



MORNING BRIEFING

January 25, 2018

Upward Revisions

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

(1) Drilling down to assess TCJA's impact on S&P 500 sectors' earnings estimates. (2) Big jump in S&P 500's NERI, led by Financials sector. (3) Consensus earnings growth higher in 2018 than 2017 for most sectors! (4) Drilling down deeper to the industries showing biggest TCJA earnings spikes. (5) Financials 2018 earnings expectations broadly up in double-digits across all major industries. (6) US Bancorp working on four-minute loans. Do you want fries with that? (7) Fintech is in the Wild West.

Earnings: TCJA's Big Winners. Yesterday, Joe and I reviewed the dramatic upward revision in S&P 500 earnings so far since the Tax Cut and Jobs Act (TCJA) was passed on December 22. Today, let's drill down to the sectors and industries that have led the way in upward revisions:

(1) *Net Earnings Revisions Indexes (NERI).* Joe and I construct and monitor the Net Earnings Revisions Indexes for the S&P 500 and its 11 sectors. We do so using three-month moving averages of the number of earnings-per-share estimate revisions that are upward minus the number that are downward, expressed as a percentage of the total number of estimates. We smooth the data this way because the most significant earnings revisions tend to occur during quarterly earnings seasons, i.e., mostly during January, April, July, and October.

The current earnings season is barely underway, but already we are seeing a spike in positive earnings revisions for the S&P 500. The latest data show it rose to 12.9%, the highest reading since May 2010 ([Fig. 1](#)). Here is the performance derby for the latest NERIs for the 11 sectors of the S&P 500: Financials (29.4), Energy (20.9), Industrials (17.3), Information Technology (16.5), S&P 500 (12.9), Consumer Staples (12.0), Materials (11.1), Consumer Discretionary (5.4), Health Care (2.4), Utilities (2.4), Telecom Services (-5.0), and Real Estate (-5.7). The Financials sector stands out as the biggest winner from the TCJA.

(2) *2018 earnings growth.* Another way to slice and dice the impact of the TCJA on sector earnings is to compare the latest 2018 estimates to the latest ones for 2017: Energy (50.6%, down from 364.3%), Financials (27.2, up from 8.6), Materials (20.1, 13.6), S&P 500 (15.7, 11.0), Information Technology (15.5, 17.1), Industrials (13.9, 3.6), Consumer Discretionary (12.6, 5.5), Consumer Staples (9.7, 5.5), Health Care (8.5, 7.4), Utilities (4.6, 1.9), Telecom Services (4.1, -2.1), and Real Estate (-10.2, -15.7). Again, the standout sector is Financials. (See [Table 1](#) for the expanded performance derby for 100+ S&P 500 industries.)

(3) *Forward earnings.* The upward revision in 2018 earnings estimates is now fully reflected in forward earnings through the week ended January 18 ([Fig. 2](#)). That's because forward earnings is a time-weighted average of consensus operating earnings estimates for the current year (2018) and the next year (2019). Since we are just starting 2018, forward earnings is almost fully weighted, with the 2019 estimate reflecting very little weight. Again, the Financials sector stands out.

(4) *Short-term earnings growth (STEG).* Since the passage of the TCJA, only the Financials sector stands out, with a noticeable jump in industry analysts' consensus projections of short-term earnings

growth over the next 12 months. It jumped from 15.7% late last year to 25.6% during the week ended January 18 ([Fig. 3](#)). Here is the performance derby for the STEGs of the sectors: Energy (46.2%), Financials (25.6), Materials (19.1), S&P 500 (14.8), Industrials (13.7), Information Technology (13.1), Consumer Discretionary (12.4), Consumer Staples (9.6), Health Care (8.7), Utilities (4.6), Telecom Services (4.1), Real Estate (-8.7).

(5) *Stock prices*. So how have the stock price indexes of the 11 S&P 500 sectors performed since President Donald Trump signed the TCJA? Here's their performance from December 20 through Tuesday: Energy (10.6%), Consumer Discretionary (9.2), Information Technology (6.8), Financials (6.7), Health Care (6.1), S&P 500 (6.0), Industrials (5.6), Materials (5.3), Consumer Staples (2.4), Real Estate (-0.6), Telecom Services (-1.3), and Utilities (-4.8) ([Fig. 4](#)).

(6) *Industries*. When we drill down to the S&P 500 industries, Joe and I see significant post-TCJA spikes in the forward earnings of the following: Home Improvement Retailers, Apparel Retail, Automotive Retail, Department Stores, General Merchandise, Drug Retail, Tobacco, Hypermarkets & Super Centers, Oil & Gas Refining & Marketing, Oil & Gas Exploration & Production, Diversified Banks, Life & Health Insurance, Consumer Finance, Managed Health Care, Aerospace & Defense, Air Freight & Logistics, Railroads, and Diversified Telecommunication Services. (See [S&P 500 Sectors & Industries Forward Earnings](#).)

Financial Sector: Little Disruptors. The S&P 500 Financials sector stock price index is having a nice start to the year, up 6.7% ytd through Tuesday's close. It's not leading the market; that honor goes to the Consumer Discretionary sector, up 9.2% ytd. But it's not in negative territory either, as the interest-rate sensitive Real Estate, Telecom, and Utilities sectors are. Here's the performance derby for the S&P 500 sectors' stock price indexes ytd through Tuesday's close: Consumer Discretionary (9.2%), Tech (8.3), Energy (7.9), Health Care (7.1), Financials (6.7), S&P 500 (6.2), Industrials (5.3), Materials (4.4), Consumer Staples (2.3), Telecom Services (-1.8), Real Estate (-2.2), and Utilities (-4.0) ([Fig. 5](#)).

Many of the most exciting developments in the financials arena aren't occurring where you might expect, in the large public companies. Rather, they're taking place in small, typically private "fintech" companies, which are using technology to change the way financial services are delivered to consumers and corporations.

First, let's take a bird's eye view of the competitive landscape, followed by a deeper dive into some interesting fintech ventures:

(1) *Tax benefits*. Given their large exposure to the domestic market, S&P 500 Financials should benefit nicely from the Trump tax cuts, as the recent surge in forward earnings estimates for the sector suggests ([Fig. 6](#)) and ([Fig. 7](#)). Financials' forward earnings are expected to grow by a whopping 25.6% y/y, far faster than the other S&P 500 sectors with the exception of Energy, which is benefitting from a strong rally in the price of oil toward the end of last year.

Earnings growth in the Financials sector is expected to be broad-based, with each of the industries projected to grow earnings by percentages in the mid-teens or higher over the next year. The fastest earnings growth is expected from Diversified Banks (24.4%), Consumer Finance (24.0), Regional Banks (20.8), Investment Banking & Brokerage (19.5), Financial Exchanges (19.5), and Investment Banking & Brokerage (19.5). Some of the insurance industries look bound for even faster earnings growth, as they face easy comparisons to weak levels last year when losses from the hurricanes took a toll on profits. The Multi-Line Insurance industry is expected to grow forward earnings by 72.2%, Property & Casualty by 54.9%, and Reinsurance by 735.9% ([Fig. 8](#)).

Banks are slowly revealing how they plan to spend their tax savings. Bank of America and U.S. Bancorp announced \$1,000 one-time bonuses to employees. JPMorgan, which has always given lower-paid employees a \$750 bonus, unveiled plans to reduce some employees' medical expenses, open up to 400 retail branches in new markets, and boost philanthropic giving by 40% to \$1.75 billion over five years, with the aim of driving economic growth in local communities, the 1/23 *WSJ* [reported](#).

U.S. Bancorp plans to invest roughly 25% of its tax savings back into the business. "The Minneapolis-based firm will boost spending on building out dual-language offerings for mobile and web applications as well as automating risk-management and loan-origination processes," reported a 1/24 *Bloomberg* [article](#). "It takes four days to make a loan," Chief Financial Officer Terry Dolan told *Bloomberg*. "Through automation, we want to be able to do that in four minutes."

(2) *Small but mighty*. Banks must speed up their offerings because they are facing competition from both tech giants and fintech startups that aim to transform paying and borrowing, making both faster and easier by virtue of their Internet-only operations (no branches).

According to a PwC report, [Global FinTech Report 2017](#), "Funding of FinTech startups has increased at a compound annual growth rate (CAGR) of 41% over the last four years with over \$40 billion in cumulative investment. Cutting-edge FinTech companies and financial innovation are changing the competitive landscape and are redrawing the lines of the Financial Services industry." PwC's survey of 1,308 financial services and fintech executives around the world found that 82% of North American incumbents believe part of their business is at risk of being lost to standalone fintech companies within the next five years.

Now, let's turn to a few fintech areas that are forcing the incumbents to dance quite a bit faster:

(1) *Personal lending*. Fintech companies have jumped into the market for unsecured personal loans, made online. "In 2010, Fintech (financial technology) lenders only represented 3% of the sector. Banks, credit unions, and traditional finance companies each had roughly a third of the market. In 2015, Fintech lenders became the biggest lender type in the sector with a 30% share," according to a 1/10 [blog](#) on Supermoney.com, which cites a 2016 TransUnion report.

Because most of these lenders aren't technically banks, they have to team up with a bank that will be the official lender or that will provide a warehouse line of credit. To continuously make new loans, the fintech companies have been getting the older loans off their books through securitization. Asset-backed securities backed by fintech consumer loans (sometimes called "marketplace loans") topped \$7.8 billion in 2017, up from \$4.6 billion in 2016, according to a 1/10 [report](#) from Kroll Bond Rating Agency. The risk is that these loans don't perform as the agencies expect, à la the mortgage-backed securities market in 2008. So far, however, the securities have performed as expected, as they've yet to experience a recession.

(2) *Behind the scenes*. The two fintech firms with the largest valuations aren't household names, but they help businesses with transactions. The largest fintech company is Stripe, whose software is used by online businesses to accept and track digital payments. It takes a small percentage of every transaction and counts Target, Lyft, and Warby Parker among its clients, the *WSJ* explained in an 11/25/16 [article](#).

Number two is GreenSky LLC, which raised new equity from Pacific Investment Management in a deal that valued GreenSky at \$4.5 billion, reported a 1/2 *WSJ* [article](#). It explains: "Founded in 2006, GreenSky operates a lending platform that enables home improvement retailers including Home Depot Inc., health-care providers and over 16,000 other merchants and contractors to offer credit to their

customers. GreenSky arranges loans and lines of credit of up to \$55,000, which are funded by a network of banks, including Fifth Third Bancorp, SunTrust Banks Inc. and Regions Financial Corp.”

(3) *Good with the bad.* A 7/6 [report](#) by the Federal Reserve Bank of Philadelphia found both good and bad in fintech lending. The good: by using technology to tap into alternative data beyond FICO scores, Lending Club (a fintech that extends personal loans) expanded credit availability in underserved areas, and it did so at lower cost to the consumer than through traditional lending sources. It also allowed customers with few or inaccurate credit records based on FICO scores to access credit. Some of the “soft” data that fintech companies consider may include insurance claims, utility bills, transactions in bank accounts, and social networks. These may be used without the borrower’s consent.

The report explains: “The declining correlation between traditional risk scores and Lending Club’s rating grades suggests that the traditional credit scores may have been discriminatory since the models were built based on experience from those consumers who already had access to credit. There is additional (soft) information in the Lending Club’s own internal rating grades that are not already incorporated in the obvious traditional risk factors. This has enhanced financial inclusion and allowed some borrowers to be assigned better loan ratings and receive lower priced credit.”

That said, there is a call for increasing regulation on fintech companies to protect the privacy of consumers’ data and to insure discrimination doesn’t occur. The Office of Comptroller of the Currency (OCC) has proposed a program whereby fintech companies can apply for charters as “special purpose national banks.” The goal is to give consumers a way to distinguish well-run, safe companies from shady, exploitive ones, explains a 4/24 Techcrunch [article](#). Fintech companies would be “subject to minimum requirements around governance structure, capital, liquidity, compliance financial inclusion and continuity strategy.” However, state regulators are upset that a federal regulator is tromping on their turf.

(4) *Not just for little guys.* The risk to financial services companies may not be the small fintech upstarts, but rather the large established tech companies that have strong relationships with customers and a history of keeping transactions over the Internet secure. Amazon makes loans to merchants that its algorithms have identified as having good selling histories on its marketplace.

Amazon’s loans—which range from \$1,000 to \$750,000—are repaid within a year from the proceeds of sales made on the website. PayPal has a similar [loan program](#). The loan, which can be made within minutes online, doesn’t require a separate interest payment. Instead, payments on the loan are funded by giving PayPal a percentage of merchants’ sales on the PayPal site.

“The Seattle-based e-commerce giant has lent \$3 billion to more than 20,000 small businesses in the U.S., U.K. and Japan, the company announced Thursday. PayPal in May announced it has issued more than \$3 billion in loans to more than 115,000 businesses globally through its PayPal Working Capital program launched in 2013. Square said it has provided more than \$1.5 billion in loans and merchant cash advances since launching in 2014, including \$251 million in the first quarter,” according to a 6/8 Bloomberg [article](#).

CALENDARS

US. Thurs: Leading Indicators 0.5%, Jobless Claims 240k, New Home Sales 680k, Kansas City Fed Manufacturing Index 14, EIA Natural Gas Report, Weekly Consumer Comfort Index. **Fri:** Real GDP & PCE 2.9%/3.6%, Real GDP Price Index 2.3%, Durable Goods Orders Total, Ex Transportation, and Core Capital Goods 0.6%/0.6%/0.5%, Advance Merchandise Trade Balance -\$69.0b, Retail & Wholesale Inventories 0.1%/0.3%, Baker-Hughes Rig Count. (*Wall Street Journal* estimates)

Global. Thurs: Germany Ifo Business Climate, Current Assessment, and Expectations Indexes 117.0/125.3/109.2, Germany GfK Consumer Confidence 10.8, Canada Retail Sales 0.8%, Japan Headline, Core, and Core-Core CPI 1.1%/0.9%/0.4% y/y, BOJ Minutes of Policy Meeting, ECB Rate Decision 0.00%, ECB Margin Lending Facility & Deposit Facility Rates 0.25%.-0.40%. **Fri:** UK GDP 0.4%q/q/1.4%y/y, Canada CPI -0.3%m/m/1.9%y/y, ECB Survey of Professional Forecasters, Carney . (DailyFX estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators ([link](#)): Our Bull/Bear Ratio (BBB) slipped to 5.05 this week from 5.25 last week—which was the highest reading since early April 1986. Bullish sentiment pulled back to 64.7% from 66.7% a week ago, which was the most bulls since early April 1986. That's the 15th consecutive reading of 60.0% or higher. The bears barely changed this week, ticking up to 12.8% after falling to 12.7% last week—which was the fewest bears since early April 1986. The correction count climbed from 20.6% to 22.5% this week. The AAll Ratio rose to 71.7% last week after falling from 79.3% to 66.0% the prior week. Bullish sentiment rose from 48.7% to 54.1% last week, while bearish sentiment fell from 25.1% to 21.4%.

AC World ex-US MSCI ([link](#)): This index is up 6.3% ytd in dollar terms after rising 24.1% in 2017 and 1.7% in 2016. In local-currency terms, the index has risen a lower 4.3% ytd compared to 15.3% and 4.1% gains for all of 2017 and 2016, respectively. Local-currency forward revenues has risen 8.0% from a five-year low in March 2016 to near its highest level since September 2015. Forward revenues has been more stable longer term and is down just 3.1% from its October 2014 record high. Local-currency forward earnings has performed better, with a 24.4% rise from its six-year low in March 2016 to its highest level since October 2008, but remains 3.3% below its September 2008 record. Revenues are expected to rise 5.2% in 2018 following a forecasted 8.0% gain in 2017, and earnings are expected to rise 9.0% (2018) after surging 19.3% (2017). Analysts are forecasting STRG of 5.3%, down from a seven-year high of 6.8% in March 2017 and up from a cyclical low of 2.3% in March 2016. Their STEG forecast of 9.5% is down from a four-year-high forecast of 14.1% in March 2017, but up from their 6.3% forecast in January 2016, which was the lowest in seven years. The implied profit margin is expected to rise to 8.1% in 2018 from 7.8% in 2017. The forward profit margin forecast of 8.1% is at a nine-year high now. NERI was positive in January for a fourth straight month as it improved to an eight-month high of 2.3% from 1.6%, but is down from a 76-month high of 2.7% in May. That compares to a 51-month low of -11.3% in March 2016. The P/E rose to a 31-month high of 14.6 in January, which compares to a 16-month low of 12.4 in February 2016 and a six-year high of 15.3 in April 2015. The index's 12% discount to the World P/E remains close to its record-low 13% discount during March 2017.

EMU MSCI ([link](#)): The EMU's MSCI price index has gained 7.4% ytd in dollar terms after rising 25.3% in 2017 and falling 1.2% in 2016. In euro terms, the price index is up a lower 4.9% ytd following gains of 10.2% in 2017 and 1.8% in 2016. Euro-based forward revenues took a step back, falling 1.7% m/m in January to an 11-month low. While it's still 2.0% above its six-year low in May 2016, it remains 2.1% below its cyclical high (August 2015) and 8.7% below its record high (September 2008). On the other hand, forward earnings actually improved 0.8% m/m. Euro-based forward earnings had stalled from 2011 to 2016—but is now 9.4% above its prior cyclical high in September 2015 to its highest level since September 2011. It remains 21.1% below its record high in January 2008, but has improved 16.9% from its 23-month low in June 2016. Analysts expect revenues to rise 3.7% in 2018 after a 5% gain in 2017, and think earnings will rise 9.4% (2018) following a 10.4% increase in 2017. Forecasted STRG of 3.7% is down from a six-year high of 5.0% in April 2017, but up from 2.0% in May 2016. Forecasted STEG of 9.5% is down from a 78-month high forecast of 21.0% during February 2017, which compares

to a seven-year low of 5.7% in April 2016. STEG had been higher than LTEG (currently 13.3%) from July 2016 to May 2017, but is trailing now. The forward profit margin ticked up to an eight-year high of 7.7% in January from 7.5% in December, which is up from a cyclical bottom of 6.2% in May 2013. The implied profit margin is expected to improve to 7.5% in 2018 from 7.1% in 2017. NERI was negative in January for a sixth month following eight straight positive readings, rising to -1.1% from -2.8%. Those readings are the lowest among the world's regions and down from a 131-month high of 8.1% in May, which compares to a 24-month low of -13.2% in April 2016. The P/E of 14.7 is up from 14.6 in December, which compares to a 13-year high of 16.4 in April 2015 and a 30-month low of 12.2 in February 2016. That represents an 11% discount to the World MSCI's P/E now, up from a record-low 25% discount during 2011. But the current reading is still well below the 1% premium during April 2015—the post-euro-inception record high.

Emerging Markets MSCI ([link](#)): The EM MSCI price index is up 8.1% ytd in US dollar terms after surging 34.3% in 2017 and rising 8.6% in 2016. In local-currency terms, EM has gained a lower 7.1% ytd compared to gains of 27.8% (2017) and 7.1% (2016). Local-currency forward revenues is up 10.6% from a four-year low in June 2016 to 6.8% below its November 2014 record. Local-currency forward earnings has fared substantially better, rising to a fifth straight monthly record high for the first time since January 2014; it has improved 32.5% from April 2016's six-year low. Revenues are expected to rise 8.9% in 2018, down from a forecasted 10.9% gain in 2017. That's expected to lead to an earnings gain of 13.5% in 2018, which follows a 23.4% surge in 2017. Forecasted STRG of 8.7% is back on an uptrend since early 2016, but is down from a four-year high of 9.6% in January 2017. STEG of 13.2% is down from 13.4% in November, and is below LTEG (22.9%) again. The implied profit margin is expected to improve to 7.3% in 2018 from 7.0% last year. The forward profit margin of 7.3% is the highest since March 2012 and up from a record low of 6.0% in February 2016, but remains 3ppts below its 10.3% record high in December 2007. NERI was positive for a third month in January after 80 months of negative readings through October, but was steady at 1.7%. That compares to an 83-month low of -10.2% in March 2016. Emerging Markets' valuation has been more stable recently than that of the rest of the world, but rose to an eight-year high of 12.8 in January from 12.2 in December. The index is trading at a 22% discount to the World MSCI P/E, up from a 25% discount in December and a 10-year-low 30% discount in August 2016.

MSCI World & Region Net Earnings Revisions ([link](#)): Analysts' recent earnings revisions through January point toward improving optimism about profits across the world. Powered by the US, in the lead among regions, the AC World MSCI's NERI was positive for a 12th month and for the first time since June 2011. It improved 3.0ppt to a six-month high of 2.5% from 1.9% in November, but is down from a 74-month high of 3.3% in May. The US was positive for a ninth straight month as its NERI soared 8.4ppts to a 97-month high of 13.1%. The AC World Ex-US was positive for a fourth month as it improved 0.7ppt to an eight-month high of 2.3% from 1.6%, which compares to a 76-month high of 2.6% in May. Emerging Markets' NERI was positive for a third month following 80 straight negative readings, but ticked down less than 0.1ppt from December's 83-month high of 1.7%. EM Latin America turned barely positive for the first time in 18 months, rising to 0.03% from -0.8%; EM Asia was positive for a fourth month as it edged down 0.2ppt to 1.8% from 2.0%; EM Eastern Europe rose 0.1ppt to 4.4% from 4.3%; Europe (up 1.5ppts to -0.3%) was negative for a sixth month following 10 positive readings; EAFE (up 1.3ppts to 2.8%) was positive for a 14th month; EMU (up 1.7ppts to -1.1%) was the weakest and negative for a sixth straight month following eight positive readings. January's scores among the regional MSCIs: US (13.1% in January, up from 4.7% in December), AC World (5.6, 2.5), EM Eastern Europe (4.4, 4.2), EAFE (2.8, 1.5), AC World ex-US (2.3, 1.6), AC World ex-US (2.3, 1.6), EM Asia (1.8, 2.0), Emerging Markets (1.7, 1.7), EM Latin America (0.0, -0.8), Europe ex-UK (-0.2, -1.7), Europe (-0.3, -1.8), and EMU (-1.1, -2.8).

MSCI Countries Net Earnings Revisions ([link](#)): NERI was positive for 24/44 MSCI countries in

January, the most since July. That's up from 23/44 in December, 22/44 in November, 16/44 in October, and 12/44 in September, which was the lowest since July 2016, and compares to 29/44 in June, which was the highest since June 2010. NERI improved m/m in January in 28/44 countries, compared to 28/44 rising in November and December, but that's still down from 32/44 in May, which had been the most since June 2016. Brazil's NERI was at a 152-month high in January, followed by Switzerland's at a 98-month high, Russia (95), Argentina (89), Singapore (84), Thailand (67), and South Africa (43). On the flip side, Denmark's was at a 13-month low, followed by those of Turkey (11), Chile (9), and the Czech Republic (8). The 22-month positive NERI streak for Hungary is the best, followed by those of Austria (20), China (17), Hong Kong (15), Poland (15), Turkey (15), and Japan (14). South Africa's NERI has been negative for 44 straight months, followed by the negative streaks of New Zealand (20), Mexico (15), Pakistan (14), and Portugal (11). NERI turned positive in January for two countries: Sweden (for the first time in six months) and Malaysia (first time in seven months). India slipped back into negative territory and has been below in 38 of the past 39 months. The highest NERI readings in January: Austria (22.8%), Argentina (17.9), Hungary (15.1), US (13.1), Russia (10.4), Norway (10.3), and Japan (9.7). The weakest NERIs occurred in Denmark (-9.1), New Zealand (-6.0), Ireland (-5.8), and Greece (-5.1).

US ECONOMIC INDICATORS

Existing Home Sales ([link](#)): Existing home sales softened as 2017 drew to a close, but still recorded its best calendar year since 2006. These sales—tabulated when a purchase contract closes—sank 3.6% in December to 5.57mu (saar), after climbing 8.0% in the three months through November to a cyclical high of 5.78mu. NAR's chief economist noted that market conditions were far from perfect as "new listings struggled to keep up with what was sold very quickly, and buying became less affordable in a large swath of the country. These two factors ultimately muted what should have been a stronger sales pace." Single-family sales fell 2.6% to 4.96mu (saar) after a three-month jump of 7.4%, while multi-family sales dropped 11.6% to 610,000 units, following a three-month surge of 13.1%. Despite December's decline, both the former (1.0% y/y) and latter (1.7) remained above year-ago levels. The number of existing single-family homes on the market at the end of December fell to 1.31mu—9.7% below a year ago—recording y/y declines for the 31st consecutive month; unsold inventory was at a record low of 3.2 months' supply.

GLOBAL ECONOMIC INDICATORS

US PMI Flash Estimates ([link](#)): US manufacturers report a strong start to 2018, according to flash estimates, while service sector growth continued to ease. The C-PMI sank for the third month, from 55.2 in October to an eight-month low of 53.8 this month, as the NM-PMI slumped from 55.3 to 53.3 over the three-month period, a nine-month low. Despite weaker business activity growth, service providers report the latest data show a robust and accelerated upturn in new work received, as well as solid increases in staffing numbers across the service sector. Meanwhile, the M-PMI climbed to a 34-month high of 55.5 this month, ascending on a steep uptrend since its recent bottom of 52.0 last March. Production and incoming new work both accelerated, while export sales were the strongest since August 2016. Hirings in the sector remained near December's 39-month peak.

Eurozone PMI Flash Estimates ([link](#)): The Eurozone expanded at its fastest pace since June 2006 this month, according to flash estimates, on widespread strength. January's C-PMI accelerated at a 139-month high of 58.6 this month—as the NM-PMI (to 57.6 from 56.6) revealed the best service-sector growth since August 2007; meanwhile, the M-PMI (59.6 from 60.6) showed only a slight easing in manufacturing activity from December's record pace. By country, France's C-PMI (59.7) showed growth was broadly unchanged from the December level and just shy of November's six-and-a-half-year peak, with both the NM-PMI (59.1) and M-PMI (58.8) showing powerful growth. Germany's economy also

maintained its strong growth, with its C-PMI (58.8) little changed from December's 80-month high, as the NM-PMI (57.0) indicated the best service-sector growth since March 2011; the M-PMI (61.2) eased from December's record high of 63.3—still one of the fastest growth rates in the past six and a half years. As for the rest of the Eurozone, business activity expanded at its best pace since July 2006, with manufacturing recording its strongest monthly increase in output since April 2000 while the service sector accelerated, though remained below some of last year's peaks.

Japan M-PMI Flash Estimate ([link](#)): Japan's manufacturing sector this month is growing at its best pace since February 2014, according its flash estimate. The M-PMI increased for the third month, from 52.8 in October to 54.4 this month, driven by accelerations in both output and employment, with the former at a 47-month high. Orders growth slowed a bit, though continued to expand at a vigorous pace.

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