



MORNING BRIEFING

July 27, 2020

Maxim Gorky & the Fed's Punch Bowl

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

(1) Maxim Gorky's depressed crowd is delusional. (2) Singing a happy song. (3) Let's give the economy and earnings a chance to recover. (4) Mounting evidence of stalling economic recovery. (5) Discounting multiple vaccines multiple times. (6) Fed keeping punch bowl full and spiked. (7) Growth stock investors are punch-drunk. (8) Profit-taking hits FANGMANT. (9) Three major investment styles all driven by the Magnificent Eight. (10) Delusional or realistic scenario? (11) China's latest plague. (12) What if the radical left wins? (13) Movie review: "Miss Sloane" (+).

Strategy I: The Fed's Party. Maxim Gorky wrote his depressing play *The Lower Depths* during the winter of 1901 and spring of 1902. It depicts a group of impoverished Russians living in a shelter near the Volga River. The harsh truth of their harsh condition is contrasted to their delusional denial of their bleak existence.

After the S&P 500 plunged 33.9% to the lower depths from February 19 through March 23, the index soared 43.7% through Friday's close ([Fig. 1](#)). The stock market continues "to accentuate the positive, eliminate the negative, latch on to the affirmative," as the [song](#) goes.

Are stock investors delusional? Not yet, but that could be an apt characterization if stock prices continue to rise faster than forward earnings. This has been a P/E-led meltup. The S&P 500 forward P/E has jumped from 12.9 back then to 22.0 on Friday ([Fig. 2](#)). The S&P 500 forward price-to-sales ratio rose to a record 2.32 during the July 16 week, well above the previous two cyclical peaks ([Fig. 3](#)). It's a great weekly indicator of the quarterly Buffett Ratio.

Stock prices have soared even as analysts' consensus expected earnings estimates have plunged ([Fig. 4](#)). These estimates have started to show signs of bottoming in the past few weeks. However, any recovery could be dampened or even aborted if the COVID-19 case count continues to mount and state governors slow or reverse the lifting of lockdown restrictions ([Fig. 5](#)). If many school districts don't allow their students to attend in person this

fall, it could be a serious problem for parents' ability to return to work if they can't get or afford childcare. If colleges opt for another semester of online classes, that could be more bad news for lots of businesses in college towns around the country. There's certainly mounting evidence that the V-shaped economic recovery during May and June is slowing or even stalling in July. That could lead to more delinquencies and defaults on loans and bonds.

All these considerations are all the more reason for investors to come to their senses and let stock prices consolidate their gains while waiting for more evidence of a sustainable recovery. Sure, there's been lots of good news (hype?) about vaccines, but it has been discounted several times in recent weeks. Nevertheless, the Fed continues to keep the wild party going by keeping the punch bowl full of liquidity. That has allowed investors to party while ignoring the harsh reality of the health crisis and the depths of despair among millions of unemployed workers and thousands of struggling small business owners.

Strategy II: Are Growth Stocks Punch-Drunk? Investors in Growth stocks have been punch-drunk, while Value investors have been getting a bit tipsy since the Fed filled the punch bowl to the rim on March 23 and kept it full ever since. The former might have passed out on Thursday and Friday, as the Magnificent Six FAANGM (Facebook, Amazon, Apple, Netflix, Google's parent Alphabet, and Microsoft) stocks were hard hit by profit-taking. They certainly have been profitable in the face of the Great Virus Crisis. That's because they benefit as more of us use the Internet to work and to shop from home, to get our education online, and to be entertained with streaming services and interactive games.

Since the end of last year through Friday's close, the Magnificent Six are up as follows: Amazon (62.8%), Netflix (48.5), Microsoft (27.6), Apple (26.2), Google's parent Alphabet (12.6), and Facebook (12.4). Over this same period, their aggregate market cap is up 28.8%, while the S&P 500 is down 0.5%, but the index's decline worsens to 7.5% excluding these stocks ([Fig. 6](#)). They were down 3.9% Thursday on profit-taking after Microsoft reported earnings. They fell 0.2% on Friday on news that the US-China Cold War continues to heat up, as I discussed last Monday and update below.

The pandemic continues to help more than hurt Microsoft's business. Revenue of \$38 billion in the quarter ending June was up 13% y/y and \$1.48 billion ahead of analysts' estimates. The company's cloud business grew revenue by 17%. The segment that includes Windows, Surface, and X-Box saw 14% revenue growth. Earnings per share came in at \$1.46, up 7% y/y on an adjusted basis and 9 cents better than analysts were expecting. Microsoft did incur a

\$450 million charge related to the permanent closure of its physical retail stores. Also down on Thursday was Apple's stock, following a warning by a Goldman Sachs analyst that earnings, which will be reported on July 30, are likely to be well below expectations.

As Joe and I previously noted, the Magnificent Six are dominating the three major investment styles: i) LargeCaps versus SMidCaps; ii) Growth versus Value; and iii) Stay Home versus Go Global. Consider the following:

(1) *LargeCaps vs SMidCaps*. The Magnificent Six currently account for 24.6% of the S&P 500's market capitalization as well as large shares of the market cap of the following S&P 500 sectors: Information Technology (44.2%), Communication Services (65.6), and Consumer Discretionary (50.6). All six are included in the S&P 500 Growth index and give these three sectors a growthy bent.

The Magnificent Five (the five biggest S&P 500 companies) account for 23.8% of the market-cap share of the S&P 500, down from a record high of 25.2% during the July 10 week ([Fig. 7](#)). Here are the cyclical peaks in the previous Magnificent Five's market-cap shares of the S&P 500 during the weeks of August 8, 1997 (12.4%), March 24, 2000 (18.5), November 21, 2008 (16.0), September 28, 2012 (13.9), and August 31, 2018 (17.5).

The Magnificent Five even dominate the S&P 100's mega-cap index. The market-cap share of the former in the latter is currently 35.1%. In turn, the market-cap share of the S&P 100 relative to the S&P 500 is at a near-record-high 66.1% ([Fig. 8](#)).

(2) *Growth vs Value*. The Magnificent Six account for 29.9% of the S&P 500 Growth index. I asked Joe to calculate the latest Growth versus Value weights for the 11 sectors in the S&P 500. Here are the latest readings: Communication Services (16.1% Growth, 7.6% Value), Consumer Discretionary (13.8, 7.1), Consumer Staples (6.7, 12.9), Energy (0.7, 4.1), Financials (5.4, 16.3), Health Care (12.1, 20.5), Industrials (8.0, 10.9), Information Technology (31.6, 9.4), Materials (2.2, 3.1), Real Estate (2.6, 3.1), and Utilities (1.0, 5.0).

The S&P 500's Energy and Financials sectors have lots of Value stocks. Weakening oil prices have weighed on the Energy sector's stock prices, which have underperformed the S&P 500 since 2008 ([Fig. 9](#)). That's one reason why Value has underperformed the S&P 500 since then.

In addition, the Financials have underperformed the S&P 500 since 2007 ([Fig. 10](#)). The Great Financial Crisis crushed them and led to a tougher regulatory environment; more recently, the downward trend in interest rates along with the flattening of the yield curve have weighed on them. So the S&P 500 Value index relative to the broad index has been falling along with the bond yield and the TIPS yield ([Fig. 11](#) and [Fig. 12](#)).

(3) *Stay Home vs Go Global*. The ratio of the S&P 500 Growth stock price index to the S&P 500 is highly correlated with the ratio of the US MSCI stock price index to the All Country World ex-US MSCI stock price index (in dollars) since 1997 ([Fig. 13](#)). Since the Magnificent Six account for so much of the Growth index, they clearly have accounted for much of the recent outperformance of the US to the rest of the world.

Not surprisingly, the forward P/E of the US MSCI recently has been highly correlated with that of the S&P 500 Growth index, so the forward P/E of the Magnificent Six has soared and boosted both ([Fig. 14](#)). Furthermore, the All Country World ex-US MSCI has been trading—and continues to trade—at a forward P/E relatively near that of the S&P 500 Value index ([Fig. 15](#)).

In our July 20 [Morning Briefing](#), we concluded: “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.” Nevertheless, the FAANGM-led selloff in the S&P 500 at the end of last week suggests that investors are cashing in some of their profits in these high-flyers.

Strategy III: What Could Possibly Go Wrong? No one in the world is living under the delusion that the world is a perfect place given that we’re all still fighting the ongoing pandemic. The stock market, however, is priced for perfection, or at least for a near-term peak in cases, a continued economic recovery, a vaccine sooner rather than later, and no radical left political regime change on Election Day. Now that the stock market has recovered sharply from the lower depths of March 23, there’s much less chatter about a move back down there anytime soon than there was in late March and April.

However, there is lots of chatter about the narrow breadth of the stock market rally since March 23. Everyone knows that the Magnificent Five and Six have led the way, as discussed above, in our latest contribution to the chatter. We know what could go wrong on the health

and economic fronts. But what could possibly go wrong for the Magnificent Five (FAANG), Six (FAANGM) or Eight (FANGMANT, including NVIDIA and Tesla)? Here are a couple of possibilities:

(1) *Cold War heating up.* Last Monday, I reviewed how the US-China Cold War is escalating very quickly. It continued to do so over the rest of the week. On Wednesday, the US State Department ordered the Chinese to shut their consulate in Houston. On Thursday, Secretary of State Mike Pompeo delivered a blistering attack in a [speech](#) titled “Communist China and the Free World’s Future.” Here, in his words, is the key theme of his speech: “The truth is that our policies—and those of other free nations—resurrected China’s failing economy, only to see Beijing bite the international hands that were feeding it. ... Securing our freedoms from the Chinese Communist Party is the mission of our time, and America is perfectly positioned to lead it because our founding principles give us that opportunity.” His main conclusion was unambiguously hostile toward the Chinese government: “The free world must triumph over this new tyranny.”

On Friday, Beijing responded by ordering the closure of the American consulate in Chengdu. So far, the Chinese haven’t retaliated for the US moves to block Huawei from doing business around the world. What if the Chinese do so against any of the FANGMANT companies or any other major American companies doing business in China or dependent on Chinese supply chains? What if China bans the export of rare earth metals or solar panels?

Meanwhile, China has plenty of homegrown problems. The country is at risk of a Chernobyl-like disaster, as I discussed a week ago. China has been suffering through record rains the past few weeks, leading to the worst flooding in the country in decades. A few days ago, officials admitted that certain “peripheral” structures of the massive Three Gorges Dam deformed due to the building water pressure. More rain is forecast for the coming week.

(2) *Radical left wins.* Last week, Melissa and I considered the consequences of a Democratic sweep in the upcoming presidential and congressional elections. The party has been moving toward the left and most likely would move the country in that direction if it takes control of the White House, the House of Representatives, and the Senate. In this scenario, the corporate tax rate would be raised and regulations on business would proliferate. The Magnificent Eight companies might be forced to spin off some of their businesses if they were deemed to be too powerful and monopolistic.

That's about all that we can imagine going wrong right now. We are working on becoming more imaginative.

Movie. “Miss Sloane” (+) ([link](#)) is a 2016 thriller starring Jessica Chastain, who plays a take-no-prisoners lobbyist in Washington, DC. It's another movie about how the game is played in the “swamp.” Lobbyists have got to be engaged in the world's second most unethical profession, after politicians. I've often observed that the difference between entrepreneurial capitalism and crony capitalism is that the latter system is corrupted by lobbyists. Big Business hires them to deal with Big Government. The deal-making is a win-win for both of them but a lose-lose for the rest of us.

CALENDARS

US: Mon: Durable Goods Orders Total & Ex Transportation 7.2%/3.5%, Dallas Fed Manufacturing Index. **Tues:** Consumer Confidence 94.5, Richmond Fed Manufacturing Index, S&P Case-Shiller Home Price Index 4.0% y/y, API Crude Oil Inventories. (DailyFX estimates)

Global: Mon: Germany Ifo Business Climate, Current Conditions, and Expectations Indexes 89.3/85.2/93.9, Japan Leading & Coincident Indexes 79.3/74.6, Bundesbank Monthly Report. **Tues:** Australia Inflation -0.4% y/y. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index fall 0.4% for its first decline in five weeks. The index ranked 41st of the 49 global stock markets we follow in a week when 31/49 countries rose in US dollar terms, and the AC World ex-US index gained 0.4% as all other regions rose. The US MSCI index was out of a correction for a fourth week after slipping back the week before that for the first time in five weeks. It's now 4.3% below its 2/19 record high. EM Eastern Europe was the best-performing region last week, with a gain of 3.5%, followed by EM Latin America (2.7%), EMEA (1.7), and EMU (0.4). EM Asia was the biggest underperformer, albeit with a gain of 0.2%, followed by EAFE (0.4) and BRIC (0.4). Hungary was the best-performing country last week, with a gain of 4.1%, followed by Poland (4.0), Finland (3.6), Mexico (3.6), and Russia (3.5). Of the 19 countries that underperformed the AC World ex-US MSCI last week, Hong Kong fared the worst, with a decline of 2.0%, followed by Thailand (-1.6), Singapore (-0.9), the Philippines (-0.8), and the UK(-0.8). The US

MSCI's ytd ranking dropped two places to 10/49 as its ytd gain weakened to 0.6% from 1.0% a week earlier. It's still way ahead of the 7.7% ytd decline for the AC World ex-US. EM Asia is the best regional performer ytd with a gain of 2.0%, followed by BRIC (-1.3). The worst-performing regions ytd: EM Latin America (-29.4), EM Eastern Europe (-22.9), EMEA (-19.8), EAFE (-8.7), and EMU (-8.3). The best country performers ytd: Denmark (18.1), New Zealand (10.5), China (9.7), Taiwan (6.6), and Sweden (4.3). The worst-performing countries so far in 2020: Colombia (-42.8), Greece (-36.7), Brazil (-31.2), Peru (-31.2), and Sri Lanka (-30.9).

S&P 1500/500/400/600 Performance ([link](#)): Most of these indexes rose last week, but LargeCap was down for the first time in four weeks. MidCap rose 0.7% for the week, beating out the 0.5% gain for SmallCap and the 0.3% decline for LargeCap. LargeCap has been out of a bear market for 15 weeks, and out of a correction for four straight weeks. LargeCap is now 5.0% below its 2/19 record high. MidCap was back in a correction for a seventh week last week, but improved to 12.2% below its record high on 1/16. SmallCap remains the worst performer, back in a bear market for a seventh week and 22.5% below its 8/29/18 record. Nineteen of the 33 sectors rose for the week, down from 30 rising a week earlier. Only MidCap Consumer Staples ended the week at a record high. Another eight sectors are no longer in a bear market or correction: LargeCap Consumer Discretionary, LargeCap Consumer Staples, LargeCap Health Care, LargeCap Tech, LargeCap Materials, MidCap Consumer Discretionary, MidCap Health Care, and MidCap Tech. SmallCap Energy was the best performer last week with a gain of 7.8%, ahead of MidCap Energy (5.2), MidCap Consumer Staples (3.1), and SmallCap Consumer Discretionary (2.8). SmallCap Health Care was the biggest underperformer last week with a decline of 2.2%, followed by SmallCap Real Estate (-1.6), and LargeCap Tech (-1.5). All three indexes are still down on a ytd basis, but LargeCap's 0.5% drop is much smaller than those of MidCap (-10.3) and SmallCap (-16.6). Eight of the 33 sectors are now positive so far in 2020, with the best performers led by LargeCap Information Technology (14.8), LargeCap Consumer Discretionary (13.8), MidCap Health Care (12.4), SmallCap Communication Services (8.0), and MidCap Consumer Staples (6.1). The biggest laggards of 2020 to date: SmallCap Energy (-50.6), MidCap Energy (-45.7), LargeCap Energy (-37.8), SmallCap Real Estate (-30.3), and SmallCap Financials (-30.2).

S&P 500 Sectors and Industries Performance ([link](#)): Six of the 11 S&P 500 sectors rose last week, and seven outperformed the index's 0.3% decline. That compares to a 1.2% rise for the S&P 500 a week earlier, when seven sectors rose and seven outperformed the index. The 2.1% gain for Energy made it the best performer for the week, ahead of Consumer Discretionary (1.3%), Financials (1.3), Consumer Staples (0.8), Materials (0.5), Utilities (0.1),

and Industrials (-0.2). Information Technology was the week's biggest underperformer, with a decline of 1.5%, followed by Communication Services (-1.1), Health Care (-0.7), and Real Estate (-0.6). The S&P 500 is now down just 0.5% so far in 2020, with five sectors leading the index and in positive territory. The leading sectors ytd: Information Technology (14.8), Consumer Discretionary (13.8), Communication Services (3.7), Health Care (3.1), and Materials (0.2). The laggards of 2020 so far: Energy (-37.8), Financials (-21.2), Industrials (-11.7), Real Estate (-10.1), Utilities (-6.7), and Consumer Staples (-1.6).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 1.3% for its 10th gain in 13 weeks. It's now down 23.1% from its recent high on 1/6, and still in a severe bear market at 31.9% below its cyclical high on 10/3/18. Silver was the best performer last week, with a gain of 15.6%, followed by Coffee (6.0%), Natural Gas (5.8), and Gold (5.0). Cotton was the biggest decliner for the week, with a drop of 3.0%, followed by Sugar (-2.0), Corn (-2.0), and Lean Hogs (-1.8). Just three of the 24 commodities that we follow are higher so far in 2020: Silver (27.5), Gold (26.4), and Copper (4.1). The worst performers ytd: GasOil (-38.7), Heating Oil (-37.5), Brent Crude (-33.7), and Crude Oil (-32.4).

S&P 500 Technical Indicators ([link](#)): The S&P 500 fell 0.3% last week and weakened 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 15th week after seven weeks below, and above its 200-dma for the eighth time in nine 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 tenth week after 12 declines and was in a Golden Cross (with 50-dmas higher than 200-dmas) for a third 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 2.1% above its 200-dma from 1.0% 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 tenth week after declining for 12 straight weeks. The price index dropped to 3.3% above its rising 50-dma from 4.9% 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 tenth week as well. It had been rising for 39 weeks through early March. The index was above its 200-dma for a fourth 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 5.5% above its rising 200-dma, compared to 6.0% 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 levels of 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 (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, down from ten a week earlier as Real Estate dropped below and joined Energy. That's 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 its 200-dma 11 weeks ago. Five sectors are now in the Golden Cross club (50-dmas higher than 200-dmas), unchanged from a week earlier. Sectors in a Golden Cross: Communication Services, Consumer Discretionary, Health Care, Materials, 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 90 straight weeks, but its 50-dma started to rise again last week. 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, unchanged from a week earlier. Sectors with rising 200-dmas: Communication Services, Consumer Discretionary, Consumer Staples, Health Care, Materials, and Tech. Financials' 200-dma was down for a 21st week, so long for the first time since late August. Energy's 200-dma has been mostly falling since October 2018.

US ECONOMIC INDICATORS

Leading Indicators ([link](#)): Leading indicators moved higher for the second month in June, reflecting the incremental reopening of the US economy. Leading Economic Indicators (LEI) advanced 2.0% last month, building on May's record gain of 3.2% (vs 2.8% preliminary estimate); it had plummeted 13.3% during the two months ending April. In June, seven of the 10 components contributed positively to the LEI, while three contributed negatively. The two indicators that had the biggest positive contributions in May repeated in June—jobless claims (+1.35ppt) and the average workweek (+0.42)—with stock prices (+0.24) rounding out the top three. The negative contributions came from the leading credit index (- 0.08ppt), real consumer goods orders (-0.05), and consumer sentiment (-0.02). The Conference Board warned:

“Broader financial conditions and the consumers’ outlook on business conditions still point to a weak economic outlook. Together with a resurgence of new COVID-19 cases across much of the nation, the LEI suggests that the US economy will remain in recession territory in the near term.”

Coincident Indicators ([link](#)): The Coincident Economic Index (CEI) increased for the second month in June after a record plunge in April. The CEI climbed by a record 2.5% last month, and 4.2% during the two months ending June, following an 11.8% plunge during April. Three of the four components of the CEI contributed positively in June—with payroll employment and industrial production finishing first and second again last month: 1) Payroll employment posted its second record increase in as many months, skyrocketing a record 4.8 million, following a 2.7 million surge in May—higher than the preliminary gain of 2.5 million! Over the past two months, 7.5 million workers that had been temporarily laid off came back as the economy began to reopen. 2) Industrial output improved for the second straight month, recovering 5.4% in June and 6.9% in the two months through June, after plummeting a record 16.6% the prior two months. Meanwhile, the move up in manufacturing was more impressive: an 11.3% rebound during the two months ending June after a two-month drop of 20.1%. 3) Real personal income less transfer payments ticked up 0.1% after climbing an upwardly revised 1.5% in May—first reported as a 0.4% loss. Sales had plunged 8.9% during the two months ending April. 4) Real manufacturing & trade sales fell for the fourth month, by 0.8% in June and 15.7% over the period—though most of the decline occurred in March and April. (Note: Latest data for both real personal income less transfer payments and real manufacturing & trade sales are estimated using statistical imputations to address the problem of lags in available data.)

Regional M-PMIs ([link](#)): The manufacturing sector continued to expand this month, with impressive gains posted by the Philadelphia and New York Fed districts—two of the three, along with Kansas City, that so far have reported on manufacturing activity for July. The composite index improved for the third month since plunging to a record low of -54.9 April, climbing to +14.8 this month—with activity in the Philly (to 24.1 from -56.6 in April) region continuing to grow at a solid pace, while New York’s (17.2 from -78.2) expanded for the first time in five months. The recovery in the Kansas City (3.0 from -30.0) region pales in comparison to those of Philly and New York. Meanwhile, July’s new orders measure climbed from a record low -67.1 in April to 15.3 this month, as Philadelphia (to 23.0 from -70.9 in April) and Kansas City (9.0 from -64.0) billings expanded for the second month, while New York’s (13.9 from -66.3) moved into the plus column for the first time since February. In the meantime, factories added to payrolls for the first time since February, with the employment measure

climbing to 7.8 this month from April's record low of -45.3. Manufacturers in the Philly (+20.1 from -46.7 in April) region boosted payrolls for the first time since March—and at its fastest pace since October—while Kansas City's (3.0 from -34.0) increased for the first time since the start of the year, though barely; New York (0.4 from -55.3) manufacturers didn't cut jobs for the first time since before the pandemic.

New Home Sales ([link](#)): New single-family home sales soared to a new cyclical high in June, and builders are building again as confidence in July rallies to pre-pandemic levels. Sales jumped 13.8% in June and 35.9% the past two months to 776,000 units (saar). Of the four regions, Northeast sales were by far the strongest, soaring 150.0% during the two months through June and 111.5% y/y! Here's a look at the sales performances for the remaining three regions over the same periods: West (50.4% & 4.1%), South (28.8 & -1.8), and Midwest (9.1 & 33.3). 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 reading reflected the lowest builder confidence since mid-2012 and the first reading in negative territory (below 50) since mid-2014. All three measures of the HMI moved sharply off their lows in July: current sales (to 79 from 36 in April), future sales (75 from 36), and traffic of prospective buyers (58 from 13).

GLOBAL ECONOMIC INDICATORS

US PMI Flash Estimates ([link](#)): Business activity in the private sector stabilized this month, according to flash estimates, as the manufacturing sector returned to growth and the contraction in the service sector eased. The report did caution, "Growth was impeded ... by an increased rate of decline of new orders, linked in part to renewed coronavirus disease 2019 (COVID-19) containment measures." The decline in new orders, however, was concentrated in the service sector; manufacturing firms saw the strongest expansion in new orders since the start of the year, according to the report. July's C-PMI has improved steadily since hitting bottom in April, climbing from 27.0 to 50.0 over the period. Both the M-PMI (to 51.3 from 36.1 in April) and NM-PMI (49.6 from 26.7) have been on upward trajectories for three months—climbing to six-month highs this month—as the manufacturing sector expanded for the first time since February and the service sector rose to just shy of the breakeven point. The recent improvement has enabled private-sector firms to hire again this month—ending a four-month sequence of job shedding.

Eurozone PMI Flash Estimates ([link](#)): Business activity in the Eurozone expanded for the first time since February—posting its fastest growth since mid-2018—as economies continued to

reopen from the coronavirus-related lockdowns. July's flash estimate shows the C-PMI jumped from an all-time low of 13.6 in April to a 25-month high of 54.8 this month, led by a big rebound in the service sector. The service sector was the hardest hit by the pandemic, and the NM-PMI (to 55.1 from 12.0 in April) reveals it's recovering dramatically. Meanwhile, the M-PMI (to 51.1 from 33.4 in April) expanded for the first time since January 2019, posting its best showing in 19 months. Looking at the top two Eurozone economies, France is leading the upturn, with Germany playing catchup. France's C-PMI (to 57.6 from 11.1 in April) moved further above the breakeven point of 50.0 this month—to a 30-month high—led by the NM-PMI (57.8 from 10.2), which showed the best growth since the start of 2018. Meanwhile, growth in the manufacturing sector was subdued, as the M-PMI (to 52.0 from 31.5 in April) held just above 50.0 for the second month, with activity easing to a two-month low. In the meantime, Germany's C-PMI (to 55.5 from 17.4 in April) expanded for the first time since February, rebounding to a 23-month high, also led by the service sector. Germany's NM-PMI (to 56.7 from 16.2 in April) returned to growth this month, recording its best performance since January 2018, while the M-PMI (50.0 from 34.5) stopped declining. Meanwhile, the rest of the region—i.e., outside of France and Germany—also saw a return to growth, though led by manufacturing; the overall gain was more modest than seen in France and Germany.

Japan PMI Flash Estimates ([link](#)): “Downturn remains substantial despite easing further,” is the headline of the Jibun Bank report, source of July's flash estimate. The C-PMI (to 43.9 from 25.8 in April) improved for the third month, led by the service sector. June's NM-PMI rebounded from 21.5 in April to 45.2 this month, while the M-PMI climbed for the second month, to 42.6, after falling steadily from 48.8 in January to 38.4 by May. The report raised concerns that while the easing of emergency measures provided some relief, mostly to the domestic sector, poor trade and restriction on travel weighed heavily on demand. “Any hopes of a robust recovery need to be tempered as business sentiment about the year-ahead outlook remained pessimistic on balance.”

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