MORNING BRIEFING
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Peace, Defense & the Metaverse

Check out the accompanying chart collection.

Executive Summary: Hopes of a ceasefire in Ukraine have buoyed the stock market; but what comes after a ceasefire? Geopolitically, we expect a new world order to emerge. For the S&P 500, we see valuations pressured by higher-for-longer inflation and the Fed's lame response. But for now, Panic Attack #74 is probably over… The Fed's baby-step tightening move yesterday shows it's in no hurry to corral inflation. … Also: Jackie examines the rising defense-spending plans domestically and abroad, the companies that would benefit, and the implications for the S&P 500 Aerospace & Defense index. … And: South Korea invades the metaverse.

Geopolitics: Ceasefire Hopes. Yesterday morning's *Washington Post* included an *article* titled "Peace talks between Russia and Ukraine see progress as Lavrov suggests 'hope' for a 'compromise'." The S&P 500 rallied 4.4% during Tuesday and Wednesday on hopes that a ceasefire in Putin's War might be in the works. The S&P 500 closed at 4357.86 yesterday, up 4.5% from its recent correction low of 4170.70 on March 8, which was down 13.0% from the index's record high of 4796.56 on January 3. After these moves, the S&P 500 is down 9.1% from its record high and no longer in correction territory, for now at least (*Fig. 1* and *Fig. 2*).

According to the *WP*: "Ukrainian President Volodymyr Zelensky said in a video address overnight Tuesday that negotiations with Moscow were heading in a 'more realistic' direction, and Russian Foreign Minister Sergei Lavrov said Wednesday that there is 'hope for reaching a compromise.'" Mykhailo Podolyak, a Zelensky advisor, said that Russia started negotiations with ultimatums but recently has "softened significantly." He attributed that to the military setbacks experienced by Russian forces that expected a blitzkrieg but now are bogged down. "Therefore, we have much confidence that we will have a cease-fire in the coming days," he said.

The post-war world order will undoubtedly change. The Russians and the Chinese would like it to be consistent with their February 4 *agreement*, which outlined a much less liberal world order than the one led by the US since the end of WWII. Indeed, Lavrov, in a lengthy interview Wednesday, took aim at the US, saying the conflict in Ukraine is "not as much about Ukraine as it is about the legal world order." He added, "The US has steamrolled all of Europe. This is an epochal moment in modern history. It reflects the fight for what the world

order is going to look like."

Lavrov is right about that. I expect that the West, led by the US, will continue the economic war against Russia in order to maintain the liberal world order. The West will also spend much more on defense, as Jackie discusses below, to keep it that way.

Odds are that the March 8 low in the S&P 500 marked the end of *Panic Attack #74*, triggered by the invasion of Ukraine. The Nasdaq fell into bear market territory on Monday, March 7 from its record high in November. One week later (this past Monday), the Nasdaq 100 fell into a bear market. They both rallied smartly during Tuesday and Wednesday.

There undoubtedly will be more panic attacks this year. Their catalysts are likely to be less geopolitical in nature and more related to higher-for-longer inflation and the Fed's lame response to this problem. So Joe and I expect the pressure on the S&P 500's forward P/E to continue. We believe that investors can offset that by overweighting Energy (as a hedge against inflation), Financials (as a hedge against rising interest rates), and Information Technology (as a bet on the Roaring 2020s scenario).

We also recommend overweighting SMidCaps because their valuation multiples are already very low. What about overweighting Europe in the event that Putin's War ends soon? That does make sense, though we would continue to overweight the US relative to global markets. Within a global portfolio, we would redistribute some of the market-cap share away from Emerging Markets (which don't do well when the Fed is tightening) into Europe.

The Fed: Baby Steps. The Fed finally did it! The FOMC voted to take its first tightening baby step since 2018. The committee voted to raise the federal funds rate range by 25bps to 0.25%-0.50%.

During February, the CPI inflation rate was 7.9%. The Fed remains woefully behind the inflation curve and is in no hurry to catch up. The FOMC's latest *Summary of Economic Projections* (SEP) shows that the committee's median projection for the federal funds rate this year was raised from 0.9% at the December meeting to 1.9% at the March meeting. The projection for next year was raised from 1.9% to 2.8%. (See the tables in our *FOMC Summary of Economic Projections*.)

These projections imply seven 25bps rate hikes in the federal funds rate this year and five next year. That seems ambitious, but CPI inflation is almost 8.0% now and likely to go higher in coming months before it heads lower. But it is likely to remain well above the Fed's

official target of 2.0%. The FOMC did raise this year's projected PCED inflation rate from 2.6% to 4.3% and next year's from 2.3% to 2.7%. And that will happen with the unemployment rate remaining at 3.5% through 2024! What are they smoking?

The movie "Dr. Strangelove or: How I Learned to Stop Worrying and Love the Bomb" comes to mind as a result of current geopolitical events. We don't expect a nuclear war. We are more concerned about higher-for-longer inflation. For investors, the sequel is likely to be titled "Dr. Strangelove or: How I Learned to Stop Worrying and Love Inflation."

Defense Industry: The Spending Spigots Open. The war in Ukraine is about to spark a jump in defense spending in the US and Europe unlike any seen in recent years. The grizzly pictures in our phones' news feeds have galvanized public support for such spending by reminding us of the threat Russia poses.

Investors, anticipating more federal spending on defense, have made defense stocks among the best performers in the stock market this year. The S&P 500 Aerospace & Defense industry has risen 9.9% ytd through Tuesday's close, while the S&P 500 Industrials sector has lost 6.0% and the S&P 500 has fallen 10.6% ytd (*Fig. 3* and *Fig. 4*). Here's a look at the rising defense spending plans at home and abroad:

(1) *Uncle Sam bulks up.* While US spending on defense has been growing on a nominal basis, inflation has taken a toll. Nominal US defense spending during Q4 was little changed at Q3's record high of $911 billion; but adjusted for inflation, real defense spending was $782 billion, largely unchanged compared to spending levels nine years ago (*Fig. 5*).

Last week, Congress passed the fiscal 2022 appropriations act, which allocates $782 billion for defense funding for the year ending September 30. That figure marks a 5.6%, or $42 billion, increase in spending compared to fiscal 2021. While substantial, the increase pales in comparison to inflation. The CPI rose 7.9% y/y in February, and the PPI jumped 10.0% over the period. Congress actually allotted more money for defense spending than the $715 billion that the Biden administration requested in June, when the primary focus was deterring China and providing for adequate military personnel raises.

The appropriations act includes an additional $13.6 billion for Ukraine, about half of which is for military assistance, including anti-tank, anti-armor, and anti-aircraft systems. The remaining funds are humanitarian aid to help refugees fleeing the country and for economic assistance to Ukraine and neighboring countries. The $800 million of military aid to the Ukraine government that President Biden announced on Wednesday is funded through the

$13.6 billion appropriations act. The US has been supplying Ukraine with small arms ammunition, mortar, artillery shells, anti-tank guided missiles, bunker busting missiles, grenade launchers, explosive ordnance disposal suits, and shotguns.

While it's still early, fiscal 2023's defense spending request may top $800 billion, a February 16 Reuters *article* reported. "Among the top priorities for this budget are shipbuilding, developing capabilities in space, missile warning and modernizing the nuclear 'triad' of ballistic missile submarines, bombers and land-based missiles, one of the sources said." Beneficiaries of the budget would include Lockheed Martin, Northrop Grumman, and General Dynamics.

In addition to higher spending because of the war in Ukraine, US military budgets were sure to rise anyway in the face of higher fuel prices and rising wage costs. Our guess: Expectations for a 2.3% jump in the defense budget to $800 billion in fiscal 2023 will be low. We'd expect the budget increase to keep pace with inflation at the very least and potentially to go higher depending on the outcome of the Ukraine war.

"[W]e are hearing folks on both sides of the aisle support the idea of real budget growth for defense in 2023 on top of the impact of inflation on the department. [A]ll of that is bolstered by the threat environment, which continues to be the driver of the long-term demand environment for our business, independent of changes in administration and Congressional leadership, etcetera," said Dave Keffer, CFO of Northrop Grumman at a JPMorgan Industrials sector *conference* on Tuesday.

Defense stocks were spooked Wednesday by a Bloomberg *article* that said the US would purchase 33 fewer F-35 jet fighters in fiscal 2023 than previously expected. The Pentagon will ask for 61 jets instead of 94, which is fewer than the 85 jets ordered this fiscal year. By Wednesday's close, the shares of Lockheed Martin, which manufactures the F-35, had fallen 6.1% on the report, and Northrop Grumman shares had dropped 5.2%.

The Department of Defense did not comment on the article. The department is in negotiations with Lockheed over the next F-35 contract, for 400 planes, and they are going slower than anticipated, a March 16 *article* in Investing.com reported. Perhaps the reduction is a negotiating ploy? It's also possible that the US wants to free up capacity for F-35s to be produced and delivered to European countries that have recently placed orders, our friend Byron Callan of *Capital Alpha* suggested in his research note this morning. Germany, for example, announced earlier this week plans to buy F-35s to replace its aging aircraft, but didn't disclose the number of aircraft.

There are a few technological areas where the US needs to open its wallet and play catch-up. China reportedly has developed a heat-seeking hypersonic missile that's more advanced than anything the US possesses, we noted in the January 13 *Morning Briefing*. It can target stealth aircraft like the F-22, penetrate missile defense systems, and hit fixed targets on the ground at five times the speed of sound. China also has tested a hypersonic glide vehicle that can launch a missile while in flight and could target any part of the US.

North Korea claims to have launched hypersonic missiles as well. And the Russians have developed the S-500 missile defense system, which they claim will successfully defend against the US's F-35 stealth aircraft.

The Pentagon selected Northrop Grumman, Lockheed Martin, and Raytheon to research and develop a missile system to defend against a hypersonic weapons attack. The three companies were allotted a total of $60 million "to develop a glide phase interceptor that would be guided by a constellation of satellites and sensors to intercept a hypersonic missile inside Earth's atmosphere as it glides towards its target," a November 19 Reuters *article* reported.

(2) *More spending globally too.* Russia's invasion into Ukraine has done more to boost defense spending in Europe than scolding by former President Donald Trump ever did.

Most astonishingly, Germany has decided to boost military spending to at least 2.0% of GDP, up from roughly 1.5% last year. Chancellor Olaf Scholz "said the government had decided to supply 100 billion euros for military investments from its 2022 budget. Germany's entire defense budget by comparison was 47 billion euros in 2021," a February 27 Reuters *article* reported.

Poland will up its defense spending to 3.0% of GDP next year from 2.2% currently. And it plans more increases in the future, a March 4 *article* in thedefensepost.com reported. Romania plans to push defense spending up to 2.5% of GDP from 2.0%. Latvia will hike spending to 2.5% of GDP by 2025. The Netherlands boosted its defense budget by 6.5% in 2021.

Denmark plans to increase spending gradually to reach 2.0% of GDP by 2033. That would mean an increase of roughly 18 billion Danish crowns, or $2.7 billion. The government also agreed to spend 7 billion crowns over the next two years on defense, diplomacy, and humanitarian efforts, a March 6 Reuters *article* reported. This comes on top of Denmark's 2019 decision to boost military spending from 1.4% of GDP to 1.5% by 2023.

Belgium said earlier this year that it would spend another €14 billion over the next eight years. France has upped its spending by €1.7 billion this year to bring its military budget to €40.9 billion.

And China's ambitions have been making countries nervous in Asia. Japan will spend roughly $47 billion on the military in fiscal 2023, a record amount. Last fall, Taiwan proposed boosting military spending by $8.7 billion over the next five years, with a focus on new missiles and upgrading its weapons.

Northrop's Keffer noted the changes in European spending at the conference this week: There's "a medium to longer-term opportunity that exists in a rising defense budget environment, both in the US and … Europe. Germany and other countries have been very clear about their intentions to invest more in their defense capabilities. We believe that will include opportunities for us ..."

(3) *A look at defense stocks.* The S&P 500 Aerospace & Defense industry's stock price index certainly has outperformed the broader market this year. But it hasn't broken out of the trading range it has been in since 2017; it has just returned to the high end of that range (*Fig. 6*).

Revenue and earnings for the industry peaked in late 2019 only to fall sharply in 2020, and they've been recovering ever since (*Fig. 7* and *Fig. 8*). Revenue is expected to grow 9.1% this year and 7.5% in 2023, while earnings are forecast to jump 52.0% this year and 20.9% in 2023 (*Fig. 9* and *Fig. 10*). It's notable that the industry's net earnings revisions have been negative over the last four months (*Fig. 11*).

The index's forward P/E is also worth keeping an eye on. At 20.6, the forward P/E is near recent peaks of around 22 in 2017 and 2021 (*Fig. 12*). But if defense spending increases as expected over the next five years, the stocks won't need the P/E to improve in order to rise in price.

Disruptive Technologies: South Korea Loves the Metaverse. Companies around the world are racing to develop metaverses that can dominate their home marketplace and be exported to the world. South Korea, with the benefit of widespread 5G access, has two popular offerings: Ifland from telecom company SK Telecom and Zepeto from Internet company Naver. Let's take a look at what may be stiff competition for Meta:

(1) *Zepeto.* Launched in 2018, Zepeto has attracted users at home and abroad. It has 20

million active users monthly, 80% of which are teenagers and 90% of which come from outside of South Korea, according to a February 28 *article* in forkast. Zepeto, which counts Softbank as an investor, is known for its collaborations with influencers.

Avatars of K-pop girl group Blackpink have a set on Zepeto that recreates the group's music video set for its single "Ice Cream." Gucci, Christian Dior, Nike, and NARS have areas on Zepeto where users can try on their goods virtually.

Look for this metaworld to come to the US. Naver has established subsidiaries in the US and Hong Kong "to focus on localizing the metaverse for global users."

(2) *Ifland.* Like other metaverses, ifland allows you to create an avatar to communicate with other people's avatars in settings that range from stadiums to cafes. Launched last July, SK Telecom plans to bring ifland to 80 markets around the world by the end of this year.

Ifland had 1.1 million monthly users at the end of last year, and their usage time has increased sharply since it was first launched. The site was developed with a simple interface so that users can create rooms on their own.

(3) *Metaverse 2.* If you missed your opportunity to buy a home on Park Place, consider buying a lot in the Metaverse 2, which was launched last year and since has seen prices surge. The price of shares in a virtual Lotte World Tower, South Korea's tallest building, increased 180,000 times to $18,300, according to a March 8 *article* in *The Korea Herald*.

Metaverse 2 has 70,000 users who can buy and sell virtual land, buildings, and landmarks in Seoul and New York, with parcels in Las Vegas and Paris soon available. In the future, they'll be able to hold meetings or concerts on their land. And of course, they can create NFTs (non-fungible tokens) that can be sold.

In Seoul, New York, and Paris, users can exchange their currency for meta dollars, one of which equals one US dollar. In Las Vegas, users can exchange their currency for a meta token, a cryptocurrency created by the company to purchase land. From what we can tell, Metaverse 2 is privately held by The Future Company.

Calendars

US: Thurs: Headline & Manufacturing Industrial Production 0.5%/0.6%; Capacity Utilization Rate 77.8%; Housing Starts & Building Permits 1.69mu/1.85mu; Initial & Continuous Jobless Claims 220k/1.485m; Philadelphia Fed Manufacturing Index 15; Natural Gas Storage. **Fri:** Leading Indicators 0.3%; Existing Home Sales 6.10mu; Baker-Hughes Rig Count; Bowman; Evans. (Bloomberg estimates)

Global: Thurs: Eurozone Headline & Core CPI 0.9%m/m/5.8%y/y & 0.5%m/m/2.7%y/y; Japan BOE Interest Rate Decision 0.75%; BOJ Interest Rate Decision -0.10%; Lagarde; Schnabel; Lane; McCaul. **Fri:** Eurozone Wages; Eurozone Trade Balance; Canada Headline & Core Retail Sales 2.4%/2.4%; BOJ Press Conference. (Bloomberg estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The Bull/Bear Ratio (BBR) remained below 1.00 this week for the third week, sinking to its lowest level since late March 2020. The BBR ticked down to 0.84 this week after ticking up from 0.87 to 0.90 last week; it was at 2.15 10 weeks ago. Bullish sentiment slumped to 30.6% this week after climbing to 32.2% last week; it had dropped seven of the previous eight weeks by 20.7ppts, from 50.6% to 29.9%—which was the fewest bulls since the start of 2019. Meanwhile, the bears maintained their plurality among the advisors surveyed again this week, with bullish sentiment moving higher for the sixth successive week by 11.5ppts (to 36.5% from 25.0%)—the most bears since March 2020. The correction count edged up to 32.9% this week after falling the prior four weeks from 40.0% to 32.2%—which equaled bullish sentiment that week. Last month, the early February correction count of 40.0% just missed equaling March 2020's high count of 40.9%. The AAII Ratio sank to 34.4% last week after climbing from 30.4% to 42.3% the previous week, as bullish sentiment fell from 30.4% to 24.0%, and bearish sentiment rose from 41.4% to 45.8%.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin rose to a new record high of 13.4% last week. Since the end of April 2020, it has exceeded its prior record high of 12.4% in September 2018. It's now up 3.1ppts from 10.3% during April 2020, which was the lowest level since August 2013. Forward revenues and earnings both were back up to record highs after ticking down briefly in early February. Both been making new highs since the beginning of March 2021 after peaking just before Covid-

19 in February 2020. Since the Q2-2021 earnings season came in way better than expected, analysts have been playing catch-up with their lowball estimates from the Covid-19 shutdown period. Prior to this catch-up period, consensus S&P 500 forecasts had been falling at rates paralleling the declines during the 2008-09 financial crisis. Forward revenues growth rose 0.1ppt w/w to 7.9%, above its 12-month low of 7.1% from early December. That's down from a record high of 9.6% growth at the end of May 2021. Still, that's up from 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. Forward earnings growth rose 0.1ppt w/w to 9.1%. It remains above its 16-month low of 8.2% in early December. That's down from its 23.9% reading at the end of April 2021, which was its highest since June 2010, and up substantially from its record low of -5.6% at the end of April 2020. So far this year, analysts' revisions to their forecasts for 2022 revenues have outpaced their revisions for 2022 earnings, so the imputed 2022 profit margin estimate that we calculate from those forecasts has ticked lower. They expect revenues to rise 9.2% (up 0.2ppt w/w) in 2022 and 5.4% in 2023 (down 0.1 ppt w/w) compared to the 16.4% gain reported in 2021. They expect earnings gains of 9.2% in 2022 (up 0.2ppt w/w) and 9.8% in 2023 (down 0.1ppt w/w) compared to an earnings gain of 51.5% in 2021. Analysts expect the profit margin to remain steady in 2022 to 13.2% (unchanged w/w) compared to 13.2% in 2021 and to improve 0.5ppt y/y to 13.7% in 2023 (unchanged w/w). The S&P 500's weekly reading of its forward P/E fell 0.6pt w/w to a 23-month low of 18.6. That's down from an eight-month high of 21.7 at the end of 2021 and compares to 23.1 in early September 2020, which was the highest level since July 2000 and up from a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio fell 0.07pt w/w to 2.49, barely above its 15-month low of 2.48 at the end of February. That's down from a record high of 2.88 at the end of 2021 and a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*): Last week saw consensus forward revenues rise for nine of the 11 S&P 500 sectors, forward earnings rise for five, and the forward profit margin rise for four and fall for seven. Nearly all sectors are at or near record highs in their forward revenues, earnings, and profit margins. Energy still has forward revenues and earnings well below record highs, but its profit margin is near its highest reading since November 2008. Financials and Utilities have forward earnings at or near record highs, but their forward revenues and margins are lagging. Only three sectors posted a higher profit margin y/y in 2020: Consumer Staples, Tech, and Utilities. For 2021, all but the Utilities sector posted a y/y improvement. Four sectors are expected to see margins decline or remain flat y/y in 2022: Communication Services, Consumer Staples, Financials, and Real Estate. Here's how they rank based on their current forward profit margin forecasts along with their record highs: Information Technology (25.4%, a new

record high this week), Financials (18.7, down from its 19.8 record high in August 2021), Real Estate (16.3, down from its 19.2 record high in 2016), Communication Services (16.4, down from its 17.0 record high in October), Utilities (14.4, down from its 14.8 record high in April 2021), Materials (13.2, down from its 13.4 record high in December), S&P 500 (13.4, a new record high this week), Health Care (11.3, down from its 11.5 record high a week earlier), Industrials (10.2, down from its 10.5 record high in December 2019), Consumer Staples (7.6, down from its 7.7 record high in June), Consumer Discretionary (8.1, down from its 8.3 record high in 2018), and Energy (9.7 [14-year high], down from a record-high 11.2 in 2007).

S&P 500 Sectors Forward Revenues and Earnings Recovery from Covid-19 Trough (*link*): The S&P 500's forward revenues and earnings as well as its implied forward profit margin bottomed at cyclical lows on May 28, 2020 after 14 weeks of Covid-19-related declines. Since February 2021, forward revenues and earnings have risen 26.3% and 64.2%, respectively, to record highs and the forward profit margin has risen 3.4ppts to a record high of 13.4%. That exceeds its prior pre-Covid record of 12.4% in late 2018. As mentioned above, during the latest week, forward revenues rose for nine of the 11 S&P 500 sectors, forward earnings rose for five, and the forward profit margin rose for four and fell for seven. Here's how the S&P 500 and its 11 sectors rank by their changes in forward revenues and forward earnings since May 28, 2020: Energy (forward revenues up 56.6%, forward earnings up 2,547.3%), Materials (38.8, 108.5), Information Technology (34.0, 56.3), Industrials (30.7, 81.8), Communication Services (28.0, 57.4), S&P 500 (26.3, 64.2), Financials (22.0, 69.1), Health Care (21.1, 36.9), Consumer Discretionary (20.1, 108.5), Real Estate (19.4, 37.1), Consumer Staples (16.4, 23.1), and Utilities (3.2, 6.8).

US Economic Indicators

Retail Sales (*link*): February retail sales growth was slower than expected, though January's sales gain was revised sharply upward. Sales advanced 0.3% last month, slowing from January's 4.9% (vs 3.8% preliminary) surge, as higher gasoline and food prices are likely causing consumers to cut back on discretionary spending. The control group—which excludes autos, gasoline, building material, and food—sank 1.2% last month after soaring 6.7% in January to a new record high. Of the 13 retail sales categories, seven rose during February while six fell, with higher gasoline prices boosting gasoline service station sales to the number-one spot. Here's a snapshot of the sales performances of the 13 categories during February as well as the performances versus a year ago and relative to their pre-

Covid levels: gasoline stations (5.3%, 36.4%, 38.1%), food services & drinking places (2.5, 33.0, 11.7), miscellaneous store retailers (1.9, 25.4, 32.7), sporting goods & hobby stores (1.7, 11.7, 32.5), clothing & accessories stores (1.1, 30.6, 17.3), building materials & garden equipment & supplies dealers (0.9, 14.8, 32.6), motor vehicles & parts dealers (0.8, 17.2, 28.2), general merchandise stores (-0.2, 12.8, 17.0), food & beverage stores (-0.5, 7.9, 19.6), electronics & appliance stores (-0.6, 2.6, -1.5), furniture & home furnishing stores (-1.0, 7.4, 17.8), health & personal care stores (-1.8, 8.9, 11.1), and nonstore retailers (-3.7, 13.8, 46.1).

Business Sales & Inventories (*link*): Nominal business sales in January soared to a new record high, while December real business sales (reported with a lag) remained stalled around March's record high, 2.0% below. Nominal business sales rebounded 3.7% in January after dipping 0.5% in December—which was its first decline since last May. Meanwhile, real business sales were more volatile, posting a series of ups and downs during 2021—with sales up six months and down six months; they slipped 0.8% in December, though were up 1.9% y/y. Real sales for wholesalers rose in December for a sixth time in seven months, up 0.7% m/m and 5.4% over the period to a new record, while real sales for retailers have dropped 8.5% since reaching a record high during March. Real manufacturing sales is beginning to show some signs of life, moving up from recent lows and climbing 1.5% during the seven months through December. Meanwhile, the real inventories-to-sales ratio (1.41) moved up in December from its recent low of 1.38 the prior five months; it was at 1.45 in February. The nominal ratio fell to 1.25 in January after climbing from its record low of 1.24 in October climbed to 1.29 in December.

Import Prices (*link*): Import prices in February posted another big gain, recording its biggest two-month gain since April 2011. Import prices climbed 1.4% during February and 3.3% during the first two months of the year, with the yearly rate (10.9%) stalled around its recent peak of 11.6% last May. Imported fuel prices jumped 6.9% last month, following a 7.7% surge during January. Petroleum prices shot up 16.7% the first two months of the year, with the yearly rate (52.8) remaining high though less than half its recent peak of 137.5% during April 2021. Meanwhile, food prices climbed 5.1% over the two months ending February, pushing its yearly rate up to 16.0% y/y—the highest reading since July 2011. Nonpetroleum import prices haven't posted a decline since October 2020, climbing for 14 of the 16 months, by 0.7% in February and 9.6% over the period. The yearly rate accelerated 7.6%, the fastest 12-month pace since summer 2008. The yearly rate for industrial supplies & materials imports eased again to 32.9% in February, down from May 2021's record-high 55.2%. The rate for capital goods has been on an accelerating trend since bottoming at -2.0% y/y in November 2019, climbing to 3.2% this February—which is

the highest since fall 1992. The rate for consumer goods ex autos (2.9% y/y) is the highest since January 2012, while the rate for autos (2.5) is holding close to December's 2.7%—which was the highest since March 2012.

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