

Bull Market Monitor

US comfortably in late cycle

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- Equity bull markets rarely end in the absence of a recession occurring. We track key attributes of the business cycle to gauge how the expansion is evolving and risks of a recession.
- We think that the US business cycle has transitioned to the late stage. The good news is that the economy can be late cycle for a long time.
- After a weak start to the year, economic data has shown some improvement over the past month. Recent inflation data has been soft, suggesting that the underlying trend may be slightly below the Fed's 2% target.
- While now late cycle, we view the current growth, inflation, and monetary policy environment as still supportive of risk assets. In our tactical asset allocation we remain risk-on.

Cycle status

We think that the US business cycle has transitioned to the late stage. Growth decelerating from its peak toward long-term potential, and the Federal Reserve's monetary policy being roughly neutral, are the two characteristics typical of a late-cycle economy. The good news is that the economy can be late cycle for a long time. At one point last year the economy had been trending toward overheating, but the more recent data shows that growth is slowing to a more sustainable pace as fiscal and monetary stimulus fades. Subdued inflation has allowed the Fed to send more dovish signals, and risks that excessive monetary policy tightening will cause the cycle to end appear very low.

What's new?

After a weak start to the year, economic data has shown some improvement over the past month. In particular, tracking estimates for 1Q19 GDP growth, which were around 0.5% a month ago, are now around 2%. Job growth also recovered to a healthy 196,000 in March after a weak reading in February. The strong labor market provides a base of support for consumer spending and the housing market. We therefore leave our growth indicator just above neutral. Recent inflation data has been soft, suggesting that the underlying trend may be slightly below the Fed's 2% target for core PCE. Credit spreads on corporate bonds have narrowed over the past month. The yield curve briefly inverted in late March, with 10-year yields falling below 3-month yields, but that move has since reversed.

Key cycle indicators for US

The cycle indicators gauge whether the economy is overheating and if financial conditions are restricting growth. These determine our assessment of where we are in the cycle.

Overall: Late cycle



Growth (relative to potential)



Labor market



Inflation (relative to 2%)



Monetary policy



Yield curve



Credit conditions



Current month: ▼ Last month: ▼

Each indicator is evaluated relative to a neutral level that is sustainable over time in order to

What are we watching?

Most important are signs that the global growth deceleration will abate and that US growth stabilizes at or above long-term potential. With that, recession risk for 2019 should remain relatively low. Trade policy remains a key risk. Negotiations between the US and China are ongoing, and recent comments suggest that they are getting close to an agreement. President Trump has until mid-May to decide whether or not to impose tariffs on autos. In particular, he has threatened to impose auto tariffs on the EU if a trade deal is not reached, and the EU has in turn threatened to retaliate immediately. The drama over Brexit continues, although regardless of the outcome, the impact on the US economy should be limited.

What are the investment implications?

While now late cycle, we view the current growth, inflation, and monetary policy environment as still supportive of risk assets. In our tactical asset allocation we remain risk-on.

Appendix

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