

BUSINESS CYCLE DEVELOPMENTS

There are now two of six **Market Trough Indicators** signaling. As pointed out in the **March 12th BCD Update**, any two **MTI's** are needed to re-enter the market on weakness or shocks. The two **MTI's** are momentum driven and the other four of the six are based on fundamentals – liquidity and consumer spending. However, a meaningful move higher in stocks will likely coincide with the expectation of improved virus counts. Like the 1990 Gulf War, this virus shock is an amorphous shock – having the characteristics of indeterminate time and damage. In October 1990 the S&P bottomed with two **MTI's**, signaling the very month output peaked and the war recession lasted two quarters. What turned the S&P higher in October 1990 was the 'beginning-of-the-end', or the Iraqi rout. A peak and decline in this bell **curve** could be a window for convincing evidence needed. **The MTI's** are setup for a bottom – buy selectively on weakness, but stocks will likely need to see lower counts first.

The S&P bottomed March 23, 2020 – one day before this buy signal.

S&P TROUGH IN RELATION TO A TROUGH IN OUTPUT MONTHLY AVERAGES: S&P 500 & INDUSTRIAL PRODUCTION

| Col 1 <u>Trough In S&P 500</u> | Col 2 <u>Trough In Output</u> | Col 3 <u>Lead (-) Lag (+)</u> <u>S&P Low To Output Low</u> |
|---------------------------------------|----------------------------------|--|
| Oct. '60 | Feb. '61 r | -4 mo. |
| Jun. '62 | None | n/a S&P drops - Kennedy vs. steel industry. |
| Oct. '66 | Jul. '67 sd | -9 |
| Jun. '70 | Nov. '70 r | -5 |
| Dec. '74 | May '75 r | -5 |
| Mar. '78 | None | n/a Two-tier stock decline – no slowing. |
| Feb. '80 | Jul. '80 r | -5 |
| Jul. '82 | Dec. '82 r | -5 |
| Jul. '84 | Jul. '85 sd | -12 |
| None | Jul. '89 sd | n/a Slowing, but equities did not discount it. |
| Dec. '87 | None | n/a Black Monday hits S&P, but no slowing. |
| Oct. '90 | Mar. '91 r | -5 Gulf War |
| Dec. '94 | None | n/a S&P discounts China's 40% devaluation. |
| None | Jan. '96 sd | n/a Slowing, but equities didn't discount it. |
| Sep. '98 | None | n/a S&P discounted LTCM failure. |
| Sep. '01 | Nov. '01 r | -2 |
| Feb. '03 | Aug. '03 sd | -6 |
| Aug. '04 | None | n/a S&P declines, but no slowing or recession. |
| None | Nov. '06 sd | n/a Slowing, but equities didn't discount it. |
| Mar. '09 | Jun. '09 r | -3 |
| Jul. '10 | Feb. '11 sd | -7 |
| Sep. '11 | None | n/a S&P declines due to triple crises. ⁽¹⁾ |
| Jun. '12 | Oct. '12 sd | -4 |
| Feb. '14 | Feb. '14 sd | 0 |
| Feb. '16 | Mar. '16 r ⁽²⁾ | -1 |
| Dec. '18 | Oct. '19 ⁽³⁾ | -10 |

Avg. -5 mo. (+/- 2 mo.)

(1) Euro Crisis in 5/11; Failed U.S. Budget Control Act in 7/11; Prior 7 GDP quarters lowered in 7/11. (2) Output fell -4.8% and the NBER hasn't declared a recession to date. (3) The 45 day auto strike pushed output from July to October 2019.

Since 1962, the average lead-time from the 2nd **MTI** to the S&P trough discounting slowdowns and shocks – is three months (+/- 2 mo.) and -6% (+/- 6%) lower. The 2nd **MTI** signal came this month of March, so the target month for the S&P low is June 2020 (April thru August). The current S&P *monthly average* for 16 trading days in March is 2567, which centers the *monthly average* target at 2413 (2268 to 2558) in June (April thru August). Notice above that the S&P trough leads the bottom in output by five months (+/- 2 mo.). **So, expect stocks to rebound on lower case reports and continue climbing through the carnage of the recession numbers.**