MORNING BRIEFING
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Bear Market Rally Or A New Bull Market?

Check out the accompanying chart collection.

Executive Summary: What's ahead for the stock market? That depends on the significance of the S&P 500's June 16 low-to-date in the current bear market, of 3666. If that turns out to be the bear's bottom—which sure would be freaky since the last one of those was at S&P 500 666—then either a bull market or a sideways-drifting one is just ahead. Alternatively, deeper lows may be in store if the gain since June 16 was just a short-covering rally within a bear market (as the reversal in sector leadership suggests). … Today, we examine both the bull and bear scenarios, laying out the cases for each.

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Strategy I: Calling Bottoms. Early in my career, when I was at Prudential-Bache Securities, I worked as the firm's chief economist alongside its chief investment strategist, Greg Smith. On Monday, August 16, 1982, we called the bottom in the stock market, which actually had bottomed four days earlier on Thursday, August 12, it was later determined. On August 17, Solomon Brothers' renowned chief economist, Henry Kaufman, also turned bullish. My weekly commentary that week was titled "Fed-Led Recovery Now Seems Likely." (Greg was a great professional mentor and personal friend. Sadly, he passed away earlier this year.)

Five years later, the stock market crash on Black Monday, October 19, 1987 stress-tested the conviction of bulls like Greg and myself. Nevertheless, we spent much of that day reassuring our sales force that this was unlikely to be the beginning of a long-lasting bear market. The bear market ended on December 4 of that year. Fed Chair Alan Greenspan came to the rescue with what came to be known as the "Fed Put."

In the late 1990s, I was bearish on technology stocks because they seemed overvalued. I was particularly concerned when Greenspan, in his January 28, 1999 congressional testimony, *compared* investing in tech stocks to playing the lottery. In addition, I expected a recession triggered by the Y2K problem. There was a tech-led bear market from March 24, 2000 to October 9, 2002. There was also a recession at the time that resulted from too

much Y2K-related spending on technology; the spending fixed the Y2K problem but also triggered a downturn when tech spending suddenly dropped off at the start of the new millennium.

I didn't call the stock market bottom that occurred in late 2002, but I did turn increasingly bullish on commodities and on China. I didn't anticipate the magnitude of the Great Financial Crisis because I didn't expect that the US government would let Lehman fail. However, I did cut my rating on the S&P 500 Financials from overweight to underweight on June 25, 2007. Lehman was allowed to fail on September 15, 2008, and the Financials led the bear market lower through early March 2009.

On March 16, 2009, I wrote that the devilish intraday low of 666 on the S&P 500 on March 6 might have marked the end of the bear market, which did end on March 9. As a symbolist, I relied on the Da Vinci Code for that insight. As a fundamentalist, I observed that on March 16, the Fed's first round of quantitative easing was expanded to $1.25 trillion in mortgage-related securities and $300 billion in Treasury bonds. The Fed Put was back, bigger than ever.

At the end of 2019, I *anticipated* a 10%-20% stock market correction in early 2020. I didn't expect a pandemic and the resulting lockdowns. But when these events rapidly unfolded in February and March, I *argued* that it was too late to panic. I *expected* that the Fed would come to the rescue by slashing interest rates and *suggested* that the Fed might even purchase corporate bonds. When the Fed announced QE4Ever on March 23, I *declared* that this gigantic Fed Put made the bottom.

It's time once again to look for a bottom in the latest bear market. Until recently, I was in the correction camp. My June 14 *QuickTakes* was titled "It's Officially a Bear Market." I conceded the obvious, i.e., that the S&P 500 had entered bear market territory when it was down 21.8% on Monday, June 11 from its record high on January 3.

So where are we now? The bear market low so far was made on June 16, down 23.6% from the January 3 peak. That low was 3666. Is that a freaky Da Vinci Code coincidence or what? The answer will be "yes, it is" if 3666 turns out to be the bear market low. The S&P 500 is up 5.4% since June 16 (*Fig. 1* and *Fig. 2*). That gain could certainly reflect just a short-covering rally in a bear market rather than the beginning of a new bull market. The following two sections examine the alternative scenarios promoted first by the bulls (including us), then by the bears.

Strategy II: It's A New Bull Market. The central assumption of the bulls is that while the bear market did an excellent job of anticipating the bad news that unfolded during the first half of this year, the stock market now will focus on the likely economic outlook for the remainder of this year—which still may be challenging but no more so than that of the first half of this year, while the outlook for 2023 is likely to be brighter.

So there shouldn't be much more downside in the S&P 500's forward P/E, which bottomed at 15.3 on June 16, and was back up to 16.1 on Friday (*Fig. 3*). The S&P 400 and S&P 600 are especially undervalued relative to the S&P 500 with forward P/Es of 11.6 and 11.4 on Friday. Of course, the bulls also assume that any recession will be a mild one, so there shouldn't be a lot of downside in the stock market stemming from downward earnings revisions. Consider the following:

(1) *Inflation is peaking.* The bullish case makes sense only if inflation moderates significantly during H2-2022 as the economy slows modestly—i.e., not enough to fall into a severe recession that forces analysts to slash their earnings estimates. June's CPI and PPI provided only a few glimmers of hope for inflation optimists like ourselves. The CPI durable goods inflation rate peaked at 18.7% y/y during February, falling to 8.4% during June (*Fig. 4*).

While the headline PPI for finished goods soared to 18.6% y/y during June, its core rate (excluding food and energy) was unchanged at 8.8%. More encouraging are the sharp declines from January through June in the core rates of the PPI for intermediate goods (from 23.3% to 13.5%) and the PPI for crude goods (from 23.1% to 7.1%) (*Fig. 5*). Another encouraging sign on the inflation front is that the S&P GSCI Commodity Price Index has dropped 20% since it peaked on June 8 through Friday of last week (*Fig. 6*).

So far, we have one of the five business surveys conducted by the Federal Reserve's district banks for July. The New York delivery index has dropped sharply since the start of this year (from 23.1 to 8.7), suggesting that supply-chain disruptions are abating quickly (*Fig. 7*). Over the same period, the prices received index fell (from 44.6 to 31.3), and so did the prices paid index (from 80.2 to 64.3).

(2) *Fed tightening will be over soon.* The FOMC is on course to raise the federal funds rate by 75bps at the July 26-27 meeting of the committee and is likely to do so again at the September 20-21 meeting. That would bring the federal funds rate range up to 3.00%-3.25%, a level that probably has been discounted by the financial markets. That should be enough to weaken demand (which is already slowing), contributing to the moderation in

inflation expected by equity bulls.

Previously, in our June 28 *Morning Briefing*, Melissa and I argued that the Fed's quantitative tightening (QT) may be equivalent to at least a 50bps-100bps increase in the federal funds rate. We concluded, "In other words, while QT has been widely feared by investors as additional monetary tightening, it might very well lower the peak federal funds rate during the current monetary tightening cycle!" We also observed, "The S&P 500 was quite volatile during the previous QT period, which included a taper tantrum during the last three months of 2018. But it managed to rise 18.3% nonetheless over the QT period" (*Fig. 8* and *Fig. 9*).

(3) *Mid-cycle slowdown underway.* In our July 5 *Morning Briefing*, Debbie and I raised our odds of a mild recession from 45% to 55% with real GDP already down about 1.5% (saar) during H1-2022 and another 2.0% decline likely during H2-2022, followed by a solid recovery in 2023. Last week, we distributed the remaining odds with 35% to a growth recession (i.e., no growth in real GDP), 10% to a boom, and 10% to a bust. So our economic outlook with an 80% subjective probability is comparable to the mid-cycle slowdowns that occurred in the mid-1980s, the mid-1990s, and the mid-2010s, when the y/y growth rate in S&P 500 forward earnings fell to zero for a short spell without a recession, but also without a bear market (*Fig. 10* and *Fig. 11*).

This scenario for the economy was supported on Friday with the release of June's retail sales and industrial production reports. As we noted in the July 15 *QuickTakes*, inflation-adjusted retail sales fell 0.3% m/m during June following a 1.1% decline in May (*Fig. 12*). Manufacturing output fell 0.5% m/m during May and again in June (*Fig. 13*). Both series are reflected in the Index of Coincident Economic Indicators.

The S&P 500, which is one of the 10 components of the Index of Leading Economic Indicators, rallied 1.9% on Friday's news. It was down just 0.9% last week despite higher-than-expected CPI and PPI reports for June on Wednesday and Thursday. In our opinion, if the mid-cycle slowdown (i.e., either a growth recession or a mild downturn) scenario gains credibility, that would increase the odds that the bear market bottom occurred on June 16. Confirming this outlook are the recent peaks in commodity prices (May 4) and the bond yield (June 14).

(4) *TINAC.* The geopolitical mess around the world continues to favor the US dollar, suggesting increasing net capital inflows from overseas into the US financial markets. That helps to explain the recent peaking of the bond yield, which should provide some support to the valuation multiples of stocks.

There is no end in sight for the Ukraine war. Europeans are preparing for a possible permanent shutoff of Russian gas. China continues to struggle with Covid and a bursting housing bubble. Emerging markets are facing soaring prices for energy and food and shortages of both, which are triggering political instability. So lots of global investors may be concluding that they must overweight the US in their portfolios since there is no alternative country (TINAC).

(5) *Too many bears.* Last week's muted response to the latest unpleasant surprises in June's CPI and PPI inflation rates suggests that lots of investors already bailed out of the stock market during the first half of the year. Sentiment remains very bearish, which is bullish from a contrarian perspective. The Investors Intelligence Bull/Bear Ratio was 0.89 during the July 12 week, the 11th consecutive weekly reading below 1.00. During past bear markets, such readings persisted as stock prices continued to fall, but such negative sentiment set the stage for sharp rebounds during the ensuing bull markets (*Fig. 14*).

Strategy III: It's A Bear Market Rally. The stock market's rally since June 16 has been led by the sectors that were the biggest losers during the bear market so far from January 3 through June 16. Here is the performance derby of the 11 sectors of the S&P 500 from January 3 through June 16 and since then through Friday's close: Health Care (-14.4%, 8.9%), Consumer Discretionary (-36.4%, 8.0), Information Technology (-30.2, 7.6), Utilities (-8.3, 7.3), Real Estate (-24.9, 6.3), Consumer Staples (-11.2, 6.1), S&P 500 (-23.6, 5.4), Communication Services (-32.7, 5.0), Financials (-22.4, 3.5), Industrials (-18.6, 1.6), Materials (-16.5, -3.4), and Energy (35.0, -10.9). (See *Table 1* and *Table 2*.)

So it's possible that the rebound is a short-covering rally that won't last much longer. In addition, stocks are certainly cheaper than they were at the start of the year, thus attracting value buyers. However, stock owners might still regret their purchases no matter when they were made if the following occur:

(1) *Protracted inflation.* Inflation was widely deemed to be transitory last year. But by the end of 2021, everyone agreed that it had turned into a more persistent problem. Now the fear is that it might be even more protracted than expected. Some question whether the Fed's tightening will have much impact on inflation for a couple of reasons. One is that the inflation problem seems to have a significant supply-side component that tightening doesn't address. Specifically, the Ukraine war continues to put upward pressure on energy and food prices, and some pandemic-related supply-chain problems remain challenging. Another reason is that price increases continue to spiral into wages and rents, a spiral that's difficult

to halt.

(2) *Fed's 'Volcker Moment 2.0.'* Previously, I've noted lots of similarities between now and the Great Inflation of the 1970s. However, I've also noted that watching recent developments has been like watching *That '70s Show* on fast-forward. If the analogy proves valid, then the surge in inflation over the past year might soon convince Fed Chair Jerome Powell that inflation is becoming a more pernicious and protracted problem. He might have no choice but to find his inner Paul Volcker, raising interest rates much faster and much higher to break the back of inflation as his predecessor of the 1970s did. That would also cause a severe recession, sending the S&P 500 below the June 16 bottom, with possible support at 3386, which was the record high on February 19, just before the pandemic started.

(3) *A severe European recession ahead.* Jackie, Melissa, and I have become increasingly concerned about the vulnerability of European nations should Russia shut off natural gas to the region in retaliation for their support of Ukraine. That would trigger a brutal recession and winter in Europe with consequences that could depress the US economy significantly. We aren't alone with this concern. The euro has dropped 11% since Russia invaded Ukraine on February 24 of this year. For more on this, see the July 14 *Morning Briefing* titled "Europe Sans Gaz (ESG)."

(4) *Earnings shoes starting to drop.* The bears, particularly those who see a deep and long recession ahead, contend that there is still much more downside ahead for stocks since industry analysts are only now starting to cut their earnings estimates for this year and next year. That means that there is also more downside for the stock market's valuation multiple.

Industry analysts might have just started to shave their S&P 500 earnings estimates for 2022 and 2023 during the July 7 week (*Fig. 15*). They are likely to continue to do so over the remainder of this year. During the July 7 week, they projected S&P 500 earnings per share of $229 this year and $250 next year. We are forecasting $215 this year, which would be unchanged from last year and consistent with a growth recession outlook. We are predicting $235 for next year, a 9.0% y/y gain. In a deep and long recession, earnings would likely fall below $200 both this year and next year.

Strategy IV: It's Neither Of The Above. Whether 3666 or some other lower number turns out to be the low, that number won't necessarily mark the beginning of a bull market. After all, the stock market can drift sideways for a while. That's what it did during the Great Inflation of the 1970s.

Now fast-forwarding past this scenario, we see a possibility that a new bull market may be underway in a few months, with the S&P 500 first meandering in a trading range north of 3666 over the next few months and then rising again, making it to new record highs by late 2023.

Calendars

US: Mon: NAHB Housing Market Index 66. **Tues:** Housing Starts & Building Permits 1.585mu/1.650mu; API Weekly Crude Oil Inventories. (Bloomberg estimates)

Global: Mon: Italy Trade Balance; Canada Housing Starts 266.6k; China FDI; RBA Meeting Minutes; Saunders; Bullock. **Tues:** Eurozone Headline & Core CPI 0.8%m/m/8.6%y/y & 0.2%m/m/3.7%y/y; UK Average Earnings Including & Excluding Bonus 6.9%/4.3%; UK Employment Change & Unemployment Rate 3m/3m 170k/3.8%; Bailey; Lowe. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index fell 1.0% last week as the index moved back into bear market territory again to end the week at 20.1% below its record high on December 27. The US MSCI ranked 11th of the 48 global stock markets we follow in a week when five countries rose in US dollar terms. The AC World ex-US index dropped 2.5% for the week and fell deeper into a bear market at 25.0% below its June 15, 2021 record high. On Thursday, that index had been at a two-year low at 25.9% below its record high. EMEA was the best-performing region last week, albeit with a decline of 1.7%, followed by EAFE (-1.8%), EM Asia (-3.8), and EM Latin America (-4.5). Sri Lanka was the best-performing country last week with a gain of 4.1%, followed by the Czech Republic (2.3), Taiwan (1.0), Denmark (0.8), and Pakistan (0.5). Among the 22 countries that underperformed the AC World ex-US MSCI last week, Poland's 7.9% decline was the worst, followed by China (-7.5), South Africa (-6.7), Colombia (-6.6), and Peru (-6.4). The US MSCI's ytd ranking improved two spots w/w to 25/49; its 20.1% ytd decline compared favorably with the AC World ex-US's larger drop of 21.7% ytd. EM Latin America is down 8.4% ytd; it and the EM Asia (-21.2) are the only regions outperforming the AC World ex-

US. The laggards: EM Eastern Europe (-84.9), EMEA (-37.6), EMU (-28.7), BIC (-22.5), and EAFE (-22.2). The best country performers so far in 2022: Jordan (27.2), Chile (5.8), Indonesia (-6.2), the Czech Republic (-6.4), and Brazil (-7.1). Apart from Russia, in which investors have lost 100.0% of their investment this year, here are the worst-performing countries ytd: Sri Lanka (-67.4), Hungary (-44.5), Egypt (-42.9), Poland (-40.6), Ireland (-38.8), and Austria (-37.4).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes fell last week. LargeCap was back in a bear market from Tuesday to Thursday, but ended the week in a correction. In the last 15 weeks, LargeCap has posted only three gains while MidCap and SmallCap have risen four times. LargeCap's latest decline of 0.9% resulted in the index finishing the week at 19.5% below its record high on January 3. MidCap fell 0.7% to end the week 20.9% below its record high on November 16, while SmallCap dropped 0.6% to finish at 22.4% below its November 8 record high. Just seven of the 33 sectors moved higher for the week, down from 13 sectors rising a week earlier. SmallCap Utilities was the best performer with a gain of 1.4%, followed by MidCap Utilities (1.2%), MidCap Consumer Staples (0.9), MidCap Communication Services (0.6), and SmallCap Tech (0.6). SmallCap Energy (-4.5) was the biggest underperformer last week, followed by LargeCap Communication Services (-3.3), LargeCap Energy (-3.1), MidCap Health Care (-2.2), and MidCap Financials (-1.5). In terms of 2022's ytd performance, all three indexes are down a similar 18.9%. Just three of the 33 sectors are positive so far in 2022, unchanged from a week earlier. Energy continues to dominate the top performers: LargeCap Energy (24.0), SmallCap Energy (16.3), MidCap Energy (13.7), MidCap Utilities (-2.2), and LargeCap Utilities (-2.5). The biggest ytd laggards: LargeCap Consumer Discretionary (-29.4), SmallCap Consumer Discretionary (-29.4), LargeCap Communication Services (-28.9), MidCap Consumer Discretionary (-25.9), SmallCap Real Estate (-25.8), and SmallCap Communication Services (-25.8).

S&P 500 Sectors and Industries Performance (*link*): Just one of the 11 S&P 500 sectors rose last week, but six outperformed the composite index's 0.9% decline. That compares to a 1.9% gain for the S&P 500 a week earlier, when five sectors rose and only three outperformed the index. Consumer Staples was the top performer with a gain of 0.1%, followed by Utilities (-0.1%), Tech (-0.3), Real Estate (-0.4), Health Care (-0.5), and Financials (-0.9). The worst performers: Communication Services (-3.3), Energy (-3.1), Materials (-1.3), Industrials (-1.2), and Consumer Discretionary (-1.0). The S&P 500 is down 18.9% so far in 2022 with six sectors ahead of the index, but just one in positive territory. The best performers in 2022 to date: Energy (24.0), Utilities (-2.5), Consumer Staples (-5.8), Health Care (-7.7), Industrials (-17.9), and Financials (-18.6). The ytd laggards: Consumer

Discretionary (-29.4), Communication Services (-28.9), Tech (-24.2), Real Estate (-20.9), and Materials (-20.4).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 0.9% last week and weakened relative to its 50-day moving average (50-dma) and its 200-day moving average (200-dma). The index closed below its 50-dma for a 14th week after four weeks above and closed below its 200-dma for the 21st time in 23 weeks. It had been above its 200-dma for 81 straight weeks through early February. The S&P 500's 50-dma moved lower for a 14th week as the index ticked down to 1.4% below its falling 50-dma from 1.3% below a week earlier, but is up from a 27-month low of 11.1% below its falling 50-dma in mid-June. That compares to a 27-week high of 4.9% above its rising 50-dma in early November. The index had been mostly 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 closed Friday at 11.5% below its falling 200-dma, down from 10.9% below a week earlier and up from a 26-month low of 17.1% below its falling 200-dma in mid-June. The latest reading is down sharply from 10.8% above its rising 200-dma in early November. That compares to 17.0% above in December 2020, which was the highest since November 2009 and up from the 26.6% below registered during the Great Virus Crisis on March 23, 2020—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*): Four of 11 S&P 500 sectors traded above their 50-dmas last week, up from two from a week earlier and an improvement from the two weeks before the end of June when all 11 sectors were below. Health Care was above for a third week as Consumer Discretionary, Consumer Staples, and Tech moved back above and Communication Services moved back below for the 14th time in 15 weeks. Ten of the 11 sectors had a declining 50-dma, unchanged from a week earlier as Health Care's rose for a second week. Looking at the more stable longer-term 200-dmas, two sectors were above for a third straight week. Utilities was above for a third week and Energy for a fifth, but barely so. For perspective, at the depths of the Great Virus Crisis in April 2020, Health Care was the only sector trading above its 200-dma. Four sectors have a rising 200-dma, unchanged from a week earlier. Consumer Staples, Energy, Health Care and Utilities are the only members of the rising 200-dma club.

US Economic Indicators

Producer Price Index (*link*): The final demand PPI accelerated for the second month, from 0.4% in April to 1.1% in June; it averaged monthly gains of 1.3% the first three months of this year. The yearly rate picked up to 11.3% last month after easing slightly from a record-high 11.6% in March to 10.9% in June. Meanwhile, core prices—which excludes food, energy, and trade services—increased only 0.3% in June, the lowest monthly gain since last September; this measure has been slowing since March's 1.0% jump. The yearly rate slowed for the third month since reaching a record-high 7.1% in March, easing to 6.4% in June. The yearly rate for final demand goods continued to accelerate, reaching 17.9% y/y in June, yet another record high—with nearly 90% of June's rise traced to energy. In the meantime, the yearly rate for final demand services continued to slow from March's record-high 9.2%, easing to 7.7% in June. The PPI for personal consumption accelerated for the second month, from zero in April to 1.3% in June—virtually matching the average monthly gains of 1.2% the first three months of the year. The yearly rate was back in double digits, accelerating for the second month to 10.3% after easing from a record-high 10.4% in March to 9.5% in April. Looking at pipeline prices, pressures remain elevated, though have eased from recent highs. The yearly rate for intermediate goods prices ticked up to 22.1% y/y in June after slowing during four of the prior five months from 26.5% in November (highest rate since the mid-1970s) to a 13-month low 21.4% in June. Meanwhile, the yearly rate for crude goods prices picked up to 58.6% y/y—the highest since April 2021's 59.0%—which was just a tick below its 59.1% record high in during summer 1973.

Import Prices (*link*): Import prices rose a smaller-than-expected 0.2% in June—the smallest gain this year—after averaging monthly gains of 2.2% the first three months of the year. The yearly rate eased for the third month to 10.7% y/y after accelerating to 13.0% in March—which was the fastest pace since July 2011. Imported fuel prices rose 5.7% last month, following gains of 7.0% and 0.8% the prior two months. Import prices excluding fuel (core import prices) fell 0.5% in June and 0.8% the past two months, with the yearly rate slowing for the third month from a record-high 7.7% in March to 4.6% by June; nonpetroleum import prices slowed from 8.1% in March (the highest since 1988) to 5.4% last month—the smallest yearly rate in nine months. Yearly rates are slowing for the following import prices from their recent respective peak rates: industrial supplies—which includes fuels & lubricants—(to 30.0% from 55.2%), food (8.7 from 15.7), and consumer goods ex autos (2.0 from 3.2). Meanwhile, capital goods (4.0% y/y) and auto (3.0) import prices both were little changed in June from their recent peaks of 4.2% and 3.2%, respectively.

Retail Sales (*link*): June retail sales rebounded 1.0% after posting the first negative reading this year in May (-0.1%), climbing 7.3% ytd to a new record high. Real retail sales slipped 0.3% in June following a 1.1% drop in May, contracting for the third time this year, though the ytd measure was up 1.8%—boosted by the 2.9% jump the first two months of the year. Compared to a year ago, nominal sales were up 8.4%, while real sales (-0.5%) were down fractionally. Auto sales rose 0.9% in June, following a 3.4% loss and a 1.7% gain the prior two months. Excluding autos, sales were up for sixth consecutive month, by a total of 7.0%—to a new record high. The control group—which excludes autos, gasoline, building material, and food—rose for the fifth time this year, by 0.8% in June and 4.8% ytd, to a new record high. Of the 13 nominal retail sales categories, nine rose during June, while four fell. Here's a snapshot of the sales performances of the 13 categories during May as well as the performances versus a year ago and relative to their pre-Covid levels: gasoline stations (3.6%, 49.1%, 66.3), nonstore retailers (2.2, 9.6, 57.2), furniture & home furnishings (1.4, 4.6, 20.7), miscellaneous store retailers (1.4, 15,1,38.8), food services & drinking places (1.0, 13.4, 26.1), motor vehicles (0.8, 0.0, 23.6), sporting goods & hobby stores (0.8, 2.7, 38.3), food & beverage stores (0.4, 7.1, 20.8), electronics & appliance stores (0.4, -9.1, 4.1), health & personal care stores (-0.1, -0.6, 11.5), general merchandise stores (-0.2, 1.5, 12.3), clothing & accessories stores (-0.4, -0.2, 13.3), building materials & garden equipment & supplies (-0.9, 6.4, 29.0).

Consumer Sentiment Index (*link*): Consumer sentiment in mid-July barely budged from June's record low, as consumers' assessments of their personal finances continued to deteriorate, recording the weakest reading since 2011, and buying conditions were 26% below a year ago. The Consumer Sentiment Index (CSI) rose for only the second time this year, ticking up to 51.1 in July after sliding five of the prior six months—from 70.6 in December to a new record low of 50.0 in June. The consumer expectations component fell for the sixth time this year, dropping 21.0 points ytd—from 68.3 to 47.3—the lowest level since spring 1980. Meanwhile, there were signs of life in the present situation component, which moved up to 57.1 this month after plunging 20.4 points the first half of the year from 74.2 in December to a record low of 53.8 in June. The report notes, "The share of consumers blaming inflation for eroding their living standards continued to rise to 49%, matching the all-time high reached during the Great Recession. These negative views endured in the face of the recent moderation in gas prices at the pump." That being said, there was a slight easing in the expected inflation rates this month: The one-year rate ticked down to 5.2% from 5.3% in June and the recent high of 5.4% in March and April, and the five-year rate fell from its recent high of 3.1% in June to 2.8%.

Business Sales & Inventories (*link*): Business Sales & Inventories (link): Nominal

business sales in May climbed to another new record high, while April real business sales (reported with a lag) remains in a volatile flat trend below March 2021's record high. Nominal business sales expanded for the eighth time in nine months, climbing 0.7% in May and 11.8% over the period; it's up 60.0% since its pandemic-related bottom. Meanwhile, real business sales fell for the third successive month, by a total of 2.1%, after rebounding 1.2% at the start of the year. These sales are 2.7% below the record high posted last March. Real sales for wholesalers were flat in April after falling the prior two months from January's record high, contracting 3.4% ytd, while real sales for retailers continue to bounce between positive and negative, with April sales 6.5% below last March's record high. Meanwhile, real manufacturing sales have dropped the first four months of this year, sinking 1.3% in April and 3.2% over the period. In the meantime, the real inventories-to-sales ratio moved up to 1.46 in April from its recent low of 1.38; it was at 1.45 last February. The nominal ratio edged up for the third month, to 1.30 in May, after slipping from 1.29 in December to 1.27 the first two months of this year. It was at a near-record low of 1.26 in November.

Industrial Production (*link*): Industrial output fell for the first time this year after reaching new record highs in both April and May. Headline production dipped 0.2% in June after climbing 2.8% the first five months of the year, while manufacturing output contracted 0.5% in both May and June—falling three months and rising three months the first half of this year—for a 1.3% ytd gain. By market group, consumer goods production is looking toppy after rising the first four months of this year, with consumer durable and nondurable goods production contracting 3.6% and 0.8%, respectively, during the two months through June after climbing 6.0% and 2.8% during the four months through April—durable goods production to a new record high. Within consumer durable goods, production of home electronics continued to set new record highs, while auto production contracted 2.8% during the two months through June but remained in record territory. Meanwhile, production of appliances & furniture has tumbled 13.5% over the past two months. Business equipment production remains on an uptrend, climbing 3.3% ytd and 7.9% y/y, though has shown little growth the past two months. Industrial equipment output climbed for the seventh time in eight months, by 0.6% m/m and 6.8% over the period, to its highest level since the start of 2015. Meanwhile, production of information & processing related equipment remained stalled around record highs in June—within 1.7% of last August's record high—while transit equipment output has fluctuated in a flat trend over the past 18 months, climbing back to the top of that range the past few months.

Capacity Utilization (*link*): The headline capacity utilization rate in June slipped for the second month to 80.0% after climbing to 80.4% in April, which was the highest since March

2008—with June's rate 0.4ppt above its long-run (1972-2021) average. The manufacturing utilization rate fell from 80.3% in April (highest since summer 2000) to 79.3% in June—1.1ppts above its long-run average. Meanwhile, the capacity utilization rate for mining rose from 86.1% in April to 88.0% in June—the highest since mid-2019, while the utilities rate fell from 77.0% to 75.8% in June. The capacity utilization rate from mining was 1.7ppts above its long-term average, while the utilities rate was 8.9ppts below its average.

Regional M-PMI (*link*): The New York Fed has provided the first glimpse of manufacturing activity for July and showed another sharp move up—returning to expansionary territory—while price pressures eased. Meanwhile, the six-month outlook is gloomy. July's composite index jumped 22.7 points the past two months—to 11.1—after plunging from 24.6 in April to -11.6 in May. Shipments expanded significantly over the two-month period by 40.7 points (to 25.3 from -15.4 in May), while the rebound in orders (6.2 from -8.8) was less than half that. Untilled orders (-5.2 from -4.3 in June) moved further into negative territory this month, after turning negative for the first time in 17 months in June. Inventories (14.8 from 17.8) continued to expand at a healthy pace. Meanwhile, the delivery times index fell from 32.7 in March to 8.7 this month, suggesting that delivery times lengthened. Price pressures eased this month. The prices-paid index slowed to a 17-month low of 64.3 this month, down from April's 86.4 record high, while the prices-received index eased to a 16-month low of 31.3 from its record high of 56.1 in March. Looking ahead, firms expect activity to decline over the next six months, with sentiment plunging to -6.2 from 14.0 in June and 35.0 at the start of the year—only the fourth negative reading in the history of the series. Orders (0.0 from 13.5) are expected to be flat, while shipments (7.2 from 19.4) are expected to expand at the slowest pace since February 2009. Meanwhile, delivery times (-9.6 from -13.7) and unfilled orders (-22.6 from -14.5) are expected to continue to decline over the next six months. The six-month inflation measures showed both the prices-paid (to 43.5 from 76.7 in January) and prices-received (28.7 from 62.1) gauges have eased noticeably from their record highs at the start of this year.

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