



MORNING BRIEFING

July 6, 2020

The Fed & the FAANGMs That Ate the Market

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

(1) Crossing red lines. (2) Powell chooses to leap first, look later. (3) Fed starts buying bonds of corporations that don't need help. (4) No Asset Left Behind: How the Fed's bond buying boosts stock prices and P/Es. (5) Saving fallen angels before they turn into zombies. (6) Dalio's complaint. (7) Central bankers' firehoses still pouring lots of liquidity even though the fire sales are over. (8) Fair-value P/E: 15 or 30? (9) Yield Curve Targets. (10) The Magnificent Six viral stocks: expensive for a reason. (11) FAANGMs are dominating all the major investment-style categories. (12) Movie review: "Chernobyl" (+ + +).

Central Banks: Leap, Then Look. In a May 29 Princeton University [webinar](#), Fed Chair Jerome Powell acknowledged that the Fed under his leadership "crossed a lot of red lines that had not been crossed before." He added that he was comfortable with what the Fed had done given that "this is that situation in which you do that, and you figure it out afterward."

I always prefer to look before I leap. However, I can understand why Powell decided to leap first and to look afterwards: On March 11, the World Health Organization declared a viral pandemic. On March 15, the Fed lowered the federal funds rate by 100bps to zero and announced a QE4 program aimed at purchasing \$700 billion of US Treasury and mortgage-backed bonds. That same week, state governors started to impose lockdowns to enforce social distancing. On March 23, QE4 was turned into QE4Ever with no set amount or end date for purchasing those securities. The [press release](#) was titled "Federal Reserve announces extensive new measures to support the economy."

Among the extensive new measures was the establishment of two facilities to support credit to large employers—the Primary Market Corporate Credit Facility (PMCCF) for new bond and loan issuance and the Secondary Market Corporate Credit Facility (SMCCF) to provide liquidity for outstanding corporate bonds. The Fed would, for the first time in its history, purchase corporate bonds, up to a total of \$750 billion.

On Sunday, June 28, the Fed released a list of 794 companies—including Apple, Walmart, and ExxonMobil—whose newly issued corporate bonds it will purchase *as the sole investor* in the coming months in an effort to keep borrowing costs low and smooth the flow of credit. The central bank also said that so far it has purchased nearly \$429 million in corporate bonds from 86 of those companies, including AT&T, Walgreen's, Microsoft, Pfizer, and Marathon Petroleum. Consider the following:

(1) *Lending a hand to corporations that don't need it.* Powell has said that by ensuring that large companies can borrow more, the Fed is seeking to keep those firms from having to lay off workers. But the corporations aren't required to keep all their workers. At a June 16 congressional hearing, Senator Pat Toomey (R-PA) questioned Powell about whether the purchases still were necessary given that the corporate bond market had largely recovered. Powell said the Fed had to follow through on its promises. That was a lame response, in our opinion.

To avoid criticism that it might favor a specific industry, the Fed said that it would use a broad-market-index approach, ensuring that a wide range of companies' bonds are purchased. Consumer product companies make up roughly 33% of the index, utilities and energy firms roughly 10%, and other industries make up the rest; notably, there are no banks.

(2) *No Asset Left Behind.* In the April 13 [Morning Briefing](#), Melissa and I wrote: "The credit-quality spreads narrowed in the bond market because the Fed introduced QE4ever on March 23 and NALB (no asset left behind) on April 9. Under QE4ever, the Fed would continue to purchase US Treasuries, agency debt, and MBS [mortgage-backed securities] as it had done in the past but without any set schedule or end date. In addition, it would start buying agency commercial mortgage-backed securities (agency CMBS [commercial MBS]). At the same time, the Fed committed to providing liquidity to the commercial paper market, the investment-grade bond market, and the short-term muni market, as well as to money-market funds. On April 9, NALB was expanded to support so-called 'fallen angels' in the corporate bond market, i.e., BBB credits that had been on the edge of falling into junk credit ratings and finally did just that. Melissa and I prefer to call these credits 'zombie bonds.' Just as the GVC [the Great Virus Crisis] was about to bury these walking dead, the Fed resuscitated them."

(3) *The Great Rebalancing.* We continued: "But didn't the Fed forget to include equities in its NALB program? It doesn't need to support the stock market directly. By flooding the credit

markets with liquidity and keeping bond yields near historical lows, the Fed has enabled individual and institutional investors to rebalance away from bonds toward stocks.”

Vineer Bhansali, our good friend and loyal subscriber, provided a more detailed analysis of this process in an excellent July 1 *Forbes* [article](#) titled “How The Fed Is Using Financial Engineering Alchemy And Leverage To Boost Stock Prices Without Buying Any.” He concluded: “As long as the Fed has the authority to buy assets, print money, and under-write risk taking, as it currently has, don’t fight the Fed. But be ready to bail out as soon as they start thinking about thinking about raising rates.”

Last Thursday, at the Bloomberg Global Asset Owners Forum, Ray Dalio said, “Today the economy and the markets are driven by the central banks and the coordination with the central government.” As a result, “capital markets are not free markets allocating resources in traditional ways.” He is correct: The Fed and the other major central banks ate the markets for breakfast, lunch, and dinner. There’s nothing left for free marketeers to chew on.

(4) *Buoying drowning debt with liquidity.* The global economy was on the verge of drowning in debt as cash flow to service the debt evaporated when the GVC first hit. But the Fed and the other major central banks responded with shock-and-awe programs that rescued all the drowning debt by buoying them up with a sea of liquidity. Since the end of February through the end of June, the total assets of the three major central banks soared \$5.6 trillion to a record \$20.1 trillion, as follows: the Fed (\$2.9 trillion to \$7.0 trillion), the ECB (\$2.0 trillion to \$7.0 trillion), and the BOJ (\$0.7 trillion to \$6.1 trillion) ([Fig. 1](#) and [Fig. 2](#)).

The Fed’s holdings of Treasuries, agencies, and MBS rose to a record high of \$6.1 trillion during the July 1 week ([Fig. 3](#)). Its liquidity-related facilities have decreased by a total of \$370 billion over the past seven weeks ([Fig. 4](#)). The ECB’s Long-Term Refinancing Operations have soared by €1.5 trillion since the end of February ([Fig. 5](#) and [Fig. 6](#)).

(5) *The valuation question.* All of the above raises an interesting question: What should the forward P/E of the S&P 500 be when the federal funds rate is zero, the 10-year US Treasury bond yield is below 1.00%, and the Fed is providing plenty of liquidity to facilitate the resulting rebalancing from bonds to stocks? Notice that we didn’t ask what the “fair value” of the forward P/E is, which would imply that the market operates freely enough—unaffected by Fed interventions—to determine that value. Clearly, that’s no longer the case. Frankly, we don’t know the answer to this question, since there is no precedent for the current situation.

However, we do know that prior to the GVC, we all thought that the S&P 500's fair-value P/E was around 15.0. Could it be double that now? Maybe.

(6) *Yield Curve Targets*. But what if the bond yield starts moving higher notwithstanding the Fed's current ultra-easy monetary stance? Have no fear: The Fed will be here with more tools from its bottomless toolkit! The [Minutes](#) of the June 9-10 FOMC meeting was released last Wednesday, July 1. It was chock-full of mentions of "YCT," or Yield Curve Targets. Indeed, the latest Minutes mentioned the acronym 15 times versus not even once in the previous [Minutes](#), for the April 28-29 meeting. YCT was discussed in the first section of the latest minutes, which reviewed research conducted by the Fed's staff on this potential monetary policy tool.

The basic message of the latest minutes is that the Fed may need to keep interest rates across the yield curve close to zero for many years. YCT might be a tool for doing just that. However, the Fed's not ready to go there yet: "All participants agreed that it would be useful for the staff to conduct further analysis of the design and implementation of YCT policies as well as of their likely economic and financial effects."

Nevertheless, just by studying YCT, the FOMC is clearly signaling its intention to keep interest rates near zero for a long time.

Strategy I: The Magnificent Six. The S&P 500 stock price index includes 500 companies. On Friday, five of the six so-called FAANGM stocks (all but Netflix) occupied the top spots as the largest S&P 500 companies by market capitalization. They were: Apple (\$1,578 billion), Microsoft (\$1,564 billion), Amazon (\$1,442 billion), Alphabet (\$1,002 billion), and Facebook (\$665 billion). Netflix (\$210 billion) was the 20th largest company in the S&P 500. Collectively, their record-high \$6.5 trillion market cap accounted for a record 25% of the S&P 500's market cap on July 3 ([Fig. 7](#) and [Fig. 8](#)). That's up from around 8% during 2013.

The Magnificent Six are widely referred to by their awkward "FAANGM" acronym. "MAGFAN" would be easier to pronounce. In any event, count us among the fans of these mega-cap companies, though they aren't cheap since they have so many fans. Consider the following:

(1) *Viral stocks*. All six of the FAANGMs are among the biggest beneficiaries of the economic upheaval caused by the GVC and are likely to continue to benefit from its aftershocks well after the crisis is over. That's because their businesses are Internet-based, so the more that

people's work, education, and entertainment are home-based, the more these businesses thrive.

(2) *One for all and all for one?* While all six are widely perceived to be technology stocks, only Apple and Microsoft are actually constituents of the S&P 500 Information Technology sector, accounting for 44.4% of the sector's market cap ([Fig. 9](#)). Classified as members of the S&P 500 Communication Services sector are Alphabet, Facebook, and Netflix, accounting for 66.4% of the sector's market cap ([Fig. 10](#)). Amazon is actually a member of the S&P 500 Consumer Discretionary sector, and accounts for an eye-popping 50.8% of the sector's market cap ([Fig. 11](#)).

(3) *All Growth, no Value.* All six are included in the S&P 500 Growth index, accounting for a whopping 40.7% of its market cap during the June 25 week ([Fig. 12](#)). Given the rapid growth in their earnings and their relatively high valuation multiples, there's no mistaking the FAANGMs for stocks that should be in the S&P 500 Value index.

(4) *Galloping revenues and earnings growth.* Since the start of 2015 through the July 3 week of this year, the forward revenues of the FAANGMs is up 115.1%, well ahead of the 2.5% increase for the rest of the S&P 500 ([Fig. 13](#)). Over the same period, their forward earnings is up 95.0%, significantly outpacing the 1.9% drop for the rest of the market ([Fig. 14](#)). Much of that outperformance occurred this year. Nevertheless, even before the GVC struck, the FAANGM forward revenues rose 101.1% from the start of 2015 through the end of 2019, while the remaining 494 stocks in the S&P 500 registered a 10.9% gain in forward revenues. Over the same period, the FAANGMs' forward earnings rose 88.1% while those of the other 494 S&P 500 stocks rose 25.3%.

Collectively, the profitability of the FAANGMs is boosted not only by their revenue growth but also by their relatively high profit margins. Their forward profit margin was 15.5% during the July 3 week, well above the 10.3% for the rest of the S&P 500 ([Fig. 15](#)). If we exclude low-margin Amazon from the FAANGMs, their collective forward profit margin rises from 15.5% to 21.7%.

(5) *Leading from in front.* The FAANGMs have led the bull market for quite a while. Since the end of 2012 through the July 3 week, their market cap is up an astonishing 467%, while the rest of the S&P 500 is up just 70.5% ([Fig. 16](#)). Since the March 23 bottom, the FAANGMs are up 51%, while the rest of the index is up 35%.

(6) *Not cheap*. Everyone knows all the above, which is why the stocks are so expensive. The forward P/E of the FAANGMs soared from a recent low of 26.1 during the March 20 week to 40.1 during the July 3 week ([Fig. 17](#)). The forward P/E of the S&P with and without the FAANGMs is 21.5 and 18.8 ([Fig. 18](#)). Here are the current forward P/Es of each of the Magnificent Six: Alphabet (29.9), Amazon (97.7), Apple (25.2), Facebook (26.9), Microsoft (33.2), and Netflix (62.1) ([Fig. 19](#)).

(7) *Buying back shares*. Collectively, the FAANGMs' number of basic shares outstanding fell 12.7% from Q1-2013 through Q1-2020 ([Fig. 20](#)). That's a decline of 1.8% per year on average. An amount of share-count decline that small is not a big contributor to their earnings-per-share (EPS) growth rate, which suggests that much of their stock buybacks have been motivated by reducing EPS dilution from shares awarded to employees through compensation plans.

Strategy II: FAANGMs Imposing Their Styles. The FAANGMs dominate the discussion of all investment-style categories, whether Growth versus Value, LargeCaps versus SMidCaps, or Stay Home versus Go Global:

(1) *Growth vs Value*. As noted above, the FAANGMs currently account for 25.0% of the S&P 500's market capitalization and 40.7% of the S&P 500 Growth index, which accounts for a record 59.5% of the S&P 500's market cap ([Fig. 21](#)). On July 2, Growth's forward P/E was 27.5, while Value's was 17.0 ([Fig. 22](#)). Both were the highest since 2002. But keep in mind that the 10-year Treasury bond yield was around 5.0% back then. By the way, the top six Value stocks by market cap are currently Berkshire Hathaway (\$434 billion), Johnson & Johnson (\$371 billion), Walmart (\$338 billion), Procter & Gamble (\$299 billion), and UnitedHealth Group (\$283 billion).

(2) *LargeCaps vs SMidCaps*. Within the S&P 500, the equal-weighted version of the index has underperformed the market-cap weighted version since the start of 2017 ([Fig. 23](#)). The former is up 18.5%, while the latter is up 39.8% through Friday's close. The S&P 500 market-cap weighted has been underperforming the S&P 100 market-cap weighted over the past year, with the former up 4.0% and the latter up 8.6% ([Fig. 24](#)).

The S&P 400 MidCaps and the S&P 600 SmallCaps have been underperforming the S&P 500 since September 20, 2018, just before the severe correction that occurred at the end of that year ([Fig. 25](#)). Over this period through Friday's close, the S&P 500/400/600 are up 6.8%,

down 13.0%, and down 23.7%, respectively. Since March 23 of this year, there's been a bit of a reversal, with the three up 39.9%, 46.0%, and 38.3%.

(3) *Stay Home vs Go Global*. Finally, since the start of the current bull market in 2009, the US MSCI stock price index has outperformed the All Country World ex-US MSCI in both dollars and in local currencies ([Fig. 26](#)). In recent years, the FAANGMs undoubtedly contributed greatly to this trend, which we expect will continue through 2021.

Movie. "Chernobyl" (+ + +) ([link](#)) is five-part 2019 HBO docudrama about the nuclear power plant disaster of April 1986 and the cleanup efforts that followed in the Ukrainian Soviet Socialist Republic of the Soviet Union. In effect, the power plant turned into a nuclear bomb when the plant's managers were conducting a badly botched safety test. The fail-safe mechanisms obviously failed. The Soviet government's attempts to cover up the cause of the meltdown might have caused an even bigger disaster were it not for the courage of the managers and the bravery of the workers assigned to clean up the horribly dangerous mess.

This is a relevant excerpt from my 2018 book, [Predicting the Markets](#): "One of the most momentous events during my career was the end of the Cold War in 1991. I had seen it coming a few years earlier and wrote a *Topical Study* during August 1989 titled "[The Triumph of Capitalism](#)." I observed that about one year after Mikhail S. Gorbachev became the General Secretary of the Soviet Communist Party, the nuclear reactor at Chernobyl blew up. The explosion, on April 26, 1986, released at least as much radiation as in the atomic bomb attacks on Hiroshima and Nagasaki. That event and other recent disasters in the Soviet Union were bound to convince Gorbachev of the need to restructure the Soviet economic and political systems, I surmised. Likely, he would conclude that a massive restructuring was essential and urgent because the disasters were 'symptomatic of a disastrous economic system that is no longer just stagnating; rather, it is on the brink of collapse,' I wrote back then. The Berlin Wall was dismantled in late 1989."

I drew some comparisons earlier this year between Chernobyl and the COVID-19 outbreak in China. In both instances, authoritarian governments made the situations worse than they had to be. However, I'm not expecting that the COVID-19 disaster will lead to any significant reforms in China. Instead, the Chinese Communist Party seems to be using its success in fighting the virus to tighten its grip on power.

CALENDARS

US: **Mon:** ISM NM-PMI 49.5, IHS Markit C-PMI & NM-PMI 46.8/46.7, Motor Vehicle Sales. **Tues:** API Crude Oil Inventories, Quarles, Bostic, Daly. (DailyFX estimates)

Global: **Mon:** Eurozone Retail Sales 15.0%*m/m*/-7.5%*y/y*, Germany Factory Orders 15.0%, Japan Household Spending -12.2% *y/y*, RBA Interest Rate Decision 0.25%. **Tues:** Germany Industrial Production 10.0%, Japan Leading & Coincident Indicators. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 4.1% for its biggest gain in four weeks. The index ranked 11th of the 49 global stock markets we follow in a week when 40/49 countries rose in US dollar terms, and the AC World ex-US index gained 2.1% as most regions moved higher. The US MSCI index moved back out a correction after slipping back in a week earlier for the first time in five weeks. It's now 7.0% below its 2/19 record high. EM Latin America was the best-performing region last week, with a gain of 5.2%, followed by BRIC (4.4%), EM Asia (3.6), and EMU (2.9). EM Eastern Europe was the biggest underperformer, with a decline of 0.4%, followed by EMEA (0.0) and EAFE (1.4). Chile was the best-performing country last week, with a gain of 7.8%, followed by New Zealand (7.6%), Argentina (6.4), Colombia (5.7), and Brazil (5.5). Of the 17 countries that underperformed the AC World ex-US MSCI last week, Sri Lanka fared the worst, with a decline of 6.7%, followed by Jordan (-3.0), Egypt (-2.5), Japan (-1.5), and Turkey (-1.4). In June, the US MSCI rose 2.1% and ranked 33/49 as the AC World ex-US index outperformed with a gain of 4.3%. Forty of the 49 countries moved higher in June. Sri Lanka was the best performer with a gain of 16.2%, followed by New Zealand (12.3), South Africa (10.3), Hong Kong (10.3), and Taiwan (8.6). The worst-performing countries in June: Jordan (-5.3), Greece (-3.9), Russia (-2.3), Pakistan (-1.6), and Norway (-1.5). The outperforming regions: EM Asia (7.8), BRIC (7.4), EMU (5.6), and EM Latin America (5.2). EM Eastern Europe was June's worst-performing region with a decline of 1.2%, followed by EMEA (0.5) and EAFE (3.2). The US MSCI's ytd ranking rose three places last week to 7/49 as its ytd performance improved to -2.1% from -6.0% a week earlier. It's still way ahead of the 10.4% ytd decline for the AC World ex-US. EM Asia is the best regional performer ytd, albeit with a decline of 0.5%, followed by BRIC (-4.1). The worst-performing regions ytd: EM Latin America (-33.1), EM Eastern Europe (-23.9), EMEA (-20.4), EMU (-11.8), and EAFE (-11.4). The best country performers ytd: Denmark (10.9), New Zealand (7.9), China (7.7), Israel (1.0), and Taiwan (0.5). The worst-performing

countries so far in 2020: Colombia (-44.2), Greece (-36.9), Brazil (-36.6), Peru (-33.2), and Pakistan (-31.7).

S&P 1500/500/400/600 Performance ([link](#)): All of these indexes rose together for the first time in eight weeks. LargeCap rose 4.0% for the week, better than the 3.5% gain for MidCap and behind the 4.5% rise for SmallCap. LargeCap has been out of a bear market for 12 weeks, and moved back out of a correction in the latest week. LargeCap is now 7.6% below its 2/19 record high. MidCap was back in a correction for a fourth week despite improving to 15.5% below its record high on 1/16. SmallCap remains the worst performer, back in a bear market for a fourth week and 25.0% below its 8/29/18 record. All 33 sectors rose for the week, up from all 33 falling a week earlier. Two of the 33 sectors ended the week at a record high: LargeCap Consumer Discretionary and LargeCap Tech. Another six sectors are no longer in a bear market or correction: LargeCap Consumer Staples, LargeCap Health Care, LargeCap Materials, MidCap Consumer Staples, MidCap Health Care, and MidCap Tech. SmallCap Communication Services and SmallCap Utilities were the best performers last week with gains of 6.0%, ahead of SmallCap Health Care (5.7), LargeCap Communication Services (5.6), and LargeCap Real Estate (5.6). LargeCap Financials was the biggest underperformer last week, albeit with a gain of 1.6%. It was followed by LargeCap Energy (2.2), MidCap Financials (2.4), MidCap Industrials (2.6), and MidCap Tech (3.0). Twenty-one of the 33 sectors rose in June, compared to 29 rising in May and all 33 rising in April. June's best performers: LargeCap Tech (7.1), SmallCap Consumer Discretionary (6.9), SmallCap Real Estate (5.9), LargeCap Consumer Discretionary (4.9), and SmallCap Industrials (4.4). June's biggest laggards: SmallCap Utilities (-5.8), MidCap Utilities (-5.1), LargeCap Utilities (-5.0), MidCap Communication Services (-3.5), and MidCap Health Care (-3.0). All three indexes are still down on a ytd basis, but LargeCap's 3.1% drop is much smaller than those of MidCap (-13.8) and SmallCap (-19.3). Just five of the 33 sectors are now positive so far in 2020, with the best performers led by LargeCap Information Technology (14.9), LargeCap Consumer Discretionary (8.9), MidCap Health Care (7.0), SmallCap Communication Services (4.5), and LargeCap Communication Services (1.2). The biggest laggards of 2020 to date: SmallCap Energy (-54.7), MidCap Energy (-48.0), LargeCap Energy (-37.9), SmallCap Financials (-32.6), SmallCap Real Estate (-26.8), and MidCap Financials (-26.8).

S&P 500 Sectors and Industries Performance ([link](#)): All 11 S&P 500 sectors rose last week as seven outperformed the index's 4.0% rise. That compares to a 2.9% decline for the S&P 500 a week earlier, when all 11 sectors fell and four outperformed the index. The 5.6% gains for Communication Services and Real Estate made them the best performers for the week,

ahead of Materials (5.5%), Consumer Discretionary (5.3), Utilities (4.9), Industrials (4.2), and Health Care (4.1). Financials was the biggest underperformer, albeit with a gain of 1.6%, followed by Energy (2.2), Consumer Staples (3.2), and Tech (3.7). The S&P 500 rose 1.8% in June for its third straight monthly gain and its best three-month performance since May 2009. Five sectors moved higher, and four beat the broader index in June. That compares to all 11 rising and five beating the S&P 500's 4.5% gain in May. The leading sectors in June: Information Technology (7.1), Consumer Discretionary (4.9), Industrials (1.9), and Materials (1.9). June's laggards: Utilities (-5.0), Health Care (-2.5), Energy (-1.4), Consumer Staples (-0.7), Communication Services (-0.6), Financials (-0.5), and Real Estate (1.0). The S&P 500 is now down 3.1% so far in 2020, with four sectors leading the index and three in positive territory. The leading sectors ytd: Information Technology (14.9), Consumer Discretionary (8.9), Communication Services (1.2), and Health Care (-0.3). The laggards of 2020 so far: Energy (-37.9), Financials (-25.4), Industrials (-15.2), Utilities (-10.4), Real Estate (-8.0), Consumer Staples (-6.6), and Materials (-6.2).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 4.6% for its biggest gain in four weeks. It's now down 25.1% from its recent high on 1/6, and still in a severe bear market at 33.8% below its cyclical high on 10/3/18. Natural Gas was the best performer last week, with a gain of 12.3%, followed by Unleaded Gasoline (8.8%) and Corn (7.6). Cocoa was the biggest decliner for the week, with a drop of 4.3%, followed by Lead (-0.5). June saw 17 of the 24 commodities climb as the S&P GSCI Commodities index rose 6.0% in its third straight monthly gain. That compares to 12 rising in May, when the S&P GSCI Commodities index rose 19.5%. June's best performers were GasOil (20.5), Heating Oil (14.5), Copper (12.1), and Unleaded Gasoline (11.4). June's laggards: Lean Hogs (-14.0), Cocoa (-10.9), and Kansas Wheat (-6.5). Just two of the 24 commodities that we follow are higher so far in 2020: Gold (17.5) and Silver (2.2). The next-best performers ytd: Copper (-1.5), Soybeans (-6.1), and Feeder Cattle (-6.5). The worst performers ytd: GasOil (-40.5), Heating Oil (-39.1), Brent Crude (-34.6), and Crude Oil (-33.4).

S&P 500 Technical Indicators ([link](#)): The S&P 500 rose 4.0% last week and improved markedly relative to both its short-term, 50-day moving average (50-dma) and its long-term, 200-day moving average (200-dma). It was above its 50-dma for a 12th week after seven weeks below, and moved back above its 200-dma again. It had been below its 200-dma for 13 weeks through late May, matching its prior streak that ended during February 2019. The index's 50-dma relative to its 200-dma improved for a seventh week after 12 declines, but the index remained in a Death Cross (with 200-dmas higher than 50-dmas) for a 15th week. It had

been in a Death Cross for 13 straight weeks ending in March 2019. The index's 50-dma improved last week to 0.6% below its 200-dma from 1.5% below in the prior week. It had been 9.9% below in mid-May, which was the worst reading since May 2009. During late February, the 50-dma had been 7.6% above its 200-dma, which was the highest since May 2012. The S&P 500's 50-dma rose for a seventh week after declining for 12 straight weeks. The price index improved to 3.9% above its rising 50-dma from 0.9% above its rising 50-dma a week earlier. The early June reading of 11.7% above its 50-dma had been the highest since May 2009, when it peaked at a record high of 14.0%. That compares to 27.7% below on 3/23—its lowest reading since it was 29.7% below on Black Monday, 10/19/87. The 200-dma rose for a seventh week and at a faster rate. It had been rising for 39 weeks through early March. The index was back above its 200-dma after falling below a week earlier for the first time in five weeks. It had been above for 38 weeks through mid-February. It ended the week 3.3% above its rising 200-dma, compared to 0.6% below a week earlier and 7.1% above in early June. That's up from 26.6% below on 3/23—its lowest reading since March 2009 and down from a 24-month high of 11.2% in mid-February. That compares to a seven-year high of 13.5% above its rising 200-dma during January 2018 and 14.5% below on 12/24/18, which was then the lowest since April 2009. At its worst during the Great Financial Crisis, the S&P 500 price index was 25.5% below its 50-dma on 10/10/08 and 39.6% below its 200-dma on 11/20/08.

S&P 500 Sectors Technical Indicators ([link](#)): Nine of the 11 S&P 500 sectors traded above their 50-dmas last week, up from four a week earlier and down from all 11 above in the three weeks around the start of June. Just five traded above their 200-dmas, up from three a week earlier. That compares to just one sector (Health Care) above both its 50-dma and 200-dma nine weeks ago. Communication Services, Consumer Discretionary, Health Care, Materials, and Tech are the only sectors that trade above both their 50-dmas and 200-dmas. Four sectors remain in the Golden Cross club (50-dmas higher than 200-dmas): Communication Services, Consumer Discretionary, Health Care, and Tech. At the prior low, just two sectors (Real Estate and Utilities) were in the club during February 2019. Energy has not been in a Golden Cross for 87 straight weeks. Utilities is the only sector with a falling 50-dma now. In early June, it had been rising for all 11 sectors for three straight weeks. That's still a big improvement from the beginning of May, when all 11 had falling 50-dmas for ten straight weeks. Five sectors have rising 200-dmas, unchanged from a week earlier: Communication Services, Consumer Discretionary, Health Care, Materials, and Tech. Financials' 200-dma was down for an 18th week, so long for the first time since late August. Energy's 200-dma has been mostly falling since October 2018.

US ECONOMIC INDICATORS

Employment ([link](#)): June's employment gain blew past forecasts, posting this series' second record increase in as many months. Payroll employment skyrocketed a record 4.8 million (vs the 2.9 million forecast), following a 2.7 million surge in May—higher than the preliminary gain of 2.5 million! The pandemic cut employment by a record 20.8 million in April—which had nearly reversed, in one month, the entire job gains posted since the Great Recession; March employment was 1.4 million lower. (Over the past two months, 7.5 million workers who had been temporarily laid off came back as the economy began to reopen.) Private industry jobs also surged a record 4.8 million, following an upwardly revised 3.2 million in May (vs 3.1 million), with service-providing and goods-producing jobs jumping 6.8 million and 1.2 million, respectively, over the two months through June. Leisure & hospitality jobs rebounded 3.5 million over the two months through June—with restaurants adding 2.9 million over the period. Other leading gainers over the two months through June were retail trade (+1.1 million), education & health services (967,000), other services (618,000), construction (611,000), manufacturing (606,000), and professional & business services (466,000). Posting more modest gains over the period were wholesale trade (79,900), transportation & warehousing (70,400), and financial activities (42,000); mining (-30,400) lost jobs.

Earned Income Proxy ([link](#)): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, climbed 2.4% in June and 5.9% during the two months ending June, following a 12.4% decline during the two months through April to its lowest reading since mid-2017. The average hourly earnings component of the EIP fell 1.2% in June and 2.2% during the two months ending June, though was more than offset by an 8.1% rebound in aggregate weekly hours—the EIP's other component—over the two-month period. Compared to a year ago, the EIP contracted 4.2% y/y, slowing from April's 8.9% drop, as the y/y decline in aggregate weekly hours slowed to 9.2 hours. Average hourly earnings, however, posted a 5.0% y/y increase.

Unemployment ([link](#)): The unemployment rate fell for the second month, to 11.1%, in June; this followed a huge jump in prior months—from a 50-year low of 3.5% in February and 4.4% in March up to an unprecedented monthly rate of 14.7% in April. The number of unemployed fell by 5.3 million during the two months ending June; prior to that, the rate had soared by 17.3 million over the two months through April to a record-high 23.1 million, which well exceeded the previous record high of 15.4 million recorded in October 2009. Unemployment rates for both Whites (to 10.1% from 14.2% in April) and Hispanics (14.5 from 18.9) fell in June from

April's record highs. In the meantime, the rate for Asians (13.8% from 15.0% in May) was down from May's record high, while the rate for African Americans (15.4% from 16.8%) was down from May's cyclical high. These rates were at 3.1%, 4.4%, 2.5%, and 5.8%, respectively, in February. Here's a snapshot of unemployment rates by education level, all of which dropped from April record highs: less than a high school degree (to 16.6% from 21.2%), high school degree (12.1 from 17.3), some college (10.9 from 15.0), and a Bachelor's degree & higher (6.9 from 8.4). These rates had been at 5.7%, 3.6%, 3.0%, and 1.9%, respectively, in February, prior to pandemic lockdown effects. The participation rate rebounded to 61.5% in June after sinking to 60.2% in April; it is 1.9ppts below February's 63.4%.

Wages ([link](#)): Average hourly earnings fell in June for the second month—by 1.2% m/m and 2.2% over the period—reflecting the return to work of lower-paid workers who had been on temporary leave owing to pandemic lockdowns. Their absence from the job market in the spring had pushed hourly earnings up 4.7% during April alone. The yearly rate eased for the second month, to 5.0% in June, after accelerating to a record-high 8.0% in April. The yearly wage rate for service-providing industries (to 5.5% from 8.8% y/y in April) decelerated for the second month in June, from April's record high, while goods-producing's (3.1% from 5.0) slowed from its cyclical high. Within the service-providing industries, the yearly wage rate for financial activities (6.1% y/y) continued to accelerate to new record highs, while the rate for education & health services (3.2%) eased from May's record high of 3.7%. Meanwhile, several of the wage rates that shot up in April moved lower in May and June: Leisure & hospitality (to 2.7% in June from 8.9% y/y in April), retail trade (5.7% from 8.3), professional & business services (4.5 from 6.8), wholesale trade (3.0 from 4.5), and transportation & warehousing (2.4 from 4.3). There were no major moves up in wage rates for either the utilities (3.9% y/y) or information services (3.3) industries in recent months. In the meantime, within goods-producing companies, the wage rate in manufacturing eased to 3.2% y/y last month after soaring to a new record high of 6.7% in April, which was double the rate earlier this year. The rate for construction (2.9% y/y) workers bounced around recent lows, while the rate for natural resources (4.2) companies has been stalled around recent highs so far this year.

Merchandise Trade ([link](#)): The real merchandise trade deficit in May widened for the third month, to -\$86.5 billion, after narrowing from -\$81.2 billion at the end of last year to -\$68.3 billion in February—which was the lowest since February 2015. The April/May average deficit of -\$83.5 billion compares with an average Q1 deficit of -\$73.9 billion, suggesting that trade was a major drag on real GDP growth during Q2—after sizeable positive contributions the prior two quarters. (Trade added 1.31ppt to Q1 real GDP and 1.51ppt to Q4-2019's.) Real exports

tumbled for the third month, by 5.9% in May and a whopping 29.6% over the period, while real imports fell at a considerably slower pace, down 0.4% and 12.1% over the respective periods. Since the pandemic hit, big declines in exports occurred in autos (-74.7% over the three months through May), consumer goods ex autos (30.7), capital goods ex autos (-29.2), and industrial supplies & materials (-23.2), while food exports were flat over the period. Here's the same exercise for imports over the three-month period: Autos (-70.8%), consumer goods ex autos (-9.8), capital goods ex autos (-9.0), and food (-3.4). Imports of industrial supplies & materials was an outlier—soaring 30.8% over the three-month period to a new cyclical high.

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