MORNING BRIEFING
April 1, 2021

Old Economy Rocking & Rolling

We wish all our readers a happy and healthy Passover and Easter.
The next *Morning Briefing* will be on Tuesday, April 6.

Check out the accompanying chart collection.

(1) Materials and Industrials rock on. (2) Biden's infrastructure bill and economic recovery keep the party going. (3) Steel and copper prices near highs. (4) Analysts scramble to raise steel industry earnings for this year, but aren't planning on high prices sticking around into 2022. (5) European surge in Covid cases may taper enthusiasm for the metals. (6) Behind bitcoin and CryptoKitties, there's a blockchain doing the work. (7) Large companies and upstarts help enterprises deploy blockchain technology.

Materials: The Party Is Raging. Stocks in the S&P 500 Materials and Industrials sectors didn't wait for President Joe Biden's $2.25 trillion infrastructure bill, unveiled yesterday, to start rallying. They are among the best-performing sectors ytd in the S&P 500 index, having anticipated both the post-Covid economic recovery and the trillions of dollars that might be funneled into infrastructure spending.

Investors' optimism is evident in the performance derby for the S&P 500 sectors' returns ytd through Tuesday's close: Energy (30.5%), Financials (16.4), Industrials (11.4), Materials (9.1), Real Estate (8.9), Communication Services (7.4), S&P 500 (5.4), Health Care (2.6), Consumer Discretionary (2.1), Utilities (1.3), Consumer Staples (0.9), and Information Technology (0.2) (*Fig. 1*).

The ebullient enthusiasm for all things infrastructure is even more apparent when looking at the S&P 500 sectors' returns for the month of March through Tuesday: Utilities (9.4%), Industrials (9.2), Consumer Staples (8.2), Materials (7.8), Real Estate (6.9), Financials (6.6), S&P 500 (3.9), Energy (3.7), Health Care (3.6), Communication Services (2.7), Consumer Discretionary (2.7), and Information Technology (0.1) (*Fig. 2*).

To really see fireworks, look no further than the S&P 500 Steel stock price index: It's up 51.1% ytd through Tuesday's close, making it the top-performing industry we track (*Fig. 3*). Not far behind is Agricultural & Farm Machinery, up 39.0% ytd (*Fig. 4*). The S&P 500 Copper stock price index has jumped 25.6% ytd, and the S&P 500 Construction Machinery & Heavy Trucks stock price index has gained 20.9% in just the first three months of the year (*Fig. 5* and *Fig. 6*).

Let's take a look at what's driving all this enthusiasm:

(1) *Positive data keep rolling in.* Upbeat economic data continue to bolster the idea that the economic recovery will continue. The Chicago region's Purchasing Managers Index (PMI) climbed to 66.3 for March, up from 59.5 in February and the highest reading in more than two years (*Fig. 7*).

The Chicago PMI's March production reading jumped to 72.0, new orders hit 62.3, and employment rose above 50.0 (to 54.6) for the first time since June 2019. The only areas of concern in the March Chicago PMI involved prices and backlogs. Prices paid jumped to 80.4, a reading last seen in August 2018. Order backlogs was at 57.0, not far from February's 63.0, which was the highest since October 2017. Other regional PMI results were also positive in March, indicating that the national PMI should follow suit and rise in March (*Fig. 8*).

(2) *Steel prices surging.* If President Biden's infrastructure bill makes it through Congress, US steel mills will be busy. He's proposing to spend $621 billion to modernize transportation infrastructure, $300 billion to boost the manufacturing industry, $213 billion to retrofit and build affordable housing, and $100 billion to expand broadband access, among other goodies, a March 31 *WSJ* article reported. Add fiscal spending to a strong Covid-fueled economic rebound, and it's no wonder steel and copper stocks are rallying.

US Midwest hot-rolled coil steel futures prices have doubled in the past five months to $1,277 per ton (*Fig. 9*). Today's prices are the highest they've been over the past decade and reflect a sharp recovery from last spring, when prices cratered to the mid-$400s per ton. Steel prices have plateaued in the past month, perhaps because resurgent Covid-19 cases in Europe renewed fears of future shutdowns.

But if steel prices can just hold onto their gains, steel companies stand to roll in the dough. Analysts are calling for US Steel to earn $3.83 a share in 2021, up from a loss of $5.92 a share in 2020. Only recently have analysts boosted their expectations for the company's earnings potential this year. Just a month ago, their earnings forecast was only $2.06 a share, and three months ago they forecast a slight loss for the company.

US Steel shares are 53.6% higher ytd and up 306.2% y/y through Tuesday's close. The company pounced on the rally in its stock and sold 48.3 million shares of new stock in the public markets in February.

Analysts aren't counting on high steel prices sticking around for long. Nucor is the sole constituent of the S&P 500 Steel industry, and analysts are calling for the company's revenue to grow 37.6% this year but drop 12.7% next year (*Fig. 10*). Likewise, earnings are expected to recover 162.3% this year, only to fall 52.8% in 2022 (*Fig. 11*). The industry's forward P/E has tumbled to 9.2, down from 20.4 in May, as investors are also betting that the company's strong earnings this year won't be around for long (*Fig. 12*).

(3) *Copper partying too.* Copper started to rally earlier than steel, in late March of last year, but its move up has been just as sharp. The price of copper futures has risen 88% since its March 23 low. And only recently has the excitement cooled a bit, with copper futures 7% off their February 24 peak (*Fig. 13*).

The copper price got a boost early last year as the material is used in electric vehicles and housing, two areas that defied the Covid-19 economic slowdown. It has continued to rally as the Chinese and US economies revived and as the Biden infrastructure package took shape. Bulls have to question what additional good news could move the commodity's price higher.

Shares of Freeport-McMoRan, the sole constituent in the S&P 500 Copper industry, have rallied in step with the copper price. After surging through most of 2020, Freeport shares peaked in February at $38.08 and closed yesterday at $32.97. As with steel, Freeport's price action could reflect concern about the impact that a Covid-19 resurgence in Europe could have on the world economy. Or perhaps after the infrastructure reveal, investors are acting on the old market credo "buy the rumor, sell the news."

Analysts are optimistic about the prospects of Freeport-McMoRan, with earnings forecast to jump from $0.41 a share in 2020 to $2.47 a share this year and $2.85 a share in 2022, before they fall a back a bit the following year (*Fig. 14*). As with the steel industry, analysts have been ratcheting up their estimates, also over the past 10 months (*Fig. 15*). Likewise, the forward P/E of the S&P 500 Copper industry has fallen as earnings have risen (*Fig. 16*).

After such a strong rally over the past year, investors in copper- and steel-related investments might be wise to recall another old saying: "The cure for high commodity prices is high commodity prices."

Disruptive Technologies: Blockchain's Renaissance. Almost everyone knows of bitcoin, with the cryptocurrency's 69% ytd surge regularly making headlines (*Fig. 17*). Likewise, nonfungible tokens, or NFTs, have recently captured the public's attention, including the $69 million paid for an NFT of Beeple's digital artwork.

But behind the headlines and big dollars is the blockchain. And while the blockchain platforms remain opensource and free to the world, teams of software developers and consultants have created businesses—large and small, public and private—based on harnessing the blockchain. Most recently, the industry has combined the power of the blockchain with the power of cloud computing to offer blockchain services more simply and cheaply. Blockchain users now include financial services companies tracking transactions, industrial companies tracking parts and supply chains, and shipping companies tracking packages, along with many others. Here's Jackie's look at the burgeoning ecosystem:

(1) *Money-making NFTs.* It turns out that almost anything digital can be monetized. People have purchased digital images of kittens, clips of the best NBA dunks, music, tweets, and our favorite: images from actor William Shatner's life. All of these digital items have been sold using NFTs, and an ecosystem of small startups is enabling the trend.

For example, the band Kings of Leon will release an album as an NFT developed by Yellowheart. Yellowheart is also working to digitize concert tickets in a way that will allow the price to go up if the tickets are resold in the marketplace, but the additional revenue will go to the artist instead of to scalpers.

Dapper Labs is the private company behind NFTs created for the NBA Top Shot and CryptoKitties. In the NBA Top Shot marketplace, fans "collect and trade officially licensed basketball highlight clips called 'moments,'" a March 30 Business Insider article reported. NBA Top Shot has attracted more than 800,000 users and more than $500 million in sales—just since its October launch. Dapper Labs raised $305 million in private equity on Tuesday, with investors including professional athletes such as Michael Jordan and Kevin Durant and funds associated with actors Ashton Kutcher, Will Smith, and The Chernin Group. The last funding round brings the company's valuation up to $2.6 billion and gives the company the funding to develop Top Shots for other sports, Business Insider reported.

Worldwide Asset Exchange (WAX), another startup, has developed a blockchain platform that allows developers to create and sell NFTs while offering consumers the ability to buy, trade, and hold their digital purchases on the WAX platform. The company is working with Topps, the trading card company, which has digitized its Garbage Pail Kids trading cards. William Shatner's digital items were also sold via the WAX platform.

(2) *Blockchain as a service.* Many companies are tapping into blockchains hosted in the cloud. So it makes sense that the largest cloud providers—Amazon, Microsoft, and IBM—are among the companies offering to host companies' blockchains in the cloud. Blockchain hosting is similar to web hosting in that these services save companies the hassle of handling the technology to host their own website or blockchain. Many companies would rather outsource hosting functions to a technology firm and focus on their software and applications.

Blockchain as a service is being offered by the Chinese tech giants too. Ant Financial Services runs the biggest business-oriented blockchain platform for itself, processing payments and other services for as many as a billion users a day, a July 7 *WSJ* article reported.

Ant and Alibaba Group Holdings are bringing the blockchain to other companies as well, including China's state-run shipper Cosco Shipping Holdings. Cosco plans to use "blockchain technology to track goods across seaborne supply chains."

(3) *Software developers.* After companies find a place to host their blockchain, they need to develop the software to tap the data—whether generated internally by the company or contributed externally by another source—that's held in their blockchain. ScienceSoft is one developer that writes the software to govern smart contracts, blockchain wallets, and applications for the blockchain.

The company's website states: "We help you achieve ROI for blockchain-based software in 12-18 months. Despite the technology being capital intensive, it allows non-IT enterprises to create more profitable business models and lower the cost of transactions, business operations and compliance. And SaaS companies can benefit by attracting new customers with highly secure products that guarantee transaction transparency."

Salesforce has a blockchain and will help clients develop apps that integrate blockchain technology with its CRM (customer relationship management) software. For example, Salesforce says it helped a clothing company establish a blockchain that tracked all the sources of the materials and labor that went into its clothing in order to reassure customers that its products were responsibly sourced.

In addition to hosting companies' blockchain in its cloud, IBM develops software for blockchain apps. For example, New York is rolling out Covid-19 passports based on IBM's Digital Health Pass. IBM developed the app expecting that it would be used by organizations to confirm Covid-19 vaccinations. Users might include companies with employees returning to work, stadiums admitting fans to a game, and airlines allowing customers to board a flight.

R3 is a blockchain software company that has the backing of many financial companies. It created the Marco Polo Network, which uses blockchain technology to track working capital and trade finance. The company's Voltron offering digitizes and tracks letters of credit used in trade finance. It claims to have reduced the processing time for letters of credit to under 24 hours from 5-10 days.

(4) *Consultants having a field day.* Moving a company's data to the blockchain often involves changes to business-critical systems with data that needs to be kept private and secure. Given the complexity of the projects and the novelty of the technology, it's not surprising that the consulting community has been called in for help.

Among the large consultants, names that are often mentioned in the blockchain space include Accenture, Boston Consulting Group, Deloitte, and EY Global. A 2020 IDC report also highlighted the leading consulting services offered by Indian IT companies Infosys, Wipro, and TCS.

Many upstarts are also willing to lend a hand, though most are privately held. Names mentioned as consultants in the blockchain space include ArcTouch, ABES Lab, LeewayHertz, and BlockchainMind. Many of these players offer blockchain software applications in addition to consulting services.

CALENDARS

US: Thurs: Initial & Continuous Jobless Claims 680k/3.775, ISM & IHS Markit M-PMIs

61.3/59.0, ISM M-PMI Prices 85.0, Motor Vehicle Sales, Construction Spending -1.0%, EIA Natural Gas Storage, Baker-Hughes Rig Count, Harker. **Fri:** Nonfarm Payroll Employment Total, Private, and Manufacturing 639k/580k/33k, Unemployment Rate 6.0%, Average Hourly Earnings 0.2%m/m/4.5%y/y, Average Weekly Hours 34.7, Bostic. (DailyFX estimates)

Global: Thurs: Eurozone, Germany, France, and Italy M-PMIs 62.4/66.6/58.8/59.8, UK M-PMI 57.9, Germany Retail Sales 2.0%m/m/-6.3%y/y. **Fri:** None. (DailyFX estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators (*link*): The Bull/Bear Ratio (BBR) moved further above 3.00 this week, as bullish and bearish sentiment fell and the correction count rose. The BBR climbed for the third week to 3.11 this week, after dropping the prior three weeks from 3.27 to 2.48—which was the lowest since early April. Bullish sentiment retreated to 54.4% this week after jumping 6.4ppts (to 57.4% from 51.0%) the prior two weeks; the 51.0% reading three weeks ago was the lowest since mid-September. Bearish sentiment fell for the third week, by 3.1ppts (to 17.5% from 20.6%) over the period, to its lowest percentage since early February. Meanwhile, the correction count jumped to 28.1% after falling 4.6ppts (to 23.8% from 28.4%) the prior two weeks. This week’s count nearly equaled the 28.4% reading in early March, which was the highest since mid-September 2020. The AAII Ratio rose for the second time in three weeks last week from 61.4% to 71.2% over the period, with bullish sentiment climbing from 40.3% to 51.0% over the period and bearish sentiment falling from 25.3% to 20.6%.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500’s forward profit margin remained steady at 12.1% this week, its highest level since September 2019. Forward revenues was at a record high for a third week and for the first time since February 2020. Forward earnings ticked down after two weeks at a record high. The rapid pace of Covid-19 estimate cuts during the first half of 2020 has turned into a V-shaped recovery as analysts play catch-up from their lowball estimates prior to the better-than-expected earnings seasons since Q2-2020. Consensus S&P 500 forecasts had been falling at rates paralleling the declines during the 2008-09 financial crisis. Forward revenues growth remained steady w/w at 8.7%, down from a record high of 9.0% in mid-February. Forward revenues growth has come a long way from the 0.2% to which it had dropped in April 2020, which was the lowest reading since June 2009. Forward earnings growth rose 0.6ppt w/w to 22.4%. It had been at 22.8% at the end of January, its highest level since July 2010 and up substantially from its record low of -5.6% at the end of April. Analysts expect revenues to rise 9.7% in 2021 and 6.7% in 2022 compared to the 2.2% decline reported in 2020. They expect an earnings gain of 26.7% in 2021 and 15.2% in 2022 compared to a 13.3% decline in 2020. The forward profit margin of 12.1% is up 1.8ppts from 10.3% during April, which was the lowest level since August 2013. It's still down 0.3ppt from a record high of 12.4% in September 2018. Analysts expect the profit margin to rise 1.6ppt y/y in 2021 to 11.8%—from 10.2% in 2020—and to improve 0.9ppt y/y to 12.7% in 2022. Valuations fell last week. The S&P 500's weekly forward P/E was down 0.4pts w/w to 21.6 and compares to a 17-week low of 21.3 at the beginning of March. That also 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 lost 0.06pt w/w to 2.61 from a record high of 2.67, which compares to its 49-month low of 1.65 in March 2020.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*): Last week saw consensus forward revenues rise w/w for seven of the 11 S&P 500 sectors and forward earnings advance for six sectors. Energy, Financials, and Materials had both measures rise markedly w/w. Consumer Discretionary and Industrials had both measures decline. Forward P/E ratios for nearly all sectors now are back above their record or cyclical highs prior to the Covid-19 bear market. During 2019, just two sectors' margins improved y/y: Financials and Utilities. Consumer Staples, Tech, and Utilities were the only sectors with an improved profit margin in 2020. For 2021, all but Real Estate and Utilities are expected to improve y/y. Back in 2018, the forward profit margin was at record highs for 8/11 sectors, all but Energy, Health Care, and Real Estate; since then, it has moved lower for nearly all the sectors. The forward profit margin ticked down for Consumer Discretionary last week, but rose for five other sectors. Among them, Materials' now matches its record high of November 2018, and Tech's and Utilities' were at record highs too; Real Estate's has been improving since December's lowest level since January 2012 and Energy's is up from its record low in April 2020. Here's how the sectors rank based on their current forward profit margin forecasts versus their highs during 2018: Information Technology (23.4%, record high), Financials (17.4, down from 19.2), Communication Services (14.7, down from 15.4), Utilities (14.7, a new record high), Real Estate (13.7, down from 17.0), S&P 500 (12.1, down from 12.4), Materials (11.6, a new record high), Health Care (10.9, down from 11.2), Industrials (8.9, down from its record high of 10.5% in mid-December), Consumer Staples (7.6, down from 7.7), Consumer Discretionary (6.8, down from 8.3), and Energy (5.4, 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 9.4% to a record high, forward earnings has gained 28.8% to a tad below its record high a week earlier, and the forward profit margin has risen 1.9pt to an 18-month high of 12.1%. During the latest week, all but Consumer Discretionary, Industrials, and Tech posted gains in either their forward revenues, earnings, or profit margin. Materials and Energy have been particularly strong in recent weeks and have moved up in the forward revenues performance leaderboard. Here's how the 11 sectors rank by their changes in forward revenues and forward earnings since May 28: Materials (forward revenues up 14.7%, forward earnings up 51.0%), Information Technology (14.0, 22.5), Communication Services (13.9, 25.5), Energy (11.8, 1028.5), Industrials (11.0, 34.2), Financials (10.3, 42.3), S&P 500 (9.5, 28.9), Health Care (9.3, 18.6), Consumer Staples (5.3, 11.7), Consumer Discretionary (3.0, 49.3), Real Estate (2.3, -1.4), and Utilities (-2.4, 3.5). Tesla's addition to the S&P 500 on December 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 near the bottom.

US ECONOMIC INDICATORS

ADP Employment (*link*): "We saw marked improvement in March's labor market data, reporting the strongest gain since September 2020," said Nela Richardson, chief economist, ADP. "Job growth in the service sector significantly outpaced its recent monthly average, led with a notable increase by the leisure and hospitality industry. This sector has the most opportunity to improve as the economy continues to gradually reopen and the vaccine is made more widely available." March employment jumped 517,000, roughly triple February's upwardly revised 176,000 (from 117,000). Service-providing jobs advanced 437,000, led by a big gain in leisure & hospitality (169,000), though several other industries also posted impressive gains last month: trade, transportation & utilities (92,000), professional business services (83,000), and health care & social assistance (66,000). Goods-producing jobs rebounded 80,000 after falling 11,000 in February, with hiring in both manufacturing (to 49,000 from -7,000) and construction (32,000 from -6,000) industries rebounding from February losses, posting their best gains since last September. Here's a tally of industry performances from strongest to weakest during the 11 months through March, and where they stand relative to last February's levels: leisure & hospitality (+3.9 million & -3.8 million), trade transportation & utilities (+1.8 million & -1.3 million), health care & social assistance (+1.4 million & -722,000), construction (763,000 & -190,000), other services (+768,000 & -507,000), manufacturing (+766,000 & -

536,000), administrative & support services (+711,000 & -837,000), professional & technical services (+280,000 & -253,000), education (+205,000 & -244,000), financial activities (+120,000 & -145,000), management of companies & enterprises (-16,000 & -98,000), natural resources & mining (-16,000 & -68,000), and information services (-44,000 & -307,000). Here's the same exercise by company size: large (+4.1 million & -5.3 million), small (+3.7 million & -1.6 million), and medium (+2.8 million & -2.1 million) businesses.

GLOBAL ECONOMIC INDICATORS

Eurozone CPI Flash Estimate (*link*): March's CPI headline rate is expected to accelerate, according to flash estimates, while the core rate is expected to slow. March's rate is predicted to climb to a 14-month high of 1.3% y/y, up from 0.9% in January and February, and a string of -0.3% readings from October through December. The core rate is expected to slow for the second month, to 0.9% y/y, after accelerating sharply to 1.4% in January—which was the highest since October 2015. That followed record-low readings of 0.2% from September through December. Looking at the main components, energy (to 4.3% from -1.7%) is expected to have the highest rate—swinging into positive territory for the first time since January 2020, while the services (1.3 from 1.2) inflation rate is expected to be a tick above February's. Meanwhile, rates for both food, alcohol & tobacco (to 1.1% from 1.5% during January) and non-energy industrial goods (0.3 from 1.5) are predicted to slow for the second month. Of the top four Eurozone economies, rates for Germany (2.0% y/y) and France (1.4) are expected to be above the headline rate of 1.3%, while rates for Spain (1.2) and Italy (0.6) are expected to be below. Spain's rate was negative in every month but one from March 2020 through this February.

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