

## BUSINESS CYCLE DEVELOPMENTS

Opinions on slow output in Europe appear misplaced, as the table below indicates there is a corresponding percentage decline in the EU to U.S. economic declines. See the [September 26<sup>th</sup> report](#) for more. If we're seeing recovery here since May 2014, then the EU should see it imminently. The S&P 500 bottomed last February in anticipation of the U.S. economic recovery in May 2014. The EU indexes troughed this October anticipating EU recovery that's near at hand. The U.S. just experienced an intermediate correction in a bull market that began in February and the EU just witnessed the bottom in a bear market in anticipation of a coming economic upturn. Continue to buy stocks on weakness.

Quality spreads are still widening, which implies T-Note yields will not bottom until spreads peak. T-Note yields usually bottom with the trough in output and when spreads peak. However, quality

<b>U.S. DECLINES IN OUTPUT IN RELATION TO UK , JAPAN &amp; EU</b>					
ALL DATA ARE MONTHLY AVERAGES OF IND. PROD. [T] TOTAL INDEX; [ND] NON-DURABLE INDEX.					
U.S. IND. PROD. PEAK to TROUGH & % DECLINE	GBR IND. PROD. % DECLINE	JPN IND. PROD. % DECLINE	DEU IND. PROD. % DECLINE	FRA IND. PROD. % DECLINE	ITA IND. PROD. % DECLINE
10/69 to 11/70 (T -7.0%)	-2.8%	-1.4%	-1.4%	-1.9%	N/A
11/73 to 5/75 (T -13.1%)	-11.9%	-20.1%	-14.0%	-15.0%	N/A
12/78 to 7/80 (ND -7.4%)	-14.6%	-5.7%	-6.9%	-6.2%	-4.2%
7/81 to 12/82 (T -9.2%)	-2.5%	-4.3%	-6.8%	-3.8%	-9.7%
6/84 to 7/85 (ND -5%)	-7%	-8%	-0-	-2.9%	-5.8%
1/89 to 7/89 (ND -1.6%)	-1.2%	-0-	-3.2%	-2.0%	-2.7%
8/90 to 3/91 (Gulf War -4.2%)	-4.6%	-2.3%	-5.3%	-2.5%	-3.5%
1/95 to 1/96 (ND -2.2%)	-1.1%	-3.2%	-5.9%	-3.3%	-5.6%
6/00 to 11/01 (T -6.0%)	-3.7%	-14.6%	-5.9%	-3.4%	-6.8%
6/02 to 8/03 (ND -1.6%)	-3.5%	-1.1%	-2.9%	-4.3%	-3.4%
1/06 to 11/06 (ND -5%)	-1.4%	+2%	-6%	-2.0%	-3.4%
7/07 to 6/09 (ND -14.3%)	-13.9%	-34.7%	-22.8%	-20.3%	-26.5%
5/10 to 2/11 (ND -1.1%)	-2.4%	-16.1%	-2%	-2.9%	-0-
2/12 to 10/12 (ND -4%)	4.3%	-8.0%	-4.2%	-4.6%	-8.2%
<b>AVG.:</b>	<b>-5.0%</b>	<b>-4.9%</b>	<b>-8.0%</b>	<b>-5.4%</b>	<b>-6.7%</b>
12/13 to 5/14 (ND -1.2%)	??	??	??	??	??

UN 3-LETTER CODES: GBR - UNITED KINGDOM; JPN - JAPAN; DEU - GERMANY; FRA - FRANCE; ITA - ITALY.

spreads continue to widen seven months after the economy improved in May 2014. So we can expect yields to remain lower until the fear of deflation passes. There is a similar parallel to the circumstances today. What Volcker did in the late 1970's had an impact through the mid 1980's. His tightening policies were a seminal event that peaked commodities in February 1980 and widened spreads until August 1986. Oil bottomed in July 1986. Yields fell continuously through that period until January 1987. Today, we're still being impacted by another formative event - the 2007 Credit Crisis. This slow growth, along with an aura of deflation, widens spreads, so yields are shaping up to be an outlier like January 1987 – [see more](#) on outlier yields .