



MORNING BRIEFING

March 9, 2020

Three Coins in the Fountain

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

(1) Spooky bond market. (2) Nostalgia. (3) Coronavirus math: What if lots more people are infected but with mild symptoms? (4) Coronavirus worldometer. (5) The relevance of Tom Hanks, Kelly Clarkson, and Clint Eastwood. (6) Putting subjective probabilities on the Good, the Bad, and the Ugly: 65%/25%/10%. (7) Good: Panic Attack #66 ends soon as pandemic of fear recedes too—65%. (8) Stocks are cheap compared to bonds. (9) S&P 500 forward revenues and earnings remain amazingly resilient at record highs. (10) Bad: Excessively high Fear Factor causes a recession and a bear market—25%. (11) Ugly: Zombie Apocalypse—10%; to avert, the Fed will ZIRP and QE again, and rev up the monetary helicopters. (12) Movie review: “The Invisible Man” (+).

Strategy I: The Da Vinci Code Redux. One of our accounts sent me an email at the end of Friday’s trading day with “Spooky” in the subject line. He observed that the 10-year US Treasury bond yield had bottomed at a record low of 0.667% at 10:00 a.m. It was back up to 0.767% by the end of the day. Why is that spooky? Friday just happened to be March 6. Eleven years ago, on March 6, 2009, the S&P 500 made an intra-day bottom of 666.79. That marked the beginning of the latest and greatest bull market, as the S&P 500 proceeded to soar 407.8% to a record high of 3386.15 on February 19 of this year.

In my book, [Predicting the Markets](#) (2018), I recounted:

“On July 27, 2009, I wrote: ‘I prefer meltups to meltdowns. The S&P 500 has been on a tear ever since it bottomed at the intraday low of 666 on Friday, March 6. We should have known immediately that this devilish number was the bear market low. It took me a few days to conclude that it probably was the low. ... I felt like Tom Hanks in *The Da Vinci Code*.’

Subsequently, when I told this story to our accounts, I said that I called the bottom in stocks more as a symbolist than as an investment strategist. I remained bullish on stocks as well as bonds for several years after the financial crisis of 2008. I broadened the widely known adage ‘Don’t fight the Fed’ to the more general ‘Don’t fight the central banks.’”

At the risk of pushing my luck as a symbolist, let me observe that, by my count, the “coronavirus correction” is Panic Attack #66 since the start of the current bull market. (See our

[Table of S&P 500 Panic Attacks Since 2009](#).) Here is the Da Vinci Code math: 666 minus 66 is 600. The market's record high of 3386 less 600 is 2786. That should be the bottom. It would still be a correction with a 17.7% decline. Blame Da Vinci if it isn't. We got close to that level on February 28 with an intraday low of 2855.84. Maybe 0.667% was the bottom for the bond yield.

On a more serious note, let's do some coronavirus math:

(1) *Mostly mild and undercounted cases.* The available stats so far show that 80% of reported cases with the infection have mild symptoms and require no hospitalization, 17% require hospitalization, and 3% die from the virus or complications resulting from it. There is some uncertainty about whether the death rate might be a bit higher (like 3.4%), but the biggest uncertainty surrounds the number of people who have been infected with the coronavirus.

(2) *What if twice as many people have been infected?* The official worldwide case count has surpassed 100,000, but the true number is probably much higher because the virus is so contagious but with very mild symptoms for the vast majority of those infected. Assuming that the serious and fatal counts are accurate and that 200,000 people have been infected, that raises the number of mildly infected people from 80,000 to 180,000. In this scenario, the percentages are 90.0% mild, 8.5% serious, and 1.5% fatal.

(3) *Highly contagious, but won't spread to all of us.* Oh, and keep in mind that we aren't all going to be infected. China has a population of 1.4 billion. There are 59 million people in the Hubei province, which is where the outbreak started. So far, 3,000 deaths have been reported in all of China from the virus.

(4) *Real-time case-counter.* According to a useful "[coronavirus worldometer](#)," as of Sunday at 14:30 GMT, there were 107,802 cases of the disease, 3,661 deaths, and 60,924 recoveries. There were 43,217 active cases, with 37,176 reported as "in mild condition." (Look at the log scale versions of their charts!)

(5) *Bottom line: Don't panic!* As Kelly Clarkson [sings](#), "What doesn't kill you makes you stronger."

Now let's turn to the serious issues at hand for investors.

Strategy II: Three Scenarios for Investors. As we observed last week, there are a few knowns about the unknown impact of COVID-19 on global health, on the global economy, and on global financial markets. There are still many unknowns about it. Based on what is known and not known so far, we consider below three possible scenarios and put our subjective probabilities on them (the title of Sergio Leone's 1966 epic spaghetti western starring Clint Eastwood, "The Good, the Bad, and the Ugly," comes to mind):

The Good (Correction: 65% subjective probability). In this scenario, COVID-19 abates within the next two to three months without any further cases reported anywhere—similar to the previous coronavirus outbreaks of SARS (2003-2004) and MERS (2012). If it returns in the fall, as the seasonal flu does, we'd simply have to learn to live with it. Along the way, better testing, new vaccines, and cures might minimize the dangers of future outbreaks. Lessons learned from the current outbreak might lead to advances that help us deal with future outbreaks of "novel" viruses, as we discussed in Thursday's [Morning Briefing](#).

In this scenario, the whole world would sigh with relief, and the global economy would rebound smartly. So would global stock prices, commodity prices, and bond yields. Let's sketch it out:

(1) *Global economy rebounds led by US.* The global C-PMI plunged from 52.2 during January to 46.1 during February, with the global M-PMI dropping from 50.4 to 47.2 while the global NM-PMI plunged from 52.7 to 47.1 ([Fig. 1](#) and [Fig. 2](#)). Leading the way down was the NM-PMI for emerging markets. The epicenter of February's COVID-19 shock to the global economy was China, where the official M-PMI fell sharply to 35.7 and the NM-PMI plummeted to 29.6 ([Fig. 3](#)).

China is showing signs of recovering already. On March 7, Bloomberg [reported](#): "In Hubei province, the epicenter of the virus outbreak, new cases have been gradually trending down to an average of less than 150 per day this week compared to above 400 a week ago. Fresh cases elsewhere have slowed to a trickle, with most provinces reporting no new cases in consecutive days and only sporadic infections."

The article suggests anecdotally that China's manufacturing sector is still running well below capacity amid curbs on transportation and strict anti-virus measures. The Chinese government is likely to respond with a significant economic stimulus program if the pace of economic recovery is too slow.

So far, the US economy continued to perform well through February. The month's Markit flash estimate showed that the US NM-PMI dropped sharply from 53.4 during January to 49.4 last month. The release of that news on February 21 helped to send the S&P 500 down 1.1% that day. BUT: The more comprehensive and credible NM-PMI compiled by the Institute for Supply Management, which was released on March 4, INCREASED from 55.5 to 57.3, the highest reading since last February ([Fig. 4](#))! This reading has been associated with 3% growth in real GDP in the past. Of the survey's industries, 16 reported growth, while two reported weakening activity.

February's [Beige Book](#), the Fed's survey of business activity, released Wednesday, reported that the economy "expanded at a modest to moderate rate over the past several weeks." However, a word of caution: The word "coronavirus" infected the report, appearing 50 times in the context of a potential threat to economic growth.

Friday's US employment report for February was very strong, with a payroll increase of 273,000. The bears immediately observed that construction employment, which was up 42,000, was boosted by the mild weather. Maybe so, but the ongoing drop in mortgage rates and drop in the unemployment rate are also boosting mortgage applications for refinancing (a windfall for consumers), mortgage applications for new purchases, new home sales, housing starts, and existing home sales ([Fig. 5](#) and [Fig. 6](#)).

(2) *The Fed eases one more time; bond yield rebounds.* Might Friday's 0.66% bond yield have been the low, with the yield soon to snap back over 1.00%? In this scenario, it might have been. It could easily retest this low if the Federal Open Market Committee (FOMC) cuts the federal funds rate again at its next scheduled meeting on March 17 and 18, as is widely expected—perhaps by another 50 basis points to a range of 0.50% to 0.75% following the cut on March 3 after the committee's unscheduled emergency session.

Friday's plunge in the two-year US Treasury note yield to 0.49% and in the 12-month federal funds rate future to 0.20% certainly suggest mounting expectations that the federal funds rate will approach zero in coming months ([Fig. 7](#)). That could push the nominal bond yield lower, along with its comparable TIPS yield and embedded inflationary expectations spread ([Fig. 8](#) and [Fig. 9](#)).

But if the viral news about the virus becomes less virulent, as already seems to be happening in China, then the bond yield might not follow the federal funds rate lower. Moreover, the Fed

might hold off on another rate cut if the good news springs forward along with daylight saving time. The yield curve, which inverted sharply last week, could flatten out again as it did late last year and earlier this year, reducing the chances of an outright recession ([Fig. 10](#)).

(3) *Stock market correction ends soon; bull market resumes.* In this scenario, Panic Attack #66 would be followed by Relief Rally #66, as the S&P 500 rebounds solidly over 3000 on its way to a new record high of 3500 by the end of this year. In the March 2 [Morning Briefing](#), Joe and I lowered our 2020 growth rate for S&P 500 earnings from up 5.5% to flat—with a decline during the first half of this year followed by a return to growth during the second half of this year into next year—reflecting the damage to the global economy already done by the pandemic of COVID-19 fear. (See [YRI S&P 500 Earnings Forecast](#).) Also last week, Debbie and I lowered our 2020 real GDP growth rate slightly from 2.3% to 2.0%, reflecting our view that the US economy is in better shape than many overseas economies.

Earlier this year, as the stock market meltup brought the S&P 500 close to our year-end target of 3500, with the P/E rising to 19.0 on February 19, we warned that the market was vulnerable to a correction. So we stuck with 3500 as our year-end target rather than raise it. We are sticking with it for now, even though we've lowered our earnings projections. Why? Take a look at the bond yield. It is just north of zero, while the dividend yield is just south of 2.00%, which should provide some support for the stock market ([Fig. 11](#)).

Furthermore, while industry analysts have been lowering their earnings estimates for Q1 and Q2, we continue to be impressed by the resilience of S&P 500 forward earnings, which remained in record-high territory through the February 27 week ([Fig. 12](#)). Also impressive is that S&P 500 forward revenues was still making record highs through the February 27 week ([Fig. 13](#)).

The Bad (Bear Market: 25% subjective probability). While I am a doctor of economics, not virology, it seems to me that the pandemic of fear has been spreading faster than the virus. The response to the fear is more damaging to the economy than the virus itself. The Fear Factor is much greater in Panic Attack #66 than in all the previous ones. The media loves the story and is reporting every case in every neighborhood. Government officials are resorting to extreme measures (quarantines, travel bans, border closings, school closings, and dire warnings), partly to show that they are “doing something.”

I've spoken informally to a handful of doctors about the virus (none specializing in virology). Their consensus is that COVID-19 is highly contagious, very hard to contain, and likely underreported since most cases are very mild. If so, then the 80% incidence of cases reported as mild might be a higher percentage, while the percentages of serious and fatal cases are lower than reported, as discussed above.

Nevertheless, the Fear Factor is spreading quickly among the public. Businesses are curbing business travel, cancelling group meetings, and asking their employees to work from home. Universities are preparing to have students take courses remotely. Amtrak is canceling its high-speed Acela nonstop service between Washington, DC and New York through late May as consumer demand weakens amid concern over the coronavirus outbreak.

The fearful response to the virus by governments, the media, and the public is already depressing the global economy; some signs of that and where it could lead us in The Bad scenario follow:

(1) *Global economy sinks into a recession.* According to China Passenger Car Association, new car sales in China plummeted 80% year over year in February 2020. This marked the biggest monthly plunge on record, as coronavirus concerns kept showroom traffic very low. Toyota's sales in China dropped 89% year over year to 23,800 during February. In Germany, passenger car production over the 12 months through February plummeted 9% year over year ([Fig. 14](#)).

The prices of both crude oil and copper have declined sharply in recent days ([Fig. 15](#)). However, Debbie and I would have expected a bigger drop in these prices given the free-falls in China's M-PMI, China's auto sales, and Germany's auto production. We have to say the same about the resilience of the CRB raw industrials spot price index ([Fig. 16](#)). Maybe all these sensitive commodity prices are about to tank, confirming the deepening of the global recession. That seems to be the message from the bond market, where the 10-year yield is highly correlated with the ratio of the price of copper to the price of gold, which is inversely correlated with the TIPS yield ([Fig. 17](#) and [Fig. 18](#)).

(2) *The Fed goes to zero and revives QE bond purchases.* In the global recession scenario, economic growth would most likely fall in the US as well. The FOMC would lower the federal funds rate to zero. To avoid going down the path of negative interest rates, which have been counterproductive in both the Eurozone and Japan, the Fed would likely revive quantitative

easing (QE) bond purchases. In this scenario, the 10-year US Treasury bond yield could fall closer to zero.

(3) *Stock market enters bear market.* Stock market corrections occur when the forward P/E of the S&P 500 drops on fears of a recession, yet earnings continue to grow, belying that fear. When the recession scare evaporates, the P/E rebounds as earnings continue to rise. Bear markets occur when both the P/E and forward earnings take dives.

As noted above, forward earnings currently remains remarkably resilient. That's because industry analysts are cutting their estimates for the first half of this year, while holding onto an optimistic outlook for an earnings rebound during the second half of this year going into next year. Forward earnings is giving less and less weight to this year's consensus earnings estimate and more to next year's as 2021 approaches.

In a prolonged global health crisis scenario, the global economic recession would be long lasting and deep. March Madness is possible as the upcoming Q1 earnings season approaches in April if companies provide analysts and investors with very dire guidance about the prospects for their businesses, not just for Q1 and Q2 but for the entire year.

The Ugly (Zombie Apocalypse: 10% subjective probability). We've saved the worst scenario for last. It is widely known that 50% of investment-grade nonfinancial corporate bonds are rated BBB, i.e., nearly junk bonds, and vulnerable if the economy slows significantly, depressing corporate cash flow and leading to a wave of defaults. These BBB-rated companies are our economy's corporate zombies, as are lots of companies that have raised money with leveraged loans. So are all the companies that have already issued plenty of bonds rated as junk. If investors stop reaching for yield and instead reach for quality, the result would be a severe credit crunch that would bury lots of zombies. Let's look at this ugly scenario:

(1) *Global economy plunges into a depression.* For a very frightening script of how this horror movie plays out, I'll say once again: See the October 2019 [Global Financial Stability Report](#) prepared by the International Monetary Fund. It is titled "Lower for Longer" but should have been titled "Is a Zombie Apocalypse Coming?" Here is the disturbing conclusion: "In a material economic slowdown scenario, half as severe as the global financial crisis, corporate debt-at-risk (debt owed by firms that cannot cover their interest expenses with their earnings) could

rise to \$19 trillion—or nearly 40 percent of total corporate debt in major economies, and above post-crisis levels.”

(2) *Fed and Treasury launch helicopter money program.* To avert the Zombie Apocalypse, the Fed would most likely start buying corporate bonds, which is what the European Central Bank and the Bank of Japan have been doing for the past few years. The problem is that the Federal Reserve Act prohibits such purchases. It currently limits Fed purchases to “any obligation which is a direct obligation of, or fully guaranteed as to principal and interest by, any agency of the United States.” That translates to buying US government and agency debt and mortgages issued by federal housing agencies.

Bummer! Well, maybe not. On Friday, Boston Fed President Eric Rosengren suggested that it’s time to change the Federal Reserve Act to “allow the central bank to purchase a broader range of securities or assets.” Rosengren also called on fiscal policy to do more. Thankfully, he does not support negative interest rates.

In my forthcoming book, *Fed Watching for Fun & Profit*, I start the Epilogue with a question: “What’s next?” My answer follows:

“The world’s major central banks have tried numerous unconventional policies to boost inflation and stimulate faster economic growth, including zero interest rates, ultra-easy forward guidance, QE, and negative interest rates. These unconventional tools have become conventional since the Great Financial Crisis. Now there is chatter about the central banks considering ‘helicopter money.’ ... In this scenario, the central bank could provide the money to finance either a tax cut or government spending.”

(3) *Stock market heading back toward 666?* Joe and I hope that the odds of this scenario are as low as our subjective estimate of 10%. If you think that the market is volatile now, imagine the volatility if the markets are buffeted by a Clash of the Titans between the central banks and the zombies!

Strategy III: Damage Assessment. Today is March 9. Eleven years ago marked the start of the latest bull market on a market-close basis. To end the bull market, the current selloff would have to drag the S&P 500 down to 2708.92, 20.0% below its recent record high and 8.9% below Friday’s close. Let’s review the latest performance derby for the S&P 500 sectors and 100+ industries since the index hit a record high on February 19 ([Table](#)):

(1) Here are the 11 sectors' performances, from best to worst: Consumer Staples (-4.5%), Utilities (-4.6), Health Care (-6.7), Real Estate (-6.7), Materials (-11.8), S&P 500 (-12.2), Communication Services (-12.5), Consumer Discretionary (-13.4), Information Technology (-13.5), Industrials (-14.1), Financials (-18.0), and Energy (-22.6).

(2) Only three industries are up since February 19: Gold (13.4%), Food Retail (8.5), and Water Utilities (1.7). Of the 137 industries we monitor, 75 are in corrections of 10.0% to 19.9% and 21 are in bear markets with losses of 20.0% or more.

Movie. "The Invisible Man" (+) ([link](#)) is a film about an invisible man who mercilessly harasses his ex-girlfriend. She can't get a restraining order because he is presumed to be dead, and he is invisible. The movie's plot is obviously contrived. However, Elizabeth Moss, who plays the girlfriend, does an admirable job of conveying the fear she feels when she is repeatedly tormented by her invisible ex. We can all empathize with her as an invisible virus spreads fear around the world.

CALENDARS

US: **Mon:** None. **Tues:** NFIB Small Optimism Index 102.9. (DailyFX estimates)

Global: **Mon:** Eurozone Sentix Investor Confidence -12.2, Germany Industrial Production 1.7%*m/m*/-3.8%*y/y*, Germany Trade Balance €15.0b, China New Yuan Loans & Aggregate Financing ¥1100.0b/¥1585.8b, China CPI & PPI 5.2%/-0.3% *y/y*, Mexico CPI 3.56% *y/y*. **Tues:** Eurozone GDP 0.1%*q/q*/0.9% *y/y*, (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 0.6% for its first gain in three weeks. The US MSCI ranked 22nd of the 49 global stock markets we follow in a week when 24/49 countries rose in US dollar terms. That compares to a 0.2% rise for the AC World ex-US index as most regions of the world moved lower. EM Asia was the best performer, with a gain of 1.6%, and was the only region to beat the AC World ex-US. EM Latin America (-5.1%) was the biggest underperformer, followed by EM Eastern Europe (-1.8), EMEA (-1.7), BRIC (-0.3), EMU (-0.2), and EAFE (0.2). Turkey was the best-performing country with a gain of 7.2%, followed by Hungary (6.7), the Czech Republic (5.2), Denmark (4.7), and Korea (4.5). Of the 25 countries that underperformed the AC World ex-US MSCI last

week, Brazil fared the worst, falling 7.7%, followed by Austria (-6.6), Egypt (-6.3), Colombia (-5.5), and Morocco (-5.2). The US MSCI's ytd ranking rose three places last week to 13/49 as its ytd performance improved to -7.8 from -8.3% a week earlier. It's still ahead of the 10.4% decline for the AC World ex-US. EM Asia and BRIC are the best performers ytd, albeit with declines of 5.8% and 8.1%, respectively. The worst-performing regions: EM Latin America (-21.6), EM Eastern Europe (-19.2), EMEA (-16.1), EMU (-11.7), and EAFE (-11.0). The best country performers ytd: Portugal (0.4), Denmark (0.0), New Zealand (-1.6), China (-1.9), and Jordan (-3.0). The worst-performing countries so far in 2019: Greece (-28.6), Brazil (-26.1), Austria (-21.9), and Russia (-20.3).

S&P 1500/500/400/600 Performance ([link](#)): LargeCap had 2% moves in both directions every single day last week, but ended the week just 0.6% higher. However, MidCap dropped 0.9% and SmallCap fell 2.0% as both indexes were down for a third straight week. LargeCap and MidCap ended the week still in a correction, but SmallCap fell into a bear market. LargeCap ended the week 12.2% below its 2/19 record high of 3386.15, MidCap finished 14.6% below its record high on 1/16, and SmallCap ended up in a bear market at 21.0% below its 8/29/18 record. Fourteen of the 33 sectors rose w/w, compared to all 33 sectors moving lower a week earlier for the first time since May 2019. SmallCap Utilities was the best performer with a gain of 8.3%, followed by LargeCap Utilities (7.9), MidCap Utilities (7.0), LargeCap Consumer Staples (6.2), and LargeCap Health Care (5.0). SmallCap Energy (-20.8) was the biggest underperformer last week, followed by MidCap Energy (-18.2), LargeCap Energy (-7.2), SmallCap Consumer Discretionary (-4.3), and LargeCap Financials (-4.1). All three indexes are still down on a ytd basis, but LargeCap's 8.0% drop is smaller than the declines recorded for MidCap (-12.9) and SmallCap (-15.1). Just two of the 33 sectors is higher so far in 2020, with the best performers led by SmallCap Communication Services (3.8), LargeCap Utilities (3.2), SmallCap Utilities (-0.6), LargeCap Real Estate (-0.7), LargeCap Consumer Staples (-2.3), and LargeCap Information Technology (-3.3). The biggest laggards of 2020 to date: MidCap Energy (-50.8), SmallCap Energy (-50.5), LargeCap Energy (-30.2), SmallCap Materials (-21.9), and MidCap Materials (-17.9).

S&P 500 Sectors and Industries Performance ([link](#)): Six of the S&P 500 sectors rose last week as five outperformed the 0.6% rise for the index. That compares to an 11.5% decline for the S&P 500 a week earlier when all 11 sectors fell for a second straight week in the index's worst performance since October 2008. Utilities 7.9% rise was the best performance for the week, ahead of Consumer Staples (6.2%), Health Care (5.0), Real Estate (4.8), and Materials (1.3). Energy was the biggest underperformer with a decline of 7.2%, followed by Financials (-

4.1), Industrials (-1.6), Communication Services (-1.4), and Consumer Discretionary (-0.8), and Tech (0.6). The S&P 500 is now down 8.0% so far in 2020. Ten of the 11 sectors are down ytd, with seven beating the index. The leading sectors ytd: Utilities (3.2), Real Estate (-0.7), Consumer Staples (-2.3), Tech (-3.3), Health Care (-5.0), Communication Services (-7.0), and Consumer Discretionary (-7.9). The laggards of 2020: Energy (-30.2), Financials (-17.3), Materials (-13.2), and Industrials (-11.5).

Commodities Performance ([link](#)): Last week, the S&P GSCI index fell 3.7% on top of its 10.5% decline a week earlier, which was its biggest since May 2011. It's now down 22.4% from its recent high on 1/6, and it ended the week deeper in a bear market at 31.3% below its cyclical high on 10/3/18. Lean Hogs was the best performer last week with a gain of 10.3%, followed by Gold (6.8%), Silver (4.9), and Nickel (4.9). Brent Crude was the biggest decliner, with a drop of 8.8%, followed by Sugar (-7.9), Crude Oil (-7.7), Unleaded Gasoline (-6.4), and Heating Oil (-6.3). Just two of the 24 commodities that we follow are up so far in 2020: Gold (9.9) and Cocoa (0.8). The worst performers ytd: GasOil (-32.6), Crude Oil (-32.3), Heating Oil (-31.6), Brent Crude (-31.3), and Natural Gas (-21.6).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 0.6% 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). However, it remained below its 50-dma for a second week and for the first since October, and also remained solidly below its 200-dma for a second week and for the first time since January 2019. Its 50-dma relative to its 200-dma fell for a second straight week, weakening to a seven-week low of 6.2% above its 200-dma from 7.0% a week earlier. The week before that, it had at 7.6%, which was the highest since May 2012. The S&P 500 has formed a Golden Cross for 50 weeks after 17 weeks in a Death Cross formation. The S&P 500's 50-dma dropped for a second week after rising for 20 weeks. The price index improved w/w to 8.7% below its falling 50-dma from a 14-month low of 9.7% below its falling 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 39th week. It had been rising for 16 weeks through May 2019 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 a second week after being above for 38 weeks. It improved w/w to 3.0% below its rising 200-dma from a 13-month low of 3.4% below 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 a second week and for the first time since early August. That's down from nine sectors above the week before that, when Energy and Financials were the only sectors trading below their 50-dmas. The longer-term picture—i.e., relative to 200-dmas—had seven sectors trading below compared to ten below that measure a week earlier. That week-earlier count was the lowest since January 2019 and down from all 11 above for three weeks around the turn of the year (Energy's first time above since October 2018). Tech was the only sector that stayed above its 200-dma during the selloff, but was joined in the latest week by three sectors: Consumer Staples, Health Care, and Utilities. Despite the selloff, 10 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 68 straight weeks. The 50-dma has been falling for two weeks now for all 11 sectors, a swift reversal from the week before that, when 10 sectors had rising 50-dmas. Nine sectors have rising 200-dmas, but barely so, up from seven a week earlier in the lowest count since mid-August. Turning back up in the latest week were Industrials, and Materials. Financials' 200-dma was down for a second week for the first time since late August. 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

Employment ([link](#)): February's employment report mimicked January's, as job gains blew past forecasts once again, and there were upward revisions to prior months. Employment climbed 273,000 (vs 225,000 expected) last month, while revisions show January (to 273,000 from 225,000) and December (184,000 from 147,000) gains were a net 85,000 higher. Private payrolls advanced 228,000 last month, following upward revisions to both January (222,000 from 206,000) and December (164,000 from 142,000) readings, for net gain of 38,000. In February, employment care & social assistance posted the biggest gains, jumping 57,000 during the month and 558,700 y/y. Food services & drinking places added 53,000 jobs last month, and 252,000 through the seven months through February, following weak growth early last year. Government jobs increased 45,000 in January and 96,000 the first two months of this year—the biggest two-month gain since June 2010. Warm weather boosted construction

payrolls 42,000 in February after a 49,000 increase in January, recording its best two-month performance in two years. Employment in business & professional services remained on a steep uptrend, increasing 41,000 in February and 405,000 the past 12 months, while jobs in financial activities advanced 26,000 and 160,000 over the comparable periods. Manufacturing companies, which were expected to cut payrolls in February, added 15,000 jobs.

Earned Income Proxy ([link](#)): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, continued to set new highs in February, with the pace accelerating once again. (It hasn't posted a decline since summer 2016.) Our EIP climbed 0.8% last month, double January's 0.4% and quadruple December's 0.2%. February's reading was 4.7% above a year ago, up from December's 17-month low of 4.0%. Average hourly earnings (AHE), one of the components of our EIP, rose 0.3% last month, after gains of 0.2% and 0.1% the previous two months. The yearly rate ticked down from 3.1% to 3.0% y/y—back down at December's 15-month low; the rate had peaked at 3.5% last February—which was the highest rate since January 2009. Meanwhile, aggregate weekly hours—the other component of our EIP—jumped 0.5% after increasing 0.1% and 0.2% the prior two months. The yearly rate accelerated 1.7% y/y, up from 0.9% in January, recording its highest rate since last January.

Unemployment ([link](#)): February's unemployment rate ticked down to 3.5%, back at its 50-year low, while the participation rate held at January's 63.4%—which was the highest since June 2013! Here's a look at some key unemployment rates in early 2020: African American (5.8%, near last August's record low of 5.4%), Hispanic (4.4%, only a few ticks above last September's record low of 3.9%), White (3.1%, only a tick above its all-time record low of 3.0%), and Asian (2.5%, fluctuating in a volatile flat trend above last June's record low of 2.1%). Here's a snapshot of unemployment rates by education level: less than a high school degree (5.7%, moving up from last September's 4.8% record low), high school degree (3.6%, within striking distance of November 1999's record low of 3.2%), some college (3.0%, holding around its 2.4% record low), and a Bachelor's degree & higher (1.9%, back down at December's cyclical low).

Wages ([link](#)): Average hourly earnings climbed to a new record high again last month, though the yearly rate remained on a downtrend, edging down from 3.1% to 3.0% y/y—below its recent peak of 3.5% last February. The 12-month wage rate for service-providing industries (3.0% y/y) was back down at December's rate—which was the weakest rate since July 2018; it was at a series high of 3.7% last February. Meanwhile, the goods-producing rate (3.0) remained near January's cyclical high of 3.2%. Within goods-producing, the wage rate for

manufacturing slowed to 2.8% y/y from January's more-than-three-year high of 3.3%, while construction's held at January's rate of 3.0%, up from December's low of 2.3%—which matched its lowest rate since May 2017. The natural resources' rate (4.8) continued to ease from October's six-year high of 6.5%. Within service-providing industries, only the rate for professional & business services (3.8) is on an accelerating trend, at a cyclical high, while rates for retail trade (3.7), information services (3.0), wholesale trade (2.6), leisure & hospitality (3.0) and information services (3.0) remain on decelerating trends—though the latter ticked up in February. Moving up slightly from recent lows were rates for financial activities (3.9) and transportation & warehousing (2.5), while the utilities (1.5) rate continued to move sideways around recent lows.

Productivity & Unit Labor Costs ([link](#)): Productivity rebounded during the final quarter of 2019, with the rate for all of 2019 the best in nearly a decade, keeping unit labor costs in check. Nonfarm productivity rebounded 1.2% (saar) last quarter (little changed from the initial estimate of 1.4%), after contracting 0.3% during Q3—its first quarterly decline since Q4-2015; the year began strong, with productivity up 3.8% and 2.6% during Q1 and Q2, respectively. Output (to 2.4% from 2.3%, saar) accelerated at around the same pace as Q3 last quarter, while hours worked (1.2 from 2.7) slowed from Q3's seven-quarter high. Unit labor costs (0.9 from 0.2) picked up slightly, as hourly compensation (2.1 from -0.1) rose at a faster pace than productivity's 1.2%, though remained contained. For all of 2019, productivity expanded 1.9%, improving steadily from 2016's 0.3%—and the best performance since 2010's 3.4%. Real output rose 2.7% for the year, while hours worked increased at a nine-year low of 0.8%. The rate for unit labor costs slowed for the second year to 1.7%, as the acceleration in productivity helped temper the rise in hourly compensation to a 12-year high of 3.6%.

Merchandise Trade ([link](#)): The real merchandise trade deficit in January narrowed to -\$77.7 billion after widening from -\$76.2 billion to -\$80.0 billion during the final month of 2019. January's gap is narrower than Q4's average monthly deficit of -\$78.6 billion, suggesting trade could be a positive contributor to Q1 real GDP growth again this quarter, though it's too early to tell. (Trade was the biggest positive contributor to GDP during Q4—adding 1.53 percentage points.) It's important to note, however, that January's report showed more weakness than strength—as the deficit narrowed because real exports (-1.8%) contracted at a slower pace than imports (-2.2). Real exports of industrial supplies & materials (-3.7% m/m & 2.7% y/y) recorded the biggest monthly decline in January, while consumer goods ex autos (0.6 & -6.9) posted the steepest yearly drop; capital goods ex autos (-2.4 & -4.4) was the only component that fell on both a monthly and yearly basis. Meanwhile, autos (6.5 & -1.9) recorded the biggest

monthly gain, industrial supplies & material the largest yearly gain. Real imports of industrial materials & supplies (-6.2 & -8.3), autos (-2.8 & -8.2), and capital goods ex autos (-1.2 & -1.4) fell both m/m and y/y, while food, feeds & beverages (4.5 & 6.7) rose over both periods; consumer goods orders ex autos (1.1 & -5.4) was mixed.

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