

BUSINESS CYCLE DEVELOPMENTS

The S&P 500 is currently experiencing the fourth intermediate correction for 2024. Intermediate corrections are -5% (+/- 1.5%) and extend 20 trading days (+/- 10 days). The first two of the four corrections were coincident with the two step unwinding of the Japanese carry trade in early 2024. With only four of 10 **Market Peak Indicators** signaling there is only one way to view the current correction – as another temporary one (for the history of these pullbacks see the 11/4/24 **BCD** update).

There's still five of eight **Business Cycle Peak Indicators** signaling. US output is struggling for buoyancy, as it drifts below the June 2024 peak level of 103.1 – far below the peak of 104.1 in September 2018! Whenever US output weakens the dollar strengthens on a relative basis; however, on an absolute basis it's falling along with most currencies. Why? In times of reduced output there's less trade activity. Lower trade activity, in turn, lowers the availability of dollars globally. This leads to a shortage relative to the demand, causing the price of the dollar to increase relative to other currencies. Dollar strength should continue until a few months before the next trough in US output – table below.

DOLLAR TYPICALLY PEAKS BEFORE THE TROUGH IN OUTPUT		
St. Louis Fed Trade Weighted U.S. Dollar Index & Industrial Production Index – first mfr. sector to trough		
DOLLAR PEAK	BUSINESS CYCLE TRGH.	LEAD (-) / LAG (+): DOLLAR to BCT
1/74	5/75 (r)	-16 mo
12/76 Mexico's devaluation	--	--
4/80	7/80 (r)	-3 mo
11/82	12/82 (r)	-1 mo
3/85 \$ Jawboned in 2/85 - coincided with...	7/85 (sd) ...the BCT.	-4 mo
9/89	7/89 (sd)	+2 mo
6/91	3/91 (r) Gulf War	+3 mo
1/94 Chinese devaluation	--	--
--	1/96 (sd)	--
8/98 Russian devaluation & LTCM	--	--
2/02	11/01 (r)	+3 mo
--	8/03 (sd)	--
11/05 Katrina	--	--
2/06	11/06 (sd)	-9 mo
3/09	6/09 (r)	-3 mo
7/12	10/12 (sd)	-3 mo
6/10	2/11 (sd)	-8 mo
7/13	2/14 (sd)	-7 mo
1/16 Shanghai Accord, dollar peak and...	3/16 (sd/r) ... business cycle trgh. coincide.	-2 mo
9/19	10/19 (sd)	-1 mo
4/20	4/20 (r)	-0-
10/22	12/22 (sd)	-2 mo.
10/23	1/24 (sd)	-3 mo.
		Average: -3 mo (+/-4 mo)

sd = slowdown; r = recession

Further evidence of slowing ahead, note that the quality spread (10 yr T-Note – Baa yield) troughed in April 2024 coincident with the two S&P corrections in the spring of 2024. Then the spread widened for a few months, but has subsequently started dropping below that one-off spring 2024 spike-down. This spread leads to economic slowing by three months – see the 11/13/24 **BCD** update.

The five **BCPI's**, along with declining commodity prices, falling quality spreads and dollar strength speaks to another economic downturn ahead – recession, or the fourth slowing since 2018.