MORNING BRIEFING
June 24, 2019

Relief Rally #63

See the collection of the individual charts linked below.

(1) What's next: more new highs or yet another panic attack? (2) Geopolitics getting more attention. (3) Jerome Powell is on standby to respond to China, Iran, or any other crisis. (4) Mario Draghi wants to help too. (5) Still traumatized by Trauma of 2008. (6) A list of 63 panic attacks. (7) New stock market highs despite inverting yield curve. (8) LEI stalls at record high. (9) CEI signaling slower GDP growth, not recession. (10) The Fed's word game. (11) "Patient" and "transient" are out, while "appropriate" is in. (12) July rate cut not a sure thing.

Strategy I: What's Next? Now that Panic Attack #63 has been followed by Relief Rally #63 to yet another new record high, what's next (*Fig. 1*)? That's an easy question to answer: Either more new highs in the stock market or Panic Attack #64.

We already know what is most likely to trigger the next panic attack. It could be an attack by the US on Iran or yet another attack by Iran on US interests in the Middle East. Another possible trigger would be a complete collapse in US-China trade talks causing President Donald Trump to slap a 25% tariff on all Chinese imports. I don't expect either of these extreme scenarios.

In any event, the Fed is on standby to cut the federal funds rate if either or both of these geopolitical triggers are pulled and cause trouble for the US economy. That could provide a cushion for the US economy in the event of the China Syndrome scenario. It might not be enough to avert a US and global recession if the Middle East conflict scenario sends oil prices soaring. Consider the following related developments:

(1) *The Fed's geopolitical sensitivity.* In the past, geopolitical crises have created buying opportunities. That was demonstrated once again when stock prices sold off during May after Trump escalated the trade war with China. Reviving the market, with a 7.5% rally since 6/3, has been the Fed's willingness to come to the rescue of the US economy and stock market in the event of more geopolitical turmoil. That was signaled by Fed Chairman Jerome Powell in a 6/4 speech as follows:

"I'd like first to say a word about recent developments involving trade negotiations and other matters. We do not know how or when these issues will be resolved. We are closely monitoring the implications of these developments for the U.S. economic outlook and, as always, we will act as appropriate to sustain the expansion, with a strong labor market and inflation near our symmetric 2 percent objective."

That statement was a key driver of Relief Rally #63. He followed it up last week in his 6/19 post-FOMC-meeting press conference with: "In light of increased uncertainties and muted inflation pressures, we now emphasize that the Committee will closely monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its 2 percent objective."

Also fueling Relief Rally #63 was Mario Draghi, the President of the European Central Bank (ECB), with more talk of doing whatever it takes to save the Eurozone. On Tuesday (6/18), speaking at a forum in Sintra, Portugal, he said that if the economic situation deteriorates in the coming months, the ECB will announce further monetary stimulus including more interest rate cuts and another round of asset purchases. Earlier this month, the ECB announced that the first post-crisis rate hike will be postponed and is unlikely to happen until the second half of 2020 at the earliest.

Powell's latest statement helped to send the S&P 500 to a new record high of 2954.18 on Thursday of last week (6/20), bringing it closer to our 3100 yearend forecast (*Fig. 2*). Also at record highs on Thursday were three of the 11 S&P 500 sectors, i.e., Consumer Staples, Real Estate, and Utilities (*Fig. 3*). Near their record highs were Consumer Discretionary, Health Care, and Information Technology.

Leading the market higher this month have been mostly the cyclical sectors as follow: Materials (9.9%), Information Technology (9.3), Energy (8.9), Consumer Discretionary (8.0), Health Care (7.8), Industrials (7.4), S&P 500 (7.2), Consumer Staples (5.9), Utilities (5.3), Communication Services (5.1), Financials (5.0), and Real Estate (4.1) (*Fig. 4*).

(2) *The Trauma of 2008 is still with us.* The severity of the Great Recession and the Financial Crisis of 2008 caused a 56.8% bear market in the S&P 500 from 10/9/2007 to 3/9/2009. The entire experience was very traumatic for investors. As a result it has been easy to trigger panic attacks on fears that it could all happen again. The upside of all this recurring anxiety has been that the US economic expansion is now the longest in history. That's because there hasn't been any significant financial and business speculative excesses. In the past, such booms set the stage for inevitable busts. Hence our simple thesis: No boom, no bust.

(3) *Identifying panic attacks.* The identification of panic attacks by Joe and me is completely subjective. They include bona fide corrections (six of them so far) and mini-corrections (seven of them so far) (*Fig. 5*). We also include lots of quick and minor selloffs triggered by fears of a recession resulting from such events as a nuclear power plant meltdown in Japan (3/11/2011) and the Brexit vote (6/23/2016). We've been keeping track of the panic attacks during the current bull market in our chart publication titled *S&P 500 & Panic Attacks Since 2019* and recently compiled a handy table of them.

Strategy II: Less Than Zero. Driving stock prices into record high territory has been this year's rebound in S&P 500 forward earnings back to last year's record high and the jump in the S&P 500 forward P/E from a low of 13.5 on 12/24 to 16.8 on Friday (*Fig. 6* and *Fig. 7*).

The recent rebound in the P/E is impressive given that analysts' consensus expectations for the growth rate of S&P 500 earnings during 2019 has plunged from 7.6% at the start of this year to only 3.0% during the 6/13 week (*Fig. 8*). Then again, they continue to expect about 11.0% growth next year.

More importantly, the 117bps plunge in the 10-year US Treasury bond yield from last year's 11/8 peak of 3.24% to 2.07% on Friday certainly is bolstering valuation multiples. The 7bps decline so far in June was triggered by Powell's increasingly dovish pronouncements noted above. The 2-year US Treasury note yield sniffed that the Fed might reverse course from tightening to easing when it peaked during the 11/8 week last year at 2.98% (*Fig. 9*). It fell to 1.95% at the end of May, and was down to 1.77% on Friday.

Ironically, all the agita about the inverted yield curve vanished last week as the market made a new high, even though the spread between the 10-year yield and the federal funds rate fell to minus 31bps, one of the lowest spreads since early 2008 (*Fig. 10*).

I still believe that the most important drivers of the US bond yield are the increasingly negative yields on comparable bonds in Germany (-0.28%) and Japan (-0.16%) (*Fig. 11*). They've been driven into negative territory by the ultra-easy monetary policies of the ECB and the Bank of Japan. Negative yields over there make both bonds and stocks more attractive over here.

I've called this my "Modern Tethered Theory (MTT)" of the US bond market. US yields have been tethered to yields in Germany and Japan, which have turned increasingly negative this year. The spreads (or tethers) between the US yield and the German and Japanese yields have also tightened (*Fig. 12*)

US Economy: Slowdown or Closer to a Recession? Again, it is ironic to see the S&P 500 making a new record high on Thursday of last week as the yield curve spread turned more negative. That's because the latter is widely considered to be a very good leading indicator of recessions, which are bearish for stocks.

Then again, the Index of Leading Economic Indicators (LEI) has yet to signal a recession as Debbie discusses below. The LEI has stalled at a record high over the past eight months through May, while the Index of Coincident Economic Indicators (CEI) rose to another record high in May (*Fig. 13*).

The LEI tends to signal a recession after it has declined over three consecutive months (*Fig. 14*). The growth of the CEI on a y/y basis was 1.9% during May, the third reading below 2.0%; it's down from its recent peak of 2.5% last August (*Fig. 15*). It suggests that the growth rate of real GDP, which was 3.2% during Q1, will be weaker during Q2. But it's a slowdown rather than a recession.

By the way, as we have noted in the past, the yield curve spread is just one of the 10 components of the LEI. The S&P 500 is another one. We are siding with the stock market's upbeat message rather than the downbeat one from the credit market.

The Fed: No Longer "Patient." Melissa and I didn't expect that the Fed would cut the federal funds rate at last week's meeting of the FOMC, so we weren't surprised that the committee voted to leave the rate unchanged. We aren't convinced that a rate cut at the July FOMC meeting is as likely as many traders believe. CNBC's Jeff Cox reported on 6/21: "Traders in the fed funds futures market made bets in record numbers this week, with the bulk of the money looking for the Federal Reserve to cut interest rates aggressively in the months ahead."

Inflation, growth, and trade are the variables most likely to sway Fed officials towards either a rate cut or a further pause. Before the July meeting, a slew of economic data are to be released including Q2's real GDP. The Atlanta Fed's GDPNow model is currently forecasting a solid 2.0% growth rate for the quarter. The Fed will also closely be monitoring trade developments around the world. Let's review what we know about the latest Fed meeting and what that might mean for the next one:

(1) *From "patient" to "appropriate*." When Federal Reserve Chairman Jerome Powell said on 6/4 that the Fed will "act as appropriate to sustain the expansion," market participants immediately assumed that "appropriate" means rate cuts. It is the Fed's new "it" word. During his press conference following the 6/18-19 FOMC's, Powell again repeated the phrase. Federal Reserve Vice Chairman Richard Clarida echoed the term on Friday.

The word "appropriate" has replaced the word "patient," which was dropped from the June FOMC Statement. Officials had clearly repeated and spelled out that "patient" essentially meant that the Fed would leave the federal funds rate unchanged for a while.

Following the latest FOMC meeting, it should be clear that the word “appropriate” does not necessarily mean an immediate rate cut. Fed officials decided to maintain the federal funds rate in a range of 2.25%-2.50% for now. But in his latest presser, Powell clearly signaled that “appropriate” still means rate cuts ahead—if appropriate.

(2) *Trade, growth, and inflation*. Powell reiterated the uncertainty stemming from ongoing trade disputes and their impact on global growth as a reason for his more dovish tone. In his opening remarks, he said: “In the weeks since our last meeting, the crosscurrents [which previously seemed to have settled] have reemerged. Growth indicators from around the world have disappointed on net, raising concerns about the strength of the global economy. Apparent progress on trade turned to greater uncertainty, and our contacts in business and agriculture report heightened concerns over trade developments. These concerns may have contributed to the drop in business confidence in some recent surveys and may be starting to show through to incoming data. Risk sentiment in financial markets has deteriorated as well. Against this backdrop, inflation remains muted.”

(3) *Dropping “transient*.” Nevertheless, the FOMC’s consensus real GDP growth forecast remained at 2.1% for 2019 in June’s Summary of Economic Projections (SEP). Also, the unemployment rate was projected about the same at 3.7%, down from 3.6% in the previous SEP. The rising prospect of a rate cut has coincided most with officials’ increasing concern about hitting the Fed’s inflation target rather than the outlook for growth. The headline and core PCED inflation rates were dropped from 1.8% to 1.5% and from 2.0% to 1.8%, respectively, for this year.

Powell himself has obviously become increasingly wary of the Fed’s ability to reach its inflation target any time soon. In his 5/1 presser, he argued that recent low inflation readings were likely “transient.” But during his latest press conference, he dropped “transient” along with “patient.”

During the Q&A session, Bloomberg’s Michael McKee asked a key question: “Have you modeled the additional growth and inflation you might get from a rate cut?” Powell’s answer was widely panned as a non-answer: “[W]e do generally believe that that our interest rate policy can support demand and support business investment as well. And so, we will use those tools and use them as we see as appropriate to achieve our objective, which really are to sustain this expansion.”

(4) *Ignore the dots*. Powell seems to be increasingly influenced by the more dovish members on the FOMC. During the June meeting, Powell received his first dissenting decision, since becoming Fed Chairman, from FRB-SF Fed President James Bullard who argued for a rate cut at this meeting. What’s more, eight Fed officials are now forecasting a rate cut in the coming year, according to the SEP. However, while all Fed Governors and Presidents submit projections, not all of them get to vote on policy and we don’t know for sure whose dot is whose. For example, we do know that one of those writing down a rate cut is FRB-President Neel Kashkari (as he recently indicated), but he is a non-voter this year.

Powell has repeatedly warned against paying too close attention to the “dots,” representing the federal funds rate forecasts of FOMC participants. During his press conference, he said that the dots “are not a forecast of the group … and they're also only the most likely case. So in a situation where there's relatively high uncertainty, there's the most likely case but the second most likely case might only be a little bit less likely. … So I just would say that if you paid too close attention to the dots, then you may lose sight of the larger picture.”

In our view, the Fed doesn’t seem to have a clear picture of how the larger picture is likely to turnout in the coming months, so don't bank on a rate cut just yet. On the other hand, the likelihood of a rate hike any time soon is close to zero.

CALENDARS

US. Mon: Dallas Fed Manufacturing Index -1.0, Chicago Fed National Activity Index 0.1. **Tues:** Consumer Confidence 131.0, New Home Sales 645k, Richmond Fed Manufacturing Index 2, S&P Case-Shiller Compsite-20 City 2.5% y/y, Powell Economic Outlook & Monetary Policy Review, Williams, Bullard. (DailyFX estimates)

Global. Mon: Germany Ifo Business Climate, Current Assessment, and Expectations Indexes 97.5/100.3/94.6, BOJ Minutes of April Meeting. **Tues:** None. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): Last week saw the US MSCI index rise 2.2% and end the week 0.2% below its record high on Thursday. The AC World ex-US rose 2.6% for the week to 13.3% below its record high in January 2018. The US MSCI's weekly performance ranked 27th among the 49 global stock markets we follow in a week when 45/49 countries rose in US dollar terms. That compares to the prior week's 17/49 ranking, when the US MSCI rose 0.5% as 23 markets rose. EM Latin America was the best performer last week with a gain of 4.5%, followed by BRIC (4.0%), EM Asia (3.8), and EMU (3.1). The regions underperforming last week, albeit with gains: EMEA (1.6), EM Eastern Europe (1.9), and EAFE (2.2). Colombia was the best-performing country with a gain of 6.2%, followed by Brazil (5.9), Morocco (5.5), South Africa (5.2), and Turkey (5.1). Of the 26 countries that underperformed the AC World ex-US MSCI last week, Hungary fared the worst, falling 2.7%, followed by Pakistan (-1.7), India (-0.9), and Greece (-0.5). The US MSCI's ytd ranking dropped one spot last week to 8/49, with its 18.0% ytd gain still well ahead the AC World ex-US (11.1). All regions and 42/49 countries are in positive territory ytd. Among the regions, five are outperforming the AC World ex-US ytd: EM Eastern Europe (18.9), EMU (12.8), EM Latin America (12.2), BRIC (12.1), and EMEA (12.0). Regions underperforming or matching the AC World ex-US: EM Asia (8.1) and EAFE (11.1). The best country performers ytd: Russia (27.5), Argentina (24.6, Egypt (23.4), Greece (23.3), Colombia (22.0), and Switzerland (19.4). The worst-performing countries so far in 2019: Pakistan (-11.6), Sri Lanka (-9.4), Turkey (-6.5), Chile (-4.3), Jordan (-1.3), and Hungary (-0.5).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes rose for a third week following four straight declines. LargeCap's 2.2% gain outpaced the 1.5% increases for MidCap and SmallCap. LargeCap ended the week 0.2% below its record high on Thursday, which was its first in seven weeks. MidCap improved to 6.0% below its 8/29 record high. SmallCap remained in a correction at 14.7% below its 8/29 record after narrowly averting a bear market at the end of May. Thirty of the 33 sectors moved higher last week compared to 24 rising a week earlier. Energy dominated the best performers in the latest week: SmallCap Energy (9.3%), MidCap Energy (8.7), LargeCap Energy (5.2), SmallCap Health Care (4.1), and LargeCap Tech (3.3). MidCap Consumer Staples (-1.8) was the biggest decliner, followed by SmallCap Consumer Staples (-0.6), and SmallCap Financials (0.0). In terms of 2019's ytd performance, all three indexes are still off to a healthy start for the year. LargeCap leads with a gain of 17.7% ytd, ahead of MidCap (15.9) and SmallCap (10.9). Thirty-one of the 33 sectors are positive ytd, with the LargeCap cyclicals leading the top performers: LargeCap Tech (26.4), MidCap Tech (24.6), LargeCap Real Estate (21.8), LargeCap Consumer Discretionary (21.4), and MidCap Industrials (20.2). MidCap Energy (-2.8) and SmallCap Energy (-0.5) are the sole decliners so far in 2019, followed by these underperformers: SmallCap Communication Services (3.9), MidCap Consumer Staples (4.2), and SmallCap Consumer Staples (4.9).

S&P 500 Sectors and Industries Performance (*link*): All 11 S&P 500 sectors rose last week as five outperformed the S&P 500's 2.2% gain. That compares to eight rising a week earlier, when six outperformed the S&P 500's 0.5% rise. Energy was the best-performing sector with a gain of 5.2%, ahead of Information Technology (3.3%), Health Care (3.1), Communication Services (2.7), and Industrials (2.7). Last week's biggest underperformers, albeit with gains: Consumer Staples (0.1), Materials (0.2), Financials (0.4), Real Estate (0.9), Utilities (1.2), and Consumer Discretionary (1.4). All 11 sectors are higher so far in 2019, compared to just two sectors rising during 2018, when the S&P 500 fell 6.3%. These five sectors have outperformed the S&P 500's 17.7% rise ytd: Information Technology (26.4), Real Estate (21.8), Consumer Discretionary (21.4), Industrials (19.8), and Communication Services (19.3). The ytd laggards: Health Care (8.4), Energy (11.0), Financials (14.2), Materials (14.3), Utilities (15.3), and Consumer Staples (15.6).

Commodities Performance (*link*): Last week, the S&P GSCI index rose 3.5% for its best gain in 18 week as 14 of the 24 commodities moved higher. That compares to 15 rising a week earlier when the index dropped 0.1%. The index had nearly climbed out of a correction during mid-April, with a drop of just 10.0% from its high in early October after being down as much as 26.9% from that high on 12/24. It has since weakened to 16.2% below its October high. Crude Oil was the strongest performer for the week, as it rose 8.8%, ahead of Unleaded Gasoline (6.4%), Brent Crude (5.6), and Heating Oil (4.7). Natural Gas was the biggest decliner, with a drop of 8.9%, followed by Kansas Wheat (-4.9), Sugar (-3.4), and Lean Hogs (-3.4). The S&P GSCI commodities index is up 12.5% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Unleaded Gasoline (39.5), Lean Hogs (27.8), Crude Oil (26.5), Brent Crude (19.8), and Corn (19.3). The biggest laggards in 2019: Natural Gas (-26.2), Live Cattle (-17.5), Cotton (-9.2), Feeder Cattle (-8.9), and Lead (-5.7).

S&P 500 Technical Indicators (*link*): The S&P 500 price index rose 2.2% last week, continuing its successful test of 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 rose for 18th time in 19 weeks to a 35-week high, forming a Golden Cross for a 13th week after 16 weeks in a Death Cross formation. The index had been in a Golden Cross for 137 weeks through late November, and its previous Death Cross lasted 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 Golden Cross reading of 3.9% is up from -5.2% in early February, which had matched the lowest reading 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 at a faster rate, with the price index improving to a seven-week high of 2.6% above its 50-dma from 0.5% above a week earlier. That's up from a 22-week low of 4.2% below its falling 50-dma at the end of May, but down from 6.6% during mid-February, which was its highest since October 2011. The 200-dma rose for a second week following three straight declines. It had been rising for 16 weeks through mid-May after falling from October to February in the first downtrend since May 2016 (when it had been slowly declining for nine months). The index traded above its 200-dma for a third week, improving to a 10-month high of 6.6% above its rising 200-dma from 4.4% above a week earlier. That compares to 14.5% below its falling 200-dma on 12/24, which was the lowest since April 2009 and 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*): All 11 S&P 500 sectors traded above their 50-dmas last week for the first time since early April, up from seven above their 50-dmas a week earlier. All 11 were last below in early January. The longer-term picture—i.e., relative to 200-dmas—shows 10 sectors trading above currently, unchanged from a week earlier, as Energy was below its 200-dma for a 37th week. Nine sectors are in the Golden Cross club (with 50-dmas higher than 200-dmas), unchanged from a week earlier and the highest count since early November. Financials has been back in a Golden Cross for just nine weeks, while Health Care was out for an eighth week and Energy for a 32nd week. 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). Just three sectors still have falling 50-dmas now compared to six with falling 50-dmas a week earlier. These three sectors had their 50-dma start rising again in the latest week: Communication Services, Health Care, and Tech. Energy's 50-dma fell for an eighth week while Industrials and Materials have been mostly falling for the past five weeks. Seven sectors have rising 200-dmas, up from six a week earlier as Health Care turned higher after falling for six weeks.. Among the remaining laggards: Energy, Financials, and Materials have had mostly falling 200-dmas for more than eight months now and Industrials for six weeks, which compares to just two sectors with rising 200-dmas in early January in what was then the lowest count since all 11 sectors had falling 200-dmas two years before.

US ECONOMIC INDICATORS

Leading Indicators (*link*): May's Leading Economic Index (LEI) is stalled at its record high, not showing much movement the past eight months. The LEI advanced only 0.3% during the eight months through May, while it climbed 4.3% the first nine months of 2018—averaging monthly gains of 0.5%. Last month, five components contributed positively, three negatively, while the average workweek and the interest rate spread were unchanged. The biggest positive contributions came from consumer expectations (0.13ppt) and the leading credit index (0.12), while those from real core capital goods orders, real consumer goods orders, and building permits were more muted from 0.1ppt to 0.3ppt. Stock prices (-0.7ppt) had the biggest negative contribution last month, though movements so far this month suggest a big positive contribution for June. The new orders diffusion index (-0.06) and jobless claims (-0.04) also contributed negatively, though the latter's level is so low, at 215,200, there's not much room for improvement. The LEI is up 2.5% y/y, slowing steadily from September's 6.6%—which was the strongest since February 2011. While the economic expansion is now entering its eleventh year (the longest in US history), the Conference Board notes, "the LEI clearly points to a moderation in growth towards 2 percent by year end."

Coincident Indicators (*link*): The Coincident Economic Index (CEI) in May continued to reach new record highs, though the pace has slowed in recent months. May saw the CEI tick up 0.2%, after gains of 0.1% in each of the prior two months; February's CEI had dipped 0.1%—which was only the second decline recorded in the index since July 2013. The CEI is up 1.9% y/y, slowing from 2.4% in January. All four components contributed positively in May, here's a look at the components: 1) Industrial production shared the number one spot with real personal income for the largest contribution to May's CEI, after being the only negative contributor in April. Industrial production posted its biggest gain in six months last month, though remains below the record high posted at the end of last year, as manufacturers continue to face headwinds from trade tensions and a global slowdown. Headline production climbed 0.4% last month, though is down 0.9% ytd. 2) Real personal income—excluding transfer payments—increased 0.4% during the two months ending May to within 0.3% of December's record high; it had dropped 0.7% the first three months of the year. 3) Real manufacturing & trade sales increased for the sixth time in seven months—by 0.3% in May and 2.3% over the seven-month period—to a new record high. 4) Employment was the smallest contributor to May's CEI as US companies added only 75,000 jobs last month, likely reflecting the tight labor market. It was the second increase below 100,000 this year.

Regional M-PMIs (*link*): Both Fed districts that have reported on manufacturing activity for June so far—Philadelphia and New York—show growth contracted for the first time since May 2016—as both regions saw a deterioration in activity. We average the composite, orders, and employment measures as data become available. The composite (to -4.2 from 17.2) index showed growth slipped into negative territory this month after expanding at its best pace in seven months last month. The New York regions' composite (to -8.6 from 17.8) index denoted activity contracted for the first time since October 2016, plunging 26.4 points in June (its biggest monthly decline on record), while Philadelphia's (0.3 from 16.6) showed activity in that region was at a standstill. The new orders gauge (-1.9 from 10.4) was in negative territory for the first time since September 2016, led by a sizable decline in billings in the New York (-12.0 from 9.7) region, while Philadelphia (8.3 from 11.0) manufacturers showed a slight slowing in orders growth. Meanwhile, the employment index (6.0 from 11.5) revealed factories hired at about half the pace of May—and the weakest since February 2017. Manufacturers in the Philadelphia (15.4 from 18.2) region continued to add to payrolls at a healthy pace, while New York's (-3.5 from 4.7) cut jobs for the first time since January 2017.

Existing Home Sales (*link*): Existing home sales rebounded in May with all four regions moving higher. Existing-home sales—tabulated when a purchase contract closes—jumped 2.5% last month to 5.34mu (saar) following no gain in April (first reported at -0.4%) and a 4.9% drop in March; February sales had rebounded 11.2% to 5.48mu, which was its best level in nearly a year. Lawrence Yun, NAR's chief economist, said May's 2.5% jump shows that consumers are eager to take advantage of the favorable conditions. "The purchasing power to buy a home has been bolstered by falling mortgage rates, and buyers are responding." Regionally, the Northeast (4.7% m/m & 0.0% y/y) posted the biggest monthly gain, while sales were flat with a year ago. Meanwhile, the South (1.8 & 1.3) was the only region to show both a monthly and yearly gain. Sales in the Midwest and West were up 3.4% and 1.8%, respectively, last month though were down 3.9% and 3.4% y/y. Single-family sales rebounded 2.6% last month to 4.75mu (saar) after sliding 5.7% during the two months ending April; February sales had jumped 12.6%. Meanwhile, multi-family sales surged 9.3% during the two months through May, to 590,000 units (saar), more than reversing March's 5.3% drop. Both single- (-0.8% y/y) and multi- (-3.3) family sales remained below a year ago, though the former looks like its yearly change is about to turn positive. Meanwhile, the number of single-family homes on the market at the end of May increased to 1.70 million, jumping 26.9% ytd. Though inventory is up, the months' supply (4.3) remains near historic lows, which has a direct effect on price, according to Yun. "Solid demand along with inadequate inventory of affordable homes have pushed the median home price to a new record high," he said.

GLOBAL ECONOMIC INDICATORS

US PMI Flash Estimates (*link*): Business activity growth continued to lose momentum this month—expanding at its slowest pace in 40 months, according to flash estimates, as PMIs for both the manufacturing and service sectors moved closer to the breakeven point of 50.0. Private sector output growth has lost momentum in each month since February's reading of 55.5. June's C-PMI (to 50.6 from 50.9) signaled the slowest increase in overall business activity since February 2016, as the NM-PMI (50.7 from 50.9) slowed to a 40-month low, and the M-PMI (50.1 from 50.5) to a 117-month low. For the manufacturing sector, June's latest reading was the lowest since September 2009 as weaker rates of production growth and staff hiring were the key factors weighing on the M-PMI, alongside the largest drop in stocks of purchases in almost a decade. The M-PMI peaked at 56.5 last April. The manufacturing-led downturn has increasingly infected the service sector in recent months. The service sector showed barely any expansion in June, recording the second-weakest monthly growth since the global financial crisis. The NM-PMI has slowed steadily since peaking at 56.0 just four months ago. According to IHS Markit, "Business optimism has also become more subdued, with sentiment about the year ahead down to a new series low amid intensifying worries about tariffs, geopolitical risk and slower economic growth in the months ahead."

Eurozone PMI Flash Estimates (*link***)**: The Eurozone's C-PMI reached a seven-month high this month, according to flash estimates, though growth remained subdued, while optimism about the future was the lowest since late 2014. The C-PMI improved for the second month from 51.5 in April to 52.1 this month, though remains considerably below its peak of 58.8 at the start of last year. The NM-PMI rose from 52.8 to 53.9 over the two-month period, also reaching a seven-month high, while the M-PMI (to 47.8 from 47.7) edged up to a two-month high, though contracted for the fifth straight month. The service sector's expansion rounded off its strongest quarter since Q3-2018, while the downturn in manufacturing completed a quarter in which output suffered the sharpest decline in six years. Looking at the top two Eurozone economies, Germany's C-PMI was unchanged at 52.6 this month, while France's (52.9 from 51.2) climbed to a seven-month high. Germany's NM-PMI (55.6 from 55.4) continued to expand at a healthy pace, though the manufacturing sector continued to contract, with its M-PMI (45.4 from 44.3) below 50.0 for the sixth consecutive month. Meanwhile, France's NM-PMI (53.1 from 51.5) and M-PMI (52.0 from 50.6) were both very encouraging, with the former at a seven-month high and the latter at a nine-month high. While both France and Germany saw improved performances compared to earlier this year, business activity in the rest of the Eurozone grew at the weakest pace since November 2013, running at a more than five-year lows in the service sector, while manufacturing contracted for the first time in six years.

Japan M-PMI Flash Estimates (*link*): Japan's manufacturing sector continued to contract this month, according to the flash estimate, after showing tentative signs in April that the downturn had softened. Japan's M-PMI eased for the second month, to 49.5, after improving from 49.2 in March to 50.2 in April. According to IHS Markit, "Softer demand in both domestic and international markets contributed to the sharpest fall in total new orders for three years. A soft patch for automotive demand and subdued client confidence in the wake of US-China trade frictions were often cited by survey respondents." Meanwhile, disappointing sales volumes led to the largest accumulation of finished goods inventories in over 6.5 years, while backlogs of work were depleted to the greatest extent since January 2013—which will likely put an additional drag on production volumes in the months ahead.

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