



## MORNING BRIEFING

September 28, 2020

### The Great Debates

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

(1) Let the debates begin. (2) Battle of the Septuagenarians. (3) Cognitive test. (4) Recalling the first Great Debates between Kennedy and Nixon. (5) Rooting for gridlock. (6) September and October tend to be down months except when they are up months. (7) Two months before and four months after presidential elections. (8) Republicans tend to be bullish. And so do Democrats. (9) Hard to pinpoint cause of Panic Attack #67. (10) No bear market in 200-dmas. (11) A technically correct technical correction. (12) Even the Magnificent Five FAAMGs are prone to a correction. (13) Known unknowns will soon be known. (14) Movie review: "Social Dilemma" (+ +).

**Strategy I: The Election Result Will Be Debatable.** My hunch is that most Americans have stopped watching the news because it is so annoyingly partisan. However, another hunch of mine is that the upcoming three televised presidential debates could be right up there with Superbowl ratings. Everyone will be watching. Consider the following:

(1) *Keeping the gaffe score.* Many of us will be watching to see who takes the bait and gets most rattled. Will President Donald Trump make former Vice President Joe Biden flounder for words? The 77-year-old Democratic presidential candidate has been prone to gaffes in recent years. Googling "Biden gaffes" yields 2,900,000 links, including 257,000 videos. Biden's national press secretary recently [refused to answer](#) whether the Democratic candidate uses a teleprompter in televised interviews to keep him on message and from fumbling his responses.

The 74-year-old President seems compelled to respond to every attack by his critics. Biden undoubtedly will do his best to provoke Trump. Googling "Trump gaffes" yields 6,230,000 links, including 379,000 videos. Arguably, there are many more news organizations that accentuate Trump's flaws more so than his achievements than there are news outlets inclined the other way around. In addition, Trump says something provocative almost every day, while Biden has been much less vocal and visible.

(2) *Cognitive test.* There will be three televised debates between Trump and Biden, on September 29, October 15, and October 22. It will be very interesting to see how the stock market responds to them. My hunch is that if Trump succeeds in baiting Biden, the stock market will rally, since the President is a known known while Biden is a known unknown. We know that a Biden administration would be a radical regime change; we just don't know how radical the change will be.

If the election results are too close and are contested, the stock market could have a wicked selloff. Last week, Trump said that he expected that the Supreme Court might have to decide who won. That statement might have contributed to the stock market selloff last Wednesday.

Then again, perhaps the election results will not be debatable if either candidate shows more pronounced signs of melting down in the heat of the debate. By now, you've probably heard President Trump say that he "aced" a cognitive test that required him to repeat "[Person-Man-Woman-Camera-TV](#)." He went on and on about this one challenge on the test—recalling five objects—and how he had aced it despite its difficulty. "They get very hard, the last five questions."

Seriously, this issue is no joke. Previously, I've written that the pandemic has put us all in the Twilight Zone. Adding to the weirdness of our time is that the presidential race is between two candidates who are undeniably in their twilight years. Perhaps all candidates should be required to take cognitive tests, especially those over the age of 70. For a [primer](#) on such tests, see "Biden, Trump, and Cognitive Decline: An Expert's Primer on the Cognitive Tests That Have Become a 2020 Campaign Issue."

By the way, I am a young septuagenarian. Each morning before I start writing the *Morning Briefing*, I make sure I'm in tip-top cognitive shape by repeating the following mantra 10 times: "Person-Man-Woman-Camera-TV." So far, so good.

(3) *The first televised debates.* History.com [observes](#): "In 1960, John F. Kennedy and Richard Nixon squared off in the first televised presidential debates in American history. The Kennedy-Nixon debates not only had a major impact on the election's outcome, but ushered in a new era in which crafting a public image and taking advantage of media exposure became essential ingredients of a successful political campaign. They also heralded the central role television has continued to play in the democratic process."

Back then, there was a cold war between the US and Russia going on abroad, and the struggle for civil rights and desegregation had deeply divided the nation at home. Today, the US and China are heading into a cold war, and racial tensions are high at home.

There were four debates. Kennedy won them all, hands down. Most radio listeners called the first debate a draw, but Kennedy won according to most television viewers. Nixon looked pale and sickly because he was sick with the flu. Kennedy's bronze complexion made him look healthy, but it might have been a symptom of Addison's disease, the endocrine disorder from which he suffered for much of his life. Nixon was visibly sweating under the hot studio lights and clearly looked uncomfortable, as his eyes shifted somewhat erratically.

It was a close election, with Kennedy winning the popular vote 49.7% to Nixon's 49.5%. Polls showed that more than 50% of voters had been influenced by the debates.

(4) *Bottom line.* The latest debates may be just as important in determining the election result as was the first round of debates between Kennedy and Nixon. May the best septuagenarian win! Just as important will be whether the two houses of Congress remain divided or wind up both led by the same party. The stock market is likely to do better if the election delivers two more years of gridlock no matter who wins the White House.

**Strategy II: The Twilight Months.** September and October have a history of being down months for the stock market except when they are up months. I asked Joe and Mali to check whether the two months are especially challenging during presidential election years. Here are their findings using monthly data for the S&P 500 since January 1928, which includes 23 presidential election years:

(1) *The two months before presidential elections.* From the last day of August through the last day of October during the 23 presidential election years since 1928, the S&P 500 was down 0.5% on average, with declines during 10 of those years averaging 6.2% and gains during 13 of those years averaging 4.0% ([Fig. 1](#)). The biggest drops occurred during 2008 (-24.5%), 1932 (-17.0%), and 1960 (-6.3%). The biggest gains occurred during 1996 (8.2%), 1936 (7.6%), and 1988 (6.7%).

(2) *The six months around presidential elections.* Now let's examine the six-month percentage changes from the end of August through the end of February during presidential election years. Those periods coincide with the eight-week-or-so run-up to the election after the

summer months through the first six weeks or so of the new presidential term. Over those six-month spans, the S&P 500 was up an average of 1.3%, with declines during eight of those years averaging 15.1% and gains during 15 of those years averaging 10.0%. The biggest drops occurred during 2008-09 (-42.7%), 1932-33 (-32.5%), and 2000-01 (-18.3%). The biggest gains occurred during 1928-29 (22.6%), 1996-97 (21.3%), and 1936-37 (13.1%).

(3) *The big picture.* Looking at the performance of the S&P 500 under each president since FDR in 1932 shows that the six Democratic administrations over 48 years (FDR/Truman, Kennedy/Johnson, Clinton, and Obama) delivered average annual gains of 10.5%, while the seven Republican administrations over 39 years (Eisenhower, Nixon/Ford, Reagan/Bush I, Bush II, and Trump so far) have delivered gains averaging 6.9% ([Fig. 2](#)). In fact, presidents probably have had very little to do with the performance of the stock market, which continues to be driven by companies' earnings.

**Strategy III. An Update on Panic Attack #67.** This year's bear market from February 16 through March 23 in many ways seemed more like the previous 65 Panic Attacks since the start of the latest bull market on March 9, 2009 than a bear market followed by a new bull market. So we count the latest selloff since the record high of 3580.84 on September 2 as Panic Attack #67 in our chronology. (See our [Table of S&P 500 Panic Attacks Since 2009](#).)

So far, the S&P 500 dropped 9.6% from its record high on September 2 to 3236.92 through Wednesday, September 23, making it unchanged for the year ([Fig. 3](#)). That level might have provided technical support for the index, which rose 1.9% during Thursday and Friday to 3298.46. Let's consider a few other technical and fundamental matters relevant to the stock market:

(1) *No bear market in 200-dmas.* The 200-day moving average (200-dma) of the S&P 500 fell just 2.0% from peak to trough as a result of the recent "bear market." That compares to the 41.9% drop during the previous bear market ([Fig. 4](#)).

There are barely any signs of a recent bear market in the 200-dmas of the 11 sectors of the S&P 500 ([Fig. 5](#)). The only sector clearly in a bear market is S&P 500 Energy, as its 200-dma is down 30.8% ytd through Friday's close. At or near record highs are seven sectors: Communication Services, Consumer Discretionary, Consumer Staples, Health Care, Industrials, Information Technology, and Materials. On this basis, Financials, Real Estate, and Utilities might have stalled recently but remain on their uptrends since 2009.

(2) *Momentum correction.* Joe and I aren't Chartered Market Technicians (CMTs). Nevertheless, we did spot a potential near-term problem for the market in our August 31 [Morning Briefing](#) titled "Anatomy of a Meltup," when we asked: "Are 200-dmas signaling impending corrections in high-flyers?" We should have been more definitive; but then again, we aren't CMTs.

As it turned out, the spread between the S&P 500 and its 200-dma peaked at 15.9% on September 2, the most since December 2009. It was down to 6.2% on Friday ([Fig. 6](#)). On March 23, it was -26.6%. Here is the performance derby for this spread for the 11 S&P 500 sectors showing the values on March 23, September 2, and on Friday's close: Communication Services (-20.4%, 20.2%, 6.2%), Consumer Discretionary (-25.1, 28.4, 16.1), Consumer Staples (-20.0, 10.1, 3.9), Energy (-57.2, -19.5, -26.1), Financials (-37.7, -0.5, -6.1), Health Care (-21.0, 9.3, 2.8), Industrials (-37.2, 10.3, 6.4), Information Technology (-17.4, 31.3, 15.3), Materials (-33.2, 17.5, 10.3), Real Estate (-33.2, 2.9, -2.8), and Utilities (-28.9, -1.1, -2.7).

(3) *An overvaluation correction.* Unlike the previous 66 panic attacks, the main cause of the latest selloff is hard to pinpoint. Nothing particularly bearish occurred at the beginning of September other than the beginning of September, which has a bearish reputation. The market's main, and widely recognized, problem was that the meltup in stock prices since March 23 seemed to make them overvalued based on most valuation models, with the notable exception of those that give a lot of weight to near-zero interest rates. (See our latest Topical Study, [S&P 500: Earnings, Valuation, and the Pandemic](#).)

The forward P/Es for the S&P 500/400/600 peaked in early September at 23.2, 20.3, and 21.9 ([Fig. 7](#)). Here is where they were on Friday: 21.0, 18.3, and 19.0.

(4) *FAAMGs give back some.* The big stock market story from March 23 through September 2 was the FAAMG-led meltup in the S&P 500 and even more so in the Nasdaq, which was 18.8% below its 200-dma on March 23, 28.7% above it on September 2, and 14.1% above it on Friday ([Fig. 8](#)). The FAAMGs (Facebook, Amazon, Apple, Microsoft, and Google) are the current Magnificent Five, i.e., the S&P 500 stocks with the biggest market cap.

Their collective market cap peaked at a record \$7.8 trillion on September 2 and fell to \$6.8 trillion on Friday ([Fig. 9](#)). They accounted for a record 26.4% of the S&P 500 market cap on September 2 and still accounted for 24.7% on Friday ([Fig. 10](#)).

The FAAMG's collective forward P/E peaked at 44.3 during the week of August 28 ([Fig. 11](#)). It was down to 39.1 during the September 25 week. The S&P 500 forward P/E was 21.8 and 18.4 with and without the FAAMGs during the week of September 18 ([Fig. 12](#)).

Here is the performance derby of the major stock market indexes since March 23 through September 2, from March 23 through Friday, and from September 2 through Friday: FAAMG (89.8%, 64.2%, -13.5%), Nasdaq (75.7, 59.1, -9.5), S&P 500 (59.6, 47.4, -7.9), S&P 500 ex-FAAMG (51.0, 42.6, -5.6), S&P 500 Growth (73.1, 57.3, -9.1), and S&P 500 Value (42.7, 34.3, -5.9) ([Fig. 13](#)). Here is the same ytd: FAAMG (36.9%), Nasdaq (21.6), S&P 500 (2.1), S&P 500 ex-FAAMG (-5.7), S&P 500 Growth (17.1), and S&P 500 Value (-14.8) ([Fig. 14](#)).

(5) *Fundamental matters*. Joe and I have viewed the selloff since September 2 as a “healthy correction.” We would have been more concerned if the market meltup continued. We felt that the market needs to consolidate its gains since March 23 to give earnings some time to catch up. Besides, there are still important issues that need to be resolved such as the course of the pandemic, its ongoing impact on the economy, and the outcome of the upcoming election. We are relatively optimistic on all three, but we acknowledge that they remain known unknowns with the potential to turn into bearish or bullish known knowns.

Meanwhile, we are glad to see that S&P 500 forward revenues continues to recover in a V-shaped fashion ([Fig. 15](#)). It plunged 8.0% from the February 20 week through the May 28 week. It has recovered 4.3% over the past 16 weeks since then through the September 17 week. The same goes for forward earnings, which dropped 21.2% after February 20, bottoming during the May 14 week. It is up 11.3% over the past 18 weeks through the September 17 week.

**Movie.** “Social Dilemma” (+ +) ([link](#)) is a disturbing documentary featuring several concerned American citizens who happen to have worked for the top social media companies in the country as top executives and employees. They all share a concern that the unregulated social media companies have inadvertently created a monster, which threatens democracy and social stability. They are doing so by their relentless need to increase their revenues by collecting and selling more and more data about each and every one of us. To get our attention, they are constantly doing their best to push our emotional buttons, especially fear and hate. As a result, they are exacerbating political partisanship by feeding us with news feeds and social media recommendations that are selected by their artificial intelligence



algorithms to incite us. Some of the insiders suggest that the social media giants need to be regulated the same as the phone companies are regulated. A few simply observe that our smartphones create the dilemma of making us simultaneously smarter and dumber.

## CALENDARS

**US:** **Mon:** Dallas Fed Manufacturing Index, Mester. **Tues:** Consumer Confidence Index 89.2, Goods Trade Balance, Wholesale Inventories, S&P Case-Shiller Home Price Index 3.8% y/y, API Crude Oil Inventories, Williams, Harker, Presidential Debate. (DailyFX estimates)

**Global:** **Mon:** Japan Leading & Coincident Indicators 86.9/76.2, Lagarde, Schnabel, Mauderer. **Tues:** Eurozone Economic Sentiment 93, Germany CPI -0.1%/-0.1% y/y, France Consumer Confidence 93, Japan Retail Sales -3.5% y/y, Japan Industrial Production 1.5%, China Caixin & IHS Markit M-PMIs 53.1/51.2, Mauderer. (DailyFX estimates)

## STRATEGY INDICATORS

**Global Stock Markets Performance** ([link](#)): Last week saw the US MSCI index drop 0.5% for its fourth straight weekly decline. The index ranked fourth of the 49 global stock markets we follow in a week when just one of the 49 countries rose in US dollar terms, and the AC World ex-US index tumbled 4.2%. The US MSCI index was out of a correction for a 13th week after slipping back the week before that for the first time in five weeks; but now it has dropped to 7.8% below its record high on September 2. EMEA was the best-performing region last week, albeit with a decline of 3.9%, followed by BRIC (-4.1%). EMU (-6.1) was the biggest underperformer, followed by EM Eastern Europe (-6.0), EM Latin America (-6.0), EM Asia (-4.2), and EAFE (-4.2). Turkey was the best-performing country last week, gaining 0.7%, followed by Jordan (-0.2), Malaysia (-0.5), US (-0.5), and Egypt (-0.8). Among the 25 countries that underperformed the AC World ex-US MSCI last week, Greece and Hungary fared the worst, with declines of 9.2%, followed by Norway (-8.7), Poland (-8.3), and Colombia (-7.9). The US MSCI's ytd ranking jumped four places w/w to 6/49 even as its ytd gain slipped to 3.7% from 4.3% a week earlier. It had been losing ground recently to the AC World ex-US, which tumbled 3.9ppts w/w to an 8.6% ytd decline. EM Asia is the best regional performer ytd, with a gain of 3.7%, followed by BRIC (-1.8). The worst-performing regions ytd: EM Latin America (-36.5), EM Eastern Europe (-30.9), EMEA (-22.5), EMU (-12.1), and EAFE (-10.1). The best country performers ytd: Denmark (21.3), China (11.2), Taiwan (8.1), New Zealand (5.6), and Finland (4.7). The worst-performing countries so far in 2020: Colombia (-47.2), Brazil (-40.0), Greece (-39.6), Hungary (-39.3), and Austria (-35.6).

**S&P 1500/500/400/600 Performance** ([link](#)): LargeCap fell last week for a fourth straight week as the SMidCaps dropped for a third time in four weeks. LargeCap dropped 0.6% w/w, much less than 2.6% and 4.1% declines for MidCap and SmallCap, respectively. LargeCap slipped to 7.9% below its record high on September 2 but has been out of a bear market for 24 weeks and out of a correction for 13 straight weeks. MidCap was back in a correction for a third week after being out for seven weeks, but fell to 13.7% below its record high on January 16. SmallCap was back in a bear market for a third week after being out for five weeks, and weakened to 24.0% below its August 29, 2018 record high. Four of the 33 sectors rose last week, down sharply from 18 sectors rising a week earlier. Just seven sectors are out of a correction now, of which four are LargeCaps and three are MidCaps. LargeCap Tech was the best performer last week, with a gain of 2.1%, ahead of LargeCap Consumer Discretionary (1.2), LargeCap Utilities (1.2), SmallCap Utilities (1.0), and MidCap Utilities (-0.1). SmallCap Energy was the biggest underperformer last week, with a drop of 11.1%, followed by MidCap Energy (-9.4), LargeCap Energy (-8.6), SmallCap Materials (-8.0), and SmallCap Financials (-5.8). LargeCap is the only index that's risen for the year so far, with a gain of 2.1%, ahead of MidCap (-11.9) and SmallCap (-18.2). Nine of the 33 sectors are now up so far in 2020, with the best performers led by LargeCap Information Technology (24.5), LargeCap Consumer Discretionary (20.0), MidCap Consumer Staples (6.2), MidCap Health Care (6.0), and LargeCap Communication Services (5.9). The biggest laggards of 2020 to date: SmallCap Energy (-60.1), MidCap Energy (-53.8), LargeCap Energy (-49.8), SmallCap Financials (-35.3), and SmallCap Real Estate (-30.7).

**S&P 500 Sectors and Industries Performance** ([link](#)): Three of the 11 S&P 500 sectors rose last week, but five outperformed the composite index's 0.6% decline. That compares to another 0.6% decline for the S&P 500 a week earlier, when four sectors rose and six outperformed the index. Tech's 2.1% gain made it the best performer for the week, ahead of Consumer Discretionary (1.2%), Utilities (1.2), Communication Services (-0.4), and Consumer Staples (-0.4). Energy was the week's biggest underperformer, with a decline of 8.6%, followed by Materials (-4.6), Financials (-4.2), Industrials (-2.6), Real Estate (-2.1), and Health Care (-2.0). The S&P 500 is now up 2.1% so far in 2020, with just three sectors ahead of the index and six sectors in positive territory. The leading sectors ytd: Information Technology (24.5), Consumer Discretionary (20.0), and Communication Services (5.9). The laggards of 2020 so far: Energy (-49.8), Financials (-23.5), Real Estate (-10.4), Utilities (-9.1), Industrials (-6.0), Consumer Staples (0.1), Health Care (1.1), and Materials (1.8).



**Commodities Performance** ([link](#)): Last week, the S&P GSCI index fell 2.7% for its third decline in the past four weeks. It's now down 21.7% from its recent high on January 6 and still in a severe bear market at 30.7% below its four-year high on October 3, 2018. Natural Gas was the best performer last week, with a gain of 6.6%, followed by Lean Hogs (1.4%), Sugar (1.0), Cotton (0.4), and Coffee (0.1). Silver was the biggest decliner for the week, with a drop of 14.9%, followed by Zinc (-6.6), Kansas Wheat (-5.8), Wheat (-5.3), and Gold (-4.9). Nine of the 24 commodities that we follow are higher so far in 2020, down from 10 a week earlier. The best ytd performers: Silver (28.9), Natural Gas (28.2), Gold (22.5), Copper (6.1), Soybeans (4.9), and Zinc (3.8). The worst performers ytd: GasOil (-46.1), Heating Oil (-44.0), Brent Crude (-35.7), Crude Oil (-34.1), and Unleaded Gasoline (-29.6).

**S&P 500 Technical Indicators** ([link](#)): The S&P 500 fell 0.6% 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). The index was below its 50-dma for a second week after 22 weeks above, but managed to remain above its 200-dma--for the 17th time in 18 weeks. It had been below its 200-dma for 13 weeks through late May, matching its prior streak that ended during February 2019. Turning to how the dmases compare relative to one another, the index's 50-dma relative to its 200-dma improved for a 19th week after 12 declines, putting the index in a Golden Cross (with 50-dmas higher than 200-dmas) for a 12th week after 15 weeks in a Death Cross. Before the 2020 meltdown, the S&P 500 had last been in a Death Cross for 13 straight weeks, ending in March 2019. The index's 50-dma improved last week to 8.0% above its 200-dma from 7.8% above in the prior week. That's the most that the former has exceeded the latter since May 2012, when the 50-dma peaked at 8.8% above its 200-dma. The 50-dma had been 9.9% below the 200-dma in mid-May, which was the most that the former had lagged the latter since May 2009. During late February, the 50-dma had been 7.6% above the index's 200-dma. Turning to the individual dmases, the S&P 500's 50-dma rose for a 19th week after declining for 12 straight weeks. However, the price index weakened to 1.7% below its rising 50-dma from 0.8% below a week earlier and an 11-week high of 7.6% at the end of August. It had been trading above its 50-dma since late April and peaked in early June reading at 11.7% above the index's 50-dma, which was the highest since May 2009, when it peaked at a record high of 14.0%. That compares to 27.7% below on March 23—its lowest reading since it was 29.7% below on Black Monday, October 19, 1987. The 200-dma rose for a 19th week as well, but barely so. It had been rising for 39 weeks through early March. The index was above its 200-dma for a 13th week after falling below the week before that for the first time in five weeks. It ended the week 6.2% above its rising 200-dma, down from 6.9% a week earlier and 13.7% at

the end of August, which was the highest reading since February 2011. Last week's 6.2%-above reading is up from the 26.6% below registered on March 23—the lowest reading since March 2009 and down from a two-year high of 11.2% in mid-February. For perspective, the current 200-dma 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 December 24, 2018 (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 October 10, 2008 and 39.6% below its 200-dma on November 11, 2008.

**S&P 500 Sectors Technical Indicators** ([link](#)): Industrials was the only one of the 11 S&P 500 sectors trading above their 50-dmas last week, down from three a week earlier as Financials and Materials fell below. That compares to all 11 sectors above in the three weeks around the start of June. Seven sectors traded above their 200-dmas, unchanged from a week earlier. Energy, Financials, Real Estate, and Utilities are the only sectors trading below their 200-dmas. That compares to just one sector (Health Care) above its 200-dma in early April. Eight sectors are now in the Golden Cross club (50-dmas higher than 200-dmas), unchanged from a week earlier. The three sectors still in a Death Cross: Energy, Financials, 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 99 straight weeks, and its 50-dma fell for a ninth week after briefly rising the week before that. Just six sectors have a rising 50-dma, down from 10 a week earlier. Sectors with a rising 50-dma: Communication Services, Consumer Discretionary, Consumer Staples, Industrials, Materials, and Tech. 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. Five sectors have rising 200-dmas, down from six a week earlier as Consumer Staples turned lower. Sectors with rising 200-dmas: Communication Services, Consumer Discretionary, Health Care, Materials, and Tech. Financials' 200-dma was down for a 30th week, so long for the first time since late August. Energy's 200-dma has been mostly falling since October 2018.

## US ECONOMIC INDICATORS

**Durable Goods Orders & Shipments** ([link](#)): Both core capital goods orders and shipments have bounced back above pre-pandemic levels, while total durable goods orders continued to climb, though at a slower pace last month. Nondefense capital goods orders ex aircraft (a proxy for future business investment) advanced for the fourth month, by 1.8% in August and 10.5% over the period, while core capital goods shipments (used in calculating GDP) increased 1.5% and 9.9% over the comparable periods. These shipments rebounded 19.7%

(saar) during the three months through August, based on the three-month moving average, suggesting a sizeable double-digit rebound in real capital spending during Q3 from Q2's 26.0% plunge. Orders for total durable goods also climbed for the fourth month, edging up 0.4% in August, following a 38.4% surge during the three months through July as the economy reopened from pandemic-related shutdowns. Motor vehicle & parts orders, a big contributor to the April-to-July rush in orders, dipped 4.0% last month after skyrocketing 190.3% during the three months through July. Excluding transportation, orders climbed 0.4% in August and 11.5% the past four months, more than recovering COVID-related declines.

**Regional M-PMIs** ([link](#)): Four Fed districts have now reported on manufacturing activity for September (New York, Philadelphia, Richmond, and Kansas City) and show the manufacturing sector expanded at its fastest pace since October 2018. The composite index climbed to 16.0 this month from 13.2 last month; it was at a record low of -54.7 in April. Activity in the Richmond (to 21.0 from 18.0) region was the best since September 2018, while New York's (to 17.0 from 3.7) was back near July's 17.2—which was the first positive reading since February. Meanwhile, growth in the Philadelphia (15.0 from 17.2) region slowed for the fourth month, though remained at an elevated rate, while Kansas City's (11.0 from 14.0) was little changed from August's 21-month high. (The Richmond, New York, Philadelphia, and Kansas City activity measures were at record lows of -54.0, -78.2, -56.6, and -30.0, respectively, in April.) Meanwhile, September's new orders (to 20.7 from 14.6) measure expanded at the best pace since summer 2018, as billings in the Richmond (27.0 from 15.0) region accelerated at its fastest rate since fall 2018, while Philadelphia's (25.5 from 19.0) expanded at the fastest pace since before the pandemic. The growth in Kansas City's (23.0 from 26.0) billings barely budged from August's 27-month high, while New York's (7.1 from -1.7) swung from contraction to expansion. (The Richmond, Philadelphia, Kansas City, and New York billing measures were at record lows of -62.0, -70.9, -64.0, and -66.3, respectively, in April.) In the meantime, employment at factories continues to improve, turning positive in July (5.1) for the first time since hitting bottom in April (-39.5)—expanding to an 18-month high of 12.1 this month. Richmond (to 23.0 from 17.0) and Philadelphia (15.7 from 9.0) manufacturers both hired at a faster pace this month, while Kansas City (7.0 from 9.0) hired at a slightly slower pace and New York's (2.6 from 2.4) remained just north of the breakeven point between contraction and expansion. (The Richmond, Philadelphia, Kansas City and New York employment measures were at record lows of -22.0, -46.7, -34.0, and -55.3, respectively, in April.)

**New Home Sales** ([link](#)): New single-family home sales (counted at the signing of a contract) soared to yet another new cyclical high in August, while builder confidence in September

climbed to a new record high, as the housing sector appears to be a beneficiary of the pandemic, immune to its deleterious effects. Sales jumped 4.8% in August and 77.4% the past four months to 1.01 million units (saar)—the first reading above 1.00mu since November 2006 and the highest since September 2006. Sales were up 43.2% y/y, with sales in all four regions experiencing double-digit gains. The number of new home sales on the market dwindled to a 35-month low of 282,000 units last month, while the months' supply (3.3) was the shortest period on record. NAHB's Housing Market Index (HMI) climbed 53 points during the five months through September to a new record high, after plunging a record 42 points in April alone to 30—the lowest builder confidence since mid-2012 and the first reading in negative territory (below 50) since mid-2014. All four measures of the HMI moved sharply off their lows: current sales (to 84 from 36 in April), future sales (78 from 36), and traffic of prospective buyers (65 from 13)—with the latter at a new record high. In the meantime, NAHB's Housing Market Index (HMI) climbed 53 points during the five months through September to 83, after plunging a record 42 points in April to 30—the lowest builder confidence since mid-2012 and the first reading in negative territory (below 50) since mid-2014. All three measures of the HMI are at their highest levels in the 35-year history of the survey—moving sharply off their April lows: current sales (to 88 from 36 in April), future sales (84 from 36), and traffic of prospective buyers (73 from 13).

## GLOBAL ECONOMIC INDICATORS

**Germany Ifo Business Climate Index** ([link](#)): “The German economy is stabilizing despite rising infection numbers,” said Clemens Fuest, president of the Ifo Institute. The Ifo Business Climate Index rose for the fifth month in September, climbing 18.8 points over the period to 93.4—to within 2.5 points of its pre-pandemic level. The index had plummeted 21.3 points during the two months through April to a record-low 74.6. The rebound is being driven by a 27.7-point surge in the expectations component during the five months ending September to a 22-month high of 97.7, more than recovering the 23.2-point plunge during the two months through April to a record-low 70.0. However, this measure has lost momentum after big gains during the two months following April's low. The present situation component increased for the fourth month, by a total of 10.3 points to 89.2 in September, after falling from 99.1 in January to 78.9 in May—which was the lowest since July 2009. By sector, the services' business climate index advanced for the fifth month, by a total of 41.0 points to +6.9—moving further into positive territory after moving above zero in July for the first time since February. Sentiment in the construction (to +3.3 from -17.5 in April), trade (+0.3 from -48.4), and

manufacturing (-0.2 from -44.0) sectors all improved for the fifth month, with measures for the construction and trade sectors turning positive for the first time since March and February, respectively, while the manufacturing sector is about to turn positive for the first time since mid-2019.

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