



MORNING BRIEFING

April 21, 2021

Stimulus Shock

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

(1) Cookies and politicians. (2) Addicted to sugar. (3) Beef, pork, and mystery meat in pandemic relief acts. (4) Handy crib sheet to keep fiscal spending score. (5) Running out of workers to “Build, Back, Better.” (6) Employers need workers who can spare some time to work for a living. (7) Small business owners have lots of job openings. (8) Tight labor markets likely to boost wages. (9) Small business owners raising prices and expect to continue doing so. (10) Earnings enjoying the sugar high. (11) Mag-5 plus Tesla dominate their S&P 500 sectors.

US Economy I: Sugar High. Sometimes, too much of a good thing is too much of a good thing. Children learn that lesson early when they don’t feel so good after eating too many cookies. Our political leaders seem to have forgotten it if they learned it at all. They seem to think too much of a good thing is never enough. They’ve been on a sugar high since the start of the pandemic if not well before this event.

It’s hard to keep track of the federal government’s outlays these days because they are happening at such a fast pace as Congress passes one pandemic relief program after another. Our latest attempt was in our March 17 [Morning Briefing](#) in which we had a look at the ingredients in the latest sausage made in Washington, i.e., the \$1.9 trillion [American Rescue Plan Act](#) (ARPA), which was enacted on March 11. We detected some beef, lots of pork, and quite a bit of mystery meat.

Melissa found a handy [crib sheet](#) dated March 15 produced by the Peter G. Peterson Foundation. It shows that the total cost of Covid-19 relief including in the ARPA is \$5.3 trillion, so far. Here are the component amounts by major categories of spending: support for small businesses (\$968 billion), economic stimulus payments (\$856 billion), expanded unemployment compensation (\$764 billion), public health and related spending (\$657 billion), tax incentives (\$566 billion), direct aid to governments (\$512 billion), educational support (\$282 billion), and other (\$730 billion).

A few \$100 billion here, a few \$100 billion there add up to \$5.3 trillion. In coming months, the Biden administration plans to introduce bills for yet more spending amounting to trillions of dollars. The only good news is that the sums will be totals over the next 10 years, unlike the pandemic relief outlays, which are mostly for 2020 and 2021.

The results of the sugar high provided by both fiscal and monetary policies over the past year are plain to see. Real GDP fully recovered from last year's recession during Q1-2021. Demand for houses and motor vehicles is booming. The S&P 500 has been rising in record-high territory since August 18. The 10-year Treasury bond yield has increased by more than 100bps since last summer. Commodity prices have been soaring led by copper, steel, and lumber.

The economy and the financial markets are hot. More policy stimulus increases the risk that they will be red hot, resulting in much higher consumer price inflation and many more speculative excesses. Already, the labor market is so tight, especially for skilled workers, that there may not be enough of them to staff more fiscal spending programs, especially on infrastructure.

Coming out of the Great Financial Crisis, the Obama administration discovered that there weren't enough "shovel ready" infrastructure projects. The Biden administration may soon find out that there aren't enough workers available to "Build Back Better."

US Economy II: Desperately Seeking Help. During the Great Depression, unemployed workers were singing the woeful song "[Brother, Can You Spare A Dime?](#)" Today, employers are desperately trying to fill open job positions. They are singing "Buddy, can you spare some time?" Employers are begging workers to come work for them.

A McDonald's franchisee in Florida is paying people \$50 just to [show up](#) for a job interview. Blake Casper, who owns 60 MickeyDs in the Tampa area, told store managers to "do whatever you need to do" to tempt more workers. Casper is trying his luck at referral programs, signing bonuses, and text message job applications. He's also considering raising starting wages from \$12 an hour (\$3 above Florida's minimum wage) to \$13.

Enhanced unemployment benefits are paying some workers more than their regular wages, and that's causing problems for some small business owners who want to call people back to work. The [March survey](#) of small business owners conducted by the National Federation of Independent Business (NFIB) found:

(1) *Few applicants.* The latest NFIB survey found that 51% of owners reported few or no qualified applicants for the positions they were trying to fill ([Fig. 1](#)). Furthermore, 28% of owners reported few qualified applicants for their open positions, and 23% reported none. Of the owners actually hiring, 91% can't find workers!

(2) *Record job openings.* A record 42% of all owners reported job openings they could not fill in the current period.

(3) *Raising compensation.* A net 28% reported raising compensation, the highest reading in the past 12 months ([Fig. 2](#)). It tends to be a leading indicator for the yearly percent change in the average hourly earnings for production and nonsupervisory workers ([Fig. 3](#)). The net percent of owners planning to raise worker compensation over the next three months was 17%.

US Economy III: Mounting Inflationary Pressures. The upward pressure on labor costs is more worrisome than the upward pressure on the prices of input materials. That's because for most businesses labor accounts for a much bigger percentage of the cost of producing goods and services than materials do. On the other hand, rising labor costs can be offset by rising productivity growth. The March NFIB survey data on mounting labor cost pressures and rising selling prices are yet another warning flag for the near-term outlook for consumer price inflation. Consider the following:

(1) The net percent of small business owners raising average selling prices increased in March to 26% ([Fig. 4](#)). That's the highest reading since August 2008. Price hikes were most frequent in wholesale (65% higher, 5% lower) and retail (48% higher, 5% lower). A net 34% of small business owners plan price hikes. That matches February's rate, which was the highest since July 2008.

(2) Interestingly, though not surprisingly, there is a good, but not great, correlation between the net percent of owners raising average selling prices and the yearly percent change in the core PCED (personal consumption expenditures deflator) inflation rate on a y/y basis ([Fig. 5](#)). Furthermore, there is a good correlation between the net percent planning to raise average selling prices and expected inflation as measured by the spread between the nominal 10-year Treasury bond yield and the comparable TIPS yield ([Fig. 6](#)).

Strategy I: Sweet Earnings. Of course, all of the above has contributed to a sweet environment for corporate earnings. Consider the following:

(1) *Q1-Q4.* The Q1 earnings season is underway, and so is the typical earnings hook, as results turn out to beat expectations ([Fig. 7](#)). During the April 15 week, Q1 was on track to be up 25.5% y/y, up from the prior week's reading of 21.1%. Here are the latest consensus estimates for Q1 (25.5% y/y), Q2 (51.7), Q3 (19.1), and Q4 (14.1).

(2) *2021.* During the week of April 15, industry analysts predicted that S&P 500 revenues per share will increase 9.9% this year to \$1463.51 and that S&P 500 operating earnings will increase 27.3% to \$177.77 ([Fig. 8](#) and [Fig. 9](#)). Both results would represent record highs.

This implies that analysts are expecting the profit margin of the S&P 500 to rise to 12.0% this year, up from 10.2% last year ([Fig. 10](#)). That current forecast would be a hair below 2018's 12.1% record high, which would be impressive given all the mounting cost pressures discussed above. Then again, profit margins do tend to rebound during economic recoveries along with productivity ([Fig. 11](#) and [Fig. 12](#)).

(3) *Forward metrics.* During the April 15 week, S&P 500 forward revenues and forward earnings were at record highs, while the forward profit margin of 12.3% was fast approaching its 12.4% record high from September 2018 ([Fig. 13](#)).

Strategy II: Magnificent Five + Tesla Sector's Market Share. Last Wednesday, Joe and I discussed the Magnificent Five (Mag-5), the five largest-market-capitalization stocks in the S&P 500. The Mag-5 had a record-high market capitalization of \$8.3 trillion then, but their share of the S&P 500's market cap was down to 23.7% from 26.5% last September. One of our accounts asked if we could show the share within their respective sectors and add Tesla to the mix. Here's what Joe found:

The Mag-5 plus Tesla currently comprises Amazon, Alphabet (Google), Apple, Facebook, Microsoft, and Tesla. Google and Facebook together make up 62.4% of the Communication Services sector, just a hair below that measure's record high a week earlier ([Fig. 14](#)). Amazon and Tesla represent 53.9% of the Consumer Discretionary sector, down from a record-high 58.6% at the end of January. Within the Information Technology sector, Apple and Microsoft are 43.6% of the sector's market capitalization. That's down from a record-high 45.6%, also at the end of January.

CALENDARS

US: **Wed:** MBA Mortgage Applications. **Thurs:** Leading Indicators 1.0%, Initial & Continuous Jobless Claims 617k/3.667m, Existing Home Sales 6,19m, Kansas Fed Manufacturing Index Chicago Fed National Activity, EIA Natural Gas Inventories. (DailyFX estimates)

Global: **Wed:** UK Headline & Core CPI 0.8%/1.1% y/y, Canada CPI 0.6%/m/m/2.3%/y/y, BOC Interest Decision 0.25%, Ramsden, Bailey. **Thurs:** Eurozone Consumer Confidence Flash - 10.8, Eurozone Government Budget to GDP, France Business Confidence 99, ECB Interest Rate Decision & Deposit Facility Rate 0.0%/-0.5%, UK Gfk Consumer Confidence -12, Japan Core CPI -0.1% y/y, Buch. (DailyFX estimates)

STRATEGY INDICATORS

S&P 500 Q1 Earnings Season Monitor ([link](#)): With 10% of S&P 500 companies finished reporting revenues and earnings for Q1-2021, revenues are beating the consensus forecast by a well-above-trend 3.2%, and earnings have crushed estimates by 30.3% in large part due to loan loss reversals at the banks. At the same point during the Q4 season, revenues were 2.8% above forecast and earnings beat by 22.8%. The S&P 500's Q1 earnings surprise excluding Financials drops to 10.0% from 30.3%. For the 50 companies that have reported through mid-day Tuesday, aggregate y/y revenue and earnings growth and the percentage of companies reporting a positive revenue and earnings surprise have improved from their Q4 measures. The small sample of Q1 reporters so far has a y/y revenue gain of 6.3% and an earnings gain of 90.3%, which drops to a decline of 8.0% y/y when Financials are excluded. A whopping 84% of the Q1 reporters so far has reported a positive earnings surprise, and 82% has beaten revenues forecasts. Slightly more companies have reported positive y/y earnings growth in Q1 (70%) than positive y/y revenue growth (68%). These figures will change markedly as more Q1-2021 results are reported in the coming weeks, particularly the y/y earnings growth rate.

S&P 500 Sectors Net Earnings Revisions ([link](#)): The S&P 500's NERI weakened in April for a third month following eight months of improvement, but was positive for a ninth month following 13 straight negative readings. NERI dropped to 14.6% in April from 14.9% in March, but remains close to its 34-month high of 16.3% in January and is up from an 11-year low of -37.4% in May 2020. That compares to a tax-cut-induced record high of 22.1% in March 2018. NERI was positive for nine sectors again in April, down from 10 sectors with positive readings in the six months through February. That compares to negative NERI readings for all 11

sectors from April to July last year. Six of the 11 sectors improved m/m in April, up from four improving in March and February. All 11 sectors had improved m/m from June to September, a swift turnaround then from all 11 worsening on a m/m basis from March to May of last year. Real Estate currently has the worst track record among the sectors, with 15 straight months of negative NERI, followed by Utilities at two months. Here are the sectors' April NERIs compared with their March readings: Financials (35.0% in April, up from 34.9% in March), Energy (30.3, 30.8 [15-year high]), Materials (17.6, 20.6), Information Technology (16.5 [35-month high], 16.4), S&P 500 (14.6, 14.9), Communication Services (13.2, 13.7), Industrials (13.3, 13.1), Consumer Discretionary (9.8, 9.4), Consumer Staples (7.5, 11.2), Health Care (6.6, 6.1), Utilities (-2.5, -2.7), and Real Estate (-6.9 [eight-month low], -5.5).

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

Copyright (c) Yardeni Research, Inc. Please read complete [copyright and hedge clause](#).