Highland Capital MANAGEMENT, LLC

Economic & Market Cycles

FPPTA CEU Foundational Learning

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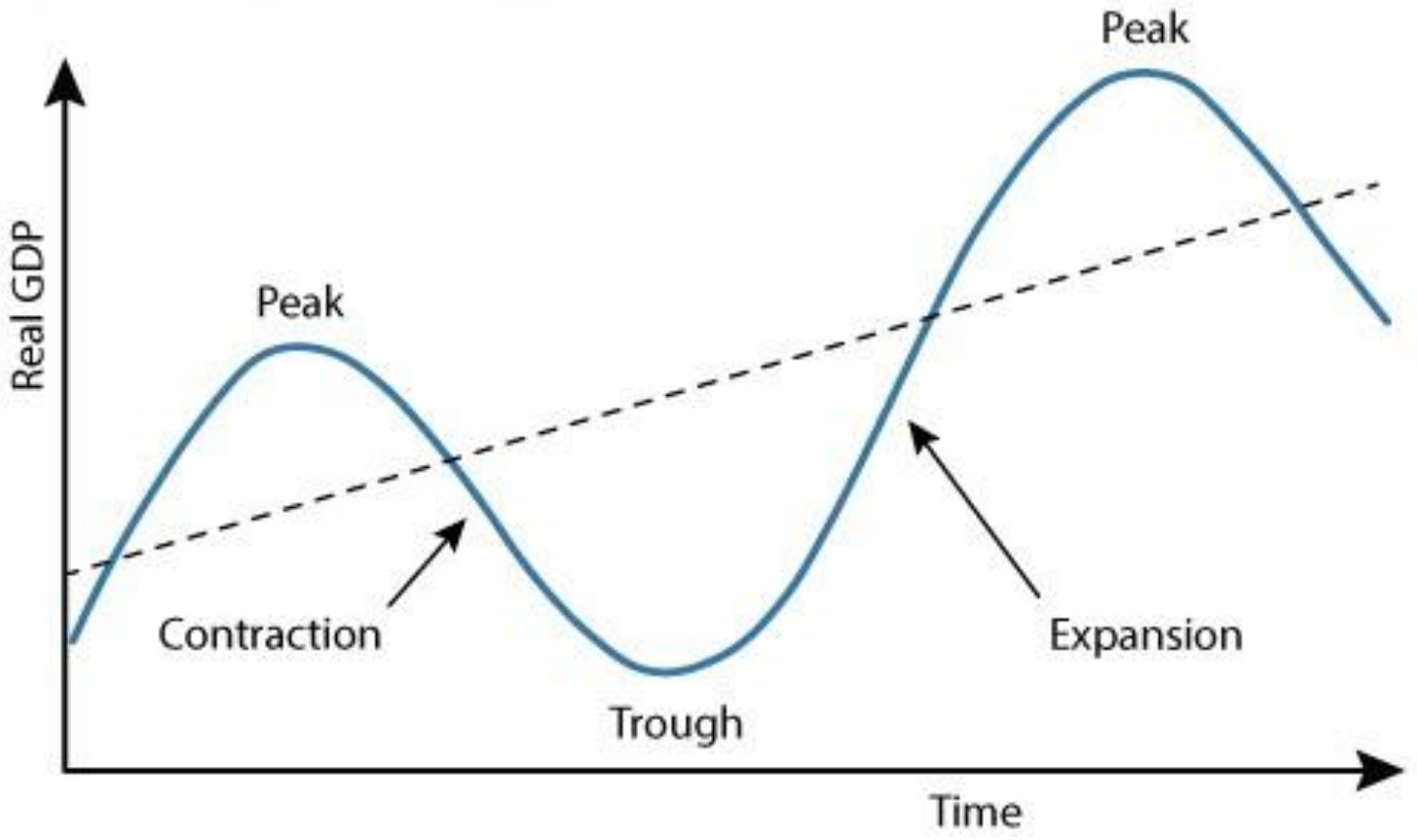
The economic cycle



Cycles move around the economy's long-run capacity.

The cycle has four phases

EXPANSION	PEAK
Growth and jobs rise	Capacity tightens
CONTRACTION	**TROUGH**
Output and jobs fall	Decline stabilizes

Recurring does not mean regular.

Where are we in the cycle?

EXPANSION	PEAK
CONTRACTION	TROUGH

The framework is simple. Diagnosis Isn’t.

Expansion reinforces itself

1 Consumers spend



2 Sales rise



3 Firms hire and invest



4 Income rises

More income supports more spending.

Contractions can deepen

1 Consumers cut spending

↓

2 Sales weaken

↓

3 Firms cut hiring and investment

↓

4 Income weakens

Lower income further reduces spending.

How cycles turn

INTERNAL PRESSURES

- Capacity tightens
- Inflation rises
- Excesses build
- Credit risk increases

EXTERNAL SHOCKS

- Supply shock
- Demand shock
- Financial stress
- Geopolitical

Credit can amplify either path.

Credit amplifies the cycle

CREDIT EASES

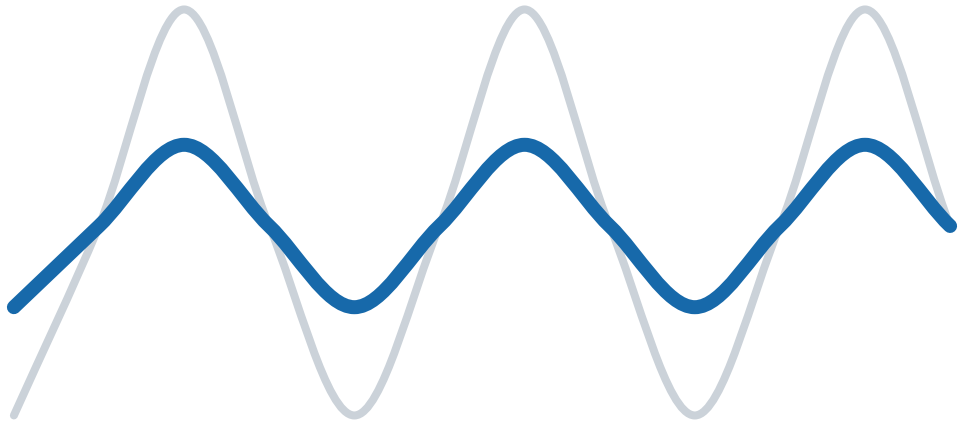
- Borrowing rises
- Spending rises
- Investment expands
- Asset values may rise

CREDIT TIGHTENS

- Borrowing slows
- Spending falls
- Investment weakens
- Losses may rise

Interest rates influence the cost and availability of credit.

Fed tries to moderate cycles



Policy aims to reduce the swings.

RATES

↓

FINANCIAL CONDITIONS

↓

DEMAND

↓

JOBS & PRICES

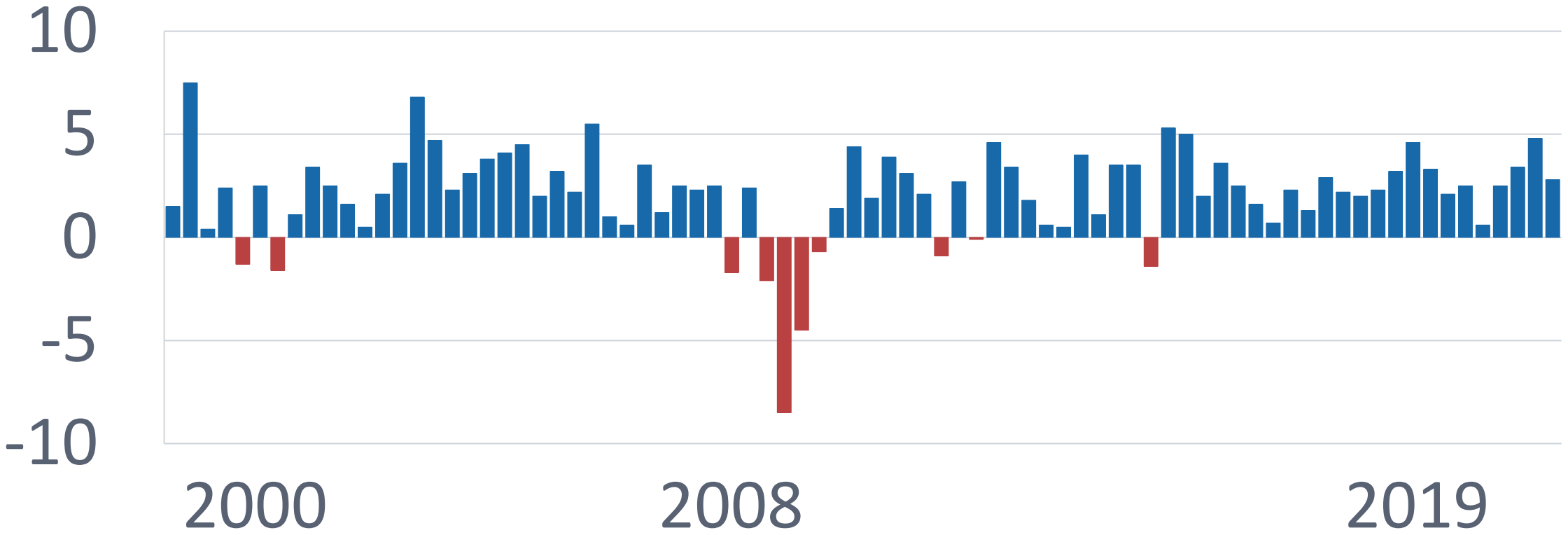
Maximum employment • Stable prices

How do we identify cycles?

LEADING	COINCIDENT	LAGGING
New orders	Jobs & income	Jobless rate

No single gauge identifies the cycle.

Real cycles are messy



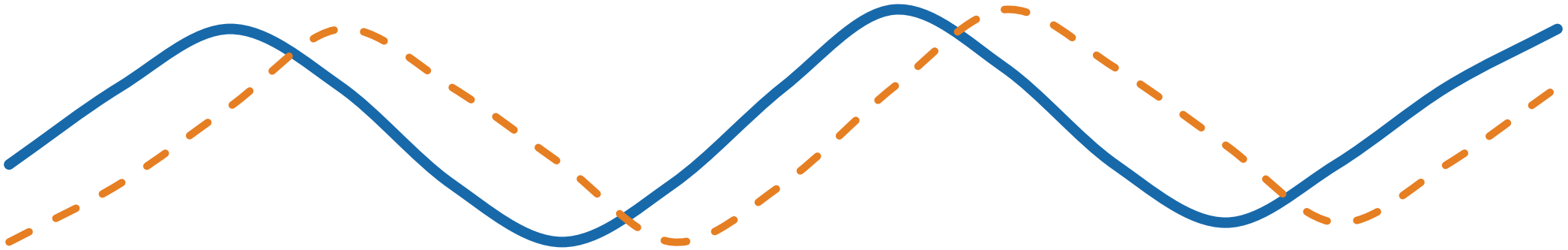
Growth is uneven, indicators disagree, data gets revised.

Markets price the future

ECONOMIC DATA	MARKET PRICES
Output	Expectations
Jobs	Interest rates
Income	Valuation

The economy describes conditions. Markets anticipate what comes next.

Markets often turn first



Market prices Economic data

Prices anticipate. Economic data confirms.

Markets react to surprises

ECONOMY	EXPECTATIONS
Growth is strong	**Weaker than priced** Markets can fall
Growth is weak	**Better than feared** Markets can rise

Stocks turned first in 2009



Markets anticipated recovery before the economic data improved.

Markets respond differently

EARLY EXPANSION	MID-EXPANSION
Stocks recover first	Profits support stocks
LATE EXPANSION	**CONTRACTION**
Rates add pressure	Quality bonds help

Historical tendencies. Not rules.

Why pensions diversify

GROWTH WEAKENS	Stocks may fall Bonds may help
HIGH INFLATION	Inflation-sensitive assets may help
MARKET STRESS	Cash can reduce forced selling

Different risks call for different allocations.

Better questions

01 What environment hurts this strategy?

02 Does plan portfolio have style and cycle diversification?

03 Are we rebalancing or chasing returns?

Where are we today?

LEADING	COINCIDENT	LAGGING
Permits +5.0%	GDP +1.5%	Jobless rate 4.1%
Credit steady	Spending flat	Core inflation 3.3%

September 3, 2026. Signals are mixed. Which phase fits best?

Economic cycles are inevitable. Predicting them precisely is not.

Build the pension plan to endure every phase.

Questions & discussion