past forecasts, though there was a big downward revision to December payrolls. January marks the 100th straight month of employment growth. Payroll employment in January was much stronger than expected, jumping 304,000—139,000 above the expected gain of 165,000. Meanwhile, December's (to 222,000 from 312,000) job increase was revised down sharply, while November's (196,000 from 176,000) was revised up, for a net loss of 70,000. Private payrolls hired 296,000 last month—83,000 above ADP's 213,000—following a downward revision to December (206,000 from 301,000) payrolls and an upward revision to November (200,000 from 173,000), for a net loss of 68,000. Leisure & hospitality (74,000) and construction (52,000) jobs both got a boost from warm weather in mid-January, when labor conducted its employment survey. Over the past 12 months, these industries added 410,000 and 338,000 jobs, respectively. Employment in health care continued to trend higher, adding 42,000 jobs in January and 368,000 the past 12 months, as did professional & business services firms, which added 30,000 and 546,000 over the same respective periods. Transportation & warehousing (27,000) and retail trade (21,000) recorded solid gains last month, though the latter showed little change over the past 12 months, with a net change of just 26,000. Meanwhile, factories continued to hire at a brisk pace, with manufacturing jobs up 261,000 the past 12 months—more than four-fifths of the gain was in durable goods industries. Meanwhile, the breadth of job creation (i.e., the percentage of private industries increasing payrolls) shows the three-month span (67.6% from 71.7%) slipped below 70.0% last month, while the one-month span (to 61.0% from 66.3%) is drifting down toward 60.0%. (Note: "There were no discernible impacts of the partial federal government shutdown on the estimates of employment, hours, and earnings from the establishment survey," according to BLS.)

Earned Income Proxy ([link](#)): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, continued to set new highs at the start of 2019—not posting a decline in 29 months. Our EIP climbed 0.4% in January, slowing from December's 0.8%—which was the best monthly performance since November 2017—though it accelerated 5.7% y/y, matching its high for the series. Average hourly earnings (AHE), one of the components of our EIP, rose 0.1% m/m last month, and 3.2% y/y—just below last December and April rates of 3.3%, which were the highest since April 2009. Meanwhile, aggregate weekly hours—the other component of our EIP—climbed 0.3% following a 0.5% gain and a 0.2% loss the prior two months. It was up 2.5% y/y, accelerating from 1.7% during November.

Unemployment ([link](#)): The unemployment rate ticked up for the second month from 3.7% in November to a seven-month high of 4.0% in January, though the five-week government shutdown was at least partly responsible for the uptick. The household survey used to determine joblessness counted furloughed workers as well as contractors as unemployed. Meanwhile, the participation rate increased to more than a five-year high of 63.2%—after fluctuating in a narrow band (from 62.6% to 63.1%) for

several years. The volatile teenage rate rose for the second month, to 12.9% in January, after sinking to 12.0% in October and November—which was the lowest since December 1969. The adult unemployment rate climbed for the second month to 3.7%—just above its cyclical low of 3.4% recorded from September through November—while the college-grad rate jumped to a 17-month high of 2.4%, up from its cyclical low of 2.0% posted from August through October. Those working part-time for economic reasons (a.k.a. “involuntary part-time workers”) climbed to an 11-month high of 5.1 million (3.2% of the civilian labor force) last month. The sum of the underemployment and jobless rates (7.2%) and the U6 rate (8.1)—which includes marginally attached workers—both are up from their respective cyclical lows, to their highest reading since February 2018.

Wages ([link](#)): January wage inflation—as measured by the average hourly earnings (AHE) rate for all workers on private nonfarm payrolls—was stalled near a 10-year high. The wage rate ticked down to 3.2% y/y last month from a cyclical high of 3.3% in both December and October—which was highest since April 2009; it was at a recent low of 2.3% during October 2017. The wage rate for service-providing industries (3.5% y/y) remained near its best reading since December 2008, while the goods-producing rate (2.0) posted its slowest pace since October 2017. Within goods-producing, the manufacturing rate (1.4) remained around recent lows, while the construction (2.8) and natural resources (1.2) rates were the lowest since October 2017 and July 2018, respectively. Within service-providing, the rate for information services (7.3) was at its high for the series going back to 2005, while retail trade’s (4.9) was just a tick below December’s series high of 5.0%. The rate for leisure & hospitality (3.6) is up from recent lows. Meanwhile, rates for utilities (4.5), professional & business services (2.8), education & health services (2.8), and wholesale trade (2.9) are stalled around recent highs. Moving down from recent highs are rates for financial activities (3.7) and transportation & warehousing (1.5), with the latter below 2.0% for the fifth month.

Employment Cost Index ([link](#)): Labor costs in the private sector rose at a slightly slower pace during Q4, though the yearly rate was the highest since Q2-2008. Total compensation costs climbed 0.6%, after gains of 0.8% and 0.6% the prior two months; costs during Q1-2018 had jumped 1.0%—the biggest quarterly gain since Q1-2004. The Q4 slowdown reflected slightly slower gains in wages & salaries (to 0.7% from 0.8%) last quarter, while benefits costs (0.5 from 0.4) were slightly higher, though slower than the 0.8% gains posted during the first half of 2018. Compensation costs climbed 3.0% y/y—the highest in a decade. Wages & salaries accelerated 3.1% y/y—the biggest yearly gain since Q2-2008, while the rate for benefits costs remained stalled at recent highs, at 2.6% y/y.

Consumer Sentiment ([link](#)): Consumer sentiment in January fell to the lowest month-end level since Trump was elected, though was higher than the mid-month reading. According to Richard Curtin, chief economist of the survey, “The end of the shutdown caused only a modest boost in the Sentiment Index. The typical impact of such ‘crisis’ events is short lived, with consumers quickly regaining lost confidence. That is unlikely to occur this time as the deadline for resolution has only been extended until mid February. If the standoff continues into late February, it could foster sustained declines in economic optimism among consumers.” The Consumer Sentiment Index (CSI) sank to 91.2 (vs a 90.7 mid-month reading) last month—the lowest reading since October 2016; it was at a 14-year of 101.4 last March. Both the expectations (to 79.9 from 87.0) and present situation (108.8 from 116.1) components took a hit, with both the lowest since November 2016. The former is down from a recent high of 90.5 last September, while the latter is down from March 2018’s record high of 121.2. (The expectations component was above its mid-month reading of 78.3, while the present situation was below its initial 110.0 reading.)

Auto Sales ([link](#)): Motor vehicle sales in January dropped to a five-month low as domestic light-truck sales fell to their lowest reading since August 2017. Total sales sank back below 17.0m last month, to

16.7mu (saar) from 17.6mu at the end of 2018. Domestic light-truck sales slumped to 9.0mu (saar) after climbing to 9.8mu in December—which was the highest reading since July 2005 (when they were boosted by aggressive discounts). Meanwhile, domestic car sales were unchanged at 4.0mu (saar), up from a recent low of 3.8mu in August, though below August's 10-month high of 4.2mu. These sales have been in a virtual freefall since peaking at 6.1mu (saar) during August 2014. Sales of imports ticked down to 3.8mu (saar) from 3.9mu the prior two months, holding just below May's peak of 4.0mu—which was the strongest pace since August 2009.

New Home Sales ([link](#)): New home sales—tabulated when contracts are signed—soared 16.9% in November to 657,000 units (saar), exceeding consensus estimates, following an 8.3% drop in October. Regionally, sales rose in three of the four regions, with Northeast (100%) sales doubling during the month, while sales in the Midwest (30.5) and South (20.7) also experienced robust growth. Meanwhile, sales in the West (-5.9) fell last month, and has posted only one increase in the last four months. The months' supply of new homes on the market (330,000) was the highest since the start of 2009, while the months' supply fell to 6.0 months from 7.0 months in October—which was the highest since March 2011. The number of properties sold for which construction hadn't yet started climbed to a one-year high of 238,000.

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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