CORBETT ROAD

MACRO MUSINGS

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CHARTING THE COURSE 2018

SUMMARY

- MACROCAST™ remains constructive. Risk assets remain favorable.
- Every August, we "Chart the Course" by looking at key charts focused on the most important trends in the economy and markets. We find that the data in many of the following charts is consistent with what we see in MACROCAST™. We hope you enjoy these, and will publish our next traditional Macro Musings at the end of September.

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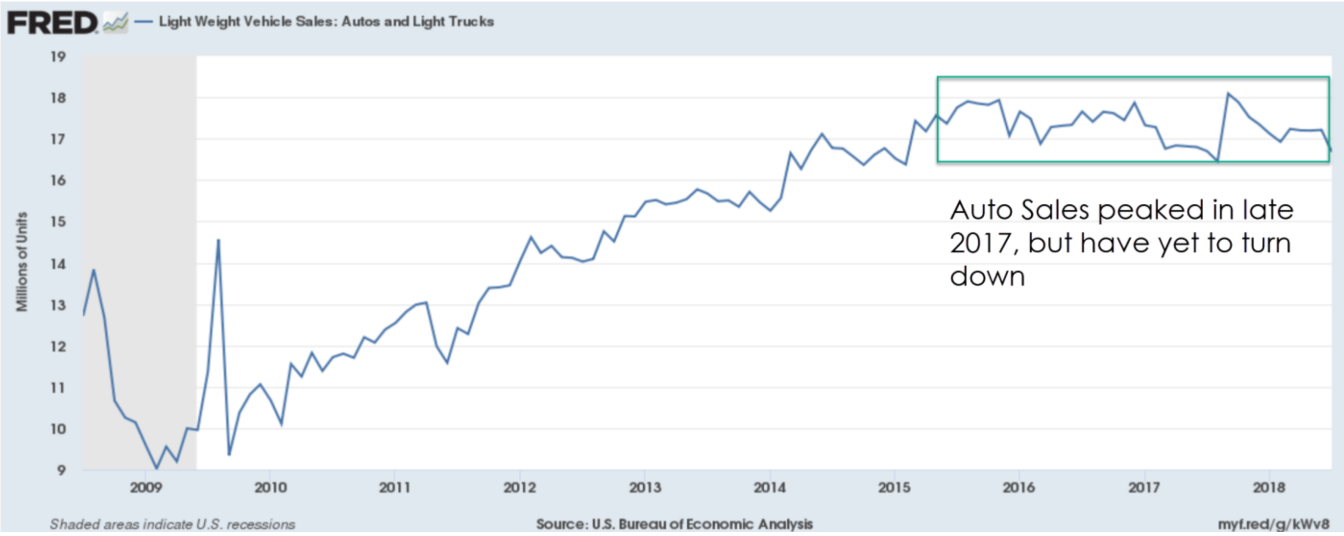
CHARTING THE COURSE: THE ECONOMY

Retail Sales reach an all-time high. Retail sales typically flatten before a recession begins. They just hit a new all-time high last month.

Solid jobs data. Initial claims for unemployment continue to trend down. Claims tend to rise ahead of recession.

Vehicle sales are flat. Auto sales are down off their peak, but they haven't rolled over.



A key ratio shows no signs of weakness. An effective predictor of past recessions is the LEI/CEI ratio. The Conference Board LEI is composite index consisting of several leading economic indicators—economic data that rises or falls *before* the economy rises or falls. The CEI is an index of coincident indicators. This is data that tells you what is happening in the economy right *now* (from Doug Short):

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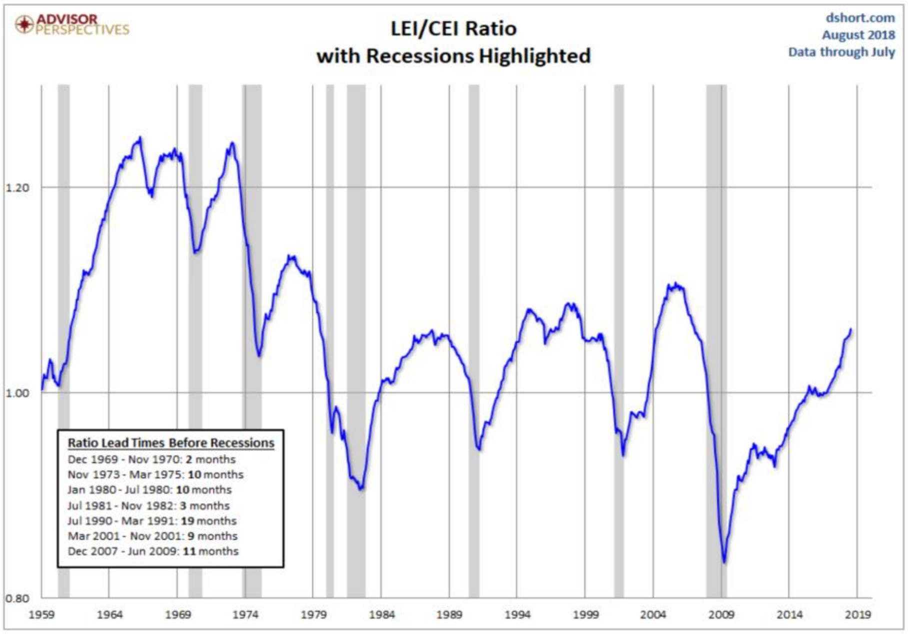


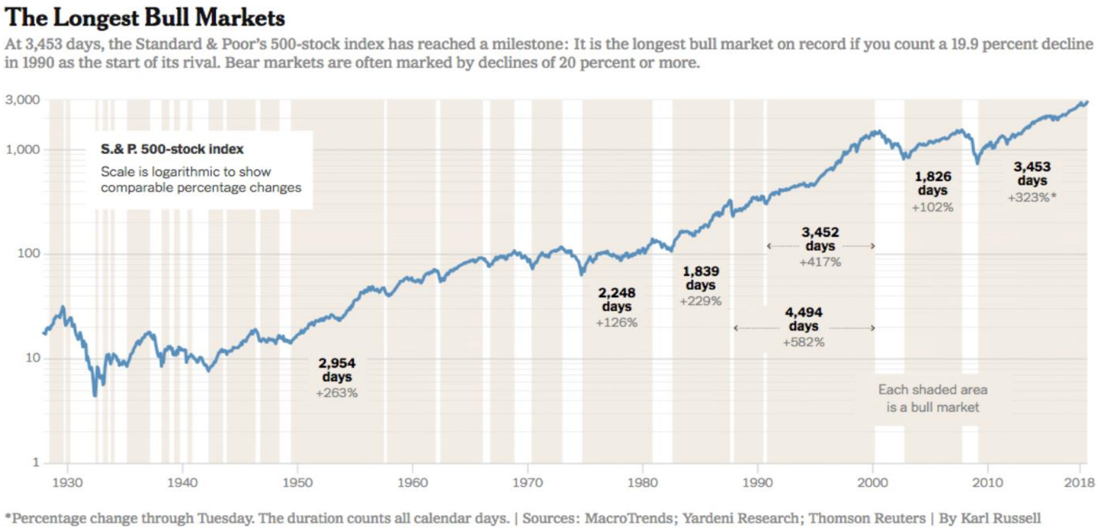
The median lead time to recession is about 10 months. The ratio suggests that a recession is unlikely until *at least* next summer.

CHARTING THE COURSE: THE YIELD CURVE

The yield curve has yet to invert. The yield curve turns negative or “inverts” when short term interest rates rise above long term interest rates. This often occurs prior to a recession, but the lead time can be years. The curve has flattened but has not inverted yet.

CHARTING THE COURSE: MARKETS

The bull market is now the longest ever. The bull market, as defined as a continuous period of growth without a price decline of 20% or more from a recent high, is now 3,453 days old (data from the New York Times):



That said, milestones like that can often be misleading or meaningless. Sure, the market has not closed 20% down from a peak since 2008, but in late 2011 it dropped 21% on an *intraday* basis, only to recover before the trading day ended. In addition, while the S&P 500 closed down 15% in 2015-2016, many asset classes and key stocks saw much greater declines during that period (data from Michael Batnick):

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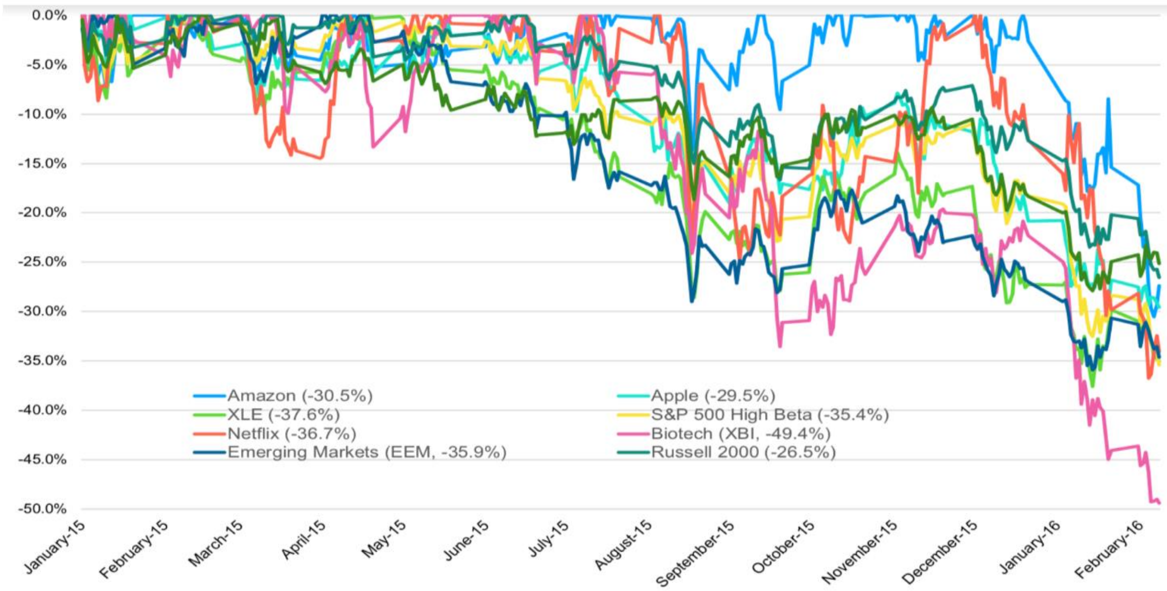
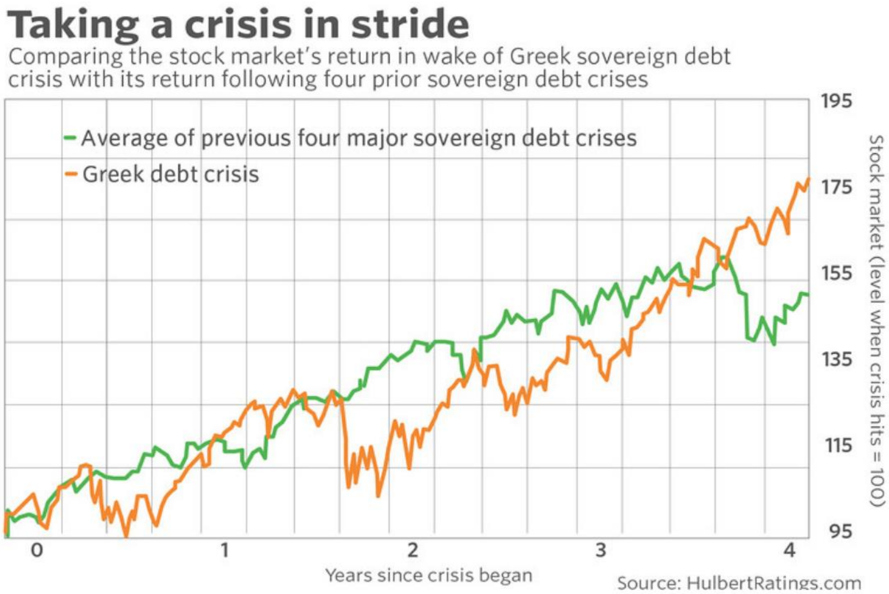


Recent market momentum suggests strong returns for the rest of the year. In addition to rising every month of the second quarter, the market was also positive in July. That's only occurred 11 times in history, and each time the market was higher by an average of 10% the rest of the year (data from Ryan Detrick of LPL):

Rest of Year Returns When the S&P 500 Is Up in April, May, June, and July			
Year	Date	S&P 500	Rest Of Year
1935	07/31/35	11.08	21.2%
1954	07/30/54	30.88	16.5%
1958	07/31/58	47.19	17.0%
1964	07/31/64	83.18	1.9%
1980	07/31/80	121.67	11.6%
1995	07/31/95	562.06	9.6%
1997	07/31/97	954.29	1.7%
2003	07/31/03	990.31	12.3%
2009	07/31/09	987.48	12.9%
2016	07/29/16	2,173.60	3.0%
2017	7/31/2017	2470.3	8.2%
2018	7/31/2018	2816.29	?
		Average	10.5%
		Median	11.6%
		% Higher	100.0%

Selling after a geopolitical crisis breaks out can hurt. We highlighted this same topic last year, but recent concerns about Turkey prompted us to include this new chart from Mark Hulbert, which shows how stocks performed after previous debt crises. Historically, it's been unwise to sell stocks as a result of these types of events.



We hope you enjoyed this edition of Charting the Course. Look for our next traditional Macro Musings at the end of September.

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