BUSINESS CYCLE DEVELOPMENTS

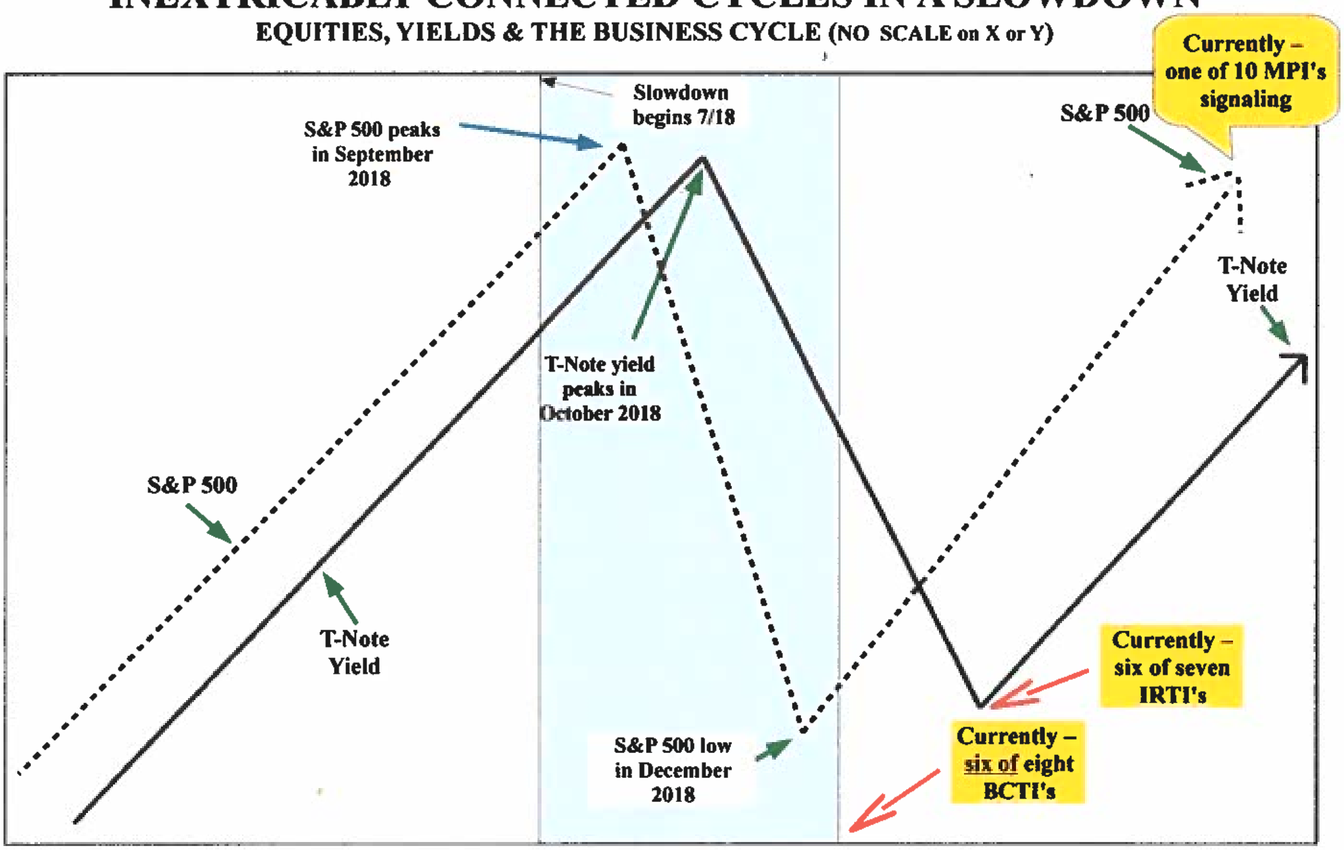
Summary – Business Cycle: There are still six of eight **Business Cycle Trough Indicators** signaling. The center point for the sixth **BCTI** points to June 2019 for a trough in output extending out to August 2019. See the chart in the June 3rd BCD Update for the specific Indicators focused on a recovery in output.

Summary – T-Note Yields: There are six of seven **Interest Rate Trough Indicators** signaling a bottom in 10 year T-Note yields in June 2019 extending thru September. The projected *monthly average* low of the T-Note yield is expected to be 2.28% (2.58% to 1.98%). For June the *monthly average* yield was 2.07%.

Since 2000 there have been two NBER recessions and six economic slowdowns triggering *daily-close* declines in T-Note yields averaging 174 basis points (+/- 71 bp) and, to date, the current decline in yields for this economic slowing has been 128 bp – 3.24% to 1.96%. It's consensus that yields are going lower and economic activity is going to be weaker, yet both the **IRTI's** and **BCTI's** point to a cyclical upturn for both – this is the way it has worked for both peaks and troughs in the past.

INEXTRICABLY CONNECTED CYCLES IN A SLOWDOWN

EQUITIES, YIELDS & THE BUSINESS CYCLE (NO SCALE on X or Y)



Summary – Equities: There's only one of 10 **Market Peak Indicators** signaling, so equity prices should be higher over the next three to six months. The equity market bottomed last December and stocks typically lead economic troughs by an average of five months (+/- 2 mo.). The range of observations since 1960 for this lead/lag relationship has been coincident with the trough in output to a 12 month lead. For a history of this relationship see here. This five month average of equities leading output points to an economic recovery this summer, which adds credibility to the **BCTI's** and **IRTI's**.