Yardeni Research

MORNING BRIEFING
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Socialism, Materials, and Drones

Check out the accompanying chart collection.

(1) The Blue Wave makes a splash. (2) Without gridlock, expect even more federal spending and mounting deficits. (3) The market has rallied almost as much during Blue Waves as it has during gridlock. (4) Hoping centrist Senator Joe Manchin (D-WV) will stymie the Socialists. (5) Mutant variants of Covid-19 may be troublesome. (6) Materials' broad-based rally continues into 2021. (7) Weak dollar and strong industrial production in China and the US send commodity prices higher. (8) Last year's corporate cost cutting should boost this year's earnings growth. (9) Drones making deliveries, fighting crime, and playing lifeguard.

Strategy: Here Comes the Blue Wave. The Blue Wave made a big splash as Tuesday's Georgia election results, reported late yesterday afternoon, showed that both of the state's seats for the US Senate were won by the two Democratic candidates. A tsunami of socialist policies implemented by progressives in the Democratic party is now likely. A Blue Wave led by the incoming Biden administration, unimpeded by gridlock, certainly represents a radical regime change from the Trump administration. It is likely to be much more radical than the regime change led by the Obama administration. That's because the Democrats in Congress are much more radical in their left-leaning political views than ever before.

The Democrats' win in Georgia could be bad news for entrepreneurial capitalism and for the stock market as well if the radical regime change causes a recession. That's unlikely to be the case in 2021. Granted, the 10-year US Treasury bond yield pushed above 1.00% early yesterday on preliminary news that the Republicans lost one of the two contested elections. Melissa and I previously argued, even before last year's elections, that the yield would be closer to 2.00% than 1.00% but for the Fed's intervention in the bond market.

Our analysis was based on the strong post-lockdown rebound in economic activity and the swelling post-CARES Act federal budget deficit rather than on a prediction of a regime change in Washington, DC. Now that the Blue Wave has prevailed, government spending will continue to boost economic activity, and federal deficits will continue to mount. And, most importantly, the Fed is likely to continue to buy notes and bonds in an effort to keep a lid on bond yields.

In other words, the Fed is likely to enable our deficit-financed government to get bigger under the Blue Wave regime. The Clinton administration was famously checked and balanced by the Bond Vigilantes. The Fed is implicitly assuring the incoming Biden administration that monetary policy will keep them buried.

Now consider the following related observations about the stock market:

(1) *Socialism isn't necessarily bearish.* Significant declines in stock prices are caused by recessions, not by socialist regime changes, unless they are so radical that they cause a recession. Socialism may be bad for entrepreneurial capitalism, but it provides fertile ground for crony capitalism. That's as long as it doesn't lead to communism. Under socialism, private property remains mostly private. Under communism, there is no private property; everything is owned by the state. In either system, the government gets bigger. Under socialism, the ruling regime enacts more laws and regulations that force businesses to manage their affairs increasingly to satisfy their socialist overseers rather than their capitalist shareholders.

(2) *Betting on crony capitalists.* In other words, making deals with the government matters as much as or more than competing in the market. That's the fundamental nature of crony capitalism. Businesses become bigger and more politicized as the government gets bigger and more radicalized.

That's not necessarily bearish for the stock market. However, it does mean that assessing the impact of government policymaking on business becomes as important or more important than traditional analysis of company fundamentals. Spreadsheets for individual corporations need to include columns for the number of lobbyists employed, percentage of business done with the government, cost of regulation, and so on.

(3) *And the winner is ...* Previously, in our November 2, 2020 *Morning Briefing*, we observed that gridlock tends to be more bullish for stocks than a united government. We analyzed the performance of the S&P 500 under unified and divided government since FDR took office (*Fig. 1*). We calculated the percentage increases in the index from January-through-December periods during the two alternative regimes. We 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.

So not surprisingly, on Monday, stock prices fell because the Blue Wave is coming. Yet on Wednesday, they rose because the Blue Wave is even more likely to come! Go figure. If gridlock turns out to be the loser in Georgia's elections on Tuesday, then the winner will surely be $2,000 stimulus checks.

(4) *Meet the other Joe, again.* Or else, investors figure Senator Joe Manchin (D-WV) will defend gridlock to the death. Melissa and I introduced him to you in our November 16 *Morning Briefing*. We wrote: "If the Democrats pull an upset and get both seats, Joe Manchin could be the most important person in America. He is the Democratic senator from West Virginia. He is viewed as a conservative Democrat and has championed bipartisanship.

On Monday, November 9, Joe Manchin was interviewed by Fox News. He said: '50-50 [control] means that if one senator does not vote on the Democratic side, there is no tie and there is no bill.' He added: 'I commit to tonight and I commit to all of your viewers and everyone else that's watching, I want to allay those fears, I want to rest those fears for you right now because when they talk about, whether it be packing the courts or ending the filibuster, I will not vote to do that.'

"He continued saying that the 'Green New Deal' and 'all this socialism' was 'not who we are as a Democratic Party.' He remarked: 'We've been tagged if you've got a D by your name, you must be for all the crazy stuff and I'm not.'"

(5) *The virus has mutant relatives.* While our country has been ripped in half by partisanship, Covid-19 is totally nonpartisan. While we are fumbling the distribution of the vaccine, the virus is mutating. The UK variant (known as "B.1.1.7") that started spreading late last year has been estimated to spread about 50%-70% faster than the unmutated virus but is likely to be vulnerable to the available vaccines. However, the vaccines designed to combat Covid-19 might not work as well against the new South African variant (known as "501.V2"). (See the January 5 article in *The Scientist* titled "South African SARS-CoV-2 Variant Alarms Scientists.")

Materials: Shining Brightly. The number of people in US hospitals due to Covid-19 continues to break new records, but the stock and commodity markets appear confident that life will improve as the vaccine rolls out and the year progresses. A diverse array of commodities is on a tear. Copper has broken out to levels last seen in 2012, lumber has jumped 122% over the past year, and soybeans have rallied 41%. Even oil has gushed 177% from its 2020 lows, helped by OPEC production cuts.

The moves have been sharp enough and broad based enough to prompt talk of a commodities super-cycle. The last cycle in the early 2000s was fueled by China's urbanization. This time around, China's economic recovery is bolstering demand, along with a US housing boom and the production of electric vehicles and renewable energy sources to reduce carbon dioxide emissions. The push toward a greener economy should accelerate if President-elect Joe Biden is working with a Democratic-controlled Congress. Goldman Sachs, one member of the super-cycle camp, forecasts the price of copper rising to $9,500 per tonne, up from a recent $7,935, a January 5 Reuters article reported.

Shares of companies in the S&P 500 Materials and Energy sectors are flying high early in this new year. The S&P 500 Copper industry is the best-performing S&P 500 industry we track both ytd, up 9.0%, and y/y, up 121.6%. Not far behind is the S&P 500 Gold industry, up 5.9% ytd and 48.1% y/y. They're showing up tech stalwarts like Technology Hardware, Storage & Peripherals (-1.3% ytd and 70.0% y/y) and Internet & Direct Marketing Retail (-1.1, 64.5)

The surge in commodity-related stocks has turned the Materials and Energy sectors into top performers as 2021 opens. Here's the ytd performance derby for the S&P 500 sectors through Tuesday's close: Energy (4.7%), Materials (1.3), Health Care (0.1), Consumer Discretionary (-0.3), S&P 500 (-0.8), Financials (-1.0), Consumer Staples (-1.1), Information Technology (-1.1), Communication Services (-1.2), Industrials (-1.6), Utilities (-2.6), and Real Estate (-3.4) (*Fig. 2*).

Let's start the year by taking a look at some of the fundamentals driving the outperformance of the S&P 500 Materials sector:

(1) *China economy says: What virus?* The Great Virus Crisis may have originated in China, but it has quickly become a distant memory there. Chinese GDP did fall 43.0% in Q1 as the economy shut down to stem the spread of Covid-19, but economic growth quickly resumed as the economy reopened. The country's GDP surged 49.5% during Q2 and continued to expand during Q3, by 12.8% (*Fig. 3*).

Economic activity was bolstered by a jump in industrial production, which rebounded from a 13.5% y/y decline in January and February to a 7.0% rise in November (*Fig. 4*). Retail sales also climbed 5.0% y/y in November, a sharp recovery from the 15.8% decline in March (*Fig. 5*). And the country's MSCI share price index rose y/y through Tuesday's close, by 28.1%, as did the CRB Metals index, which is up 22.2% y/y (*Fig. 6*).

(2) *US: Optimistic signs.* Unlike China, the US has continued to struggle with Covid-19. Nonetheless, US manufacturing has rebounded as US consumers have spent more on goods since many services are unavailable. As we mentioned in yesterday's *Morning Briefing*, the US purchasing managers indexes continued to rebound in December, with the total index hitting 60.7 and new orders coming in at a strong 67.9 (*Fig. 7*).

Among the bigger-ticket items, US homes and cars have been selling strongly as deurbanization continues. The National Association of Home Builders' Housing market index remains near record highs in December, helped by many interested buyers, low new home inventories, and low mortgage rates (*Fig. 8*). New home buyers looking to put a car in their garage undoubtedly helped US auto sales, which was at 16.4mu (saar) in December, down 4.3% y/y but up sharply from April's 8.7mu, when they crashed because of the Covid-19 economic shutdown (*Fig. 9*).

The weak US dollar is also abetting the strength in commodity prices. The trade-weighted dollar, as measured by the JP Morgan effective exchange rate, is 117.4, down 12% since its peak on March 23 (*Fig. 10*). That helps boost the purchasing power of foreign buyers of dollar-denominated commodities. We'll certainly be watching for any reversal in the dollar's value.

(3) *Enjoying a material benefit.* All this economic activity—both at home and in China—combined with the weak dollar has meant a banner year for many companies selling commodities. The industries in the S&P 500 Materials sector are expected to have some of the strongest 2021 earnings growth in the S&P 500, which itself is expected to post earnings growth of 22.8% this year.

Here are the 2021 earnings growth estimates for the S&P 500 Materials industries: Copper (295.8%), Commodity Chemicals (74.7), Gold (71.5), Fertilizers & Agricultural Chemicals (31.8), Diversified Chemicals (20.9), Paper Packaging (16.3), Specialty Chemicals (15.9), Metal & Glass Containers (14.2), Industrial Gases (12.3), Steel (8.1), and Construction Materials (2.9).

When Covid-19 hit the US early in 2020, many companies went into survival mode, cutting costs sharply. The lower costs combined with the surprising resurgence in some businesses has resulted in much better bottom-line growth in the second half of 2020 than most anyone expected last spring. Copper and gold producer Freeport-McMoRan's CEO Richard Adkerson said in the company's October 22 Q3 earnings conference call that at the end of April the company announced plans to "take steps to reduce cost—capital cost, operating cost, and G&A cost—[and] suspend some low margin production. And we put those plans in place and we really went after them in an aggressive way and it served us well."

Lower costs and the higher price of copper and gold helped Freeport post Q3 earnings of 29 cents a share compared to a loss in the year-ago quarter. The Q3 results beat analysts' forecasts by eight cents, and analysts have been boosting their estimates steadily over the past three months both for Q4 and Q1. Three months ago, Wall Street analysts forecast Q4 earnings of 26 cents a share for the company. Today, the Q4 estimate stands at 33 cents.

Investors have pounced, sending shares of the S&P 500 Materials' industries up ytd and y/y as follows (both through Tuesday's close): Copper (9%, 121.6%), Gold (5.9, 48.1), Fertilizers & Agricultural Chemicals (1.7, 19.4), Steel (1.7, -0.6), Diversified Chemicals (1.1, 33.5), Specialty Chemicals (1.1, 19.8), Industrial Gases (0.9, 27.1), Commodity Chemicals (0.6, 4.3), Construction Materials (-0.8, 2.9), Paper Packaging (-1.0, 13.3), and Metal & Glass Containers (-2.7, 39.9) (*Fig. 11* and *Fig. 12*).

Disruptive Technologies: Drones Going Mainstream. New technologies often require new regulations. Drones aren't an exception. The Federal Aviation Administration recently issued a new rule requiring that by 2023 all drones weighing more than 0.55 pound broadcast the location of both the drone and the operator. The new rule is a big jump from current regulations, which requires only that drones have a sticker with identifying information on it and that operators keep an eye on their drones in flight.

Those concerned about privacy aren't happy about the rule, but there does seem to be a need for more regulation, as the use of drones is expanding rapidly. Let's take a look at how more companies have started using drones for delivery, law enforcement, lifeguarding, and golf:

(1) *Drones making deliveries.* Walmart is among the companies experimenting with how drones can make the last mile of deliveries faster, easier, and less expensive. The company

received approval to build and use a 25-foot-high drone launch platform in Pea Ridge, AK at a Walmart Neighborhood Market. The retailer is working with Zipline, a drone logistics company, to allow customers to order via app and track delivery via drone. Health and wellness and off-the-shelf items are available for delivery, but not prescriptions, a January 6 *Arkansas Democrat Gazette* article reported.

The drones—which have a 10-foot wingspan and can carry packages up to 3.9 pounds—will request permission from local air traffic controllers to launch. Drones will fly 300-400 feet in the air, and the "noise level is loudest at launching, but will not be loud enough to be distracting to nearby residents," the paper stated. Walmart also used drones this fall in North Las Vegas, NV; El Paso, TX; and Cheektowaga, NY to deliver Covid-19 self-collection test kits to customers' homes. UPS, Amazon, Alphabet, and others are working to make drone delivery a reality.

(2) *Drones affecting architecture.* With an eye on the future, architects and builders are thinking about incorporating drone landing spaces into our homes and buildings. Landing spots could be "mounted on curbside mailboxes, built onto rooftops, or perched on windowsills," a December 5 *WSJ* article reported. Alternatively, neighborhoods could designate specific areas for drone traffic and drop-offs.

Likewise, apartment buildings and condos might need landing platforms on their roofs. Walmart "submitted a patent application for a delivery chute mounted onto an apartment building. Drone deliveries would be dropped through the chute and onto a conveyor belt, which would transport packages into the building's mailroom for distribution," the *WSJ* explained.

(3) *Drones fighting crime, saving swimmers, and playing golf.* The bird's eye view provided by drones is proving useful in numerous situations. In Nottinghamshire, UK, the police and fire departments share a drone unit that includes three drones and 17 pilots. Since launching at the start of 2020, drones have "helped to locate 12 high risk missing people and supported in the arrest of 51 criminal suspects," a December 11 West Bridgford Wire article reported. One of the drones has a high-powered thermal imaging camera used when searching for missing people. The drones also help the fire department gather information about the scale and spread of a fire.

Drones will be used on Spain's Costa del Sol to help lifeguards save struggling swimmers. Drones will carry two life vests that inflate when they hit the water, a June 18 article in *The*

Daily Mirror reports. The drones, which can operate in high winds, can reach swimmers faster than lifeguards. Drones are also being used on beaches around the world to keep an eye out for Jaws. In California, SharkEye drones fly about 120 feet above the ocean to locate any sharks and then send a text to people who have signed up for alerts, a November 20 *NYT* article explained. The footage is entered into a computer model that uses artificial intelligence in the hopes of predicting when and where sharks will appear.

On a lighter note, Michael Jordan's new golf course in Florida is using drones to deliver beverages to those who can't wait until reaching the 18th hole. A video of a drone delivering beer and snacks is on this December 9 Insider article. While novel and entertaining, the drone is awfully loud. Nonetheless, it gives a whole new meaning to getting "a birdie" on the links.

CALENDARS

US: Thurs: Balance of Trade -$65.2b, Initial & Continuous Claims 800k/5.2m, ISM NM-PMI 55.0, EIA Natural Gas Storage, Harker, Evans. **Fri:** Nonfarm Payrolls Total, Private, and Manufacturing 100k/100k/20k, Unemployment Rate 6.7%, Average Hourly Earnings 0.2%m/m/4.4%y/y, Average Weekly Hours 34.8, Consumer Credit $9b, Wholesale Inventories -0.1%, Baker-Hughes Rig Count, Clarida. (DailyFX estimates)

Global: Thurs: Eurozone Retail Sales 0.8%m/m/-0.2%y/y, Eurozone Economic Sentiment 90, Eurozone Headline & Core CPI Flash Estimates -0.2%/0.2% y/y, Germany Factory Orders -1.2%, ECB Economic Bulletin. **Fri:** Eurozone Unemployment Rate 8.5%, Germany Industrial Production 0.7%, France Industrial Production -1.0%, Italy Unemployment Rate, Canada Employment Change & Unemployment Rate -27.5k/8.6%, Japan Leading & Coincident Indicators. (DailyFX estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators (*link*): The Bull/Bear Ratio (BBR) fell to 3.44 this week after ending 2020 at 3.71; it's been above 3.00 since the week of November 10. Bullish sentiment dropped to 60.2% this week, falling steadily since the 64.7% reading at the end of November. Meanwhile, bearish sentiment (to 17.5% from 16.8%) moved higher this week, though is only 1.3ppt above the 2.5-year low of 16.2% recorded during the September 8 week. The correction count climbed from 20.8% to 22.3% this week; in late November, the percentage was at 18.2%—which was the lowest since December 2006. The AAII Ratio fell to 63.2% during the final week of 2020, after rising from 62.3% to 66.5% the prior week. Bullish sentiment rose for the second week from 43.4% to 46.1%, while bearish sentiment climbed to 26.8% after dropping the prior two weeks from 26.9% to 22.0%.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The rapid pace of Covid-19 estimate cuts has turned into a V-shaped recovery as analysts continue to play catch-up from their lowball estimates prior to the better-than-expected Q2 and Q3 earnings seasons. Consensus S&P 500 forecasts had been falling at rates paralleling the declines during the 2008-09 financial crisis. Forward revenues is now at its highest level since early March and is just 2.7% below its record high in mid-February. Forward earnings is at its highest level since mid-March and is now 7.1% below its record high in early March. Forward revenues growth of 8.1% is the highest since April 2011 and is up from 0.2% in April, which was the lowest reading since June 2009. Forward earnings growth of 22.6% was up 0.1ppts w/w to its highest level since July 2010 and has risen 28.2ppts from its record low of -5.6% at the end of April. Analysts expect revenues to decline 3.0% y/y in 2020 and rise 8.1% in 2021 compared to the 4.3% reported in 2019. Analysts expect an earnings decline of 15.3% y/y in 2020 and a 22.8% gain in 2021 compared to a 1.5% rise in 2019. The forward profit margin was steady w/w at 11.4%; that's the highest reading and up 1.1ppt from 10.3% during April, which was the lowest level since August 2013. It's still down 1.0ppt from a record high of 12.4% in September 2018. Analysts expect the profit margin to fall 1.5ppt y/y in 2020 to 10.0%—from 11.5% in 2019—and to improve 1.4ppt y/y to 11.4% in 2021. Valuations dropped for a third straight week from six-week highs in mid-October. The S&P 500's weekly forward P/E rose 0.3pt w/w to 22.7, which compares to a six-month low of 20.6 at the end of October. That compares to 23.1 in early September, which was the highest level since July 2000 and up from a 77-month low of 14.0 in mid-March. The S&P 500 price-to-sales ratio rose 0.03pt w/w to a new record high of 2.59. That compares to its prior record high of 2.53 at the beginning of September and is up from the 49-month low of 1.65 in mid-March.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*): Last week saw consensus forward revenues rise w/w for six of the 11 S&P 500 sectors and forward earnings rise for eight. Energy had both measures rise markedly this week. Due to the sharp decrease in forward earnings this year, forward P/E ratios for nearly all sectors now are back above their recent record or cyclical highs prior to the bear market. During 2019, just two sectors' margins improved y/y: Financials and Utilities. Tech and Utilities are the only sectors expected to have an improved profit margin in 2020, whereas back in early March eight sectors were expected to see margins improve y/y. All but Real Estate are expected to improve during 2021. The forward profit margin rose to record highs during 2018 for 8/11 sectors, all but Energy, Health

Care, and Real Estate. Since 2018, it has moved lower for nearly all the sectors. The forward profit margin rose for Consumer Discretionary, Energy, and Real Estate in the latest week. Real Estate has been improving in recent weeks from its lowest level since January 2012 and Energy from its record low. Here's how the sectors rank based on their current forward profit margin forecasts versus their highs during 2018: Information Technology (22.4%, down from 23.0%), Financials (15.5, down from 19.2), Utilities (14.3, record high), Communication Services (13.9, down from 15.4), Real Estate (12.7, down from 17.0), S&P 500 (11.4, down from 12.4), Health Care (10.7, down from 11.2), Materials (10.7, down from 11.6), Industrials (8.7, down from its record high of 10.5% in mid-December), Consumer Staples (7.5, down from 7.7), Consumer Discretionary (6.6, down from 8.3), and Energy (3.1, down from 8.0).

S&P 500 Sectors Forward Revenues and Earnings Recovery from Covid-19 Trough (*link*): The S&P 500's forward revenues and earnings, as well as its implied forward profit margin, bottomed at cyclical lows on May 28 after 14 weeks of Covid-19-related declines. Since then, S&P 500 forward revenues has risen 5.8%, forward earnings has gained 18.0%, and the forward profit margin has risen 1.3pt to 11.5%. Among the 11 sectors, all but Real Estate posted new post-Covid-19 highs during the last two weeks in either their forward revenues, earnings, or profit margin. The major laggards from their pre-Covid-19 highs: Energy, Financials, Industrials, and Real Estate. However, Energy appears to be on an upswing now. Here's how the 11 sectors rank by their changes in forward revenues and forward earnings since May 28: Communication Services (forward revenues up 9.5%, forward earnings up 14.2%), Information Technology (9.4, 12.8), Materials (8.5, 31.9), Industrials (8.2, 28.4), Financials (7.7, 24.7), S&P 500 (5.8, 18.0), Health Care (5.9, 13.7), Consumer Staples (3.9, 8.7), Energy (2.3, 445.8), Real Estate (-0.2, -11.2), Utilities (-1.1, 2.0), and Consumer Discretionary (-1.4, 39.7%). Tesla's addition to the S&P 500 on 12/21 caused revenue and earnings forecasts to fall for the index and the Consumer Discretionary sector. Before then, S&P 500 revenues were up 7.1% and earnings 19.6%. The similar readings for Consumer Discretionary then were 11.2% and 39.7%, which would have ranked the sector first in the revenues derby instead of last.

US ECONOMIC INDICATORS

ADP Employment (*link*): "As the impact of the pandemic on the labor market intensifies, December posted the first decline since April 2020," said Ahu Yildirmaz, vice president and co-head of the ADP Research Institute. "The job losses were primarily concentrated in retail and leisure and hospitality." December employment fell 123,000 following revised gains of 304,000 and 409,000 during November and October, respectively, which were little changed from the initial estimates of 307,000 and 404,000. December's decline followed a 10.0 million gain over the seven months through November; employment remains a sizeable 9.8 million below February's record high. Service-providing industries shed 105,000 jobs last month, with leisure & hospitality cutting employment 58,000 and trade, transportation, and utilities 50,000 (driven by retail trade). Goods producing employment fell 18,000 last month—all manufacturing (-21,000)—with construction adding 3,000 jobs and natural resources/mining holding payrolls steady. By company size, large (-147,000) and small (-13,000) companies cut jobs for the first time since April, while medium (37,000) sized companies continued to add to payrolls. Here's a tally of industry performances from strongest to weakest during the eight months through December, and where they stand relative to February's levels: leisure & hospitality (+3.7 million & -4.0 million), trade transportation & utilities (+1.6 million & -1.6 million), health care & social assistance (+1.2 million & -838,000), construction (828,000 & -170,000), other services (+764,000 & -516,000), manufacturing (+736,000 & -595,000), administrative & support services (+663,000 & -903,000), professional & technical services (+197,000 & -342,000), education (+149,000 & -311,000), financial activities (+ 119,000 & -142,000), management of companies & enterprises (-17,000 & -100,000), natural resources & mining (-23,000 & -77,000), information services (-36,000 & -297,000). Here's the same exercise by company size: Large (+3.8 million & -5.5 million), small (+3.6 million & -1.8 million), and medium (+2.5 million & -2.5 million) businesses.

Auto Sales (*link*): Motor vehicle sales in December moved back toward September's seven-month high, rebounding to 16.4mu (saar), after falling the prior two months from 16.5mu in September to 15.9mu in November; sales had climbed steadily from April's record low of 8.7mu through September. Sales were at 17.0mu before the pandemic hit. Domestic light truck sales sped up from 9.2mu in November to 9.9mu (saar) last month, back up at September's pace—which was only a tick below its peak rate of 10.0mu at the start of the year; sales were at a cyclical low of 5.3mu in April. Meanwhile, domestic car sales remain in a rut, ticking down to 2.7mu (saar) in December—only 1.2mu above April's record low of 1.5mu. Sales of imports have recovered virtually all of their Covid-related declines, holding at 3.8mu (saar) in December—not far from February's 3.9mu; sales were at 2.0mu in April.

GLOBAL ECONOMIC INDICATORS

Global Composite PMIs (*link*): Global economic activity remained resilient in December, as the C-PMI held close to October's 26-month high, with both the manufacturing and service sectors retaining most of their recent rebound. The JP Morgan Global Composite Output Index (C-PMI) slipped negligibly for the second month to 52.7 in December, after climbing from 26.2 in April to a 26-month high of 53.3 in October. The Global M-PMI rebounded steadily from April's record low of 39.6 to a 33-month high of 53.8 in November—holding at that level in December—while the NM-PMI slipped for the second month to 51.8 in December after an uninterrupted rebound from 23.7 in April to a 19-month high of 52.9 in October. The C-PMIs for both the emerging and advanced economies also held near recent highs. The C-PMI for the emerging economies dipped to 54.1 in December after improving the prior seven months from 34.6 in April to 54.9 by November, while the C-PMI for advanced economies edged down for the second month to 52.0 after climbing steadily from 22.2 in April to 52.8 in October. Five out of the six sub-industries covered by the survey registered increased output last month—with the financial services and intermediate goods sectors the only ones to record faster expansions (to 106- and 118-month highs, respectively); output continued to expand in the consumer goods, investment goods and business services sectors, though at a slower rates. In contrast, consumer services activity contracted for the 11th consecutive month—at the fastest pace since June. From a country prospective, C-PMIs in Australia (to 56.6 from 54.9), China (55.8 from 57.5), Ireland (53.4 from 47.7), Germany (52.0 from 51.7), and the UK (50.7 from 47.4) all showed an acceleration in growth—with both Ireland and the UK moving from contraction to expansion. C-PMIs for both the US (to 55.3 from 58.6) and India (54.9 from 56.3) showed slower, but still robust, growth in December. C-PMIs showed activity in the Eurozone (to 49.1 from 45.3) continued to contract, though climbed close to the breakeven point between contraction and expansion—led by France (49.5 from 40.6) and Spain (48.7 from 41.7). Growth in Italy (43.0 from 42.7), Japan (49.5 from 48.1), and Russia (48.3 from 47.8) continued to contract, though as slower rates, with the latter two moving closer to 50.0.

Global Non-Manufacturing PMIs (*link*): December saw the rate of growth in the global services economy slow negligibly for the second month after expanding in October at its best pace in 19 months. Last month's Global NM-PMI ticked down for the second month, to 51.8, after edging up from 52.0 in September to 52.9 in October—moving sideways around recent highs. It was at a record low of 23.7 in April and 52.7 at the start of the year. According to the report, incoming new business continued to expand, despite a further decline in new export orders, while the sector added to payrolls for the fifth consecutive month. Meanwhile, cost inflation accelerated to the highest pace since September 2008, leading to a further solid increase in output charges. By country, activity continued to expand in Australia (to 57.0 from 55.1), China (56.3 from 57.8), the US (55.3 from 58.6), India (52.3 from 53.7), Brazil (51.0 from

50.9), and Ireland (50.1 from 45.4)—with the latter moving out of contractionary territory. Meanwhile, the service sector continued to contract in the UK (49.4 from 47.6), France (49.1 from 38.8), Spain (48.0 from 39.5), Russia (48.0 from 48.2), Japan (47.7 from 47.8), Germany (47.0 from 46.0), and Italy (39.7 from 39.3)—with all but Italy close to the 50.0 breakeven point.

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