



MORNING BRIEFING

March 22, 2021

No Relief for Bond Vigilantes

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

(1) Dr. Ed's latest podcast. (2) New book about the Fed and the GVC. (3) Do over 250 million Americans need "relief" checks? (4) Thousands adding up to billions. (5) Big boost for housing-related retail sales including TVs and microwave ovens. (6) M2 up \$4 trillion y/y. (7) March is on fire, according to Philly Fed survey. (8) Prices-paid indexes soaring in Philly and NY districts. (9) Copper/gold ratio and Philly prices-paid correlations with bond yield remain bearish. (10) The pre-pandemic old normal for bond yields was 2.00%-3.00%. (11) Movie review: "Land" (+).

YRI Podcast & New Book. In our latest video [podcast](#), Dr. Ed discusses the main points of today's *Morning Briefing*.

Also, check out our new book [The Fed & the Great Virus Crisis](#), now available as a paperback on Amazon. The Kindle version will be out by the end of this month.

While we are on the subject of YRI books, have a look at a recent glowing [CFA Institute review](#) of our 2020 book [Fed Watching for Fun and Profit](#). It concludes: "Institutional investors, individual investors, businesspeople, policymakers, and students can gain from it a solid understanding of how the Fed has acted in the past. This knowledge can help decision makers predict the Fed's future actions and their associated economic and financial market impacts and determine the actions that accordingly need to be taken."

Economy I: More Relief Checks. Last week, over 250 million Americans received "money for nothin'"—as the Dire Straits song goes—or else soon will, as the \$1,400 checks dropping into their bank accounts courtesy of the US Treasury are free. For most of them, this is the third round of "relief" checks. At most, maybe 20 million Americans—those who are collecting unemployment benefits—really need the largesse of their Uncles Sam and Joe.

For some of the rest of them, I wouldn't guess that "relief" is what they're feeling as they rush out to their local Best Buy to purchase a \$1,400 flat-screen TV, adding to their supplies of free

TVs, microwave ovens, and refrigerators they bought with the previous two rounds of checks of \$1,200 (last April) and \$600 (January). Consider the following:

(1) *From thousand to billions.* The March 27, 2020 CARES (Coronavirus Aid, Relief, and Economic Security) Act provided \$300 billion in direct support “economic impact payments” (EIPs) of \$1,200 during April of last year to 250 million Americans. Another round of \$138 billion in EIPs occurred during January, reflecting the \$600-per-person checks sent by the Treasury to 230 million Americans. Starting last week, the Treasury is sending \$1,400 checks totaling \$402 billion to 287 million Americans ([Fig. 1](#)). That’s a total of \$840 billion in checks for free.

Imagine if all that money had been targeted at people and businesses that truly needed support during the pandemic. Instead, we got a warm-up act for a Universal Basic Income. But I digress.

(2) *Retail sales sing-along.* Now let’s have a look at the impact of all this “helicopter money” on retail sales, which plunged 21.9% during the lockdowns of March and April last year. Americans couldn’t spend much of either their private payroll or government relief checks during April because stores, restaurants, and entertainment venues were closed.

As the lockdown restrictions were lifted, retail sales soared 28.4% from April’s low to a new record high during June ([Fig. 2](#)). Retail sales continued to climb to another new high last year during September. Then they dipped during the last three months of 2020. They jumped 7.6% to yet another record high during January thanks to the \$600 checks but then dipped during February, mostly because the weather was so bad around the country. They undoubtedly will soar to new highs during March and April on the wings of the latest round of free money.

(3) *Money for some things.* And what did Americans choose to spend the first two rounds of free money on? Here are the percent changes in the 13 major categories of retail sales from April of last year through February of this year: clothing & accessories (551%), furniture & home furnishings (173), sporting goods & hobby (110), electronics & appliances (107), restaurants (80), motor vehicles & parts (69), miscellaneous store retailers (61), gasoline (60), building materials & garden equipment (18), health & personal care (18), general merchandise (11), nonstore retailers (10), and food & beverage (1).

Among the big winners was housing-related retail sales, up 41.9% over this period ([Fig. 3](#)). The first two rounds of checks were certainly reflected in the sales of warehouse clubs and superstores, which jumped 14.6% m/m last March and 8.5% m/m during January ([Fig. 4](#)). (Those stores sell TVs too.) The impact of the economic impact payments on the sales of online retailers is less obvious because they received such a big boost during the lockdowns, when their share of GAFO (i.e., the types of merchandise found in department stores) sales jumped to a record 50.7% during April ([Fig. 5](#)). That share was back down to 41.9% during January, which was still well above the year-ago share of 35.7%.

(4) *A pile of cash*. Apparently, the flood of cash and liquidity provided by the Treasury and the Fed have exceeded the ability of consumers to spend it all. Over the past 12 months through January, there have been huge increases in the following monetary aggregates: currency in circulation (\$275.3 billion, 16.0%), demand deposits (\$1,780.4 billion, 112.5%), other liquid deposits (\$2,197.0 billion, 20.8%), and M2 (\$3,978.2 billion, 25.8%) ([Fig. 6](#)).

(Note: The Fed's [Money Stock Measures H.6 Release](#) is no longer available weekly, only monthly. Savings deposits are no longer included in M2. Instead, they've been added to the "other checkable deposits" category of M1 and together are shown as "other liquid deposits.")

Economy II: Red-Hot March. Last Thursday at 8:52 a.m., MarketWatch featured a [story](#) titled "Philly Fed factory index soars to highest level in nearly 50 years." The report discussed, for March, is one of the five monthly regional business surveys conducted by the Federal Reserve Banks (FRBs) of New York, Philadelphia, Richmond, Kansas City, and Dallas. The New York district's survey is the only other of the five that's available yet for March. These two available surveys suggest that the economy is smoking hot, and so are inflationary cost pressures, as Debbie discusses below.

If this assessment is confirmed by the remaining three surveys, as is likely, then the March national survey of manufacturing purchasing managers is bound to be red hot too. That's great for corporate revenues and earnings. On the other hand, the latest two surveys confirm the concerns of the Bond Vigilantes, who fear that policymakers are overheating a hot economy. Consider the following:

(1) The Philadelphia Federal Reserve's business activity index jumped to 51.8 in March from 23.1 in the prior month ([Fig. 7](#)). That's the highest reading since 1973. The Philly Fed index is based on a single stand-alone question about business conditions, unlike other surveys such

as the national Institute for Supply Management manufacturing index, which are composite results based on index components.

(2) This month, the subcomponents of the Philly Fed index also had strong gains. The barometer on new orders rose to 50.9 in March from 23.4 in the prior month. The shipments index rose to 30.2 from 21.5 in February. The employment index improved for the third straight month. The measure gauging the six-month outlook soared to 61.6 from 39.5 in the prior month.

(3) In the Philly survey, manufacturers complained of worker shortages, saying there was a mismatch between what was required for employment and the workers who were applying for positions.

(4) The New York survey data weren't as red hot as the data in the Philly survey. However, the March averages of the indexes of the two rose to new recovery highs as follow: composite (34.6, highest since July 2004), new orders (30.0, highest since May 2018), and employment (19.8, highest since June 2018) ([Fig. 8](#)).

(5) In the Philly survey, the prices-paid index rose sharply to 75.9 in March from 54.4 in the prior month. That's the highest reading since March 1980. The prices-received index rose 15 points to 31.8 ([Fig. 9](#)). In the New York survey, the prices-paid index (64.4) rose to the highest since May 2011.

Bonds: Back to Old-Normal Yields. The 10-year US Treasury bond yield bottomed at a record-low 0.52% last year on August 4. It rose to 1.00% at the start of this year. On Friday, it was up to 1.74%.

The S&P 500 has been stalled around a record high of 3900 since early February. The Nasdaq peaked at a record high of 14,095.47 on February 12. It was down as much as 10.5% as of March 8. We characterized this stock market correction as Panic Attack #69 and attributed it to the recent rapid rise in the bond yield.

The Nasdaq is up 4.8% since March 8. We believe that the latest panic attack is over because we expect that some of the pile of cash and some of the latest round of EIPs will be used to purchase equities. However, we still see more upside for the bond yield and downside for bond prices. Consider the following:

(1) The unusual divergence between the yield and the copper/gold price ratio (which tends to track the yield very closely) has been narrowing as the yield has been rising. The ratio currently suggests that the yield should be at 2.37% ([Fig. 10](#)).

(2) The copper/gold ratio is highly correlated with the Philly Fed's prices-paid index ([Fig. 11](#)). This means that the index is also highly correlated with the bond yield ([Fig. 12](#)). As noted above, the Philly Fed's prices-paid index is soaring.

(3) The Philly Fed's prices-paid index is highly correlated with the national M-PMI prices-paid index ([Fig. 13](#)). So the latter is also highly correlated with the bond yield ([Fig. 14](#)). The same can be said for the national NM-PMI ([Fig. 15](#)).

(4) All of the above correlations suggest that the bond yield is likely to rise to between 2.00% and 3.00% over the next 12-18 months. That's where the yield was for several years before the pandemic, when the economy was growing and stock price indexes were making new record highs.

Movie. "Land" (+) ([link](#)) features an excellent performance by Robin Wright, who also directed this film. She plays Edee, a bereaved woman who has lost her husband and young son. She hopes to overcome this tragedy by moving to a remote cabin in Wyoming surrounded only by the natural beauty of the mountains, forest, and nearby river. She chooses to live off the grid, chucking her cell phone in a trash can and having her car towed away. She wants no contact with people, either through social media or directly. However, she does come to depend on a hunter to teach her some basic survival skills since nature not only is beautiful but also can be deadly. The movie will make you want to connect with nature. However, our national parks are likely to be more packed than ever this summer as inoculated Americans take to the road. They are likely to reconnect with other humans in the national parks more than with nature.

CALENDARS

US: **Mon:** Existing Home Sales 6.49mu, Chicago Fed National Activity Index, Powell, Bowman. **Tues:** New Home Sales 876k, Richmond Fed Manufacturing Index, Current Account Balance -\$188.5b, Powell, Brainard. (DailyFX estimates)

Global: **Mon:** Japan Leading & Coincident Indexes 99.1/91.7, Bundesbank Monthly Report

Weidmann, Schnabel. **Tues:** UK Employment Change & Unemployment Rate -170k/5.2%, UK Average Earnings Including Bonus 4.9%, BOJ Monetary Policy Meeting Minutes, Enria, Gravelle. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index fall 0.8% as it ranked 32nd of the 49 global stock markets we follow in a week when only 18 of the 49 countries rose in US dollar terms and the AC World ex-US index gained 0.1%. The EMU was at a 13-year high last week, and four countries traded at a record high during the week: Canada, France, Sweden, and the US. EM Latin America was the best-performing region last week with a gain of 1.8%, ahead of EAFE (0.5%). EM Eastern Europe was the biggest underperformer with a decline of 3.3%, followed by EMEA (-1.5), EM Asia (-1.0), BRIC (-0.4), and EMU (-0.2). Turkey was the best-performing country last week with a 4.5% gain, followed by Brazil (3.5), Japan (2.8), New Zealand (1.7), and Singapore (1.5). Among the 31 countries that underperformed the AC World ex-US MSCI last week, Peru fared the worst with a decline of 4.9%, followed by Poland (-4.7), the Philippines (-4.5), Russia (-3.4), and Taiwan (-2.9). EMEA leads so far in 2021 with a gain of 5.0% and is the only region ahead of the AC-World ex-US (4.2). The following regions are lagging: EM Latin America (-4.3), EM Eastern Europe (2.6), BRIC (2.9), EM Asia (3.8), EAFE (3.9), and EMU (4.0). The top-performing countries ytd: Chile (15.9), Sweden (11.2), South Africa (10.9), Canada (10.2), and Norway (9.9). The biggest laggards of 2021 so far: Colombia (-12.7), the Philippines (-11.1), New Zealand (-9.1), Brazil (-8.5), and Poland (-6.5).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes fell for the first time in three weeks from their record highs a week earlier. LargeCap dropped 0.8% for the smallest decline, ahead of the MidCap (-1.2%) and SmallCap (-3.0) indexes. Just four of the 33 sectors rose last week compared to all 33 rising a week earlier. None of the sectors ended the week at a record high, down from 12 hitting that mark a week earlier. LargeCap Communication Services and MidCap Utilities each rose 0.5% in the best performances for the week, followed by LargeCap Health Care (0.4%), LargeCap Consumer Staples (0.2), and LargeCap Consumer Discretionary (-0.1). SmallCap Energy was the biggest underperformer last week with a decline of -9.5%, followed by LargeCap Energy (-7.7), SmallCap Materials (-5.0), SmallCap Communication Services (-4.1), and SmallCap Real Estate (-3.7). SmallCap leads so far in 2021 with a gain of 21.1%, easily beating both MidCap (13.3) and LargeCap (4.2). All but three of the 33 sectors are higher ytd. The best sector performers so far in 2021: SmallCap

Energy (50.0), SmallCap Consumer Discretionary (41.9), MidCap Energy (37.2), LargeCap Energy (29.3), and SmallCap Communication Services (23.7). The biggest laggards so far in 2021: LargeCap Consumer Staples (-2.7), LargeCap Utilities (-1.6), LargeCap Tech (-0.8), LargeCap Health Care (1.0), and LargeCap Consumer Discretionary (2.0).

S&P 500 Sectors and Industries Performance ([link](#)): Three of the 11 S&P 500 sectors rose last week and six outperformed the composite index's 0.8% decline. That compares to a 2.6% gain for the S&P 500 a week earlier when all 11 sectors rose and six outperformed the index. Communication Services rose 0.5% for the biggest gain of the week, ahead of Health Care (0.4%), Consumer Staples (0.2), Consumer Discretionary (-0.1), Industrials (-0.3), and Utilities (-0.3). The worst performers: Energy (-7.7), Financials (-1.7), Tech (-1.4), Real Estate (-1.0), and Materials (-0.8). The S&P 500 has risen 4.2% so far in 2021, with eight of the sectors higher ytd and six beating the broader index. The leading sectors so far in 2021: Energy (29.3), Financials (15.5), Industrials (8.6), Communication Services (8.5), Materials (7.2), and Real Estate (5.2). This year's laggards to date: Consumer Staples (-2.7), Utilities (-1.6), Tech (-0.8), Health Care (1.0), and Consumer Discretionary (2.0).

Commodities Performance ([link](#)): Last week, the S&P GSCI index fell 3.5% for only its third decline in the past 20 weeks. It's trading just 5.5% below its four-year high during October 2018. Eight of the 24 commodities that we follow moved higher last week. Aluminum was the best performer last week with a gain of 4.4%, followed by Corn (3.5%), Nickel (1.8), Lean Hogs (1.6), and Silver (1.6). Unleaded Gasoline was the biggest decliner for the week with a drop of 9.0%, followed by GasOil (-7.6), Heating Oil (-7.2), Crude Oil (-6.4), and Brent Crude (-6.3). The S&P GSCI Commodities index has risen 16.0% so far in 2021, propelled by gains in 17 of the 24 commodities in the index. The top-performing commodities so far in 2021: Lean Hogs (43.2), Unleaded Gasoline (37.8), Crude Oil (26.6), Brent Crude (24.2), Heating Oil (22.8), and GasOil (21.3). The biggest laggards so far in 2021: Gold (-8.0), Cocoa (-4.2), Kansas Wheat (-3.0), Wheat (-2.1), Nickel (-1.8), and Lead (-1.8).

S&P 500 Technical Indicators ([link](#)): The S&P 500 fell 0.8% last week and weakened relative to its short-term, 50-day moving average (50-dma). It had been below for a week at the end of February for only the second time since early November. It was above its 200-dma for a 38th 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 11th time in 12 weeks, but the index was in a Golden Cross (with 50-dmas higher than 200-dmas) for a 37th 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 17-week low of 9.4% above its 200-dma, down from 9.5% 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 20th week after falling for a week at the end of October for the first time in six months. However, the price index dropped to 1.3% above its rising 50-dma from 2.6% above a week earlier. That compares to 0.1% below its rising 50-dma the week at the end of February 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 38th week but dropped to 10.8% above its rising 200-dma from 12.3% a week earlier. It's still above its 17-week low of 9.7% above at the end of February. 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](#)): Seven of the 11 S&P 500 sectors traded above their 50-dmas last week, down from eight a week earlier; 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. Utilities moved below its 50-dma in the latest week, joining these three sectors also below: Consumer Discretionary, Health Care, and Information Technology. Looking at the longer term, all 11 sectors traded above their 200-dmas, unchanged from a week earlier as Utilities was above for a second week after two weeks below. Energy traded above its 200-dma for a 17th 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 11 weeks when Energy joined for the first time since November 2018. Six sectors have a rising 50-dma, the lowest count since early November and down from nine from seven a week earlier. Consumer Discretionary, Health Care, and Tech turned down w/w and

joined Consumer Staples and Utilities. Consumer Staples' 50-dma fell for a ninth week and Utilities for a fifth 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, unchanged from a week earlier, as Utilities was above for a second week. Energy's 200-dma finally turned higher in mid-December after mostly falling since October 2018.

US ECONOMIC INDICATORS

Regional M-PMIs ([link](#)): Two Fed districts have now reported on manufacturing activity for March (Philadelphia and New York) and show the manufacturing sector expanded at a robust pace, thanks to a sharp acceleration in the Philadelphia region. Meanwhile, prices-paid and -received indexes are accelerating sharply in both regions—though Philadelphia's inflation measures are in the stratosphere compared to New York's. The composite index (to 34.6 from 17.6) was double February's rate, as the Philadelphia (to 51.8 from 23.1) region posted its best performance since 1973, while New York's (17.4 from 12.1) was the strongest since last summer. The new orders measure jumped from 17.1 to 30.0 this month—as billings in the Philly (to 50.9 from 23.4) region also expanded at the fastest pace 1973, while New York's (9.1 from 10.8) showed billings grew at a similar pace to February. In the meantime, factories added to payrolls at the best pace since mid-2018, with the employment measure climbing from 18.7 to 19.8 this month and the Philadelphia (to 30.1 from 25.3) region once again driving growth; New York's (9.4 from 12.1) manufacturers hired at a slightly slower pace than last month. Prices-paid measures in the Philadelphia (to 75.9 from 54.4) and New York (64.4 from 57.8) regions accelerated at their fastest paces since March 1980 and May 2011, respectively, while the prices-received indexes in the Philadelphia (to 31.8 from 16.7) and New York (24.2 from 23.4) regions are also accelerating, though pale in comparison to input prices.

Leading Indicators ([link](#)): "The US LEI continued rising in February, suggesting economic growth should continue well into this year," said Ataman Ozyildirim, senior director of economic research at The Conference Board. The Leading Economic Indicators (LEI) posted their 10th successive increase last month, climbing 0.2% in February and 14.2% since bottoming in April—to within 1.3% of last January's record high. Six of the 10 components contributed positively to February's LEI, while building permits (-0.33ppt), consumer sentiment (-0.04), and the average workweek (-0.20) contributed negatively—with real core capital goods orders unchanged. The positive contributions were fairly broad based, led by jobless claims (+0.25ppt), the ISM new orders diffusion index (+0.19), the interest rate spread (+0.13), the

leading credit index (+0.12), and stock prices (+0.09), with real consumer durable goods (+0.01) having little impact. Ozyildirim noted that “[t]he acceleration of the vaccination campaign and a new round of large fiscal supports are not yet fully reflected in the LEI. With those developments, The Conference Board now expects the pace of growth to improve even further this year, with the U.S. economy expanding by 5.5 percent in 2021.”

Coincident Indicators ([link](#)): February’s Coincident Economic Index (CEI) in February recorded the second decline in three months since last April’s record 11.8% plunge, though declines in both December and February were a negligible 0.1%. The CEI had expanded 11.0% during the seven months through November and was within 4.1% of its record high posted last February, including the recent downticks. Three of the four components of the CEI contributed positively last month, though the decline in February’s industrial production more than offset the gains in the other three components. Here are the contributions from highest to lowest: 1) Employment gains blew past forecasts in February, led by a surge in private-sector jobs, while January payrolls were much stronger than previously forecast. Nonfarm payroll employment jumped 379,000 in February, following an upwardly revised gain in January (to 166,000 from 49,000), with private payrolls soaring 465,000 following a 90,000 gain in January (first reported at 6,000). Leisure & hospitality was the job magnet in February, with jobs jumping 355,000, as pandemic-related restrictions in some areas of the country were eased. 2) Real personal income less transfer payments increased for the first time in four months, edging up 0.2% in February after a three-month dip of 1.4%. It’s up 6.1% since April’s bottom to within 2.6% of last February’s record high. 3) Real manufacturing & trade sales rose 0.6% during the two months ending February after falling 0.6% the last two months of 2020; it had reached a new record during October. 4) Industrial production in February contracted for the first time in five months and only the second time in 10 months, as severe winter weather triggered widespread declines. Headline production slumped 2.2% after climbing eight of the prior nine prior months by 17.3%, with only utilities (+7.4%) output in the black last month, as power production was stepped up to meet the heating demands that hit most of the country during mid-February. Meanwhile, manufacturing (-3.1) and mining (-5.4) output fell last month, and were 4.0% and 15.3% below pre-pandemic levels. (Note: Latest data for both real personal income less transfer payments and real manufacturing & trade sales are estimated using statistical imputations to address the problem of lags in available data.)

GLOBAL ECONOMIC INDICATORS

European Car Sales ([link](#)): Covid containment measures, along with uncertainty, pushed EU

passenger car registrations (a proxy for sales) down 19.3% y/y in February to 771,486 units—the lowest February total on record since 2013. The top four EU markets all posted double-digit declines, with Italy (-12.3% y/y) posting the smallest loss, followed by Germany (-19.0), France (-20.9), and Spain (-38.4). During the first two months of this year, sales are down 21.7% y/y from the comparable 2020 period, with Spain (-44.6% y/y) the hardest hit of the top four, followed by Germany (-25.1), France (-14.2), and Italy (-13.1).

Contact us by [email](#) or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-775-6823

Copyright (c) Yardeni Research, Inc. Please read complete [copyright and hedge clause](#).