MORNING BRIEFING
July 6, 2021

Earnings-Led Slo-Mo MAMU

Check out the accompanying chart collection.

(1) Comparing current MAMU to 1999 meltup. (2) S&P 500 stunt plane flying through the vapor trails of the Blue Angels. (3) Why has the forward P/E held up so well around 22? (4) Revenues and profit margin fuel V-shaped recovery in earnings. (5) Peak in M-PMI consistent with peak growth rates in revenues and earnings. (6) Decelerating gains for S&P 500 ahead. (7) S&P 500 at 4800 sooner or later? (8) A good week for FAAMGs. (9) Updating the four investment styles. (10) Stay Home still beating Go Global. (11) Bonds disconnected from reality by Fed and foreign bond purchases. (12) Tapering should resolve the bond market conundrum. (13) Fed is now money market mutual fund of last resort. (14) Movie review: "No Sudden Move" (+).

YRI Podcast. In our latest video *podcast*, Dr. Ed discusses the main points of today's *Morning Briefing*.

Strategy I: Leisurely Meltup. The S&P 500 and the Nasdaq rose to record highs on Friday. It's been a slow-motion Mother of All Meltups (MAMU) so far this year. The S&P 500 and the Nasdaq rose 67.9% and 87.9% from last year's lows on March 23, 2020 through the end of that year. This year, they are up 15.9% and 13.6% so far.

Joe and I have been tracking both indexes since March 23, 2020 relative to their performances during the meltup that occurred from their August 31, 1998 lows through their peaks in early 2000 (*Fig. 1* and *Fig. 2*). The S&P 500 is well ahead of its performance back then, while the Nasdaq started to fall behind its previous meltup performance around mid-March of this year. Consider the following related developments:

(1) *Blue Angels.* Our weekly Blue Angels framework shows S&P 500 forward operating earnings per share multiplied by forward P/Es of 10 to 24 in increments of 2 (*Fig. 3*). We add the S&P 500 as the red stunt plane flying through the blue vapor trails of the resulting Blue Angels.

What we see is that the forward P/E peaked at 19.0 on February 19, 2020, just before the lockdown recession during March and April sent forward earnings diving (*Fig. 4*). The forward P/E also took a dive but bottomed at 12.9 on March 23. It then quickly rebounded to 22.7 on June 8 and has been hovering around that level ever since. It was 21.6 on Friday.

Forward earnings bottomed during the May 15, 2020 week, and is up 43.1% since then through the June 24 week.

It's remarkable, but not surprising, to see the forward P/E so high for so long notwithstanding the backup in bond yields since last summer and the recent jump in inflation. It's not surprising given the massive amount of liquidity provided by the Fed and the Treasury, which has resulted in a $5 trillion increase in M2 since the start of the pandemic. With the forward P/E relatively flat at a relatively high level since June of last year, the stock market meltup since then has been mostly driven by the remarkable V-shaped recovery in forward earnings to new record highs that has also occurred since June 2020 (*Fig. 5*).

During the Great Financial Crisis, the forward P/E bottomed at 8.9 on November 20, 2008. It didn't recover to its June 4, 2007 peak until June 6, 2014. Back then, forward earnings didn't fully recover back to its peak of $103.79 during the week of October 19, 2007 until May 6, 2011. So the bull market rally since March 23, 2020 initially was caused by the extraordinary jump in the forward P/E and then by the remarkable rebound in forward earnings. (For more on the Blue Angels, see my 2020 study, *S&P 500 Earnings, Valuation, and the Pandemic*.)

(2) *Revenues and profit margin.* The meltup in earnings can be attributed to the V-shaped recoveries in both S&P 500 revenues and profit margin. The former, which is a great weekly coincident indicator of actual quarterly S&P 500 revenues, bottomed last year during the May 14 week (*Fig. 6*). It is up 14.3% since then through the June 24 week to a new record high. The growth rate for forward revenues, on a y/y basis, is highly correlated with the national M-PMI, which remains in record-high territory, exceeding 60.0 for the past five months through June (*Fig. 7*).

Another significant development has been the V-shaped recovery in the S&P 500 actual and forward profit margins (*Fig. 8*). The forward profit margin fell last year from 12.0% at the start of 2020 to a low of 10.3% during the May 28, 2020 week. It has been rising in record territory since the April 29 week and was 12.8% during the June 24 week.

(3) *Stock prices.* On Friday, the S&P 500 closed at 4352.34 with the following values for forward revenues per share ($1,554.33), forward profit margin (12.8%), forward earnings per share ($199.48), and forward P/E (21.8). Revenues and earnings growth rates likely peaked during Q2, as confirmed by the apparent peak in the M-PMI at 64.7 during March. This suggests that the stock market's earnings-led meltup will decelerate along with

revenues and earnings growth (*Fig. 9*). A P/E-led meltup is less likely given that the valuation multiple is already so high and that the Fed is getting closer to tapering its balance sheet (*Fig. 10*).

Our year-end target for the S&P 500 of 4300 has occurred six months ahead of schedule mostly because forward earnings has rebounded faster than we expected. We wouldn't be surprised if our mid-year 2022 target for the S&P 500 of 4800 also occurs ahead of schedule. To get to that level, we are using a 22 forward P/E and $218 for forward earnings per share. That's just 8% higher than the latest reading of around $202 during the June 24 week.

Strategy II: Investment Styles. Last week was a relatively good one for the Magnificent 5 FAAMG stocks—i.e., Facebook, Apple, Amazon, Microsoft, and Google. Their aggregate market capitalization rose 3.9% through Friday's close to a record $8.9 trillion (*Fig. 11*). They currently account for 24.2% of the market cap of the S&P 500.

It's no wonder that when the FAAMGs do well the S&P 500's market-cap-weighted index beats its equal-weighted index, S&P 500 LargeCaps tend to outperform S&P 400/600 SMidCaps, S&P 500 Growth tends to outperform Value, and Stay Home works better than Go Global. Consider the following:

(1) *Sectors.* The FAAMGs are the 800-pound gorillas in the following S&P 500 sectors: Information Technology (Apple and Microsoft together accounted for 43.3% of the sector's market cap on Friday), Consumer Discretionary (Amazon weighed in at a 39.1% share), and Communication Services (Facebook and Google had a combined record-high 65.7% share). Last week's performance derby for the 11 sectors of the S&P 500 shows that the gorillas were in command: Information Technology (3.2%), Consumer Discretionary (2.1), Health Care (2.0), Communication Services (1.9), Industrials (0.9), Materials (0.8), Consumer Staples (0.4), Real Estate (0.0), Utilities (0.0), Financials (-0.1), and Energy (-1.1). (See *Table 1* for last week's performance derby for the 11 sectors and 100+ industries of the S&P 500.)

Joe and I think that the bull market will remain broad-based, as it has been since last September. Every now and then, the leaders lag, allowing laggards to catch up. If that continues, then some of last week's laggards may lead soon, particularly Financials and Energy.

(2) *Market cap.* The ratio of the equal-weighted to the market-cap-weighted S&P 500

indexes bottomed early last September and has rebounded to its pre-pandemic level, but it has stalled in recent weeks. It tends to rise during recoveries and early expansion periods. So we think it will resume its climb soon (*Fig. 12*). The same can be said about the ratios of the S&P 400 and S&P 600 to the S&P 500 (*Fig. 13*).

(3) *Growth vs Value.* The ratio of the S&P 500 Growth to Value stock price indexes tends to closely track the market-cap share of the Mag-5 in the S&P 500. Another important influence recently has been the bond yield. The decline in the bond yield over the past couple of weeks, despite strong economic reports, has lifted the forward P/E of Growth. At the same time, it has depressed the forward P/E of Value, mostly because lower bond yields are deemed to be a negative for the earnings of Financials (*Fig. 14*).

(4) *Stay Home vs Go Global.* Last week was a good one for Stay Home relative to Go Global. In fact, the ratio of the US MSCI stock price index to the All Country World ex-US stock price index in local currencies rose to a new record high on Friday (*Fig. 15*).

Last week was also a good one for the trade-weighted US dollar (*Fig. 16*). That's a bit puzzling since the Goldman Sachs Commodity Index continued to climb last week because it gives a hefty weight to crude oil, which also rose last week. In the past, the dollar has been mostly inversely correlated with commodity prices, especially the price of oil.

Bonds I: The Conundrum Continues. The strength in the dollar last week might be attributable to foreign buying of US Treasury bonds. The 10-year US Treasury bond yield peaked at 1.74% on March 19 this year. It was down to 1.44% on Friday, the lowest since March 2. That's even though Friday's employment report was strong and Thursday's M-PMI prices-paid index rose to 92.1 during June, the highest since July 1979 (*Fig. 17*).

Previously, we've discussed the gravitational pull of near-zero bond yields in Germany and Japan as a possible reason why US bond yields remain so low in the face of an inflationary boom in the US. Of course, the Fed's ongoing purchases of $120 billion in fixed-income securities are also keeping a lid on yields. We expect that Fed officials will be chattering more about tapering these purchases in coming days and will actually start to do so in late September. That should help to resolve whether Fed or foreign purchases can explain the bond conundrum. For now, let's review the latest data on the Fed's purchases:

(1) *Treasury purchases.* Over the past 12 months through May, the Treasury has issued $2,275 billion in notes and bonds (*Fig. 18*). Over that same period, the Fed has purchased $837 billion of these securities.

(2) *MBS purchases.* Over the past 52 weeks through the end of June, the Fed has purchased $423 billion of agencies and mortgage-backed securities (MBS) with maturities exceeding 10 years (*Fig. 19*).

(3) *Commercial bank purchases.* The Fed's purchases have flooded the banking system with deposits while loan demand has been weak. As a result, banks have also been significant buyers of Treasuries, agencies, and mortgage-backed debt. Over the past year through the June 23 week, banks purchased $867 billion in these securities (*Fig. 20*). Over the same period, the Fed purchased $1,395 of these securities. Together, they purchased a whopping $2,262 trillion, just in the past year!

Bonds II: Fed's Punchbowl Runneth Over. On a final note, Fed Chair Jerome Powell concluded his prepared remarks during his June 16 *press conference* as follows: "On a final note, we made a technical adjustment today to the Federal Reserve's administered rates. The IOER and overnight RRP rates were adjusted upward by 5 basis points in order to keep the federal funds rate well within the target range and to support smooth functioning in money markets [*Fig. 21*]. This technical adjustment has no bearing on the appropriate path for the federal funds rate or stance of monetary policy."

The IOER is the interest rate on excess reserves. The RRPR is the interest rate on overnight reverse repurchase agreements. The former was raised from 0.10% to 0.15%, and the latter was raised from zero to 0.05%. Consider the following related developments:

(1) *Reserves.* The Fed lowered the reserve requirement ratio to zero on March 26, 2020. As a result, all reserves are excess reserves. They totaled $3.8 trillion during the June 30 week, up $1.9 trillion since the March 18, 2020 week, just before the Fed announced QE4Ever on March 23 (*Fig. 22*). What the Fed calls "reserve balances" is listed as a liability item on its balance sheet and is shown as "cash assets" on the balance sheets of commercial banks.

(2) *Bank deposits.* The Fed's QE4Ever purchases of securities have flooded the banks with deposits while loan demand has been weak (*Fig. 23*). Banks have been forced to park all the liquidity provided by the Fed in Treasury and agency securities, causing money market yields to turn slightly negative recently.

(3) *Reverse repos.* Negative money market rates threatened to "break the buck" for money market funds. To keep that from happening, the Fed raised the RRRP rate from zero to

0.05% after Powell's press conference. The result has been that the RRP liabilities of the Fed soared from $761 billion during the week of June 16 to $1.1 trillion during the June 30 week (*Fig. 24*).

(4) *Last resort.* The Fed has now become the money market mutual fund of last resort!

Movie. "No Sudden Move" (+) (*link*) is a quirky crime drama directed by Steven Soderbergh in a style reminiscent of similar quirky movies directed by the Coen brothers and Quentin Tarantino. It has something to do with stealing a top-secret 1950s document about the first design of a catalytic converter, which Detroit's auto industry has conspired to bury. However, it has more to do with the great cast of odd-ball characters played by Don Cheadle, Benecio Del Toro, David Harbour, Jon Hamm, Ray Liotta, and Matt Damon.

Calendars

US: Tues: ISM NM-PMI 67.2, IHS C-PMI 63.9. **Wed:** Job Openings 8.3 million, MBA Mortgage Applications, API Crude Oil Inventories, FOMC Meeting Minutes. (Bloomberg estimates)

Global: Tues: Eurozone Retail Sales 4.1%m/m/7.9%y/y, Germany Factory Orders 1.3%, Germany ZEW Economic Sentiment 75.4, RBA Interest Rate Decision 0.10%, Lowe. **Wed:** Germany Industrial Production 0.5%, Japan Leading & Coincident Indicators, Lowe. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): Last week saw the US MSCI index rise 1.6% and end at a new record high. The US ranked third of the 49 global stock markets that we follow in a week when just nine of the 49 countries rose in US dollar terms. The AC World ex-US index fell 1.3% as all regions moved lower w/w. EMEA was the best-performing region last week, albeit with a decline of 0.4%, ahead of EAFE (-1.1%) and EM Eastern Europe (-1.2). BRIC (-2.5) was the biggest underperformer, followed by EM Asia (-1.9), EM Latin America (-1.8), and EMU (-1.6). Jordan was the best-performing country last week, with a 2.5% gain, followed by Portugal (1.7), the US (1.6), Denmark (1.3), and Colombia

(0.6). Argentina was the worst performer with a decline of 4.6%, followed by Hungary (-3.9), the Czech Republic (-3.1), Spain (-3.1), and China (-3.0). In June, the US MSCI rose 2.7% and ranked 4/49 as the AC World ex-US index underperformed with a drop of 0.7%. Sixteen of the 49 countries moved higher in June as nearly all regions rose. Brazil was the best performer with a gain of 5.0%, followed by Colombia (3.9), Russia (3.5), the US (2.7), and Taiwan (2.3). The worst performing countries in June: Peru (-11.9), Portugal (-8.0), Pakistan (-7.7), and South Africa (-6.6). EM Latin America rose 3.1% in June, ahead of EMEA (2.0), EM Eastern Europe (1.7), BRIC (1.4), and EM Asia (1.1). EMU was June's worst-performing region with a drop of 2.4%, followed by EAFE (-1.6). EMEA is now the top-performing region so far in 2021 with a gain of 16.7%, ahead of EM Eastern Europe (16.5), the US (15.4), EMU (10.8), EAFE (7.8), and the AC-World ex-US (7.7). The following regions are lagging, albeit with gains: BRIC (2.4), EM Asia (3.4), and EM Latin America (6.8). The top-performing countries ytd: Jordan (31.3), Austria (22.6), Canada (19.8), the Netherlands (18.3), and Russia (17.7). The biggest laggards of 2021 so far: Turkey (-22.4), Peru (-19.1), Colombia (-17.4), New Zealand (-15.4), Indonesia (-13.0), and Egypt (-13.0).

S&P 1500/500/400/600 Performance (*link*): LargeCap was the only one of these three indexes to rise last week, posting a gain of 1.7% for the week, ahead of MidCap (-0.6%) and SmallCap (-1.4). LargeCap ended the week at a new record high, while MidCap and SmallCap were 2.2% and 3.1% below their respective record highs on May 7 and June 8. Just 12 of the 33 sectors were higher for the week, down from all 33 rising a week earlier. LargeCap Tech rose 3.2% in the best performance for the week, followed by LargeCap Consumer Discretionary (2.1), LargeCap Health Care (2.0), LargeCap Communication Services (1.9), and LargeCap Industrials (0.9). SmallCap Financials was the worst performer with a decline of 3.4%, followed by SmallCap Energy (-2.9), SmallCap Health Care (-2.2), MidCap Energy (-2.1), and MidCap Financials (-1.8). LargeCap rose 2.2% during June, ahead of SmallCap (0.2) and MidCap (-1.1) as 15 of the 33 sectors rose. June's best performers: SmallCap Energy (12.3), LargeCap Tech (6.9), SmallCap Communication Services (6.1), and SmallCap Tech (5.4). June's biggest decliners: LargeCap Materials (-5.5), SmallCap Materials (-5.2), MidCap Materials (-5.2), MidCap Financials (-4.1), and SmallCap Financials (-3.9). SmallCap continues to lead so far in 2021 with a gain of 22.4%, ahead of both MidCap (17.5) and LargeCap (15.9). All 33 sectors remain higher ytd, paced by these best sector performers: SmallCap Energy (82.9), MidCap Energy (52.7), LargeCap Energy (44.5), SmallCap Consumer Discretionary (43.0), and SmallCap Communication Services (33.6). The biggest laggards so far in 2021, albeit with gains: LargeCap Utilities (2.0), MidCap Communication Services (3.2), LargeCap Consumer Staples (3.7), MidCap Tech (8.2), and SmallCap Utilities (8.6).

S&P 500 Sectors and Industries Performance (*link*): Seven of the 11 S&P 500 sectors rose last week, but only four outperformed the composite index's 1.7% gain. That compares to a 2.7% gain for the S&P 500 a week earlier, when all 11 sectors rose and just three outperformed the index. Tech rose 3.2% for the biggest gain of the week, ahead of Consumer Discretionary (2.1%), Health Care (2.0), and Communication Services (1.9). The worst performers this week: Energy (-1.1), Financials (-0.1), Utilities (0.0), Real Estate (0.0), Consumer Staples (0.4), Materials (0.8), and Industrials (0.9). The S&P 500 rose 2.2% in June as six sectors moved higher and five beat the broader index. That compares to seven rising in May, when the same seven beat the S&P 500's 0.5% gain. The leading sectors in June: Tech (6.9), Energy (4.5), Consumer Discretionary (3.7), Real Estate (2.8), and Communication Services (2.7). June's market underperformers: Materials (-5.5), Financials (-3.1), Utilities (-2.4), Industrials (-2.3), Consumer Staples (-0.5), and Health Care (2.2). With respect to 2021's performance, the S&P 500 has risen 15.9% so far, with all 11 sectors higher ytd and five beating the broader index. The leading sectors so far in 2021: Energy (44.5), Financials (25.2), Real Estate (22.7), Communication Services (21.3), and Industrials (16.5). This year's laggards to date, albeit with gains: Utilities (2.0), Consumer Staples (3.7), Consumer Discretionary (11.6), Health Care (12.9), Materials (14.2), and Tech (14.9).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 1.7% last week and improved relative to its 50-day (50-dma) and 200-day moving averages (200-dma). It was above its 50-dma for a second week after dropping below a week earlier for the first time since February. It was above its 200-dma for a 53rd straight week last week after being below for 13 weeks through late May of 2020. The S&P 500's 50-dma rose last week for a 35th straight week. The price index improved to an eight-week high of 3.4% above its rising 50-dma from 2.1% a week earlier and an eight-month low of 0.4% below its rising 50-dma the week before that. That's still down from its 19-week high of 5.8% above during mid-April. The index mostly has been trading above its 50-dma since late April 2020; in June 2020, it was 11.7% above, which was the highest since its record high of 14.0% in May 2009. That compares to 27.7% below on March 23, 2020—its lowest reading since it was 29.7% below on Black Monday, October 19, 1987. The price index was above its 200-dma for a 53rd week, and improved last week to an eight-week high of 12.7% above its rising 200-dma from 11.6% a week earlier and an eight-month low of 9.2% the week before that. That compares to 17.0% above in early December, which 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*): Eight S&P 500 sectors traded above their 50-dmas last week, up from seven a week earlier and down from ten in early June. Consumer Staples and Industrials moved back above in the latest week, and Financials moved below. Materials and Utilities were below for a third week. That's still down from all 11 sectors above at the beginning of May and compares to just four above at the end of January. Just two sectors have a falling 50-dma now, down from three sectors with one a week earlier. Consumer Discretionary turned higher in the latest week, leaving only these sectors with a falling 50-dma: Materials and Utilities. That compares to just six sectors with a rising 50-dma in mid-March, which had been the lowest count since early November. Looking at the more stable longer-term 200-dmas, all 11 sectors traded above them for a 17th straight week, and all have had rising 200-dmas for a 16th straight week. For perspective, back in April 2020, just one sector (Health Care) was trading above its 200-dma. Energy's 200-dma finally turned higher in mid-December after mostly falling since October 2018.

US Economic Indicators

Employment (*link*): Employment in June was stronger than expected, with nonfarm payrolls rising 850,000 (vs 700,000 estimate), following an upward revision to May (to 583,000 from 559,000) and a downward revision to April (269,000 from 278,000) payrolls for a net gain of 15,000. Private payrolls climbed 662,000 (in line with ADP's 692,000), with revisions to May (to 516,000 from 492,000) and April (226,000 from 219,000) adding 31,000 jobs. In June, BLS data show service-providing companies added 642,000 jobs, while goods-producing ones added 20,000—with comparable data for ADP showing gains of 624,000 and 68,000, respectively. In June, leisure & hospitality (343,000) added the most jobs—with food services & drinking places (194,000) accounting for over half that gain. Meanwhile, local and state government education employment jumped by 155,000 and 75,000, respectively, while private education employment added 39,000 last month. Industries adding to private payrolls last month were professional & business services (72,000), retail trade (67,000), other services (56,000), social assistance (32,000), and wholesale trade (21,000). Within goods-producing, manufacturing (15,000) and mining (10,000) added jobs, though the former fell short of forecasts, while construction (-7,000) companies cut payrolls for the third successive month by a total of 38,000 jobs. Here's a tally of industry performances from strongest to weakest during the 14 months through June and where they stand relative to last February's pre-pandemic levels: leisure & hospitality (+6.0 million & -2.2 million), retail trade (+2.1 million & -303,400), professional & business services (+1.8 million & -

633,000)—led by temporary-help services (+719,500 & -278,500), health care (1.1 million & -537,600), manufacturing (+904,000 & -481,000), construction (+875,000 & -238,000), transportation & warehousing (+481,800 & -93,600), social assistance (+465,800 & -235,600), education (+270,200 & -255,200), wholesale trade (+216,800 & -192,400), financial activities (+204,000 & -75,000), information services (+103,000 & -178,000), and mining & logging (8,000 & -60,000). Here's the same exercise for both local (44,000 & -413,700) and state (53,900 & -168,100) government education jobs.

Earned Income Proxy (*link*): June saw our Earned Income Proxy (EIP)--which tracks consumer incomes and spending closely--record its 13th increase in the past 14 months, up 0.5% in June and 17.1% over the 14-month period, to yet another new record high. The EIP's average hourly earnings component climbed 0.3% during June though only 1.1% over the 14 months through June; about that, the Bureau of Labor Statistics noted: "Since average hourly earnings vary widely across industries, the large employment fluctuations since February 2020 complicate the analysis of recent trends in average hourly earnings." Meanwhile, aggregate weekly hours, the EIP's other component, advanced for the 12th time in 14 months, by 0.2% m/m and 16.0% over the period.

Unemployment (*link*): June's unemployment rate ticked up from 5.8% to 5.9% (above the 5.6% estimate) as the civilian labor force increased by 151,000—with the number of unemployed climbing by 168,000 to 9.5 million, following May's 496,000 drop. The participation rate was unchanged at 61.6%, remaining within a narrow range of 61.4% to 61.7% since June 2020. The unemployment and participation rates were at 3.5% and 63.3%, respectively, just before the pandemic hit. The number of unemployed persons on temporary layoff was basically unchanged at 1.8 million last month. By race, the unemployment rate for Whites ticked up to 5.2% in June after falling the first five months of this year from 6.0% to 5.1%, while the rate for Hispanics ticked up to 7.4% after falling from 9.3% to 7.3% over the prior five-month period. Meanwhile, the jobless rates for African Americans and Asians have been more volatile from month to month, with the rate for the former ticking up to 9.2% from May's 14-month low of 9.1%, while the latter climbed to 5.8% from May's three-month low of 5.5%. By education, the rate for those with less than a high school diploma has been very volatile the past few months, rising to 10.2% last month after falling from 9.3% in April to 9.1% in May; the rate was at 10.1% in February. Meanwhile, the rate for those with a high school degree (7.0%) has been bouncing around 7.0% the past several months, while the rate for those with some college was back down at April's 13-month low of 5.8%; the rate for those with a college degree or higher ticked up to 3.5% from May's 14-month low of 3.2%.

Auto Sales (*link*): Motor vehicle sales remained in reverse in June, sinking to a 10-month low of 15.4mu (saar), after accelerating from 16.1mu in February to 18.7mu in April—its best reading since the summer of 2005, when aggressive incentives boosted sales above 20.0mu. Domestic light truck sales slid for the second month to 8.9mu (saar) from 9.9mu in May and 11.0mu in both April and March—which was the highest since July 2005; these sales had plunged to 5.3mu last April. Meanwhile, domestic cars sales remained in a rut, falling for the second month from 2.8mu in April to 2.4mu (saar) last month. That's up from last April's record low of 1.5mu though still below the 3.3mu at the beginning of 2020. In the meantime, sales of imports also fell for the second month, to 4.1mu (saar); they had soared from 2.0mu last April to 4.9mu (saar) this April—which was the best sales pace since the late 1980s—led by a record 3.4mu in light truck sales. These truck sales fell 0.6mu during the two months ending June to 2.8mu.

Construction Spending (*link*): Construction expenditures is stalled around record highs, dipping 0.3% in May; it's been fluctuating in a volatile flat trend since reaching a record high in January. Private construction spending slipped 0.3% in May after soaring in 10 of the prior 11 months, by a total of 12.4%, to a new record high in April, while public construction investment contracted for the fifth time this year, by 0.2% in May and 4.3% year to date. It's 8.7% below its record high posted in March of last year. Within private construction, residential spending expanded for the 11th time in 12 months, by 0.2% m/m and 28.7% y/y, to a new series high, while nonresidential construction has dropped nine of the past 11 months, by 1.1% in May and 6.0% over the period. The rebound in residential construction has been widespread: Single-family (46.1%) and multi-family (25.6) posted big upswings during the 12 months through May—with single-family construction soaring to a new cyclical high and multi-family to a new record high. Meanwhile, home-improvement spending was up 8.9% over the same period, as spending has flattened out in recent months.

Global Economic Indicators

Global Manufacturing PMIs (*link*): "Solid upturn in global manufacturing continues but stretched supply chains drive up costs" was the headline of June's report. The JP Morgan M-PMI was little changed at 55.5 after accelerating the prior four months from 53.6 in January to an 11-year high of 56.0 in May. The index is up 15.9 points since bottoming at 39.6 last April. The M-PMI for the advanced economies, at 59.5, barely budged after increasing the prior 13 months by 23.0 points (to 59.8 from 36.8 in April), while the M-PMI for the emerging economies fell for the sixth time in seven months from 53.9 in November to

51.3 by June. Geographically, 22 out of the 30 nations for which June data were available saw operating conditions expand. Europe—with all of the top seven countries--was a bright spot once again; the US followed in eighth place. Asia continued to underperform compared to the global average—with growth of manufacturing easing in China and Japan and contracting for the first time in 11 months in India. Thailand, Mexico, Colombia, and Myanmar all recorded contractions as well. Here's a country ranking of June M-PMIs from highest to lowest: Netherlands (68.8), Austria (67.0), Germany (65.1), Ireland (64.0), UK (63.9), EUROZONE (63.4), Czech Republic (62.7), Italy (62.2), US (62.1), Spain (60.4), Poland (59.4), France (59.0), Greece (58.6), Australia (58.6), Taiwan (57.6), Brazil (56.4), WORLD (55.5), South Korea (53.9), Indonesia (53.4), Japan (52.4), Kazakhstan (51.6), China (51.3), Turkey (51.3), Philippines (50.8), Thailand (49.4), Russia (49.2), Mexico (48.8), Colombia (48.3), India (48.1), Vietnam (44.1), Myanmar (41.5), and Malaysia (39.9).

US Manufacturing PMIs (*link*): Manufacturing activity in June remained robust according to both M-PMI measures, with IHS Markit's holding at May's record high. Price pressures continued to intensify. ISM's M-PMI (to 60.6 from 61.2) showed the manufacturing sector continued to expand in June at a strong pace, holding just below March's 64.7—which was its best reading since 1983! The new orders (to 66.0 from 67.0) measure was just a hair below March's 68.0 reading, which was the strongest since January 2004. The new export orders (to 56.2 from 55.4) sub-index continued to bounce in a volatile flat trend around recent highs. Meanwhile, the production gauge moved up to 60.8 in June after slowing the prior two months, from 68.1 in March—which was its best reading since the start of 2004—to 58.5 in May. Hirings in the manufacturing sector were at a virtual standstill in June, slowing for the third month from a three-year high of 59.6 in March to 49.9 in June. The supplier deliveries component of the M-PMI edged down to 75.1 in June from 78.8 in May, which was the highest since the mid-1970s; the measure continues to reflect suppliers' continued difficulties due to Covid-19 impacts. The inventories (to 51.1 from 50.8) gauge continues to bounce around the breakeven point (50.0) between expansion and contraction. ISM's price (to 92.1 from 88.0) gauge shows prices accelerated at the fastest pace since 1979. In the meantime, IHS Markit's M-PMI held at 62.1 in June, which was the highest reading in the 14-year history of this series. According to the report, strong demand drove another sharp rise in manufacturing output last month, with both new orders and production growing at some of the fastest rates recorded since the survey began in 2007. However, the strength of the upturn continued to be hampered by capacity constraints and shortages of both materials and labor, which are driving prices higher.

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, 570-228-9102

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