MORNING BRIEFING
September 14, 2020

What in the World Is Going On?

Check out the accompanying chart collection.

(1) A one-of-a-kind recession. (2) V-shaped recovery in global PMIs and leading indicators. (3) Impressive rebound in Chinese exports. (4) Copper leading the rebound in industrial commodity prices. (5) Rebound in global economy and commodity prices weighing on dollar. (6) The euro gets a boost from EU's fiscal policy response to pandemic. (7) S&P 500 Materials confirming global economic recovery. (8) The Magnificent 5 favored LargeCap, Growth, and Stay Home investment styles until September 2. Not so much since then. (9) Asking an expert about the outlook for vaccines. (10) Lots of known unknowns need to be known before the pandemic will be over.

Global Economy: Global Economic Warming. There has never been a recession like the one that hit the global economy earlier this year. It was truly global because every country in the world experienced an economic downturn as almost all governments around the world responded to the pandemic by imposing lockdown restrictions to slow the spread of the virus. China (in late January) and Italy (in early March) did so before the World Health Organization (WHO) officially declared the pandemic on March 11. Almost everyone else followed suit immediately after the WHO declaration. While the pandemic continues to plague the world with new outbreaks and waves of infection, the global economy has recovered in recent months. Let's take a world tour to assess the strength and sustainability of the recovery:

(1) *Global PMIs and leading indicators.* It's been a V-shaped recovery according to the global PMIs (purchasing managers indexes) for both advanced and emerging economies as well as for both manufacturing and non-manufacturing around the world (*Fig. 1* and *Fig. 2*). The global composite PMI—which combines the global manufacturing indexes (M-PMIs) and non-manufacturing indexes (NM-PMIs)—rebounded from a record low of 26.2 during April to 52.4 during August, the best reading since March 2019. That's certainly a V-shaped recovery.

Not surprisingly, leading on the way down and on the way up was the NM-PMI for advanced economies. As a result of social distancing, this has been the first-ever global recession led by services-producing industries. It hit the global economy hard during March and April. The gradual easing in lockdown restrictions led to a solid rebound in both non-manufacturing and manufacturing industries since the April bottom.

The index of OECD leading indicators confirms the V-shaped recession and recovery for the advanced economies. It plunged from 99.4 during January to a record low of 93.2 during April, and rebounded to 98.3 during August (*Fig. 3*). Here are the three readings for January, April, and August for the US (99.3, 92.6, 97.6), Europe (99.5, 90.7, 98.3), and Japan (99.5, 98.3, 98.9). The OECD also compiles leading indicators for the BRIC countries. Here are their three readings for January, April, and August: Brazil (103.1, 93.3, 100.4), China (98.1, 94.9, 98.8), India (100.1, 87.1, 97.1), and Russia (99.7, 91.0, 98.7) (*Fig. 4*).

(2) *Global production and exports.* So far, we have data only through June for global industrial production and world exports (*Fig. 5*). They both show steep declines from December through April of 13.0% and 18.2%, respectively, and have rebounded 5.7% and 8.0% since then, through June.

The most current, and among the most relevant, export series for gauging the global economy is the one reported by China. The data we track are seasonally adjusted and available through August. Chinese exports (in yuan) plunged 42.1% from January through February, then rebounded through July to a record high; it dipped slightly in August, though still exceeded January's reading by 9.1% (*Fig. 6*). That's impressive.

(3) *Commodity prices.* Also impressive is the rebound in the CRB raw industrials spot price index, led by the price of copper (*Fig. 7*). Since March 23—when the Fed announced its policy response to the pandemic, which we call "QE4ever"—through last Friday, the former is up 10%, while the latter is up 43%. The price of copper has rebounded from a low of $2.12 per pound on March 23 to $3.03 on Friday, holding near September 4's $3.05, which was the best reading since June 20, 2018, i.e., when Trump started to escalate his administration's trade wars.

Debbie and I created a Global Growth Barometer (GGB), which simply averages the CRB index of industrial commodity prices with the price of a barrel of Brent crude oil (*Fig. 8*). It is very similar to the S&P Goldman Sachs Commodity Index (GSCI), which gives energy commodities a combined weight of 61.71%; that compares with the 50.00% weight that our GGB gives to oil. Last week, the price of oil dropped a bit on concerns about a slowdown in the global economic recovery, which hasn't been confirmed by either the CRB index or the price of copper. Our GGB and the GSCI are up 19% and 29%, respectively, since March 23.

(4) *Currencies.* By the way, there continues to be a strong inverse correlation between commodity price indexes (using either our GGB or the GSCI) and the trade-weighted dollar (TWD) (*Fig. 9*). The relationship between the dollar and commodity prices is quite a bit easier to see on a chart than the relationship between the dollar and US fiscal and monetary policies relative to those of other major economies.

The TWD has dropped 7.5% since peaking this year on March 23. That coincided with the rebound in our GGB. It also nearly reverses the 9.4% surge in the TWD since the start of this year through its recent peak, which coincided with the pandemic-related plunge in commodity prices.

We've often observed that the dollar tends to weaken when overseas economies are showing strength relative to the US economy. Rising commodity prices suggest that's the case relative to countries that are commodity producers. The inverse correlation between the dollar and commodity prices is partly attributable to the strong correlation between commodity prices and the currencies of commodity-producing countries such as Australia and Canada (*Fig. 10*).

China's economy fell into the pandemic-related recession earlier this year before the US did the same, and China's recovery started a couple of months sooner than the recovery in the US. China also seems to have made more progress in ending the spread of the virus than elsewhere in the world. That helps to explain why the Chinese yuan is up 4.7% since May 28 through Friday (*Fig. 11*).

For a few weeks during the summer, it seemed that Europeans were also making more progress in dealing with the pandemic than have Americans. That explains some of the 9.8% bounce in the euro since May 7 through Friday (*Fig. 12*). But now that Europeans are returning from their long summer vacations, another wave of infection is hitting Europe.

However, the euro may continue to benefit from the perception that the pandemic has reduced, rather than increased, the likelihood of the disintegration of the European Union (EU) and the Eurozone. On July 20, the 27 EU governments reached a breakthrough agreement authorizing the European Commission, the executive branch of the EU, to raise €750 billion to provide grants and loans to help member countries cover the costs of dealing with the pandemic.

This deal marks a precedent for common debt borrowing at the EU level, something that many countries, including Germany, opposed for a long time. But this oppositional stance had softened in the wake of the COVID-19 crisis.

(5) *S&P 500 Materials.* Among the biggest losers in the S&P 500 during the 33.9% bear market from February 19 through March 23 were companies in the Materials sector, which fell 36.4% at the same time (*Fig. 13*). Since March 23, the sector is up 68.9% through Friday's close. It held up well last week, edging up 0.8%, while the S&P 500 fell 2.5% led by a 4.4% drop in the Information Technology sector (*Fig. 14*).

Here's the performance derby for the major industries in the Materials sector since March 23: Copper (201.8%), Diversified Chemicals (108.4), Commodity Chemicals (86.2), Specialty Chemicals (74.6), Industrial Gases (67.9), Steel (61.6), and Gold (59.0). That's obviously a vote of confidence in the outlook for the global economy.

Strategy: Style Rotation? All of the above suggests that the selloff in the S&P since the September 2 record high is more about a valuation rotation out of the Magnificent 5 stocks rather than an impending recession. The five largest stocks in the S&P 500 by market capitalization are still the FAAMGs (Facebook, Amazon, Apple, Microsoft, and Google). They've had an overwhelming influence on the three investment styles. Consider the following recent developments:

(1) *LargeCap vs SMidCap.* On September 2, the collective market capitalization of these five stocks was $7.8 trillion, accounting for 27.2% of the total market cap of the S&P 500 (*Fig. 15*). On Friday, their combined market cap had lost $1.0 trillion, falling to $6.8 trillion but still accounting for a hefty 24.7% of the S&P 500.

The five certainly have had a significant impact boosting the performance of the S&P 500 LargeCaps relative to the SMidCaps since the March 23 stock market bottom this year. Here is the performance derby of the FAAMGs and the major US indexes since then through September 2: FAAMGs (89.8%), Nasdaq (75.7), S&P 500 (59.6), Equal-Weighted S&P 500 (58.1) S&P 500 ex-FAAMGs (51.0), S&P 400 (61.4), and S&P 600 (54.5) (*Fig. 16*).

Here is the performance derby of the same indexes since September 2 through Friday's close: FAAMGs (-12.7%), Nasdaq (-10.0), S&P 500 (-6.7), Equal-Weighted S&P 500 (-4.5), S&P 500 ex-FAAMGs (-4.6), S&P 400 (-5.7), and S&P 600 (-6.3).

Here are the forward P/Es of these indexes on September 2 and on Friday: FAAMGs (64.6, 55.6), S&P 500 (23.2, 21.5), S&P 500 ex-FAAMGs (19.2, 18.0), S&P 400 (20.3, 19.0), and S&P 600 (21.9, 20.3).

(2) *Growth vs Value.* We know that all the FAAMGs are included in the S&P 500 Growth index. We also know that on Friday, Amazon accounted for 49.4% of the Consumer Discretionary sector, Apple and Microsoft accounted for 45.6% of the Tech sector, while Facebook and Google accounted for 58.9% of Communication Services.

Here is the performance derby for the relevant indexes from March 23 through September 2 and since then through Friday: FAAMG (89.8%, -12.7%), Growth (73.1, -8.6), and Value (42.7, -3.6). Here is the same for the S&P 500 sectors: Communication Services (56.7, -8.4), Consumer Discretionary (79.8, -6.7), Consumer Staples (36.7, -3.3), Energy (45.3, -7.4), Financials (44.0, -3.2), Health Care (46.2, -4.5), Industrials (63.4, -2.9), Information Technology (80.2, -11.1), Materials (72.1, -1.9), Real Estate (44.5, -3.9), and Utilities (34.1, -2.6).

Here are the forward P/Es of the following indexes at the market's record high and at the end of last week: FAAMG (64.6, 55.6), Growth (30.2, 27.1), and Value (17.4, 16.4).

(3) *Stay Home vs Go Global.* Some of the outperformance of the S&P 500 on a global basis has been driven by the FAAMGs in recent years. Since the start of 2015 through the September 2 close, Stay Home has outperformed Go Global and underperformed since then as follows: FAAMG (345.7%, -12.7%), S&P 500 (59.6, -6.7), US MSCI (76.2, -7.0), S&P 500 ex-FAAMGs (51.0, -4.6), All Country World ex-US MSCI (9.9, -1.5 in dollars; 15.4, -1.1 in local currencies).

Here are the relevant forward P/Es on September 2 and on Friday: FAAMG (64.6, 55.6), S&P 500 (23.2, 21.5), S&P 500 ex-FAAMGs (19.2, 18.0), All-Country World ex-US (17.0, 16.3). As we've previously observed, both the stock price performance of the MSCI indexes and the valuations of foreign stocks have been closer to the comparable series for the US excluding the Magnificent 5. If the Mag5 continue to underperform for a while, then Go Global could outperform Stay Home for a while too.

Epidemiology: The Virus Is Still Out There. All of the above suggests that the global economy has recovered nicely from the lockdown recession once government-mandated social-distancing restrictions were gradually lifted since April. The problem is that we haven't fully recovered from the pandemic yet. As noted above, Europeans mingled during their summer vacations and started new outbreaks and waves in their communities when they returned home. In the US, college students are mingling in college towns and starting new outbreaks.

On Friday, *USA Today* reported: "Of the 25 hottest outbreaks in the U.S., communities heavy with college students represent 19 of them. … The super-spreading nature of the coronavirus is stretching the abilities of universities to quarantine students and halt the virus' progress, leading to drastic consequences." Dr. Anthony Fauci, director of the National Institute of Allergy and Infectious Diseases, and Dr. Deborah Birx, head of the White House coronavirus task force, both have said that sending students home could further spread the virus.

On August 26, French President Emmanuel Macron called on citizens to learn to live with the coronavirus after infections spiraled higher in recent weeks. Ruling out another lockdown, he tweeted, "To overcome the health crisis, we must learn to live with the virus." To do so, French health officials have adapted by quickly moving to extinguish local outbreaks and tightening restrictions as needed. The goal is to prevent local clusters from spiraling out of control and pushing France again into a national lockdown.

Back in the US, Fridays' *Houston Chronicle* ran an interesting interview with Dr. Peter Hotez, a professor and dean of the National School of Tropical Medicine at Baylor College of Medicine and co-director of the Texas Children's Hospital Center for Vaccine Development. He is one of the rare experts who has appeared frequently on both Fox News and MSNBC. But recently, he abandoned his policy of not criticizing the White House. Here are some of the key points he made in his interview:

(1) *Phase 3.* According to Dr. Hotez, it's very unlikely that a vaccine will be ready for widespread distribution until sometime during the first half of next year. There are a dozen vaccines in clinical trials, and four to five are moving into Phase 3 testing just now. The three funded by the Trump administration's "Operation Warp Speed" (OWS) are among those that

moved into Phase 3 during July and August. But it will take time to enroll 30,000 volunteers, and they will require two doses, with the second one during late September or early October.

(2) *Results.* Dr. Hotez said, “Remember, we have absolutely zero evidence that any of these vaccines work.” He projects that we won’t have enough data on whether the OWS vaccines are effective until November or December. If they work and are safe, “we can start rolling them out to the public by, at the earliest, the end of this year, or maybe the beginning of 2021.”

By the way, last Tuesday, the chief executives of nine drug companies pledged not to seek regulatory approval before the safety and efficacy of their experimental coronavirus vaccines have been established in Phase 3 clinical trials. Their statement was clearly aimed at countering President Trump’s push to have a vaccine ready before Election Day.

(3) *Emergency use.* Dr. Hotez explained, “If the FDA releases a vaccine under Emergency Use Authorization, it’s not really approval. It’s a substandard, lesser review process. In that case, to draw conclusions, I would have to see the Phase 3 data myself. I have no idea whether or not the companies will release that data to the public or people like myself.” By the way, Dr. Hotez isn’t a fan of OWS because it’s “basically letting the pharma companies dictate the message. That’s not wise: It’s letting the fox guard the hen house.”

(4) *The Russian fix.* The doctor observes that the Russian vaccine (“Sputnik V”) has only gone through Phases 1 and 2. It’s been sent to Venezuela and Nicaragua, essentially for Phase 3 trials on people who aren’t Russians.

(5) *Durability of protection.* Any vaccines approved by the FDA will probably require two doses to fully immunize a person, according to the doctor. He adds, “There’s a lot of precedent for that. But then whether you need to be boosted the following year and every year after that, or whether you need to be just boosted once every five years, that’s a total unknown.

“When we say the vaccine offers ‘protection,’ does that mean protection that reduces severity of illness or disease, or is it protection against the actual infection, protection that could interrupt transmission and spread of the disease? All those things are unknown.”

(6) *Lab rats.* Dr. Hotez wasn’t asked about, and didn’t offer a theory for, the origin of COVID-19. However, Friday’s *NY Post* features an article titled “Chinese virologist claims she has proof COVID-19 was made in Wuhan lab.” Dr. Li-Meng Yan, a virologist who says she did

some of the earliest research into COVID-19 last year, accused Beijing of lying about when it learned of the killer bug and engaging in an extensive cover-up of her work. In April, Yan reportedly fled Hong Kong and escaped to America to raise awareness about the pandemic. Yuan Zhiming, the director of the Wuhan Institute of Virology, has previously denied reports that the bug accidentally spread from his facility.

CALENDARS

US: **Mon:** None. **Tues:** Headline & Manufacturing Industrial Production 1.0%/0.8%, Capacity Utilization Rate 71.5%, Empire State Manufacturing Index 5.95, Import & Export Prices 0.5%/0.4%, API Crude Oil Inventories. (DailyFX estimates)

Global: **Mon:** Eurozone Industrial Production 4.0%mj/m/-8.2%y/y, China Retail Sales 0.1% y/y, China Industrial Production 5.1% y/y, China Fixed Investment (ytd) -0.4% y/y, NBS Press Conference, RBA Meeting Minutes. **Tues:** Eurozone ZEW Economic Sentiment Index, Germany ZEW Economic Sentiment Index 69.8, UK Employment Change & Unemployment Rate -120k/4.1%, France CPI 0.2% y/y, Italy CPI -0.5% y/y. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): Last week saw the US MSCI index drop 2.6% for its biggest decline in 11 weeks. The index ranked 44th of the 49 global stock markets we follow in a week when 31 of the 49 countries rose in US dollar terms, and the AC World ex-US index moved 0.7% higher. The US MSCI index was out of a correction for an 11th week after slipping back the week before that for the first time in five weeks; but now it has dropped to 7.0% below its record high on 9/2. EMU was the best-performing region last week, with a gain of 2.1%, followed by EAFE (1.4%). EM Latin America (-1.9) and BRIC (-1.9) were the biggest underperformers, followed by EM Asia (-0.9), EMEA (0.1), and EM Eastern Europe (0.4). South Africa was the best-performing country last week with a gain of 4.1%, followed by Switzerland (3.4), the Philippines (3.3), Germany (3.1), and Portugal (3.0). Among the 24 countries that underperformed the AC World ex-US MSCI last week, Indonesia fared the worst, with a decline of 6.7%, followed by Colombia (-3.8), Peru (-3.6), and Israel (-3.4). The US MSCI's ytd ranking dropped two places w/w to 8/49 as its ytd gain slipped to 4.7% from 7.4% a week earlier. It's way ahead of the 5.5% ytd decline for the AC World ex-US. EM Asia is the best regional performer ytd with a gain of 6.3%, followed by BRIC (1.1). The worst-performing regions ytd: EM Latin America (-32.5), EM Eastern Europe (-26.1), EMEA (-19.9), EAFE (-6.9), and EMU (-6.2). The best country performers ytd: Denmark (21.4), China (13.6), Taiwan

(11.5), Finland (8.7), Sweden (8.0), and New Zealand (8.0). The worst-performing countries so far in 2020: Colombia (-42.6), Greece (-35.8), Brazil (-35.6), Turkey (-30.9), and Hungary (-29.5).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes fell for a second straight week. SmallCap and LargeCap posted their biggest declines in 11 weeks as just two of the 33 sectors advanced. MidCap dropped 2.3% for the week, slightly better than the declines for LargeCap (-2.5%) and SmallCap (-3.4). LargeCap slipped to 6.7% below its record high on 9/2 but has been out of a bear market for 22 weeks and out of a correction for 11 straight weeks. MidCap moved back into a correction for the first time in seven weeks as it dropped to 11.9% below its record high on 1/16. SmallCap was back in a bear market for the first time in six weeks as it weakened to 21.5% below its 8/29/18 record. Just two sectors rose last week, down sharply from 30 rising a week earlier. Just nine sectors are now out of a correction now, of which five are LargeCap's and four are MidCap's. MidCap Consumer Discretionary was the best performer last week, with a gain of 0.9%, ahead of LargeCap Materials (0.8), LargeCap Industrials (-0.3), SmallCap Consumer Discretionary (-0.7), and LargeCap Utilities (-0.8). SmallCap Energy was the biggest underperformer last week, with a drop of 10.5%, followed by MidCap Energy (-9.7), LargeCap Energy (-6.4), SmallCap Utilities (-6.4), and SmallCap Financials (-5.3). LargeCap is the only index that's risen for the year so far, with a gain of 3.4%, ahead of MidCap (-10.1) and SmallCap (-15.6). Ten of the 33 sectors are now up so far in 2020, with the best performers led by LargeCap Information Technology (23.1), LargeCap Consumer Discretionary (21.4), LargeCap Communication Services (8.9), MidCap Consumer Staples (7.2), and MidCap Health Care (6.4). The biggest laggards of 2020 to date: SmallCap Energy (-58.1), MidCap Energy (-51.2), LargeCap Energy (-46.6), SmallCap Financials (-31.3), and SmallCap Real Estate (-27.0).

S&P 500 Sectors and Industries Performance (*link*): Just one of the 11 S&P 500 sectors rose last week, but eight outperformed the composite index's 2.5% decline. That compares to a 2.3% decline for the S&P 500 a week earlier, when two sectors rose and seven outperformed the index. Materials' 0.8% gain made it the best performer for the week, ahead of Industrials (-0.3%), Utilities (-0.8), Health Care (-1.1), Consumer Staples (-1.3), Real Estate (-1.8), Consumer Discretionary (-1.9), and Financials (-2.4). Energy was the week's biggest underperformer, with a decline of 6.4%, followed by Tech (-4.4) and Communication Services (-3.3). The S&P 500 is now up 3.4% so far in 2020, with four sectors ahead of the index and six in positive territory. The leading sectors ytd: Information Technology (23.1), Consumer Discretionary (21.4), Communication Services (8.9), and Materials (5.8). The laggards of 2020 so far: Energy (-46.6), Financials (-20.0), Utilities (-9.4), Real Estate (-8.3), Industrials (-4.9), Consumer Staples (2.3), and Health Care (2.3).

Commodities Performance (*link*): Last week, the S&P GSCI index fell 1.7% for its second straight weekly decline after rising for four weeks in a row. It's now down 23.3% from its recent high on 1/6 and still in a severe bear market at 32.1% below its four-year high on 10/3/18. Lean Hogs was the best performer last week, with a gain of 10.5%, followed by Sugar (4.5%), Live Cattle (4.4), Corn (2.9), and Soybeans (2.9). Unleaded Gasoline was the biggest decliner for the week, with a drop of 7.8%, followed by Brent Crude (-5.5), Crude Oil (-5.5), GasOil (-4.2), and Heating Oil (-4.2). Nine of the 24 commodities that we follow are higher so far in 2020, down from ten a week earlier. The best ytd performers: Silver (49.9), Gold (27.9), Natural Gas (21.0), Copper (9.3), and Zinc (8.2). The worst performers ytd: GasOil (-46.4), Heating Oil (-45.5), Brent Crude (-38.9), Crude Oil (-38.4), and Unleaded Gasoline (-35.8).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 2.5% 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 22nd week after seven weeks below, and above its 200-dma for the 15th time in 16 weeks. It had been below its 200-dma for 13 weeks through late May, matching its prior streak that ended during February 2019. However, the index's 50-dma relative to its 200-dma improved for a 17th week after 12 declines and was in a Golden Cross (with 50-dmas higher than 200-dmas) for a tenth 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 six-month high of 7.3% above its 200-dma from 6.7% 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 17th week after declining for 12 straight weeks. The price index weakened to 0.4% above its rising 50-dma from 3.8% above a week earlier and an 11-week high of 7.6% the week before that. 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 17th week as well. It had been rising for 39 weeks through early March. The index was above its 200-dma for an 11th 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 7.8% above its rising 200-dma, down from 10.8% a week earlier and 13.7% the week before that, which was the highest reading since February 2011. 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*): Six of the 11 S&P 500 sectors traded above their 50-dmas last week, down from nine a week earlier. These three sectors joined Energy and Utilities in the latest week as they fell below their 50-dmas: Health Care, Real Estate, and Tech. That compares to all 11 sectors above in the three weeks around the start of June. Seven sectors traded above their 200-dmas, down from eight a week earlier. Real Estate joined 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), unchanged from a week earlier. 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 97 straight weeks, and its 50-dma fell for a seventh week after briefly rising the week before that. That leaves nine sectors with a rising 50-dma, down from ten a week earlier as Real Estate turned down. 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 28th week, so long for the first time since late August. Energy's 200-dma has been mostly falling since October 2018.

US ECONOMIC INDICATORS

Consumer Price Index (*link*): The core CPI rose for the third month in August, after COVID-19 caused record declines in apparel and transportation services prices during the three months ending May. Core prices rose 0.4% in August after rising 0.6% in July (the biggest monthly gain since 1990) and 0.2% in June—pushing the yearly rate up to 1.7% from 1.6% in July and nine-year lows of 1.2% in both June and May. The yearly rate was at 2.4% before the pandemic hit. Here's a ranking of the 12-month core rates on an August-over-August basis, from lowest to highest for goods: apparel (-5.9% y/y), new vehicles (0.7), medical care commodities (0.8), alcoholic beverages (1.7), used cars & trucks (4.0, the highest since year-end 2011), and tobacco & smoking products (5.0). Here’s the same drill for the core services rates: airfares (-23.2% y/y), motor vehicle insurance (-1.5), physicians’ services (2.7), owners’ equivalent rent (2.7), motor vehicle maintenance & repair (3.2), rent of primary residence (2.9), and hospital services (4.0). Only the physicians’ services rate is on an accelerating trend, with the hospital services’ rate easing recently, while the shelter components remain on decelerating trends. The headline CPI rate accelerated for the third month, to 1.3% y/y, after easing steadily from 2.5% at the start of the year to 0.1% y/y in May—the lowest since mid-2015.

GLOBAL ECONOMIC INDICATORS

UK GDP (*link*): The UK economy remained on an upswing in July, with all of its sectors contributing. GDP rose for the third month, climbing 6.6% in July and 18.6% over the three months through July, though was still 11.7% below its pre COVID-19 level. Here’s a look at the one-month and three-month performances by sector: construction (17.6% in July & 56.3% three months ending July), manufacturing (6.3 & 27.8), services (6.1 & 15.9—boosted by triple-digit gains in accommodations & food services of 140.8 & 330.0), and agriculture (1.1 & 4.9). The ONS director of economic statistics noted: “While it has continued steadily on the path towards recovery, the UK economy still has to make up nearly half of the GDP lost since the start of the pandemic.”

UK Industrial Production (*link*): Output rose for the third month in July expanding by 5.2% in July and 22.1% during the three months ending July, to within 7.0% of its pre-pandemic level; production had contracted an historic 20.4% in April, following March’s 4.3% loss. Factory production advanced 27.8% during the three months ending July after plunging 28.6% during the two months through April; it’s 8.7% below its pre-COVID-19 level. Here’s the three-month performance by the main industrial groupings and where they stand relative to their respective pre-pandemic highs: capital (41.5% & -14.6%), intermediate (34.3 & -6.6), and consumer durable (29.1 & -5.9) goods, and consumer nondurables (8.7 & -3.0). Looking ahead, IHS Markit’s August survey shows manufacturing activity accelerated for the fourth month, from 32.6 in April to a 30-month high of 55.2 in August as the reopening of the economy continued. The survey showed solid expansions across the consumer, intermediate, and investment goods sectors.

France Industrial Production (*link*): Production advanced for the third month in July, though the pace slowed from the double-digit gains posted during May and June. Output increased

3.8% in July following gains of 13.0% and 20.0% the prior two months, placing output 7.1% below February's peak. Output plunged 34.0% during the two months ending April. Manufacturing production followed suit, climbing 4.5% in July after soaring 14.8% and 22.1% the prior two months, coming on the heels of a two-month drop of 37.1%. Factory production was 7.9% below its pre-pandemic high. Consumer durable goods (336.5%) production posted the strongest three-month gain, driven by motor vehicle production, followed by capital (71.1), intermediate (49.5), and consumer nondurable (18.2) goods production. Production in these industrial groupings were 7.5%, 10.6%, 9.4%, and 3.0%, respectively, below their February pre-pandemic peaks. IHS Markit's August survey showed a weakening in France's manufacturing sector, as its M-PMI slipped back into contractionary territory last month, falling to 49.8 after rising steadily from 31.5 in April to 52.4 in July.

Italy Industrial Production (*link*): Italy's industrial production increased 7.4% in July and 64.4% during the three months through July, climbing to within 6.6% of its pre-pandemic high. Manufacturing soared 73.9% over the three-month period, also to within 6.6% of its high. Similar to France, consumer durable (567.3%) goods production posted the biggest three-month gain, followed by capital (101.2), intermediate (71.9), and consumer nondurable (32.6) goods. Unlike France, August's IHS Markit survey revealed manufacturing activity accelerated for the fourth month, from 31.1 in April to 53.1 last month—its best reading since June 2018. The report noted that both factory new orders and production expanded at their sharpest rates since February 2018 as looser lockdown restrictions and the reopening of the economy continued to revive client demand. Meanwhile, export orders remained a drag on growth.

Contact us by email or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-775-6823