MORNING BRIEFING
November 20, 2023

Thanksgiving

Check out the accompanying chart collection.

Executive Summary: Americans have many blessings to count this week: Real GDP is at a record high; so are real consumption per household, real wages, and household net worth. Thanks to our Founding Fathers, no other country cultivates entrepreneurial capitalism as well as America. … Also: Joe finds that the leadership of the stock market rally has shifted away from large-cap and Growth stocks since last Monday. That follows the script of stock market rallies generally: They get off the ground with the strongest leaders, then broaden out to include other capitalization sizes and investment styles.

YRI Weekly Webcast Will Be Back Next Week. Join Dr. Ed's live webcast with Q&A *next Monday, November 27,* at 11 a.m. EST. You will receive an email with the link one hour before showtime. Replays of the weekly webcasts are available *here*.

Giving Thanks. My team and I wish you a very happy Thanksgiving Day with your family and friends. It's a great holiday for sure. We eat and drink and go into food shock. Turkey contains tryptophan, which promotes "good sleep and a good mood," according to *Healthline.com*. "Tryptophan is one of several essential amino acids, which are considered the building blocks of proteins in animals and plants. Specifically, tryptophan is involved in the production of serotonin (a hormone that helps regulate mood) and melatonin (a hormone that helps regulate your sleep cycle)." Healthline cites *research* published in *Neuroscience and Biobehavioral Reviews* and a *study* published in the journal *Nutrients.*

The day after Thanksgiving, we recharge by going shopping on Black Friday. Shopping releases dopamine in our brains, which makes us feel good. Studies have shown that it is actually the anticipation of buying things that gives us the high. Many people get a bigger charge from ordering online than from going to stores. (See the *Psychology Today* *article* "Shopping, Dopamine, and Anticipation: What monkeys have to teach us about shopping.")

We will be recharging by publishing the *Morning Briefing* on Monday and Tuesday and taking the rest of the week off. Dr. Ed's webcast will be back on Monday, November 27.

We would like to thank you for your interest in our research service and look forward to

working with you in 2024. We suggest avoiding controversial subjects at the dinner table on Thursday. Instead, talk about Yardeni Research and our spot-on forecasts in 2023 with your families and friends. Tell them how they can sign up for a *four-week trial*. Thank you.

We also would like to thank our Founding Fathers for founding this great country. There's no better place for entrepreneurial capitalists to flourish in a free-market economic system with checks and balances on the political system. As they flourish, they increase the standard of living of most Americans by providing better goods and services at lower prices. Various measures of national prosperity confirm this conclusion. Real GDP is at a record high (*Fig. 1*). Real consumption per household is at a record high (*Fig. 2*). Measures of real wages are at record highs (*Fig. 3*). Household net worth is at a record high. Thank goodness.

Share our upbeat view of the American economy with your family and friends by giving them Dr. Ed's *In Praise of Profits* for Hannukah, Christmas, or Kwanzaa. They will thank you for it.

Strategy: SMidCaps Are Showing Signs of Life, Finally. The S&P 500 peaked at 4888.96 on July 31. In the three months that followed, many S&P indexes experienced double-digit percentage declines. This includes the indexes grouped by stocks' market-capitalization size and those defined by investment style (Growth or Value). On October 27, they and their associated equal-weighted S&P indexes all bottomed.

Initially, the rally off that bottom was powered largely by the S&P 500 LargeCap index; that continued through the close of trading last Monday, November 13. The next morning, October's CPI was released showing continued moderation of inflation and buoying the odds that the Fed is done tightening monetary policy. Since then, investors have poured into the SmallCap and MidCap indexes (a.k.a. the "SMidCaps"), with a preference for Value over Growth:

(1) *SMidCaps outperformed LargeCap following CPI release.* The S&P SmallCap 600 has risen 5.2% since last Monday, ahead of the 4.1% and 2.3% gains for the S&P MidCap 400 and S&P LargeCap 500 (*Fig. 4*). On an equal-weighted basis, SmallCap's 5.4% advance beat those of MidCap (4.6%) and LargeCap (3.4%). The MegaCap-8 index (composed of Alphabet, Amazon, Apple, Meta, Microsoft, Netflix, Nvidia, and Tesla)—which led the initial rally from October 27 until November 13—since has trailed the three market-capitalization indexes with a gain of only 2.1%.

(2) *Investors favoring Value over Growth?* The SMidCap's Value and Growth style indexes also outperformed those of LargeCap, with Growth getting the nod ahead of Value across all three market-capitalization styles. SmallCap Value rose 5.6%, ahead of SmallCap Growth's 4.6% rise. Within the MidCap index, Value's 5.1% rise beat Growth's 3.3% gain. LargeCap Growth gained 1.8% but lagged the 3.0% rise for its Value counterpart (*Fig. 5*).

(3) *Rising tide lifting all boats now.* We're not too concerned about the recent relative weakness in the performance for the S&P LargeCap 500 and its Growth index. That's because a typical market rally begins with the strongest leaders—i.e., the MegaCap-8—and later broadens to include companies in other investment-style spectrums.

With investors cheering the rapid decline in the inflation rate and slightly weaker employment readings, they're now surmising that the Fed's next step will be to lower interest rates in 2024. The hope is that lower interest rates will help keep the economy out of a recession. That's bullish for all stocks.

Whether the recent market leadership shifts mark an end to Growth's domination over Value remains to be seen, so it's more important now than ever to watch how the two styles perform in terms of earnings expectations and reported results over the next several years. We will be doing so.

Calendars

US: Mon: Leading Indicators -0.7%. **Tues:** Existing Home Sales 3.90mu; Chicago Fed National Activity Index; FOMC Meeting Minutes. (FXStreet estimates)

Global: Mon: Germany PPI -0.1%m/m/-11.0%y/y; Buba Monthly Report; RBA Meeting Minutes; Lane; Bailey; Bullock**. Tues:** Labor Productivity; Canada CPI 0.1%m/3.2%y/y; Lagarde; Schnabel; McCaul; Mauderer; Pill. (FXStreet estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index rose 2.3% last week in its third straight weekly gain and moved further away from correction territory to finish at 7.0% below its record high on December 27, 2021. The US MSCI ranked 36th of the 48 global

stock markets that we follow in a week when 45 of the 48 countries rose in US dollar terms. The AC World ex-US index outperformed the US MSCI, as it rose 3.9% and left bear market territory to end at 17.1% below its June 15, 2021 record high. EM Eastern Europe was the best performer with a gain of 5.7%, ahead of EMU (5.4%), EM Latin America (4.5), and EAFE (4.4). BIC was the worst performer last week, albeit with a gain of 1.8%, followed by EM Asia (2.8) and EMEA (2.8). Sweden was the best-performing country last week, with a gain of 7.9%, followed by Poland (7.6), Greece (7.2), Germany (6.7), and Mexico (6.3). Among the 24 countries that underperformed the AC World ex-US MSCI last week, Sri Lanka's 3.0% decline was the worst, followed by Colombia (-0.9), Egypt (-0.8), Singapore (0.3), and Jordan (0.3). Looking at 2023's performance so far, the US MSCI is up 18.0%, as its ytd ranking dropped two places to 12/48. The AC World ex-US's ytd gain of 6.1% is trailing the US's, with 29/48 countries in positive territory. EM Eastern Europe is the best regional performer ytd with a gain of 32.0%, followed by EM Latin America (15.5), EMU (13.4), and EAFE (8.1). The regional laggards so far in 2023: BIC (-2.9), EM Asia (1.1), and EMEA (2.1). This year's best ytd country performers: Greece (39.6), Egypt (36.8), Hungary (33.8), Poland (33.4), and Sri Lanka (27.7). Here are the worst-performing countries of the year so far: Hong Kong (-18.3), Pakistan (-16.1), Thailand (-14.8), Finland (-12.1), and China (-10.9).

S&P 500/400/600 Performance (*link*): All three of these three indexes rose last week. LargeCap's 2.2% gain trailed the 5.1% and 4.0% gains for SmallCap and MidCap. At Friday's close, LargeCap improved to 5.9% from its record high on January 3, 2022, MidCap remained in a correction at 12.8% from its record high on November 16, 2021, and SmallCap barely remained in bear market territory at 20.1% from its November 8, 2021 record high. Thirty-two of the 33 LargeCap and SMidCap sectors moved higher for the week, up from eight sectors rising a week earlier. SmallCap Consumer Discretionary was the best performer with a gain of 6.7%, followed by SmallCap Health Care (6.6), SmallCap Financials (6.1), MidCap Consumer Discretionary (5.4), and SmallCap Materials (5.2). The biggest underperformers for the week were MidCap Consumer Staples (-0.4), LargeCap Consumer Staples (0.6), LargeCap Energy (0.9), MidCap Energy (1.5), and LargeCap Health Care (1.5). Looking at performances so far in 2023, LargeCap, with a gain of 17.6%, remains far ahead of MidCap (4.4) and SmallCap (1.2); 19 of the 33 sectors are higher ytd compared to 13 a week earlier. The top sector performers in 2023: LargeCap Tech (49.5), LargeCap Communication Services (48.9), LargeCap Consumer Discretionary (31.7), MidCap Industrials (18.2), and MidCap Tech (17.1). Here are 2023's biggest laggards: MidCap Utilities (-20.3), MidCap Communication Services (-17.3), SmallCap Health Care (-14.9), SmallCap Utilities (-13.4), and LargeCap Utilities (-12.2).

S&P 500 Sectors and Industries Performance (*link*): All 11 S&P 500 sectors rose last week, and seven outperformed the composite index's 2.2% gain. That compares to a 1.3% gain for the S&P 500 a week earlier, when six sectors rose and only two outperformed the index. Real Estate was the best performer with a gain of 4.5%, followed by Materials (3.7%), Consumer Discretionary (3.4), Financials (3.3), Utilities (3.0), Industrials (2.9), and Communication Services (2.3). Consumer Staples was the worst performer, albeit with a gain of 0.6%, followed by Energy (0.9), Health Care (1.5), and Information Technology (1.7). Looking at 2023's performance so far, the S&P 500 is up 17.6% ytd, with just three sectors still outperforming the index and six higher for the year. The best ytd performers: Tech (49.5), Communication Services (48.9), and Consumer Discretionary (31.7). These are 2023's worst performers: Utilities (-12.2), Consumer Staples (-6.0), Health Care (-5.9), Energy (-4.3), Real Estate (-3.2), Financials (-2.0), Materials (3.1), and Industrials (7.2).

S&P 500 Technical Indicators (*link*): The S&P 500 2.2% last week and improved relative to its 50-day moving average (50-dma) and its 200-day moving average (200-dma). The index was above its 50-dma for a third week after eight weeks below, and was also above its 200-dma for a third week after dropping below for the first time in 30 weeks. As for what the dmas themselves have been doing, the 50-dma moved higher for the first time in nine weeks, and the 200-dma rose for a 25th week in its longest positive streak since its 70-week streak ended in March 2022. The S&P 500 improved to a 16-week high of 4.0% above its now-rising 50-dma from 1.7% above a week earlier and a 53-week low of 5.5% at the beginning of November. For perspective, the latest reading is down from a 20-week high of 5.4% above its (rising) 50-dma in mid-June. Other comparison points include: a four-month low of 10.6% below its (falling) 50-dma at the end of September 2022, a 23-month high of 8.7% above its (rising) 50-dma in August 2022, and a 27-month low of 11.1% below its (falling) 50-dma in June 2022. The index had been trading above its 50-dma from most of late April 2020 to early April 2022; 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. Turning to the 200-dma, the price index improved to a nine-week high of 5.7% above its rising 200-dma from 3.6% above a week earlier and a 42-week low of 3.1% below its rising 200-dma at the beginning of November. That compares to a 24-month high of 12.4% above its (rising) 200-dma in mid-July. The S&P 500 is well above its 26-month low of 17.1% below its (falling) 200-dma in June 2022 and 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 level of the Great Financial Crisis following the failure of Lehman Brothers, the S&P 500 index was 39.6% below its 200-dma on November 11, 2008.

S&P 500 Sectors Technical Indicators (*link*): Nine of the 11 S&P 500 sectors trade above their 50-dmas, up from five a week earlier. Energy and Health Care are now the only sectors still trading below the 50-dma. Four sectors have a rising 50-dma, up from these two sectors a week earlier: Communication Services and Information Technology. Looking at the more stable longer-term 200-dmas, Industrials and Materials moved above in the latest week and joined these four sectors as the only members of the positive 200-dma club: Communication Services, Consumer Discretionary, Financials, and Information Technology. The rising 200-dma club added the Industrials sector this week and leaves Communication Services, Consumer Discretionary, and Information Technology as the only other members.

US Economic Indicators

Import Prices (*link*): *Import* prices fell more than expected in October, posting its steepest decline in seven months, on a widespread decline in the cost of goods. *Import* prices fell 0.8%, though September's 0.1% uptick was revised upward to 0.4%. October's decline was the sixth one this year. The yearly rate fell to -2.0% in October, widening from September's -1.5% y/y though narrowing from June's recent bottom of -6.1%; it peaked at 13.0% y/y last March. Meanwhile, *nonpetroleum* prices haven't posted a gain since January's 0.3% increase, falling 0.2% in October and 2.1% during the nine months through October. The yearly rate is -1.1%, up slightly from May's recent low of -2.2%; it peaked at 8.1% last March. Fuel prices plunged 6.3% in October, after increasing five of the prior six months by 16.9% over the period; that rising streak followed a nine-month slide of 37.1%. The yearly rate was -11.4% in October, narrowing from June's three-year low of -36.7%; it peaked at 130.1% in April 2021. Meanwhile, here's the yearly rate in *import prices for several industries* from their recent respective peak rates: industrial supplies, which includes fuels & lubricants (to -8.9% from 55.2%); capital goods (0.2 from 4.2); consumer goods ex autos (-0.3 from 3.2), and foods, feeds & beverages (3.9 from 15.7).

Regional M-PMIs (*link*): Three Fed districts so far have reported on manufacturing activity for November—New York, Philadelphia, and Kansas City—and collectively they showed a slight uptick in activity after 16 months of contraction. *Manufacturing activity* (to 0.4 from –7.2) held fairly steady in November, as the New York (9.1 from -4.6) region moved from contraction to expansion, while the Kansas City (-2.0 from -8.0) and Philadelphia (-5.9 from -9.0) measures were less negative. *New orders* (-1.2 from -7.3) declined at a slower pace, nearing the breakeven point of zero, as New York (-4.9 from -4.2) billings continued to contract at a steady pace, while Philadelphia's (1.3 from 4.4) continued to expand at a

sluggish pace and the Kansas City's (0.0 from -22.2) stabilized after a steep contraction. *Employment* (-2.2 from 1.0) continued to hover around the breakeven point of zero, returning to negative territory this month after a brief move above zero last month, as factories in the New York (-4.5 from 3.1) region moved from expansion to contraction, while the Kansas City's (-3.0 from -4.0) continued to fall at a slow pace and Philadelphia (0.8 from 4.0) hiring was at a near standstill. Looking at *prices-paid* indexes, the Philadelphia (14.8 from 23.1) measure has eased the past couple of months, after a brief move up to 25.7 in June, while New York's (22.2 from 25.5) is showing a similar pattern. Kansas City's (30.2 from 40.6) measure continued to ease from its record high of 152.9 last May. Meanwhile, while Kansas City's (7.0 from -2.0) accelerated from October's dip into negative territory. *Prices-received* indexes saw New York's (11.1 from 11.7) gauge slow a bit for the second month, though was up from July's three-year low of 3.9, while Philadelphia's (14.8 from 14.6) measure held steady just above 14.0 for the fourth month, down from May's recent peak of 23.0, and Kansas City's (-3.0 from 0.0) measure continued to hover around zero, up from July and August readings of -7.0 and -6.0, respectively. It was at a record high of 60.0 during August 2021. New York's gauge was at a record high of 56.1 in March 2022, while Philadelphia's reached its record 65.8 in November 2021.

Industrial Production (*link*): The United Auto Workers (UAW) strike pulled industrial production lower in October, though it remains at a high level. *Headline production* fell a larger-than-expected 0.6% (vs -0.4% expected) in October, as motor vehicle output plunged 10.0%—reflecting the UAW strike against the Big Three auto producers. Despite the decline, overall industrial production remains within 0.8% of last September's cyclical high and 1.3% of August 2018's record high. *Manufacturing* production sank 0.7% in October, after expanding two of the prior three months by 0.6%. *Excluding motor vehicles & parts*, total production edged down 0.1%, while manufacturing production edged up 0.1%; these measures were up 1.6% and 1.4%, respectively, ytd. Meanwhile, mining output remains on a steep upward trend, climbing 33.9% from its recent bottom in May 2020, and is within 2.5% of its September 2019 record high. Utilities output remains in a volatile flat trend, near the top of its range, though did dip 2.1% the past two months. By *market group*, *consumer goods* production dropped 1.2% in October, led by a 5.8% drop in *durable goods* production—driven by a 10.3% plunge auto output. It's down 1.2% ytd, with consumer durable goods output down 2.7% ytd and nondurable consumer goods production down 0.7%. *Business equipment* production remains in a volatile flat trend, though is at the bottom of the range currently, declining 1.4% during the two months through October, with output edging down 0.3% ytd. Production of transit (-1.5%) and industrial & other equipment (-1.7) are in the red ytd, while information processing (5.1) showed a solid gain.

Capacity Utilization (*link*): The *headline* capacity utilization rate slipped to 78.9% in October from 79.5% during each of the prior two months; it peaked recently at 80.8% last September. This October's rate is 0.8ppt below its long-run (1972-2022) average. The *manufacturing* utilization rate fell to 77.2%—the lowest rate this year—putting it 1.0ppt below its long-run average. It peaked at 79.9% last spring. Meanwhile, the *mining* utilization rate remains on a steep uptrend, back up at July's record high of 94.3% in October—7.9ppts above its long-run average. Meanwhile, the *utilities* rate remains on a volatile downtrend, edging down to 71.4% in October, not far from February's record low of 69.6%. The utilities rate is substantially below its long-run average.

NAHB Housing Market Index (*link*): "Builder Sentiment Down Again, but Better Building Conditions are in View" was the headline of the November report. Homebuilders' confidence fell in November for the fourth month, sinking 22 points over the period to 34. That puts it further below the key break-even measure of 50. Confidence had jumped 25 points the first seven months of this year to 56. Confidence fell all 12 months of 2022, by 53 points, to 31—which was the lowest since the height of the pandemic. All three components of homebuilders' confidence have moved lower in recent months: current sales (-22 points to 40) and traffic (-19 to 21) have declined for the past four months, while future sales (-23 to 39) has extended its string of declines to five months. Robert Dietz, NAHB's chief economist noted: "While builder sentiment was down again in November, recent macroeconomic data point to improving conditions for home construction in the coming months. In particular, the 10-year Treasury rate moved back to the 4.5% range for the first time since last September, which will help bring mortgage rates close to or below 7.5%. Given the lack of existing home inventory, somewhat lower mortgage rates will price-in housing demand and likely set the state for improved builder views of market conditions."

Housing Starts & Building Permits (*link*): Housing starts increased for the second successive month in October, led by multi-family starts, though single-family starts were also in the plus column during the latest two months. *Total housing* starts increased 1.9% in October and 5.1% over the two months through October to 1.372mu (saar), with *multi-family* and *single-family* activity increasing 12.6% and 2.3%, respectively, over the two-month period to 402,000 units and 970,000 units (saar). *Building permits* increased for the third time in four months, by 1.1% m/m and 3.2% over the period, to 1.487mu (saar). *Single-family permits* haven't posted a decline so far this year, climbing 0.5% in October and 29.4% ytd to 968,000 units (saar). Meanwhile, *multi-family permits* climbed 2.2% in October to 519,000 units (saar), after wide swings of -14.3% and +15.6% the prior two months. *Homebuilders' confidence* remained depressed in November, though the outlook is slightly brighter as interest rates move lower.

Global Economic Indicators

Eurozone CPI (*link*): The CPI rate for October slowed measurably from 4.3% in September to 2.9% in October—the lowest since July 2021 (2.2%); it peaked last October at a record-high 10.6%. Looking at the main components, *energy* plunged -11.2% through October of this year. It peaked at a record high of 44.3% last March. The rate for *food, alcohol & tobacco* eased for the seventh month to 7.4% y/y after accelerating steadily from June 2021's 0.5% to a record high of 15.5% this March. The rate for *non-energy* industrial goods eased to 3.5% y/y from February's record-high 6.8%. Meanwhile, the *services* rate slowed for the third month, to 4.6% y/y, from 5.6% in July—which was the highest since fall 1992. Of the *top four Eurozone economies*, only Italy's (1.8% y/y) rate was below the Eurozone's CPI rate of 2.9%, while rates in France (4.5), Spain (3.5), and Germany (3.0) were above. Here are the record-high inflation rates and months they were achieved for the four countries: Germany (11.6%, October 2022), Italy (12.6%, October & November 2022), France (7.3%, February 2023), and Spain (10.7%, July 2022).

Contact us by *email* or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-228-9102

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