Cougar Global Viewpoints

Does boring also mean reliable?

JANUARY | 2024

Takeaways:

- Despite headlines, the labor market is gradually slowing.
- Employment data isn't entirely clean, but many measures can be used as cross-references.
- Job gains in 2023 were as concentrated as S&P 500 Index gains.
- Although the unemployment rate is a lagging economic indicator, it has yet to be wrong.
- We're more positive than last year while continuing to monitor the counterfactuals.

The unemployment rate has been one of the most consistently reliable indicators to identify the inflection points of a business cycle. It has a long track record – encompassing 12 recessions since World War II – and can be parsed several different ways for investment insights. The obvious drawbacks are that it's calculated monthly, is released about a week after the end of the month, and generally is accepted as a lagging economic indicator.

As an initial cut, the unemployment rate provides an excellent look at the big picture. **The big picture currently shows strong headline jobs numbers, but the labor market is slowing in a quite natural fashion beneath the surface.**

The monthly Job Openings and Labor Turnover Survey (JOLTS) report peaked a couple of years ago, and it now shows consistently lower job openings paired with a lower quit rate. Logic dictates that workers either fear an economic downturn in the face of much publicized layoffs, or they have become less confident in their ability to find another job. To be fair, the JOLTS survey has experienced a very low response rate recently, which has created a volatile data series, but these trends remain after smoothing the data or comparing it to other private-sector alternatives.

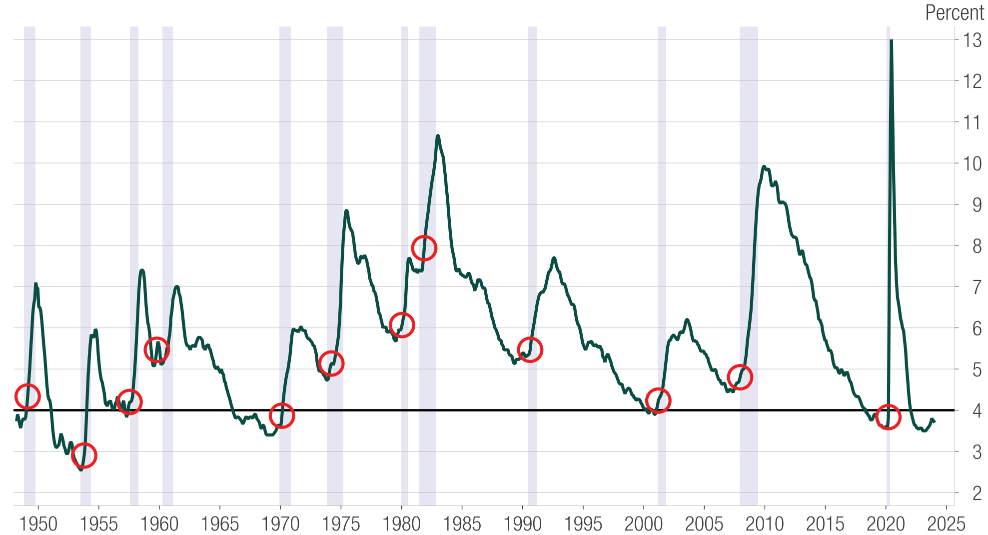
Wage data tells a similar story: Various measures of wage inflation are falling as labor demand eases in most industries. Another oft-noted point is the composition of last year's labor market gains. **Three sectors – healthcare, leisure and hospitality, and government – accounted for the majority of job gains in 2023.**

Finally, business surveys mostly point to declining demand for new hires. Small businesses surveyed by the National Federation of Independent Business have become more worried about monetary policy than labor quality or availability. In the first half of 2023, labor quality was their biggest concern, but that decreased markedly throughout last year.

Meanwhile, **the headline unemployment rate has yet to trigger a recession call.** In charting the headline unemployment rate's three-month moving average – on the following page – it becomes evident that every time the moving average trends higher by about 0.3 percentage points, the United States has experienced a recession. The current three-month moving average is 3.7%, compared to the 3.5% bottom in April 2023, and the most recent shift higher is now evident. It's always better to be generally right than precisely wrong, but **if the unemployment rate moves higher in the next few months, we believe it will indicate a recession.**

U.S. Unemployment Rate

(shown as a 3-month moving average)



United States, Unemployment, National, 16 Years & Over, Rate, SA [m.a. 3 months] as of February 7, 2024.

MACROBOND

We've spent the past year looking for indicators of macroeconomic weakness based on a recession that has yet to occur. The reality is that every recession is different, and the apparent "trigger" is obvious only in hindsight. Many recession indicators are aging, and so-called "soft" data measures such as indices of consumer and business sentiment have been flat-out wrong thus far. But the unemployment rate – a fairly uninteresting, old-fashioned, "hard" data measure – when smoothed, is not in recession territory... yet.

It has been several decades since the unemployment rate spent this much time below 4%, which is a remarkable achievement. At the same time, notwithstanding January's data, the labor market is slowing by several measures, and it is generally subject to powerful feedback loops. Many other hard data metrics are improving, and the probability of *Recession* in our Macroeconomic Scenario (MES) analysis has fallen from last year, but **labor market measurements imply an economic slowdown is possible in the next 12 months.**

DISCLOSURES

on foreign investments in emerging market countries. High Yield/Junk Bonds are not investment grade securities, involve substantial risks and generally should be part of the diversified portfolio of sophisticated investors. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity and redemption features. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. Mortgage-Backed Securities are subject to credit, default risk, prepayment risk that acts much like call risk when you get your principal back sooner than the stated maturity, extensions risk, the opposite of prepayment risk, and interest rate risk. Investing in IAU involves additional risks. The market price of the Shares will be as unpredictable as the price of gold has historically been and the price received upon the sale of Shares may be less than the value of the gold represented by them. Government bonds and Treasury bills are guaranteed by the U.S. Government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. The fund's concentrated holding will subject it to greater volatility than a fund that invests more broadly. The fast price swings of commodities will result in significant volatility in an investor's holdings. Precious metal investing is subject to substantial fluctuation and potential for loss. All indexes mentioned are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results. The indexes don't reflect charges, expenses, fees and is not indicative of any particular investment. Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, disease, and regulatory developments.

This research material has been prepared by Cougar Global Investments. Opinions and estimates offered constitute Cougar Global's judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. Under no circumstances does the information contained within represent a recommendation to buy, hold or sell any security and it should not be assumed that the securities transactions or holdings discussed were or will prove to be profitable. All holdings are subject to change daily.

Cougar Global Investments Limited (Cougar Global) is an investment manager that utilizes tactical asset allocation to construct globally diversified portfolios. Effective 4/30/15, Cougar Global Investments is a wholly owned subsidiary of Raymond James International Canada which is a wholly owned subsidiary of Raymond James International Holdings. Raymond James International Holdings is a wholly owned subsidiary of Raymond James Financial as is Raymond James Investment Management. Prior to 4/30/15, Cougar Global was an independent investment management firm not affiliated with any parent organization. Cougar Global is registered as a Portfolio Manager with the Ontario Securities Commission (OSC) and with the United States Securities and Exchange Commission (SEC) as a Non-Resident Investment Advisor. Prior to 01/02/2013, the firm was named Cougar Global Investments LP.

DEFINITIONS

The Job Openings and Labor Turnover Survey (JOLTS) program produces monthly data on job openings, hires, and separations compiled by the U.S. Bureau of Labor Statistics.

A lagging indicator is a measurement that reflects economic changes that have already taken place. It is the opposite of a leading indicator, which is a measurement that is expected to predict changes in the future.

The National Federation of Independent Business's Small Business Optimism Index surveys small and independent business owners on 10 equally weighted and seasonally adjusted variables, including their hiring, investment, and inventory plans, as well as on their economic expectations, assessment of the state of the economy, labor market, credit conditions, and earnings trends. The monthly change of each variable contributes proportionally to the overall monthly change in the index.

INDICES

The S&P 500 Index measures change in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested. The S&P 500 represents approximately 80% of the investable U.S. equity market.

ABOUT COUGAR GLOBAL INVESTMENTS

Cougar Global Investments is a global macroeconomic asset allocation manager that believes the goal of investing is to achieve compound annualized returns for clients. We use a disciplined portfolio construction methodology combining post-modern portfolio theory and risk management to pursue our clients' objectives.

ABOUT RAYMOND JAMES INVESTMENT MANAGEMENT

Raymond James Investment Management is a global asset management company that combines the exceptional insight and agility of individual investment teams with the strength and stability of a full-service firm. Together with our boutique investment managers – Chartwell Investment Partners, ClariVest Asset Management, Cougar Global Investments, Eagle Asset Management, Reams Asset Management (a division of Scout Investments) and Scout Investments – we offer a range of investment strategies and asset classes, each with a focus on risk-adjusted returns and alpha generation. We believe providing a lineup of seasoned, committed portfolio managers – spanning a wide range of disciplines and investing vehicles – is the best way to help investors seek their long-term financial goals.

To learn more about Cougar Global's strategies, philosophy and capabilities visit cougarglobal.com or call 1.800.521.1195.

COUGAR GLOBAL INVESTMENTS