We have a big week for economic data with the emphasis on employment. With reports on jobless claims, ADP employment, and the official employment situation report all hitting right before Labor Day, we can be sure it will be a big topic. Throw in the election campaigning and we can expect jobs to be the theme of the week. For many it will also mean the end of vacation, returning to work after a layoff, or the reopening of a business. There is a key question however:

Will it be Risky Business or Business as Usual?

(Mrs. OldProf enjoyed listening to Bob Seger as I searched for this image. The song is now the #2 Jukebox Single of all time).

Last Week Recap

In my last installment of WTWA, I highlighted the changes in the housing market and suggested an investment opportunity. The subsequent data have helped to keep this a hot topic. Home building stocks remain among my favorites, partly because of the underlying demographic dynamics.
I always start my personal review of the week by looking at a great chart. This week I am featuring Jill Mislinski’s version, which captures many important features with a single glance.

Jill always has many great charts in this weekly update post. For a longer perspective here is one that shows the market path since 2007, highlighting the various drawdowns.
The market gained 3.3% on the week with an intra-week trading range of only 2.8%. My weekly indicator snapshot monitors the actual (low) volatility as well as the VIX (see below).

The weekly sector chart shows the sources of the action.

Trends are tricky to spot in this interesting chart. Energy is following its own path, perhaps because of weather. Financials, industrials, materials, and semiconductors are all weakening. Utilities, consumer staples and health are moving a touch
higher. With the market at new highs, it is important to remember that these are relative performance indications, not absolute measures. (The sector names are here. The Bloomberg symbols add “S5” at the start of the name).

Here as another variant which tracks individual S&P 500 stocks showing which have done best since the last market high. 62% of stocks have declined. (CNBC)

**Sector variation**


- **Positive Return**
- **Negative Return**

**Noteworthy**

Statista highlights the number of pilots who could be furloughed in October.
The News

Each week I break down events into good and bad. For our purposes, “good” has two components. The news must be market friendly and better than expectations. I avoid using my personal preferences in evaluating news – and you should, too!

New Deal Democrat’s high frequency indicators are more important than ever. As we look for turning points and the sustainability of the rebound, these are the earliest clues. His short-term and long-term forecasts remain positive, but the “nowcast” is neutral. As always, his conclusion includes a key observation:

There has not yet been any downturn in the high frequency indicators for consumer spending despite the termination of federal emergency unemployment benefits. To reiterate my overall outlook, the indicators show that the economy “wants” to improve, but over the next six months, the coronavirus, and the reactions of the Administration, the Congress, and the 50 governors to the virus are going to be the dispositive concerns. For reasons I have more completely laid out in another post, I expect the COVID-19 pandemic to be controlled by next summer, and the economy to be expanding.

The Good

- New home sales for July reached 901K (SAAR) beating expectations of 787K and June’s (upwardly revised) 791K. Calculated Risk, as usual, analyzes the story in depth. He analyzes the underlying factors as well as the data. He has an important warning, however:

  Important: No one should get too excited. Many years ago, I wrote several articles about how new home sales and housing starts (especially single family starts) were some of the best leading indicators for the economy. However, I’ve noted that there are times when this isn’t true. NOW is one of those times.

  Currently the course of the economy will be determined by the course of the virus, and New Home Sales tell us nothing about the future of the pandemic. Without the pandemic, I’d be very positive about this report.
On the other side of this inference is “Davidson” (via Todd Sullivan). It is very interesting to have two of my favorite sources, both with long-term records of success, on opposite sides of this issue. [Jeff: I’m with Bill on this one].

- Initial jobless claims edged lower to 1.006M. This was about the same as estimates of 1.000M and better than the prior week’s 1.104M.

- Continuing claims were 14.535M, lower than the prior week’s (upwardly revised) 14.785M. Continuing claims are reported a week after the initial claims.

- Q2 GDP declined 31.7% in the second estimate. It is difficult to think of this as “good,” but it was better than expectations for a 31.9% decline, which was also the first estimate.
Rail traffic shows continued improvement although Steven Hansen’s "economically intuitive" components are not quite as strong.

Pending home sales for July increased 5.9%, slightly better than the expected 5.6% but down from June’s gain of 15.8%.

Durable goods orders for July increased 11.2%, smashing expectations of 3.9% and beating June’s 7.7%. The "core" rate, which removes the volatile transportation component, was an increase of 2.4%, beating expectations of 1.8%, but lower than June’s upwardly revised 4.0% gain. Jill Mislinski’s detailed analysis shows this:

But many take a more optimistic view and a different time frame.
University of Michigan consumer sentiment for August was 74.1, beating the preliminary estimate of 72.8. (Jill Mislinski)
PCE prices for July increased 0.3% as well as 0.3% on the core rate. This is lower than June on the headline and in line on the core.

Corporate earnings for Q2 set a record performance vs. estimates FactSet). We all know that estimates came down before the reports, so we should watch that for Q3.

Personal income for July increased 0.4%, much better than the expected decline of 0.2% and June's decline of 1.0%.

Personal spending for July increased 1.9%, better than expectations of 1.5% but lower than June's upwardly revised 6.2%.

The Bad

- Consumer confidence declined to 84.8 in the Conference Board's report. This missed expectations of 93.0 and was significantly lower than July's (downwardly revised) 91.7. By contrast, CEOs are more positive. (I recently cited a negative outlook by CFOs, but they are always pessimistic!)
The Chemical Activity Barometer declined again and remains deep in contraction. (GEI)

Mortgage applications declined 6.5% for the week ending 8/22. This continued the prior week’s 3.3% decline. The overall level remains high. (Calculated Risk)

### Chemical Activity Barometer for the Latest Six Months and Year-Ago Month*

<table>
<thead>
<tr>
<th></th>
<th>Jun-19</th>
<th>Jan-20</th>
<th>Feb-20</th>
<th>Mar-20</th>
<th>Apr-20</th>
<th>May-20</th>
<th>Jun-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAB (3 MMA)</td>
<td>122.50</td>
<td>123.14</td>
<td>123.34</td>
<td>119.77</td>
<td>113.36</td>
<td>108.13</td>
<td>107.82</td>
</tr>
<tr>
<td>% M/M</td>
<td>0.1</td>
<td>0.6</td>
<td>0.2</td>
<td>-2.9</td>
<td>-5.4</td>
<td>-4.6</td>
<td>-0.3</td>
</tr>
<tr>
<td>% Y/Y</td>
<td>0.3</td>
<td>1.4</td>
<td>1.6</td>
<td>-1.6</td>
<td>-7.2</td>
<td>-11.7</td>
<td>-12.0</td>
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<tr>
<td>CAB</td>
<td>122.42</td>
<td>124.26</td>
<td>123.02</td>
<td>112.03</td>
<td>105.02</td>
<td>107.35</td>
<td>111.08</td>
</tr>
<tr>
<td>% M/M</td>
<td>0.1</td>
<td>1.2</td>
<td>-1.0</td>
<td>-8.9</td>
<td>-6.3</td>
<td>2.2</td>
<td>3.5</td>
</tr>
<tr>
<td>% Y/Y</td>
<td>0.1</td>
<td>2.4</td>
<td>1.3</td>
<td>-8.3</td>
<td>-14.5</td>
<td>-12.2</td>
<td>-9.3</td>
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</table>

*Percentage changes may not reflect index values due to rounding.

- Mortgage applications declined 6.5% for the week ending 8/22. This continued the prior week’s 3.3% decline. The overall level remains high. (Calculated Risk)
Missed rent payments are increasing, even before the decline in unemployment benefits.

The share of renters missing rent payments was about 20% at the end of July. We expect that share will rise given the decline in unemployment insurance benefits.

The Ugly

The combination of natural disasters – wildfires and hurricanes – with the pandemic. Each is terrible on its own and the
combination is daunting. This has been on my “worry” list for months.

The Week Ahead

We would all like to know the direction of the market in advance. Good luck with that! Second best is planning what to look for and how to react.

The Calendar

We have an important economic calendar with a strong focus on employment. We will also see both ISM indexes, construction spending and auto sales – all interesting and important. But in the week before Labor Day, with many unemployed, and an intense election season, expect a strong focus on the employment numbers.

Briefing.com has a good U.S. economic calendar for the week. Here are the main U.S. releases.

<table>
<thead>
<tr>
<th>Week of August 31 - September 04</th>
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<tbody>
<tr>
<td>Date</td>
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<tr>
<td>Sep 01</td>
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<td>Sep 05</td>
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Next Week’s Theme

Another key factor is that many people are returning to work – to reopening business, from layoffs, or just from vacation. That is typical for the unofficial end to summer, but this year there is another important question:

Will it be a return to “risky business” or just business as usual?

We may not have the answer to that one for several weeks, but I do have one solid prediction. The trading floors will clear out quickly after the Friday employment report as the A-Team heads for a long weekend!

Background

The Coronavirus pandemic has altered what people buy, where they dine, and even whether they go to work. Some of the changes are temporary but may still be with us for months. Other shifts will permanently change habits and the
environment for successful businesses.

And that is the foundation for successful stocks. I will explore this by looking one-by-one at some planned returns to business as usual. Readers may well think of others or have different opinions. Please join in the comments!

Analysis

I suggest the following topics for each business (or activity): Timing, Indicators, Best Case, Worst Case, Jeff’s Guess. The background for my guesses is that we have a partial economic rebound helped by the Fed and fiscal stimulus. Since that cannot last forever, other solutions are needed. If your priors are different – that the pandemic is a hoax, for example – your conclusions will also be different. In a few weeks we will know a lot more.

This analysis from Prof. Menzie Chinn represents my own thinking: The Rebound Slows: Business Cycle Indicators, August 28th.

<table>
<thead>
<tr>
<th>Business/Activity</th>
<th>Timing</th>
<th>Indicators</th>
<th>Best Case</th>
<th>Worst Case</th>
<th>Jeff’s Guess</th>
</tr>
</thead>
<tbody>
<tr>
<td>Back to School</td>
<td>Varies by locality</td>
<td>Incidence of COVID-19 cases – both students and faculty. Will not take long to know.</td>
<td>Clean and protected environment maintained.</td>
<td>Many cases appear quickly requiring shutdowns.</td>
<td>This requires more testing than we can do. It is vital for kids to get back to school – for education, health, and parents’ ability to work. We should aim testing resources at this problem.</td>
</tr>
<tr>
<td>Higher Education</td>
<td>Fluctuating as I write this.</td>
<td>Incidence of cases in the entire university community.</td>
<td>Plenty of student mask wearing and social distancing.</td>
<td>Students behave as usual, unaware or unconcerned about the impact.</td>
<td>Stopping the virus is a classic public good. Even if universal mask wearing would work, it is unnecessary if everyone else is doing it.</td>
</tr>
<tr>
<td><strong>Retail employment</strong></td>
<td>Businesses that have not closed permanently are opening ASAP.</td>
<td>Rate of cases. Customer willingness to travel and shop.</td>
<td>50% rebound maybe? People like to shop in person.</td>
<td>Little traffic and very little businesses. More bankruptcies.</td>
<td>People must feel safe in getting out and around. Those who feel safe don’t see the need for precautions.</td>
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</tr>
<tr>
<td><strong>Restaurant employment</strong></td>
<td>Reopening in many places, including my area.</td>
<td>Can the new rules keep a rise in cases under control?</td>
<td>A quick rebound to capacity. People like to socialize.</td>
<td>A second wave of illness and/or consumer avoidance. Tips are already much lower.</td>
<td>Restaurants with the right attitude and 50% seating will get customers, but profits will take a hit.</td>
</tr>
<tr>
<td><strong>Cities</strong></td>
<td>Struggling to reopen.</td>
<td>Continuing decline in cases.</td>
<td>More confidence in mass transit.</td>
<td>A second wave and safety perceptions. Failing finances and services.</td>
<td>This will happen, but not very quickly.</td>
</tr>
<tr>
<td><strong>Movie theaters</strong></td>
<td>Opening at partial capacity.</td>
<td>Few if any cases tied to movie attendance. Another activity that people enjoy.</td>
<td>More activity at 50% plus concessions.</td>
<td>Another shutdown.</td>
<td>Can theaters make it with such a great revenue reduction?</td>
</tr>
<tr>
<td><strong>Concerts</strong></td>
<td>No sign of recovery</td>
<td>Low level of athlete COVID cases.</td>
<td>Addition of a limited number of fans – 25%?</td>
<td>Canceled season because teams have infection and close contact.</td>
<td>As a lifetime fan of many sports, I am hoping for the best. The NBA is doing the best, but the environment is a big assist. I suspect that the NFL season will not be completed. (I hope Mrs. OldProf doesn’t see this one! I haven’t canceled our NFL or RedZone subscriptions).</td>
</tr>
<tr>
<td><strong>Pro Sports</strong></td>
<td>At the experimental stage.</td>
<td>No cases tied to the site. Even a few would be terrible for the chain.</td>
<td>Gradual progress, allowing people to get away from home.</td>
<td>Super-spread at some sites, casinos, etc.</td>
<td>Eventually this sector will be fine, but it will take a long time.</td>
</tr>
<tr>
<td><strong>Hotels and leisure</strong></td>
<td>Some leisure travel to resorts.</td>
<td>Demand for leisure and business destinations increases.</td>
<td>Much higher levels of perceived safety.</td>
<td>Low demand forces bankruptcies and layoffs.</td>
<td>This sector will take a very long time to rebound and government help is running out.</td>
</tr>
<tr>
<td><strong>Conventions</strong></td>
<td>Non-existent</td>
<td>Businesspeople want to mingle. It will happen gradually.</td>
<td></td>
<td></td>
<td>This is a lost driver for many business sectors.</td>
</tr>
<tr>
<td><strong>Air travel</strong></td>
<td>Some activity increase</td>
<td>Demand for leisure and business destinations increases.</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

My principal conclusion is that even the best-case scenarios describe a world with a big hit to traditional businesses. I avoid anecdotal evidence, but there is certainly plenty of that. It is blindingly clear that many jobs have been permanently lost. We need some evidence of fresh job creation. I have seen the following: guides in lines of cars for COVID testing, expansion of takeout fast food restaurants, Amazon-style warehouse workers, shoppers, and home care services. I am sure there are others, but the overall job growth potential seems low. I hope to have another post on the employment topic this week.

I have a few other conclusions in today’s Final Thought.
Ideas for Investors

I have switched the investor section to a separate post. I hope to run it nearly every week, calling it Investing for the Long Term. In the last installment I highlighted some current ideas using the background of my Great Reset project. I feature many of the same authors I have featured for years. The difference is that I make a more extensive comment on each idea and place it somewhere within this matrix.

The Great Reset Investment Matrix

Selected Sectors

Post Recession Analysis (AKA The Other Side)

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Weaker</strong></td>
<td>Airlines, Cruises, Office space</td>
<td>Restaurants</td>
<td>Banks</td>
</tr>
<tr>
<td><strong>Normal</strong></td>
<td>Small Businesses</td>
<td>Big Tech</td>
<td>Home Building, Credit Cards</td>
</tr>
<tr>
<td><strong>Winners</strong></td>
<td>Exercise Equipment, Online Shopping, Alcohol</td>
<td>Remodeling, video conferencing</td>
<td>New Recreation Choices</td>
</tr>
</tbody>
</table>

Legend

- Bankruptcy Risk
- Risky
- Avoid
- Regression to Prior Level
- Growth Pace Continues
- Permanent Improvement
- Major Rebound

In the article comments there is a spirited discussion both about the categories and individual stocks. Excellent! My objective is to get individual investors thinking about their selections in the right way. We must accept realities and being willing to look ahead.

The next installment will reveal the results from our most recent Great Reset Wisdom of Crowds survey. The results are important and will definitely influence our post-recession stock selections.

I hope that WTWA readers will give my new series a try.

A Personal Favor

Please also consider joining the Great Reset group. This drives my own investment analysis, and (I hope) inspires others. You will get updates about what is being studied and can be part of the process. There is no charge and no obligation, but I hope you will join in my Wisdom of Crowds surveys. I need more wise participants! The results of our team effort will be published on a regular basis, so you will be joining me in contributing to a greater good.

There is now a members-only portal with links to each of the nine categories. That will be the home for the results of our stock research and discussions. I have created a resource page where you can join my Great Reset group.

Quant Corner and Risk Analysis

I have a rule for my investment clients. Think first about your risk. Only then should you consider possible rewards. I monitor many quantitative reports and highlight the best methods in this weekly update, featuring the Indicator Snapshot.
For a description of these sources, check here.

The technical indicators naturally reflect the continuing market strength. My rating of “Bearish” is based on expectations for long-term investors. My key risk avoidance method is lightening up positions when I expect a recession. Hello? That is where we are. It is not a time for aggressive action by long-term investors. We should also keep watch on the increase in anticipated inflation. So far it has had little effect on bond prices but eventually it will.

The C-Score remains at levels never before seen. It is combining the sharp economic rebound with pandemic effects. When we are able to separate the two, a current mission of Dr. Dieli, it will provide more guidance on the timing and extent of the recovery.

The Featured Sources:

Bob Dieli: Business cycle analysis via the “C Score”.

Brian Gilmartin: All things earnings, for the overall market as well as many individual companies. This week Brian also takes note of the improvement in corporate credit spreads.

David Moenning: Developer and “keeper” of the Indicator Wall.

Georg Vrba: Business cycle indicator and market timing tools.

Doug Short and Jill Mislinski: Regular updating of an array of indicators, including the very helpful Big Four. Here is the update, now reflecting personal income.
There is plenty of green highlighting the recent months. I cannot remember a time with such a sharp demarcation as we see between Mar/Apr and the next three months. Directionally it looks very good. What about the magnitude of the rebound?

Employment is released the first week of the month, income the last week, Industrial Production and Sales mid-month. There is plenty of green highlighting the recent months. I cannot remember a time with such a sharp demarcation as we see between Mar/Apr and the next three months. Directionally it looks very good. What about the magnitude of the rebound?

Illustrating the method behind our Indicator Snapshot inflation monitoring, is this chart.
My colleague Todd Hurlbut also asks, Is Inflation Upon Us? He addresses the question with a close look at the reversal in commodity prices.

Dr. Brett Steenbarger also has a great research contribution, the first installment in a new series. His intriguing idea shows how both value and momentum trades may be suggested by the same signal! It is all about the psychology of the market.

Final Thought

Like many (most?) other market observers I am amazed at the apparent levitation of market averages without the support of a solid economy and with reduced corporate earnings. My guess is that I am one of the few managers who has stayed ahead of the market without owning FAANG and also keeping a big cash cushion. Yes, I could have done better with FAANG included, but my approach is more about fundamentals than sentiment. As always, we all have room for improvement.

This situation is dangerous for many investors. It is easy to feel like a genius at times like this. There are some “obvious” stocks to own, and you bought them. Be sure you have confidence in the method that led you to that decision and that it is still valid.

Business as Usual for Economists

Economists have a safe, not risky, business since they are rarely accountable for what they do. In general, I support their work, cite it frequently, and defend them against critics. Something terrible has happened. Most have become slaves to the numbers without any consideration of the conditions. Here are a few examples:

- Most data have seasonal adjustments. Seasonal adjustments are based upon models that look back several years to identify seasonal effects. When there is a big move the question arises: Was this secular or seasonal? Current government methods are very poor in dealing with this problem. The U.S. Labor Department has changed the method for adjusting the weekly jobless claims data.

The department said in a statement that starting next Thursday, it would use additive factors to seasonally adjust the initial claims and continued claims data instead of multiplicative factors. “A multiplicative seasonal effect is assumed to be proportional to the level of the series. A sudden large increase in the level of the series will be accompanied by a proportionally large seasonal effect,” the department said. “In contrast, an additive seasonal effect is assumed to be unaffected by the level of the series.”
we have an apples-to-apples comparison with past data? At least they are doing something. I will watch to see if other agencies follow. And meanwhile, no economists are helping investors with this issue.

- I have never seen more disagreement between trusted sources about the interpretation of data. Often there is no good way of choosing. This week’s post has some good illustrations.
- Nearly everyone is accepting data at face value. I have shown why the BLS nonfarm payroll has overstated job creation. It is one of many data series that has become unhelpful, despite its critical role.

It is more important than ever to monitor changes in data – not just directional changes, but the level of improvement.

It is a challenging time for investors. Much of what seems obvious is wrong. For many, the key answers will arrive too late.

I’m more worried about

- The Presidential election. Not the outcome which might go either way. A Biden victory would not have much immediate economic effect. I am concerned about a close election where the result is not accepted by the loser. (Barron’s) This situation is unprecedented, and markets do not like any uncertainty.

As attacks enter their 4th straight day on NZX, the national government is starting to involve its spy agencies to find additional information about the source of the attack. While currently being disclosed as “offshore”, the attention and resource delegation to the attack is a strong indicator of the level of seriousness. The attack itself isn’t exceedingly complex or difficult to launch. Distributed Denial of Service attacks involve overwhelming a site’s resources with traffic, rendering it unavailable for legitimate use. These types of attacks are difficult to prevent, and have long been used to attack the availability of applications. The suspected attackers in this scenario are Fancy Bear and the Armada Collective, who appear to be targeting other financial institutions like MoneyGram, PayPal, Venmo, and others. While it hasn’t been confirmed, the suspected motivation is extortion, demanding a ransom to return the availability of their services. Based on the success of these attacks, sights could turn to point towards larger, more valuable targets, up to and including the NYSE.

And Zoom is now critical infrastructure. That’s a concern.
I’m less worried about

- FAANG leading the market lower. The rest of the market is already lower!