BUSINESS CYCLE DEVELOPMENTS

1.) All the ***BCD*** data for the past few months speaks to an economic recovery beginning in January 2024. Obviously this is not the consensus view. The *Total Index of Industrial Production* is finally generating numbers above the September 2018 peak in output – that's 51 months of no growth in output that has been largely masked by six spending bills totaling $12T – starting with the $2.2T Cares Act of March 2020.

2.) The bottom in the *Institute of Supply Management's PMI Index* leads the trough in U.S. output by an average of two months (+/- 2 mo.) – see proof below. The *PMI* troughed in November 2023 and cyclical output bottomed in January 2024, coincident with the sixth of seven **Business Cycle Trough Indicators**!

3.) It's characteristic for the *CRB Index* to bottom with output. The *CRB* low was December 2023 and copper, along with iron & steel scrap indexes, bottomed in October 2023 and output troughed in January 2024.

4.) T-Note yields recent bottom in December 2023 was coincident with the January 2024 cyclical trough in output. It's known that these yields cyclically peak and trough with output within the context of a secular trend. T-note yields are now revisiting the January 2024 cyclical lows, but it's not expected to continue for long.

TROUGH IN OUTPUT LAGS THE ISM's PMI BY TWO MONTHS

INDUSTRIAL PRODUCTION & ISM's PMI

Business Cycle Trough (BCT)	ISM's PMI Trough		Leads (+) / Lags (-): BCT to PMI
5/58 sd/r	1/58		-4 mo.
2/61 r	2/61		0
7/67 sd	4/67		-3
11/70 r	11/70		0
5/75 r	1/75		-4
7/80 sd/r	5/80		-2
12/82 r	5/82		-7
7/85 sd	5/85		-2
7/89 sd	8/89		+1
3/91 r	1/91		-2
1/96 sd	1/96		0
11/01 sd/r	10/01		-1
8/03 sd	4/03		-4
11/06 sd	1/07		+2
6/09 sd/r	12/08		-6
2/11 sd	n/a		-
10/12 sd	n/a	The QE's didn't move the *PMI* more than a 10 point swing for 50 months!	-
2/14 sd	n/a		-
3/16 sd/r *	12/15		-3
10/19 sd	9/19		-1
4/20 r	4/20		0
12/22 sd	6/23		+6
		Average:	-2 mo (+/-2 mo)
11/23 sd	1/24		-2

Sd: slowdown; R: recession. * NBER didn't declare the 3/16 decline a recession and may not, but output fell -4.8%, which is easily a recession level decline.

Output is trending slowly higher; therefore expectations for T-Note yields to meaningfully decline when the Fed cuts the short end of the yield curve is not expected – only the quality spreads will widen, as expected.

Review: *Monthly average* T-Note yields bottomed with output in December 2023, then climbed 50 bps. to April 2024, then has retraced the cyclical climb based on expected Fed cuts. There's been no growth for six-plus years, and this recovery is not a normally robust 'inventory rally' in output. So, the adage "buy the rumor, sell the news" would apply to the facts cited above. Sell bonds into the strength, as there are no **Interest Rate Peak Indicators** and six of the seven **Interest Rate Trough Indicators** are clustered around year end last year.