

SARATOGA CAPITAL MANAGEMENT, LLC

THE ASSET ALLOCATION SPECIALISTS®

1/31/24



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 -11.63, a slight upgrade from last month's reading of -12.03. 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 few months. Leading indicators on the producer-side of the economy have fallen, with New Orders for Durable Goods turning negative and Industrial Production Durable Manufacturing data bottoming-out. Yield spreads remain mostly inverted, though normalization occurring farther out on the curve took hold once again. 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. Downward inflation trends have leveled out recently, though the annual trend is still deeply negative; likewise, PPI put in another cool reading in December, capping off a quarter's worth of negative monthly readings.



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

www.saratogacap.com

ECONOMIC LEADING STATISTICS® COMPONENTS

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

The yield spread remains inverted along most of the curve, and after some normalization early in the year, spreads have once again fallen apart. 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.

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 and posting positive numbers for the four months started March 2023, Manufacturing New Orders for Durable Goods has been on a wild ride since July. We use a number of shorter-term trends in this metric, and they continue to ride this volatile wave with five of the last six months posting movements over four percentage points.

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 finished negative for the annual period, though the Durable Manufacturing group is above that headline figure, at 1.2% y-o-y. Furniture & Related Products was down -0.7% for the month and remains the worst performing sector within the complex, down -10.6% for the year. The reality of higher rates finally seems to be impacting autos, as Motor Vehicles & Parts has broken down badly over the past few months. Primary Metals is a bright spot, up to 3.3% y-o-y, as is Computer & Electronic Products, up 5.3%.

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 positive, with both November and December coming in strong and well ahead of forecasts. Starts have moved in front of completions, after months of inversion. On a positive note, building permits continue to hold a slightly stronger trend than starts.

RETAIL SALES

Retail sales trends remain steady and slightly positive, and finished 2023 with a bang. 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 eight of the past nine months, while core retail sales has been in the black for all nine.

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 from July through October, but rebounded in November. The unemployment rate unexpectedly ticked down to 3.7% and remains there, while U-6 unemployment has bounced between 7.0 - 7.2% for six months. Yield spreads generally remain badly inverted. While inflation is still at slightly elevated levels in absolute terms, its trends are impacting CMI positively. The quality spread has been headed in the right direction, and has moved into what we consider positive territory for corporate earnings. Consumer confidence has exploded upwards over the past two months, back into territory not seen since high inflation knocked it down.

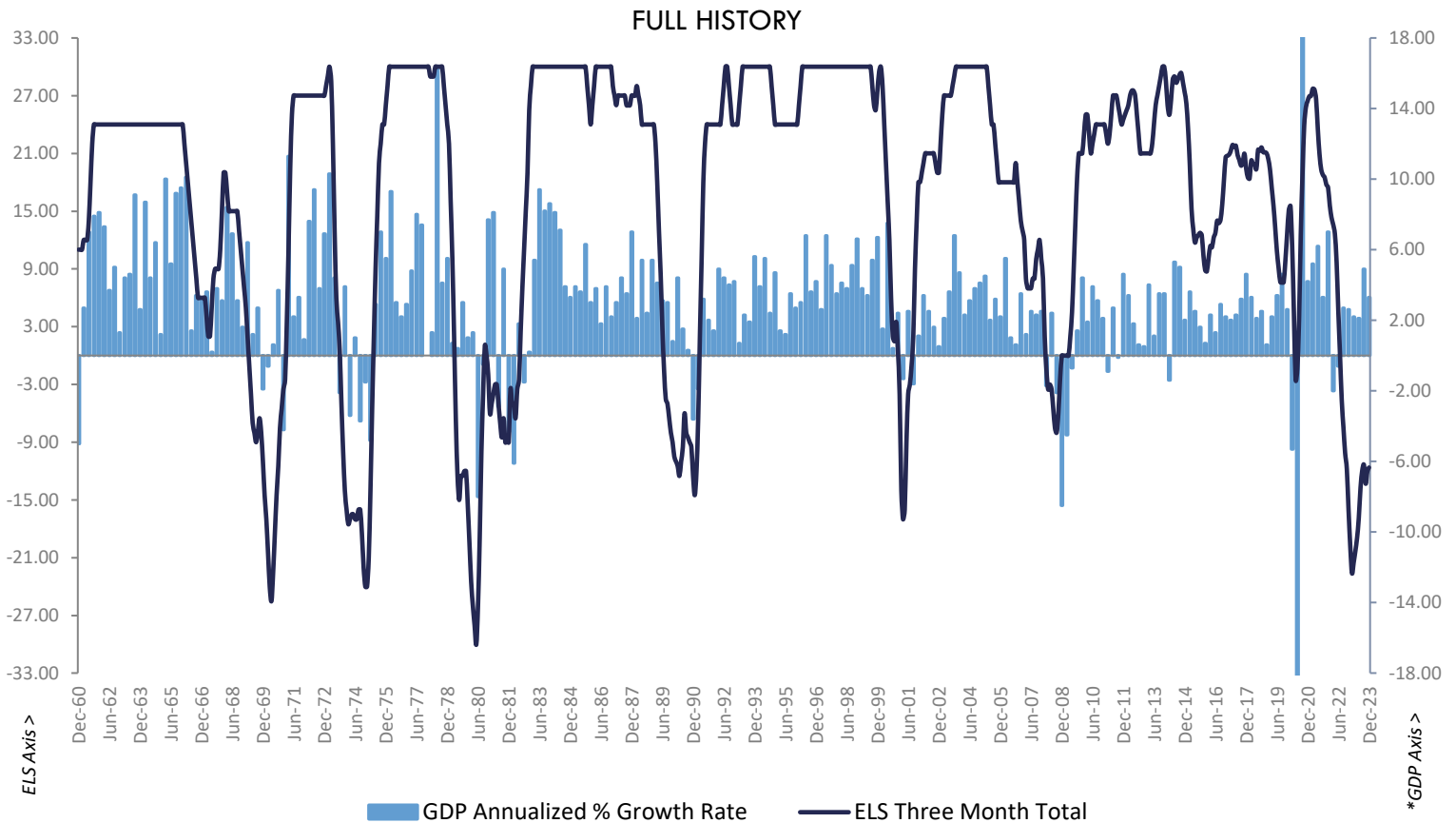
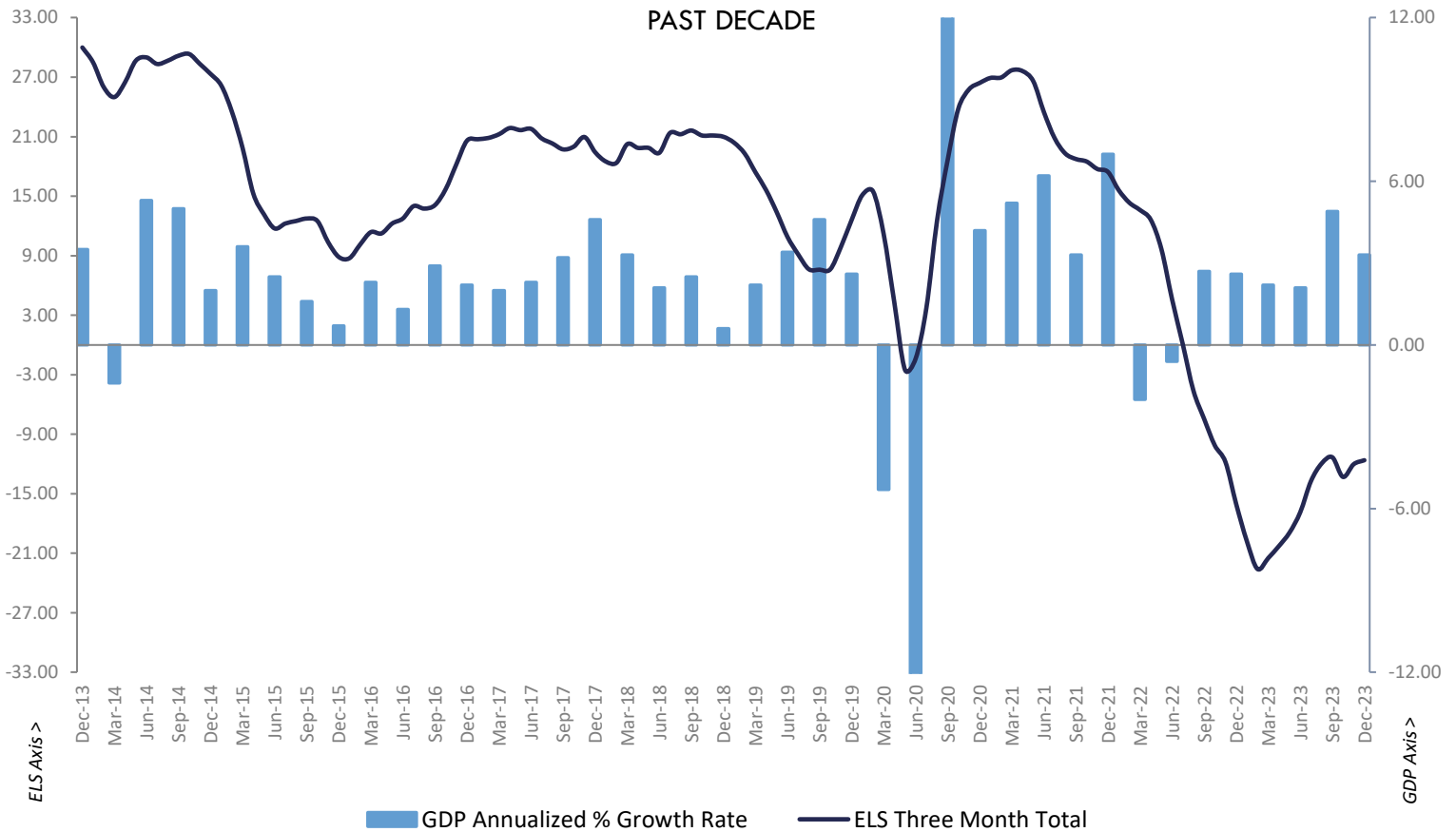
INFLATION

The Consumer Price Index (CPI) remains above target, though at manageable levels. While the annual trend is still negative, the last eight months have seen headline inflation unable to fall below June's 3.0% cycle-low. On the production side of the economy, often a leading indicator to CPI, PPI came in weak once again and well below forecasts for the second month in a row. 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, though for the first time in over a year this measure of money supply rose for the month. For the back half of 2023, we wrote that while the Fed seemed to be taking its foot off the brakes to some degree, they also appeared far from pressing the gas pedal as well; and while their language remains more moderate than doveish, we may be seeing the first hints of a change in policy via M1.

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.

SARATOGA CAPITAL MANAGEMENT, LLC

THE ASSET ALLOCATION SPECIALISTS®



800-ALLOCATE (255-6228)

www.saratogacap.com

Information contained herein was obtained from recognized statistical services and other sources believed to be reliable and we therefore cannot make any representation as to its completeness or accuracy. Any statements not of a factual nature constitute only current opinions which are subject to change without notice. **Past performance is not a guarantee of future performance.** The material provided herein has been provided by Saratoga Capital Management, LLC and is for informational purposes only. Saratoga Capital Management, LLC does not advise individual clients; Saratoga serves as investment adviser to one or more mutual funds distributed through Northern Lights Distributors, LLC member FINRA/SIPC. Northern Lights Distributors, LLC and Saratoga Capital Management, LLC are not affiliated entities. © 2023 Saratoga Capital Management, LLC; All Rights Reserved. 17932930-NLD-02272024