



MORNING BRIEFING

July 15, 2019

Wuthering Heights

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

(1) Emily Brontë and the S&P 500. (2) Anxiety fatigue. (3) High P/Es make stocks more vulnerable to downdrafts. (4) Forward revenues and earnings rose to record highs in early July. (5) Earnings growth recession now, but market looking ahead to recovery next year. (6) No change in our bullish S&P 500 targets. (7) FAANGMs account for 18% of S&P 500 market cap and are hard to beat. (8) Powell doubles down on Fed's easing pirouette. (9) Movie review: "Maiden" (+ + +).

Strategy I: New Stormy Highs. In her novel *Wuthering Heights*, Emily Brontë explained the origin of the word "wuthering": "Wuthering Heights is the name of Mr. Heathcliffe's dwelling. 'Wuthering' being a significant provincial adjective, descriptive of the atmospheric tumult to which its station is exposed, in stormy weather."

Now that the S&P 500 is once again climbing to record heights, can investors expect that it will get stormier? That will depend on whether investors will continue to suffer recurring bouts of anxiety. Joe and I have dubbed such events "Panic Attacks." By our count, there have been 63 since the start of the current bull market. (See the [table](#) and the [charts](#).)

Some have been more intense than others. Following Panic Attack #25, which was associated with fears of a "fiscal cliff" at the end of 2012, we noted that most of our accounts were fully invested bears (a.k.a. "FIBERs") and experiencing anxiety fatigue. They were tired of being anxious about the bull market. If that description fit investors generally, it should have led to fewer and less severe panic attacks.

But that's not what happened. There have been another 38 panic attacks by our count since early 2013, including four outright corrections ([Fig. 1](#)). The latest one saw the S&P 500 plunge 19.8% from 9/20/2018-12/24/2018. Since then, the index is up 28.2% through Friday's close. Along the way, the market has climbed to new heights, but the weather has remained stormy.

That's partly because the new heights have been mostly achieved with rising forward P/Es. That makes the market vulnerable to valuation multiple contractions when investors turn jittery ([Fig. 2](#)). Here are the past four P/E corrections: down 7.6% from 16.9 to 15.6 (4/30/19-6/3/19), down 19.8% from 16.8 to 13.5 (9/20/18-12/24/18), down 9.1% from 18.6 to 16.9 (1/26/18-2/5/18), and down 11.1% from 16.6 to 14.8 (11/3/15-2/11/16).

On Friday, the 17.1 forward P/E of the S&P 500 was 8% below its bull-market peak of 18.6 on 1/26/2018. So how did the S&P 500 manage to reach new highs last week? Consider the following:

(1) *Revenues*. The forward revenues per share of the S&P 500 rose to a record high during the 7/4 week ([Fig. 3](#)). So did forward earnings. As a result, the forward profit margin leveled out in recent weeks around 12.1%. That's all very impressive.

It's impressive that analysts' consensus expectation for revenues over the next 52 weeks is so strong despite all the depressing headline news about weakness in the global economy. As we have noted previously, S&P 500 weekly forward revenues is a very good coincident indicator of the trend in the actual quarterly series.

On the other hand, numerous other economic indicators that correlate closely with S&P 500 revenues suggest that the analysts may be too optimistic. For example, the y/y growth rate in S&P 500 revenues per share tracks the US M-PMI very closely. The former was 5.8% during Q1. The latter was 51.7 during June, the weakest since October 2016, when the former was only 3.0% ([Fig. 4](#)). Here are the latest (May) y/y growth rates of other indicators that also correlate well with S&P 500 revenues-per-share growth: US business sales (1.5%), factory orders (-1.2), and US merchandise exports (-2.6) ([Fig. 5](#), [Fig. 6](#), and [Fig. 7](#)).

(2) *Earnings*. Bearishly inclined strategists have been inclined to observe that earnings are in a growth recession. They are right about the earnings growth recession, but wrong about that being bearish for stocks. How can that be?

The market discounts the future, not the past—or even the present unless it has bearish or bullish implications for the future. The market is at record highs because investors mostly expect that today's earnings growth recession will be followed not by an outright earnings recession but by improving earnings growth. We agree. Furthermore, record-low interest rates in Europe and Japan, and historically low interest rates in the US all are boosting valuation multiples.

S&P 500 earnings per share rose just 2.8% y/y during Q1. Industry analysts currently expect them to fall 1.6% during Q2 and edge up just 0.4% during Q3 ([Fig. 8](#)). That's certainly an earnings growth recession, reminiscent of a similar experience during 2015 and 2016.

Back then, the S&P 500 was volatile and relatively flat from the start of 2015 through mid-2016. Then it wuthered to new heights over the rest of 2016 through early 2018 as earnings growth was revived by a rebound in the global economy ([Fig. 9](#)).

Currently, industry analysts are projecting that earnings growth should improve to 7.1% during Q4-2019. It is expected to be 10.8% in 2020 following only 2.6% this year. Joe and I are a bit less upbeat than the analysts, who must have had even happier childhoods than we did. We expect earnings per share to rise 3.1% this year, 5.4% next year, and 8.0% in 2021 ([Fig. 10](#)).

(3) *S&P 500 targets*. We are still projecting that the S&P 500 will climb to 3100 before the end of this year. That wouldn't take much effort, since it is only 2.8% higher than Friday's close. We are projecting 3500 for next year. We are thinking ahead, figuring that next year the market will increasingly be discounting earnings of \$190 per share for 2021 (an 8% increase over 2020).

To get to 3500, we'll need to see the forward P/E at 18.4—which we think is doable.

This is certainly a happier tale than the one in *Wuthering Heights*.

Strategy II: Active Managers Getting FAANGM'd. We received the following email message from one of our accounts in response to our recent analysis of the FANGs:

"If you include AAPL and MSFT in FANG you're looking at 17% of the S&P 500 and a 30% average ROR this year. This has been a killer for active management. For instance, we run a 50-stock portfolio with 2% 'full' positions. To match that exposure, we'd have to buy all six of the names (in spite of stretched valuations) and target each at 3% (i.e. 'full and a half')."

I asked Joe to broaden our analysis from the FANGs to the FAANGMs by including Apple and Microsoft. Here is what he found:

(1) *Market-cap share.* Sure enough, as of 7/12, they accounted for 18.1% of the S&P 500 market capitalization ([Fig. 11](#)). That's up from 9.0% at the start of 2013. They did get whacked during the correction at the end of last year, but their market-cap share rebounded from a low of 15.8% on 1/4 of this year to 18.1% currently.

Since the start of 2013, the FAANGMs' market cap is up 298%. Over that same period, the market cap of the S&P 500 with and without these stocks rose 100% and 80% ([Fig. 12](#)). Since the beginning of this year, the FAANGMs' market cap is up 31%, while the S&P 500 excluding this group is up just 19%.

(2) *Forward earnings.* The aggregate forward earnings of the FAANGMs is up 78% since the start of 2015, while it is up 39% and 26% for the S&P 500 with and without the FAANGMs ([Fig. 13](#)).

(3) *Valuation.* The forward P/E of the FAANGMs is currently 30.8 versus 17.2 for the overall S&P 500 and 15.7 excluding them from the index ([Fig. 14](#) and [Fig. 15](#)).

(4) *Share count.* While the FAANGMs have been buying back their shares, the per-share impact has been relatively small compared to the organic growth in their earnings. Joe calculates that from Q3-2012 through Q1-2019, basic shares outstanding of the FAANGMs has declined 10.9%, or at an average annual rate of 1.7% ([Fig. 16](#)). He found that over the same period the share count of the S&P 500 excluding the FAANGMs fell 6.4%, or 1.0% annualized. Both stats belie the widespread notion that buybacks have significantly fueled the bull market by boosting earnings per share. (For more on this, see our [Topical Study #84, "Stock Buybacks The True Story."](#))

(5) *Growth vs Value.* Growth has been mostly outperforming Value during the current bull market ([Fig. 17](#) and [Fig. 18](#)). Obviously, the outperformance of the FAANGMs has been a major contributor to that divergence.

Above-average growth is scarce in our world of subpar growth. Companies that can deliver

above-average growth get higher P/Es and higher market capitalizations, which make them even more influential in a market-cap-weighted index like the S&P 500.

It's also worth noting that market concentration has increased while competition has decreased across lots of industries. That's easily demonstrated in technology by the FAANGMs.

According to a 4/23 Oxford Academic [paper](#), discussed in a 7/12 *The Nation* [article](#): “[F]irms in industries with the largest increases in product market concentration show higher profit margins.” Fair or not, big companies that hold market power are today's top performers. It is what it is.

The Fed: Where Is the Storm? While we are on the subject of stormy weather, last Thursday, Atlanta Federal Reserve Bank President Raphael Bostic said: “I am not seeing the storm clouds actually generate a storm yet.” He said he is skeptical of the need to cut interest rates right now. “With very few exceptions businesses are telling me the economy is performing as strong as it was. They are not seeing weaknesses in consumer engagement. And they are not materially changing their plans.” These remarks followed a [speech](#) in which Bostic concluded that neither inflation nor inflation expectations are materially off target or trending that way. Bostic is a non-voter on the Federal Open Market Committee (FOMC) this year, so his opinion may not matter as much as the views of those who do get a vote.

That same day, Richmond Federal Reserve Bank President Thomas Barkin, also a non-voter on the FOMC this year, said that the economy is still humming and he sees no clear need for the Fed to ease monetary policy. [Highlights](#) of his comments on the bank's website included this observation: “I don't see the current levels of inflation or inflation expectations as a trigger for additional accommodation. The potential to use rate changes to alter firms' settled routines is small, and the potential cost of overreaching feels real. It's also hard to make a case for stepping on the gas with unemployment so low and consumer spending so healthy.”

That was the very same day that Fed Chair Jerome Powell left no doubt that he is ready to cut the federal funds rate at the end of this month to boost the economy. He implied as much in his congressional testimony on Wednesday before a House committee. He was more emphatic about it on Thursday during his [Q&A](#) before a Senate committee, as evidenced by these excerpts:

- (1) The US economy is “in a very good place. The Fed wants “to use our tools to keep it there.”
- (2) “We're learning that interest rates—that the neutral interest rate—is lower than we had thought and I think we're learning that the natural rate of unemployment is lower than we thought. ... So monetary policy hasn't been as accommodative as we had thought.”
- (3) “The relationship between unemployment and inflation became weak” about 20 years ago. “It's become weaker and weaker and weaker.”

Also on Thursday, two Fed governors (who get a permanent vote on the FOMC) seconded Powell's dovish talk. New York Fed President John Williams, [speaking](#) later in the day than Powell, said that the argument to ease had strengthened and the central bank wants to

“extend this expansion, and have monetary policy in the right place to do that.” At another event the same day, Fed Governor Lael Brainard [said](#): “Taking into account the downside risks at a time when inflation is on the soft side would argue for softening the expected path of monetary policy according to basic principles of risk management.”

On Friday, Chicago Fed President Charles Evans, a current FOMC voter who has a history of leaning dovish, said that “a couple of rate cuts” could help push the PCE inflation rate above 2.0% by 2021, which would be “a perfectly acceptable, good outcome,” [reported](#) Bloomberg. Echoing Powell, Evans said: “Because inflation expectations seem to me to be anchored a little bit below a level consistent with our 2% objective, and it’s been stubborn like that, I think that tells me that our current setting for policy is a little bit on the restrictive side.”

Movie. “Maiden” (+ + +) ([link](#)) is an outstanding documentary about Tracy Edwards, a 24-year-old cook on a sailing ship who aspired to enter the 1989 Whitbread Round the World sailing competition with the first-ever all-female crew. She had no problem putting together a crew of 10 first-rate female sailors. But getting a boat and financial backing were huge struggles, since sponsors feared that an all-female crew would die at sea and generate bad publicity. She and her crew reconditioned a used boat and received some financial backing from Jordan’s King Hussein. The sheer guts of these remarkable women is awe-inspiring. The movie is a reminder that everyone is capable of great things even if the stupid biases of others stand in their way.

CALENDARS

US. Mon: Empire State Manufacturing Index 2.0, Williams. **Tues:** Retail Sales Total, Ex Gas, Ex Autos & Gas, and Control Group 0.1%/0.1%/0.3%/0.3%, Headline & Manufacturing Industrial Production 0.1%/0.3%, Capacity Utilization 78.1%, Business Inventories 0.4%, Import Prices -0.2%_{m/m}/-2.1%_{y/y}, Housing Market Index 64, Net Treasury International Capital Flows, Powell, Bowman, Kaplan. (DailyFX estimates)

Global. Mon: China GDP 1.5%_{q/q}/6.2%_{y/y}, China Retail Sales 8.5% _{y/y}, China Industrial Production 5.2% _{y/y}, China Fixed Assets Ex Rural (ytd) 5.6% _{y/y}, China Jobless Rate. **Tues:** Eurozone Trade Balance €17.5b, Eurozone ZEW Economic Sentiment Survey, Germany ZEW Survey Current Situation & Expectations 5.0/-22.0, UK Unemployment Rate (3m) 3.8%, UK Employment Change (3m/3m) 45k, UK Average Weekly Earnings Total & Ex Bonus (3m) 3.1%/3.5% _{y/y}, RBA Minutes of July Meeting, Carney. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 0.8% and finish at a new record high. The AC World ex-US fell 0.6% for the week to 12.9% below its record high in January 2018. The US MSCI’s weekly performance ranked eighth among the 49 global stock markets we follow in a week when 19/49 countries rose in US dollar terms. That compares to the prior week’s 12/49 ranking, when the US MSCI rose 1.7% as 33 markets rose. EM Latin America was the best performing region last week with a gain of 1.0%, followed by EAFE (-0.6%). The regions underperforming last week: EM Eastern Europe (-1.4), BRIC (-1.4), EM Asia (-1.3), EMEA (-1.0), and EMU (-0.6). Argentina was the best-performing country

with a gain of 3.3%, followed by New Zealand (3.0), Colombia (2.7), Portugal (2.7), and Brazil (2.0). Of the 19 countries that underperformed the AC World ex-US MSCI last week, Greece fared the worst, falling 6.1%, followed by Turkey (-4.3), Belgium (-3.0), and Denmark (-2.4). The US MSCI's ytd ranking rose one place last week to 7/49, with its 20.5% ytd gain still well ahead of that of the AC World ex-US (11.5). All regions and 40/49 countries are in positive territory ytd. Nearly all the regions are outperforming the AC World ex-US ytd: EM Eastern Europe (19.0), EM Latin America (14.6), EMU (13.0), BRIC (12.2), EMEA (12.2), and EAFE (11.7). EM Asia (7.5) is the sole laggard. The best country performers ytd: Argentina (32.8), Russia (28.1), Colombia (24.2), New Zealand (23.8), and Greece (23.7). The worst-performing countries so far in 2019: Pakistan (-14.9), Sri Lanka (-5.1), Chile (-3.8), Jordan (-2.2), and Turkey (-1.1).

S&P 1500/500/400/600 Performance ([link](#)): The LargeCap index rose for the fifth time in six weeks, while MidCap and SmallCap posted their first decline in six weeks. LargeCap's 0.8% gain outpaced the 0.3% decrease for MidCap and the 0.6% fall for SmallCap. LargeCap ended the week at a new record high, but MidCap weakened to 4.4% below its 8/29 record high. SmallCap remained in a correction at 13.3% below its 8/29 record after narrowly averting a bear market at the end of May. Thirteen of the 33 sectors moved higher last week compared to 27 rising a week earlier. Last week's best performers: Large Energy (2.2), LargeCap Consumer Discretionary (2.1), LargeCap Tech (1.5), LargeCap Industrials (1.2), and LargeCap Communication Services (1.2). SmallCap Materials (-2.6) was the biggest decliner, followed by SmallCap Health Care (-2.0), MidCap Materials (-1.5), LargeCap Health Care (-1.4), and SmallCap Energy (-1.1). 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 20.2% ytd, a few pts ahead of MidCap (17.9) and well ahead of SmallCap (12.7). Thirty-one of the 33 sectors are positive ytd, with the cyclicals leading the top performers: LargeCap Tech (30.9), MidCap Tech (28.2), LargeCap Consumer Discretionary (26.1), LargeCap Communication Services (23.0), and MidCap Industrials (22.9). MidCap Energy (-2.5) is the biggest decliner so far in 2019, followed by these underperformers: SmallCap Energy (-1.7), SmallCap Consumer Staples (4.3), MidCap Consumer Staples (6.2), and LargeCap Health Care (6.8).

S&P 500 Sectors and Industries Performance ([link](#)): Seven of the 11 S&P 500 sectors rose last week as six outperformed the S&P 500's 0.8% rise. That compares to 10 rising a week earlier, when six outperformed the S&P 500's 0.3% decline. Energy was the best-performing sector, with a gain of 2.2%, ahead of Consumer Discretionary (2.1%), Information Technology (1.5), Industrials (1.2), Communication Services (1.2), and Consumer Staples (0.9). Last week's biggest underperformers: Health Care (-1.4), Materials (-0.8), Real Estate (-0.2), Utilities (-0.1), and Financials (0.5). 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 20.2% rise ytd: Information Technology (30.9), Consumer Discretionary (26.1), Communication Services (23.0), Industrials (21.8), and Real Estate (21.1). The ytd laggards: Health Care (6.8), Energy (12.5), Utilities (14.5), Materials (15.6), Consumer Staples (18.0), and Financials (18.7).

Commodities Performance ([link](#)): Last week, the S&P GSCI index jumped 2.9% as 19 of the 24 commodities moved higher. That compares to 10 rising a week earlier when the index fell

0.7. 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's now 13.5% below its October high. Nickel was the strongest performer for the week, as it rose 8.2%, ahead of Lead (5.9%), Kansas Wheat (4.9), GasOil (4.9), and Crude Oil (4.9). Cotton was the biggest decliner, with a drop of 6.2%, followed by Lean Hogs (-5.0), Coffee (-4.0), and Sugar (-0.5). The S&P GSCI commodities index is up 16.1% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Unleaded Gasoline (47.9), Crude Oil (32.8), Nickel (26.5), Brent Crude (23.3), and Corn (21.1). The biggest laggards in 2019: Natural Gas (-17.2), Cotton (-13.2), Live Cattle (-11.2), Kansas Wheat (-4.4), and Feeder Cattle (-2.9).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 0.8% last week as it continued its successful test of its short-term 50-day moving average (50-dma) and its long-term 200-day moving average (200-dma) at the end of May. The index's 50-dma relative to its 200-dma rose for 21st time in 22 weeks to a 15-month high, forming a Golden Cross for a 16th 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 4.3% 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 rising to a 19-week high of 4.3% above its 50-dma from 3.7% 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% above during mid-February, which was its highest since October 2011. The 200-dma rose for a fifth 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 sixth week to a 17-month high of 8.7% above its rising 200-dma from 8.0% 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 for a fourth week and for the first time since early April, unchanged from a week earlier. All 11 were last below in early January. The longer-term picture—i.e., relative to 200-dmas—also shows all 11 sectors trading above currently, the highest count since last September, as Energy moved above its 200-dma for the first time in 40 weeks. Ten sectors are in the Golden Cross club (with 50-dmas higher than 200-dmas), unchanged from a week earlier and matching the highest count since January 2018, when all 11 sectors were in the club. Energy is the sole laggard and has been out for 35 straight weeks. All 11 sectors have rising 50-dmas now, up from eight a week earlier, as these three turned up in the latest week: Energy, Industrials, and Materials. Eight sectors have rising 200-dmas, unchanged from a week earlier. Among the laggards, Energy has had a mostly falling 200-dma for more than eight months, Health Care since mid-April, and Industrials since mid-May. That 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

CPI ([link](#)): June's core CPI rate was a tick above the Fed's target rate of 2.0%, fluctuating in a narrow band between 2.0% and 2.1% the past five months; it peaked at 2.4% last July, which was the fastest pace since September 2008. Here's a ranking of the core goods rates in June, lowest to highest: medical care commodities (-1.5% y/y), apparel (-1.3), new vehicles (0.6), used cars & trucks (1.2), alcoholic beverages (1.5), tobacco & smoking products (4.6); only the last one surpassed the total core rate of 2.1%. Here's the same drill for the core services rates: physicians' services (0.4), hospital services (0.5), motor vehicle insurance (0.7), airfares (1.5), owners' equivalent rent (3.4), motor vehicle maintenance & repair (3.5), and rent of primary residence (3.9). The rate for auto maintenance & repair is on an accelerating trend (though looks topy), while rent of primary residence is beginning to accelerate. Meanwhile, costs for hospital services and motor vehicle insurance are on sharp decelerating trends. Core prices in June rose 0.3%—the biggest monthly gain since January 2018—after gains of 0.1% in each of the prior four months. June's jump pushed the three-month rate up to 2.2% (saar) from 1.6% in May and April—which was the since July 2017. The headline CPI rate eased for the second month, to 1.6% y/y, after accelerating from 1.5% in February (which was the lowest since September 2016) to 2.0% in April; it peaked at 2.9% during June and July 2018.

PPI ([link](#)): The Producer Price Index for final demand ticked up 0.1% for the second month in June, after slowing from a five-month high of 0.6% in March to 0.2% in April, pushing the yearly inflation rate down to a 29-month low of 1.7% y/y. Prices for final demand goods fell 0.4% in June after a 0.2% drop in May, which followed a 1.6% increase during the three months through April; nearly 60% of June's decline can be traced to a 5.0% drop in gasoline prices. Final demand goods prices were flat with a year ago, slowing fairly steadily from last July's recent high of 4.4% y/y. Meanwhile, prices for final demand services accelerated 0.4% in June from 0.3% and 0.1% the prior two months, with over a quarter of June's increase traced to margins for fuels & lubricants retailing—which jumped 12.2%. The yearly rate for final goods services ticked up to 2.5% y/y from 2.4%—hovering around this range during the first half of this year. Meanwhile, there's no inflation in the pipeline: Intermediate goods prices fell 2.1% y/y in June—the steepest yearly decline since August 2016, while crude goods prices plunged 11.0% y/y, a three-year low.

GLOBAL ECONOMIC INDICATORS

Global Leading Indicators ([link](#)): In May, the OECD's composite leading indicators (CLIs)—designed to anticipate turning points in economic activity relative to trend six to nine months ahead—now point to stabilizing growth momentum in the OECD area, as a whole, an upgrade from the assessment of easing growth momentum in prior months. May's OECD's CLI, at 99.0, is the lowest since September 2009. Among the major OECD economies, only Japan (99.3) and Canada (98.8) were upgraded from easing growth momentum to stable growth momentum, while April's assessment of tentative signs of stable growth momentum for the UK (98.7) was confirmed in May. Among other major OECD economies, CLIs show France (99.1) continued to anticipate stable global growth momentum, while those for the US (98.8) and the Eurozone (99.1)—particularly Germany (98.9) and Italy (98.9)—still indicate easing growth

momentum. As for the emerging economies, CLIs continued to anticipate stable growth momentum in India (100.5), in Russia (99.5), and in China's (98.9) industrial sector, and now also in Brazil's (102.3) economy.

Eurozone Industrial Production ([link](#)): Output in the Eurozone expanded in May for the first time in four months, and is within 1.8% of its record high posted at the end of 2017. Industrial production (excluding construction) rebounded 0.9% after contracting 0.7% during the two months ending April; February output was unchanged. May's increase was widespread, with output in consumer nondurable (2.7%), consumer durable (2.3), and capital (1.3) goods all posting impressive gains during the month—with the former at a new record high—while energy output increased 2.3% during the two months through May. Intermediate goods output was little changed after falling 0.9% in April. Meanwhile, yearly comparisons show consumer nondurable goods (3.1% y/y), energy (0.8), and consumer durable goods (0.4) output were above year-ago levels, while intermediate (-2.6) and capital (-0.7) goods production were below. Output increased in all of the top four Eurozone economies in May, while three posted ytd gains: France (2.1% & 3.2% ytd) production posted the most impressive showing—climbing to a new cyclical high. That was followed by production in Spain (0.5 & 3.7), Italy (0.9 & 1.6), and Germany (0.7 & -1.3), with the latter still in the red so far this year, and down 4.3% y/y—the second largest yearly contraction among the Eurozone economies.

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