

BUSINESS CYCLE DEVELOPMENTS

There are now four of eight **Business Cycle Peak Indicators** signaling a slowing or recession ahead! To accompany those early warning signs, spreads between the 10 yr. Treasury and the Baa and CCC are starting to fall once again! Spread troughs lead the peak in output or crises – see table below. These quality spreads first started narrowing in the spring when Japan's rates went positive (i.e. carry trade unwinding) and when the spreads resumed widening for months it was considered a one-off event. Now that these spreads are falling again and there's four **BCPI's** – this is a heads-up!

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
		Average: -3 mo (+/-3 mo)
→ 4/24 ←	Japan hikes rates on carry trade positions? ??	??

sd: slowdown. r: recession.

There are still six of 10 **Market Peak Indicators** signaling. S&P peaks usually lead peaks in output, but there's several instances of equities peaking months after output peaks. When there's at least eight of 10 **MPI's** is when peaks occur. However, there's been a couple S&P peaks with only six **MPI's**. They occur because of shocks – see the highlighted column in the June 12th **BCD** update at this web site.

When we move from a Biden command/control economy to a *laissez-faire* there's bound to be surprises and unexpected adjustments to markets (i.e. suppose Musk is Milei – has that economic havoc been discounted?)