



MORNING BRIEFING

November 2, 2020

And the Winner Is . . . ?

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

(1) Who creates jobs in America? (2) American businesses have been doing well despite Washington's never-ending meddling. (3) Is gridlock really as bullish as widely perceived? (4) Does Powell matter more than Trump or Biden for stocks? (5) The front-cover curse. (6) Remember the Silent Majority? (7) Two pollsters explain why Trump will win in the Electoral College. (8) The pandemic could cost Biden the White House if enough voters fear he will shut down the economy more than they fear the virus. (9) Polls say Biden-led Blue Wave is likely. (10) How fast will President Biden raise taxes? (11) Civics lesson: The Electoral College. (12) Movie review: "Away" (+).

Politics I: What If Gridlock Wins? I've often observed that the US economy has performed remarkably well over the years despite Washington. Presidents like to take credit for the millions of jobs they have created or boast about the number of jobs they will create. Presidential candidates make similar promises about how their policies will boost employment by millions if they are elected or re-elected.

The reality is that it is businesses that create jobs, not politicians. Businesses tend to do a better job of creating jobs when they aren't burdened by Washington's meddling in their affairs. Since Washington almost always meddles to varying degrees with the economy, it's amazing how so many businesses in so many industries continue to be profitable and to expand their capacity and payrolls, with only recessions briefly tripping them up.

This line of thinking leads to the widely held notion that the economy and the stock market do best when Washington's politicians are stymied from meddling as much as they would like by political gridlock, i.e., when the party of the president doesn't have majorities in the House and/or the Senate. Divided government is bullish, while unified government is bearish, or less bullish.

Our governing system of "checks and balances" is the core principle that guided the nation's founders when they wrote the US Constitution. In addition, many of them signed the Declaration of Independence, which declared: "Governments are instituted among Men,

deriving their just powers from the consent of the governed.” They were mostly lawyers, and they designed a system that worked best when it didn’t allow any majority party to have too much power for too long.

By the way, Abraham Lincoln, who was a lawyer as well as a president, famously restated the founding principle in his Gettysburg Address: “that these dead shall not have died in vain—that this nation, under God, shall have a new birth of freedom—and that government of the people, by the people, for the people, shall not perish from the Earth.”

Today, many investors fear that a Blue Wave on Election Day could happen, giving the Democrats’ unfettered power to implement their expansive and expensive agenda, including increasing federal spending, raising federal taxes, imposing more regulations, packing the Supreme Court, and so on. Wall Street strategists, including yours truly, countered that the bearish impact of higher taxes and more regulations should be offset by more spending in the Blue Wave scenario.

I asked Debbie to analyze the performance of the S&P 500 under unified and divided government since FDR took office ([Fig. 1](#)). She calculated the percentage increases in the index from January-through-December periods during the two alternative regimes. She found that during the previous six Blue Waves, the S&P 500 increased 56% on average. During the previous three Red Waves, the index rose 35% on average. During the seven periods of divided government, the S&P 500 rose 60% on average.

This suggests that gridlock is more bullish than the two unified alternatives, which are also bullish, but less so with Blue Waves more bullish than Red Waves. Perhaps the market figures that government spending is less likely to increase more than taxes when the government is divided rather than unified. In any event, the government has been getting bigger and more meddlesome for years, as evidenced by ever-widening federal budget deficits and mounting federal government debt ([Fig. 2](#)). (The founders generally disapproved of debt and believed that the amount the country owed should be limited.)

Alternatively, could it be that the White House and the Congress don’t matter as much to the stock market as does the Fed? I think so, and so does *Barron’s*, which chose to run a [cover story](#) on Fed Chair Jerome Powell with the title “This Is Jerome Powell’s Moment, No Matter Who Wins” this week. The [article](#), written by Nick Jasinski, observed: “Tuesday’s election will

be a critical one for the nation. But for those nervous about the economy, the Fed's chairman may just be the most important man in Washington."

I was quoted in the piece as follows: "He's a pragmatic pivoter. He's done what he set out to do, and [shown a willingness to] change his mind depending on what the situation demands, but not be totally inconsistent." Chapter 8 of my book [Fed Watching for Fun & Profit](#) is titled "Jerome Powell: The Pragmatic Pivoter."

I previously have observed that no matter who wins the White House on Tuesday (or before Inauguration Day), he won't be as important as Powell, whose first term doesn't end until early 2022. Powell has made it very clear that he intends to keep the yield curve close to zero. The federal funds rate was lowered to zero on March 15 ([Fig. 3](#)).

The 10-year US Treasury bond yield has been below 1.00% since March 20 ([Fig. 4](#)). From February through September, the Treasury issued \$670 billion in notes and \$259 billion in bonds ([Fig. 5](#) and [Fig. 6](#)). Over the same period, the Fed purchased \$1,223 billion in notes and \$338 billion in bonds. Previously, I've argued that if the bond yield rises above 1.00%, the Fed will most likely announce an official target range below 1.00%, a.k.a. "yield-curve targeting."

Finally, since Halloween coincided with a full moon this weekend, all the more reason to fear the front cover curse. What could possibly go wrong for Powell?

Politics II: What If Trump Wins? The polls suggest that Trump will lose to Biden in the key battleground states. The polls were wrong about Trump four years ago. The country is so bitterly divided that many Trump supporters are "shy" Trump voters and hang up the phone when a pollster calls them. An October 29 *Politico Magazine* [article](#) observed:

"In 2016, months of national polls confidently showed Hillary Clinton ahead, and set many Americans up for a shock on Election Night, when the Electoral College tilted decisively in Trump's favor. Two pollsters who weren't blindsided by this are Arie Kapteyn and Robert Cahaly. ...

"This year, both men believe that polls could again be undercounting Trump's support. The reason is 'shy' Trump voters—people reluctant to share their opinions for fear of being judged. Though the 'shy voter' idea is thrown around a lot by both Trump supporters and Democratic

skeptics, Kapteyn and Cahaly have specific insights into why, and how, Trump support might be going undetected.”

Hillary Clinton disparaged Trump supporters as “deplorable” when she campaigned in 2016. Joe Biden recently called them “chumps.” Cahaly observed that the “soccer mom doesn’t want to say she’s for Trump because she doesn’t want you to think she’s one of them. ... [T]here are a lot more people who like professional wrestling than admit it. There are lots of fans who don’t want you to think they’re like the other people who like professional wrestling.”

Cahaly concluded: “There’s a lot of hidden Trump votes out there. Will Biden win the popular vote? Probably. I’m not even debating that. But I think Trump is likely to have an Electoral College victory.”

If Trump wins, it might be because shy voters mostly agree with Trump’s conservative policies and either like his swaggering personality or look past it. What about the pandemic? Shy voters may fear another lockdown under Biden more than they fear the virus. Biden has recently been saying: “I’m going to shut down the virus, not the country.” He has been walking back his August 21 statement in an ABC “World News Tonight” [interview](#) in which he said that he would shut the country down to stop the spread of Covid-19 if the move was recommended to him by his health experts: “I would shut it down; I would listen to the scientists.”

Trump repeatedly has vowed to keep the economy open. That promise will be easier to fulfill if one or more vaccines are available for widespread distribution during the first half of next year. Progress on the economic front requires that the latest wave of the pandemic is managed with selective rather than widespread social-distancing restrictions until enough people are inoculated against the virus. Until that happens, another round of fiscal stimulus is likely under either Trump or Biden. While Biden will press for much more spending than Trump and raise taxes, Trump has promised to lower taxes on the middle class.

Politics III: What If Biden Wins? In a Blue Wave scenario, government spending is likely to increase more than if Trump is re-elected. Taxes would also go up a lot for anyone earning over \$400,000. So would taxes on corporations. The only question is when. I asked Jim Lucier, our good friend and a managing director at [Capital Alpha Partners](#), to comment on this issue. Here is his erudite answer:

“Democrats will raise taxes in 2021, but the tax increases will become effective in 2022. As for raising taxes in 2021, there is really no option but to raise them in 2021 if you want to raise them at all. Raising taxes is a heavy lift, and it needs to be done when a president has maximum juice, starting as soon as possible in his first year. Members of Congress will be less interested in raising taxes during a midterm election year. Also, when the economy is weak and unemployment is high, the logical time to raise taxes is to do so as part of a much larger fiscal stimulus bill, which Biden wants Congress to pass early in the year.

“As a matter of custom, Congress does not raise taxes retroactively. Legally speaking, Congress can raise taxes retroactively, and there has been litigation over a couple of instances in the past century starting with the Revenue Act of 1913. This includes a technical case when Congress did not intend to raise taxes retroactively but did so accidentally.

“However, the fuss associated with retroactive tax increases is so great that in the modern era Congress almost never does. What Congress will do, on occasion, is announce in advance that some policy will take effect as of the date of announcement. For instance, Chuck Grassley announced that he had a provision against corporate inversions that would take effect as of the date he announced it, even if the bill it was part of was not likely to be enacted for some time. Ron Wyden has done the same thing a couple of times. If Wyden or Grassley wants to shut down a tax shelter immediately, they put the world on notice that sooner or later, the tax shelter will be prohibited as of that date. It may take them another year or two to actually pass the bill.

“In 1992, when Congress raised taxes mid-year, they did adopt a blended tax rate that reflected a rate increase as of mid-year. That’s because having a tax rate that changes mid-year is a pain in the rear.

“I have had the opportunity to pursue this question with people who have had the appropriate tippy-top tax counsel jobs on the Hill, and they assure me that the tax increase will be prospective, to 1/1/2022 or to corporate tax years beginning after 1/1/22.

“Another thing to consider is that Biden could raise the corporate tax rate in stages, perhaps spreading a 7-percentage-point increase in the corporate tax rate over seven years at 1 percentage point per year. The same logic about prospective tax increases would also apply to capital gains tax increases, which is actually the topic investors ask about most frequently.”

Politics IV: Electoral College Scenarios. What if there is no clear winner after the polls close on Election Day? It may take a few days to count all the ballots, creating lots of suspense and angst. The winner might not be known until the Electoral College meets on December 8. Along the way, both sides might ask the Supreme Court to intervene on contested issues that will decide the outcome. Here's is a brief crib sheet on some of the possible scenarios:

(1) *Not a popularity contest.* A useful [article](#) explaining the Electoral College appeared in the October 22 *NYT*. It observed: "When Americans cast their ballots, they are actually voting for a slate of electors appointed by their state's political parties who are pledged to support that party's candidate. (They don't always do so.)"

So the outcome of the vote in the Electoral College mostly depends on the key battleground states, as the winner needs at least 270 votes of the total 538. Several past presidents achieved that even though they lost the popular vote, including D.J. Trump, G.W. Bush, B. Harrison, and J.Q. Adams.

(2) *Counting states.* A tie is possible. In that event, the newly elected House of Representatives gets to decide the winner, with each state voting as a unit. The *NYT* article explains: "If there is a tie vote in a state's delegation, the state's vote would not count. A presidential candidate needs at least 26 votes to win. Currently, Republicans control 26 state delegations, while Democrats control 22. Pennsylvania is tied between Republican and Democratic representatives, and Michigan has seven Democrats, six Republicans and one independent. That could all change on Nov. 3 of course, because all House seats are up for election. ... Ultimately, any disputes about the procedure could land everything in the Supreme Court."

(3) *Faithless electors.* The Supreme Court unanimously ruled in July that states may require electors to abide by their promise to support a specific candidate. Currently, 33 states and the District of Columbia have laws that require electors to vote for their pledged candidate. Some states replace electors and cancel their votes if they break their pledge. In 2016, seven electors—five Democrats and two Republicans—broke their promises to vote for their party's nominee, the most ever in history. They voted for various candidates who were not on the ballot. These renegades did not change the outcome.

(4) *Head-spinning scenarios.* Now if you really want to read a head-spinning [article](#) on this subject, have a look at "Navigating a Contested Election, the Electoral Count Act and 12th

Amendment: How to Ensure a Fully Counted Outcome” by two former officials in the Clinton administration. The outcome could be a free-for-all constitutional crisis involving state governors, the Insurrection Act of 1807, the US Attorney General William Barr, Vice President Mike Pence, and House Speaker Nancy Pelosi (D-CA).

Movie. “Away” (+) ([link](#)) is a binge-able Netflix series about an American astronaut, played by Hilary Swank, embarking on a dangerous mission to Mars as commander of an international space crew with representatives from China, India, Russia, and Ghana. The first season spends more time on the emotional toll of being away from family and loved ones on a three-year roundtrip to the Red Planet than on the actual journey, which obviously doesn’t go so smoothly with plenty of technical and interpersonal problems along the way there. So it’s a touchy-feely Mars movie. Meanwhile, here on Earth, Elon Musk is planning on colonizing Mars. According to a Friday [report](#), the would-be Martian King ruled that his colony won’t be ruled by any “Earth-based government”—and will instead adhere to its own “self-governing principles.” May the force be with Elon. Let’s see how far Elon gets. Netflix hasn’t renewed for a second season.

CALENDARS

US: **Mon:** ISM & IHS Markit M-PMI 55.8/53.3, Construction Spending 0.9%. **Tues:** Factory Orders 1.0%, API Crude Oil Inventories, Presidential Election. (DailyFX estimates)

Global: **Mon:** Eurozone, Germany, France, Italy, and Spain 54.4/58.0/51.0/53.5/51.0, UK M-PMI 53.3, Mersch. **Tues:** Australia Retail Sales -1.5%, China Caixin C-PMI & NM-PMI, Mauderer, Balz, Eurogropu Video Conference. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index tumble 5.7% for its biggest decline in seven months. The index ranked 27th of the 49 global stock markets we follow in a week when only one of the 49 countries rose in US dollar terms and the AC World ex-US index fell 4.7%. The US MSCI index was out of a correction for an 18th week; it’s now 8.5% below its record high on September 2. EM Asia was the best-performing region last week, albeit with a decline of 1.9%, followed by BRIC (-2.2%). EM Eastern Europe was the biggest underperformer with a decline of 8.7%, followed by EMU (-8.2), EM Latin America (-

8.2), EMEA (-6.6), and EAFE (-5.5). Indonesia was the best-performing country last week, rising 0.4%, followed by Jordan (-0.2), Morocco (-0.3), Sri Lanka (-0.7), and China (-0.7). Among the 30 countries that underperformed the AC World ex-US MSCI last week, Turkey fared the worst with a decline of 10.7%, followed by Germany (-10.4), Poland (-10.4), Finland (-10.1), and Brazil (-9.4). In October, the US MSCI dropped 2.7% for its second straight monthly decline after five gains. The US MSCI ranked 29/49 in October as the AC World ex-US index outperformed despite a drop of 2.2%. Just ten of the 49 countries moved higher in October as most regions moved lower. Indonesia was the best performer, with a gain of 8.6%, followed by the Philippines (7.9), Morocco (5.4), China (5.3), and Mexico (2.2). The worst-performing countries in October: Poland (-16.2), Greece (-13.9), Turkey (-12.6), Germany (-10.3), and Russia (-9.9). EM Asia rose 3.3% in October, slightly ahead of BRIC (3.2) and well ahead of EM Latin America (-1.2). EM Eastern Europe was October's worst-performing region, with a decline of 10.4%, followed by EMEA (-6.6), EMU (-6.3), and EAFE (-4.1). The US MSCI's ytd ranking gained two places w/w to 6/49 even as its ytd gain tumbled to 2.9% from 9.2%. The AC World ex-US fell 4.5ppts w/w to a 9.3% ytd decline. EM Asia is the best regional performer ytd, with a gain of 9.7%, followed by BRIC (3.6). The worst-performing regions ytd: EM Latin America (-38.1), EM Eastern Europe (-37.1), EMEA (-26.7), EMU (-15.4), and EAFE (-12.6). The best country performers ytd: Denmark (21.2), China (20.6), Taiwan (13.1), New Zealand (4.9), and Korea (4.6). The worst-performing countries so far in 2020: Colombia (-48.4), Greece (-47.9), Brazil (-43.5), and Turkey (-39.4).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes fell sharply last week. LargeCap's 5.6% decline was its biggest since mid-March. MidCap fell 5.7% and SmallCap was down 6.1%; the worst declines for both indexes since early June. LargeCap weakened to 8.7% below its record high on September 2, but has been out of a bear market for 29 weeks and out of a correction for 18 straight weeks. MidCap remained out of a correction for a fifth week, but barely so as it dropped to 9.8% below its record high on February 20. SmallCap moved back into a bear market after being out for three weeks, and weakened to 20.2% below its August 29, 2018 record high. All 33 sectors fell last week, compared to 21 rising a week earlier. Eleven sectors are out of a correction now, down from 15 a week earlier. Of the 11, four are LargeCaps, five are MidCaps, and two are SmallCaps. LargeCap Utilities the best performer last week, albeit with a decline of 3.7%, followed by LargeCap Communication Services (-3.9), MidCap Health Care (-4.2), and LargeCap Real Estate (-4.2). SmallCap Energy was the biggest underperformer last week with a decline of 10.2%, followed by MidCap Energy (-9.2), MidCap Communication Services (-7.6), SmallCap Consumer Discretionary (-

7.6), and SmallCap Industrials (-7.1). During October, SmallCap rose 2.5% and MidCap gained 2.1%. LargeCap posted a 2.8% drop for its second straight monthly decline. Eighteen of the 33 sectors rose in October, compared to three rising in September. October's best performers: MidCap Financials (8.2), SmallCap Materials (7.5), SmallCap Financials (7.4), LargeCap Utilities (5.0), and SmallCap Tech (4.3). October's biggest laggards: MidCap Communication Services (-6.8), LargeCap Tech (-5.2), LargeCap Energy (-4.7), SmallCap Real Estate (-4.6), and LargeCap Health Care (-3.8). LargeCap is the only index that's risen for the year so far, with a gain of 1.2%, ahead of MidCap (-7.9) and SmallCap (-14.2). Ten of the 33 sectors are now up so far in 2020, with the best performers led by LargeCap Information Technology (20.9), LargeCap Consumer Discretionary (18.8), MidCap Health Care (13.7), MidCap Consumer Staples (9.9), and LargeCap Communication Services (8.2). The biggest laggards of 2020 to date: SmallCap Energy (-59.2), MidCap Energy (-53.8), LargeCap Energy (-52.5), SmallCap Real Estate (-32.1), and MidCap Real Estate (-30.6).

S&P 500 Sectors and Industries Performance ([link](#)): All 11 S&P 500 sectors fell last week, with six outperforming the composite index's 5.6% decline. That compares to a 0.5% decline for the S&P 500 a week earlier, when four sectors rose and six outperformed the index. Utilities' 3.7% decline made it the smallest decliner of the week, ahead of Communication Services (-3.9%), Real Estate (-4.2), Materials (-4.3), Consumer Staples (-4.8), and Financials (-5.6). Industrials and Tech were the week's biggest underperformers, with declines of 6.5%, followed by Consumer Discretionary (-6.2), Energy (-5.7), and Health Care (-5.7). The S&P 500 fell 2.8% in October for its second straight decline. Just two of the 11 sectors moved higher in October, but five beat the broader index. That compares to two rising in September, when eight beat the S&P 500's 3.9% decline. The leading sectors in October: Utilities (5.0), Communication Services (0.5), Materials (-0.8), Financials (-1.0), and Industrials (-1.5). October's laggards: Tech (-5.2), Energy (-4.7), Health Care (-3.8), Real Estate (-3.4), Consumer Staples (-3.0), and Consumer Discretionary (-3.0). The S&P 500 is now up 1.2% so far in 2020, with just four sectors ahead of the index and four sectors in positive territory. The leading sectors ytd: Information Technology (20.9), Consumer Discretionary (18.8), Communication Services (8.2), and Materials (2.9). The laggards of 2020 so far: Energy (-52.5), Financials (-22.5), Real Estate (-12.0), Industrials (-6.8), Utilities (-3.5), Consumer Staples (-1.2), and Health Care (-0.3).

Commodities Performance ([link](#)): Last week, the S&P GSCI index fell 5.0% in its biggest decline since late April, paced by declines for 19 of the 24 commodities that we follow. It's now down 23.4% from its recent high on January 6 and still in a severe bear market at 32.2% below

its four-year high on October 3, 2018. Feeder Cattle was the best performer last week with a gain of 6.8%, followed by Natural Gas (5.0%), Live Cattle (4.6), Lead (2.0), and Aluminum (0.7). Crude Oil was the biggest decliner for the week with a drop of 10.2%, followed by Brent Crude (-9.8), GasOil (-9.1), and Unleaded Gasoline (-8.4). October saw 10 of the 24 commodities climb as the S&P GSCI Commodities index fell 2.7%. That compares to 10 rising in September, when the S&P GSCI Commodities index fell 2.2%. October's best performers were Natural Gas (32.7), Sugar (6.3), Kansas Wheat (6.2), Aluminum (5.7), and Corn (5.1). October's laggards: Unleaded Gasoline (-12.6), Crude Oil (-11.0), Brent Crude (-10.3), Cocoa (-9.9), and GasOil (-8.0). Twelve of the 24 commodities that we follow are higher so far in 2020, down from 13 a week earlier. The best ytd performers: Natural Gas (53.2), Silver (31.9), Gold (23.4), Kansas Wheat (11.4), Soybeans (10.5), and Zinc (10.5). The worst performers ytd: GasOil (-50.0), Heating Oil (-46.3), Brent Crude (-42.5), Crude Oil (-41.4), and Unleaded Gasoline (-38.9).

S&P 500 Technical Indicators ([link](#)): The S&P 500 tumbled 5.6% last week and fell below its short-term, 50-day moving average (50-dma). The index was below its 50-dma for the first time in four weeks, but was above its 200-dma for a 18th week. 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 weakened for the first time in 24 weeks, but the index was in a Golden Cross (with 50-dmas higher than 200-dmas) for a 17th 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 dropped last week to 8.9% above its 200-dma from 9.1% above in the prior week. That 9.1% reading had been the highest since April 2011. In mid-May, the 50-dma had been 9.9% below the 200-dma, which was the most that the former had lagged the latter since May 2009. Turning to the individual dmases, the S&P 500's 50-dma fell for the first time in 24 weeks as the price index dropped to 3.9% below its now falling 50-dma from 1.7% above its rising 50-dma a week earlier. It had been trading above its 50-dma since late April and peaked in early June 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 fell for the first time in 24 weeks as well, but the index was above its 200-dma for a 17th week. It ended the week 4.6% above its rising 200-dma, down from 10.9% above a week earlier, and compares to 13.7% above at the end of August, which was the highest reading since February 2011. Last week's 4.6%-above reading is up from the 26.6% below registered

on March 23—the lowest reading since March 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](#)): Just one of the 11 S&P 500 sectors traded above its 50-dma last week, down from nine above a week earlier. That compares to all 11 sectors above in the three weeks around the start of June. Utilities was above its 50-dma for a fifth straight week. Eight sectors traded above their 200-dmas, down from ten a week earlier. Financials and Real Estate fell below their 200-dmas in the latest week and joined Energy. That compares to just one sector (Health Care) above its 200-dma in early April. Ten sectors are now in the Golden Cross club (50-dmas higher than 200-dmas), unchanged from a week earlier. Energy is the only sector still in a Death Cross, and has not been in that club for 103 straight weeks. Just two sectors have a rising 50-dma, Materials and Utilities. That's down from nine sectors with a rising 50-dma a week earlier. In early June, the 50-dma had been rising for all 11 sectors for three straight weeks. That was a big improvement then from the beginning of May, when all 11 had falling 50-dmas for ten straight weeks. Four sectors have rising 200-dmas, down from six a week earlier. Sectors with rising 200-dmas: Communication Services, Consumer Discretionary, Information Technology, and Materials. Financials' 200-dma was down for a 34th week despite moving into the Golden Cross club in mid-October. Energy's 200-dma has been mostly falling since October 2018.

US ECONOMIC INDICATORS

GDP ([link](#)): The snapback in Q3 real GDP was slightly faster than expected, accelerating a record 33.1% (saar), as the economy began to recover from the coronavirus epidemic—though a fresh outbreak of the virus is slowing Q4 growth. Real consumer spending expanded at an historic 40.7% (saar) last quarter—following Q2's record 33.2% shortfall—with growth in both goods (45.4%, saar) and services (38.4) consumption breaking records. Durable goods (82.2%, saar) spending drove the record advance in goods consumption, posting its best rate since the Q4-1952, while nondurable goods (28.8) spending was at a record rate for that series. Meanwhile, there was a record \$286.0 billion (saar) swing in inventory investment during Q3 from a record low of -\$287.0 billion during Q2 to -\$1.0 billion last quarter—driven by retail inventories (led by motor vehicles & parts). A record 70.1% (saar) surge in equipment spending last quarter accounted for the 20.3% (saar) rebound in real nonresidential investment—its best performance since Q4-1983, more than offsetting declines in structures (-14.6%, saar), and intellectual property products (-1.0). Residential investment (59.3%, saar), in

the meantime, recorded its best pace since Q1-1983, rebounding from Q2's 35.6% plunge. Trade was a major drag on Q3 real GDP growth, as imports (91.1%, saar) expanded at a considerably faster pace than exports (59.7%)—though both posted their best growth rates since Q2-1969. Real government spending contracted 4.5% (saar) during Q3, with both federal (-6.2%) and state & local (-3.3) in the red—the former was dragged down by an 18.1% drop in nondefense spending.

Contributions to GDP Growth ([link](#)): Real consumer spending was far and away the biggest positive contributor to Q3's record real GDP growth, while trade was the biggest drag. The details: 1) Real consumer spending added a whopping 25.27ppts to Q3 GDP, with services (+16.04ppts) consumption accounting for about two-thirds of the contribution. The breakdown of goods consumption (+9.24ppts) shows durable goods (+5.18) spending had the bigger contribution though nondurable goods' (+4.06) contribution wasn't too far behind. 2) Inventory investment (+6.62ppts) added to GDP growth for the first time since Q1-2019—virtually all nonfarm (6.55). 3) The contribution from nonresidential investment (+2.88ppts) was all equipment (+3.34) investment; structures (-0.43) subtracted from growth for the fourth straight quarter, while intellectual property products (-0.03) detracted for the second successive quarter, though barely. 4) Residential investment added 2.09ppts to real GDP growth last quarter after subtracting from growth during Q2 for the first time in a year. 5) Meanwhile, trade (-3.09ppts) subtracted from GDP growth for the first time in five quarters, as imports subtracted 7.99ppts from growth, more than offsetting exports' +4.90ppts positive contribution. 6) Government (-0.68ppt) spending was a small negative, with federal (-0.39) and state & local (-0.30) subtracting from growth at relatively the same rate.

Consumer Sentiment Index ([link](#)): “The impact of the Covid virus and the extremes of hyper-partisanship will continue long past next week's election, with the potential to permanently alter the economic and political landscape ,” noted Richard Curtin, the chief economist at the group that produces the sentiment survey. The Consumer Sentiment Index (CSI) rose to a seven-month high of 81.8 in October from 80.4 in September; it is 10.0 points above its April low, though still 19.2 points below its pre-pandemic high. The expectations component advanced for the third month, following a July dip, climbing 13.3 points (to 79.2 from 65.9), while the present situation component fell to 85.9 in October after rising from 82.8 in July to 87.8 in September. The expectations component and present situation components are 12.9 points and 28.9 points, respectively, below their February levels of 92.1 and 114.8. Regarding the election, consumers anticipate a Biden win by a margin of 53% to 42%.

Pending Home Sales ([link](#)): "The demand for home buying remains super strong, even with a slight monthly pullback in September, and we're still likely to end the year with more homes sold overall in 2020 than in 2019," said Lawrence Yun, NAR's chief economist. The Pending Home Sales Index slipped 2.2% in September to 130.0 after a four-month record surge of 92.6% over the four months through August; sales were 20.5% above a year ago. Regionally, only the Northeast recorded a gain in September, though all four regions recorded double-digit growth versus a year ago: (Northeast 2.0% m/m & 27.7% y/y), West (-2.6 & 19.3), South (-3.0 & 19.6), and Midwest (-3.2 & 18.5). Yun notes that low mortgage rates and the continuation of the jobs recovery alone should help push sales higher, yet there's an additional stimulus: "A second-order demand will steadily arise as homeowners who had not considered moving before the pandemic begin to enter the market. A number of these owners are contemplating moving into larger homes in less densely populated areas in light of new-found work-from-home flexibility."

GLOBAL ECONOMIC INDICATORS

Eurozone Economic Sentiment Indicators ([link](#)): The recovery in the Economic Sentiment Indexes (ESIs) took a rest in October, with the Eurozone (unchanged at 90.9) and EU (unchanged at 90.0) measures both holding steady last month; they both had steadily increased since hitting bottom at 64.9 and 63.8, respectively in April. From a country perspective, ESI's for Germany (to 97.0 from 72.1 in April) and Italy (90.2 from 63.0 in May) climbed to within 4.8 points and 11.1 points, respectively, of their pre-Covid readings, while Spain's was little changed at 89.5—16.2 points above its April reading and 13.2 below its pre-pandemic level. In the meantime, France's ECI fell 4.5 points in October to 90.4 after a four-month upswing of 27.2 points to 94.9, with the Netherlands' ECI slipping 2.2 points to 89.7 last month following a five-month spurt of 26.3 to 91.9. (France's ESI is 15.1 points below its pre-Covid level, the Netherlands' 12.5 points below.) For the overall Eurozone, at the sector level, both industrial (to -9.6 from -32.5 in April) and retail trade (-6.9 from -30.1) confidence improved for the sixth successive month, while the steady improvement in the service sector from May (-43.6) to September (-11.2) stalled, with the measure little changed at -11.8 in October. Construction confidence gained momentum last month, climbing to -8.4 following a slight dip from -11.3 in June to -11.8 by August, while consumer confidence lost momentum, falling to a five-month low of -15.5 in October.

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