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MORNING BRIEFING
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US-China Cold War Heating Up

Check out the accompanying chart collection.

(1) December 11, 2001: Was it another Day of Infamy? (2) Unlike previous US presidents, Trump goes very public on US complaints against China. (3) A long-festering problem. (4) Meet Peter Navarro, again: America's foremost critic of China. (5) More Cold War speeches from top US officials. (6) Phase 2 has been phased out. (7) Drawing a line in the South China Sea. (8) Banning Chinese companies and moving supply chains out of China. (9) Even the US Attorney General blasts China. (10) Chernobyl, COVID-19, and the Three Gorges Dam. (11) Update: Stay Home or Go Global? (12) Movie review: "Washington" (+ + +).

Geopolitics I: Declarations of War. China's mercantilist trade war against the US effectively started when China joined the World Trade Organization (WTO) on December 11, 2001. The US supported China's admission to the WTO, expecting that China would abide by the organization's rules, which mostly promoted free trade among its 144 member nations back then. (There are 164 members currently.) Instead, the Chinese abused their membership by pursuing mercantilist trade policies. They persistently and systematically violated the organization's trade rules by using their WTO status to unfair advantage.

However, US officials didn't publicly acknowledge that the US had been duped until Donald Trump became president. During the presidential election campaign, Trump often promised to take effective measures to correct America's huge bilateral trade deficit with China. He called China one of the "greatest currency manipulators ever." He declared that he would instruct the Treasury Department to so label China when he became president.

On April 13, 2018, the Treasury Department, in its biannual currency exchange report, scolded China for its lack of progress in reducing the trade deficit with the US but did not find that it was improperly devaluing its currency, the renminbi. Actually, it was the third time since Trump assumed the presidency that the Treasury Department opted not to accuse China of improper meddling. Instead, the administration opted for tariffs as an alternative means to pressure the Chinese to fix the trade problem.

By the way, previous administrations recognized the problem, but chose a less public and lower-key diplomatic approach to get China to change its ways. For example, to kick-start negotiations to resolve the problem, the Clinton administration slapped the "currency manipulator" label on China in 1994. That was well before China was admitted to the WTO.

In other words, the problem has been festering for a very long time indeed. The US merchandise trade deficit with China was $29.5 billion in 1994 (*Fig. 1*). Even back then, it was almost 20% of the total US trade deficit (*Fig. 2*). By 2018, it was up to $419.0 billion, accounting for 48% of the total trade gap.

Let's briefly review the escalating tensions in the Cold War between the US and China, before we get to the latest declaration of a cold war by US Attorney General William P. Barr:

(1) *Peter Navarro is still Trump's China hawk.* Unlike most of President Donald Trump's early-term advisers, Peter Navarro is still in the White House. Melissa and I profiled him in our March 8, 2018 *Morning Briefing,* fittingly titled "Meet Peter Navarro." We wrote that "the White House director of the National Trade Council seems to be gaining influence and may even be up for a promotion." Sure enough, he since has been promoted to assistant to the President, Director of Trade and Manufacturing Policy, and the national Defense Production Act policy coordinator.

Navarro long has been a critic of China's mercantile trade practices. In fact, he literally wrote the book on this subject in 2011, fittingly titled *Death by China: Confronting the Dragon—A Global Call to Action*. Here is an excerpt from the book's Amazon description: "The world's most populous nation and soon-to-be largest economy is rapidly turning into the planet's most efficient assassin. Unscrupulous Chinese entrepreneurs are flooding world markets with lethal products. China's perverse form of capitalism combines illegal mercantilist and protectionist weapons to pick off American industries, job by job. China's emboldened military is racing towards head-on confrontation with the U.S. Meanwhile, America's executives, politicians, and even academics remain silent about the looming threat." Most importantly, above and beyond China's unfair trade practices, Navarro strongly suggested that China posed an existential threat to America's national security.

(2) *The President's 2018 UN speech.* In his September 25, 2018 speech before the United Nations General Assembly, Trump said the following about China, focusing on trade: "The

United States lost over 3 million manufacturing jobs, nearly a quarter of all steel jobs, and 60,000 factories after China joined the WTO. And we have racked up $13 trillion in trade deficits over the last two decades. But those days are over. We will no longer tolerate such abuse. We will not allow our workers to be victimized, our companies to be cheated, and our wealth to be plundered and transferred. America will never apologize for protecting its citizens. … China's market distortions and the way they deal cannot be tolerated."

(3) The *Vice President's 2018 speech*. In an October 4, 2018 speech at the Hudson Institute, Vice President Mike Pence discussed the administration's case against China in far greater detail. He started out by warning: "Beijing is employing a whole-of-government approach, using political, economic, and military tools, as well as propaganda, to advance its influence and benefit its interests in the United States."

The rest of the speech was a no-holds-barred blistering attack on the Chinese government. He accused the Chinese Communist Party (CCP) of using "an arsenal of policies inconsistent with free and fair trade, including tariffs, quotas, currency manipulation, forced technology transfer, intellectual property theft, and industrial subsidies that are handed out like candy to foreign investment." He specifically berated the party's "Made in China 2025" plan for aiming to control 90% of the "world's most advanced industries including robotics, biotechnology, and artificial intelligence." He accused China of economic and military aggression abroad. Pence also documented instances of China using so-called "debt diplomacy" to expand its influence. Pence accused the Chinese government of oppressing its own people at home. He stated that the US was taking steps "to protect our national security from Beijing's predatory actions."

The S&P 500 plunged 19.8% from September 20 through December 24, 2018. In our October 15, 2018 *Morning Briefing* titled "Panic Attack #62," we listed six reasons for the selloff. We included the Veep's speech: "Also setting the stage for last week's selloff was a 10/4 speech by Vice President Mike Pence detailing the Trump administration's long list of complaints against China. It wasn't just about trade. …. Pence's speech made it clear that the problem is that China aspires to be a superpower at the expense of the US. While Trump seems to be winning his trade wars with most of America's major trading partners, the conflict with China is likely to worsen because it isn't just about trade. It is about national security."

(4) *The President's 2019 UN speech.* In a September 24, 2019 speech at the UN, Trump again called out China, berating Beijing as follows: "In 2001, China was admitted to the WTO. Our leaders then argued that this decision would compel China to liberalize its economy and

strengthen protections … for private property and for the rule of law. Two decades later, this theory has been tested and proven completely wrong. Not only has China declined to adopt promised reforms, it has embraced an economic model dependent on massive market barriers, heavy state subsidies, currency manipulation, product dumping, forced technology transfers, and the theft of intellectual property and also trade secrets on a grand scale."

(5) *No Phase 2 to follow Phase 1.* After an escalating trade war between the US and China during 2018 and 2019, with both sides raising their tariffs on the other, both parties signed a "Phase 1" trade agreement at the start of this year. It deescalated the trade tensions but left some of the toughest issues for a future Phase 2 deal. While Phase 1 focused mainly on Chinese purchases of US goods, improved US access to China's financial services market, and some intellectual property issues, Phase 2 was meant to tackle far more difficult issues associated with China's technology transfer policies, industrial espionage, and government subsidies to state-owned enterprises.

On Tuesday, July 14, Trump shut the door on the next round of trade negotiations with China, saying he does not want to talk to Beijing about trade because of the coronavirus pandemic. "We made a great trade deal," Trump said, of the Phase 1 agreement signed in January. "But as soon as the deal was done, the ink wasn't even dry, and they hit us with the plague," he said, referring to the novel coronavirus, which emerged from the Chinese city of Wuhan.

At the White House, Trump also announced that he signed legislation and an executive order to hold China accountable for the "oppressive" national security law it imposed on Hong Kong. The measure approved by Congress gives Trump's administration the authority to penalize banks doing business with Chinese officials who implement Beijing's new national security law on Hong Kong. Trump said he has no plans to talk with Chinese President Xi Jinping.

(6) *Pompeo weighs in.* In a statement on Monday, July 13, US Secretary of State Mike Pompeo said he was aligning the US position on China's maritime claims in the South China Sea with the 2016 ruling of an international arbitral tribunal in The Hague. This places the US squarely behind the interests of Vietnam, Malaysia, Indonesia, Brunei, and the Philippines, all of which have serious disputes with Beijing.

On Thursday, July 16, Pompeo repeated the administration's charge that the Chinese government "was aware of human-to-human transmission" of the coronavirus "before they shared this with the world." The day before, he said, "I'm very confident that the world will look at China differently and engage with them on fundamentally different terms than they did before this catastrophic disaster."

(7) *Raising other barriers.* The Senate passed legislation on May 15 that could ban many Chinese companies from listing shares on US exchanges or raising money from American investors without adhering to Washington's regulatory and audit standards. That same day, the Trump administration issued a new rule that will bar Huawei and its suppliers from using American technology and software, a significant escalation in the White House's battle with the Chinese telecom giant and one that is likely to inflame tensions with Beijing. The rule change, which is slated to go into effect in September, will block companies around the world from using American-made machinery and software to design or produce chips for Huawei or its entities.

On August 15, companies that bid on US federal contracts must certify that they do not use banned products or services from telecom giants Huawei and ZTE, camera makers Hangzhou Hikvision Digital Technology and Zhejiang Dahua Technology, or radio manufacturer Hytera Communications. Washington cites the risk of sensitive information leaking to Beijing.

Taiwan Semiconductor Manufacturing Co. Ltd stopped taking new orders from Huawei in May and does not plan to ship wafers after September 15. On July 14, Britain announced that it would ban equipment from Huawei from the country's high-speed wireless network, a victory for the Trump administration that escalates the battle between Western powers and China over critical technology.

Last week, reports surfaced that the White House is considering putting TikTok on a blacklist that effectively would prevent Americans from using the popular video app, as one option to prevent China from obtaining personal data via the social media platform.

(8) *Japan paying companies to leave China*. On July 18, Bloomberg reported that the Japanese government will pay at least $536 million for companies to leave China: "Japan's government will start paying its companies to move factories out of China and back home or to Southeast Asia, part of a new program to secure supply chains and reduce dependence on manufacturing in China."

(9) *The Attorney General's speech***.** On Thursday, July 16, Attorney General William Barr warned that the CCP has launched an "economic blitzkrieg" to topple the US from its perch as

the world's superpower, laying out the threat as the most important issue of this century and calling for the Free World to join together in a "whole of society approach" against it.

"How the United States responds to this challenge will have historic implications and will determine whether the United States and its liberal democratic allies will continue to shape their own destiny or whether the CCP and its autocratic tributaries will control the future," Barr said during a July 17 speech in Michigan.

In some ways, Barr's speech was even more blistering than Pence's speech in 2018. He got personal: "The General Secretary of the Chinese Communist Party, Xi Jinping, who has centralized power to a degree not seen since the dictatorship of Mao Zedong, now speaks openly of China moving 'closer to center stage,' 'building a socialism that is superior to capitalism,' and replacing the American Dream with the 'Chinese solution.'"

As Pence had done in his speech, Barr blasted the CCP's "Made in China 2025" initiative to dominate high-tech industries like robotics and information technology and electric vehicles, which "poses a real threat to US technological leadership." The 2025 plan is a "state-led, mercantilist economic model. For American companies in the global marketplace, free and fair competition with China has long been a fantasy." Barr warned that the "ultimate ambition of China's rulers isn't to trade with the United States. It is to raid the United States."

Barr attacked China's "ruthless crackdown of Hong Kong." He said that China is as authoritarian now as it was in 1989 when tanks confronted pro-democracy protesters in Tiananmen Square. He criticized American companies that "have come under Beijing's influence—even at the expense of freedom and openness in the United States."

Peter Navarro certainly has won the debate over China within the administration, hands down.

Geopolitics II: Good Earth, Bad Dam? At the start of the Great Virus Crisis (GVC), we suggested that the COVID-19 pandemic, which started in China, might turn out to be China's Chernobyl. We asked the following question: "Could the coronavirus outbreak do to China anything like the Chernobyl nuclear catastrophe did to the Soviet Union—arguably setting the stage for its rapid collapse by manifesting the consequences of incompetency and corruption in a national government?" Our answer: "China's economy is in much better shape today than was the Soviet Union's economy before it disintegrated. However, the coronavirus outbreak has the potential to cause a social explosion that could set the stage for the meltdown of the Communist regime."

We were right about China's economy; it has bounced back impressively. Real GDP rose 3.2% y/y during Q2, after falling 6.8% during Q1, also on a y/y basis (*Fig. 3*). On a q/q basis and annualized, real GDP soared 49.7% after plunging 43.0% during Q1. June's industrial production rose 4.8% y/y after falling as much as 13.5% during both January and February (*Fig. 4*). Similarly, inflation-adjusted retail sales on a y/y basis rebounded from a low of -20.1% during March to -4.3% during June (*Fig. 5*). However, exports were flat y/y during Q2, raising an interesting question: Is China ramping up production of export-related goods that end up stored on docks as they await a new overseas home?

In any event, China's economic rebound and the authoritarian regime's very effective efforts to contain the COVID-19 virus and stop its spread have averted any social unrest stemming from the pandemic.

Then again, could the Three Gorges Dam on the Yangtze River be China's Chernobyl? The July 17 Fox News reported: "The second-highest rainfall that's swamped China in more than a half-century has fueled new questions about the world's biggest hydroelectric facility, billed as helping to tame floodwaters. Since last month, at least 141 people have died and around 28,000 homes have been damaged in the Yangtze River region, affecting virtually all of mainland China." The July 13 Nikkei Asian Review reported that 38 million people have been evacuated on fears that the dam might overflow.

The Three Gorges Dam was completed officially in 2006. Its power operation went online in 2012, and it is one of China's most expensive and questionable developmental projects. On Twitter #threegorgesdam, there's lots of chatter about millions of people getting evacuated as a precaution against a possible collapse of the dam, which has been controversial since it was first proposed.

Don't worry: The July 9 *South China Morning Post* reported: "The state-owned operator of China's Three Gorges Dam has moved to quash rumours that the world's largest hydropower project is in trouble, after images from Google Maps circulated which appeared to show the structure had warped. In a statement on its WeChat social media account, the company said the mammoth Three Gorges Dam on the Yangtze River was in normal working order, with all metrics up to standard, and it was running 'safely and reliably.'"

The May/June issue of *Foreign Affairs* included an article by Minxin Pei, Professor of Government at Claremont McKenna College, titled “China’s Coming Upheaval Competition, the Coronavirus, and the Weakness of Xi Jinping.” He argues that the chances of China’s upheaval have been increased by several of President Xi’s recent actions: i) his decision in 2018 to abolish presidential term limits; ii) his heavy-handed purges of prominent party officials; iii) his suppression of Hong Kong; iv) his implementation of the tightest media censorship since Mao; v) his incarceration of more than a million Muslim minorities; and vi) the over-centralization of economic and political decision-making under his rule.

“The centralization of power under Xi has created new fragilities and has exposed the party to greater risks,” writes Pei. “If the upside of [the] strongman rule is the ability to make difficult decisions quickly, the downside is that it greatly raises the odds of making costly blunders.”

Strategy: So Stay Home or Go Global? Apparently, China’s stock investors aren’t worrying about the Three Gorges Dam or an upheaval in China. The China MSCI stock price index is up 34.3% since March 23 through Friday’s close (*Fig. 6*). However, it dropped 4.6% last week after the government adopted measures to slow the pace of gains in what had suddenly become the world’s hottest equity market.

Bloomberg reported that on July 16, Kweichow Moutai Co. stock price fell 7.9%, the most in nearly two years, after the *People’s Daily* took aim at the high price of the liquor the company makes, saying the alcohol was often used in corruption cases. The company is China’s biggest domestically listed company. “The plunge reverberated across China’s almost $10 trillion stock market, with the SSE 50 Index of the nation’s largest companies sinking 4.6%, its worst decline since early February,” according to Bloomberg.

In any case, China’s MSCI is up 34.3% since March 23, while the US MSCI is up 46.0% since then. Nevertheless, might it be time to Go Global rather than to Stay Home (i.e., underweight rather than overweight the US in a global stock portfolio)? After all, China and a few other Asian economies have done a better job of opening their economies with limited renewed outbreaks of the virus than has the US. The same can be said of Europe. Consider the following:

(1) *Outstanding outperformance and outstandingly expensive.* From the March 23 low through Friday’s close, the US stock market has significantly outperformed most of those in the rest of

the world. Here is the performance derby over this period for the major MSCI stock price indexes in local currencies: US (46.0%), EM (35.8), EMU (34.0), All Country World (ACW) ex-US (31.0), EAFE (28.1), UK (24.4), and Japan (22.9).

As a result, based on forward P/Es, the US MSCI is currently much more expensive (22.4) than the ACW ex-US (16.6) (*Fig. 7*). The former's forward P/E typically exceeds the latter's; its relative P/E averaged 1.17 from 2002 through 2019. But currently, that relative P/E is 1.35, near its record high of 1.47 on April 30 (*Fig. 8*).

Here are the latest forward P/Es for the major MSCI stock indexes around the world: US (22.4), EMU (17.7), EAFA (17.5), Japan (17.3), Canada (17.1), ACW ex-US (16.6), UK (15.0), and EM (14.8).

(2) *It's those fast-growing FAANGMs again!* The reason why the forward P/E spread between the US MSCI and the ACW ex-US has widened is simply that the former has been boosted by the forward P/E of the S&P 500 Growth index, currently at 27.7 (*Fig. 9*). The FAANGM stocks (Facebook, Amazon, Apple, Netflix, Google's parent Alphabet, and Microsoft) currently have a collective forward P/E of 41.0 and a collective market-cap share of 42% of the S&P 500 Growth index, up from 23.3 and 23%, respectively, since the start of 2017.

Furthermore, the ACW ex-US has been trading, and continues to trade, at a forward P/E relatively near that of the S&P 500 Value index (*Fig. 10*).

Attention global stock investors: The US MSCI has more "growthier" companies than do other MSCI stock market indexes around the world. Therefore, the former trades like a typical Growth stock, while the latter trades more like a typical Value stock! It's that simple.

(3) *Bottom line.* Joe and I are thinking about recommending Go Global, but for now we still prefer Stay Home. The ratios of the US MSCI to the ACW ex-US MSCI in both local currencies and in dollars remain on solid uptrends that started in late 2010 (*Fig. 11*). Those uptrends have been fundamentally based on the uptrend in the ratio of the forward earnings of the US MSCI to the ACW ex-US MSCI since late 2008 (*Fig. 12*). This ratio rose to a record high of 6.39 during the July 10 week, up from 3.28 during the week of November 28, 2008. (See our *Style Guide: Stay Home vs Go Global*, an automatically updated chart publication.)

Movie. "Washington" (+ + +) (*link*) is a three-part mini-series about America's revolutionary military leader who led American forces to win the country's independence from Great Britain. The entire venture could have easily collapsed but for Washington's willingness to come out of retirement after the war to serve as the nation's first president. He was truly the founding father of the American nation. The docudrama extols his achievements while recognizing that he had his flaws. He didn't always tell the truth, contrary to what kids are taught in school. He had a temper. His checkered relationship to slavery is also fairly presented. King George III described Washington as "the greatest man in the world." He certainly was back then and remains among the greatest military and political leaders in history.

CALENDARS

US: Mon: None. **Tues:** Chicago Fed National Activity Index, API Crude Oil Inventories. (DailyFX estimates)

Global: Mon: Japan CPI, RBA Meeting Minutes, Guindos, Lane, Lowe. **Tues:** Canada Retail Sales 21.0%, Japan M-PMI Flash Estimate 39.5, Guindos, Buch. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): Last week saw the US MSCI index rise 1.2% for its seventh gain in nine weeks. The index ranked 25th of the 49 global stock markets we follow in a week when 34/49 countries rose in US dollar terms, and the AC World ex-US index gained 1.2% as most emerging markets regions moved lower. The US MSCI index was out of a correction for a third week after slipping back the week before that for the first time in five weeks. It's now 4.0% below its 2/19 record high. EMU was the best-performing region last week, with a gain of 2.6%, followed by EAFE (2.2%) and EM Latin America (1.8). BRIC was the biggest underperformer with a drop of 3.1%, followed by EM Eastern Europe (-2.7), EM Asia (-1.7), and EMEA (-1.4). Norway was the best-performing country last week, with a gain of 7.9%, followed by Sweden (5.1%), Italy (4.3), Ireland (3.8), and Greece (3.6). Of the 24 countries that underperformed the AC World ex-US MSCI last week, Egypt fared the worst, with a decline of 4.7%, followed by China (-4.6), Russia (-3.7), and Jordan (-2.0). The US MSCI's ytd ranking dropped one place to 8/49 even though its ytd performance improved to 1.0% from -0.1% a week earlier. It's still way ahead of the 8.1% ytd decline for the AC World ex-US. EM Asia is the best regional performer ytd with a gain of 1.8%, followed by BRIC (-1.7). The worst-performing regions ytd: EM Latin America (-31.3), EM Eastern Europe (-25.5), EMEA (-21.1), EAFE (-9.1), and EMU (-8.7). The best country performers ytd: Denmark (16.7), China (10.3), New Zealand (8.5), Taiwan (4.7), and Sweden (3.3). The worst-performing countries so far in 2020: Colombia (-43.2), Greece (-37.2), Brazil (-32.9), Peru (-32.3), and Sri Lanka (-31.3).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes rose last week, but LargeCap was up for a third week as the SMidCaps rebounded from declines. SmallCap rose 3.6% for the week, barely edging out a similar 3.6% gain for MidCap and well ahead of LargeCap (1.2). LargeCap has been out of a bear market for 14 weeks, and out of a correction for three straight weeks. LargeCap is now 4.8% below its 2/19 record high. MidCap was back in a correction for a sixth week last week, but improved to 12.8% below its record high on 1/16. SmallCap remains the worst performer, back in a bear market for a sixth week and 22.9% below its 8/29/18 record. Thirty of the 33 sectors rose for the week, up from 14 rising a week earlier. Two of the 33 sectors ended the week at a record high: LargeCap Health Care and MidCap Health Care. Another seven sectors are no longer in a bear market or correction: LargeCap Consumer Discretionary, LargeCap Consumer Staples, LargeCap Tech, LargeCap Materials, MidCap Consumer Discretionary, MidCap Consumer Staples, and MidCap Tech. SmallCap Materials was the best performer last week with a gain of 6.5%, ahead of SmallCap Industrials (6.3), MidCap Industrials (5.8), and LargeCap Industrials (5.8). LargeCap Consumer Discretionary was the biggest underperformer last week with a decline of 1.6%, followed by LargeCap Tech (-1.2), and LargeCap Communication Services (-0.9). All three indexes are still down on a ytd basis, but LargeCap's 0.2% drop is much smaller than those of MidCap (-11.0) and SmallCap (-17.0). Seven of the 33 sectors are now positive so far in 2020, with the best performers led by LargeCap Information Technology (16.6), MidCap Health Care (13.6), LargeCap Consumer Discretionary (12.3), SmallCap Communication Services (6.9), and LargeCap Communication Services (4.9). The biggest laggards of 2020 to date: SmallCap Energy (-54.2), MidCap Energy (-48.4), LargeCap Energy (-39.0), SmallCap Financials (-31.4), SmallCap Real Estate (-29.2), and MidCap Real Estate (-27.1).

S&P 500 Sectors and Industries Performance (*link*): Seven of the 11 S&P 500 sectors rose last week and all seven of them outperformed the index's 1.2% rise. That compares to a 1.8% rise for the S&P 500 a week earlier, when six sectors rose and five outperformed the index. The 5.8% gain for Industrials made it the best performer for the week, ahead of Materials (5.4%), Health Care (5.1), Utilities (4.2), Energy (2.9), Financials (2.0), and Consumer Staples (1.9). Consumer Discretionary was the week's biggest underperformer, with a decline of 1.6%, followed by Tech (-1.2), Communication Services (-0.9), and Real Estate (0.0). The S&P 500 is now down just 0.2% so far in 2020, with four sectors leading the index and four in positive territory. The leading sectors ytd: Information Technology (16.6), Consumer Discretionary (12.3), Communication Services (4.9), and Health Care (3.8). The laggards of 2020 so far: Energy (-39.0), Financials (-22.2), Industrials (-11.6), Real Estate (-9.5), Utilities (-6.8), Consumer Staples (-2.4), and Materials (-0.3).

Commodities Performance (*link*): Last week, the S&P GSCI index edged down 0.1% for only its third decline in 12 weeks. It's now down 24.1% from its recent high on 1/6, and still in a severe bear market at 32.9% below its cyclical high on 10/3/18. Coffee was the best performer last week, with a gain of 5.0%, followed by Feeder Cattle (4.9%), Live Cattle (4.0), and Silver (3.7). Unleaded Gasoline was the biggest decliner for the week, with a drop of 4.9%, followed by Cotton (-3.7) and Natural Gas (-3.6). Just three of the 24 commodities that we follow are higher so far in 2020: Gold (20.4), Silver (10.3), and Copper (4.6). The worst performers ytd: GasOil (-39.8), Heating Oil (-39.1), Brent Crude (-34.4), and Crude Oil (-33.3).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 1.2% 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 14th week after seven weeks below, and above its 200-dma for the seventh time in eight 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 a ninth week after 12 declines and was in a Golden Cross (with 50-dmas higher than 200-dmas) for a second 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 1.0% above its 200-dma from 0.2% above 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 ninth week after declining for 12 straight weeks. The price index edged up to 4.9% above its rising 50-dma from 4.8% 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 ninth 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 third week after falling below the week before that for the first time in five weeks. It had been above for 38 weeks through mid-February. It ended the week 6.0% above its rising 200-dma, compared to 4.9% above a week earlier and 7.1% above in early June. That's up from 26.6% below on 3/23—the 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 the index's 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 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, unchanged from 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, unchanged from a week earlier. That compares to just one sector (Health Care) above both its 50-dma and 200-dma ten weeks ago. Energy is the only sector that trades below both its 50-dma and 200-dma. Five sectors are now in the Golden Cross club (50-dmas higher than 200-dmas), up from four a week earlier, as Materials entered the club last week for the first time since early March. The other sectors in a Golden Cross are 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 89 straight weeks; it's the only sector with a falling 50-dma now. In early June, the 50-dma had been rising for all 11 sectors for three straight weeks. That's a big improvement from the beginning of May, when all 11 had falling 50-dmas for ten straight weeks. Six sectors have rising 200-dmas, up from five a week earlier as Consumer Staples' 200-dma now has turned up. The other sectors with rising 200-dmas are Communication Services, Consumer Discretionary, Health Care, Materials, and Tech. Financials' 200-dma was down for a 20th week, so long for the first time since late August. Energy's 200-dma has been mostly falling since October 2018.

US ECONOMIC INDICATORS

Retail Sales (*link*): Retail sales had another blockbuster month in June—catapulting headline retail sales to within 1.0% of January's record high and core retail sales to a new record high! Retail sales jumped 7.5% last month, following a record 18.2% surge in May; sales fell an unprecedented 21.7% during the two months ending April. Core retail sales—which excludes autos, gasoline, building materials, and food services—soared 16.3% during the two months through June after a record 12.4% drop in April. Adjusted for inflation, we estimate headline sales rebounded 25.7% during the two months through June to a new record high, following a two-month slide of 19.6%, while core retail sales leaped a total 15.1% the past two months after an 11.0% shortfall in April. Last month, 10 of the 13 nominal retail sales categories were in the plus column—with many off the charts. Here's a snapshot of the gains in these components during June and the two months ending June: clothing stores (105.1% & 467.5%), appliance stores (37.4 & 87.6), furniture stores (32.5 & 137.4), sporting goods, hobby, musical instrument & book stores (26.5 & 125.2), food service & drinking places (20.0 & 57.9), miscellaneous store retailers (17.7 & 37.0), gasoline service stations (15.3 & 29.1), electronic & motor vehicle dealers (8.2 & 61.0), health & personal care (3.5 & 5.1), and general merchandise stores (2.7 & 8.8)—with department stores (19.8 & 63.2) spearheading those gains. Meanwhile, nonstore (-2.4), food & beverage (-1.2), and building materials, garden equipment & supply (-0.3) retailers took a step back in June.

Consumer Sentiment Index (*link*): A resurgence of the coronavirus caused consumer sentiment to retreat in early July. The Consumer Sentiment Index (CSI) fell 4.9 points in early July to 73.2, nearly reversing June's promising 5.8-point rebound to 78.1. The CSI is 27.8 points below its pre-pandemic peak of 101.0. Both the present situation (to 84.2 from 87.1in June) and expectations (66.2 from 72.3) components reversed course in early July; they were at 114.8 and 92.1, respectively, before COVID-19 struck. The report cautioned: "No single policy could provide financial relief and stimulate economic growth, and without both, neither one could be ultimately successful. Unfortunately, there is little time left on the political calendar for Congress to act as the election season is about to begin in earnest. Without action, another plunge in confidence and a longer recession is likely to occur."

Business Sales & Inventories (*link*): Nominal business sales started to recover in May from COVID-19-related declines as the economy began to reopen; real sales—reported with a lag—continued to slide in April from February's record high. Nominal sales expanded a record 8.4% in May after contracting a record 14.4% in April following March's 5.2% shortfall. Real sales plunged a record 11.4% in April, adding to March's 4.1% decline. The sharp drop was widespread, with real wholesale sales plunging 15.6% over the two-month period and both retail and manufacturing sales sinking 14.7%. May's nominal inventories-to-sales ratio slipped to 1.51 after shooting up from 1.38 in February to 1.67 in April; the real inventories-to-sales ratio for April soared to a record high 1.67 from 1.44 in February.

Regional M-PMIs (*link*): Two Fed districts now have reported on manufacturing activity for June (New York and Philadelphia), and both show impressive gains indicating that the manufacturing sector has continued to expand this month. The composite index improved for the third month since plunging to a record low of -67.4 April, climbing to 20.7 this month—with activity in the Philly (to 24.1 from -56.6 in April) region continuing to grow at a solid pace and New York's (17.2 from -78.2) expanding for the first time in five months. Meanwhile, July's new orders measure followed a similar script, climbing from a record low -68.6 in April to 18.5 this month, as Philadelphia (to 23.0 from -70.9 in April) billings expanded for the second month and New York's (13.9 from -66.3) moved into the plus column for the first time since February. Meanwhile, factories added to payrolls for the first time in five months, with the employment measure climbing to 10.3 this month from April's record low -51.0. Manufacturers in the Philly (20.1 from -46.7) region boosted payrolls for the first time since March—their fastest pace since October—while those in New York (0.4 from -55.3) kept employment steady for the first time since before the pandemic.

Housing Starts & Building Permits (*link*): Builders are building again as their confidence rallies to pre-pandemic levels. Housing starts soared 17.3% in June to 1.186mu (saar) following an upwardly revised 8.2% rebound in May—which was double the 4.3% initial rise—to 1.011mu (vs 974,000 units preliminary). Starts had plunged 40.4% during the two months ending April to 934,000 units (saar). They were at a cyclical high of 1.617mu (saar) at the start of the year, before COVID-19 hit. Single-family starts rebounded 22.4% over the two months ending June to 831,000 units (saar), following a 34.3% plunge during the two months through April—from 1.034mu to 679,000 units. Multi-family starts soared 39.2% over the two-month period to 355,000 units (saar) after a three-month plunge of 59.4% to 255,000 units (saar). Building permits climbed 2.1% in June following May's 14.1% jump, to 1.241mu (saar), after plummeting 30.6% during the three months through April. Permits were at a cyclical high of 1.536mu (saar) in January. Single-family permits soared 25.2% during the two months ending June to 834,000 units (saar), 16.1% below its pre-pandemic peak. Meanwhile, volatile multi-family permits fell 13.4% to 407,000 units (saar) following a 17.5% gain and a 15.3% loss the prior two months. Looking ahead, homebuilder optimism continued to soar in July. NAHB's Housing Market Index (HMI) climbed 42 points during the three months through July to 72, after plunging a record 42 points in April to 30; April's figure was the lowest builder confidence since mid-2012 and the first reading in negative territory (i.e., below 50) since mid-2014. All three measures of the HMI moved sharply off their lows: current sales (to 79 from 36 in April), future sales (75 from 36), and traffic of prospective buyers (58 from 13). Also encouraging is the V-shaped recovery in mortgage applications for new purchases of new and existing homes.

GLOBAL ECONOMIC INDICATORS

European Car Sales (*link*): June EU passenger car registrations (a proxy for sales) suffered another big drop in registrations, falling 22.3% y/y, though it wasn't as steep as the yearly declines of 52.3% and 76.3% in May and April, respectively. The report notes that "although dealerships opened for business again after lockdown measures were lifted, consumer demand did not fully recover last month." With the exception of France (+1.2% y/y), all EU markets continued to post substantial double-digit declines in auto sales versus a year ago, with sales in three of the remaining big four Eurozone economies—Spain (-36.7), Germany (-32.3), and Italy (-23.1)—all considerably below year-ago levels. France's outlier status can be explained by the French government's new (in early June) incentives to stimulate sales of low-emission vehicles. In the meantime, sales plunged 38.1% y/y during the first half of this year—reflecting four consecutive months of unparalleled declines across the EU region. Among the four major markets, Spain (-50.9) posted the largest decline so far this year, followed by Italy (-46.1), France (-38.6), and Germany (-34.5).

Eurozone CPI (*link*): June's CPI headline rate moved up slightly to 0.3% y/y after slowing the prior four months from 1.4% in January to 0.1% in May—which was the lowest rate since June 2016. It was the 19th consecutive month the headline rate was below 2.0%. Meanwhile, the core rate edged down to a 13-month low of 0.8% from 0.9% the prior two months; it was at 1.2% in February. Looking at the main components, food, alcohol & tobacco posted the highest rate, at 3.2% y/y, easing for the second month from April's peak rate of 3.6%—which was the highest since November 2009. Energy (to -9.3% from -11.9% y/y in May) had lowest rate in June but higher than its double-digit decline in May—which was the steepest since July 2009. In the meantime, the services (1.2 from 1.3) inflation rate slowed slightly, while the rate for non-energy industrial goods held at 0.2%. Of the top four Eurozone economies, only Germany's (0.8) rate was above the Eurozone's headline rate of 0.3%. France's (0.2) was just below, while Spain's (-0.3) and Italy's (-0.4) remained in negative territory.

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