



MORNING BRIEFING

October 30, 2019

Style Guide

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

(1) What's in style? (2) Fewer headwinds for Go Global. (3) Forward earnings and forward profit margins better in US than abroad. (4) Go Global is very cheap relative to Stay Home. (5) SMidCaps have better forward earnings, but worse margins than LargeCaps. (6) Growth's earnings not growing much faster than Value's. (7) Growth's valuation premium to Value is historically high currently. (8) IMF sounds the alarm on potential financial instability. (9) Postponing zombie apocalypse.

Strategy I: Stay Home vs Go Global. Joe and I have been getting requests to focus more on investment styles. The idea is to monitor the relative performances of the major investment styles and provide some analysis to explain why one style is either outperforming or underperforming its alternative style. Your wish is our command. So let's start with Go Global versus Stay Home.

The bottom line is that Stay Home has outperformed Go Global during most of the current bull market, but it could lag over the next 6-12 months. That's because Go Global is so cheap relative to Stay Home and may have some catching up to do now that there are fewer headwinds.

The problem is that the fundamentals of Stay Home are better than those of Go Global. However, emerging markets might emerge as winners for a while now that the Fed has been easing again this year. And while European fundamentals remain more challenging, it's a positive that the European Central Bank (ECB) launched another massive round of QE at the end of October and has invited fiscal authorities in the region to issue bonds to finance stimulative government spending. Also, Go Global may get a reprieve if Trump continues to de-escalate his trade wars as the presidential election in November 2020 approaches. Additionally, Brexit may be on a path toward a soft rather than a hard version of the UK's divorce from the EU.

Consider the following:

(1) *Relative stock price performance.* Since the beginning of the current bull market through Monday's close, the US MSCI stock price index is up 348%. Over the same period, the All Country World ex-US MSCI is up 113% in dollars and 123% in local currency. As a result, the ratio of the two in dollars has soared from 4.80 to 10.10 over this period ([Fig. 1](#)). This year, the ratio (in dollars) peaked at a record 10.35 on 8/13, falling to 10.10 on Monday ([Fig. 2](#)). By the way, since the presidential election during November 2016, the US index is up 42.0%, while the ACW ex-US is up 16.9% in dollars and 18.9% in local currency.

The folks who construct the MSCI stock price indexes also construct a currency ratio, which is highly correlated with the JP Morgan nominal broad effective exchange rate ([Fig. 3](#)). The former is up 3.0% ytd through Monday to 1.168. We doubt that it will exceed its 2017 peak of 1.191 on 1/3 now that the Fed is back to lowering the federal funds rate and may not resume raising it over the foreseeable future. The currency ratio is down 0.9% from this year's peak on 10/1.

(2) *Relative forward earnings and revenues.* Stay Home has outperformed Go Global during the current bull market mostly because the forward earnings of the former has outpaced that of the latter. The ratio of the two (with the US in dollars and the ACW ex-US in local currency) rose from a low of 3.59 at the beginning of March 2009 to 6.03 during the 10/18 week of this year ([Fig. 4](#)). Over this period, the former is up 166%, while the latter is up 50% ([Fig. 5](#)).

Interestingly, since the start of the bull market, the forward revenues of the US MSCI has outperformed those of most of the rest of the world ([Fig. 6](#)). The forward revenues of the Emerging Markets MSCI has also performed well, but it has had some big swings.

(3) *Relative profit margins.* The spread between the forward profit margin of the US MSCI and that of the rest of the world has been widening since the start of the current bull market ([Fig. 7](#)). Here is the performance derby for the major MSCI profit margins during the 10/17 week: US (12.0), Canada (11.3), India (9.4), UK (8.8), All Country World ex-US (7.8), EMU (7.8), Emerging Markets (6.6), Japan (6.1), and China (4.4). (See our [MSCI Forward Profit Margins](#).)

(4) *Relative valuation.* The major attraction of Go Global over Stay Home is valuation. The forward P/E of the US MSCI during the 10/17 week was 17.3, while the ACW ex-US was 13.4 ([Fig. 8](#)). It's among the biggest divergence between the two since 2001. Here are the forward P/Es of some of the major MSCI indexes: India (17.8), US (17.3), Canada (13.9), EMU (13.7), Japan (13.4), UK (12.3), Emerging Markets (12.0), and China (11.2). (See our [MSCI Forward P/Es](#).)

Strategy II: LargeCaps vs SMidCaps. Yesterday, Joe and I suggested that LargeCaps have been outperforming SMidCaps because the profit margins of the latter are getting squeezed harder by rising labor costs and widespread labor shortages, while the LargeCaps may have more access to state-of-the-art technologies to boost their productivity.

September's [survey](#) of small business owners, conducted by the National Federation of Independent Business, found that "50 percent (88 percent of those hiring or trying to hire) reported few or no 'qualified' applicants for the positions they were trying to fill."

On the other hand, technology is very user friendly and relatively cheap so that any size business should be able to harness it to boost productivity. A 10/22 Reuters [article](#) titled "U.S. companies facing worker shortage race to automate" discussed this but mentioned only large companies, namely Citigroup, UnitedHealth Group, Constellation Brands, and FedEx. The article observed:

"Overall, companies have discussed automation on quarterly earnings calls more than 1,110 times since the beginning of the year, a 15% increase from this time last year and nearly double the mentions by this time in October 2016, according to Refinitiv data. Corporate orders of robotics alone rose 7.2% over the first half of this year compared with 2018, totaling \$869 million in spending, according to the Association for Advancing Automation."

(1) *Relative stock price performance.* Since the start of the current bull market through Monday's close, the S&P 500/400/600 are up 349%, 387%, and 437%. Since Trump was elected president, the S&P 500/400/600 are up 42.9%, 30.5%, and 35.0% ([Fig. 9](#)). It's possible that Trump's policies of deregulation and tax cuts have benefitted larger companies more than smaller ones. However, the SmallCaps significantly outperformed until they were crushed by the selloff during the second half of last year; they've recovered this year, but have lagged behind the LargeCaps. (See our [Stock Prices Since November 8, 2016](#).)

(2) *Relative forward earnings and profit margins.* The SMidcaps have mostly outperformed the LargeCaps during the current bull market until mid-2018 because their forward earnings have outpaced those of the LargeCaps. Since the start of March 2009 through the 10/24 week of this year, S&P 500/400/600 forward earnings are up 169%, 196%, and 238% ([Fig. 10](#)). This year, the forward earnings of the S&P 500 has been making new highs, while those of the SMidCaps are back down to their mid-2018 levels.

As we observed yesterday, the forward profit margin of the S&P 500 has remained relatively stable around 12.0% since it was boosted to this record high by Trump's corporate tax cut at the start of 2018 ([Fig. 11](#)). Not so for the forward profit margins of the SmallCaps and MidCaps: The former is back down to its pre-tax-cut level, and the latter has given back about half of its tax-cut boost.

(3) *Relative valuation.* The SMidCaps has sold mostly at a valuation premium to the LargeCaps since the start of the bull market until the selloff of late 2018 wiped the premium out. On 10/29, the S&P 500/400/600 forward P/E's were relatively close at 17.1, 16.5, and 17.4 ([Fig. 12](#)).

Strategy III: Value vs Growth. As we observed yesterday: "S&P 500 Value has been outperforming S&P 500 Growth since 8/27. That has coincided with the backup in the bond yield and the reversal in the yield-curve spread from slightly negative to slightly positive. Financials, which tend to be classified as Value stocks, do better when the yield curve is ascending rather than inverting. The current mix of interest-rate trends—with short-term rates falling while long-term rates are rising—is especially good for Financials."

Let's take a closer look:

(1) *Relative stock price performance.* The ratio of the S&P 500 Growth to the S&P 500 Value stock price indexes looks very similar to the ratio we use to monitor the Stay Home versus Go Global ([Fig. 13](#)). Since the beginning of the bull market, Growth is up 404%, while Value is up 294%.

(2) *Relative forward earnings.* Much to our surprise, the forward earnings of Growth hasn't exceeded that of Value during the current bull market ([Fig. 14](#)). Since the first week of March 2009 through the 10/17 week, the forward earnings of Growth is up 162%, while Value is up 157%.

(3) *Relative valuation.* So the outperformance of Growth relative to Value is largely attributable to the widening spread between the forward P/E's of the former relative to the latter ([Fig. 15](#) and [Fig. 16](#)). With the exception of the tech bubble of the late 1990s, Growth is selling at a historically high premium relative to Value. Yesterday, on 10/29, the forward P/E of Growth was 21.1, while Value's was at 14.4, or 50% more than Growth's.

Global Credit: Mind the Debt. The International Monetary Fund (IMF) discusses a bleak scenario for global credit in its [October 2019 Global Financial Stability Report](#): "In a material economic slowdown scenario, half as severe as the global financial crisis, corporate debt-at-risk (debt owed by firms that cannot cover their interest expenses with their earnings) could rise to \$19 trillion—or nearly 40 percent of total corporate debt in major economies, and above postcrisis levels."

The report warns that easy monetary policy may fuel a further buildup of systemic vulnerabilities. Another concern is riskier debt. As Melissa and I have discussed in the past, riskier debt is just a small piece of total corporate debt in the US and globally. Nevertheless, we acknowledge that danger may lurk in the less visible corners of the US leveraged lending markets and in China's opaque credit markets.

Let's examine the IMF's doomsday scenario outlined in Chapter 2 of the report:

(1) *Major economies vulnerable*. In the next recession, debt-at-risk and speculative-grade debt could approach or exceed crisis levels in several major economies, concluded the IMF staff. The shock could be amplified if susceptible banks and nonfinancial lending institutions incur losses and restrict credit to the larger economy.

Those major economies include: China, France, Germany, Italy, Japan, Spain, the United Kingdom, and the US. Corporate earnings forecasts in these regions have fallen while the risk appetite for bonds has risen, observed the IMF. Global bond spreads are narrower than they should be relative to the known risks in the global economy and financial markets.

(2) *Risky private business*. M&A activity has surged in the US. Nonbanks have been providing more of the credit to finance M&A, especially to risky firms. "The share of highly leveraged deals has grown and now surpasses precrisis highs," according to the report.

In the US, the nonbank private lending market has reached nearly \$1 trillion. Private lenders that have scooped up risky distressed assets are particularly vulnerable. Earnings add-backs, or positive adjustments to earnings related to expenses that are expected to be eliminated after an M&A or LBO deal are often used to determine purchase valuations. These artificial add-backs have recently risen to record highs, according to the IMF.

(3) *Not a big piece of the pie*. While private and institutional leveraged loans have gained prominence in the US, the two together represent only about 14% of corporate credit in the US, whereas bank loans and corporate bonds compose 76% of the market (see the IMF report's figure 2.9). Included in that 76% are at-risk segments of corporate bonds like BBBs (28%) and high yield (11%).

In the Eurozone and China, bank loans still compose the majority share of the corporate credit markets at 80% and 72%, respectively. In China, "overall corporate debt is very high, and the size of speculative-grade debt is economically significant," mainly because of large state-owned enterprises. As the IMF points out, however, the "potential systemic impact of corporate vulnerabilities is complicated by the implicit government guarantees and the lack of granular data."

In Europe, significant progress has been made in corporate deleveraging since the crisis. However, sales and profits at large firms in the Eurozone have weakened, and the levels of speculative-grade debt and debt-at-risk are already high in several countries.

(4) *Zombie apocalypse*. In the IMF's adverse scenario, a GDP growth shock is applied to all countries "at half the average severity of the global financial crisis growth" and "interest rates paid by firms rise to half the level in the global financial crisis." What would happen based on IMF staff projections?

Corporate bond spreads would widen significantly, firms would face lower profits and difficulty deleveraging quickly, and debt-at-risk would rise (as speculative-grade debt moved into that less stable category). The IMF concluded: "On aggregate, in these eight economies, the debt-at-risk would amount to \$19 trillion, or nearly 40 percent of total corporate debt, in the adverse scenario in 2021."

There's certainly lots to digest and think about in this unsettling report as the S&P 500 climbs to another record high. Apparently, investors expect that before doomsday arrives, even the Fed will lower interest rates close to zero again, allowing all the zombie borrowers to refinance their debts, thus postponing the zombie apocalypse.

CALENDARS

US. Wed: GDP & PCE 1.6%/2.6%, GDP & Core PCE Price Deflators 1.9%/2.2%, ADP Employment Change 115k, MBA Mortgage Applications, DOE Crude Oil Inventories, FOMC Rate Decision 1.63% (1.50%-1.75%), Interest Rate on Excess Reserves 1.55%. **Thurs:** Personal Income 0.3%, Nominal & Real PCE 0.2%/0.2%, Headline & Core PCED 1.4%/1.7% y/y, Jobless Claims 215k, Employment Cost Index 0.7%, Chicago Purchasing Managers Index 48.0, Challenger Jobs Cut, EIA Natural Gas Storage. (DailyFX estimates)

Global. Wed: Eurozone Economic Confidence 101.1, Germany Unemployment Change & Unemployment Rate 2k/5.0%, Germany CPI 0.0%/m/m/1.1%/y/y, France GDP 0.2%/q/q/1.3%/y/y, UK Gfk Consumer Confidence -13, BOC Rate Decision 1.75%, BOJ Rate Decision. **Thurs:** Eurozone GDP 0.1%/q/q/1.1%/y/y, Eurozone Headline & Core CPI Flash Estimates 0.7%/1.0% y/y, Eurozone Unemployment Rate 7.4%, Germany Retail Sales 0.2%/m/m/3.4%/y/y, Italy GDP 0.0%/q/q/0.2%/y/y, Canada GDP 0.2%/m/m/1.4%/y/y, Japan Consumer Confidence 35.2, Japan Housing Starts 878k, Japan Jobless Rate 2.2%, China Caixin M-PMI 51.0. (DailyFX estimates)

STRATEGY INDICATORS

AC World ex-US MSCI ([link](#)): This index has risen 2.8% in dollar terms so far in October, and is up 11.9% ytd. In local-currency terms, the index is up 1.6% in October compared to a 12.7% gain for all of 2019. The US dollar price index is up 14.8% since its December low and has improved to 12.4% below its cyclical high in January 2018. It had been down as much as 23.6%—and in a bear market—in December. The local-currency price index is up 13.3% since its December low to 5.8% below its record high in January 2018. It had been down as much as 18.1% on 12/26. Local-currency forward revenues fell 0.5% m/m to 1.4% below its record high in early May, but is up 15.6% from a five-year low in March 2016. Local-currency forward earnings also fell 0.5% m/m, to 5.6% below its record high in November 2018. Revenues are expected to rise 2.8% in 2019 and 4.2% in 2020 following a gain of 7.2% in 2018, and earnings are expected to rise 0.6% (2019) and 9.8% (2020) after rising 4.7% (2018). The industry analysts' sales forecasts imply short-term 12-month forward revenue growth (STRG) of 3.9%, down 0.1ppt m/m. Their STRG forecast compares to a seven-year high of 6.8% in March 2017 and is up from a cyclical low of 2.3% in March 2016. Their short-term 12-month forward earnings growth (STEG) forecast improved 0.6ppt m/m to 8.1%. That's up from a 10-year low of 6.0% in February and compares to a four-year-high forecast of 14.1% in March 2017. The profit margin implied by analysts' earnings and revenue estimates calls for a drop to 7.5% in 2019, from 7.6% in 2018, and an increase to 7.9% in 2020. The forward profit margin forecast of 7.8% was unchanged m/m, but is down from a nine-year high of 8.3% in October 2018. The Net Earnings Revision Index (NERI) for the AC World ex-US MSCI was negative in October for a 19th straight month following six positive readings. It improved to -7.1% from -7.7% in September, and is up from its 33-month low of -8.4% in January. That compares to a 76-month high of 2.7% in May 2017 and a 51-month low of -11.3% in March 2016. The forward P/E edged up 0.1pt m/m to 13.4, which is up from a five-year low of 11.4 in December 2018. That compares to a six-year high of 15.3 in April 2015 and a cyclical bottom of 12.3 in January 2016. The index's current 13% discount to the World MSCI P/E is up from its record-low 15% discount during early November.

EMU MSCI ([link](#)): The EMU's MSCI price index is up 3.2% in dollar terms so far this month and up 14.9% for 2019 to date. In euro terms, the price index is up 1.5% in October, compared to an 18.4% gain ytd. The US dollar price index is up 18.0% since its December low and has improved to 13.3% below its cyclical high in January 2018. It had been down as much as 26.5% and in a bear market in December. The local-currency price index is up 21.2% since its December low to 3.6% below its cyclical high in January 2018. It had been down as much as 20.5% on 12/27. Euro-based forward revenues fell 0.8% m/m to 1.8% below its five-year high in November 2018. That's still 4.5% above its

six-year low in May 2016 but 6.7% below its record high (in September 2008). Euro-based forward earnings had stalled from 2011 to 2016 before reaching its highest level in 10 years during early November. It was down 0.2% m/m to 3.2% below its 10-year high in November 2018 and 18.3% below its record high (January 2008). Analysts expect revenues to rise 2.3% in 2019 and 3.8% in 2020, above the 2.0% in 2018. They're looking for earnings to rise 0.5% in 2019 and 10.5% in 2020 following a gain of 3.4% in 2019. Forecasted STRG of 3.6% is up 0.1ppt from a month earlier, which compares to a six-year high of 5.0% in April 2017 and a cyclical low of 2.0% in May 2016. Forecasted STEG rose 0.7ppt m/m to 9.0%, which compares to a 78-month high forecast of 21.0% (February 2017) and a seven-year low of 5.7% (April 2016). STEG had been higher than LTEG (currently 9.3%) from July 2016 to May 2017, but is trailing now. The forward profit margin improved 0.1ppt m/m to 7.8%, which compares to a nine-year high of 7.9% in January and a cyclical bottom of 6.2% in May 2013. The implied profit margin is expected to edge down from 7.5% in 2018 to 7.4% in 2019 before improving to 7.9% in 2020. NERI was negative in October for a 13th straight month and in 24 of the past 27 months. However, NERI improved m/m to -6.2% from -7.9%, and is above December's 31-month low of -8.7%. That compares to an 11-year high of 8.1% in May 2017. The P/E improved 0.3pt m/m to a 17-month high of 13.7 and is up from 11.3 in early January, which was then its lowest reading since July 2013. That's down from a cyclical high of 14.9 in January 2018 and compares to a 13-year high of 16.4 in April 2015 and a 30-month low of 12.2 in February 2016. The current valuation represents an 11% discount to the World MSCI's P/E now, up from February's 14% discount, which was then the lowest since August 2016. That compares to a record-low 25% discount during 2011 and is well below the 1% premium during April 2015—the post-euro-inception record high.

Emerging Markets MSCI ([link](#)): The EM MSCI price index has risen 3.5% in US dollar terms so far in October to a gain of just 7.3% ytd. In local-currency terms, EM is up just 7.9% ytd after a 2.3% gain so far this month. The US dollar price index is up 11.6% since its October 2018 low and still near a bear market now at 18.1% below its cyclical high in January 2018. It had been down as much 26.6% last October from its cyclical high. The local-currency price index is up 11.3% since its October low to 12.0% below its cyclical high in January 2018. It had been down as much as 20.9% on 10/29. Local-currency forward revenues improved 0.2% m/m to 4.5% from its record high in early May, and is up 17.6% from a four-year low in June 2016. Local-currency forward earnings rose 0.3% m/m to 9.3% below its record high in October 2018. It's up an impressive 27.3% from its six-year low in April 2016. Revenue growth is expected to slow markedly to 4.8% in 2019 and 7.2% in 2020 from an 11.8% gain in 2018. That's expected to lead to earnings gains of 1.2% in 2019 and 14.1% in 2020, following a 7.5% gain in 2018. Forecasted STRG improved 0.2ppt m/m to 6.8%, which compares to a 34-month low of 5.8% in February and a four-year high of 9.6% in January 2017. STEG surged 1.2ppt m/m to 12.0%; that's up from a 10-year low of 6.6% in late January but remains well below its cyclical peak of 17.5% in March 2017 and is below LTEG (14.2%) again. The implied profit margin drops from 6.5% in 2018 to 6.3% in 2019 before improving to 6.7% in 2020. The forward profit margin remained steady at 6.6%, which is down from a six-year high of 7.4% in April 2018. It's now 3.7ppts below its 10.3% record high in December 2007 and compares to a record low of 6.0% in February 2016. NERI was negative for a 21st month in October, but improved to a 12-month high of -5.9% from -7.0% in September. NERI had been positive for only three months through January 2018 after 80 months of negative readings through October 2017, and compares to an 83-month low of -10.2% in March 2016. Emerging Markets' forward P/E of 12.0 is up from a 56-month low of 10.0 at the end of October 2018 and compares to an eight-year high of 13.1 in January 2018. The index is trading at only a 22% discount to the World MSCI P/E, which is near the best levels since early 2013. That's up from a four-year-low 27% discount in late October and compares to a 10-year-low 30% discount in August 2016.

MSCI World & Region Net Earnings Revisions ([link](#)): Analysts' recent earnings revisions through October suggest more pessimism about US profits, but less worries about the rest of the world outside of EM Latin America. The AC World ex-US MSCI's NERI was negative for a 19th month but improved

to -7.1% from -7.7% in September. That's up from a 33-month low of -8.4% in January. The US's NERI was negative for the 11th time in 12 months, slipping to an eight-month low of -6.7% from -6.2%—well below its corporate-tax-rate-cut-boosted record high of 21.8% in March 2018. Here are October's scores among the regional MSCIs: EM Eastern Europe (-3.4% in October, up from -3.5% in September), EM Asia (-5.8 [12-month high], -7.0), Emerging Markets (-5.9 [12-month high], -7.0 [20-month low]), EMU (-6.2, -7.9), EM Latin America (-6.2, -5.6), Europe ex-UK (-6.4, -7.8), United States (-6.7 [eight-month low], -6.2), Europe (-6.8, -7.1), AC World (-7.0, -7.3), AC World ex-US (-7.1, -7.7), and EAFE (-8.1, -8.4).

MSCI Countries Net Earnings Revisions ([link](#)): NERI was positive for 2/44 MSCI countries in October, unchanged from September and matching the lowest count since March 2016. That compares to 11/44 countries positive in May, which was the highest reading since October. NERI improved m/m in October for 25/44 countries, up from 17/44 in September; that compares to 28/44 improving in May. Among the countries with improving NERI in October, Taiwan was at a 14-month high, followed by 12-month highs for Germany, Korea, and Portugal. Among countries with weaker NERI m/m, Hong Kong was the lowest since April 2009, followed by Indonesia (47-month low), Canada (42), the Czech Republic (37), and Canada (11). The three-month positive NERI streaks for Hungary and Israel are the best among countries. South Africa's NERI has been negative for 65 straight months, followed by the negative streaks of Mexico (36 months), Denmark (27), and Germany (27). The highest NERI readings in October: Israel (5.9%), Hungary (5.6), Taiwan (-0.4), the Philippines (-0.8), Sweden (-1.4), Brazil (-2.4), and Portugal (-2.6). The weakest NERIs occurred this month in Peru (-18.1), Hong Kong (-14.2, 126-month low), Finland (-14.0), Australia (-13.8), and Chile (-12.1).

S&P 500 Q3 Earnings Season Monitor ([link](#)): With nearly half of the S&P 500 companies finished reporting revenues and earnings for Q3-2019, revenues and earnings are beating the consensus forecasts by 1.1% and 4.7%, respectively. At the same point during the previous earnings season for Q2, revenues and earnings had beaten forecasts by 1.1% and 6.3%, respectively. A tad higher percentage of companies have recorded a positive earnings surprise in Q3 than Q2—77% versus 76%. However, a slightly lower percentage of companies showed a positive revenue surprise—61% versus 62%. The 235 companies in the S&P 500 that have reported through mid-day Tuesday collectively have recorded a y/y earnings gain of 1.3%, dragged down by Micron Technology's earnings deceleration. On the revenue side, results are 3.4% higher than a year earlier. Ex-Micron, y/y earnings growth for the S&P 500 jumps 1.7ppts to 3.0% and revenue growth improves 0.2ppt to 3.6%. Overall, Q3 earnings growth results are positive y/y for 69% of companies versus a similar 69% at the same point in Q2, and revenues have risen y/y for 72% compared to a lower 71% in Q2. These figures will continue to change markedly as more Q3-2019 results are reported in the coming weeks, but the near-midpoint results indicate that y/y earnings growth could be positive after all. However, y/y earnings growth may trail revenue growth for a third straight quarter. Regardless, what companies say about their expectations for Q4-2019 and their early peek at 2020 prospects will be investors' main focus.

US ECONOMIC INDICATORS

Consumer Confidence ([link](#)): "Expectations weakened slightly as consumers expressed some concerns about business conditions and job prospects," said Lynn Franco, director of economic indicators at The Conference Board. "However, confidence levels remain high and there are no indications that consumers will curtail their holiday spending." Consumer confidence fell for the third month, from 135.8 in July to 125.9 this month—fluctuating in a volatile flat range from 121.7 to 136.4 since reaching a cyclical high last October. The present situation (to 172.3 from 170.6) component recovered 1.7 points this month to within striking distance of August's cyclical high of 176.0. Meanwhile, the expectations component fell for the third month, from 112.4 in July to 94.9 this month, though remained in its very volatile flat trend. Consumers' appraisal of business conditions improved this

month, with the percentage of respondents saying business conditions are good (to 39.2% from 37.4%) up—at a very high level—and the percentage saying conditions are bad (11.2 from 12.2) down and at a relatively low level. The percentage expecting conditions to be better (18.6 from 20.0) six months from now wasn't much different than that expecting conditions to worsen (11.6 from 13.3); 70% expected conditions to stay the same. The consumers' assessment of the current job market was mixed: Both the percentages saying jobs are plentiful (to 46.9 from 44.5) and are hard to get (11.8 from 11.0) moved higher. The job outlook deteriorated, with the percentage of respondents expecting fewer jobs (17.8 from 15.4) higher than those expecting more jobs (16.9 from 17.6) for the first time since the start of the year and only the second time in three years.

Pending Home Sales ([link](#)): Historically low mortgage rates played a significant role in the two straight months of gains in pending home sales, according to Lawrence Yun, chief economist at the National Association of Realtors®. “Even though home prices are rising faster than income, national buying power has increased by 6% because of better interest rates,” he said. “Furthermore, we’ve seen increased foot traffic as more buyers are evidently eager[ly] searching to become homeowners.” The Pending Home Sales Index (PHSI)—measuring sales contracts for existing-home purchases—climbed 1.5% in September to 108.7—with sales up 3.9% y/y, the strongest since December 2015. Yun noted that the numbers would be larger if more housing were available. Regionally, the sales picture was mixed, with sales in the Midwest and South—the two largest housing markets—showing a gain in September, while the Northeast and West saw a loss, though all four regions were up y/y. Here’s the tally: Midwest (3.1% m/m & 2.7% y/y), South (2.6 & 5.7), Northeast (-0.4 & 1.3), and West (-1.3 & 3.4).

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