Yardeni Research

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Morning Briefing

High Noise-To-Signal Ratios Unnerving Stock Investors

Check out the accompanying chart collection.

Executive Summary: It's getting harder to make out the shape of the economy through the fog of Trump 2.0's firings and tariffs. Indeed, one regional Fed bank sees real GDP contracting this quarter, another sees it expanding, and bad weather has distorted signals from several economic indicators. No wonder the stock market's default position is risk-off and stocks have been correcting. We've lost some confidence that the economy will avoid a recession, raising the odds of one to 35%, up from 20%, last week. And we're wondering whether Trump Tariff Turmoil 2.0 might trigger a rare kind of flash crash unaccompanied by a recession. … Also: Dr Ed reviews "A Complete Unknown" (+ +).

YRI Weekly Webcast. Join our live webcast with Q&A on Mondays at 11 a.m., EST, with Ed and Eric. You will receive an email with the link one hour before showtime. Replays of the weekly webcasts are available *here*.

Strategy I: The Economy's High NTSR. The economy's noise-to-signal ratio (NTSR) has been rising rapidly in recent weeks. As a result, it has gotten harder to get a read on the economy lately. Washington's rapidly increasing NTSR is also troubling. Indeed, last Wednesday, our *Morning Briefing* was titled "Trump Turmoil Raises Odds Of A Recession." We raised our subjective odds of a recession this year from 20% to 35%.

We are considering raising the odds again given that Trump officials recently acknowledged that they expect that their policies will cause some short-term pain. The near-term outlook for the economy and stock market has soured rapidly over the past few weeks.

The DOGE Boys have been firing government workers faster than we expected. That might slow now that various Cabinet secretaries reportingly are pushing back against Elon Musk's terminators. The Trump administration's tariff policies are instigating a retaliatory trade war rather than the negotiations to reduce tariffs that we had expected. More "reciprocal" tariffs will be imposed on April 2 by the Trump administration, which also aims to raise revenues with tariffs, implying that some of the tariffs will be permanent.

Stock investors are confused and seem to have concluded that the economy may be falling quickly into a recession. We've been betting on the economy's resilience, but we can understand why risk-off is the stock market's current default option.

The Nasdaq is in correction territory, and the S&P 500 seems to be headed in the same direction (*Fig. 1*). The Nasdaq fell below its 200-day moving average at the end of last week and has found support at the bottom end of its short-term upward trending channel. There is another uptrend line that started in 2010, which would provide support for the Nasdaq but in bear market territory (*Fig. 2*). The Nasdaq index is currently 9.8% below its record high of 20173.89 on December 16.

The S&P 500 is down 6.1% from its record high on February 19 (*Fig. 3*). It is slightly below its 200-day moving average. It has been a very rapid decline. It reminds us of the plunge in the S&P 500 during the Kennedy Slide of 1962 (also known as the "Flash Crash of 1962"). The stock market did not experience a stable recovery until after the end of the Cuban Missile Crisis in October 1962 (*Fig. 4*). The crash was partly attributable to a big price increase by US Steel that was loudly and successfully opposed by the Kennedy administration. This time, the selloff is largely attributable to Trump Tariff Turmoil 2.0.

Corrections are caused by fears that the economy is falling into a recession. During these events, stock prices fall 10%-20%. But they recover relatively quickly once those fears abate. During the bull market from 2009 through 2020, we *counted* 66 "panic attacks," which included a few corrections. Bear markets occur when the correction turns into a decline of more than 20%, usually because a recession happens. There have been only three bear markets that occurred without an accompanying recession: the one in 1962, the one late in 1987, and the one in 2022.

There is certainly a recession scare currently. Our bet on the resilience of the economy is keeping us in the correction camp. However, Trump Tariff Turmoil 2.0 has the potential to cause a fourth bear market without a recession.

Yes, but what about the latest batch of economic indicators that are heightening recession fears? Consider the following:

(1) *Atlanta Fed versus New York Fed Nowcasts*. The Atlanta Fed's *GDPNow* tracking model is currently showing Q1's real GDP decreasing by 2.4% (q/q saar). However, the New York

Fed's *Nowcast* tracking model shows it increasing 2.7%! Go figure.

We usually favor the Atlanta Fed model over the New York Fed one. However, this time, we are betting on the New York Fed's forecast. We don't know why the two models differ so much.

What we do know is that the Atlanta Fed estimate dropped from +2.3% to -1.5% following the release on February 28 of a big jump in January's imports, led by an odd jump in gold imports. In addition, on that same day, January's real personal consumption expenditures showed a big decline of -0.5% m/m. The GDPNow estimate was lowered again to -2.8% on March 3 after the release of the ISM manufacturing index for February. It is currently -2.4%.

(2) *Surging (gold) imports*. In a March 7 *post* on LinkedIn, Pat Higgins, the creator of GDPNow, explained that much of the widening of the trade deficit in January was due to an increase in nonmonetary gold imports from $13.2 billion in December to $32.6 billion in January. This accounted for nearly 60% of the widening of the goods trade deficit. Higgins concluded: "Removing gold from imports and exports leads to an increase in both GDPNow's topline growth forecast and the contribution of net exports to that forecast, of about 2 percentage points." That's obviously a significant swing.

(3) *Weak (and strong) retail sales*. Furthermore, the drop in real consumer spending during January undoubtedly was caused by inclement weather that month, which was the coldest since 1988. Industrial output of utilities soared to a record high in January (*Fig. 5*). Auto sales fell sharply in January and rebounded slightly in February (*Fig. 6*).

Retail sales excluding food services dropped 1.2% m/m during January. Again, we blame the weather. Nevertheless, it still rose 4.0% y/y (*Fig. 7*). The Redbook retail sales index rose to 6.1% y/y during the February 28 week. Then again, the Consumer Confidence Index survey showed a sharp decline in vacation plans during February (*Fig. 8*).

Furthermore, Target said on Tuesday that it expects little to no sales growth this year, with CEO Brian Cornell telling CNBC that higher prices are on the way. Walmart and electronics retailer Best Buy also recently warned about expectations for 2025.

(4) *Mixed signals from the PMIs.* February's purchasing managers added to the dissonance provided by the latest batch of economic indicators. The M-PMI dipped to 50.3 in February from 50.9 in January (*Fig. 9*). However, those were the first back-to-back readings above 50.0 since September and October 2022. Then again, February's M-PMI subindexes for

new orders (48.6) and employment (47.6) fell below 50.0. The regional business surveys conducted by five of the 12 Fed district banks showed better growth during February.

February's NM-PMI remained solidly above 50.0 at 53.5 (*Fig. 10*). All its major subindexes did the same. Just as we expected, the S&P Global flash NM-PMI provided a misleadingly weak estimate of the ISM version of this index (*Fig. 11*).

Strategy II: Labor Market's High NTSR. Friday's employment report for February also provided plenty of mixed signals. The payroll employment series (which measures the number of full-time and part-time jobs) rose 151,000, while the household employment series (which measures the number of workers with one or more jobs) fell 588,000. The latter is very volatile. It was up 2.2 million during January following an annual benchmark revision. The former was weaker than we expected, as we had anticipated a rebound from January's cold blast. Well, it turns out that the weather was also bad in February. Consider the following:

(1) *Bad weather again?* The household employment *survey* shows that 404,000 nonagricultural workers were not at work during February, the most since February 2014. The *survey* also found that 1.31 million nonagricultural workers who work full time had to work part time last month because of the weather. That's the most since February 2021 (*Fig. 12*).

We had expected average weekly hours to rebound in February. Instead, it remained flat at January's level. If bad weather depressed both months' readings, then there should be a solid rebound in average weekly hours during March.

(2) *Payroll employment*. While February's payroll employment gain was weaker than we'd expected, the three-month average gain was 200,000 (*Fig. 13*). That's a robust reading. Excluding government, the three-month average was 169,000. That's also a solid reading.

The questions ahead are how much will federal government employment fall in coming months as a result of the activities of the DOGE Boys, and will private payroll gains more than offset the losses of federal jobs? We think so, though this is certainly one of the great uncertainties resulting from Trump Turmoil 2.0. The losses started in February with federal government employment down 10,000 (*Fig. 14*). This number could potentially double, triple, or even quadruple in coming months.

(3) *Earned income proxy.* During February, private-sector payrolls rose 0.1%, the average

workweek for private-sector workers was unchanged, and average hourly earnings in the private sector rose 0.3%. So our Earned Income Proxy edged up 0.4% m/m (*Fig. 15*). We expect bigger rebounds in February's retail sales and total consumer spending from January's deep freeze, unless bad weather kept shoppers at home during February too.

(4) *Unemployment and layoffs.* The bad news is that February's *Challenger Report* showed that government-announced layoffs totaled 62,240 (*Fig. 16*). The private sector isn't likely to significantly offset such job cuts if they all hit in March and April, especially since the Trump administration is planning even more layoffs.

In the private sector, announced layoffs in retailing during February totaled 38,960, the second highest tally on record. Retail payrolls fell 6,300 during the month. Information employment rose 5,000 last month. Announced layoffs in technology totaled 14,550. This means that we should expect sizeable increases in weekly initial and continuing unemployment claims in coming weeks.

While the official headline unemployment rate remained low at 4.1% during February, the U-6 rate rose to 8.0%, the highest since 2021 (*Fig. 17*). The latter was boosted by more workers employed part-time for economic reasons (*Fig. 18*). Both jobless rates are bound to increase during the next few months.

Movie. "A Complete Unknown" (+ +) is a 2024 musical drama about Bob Dylan, starring Timothée Chalamet. Lots of Dylan's great songs are featured, with Chalamet doing a good job of singing them. Dylan comes across as self-absorbed and obsessed with his privacy. He has a couple of girlfriends in the film, including Joan Baez. Both women are frustrated that he doesn't share more about himself with them. He comes across as socially awkward and a complete unknown. However, he does relate well to Woody Guthrie, Pete Seeger, and Johnny Cash. (See our movie reviews *archive*.)

Calendars

US: **Mon:** Consumer Inflation Expectations 3.2%. **Tues:** Small Business Optimism Index 101; JOLTS 7.71m. (FXStreet estimates)

Global: **Mon:** Eurozone Industrial Production 1.5%; Eurozone Investor Confidence; BoE Quarterly Bulletin; Japan GDP 0.7%q/q; Japan GDP Deflator 2.8%y/y; Japan Household Spending 3.6%y/y; Nagel. **Tues:** Japan Machine Tool Orders 4.7%y/y; Eurogroup Meeting.

(FXStreet estimates)

Strategy Indicators

Global Stock Markets (US$ Performance) (*link*): The US MSCI index tumbled 3.2% last week for the worst performance in the world; the AC World ex-US index soared 2.5%. The US MSCI finished the week 6.4% below its January 23 record high. The AC World ex-US improved to 2.3% below its June 15, 2021 record high, but it had been just 0.7% below at the end of September. Europe was the best performing region last week, with a gain of 3.6%, followed by EAFE (3.0%), EM Asia (3.0), EM (2.9), EM Latin America (2.8), and the AC World ex-US. EMEA was the worst regional performer, albeit with a gain of 2.2%. The China and Germany MSCI indexes performed the best among country indexes last week, with gains of 6.5%, followed by South Africa (6.0), France (4.8), and Hong Kong (4.5). The US was the week's worst country performer, falling 3.2%, followed by Taiwan (-2.5), Canada (-2.4), Australia (-1.5), and the UK (1.2). On a ytd basis, the US MSCI index is now down 2.0% and trails the 7.9% gain for the AC World ex-US. Among regional indexes, EMU is ahead of the pack ytd, leading with a gain of 16.9%, followed by Europe (14.6), EAFE (10.3), EM Latin America (9.8), and the AC World ex-US. The worst performing regions so far in 2025: EM Asia (4.2), EM (4.9), and EMEA (7.2). Looking at the major selected country markets that we follow, Spain is the best ytd performer, with a gain of 22.9%, followed by Germany (20.7), Sweden (20.2), China (19.8), Switzerland (15.5), and France (15.5). The worst performing countries ytd: India (-8.6), Taiwan (-3.8), the US (-2.0), Australia (-1.3), and Canada (0.4).

US Stock Indexes (*link*): All 48 of the major US stock indexes that we follow fell for the week, compared to 12 rising in the prior week and just one the week before that. The S&P 500 Transportation and S&P 500 LargeCap Pure Value indexes were the best performers, albeit with declines of 1.0%, ahead of Dow Jones 15 Utilities (-1.4%) and S&P 500 LargeCap Value (-1.6). The S&P 500 LargeCap Pure Growth index, with a decline of 6.8%, was the worst performer, followed by Nasdaq Industrials (-5.1), Russell 2000 Growth (-4.5), and S&P 500 LargeCap Growth (-4.5). Twelve of the 48 indexes are still positive so far in 2025, down from 24 rising ytd a week earlier, 47 of 48 rising ytd in mid-February, and 46 rising in 2024. The S&P 500 Transportation index is in the top spot as the best performer so far in 2025, with a gain of 3.8%, ahead of S&P 100 Equal Weighted (2.9), Russell 1000 Value (2.3), Russell 3000 Value (2.0), and S&P 500 LargeCap Pure Value (1.8). The worst performing major US stock indexes ytd: S&P 600 SmallCap Pure Value (-8.3), Russell 2000 Growth (-8.3), Nasdaq Industrials (-7.8), Russell 2000 (-6.9), and S&P 400 MidCap Pure

Growth (-6.9).

S&P 500 Sectors Performance (*link*): Just one of the 11 S&P 500 sectors rose last week, but seven beat the S&P 500's 3.1% decline. That compares to seven S&P 500 sectors rising a week earlier, when the same seven were ahead of the S&P 500's 1.0% decline. The outperformers last week: Health Care (0.2%), Materials (-1.2), Consumer Staples (-1.5), Industrials (-1.6), Real Estate (-1.7), Communication Services (-2.0), and Utilities (-2.4). The underperformers last week: Financials (-5.9), Consumer Discretionary (-5.4), Energy (-3.8), and Information Technology (-3.4). The S&P 500 is now down 1.9% ytd, with nine of the 11 sectors in positive territory and a whopping nine ahead of the index. Health Care wears the crown as the best ytd performer, with a gain of 8.3%, ahead of Consumer Staples (6.0), Real Estate (4.2), Materials (4.1), Industrials (1.7), Utilities (1.5), Energy (1.4), Financials (1.4), and Communication Services (0.1). These two sectors are lagging the S&P 500 so far in 2025: Consumer Discretionary (-10.6) and Information Technology (-7.5).

US Economic Indicators

Employment (*link*): Employment was below expectations in February, and revisions to December and January showed a slight downtick over the two-month period. *Payroll employment* advanced 151,000 in February, below the 160,000 expected gain but higher than January's increase—which was impacted by wildfires and weather. Revisions show January's (to 125,000 from 143,000) gain was revised lower, while December's (323,000 from 307,000) was revised higher, for a net loss of 2,000. *Private payroll* employment climbed 140,000 in February, above January's 81,000 gain, with the *service-providing* sector adding 106,000 to payrolls last month, following 88,000 in January, and the goods-producing sector adding 34,000 jobs after a 7,000 shortfall in January. *Health care* added 52,000 to payrolls in February, in line with the average monthly gain of 54,000 over the prior 12-month period, led by health care services (26,000), hospitals (15,000), and nursing and residential care facilities (12,000). Employment in *financial activities* climbed 21,000 last month, quadruple the prior 12-month average monthly gain of 5,000. Employment continued to trend higher in real estate and rental & leasing (10,000) and insurance carriers (5,000), while commercial banking shed 5,000 jobs. *Transportation & warehousing* added 18,000 to payrolls, continuing its upward trend, in line with the average monthly gain the prior 12 months, led by couriers & messengers (24,000), with air transportation (4,000) also contributing. *Social assistance* also added to February's increase, climbing 11,000, though was roughly half the average monthly gain recorded over the prior 12-month span. *Manufacturing* added 10,000 to payrolls in February, after a string of monthly declines. Total *government* payrolls rose 11,000 in February—the smallest gain since last April, led by a 20,000 increase in local government employment, with state (1,000) government employment basically flat. Meanwhile, the federal government shed 10,000 jobs during the month—the worst month for job losses since June 2022, with the Postal Service cutting 3,500 jobs.

Wages (*link*): Average hourly earnings (AHE) for *all workers on private payrolls* increased 0.3% in February, while the three-month rate increased 3.6% (saar), below the yearly rate of 4.0%. The yearly rate is up from 3.6% in July, which was the lowest since May 2021, and has been hovering around 4.0% since August; the yearly rate peaked at 5.9% in March 2022. *Service-providing industries showing three-month rates above their yearly rates*: information services (0.4% & 4.6% y/y), professional & business services (4.1 & 5.1), retail trade (1.6 & 2.7), utilities (1.5 & 3.0), and wholesale trade (2.3 & 2.3). *Service-providing industries showing three-month rates below their yearly rates:* leisure & hospitality (3.9 & 3.7), financial services (5.8 & 4.2), and other services (5.2 & 4.7). *Service-providing industries with three-month and yearly rates nearly identical:* education & health services (3.0 & 4.1) and transportation & warehousing (2.2 & 2.5). Within *goods-producing* industries, the annualized three-month rate were was above the yearly rate for *nondurable goods* (5.8 & 4.0) manufacturing and below the yearly rates for *durable goods* (3.5 & 4.4) manufacturing.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, climbed to yet another a new record high in February, increasing 0.4%. *Average hourly earnings* in February advanced 0.3%, while *aggregate weekly hours* ticked up 0.1%—with private payroll employment edging up 0.1% and the average workweek flat. Over the past 12 months, our EIP advanced 4.6%—with aggregate weekly hours up 1.6% and average hourly earnings up 4.0%.

Unemployment (*link*): The *number of unemployed* rose 203,000 in February to 7.1 million, with the *unemployment rate* edging up from 4.0% to 4.1%—remaining in a narrow range from 4.0% to 4.2% since last May. *Household employment* sank 588,000 in February, while the *labor force* was 385,000 lower than in February. The *participation rate* moved down from 62.6% in January to 62.4% in February—the lowest since January 2023. *By race:* The unemployment rates in February fell for Asians (to 3.2% from 3.7%) and African Americans (6.0 from 6.2) and rose for Hispanics (5.2 from 4.8) and Whites (3.8 from 3.5). *By education:* Unemployment rates rose in February for those with less than a high school diploma (to 6.0 from 5.2) and those with a bachelor's degree or higher (2.5 from 2.3), while rates fell for those with a high school degree (4.2 from 4.5); the rate for those with some college or an associate's degree was unchanged at 3.5%.

Global Economic Indicators

Eurozone Retail Sales (*link*): Eurozone retail sales fell in January and hasn't posted a gain since September. *Headline retail sales* slipped 0.3%, weaker than the consensus forecast of a 0.1% uptick, after posting no growth during November and December and a 0.3% shortfall in October. The *components of retail sales* show spending on *non-food products ex auto fuels* posted the biggest decline in January, falling for the third time in four months, by 0.7% m/m and 1.1% over the period, while *automotive fuels* was also a drag on retail sales in recent months, dropping four of the past five months by 0.3% m/m and 0.9% over the five months through January. Meanwhile, spending on *food, drinks, and tobacco* rose for the first time in five months, climbing 0.6% in January after falling 0.8% the last four months of 2024. January data are available for *three of the Eurozone's four largest economies*, with Germany (0.1% m/m & 2.7 y/y) posting a small uptick in January, while France (-0.1% & 0.7) posted a small downtick, while Italy (-0.4% & -0.3) recorded the weakest performance of the three during the month. On a year-over-year basis, Germany showed solid growth, with France posting a fractional gain, while Italy posted a fractional loss.

Germany Factory Orders (*link*): Germany *factory orders* recorded the biggest monthly decline in a year during January, and there was a downward revision to December orders. *Manufacturing orders* plunged 7.0%, well exceeding the consensus estimate of a 2.8% drop, while December's gain was revised down to show a 5.9% advance, a percentage point below the initial 6.9% increase. The decline in orders was widespread, with only electrical equipment (4.8%) orders posting a gain in January. There were double-digit declines in orders for aerospace, shipbuilding, railway, and military vehicles (-17.6%), computers & electronic products (-12.9), and machinery & industrial equipment (-10.7). *Excluding large-scale orders*, overall new orders slumped 2.7% during January. *Domestic orders* plunged 13.2% in January, while *foreign orders* fell 2.3%, with orders from *within the Eurozone* down 2.5% and billings from *outside the Eurozone* down 2.3%. *By sector*, capital (-11.0%) goods orders posted a double-digit loss, while both consumer (-2.0) and intermediate (-1.4) goods orders also fell during the month—though in the low single digits.

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