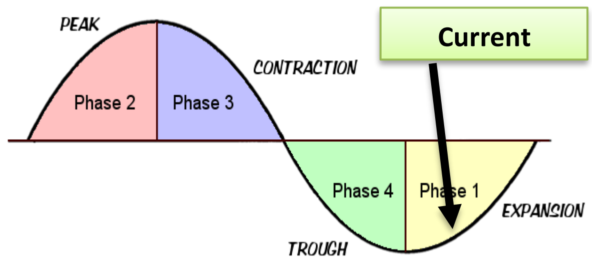
Oak Tree Economic Update:
Thursday, September 17, 2020

"*Your Money, OUR Economy:* They're Linked"

The business cycle appears to be in Phase 1. In this phase the economy starts improving. Commodities and interest rates bottom. The inventory-to-sales ratio declines. Eventually inflation bottoms as well, following about one year of economic expansion. Credit risk stabilizes. Earnings improve. The stock market enters a new bull market propelled by increased liquidity, low interest rates, and higher earnings. This cycle should peak in 2022 if it behaves like the previous two. ***Your individual portfolio is constructed based on your objectives, asset allocation theories and customized with our sector rotation based on market logic, not market timing.***



Phase 1	***Expansion*** - When the economy starts growing again and GDP (Gross Domestic Product) is increasing at the fastest rate.
Phase 2	***Peak*** – the point when you see most growth of GDP, and the economy is its highest level. GDP increase constant
Phase 3	***Contraction*** (Recession) - When the economy starts slowing down and GDP decreasing at an increasing rate
Phase 4	***Trough*** - When the economy hits bottom and GDP decrease constant

- **Income and sales - Rebounding.** Income and retail sales are rebounding despite a muted consumer sentiment. There is too much negativism. Yet, at the end of the day, consumers are going out and spending aggressively.
- **Employment - Rebounding.** Manufacturing employment/job openings are rebounding as is typical at the start of a cycle.
- **Durable goods orders - Rebounding.** The bounce in durable goods orders is impressive. They are big ticket items and it takes a strong positive view of the future for business and consumers to buy them. These trends support the idea the economy is on a sound footing in its mending the damages caused by the pandemic.
- **Housing - Rebounding.** The housing sector, an important segment of the economy, is rebounding strongly. Housing starts and new home sales are rising sharply. This is good news when combined with the expansion of the manufacturing sector.
- **Commodities - Firm**. Commodities, including gold, are rising, responding to a stronger economy.
- **Inflation – Slightly Upward.** The price index of consumer expenditures, a broad measure of inflation, rose only 1.0% year/year.
- **Interest rates - Stable.** Yields had been declining but have now stabilized since the new business cycle started in roughly March, the main reason we reduced our exposure to bonds.
- **The Dollar - Weak.** The Dollar sometimes weakens when the economy strengthens; improvement could lead to a weaker Dollar.

The investment environment: The economy is rebounding from the disastrous and sudden pandemic event. Yet, the consensus seems to ignore it. A new business cycle appears to have started. All the trends in manufacturing, services, housing, and employment appear to support this idea. Our strategy will continue to adapt gradually to this development.

The stock market: The long-term fundamental outlook – cautiously bullish. Spiking prices are always a reason for concern. The sharp move on the upside of tech stocks may potentially have been evidence of speculation. This is the main reason we started reducing our exposure to tech stocks beginning in July. Where do we go from here? The monetary base, following the June-July slowdown, has been growing faster again. This increase in liquidity is accompanied by a decline in credit spreads – a sign financial risk could be under control by the Fed. Momentum remains solid and our indicators are still positive. The market needs to digest the strong gains of the past five months and then resume its upward path. We are pruning those positions that are underperforming the S&P 500. This is an important part of our ongoing process aiming at reducing portfolio volatility.

Bottom line: The rise of the leading indicator of The Conference Board helps support the idea that a new business cycle may now be under way.

{Data source for information in update: https://www.bls.gov/ - Bureau of Labor Statistics}

Oak Tree Financial Services, LLC is located at 13555 Bishops Court, Suite 255, Brookfield, WI 53005.
Phone: 262-649-9202; Website: *OTFSllc.com*; Email: info@OTFSllc.com