MORNING BRIEFING
July 2, 2020

Mostly Good News

Check out the accompanying chart collection.

(1) Watching improved gasoline usage to gauge the road to recovery. (2) Good news from employment and manufacturing data, too. (3) Boeing 737 MAX flies closer to approval. (4) United adds planes as air travel slowly takes off. (5) Analysts stop slashing forward earnings forecasts for Industrials, and most other sectors too. (6) Surveying the status of COVID-19 treatments and vaccines in the wake of Pfizer's good vaccine news.

US Economy: Gasoline & Jobs. As Debbie and I observed yesterday, one of our favorite economic indicators lately has been the four-week average of gasoline usage in the US. As a result of the lockdowns, it plunged 43.0% from the March 13 week through the April 24 week, when it bottomed at 5.3mbd (*Fig. 1*). Since then, through the June 26 week, it is up 54.7% to 8.2mbd. It needs to rise another 15.9% to get back to a normal 9.5mbd pace of fuel consumption. There has also been a 6.2% recovery in the usage of other petroleum products since the week of May 29 (*Fig. 2*).

We acknowledged that gasoline usage may be overstating the extent of the economic recovery if more people are choosing to return to work by car rather than by taking public transportation and taking their summer vacations in the US rather than overseas. Then again, more people are driving back to work. Yesterday's ADP report for private payrolls showed a gain of 2.37 million for June. And WOW: May's tally was revised from down 2.76 million to up 3.07 million, confirming the 3.09 million gain reported for May by the Bureau of Labor Statistics! The ADP data show that payrolls have bottomed for large, medium, and small companies in both service-providing and good-producing industries (*Fig. 3* and *Fig. 4*).

There was also lots of good news in June's composite indexes for general business, new orders, and employment for the five regional surveys conducted by the Federal Reserve Banks of Dallas, Kansas City, New York, Philadelphia, and Richmond. As Debbie reports below, they were all confirmed by the comparable indexes reported yesterday for June's national survey of manufacturing purchasing managers (*Fig. 5*). Other than the employment component, the other major components of the M-PMI were solidly above 50.0 last month: total (52.6), new orders (56.4), production (57.3), and employment (42.1).

Industrials: How Far Can They Bounce? With 2020 at the halfway mark, the S&P 500 index's 4.0% ytd drop through Tuesday's close belies the COVID-19-induced turbulence experienced by the stock market so far this year. The S&P 500 volatility index, which spiked to a record of 82.69 on March 16, remains at an elevated 30.43 through Tuesday's close (*Fig. 6*).

There's also a 51ppt spread between the best-performing S&P 500 sector, Information Technology, and the worst performing sector Energy. Here's the S&P 500 performance derby ytd through Tuesday's close: Information Technology (14.2%), Consumer Discretionary (6.6), Communication Services (-1.0), Health Care (-1.7), S&P 500 (-4.0), Consumer Staples (-7.1), Materials (-8.0), Real Estate (-10.0), Utilities (-12.6), Industrials (-15.5), Financials (-24.6), and Energy (-37.0) (*Fig. 7*).

Like other underperforming sectors, Industrials have bounced back sharply. They were down 42.6% from their record high on February 12 to their low on March 23 and have since rebounded by 41.0%. The Industrials sector's future will depend heavily on Boeing's ability to return the 737 MAX to the air and on consumers' willingness to return to the skies.

Here's the performance derby for some of the largest industries in the S&P 500 Industrials sector ytd through Tuesday's close: Trucking (20.1%), Air Freight & Logistics (-4.9), Railroads (-6.2), Electrical Components & Equipment (-9.7), Construction Machinery & Heavy Trucks (-11.8), Industrial Machinery (-12.4), Industrial Conglomerates (-19.1), Aerospace & Defense (-26.2), and Airlines (-49.5) (*Fig. 8* and *Fig. 9*).

Let's take a look at some of the recent news out of Boeing and the airline industry to judge whether the index might head higher:

(1) *Back in the air.* It has been more than a year since the Federal Aviation Administration grounded Boeing's new airliner, the 737 MAX, after two of the planes crashed. The road to redemption has been long. This week, the plane completed the first of three test flights it will need to be recertified. The FAA said "a number of key tasks remain" before the plane can be recertified.

(2) *But on the other hand.* With passenger traffic down sharply due to COVID-19, it's not a surprise that some carriers are canceling orders for new planes. On Tuesday, Norwegian Air Shuttle canceled an order for 92 planes, and Singapore-based leasing company BOC Aviation reportedly will cancel 30 of the 737 MAX jets from its order. So far this year, orders for more than 300 planes have been canceled, but Boeing still has a backlog of roughly 4,200 jets, a June 30 article in *Barron's* reported.

(3) *It all comes down to the consumer.* Boeing's fate depends on how fast consumers are comfortable climbing back on flights. If consumers fly, airlines will be profitable and will be able to afford new planes. Transportation Security Administration (TSA) data show that 500,054 consumers went through TSA checkpoints during the week of June 30, which is up nicely from the low of 87,534 on April 14, but nowhere near the more that the 2.0 million passengers who flew at this time last year (*Fig. 10*).

Airlines are responding to the improvement in demand. Most recently, United Airlines announced plans to add about 25,000 flights in August in hopes of capitalizing on an uptick in air travel, a July 1 CNBC article reported. "While travel demand remains a fraction of what it was at the end of 2019, customers are slowly returning to flying, with a preference for leisure destinations, trips to reunite with friends and family, and getaways to places that encourage social distancing," United said in its announcement on Wednesday. Despite the increase in flights, United is flying about half of last year's domestic capacity and a quarter of its international capacity.

(4) *Looking at the numbers.* Analysts expect the S&P 500 Aerospace & Defense industry's revenue will fall 8.3% this year, only to rise by 11.1% in 2021 (*Fig. 11*). Likewise, the industry's earnings are expected to decline by 30.5% in 2020 before rising 44.8% next year (*Fig. 12*).

Analysts seem to have exhausted their 2020 earnings estimate cuts in the first two quarters of this year (*Fig. 13*). And in the past four weeks, forward earnings estimates for the industry actually increased 0.6%. For the S&P 500 Industrials sector as a whole, analysts increased their forward earnings estimates by 3.6%.

But Industrials isn't alone in this respect. Several other sectors hard hit by the pandemic have seen similar estimate increases in recent weeks. Here are the four-week changes in forward earnings for the S&P 500 and its 11 sectors: Energy (70.8%), Consumer Discretionary (3.6), Industrials (3.6), Financials (2.8), Materials (2.5), S&P 500 (1.7), Communications Services

(0.8), Health Care (0.8), Consumer Staples (0.8), Information Technology (0.6), Utilities (0.4), and Real Estate (-1.4) (*Table*).

Disruptive Technologies: The Fight Against COVID. The recent spike in COVID-19 cases has reinforced just how important it is for everyone to wear a mask. It has also turned up the pressure on the scientific community to find a cure or vaccine that can keep this scourge at bay. Here's Jackie's look at the progress being made on the technological and medical advancements that could save our lives:

(1) *Zapping face masks.* Face masks and other personal protective equipment (PPE) are vital to keeping nurses and doctors safe. But they are problematic: If you touch any of the PPE, you are at risk of transferring germs to your hands. One of our accounts kindly passed on an article that reports a solution may have been found: PPE made of "electroceutical" materials.

"The polyester material is printed with alternating spots of silver and zinc resembling polka dots. They are one to two millimeters wide and spaced one millimeter apart. When the electroceutical material is dry, it functions as an ordinary fabric. But if it gets dampened—say, with saliva, vapor from a coughed up droplet or other bodily fluids—ions in the liquid trigger an electrochemical reaction. The silver and zinc then generate a weak electric field that zaps pathogens on the surface," a June 24 *Scientific American* article reported.

The material was originally developed for use in wound care by researchers at the Indiana Center for Regenerative Medicine and Engineering at Indiana University and biotechnology company Vomaris Innovations. They've since tested the material's impact on a non-COVID-19 coronavirus strain that causes respiratory illness in pigs and on lentivirus. The study, which has yet to be peer-reviewed, left both viruses unable to infect cells.

Another set of researchers are working on a textile coating that would repel bodily fluids, proteins, and bacteria. The material hasn't been tested on single-use masks, and would more likely be used on the homemade, reusable cloth masks, said Paul Leu, director of an advanced materials laboratory at the University of Pittsburgh, in a June 24 *Scientific American* article. He also envisions the coating being used on other reusable medical textiles, like hospital bed linens, drapes and waiting room chairs.

Just in case you need convincing that masks protect you and those around you, take a look at this June 29 BuzzFeed article. A microbiologist sneezed, sang, talked, and coughed in front of four Petri dishes of agar cultures. When he wore a mask, the cultures were clear of bacteria; when he didn't wear a mask, bacteria clearly grew in each of the cultures. It's not a pretty picture, but it's certainly an illustrative one.

(2) *A simple steroi*d. Dexamethasone is a cheap steroid—without patent protection—that is being considered for use in patients with COVID-19. A trial randomly assigned 2,104 people hospitalized for COVID-19 to receive the steroid. It has traditionally been used to treat rheumatoid arthritis and other inflammatory conditions.

"The drug reduced deaths by one third among patients on ventilators and by one fifth among those receiving oxygen therapy alone. It did not have any benefit for patients who did not need breathing support," a June 17 article in *Scientific American* reported. It also shouldn't be used by patients with only a mild infection, because the steroid could prevent the body's immune system from fighting the virus effectively.

(3) *Other anti-inflammatories under investigation.* In some patients, COVID-19 causes a cytokine storm, where the immune system goes overboard and inflammation can't be controlled. So drugs that can tame the body's immune response and block the cytokine storm are being tested.

Actemra, a drug for rheumatoid arthritis, blocks a protein involved with our immune responses, a June 18 article in GoodRx reported. A small study in France indicated that those who received the drug were less likely to require ventilation or die. Other drugs that affect a body's immune response are being tested as well, including: Calquence, Xeljanz, Jafai, Olumiant, Kineret, Ilaris, Otezla, Mavrilimumab, Colcrys, and Kevzara.

(4) *Antivirals may help.* Remdesivir is an antiviral drug that reduced the recovery time of COVID-19 patients in a trial by almost a third, and it has since been approved for emergency use in some patients in the US. The median recovery time of COVID-19 patients in the trial who received Remdesivir was 11 days compared to 15 days for patients who received a placebo. The randomized controlled trial involved 1,069 COVID-19 patients.

Gilead has priced Remdesivir at $2,340 for a five-day treatment in the US and other developed countries. The revenue potential for the drug is $2.3 billion in 2020, helping to offset more than $1 billion in development and distribution costs, according to analysts at Royal Bank of Canada quoted in a June 29 Reuters article. The US Department of Health and Human

Services has secured more than 500,000 treatment courses of the drug for US hospitals through September, which equates to 100% of Gilead's production in July, and 90% of its production in August and September. The company has agreements with generic drug makers to supply the drug in developing countries at a far lower price, roughly $66.

Another antiviral under consideration is Kaletra, an HIV medication that contains two antivirals, lopinavir and ritonavir. A small study found that patients who used Kaletra, interferon beta-1b, and ribavirin improved in seven days, compared to the 12 days it took those who got only Kaletra.

Other antivirals being tested include Tamiflu, favipiravir, galidesivir, and umifenovir.

(5) *Convalescent plasma.* Plasma is the liquid part of blood, and it contains antibodies. Doctors have used convalescent plasma from patients who have recovered from a disease and given it to patients suffering from a disease, in hopes the antibodies in the plasma will heal the sick patient. This method, which some date as far back as 1890, is often used when there is no other medicine available to treat the disease. Most recently, it was used to treat Ebola patients, and now some doctors are using it to treat COVID-19 patients.

"In China, 10 adults with severe COVID-19 symptoms were given convalescent plasma. The researchers reported that all symptoms (such as fever, cough, shortness of breath, and chest pain) had greatly improved within 3 days," a June 18 article in GoodRx reported. "A physician can request convalescent plasma on an individual basis by contacting their local blood center, but it's not widely available since centers have just recently begun collecting it."

(6) *China starts vaccinations.* There are more than 100 vaccines being developed in labs around the world. The first to be used on humans outside of a trial is being developed by a research arm of China's military and CanSino Biologics, Ad5-nCoV. The vaccine, which has been approved to vaccinate the Chinese military, is based on an Ebola vaccine that was developed but did not go into mass production, a June 29 *South China Morning Post* article reported.

Phase 1 and 2 trials of the vaccine "showed it has the potential to prevent diseases caused by the coronavirus … but its commercial success cannot be guaranteed," the company said according to a June 29 Reuters article. The country has not done Phase 3 trails, which are consider more robust and done in the US before vaccine or drug approvals. China also has two other vaccine candidates that are being offered to employees at state-owned firms travelling overseas.

(7) *The worldwide vaccine race.* Pfizer and its partner BioNTech SE reported positive results from an early-stage trial of its COVID-19 vaccine on Wednesday, sending its shares up 3.2% and giving the broad stock market support. The pharma company joins Moderna, Johnson & Johnson, and AstraZenca, which are also on track to have vaccines available the earliest—but still not before year-end, according to Bill Gates in a June 29 *Fast Company* article.

In the US, Moderna is the furthest along in testing its vaccine. It's currently in Phase 2 testing and hopes to enter Phase 3 in July. The vaccine uses messenger RNA, which enters cells and instructs them to produce a small amount of COVID-19 protein. This protein triggers cells to produce antibodies to provide immunity to COVID-19. The May 19 *Morning Briefing* discussed early positive findings: Forty-five patients who received the vaccine and two booster shots had antibodies equal to or greater than those found in patients who had recovered from COVID-19.

Pfizer's vaccine trial involved 45 people, each of whom were given 10, 30 or 100 microgram doses of the vaccine or a placebo, according to a July 1 CNBC article. Volunteers who received the vaccine, which also uses mRNA, had higher levels of antibodies than recovered COVID-19 patients, both four weeks after being vaccinated the first time and seven days after the second dose. The vaccine also had few side effects. Pfizer and its partner plan to start the next stage of testing as early as this month, and they already have plans to manufacture up to 100 million doses by the end of 2020 and more than 1.2 billion doses by the end of next year.

In the UK, The University of Oxford and AstraZenca began Phase 1/2 trials for its vaccine in April, and it started recruiting individuals to enroll in Phase 2/3 trials. The vaccine contains a weakened common-cold virus taken from chimpanzees in addition to the genetic material of SARS-CoV-2 spike protein. The virus is altered so it can't reproduce itself, but the cells that house it produce the spike protein and provide protection against COVID-19 for a year.

Johnson & Johnson's COVID-19 vaccine is based on the same technology the company used to make an Ebola vaccine, which was used in the Democratic Republic of Congo. It's expected to be in Phase 1/2a trials in the second half of July.

CALENDARS

US: Thurs: Payroll Employment Total, Private, and Manufacturing 3.0m/2.9m/306k, Unemployment Rate 12.3%, Average Hourly Earnings -0.7%m/m/5.3%y/y, Average Weekly Hours 34.5 hours, Jobless & Continuous Claims 1.35m/19.00m, Balance of Trade -$53.0b, Factory Orders 8.6%, EIA Natural Gas Storage, Baker-Hughes Rig Count. **Fri:** None. (DailyFX estimates)

Global: Thurs: Eurozone Unemployment Rate 7.7%, UK Gfk Consumer Confidence, Japan C-PMI & NM-PMI 37.9/42.3, Australia Retail Sales 16.3%, Mersch, Schnabel. **Fri:** Eurozone, Germany, France, and Italy C-PMIs 47.5/45.8/51.4, Eurozone, Germany, and France NM-PMIs 47.3/45.8/50.3, UK C-PMI & NM-PMI 47.6/47.0. (DailyFX estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators (*link*): The Bull/Bear Ratio (BBR) fell this week after moving back above 3.00 last week for the first time since the January 21 week. The BBR sank to 2.75 this week after climbing for 13 straight weeks to a 22-month high of 3.11 last week; it had dropped from 2.89 to 0.72 (the lowest since February 2016) the prior five weeks. Bullish sentiment fell to 54.5% this week after climbing from 54.9% to 57.3% last week—which was the highest since January. Prior to this week's decline, bullish sentiment had increased 11 of the prior 13 weeks by 27.2ppts, to 57.3% from 30.1%—which was the lowest percentage since late December 2018. Meanwhile, bearish sentiment rose to 19.8% this week after sinking 23.3ppts the prior 13 weeks from 41.7% to 18.4%—which was the lowest since January. The correction count has been in a volatile flat trend the past few weeks, fluctuating between 22.5% and 26.5%. It was at 25.7% this week. The AAII Ratio fell for the second week to 33.1% last week after increasing the prior five weeks from 31.0% to 47.4%. Bullish sentiment fell for the third week to 24.1% last week after rising the prior three weeks from 23.3% to 34.6%, while bearish sentiment rose for the second week to 48.9% after dropping from 52.7% to 38.1% the prior five weeks.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The rapid pace of COVID-19 estimate cuts has abated and forecasts are stabilizing now. Consensus S&P 500 forecasts previously had been falling at rates paralleling the declines during the 2008-09 financial crisis. Forward revenues rose 0.4% w/w and is now 6.9% below its record high in mid-February. Forward earnings ticked down 0.3% w/w and is now 19.9% below its record high in early

March. Forward revenues growth remained steady for a fourth week at 1.7%, and forward earnings growth rose 0.1ppt to 0.8%. 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 is the lowest reading since June 2009. Forward earnings growth remains 16.1ppts below its six-year high of 16.9% in February 2018, but is up 6.4ppts 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 unchanged w/w and down 10.3ppts since the start of the year. Analysts expect an earnings decline of 22.8% y/y in 2020 compared to a 1.4% rise in 2019. Their 2020 growth rate rose 0.2ppt w/w and is down 31.8ppt since the beginning of the year. The forward profit margin ticked down 0.1ppt w/w to 10.3%, which matches the level in both April and May and is the lowest level since August 2013. It had been steady at 10.4% for three weeks during June. It's down 2.1ppt from a record high of 12.4% in September 2018. Analysts expect the profit margin to fall 2.3ppt y/y in 2020 to 9.3%—from 11.6% in 2019—and to improve 1.8ppt y/y to 11.1% in 2021. The S&P 500's weekly forward P/E was down 0.4pts w/w to 21.5 and has dropped 0.9pts from 22.4 on 6/11, 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 0.05pts w/w to 2.22 and is down 0.11pts from its record high of 2.33 on 6/11. 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 seven of the 11 S&P 500 sectors and forward earnings rise for six. Financials and Materials had both measures rise w/w as Energy and Real Estate had both fall. 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. In the latest week, the forward profit margin fell for six sectors and rose for three. Here's how the sectors rank based on their current forward profit margin forecasts versus their highs during 2018: Information Technology (21.6%, down from 23.0%), Real Estate (14.1, down from 17.0), Communication Services (13.3, down from 15.4), Utilities (14.1, up 0.2pts to a new record high), Financials (13.5, down from 19.2), S&P 500 (10.3, down from 12.4), Health Care (10.0, down from 11.2), Materials (8.9, down from 11.6), Industrials (7.5, down from its record high of

10.5% in mid-December), Consumer Staples (7.2, down from 7.7), Consumer Discretionary (4.8, down from 8.3), and Energy (1.0, 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 1.2% and forward earnings has gained 1.7%, but the profit margin dropped 0.1pt w/w back down to its cyclical low of 10.3%. On a sector basis, Utilities made a new post-COVID-19 low in its forward revenues this week. Communication Services and Tech made new lows in their forward profit margin. Here's how the sectors rank by their forward revenues change since May 28, along with their forward earnings change: Financials (revenues up 2.4%, forward earnings up 2.9%), Energy (1.7, 70.8), Materials (1.5, 2.5), Industrials (1.4, 3.6), Communication Services (1.4, 0.8), S&P 500 (1.2, 1.7), Information Technology (1.1, 0.6), Consumer Discretionary (1.0, 3.6), Consumer Staples (0.6, 0.8), Health Care (0.5, 0.8), Real Estate (-0.5, -1.4), and Utilities (-1.0, 0.4).

US ECONOMIC INDICATORS

ADP Employment (*link*): Private payrolls added a remarkable 2.4 million to payrolls in June, though the real eye-popper is the upward revision to May payrolls—from a 2.76 million loss to a 3.07 million gain, a swing of 5.8 million! "As the economy slowly continues to recover, we are seeing a significant rebound in industries that once experienced the greatest job losses. In fact, 70 percent of the jobs added this month were in the leisure and hospitality, trade and construction industries," noted Ahu Yildirmaz, co-head of the ADP Research Institute. Service-providing jobs surged 1.9 million in June and 4.3 million during the two months ending June, while goods-producing payrolls were boosted 457,000 and 1.1 million over the comparable periods. Here's a tally of industry gains from highest to lowest over the two months through June: Leisure & hospitality (+2.2 million), construction (+856,000), trade, transportation & utilities (+650,000), health care & social assistance (+633,000), manufacturing (+308,000), administrative & support services (+278,000),financial activities (+97,000), education (+71,000), and professional & technical services (+49,000). Three industries failed to rebound over the past two months: Information services (-89,000), and management of companies (-51,000), and natural resources (-46,000). Meanwhile, jobs in all other services added 484,000 over the two-month period. Small business posted the biggest two-month jobs gain, at 2.3 million, followed by large and medium businesses' gains of 1.9 million and 1.2 million, respectively.

Construction Spending (*link*): Construction expenditures in May slumped 2.1% following a 3.5% slide in April and a 0.3% downtick in March. Private construction spending tumbled 3.3% in May and 8.0% during the three months through May, while public construction spending advanced for the sixth time in seven months, by 1.2% in May and 6.8% over the period. Within private construction, residential investment dove 4.0% in May and 9.6% over the three-month span, led by single-family (-8.5% m/m & -16.0% 3-month period) investment. Both multi-family (+2.3% &-4.9%) and home-improvement (0.1 & -1.6) spending stopped declining in May, though contracted over the three-month period. Private nonresidential building slumped 2.4% in May and 6.4% the past four months—led by double-digit declines in lodging, religious, and educational building over the period.

GLOBAL ECONOMIC INDICATORS

Global Manufacturing PMIs (*link*): Global manufacturing activity contracted at a considerably slower pace in June, as the M-PMI posted a record gain during the month. The JP Morgan Global M-PMI jumped a record 5.4 points in June, to 47.8, from 42.4 in May and 39.6 in April—which was its lowest reading since April 2009. M-PMIs for both the emerging (to 49.6 from 42.7 in April) and advanced economies (46.4 from 36.8) improved for the second month, though the emerging measure was 3.2 points above the advanced economies', and very near expansionary territory. Here's a country ranking of June M-PMIs from highest to lowest: Colombia (54.7), Turkey (53.9), Kazakhstan (52.9), France (52.3), Brazil (51.6), China (51.2), Australia (51.2), Vietnam (51.1), Ireland (51.0), Malaysia (51.0), UK (50.1), US (49.8), Philippines (49.7), Russia (49.4), Greece (49.4), Spain (49.0), Myanmar (48.7), WORLD (47.8), Italy (47.5), Eurozone (47.4), Poland (47.2), India (47.2), Austria (46.5), Taiwan (46.2), Germany (45.2), Netherlands (45.2), Czech Republic (44.9), Thailand (43.5), South Korea (43.4), Japan (40.1), Indonesia (39.1), and Mexico (38.6).

US Manufacturing PMIs (*link*): Manufacturing activity began expanding again in June, according to the ISM measure, while the IHS Markit measure "signaled only a fractional deterioration in U.S. manufacturing conditions." ISM's M-PMI rose for the second month since sinking to an 11-year low of 41.5 in April, climbing to 43.1 in May and 52.6 in June; June's reading was the biggest monthly gain (9.5 points) since 1980! Indexes for both the new orders (to 56.4 from 27.1 in April) and production (57.3 from 27.5) measures posted impressive rebounds, while the employment (42.1 from 27.5) gauge is heading toward the 50.0 breakeven point. The new export orders (to 47.6 from 35.3 in April) sub-index shows these orders are falling at a slower pace and may be poised soon to turn positive. Meanwhile, the supplier deliveries (to 56.9 from 76.0 in April) component of the M-PMI moved down for the second month, though held at a high level—boosted earlier this year by a slowing in deliveries reflecting supply shortages (due to the pandemic) rather than strong demand. The inventory measure indicated inventories held steady again in June, ticking up to 50.5 last month from 50.4 in May and 49.7 in April. IHS Markit's M-PMI advanced for the second month in June, to 49.8, after tumbling to an all-time low of 36.1 in April. According the report, "The downward trend in production eased markedly as new orders stabilized amid reports of a relative improvement in demand conditions. Companies reported a further drop in workforce numbers as evidence of spare capacity remained, but the rate of job losses also moderated sharply. Optimism about the year ahead meanwhile revived considerably."

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