

Macro-Market Prognosis: 2017-Q4

A DRN Financial Special Research Report

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Macro-Market Prognosis[©]

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Intro

Using a host of macroeconomic indicators, DRN Financial™ provides quarterly prognosis of the macroeconomic indicators pertinent in assessing the status of the U.S. stock market. DRN Financial™ Macro-Market Prognosis[©] is built on the foundation that the U.S. is a consumer-driven economy. Ever since the end of WWII, more than one-third of the U.S. GDP has come from personal consumption. The U.S. stock market thus is intimately linked to the fortunes of the U.S. consumer (see Appendix). As such, indicators that gauge the health of the consumer in the U.S. should provide valuable, at times even leading, indications as to the direction of the U.S. stock market.

Our macro indicators are sounding the alarms; ever more loudly so!

The combination of our macro indicators based on year-on-year changes of various consumption, employment, and credit measures point to more conservative tactical allocation for the equity.

Real Personal Consumption Expenditures

As is shown in Figure 1, the year-on-year change in the real personal consumption has been on a downtrend ever since the “earning recession” of the late 2015. Moreover, the change is uncomfortably close to critical 2% threshold. Almost all major past bear markets are marked by sharp declines of yoy change of real personal consumption below 2%.

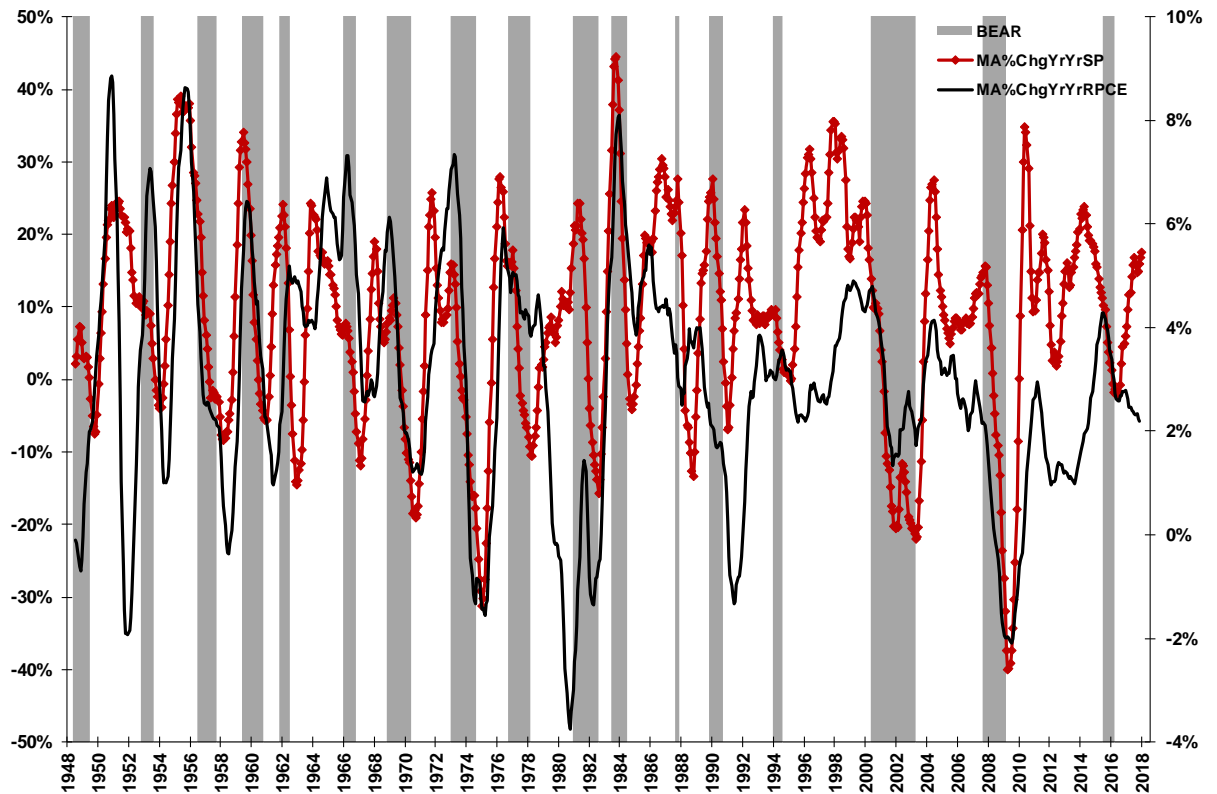


Figure 1. Real Personal Consumption Expenditures (4-month moving average of YoY%) is plotted along with the S&P500 (4-month moving average of YoY%). Gray areas are well-documented bear markets and DRN™ assigned significant moderations (approximately 10% drop from last highest level) in the S&P index level. Data is from FRED database at St. Louis Fed and Standard & Poor's Inc.

Real Non-Durable Goods Consumption Expenditures

As is shown in Figure 2, the year-on-year change in the real non-durable goods consumption has been on a uptrend ever since the “earning recession” of the late 2015. As seen in Appendix Figure A.2, the share of non-durable consumption has been declining since the end of WWII. However, it is noteworthy that for the majority of sample period (1948-2017), the yoy change in stock prices and real non-durable goods have had highly positive correlation; indicating perhaps as why the U.S. stock market has enjoyed a stellar appreciation ever since the “earnings recession” of the late 2015.

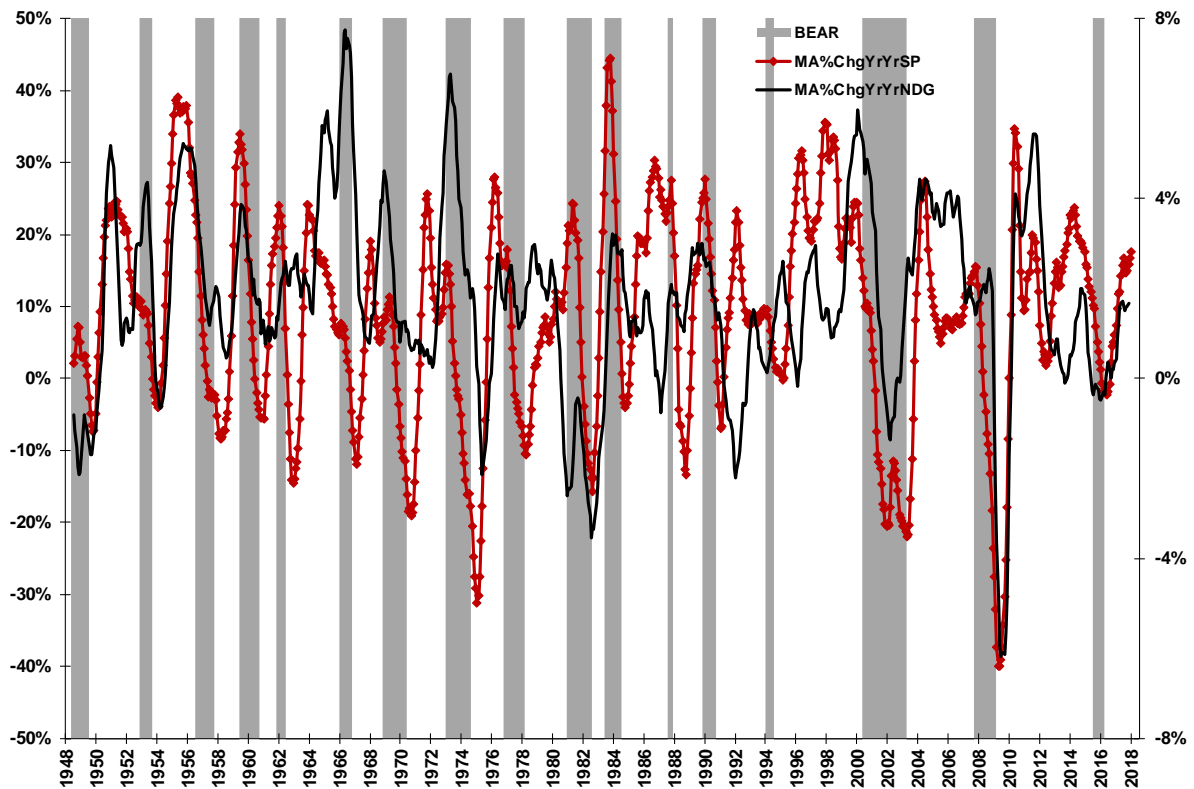


Figure 2. Real Non-Durable Goods Consumption Expenditures (4-month moving average of YoY%) is plotted along with the S&P500 (4-month moving average of YoY%). Gray areas are well-documented bear markets and DRN™ assigned significant moderations (approximately 10% drop from last highest level) in the S&P index level. Data is from FRED database at St. Louis Fed and Standard & Poor’s Inc.

Real Durable Goods Consumption Expenditures

As is shown in Figure 3, the year-on-year change in the real durable goods consumption has been on somewhat downtrend ever since the “earning recession” of the late 2015. The yoy change has been almost flat since late 2016. As seen in Appendix Figure A.2, the share of durable consumption has been fluctuating in the 10% to 15% of the overall personal consumption since the end of WWII.

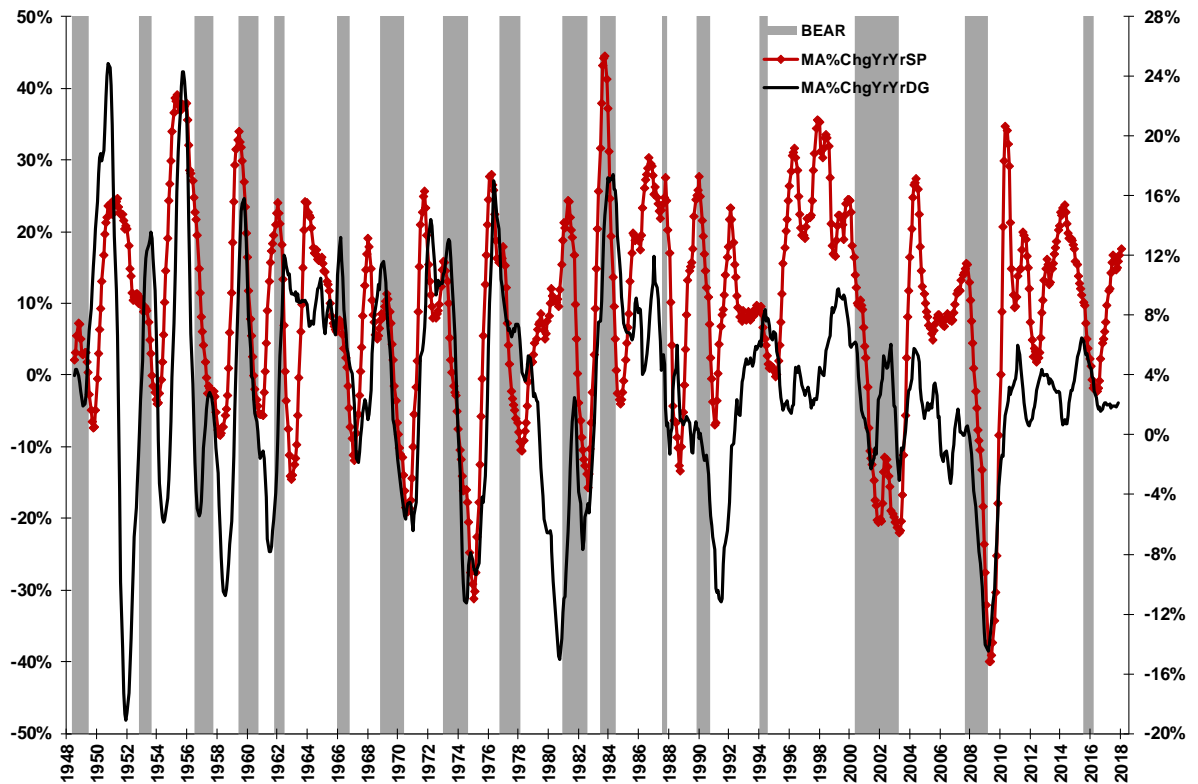


Figure 3. Real Durable Consumption Expenditures (4-month moving average of YoY%) is plotted along with the S&P500 (4-month moving average of YoY%). Gray areas are well-documented bear markets and DRN™ assigned significant moderations (approximately 10% drop from last highest level) in the S&P index level. Data is from FRED database at St. Louis Fed and Standard & Poor's Inc.

Real Services' Consumption Expenditures

As is shown in Figure 4, the year-on-year change in the real service consumption has been on a downtrend ever since the “earning recession” of the late 2015. As seen in Appendix Figure A.2, the share of service consumption has been increasing from roughly 40% to 70% of the overall personal consumption since the end of WWII. However, it is noteworthy that for the majority of sample period (1948-2017), the yoy change in stock prices and services have had a positive correlation; indicating perhaps the weakness in the services may not bode well for stocks in coming months.

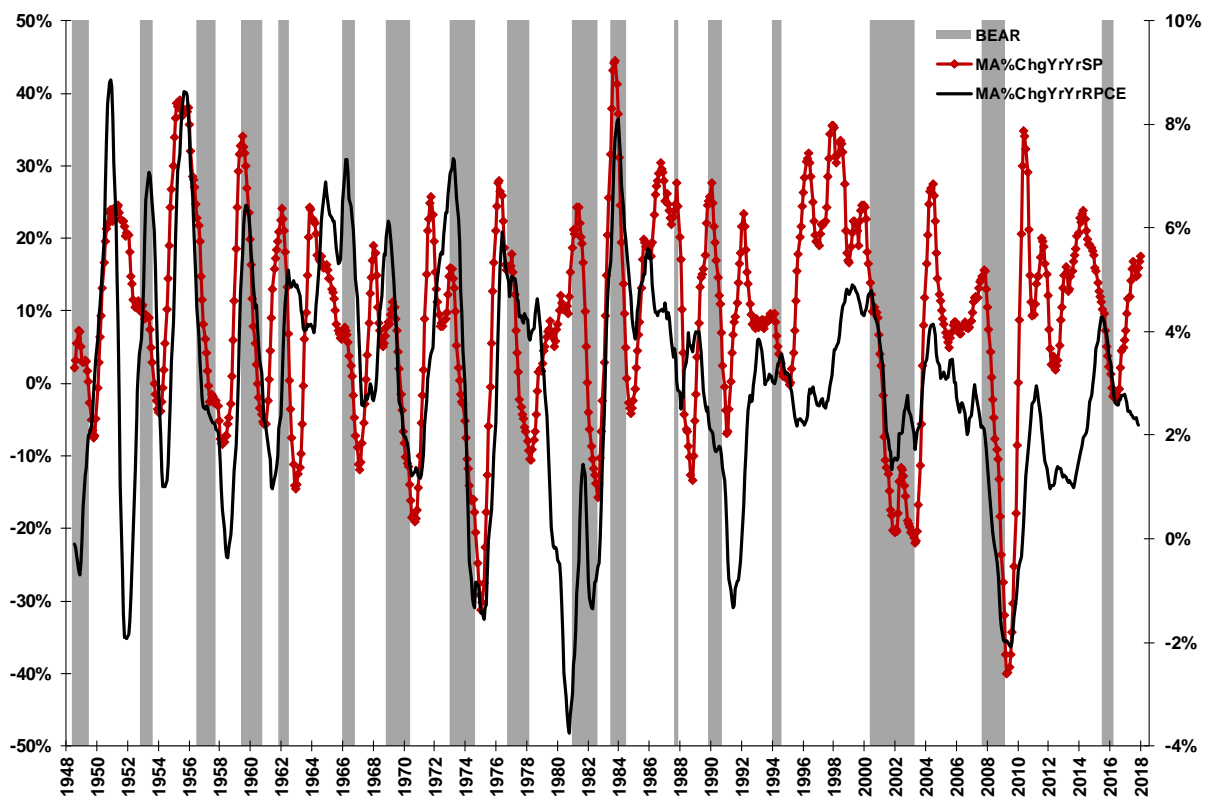


Figure 4. Real Services' Consumption Expenditures (4-month moving average of YoY%) is plotted along with the S&P500 (4-month moving average of YoY%). Gray areas are well-documented bear markets and DRN™ assigned significant moderations (approximately 10% drop from last highest level) in the S&P index level. Data is from FRED database at St. Louis Fed and Standard & Poor's Inc.

Retail Sales

Figure 5 shows the

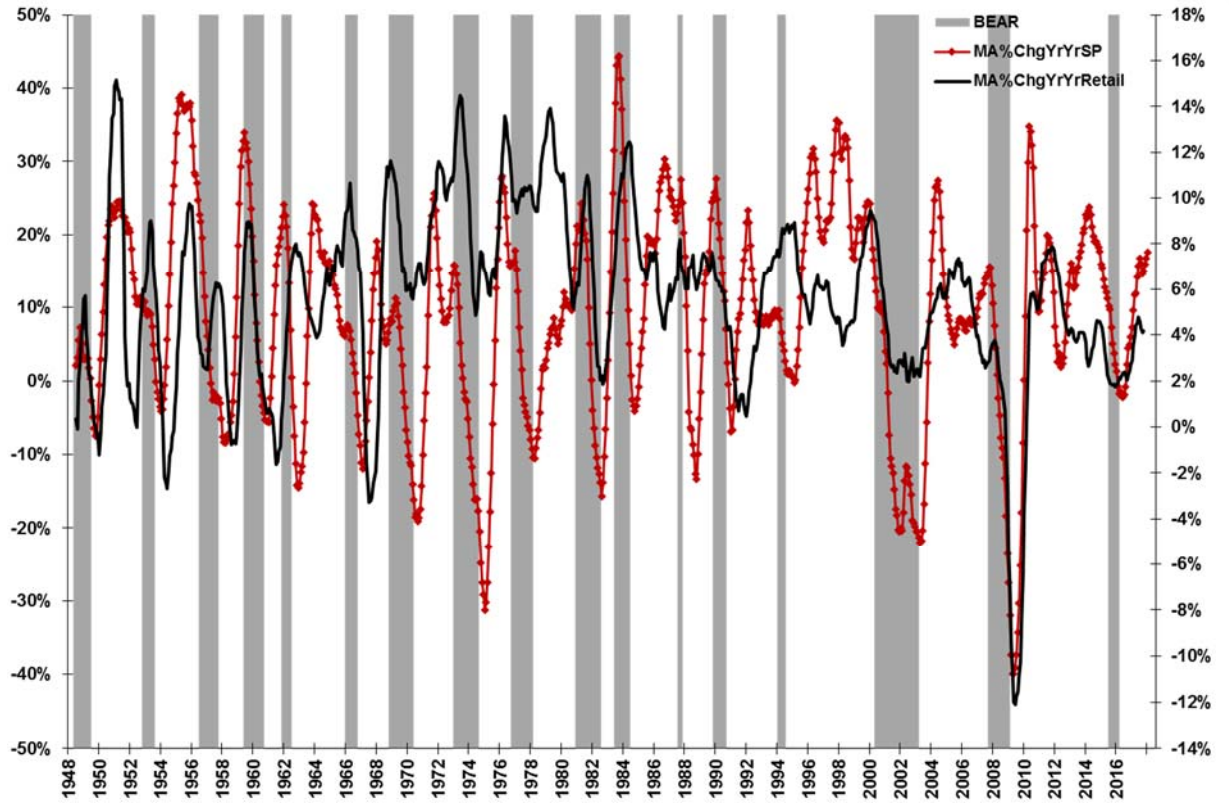


Figure 5. Retail service (4-month moving average of YoY%) is plotted along with the S&P500 (4-month moving average of YoY%). Gray areas are well-documented bear markets and DRN™ assigned significant moderations (approximately 10% drop from last highest level) in the S&P index level. Data is from FRED database at St. Louis Fed and Standard & Poor's Inc.

Inflationary Perspectives

Figure 6 shows the

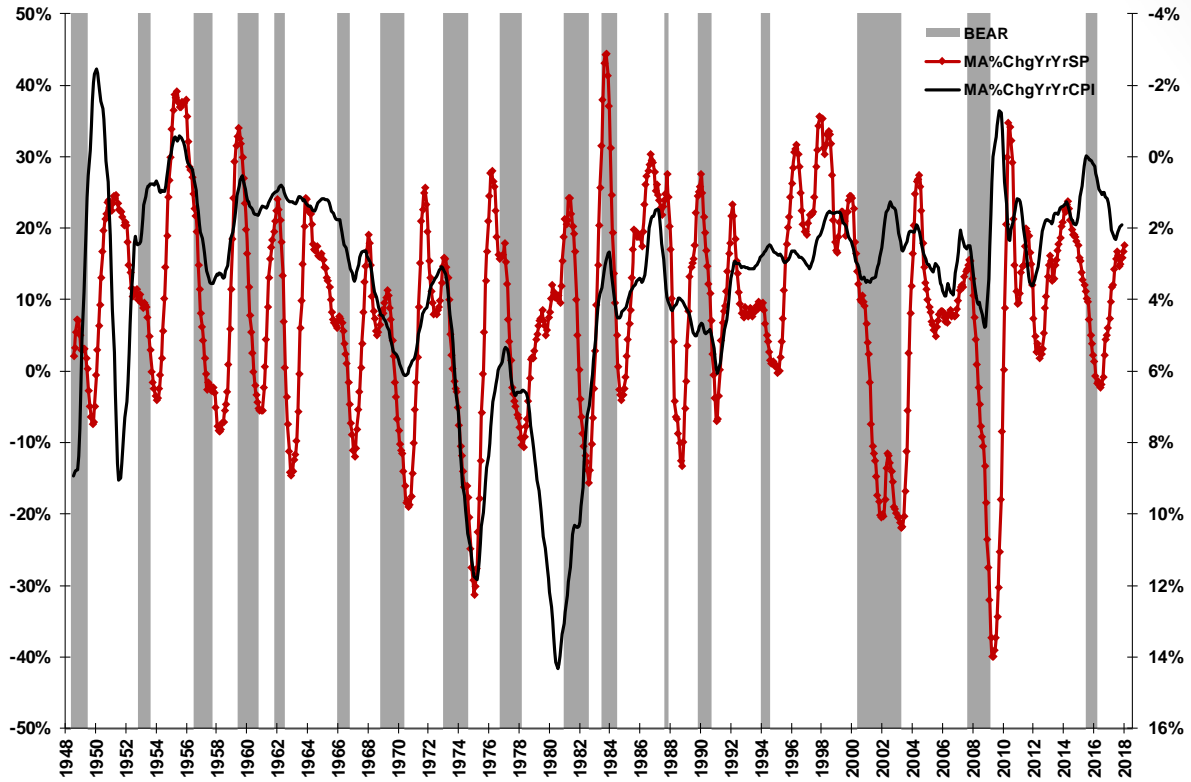


Figure 6. The inflation measure—Consumer Prices Index (4-month moving average of YoY%)—is plotted along with the S&P500 (4-month moving average of YoY%). Gray areas are well-documented bear markets and DRN™ assigned significant moderations (approximately 10% drop from last highest level) in the S&P index level. Data is from FRED database at St. Louis Fed and Standard & Poor’s Inc.

Unemployment Perspectives

Figure 7 shows the

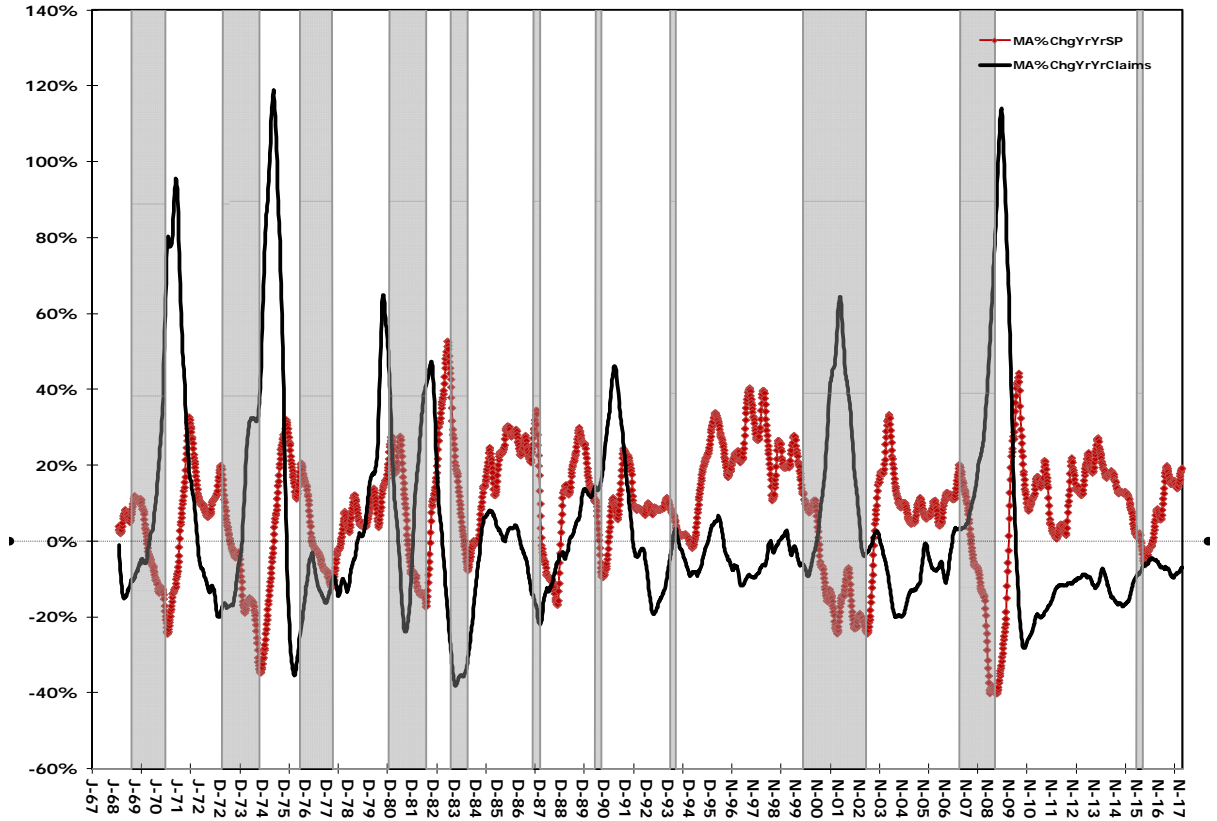


Figure 7. Consumer Price Index (4-month moving average of YoY%) is plotted along with the S&P500 (4-month moving average of YoY%). Gray areas are well-documented bear markets and DRN™ assigned significant moderations (approximately 10% drop from last highest level) in the S&P index level. Data is from FRED database at St. Louis Fed and Standard & Poor's Inc.

Employment Perspectives

Figure 8 shows the

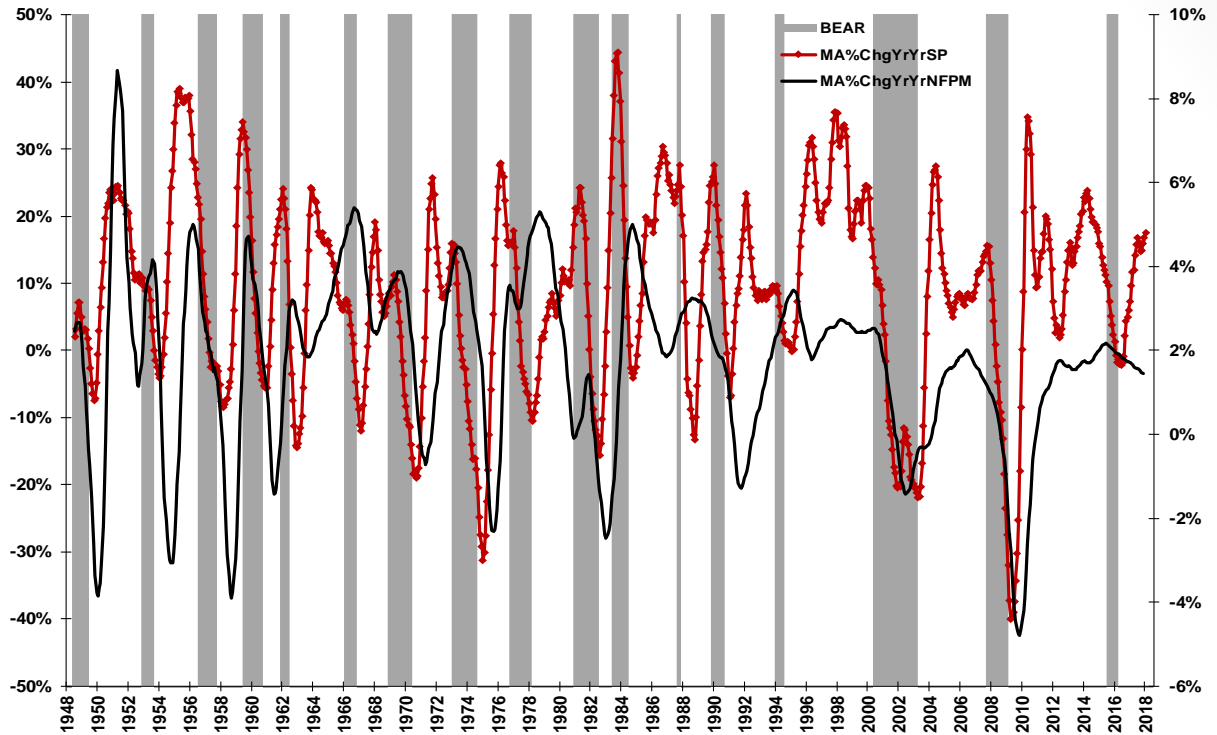


Figure 9. Non-farm Payroll (4-month moving average of YoY%) is plotted along with the S&P500 (4-month moving average of YoY%). Gray areas are well-documented bear markets and DRN™ assigned significant moderations (approximately 10% drop from last highest level) in the S&P index level. Data is from FRED database at St. Louis Fed and Standard & Poor's Inc.

Housing Starts Perspectives

Figure 10 shows the

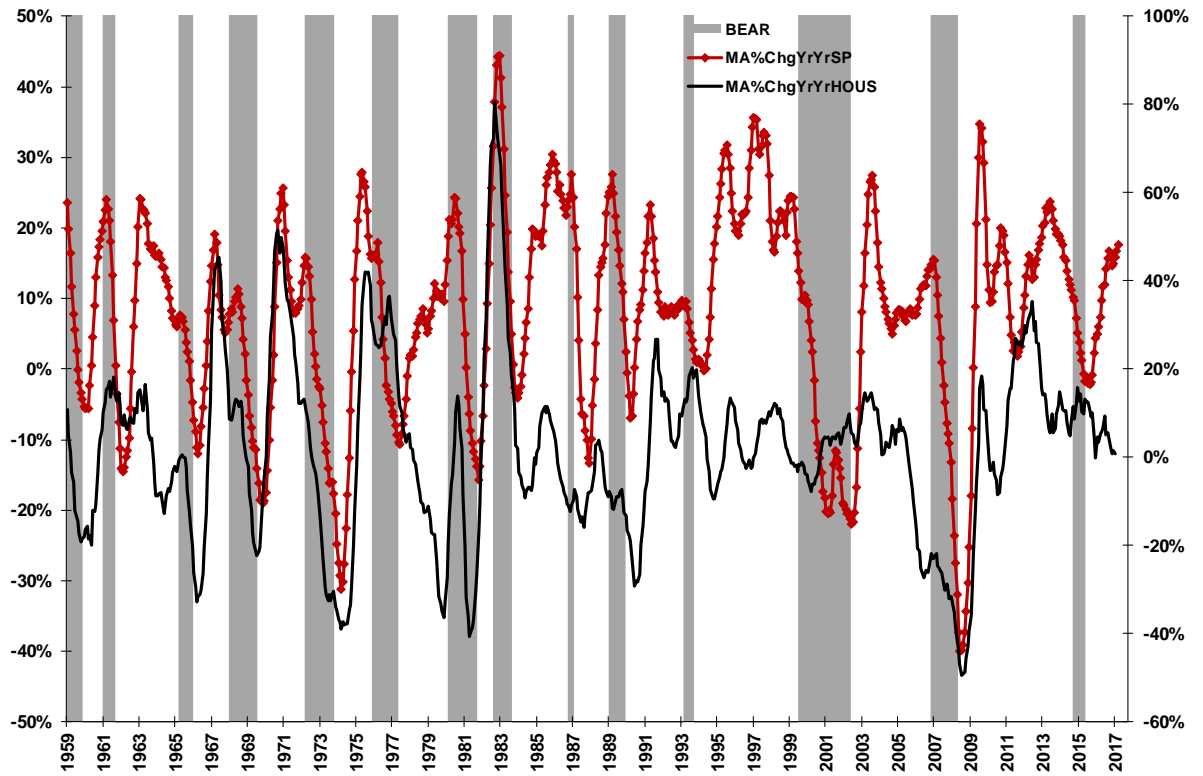


Figure 10. Housing Starts (4-month moving average of YoY%) is plotted along with the S&P500 (4-month moving average of YoY%). Gray areas are well-documented bear markets and DRN™ assigned significant moderations (approximately 10% drop from last highest level) in the S&P index level. Data is from FRED database at St. Louis Fed and Standard & Poor's Inc.

Overall Leverage Perspectives

Figure 11 shows the

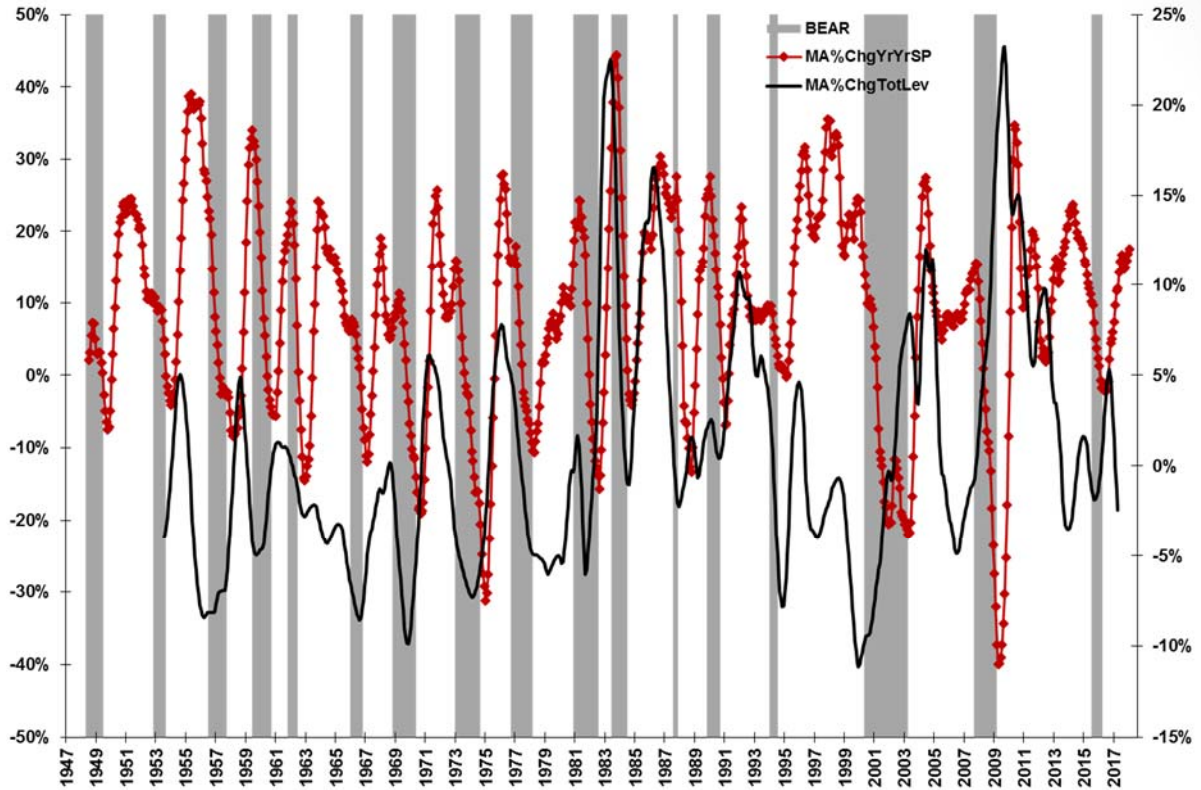


Figure 11. Total system leverage (4-month moving average of YoY%) is plotted along with the S&P500 (4-month moving average of YoY%). Gray areas are well-documented bear markets and DRN™ assigned significant moderations (approximately 10% drop from last highest level) in the S&P index level. Data is from FRED database at St. Louis Fed and Standard & Poor's Inc.

Private Leverage Perspectives

Figure 12 shows the

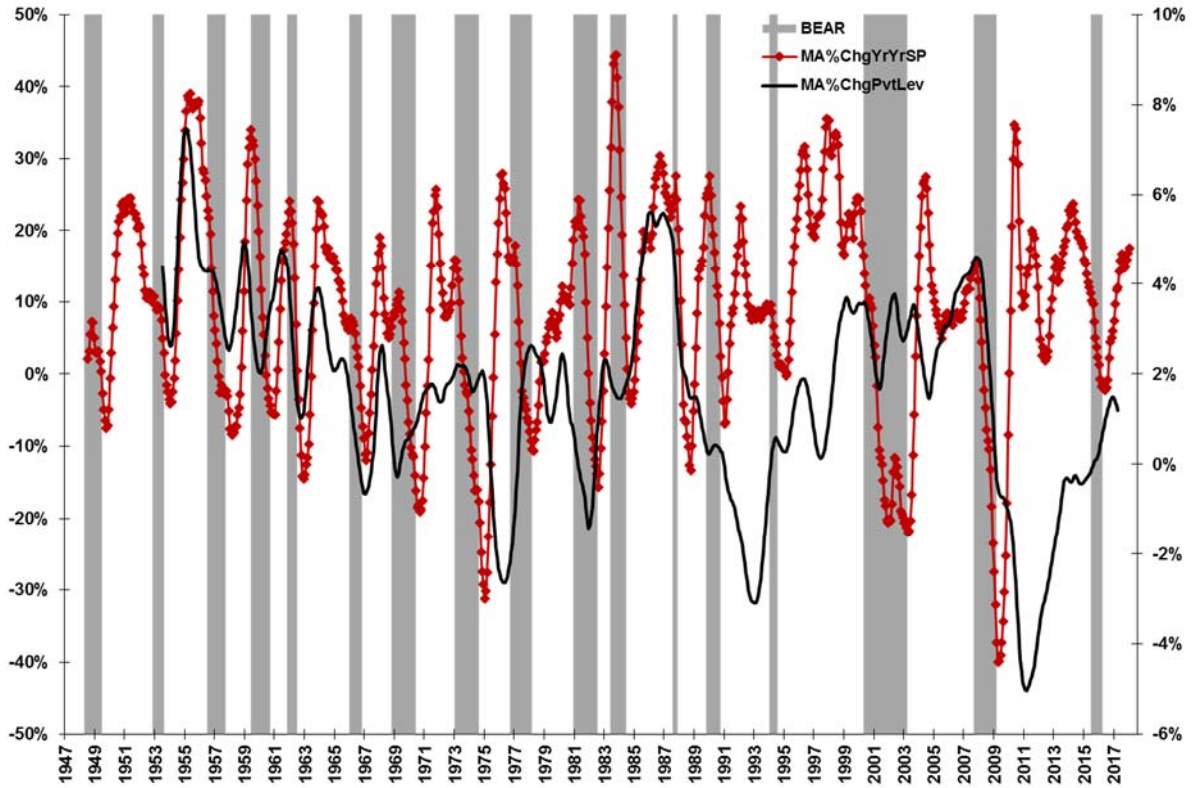


Figure 12. Total private leverage (4-month moving average of YoY%) is plotted along with the S&P500 (4-month moving average of YoY%). Gray areas are well-documented bear markets and DRN™ assigned significant moderations (approximately 10% drop from last highest level) in the S&P index level. Data is from FRED database at St. Louis Fed and Standard & Poor's Inc.

Corporate Leverage Perspectives

Figure 13 shows the

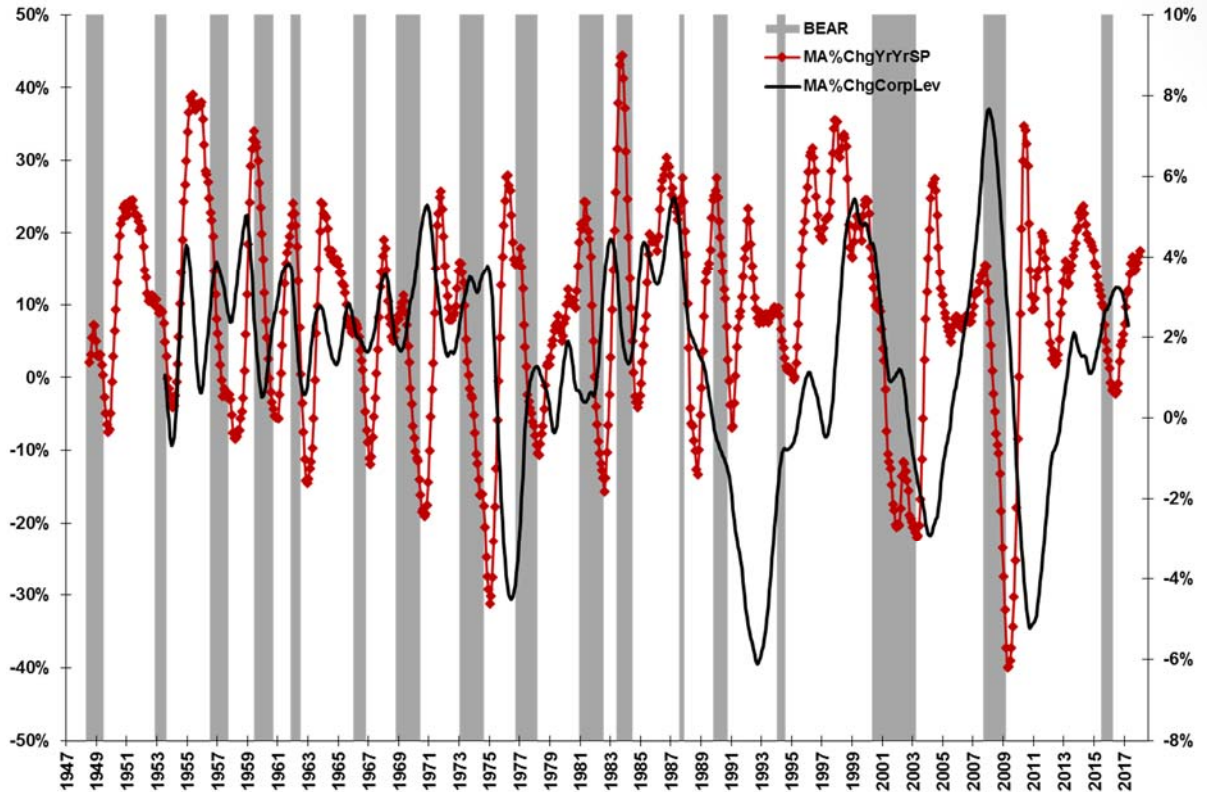


Figure 14. Total corporate leverage (4-month moving average of YoY%) is plotted along with the S&P500 (4-month moving average of YoY%). Gray areas are well-documented bear markets and DRN™ assigned significant moderations (approximately 10% drop from last highest level) in the S&P index level. Data is from FRED database at St. Louis Fed and Standard & Poor's Inc.

Margin Debt Perspectives

Figure 15 shows the

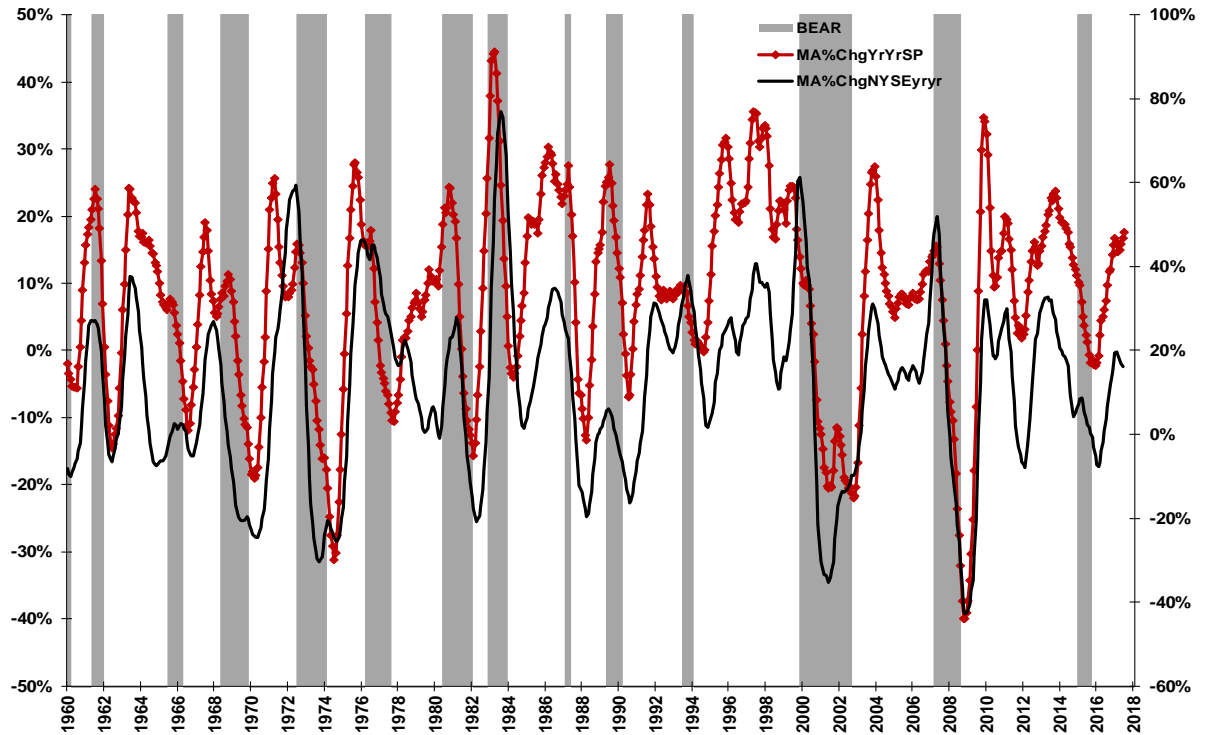


Figure 15. Total margin debt leverage (4-month moving average of YoY%) is plotted along with the S&P500 (4-month moving average of YoY%). Gray areas are well-documented bear markets and DRN™ assigned significant moderations (approximately 10% drop from last highest level) in the S&P index level. Data is from FRED database at St. Louis Fed and Standard & Poor's Inc.

Credit Card Default Perspectives

Figure 16 shows the

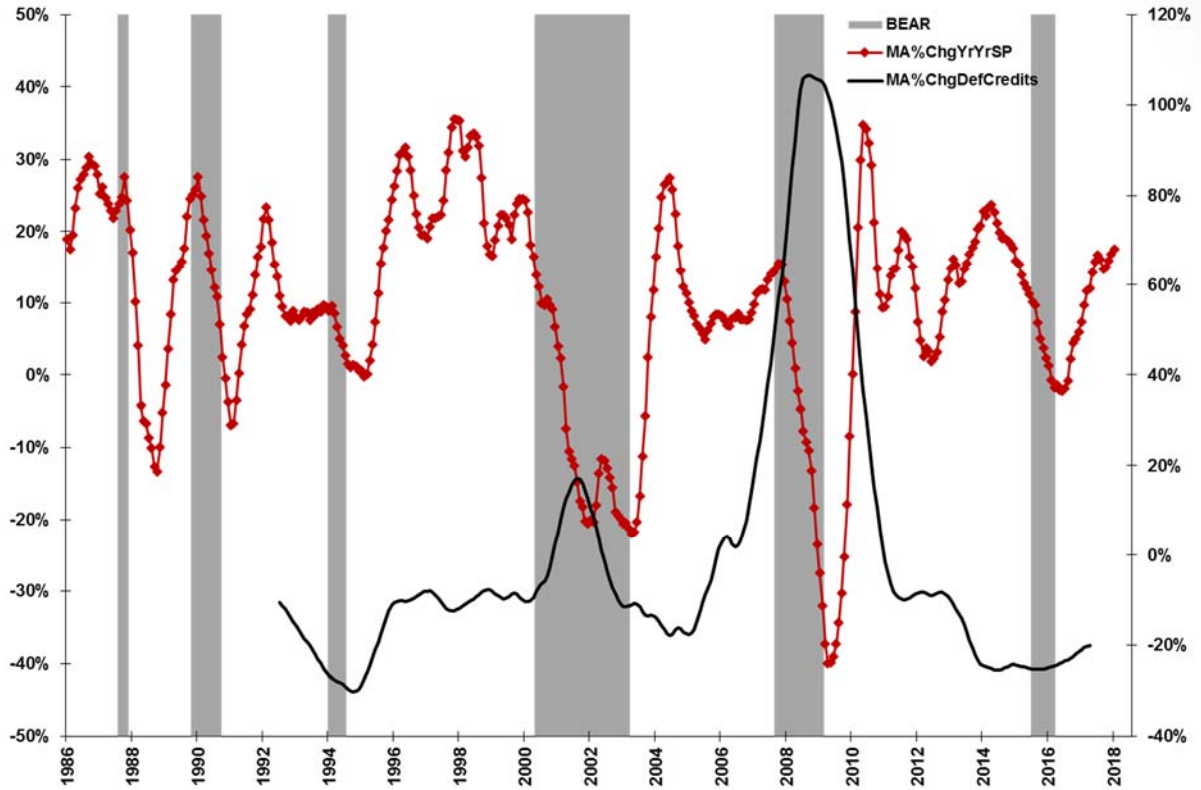


Figure 16. Credit card defaults (4-month moving average of YoY%) is plotted along with the S&P500 (4-month moving average of YoY%). Gray areas are well-documented bear markets and DRN™ assigned significant moderations (approximately 10% drop from last highest level) in the S&P index level. Data is from FRED database at St. Louis Fed and Standard & Poor's Inc.

Mortgage Debt Default Perspectives

Figure 17 shows the

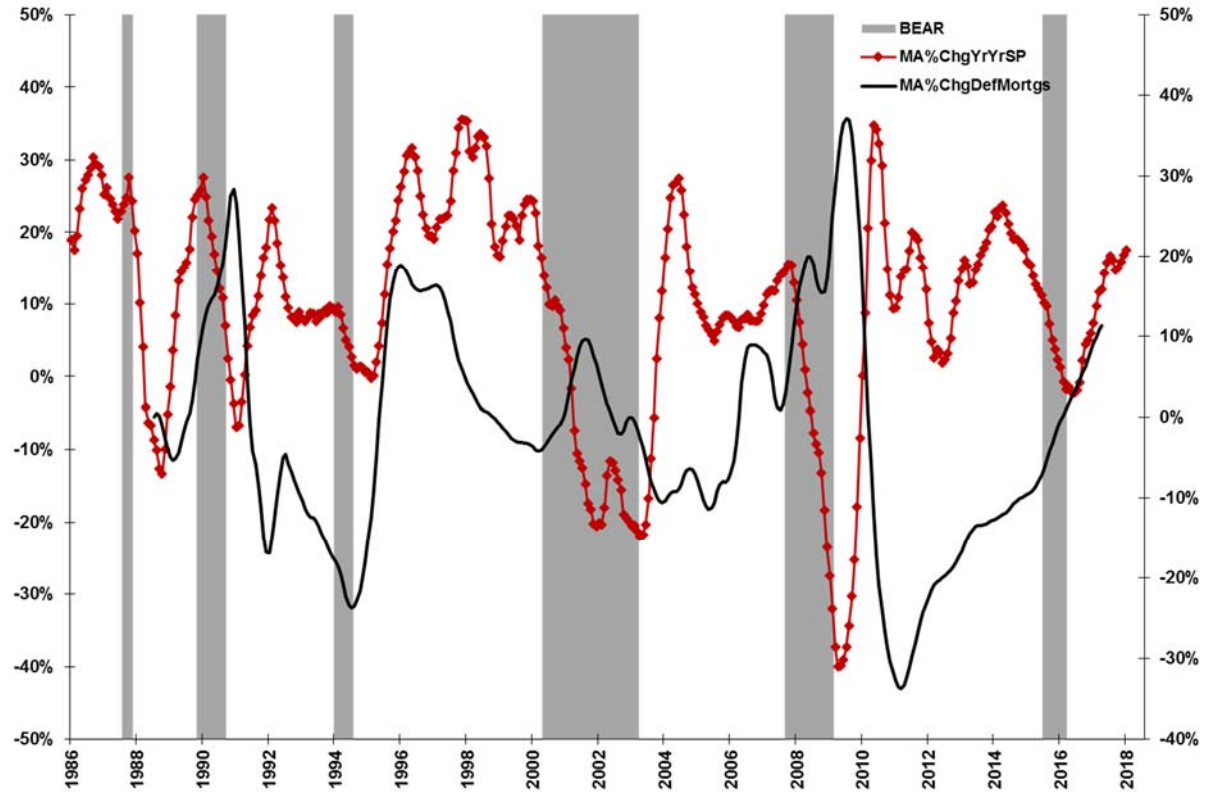


Figure 17. Mortgage debt defaults (4-month moving average of YoY%) is plotted along with the S&P500 (4-month moving average of YoY%). Gray areas are well-documented bear markets and DRN™ assigned significant moderations (approximately 10% drop from last highest level) in the S&P index level. Data is from FRED database at St. Louis Fed and Standard & Poor's Inc.

Consumer Loan Default Perspectives

Figure 18 shows the

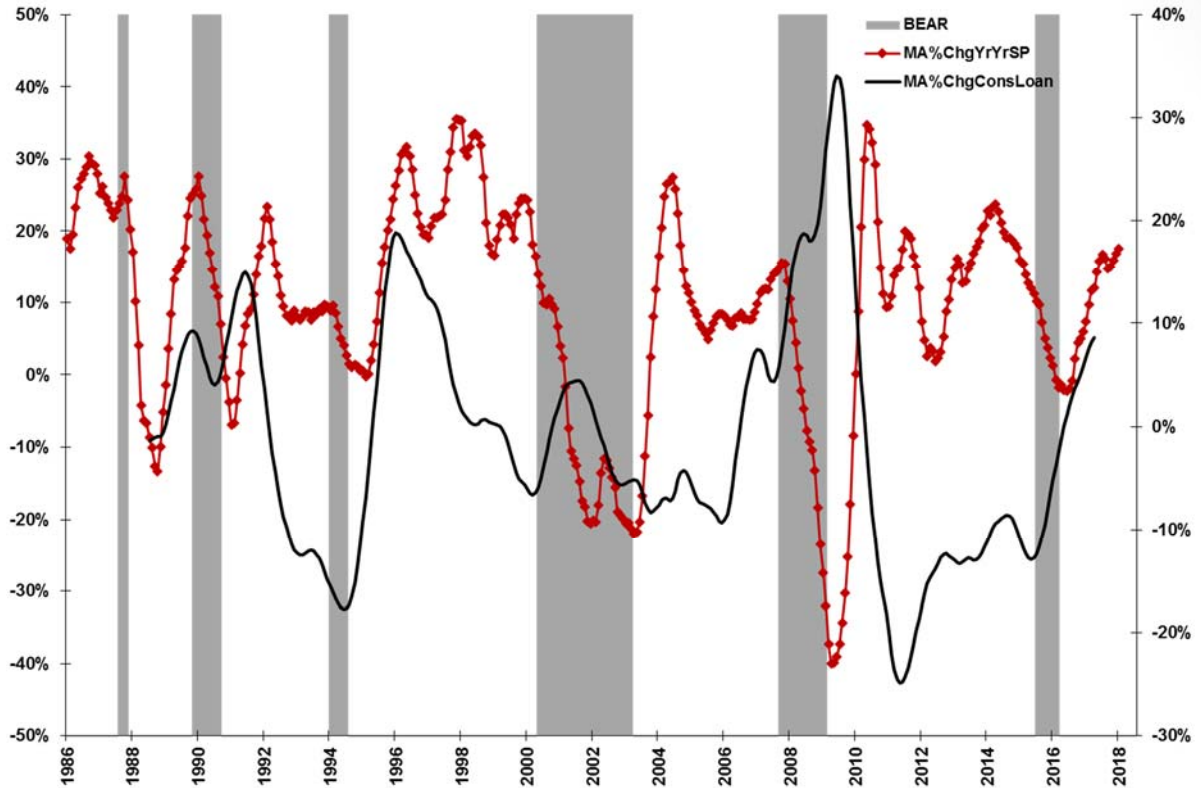


Figure 18. Consumer loan defaults (4-month moving average of YoY%) is plotted along with the S&P500 (4-month moving average of YoY%). Gray areas are well-documented bear markets and DRN™ assigned significant moderations (approximately 10% drop from last highest level) in the S&P index level. Data is from FRED database at St. Louis Fed and Standard & Poor's Inc.

Commercial/Industrial Loan Default Perspectives

Figure 19 shows the

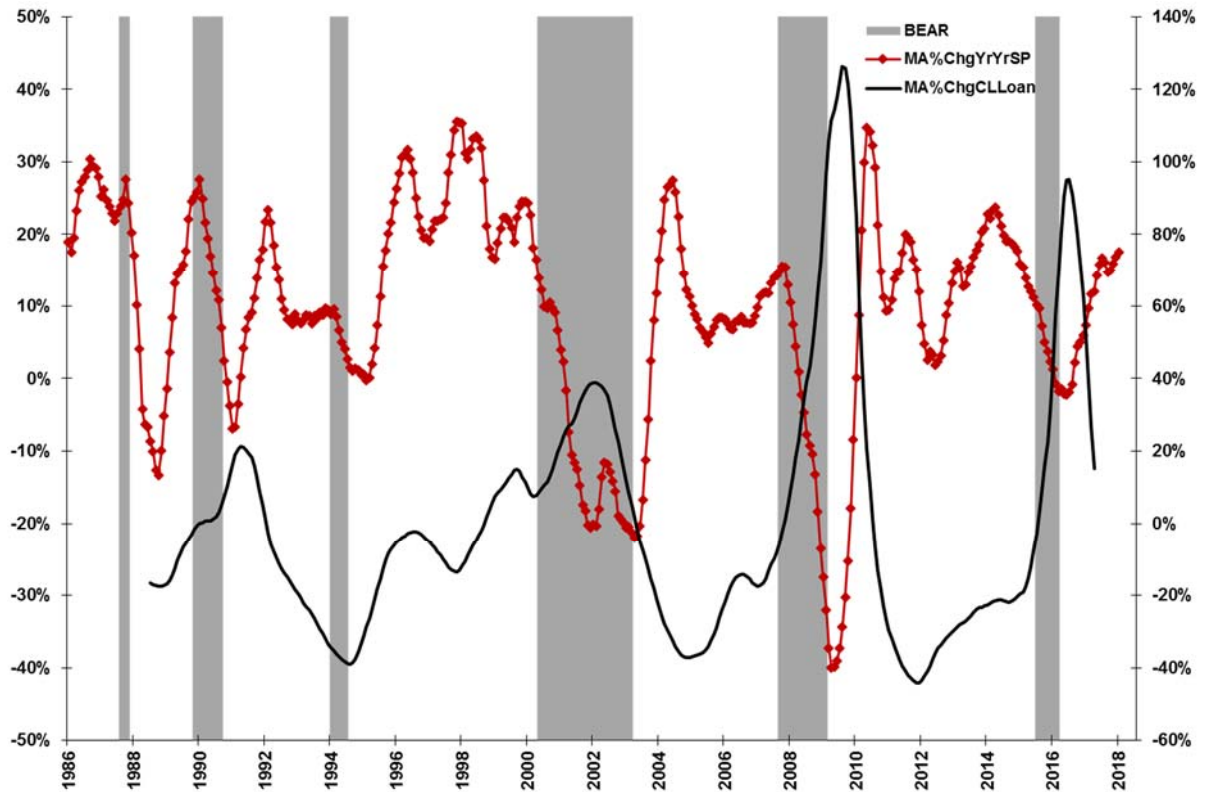


Figure 19. Commercial/Industrial loan defaults (4-month moving average of YoY%) is plotted along with the S&P500 (4-month moving average of YoY%). Gray areas are well-documented bear markets and DRN™ assigned significant moderations (approximately 10% drop from last highest level) in the S&P index level. Data is from FRED database at St. Louis Fed and Standard & Poor's Inc.

Leading Index

Figure 20 shows the

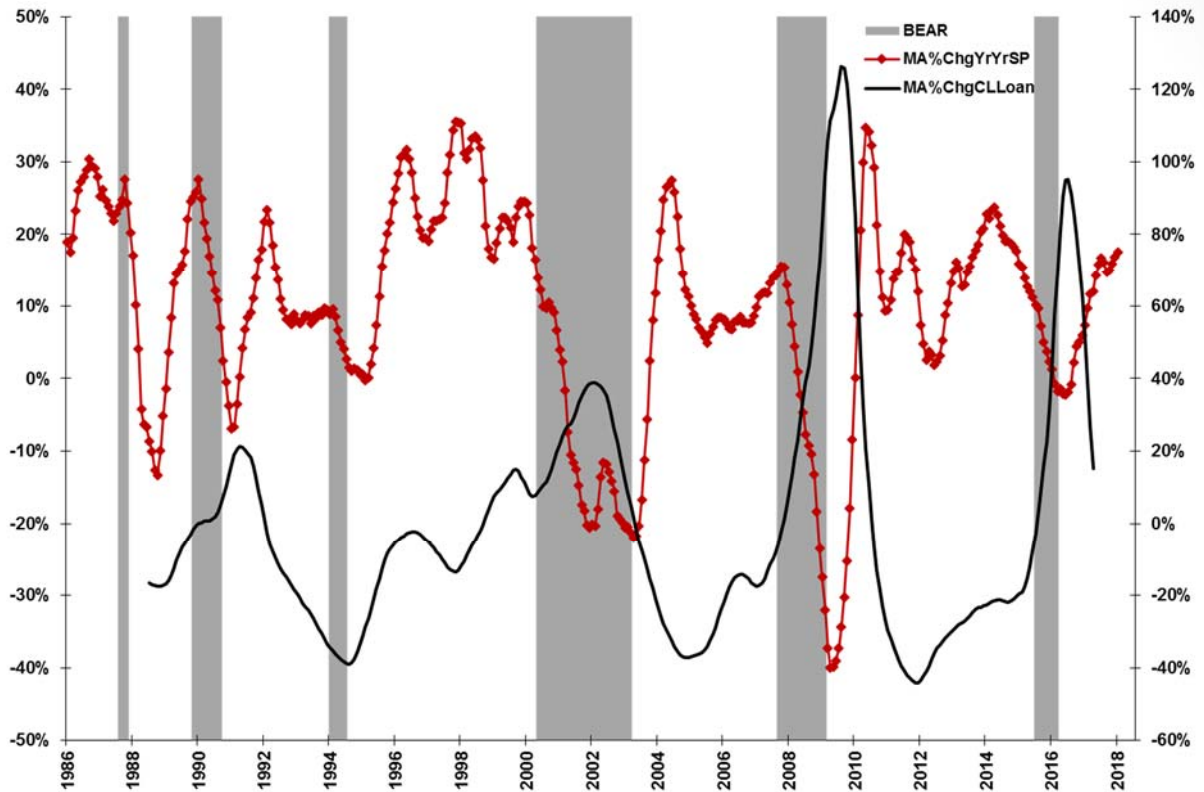


Figure 20. Leading indicators index (4-month moving average of YoY%) is plotted along with the S&P500 (4-month moving average of YoY%). Gray areas are well-documented bear markets and DRN™ assigned significant moderations (approximately 10% drop from last highest level) in the S&P index level. Data is from FRED database at St. Louis Fed and Standard & Poor's Inc.

Appendix: The U.S. Consumer-based Economy

Figure A.1 shows the U.S. GDP composition since 1947. As is evident, the U.S. has been a consumer economy for the past 50 years. Since the end of WWII, the lion's share of the U.S. GDP, more than 60%, has stemmed from personal consumption. Since early 1980s, the contribution of personal consumption to the overall GDP has been increasing steadily. As of second quarter of 2017, the personal consumption account for 67% of the total GDP.

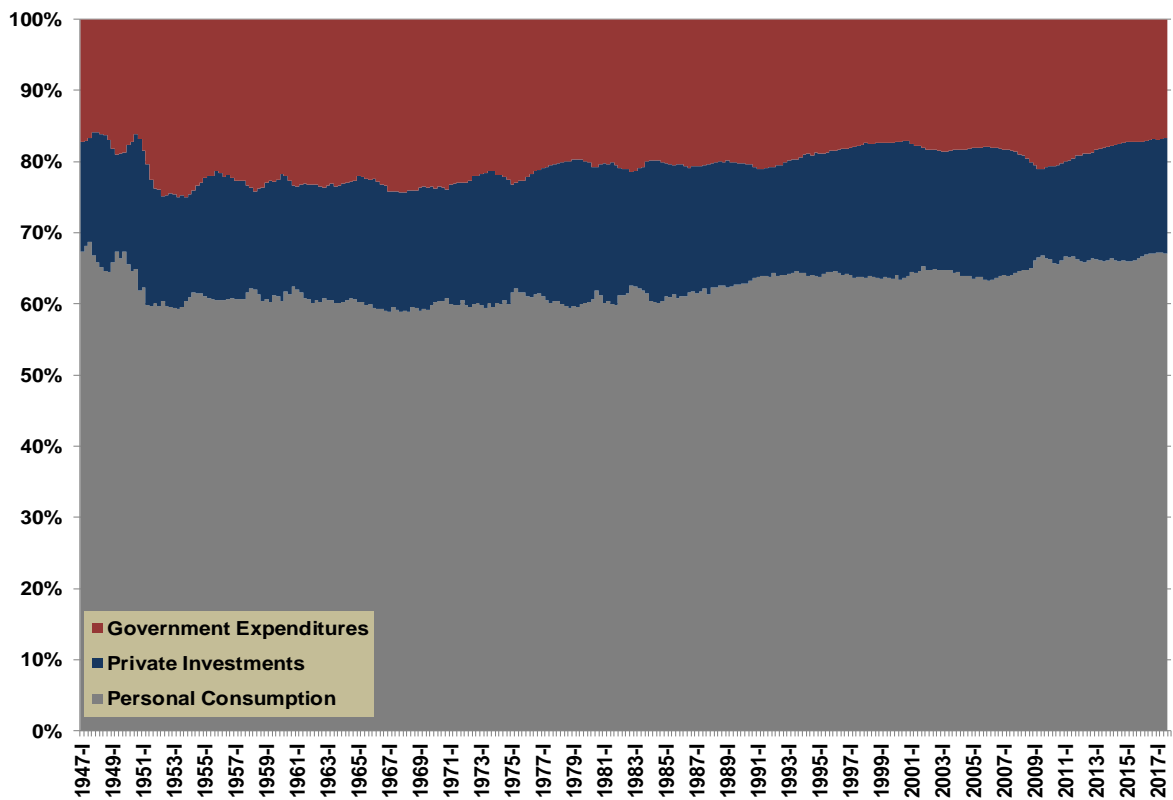


Figure A.1. The composition of the U.S. gross domestic product (GDP) since 1947.

Figure A.2 shows the U.S. GDP composition since 1947. As is evident, the U.S. has been a consumer economy for the past 50 years. Since the end of WWII, the lion's share of the U.S. GDP, more than 60%, has stemmed from personal consumption. Since early 1980s, the contribution of personal consumption to the overall GDP has been increasing steadily. As of second quarter of 2017, the personal consumption account for 67% of the total GDP.

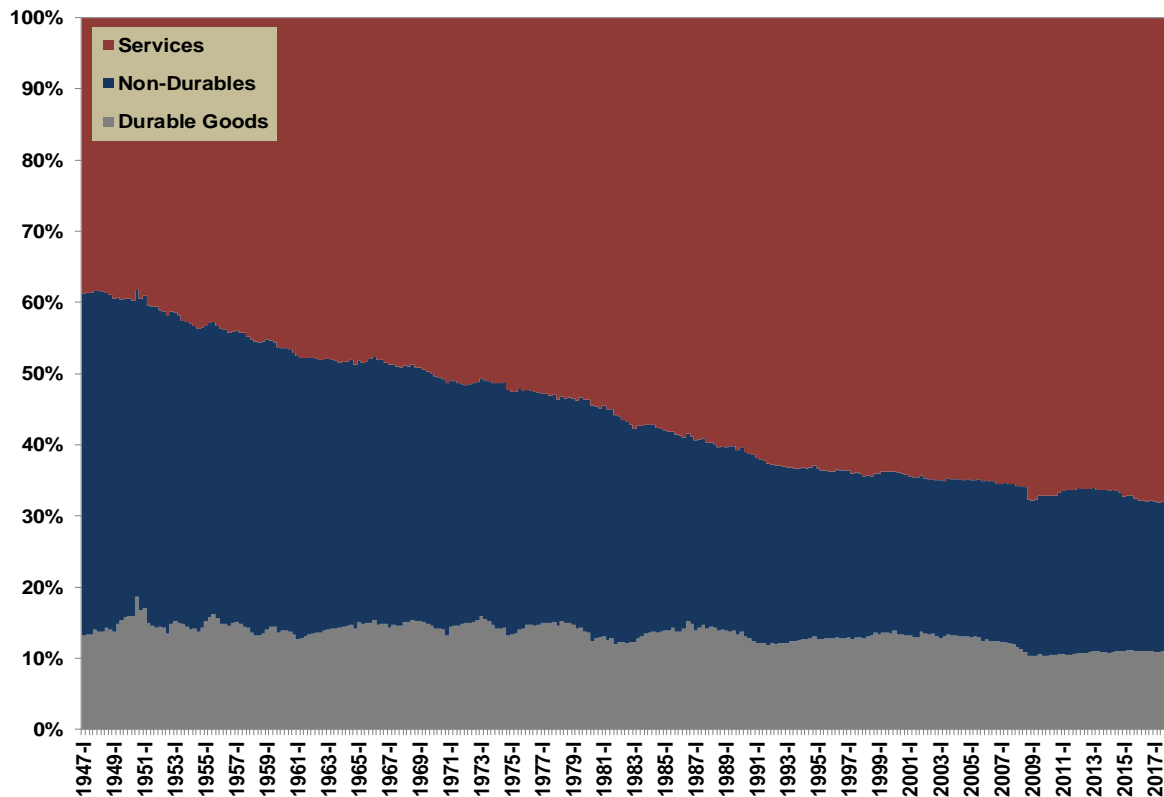


Figure A.2. The composition of the U.S. personal consumption expenditures since 1947.

Figure A.3 shows the U.S. GDP composition since 1947. As is evident, the U.S. has been a consumer economy for the past 50 years. Since the end of WWII, the lion's share of the U.S. GDP, more than 60%, has stemmed from personal consumption. Since early 1980s, the contribution of personal consumption to the overall GDP has been increasing steadily. As of second quarter of 2017, the personal consumption account for 67% of the total GDP.

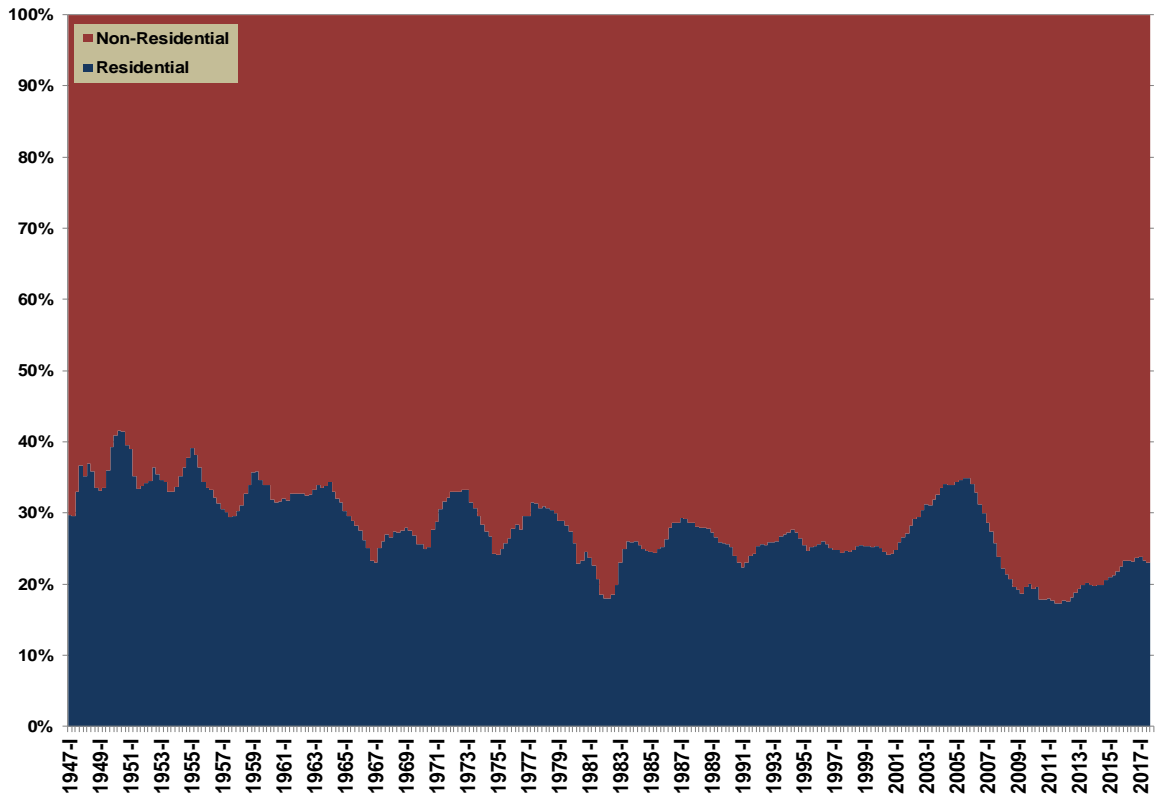


Figure A.3. The composition of the private investments since 1947.

Figure A.4 shows the U.S. GDP composition since 1947. As is evident, the U.S. has been a consumer economy for the past 50 years. Since the end of WWII, the lion's share of the U.S. GDP, more than 60%, has stemmed from personal consumption. Since early 1980s, the contribution of personal consumption to the overall GDP has been increasing steadily. As of second quarter of 2017, the personal consumption account for 67% of the total GDP.

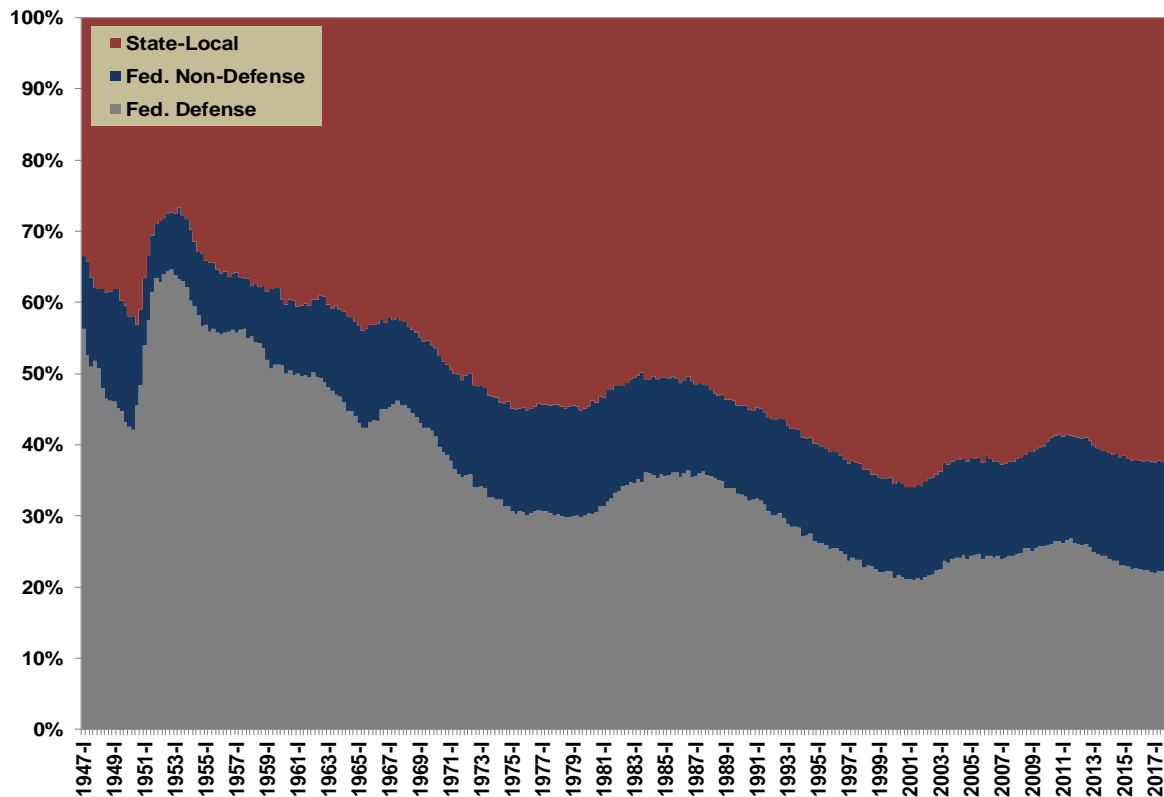


Figure A.4. The composition of the government expenditures since 1947.