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Morning Briefing

Onshoring, Financials & Magnetic Levitation

Check out the accompanying [chart collection](#).

Executive Summary: Federal incentives coaxing manufacturers to produce in the USA are hitting their mark. Willing takers may see up to 15% of their factory construction costs covered by Uncle Sam. Some states are sweetening the deal further. Jackie surveys how companies plan to capitalize on these offers and the impacts on the economy and the S&P 500 Industrials sector's industries. ... Capital markets were likely very kind to big banks and brokers during Q1. That may help the lagging S&P 500 Investment Banking and Brokerage industry do some catching up. ... And: A new approach to magnetically levitating trains may bring costs down and make them more scalable.

Industrials: Onshoring Wave Continues. “If you build it, he will come.” So said the mysterious voice in the movie “The Field of Dreams,” urging Kevin Costner’s character to turn his cornfield into a baseball field. Lo and behold, when the field was built, Costner’s long-deceased father took off his catcher’s mask to reveal himself, and they had a catch together.

Today, the federal government is coaxing domestic and foreign manufacturers to build manufacturing plants on US soil by offering billions of funding and incentives. As we noted in the December 7 [Morning Briefing](#), it looks like manufacturers are responding to the financial incentives, and they’ve come to play.

Federal funding from the Chips and Science Act, the Infrastructure Investment and Jobs Act, and the Inflation Reduction Act together are offering \$500 billion of federal funding and tax credits to attract manufacturers to US shores, estimates a February [report](#) by Newmark and NAIOP, the commercial real estate development association. Funding from these three pieces of legislation are “predicted to furnish, at minimum, 15 percent of costs for some manufacturing projects.” Now that’s a carrot.

In addition, states are throwing in billions of dollars in funds and tax credits to attract

companies to their backyards. As a result, the report estimates that new construction will expand the footprint of US manufacturing facilities by 6%-13% over the next decade, quite a reversal from the mass exodus of manufacturers from the US in the previous decade.

Let's take a look at some of the latest companies answering the voice calling them to the US shores and the economic impact it's having:

(1) *Uncle Sam's funds flowing.* The Biden administration has announced a total of \$16.6 billion in three Chips Act grants to Taiwan Semiconductor Manufacturing Co. (TSMC), Intel, and GlobalFoundries, and more funds are on the way. Companies, including Micron Technology and Samsung Electronics, have requested more than \$70 billion in funding under the Chips Act, but only about \$39 billion is available for the construction, expansion, or modernization of domestic facilities and equipment.

TSMC's first US factory, in Arizona, is expected to start production in the first half of 2025. Its second US factory, which will produce 2-nanometer chips, should start up in 2028, and a third is expected to be built before 2030, an April 8 *WSJ* [article](#) reported. The company will receive a \$6.6 billion grant from the US government and can tap up to \$5 billion of government loans. In return, TSMC will invest more than \$65 billion into the project, which is expected to create more than 20,000 temporary construction jobs and 6,000 permanent jobs.

Intel has received grants for up to \$8.5 billion under the Chips Act to build new factories and expansion projects in Arizona, New Mexico, Ohio, and Oregon. It also has access to \$11 billion in government loans and related tax credits. Intel in turn is expected to invest \$100 billion to fund those projects. The projects are expected to create more than 10,000 Intel jobs and almost 20,000 temporary construction jobs.

GlobalFoundries received \$1.5 billion in Chips Act grants to build and expand factories in upstate New York and Vermont. The company will also have access to \$1.6 billion of government loans. The projects are expected to create 9,000 temporary construction jobs and 1,500 manufacturing jobs.

(2) *Here come the suppliers.* Suppliers to the semiconductor industry have also been announcing plans to expand in the US. ASM International, a semiconductor equipment maker, plans to spend €300 million over five years to build a new headquarters in Scottsdale, Arizona. At 250,000 square feet, it will be twice the size of the company's existing facility and will involve hiring 500 people; that's on top of the 800 ASM already

employs in Arizona, a December 5 company [press release](#) stated.

They're not alone. Over the past four years, 35 companies in the semiconductor industry have announced plans to spend \$65 billion expanding in or relocating to Arizona, a March 19 [article](#) in azcentral.com reported. The effort should bring more than 13,000 jobs to the area.

Some of those moving to or expanding in Arizona include: Amkor, with plans to build a \$2 billion packaging and testing facility; Xnrgy, an air-cooling equipment manufacturer; chemicals suppliers Chang Chun, FujiFilm Electronic Materials, KPCT Advanced Chemicals, and Sunlit Chemical; Air Liquide, Air Products, and Linde, which provide industrial gasses to customers; Pentagon Technologies, which provides cleaning for wafer manufacturing; and EMD Electronics, which makes chemical delivery systems.

(3) *Packing an economic punch.* The economic impact of onshoring has already begun boosting the US economy. The amount spent on building manufacturing structures has surged over the past two years, hitting \$222.2 billion in February, up 77% from February 2022 and off only slightly from January's \$223.7 billion ([Fig. 1](#)). All this building has kept durable goods orders for construction machinery near recent highs for the past 12 months; in February, they were up 18% from February 2022 ([Fig. 2](#)).

All this construction has even caused an uptick in national jobs data. The number of folks involved in heavy and civil engineering construction jumped to 1.2 million in March, up 3.7% y/y to a new record level ([Fig. 3](#)). Those working in construction surged to a new record of 8.2 million in March, up 3.4% y/y ([Fig. 4](#)). And the number of folks employed in manufacturing hit 13.0 million in March, a level last seen in fall 2008 ([Fig. 5](#)).

This building boom in manufacturing plants is also boosting the price index of the S&P 500 Industrials sector, which has climbed 9.8% ytd through Tuesday's close, a touch below its March record high but ahead of the S&P 500's 9.2% gain ([Fig. 6](#)). The sector's performance is even more impressive—10.9%—excluding the shares of Boeing, which are down 31.2% ytd. Here's how the S&P 500 Industrials' component industries have performed ytd: Construction Machinery & Heavy Trucks (24.3%), Electrical Components & Equipment (17.9), Industrial Conglomerates (11.5), Industrial Machinery (11.1), and Aerospace & Defense (3.1) ([Fig. 7](#)).

Financials: Here Come Bank Earnings. A slew of bank earnings will hit the tape on Friday, with JP Morgan, Wells Fargo, and Citigroup leading the way. While bank loan

activity has been sluggish, those banks with exposure to capital markets stand to benefit, as activity has picked up and y/y comparisons are extremely easy. Here's a quick look:

(1) *Bank lending slowing.* Commercial banks' loans and leases have continued to climb to record highs, though gains have come more slowly. Loans and leases rose by 2.4% y/y in March, down from a peak growth rate of 12.2% in November ([Fig. 8](#) and [Fig. 9](#)). In March, banks grew their commercial real estate (3.8%), residential real estate (3.1), and consumer loan (2.2) books, but their commercial and industrial loans fell slightly (-1.1) ([Fig. 10](#)).

(2) *Capital markets improving.* Companies may be opting to raise funding in the capital markets instead of borrowing from their bankers. The equity capital markets have continued to thaw out from activity frozen at low levels in 2023. IPO issuance climbed 239.0% y/y to \$7.5 billion ytd through March 24, according to the SIFMA [website](#). Total equity issuance rose 109.7% y/y to \$56.9 billion over the same period. The debt capital markets have been busy as well, with the debt issuance climbing 81.0% y/y to \$627.6 billion ytd through March 24.

(3) *Jefferies benefits.* Jefferies' results for its Q1 ending February 29 reflected the improvement in the capital markets. The firm's debt and equity underwriting revenues jumped 64.6% y/y to \$338.5 million, its advisory revenues increased 13.9% y/y to \$338.6 million, and its debt and equity capital markets revenues increased 8.8% to \$711.6 million.

Altogether, Jefferies reported \$0.87 in earnings per share from continuing operations and excluding a loss the firm incurred on an investment in a hedge fund that closed. Those earnings are improved from the \$0.54 per share the firm earned from continuing operations in the year-ago quarter, according to the company's [press release](#).

Despite the improvement in the capital markets, the S&P 500 Diversified Banks industry's price index has outperformed that of the Investment Banking and Brokerage industry so far this year. The former has climbed 13.9%, and the latter is up 4.8% ytd through Tuesday's close. The Investment Banking & Brokerage industry's companies are collectively expected to grow earnings by 27.3% this year and by 16.8% in 2025, based on analysts' consensus forecasts ([Fig. 11](#)). That's faster than the 5.7% earnings decline they expect for the Diversified Banks industry this year, which they project will be followed by earnings growth of 9.2% next year ([Fig. 12](#)).

Disruptive Technologies: Fun With Magnets. The idea of using magnets to levitate a train and propel it down a track isn't new. Magnetic levitation (maglev) train systems exist in

China, Japan, and South Korea. But they typically cover short distances and are constructed on specialized tracks, making them expensive to deploy.

Ironlev, an Italian company, claims it has come up with a solution: a magnetic levitation system that works on existing iron rails. It posted a [video](#) on March 12 showing a one-ton vehicle traveling down a traditional two-kilometer (km) railroad track at 70 kms per hour (km/h). The company next plans to develop a motorized trolley to pull 20 tons at a speed of 200 km/h. Ironlev's website says it currently sells magnetic levitation systems designed for various purposes, e.g., to slide extremely large windows, propel elevators, and move objects in industrial and logistics settings.

Scientists have been chasing the holy grail of maglev transportation because the systems eliminate the friction that traditional trains experience between their wheels and the tracks. With less friction, maglev trains are more efficient than conventional trains and have longer-wearing parts.

There are six commercial maglev systems currently in operation—one in Japan, two in South Korea, and three in China—according to the Britannica [website](#). The longest one runs for 18.6 miles between downtown Shanghai to Pudong International Airport and operates at a top speed of 267 miles per hour. Japan plans a 178-mile connection between Nagoya to Tokyo with a maglev train by 2027. It aims to extend the line to Osaka by 2037 and offer the 310-mile-per-hour ride from Tokyo to Osaka in 67 minutes.

In the US, Hyperloop One attempted to build a maglev train that would run in a vacuum tube. That would eliminate air resistance as well as the friction between the wheels and the track that traditional trains experience. It was based on an idea by Elon Musk and received funding from Virgin Group's founder Richard Branson and others. However, the startup shut down in December, a December 22 BBC [article](#) reported.

At one point, there was a lot of excitement surrounding Elon Musk's Boring Company's Loop tunnel project in Las Vegas. But so far, the Loop is just a tunnel with Tesla electric vehicles driven by humans shuttling people underground. The Boring [website](#) says it can help dig tunnels for a hyperloop, defined as an "ultra-high-speed public transportation system in which passengers travel in autonomous electric pods at 600+ miles per hour." While it claims to be currently working with local governments and private stakeholders on the viability of a hyperloop in their cities, the exorbitant cost may make such systems prohibitive.

And that's why Ironlev, with a system that claims to work on the world's extensive system of existing rails, may be on the right track.

Calendars

US: Thurs: Headline & Core PPI 0.3%/m/m/2.3%/y/y & 0.2%/m/m/2.3%/y/y; Natural Gas Storage; OPEC Monthly Report; WASDE Report; Williams; Bostic; Collins. **Fri:** University of Michigan Consumer Sentiment, Current Conditions, and Expectations 79.0/82.3/78.0; Import & Export Prices 0.3%/0.5%; Baker-Hughes Rig Count; IEA Monthly Report; Daly; Bostic. (FXStreet estimates)

Global: Thurs: ECB Interest Rate Decision 4.50%; Italy Industrial Production 0.6%; BoE Credit Conditions Survey; Eurogroup Meetings. **Fri:** Germany CPI 0.4%/m/m/2.2%/y/y; France CPI 0.2%/m/m/2.3%/y/y; Spain CPI 0.8%/m/m/3.2%/y/y; ECB Forecast; ECOFIN Meetings; UK GDP 0.1%/m/m/0.1%3m/3m; UK Headline & Manufacturing Industrial Production 0.0%/0.1%; Japan Industrial Production -0.1%. (FXStreet estimates)

Strategy Indicators

Stock Market Sentiment Indicators ([link](#)): The Bull-Bear Ratio fell to 4.01 this week after climbing to 4.43 last week—which was the highest reading since February 5, 2018. Bullish sentiment slipped to 58.1% this week after climbing the prior two weeks from 60.3% to 62.5%—which was the most bulls since summer 2021. (The bulls last exceeded 60.0% in April 2021 and July 2021, at 63.7% and 61.2%, respectively.) Meanwhile, bearish sentiment rose to 14.5% this week after falling from 15.2% to 14.1% last week—representing the fewest bears since 12.6% in late January 2018. The correction count rose to 27.4% this week from 23.4% last week, as the majority of the former bulls shifted to projecting a correction this week. Turning to the AAll Sentiment Survey (as of April 4), neutral sentiment about the short-term outlook rose again during current reporting week, while both optimism and pessimism fell. The percentage expecting stock prices will stay essentially unchanged over the next six months increased 2.9ppts to 30.5%, below its historical average of 31.5% for the eighth time in 10 weeks. The percentage expecting stock prices to rise over the next six months fell 2.7ppts to 47.3% and exceeded its historical average of 37.5% for the 22nd straight week. The percentage expecting stocks to fall over the next six months was little changed, slipping 0.2ppt during the latest week to 22.2%, remaining below its historical

average of 31.0% for the 22nd straight week.

S&P 500 Earnings, Revenues, Valuation & Margins ([link](#)): The S&P 500's forward profit margin rose 0.2pts w/w to an 18-month high of 13.0% during the April 4 week. That's up from a 24-month low of 12.3% during the March 30, 2023 week, and is just 0.4pt below its record high of 13.4% achieved intermittently in 2022 from March to June. It's now 2.7pts above its seven-year low of 10.3% during April 2020. Forward revenues ticked up 0.2% w/w to a record high. Forward earnings jumped 1.1% w/w to a record high too. It had hit that mark during the September 21 week for the first time since the June 16, 2022 week. Revenues and earnings had been steadily making new highs from the beginning of March 2021 to June 2022; prior to that, they peaked just before Covid-19 in February 2020. The consensus expectations for forward revenues growth remained steady w/w at 5.1%, down from a 17-month high of 5.2% during the March 21 week. It has gained 2.8pts from its 33-month low of 2.3% during the February 23, 2023 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. The forward earnings growth forecast rose 0.3pt w/w to a 29-month high of 11.5%. That's down from a 26-month high of 11.5% in early January and is now 8.2pts above its 31-month low of 3.3% during the February 16, 2023 week. 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 4.5% in 2024 (down 0.2pt w/w) and 5.8% in 2025 (unchanged w/w) compared to a revenues gain of 2.2% in 2023. They expect an earnings gain of 9.9% in 2024 (unchanged w/w) and a 13.6% rise in 2025 (down 0.11pt w/w) compared to an earnings gain of 2.3% in 2023. Analysts expect the profit margin to rise 0.7ppt y/y to 12.6% in 2024 (up 0.1pt w/w), compared to 11.9% in 2023, and to rise 1.0ppt y/y to 13.5% in 2025 (unchanged w/w). The S&P 500's weekly reading of its forward P/E fell 0.3pt w/w to 20.8 from a 26-month high of 21.1. That's up from a 30-month low of 15.3 in October of 2022. It also compares to 23.1 in early September 2020, which was the highest level since July 2000, and to a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio fell 0.02pt w/w to 2.69 from a 25-month high of 2.71. That's up from a six-month low of 2.22 during the October 26 week and compares to a 31-month low of 1.98 in October 2022. That 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 during the April 4 week, nine had their forward revenues rise w/w, and all 11 had forward earnings move higher. The forward profit margin moved higher w/w for all 11 sectors too. Five sectors have forward revenues at post-pandemic or record highs this

week: Communication Services, Consumer Staples, Health Care, Information Technology, and Real Estate. Among the remaining six sectors, only three have forward revenues more than 5.0% below their post-pandemic highs: Energy, Financials, and Materials. These three sectors have record-high forward earnings this week: Communication Services, Consumer Staples, and Information Technology. Consumer Discretionary, Industrials, and Utilities were in that camp in very recent weeks. Among the remaining five sectors, only Energy and Materials have forward earnings down more than 10.0% from their post-pandemic highs. Among the 11 sectors, only Industrials has weathered a broad margin retreat from post-pandemic or record highs. Now nearly all of the sectors are showing signs of recovering from their early 2023 lows. Communication Services, Industrials, and Information Technology are the only sectors with their forward profit margin at a record high this week. In recent weeks, Consumer Discretionary was also in that club. Energy's is edging up now from February's 23-month low, while those of Consumer Staples and Health Care remain at or close to their record lows. The annual profit margin is expected to fall y/y in 2024 for Energy, Materials, and Real Estate and improve for the other eight sectors. Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (26.6%, a record high this week), Financials (18.6, down from its 19.8 record high in August 2021), Real Estate (16.5, down from its 19.2 record high in 2016), Communication Services (17.0, a record high this week), Utilities (13.6, down from its 14.8 record high in April 2021), S&P 500 (13.0, down from its record high of 13.4 achieved intermittently in 2022 from March to June), Energy (10.7, down from its 12.8 record high in November 2022), Materials (10.8, down from its 13.6 record high in June 2022), Industrials (10.8, a record high this week), Health Care (8.8, a record low this week and down from its 11.5 record high in February 2022), Consumer Discretionary (8.7, down from its 8.8 record high several weeks earlier), and Consumer Staples (6.9, down from its 7.7 record high in June 2020).

US Economic Indicators

CPI ([link](#)): Both the headline and core CPI monthly gains were a tick above expectations, with the headline yearly rate accelerating and the core rate holding steady at February's rate. The headline CPI rose 0.4% (vs 0.3% expected) in March, with shelter and gasoline contributing to over half of the monthly increase. Core prices also rose 0.4% (vs 0.3% expected), with shelter the largest factor in the monthly increase in the overall core rate. On a year-over-year basis, the headline rate climbed to 3.5% in March from 3.2% in February, while the core rate was unchanged at 3.8%, though was expected to tick down to 3.7%; it peaked at 6.6% during September 2022. Goods inflation is easing, with durable goods

prices falling 2.1% y/y in March, down from the 18.2% peak in March 2022, while the rate for nondurable goods is at 1.7%, down from 14.4% in June 2022. Services excluding energy services is drifting lower, though remains relatively high at 5.4%, well above rates a couple of years ago. Looking at durable goods prices, there's lots of red, with the yearly percent changes for major appliances (-6.3%), furniture & bedding (-3.8), motor vehicle parts & equipment (-0.8), and used cars & trucks (-2.2) all falling, though the latter has narrowed sharply from its -13.6% rate last February. Meanwhile, the yearly rate in new vehicle prices (-0.1%) slipped below zero for the first time since mid-2020. Here's a snapshot of yearly rates for some key nondurable goods prices from highest to lowest: recreational commodities (10.7% y/y), medical care commodities (2.5), food (2.2), apparel (0.4), and housekeeping supplies (0.1). Energy prices (2.1%) showed a yearly gain for the first time since February 2023; the rate bottomed at -16.7% last June. Turning to services inflation, rent of shelter remains high, though the yearly rates are easing from their recent highs in April 2023: rent of primary residence (5.7% from 8.8%) and owners' equivalent rent (5.9 from 8.1). Turning to non-housing-related services, the yearly rate of transportation service (10.7% y/y) remains high, at the top of its recent flat trend, though is down from its peak rate of 15.2% during October 2022, while rates for other personal services (5.4) and recreation services (4.6) are beginning to slow from their recent flat trends. Meanwhile, the yearly rate for education & communication (1.4) is trending lower, though has flattened out recently, while the medical services (2.1) rate moved further above zero after moving above in January for the first time since last April; it was at a recent low of -2.6% during September.

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