**MORNING BRIEFING**
**March 15, 2021**

## Clash of the Titans

*Check out the accompanying chart collection.*

(1) Zeus vs Thetis. (2) T-Fed vs Bond Vigilantes. (3) Pushing back by pushing up bond yields. (4) What will beneficiaries of $1,400 checks do with the money? (5) Fed and commercial banks still loading up on Treasuries and MBS. (6) Still plenty of fiscal and monetary stimulus piled up as stash of M2 cash. (7) More stimulus coming soon. (8) No Operation Twist or yield-curve target? (9) ECB is stepping up bond purchases. (10) Is there any evidence showing Treasury relief checks have been used to buy stocks? (11) Foreign investors have been big buyers of US stocks. (12) Movie review: "Minari" (+).

**YRI Podcast.** In our latest video podcast, Dr. Ed discusses the main points of today's *Morning Briefing.*

**Strategy: T-Fed vs Bond Vigilantes.** "Clash of the Titans" (1981) is a classic movie about a power struggle among the deities of ancient Greek mythology. Lots of innocent bystanders become casualties of their clash. Perseus (played by Harry Hamlin), who is the favored son of the god Zeus (Sir Laurence Olivier), has unwittingly ticked off the sea goddess Thetis (Dame Maggie Smith). Thetis does her best to harm Perseus, who is off on another one of his quests, while Zeus comes to his son's aid. My favorite scenes are Perseus' fights to the death with the Kraken and Medusa.

Today's Clash of the Titans is between T-Fed and the Bond Vigilantes. There are likely to be casualties among innocent bystanders. T-Fed has been provoking the Bond Vigilantes for the past year by providing massive amounts of fiscal and monetary stimulus to offset the adverse financial and economic consequences of the pandemic. In effect, T-Fed has embraced Modern Monetary Theory (MMT). (See the excerpt about MMT from our forthcoming book, *The Fed and the Great Virus Crisis*.)

Of course, T-Fed means well and wants to do right by us. But the Bond Vigilantes fear that open-ended MMT will lead to higher inflation—which cuts into expected returns on bond investments, lowers what investors are willing to pay for them, and raises bond yields. So in effect, the Bond Vigilantes are pushing back by pushing bond yields higher. The stock market is caught in the middle, with investors torn between the very positive impact of T-Fed's stimulus on earnings and the negative impact of rising bond yields on stock valuation multiples.

Joe and I still expect that some of the $1,400 stimulus money that people will start receiving in the next few days from the Treasury will be used to buy stocks. So we project that the latest round of checks will drive stock prices higher in coming weeks, continuing the stock market's meltup (that started on March 23, 2020) through the end of April. In this scenario, we may recommend that you "go away in May"—as the old saying goes—since April's economic indicators, reported during May, are likely to be extremely strong, inciting the Bond Vigilantes to push yields higher still.

But this scenario itself could be a casualty of the Clash of the Titans if the Bond Vigilantes push yields higher during April, anticipating May's booming stats. Clashes, like wars, tend to be unpredictable.

Consider the following:

(1) *T-Fed's provocations.* The Treasury has accumulated a record budget deficit of $3.6 trillion over the 12 months through February, mostly to counter the adverse economic effects of the pandemic (*Fig. 1*). The Fed has been enabling this massive amount of fiscal stimulus by purchasing $2.4 trillion of US Treasury securities over the same period.

The pandemic was declared by the World Health Organization a year ago. Weekly data show that over the past 52 weeks through the March 10 week of this year, the Fed purchased $2.4 trillion in Treasuries and $0.7 trillion in agency debt and mortgage-backed securities (MBS) (*Fig. 2*). Over the past 52 weeks through the March 10 week, the Fed's holdings of securities is up $3.1 trillion to a record $7.0 trillion (*Fig. 3*).

(2) *Lots of money.* By the way, all the cash provided by the Treasury's relief checks and by the Fed's purchases of securities has boosted commercial bank deposits by a record $3.0 trillion over the past 52 weeks through the March 3 week (*Fig. 4* and *Fig. 5*). As a result, there has been a $1.7 trillion increase in the cash assets of all commercial banks over the past year (*Fig. 6*). That cash isn't lendable money since it is automatically deposited in reserve balances at the Fed. However, some of the increase in deposits was used by the banks to purchase $0.8 trillion in Treasuries and MBS over the past 52 weeks (*Fig. 7*). In other words, the Fed along

with commercial banks purchased $3.9 trillion in Treasuries and MBS over the past 52 weeks. Together, they now hold $10.9 trillion in these securities.

One of the major consequences of this deluge of liquidity is that M2 is up a whopping $4.0 trillion y/y through January (*Fig. 8*). Can you imagine what is about to happen to all these measures of liquidity now that a third round of checks is starting to rain down on the economy? We are all about to find out together. As Louis XV once said, "*Après moi, le deluge*."

(3) *Gods vs mortals.* We like to think of Fed Chair Jerome Powell as Zeus and Treasury Secretary Janet Yellen as Thetis. In our sequel of the movie, these two gods are allies rather than adversaries. They are united against the Bond Vigilantes, who are remarkably resilient mortals. While Yellen is writing checks, Powell is buying all the notes and bonds issued by the Treasury to pay for most of the checks. Over the past 52 weeks through the March 10 week, the Fed has purchased $1.9 trillion of Treasury notes and bonds (*Fig. 9*).

Nevertheless, the Bond Vigilantes haven't been drowned by all this liquidity. They keep floating up to the surface. Bond yields keep floating up with them. The 10-year US Treasury bond yield rose to 1.64% on Friday, the highest since February 6, 2020.

(4) *Twisted operation.* Prior to the upcoming March 16-17 FOMC meeting, Fed officials could have signaled that they were considering pegging the bond yield with an Operation Twist or simply announcing a "yield-curve target" for the bond and increasing their purchases of notes and bonds. They didn't do so just prior to the pre-meeting blackout period that started last week. Instead, prior to the blackout, several Fed officials put a happy spin on the increase in bond yields, as confirming that their policies should boost both economic growth and lift inflation closer to 2.00% or slightly above it. They aren't likely to spring a twisted surprise on us coming out of the meeting.

(5) *Europe's monetary deity.* The Governing Council of the European Central (ECB) under the leadership of Christine Lagarde met last week on Thursday, March 11. Unlike Fed officials, ECB officials are concerned about the backup in bond yields in the Eurozone. At their meeting, they decided to leave the ECB's Pandemic Emergency Purchase Program, or PEPP, unchanged, at a total of €1.85 trillion ($2.21 trillion) due to last until March 2022.

However, the ECB's bond purchases during Q1 have been lower than usual, and the ECB's latest policy statement said that purchases would be ramped up going forward: "Based on a joint assessment of financing conditions and the inflation outlook, the Governing Council expects purchases under the PEPP over the next quarter to be conducted at a significantly higher pace than during the first months of this year."

At the post-meeting press conference, Lagarde said, "We are not doing yield-curve control." She called on the fiscal authorities to move forward with plans to issue euro bonds to fund pandemic relief efforts. That's not likely to happen until this summer.

The ECB's assets increased €2.4 trillion y/y through the week of March 5 to a record-high €7.1 trillion (*Fig. 10*).

**Flow of Funds: Equities.** Joe and I have been making the case that the $1,400-per-person checks the Treasury is providing to eligible Americans in coming weeks are likely to boost purchases of equities by retail investors. We believe that the first two rounds of checks ($1,200 last April and $600 during January), along with the Fed's ultra-easy monetary policy, fueled the meltup in stock prices since March 23, 2020.

Do the available data confirm this hypothesis? Kind of. Consider the following:

(1) *Personal saving.* We know that personal saving has been highly correlated with government social benefits, which is a component of personal income and includes the Treasury's "Economic Impact Payments" (*Fig. 11*). As we observed last week, some of this saved cash was spent in subsequent months, some of it remains in liquid assets, some was used to pay down credit card debt, and some might have gone to purchase stocks (*Fig. 12*).

(2) *Fed's data.* The Fed released the Q4 update of its *Financial Accounts of the United States* last week. It shows that the household sector purchased $210.9 billion in equities last year, which includes shares of exchange-traded funds (ETFs) that invest in various securities (*Fig. 13*). Equity ETFs purchased $254.3 billion in equities last year, while equity mutual funds sold $481.5 billion. Institutional investors were also net sellers of $109.6 billion in equities.

(3) *Foreign buyers*. The Fed's data show that the biggest buyer of US equities last year was the "rest of the world." Foreign investors purchased a record $697.5 billion last year. We presume that the Fed's data for this series is partly based on the US Treasury International Capital System (TICS) monthly dataset. It shows that US corporate stock purchases by foreigners from US residents totaled a record $368.0 billion over the 12 months through

December (*Fig. 14*). The bad news is that foreigners tend to be especially aggressive buyers near stock market peaks.

(4) *Equity issuance.* The Fed also compiles monthly data of new equity issuance. Over the past 12 months through January, total issuance was a record $365.1 billion, with nonfinancial corporations raising a record $196.1 billion and financial ones raising $169.0 billion (*Fig. 15*). During the 12 months through September, nonfinancial corporations raised a record $135.0 billion in seasoned equity offerings and $30.6 billion in initial public offerings (*Fig. 16*).

**Movie.** "Minari" (+) (*link*) is a semi-autobiographical movie from writer and director Lee Isaac Chung. It pursues the American Dream of Jacob Yi. He relocates his Korean-American family, including his skeptical wife and their two children, from California to 1980s rural Arkansas. He aspires to grow Korean fruits and vegetables on a 50-acre farm. Grandma Soon-ja joins the family to help watch the kids while both parents are at their day jobs sorting baby chicks into male and female bins. She plants some minari on the bank of a nearby creek, where the Korean plant flourishes. The film ends before we learn whether the family also flourishes. The American Dream is like Forrest Gump's box of chocolates; you never know what you are going to get.

## CALENDARS

**US: Mon:** New York Empire State Manufacturing Index 14.5. **Tues:** Retail Sales Total & Control Group -0.6%/-1.1%, Headline & Manufacturing Industrial Production 0.4%/0.2%, Capacity Utilization Rate 75.6%, Business Inventories 0.3%, NAHB Housing Market Index 83.0, Export & Import Prices 1.2%/1.0%. (Investing.com estimates)

**Global: Mon:** RBA Meeting Minutes. **Tues:** Eurozone ZEW Economic Sentiment, Germany ZEW Economic Sentiment 74.0, France CPI -0.1%m/m/0.4%y/y, Italy CPI 0.1%m/m/0.6%y/y, Japan Industrial Production. (Investing.com estimates)

## STRATEGY INDICATORS

**Global Stock Markets Performance** (*link*): Last week saw the US MSCI index rise 2.8% for its biggest gain in five weeks as it ranked 23rd of the 49 global stock markets we follow in a week when 43 of the 49 countries rose in US dollar terms and the AC World ex-US index gained 2.3%. The EMU hit a 13-year high last week as just three countries traded at a record high during the week: Canada, France, and Sweden. EM Eastern Europe was the best-performing region last week with a gain of 5.2%, ahead of EMU (4.3%), EMEA (4.1), and EAFE (3.0). BRIC was unchanged and the biggest underperformer, followed by EM Asia (0.1) and EM Latin America (2.3). Sweden was the best-performing country last week with a 6.4% gain, followed by Chile (6.1), Mexico (5.8), Russia (5.8), and Denmark (5.4). Among the 23 countries that underperformed the AC World ex-US MSCI last week, Pakistan fared the worst with a decline of 4.9%, followed by the Philippines (-2.2), China (-0.7), Egypt (-0.3), and Malaysia (-0.2). EMEA leads so far in 2021 with a gain of 6.6%, ahead of EM Eastern Europe (6.1), EM Asia (4.9), and EMU (4.2). The following regions are lagging the 4.1% gain for the AC World ex-US: EM Latin America (-5.9), BRIC (3.3), and EAFE (3.3). The top-performing countries ytd: Chile (16.7), Taiwan (12.3), Sweden (11.9), Norway (11.9), and Austria (11.9). The biggest laggards of 2021 so far: Colombia (-11.6), Brazil (-11.6), New Zealand (-10.6), the Philippines (-6.9), and Pakistan (-4.9).

**S&P 1500/500/400/600 Performance** (*link*): All three of these indexes rose for a second week to record highs. SmallCap rose 7.3% for its biggest gain in 17 weeks, ahead of the MidCap (5.3%) and LargeCap (2.6) indexes. All 33 sectors rose last week compared to 26 rising a week earlier. Twelve sectors ended the week at a record high. SmallCap Consumer Discretionary rose 12.4% and was the best performer for the week, followed by MidCap Materials (7.6), SmallCap Financials (7.4), SmallCap Health Care (7.3), and MidCap Consumer Discretionary (7.1). LargeCap Communications was the biggest underperformer last week, albeit with a gain of 0.7%, followed by LargeCap Energy (1.1), LargeCap Health Care (1.3), LargeCap Tech (1.9), and LargeCap Consumer Staples (2.1). SmallCap leads so far in 2021 with a gain of 24.9%, easily beating both MidCap (14.7) and LargeCap (5.0). All but two of the 33 sectors are higher ytd. The best sector performers so far in 2021: SmallCap Energy (65.7), SmallCap Consumer Discretionary (46.1), MidCap Energy (42.1), LargeCap Energy (40.1), and SmallCap Communication Services (28.9). The biggest laggards so far in 2021: LargeCap Consumer Staples (-3.0), LargeCap Utilities (-1.3), LargeCap Tech (0.6), LargeCap Health Care (0.6), and LargeCap Consumer Discretionary (2.1).

**S&P 500 Sectors and Industries Performance** (*link*): All 11 S&P 500 sectors rose last week and six outperformed the composite index’s 2.6% gain. That compares to a 0.8% gain for the S&P 500 a week earlier when eight sectors rose and seven outperformed the index. Consumer Discretionary and Real Estate each rose 5.7% for the biggest gains of the week, ahead of Utilities (4.4%), Materials (4.4), Industrials (3.6), and Financials (3.2). The worst performers, albeit with gains: Communication Services (0.7), Energy (1.1), Health Care (1.3), Information Technology (1.9), and Consumer Staples (2.1). The S&P 500 has risen 5.0% so far in 2021, with nine of the sectors higher ytd and six beating the broader index. The leading sectors so far in 2021: Energy (40.1), Financials (17.5), Industrials (8.9), Materials (8.1), Communication Services (7.9), and Real Estate (6.3). This year's laggards to date: Consumer Staples (-3.0), Utilities (-1.3), Tech (0.6), Health Care (0.6), and Consumer Discretionary (2.1).

**Commodities Performance** (*link*): Last week, the S&P GSCI index rose 0.2% for its 17th gain in the past 19 weeks, but its smallest increase in seven weeks. It's trading just 2.1% below its four-year high during October 2018. Twelve of the 24 commodities that we follow moved higher last week. Lean Hogs was the best performer last week with a gain of 11.5%, followed by Feeder Cattle (5.8%), Unleaded Gasoline (3.4), Coffee (3.2), and Silver (2.5). Kansas Wheat was the biggest decliner for the week with a drop of 3.6%, followed by Natural Gas (-2.7), Nickel (-2.5), Wheat (-2.2), and Lead (-1.9). The S&P GSCI Commodities index has risen 20.2% so far in 2021, propelled by gains in 17 of the 24 commodities in the index. The top-performing commodities so far in 2021: Unleaded Gasoline (51.4), Lean Hogs (40.9), Crude Oil (35.3), Brent Crude (32.6), Heating Oil (32.3), and GasOil (31.2). The biggest laggards so far in 2021: Gold (-9.1), Nickel (-3.5), Silver (-1.9), Lead (-1.6), and Cocoa (-1.3).

**S&P 500 Technical Indicators** (*link*): The S&P 500 rose 2.6% last week, and improved relative to its short-term, 50-day moving average (50-dma) for a second week after being below a week earlier for only the second time since early November. It was above its 200-dma for a 37th straight week after being below for 13 weeks through late May, which matched its prior losing streak that ended during February 2019. Turning to how the dmas compare relative to one another, the index's 50-dma relative to its 200-dma weakened for the tenth time in 11 weeks, but the index was in a Golden Cross (with 50-dmas higher than 200-dmas) for a 36th week after 15 weeks in a Death Cross. Before the 2020 meltdown, the S&P 500 had last been in a Death Cross for 13 straight weeks, ending in March 2019. The index's 50-dma ended the week at a 15-week low of 9.5% above its 200-dma, down from 9.6% a week earlier. That's down from its mid-December reading of 11.0%, which was the highest since December 2009 when it was falling from its peak of 14.4% during October 2009. In mid-May, the 50-dma had been 9.9% below the 200-dma, which was the most that the former had lagged the latter since May 2009. Turning to the individual dmas, the S&P 500's 50-dma rose for a 19th week after falling for a week at the end of October for the first time in six months. The price index improved to 2.6% above its rising 50-dma from 0.3% above a week earlier. That compares to 0.1% below its rising 50-dma the week before that and is down from a 13-week high of 6.0% above its rising 50-dma in mid-November. It has been mostly trading above its 50-dma since late April and peaked in early June at 11.7% above, which was the highest since May 2009, when it peaked at a record high of 14.0%. That compares to 27.7% below on March 23—its lowest reading since it was 29.7% below on Black Monday, October 19, 1987. The price index was above its 200-dma for a 37th week and improved to 12.3% above its rising 200-dma from 10.0% a week earlier and a 17-week low of 9.7% the week before that. That compares to a 17.0% reading in early December, which was the highest since November 2009 and up from the 26.6% below registered on March 23—the lowest reading since March 2009. At its worst levels of the Great Financial Crisis, the S&P 500 index was 25.5% below its 50-dma on October 10, 2008 and 39.6% below its 200-dma on November 11, 2008.

**S&P 500 Sectors Technical Indicators** (*link*): Eight of the 11 S&P 500 sectors traded above their 50-dmas last week, up from just five during the previous two weeks; that compares to four above at the end of January. That also compares to all 11 above at the end of November and just one sector above at the end of October. Consumer Staples, Materials, and Real Estate moved above their 50-dma in the latest week, leaving just these three sectors below: Consumer Discretionary, Health Care, and Information Technology. Consumer Staples was above its 50-dma for the first time in nine weeks. Looking at the longer term, all 11 sectors traded above their 200-dmas, up from ten a week earlier, as Utilities moved back above after two weeks below. Energy traded above its 200-dma for a 16th week and for the first time since January 2020. That compares to just one sector (Health Care) above its 200-dma in early April. All 11 sectors are still in the Golden Cross club (50-dmas higher than 200-dmas) for now, unchanged from the prior ten weeks when Energy joined for the first time since November 2018. Nine sectors have a rising 50-dma, up from seven a week earlier, as Consumer Discretionary and Tech turned up w/w. Consumer Staples' 50-dma fell for an eighth week and Utilities for a fourth week. In early June, the 50-dma had been rising for all 11 sectors for three straight weeks. That was a big improvement from the beginning of May, when all 11 had falling 50-dmas for ten straight weeks. Currently, all 11 sectors have rising 200-dmas, up from 10 a week earlier, as Utilities turned back up w/w. Energy's 200-dma finally turned higher in mid-December after mostly falling since October 2018.

## US ECONOMIC INDICATORS

**Consumer Sentiment Index** (*link*): "Consumer sentiment rose in early March to its highest level in a year due to the growing number of vaccinations as well as the widely anticipated passage of Biden's relief measures," said Richard Curtin, chief economist for the Survey of Consumers. The Consumer Sentiment Index (CSI) climbed to a 12-month high of 83.0 this month, on widespread gains, after slumping the first two months of this year from 80.7 in

December to 79.0 in January and to 76.8 by February. The present situation component rebounded to a 12-month high of 91.5 after falling the prior two months, from 90.0 in December to 86.2 in February, while the expectations component jumped to 77.5 after a two-month drop from 74.6 to 70.7 during the two months ending February. For perspective, the headline index and its present situation and expectations components stood at 101.0, 114.8, and 92.1, respectively, before Covid hit. According to the report, while gains were widespread across all socioeconomic subgroups and all regions, the biggest improvement occurred among those in the bottom third of income distribution, as well as among respondents aged 50 and older. According to the report, "The early March gains were not equally shared across all Index components, with consumers voicing no improvement in some key facets of consumer finances. In particular, consumers' judgements about their own financial situation posted no gains in early March, largely due to very small expected gains in household incomes over the next year. In contrast, prospects for the national economy improved significantly." Consumers' views of buying conditions were very positive for large household goods, while those for vehicles and homes showed only marginal gains. Inflation expectations remained elevated, though the one-year rate dipped to 3.1% this month from 3.3% last month—which was the highest expected rate since July 2014—while the five-year rate has been 2.7% during the first three months of this year.

**JOLTS** (*link*): The UK economy in January contracted for only the second time in the past nine months, as lockdown measures took effect and exports to the EU plunged—though the decline was much smaller than the expected 4.9% decline. Real GDP dropped 2.9% at the start of this year, as temporary factors caused record declines in both goods exports (-40.7%) and imports (-28.8) to and from the EU and as businesses battled with new trading arrangements following the end of the Brexit transition period. ONS notes preliminary data show trade began to improve at the end of January, with overall freight volumes back to "normal levels." Real GDP was 9.3% below its pre-pandemic peak. The service sector, which accounts for roughly 80% of the economy, fell for the second time in three months, by 3.5% in January and 4.9% over the period. January's decline was the steepest since last April—driven by declines in accommodation & food services (-28.1) and education (-16.3). Manufacturing posted its first decline in nine months, dipping 2.3% in January, after an eight-month surge of 38.2%. Meanwhile, gains in the health sector (5.9) and construction (0.9) helped to soften some on January's loss.

**Producer Price Index** (*link*): The Producer Price Index for final demand increased 0.5% in February, less than half January's record rate of 1.3%, as gains in services prices slowed.

Prices for final demand goods last month matched January's record 1.4% increase, with gasoline prices accounting for 40% of last month's increase. Meanwhile, the increase in prices for final demand services (+0.1%) slowed to a near standstill after January's record 1.3% jump. The yearly rate for final demand accelerated at a 28-month high of 2.8% after finishing 2020 at only 0.8% y/y; there was deflation in the yearly rate from April through August of last year. Boosting the overall rate was a 3.4% y/y jump in final demand goods, which was the highest since October 2018; it was negative from March through November of 2020. The yearly rate for final demand services accelerated 2.5% y/y, up from last year's low of 0.2% in May, reaching its highest rate since August 2019. Meanwhile, the increase in prices for final demand less food, energy, and trade services slowed to 0.2% from a record 1.2% increase during January; its yearly rate rose to 21-month high of 2.2% y/y, up from last May's low of -0.2%. In the meantime, yearly rates for pipeline prices continued to move further into positive territory after negative readings most of last year. Intermediate prices rose 6.6% y/y—the highest since July 2018, after posting its first positive reading in December since April 2019; these prices have accelerated steadily since hitting bottom at -7.7% last April. Crude prices soared 19.1% y/y—the highest since September 2011; it turned positive in November (+0.5) for the first time since December 2018 after having hit bottom at -28.6% last April.

## GLOBAL ECONOMIC INDICATORS

**Eurozone Industrial Production** (*link*): Output in January expanded a stronger-than-expected 0.8% (vs a 0.1% expected gain), on widespread gains, while December's 1.6% decline was revised to show only a 0.1% downtick. January's increase was the eighth in nine months since bottoming in April, soaring 37.4% over the period to within a fraction of where it was pre-Covid. Manufacturing output increased 0.6% in January and 40.5% the past nine months to within 0.8% of its pre-pandemic reading. During January, production in all the main industrial groups were in the black: consumer durable goods (+0.8%), consumer nondurable goods (+0.6), capital goods (+0.4), energy (+0.4), and intermediate goods (+0.3). Here's a look at how the main industrial groups fared during the nine months through January and where they stand relative to their pre-pandemic levels: consumer durable goods (+108.2% & +2.3%), capital goods (+66.1 & +1.4), intermediate goods (+36.5 & +0.7), consumer nondurable goods (+11.6 & -4.4), and energy (+9.6 & -0.3). Here's the same exercise for total production among the top four Eurozone economies: Italy (+69.8 & -1.9), France (+50.5 & -1.7), Spain (+45.1 & -1.8), and Germany (+34.7 & -3.7). During January, among these four economies, industrial production in France (+3.4) rebounded after a two-month slump, while Italy's (+1.0) remained stalled around recent highs. Industrial output in Germany (-0.4) contracted for the first time in nine months, while Spain's (-0.7) dipped for the second time in three months after a six-month spurt.

**UK GDP** (*link*): The UK economy in January contracted for only the second time in the past nine months, as lockdown measures took effect and exports to the EU plunged—though the decline was much smaller than the expected 4.9% decline. Real GDP dropped 2.9% at the start of this year, as temporary factors caused record declines in both goods exports (-40.7%) and imports (-28.8) to and from the EU and as businesses battled with new trading arrangements following the end of the Brexit transition period. ONS notes preliminary data show trade began to improve at the end of January, with overall freight volumes back to "normal levels." Real GDP was 9.3% below its pre-pandemic peak. The service sector, which accounts for roughly 80% of the economy, fell for the second time in three months, by 3.5% in January and 4.9% over the period. January's decline was the steepest since last April—driven by declines in accommodation & food services (-28.1) and education (-16.3). Manufacturing posted its first decline in nine months, dipping 2.3% in January, after an eight-month surge of 38.2%. Meanwhile, gains in the health sector (5.9) and construction (0.9) helped to soften some on January's loss.

**UK Industrial Production** (*link*): Output fell for the first time in nine months in January after gains slowed the last two months of 2020. Headline production contracted 1.5% in January after an eight-month jump of 26.9%, while factory output fell 2.3% and rose 38.2%, respectively, over the comparable periods. Here's the nine-month performance by the main industrial groupings and where they stand relative to their respective pre-pandemic readings: capital (+52.6% & -11.9%), intermediate (+47.4 & +0,5), consumer durable (+43.2 & -3.3), and consumer nondurable (+7.7 & -3.1) goods, with only consumer nondurable goods (+2.8) posting a gain during January. Capital (-5.9), consumer durable (-3.1), and intermediate (-2.6) goods production all posted sizeable declines at the start of this year.

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