**MORNING BRIEFING**
**April 10, 2017**

## Over There & Over Here

*See the collection of the individual charts linked below.*

(1) Getting around London town. (2) Fairly relaxed about both Brexit and Trump. (3) Not so relaxed about US stock valuation multiples. (4) Frexit would face a bigger constitutional challenge than did Brexit. (5) EMU looks cheaper than US MSCI now that forward earnings are improving in Eurozone. (6) A sector perspective shows that EMU may not be as cheap as it looks relative to US. (7) Employment still among strongest hard data, except for big job losses among retail stores. (8) Is Trump bringing back factory jobs already? (9) Fed getting ready to unwind balance sheet as securities purchased under QE mature. (10) Another reason to expect gradual rate hikes. (11) Movie Review: "Cézanne et Moi" (+).

**Europe: Postcards from London.** Last week, I had lots of good meetings with our accounts in Europe. Most of them are in London. As I noted, they are mostly suffering from an overload of research reports about the economic and investment implications of Brexit. Most of the folks I met with are fairly relaxed about it and figure that it will take a few years for the consequences to unfold, and that there will be plenty of time to soften the impact of adverse ones.

For the past 10 years, I've employed Steve Nunn to drive me to my meetings around London in his cab. Unlike limo and Uber drivers, Steve knows all the highways and byways around town and can wait for me on the street without getting chased away by bobbies. His talents were especially useful this time because traffic in London was the worst I've ever seen it, and Steve confirmed my observation. New bicycle paths have reduced the lanes available for cars. In addition, I observed more construction of commercial and office high-rises than ever before all around the city. They must have all been started before Brexit created lots of uncertainty about whether London will lose jobs to the remaining members of the EU.

In my meetings on the other side of the pond, I found that investors also were remarkably relaxed about President Donald Trump. They didn't express any strong opinions about him other than that his election was an "interesting development." Perhaps they recognize that in a world of controversial leaders, Trump doesn't stand out as any more than all the rest.

The main concern over in Europe is that valuations are too high in the US stock market. Most global investors I met with over there are finding better values in Europe and emerging markets. I agree with them about emerging markets. The fundamentals are also looking better in Europe, despite all the Brexit commotion, as Melissa and I wrote last Tuesday. However, we still have some concerns about the outcome of the election in France scheduled for April 23. Should no candidate win a majority, a run-off election between the top two candidates will be held on May 7.

One of our accounts in London observed that even if "Madame Frexit" wins, separating France from the EU would be tougher than separating Britain. France's far-right National Front leader Marine Le Pen, who wants to be the next president, celebrated Britain's vote to leave the EU. But unlike Britain, France has a written constitution, which states that "the Republic is part of the European Union." So a Frexit would require a constitutional change that may be more difficult than Brexit, but not impossible.

If LePen loses, as is widely expected among the accounts I met, then the EMU MSCI stock price index may continue to outperform the comparable US index, as it has since July 6, 2016, with the former up 26.6% in euros and the latter up 12.3% in dollars (*Fig. 1*). Helping this relative outperformance have been March 15 Dutch elections that saw the establishment party fend off the challenge by an anti-EU populist party. At the end of March, Chancellor Angela Merkel's party won the governor's seat in Saarland state, auguring well for her reelection on September 24. In Spain, the establishment party remains in power, while populists are wracked by infighting. The wild card is Italy—*quindi cosa c'è di nuovo* (so what else is new)?

On the other hand, in dollars, the EMU MSCI has matched, rather than beaten, the comparable US index since early 2016. Let's have a closer look at the relative performance, fundamentals, and valuations in the US vs the EMU MSCI stock price indexes:

(1) *Relative performance.* Since the start of the year, the EMU MSCI stock price index is up 6.8% in euros, slightly outpacing the US MSCI's gain of 5.4% in dollars (*Fig. 2*). Leading the way in the EMU is Spain with a gain of 13.4%, followed by France (6.0%), Germany (5.8), and Italy (3.4) (*Fig. 3*). In dollars, the ytd performance derby is as follows: Spain (14.2), EMU (7.5), France (6.7), Germany (6.5), US (5.4), and Italy (4.1) (*Fig. 4*).

(2) *Fundamentals.* Since the start of the current bull market on March 9, 2009, the US MSCI is up 244% versus the EMU MSCI's 121% and 84% gains in euros and in dollars. This has certainly helped our Stay Home investment strategy to beat the Go Global alternative. The underlying fundamentals also outperformed in the US, as the ratio of the forward earnings of the US MSCI to the EMU MSCI (in euros) doubled from a low of 4.4 in late 2008 to high of 8.8 in late 2014 (*Fig. 5*). Since then, the ratio has been relatively stable. (See our *US MSCI Stock Price Index vs Rest of the World*.)

(3) *Valuations.* At the end of March, the US MSCI had a forward P/E of 18.0, while the EMU's was at 14.6 (*Fig. 6*). While it seems that the EMU is cheaper, it has been consistently so since the start of the data during October 2001. Joe reports that the former has been trading at an average 21% premium to the latter over this period. The current premium is 24%.

Let's take a dive into the major sectors of the MSCI to see where the valuation divergences between the US and EMU are occurring (*Fig. 7*). We have weekly data for forward P/Es for the MSCI sectors starting in January 2006. What we see is that Consumer Discretionary, Energy, Financials, and Utilities tend to be consistently more expensive in the US than in the Eurozone. Undoubtedly, companies such as Amazon and Netflix account for much of the divergence in the Consumer Discretionary sector. The US also seems to have more relatively highly valued oil services companies in the Energy sector. US banks have recovered better from the financial crisis of 2008 than European ones, which accounts for the divergence in the Financials sectors' valuations.

Consumer Staples, Health Care, and Materials tend to have very similar valuations in both the US and the EMU. The same is usually so for Industrials, though the US sector has been more expensive than the EMU sector since early 2016, perhaps on expectations of more infrastructure spending in the US following the latest presidential election, no matter who won.

The bottom line is that on closer inspection, the EMU doesn't stand out as particularly cheaper than the US.

**US Economy: Soft vs Hard Data.** Back in the US, there isn't much evidence that the strength in the so-called soft data is showing up in the hard data so far. The former are based on surveys of consumers, purchasing managers, CEOs, and small business owners. The Atlanta Fed's GDPNow model currently shows real GDP rising by only 0.6% (saar) during Q1. The New York Fed's Nowcast reports a 2.8% increase currently. However, the former seems to give more weight to hard than soft data compared to the latter.

Among the strongest of the hard data have been various employment indicators. However, they gave a mixed message for March. The ADP private-sector payrolls rose 263,000 last month, while the official Bureau of Labor Statistics (BLS) figure was just 89,000, as Debbie reviews below. The latter was weighed down by a loss of 29,700 retail jobs following a drop of 30,900 during February. Jackie and I have been warning about layoffs in retailing as brick-and-mortar stores are shuttered due to intense competition from online vendors like Amazon. Sure enough, general merchandise employment has dropped by an increasing amount during each of the past five months for a total loss of 89,300 (*Fig. 8*).

The good news is that despite the weakness in retail payrolls, manufacturing employment has picked up by 95,000 during the past four months through March according to ADP and 49,000 over the first three months of this year according to BLS. A case can certainly be made that President Trump already has succeeded in bringing back some factory jobs to the US. Construction employment is up 177,000 and 139,000 over the past five months as reported by ADP and BLS, respectively. That may have more to do with the relatively mild winter and the ongoing improvement in housing demand.

In any event, during March, the household measure of employment—which counts employed people whether they have one or more jobs rather than the number of part-time and full-time jobs, which is captured in the payroll measure—jumped 472,000 following a gain of 447,000 in February. So the unemployment rate dropped to 4.5%, the lowest since May 2007. The number of full-time employees rose to a record 125.5 million last month (*Fig. 9*). Meanwhile, our Earned Income Proxy for private-sector wages and salaries rose 0.3% during March to yet another record high, auguring for continued growth in retail sales (*Fig. 10* and *Fig. 11*).

**Fed: The Great Unwinding.** We need to start paying more attention to the often-overlooked SOMA section at the bottom of the FOMC statements from now on. That was probably the most important message of the latest FOMC meeting minutes. "SOMA" stands for "System Open Market Account." It contains the Fed's holdings of US Treasury and mortgage-backed securities (MBS) and a few other scant categories of assets. Since the start of the Great Recession, when the Federal Reserve greatly expanded its balance sheet to avert a total financial meltdown and jumpstart the recovery, the proceeds from maturing securities have been reinvested by the Fed even after the QE purchase program was terminated at the end of October 2014 (*Fig. 12*).

Recently, several Fed officials have hinted that the great unwinding is forthcoming. When that day comes, the Fed will stop reinvesting some of the proceeds from maturing securities to shrink its balance sheet back to pre-recession norms. The 3/15 FOMC statement read: "The Committee is maintaining its existing policy of reinvesting principal payments from its [holdings in the SOMA] and of rolling over maturing Treasury securities at auction, and it anticipates doing so until normalization of the level of the federal funds rate is well under way. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions."

However, the 3/15 FOMC meeting minutes (released on 4/5) paves the way for a change, possibly in the next meeting's statement (on 5/3), to wording stating that the Committee will begin allowing holdings in the SOMA to mature off of the Fed's balance sheet. Such a change would signal the Fed's increased confidence in the strength of the US economy and desire to continue to remove financial accommodation.

When the great unwinding begins, bond yields could be pushed higher. Were it not for the SOMA reinvestments cushioning the impact, bond yields might have moved higher than they did in response to the Fed's three 25bps interest-rate hikes since December 2015. So yields could face some upward pressure once the SOMA starts to contract. Consider the following:

(1) *Shrinking SOMA.* In a September 2014 press release, the Federal Reserve issued a statement on "policy normalization principles and plans." The note stated that the Committee agreed that it was an appropriate time "to provide additional information regarding its normalization plans." Among the key elements of the approach, first would be to raise the target range for the federal funds rate "when economic conditions and the outlook warrant a less accommodative monetary policy." That would be done "primarily by adjusting the interest rate it pays on excess reserve balances." Next, the Committee would "cease or commence phasing out reinvestments" on assets held in the SOMA "after" increasing the federal funds rate with no otherwise specific timing. Currently, the Federal Reserve holds about $4.25 trillion in securities outright in the SOMA. These securities totaled just $489 billion before the Fed began to purchase assets under its QE programs on November 25, 2008 (*Fig. 13*).

The Committee signaled that the intentions laid out in 2014 soon will become a reality in a section at the top of the 3/15 FOMC minutes. During the meeting, the Committee discussed several staff briefings related to potential changes to the Committee's SOMA reinvestment policy: "These briefings discussed the macroeconomic implications of alternative strategies the Committee could employ with respect to reinvestments, including making the timing of an end to reinvestments either date dependent or dependent on economic conditions. The briefings also considered the advantages and disadvantages of phasing out reinvestments or ending them all at once as well as whether using the same approach would be appropriate for both Treasury securities and agency mortgage-backed securities (MBS)."

(2) *Later this year.* The specific details on timing and approach were not decided at this meeting. Nevertheless, all participants seemingly "agreed" that reductions in these securities holdings should be "gradual and predictable." And "most" participants agreed that there should be a phase-out rather than stopping reinvestment "all at once." Most participants also agreed that the federal funds rate should be "the primary means for adjusting the stance of monetary policy" rather than balance-sheet adjustments. Finally, most participants anticipated that a "change to the Committee's reinvestment policy would likely be appropriate later this year."

Nevertheless, there was still disagreement on the issues that "most" participants agreed on. For example, one participant "preferred" that a monthly "minimum pace for reductions in MBS holdings" be set and to allow for MBS sales to meet that pace if required. That happens to run counter to what the 2014 policy statement indicated, that MBS securities would not be sold as part of the wind-down but rather later on and only if necessary.

(3) *Apples and oranges*. Maturity obviously is important here. It indicates how fast the wind-down could occur if the Fed does not reinvest the funds received once securities reach the predetermined duration. Of course, US Treasuries and MBS are not apples-to-apples comparable when it comes to funds that are made available for reinvestment over the maturity period: As FINRA explains, the US Treasury bond pays only interest until the bond's maturity, when the lump-sum principal is paid, whereas MBS pay out interest plus some principal during the credit term.

Some insights as to maturity can be gleaned from the Federal Reserve Statistical Release H.4.1, titled "Factors Affecting Reserve Balances." As of 4/5, the breakdown of securities held outright in the SOMA was as follows: $2.46 trillion in US Treasuries, $1.77 trillion in MBS, and $13.3 billion in other securities. The breakdown of US Treasury securities maturities is: 10.5% maturing in less than 1 year, 48.5% in 1-5 years, 15.5% in 5-10 years, and 25.5% in over 10 years (*Fig. 14*).

For MBS, nearly 100% of the securities are set to mature after 10 years (*Fig. 15*). That makes sense, as most mortgages are provided over 15- or 30-year terms. And the Fed purchased most of its MBS holdings less than 10 years ago, following the financial crisis. In any event, we don't know whether the Fed will treat the wind-down differently for US Treasuries and MBS, or how it might do so.

(4) *Lots of maturing bonds.* We do know that a big bunch of US Treasuries will mature within 1 to 5 years. If the Fed ceases to reinvest those funds, or phases them out, that will surely impact the Treasury market within that timeframe. Bloomberg ran a helpful article on 1/18 of last year, which included a great chart showing the SOMA maturity distribution for US Treasuries by year. It observed: "The $216 billion of Treasuries the Fed has maturing in 2016 amounts to almost half the net new government-debt issuance that JPMorgan Chase & Co. forecasts for this year. And there's no letup in sight."

Here's another helpful excerpt: "If the Fed had opted not to reinvest this year, the Treasury would have had to make up for the lost funding with additional debt sales that might have boosted 10-year yields by 0.08-0.12 percentage point, according to Priya Misra at TD Securities LLC, one of the 22 primary dealers that trade with the central bank. Misra, head of global rates strategy in New York, based the estimate on a 2010 study by the Fed on the link between its bond purchases and yield changes."

(5) *Market-neutral?* Indeed, changes in the Federal Reserve's portfolio can significantly impact bond yields, a point emphasized in a 2016 Fed study. However, the Fed theoretically has the ability to control how much they do so. Our take is that the Fed does not wish its great unwinding of the balance sheet to have a great impact on the market.

So they will attempt to do it in a market-neutral way. In their own words from the minutes, the "primary" tool for removing accommodation will continue to be the federal funds rate. Even so, there is a chance that the Fed might not have a choice but to readjust their interest-rate strategy if they cannot figure out how to keep the SOMA wind-down market-neutral.

**Movie.** "Cézanne et Moi" (+) (*link*) is a French film about the close relationship between Paul Cézanne and Émile Zola. They were boyhood best friends growing up in Aix-en-Provence. Cézanne came from a wealthy family. In elementary school, he protected Zola, who was a poor outsider from Italy. Later, the roles reversed. Zola, the writer, became successful and prosperous, while the painter rarely sold a canvas. After Cézanne's father cut his allowance, Zola subsidized his friend. Their break came when Cézanne accused Zola of depicting his life in his 1886 novel, *The Masterpiece*. Not mentioned in the film is Zola's famous *J'accuse* newspaper letter in defense of Capt. Alfred Dreyfus, the French Jewish officer wrongly convicted of treason. Cézanne's work formed a bridge between 19th-century impressionism and the 20th century cubism of Matisse and Picasso.

## CALENDARS

**US. Mon:** Yellen. **Tues:** NFIB Small Business Optimism Index 104.8, JOLTS, Kashkari. (Bloomberg estimates)

**Global. Mon:** China New Yuan Loans 1200b, China Aggregate Financing 1500b, China M2 11.1% y/y, Kuroda. **Tues:** Eurozone Industrial Production 0.1%m/m/1.9%y/y, Germany ZEW Economic Sentiment 14.8, UK Headline & Core CPI 2.3%/1.9% y/y. (DailyFX estimates)

## STRATEGY INDICATORS

**Global Stock Markets Performance** (*link*): The US MSCI index fell 0.3% last week, ranking 28th of the 49 markets as 22 rose in US dollar terms—compared to 10th a week earlier, when it rose 0.8% as 19 markets moved higher. The AC World ex-US index underperformed the US MSCI for a second straight week, falling 0.4% compared to a similar decline a week earlier. EM Latin America was the best-performing region last week, with a gain of 1.4%, followed by BRIC (1.1%), EM Eastern Europe (0.8), EMEA (0.5), and EM Asia (0.3). The week's worst-performing regions: EMU (-0.7) and EAFE (-0.7). Sri Lanka (6.7) was the best-performing country last week, followed by Philippines (4.0), Chile (3.3), and Poland (3.1). Jordan (-4.2) was the worst performer, followed by Turkey (-3.0), Sweden (-2.2), and Korea (-2.1). The US MSCI is up 5.4% ytd, with its ranking down one slot to 29/49, and continues to trail the AC World ex-US (6.8) on a ytd basis. Forty-four of the 49 markets are positive ytd, led by Argentina (38.5), Poland (21.4), Chile (19.2), India (18.6), and Mexico (18.1). The worst country performers ytd: Morocco (-5.2), Russia (-4.6), Pakistan (-3.6), Greece (-1.4), and Sri Lanka (-0.8). The best-performing regions ytd: EM Asia (13.5), EM Latin America (13.1), BRIC (12.6), and EMU (7.5). The worst-performing regions, albeit with gains: EM Eastern Europe (0.9), EMEA (1.5), and EAFE (5.7).

**S&P 1500/500/400/600 Performance** (*link*): All three indexes declined last week as SmallCap registered its fifth drop in seven weeks vs a third drop in that long for both LargeCap and MidCap. LargeCap lost 0.3%, smaller than the MidCap (-0.8%) and SmallCap (-2.0) declines. Twelve of the 33 sectors rose in the latest week, down from 29 rising a week earlier. LargeCap and MidCap ended the week 1.7% and 3.0% below their March 1 record highs, respectively, and SmallCap ended 4.0% below its record high on February 21. The SmidCap sectors dominated last week's gainers: SmallCap Telecom (6.5), SmallCap Utilities (1.5), MidCap Real Estate (1.2), and MidCap Utilities (0.7). SmallCaps also dominated the worst performers: Financials (-2.9), Tech (-2.7), Consumer Discretionary (-2.6), and Industrials (-2.4). Twenty-two of the 33 sectors are positive ytd, with LargeCap (5.2) beating MidCap (2.8) and both easily ahead of SmallCap (-1.2). The biggest sector gainers ytd: LargeCap Tech (11.5), MidCap Health Care (9.0), LargeCap Health Care (7.9), SmallCap Health Care (7.7), and LargeCap Consumer Discretionary (7.2). The worst performers ytd: MidCap Telecom (-17.0), SmallCap Energy (-15.2), MidCap Energy (-14.7), LargeCap Energy (-6.7), and LargeCap Telecom (-6.1).

**S&P 500 Sectors and Industries Performance** (*link*): Six of the 11 sectors rose last week, and seven outperformed the S&P 500's 0.3% decline. This compares to eight sectors rising a week earlier, when six outperformed the S&P 500's 0.8% gain. Real Estate and Energy were the best-performing sectors for the week, with gains of 0.6%, followed by Materials (0.3%), Utilities (0.2), Consumer Staples (0.1), Industrials (0.1), and Health Care (0.0). Telecom was last week's worst performer with a decline of 1.1%, followed by Financials (-1.0), Consumer Discretionary (-0.8), and Tech (-0.6). So far in 2017, nine of the 11 sectors are higher, and six have outperformed the S&P 500's 5.2% gain. The best performers in 2017 to date: Tech (11.5), Health Care (7.9), Consumer Discretionary (7.2), Consumer Staples (5.8), Materials (5.6), and Utilities (5.6). The five sectors underperforming the S&P 500: Energy (-6.7), Telecom (-6.1), Financials (1.1), Real Estate (3.4), and Industrials (4.1).

**Commodities Performance** (*link*): Twelve of the 24 commodities we follow rose last week, down from 13 rising a week earlier. Energy dominated the week's best performers: GasOil (3.9%), Heating Oil (3.5), Crude Oil (3.4), and Brent Crude (3.3). Last week's laggards: Cotton (-4.5), Cocoa (-4.2), Lead (-3.9), and Zinc (-3.1). The best performers in 2017 so far: Aluminum (15.7), Silver (13.6), Lead (11.9), Lean Hogs (10.0), and Gold (9.2). The energy-related commodities no longer dominate this year's laggards to date: Sugar (-14.1), Natural Gas (-12.1), Soybeans (-6.0), Heating Oil (-5.7), and Cocoa (-5.6).

**Assets Sorted by Spread w/ 200-dmas** (*link*): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 15/24 commodities, 4/9 global stock indexes, and 9/33 US stock indexes compared to 11/24, 3/9, and 28/33 rising a week earlier, respectively. Seventeen commodities trade above their 200-dmas, unchanged from a week earlier. Commodities' average spread edged up to 2.7% from 2.5%. Among assets, Commodities walked away with three of the top four spots last week: Lean Hogs leads all commodities and indeed all assets at 18.3% above its 200-dma; next in line among Commodities are: Unleaded Gasoline (16.1%), Aluminum (12.8), and Copper (9.4). GasOil performed the best of all commodities last week as it improved 3.8ppts to 7.7%. Cocoa (-19.5) and Sugar (-17.0) trade the lowest among all commodities and all assets, but Cotton was the worst performer among all assets last week, as it fell 5.2ppts to 2.6%. The global indexes trade an average of 6.8% above their 200-dmas, down from 6.9% above in the prior week. All nine of the global indexes trade above their 200-dmas, unchanged from a week earlier. Chile (15.7) leads the global indexes, followed by Germany (10.9). Chile was also the group's best performer last week, with a gain of 1.8ppts. Japan (4.1) is trading at the lowest relative to its 200-dma of the global assets, and also had the weakest performance of its country peers last week, as it fell 1.9ppts. The US indexes trade at an average of 3.6% above their 200-dmas, with 28 of the 33 sectors above, down from a 4.4% average a week earlier when 26 sectors were above. The US stock indexes no longer dominate the top ten assets trading above their 200-dmas as they did a month ago. LargeCap Tech now leads all US stock indexes at 10.3% above its 200-dma, followed by SmallCap Telecom (8.8), LargeCap Financials (8.8), MidCap Tech (8.5), and MidCap Materials (7.8). SmallCap Telecom rose 6.5ppts w/w for the biggest gain among US stock indexes and all assets. MidCap Telecom trades 15.0% below its 200-dma, the lowest among the US stock indexes. Two sectors fell 3.7ppts w/w for the worst performance of the US stock indexes: SmallCap Financials (4.7) and SmallCap Tech (7.4).

**S&P 500 Technical Indicators** (*link*): The S&P 500 remained in a Golden Cross last week for a 50th week (after 17 weeks in a Death Cross), but the index's 50-day moving average (dma) weakened relative to its 200-dma for the first time in 18 weeks. Its 50-dma edged down to 5.4% above its 200-dma from a 34-month high of nearly 5.5% a week earlier. That's up from a six-month low of 2.0% in early December and a 52-month low of -4.5% in March 2016. The S&P 500's 50-dma moved higher for a 21st week after six weekly declines, and the index closed the week above its 50-dma for a 21st week after nine weeks below. However, the S&P 500 weakened to a 22-week low of 0.3% above its rising 50-dma from 0.9% 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 also weakened last week as the index fell to a nine-week low of 5.7% above its rising 200-dma from 6.4% a week earlier. That's down from a 38-month high of 9.4% on March 1. The 50-dma and 200-dma both rose together for a 20th week, but at a slower pace than a week earlier.

**S&P 500 Sectors Technical Indicators** (*link*): The short-term picture weakened for eight of the 11 S&P 500 sectors last week and the long-term picture deteriorated for seven. Energy and Real Estate were the only sectors to improve relative to their 50- and 200-dmas. Eight of the 11 sectors trade above their 50-day moving averages (dmas), unchanged from a week earlier. Energy remained below its 50-dma for a 12th straight week, and Financials and Telecom were below for a third week. All 11 sectors were above their 50-dmas during mid-January, and all 11 were below the week before the election for the first time since December 11, 2015. Nine of the 11 sectors were above their 200-dmas last week, up from eight a week earlier, as Real Estate moved above for the first time in five weeks. However, Energy remained below for a seventh week and Telecom for a third. Nine sectors are in a Golden Cross now, with 50-dmas higher than their 200-dmas, unchanged from a week earlier and leaving just Real Estate and Telecom still out of the club. All 11 had been in a Golden Cross during a 21-week streak that ended October 24, the longest such stretch since October 2014. Seven of the 11 sectors have rising 50-dmas, down from nine a week earlier, as Financials and Materials started falling. Energy's 50-dma fell for a ninth week and Telecom's dropped for an eighth week. Nine sectors have rising 200-dmas, unchanged from a week earlier, as Real Estate fell for a fourth week and Telecom for a second.

## US ECONOMIC INDICATORS

**Employment** (*link*): Job growth lost steam in March, rising at its slowest pace since last spring, with weather likely a factor. US companies expanded payrolls by only 98,000 last month (vs. a consensus estimate of 178,000), and there were downward revisions to both February (to 219,000 from 235,000) and January (216,000 from 238,000) gains, for a net loss of 38,000. Private payroll employment climbed only 89,000 in March, a surprise on the downside after ADP reported a 263,000 jump in private payroll jobs earlier last week. Both February (221,000 from 227,000) and January (204,000 from 221,000) payroll increases also were revised lower, for a net loss of 23,000 over the two-month span. The breadth of job creation (percent of private industries increasing payrolls) for the one-month span dropped to 58.0% from a 27-month high of 66.9% in February; the three-month span was 65.7%, remaining near February's two-year high of 66.1%.

**Earned Income Proxy** (*link*): Our Earned Income Proxy (EIP) continued to reach new record highs last month, climbing for the sixth time in seven months by 0.3% m/m and 2.5% over the period. Average hourly earnings, one of the components of our EIP, climbed 0.2% and 1.5% over the comparable periods, while aggregate weekly hours, the other component, advanced 0.1% and 1.0%. Compared to a year ago, the EIP increased 4.1% y/y, with wages up 2.7% (decelerating slightly from February's 2.8%) and aggregate hours 1.4% higher. Our proxy tracks income and spending closely and remains favorable for continued gains in both.

**Employment by Industry** (*link*): Hirings in professional & business services, health care, and mining led March employment gains, while retail trade cut jobs for the second month, by 29,700 last month and 60,600 the past two months—with general merchandise payrolls down 34,700 and 58,100 over the comparable periods, and 89,300 since its recent high in October. Employment in both professional & business services and health care continued to trend higher in March, with the former up 56,000 m/m and 639,000 y/y, and the latter up 13,500 and 355,200 over the comparable periods. Mining added to payrolls for the fourth month, by 11,300 last month and 35,400 since November; mining payrolls had fallen steadily from October 2014 through October 2016. Construction companies expanded payrolls by only 6,000 after adding 93,000 jobs the first two months of the year. Employment in other major industries—including manufacturing, wholesale trade, transportation & warehousing, information services, leisure & hospitality, and government—changed little last month.

**Unemployment** (*link*): The unemployment rate sank to 4.5% in March, the lowest in a decade, as employment (472,000) rose by nearly half a million and unemployment fell by 326,000. The participation rate was unchanged at February's 11-month high of 63.0%. March's adult (to 4.1% from 4.3%) and teenage (13.7 from 15.0) rates dropped to new cyclical lows, while the college-grad rate ticked up from 2.4% to 2.5%, remaining near its cyclical low of 2.3% in November. Those working part-time for economic reasons (a.k.a. "involuntary part-time workers") fell to 5.5 million (3.5% of the civilian labor force), contracting for the sixth time in seven months by a total of 474,000. The U6 rate—which includes marginally attached workers—and the sum of the underemployment and jobless rates both sank to new cyclical lows of 8.9% and 8.0%, respectively.

**Wages** (*link*): Wage inflation—as measured by the average hourly earnings rate for all workers on private nonfarm payrolls (AHE)—climbed 0.2% in March after a 0.3% advance in February; the yearly rate ticked down from 2.8% to 2.7% y/y, remaining below 3.0%. Wages rose 2.5% (saar) during the three months ending March. The wage rate for goods-producing industries (2.6% y/y) continued to bounce around 3.0%—though moved to the bottom of the range last month, while service-providing's (2.7) was just below February's 2.8%, which matched its highest reading since June 2009. Within goods-producing, the natural resources (to 1.9% from 2.8%) rate fell nearly a percentage point, while the rates for both manufacturing (2.5) and construction (2.4) fell to 12-month lows. Within service-providing, the rate for transportation & warehousing (2.7) resumed its uptrend, while wholesale trade's (2.1) dropped to its lowest reading since December 2015; leisure & hospitality (4.4) remained stalled at recent highs. Rates for utilities (2.2) and retail trade (1.1) stayed on volatile downtrends, while rates for information services (4.0), financial activities (2.4), and education & health services (1.8) continued to move sideways and the rate for professional & business services moved out of its flat trend, accelerating 3.5%.

**Consumer Credit** (*link*): Consumer credit in February accelerated $15.2 billion following January's $10.9 billion gain, which was the weakest since April 2013. Revolving credit recovered $2.9 billion, more than reversing January's $2.6 billion decline, which was the first monthly loss since November 2013. Nonrevolving credit, which includes student and auto loans, expanded $12.3 billion, in line with prior months.

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