



MORNING BRIEFING

August 31, 2020

Anatomy of a Meltup

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

(1) A theme song for the meltup. (2) Was that a bear market or a correction? (3) The final stage of bull markets. (4) Bull continues to stampede, trampling even the bulls. (5) November 3 election could trip up the bull. (6) MAMU's forward P/Es approaching 1999 tech bubble levels. (7) The valuation question when interest rates are zero. (8) Fed will keep rates near zero longer while waiting for inflation to overshoot. (9) Yield-Curve Control will be Fed's response if bond yield keeps rising. (10) All meltups are valuation led. (11) Are 200-dmas signaling impending corrections in high-flyers? (12) Movie review: "Radioactive" (+).

Strategy I: Tiger by the Tail. The S&P 500 has soared 56.8% since it bottomed this year on March 23. Our latest suggested theme song for the stock market is "[I've Got a Tiger by the Tail](#)," by Buck Owens & His Buckaroos and released in 1964. All together now: "Well, I thought the day I met you, you were meek as a lamb / Just the kind to fit my dreams and plans / But now, the pace we're livin' takes the wind from my sails / And it looks like I've got a tiger by the tail."

Did a new bull market start on March 24? Technically speaking, it did, given that the previous bull market was followed by a 33.9% drop in the S&P 500 from February 19 through March 23. That plunge exceeded the 20% demarcation line between a 10%-20% correction and a 20%+ decline during bear markets. However, the latest bear market lasted only 33 calendar days and 23 trading days from its peak to trough, with the market down more than 20% from its peak during just 18 of those days. That's not much of a bear market. It's the shortest one on record. It's more like a correction, in my opinion. Nevertheless, Joe is a by-the-book quant and insists that we add it to our table of [S&P 500 Bear Markets and Corrections Since 1928](#) as a bear market.

I've often observed that bear markets are caused by recessions, and there certainly has been a terrible one resulting from government-mandated lockdowns to impose social distancing to slow the spread of the pandemic. I've also noted that previous recessions usually were caused

by credit crunches. The recent lockdown recession lasted just two months, i.e., March and April. Massive monetary easing averted a credit crunch. The lifting of lockdown restrictions combined with massive fiscal stimulus led to V-shaped rebounds in key economic indicators during May, June, and July.

So I think it makes some sense to view the current meltup to new record highs in the S&P 500 as a continuation of the bull market that started on March 9, 2009. If so, we may now be seeing the beginning of the tail end of that long bull market given that previous bull markets often ended with meltups that set the stage for meltdowns.

Joe and I had hoped that the market would consolidate its gains since March 23, giving earnings a chance to rebound. However, Fed officials continue to drive up stock prices by committing to keeping interest rates close to zero for a very long time, as we discuss below. Consequently, they are fueling the meltup in stock prices.

On March 12, as the pandemic of fear spread rapidly in the financial markets, we pushed our year-end 2020 target of 3500 for the S&P 500 to mid-2021 and targeted 2900 for the end of this year instead. On the morning of Wednesday, March 25, after the S&P 500 stock price index closed at 2447.33 on Tuesday, Joe and I declared that it had bottomed on Monday, March 23 at 2237.40. We maintained our 2900 target for the end of this year. That seemed fairly aggressive considering that the pandemic was raging.

The index blew decisively through our 2900 target on May 18. We had hoped that the market would consolidate its gains around that level, but it kept moving higher. So on August 12, when the S&P 500 was 3380.35, we raised our target to 3500 for the end of this year and to 3800 for the end of next year. It blew through 3500 on Friday. It could easily do the same to our 3800 target well ahead of schedule. As we saw in 1999, it's impossible to forecast the upside of a meltup.

Honestly, we would still like to see the market consolidate its gains at least through the November 3 election and let earnings catch up with the stock price gains to date. If the meltup continues, the election could be the event that triggers a meltdown if it is bitterly contested or if a Democratic sweep results in a radical regime change.

Meanwhile, as the song goes: “There ain’t no way to slow you down / I’m as ’bout as helpless as a leaf in a gale / And it looks like I’ve got a tiger by the tail.” More accurately, it looks like we’ve got a stampeding bull by the tail.

Strategy II: Zero Interest Rates & Valuation. Joe and I frequently have observed that the stock market rally since March 23 could turn into the Mother of All Meltups (MAMU). Sure enough, since then, the S&P 500 rose 56.8% to a new record high of 3508.01 on Friday ([Fig. 1](#)). It did so in 158 calendar days. The tech-heavy Nasdaq is up 70.5% over the same period, also to a new record high of 11695.63 ([Fig. 2](#)).

The last time that the S&P 500 rebounded so much in such a short period was during September 1933. While the Nasdaq’s rally is impressive, it pales by comparison to the 255.8% meltup from October 8, 1998 through March 10, 2000, but it may be on the same trajectory now as it was back then.

The forward P/E of the S&P 500 jumped to 22.1 at the end of August, approaching the highs during the tech bubble of 1999 ([Fig. 3](#)). The forward price-to-sales ratio of the S&P 500 rose to 2.40 during the August 20 week, the highest on record ([Fig. 4](#)).

The stock market is working on answering the question that Joe and I have been asking in recent weeks: “In a world of zero interest rates, what is the fair value of the S&P 500 forward P/E?” Taking our cue from Hamlet, we are simply asking whether stocks should be deemed to be or not to be too expensive when the federal funds rate is zero and the 10-year US Treasury bond yield is less than 1.00%, as both have been since the second half of March.

The market’s answer, so far, is that stocks remain cheap as long as interest rates stay this low. The longer they stay this low, the cheaper stock prices appear to be, and the higher they might potentially go. Last Thursday, Fed Chair Jerome Powell did his best to convince us all that interest rates will stay this low for a very long time. He said so during his [speech](#) at Jackson Hole. He officially declared that the Fed no longer is aiming for a 2.0% bullseye on the inflation target but rather for an average around it.

The 2.0% target was officially declared by the Fed in January 2012. During the 102 months since then through July of this year, the headline and core PCED (personal consumption expenditures deflator) inflation rates have averaged 1.4% and 1.6%, rarely hitting the mark and consistently below it ([Fig. 5](#) and [Fig. 6](#)). Since January 2012 through July of this year, the

PCED has been tracking an annualized growth rate of 1.3% ([Fig. 7](#)). As a result, it is currently 5.2% below where it should be by now had it been tracking the Fed's 2.0% target. To get back on the 2.0% inflation rate track since the start of 2012 certainly leaves the Fed plenty of room to tolerate a pickup in inflation without even “thinking about thinking about raising [interest] rates” under the new AIT approach (quoting Powell from his July 29 [presser](#)).

Notwithstanding Powell's dovishness, bond yields rose in response to his speech on Thursday. Investors seemed more concerned about the inflationary consequences of AIT than about the prospect that the federal funds rate will remain around zero for a longer time under the new regime. However, the fact that the Fed has failed to get inflation sustainably up to 2.0% since January 2012 raises the question of why the Fed would be any more likely to finally do so simply because it has declared that overshoots will be tolerated. In any event, if the bond yield continues to move higher, Melissa and I are certain that the Fed will adopt a policy of “Yield-Curve Control,” which is a fancy term for pegging the bond yield. In that scenario, the meltup in stock prices certainly would continue.

So again, we ask: In a world of zero interest rates, what is the fair value of the S&P 500 forward P/E? The market's current answer is as follows:

(1) *S&P 500 forward P/E*. The S&P 500's forward P/E on Friday was 22.9, up from 12.9 on March 23. The last time it was this high was May 22, 2001, when the 10-year bond yield was 5.42% and the PCED inflation rate was 2.5%. The bond yield was down to 0.74% on Friday. July's PCED inflation rate was 1.0%.

(2) *S&P 500 Growth vs Value forward P/E*. As of Friday's close, the forward P/E of the S&P 500 Growth index rose to 29.4, up from the March 23 low of 16.8 ([Fig. 8](#)). The latest reading is the highest since May 2001, when the bond yield was 5.39% and inflation was 2.5%.

The forward P/E of the S&P 500 Value index also jumped from 10.0 on March 23 to 17.3 currently. Interestingly, the ratio of the forward P/Es of Growth to Value has been on an uptrend since early 2017, and is currently at 1.65, which is still well below this ratio's July 2000 bubble peak at a reading of 2.67 ([Fig. 9](#)). Meanwhile, the ratio of the forward earnings of Growth to Value has spiked higher since the start of this year, justifying the widening P/E spread between the two ([Fig. 10](#)).

(3) *S&P 5 vs S&P 495 forward P/E*. Leading the charge higher among the S&P 500 have been the S&P 5 (a.k.a. the Magnificent Five). As of the August 28 week, they accounted for a record 25.9% of the market capitalization of the S&P 500 ([Fig. 11](#)). The market-cap share of the comparable S&P 5 during the tech bubble peaked at a then-record high of 18.5% during March 2000.

Today's Magnificent Five are the so-called FAAMG stocks (Facebook, Apple, Amazon, Microsoft, and Google). Collectively, their forward P/E rose to 44.3 at the end of last week. Is that nuts, or is it justified by their ability to grow their forward revenues and earnings faster than the S&P 495 in a world of zero interest rates? By the way, just before the S&P 500's Tech bubble burst during March 2000, the sector's forward P/E peaked at 48.3, while the bond yield was 6.26% and inflation was 2.9%.

(4) *Bottom line*. We are in the midst of a Fed-led meltup in valuation multiples.

Strategy III: Moving Averages Are Moving. The Fed's move last week to average-inflation-targeting widened the spread between the S&P 500 and its 200-day moving average to 13.7%, the highest reading since February 2011 ([Fig. 12](#)). Here is the performance derby of the comparable spreads for the S&P 500 sectors: Information Technology (28.0%, the highest since April 2000), Consumer Discretionary (25.8, a record high), Communication Services (17.2, the highest since May 1999), Materials (13.6), Industrials (8.8), Consumer Staples (8.4), Health Care (8.0), Real Estate (1.5), Financials (-1.3), Utilities (-3.4), and Energy (-17.2).

The Magnificent Five have been leading the way in this derby. As of Friday's close, here are their spreads relative to their 200-dmas (200-day moving averages): Facebook (38%), Apple (55), Amazon (47), Microsoft (29), and Google (18). Frequently included in the list of overachievers are Netflix (31) and NVIDIA (70). Tesla (162) isn't in the S&P 500. Apple, Microsoft, and NVIDIA account for 50.6% of the market cap of the S&P 500 Information Technology sector. Facebook, Google, and Netflix account for 67.7% of Communication Services. Amazon's share of the Consumer Discretionary sector is a staggering 51.6%.

Movie. "Radioactive" (+) ([link](#)) is a biopic about Marie Curie. Together with her husband Pierre, she was awarded half of the Nobel Prize for Physics in 1903, for their study into the spontaneous radiation discovered by Henri Becquerel, who was awarded the other half of the Prize. In 1911, she received a second Nobel Prize, this time in Chemistry, in recognition of discovering two elements, polonium and radium. Despite her great professional

accomplishments, the press hounded her about her personal life, mostly for partisan purposes. As the French saying goes, “*plus les choses changent, plus elles restent les mêmes.*”

Correction. In the advance copy of last Thursday’s *Morning Briefing* sent Wednesday evening, we incorrectly referred to poet Joyce Kilmer as “she.” Alfred Joyce Kilmer was an American writer and poet mainly remembered for a short poem titled “Trees,” which was published in the collection *Trees and Other Poems* in 1914.

CALENDARS

US: **Mon:** Dallas Fed Manufacturing Index, Clarida, Bostic. **Tues:** Construction Spending 1.0%, Motor Vehicle Sales, ISM & IHS Markit M-PMIs 54.5/53.6, API Crude Oil Inventories, Brainard. (DailyFX estimates)

Global: **Mon:** Germany CPI 0.1% y/y, Italy GDP -12.4%q/q/-17.3%y/y, Italy CPI -0.5% y/y, Japan Consumer Confidence, China Caixin M-PMI 52.7, RBA Interest Rate Decision 0.25%. **Tues:** Eurozone Headline & Core CPI 0.2%/0.9% y/y, Eurozone, Germany, France, Italy, and Spain M-PMIs 51.7/53.0/49.0/52.0/52.7, Germany Unemployment Change & Unemployment Rate 1k/6.4%, UK M-PMI 55.3, Australia GDP -6.0%q/q/-5.3%y/y, Guindos, Lane, Wakatabe. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 3.2% for its eighth gain in nine weeks and post record highs for a third straight week and for the first time since 2/19. The index ranked 13th of the 49 global stock markets we follow in a week when 39/49 countries rose in US dollar terms, and the AC World ex-US index moved 2.0% higher as all but one region rose. The US MSCI index was out of a correction for a ninth week after slipping back the week before that for the first time in five weeks. BRIC was the best-performing region last week, with a gain of 3.7% followed by EM Asia (3.0%). EMU (2.7), and EM Latin America (2.3). EM Eastern Europe (0.0) was the biggest underperformer, followed by EMEA (0.2) and EAFE (1.6). New Zealand was the best-performing country last week, with a gain of 4.9%, followed by Pakistan (4.3), Colombia (4.2), Egypt (4.1), South Africa (4.1), and China (4.0). Among the 23 countries that underperformed the AC World ex-US MSCI last week, Hungary fared the worst, with a decline of 3.8%, followed by Malaysia (-3.2), Jordan (-2.1), and Sri Lanka (-2.0). The US MSCI’s ytd ranking remained steady at 6/49 as its ytd gain improved to 10.1% from 6.6% a week earlier. It’s way ahead of the 4.1% ytd decline for the AC

World ex-US. EM Asia is the best regional performer ytd with a gain of 9.4%, followed by BRIC (5.3). The worst-performing regions ytd: EM Latin America (-31.5), EM Eastern Europe (-22.9), EMEA (-18.1), EAFE (-6.2), and EMU (-5.7). The best country performers ytd: Denmark (21.9), China (19.6), New Zealand (15.5), Taiwan (11.4), and Finland (11.1). The worst-performing countries so far in 2020: Colombia (-41.4), Greece (-35.6), Brazil (-35.0), Hungary (-29.2), and Turkey (-29.0).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes rose last week as 30 of the 33 sectors advanced. LargeCap rose for a fifth straight week, and the SMidCaps were up for the sixth time in seven weeks. LargeCap gained 3.3% for the week, well above the 1.9% gains for SmallCap and MidCap. LargeCap has been making new record highs for two weeks now, its first since 2/19. It has been out of a bear market for 20 weeks, and out of a correction for nine straight weeks. MidCap was out of a correction for a fourth week and improved to 7.6% below its record high on 1/16. SmallCap was out of a bear market for a fourth week but remained in a correction despite improving to 17.0% below its 8/29/18 record and 12.4% below its recent high on 1/16. Thirty sectors rose last week, up sharply from seven rising a week earlier. Five sectors ended the week at a record high: LargeCap Consumer Discretionary, LargeCap Health Care, LargeCap Materials, LargeCap Tech, and MidCap Consumer Discretionary. That brings the total number of sectors out of a correction to 15, up from 13 a week earlier. LargeCap Communication Services was the best performer last week with a gain of 4.8%, ahead of LargeCap Tech (4.5), LargeCap Financials (4.4), and MidCap Communication Services (3.9). MidCap Health Care was the biggest underperformer last week with a drop of 1.1%, followed by LargeCap Utilities (-0.6), SmallCap Utilities (-0.5), and MidCap Utilities (0.0). LargeCap is the only index that's risen for the year so far, with a gain of 8.6%, ahead of MidCap (-5.6) and SmallCap (-10.7). Thirteen of the 33 sectors are now up so far in 2020, with the best performers led by LargeCap Information Technology (34.3), LargeCap Consumer Discretionary (26.9), LargeCap Communication Services (15.6), MidCap Health Care (11.7), and MidCap Consumer Staples (10.7). The biggest laggards of 2020 to date: SmallCap Energy (-50.9), MidCap Energy (-41.7), LargeCap Energy (-40.3), SmallCap Financials (-27.2), and MidCap Real Estate (-24.2).

S&P 500 Sectors and Industries Performance ([link](#)): Ten of the 11 S&P 500 sectors rose last week, but only three outperformed the composite index's 3.3% gain. That compares to a 0.7% gain for the S&P 500 a week earlier, when five sectors rose and three outperformed the index. Communication Services' 4.8% gain made it the best performer for the week, ahead of Information Technology (4.5%) and Financials (4.4). Utilities was the week's biggest

underperformer with a decline of 0.6%, followed by Health Care (1.0), Energy (1.1), Real Estate (1.9), Consumer Staples (2.4), Industrials (3.0), Consumer Discretionary (3.1), and Materials (3.3). The S&P 500 is now up 8.6% so far in 2020, with three sectors ahead of the index and six in positive territory. The leading sectors ytd: Information Technology (34.3), Consumer Discretionary (26.9), and Communication Services (15.6). The laggards of 2020 so far: Energy (-40.3), Financials (-17.7), Utilities (-9.1), Real Estate (-5.8), Industrials (-3.4), Materials (4.1), Consumer Staples (4.1), and Health Care (5.7).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 1.9% for its 14th gain in the past 18 weeks. It's now down 19.0% from its recent high on 1/6, but still in a severe bear market at 28.4% below its cyclical high on 10/3/18. Cocoa was the best performer last week, with a gain of 8.9%, followed by Corn (5.5%), Coffee (5.5), Soybeans (5.1), and Nickel (4.6). Feeder Cattle was the biggest decliner for the week, with a drop of 3.5%, followed by Live Cattle (-3.4), Sugar (-1.8), and Lean Hogs (-1.1). Eight of the 24 commodities that we follow are higher so far in 2020: Silver (55.1), Gold (29.7), Natural Gas (21.4), Zinc (10.1), and Nickel (9.7). The worst performers ytd: GasOil (-39.4), Heating Oil (-38.7), Brent Crude (-30.6), Crude Oil (-29.6), and Unleaded Gasoline (-26.3).

S&P 500 Technical Indicators ([link](#)): The S&P 500 rose 3.3% 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 20th week after seven weeks below, and above its 200-dma for the 13th time in 14 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 15th week after 12 declines and was in a Golden Cross (with 50-dmas higher than 200-dmas) for an eighth 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 a five-month high of 5.7% above its 200-dma from 4.8% 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 15th week after declining for 12 straight weeks. The price index rose to an 11-week high of 7.6% above its rising 50-dma from 5.4% 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 15th week as well. It had been rising for 39 weeks through early March. The index was above its 200-dma

for a ninth 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 13.7% above its rising 200-dma, the highest reading since February 2011 and compared to 10.5% above a week earlier. That's up from 26.6% below on 3/23—the lowest reading since March 2009 and down from a two-year high of 11.2% in mid-February. The current reading 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 Utilities joined Energy as the only sectors trading below their 50-dmas. That compares to all 11 sectors above in the three weeks around the start of June. Eight sectors traded above their 200-dmas, up from seven a week earlier as Real Estate moved above. That leaves Energy, Financials, and Utilities as the only sectors trading below their 200-dmas. That compares to just one sector (Health Care) above its 200-dma in early April. Seven sectors are now in the Golden Cross club (50-dmas higher than 200-dmas), up from six a week earlier as Industrials joined the club for the first time since mid-March. The four sectors still in a Death Cross: Energy, Financials, Real Estate, and Utilities. 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 95 straight weeks, and its 50-dma fell for a fifth week after briefly rising the week before that. Ten sectors have a rising 50-dma, unchanged from 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 26th week, so long for the first time since late August. Energy's 200-dma has been mostly falling since October 2018.

US ECONOMIC INDICATORS

Personal Income & Consumption ([link](#)): Personal income in July increased for the first time in three months, while consumer spending is on a three-month upswing. Income ticked up 0.4% last month following a record 5.1% drop during the two months through June; a surge in spending on government social benefits boosted April income a record 12.2%. Spending on

government social benefits has caused these wide swings, reflecting payments made to individuals from federal economic recovery programs in response to COVID-19. These benefits, however, showed little movement in July, slipping 1.4%—after plummeting a record 17.0% in May and 24.6% during the two months ending June; they had skyrocketed a record 101.7% in April. Wages & salaries, in the meantime, rebounded 6.3% during the three months ending July (matching its best three-month performance on record posted during the final three months of 1992), after plunging a record 10.6% during the two months through April. Consumer spending increased 1.9% in July, building on the record 15.3% gain during the two months ending June; spending had contracted an unprecedented 18.8% during the two months through April. Over the three months through July, total spending jumped 17.5%, with durable goods (45.2), nondurable goods (15.4), and services (14.1) all posting double-digit advances. The big jump in spending over the past three months lowered personal saving from a record \$6.4 trillion in April to \$3.2 trillion by July—which is still \$1.8 trillion above pre-COVID-19 levels—enough to continue fueling the recovery in spending, though consumers aren't as confident as they were back in June. The saving rate fell to 17.8% in July after skyrocketing to a record 33.7% in April from 12.9% in March and 7.6% at the start of the year.

Consumer Sentiment Index ([link](#)): “Consumer sentiment has remained trendless in the same depressed range it has traveled for the past five months,” according to Richard Curtin, chief economist of the survey. The Consumer Sentiment Index (CSI) did improve to 74.1 for all of August, from 72.8 in mid-August and 72.5 in July. Still, Curtin points out that August's level is an insignificant 0.4 point above the April-to-July average. The CSI is only 2.3 points above April's pandemic low of 71.8 and 26.9 points below February's pre-pandemic high of 101.0. Curtin noted: “Although half anticipates an improved economy, when asked to judge the performance of the economy, 62% judged that the overall conditions in the economy could be best described as unfavorable.” The present situation (to 82.9 from 82.8) component of the CSI didn't budge in August, while the expectations (68.5 from 65.9) component improved—though it was only 2.6 points above its 65.9 pandemic low recorded in July and May. (The expectations component had jumped 6.4 points in June to 72.3, but the short burst of enthusiasm fizzled as outbreaks of coronavirus cases in some states emerged.) The present situation measure was 31.9 points below its February level of 114.8, while the expectations gauge was 23.6 points below its February peak of 92.1. Curtin warned: “Although strong gains in consumer spending from the 2nd quarter lows can be anticipated, those gains will significantly slow by year-end without some additional fiscal spending programs to diminish the hardships faced by unemployed workers, small businesses, as well as support for state and

local governments.”

Pending Home Sales ([link](#)): “We are witnessing a true V-shaped sales recovery as homebuyers continue their strong return to the housing market,” said Lawrence Yun, NAR’s chief economist. “Home sellers are seeing their homes go under contract in record time, with nine new contracts for every 10 new listings.” The Pending Home Sales Index has been on a steep upward trajectory since bottoming in April at 69.0: It climbed 5.9% in July to 122.1 following a 15.8% surge in June and a record-breaking 44.3% increase in May—for an unprecedented three-month gain of 77.0% Sales were up 15.5% y/y in July, the best y/y performance since September 2012. All regions have posted massive gains the past three months and all now are above year-ago levels. Here’s a look: Northeast (+163.6% for the three months ending July & 20.6% y/y), West (86.3 & 13.2), South (62.1 & 14.9), and Midwest (59.2 & 15.4). According to Yun, “Anecdotally, Realtors are telling me there is no shortage of clients or home seekers, but that scarce inventory remains a problem,” Yun said. “If 20% more homes were on the market, we would have 20% more sales, because demand is that high.” He added that he expects housing starts to average at 1.35 million in 2020 and to pick up in 2021, to 1.43 million.”

Regional M-PMIs ([link](#)): Four Fed districts now have reported on manufacturing activity for August (New York, Philadelphia, Richmond, and Kansas City); collectively, they show the manufacturing sector continued to expand at a solid pace this month, led by an acceleration of growth in both the Richmond and Kansas City regions. The composite index was little changed at 13.2 this month after soaring from a record low of -54.7 in April to 13.6 by July. The Richmond (to 18.0 from 10.0) and Kansas City (14.0 from 3.0) regions showed a pickup in growth this month, while the Philadelphia (17.2 from 24.1) area showed a slower, though still robust, rate. In the meantime, growth in the New York (3.7 from 17.2) region weakened substantially. August’s new orders measure sped up for the fourth month, from a record-low -65.8 in April to a 21-month high of 14.6 in August. Billings accelerated in both the Kansas City (to 26.0 from 9.0) and Richmond (15.0 from 9.0) regions this month, slowed in Philadelphia (19.0 from 23.0), and contracted slightly in New York (-1.7 from 13.9). Meanwhile, factories stepped up hiring, with the employment measure improving for the fourth straight month, from a record-low -39.5 in April to a seven-month high of 9.4 this month; it had turned positive in July for the first time in five months. Richmond (to 17.0 from -3.0) manufacturers made an about-face this month—hiring for the first time since the start of the year, while Kansas City’s (9.0 from 3.0) hired at triple July’s pace. Meanwhile, Philadelphia (to 9.0 from 20.1) manufacturers increased payrolls at half of July’s rate, while New York’s (2.4 from 0.4) hiring

remained around the breakeven point between contraction and expansion.

GLOBAL ECONOMIC INDICATORS

Eurozone Economic Sentiment Indicators ([link](#)): The recovery in the Economic Sentiment Indexes (ESIs) continued in August for both the Eurozone and the EU, climbing for the fourth month—recovering roughly 60% of the combined March and April losses of 38.5 and 39.2 for the Eurozone and EU, respectively. The Eurozone’s ESI is up 22.8 points to 87.7 over the four months through August, while the EU’s is 23.1 points higher over the comparable time span to 86.9. From a country perspective, ESIs are improving in most of the largest Eurozone economies. Germany’s (to 94.3 from 72.1 in April) and the Netherlands’ (89.8 from 65.6) ESIs rose steadily over the four-month span, while those of France (to 91.5 from 67.7 in May) and Italy (80.6 from 63.0) climbed for the third month. (Strict confinement measures in Italy during April blocked data from being collected that month.) Meanwhile, Spain’s ESI took a step back in August, slipping to 88.1 after jumping from 73.3 in April to 90.6 in August. At the sector level, both industrial (to -12.7 from -32.5 in April) and retail (-10.5 from -30.1) confidence improved for the fourth successive month, while services (to -17.2 from -43.6 in May) climbed for the third month. The improvement in both consumer and construction confidence stalled, at -14.7 and -11.8 respectively, last month, with the former up from an April (-22.0) low and the latter from a May (-17.5) low.

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