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# The Observatory

Welcome to The Observatory. The Observatory is how we at Prometheus monitor the evolution of the economy and financial markets in real-time. The insights provided here are slivers of our research process that are integrated algorithmically into our systems to create rules-based portfolios.

Our primary takeaways are as follows:

- *For the latest data through August, our systems place Real GDP growth at 4.01% versus one year prior. In April, GDP came in at -0.01% versus the prior month.*
- *Consumption and government Expenditure have been the primary drivers of real activity over the last month, while business investment dragged on activity.*
- *Looking forward, we expect to remain in a macro regime of high nominal GDP and above-target inflation. This expectation continues to favor pro-growth assets over anti-growth ones. Our Asset Allocation strategies will rebalance on Monday in a manner consistent with these expectations.*

For the latest data through April, our systems place Real GDP growth at 4.01% versus one year prior. Below, we show our monthly estimates of Real GDP relative to the official data:

**Real GDP: Estimates vs. Official Data**
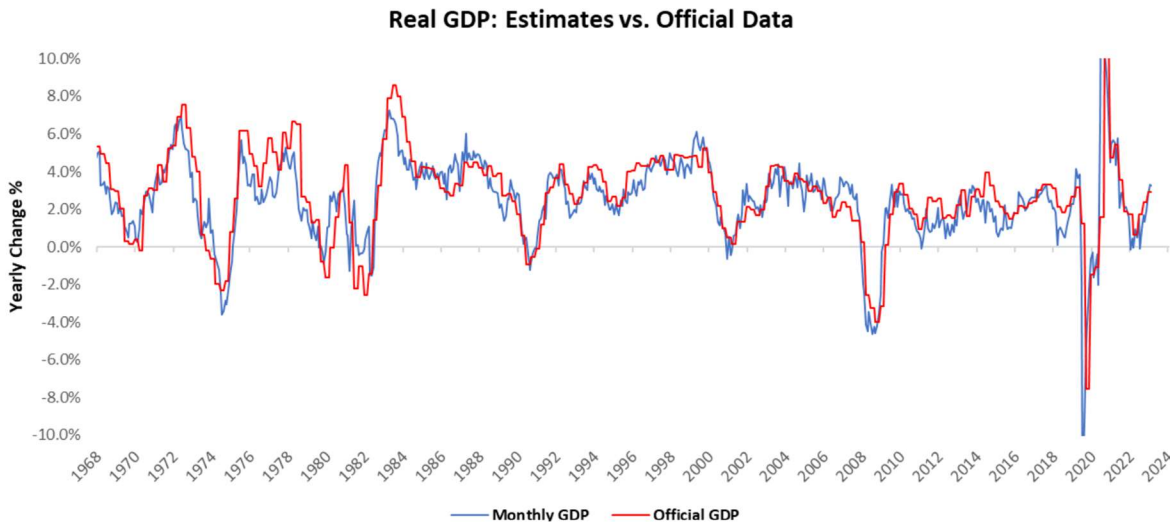
In April, GDP came in at -0.01% versus the prior month. Below, we show the weighted contributions to the most recent one-month change in real GDP, along with the recent history of month-on-month GDP. Additionally, we show the contribution by sector to monthly GDP in the table below:

Real GDP: Most Recent Months Composition

Real GDP MoM	
May 23	0.8%
Jun 23	0.5%
Jul 23	0.3%
Aug 23	0.7%
Sep 23	0.3%
Oct 23	0.0%
Nov 23	0.4%
Dec 23	0.5%
Jan 24	-0.4%
Feb 24	0.6%
Mar 24	0.3%
Apr 24	0.0%
Cumulative	**4.0%**

In April, real consumption spending increased by 0.08%. Over the last year, consumption has added 2.07% to GDP growth of 4.01%.

**Consumption: Personal Consumption & Retail Sales**
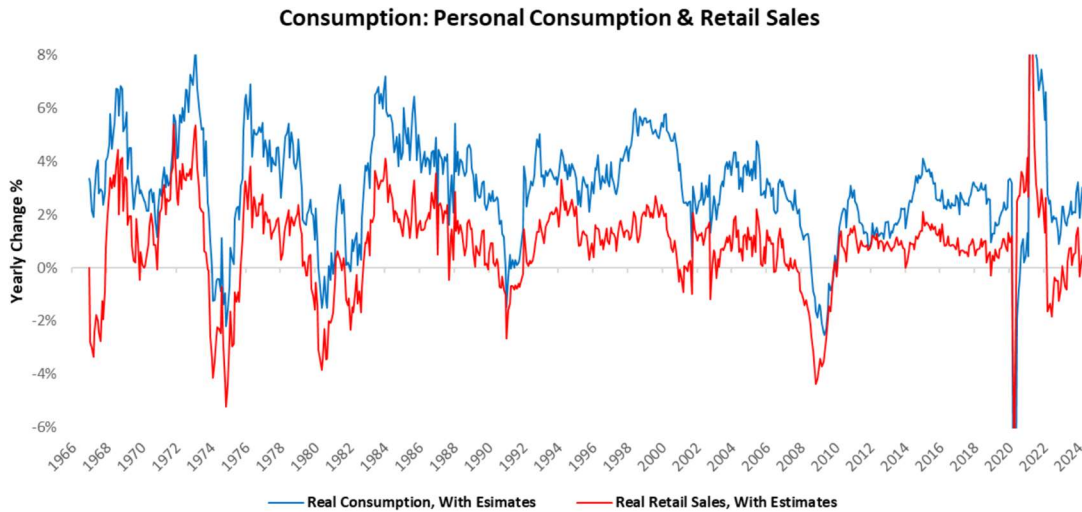
Real gross investment decreased by -0.13%. Over the last year, investment has added 0.84% to GDP growth of 4.01%.

Real Investment: Monthly Estimates
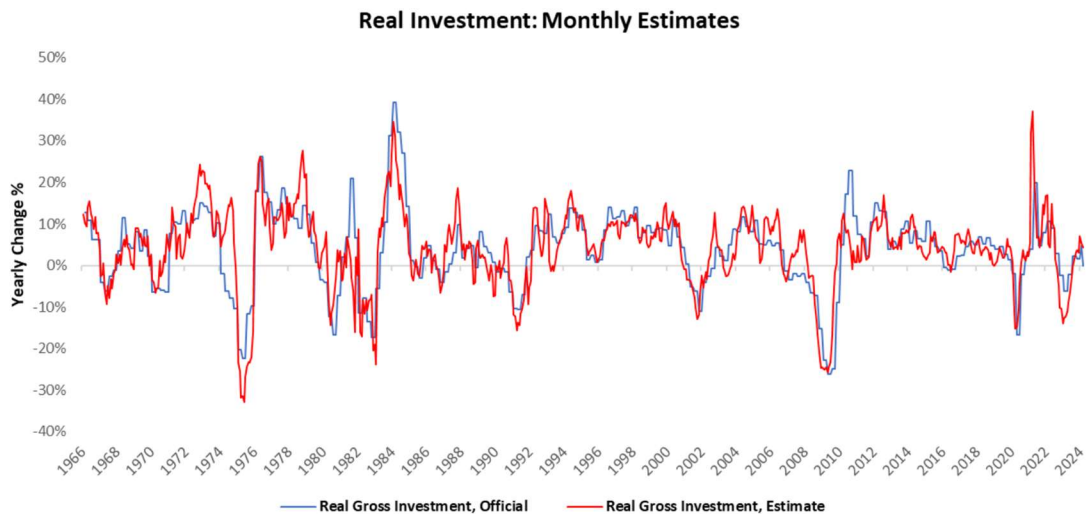
Below we show the monthly composition of the major drivers of nominal investment.
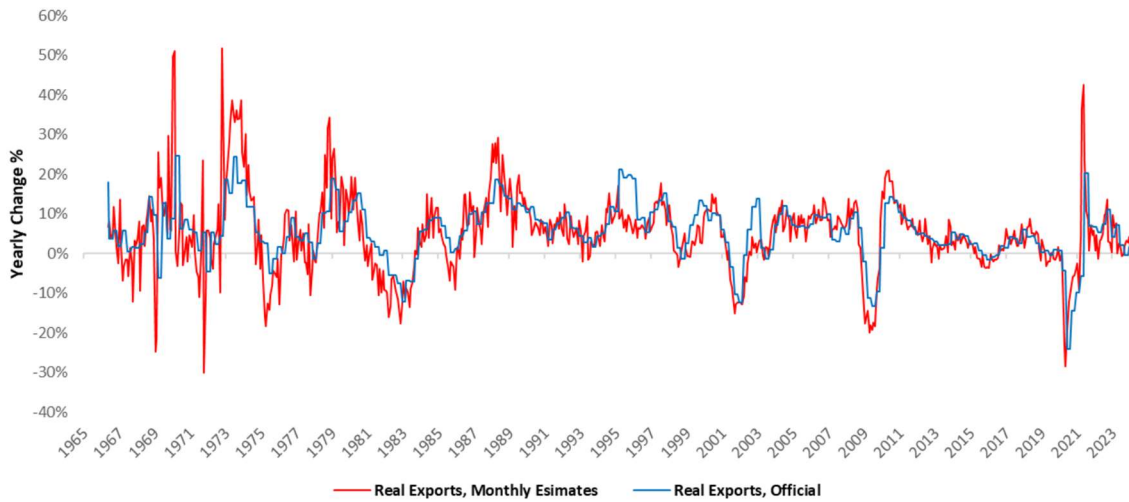
Nominal Investment: Monthly Estimates
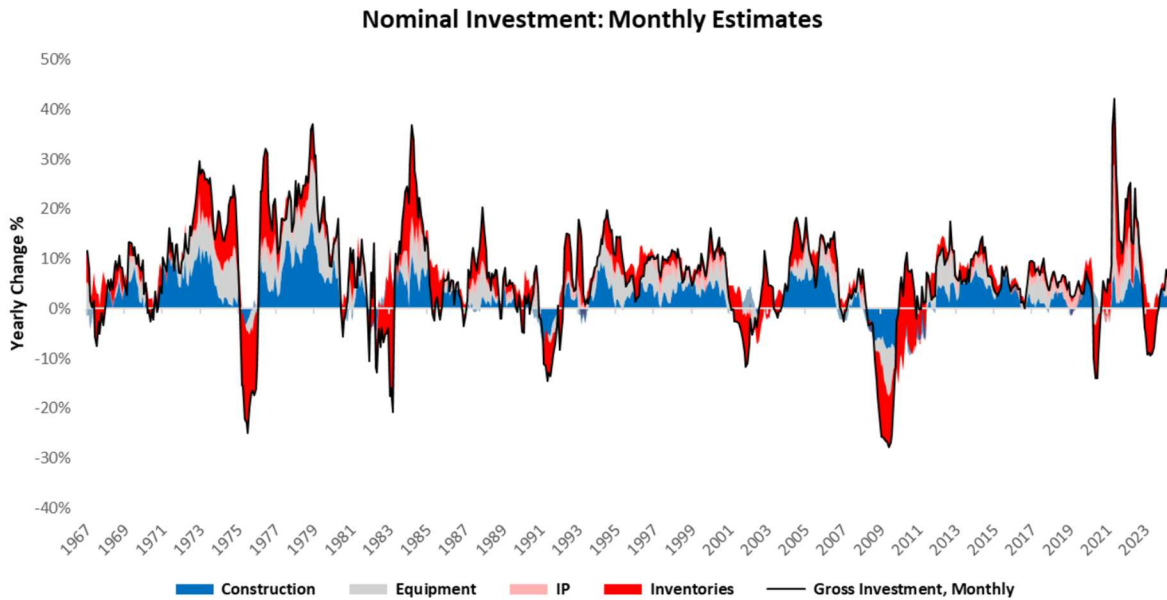
Real government expenditures increased by 0.04%. Over the last year, government spending has added 0.46% to GDP growth of 4.01%.

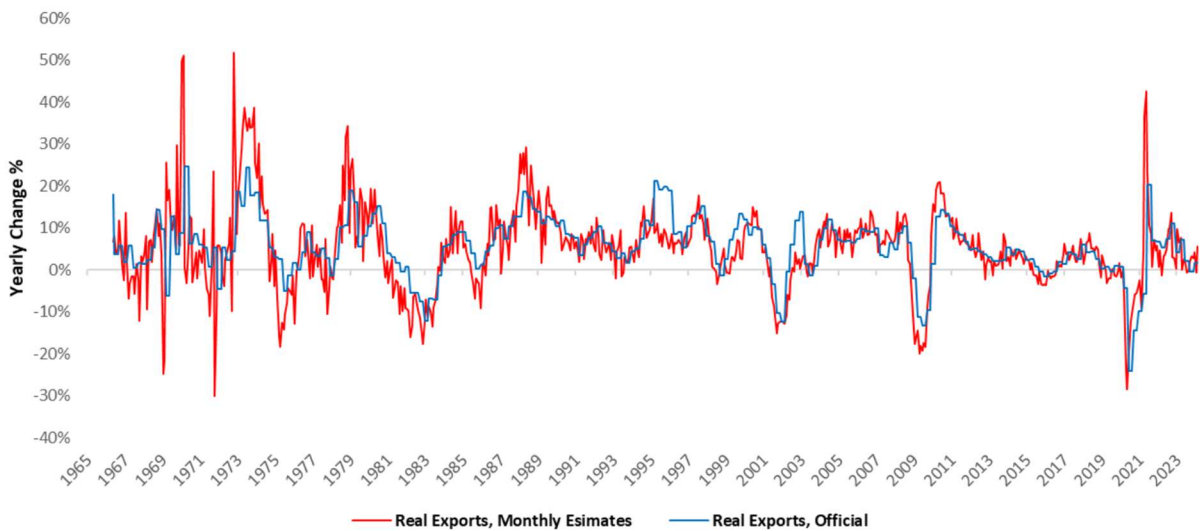**Real Government Spending: Monthly Estimates**
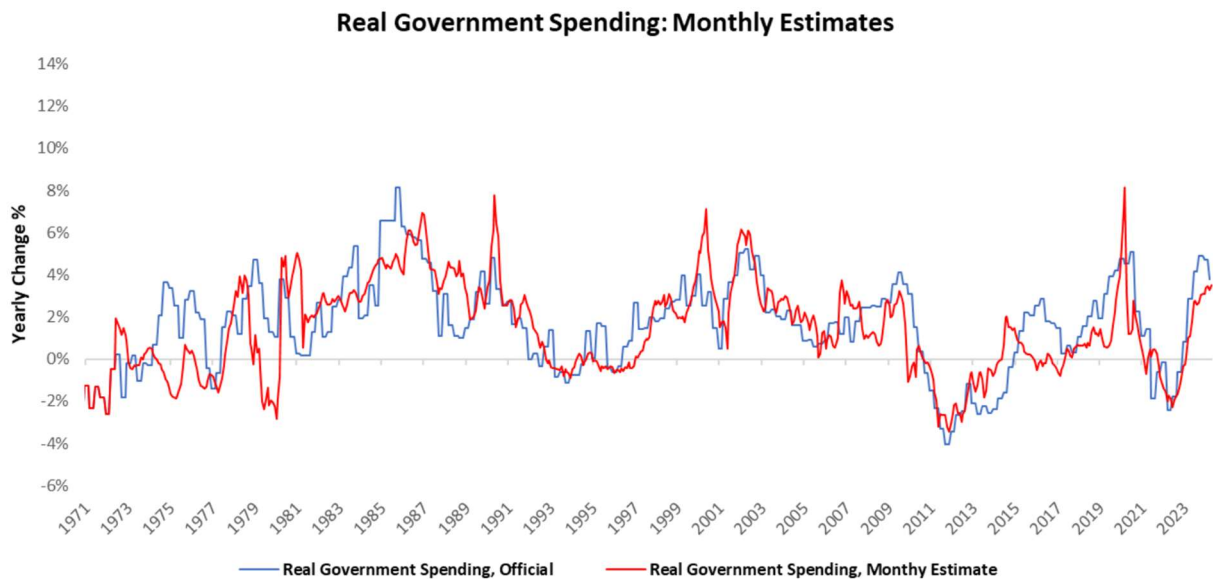
Next, real export revenues decreased by 0%. Over the last year, exports have added 0.98% to GDP growth of 4.01%.

Trade: Real Exports

Finally, real import expenditures decreased by 0%. Over the last year, imports have subtracted -0.4% from GDP growth of 4.01%.

Trade: Real Exports

Additionally, we show the composition of monthly estimates of nominal GDP, broken into real GDP growth and inflation. Our latest estimates place nominal GDP at 6.89% versus one year prior.

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Nominal GDP Composition: Monthly Estimates


GDP, Monthly — Inflation, Monthly
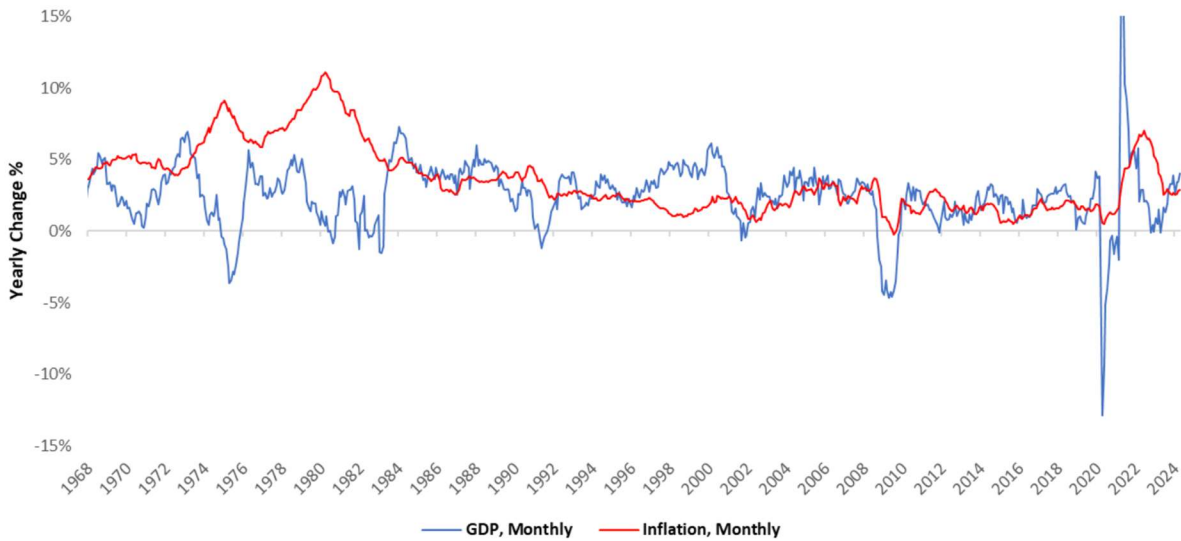
The biggest macro mispricing occurs around recessions. Recessions are self-reinforcing income, spending, and employment downturns. To assess the breadth of recessionary pressures, we look at our broadest gauges of economic growth, i.e., our GDP Nowcast, along with our Growth Diffusion Guage (75 sub-indexes). As we can see above, growth conditions remain strong across these measures.

Growth Monitor: Growth Diffusion & GDP Nowcast

*Prometheus Growth Gauge — GDP Growth — GDP Nowcast*
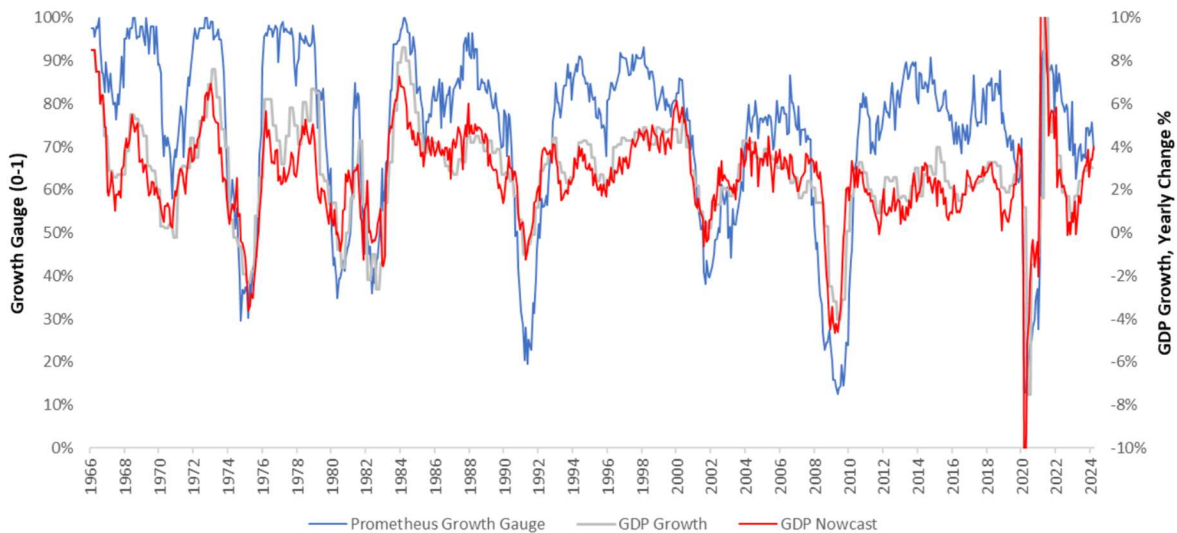
For a timely insight into recessionary pressures, we aggregate macroeconomic indicators, consistent with the NBER methodology of recession classification, into a recession probability monitor. This gauge gives us a real-time understanding of developing recessionary pressures. Currently, recession probabilities remain muted at 19%.

**Recession Probabilities: Real-Time vs. NBER Dated**
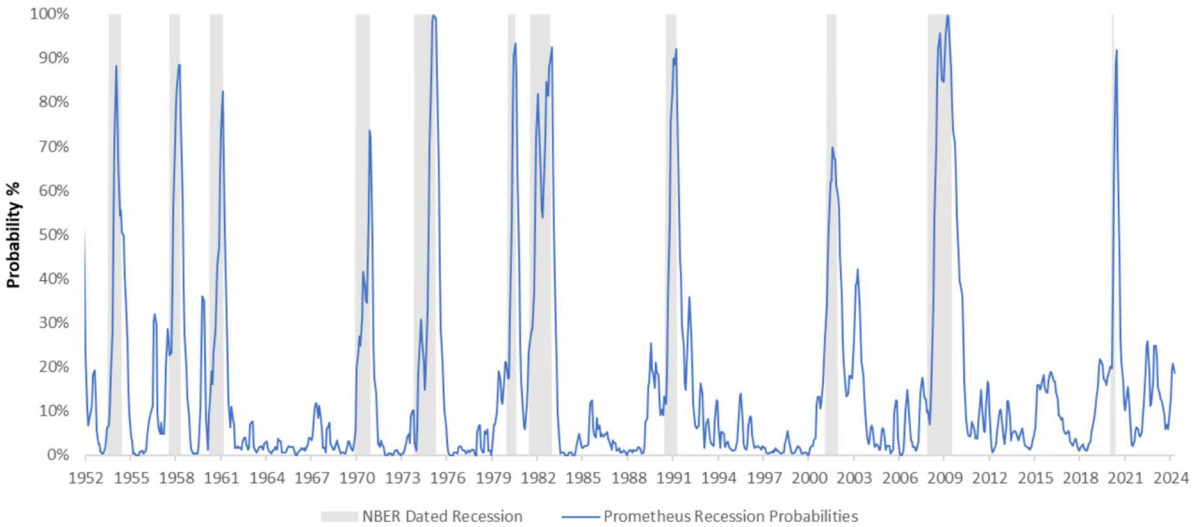
With employment, output, nominal income, and nominal spending holding steady, the potential for inflationary pressures remains persistent. As we can see below, our forecasts for CPI suggest that the headline number will continue to remain above target over the next 3-4 quarters.

Inflation Forecasts: Headline CPI
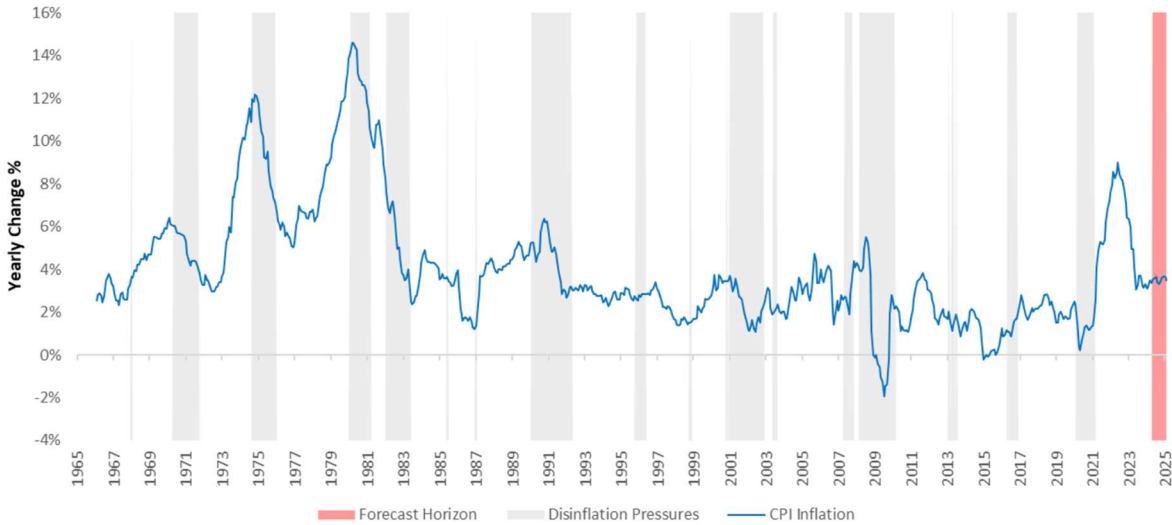
Moreover, our GDP Lead looks at various growth measures to understand the prospective impulse to GDP over the next few months. This gauge has typically been a strong barometer of business cycle conditions. Currently, this measure suggests neutral business cycle pressures, i.e., the economy remains largely stable.

Growth Monitor: Prometheus GDP Lead
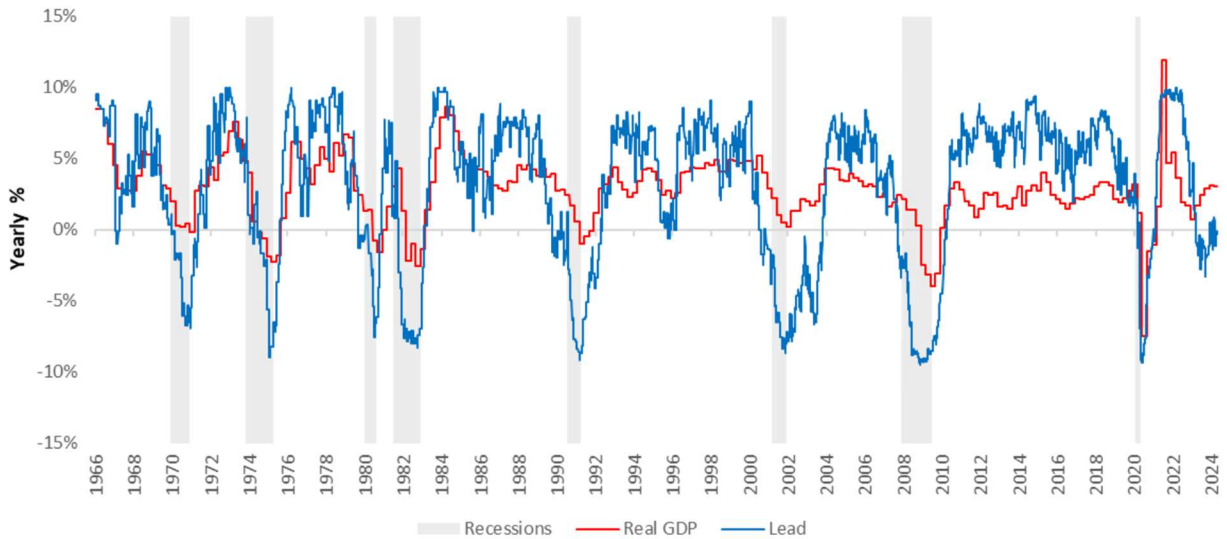
Consistent with these business cycle conditions, our programmatic nominal GDP forecast, which drives our Asset Allocation Strategy, places nominal GDP at 6.3% versus one year ago:

Prometheus Asset Allocation: Nominal GDP Forecasts
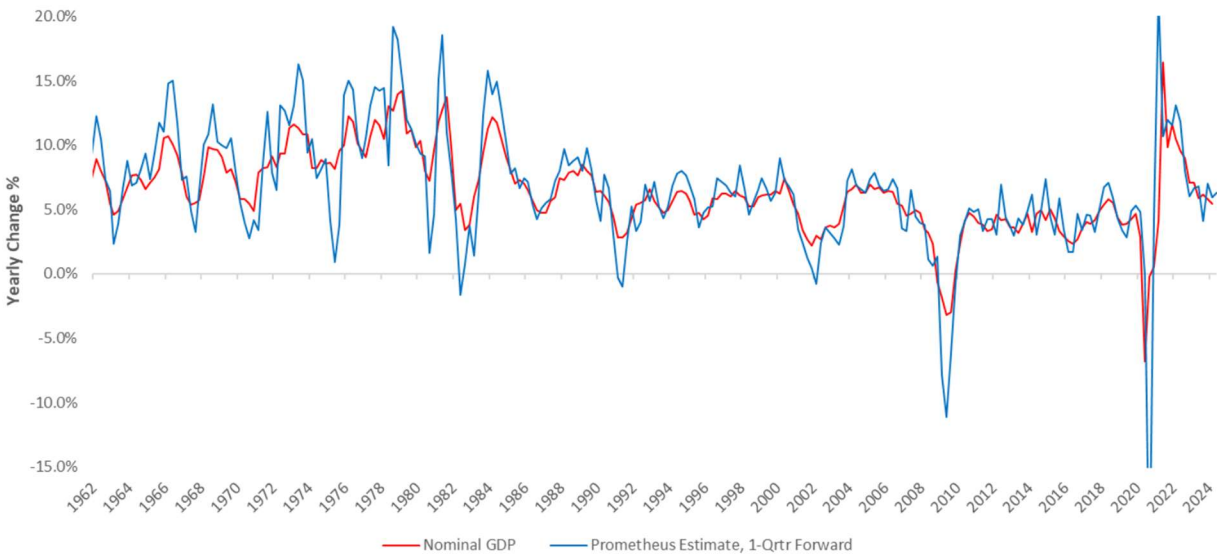
Currently, our systems estimate that Q3 2024 nominal GDP growth will be 6.3% versus one year prior, with real GDP of 3.6% and Inflation of 2.7%. **Overall, we expect to remain in a macro regime of high nominal GDP and above-target inflation.**

With nominal GDP elevated and inflation high, we continue to see significant risks to 60/40 stocks and bond portfolios. We visualize the impact of these high inflation regimes on a standard 60/40 portfolio below:

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60/40 Portfolio: Performance By Inflation Regime

To navigate these conditions, we think an adaptive asset allocation process is a must for investors. Prometheus Asset Allocation is our solution:

Prometheus Asset Allocation: Secular Regime Study
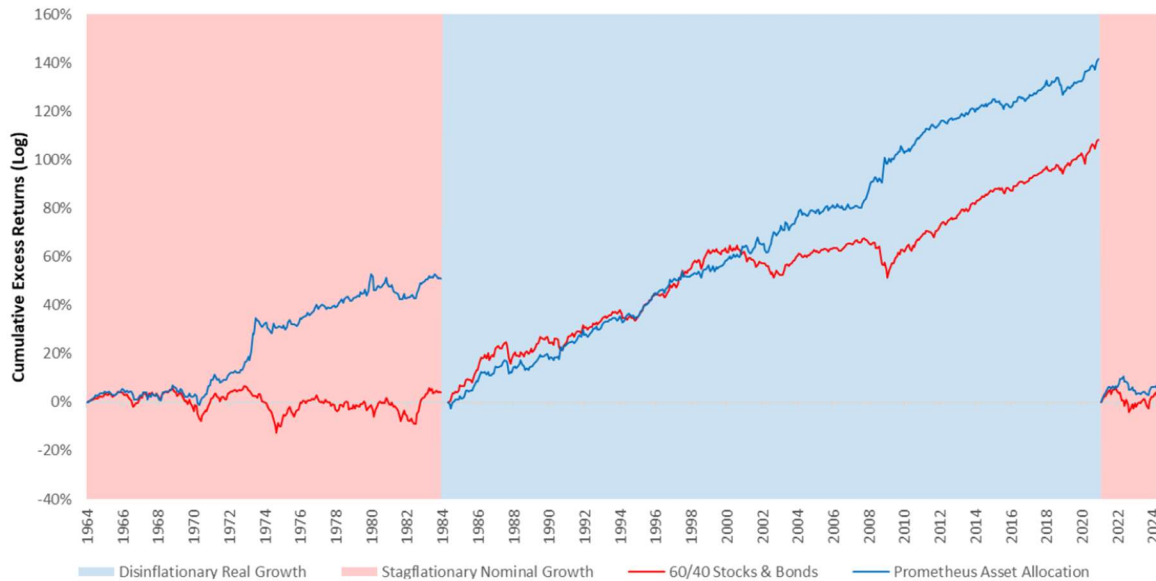
Above, we show how 60/40 portfolios are biased to underperform during periods of stagflationary nominal growth. Meanwhile, Prometheus Asset Allocation continues to adapt to macro conditions in this regime to keep investors on the path the long-term portfolio performance. Until tomorrow.

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