MAJOR TREND INDEX

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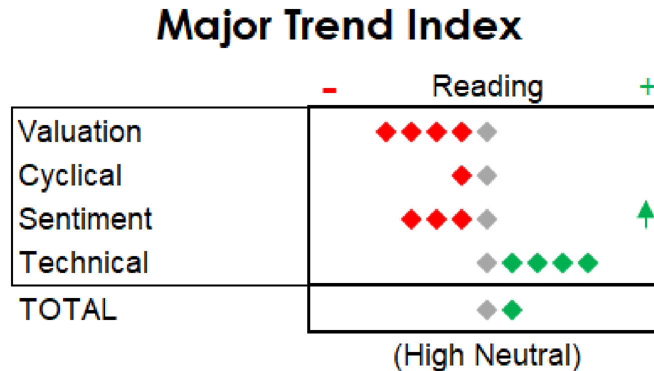
Data for Week Ending: November 1, 2024



The Major Trend Index was unchanged at a High Neutral reading of +1 for the week ended November 1st. The Sentiment factors moved up a notch to -3, while numerous downgrades within the Technical work were not quite enough to knock that category's reading down from a solidly bullish tally of +4. In the Cyclical segment, improving scores among the monetary and liquidity indicators have been stymied by the rise in bond yields since mid-September's initial Fed rate cut. Finally, the MTI's Valuation composite still finds several measures at levels that have previously only been observed during full-blown stock market bubbles.

Overall, we view the cyclical backdrop for stocks as high risk, but our work doesn't yet support a move to a more defensive posture. Net equity exposure across our tactical asset allocation portfolios is currently **54-55%**.

The list of recession signals that the economy has shrugged off in the last 2½ years is impressive. (We highlight yet another such warning below.) However, even if a recession arrives in 2025, the lag between the initial warnings in 2022 has been long enough to allow an intervening 64% rally in the S&P 500. For what its worth, the 64% gain matches the average gain of the four bull markets since 1957 that were not preceded by an economic downturn (1962-66, 1966-68, 1978-80, and 1987-90). From a "genetic" standpoint, those upswings were inferior to the eight bull markets that commenced during recessions (+187% on average).

From an economic, monetary, and valuation perspective, this bull market has overcome great odds. Nonetheless, calling for an imminent major peak would also be against the odds, since the NYSE Daily Advance/Decline Line and six of the other seven traditional bellwethers* made new bull market highs concurrent with the S&P 500's mid-October high. Customarily, several of those bellwethers begin to lose ground in advance of a bull market top—and the lag time tends to be more pronounced and longer lasting when the subsequent bear market is accompanied by a recession. We certainly believe the next bear market will be a *recessionary* bear, but our disciplines advise against positioning prematurely for that prospect.

Clients who have questions regarding any of the components or indicators should contact Doug Ramsey at 612-332-1567 or dramsey@LWCM.com

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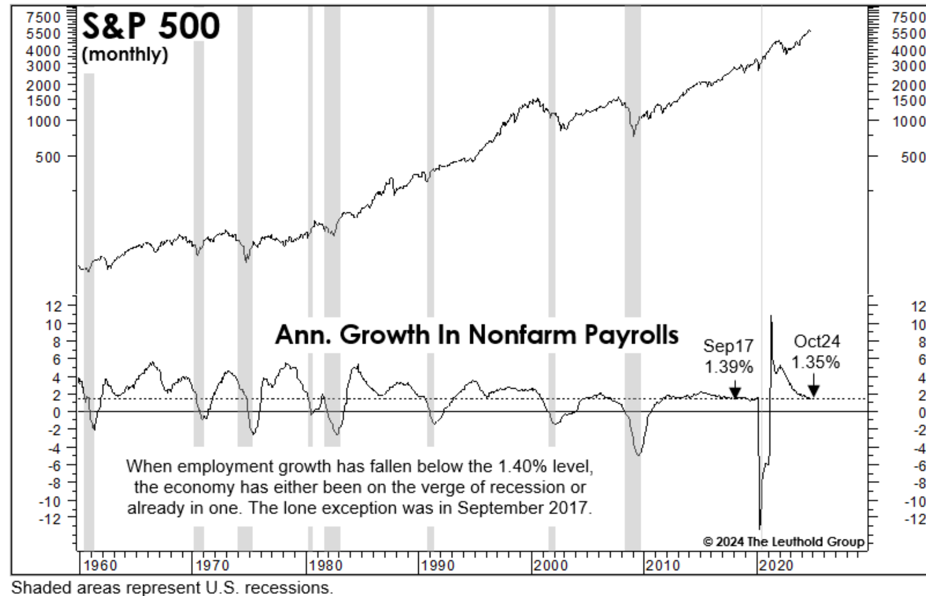
Over the last 2½ years, a laundry list of leading and coincident economic indicators have been triggering recession warnings. While the consensus view is that an economic soft landing has been achieved, the red flags continue to proliferate. Case in point: Friday's disappointing jobs figures pulled the year-over-year growth rate for nonfarm payrolls below the 1.40% level that's proven to be the "point of no return" for the economic expansion in ten of the last eleven instances.

- Like the Sahm Rule, this rule of thumb often sparks when a recession is *already underway*. Among the ten successful signals, six occurred *after* the business cycle peak. In the last three cases, however, the initial job growth reading below 1.4% *preceded* the business cycle peak with lead times between two months and twelve months (March 2001, December 2007, and February 2020).



Shaded areas represent U.S. recessions.

- Historically, when the job growth rate initially declined to as low as it is today, it was usually too late to dump stocks. In fact, three of the signals (May 1970, October 1974, and September 1990) practically bottom-ticked the bear market low. Conversely, the 2001 and 2007 signals show the danger of using this (or any other rule of thumb) in a mechanical way.

- When job growth drops below the "point of no return," buying *T-bonds* has often been a safer bet than buying stocks. The average 12-month-forward return of +11.8% is nearly double the long-term average for any twelve-month period. That inclination is worth keeping in mind, given how quickly bond sentiment has soured.

Performance Of S&P 500 After Annual Growth In Nonfarm Payroll Employment Drops Below 1.40%*

© 2024 The Leuthold Group	S&P 500 Fwd. Total Returns		10-Yr. Treasury Bonds Total Returns		Lead/Lag Vs. Business Cycle Peak
Date	6-Mo %	12-Mo %	6-Mo %	12-Mo %	
May 31, 1957	-10.3	-3.2	0.9	9.6	3 mos. before
June 29, 1960	3.9	17.3	4.6	6.2	2 mos. after
May 31, 1970	16.1	34.7	15.3	19.9	5 mos. after
October 31, 1974	21.0	26.0	0.3	7.4	11 mos. after
May 30, 1980	29.4	25.0	-8.5	-6.3	4 mos. after
October 31, 1981	-1.8	16.2	11.6	42.0	3 mos. after
September 30, 1990	24.8	31.3	9.7	18.8	2 mos. after
January 31, 2001	-10.8	-16.1	3.7	6.4	2 mos. before
February 28, 2007	5.7	-3.6	2.8	13.8	10 mos. before
September 29, 2017	5.8	17.9	-2.1	-3.0	*no near-term peak*
February 28, 2019	6.2	8.2	10.8	15.2	12 mos. before
October 31, 2024					?
Average	8.2	14.0	4.5	11.8	Led peak 4 times, lagged 6 times, w/ one false signal.
Avg., All Periods	5.8	11.9	3.1	6.4	

*Annual growth rate must have been above 1.40% for each of the previous 12 months.

* Dow Jones 65 Composite, Dow Jones Transportation Average, Dow Jones Utility Average, Russell 2000, S&P Financials, S&P 500 Cyclical[1] Composite, Equal Weighted S&P 500, and NYSE Daily Advance/Decline Line.

[1] An equal-weighted index of the S&P 500 Consumer Discretionary, Industrials, and Materials sectors.

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