MORNING BRIEFING
February 28, 2022

'Stop the World—I Want To Get Off!'

Check out the accompanying chart collection.

Executive Summary: "Buy to the sound of cannons, sell to the sound of trumpets." That advice worked on Thursday as Russia invaded Ukraine. What about that shocking day reassured investors enough to drive the stock market up? We take a look. … Also working that day was the Bull-Bear Ratio's contrarian buy signal. … Economically, the war may bring heightened global inflation, more supply-chain disruptions, and possibly higher energy prices. For the US economy, stagflation could result, but we still don't expect a recession. … And: Is madman Putin's plan already doomed? ... Finally, Dr. Ed reviews "CODA" (+).

YRI Monday Webcast. Join Dr. Ed's live Q&A webinar on Mondays at 11 a.m. EST. You will receive an email with the link to the webinar one hour before showtime. Replays are available *here*. The presentation lasts about 15 minutes with another 15 minutes for Q&A. You can view a replay of Dr. Ed's recent one-hour webcast on "Predicting Inflation" *here*.

Strategy I: Sound of Cannons. Nathan Mayer Rothschild is said to have uttered these words during the Napoleonic wars: "Buy to the sound of cannons, sell to the sound of trumpets." One of his biographers couldn't find any evidence that Rothschild ever said that, though. In any event, the financier made a fortune scooping up investments based on early information delivered by his courier of the outcome of the Battle of Waterloo.

No matter who said it, the adage seemed to work again on Thursday of last week, when Russia invaded Ukraine. The S&P 500 opened at 4114.65, down 2.6% from Wednesday's close. By the end of the day, it closed at 4288.70, up 1.5%. The cannons were still going off, but it increasingly seemed during the day that Russia might achieve its goal of removing Ukraine's government within days. In addition, in the early afternoon Thursday, President Joe Biden announced weak sanctions against Russia, suggesting that the economic impact of the war wouldn't spread beyond Ukraine for the time being.

Also on Thursday, NATO countries declined to ban Russia from using SWIFT, the global financial transaction system, because the Europeans need Russian oil and gas. By not doing so, the Western allies reduced the risk of a severe European recession. However, they also failed to punish Russia for its aggression against a sovereign nation. Consider the following:

(1) Russia produces over 10 million barrels per day of crude, about the same as Saudi Arabia. Multiplying that output by $1.00 and 365 days shows that every dollar increase in the per-barrel oil price equates to annual Russian oil revenues of $3.65 billion. At an oil price of $100 a barrel, Russia's oil revenues are around $365 billion at an annual rate currently.

(2) The European Union (EU) is Russia's largest trading partner, accounting for 37% of its global trade in 2020. About 70% of Russian gas exports and half of its oil exports go to Europe. The EU receives nearly 40% of its gas and more than a quarter of its oil from Russia.

(3) On Thursday, Ukraine appealed to the international community to remove Russia from SWIFT. Initially, the call was backed by Lithuania, Estonia, Latvia, and the UK, but the US and other European countries resisted, with Biden saying that depriving Russia of access to SWIFT was "always an option." Then over the weekend, the EU, the US, and their allies did agree to cut off a number of Russian banks from SWIFT.

SWIFT was founded in 1973 to replace the telex and is now used by over 11,000 financial institutions to send secure messages and payment orders. Removing Russia from SWIFT will make it much harder for financial institutions to send money in or out of the country, delivering a sudden shock to Russian companies and their foreign customers—especially buyers of oil and gas exports denominated in US dollars.

Strategy II: Market Reactions. Like the adage about buying stocks when the cannons are firing, the Bull-Bear Ratio (BBR) also seemed to work on Thursday. The day before, Investors Intelligence reported that this ratio had dropped to 1.04 during the week of February 22 (*Fig. 1*). Readings of 1.00 or less in the past have coincided with great buying opportunities, as Joe and I observed in Thursday's *Morning Briefing* (*Fig 2* and *Fig. 3*). While such readings don't rule out further near-term declines in the S&P 500, they do suggest that buying bargains when the BBR is at 1.00 or less makes sense for long-term investors.

The S&P 500 continued to rally on Friday, rising 2.2% to 4384.64, which is down 8.6% from the January 3 record high of 4796.56. The index was in correction territory on last Wednesday, when it closed down 11.9% from the record high. That makes it a 51-day correction, though it was actually only below 10% for three days from Tuesday through Thursday last week.

Now consider some of the other market reactions to the sound of cannons:

(1) *VIX and credit-quality spread.* The Investors Intelligence survey found that the percentage of bears rose to 31.0% during the February 22 week, the highest since May 2020, when lockdown restrictions just started to be eased (*Fig. 4*). This series tends to closely track the daily S&P 500 VIX, which rose to 30.3 on Thursday, February 24. That's elevated, but not alarmingly so for this measure of volatility, which is also highly correlated with the credit-quality yield spread between the corporate junk-bond composite and the US 10-year Treasury (*Fig. 5*). This credit-quality yield spread was 376bps on Thursday, a relatively low reading, signaling calm in the credit markets.

(2) *2-Year Treasury yield.* On Thursday morning, the 10-year Treasury yield fell to 1.85% but ended the day back at 1.96%, recovering along with the stock market (*Fig. 6*). While the Ukraine crisis might cause the Fed to tighten monetary policy more gradually, the 2-year Treasury note yield ended Thursday at 1.54%, implying the same expectation for the federal funds rate—six 25bps hikes over the next 12 months—as before Thursday's invasion.

(3) *Yield curve.* The yield-curve spread between the 10-year and 2-year Treasuries narrowed from last year's peak of 159bps to 42bps on Thursday of last week (*Fig. 7*). That's raising fears that it might soon turn negative, which has often signaled an imminent recession. The fixed-income markets are sending conflicting signals, suggesting six rate hikes over the coming year but also increasing risk of a recession, which suggests fewer rate hikes.

(4) *Commodity prices.* Commodity prices have been soaring since the second half of 2020, contributing to inflationary pressures. They continued to do so in response to Russia's war on Ukraine since the former is a major exporter of oil and gas and the latter a major exporter of wheat. The nearby futures price of the S&P GSCI jumped last week to the highest reading since June 2014 (*Fig. 8*). The price of oil is heavily weighted in this broad-based commodity price index. The nearby price of a barrel of Brent crude oil jumped just over $100 last week for the first time since September 2014 (*Fig. 9*). The S&P GSCI grain index also climbed last week, to its highest level since October 2012 (*Fig. 10*).

(5) *Feshbach's technical takeaways.* I checked in with our friend Joe Feshbach for his latest analysis of market technicals. He observes: "The violation of the prior S&P lows followed by a strong reversal is a classic bottom pattern." However, Joe says that the put/call ratio didn't pop up as much as he expected. He concludes, "so it still leads me to believe that the trading range we've been in will continue." Regarding the oil market, he notes that its price was up significantly before Russia invaded Ukraine and "a strong rising market many times will peak on a news event. Thus it's my view that oil either peaked above $100 the other day or is at least close to its peak." Thanks, Joe!

US Economy: From Inflationary Boom to Stagflation? While the geopolitical world seems to be spinning out of control, the US economy is still in the midst of an old-fashioned inflationary boom. The key question is whether inflation is spinning out of control.

Events in Europe are boosting global inflationary pressures and are likely to exacerbate some supply-chain disruptions. If energy prices continue to soar over there, the result could be a regional recession that could depress US economic growth. Higher inflation here at home could also weigh on consumer spending. These developments could result in stagflation (i.e., slower growth and higher inflation).

Could growth slow so much that we get a recession? It's a possibility if the Fed were forced to do a Volcker 2.0 to bring inflation down, but we don't expect that to happen.

You might be thinking: "Stop the world—I want to get off!" (That happens to be the title of a 1961 musical, which was revived in 1978 starring Sammy Davis, Jr.) But don't jump off just yet! Consider the following:

(1) *Booming economy.* January's consumer and business indicators were very strong. During the month, nominal personal consumption expenditures jumped 11.8% y/y and 2.1% m/m, led by 12.8% y/y and 5.2% m/m gains in spending on goods. Real personal consumption expenditures rebounded 1.5% m/m in January, after a two-month decline, as real goods consumption jumped 4.3% m/m (*Fig. 11*). As the pandemic continues to abate, spending on services should strengthen considerably (*Fig. 12*).

Durable goods orders continued to soar during January, as Jackie and I recently *mentioned* they had done during December. Businesses are on a capital-spending spree as they scramble to boost productivity to offset chronic labor shortages. This explains why nondefense capital goods orders excluding aircraft is up 21.6% over the past 24 months through January (*Fig. 13*). And by the way, there is almost no lag between these orders and their shipments series, suggesting that the supply chains for capital goods is working just fine!

(2) *Inflating economy.* The bad news is that there is no sign yet of a peak in either the CPI or PCED measures of consumer price inflation. At the end of last week, we learned that January's PCED rose 6.1% y/y, the highest since February 1982 (*Fig. 14*). Leading the way again was the durable goods component of the PCED, with an 11.6% increase caused by big jumps in the prices of used cars (50.9%), new cars (12.5), furniture & home furnishings (12.7), and household appliances (10.8) (*Fig. 15*).

Debbie and I continue to expect that price inflation rates will moderate for these consumer durables. However, we also expect that the services component of the PCED will continue to get a boost from rent inflation (*Fig. 16*).

(3) *Booming and inflating earnings.* The good news for stock investors is that stocks tend to do well in an inflationary boom because their revenues rise along with nominal economic activity. That's happening now, as evidenced by weekly forward revenues of the S&P 500/400/600 indexes (*Fig. 17*). All three series have been on steep uptrends since mid-2020 and in record-high territory since mid-2021.

The same can be said about the forward earnings of the S&P 500/400/600 indexes (*Fig. 18*). They all bottomed during the spring of 2020 and have had V-shaped recoveries also in record-high territory since mid-2021.

(4) *Record margins.* The S&P 500/400/600 forward profit margins also recovered significantly and may be starting to level out at record highs around 13%, 9%, and 7% (*Fig. 19*). Joe and I discussed the impressive resilience of the S&P 500's forward profit margin—and those of all 11 of its sectors—in last Wednesday's *Morning Briefing*. Our conclusion: "Does every business have pricing flexibility? Apparently so!"

(5) *Gradual Fed.* In my book *Fed Watching for Fun & Profit* (2020), I describe former Fed Chair Paul Volcker as "the great disinflator" and current Fed Chair Jerome Powell as "the pragmatic pivoter." This raises a critical question: Will Powell raise interest rates to whatever level it takes to bring down inflation if necessary, knowing that will cause a recession? Melissa and I don't think so. If we are lucky, the core PCED inflation rate will moderate from 5.2% currently to 3.0%-4.0% later this year as the pandemic abates and supply-chain disruptions are fixed. Pragmatic Powell then might move the goalpost by raising the Fed's official inflation target from 2.0% to 3.0%.

Geopolitics: Czar Vlad the Mad. Ivan the Terrible was the first Moscow ruler who declared himself the czar of all of Russia, during 1547. By most accounts, he was one of the most paranoid, bloodthirsty, and unpredictable men who has ever ruled the country. Today, we must deal with Russian President Vladimir Putin, who is a 69-year-old madman aspiring to revive the Soviet Union. He is a WWII-vintage fascist, a throwback to totalitarians claiming that they will restore the glory of their nation and their superior race.

The pandemic apparently brought out Putin's anger and paranoia more than ever. According to a recent *FT* *account*, "Putin's closest advisers are rarely allowed to come within 10 feet without weeks of quarantine and testing. People who have known him for

decades say this has deepened a pent-up resentment of the west and a fixation on Russia's shared history with Ukraine—making him more aggressive and unpredictable than ever." One former advisor said, "He's even more isolated than Stalin [was]."

Putin's brutal invasion of Ukraine may be starting to backfire already. Consider the following:

(1) Putin's attempts to create a "false flag" excuse for the invasion clearly have failed. It is obvious to everyone, even to most Russians, that the invasion is a long-planned naked act of aggression against a peaceful sovereign nation.

(2) Putin has turned Russia into a global pariah state. Even his friends at the helm in China abstained from supporting him in the UN Security Council vote condemning his invasion.

(3) It's too early to be sure, but there are reports that Ukrainian resistance is proving to be more significant than Putin expected. On Saturday, Germany announced shipments of arms to Ukraine. On Sunday, German Chancellor Olaf Scholz said Germany will boost military spending above 2% of GDP and create a strategic natural-gas reserve. That marks a significant shift in the country's defense and energy policies in reaction to Russia's war in Ukraine.

(4) NATO chief Jens Stoltenberg said on Friday that the alliance is deploying its rapid response force for the first time ever to bolster defenses in the face of Russia's invasion of Ukraine. Both Finland and Sweden brushed off warnings from neighboring Russia that their possible joining of NATO would trigger "serious military-political consequences" for the two countries.

(5) Putin's hackers are meeting their match. The international hacking collective Anonymous issued a Tweet on February 24 announcing that it "is officially in cyber war against the Russian government." On Saturday morning, as Russia's invasion of Ukraine entered its third day, some of Russia's official government websites went down following a series of alleged cyberattacks. Among the sites that aren't accessible are those of the Kremlin and the country's Ministry of Defense.

While social media platforms are full of misinformation about Russia's invasion, they along with conventional news media are showing the war in real time. That makes it hard for Putin to bomb civilians as freely as he did in Chechnya. Ukraine's President Volodymyr Zelensky has emerged as a great leader by fighting alongside his soldiers and regularly posting on

social media. When the US offered him an opportunity to escape Ukraine, he bravely declared: “I need ammunition, not a ride.” Bravo!

(6) In a dramatic escalation of East-West tensions over Russia's invasion of Ukraine, Mad Vlad ordered Russian nuclear deterrent forces put on alert Sunday in response to what he called “aggressive statements” by leading NATO powers.

US Ambassador to the UN Linda Thomas-Greenfield denounced the move as a “totally unacceptable” escalation, telling *Face the Nation* on Sunday morning that the US will “continue here at the United Nations and around the world to use every possible lever we have at our disposal to expose his actions.”

CBS News *reported* on Sunday: “If Putin is arming or otherwise raising the nuclear combat readiness of his bombers, or if he is ordering more ballistic missile submarines to sea, then the United States might feel compelled to respond in kind, according to Hans Kristensen, a nuclear analyst at the Federation of American Scientists. That would mark a worrisome escalation and a potential crisis, he said.”

Movie. “CODA” (+) (*link*) is a feel-good, coming-of-age story about a teenaged girl who is the child of deaf adults (CODA) and sister of a deaf older brother. She feels a strong sense of obligation to stay home and work in her family’s fishing business rather than go away to a music school to pursue her dream of being a singer. The film is all about rising to life’s challenges and overcoming adversity. Life certainly has been more challenging for more people recently.

Calendars

US: Mon: Goods Trade Balance Advance; Retail Inventories; Dallas Fed Manufacturing Index; Chicago PMI 63.0. **Tues:** Construction Spending 0.2%; ISM Manufacturing PMI & Price Index 58.0/68.1; Weekly Crude Oil Inventories; State of the Union Address. (Bloomberg estimates)

Global: Mon: Spain CPI; UK Nationwide HPI; China IHS Markit & Caixin M-PMIs 49.4/49.5; Australia Current Account Balance $14.3b; RBA Interest Rate Decision 0.10%. **Tues:** Eurozone, Germany, France, Italy, and Spain M-PMIs 58.4/58.5/57.6/58.0/56.1; Germany CPI 0.9%m/m/5.1%y/y; Germany Retail Sales1.8%; UK M-PMI 57.3; Canada GDP 6.2% (annualized); Australia GDP -2.7%q/q/3.0%y/y. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index rose 0.9% last week to 9.0% below its record high on December 27. The index ranked sixth of the 49 global stock markets we follow in a week when 10 of the 49 countries rose in US dollar terms and the AC World ex-US index dropped 3.0% to 9.9% below its June 15, 2021 record high. None of the countries traded at a record high in dollar terms during the week. EM Latin America was the best-performing region last week, albeit unchanged w/w, followed by EAFE (-2.6%). EM Eastern Europe was the biggest underperformer with a record-breaking decline of 27.0%, followed by EMEA (-11.0), BRIC (-6.5), EM Asia (-4.6), and EMU (-3.5). Colombia was the best-performing country last week, rising 3.8%, followed by Portugal (2.2), Argentina (1.5), Norway (1.5), and Denmark (1.0). Among the 23 countries that underperformed the AC World ex-US MSCI last week, Russia fared the worst, with a record-breaking decline of 32.8%, followed by Hungary (-12.9), Austria (-11.1), Poland (-11.0), and Sri Lanka (-10.0). The US MSCI's ytd ranking improved to 33/49 from 42/49 a week earlier, but its 8.5% decline remains steeper than the 5.8% drop for the AC World ex-US. EM Latin America is the best-performing region, with a gain of 11.5%, and is the only region ahead of the AC World ex-US. The laggards: EM Eastern Europe (-34.0), EMEA (-9.7), EMU (-8.9), BRIC (-7.3), EAFE (-6.8), and EM Asia (-6.2). The best country performers so far in 2022: Peru (20.4), Brazil (18.0), Colombia (15.2), Chile (13.5), and South Africa (10.4). The worst-performing countries: Russia (-41.0), Sweden (-17.2), the Netherlands (-16.4), Sri Lanka (-15.6), and Poland (-14.3).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes rose last week. MidCap was the biggest gainer with a rise of 1.1%, ahead of SmallCap (1.0%) and LargeCap (0.8). LargeCap is now 8.6% below its record high on January 3. MidCap ended the week 8.6% below its record high on November 16, and SmallCap improved to 10.6% below its November 8 record high. Twenty-four of the 33 sectors rose last week, up from 12 rising a week earlier. SmallCap Utilities was the best performer for the week with a gain of 6.5%, followed by SmallCap Health Care (4.0%), SmallCap Energy (3.9), MidCap Health Care (3.5), and MidCap Utilities (2.9). LargeCap Consumer Discretionary was the biggest underperformer last week with a decline of 2.2%, followed by MidCap Consumer Discretionary (-0.5) and SmallCap Consumer Discretionary (-0.4). In terms of 2022's ytd performance, all three indexes are down ytd. LargeCap is down 8.0% ytd, worse than the declines for MidCap (-6.3) and SmallCap (-6.5). Just four of the 33 sectors are positive so far in 2022. Energy dominates the top performers: LargeCap Energy (23.4), SmallCap

Energy (18.3), MidCap Energy (8.5), MidCap Financials (0.7), and LargeCap Financials (-0.1). The biggest ytd laggards: LargeCap Consumer Discretionary (-13.9), LargeCap Communication Services (-12.9), LargeCap Real Estate (-11.6), SmallCap Tech (-11.6), MidCap Health Care (-11.5), and LargeCap Tech (-11.5).

S&P 500 Sectors and Industries Performance (*link*): Eight of the 11 S&P 500 sectors rose last week and six outperformed the composite index's 0.8% gain. That compares to a 1.6% decline for the S&P 500 a week earlier, when one sector rose and five outperformed the index. Health Care and Real Estate were the top performers with gains of 2.7%, ahead of Utilities (2.0%), Communication Services (1.8), Energy (1.3), and Tech (1.3). The worst performers: Consumer Discretionary (-2.2), Consumer Staples (-0.3), Financials (-0.3), Materials (0.5), and Industrials (0.8). The S&P 500 is down 8.0% so far in 2022, with one sector in positive territory and seven ahead of the index. The best performers in 2022 to date: Energy (23.4), Financials (-0.1), Consumer Staples (-1.7), Utilities (-6.0), Industrials (-6.5), Materials (-7.1), and Health Care (-7.3). The ytd laggards: Consumer Discretionary (-13.9), Communication Services (-12.9), Real Estate (-11.6), and Tech (-11.5).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 0.8% last week and improved relative to its 50-day moving average (50-dma) and 200-day moving average (200-dma) for the first time in three weeks. The index closed below its 50-dma for an eighth week and was below its 200-dma for the fifth time in six weeks. It had been above its 200-dma for 81 straight weeks through early February. The S&P 500's 50-dma moved lower for a seventh week, as the index improved to 3.7% below its falling 50-dma from 5.2% below a week earlier. It remains above its 21-month low of 6.8% in late January. That compares to a 27-week high of 4.9% in early November and its prior 11-month low of 2.0% below in early October. The index had been mostly trading above its 50-dma since late April 2020; in June 2020, it was 11.7% above, which was the highest since its record high of 14.0% in May 2009. That compares to 27.7% below on March 23, 2020—its lowest reading since it was 29.7% below on Black Monday, October 19, 1987. The price index improved to 2.0% below its still-rising 200-dma from a 21-month low of 2.7% below its rising 200-dma a week earlier. That's down sharply from 10.8% above in early November. That also compares to 17.0% above in December 2020, 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*): Energy was the only one of the 11 S&P 500 sectors that traded above their 50-dmas last week, down from two a week earlier as

Consumer Staples moved back below. Consumer Staples, Energy, and Financials are the only three sectors with rising 50-dmas, unchanged from a week earlier. Looking at the more stable longer-term 200-dmas, four of the 11 sectors were above that measure last week, up from three a week earlier, which had matched the lowest count since June 2020. Utilities moved above in the latest week, rejoining these sectors still above their 200-dmas: Consumer Staples, Energy, and Financials. For perspective, back in April 2020, just one sector (Health Care) was trading above its 200-dma. Eight sectors have rising 200-dmas, unchanged from a week earlier. Communication Services, Industrials, and Materials are the only members of the declining 200-dma club.

US Economic Indicators

Personal Income & Consumption (*link*): Consumer spending was strong at the start of 2022, while personal income remained subdued. Personal consumption expenditures rebounded 2.1% in January, the biggest monthly gain since last March, after dipping 0.8% at the end of 2021. It was driven by a 5.2% jump in goods consumption, with spending on motor vehicles and parts spiking 13.3% during the month. Services consumption rose 0.5%, comparable to recent gains. Higher prices accounted for some of these gains, as the PCED jumped 0.6% m/m and 6.1% y/y—the highest since February 1982. Still, real spending advanced an impressive 1.5% in January, with a 12.9% jump in motor vehicle spending pushing real goods consumption up 4.3%. Real spending on services has been subdued, edging up only 0.1% in January and each of the prior two months, though a slowing of Covid infections could boost this spending going forward. Personal income was flat in January as gains in wages and salaries was offset by a decline in government social benefits. Wages & salaries continued to reach new record highs, increasing for 20th month since bottoming in April 2020; it was up 0.5% m/m in January and 24.7% over the period.

Consumer Sentiment Index (*link*): The Consumer Sentiment Index (CSI) posted a slight increase during the second half of February, though February's level for the overall month was still at the lowest level since October 2011. The report notes that February's decline was still entirely due to a 12.9% decline in confidence among households with annual incomes of $100,000 or more. The CSI sank to 62.8 (vs 61.7 mid-month) this month, from 67.2 in January and 70.6 in December; it was at 88.3 last April. Both the present situation (to 68.2 from 74.2 in December) and expectations (59.4 from 69.3) components dropped sharply the first two months of this year—to their lowest readings since August 2009 and November 2011, respectively. They were at recent peaks of 97.2 and 83.5 during April and

June of last year. According to the report, all interviews were conducted prior to the Russian invasion, so its impact is yet to be felt by consumers. Richard Curtin, chief economist of the survey, cautions sanctions levied against Russia will trigger responses that could hurt the US economy. “The most likely linkage to the domestic economy is through rising energy prices, with the size and length of the potential increases subject to substantial uncertainty.”

Durable Goods Orders & Shipments (*link*): Both core capital goods orders and shipments continued to set new record highs yet again in January. Nondefense capital goods orders ex aircraft (a proxy for future business investment) has increased every month but one since bottoming in April 2020, climbing 0.9% in January and 33.6% over the period. Core capital goods shipments (used in calculating GDP) has also climbed every month but one since last April’s bottom, jumping 1.9% and 33.1% over the comparable periods. Orders for total durable goods climbed for the eighth time in nine months, by a total of 12.0% to its highest level since July 2014. Excluding transportation, durable goods orders has increased in 20 of the past 21 months, up 0.7% in January and 37.7% over the period to a new record high—surpassing its previous record high by 13.5%. Orders for machinery, fabricated metals, primary metals, and electrical equipment all remain on steep accelerating trends, with machinery and fabricated metals orders at new record highs and electrical equipment billings within a fraction if its record high.

Regional M-PMIs (*link*): Four Fed districts (New York, Philadelphia, Richmond, and Kansas City) now have reported on manufacturing activity for February and show the manufacturing sector slowed for the third month. The composite index (to 12.3 from 13.6) slumped to a 14-month low this month and was half November’s pace. Kansas City’s composite index (to 29.0 from 24.0 in January) accelerated in February back toward last April’s record-high 33.0, while growth in the Philadelphia (16.0 from 23.2) region lost steam—though remained at a respectable level. Both the New York (to 3.1 from -0.7) and Richmond (1.0 from 8.0) measures show their regions’ manufacturing activity at a near standstill in February. The new orders (11.2 from 8.2) measure remained weak, with only the Kansas City (32.0 from 14.0) region showing an acceleration in growth—more than doubling from January’s pace. Meanwhile, the Richmond (-3.0 from 6.0) area showed a slight contraction in manufacturing growth this month, while New York’s (1.4 from -5.0) moved from contraction to expansion, though barely. New orders growth in the Philadelphia (14.2 from 17.9) area slowed a bit this month—considerably below November’s 47.4. Jobs (25.3 from 17.6) growth remained healthy in February, picking up in all four regions: Philadelphia (32.2 [back near its record high of 33.9 in December] from 26.1), Kansas City (26.0 from 24.0), New York (23.1 from 16.1), and Richmond (20.0 from 4.0).

Regional Prices Paid & Received Measures (*link*): We now have prices-paid and -received data for February from the Philadelphia, New York, Kansas City, and Richmond regions. (Note: The Philadelphia, New York, and Kansas City measures are diffusion indexes, while Richmond's measures are average annualized inflation rates—which we multiply by 10 for easier comparison to the other regional measures). The prices-paid measures eased in three of the regions this month, while Kansas City's was unchanged at 64.0, down from its record-high 88.0 during May 2021. In the meantime, Richmond's (to 122.7 from 143.2) slowed from January's record high; New York's moved slightly lower for a third month from 83.0 in November to 76.6, just south of May 2021's record high of 83.5; and Philadelphia's eased to 69.3 in February from last June's cyclical high of 80.7. Looking at the prices-received measures, New York's (54.1 from 37.1) shot up to a new record high in February, while Richmond's (87.7 from 112.7) slowed from January's record high and Kansas City's (47.0 from 49.0) remained in a volatile flat trend just below its record high of 57.0 last August. Philadelphia's was little changed at 49.8 this month, down from November's 62.9, which was close to its record high of 63.8 in the mid-1970s.

New Home Sales (*link*): New home sales (counted at the signing of a contract) slumped in January after a strong finish in 2021, as rising mortgage rates and accelerating home prices depressed demand. New home sales dropped 4.5% in January (and 19.3% y/y) to 801,000 units (saar), after soaring 25.8% during the two months through December. Sales peaked at 993,000 units last January—which was the highest since the end of 2006. Of the 801,000 homes sold last month, only 196,000 were completed, while 368,000 were under construction and 237,000 were yet to be started. While the new sales market is facing headwinds from rising mortgage rates and home prices (up 13.4% y/y), it is being supported in part by record-low inventory in the existing home market. Meanwhile, the number of new homes for sale climbed to 406,000 at the end of January—the highest since 2008—representing a 6.1 months' supply, up from 3.6 months a year ago. These homes are in the pipeline, though for a record number of them construction has yet to begin.

Pending Home Sales (*link*): "With inventory at an all-time low, buyers are still having a difficult time finding a home," said Lawrence Yun, NAR's chief economist. "Given the situation in the market—mortgages, home costs, and inventory—it would not be surprising to see a retreat in housing demand." The Pending Home Sales Index (which tracks sales when a contract is signed but the transaction has not yet closed) contracted for the third month in January by 5.7% m/m and 12.5% over the period to 109.5, after rebounding 7.5% in October; these sales were 9.5% below last January's level. Sales fell in three of the four regions in January, with all down year over year. Here's a regional look at pending home sales in January: West (+1.5% m/m & -9.7% y/y), Midwest (-5.9 & -5.9), South (-6.3 & -8.7),

and Northeast (-12.1 & -16.7). The National Association of Realtors expects conditions to be volatile in coming months as "[t]he impending conclusion of the Federal Reserve's asset purchase program in March paves the way for higher interest rates. Russia's aggression in Ukraine is also likely to affect global oil supply, imposing further burdens on inflation and bringing about more aggressive rate hikes." Yun notes there's also a possibility that investors could flee toward safer US Treasury bonds, which may result in temporary short-term relief to interest rates.

Global Economic Indicators

Eurozone Economic Sentiment Indicators (*link*): The Economic Sentiment Index (ESI) for both the EU (+1.2 points to 112.8) and Eurozone (+1.3 points to 114.0) increased for the first time in four months, after being down in January by 5.0 points and 4.9 points, respectively, from their July highs of 116.6 and 117.6. Among the largest EU countries, February's performance was mostly higher, with ESIs in Spain (+2.4 points to 111.3), France (+1.9 to 112.8), Germany (+1.2 to 113.5), and Italy (+1.0 points to 111.6) moving up. Meanwhile, ESIs in both the Netherlands (-1.7 to 102.8) and Poland (-1.7 to 100.3) continued to head south—the Netherlands for the fourth successive month and Poland for the second. For the overall Eurozone at the sector level, services confidence recovered to 13.0 in February, after sliding from 18.2 in November to 9.1 by January, while the retail trade sector climbed for the second month, from 1.1 to 5.4 over the two-month span—the highest since fall 2015—driven by a sharp improvement in expectations. Construction confidence (to 9.1 from 8.1) in February moved back toward December's record high of 10.1, while industry confidence (14.0 from 13.9) remained broadly stable near its record high of 14.7 recorded last July. Consumer confidence deteriorated for the fifth month in February, from -4.0 to -8.8 over the period, moving further into contractionary territory.

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