Yardeni Research, Inc.

MORNING BRIEFING
April 18, 2017

The Trump Doctrine

See the collection of the individual charts linked below.

(1) Eye on the prize. (2) Alternative leadership styles. (3) Obama vs. Trump Doctrines. (4) Geopolitics hasn't shocked this bull market so far. (5) Might stocks stall if Trump puts Foreign Policy First, ahead of America First? (6) Mixing it up in Yemen, Syria, Afghanistan, and North Korea. (7) Running out of strategic patience. (8) Trump has a few kind words for Yellen. (9) Auto industry is main soft patch in US economy. (10) China's economy is doing a wheely, really.

Geopolitics: Mother of All Bombs. On October 9, 2009, the Norwegian Nobel Committee announced that President Barack Obama would receive the Nobel Peace Prize for promoting nuclear nonproliferation after being in the White House for less than 10 months. How has that worked out? Given North Korea's declared ambition to build nuclear ballistic missiles that can strike the US, it seems that the award was premature. The Obama administration may have delayed Iran from doing the same, though the Mullahs could probably purchase a nuclear arsenal from North Korea at any time after the previous administration handed them a multi-billion-dollar check for assets that were frozen in foreign bank accounts after sanctions were lifted.

The Obama Doctrine was based on leading from behind—backing away from red lines, while giving diplomacy and peace a chance. As a result, the Russians had no second thoughts about annexing Crimea and infiltrating eastern Ukraine. The Chinese built more islands to claim sovereignty over the South China Sea. Syria's murderous Assad regime continued to murder Syrian civilians, triggering the massive migration of refugees to Europe. ISIS remains a powerful force for terrorism in the Middle East and around the world.

Yet, the bull market in stocks that began on March 9, 2009 rose 131.9% to a record high first on March 28, 2013, and has continued to climb in record territory since then, by another 48.4% through Thursday's close. Altogether, it is up 244.2%. The bull has mostly ignored all the geopolitical turmoil over the past eight years. I don't recall that any of the geopolitical disturbances along the way provided enough of a selloff to describe it as a good buying opportunity. There have been times in the past when such disturbances did so, while they have rarely triggered bear markets.

However, could geopolitical concerns at least stall the bull run that resumed following Election Day? The S&P 500 rose 12.0% from November 8 of last year to peak at a record high of 2395.96 on March 1 (*Fig. 1*). It is down 2.0% since then through yesterday's close. The Trump Doctrine has already been defined as a more pro-active approach to addressing geopolitical issues:

(1) *Yemen.* It started with a Special Forces raid on an al Qaeda camp in Yemen on January 29. It had been planned under the Obama administration, but given the go-ahead by Trump. In any event, it was badly executed.

(2) *Syria.* On April 6, a total of 59 US cruise missiles blasted a Syrian air base that had been used in a lethal chemical attack on civilians by the Assad regime. Coincidentally, President Trump was dining

with Chinese President Xi Jinping at Mar-a-Lago, asking him to do something to stop North Korea's nuclear missile program as a US naval task force was cruising on its way toward the Korean Peninsula.

(3) *ISIS.* Then on April 13, Trump dropped the "Mother of All Bombs" on an underground ISIS stronghold in Afghanistan. Reportedly, it killed 92 ISIS militants. It also sent a powerful military message following so soon after the cruise missile attack and the deployment of warships near Korea.

(4) *North Korea.* On April 15, North Korea's sixth nuclear test was a dud, leading some to speculate that Trump had ordered a cyber-attack that might have caused the spectacular nonevent.

When Secretary of State Rex Tillerson traveled to Asia in March, he warned that the US would consider a preemptive strike on North Korea if its nuclear program continued unabated. "The policy of strategic patience," Tillerson announced, "has ended." The Chinese seem to be getting the message that they must stop Little Kim. On April 5, speaking through an editorial in the *Global Times*—which is owned by *People's Daily*, the official mouthpiece of the Chinese Communist Party—Beijing put Pyongyang on notice, saying that it must rein in its nuclear ambitions or else China's oil shipments to North Korea could be "severely limited." It is extraordinary for China to make this kind of threat. The editorial continued that no North Korean nuclear fallout can be allowed to "contaminate" the region. Nor can North Korea be allowed to "descend into the kind of turbulence that generates a huge outpouring of refugees," the editorial said, adding that China will also not allow "a hostile government" in Pyongyang.

In mid-February, China suspended all imports of coal from North Korea as part of its effort to enact United Nations Security Council sanctions aimed at stopping the country's nuclear weapons and ballistic-missile program. The ban will last until the end of the year. Coal has accounted for 34%-40% of North Korean exports in the past several years, and almost all of it was shipped to China, according to South Korean government estimates.

By the way, in his first meeting with President Barack Obama before taking office, Trump noted that the outgoing president advised him to focus on North Korea. Last October, Obama appeared in a skit with Stephen Colbert for the *Late Late Show*, where he practiced his interview skills in light of his impending search for a new job. When asked by Colbert to list any other relevant awards or qualifications, Obama replied: "I have almost 30 honorary degrees and I did get the Nobel Peace Prize." Colbert then asked, "Really, what was that for?" Obama joked, "To be honest, I still don't know."

Strategy: Stocks Stall. Trump's critics charge that he is inciting global tensions to deflect attention from his domestic policy failures, though he has been in office for less than 100 days. Whether this charge is right or wrong, might heightened geopolitical conflicts force the administration to postpone the domestic policy agenda? It's possible, and that might explain why the stock rally has stalled. It's also possible that the market is simply experiencing some profit-taking among the rally's recent sector leaders, including Financials and Industrials.

Here is the S&P 500's sector derby since November 8 through the March 1 record high: Financials (26.0%), Industrials (14.0), Materials (12.8), Information Technology (12.2), S&P 500 (12.0), Consumer Discretionary (10.9), Health Care (10.7), Telecommunication Services (8.9), Real Estate (5.3), Consumer Staples (5.0), Utilities (3.9), Energy (3.9) (*Fig. 2*).

Here is the derby since the March 1 top through Thursday of last week: Utilities (1.2), Real Estate (0.2), Consumer Discretionary (-0.7), Consumer Staples (-0.7), Information Technology (-0.9), Health Care (-2.1), S&P 500 (-2.8), Telecommunication Services (-3.1), Materials (-3.7), Industrials (-3.9), Energy (-4.0), Financials (-9.0).

Of course, another reason for the stall-out is that the hard economic data continue to be weak, on balance, despite the strength of all the soft, mostly survey data. So while most of the employment indicators confirm that the labor market is very tight, retail sales, particularly auto sales, have been weak. The Atlanta Fed's GDPNow is tracking Q1 real growth of only 0.5% (saar).

The good news is that this increases the likelihood of a very gradual normalization of monetary policy. Trump has even said that he might be inclined to reappoint Fed Chair Janet Yellen, who is the leader of the gradualists at the Fed. The 10-year bond yield has responded favorably, having recently peaked at 2.62% on March 13 and falling down to 2.26% yesterday (*Fig. 3*). Debbie and I are still predicting that it will range between 2.00% and 2.50% through mid-year. Then we see it trading between 2.50% and 3.00% during the second half of the year. That's because we expect some pickup in economic growth, especially if Trump pushes ahead with his domestic stimulus agenda, as we still expect. In this case, one or two more Fed rate hikes are still likely this year.

US Economy: Soft Patch for Autos. One of the softest patches in the US economy right now is the auto industry. Jackie and I have been monitoring the mounting subprime auto loan problem in recent months, arguing that it could weigh on auto sales. That may have started to happen. Consider the following recent developments:

(1) *Auto retail sales.* During March, US motor vehicle sales dropped 5.1% below the 12-month moving average of 17.5 million units to 16.6 million units (saar). It was the worst month for auto sales since February 2015, and down 9.8% from the cyclical high of 18.4mu at the end of last year. Included in the figure are domestic cars, light trucks, and imports. In the monthly retail sales report, auto sales fell 4.3% over the past three months through March (*Fig. 4*). This obviously weighed on retail sales, which declined 0.5% over the past two months, but was fractionally higher excluding autos over this same period.

(2) *Auto credit.* Auto credit conditions are tightening according to the January 2017 quarterly Senior Loan Officer Opinion Survey compiled by the Federal Reserve. The banks responded that they expect to tighten auto loan standards and to see a deterioration in the quality of auto loans during 2017. The net percentage of domestic banks tightening standards for auto loans increased to 11.7% during January, up from -6.3% a year ago (*Fig. 5*).

(3) *Used car prices.* Manheim Inc., an auto auction company, compiles a measure of used vehicle prices based on more than 5 million transactions annually. It is available since 1995. In March, the Manheim Used Vehicle Value Index increased only 1.3% y/y and declined 0.5% m/m based on wholesale used vehicle prices adjusted for mix, mileage, and seasonality. The index has declined during five of the past six months. The CPI measure of used car and truck prices has dropped 1.9% over the three months through March and 4.7% y/y (*Fig. 6*). According to Manheim, dealer incentives to move a high inventory of new cars off their lots has pressured used vehicle values. Recently, Morgan Stanley analysts forecasted that used car prices could fall another 20% from here.

(4) *Auto carloads.* Railcar loadings of motor vehicles tend to track motor vehicle sales. Both measures had risen steadily from mid-2009 to mid-2015, which appears to have been the peak for both. Since then, loadings (which are available through the week of April 8) and sales have stalled (*Fig. 7*).

China: Fast & Furious. While auto sales seem to have hit the skids in the US, the Chinese economy seems to have patched out of its doldrums at a fast and furious speed. Consider the following:

(1) *Trade.* Chinese merchandise exports (in yuan) surged 23.2% y/y during March to a record high (*Fig. 8*). Imports also increased sharply, by 27.2% y/y. The sum of the two jumped 24.9% to a new record

high (*Fig. 9*). A spokesman for China's top economic-planning agency said in a news conference that the global economy is showing signs of "warming up," according to a 4/13 Reuters article. President Trump's softened stance on China trade will only serve to help the outlook for Chinese exports. In volume terms, imports of copper, crude oil, iron ore, and coal all surged during March, reported a 4/13 Business Insider article citing data from China's National Bureau of Statistics (NBS).

(2) *Production.* China's economy is off to a strong start overall this year. During the first quarter, real GDP increased 7.0% q/q (saar) and 6.9% y/y (*Fig. 10*). There's a strong relationship between China's industrial production and GDP growth rates. During March, industrial production rose 7.6% y/y, the best pace since December 2014 (*Fig. 11*).

(3) *Retail sales.* China's industrial production is also highly correlated with China's inflation-adjusted retail sales, which rose 10.0% y/y during March, the best pace since January 2015 (*Fig. 12*). Online sales contributed to strong growth, noted a 4/13 report from the English-language website of the state news agency China News Service. "The country has vowed to promote a steady increase in consumer spending this year," observed the report.

CALENDARS

US. Tues: Headline & Manufacturing Industrial Production 0.2%/0.3%, Capacity Utilization 76.0%, Housing Starts & Building Permits 1.262mu/1.250mu. **Wed:** MBA Mortgage Applications, EIA Petroleum Status, Beige Book. (Bloomberg estimates)

Global. Tues: None. **Wed:** Eurozone Headline & Core CPI 1.5%/0.7% y/y, Japan Merchandise Trade Balance (yen) 605.6b. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): The US MSCI index fell 1.1% last week, ranking 37th of the 49 markets as 17 rose in US dollar terms—compared to 28th a week earlier, when it fell 0.3% as 22 markets moved higher. The AC World ex-US index outperformed the US MSCI for the fourth time in six weeks, falling 0.1% compared to a 0.4% decline a week earlier. EAFE was the best-performing region last week, albeit with a decline of 0.1%, followed by EM Asia (-0.2%). The week's worst-performing regions: EM Eastern Europe (-3.4), EMEA (-1.8), EM Latin America (-1.6), BRIC (-1.1), and EMU (-1.0). South Africa (5.9) was the best-performing country last week, followed by Turkey (4.2), Sri Lanka (2.5), and Philippines (2.2). Russia (-4.3) was the worst performer, followed by Peru (-3.4), Egypt (-2.9), Brazil (-2.6), and Italy (-2.5). The US MSCI is up 4.2% ytd, with its ranking down three slots to 32/49, and continues to trail the AC World ex-US (6.6) on a ytd basis. Forty-four of the 49 markets are positive ytd, led by Argentina (38.4), Poland (19.8), Chile (19.7), Mexico (17.6), and India (17.2). The worst country performers ytd: Russia (-8.8), Morocco (-5.7), Pakistan (-4.3), Greece (-2.3), and New Zealand (-0.3). The best-performing regions ytd: EM Asia (13.3), BRIC (11.4), and EM Latin America (11.3). The worst-performing regions: EM Eastern Europe (-2.5), EMEA (-0.3), EAFE (5.6), and EMU (6.4).

S&P 1500/500/400/600 Performance (*link*): All three indexes declined last week as SmallCap registered its sixth drop in eight weeks vs a fourth decline drop in that long for both LargeCap and MidCap. LargeCap lost 1.1%, smaller than the SmallCap (-1.4%) and MidCap (-1.5) declines. Seven of the 33 sectors rose in the latest week, down from 12 rising a week earlier. LargeCap and MidCap ended the week 2.8% and 4.4% below their March 1 record highs, respectively, and SmallCap ended 5.4% below its record high on February 21. The Consumer Staples and Real Estate sectors dominated last week's top gainers: SmallCap Real Estate (1.6), SmallCap Consumer Staples (1.5), MidCap Real Estate (1.0), LargeCap Real Estate (0.7), and SmallCap Utilities (0.7). Last week's worst performers:

MidCap Energy (-3.9), SmallCap Materials (-3.4), MidCap Materials (-3.0), MidCap Telecom (-2.9), LargeCap Financials (-2.6), and SmallCap Energy (-2.6). Twenty of the 33 sectors are positive ytd, with LargeCap (4.0) beating MidCap (1.2) and both easily ahead of SmallCap (-2.7). The biggest sector gainers ytd: LargeCap Tech (10.0), MidCap Health Care (8.5), LargeCap Health Care (7.3), SmallCap Health Care (7.1), and LargeCap Consumer Discretionary (6.4). The worst performers ytd: MidCap Telecom (-19.4), MidCap Energy (-18.0), SmallCap Energy (-17.4), SmallCap Financials (-8.5), and LargeCap Energy (-8.1).

S&P 500 Sectors and Industries Performance (*link*): Three of the 11 sectors rose last week, and six outperformed the S&P 500's 1.1% decline. This compares to six sectors rising a week earlier, when seven outperformed the S&P 500's 0.3% decline. Real Estate was the best-performing sector for the week, with a gain of 0.7%, followed by Utilities (0.6%), Consumer Staples (0.2), Telecom (-0.3), Health Care (-0.6), and Consumer Discretionary (-0.8). Financials was last week's worst performer with a decline of 2.6%, followed by Materials (-2.4), Industrials (-1.6), Energy (-1.5), and Tech (-1.4). So far in 2017, eight of the 11 sectors are higher, and six have outperformed the S&P 500's 4.0% gain. The best performers in 2017 to date: Tech (10.0), Health Care (7.3), Consumer Discretionary (6.4), Utilities (6.2), Consumer Staples (6.0), and Real Estate (4.1). The five sectors underperforming the S&P 500: Energy (-8.1), Telecom (-6.4), Financials (-1.6), Industrials (2.4), and Materials (3.1).

Commodities Performance (*link*): Fourteen of the 24 commodities we follow rose last week, up from 12 rising a week earlier. The week's best performers: Corn (4.7%), Feeder Cattle (4.5), Wheat (3.8), Cotton (3.6), and Kansas Wheat (3.5). Last week's laggards: Cocoa (-4.5), Nickel (-4.1), Aluminum (-2.5), Copper (-2.3), and Zinc (-2.1). The best performers in 2017 so far: Silver (16.2), Aluminum (12.8), Feeder Cattle (12.1), Gold (11.9), and Lead (11.5). The energy-related commodities no longer dominate this year's laggards to date: Sugar (-15.1), Natural Gas (-11.2), Cocoa (-9.9), Heating Oil (-4.1), Soybeans (-3.8), and Nickel (-2.6).

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, 0/9 global stock indexes, and 9/33 US stock indexes compared to 15/24, 4/9, and 9/33 rising a week earlier, respectively. Nineteen commodities trade above their 200-dmas, up from 17 a week earlier as Live Cattle and Kansas Wheat turned positive w/w. Commodities' average spread rose to 3.6% from 2.7%. Among assets, Commodities walked away with seven of the top nine spots last week: Lean Hogs leads all commodities and indeed all assets at 18.2% above its 200-dma; next in line among Commodities are: Unleaded Gasoline (15.2%), Aluminum (9.6), GasOil (9.5), and Brent Crude (9.5). Feeder Cattle performed the best of all commodities and all assets last week as it improved 6.4ppts to 9.1%. Cocoa (-22.5) and Sugar (-17.7) trade the lowest among all commodities and all assets, and Cocoa was the worst performer among all assets last week, as it fell 6.0ppts. The global indexes trade an average of 5.6% above their 200-dmas, down from 6.8% above in the prior week. All nine of the global indexes trade above their 200-dmas, unchanged from a week earlier. Chile (14.7) leads the global indexes, followed by Germany (9.3). The UK was the group's best performer last week, as its 200-dma remained flat. Brazil (2.2) 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 2.8ppts. The US indexes trade at an average of 2.2% above their 200-dmas, with 28 of the 33 sectors above, down from a 3.6% average a week earlier when 28 sectors were above. The US stock indexes no longer dominate the top ten assets trading above their 200-dmas as they did in early March. SmallCap Telecom now leads all US stock indexes at 8.7% above its 200-dma, followed by LargeCap Tech (8.4), MidCap Tech (6.5), and MidCap Health Care (6.3). SmallCap Real Estate rose 1.6ppts w/w to 3.9% for the biggest gain among US stock indexes. MidCap Telecom trades 17.1% below its 200-dma, the lowest among the US stock indexes. MidCap Energy fell 4.4ppts w/w to -10.5% for the worst performance of the US stock indexes.

S&P 500 Technical Indicators (*link*): The S&P 500 remained in a Golden Cross last week for a 51st week (after 17 weeks in a Death Cross). The index's 50-day moving average (dma) remained stable relative to its 200-dma after weakening a week earlier for the first time since early December. Its 50-dma was steady at 5.4% above its 200-dma, but down from a 34-month high of nearly 5.5% in early April. 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 22nd week after six weekly declines, but the index closed the week below its 50-dma for the first time since the election in November. However, the S&P 500 weakened to a 23-week low of 1.0% below its rising 50-dma from 0.3% above 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 19-week low of 4.3% above its rising 200-dma from 5.7% 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 21st 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. Consumer Staples, Real Estate, and Telecom were the only sectors to improve relative to their 50- and 200-dmas. Just three of the 11 sectors trade above their 50-day moving averages (dmas), down from eight a week earlier and the lowest since the election. These five fell below their 50-dma in the latest week: Consumer Discretionary, Health Care, Industrials, Tech, and Materials. Energy remained below for a 13th straight week, and Financials and Telecom were below for a fourth 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, unchanged from eight a week earlier. Energy remained below its 200-dma for an eighth week and Telecom for a fourth. Nine sectors are in a Golden Cross, 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, unchanged from a week earlier. The 50-dmas for Financials and Materials fell for a second week; Energy's dropped for a 10th week and Telecom's for a ninth. Nine sectors have rising 200-dmas, also unchanged from a week earlier, as Real Estate fell for a fifth week and Telecom for a third.

YRI Weekly Leading Index (*link*): Our Weekly Leading Index (WLI)—a good coincident indicator that can confirm or raise doubts about stock market swings—recovered 2.5% during the two weeks through April 8 after retreating three of the prior four weeks by a total of 3.1%. It's now only fractionally below its record high recorded six weeks ago. Our WLI is the average of our Boom-Bust Barometer (BBB) and Bloomberg's Weekly Consumer Comfort Index (WCCI). Our BBB rebounded 4.0% the past two weeks, to within 1.9% of its record high, after declining three of the prior four weeks by 5.8%. Jobless claims sank for the second week to 247,250 (4-wa) after rising the prior four weeks from 239,750 (lowest since 1973) to 254,500. The CRB raw industrials spot price index—another BBB component—moved lower after being stalled around recent highs. Meanwhile, the WCCI increased six of the last seven weeks by 6.3%, nearing a new record high.

US ECONOMIC INDICATORS

Retail Sales (*link*): Retail sales in March posted the first back-to-back declines since the first two months of 2015, though core retail sales—which excludes autos, gasoline, building materials, and food services—rebounded from February's decline. Headline sales fell 0.2% following a revised 0.3% drop in February, which was steeper than the 0.1% initial decline. Core retail sales advanced 0.5% after a 0.2% decline in February, weaker than the preliminary estimate of a 0.1% uptick. (BEA uses this core

retail sales measure to estimate personal consumption expenditures each month.) Seven of the 13 retail major nominal retail sales categories rose, while six fell. Sales contracted by 1.0% or more at building materials (-1.5%), auto (-1.2), and gasoline (-1.0) retailers, followed by sporting goods stores (-0.8), restaurants (-0.6), and furniture stores (-0.3). Leading gainers were electronic (2.6), miscellaneous (1.8), and clothing (1.0) store sales, with electronic and clothing retailers posting the strongest monthly gains in 21 months and 13 months, respectively. Meanwhile, we estimate that real core retail sales advanced 1.2% last month, as CPI goods prices dropped 0.7%. These sales advanced 0.6% (saar) during Q1, in line with Q4's advance, but considerably below Q1-2016's 6.4% expansion. Real headline retail sales expanded 0.5% (saar) last quarter, slowing from Q4's 3.8%. Some of the weakness in retail sales last quarter can likely be traced to delayed tax refunds for millions of Americans. Our Earned Income Proxy, which tracks retail sales closely, continues to set new record highs and suggests stronger sales growth once the government catches up on the release of 2016 tax refunds.

Business Sales & Inventories (*link*): Nominal business sales in February climbed to a new record high, while real sales in January fell for the first time in eight months, after a strong finish last year to a new record high. The details: Nominal manufacturing & trade sales (MTS) advanced for the 11th time in 12 months, by 0.2% in February and 7.1% y/y. Inflation-adjusted MTS contracted 0.6% in January after expanding 3.8% during the final seven months of last year. Real sales of retailers and wholesalers slipped from December's record highs, while manufacturers' sales ticked down after a 2.2% jump at the end of last year. January's real inventories-to-sales ratio (1.42) held around December's 1.41—which was the lowest since January 2015; it was at 1.45 last May, which was its highest since July 2009. February's nominal inventories-to-sales ratio was at a two-year low of 1.35 for the third month; it had peaked at 1.41 during the first three months of 2016.

Regional M-PMI (*link*): The New York Fed district, the first to report on manufacturing activity for this month, shows activity slowed for the second month after expanding at its fastest pace since September 2014 in February. The composite index dropped 11.2 points in April to 5.2 after dipping from 18.7 to 16.4 in March. The big mover on the negative side was new orders, which sank to 7.0 from 21.3 in March—the best reading since April 2010. Meanwhile, the employment index rose for the fourth straight month from -12.2 in December to more than a two-year high of 13.9, climbing 5.1 points this month; delivery times lengthened further to a new record high, soaring 5.5 points m/m and 23.9 points year to date. Shipments (to 13.7 from 11.3) edged up this month, while unfilled orders (12.4 from 14.2) edged down. Hours worked did retreat from 15.5 to 8.8 in April, though remained well above the levels of the past five years. Forward-looking indexes were mixed, though held at relatively high levels, suggesting widespread optimism about future conditions.

Consumer Sentiment Index (*link*): Consumer sentiment was back near January's cyclical high in mid-April as consumers' assessment of current conditions climbed to its highest reading since November 2000. The expectations measure remains divided along part lines, as Richard Curtin (the director of the survey) noted, "Much more progress on shrinking the partisan gap is needed to bring economic expectations in line with reality." The Consumer Sentiment Index climbed for the second month to 98.0, after falling from a cyclical high of 98.5 in January to 96.3 in February—which was the first decline in sentiment since the election. The present situation index increased for the fifth time in six months from 103.2 in October to a new cyclical high of 115.2 this month, as 52% of respondents reported their finances had recently improved, the highest since 2000. The expectations component ticked up to 86.9 in mid-April from 86.5 the prior two months, stalled below January's two-year high of 90.3. The report noted that 69% of Republicans cited favorable news about employment and economic policies, compared with only 28% among Democrats.

US CPI (*link*): The core CPI rate in March eased back down to the Fed's target rate of 2.0% y/y, after 15 months above—ranging from 2.1% to 2.3%. The three-month rate slowed to 1.6% (saar), the least

since February 2015. On a monthly basis, core prices fell 0.1%, its first monthly loss since January 2010. During March, declines in costs for wireless telephone services, used cars & trucks, new vehicles, and apparel more than offset gains in shelter, motor vehicle insurance, medical care, tobacco, air fares, and alcoholic beverages. Shelter costs edged up only 0.1%, the smallest gain since June 2014. The headline CPI sank 0.3%, the first decline since February 2016 and the steepest since January 2015; the yearly rate slowed to 2.4% after climbing steadily from 0.8% in July 2016 to 2.7% in February.

US PPI (*link*): The PPI for final demand in March fell 0.1% (the first decline since last August) after gains of 0.3% and 0.6% the previous two months. Both final demand goods and final demand services slipped 0.1%, the first decline since last August for the former and since December for the latter. The decline in final demand goods can be traced to a 2.9% drop in energy prices; the index for final demand goods less food & energy rose 0.4%. Over half of the broad-based decline in final demand services reflected a decline in prices for final demand services, less trade, transportation & warehousing. The yearly inflation rate for the headline series accelerated 2.3% y/y, the largest increase since March 2012. The goods rate (4.0% y/y) was the highest since January 2012, while the services rate (1.5) remained in a volatile flat trend. The rates for the core (1.6) and core ex trade services (1.7) held around recent highs.

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