



MORNING BRIEFING

August 3, 2020

Money, Money, Money in the Rich Man's World

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

(1) Lots of fun and high-octane punch at the Fed's MMT Ball. (2) Markets dancing to Prince and Abba songs. (3) The two wealthiest men in the world have all the money in the world, and can print more of it. (4) The Treasury has a big account at the Fed. (5) The Fed has a big pile of the Treasury's securities. (6) Commercial banks have a pile of deposits, lots of loans, and rapidly mounting loan losses. (7) Not keen on Financials that lend money. (8) We are all monetarists now, or at least we are all watching the monetary aggregates again. (9) Powell as Daddy Warbucks. (10) Party poopers: Gold and Dollar Vigilantes.

The Fed I: Having a Ball. Ever since March 23, when the Fed embraced MMT—Modern Monetary Theory—we've been having a great party. The Fed has been fueling the merriment by keeping the punch bowl full and spiked with lots of inebriating liquidity. In the June 23 *Morning Briefing*, I wrote: "In his song '1999,' recording artist Prince seemed to be predicting that the tech bubble of that year would burst since 'life is just a party and parties weren't meant to last.' He might also have been anticipating Y2K. That's remarkable since the song was released, in his album by the same name, on October 27, 1982."

Prince recommended that we should "party like its 1999," recognizing in 1982 that the turn of the millennium was bound to be one of the biggest party times ever. What a great call. His song seems just as relevant today given the recent remarkable meltup in stock prices. The current party isn't over yet, according to another relevant song. Abba's 1976 hit titled "[Money, Money, Money](#)" provides an easy solution for enjoying the good life:

"In my dreams I have a plan / If I got me a wealthy man / I wouldn't have to work at all / I'd fool around and have a ball / Money, money, money / Must be funny / In the rich man's world ..."

Our nation's wealthy man is Fed Chair Jerome Powell. He has all the money in the world and can print more of it to keep the party going. US Treasury Secretary Steve Mnuchin is another wealthy man who is providing lots of money to lots of people. He can finance trillions of dollars

of government spending simply by issuing Treasury bonds, which Powell then buys with the digital money he prints. I'm not being judgmental, just factual. Consider the following:

(1) *US Treasury's deposit account at the Fed.* The Treasury has been borrowing at a record pace in the Treasury market to fund the various government support programs aimed at reducing the economic damage and pain resulting from the Great Virus Crisis (GVC). The federal budget deficit has totaled a record-shattering \$1.92 trillion from March through June. As a result, the US Treasury General Account at the Fed has jumped from \$439 billion at the end of February to a record \$1.82 trillion during the July 29 week ([Fig. 1](#)).

(2) *The Fed's US Treasury purchases.* Over that same period, the Fed facilitated the Treasury's massive borrowing with massive purchases of US Treasuries, totaling \$1.81 trillion. The Fed now owns a record \$4.3 trillion in US Treasuries ([Fig. 2](#)).

(3) *Commercial bank deposits and cash.* The Fed also facilitated the mad dash for cash that started during February as the viral pandemic triggered an enormous pandemic of fear. The Fed's purchases of Treasuries and agency securities from the public boosted commercial bank deposits by \$2.17 trillion from the end of February through the July 22 week as the public sold securities to raise cash ([Fig. 3](#)).

The big jump in this liability item on banks' balance sheets was offset on the asset side by "cash" assets, which are basically the banks' reserve balances at the Fed ([Fig. 4](#)). They really aren't cash per se, since the banks can't make loans with these deposits at the Fed. They can make more loans by lending out the increase in their deposits less reserve requirements, which were lowered to zero on March 15. When they do so, the banks also create more deposits. That's the way a fractional-reserve banking system works. By the way, the answer to the oft-asked question of why the banks don't lend out all that cash on their balance sheets is that they can't, because it is a balancing item determined totally by the Fed's balance sheet!

(4) *Commercial bank loans.* The Fed's MMT maneuvers also facilitated the \$490 billion jump in commercial bank loans from the end of February through the July 22 week ([Fig. 5](#)). Commercial and industrial loans soared \$462 billion over this same period as businesses cashed in their lines of credit, fearing a cash crunch ([Fig. 6](#)). The surge in loan demand was easily funded by the increase in deposits. Indeed, the brief surge in borrowing by banks during the weeks of February 12 through March 25 has been more than reversed subsequently ([Fig. 7](#)).

(5) *Losses are mounting.* While Fed officials have bragged about how the health of the banking system has improved dramatically since the Great Financial Crisis thanks to their regulatory oversight and supervision, the GVC is already infecting the banks with mounting losses. The Fed's weekly data report on the balance sheet of commercial banks includes an item labeled "allowance for loan & lease losses." It jumped from \$115.1 billion at the end of February to \$184.1 billion during the July 22 week ([Fig. 8](#)). It peaked at a record \$235.2 billion during the April 21 week of 2010. For this reason, we aren't keen on owning shares of Financials, especially if they lend money. We are monitoring this weekly series closely and figure so are Fed officials.

The Fed II: The Rich Man. Fed Chair Powell's important [interview](#) on *60 Minutes* with Scott Pelley was aired on May 17. Pelley asked where Powell got the trillions of dollars that the Fed spent on purchasing bonds since March 23: "Did you just print it?"

Powell forthrightly responded: "We print it digitally. So as a central bank, we have the ability to create money digitally. And we do that by buying Treasury bills or bonds or other government guaranteed securities. And that actually increases the money supply. We also print actual currency, and we distribute that through the Federal Reserve banks." Powell also acknowledged that there was no precedent for the scale of what Melissa and I call "QE4Ever": "The asset purchases that we're doing are a multiple of the programs that were done during the last crisis."

Ever since March 23, Powell repeatedly has stated that the Fed intends to keep interest rates close to zero for a very long time. At his June 10 [press conference](#), in response to a question about the subject, he famously said: "We're not thinking about raising rates. We're not even thinking about thinking about raising rates." He reiterated that policy in his July 29 [press conference](#), saying: "We have held our policy interest rate near zero since mid-March and have stated that we will keep it there until we are confident that the economy has weathered recent events and is on track to achieve our maximum employment and price stability goals." Here are a few more insights we gleaned from Powell's latest presser:

(1) *A three-month extension.* Powell acknowledged that the Fed's policy responses since March 23 have stabilized the financial markets, which was the number-one priority back then. Nevertheless, he indicated that the Fed would keep them in place to support the Fed's

macroeconomic objectives. Indeed, on July 28, the Fed [announced](#) an extension through December 31 of its lending facilities that were scheduled to expire on or around September 30.

(2) *Slowing recovery.* Powell stressed that the most important sentence in the FOMC statement released prior to his presser was the following one: “The path of the economy will depend significantly on the course of the virus.” Like many economists in the private sector, Powell and his colleagues at the Fed are watching high-frequency indicators of the economy such as credit-card data and hotel occupancy rates. He observed that the rebound in COVID-19 cases since June has slowed the recovery, although housing and auto sales have been strong.

(3) *Unlimited power.* Powell confirmed that there is no limit to his power to print money: “We are committed to using our full range of tools to support the US economy at this difficult time. And we will always remain committed in that sense. We feel like we have ways to further support the economy, certainly through our credit and liquidity facilities which are effectively unlimited. We can adjust those programs. We also can adjust our forward guidance. We can adjust our asset purchases. So there are things that we can do. We feel like we have the ability to do more.” Money, money, money in the rich man’s world!

(4) *A good place.* In his presser, Powell reassuringly said, “I think our policy is in a good place.” At the beginning of this year, Powell was using the phrase in “a good place” in reference to the US economy all too frequently, as we noted in our remarkably prescient February 19 [Morning Briefing](#) titled “In a Good Place?” We noted that he had just used that expression again to describe the economy during his February 11 and 12 semi-annual congressional testimony on monetary policy. We reviewed his previous mentions of this phrase in that *Morning Briefing*, concluding: “We wish he would stop using that expression. Our contrary instincts come out every time he says it.” The stock market peaked that day at a record high and proceeded to plunge 33.9% through March 23.

(5) *Inflation vs disinflation.* Powell observed that “there is a lot of discussion” about how the GVC might set the stage for higher inflation. However, he opined that it is fundamentally a disinflationary shock: “And I do think for quite some time we’re going to be struggling against disinflationary pressures rather than against inflationary pressures.” Our contrary instincts are on alert.

The Fed III: No Shortage of Money. The mad dash for cash during February and March abated after the Fed's March 23 measures. However, the result was a flattening of the yield curve close to zero. The return on bonds wasn't much better than on deposits. Bonds have been turned into the equivalent of money. The big difference is that if inflation makes a comeback, bond yields could rise, resulting in capital losses. Depositors and bond holders both would suffer a loss of purchasing power if inflation increased, but the latter also would have capital losses. So the mad dash for cash has resulted in a rebalancing out of bonds and into cash. That can be seen in the major measures of the monetary aggregates in the US, as well as many of them overseas:

(1) *US.* On a y/y basis through the July 20 week, MZM and M2 are up 38.0% and 23.2% in the US ([Fig. 9](#)). Even currency included in M1 is up 13.0% y/y ([Fig. 10](#)).

(2) *Europe.* On a y/y basis through June, M1, M2, and M3 are up 12.6%, 9.2%, and 9.2% in the Eurozone ([Fig. 11](#)). Here are the comparable growth rates for Germany (through June: 11.2%, 7.3%, 7.0%), France (through May: 20.6, 15.3, 12.4), Italy (through May: 9.9, 7.9, 6.4), as well as the UK (through June: 15.2, 11.5, 10.5). (See our [Global Monetary Aggregates](#).)

(3) *Others.* Canada (through May: 19.5%, 13.1%, 13.9%) is also showing double-digit growth rates in the three monetary aggregates. Australia's M1 was up an astonishing 38.7% y/y during June, while its M3 was up 8.4%. Japan's M2 plus CDs was up 7.2% y/y in June, the highest pace on record going back to 2004. China's M1 and M2 rose 6.5% and 11.1% through June. These are not unusually high growth rates for China.

The Fed IV: Gold Rules While Dollar Reels. Given all of the above, I'm not surprised that more and more of our accounts are bullish on gold and bearish on the dollar. Many of them have rebalanced out of bonds and into stocks since March 23. Now they are thinking of cashing in some of their gains in stocks and rebalancing into some gold. The recent weakness of the dollar has many wondering whether it might also be a good time to rebalance portions of their equity positions out of Stay Home and into Go Global. The widespread consensus I'm hearing along these lines is another flare that has alerted my contrary instincts.

However, there is certainly a solid case to be made for some rebalancing of portfolios out of stocks and into gold, foreign currencies, and foreign stocks and bonds. Consider the following:

(1) *A world of trouble.* Gold and silver are widely viewed as better stores of value than fiat money when governments are printing too much of it. Gold Bugs also thrive during periods of financial, political, geopolitical, and social instability. There's no shortage of such instability, including: i) a pandemic; ii) violent civil unrest; iii) extreme political partisanship; iv) a rapidly escalating Cold War between the US and China; v) a game of chicken between the US and Iran in the Strait of Hormuz; vi) out-of-control MMT fiscal and monetary policies; and vii) a possible left-wing regime change on November 3, with much more MMT.

(2) *Relative case counts.* As I noted last week on Tuesday, "while the US came out of the Great Financial Crisis in much better shape than most of the rest of the world, the same cannot be said for the US's handling of the GVC, so far. Several European and Asian countries seem to be doing a much better job of re-opening their economies while keeping the virus from spreading anew, so far." Then again, countries like Australia that seemed to be making progress in reducing the case count are experiencing another wave of outbreaks during their winter. Epidemiologists are fretting that a similar scenario might occur as temperatures cool later this year in the Northern Hemisphere. There already are renewed outbreaks in the UK and Spain.

(3) *The Dollar Vigilantes.* My *amigos* the Bond Vigilantes have been subdued by the central banks and their QE programs. The Dow Vigilantes got what they wanted in response to the freefall in stock prices from February 19 through March 23. They got QE4Ever plus the CARES Act. The result has been trillions of dollars printed and spent by Powell and Mnuchin. Wearing face masks, they testified at a House Financial Services Committee on June 30. They [elbow-bumped](#) in celebration as they embraced MMT. They now are joined at the elbows.

The Gold Vigilantes are certainly expressing their fear and loathing of this unholy alliance between fiscal and monetary policies. But they don't have the kind of power that the Bond Vigilantes once had to rein in policy excesses. The only market players left with any power are the Dollar Vigilantes. They have lots of fear and loathing of MMT and can do something about it.

They can devalue the dollar relative to other currencies, thus putting upward pressure on import prices, which could revive inflation. Even the Wizards of MMT acknowledge that they should at least think about tapping on the brakes if inflation makes a comeback.

(4) *By the numbers*. The price of gold is up 31.5% since March 23 to a record high of \$1,964.90 per ounce on Friday ([Fig. 12](#)). The trade-weighted dollar is down 6.5% from its recent peak on March 23 through Friday to the lowest reading since March 9 ([Fig. 13](#)). Notwithstanding all of the above, our Stay Home vs Go Global ratio remains on the uptrend that started around 2009 ([Fig. 14](#)). After all, the US still has the FANGMANT (Facebook, Amazon, Netflix, Google's parent Alphabet, Microsoft, Apple, NVIDIA, and Tesla) stocks, which the rest of the world does not.

CALENDARS

US: **Mon:** ISM & IHS Markit M-PMIs 53.6/51.3, Construction Spending 1.0%, Motor Vehicle Sales, Evans. **Tues:** Factory Orders 5.0%, API Crude Oil Inventories. (DailyFX estimates)

Global: **Mon:** Eurozone, Germany, France, Italy, and Spain M-PMIs 51.1/50.0/52.0/51.2/52.0, UK M-PMI 53.6, RBA Interest Rate Decision. **Tues:** Jibun Bank C-PMI & NM-PMI 43.9/45.2, China Caixin C-PMI & NM-PMI. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 1.9% for its fourth gain in five weeks. The index ranked fourth of the 49 global stock markets we follow in a week when 21/49 countries rose in US dollar terms, and the AC World ex-US index fell 0.8% as most other regions declined. The US MSCI index was out of a correction for a fifth week after slipping back the week before that for the first time in five weeks. It's now 2.6% below its 2/19 record high. EM Asia was the best-performing region last week, with a gain of 2.4%, followed by BRIC (1.2%) and EM Latin America (0.3). EMU and EAFE were the biggest underperformers, each with declines of 2.1%, followed by EM Eastern Europe (-1.7) and EMEA (-1.1). Taiwan was the best-performing country last week, with a gain of 5.1%, followed by Korea (3.9), Pakistan (3.1), the United States (1.9), and Israel (1.9). Of the 19 countries that underperformed the AC World ex-US MSCI last week, Turkey fared the worst, with a decline of 8.2%, followed by Austria (-6.0), Spain (-4.7), and Japan (-4.6). In July, the US MSCI rose 5.8% for its fourth straight monthly gain and its biggest since April's 13.0% gain. The US MSCI ranked 18/49 in July as the AC World ex-US index underperformed with a gain of 4.2%. Thirty-eight of the 49 countries all regions moved higher in July. Taiwan was the best performer with a gain of 14.9%, followed by Brazil (14.0), Pakistan (13.5), Argentina (12.5), and Chile (10.7). The worst-performing countries in July: Turkey (-8.7), Sri Lanka (-7.7), the Czech Republic (-2.9), Thailand (-2.9), and the Philippines (-2.9). The outperforming regions:

EM Latin America (10.7), EM Asia (9.2), and BRIC (9.0). EMEA was July's worst-performing region, albeit with a gain of 1.0%, followed by EM Eastern Europe (1.4), EAFE (2.2), and EMU (3.6). The US MSCI's ytd ranking rose two places to 8/49 as its ytd gain improved to 2.5% from 0.6% a week earlier. It's way ahead of the 8.4% ytd decline for the AC World ex-US. EM Asia is the best regional performer ytd with a gain of 4.4%, followed by BRIC (-0.1). The worst-performing regions ytd: EM Latin America (-29.2), EM Eastern Europe (-24.2), EMEA (-20.7), EAFE (-10.6), and EMU (-10.3). The best country performers ytd: Denmark (18.3), New Zealand (12.1), Taiwan (12.1), China (11.7), and Israel (4.7). The worst-performing countries so far in 2020: Colombia (-44.0), Greece (-37.1), Austria (-32.0), Sri Lanka (-31.2), and Brazil (-31.0).

S&P 1500/500/400/600 Performance ([link](#)): All of these indexes rose last week and the SMidCaps were up for a third straight week. LargeCap rose 1.7% for the week, beating out the 1.6% gain for SmallCap and the 0.8% rise for MidCap. LargeCap has been out of a bear market for 16 weeks, and out of a correction for five straight weeks. LargeCap is now 3.4% below its 2/19 record high. MidCap was back in a correction for an eighth week last week but improved to 11.5% below its record high on 1/16. SmallCap remains the worst performer, back in a bear market for an eighth week and 21.2% below its 8/29/18 record. Twenty of the 33 sectors rose for the week, up from 19 rising a week earlier. LargeCap Consumer Discretionary and LargeCap Tech ended the week at a record high. Another eight sectors are no longer in a bear market or correction: LargeCap Consumer Staples, LargeCap Health Care, LargeCap Materials, MidCap Consumer Discretionary, MidCap Consumer Staples, MidCap Health Care, MidCap Tech, and SmallCap Tech. SmallCap Tech was the best performer last week with a gain of 5.2%, ahead of LargeCap Tech (5.0), SmallCap Real Estate (4.3), and LargeCap Real Estate (4.1). SmallCap Energy was the biggest underperformer last week with a decline of 6.5%, followed by LargeCap Energy (-4.2), SmallCap Utilities (-2.1), and LargeCap Materials (-1.8). All of the indexes rose for a fourth straight month in July. LargeCap's 5.5% gain was ahead of MidCap's (4.5) and SmallCap's (4.0). Twenty-nine of the 33 sectors rose in July, compared to 21 rising in June. July's best performers: LargeCap Consumer Discretionary (9.0), MidCap Consumer Staples (8.6), SmallCap Consumer Discretionary (8.5), SmallCap Communication Services (8.4), and MidCap Health Care (7.9). July's biggest laggards: LargeCap Energy (-5.3), SmallCap Utilities (-1.6), SmallCap Financials (-0.8), and SmallCap Real Estate (-0.3). LargeCap is now positive for the year with a gain of 1.2%, ahead of MidCap (-9.7) and SmallCap (-15.3). Eight of the 33 sectors are now positive so far in 2020, with the best performers led by LargeCap Information Technology (20.6), LargeCap Consumer

Discretionary (16.2), MidCap Health Care (13.8), SmallCap Communication Services (11.5), and MidCap Consumer Staples (6.4). The biggest laggards of 2020 to date: SmallCap Energy (-53.8), MidCap Energy (-46.3), LargeCap Energy (-40.4), SmallCap Financials (-30.6), and SmallCap Real Estate (-27.3).

S&P 500 Sectors and Industries Performance ([link](#)): Seven of the 11 S&P 500 sectors rose last week, and four outperformed the composite index's 1.7% gain. That compares to a 0.3% decline for the S&P 500 a week earlier, when six sectors rose and seven outperformed the index. Tech's 5.0% gain made it the best performer for the week, ahead of Real Estate (4.1%), Consumer Discretionary (2.1), and Communication Services (1.7). Energy was the week's biggest underperformer, with a decline of 4.2%, followed by Materials (-1.8), Financials (-0.9), Industrials (-0.2), Health Care (0.3), Consumer Staples (0.9), and Utilities (0.9). The S&P 500 rose 5.5% in July for its fourth straight monthly gain and its best four-month performance since the last millennium, i.e., December 1998. Ten of the 11 sectors moved higher in July, and six beat the broader index. That compares to five rising in June, when four beat the S&P 500's 1.8% gain. The leading sectors in July: Consumer Discretionary (9.0), Utilities (7.7), Materials (7.0), Consumer Staples (6.8), Communication Services (6.6), and Information Technology (5.6). July's laggards: Energy (-5.3), Financials (-3.5), Real Estate (-3.9), Industrials (-4.3), and Health Care (-5.2). The S&P 500 is now up 1.2% so far in 2020, with four sectors leading the index and in positive territory. The leading sectors ytd: Information Technology (20.6), Consumer Discretionary (16.2), Communication Services (5.5), and Health Care (3.4). The laggards of 2020 so far: Energy (-40.4), Financials (-22.0), Industrials (-11.9), Real Estate (-6.4), Utilities (-5.9), Materials (-1.6), and Consumer Staples (-0.8).

Commodities Performance ([link](#)): Last week, the S&P GSCI index fell 0.6% for only its fourth decline in the past 14 weeks. It's now down 23.6% from its recent high on 1/6, and still in a severe bear market at 32.4% below its cyclical high on 10/3/18. Sugar was the best performer last week, with a gain of 10.0%, followed by Coffee (9.7%), Cocoa (7.9), and Silver (6.0). Unleaded Gasoline was the biggest decliner for the week, with a drop of 6.8%, followed by Natural Gas (-3.6), Heating Oil (-3.1), and Corn (-3.1). July saw 22 of the 24 commodities climb as the S&P GSCI Commodities index rose 4.4% in its fourth straight monthly gain. That compares to 17 rising in June, when the S&P GSCI Commodities index rose 6.0%. July's best performers were Silver (29.9), Coffee (17.8), Zinc (13.4), and Live Cattle (12.0). July's laggards: Corn (-7.5), Unleaded Gasoline (-2.5), and Kansas Wheat (0.6). Five of the 24 commodities that we follow are higher so far in 2020: Silver (35.1), Gold (30.4), Copper (4.0), Zinc (1.6), and Feeder Cattle (1.4). The worst performers ytd: GasOil (-40.1), Heating Oil (-

39.5), Brent Crude (-34.1), and Crude Oil (-34.0).

S&P 500 Technical Indicators ([link](#)): The S&P 500 rose 1.7% 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 16th week after seven weeks below, and above its 200-dma for the ninth time in 10 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 11th week after 12 declines and was in a Golden Cross (with 50-dmas higher than 200-dmas) for a fourth 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 2.8% above its 200-dma from 2.1% 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 an 11th week after declining for 12 straight weeks. The price index rose to 4.1% above its rising 50-dma from 3.3% 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 11th week as well. It had been rising for 39 weeks through early March. The index was above its 200-dma for a fifth 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 7.1% above its rising 200-dma, compared to 5.5% 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](#)): Ten of the 11 S&P 500 sectors traded above their 50-dmas last week, up from nine a week earlier. Real Estate moved above in the latest week and left Energy as the only sector trading below its 50-dma. That compares to all 11 sectors above in the three weeks around the start of June. Seven sectors traded above their 200-dmas, up from six a week earlier, as Real Estate moved above. That compares to just one sector (Health Care) above its 200-dma in early April. 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 91 straight weeks, and its 50-dma fell last week after briefly rising a week earlier. 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 22nd week, so long for the first time since late August. Energy's 200-dma has been mostly falling since October 2018.

US ECONOMIC INDICATORS

GDP ([link](#)): The US economy contracted at its fastest pace on record last quarter, shattering the previous record freefall posted during Q1-1958, as the impact from COVID-19 intensified. Real GDP plunged 32.9% (saar) during Q2, more than triple the Q1-1958 decline of 10.0%. (Last quarter's plummet flowed a contraction of 5.0% [saar] during Q1—which was its first decline in six years and the steepest since the Great Recession.) Consumer spending was hit hard last quarter, plunging a record 34.6% (saar), driven by a 43.5% crash in services consumption—led by health care. Goods consumption sank 11.3% (saar), piloted by a 15.9% nosedive in nondurable goods spending (led by clothing & footwear); durable goods consumption dipped only 1.4%. Inventory investment contracted for the third consecutive quarter during Q2, tumbling to a record-low -\$315.5 billion (saar) as companies drew from existing supplies to meet dramatically reduced demand rather than adding to their stockpiles. Nonresidential investment crashed 27.0% (saar)—after a 6.7% decline during Q1—with spending on equipment (-37.7%, saar) and structures (-34.9) plummeting, while the decline in intellectual property products (-7.2) paled in comparison—though was the steepest since Q1-2009. Residential investment dove 38.7% (saar) last quarter after soaring 19.0% during Q1; it was the first decline since Q2-2019 and the steepest since Q2-1980. Meanwhile, federal government spending catapulted 17.4% (saar) during Q2, as stimulus measures contributed to a 39.7% surge in nondefense spending—its best showing since Q1-1967. State & local government spending (-5.6) contracted for the first time in six quarters. Trade gave a small boost to Q2 GDP. Real exports (-64.1%, saar) got pummeled by stricter lockdowns overseas than in the US, while imports (-53.4) plunged as Americans cut spending dramatically due to the shutdowns. The drop in imports more than offset the drop in exports in absolute terms,

narrowing the net exports deficit slightly (to -\$780.7 billion [saar] from -\$788.0 billion).

Contributions to GDP Growth ([link](#)): Real consumer spending was far and away the biggest negative contributor to Q2 real GDP growth; federal government spending and trade were only minor contributors. The details: 1) Real consumer spending subtracted a whopping 25.05ppts from Q2 GDP, with services (-22.93ppts) consumption accounting for nearly all of the decline. Goods consumption (-2.12) recorded a much smaller detraction—which was basically all nondurable goods (-2.16). 2) Inventory investment (-3.98ppts) was a drag on real GDP growth for the fifth straight quarter, and once again the decline was all nonfarm (-4.04). 3) Real nonresidential fixed investment (-3.62ppts) detracted from GDP growth for the third consecutive quarter, led by continued declines in both equipment (-2.13) and structures (-1.16) expenditures; spending on intellectual property products (-0.33) was relatively neutral, eking out a relatively small loss. 4) Real residential investment (-1.76ppt) subtracted from growth for the first time in a year, posting its steepest decline since Q2-1980 last quarter. 5) Government outlays added 0.82ppt to growth last quarter, with federal (1.23ppt) spending adding to growth—led by nondefense (1.03) spending; state & local government (-0.40) subtracted from real GDP during Q2.6) Meanwhile, trade was a small positive—as real net exports added 0.68ppt to growth, with imports (10.06) contracting at a faster pace than exports (-9.38) last quarter.

Personal Income & Consumption ([link](#)): Personal income took another step back in June, while consumption continued its rebound. Personal income sank a record 5.5% during the two months ending June after soaring a record 12.1% in April. Spending on government social benefits has caused these wide swings recently, reflecting payments made to individuals from federal economic recovery programs in response to the COVID-19. These benefits plummeted a record 17.6% in May and 25.0% during the two months ending June; they had skyrocketed a record 101.5% in April. Meanwhile, wages & salaries increased 4.9% during the two months through June—the best performance in nearly two decades—after plummeting a record 10.7% during the two months ending April. Personal consumption expenditures in June jumped an additional 5.6%, building on May's record 8.5% surge, after plunging an unprecedented 18.7% during the two months through April. Focusing on consumer spending during the two months through June, there are promising signs. Here's a look: Total (14.6%), durable goods (40.1), nondurable goods (13.2), and services (11.3) all posted double-digit advances. The big jump in spending the past two months lowered personal saving from a record \$6.4 trillion in April to \$3.4 trillion by June—which is still \$2.0 trillion above pre-COVID-19 levels—enough to continue fueling the recovery in spending, though consumer sentiment did take a hit in July

stemming from a resurgence of COVID-19 concerns. The saving rate fell to 19.0% in June after skyrocketing to a record 33.5% in April from 12.8% in March and 7.6% at the start of the year.

Consumer Sentiment Index ([link](#)): Recent coronavirus outbreaks and reinstatement of some government restrictions have caused consumer sentiment to retreat through late July. The Consumer Sentiment Index (CSI) fell to 72.5 during July—from 73.2 in mid-July and 78.1 in June—and stands only 0.7 point above April's eight-year low of 71.8. The CSI is currently 28.5 points below its pre-pandemic peak of 101.0. Optimism was absent from July's report, with both the present and expectations components sinking. The present situation component fell to 82.8 last month, from 84.2 in mid-July and 87.1 in June—placing it 32.0 points below its pre-pandemic peak of 114.8. Meanwhile, July's expectations component dropped down to May's pandemic-low of 65.9, from 66.2 in mid-July and 72.3 in June. It's 26.2 points below its pre-pandemic level of 92.1.

GLOBAL ECONOMIC INDICATORS

Eurozone Economic Sentiment Indicators ([link](#)): The recovery in the Economic Sentiment Indexes (ESIs) continued in July for both the Eurozone and the EU, climbing for the third month—to a record gain in June followed by the second biggest monthly increase in July. The Eurozone's ESI is up 17.5 points to 82.3 over the three-month period, while the EU's is 18.0 points higher over the comparable time span to 81.0—with both regions retracing around half of their combined losses of March and April. From a country perspective, ESIs are improving in all the largest Eurozone economies. Spain (to 90.6 from 73.3 in April), Germany (88.4 from 72.1), and the Netherlands (82.7 from 65.6) rose steadily over the three-month span, while ESIs for France (to 82.3 from 67.7 in May) and Italy (77.9 from 63.0) climbed for the second month. (Strict confinement measures in Italy during April blocked data from being collected that month.) At the sector level, both industrial (to -16.2 from -32.5 in April) and retail (-15.3 from -30.2) confidence improved for the third successive month, while services (-26.1 from -43.6 in May) climbed for the second month. Consumer confidence dipped slightly, by 0.3 point, last month to -15.0 after climbing 7.3 points the prior two months; it was as low as -22.0 in April. Construction confidence slipped by 1.0 point last month, to -12.6, but was still 3.50 points above April's low of -16.1.

Eurozone GDP Flash Estimates ([link](#)): Economic activity in the Eurozone during Q2 contracted at a record rate as the coronavirus picked up steam. Real GDP plunged 12.1%,

according to flash estimates, more than triple Q1's 3.6% shortfall—with accelerating declines occurring among all nine of the Eurozone countries that reported flash numbers. Spain (-18.5% during Q2 & -5.2% during Q1)—which was one of the first Eurozone economies to be severely hit by COVID-19 and one of the first to be placed in lockdown—posted the largest decline last quarter, with Portugal (-14.1 & -3.8) recording the second-steepest drop in growth. Among the top three Eurozone economies, France (-13.8 & -5.9) reported the largest contraction, followed by Italy (-12.4 & -5.4) and then Germany (-10.1 & -2.0).

Eurozone CPI Flash Estimate ([link](#)): July's CPI headline rate is expected to move up slightly for the second month, to 0.4% 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 20th consecutive month that the headline rate was below 2.0%. Meanwhile, the core rate is predicted to accelerate back up to February's recent peak rate of 1.2% y/y—after falling to a 13-month low of 0.8% in June. Looking at the main components, food, alcohol & tobacco once again is expected to post the highest rate, at 2.0% y/y—though that would represent easing for the third month from April's peak rate of 3.6%, which was the highest since November 2008. Energy is predicted to have the lowest rate, at -8.3% y/y, easing for the second month from May's -11.9%, the steepest since July 2009. In the meantime, the rate for non-energy industrial goods is expected to accelerate 1.7% y/y (highest since April 2002) from 0.2% the prior two months, while the services rate is predicted to slow for the second month from 1.3% in May to 0.9% y/y in July, the lowest since April 2016.

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