LET’S GET TECHNICAL PART 2: LEADING INDICATORS
Let’s Get Technical Part 2: 

Leading Indicators

Dear Subscriber,

We introduced the *Critical Signals Report* Storm Tracker [here](#) as our starting point when it comes to assessing global risk and the proximity of the next recession. We then turned to [Part 1](#) of this five-part series by sharing with you the way our Storm Tracker measures key market *trends*.

Here in Part 2 of this critical series, we look at a completely different subset of weather patterns: leading indicators.

**Let’s Get Started**

Like tracking trends, tracking leading indicators is fundamental when it comes to forming a macro view of the markets. Macro views are important when it comes to asset allocating. As you’ll see here, Storm Tracker is a crucial tool for tracking leading indicators.

Understanding how to allocate under all market conditions requires an understanding of where the “weather” patterns are heading… not where they’ve been. The key here is to stop relying on that rearview mirror and start looking ahead.

In this part of the Storm Tracker series, we’re going to equip you with high-beam headlights so you can see far ahead of you – i.e. see that deer around the bend that’s about to hit your car.

So what exactly is a leading indicator?

Leading indicators are just that – they lead by changing before an economy or market changes, serving as an advance “heads up” on market direction. While they are not always accurate when used alone, but when...
combined with multiple leading indicators, they can be far more accurate and useful. Multiple indicators pointing in the same direction increases the likelihood that the markets are reliably headed in a certain direction.

*Critical Signals Report* monitors leading indicators in five “buckets” across multiple time frames ranging from one month to multiple years, placing increasing emphasis on shorter time frames with the following equal-sector allotments…

Allow me to describe what’s going on in this chart here…

In a nutshell, The Conference Board Leading Economic Index is published as a single metric, but combines others, namely it is…

1. An index of 10 economic indicators that tracks macro variables that tend to move before changes in the overall economy, thereby providing you with a looking glass into the future.

The stock-markets indicator simply tracks the performances of global stock markets, namely…

1. The U.S. S&P 500 Index…

2. The EURO STOXX 50 Index…

3. The Nikkei 225 Index, and…The Hang Seng Index.
The economic-activity indicator tracks growth activity and demand, namely…

1. U.S. GDP in multiple time frames…
2. U.S. corporate business profits…
3. U.S. capacity utilization, and…

The U.S.-housing indicator tracks how the home builders and buyers are doing, namely…

1. U.S. housing starts…
2. U.S. building permits…
3. U.S. home prices, and…

There’s also the global-export indicator, which gives a peek into trade activity by analyzing…

1. U.S. exports…
2. European exports…
3. Chinese exports, and…

The global-manufacturing indicator informs us on what purchasing managers are up to, chiefly relating to…

1. U.S. manufacturing…
2. European manufacturing, and…

The credit-spread indicator informs us on whether credit spreads are closing (good) or widening (bad) by looking at…

1. The interest-rate spread between U.S. corporate BBB-rated bonds and the U.S. 10-year Treasury yield, and…
2. The interest-rate spread between generic corporate high-yield debt and the U.S. 10-year Treasury yield.

The interest-rate indicator tracks the direction of interest rates, namely…

1. The U.S. federal funds effective rate, and…

2. The interest rate (or yield) “spread” between the U.S. two-year Treasury yield and the U.S. 10-year Treasury yield.

The confidence indicator tracks general confidence in the U.S. economy via…

1. The Conference Board Consumer Confidence Index…

2. The Conference Board Composite Index of Coincident Indicators

3. The Conference Board personal income indicator, and…

4. The U.S. U-3 unemployment rate.

Hold On – There’s More in Store

For leading indicators to be solid, they must each be visually confirmed by the Critical Signals Report time box indicator, which measures shorter periods vs. longer time periods – generally on a monthly basis.

Whew! Let’s add that up. The Critical Signals Report is tracking, for you, global leading indicators across nine market categories by monitoring 29 indices in three time frames (short term, medium term, and long term)… that’s 522 combinations of market-leading indicators, confirmed three ways to improve accuracy, as noted above.

Again, you could spend hours trying this at home, or you could just rely on the Critical Signals Report to track and consolidate all of these leading indicators into one simple, deliverable system.
What Are These Leading Indicators Telling Us Today?

Nothing good. Current **GOOD** (upward-sloping green indicators) and **BAD** (downward-sloping red indicators) appear below. Just about every leading indicator bucket extends below the 50% red zone (below the white arrow in the chart below).

![CRITICAL SIGNALS REPORT LEADING INDICATORS](source: Critical Signals Report)

The interest rate and confidence buckets are the only buckets with any hopeful green appearing. That’s because consumers are not just confident but *too* confident – as is typical in topping markets.

That’s also because the majority of folks aren’t watching what we’re watching here at the *Critical Signals Report*. Consumers are borrowing and spending as if there were no tomorrow.

All remaining buckets in the above chart are deeply in the red, suggesting that there indeed may not be a happy tomorrow if leading indicators keep falling as they have recently and investors fail to take shelter.

For example, here are two leading indicators that have recently gone south, namely U.S. industrial production and the U.S. Conference Board...
Composite Index of Coincident Indicators, an index that tracks economic variables that tend to move relative to changes in the overall economy year-over-year (YOY).

And here’s that time box confirmation (red box) proving that this particular Conference Board leading indicator has flipped from north to south.

Bottom line: Leading indicators are tumbling.
See How This All Fits Together?

We track leading indicators, which in turn inform the *Critical Signals Report* Storm Tracker, which in turn informs the *Critical Signals Report* Crash Portfolio (to be discussed soon) as to changes that may be required in asset allocation.

But there’s more…


Useful? Questions?

Fire away. We want to hear from you. Please provide your questions/comments below, as we’ll be formulating answers all along this technical journey. In the meantime, be safe out there…
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