

## Purchasing Manager Indexes

The February manufacturing PMI fell from 51.9 to 50.8 while the services PMI at 49.4, down from 53.4.

**Our Take:** Surprisingly, the services PMI fell into contractionary territory for the first time since 2013. Worry over the economic effects of the coronavirus as well as uncertainty surrounding the U.S. presidential election this year clearly weighed on the survey. These concerns do not appear to be abating soon, meaning first quarter GDP could be weak.

## Coronavirus

While the rate of new cases of COVID-19 in China has fallen according to official statistics the number of cases in South Korea and Japan has risen sharply. Economic releases are also beginning to show the effects of the epidemic on growth as Chinese demand and global supply chains are impacted by the outbreak. Capital markets are continuing risk-off moves in response to the possible spread of the virus.

**Our Take:** Part of the market moves are in response to perceived greater tail risk, but a significant part is due to concerns about the severity and duration of the epidemic's negative effect on growth. Investors are likely to remain cautious until they gain more confidence that the outbreak is contained and that growth will largely snap back once the virus is no longer a threat.

## FOMC Minutes





This week, the Fed released the minutes from its January FOMC meeting. The minutes support the Fed's overall positive assessment of the economy and current stance on monetary policy. As the committee reviewed risks to their outlook, they noted the coronavirus was a "new risk to the global growth outlook" that warranted "close watching."

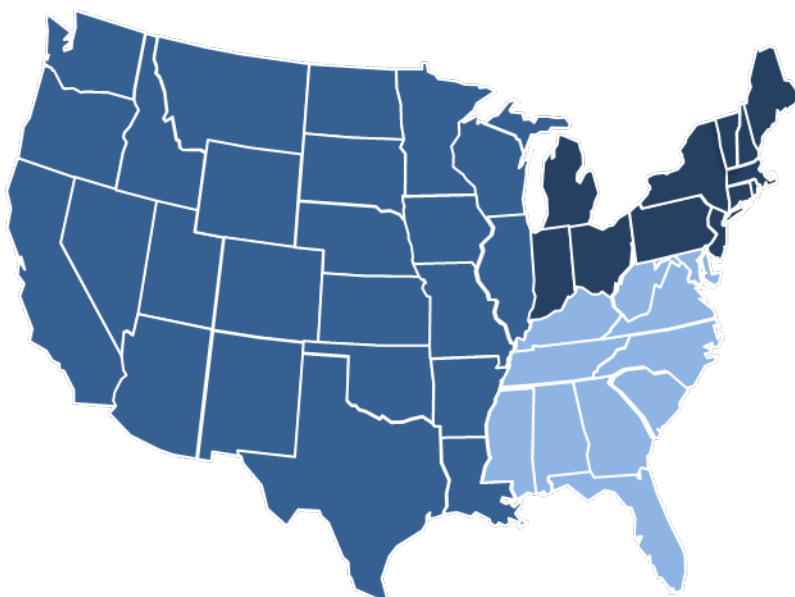
**Our Take:** These minutes were taken when the coronavirus outbreak was in its early stages. Even then, the Fed recognized the potential risks. If the virus continues to worsen, economic fallout in China could have negative spillover effects on the U.S. economy. This could force the Fed to take a more accommodative policy stance sooner than anticipated.

## Municipals

Illinois Democratic Governor J.B. Pritzker delivered his budget address this week, providing details on the 2021 budget plan. The proposed balanced budget includes \$1.4 billion to be placed in reserves until the results of graduated income tax proposal on the November ballot are known. When addressing the reserve funds, some of which could have been used for education funding, Governor Pritzker stated that "we cannot responsibly spend for these priorities until we know with certainty what the state's revenue picture will be".

**Our Take:** Governor Pritzker campaigned on implementing a graduated income tax, a progressive tax which increases rates on wealthy individuals. However, voters must approve an amendment to repeal the flat tax and institute a graduated tax. Should the measure pass in November, the actual graduated tax rates would not be known until the legislative approval process is completed.

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