MORNING BRIEFING
March 2, 2022

The Case for a Ceasefire

Check out the accompanying chart collection.

Executive Summary: The Cold War is back on. What's next in the hot war between Russia and Ukraine? Major considerations include whether Russia gains the upper hand militarily, the fact that it is losing much economically, and whether negotiations will provide an exit for both sides. … Longer term, Russia's future is bleak if demography is indeed destiny. … And: What's with all the slicing and dicing of apples and oranges that Fed banks do to understand inflation? We'd toss out most of the concoctions.

Geopolitics I: A Critical Assumption. When I started my career as a Wall Street economist at EF Hutton in 1978, I worked with an investment strategist who always started his speaking presentations by listing his assumptions, which included the assumption that there wouldn't be a thermonuclear war. I always thought that was a bit strange even though the Cold War back then presented that possibility. The Cold War ended in late 1989, as did the threat of a thermonuclear war between the US and the Soviet Union, which disassembled into a number of independent nations, including Russia and Ukraine.

The Cold War is back. On Thursday, February 24, Russia invaded Ukraine. On Sunday, February 27, Russian President Vladimir Putin (now a.k.a. "Mad Vlad") put Russia's nuclear deterrent on high alert in the face of a barrage of Western reprisals for his war on Ukraine, which said it had repelled Russian ground forces attacking its biggest cities. The US said Putin was escalating the war with "dangerous rhetoric," amid signs that the biggest assault on a European state since WWII was not producing rapid victories but instead generating a far-reaching and concerted Western response.

What happens next? Assuming as I do that Putin won't use nukes, here are some of the considerations that might influence the course of events:

(1) *Military setbacks for Russia, but perhaps not for long.* The first few days of the Ukraine invasion have not gone as well for Russia as Putin had expected. However, his troops reportedly are encircling the major cities of Ukraine. They may lay siege to the cities rather than risk urban warfare. It will be hard, if not impossible, for other nations to deliver the weapons they have promised the Ukrainian army. A stalemate would be painful for both

sides of the conflict and provide a strong incentive for negotiators, who started meeting on Monday, February 28, to agree on a ceasefire. The severe economic sanctions imposed on Russia should increase Putin's willingness to agree to a negotiated solution even if his military position improves in coming days.

(2) *Russia losing the economic war.* Russia has been trying to sanction-proof its economy since 2014 (when it invaded Crimea), including by reducing its dependence on the dollar by transacting in other currencies. But the US currency still accounts for about one-third of Russia's imports and more than half of its exports. Unless Putin is totally isolated from reality, he must be aware of the severe impact that sanctions already are having on his economy.

The Russian ruble has collapsed 26% since the start of last week through February 28 to 107.19 rubles per dollar (*Fig. 1*). The Russian central bank raised its key interest rate to 20.0% from 9.5% on Monday in an emergency move, and authorities told export-focused companies to sell foreign currency as the ruble tumbled to record lows (*Fig. 2*). The 10-year government bond yield was 12.52% on February 25 (*Fig. 3*).

Since Monday, lines at ATMs have been snaking down sidewalks and around buildings in Moscow and at Russian banks in Europe as depositors have rushed to withdraw cash. Russia's CPI was up 8.7% y/y through January (*Fig. 4*). It is likely to head much higher as a result of the war and sanctions. These economic and financial shocks are bound to feed an already vocal anti-war (and anti-Putin) movement within Russia.

(3) *Frozen reserve assets.* Russia's non-gold international reserves rose to $498 billion during January (*Fig. 5*). The February 28 *NYT* *reports*, "Russia has spent the last several years bolstering its defenses against sanctions, amassing $643 billion in foreign currency reserves in part by diverting its oil and gas revenues and reducing its holdings of U.S. dollars."

Russia was never a large holder of US Treasuries, compared to China and Japan. It held around $100 billion of them during H1-2017 and started to reduce them during H2-2017; by year-end 2018, they were close to zero (*Fig. 6*). That might have been the tip-off that Russia has been preparing for this war for a long time.

On Monday, the US Treasury Department further cut off Russia from the global economy by freezing Russian central bank assets that are held in the US and imposing sanctions on the Russian Direct Investment Fund, a sovereign wealth fund that is run by a close ally of Mad

Vlad. The move was coordinated with European central banks. Japan joined with Western allies in imposing the central bank sanctions, freezing Russia's yen-denominated foreign reserves.

Russia's ability to use its international reserves to support its currency has been severely curbed.

(4) *Frozen oligarchs.* The *NYT* article cited above also reports: "Switzerland, a favorite destination for Russian oligarchs and their money, announced on Monday that it would freeze Russian financial assets in the country, setting aside its tradition of neutrality to join the European Union and a growing number of nations seeking to penalize Russia for the invasion of Ukraine. The country said it would immediately freeze the assets of Mr. Putin, Prime Minister Mikhail V. Mishustin and Foreign Minister Sergey V. Lavrov, as well as all 367 individuals the European Union imposed sanctions on last week."

(5) *Possible solution in negotiations?* I doubt that Putin is intent on annexing all of Ukraine and making it part of Russia. I believe his goal is to install a puppet government in Kyiv. Either way, he would face protracted conflict with Ukrainian resistance forces and no end to sanctions. His fallback position might be to withdraw his forces from all but the two "independent republics" he carved out of eastern Ukraine last week in exchange for a guarantee that Ukraine won't join NATO. Of course, I can't rule out a regime change in Moscow, though that seems unlikely since Putin undoubtedly has surrounded himself with Praetorian guards.

(By the way, Wall Street legend Art Cashin recalled his frightening experience during the Cuban Missile Crisis when there were rumors that Russia had launched rockets and the Dow took a dive near the bell. He wrote: "I cleaned up my desk and raced to the Moosehead, as animated as only an 18-year-old can be. Jack was already there and as I burst through the door, I shouted: 'Jack! Jack, there was a strong rumor that the missiles were flying and I tried to sell the market but failed.' Jack said "Calm down kid! First buy me a drink and then sit down and listen to me.' I ordered the drink and meekly sat down. Jack said—'*Look kid, if you hear the missiles are flying, you buy them. You don't sell them.*' 'You buy them?' I said, somewhat puzzled. 'Sure you buy them!' said Jack. 'Cause if you're wrong, the trade will never clear. We'll all be dead.'" Hat tip to Barry Ritholtz and his *The Big Picture* blog.)

Geopolitics II: Russia's Geriatric Demographic Profile. Russian President Vladimir Putin is playing a weak demographic hand. If demography is destiny, Russia's future is bleak.

Russia has started on a prolonged path of demographic decline at home—complicating its expansionist ambitions abroad.

Last year, as Putin was amassing an army on Russia's border with Ukraine, Russia experienced its largest natural population decline since WWII, losing 997,000 people between October 2020 and September 2021. Some of that was attributable to Covid. But consider the following abysmal demographic factors:

(1) Russia's population is expected to decline by 13.5% from 2021 through 2099, according to UN projections (*Fig. 7*). The country's working-age population has been shrinking for the past 10 years through 2020 and could fall by 26.5% during the current century, according to the UN (*Fig. 8*).

(2) Russia's fertility rate is 1.8, well below the 2.1 replacement rate. Russia has one of the world's lowest male life expectancies. Alcohol and drug addiction are rampant. Russia also has one of the oldest populations in the world, with an average age of 40.3 years. It's turning into a large nursing home operated by authoritarian kleptocrats.

(3) Putin has announced that he plans to boost Russia's dwindling population by encouraging immigration and higher birth rates. What he didn't announce is that he hoped to grab 44 million people in Ukraine by attacking their country.

US Inflation: Take Your Pick. What is the current rate of inflation? The *Atlanta Fed's Underlying Inflation Dashboard* shows nine different measures of inflation. All nine measures are in the "red" zone, significantly exceeding their price stability targets.

The Fed's preferred measure of inflation is the Core Personal Consumer Expenditures Deflator (PCED), and its stated target is 2.0%. For the dashboard, the Atlanta Fed chose to represent each measure's stability target as 2.0% "plus its average difference with core PCE inflation over the past decade." Generally, the PCED inflation rate runs a bit lower than the Consumer Price Index (CPI) inflation rate. Their biggest differences: The PCED counts expenses paid on behalf of consumers, such as medical insurance, and the CPI assigns a bigger weight to rent.

In recent months, the annual changes in several measures of inflation were so off the charts that scales had to be adjusted, especially the most popular ones that hit the media headlines. For January, the CPI's headline rate was 7.5% y/y and its core rate (excluding food and energy) was 6.0% y/y, the highest since 1982 (*Fig. 9*). Headline and core PCED

inflation rates were similarly high: 6.1% y/y and 5.2% y/y (*Fig. 10*). Each of these measures lurched above 2.0% y/y early during 2021 as excessively stimulative fiscal and monetary policies caused a demand shock that overwhelmed global supply chains, increasing price pressures for goods across the board.

But while inflation is broadly elevated across goods categories, just a few categories have experienced price swings extreme enough to move the headline and core rates. Let's look at some of the regional Federal Reserve Banks' (FRB) alternative measures of inflation for more insight:

(1) *Atlanta Fed.* Is an inflation measure "sticky" or "flexible"? The Atlanta Fed *breaks down* its alternative inflation measures into one of these two categories. Weighted baskets of items in the Sticky CPI experience relatively slow price changes; in January, they rose 4.2% y/y on a headline basis and 4.0% y/y on a core basis (*Fig. 11* and *Fig. 12*). Conversely, items in the Flexible CPI are prone to rapid price changes; its headline and core indexes rose in January by a whopping 17.8% y/y and 19.0% y/y. About 30% of price-item categories in the CPI are classified as "flexible," the rest "sticky."

"We find that sticky prices appear to incorporate expectations about future inflation to a greater degree than prices that change on a frequent basis, while flexible prices respond more powerfully to economic conditions," says the Atlanta Fed. In other words, the Sticky CPI may be a better indicator of where inflation is heading. If that's true, then rising inflation may not be as big of a problem as the traditional headline or core CPI would suggest.

Some heavily weighted Flexible price categories include new and used vehicles, groceries, apparel, and tobacco.

Removing new vehicles (up 12.2% y/y in January) and used cars (up 40.5) prices from the Flexible CPI calculation lowers its inflation rate (*Fig. 13*). Driving up the Sticky CPI are tenant rent (3.8%), owner's equivalent rent (4.1), and medical care services (2.7) (*Fig. 14*). But Sticky's run-up in household furnishings prices (17.0) may be temporary because it likely reflects the pandemic-induced stay-at-home trend and supply-chain challenges (*Fig. 15*).

(2) *Cleveland Fed.* "Median" and "trimmed-mean" CPI are what the Cleveland Fed looks at instead of the more traditional headline and core rates. By omitting outliers and focusing on the interior of the distribution of price changes, this FRB's Median CPI and Trimmed-Mean CPI indexes "provide a better signal of the underlying inflation trend" than either the

headline or core CPI, according to the Cleveland Fed's *website*. The Median measure rose 4.2% y/y through January and the Trimmed Mean 5.4% y/y (*Fig. 16*).

The Median CPI is the one-month inflation rate of the component whose expenditure weight is in the 50th percentile of price changes. To Melissa and me, the Median measure seems overly simplistic, excluding too many important categories of items. The 16 Percent Trimmed-Mean CPI is a weighted average of one-month inflation rates of components whose expenditure weights fall below the 92nd percentile and above the 8th percentile of price changes. In other words, the trimmed measure throws out some components at the top and bottom ends of the distribution. Certainly, that would have to exclude those pesky used car prices on the upside.

(3) *Dallas Fed.* The Dallas FRB takes this trimming approach and refines it a bit further, removing 24% of the weight from the lower tail and 31% from the upper tail of the distribution to arrive at its measure. So if more outliers from the upside are trimmed than from the downside, the Dallas Fed's figure will be weighted to the downside. That's why the Dallas Fed's measure is the lowest of the measures we have reviewed so far, coming in at 3.5% through January (*Fig. 17*). Granted, these are not apples-to-apples comparisons, especially since Dallas trims the PCE rather than the CPI as the Cleveland Fed does.

(4) *New York Fed.* As if that weren't enough fiddling, the New York FRB has a new *Underlying Inflation Gauge* (UIG) that is derived from a rather difficult-to-comprehend formula. In layman's terms, they say: "We use two data sets from the following broad categories: (i) goods and services prices (CPI, PPI); (ii) labor market, money, producer surveys, and financial variables (short and long term government interest rates, corporate and high yield bonds, consumer credit volumes and real estate loans, stocks, commodity prices)." Voila! The UIG rose 4.6% in January!

Our inclination is to throw out the measures that throw out most of the data, maybe even including what St. Louis FRB President James Bullard called the "*rotten core*." Everyone needs food and most of us need fuel.

Calendars

US: Wed: ADP Employment 350k; MBA Mortgage Applications; Crude Oil Inventories; OPEC Meeting; Beige Book; Powell; Bullard. **Thurs:** Productivity & Unit Labor Costs

6.7%/0.3%; Initial Jobless Claims 226k; ISM NM-PMI 61.0; Factory Orders 0.5%; Natural Gas Storage; Powell; Williams. (Bloomberg estimates)

Global: **Wed:** CPI Flash Estimate 5.3% y/y; Germany Unemployment Change & Unemployment Rate -23k/5.1%; BOC Interest Rate Decision 0.50%; De Guindos; Lane; Schnabel; Nagel; Beerman; Tenreyro; Cunliffe. **Thurs:** Eurozone, Germany, and France, C-PMIs 55.8/56.2/57.4; Eurozone, Germany, France, Italy, and Spain NM-PMIs 55.8/56.6/57.9/52.5/51.4; Eurozone PPI 2.3%m/m/26.9%y/y; UK C-PMI & NM-PMI 60.2/60.8; Japan NM-PMI 42.7; Japan Unemployment Rate 2.7%; Australia Retail Sales; ECB Publishes Account of Monetary Policy Meeting; Enria; Tenreyro. (Bloomberg estimates)

Strategy Indicators

MSCI World & Region Net Earnings Revisions (*link*): Analysts' recent earnings revisions through February suggest continued but weakened optimism about profits throughout the world. The US MSCI's NERI was positive in February for a 19th straight month after 14 negative readings, but dropped to a 19-month low of 6.1% from 14.4% in October. That compares to post-pandemic high of 21.1% in July and an 11-year low of -36.9% in May 2020. The AC World ex-US MSCI's NERI was positive for a 17th month after 30 straight negative readings, and improved to a three-month high of 1.3% from 1.1% in January. That compares to July's 12-year high of 6.4% and an 11-year low of -23.9% in May 2020. NERI was negative in February for EM Asia, EM Latin America, and the Emerging Markets as all but EM Latin America weakened m/m. Here are February's scores among the regional MSCIs: EM Eastern Europe (5.9% in February [14-month low], down from 7.9% in January), Europe (5.3 [11-month low], 7.2), EMU (5.2 [10-month low], 7.7), Europe ex-UK (5.0 [11-month low], 7.5), EAFE (4.0 [14-month low], 5.1), US (3.6 [19-month low], 6.4), AC World (1.4 [18-month low], 2.5), AC World ex-US (1.3, 1.1), EM Latin America (-1.3, -2.1), Emerging Markets (-1.8 [19-month low], -1.7), and EM Asia (-2.4 [19-month low], -2.2).

MSCI Countries Net Earnings Revisions (*link*): NERI was positive for 30/43 MSCI countries in February. That's down from 33/43 in January and the lowest count since November 2020. It had peaked at 37/44 during May 2020, which matched the record-high counts from November 2009 and June 2004. That also compares to zero countries with positive NERI from April to June 2020. NERI improved m/m in February for 20/43 countries, down from 22/43 in January. Among the countries with improving NERI in February, Turkey

was at a record high and Greece was at its highest reading since March 1992. The US and the following four countries have had positive NERI for 19 straight months: Canada, Norway, Sweden, and Taiwan. New Zealand has the worst negative-NERI streak, at 17 months, followed by Hong Kong (9), China (6), and Malaysia (6). NERI flipped back into positive territory for Pakistan, Peru, and Thailand, but turned negative for six countries: Israel, Korea, the Netherlands, the Philippines, Spain, and Switzerland. The highest NERI readings in February: Austria (22.1%), Turkey (21.3 [record high]), the Czech Republic (20.6), Ireland (13.0), and Sweden (12.6). The weakest NERIs occurred this month in Israel (-14.9), Belgium (-8.9), Hong Kong (-8.4), Malaysia (-7.2), Brazil (-5.8), and Korea (-5.3 [21-month low]).

AC World ex-US MSCI (*link*): This index fell 2.2% in local-currency terms in February, and is down 5.1% ytd. In US dollar terms, the index was down a lesser 2.1% in February but a greater 5.8% decline for 2022 to date. Local-currency forward revenues rose 1.5% m/m and has risen 10.5% since it bottomed in January 2021, but remains 3.5% below its record high of May 2019. Local-currency forward earnings rose 2.2% m/m to another record high, and has soared 50.4% since it bottomed in July 2020. Revenues are expected to rise 7.3% in 2022 and 4.0% in 2023 following a 14.9% gain in 2021, and earnings are expected to increase 7.3% (2022) and 7.0% (2023) after soaring 57.2% (2021). The industry analysts' sales forecasts imply short-term 12-month forward revenue growth (STRG) of 6.9% and short-term 12-month forward earnings growth (STEG) of 7.4%, compared to 4.1% and 10.0% before Covid-19 hit the news. These measures bottomed at -0.1% and -0.3%, respectively, during May 2020. The profit margin implied by analysts' earnings and revenue estimates calls for 9.3% in 2022 and 9.5% in 2023, compared to 9.3% in 2021. The record-high forward profit margin forecast of 9.3% is up from a 10-year low of 6.6% at the end of May 2020 and first exceeded its prior 9.0% record high from September 2007 during August. The Net Earnings Revision Index (NERI) for the AC World ex-US MSCI was positive in February for a 17th straight month following 30 negative readings. It rose to a three-month low of 1.3% in February from 1.1% in January, which compares to a 12-year high of 6.4% in July and an 11-year low of -23.9% in May 2020. The forward P/E of 13.6 is at a 22-month low and compares to an 18-year high of 17.1 in February 2021. The forward P/E drops to 13.1 using normalized forward earnings. Those readings are up from their March 2020 lows of 10.8 and 10.2, respectively. The index's current 20% discount to the World MSCI P/E is up from a record-low 22% discount in mid-December.

Emerging Markets MSCI (*link*): The EM MSCI price index fell 3.1% in US dollar terms in February to a 4.9% decline ytd. In local-currency terms, EM was down a lesser 2.4% in February to a smaller ytd loss of 4.2%. Local-currency forward revenues gained 1.4% m/m

and has risen 11.5% since its bottom in January 2021 but is still down 4.3% from its record high in May 2019. Local-currency forward earnings rose 1.7% m/m to a new record high and is up 42.0% since its bottom in June 2020. Revenues are expected to rise 8.5% in 2022 and 6.1% in 2023 after jumping 19.9% in 2021. That's expected to lead to an earnings gain of 6.6% in 2022 and 9.4% in 2023, following a 56.5% recovery gain in 2021. Forecasted STRG of 8.1% is down from April 2021's 11-year high of 12.6%, which compares to a five-year low of 3.6% at the end of April 2020. STEG has dropped to 7.1% from a record high of 33.7% in December 2020, but that's up from a 12-year low of 5.3% in December 2021. The implied profit margin is expected to drop to 8.0% in 2022 from to 8.1% in 2021 before improving to 8.2% in 2023. The forward profit margin of 8.0% 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 negative in February for a fourth straight month as it dropped to a 19-month low of -1.8%. That compares to an 11-year high of 6.0% in February 2021 and an 11-year low of -18.7% in May 2020. Emerging Markets' forward P/E of 12.1 is up from a 22-month low of 12.0 in early February and compares to a record high of 16.3 in February 2021. The P/E drops to 11.5 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 29% discount to the World MSCI P/E, which is close to its biggest discount since 2005.

EMU MSCI (*link*): The EMU MSCI price index tumbled 5.3% in local-currency terms in February to a ytd decline of 8.6%. In US dollar terms, EMU was down a lesser 5.1% in February to a bigger ytd drop of 9.8%. Local-currency forward revenues gained 1.0% m/m and has risen 10.6% since its bottom in January 2021, but is still 8.3% below its record high in September 2008. Local-currency forward earnings gained 2.5% m/m and is up 59.8% since its bottom in July 2020, but remains 8.8% below its record high from January 2008. Revenues are expected to rise 5.6% in 2022 and 4.0% in 2023 after gaining 11.8% in 2021. That's expected to lead to an earnings gain of 6.6% in 2021 and 8.7% in 2023, following a recovery gain of 75.6% in 2021. Forecasted STRG of 5.3% is down from a record-high 8.3% during April 2020, but that's up from an 11-year low of -0.9% during April 2020. STEG has dropped to 6.9% from a record high of 47.4% in December 2020, but that's up from a record low of -6.7% in April 2020. The implied profit margin is expected to rise from 8.7% in 2021 to 8.8% in 2022 and 9.2% in 2023. The forward profit margin has risen to a 13-year high of 8.8% from a 12-year low of 6.0% at the end of July 2020, but remains below its 9.1% record high in October 2007. NERI was positive in February for a 14th month after 27 straight negative readings, but dropped to a 10-month low of 5.2% from 7.7% in January and from a record high of 15.2% in September. That compares to a record low of -35.9% in May 2020. EMU's forward P/E of 14.4 is at a 22-month low, which compares to a record high of 18.3 in July 2020. The P/E drops to 13.8 using normalized forward earnings. That's

up sharply from those figures' March 2020 lows of 10.2 and 9.7, respectively. The index is trading at a 15% discount to the World MSCI P/E, which is in line with its discount since 2001.

China MSCI (*link*): The China MSCI price index was the 35th worst performer of the 49 MSCI countries in February, with a decline of 3.9% in local currency terms. Its 6.7% ytd decline ranks as 32nd worst. Local-currency forward revenues has risen 8.6% since its five-year low in June 2021 and was up 1.4% m/m, but is still down 32.0% from its record high in October 2014. Local-currency forward earnings is up 11.5% since its bottom in June 2020, and gained 1.1% m/m to 8.4% below its record high in June 2018. Revenues are expected to rise 9.4% in 2022 and 7.6% in 2023 after surging 18.1% in 2021. That's expected to lead to an earnings gain of 14.4% in 2022 and 15.8% in 2023, following a relatively meager 11.6% gain in 2021. Forecasted STRG of 9.1% is down from an 11-year high of 13.5% in April 2020, but that's up from a five-year low of 5.0% at the end of April 2020. STEG has dropped to 14.0% from a 10-year high of 18.6% during December 2020, which compares to a four-year low of 8.0% in April 2020. The implied profit margin ranks as one of the lowest in the world; it's expected to rise y/y to 4.8% in 2022 from 4.6% in 2021 and to rise to 5.2% in 2023. The forward profit margin of 4.9% is down from a record high of 5.2% in July 2021, but that's little changed from its pandemic low of 4.5% in May 2020. NERI was negative for a sixth straight month in February, but improved to -2.8% from an 18-month low of -3.9% in January. Still, that ranks seventh worst among the 43 MSCI countries that we follow. China's forward P/E of 11.9 remains near early February's 22-month low of 11.6 and drops to 11.0 using normalized forward earnings. That compares to those figures' March 2020 lows of 10.5 and 9.8, respectively. The index is trading at a 30% discount to the World MSCI P/E, which is near its biggest discount since 2015.

US Economic Indicators

Construction Spending (*link*): Total construction spending in January reached yet another record high; it has posted only one decline since June 2020. Total spending jumped 1.2%—the biggest monthly gain since last January—and is up an impressive 16.9% since bottoming in mid-2020. Private construction spending led the recovery, also reaching a new record high, as residential investment spending made the record books yet again. Meanwhile, private nonresidential spending remains on an upward trend, climbing for the sixth time in seven months, by 1.8%m/m and 8.1% over the period. Within private investment, single-family construction climbed 1.2% in January and 6.5% over the three

months ending January, boosting it to a new cyclical high—and within 5.5% of a new record high. Meanwhile, multi-family construction was little changed at December's record high, ticking down 0.1%; home-improvement spending has soared during five of the past six months by a total of 9.6% to yet another record high. In the meantime, public construction spending edged up 0.6% in January after contracting 1.1% the final two months of 2021; it had increased 4.2% during the four months through October and now stands 6.4% below its record high posted in March 2020.

Global Economic Indicators

Global Manufacturing PMIs (*link*): Global manufacturing activity gained some strength in February, after expanding at its slowest pace in 15 months in January, as output, orders, and employment all accelerated last month—and business optimism climbed to a 10-month high. The JP Morgan Global M-PMI edged up to 53.6 in February after slowing from 54.3 at the end of last year to 53.2 at the start of this year. It recorded steady readings of 54.1 to 54.3 the last five months of 2021. The M-PMI for advanced economies shows manufacturing activity remained at a healthy rate, ticking up to 56.6 in February, after declining five of the prior six months through January—from 59.8 in July to 56.3. The M-PMI (to 50.9 from 50.0) for emerging economies also improved a bit last month after slowing from 51.7 at the end of last year to a standstill in January; it averaged 51.5 during the final quarter of last year. In February, 22 of the 25 countries for which data were available were in expansionary territory, with European countries filling the top seven spots and the US finishing eighth. China and Japan showed growth below the global average of 53.6 in February, while Russia, Mexico, and Myanmar were the only countries to experience contraction. Here's a country ranking of February M-PMIs from highest to lowest: Netherlands (60.6), Germany (58.4), Austria (58.4), Italy (58.3), EUROZONE (58.2), UK (58.0), Ireland (57.8), Greece (57.8), US (57.3), France (57.2), Australia (57.0), Spain (56.9), Canada (56.6), Czech Republic (56.5), Poland (54.7), Taiwan (54.3), Vietnam (54.3), WORLD (53.6), Japan (52.7), Thailand (52.5), Colombia (52.0), China (50.4), Turkey (50.4), Kazakhstan (50.1), Russia (48.6), Mexico (48.0), and Myanmar (47.3).

US Manufacturing PMIs (*link*): Manufacturing activity in February remained robust, though below recent peaks, according to both M-PMI measures, while price pressures have eased recently in both surveys. ISM's M-PMI edged up to 58.6 in February after falling the prior three months, from 60.8 in October to a 14-month low of 57.6 by January. It peaked at 63.7 last March and averaged 60.6 for all of 2021. The new orders index (to 61.7 from 57.9) moved back above 60.0 in February after falling below in January for the first time since

September 2020, while the production measure (58.5 from 57.8) was below for the third month, though did move a higher last month. February's employment gauge, meanwhile, moved down to 52.9 after accelerating steadily from 50.0 last August to a 10-month high of 54.5 during January. The supplier deliveries (66.1 from 64.6) component of the M-PMI slowed at a slightly faster rate in February, while inventories (53.6 from 53.2) increased at a slightly faster rate. Timothy Fiore, chairman of ISM, noted, "The US manufacturing sector remains in a demand-driven, supply chain-constrained environment. The Covid-19 omicron variant remained an impact in February; however, there were signs of relief, with recovery expected in March." ISM's price (75.6 from 76.1) index remains on a decelerating trend, considerably below last year's high of 92.1 in June—which was the fastest since summer 1979. Looking at IHS Markit's M-PMI, it picked up to 57.3 in February, after slowing steadily since reaching a record-high 63.4 last July, slumping to 55.5 during January—the slowest pace since October 2020. According to the report, there was a modest upturn in production in February across the manufacturing sector, though ongoing material and labor shortages continued to hamper growth. Meanwhile, factories did see a sharper uptick in new orders last month—recording its best performance since last October—after slumping to a 16-month low at the start of this year. February saw stronger orders from both new and existing customers, while foreign demand also strengthened. Pricing was a mixed bag last month, with input costs rising at the slowest pace in nine months and selling prices increasing at the fastest rate in three months.

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