MORNING BRIEFING
March 28, 2022

Twists & Turns of the Yield Curve

Check out the accompanying chart collection.

Executive Summary: Two different yield-curve spreads are sending contradictory signals, and one of them is giving some investors the recession heebie-jeebies. But the other, more "official" yield-curve spread suggests no recession in sight, and ditto most other leading indicators. We see a stagflationary environment this year, with real GDP growing an average of 2.0% per quarter and inflation remaining persistent. … Also: A couple of short-maturity spreads relative to the federal funds rate likewise signal no recession. And we look to the Fed for insights on its chances of executing a soft landing and on the significance of various spreads.

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. Dr. Ed's presentation lasts about 15 minutes with another 15 minutes for Q&A. Replays of the Monday webinars are available *here*. You can view a replay of Dr. Ed's recent one-hour webcast on "Predicting Inflation" *here*.

Leading Indicators I: Yield-Curve Freak-Out. Everyone is freaking out over the yield curve. That's because the yield curve is freaking out. The "official" yield-curve spread is the one between the 10-year Treasury bond yield and the federal funds rate (FFR). It tends to be a good leading indicator of both recessions and bear markets in stocks (*Fig. 1* and *Fig. 2*).

In fact, this spread is one of the 10 components of the Index of Leading Economic Indicators (LEI). It has widened from around zero in mid-2020 to 229bps during the March 25 week of this year. It is signaling continued economic growth, as is the LEI, which has been in record-high territory since December through February (*Fig. 3*). The LEI tends to lead the Index of Coincident Indicators (CEI) by several months.

Stock investors, however, are worrying that the yield-curve spread between the 10-year and 2-year Treasury securities may be on the verge of signaling a recession (*Fig. 4*). It has narrowed sharply since the start of the year from about 150bps to 19bps recently. If it falls to zero or turns negative (i.e., "inverts"), that event could be followed by a recession, as that has occurred in the past.

The problem is that never before—since the start of the 2-year yield data in 1976—have the two yield-curve spreads diverged as much as they have this year (*Fig. 5*). So it's time to choose sides—which spread's message to heed? Melissa and I are siding with the official spread. For now, we are not betting on a recession and a bear market for stocks anytime soon, but we are on alert for signs of those developments. Consider the following:

(1) *Keeping score.* In our 2019 study *The Yield Curve: What Is It Really Predicting?*, we wrote that "after studying the relationship between the yield curve and the monetary, credit, and business cycles, we have concluded that it is credit crunches—not an inverted yield curve and not aging economic expansions—that cause recessions. The yield curve is just keeping score on how the Fed is reacting to and influencing these cycles."

To be more specific, the yield-curve spread tends to widen and remain relatively wide when the Fed is lowering the FFR. It usually narrows during periods when the Fed is raising interest rates. The yield-curve spread typically inverts when fixed-income investors start to expect that further Fed rate hikes could trigger a financial crisis that could morph into a serious credit crunch and recession.

(2) *Financial crises.* In the past, inverted yield-curve spreads anticipated the following financial crises: Penn Central (1970), Franklin National (1974), Silver Bubble (1980), Drysdale (1982), S&L Crisis (1990), Russia & LTCM (1998), Subprime Meltdown (2007), and Lehman & AIG (2008) (*Fig. 6*). The FFR has tended to peak when financial crises occurred (*Fig. 7*).

By the way, we also note that both yield-curve spreads signaled a recession starting in late 2019, though there's no way that they could have anticipated the pandemic-related lockdown recession of early 2020. They might have been responding to Trump's trade wars instead.

(3) *Credit-quality spread.* At this time, we don't see a credit crunch developing. For signs of a credit crunch, we monitor the yield spread between the corporate high-yield composite and the 10-year US Treasury bond. It has widened from 279bps at the start of this year to 364bps recently. That's not high enough to signal a credit crunch, a recession, or a bear market, in our opinion (*Fig. 8* and *Fig. 9*).

(4) *Oil prices.* However, we recognize that rapidly rising energy prices have been associated with previous recessions (*Fig. 10*). Then again, personal consumption

expenditures (PCE) on energy account for only 4% of total PCE during January, down from 6% a decade ago and nearly 7% in mid-2008 (*Fig. 11*).

Leading Indicators II: The Others. As we noted above, the overall LEI confirms the upbeat outlook projected by the interest-rate spread component of the index during February. The monthly version of weekly initial unemployment claims is also an LEI component. Last Thursday, we learned that it fell to only 187,000 during the March 19 week, the lowest readings since 1969. Now consider some related leading economic indicators:

(1) *LEI's yearly change.* The y/y percent change in the LEI has tended to drop to zero or below just before each of the last seven recessions (*Fig. 12*). During February, it was up 7.6%, well above zero.

(2) *Payroll employment leaders.* Debbie and I have found that payroll employment in both truck transportation and temporary-help services are highly correlated with the LEI (*Fig. 13* and *Fig. 14*). Both tended to flatten or decline before the last four recessions. Both rose to record highs during February!

(3) *Forward earnings.* Joe and I are big fans of using industry analysts' earnings estimates whenever we analyze the stock market. We particularly like S&P 500 forward earnings, which is the time-weighted average of their consensus estimates for the current year and the coming one.

We've found that the y/y growth rate of forward earnings is more of a coincident than a leading indicator when we compare it to the comparable growth rates in the LEI and the CEI (*Fig. 15* and *Fig. 16*).

However, the forward earnings series is available weekly with only a one-week lag. During the week of March 17, it was up 28.1% y/y. That's down from its record-high reading of 42.2% during July 29, 2021. But it is well above past recessionary readings.

(4) *Consumer sentiment & unemployment.* Previously, Debbie and I observed that inflation tends to have a more significant impact on the Consumer Sentiment index (CSI) than on the Consumer Confidence Index (CCI). On the other hand, unemployment tends to influence the CCI more than the CSI.

Sure enough, the CSI tanked during March below its lockdown readings in early 2020 to the lowest since August 2011 (*Fig. 17*). February's CCI remained well above its early 2020

lows, as the jobless rate fell to 3.8% during the month (Fig. 18). Warning: The unemployment rate actually is a good leading indicator of recessions. It usually falls to its cyclical low a few months before recessions.

The expectations component of the CSI plunged 14.0 points from 68.3 in December to 54.3 in March, its lowest reading since fall 2011. The present situation component is down 7.0 points over this period to 67.2, its lowest level since March 2009. They were at recent peaks of 83.5 and 97.2 during June and April of last year. Another warning: The average of CSI and CCI expectations components is one of the 10 LEI.

Richard Curtin, the survey's chief economist noted: "When asked to explain changes in their finances in their own words, more consumers mentioned reduced living standards due to rising inflation than any other time except during the two worst recessions in the past 50 years: from March 1979 to April 1981, and from May to October 2008." A record-breaking 32% of consumers expect their overall financial position to worsen in the year ahead—the highest among responses dating back to the mid-1940s!

(5) *Housing.* The affordability of housing has dropped sharply over the past 24 months as the median existing single-family home price rose 33.4% through February. In recent months, mortgage rates have soared as well (Fig. 19). Nevertheless, demand for houses has remained strong, while the supply of homes for sale has been low. As a result, pending home sales declined in February, marking four consecutive months of transaction decreases, according to the National Association of Realtors (Fig. 20).

(6) *Railcar loadings.* Another weak indicator we are monitoring is total railcar loadings excluding coal (Fig 21). It was down 4.6% on a y/y basis using the 26-week moving average of the series in mid-March. This growth rate peaked most recently at 14.0% during early July 2021.

Leading Indicators III: Stagflationary Economy. Most of the data suggest that an economic bust isn't imminent or very likely in coming months. But they also suggest that economic growth has slowed significantly following the V-shaped economic recovery during the second half of 2020 and during 2021. Indeed, the Atlanta Fed's GDPNow tracking model showed real GDP rising only 0.9% (saar) during Q1 based on data available through March 24. The Omicron wave of the pandemic was especially intense during January, so it might explain some of this weakness (Fig. 22).

We are expecting relatively slower growth this year, with real GDP up about 2.0% per

quarter on average. We also expect inflation to remain persistent. That's confirmed by the March prices-paid and prices-received indexes for four of the five regional business surveys conducted by the Federal Reserve district banks (*Fig. 23*).

The bottom line for now: The economic outlook for 2022 continues to look stagflationary.

Leading Indicators IV: Powell's Favorite Yield Curve. There's no recession signal in the spread between the 12-month FFR futures and the current FFR. Indeed, the former is signaling the Fed will increase the FFR to about 2.50% by March 2023, up from 0.50% currently (*Fig. 24* and *Fig. 25*). That implies eight 25bps hikes over this period. That's consistent with our view and, more importantly, Fed Chair Jerome Powell's view. The spread between the 2-year Treasury yield and the FFR tells the same story. Consider the following:

(1) On March 21, Powell delivered an important *speech* titled "Restoring Price Stability." He reiterated that he and his colleagues had pivoted from achieving full employment (which has been achieved) to bringing down inflation. He said: "The labor market is very strong, and inflation is much too high." He believes that the Fed can raise interest rates to slow demand relative to supply without causing a recession. The goal is "a soft landing, with inflation coming down and unemployment holding steady."

(2) Powell acknowledged that the odds aren't in the Fed's favor. However, he found "some grounds for optimism" in the three episodes when the Fed raised rates without causing a recession since 1960 (in 1965, 1984, and 1994). Then again, there were nine recessions that followed tightening cycles since then. So I wish the Fed lots of luck!

(3) What about the narrowing yield spread between the 10-year and 2-year Treasuries? During the Q&A session, Powell countered that the yield spread between the 18-month forward 3-month Treasury and the current 3-month Treasury actually has steepened, signaling economic growth (*Fig. 26*).

(4) Powell's response reflects a recent *FEDS Notes* titled "(Don't Fear) The Yield Curve, Reprise." The authors discuss their "near-term forward spread," which "closely mirrors—and can be interpreted as—a measure of market participants' expectations for the trajectory of Federal Reserve interest rate policy over the coming year and a half."

(5) The authors state that there is no reason to fear the 10-2 spread, or any other spread. They also claim that "the perceived omniscience" of the spread that "pervades market

commentary is probably spurious." Furthermore, the "spread and its inversions would have provided no incremental information about future economic conditions if one were monitoring … the near-term forward spread," which they say is more transparent to read.

(6) Even more transparent and available in real time are the spreads between both the 2-year Treasury yield and the 12-month FFR futures and the current FFR. Both spreads have widened from around zero last summer to 180bps and 205bps on Friday. When market participants start to anticipate a recession, those two spreads should start to narrow.

Calendars

US: Mon: Dallas Fed Manufacturing Index; Goods Trace Balance. **Tues**: Consumer Confidence 107.0; JOLTS Report; S&P/CS Composite 20-City Index 1.3%m/m/18.3%y/y; API Weekly Crude Oil Inventories; Williams. (Bloomberg estimates)

Global: Mon: Japan Unemployment rate 2.8%; BOJ Summary of Opinions; Bailey. **Tues:** Germany Retail Sales 1.8%m/m/9.8%y/y; Germany Gfk Consumer Climate -12.0; Germany Import Price Index 20%m/m/26.9%y/y; France Consumer Confidence 94; Spain Retail Sales; UK Nationwide HMI; Japan Retail Sales -0.3%. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index rose 1.7% last week to 5.9% below its record high on December 27. The index ranked 15th of the 48 global stock markets we follow in a week when 24 of the 48 countries rose in US dollar terms and the AC World ex-US index gained 0.3% to 11.0% below its June 15, 2021 record high. Canada was the only country to trade at a record high in dollar terms during the week. EM Latin America was the best-performing region last week with a gain of 6.5%, followed by EMEA (1.5%). The biggest underperformers were EMU (-1.6), EM Asia (-0.7), EM Eastern Europe (-0.6), BRIC (-0.2), and EAFE (0.1). Brazil was the best-performing country last week, rising 8.5%, followed by Colombia (7.5), Argentina (6.8), Norway (5.2), and Israel (5.0). Among the 24 countries that underperformed the AC World ex-US MSCI last week, Ireland dropped 7.4%, followed by Denmark (-4.6), Sweden (-4.1), Austria (-3.9), New Zealand (-3.8), and Egypt (-3.8). The US MSCI's ytd ranking improved to 24/49 from 27/49 a week earlier, with

its 5.4% decline is less than the 7.0% drop for the AC World ex-US. EM Latin America has risen 24.9% ytd and is the only region outperforming the AC World ex-US. The laggards: EM Eastern Europe (-79.4), EMEA (-25.2), BRIC (-15.4), EMU (-13.4), EM Asia (-10.3), and EAFE (-7.6). The best country performers so far in 2022: Peru (38.2), Brazil (33.0), Chile (30.2), Colombia (29.6), and South Africa (18.1). Apart from Russia, in which investors have lost 100%, here are the worst-performing countries ytd: Sri Lanka (-40.8), Hungary (-23.6), Austria (-23.2), Ireland (-21.1), and Egypt (-19.8).

S&P 1500/500/400/600 Performance (*link*): Two of these three indexes rose last week. LargeCap was the best performer with a gain of 1.8%, ahead of MidCap (0.2%) and SmallCap (-0.6). LargeCap is now 5.3% below its record high on January 3. MidCap ended the week 6.8% below its record high on November 16, and SmallCap dropped to 9.2% below its November 8 record high. Twenty-three of the 33 sectors rose last week, down from 29 rising a week earlier. MidCap Energy was the best performer for the week with a gain of 11.1%, followed by SmallCap Energy (10.3%), LargeCap Energy (7.4), LargeCap Materials (4.1), and MidCap Materials (4.0). SmallCap and MidCap Consumer Discretionary were the biggest underperformers last week with declines of 5.6% and 3.1%, respectively, followed by MidCap Industrials (-2.0), SmallCap Health Care (-1.9), and SmallCap Industrials (-1.5). In terms of 2022's ytd performance, all three indexes are down ytd. MidCap is down 4.6% ytd, relatively close to the declines for LargeCap (-4.7) and SmallCap (-5.0). Eight of the 33 sectors are positive so far in 2022, up from five a week earlier. Energy continues to dominate the top performers: SmallCap Energy (47.3), LargeCap Energy (42.2), MidCap Energy (37.5), MidCap Materials (9.7), and SmallCap Materials (2.9). The biggest ytd laggards: SmallCap Consumer Discretionary (-15.0), MidCap Consumer Discretionary (-13.8), SmallCap Health Care (-11.3), LargeCap Communication Services (-11.3), MidCap Health Care (-9.8), and LargeCap Consumer Discretionary (-9.8).

S&P 500 Sectors and Industries Performance (*link*): Ten of the 11 S&P 500 sectors rose last week and five outperformed the composite index's 1.8% rise. That compares to a 6.2% gain for the S&P 500 a week earlier, when 10 sectors rose and four outperformed the index. Energy was the top performer with a gain of 7.4%, ahead of Materials (4.1%), Utilities (3.5), Tech (2.3), and Communication Services (2.1). The worst performers: Health Care (-0.2), Real Estate (0.4), Consumer Discretionary (1.1), Industrials (1.2), Consumer Staples (1.3), and Financials (1.7). The S&P 500 is down 4.7% so far in 2022, with three sectors in positive territory and seven ahead of the index. That's compares to just one sector positive ytd a week earlier. The best performers in 2022 to date: Energy (42.2), Utilities (1.7), Financials (1.2), Materials (-1.5), Industrials (-2.0), Consumer Staples (-2.7), and Health Care (-3.3). The ytd laggards: Communication Services (-11.3), Consumer Discretionary (-

9.8), Real Estate (-9.0), and Tech (-8.8).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 1.8% last week and improved relative to its 50-day moving average (50-dma) and 200-day moving average (200-dma) for a second straight week. The index closed above its 50-dma for a second week after being below for nine weeks, and closed above its 200-dma for the first time in seven 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 an 11th week, as the index improved to 3.1% above its falling 50-dma from 0.9% above its falling 50-dma a week earlier. That's up from a 23-month low of 7.5% below its 50-dma in late February and compares to a 27-week high of 4.9% in early November. 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 1.2% above its rising 200-dma from 0.4% below its rising 200-dma a week earlier. That's up from a 23-month low of 6.8% below its falling 200-dma on March 14 and is down sharply from 10.8% above its rising 200-dma 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 during the Great Virus Crisis on March 23, 2020—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*): All 11 S&P 500 sectors traded above their 50-dmas last week, up sharply from just four doing so a week earlier. Several weeks earlier, Energy and Utilities had been the only sectors above their 50-dma. However, just four sectors have a rising 50-dma, up from two a week earlier as Materials and Utilities turned higher in the latest week and joined Energy and Health Care in that club. Looking at the more stable longer-term 200-dmas, Communication Services and Consumer Discretionary were the only sectors still below that measure last week as Tech moved back above. For perspective, at the depths of the Great Virus Crisis in April 2020, Health Care was the only sector trading above its 200-dma. Ten sectors have a rising 200-dma, up from eight a week earlier as Industrials and Materials turned up in the latest week. Communication Services is the sole remaining member of the declining 200-dma club.

US Economic Indicators

Durable Goods Orders & Shipments (*link*): Core capital goods shipments continued to reach new record highs in February, while core capital goods orders were stalled around January's record high. Nondefense capital goods shipments excluding aircraft (used in calculating GDP) has climbed every month but one since its April 2020 bottom, rising 0.5% in February and 34.1% over the period. Meanwhile, core capital goods orders (a proxy for future business investment) slipped 0.3% in February, only the second loss since its April 2020 bottom—and is 33.8% above that bottom. Orders for total durable goods posted its first decline in five months, sinking a larger-than-expected 2.2%—with declines in the volatile auto and aircraft components accounting for most of the decline. Excluding transportation, durable goods orders ticked down 0.6% from January's record high, only its second decline in 22 months, up 37.0% over the period. Orders for electrical equipment and appliances hit a new record high last month, along with other durable goods, while orders for machinery and fabricated metals were little changed around their record highs.

Regional M-PMIs (*link*): Four Fed districts (New York, Philadelphia, Richmond, and Kansas City) now have reported on manufacturing activity for March and show manufacturing is growing at a sluggish rate. The composite index (to 16.4 from 12.3) did show a slight acceleration this month, though at a pace that was only half the rate of last April. Growth in the Kansas City (37.0 from 29.0), Philadelphia (27.4 from 16.0) and Richmond (13.0 from 1.0) regions accelerated this month, the latter from near zero. Meanwhile, New York's (-11.8 from 3.1) manufacturing sector contracted for only the second time since mid-2020, posting its weakest performance since May 2020's -48.5 reading at the height of the pandemic. The new orders (14.4 from 11.2) measure improved for the second month after easing to a 19-month low of 8.2 at the start of the year, as orders in the Philadelphia (25.8 from 14.2) region accelerated at a four-month high and Richmond's (10.0 from -3.0) measure moved from contraction to expansion. Billings in the Richmond (33.0 from 32.0) region held steady at a robust rate, while New York's (-11.2 from 1.4) contracted at the fastest pace since May 2020. Jobs (23.6 from 25.4) growth continued at a healthy pace, with factory hirings in the Philadelphia (38.9 from 32.3) region accelerating at a record rate, while Richmond's (23.0 from 20.0) expanded at a steady, though robust, pace. Meanwhile, New York (14.5 from 23.1) and Richmond (18.0 from 26.0) factories hired at a slower pace than last month—with New York's at roughly half the pace of recent highs.

Regional Prices Paid & Received Measures (*link*): We now have prices-paid and -received data for March 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.) Two of the regions showed an acceleration in prices paid, while two showed a slowing. Philadelphia's prices-paid measure accelerated from 69.3 in February to 81.0 this month—the highest since mid-1979, while Kansas City's (81.0 from 64.0) rebounded back toward last May's record high of 88.0. Meanwhile, New York's input prices eased for the fourth month, from 83.0 in November—which was near last May's record high of 83.5—to 73.8 in March; prices paid in the Richmond (110.5 from 122.7) region eased for the second month since reaching a record high of 143.2 in January. Prices-received measures remained in record territory, with New York's (56.1 from 54.1) gauge reaching a new record high this month, while Kansas City's (51.0 from 47.0) wasn't far from last August's record high of 57.0. In the meantime, Richmond's prices-received (91.6 from 87.7) gauge accelerated this month after slowing in February, though remains below January's record high of 112.7, while Philadelphia's prices-received (54.4 from 49.8) measure picked up a bit, though was below the November reading of 62.9, which was close to its record high of 63.8 in the mid-1970s.

Consumer Sentiment Index (*link*): The Consumer Sentiment Index (CSI) in late March was largely unchanged from mid-March's low level, with the measure falling for the third month, from 70.6 in December to 59.4 in this month—the lowest since August 2011. It has plunged 28.9 points since its recent high of 88.3 last April. Inflation concerns are the main factor driving the CSI lower, as the one-year expected inflation rate soared to 5.4% in March—the highest since November 1981; it was at 3.1% a year ago. The expectations component of the CSI plunged 14.0 points (to 54.3 from 68.3 in December) the first three months of 2022, to its lowest reading since fall 2011, while the present situation component is down 7.0 points (67.2 from 74.2) over the period to its lowest level since March 2009. They were at recent peaks of 83.5 and 97.2 during June and April of last year. Richard Curtin, the survey's chief economist notes, "When asked to explain changes in their finances in their own words, more consumers mentioned reduced living standards due to rising inflation than any other time except during the two worst recessions in the past 50 years: from March 1979 to April 1981, and from May to October 2008." A record-breaking 32% of consumers expect their overall financial position to worsen in the year ahead—the highest among responses dating back to the mid-1940s!

Pending Home Sales (*link*): "Pending transactions diminished in February mainly due to the low number of homes for sale," said Lawrence Yun, NAR's chief economist. "Buyer demand is still intense, but it's as simple as 'one cannot buy what is not for sale.'" The Pending Home Sales Index (which tracks sales when a contract is signed but the transaction has not yet closed) contracted in February for the fourth month, by 4.1% m/m and 16.2% over the period to 104.9, after rebounding 7.5% in October; these sales were

5.4% below last February's level. Sales fell in three of the four regions in February, with all down year over year. Here's a regional look at pending home sales in February: Northeast (+1.9% m/m & -9.2% y/y), South (-4.4 & -4.3), West (-5.4 & -5.3), and Midwest (-6.0 & -5.2). Yun noted that along with climbing home prices, buyers now must also deal with rising mortgage rates, and shoppers will likely want to lock in before rates increase further.

Global Economic Indicators

US PMI Flash Estimates (*link*): "US private sector expansion accelerates as demand strengthens and supply issues soften" was the headline of March's flash report. Meanwhile, price pressures remained intense—increasing at one of the fastest rates on record. The C-PMI picked up for the second month to 58.5 this month, according to flash estimates, after slowing the prior three months, from 57.6 in October to 51.1 in January, supported by pent-up demand and the lowest Covid-19 containment measures since the pandemic began. The C-PMI was at a record high of 68.7 last May. The NM-PMI (to 58.9 from 51.2 in January) and M-PMI (58.5 from 55.5) climbed to their highest levels in eight months and seven months, respectively, with both sectors recording their best growth rates since last June and inflows of new business soaring at a rate not seen since the strong rebound during Q2-2021. The report notes March's sharp acceleration was broad-based and "signaled a further recovery from January's Omicron-induced slowdown." The hospitality sector drove the improvement in the service sector this month, boosted by the loosening of pandemic restrictions, while the manufacturing sector got a boost from falling supply bottlenecks to the lowest in 14 months. Price pressure eased a bit in March, though remained elevated, and there were concerns that a further upward "lurch in costs" means inflation has not yet peaked.

Eurozone PMI Flash Estimates (*link*): Russia's invasion of Ukraine slowed economic growth in the eurozone in March, offsetting the boost in demand from the further reopening of the economy after pandemic-related restrictions. Meanwhile, firms' input and output prices rose at record rates as commodity prices soared and supply-chain delays were the highest since November. The C-PMI slowed to 54.5 in March, according to flash estimates, after accelerating to a five-month high of 55.5 in February. The NM-PMI (to 54.8 to 55.5) fell to a two-month low, while the M-PMI (57.0 from 58.2) was the lowest in five months—though still showed robust growth. Looking at the two largest Eurozone countries, France saw growth accelerate this month at its fastest pace since last July, with the C-PMI (56.2 from 55.5) climbing to an eight-month high driven by the service sector. An easing of Covid

restrictions boosted the NM-PMI (57.4 from 55.5) after its fall to a nine-month low of 53.1 at the start of the year, while the M-PMI (54.8 from 57.2) experienced a noticeable slowing in demand as raw material and supply shortages hindered growth in the manufacturing sector. Germany's C-PMI (54.6 from 55.6) eased a bit this month due to a combination of rising prices, material shortages, geopolitical uncertainty, and Covid-related absences—though still managed a respectable level of growth. Germany's M-PMI (57.6 from 58.4) showed robust growth in the manufacturing sector despite recent headwinds, while the NM-PMI (55.0 from 55.8) also showed solid growth within the service sector. Output growth in the rest of the region as a whole showed March's rate was the slowest in a year, barring the near stalling seen in January amid the onset of the Omicron wave—with growth slowing in both sectors, but most notably in services.

Japan PMI Flash Estimates (*link*): Activity in Japan's private sector contracted in March for the third month, according to the flash estimate, though the rate of decline eased. The C-PMI (49.3 from 45.8) climbed back toward the breakeven point of 50.0 as a reduction in Covid-19 cases allowed a lifting of the quasi-state of emergency across Japan, boosting the NM-PMI (48.7 from 44.2) back near 50.0. Meanwhile, the M-PMI improved a bit to 53.2 this month, after slowing from 55.4 to 52.7 in February, as manufacturing output (50.6 from 49.3) moved from contraction to expansion. Japanese firms reported a further acceleration in price pressures, with input prices rising at the fastest pace since summer 2008.

Germany Ifo Business Climate Index (*link*): "The German economy is facing troubled and uncertain times," according to Ifo economist Klaus Wohlrabe. Ifo's business climate index plunged to 90.8 in March from a downwardly revised 98.5 in February, on concerns that the Germany economy could fall into recession due to rising energy prices and the stability of supply chains in the wake of the war in Ukraine. The expectations index tanked 13.3 points (to 85.1 from 98.4) this month, while the current situation (97.0 from 98.6) component took a small step back. The manufacturing index (to -3.3 from 23.1) posted its steepest monthly decline on record, with the expectations component plunging a record 40.5 points (-29.5 from 11.0). The service sector (0.7 from 13.6) measure slowed to near zero—all expectations (-16.3 from 8.1). The present situation (19.3 from 19.2) gauge barely budged. Sentiment in the construction sector (-12.2 from 8.0) turned negative, with expectations (-44.9 from -14.9) falling further into negative territory, while current conditions (27.4 from 33.6) drifted lower. The business climate index in the trade sector (-12.0 from 6.6) collapsed this month, with expectations (-37.8 from -4.3) plunging a record 33.5 points and the present situation component (-0.3 to 5.2) slipping below zero.

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