

BUSINESS CYCLE DEVELOPMENTS

Quality spreads troughed in April 2024 and they usually lead peaks in output, but there are only two of eight **Business Cycle Peak Indicators** and only five of **10 Market Peak Indicators** signaling, so another explanation for the trough in spreads could be an external shock similar to the seven identified below adjacent to the first column. Coincidentally, there was one significant policy change in March 2024 – the Bank of Japan hiked short term rates to +0.1% after 17 years of negative yields. Then they hiked them to +.25% in July 2024. Could March's policy change impact the carry trade positions and equities for a spell?

QUALITY SPREADS & THE BUSINESS CYCLE		
SPREAD: 10 Yr – Baa Yield. OUTPUT: Industrial Production Index		
<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	n/a	-
9/69	10/69 r	-1 mo
7/73	11/73 r	-4 mo
9/76	n/a	-
12/78	12/78 sd/r	-0-
8/81	7/81 r	+1 mo
7/82	n/a	-
5/84	6/84 sd	-1 mo
3/89	1/89 sd	+2 mo
4/90	9/90 r	-5 mo
3/92	n/a	-
12/94	1/95 sd	-1 mo
4/97	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	2/20 r	-1 mo
11/21	3/22 sd	-4 mo
→ 4/24 ←	??	Average: -3 mo (+/-3 mo)
	Japan hikes rates on carry trade positions?	??

sd: slowdown. r: recession.

Since March 2024 the equity market has been sputtering – experiencing three -5% to -8% intermediate corrections, which started with the bottom in quality spreads and Japan's hike. These S&P declines in a bull market have a pattern of correcting -5% (+/- 1.5%) and are healthy and normal. They can even extend to a -10% drop – here's the history of outlier corrections: <http://www.bcdresearch.com/wp-content/uploads/2024/09/BCD-051619-t.pdf> However, the recent S&P behavior – coinciding with quality spreads and Japan's tightening – may deliver something more than an intermediate decline. Let's see how this unfolds.