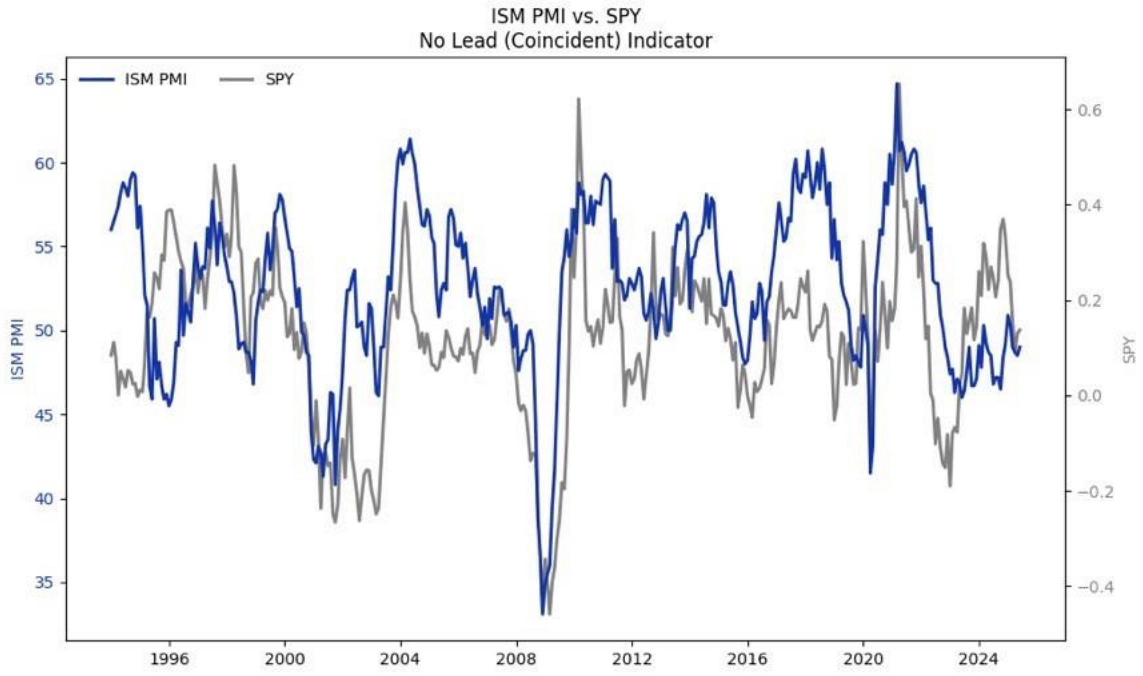
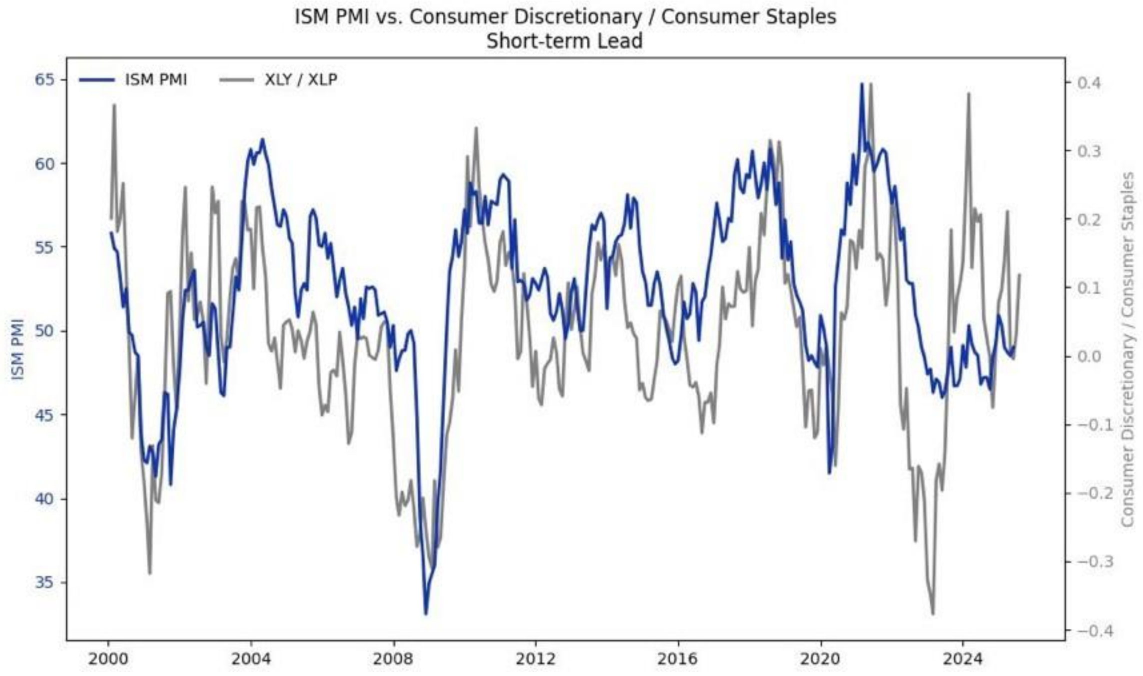
TIMING THE CYCLE BEFORE CONSENSUS

- While broad indices like the S&P 500 tend to move coincidently with ISM, certain sector relationships provide true lead time
- One of the most reliable is the Consumer Discretionary vs Consumer Staples ratio:
- When discretionary outperforms, it reflects rising consumer confidence and growth optimism
- When staples lead, it indicates defensive positioning and caution about future conditions

Why it works:

- These two sectors anchor at opposite ends of the spending cycle. Shifts in their relative performance capture turning points in consumer sentiment before they show up in manufacturing new orders





IDENTIFYING RELIABLE MACRO LEAD INDICATORS

Some international and cross-asset signals offer powerful lead time over U.S. manufacturing cycles:

CQQQ (China Tech ETF):

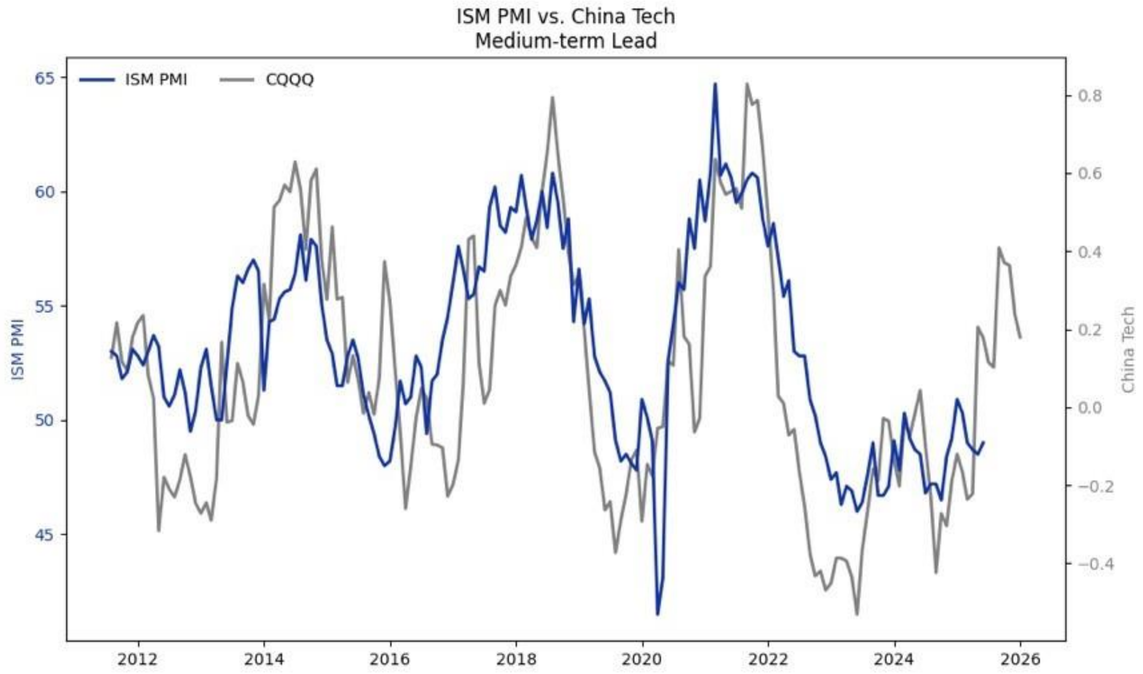
- Reflects Chinese economic and credit momentum
- China's stimulus and credit cycles often lead U.S. industrial activity

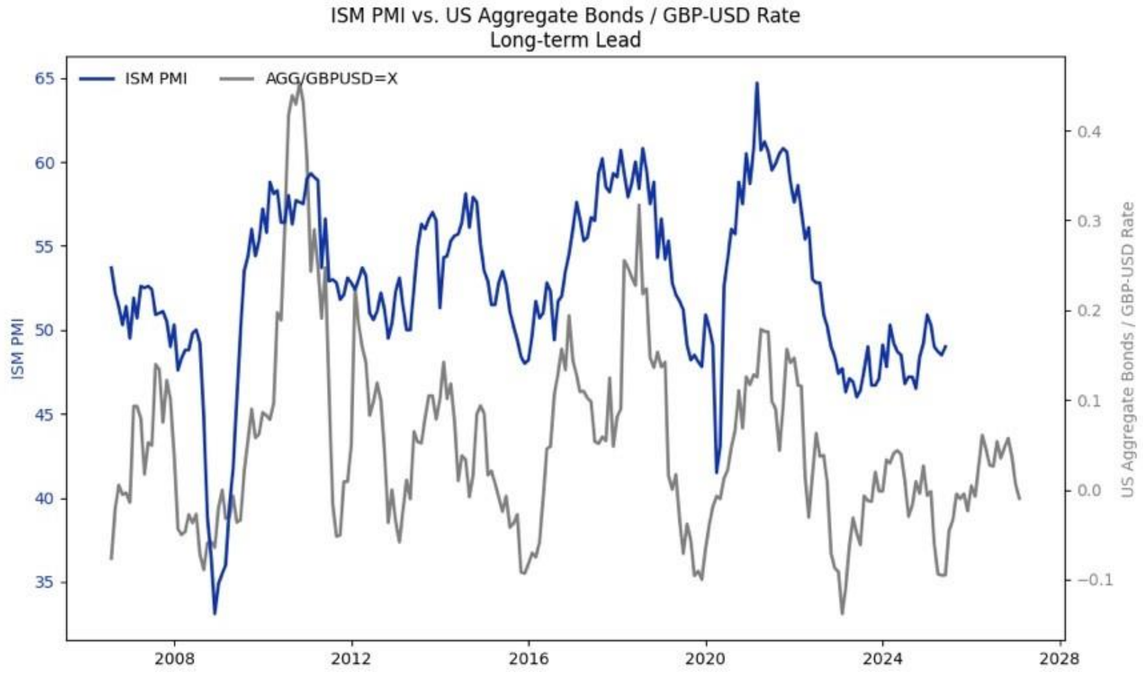
AGG / GBPUSD (Bonds vs FX):

- FX alone is noisy, pairing it with bonds filters signal
- A rising AGG/GBPUSD ratio = flight to safety, falling = reflation

Why it works:

- Global supply-chain & risk sentiment ahead of U.S. factories: Shifts in China's tech cycle and bond/FX safe-haven flows often materialize before U.S, manufacturing turns, giving a tactical window to position for growth or defensiveness





HISTORICAL AND NEW DRIVERS OF GROWTH

Emerging sectors are already shaping the cycle, especially AI and cloud infrastructure:

Cloud Computing ETF:

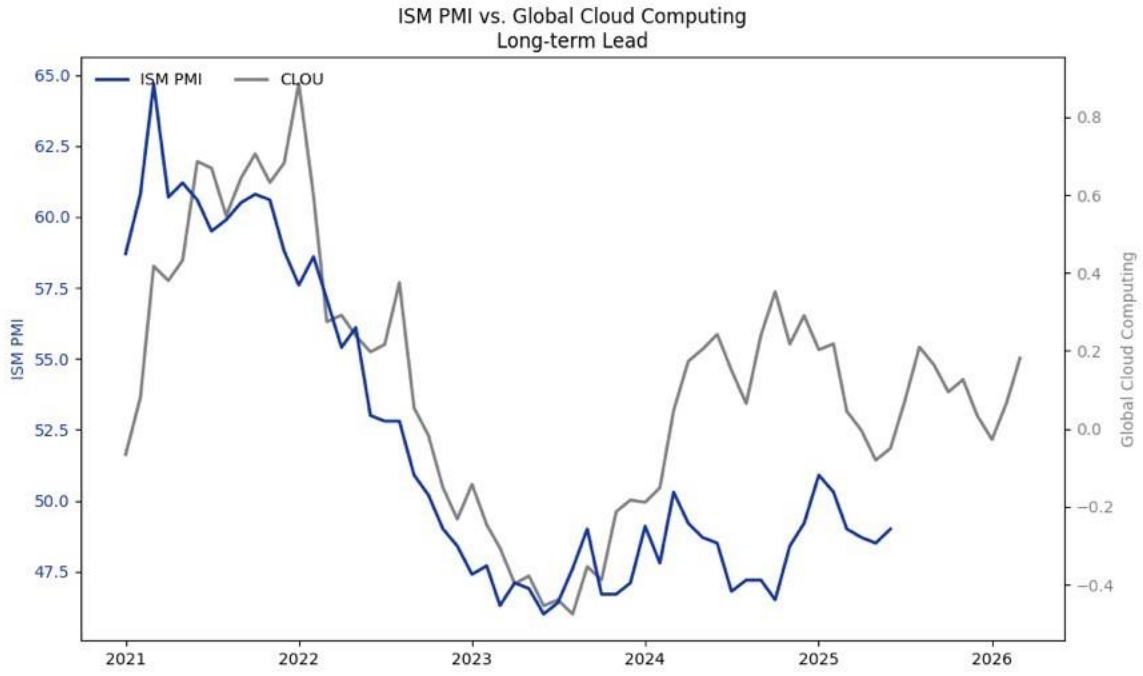
- Captures forward-looking capex trends and corporate digital expenditure
- Strong recent performance aligns with improving ISM outlook

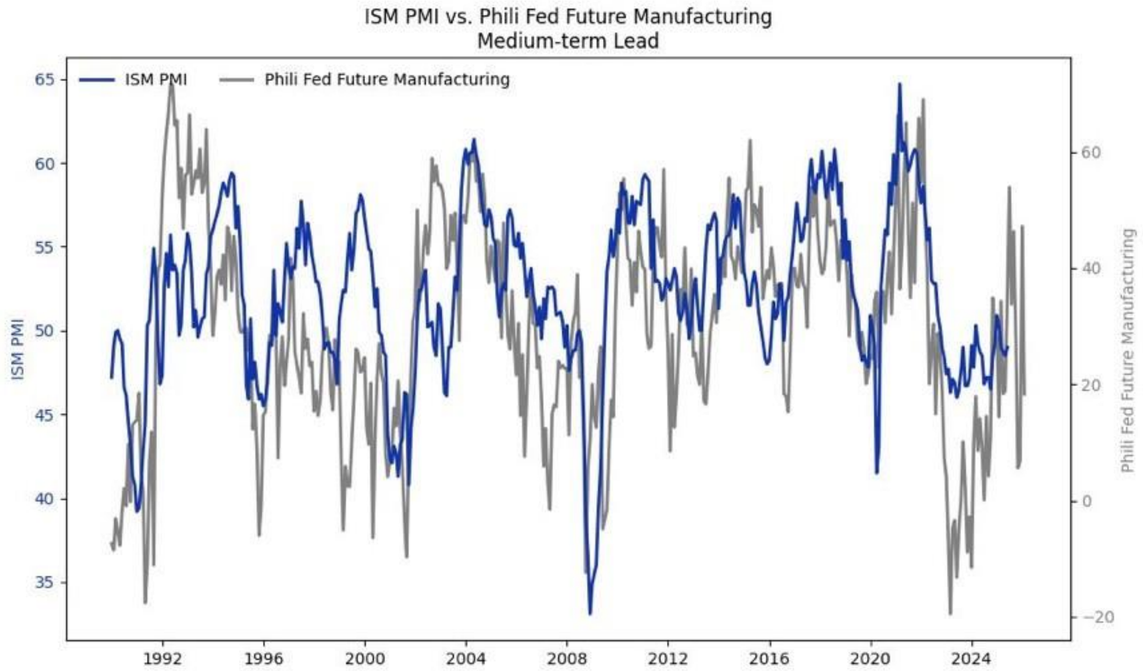
Philly Fed Future Manufacturing Index:

- One of the most consistent regional forward indicators
- Reflects manufacturer expectations before they show up in national data

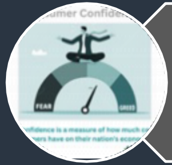
Why it works:

- Early-cycle tech capex and regional order expectations both capture firm-level confidence long before it shows up in broad surveys; cloud expenditure and Philly Fed forward orders typically lead national ISM





Recap of Leading Indicators for ISM



Consumer Confidence Signals: Shifts in discretionary vs. staple spending precede overall manufacturing activity

China Technology: Technology in China tends to lead US manufacturing as China credit leads US credit

Risk-Sentiment Measures: Broad bond-and-FX sentiment swings often lead manufacturing cycles by long horizons

Capex Indicators: Investment flow patterns into tech and cloud sectors capture future capital-expenditure trends

Regional Manufacturing Expectations: Forward-looking surveys from key districts tend to signal national manufacturing shifts

FORECASTING INFLATION BEFORE IT HITS THE HEADLINES

- Certain asset-class ratios & commodity metrics lead CPI
- Screen for those with the strongest historical leads

Broad commodities and input costs:

- Some aggregate commodity and input-cost signals offer powerful lead time over U.S. inflation cycles:

DBC (Invesco Commodity Index):

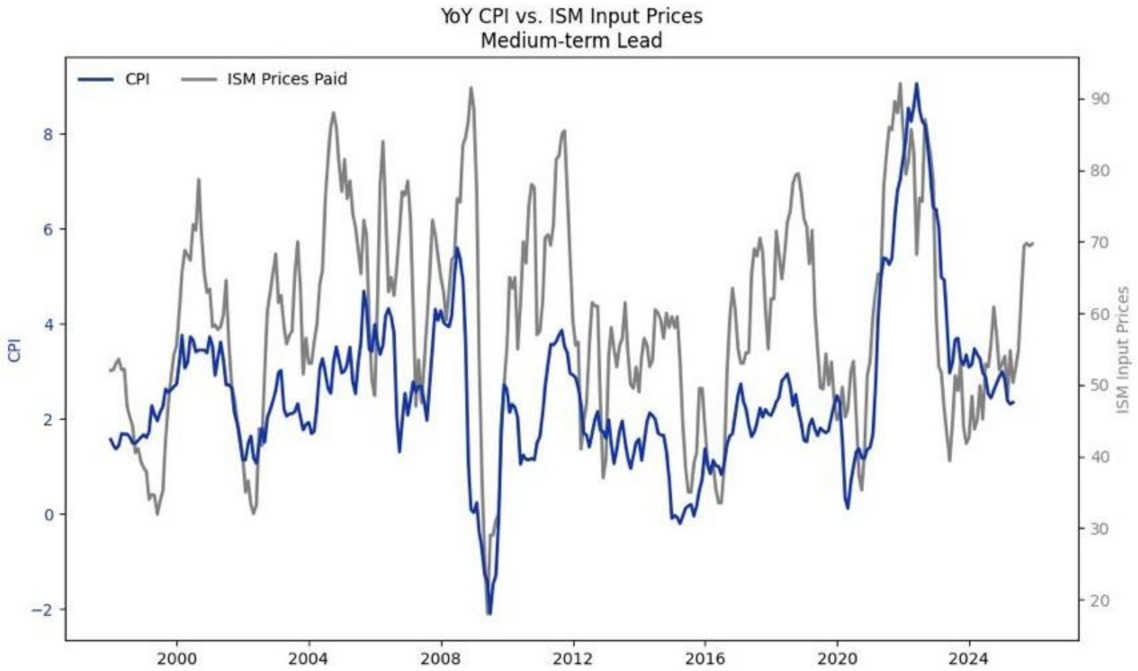
  - Captures broad energy, metals & agriculture price shifts
  - Raw-material cost swings pass through to consumer prices

ISM "Prices Paid" Index:

  - Direct survey of what manufacturers pay for inputs
  - Input-price pressures later feed into CPI

Why it works:

- These gauges track feedstock cost channels, from farm to factory, before they show up at the pump or grocery store



PRECIOUS METALS VS ENERGY & LUMBER

- Targeted commodity ratios signal structural cost pivots well ahead of CPI:

Gold / XOP (Gold ETF / Energy ETF):

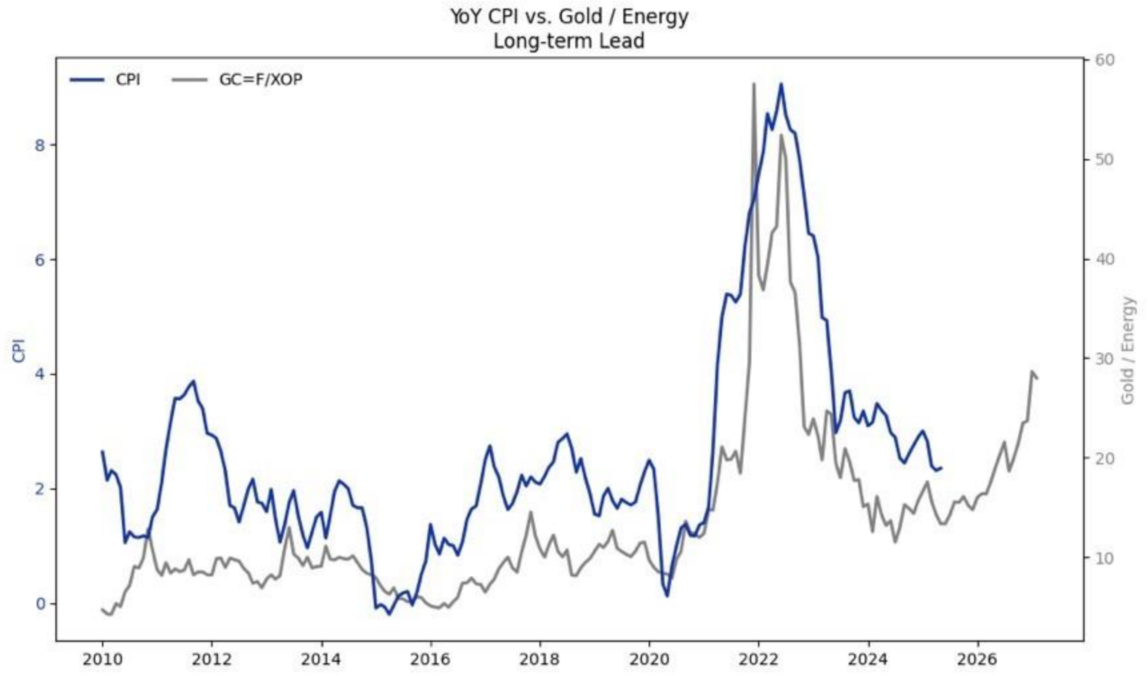
  - Gold outperformance signals stagflation expectations; energy strength signals reflation

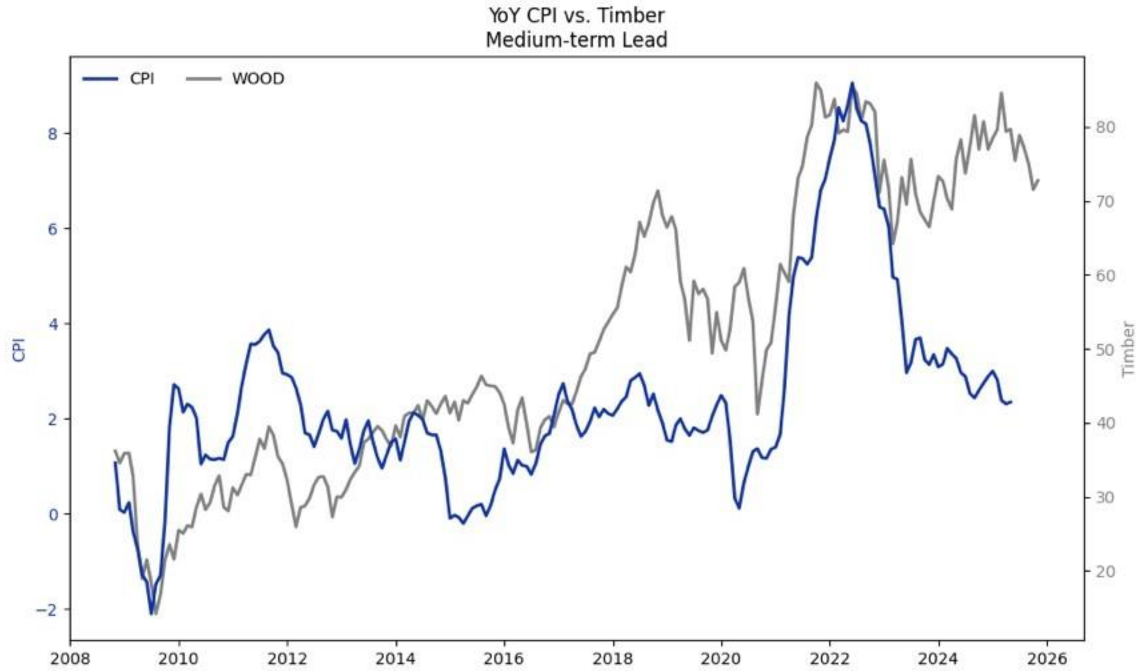
WOOD (Lumber ETF):

  - Lumber prices feed directly into shelter and building-material costs

Why it works:

- By isolating key cost inputs; energy vs. precious metals, and timber for housing, you get early warning on both headline and shelter components of inflation





SPECIALTY MATERIALS & RISK APPETITE

- Niche inputs and market sentiment ratios flag price pressures

REMX / CARZ (Rare Earths / Automakers):

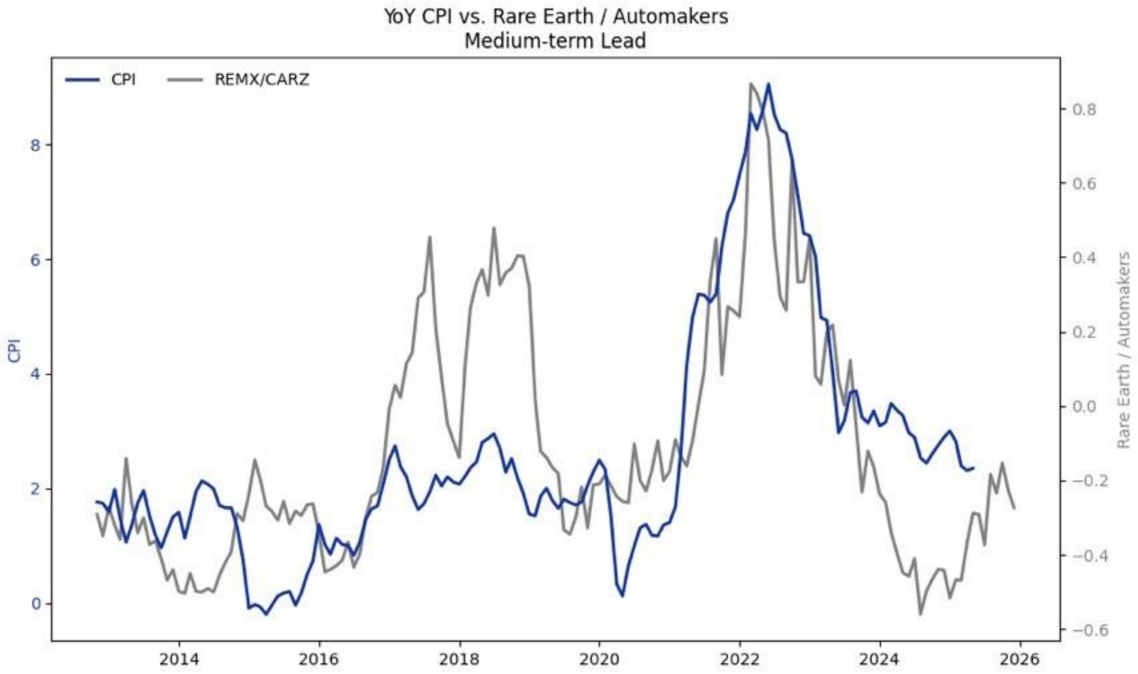
- Tracks supply-chain tightness in EV/mineral inputs vs OEM production

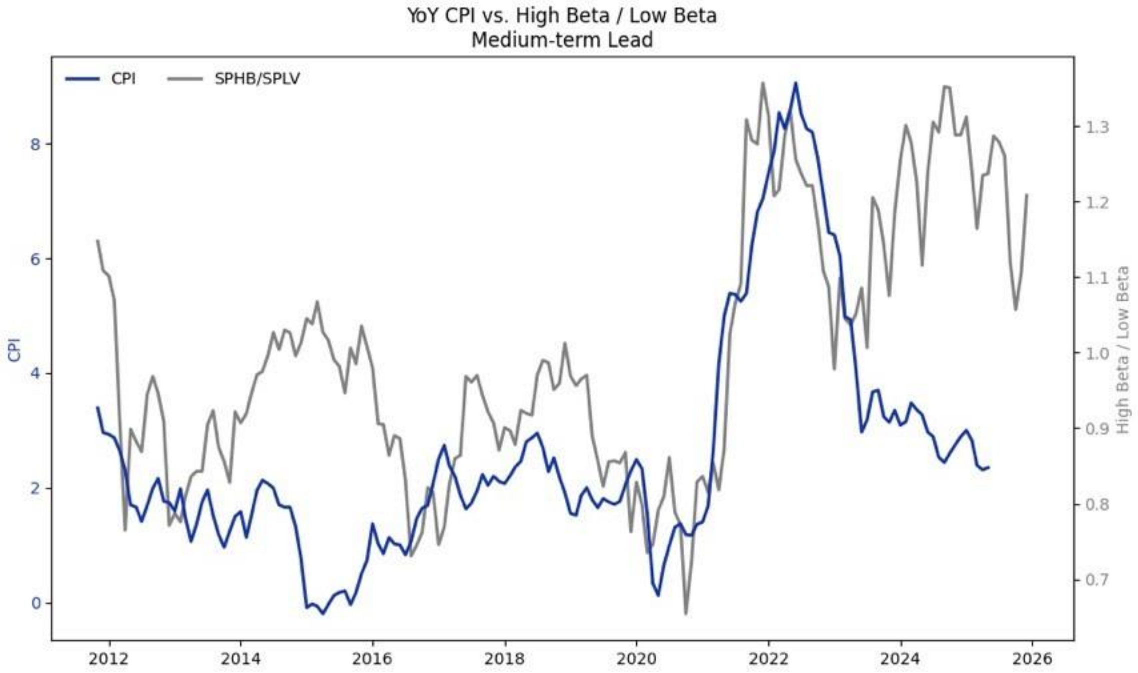
SPHB / SPLV (High-Beta / Low-Beta):

- Gauges investors' willingness to chase cyclicals vs defensives

Why it works:

- Specialty-material costs and risk-on/off flows often build before broad consumer-price moves appear, giving a tactical window to tilt or de-risk





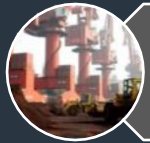
Recap of Leading Indicators for CPI

Commodity Cost Shifts: Broad commodity price movements flow through to consumer inflation

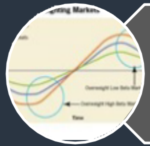
Input-Cost Surveys: Business surveys on prices paid signal changes in consumer inflation

Stagflation vs. Reflation Gauges: Relative readings between essential commodity and energy cost trends tend to have a long lead on inflation

Housing/Materials Indicators: Peaks in building-materials costs foreshadow shelter and durable-goods CPI moves



Supply-Chain Stress Measures: Shifts in resource vs. manufacturing sector pressures preannounce broader price pressures



Risk-Appetite Signals: Investor sentiment swings precede overall consumer price momentum