

2024 Q4 Market Outlook

Executive Summary

As we approach the close of 2024, economic data points to a maturing global landscape. In response, central banks in the US and China have implemented a mix of stimulus measures that contributed to positive returns across asset classes in Q3. While these actions increase the likelihood of a soft landing, it's important to acknowledge that central banks have historically struggled to achieve this outcome. Therefore, maintaining an allocation to defensive assets, coupled with strategic global equity exposure, remains a prudent strategy. This summary encapsulates our forward-looking insights and tactical adjustments that we favor in this late cycle environment.

Economic Data Check

Uncertainty remains despite proactive Fed.

- Data indicates that U.S. growth and inflation slowed in Q3 and are expected to continue decelerating in Q4, yielding a disinflationary environment (p3).
- Significant policy shifts from both the Fed and PBOC offer reasons for cautious optimism.
- Despite optimism regarding rate cuts, we remain in a late cycle environment where unemployment is now accelerating, and therefore we must respect the possibility of a recession (p4–6).

Equities

Favor being underweight stocks.

- Stocks continued to make new highs in Q3, while leadership shifted away from big tech into defensive sectors. (p7).
- While a soft-landing is desirable, history suggests that slower economic growth, rising recession risks, and elevated valuations may cap the near-term upside in stocks compared to past rate-cutting cycles (p8-9).
- We continue to favor the secular opportunity in technology and semiconductors stocks, while acknowledging that the latter industry remains highly cyclical. We favor increasing exposure during material pullbacks or as our economic outlook improves (p10).

Fixed Income

Favor being overweight fixed income.

- We favor being overweight bonds due to expectations for slower growth and inflation (p11), as they have historically performed well in such environments.
- We prefer high-quality bonds, like U.S. Treasuries, over credit instruments given the tightness in credit spreads, which poses an unfavorable risk-reward balance. Furthermore, Treasuries have historically provided strong protection in recessionary environments, while credit has not.

Commodities

Favor being overweight commodities via gold.

- We favor maintaining exposure to gold as a hedge against slower growth and rising debt burdens (p12).
- We remain cautious on cyclical commodities, like oil and copper, due to a softening growth outlook.

Summary

Continue to favor a defensive posture.

- Position portfolios for a late-cycle environment characterized by slower growth and elevated recession risk.
- Maintain an overweight position in defensive assets such as bonds and gold.
- Within stocks, favor remaining overweight tech and semiconductor stocks, leveraging their favorable long-term growth prospects while offering a potential hedge if growth surpasses expectations.

Positioning Summary:

○ **Underweight**
Global Equities

○ **Overweight**
Fixed Income

○ **Overweight**
Commodities

○ **Overweight**
Cash

Q3 Review: Monetary easing by the Fed and PBOC fueled gains across markets.

- **Global equities gained +6.6%** in Q2, registering its fourth consecutive quarter of gains on its way to a new all-time high. The equal-weighted index outperformed the cap-weighted index, benefiting from a broader base of contributors as some megacaps pared back their gains. Utilities and Real Estate were the top performing sectors, both benefiting from lower rates, while the latter also profited from increased attention on the rising power demands driven by the expansion of AI infrastructure. Meanwhile, China stocks surged into quarter-end following a wave of stimulus measures from its politburo.

The Fed's 50-basis point rate cut in September marked a significant shift in policy, reflecting the central bank's concerns over a slowing economy. The decision to cut rates was larger than many analysts expected, signaling a more aggressive approach to supporting economic growth. Mixed economic data, including softer inflation reports and weak jobs numbers, reinforced the Fed's dovish stance.

- **U.S. bonds gained +5.3%** as the combination of slower growth and inflation, and the anticipation of interest rate cuts drove yields lower.
- **Gold continued to be a standout performer** and is now up **+27.2%** year-to-date (YTD), significantly outperforming the broad commodity index, which is has returned **+5.2%** YTD.

MARKET REPORT CARD – As of September 30, 2024

Performance Reported in US Dollars	3Q24	Year-to-Date	12/31/21-to-Present
Equities			
Global (MSCI All World Equity Index)	+6.6%	+18.7%	+18.4%
United States (Russell 3000 Index)	+6.2%	+20.6%	+22.8%
US Equal Weight (S&P 500 Equal Weight Index)	+9.6%	+15.2%	+16.1%
International Developed (MSCI EAFE Index)	+7.3%	+13.0%	+14.3%
Emerging Markets (MSCIEM Index)	+8.7%	+16.9%	+2.6%
Fixed Income			
Barclays US Aggregate Bond Index	+5.2%	+4.4%	-4.1%
Long-Term Treasuries (Barclays 20+ Year)	+8.0%	+1.6%	-28.1%
Investment-Grade Bonds (Barclays USCorp)	+5.8%	+5.3%	-3.7%
High-Yield Bonds (Barclays US HYCorp)	+5.3%	+8.0%	+8.8%
Commodities			
Commodities (S&P GSCI Index)	-5.3%	+5.2%	+26.9%
Crude Oil (S&P Crude Oil Index)	-11.7%	+5.7%	+29.8%
Gold (LBMA Gold PM Price Index)	+12.9%	+27.2%	+42.5%
Diversified Portfolios			
60/40 Global Stocks / US Bonds	+6.1%	+12.8%	+9.3%
40/60 Global Stocks / US Bonds	+5.8%	+10.1%	+4.9%

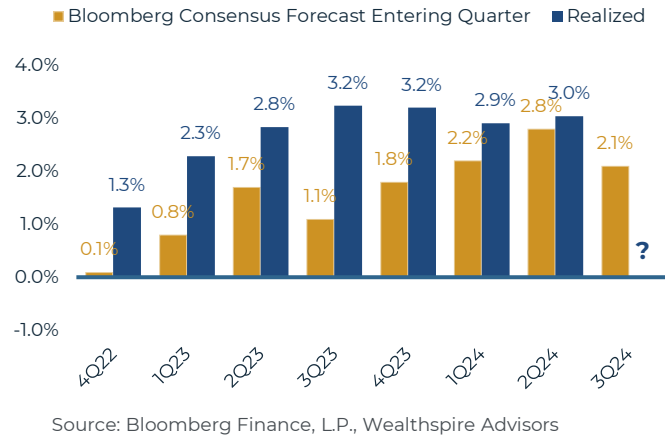
Source: Bloomberg Finance, L.P., Wealthspire Advisors

Economic Data Check (I): We expect economic growth and inflation to slow from a rate-of-change perspective in the coming quarters.

Growth: U.S. economic growth has been accelerating since the fourth quarter of 2022 and has materially outperformed both our expectations and consensus forecasts (**Fig 1**). We believe this impressive performance can largely be attributed to unprecedented levels of fiscal spending which, until this point, has more than [offset the adverse effect of higher interest rates](#).

However, looking forward, **growth has started to lose momentum and we expect it will continue to slow** in the coming quarters (**Fig 2**). We furthermore believe the risk to consensus growth forecasts is likely skewed downward given that unemployment has started to accelerate (more on this on page 4).

Fig 1: YoY GDP Growth
Consensus Forecasts v.s. Realized



Inflation: Headline inflation has been slowing for over two years (**Fig 3**), and more recently, we've observed a [sharp slowdown across key components like shelter, energy, and food prices](#). We expect inflation will continue its downward trajectory in the coming quarters. Despite recent policy easing by the Fed and the PBOC (People's Bank of China), we believe further action will likely be required to counteract this trend.

Fig 2: Consensus expects growth will slow.

U.S. YoY Real GDP Growth

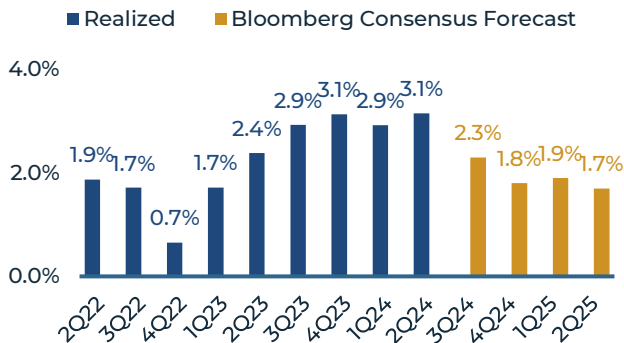
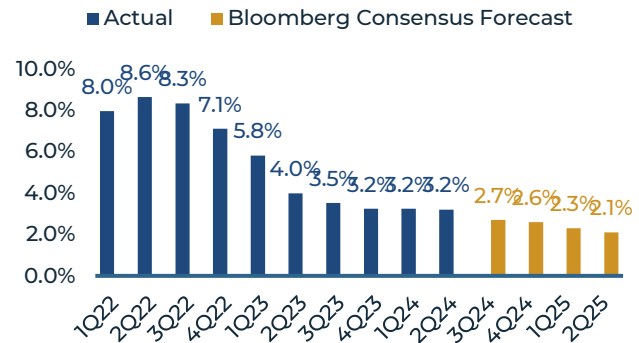


Fig 3: Consensus expects inflation to slow.

U.S. YoY CPI Growth



The combination of these growth and inflation forecasts signals a shift toward a disinflationary environment (**Fig 4**), a trend that has been validated by price movements across asset classes in Q3 (see page 7).

Fig 4: We expect growth and inflation to slow, transitioning to a disinflation regime.

Historical Forecasts												Forecasts			
3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25
S	R	S	S	D	D	G	G	G	G	D	G	D	D	G	D

G = Goldilocks (G▲, i▼)

R = Reflation (G▲, i▲)

S = Stagflation (G▼, i▲)

D = Disinflation (G▼, i▼)

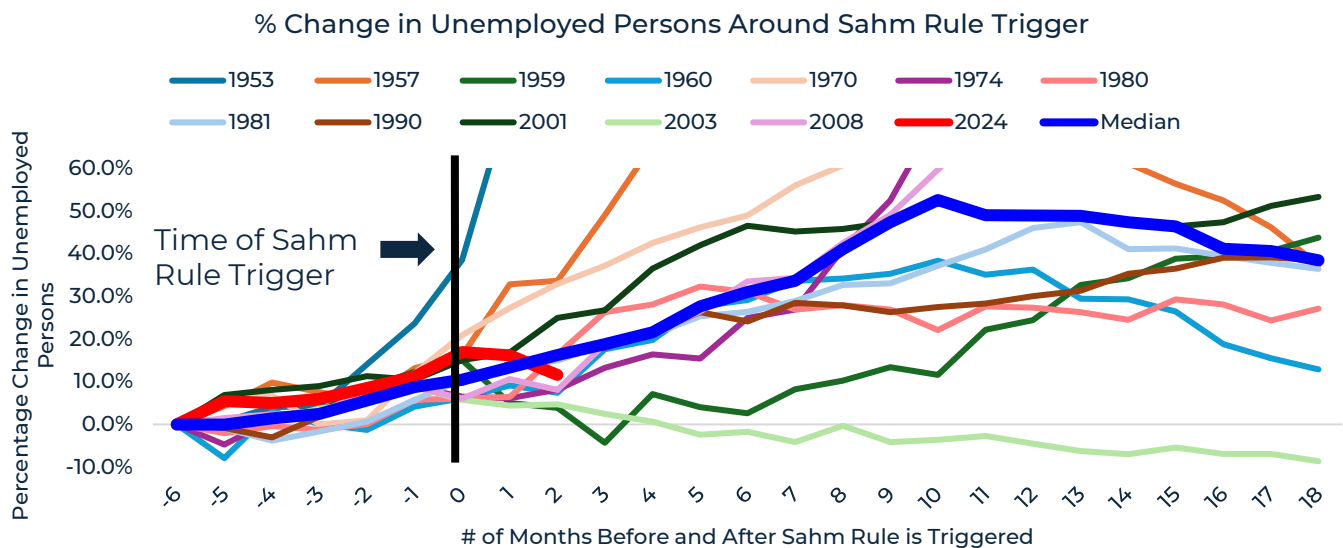
Source: Bloomberg Finance, L.P., Wealthspire Advisors

Economic Data Check (2): Unemployment is accelerating. Although we are cautiously optimistic, we remain vigilant of recession risk.

Unemployment accelerated in July, surpassing expectations and triggering the Sahm Rule—an economic indicator developed by economist Claudia Sahm to provide an early signal of recession, helping policymakers respond more quickly with economic stimulus.

In 11 of the past 12 instances when the Sahm Rule was triggered, unemployment rose significantly over the subsequent 12-month period (Fig 5). The exception was in 2003, when the rule triggered toward the end a recession after already providing a valid signal near the start of the recession (2001).

Fig 5: The Sahm Rule Trigger has generally preceded a significant increase in unemployment.

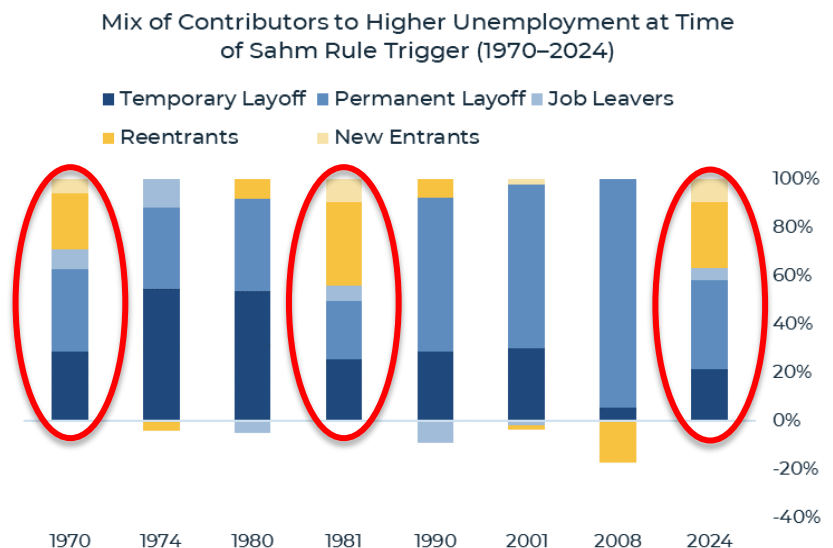


Source: Bloomberg Finance, L.P., Wealthspire Advisors

There is a prevailing narrative that the recent increase in unemployment is being driven by higher labor force participation, leading some to view it more optimistically than past analogs. However, **Figure 6** shows that more than half of the contribution to the recent increase in unemployment is being driven by layoffs rather than participation.

Our takeaway is that although the factors contributing to higher unemployment today may appear less severe than in 2001 or 2008, they closely resemble the conditions of 1970 and 1981—both of which preceded recessions. As a result, **we must respect the possibility that this recession signal remains valid.**

Fig 6: The factors contributing to higher unemployment today closely resemble those in 1970 and 1981.

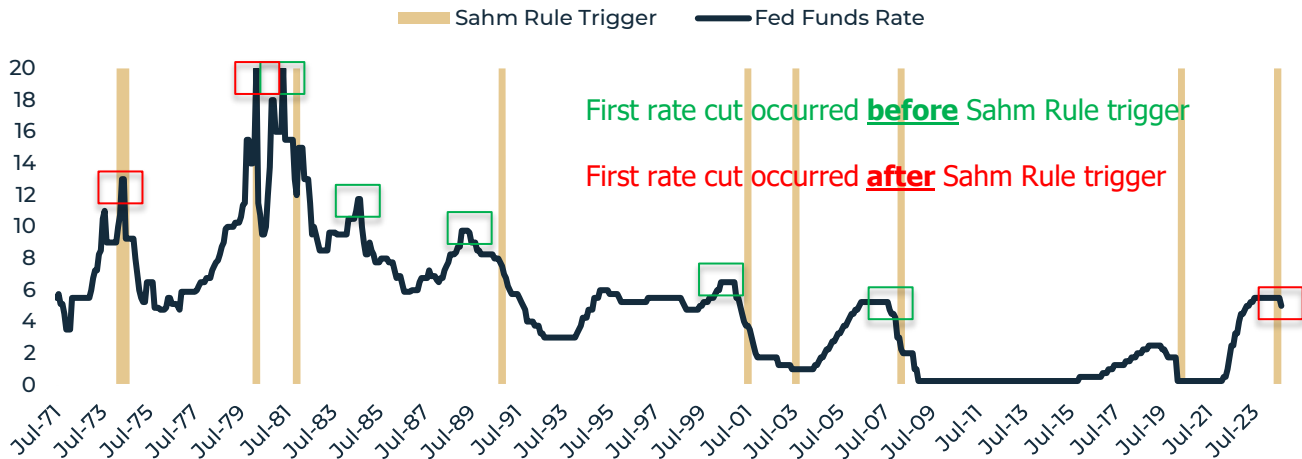


Source: Bloomberg Finance, L.P., Wealthspire Advisors

Economic Data Check (3): The Fed may be behind the curve despite recent rate cut.

The Fed's recent 50 basis point rate cut is being recognized by many as proactive. However, it can be argued that the Fed may be further behind the curve than they have been in a long time. Per **Figure 7**, historically, the Fed has generally started reducing rates several months before unemployment begins to accelerate (as identified by the Sahm Rule trigger). Conversely, today it has started to cut rates only after the unemployment warning has already been triggered, which may exacerbate economic risks.

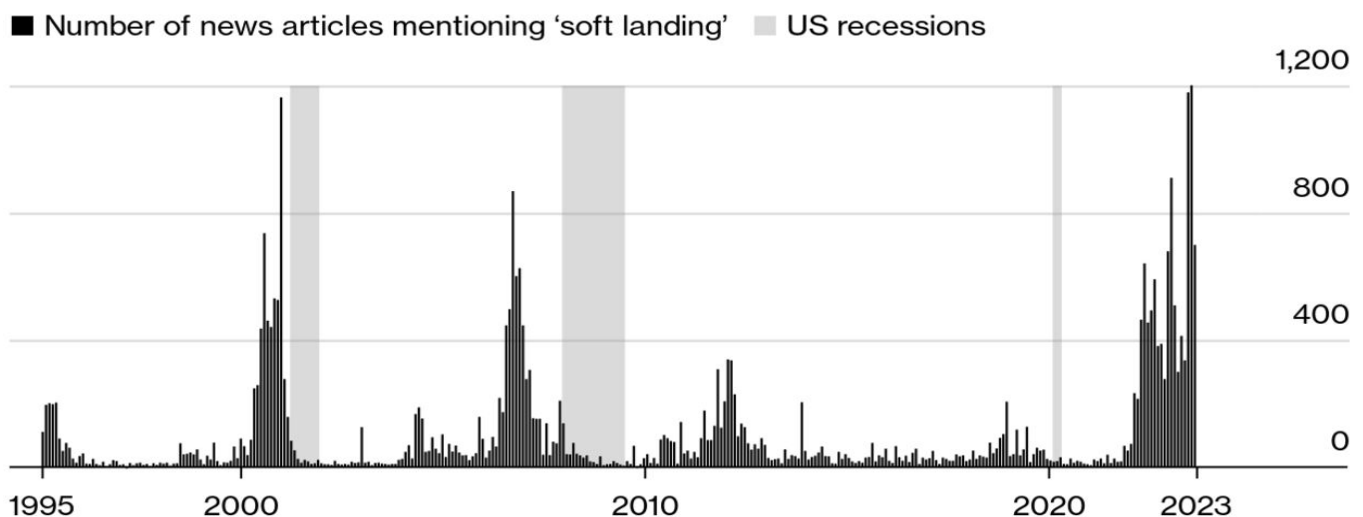
Fig 7: Fed Funds Rate v.s. Sahm Rule Trigger



Source: Bloomberg Finance, L.P., Wealthspire Advisors

We find it counterintuitive that consensus is nearly as optimistic as it has been over the past 18 months with respect to the prospects of a soft landing. According to the most recent Bank of America Fund Manager Survey, [86% of participants believe that a soft or no-landing scenario is the most likely](#) outcome over the next 12 months. This optimism is not uncommon however; **Figure 8** shows that optimism is often highest just before a recession unfolds.

Fig 8: Optimism often peaks before a downturn occurs.



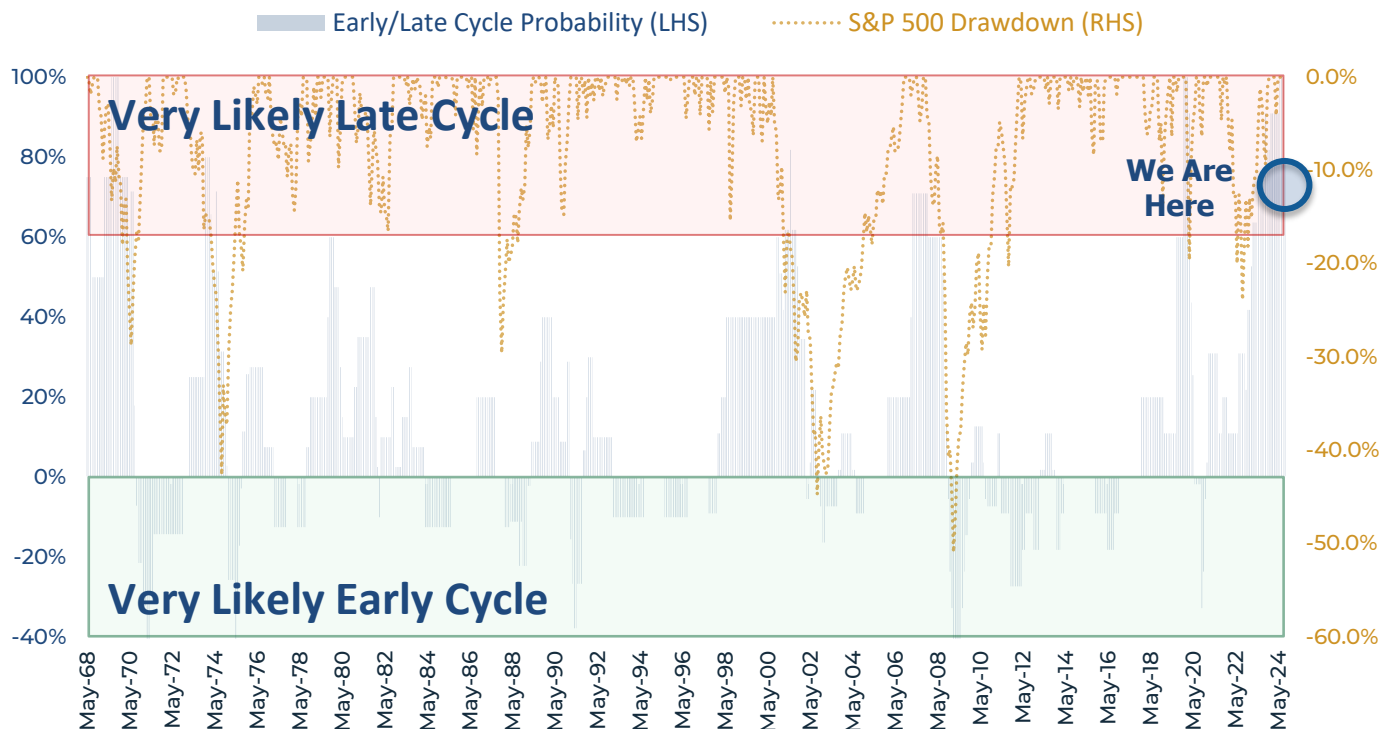
Source: Data compiled from news sources tracked by Bloomberg

Bloomberg

Economic Data Check (4): Our checklists suggest we are late in the economic cycle.

80% of the indicators in our late cycle checklist are currently active, while only ~10% of our early cycle indicators are active (**see appendix I & II for details**). This implies the economy is still in the late-cycle phase, even though some sectors, like housing, have already experienced material weakness. **Figure 9** illustrates that historically, late-cycle environments have been associated with a greater risk of large equity drawdowns. While economic cycles vary in both duration and intensity, and current conditions don't necessarily predict immediate market movements, it's important to remain mindful of these relationships as stewards of your capital.

Fig 9: Our data checklists suggest the economy is in the late stages of the economic cycle.



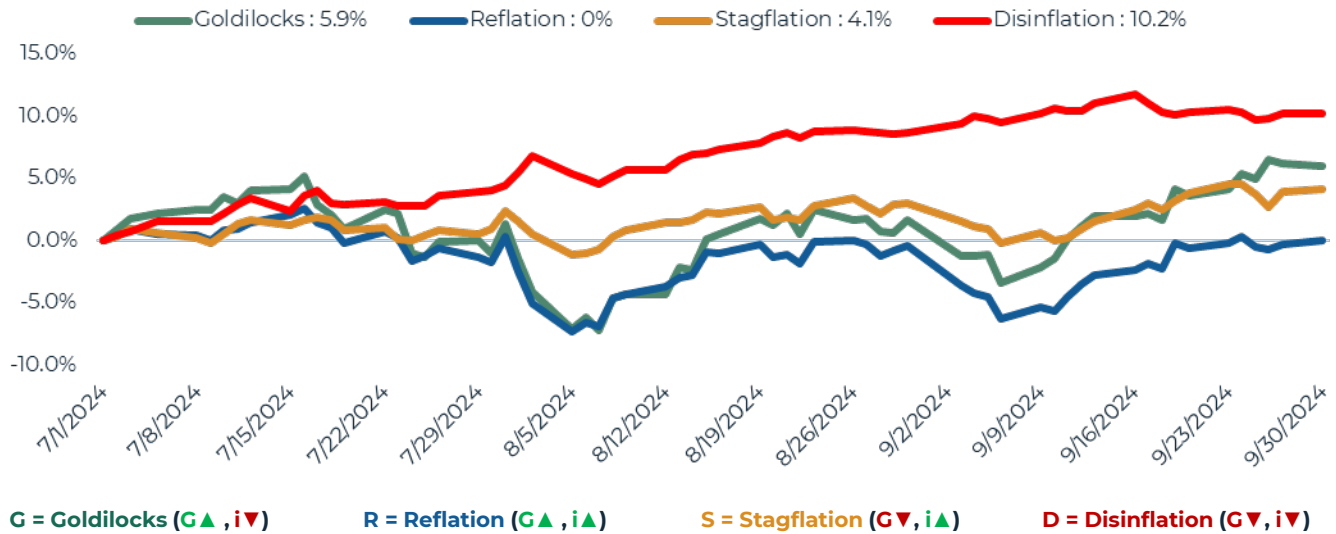
Source: Bloomberg Finance, L.P., Wealthspire Advisors

In summary, although we would gladly welcome a soft or no-landing scenario, data suggests it's prudent to remain cautious about the possibility that this outcome may not be realized.

Equities (1): Price action suggests we were in a disinflation regime in Q3.

Although we won't receive a preliminary estimate for Q3 GDP for another three weeks, recent price action indicates we are likely in a disinflation environment (**Fig 10**), characterized by slower growth and easing inflation.

Fig 10: Cumulative 90D Return Per Regime Portfolio

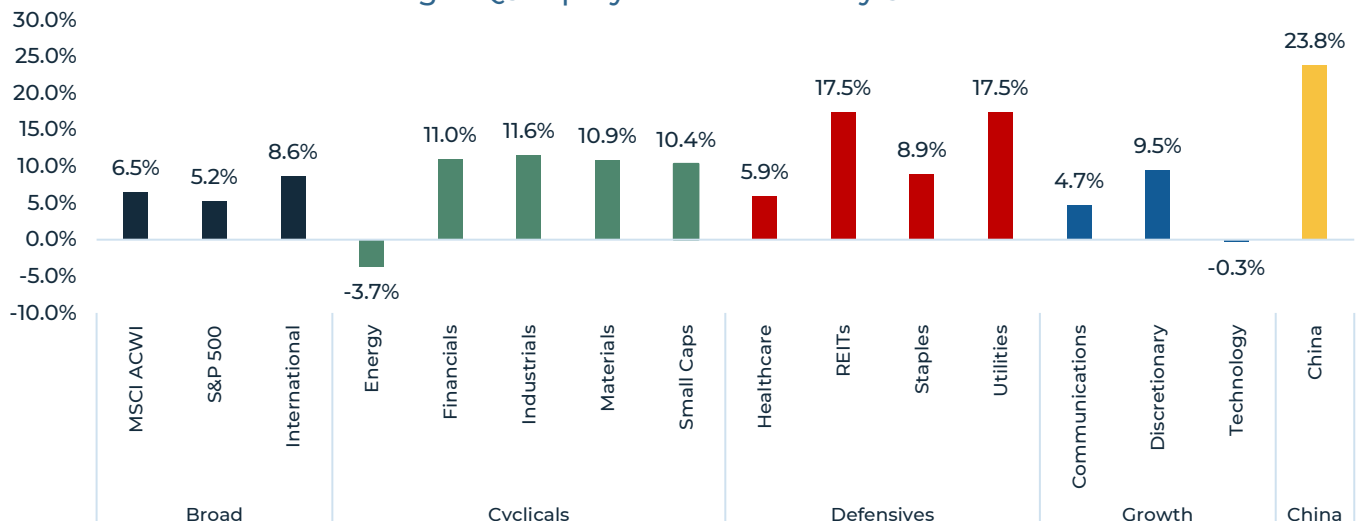


Source: Bloomberg Finance, L.P., Wealthspire Advisors

Defensive sectors outperformed in Q3 (**Fig 11**). REITs and utilities (also referred to as bond proxies) often perform well when interest rates decline like they have in the past few months. Additionally, a handful of utility stocks surged following [Microsoft's announcement of plans to partner with Constellation Energy to revive Three Mile Island](#), signifying the growing demand for clean energy solutions, including nuclear, to power AI initiatives.

Chinese equities also surged in the past two weeks following the PBOC's announcement of a variety of stimulus measures to revive its struggling economy.

Fig 11: Q3 Equity Performance By Sector



Source: Bloomberg Finance, L.P., Wealthspire Advisors

Equities (2): Elevated recession risk combined with high valuations may limit near-term upside in stocks.

As previously noted, we anticipate a shift into a disinflationary environment, with elevated recession risks still a concern. Historically, stocks have underperformed in such environments compared to other economic regimes (**Fig 12**), supporting an underweight stance on equities.

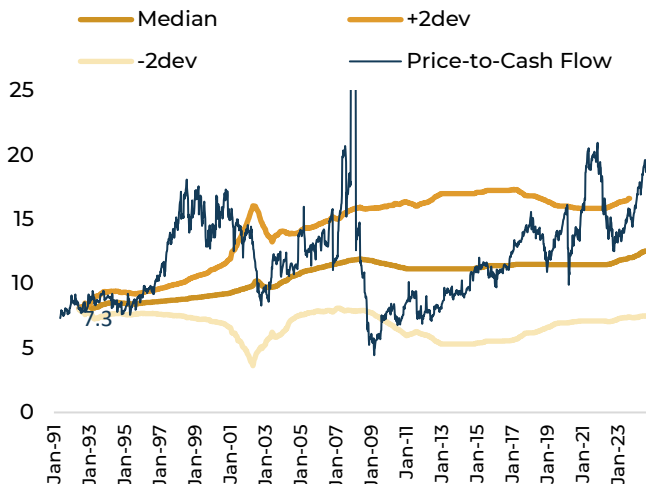
Fig 12: Avg Quarterly Return by Regime – Equities								
# of Observations	No Recession				Recession			
	G	R	S	D	G	R	S	D
# of Observations	35	30	32	24	0	0	4	7
S&P 500	5.2%	5.0%	1.5%	3.4%			-6.0%	-8.2%
Technology	7.3%	8.0%	2.6%	2.7%			-6.1%	-8.7%
Consumer Discretionary	6.4%	4.8%	1.1%	3.2%			-6.1%	-6.2%
Financials	5.1%	5.2%	1.7%	5.1%			-11.5%	-11.0%
Materials	5.1%	4.8%	0.9%	2.8%			-5.3%	-7.0%
Energy	3.4%	5.8%	4.4%	2.1%			-2.3%	-12.4%
Industrials	5.1%	5.2%	1.5%	4.7%			-6.8%	-10.2%
Utilities	2.4%	1.2%	4.5%	5.0%			-3.1%	-8.0%
Healthcare	4.3%	4.2%	1.1%	5.1%			-3.1%	-5.2%
Consumer Staples	4.1%	3.4%	1.0%	4.4%			0.3%	-5.0%
Real Estate	3.5%	3.3%	1.9%	4.6%			-4.7%	-8.4%
Russell 2000	5.3%	5.4%	0.6%	3.2%			-3.8%	-9.1%

G = Goldilocks (G▲, i▼) R = Reflation (G▲, i▲) S = Stagflation (G▼, i▲) D = Disinflation (G▼, i▼)

Source: Bloomberg Finance, L.P., Wealthspire Advisors

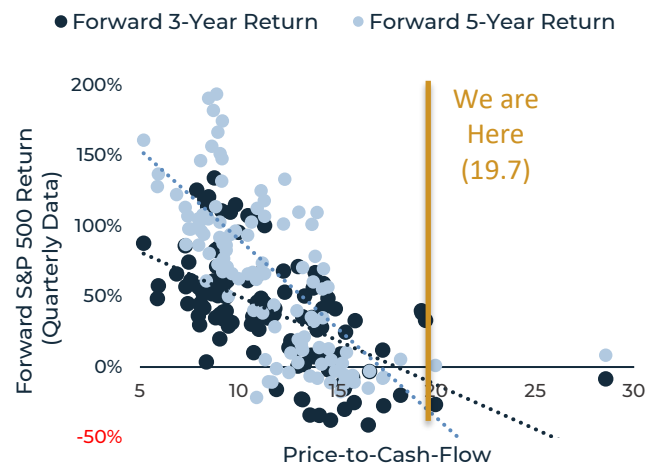
Additionally, the Price-to-Cash-Flow (P/CF) ratio of the S&P 500 currently stands elevated at 19.4 (**Fig 13**), which is generally characteristic of a late-cycle economic conditions. Historically, higher P/CF ratios have correlated with lower future returns (**Fig 14**). While this doesn't preclude equities from advancing if conditions improve, the current risk-reward balance is less favorable compared to historical averages.

Fig 13: S&P 500 Price-to-Cash-Flow



Source: Bloomberg Finance, L.P., Wealthspire Advisors

Fig 14: Forward Returns for S&P 500 v.s. Price-to-Cash-Flow (1991 - 2021)

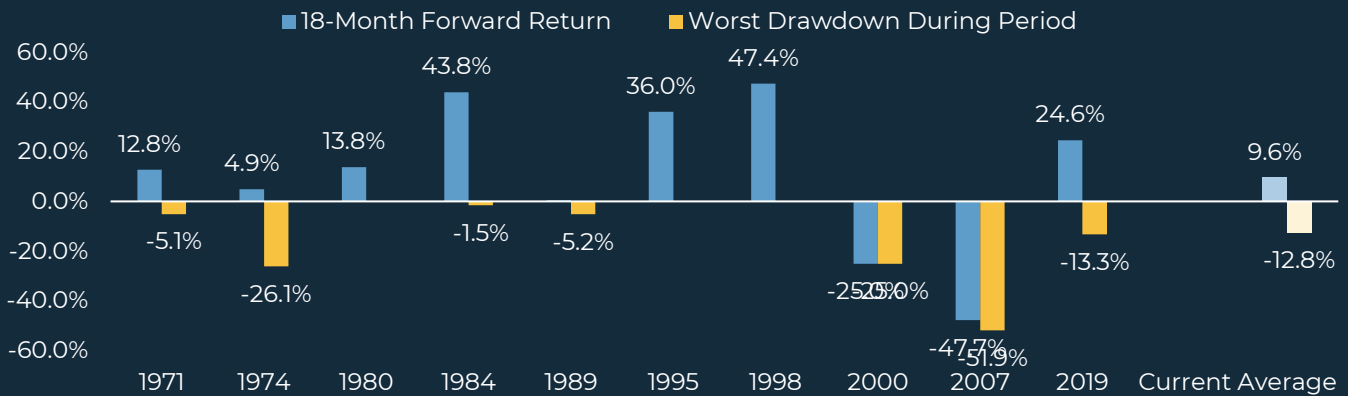


Source: Bloomberg Finance, L.P., Wealthspire Advisors

Equities (3): Historical context regarding equity performance after Fed rate cuts.

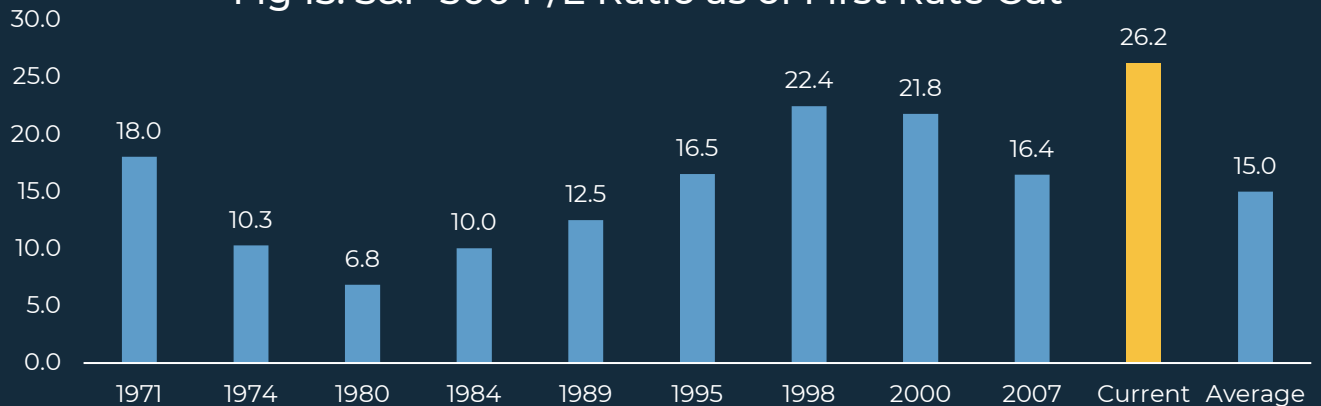
Equity performance following the first Fed rate cut has historically been mixed (**Fig 14**). However, elevated valuations (**Fig 15**) and tighter labor market conditions (**Fig 16**) may limit upside compared to previous easing cycles.

Fig 14: 18-Month Forward Return Following First Rate Cut



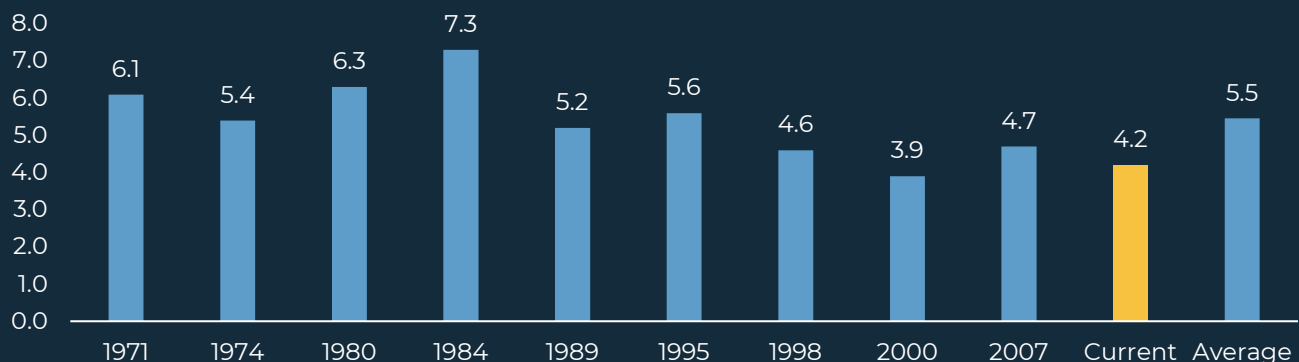
Source: Bloomberg Finance, L.P., Wealthspire Advisors

Fig 15: S&P 500 P/E Ratio as of First Rate Cut



Source: Bloomberg Finance, L.P., Wealthspire Advisors

Fig 16: Unemployment Rate as of First Rate Cut



Source: Bloomberg Finance, L.P., Wealthspire Advisors

Equities (4): We continue to favor semiconductors and plan to increase exposure as macroeconomic conditions improve.

Generative AI is reshaping the technological landscape with the potential to pioneer novel applications, revolutionize industries (**Fig 17**), and enhance operational efficiencies. As a result, this breakthrough has garnered significant attention from the media and capital market participants during the past 18 months.

Tectonic Shifts in Technology are Built on Semiconductors

Fig 17



Source: Applied Materials

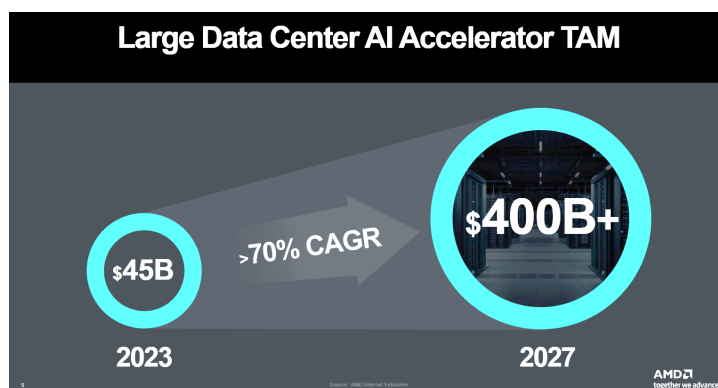
Until this point, much of the value from these advancements has accrued to semiconductor and hardware companies, which provide the essential components fueling AI systems. Although these stocks have seen considerable gains, we remain confident in their long-term growth potential, driven by their key role in powering innovations in AI.

For instance, Advanced Micro Devices (AMD) projects demand for AI accelerators—custom chips designed to optimize AI workloads—will grow from \$45 billion to \$400 billion over the next three years (**Fig 18**). While ambitious, this forecast highlights the vast potential for semiconductors as AI continues to transform industries.

While we believe AI provides a strong secular tailwind for chip companies, semiconductors remain highly cyclical, as the majority of industry revenue is still driven by consumer hardware sales, including smartphones, PCs, gaming, and autos.

We intend to increase our positions during material pullbacks or as macroeconomic conditions improve.

Fig 18: Advanced Micro Devices projects that demand for custom chips will grow at a 70% CAGR.



Source: Advanced Micro Devices, Company Presentation

Fixed Income: Favor overweight, with a bias toward treasuries.

We continue to favor fixed income, particularly with a focus on Treasuries. The 10-year U.S. Treasury Note currently yields 3.8%, which is 30% higher than its 20-year average. We believe this presents an attractive return, especially in a late-cycle environment where equity valuations are elevated.

Contrary to equities, bonds, especially high-quality ones, tend to perform their best during disinflationary periods. Historically, they have also served as a strong hedge during recessionary environments (**Fig 19**).

Fig 19: Avg Quarterly Return by Regime – Fixed Income								
	No Recession				Recession			
	G	R	S	D	G	R	S	D
# of Observations	35	30	32	24	0	0	4	7
U.S. Aggregate	1.1%	0.9%	1.0%	1.8%			0.9%	2.5%
IG Corporates	1.5%	1.4%	0.9%	2.2%			-1.7%	2.6%
7-10 Yr Treasury	1.0%	0.5%	1.2%	2.1%			2.6%	3.5%
20+ Year Treasury	1.2%	-0.1%	1.6%	3.4%			2.6%	4.8%

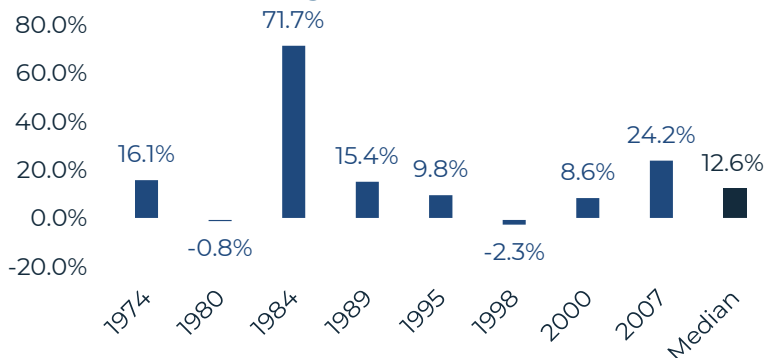
G = Goldilocks (G▲, i▼) R = Reflation (G▲, i▲) S = Stagflation (G▼, i▲) D = Disinflation (G▼, i▼)

Source: Bloomberg Finance, L.P., Wealthspire Advisors

Furthermore, Treasury bonds have historically performed well following the first Fed rate cut (**Fig 20**).

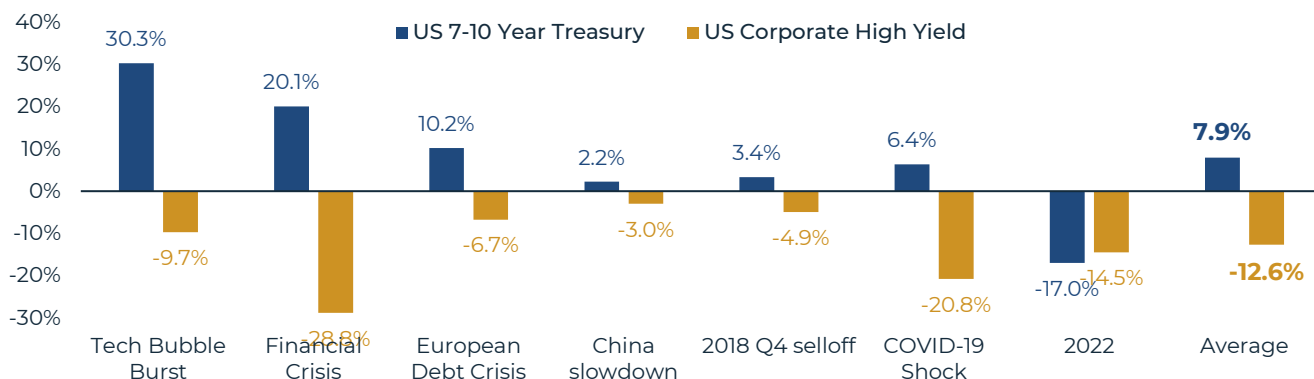
Although yields are elevated in absolute terms, [credit spreads are near all-time lows](#) (i.e., very tight). While such tightness can persist, it creates an unfavorable balance of risk and return. If macroeconomic conditions worsen, spreads will likely widen, leading to potential losses for credit instruments, even if Treasury bond prices rise (**Fig 21**).

Fig 20: 18-Month Forward Return Following First Fed Rate Cut



Source: Bloomberg Finance, L.P., Wealthspire Advisors

Fig 21: Treasury Notes v.s. High-Yield Bonds in Adverse Market Conditions



Source: Bloomberg Finance, L.P., Wealthspire Advisors

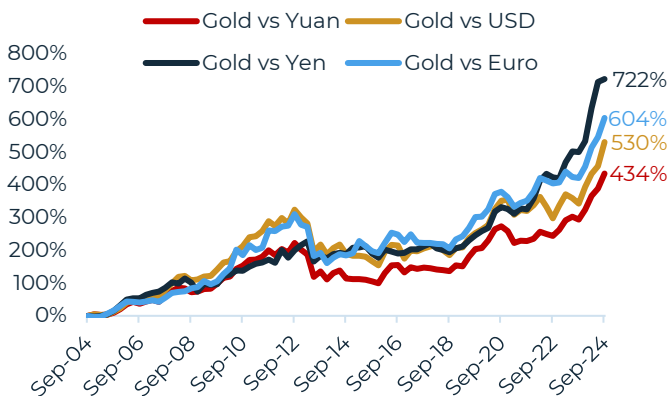
Commodities: Favor overweight, with a bias toward gold.

Gold remains the world's premier store of value, offering protection against a variety of economic scenarios, including sluggish growth, mounting debt burdens, and expansionary monetary policy. Recently, these conditions have converged, fueling [robust demand for the precious metal](#).

Why is gold a store of value? [Gold's stock-to-flow ratio is significantly greater than that of other commodities](#). The stock-to-flow ratio measures the total existing supply of a commodity (the stock) with its annual production (the flow). Gold's exceptionally high ratio means it cannot be as easily diluted or devalued, increasing its appeal as a reliable hedge against currency devaluation.

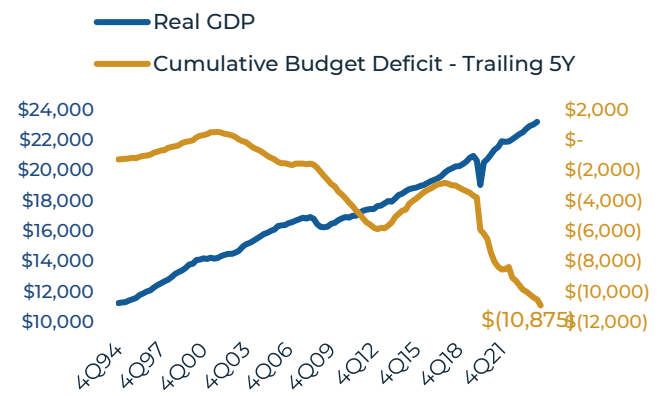
To that point, over the past two decades, gold's value has increased between 4x and 7x relative to the world's major currencies (**Fig 22**). **Why?** Because during that time, the (M2) money supply across the US, Europe, Japan, and China has expanded at an annual rate of more than +7% in US dollar terms. In stark contrast, gold's supply has expanded modestly, at about +1.5% to +2.0% per year. We believe this marked disparity in supply growth is a fundamental driver of gold's appreciation against fiat currencies, highlighting investors' growing preference for the metal's inherent scarcity. Given the recent surge in debts across major economies, including the U.S. (**Fig 23**), gold's utility within a diversified portfolio is perhaps more compelling than ever before.

Fig 22: Performance of Gold v.s. Major Fiat Currencies (Past 20 Years)



Source: Bloomberg Finance, L.P., Wealthspire Advisors

Fig 23: U.S. Budget Deficit v.s. GDP (Trillions USD)



Source: Bloomberg Finance, L.P., Wealthspire Advisors

Relative to the broad commodity index, gold has historically outperformed in disinflationary regimes, with this outperformance becoming even more pronounced during recessionary periods (**Fig 24**). We continue to favor gold in lieu of broad commodities until we expect economic growth to accelerate.

Fig 24: Avg Quarterly Return by Regime – Commodities

	No Recession				Recession			
	G	R	S	D	G	R	S	D
# of Observations	35	30	32	24	0	0	4	7
Broad Commodities	1.3%	5.7%	2.6%	-3.3%			7.0%	-8.9%
Gold Spot	2.3%	2.2%	1.1%	0.2%			4.0%	2.4%

Source: Bloomberg Finance, L.P., Wealthspire Advisors

Positioning Summary:

 **Underweight**
Global Equities

 **Overweight**
Fixed Income

 **Overweight**
Commodities

 **Overweight**
Cash

Positioning Details:

▪ **Equities: Underweight**

Although we have favored increasing allocations to equities since 2022, we favor remaining underweight due to our expectation of slower growth, combined with the high likelihood that it is late in the economic cycle. Within equities, we favor remaining overweight tech stocks, which should benefit if the economy remains more resilient than expected.

▪ **Fixed Income: Overweight**

We favor increasing fixed income exposure to overweight given expectations of slower growth. Historically, bonds have outperformed in such environments, and their appeal may be heightened given that they have been out of favor during the past four years.

▪ **Commodities: Overweight**

We favor an overweight position in gold as a hedge against slowing growth, burgeoning debt burdens, and a continued increase in the money supply.

▪ **Cash: Overweight**

We favor being overweight in cash because of slowing growth and elevated recession risk. Cash should help reduce portfolio volatility while providing dry powder to reinvest opportunistically. Within cash, we favor holding short-term Treasury bills which are still yielding more than +5%.

As always, we thank you for your ongoing trust and confidence. Please do not hesitate to reach out with any questions relating to our outlook or the management of your individual portfolio. We will keep you apprised of any important developments.

Sincerely,

Your advice team at Wealthspire.

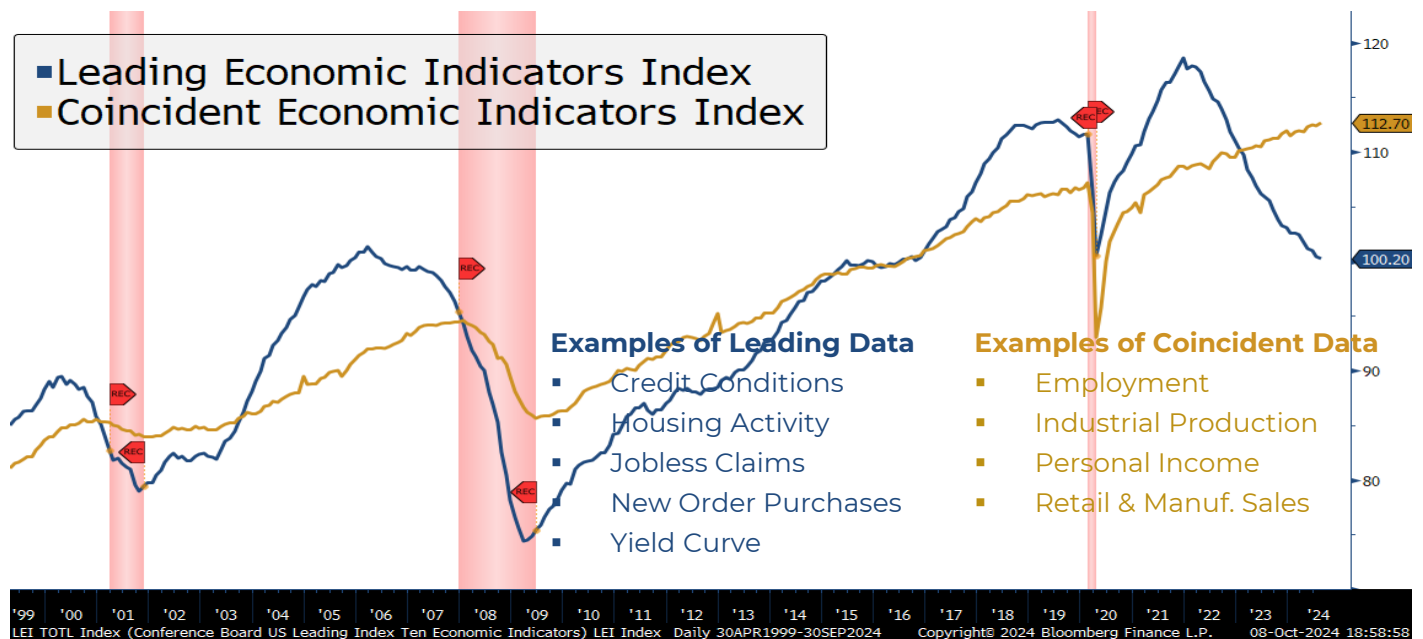
Appendix 1: Late Cycle Checklist

Historically, on average, the S&P 500 has peaked eight months prior to the beginning of a recession, with nearly 40% of the peak-to-trough drawdown prior to the start of the recession. As a result, we have constructed a probabilistic framework for determining when the risk of a recession occurring within the next 12–18 months is elevated versus not.

Today, four of the five indicators in our late-cycle checklist have triggered, suggesting that the risk of a recession occurring within the next twelve months is elevated, despite the ongoing resilience in coincident economic data. Furthermore, leading economic indicators are in a deep contraction, which is typical of a late-cycle environment (**see chart at bottom**)

Indicators in our Late Cycle Checklist include:

1. **✓ Tight Headline Labor Market + Slowing Momentum:** Becomes active when the unemployment rate is below 5% and the year-over-year change in continuing jobless claims turns positive. **Active since February 2023.**
2. **✓ Slowing Momentum in Small Business Job Openings:** Becomes active when the 6-month moving average of small business openings crosses below the 2-year moving average. **Active since December 2022.**
3. **✓ Yield Curve:** Becomes active when the 10-year US Treasury Yield crosses below the 1-year US Treasury yield. **Active since July 2022.**
4. **✓ Overconfidence:** Becomes active when consumers are significantly more confident in the current situation than they are in their future situation. We read this as a sign of potential exuberance. **Active since June 2021.**
5. **X Contracting Import Growth:** Becomes active when import growth contracts on a year-over-year basis. **Import growth is currently positive.**



Source: Bloomberg Finance, L.P., Wealthspire Advisors

Appendix 2: Early Cycle Checklist

Below is our checklist for probabilistically identifying that we are likely entering the early phase of the business cycle.

Excessive pessimism: 0 of 2 indicators are active

1. **X Excessive Bear/Bull Ratio:** When more than two people are bearish for every person that is bullish, it is generally a sign that participants have become too pessimistic, and stocks may be oversold. **Last activated in March 2023 and is no longer active.**
2. **X Plunge in Relative Consumer Confidence:** Generally, consumers have more confidence in their present situation than their future situation. However, during very trying times, consumer confidence plummets such that surveys reflect higher confidence in the future than the present. This has historically coincided with major market bottoms. Currently, consumers are much more confident in their present situation than their future situation, i.e, **relative consumer confidence remains very high.**

Exhausted selling: 0 of 4 indicators are active

3. **X Coppock Guide:** The [Coppock Guide](#) measures long-term momentum in asset prices. When the Coppock Guide reverses from a very low position, it generally signals a positive shift in price momentum. **Last activated in March 2023 and is no longer active.**
4. **X Zweig Thrust:** Zweig Thrust is a momentum indicator that identifies significant market breadth when a large percentage of stocks advance over a short period, typically indicative of the beginning of a new upward trend. This indicator is widely regarded as a powerful signal of a potential major market uptrend. It is activated when the criteria are met, which historically aligns with the onset of bull markets and early economic cycles. **Last activated in November 2023 and is no longer active.**
5. **X Volatility of Volatility:** When equity volatility of volatility declines materially after reaching extreme levels, it generally signals that the worst is in the rearview. **Signal has not activated since 2020.**
6. **X VIX Divergence:** When the S&P 500 declines substantially while the [VIX](#) is flat or down, it has historically signaled that market participants have nearly priced in known risks. **Last activated in November 2022 and is not longer active.**

Deteriorated fundamentals: 1 of 4 indicators are active

7. **✓ Manufacturing Contraction:** Major market bottoms generally do not form until there is a deep contraction followed by an acceleration in manufacturing new orders. **Reactivated this month.**
8. **X Consumption Contraction:** Often times major market bottoms do not form until real personal consumption has contracted. **Currently, consumption growth remains positive.**
9. **X Rising Unemployment:** Generally, major market bottoms do not form until the unemployment rate rises by at least +1.5%. **Currently, the unemployment rate is only +0.7% higher than its cycle low.**
10. **X Recession Announcement:** The National Bureau of Economic Research generally doesn't announce that the US economy is in a recession until 6-12 months after it has entered one. It is often the case that by that time, the worst of the recession has played out, and therefore, the announcement tends to occur near a bear market bottom. **We do not anticipate an imminent recession announcement from NBER given the current strength in nonfarm payrolls.**

Accelerating liquidity: 0 of 1 indicators are active

11. **X Monetary Stimulus:** Accelerating liquidity generally provides a tailwind to economic activity and asset prices. **We do not anticipate a meaningful acceleration in liquidity until the Fed cuts interest rates and engages in the re-expansion of its balance sheet.**

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