



THE
FORECASTING ADVISOR

Outlook on the Stock Market Cycle in the U.S.

The Forecasting Advisor

www.theforecastingadvisor.com

December 8, 2017

The data and forecasts provided by The Forecasting Advisor are for information purposes only. The probability is obtained with a probit regression model and is subject to inherent risks and uncertainties. There is no guarantee that the model will continue to predict well into the future. Consequently, the predicted and realized outcomes for the U.S. stock market may differ. The Forecasting Advisor is not liable for any errors or for any potential loss or damage suffered. For more information about the model, a research paper can be obtained free on our website.



Outlook on the Stock Market Cycle in the U.S.

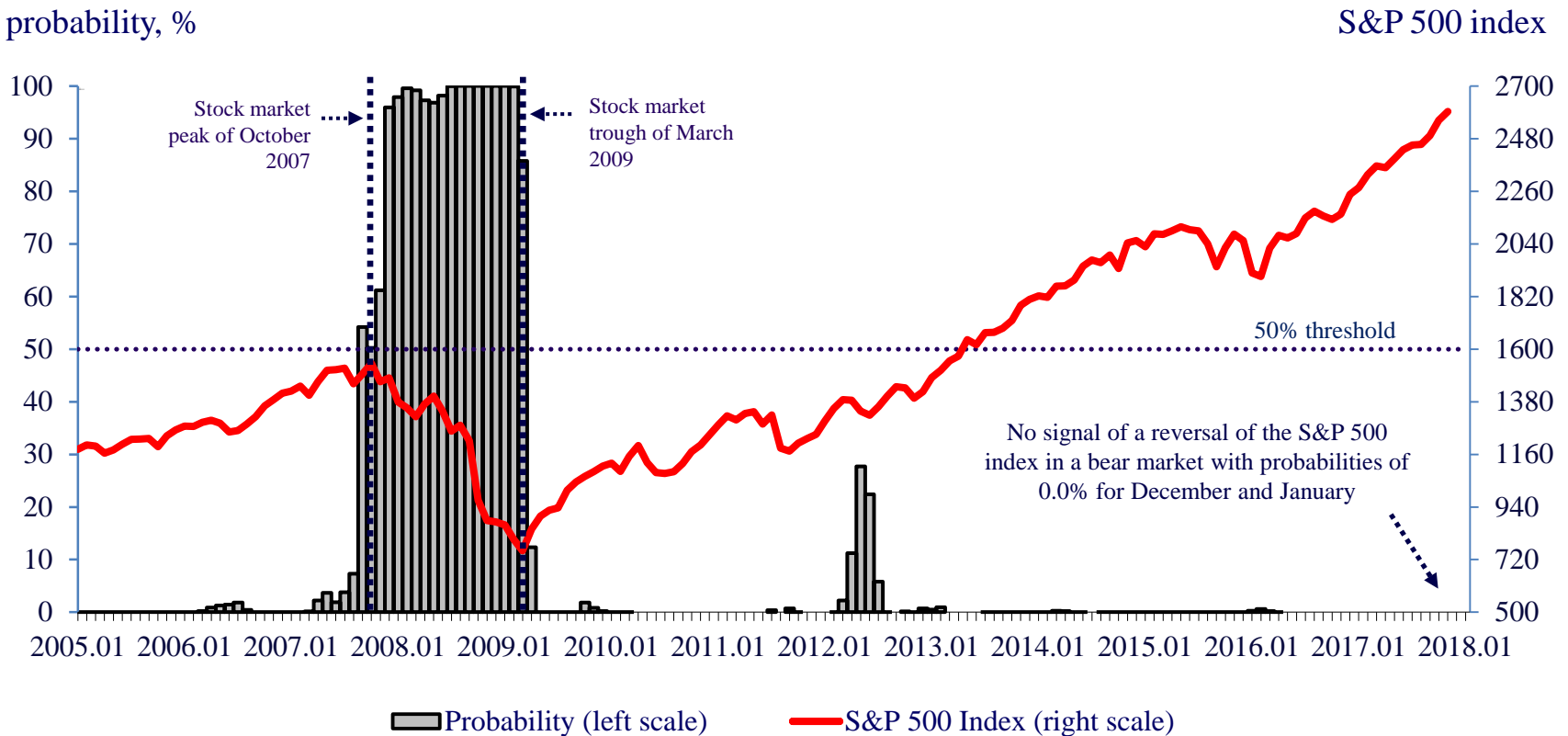
Model's Forecast	Phase of the Stock Market ¹		
	Actual	Outlook ²	
	November 2017	December 2017	January 2018
	Bull market		
Probability of Being in a Bear Market ³		0.0%	0.0%
Predicted Outcome for the Stock Market ⁴		The bull market will continue	The bull market will continue

1. The S&P 500 index is the benchmark for the U.S. stock market.
2. The outlook for the stock market is determined using a regression probit model. The model calculates the probability of the S&P 500 index being in a bear market within the next two months. A bear market is generally defined as a decline of about 20% or more in a broad market index over a period of at least two months.
3. The probabilities for December and January were calculated on December 8, 2017.
4. A predicted outcome is determined using the usual threshold of 50%:
 - When a bull market exists, the model predicts a reversal of the S&P 500 index in a bear market if the probability equals to or exceeds 50%. Otherwise, the bull market is predicted to continue.
 - When a bear market exists, the model predicts a reversal of the S&P 500 index in a bull market if the probability equals to or falls below 50%. Otherwise, the bear market is predicted to continue.



Probability of the S&P 500 Index Being in a Bear Market: January 2005 to January 2018

probability, %

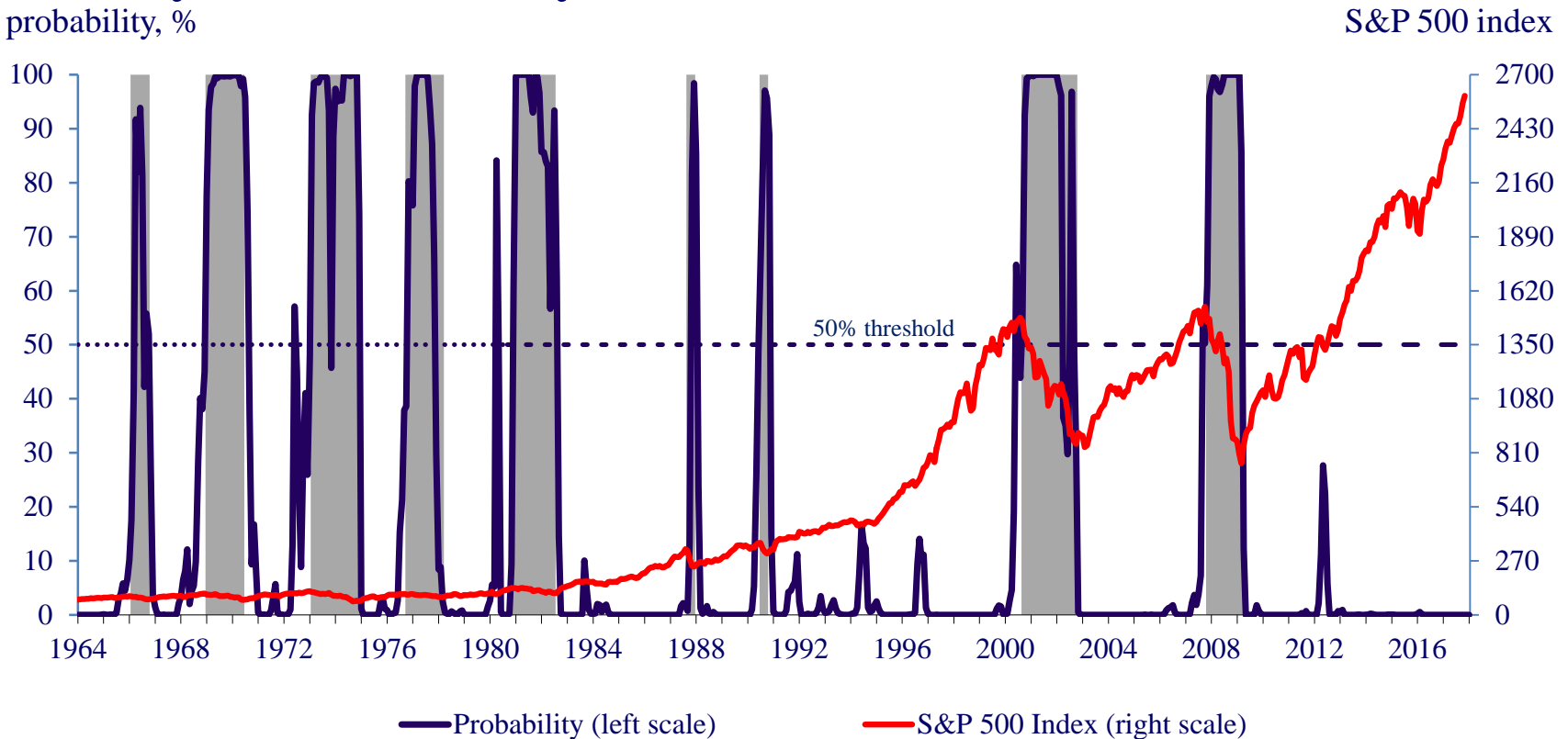


Sources: Federal Reserve Bank of St-Louis Fred Database (S&P 500 index) and The Forecasting Advisor (probability). Last observation: November 2017 for S&P 500 index and January 2018 for probabilities. The probabilities are calculated in real time from December 2010. The model predicts a reversal of the S&P 500 index in a bear market if the probability equals to or exceeds the 50% threshold. Otherwise, the bull market is predicted to continue.
Copyright ©2017 The Forecasting Advisor (8634203 Canada Inc.). All rights reserved.



Probability of the S&P 500 Index Being in a Bear Market: January 1964 to January 2018

probability, %



Sources: Federal Reserve Bank of St-Louis Fred Database (S&P 500 index) and The Forecasting Advisor (probability). Last observation: November 2017 for S&P 500 index and January 2018 probabilities. The probabilities are calculated in real time from December 2010. The model predicts a reversal of the S&P 500 index in a bear (bull) market if the probability equals to or above (below) the 50% threshold. Otherwise, the bull (bear) market is projected to continue. The shaded areas represent the periods of bear markets.

Copyright ©2017 The Forecasting Advisor (8634203 Canada Inc.). All rights reserved.



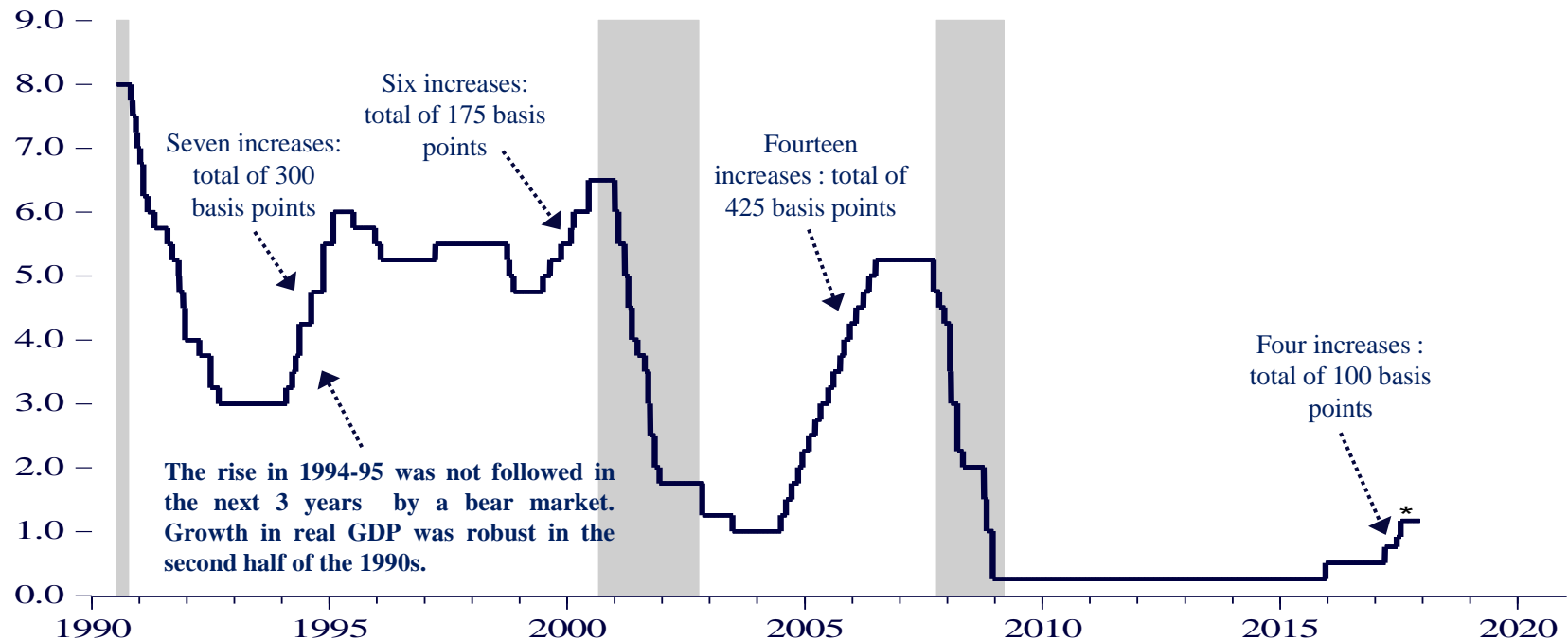
Recent Evolution of Key Indicators of the Stock Market Cycle Model

Indicators	Assessment
State of the U.S. Economy	Real GDP grew by 3.3% (annual rate, second official estimate) in 3Q of 2017 from the previous quarter. The <i>Wall Street Economic Forecasting Survey</i> calls for real GDP growth of 2.8% in 4Q.
State of the U.S. Labour Market	Employment increased vigorously in November, up by 228,000 after a gain of 244,000 in October. Unemployment rate remained stable at 4.1% in October, the lowest level since December 2000
U.S. Consumer Sentiment (from University of Michigan)	Confidence fell by 2.2% in November from October and is still significantly above levels seen in 2016.
U.S. Short-Term Interest (Federal Funds) Rate	Average at 1.16% in November. Based on the <i>CME Group Fed Watch</i> , the probability of an increase of 25 basis points in the interest rate at the Federal Reserve meeting of December 13 th is estimated at 90%.
U.S. Long-Term (10-year) Interest Rate	Rate at 2.37% on December 7 th : up sharply from the all-time low of 1.37% (July 5, 2016), but down from the most recent peak of 2.62% (March 13, 2017).
Shiller Price/Earnings Ratio for S&P 500 Index	Ratio at 31.30 in November. This is well above levels seen before the 2008-2009 recession and the third highest peak after those of the dot-com bubble period of 1997-2002 and the 1929 stock market crash.
U.S. Inflation Rate (excluding food & energy)	The inflation rate rose from 1.7% in September to 1.8% in October.
World Commodity Prices	Small gain in November and 15% above the low of December 2015.



U.S. bear stock markets are preceded by a substantial increase in the short-term interest rate

U.S. interest rate and periods of bear markets (per cent)

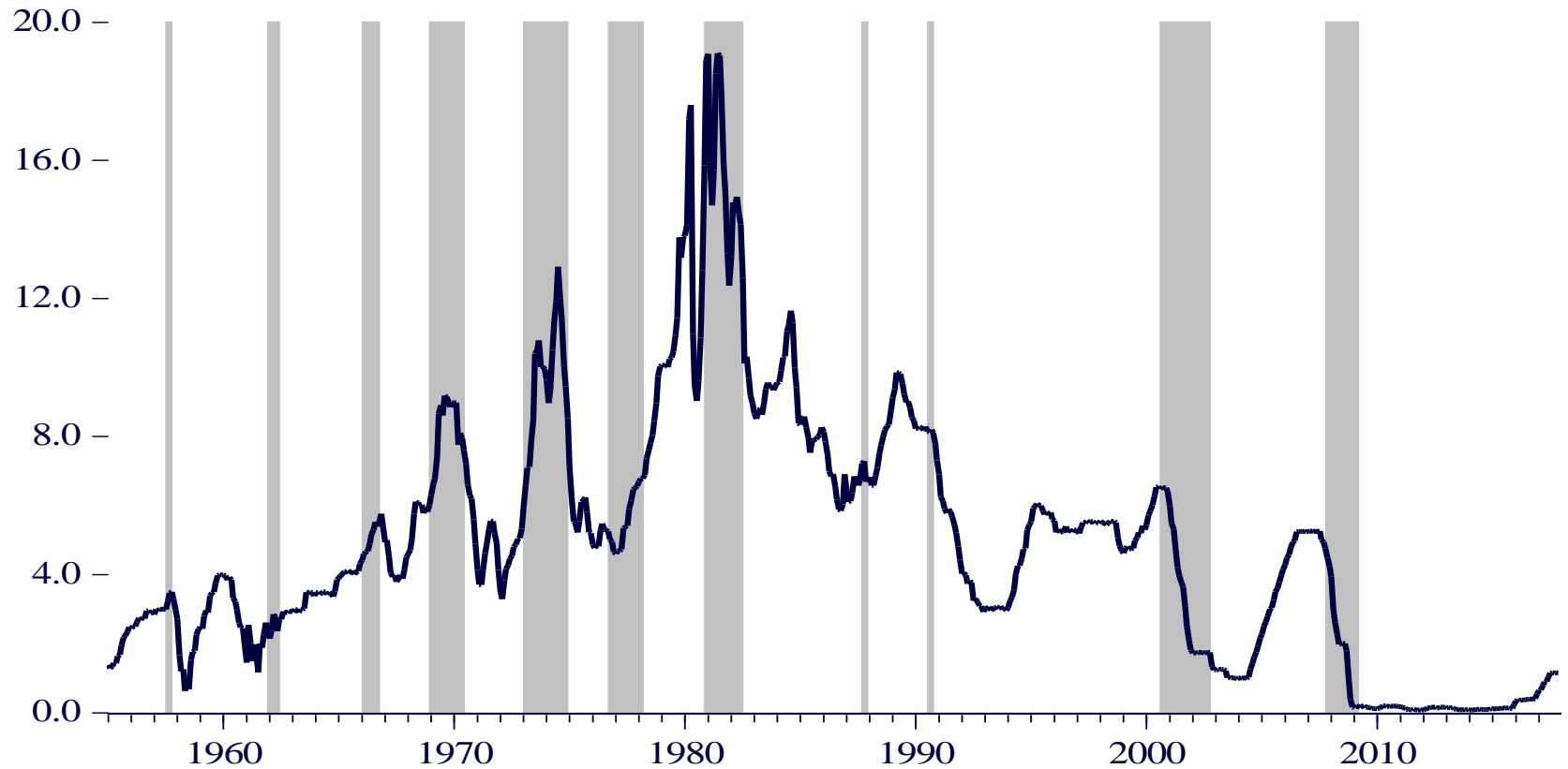


Source: Board of Governors of the U.S. Federal Reserve System, federal funds rate, target or range. Last data point is December 7, 2017. Shaded areas represent the periods of bear markets.

*Range of 1.00% to 1.25%.



U.S. short-term interest rate and periods of bear stock markets (per cent)



Source: Board of Governors of the U.S. Federal Reserve System, effective federal funds rate.
Last data point: November 2017. Shaded areas represent the periods of bear markets.