MORNING BRIEFING
January 6, 2020

Nothing To Fear But Nothing To Fear (and Iran)

See the collection of the individual charts linked below.

(1) Iran again. (2) Executive action in Baghdad. (3) The ’20s vs the ’70s. (4) Is there more upside left in stocks following the Roaring ’10s? (5) The wall of worry. (6) Less to worry about? (7) Will Iran be Panic Attack #66? (8) The meltup could be on hold depending on geopolitical developments in the Middle East. (9) The valuation question. (10) The earnings question. (11) The global growth question. (12) Global manufacturing remained depressed according to December’s M-PMIs. (13) Movie review: “Richard Jewell” (++).

Geopolitics: Between Iraq and a Hard Place. So what’s next in the Middle East, where chaos is the norm more often than in most other places on Earth? Iran’s Mullahs may have no choice but to retaliate against the US and its allies for the killing of their top general, Qassem Soleimani. Then the US will have no choice but to raise the ante.

Iran’s Senior Revolutionary Guard Gen. Gholamali Abuhamzeh bragged that his forces have identified 35 US targets for retaliatory strikes, including warships in the Persian Gulf, oil tankers in the Strait of Hormuz, military bases and embassies, as well as Tel Aviv. President Trump responded by threatening to obliterate 52 targets in Iran if any Americans or American interests are harmed by Iran.

Of all the options open to Iran’s fanatical regime, instigating even more widespread chaos in the region may be the most compelling one. They’ve been cornered by the US administration’s sanctions that have crippled their economy. They’ve been facing mounting protests at home against their expensive meddling in the affairs of other countries in the region, where protests against Iran have been occurring more often.

The most extreme military reaction by Iran would be to attack oil tankers passing through the Strait of Hormuz and once again to launch a major drone attack on Saudi oil facilities. At the same time, Iran might instruct its proxies in the region to engage American forces throughout the Middle East. In the most extreme scenario, Hezbollah and Hamas would fire thousands of missiles at Israel in support of Iran’s maximum chaos campaign.

In this extreme scenario, within a few hours of Iran’s attacks, the US and its allies (especially Israel and Saudi Arabia) would probably level most of Iran’s oil infrastructure, nuclear facilities, missile installations, airfields, and other military installations. Presumably, that could be accomplished mostly with cruise missiles.

The Mullahs may be fanatics, but that doesn't mean they are crazy. Instead of a suicidal attack, they might opt for a tit-for-tat strategy. After all, they have more experience as terrorists than as conventional combatants. A cyberattack on US interests would be the lowest level of escalation. Limited attacks by their proxies might also be initiated. However, they are now facing a US president who seems willing to respond disproportionately to any further instigation. In other words, they may be between a rock and a hard place.

In any event, it is unlikely that oil prices will soar to levels that will cause yet another global recession, as has happened in the past when chaos spread in the Middle East. If Middle Eastern oil supplies are disrupted, ample strategic petroleum reserves are available to mute any oil price shock. Higher oil prices would also stimulate even more oil production by US frackers.

Strategy I: The Roaring '20s or the Miserable '70s? Well, that was certainly an interesting way to start a new year and a new decade. The S&P 500 stock price index jumped 0.8% on Thursday (1/2) to a new record high of 3257.85 (*Fig. 1*). But then, the index fell 0.7% on Friday (1/3). Thursday's action might have been an early sign that the 2020s will be this century's fearless Roaring '20s. On the other hand, Friday's selloff was a reminder that the current bull market is still prone to panic attacks—the latest one being a potential escalation of the military confrontation between US and Iran, at the same time as the trade war between the US and China seems to be deescalating.

In our 12/18/19 *Morning Briefing* titled "2020 Vision," Debbie and I anticipated that Iran could be a risk to our upbeat forecast for this year: "Our outlook assumes that geopolitical tensions abate next year from this year's concerns about US trade relations with the rest of the world, the upheaval in Hong Kong, and Brexit. Then again, they could all get worse in the coming year. Furthermore, the Middle East is always primed for yet another crisis. Iran is particularly hard-pressed by US sanctions and could instigate a war with either Saudi Arabia or Israel, or both."

The US killed General Soleimani on Friday in retaliation for his attacks on US soldiers and allies in the Middle East. Now it is widely expected that Iran will retaliate against the US in a tit-for-tat escalation. That could cause oil prices to soar, pushing the global economy into a recession, which would cause a bear market in stocks. This scenario would be reminiscent of the Miserable '70s, when two oil price shocks depressed the global economy.

Nevertheless, our outlook remains optimistic and bullish. Geopolitical crises tend to create buying opportunities in the stock market as long as they don't trigger a recession. We don't believe that Iran will disrupt oil supplies significantly now that the US has demonstrated a willingness to use lethal force to deter Iran's mischief-making in the Middle East.

So the Roaring '20s remains a viable scenario. The problem is that that decade was followed by the Great Depression of the 1930s; if history repeats that pattern, we can party for another 10 years. Then again, it's hard to imagine another decade ahead that is as bullish as the previous Roaring ’10s. The S&P 500 is now up 378% since the start of the bull market in March 2009 (*Fig. 2*). This is currently the second best bull market since the late 1920s. In first place still is the bull market of the 1990s, with a gain of 582% in the S&P 500. (See *S&P 500 Bull Markets Since 1928*.) By the way, the available monthly average data show that the S&P 500 rose 340% during the Roaring ‘20s (*Fig. 3*).

Another problem is that bull markets do best when climbing a wall of worry. Last year started with lots of worries that monetary policy was too tight and that Trump’s trade wars were escalating. What a difference a year makes. Nobody is worrying about those issues now that the Fed lowered the federal funds rate three times last year and now that Trump is about to sign a Phase 1 trade deal with China. Late last year, Fed Chairman Jerome Powell promised that there will be no hikes in the federal funds rate unless and until inflation makes a significant comeback. Trump has indicated that he is ready to negotiate a Phase 2 deal with the Chinese. Meanwhile, the People's Bank of China started the new year by lowering banks’ required reserve ratios to the lowest levels since 2007 (*Fig. 4*).

Joe and I have kept a diary of the current bull market’s panic attacks. We count 65 of them. There certainly has been plenty to worry about. Number 65 occurred last year in mid-August when investors feared that the inverted yield curve was signaling an imminent recession (*Fig. 5*). The second and third rate cuts by the Fed, along with rising bond yields during the fall of last year, put an upward slope on the yield curve and removed its inversion during the summer as a reason to worry. (See *US Stock Market Panic Attacks, 2009-2019*.)

Now, on Thursday, we started the new year and the new decade with nothing to fear but nothing to fear—except, of course, Iran. That could be a problem because the lack of fear seems to be fueling a meltup in valuation multiples. That would be alright with us if the outlook suggested a big jump in earnings this year, which isn’t obvious to us. Then again, Friday might have marked the beginning of Panic Attack #66.

You might recall that Joe and I predicted that the S&P 500 would get to 3100 by the end of 2018 and 3500 by the end of 2019. We got close, with a record high during 2018 of 2930.75 on 9/20. But then the market took a 19.8% dive through 12/24/18. So we pushed out our 3100 target to the end of last year and our 3500 target to the end of this year. The first target arrived ahead of our revised schedule, on 11/15 last year. The second target may occur well ahead of schedule since the S&P 500 needs only to increase by 8.2% to get to 3500.

A 9/21/19 CNBC interview with me was titled “Stocks will soar 17% through next year, market bull Ed Yardeni predicts.” That seemed like a stretch back then, which wasn’t that long ago. Since then, the S&P 500 is up 8.1%. A follow-up 11/3/19 CNBC interview with me was titled “A ‘market melt-up’ is becoming a real risk as stocks hit new highs, Wall Street bull Ed Yardeni warns.” If rising tensions between the US and Iran trigger yet another panic attack, then we won’t have to fear an unsustainable meltup scenario. The question is whether we will have to fear a meltdown. We don’t think so. We are sticking with our 3500 target for the end of this year, for now.

Strategy II: Is the Meltup Scenario on Hold? The S&P 500 forward P/E rose to 18.4 on Thursday (*Fig. 6*). The peak for the current bull market so far was 18.6 on 1/23/18. There has certainly been a meltup in the P/E since it bottomed most recently at 13.5 on 12/24/18. So it is up 37.8% since then, while the S&P 500 stock price index is up 37.6%. The S&P 500 forward earnings is basically flat over the same period, as clearly demonstrated by our Blue Angels analysis (*Fig. 7*).

Last year, we projected that the S&P 500 forward P/E would be back a bit over 18.0 by the end of 2020. So that forecast is ahead of schedule too. We don't have a problem with that given our outlook that both inflation and interest rates will remain low this year. Previously, we noted that the Misery Index, which is the sum of the unemployment rate and the inflation rate, is at historical lows, justifying historically high valuations (*Fig. 8*).

However, we wouldn't like to see a continuation of the P/E meltup. Our weekly proxy for the so-called Buffett Ratio (i.e., the ratio of US equity market capitalization excluding foreign issues divided by nominal GDP) is the S&P 500 price-to-sales ratio (P/S), using forward revenues for sales. This weekly measure of valuation rose to a record high of 2.19 during the 12/19 week (*Fig. 9*). We are concerned by the widening divergence between the forward P/S ratio and the forward P/E (*Fig. 10*). The former is flashing red, while the latter is flashing yellow.

Then again, if Iran builds the new wall of worry for the stock market in 2020, perhaps that will cause the P/E-led rally to stall, buying time for earnings to grow.

Strategy III: Yearning for Earnings. We would feel much better about the stock market's prospects if the P/E meltup stopped long enough to let earnings catch up. The problem is that the uptrend in S&P 500 forward earnings, which was visible during the spring and summer of last year, has stalled since last fall. There is even a hint of forward revenues stalling during the last few weeks of 2019 (*Fig. 11*).

That series has been one of the most reliable barometers of the performance of the global economy that we use. We wouldn't like to see it stall this year, and we don't expect that it will do so. Instead, we think it will resume its uptrend consistent with S&P 500 revenues growth of 4%-5%. That's the growth rate range that we also expect for S&P 500 earnings per share this year, assuming, as we do, that the S&P 500 profit margin will remain around its record high of 12.0% (*Fig. 12*).

Strategy IV: Will the Global Economy Deliver Earnings Growth? The old year ended and the new year started with a rebound in the CRB raw industrials spot price index (*Fig. 13*). This index does not include crude oil or any petroleum products. So it is an encouraging sign for global growth. That's good for corporate earnings. So is the increase in the price of a barrel of Brent crude oil since last summer, including Friday's spike on renewed tensions in the Middle East (*Fig. 14*). As long as both the CRB and oil prices are rising, that's a good signal for global growth. However, we wouldn't like to see a continued spike in oil prices that hurts the global economy and pushes other commodity prices back down.

Now let's review the latest batch of global economic indicators:

(1) *Global M-PMIs.* As Debbie discusses below, December's batch of global M-PMIs was mostly weak (*Fig. 15*). The global M-PMI edged down from 50.3 during November to 50.1 during December, led by a drop in the developed markets M-PMI from 49.5 to 49.1, while the emerging markets M-PMI was relatively stable at 51.0 last month. The major developed markets' M-PMIs remained weak below 50.0 during December: Eurozone (46.3), Japan (48.8), UK (47.5), and US (47.2).

Some of the surprising weakness in the US M-PMI was attributable to the production cutback at Boeing, but that should have been offset by the rebound in auto production following the strike at GM. That's not a good harbinger for the growth rate in S&P 500 revenues, which is highly correlated with the US M-PMI (*Fig. 16*). On the other hand, the S&P 500 stock price index, on a y/y percentage change basis, is up 23.7% through December, perhaps foreshadowing a rebound in the M-PMI (*Fig. 17*).

(2) *US construction spending.* In the US, construction spending has rebounded in recent months back to the record highs of early 2018, led by public construction outlays as well as residential construction, including home improvements. On the other hand, nonresidential construction spending weakened during most of last year (*Fig. 18*).

(3) *US consumer optimism*. In the US, the Consumer Sentiment Index rebounded late last year, while the Consumer Confidence Index stalled. The average of the two has stalled at its cyclical high over the past year (*Fig. 19*). At 47.0% during December, the percentage of consumers reporting that jobs are plentiful also remained at the series' cyclical high. American consumers continue to have the will and the means to spend.

Movie. "Richard Jewell" (+ +) (*link*) is a compelling movie based on a true story about Richard Jewell, a security guard who saved lots of lives during the 1996 Summer Olympics in Atlanta when he detected a bomb planted in an abandoned backpack. Initially, he was celebrated as a hero by the press. However, the FBI agents on the case concluded that he fit the profile of a white, male, lone bomber seeking fame. Their investigation was leaked to the press, which had a field day denouncing him as a villain rather than a hero. The movie, directed by Clint Eastwood, concluded that Jewell was set up by the two most powerful organizations in America, i.e., the government and the media. It's a cautionary tale, for sure, and highly relevant to the ongoing shenanigans of both organizations today.

CALENDARS

US: Mon: IHS Markit NM-PMI 52.2. **Tues:** Merchandise Trade Balance -$43.9b, Factory Orders -0.7%, ISM NM-PMI 54.5. (DailyFX estimates)

Global: Mon: Eurozone, Germany, France, and Italy C-PMIs 50.6/49.5/52.0/49.7, Eurozone, Germany, France, and Italy NM-PMIs 52.4/52.0/52.4/50.9, Eurozone Sentix Investor Confidence 2.6, Germany Retail Sales 1.0%m/m/1.0%y/y, UK C-PMI & NM-PMI 48.5/49.1.

Tues: Eurozone Headline & Core CPI Flash Estimates 1.3%/1.3% y/y, Eurozone Retail Sales 0.6%m/m/1.5%y/y. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): Last week saw the US MSCI index edge down 0.1% w/w and rank 26th of the 49 global stock markets we follow in a week when 25/49 countries rose in US dollar terms. That compares to a 0.1% gain for the AC World ex-US index. EM Latin America and EM Eastern Europe were the best performers with gains of 1.3%, ahead of BRIC (1.1%), EMEA (0.7), and EM Asia (0.4). EMU (-0.2) was the only region to post a decline as EAFE was unchanged. Chile was the best-performing country, rising 3.0%, followed by Pakistan (2.5), Colombia (2.0), Hong Kong (2.0), and China (1.5). Of the 24 countries that underperformed the AC World ex-US MSCI last week, Argentina fared the worst, falling 2.7%, followed by Denmark (-2.2) and Korea (-2.0). During 2019, the US MSCI ranked an impressive 8/49 for the year, with its 29.1% gain well ahead of the AC World ex-US (18.1). All regions and 27/49 countries posted double-digit percentage gains for the year. Among regions, those that outperformed the AC World ex-US are: EM Eastern Europe (27.1), EMU (20.2), BRIC (19.8), and EAFE (18.4). The laggards: EM Latin America (13.7), EMEA (13.9), and EM Asia (16.6). The best country performers for 2019: Russia (41.5), Greece (39.8), Egypt (38.9), Ireland (35.1), and New Zealand (34.7). The worst-performing countries: Argentina (-22.6), Chile (-18.6), Poland (-8.2), Malaysia (-5.2), Jordan (-4.7), and the Czech Republic (-0.1).

S&P 1500/500/400/600 Performance (*link*): Two of these three market-cap indexes fell last week, but LargeCap and MidCap remain near their record highs. SmallCap rose 0.2% last week, ahead of the slight declines for LargeCap (-0.2%) and MidCap (-0.3). LargeCap ended the week 0.7% below its record high on Thursday, while MidCap and SmallCap are 0.6% and 7.0% below their 12/26/19 and 8/29/18 records, respectively. Thirteen of the 33 sectors moved higher, down from 18/33 sectors rising a week earlier. Energy and Industrials dominated the biggest gainers in the latest week: SmallCap Energy (4.1), LargeCap Industrials (1.1), MidCap Energy (1.1), LargeCap Energy (0.8), and SmallCap Industrials (0.7). LargeCap Materials (-2.5) was the biggest decliner last week, followed by MidCap Materials (-1.7), LargeCap Consumer Staples (-1.4), and MidCap Health Care (-1.3). In terms of 2019's performance, all three indexes ended the year with healthy double-digit gains; LargeCap was up by 28.9%, followed by MidCap's 24.1% rise and SmallCap's 20.9% gain. Thirty-one of the 33 sectors were positive in 2019, up from just six during 2018, which was the lowest count since 2008 when all sectors fell. Tech dominated the best-performing sectors in 2019: LargeCap Tech (48.0), MidCap Tech (42.1), and SmallCap Tech (39.0). Energy again dominated the worst performers in 2019: SmallCap Energy (-15.2), MidCap Energy (-14.2), SmallCap Communication Services (2.9), and LargeCap Energy (7.6).

S&P 500 Sectors and Industries Performance (*link*): Three of the 11 sectors rose last week, and six outperformed the S&P 500's 0.2% decline. Industrials was the best-performing sector with a gain of 1.1%, ahead of Energy (0.8%), Tech (0.4), Real Estate (0.0), Communication Services (-0.1), and Consumer Discretionary (-0.1). Materials was the biggest underperformer with a drop of 2.5%, followed by the also-underperforming Consumer Staples (-1.4), Health

Care (-1.0), Utilities (-0.8), and Financials (-0.3). During 2019, the S&P 500 soared 28.9% for its best gain since 2013 as all 11 sectors rose for the first time since 2010. However, just three sectors outperformed the S&P 500 in 2019: Tech (48.0), Communication Services (30.9), and Financials (29.2). The eight underperformers, albeit with gains: Energy (7.6), Health Care (18.7), Materials (21.9), Utilities (22.2), Consumer Staples (24.0), Real Estate (24.9), Consumer Discretionary (26.2), and Industrials (26.8).

Commodities Performance (*link*): Last week, the S&P GSCI index rose 0.7% and recorded its fifth straight weekly gain. However, the index is still in a correction with a drop of 11.8% from its cyclical high on 10/3/18. Brent Crude was the best performer last week with a gain of 2.6%, followed by Gold (2.3%), Crude Oil (2.2), Silver (1.2), and Cocoa (0.9). Coffee was the biggest decliner with a drop of 4.6%, followed by Natural Gas (-4.5), Nickel (-3.3), and Lean Hogs (-2.9). The S&P GSCI commodities index ended 2019 with a gain of 16.5% after falling 15.4% a year earlier. The top-performing commodities in 2019: Crude Oil (34.5), Nickel (31.4), Unleaded Gasoline (29.8), Coffee (27.3), and Brent Crude (22.7). The biggest laggards in 2019: Natural Gas (-25.5), Zinc (-8.0), Lead (-4.8), Cotton (-4.4), and Aluminum (-1.9).

S&P 500 Technical Indicators (*link*): The S&P 500 price index fell 0.2% last week, and weakened 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 rose for an 11th week following nine straight declines. Its 50-dma is now at a 21-month high of 5.4% above its 200-dma and has formed a Golden Cross for 41 weeks after 16 weeks in a Death Cross formation. The S&P 500's 50-dma rose for a 13th week following three down weeks, as the price index fell to 3.0% above its rising 50-dma from 3.9% a week earlier, and is down from a 23-week high of 4.1% above its rising 50-dma in mid-December. It had bottomed recently in late August at 3.5% below its 50-dma, which was down from 6.6% above during mid-February, which was its highest since October 2011. The 200-dma rose for a 30th week. 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 31st week, but dropped to 8.6% above its rising 200-dma from a 23-month high of 9.1% above its rising 200-dma a week earlier, which was still well below its seven-year high of 13.5% above its rising 200-dma during January 2018. That compares to 14.5% below on 12/24/18, which was the lowest since April 2009.

S&P 500 Sectors Technical Indicators (*link*): Ten of the 11 S&P 500 sectors traded above their 50-dmas last week, down from all 11 a week earlier as Materials fell below for the first time since early October. Energy was above its 50-dma for a fifth week in another effort to break out of its long downtrend. The longer-term picture—i.e., relative to 200-dmas—had all 11 sectors trading above for a second straight week. That's up from just six at the end of August, which was the lowest count since early June. Energy was above for just a third time since October 2018. Ten sectors are in the Golden Cross club (with 50-dmas higher than 200-dmas), unchanged from a week earlier. That compares to just two sectors in the club during February and all 11 in January 2018. Energy has not been in a Golden Cross for 60 straight weeks. Nine sectors have rising 50-dmas now, down from 10 a week earlier and down from all 11 in early November. Still, that's up from just three in early October. Utilities' 50-dma turned down again w/w and has been stalling since early November. Real Estate's 50-dma was down for a ninth week and for the first time since January. Ten sectors have rising 200-dmas, unchanged from a week ago. The sole laggard, Energy, has been mostly falling since October 2018. Materials and Financials moved higher for a 19th week in their successful attempts at new uptrends for the first time since September 2018. 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.

Stock Market Sentiment Indicators (*link*): The Bull/Bear Ratio (BBR) was little changed at 3.31 during the final week of 2019—its ninth straight reading above 3.00. (Note: No data were reported during the week ending 12/24.) Over the last two reporting weeks of 2019, bullish sentiment jumped 5.6ppts (to 58.9% from 53.3%) to its highest reading since the end of summer 2018, while the correction count fell 6.2ppts (23.3 from 29.5). Bearish sentiment, which fluctuated in a narrow band most of 2019, rose 0.6ppts over the latest two-week period—to 17.8% from 17.2%. The AAII Ratio fell for the second week last week, from 68.3% to 63.0%, with bullish sentiment sliding from 44.1% to 37.2% over the period and bearish sentiment rising from 20.5% to 21.9%.

US ECONOMIC INDICATORS

Consumer Confidence (*link*): Confidence in December fell for the fourth time in five months, from 135.8 in July to 126.5 in December, averaging 125.4 the last four months of 2019. It has fluctuated in a volatile flat range from 121.7 to 136.4 since reaching a cyclical high last October. The present situation (to 170.0 from 166.6) component improved for the second time in three months, while the expectations (97.4 from 100.3) component fell for the second time in three months—with the former in a volatile flat trend around August's cyclical high. Lynn Franco, senior director of economic indicators at The Conference Board, noted: "While the economy hasn't shown signs of further weakening, there is little to suggest that growth, and in particular consumer spending, will gain momentum in early 2020." Meanwhile, consumers' appraisal of business conditions improved last month, with the percentage of respondents saying business conditions are good (38.7% from 38.8%) almost identical to November's reading and the percentage claiming times are bad (11.1 from 13.6) falling. The percentage of those expecting conditions to be better (18.9 from 18.6) six months from now was roughly double those expecting conditions to worsen (9.3 from 11.4)—though the wide majority (71.8%) expected conditions to stay the same. The consumers' assessment of the current job market was mixed, with the percentage saying jobs are plentiful (to 47.0% from 44.0%) and those saying jobs are hard to get (13.1 from 12.4) both moving higher. As for the job outlook, the percentage of respondents expecting more jobs (15.3 from 16.5) once again outpaced those expecting fewer jobs (14.9 from 13.4), though the spread has narrowed to near zero, down from its recent peak of 8.8ppts five months ago. Still, 69.8% of respondents expect conditions to remain the same.

Construction Spending (*link*): Construction expenditures in November rose for the fifth straight month, as revisions reversed declines posted in October and September. Overall investment rose 0.6%, following revised gains of 0.1% (from -0.8%) in October and 0.7% (-0.3) in September, closing in on new record highs. Spending was up 2.7% over the five months through November, driven by a surge in residential investment spending. Here's a look at private residential investment in November and during the five months through November, respectively: Home improvement (3.4% & 13.8%) and single-family (1.2 & 6.2) construction spending accounted for the recent upswing in private construction spending; multi-family investment was flat for November and down 6.0% over the five-month period. Meanwhile, private nonresidential investment has posted only one gain in the past eight months, contracting 4.5% over the period. Public construction spending has been expanding again, climbing 0.9% in November and 3.8% the past five months, to within a fraction of a new record high.

Pending Home Sales (*link*): "Despite the insufficient level of inventory, pending home contracts still increased in November," said Lawrence Yun, NAR's chief economist, noting that housing inventory has been in decline for six straight months dating back to June 2019. "The favorable conditions are expected throughout 2020 as well, but supply is not yet meeting the healthy demand." The Pending Home Sales Index (PHSI)—measuring sales contracts for existing-home purchases—climbed 1.2% in November to 108.5, with contract signings 7.4% above a year ago. Regionally, monthly movements were mixed, though all four regions showed year-over-year gains, led by the West—here's a tally: West (5.5% m/m & 14.0% y/y), South (-0.2 & 7.7), Midwest (1.0 & 5.0), and the Northeast (-0.1 & 2.6).

GLOBAL ECONOMIC INDICATORS

Global Manufacturing PMIs (*link*): Global manufacturing activity in December held around the break-even point of 50.0, moving above in November for the first time since April, as weak international trade flows continued to weigh on overall performance. JP Morgan's M-PMI (to 50.1 from 50.3) was little changed, as the emerging nations' M-PMI remained at 51.0 in December, up from its recent low of 49.9 in June, while the M-PMI (to 49.1 from 49.5) for developed nations contracted for the eighth straight month. Fourteen of the nations for which December PMI data are available registered expansions, with the strongest growth occurring in Greece (53.9), India (52.7), the US (52.4), Colombia (52.4), Myanmar (52.0), the Philippines (51.7), and China (51.5). The Eurozone's M-PMI (46.3) shows the area contracted for the 11th consecutive month as manufacturing activity in Germany (43.7), Austria 46.0) and Italy (46.2) were among the bottom four, with the Czech Republic (43.6) at the bottom spot.

US Manufacturing PMIs (*link*): Manufacturing activity in December contracted at its fastest pace since June 2009, according to the ISM survey—though ISM noted last month's reading is consistent with roughly a 1.3% annualized increase in real GDP, based on the past relationship of the two measures. Meanwhile, IHS Markit's measure pointed to a further recovery in activity, with its index holding around November's seven-month high. ISM's M-PMI (to 47.2 from 48.1) shows manufacturing activity contracted for the fifth month, posting its weakest performance in more than a decade, as both new orders (46.8 from 47.2) and production (43.2 from 49.1) sank to their lowest readings since 2009. The remaining three components of December's M-PMI indicate employment (45.1 from 46.6) contracted at its fastest pace since January 2016, while supplier deliveries (54.6 from 52.0) continued to become more difficult, recording their strongest levels since February 2019; inventories (46.5 from 45.5) contracted at a slightly slower pace than November. Sub-indexes show both new export orders (47.3 from 47.9) and imports (48.8 from 48.3) continued to contract, though the latter is heading further south of 50.0, while the latter is heading back toward the breakeven point. On the inflation front, the price (51.7 from 46.7) index was above 50.0 for the first time since May. In the meantime, IHS Markit's December M-PMI (52.4 from 52.6) held around recent highs, up from August's low of 50.3. December's survey notes that the manufacturing sector continued to recover from the summer soft patch—ending 2019 with its best quarter since the opening three months of the year. Still, while there was stronger client demand and a rise in new orders, the rate of increase was still well below those seen at the end of 2018.

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