SARATOGA CAPITAL MANAGEMENT, LLC

THE ASSET ALLOCATION SPECIALISTS© 10/31/23

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Founded 1994

ECONOMIC LEADING STATISTICS®

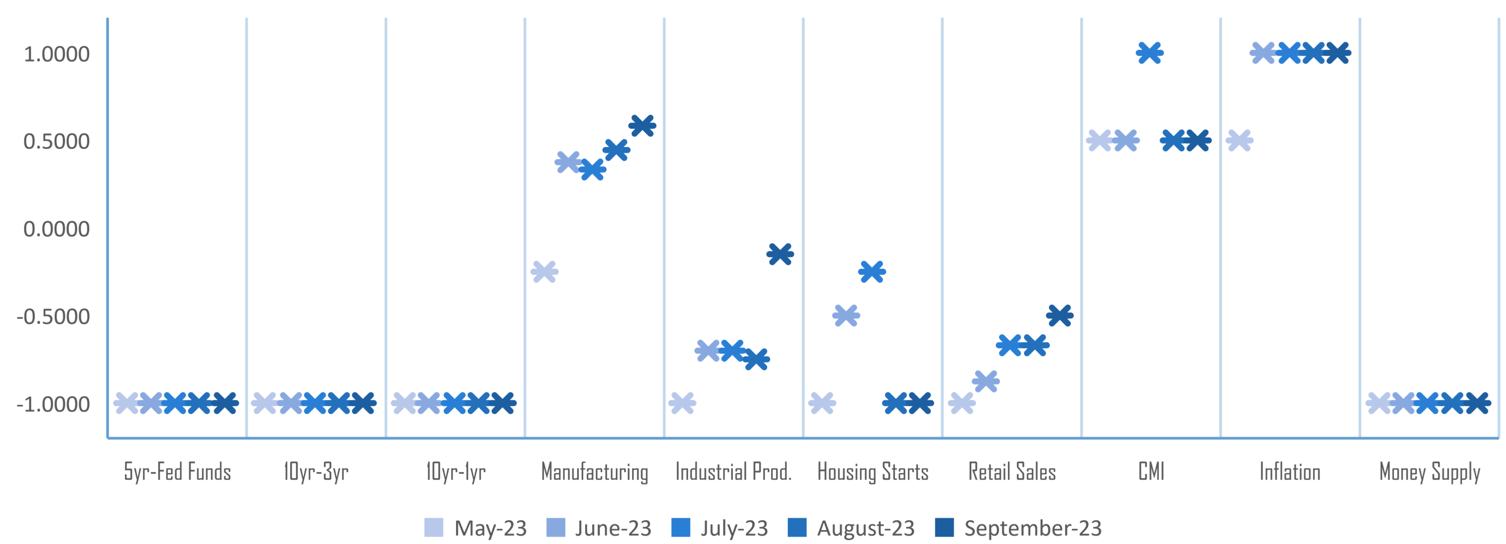
The Economic Leading Statistics® index (ELS) is a proprietary index produced by Saratoga Capital Management, LLC (Saratoga). The purpose of the index is to signal, generally speaking, whether the US economy is expanding or contracting. As its name suggests, ELS is intended to lead other measures of economic 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 -11.33, slightly improved from last month's reading of -11.96. Readings and trends in this range suggest weak, but potentially improving, 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. Over the past few months, six out of ELS's ten components improved or remained in positive territory. Notably, the four ELS components still fully negative are heavily or directly influenced by the Federal Reserve (Fed). Despite improvements within much of the economy yield spreads remain mostly inverted, though the three spreads we include in ELS all improved during the month, most notably farther out on the curve where some normalization has occured. Up until the early 1990s the yield spread was a decidedly lagging indicator, but has been a reliable leading indicator since. The economy has been a mixed-bag for consumers over the past year, and turbulence in Saratoga's CMI index has reflected as much. Downward inflation trends have leveled out recently, though the annual trend is still deeply negative and October CPI came in down from higher August/September readings.



**Previous ELS readings may be adjusted when revised source data becomes available.*

ECONOMIC LEADING STATISTICS® COMPONENTS

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

The yield spread regime remains in rough shape, though October was a solid month for the three yield spreads we follow. In fact, the 10yr-3yr spread flirted with positive territory towards the end of the month before reverting back towards current, mildly negative levels.

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. After reversing trend in March of this year, this manufacturing metric has put in a very strong six-month trend, though down months in July and October have somewhat thrown a wrench into the picture. Some of our favored underlying components here continue on in solid shape, but a strong finish to the year will be necessary for continued positive readings in ELS.

INDUSTRIAL PRODUCTION | DURABLE MANUFACTURING

Similarly to manufacturing new orders, and for the same reason, we track industrial production via its durable manufacturing (IPDM) sector, and include twenty-five underlying industries. The industrial production complex has posted relatively flat performance for the annual period, and the Durables Manufacturing group has come in slightly lower than the headline figure. Primary and semi-finished processing has put in an extended negative run for the past eight months. Computers & Electronics is holding above a 2.5% growth trend in very solid shape, though the two largest components of IPDM, Metal Products and Machinery have yet to turn the corner.

HOUSING STARTS

Housing continues to struggle, 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. The one-year trend is slightly negative, and October came in slightly below that trend. Single-Family (SF) Starts relative to Single-Family Completions remain inverted, with more completions than starts. On a positive note, building permits saw a spike in August, and September/October put in solid figures as well; October beat expectations and has been revised up since.

RETAIL SALES

Retail sales trends remain steady and slightly positive. After spending months writing about sales being range-bound in disappointing territory, we finally note that the sector looks to be improving. Headline m-o-m sales is positive for the past six straight months, while core retail sales posted a solid August, pushing trends higher. It is somewhat unusual to see retail sales stay muted in the face of supposedly robust GDP; we find it likely that a breakout in retail sales will be necessary to support a further leg up in GDP in 2024.

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 took a decided turn for the worse over the past month. The unemployment rate ticked up to 3.9%, while U-6 unemployment crept up again to 7.2%. Yield spreads generally remain badly inverted, though they have shown improvement. While inflation is still at slightly elevated levels in absolute terms, its trends are impacting CMI positively. The quality spread remains elevated, though it bounced off of a near-term high, dropping into what we consider neutral territory.

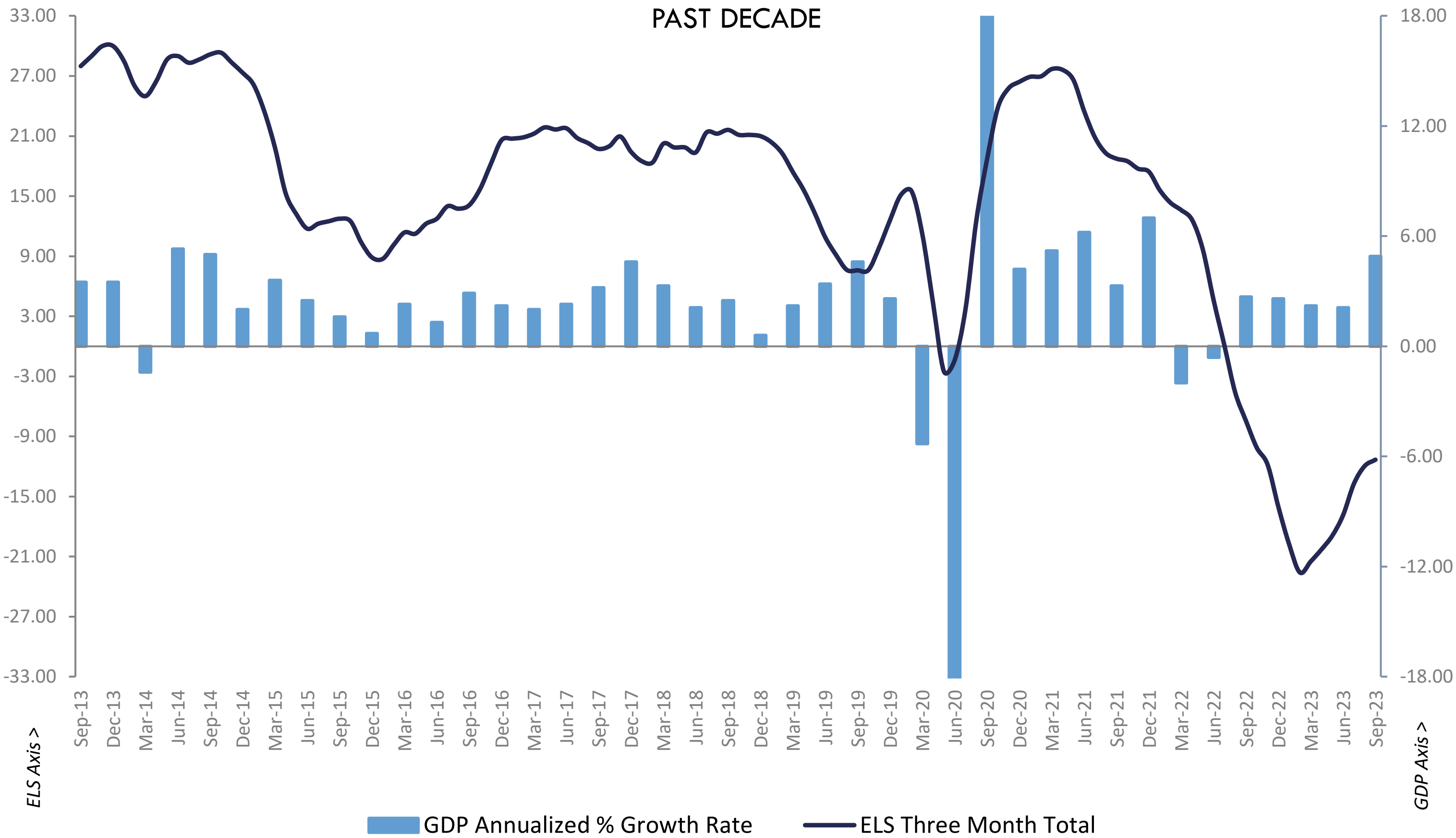
INFLATION

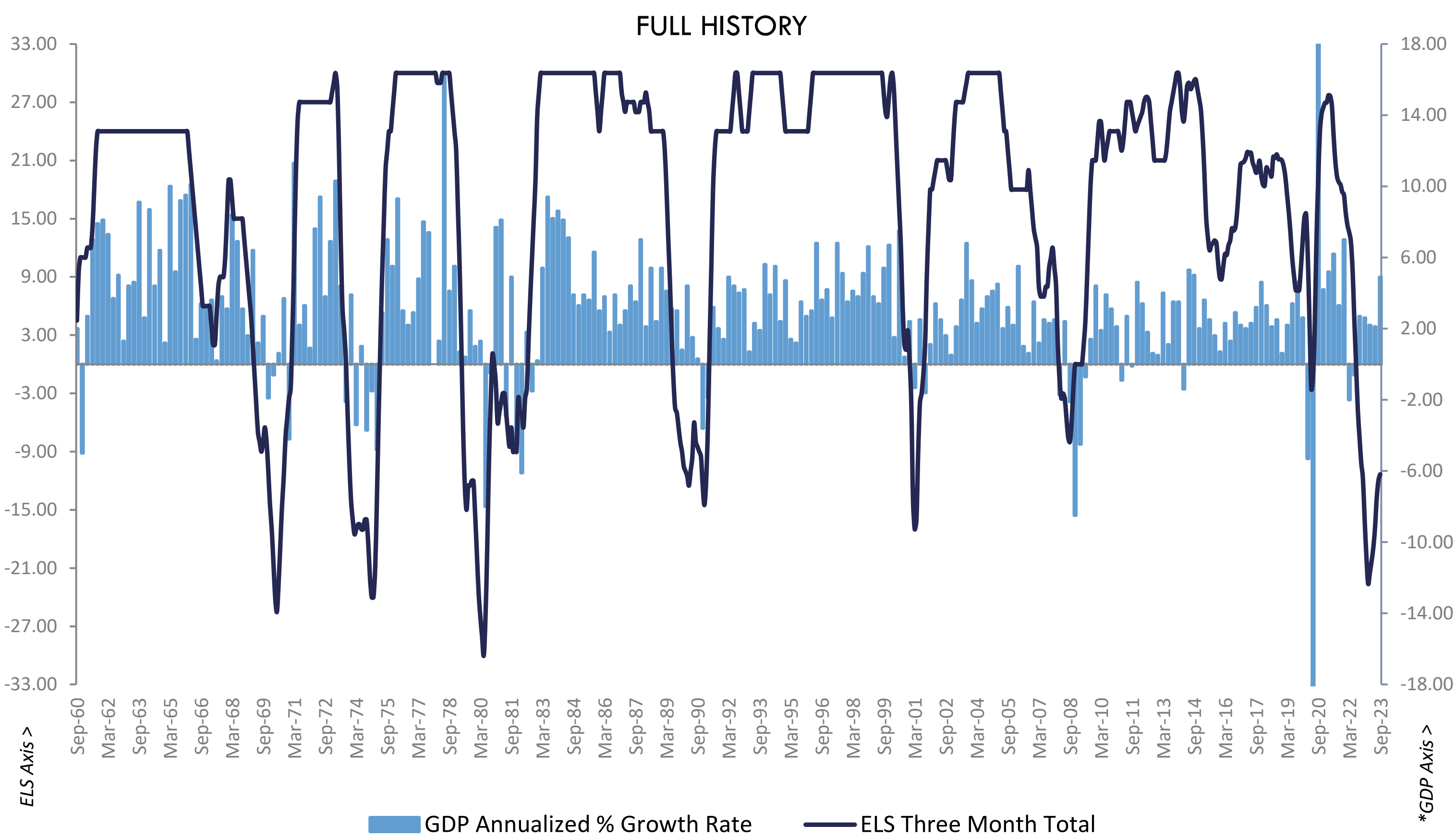
The Consumer Price Index (CPI) remains above target, though at manageable levels. While most trends are negative, the last four months have seen a somewhat troubling bounce from June's 3.0% cycle-low back to 3.7% in September and 3.2% in October. After nearly a year of contraction, the Producer Price Index (PPI) rose from a June floor of 0.2% y-o-y to 1.3% in October. This is a healthy rate of inflation on the producer-side of the economy, and underlying data remains disinflationary.

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, as this measure of money supply continued lower for the month, however, for the third consecutive month the rate of decline in M1 represented a slower pace than the annual trend. While the Fed seems to be taking its foot off the brakes to some degree, we still appear far from the gas pedal as well.

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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