

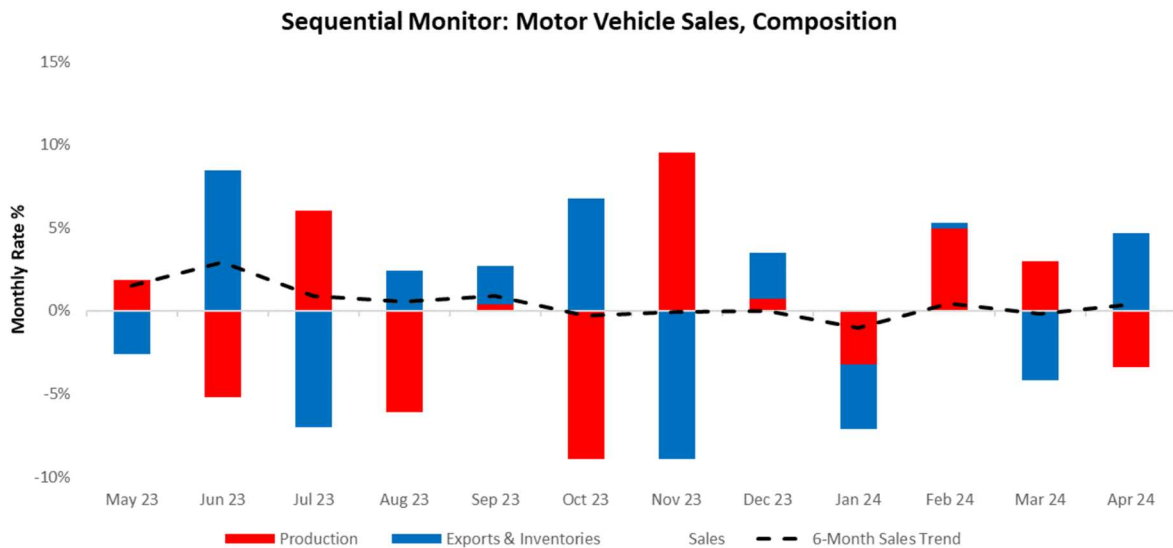
The Observatory

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:

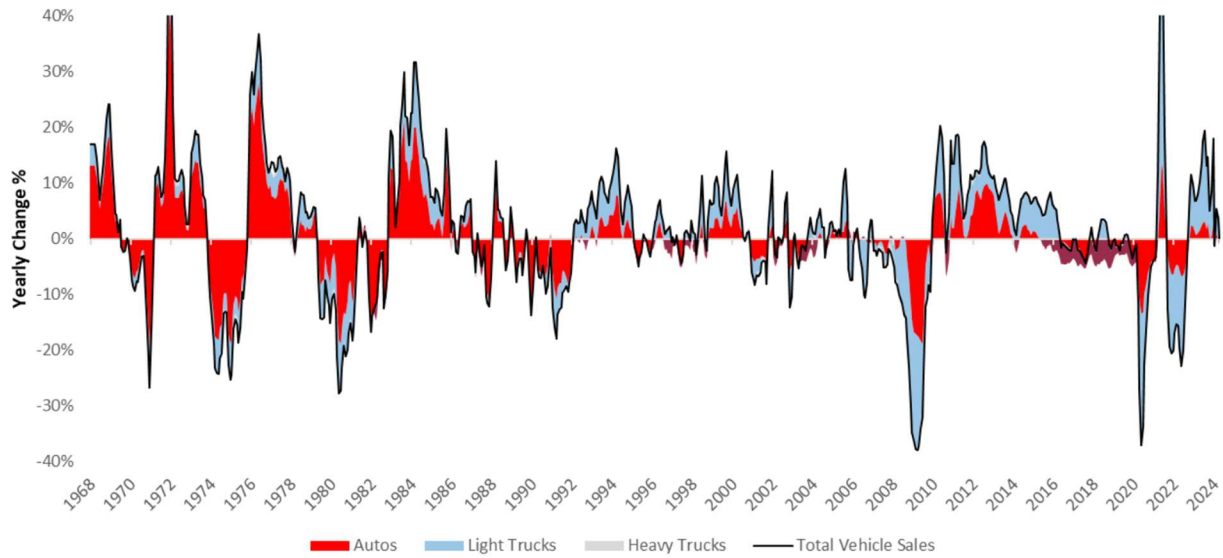
- **Motor vehicle sales increased recently, driven by declines in production and inventories.**
- **Increasing motor vehicle sales are consistent with broader strength in nominal activity and robust business cycle conditions. Looking forward, we expect the motor vehicle complex to remain stable.**
- **Relative to these expectations, equity markets continue to have price-earnings outcomes consistent with a continued acceleration of growth. Without a significant divergence between price and fundamentals, odds continue to favor equity gains. Our strategies continue to maintain long exposure to equities.**

In April, real motor vehicle sales increased by 1.29%. Sales growth can come from a combination of production, exports, or inventory drawdowns. This month, sales were driven by a -3.37% change in production and a 4.66% change in exports and inventories, respectively. This print contributed to a sequential acceleration in the six-month trend. Below, we show the sequential evolution of the data, along with the composition driving these monthly changes:



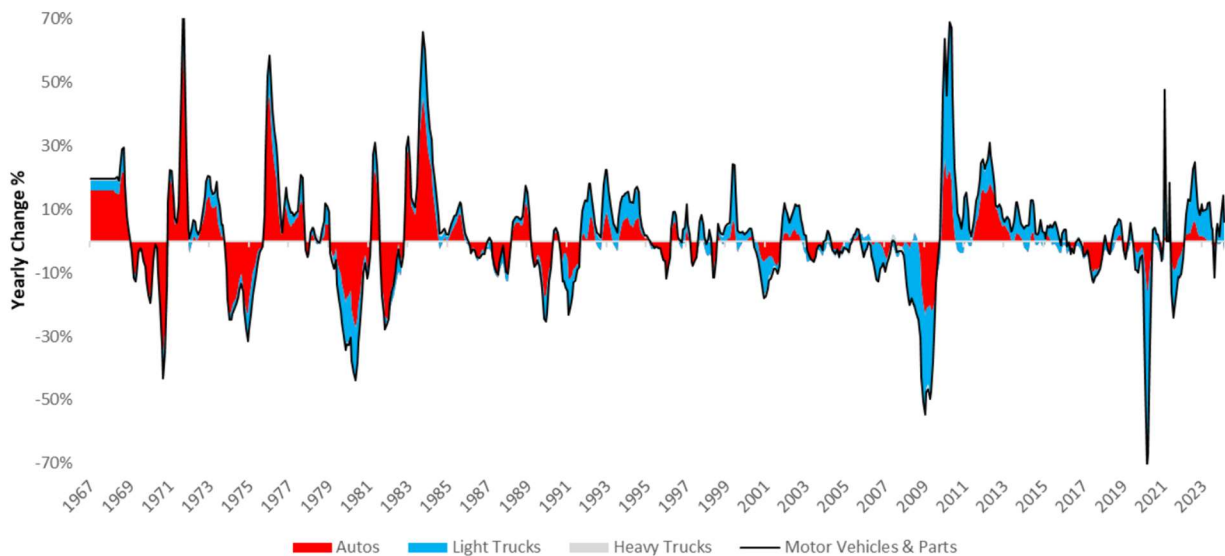
Motor vehicle spending is directly reflected in GDP in the form of consumer motor vehicle purchases and business investment in motor vehicles. To better understand this spending, we look at the composition of total motor vehicle unit purchases, by type of motor vehicle. As we can see below, motor vehicle purchases have increased by 0.06% over the last year. This move in purchases was driven by Autos (-1.02%) Light Trucks (1.39%), & Heavy Trucks (-0.3%):

Motor Vehicles Sales: Sales By Vehicle Type



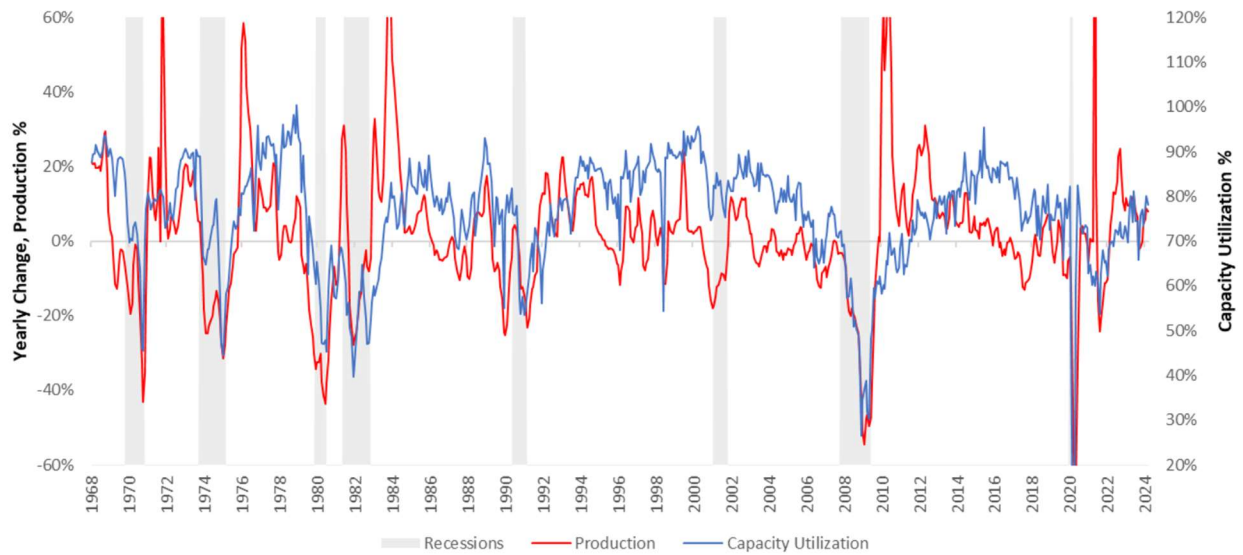
While real sales increased in April total motor vehicle production declined. Over the last year, motor vehicle production was driven by Autos (-1.02%), Light Trucks (1.39%), & Heavy Trucks (-0.3%), rising by 5.94%:

Motor Vehicle Production: Production By Vehicle Type



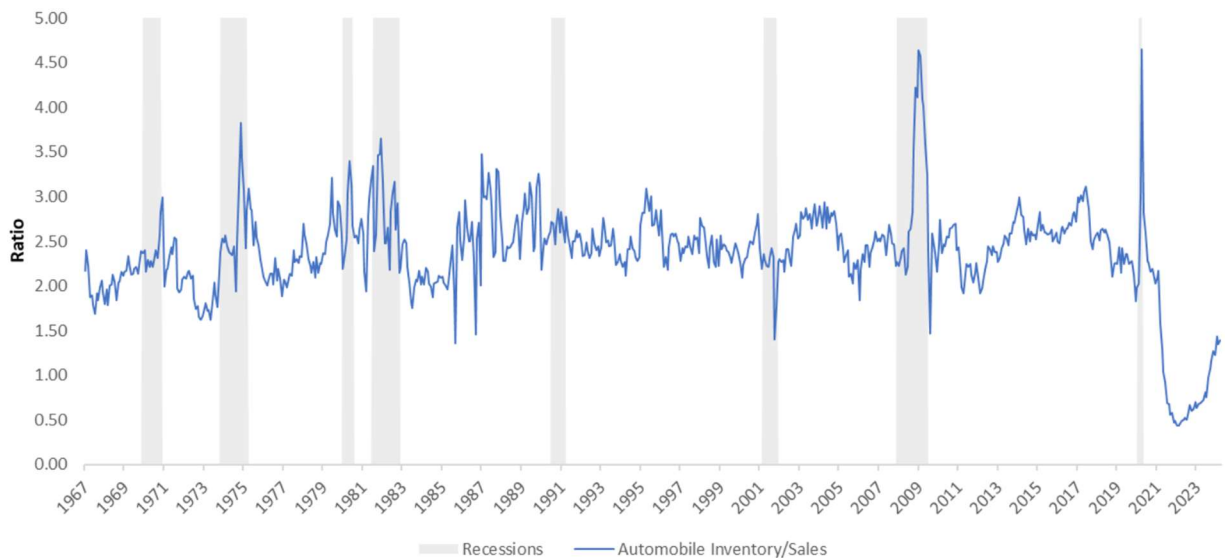
Motor vehicle production and capacity utilization have typically been good indicators of cyclical conditions. Currently, motor vehicle production relative to capacity is inconsistent with a recession. According to our estimates, readings between 65% and 43% are consistent with recessionary activity:

Motor Vehicles: Production & Capacity Utilization



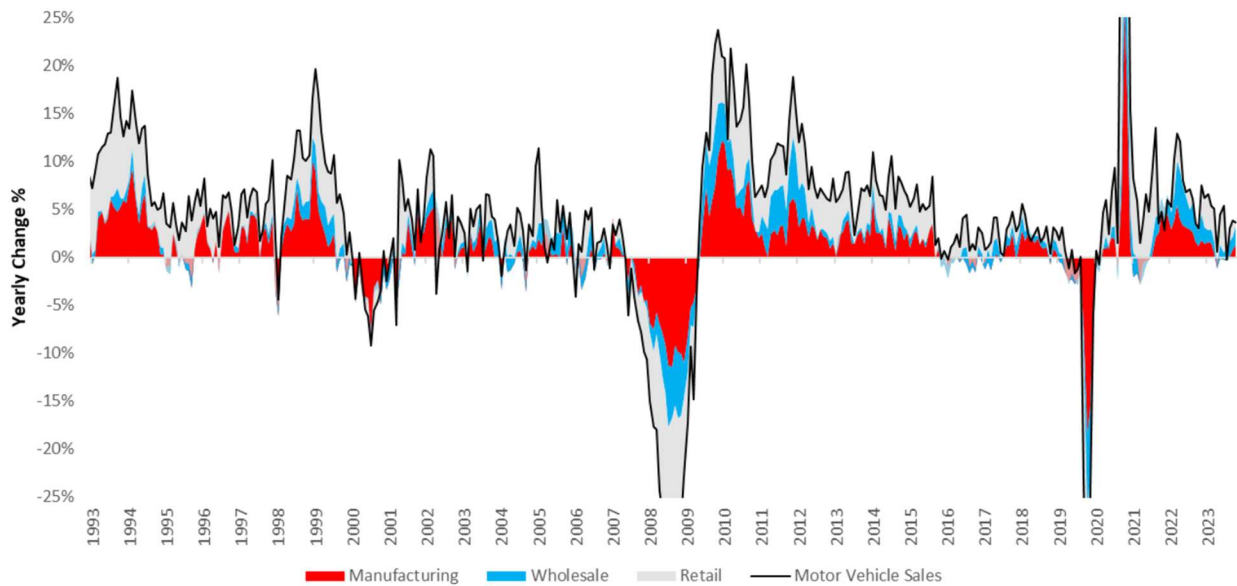
While production has declined in recent months, automobile inventories remain at secular lows. These conditions are likely to blast automobile production as automobile dealers continue to rebuild inventories:

Automobiles: Automobile Inventory To Sales



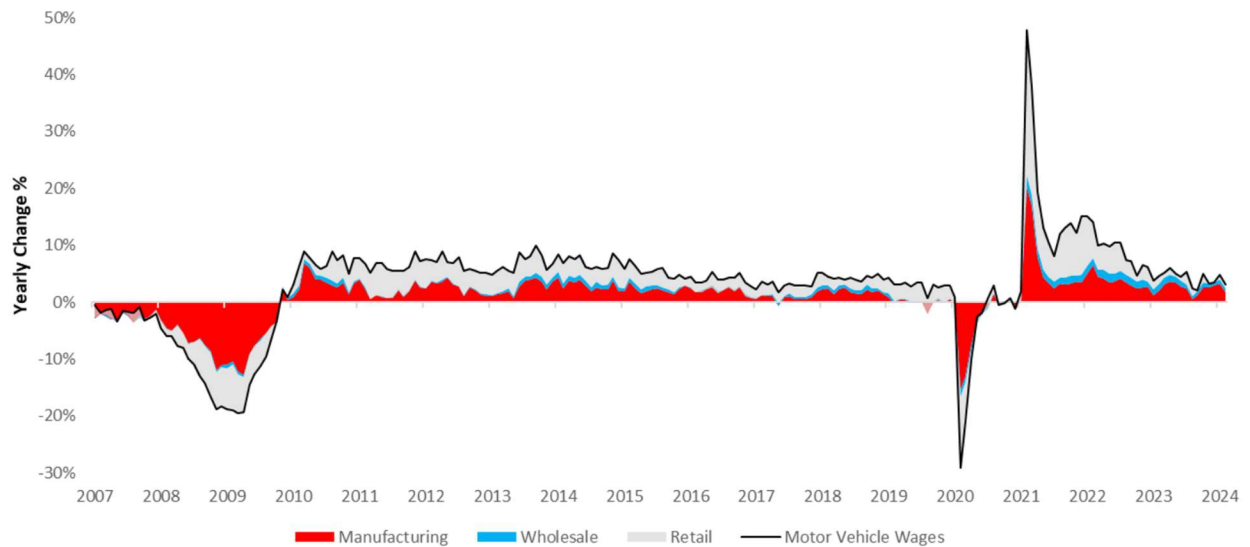
To better understand how this motor vehicle production has created spending and income, we now turn to nominal sales for automobiles across manufacturers, wholesalers, and retailers. Over the last year, our estimates of nominal sales showed nominal motor vehicle sales growth of 3.66%. We show the contributions coming from manufacturers (1.34%), wholesalers (1.87%), and retailers (0.45%) below:

Motor Vehicles: Nominal Sales



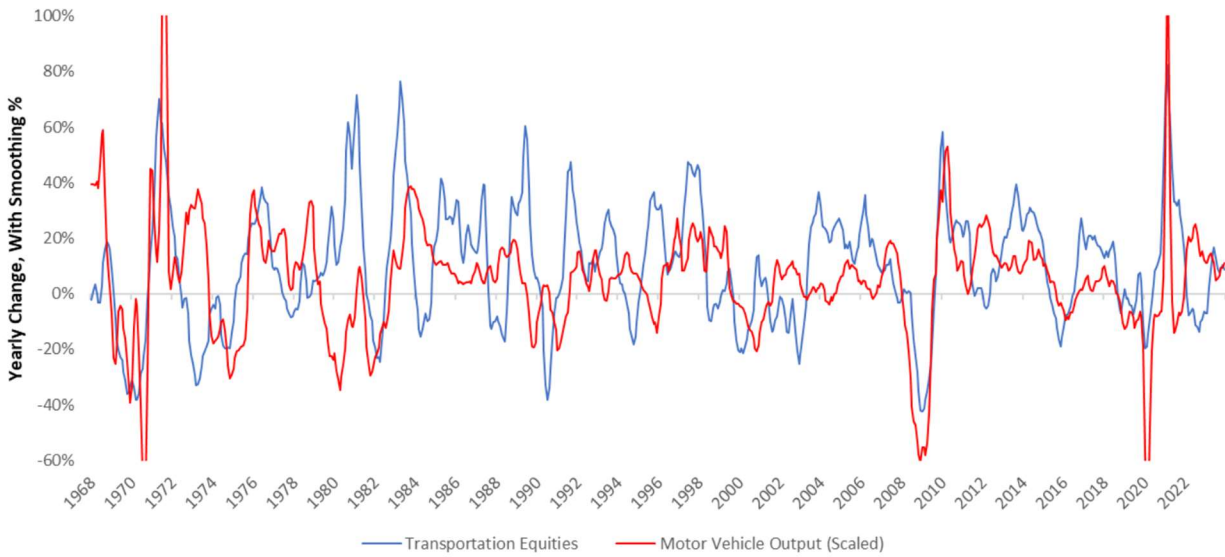
Now that we have examined the impact on business sales, we also examine how this is reflected in wages. Over the last year, our estimates of nominal wages showed nominal employee income growth of 3.04%. We show the contributions coming from manufacturers (1.79%), wholesalers (0.65%), and retailers (0.6%) below:

Motor Vehicles: Nominal Wages



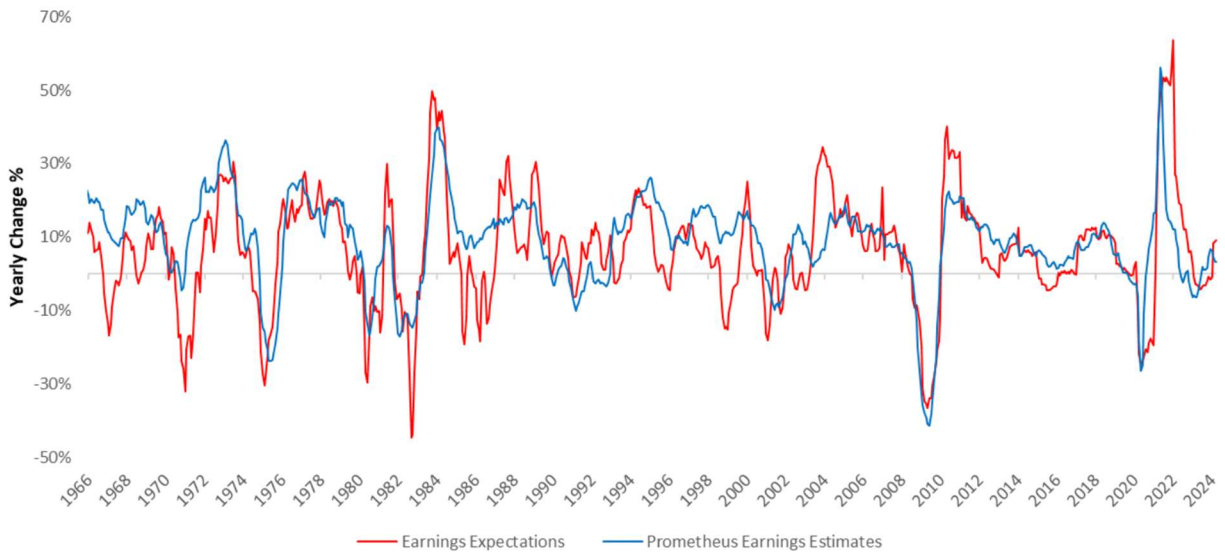
These strong trends in motor vehicle output and sales continue to flow through to transportation equities, which continue to trend higher:

Transportation: Markets vs. Fundamentals



Overall, transportation dynamics continue to support business cycle conditions in a manner that is conducive to equity markets rising:

Market Monitor: Earnings Expectations vs. Fundamentals



Until we see a self-reinforcing downturn in sectors like transportation, we will unlikely see a meaningful pullback in equity markets. We continue to monitor these dynamics closely. Until tomorrow.

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