Business Cycle Index

SEPTEMBER 2018

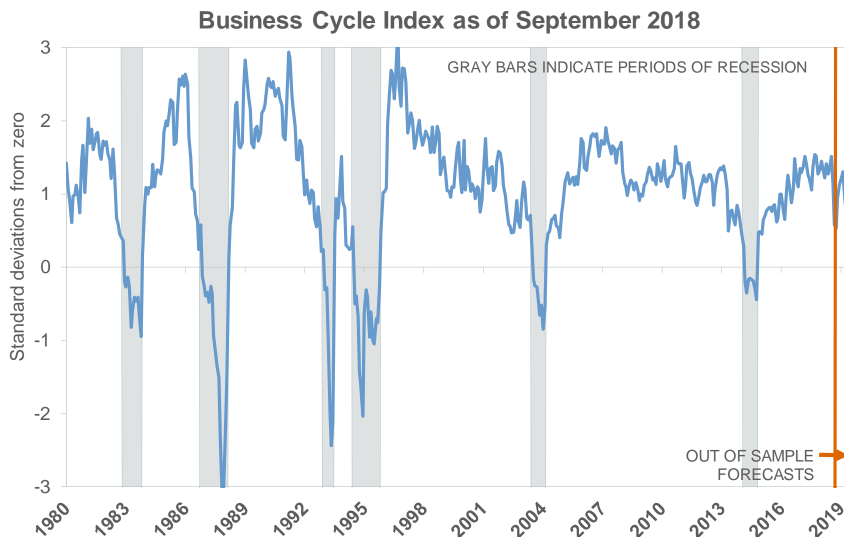
September employment report: Right down the fairway

The 134,000 nonfarm payrolls print in September were modestly below expectations but the previous estimates for July and August were revised upward by a combined 87,000 jobs, leaving the three-month average nonfarm payrolls creation at a healthy 190,000 jobs—more than sufficient to tighten the labor market. Indeed, the unemployment rate dipped to 3.7% in September and now stands at its lowest level since December 1969.

Digging into the numbers, the report suggested the U.S. economy has continued to be resilient to averse weather and trade policy. There was no evidence of a material impact from Hurricane Florence and the manufacturing sector—a watchpoint for signals about potential impact of recent changes to U.S. trade policy—held up well. Last month's negative number for manufacturing jobs was revised away and manufacturing employment in September increased by 18,000 jobs.

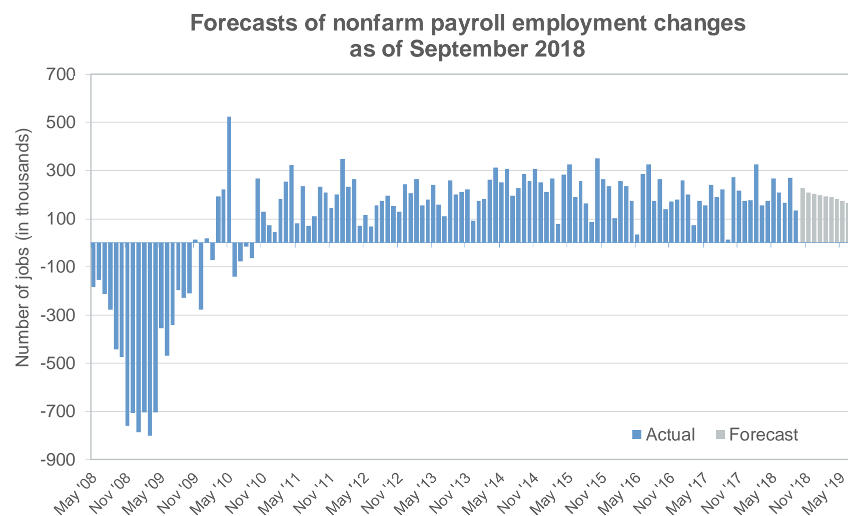
In our view, there's nothing in this report to move the needle in a big way for the Fed. Our baseline for the next interest rate hike is December. We continue to expect an additional 3-4 Federal Reserve interest rate hikes in 2019.

EXHIBIT 1: BUSINESS CYCLE INDEX



Source: Recession dates from National Bureau of Economic Research. Out of sample forecasts were calculated by simulating the time-series model into the future. The value shown is the median of the simulated value for the month.

EXHIBIT 2: EMPLOYMENT FORECAST



Source: Actual employment data from St. Louis FRED database. Out of sample forecasts were calculated by simulating the time-series model into the future. The value shown is the median of the simulated value for the month.

FREQUENTLY ASKED QUESTIONS

What is the Business Cycle Index?

- **The Business Cycle Index (BCI) forecasts the strength of economic expansion or recession** in the coming months, along with forecasts for other prominent economic measures.
- The two outputs featured here are the Business Cycle Index and the Employment Forecast.
- Inputs to the model include non-farm payroll, core inflation (without food and energy), the slope of the yield curve, and the yield spreads between Aaa and Baa corporate bonds and between commercial paper and Treasury bills. A different choice of financial and macroeconomic data would affect the resulting business cycle index and forecasts.
- "Dynamic forecasts of qualitative variables: A Qual VAR model of U.S. recessions", published in the Journal of Business and Economic Statistics in January 2005, provides background on the statistical model behind the BCI.
- The ongoing track record of the BCI forecasts is available on www.helpingadvisors.com

Why is it important?

- **The BCI forecasts the future direction of the business cycle.**
- Historically, the stock market responds to investor perceptions of the future direction of the business cycle.

Can I use the BCI as a market-timing tool?

- **No. The BCI is not meant to serve as a direct prediction regarding the future performance of any financial market.** It is not intended to predict or guarantee future investment performance of any sort.

How do we interpret it?

- An increase in the BCI indicates that the business cycle conditions are improving — either moving closer to exiting a recession or to stronger expansion.

- A decrease in the BCI indicates that business cycle conditions are worsening — either moving closer to entering a recession or to a deeper recession.

How often is it updated?

- The Business Cycle Index is updated monthly after payroll employment numbers are released and will be published around the 15th calendar day of the month

These macroeconomic forecasts do not constitute a projection of the stock market or of any specific investment.

Historical employment data displayed in the Business Cycle Index are reflective of current data as provided by the data sources including any revisions to previous data. These revisions may change historic data points and historic ranges for some or all indicators. These changes are usually due to seasonal adjustments to previously supplied data.

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Standard Deviation is a statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution.

Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

No investment strategy can guarantee a profit or protect against a loss in a declining market.

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

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First used: September 2009. Revised October 2018.

RIFIS-20666