Chart of the Day - Economic Momentum

Tue, Jul 7, 2026

COTD Bullet Points:

- *In our latest Matrix of Economic Indicators published on Monday, economic momentum reached its strongest level since October 2024.*

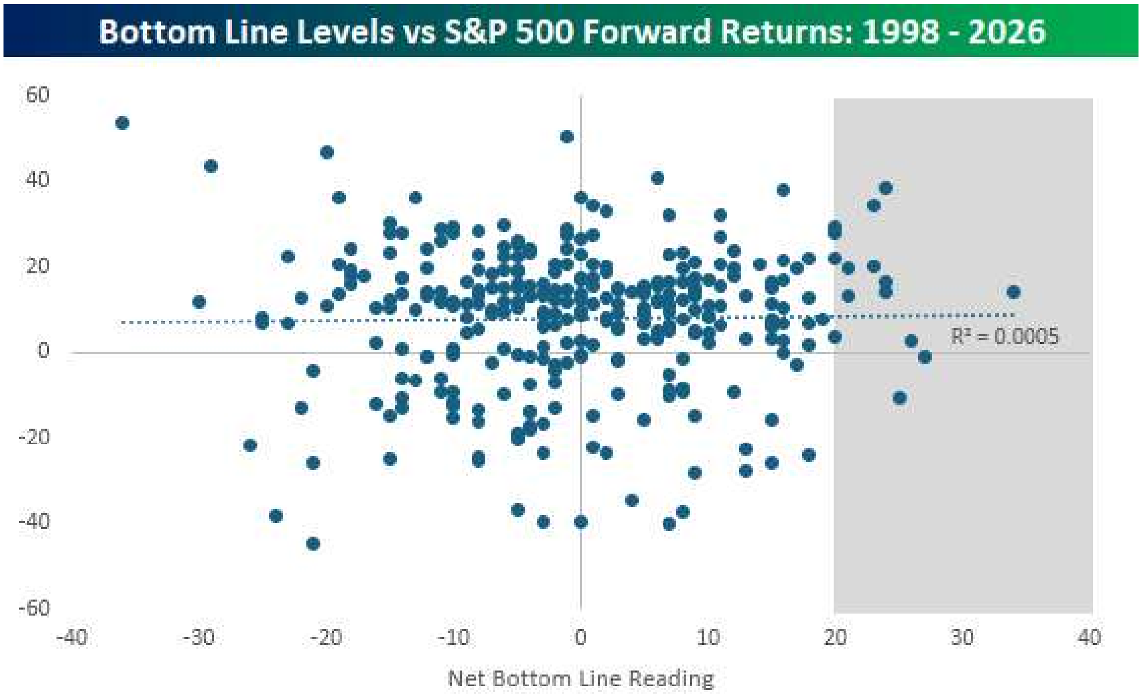
- *Following prior periods when our momentum reading hit similar or stronger levels, equity market returns over the following three, six, and twelve months were significantly above the long-term average.*

Chart of the Day:

Economic momentum just reached its strongest level since late 2024, and history suggests that has tended to bode well for stocks. Yesterday, we published our monthly update to the *Matrix of Economic Indicators*, which measures economic momentum by tracking the y/y change in over 40 economic indicators, month to month (unless otherwise noted). Within each update, we include a "bottom-line" reading which tabulates and tracks the net number of indicators showing positive momentum.

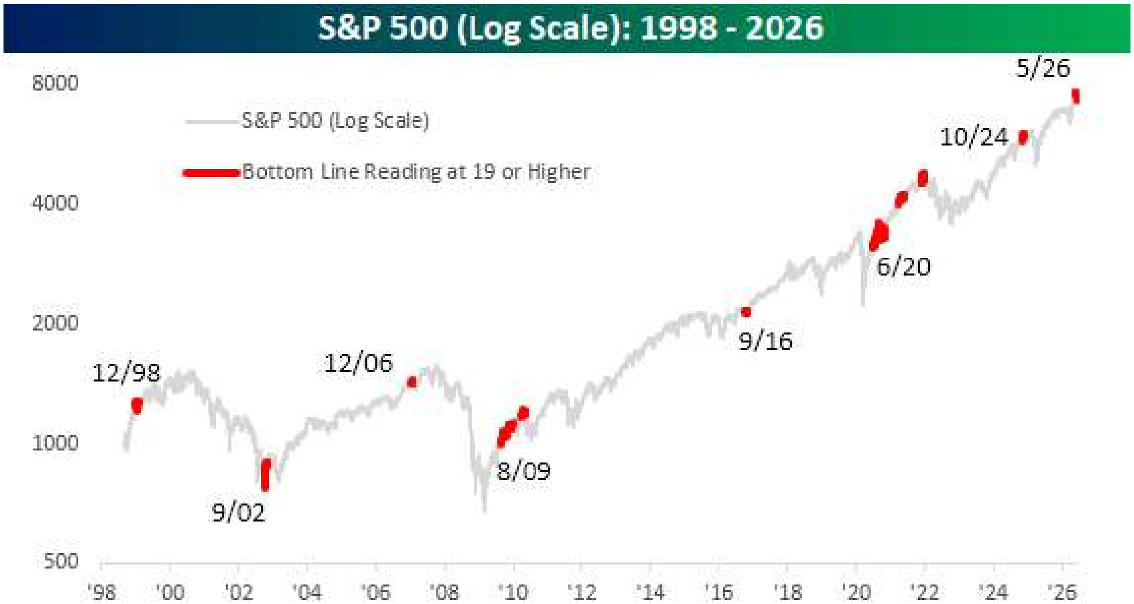
As noted in the update, which covers economic data through the end of May, the bottom-line net number of economic indicators showing improvement rose to +19, the highest monthly reading since October 2024. The direction of the economy and the stock market don't always track each other in the short-term. However, they are much more positively correlated in the long-term, so we were curious to see the relationship between the monthly bottom-line reading in our *Matrix of Economic Indicators* and the forward return of the S&P 500 over the next year.

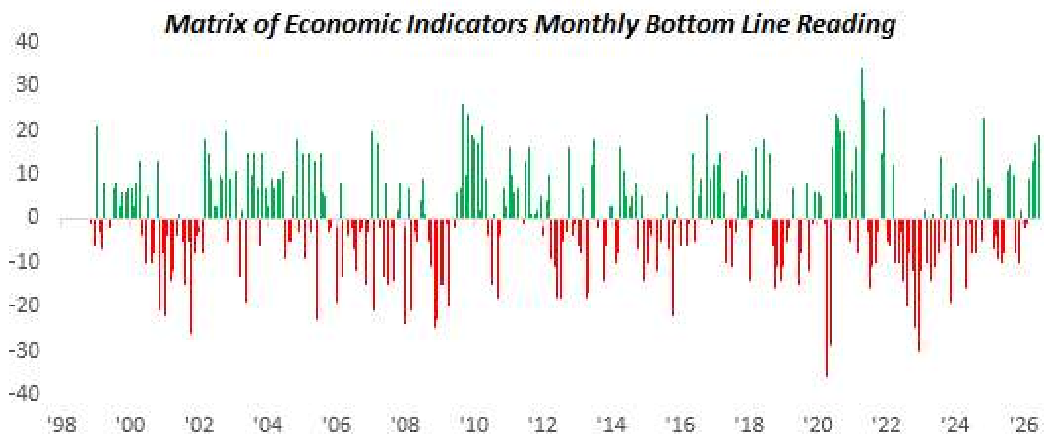
The scatter chart below compares the monthly bottom-line reading (x-axis) to the forward returns of the S&P 500 over the next year (y-axis). With an R-squared of 0.0005, there's no meaningful correlation between the two, but following the most positive readings, forward equity returns have been consistently positive. In fact, of the 15 months when the bottom-line reading was at 20 or higher, the S&P 500 was higher a year later 13 times for a median gain of 16.2%.



The bottom-line reading isn't currently at +20, so the numbers above don't completely apply, but looking at it another way, the long-term chart of the S&P 500 shows each period when the bottom-line reading reached 19 or above. Additionally, the labels show the month when the reading first reached 19 with no occurrences in the prior year.

Looking at the first occurrence in each cycle shows that periods of positive economic momentum tend to be followed by further gains in equity prices. The most recent occurrence prior to May was in October 2024 and came just ahead of the tariff-tantrum. Some have called the drama around that period an economic own goal, so the short-term weakness that followed can't fully be attributed to the economy, and even still, a year later, the S&P 500 was still up 19.9%.





Looking at the performance numbers in more detail, the table below lists the first month in each period when the bottom-line reading first reached 19, with no other occurrences in the prior year. For each of those months, we show the S&P 500's performance over the following 3, 6, and 12 months, including the S&P 500's maximum gain and loss in the following year.

Equity market returns following these periods have been very consistent to the upside. Three months later, the S&P 500 was higher 100% of the time for a median gain of 5.9%. Six months later, the S&P 500 was down only once (median gain +8.2%), and a year later, the S&P 500 traded higher every time for a median gain of 19.5%. In terms of extremes, the S&P 500 experienced a gain of at least 10% at some point in the following year and fell more than 5% only once. That said, with only seven prior episodes, the sample is small, but the consistency of the results is notable.

The stock market and economy don't always trade in tandem, but strong economic momentum has usually been followed by strong equity returns. With the bottom-line reading now at +19, a level that has historically preceded above-average gains, the general setup skews positive for stocks over the year ahead.

S&P 500 Performance After Bottom-Line Readings Exceed +18

	S&P 500 Performance (%)			One Year Extremes	
Month	Three Months	Six Months	One Year	Max Gain	Max Decline
12/98	4.6	11.7	19.5	19.5	-1.4
9/02	7.9	5.9	22.2	27.5	-4.7
12/06	0.2	6.0	3.5	10.4	-3.1
8/09	7.3	8.2	2.8	19.3	-2.5
9/16	3.3	9.2	16.2	16.6	-3.8
6/20	8.5	20.4	38.6	38.6	0.0
10/24	5.9	-2.4	19.9	20.8	-12.7
5/26					
Average	5.4	8.4	17.5	21.8	-4.0
Median	5.9	8.2	19.5	19.5	-3.1
% Positive	100	85.7	100	100	0

Months when Bottom Line reading of Matrix of Economic Indicators exceeds 18 with no occurrences in prior 12 months.