MORNING BRIEFING
June 21, 2022

Revisiting Venus and Mars

Check out the accompanying chart collection.

Executive Summary: "What planet are you from?," analysts and investors may be wondering of each other these days, with the former super bullish and the latter super bearish. Analysts weren't bullish enough about Q1 earnings. Yet investors are solely focused on the recession risk as the Fed fights inflation and have been pounding down valuations. … Barring a recession, the S&P 500 appears fairly valued, though we look today at a couple of still concerning valuation models. And of course, the odds of a recession aren't trivial. … Also: The MegaCap-8 stocks are no longer "the Magnificent 8"; we examine their rise and fall. … And: Dr. Ed reviews "Jurassic World: Dominion" (- - -).

YRI Weekly Webcast. Join Dr. Ed's live Q&A webinar today at 11 a.m. EST. You will receive an email with the link to the webinar one hour before showtime. Replays of the weekly webinars are available *here*.

Strategy I: Report on Q1 Earnings Reporting Season. The results are in for the S&P 500's Q1 earnings reporting season. It turned out to be a walk in the park. The industry analysts who cover the S&P 500 companies weren't bullish enough; the actual results beat their expectations. Nevertheless, the park has been increasingly invaded by bears from the investment community.

Analysts and investors are so far apart in their perceptions of reality these days that it's as if they're from two different planets. And if there were an interplanetary battle raging for control of the stock market, we could say hands down that the bullish analysts from Venus are losing to the bearish investors from Mars.

But before exploring that further, let's review the aggregated data from S&P 500 companies' Q1 earnings reports:

(1) *Revenues, earnings, and margins.* The only negative surprise in the overall results was that S&P 500 revenues per share fell 2.3% q/q (*Fig. 1*). The analysts' weekly forward revenues per share—which is the time-weighted average of analysts' consensus estimates for this year and next and which has been a very good coincident indicator of the actual quarterly revenues series in the past—has been rising into record-high territory since the start of this year.

Operating earnings per share edged up 2.2% q/q to a new record high of $219.60 (annualized). The comparable weekly forward earnings-per-share series tends to be a year-ahead leading indicator of the quarterly series. It rose to a record high of $239.28 during the June 9 week. That will turn out to be close to what happens a year from now unless a recession occurs before then, in which case analysts will have to scramble to slash their estimates.

The profit margin edged up from 12.8% during 2021's final quarter to 13.3% during Q1. The forward profit margin has been hovering at a record high around 13.4% since the start of the year. That's remarkable given rapidly rising labor and materials costs.

(2) *Revenues and earnings growth rates.* On a y/y basis, S&P 500 revenues per share and earnings per share rose 13.6% and 11.8% during Q1 (*Fig. 2* and *Fig. 3*). The latter growth rate was about twice as fast as industry analysts had expected at the start of the latest earnings season. Nevertheless, investors weren't impressed and proceeded to pummel stock prices as they rerated forward P/Es downwards.

(3) *S&P 500 sector revenues.* The weakness in the S&P 500's Q1 revenues was attributable to six of the 11 sectors of the S&P 500 (*Fig. 4*). Here are the y/y and q/q growth rates in S&P 500 revenues per share for the index's 11 sectors during Q1: S&P 500 (13.6%, -2.3%), Communication Services (8.1, -6.6), Consumer Discretionary (8.6, -8.2), Consumer Staples (9.3, -1.7), Energy (56.1, 7.1), Financials (-0.6, -10.2), Health Care (13.8, 1.6), Industrials (16.0, -1.3), Information Technology (12.1, -3.1), Materials (26.0, 3.2), Real Estate (16.9, 0.0), and Utilities (11.4, 9.3).

(4) *S&P 500 sector earnings.* Here are the y/y and q/q growth rates in S&P 500 earnings per share for the index's 11 sectors during Q1: S&P 500 (11.8%, 1.6%), Communication Services (-0.7, -6.8), Consumer Discretionary (-30.5, -40.3), Consumer Staples (7.1, -1.7), Energy (274.9, 17.5), Financials (-19.2, -4.8), Health Care (15.3, 13.9), Industrials (35.3, -0.8), Information Technology (13.5, -10.1), Materials (44.9, 9.1), Real Estate (29.4, 15.0), and Utilities (25.2, 73.6) (*Fig. 5*).

(5) *S&P 500 sector profit margins.* Among the 11 S&P 500 sectors, profit margins were most notably squeezed on a q/q basis in the Consumer Discretionary and Information Technology sectors, while they widened the most in Energy and Health Care (*Fig. 6*). Since they are not seasonally adjusted, let's compare the margins during Q1 versus a year ago: S&P 500 (13.3%, 13.5%), Communication Services (17.1, 18.6), Consumer Discretionary (5.0, 7.9), Consumer Staples (7.3, 7.4), Energy (10.6, 4.4), Financials (17.9, 22.0), Health Care (11.8, 11.7), Industrials (7.9, 6.8), Information Technology (24.8, 24.5), Materials

(13.5, 11.8), Real Estate (31.1, 28.1), and Utilities (15.0, 13.4). Again, on balance, that's very impressive considering how rapidly costs are rising.

Strategy II: MegaCap-8 from Meltup to Meltdown. During 2020 and 2021, Joe and I often referred to the MegaCap-8 stocks in the S&P 500 as the "Magnificent 8" for their impressive collective share price performance and the great degree to which that performance lifted the performances of the broader indexes (e.g., S&P 500 and S&P 500 Growth) of which they are a part. Well, they haven't been magnificent since they collectively peaked on December 27, 2021. Their capitalizations are also no longer as mega as they once were either.

Let's revisit the pandemic-related rise and the post-pandemic fall of the MegaCap-8, as well as their impact on the S&P 500's rise and fall since March 23, 2020. That was when the S&P 500 bottomed in response to the lockdown recession. It then soared to a record high on January 3 of this year, before falling into an official bear market on June 13.

(1) *The bigger they are, the harder they fall.* The MegaCap-8 includes Alphabet, Amazon, Apple, Meta, Microsoft, Netflix, Nvidia, and Tesla. Tesla was added to the S&P 500 on December 21, 2020. At that time, these eight stocks were the ones with the highest market capitalizations of the S&P 500 Growth index. They are widely viewed as technology companies; but, in fact, only three of them are in the S&P 500's Information Technology sector (Apple, Microsoft, and Nvidia), three are in the Communication Services sector (Alphabet, Meta, and Netflix), and two are in the Consumer Discretionary sector (Amazon and Tesla).

At their collective peak on December 27, 2021, the MegaCap-8 stocks accounted for 26% of the market cap of the S&P 500 and 48% of the S&P 500 Growth index (*Fig. 7* and *Fig. 8*). Since its peak last year, the market cap of the MegaCap-8 has dropped 34% through Friday's close. Since the S&P 500 peaked on January 3, the index's market cap is down $9.5 trillion through Friday's close. The MegaCap-8 has accounted for 38% of the drop in the S&P 500's market cap.

Here are the declines in the market cap of the individual MegaCap-8 stocks since January 3 in dollars and on a percent-change basis through Friday's close: Alphabet (-$510 billion, -26%), Amazon (-$648 billion, -37%), Apple (-$844 billion, -28%), Meta (-$499 billion, -53%), Microsoft (-$661 billion, -26%), Netflix (-$187 billion, -71%), Nvidia (-$356 billion, -47%), and Tesla (-$531 billion, -44%).

(2) *Forward revenues and forward earnings mostly on uptrends.* During the pandemic of 2020 and 2021, the MegaCap-8 stocks were widely viewed as the "tech" companies most

likely to benefit greatly from lots of radical changes in our lives as more of us were working, going to school, and getting entertained from home. However, so far this year, industry analysts have had to trim their heady expectations for the earnings outlook of some of these companies. Here are the y/y percent changes in the forward earnings of the MegaCap-8 through the June 17 week: Alphabet (33.5%), Amazon (-45.9), Apple (21.4), Meta (-9.7), Microsoft (28.6), Netflix (-2.8), Nvidia (43.0), and Tesla (160.7).

(3) *Diving forward P/Es.* Investors responded to the pandemic by aggressively rerating the forward P/E of the MegaCap-8 to the upside. It was 29.0 just before the pandemic (*Fig. 9*). It plunged to 21.6 during the March 20 week of 2020 in response to the lockdown recession, then rebounded to 38.5 during the August 28 week of that year. By the end of that year, it was still elevated at 36.1. Since then, it has tumbled to 22.2 during the June 17 week.

The same pattern applies to the forward price-to-sales (P/S) ratio of the MegaCap-8 (*Fig. 10*). It plunged from last year's high of 7.2 to 4.4 during the June 17 week.

Keep in mind that at the start of 2013, the MegaCap-8's forward P/E was around 12.5, while its forward P/S was around 2.7. In other words, these two valuation multiples have come down a lot—with both now below their pre-pandemic highs—but they still aren't cheap. And investors have been rerating these multiples, particularly for Growth stocks, downward as a result of rapidly rising interest rates and increasing risks of a recession.

Since the start of this year through the June 10 week, the S&P 500's forward P/E with and without the MegaCap-8 has dropped from 21.4 to 17.3 and from 19.1 to 16.1 (*Fig. 11*). The comparable changes in the forward P/S over this period were from 2.88 to 2.32 and from 2.38 to 2.04 (*Fig. 12*).

(4) *Our conclusions.* The MegaCap-8 stocks still aren't cheap. Arguably, they might be fairly valued. In any event, they aren't uniformly as magnificent as they were during 2020 and 2021. The S&P 500 excluding the MegaCap-8 is certainly fairly valued as long as we can be certain that a recession isn't around the corner. However, we can't be certain of that; so there might be some more downside risk in the stock market until there is clear evidence that the Fed is done raising interest rates because inflation has petered out. We expect to see more evidence of that later this year.

Strategy III: Investors Are Still from Mars. Our May 18 *Morning Briefing* was titled "Analysts Are from Venus; Investors Are from Mars." We wrote:
"Stock market investors seem to believe that industry analysts are becoming increasingly delusional. The latter have been raising their revenues and earnings estimates since the

start of the year, while the former have been cutting the valuation multiples they are willing to pay for those estimates. And both actions have been in response to the same development, raging inflation.

“The analysts seem to be raising their projections partly to reflect rapidly rising prices, while the investors have been worrying that higher inflation will force the Fed to tighten until a recession occurs. A recession would force analysts to scramble to cut their estimates. In this scenario, investors would continue to slash valuation multiples—and they would have ‘we told you so’ bragging rights.”

As we updated in the previous section, investors have been pounding valuation multiples downward since the start of this year. They’ve been doing so as inflation has turned out to be less transitory and more persistent than was widely expected last year. This year, especially after May’s CPI shocker was released on June 10, investors have concluded that inflation may be much more protracted than previously thought and that the Fed tightening cycle will last for a while. They are all chanting the same mantra now: “Don’t fight the Fed when the Fed is fighting inflation.” As a result, this year’s correction in the S&P 500 morphed into a bear market on June 13.

Many investors also have become increasingly concerned that a recession is imminent. In this scenario, industry analysts would have to slash their earnings estimates for this year and next year from their current record-high estimates. As noted above, barring a recession scenario, the S&P 500—especially excluding the MegaCap-8—appears reasonably valued to us. As we’ve noted in the past, during previous recessions, P/Es fell well below 15.0 and could do so again if a recession occurs.

Our base case, to which we assign a probability of 55%, calls for slow growth with inflation actually boosting both revenues and earnings. So we view the current level of the S&P 500’s forward P/E as a fair one. However, there are a couple of valuation models that remain concerning:

(1) *The Buffett Ratio.* Warren Buffett likes to compare the market capitalization of the stock market to nominal GNP (*Fig 13*). He would much rather be buying stocks when the ratio is closer to 1.0 than 2.0. The ratio rose to a record 2.8 during Q4-2021. It edged down to 2.6 during Q1-2022.

The ratio of the S&P 500’s market capitalization to S&P 500 quarterly revenues closely tracks the Buffett Ratio, and so does the index’s daily forward P/S ratio. The daily ratio is down from a record 2.9 on January 3 to 2.1 on Friday, which is still a highly elevated

reading. The forward P/S is at odds with the S&P 500 forward P/E, which dropped to a much fairer value of 15.5 at the end of last week.

The forward P/S and P/E ratios have diverged since 2018, when the profit margin began a steady climb to new record highs. As a result, earnings generally have been rising faster than revenues (*Fig. 14*). That's boosted the P/S relative to the P/E. In a recession, the Buffett Ratio would fall faster than the P/E ratio as earnings would fall faster than revenues because the profit margin would plunge.

(2) *The Real Earnings Yield.* The S&P 500 earnings yield (using quarterly reported earnings) was 4.11% during Q1, while the CPI inflation rate (on a y/y basis) jumped to 7.97% (*Fig. 15*). We have the data back to 1935, which show that several of the bear markets in the S&P 500 since then have been associated with a drop in the real earnings yield often below zero (*Fig. 16*). Interestingly, the real earnings yield is positively correlated with the yearly percent change in the Index of Leading Economic Indicators, which was up 3.0% y/y during May, signaling neither a recession nor a bear market (*Fig. 17*).

Strategy IV: Analysts Are Still from Venus. Meanwhile, industry analysts continue to raise their revenues and earnings estimates for 2022 and 2023. As a result, forward revenues and forward earnings continue to rise in record-high territory (*Fig. 18*). Most years in the past during economic expansions, analysts were too optimistic and had to lower their annual earnings estimates for the current year, but forward earnings continued to rise. During the current economic expansion since the lockdown recession, they've been raising their earnings estimates for this year as well as next. Over the past year, inflation has undoubtedly boosted earnings projections.

The Fed: Demanding Unconditional Surrender. The Fed released its latest *Monetary Policy Report* on Friday. In the summary section of the report, the Fed pledged to fight inflation to the death: "The Committee is acutely aware that high inflation imposes significant hardship, especially on those least able to meet the higher costs of essentials. The Committee's commitment to restoring price stability—which is necessary for sustaining a strong labor market—is unconditional." In other words, the Fed is fighting for the unconditional surrender of inflation. The only question is: Will it have to kill the economy before accomplishing that mission?

Movie. "Jurassic World: Dominion" (- - -) (*link*) is the sixth installment in the Jurassic Park franchise. Let's hope it's the last. This one was widely panned as the worst of the lot. I agree. The acting was terrible. The story was trite. The baby dinosaurs were cute, but so was Dino in The Flintstones. The theme of this movie is that we should learn to coexist with

other animals, even dinosaurs. It's simply a matter of learning to respect one another. It's time to bury this franchise. Make it extinct so that only the fossils are left. By the way, the villain looks a lot like Timothy Cook, Apple's CEO, and the headquarters of his evil enterprise sure looks the doughnut-shaped headquarters that Cook built for Apple in Cupertino, California. Go figure.

Calendars

US: Tues: Existing Home Sales 5.39mu; Chicago Fed National Activity Index. Mester. **Wed:** MBA Mortgage Applications; API Weekly Crude Oil Inventories; Powell. (Bloomberg estimates)

Global: Tues: Eurozone Current Account; UK Industrial Trend Orders; Canada Headline & Core Retail Sales 0.8%/0.6%; Japan Monetary Policy Meeting Minutes; Mauderer; Tenreyro; Enria; Pill. **Wed:** Eurozone Consumer Confidence -20.8; UK Headline & Core CPI 0.6%m/m/9.1%y/y & 0.6%m/m/5.0%y/y; UK PPI Input 1.1%m/m/19.0%y/y; Canada Headline & Core CPI 1.1%m/m/7.5%y/y & 0.4%m/m/5.4%y/y; European Central Bank Non-monetary Policy Meeting; Mauderer; De Guindos; Elderson; Cunliffe. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index tumbled 5.8% last week for its tenth drop in 11 weeks and its biggest decline since March 2020. The index fell into a bear market on June 13 and ended the 24.4% below its record high on December 27. The US MSCI ranked 32th of the 48 global stock markets we follow in a week when all 48 countries fell in US dollar terms. The AC World ex-US index fell back into a bear market on Monday for the first time since mid-May as the index fell 5.7% for the week to 23.8% below its June 15, 2021 record high. EM Eastern Europe was the best-performing region last week, albeit with a decline of 3.8%, ahead of BIC (-4.1%), EMEA (-4.5), EM Asia (-4.7), and EMU (-5.2). EM Latin America was the biggest underperformer with a decline of 6.6% followed by EAFE (-5.7). Jordan was the best-performing country last week, albeit with a drop of 0.1%, followed by Hungary (-0.5), Belgium (-1.7), Malaysia (-2.6), and the Czech Republic (-2.7). Among the 18 countries that underperformed the AC World ex-US MSCI last week, Sri Lanka's 9.8% decline was the worst, followed by Argentina (-8.8), Australia (-

8.5), Canada (-8.3), and Colombia (-8.0). The US MSCI's ytd ranking dropped one spot w/w to 32/49, with its 24.0% decline remaining wider than the 20.3% drop for the AC World ex-US. EM Latin America is now down 1.7% ytd and along with EM Asia (-18.2) are the only regions outperforming the AC World ex-US. The laggards: EM Eastern Europe (-83.6), EMEA (-34.1), EMU (-26.4), EAFE (-22.0), and BIC (-20.5). The best country performers so far in 2022: Jordan (19.1), Chile (16.5), Colombia (12.1), the Czech Republic (4.1), and Brazil (0.6). Apart from Russia, in which investors have lost 100.0% this year, here are the worst-performing countries ytd: Sri Lanka (-68.4), Hungary (-42.8), Egypt (-37.2), the Netherlands (-36.0), and Poland (-35.1).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes tumbled into a bear market last week. LargeCap fell 5.8% in its worst week since March 2020, less than the 7.6% and 7.9% declines for MidCap and SmallCap, which was their worst week since June 2020. LargeCap is now 23.4% below its record high on January 3. MidCap ended the week 23.7% below its record high on November 16, and SmallCap was back in a bear market for the first time in four weeks as it dropped to 25.3% below its November 8 record high. All 33 sectors were down for a second straight week, a feat that last occurred in March 2020. SmallCap Health Care was the best performer, albeit with a decline of 3.6%, ahead of MidCap Consumer Staples (-4.0%), MidCap Communication Services (-4.2), MidCap Health Care (-4.3), and LargeCap Consumer Staples (-4.4). SmallCap Energy (-21.0) was the biggest underperformer last week, followed by MidCap Energy (-20.1), LargeCap Energy (-17.2), SmallCap Materials (-11.1), and MidCap Materials (-10.2). In terms of 2022's ytd performance, all three indexes are down ytd, and LargeCap continues to trail the SMidCaps in the performance derby. MidCap and SmallCap are down an identical 21.9% ytd, a bit less than LargeCap's 22.9% decline. Just three of the 33 sectors are positive so far in 2022, down from four a week earlier. Energy continues to dominate the top performers: SmallCap Energy (31.5), LargeCap Energy (31.4), MidCap Energy (19.9), MidCap Utilities (-8.5), and LargeCap Utilities (-10.0). The biggest ytd laggards: LargeCap Consumer Discretionary (-33.9), SmallCap Consumer Discretionary (-33.0), LargeCap Communication Services (-31.4), MidCap Consumer Discretionary (-29.3), LargeCap Tech (-28.8), and SmallCap Health Care (-28.1).

S&P 500 Sectors and Industries Performance (*link*): All 11 S&P 500 sectors fell last week, and seven outperformed the composite index's 5.8% decline. That compares to a 5.1% decline for the S&P 500 a week earlier, when all 11 sectors fell and six outperformed the index. Consumer Staples was the top performer, albeit with a drop of 4.4%, followed by Health Care (-4.5), Communication Services (-4.6), Financials (-4.9), Tech (-4.9), Real Estate (-5.4), and Consumer Discretionary (-5.5). The worst performers: Energy (-17.2),

Utilities (-9.2), Materials (-8.3), and Industrials (-5.8). The S&P 500 is down 22.9% so far in 2022 with seven sectors ahead of the index, but just one in positive territory. The best performers in 2022 to date: Energy (31.4), Utilities (-10.0), Consumer Staples (-11.5), Health Care (-15.3), Materials (-17.7), Industrials (-19.4), and Financials (-21.2). The ytd laggards: Consumer Discretionary (-33.9), Communication Services (-31.4), Tech (-28.8), and Real Estate (-25.1).

S&P 500 Technical Indicators (*link*): All 11 S&P 500 sectors traded below their 50-dmas last week as Energy fell below last week for the first time since May 10. Energy has had its 50-dma turn down last week, leaving no sectors in the rising 50-dma club. Looking at the more stable longer-term 200-dmas, Energy is the only sector above that measure, down from two a week earlier as Utilities turned negative w/w. For perspective, at the depths of the Great Virus Crisis in April 2020, Health Care was the only sector trading above its 200-dma. Energy is now the only sector with a rising 200-dma, down from two sectors a week earlier as Utilities turned down w/w.

S&P 500 Sectors Technical Indicators (*link*): All 11 S&P 500 sectors traded below their 50-dmas last week as Energy fell below last week for the first time since May 10. Energy has had its 50-dma turn down last week, leaving no sectors in the rising 50-dma club. Looking at the more stable longer-term 200-dmas, Energy is the only sector above that measure, down from two a week earlier as Utilities turned negative w/w. For perspective, at the depths of the Great Virus Crisis in April 2020, Health Care was the only sector trading above its 200-dma. Energy is now the only sector with a rising 200-dma, down from two sectors a week earlier as Utilities turned down w/w.

US Economic Indicators

Leading Indicators (*link*): "The US LEI fell again in May, fueled by tumbling stock prices, a slowdown in housing construction, and gloomier consumer expectations," noted Ataman Ozyildirim, senior director of economic research at The Conference Board. "The index is still near a historic high, but the US LEI suggests weaker economic activity is likely in the near term—and tighter monetary policy is poised to dampen economic growth even further." The LEI retreated for the fourth month this year, sliding 0.4% in May and 0.8% year to date, though is less than a percentage point below February's record high. In May, four of the 10 components of the LEI fell and five rose, while the average workweek was unchanged. Dragging the index down were stock prices (-0.35ppt), consumer expectations (-0.29),

building permits (-0.22), and the new orders diffusion index (-0.01); these declines were partially offset by gains in the interest-rate spread (+0.27), jobless claims (+0.13), leading credit index (+0.03), real core capital goods orders (+0.03), and real consumer goods orders (+0.01).

Coincident Indicators (*link*): The Coincident Economic Index (CEI) climbed to yet another record high in May, posting only one decline the past eight months, rising 0.2% m/m and 2.3% over the period—after showing no growth last August and September. Three of the four components contributed positively to May's CEI, with industrial production (-0.02ppt) being a drag on the index for the first time this year. Worth noting: Both industrial production and the CEI for May were released last Friday morning, with the industrial production report showing a 0.2% increase in May output to a new record high, while the CEI report showed a slight decline in production—suggesting May's CEI was likely slightly higher than reported. Here's how the remaining three components performed: 1) Payroll employment (+0.08ppt) in May advanced 390,000, below the 513,000 average monthly gain the first four months of this year, while jobs growth was revised slightly higher in April and lower in March, for a net loss of 22,000 over those months. Total payroll employment has recovered 21.2 million jobs since bottoming in April 2020, though is still 822,000 below its pre-pandemic level. 2) Real personal income less transfer payments (+0.08) has increased three of the past four months, climbing 0.2% in May and 0.5% over the period to a new record high. 3) Real manufacturing & trade sales (+0.05) advanced for the second month, by a total of 0.7%, after a two-month decline of 1.9%; it's less than 2 percentage points below last March's record high.

Industrial Production (*link*): Industrial output in May continued to reach new record highs, going back to the start of the data in January 1921—though May's gain was less than a quarter of the average monthly increase for the first four months of this year. Headline production climbed for the seventh time in eight months, by 0.2% m/m and 5.8% over the period, while manufacturing output dipped only 0.1%, following a three-month jump of 1.4% to its highest level since summer 2008—despite supply-chain disruptions and shortages driven by the war. By market group, consumer goods production remains on an accelerating trend, climbing 3.2% ytd and 23.5% since its April 2020 bottom to its highest level since July 2008. Over these comparable periods, consumer durable goods production rose 4.5% and 97.8%, respectively, to a new record high, while output of consumer nondurable goods expanded 2.9% and 10.9% to its best level since the final month of 2011. Meanwhile, business equipment production has posted only one decline the past eight months, climbing 0.2% in May and 6.3% over the period, to its highest level since November 2019. It's up 53.3% from its April 2020 bottom. Within business equipment, production of information

processing equipment has been stalled around last August's record high, while industrial equipment output remains on an accelerating trend, though dipped 0.4% in May after a six-month spurt of 4.7%. Meanwhile, production of transit equipment advanced for the fourth consecutive month in May—the longest span since the final months of 2020—climbing 1.1% m/m and 11.0% over the period.

Capacity Utilization (*link*): The headline capacity utilization rate in May climbed to its highest percentage since December 2018, with the manufacturing rate easing a bit from recent highs. The headline capacity utilization rate climbed for the fifth month from 76.4% in December to 79.0% last month, with the rate 15.6ppts above April 2020's low of 63.4%. The manufacturing rate edged down to 79.1% after climbing from 77.1% at the end of last year to 79.2% in April—which was the highest since spring 2007—while the mining rate climbed for the third month, from 77.7 the first two months of the year to 81.5% in May, and the utilities rate rose from 72.1% in March to 76.4% last month. The capacity utilization rate for manufacturing was 1.0ppt above its long-run average, while the rates for mining and utilities were 4.4ppts and 8.4ppts below.

Regional M-PMIs (*link*): Two Fed districts (New York and Philadelphia) have reported on manufacturing activity for June and show the manufacturing sector held just below the demarcation line between expansion and contraction. The composite index edged up to -2.3 this month after sinking from 21.1 in April to -4.5 in May—which was the first negative reading since May 2020—as activity in the New York (to –1.2 from -11.6) region moved back toward expansionary territory, while activity in Philadelphia's (-3.3 from 2.6) contracted for the first time since May 2020. Meanwhile, orders (-3.6 to 6.7) were in contractionary territory for the first time since spring 2020, on a big swing in activity in the Philadelphia (to -12.4 from 22.1) region from positive to negative, while New York's (5.3 from -8.8) moved from negative to positive, though that swing wasn't as dramatic. Employment (23.6 from 19.8) continued its strong readings, with hirings at both Philadelphia (28.1 from 25.5) and New York (19.0 from 14.0) factories robust. Turning to prices, the prices-paid measure in the New York region accelerated to 78.6 in June after easing from a record-high 86.4 in April to 73.7 in May, while Philadelphia's gauge eased for the second month to 64.5 from April's record-high 84.6. Meanwhile, prices-received in the New York area eased for the third month, from a record-high 56.1 in March to 43.6 this month, with Philadelphia's at 49.2 this month, down from October's record-high 62.9.

Housing Starts & Building Permits (*link*): Both housing starts and building permits plunged in May to their lowest reading since last April and September, respectively, while homebuilders' optimism for June dropped for the sixth successive month to its lowest

reading since June 2020. Housing starts plummeted 14.4% to 1.549mu (saar) in May, while April starts were revised upward (to 1.810mu from 1.724mu) to show an increase of 5.5% rather than a 0.2% downtick. Single-family starts contracted for the fourth time this year, by 9.2% in May and 13.3% ytd, to 1.051mu (saar), while multi-family starts plunged 23.7% to 498,000 units (saar) after soaring 24.4% in April to 653,000 units—the highest since the mid-1980s. Building permits fell for the third time this year, sinking 7.0% in May and 10.6% over the period to 1.695mu (saar), with single-family permits dropping for the third month, by 5.5% in May and 13.0% over the period to 1.048mu (saar). Multi-family permits dropped for the third time this year, by 9.4% in May and 16.8% ytd to 647,000 units (saar). In May, total housing starts fell 3.5% y/y, while the rate for permits was flat with a year ago. In May, housing under construction reached another new record-high at 1.665mu, while completions climbed 9.1% to 1.465mu. June saw homebuilders' confidence slump to a two-year low of 67, as high inflation and rising mortgage rates reduced affordability for entry-level and first-time home buyers, NAHB's survey showed. The component measuring traffic of prospective buyers dropped below the breakeven-point of 50 for the first time in two years, falling to 48—it was at 71 a year ago. The remaining two components show the measure for current sales dropped a point to 77, while the measure for expected sales dropped 2 points to 61; they were at 87 and 79, respectively, a year ago.

Global Economic Indicators

Eurozone CPI (*link*): The headline CPI rate for May confirmed its flash estimate, accelerating to a new record high of 8.1% y/y, up from 7.4% in both April and March—6.1ppts above last May's 2.0%. The rate was at -0.3% at the end of 2020. Looking at the main components, once again energy recorded the largest gain, accelerating 39.1% y/y after slowing from a record-high 44.3% in March to 37.5% in April. The rate for food, alcohol & tobacco climbed to a record-high 7.5% y/y in May, having risen steadily from June 2021's 0.5%, while the rate of non-energy industrial goods jumped to a record-high 4.2%. The services rate picked up for the fourth month, from 2.3% in January to 3.5% in May—the highest since January 1996. Of the top four Eurozone economies, two beat the Eurozone's 8.1% rate, Germany (8.7% y/y) and Spain (8.5)—though Spain's is down from its March rate of 9.8%—while two lagged, Italy (7.3) and France (5.8); France's rate was the lowest of all the EU economies' rates.

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