Important Cyclical Indicator

The BAA SPREAD leads GDP by one quarter. It is one of the most important short-term indicators. It dropped a significant -7bp on Wednesday.
Stronger U.S. Data

1. BAA SPREAD
2. EVRISI house price survey
3. Unemployment claims
4. Consumer credit
5. Federal outlays & receipts
6. EVRISI temp & perm wage and employment surveys
7. Money (M2)
8. Refi
9. Atlanta Fed wage tracker
Significant Global Easing Cycle Clearly Underway

Global Short Rates, which are one of the variables in our econometric model to forecast GDP, declined again yesterday and are almost certain to continue to decline.
Inflation Still MIA

A month ago, in response to a package of higher inflation data, we thought an Inflation Tone Change had occurred. Because inflation data since then have been in the other direction, we no longer believe that. This morning, China’s core CPI was reported up just +1.6% y/y. And while oil is up today, WTI at $54 is down more than -$20 from its 2018 high. And the US core PPI was tame in July (see next page).
**Inflation Still MIA**  Contd

The US core PPI deflated -0.08% m/m in July and slowed to +2.08% y/y. This does not fit with the “transitory” view.
Positive U.S. Credit Momentum

Revolving credit increased +4.6% y/y in June.
Bank loans increased +4.9% y/y in late July.
In addition, M2 increased +$36b w/w this week and accelerated to +5.3% y/y (see next page).

U.S. CONSUMER CREDIT (REVOLVING)
Jun: $1.07t

+4.6% Y/Y

U.S. BANK TOTAL LOANS
Adjusted for FASB Accounting Change
Jul 24: $9.84t

+4.9% Y/Y

CONSUMER CREDIT

BANK LOANS
U.S. Money Growth Has Accelerated

According to the Marshallian K concept, when M2 growth is faster than nominal GDP growth, the S&P tends to go up. M2 this week is up +5.3% y/y, and nominal GDP growth in 3Q is probably less than +4.0% y/y.
U.S. Labor Markets Still Solid

Unemployment claims 4 wk avg was reported yesterday unchanged at a very low 212k, close to a five-decade low. And EVRISI temp & perm surveys of company employment increased this week to a near-record 63.5.
U.S. Wage Accelerating

At the same time the Atlanta Fed wage tracker has moved up to +3.9%, EVRISI temp & perm surveys of company wages increased this week to a near-record 72.3.
Refi Help For U.S. Economy

In the past, the US leading indicator has improved after surges in refi. Surges in refi are associated with easing cycles and declines in interest rates (mtg rates). Mtg rates could be headed down further, and refi could move up significantly from here.
The Stock Market Drives The Economy

Alan Greenspan made this point in a paper in 1959.

We still find it to be valid.

In any event, consumer confidence moves pretty closely with the S&P. Bloomberg’s weekly measure of Consumer Comfort declined a significant -1.8 this week, although to a still elevated 62.9.

Similarly, the S&P this morning is down more than -100 points from its recent high, although still at an elevated 2925.
The Bad List

• Trade war
• Inverted yield curve
• Brexit
• Hong Kong
• S&P earnings recession

• *Eisman says Hong Kong protests are his biggest worry with economy, a possible ‘black swan’.*

• *U.K. economy posts surprise contraction, worst quarter since 2012.*

• *Italian stocks fall as Deputy PM Salvini calls for fresh elections.*
Europe and China Sales Surveys Both Still Well Below 50 This Week

Global growth is almost certainly weak and probably still weakening.
China Nominal GDP Probably Still Slowing

China’s PPI is particularly important to watch because China nominal GDP growth moves with it. China’s PPI was reported today for July with a -0.3% y/y decline!
Even If It’s Likely “Different This Time”

The yield curve has been inverted prior to the last seven recessions. It’s inverted again. Let’s say the odds are 70% “it’s different this time”. Even given that view, the Fed might want to work to get to a positive yield curve. This would fall in the “low-probability, high-impact event”. And of course, 30% is hardly a low probability.
Even If It’s Likely “Different This Time”

Judging by history, a significantly inverted yield curve signals a recession 12 months out. So the current inversion, which has now become significant, suggests a recession starting just a few months before the 2020 election.
Even If It’s Likely “Different This Time”

Contd

In 2000, when the yield curve had the same size and duration of inversion that it has today, EVRISI company surveys were still at a very strong 59.6. The recession started in 2001.

In 2006, when the yield curve had the same size and duration of inversion that it has today, EVRISI company surveys were still at an OK level of 53.1 (about what they are today). The recession started in 2007.

Bottom line, the yield curve tends to be dismissed in real time, because when it’s signaling a recession, everything looks “fine”.

EVRISI COMPANY SURVEYS
0=Weak 100=Strong
Aug 2: 52.5

59.6
53.1
General Disclosures

This report is approved and/or distributed by Evercore Group L.L.C. ("Evercore Group"), a U.S. licensed broker-dealer regulated by the Financial Industry Regulatory Authority ("FINRA") and by Evercore ISI International Limited ("ISI UK"), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority. The institutional sales, trading and research businesses of Evercore Group and ISI UK collectively operate under the global marketing brand name Evercore ISI ("Evercore ISI"). Both Evercore Group and ISI UK are subsidiaries of Evercore Inc. ("Evercore"). The trademarks, logos and service marks shown on this report are registered trademarks of Evercore Inc.

This report is provided for informational purposes only. It is not to be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction. The information and opinions in this report were prepared by registered employees of Evercore ISI. The information herein is believed by Evercore ISI to be reliable and has been obtained from public sources believed to be reliable, but Evercore ISI makes no representation as to the accuracy or completeness of such information. Opinions, estimates and projections in this report constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinions of Evercore and are subject to change without notice. In addition, opinions, estimates and projections in this report may differ from or be contrary to those expressed by other business areas or groups of Evercore and its affiliates. Evercore ISI has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. Facts and views in Evercore ISI research reports and notes have not been reviewed by, and may not reflect information known to, professionals in other Evercore affiliates or business areas, including investment banking personnel.

Evercore ISI does not provide individually tailored investment advice in research reports. This report has been prepared without regard to the particular investments and circumstances of the recipient. The financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives. Securities and other financial instruments discussed in this report, or recommended or offered by Evercore ISI, are not insured by the Federal Deposit Insurance Corporation and are not deposits of or other obligations of any insured depository institution. If a financial instrument is denominated in a currency other than an investor's currency, a change in exchange rates may adversely affect the price or value of, or the income derived from the financial instrument, and such investor effectively assumes such currency risk. In addition, income from an investment may fluctuate and the price or value of financial instruments described in this report, either directly or indirectly, may rise or fall. Estimates of future performance are based on assumptions that may not be realized. Furthermore, past performance is not necessarily indicative of future performance.

Evercore ISI salespeople, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed in this research. Our asset management affiliates and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

Electronic research is simultaneously available to all clients. This report is provided to Evercore ISI clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Evercore ISI. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion or information contained in this report (including any investment recommendations, estimates or target prices) without first obtaining express permission from Evercore ISI.

This report is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

For investors in the UK: In making this report available, Evercore makes no recommendation to buy, sell or otherwise deal in any securities or investments whatsoever and you should neither rely or act upon, directly or indirectly, any of the information contained in this report in respect of any such investment activity. This report is being directed at or distributed to, (a) persons who fall within the definition of Investment Professionals (set out in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”)); (b) persons falling within the definition of high net worth companies, unincorporated associations, etc. (set out in Article 49(2) of the Order); (c) other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”). This report must not be acted on or relied on by persons who are not relevant persons.

Applicable current disclosures regarding the subject companies covered in this report are available at the offices of Evercore ISI, and can be obtained by writing to Evercore Group L.L.C., Attn. Compliance, 666 Fifth Avenue, 11th Floor, New York, NY 10103.

In compliance with the European Securities and Markets Authority’s Market Abuse Regulation, a list of all Evercore ISI recommendations disseminated in the preceding 12 months for the subject companies herein, may be found at the following site: https://evercoreisi.mediasternling.com/disclosure.

© 2019. Evercore Group L.L.C. All rights reserved.