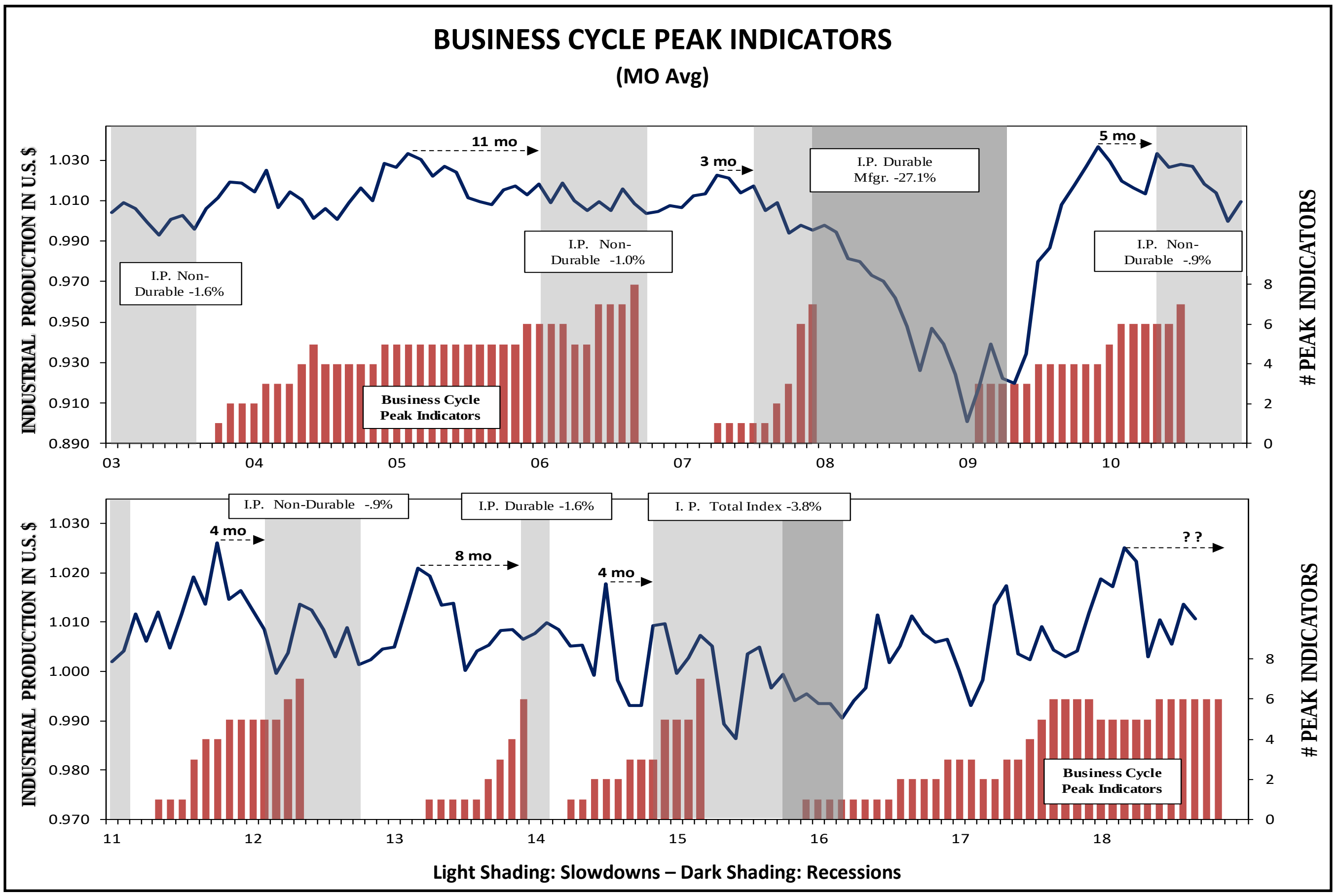
BUSINESS CYCLE DEVELOPMENTS

Summary – Business Cycle: There are still six of eight **Business Cycle Peak Indicators** signaling, which centers a peak in U.S. output in August 2018 (March 2018 thru January 2019). Since 2000, there have been seven peaks in output – five slowdowns and two slowings that ultimately morphed into recessions. Whenever there are more than five **BCPI's** – there currently are six – then investors should be looking carefully to the Non-Durable Manufacturing component of the *Index of Industrial Production* for the first clue that there's, at least, a slowing ahead. The Non-Durable sector has been the most sensitive to the level and direction for the total *Index*. To date, the peak in Non-Durable output is July 2018 – down for three months.

Another good window for the expected level and direction of U.S. growth is the dollar rate-of-change of *Industrial Production* seen below – it's not the *Index* discussed above. It peaked in March 2018 and has historically led the peak in output by five months (+/- 3 mo.). Therefore, a peak in March 2018 would center a projected peak in output in August 2018 (May 2018 thru November 2018).



Summary – T-Note Yields: There are six of six **Interest Rate Peak Indicators** signaling. From the date of the sixth **IRPI** (i.e. May 2018) the projected mean-absolute-deviation to the upside is a *monthly average* yield of 3.11%. To date, the *monthly average* yield is 3.15% in October 2018. T-Note yields peak and trough, or behave like bookends, to the peaks and troughs of the business cycle. Since 2000 the average decline in T-Note yields in slowdowns has been 100 basis points (range: 82 bp to 136 bp).

Summary – Equities: There are no **Market Peak Indicators** signaling, but there are still two of six **Market Trough Indicators** signaling to enter the market on weakness, just as there were in February 2018. If it's an economic slowing that the S&P is discounting, then only two of six **MTI's** are needed to re-engage; however, if it's recession then five of six **MTI's** are required before buying S&P weakness. Slowing is still expected and the targeted S&P levels of 2475 (2549 to 2400) are still valid.