Economic Chart of the Week

June 5, 2019

With the economy facing unpredictable new headwinds and some sectors losing momentum, one reason for caution these days is simply that most economic data comes out with a considerable lag. For example, a lot of data for April won't be published until mid-June. That means that if the intensifying trade disputes that hit in May cause real damage to the economy in the coming months, we may not see confirmation of it in most of the data until at least late summer. We're therefore paying especially close attention to the data that comes out more quickly, like the manufacturing index published by the Institute for Supply Management (ISM), which comes out at the end of the month in which the data is collected.

The overall ISM manufacturing index for May fell to 52.1, remaining above the 50 level that signals growth but still marking the lowest reading since October 2016. The thing that really got our attention was the subindex on new manufacturing orders, which we think is an especially good indicator of economic prospects in the near term. As shown in this week's chart, the three-month moving average of that subindex continued to slide in May, and it is now close to the level where it would be signaling a potential recession and bear market in stocks. This indicator isn't at the critical level just yet, but its downward trend has been significant enough that it has helped convince us to gradually reduce our exposure to stocks and other riskier assets across all our strategies since last summer. If the subindex continues to weaken, and if other data eventually confirm that manufacturing is really losing steam, we would expect to keep cutting risk across our strategies in the coming months, perhaps even abruptly.

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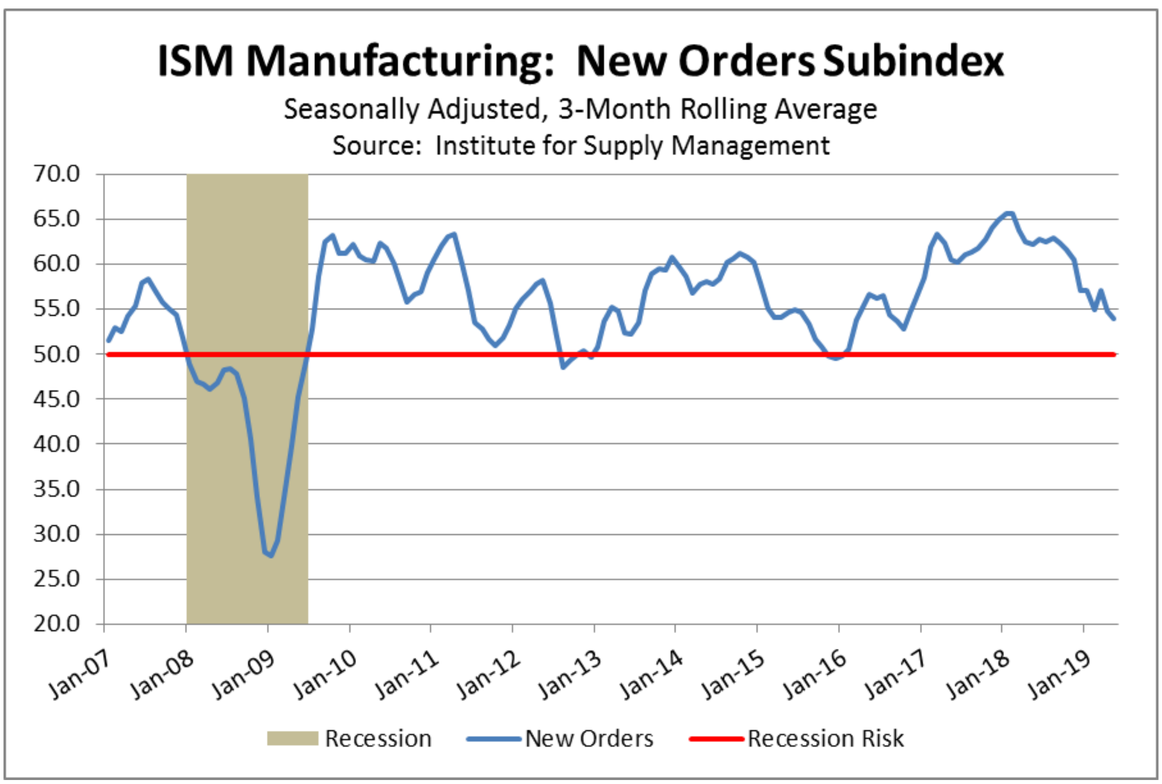
Lead Portfolio Manager



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