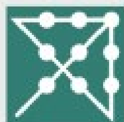
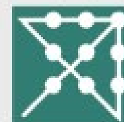


# Yardeni Research



**MORNING BRIEFING**
**June 30, 2022**

## Health Care, Finance & Batteries

*Check out the accompanying chart collection.*

**Executive Summary:** The S&P 500's Health Care sector is pumped: It has outperformed most other sectors ytd and is tied for first place (with Utilities) measured since the S&P 500's recent low on June 16. Jackie parses the opportunity, examining the investment pros and cons of the sector overall and of specific industries and companies within it. … Also: Which fintechs deserve master accounts with access to the Fed's payments system? A couple of recent controversies put that question front and center as the Fed works on rules to govern the process of granting master accounts. … And: A look at where Tesla is going with its battery technology.

**Health Care: Mending?** For years, the S&P 500 Health Care sector hasn't gotten any respect, but a bear market has a way of shaking things up. This year, the sector has been an outperformer during the market's ytd slide, and it has led the market in the days since the S&P 500 hit its most recent low on June 16.

Here's the performance derby for the S&P 500 and its sectors ytd through Tuesday's close: Energy (36.6%), Utilities (-3.1), Consumer Staples (-7.2), Health Care (-9.6), Materials (-17.1), Industrials (-17.2), Financials (-18.2), S&P 500 (-19.8), Real Estate (-20.7), Information Technology (-26.4), Communication Services (-29.5), and Consumer Discretionary (-32.0) (*Fig. 1*).

Here's the performance derby for the S&P 500 and its sectors from June 16 through Tuesday's close: Health Care (6.7%), Utilities (6.7), Real Estate (6.6), Consumer Staples (4.5), Information Technology (4.4), S&P 500 (4.2), Communication Services (4.1), Financials (4.0), Consumer Discretionary (4.0), Industrials (2.5), Materials (0.7), and Energy (-1.0) (*Table 1*).

There's lots to like about the Health Care sector, especially given the market's turmoil. The Health Care sector sports a dividend yield of 1.5%, and its forward P/E of 14.8 is lower than the S&P 500's forward P/E of 15.9, both as of June 16 (*Fig. 2*).

The sector's earnings as a percentage of the S&P 500's total earnings routinely has exceeded its market capitalization as a percentage of the S&P 500's total market

capitalization. As of June 16, the Health Care sector's earnings share was 15.4%, while its capitalization share was only 14.4%. The difference was even wider in November 2020, when its earnings share was 18.9% and its capitalization share was 13.5% (*Fig. 3*). The Health Care sector's market-cap share wasn't always lower than its earnings share. In the 20-plus years before 2008, the sector almost always had a capitalization share that was north of its earnings share.

There is, of course, a hitch. After growing 27.2% in 2021, the sector's earnings are expected to increase by only 5.8% this year and experience no growth in 2023 (*Fig. 4*). Let's take a look at which industries within the Health Care sector are outperforming the market and which do—and don't—have prospects for earnings growth this year and next:

(1) *Tracking the movers.* The industries that have propelled the S&P 500 Health Care sector to the top of the list since the S&P 500's June 16 low include Managed Health Care (9.8%), Biotechnology (8.8), and Pharmaceuticals (6.9). Health Care Services (5.2), Life Sciences Tools & Services (4.8), Health Care Distributors (4.7) and Health Care Equipment (4.5) are also beating the S&P 500's 4.2% return over the same period. Only Health Care Supplies (4.0) and Health Care Facilities (2.8) are lagging the S&P 500 (*Fig. 5*).

(2) *The right medicine.* Some of the largest companies in the S&P 500 Pharmaceuticals industry have turned in the strongest share price performances this year. Bristol Myers Squibb shares have gained 7.8% since the market low on June 16 and 26.2% ytd, both through Tuesday's close. Investors who once were concerned about Bristol Myers' lost patent protection on Revlimid are now focused on new drug approvals and drugs under development, a May 31 *Barron's* *article* concluded. The company is expected to earn $7.56 per share in 2022 and $8.12 in 2023, giving the shares a P/E based on the 2023 estimate of only 9.7.

Merck shares also have outperformed, gaining 8.6% since the market's June 16 low and 19.9% ytd, both through Tuesday's close. The company has benefitted from its drug to treat Covid, and it's in the middle of negotiations to buy Seagen, which develops cancer drugs. Its earnings are barely expected to grow from $7.39 a share this year to $7.43 next year.

Eli Lilly is expected to grow its earnings by more than 30% next year, from a projected $8.37 a share this year to $9.46 in 2023. However, its shares trade at a high 33.6 times that 2023 estimate as of Tuesday's close. Lilly shares have climbed 8.4% from the market's low and 15.0% ytd.

In the Biotech space, share price performances since the S&P 500's recent low have been more impressive than the ytd returns. AbbVie's shares rallied 10.4% from the June 16 low and 12.6% ytd. Not far behind is the 10.3% gain in Incyte's share price from the June 16 market low, but its ytd rise is a much lower 3.0%. Incyte is facing a patent expiration on its largest drug, Jakafi; but the company recently received approval for an atopic dermatitis drug and has applications in for three drugs treating non-Hodgkin's lymphoma.

Moderna—one of the companies that developed a Covid-19 vaccine—gained 10.6% since the June 16 low, but its shares are down 44.0% ytd. Investors are wondering if Moderna's earnings will fall now that the government is no longer paying for Covid vaccinations and US cases remain moderately low.

(3) *One eye on DC.* Senator Joe Manchin (D-WV) killed President Joe Biden's "Build Back Better" (BBB) bill in December, disapproving of the massive spending involved. But in recent weeks, he reportedly has been supporting a "slimmed-down version" of BBB, a June 17 *WSJ* *article* reported. The original bill contained drug-pricing reform, allowing Medicare to negotiate drug prices with pharma companies.

Negotiations are expected to continue over the summer and might leave the bill stripped down to include only the drug-pricing changes. Regeneron and Amgen have the most to lose, according to the *WSJ*. "Direct Medicare negotiations for Regeneron's Eylea could trim the company's revenue by 5% to 15%, according to Morgan Stanley estimates."

(4) *Another eye on earnings.* While the Pharmaceutical and Biotechnology indexes have been among the top performers this year, both industries' earnings next year are expected to fall. Now at the halfway point of 2022, investors should be starting to eye 2023 earnings prospects. And next year, the earnings in the Health Care Supplies and Health Care Facilities industries are expected to be the fastest growers in the sector.

Here's the performance derby of the Health Care industries' earnings this year and next, ranked based on 2023 estimates: Health Care Supplies (-9.0, 16.7), Health Care Facilities (-1.4, 16.2), Managed Health Care (13.3, 13.9), Life Sciences Tools & Services (-3.4, 8.5), Health Care Equipment (-2.3, 7.2), Health Care Services (-3.7, 7.1), Health Care Distributors (0.0, 7.0), Health Care Sector (5.8, 0.0), Pharmaceuticals (18.2, -2.6), and Biotechnology (-2.9, -14.6).

**The Fed: Mastering Master Accounts.** One of the benefits of being a regulated bank is the ability to have a bank account with one of the Federal Reserve's regional banks. This

master account gives the account holder access to the Fed's payments system. As fintechs grow in size and number, there has been an uproar over which should and shouldn't have a master account at the Fed. In May 2021, the Federal Reserve laid out new *guidelines* to govern the process, on which it asked for comments.

Here's a quick look at what caused the controversy and how the Fed's proposed rules would address the issue:

(1) *Controversy around Reserve Trust.* Two recent events have thrust the obscure master account into the headlines. The first revolves around a Colorado-based fintech, Reserve Trust.

Its 2017 application for a master account was originally rejected by the Kansas City Federal Reserve. Sarah Bloom Raskin--a former Fed governor who in 2017 sat on Reserve Trust's board--called Kansas City Fed President Esther George about the application, according to Senator Pat Toomey (R-PA), and the application was subsequently granted in 2018. The reason given for the reversal was that the firm had changed its business model, a June 9 Reuters *article* stated. Then earlier this month, Reserve Trust's master account was revoked, and Toomey sent a letter asking George to explain why.

Whether or not ethical lines were breached, the denial, granting, then revocation of Reserve Trust's master account collectively raise questions about the Fed's process for approving master accounts at a time when many fintech and crypto firms are pressing for access to the Fed account.

(2) *Controversy around Custodia.* In June, Custodia, a Wyoming-based bank, sued the Federal Reserve Bank of Kansas City and the Federal Reserve Board of Governors because they failed to address the bank's 2020 application to open a master account. Custodia is a special purpose depository institution. Its deposits are not FDIC-insured, but it does have to meet bank-level capital requirements and compliance requirements, its *website* states. Founded by Caitlin Long, former Morgan Stanley managing director, the bank's trust department would act as a custodian holding cryptocurrencies for customers and the bank plans to hold all deposits in cash.

In its lawsuit, Custodia claims the defendants are preventing the bank from introducing innovative and competitive services that threaten established financial institutions whose interests are represented by the members of the Kansas City Fed's board of directors, a June 13 CoinGeek *article* reported.

(3) *Fed's proposal.* The Fed put forth in May 2021 a list of *rules* to govern the process of granting master accounts. The goals are to ensure the safety of the banking system, effectively implement monetary policy, foster financial stability, protect consumers, and promote a safe, efficient, inclusive, and innovative payment system.

Some firms dealing with cryptocurrencies lack know-your-customer practices and may find it difficult to meet the Fed's requirement that firms with master accounts not facilitate money laundering, terrorism financing, fraud, cybercrimes, or other illicit activity.

By proposing a set of rules, the Fed aims to have a consistent and transparent process for evaluating applications across the entire Federal Reserve Bank system. That would prevent applicants from submitting applications to the Fed Bank that they believe is most lenient. And it would mean that individual Fed Banks' decisions don't become precedents by which the rest of the Fed Banks must abide.

Last month, the Fed provided a *supplement* to last year's proposal that lays out the master account review process. Basically, the less regulated the institution is, the more it will be reviewed. Regulated institutions with federal deposit insurance would receive a more streamlined review compared with institutions that don't have federal deposit insurance and aren't regulated by a federal bank regulatory agency.

**Disruptive Technologies: Tesla, the Battery Company.** Beyond offering snazzy electric cars, Tesla sells wall-mounted batteries used in homes and huge batteries in shipping containers used by utilities. The batteries—both small and large—are augmenting various parts of the US electric generation system. It's hoped that they can smooth out electricity available when it's produced by windmills and solar panels, which can be variable, or provide needed power at moments of peak demand. Here's a look at what the renowned car manufacturer is doing in the world of batteries:

(1) *VPPs spreading.* Tesla was among the first to create a virtual power plant (VPP) when it won a contract in 2018 to install solar panels and Powerwall batteries in 50,000 Australian homes by 2022, as we discussed in the August 15, 2019 *Morning Briefing*. When extra power is needed by utilities, the Powerwalls can sell electricity back into the electric grid, helping to stabilize the system. Powerwalls can also be used by the homeowner to store energy generated by solar panels during the day for use at night. Alternatively, energy in the Powerwall can be tapped by the homeowner if there's a disruption to electric service. The company recently announced that it was expanding its VPP beyond South Australia and Victoria to New South Wales, South-East Queensland, and the Australian Capital Territory.

We also discussed VPPs in the April 28 *Morning Briefing*, noting that Vermont's utility, Green Mountain Power, had created a VPP that taps into Tesla's Powerwalls in about 4,000 homes. Tesla and Pacific Gas & Electric (PG&E) have launched a VPP that will pay homeowners with a Powerwall $2 for every kilowatt hour delivered back into the California electric system when it's needed. Contributors will receive a notification before and during the event with details of the expected duration. "A fully-charged Powerwall with 20% backup reserve that typically serves 3kWh of energy during event hours, for example, could deliver an additional 7.8kWh to the grid, earning its owner $15.60," a June 24 PC Magazine *article* reported.

Last year, Hawaii tapped Swell Energy to design a VPP that uses Tesla Powerwalls in 6,000 homes in Oahu, Maui, and Hawaii. And Tesla is testing a VPP in Texas to convince grid officials to permit utilities to bid on energy provided by homeowners' Powerwalls. Without the rule change, homeowners can't be compensated for joining the program, but they may receive a $40 Tesla gift card. They also have to let Tesla control 80% of the capacity of their Powerwalls, a June 13 Electrek *article* reported.

(2) *Bigger batteries spread too.* Tesla also makes giant batteries for industrial use. They've been installed in Australia and by PG&E in Monterey County, California. The California project, which went into operation last year, is expected to expand to 1.1 GWh of capacity.

Up next: Hawaii announced that the island would use Tesla's Megapacks. The batteries are expected to hold electricity generated by solar panels and windmills and replace the island's last remaining coal-fired power plant. The Kapolei Energy Storage facility will have a capacity of 185 megawatts/565 megawatt hours, making it one of the largest battery systems in the world. The system will have 158 Tesla Megapacks, each with a capacity of up to 3MWh.

(3) *Stronger car batteries coming.* We've long contended that Tesla's market position would be safe as long as its cars' batteries permit driving further on a charge than the batteries of competitors' cars. Fortunately, Tesla is a client of Chinese battery maker CATL, which recently announced that next year it will start producing a battery that gives a car 620 miles of driving range, a June 28 Business Insider *article* reported.

That would top the 520 miles that Lucid Air's $169,000 sedan travels and the 405 miles that Tesla's Model S travels on a single charge. CATL, also notes that its batteries will charge faster than batteries currently on the market because it has devised a way to cool the

battery cells more quickly. As a result, the battery's charge can be increased from 10% to 80% full in 10 minutes. Now that would be welcome progress.

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## Calendars

**US: Thurs:** Core PCED 0.4%m/m/4.8%y/y; Personal Income & Consumption 0.5%/0.4%; Initial & Continuous Jobless Claims 228k/1.31m; Chicago PMI 58.0; Natural Gas Storage; OPEC Meeting. **Fri:** ISM M-PMI & Price Index 54.9/81.0; Construction Spending 0.4%; Baker-Hughes Rig Count. (Bloomberg estimates)

**Global: Thurs:** Eurozone Unemployment Rate 6.8%; Germany Retail Sales 0.5%m/m/-2.0%y/y; Germany CPI 0.3%m/m/7.9%y/y; Germany Import Prices 1.6%m/m/31.5%y/y; Germany Unemployment Change & Unemployment Rate -6k/5.0%; Italy Unemployment Rate 8.4%; UK GDP 0.8%q/q/8.7%y/y; Canada GDP 0.3%m/m; Japan Unemployment Rate 2.5%; Japan Large Manufacturers & Non-Manufacturers 17/14; China Caixin M-PMI 50.1; Lagarde. **Wed:** Eurozone CPI Flash Estimate 8.4% y/y; Eurozone, Germany, France, Italy, and Spain M-PMIs 52.0/52.0/51.0/50.5/52.1; Italy CPI 0.6%m/m/7.4%y/y; UK M-PMI 53.6. (Bloomberg estimates)

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## Strategy Indicators

**Stock Market Sentiment Indicators** (*link*): The Bull/Bear Ratio (BBR) was below 1.00 for the ninth consecutive week this week—though rose for the first time in four weeks to 0.82, after falling from 0.93 to 0.60 (lowest since March 2009's 0.56) the prior three weeks. The BBR has been bouncing around 1.00 since late February. Bullish sentiment jumped 6.4ppts this week to 32.9% after sliding 9.2ppts (to 26.5% from 35.7%) the prior two weeks, while bearish sentiment dropped 4.1ppts to 40.0% after a three-week surge of 6.1ppts (44.1 from 38.0). The correction count slipped to 27.1% after climbing from 24.3% to 29.4% the previous two weeks. Meanwhile, the AAII Sentiment Survey (as of June 23) showed optimism fell as pessimism rose to near historic levels. The percentage expecting stock prices to rise over the next six months fell for the third successive week from 32.0% to a two-month low of 18.2%, while the percentage expecting stock prices to fall over the next six months climbed for the third week from 37.1% to 59.3%—above its historical average of 30.5% for the 30th time in 31 weeks—and at "an unusually high level for the 11th time in 13

weeks," according to the report.

**MSCI World & Region Net Earnings Revisions** (*link*): Analysts' recent earnings revisions through June suggest improving optimism about profits in Europe and the US, and slightly less pessimism about profits throughout the rest of the world. The US MSCI's NERI was positive in June for a 23rd straight month after 14 negative readings, and edged up to 0.5% from 0.3% in May and from a 21-month low of less than 0.1% in April. That compares to post-pandemic high of 21.1% in July and an 11-year low of -36.9% in May 2020. The AC World ex-US MSCI's NERI was negative for a fourth month following 17 straight positive readings, but edged up to -3.5% from a 22-month low of -3.8% in May. NERI was negative again in June and weakened m/m for EM Asia and Emerging Markets. EM Latin America weakened m/m too, but was positive for a fourth month. EM Eastern Europe turned positive for the first time in three months. Here are June's scores among the regional MSCIs: EM Latin America (5.0% in June, down from 5.6% in May [9-month high]), EMU (3.7, 2.4), Europe ex-UK (3.1, 1.2), Europe (3.0, 1.3), EAFE (1.8, 0.4), EM Eastern Europe (0.6, -1.6 [21-month low]), US (0.5, 0.3), AC World (-2.4, -2.7 [22-month low]), AC World ex-US (-3.5, -3.8 [22-month low]), Emerging Markets (-7.3 [23-month low], -7.0), and EM Asia (-8.5 [24-month low], -8.2).

**MSCI Countries Net Earnings Revisions** (*link*): NERI was positive for 23/41 MSCI countries in June. That's up from 21/41 in May and 20/41 in April, which was the lowest count since October 2020. It had peaked at 35/41 during May 2020, which nearly matched the record-high 36/41 from June 2004. That also compares to zero countries with positive NERI from April to June 2020. NERI improved m/m in June for 23/41 countries, the same as in May and up from 12/41 in April. These countries had relatively high NERIs in June: Indonesia (the highest since June 2010), Spain (10-month high), and Belgium (5-month high). Canada, Norway, and the US have had positive NERI for 23 straight months, followed by the UK at 22 months. New Zealand has the worst negative-NERI streak, at 21 months, followed by Hong Kong (13), China (10), and Malaysia (10). NERI flipped back into positive territory for Japan, Korea, the Netherlands, and Spain, but turned negative for Malaysia and South Africa. The highest NERI readings in June: Peru (21.1%), Turkey (19.1), Austria (13.3), Ireland (12.9), the Czech Republic (11.7), Chile (11.4), and Mexico (10.0). The weakest NERIs occurred this month in New Zealand (-13.5), India (-11.4), China (-11.3), Hong Kong (-11.0), Taiwan (-4.4), Switzerland (-4.2), and the Philippines (-3.7).

**AC World ex-US MSCI** (*link*): This index is down 4.1% in local-currency terms so far in June to an 11.3% decline ytd. In US dollar terms, the index is down a greater 6.5% so far in June, and has declined a greater 17.6% for 2022 to date. Local-currency forward revenues

has risen 14.4% since it bottomed in January 2021, and rose 0.4% m/m to just 0.1% below its record high of May 2019. Local-currency forward earnings rose 0.3% m/m and is now 0.2% below its early June record high, but has soared 55.9% since it bottomed in July 2020. Revenues are expected to rise 10.7% in 2022 and 3.3% in 2023 following a 16.0% gain in 2021, and earnings are expected to increase 12.7% (2022) and 5.5% (2023) after soaring 56.0% (2021). The industry analysts' sales forecasts imply short-term 12-month forward revenue growth (STRG) of 7.0% and short-term 12-month forward earnings growth (STEG) of 8.8%, compared to 4.1% and 10.0% before Covid-19 hit the news. These measures bottomed at -0.1% and -0.3%, respectively, during May 2020. The profit margin implied by analysts' earnings and revenue estimates calls for 9.2% in 2022 and 9.4% in 2023, compared to 9.1% in 2021. The record-high forward profit margin forecast of 9.3% is up from a 10-year low of 6.6% at the end of May 2020 and first exceeded its prior 9.0% record high from September 2007 during August. The Net Earnings Revision Index (NERI) for the AC World ex-US MSCI was negative in June for a fourth straight month following 17 positive readings, but improved to -3.5% from a 22-month low of -3.8% in May. That compares to a 12-year high of 6.4% in July and an 11-year low of -23.9% in May 2020. The forward P/E of 11.7 is at a 25-month low and compares to an 18-year high of 17.1 in February 2021. The forward P/E drops to 11.4 using normalized forward earnings. Those readings are up from their March 2020 lows of 10.8 and 10.2, respectively. The index is at a 17% discount to the World MSCI P/E, up from a record low 22% discount around the beginning of the year.

**Emerging Markets MSCI** (*link*): The EM MSCI price index is down 4.4% in US dollar terms so far this month to a 16.4% decline ytd. In local-currency terms, EM is down a lesser 2.6% month-to-date to a smaller ytd loss of 12.7%. Local-currency forward revenues has risen 10.9% since its bottom in January 2021, and rose 0.1% m/m to 4.8% below its record high in May 2019. Local-currency forward earnings is up 34.2% since its bottom in June 2020, but dropped 0.5% m/m and is now 6.2% below its record high in early March. Revenues are expected to rise 11.5% in 2022 and 5.8% in 2023 after jumping 20.3% in 2021. That's expected to lead to an earnings gain of 10.0% in 2022 and 8.7% in 2023, following a 49.4% recovery gain in 2021. Forecasted STRG of 8.6% is down from April 2021's 11-year high of 12.6%, which compares to a five-year low of 3.6% at the end of April 2020. STEG has dropped to 9.5% from a record high of 33.7% in December 2020, but that's up from a 12-year low of 5.3% in December 2021. The implied profit margin is expected to drop to 7.5% in 2022 from 7.6% in 2021 and improve to 7.7% in 2023. The forward profit margin of 7.6% is up from a four-year low of 6.1% at the end of May 2020 and compares to its 10.3% record high in December 2007. NERI was negative in June for an eighth straight month as it dropped to a 23-month low of -7.3%. That compares to an 11-year high of 6.0% in February 2021 and an 11-year low of -18.7% in May 2020. Emerging Markets' forward P/E of 11.1 0.9

is up slightly from its 26-month low of 10.9 in mid-May and compares to a record high of 16.3 in February 2021. The P/E drops to 10.6 using normalized forward earnings. That's up from those figures' March 2020 lows of 10.1 and 9.3, respectively. The index is trading at a 21% discount to the World MSCI P/E, which is close to its biggest discount since 2005.

**EMU MSCI** (*link*): The EMU MSCI price index has fallen 6.7% month-to-date in local-currency terms to a ytd decline of 17.9%. In US dollar terms, EMU is down a greater 8.4% so far in June to a bigger ytd drop of 24.1%. Local-currency forward revenues gained 0.4% m/m and has risen 18.4% since its bottom in January 2021, but is still 2.1% below its record high in September 2008. Local-currency forward earnings gained 0.5% m/m and is up 70.3% since its bottom in July 2020, but remains 2.8% below its record high from January 2008. Revenues are expected to rise 8.5% in 2022 and 2.3% in 2023 after gaining 15.0% in 2021. That's expected to lead to an earnings gain of 11.9% in 2022 and 5.8% in 2023, following a recovery gain of 76.0% in 2021. Forecasted STRG of 5.3% is down from a record-high 8.3% during April 2020, but that's up from an 11-year low of -0.9% during April 2020. STEG has dropped to 8.6% from a record high of 47.4% in December 2020, but that's up from a record low of -6.7% in April 2020. The implied profit margin is expected to rise from 8.5% in 2021 to 8.7% in 2022 and 9.0% in 2023. The forward profit margin has risen to a 13-year high of 8.8% from a 12-year low of 6.0% at the end of July 2020, but remains below its 9.1% record high in October 2007. NERI was positive in June for an 18th month after 27 straight negative readings, and improved to 3.7% from 2.4% in May. That compares to a record low of -35.9% in May 2020 and is down from a record high of 15.2% in September. EMU's forward P/E of 11.3 is at a 27-month low and compares to a record high of 18.3 in July 2020. The P/E drops to 11.0 using normalized forward earnings. That's up from those figures' March 2020 lows of 10.2 and 9.7, respectively. The index is trading at a 20% discount to the World MSCI P/E, which is among its worst readings since 2001.

**China MSCI** (*link*): The China MSCI price index is the best performer of the 49 MSCI countries so far in June, with a gain of 8.4% in local currency terms. Its 8.8% ytd decline has improved markedly to 20th best. Local-currency forward revenues has risen 5.8% since its five-year low in June 2021, but was down 1.8% m/m to 33.7% below its record high in October 2014. Local-currency forward earnings fell 2.1% m/m and is up only 1.7% since its bottom in June 2020 to 16.4% below its record high in June 2018. Revenues are expected to rise 11.5% in 2022 and 7.0% in 2023 after surging 18.7% in 2021. That's expected to lead to an earnings gain of 11.0% in 2022 and 15.2% in 2023, following a relatively meager 5.3% increase in 2021. Forecasted STRG of 9.1% is down from an 11-year high of 13.5% in April 2020, but that's up from a five-year low of 5.0% at the end of April 2020. STEG has dropped to 13.2% from a 10-year high of 18.6% during December 2020, which compares to

a four-year low of 8.0% in April 2020. The implied profit margin ranks as one of the lowest in the world; it's expected to remain unchanged y/y at 4.4% in 2022 and to rise to 4.7% in 2023. The forward profit margin of 4.6% is down from a record high of 5.2% in July 2021, but that's little changed from its pandemic low of 4.5% in May 2020. NERI was negative for a tenth straight month in June, but improved to -11.3% from a 23-month low of -11.7% in May. Still, that ranks third worst among the 41 MSCI countries that we follow. China's forward P/E has jumped to 11.2 from an eight-year low of 8.7 in mid-March, and is 10.4 using normalized forward earnings. That compares to those figures' March 2020 lows of 10.5 and 9.8, respectively. The index is trading at a 21% discount to the World MSCI P/E, up from a 22-year low discount of 46% in mid-March.

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## US Economic Indicators

**GDP** (*link*): Real GDP was revised to show a decline of 1.6% rather than a decline of 1.5% during Q1. While that seems like nothing to write home about, there were some major revisions within the report. Real consumer spending expanded a revised 1.8%—1.3ppts below the previous estimate of 3.1%—reflecting slower spending on both consumer durable goods (to 5.9% from 6.8%) and consumer services (3.0 from 4.8), while the decline in consumer nondurable goods was unchanged at -3.7%. Meanwhile, real gross private domestic demand was revised up to 5.0% from 0.5%—reflecting upward revisions to real nonresidential investment (10.0 from 9.2) and real inventory investment ($188.5 billion from $149.6 billion); residential investment was unchanged a 0.4%. Within nonresidential investment, the biggest upward revision was to structures (-0.9 from -3.6), which was less negative, while equipment spending (14.1 from 13.2) was more positive. Meanwhile, spending on intellectual property products (11.2 from 11.6) was little changed at its double-digit pace. Within trade, real exports (-4.8 from -5.4) fell at a slower pace, while real imports (18.9 from 18.3) were slightly stronger.

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## Global Economic Indicators

**Eurozone Economic Sentiment Indicators** (***link***): The Economic Sentiment Indexes (ESI) for the EU (-1.7 points to 102.5) and Eurozone (-1.0 to 104.0) deteriorated further this month—with both the lowest since February 2021. The EU's ESI is down 13.6 points since its recent peak of 116.1 in October, while the Eurozone's is 13.7 points lower than its 117.7

peak last July. It was a sea of red this month, as ESIs fell across the six largest EU economies. The Netherlands (-3.6 points to 99.3) posted the largest decline, followed by Germany (-1.9 to 105.2), Spain (-1.9 to 102.4), Poland (-1.5 to 96.0), France (-1.0 to 102.8), and Italy (-1.0 to 105.4). For the overall EU at the sector level, consumer confidence remains in a freefall, plunging 19.9 points (to -24.0 from -4.1) since last June—nearly matching its record low of -24.7 during the pandemic. Retail trade confidence continues to move further into negative territory, sliding from its recent peak of 6.2 last August to -3.8 this month—its third consecutive month in negative territory—while construction confidence dropped for the fifth time this year, to 1.9, down 2.1 points in June and 6.5 points ytd. Meanwhile, services confidence remains in a flat trend at recent highs, ticking down 0.4 point to 13.9 this month and averaging 14.1 the first half of this year. Industrial confidence peaked at a record high of 12.8 in December, falling to 5.4 this month.

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