



MORNING BRIEFING

June 24, 2020

Cooped-Up Demand

Check out the accompanying [chart collection](#).

(1) A simple way to get rid of cabin fever. (2) Cash-fueled CUD vs usual old PUD. (3) Gasoline usage continues to recover in US. (4) Jumping jack flash PMIs. (5) Three regional economic rebounds. (6) Commodity prices moving in the right direction. (7) S&P 500 consensus forecasts for 2020 and 2021 revenues and earnings starting to bottom. (8) Why aren't revenues down more? (9) Forward revenues and earnings also bottoming. (10) How broad is bottoming in S&P 500 forward earnings? (11) The worst may be over for downward earnings revisions. (12) What's worse for freedom: lockdowns or masks?

Podcast. Check out our latest video podcast, [S&P 500 Tech in 1999 and Now](#).

Global Economy: The Cure for Cabin Fever. I'm not a virologist or epidemiologist, but I do know that we all have cabin fever, which is best cured by leaving the cabin and trying to get back to some semblance of a normal life.

There are mounting signs that the global economy is recovering quickly from the lockdown recession caused around the world by government leaders hoping to contain the Great Virus Crisis (GVC) by imposing severe stay-in-your-cabins restrictions to enforce social distancing. The lockdowns triggered depression-like freefalls in real GDP around the world with soaring unemployment. The spring economic re-openings are unleashing a tremendous amount of "cooped-up demand" (CUD) to spend money on goods and services and to go back to work.

CUD is being fueled by a tremendous pile of cash/saving/liquidity that accumulated during the lockdowns. People who could continue to earn a paycheck working from home were stymied from spending much more than they could online and at grocery stores. Unemployed workers received government support payments but likewise were limited in their ability to go shopping. The central banks continue to pour liquidity into global financial markets. Fiscal policymakers have joined the stimulus party, resulting in the global implementation of Modern Monetary Theory, or MMT, i.e., massive fiscal deficits financed by massive quantitative easing.

The immediate result of all this liquidity has been to convert a lockdown meltdown in global stock and bond markets into a happy-days-are-coming-back-soon meltup. This is heady head-spinning stuff, for sure. Let's review the latest signs of unleashed CUD:

(1) *On the road again.* Gasoline usage continues to recover in the US. After plunging 43% from the week of March 13 through the week of April 24, gasoline demand has rebounded 43% since then through the week of June 12 ([Fig. 1](#)). It is up from a low of 5.3mbd during the April 24 week to 7.6mbd during mid-June. That's an impressive recovery but has a ways to go to reach a more normal pre-GVC pace of around 9.5mbd. Yet it's certainly on the road to getting there in coming months. Apple's [Mobility Trends Report](#) shows that the change in routing request since January 13 is up 9% in the US. (It is up 28% in Germany and 49% in Italy over the same period.)

Where are Americans going? They are going out to shop to relieve their cabin fever. Retail sales jumped 17.7% during May following a 14.7% drop the month before ([Fig. 2](#)). Excluding nonstore retailers (which includes online vendors), retail sales rose 19.7% during May after falling 19.0% during April.

(2) *Flash PMIs.* Yesterday, IHS Markit reported that its flash estimates for the US M-PMI rebounded from the lockdown low of 36.1 during April to 49.6 this month ([Fig. 3](#)). Even more impressive is the jump in the flash US NM-PMI from a low of 26.7 during April to 46.7 during June. Also impressive are the Eurozone's flash M-PMIs and NM-PMIs: The former rose from 33.4 during April to 46.9 in June, while the latter soared from 12.0 during April to 47.3 this month.

(3) *Three regional business surveys.* As Debbie discusses below, June data are available for three of the five regional business surveys conducted by the Fed's district banks. The general business indexes of all three rebounded smartly from their recent lockdown lows: Philadelphia (-56.6 during April to 27.5), Richmond (-53.0 to 0.0), and New York (-78.2 to -0.2), ([Fig. 4](#)). Their average index rose from -62.6 to 9.1, with the new orders composite up from -66.1 to 7.0 and the employment component up from -41.0 to -4.3.

(4) *Commodity prices.* Professor Copper, the commodity with a PhD in economics, has been confirming the rebound in the M-PMIs around the world. Its price bottomed at \$2.12 per pound on March 23, and is up 25% since then through June 22 ([Fig. 5](#)). The red metal is one of the

13 components of the CRB raw industrials spot price index, and its recent price action suggests that the index has bottomed.

Not surprisingly, the price of copper is also highly correlated with the price of a barrel of Brent crude oil ([Fig. 6](#)). The latter recently bottomed at \$19.33 on April 21. It was up 123% to \$43.08 as of Monday's close.

Strategy: Earnings Bottoming. Back in April, Joe and I expected that industry analysts would be slashing their 2020 and 2021 earnings estimates so rapidly in response to the GVC that both might bottom by mid-year. Late in April, we suggested that the rebound in stock prices that started on March 24 might reflect not only the Fed's QE4Ever program (announced the day before) but also expectations that the worst of the lockdown recession's impact on earnings might be over by mid-year.

We haven't been disappointed. Consider the following:

(1) *S&P 500 revenues.* The analysts' consensus estimate for S&P 500 revenues for this year and next year plunged since the World Health Organization declared a global pandemic on March 11 ([Fig. 7](#)). However, the pace of decline in their estimates has slowed over the past couple of weeks through the June 18 week.

We are surprised that the revenues estimate for this year may be bottoming well above our forecast despite the shutting down of so many businesses in the US and around the world. We've been predicting a 15.2% drop in revenues from \$1,415 per share last year to \$1,200 this year. Instead, the latest data show that industry analysts' estimate for this year may be bottoming just north of \$1,300, which would be an 8.1% drop.

Similarly, we've been forecasting \$1,350 for next year; yet the consensus may be bottoming just north of \$1,400. That has us wondering whether we need to raise our numbers. We have been using the 2008-09 recession as a template for the current downturn. The differences this time are that it has been a lockdown recession, which may be easier to recover from than a more traditional one; fiscal and monetary policies have provided much more stimulus in much less time than ever before, and CUD may be stronger than regular old PUD, or pent-up demand. In addition, companies are able to generate revenues through online sales much more than in the past.

(2) *S&P 500 earnings*. We are less surprised by the weakness in S&P 500 consensus earnings expectations for 2020, since they've been rapidly approaching our target for this year and also are starting to bottom. We are using \$120 for this year. During the week of June 18, the consensus was flat for the second week in a row at \$125 ([Fig. 8](#)). We are using \$150 for next year. The latest consensus estimate for 2021 is \$164, which is about unchanged from the 2019 level.

(3) *S&P 500 forward revenues & earnings*. Forward revenues, forward earnings, and forward profit margins all are time-weighted-averages of consensus estimates of these variables for the current year and the coming one. So not surprisingly, all three are showing signs of bottoming over the past few weeks ([Fig. 9](#)). That's good news, since all three tend to be good coincident and/or leading indicators of their actual underlying quarterly series.

(4) *S&P 500 sectors*. With the S&P 500's consensus forward-looking measures turning up in recent weeks, which sectors bear watching? As with any recovery, there are leaders and laggards and those that continue to fall. Joe recently added a few more tables to our [COVID-19 Performance Derby](#) publication showing the changes in forward revenues and earnings for the S&P 500's sectors and industries since they bottomed on May 28.

Here's what Joe found: S&P 500 forward revenues has risen 0.7% since May 28, and forward earnings has gained 1.9%. On a sector basis, only Real Estate hasn't yet appeared to bottom and begin recovering; it's still recording new lows in its forward earnings. Here's how the sectors rank by their forward revenues change since May 28, along with their forward earnings change: Consumer Discretionary (revenues up 1.9%, forward earnings up 2.9%), Energy (1.8, 57.8), Industrials (0.9, 4.2), Communication Services (0.7, 1.0), S&P 500 (0.7, 1.9), Materials (0.6, 2.2), Information Technology (0.5, 1.1), Financials (0.5, 2.7), Health Care (0.2, 1.2), Consumer Staples (0.2, 0.8), Utilities (0.0, 0.4), and Real Estate (0.0, -1.8) ([Fig. 10](#) and [Fig. 11](#)).

(5) *Net earnings revisions*. Joe also noted that the S&P 500's NERI (net earnings revisions index, which is a three-month moving average of the number of forward earnings estimates up less the number of estimates down, expressed as a percentage of the total number of forward earnings estimates) probably bottomed too during May. During June, NERI improved to -30.7% from an 11-year low of -37.4% during May ([Fig. 12](#)). That was the first m/m gain since January. Furthermore, NERI improved for all 11 sectors during June. The bad news? They remain negative, with most still near their lowest levels since the Great Financial Crisis.

Recall that after the lockdowns began in mid-March, the analysts started cutting their estimates amid a withdrawn-guidance environment. They may have overdone it, as we did with our revenues estimate. At the time, China and Italy were still in lockdowns, and no one had any model for how long the lockdowns would last.

Epidemiology: Masks vs Freedom. Melissa and I are all for personal freedom. That's why we suggested—first in our March 25 [Morning Briefing](#)—that wearing masks in public would be a much better alternative to lockdowns to stop the viral pandemic: “We need an alternative to social distancing, which has been enforced by government decrees requiring us to stay home. In effect, these 24/7 curfews are akin to martial law. We aren't likely to tolerate this situation for more than a few weeks.”

On April 3, the Centers for Disease Control (CDC) [recommended](#) the use of simple cloth face coverings to prevent transmission of the virus by both symptomatic and asymptomatic persons. Some state governors now require people to wear face coverings in public. But some think that mask-wearing laws infringe on our civil liberties, and compliance isn't widespread (yet?), furthering the spread of the virus. Consider the following:

(1) *Effectiveness*. “Wearing of face masks in public corresponds to the most effective means to prevent interhuman transmission, and this inexpensive practice, in conjunction with simultaneous social distancing, quarantine, and contact tracing, represents the most likely fighting opportunity to stop the COVID-19 pandemic,” wrote a team of researchers in Texas and California. In a June 11 [study](#), the researchers compared COVID-19 infection rate trends in Italy and New York both before and after face masks were made mandatory. “They found infection rates in Italy and NYC only started to slow after face masks were made mandatory, not after the lockdown was put in place in Italy or after stay-at-home orders went into effect in New York,” [reported](#) CNN.

The Mayo Clinic [noted](#) that the CDC recommends cloth face coverings for the public in order to reserve more effective N95 respirators for frontline healthcare workers. No mask is completely preventative, but the risk of transmission decreases when combined with other contagion-mitigation strategies like social distancing and personal hygiene. “And countries that required face masks, testing, isolation and social distancing early in the pandemic seem to have had some success slowing the spread of the virus,” observes Mayo. (See our [note](#) on Taiwan, for example.)

(2) *Attitudes*. “There are rules about not smoking in enclosed restaurants and bars because that smoke can be deleterious to someone else’s health,” said a professor of medicine quoted in a May 6 CNN [article](#). “Now we’re in a situation where, if I’m infected with the COVID-19 virus, my breath can be lethal to someone else.”

But mask-wearing just isn’t part of our culture. On the contrary, not wearing a mask seems to have become a symbol of individual freedom or fearlessness. Neither President Donald Trump nor Vice President Mike Pence have worn masks, even when asked to do so in various public settings and despite the CDC’s recommendations.

CALENDARS

US: **Wed:** MBA Mortgage Applications, EIA Crude Oil Inventories, Evans. **Thurs:** Initial & Continuous Jobless Claims 1.300m/19.968m, Real GDP -5.0%, GDP, PCE, and Core CPI Price Indexes 1.4%/1.2%/1.6%, Durable Goods Orders Total & Ex Transportation 11.2%/2.5%, Advance Goods Trade Balance, Kansas City Fed Manufacturing Fed Manufacturing Index, EIA Natural Gas Storage, Fed Stress Test Results For Big Banks, Kaplan, Mester, Bostic. (DailyFX estimates)

Global: **Wed:** Germany Ifo Business Climate, Present Situation, and Expectations Index 85/84/87, France Business Confidence 80, Japan Leading & Coincident Indicators 76.2/81.5, BOE FPC Meeting. **Thurs:** Germany GfK Consumer Confidence -12, ECB Council Meeting, Mersch, Schnabel. (DailyFX estimates)

STRATEGY INDICATORS

S&P 500 Earnings, Revenues, Valuation & Margins ([link](#)): The rapid pace of COVID-19 estimate cuts appears to have abated. Consensus S&P 500 forecasts previously had been falling at rates paralleling the declines during the 2008-09 financial crisis. Forward revenues was flat w/w and is now 7.4% below its record high in mid-February. Forward earnings ticked down less than 0.1% w/w and is now 19.6% below its record high in early March. Forward revenues growth remained steady for a third week at 1.7%, and forward earnings growth was steady for a second week at 0.7%. Forward revenues growth is 4.6ppts below its seven-year high of 6.3% in February 2018, but is up from 0.2% in April which the lowest reading since June 2009. Forward earnings growth remains 16.2ppts below its six-year high of 16.9% in February 2018, but is up 6.3ppts from its record low of -5.6% at the end of April. Analysts

expect revenues to decline 5.3% y/y in 2020 compared to the 4.2% reported in 2019. That's down 0.1ppt w/w and 10.3ppts since the start of the year. Analysts expect an earnings decline of 23.0% y/y in 2020 compared to a 1.4% rise in 2019. Their 2020 growth rate dropped 0.1ppt w/w and is down 32.0ppt since the beginning of the year. The forward profit margin remained steady for a third week at 10.4%. It's up from 10.3% during the previous five weeks, which was the lowest since August 2013. It's still down 2.0ppt from a record high of 12.4% in September 2018. Analysts expect the profit margin to fall 2.2ppt y/y in 2020 to 9.4%—from 11.6% in 2019—and to improve 1.8ppt y/y to 11.2% in 2021. The S&P 500's weekly forward P/E was down 0.5pts to 21.9 from 22.4, which had been the highest level since early 2002, and up from a 77-month low of 14.0 in mid-March. The S&P 500 price-to-sales ratio fell to 2.27 from a record high of 2.33. That's up from the 49-month low of 1.65 in mid-March and compares to the previous record high of 2.29 in mid-February.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins ([link](#)): Last week saw consensus forward revenues rise w/w for six of the 11 S&P 500 sectors and forward earnings rise for five. None of the sectors had both measures rise w/w, but four had both measures fall: Communication Services, Financials, Real Estate, and Utilities. Due to the sharp decrease in forward earnings this year, forward P/E ratios for nearly all sectors now are back above their recent record or cyclical highs prior to the bear market. However, forward P/S ratios remain below their highs for most sectors. Utilities is the only sector expected to record higher margins y/y in 2020, down from eight expected to do so in early March. During 2019, just two sectors improved y/y: Financials and Utilities. The forward profit margin rose to record highs during 2018 for 8/11 sectors, all but Energy, Health Care, and Real Estate. Since 2018, it has moved lower for nearly all the sectors. The forward profit margins of Consumer Discretionary and Real Estate ticked lower in last week, while those of Materials and Tech edged higher. Here's how the sectors rank based on their current forward profit margin forecasts versus their highs during 2018: Information Technology (21.9%, down from 23.0%), Real Estate (14.0, down from 17.0), Communication Services (13.4, down from 15.4), Utilities (13.9, steady at a record high), Financials (13.8, down from 19.2), S&P 500 (10.4, down from 12.4), Health Care (10.1, down from 11.2), Materials (9.0, down from 11.6), Industrials (7.6, down from its record high of 10.5% in mid-December), Consumer Staples (7.2, down from 7.7), Consumer Discretionary (4.7, down from 8.3), and Energy (0.9, down from 8.0).

S&P 500 Sectors Forward Revenues and Earnings Recovery from COVID-19 Trough ([link](#)): The S&P 500's forward revenues and earnings as well as its implied forward profit margin appears to have bottomed on May 28 after 14 weeks of COVID-19 declines. Since

then, S&P 500 forward revenues has risen 0.7%, forward earnings has gained 1.9%, and the profit margin has risen 0.1pt to 10.4%. On a sector basis, only Real Estate hasn't yet appeared to bottom and begin recovering; it's still recording new lows in its forward earnings and profit margin. Here's how the sectors rank by their forward revenues change since May 28, along with their forward earnings change: Consumer Discretionary (revenues up 1.9%, forward earnings up 2.9%), Energy (1.8, 57.8), Industrials (0.9, 4.2), Communication Services (0.7, 1.0), S&P 500 (0.7, 1.9), Materials (0.6, 2.2), Information Technology (0.5, 1.1), Financials (0.5, 2.7), Health Care (0.2, 1.2), Consumer Staples (0.2, 0.8), Utilities (0.0, 0.4), and Real Estate (0.0, -1.8).

S&P 500 Sectors Net Earnings Revisions ([link](#)): The S&P 500's NERI improved in June for the first time in four months, suggesting that the worst of COVID-19-related downward revisions has passed. NERI improved m/m in June to -30.7% from an 11-year low of -37.4% in May but was negative for a 12th month and for the 18th time in 20 months. That compares to a record high of 22.1% in March 2018. NERI improved m/m for all 11 sectors; that compares to all 11 worsening on a m/m basis from March to May. However, NERI remained negative in June for all 11 sectors for a third straight month. Materials has the worst track record, with 21 months of negative NERI, followed by Industrials (20), Consumer Discretionary (19), and Utilities (17). Here are the sectors' June NERIs compared with their May readings: Consumer Staples (-16.7% in June, up from a five-year low of -19.0% in May), Utilities (-17.1, -18.3 [11-year low]), Health Care (-23.3, -23.8 [record low]), Information Technology (-24.9, -31.0 [11-year low]), Communication Services (-27.0, -30.8 [35-month low], -3.1), Real Estate (-30.9, -31.0 [11-year low], -3.7), Financials (-34.1, -43.2 [11-year low]), Energy (-34.8, -53.5 [63-month low], -6.5), Consumer Discretionary (-36.3, -44.1 [record low]), Material (-40.4, -47.5 [11-year low], -12.4), and Industrials (-41.9, -51.9 [record low]).

US ECONOMIC INDICATORS

Regional M-PMIs ([link](#)): Three Fed districts have now reported on manufacturing activity for June (New York, Philadelphia, and Richmond) and show the manufacturing sector is expanding for the first time in four months, led by a surge in the Philadelphia region. The composite index improved for the second month since plunging to a record low of -62.6 in April, climbing to -39.5 in May and 9.1 this month—with activity in the Philly (to 27.5 from -56.6 in April) region growing again, while Richmond's (0.0 from -53.0) and New York's (-0.2 from -78.2) stopped declining. Meanwhile, June's new orders measure followed a similar script, climbing from a record-low -66.1 in April to 7.0 this month, as Philadelphia (to 16.7 from -70.9

in April) and Richmond (5.0 from -61.0) billings moved from contraction to expansion and New York's (-0.6 from -66.3) were basically flat. Meanwhile, factories cut payrolls at a much slower pace again this month, with the employment measure climbing to -4.3 from -12.5 in May and a record-low -41.0 in April. Manufacturers in all three regions—New York (to -3.5 from -55.3 in April), Richmond (-5.0 from -21.0), and Philadelphia (-4.3 from -46.7)—cut payrolls at a drastically slower pace, taming the recent freefall.

GLOBAL ECONOMIC INDICATORS

US PMI Flash Estimates ([link](#)): Private-sector firms recorded a considerably slower pace of contraction for the second month this month, as the economy began to reopen, with manufacturing activity relatively stable. These firms also reported a notable pick-up in confidence in June, with the degree of optimism about output in the year ahead reaching a four-month high. The C-PMI (to 46.8 from 27.0 in April) and NM-PMI (46.7 from 26.7) rebounded 19.8 points and 20.0 points, respectively, from April's record lows. Meanwhile, the M-PMI jumped to 49.6 this month—near the breakeven point of 50.0—after plunging to 36.1 in April, which was the steepest decline since the depths of the financial crisis. According to June's report, the focus now will turn to how much momentum the economy can gather to recoup the lost output. It noted that continued “vigilance by the Fed, US Treasury and health authorities will be required to keep any recovery on track.”

Eurozone PMI Flash Estimates ([link](#)): The Eurozone's economic downturn slowed considerably for a second straight month in June, as lockdowns to prevent the spread of the COVID-19 outbreak were further relaxed, according to the survey. Also improving were business expectations for the year ahead. The Eurozone C-PMI made great strides for the second month since plunging to an all-time low of 13.6 in April, skyrocketing to 31.9 in May and 47.5 in June—with May and June gains of 18.2 points and 15.5 points, respectively, the two largest monthly advances in the history of the series. The service sector was the hardest hit, with the NM-PMI sliding 40.6 points (to 12.0 in April from 52.6 in February) during the two months through April; but it also had the largest rebound, soaring 35.3 points to 47.3 by June. Over the comparable periods, the M-PMI fell 15.8 points (to 33.4 from 49.2) during the two months through April and climbed 13.5 points to 46.9 by June. Looking at the top two Eurozone economies, France's economy is growing again, while Germany's is declining at a much slower pace. France's C-PMI (to 51.3 from 11.1 in April) flash estimate shot above the breakeven point of 50.0 this month, with both the M-PMI (52.1 from 31.5) and NM-PMI (50.3 from 10.2) moving above the threshold. Meanwhile, Germany's C-PMI (to 45.8 from 17.4 in

April) is fast approaching the breakeven point, as is the NM-PMI (45.8 from 16.2) and M-PMI (44.6 from 34.5).

Japan PMI Flash Estimates ([link](#)): “Downturn eases sharply as state of emergency is lifted” is the headline of the Jibun Bank report, which is the source of June’s flash estimate. The C-PMI (to 37.9 from 25.8 in April) improved for the second month, led by the service sector. June’s NM-PMI rebounded from 21.5 in April to 42.3 this month, while the M-PMI fell for the fifth month, from 48.8 in January to 37.8 by June. The report raises concerns about the sector split, with the manufacturing sector continuing to fall at an accelerated rate, while the downturn in the service sector has eased considerably. “A two-speed recovery would undermine a sustainable return to pre-COVID-19 level of economic activity.”

Contact us by [email](#) or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-775-6823

Copyright (c) Yardeni Research, Inc. Please read complete [copyright and hedge clause](#).