

# BUSINESS CYCLE DEVELOPMENTS

In a bull market there's typically three or four -5% (+/-3%) corrections during the calendar year. So, this current decline of -8% is not surprising, as the S&P has climbed +14% during the past 60 trading days – starting on April 19, 2024. However, this correction is accompanied by a trough in quality spreads, which has possibly broader ramifications.

<b>QUALITY SPREADS &amp; THE BUSINESS CYCLE</b>		
<small>SPREAD: 10 Yr – Baa Yield. OUTPUT: Industrial Production Index</small>		
<u>SPREAD TROUGH</u>	<u>BUSINESS CYCLE PEAK</u>	<u>LEAD (-) / LAG (+) SPRD. TRGH. to BCP</u>
8/55	1/56 sd	-5 mo
None	2/57 r	-
4/59	1/60 r	-9 mo
2/66	10/66 sd	-8 mo
11/67 Britain devalued – no U.S. economic peak.	n/a	-
9/69	10/69 r	-1 mo
7/73	11/73 r	-4 mo
9/76 Mexico devalues – no U.S. economic peak.	n/a	-
12/78	12/78 sd/r	-0-
8/81	7/81 r	+1 mo
7/82 Penn Square & Seafirst fail with oil loans – no U.S. economic peak.	n/a	-
5/84	6/84 sd	-1 mo
3/89	1/89 sd	+2 mo
4/90 Gulf War I interruption	9/90 r	-5 mo
3/92 Britain exits ERM – no U.S. economic peak.	n/a	-
12/94	1/95 sd	-1 mo
4/97 Thai Baht Crisis – no U.S. economic peak.	n/a	-
1/00	12/99 sd/r	+1 mo
4/02	6/02 sd	-2 mo
3/05	1/06 sd	-10 mo
2/07	7/07 sd/r	-5 mo
4/10	5/10 sd	-1 mo
4/11	2/12 sd	-10 mo
None	12/13 sd	-
7/14	11/14 sd/r	-4 mo
2/18	7/18 sd/r	-5 mo
1/20 Covid-19 Shock	2/20 r	-1 mo
11/21	3/22 sd	-4 mo
→ 4/24 ←	??	<b>Average: -3 mo (+/-3 mo)</b> ??

sd: slowdown. r: recession.

Notice above the trough in the 10 year – Baa spread leads the peak in output by three months (+/- 3 mo.). There are only two of eight **Business Cycle Peak Indicators** signaling and output is slowly improving as, outlined in the July 22<sup>nd</sup> **BCD**, so the April '24 trough in quality spreads implies spreads are widening due to an external factor – a shock. Twenty-five percent of the 28 observations above related to a trough in quality spreads happen to lead to a devaluation, or some large credit failure.

There are still only five of 10 **Market Peak Indicators** signaling, which implies further gains for equities – see the June 27<sup>th</sup> update for why equities remain elevated with spendthrift governments.