



MORNING BRIEFING

April 13, 2020

Feddie's Free Money: No Asset Left Behind

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

(1) Bernanke used bazookas; Powell is using B52s. (2) Carpet-bombing the economic and financial fronts of VW-I with free money. (3) Over \$1 trillion raised in dash for cash during March. (4) Businesses tapping lines of credit like never before. (5) Future shock: from QE4 to QE4ever to NALB (no asset left behind). (6) Fed keeping zombies from getting buried. (7) Fed indirectly supporting stocks by enabling rebalancing from bonds to stocks. (8) Bull/Bear Ratio is very bearish, which is very bullish. (9) The Fed is on a buyback binge in the credit markets. (10) The Fed has become the Bank of the United States, with capital provided by the US Treasury. (11) In Powell and Mnuchin we trust. (12) You ain't seen nothing yet!

Fed I: A Billion Here, a Trillion There. In my recently released book, [Fed Watching for Fun & Profit](#), I observed that in reaction to the Great Financial Crisis (GFC), “[Fed Chair] Ben Bernanke had transformed the Fed into ‘Feddie,’ supplementing and shoring up Fannie and Freddie. Because of the three rounds of QE from November 25, 2008 through October 29, 2014, the Fed’s holdings of MBS [mortgage-backed securities] increased from zero to \$1.8 trillion, and the Fed’s holdings of Treasuries increased from \$476 billion to \$2.5 trillion.”

That is chump change compared to where Fed Chair Jerome Powell is taking Feddie in reaction to the Great Virus Crisis (GVC). As I’ve previously observed, the GVC has led to a world war against the virus (VW-I) along three fronts: health, economics, and finance. Feddie has joined the battle on the economic and financial fronts, not with bazookas (as it did in response to the GFC), nor with “helicopter money,” but with B52s that have been carpet-bombing both fronts with money.

Before Melissa and I discuss the latest developments on the financial front, let’s review the recent batch of high-frequency data on the mad dash for cash triggered by the pandemic of fear that caused the Fed to send the B52s. We actually compiled a new chart publication to monitor this issue titled [The Mad Dash for Cash in 2020](#). Here are a few key highlights:

(1) *Liquid assets* soared by \$1.1 trillion from the last week of February through the last week of March ([Fig. 1](#)). Both retail and institutional investors panicked and raised a staggering amount of cash. The sum of savings deposits (including money-market deposit accounts), small-time deposits, and retail money-market mutual funds jumped \$615 billion over the same period in March. Similarly, money-market funds held by institutions jumped \$501 billion ([Fig. 2](#)).

(2) *C&I loans* soared \$498 billion during March ([Fig. 3](#)). Companies must have scrambled to tap into their bank lines of credit, anticipating a cash squeeze as their sales plummeted when social-distancing lockdowns hit many industries. Some of those undoubtedly were parked in liquid assets.

(3) *Credit-quality spreads*. The bond market froze up when credit-quality spreads soared in the bond market as a result of the mad dash for cash during March. The yield spread between corporate junk bonds and the 10-year US Treasury soared from 489bps at the end of February to peak at 1,062bps on March 23 ([Fig. 4](#)). The AAA muni bond spread rose from zero basis points at the end of February to a peak of 188bps on March 23. This past Thursday, these two spreads were down to 769bps and 87bps, respectively.

(4) *NALB*. The credit-quality spreads narrowed in the bond market because the Fed introduced QE4ever on March 23 and NALB (no asset left behind) on April 9. Under QE4ever, the Fed would continue to purchase US Treasuries, agency debt, and MBS as it had done in the past but without any set schedule or end date. In addition, it would start buying agency commercial mortgage-backed securities (agency CMBS). At the same time, the Fed committed to providing liquidity to the commercial paper market, the investment-grade bond market, and the short-term muni market, as well as to money-market funds.

On April 9, NALB was expanded to support so-called “fallen angels” in the corporate bond market, i.e., BBB credits that had been on the edge of falling into junk credit ratings and finally did just that. Melissa and I prefer to call these credits “zombie bonds.” Just as the GVC was about to bury these walking dead, the Fed resuscitated them. (For more on this, see the next section. By the way, Melissa coined the cleverly descriptive phrase “no asset left behind.”)

(5) *The Great Rebalancing*. But didn’t the Fed forget to include equities in its NALB program? It doesn’t need to support the stock market directly. By flooding the credit markets with liquidity and keeping bond yields near historical lows, the Fed has enabled individual and institutional investors to rebalance away from bonds toward stocks.

We think that explains the remarkable rebound in the S&P 500 recently. The index closed on Thursday, April 9, at 2789.92, up 24.7% from its March 23 low, down 17.3% from its February 19 record high, and only 3.4% below a year ago ([Fig. 5](#) and [Fig. 6](#))!

By the way, as we've noted in recent weeks, when the Bull/Bear Ratio compiled by Investors Intelligence falls below 1.00, that tends to be a very good buy signal for contrarians. It fell below this level during the March 24 week to 0.72. It edged up to 0.87 during the March 31 week and to 0.92 during the April 7 week. So it is still under 1.00 despite the big rebound in stock prices since March 24 ([Fig. 7](#) and [Fig. 8](#)).

Joe and I think that the market might have hit its low on March 23, as we first observed on March 25. While we expect some setbacks along the way, we are still forecasting 2900 for the S&P 500 by the end of this year and 3500 by the end of next year. Needless to say, this outlook depends on the peaking of the pandemic in the US over coming weeks along with the gradual opening of the US economy that increasingly has been in lockdown since mid-March.

(6) *To infinity and beyond!* Over the past four weeks, since QE4 was introduced on March 15, the Fed's balance sheet is up \$1.8 trillion to a record \$6.0 trillion ([Fig. 9](#)). Over this period, the Fed's holdings of US Treasuries, agency debt, and MBS are up \$1.1 trillion to a record \$5.0 trillion, led by a \$995 billion jump in Treasuries to \$3.5 trillion ([Fig. 10](#)). The Fed's liquidity facilities have increased by \$689 billion to \$1.1 trillion over the past four weeks ([Fig. 11](#)).

Fed II: The Third Bank of the United States. Under Fed Chair Powell, Freddie has become what Melissa and I call "The Third Bank of the United States." The First Bank of the United States was chartered by Congress in 1791. It was proposed and supported by Alexander Hamilton, the first secretary of the Treasury. Its charter wasn't renewed when it expired in 1811. The Second Bank of the United States had a 20-year charter from 1816 to 1836. Freddie effectively is The Third Bank of the United States, with capital provided by the US Treasury Department under Treasury Secretary Steven Mnuchin.

What follows is the true story of how Powell and Mnuchin teamed up to make it happen without a congressional charter.

Initial unemployment claims for the week of April 4 jumped 6.6 million, rising by a staggering 16.8 million over the past three weeks. The latest reading was released on Thursday, April 9 at

8:30 am. The Fed's massive NALB expansion of its massively expansionary QE4ever was [announced](#) at the very same time, signaling the Fed's intent to do whatever it takes to absorb some of the shocks resulting from the healthcare crisis on the economic and financial fronts of VW-I.

A few hours later, at 10:00 am, Federal Reserve Chair Jerome Powell was [interviewed](#) by David Wessel in a Brookings Institution webinar. He said that the Fed's focus for now isn't on monetary policy per se but rather on making sure credit flows to households, businesses, and state and local governments in the near term.

"The critical task of delivering financial support directly to those most affected falls to elected officials, who use their powers of taxation and spending to make decisions about where we, as a society, should direct our collective resources," Powell stated in [prepared remarks](#). He added that the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) is an important step in that direction, but the Fed can do more to help.

Simple math reveals that the Fed's program just announced at \$2.3 trillion amounts to only a bit more than half of the Fed's lending power under the CARES Act. Indeed, Mnuchin estimates that the Fed can leverage the nearly \$500 billion that the Treasury has allocated as capital for new Fed "Special Purpose Vehicles" into \$4 trillion in loans for the US economy!

Powell explained: "As a result of the economic dislocations caused by the virus, some essential financial markets had begun to sink into dysfunction, and many channels that households, businesses, and state and local governments rely on for credit had simply stopped working. We acted forcefully to get our markets working again." The Fed will continue to use its lending powers "forcefully, proactively, and aggressively until we are confident that we are solidly on the road to recovery."

Powell provided important forward guidance during his interview, saying that as long as the Fed's actions are within legal limits, there would be no end to what the Fed will do! Interest rates at zero are in the right place until the economy is on its way to a recovery, he said. Technically, the lending program is set to end on September 30. But it will go longer if needed, he said. The Fed will be in no hurry to pull back on these programs until the economy is on "solid footing." When that day comes, the Fed will pull back gradually, telegraphing such moves in advance.

During his interview, Powell cited recent comments made by former Fed Chair Ben Bernanke, who expects no lasting negative effects from the current crisis as long as people stay home and healthy, policymakers continue to support the economy by all means necessary, and the government devises a plan to reopen the economy that avoids a false start. If all these things are done right, there is no reason to think that we won't have a fast and robust recovery, Powell suggested. To conclude the interview, Wessel exclaimed: "From your lips to God's ears!"

It may be time to print \$1,000 bills with the portraits of both Powell and Mnuchin on the front, and the standard motto on the back replaced with "In Powell and Mnuchin we trust." The upshot is that the Fed is all-in as far as stabilizing the financial markets goes, for as long as it takes until the health crisis is well behind us.

Here are the details of the Fed's latest \$2.3 trillion lending program:

(1) *Small business lending, \$350 billion.* The Fed will supply liquidity to financial institutions that originate small business loans under Congress' \$350 billion Paycheck Protection Program (PPP). The Small Business Association's PPP is intended to help small businesses keep their workers on payroll. The Fed's Paycheck Protection Program Liquidity Facility (PPPLF) will extend credit to eligible financial institutions that originate these loans.

(2) *Main Street lending, \$600 billion.* The Fed will purchase up to \$600 billion in loans through two facilities dedicated to the Main Street Lending Program. The Department of the Treasury—using funding from the CARES Act—will provide \$75 billion in equity to the facility. This program will offer four-year loans to eligible companies in good financial standing before the crisis, employing up to 10,000 workers or with annual revenues of less than \$2.5 billion.

(3) *Household and business lending, \$850 billion.* The Fed will expand the size and scope of the Primary and Secondary Market Corporate Credit Facilities (PMCCF and SMCCF), as discussed below, as well as the Term Asset-Backed Securities Loan Facility (TALF) to support up to \$850 billion in credit, backed by \$85 billion in credit protection provided by the Treasury initially allocated as follows: \$50 billion to the PMCCF, \$25 billion to the SMCCF, and \$10 billion to the TALF.

The range of assets eligible as collateral for TALF has been broadened to include the triple-A-rated tranches of both outstanding CMBS and newly issued collateralized loan obligations. The

TALF will continue to support the issuance of asset-backed securities that fund student loans, auto loans, and credit-card loans. The size of the facility will remain \$100 billion and is included in the \$850 billion noted above. The loans will have a three-year term.

(4) *Buying junk*. In a big move detailed in the term sheets attached to the release, the scopes of the PMCCF and SMCCF were expanded to include purchases of assets that no Fed has ever bought before, i.e., those aforementioned “fallen angels” among corporate bonds. Eligible bonds include those that were rated BBB-/Baa3 as of March 22, 2020 but were subsequently downgraded. These issues must be rated at least BB-/Ba3 at the time that either facility makes a purchase.

The SMCCF also may purchase US-listed corporate-bond-focused exchange-traded funds (ETFs), with a focus on ETF holdings exposed to US investment-grade corporate bonds but including high-yield corporate bonds as well. Notably, there is a cap on the maximum amount of outstanding bonds or loans that the facilities will purchase. The SMCCF will avoid purchasing shares of eligible ETFs when they trade at a material premium to the estimated net asset value of the underlying portfolio.

(5) *Municipal lending, \$500 billion*. As requested by Congress, the Fed will provide aid to state and local governments by establishing a Municipal Liquidity Facility that will purchase up to \$500 billion in short-term notes of less than two-year maturities directly from US states, US counties with a population of at least 2 million residents, and US cities with a population of at least 1 million. The Treasury will provide \$35 billion of credit protection to the Fed for the Municipal Liquidity Facility. Total purchases from any one issuer will be capped at 20% of the issuer’s own-source revenue as of 2017.

(6) *New rule*. In addition, an [interim final rule](#) for the Fed’s PPPLF “would permit banking organizations to exclude exposures pledged as collateral to the PPPL Facility from a banking organization’s total leverage exposure, average total consolidated assets, advanced approaches-total risk-weighted assets, and standardized total risk-weighted assets, as applicable.” That means that the effects of these loans will be excluded from a banking organization’s regulatory capital. The Fed’s rationale for the rule is that there is zero credit risk associated with these loans, as they’re federally backed.

(7) *Bottom line*. In other words, no asset shall be left behind! The flood of money into markets isn’t likely to stop here. The Treasury has made \$454 billion in minimum funding available to

support the Fed's programs under the CARES Act. In total, the Treasury has allocated \$195 billion to the programs described above, which means that plenty of equity remains for expanding upon these programs or adding new ones.

The point that more is to come was made clear by Federal Reserve Bank of Cleveland President Loretta Mester during an online forum on Friday, [reported](#) Bloomberg. She said: "I know at the Fed, we're likely not done. We're always looking for things where if we have a tool to be able to do it, and if we think it's needed, we're going to do it." Mester is a voter on the Federal Open Market Committee this year.

The LQD investment-grade corporate bond ETF soared 4.7% from \$125.91 on Wednesday to \$131.83 on Thursday, nearly matching its record high of \$134.27 on March 6. The JNK high-yield bond ETF rose 6.7% from \$95.25 on Wednesday to \$101.64 on Thursday, its best level since March 10 ([Fig. 12](#)). The credit markets are showing confidence in the US government's show of force on the financial front of VW-I. That's for now. Let's see what happens if inflation makes a big comeback when the war is over. On Thursday, the nearby futures price of gold jumped \$71 to \$1,736 per ounce ([Fig. 13](#)).

CALENDARS

US: **Mon:** None. **Tues:** Import Prices -3.1%_{m/m}/-4.6%_{y/y}, Import Prices ex Petroleum -0.2%, Evans, Bostic. (DailyFX estimates)

Global: **Mon:** China Trade Balance \$19.7b. **Tues:** None. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index soar 12.4% for its best weekly gain since October 1974. The index ranked eighth of the 49 global stock markets we follow in a week when 47/49 countries rose in US dollar terms, and the AC World ex-US index gained 8.0% as all regions rose. The US MSCI index exited a bear market and is now in a 17.9% correction from its 2/19 record high. EM Latin America was the best performer with a gain of 14.0%, followed by EMU (10.2), EM Eastern Europe (9.3), and EAFE (8.3). EM Asia was the biggest underperformer, albeit with a gain of 5.6%, followed by BRIC (6.6) and EMEA (7.6). Brazil was the best-performing country last week, with a gain of 17.2%, followed by the Czech Republic (16.4), Austria (14.5), South Africa (14.1), and Greece (13.9). Of the 23 countries that underperformed the AC World ex-US MSCI last week, Sri Lanka fared the worst

with a decline of 0.3%, followed by Jordan (0.0), Morocco (0.3), Denmark (1.8), and New Zealand (1.9). The US MSCI's ytd ranking improved w/w to 6/49 as its ytd performance rose to -13.6% from -23.1% the prior week. It's still ahead of the 20.9% ytd decline for the AC World ex-US. EM Asia is the best regional performer ytd, albeit with a decline of 15.4%, followed by BRIC (-17.7). The worst-performing regions ytd: EM Latin America (-42.1), EM Eastern Europe (-28.7), EMEA (-24.2), EMU (-24.1), and EAFE (-20.9). The best country performers ytd: China (-8.0), Denmark (-8.2), Jordan (-9.9), Switzerland (-10.7), and Hong Kong (-12.7). The worst-performing countries so far in 2020: Brazil (-45.8), Colombia (-44.0), Greece (-40.8), Argentina (-38.5), and Hungary (-38.4).

S&P 1500/500/400/600 Performance ([link](#)): All of these indexes soared higher last week in the strongest gains on record for the SMidCaps and the best since October 1974 for the LargeCaps. SmallCap's 19.4% rise and MidCap's 18.6% gain both easily outdistanced LargeCap's 12.1%. However, LargeCap was the only index to exit the bear market this week. LargeCap ended the week 17.6% below its 2/19 record high; MidCap finished 24.7% below its record high on 1/16; and SmallCap remained the worst performer, at 32.3% below its 8/29/18 record. All 33 sectors rose for the week, and 28 rose more than 10%. Eleven sectors are out of a bear market now. Among them, LargeCap Health Care is the only sector out of a correction. SmallCap Consumer Discretionary was the best performer last week, with a gain of 32.7%, ahead of SmallCap Real Estate (26.4%), MidCap Consumer Discretionary (26.4), MidCap Real Estate (25.2), MidCap Financials (21.4), LargeCap Real Estate (21.2), and SmallCap Energy (21.2). LargeCap Consumer Staples was the biggest underperformer last week, albeit with a gain of 4.9%. Also underperforming were MidCap Consumer Staples (7.8), LargeCap Health Care (9.4), SmallCap Communication Services (9.4), and LargeCap Communication Services (9.9). All three indexes are still down on a ytd basis, but LargeCap's 13.6% drop is much smaller than those of MidCap (-23.1) and SmallCap (-27.2). All 33 sectors are still down so far in 2020, with the best performers led by SmallCap Communication Services (-3.5), SmallCap Utilities (-5.0), LargeCap Utilities (-5.8), LargeCap Health Care (-6.9), and LargeCap Information Technology (-6.9). The biggest laggards of 2020 to date: SmallCap Energy (-64.7), MidCap Energy (-62.0), LargeCap Energy (-43.1), SmallCap Consumer Discretionary (-35.0), and SmallCap Financials (-30.8).

S&P 500 Sectors and Industries Performance ([link](#)): All 11 S&P 500 sectors rose last week as seven outperformed the index's 12.1% gain. That compares to a 2.1% decline for the S&P 500 a week earlier, when three sectors rose and five outperformed the index. Real Estate's 21.2% gain made it the best performer for the week, ahead of Materials (20.7), Financials

(19.1), Utilities (17.6), Consumer Discretionary (13.8), Energy (13.2), and Industrials (12.3). Consumer Staples was the biggest underperformer, albeit with a gain of 4.9%, followed by Health Care (9.4), Communication Services (9.9), and Information Technology (10.6). The S&P 500 is now down 13.6% so far in 2020 with seven sectors leading the index. The leading sectors ytd: Utilities (-5.8), Health Care (-6.9), Information Technology (-6.9), Consumer Staples (-7.7), Real Estate (-8.2), Communication Services (-12.9), and Consumer Discretionary (-13.1). The laggards of 2020 so far: Energy (-43.1), Financials (-24.1), Industrials (-22.3), and Materials (-16.2).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 0.4% for its second straight weekly gain. It's now down 37.8% from its recent high on 1/6, and still in a bear market at 45.0% below its cyclical high on 10/3/18. Feeder Cattle was the best performer last week, with a gain of 15.5%, followed by Natural Gas (11.7%), Silver (11.5), Cotton (6.7), and Gold (6.5). However, with the oil price war between Russia and Saudi Arabia not officially over, the Energy Commodities index remains near an 18-year low. Heating Oil and Crude Oil were the biggest decliners for the week, with drops of 6.9%, followed by Brent Crude (-3.0), Aluminum (0.0), Lean Hogs (0.7), and Zinc (1.0). Just two of the 24 commodities that we follow are higher so far in 2020. The best ytd performers: Gold (15.1), Kansas Wheat (2.1), Wheat (-0.3), Coffee (-8.0), and Cocoa (-9.1). The worst performers ytd: Unleaded Gasoline (-57.7), Crude Oil (-56.8), Heating Oil (-50.7), Brent Crude (-49.8), and GasOil (-49.3).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price soared 12.1% last week, and improved markedly 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 seventh week and hasn't traded below its 50-dma for that long since October 2019. It also remained below its 200-dma for a seventh week, the first time that has happened since January 2019. Its 50-dma relative to its 200-dma dropped for a seventh straight week, putting the index in a Death Cross (with 200-dmas higher than 50-dmas), for a third week—for the first time since March 2019. The index's 50-dma dropped last week to a 13-month low of 3.7% below its 200-dma from 2.4% below a week earlier. During late February, the 50-dma had been 7.6% above its 200-dma, which was the highest since May 2012. The S&P 500's 50-dma dropped for a seventh week after rising for 20 weeks. The price index improved to 4.2% below its falling 50-dma from 15.8% a week earlier. That's up from 27.7% below on 3/23—its lowest reading since it was 29.7% below on Black Monday, 10/19/87. That compares to a 10-month high of 4.6% above its rising 50-dma in mid-January and 6.6% above during February 2019—its highest level since October 2011. The 200-dma rose for the first time in five weeks. It had been rising

for 39 weeks through early March. The index traded below its 200-dma for a seventh week after being above for 38 weeks. It ended the week 7.7% below its falling 200-dma, up sharply from 17.8% below a week earlier. That's up from 26.6% below on 3/23—its lowest reading since March 2009 and down from a 24-month high of 11.2% in mid-February. That 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 then the lowest since April 2009. At its worst during the Great Financial Crisis, the S&P 500 price index was 25.5% below its 50-dma on 10/10/08 and 39.6% below its 200-dma on 11/20/08.

S&P 500 Sectors Technical Indicators ([link](#)): All 11 S&P 500 sectors traded below their 50-dmas and 200-dmas for a fifth straight week as the S&P 500 price index moved out of a bear market. Information Technology is now the only sector still in the Golden Cross club (with 50-dmas higher than 200-dmas), as Health Care dropped out for the first time in 24 weeks. That compares to just two sectors (Real Estate and Utilities) in the club during February 2019 and all 11 in the club during January 2018. Energy has not been in a Golden Cross for 73 straight weeks. The 50-dma has been falling for seven weeks now for all 11 sectors, a swift reversal from the week ending 2/21, when 10 sectors had rising 50-dmas. Ten sectors have falling 200-dmas now, up from all 11 a week earlier, as Health Care moved back above in the latest week. Financials' 200-dma was down for a seventh week for the first time since late August. Energy's 200-dma has been mostly falling since October 2018.

US ECONOMIC INDICATORS

Consumer Sentiment Index ([link](#)): Consumer sentiment tumbled in mid-April to its lowest level since December 2011, and the “free-fall in confidence would have been worse were it not for the expectation that the infection and death rates from covid-19 would soon peak and allow the economy to restart,” according to Richard Curtin, the survey's chief economist. The Consumer Sentiment Index (CSI) plummeted a record 18.1 points in mid-April and 30.0 points the past two months (which was 50% larger than the prior record drop), to 71.0. The present situation component plunged 31.3 points in mid-April—nearly twice the previous record decline of 16.6 points recorded in October 2008—and 42.4 points during the two months through April, to 72.4, which was the weakest reading since August 2011. In the meantime, the expectations component sank 9.7 points in mid-April, a notable decline though not nearly as steep as the record 16.5-point drop recorded at the end of 1980. Expectations are down 22.1 points since February, to 70.0—the lowest level since March 2014. “Consumers need to be prepared for a longer and deeper recession rather than the now discredited message that pent-up demand

will spark a quick, robust, and sustained economic recovery,” noted Curtin. “Sharp additional declines may occur when consumers adjust their views to a slower expected pace of the economic recovery.” The mid-April survey was conducted in the middle of the record jump in jobless claims—with surging unemployment spontaneously mentioned by two-thirds of consumers surveyed.

Consumer Price Index ([link](#)): March’s core CPI rate sank to a nine-month low of 2.1% y/y, after accelerating 2.4% in February—which matched its recent peak rate posted last August and September. (It first reached 2.4% during July 2018—which was the highest since September 2008.) Core prices fell 0.1% in March—the first monthly decline since January 2010; the three-month rate slowed to 1.4% (saar), a percentage point below February’s 2.4%. Here’s a ranking of the 12-month core rates on a March-over-March basis, from lowest to highest for goods: apparel (-1.6% y/y), new vehicles (-0.4), used cars & trucks (0.1), medical care commodities (1.3), alcoholic beverages (1.4), and tobacco & smoking products (5.4). Of those, only the rate for medical care commodities has been on an accelerating trend, though it has eased a bit, while the rate for alcoholic beverages has spiked recently. Here’s the same drill for the core services rates: airfares (-10.6% y/y), motor vehicle insurance (1.1), physicians’ services (1.4), owners’ equivalent rent (3.2), motor vehicle maintenance & repair (3.4), rent of primary residence (3.7), and hospital services (4.4). Only the hospital services rate remains on an accelerating trend, reaching a 20-month high last month, while airfares dropped at the fastest rate since September 2009. The headline CPI rate eased from 2.3% in February to 1.5% y/y in March. It had moved above 2.0% last November, for the first time since November 2018, and accelerated through January to a 15-month high of 2.5% y/y—having risen steadily from 1.7% in September 2019.

Producer Price Index ([link](#)): The Producer Price Index for final demand decreased 0.2% in March, following February’s 0.6% drop—which was the steepest monthly loss since January 2015; it began the year with a 0.5% increase (its biggest monthly gain since October 2018). March’s decline pushed the yearly rate down to 0.7% y/y—its lowest rate since September 2016—after accelerating from a recent low of 1.0% in November to an eight-month high of 2.1% in January. Prices for final demand goods fell 1.0% last month after a 0.9% drop in February—the steepest two-month drop since February 2015—pushing the yearly rate back into negative territory, down to -1.2% y/y. Prices for final demand services rose 0.2% after falling 0.3% in February, with the yearly rate holding at 1.5% y/y. In the meantime, there’s still deflation in the pipeline: Intermediate goods prices fell 3.7% y/y in March, back near last October’s 40-month low of -3.8%—its 11th consecutive negative reading. Meanwhile, crude

prices fell 15.5% y/y (its 15th consecutive negative reading) in March—nearly double February's -8.2% and the steepest decline since February 2016.

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