MORNING BRIEFING
December 14, 2020

The Bulls vs the Virus

Check out the accompanying chart collection.

(1) Bulls don't love too much company. (2) Party like its 1999? (3) Signs of digital tulip mania. (4) Bitcoin as a gauge of speculative excess. (5) Beware of MBD (mad bull disease). (6) Raising our forecasts for real GDP as well as S&P 500 revenues and earnings. (7) Technology likely to boost productivity and margins, though a corporate tax hike would be a downer. (8) The third wave of the pandemic is the worst, but should be the last. (9) The ECB provides another round of PEPP. (10) Movie review: "Ava" (-).

Strategy I: Infectious Bull. There are too many bulls. That's often a contrary indicator suggesting that a correction, if not a bear market, is imminent. Occasionally, however, it has also confirmed that a meltup is underway (*Fig. 1*). That was the case in 1999. Ever since the S&P 500 rose above its February 19 record high to new record highs since August 18, Joe and I have been more concerned about a meltup than a correction or a bear market (*Fig. 2*).

We will become more concerned about the latter scenarios if the market continues to go straight up and investors "party like it's 1999" all over again, to quote the singer Prince. Following the LTCM crisis, the S&P 500 and the Nasdaq soared 59.6% and 236.7% from the end of August 1998 through March 2000. So far, since the pandemic low on March 23, they are up 63.7% and 80.4% through Friday's close (*Fig. 3*).

One sign of excessive exuberance is that the S&P 500 was 15.3% above its 200-day moving average at Friday's close, among the highest readings of the bull market since 2009 (*Fig. 4*). In addition, the percentage of S&P 500 companies trading above their 200-dmas on December 11 was 90.9%, down slightly from the prior week's 91.3%, which was the highest since July 12, 2013 (*Fig. 5*).

The meltup in the price of Tesla shares and the prices of recent IPOs is yet another sign of irrational exuberance. Furthermore, with all due respect to Bitcoin's fans, we view it and other cryptocurrencies as "digital tulips." We have no way to value them. We prefer assets with earnings, dividends, coupons, and rents—i.e., an income stream we can value. Nevertheless, we do watch Bitcoin's price action as a gauge of speculative excesses, which are back at record highs according to this gauge (*Fig. 6*).

Strategy II: Raising Earnings Outlook. Joe and I have been infected with the bullish virus for quite some time. However, we are doing our best to avoid the deliriousness associated with Mad Bull Disease (MBD). Nevertheless, the stock market has been stampeding past bulls (like us) since it bottomed on March 23, and the economic fundamentals have been doing the same since they bottomed during April. As a result, we've had to raise our outlooks for both economic growth and S&P 500 earnings as well as our target for the S&P 500 index a few times since then. Here we go again:

(1) *GDP and S&P 500 revenues.* Debbie and I are raising our estimate for Q4-2020 real GDP growth from 5% to 10%. We are lowering both our Q1- and Q2-2021 growth rates to 2% to reflect renewed lockdown restrictions in response to the third wave of the pandemic. We are raising our Q3- and Q4-2021 growth estimates to 4% and 3% because we expect an economic boom after vaccines have been widely distributed during the first half of the coming year. That puts real GDP up 4.6% next year over this year, or up 2.8% on a Q4/Q4 basis. (See *YRI Economic Forecasts*.)

As a result, we are also raising our forecasts for S&P 500 revenues per share for 2020, 2021, and 2022 to $1,400 (still down 1.1% y/y), $1,545 (up 10.4%) and $1,625 (up 5.2%) (*Fig. 7*). During the December 3 week, industry analysts were projecting $1,335, $1,449, and $1,549. Both our and the analysts' revenue scenarios would represent unusually strong rebounds from the pandemic-depressed levels earlier this year—especially compared to the more modest revenue rebound following the Great Financial Crisis (GFC) (*Fig. 8*). (See *YRI S&P 500 Earnings Forecast*.)

(2) *S&P 500 profit margin.* We are lifting our forecasts for the S&P 500 operating profit margin this year, next year, and in 2022 to 10.0% (up from 9.3%), 11.0% (up from 10.7%), and 12.0% (up from 11.8%) (*Fig. 9*). Our forecasts are similar to the analysts' current consensus forecasts of 10.1%, 11.4%, and 12.5%. If these projections are on the mark, the Great Virus Crisis' (GVC) margin pattern would be similar to the GFC's margin pattern, but the level of the margin now is significantly higher than it was back then. The four-quarter trailing margin bottomed below 6% in 2009. It is likely to bottom around 9% this time!

Here is the performance derby for the operating profit margins of the S&P 500's sectors during Q3-2020 and during their GFC lows: Information Technology (19.1%, 9.5%), Utilities (13.6, 7.6), Financials (13.1, -10.6), Communication Services (12.6, 6.8), S&P 500 (9.1, 4.2), Health Care (8.3, 9.3), Consumer Staples (7.8, 6.0), Materials (7.7, 0.3), Industrials (5.6, 6.4), Consumer Discretionary (5.4, 1.0), and Energy (-6.3, 4.3) (*Fig. 10*).

Here's the bad news: If the Democrats win both Senate seats in Georgia on January 5, giving them majority control of the Senate, they are likely to raise the corporate tax rate from 21% to 28%. In that case, we would have to lower our profit margin estimate for 2022, since any tax hike passed next year probably wouldn't be retroactive to the start of 2021.

Now for the good news: As Jackie and I discussed in our *Morning Briefing* of last Thursday, many companies have responded to the pandemic by slashing their costs only to find that their revenues weren't as depressed as they had feared. We expect that they will continue to do whatever they can to boost their margins, which will mostly be by adopting productivity-enhancing technologies.

(3) *S&P 500 earnings.* Politicians justified lockdown restrictions in response to the pandemic by telling us repeatedly that they are "following the science." We are following the arithmetic of E = R x E/R, i.e., earnings equal revenues times the profit margin. Given our estimates above, that means we expect S&P 500 earnings per share to be $140 this year (down 14.1% y/y), $170 next year (up 21.4%), and $195 in 2022 (up 14.7%) (*Fig.11*). During the December 3 week, industry analysts were projecting $138, $169, and $193. (See *YRI S&P 500 Earnings Forecast*.)

(4) *S&P 500 forward earnings and index targets.* To predict the S&P 500 at the end of 2021 and 2022, we need to forecast S&P 500 forward earnings. During the December 4 week, forward earnings was $167.07, after staging an impressive V-shaped recovery from the recent low of $141.00 during the May 15 week (*Fig.12*). Here are our forecasts for forward earnings at the ends of 2020, 2021, and 2022: $170, $195, and $210. Multiplying these three by the current forward P/E of 22 results in the following S&P 500 targets for year-end 2020, 2021, and 2022: 3740, 4290, and 4620.

(5) *Roaring 2020s.* Our economic and earnings forecasts are now even more consistent with our post-GVC scenario of technology-led productivity growth that boosts real GDP and keeps a

lid on inflation. That happy outlook could last through the end of the decade, which is why we call it "the Roaring 2020s."

US Economy: The Third Wave of the Virus. While the stock market is discounting the end of the pandemic once vaccines are widely distributed during the first half of next year, the third wave of the pandemic is taking a heavy toll on people's lives. The latest wave of lockdown restrictions is likely to weigh on economic growth during the first few months of 2021. Consider the following:

(1) *Casualties.* The 10-day moving average of new positive test results has jumped to 204,000 as of December 11, as new tests have continued to trend higher along with the positivity rate (*Fig.13*). As a result, hospitalizations have soared to 103,000 as of December 11, and new deaths that day totaled 2,477. These all exceed the peaks during the first wave earlier this year. The current number of positive tests suggests that hospitalizations and deaths will continue to rise through the winter months.

(2) *Collateral damage.* The recent surge in hospitalizations and the resulting lockdowns may be starting to weigh on the economy, as evidenced by the recent weakness in gasoline usage over the four-week period through the December 4 week (*Fig.14*).

The Atlanta Fed's GDPNow tracking model shows real GDP rising 11.2% during Q4. That's the main reason we've raised our forecast from 5% to 10%, as discussed above. But the bad news on the health front of the war against the virus suggests a likely setback on the economic front over the next few months, which is why we've lowered our GDP growth expectations for the first half of next year.

Eurozone Economy: ECB to the Rescue. The latest wave of the virus in Europe caused the Eurozone's Economic Sentiment Indicator to dip in November (*Fig.15*). This index is highly correlated with the y/y growth rate in the region's real GDP, which was down 4.3% during Q3 and is likely to be even weaker during Q4. Reflecting the ongoing weakness in the Eurozone economy was November's headline Consumer Price Index, which was down 0.3% y/y, based on the flash estimate. The core rate was up just 0.2%.

Not to worry: The European Central Bank (ECB) announced last Thursday that it will inject the European economy with more doses of liquidity, warning that the economic crisis caused by the pandemic is likely to linger well into 2022 despite the rollout of new vaccines. The ECB's December 10 press release announced QE-for-longer:

(1) *PEPP*. "[T]he Governing Council decided to increase the envelope of the pandemic emergency purchase programme (PEPP) by €500 billion to a total of €1,850 billion. It also extended the horizon for net purchases under the PEPP to at least the end of March 2022. In any case, the Governing Council will conduct net purchases until it judges that the coronavirus crisis phase is over" (*Fig.16*).

(2) *TLTRO*. "[T]he Governing Council decided to further recalibrate the conditions of the third series of targeted longer-term refinancing operations (TLTRO III). Specifically, it decided to extend the period over which considerably more favourable terms will apply by twelve months, to June 2022. Three additional operations will also be conducted between June and December 2021" (*Fig.17*).

Movie. "Ava" (-) (*link*) stars the talented actress Jessica Chastain as Ava, a deadly assassin who works for a sinister black ops organization. Sadly, her talents are wasted by this lame action film. Instead of numerous car chases, which are traditional in this genre, we get one martial-arts (with machine guns) fight scene after another, with Ava dispatching numerous opponents in a hurry. The film is a mishmash of "Nikita," "Homeland," and "Wonder Woman." One of its many flaws is Ava's weepiness over her failed family life. Also wasted are the talents of John Malkovitch, Geena Davis, and Colin Farrell.

CALENDARS

US: Mon: None. **Tues:** Headline & Manufacturing Industrial Production 0.3%/0.3%, Capacity Utilization 72.9%, Empire State Manufacturing Index 6.8, Import & Export Prices 0.3%/0.2%, API Crude Oil Inventories. (DailyFX estimates)

Global: Mon: Eurozone Industrial Production 2.0%m/m/-4.4% y/y, China Industrial Production & Retail Sales, China Fixed Asset Investment (ytd) 2.6% y/y, Bundesbank Monthly Report, RBA Meeting Minutes. **Tues:** France CPI 0.2% y/y, Italy CPI -0.2% y/y, UK Employment Change & Unemployment Rate -250k/5.1%, Lane, Macklem. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): Last week saw the US MSCI index fall 0.8% for its first decline in three weeks. The index ranked 33rd of the 49 global stock markets we follow in a week when 28 of the 49 countries rose in US dollar terms and the AC World ex-US index edged down 0.1%. The US MSCI index was out of a correction for a 24th week but ended the week 1.1% below its record high on Tuesday. Eight countries traded at a record high in dollar terms during the week: Denmark, Finland, India, Ireland, Korea, Switzerland, Taiwan, and the US. EM Eastern Europe was the best-performing region last week with a gain of 3.8%, followed by EM Latin America (1.8%), EMEA (1.8), EM Asia (0.3), and BRIC (0.1). EMU was the biggest underperformer with a decline of 1.7% for the week, followed by EAFE (-0.5). Hungary was the best-performing country last week, rising 7.6%, followed by Colombia (5.8), Russia (4.6), Malaysia (3.7), and Morocco (3.6). Among the 20 countries that underperformed the AC World ex-US MSCI last week, Greece fared the worst with a decline of 6.5%, followed by Spain (-3.3), Peru (-2.2), France (-2.1), and the UK (-2.0). The US MSCI's ytd ranking dropped one spot w/w to 8/49 as its ytd gain fell to 16.1%. The AC World ex-US edged down 0.1ppts w/w to a 5.6% ytd gain. EM Asia is the best regional performer ytd, with a gain of 22.3%, followed by BRIC (12.5). The worst-performing regions ytd: EM Latin America (-17.4), EM Eastern Europe (-14.9), EMEA (-11.1), EAFE (2.6), and EMU (2.8). The best country performers ytd: Korea (35.8), Denmark (33.7), Taiwan (32.9), China (23.9), and Sweden (19.0). The worst-performing countries so far in 2020: Jordan (-48.9), Greece (-32.4), Colombia (-26.7), and Egypt (-22.0).

S&P 1500/500/400/600 Performance (*link*): SmallCap led last week for fifth week as the index posted its sixth straight weekly gain. MidCap was down for the first time in six weeks and LargeCap for the first time in three weeks. SmallCap's 0.1% gain was a little ahead of MidCap's (-0.2%) and easily beat LargeCap's (-1.0). The LargeCap and MidCap indexes ended the week 1.0% and 0.4% below their respective record highs on Tuesday. SmallCap was out of a correction for only a fifth week as the index improved to 1.1% below its August 29, 2018 record high. Thirteen of the 33 sectors rose last week compared to 29 rising a week earlier. Nineteen sectors are out of a correction now, of which none ended the week at a record high compared to 10 a week earlier. SmallCap Energy rose 4.1% and was the best performer for a fifth straight week, followed by SmallCap Utilities (2.8%), MidCap Energy (2.2), SmallCap Health Care (1.6), and MidCap Communication Services (1.3). LargeCap Real Estate was the biggest underperformer last week with a decline of 2.9%, followed by MidCap Consumer Discretionary (-1.9), MidCap Real Estate (-1.8), LargeCap Financials (-1.8), and SmallCap Consumer Discretionary (-1.6). LargeCap leads so far in 2020 with a gain of 13.4%, ahead of MidCap (8.6) and SmallCap (6.4). Twenty-one of the 33 sectors are now up so far in

2020, with the best performers led by LargeCap Information Technology (35.4), LargeCap Consumer Discretionary (27.7), MidCap Tech (26.4), MidCap Consumer Discretionary (25.9), and MidCap Health Care (24.8). The biggest laggards of 2020 to date: MidCap Energy (-38.2), SmallCap Energy (-37.6), LargeCap Energy (-32.9), MidCap Real Estate (-16.9), and MidCap Utilities (-16.8).

S&P 500 Sectors and Industries Performance (*link*): Just two of the 11 S&P 500 sectors rose last week and six outperformed the composite index's 1.0% decline. That compares to a 1.7% gain for the S&P 500 a week earlier, when eight sectors rose and five outperformed the index. Energy's 1.1% gain made it the best performer of the week, ahead of Communication Services (0.1), Consumer Staples (-0.3), Utilities (-0.4), Industrials (-0.5), and Health Care (-0.8). The worst performers: Real Estate (-2.9), Financials (-1.8), Tech (-1.4), Materials (-1.2), and Consumer Discretionary (-1.2). The S&P 500 is now up 13.4% so far in 2020, with just four sectors ahead of the index and seven sectors in positive territory. The leading sectors ytd: Information Technology (35.4), Consumer Discretionary (27.7), Communication Services (21.8), and Materials (15.1). The laggards of 2020 so far: Energy (-32.9), Financials (-7.8), Real Estate (-6.7), Utilities (-4.3), Consumer Staples (6.8), Industrials (8.8), and Health Care (9.3).

Commodities Performance (*link*): Last week, the S&P GSCI index rose 1.3% for its sixth straight weekly gain. It's still down 11.4% from its recent high on January 6 and still in a bear market at 21.7% below its four-year high on October 3, 2018. Nineteen of the 24 commodities that we follow moved higher last week. Kansas Wheat was the best performer last week with a gain of 7.1%, followed by Wheat (6.8%), Nickel (5.5), GasOil (3.7), and Unleaded Gasoline (3.6). Lean Hogs was the biggest decliner for the week with a drop of 5.0%, followed by Cocoa (-1.2), Aluminum (-1.0), and Silver (-0.7). The GSCI index is down 9.7% ytd, but 15 of the 24 commodities that we follow are higher so far in 2020. The best ytd performers: Silver (34.4), Copper (25.9), Nickel (23.4), Zinc (22.4), and Soybeans (22.0). The worst performers ytd: GasOil (-32.4), Heating Oil (-28.7), Brent Crude (-24.4), Crude Oil (-23.4), and Unleaded Gasoline (-22.3).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 1.0% last week, but remained above its short-term, 50-day moving average (50-dma) for a sixth week and above its 200-dma for a 24th 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 dmas compare relative to one another, the index's 50-dma relative to its 200-dma improved, and the index was in a Golden

Cross (with 50-dmas higher than 200-dmas) for a 21st 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 rose to 10.9% above its 200-dma from 10.4% a week earlier. That 10.9% reading is the highest since December 2009 when it was falling from its peak of 14.4% during October 2009. 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 dmas, the S&P 500's 50-dma rose for a sixth week after falling a week earlier for the first time in 24 weeks. The price index dropped to 4.0% above its rising 50-dma from a 13-week high of 6.0% above its rising 50-dma a week earlier. It has been mostly 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 was above its 200-dma for a 24th week and rose for a sixth week after falling the week before that. The price index dropped to 15.3% above its rising 200-dma from 17.0% above its rising 200-dma a week earlier. That 17.0% reading was the highest since November 2009 and 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*): Nine of the 11 S&P 500 sectors traded above their 50-dmas last week, down from 10 above a week earlier and all 11 the week before that. That's still a big improvement from one sector at the end of October and compares to all 11 sectors above in the three weeks around the start of June. Utilities was below its 50-dma for a second week, and Real Estate fell below for the first time in five weeks. Energy was solidly above its 50-dma for a fifth week and for the first time since late June. All 11 sectors traded above their 200-dmas, unchanged from a week earlier. Energy is the newest member, trading above its 200-dma for a third week and for the first time since mid-January. 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 been in that club for 109 straight weeks. Ten sectors have a rising 50-dma, down from all 11 a week earlier, as Real Estate turned down during the latest week. 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. Eight sectors have rising 200-dmas, down from ten a week earlier. The 200-dmas turned down w/w for Real Estate and Utilities after rising for just one week. Energy's 200-dma has been mostly falling since October 2018, but is finally on the brink of turning up.

US ECONOMIC INDICATORS

Consumer Sentiment Index (*link*): "Most of the early December gain was due to a more favorable long-term outlook for the economy, while year-ahead prospects for the economy as well as personal finances remained unchanged," said Richard Curtin, chief economist of the survey. The Consumer Sentiment Index (CSI) climbed to 81.4 in mid-December after falling from a seven-month high of 81.8 October to 76.9 last month. Both the present situation (to 91.8 from 87.0) and expectations (74.7 from 70.4) components moved higher this month, with the former at its best reading since March. Following the election, Democrats have become more optimistic, while Republicans have become more pessimistic—with the expectations among Democrats up 39.5 points during the five months from August to December and those among Republicans down 34.9 points. The report notes that just as four years ago, "the post-election partisan shifts in economic expectations are too extreme to be justified by economic fundamentals." In the immediate future, Curtin warns that concerns about the coronavirus and fears that additional shutdowns could weigh on sentiment.

Consumer Price Index (*link*): November's core CPI ticked up 0.2% in November after showing no change in October, following a four-month climb of 1.4%; Covid-19 had caused record declines in apparel (-8.8%) and transportation services (-10.0) prices during the three months ending May. Monthly gains in the CPI had eased steadily from July's 0.6% (the biggest monthly gain since 1990) to 0.0% before November's uptick. The core CPI rose 1.7% (saar) during the three months through November, slowing from August's 5.0%, which was the highest since March 1991. The yearly core rate remained at 1.6% in November after accelerating from a nine-year low of 1.2% y/y in May and June to 1.7% in August and holding at that rate through September. Here's a ranking of the 12-month core rates on a November-over-November basis, from lowest to highest for goods: apparel (-5.2% y/y), medical care commodities (-1.1), new vehicles (1.6), alcoholic beverages (3.0), tobacco & smoking products (4.4), and used cars & trucks (10.9). Yearly rates are on accelerating trends for alcoholic beverages, new vehicles, and used cars and trucks; the latter was in negative territory the first seven months of this year—though skyrocketed 60.3% (saar) over the three months through September. Here's the same drill for the core services rates: airfares (-17.0% y/y), motor vehicle insurance (-6.0), physicians' services (1.9), owners' equivalent rent (2.3), motor vehicle maintenance & repair (3.6), rent of primary residence (2.4), and hospital services (2.9). The shelter components remain on steep decelerating trends, while the yearly decline in airfares is narrowing. The headline CPI rate remained at October's 1.2% y/y in November after accelerating steadily from 0.1% (lowest since September 2015) in May to 1.4% in September.

Producer Price Index (*link*): The Producer Price Index for final demand in November rose for the seventh straight month, but the pace has slowed three of the past four months from 0.6% in July to 0.1% by November; prices fell during February through March. Despite the recent slowing, the yearly rate continued to accelerate from -1.5% in April to 0.8% y/y last month—the highest since January's 2.0%. The monthly gain in final demand services has slowed from 0.5% to 0.0% over the comparable four-month period, while its yearly rate has accelerated from 0.2% in May to 1.5% y/y in November—also the highest since the start of the year. Meanwhile, the monthly gain in final demand goods eased from 0.7% in July but has been bouncing between 0.4% and 0.5% the past three months; the yearly rate bottomed at -5.2% y/y in April, narrowing to -0.8% last month. In the meantime, prices for intermediate goods are about to turn positive on a y/y basis, while prices for crude goods did so in November: The intermediate goods rate rose to -0.3% y/y in November, narrowing steadily from April's -7.6%, nearing its first positive reading in 20 months. Meanwhile, crude prices rose 0.6% y/y last month—its first positive reading since the end of 2018 after bottoming at -28.7% y/y in April—which was the steepest decline since September 2009

GLOBAL ECONOMIC INDICATORS

UK GDP (*link*): The UK economy in October expanded at its weakest pace since it began recovering from its pandemic-related plunge—slowing to a near standstill before the November lockdown was imposed. Real GDP climbed 0.4% in November, its sixth successive gain, though pales in comparison to the average monthly gain of 4.4% the prior five months; it's 7.9% smaller than it was before the pandemic. The service sector, which accounts for roughly 80% of the economy, was at a standstill in October, ticking up only 0.2% after a five-month gain of 20.6%. It's nearly 9% below where it was pre-Covid. Within the service sector, travel agents, hotels, pubs & restaurants, and the creative arts were the hardest hit. Growth in the manufacturing sector accelerated in October, up 1.7%, following gains of 0.2% and 0.9% the prior two months; it's advanced 32.9% the past six months to within 6.6% of its pre-Covid reading. Construction is 6.4% below pre-virus level; it increased 1.0% in October and 68.4% the past six months.

UK Industrial Production (*link*): Output rose for the sixth month, expanding 1.3% in October—accelerating from gains of 0.4% and 0.2% the prior two months; it's up 24.6% during the six months through October to within 4.4% of its pre-pandemic level. Production had contracted a record 23.3% during the two months ending April. Factory production expanded at a three-month high of 1.7% during October after gains of 0.1% and 0.9% during September and August, respectively; it's rebounded 32.9% since bottoming in April. Here's the six-month performance by the main industrial groupings, and where they stand relative to their respective pre-pandemic highs: capital (48.2% & -11.6%), intermediate (44.5 & -1.9), and consumer durable (31.7 & -8.5) goods, and consumer nondurable (8.1 & -3.8)—with the latter weakening in recent months.

France Industrial Production (*link*): Production advanced for the sixth month in October, with the pace accelerating for the second month, though considerably below the double-digit gains posted during May and June. Output increased 1.6% in October and 46.5% over the six-month period to within 3.6% of its February peak. Manufacturing production climbed 0.6% and 51.5% over the comparable periods, and is 5.0% below its pre-pandemic level. Consumer durable goods (326.6%) production posted the strongest six-month gain, followed by capital (77.5) goods, though output in the former has dipped 2.7% the past two months, while capital goods (-0.4) production took a small step back in October. Meanwhile, intermediate and consumer nondurable (15.1) good production didn't break stride—up 55.7% and 20.7%, respectively, during the six months through October. Here's a look at where each industrial grouping stands compared to their February pre-pandemic readings: consumer nondurable goods (-0.6), consumer durable goods (-5.5%), intermediate goods (-5.8), and capital goods (-7.8). HIS Markit's November manufacturing survey revealed a fresh deterioration in the health of the French manufacturing sector, as the country faced new Covid-related restrictions. The M-PMI dropped back below the breakeven point between contraction and expansion, falling to 49.6 last month after climbing from 49.8 in August to 51.3 by October.

Italy Industrial Production (*link*): Italy's industrial production started to climb again in October following a sharp drop in September; it had surpassed its pre-Covid level in August. Headline output rose for the fifth time in six months, rebounding 1.3% in October after plunging 5.1% in September; it's up 69.6% the past six months to within 3.4% of its pre-pandemic level. Manufacturing output advanced 1.4% in October and 78.8% during the six months ending October; it was 3.7% below its current level before the pandemic hit. All the industrial sectors moved higher following September setbacks; here's a look at their increases in October and during the six months through October: consumer durable goods (3.5% & 650.0%), capital goods (2.6 & 107.9), intermediate goods (1.3 & 81.3), and consumer nondurable goods (0.2 & 31.5). November's IHS Markit survey showed that stricter Covid-related measures caused manufacturing activity to lose momentum last month, though, unlike in France, it continued to expand. The M-PMI slipped to 51.5 last month, after climbing steadily from 31.1 in April to 53.8 by October—which was the highest since March 2018. According to the report, "A softer expansion of factory production and a renewed fall in order book volumes were responsible for the downwards movement in the headline figure. The rate of output growth was the slowest since June and only marginal overall."

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

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