CORBETT ROAD
CAPITAL MANAGEMENT

MACRO MUSINGS

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Charting the Course 2024

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SUMMARY

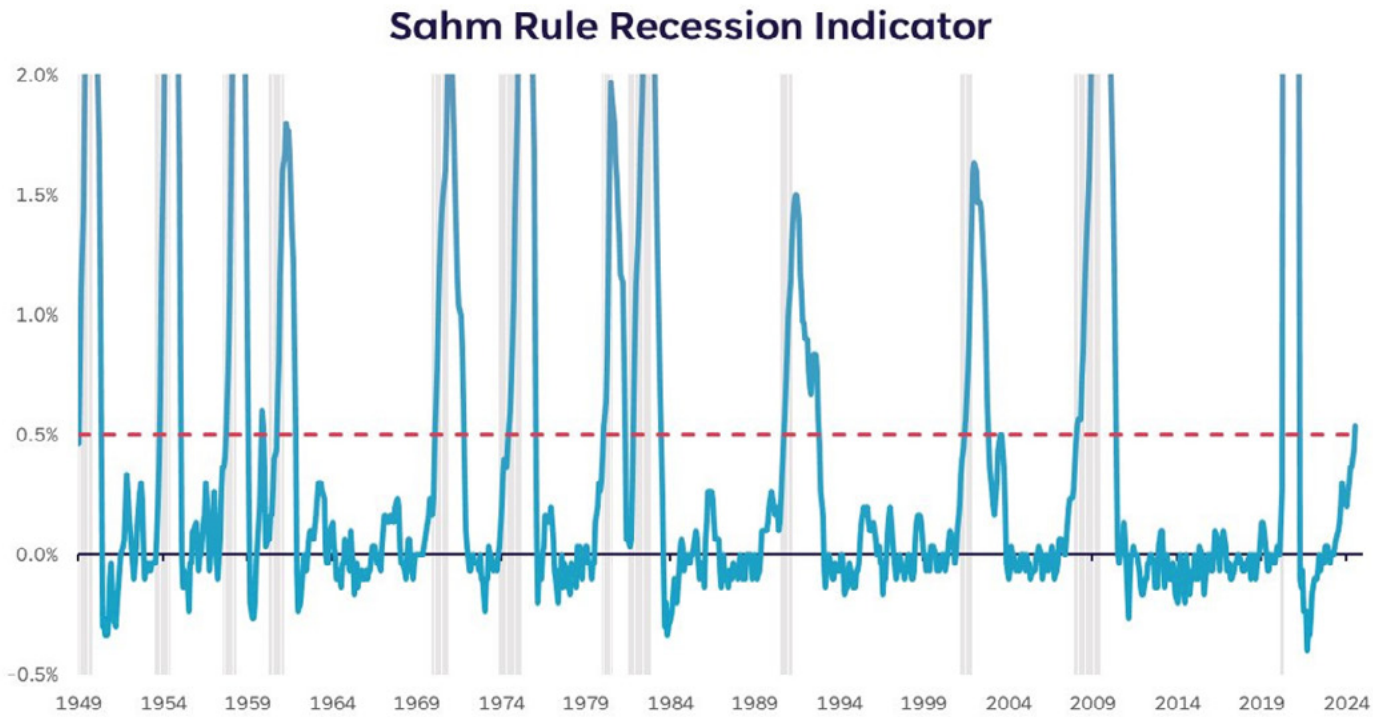
- The **macro**cast™ score for August has risen from last month, indicating a low likelihood of a recessionary bear market. However the **micro**cast™ signal has shifted to a neutral allocation, down from last month's aggressive reading. This change reflects the recent weakness in technicals and market price action. Together, these risk models imply that while the underlying economic fundamentals are positive, risks are more balanced following the recent selloff.
- Every August, we "Chart the Course" by reviewing a series of charts illustrating the important trends in the economy and markets. We will resume publication of our regular commentary in September.

Charts and graph depicted in this presentation are for educational purposes only. Investors cannot invest in a market index directly, and the performance of an index does not represent any actual transactions. The performance of an index does not include the deduction of various fees and expenses which would lower returns.

See content within for additional information on the summary items discussed above

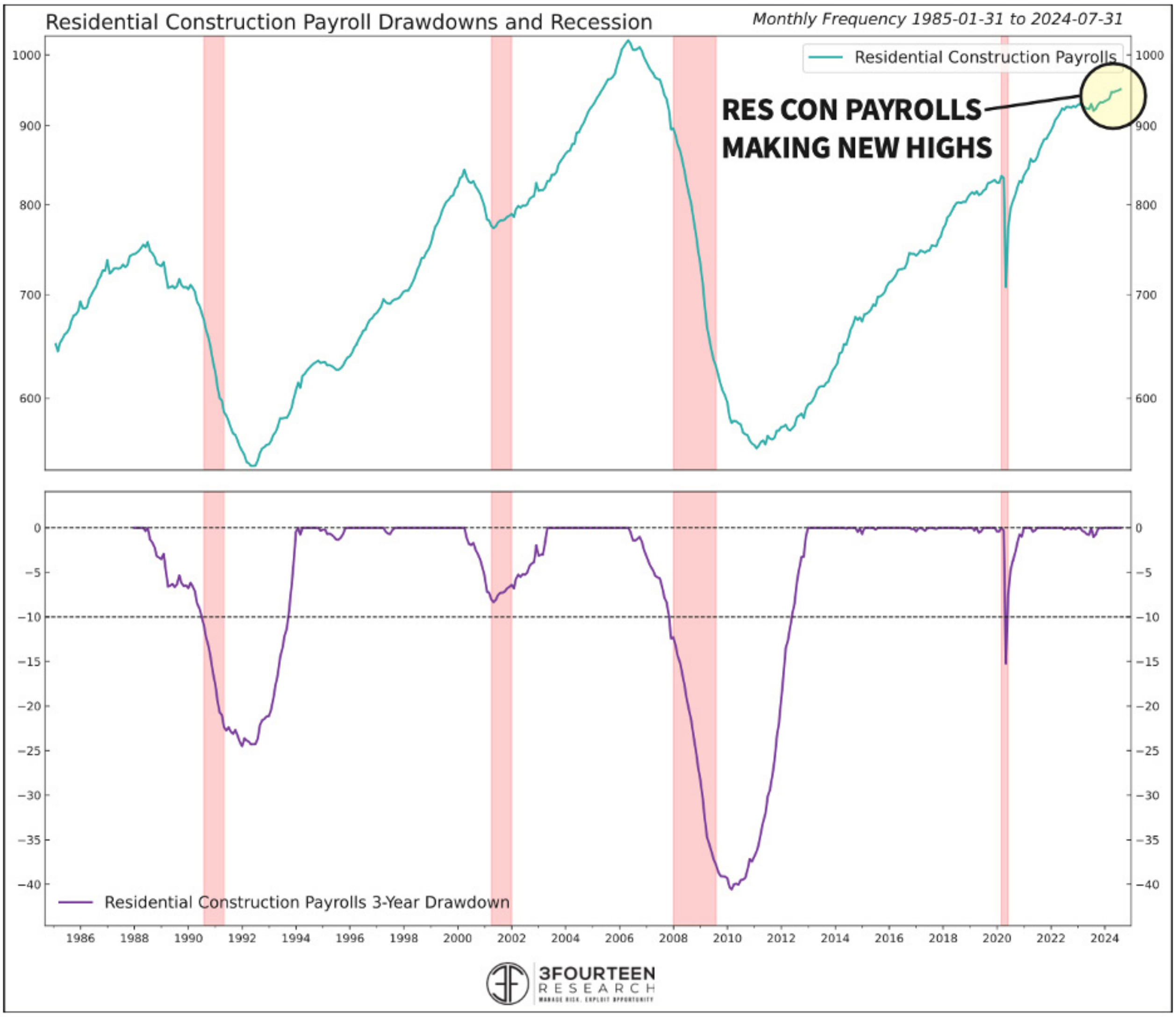
CHARTING THE COURSE: **THE ECONOMY**

The Sahm Rule indicator flashes recession warning. The Sahm Rule has been a topic of discussion in the financial media for its strong track record of triggering prior to recessions. The rule, named after the economist Claudia Sahm, measures labor market conditions and warns of a recession when the three-month average of the unemployment rate increases by more than 0.5% from its trailing low. (Chart from SoFi, Bloomberg)

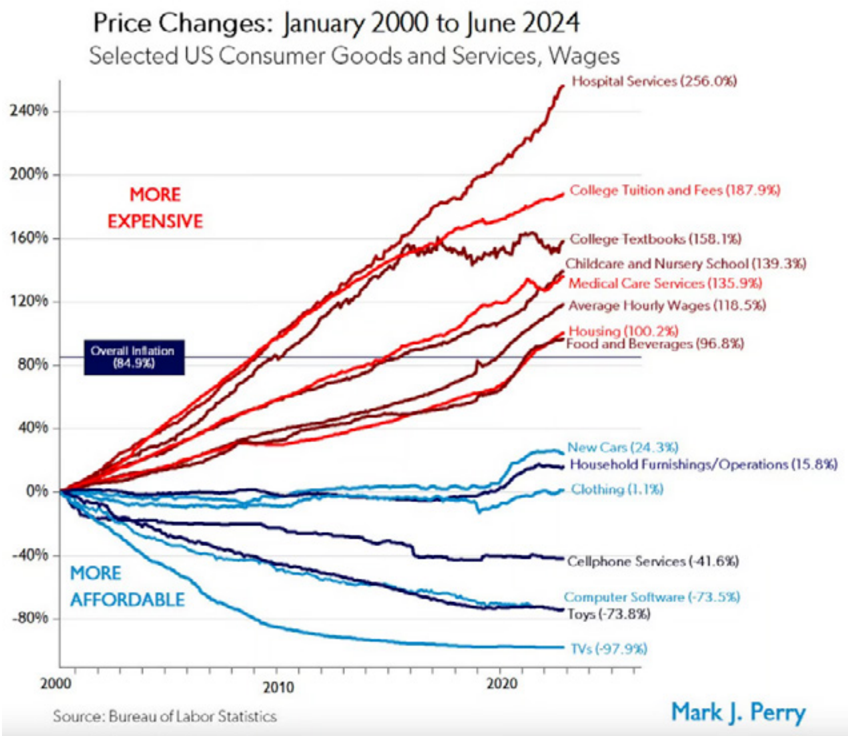


Source: SoFi, Bloomberg. The Sahm Rule Recession Indicator is calculated as the 3-month moving average of the unemployment rate minus its low from the prior 12 months. Historically, recessions have been correlated with this measure rising above 0.5pp.

Residential construction payrolls tell a different story. While the uptick in the unemployment rate is concerning, it's encouraging to see residential construction payrolls making new highs. Housing plays a pivotal role in the U.S. economy, not only generating employment but also fueling demand in other critical sectors, such as manufacturing and retail. As such, the strength of this sector often serves as a reliable leading economic indicator. Historically, a decline in residential construction payrolls has signaled an approaching recession, with this trend holding true for the past 40 years—except during the pandemic. The fact that this metric is currently reaching new highs suggests ongoing strength in the housing market, which bodes well for the broader economy. (Chart from 3Fourteen Research, recessions marked in red)

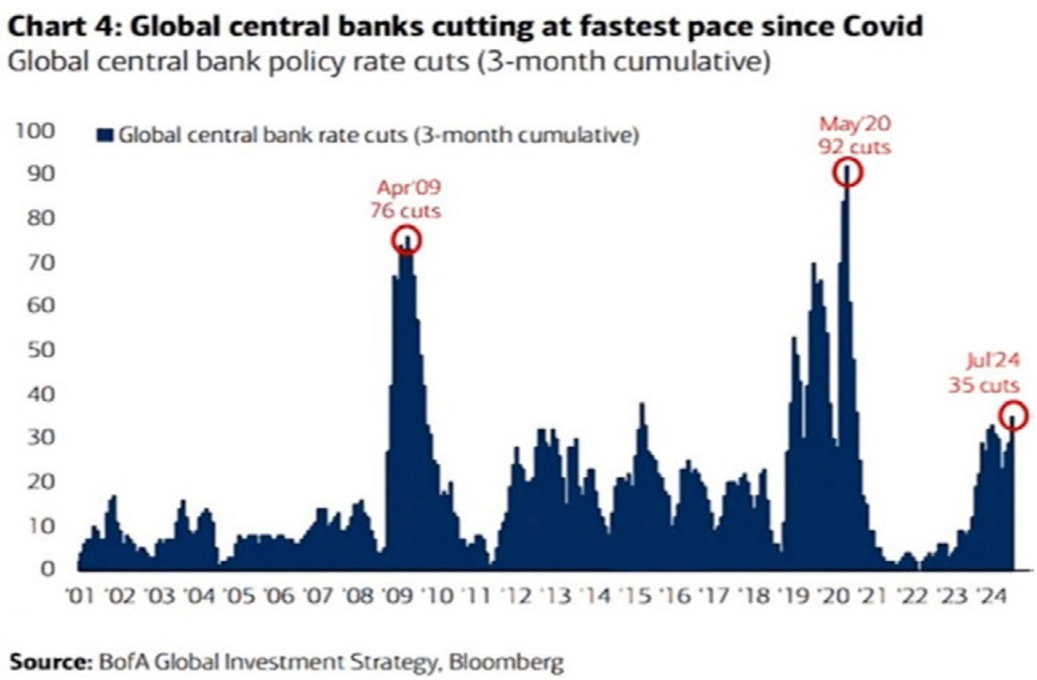


Inflation impacts categories differently. Generally, services have seen much sharper price increases compared to goods. While some items, like electronics, have become significantly cheaper, these savings are outweighed by the rising costs of big-ticket essentials like housing and health care. (Chart from Mark Perry)



CHARTING THE COURSE: **LIQUIDITY**

The Federal Reserve is poised to cut rates in September, following its most aggressive rate-hiking cycle in decades. This upcoming shift signals the start of a rate-cutting cycle, which should help reduce borrowing costs across the economy. Globally, central banks have already begun slashing rates at the fastest pace since the pandemic, underscoring a broad trend toward easing monetary policy as inflation continues to decelerate. (Chart from Bank of America)



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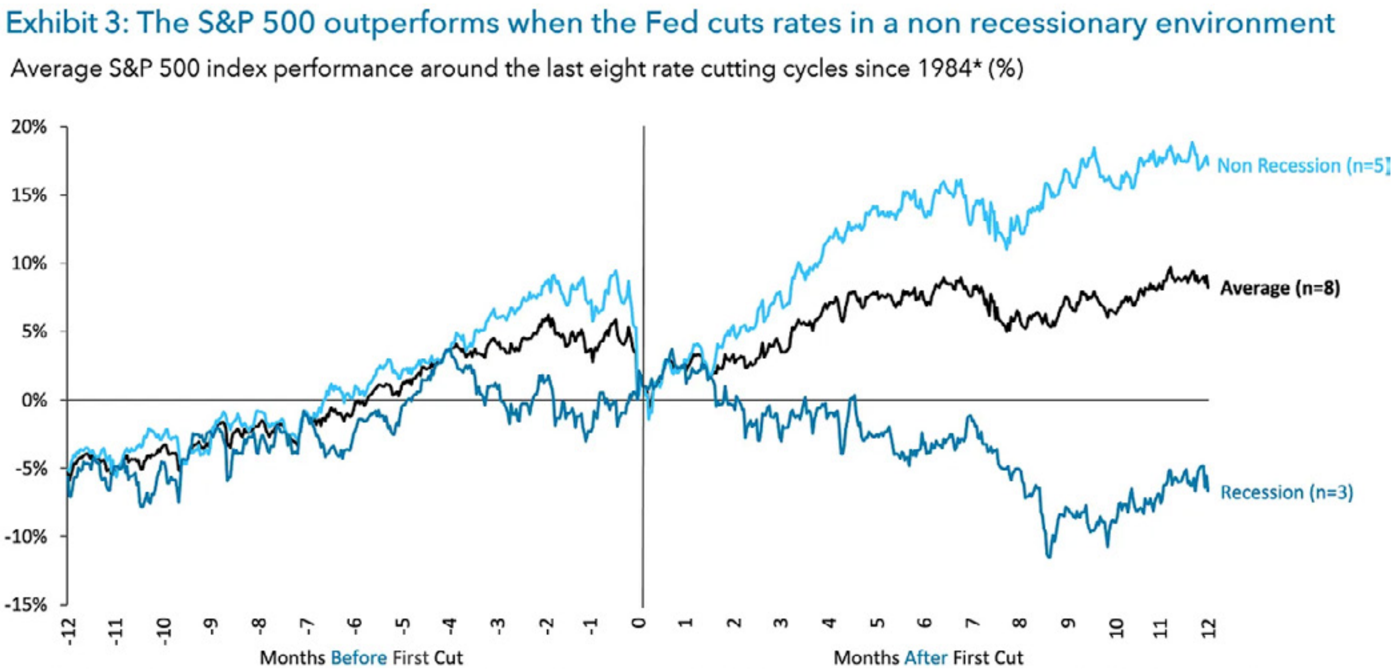
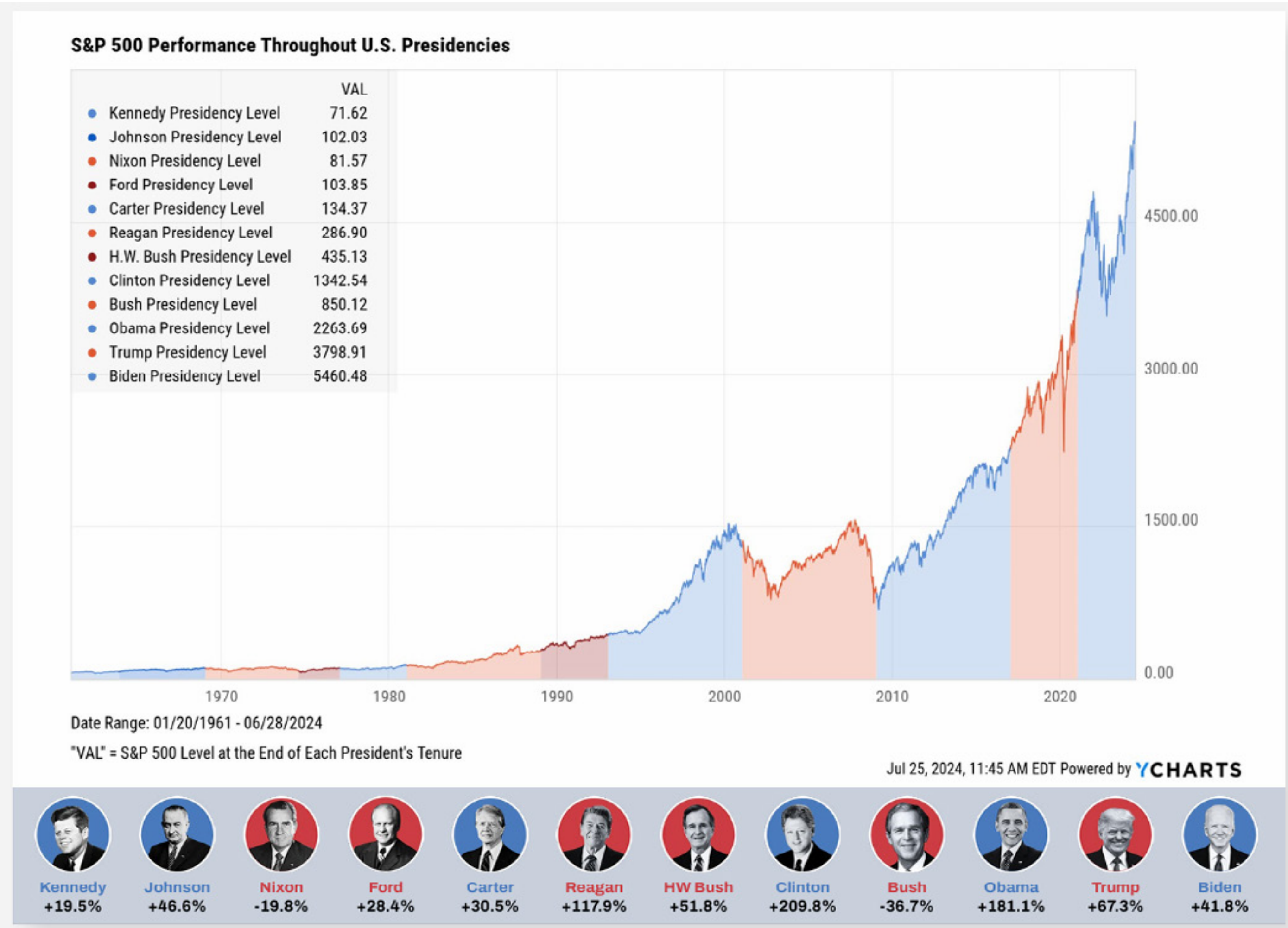
The stock market typically responds positively to interest rate cuts, provided the economy doesn't slip into a recession. Historically, average returns were north of 15% a year after the first rate cut in non-recessionary environments. (Chart from iCapital)



Source: Bloomberg, iCapital Investment Strategy with data based on availability as of July 16, 2024. Note: Historically, our analysis included six rate-cutting cycles (1984, 1989, 1995, 2001, 2007, and 2019) based on our previous framework, however, we now include the 1987 and 1998 periods into our analysis for a total of eight (8) rate-cutting cycles. Our historical framework defines previous Fed cutting cycles base on set criteria. We assume all cycles start as a hiking cycle, go on to a holding period, and then finish with a cutting cycle. We loosely define the start of a hiking cycle as being when the Fed hikes at least two times, irrespective of the magnitude, within a 12-month period. We assume the first date of those two hikes to be the start of hiking cycle. We define the end of a hiking cycle when the Fed does not hike for three consecutive meetings, at which time we then assume they are on hold. We define the start of a cutting cycle when the Fed begins to cut rates following the previously defined holding period. In the previous framework, the 1987 and 1998 periods were excluded because they did not follow a preceding hiking period. However, due to their significance and to increase observations, we have updated our framework to include them. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

CHARTING THE COURSE:
THE PRESIDENTIAL ELECTION

The market tends to rise regardless of which party occupies the White House. Presidents don't control the market. Historically, the market has risen regardless of who was in office. In the two presidential terms where the market performed negatively, geopolitical and economic factors were the primary drivers of the poor market returns—not the sitting president. (Chart from YCharts)



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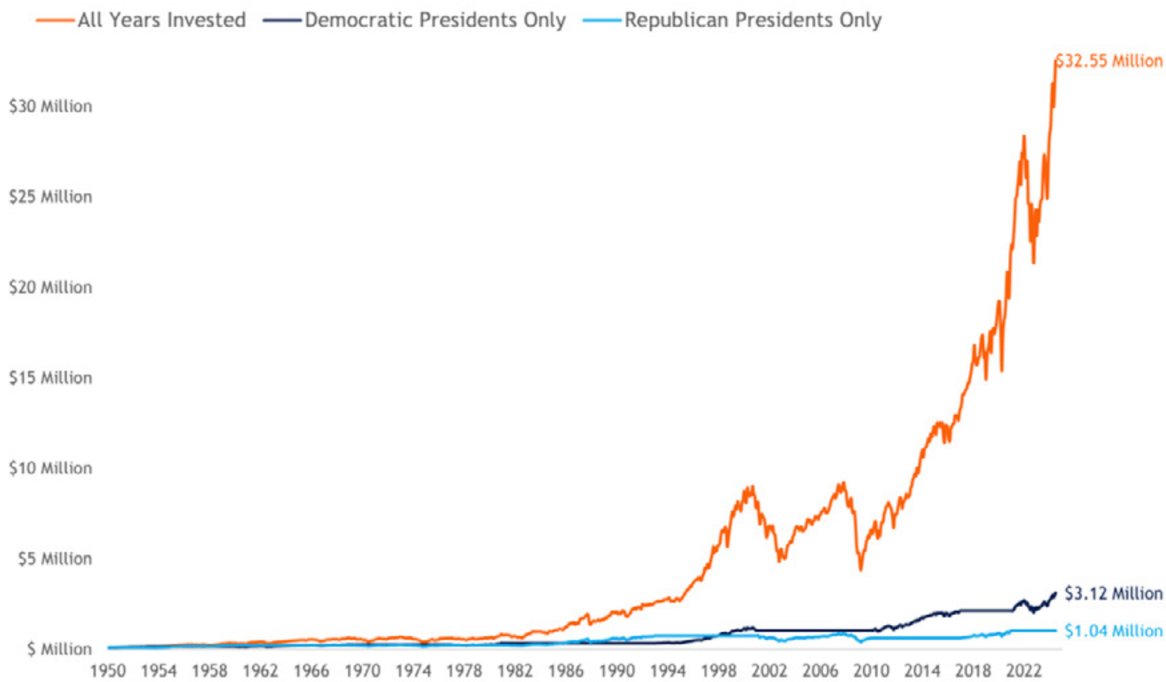
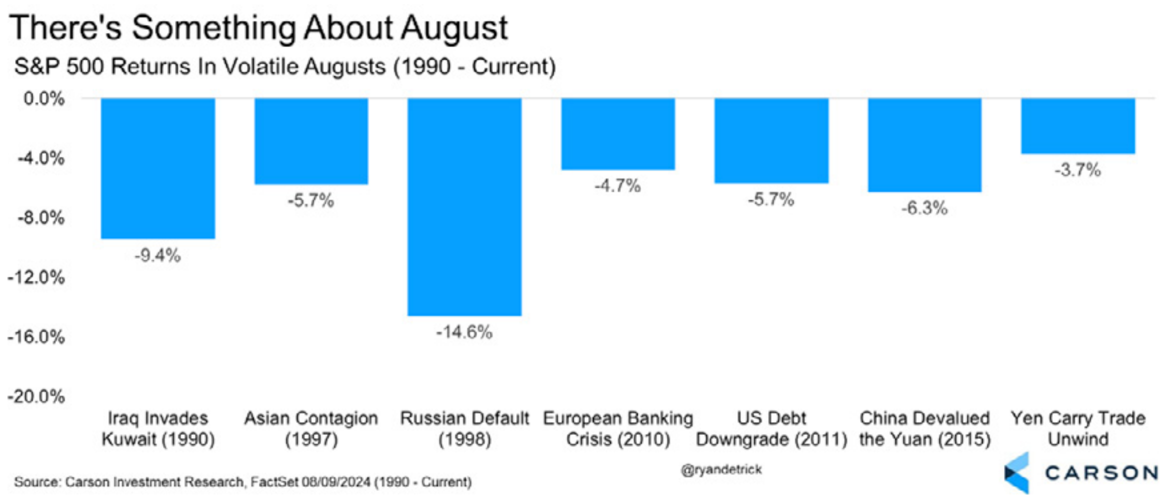
Staying invested is more effective than aligning your strategy with a political party. Historically, the stock market has performed better under Democratic presidents compared to Republican ones, but this difference is largely insignificant. The most successful investment strategy, by far, has been to stay invested continuously, regardless of which political party is in power. (Chart from LPL)



CHARTING THE COURSE: **THE STOCK MARKET**

The late summer months tend to be a seasonally weak period for the stock market. August, specifically, has historically been marked by geopolitical uncertainty and market volatility, which can unsettle investors. Despite any near-term seasonal weakness, it's worth noting that the market has consistently managed to recover and eventually reach new record highs. (Chart from Carson)



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Sharp selloffs often lead to strong recoveries. The market's sharp 8% drop in less than a month is reminiscent of previous declines that often led to strong rebound. 12 out of the last 14 similar instances saw the market finish higher three months later. (Table from Bespoke)

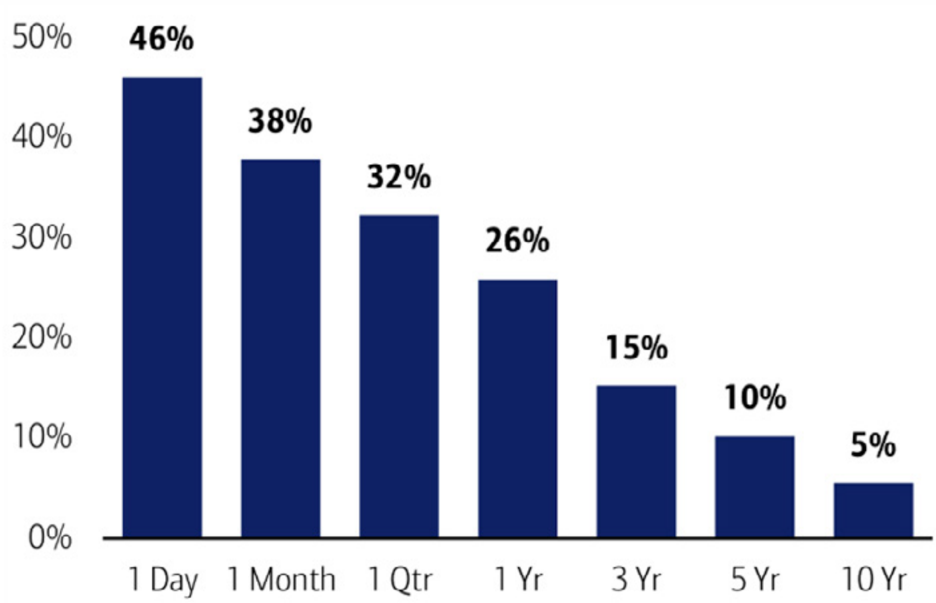
S&P 500 Drawdowns: Down At Least 7% In <4 Trading Weeks

High Date	Low Date	Total Drawdown	Days To Low	Days to 7% Drop	Fwd Performance From 7% Drop On: *Day*	*Week*	*Month*	*3 Months*
2/19/2020	3/23/2020	-33.92	23	4	-0.38	-3.99	-20.86	-2.94
11/30/1928	12/10/1928	-8.11	6	5	-0.22	0.76	9.75	12.88
7/2/1986	7/15/1986	-7.53	8	8	0.58	1.93	5.14	0.73
1/26/2018	2/8/2018	-10.16	9	9	1.49	5.82	7.83	5.68
9/23/1955	10/11/1955	-10.59	12	10	-2.90	-2.74	4.18	4.72
11/9/1982	11/23/1982	-7.05	10	10	0.71	4.36	5.11	12.54
9/2/2020	9/23/2020	-9.60	14	11	-1.16	-0.63	3.24	11.75
7/17/1998	8/31/1998	-19.34	31	12	0.87	-0.29	-7.62	3.61
10/7/1997	10/27/1997	-10.80	14	14	5.12	7.07	8.42	12.37
7/16/2024	8/5/2024	-8.45	?	14	?	?	?	?
9/4/1986	9/29/1986	-9.42	17	15	0.17	0.90	2.77	6.51
7/16/1990	10/11/1990	-19.92	62	15	0.12	1.32	-3.00	-5.93
5/3/1929	5/27/1929	-8.23	16	16	1.61	5.95	11.82	28.31
7/19/2007	8/15/2007	-9.43	19	18	-1.39	1.44	4.02	3.82
9/18/2014	10/15/2014	-7.40	19	19	0.01	3.47	9.49	8.43
				Average	0.33	1.81	2.88	7.32
				Median	0.15	1.38	4.64	6.10

Equities are long-term investments. Equity markets are particularly volatile over shorter time horizons like a day, a month, or even a year. However, the longer you hold your investments, the greater the likelihood of positive returns. Over time, risk is generally rewarded. (Chart from Bank of America)

Exhibit 13: As time horizons increase, equity losses drop

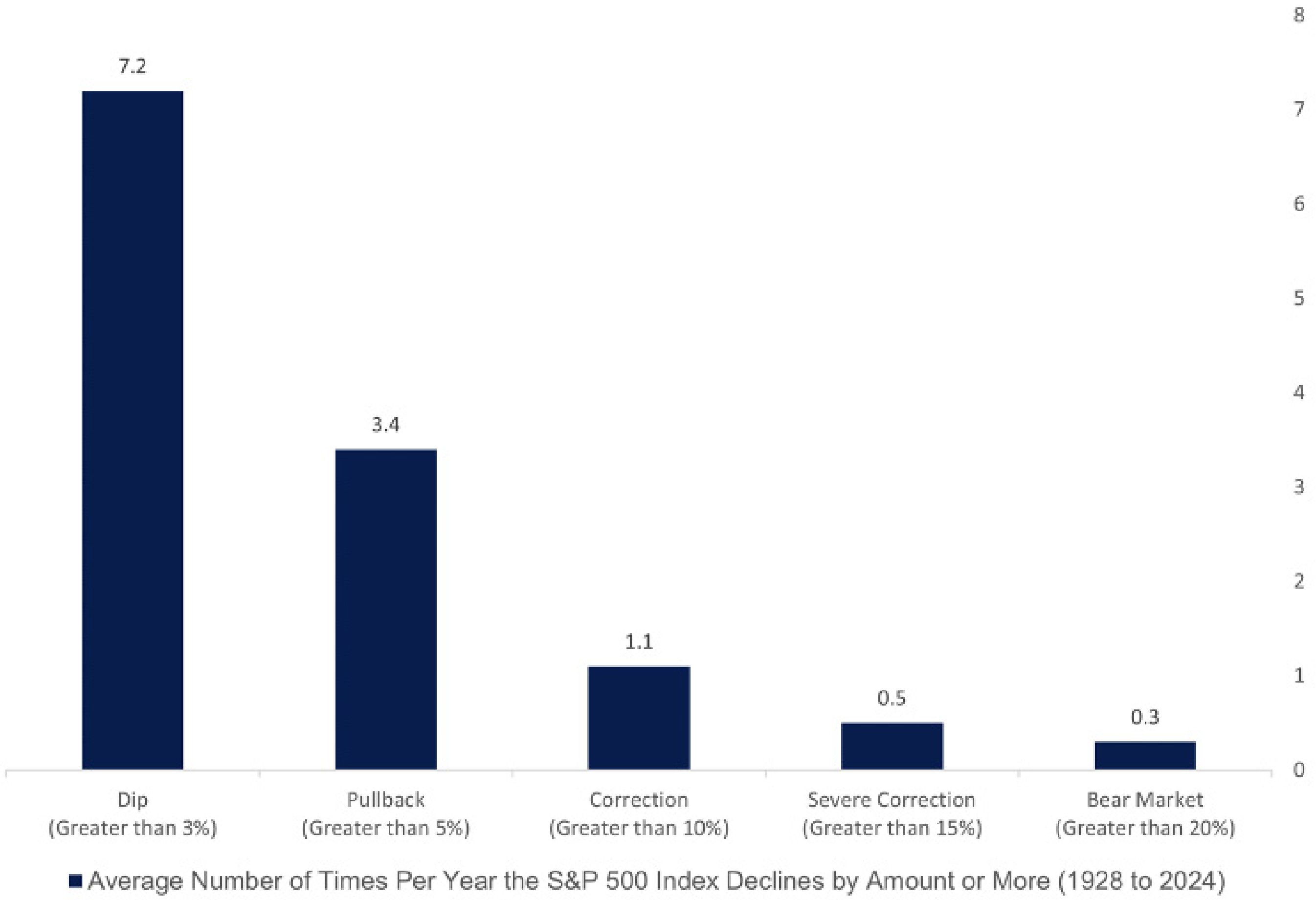
Probability of negative returns, based on S&P 500 total returns from 1929-present as of 8/2/24



Source: BofA Us Equity & Quant Strategy, Bloomberg, S&P

BofA GLOBAL RESEARCH

Market pullbacks are a regular occurrence, Part 1. Market declines are common. On average, the market experiences three pullbacks greater than 5% and one correction of more than 10% each year. Bear markets, while less frequent, typically happen about once every three years. (Chart from LPL)



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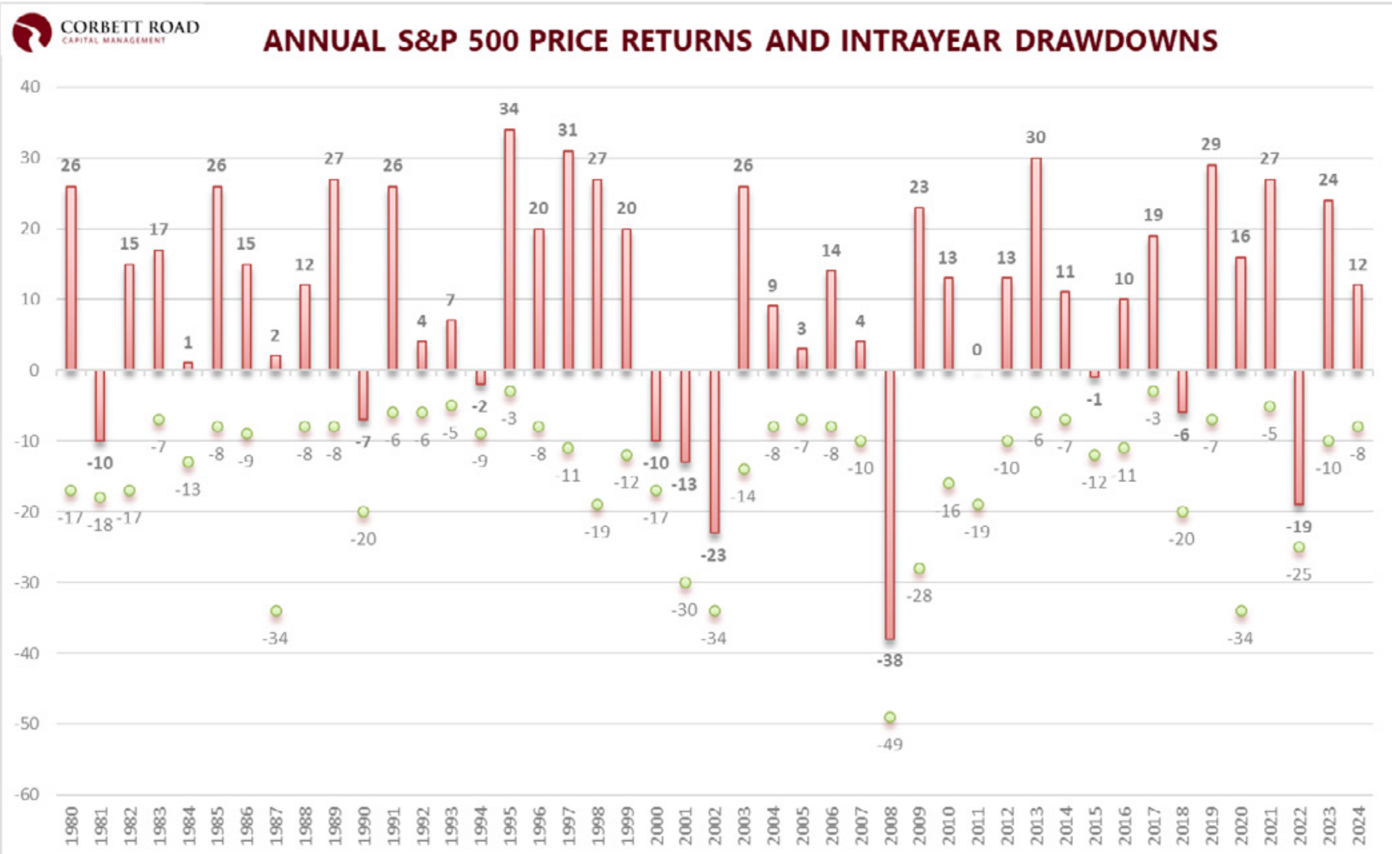
Market pullbacks are a regular occurrence, Part 2. The S&P 500 has seen double-digit gains this year, yet it experienced an 8% pullback over the past month. This serves as another reminder that while equities can deliver substantial rewards over the long term, those gains often come with short-term volatility and risks. The average decline in a calendar year is 14%. (Data for chart from S&P, 1980 to 8/14/2024)



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