**December 9, 2024**

# Morning Briefing

## Roaring 2020s Tour
## Deep In The Heart Of Texas

*Check out the accompanying chart collection.*

**Executive Summary:** As Taylor Swift ends her Eras tour, Dr Ed starts his Roaring 2020s Tour to meet with our accounts. Last week in Texas, they shared their concerns about the "known unknowns," as the new administration represents a significant policy regime change. On balance, Trump 2.0 should perpetuate our Roaring 2020s scenario. Fortunately, the US economy and financial markets are resilient and tend to outperform globally whomever occupies the White House, thanks to Americans' indomitable entrepreneurial spirit. … Also: The labor market remains strong, notwithstanding the weakness of some less creditable indicators. … And: Consumers are still doing what they do best.

**YRI Weekly Webcast.** Join our live webcast with Q&A on Mondays at 11 a.m., EST, with Ed and Eric. You will receive an email with the link one hour before showtime. Replays of the weekly webcasts are available *here*.

**US Strategy: Dr Ed on Tour.** Taylor Swift's "The Eras Tour" ended yesterday in Vancouver. The extraordinary singer started this sixth concert tour in Glendale, Arizona on March 17, 2023. The tour consisted of 149 shows spanning five continents. Two of my daughters enjoyed her show in Toronto last month.

My "Roaring 2020s Tour" started in Dallas, Texas last Tuesday morning. That afternoon, after a great Tex-Mex lunch with a few accounts, I traveled to Fort Worth to meet with more accounts. A car service took me to Austin that night for my gig there on Wednesday. It was on to San Antonio for a small group dinner that evening at Bistr09. Then I was off to Houston to stay at the Houstonian Hotel for a group breakfast on Thursday. Next I flew to San Diego to speak at the NIRI Senior Roundtable Annual Meeting on Friday morning.

I enjoyed my discussions with our accounts. They all are pleased with the bull market in stocks. They are also rooting for our Roaring 2020s scenario. But they are nervous that stocks aren't cheap now that valuation multiples are near previous bull market peaks. Their main concern for the fundamentals is that President Donald Trump might start a trade war. Everyone is also wondering whether the new administration will succeed in reducing the size, regulatory powers, headcount, and budget deficits of the federal government. In addition, a few people noted that mass deportation of illegal migrants might hamper some industries that rely on these workers. Everyone is uneasy about making so many policy changes at the same time. That could have unintended negative consequences for the economy and the financial markets.

Debbie, Eric, Joe, Melissa, and I share these concerns and are focusing our team's research efforts on these mostly "known unknowns." Our current assessment is that on balance Trump 2.0 will support our Roaring 2020s scenario for the remainder of the decade. To be politically fair, our scenario has unfolded very well under the current administration's mix of policies favoring business regulations, open borders, lots of deficit-financed spending, and onshoring incentives.

Our central investment thesis is that the economy and stock market are resilient; they have a long history of performing well notwithstanding Washington's meddling and regardless of which party has the White House (*Fig. 1* and *Fig. 2*). We the People of the United States make this country work, not the elected and unelected federal government officials in Washington. The US stands out among nations because it's among the few that are prospering, and it's doing so because entrepreneurial capitalism is flourishing. That's what makes it exceptional.

European economies are stagnating under the regulatory regime of the European Union. Immigration has heightened a clash of civilizations within the region, exacerbating political partisanship. The region also has an increasingly geriatric profile. And Europe's transition to clean energy has been costly and ineffective.

China began its shift toward a more market-oriented economy in 1978 under the leadership of Deng Xiaoping. The resultant economic boom started to fizzle in recent years as the Chinese Communist Party clamped down on capitalism, fearing that too many entrepreneurs were becoming too wealthy and powerful. A property depression and a rapidly aging population are also weighing on the country's economy.

America's entrepreneurial spirit and comparative advantage is widely recognized in the realm of technological innovation, financed by a highly developed venture capital industry. That's very evident in the US and global stock markets. The S&P 500 Information Technology and Communication Services sectors combined account for 40.1% of the S&P

500 market capitalization (*Fig. 3*). That's the same market-cap weighting those two sectors represented just before the Tech Wreck of 2000. However, this time, such a large proportion of the broad index's market cap is more justified because the sectors together account for 35.0% of the earnings share of the S&P 500 compared to 24.0% back then.

This is one of the main reasons why the US MSCI stock price index has dramatically outperformed the All Country World ex-US stock price index since 2010 (*Fig. 4* and *Fig. 5*). Furthermore, the US MSCI now accounts for a staggering 74% of the market capitalization of the All Country World MSCI (*Fig. 6*).

Less well known about America's entrepreneurial juices is that there are over 30 million nonfarm sole proprietorships in America (*Fig. 7*). Proprietors' income in personal income totaled $2.0 trillion (saar) during October (*Fig. 8*). Furthermore, the pace of new business applications has been hovering just above 5.0 million on a 12-month-sum basis since the pandemic (*Fig. 9*). That's up from around 3.3 million before the pandemic.

**US Economy I: Labor Market Looks Good to Us.** We've said it before, half in jest: Any data series that does not support our story must be bad data or it will be revised to show we were right after all.

Over the past two months, the household measure of employment is down 723,0000, while the payroll measure of jobs is up 263,000. Ignore the former. It makes no sense. The rapid pace of business applications certainly must create plenty of jobs. That's why we believe the payroll jobs survey's data are more representative of the state of the labor market than that of the household employment survey. Consider the following:

(1) The former is up 518,000 over the past three months and 2.27 million over the past 12 months (*Fig. 10*). The latter is down 293,000 over the past three months and down 725,000 over the past 12 months. The number of jobs has been growing at a solid rate, while the number of people employed has been basically unchanged over the past 12 months. The ratio of the two has been increasing for a long time, and especially faster since the pandemic (*Fig. 11*).

(2) The household survey includes among the employed agricultural workers, self-employed workers whose businesses are unincorporated, unpaid family workers, and private household workers. These groups are excluded from the establishment survey. It's likely that more of the self-employed are incorporating as sole proprietorships; they then would be included in payroll but not household employment. The response rates to the employment

surveys have been falling. More respondents to the household survey may not be responding to phone calls because they are flooded with robocalls.

(3) With the exception of the household employment survey data, November's employment report looked fine to us. Our Earned Income Proxy (EIP) for private-industry wages and salaries in personal income rose 0.8% as aggregate hours worked and average hourly earnings each rose 0.4% (*Fig. 12*, *Fig. 13*, and *Fig. 14*). Those increases put all three at record highs! The strength in our EIP augurs well for the holiday shopping season.

(4) Employment gains were relatively widespread by industry last month (*Fig. 15*). The only major decline was in retail trade with a decrease of 28,000. That might have been attributable to the late Thanksgiving this year. It fell on November 28.

Payroll employment rose to a record high in construction, educational services, financial activities, health care & social services, leisure & hospitality, professional scientific & technical services, state & local government, and wholesale trade.

Aggregate weekly hours rose in manufacturing, suggesting that industrial production rose during November (*Fig. 16*).

(5) The labor force declined by 413,000 during October and November and is up by only 159,000 over the past 12 months. The y/y growth rates of the 12-month averages of the working-age population and the labor force both were down to just 0.7% during November (*Fig. 17*). That slowdown is partly attributable to Baby Boomers, who started turning 65 years old in 2011 and have been increasingly retiring (*Fig. 18*).

We believe that business managers are successfully increasing the productivity of their younger workers as the Baby Boomers drop out of the labor force.

**US Economy II: Consumers Still Consuming.** The latest estimate by the Atlanta Fed's *GDPNow* tracking model shows Q4's real GDP rising by 3.3% (saar), bolstered by a 3.4% increase in real consumer spending (*Fig. 19*). Friday's employment report should boost both estimates when the GDPNow's update is released on Monday.

During November, retail motor vehicle sales rose to 16.5 million units (saar), the best pace since May 2021 (*Fig. 20*). That was led by a big increase in light truck sales, which now account for a whopping 82.1% of retail motor vehicle sales. This is consistent with our view that consumers are still consuming with gusto and economic growth may be accelerating.

Memo to Fed: Don’t do it again. You’ll regret it if you do.

## Calendars

**US: Mon:** Wholesale Inventories 0.2%; Consumer Inflation Expectations. **Tues:** NFIB Small Business Optimism Index 94.2; Nonfarm Productivity & Unit Labor Costs 2.2%/1.9%. (FXStreet estimates)

**Global: Mon:** China CPI -0.4% m/m/0.5%y/y; China PPI -2.8%y/y; Ramsden. **Tues:** Germany CPI -0.7%m/m/2.4%y/y; Italy Industrial Production 0.1%; Eurogroup Meeting; China Balance of Trade $95.5b; RBA Interest Rate Decision 4.35%. (FXStreet estimates)

## Strategy Indicators

**Global Stock Markets (US$ Performance)** (*link*): The US MSCI index rose 1.1% w/w to a record high. The AC World ex-US index outperformed with a 1.7% gain and is now 6.0% below its June 15, 2021 record high after being just 0.7% below at the end of September. EMU was the best performing region last week, with a gain of 3.0%, followed by EMEA (2.8%), EM Asia (2.6), EM (2.5), Europe (2.0), and the AC World ex-US. EM Latin America was the worst regional performer, albeit unchanged w/w, followed by EAFE (1.7). Fourteen of the 18 major selected country markets that we follow rose last week. The Taiwan MSCI index performed the best, with a gain of 5.4%, followed by Sweden (3.9), Germany (3.8), and Spain (3.7). Korea was the worst performer, falling 2.7%, followed by Australia (-2.1), Brazil (-1.5), and Canada (-0.8). The US MSCI’s 28.2% ytd gain remains well ahead of the AC World ex-US index’s (6.9). EM Asia is still ahead of the pack as the leading region ytd, with a gain of 12.7%, followed by EM (7.9) and the AC World ex-US. The worst performing regions so far in 2024: EM Latin America (-24.9), EMEA (3.7), Europe (3.7), EMU (3.8), and EAFE (5.3). Looking at the major selected country markets that we follow, Taiwan is now the best ytd performer again with a gain of 33.5%, followed by the United States (28.2), India (17.3), China (16.3), and Canada (15.4). The worst performing countries ytd: Brazil (-28.6), Mexico (-24.7), Korea (-20.6), France (-5.0), and Hong Kong (-2.6).

**US Stock Indexes** (*link*): Seventeen of the 48 major US stock indexes that we follow rose w/w, down from all 48 rising in the prior two weeks. The Nasdaq Industrials index was the best performer for a second straight week, the latest with a gain of 4.2%, ahead of Russell 1000 Growth (3.6%), Russell 3000 Growth (3.4), Nasdaq Composite (3.3), and Nasdaq 100 (3.3). The S&P 500 Transportation index, with a decline of 5.3%, was the worst performer, followed by Dow Jones 20 Transports (-4.2), Dow Jones 15 Utilities (-4.0), S&P 500 LargeCap Pure Value (-2.1), and S&P 500 LargeCap Value (-2.0). Looking at their ytd performances, all 48 indexes are now positive so far. The S&P 500 LargeCap Growth index is now in the top spot as the best performer so far in 2024, with a gain of 38.4%, ahead of S&P 500 LargeCap Pure Growth (36.7), Russell 1000 Growth (36.1), Russell 3000 Growth (35.5), and Russell MidCap Growth (32.6). The worst performing major US stock indexes ytd: S&P 500 Transportation (3.7), Dow Jones 20 Transports (6.2), S&P 600 SmallCap Pure Value (9.1), S&P 400 MidCap Pure Value (10.3), S&P 600 SmallCap Equal Weighted (11.5), and S&P 600 SmallCap Value (11.9).

**S&P 500 Sectors Performance** (*link*): Three of the 11 S&P 500 sectors rose last week, and the same three were ahead of the S&P 500's 1.0% gain. That compares to 10 sectors rising a week earlier when seven were ahead of the composite index's 1.1% gain. The outperformers last week: Consumer Discretionary (5.9%), Communication Services (4.1), and Information Technology (3.3). The underperformers last week: Energy (-4.5), Utilities (-3.8), Materials (-3.0), Real Estate (-2.7), Industrials (-2.3), Health Care (-2.0), Financials (-1.8), and Consumer Staples (-0.8). The S&P 500 is up 27.7% ytd, with all 11 sectors in positive territory and four sectors ahead of the index. During the September 6 week, a ytd high of five sectors were ahead of the index for the first time since mid-May. Communication Services now wears the crown again as the best ytd performer, with a gain of 39.7%, ahead of Information Technology (38.7), Financials (33.6), and Consumer Discretionary (33.6). These sectors are lagging the S&P 500 so far in 2024: Health Care (5.6), Materials (6.8), Energy (8.0), Real Estate (9.0), Consumer Staples (17.3), Industrials (22.9), and Utilities (25.1).

## US Economic Indicators

**Employment** (*link*): Employment was above expectations in November, and there were upward revisions in each of the two prior months for the first time in a long time. *Payroll employment* advanced 227,000 in November (vs 214,000 expected), with both October (to 36,000 from 12,000) and September (255,000 from 223,000) payrolls revised higher for a net gain of 56,000. *Private payroll* employment climbed 194,000 after falling 2,000 in October, with *service providing* adding 160,000 to payrolls last month following 42,000 in October, while *goods-producing* jobs advanced 34,000 after a 44,000 shortfall in October.

*Manufacturing* jobs rose 22,000, with transportation equipment manufacturing jobs climbing 32,000 in November, getting a boost from striking workers return to work. The *construction* industry added 10,000 in payrolls in November following little change in October. Within *service-providing* industries, *health care* added 54,000 jobs in November, nearly matching the average monthly gain of 59,000 over the prior 12 months, while leisure & hospitality jobs rose 53,000 after only a 2,000 uptick in October. *Professional & business services* rebounded 26,000 in November, nearly erasing October's 23,000 loss. Social assistance jobs added 19,000 to payrolls—nearly matching the average monthly 18,000 increase over the prior 12 months. Meanwhile, *retail trade* lost 28,000 jobs in November after showing little net employment over the prior 12-month period, with *general merchandise* retailers accounting for the bulk of the loss.

**Wages** (*link*): Average hourly earnings (AHE) for *all workers on private payrolls* increased 0.4% in November, while the three-month rate increased 4.4% (saar), exceeding the yearly rate of 4.2%. The yearly rate is up from 3.6% in July, which was the lowest since May 2021; the yearly rate peaked at 5.9% in March 2022. *Service-providing industries showing three-month rates above their yearly rates*: information services (8.8% & 4.8% y/y), professional & business services (7.2 & 5.2), retail trade (6.7 & 3.6), utilities (4.6 & 3.4), wholesale trade (3.3 & 2.5). *Service-providing industries showing three-month rates below their yearly rates:* leisure & hospitality (3.6 & 3.9), financial services (3.5 & 4.2), and other services (1.8 & 3.0). *Service-providing industries with three-month and yearly rates nearly identical:* education & health services (3.5 & 3.4) and transportation & warehousing (3.1 & 3.3). Within *goods-producing* industries, the annualized three-month rates were above the yearly rate for *durable goods* manufacturing (3.1 & 5.2) and below for *nondurable goods* manufacturing (1.6 & 2.4) industries.

**Earned Income Proxy** (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, climbed to yet another a new record high in November, increasing 0.8%. *Average hourly earnings* in October advanced 0.4%, while *aggregate weekly hours also* rose 0.4%—with private payroll employment ticking up 0.1% and the average workweek up by 0.3%. Over the past 12 months, our EIP advanced 5.1%—with aggregate weekly hours up 1.1% and average hourly earnings up 4.0%.

**Unemployment** (*link*): The *number of unemployed* rose 161,000 in November to 7.1 million after falling from a recent peak of 7.2 million in July to 6.8 million in September. The *unemployment rate* edged up to 4.2% from 4.1% in both October and September; the rate had climbed from 3.8% in March to 4.3% in July—which was the highest since October 2021. The rate was below 4.0% from February 2022 through April 2024 before reaching

4.0% this May. *Household employment* fell 355,000 in November, while the *labor force* was 193,000,000 lower than in October. The *participation rate* ticked down from 62.6% from 62.5% in November, after being at 62.7% the prior three months, and has been in a volatile flat trend over the past year. *By race:* The unemployment rates in November climbed for African Americans (to 6.4% from 5.7%) and Hispanics (5.3 from 5.1), while the rate ticked down among Asians (3.7 from 3.9) and was unchanged for Whites at 3.8%. *By education:* Unemployment rates fell in November for those with less than a high school diploma (to 6.0 from 6.6) and those with a bachelor's degree or higher (2.4 from 2.5), while rates rose for those with a high school degree (4.6 from 4.0) and with some college or an associate's degree (3.6 from 3.4).

**Consumer Sentiment Index** (*link*): Consumer sentiment improved for the fifth successive month in December, according to preliminary estimates, to a seven-month high. *Consumer sentiment* climbed from 66.4 in July to 74.0 in mid-December—slightly higher than the 73.0 expected reading. Sentiment is now nearly 50% above June 2022's trough, though remains below pre-pandemic levels. *Current conditions* soared 13.8 points (to 77.7 from 63.9) this month to its highest reading since April, driven by a surge in buying conditions, with nearly 25% of respondents stating now is a good time to make purchases—the highest proportion since this data series began in 2012. Meanwhile, the *expectations* component slumped from 76.9 to 71.6 this month—the lowest level since July. "The expectations index continued the post-election re-calibration that began last month, climbing for Republicans and declining for Democrats in December," noted Joanne Hsu, director of the surveys of consumers at the University. *Turning to inflation*, *year-ahead* inflation expectations rose from 2.6% to 2.9% in mid-December—a six-month high—while *long-run inflation expectations* eased from 3.2% to 3.1%.

## Global Economic Indicators

**Eurozone Retail Sales** (*link*): Eurozone retail sales fell in October for the first time in four months. *Headline retail sales* slipped 0.5% (vs -0.4% expected), following a three-month gain of 2.1%. The *components of retail sales* show spending on *non-food products ex auto fuels* posted the biggest decline, slumping 0.9% after jumping 3.4% during the three months through September. *Automotive fuels* dropped for the fourth time in five months by 0.3% m/m and 0.2% over the period, with August showing a 1.2% overall gain. Meanwhile, *food, drinks, and tobacco* continued the up-and-down pattern, edging up 0.1% in October, following a 0.7% decrease and a 1.1% increase the prior two months. October data are available for *three of the Eurozone's four largest economies*, with Germany (-1.4% m/m &

1.0 y/y) showing a sharp drop in retail sales for the month and a small gain y/y and with both France (0.0% & 3.6) and Spain (0.0% & 3.8) showing no growth for the month but solid y/y gains.

**Germany Factory Orders** (*link*): Germany *factory orders* fell in October, while September's gain was revised significantly higher. Germany *factory orders* in October declined a smaller-than-expected 1.5% October, versus consensus estimates of a 2.0% drop, following September's upwardly revised 7.2% surge (first reported up 4.2%), which was the strongest gain this year. (*Destatis* attributed the large September revision to a large-scale order in the manufacture of ships that was reported late.) Orders for machinery (-7.6%) and autos (-3.7) showed the biggest declines in October and were partially offset by gains in basic metals (10.2) and computer, electronic, and optical (8.0) products. *Domestic orders* shrank 5.3% in October, while *foreign orders* rose 0.8%, driven by a 6.3% jump in orders from *outside the Eurozone*; orders from *within the Eurozone* tumbled 7.6%. *By sector*, both consumer (4.2%) and intermediate (0.9) goods orders rose in October, while capital (-3.6) goods orders were in the red.

**Germany Industrial Production** (*link*): German industrial production unexpectedly declined in October. Germany's *industrial production*, which includes construction, fell 1.0% (vs expected 1.0% gain) following September's revised 2.0% shortfall, first reported as a 2.5% drop. Production was down 4.5% versus a year ago. October's decline mainly reflected a sharp 8.9% drop in energy production and a 1.9% slide in motor vehicle production. Industrial production excluding energy and construction fell only 0.3% in October. *By sector*, the output of consumer and capital goods dropped 1.0% and 0.4%, respectively, while intermediate goods production posted a 0.4% uptick.

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