



MORNING BRIEFING

February 5, 2018

666 Again!

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

(1) Robert Langdon, where are you? (2) A repeating number. (3) Another Black Monday today? (4) Analysts have raised S&P 500 EPS estimate for 2018 by \$9.00 since tax cut! (5) Despite Friday's wage-led panic attack, wage inflation remains subdued for most workers. (6) Higher wage inflation won't necessarily beget higher price inflation. (7) Tightening tantrum started in the bond market earlier this year. (8) Welcome, Jerome Powell. Hope it isn't 1987 all over again. (9) Fed's Williams says stay calm. (10) Adieu, Fairy Godmother, we will miss you. (11) Can the bull charge ahead without fairy dust?

Strategy: Another Panic Attack. I am once again channeling Robert Langdon, the “symbolist” in Dan Brown’s 2003 mystery thriller *The Da Vinci Code*, which was turned into a 2006 movie starring Tom Hanks. On March 6, 2009, the S&P 500 hit an intra-day low of 666 ([Fig. 1](#)). A few days later, I explained why I thought that devilish number might have marked the beginning of the latest bull market—and that turned out to be the case. Now “666” is in the headlines again: It’s the amount by which the DJIA fell on Friday.

So not surprisingly, Friday evening I received several emails from our accounts wondering if the 666-point drop in the DJIA might have marked the top in the bull market. The short answer: I don’t think so.

Of course, in percentage terms 666 isn’t what it used to be. It amounted to a 2.5% decline on Friday. During the previous bear market, the DJIA plunged 7617 points from October 9, 2007 through March 9, 2009. The last 666 points of that decline amounted to a 9.2% drop ([Fig. 2](#)).

The S&P 500 is down only 3.9% from its record high of 2872.87 on January 26. It is still up 3.3% so far this year. Nevertheless, I accept responsibility for contributing to last week’s sell-off when my commentary last Monday was titled “Don’t Worry, Be Wealthy.” While very few investors give any weight to symbolism and numerology, we all know we should beware when everyone is bullish. After last week’s action, many investors are likely to be less so.

While the title of last week’s commentary turned out to be a good short-term contrary indicator, the third story in that piece was titled “1987 All Over Again?” The simple answer: I don’t think so, but Black Mondays tend to occur on Mondays, so let’s see what happens today. I doubt this will happen, but I can’t rule out an ETF flash crash, which I’ve previously suggested could cause a meltdown much the way that portfolio insurance did on Black Monday, October 19, 1987.

Whatever might be the short-term follow-up (or -down) on Friday’s drop, I remain bullish because the outlook for earnings remains very upbeat. Industry analysts have raised their consensus S&P 500 earnings estimate for 2018 by \$9.00 per share over the past seven weeks to \$155.26 during the week of February 2 ([Fig. 3](#)). That’s mostly on guidance provided by managements during January’s Q4-2017 earnings season about the very positive impact of the corporate tax cut enacted late last year. The actual Q1 earnings season is still ahead, starting in April. By then, corporations are likely also to report that the weak dollar (down 7.7% y/y) has boosted their earnings ([Fig. 4](#)).

Nevertheless, the latest panic attack isn't about corporate earnings. Rather, the fear is that wage inflation is making a comeback and that the Fed will respond with more aggressive monetary tightening. Initially, higher inflation and interest rates could depress valuation multiples, as happened on Friday ([Fig. 5](#)). Eventually, tighter monetary policy could cause a recession directly by tightening credit conditions or indirectly by triggering a financial crisis. The following two sections examine these issues that are starting to unsettle the market.

US Economy: Wage Inflation Rising? Wage inflation may finally be picking up, but not by much. Shortly after she was appointed Fed chair four years ago, Janet Yellen said she expected that the Fed's easy monetary policies would boost wage inflation from around 2.5% to 3.0%-4.0%. It may be about to do just that now that she has left the Fed. However, the markets may have overreacted to data on wages released Friday morning in the Employment Report. Consider the following:

(1) Average hourly earnings (AHE) for all workers rose 2.9% y/y through January, the highest since June 2009 ([Fig. 6](#)). However, the AHE for production and nonsupervisory (P&NS) workers rose by 2.4%, which is roughly where it has been for the past few years. P&NS workers account for 82% of all private-sector payroll employment ([Fig. 7](#)).

(2) Quarterly data through Q4-2017 show that the Employment Cost Index (ECI) for wages and salaries in all private industry rose 2.8% y/y ([Fig. 8](#)). Somewhat more subdued were the ECI including benefits (2.6% y/y) and hourly compensation (2.4%), as reported in last week's productivity report ([Fig. 9](#)).

(3) Finally, as Debbie and I have noted often, higher wage inflation won't necessarily mean higher price inflation. In highly competitive global markets, companies' rising costs may also be offset by boosting productivity or absorbing the costs in the profit margin.

The Fed I: Testing the New Chairman. The FOMC [statement](#) released on January 31, following Janet Yellen's last session chairing the Fed's monetary policy committee, contained 13 instances of the word "inflation." The word "gradual" appeared two times. The federal funds rate was left unchanged. The prior statement, following the December 13, 2017 meeting, mentioned the word inflation 14 times and "gradual" two times. The Fed raised the federal funds rate to 1.25%-1.50% ([Fig. 10](#)).

There was little response in the bond market to the tightening late last year. Since the start of this year, there has been a significant tightening tantrum in the bond market, with the 10-year US Treasury bond yield rising 44bps to 2.84% through Friday. The comparable TIPS yield rose 26bps to 0.70% ([Fig. 11](#)). Expected inflation as embodied in the spread between the nominal and real bond yield jumped 18bps to 2.14% over this same period ([Fig. 12](#)). That all set the stage for the stock market's huge tightening tantrum on Friday.

Fed officials have been saying that the markets should expect three rate hikes this year. Incoming Fed Chairman Jerome Powell will preside over the March 20-21 meeting of the FOMC and have his first press conference right after it. Odds are, he'll continue to stress that monetary policy remains on course for gradual normalization. He certainly would rather not start off with a calamity like the one Fed Chairman Alan Greenspan had to deal with just two months after he started his new job on August 11, 1987.

The Fed II: Don't Have a Tantrum. Just by coincidence, as the stock market was having a major tightening tantrum, FRB-SF President John Williams gave a [speech](#) on Friday titled "Expecting the Expected: Staying Calm when the Data Meet the Forecasts." He is a voting member of the FOMC this year and reportedly being considered for the post of Fed vice chairman by President Trump.

He said the Fed should not “have a knee-jerk reaction to all this positivity” about the economy. “I expect continued moderate growth, with no Herculean leap forward,” he added. Raising rates too rapidly could knock the expansion off track “and that’s the last thing I want to see happen.”

He concluded by saying: “But while the outlook is positive, it’s not so strong that it’s driving a sea change in my position. For the moment, I don’t see signs of an economy going into overdrive or a bubble about to burst, so I have not adjusted my views of appropriate monetary policy. So my message to those concerned about a knee-jerk reaction from the Fed is that, as always, we’ll keep our focus on the dual mandate and let the data guide our decisions.”

Outgoing Fed Chair Janet Yellen told PBS NewsHour’s Judy Woodruff in an [interview](#) Friday that the job market and the economy are growing stronger and at a healthy pace as she wraps up her four-year term. The interview was recorded before the stock market closed. Yellen warned that stock market valuations are elevated beyond their usual historical levels. She stopped short of saying the market’s rise in recent months is a bubble, as former Fed Chairman Alan Greenspan recently said.

Even as the market was diving, Yellen stressed that the financial system is more resilient now than it was during the financial crisis of 2008. Still, she said, “investors should be careful and, I would say, diversified in their investments.” That’s good advice.

Sadly, she said she would have welcomed another term as Fed chair and was disappointed when she wasn’t reappointed by President Donald Trump. I’ve frequently called her the “Fairy Godmother of the Bull Market.” I meant that in an appreciative and respectful way. I will miss her. We are about to find out if the bull market can stay calm and carry on without her. My bets are on the bull.

CALENDARS

US. Mon: ISM & Markit NM-PMIs 56.2/53.3. **Tues:** Merchandise Trade Balance -\$51.9b, Job Openings 5.900m. (*Wall Street Journal* estimates)

Global. Mon: Eurozone Retail Sales -1.0%/m/m/1.9%/y/y, Eurozone, Germany, France, and Italy Composite PMIs 58.6/58.8/59.7/57.4, Eurozone, Germany, France, and Italy NM-PMIs 57.6/57.0/59.3/55.9, UK Composite & NM-PMIs 54.6/54.1, China NM-PMI 53.5. **Tues:** German Factory Orders 0.7%/m/m/3.1%/y/y, RBA Cash Target Rate 1.50%. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): The US MSCI index tumbled 3.8% last week for its worst decline since January 2016 and only its second drop in the past 11 weeks. The index ranked 37th out of the 49 markets in a week when 41 countries fell in US dollar terms. That compares to 18th a week earlier, when it rose 2.2% as 46 countries moved higher. The AC World ex-US index fell for the first time in eight weeks; its 3.0% decline was its worst since May 2016. It has outperformed the US MSCI in five of the past seven weeks. All regions fell last week for the first time in 14 weeks, as these three declined less than the AC World ex-US: EM Eastern Europe (-1.3%), EMEA (-1.6), and EAFE (-2.8). BRIC performed the worst with a decline of 3.7%, followed by EM Latin America (-3.2), EM Asia (-3.1), and EMU (-3.0). Finland was the best-performing country, with a gain of 3.3%, followed by Morocco (2.3), Jordan (1.9), New Zealand (1.9), and Czech Republic (1.8). Of the 12 countries that underperformed the US MSCI last week, South Africa fared the worst, falling 8.0%, followed by Denmark (-6.7), Argentina (-6.3), and Peru (-5.5). Eight others dropped by amounts in the -3.9% to -4.4% range (India, Portugal, Germany, Canada, Ireland, Brazil, Korea, and Poland). On a ytd basis, the

US MSCI's 3.4% gain means that the index weakened in performance ranking last week to 30/33 from 23/33 and now trails the AC World ex-US (3.8) in a period when all regions and 42/49 countries are higher. EM Latin America has risen 11.0% ytd and leads EM Eastern Europe (10.0), BRIC (8.9), EMEA (8.4), EM Asia (6.0), and EMU (4.6). EAFE (3.6) is the only laggard relative to the AC World ex-US's performance.

S&P 1500/500/400/600 Performance ([link](#)): All three market-cap indexes suffered their worst weekly decline in two years as they reversed lower from their record highs on the previous Friday. MidCap fell 3.9%, barely edging out the declines for LargeCap (-3.9) and SmallCap (-3.7). Not a sector among the 33 was spared: All fell w/w, for the broadest decline in two years, compared to 26 sectors rising a week earlier. The smallest declines were recorded by LargeCap Telecom (-1.3), SmallCap Financials (-1.3), MidCap Financials (-1.8), and LargeCap Utilities (-2.3). Energy dominated last week's biggest laggards: MidCap Energy (-8.7), SmallCap Energy (-8.0), and LargeCap Energy (-6.4). Notwithstanding the carnage, LargeCap is still up 3.3% so far in 2018, well ahead of the ytd gains for MidCap (0.9) and SmallCap (0.8). The best performers to date in 2018: SmallCap Health Care (9.9), MidCap Health Care (7.7), LargeCap Consumer Discretionary (7.1), LargeCap Health Care (5.2), and LargeCap Financials (5.0). The Utilities and Real Estate sectors continue to dominate the worst performers ytd: SmallCap Real Estate (-8.0), SmallCap Utilities (-6.9), MidCap Real Estate (-6.9), MidCap Utilities (-6.5), LargeCap Utilities (-5.3), and MidCap Telecom (-5.3).

S&P 500 Sectors and Industries Performance ([link](#)): All 11 sectors fell last week for the first time since the week before the election in November 2016, but seven outperformed the S&P 500's 3.9% decline. That compares to all 11 sectors rising a week earlier, when four outperformed the S&P 500's 2.2% gain. Telecom was the best-performing sector, with a shallower 1.3% decline than the drops experienced by Utilities (-2.3), Real Estate (-2.5), Financials (-2.8), Consumer Discretionary (-3.1), Industrials (-3.3), and Consumer Staples (-3.8). Energy (-6.4) was the biggest underperformer followed by Materials (-5.6), Health Care (-5.1), and Tech (-4.1). Seven sectors are higher so far in 2018, and four are ahead of the S&P 500's 3.3% ytd gain. The best performers to date in 2018: Consumer Discretionary (7.1), Health Care (5.2), Financials (5.0), and Tech (4.4). The sectors that have underperformed the S&P 500 ytd: Utilities (-5.3), Real Estate (-4.8), Consumer Staples (-0.8), Telecom (-0.8), Materials (0.0), Energy (0.6), and Industrials (2.9).

Commodities Performance ([link](#)): The commodities markets cooled off last week: nine of the 24 commodities we follow rose for the week as the S&P GSCI commodities index fell 1.5%. That compares to a 2.9% gain in the prior week, when 22/24 commodities rose. Last week's strongest performers: Kansas Wheat (4.6), Cocoa (3.7), Lead (3.5), Feeder Cattle (2.9), and Sugar (2.0). Last week's biggest decliners: Natural Gas (-10.4), Silver (-4.2), Cotton (-4.0), Coffee (-3.8), and Heating Oil (-3.5). The S&P GSCI commodities index is off to a decent start this year, rising 3.2% ytd. The best performers so far in 2018: Cocoa (8.8), Kansas Wheat (8.4), Crude Oil (8.3), and Lead (8.1). The laggards of 2018 to date: Sugar (-10.1), Coffee (-4.6), Natural Gas (-3.6), Copper (-2.9), and Aluminum (-2.8).

Assets Sorted by Spread w/ 200-dmas ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 8/24 commodities, 0/9 global stock indexes, and 0/33 US stock indexes, compared to 20/24 commodities, 4/9 global stock indexes, and 23/33 US stock indexes rising a week earlier. Commodities' average spread fell w/w to 7.4% from 8.8%. However, more commodities trade above their 200-dmas now, 18 compared to 17 a week earlier. Crude Oil leads all commodities and all assets at 25.2% above its 200-dma, but Kansas Wheat (3.1%) rose 4.3ppts w/w for the best performance of all commodities and all assets. Crude Oil is followed closely by Nickel (23.2), Brent Crude (21.1), and GasOil (18.8). Coffee (-6.6) trades at the lowest of all commodities relative to their 200-dmas, but Natural Gas (-5.6) fell 10.7ppts last week for the worst performance of all commodities

and indeed all assets. The global indexes trade at an average of 7.5% above their 200-dmas, down from 10.2% in the prior week. Seven of the nine global indexes trade above their 200-dmas, down from all nine a week earlier. Brazil (18.2) still leads the global indexes. Chile (12.4) and Indonesia (11.3) had the best performances among global indexes, albeit with declines of 1.0ppt. The UK (-0.3) continues to trade the lowest among its country peers, but Germany (0.1) dropped 4.5ppts for the worst performance among global indexes. The US indexes trade at an average of 4.4% above their 200-dmas, with 24 of the 33 sectors above, down from an average of 9.0% a week earlier, when 26 sectors were above. SmallCap Health Care (18.6) still leads all US stock indexes relative to their 200 dmas, followed by LargeCap Financials (13.5), LargeCap Consumer Discretionary (13.4), and LargeCap Tech (11.3). LargeCap Telecom (4.9) dropped only 1.4ppts w/w for the best performance among the US indexes last week. MidCap Telecom trades at a sharp discount relative to its 200-dma of 13.7%, the lowest among not just the US stock indexes but all assets. MidCap Energy (6.3) weakened 10.2ppts w/w for the worst performance of the US stock indexes.

S&P 500 Technical Indicators ([link](#)): The S&P 500 index remained in a Golden Cross last week for a 92nd week (after 17 weeks in a Death Cross) as both the short-term and long-term trends weakened for the first time in four weeks. The index's 50-day moving average (50-dma) relative to its 200-dma rose from 6.8% a week earlier to 7.2%—the highest this measure has reached since July 2013; this reading compares to a four-year low of -4.5% in March 2016. The S&P 500's 50-dma and 200-dma both rose together for a 23rd straight week, after failing to rise together in mid-August for the first time in 36 weeks. The index closed above its 50-dma for a 22nd week after three weeks below, which was its worst streak since it closed below its 50-dma for 10 straight weeks from September 2016 until the November election. The S&P 500 tumbled to an 11-week low of 1.5% above its rising 50-dma from a two-year high of 6.2% on Monday. That's still above the four-month low of 1.0% below the index's falling 50-dma in mid-August. The S&P 500 tumbled to a five-week low of 8.8% above its rising 200-dma from a seven-year high of 13.5% on Monday. That compares to a post-election low of 3.0% in mid-August and a four-year low of -10.1% in August 2015.

S&P 500 Sectors Technical Indicators ([link](#)): Last week saw all 11 of the sectors weaken relative to their 50-dmas and 200-dmas. Now just six trade above their 50-dmas, down from nine a week earlier as Consumer Staples, Energy, and Materials dropped below. Utilities was below its 50-dma for an eighth week and Real Estate below its for a seventh week. Still, that contrasts real favorably with the week before the 2016 election, when all 11 were below (for the first time since December 11, 2015). The longer-term picture—i.e., relative to 200-dmas—shows nine sectors trading above, unchanged from a week earlier, as Real Estate was below for a fifth week and Utilities below for a seventh week. All 11 had been above in mid-December for the first time since mid-February. Ten sectors are in a Golden Cross (50-dmas higher than 200-dmas), unchanged from a week earlier. All 11 had been in a Golden Cross in mid-January for the first time since a 26-week streak ended in October 2016. Utilities left the Golden Cross club several weeks ago for the first time in 46 weeks, but Telecom was in the Golden Cross club for a third week after being out for 45 weeks. Nine sectors have rising 50-dmas, unchanged from a week earlier, as Real Estate fell for a fifth time in seven weeks and Utilities dropped for a seventh straight week. Nine sectors have rising 200-dmas, unchanged from a week earlier. The 200-dmas for Real Estate and Utilities fell for a fourth week. Telecom's 200-dma rose for the second time in 23 weeks and Energy's rose for a seventh week after falling for 34 weeks.

US ECONOMIC INDICATORS

Employment ([link](#)): Employment growth picked up in January, while the benchmark revision showed employment gains last year were higher than previously reported. US companies added 200,000 jobs last month; revisions increased December's (to 160,000 from 148,000) gain and decreased November's (216,000 from 252,000), for a net loss of 24,000 over the two-month period. However,

2017's benchmark revision shows a net gain of 118,000 for the year. Private payrolls added 196,000 jobs last month—once again falling short of ADP's 234,000 count—following gains of 166,000 and 217,000 the prior two months. The ADP measure has recorded gains of 200,000-plus over the past four months. Meanwhile, the breadth of job creation (percent of private industries increasing payrolls) for the one-month span (57.9%) was just below 60.0%, while the three-month span (68.0) was just shy of 70.0%.

Earned Income Proxy ([link](#)): Our Earned Income Proxy (EIP) in January was stalled at its record high, after a string of solid gains. It ticked down 0.1% last month after a nine-month surge of 4.0%. Average hourly earnings (AHE), one of the components of our EIP, continued to climb to new highs, advancing 0.3% last month, while aggregate weekly hours—the other component—slumped 0.5% after a 1.1% jump the last three months of 2017. Over the past year, our EIP is up 4.3%, the AHE is up 2.9% y/y (the best since June 2009), and aggregate hours is 1.4% higher. Our proxy tracks income and spending closely and continues to predict healthy gains in both.

Employment by Industry ([link](#)): Leading gains in January payrolls were construction, food services & drinking places, health care, and manufacturing. Construction companies added 36,000 to payrolls last month, in line with the previous two months' levels. This marked the sixth straight advance, totaling 165,000 over the six-month period, to a new cyclical high. Restaurants hired 31,100 workers last month, but the industry has averaged monthly gains of 40,300 over the past four months and has boosted payrolls by 255,400 over the past 12 months. Health care jobs continued to trend higher, expanding 20,600 in January and 294,900 y/y. Manufacturers added to payrolls for the 14th time in 15 months, climbing 15,000 in January and 216,000 over the period to the highest level in eight years. Employment in other major industries—including mining, wholesale trade, retail trade, transportation & warehousing, information services, financial activities, professional & business services, and government—showed little change last month.

Unemployment ([link](#)): January's unemployment rate was at a 17-year low of 4.1% for the fourth month, while the participation rate was unchanged at 62.7% over the four-month period. The latter has showed little movement on net over the past year. The adult (3.8%) unemployment rate ticked up from its cyclical low of 3.7% the previous three months, while the college grad (2.1) rate was unchanged again last month, just above October's cyclical low of 2.0%. Meanwhile, the volatile teenage rate climbed to 13.9% last month after falling from 15.9% in November to 13.6% in December; the rate was at 13.0% in September—which was the lowest since fall 2000. Those working part-time for economic reasons (a.k.a. "involuntary part-time workers") rose 138,000 in the two months through January to 5.0 million (3.1% of the civilian labor force), after falling in November to its lowest level since January 2008. The sum of the underemployment and jobless rates (7.2) held just above its 7.1% cyclical low posted in October and November, while the U6 rate (8.2)—which includes marginally attached workers—is just above its cyclical low of 8.0%, also recorded during October and November.

Wages ([link](#)): January wage inflation—as measured by the average hourly earnings rate for all workers on private nonfarm payrolls (AHE)—increased 2.9% y/y, the highest reading since June 2009 and quite an acceleration from the measure's recent low of 2.3% during October. The wage rate for goods-producing industries (2.3% y/y) remained on a volatile downtrend, while the service-providing rate (3.0) moved out of its volatile flat trend, posting its best rate since April 2009. Within goods-producing, the manufacturing rate (1.9) was below 2.0% for the fourth month, while construction's (2.9) slipped back below 3.0%; the natural resources rate (0.3) remained around zero. Within service-providing, the rates for financial activities (4.2), education & health services (3.0), and transportation & warehousing (3.2) remain on steep accelerating trends, with the latter holding at its recent peak. Meanwhile, rates for information services (3.7) and retail trade (2.2) are moving higher, while the rate for professional & business services (3.0) moved to the top of its volatile flat trend, and utilities' slipped to the bottom of its

flat trend. Rates for leisure & hospitality (3.3) and wholesale trade (0.9) continue to move lower.

Productivity & Labor Costs ([link](#)): Nonfarm productivity fell for the first time since Q1-2016 last quarter after a solid gain during Q3; this data can be very volatile from quarter to quarter. Productivity fell 0.1% (saar) during Q4—below expectations of a 0.7% gain—after rising 2.7% during Q3, which was the strongest growth since the start of 2015. Last quarter, hours worked (3.3%, saar) posted its biggest gain in three years, outpacing output (3.2) by a small margin. Hourly compensation advanced 1.8% (saar), boosting unit labor costs 2.0% (saar) after declines the prior two quarters. For all of 2017, nonfarm productivity rose 1.2%—matching the average gain from 2007 to 2017, though considerably below the 2.6% average rate from 2000 to 2007. Output (2.9) outpaced hours worked (1.6), while hourly comp rose 1.5%, with unit labor costs (0.2) little changed last year.

Auto Sales ([link](#)): Motor vehicle sales fell in January as domestic car sales continued to slide; domestic light-truck and import sales remained relatively strong. Total sales sank to 17.2mu (saar) last month, after climbing from 17.5mu to 17.9mu in December to within 0.7mu of September's 12-year high of 18.6mu (boosted by consumers' replacement of flood-damaged vehicles in areas hit by hurricanes). Light-truck sales dipped to 9.2mu (saar) last month, though it wasn't far from September's 9.7mu peak—which was the strongest showing since the summer of 2005. Sales of imports (3.8mu, saar) were just shy of September's 3.9mu peak, which was the fastest pace since August 2009. Domestic car sales continued to unwind their hurricane-related increase, falling steadily from last year's high of 5.0mu in September to 4.1mu (saar) in January, its lowest sales pace since August 2011.

Construction Spending ([link](#)): December construction spending climbed for the fifth month, on widespread strength, reaching a new record high. Total investment advanced 0.7% in December and 3.1% over the five-month period, boosted by an 8.3% surge in public construction spending since July. Private construction investment rose three of the last four months of 2017, up 0.8% m/m and 1.8% over the period. Within private construction spending, nonresidential investment did not post a decline during the last four months of last year—rebounding 1.8% after falling seven of the first eight months of 2017. Residential investment, on the other hand, recorded only two losses last year, up 0.5% m/m and 6.2% y/y. Within residential investment, single-family construction remains strong, advancing 14 of the last 15 months by a total of 16.2%, while multi-family construction showed signs of life the last three months of 2017, climbing 4.0% over the period to within 0.8% of April's record high. Meanwhile, home-improvement spending was volatile around its record high as 2017 drew to a close.

GLOBAL ECONOMIC INDICATORS

Global Manufacturing PMIs ([link](#)): Global manufacturing activity remained robust at the start of 2018, with rates of growth in output and new orders holding close to highs reached before the turn of the year. January's JP Morgan M-PMI ticked down to 54.4 after climbing the last six months of 2017—from 52.6 in June to a near seven-year high of 54.5 in December; developed nations (to 56.3 from 56.2) continued to record much stronger growth than emerging markets (51.9 from 52.2). According to the report, the Eurozone remained the principal growth engine of the global manufacturing expansion, with January's M-PMI (59.6) just a point below December's record high of 60.6. The Netherlands (62.5) topped the leader board, with its M-PMI at a new record high—Austria (61.3) and Germany (61.1) were not far behind with readings above 60.0. Also posting impressive numbers were Italy (59.0, 83-month high), France (58.4), Ireland (57.6), Spain (55.2), and Greece (55.2, 123-month high). Among other leading developed nations, the US-PMI (55.5) posted its best rate in nearly three years, while Canada's (55.9) was back up at last April's six-year high. Asian manufacturing fared well, with growth accelerating in Japan (54.8 from 54.0), Taiwan (56.9 from 56.6), Vietnam (53.4 from 52.5), Thailand (50.6 from 50.4), and Myanmar (51.7 from 51.1), and holding steady in China (51.5); South Korea's (50.7 from 49.9) returned to growth after a minor contraction at the end of last year. Mexico's M-PMI

(52.6 from 51.7) grew at a slightly faster pace, Brazil's (51.2 from 52.4) at a slightly slower pace.

US Manufacturing PMIs ([link](#)): Manufacturing activity in January accelerated according to Markit's survey and remained at a robust pace according to ISM's. The ISM M-PMI (to 59.1 from 59.3) pulled back a bit last month, but held near September's 60.2—which was its best performance since June 2004! The new orders (to 65.4 from 67.4) and production (64.5 from 65.2) indexes slowed a bit, though remained well above 60.0—with both above that reading for the eighth month; new export orders (59.8 from 57.6) is about to breach the 60.0 level. The employment (54.2 from 58.1) measure eased for the third month from October's recent peak of 59.8. Meanwhile, the supplier deliveries (59.1 from 57.2) gauge continued to retrace November's setback, while the inventories (52.3 from 48.5) measure is expanding again after contracting the final three months of 2017. Markit's M-PMI (55.5 from 55.1) showed manufacturing activity expanded at its fastest rate since March 2015, supported by the fastest increases in output and new orders in a year, which continued to boost job creation.

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