



MORNING BRIEFING

March 6, 2017

When Bulls Fly

See the [collection](#) of the individual charts linked below.

(1) Everyone is happy and worried. (2) DC-PTSD. (3) Swamp's lobbyists raking it in. (4) New odds: 10/30/60 now is 20/40/40 meltdown/meltup/normal bull. (5) Not all about Trump. (6) Bad stuff that didn't happen can be bullish. (7) Our Boom-Bust Barometer and Weekly Leading Index are confirming vertical ascent of S&P 500. (8) Less fairy dust from Fairy Godmother. (9) But enough to keep bull flying. (10) Yellen should have been tougher on Friday.

Strategy: Vertical Ascent. I met with a few of our accounts in NYC at the end of last week. Everyone is very happy with the extraordinary rally in stocks since Election Day. And everyone is worried that it is too much too fast, especially if the market is discounting expectations that President Trump will succeed in cutting taxes rapidly and dramatically, and won't move forward with his protectionist agenda. Everyone is also amazed that the bond market hasn't sold off more than it has, especially since Fed officials now are all singing from the same hymn book about raising interest rates at a faster pace. Everyone is also starting to experience Washington fatigue (DC-PTSD) with the deluge of real and fake news coming out of our nation's capital 24/7.

It's hard to believe that investors are naïve about how long legislation can take to pass through Congress. The swamp people aren't going away just because Trump has threatened to drain the swamp. On the contrary, his controversial policy proposals will make the swamp's lobbyists lots of money. For example, importers are paying them to fight the border adjustment tax, while exporters are paying them to ensure it gets done. However, as Joe and I have observed before, if Trump just manages to repatriate \$1 trillion to \$2 trillion of earnings held abroad, that would justify the recent rally. Nevertheless, given the market's elevated valuation, Trump will have to deliver corporate tax cuts that actually boost earnings.

Then again, the market may simply be discounting expectations that the Trump administration is pro-business—radically so compared to the previous administration. No one can estimate the bottom-line impact of an administration that won't enforce previous business regulations and intends to cut out a significant portion of them. Will such implicit and explicit deregulation boost earnings this year by \$1, \$2, \$3, or more per share? Hard to say, but the answer is “yes.”

On numerous occasions, we observed that the current bull market—which began eight years ago when the market bottomed as the S&P 500 fell to 666 on an intraday basis—has been a series of panic-attack corrections followed by relief rallies ([Fig. 1](#)). Despite some nasty corrections along the way, we have been assigning odds of a 10% probability to a meltdown, 30% to a melt-up, and 60% to the continuation of a normal bull market, which we are changing today as discussed below. While it certainly seems like the melt-up scenario is underway, it may be justified if Trump delivers what the bulls expect. Then again, maybe the current rally isn't just all about Trump. Consider the following:

(1) *The energy recession is over.* As we have argued since last summer, the market may also be discounting the end of the energy sector's recession. Recall all the anxiety at the beginning of last year about the surge in junk bond yields, led by distressed credits among energy-related bonds. Last year,

the yield spread of US high-yield corporate less US Treasury 10-year bonds peaked at 844bps during the February 11 week. Roughly one year later, it was down to 313bps on Friday ([Fig. 2](#)).

As Debbie reviews below, the Global M-PMI rose to 52.9 during February, slightly above the high in early 2014 ([Fig. 3](#)). In the intervening period, it dipped to a low of 50.0 during February 2016 coinciding with the low in oil prices, which undoubtedly depressed demand for energy-related capital equipment and the industrial commodities used to produce them.

(2) *Emerging again.* Also recall all the anxiety early last year about the currencies and bonds of the Emerging Market Economies (EMEs). Debbie and I track the daily Emerging Markets MSCI currency ratio, which dropped 19.9% from its high in mid-2014 to its low in early 2016 ([Fig. 4](#)). Yet this index actually bottomed when the panic attack was most intense early last year, rising 6.9% since then through Friday.

The Emerging Markets MSCI stock price index (in local currencies) is up 13.8% y/y ([Fig. 5](#)). While many EMEs have large emerging middle classes, their MSCI stock price indexes still tend to be dominated by a few large corporations that remain exposed to the commodity business. The rebound in oil prices since early last year literally spilled over into other industrial commodity prices, which also boosted the EMEs' stock price index, especially when priced in US dollars ([Fig. 6](#)).

Meanwhile, the C-PMI (i.e., the composite of the M-PMI and NM-PMI) for emerging economies rose to 52.1 last month, the highest reading since September 2014 ([Fig. 7](#)). This too suggests that the EMEs were depressed by the global commodity-related recession but now are recovering along with the advanced economies.

(3) *Straight up.* At the same time as the CRB raw industrials spot price index has traced out a "V"-shaped recovery since early last year, US initial unemployment claims continue to fall to the lowest readings since spring 1973 ([Fig. 8](#)). In other words, the labor market is extremely tight.

Our Boom-Bust Barometer (BBB), which is the ratio of the commodity index to jobless claims, is a great business cycle indicator, and it is well correlated with the S&P 500 ([Fig. 9](#)). Our BBB has been on a tear since early last year, rising 34% y/y through the last week of February to yet another record high. In fact, it's been setting new record highs along with the S&P 500 since the second half of 2016.

There is an even better fit between our Weekly Leading Index and the S&P 500 ([Fig. 10](#)). Again, both have been flying into record territory since mid-2016. Unlike the ECRI Weekly Leading Index—which undoubtedly includes numerous financial variables (such as the S&P 500 and the high-yield credit spread) and fundamental ones—our index is driven by just three fundamental ones: jobless claims, industrial commodity prices, and Bloomberg's Consumer Comfort Index.

It's a bit hard to believe that the surges in our Boom-Bust Barometer and Weekly Leading Index since Election Day are attributable to Trump. But it's conceivable that the prospect of a more pro-business administration is boosting expectations for US growth, which should benefit the rest of the world, barring protectionism. That might be contributing to the upturn in commodity prices, the drop in jobless claims, and the increase in consumer confidence. Maybe.

(4) *Fear of flying.* In other words, we have nothing to fear but the fear of flying. We know that pigs can't fly. Bulls usually can't fly either. However, the bull charging ahead in the stock market has managed to do just that since Election Day, with the S&P 500 now up 11.4%, pushing the forward P/E higher from 16.4 to 17.8 on Friday ([Fig. 11](#)).

Here is the performance derby of the S&P 500 sectors since Election Day: Financials (24.6%), Industrials (13.0), Information Technology (11.6), Materials (11.4), S&P 500 (11.4), Health Care (10.8), Consumer Discretionary (10.5), Telecommunication Services (9.0), Real Estate (4.6), Consumer Staples (4.6), Utilities (4.3), and Energy (2.6) ([Fig. 12](#)).

Like Icarus, if the bull flies too close to the sun, the result could be painful, if not tragic, for those of us going along for the ride. Nevertheless, for now Joe and I continue to forecast that the S&P 500 will move higher, with our target range set at 2400-2500 for the rest of this year.

The Fed: Less Fairy Dust. Fed Chair Janet Yellen has been the Fairy Godmother of the Bull Market. She has provided the magic fairy dust that has allowed the bull to fly. She should be starting to worry that if the current melt-up continues, it could set the stage for a meltdown. That could happen if Trump isn't able to deliver the fiscal stimulus that the market seems to be discounting. In this scenario, a plunge in stock prices could depress the economy. A similar possible scenario is that if the Fed doesn't do something to bring the bull gliding back down gently to earth, the economy could overheat, forcing the Fed to raise interest rates aggressively causing a recession.

In other words, from the perspective of investors, allowing the bull's animal spirits to fly high could be justified if Trump delivers on his promises. From the Fed's perspective, that could be a nightmarish scenario if it leads to a hot economy that boosts price inflation. It would be just as nightmarish for the Fed if the melt-up is followed by a meltdown because Trump doesn't deliver.

So it is time to reduce the supply of fairy dust, though there will be enough to keep the bull up in the air. That was the gist of Yellen's [speech](#) on Friday, in my opinion. Here are her key points:

(1) *Mission accomplished.* The last sentence of the third paragraph of her speech said it all. The Fed is likely to normalize monetary policy at a more normal rate: "However, given how close we are to meeting our statutory goals, and in the absence of new developments that might materially worsen the economic outlook, the process of scaling back accommodation likely will not be as slow as it was in 2015 and 2016." This is about as close to saying "Mission Accomplished" as Yellen has ever said.

(2) *Real rate mumbo-jumbo.* Yellen is a big fan of the neutral real federal funds rate despite the fact that it can't be measured. "Although the concept of the neutral real federal funds rate is exceptionally useful in assessing policy, it is difficult in practical terms to know with precision where that rate stands." Spoken like a true macroeconomist, and central banker. It's useful, but we don't know how to measure it.

Yellen said that she and her colleagues are guessing that it is 1.0% in the long run, which implies that the neutral nominal federal funds rate needs to be raised to 3.0%, assuming that inflation remains around 2.0%. However, for right now, Fed officials are guessing the real rate is zero, which "means that the stance of monetary policy remains moderately accommodative." That puts the "actual value of the real federal funds rate currently near minus 1 percent." She reckons that the proof is in the monthly payroll gains of 180,000 recently. She notes that the labor force growth is more like 75,000 to 125,000 per month.

(3) *Three's the charm.* It was one-and-done in 2015 and again in 2016, as Debbie and I anticipated. This year, the federal funds rate is likely to be hiked three times, with more increases coming in 2018 and 2019. Yellen said, "With the job market strengthening and inflation rising toward our target, the median assessment of FOMC participants as of last December was that a cumulative 3/4 percentage point increase in the target range for the federal funds rate would likely be appropriate over the course of this year. ... However, partly because my colleagues and I expect the neutral real federal funds rate

to rise somewhat over the longer run, we projected additional gradual rate hikes in 2018 and 2019.”

(4) *Risks of waiting*. Yellen didn't mention the stock market in her speech, not even indirectly. The closest she came to doing that was saying “To that end, we realize that waiting too long to scale back some of our support could potentially require us to raise rates rapidly sometime down the road, which in turn could risk disrupting financial markets and pushing the economy into recession. Having said that, I currently see no evidence that the Federal Reserve has fallen behind the curve, and I therefore continue to have confidence in our judgment that a gradual removal of accommodation is likely to be appropriate.”

On balance, she certainly sounded more confident and hawkish about raising interest rates. However, by signaling that this will still be done gradually and all too predictably, the bull might continue to fly high. Notice that the market edged up on Friday, holding onto its gains to make yet another record high. She might regret her choice not to “risk disrupting financial markets” now if we wind up with a melt-up, which would be disruptive inevitably.

(5) *Our new bottom line*. In other words, we think Yellen might have made a big mistake on Friday. She should have said that the stock market's ascent is worrisome and that the Fed is monitoring it. While Joe and I anticipated a melt-up, we don't like it because it increases the risks of a meltdown.

To reflect our latest thinking, our new subjective probabilities are 20% for a meltdown, 40% for a melt-up, and 40% for a civilized continuation of the bull market. Sadly, we live in uncivil times.

CALENDARS

US. Mon: Factory Orders 1.1%, Kashkari. **Tues:** Merchandise Trade Balance -\$48.5b, Consumer Credit \$18.3b. (Bloomberg estimates)

Global. Mon: Australia Retail Sales 0.4%. **Tues:** Eurozone GDP 0.4%q/q/1.7%y/y, Germany Factory Orders -2.5%m/m/4.3%y/y, Japan GDP (annualized) 1.6%q/q, RBA Rate Decision 1.50%. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): The US MSCI index rose 0.6% last week, ranking 19th of the 49 markets as 25 rose in US dollar terms--compared to 11th a week earlier, when it gained 0.7% as 14 markets moved higher. The AC World ex-US index underperformed the US MSCI for the 13th time in the past 16 weeks, falling 0.2% for the week versus a 0.2% decline a week earlier. EMU was the best-performing region last week, with a gain of 2.5%, followed by EAFE (0.4%). The week's worst-performing regions: EM Asia (-1.5), BRIC (-1.3), EMEA (-1.2), EM Eastern Europe (-0.9), and EM Latin America (-0.4). Last week's best-performing countries: Italy (5.7), Ireland (4.0), Spain (3.9), and France (2.8). Colombia (-3.5) was the worst performer, followed by Taiwan (-2.3), Korea (-2.2), and Turkey (-1.9). In February, the US MSCI was up 3.7%, ranking 9/44 and ahead of the 1.4% gain for the AC World ex-US index as most regions rose. That compares to a 2.0% gain in January, when it ranked 33/44 and behind the 3.5% rise for the AC World ex-US when all regions rose. The best regions in February: EM Asia (3.6), EM Latin America (3.3), and BRIC (3.1). February's worst-performing regions: EM Eastern Europe (-3.6), EMEA (-1.5), EMU (0.8), and EAFE (1.2). The US MSCI is up 6.5% ytd, which ranks 17/49, and has been underperforming the AC World ex-US (5.0) on a ytd basis for the past eight weeks. Forty-four of the 49 markets are positive ytd, led by Argentina (23.6), Poland (18.1), Brazil (14.0), Egypt (10.5), India (10.3), and Hong Kong (10.2). The worst country performers ytd: Russia (-5.4), Greece (-4.5), Sri Lanka (-3.0), Colombia (-1.2), and Portugal (-0.6). The best-performing regions

ytd: EM Latin America (11.4), BRIC (9.2), and EM Asia (8.5). The worst-performing regions: EM Eastern Europe (-0.1), EMEA (1.2), EMU (3.8), and EAFE (4.3).

S&P 1500/500/400/600 Performance ([link](#)): LargeCap and MidCap rose for a sixth straight week, but SmallCap dropped for a second week. LargeCap rose 0.7%, beating the gain for MidCap (0.2%) and SmallCap's 0.4% decline. Sixteen of the 33 sectors rose in the latest week, down from 18 rising a week earlier. LargeCap and MidCap ended the week 0.5% and 1.1% below their Wednesday record highs, respectively, and SmallCap is 1.5% below its record highs on February 21. Last week's best performers among sectors: SmallCap Materials (2.7), LargeCap Financials (2.0), LargeCap Energy (1.4), LargeCap Health Care (1.4), and MidCap Industrials (1.3). MidCap Telecom (-11.7) was the worst sector performer last week, followed by SmallCap Telecom (-4.7), SmallCap Tech (-2.3), and SmallCap Real Estate (-1.9). LargeCap and MidCap rose in January for a fourth month, posting gains of 3.7% and 2.5%, respectively. SmallCap rose too, but lagged with a gain of 1.5%. Twenty-five of the 33 sectors advanced in February, up from 22 rising in January. February's best performers: SmallCap Health Care (6.7), LargeCap Health Care (6.2), LargeCap Financials (5.0), LargeCap Consumer Staples (4.9), LargeCap Tech (4.9), and LargeCap Utilities (4.7). February's laggards: MidCap Telecom (-11.8), SmallCap Energy (-8.6), SmallCap Telecom (-8.2), and MidCap Energy (-7.2). Twenty-five of the 33 sectors are positive ytd, with LargeCap (6.4) beating MidCap (4.8) and both easily ahead of SmallCap (1.4). The biggest sector gainers ytd: LargeCap Tech (10.5), MidCap Health Care (10.2), LargeCap Health Care (9.8), MidCap Materials (8.2), SmallCap Health Care (7.9), and MidCap Tech (7.2). The worst performers ytd: MidCap Energy (-10.8), SmallCap Energy (-10.1), SmallCap Telecom (-10.0), and MidCap Telecom (-8.6).

S&P 500 Sectors and Industries Performance ([link](#)): Six of the 11 sectors rose last week, but only three outperformed the S&P 500's 0.7% gain--compared to eight sectors rising a week earlier, when six outperformed the S&P 500's 0.7% gain. Financials was the best-performing sector for the week with a gain of 2.0%, followed by Energy (1.4%), and Health Care (1.4). Telecommunication Services was last week's worst performer, with a decline of 1.1%, followed by Real Estate (-0.8), Consumer Staples (-0.4), Utilities (-0.2), Consumer Discretionary (0.0), Materials (0.3), Information Technology (0.5), and Industrials (0.5). The S&P 500 rose 3.7% in February for its best gain in 16 months as nine sectors moved higher and six beat the index; that compares to eight sectors rising and four beating the S&P 500's 1.8% gain in January. The leading sectors in February: Health Care (6.2), Financials (5.0), Consumer Staples (4.9), Information Technology (4.9), Utilities (4.7), and Real Estate (4.4). Energy was the biggest laggard in February with a drop of 2.7%, followed by Telecom (-0.4), Materials (0.5), Consumer Discretionary (1.8), and Industrials (3.4). Nine of the 11 sectors are higher so far in 2017, and four are outperforming the 6.4% gain for the S&P 500. The best performers in 2017 to date: Tech (10.5), Health Care (9.8), Financials (7.0), and Consumer Discretionary (6.8). The seven sectors underperforming the S&P 500: Energy (-5.5), Telecom (-3.4), Real Estate (3.3), Utilities (5.3), Industrials (5.6), Materials (5.8), and Consumer Staples (6.4).

Commodities Performance ([link](#)): Ten of the 24 commodities we follow rose last week, unchanged from a week earlier. The week's best performers: Corn (2.7%), Cotton (1.9), and Natural Gas (1.4). Last week's laggards: Unleaded Gasoline (-4.8), Silver (-3.6), and Heating Oil (-3.3). February saw 15 of the 24 commodities climb, up from 13 rising in January and led by Unleaded Gasoline (11.6), Lead (10.4), Kansas Wheat (7.9), and Aluminum (6.0). February's laggards: Natural Gas (-11.0), Cocoa (-9.2), Sugar (-6.0), Lead (-4.8), and Coffee (-4.6). The best performers in 2017 so far: Kansas Wheat (12.7), Lead (11.9), Aluminum (11.8), Wheat (11.2), and Silver (11.0). This year's laggards to date: Natural Gas (-24.1), Cocoa (-8.0), Heating Oil (-7.8), and GasOil (-3.5).

Assets Sorted by Spread w/ 200-dmas ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 9/24 commodities, 5/9 global stock indexes, and 11/33 US stock indexes

compared to 7/24, 3/9, and 13/33 rising a week earlier, respectively. Seventeen commodities trade above their 200-dmas, unchanged from a week earlier as Soybeans turned positive w/w and Silver turned negative. Commodities' average spread fell to 3.9% from 4.8%. Copper now leads all commodities at 14.3% above its 200-dma, followed by Zinc (14.0%). Corn (6.4) improved 3.0ppts w/w relative to its 200-dma for the week's best performance among all commodities and all assets. Commodities practically dominates the lowest-trading assets relative to 200-dmas, with these four commodities at the steepest discounts of all: Cocoa (-25.4), Natural Gas (-6.1), Feeder Cattle (-5.6), and Sugar (-4.4). Unleaded Gasoline fell 5.7ppts w/w for the worst performance of all commodities. The global indexes trade an average of 7.1% above their 200-dmas, up from 6.9% above in the prior week. All nine of the global indexes trade above their 200-dmas, unchanged from a week earlier. Brazil (12.5) leads the global indexes, followed by Germany (11.9) and Japan (11.0). Chile (7.4) was the group's best performer last week, with a gain of 2.0ppts. South Korea (2.6) is trading at the lowest relative to its 200-dma of the global assets, but China (3.4) had the weakest performance of its country peers last week, as it fell 1.7ppts. The US indexes trade at an average of 6.4% above their 200-dmas, with 29 sectors above, down from a 7.2% average a week earlier when 31 sectors were above. LargeCap, MidCap, and SmallCap Telecom all turned negative last week. LargeCap Energy turned positive, and MidCap Energy remained below. The US stock indexes dominate assets trading above their 200-dmas. LargeCap Financials leads all US stock indexes and all assets at 18.9% above its 200-dma, followed by MidCap Financials (16.2), SmallCap Financials (16.0), and SmallCap Materials (14.4). SmallCap Materials rose 2.1ppts w/w for the best performance among US stock indexes. The following sectors trade at the deepest discounts to their 200-dmas among the US indexes: MidCap Telecom (-7.9), MidCap Energy (-3.4), and SmallCap Telecom (-3.0). MidCap Telecom was last week's worst performer among US stock indexes and all assets as it fell 12.1ppts.

S&P 500 Technical Indicators ([link](#)): The S&P 500 remained in a Golden Cross last week for a 45th week (after 17 weeks in a Death Cross) as the index's 50-day moving average (dma) improved relative to its 200-dma for a 13th straight week. Its 50-dma improved to a 21-week high of 4.9% above its 200-dma from 4.8% a week earlier and a six-month low of 2.0% in early December. That's down from a 30-month high of 5.4% in mid-September, but up from a 52-month low of -4.5% in March 2016. The S&P 500's 50-dma moved higher for a 16th week after six weekly declines, and the index closed the week above its 50-dma for a 16th week after nine weeks below. The S&P 500 improved to 3.6% above its rising 50-dma from 3.4% a week earlier. That's down from a 38-week high of 4.8% above its rising 50-dma on December 13 and compares to a 52-month high of 6.2% in March 2016 and a five-month low of -7.8% in January 2016. The S&P 500's bounce off its 200-dma in early November continued last week as the index closed the week at 8.7% above its rising 200-dma, up from 8.3% a week earlier and down from a 38-month high of 9.4% on Wednesday. The 50-dma and 200-dma both rose together for a 15th week after falling for eight weeks.

S&P 500 Sectors Technical Indicators ([link](#)): The short-term picture improved for four of the 11 S&P 500 sectors last week, and the long-term picture improved for 5/11. Nine of the 11 sectors trade above their 50-day moving averages (dmas), down from 10 a week earlier as Telecom turned negative and Energy remained below. That's a big turnaround from 17 weeks ago, when all 11 sectors traded below their 50-dmas for the first time since December 11, 2015. Ten of the 11 sectors were above their 200-dmas last week, unchanged from a week earlier as Energy turned positive and Telecommunication Services moved below. Eight sectors are in a Golden Cross now, with 50-dmas higher than their 200-dmas, as Health Care joined the club in the last week for the first time since mid-November. That leaves just three sectors in a Death Cross (50-dmas lower than 200-dmas): Consumer Staples, Real Estate, and Utilities. All 11 had been in a Golden Cross during a 21-week streak that ended October 24, the longest such stretch since October 2014. Nine of the 11 sectors have rising 50-dmas, unchanged from a week earlier as Energy and Telecommunication Services continued falling. However, all 11 have rising 200-dmas, unchanged from a week earlier. That's an improvement from eight in mid-February

when these three sectors saw their 200-dmas stop falling: Real Estate, Telecommunication Services, and Utilities.

YRI Weekly Leading Index ([link](#)): Our Weekly Leading Index (WLI)—a good coincident indicator that can confirm or raise doubts about stock market swings—rose for the tenth week during the week of February 23 to another new record high, up 2.1% w/w and 10.1% over the period. Our WLI is the average of our Boom-Bust Barometer (BBB) and Bloomberg's Weekly Consumer Comfort Index (WCCI). Our BBB rose for the eighth time in ten weeks by a total of 15.6% to a new record high, as jobless claims sank to 234,250 (4-wa)—the lowest reading in nearly 44 years! The CRB raw industrials spot price index—another BBB component—is stalled around recent highs; meanwhile, the WCCI has increased four of the past five weeks, by a total of 10.2%.

GLOBAL ECONOMIC INDICATORS

Global Composite PMIs ([link](#)): Global economic activity in February slowed a bit after reaching a 22-month high in January. The J.P. Morgan Global Composite Output Index slipped to 53.5 from 53.9 as a slight acceleration in the M-PMI (to 52.9 from 52.7) was more than offset by a deceleration in the NM-PMI (53.3 from 54.0). The PMI Composite Index for developed countries edged down from 54.6 to 54.0, while the one for emerging markets rose from 51.9 to 52.1. In the developed world, output in the Eurozone (56.0 from 54.4) rose at the quickest pace since April 2011, with growth accelerating in Germany (56.1 from 54.8), France (55.9 from 54.1), Italy (54.8 from 52.8), and Spain (57.0 from 54.7). Rates in the US (54.1 from 55.8), UK (53.8 from 55.4), and Japan (52.2 from 52.3) slowed last month, though readings for the first two were above the global composite of 53.5. In the emerging world, composite indexes showed that activity in Russia (55.4 from 58.3) slowed but remained above global growth, while China's (52.6 from 52.2) accelerated though remained below global growth. Growth in India (50.7 from 49.4) expanded after contracting for three months.

Global Non-Manufacturing PMIs ([link](#)): The global service sector lost some traction in February after accelerating at its fastest pace in 17 months in January, as output, new orders, and employment all slowed from January's pace. The J.P. Morgan NM-PMI fell to 53.3 after rising steadily from August's 51.2 to January's 54.0—which was the highest since August 2015. The Eurozone was the one bright spot, with its NM-PMI (to 55.5 from 53.7) showing its best growth since May 2011 as the Big Four all saw activity accelerate: NM-PMIs in Germany (54.4 from 53.4), France (56.4 from 54.1), Italy (54.1 from 52.4), and Spain (57.7 from 54.2) all moved higher. Ireland (60.6 from 61.0) had the strongest growth, though its NM-PMI did ease slightly from January's seven-month high. The US (53.8 from 55.6), UK (53.3 from 54.5), Japan (51.3 from 51.9), Russia (55.5 from 58.4), and China (52.6 from 53.1) all saw growth slow, though the latter did see new work grow at the same pace as January.

US Non-Manufacturing PMI ([link](#)): The US service sector in February grew at its fastest pace in 16 months according to the ISM survey, while it slowed to a five-month low according to Markit's. ISM's NM-PMI climbed from 56.5 to 57.6—the best reading since October 2015. The service sector has now expanded for 86 consecutive months, with February's level 2.2 points above its 12-month average of 55.4. Three of the four components improved last month: the business activity index (to 63.6 from 60.3) rose to its highest reading since February 2011, while the new orders measure (61.2 from 58.6) was the best since August 2015; employment (55.2 from 54.7) remained around the recent high posted in September of last year. The supplier deliveries gauge (50.5 from 52.5) remained in a volatile flat trend just above the breakeven point of 50.0. Markit's NM-PMI fell to 53.8 last month after rebounding from a three-month low of 53.9 at the end of last year to 55.6 in January, which was the best performance since November 2015. According to February's report, activity was driven by new contract wins and the launch of new products, but activity had eased from January. Business expectations slowed a five-month low, leading Markit's chief economist to question “whether the February slowdown merely

represents some payback after a strong start to the year for U.S. businesses, or whether it's a start of a more entrenched slowdown.”

Eurozone Retail Sales ([link](#)): Eurozone retail sales in January fell for the third month after rebounding to a new record high in October. Sales slipped 0.1% in January and 0.8% over the three-month span. Over the comparable periods, sales of nonfood products—excluding fuel—dropped 0.2% and 1.0%, respectively, while sales of food, drinks & tobacco were 0.1% and 0.7% lower. Automotive fuel sales advanced 0.8% in January following a 0.5% loss in December and a 0.5% gain in November. Among member states for which data are available, declines were recorded in the Big Two—Germany (-0.8%) and France (-0.8)—as well as Belgium (-0.6), while Finland (4.4), Slovenia (3.2), Portugal (2.7), Luxembourg (2.4), and Latvia (2.4) posted sizeable gains. The yearly growth rate in Eurozone retail sales slowed to 1.2% from 2.9% in October as Germany’s growth rate (-0.4% y/y) turned negative for the first time since September 2014.

Eurozone CPI Flash Estimate ([link](#)): February’s CPI rate is expected to be 2.0% y/y, according to the flash estimate—the highest since January 2013 and surpassing the ECB’s inflation target of just under 2.0% for the first time in four years. Of the main components, energy (to 9.2% from 8.1%) by far is expected to have the highest annual rate in February—having turned positive in December for the first time since summer 2013—followed by food, alcohol & tobacco (2.5 from 1.8), services (1.3 from 1.2), and non-energy industrial goods (0.2 from 0.5). Meanwhile, the core inflation rate—which excludes food, alcohol & tobacco—was at 0.9% for the third month, only slightly above its record low of 0.6% in spring 2015.

Japan Consumer Confidence ([link](#)): Consumer confidence in February unexpectedly fell after reaching a 40-month high in January. The consumer confidence index edged down to 43.1 after rising the prior two months from 40.9 in November to 43.2 in January—the highest since September 2013. Three of the four components declined last month after rising the prior two months: income growth (to 41.4 from 41.6), overall livelihood (41.9 from 42.0), and willingness to buy durable goods (42.7 from 42.8); the employment component rose for the third month from 42.5 in November to 46.4 last month, the best since August 2015.

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