2023 Q1 MARKET OUTLOOK

Executive Summary

As a US recession in 2023 becomes increasingly likely, market participants have shifted their focus to determining its potential severity. The combination of excess savings, slowing inflation, and China's reopening have led to optimism that a hard landing may be averted. Although 2022 was challenging, we don't expect higher inflation will become entrenched, and therefore, we are optimistic about the prospect for future investment returns. While we continue to favor a defensive posture, we anticipate there will be opportunities to put cash to work in 2023.

Economic Data Check

Data suggests the US will have a recession in 2023. Now the focus shifts toward severity.

- Leading economic indicators suggest the US economy will enter a recession in 2023, if it has not already. However, we remain vigilant of the possibility that excess savings could mitigate or eliminate the negative feedback loops that generally coincide with recessions, which could allow this recession to be shallower (soft landing) than normal (hard landing).
- The combination of slowing inflation and China's reopening has caused growth estimates to tick higher for the first time in a year, spurring optimism that the US and global economy may avoid a hard landing.
- Favorable base effects may permit growth to accelerate in the first half of 2023, potentially precipitating a goldilocks environment (growth ▲, inflation ▼) in the short term.

Equities

Favor remaining underweight equities but increasing exposure from a max defensive posture.

- Global equities rallied **+9.8%** in Q4 as sentiment improved on the back of easing inflation pressures and China's shift from its "zero-Covid" strategy.
- Our earnings model suggests there is downside risk to corporate profits that is not priced in, particularly if the economy endures a hard landing. Recall that during bear markets historically, most of the peak-to-trough drawdown in stocks has occurred after the start of a recession.
- That said, we are now 13 months into this bear market, and 2 of our 11 indicators for identifying major stock market bottoms have triggered. This suggests that although downside risk remains material, a max defensive position is no longer prudent.

Fixed Income

Favor increasing fixed income exposure to neutral.

- The US Aggregate Bond Index gained **+1.9%** in Q4 but finished the year down **-13.0%**. This was the worst year in the index's history by a factor of 4.5x, and it inflicted considerable pain on conservative investment portfolios, which experienced their worst loss in ~50 years.
- Inflation, combined with the Fed's response to it, were headwinds to bond performance in 2022, but we expect these factors will act as tailwinds in 2023.
- We favor increasing bond exposure to neutral because we believe the Fed will need to cut interest rates in the back half of 2023 to try to engineer a soft landing, and we will favor increasing exposure further on weakness.

Commodities

Favor being overweight commodities via gold.

- The Goldman Sachs Commodity Index gained **+3.4%** and finished the year up **+26.0%**.
- We favor being underweight broad commodities given the elevated recession risk but overweight gold, which should benefit from an inflection in interest rate policy. If real yields turn lower, gold prices should move higher, and we believe the market is already front-running this transition.

Summary

Favor a defensive posture but put some excess cash to work.

- We favored being overweight cash in 2022 as surging inflation pressured most financial assets. We anticipate that easing inflation pressure will reverse that trend and favor putting cash to work as a result.
- We believe bonds and gold present more favorable risk-reward relative to stocks given elevated recession risk.

Positioning Summary (+ Trend ▲▼):

Underweight ▲ Global Equities	Neutral ▲ Fixed Income	Overweight ▲ Commodities	Overweight ▼ Cash

Note: *This document, including important disclosures on Page 11, is meant to be read in its entirety.*

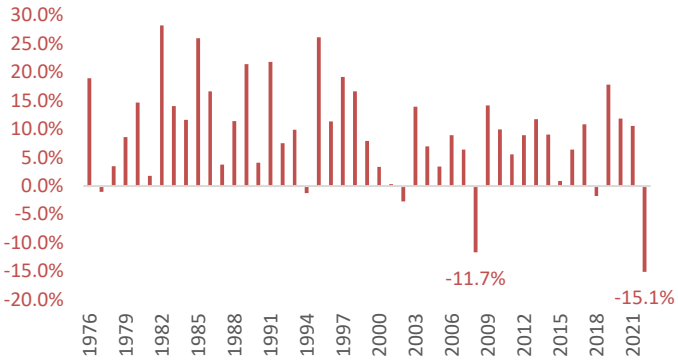
[1]The US Aggregate Bond Index was incepted in 1976.

2022 Review

The year 2022 was a very challenging investment environment, as ultra-hawkish central bank policy pushed interest rates higher and the valuation of financial assets lower. Although global equities only declined **-18.4%**, US bonds endured their worst year ever by a factor of 4.5x, facilitating losses in conservative investment portfolios beyond what was experienced in previous recessions. (**Figure 1**).

That said, although 2022 was challenging, we don't expect higher inflation will become entrenched, and therefore, we are optimistic about the prospect for future investment returns given that that interest rates are now back to levels not seen since 2010.

Fig 1: Yearly Performance of US Focused 40-60 Stock-Bond Portfolio



Source: Kwanti, Bloomberg, GMAG Research
Disclosure: The above reflects the historical investment performance of a hypothetical portfolio consisting of a 40% allocation to the S&P 500 and a 60% allocation to the Barclays Aggregate Bond Index, rebalanced annually.

MARKET REPORT CARD

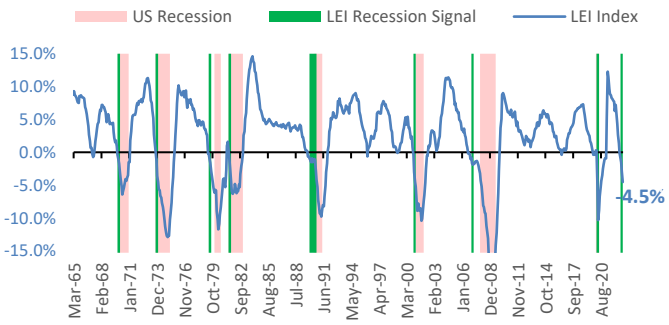
Performance Reported in US Dollars	4Q22	2022	2023
Equities			
Global (MSCI All Country World Index)	+9.8%	-18.4%	+4.7%
United States (Russell 3000 Index)	+7.2%	-19.2%	+2.8%
International Developed (MSCI EAFE Index)	+17.3%	-14.5%	+8.3%
Emerging Markets (MSCI EM Index)	+9.7%	-20.1%	+7.7%
Fixed Income			
Bloomberg US Aggregate Bond Index	+1.9%	-13.0%	+3.6%
Long-Term Treasuries (Barclays 20+ Year)	-1.4%	-31.1%	+8.4%
Investment-Grade Bonds (Barclays US Corp)	+3.6%	-15.8%	+4.5%
High-Yield Bonds (Barclays US HY Corp)	+4.2%	-11.2%	+4.2%
Commodities			
Commodities (S&P GSCI Index)	+3.4%	+26.0%	-0.1%
Crude Oil (S&P Crude Oil Index)	+4.3%	+27.6%	-0.7%
Gold (LBMA Gold PM Price Index)	+8.5%	+0.4%	+5.9%
Hedge Funds			
Hedge Funds (HFRX Global Hedge Fund Index)	+0.2%	-4.4%	+1.3%

Source: Bloomberg, GMAG Research

Economic Data Check (1): Several recession signals triggered in Q4, and a 2023 recession is now the consensus view.

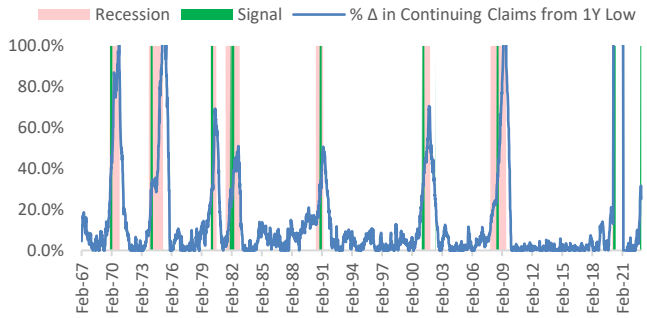
- Data suggest the US economy will enter a recession in 2023, a concern that was echoed by banks during their Q1 earnings calls last week. For example, JP Morgan communicated that it believes the unemployment rate could increase from 3.5% to 4.9%, and it put aside $2.3B last quarter to help offset potential losses as a result of a deterioration in the economic outlook. We empathize with this concern, and here's some of the data we're tracking that lead us to believe a recession is likely:
  - The Conference Board 10 Leading Economic Indicators Index has contracted **-4.5%** year over year. Historically, contractions of this magnitude have not occurred outside of a recession (**Figure 1**).
  - Although nonfarm payroll data remain resilient, it is often subject to heavy revisions as more accurate information becomes available. In contrast, jobless claims provide a more useful measure of real-time labor market conditions. In **Figure 2**, we highlight that continuing jobless claims have accelerated since mid-September and are now 30% higher than their low in March. This indicates that people who have lost their job are having difficulty finding new employment. Historically, a surge in continuing claims of this magnitude has always coincided with a recession.
  - An additional one of our recession indicators tied to labor market conditions triggered in December, when the six-month average of job openings declined below the two-year average (**Figure 3**).
  - An inverted yield curve has preceded each of the past eight recessions, and currently the yield curve is deeply inverted. **Figure 4** shows that the 10-year vs. 1-year treasury spread has inverted beyond -1% for the first time since 1980.
- During recessions, economies experience negative reinforcing feedback loops, where job layoffs lead to reduced spending, reduced corporate profits, and more layoffs, in a reflexive cycle. The impact of these cascading effects is difficult to estimate and is often omitted from analyst forecasts. This dynamic can lead to significant downside surprises in economic activity and profits, which is a concern we share heading into 2023. We would characterize a hard landing scenario as an environment where this negative reinforcement takes hold.

Fig 1: LEI Recession Signal



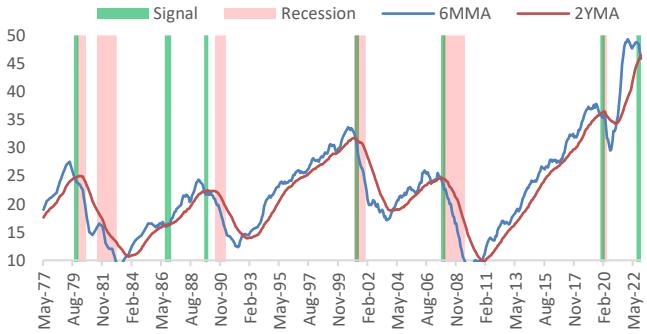
Source: Bloomberg, GMAG Research

Fig 2: Jobless Claims Recession Signal



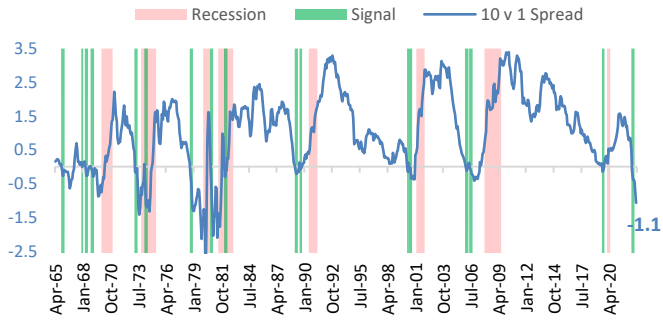
Source: Bloomberg, GMAG Research

Fig 3: NFIB Job Openings Hard to Fill Recession Signal



Source: Bloomberg, GMAG Research

Fig 4: Yield Curve Recession Signal



Source: Bloomberg, GMAG Research

Economic Data Check (2): That said, we remain open-minded to the possibility that excess savings could mitigate the severity of this recession.

- Although a recession seems inevitable based on leading data, coincident data have remained resilient until this point. This has caused market participants, and even distinguished economists, like Campbell Harvey, to speculate whether leading indicators are presenting false flags.

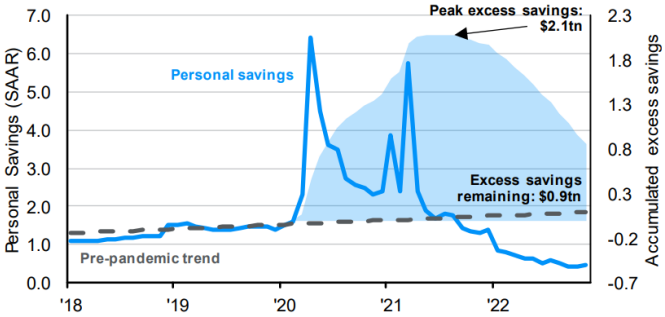
  "This time is different" has historically proven to be a dangerous phrase for investors. However, we acknowledge that there is a potentially consequential factor that makes the current environment unique . . . excess savings! **Figure 1** shows that JP Morgan estimates that pandemic stimulus helped US consumers accrued as much as $2.1T in excess savings by mid-2021. Although much of that has been spent, an estimated $900B in savings remain. With substantial excess savings, consumers may be less sensitive to higher borrowing rates, thereby mitigating the transmission between higher interest rates and consumer spending. As a result, excess savings could cause this recession to be shallower than normal while deferring the more feared, hard landing scenario into the future. To be clear, this is not our base case, but we have flagged it as a potential outcome that is important to be cognizant of.

- **Figure 2** shows that headline inflation and expectations for future inflation are declining. Barring a surprise resurgence in supply chain pressures, we expect inflation will continue to slow.

- Slowing inflation, combined with China's transition from its "zero-Covid" strategy, has boosted GDP forecasts that are ticking higher for the first time in more than a year (**Figure 3**). Analysts estimate that China has also accumulated $800B in excess savings that will be unleashed as China reopens.

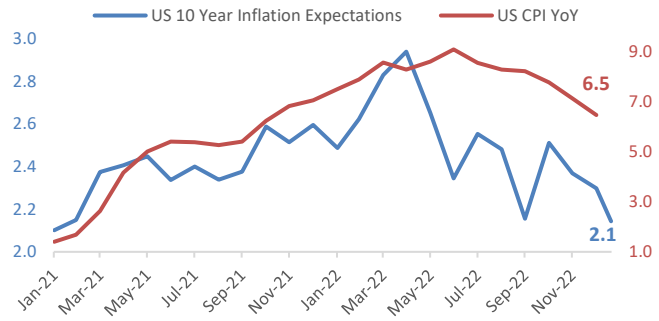
- The combination of easing base effects and marginally improving growth dynamics could push the US economy into a goldilocks regime (Growth ▲, Inflation ▼) for the first half of the year (**Figure 4**). However, we believe risks to growth forecasts are skewed to the downside as jobless claims accelerate, and therefore, it is risky to position for a short-term goldilocks regime. Click here to view our general regime-based investing playbook.

Fig 1: Household Excess Savings (Trillions USD)



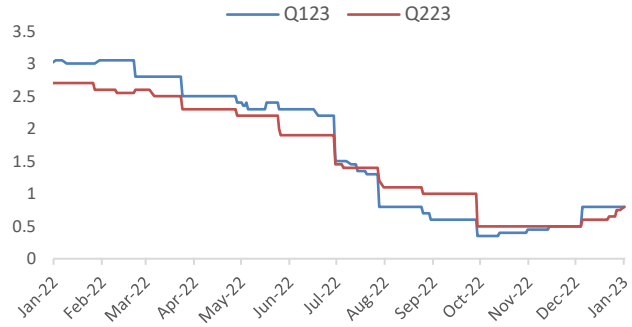
Source: JP Morgan

Fig 2: Inflation (+ Expectations) Falling



Source: Bloomberg, GMAG Research
Inflation expectations shown above are proxied by the 10-year TIPS breakeven rate.

Fig 3: Bloomberg Consensus Growth Forecasts - US



Source: Bloomberg, GMAG Research

Fig 4: Global Quad Model (YoY)

Country	Historical					Forecasts		
	Q421	Q122	Q222	Q322	Q422	Q123	Q223	Q323
China	3	1	3	2	4	3	1	3 or 4
Emerging	3	3	3	2	4	3	1	4
Eurozone	2	2	3	3	3	4	4	4
France	2	3	3	3	3	1	4	1 or 4
Germany	3	2	3	3	3	4	4	1 or 4
India	4	3	2	4	4	4	1	2
Italy	2	3	3	3	3	4	4	4
Japan	2	3	2	3	2	4	1	4
South Korea	2	3	3	2	4	4	4	1
United Kingdom	2	2	3	3	3	4	4	1
United States	2	3	3	1	4	1	1 or 4	4
Mode	2	3	3	3	4	4	4	4

Source: Bloomberg, GMAG Research
1 = Goldilocks (g▲,i▼), 2 = Reflation (g▲,i▲) 3 = Stagflation (g▼,i▲) 4 = Disinflation (g▼,i▼)

Equities (1): Favor Underweight ▲

Heightened recession risk dictates an underweight position in equities.

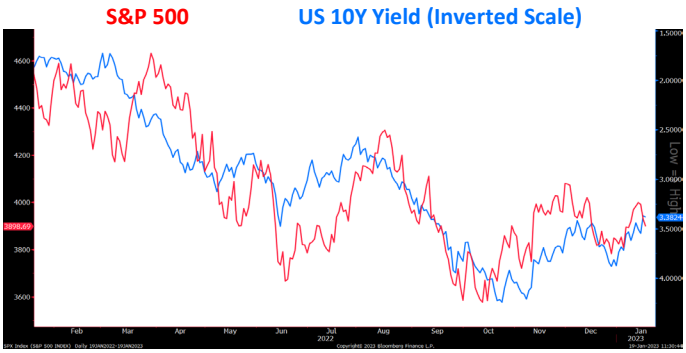
- For the past year, stocks have traded in tandem with interest rates (**Figure 1**), and we have held the view that this relationship would break down as inflation fears transitioned to growth fears. This hasn't occurred yet, but it remains our base case given our expectation that disinflation (growth▼, inflation▼) will set in as unemployment rises and excess savings are exhausted.

- Our earnings model suggests corporate profits are vulnerable to a contraction (**Figure 2**) that is not priced into asset prices and that there is a reasonable chance that earnings have reached their cycle peak. Historically, earnings have generally contracted by 20% or more during recessions, and today, earnings are at an all-time high (**Figure 3**). This implies there is material potential downside in profits if the economy endures a hard landing. During bear markets historically, the majority of the peak-to-trough drawdown in the S&P 500 has generally occurred after the start of the recession.

  A counter to this view is that the primary driver of weakness in our 2023 earnings forecasts has been the cratering of housing activity. However, if excess savings and limited housing inventories have fractured the transmission between housing activity and consumption, it could cause earnings to outperform our forecasts. Nonetheless, we believe earnings risks remain skewed to the downside.

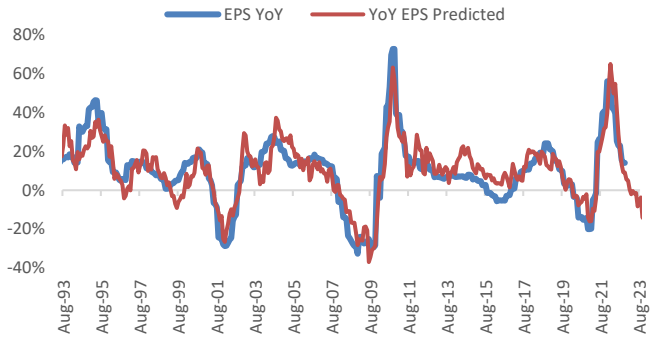
- Another popular bull case is that slowing inflation will be positive for corporate profits and stocks. Although we agree that slowing inflation, in isolation, is positive for equities, we expect the benefit from slower inflation will be more than offset by slowing growth. In **Figure 4**, we highlight that historically, not every major inflation peak has coincided with a bottom in stocks. The table shows forward performance of the S&P 500 following each major inflation peak—defined as CPI >= 5%—since the Great Depression. In 5 of the 10 instances, the S&P 500 declined during the subsequent six-month period, and in three of those instances, it declined by more than **-20%**.

Fig 1: S&P 500 vs US 10Y Treasury Yield



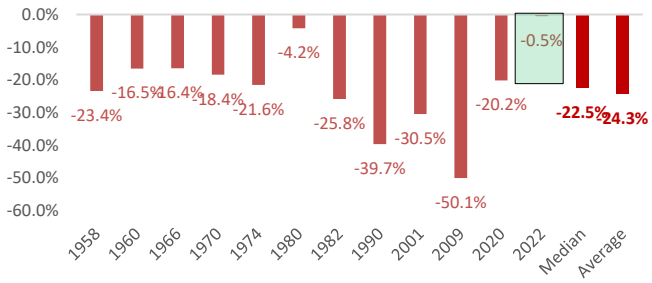
Source: Bloomberg

Fig 2: GMAG S&P 500 Earnings Model (9 Month Lead)



Source: Bloomberg, GMAG Research

Fig 3: S&P 500 Peak-to-Trough Earnings Contractions during Bear Markets



Source: Bloomberg, GMAG Research

Fig 4: S&P 500 Returns following Peak Inflation

Date of Peak CPI	Peak CPI	S&P Return 3M Fwd	S&P Return 6M Fwd	S&P Return 9M Fwd	S&P Return 12M Fwd
Mar-34	5.6	-7.6%	-14.5%	-10.5%	-20.4%
May-37	5.1	-1.4%	-31.7%	-30.3%	-43.0%
May-42	13.2	5.8%	14.0%	34.6%	47.9%
Mar-47	19.7	0.3%	-0.4%	0.9%	-0.6%
Feb-51	9.4	-1.3%	6.8%	5.0%	6.7%
Dec-69	6.2	-2.6%	-21.0%	-8.5%	0.1%
Dec-74	12.3	21.6%	38.8%	22.3%	31.5%
Mar-80	14.8	11.9%	22.9%	33.0%	33.2%
Oct-90	6.3	13.1%	23.5%	27.6%	29.1%
Jul-08	5.6	-23.6%	-34.8%	-31.1%	-22.1%
Jun-22	9.1	-5.3%	1.4%	0.0%	

Source: Bloomberg, GMAG Research

Equities (2): Favor Underweight ▲

. . . However, we favor increasing exposure from a max underweight position as our market bottoming indicators trigger.

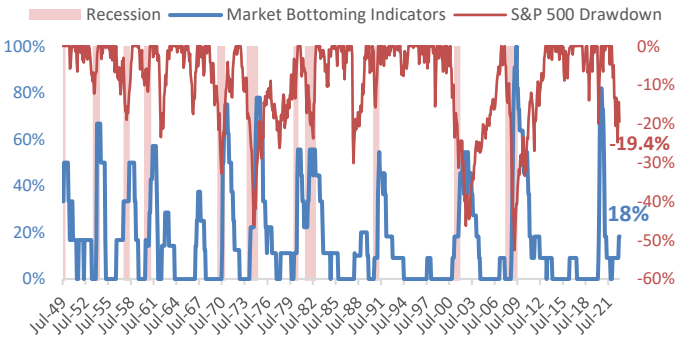
- Despite maintaining a cautious equity outlook, we acknowledge that we are now ~13 months into this bear market and that 2 of our 11 market bottoming indicators have triggered (**Figure 1**). This suggests that the bottoming process may be underway, even if more downside lies ahead, which favors an increase in exposure to stocks from a maximum underweight position. See summary of indicators below and the appendix for more details:
  - **Excessive pessimism:** 1/2 triggered
  - **Exhausted selling:** 1/4 triggered
  - **Deteriorated fundamentals:** 0/4 triggered
  - **Accelerating liquidity:** 0/1 triggered

  So far, 2 of 11 (or 18%) indicators have triggered, and we favor moving off from a max underweight position in equities as a result. We will favor increasing exposure to equities as more of these indicators turn on.

- We take notice of the recent breadth in equity purchases because the 10-day exponential moving average of advancing vs. declining issues on the New York Stock Exchange now exceeds two-thirds (**Figure 2**). This has only happened three times in the past 27 years, and each time it occurred near a multiyear bottom in stocks. This metric is not in our portfolio of bottoming indicators, but if there is follow-through on this rally, it should trigger another one of our indicators in the next month or two.

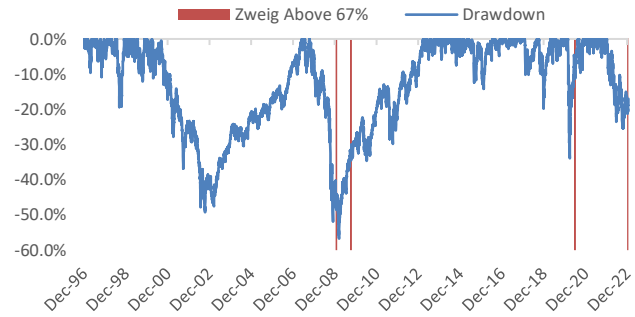
- We believe the semiconductors industry is a compelling way to reallocate to stocks. **Figure 3** shows that during the past 10 years, revenue and earnings of the semis industry has grown 2.4x and 2.9x as fast as the S&P 500. Furthermore, the semis industry has already endured a material contraction in earnings and guidance, whereas the S&P 500 has not (**Figure 4**). We continue to favor semis as a secular theme as the demand for computational resources continues to intensify, and we view the euphoria following the recent release of ChatGPT as a microcosm of this theme.

Fig 1: GMAG Bottoming Indicators vs. S&P 500 Drawdowns



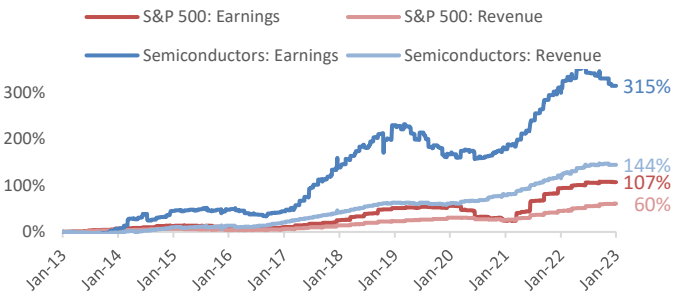
Source: Bloomberg, National Bureau of Economic Research, GMAG Research

Fig 2: 10D EMA[1] of Advancing vs. Declining Issues > 67%



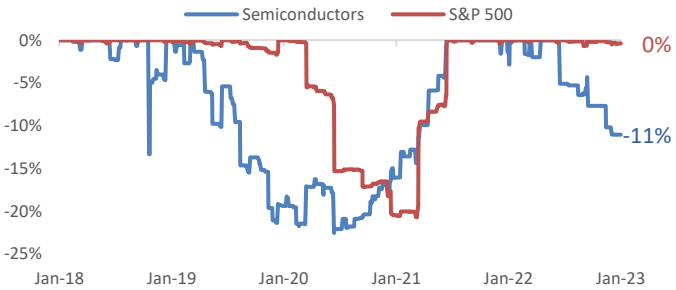
Source: Bloomberg, GMAG Research
[1]EMA = Exponential Moving Average

Fig 3: 10-Year Growth of Revenue and Earnings



Source: Bloomberg, GMAG Research

Fig 4: Peak-to-Trough Drawdown in Trailing 12-Month Earnings



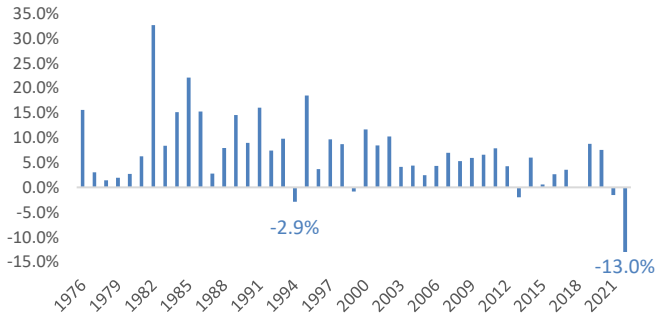
Source: Bloomberg, GMAG Research

Fixed Income: Favor Neutral ▲

We favor increasing fixed income exposure to neutral as inflation slows and recession risk increases.

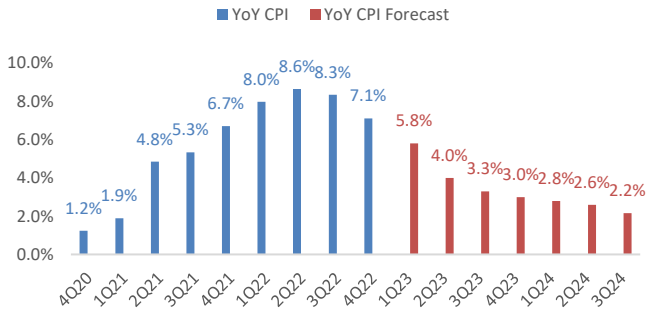
- We believe there is more certainty with respect to the forward path for bonds than equities, and we favor increasing fixed income exposure to neutral after the US Aggregate Bond Index posted its worst year ever in its 47-year history (**Figure 1**).
- Inflation and the Fed's response to try to rein it in were the primary drivers of weakness in bonds in 2022. However, we expect inflation will reverse course in 2023 (**Figure 2**), allowing the Fed to pause and eventually cut interest rates, which should provide a tailwind for bonds.
- Fed funds futures imply that the market expects the Fed will implement two more interest rate hikes over the next two quarters followed by three interest rate cuts, such that, by next January, the Fed funds fate will be lower than it is today (**Figure 3**).
- **Figures 4** illustrates how Fed members view the future path of interest rates today versus that of last year. Last year (blue bars), Fed members believed that meaningful rate increases (▲) would be required to achieve a balanced economy. Today (red bars), the opposite is true, and they believe many rate cuts (▼) will be required to achieve that balance.
- We believe that a phase transition into slower growth and inflation will increase the demand for safer assets, like bonds, and we favor increasing exposure to neutral as a result. We will eventually favor an overweight posture by increasing exposure on weakness.
- Within fixed income, we favor sticking with high-quality bonds because if the economy does endure a hard landing, credit spreads will likely blow out, which would coincide with greater downside in riskier segments of the bond market, like high-yield credit. Although high-yield bond prices have pulled back meaningfully, that depreciation has largely been driven by the increase in interest rates broadly, whereas credit spreads remain fairly tight, and are far below levels generally consistent with recessions historically.

Fig 1: Yearly Return – US Aggregate Bond Index



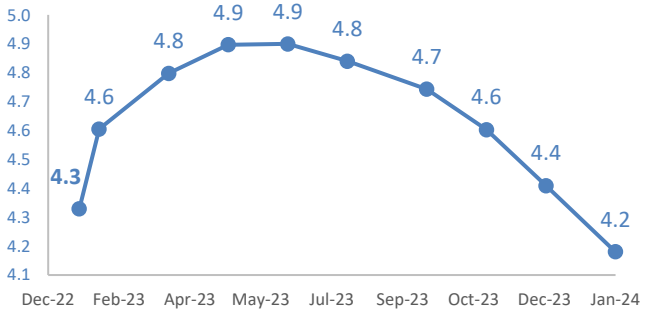
Source: Bloomberg, GMAG Research

Fig 2: US Headline Inflation Trajectory



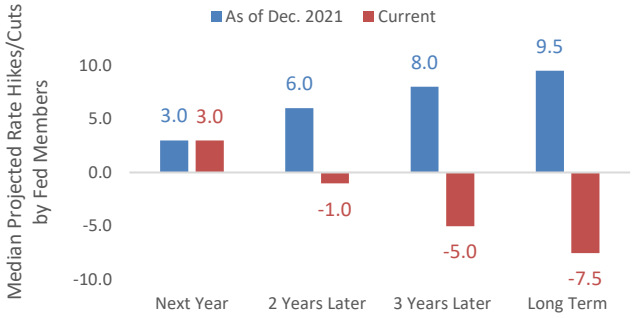
Source: Bloomberg, GMAG Research

Fig 3: Market Implied Policy Rate (%)



Source: Bloomberg, GMAG Research

Fig 4: Projection of Rate Hikes/Cuts by Fed Members



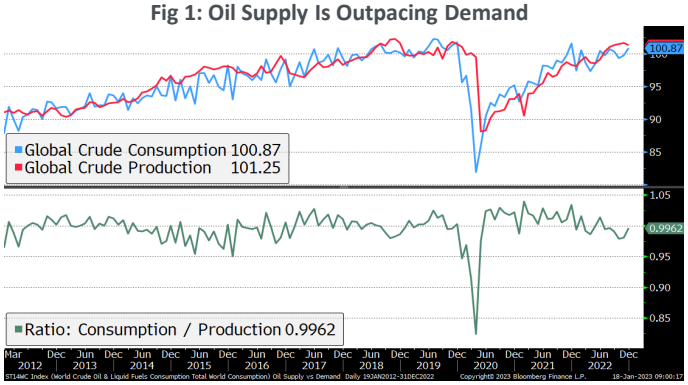
Source: Bloomberg, GMAG Research

Commodities: Favor Overweight (via Gold) ▲

We remain cautious on broad commodities given recession risk, but favor gold, which should benefit from declining real interest rates.

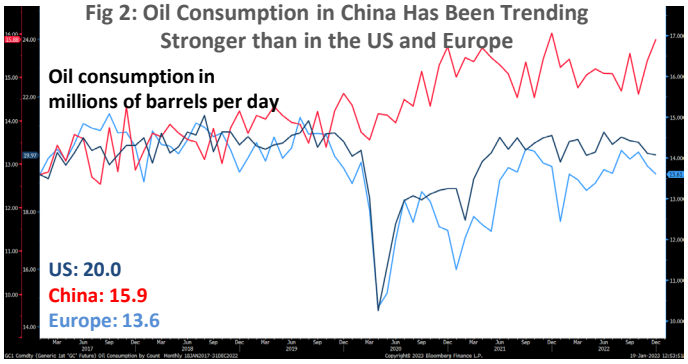
- Notwithstanding the well-documented evidence of constrained energy supply, we favor being underweight broad (i.e., cyclical) commodities while recession risk is elevated. Supply has outpaced demand (**Figure 1**) for several months now, and although China's reopening should provide a marginal boost to demand, we're not confident it will more than offset any decrease in demand from developed countries in a recessionary environment. In **Figure 2**, we highlight that, despite lockdowns, consumption of oil products in China has outpaced that in developed markets in the post-pandemic world. Given that oil consumption in China is already close to an all-time high, we're not sure how much pent-up demand for oil products exists there.
- In contrast, we favor a overweight in gold given our belief that nominal and real interest rates will decline in 2023. Like nominal interest rates were the primary headwind to bonds last year, real rates were the primary headwind to gold (**Figure 3**)—recall that gold and real interest rates have had a **-0.91** correlation since a market index for tracking long-term inflation expectations was created (via the introduction of TIPS) in the mid-90s. We are impressed with gold's resilience despite the surge in real interest rates and view this as a sign that market participants are front-running an inflection in real rates as growth and inflation slow and central banks pivot away from hawkish interest rate policies.
- **How does being overweight gold fit with declining inflation?** Remember that because the price of gold is influenced by changes in inflation expectations and not changes in current inflation (i.e., CPI), it can perform well even as CPI falls, so long as inflation expectations are not cratering alongside it. Although we believe long-term inflation expectations could decline from current levels, they are already as low as 2.3%, which is within 30 basis points of the long-term average of 2.0%. In short, there is more room for nominal rates to fall relative to inflation expectations (**Figure 4**).

Fig 1: Oil Supply Is Outpacing Demand



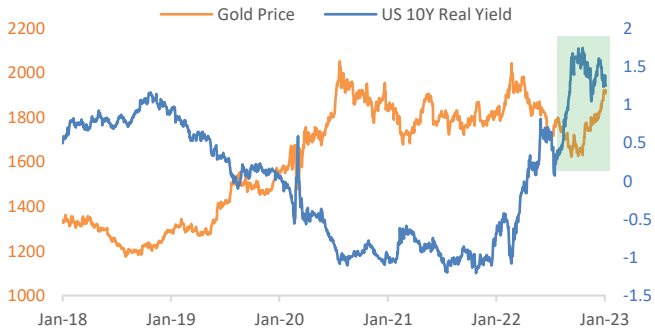
Source: Bloomberg, US Energy Information Administration

Fig 2: Oil Consumption in China Has Been Trending Stronger than in the US and Europe



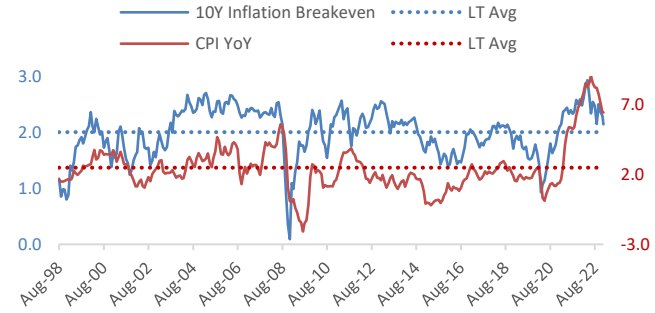
Source: Bloomberg, US Energy Information Administration

Fig 3: Gold Has Been Resilient Despite Surging Real Rates



Source: Bloomberg, GMAG Research

Fig 4: Inflation vs. Long-Term Inflation Expectations



Source: Bloomberg, GMAG Research

Positioning Summary (+ Trend ▲▼):

Underweight ▲ Global Equities	Neutral ▲ Fixed Income	Overweight ▲ Commodities	Overweight ▼ Cash

Positioning Details:

- **Equities: Underweight ▲**
  We favor being underweight equities because we believe risks to growth are skewed to the downside as the economy enters a recession. However, we are now ~13 months into this bear market, and 2 of our 11 market bottoming indicators have triggered. This suggests that the bottoming process may be underway, even if more downside lies ahead, which favors an increase in exposure to stocks from a maximum underweight position.

- **Fixed Income: Neutral ▲**
  We favor increasing exposure to neutral given our belief that inflation has peaked and that the Fed's rate hiking cycle is nearing its end. We will favor shifting to overweight duration as our conviction in this view increases.

- **Commodities: Overweight ▲**
  We favor being overweight gold to hedge against slowing economic activity or an unanchoring of long-term inflation expectations, either of which would push real interest rates lower and gold prices higher. We are less keen on broad commodities, which generally underperform when economic growth slows.

- **Cash: Overweight ▼**
  We have favored being overweight cash given the rising interest rates and elevated recession risk. Cash should help portfolios realize lower levels of performance volatility and provide them with dry powder to reinvest opportunistically. Within cash, we favor holding short-term treasury bills.

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,

gmag

Appendix: Bringing back our market bottoming playbook.

After risk assets experience extreme losses and volatility subsequently subsides, the first question that comes to the mind of market participants is ***"When should I buy?"***

This angst is natural, understandable, and particularly strong today because the past 12 years have preconditioned investors to buy each dip that presents itself to front-run what has become a regime of super-activist central bank policy.

Although watching prices plunge—in some instances back to pre-pandemic levels—may appear to be a screaming buying opportunity, history teaches us that recessionary bear markets are processes, not events, and as a result, they generally take a long time to play out. It is often a multiquarter, and sometimes multiyear, process with a lot of noise in between. Navigating this bear market will require patience, process, and discipline.

Below are the primary factors we're monitoring to identify when it is appropriate to leg back into risk:

Excessive pessimism: 1 of 2 indicators triggered

1. **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. This indicator triggered in early 2022.
2. **Plunge in (Relative) Consumer Confidence:** Generally, consumers have more confidence in their present situation than their future situation. However, during difficult times, consumer confidence plummets such that surveys reflect higher confidence in the future than the present. This has historically coincided with major market bottoms. We're not close.

Exhausted selling: 1 of 4 indicators triggered

3. **Coppock Curve:** The Coppock Guide measures long-term momentum in asset prices. When the Coppock Guide reverses from an extremely low position, it has generally signaled a positive shift in long-term momentum. This has not triggered, but if this recent rally persists, it may do so in the next month or two.
4. **Relative Strength (18-Month):** We also use a long-duration RSI to measure long-term momentum in asset prices. Although the Coppock Guide has capitulated, RSI remains elevated. This signal will unlikely trigger without a material drawdown from current equity price levels.
5. **Volatility of Volatility:** When the volatility of equity market volatility declines materially after reaching extreme levels, it generally signals that the worst is in the rearview. This indicator will not trigger without a severe capitulation event.
6. **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. This indicator triggered in November.

Deteriorated fundamentals: 0 of 4 indicators triggered

7. **Manufacturing Contraction:** Major market bottoms generally do not form until there is a deep contraction in manufacturing activity. We're getting close but are not there yet.
8. **Consumption Contraction:** Often times major market bottoms do not form until (real) personal consumption has contracted. Today real consumption growth remains positive.
9. **Rising Unemployment:** Generally, major market bottoms do not form until the unemployment rate rises by more than 1%. Currently, the unemployment rate is at its cycle low.
10. **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. If the US economy entered a recession in Q4, we don't expect an announcement from NBER until the summer at the earliest.

Accelerating liquidity: 0 of 1 indicators triggered

11. **Accelerating Liquidity:** Accelerating liquidity generally provides a tailwind to economic activity and asset prices. We don't anticipate a meaningful acceleration in liquidity until the Fed cuts rates and stops reducing its balance sheet.

We are now ~13 months into this bear market, and 2 of our 11 market bottoming indicators have triggered. This suggests that the bottoming process may be underway, even if more downside lies ahead, which favors a marginal increase in equity exposure from a maximum underweight position.

Please see below for important disclosures.

Disclosures:

The information and statements provided herein are not intended to provide personal investment advice and do not take into account the specific investment objectives, financial situation, and particular needs of any specific investor.

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