



## MORNING BRIEFING

November 24, 2020

### The First Thanksgiving of the Roaring 2020s

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

(1) Thank you, thank you, thank you. (2) A cornucopia of vaccines for the holidays. (3) 1914-1920 were dark days indeed. (4) The 1920s was a decade of innovation, productivity, and prosperity preceded by a world war, a pandemic, and a depression. (5) Comparative pandemics. (6) A cornucopia of technological innovations for the 2020s. (7) Calvin Coolidge vs Joe Biden. (8) Raising our earnings estimates and shooting for 4000 on the S&P 500 by the end of 2021. (9) V-shaped earnings recovery. (10) Widespread rebound in the revenues and earnings of the S&P 500 sectors. (11) Net earnings revisions back in positive territory.

**Thanksgiving I: Comparative Roaring '20s.** First and foremost, we at Yardeni Research are thankful to all of you for supporting our research service. We wish you a very healthy, safe, and fulfilling holiday with your families. We would invite you all to my house for the traditional feast, but New York's governor has limited the number of people we can have in our home for the holidays to 10. Don't forget to keep the windows open to get good fresh air circulation wherever you're feasting.

This should be the first and last Thanksgiving requiring us all to socially distance from one another. Apparently, we will have a cornucopia of vaccines and treatments available for mass distribution early next year. If so, then 2020 may mark the beginning of the Roaring 2020s. Let's briefly compare the current situation to the one before and during the Roaring 1920s:

(1) *World War I.* Recall that the years leading up to the Roaring 1920s included World War I from July 28, 1914 through November 11, 1918. The total number of military and civilian casualties in World War I was about 40 million, with estimates ranging from around 15-22 million deaths and about 23 million wounded military personnel—ranking World War I among the deadliest conflicts in human history.

(2) *Spanish flu.* That was followed by the Spanish flu pandemic from February 1918 through April 1920. It infected 500 million people—about a third of the world's population at the time—in four successive waves. The death toll is typically estimated to have been somewhere

between 17 million and 50 million, and possibly as high as 100 million, making it one of the deadliest pandemics in human history.

(3) *Depression of 1920–21*. There was a severe deflationary recession in the US, the UK, and other countries beginning 14 months after the end of World War I. It lasted from January 1920 to July 1921. How depressing! The Great War (as it was called back then) and the pandemic of 1918-20 killed between 32 million and 72 million people. That was followed by a global depression (as recessions were called back then). No one at the start of the decade could have anticipated the technology-led revolution of the Roaring 1920s or the resulting prosperity of that period. Thanksgiving during 1920 must have been extremely depressing indeed.

(4) *The high-tech revolution of the 1920s*. As we reviewed in the August 11 [Morning Briefing](#), the 1920s was a decade of amazing technological innovations. Some of them sped up activities that were too slow when done by horses and automated activities that required lots of workers. Assembly lines required fewer workers, and their productivity increased. The revolution allowed for a greater division of labor. The focus was mostly on brawn.

The automobile produced on assembly lines revolutionized transportation. The bulldozer did the same for construction. The standard of living improved dramatically for everyone as electric grids provided clean, bright light without emitting smoke. Urban water networks supplied clean water, and sewer systems removed waste without the pungent odors of chamber pots and outhouses. Telephones allowed people to converse with distant friends. National food brands proliferated, as did restaurants. Department stores and mail order retailers provided goods to a rapidly growing consumer market. Penicillin was discovered.

(5) *The trade wars of 2018-19*. The 2020s was preceded by a trade war between the US and China. President Donald Trump started and escalated it during 2018 and 2019. The Biden administration is likely to deescalate the resulting Cold War. Nevertheless, as a consequence of both ongoing tensions between the two countries and the pandemic, manufacturers are likely to move more of their operations and supply chains to the US. That could be inflationary. More likely is that some of the technological innovations discussed below will boost productivity and reduce energy and transportation costs.

(6) *The pandemic of 2020*. So far, the Covid-19 virus has killed 1.4 million people worldwide including 263,000 in the US. That's a terrible outcome, but nowhere near the Spanish flu's

lethal toll. The biotech revolution is likely to deliver effective vaccines against the Covid-19 virus this time.

(7) *The high-tech revolution of the 2020s.* Today's "Great Disruption," as Jackie and I like to call it, is increasingly about technology doing what the brain can do, but faster and with greater focus. Given that so many of the new technologies supplement or replace the brain, they lend themselves to many more applications than did the technologies of the past, which were mostly about replacing brawn. Today's innovations produced by the IT industry are revolutionizing lots of other ones, including manufacturing, energy, transportation, healthcare, and education. My friends at BCA Research dubbed it the "BRAIN Revolution," led by innovations in biotechnology, robotics, artificial intelligence, and nanotechnology. That's clever, and it makes sense.

The current pandemic seems to be speeding up the pace at which these and other technologies are proliferating. Debbie and I believe that productivity growth has been heading toward a secular rebound during the post-pandemic Roaring 2020s. Even before the Great Virus Crisis (GVC), companies had been moving to incorporate into their businesses a host of state-of-the-art technologies in the areas of computing, telecommunications, robotics, artificial intelligence, 3-D manufacturing, the Internet of Things, among others. The GVC is accelerating that trend as companies rethink how to do business ever more efficiently in the post-pandemic era.

(8) *One major difference.* The one major difference between the 1920s and the early 2020s (post the November 3 election) is the political persuasion of the presidency. During the 1920s, the White House was occupied by two very conservative Republican Presidents: Warren G. Harding (March 4, 1921–August 2, 1923) and Calvin Coolidge (August 2, 1923–March 4, 1929). Coolidge advocated smaller government and laissez-faire economics.

Andrew Mellon was secretary of the Treasury from March 9, 1921 through February 12, 1932. One of his achievements was the Revenue Act of 1926, which reduced the top marginal rate to 25%. In addition to cutting taxes on top earners, the act raised the personal exemption for federal income taxes, abolished the gift tax, reduced the estate tax rate, and repealed a provision that had required the public disclosure of federal income tax returns.

The incoming Biden administration has promised to raise numerous taxes including on corporations and on taxpayers earning more than \$400,000 annually. In the November 16

*Morning Briefing*, we reminded the incoming administration that trickle-down economics works both ways: “Higher taxes on the rich and on corporations inevitably trickle down to everyone else.”

**Thanksgiving II: Earnings Rebounding.** Joe and I are thankful that the rebound in S&P 500 earnings that we expected during the second half of this year is occurring on schedule and turning out to be stronger than we had predicted. As a result, we are raising our 2020, 2021, and 2022 S&P 500 earnings-per-share estimates by \$10 to \$135, \$5 to \$160, and \$5 to \$185, respectively (*Fig. 1*). For comparison, the consensus forecasts of industry analysts during the November 19 week were \$137.45, \$168.42, and \$192.07. We tend to be optimists, but industry analysts tend to be too optimistic. Here are a bunch more observations on the earnings front:

(1) *Remarkable rebound in 2020 earnings estimates.* The rebound in 2020 consensus earnings expectations has been remarkable under the (pandemic’s) circumstances. They plunged from \$174.44 when the pandemic was declared by the World Health Organization (WHO) on March 11 to a low of \$124.80 during the week of July 10. As noted above, the consensus estimate is now back to \$137.45.

(2) *Revenues remain on targeted track.* Our earnings estimate for this year has rebounded too, from \$120 to \$125, and now to \$135. However, we aren’t ready to raise our S&P 500 revenues-per-share estimates, which remain on target, in our opinion, at \$1,340 this year, \$1,450 next year, and \$1,525 in 2022 (*Fig. 2*).

(3) *Surprisingly strong upturn in consensus expected profit margin.* The analysts’ consensus estimates for revenues and earnings can be used to determine their estimated profit margin for the S&P 500. For this year, it plunged from 11.8% when the WHO declared the pandemic to a low of 9.3% during the July 16 week (*Fig. 3*). It was back up to 10.0% during the November 12 week.

Our upwardly revised earnings estimates and unchanged revenues estimates imply that the profit margin will be 10.1% this year (up from our previous estimate of 9.3%), rising to 11.0% next year and 12.1% in 2022.

(4) *Higher S&P 500 stock price index target.* Joe and I continue to expect that the S&P 500 will be making record highs in 2021, with our target remaining at 3800 by mid-2021. We are now also aiming for 4000 by the end of next year (*Fig. 4*). To get to 4000 by the end of next year,

we are assuming that S&P 500 forward earnings will be at \$190 per share, or \$5 above our earnings estimate for 2022 because of the optimistic bias of analysts ([Fig. 5](#)). That implies a forward P/E of 21.1, about the same as the current forward P/E ([Fig. 6](#)).

(5) *Q3 S&P 500 earnings estimates*. Industry analysts do turn pessimistic during recessions. They turned too pessimistic about the outlook for Q2 and Q3 earnings after the WHO pandemic declaration on March 11, resulting in significant “earnings hooks” when the actual results were reported ([Fig. 7](#) and [Fig. 8](#)). At the start of the Q2 earnings season in early July, they expected a 43.9% y/y drop. The result turned out to be down 32.2%. In early October, they predicted a 21.9% y/y drop for Q3. Instead, the drop was 7.2%. Their Q4 estimate is currently down 11.7% y/y.

(6) *Actual Q3 S&P 500 revenues and earnings*. Our weekly analysis of forward revenues, earnings, and the profit margin accurately anticipated the V-shaped recovery in all three variables during Q3 ([Fig. 9](#)). On a q/q basis, quarterly revenues increased 8.1%, and earnings rose 41.0%. The profit margin jumped from 8.9% during Q2 to 11.5% during Q3. These numbers suggest a strong rebound in productivity during Q3.

(7) *Actual Q3 S&P 500 sectors’ revenues*. Among the S&P 500’s 11 sectors, only Financials shows a q/q decline during Q3, and it’s a small one ([Fig. 10](#)). At or near record highs were Consumer Staples, Health Care, and Information Technology.

Here is the y/y revenues-per-share growth derby of the 11 sectors through Q3: Health Care (6.5%), Information Technology (4.8), Consumer Staples (2.7), Communication Services (0.3), Consumer Discretionary (-1.8), Utilities (-2.4), S&P 500 (-3.9), Materials (-4.6), Financials (-5.3), Real Estate (-8.4), Industrials (-15.1), and Energy (-33.2).

(8) *Actual Q3 S&P 500 sectors’ earnings*. For the S&P 500 sectors’ operating earnings, we have data provided by Standard & Poor’s rather than I/B/E/S. The former is more conservative in accounting for write-offs than the latter. Making new highs for earnings during Q3 were Consumer Discretionary, Consumer Staples, and Health Care ([Fig. 11](#)).

Here is the y/y growth derby for the operating earnings per share of the 11 sectors through Q3: Consumer Staples (20.2%), Health Care (14.1), Financials (12.7), Information Technology (7.8), Consumer Discretionary (5.1), Communication Services (2.1), Utilities (-3.6), S&P 500 (-5.1), Materials (-9.0), Real Estate (-42.7), Industrials (-54.3), and Energy (-125.8).

(9) *S&P 500 forward earnings by sectors*. All 11 S&P 500 sectors are contributing to the rebound in S&P 500 forward operating earnings (using I/B/E/S data), which bottomed during the week of May 28 and rebounded 16.9% since then through the November 12 week (*Fig. 12*). At new record highs are Consumer Staples, Health Care, Information Technology, and Utilities.

(10) *S&P 500 net earnings revisions by sectors*. The Net Earnings Revision Index (NERI) for the S&P 500 had been in increasingly negative territory during the first five months of this year, bottoming at -37.4% during May (*Fig. 13*). It has turned positive over the past three months through October. Ten of the 11 sectors, all except Real Estate, have turned positive.

## CALENDARS

**US: Tues:** Consumer Confidence 98.0, Richmond Fed Manufacturing Index, S&P Case-Shiller Home Price Index 5.0%/y/y, API Crude Oil Inventories, Williams, Clarida. **Wed:** Real GDP & Price Deflator 33.2%/3.7%, Personal Income & Spending 0.1%/0.3%, Core PCE 0.0% y/y, Consumer Sentiment Index Total, Present Situation, and Expectations 77.7/85.8/71.3, Initial & Continuous Jobless Claims 730k/6.02m, Durable Goods Orders Total & Ex Transportation 1.0%/0.5%, Goods Trade Balance, New Home Sales 970,000, MBA Mortgage Applications, EIA Crude Oil Inventories, EIA Natural Gas Storage, Baker-Hughes Rig Count, FOMC Minutes. (DailyFX estimates)

**Global: Tues:** Germany GDP 8.2%q/q/-4.3%/y/y, Germany Ifo Business Climate, Current Conditions, and Expectations 90.7/87.2/93.5, France Business Confidence 91, Lagarde, Haskel, Schnabel, Mauderer, Beermann, Lane, Wilkins, Kuroda. **Wed:** ECB Financial Stability Review, UK 2020 Spending Review, Mauderer, Wuermeling. (DailyFX estimates)

## STRATEGY INDICATORS

**S&P 500/400/600 Forward Earnings** ([link](#)): Forward earnings rose for all three of these indexes last week. In a typically V-shaped recovery, LargeCap's forward earnings has risen for 27 straight weeks, MidCap's is up in 24 of the past 25 weeks, and SmallCap's posted its 24th gain of the past 27 weeks. LargeCap's forward earnings is now up 17.3% from its lowest level since August 2017; MidCap's has risen 35.9% from its lowest level since May 2015; and SmallCap's is up 60.0% from its lowest point since August 2013. These indexes had been on a forward-earnings uptrend from November 2019 until mid-February, before tumbling due to the

Covid-19 economic shutdown. LargeCap's forward earnings is now 7.6% below its record high at the end of January. MidCap's and SmallCap's are 9.7% and 12.3% below their October 2018 highs. The yearly change in forward earnings soared to cyclical highs during 2018 due to the boost from the Tax Cuts and Jobs Act (TCJA) but began to tumble in October 2018 as y/y comparisons became more difficult. In the latest week, the yearly rate of change in LargeCap's forward earnings improved to -6.7% y/y from -6.8%. That's up from mid-May's -19.3%, which was the lowest since October 2009 and down from 23.2% in September 2018, which was the highest since January 2011. The yearly rate of change in MidCap's forward earnings rose w/w to -4.4% y/y from -5.0% y/y, and is up from a record low of -32.7% at the end of May; that compares to a TCJA-boosted 24.1% in September 2018 (the highest since April 2011). SmallCap's rate improved to -3.0% y/y from -4.6% y/y and is up from a record low of -41.5% in early June. SmallCap's prior record low in its y/y percent change occurred during July 2009 and compares to the TCJA-boosted eight-year high of 35.3% in October 2018. Analysts' y/y earnings growth forecasts for 2020 are still down substantially since early March but have been improving since July as companies easily beat low-balled consensus estimates for Q2 and Q3. Here are the latest consensus earnings growth rates for 2020 and 2021: LargeCap (-15.7%, 22.5%), MidCap (-25.4, 43.5), and SmallCap (-39.0, 78.1).

**S&P 500/400/600 Valuation** ([link](#)): LargeCap's valuations ticked down last week, but rose to their highest levels in nearly a month for MidCap and SmallCap. LargeCap's forward P/E dropped 0.2pts to 21.5. That compares to a 19-year high of 22.7 at the end of August and is up from 13.3 in mid-March, which was the lowest since March 2013. MidCap's rose to 19.1 from 18.9 the week before; its current level is down 3.8pts from its record high of 22.9 in early June. SmallCap's edged up to 18.9 from 18.8, which is down 7.8pts from its record high of 26.7 in early June. That compares to MidCap's 10.7 and SmallCap's 11.1 in mid-March, which were their lowest readings since March 2009. LargeCap's forward P/E in mid-February—before Covid-19 decimated forward earnings—was 18.9, the highest level since June 2002. Of course, that high was still well below the tech-bubble record high of 25.7 in July 1999. Last week's level compares to the post-Lehman-meltdown P/E of 9.3 in October 2008. MidCap's P/E was below LargeCap's P/E yet again last week, as it has been for most of the time since August 2018. In contrast, it was last solidly above LargeCap's from April 2009 to August 2017. SmallCap's P/E was below LargeCap's for a 14th week, such a long stretch for the first time since May. SmallCap's P/E had been mostly below from May 2019 to May 2020 after being solidly above since 2003. SmallCap's P/E was below MidCap's for a third straight week for the first time since mid-March. Prior to that, it had been below very briefly for three weeks during

the Great Financial Crisis.

**S&P 500 Sectors Quarterly Earnings Outlook** ([link](#)): Since the Q2 earnings season—which came in substantially better than greatly reduced forecasts—analysts have been raising all of their future quarterly forecasts instead of lowering them as is the norm. In the latest week, the S&P 500's Q3 blended EPS estimate/actual rose 46 cents w/w to \$39.11. That \$39.11 estimate represents a decline of 7.2% y/y on a frozen actual basis and -6.7% y/y on a pro forma basis. That compares to a pro forma 30.6% decline in Q2-2020, a 12.8% decline in Q1-2020, a 3.1% gain in Q4-2019, a 0.3% decline in Q3-2019, and y/y gains of 3.2% in Q2-2019, 1.6% in Q1-2019, 16.9% in Q4-2018, and 28.4% in Q3-2018 (which marked the peak of the current earnings cycle). The last time earnings fell markedly y/y was during the four quarters through Q2-2016. All 11 sectors had been expected to record negative y/y earnings growth for Q2 when that earnings season began, but three recorded positive y/y earnings growth: Health Care, Tech, and Utilities. That was a big improvement from Q1 when all 11 sectors posted a y/y decline in earnings. For Q3, six sectors are posting a y/y earnings gain so far, a stunning improvement from the end of September when none were expected to do so. All but Utilities are expected to post less worse growth on a q/q basis, reflecting the reopening of the US economy. Energy is on track to report a second straight quarterly loss during Q3. Here are the S&P 500 sectors' latest Q3-2020 earnings growth rates versus their Q2-2020 growth rates: Health Care (11.2% in Q3-2020 versus 6.8% in Q2-2020), Information Technology (7.9, 5.6), Consumer Staples (6.0, -4.2), Communication Services (3.8, -16.8), Utilities (0.9, 6.4), Consumer Discretionary (0.2, -64.6), Materials (-1.4, -28.6), Financials (-2.8, -46.7), Real Estate (-12.6, -15.2), Industrials (-54.7, -85.3), and Energy (-108.2, -168.1).

## GLOBAL ECONOMIC INDICATORS

**US PMI Flash Estimates** ([link](#)): Business activity in the private sector is flying in the US, with the C-PMI, M-PMI, and the NM-PMI all at 68 month highs, according to flash estimates. The C-PMI increased for the sixth time in seven months, soaring from 27.0 in April to 57.9 this month, with both the NM-PMI (to 57.7 from 26.7 in April) and M-PMI (56.7 from 36.1) accelerating at rapid rates over the period. New orders posted their best month since June 2018, with growth in new business in the manufacturing sector accelerating to a 30-month high, boosting sales; it was joined by the fastest rise in service sector sales in 26 months. November saw the steepest rise in employment since the survey began in 2009, led by service providers; the manufacturing sector continued to expand payrolls, though at a slightly slower pace. Strong demand has enabled an increasing number of companies to raise their selling prices, with

November consequently seeing the quickest rise in prices yet recorded by the survey—the service sector’s at a record rate and the manufacturing sector’s at a 25-month high.

**Eurozone PMI Flash Estimates** ([link](#)): “Flash PMI signals steep downturn in November amid COVID-19 lockdowns,” was the headline of November’s report. Business activity in the Eurozone continued to lose momentum this month, according to flash estimates, as the service sector fell further into contractionary territory, while growth in the manufacturing sector eased from October’s 27-month high. The C-PMI fell for the fourth month to a six-month low of 45.1, after accelerating from an all-time low of 13.6 in April to a 25-month high of 54.9 in July. The NM-PMI shows the service sector—which was the hardest hit by the pandemic and on an upward trajectory through July—slowed considerably again this month, falling to 41.3; it had rebounded from a record low of 12.0 in April to 22-month high of 54.7 in July. Meanwhile, the M-PMI dipped to 53.6 after accelerating from April’s record low of 33.4 to a 27-month high of 54.8 by October. The report notes: “Divergent trends were also seen across the region, with Germany again bucking the wider downturn.” Germany’s C-PMI (to 52.0 from 55.0) shows growth eased to a five-month low, though continued to expand, according to flash estimates, as the NM-PMI (46.2 from 49.5) contracted for the second month, following three months of expansion. The reading is considerably below July’s 13-month high of 55.6. Meanwhile, the M-PMI (to 57.9 from 58.2) shows the manufacturing sector is expanding at close to October’s pace—which was the strongest since April 2018. Flash estimates show business activity in France contracted for the third month, with its C-PMI falling to a six-month low of 39.9 this month after climbing from 11.1 in April to a recent peak of 57.3 in July. France’s NM-PMI sank from 57.3 in July to 38.0 this month, while the M-PMI (to 49.1 from 51.3) showed the manufacturing sector is contracting again, albeit slowly, after expanding during September and October. Meanwhile, the rest of the region—i.e., outside of France and Germany—contracted for the fourth month, with the decline the steepest since May 2009 (barring the Covid 19-related collapse seen between March and June of this year). A near-stalling of manufacturing output growth was exacerbated by an increasingly severe drop in services activity, pushing the flash C-PMI down from 47.2 to 42.4, according to the report.

**Japan PMI Flash Estimates** ([link](#)): Japan’s private sector contracted again in November, according to flash estimates, as the private sector continued its struggle to regain momentum. The C-PMI fell to 47.0 after increasing steadily from April’s bottom of 25.8 to a nine-month high of 48.0 in October; it was the 10th consecutive reading below the breakeven point of 50.0. Demand continued to weaken, with new business contracting for the 10th month—dragged down by a further decline in foreign demand. The NM-PMI slipped to 46.7 after climbing from

21.5 in April to 47.7 in October, while the M-PMI sank to 48.3 after advancing from 38.4 in May to 48.7 by October. November's survey warns: "Looking ahead, the path to recovery remains fraught with challenges as a renewed rise in the number of Covid 19 cases worldwide could dampen global economic activity and trade, thereby putting Japanese exporters in a tough situation."

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