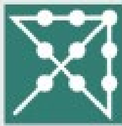
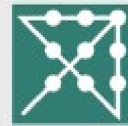


Yardeni Research



MORNING BRIEFING
July 6, 2023

Getting Harder To Be A Contrarian

Check out the accompanying chart collection.

Executive Summary: Since last summer, when conventional wisdom held that a recession was coming, we argued that one was already going on, rolling through the economy in stages instead of walloping it all at once. Now that the consensus view is moving toward no recession coming after all, and relieved investors have driven the stock market higher, our contrarian instincts are on high alert. The no-show recession could still show up, and we are on the lookout. … Today we revisit the main reasons that some respected observers still expect a recession, and we weigh in on each. The upshot: We're not changing our (recently raised) subjective odds of a soft landing, at 75%, for now.

Weekly Webcast. If you missed Monday's live webcast, you can view a replay *here*.

US Economy I: Godot Watch. One of our accounts sent me an email on July 4 alerting me to several recent stories in the financial press declaring that there won't be a recession after all. He asked: "How much are you worried about stories like the attached, where the conventional wisdom seems to have already converged to your view in news articles widely by now? What are the prospects that this is close to spoiling the party soon enough?"

Here are the articles he flagged and my brief summaries of their upbeat assessments:

(1) "*The case for a 2023 US recession is crumbling*" (CNN, June 5). Matt Egan observes that this was the year that was widely expected to be a recessionary one. But he notes that "the case for a 2023 US recession is crumbling for a simple reason: America's jobs market is way too strong." However, he ends his upbeat article by warning that the resilient economy might force the Fed "to slam the brakes even harder." That could set the stage for a recession in 2024.

(2) "*Where's the Recession We Were Promised?*" (*WSJ*, June 23). James Mackintosh starts his column by reporting, "The 2023 recession is missing in action." He argues that there were two "pieces of surprisingly good news." First, in his opinion, is that energy prices dropped as Europe was able to replace Russian gas with alternative sources. Second, the US economy has been remarkably resilient in the face of the tightening of Fed policy. Mackintosh attributes that to the fact that borrowers locked in historically low rates during

the pandemic. Under the circumstances, he isn't convinced that the inverted yield curve will be followed by a recession: "The key lesson of the yield curve is that inversion doesn't guarantee recession, but it is foolish to dismiss it."

Sure enough, mortgage applications for refinancing and for home purchases rose sharply during 2020 and 2021 when mortgage rates fell to record lows (*Fig. 1* and *Fig. 2*). Nonfinancial corporations raised a record amount in the bond market during 2020 and 2021, with much of those funds used to refinance outstanding debt at record-low interest rates (*Fig. 3* and *Fig. 4*).

(3) "*There Won't Be a Recession This Year. You Can Take That to the Bank*" (*Barron's*, June 23). In his column, Andy Serwer states, "What I'm doing, of course, is ridiculing the most widely predicted economic event in modern history—which seems pretty certain not to happen." He observes that a recession seems very unlikely during the rest of this year given the strength of the labor market, the crowded airports, the rebounding of consumer confidence, and the biggest boost in Social Security benefits since 1981.

We've been making the point that fiscal policy has never been this stimulative prior to previous recessions, thus reducing the likelihood that another one is imminent. Serwer agrees: "But the most positive fact, certainly over the longer term, is the underrecognized $2 trillion of spending from Washington in three bills: the Infrastructure Investment and Jobs Act, the Creating Helpful Incentives to Produce Semiconductors and Science Act, and the Inflation Reduction Act."

Spending by federal, state, and local governments on goods and services in real GDP rose 3.1% over the past three quarters through Q1 (*Fig. 5*). This is just the beginning of a significant upturn in such government outlays.

(4) "*Is it Time to Cancel the Recession Altogether?*" (Bloomberg, June 27). Jonathan Levin reports that the "US economy keeps surprising the doomsayers." He lists three better-than-expected economic indicators released on June 27. He quotes me as follows: "Here's Yardeni Research's Ed Yardeni's spot-on take on the numbers (emphasis mine): 'The permabears will have to postpone their imminent recession yet again based on today's batch of US economic indicators, which suggest that our "rolling recession" is turning into a 'rolling expansion.'"

Levin notes: "For the past 15 months or so, economists and strategists have been obsessed with Federal Reserve history and the yield curve." That blinded them to the strength of

household and business balance sheets as well as the strong job market, which was recently confirmed by three measures of job openings (*Fig. 6*).

(5) "*Waiting for the Godot Recession*" (Bloomberg, June 28). John Authers writes: "That the US economy is expected to plunge into a recession later this year is perhaps the most anticipated downturn on record. The last two years have been a chronicle of a recession foretold. But global investors who had positioned their portfolios for the slowdown have been left twiddling their thumbs (and losing out) as the economy shows one sign of strength after another."

(6) *Bottom line.* Our no-hard-landing scenario has been at odds with the consensus hard-landing scenario since early last year. Indeed, it was mocked by a few of the permabears as obviously "delusional." Just to be clear, we've been arguing that the US has been in a recession since early last year, i.e., a rolling recession. Now we are seeing signs of a rolling recovery in the sectors that were hardest hit by the tightening of monetary policy and consumers' pivot to purchasing more services while buying fewer goods.

Nevertheless, the tables have turned, as evidenced by the articles listed above. The hard-landing scenario now seems to be the delusional one. As a result, our contrarian defensive mechanisms have been activated. We're sticking with the change we made last week in our subjective probabilities of a soft-versus-hard landing from 70/30 to 75/25. But we are on high alert for what could go wrong now that everything seems to be going better than had widely been expected.

In this light, let's consider what still could go wrong, resulting in a recession perhaps in 2024. We do so in the next section.

US Economy II: What Could Go Wrong? Ed Hyman, our good friend (and role model), is chairman of Evercore ISI and vice chairman of Evercore. He heads Evercore ISI's Economic Research Team. He appeared on "Bloomberg Surveillance" Wednesday morning.

Ed is convinced that a recession is coming for three reasons. First is the inversion of the yield curve. Second is the drop in M2. Third is the significant tightening of monetary policy resulting from the increase in the federal funds rate combined with quantitative tightening (QT). Meanwhile, our friends at BCA Research warn that consumers' excess saving could run out as soon as September.

A more immediate risk to the economy is a possible strike by 300,000 UPS workers. Bloomberg (July 5) *reports*: "Weeks of talks between UPS and the Teamsters fell apart early Wednesday morning in Washington after stretching through the July 4 holiday, with beleaguered negotiators emerging just after 4 a.m. to say the talks had collapsed." A union spokesperson said that union employees will not work beyond July 31 when the current contract expires.

Let's revisit our upbeat response to the most frequently cited reasons to be worried about a recession:

(1) *Falling leading indicators and M-PMI.* The Index of Leading Economic Indicators (LEI) peaked at a record high during December 2021 (*Fig. 7*). It is down 9.4% since then through May. The LEI correctly anticipated the previous eight recessions with an average lead time of 12 months.

We've previously shown that the LEI is biased, giving more weight to the manufacturing than the services sectors of the economy. The y/y percent change in the LEI (which was down 7.9% in May) closely tracks the M-PMI (which fell to 46.0 during June) (*Fig. 8*). Both are consistent with our rolling recession scenario, with the recession currently rolling through the goods sector. That's confirmed by the weakness in the ATA truck tonnage index and railcar loadings of intermodal containers over the past year (*Fig. 9*).

(2) *Inverted yield curve.* Melissa and I "wrote the book" on the yield curve in 2019. It is titled *The Yield Curve: What Is It Really Predicting?*. We concluded that inverted yield curves signal that investors believe that the Fed's continued tightening of monetary policy would result in a financial crisis, which could turn into an economy-wide credit crunch and recession. It is credit crunches that cause recessions, not inverted yield curves that anticipate these events.

This time, the yield curve inverted last summer. It once again correctly anticipated a banking crisis, which occurred in March. What is different this time, so far, is that the Fed responded very quickly with an emergency bank liquidity facility, which has worked to avert an economy-wide run on the banks and a credit crunch, so far (*Fig. 10*).

So there has been no recession, so far. There still could be if the banking crisis slowly turns into a credit crunch. That's why Melissa and I are closely monitoring the weekly commercial banks' balance-sheet data (*Fig. 11*). They show that bank deposits peaked at a record $18.2 trillion during the week of April 13, 2022 and fell to $17.3 trillion during the June 21,

2023 week. Yet bank loans remained at a record high of $12.1 trillion during the June 21 week. Banks held a record $5.8 trillion in securities during the week of April 13, 2022. This sum has dropped by $645 billion to $5.2 trillion as the securities have matured. Banks are using the proceeds to offset the weakness in their deposits and to make loans.

(3) *Declining M2.* Monetarists seem to be making a comeback, and they are sounding the alarm that the recent weakness in the M2 measure of money is confirming that monetary policy already is tight enough to cause a recession. We've addressed this issue in the past, and we still aren't alarmed.

The money supply as measured by M2 climbed $130.9 billion in May after falling the prior nine months by $1.0 trillion (*Fig. 12*). It is down $897 billion since it rose to a record high during July 2022. It is down 4.0% y/y. However, M2's decline follows a $6.3 trillion (41%) increase from January 2020 (just before the start of the pandemic) through its record high. M2 still remains about $2 trillion above its pre-pandemic uptrend!

As we noted above, the weakness in bank deposits has been partly offset by the proceeds from maturing securities held by the banks. Meanwhile, demand deposits in M2 totaled $5.0 trillion during May. We reckon that's $1.5 trillion above the pre-pandemic trendline in deposits. Demand deposits currently account for 24% of M2, up from 10.3% during January 2020 (*Fig. 13*). M2 hasn't been this liquid since September 1972!

(4) *Running out of excess savings.* The yearly change in M2 has been closely tracking the 12-month moving sum of personal savings, suggesting that there's still plenty of excess savings left based on our analysis of M2 above (*Fig. 14*).

This conclusion is confirmed by Fed data on the ownership of deposits plus money market funds by generation cohorts. Here are their Q1 holdings and the increases since Q4-2019 in these liquid assets: Silent ($2.6 trillion, -$65 billion), Baby Boomer ($8.9 trillion, +$2.5 trillion), GenX ($3.9 trillion, +$1.1 trillion), and Millennial ($1.6 trillion, +$625 billion) (*Fig. 15*).

Again, we reckon that the excess liquid assets held by the Baby Boomers alone ranged between $1.0-$2.0 trillion at the end of Q1.

(5) *Tightening monetary policy.* Ed Hyman is certainly right about monetary policy. It is very restrictive, especially considering the tightening of lending standards in reaction to the March banking crisis as well as the ongoing QT program. He expects that the Fed's rate

hiking is “one and done.” Presumably, mounting evidence of an impending recession and disinflation would stop the Fed from implementing additional rate hikes.

I would counter that tight monetary policy has been offset somewhat by very stimulative fiscal policy. In the past, fiscal stimulus usually occurred at the tail end of recessions or even once they were over. This time, plenty of fiscal stimulus has been enacted before the next recession. That’s another reason why the next recession has been a no-show so far.

Calendars

US: Thurs: Job Openings 9.9m; ADP Nonfarm Employment 230k; ISM NM-PMI 51.0; S&P Global C-PMI & NM-PMI 53.0/54.1; Total Vehicle Sales; Initial & Continuous J-$69.5b; Jobless Claims 245k/1.75m; Trade Balance -$69.5; MBA Mortgage Applications; Natural Gas Storage; Logan. **Fri:** Nonfarm Payrolls Total, Private, and Manufacturing 225k/205k/flat; Average Hourly Earnings 0.3%m/m/4.2%y/y; Average Workweek 34.3 hours; Unemployment Rate & Participation Rate 3.7%/62.6%; Baker Hughes Oil Rig Count. (Bloomberg estimates)

Global: Thurs: Eurozone Retail Sales 0.2%m/m/-2.7%y/y; Germany Factory Orders 1.5%; Japan Household Spending 0.5%/-2.4%y/y; Mauderer; Nagel. **Fri:** Germany Industrial Production -0.1%; Italy Retail Sales 0.1%m/m/4.2%y/y; UK Labor Productivity -1.4%; Canada Employment Change 20k; Canada Unemployment & Participation Rates 5.3%/65.5%; Japan Leading & Coincident Indicators; Lagarde; De Guindos; Nagel; Mann; Bailey. (Bloomberg estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The *Bull-Bear Ratio* moved up to 3.00 this week, the highest reading since the week of August 10, 2021. *Bullish* sentiment jumped to 54.9%, the highest since November 2021 when it reached a danger level of 57.2%. It’s just below the 55.0% initial caution level, which says to prepare a more defensive strategy. *Bearish* sentiment fell this week for the seventh straight week, from 24.7% to 18.3% over the period, indicating the fewest bears since early January 2022. The *correction count* dipped from 31.4% to 26.8% this week. Turning to the *AAII Sentiment Survey* (as of June 29), both optimism and pessimism decreased, while neutral sentiment moved higher. The

percentage expecting stock prices to rise over the next six months fell for the second week by 3.3ppts (to 41.9 from 45.2), after climbing the prior four weeks by 22.3ppts (to 45.2% from 22.9%). Still, optimism remained above its historical average of 37.5% for the fourth straight week—the longest above-average spread since the five-week streak in October and November 2021. The *percentage expecting stocks to fall* over the next six months ticked down to 27.5% during the latest week after climbing 5.1ppts to 27.8% the prior week. Pessimism has been below 30.0% for the fourth consecutive week—the longest string that pessimism has been below 30.0% since a five-week streak in October and November 2021. The *percentage expecting stock prices will stay essentially unchanged* over the next six months edged up to 30.6% after slipping the prior week to a six-week low of 29.4%. Neutral sentiment is moving closer to its historical average of 31.5%, though remains below average.

S&P 500/400/600 Forward Earnings (*link*): Forward earnings rose last week for all three of these indexes simultaneously for only the fourth time since last June 2022. While none were at a record high for a 53rd straight week, all three are up from their lows during February and March. Through the week ending June 30, LargeCap's forward earnings improved to 2.9% above its 54-week low during the week of February 10. MidCap's rose to 3.1% above its 55-week low during the week of March 10, and SmallCap's jumped to 1.9% above its 72-week low during the March 17 week. The forward earnings downtrend since mid-2022 for these three indexes has been relatively modest this time around compared to their deep double-digit percentage declines during the Great Virus Crisis and the Great Financial Crisis. LargeCap's is now 3.1% below its record high at the end of June 2022; MidCap's is 5.3% below its record high in early June 2022; and SmallCap's is 12.0% below its mid-June 2022 record. Forward earnings momentum remains near two-year lows. The yearly rate of change in LargeCap's forward earnings was negative for a 22nd straight week, and up to -3.1% y/y from a 29-month low of -3.2% y/y during the June 23 week; that compares to a record-high 42.2% at the end of July 2021 and is up from -19.3% in May 2020, which was the lowest since October 2009. MidCap's rate of -4.2% y/y is up from a 31-month low of -5.9% in early June, which compares to a record high of 78.8% in May 2021 and a record low of -32.7% in May 2020. SmallCap's -11.1% y/y rate is up from a 32-month low of -12.9% a week earlier, down from a record high of 124.2% in June 2021; it compares to a record low of -41.5% in June 2020. Analysts' consensus earnings forecasts for 2023 and 2024 had been heading steadily lower since last June, but 2023's estimates briefly ticked higher during the Q1 reporting season as analysts incorporated the strong earnings beats into their forecasts. Here are the latest consensus earnings growth rates for 2023 and 2024: LargeCap (0.7% and 11.8%), MidCap (-10.1, 12.9), and SmallCap (-9.5, 13.5).

S&P 500/400/600 Valuation (*link*): Valuations rose for these three indexes through the June 30 week. LargeCap's forward P/E gained 0.4pts w/w to a 15-month high of 19.1. It's up 4.0pts from its 30-month low of 15.1 at the end of September, which compares to an 11-year low of 11.1 during March 2020. MidCap's forward P/E rose 0.6pt to a 17-week high of 13.9, but remains 0.8pt below its recent 10-month high of 14.7 in early February. It's now 2.8pts above its 30-month low of 11.1 at the end of September, which compares to a record high of 22.9 in June 2020 and an 11-year low of 10.7 in March 2020. SmallCap's forward P/E rose 0.5pt to 13.5 and is just a hair below its 15-week high of 13.5 several weeks earlier, which compares to a 19-week low of 12.5 during the May 12 week and is now 0.8pts below its recent 12-month high of 14.3 in early February. It's 2.9pts above its 14-year low of 10.6 at the end of September and compares to a record low of 10.2 in November 2009 during the Great Financial Crisis. That also compares to its record high of 26.7 in early June 2020 when forward earnings was depressed. The forward P/Es for the SMidCaps have been mostly below LargeCap's since August 2018. MidCap's 28% discount to LargeCap's P/E remains near its 24-year-low 30% discount during the June 23 week. It had been at a 21% discount during the March 17 week, which was near its best reading since November 2021. SmallCap's 30% discount to LargeCap's P/E last week is not much above its 21-year low of 32% in April 2022. That compares to a 22% discount during the March 10 week, which was near its lowest discount since August 2021. SmallCap's P/E had been mostly above LargeCap's since 2003. Looking at SmallCap's P/E relative to MidCap's, it was at a discount for a 107th straight week; the current 3% discount is near its lowest since July 2021 and an improvement from its 20-year-low 9% discount in December 2021.

S&P 500 Sectors Quarterly Earnings Outlook (*link*): Following the Q3-2020 earnings season, when the US economy emerged from the Covid shutdown, analysts began raising their consensus forecasts for future quarters instead of lowering them as is the historical norm. That six-quarter streak of positive revisions throughout the quarter ended during Q1-2022, and the estimate declines accelerated considerably for the three quarters ending through Q4-2022 before easing for Q1-2023. Looking ahead to Q2-2023, analysts are forecasting that the S&P 500's y/y earnings growth rate will mark its cyclical bottom with an 8.7% decline, down from -2.8% y/y in Q1-2023. On a pro forma basis, they expect the y/y earnings decline to bottom at -5.7% in Q2, down from a 0.1% gain in Q1-2023. S&P 500 ex-Energy earnings are forecasted to be down 0.1% y/y in Q2-2023, up from the 1.6% decline in Q1-2023 and the 7.4% drop in Q4-2022. Six sectors are expected to record positive y/y percentage earnings growth in Q2-2023, up from five sectors doing so in Q1-2023 and only two in Q4-2022. Here are the S&P 500 sectors' expected earnings growth rates for Q2-2023 versus their final earnings growth rates for Q1-2023: Consumer Discretionary (26.6% in Q2-2023 versus 56.2% in Q1-2023), Communication Services (9.3, -8.9), Financials (8.4, 7.7),

Industrials (6.7, 27.1), Consumer Staples (1.9, 0.4), Utilities (1.8, -21.8), S&P 500 ex-Energy (-0.1, -1.6), Information Technology (-2.9, -8.3), Real Estate (-5.1, -6.2), S&P 500 (-5.7, 0.1), Health Care (-15.8, -14.8), Materials (-28.0, -22.2), and Energy (-44.6, 21.0).

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin was unchanged w/w at 12.4% during the June 29 week. That's up from a 24-month low of 12.3% during the March 30 week, but down 1.0pt from its record high of 13.4% achieved intermittently in 2022 from March to June. It's now 2.1pts above its seven-year low of 10.3% during April 2020. Forward revenues edged up less than 0.1% w/w to a new record high. Forward earnings dropped 0.2% w/w, but is only 3.7% below its record high during the June 16, 2022 week. Both had been steadily making new highs from the beginning of March 2021 to mid-June; prior to that, they peaked just before Covid-19 in February 2020. The consensus expectations for forward revenues growth was steady w/w at a seven-month high of 3.4% and is now up 1.1pts from its 33-month low of 2.3% during the February 23 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. Forward earnings growth ticked down 0.1pt w/w to 6.8% from an eight-month high of 6.9% and is now 3.3pts above its 31-month low of 3.5% in mid-February. That's down from its 23.9% reading at the end of April 2021, which was its highest since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 1.9% in 2023 (unchanged w/w) and 4.7% in 2024 (up 0.1ppt w/w) compared to a revenues gain of 12.3% in 2022. They expect earnings growth of 0.2% in 2023 (unchanged w/w) and an 11.3% rise in 2024 (down 0.2ppt w/w) compared to an earnings gain of 7.1% in 2022. Analysts expect the profit margin to drop 0.2ppt y/y to 11.9% in 2023 (down 0.1ppt w/w), compared to 12.1% in 2022, and to rise 0.8ppt y/y to 12.7% in 2024 (unchanged w/w). The S&P 500's weekly reading of its forward P/E rose 0.1pt w/w to a 15-month high of 19.1. That's up from a 30-month low of 15.3 in mid-October. It also compares to 23.1 in early September 2020, which was the highest level since July 2000 and up from a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio was unchanged w/w at a 10-month high of 2.36. That's up from a 31-month low of 1.98 in mid-October and down from a four-month high of 2.38 in mid-August; it also compares to a record high of 2.88 at the end of 2021 and a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*): Looking at the 11 S&P 500 sectors, the June 15 week saw consensus forward revenues rise for seven sectors and forward earnings rise for three sectors. The forward profit margin fell w/w for four sectors. Consumer Staples is the only sector to have forward revenues at a record high

this week. Among the remaining 10 sectors, only Energy and Financials have forward revenues more than 5.0% below their post-pandemic highs. Industrials and Utilities are the only sectors with forward earnings at a record high this week, and Consumer Staples is just 0.6% below its recent record. Among the remaining nine sectors, just three have forward earnings down more than 10.0% from their post-pandemic highs: Energy, Financials, and Materials. Since mid-August, all but the Industrials sector have seen forward profit margins retreat from their record highs, but eight of the 11 sectors are showing early signs of recovering from their lows in early 2023. Industrials' forward profit margin is at a record high again this week, but Consumer Staples and Health Care are at record lows. Those of Communication Services, Consumer Discretionary, Financials, Real Estate, and Tech remain close to their post-pandemic highs. Energy and Industrials were the only two sectors to have their profit margins improve y/y for full-year 2022, and these five sectors are expected to see them improve y/y in 2023: Communication Services, Consumer Discretionary, Financials, Industrials, and Utilities. Here's how the sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (24.0%, down from its 25.4% record high in June 2022), Financials (18.3, down from its 19.8 record high in August 2021), Real Estate (17.0, down from its 19.2 record high in 2016), Communication Services (15.4, down from its 17.0 record high in October 2021), Utilities (13.0, down from its 14.8 record high in April 2021), S&P 500 (12.4, down from its record high of 13.4 achieved intermittently in 2022 from March to June), Energy (11.0, down from its 12.8 record high in November), Materials (11.0, down from its 13.6 record high in June 2022), Industrials (10.6, record high this week), Health Care (9.5, record low this week and down from its 11.5 record high in February 2022), Consumer Discretionary (7.6, down from its 8.3 record high in 2018), and Consumer Staples (6.7, record low this week and down from its 7.7 record high in June 2020).

US Economic Indicators

Construction Spending (*link*): Construction spending continued to reach new record highs, though May was the first time private residential investment showed any sign of life. *Total* construction spending hasn't posted a decline this year, climbing 0.9% in May and 4.6% ytd. *Private* construction investment rose 1.1%, and 4.5% over the comparable periods—also to a new record high. *Public* construction spending increased for the 11th time in 12 months, by a total of 12.3%, to yet another new record high. Within *private construction*, nonresidential investment took a breather, dipping 0.3% from April's record high after an 11-month surge of 20.9%; manufacturing reached a new record high, and health care, commercial, and transportation were just below their record highs. Meanwhile, *residential*

investment jumped 2.2% in May, the biggest gain since January 2022, though it was only the second gain in the past 12 months. *Single-family* construction rebounded 1.7% after a 12-month plunge of 26.4% to its lowest level since November 2020. *Home improvement* spending has been volatile, climbing 3.4% in May to within 2.7% of last May's record high. Meanwhile, *multi-family* construction remains on a steep uptrend, though the pace has slowed, with May's stalled around April's record high.

Manufacturing Orders & Shipments (*link*): Factory orders fell short of expectations, rising 0.3% (vs an expected 0.8% increase), as a surge in civilian aircraft orders were partially offset by weakness in other areas. *Excluding transportation*, orders fell 0.5% in May and 2.5% over the four months through May—and were 5.2% below last June's record high. Meanwhile, *nondefense capital goods orders excluding aircraft* (a proxy for future business investment) rebounded for the second month, by 0.7% in May and 1.5% over the period, to a new record high, more than recovering from the 0.8% decline recorded during the two months through March. Nondefense *capital goods shipments excluding aircraft* (used in calculating GDP) rose for the third time this year, up 0.3% in May and 1.4% ytd to yet another new record high. In May, shipments of machinery, transportation equipment, and motor vehicles & parts reached new record highs, while shipments of electrical equipment, appliances & components, fabricated metals, and primary metals held around record highs.

Global Economic Indicators

Global Manufacturing PMIs (*link*): "Global manufacturing output sees renewed contractions as new orders fall at the fastest rate in five months" was the headline of the June release. The JP Morgan Global M-PMI fell to a six-month low of 48.8, below the breakeven point of 50.0 for the 10th straight month. Business optimism sank to a seven-month low. According to the survey, factory output declined in June, after a four-month climb, due to a contraction in new order intakes, which fell for the 12th straight month. June data are available for 29 nations, with 11 signaling expansions in output and 18 signaling contractions. Here's how June *M-PMIs ranked by country/region* from highest to lowest: India (57.8), Thailand (53.2), Russia (52.6), Indonesia (52.5), Kazakhstan (52.0), Greece (51.8), Turkey (51.5), Mexico (50.9), Philippines (50.9), China (50.5), Myanmar (50.4), Japan (49.8), WORLD (48.8), Australia (48.2), Spain (48.0), South Korea (47.8), Malaysia (47.7), Ireland (47.3), Brazil (46.6), UK (46.5), US (46.3), Vietnam (46.2), France (46.0), Poland (45.1), Taiwan (44.8), Netherlands (43.8), Italy (43.8), EUROZONE (43.1), Czech Republic (40.8), Germany (40.6), and Austria (39.0).

US Manufacturing PMI (*link*): June's M-PMI sank to its lowest level since the pandemic, with all of the components dropping below the breakeven point of 50.0. The one bright spot was the prices-paid index, which dropped to its lowest level this year. Manufacturing activity contracted in June for the eighth consecutive month, falling to a 37-month low of 46.0. This is the longest span of readings below the 50.0 threshold since the Great Recession. (There have been several periods during the mid-1990s and late-1980s when prolonged readings below 50.0 were not accompanied by a recession.) Looking at June's report, the new orders (45.6 from 42.6) measure continued to contract, though at a slightly slower pace, while production (46.7 from 51.1) fell back into contractionary territory, posting its lowest reading since May 2020. Meanwhile, factories (48.1 from 51.4) are cutting jobs, moving back below 50.0. (This index is a poor predictor of BLS manufacturing payroll data.) The *supplier deliveries* (45.7 from 43.5) measure held around May's level, which was lowest since March 2009's 43.2—down sharply from May 2021's peak of 78.8. (A reading below 50.0 indicates faster deliveries to factories.) Meanwhile, the inventories (44.0 from 45.8) gauge showed the slowest pace since January 2014, as businesses continue to carefully manage inventories. ISM's *prices-paid* measure eased to 41.8 in June from April's nine-month high of 53.2, moving back toward December's 32-month low of 39.4. It peaked at 92.1 in mid-2021—which was the fastest since the summer of 1979.

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