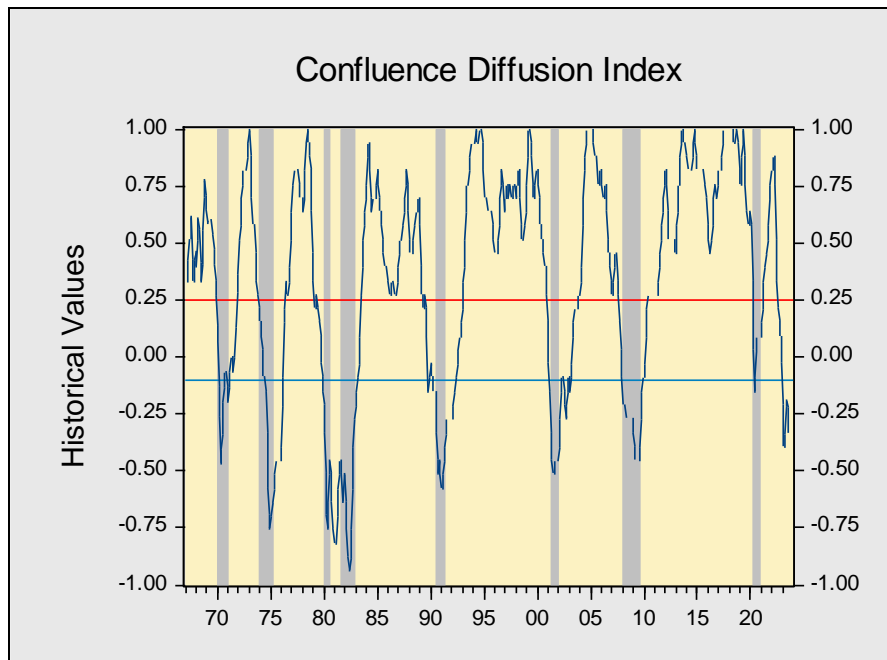


The business cycle has a major impact on financial markets; recessions usually accompany bear markets in equities. The intention of this report is to keep our readers apprised of the potential for a recession, updated on a monthly basis. Although it isn't the final word on our views about recession, it is part of our process in signaling the potential for a downturn.

September 28, 2023

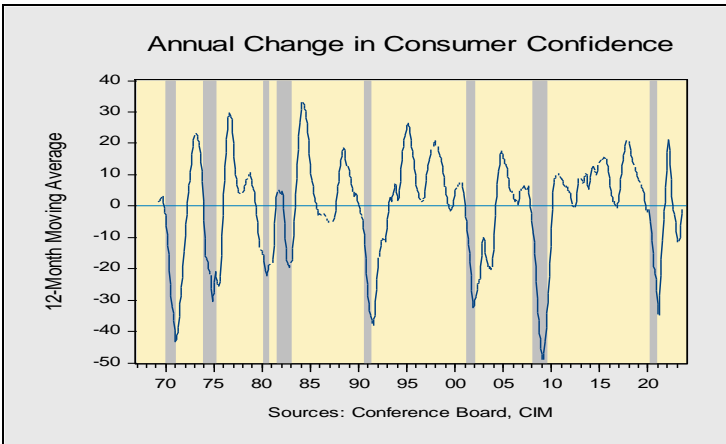
The Confluence Diffusion Index declined for the first time in seven months in a sign that the economy is still not in the clear. The August report showed that seven out of 11 benchmarks are in contraction territory. Last month, the diffusion index declined from -0.1515 to -0.3333, below the recovery signal of -0.1000.

- Equities are losing steam due to concerns about monetary policy.
- Consumer sentiment is improving but confidence remains low.
- Despite a slowdown in hiring, the labor market remains tight.



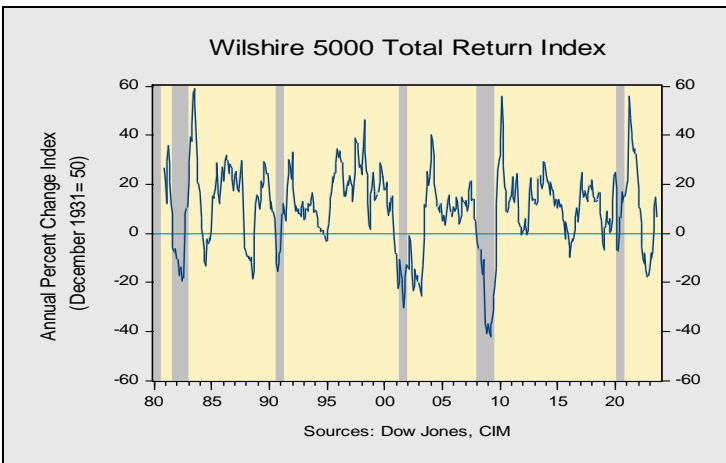
The chart above shows the Confluence Diffusion Index. It uses a three-month moving average of 11 leading indicators to track the state of the business cycle. The red line signals when the business cycle is headed toward a contraction, while the blue line signals when the business cycle is in recovery. The diffusion index currently provides about six months of lead time for a contraction and five months of lead time for recovery. Continue reading for an in-depth understanding of how the indicators are performing. At the end of the report, the *Glossary of Charts* describes each chart and its measures. In addition, a chart title listed in red indicates that the index is signaling recession.

Consumer Confidence



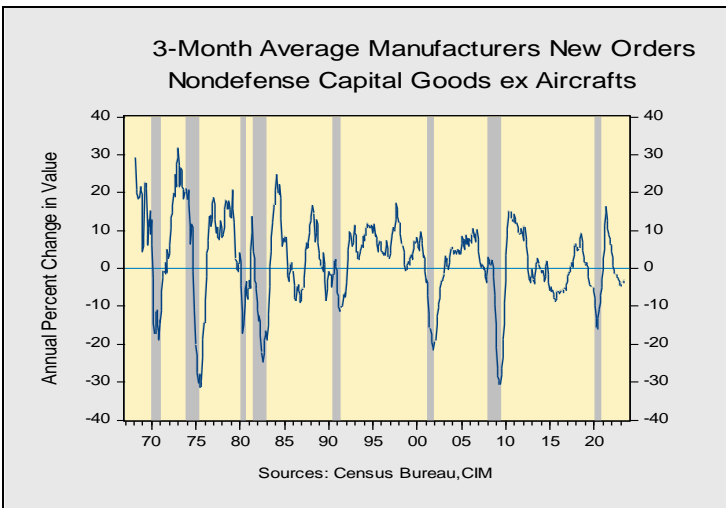
- The 12-month moving average of the annual change in consumer confidence improved from -2.51 to -0.98.
 - Consumer confidence came in at 114.0, up from 106.1 in August 2022.
 - In the same period, the Present Situation Index fell from 153.0 to 144.8. Meanwhile, consumer expectations fell from 88.0 to 80.2.
 - The recession indicator is zero.

Wilshire 5000 Index



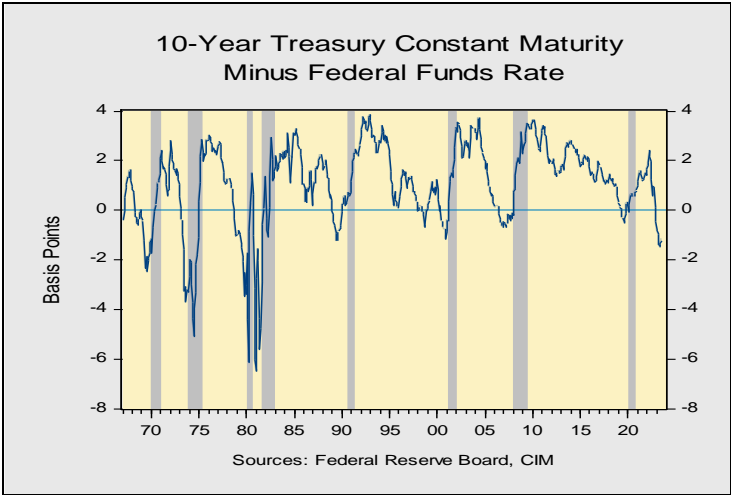
- The Wilshire 5000 Total Return Index rose 6.19% from the prior year.
 - Top-performing sectors: Energy, Health Care, Information Technology.
 - Bottom-performing sectors: Utilities, Consumer Staples.
 - The recession indicator is zero.

Three-Month Average Manufacturers' New Orders Nondefense Capital Goods excluding Aircraft



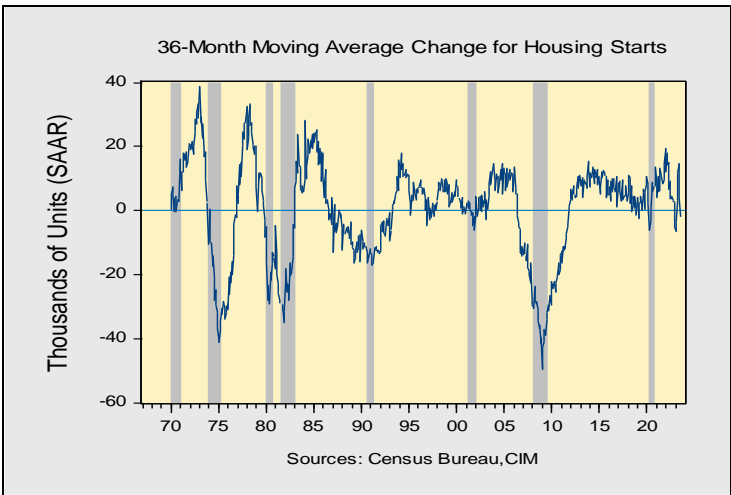
- The three-month moving average of the annual change in new orders for nondefense capital goods fell 3.23% from the prior year.
 - In August, new orders rose 0.47% from the prior month but declined 3.24% since 2022.
 - The recession indicator is zero.

**10-Year Treasury Constant Maturity
Minus Federal Funds Rate**



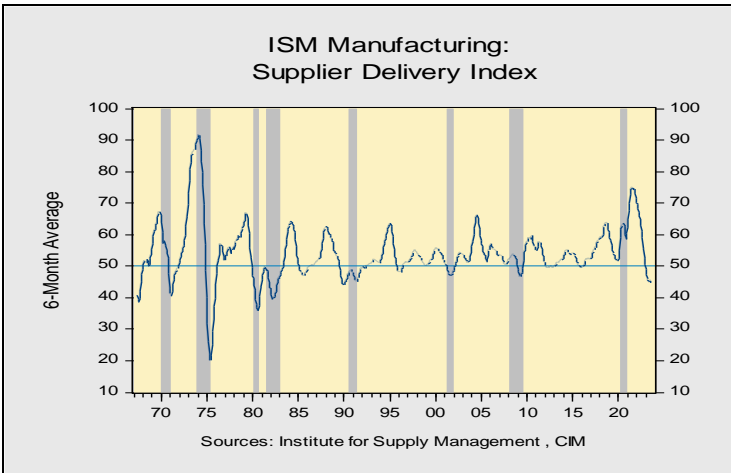
- The financial spread, the 10-year minus effective fed funds, inversion narrowed from -1.22% to -1.16%.
 - The effective fed funds rate rose from 5.12% to 5.33%.
 - The 10-year Treasury increased from 3.90% to 4.17%.
 - The recession indicator is zero.

36-Month Moving Average Change for Housing Starts



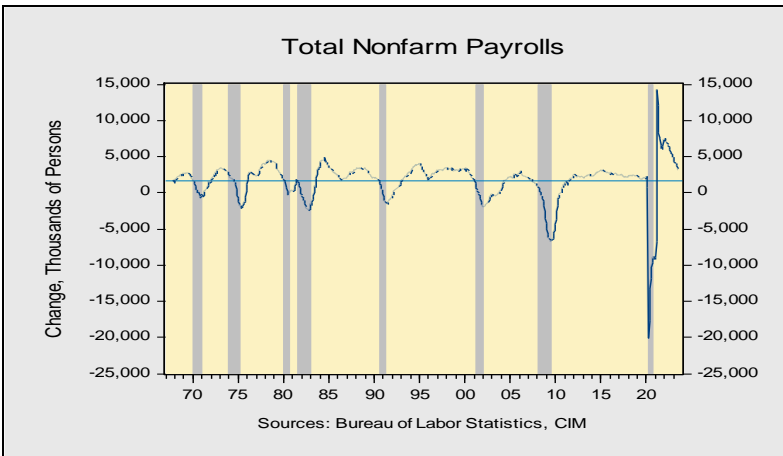
- The 36-month moving average change for housing starts slipped from -2.28 to -2.61.
 - Housing starts expanded at an annualized rate of 1,283k, well below the previous month's revised pace of 1,447k.
 - Single-family starts fell from 983k to 941k. Multi-family dwellings decreased from 464k to 342k.
 - The recession indicator is zero.

ISM Manufacturing: Supplier Delivery Index



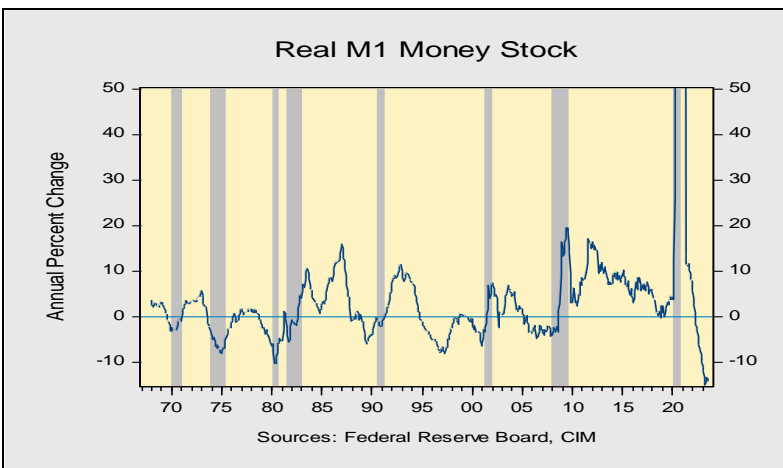
- The six-month moving average of the Supplier Delivery Index rose from 45.0 to 45.6.
 - The overall index rose from 46.4 to 47.6.
 - The Supplier Delivery Index increased from 46.1 to 48.6.
 - The recession indicator is 50.

Twelve-Month Sum of Nonfarm Payrolls



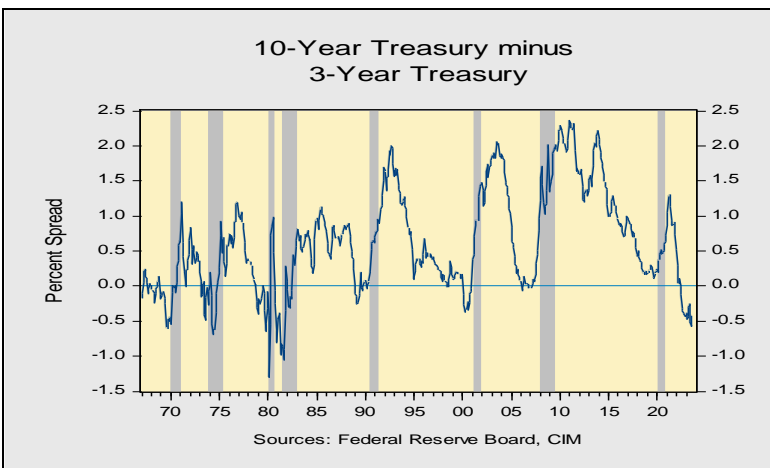
- The 12-month moving sum decreased from 3,252k to 3,087k.
 - Nonfarm payrolls showed that the economy added 187k jobs in August.
 - Service-Providing industries added 143k jobs. The Goods-Producing sector added 36k jobs, while the Government sector gained 8k jobs.
 - The recession indicator is 1,500k.

Real M1 Money Stock



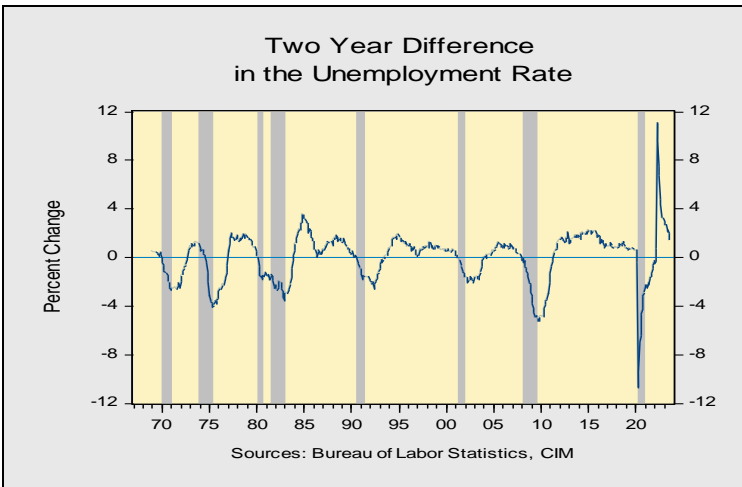
- Real M1 money stock fell 14.2% from the prior year.
 - Headline CPI rose 3.7% from the prior year.
 - M1 money stock fell 10.5% from the prior year.
 - The recession indicator is zero.

10-Year Treasury Minus Three-Year Treasury



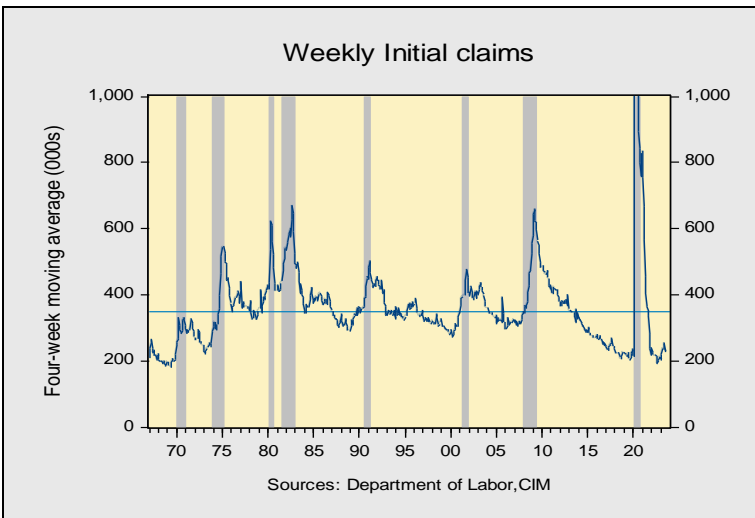
- The term spread between the 10-year and three-year inversion narrowed from -0.57 to -0.42.
 - 10-year Treasury increased from 3.90% to 4.17%.
 - Three-year Treasury increased from 4.47% to 4.59%.
 - The recession indicator is zero.

Two-Year Difference in the Unemployment Rate



- The two-year difference in the unemployment rate fell slightly from the previous report of 1.9% to 1.4%.
 - The unemployment rate rose from 3.5% to 3.8%.
 - The number of unemployed increased 8.1% from the prior month.
 - The recession indicator is zero.

Weekly Initial Claims



- Average weekly claims for August rose from 229k to 234k.
 - The recession indicator is 350k.

Thomas Wash
September 28, 2023

This report was prepared by Confluence Investment Management LLC and reflects the current opinions of the author. It is based on sources and data believed to be accurate and reliable. Opinions and forward-looking statements expressed are subject to change. This is not a solicitation or an offer to buy or sell any security.

Glossary of Charts

Consumer Confidence: The Consumer Confidence Index is an economic indicator that measures the level of consumer optimism about the overall state of the economy and consumers' personal financial situations. This chart shows the 12-month moving average of the annual change of the index.

Wilshire 5000 Index: This chart shows the annual change in the Wilshire 5000 Total Return Index, which is the broadest U.S. equity index. The index contains 3,500 stocks and is designed to track the overall performance of the U.S. stock market. It is an important indicator because steep equity pullbacks have often coincided with economic contractions.

Three-Month Average Manufacturers New Orders Nondefense Capital Goods excluding Aircraft: This chart shows the annual change in the value of core capital goods orders. This indicator gives insight into the amount of business investment spending. A positive report suggests that manufacturers are optimistic about future demand.

10-Year Treasury Constant Maturity Minus Federal Funds Rate: This chart shows the spread between the 10-year maturity and the Fed funds rate. It reflects the market sentiment of the future state of the economy. Generally speaking, a negative spread suggests a contraction is likely to occur within 24 months.

36-Month Moving Average Change for Housing Starts: This chart shows the 36-month moving average of the annual change in housing starts. This is an important indicator because it provides a gauge of future construction activity. If housing starts are strong it implies that builders are optimistic about future demand.

ISM Manufacturing (Six-Month Average): The ISM Manufacturing Index is a report that monitors employment, production, inventories, new orders, and supplier deliveries. This index specifically focuses on the six-month moving average of supplier deliveries section in ISM, which we believe

is a good gauge of future levels of manufacturing activity. A reading above 50 signals that manufacturing activity is expected to expand, while a reading below 50 signals that manufacturing activity is expected to contract.

Total Nonfarm Payrolls: This chart shows the 12-month moving sum of total nonfarm payrolls. This report represents the total number of workers added to the workforce, excluding proprietors, private household employees, unpaid volunteers, farm employees and incorporated self-employed. It is a significant indicator of the strength of the labor market. A moving sum that exceeds 1,600 suggests the demand for labor is intense.

Real M1 Money Stock: The Real M1 Money Stock report measures the annual change in the money supply minus inflation. M1 is the measure of currency in circulation and represents the amount of money being held for transaction purposes, therefore it can act as a proxy for economic activity.

10-Year Treasury Minus Three-Year Treasury: This chart shows the spread between the 10-year and three-year Treasury and gauges investor sentiment. A widening spread suggests investors are optimistic about the state of the economy, whereas a negative spread suggests pessimism. This indicator is less sensitive than the financial spread as it is less affected by the Fed's decisions.

Two-Year Difference in the Unemployment Rate: The two-year difference in the unemployment rate measures the amount of slack in the labor market. When the difference of the two-year unemployment rate falls below zero, it indicates the labor market is becoming less tight.

Weekly Initial Claims: This chart shows the four-week moving average of initial jobless claims. A rising initial claims number means the demand for labor is weakening, likely due to a worsening business environment. If the four-week moving average rises above 350K, it signals the economy may be headed toward a contraction.