



## MORNING BRIEFING

April 1, 2019

### Bonds Are from Venus, Stocks Are from Mars

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

(1) Bond yields showing signs of gravitational pull, while stock prices are on verge of escape velocity. (2) Mixed message from bond market. (3) Latest relief rally led by cyclical stocks (again). (4) Are stocks discounting a “peace dividend?” We think so. (5) The next recession could start on Election Day 2020, or not. (6) Q1 seasonality may still be an issue. (7) Commodity prices set for lift-off, maybe. (8) Forward earnings starting to look skyward. (9) MMT combines fiscal and monetary policies to take care of old people. (10) Is the bond market looking forward to AOC’s greener pastures with fewer humans? (11) Movie review: “Hotel Mumbai” (+ +).

**Strategy I: Solar System.** The US stock and bond markets seem to be on different planets. Both revolve around the same sun, i.e., the Fed. However, bond yields are falling, apparently under the influence of recessionary gravitational forces, while stock prices seem to be achieving escape velocity. (By the way, a spacecraft leaving Earth’s surface must be travelling about 25,000 miles per hour to enter orbit.)

The 10-year US Treasury bond yield has dropped from a recent high of 3.24% on November 8, 2018 to 2.41% on Friday, one of the lowest readings since December 18, 2017, i.e., just before the Trump tax cuts bill was enacted ([Fig. 1](#)). The recessionary gravitational forces are confirmed by the drop in the comparable TIPS yield from a recent high of 1.17% on November 8, 2018 to 0.53% on Friday. The spread between the two yields is deemed to be the market’s outlook for the annual inflation rate over the next 10 years. It was 1.88% on Friday, below readings slightly above 2.00% ([Fig. 2](#)).

Also heightening recession jitters are the fixed-income market’s readings on the slope of the yield curve. On Friday, the spread between the Treasury bond yield and the federal funds rate was just 4bps ([Fig. 3](#)). Last week, Melissa and I explained why an inverted yield curve might not happen this time, and if it does why a recession might not be inevitable. We believe we are still on the planet Earth, and are encouraged to see that credit-quality yield spreads have narrowed after they widened as a result of the recession scare late last year ([Fig. 4](#)).

While the bond market is experiencing a solar eclipse, it’s getting sunnier in the stock market. The S&P 500 rose 13.1% during Q1-2019, the best start of a year since 1998. At 2834.40 on Friday, it only needs to rise 3.4% to go into outer space, i.e., to a new record high.

Since last year’s 12/24 closing low, the S&P 500 is up 20.6%, with the following performance derby for the index’s 11 sectors: Information Technology (28.5%), Consumer Discretionary (24.6), Industrials (24.6), Energy (22.9), Real Estate (21.0), S&P 500 (20.6), Communication Services (20.5), Materials (17.1), Consumer Staples (15.9), Financials (15.3), Health Care (13.7), and Utilities (12.8) ([Fig. 5](#)).

Leading the way during the latest relief rally (following the year-end 2018 panic attack) have been the cyclical sectors, suggesting that the stars are aligned for continued economic growth. On the other hand, the bond market's assessment of the economic outlook is reflected in the outperformance of the stock market's interest-rate sectors since last year's 9/20 record high in the S&P 500: Utilities (10.1%), Real Estate (9.1), Consumer Staples (2.6), Communication Services (0.2), Information Technology (-1.3), Health Care (-2.5), S&P 500 (-3.3), Consumer Discretionary (-3.6), Industrials (-5.4), Materials (-8.9), Financials (-10.9), and Energy (-11.4) ([Fig. 6](#)).

Joe and I believe the stock market is on the right course. The bond market may also be on the right course. Below, we reconcile the two.

**Strategy II: The Stock Market's Starlog.** Last year's 19.8% correction in the S&P 500, from September 20 through December 24, was triggered by fears of a global recession caused by the tightening of US monetary policy and the trade war between the US and China. The subsequent relief rally reflects the remarkable pivot by the Fed from a hawkish to a dovish stance. Although the US-China trade talks have gone past the original deadline of 3/1 set by President Trump, that fact is widely viewed as a good sign. The two sides are making progress on lots of details that need to be ironed out.

We expect that a deal will be concluded by mid-year. If so, we also expect a "peace dividend," which will boost global economic growth, which has been weighed down by uncertainty about the trade talks.

Previously, Debbie and I have argued that while we don't see a recession resulting from typical business-cycle forces anytime soon, there could be one if the Democrats win the White House and a majority in the Senate, and keep their majority in the House, in the November 3, 2020 elections. In this scenario, a radical shift in economic policies toward higher taxes and more regulation would be bearish for the economy and the stock market. To be balanced, if the Democrats are in control and focus most of their energies and powers on infrastructure spending instead, the economy could continue to grow and the bull market in stocks could continue.

The Mueller report, as summarized by the Attorney General, suggests that Trump's chances of getting reelected have increased. The Republicans are likely to keep their majority in the Senate, while the Democrats should do the same in the House. During a Trump second term, both sides may have to work together on critical issues that remain unresolved, especially immigration and health care. Agreeing on infrastructure spending should be the easiest aspect of working out a deal.

This year, the S&P 500 has regained almost all of the altitude lost late last year despite the debris field of weak economic indicators. Here are some reasons why that may be happening:

(1) *Losing power during Q1.* The Atlanta Fed's [GDPNow](#) showed real GDP rising 1.7% during Q1-2019 based on data available through 3/29. That's up from 1.5% on 3/27 for the following reason: A decrease in real personal consumption expenditures growth was more than offset by increases in real nonresidential equipment investment growth, real residential investment growth, and the contribution of inventory investment to Q1 real GDP growth. If the latest GDPNow estimate is accurate, the y/y growth rate of real GDP would be 2.8%.

Previously, we've shown that even though GDP and its underlying data are seasonally adjusted, the growth rate of real GDP during Q1 has been the weakest of the four quarters during six of the past nine years ([Fig. 7](#)). A similar pattern of weakness can be seen in the Citigroup Economic Surprise Index ([Fig. 8](#)).

(2) *Commodity prices on the launch pad.* Stock rallies tend to be more sustainable when industrial

commodity prices are rallying sustainably. The CRB raw industrials spot price index declined during the second half of last year. That heightened fears that the Fed's gradual normalization of monetary policy wasn't gradual enough, and could result in a global recession ([Fig. 9](#)).

After the FOMC announced on 3/20 that further rate-hiking might be suspended for the rest of this year, the CRB index has been moving higher, led by one of its most sensitive indicators of global economic growth, i.e., the price of copper. Interestingly, the China MSCI stock price index (in yuan), which is up 17.8% ytd, is highly correlated with the price of copper ([Fig. 10](#)). Apparently, Chinese stock prices and commodity prices are starting to discount a US-China trade deal while Fed policy remains on pause.

In addition, the Chinese government's attempts to stimulate the economy may be starting to work. Yesterday, we learned that China's official M-PMI rose to a six-month high of 50.5 in March from 49.2 in February. The production subindex rose to 52.7 from 49.5 in February. The new orders subindex climbed to 51.6 from 50.6. The new exports subindex rose to 47.1 from 45.2, although still showed contraction. The NM-PMI increased to 54.8 from 54.3.

(3) *Earnings starting to lift.* Another early bullish sign for the S&P 500 is that industry analysts' consensus earnings expectations for 2019 and 2020 have been cut at a slower pace during the three weeks of March ([Fig. 11](#)). That might not seem noteworthy, but Joe reports that the forward earnings of the S&P 500 has been up during four of the past five weeks through the 3/21 week after falling nearly every week for four months. In other words, earnings prospects are starting to turn higher.

**Strategy III: The Bond Market's Starlog.** In the US, falling bond yields and the flattening yield curve have heightened fears that they are signaling a recession, though credit-quality spreads haven't joined the alarmist brigade. On a few occasions last year, Melissa and I observed that concern about the rapidly increasing supply of Treasury and corporate debt might be trumped by subdued inflation and the "tethering" of US Treasury yields to near-zero yields for comparable German and Japanese debt securities.

That story has played out well, and may continue to do so. Consider the following:

(1) *Fizzling economies and yields.* The peace dividend we are anticipating should revive global business activity, but for now growth remains weak, particularly in Europe and Japan. The US yield curve may be flat because global economic growth is relatively flat. The 10-year government bond yields are negative in both Germany (-0.07%) and Japan (-0.09), making the US yield still look mighty attractive ([Fig. 12](#)).

(2) *Mission control failing to get inflation to lift off.* Notwithstanding 10 years of ultra-easy monetary policies by the major central banks, the core CPI inflation rates (on a y/y basis) remain below the 2.0% targets of the Fed (at 1.8% in the US), the ECB (1.0% in Europe), and the BOJ (0.4% in Japan), with the US rate based on the core PCED. In the US, the regional business surveys compiled by five of the Federal Reserve Banks are all showing downtrends in their prices-paid indexes, which are weighing on their prices-received indexes ([Fig. 13](#)).

(3) *MMT isn't a hypothetical theory of relativity.* While there has been much controversy over Modern Monetary Theory (MMT) recently, the fact is that it has been the modus operandi of US fiscal and monetary policies over the past 10 years. Rather than a theory, it has been the reality! Marketable publicly held US federal debt has soared from \$4.2 trillion during February 2008 to \$14.0 trillion during February 2019 ([Fig. 14](#)). Yet inflation remains subdued.

Trump's tax cuts and increased spending on defense are likely to push debt much higher. Proponents

of MMT, who tend to be progressives, are all for borrowing more and more to fund their various Green New Deal (GND) projects, as long as inflation remains low.

No one on either side of the political divide is concerned that deficit-financed fiscal policy, even if it is accompanied by zero interest rates and quantitative easing, doesn't seem to be providing any high-octane fuel to the economy's rocket engines. That's because more debt isn't stimulating growth, but rather weighing on it. (So far, MMT has been neither the Magical Money Tree nor the Magical Mystery Tour.)

(4) *AOC's greener planet.* The most over-exposed advocate of both MMT and the GND is Alexandria Ocasio-Cortez (AOC). The controversial Democratic Representative recently said: "There's scientific consensus that the lives of children are going to be very difficult. And it does lead young people to have a legitimate question: Is it okay to still have children?"

As I observed in my book, [Predicting the Markets](#), fertility rates around the world have already collapsed below the replacement rate. Migration from agrarian rural communities to urban centers has reduced the economic benefit of having lots of children. In other words, humans are already on the demographic path to self-extinction, which should please AOC and bring lots of joy to the Animal Kingdom!

Could it be that the global bond market is already seeing the impact of geriatric demographic trends? Governments will have to borrow more to support more seniors, especially since there will be fewer juniors to tax when they become workers.

Debt used by the government to support retirement and provide health care is likely to be even less stimulative (and less inflationary) than debt used by the government to buy and build things. In the US for the past 10 years, the rapid increase in government spending on social welfare programs has put a lid on the government spending that boosted real GDP in the past ([Fig. 15](#)).

Welcome to the Brave New World of old people.

**Movie.** "Hotel Mumbai" (+ +) ([link](#)) is a gut-wrenching movie based on the terror attack by Jihadists from Pakistan on various sights in Mumbai, India during 2008. They carried out a series of 12 coordinated shooting and bombing attacks lasting four days across Mumbai. The focus is on the chilling and merciless rampage that took place during the siege of the Taj Mahal Palace Hotel. Once again, as in "The Invisibles," we can see how evil can bring out the best in the victims of such monsters. In this case, many of the hotel's staff, who could have escaped, chose to stay to protect the hotel's guests from the terrorists. Many of them died doing so.

## CALENDARS

**US. Mon:** Retail Sales Headline, Ex Autos, Ex Autos & Gas, and Control Group 0.3%/0.4%/0.4%/0.4%, Business Inventories 0.4%, ISM & IHS Markit M-PMIs 54.3/52.5, Construction Spending -0.1%. **Tues:** Durable Goods Orders Total, Ex Transportation, and Core Capital Goods -1.2%/0.3%/0.3%, Motor Vehicle Sales 16.7mu. (DailyFX estimates)

**Global. Mon:** Eurozone CPI Headline & Core Flash Estimates 1.5%/1.0% y/y, Eurozone Unemployment Rate 7.8%, Eurozone, Germany, France, and Italy M-PMIs 47.7/44.7/49.9/47.5, UK M-PMI 51.2, Poloz. **Tues:** RBA Cash Target Rate 1.50%. (DailyFX estimates)

## STRATEGY INDICATORS

**Global Stock Markets Performance** ([link](#)): Last week saw the US MSCI index rise 1.2%, ranking ninth of the 49 global stock markets we follow in a week when 22/49 countries rose in US dollar terms. That compares to the prior week's 27/49 ranking, when the US MSCI dropped 0.8% as 20 markets rose. The AC World ex-US index fell 0.3%; that performance compares to a similar 0.3% decline a week earlier. Among the regions, EM Latin America rose 1.2% for the best performance, ahead of BRIC (0.7%) and EMU (0.5). EMEA and EM Eastern Europe were the worst performers with declines of 1.4%, followed by EAFE (-0.4) and EM Asia (-0.3). Sri Lanka was the best-performing country, rising 4.7%, followed by New Zealand (2.7), Belgium (1.8), Brazil (1.8), and Portugal (1.5). Of the 23 countries that underperformed the AC World ex-US MSCI last week, Turkey fared the worst, falling 5.6%, followed by Hungary (-3.3), Korea (-3.0), Norway (-2.4), and Japan (-2.4). In March, the US MSCI rose 1.7%, ranking 11/44 as the AC World ex-US index edged up 0.2%. That compares to the US MSCI's 3.1% rise in February, which ranked 15/49 and ahead of the 1.8% gain for the AC World ex-US in a month when all the developed market regions rose. The best-performing regions in March: BRIC (2.5) and EM Asia (1.7). March's worst-performing regions: EM Latin America (-2.7), EMEA (-1.7), EMU (-0.2), EAFE (0.1), and EM Eastern Europe (0.2). The US MSCI's ytd ranking improved to 10/49 from 11/49 a week earlier, with its 13.3% ytd gain ahead of that of the AC World ex-US (9.5). All regions and 44/49 countries are in positive territory ytd. Among the regions, those outperforming the AC World ex-US ytd include: BRIC (13.7), EM Asia (10.9), and EMU (9.6). Regions underperforming the AC World ex-US: EMEA (5.3), EM Latin America (7.0), EM Eastern Europe (8.6), and EAFE (9.0). The best country performers ytd: Colombia (24.4), China (17.7), Belgium (16.1), New Zealand (15.5), and Hong Kong (15.0). The worst-performing countries so far in 2019: Morocco (-5.9), Turkey (-4.3), Argentina (-2.0), Malaysia (-0.7), and Poland (-0.6).

**S&P 1500/500/400/600 Performance** ([link](#)): All three of these indexes rose last week as SmallCap's 2.4% gain outpaced both MidCap (2.2%) and LargeCap (1.2). LargeCap ended the week 3.3% below its record high on September 20, with MidCap and SmallCap 7.5% and 14.5% below their August 29 records, respectively. Among the 33 sectors, 31 moved higher last week compared to nine rising a week earlier. The biggest gainers in the latest week: MidCap Consumer Discretionary (3.8), SmallCap Industrials (3.3), SmallCap Consumer Discretionary (3.2), and SmallCap Financials (3.2). LargeCap Utilities and LargeCap Communications were the biggest decliners, with drops of 0.5%. LargeCap was the only market-cap index to move higher in March, rising 1.8% compared to a 0.7% decline for MidCap and a 3.5% fall for SmallCap. Nineteen of the 33 sectors advanced in March, compared to 29 sectors rising during February. March's best performers: MidCap Energy (5.1), LargeCap Tech (4.8), SmallCap Utilities (4.6), LargeCap Real Estate (4.5), and LargeCap Consumer Discretionary (3.9). March's laggards: SmallCap Financials (-7.1), SmallCap Materials (-5.9), MidCap Financials (-5.2), SmallCap Health Care (-4.7), and SmallCap Industrials (-3.7). In terms of 2019's ytd performance, all three indexes are still off to a good start. MidCap now leads with a 14.0% gain ytd, ahead of LargeCap (13.1) and SmallCap (11.2). All 33 sectors are positive ytd, with the SmallCap and MidCap cyclicals leading the top performers: SmallCap Energy (22.5), MidCap Tech (21.1), MidCap Energy (19.4), LargeCap Tech (19.4), and SmallCap Materials (18.5). SmallCap Financials (5.6) is the biggest underperformer so far in 2019, followed by LargeCap Health Care (6.1), SmallCap Health Care (7.2), SmallCap Consumer Staples (7.6), and LargeCap Financials (7.9).

**S&P 500 Sectors and Industries Performance** ([link](#)): Nine of the 11 S&P 500 sectors rose last week, and six outperformed the S&P 500's 1.2% gain. That compares to five rising a week earlier, when seven outperformed the S&P 500's 0.8% decline. Industrials was the best-performing sector, with a gain of 2.9%, ahead of Materials (2.0%), Consumer Discretionary (1.8), Consumer Staples (1.6), Financials (1.4), and Health Care (1.2). Last week's biggest underperformers: Utilities (-0.5), Communication Services (-0.5), Energy (0.9), Tech (1.0), and Real Estate (1.0). The S&P 500 rose 1.8% in March as nine of the 11 sectors moved higher and seven beat the index. That compares to all

11 rising and four beating the S&P 500's 3.0% rise in February. The leading sectors in March: Information Technology (4.8), Real Estate (4.5), Consumer Discretionary (3.9), Consumer Staples (3.7), Utilities (2.7), Communication Services (2.4), and Energy (2.0). March's laggards: Financials (-2.7), Industrials (-1.2), Health Care (0.3), and Materials (0.9). All 11 sectors are higher so far in 2019, compared to just two sectors rising during 2018, when the S&P 500 fell 6.3%. These six sectors have outperformed the S&P 500's 13.1% rise ytd: Information Technology (19.4), Industrials (16.6), Real Estate (16.6), Energy (15.4), Consumer Discretionary (15.3), and Communication Services (13.6). The ytd laggards, albeit with gains: Health Care (6.1), Financials (7.9), Materials (9.7), Utilities (9.9), and Consumer Staples (11.2).

**Commodities Performance** ([link](#)): Last week, the S&P GSCI index was unchanged as 10 of the 24 commodities moved higher. That compares to a 0.4% gain a week earlier, when 15 commodities moved higher. The index is still in a correction with a drop of 13.6% from its high in early October after being down as much as 26.9% on December 24. Cocoa was the strongest performer for the week, as it rose 5.6%, ahead of Zinc (4.2%), Copper (2.8), and Crude Oil (1.9). Lean Hogs was the biggest decliner, with a drop of 7.4%, followed by Corn (-5.8) and Natural Gas (-3.8). March saw eight of the 24 commodities climb as the S&P GSCI Commodities index rose 1.8%. That compares to 10 rising in February when the S&P GSCI Commodities index rose 4.5%. March's best performers were Lean Hogs (58.5), Unleaded Gasoline (7.4), Cotton (6.6), Zinc (5.5), and Crude Oil (5.1). March's laggards: Live Cattle (-8.4), Lead (-6.5), Natural Gas (-5.3), and Coffee (-4.0). The S&P GSCI commodities index is up 16.0% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Lean Hogs (45.2), Unleaded Gasoline (44.6), Crude Oil (32.4), Brent Crude (25.6), and Nickel (21.6). The biggest laggards in 2019: Kansas Wheat (-12.0), Natural Gas (-9.5), Wheat (-9.0), Coffee (-7.2), and Cocoa (-5.6).

**S&P 500 Technical Indicators** ([link](#)): The S&P 500 price index rose 1.2% last week and improved relative to its short-term 50-day moving average (50-dma) and its long-term 200-day moving average (200-dma). The index's 50-dma relative to its 200-dma improved for a seventh straight week, and moved back into a Golden Cross for the first time in 17 weeks. It had been in a Golden Cross for 137 weeks through late November, and its previous Death Cross lasted for 17 weeks through April 2016 (when its 50-dma bottomed at a then-four-year low of 4.5% below its 200-dma in March 2016). The current Golden Cross reading of 0.2% is up from -0.4% a week earlier and from -5.2% in early February, which had matched the lowest reading since November 2011. It's still down from a 55-month high of 7.2% in February 2018. The S&P 500's 50-dma rose for the eighth time in nine weeks, after falling for 16 straight weeks in its worst downtrend since before the 2016 election. The index improved to 2.8% above its rising 50-dma from 2.2% a week earlier, but is down from 6.6% during mid-February, which was its highest since October 2011. That compares to a seven-year low of 12.0% below at the end of December. The 200-dma rose for a ninth week after falling in 11 of the prior 15 weeks in the first downtrend since May 2016, when it had been slowly declining for nine months. The S&P 500 improved to a 25-week high of 3.0% above its rising 200-dma from 1.8% a week earlier. That compares to 14.5% below its falling 200-dma on December 24, which was the lowest since April 2009. However, it remains well below the seven-year high of 13.5% above its rising 200-dma during January 2018.

**S&P 500 Sectors Technical Indicators** ([link](#)): Ten of the 11 S&P 500 sectors traded above their 50-dmas, up from eight a week earlier. Health Care and Industrials both moved back above their 50-dmas in the latest week, leaving Financials as the only sector below. That's a dramatic improvement from early January when all 11 were below. The longer-term picture-i.e., relative to 200-dmas-shows nine sectors trading above currently, up from eight a week earlier as Materials moved above for the first time in 27 weeks. Energy and Financials are the only sectors still trading below their 200-dmas. Eight sectors are now in the Golden Cross club (with 50-dmas higher than 200-dmas), up from six a week earlier and the highest count since mid-November. In the latest week, Consumer Discretionary and

Tech rejoined the club for the first time in 18 weeks. At the end of November, Consumer Discretionary and Tech left the Golden Cross club for the first time since April 2016. Among the three laggards, Materials has been out of Golden Cross territory for 48 straight weeks, Financials for 24 straight weeks and during 35 of the past 39 weeks, and Energy for 20 weeks. All 11 sectors had been in a Golden Cross in January 2018 (for the first time since a 26-week streak ended in October 2016). Ten of the 11 sectors have rising 50-dmas, down from 11 a week earlier, as Financials turned down. Eight sectors have rising 200-dmas, up from six a week earlier, as Consumer Discretionary and Industrials turned up. That leaves just three sectors in the falling 200-dma club: Energy, Financials, and Materials; which compares to just two sectors with a rising 200-dma in early January in what was then the lowest count since all 11 sectors had falling 200-dmas two years before.

## US ECONOMIC INDICATORS

**GDP** ([link](#)): Real GDP growth for Q4 eased to 2.2% (saar), according to the “third” estimate, 0.4ppt below the “initial” estimate of 2.6% released in February, slowing from 3.4% during Q3 and 4.2% during Q2. Real consumer spending expanded 2.5% (saar), down from the initial estimate of 2.8%, as spending on both consumer durable (to 3.6% from 5.9%, saar) and nondurable (2.1 from 2.8) goods were revised lower; growth in services consumption was unchanged at 2.4%. Overall consumer spending slowed from robust gains of 3.5% and 3.8% (saar) the prior two quarters. Real capital spending growth for Q4 was revised down to 5.4% (saar) from 6.2%, entirely driven by slower spending on intellectual property products (10.7 from 13.1). Spending on equipment (6.6 from 6.7) virtually matched the initial estimate, while the contraction in structures (-3.9 from -4.2) was less negative. Meanwhile, the decline in residential investment (-4.7 from -3.5) was more negative than first reported. Real private inventory investment (to \$96.8 billion from \$97.1 billion, saar) was slightly slower than first reported, though still the strongest in more than three years. Trade was less of a negative as export growth (1.8 from 1.6) was slightly faster than the initial estimate, while import growth (2.0 from 2.7) was slower. Revisions show government spending contracted 0.4% rather than increased 0.4% during Q4, with federal spending (1.1 from 1.6) less positive and state & local spending (-1.3 from -0.3) more negative.

**Contributions to GDP Growth** ([link](#)): Real consumer spending once again was the number-one contributor to Q4 GDP growth, while real residential investment was the biggest drag. Some details: (1) Real consumer spending accounted for 1.66ppts of real GDP growth during Q4, boosted by services (1.12), though consumer durable (0.25) and nondurable (0.29) goods consumption also contributed. (2) Nonresidential fixed investment (0.73) continued to elevate economic growth, as positive contributions from intellectual property products (0.46) and equipment (0.39) more than offset the second straight negative contribution from structures (-0.12). (3) Inventory investment (0.11) rounded out the top three, with nonfarm (0.14) inventories accounting for the entire gain. (4) Real government spending (-0.07) subtracted marginally from GDP growth during Q4, as a decline in state & local spending (-0.14) more than offset the gain in federal spending (0.07). Trade (-0.08) subtracted from growth for the second quarter, driven entirely by imports (-0.30); exports added 0.22ppt. (6) Residential investment (-0.18) subtracted from GDP growth for fourth consecutive quarter.

**Consumer Sentiment** ([link](#)): The Consumer Sentiment Index (CSI) increased for the second month, from a 27-month low of 91.2 at the start of the year to 98.4 in March—better than the mid-month reading of 97.8. The March gain in the CSI was entirely due to households with incomes in the bottom two thirds of the income distribution—rising 7.1 index points, while the top third fell by 1.1 index points. According to the report, “Middle and lower income households more frequently reported income gains than last month, although income gains were still widespread among upper income households. Indeed, the last time a larger proportion of households reported income gains was in 1966.” The income rise was accompanied by lower inflation expectations, resulting in more favorable real income

expectations as well. The expectations component (88.8 from 79.9) has rebounded 8.9 points the past two months, while the present situation climbed from 108.5 to 113.3 in March, moving back toward its record high of 121.2 a year ago. (The final present situation reading was above its mid-March level of 111.2, while the expectations component was below its 89.2 mid-month reading.) “Finally, it should be noted that too few interviews were conducted following the summary release of the Mueller report to have any impact on the March data; if there is any, it may affect the April data,” according to the University of Michigan report.

**Pending Home Sales** ([link](#)): The Pending Home Sales Index (PHSI)—measuring sales contracts for existing-home purchases—fell 1.0% in February to 101.9, after rebounding sharply in January from December’s nearly five-year low; these sales were down 4.9% y/y, the 14 straight month of annual declines. “In January, pending contracts were up close to 5 percent, so this month’s 1 percent drop is not a significant concern,” said the National Association of Realtors’ chief economist, Lawrence Yun. “As a whole, these numbers indicate that a cyclical low in sales is in the past but activity is not matching the frenzied pace of last spring.” Regionally, sales rose in two regions and fell in two, though sales in all four were below year-ago levels. Here’s a tally: South (+1.7% m/m & -2.9% y/y), West (+0.5 & -9.6), Northeast (-0.8 & -2.6), and Midwest (-7.2 & -6.1).

**New Home Sales** ([link](#)): New home sales rose for the third time in four months—to an 11-month high—as revisions changed January’s monthly percent change from a 6.9% decline to an 8.2% increase! New home sales—tabulated when contracts are signed—jumped 4.9% in February and 20.8% during the 4 months through February to 667,000 units (saar). Regionally, sales rose sharply in the Midwest (28.3%) and Northeast (26.9) during February, while sales edged up 1.8% in the South and were flat in the West; sales were above year-ago levels only in the South (6.8% y/y)—which is the largest market. February’s supply of new homes on the market fell for the second month to 340,000 units, cutting inventories to a 6.1 months’ supply—the lowest since June and down from 7.2 months in October, the highest since March 2011.

## GLOBAL ECONOMIC INDICATORS

**Eurozone Economic Sentiment Indicators** ([link](#)): The Economic Sentiment Index (ESI) in the Eurozone fell for the ninth straight month, by 0.7 point in March and 6.3 points over the period—to 105.5, while the ESI for the EU dropped for the ninth time in 10 months, by 0.4 points m/m and 6.9 points over the period, to 105.0. Since reaching 18-year highs of 114.5 and 114.4, respectively, in December 2017, the former has dropped 9.0 points and the latter 9.4 points—to their lowest levels since October 2016 and September 2016. ESIs were mixed among the five largest Eurozone economies in March, with Spain’s (+2.3 points to 106.7, 4-month high) rising sharply last month, and Germany’s (-1.8 to 106.6, 30-month low) and the Netherlands’ (-1.3 to 105.2, 2-month low) dropping sharply; ESIs in France (+0.2 to 101.0, 2-month high) and Italy (-0.2 to 101.0, 49-month low) were broadly unchanged. At the sector level, sentiment rose in three of the five industries included in the ESI: retail trade (+1.5 to 0.2), construction (+0.9 to 7.5) and consumer (+0.2 to -7.2); industry (-1.3 to -1.7) and services (-0.8 to 11.3) sentiment fell. Construction sentiment is just shy of January’s record high.

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