Summary

Economic data for the week included a rise in retail sales, and a small increase in industrial production, while consumer sentiment fell back. U.S. consumer and producer inflation both came in a bit sticky on a monthly basis, but still well down from levels in prior months.

Equities were mixed, with little change on net in U.S. and foreign markets, despite some divergences on a regional basis. Bonds fell back with rising yields, related to higher recent inflation readings. Commodities gained, driven by energy and industrial metals.

Economic Notes

(0) **Retail sales** rose by 0.6% in February, reversing the prior month's decline, but lagged the 0.8% median forecast, and was also taken down by several negative prior month revisions. The headline sales figure was led by gains in autos, gas stations, and building supplies. Excluding these more volatile segments, from a core/control standpoint, retail sales were unchanged, which disappointed compared to the 0.4% expected, and included gains in electronics, but declines in clothing, furniture, and non-store/online sales. Retail sales are up 1.5% over the trailing 12 months, which translates to negative real growth of nearly -2% after inflation is included. This continues to provide a lackluster story on the spending side.

(0) **Industrial production** rose 0.1% in February, reversing the decline from the prior month, and just outpacing expectations for no change. Within the details, manufacturing production rose 0.8%, along with gains in auto assemblies and business equipment, each of which rose 2% on the month. Mining production (including energy extraction) rose 2%, while utilities production fell by nearly -8% upon a warmer-than-normal month, which reduced heating needs. **Capacity utilization** was unchanged at 78.3%. Year-over-year, industrial production remains down -0.2%, with declines in most categories, except for high-tech equipment, which has seen gains every month in the past year, and up 19% over the trailing 12 months, with help from CHIPS act funding and continuing reshoring of semiconductor manufacturing after the pandemic.

(-) The **Empire manufacturing index** for March fell by -18.5 points to a further contractionary level of -20.9, well below the -7.0 reading expected. New orders, shipments, and employment all declined further into contraction. Prices paid decelerated but remained in expansion. Overall, this regional series has been exceptionally volatile over the past few years, likely due to seasonality adjustments, so has been less useful than it used to be.

(0/-) The **Producer Price Index** for February rose 0.6% at a headline level, and 0.3% for core, ex-food and energy. The headline figure was led by gains in both energy (4%) and food (1%). On a year-over-year basis, headline PPI was up 1.6%, with core PPI up 2.0%. Goods prices are up 0.3% over the past year, held down by energy prices, while services prices rose 2.3%. Progress here wasn't as robust as hoped in the recent month, with services prices still sticky, though the situation hasn't radically worsened, either, showing progress on a trailing 12-month basis.

(0) The **Consumer Price Index** for February rose 0.4% on a headline basis, as did core CPI ex-food and energy, both seasonally-adjusted. The headline figure was driven by energy commodity prices rising nearly 4% on the month, while food prices were unchanged. Other areas of strength included tobacco, apparel, and used cars/trucks, each of which gained 0.5-1.0%. Airline fares ticked up nearly 4% for the month, also contributing, although a noisier data point with more seasonal effects. Shelter costs eased a bit on net, at a pace down two-tenths from the prior month at 0.4%, with actual rent a bit higher but owners' equivalent rent decelerating. Medical care prices also saw outright declines in Feb., which also may include some seasonal effects from the new year spike in Jan. In fact, quite a few items in the market basket may well include some 'payback' for the higher-than-expected price gains from January, coinciding with normal new year price increases—seasonal

adjustments attempt to capture and allow for this effect, but aren't perfect, especially when increases are larger than average.

Year-over-year, the pace of headline CPI ticked back up a tenth to 3.2%, while core CPI fell a tenth to 3.8%. Economists and financial markets were hoping for better progress than this, as inflation remains far 'stickier' at this point than hoped, with shelter up nearly 6% playing a large role. This wasn't a 'bad' CPI report by any means, with some seasonal effects convoluting the numbers more recently, but the last mile of getting CPI inflation down to the 2.0-2.5% range (on par with 2.0% core PCE inflation) is certainly proving more challenging.

(-) The preliminary March **Univ. of Michigan index of consumer sentiment** fell by -0.4 of a point to 76.5, below the median forecast calling for a small increase to 77.1. While assessments of current conditions were unchanged, expectations for the future fell slightly, pulling down the broader number. Inflation expectations for the coming year were unchanged at 3.0%, a tenth below forecast; those for the coming 5-10 years were also unchanged at 2.9%. On an anecdotal level, commentary from the survey pointed to an improvement in personal financial sentiment, but was offset by weaker business sentiment looking ahead. For personal/non-business respondents, optimism about the improvement in inflation was welcome, but offset a bit by consumers 'withholding judgment' until after the U.S. election. (It seems likely many, if not most, Americans incorrectly believe economic and financial market results are hinged on the winner of Presidential elections. Historical data shows otherwise.)

(0) **Initial jobless claims** for the Mar. 9 ending week declined -1k to 209k, below the 218k median forecast. Continuing claims for the Mar. 2 week rose 17k to 1.811 mil., but well below the 1.905k median forecast. This report included the DOL's annual update of seasonal factors (from 2019 forward), intended to reduce the pandemic's extreme distortions to estimates, as well as phase in newer models for future seasonal adjustments. These changes appeared to pull the trend of jobless claims to a fair degree lower than the earlier estimates, with levels for the past year entirely lying within a range of 200-250k. Regardless, claims levels remain low and don't point to any stress in labor markets.

Market Notes

Period ending 3/15/2024	**1 Week %**	**YTD %**
DJIA	0.01	3.22
S&P 500	-0.09	7.63
NASDAQ	-0.68	6.58
Russell 2000	-2.02	0.89
MSCI-EAFE	-1.32	4.38
MSCI-EM	-0.12	1.38
Bloomberg U.S. Aggregate	-1.23	-1.72

U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2023	5.40	4.23	3.84	3.88	4.03
3/8/2024	5.46	4.48	4.06	4.09	4.26
3/15/2024	5.48	4.72	4.33	4.31	4.43

U.S. stocks were mixed last week, with little change in large caps and declines for small caps. Tuesday's CPI release didn't provide the hoped-for sharper deceleration, but didn't deteriorate further, which may have provided some relief, although interest rates continued to rise on an expected longer runway for the current Fed policy pause. Friday was a triple-witching day, which happens four times a year, featuring a compilation of option expirations and typically enhancing volatility. By sector, energy rose nearly 4% followed by materials, while consumer discretionary fell back about a percent. Real estate also declined by nearly -3%, being sensitive to rising yields during the week.

Foreign stocks were mixed, with minor gains in Europe and the U.K. while Japan fell back sharply. European sentiment has been led by stronger earnings results and more solidified conviction about a June ECB rate cut, as well as U.K. GDP rising just over zero. By contrast, despite strong sentiment toward Japan this year, based on progress in corporate governance and pro-shareholder reforms, the chances of rising interest rates (away from negative short-term rates) have weighed on the mood. Emerging markets were flattish on net, with strong gains in China of several percent offset by declines in India and elsewhere. Chinese inflation has improved, moving from outright deflation into positive territory, coupled with improved sentiment about increased government stimulus measures to improve financial markets on the edges.

Bonds fell back as yields rose across the board. This was driven by stickier-than-expected inflation data, which seems to further solidify a later-than-expected starting point for Fed rate cuts. Senior floating rate bank loans were the only positive-returning bond segment for the week. Foreign bonds underperformed, as a result of the stronger dollar.

Commodities gained across all categories last week, led by energy and industrial metals. Crude oil rose over 3% last week to $81/barrel, partially resulting from Ukrainian drone strikes on Russian refineries, as well as stronger sentiment surrounding global demand and lower U.S. supplies.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.