



MORNING BRIEFING

March 2, 2020

COVID-19: The Plot Sickens

Check out the accompanying [chart collection](#) and [podcast](#).

(1) We are all virologists now. (2) Most of us can breathe easy. (3) Staying healthy. (4) P/E-led meltup followed by P/E-led meltdown. (5) The previous four seven-day freefalls occurred in bear markets. (6) No longer overbought. (7) FAANGMs cheaper, but not cheap. (8) A bad week for Stay Home as people stay home. (9) Lowering our earnings estimates, but the sun will come out later this year. (10) Industry analysts still too optimistic about earnings. (11) Extreme measures may contain virus while depressing global growth. (12) Really ugly Chinese PMIs. (13) Powell ready to provide a shock-and-awe rate cut? Would it help or hurt? (14) Let's hope cover-story curse kills COVID-19 as it did previous viruses.

Virology I: Health Tips. Since the YRI rapid response team first started to respond to the COVID-19 outbreak on Monday, January 27 (the first business day after it hit the headlines on Friday, January 24), we've added a warning label to our investment prescriptions: "We aren't virologists." While the certified virologists seem to be just as clueless as we are, it now seems that everyone has become an expert on viruses. Yes, we are all virologists now. Everybody has an opinion about the outbreak. Naturally, pessimists are pessimistic, and optimists are optimistic.

No matter how you see things, allow me to give those of you who are 65 or older some sound health advice: Get a pneumonia shot if you haven't done so already. [WebMD](#) states:

"Although the pneumonia vaccine can't prevent all cases, it can lower your chances of catching the disease. And if you've had the shot and you do get pneumonia anyway, you will probably have a much milder case. Older adults and some people with health problems are more likely to get pneumonia, a lung infection that makes it harder to breathe. It's more common among people whose immune systems are weak."

What does this have to do with COVID-19? In last Wednesday's [Morning Briefing](#), we compared it to the seasonal flu, concluding that, while similar, COVID-19 may be less threatening. We came to that conclusion after we observed that the World Health Organization has [reported](#): "Most people (about 80%) recover from the COVID-19 without needing special

treatment. Around 1 out of every 6 people who gets COVID-19 becomes seriously ill and develops difficulty breathing. Older people, and those with underlying medical problems like high blood pressure, heart problems or diabetes, are more likely to develop serious illness. About 2% of people with the disease have died.”

One of our accounts countered that “1 out of every 6” is almost 17% requiring special treatment to help them breathe! He noted that COVID-19 “is unequivocally more threatening than the flu. The only evidence you need is Wuhan, where the health authorities treated COVID-19 like a normal flu (as you might expect), until hundreds of people needed ventilator support to remain alive.”

Good point. That’s why we suggest getting the pneumonia shot to reduce the risk of secondary infections that cause pneumonia after getting infected by COVID-19. (COVID-19, however, can still cause the respiratory complications of pneumonia by itself.) In addition, wash your hands often, don’t touch your mouth or eyes, and don’t shake hands or bump fists. Stay healthy: We need you.

This too shall pass, and all of us who take the proper precautions will live to die another day.

Virology II: P/E-Led Meltdown. Panic Attack #66 is now a full-fledged correction, with the S&P 500 plunging 12.8% from its February 19 record high of 3386.15 to 2954.22 on Friday. Joe reports that the seven-day losing streak is the longest since the nine-day losing streak that started November 4, 2016. In percentage terms, the latest seven-day freefall has only been surpassed four times before since 1928 during 1931 (-14.1%), 1932 (-16.5), 1962 (-13.2), 2009 (-22.0). All four of those declines occurred during bear markets.

The viral correction could easily approach bear-market territory within the next few days given the pandemic of fear. Rather than a replay of the drawn-out Great Financial Crisis of 2008-09, we think it could be more like either the selloff during late 2018 or the sharp but short bear market of Black Monday, October 19, 1987. The problem with both analogies is that this time earnings are likely to get hit, while they held up during those previous two episodes.

In our Tuesday, January 28 [Morning Briefing](#), titled “Something To Fear,” Joe and I wrote: “[T]he coronavirus outbreak in China is spreading rapidly and turning into a pandemic ... The most unsettling news over the weekend was that people infected with the virus might show no

symptoms for two weeks but still be contagious during that time. That was not the case during the SARS outbreak of 2003 in China.”

Our initial assessment was that the latest panic attack could be #66 and “could turn out to be the correction we anticipated as valuation multiples soared late last year and early this year.” We didn’t expect that it would last long enough or be severe enough to cause a global recession and a bear market in stocks. We hedged by acknowledging that we aren’t virologists. Now consider the following:

(1) *P/E-led crash*. We certainly didn’t expect such an intense meltdown as occurred last week. The S&P 500 barely flinched during the MERS outbreak of 2013 and the Ebola outbreak of 2014 ([Fig. 1](#)). But the forward P/Es were around 13.7 and 15.3, respectively, when those viruses hit. This time, the forward P/E rose to 19.0 on February 19, the highest since May 31, 2002 ([Fig. 2](#)). Since February 19, it dropped 13.2% to 16.5 on Friday.

(2) *From overbought to oversold in a heartbeat*. The correction in measures of breadth have been, well, breathtaking. For example, on February 21, 77.0% of the S&P 500 stock prices were above their 200-day moving averages ([Fig. 3](#)). This measure was down to 30.5% on Friday. The percent of S&P 500 stock prices with positive y/y comparisons plunged from 74.3% on February 21 to 54.9% on Friday ([Fig. 4](#)).

(3) *Performance derby*. Not surprisingly, among the biggest losers during the current correction so far were among the biggest winners during the meltup. The FAANGM stocks (Facebook, Amazon, Apple, Netflix, Google’s parent Alphabet, and Microsoft) lost \$0.7 trillion in market value (a 12.3% decline) as their combined forward P/E fell from a record high of 34.8 on February 21 to 30.5 on Friday ([Fig. 5](#) and [Fig. 6](#)).

Here is the performance derby for the S&P 500 sectors since the index’s record high on February 19: Consumer Staples (-10.1%), Real Estate (-11.0), Health Care (-11.1), Communication Services (-11.3), Utilities (-11.6), Consumer Discretionary (-12.6), Industrials (-12.7), S&P 500 (-12.8), Materials (-13.0), Information Technology (-14.0), Financials (-14.5), and Energy (-16.6). (See [Table](#).)

Of the 124 industries in the S&P 500 industries we cover, 22 are down less than 10.0%, 98 are down 10.0%-19.9% (in corrections), and five are down by 20% or more (in bear-market

territory). Other big losers during the current correction so far include industries hard hit by the virus: Airlines (-22.3%), Hotels, Resorts & Cruise Lines (-19.4), and Casinos & Gaming (-19.3).

(4) *Staying home hurts*. During the virus crisis, Joe and I still would rather stick with our Stay Home investment strategy than the Go Global alternative. However, the US MSCI has been underperforming the rest of the world except for the EMU during the current correction. That makes sense for now, since P/E multiples have been stretched the most in the US. Here is the performance derby of the major MSCI stock indexes in local currencies since February 19: Emerging Markets (-7.7%), Japan (-9.3), All Country World ex-US (-10.1), All Country World (-11.6), UK (-11.7), US (-12.8), and EMU (-13.2). (See [Table](#).)

Virology III: Earnings Recession. Goldman Sachs helped to depress stock prices last week by predicting that S&P 500 earnings would probably be flat this year as a result of the pandemic's depressive impacts on the global economy. They might be right, but the stock market will recover once investors perceive that the worst is over for the global health crisis and that earnings will start growing along with the global economy. We think that could happen by mid-year. Consider the following:

(1) *YRI revenues and earnings outlook revised*. We too are lowering our earnings growth rate to flat this year, but with earnings falling on a y/y basis before resuming growth during the second half of this year. Here are our previous and new quarterly forecasts for the growth rate of S&P 500 operating earnings per share: Q1 (2.2%, -5.5%), Q2 (4.1, -8.0), Q3 (4.4, 2.0), and Q4 (5.9, 7.1). Next year, we expect earnings to grow 7.4% to \$175, from \$163 per share this year, as the global economy recovers from the virus shock ([Fig. 7](#)). (Previously, we had been forecasting \$172 for 2020 and \$181 for 2021.) We are lowering our S&P 500 revenues growth rate from 5% to 2% for this year, but anticipating better growth of 6% in 2021 ([Fig. 8](#)). (See [YRI S&P 500 Earnings Forecast](#).)

(2) *Consensus earnings estimates falling*. Industry analysts are also cutting their earnings growth forecasts for Q1-Q4, which have fallen to 0.7%, 4.8%, 9.3%, and 11.4% during the February 20 week ([Fig. 9](#)). For the full year, their growth estimate is down from 9.0% at the beginning of this year to 7.3% during the February 20 week ([Fig. 10](#)). Those numbers are too high and are bound to be lowered, particularly as more companies preannounce disappointing Q1 results during March and provide cautious guidance (if any guidance at all) about the rest of the year.

Virology IV: Mostly Bad News. Melissa and I continue to monitor the impact of the virus on the global economy and financial markets. Let's review some of the latest developments:

(1) *Extreme measures.* COVID-19 continues to spread around the world, and people are dying. Given the reaction of global stock markets, fear about the virus seems to be spreading faster than the virus, as we observed last week. Much of that fear has actually been fanned by governments' extreme responses such as quarantines, suspensions of international flights, border closings, school closings, and warnings to prepare for the worst. That has seriously disrupted global supply chains and caused businesses and tourists to cancel travel plans. The sooner that the extreme measures work, the sooner will the global economy recover from the coronavirus shock.

(2) *First signs of trouble in US services.* The first sign of trouble in the economic data was actually in the IHS Markit flash estimate for the US non-manufacturing PMI, which fell from 53.4 during January to 49.4 last month ([Fig. 11](#)). We will find out on Wednesday whether the official ISM NM-PMI took a similar dive.

The flash estimate for the US manufacturing PMI dipped from 51.9 during January to 50.8 last month ([Fig. 12](#)). We will find out today whether January's improvement in the official M-PMI is weighed down by the virus outbreak and the disruption of supply chains. It should be, though the averages of the five Fed regional business surveys showed strength in overall activity and in orders last month ([Fig. 13](#)).

(3) *Really ugly Chinese PMIs.* The Chinese government's extreme measures to contain the virus outbreak have had an extreme effect on China's economy. That's evidenced by the freefalls in China's PMIs during February, with the official M-PMI down to 35.7 and the official NM-PMI down to 29.6 ([Fig. 14](#)). The major components of the M-PMI were even uglier than the composite: output (27.8), new orders (29.3), employment (31.8) ([Fig. 15](#)).

(4) *Fed to the rescue with shock-and-awe rate cut?* On Friday at 2:30 pm, Fed Chair Jerome Powell issued the following reassuring [statement](#):

"The fundamentals of the U.S. economy remain strong. However, the coronavirus poses evolving risks to economic activity. The Federal Reserve is closely monitoring developments and their implications for the economic outlook. We will use our tools and act as appropriate to support the economy."

Another round of Fed rate-cutting is widely expected even though it's hard to imagine how that will stop the pandemic of fear. It could backfire if it leads people to fear that the Fed has concluded that the situation is so bad that they have to do something. It would also increase fears of negative interest rates. Nevertheless, the markets are expecting that the federal funds rate will be lowered by 100 basis points over the next 12 months. The surprise is that it could all happen as a one-shot rate cut.

Virology V: Viruses Fighting the Cover-Story Curse. COVID-19 is the front-cover story of *The Economist* this week. The magazine's front cover has a very long history as a contrary indicator. It was only two weeks ago that the magazine's front cover was titled "Big tech's \$2trn bull run" and featured stampeding robot-looking bulls. That's the good news.

The bad news is that much worse is still ahead for all of us on Earth, according to *The Economist*: "A broad guess is that 25-70% of the population of any infected country may catch the disease. China's experience suggests that, of the cases that are detected, roughly 80% will be mild, 15% will need treatment in hospital and 5% will require intensive care. Experts say that the virus may be five to ten times as lethal as seasonal flu, which, with a fatality rate of 0.1%, kills 60,000 Americans in a bad year. Across the world, the death toll could be in the millions."

Like a two-handed economist, the same issue of *The Economist* includes a relatively upbeat story, titled "With its epidemic slowing, China tries to get back to work," which reports: "All being well, many analysts think that China's businesses will be back to full capacity by the end of March."

Here's a list of alarming front-cover stories about the present and past virus outbreaks:

May 22, 1995, *Newsweek*, "[Killer Virus: Beyond the Ebola Scare: What Else Is Out There?](#)"

April 26, 2003, *The Economist*, "[The SARS virus: Could it become China's Chernobyl?](#)"

May 5, 2003 *Time*, "[The Truth About SARS.](#)"

May 5, 2003 *Time (Asia)*, "[SARS NATION: How this epidemic is transforming China.](#)"

September 29, 2014, *Bloomberg Businessweek*, "[Ebola Is Coming.](#)"

October 13, 2014, *Time for Kids*, "[Chasing Ebola in America; in West Africa.](#)"

December 10, 2014, *Time*, "[Time's person of the year: the Ebola fighters.](#)"

March 11, 2016, *Newsweek*, "[Zika Bites.](#)"

February 1, 2020, *The Economist*, "[How bad will it get?](#)"

February 10, 2020, *Bloomberg Businessweek*, "[Man vs. Microbe—The Coronavirus Is Just the Beginning. We are so not ready for this.](#)"

February 27, 2020, *The Economist*, "[It's going global.](#)"

Yet here we are: There is still human life on Earth. The viruses haven't beaten us so far. By the way, the expression "this too shall pass" is a Persian adage reflecting on the human condition.

CALENDARS

US: Mon: Motor Vehicle Sales 16.8mu, Construction Spending 0.7%, ISM & IHS Markit M-PMIs 50.5/50.8. **Tues:** Mester, Evans. (DailyFX estimates)

Global: Mon: Eurozone, Germany, France, and Italy M-PMIs 49.1/47.8/49.7/49.0, UK M-PMI 51.9, Italy GDP 0.2%, RBA Cash Target Rate 0.75%, OECD Publishes Interim Economic Outlook. **Tues:** Eurozone Headline & Core CPI Flash Estimate 1.2%/1.2% y/y, Eurozone Unemployment Rate 7.4%, Japan Consumer Confidence 38.3, China Caixin NM-PMI 48.0, Australia GDP 0.4%q/q//2.0%y/y. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index fall 11.6%, for its biggest drop since October 2008 and its fourth decline in six weeks. The US MSCI ranked 37th of the 49 global stock markets we follow in a week when all 49 countries fell in US dollar terms. That compares to a 9.0% decline for the AC World ex-US index, which was its worst since August 2001. All regions of the world moved lower. EM Asia was the best performer, albeit with a decline of 5.8%, followed by BRIC (-6.6%). EM Eastern Europe (-14.3) was the biggest underperformer, followed by EM Latin America (-10.9), EMU (10.8), EMEA (-10.4), and EAFE (-9.6). Jordan was the best-performing country, albeit with a drop of 0.7%, followed by Morocco (-1.2), Taiwan (-3.1), Hong Kong (-3.5), Malaysia (-4.2), and China (-4.3). Of the 32 countries that underperformed the AC World ex-US MSCI last week, Greece fared the worst, falling 17.7%, followed by Belgium (-16.4), South Africa (-15.7), Poland (-15.2), Russia (-14.4), and Argentina (-14.4). In February, the US MSCI fell 8.3% for its worst decline since December 2018, and ranked 27/49 as the AC World ex-US index fell 8.1% and all regions moved lower in February. China was the sole gainer, rising 1.0% for the month and pacing these outperforming regions: EM Asia (-2.9) and BRIC (-3.5). EM Eastern Europe was February's worst-performing region with a drop of 14.2%, followed by EM Latin America (-12.3), EMEA (-

11.9), EAFE (-9.2), and EMU (-8.8). The US MSCI's ytd ranking fell 10 places last week to 16/49 as its ytd performance fell to -8.3% from a 3.7% gain a week earlier, but it's still ahead of the 10.6% decline suffered by the AC World ex-US. EM Asia and BRIC are the best performers ytd, albeit with declines of 7.3% and 7.8%, respectively. The worst-performing regions: EM Eastern Europe (-17.7), EM Latin America (-17.3), EMEA (-14.6), EMU (-11.6), and EAFE (-11.2). The best country performers ytd: Egypt (0.2), Jordan (0.0), Morocco (-0.8), Israel (-2.2), Portugal (-2.4), and China (-3.9). The worst-performing countries so far in 2019: Greece (-26.0), Poland (-20.6), South Africa (-20.6), Thailand (-20.1), and Brazil (-20.0).

S&P 1500/500/400/600 Performance ([link](#)): All three of these market-cap indexes tumbled last week in their worst declines since the financial crisis in October 2008, and were lower for the fourth time in six weeks. LargeCap's 11.5% decline wasn't as deep as the routs recorded by the SmallCap (-12.4%) and MidCap (-13.0%) indexes. All three indexes ended the week in a correction, but SmallCap was close to a full-fledged bear market. LargeCap ended the week 12.8% below its 2/19 record high of 3386.15, MidCap finished 13.9% below its record high on 1/16, and SmallCap ended up 19.4% below its 8/29/18 record. All 33 sectors moved lower w/w for the first time since May 2019, down from 4/33 sectors rising a week earlier. MidCap Consumer Staples was the best performer, albeit with drop of 9.3%, followed by LargeCap Communication Services (-9.4), SmallCap Consumer Staples (-9.6), SmallCap Communication Services (-9.8), and SmallCap Tech (-9.8). MidCap Energy (-19.0) was the biggest underperformer last week, followed by SmallCap Energy (-15.7), LargeCap Energy (-15.4), SmallCap Consumer Discretionary (-14.9), and MidCap Utilities (-14.8). All three market cap indexes fell during February for a second straight month; those drops were their biggest since December 2018 and followed four straight monthly gains through December 2019. LargeCap's 8.4% drop was better than the declines recorded by MidCap (-9.6) and SmallCap (-9.7). Just one of the 33 sectors advanced in February, compared to 10 rising in January. February's best performers: SmallCap Communication Services (1.0), MidCap Consumer Staples (-4.1), MidCap Health Care (-4.6), LargeCap Communication Services (-6.3), and LargeCap Real Estate (-6.5). February's biggest laggards: MidCap Energy (-22.3), SmallCap Energy (-18.7), LargeCap Energy (-15.3), MidCap Utilities (-13.7), and SmallCap Materials (-13.1). All three indexes are now down on a ytd basis, but LargeCap's 8.6% drop is smaller than the declines recorded for MidCap (-12.1) and SmallCap (-13.4). Just one of the 33 sectors is higher so far in 2020, with the best performers led by SmallCap Communication Services (2.4), LargeCap Information Technology (-3.8), LargeCap Utilities (-4.4), LargeCap Real Estate (-5.3), and LargeCap Communication Services (-5.7). The biggest laggards of 2020 to date: MidCap

Energy (-39.8), SmallCap Energy (-37.5), LargeCap Energy (-24.7), SmallCap Materials (-19.5), and SmallCap Consumer Staples (-17.6).

S&P 500 Sectors and Industries Performance ([link](#)): All 11 S&P 500 sectors fell last week, for a second straight week, and recorded their worst declines since the 2008-09 financial crisis. The S&P 500 tumbled 11.5% for its worst performance since October 2008. Five of the 11 sectors outperformed the S&P 500, down from nine beating the index a week earlier when it fell 1.3%. Communication Services' 9.4% decline was the best performance for the week, ahead of the declines recorded by Consumer Staples (-10.4), Health Care (-10.6), Information Technology (-11.1), and Consumer Discretionary (-11.2). Energy was the biggest underperformer with a decline of 15.4%, followed by Financials (-13.5), Materials (-12.7), Real Estate (-12.3), Industrials (-12.2), and Utilities (-11.8). The S&P 500 fell 8.4% in February for its worst performance since December 2018 as 11 sectors moved lower. That compares to six rising and six beating the S&P 500's 0.2% decline in January. The leading sectors in February, albeit with declines: Communication Services (-6.3), Real Estate (-6.5), Health Care (-6.8), Tech (-7.4), Consumer Discretionary (-7.7), and Consumer Staples (-8.2). February's laggards: Energy (-15.3), Financials (-11.3), Utilities (-10.3), Industrials (-9.6), and Materials (-8.7). The S&P 500 is now down 8.6% so far in 2020, compared to a 1.3% ytd decline a week earlier. All 11 sectors are down ytd, with six beating the index. The leading sectors ytd: Tech (-3.8), Utilities (-4.4), Real Estate (-5.3), Communication Services (-5.7), Consumer Discretionary (-7.2), and Consumer Staples (-8.0). The laggards of 2020: Energy (-24.7), Materials (-14.3), Financials (-13.8), Industrials (-10.1), and Health Care (-9.5).

Commodities Performance ([link](#)): Last week, the S&P GSCI index fell 10.5% for its biggest drop since May 2011. It's now 19.4% since its recent high on 1/6 and ended the week deeper in a bear market at 28.7% below its cyclical high on 10/3/18. Lead was the best performer last week with a gain of 1.2%, followed by Coffee (1.0%), Soybeans (-0.7), and Aluminum (-1.0). Crude Oil was the biggest decliner, with a drop of 16.1%, followed by Unleaded Gasoline (-15.8), Brent Crude (-14.3), GasOil (-13.2), and Natural Gas (-12.2). February saw just four of the 24 commodities climb as the S&P GSCI Commodities index fell 7.8%. That compares to four also rising in January when the S&P GSCI Commodities index fell 10.9% for its worst decline since November 2018. February's best performers were Coffee (8.5%), Soybeans (2.3), Copper (1.3), and Lean Hogs (1.1). February's laggards: Crude Oil (-13.2), GasOil (-12.5), Brent Crude (-12.3), Live Cattle (-10.1), and Heating Oil (-9.3). Just three of the 24 commodities that we follow are up so far in 2020: Sugar (5.4), Cocoa (5.2), and Gold (2.9). The worst performers ytd: GasOil (-28.4), Heating Oil (-27.0), Crude Oil (-26.7), Brent Crude (-

24.7), and Natural Gas (-23.1).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index tumbled 11.5% last week, and weakened relative to its short-term 50-day moving average (50-dma) and its long-term 200-day moving average (200-dma). It fell below its 50-dma for the first since October and solidly below its 200-dma for the first time since January 2019. Its 50-dma relative to its 200-dma fell for the first time in 19 weeks. It weakened to 7.0% above its 200-dma from 7.6% a week earlier, which had been the highest since May 2012. The S&P 500 has formed a Golden Cross for 49 weeks after 17 weeks in a Death Cross formation. The S&P 500's 50-dma dropped for the first time in 21 weeks, as the price index dropped to a 14-month low of 9.7% below its falling 50-dma from 1.6% its rising 50-dma a week earlier. That's down from a 10-month high of 4.6% above its rising 50-dma in mid-January and from 6.6% above during February 2019—its highest level since October 2011. However, the 200-dma rose for a 38th week. It had been rising for 16 weeks through mid-May after falling from October 2018 to February 2019 in the first downtrend since May 2016 (when it had been slowly declining for nine months). The index traded below its 200-dma for the first time in 39 weeks as it dropped to a 13-month low of 3.4% below its rising 200-dma from 9.3% above its rising 200-dma a week earlier. That's down from a 24-month high of 11.2% in mid-February and compares to a seven-year high of 13.5% above its rising 200-dma during January 2018 and 14.5% below on 12/24/18, which was the lowest since April 2009.

S&P 500 Sectors Technical Indicators ([link](#)): All 11 S&P 500 sectors traded below their 50-dmas last week for the first time since early August. That's down from nine sectors above a week earlier, when Energy and Financials were the only sectors trading below their 50-dmas. The longer-term picture—i.e., relative to 200-dmas—also collapsed in the latest week. Ten of the 11 sectors, all but Information Technology, are now trading below their 200-dma. That's the lowest count since January 2019 and is down from all 11 above during the three weeks surrounding the new year, when Energy was above for the first time since October 2018. However, ten sectors are still in the Golden Cross club (with 50-dmas higher than 200-dmas), unchanged from a week earlier. That compares to just two sectors in the club during February 2019 and all 11 in the club during January 2018. Energy has not been in a Golden Cross for 67 straight weeks. All 11 sectors have falling 50-dmas now, a swift reversal from a week earlier when 10 sectors had rising 50-dmas. Seven sectors have rising 200-dmas now, but barely so, in the lowest count since mid-August. Turning down in the latest week were Financials, Industrials, and Materials. Rounding out the declining 200-dma club is Energy, which has been mostly falling since October 2018. That compares to just two sectors with rising 200-dmas in

January 2019, 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 matched its preliminary estimate of 2.1% (saar), though there were changes within some components. Last quarter's increase matched Q3's 2.1%, which was also in line with Q2's 2.0%—though a percentage point below the 3.1% posted during Q1 2019. Trade remained the biggest contributor to Q4 growth, with real exports (to 2.0% from 1.4%, saar) slightly stronger than first reported, while imports (-11.5 from -11.6) virtually matched its preliminary double-digit slide. Real residential investment (6.2 from 5.8) was slightly stronger than first reported, and also faster than Q3's 4.6%—which was the first positive reading in seven quarters. Growth in real personal consumption expenditures (1.7 from 1.8) was little changed from the preliminary estimate; however, spending on nondurable goods (-0.3 from 0.8) was revised from a positive to a negative, while spending on durable goods (2.6 from 2.1) and spending on services (2.2 from 2.0) were revised higher. Real nonresidential fixed investment (-2.3 from -1.5) declined at a faster pace, led by a steeper decrease in equipment (-4.4 from -2.9) spending and a slower increase in intellectual property products (4.0 from 5.9); the decline in structures (-8.1 from -10.1) was less negative. Real inventory investment (to \$13.0 billion from \$6.5 billion) remained the biggest drag on growth, though was better than first reported; it was down notably from Q3's \$69.4 billion.

Contributions to GDP Growth ([link](#)): Revisions continue to show that trade and consumer spending were the biggest positives to Q4 real GDP growth, while inventory investment was the biggest drag. The details: 1) Real net exports (1.53ppts) gave the biggest boost to Q4 real GDP as real imports (1.29) contracted for the first time in nearly a year, and real exports (0.24) expanded. 2) Real consumer spending added 1.17ppts to Q4 GDP growth last quarter, with services (1.03) the biggest contributor; real goods consumption added 0.14ppt—all durable goods (0.18). 3) Real government spending (0.46ppt) contributed to GDP growth every quarter of 2019, with federal (0.25) and state & local government (0.21) contributing at a comparable pace last quarter. 4) Real residential investment (0.22ppt) contributed to GDP growth for the second quarter after subtracting from growth the prior six quarters. 5) The biggest negative contribution came from inventory investment (-0.98ppt), which hasn't contributed positively to growth since Q1-2019. 6) Real nonresidential fixed investment (-0.31ppt) subtracted from GDP growth for the third consecutive quarter, led by continued declines in both structures (-0.24) and equipment (-0.26); spending on intellectual property products (0.19) continued to add to

GDP growth.

Personal Income & Consumption ([link](#)): Both nominal and real consumer spending continued their ascents in January, both reaching new record highs yet again after posting only one decline during all of 2019. The outlook remains bright for 2020, as both incomes and savings are at high levels and inflation is subdued. Nominal spending advanced 0.2% in January and 5.1% the past 13 months, while real spending rose 0.1% and 3.4% over the comparable periods. Real wages & salaries climbed to a new record high at the start of this year, rebounding 0.4% from December's 0.1% dip, and is up 1.3% during the six months through January. In the meantime, personal savings, based on the 12-month sum, is at a record-high \$1.3 trillion. As for inflation, January data show headline inflation increased only 1.7% y/y, with the core rate—the Fed's preferred measure—up only 1.6%, holding below its target rate of 2.0% for the 16th consecutive month.

Durable Goods Orders & Shipments ([link](#)): Core capital goods orders and shipments continued to fluctuate around their record highs at the start of this year. Nondefense capital goods orders ex aircraft (a proxy for future business investment) rebounded 1.1% in January to within 0.6% of July 2018's record high, after falling four of the final five months of 2019 by 0.9%. Core capital goods shipments (used in calculating GDP) also rebounded 1.1% to within 0.3% of May 2019's record high; these shipments contracted 1.5% the final six months of last year. Total durable goods orders were little changed in January after rebounding 2.9% in December from November's 3.1% drop. Both defense and civilian aircraft orders have been very volatile in recent months. Durable goods ex transportation rose 0.9% in January—and 3.6% excluding defense. The manufacturing outlook will remain uncertain until the coronavirus is contained—with shutdowns in Asian plants impacting supply chains.

Pending Home Sales ([link](#)): "This month's solid activity—the second-highest monthly figure in over two years—is due to the good economic backdrop and exceptionally low mortgage rates," said Lawrence Yun, NAR's chief economist. The Pending Home Sales Index rebounded 5.2% to 108.8 in January, after ending 2019 on a down note—with the yearly rate accelerating 5.7%. Regionally, sales rose in three of the four regions in January, though all reported sales above year-ago levels: South (8.7% m/m & 7.1% y/y), Midwest (7.3 & 6.5), Northeast (1.3 & 1.2), and the West (-1.1 & 5.5). Yun noted that inventory remained very low—with December's and January's combined supply the lowest since 1999. "Inventory availability will be the key to consistent future gains," according to Yun.

GLOBAL ECONOMIC INDICATORS

Eurozone Economic Sentiment Indicators ([link](#)): The Economic Sentiment Indexes (ESI) for both the Eurozone (+0.9 point to 103.5) and the EU (+0.5 to 103.0) continued to climb in February after posting sizable gains in January. Both bottomed last October at their lowest readings since January 2015. Among the Eurozone's largest economies, ESIs in the Netherlands (+2.0 points to 102.2), France (+1.9 to 105.8), and Spain (+1.2 to 102.7) all saw marked improvements, with Germany (+0.6 to 101.8) also in the plus column—climbing 3.6 point the past four months; Italy's was unchanged at 101.3. At the sector level, within the Eurozone, consumer (+1.5 to -6.6) confidence posted the biggest gain, followed by industry (+0.9 to -6.1), and services (+0.2 to 11.2); both construction (-0.5 to 5.3) and retail trade (-0.1 to -0.2) confidence took a step back.

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