Yardeni Research

MORNING BRIEFING
March 25, 2021

Transports on a Roll

Check out the accompanying chart collection.

(1) Traffic jam builds in the Suez Canal. (2) Global trade is tangling up supply chains. (3) Dow Transports shakes off Covid and hits new highs. (4) Airlines flying before broad recovery in traffic. (5) Recovery in trade volumes and M&A help railroad stocks. (6) Internet purchases boost the shippers. (7) A look at the industries with record-high forward earnings per share. (8) Facebook working on brain/computer interfaces. (9) Smart glasses take on a whole new meaning. (10) Make things happen with a twitch of a finger.

Strategy I: Transports Making New Highs. A container ship that's roughly a quarter of a mile long and weighing 224,000 tons is literally stuck in the Suez Canal. Mother Nature, in the form of a sandstorm, wedged the ship into the banks of the canal, causing a traffic jam in the world's busiest shipping lane. Tugboats and bulldozers that look like mere toys next to the hulking ship are working to break it free.

The grounded ship is the latest problem to entangle global trade. A lack of semiconductors is forcing auto manufacturers to shut down production lines. A winter storm in Texas has caused a plastics shortage. And supply disruptions amid surging demand triggered by Covid-19 impacts last year emptied store shelves of toilet paper and cleaning supplies.

These mishaps underscore the importance of the transportation sector to global trade. The recovery in global trade and the economy, along with the massive shift to Internet retailing and the beginnings of a recovery in air travel, all have combined to drive transportation-related stocks higher. Just last week, the Dow Jones Transportation index made a new all-time high. And even after this week's declines, the Dow Transports are up 11.2% ytd and 107.5% y/y through Tuesday's close (*Fig. 1*).

The S&P 500 Transportation index lags its Dow Jones counterpart by a bit, having risen 5.2% ytd and 95.5% y/y through Tuesday's close (*Fig. 2*). All three industries that compose the S&P 500 Transportation index have bounced back strongly over the last year. The S&P 500 Airlines stock price index is up 23.0% ytd and 98.7% y/y, while the S&P Air Freight & Logistics industry has fallen 1.5% ytd but risen 88.7% y/y and the S&P 500 Railroads index is up 3.9% ytd and up 96.5% y/y (*Fig. 3*).

Let's take a look at the winds that have been lifting the transport stocks:

(1) *Airlines' early departure.* Hopes are high that air travel will take off this summer as Covid-19 cases drop and more adults get jabs (*Fig. 4*). The number of folks passing through TSA checkpoints has stayed north of one million for 13 straight days (*Fig. 5*). About a quarter of US adults have received at least one dose of their Covid-19 vaccines, and age limitations are dropping quickly. The prospect of US drivers hitting the road this summer and a drop in gasoline supply have pushed the price of gasoline up to $2.95 a gallon (*Fig. 6* and *Fig. 7*). And on CNBC Wednesday, Barry Sternlicht, CEO of Starwood Capital Group, said: "We see all of this pent-up demand coming back. It's going to be a frenzy this summer."

Investors seem to agree with Sternlicht. The S&P 500 Airline industry stock price index is only 15.9% below its December 31, 2019 level (*Fig. 8*). Analysts are optimistic about an earnings rebound, forecasting the industry will produce $15.72 in operating earnings per share in 2022, up from a loss of $30.92 per share this year and a deeper loss per share of $89.17 in 2020 (*Fig. 9*). Analysts' net earnings revisions for the industry have yet to turn positive, but investors waiting for that to happen may be too late to the party (*Fig. 10*).

(2) *The latest railroad coupling.* Railroad stocks have benefitted from increasing volumes as well as this week's announcement that Canadian Pacific will buy the Kansas City Southern, creating the first system to link rails in the US, Canada, and Mexico.

Total railcar loadings excluding coal are up 5.7% y/y, based on the 26-week average, and back to levels last seen during the peak in 2018 (*Fig. 11*). The growth in intermodal railcar loadings is even stronger, up 9.8 y/y, and tends to reflect the activity in international trade. US real exports and imports are up 4.8% y/y (*Fig. 12*).

Canadian Pacific's offer represented a 23% premium to Kansas City Southern's stock price prior to the announcement and about 30 times Kansas City's projected 2021 earnings and almost 18 times its estimated 2021 cash flow, a March 22 *Barron's* article reported. The lofty price paid for Kansas City Southern could reset valuation expectations for the entire industry, and certainly pushed rail stocks higher in its wake.

The S&P 500 Railroad stock price index hit a new closing high on Wednesday just as we were finalizing this *Briefing*, and has gained 2.6% since last Friday's close (*Fig. 13*). Analysts are forecasting operating earnings per share this year and next that eclipse the previous high for earnings in 2019 (*Fig. 14*). After falling 6.5% in 2020, earnings are forecast to grow 19.2% this year and 12.6% in 2022 (*Fig. 15*). The industry's forward P/E is near record highs at 21.6 (*Fig. 16*).

(3) *Building on the Covid surge.* The dramatic increase in Internet shopping during Covid-19 shutdowns helped boost the earnings of the S&P 500 Air Freight & Logistics industry by 23.6% in 2020, while many other industries were struggling to stay alive. What's also impressive is that even after the economy recovers from Covid-19, the Air Freight & Logistics industry's earnings is expected to continue to grow by 8.4% this year and 9.1% in 2022 (*Fig. 17*). As a result, the industry's forward earnings is at an all-time high (*Fig. 18*).

Industry member FedEx reported last week that its ground unit's shipments in fiscal Q3 (ended February 28) surged by 25%, which followed a 29% surge in the previous quarter. It was the biggest peak shipping season in the company's history. In addition to shipping Internet purchases for the holidays, the company credited shipments in the healthcare—it's shipping Covid vaccines in the US and worldwide—retail, and technology-related industries.

FedEx's adjusted earnings per share for fiscal 2021 (ending May 31) are expected to almost double to $17.60-$18.20 from $9.50 a year prior. On its conference call, FedEx emphasized its ability to improve margins by improving its system and using technology. "We're also implementing dynamic scheduling tools to match sort, staffing, headcount more closely to volumes, thereby improving dock productivity and our dock expense. And we're rolling out capabilities for certain upstream volume in the network to bypass station sortation and transfer directly to delivery vehicles, freeing up valuable station capacity. None of these initiatives require brick-and-mortar. They're possible through industry-leading technology, AI, and machine learning …" explained Henry Maier, FedEx Ground president and CEO, in the company's March 18 conference call.

While the S&P 500 Air Freight & Logistics' stock price index did surge in early 2020, it has been moving sideways since late October (*Fig. 19*). So its forward P/E, at 17.0, is still well below highs closer to 24-25 over the past 25 years (*Fig. 20*).

Strategy II: S&P 500 Earnings Winners. It's impressive that both the S&P 500 Railroads and Air Freight & Logistics industries have higher forward earnings—the time-weighted average of consensus earnings-per-share estimates for this year and next year—today than they've had in over 13 years. And they're not alone: Many industries have defied the challenges of a Covid-19-impaired economy to crank out record earnings. Here are some of the earnings winners that have caught our eye:

(1) *No beating Technology.* When it comes to accelerating forward earnings, the S&P 500 Technology sector wins, hands down. None of the other 10 S&P 500 sectors have forward earnings that have climbed further or faster since 2017. The only other S&P 500 sectors with record forward earnings currently are Health Care, Materials, Consumer Staples, and Utilities. But while Tech's and Health Care's forward earnings have been rising consistently sharply, Utilities' and Consumer Staples' earnings have been climbing only slightly (*Fig. 21*).

Technology Hardware, Storage & Peripherals (home to Apple), Systems Software, Semiconductors, and Semiconductor Equipment are among the Technology sector industries with forward earnings at record levels (*Fig. 22* and *Fig. 23*).

In the S&P 500 Health Care sector, new forward earnings records have been attained by the Biotechnology, Health Care Equipment, Managed Health Care, and Pharmaceuticals industries (*Fig. 24*).

(2) *Home, sweet home.* While forward earnings for the Consumer Discretionary sector may not be at an all-time high, those for the S&P 500 Home Improvement Retail industry and the Household Appliances industry are at record levels (*Fig. 25*). Other industries in the Consumer Discretionary sector with forward earnings at peak levels include: Automotive Retail, Footwear, General Merchandise Stores, Internet & Direct Marketing Retail, and Restaurants (*Fig. 26*).

(3) *Staples enjoy earnings growth.* Many of the industries within the Consumer Staples sector find their forward earnings at record levels too. Tobacco has enjoyed the strongest forward earnings growth, but the forward earnings of Household Products and Soft Drinks are also at their highest levels in 13 years (*Fig. 27*).

The S&P 500 Financials industries' forward earnings are surging higher from their 2020 lows, helped by a steeper yield curve, active capital markets, and lower loan losses than first feared when Covid-19 struck. The forward earnings per share of the Investment Banking & Brokerage and the Asset Management & Custody Banks industries have hit new highs (*Fig. 28*).

And the S&P 500 Materials sector has certainly proved to be a dark horse, with earnings forecasts benefitting in many cases from higher commodity prices and expectations for higher inflation. The forward earnings for Fertilizers & Agricultural Chemicals, Industrial Gases, and Metal & Glass Containers are at or near record highs (*Fig. 29* and *Fig. 30*).

Disruptive Technologies: Designing the Brain-Computer Interface. Most of us remember learning to type on a keyboard and use a mouse to work on a computer. Then along came cell phones with touch screens, and we could poke and swipe to tap into their computing power. Now scientists are working on how to make human interaction with computers even more direct. The scientists at Facebook aim to harness the brain, smart devices, artificial intelligence, augmented reality, and the Internet of Things to make humans' interactions with computers and smart devices seamless.

Facebook posted articles detailing the devices they're developing to change human interaction with computers. Humans should be able to access computing power in a way that's so frictionless and so "intuitive to use that it becomes an extension of your body," a March 9 Facebook post explains. Facebook and others are developing devices for use by the consumer, by the military, in industry, in healthcare, and in education. Here's Jackie's report on the devices of the future that Facebook is developing:

(1) *Glasses were never so cool*. Facebook is working on augmented reality (AR) glasses that will provide information on what you are seeing in your field of vision. The company explains that the glasses could potentially feed you key statistics in a business meeting, guide you to destinations, translate signs, tell you where you've left your car keys, or what the weather is when you open your coat closet.

"Imagine being able to teleport anywhere in the world to have shared experiences with the people who matter most in your life—no matter where they happen to be," wrote Andrew Bosworth, who leads Facebook Reality Labs in a March 18 post on the company's website. "That's the promise of AR glasses. It's a fusion of the real world and the virtual world in a way that fundamentally enhances daily life for the better."

Facebook boosted its work in this area six years ago when it bought Oculus Research. For these glasses to work as envisioned, they need to use artificial intelligence to understand the environment around you, know what you like and glean what you intend to do, and offer you relevant choices and helpful information. And then you need a way to communicate with the glasses. Enter the coolest watch ever.

(2) *This is no pocket watch.* To interact with the glasses, Facebook is developing a device worn on the wrist. It opted against controlling the glasses with voice commands because they aren't private. And using a device like a phone or controller wasn't seamless enough. Facebook opted instead for a "wrist-based wearable" because it's located next to your hands, it's comfortable and can be large enough to house batteries and sensors.

But this is no ordinary watch. It uses electromyography—or EMG—sensors to capture the electrical motor nerve signals that travel from your brain through your wrist to make your hands work. Ultimately, it may be sensitive enough to sense just the intention to move a finger; but right now, it can register the smallest of motions, such as the pinch and release of your thumb and forefinger. Such movements are transmitted to the glasses as clicks that they understand.

(3) *A powerful combination.* Combine the power of artificial intelligence, augmented reality, smart glasses, and a smart wristband, and the possibilities are hard to even imagine. Here are some examples Facebook provides: When the assistant in your glasses recognizes that you've walked into your local coffee shop, it will ask if you'd like to order your typical latte. You can pinch your fingers to send a signal through the wristband to the glasses to accept that choice.

Alternatively, the assistant in your glasses might see that you've laced up your running sneakers and are heading outdoors. It could offer you the option to play your running music list on the visual display of the glasses. You can pinch your fingers to accept the music or wave a finger to reject it and have another option appear. No more scrolling through your phone's playlist as you walk down the street bumping into other people, lamp posts, or traffic.

And perhaps our favorite example involves returning to the café. "You head to a table, but instead of pulling out a laptop, you pull out a pair of soft, lightweight haptic gloves. When you put them on, a virtual screen and keyboard show up in front of you and you begin to edit a document. Typing is just as intuitive as typing on a physical keyboard and you're on a roll, but the noise from the cafe makes it hard to concentrate.

"Recognizing what you're doing and detecting that the environment is noisy, the Assistant uses special in-ear monitors (IEMs) and active noise cancellation to soften the background noise. Now it's easy to focus. A server passing by your table asks if you want a refill. The glasses know to let their voice through, even though the ambient noise is still muted, and proactively enhance their voice using beamforming. The two of you have a normal conversation while they refill your coffee despite the noisy environment—and all of this happens automatically."

The wristband will use haptics—vibrations and pulses—to alert you to incoming messages and phone calls. It will also communicate with objects that have sensors (the Internet of Things), so you can swipe a finger to turn on a light or play music. You'll also be able to use finger motions to control a cursor instead of using a mouse, and a TV remote may become a thing of the past.

Haptics are already in use in military applications and in training scenarios. But we'll delve into that another day.

CALENDARS

US: Thurs: Initial & Continuous Jobless Claims 730k/4.034m, GDP 4.1%, GDP Price Deflator 2.0%, Headline & Core PCED 1.5%/1.4%, Corporate Profits, Clarida. **Fri:** Personal Income & Consumption -7.3%/-0.7%, Core PCED 0.1%m/m/1.5%y/y, Consumer Sentiment Final 83.6, Baker-Hughes Rig Count, US Budget Plan FY 2022. (DailyFX estimates)

Global: Thurs: Germany Gfk Consumer Confidence -11.9, France Business Confidence 98, ECB General Council Meeting, Balz. **Fri:** Germany Ifo Business Climate, Current Conditions, and Expectations 93.2/91.3/95.0, Italy Consumer & Business Confidence 100.7/99.4, Spain Real GDP 0.4%q/q/-9.1%y/y, UK Retail Sales 2.1%m/m/-3.5%y/y, European Union Council Meeting, Mauderer, Saunders, Tenreyro. (DailyFX estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators (*link*): The Bull/Bear Ratio (BBR) moved back above 3.00 this week as bullish sentiment continued to rebound. The BBR climbed for the second week to 3.05 this week after dropping the prior three weeks from 3.27 to 2.48—which was the lowest since early April. Bullish sentiment jumped 6.4ppts (to 57.4% from 51.0%) the past two weeks after falling 8.1ppts (to 51.0% from 59.1%) the previous three weeks; the 51.0% reading two weeks ago was the lowest since mid-September. The correction count sank 4.6ppts (to 23.8% from 28.4%) over the two-week period after jumping 5.6ppts (to 28.4% from 22.8%) the prior three weeks, while bearish sentiment fell for the second week, by a total of 1.8ppts, to 18.8%, after climbing 2.5ppts the prior three weeks from 18.1% to 20.6%. The AAII Ratio dipped to 67.5% last week after climbing from 61.4% to 67.7% the previous week, as bullish sentiment fell from 49.4% to 48.9% and bearish sentiment ticked up from 23.5% from 23.6%.

AC World ex-US MSCI (*link*): This index has risen 1.3% in dollar terms so far in March, and is up 3.3% ytd. In local-currency terms, the index is up a greater 2.5% in March to a higher 5.5% gain for 2021 to date. Local-currency forward revenues has risen 1.7% since it bottomed in late January, but remains 11.2% below its record high of May 2019. Local-currency forward earnings has jumped 22.1% since it bottomed in late July, but remains 10.6% below its record high of October 2018. Revenues are expected to rise 10.3% in 2021 and 5.5% in 2022 following a decline of 6.2% in 2020, and earnings are expected to increase 35.5% (2021) and 13.9% (2022) after falling 15.5% (2020). The industry analysts' sales forecasts imply short-term 12-month forward revenue growth (STRG) of 9.2% and short-term 12-month forward earnings growth (STEG) of 28.5%, compared to 4.1% and 10.0% before Covid-19 hit the news. These measures bottomed at -0.1% and -0.3%, respectively, at the end of May. The profit margin implied by analysts' earnings and revenue estimates calls for a gain to 8.1% in 2021 from 6.5% in 2020, and an increase to 8.7% in 2021. The forward profit margin forecast of 8.2% is up from a 10-year low of 6.6% at the end of May but remains a tad below the nine-year high of 8.3% in October 2018. The Net Earnings Revision Index (NERI) for the AC World ex-US MSCI was positive in March for a sixth straight month following 30 negative readings. It edged down to 5.3% from an 11-year high of 5.7% in February and compares to an 11-year low of -23.9% in May 2020. The forward P/E of 16.5 remains near its 18-year high of 17.1 in mid-February but drops to 15.4 using normalized forward earnings. Those readings are up from their March 2020 lows of 10.8 and 10.2, respectively. The index's current 16% discount to the World MSCI P/E remains near a record low.

Emerging Markets MSCI (*link*): The EM MSCI price index has dropped 1.2% in US dollar terms so far in March to a gain of 2.5% ytd. In local-currency terms, EM is down a tad lower 0.9% in March but remains 3.8% higher ytd. Local-currency forward revenues has risen 1.7% since its bottom in late January but is still down 12.7% from its record high in May 2019. Local-currency forward earnings is up 23.0% since its bottom in mid-June but remains 4.9% below its record high in October 2018. Revenues are expected to rise 12.9% in 2021 and 8.3% in 2022 after falling 0.4% in 2020. That's expected to lead to an earnings gain of 37.1% in 2021 and 15.6% in 2022, following a 1.0% drop in 2020. Forecasted STRG is at a 10-year high of 11.7%, up from a five-year low of 3.6% at the end of April 2020. STEG has dropped to 29.9% from a record high of 33.7% in December, but that's up from a 14-month low of 7.5% in April 2020. The implied profit margin is expected to rise from 6.2% in 2020 to 7.5% in 2021 and 8.0% in 2022. The forward profit margin of 7.6% is up from a four-year low of 6.1% at the end of May 2020 and compares to its 10.3% record high in December 2007. NERI was positive in March for a seventh month after 30 straight negative readings, but dropped to 5.5% from an 11-year high of 6.0% in February. That compares to an 11-year low of -18.7% in May 2020. Emerging Markets' forward P/E of 15.2 is down from a record high of 16.3 in mid-February but drops to 14.1 using normalized forward earnings. That's up sharply from those figures' March 2020 lows of 10.1 and 9.3, respectively. The index is trading at a 22% discount to the World MSCI P/E, which is in line with its discount since 2013.

MSCI World & Region Net Earnings Revisions (*link*): Analysts' recent earnings revisions through March suggest substantially greater optimism about profits in the US than the rest of the world. The US's NERI was positive in March for an eighth straight month after 14 negative readings but dropped to 13.2% from 14.1%. That compares to a 34-month high of 16.0% in January and an 11-year low of -36.9% in May 2020. It remains well below its corporate-tax-rate-cut-boosted record high of 21.8% in March 2018. The AC World ex-US MSCI's NERI was positive for a fifth month after 30 straight negative readings but dropped to 5.3% from an 11-year high of 5.7% in February. That compares to an 11-year low of -23.9% in May 2020. With the exception of the EMU, which had NERI turn positive in January, much of the world's regions have had positive NERI readings since September and October. Here are March's scores among the regional MSCIs: US (13.2% in March, down from 14.0% in February), AC World (7.4, 7.9 [11-year high]), EM Eastern Europe (6.0, 7.5 [11-year high]), Emerging Markets (5.5, 6.0 [11-year high]), EM Asia (5.4, 5.9 [11-year high]), AC World ex-US (5.3, 5.7 [11-year high]), EAFE (5.0, 5.4 [four-year high]), EM Latin America (3.3, 3.8), Europe (3.0, 3.9 [44-month high]), Europe ex-UK (2.9, 3.6 [44-month high]), and EMU (1.5, 2.4 [43-month high]).

MSCI Countries Net Earnings Revisions (*link*): NERI was positive for 33/44 MSCI countries in March, down from 35/44 in February, which was the most since December 2009. That compares to zero countries with positive NERI from April to June 2020. NERI improved m/m in March for 17/44 countries, down from 26/44 countries improving in February. Among the countries with improving or unchanged NERI in March, Argentina was at a record high, followed by Chile (25-year high), Taiwan (11-year high), and Japan (8-year high). The United States has had positive NERI for eight straight months, followed by six-month streaks for these six countries: Canada, China, Korea, Norway, Sweden, and Taiwan. Spain's NERI has been negative for 32 straight months, followed by 14-month negative streaks for Israel, Portugal, and the Philippines. Hong Kong and Ireland had NERI turn positive m/m while these four turned negative: Denmark, Indonesia, Mexico, and Peru. The highest NERI readings in March: Argentina (24.1%), Austria (23.6), Hungary (18.3), Taiwan (17.6), and India (16.3). The weakest NERIs occurred this month in Israel (-19.2), New Zealand (-17.0), Portugal (-9.4), Finland (-5.2), and Spain (-4.6).

US ECONOMIC INDICATORS

Durable Goods Orders & Shipments (*link*): Both core capital goods orders and shipments dipped in February for the first time since hitting bottom last April, though were little changed from January's record highs; weather was likely a factor in last month's drop. Nondefense capital goods orders ex aircraft (a proxy for future business investment) slipped 0.8% last month after soaring 19.2% the prior nine months, while core capital goods shipments (used in calculating GDP) fell 1.0% and rose 17.8% over the comparable periods. Core capital goods orders and shipments were up 9.1% and 7.8%, respectively, from last February's levels. Orders for total durable goods also fell for the first time in 10 months during February, sinking 1.1%, following a nine-month surge of 53.4%; orders were up 3.2% y/y. February's decline was broad-based, led by autos (-8.7%) and computers (-1.9). Excluding transportation, durable goods orders fell 0.9% after soaring 21.3% during the nine months through January. The outlook for orders is favorable: IHS Markit released its flash estimates for March yesterday and reported that new business this month accelerated at the strongest pace since June 2014, with new export orders rising solidly.

GLOBAL ECONOMIC INDICATORS

US PMI Flash Estimates (*link*): Private-sector companies recorded robust growth again in March, according to flash estimates, as the vaccine roll-out, along with the reopening of the economy and an additional $1.9 trillion of stimulus, all helped lift demand. The report noted that producers were increasingly unable to keep pace with demand due mainly to supply-chain disruptions and delays, which triggered an acceleration in both input and output inflation far above anything previously seen in the survey's history. This month's C-PMI (to 59.1 from 59.5) saw the second-fastest private-sector upturn in six years—last month's being the strongest—boosted by service providers. March's NM-PMI (to 60.0 from 59.8) showed the sharpest acceleration in the service sector in 80 months. Meanwhile, growth in the manufacturing sector remained strong, but is being restricted by the most severe supply-chain disruption on record (since May 2007); the M-PMI (59.0 from 58.6) is stalled around recent highs. Looking forward, business confidence among private companies remained historically upbeat this month, as firms expect production to expand over the coming year amid stronger new order inflows and hopes of an end to the pandemic.

Eurozone PMI Flash Estimates (*link*): Business activity in the Eurozone returned to growth for the first time in six months in March, according to flash estimates, as manufacturing activity expanded at a record pace this month. The Eurozone's C-PMI climbed for the second month to 52.5 in March after falling from 49.1 in December to 47.8 in January; it was at a recent low of 45.3 in November. The M-PMI (to 62.4 from 57.9) jumped to its highest reading on record this month, while the NM-PMI (48.8 from 45.7) shows the service sector contracted for the 7th consecutive month, though declined at its slowest pace in the string of losses. Looking at the top two Eurozone economies, the acceleration in manufacturing was led by Germany, with its M-PMI (to 66.6 from 60.7) soaring to a new record high this month, according to flash estimates, while France's M-PMI (58.8 from 56.1) showed its manufacturing sector expanding at a 39-month high. Meanwhile, Germany's NM-PMI (to 50.8 to 45.7) revealed the service sector returned to growth for the first time in six months—helped by the easing of some lockdown restrictions during the month; France's NM-PMI (47.8 from 45.6) is stalled below the breakeven-point of 50.0—averaging 47.5 the past four months. The rest of the region saw a modest return to growth for the first time since last July, with its C-PMI climbing from 48.2 in February to 50.6 this month, according to flash estimates.

Japan PMI Flash Estimates (*link*): Japan's private-sector downturn extended into March, according to flash estimates, though there were some bright spots, with manufacturing activity showing signs of life. February's C-PMI (to 48.3 from 48.2) contracted for the 14th consecutive month, remaining stalled just below the demarcation line between contraction and expansion. Japan's M-PMI (to 52.0 from 51.4) moved further into expansionary territory this month, posting its strongest reading since the end of 2018. The NM-PMI (to 46.5 from 46.3) showed the service sector continued to contract this month, though service providers posted their fastest pace of job creation since May 2019. Private-sector companies are encouraged "that the lifting of state of emergency measures and broader restrictions as vaccinations roll out would trigger a recovery in demand in both domestic and external markets," according to the report.

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