SARATOGA CAPITAL MANAGEMENT, LLC

THE ASSET ALLOCATION SPECIALISTS© 3/31/24

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The Asset Allocation Specialists© Founded 1994

ECONOMIC LEADING STATISTICS®

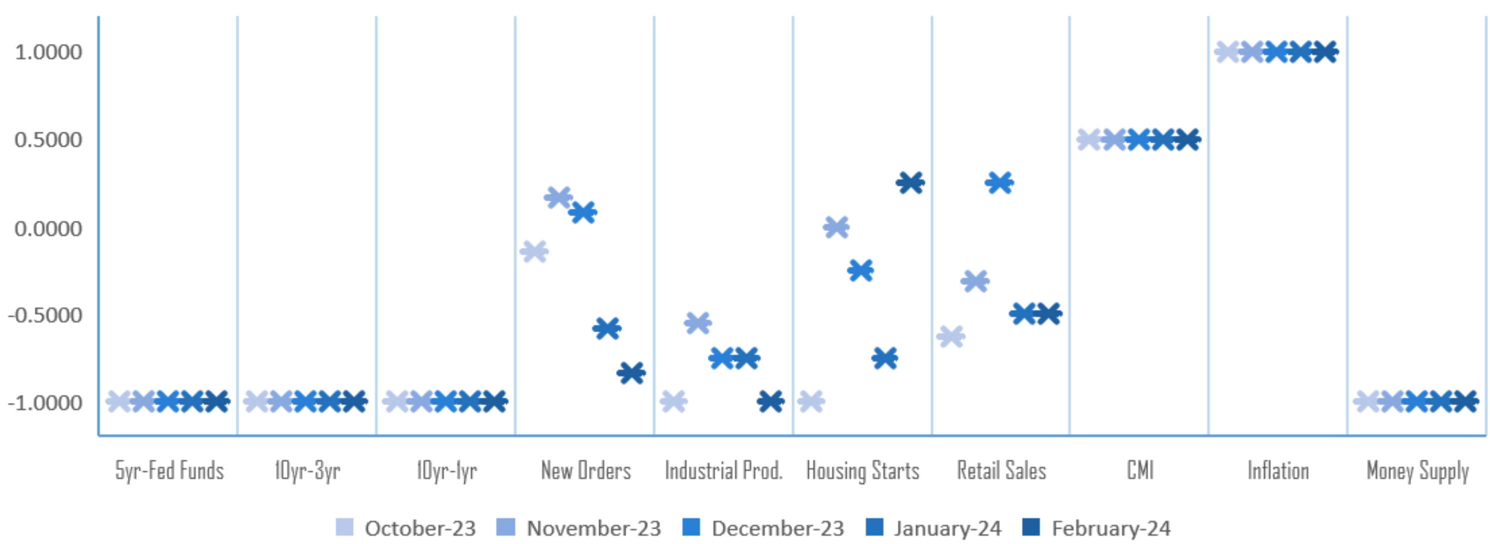
The Economic Leading Statistics® index (ELS) is a proprietary index produced by Saratoga Capital Management, LLC (Saratoga). The purpose of the index is to signal, generally speaking, whether the US economy is expanding or contracting. As its name suggests, ELS is intended to lead other measures of economic expansion/contraction, and has historically provided a reliable indication of where US Gross Domestic Product (GDP) is headed in the months ahead. While ELS might tell us whether an expansion or contraction is headed our way, it generally doesn't tell us the strength of that movement; we have other indicators for that. ELS is comprised of ten underlying metrics, including Housing Starts, Retail Sales, Industrial Production, Saratoga's own Consumption Modification Index® (CMI), readings from a number of United States' debt instruments, and monetary policy figures. Index readings begin in January 1960. Saratoga uses ELS in a number of ways, however it is often most helpful in establishing a confidence level in GDP data using the index's three month average against GDP. The normal range for ELS' three month average is -30 to +30. When we refer to ELS readings below, we will be referring to this three month average.

When combined with Saratoga's additional proprietary indices, such as our Economic Strength Monitor™ and our Consumption Modification Index®, ELS may help us to understand if the economy is expanding or contracting, if current economic trends will continue, and what the nature of the economy may mean for various investment strategies or sectors.

THE CURRENT ELS READING

This month's ELS 3m reading is -12.83, a slight downgrade from last month's reading of -11.45. Readings and trends in this range suggest weak GDP performance.

The chart below shows ELS's ten underlying component ratings for each of the past five months in order to provide a glimpse of the trend for each component. A rating of 1 implies that the component is adding as much value to ELS as possible, while a rating of -1 signals the opposite. After months of improvement in underlying data during the summer of 2023, a number of ELS's components have destabilized in the past six months. Leading indicators on the producer-side of the economy have fallen, with New Orders for Durable Goods and Industrial Production Durable Manufacturing readings turning negative. Yield spreads remain mostly inverted, and, though some normalization has occurred farther out on the curve, readings remain in decidedly negative territory. Up until the early 1990s the yield spread was a decidedly lagging indicator, but has been a reliable leading indicator since; the bond market seems to believe the Fed has done quite enough tightening and looks to be signaling an expectation for cuts and weak economic growth. Downward consumer inflation trends have leveled out recently, while producer-side inflation remains cool. Housing has been volatile, but looks to be somewhat improving.



ECONOMIC LEADING STATISTICS® COMPONENTS

YIELD SPREADS | 5YR-FED FUNDS; 10YR-3YR; 10YR-1YR

The yield spread remains inverted along most of the curve. The 5yr-Fed Funds spread has improved consistently year-to-date, and normalization continued in last month. The 10yr-3yr spread flirted with positive territory towards the end of the October and again in January, but has retraced its gains each time and remains range-bound between 0.05 and -0.23, sitting at -0.15 at the end of the month. The 10yr-1yr spread made gains during the month, but still sits well under zero.

MANUFACTURING NEW ORDERS | DURABLE GOODS

For ELS, we look at manufacturing new orders in terms of durable goods, leaving out non-durables. Durable goods tend to give us more volatility, and have historically been a more useful leading indicator. February popped back into positive territory for this metric, but off of a low floor set by January's -6.9% reading. After an extremely volatile wave of readings starting June of last year, shorter-term moving averages are in rough shape.

INDUSTRIAL PRODUCTION | DURABLE MANUFACTURING

Similarly to manufacturing new orders, and for the same reason, we track industrial production via its durable manufacturing (IPDM) subgroup. The industrial production complex was slightly positive for the one-month period, though it remains negative for the 12-month period, while the Durable Manufacturing subgroup was above that headline figure, at 0.5% y-o-y. In spite of this mild positive annual result, underlying trends are mostly negative. Of the eleven sectors that comprise the Durable Manufacturing subgroup, the Computer & Electronic Products and Aerospace & Transport sectors are the lone sectors in full growth mode.

HOUSING STARTS

Recent monthly Housing Starts have been unable to recapture their near-term high from May 2023 of 1.58m or their cycle-high from April 2022 of 1.8m. Though there has been material improvement in the sector recently, with a number of the underlying data points we look at moving off of near-term lows, we'll need to see a strong spring for this sector as solid November and December figures begin to roll off of our shorter-term trends; February delivered a solid 1.52m starts. After a long period with Multi Family Starts shouldering the load, Single Family Starts have begun to take the lead in perhaps another signal that homeowner purchases are gaining favor over those of investors. Building permits continue to hold a slightly stronger trend than starts, generally a good sign for future readings in this metric.

RETAIL SALES

We are back to a similar refrain, writing about retail sales being range-bound at disappointing levels. After finishing 2023 in what looked like potential breakout fashion, posting gains in eight of nine months through December, sales have fallen back to a negative annual trend; though February delivered a strong reading, it was not enough to offset a deeply negative January. Core retail sales are in better shape, in the black for ten of the past twelve months.

CONSUMPTION MODIFICATION INDEX®

Another of Saratoga's proprietary indexes, the Consumption Modification Index® (CMI) is used as part of ELS and helps us to measure consumer confidence and spending trends. Employment data is inching toward troubling territory. The unemployment rate ticked up to 3.9% in February, while U-6 unemployment has risen to 7.3%; while these are low numbers from an absolute perspective, even small upward trends in unemployment have been important historically. Inflation is still at somewhat elevated levels. The quality spread has been headed in the right direction, landing at 0.73 for the month, and having moved into what we consider positive territory for corporate earnings. Consumer confidence surged upwards beginning in October 2023, well off of the drastically low floor it set in June 2022, though it remains far from euphoric pre-pandemic highs.

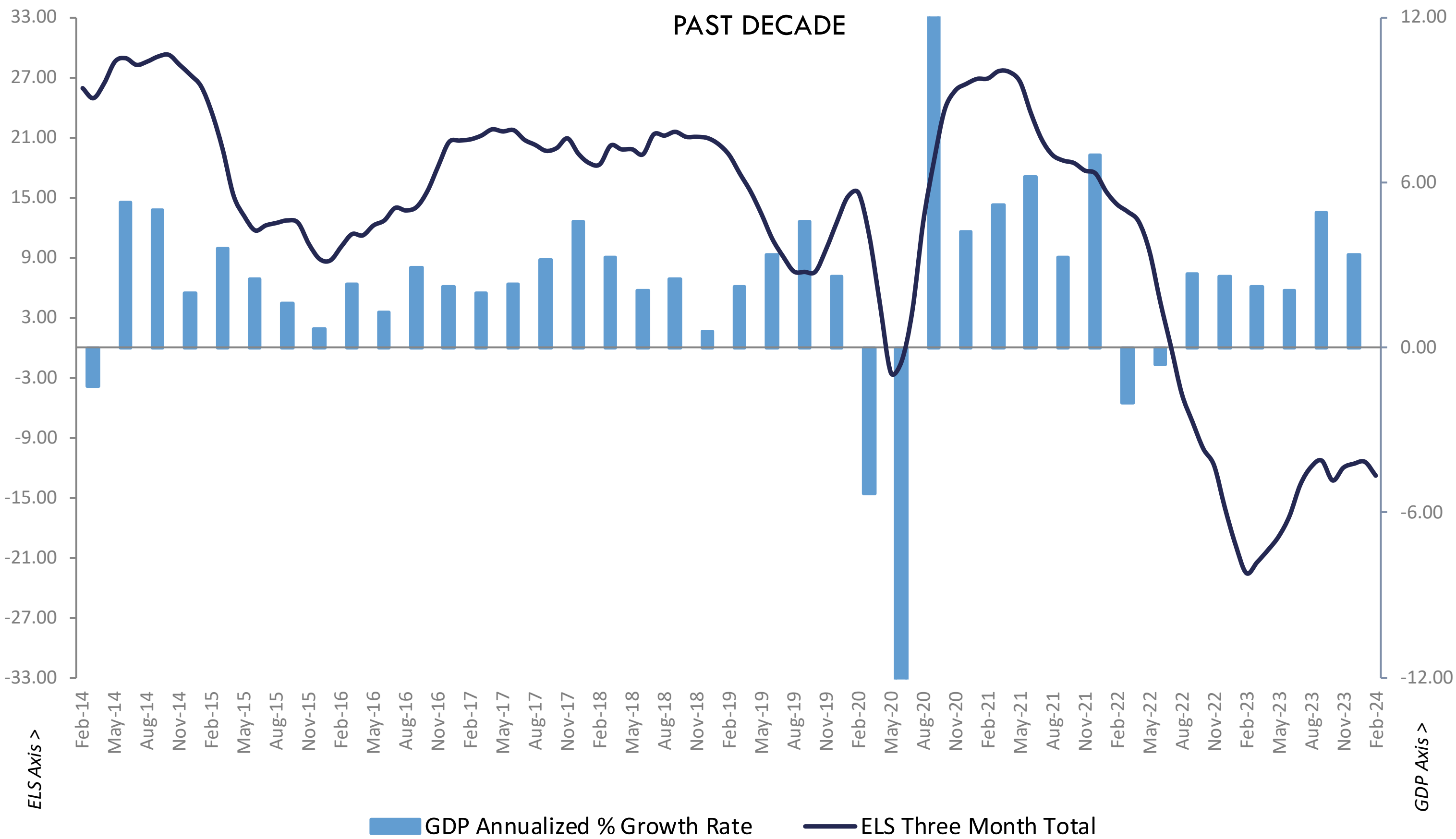
INFLATION

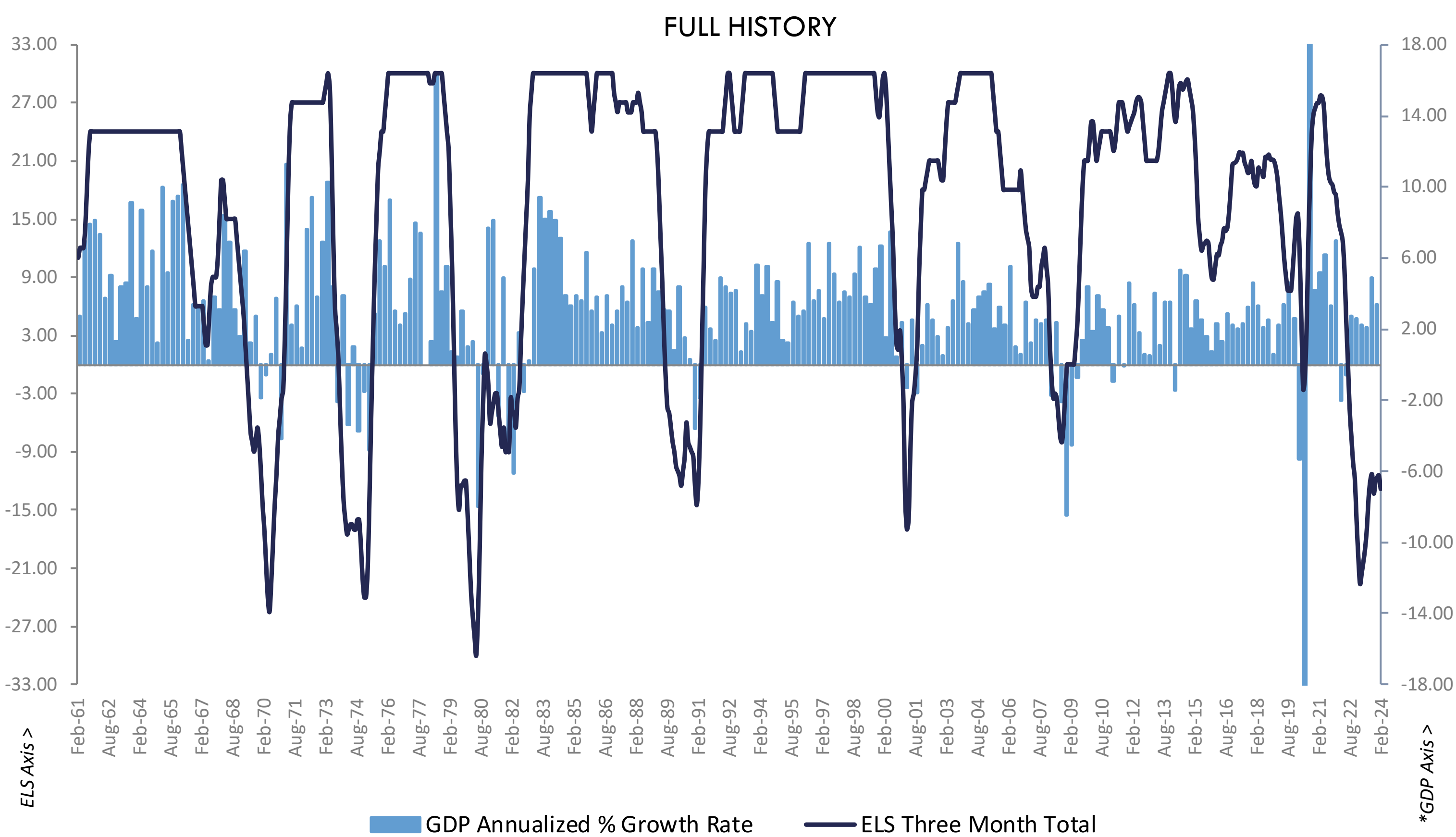
Consumer-side inflation is above target, though at manageable levels. While CPI's annual trend is still negative, downtrends have been unable to bring headline inflation below June's 3.0% cycle-low. Wages are putting upward pressure on inflation. Producer-side inflation has surprised to the upside for two straight months, but remains at a healthy 2.1% y-o-y level.

MONEY SUPPLY | M1 (PREVIOUSLY MZM)

The Fed has discontinued Money at Zero Maturity (MZM); we believe M1 is the most appropriate replacement. Pressure on M1 persists, down again after an outlier uptick in December. Conversely, the Monetary Base, beaten down in nearly unprecedented fashion during 2022, has been on a steady rise for the past year and continued modestly upward this month.

ECONOMIC LEADING STATISTICS® 3m CHARTS





**The GDP axis has been limited in order to provide data more clearly; GDP readings of -31.4 and 33.1 in Jun-20 and Sep-20, respectively, are past the scope of the axis.*

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