

MarketDesk PMI Leading Indicator

6-Month Forecast of the ISM Manufacturing PMI

Economic Activity

Current Takeaway Continues to forecast weaker data (and S&P 500 returns); Falling PMIs = higher probability of downside surprises

Overview of Indicator

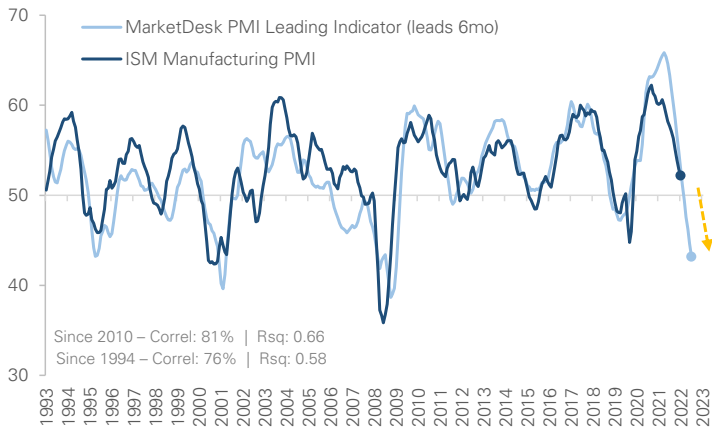
The leading indicator is based on a composite of 12 macro inputs and provides a 6-month forecast of the ISM Manufacturing PMI headline number. The goal of the MarketDesk PMI Leading Indicator is (1) to provide a timely estimate of future PMI levels, which historically have a high correlation with S&P 500 returns, and (2) inform tactical portfolio positioning across asset classes (i.e., cyclical vs defensive equities, long duration vs short duration bonds, etc.). Note: The ISM Manufacturing PMI index is calibrated such that readings above (below) 50 indicates U.S. economy activity is growing (slowing).

How to Use

When the MarketDesk PMI Leading Indicator implies future PMI levels will be meaningfully above (below) current levels, portfolios positioning should tilt risk on (risk off). As with all quantitative tools, interpreting the indicator is more art than science. The underlying inputs of the composite score have varying lead times and influence on the PMI depending on the stage of the economic cycle. There will be periods when the inputs forecast different PMIs due to idiosyncratic reasons, but it is important to pay attention to the broad trend of the group.

Figure 43 – Actual PMI vs MarketDesk PMI Leading Indicator

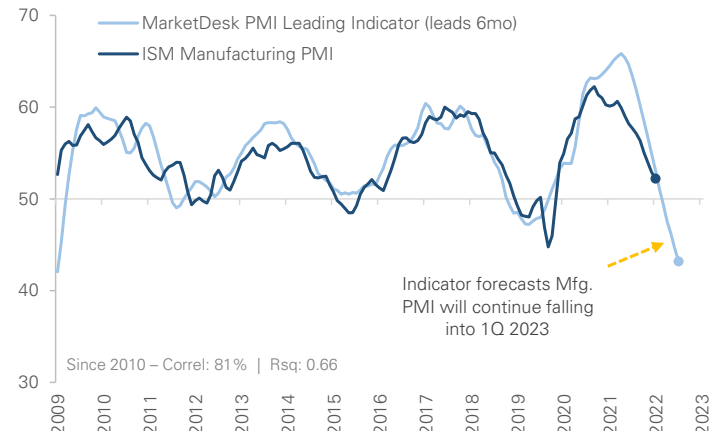
Historical Relationship of the Leading Indicator and Actual PMI Levels



Source: www.QuantPack.com, ISM. Both lines smoothed with 3-month average.

Figure 44 – MarketDesk PMI Leading Indicator Since 2010

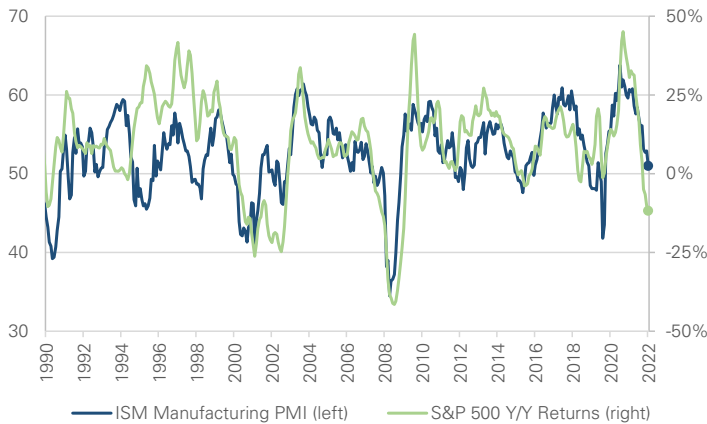
Recent Forecasted History



Source: www.QuantPack.com, ISM. Both lines smoothed with 3-month average.

Figure 45 – Correlation of S&P 500 Returns & PMI Levels

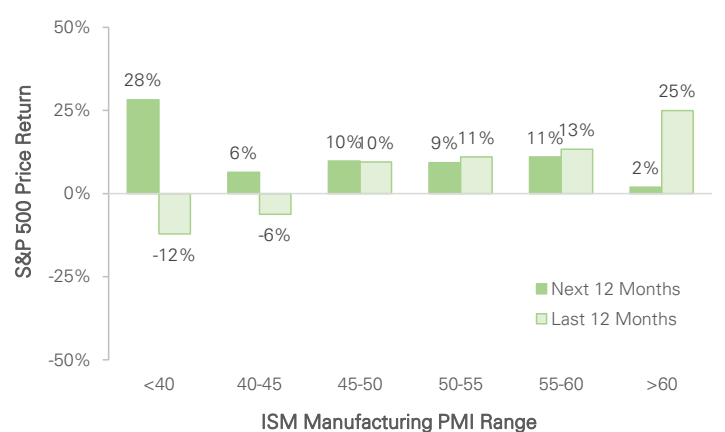
Historically S&P 500 Returns have a High Correlation to PMI Levels



Source: www.QuantPack.com

Figure 46 – S&P 500 Price Returns Based on PMI Levels

Market Performance Around Key PMI Ranges



Source: www.QuantPack.com

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