MORNING BRIEFING
July 13, 2020

Bad Earnings & Good Yearnings

Check out the accompanying chart collection.

(1) The seasons, they go round and round. (2) Magnificent Six leading the way. (3) Discounting better earnings. (4) Bank managements will have some good and bad news. (5) Banks will have to boost loan-loss reserves some more. (6) Business borrowers cash in lines of credit. (7) Credit-card debt declines as delinquencies rise. (8) Commercial real estate is in a world of trouble. (9) Investment bankers are fully employed. (10) Unlike most recessions, this one has some winners in addition to plenty of losers. (11) From FANG to FANGMANT. (12) Opting to benchmark to S&P 500 equal-weighted index rather than market-weighted one. (13) Movie review: "Greyhound" (+ +).

Strategy I: Earnings Season Starting. Here we go again, as we do on a quarterly basis: It's the start of another earnings reporting season. This one is going to be exceptional—that is, exceptionally bad. We all know that. Yet the S&P 500 is up 42.4% since March 23 (*Fig. 1*). It is down only 1.4% ytd and up 5.7% y/y. It needs to rise by only 6.3% to match its February 19 record high.

It is also widely recognized that the meltup since March 23 has been led by the Magnificent Six FAANGMs stocks, as Joe and I discussed last Monday. Their aggregate market capitalization is up 61.0% since March 23, while the market cap of the S&P 500 with them is up 42.0% and without them is up 36.3% (*Fig. 2*). Their market-cap share of the S&P 500 has soared from 15.0% at the start of 2018 to 26.1% on Friday (*Fig. 3*).

Nevertheless, the rally off the March 23 bottom has been broad based. Here's the performance derby since then through Friday's close for the S&P 500 sectors: Consumer Discretionary (57.7%), Information Technology (53.4), Materials (51.0), Energy (49.3), Communication Services (39.7), Industrials (39.5), Real Estate (37.0), Health Care (34.8), Financials (32.8), Utilities (28.9), and Consumer Staples (23.6) (*Fig. 4*). The S&P 500 Transportation stock price index is up 36.7% over this same period.

As bad as the Q2 earnings reporting season is likely to be, investors are clearly yearning for better times and already discounting them in current stock prices. Let's review what we know about the awful earnings season ahead and whether investors' yearnings for better earnings are realistic:

(1) *Really bad quarter.* The good news is that industry analysts have been cutting their quarterly earnings estimates for the rest of this year at a much slower pace in recent weeks after slashing them in the weeks after the World Health Organization declared a global pandemic on March 11 (*Fig. 5* and *Fig. 6*). Nevertheless, as of the July 2 week, they estimated that S&P 500 operating earnings per share during Q2, Q3, and Q4 will be down on a y/y basis by 43.9%, 25.6%, and 13.8% as a result of the Great Virus Crisis (GVC). During the Great Financial Crisis (GFC), the worst y/y decline was -65.6% in Q4-2008.

Here is the latest performance derby for analysts' consensus y/y earnings expectations for the 11 sectors of the S&P 500 during Q2: Utilities (-2.5%), Information Technology (-8.0), Health Care (-15.0), Real Estate (-15.0), Consumer Staples (-15.7), Materials (-38.0), S&P 500 (-43.9), Financials (-48.3), Industrials (-89.0), Consumer Discretionary (-114.2), and Energy (-153.4).

(2) *Perennial optimism.* On an annual basis, analysts' consensus earnings expectations are currently $124.81 this year (down 23.4% y/y), $163.32 next year (up 30.9%), and $186.34 (up 14.1%) in 2022 (*Fig. 7*). S&P 500 forward earnings, the time-weighted average of consensus expected earnings in the current year and coming year, seems to have bottomed eight weeks ago; it edged up to $144.81 during the July 2 week. Like the analysts, we expect that earnings will start recovering during the second half of the year. However, we think that they may still be too optimistic since our annual earnings-per-share estimates are lower than theirs currently: 2020 ($120), 2021 ($150), and 2022 ($175).

Strategy II: Banks on First. The earnings season will begin next week with lots of reports from banks, which typically kick off the earnings seasons. They are likely to report some bad news and some good news. Consider the following:

(1) *Dividends.* On June 25, the Fed published the results of stress tests on 33 banks. As a result, Wells Fargo & Co. said it would cut its dividend, while most others said they would maintain theirs. But unlike in years past, when stress test participants typically disclosed full-

year allotments for shareholder payouts, banks mostly confined themselves to guidance on dividends for Q3, sometimes with caveats that things might change.

Almost all the banks reported common equity Tier 1 (CET1) ratios in Q1 that exceed new requirements due to go into effect in Q4. However, a July 8 S&P Global report observed: "The Fed's auxiliary 'coronavirus event' analysis, which did not disclose individual firm results, is perhaps more telling about the provisional nature of the June results. Under a 'W-shaped' double-dip recession scenario, the simulation found that losses would push a quarter of the 33 stress test banks to a CET1 ratio of 4.8% or less. The minimum is 4.5%." The report identifies some of the banks that might be forced to cut their dividends in that scenario.

(2) *Provisioning for more losses.* While it is unlikely that there will be any significant announcements about dividend cuts by the banks during their conference calls this week, they are likely to boost their provisions for loan losses as a result of the ongoing GVC. Jackie and I are closely monitoring a weekly series compiled by the Fed on "allowance for loan & lease losses" at all commercial banks. It jumped from $112.9 billion at the start of this year to $168.7 billion during the July 1 week (*Fig. 8*). We think it is headed higher. The previous record high in this series was $235.2 billion during the week of April 21, 2010.

The good news (sort of) is that commercial and industrial loans jumped $745 billion from mid-February though early May (*Fig. 9*). The bad news is that the recent spike reflected a mad dash to cash lines of credit by businesses that faced a cash crunch resulting from GVC lockdowns. As the economy gradually reopens, these loans are likely to be repaid. In fact, they are down $228 billion since early May through the July 1 week.

Also in the negative column is credit-card debt outstanding, which is down $109 billion over the three months through May, which will reduce the fees earned by banks from these loans (*Fig. 10*). The delinquency rate on credit-card loans overdue by 90 days or more jumped to 9.1% during Q1, the highest since Q4-2013, which will increase the losses incurred by banks for these loans (*Fig. 11*). The comparable rate on auto loans rose to 5.1% during Q1, the highest since Q1-2011. It undoubtedly continued to rise during Q2, though government emergency benefit payments might have moderated the jump.

(3) *Commercial real estate.* On June 10, *American Banker* reported: "Commercial developers could be the banking industry's next big credit risk. Many retailers, crippled by lower foot traffic tied to the coronavirus outbreak, didn't pay their loans in May, with some banks reporting

delinquency rates as high as 40%. If a similar percentage of stores are falling behind on their rent, it could create cash flow issues for landlords. That might mean more bankruptcies, increased defaults on commercial real estate loans and greater stacks of soured loans for bankers to work through."

Corporate bankruptcies rose by 48% in May from a month earlier, with 724 businesses filing for Chapter 11 protection, according to data compiled by the legal-services firm Epiq Global. Bankruptcies had already risen by 30% during April. Three prominent retailers—J. Crew, Neiman Marcus, and JCPenney—were among the companies that filed for bankruptcy protection. They've been followed by Brooks Brothers, GNC Holdings, and Sur La Table. The following are closing retail locations: Bed, Bath & Beyond (200), AT&T (250), Microsoft (all of them).

US retailers are on track to close between 20,000 and 25,000 stores this year, about 60% of them in malls, according to a June report from Coresight Research, a retail research firm. That's up from the firm's previous estimate in mid-March of 15,000 closings, and it would surpass the record 9,000 store closures last year.

(4) *Some positives.* Of course, the flat yield curve means that net interest margins shrank during Q2. On the other hand, the banks earned some fees making loans under the government's Paycheck Protection Program. In addition, the Fed's QE4Ever program, launched on March 23, poured liquidity into financial markets, stimulating a tidal wave of bond and stock issuance.

The July 9 *WSJ* reported: "Thanks to a flood of new-stock issuance and a resilient IPO market, companies raised nearly $190 billion from the end of March through the end of June, the most ever in a single quarter for the U.S. equity-capital markets, according to Dealogic, whose data go back to 1995.

"The wave started in the convertible-bond market as the Federal Reserve gobbled up more bonds to help stimulate the economy. Then it spread to large stock sales by publicly traded companies looking to bolster their coffers as the virus threatened business. Those successes emboldened other companies looking to raise money opportunistically by selling stock. Then, in late May, initial public offerings jolted back to life."

Over the past 12 months through May, the 12-month sum of new US corporate bonds and stocks rose to $2,413 billion, the highest since December 2007 (*Fig. 12*). New bond issuance totaled $2,213 billion, while new equity issuance totaled $200 billion. Most of these were issued in recent months.

Dealogic estimates that equity-capital-markets transactions brought in roughly $5.7 billion in fees in the first half of the year. In June, $17.2 billion was raised in IPOs, which tend to generate the highest-margin fees for banks in equity capital markets. There's bound to be lots of M&A activity over the rest of this year as many weak businesses are acquired by stronger ones.

(5) *Bottoming forward earnings.* The forward earnings of the S&P 500 Financials sector got clobbered during the spring, plunging 32.0% from its cyclical high during the March 5 week to its recent low during the April 30 week, led by a 48.4% freefall in the forward earnings of Diversified Banks (*Fig. 13*). But both have been edging higher in recent weeks.

Strategy III: Winners & Losers. During most recessions, there are many more losers than winners. In fact, it's hard to come up with many companies or businesses that benefit from economic downturns. The current GVC recession, on the other hand, clearly has some very visible winners. That's evidenced by the clear outperformance of the FAANGM (Facebook, Amazon, Apple, Netflix, Google's parent Alphabet, and Microsoft) stocks. As Joe and I observed in our July 6 *Morning Briefing* focused on them: "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." Consider the following:

(1) *Information Technology.* Contrary to popular belief, only two of the FAANGMs are included in the S&P 500 Information Technology sector. They are Apple and Microsoft, and account for a whopping 45.1% of the sector's market cap. They've clearly contributed greatly to the sector's outperformance in recent years—especially during the recent meltup, with gains of 71.0% and 57.1%, respectively, since March 23. They've also helped to boost the forward earnings of S&P 500 Technology Hardware, Storage & Peripherals, and S&P 500 Systems Software (*Fig. 14*).

Another notable outperforming tech stock is Nvidia. It is up 97.1% since March 23. It has a market cap of $258 billion, accounting for 48.7% of the Information Technology sector in combination with Apple and Microsoft. It undoubtedly muted the recent downturn and is now adding to the upturn in the forward earnings of the S&P 500 Semiconductor industry (*Fig. 15*).

Joe and I are considering adding Nvidia to the Magnificent Six. Our acronym for the resulting Magnificent Seven would be "FANGMAN," which rhymes forebodingly with "hangman." Many institutional investors in actively managed equity portfolios are telling us that they can't match the overweight of these stocks in the S&P 500 without violating their mandate to rebalance when any stock exceeds a certain maximum percentage of their portfolio, such as 4% in a portfolio with 25 stocks. Some are opting for benchmarking to the S&P 500 equal-weighted index rather than the market-cap weighted index, if they can.

(2) *Consumer Discretionary.* The Consumer Discretionary sector accounts for 11.3% of the S&P 500's market cap, and Amazon accounts for an extraordinary 53.7% of the sector's market cap.

Online sales accounted for a record 50.7% of GAFO (general merchandise, apparel and accessories, furniture, and other sales) sales, which includes sales of gift stores and retailers that specialize in department-store types of merchandise such as furniture & home furnishings, electronics & appliances, clothing & accessories, sporting goods, hobby-related goods, books, music, general merchandise, office supplies, and stationery (*Fig. 16*). That's up from 36.0% during February. That means that brick-and-mortar stores that compete with online vendors saw their share plummet from 64.0% during February to 49.3% during April. There will clearly be winners and losers among retailers during the Q2 earnings season.

If Standard & Poor's adds Tesla to the S&P 500 Consumer Discretionary sector, as recent buzz suggests, then we can have the Magnificent Eight, or FANGMANT, which sounds like "figment," as in "figment of the imagination"! With a market capitalization of about $286 billion, Tesla would be among the most valuable companies ever added to the S&P 500, larger than 95% of the index's existing components. Its addition would have a major impact on investment funds that track the index. Since March 23, Tesla's stock price is up 255.7%.

(3) *A long road for Transports.* It will be interesting to hear the forward guidance provided by the railroad and trucking industries. Their fundamentals were awful during Q2. The 26-week moving average of railcar loadings fell to 451,000 during the July 4 week, little changed from

447,000 during the June 20 week, which was the lowest reading since mid-August 2009 and around the previous recession's trough (*Fig. 17*). However, excluding coal loadings, it was still 27% above the previous recession's low point. Intermodal railcar loadings are also down sharply, but still 32% above the previous recession's bottom in this series.

The ATA Truck Tonnage Index plunged 11.2% from its record high during March through May to the slowest pace since July 2017 (*Fig. 18*). As we discussed on Thursday, that decline coincides with the 43% drop in gasoline usage from the March 13 week through the April 24 week, when it bottomed at 5.3mbd. Since then through the July 3 week, gasoline usage is up 60% to 8.5mbd, from which point it would need to rise another 14% to get back to a normal 9.7mbd pace of fuel consumption. This suggests that both retail and commercial traffic are increasing. So we expect to see a rebound in the ATA index for June and July. Let's see what railroad and trucking company managements have to say.

Movie. "Greyhound" (+ +) (*link*) is a film written by and starring Tom Hanks. It pays homage to the brave Allied sailors who manned the naval convoys that crossed the North Atlantic during WW II with American supplies for the war effort in Europe. They were relentlessly attacked by Nazi U-boats, and were particularly vulnerable in the "Black Pit," where the convoys couldn't be protected with aerial support. The Battle of the Atlantic was the longest continuous military campaign in the war, running from September 1939 to the defeat of Germany in May 1945. For a few months in 1941, British codebreakers at Bletchley Park led by Alan Turing were able to rout convoys around the U-boats.

CALENDARS

US: Mon: Monthly Budget Statement, Williams. **Tues:** NFIB Small Business Optimism Index, Headline & Core CPI 0.6%/1.1% y/y, API Crude Oil Inventories, Brainard. (DailyFX estimates)

Global: Mon: Japan Industrial Production -8.4%m/m/-25.9%y/y, China Balance of Trade $58.6b, Panetta, Bailey. **Tues:** Eurozone Industrial Production 13.4%m/m/-20.5%y/y, Eurozone ZEW Economic Confidence Index 60, Germany CPI 0.6%m/m/0.9%y/y, UK GDP -17.5% 3m/3m, UK Industrial Production 6.0%m/m/-21.0%y/y, Manufacturing Production 8.0%m/m/-24.0%y/y, BOJ Interest Rate Decision -0.1%, BOJ Quarterly Outlook Report.. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): Two of these indexes fell last week, but LargeCap was up for a second week. LargeCap rose 1.8% for the week, better than the 0.3% decline for MidCap and 0.8% drop for SmallCap. LargeCap has been out of a bear market for 13 weeks, and was out of a correction for a second straight week. LargeCap is now 5.9% below its 2/19 record high. MidCap was back in a correction for a fifth week and weakened to 15.8% below its record high on 1/16. SmallCap remains the worst performer, back in a bear market for a fifth week and 25.6% below its 8/29/18 record. Fourteen sectors rose for the week, down from all 33 rising 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. LargeCap Consumer Discretionary was the best performer last week with a gain of 4.8%, ahead of LargeCap Communication Services (4.7), LargeCap Tech (2.7), LargeCap Consumer Staples (2.5), and LargeCap Financials (2.2). LargeCap Energy was the biggest underperformer last week with a decline of 4.6%, followed by SmallCap Real Estate (-4.2), MidCap Real Estate (-3.6), MidCap Energy (-2.3), and SmallCap Utilities (-2.2). All three indexes are still down on a ytd basis, but LargeCap's 1.4% drop is much smaller than those of MidCap (-14.1) and SmallCap (-20.0). Just five of the 33 sectors are now positive so far in 2020, with the best performers led by LargeCap Information Technology (18.0), LargeCap Consumer Discretionary (14.2), MidCap Health Care (7.8), SmallCap Communication Services (6.3), and LargeCap Communication Services (5.9). The biggest laggards of 2020 to date: SmallCap Energy (-55.4), MidCap Energy (-49.2), LargeCap Energy (-40.8), SmallCap Financials (-33.2), SmallCap Real Estate (-29.9), and MidCap Real Estate (-28.2).

S&P 1500/500/400/600 Performance (*link*): Two of these indexes fell last week, but LargeCap was up for a second week. LargeCap rose 1.8% for the week, better than the 0.3% decline for MidCap and 0.8% drop for SmallCap. LargeCap has been out of a bear market for 13 weeks, and out of a correction for two straight weeks. LargeCap is now 5.9% below its 2/19 record high. MidCap was back in a correction for a fifth week last week and weakened to 15.8% below its record high on 1/16. SmallCap remains the worst performer, back in a bear market for a fifth week and 25.6% below its 8/29/18 record. Fourteen sectors rose for the week, down from all 33 rising 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. LargeCap Consumer Discretionary was the best performer last week with a gain of 4.8%, ahead of LargeCap Communication Services (4.7), LargeCap Tech (2.7), LargeCap Consumer Staples (2.5), and LargeCap Financials (2.2). LargeCap Energy was the biggest underperformer last week with a decline of 4.6%, followed by SmallCap Real Estate (-4.2), MidCap Real Estate (-3.6), MidCap Energy (-2.3), and SmallCap Utilities (-2.2). All three indexes are still down on a ytd basis, but LargeCap's 1.4% drop is much smaller than those of MidCap (-14.1) and SmallCap (-20.0). Just five of the 33 sectors are now positive so far in 2020, with the best performers led by LargeCap Information Technology (18.0), LargeCap Consumer Discretionary (14.2), MidCap Health Care (7.8), SmallCap Communication Services (6.3), and LargeCap Communication Services (5.9). The biggest laggards of 2020 to date: SmallCap Energy (-55.4), MidCap Energy (-49.2), LargeCap Energy (-40.8), SmallCap Financials (-33.2), SmallCap Real Estate (-29.9), and MidCap Real Estate (-28.2).

S&P 500 Sectors and Industries Performance (*link*): Six of the 11 S&P 500 sectors rose last week as five outperformed the index's 1.8% rise. That compares to a 4.0% rise for the S&P 500 a week earlier, when all 11 sectors rose and seven outperformed the index. The 4.8% gain for Consumer Discretionary made it the best performer for the week, ahead of Communication Services (4.7%), Information Technology (2.7), Consumer Staples (2.5), and Financials (2.2). Energy was the biggest underperformer with a decline of 4.6%, followed by Real Estate (-1.8), Industrials (-1.4), Health Care (-0.9), Utilities (-0.2), and Materials (0.8). The S&P 500 is now down 1.4% so far in 2020, with four sectors leading the index and three in positive territory. The leading sectors ytd: Information Technology (18.0), Consumer Discretionary (14.2), Communication Services (5.9), and Health Care (-1.2). The laggards of 2020 so far: Energy (-40.8), Financials (-23.7), Industrials (-16.4), Utilities (-10.6), Real Estate (-9.6), Materials (-5.4), and Consumer Staples (-4.3).

Commodities Performance (*link*): Last week, the S&P GSCI index rose 1.5% for its ninth gain in 11 weeks. It's now down 24.0% from its recent high on 1/6, and still in a severe bear market at 32.8% below its cyclical high on 10/3/18. Wheat was the best performer last week, with a gain of 8.5%, followed by Zinc (7.4%), Copper (5.6), and Natural Gas (5.5). Coffee was the biggest decliner for the week, with a drop of 5.6%, followed by Sugar (-3.9) and Corn (-1.8). Just three of the 24 commodities that we follow are higher so far in 2020: Gold (19.5), Silver (6.3), and Copper (4.0). The next-best performers ytd: Nickel (-3.6), Lead (-3.9), and Zinc (-3.9). The worst performers ytd: GasOil (-39.5), Heating Oil (-38.3), Brent Crude (-34.3), and

Crude Oil (-33.4).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 1.8% last week and improved 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 13th week after seven weeks below, and above its 200-dma for the sixth time in seven weeks. 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 an eighth week after 12 declines and moved into a Golden Cross (with 50-dmas higher than 200-dmas) last week after 15 weeks in a Death Cross. Before the 2020 meltdown, it had last been in a Death Cross for 13 straight weeks ending in March 2019. The index's 50-dma improved last week to 0.2% above its 200-dma from 0.6% 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 an eighth week after declining for 12 straight weeks. The price index improved to 4.8% above its rising 50-dma from 3.9% 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 an eighth week and at a faster rate. It had been rising for 39 weeks through early March. The index was above its 200-dma for a second week 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 4.9% above its rising 200-dma, compared to 3.3% above 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*): Ten of the 11 S&P 500 sectors traded above their 50-dmas last week, up from nine a week earlier and down from all 11 above in the three weeks around the start of June. Just six traded above their 200-dmas, up from five a week earlier and three the week before that. That compares to just one sector (Health Care) above both its 50-dma and 200-dma nine weeks ago. Energy is the only sector that trades below both its 50-dma and 200-dma. Just four sectors are in the Golden Cross club (50-dmas higher than 200-dmas): Communication Services, Consumer Discretionary, Health Care, and Tech. At the prior low during February 2019, just two sectors (Real Estate and Utilities) were in the club. Energy has not been in a Golden Cross for 88 straight weeks. Energy 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 a 19th week, so long for the first time since late August. Energy's 200-dma has been mostly falling since October 2018.

US ECONOMIC INDICATORS

Producer Price Index (*link*): The Producer Price Index for final demand in June fell for the fourth time in five months, by 0.2% m/m and 1.6% over the time span—with recent declines pushing the yearly rate into negative territory in April (-1.2% y/y) for the first time in nearly four years. The rate narrowed to -0.8% y/y in May and held at that rate in June; it started the year at an eight-month high of 2.0%. Prices for final demand services also declined for the fourth time in five months, by 0.3% m/m and 0.8% over the period, pushing the yearly inflation rate just below zero (-0.1% y/y)—down from 1.9% at the start of the year. Prices for final demand goods edged up 0.2% last month, after rebounding a record 1.6% in May—which followed a three-month slide of 5.2%. Energy (7.7) prices led June's advance, partially offset by a sharp drop in food (-5.2) prices. Core final demand goods prices ticked up 0.1% during the month. The yearly goods rate fell 2.6% y/y, narrowing from April's -5.0%. In the meantime, there's still deflation in the pipeline: Intermediate goods prices fell 5.0% y/y in June, easing for the second month from April's -7.3%, which was the lowest since November 2015 (its 14th consecutive negative reading). Crude prices fell 14.4% y/y (its 18th consecutive negative reading)—down steadily from April's -28.2%, which was the steepest decline since September 2009.

GLOBAL ECONOMIC INDICATORS

France Industrial Production (*link*): Production soared at a record pace in May after back-to-back record declines the prior two months. An easing in coronavirus containment measures in May triggered a larger-than-expected 19.6% (vs 12.5% estimate) surge in headline production, after record declines in both April (-20.6%) and March (-17.0). May output was 21.2% below February's pre-COVID-19 level. Manufacturing production followed suit, soaring a record 22.0% in May, following record losses in March and April of 19.2% and 22.3%, respectively—leaving May's level 23.5% below February's pre-virus reading. Here's a snapshot of how production in the main industrial groupings have performed in recent months: consumer durable goods (+186.7% in May & -78.4% during the two months through April), intermediate goods (+28.8 & -39.8), capital goods (+28.5 & -47.5), and consumer nondurable goods (+7.7 & -17.6)—with consumer durable goods driven by a surge in motor vehicle output. IHS Markit's June report on France's manufacturing sector was very encouraging, with the M-PMI (to 52.3 from 40.6) shooting past the breakeven point of 50.0—underpinned by a sharp expansion in production.

Italy Industrial Production (*link*): Italy's industrial production blew past forecasts in May, catapulting 42.1%—nearly double the 24.0% guesstimate. Output in the manufacturing sector shot up a record 47.3% after plunging 22.6% and 30.7% the prior two months. Similar to France, consumer durable goods (+381.2% m/m & -86.1% during the two months ending April) production led May gains (on a rebound in motor vehicle output), followed by capital goods (65.8 & -54.2), intermediate goods (48.0 & -46.6), and consumer nondurable goods (+17.4 & -28.5). IHS Markit's June report on Italy's manufacturing sector showed the downturn eased further in June, rising to 47.5% from 45.4% in May and 31.1% in April. The report noted: "Central to the softer deterioration in conditions was the first increase in output for nearly two years, amid reports of looser lockdown restrictions and further company re-openings."

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