BUSINESS CYCLE DEVELOPMENTS

There are averages, outliers and then there are Black Swans! In the past, when all ten **Market Peak Indicators** signaled, the average advance – in time and percentage gain to the peak in the S&P 500 – is six months (+/- 2 mo.) and seven percent (+/- 4%). The 10th **MPI** appeared in December 2020 and to date, the S&P has advanced for 11 months and climbed a *monthly average* +26%! So, this has to be categorized as a Black Swan, particularly when it comes to percentage gains. Compare this to the largest gain in the past 60+ years in the averages below – it's 13 months and +12% - see the blue shading for the 1994 S&P peak.

BEAR MARKET PATTERN – 10th MPI (or the highest) TO THE S&P PEAK

S&P 500 – MONTHLY AVERAGES

10th or # of MPI's Signaling	S&P Peak	Number of Months From the 10th MPI to the S&P Peak & (S&P % gain)	
11/58	7/59	8 mo. (+13.3%)	Fed started cyclical tightening of FF's in 5/58 and 600,000 lay-offs in steel strike in 7/59.
Only 9 MPI's	12/61	n/a	
3/65	1/66	10 mo. (+7.5%)	Operation Twist #1 ended in 9/65.
8/68	12/68	5 mo. (+8.5%)	
7/72	1/73	6 mo. (+10.5%)	1st Discount Rate hike in 1/73 and U.S. devaluation in 2/73.
1/76	9/76	8 mo. (+8.9%)	Mexico devalues -53% in 9/76.
1/81	4/81	3 mo. (+1.1%)	
8/83	10/83	2 mo. (+3.2%)	
4/87	8/87	4 mo. (13.8%)	Fed started cyclical hiking in FF's in 11/86 & 1st DR hike came 9/87 & 'Black Monday' on 10/19/87.
11/92	1/94	13 mo. (+11.9%)	Fed began cyclical tightening in FF's in 1/93, but S&P peaked with China's 40% devaluation - exits its 'official rate' - in 1/94.
4/98	7/98	3 mo. (+4.0%)	
3/00	8/00	5 mo. (+3.0%)	
Only 8 MPI's	3/02	n/a	
Only 6 MPI's	2/04	n/a	
5/07	10/07	5 mo. (+1.9%)	
12/09	4/10	4 mo. (+7.9%)	
Only 8 MPI's	3/12	n/a	
Only 8 MPI's	5/15	n/a	
Only 9 MPI's	1/18 [1]	n/a	
		Avg. 6 mo. (+/-2 mo.) & +7% (+/- 4%)	
12/20	? ?	To date...thru November +11 mo. (+26%)	

The 10th **MPI** came 11/58 (see 1st column) - eight mo. prior to the S&P peak of 7/59. The S&P climbed +13.3% from the 10th **MPI** to the 7/59 peak.

The S&P peaked before 10 **MPI's** had signaled – eight **MPI's** were signaling prior to the S&P peak in 3/02.

The 10th **MPI** came in December '20.

1.) The Jan. '18 peak was 2% lower then the Sept. 2018 peak, which came after the Trump tax cut and the Omnibus Spending Bill – nine **MPI's** were signaling at both.

The longest extended time-lag between the 10th **MPI** and the S&P peak of 13 months can be explained by Greenspan's easing – i.e. Fed Funds fell from March 1989 (9.9%) to December 1992 (2.9%). He waited until after the 1992 Presidential election to start hiking Fed Funds in January 1993. Investors then gained confirmation of intentional tightening by monitoring the rate-of-change in the real monetary base, which peaked in July 1993. This overvalued market – like the others in the yellow shading above – finally capitulated with an external shock in January 1994 due to China's devaluation.

The current period is similar, but the amount of fiscal and monetary stimulation is significantly greater; however, Powell has made comments about a paradigm shift in Fed thinking and this may be the catalyst to start a directional change in an already overvalued market – it has worked for the others.