At U.S. Bank, we constantly monitor the global economy, financial markets and government policy in pursuit of better investment outcomes for our clients. We created the U.S. Bank Health Check to process the many pieces of information from around the world that we review each day. This proprietary tool helps us assess economic data in the United States and globally, turning statistics into discernable trends that provide greater insight into financial markets and economies worldwide, informing our investment decision-making process.

A core investment tenet at U.S. Bank is that the economy doesn’t just move in a straight line. Economies produce peaks and valleys as they heat up and cool down over time. The challenge investors face is in determining where in the economic cycle we currently stand, as most traditional measures of broad economic activity are released well after the end of the measured period. Those numbers, including measures like gross domestic product (GDP), essentially tell us more about where we’ve been than where we are today.
We created our proprietary Health Check to summarize economic data within an economic cycle in real time. The global Health Check incorporates more than 1,000 key indicators across 22 major economies representing more than 80 percent of the world’s total wealth. We distill this information down to one number, which allows us to more effectively assess the current state and trends of the global economy.

Our global Health Check includes the United States market, foreign developed markets (Canada, Australia, Japan, Spain, Netherlands, Switzerland, Germany, Sweden, Italy, France, U.K.) and foreign emerging markets (Mexico, China, Indonesia, Taiwan, South Korea, India, South Africa, Brazil, Turkey, Russia).

**How our Health Check works**

The Health Check begins with data releases across a range of economic measures, such as industrial production, housing starts and consumer confidence. Economic data series are reported in various measurements (such as a number, percent of respondents or rate of change), making direct comparisons difficult. To address these inconsistencies and obtain an accurate read, we:

- Rank each data release relative to its own history on a scale of zero to 100, with zero being the worst point in history and 100 being the best.
- Sort the data into 10 primary economic sectors, such as manufacturing, services, housing and labor.
- Average the individual percentile scores to reach a sector level score.
- Combine and average the sector scores to give an overall Health Check score for a country.
- Combine individual country numbers to create global scores.

We can graph this number through time, visualizing the economic cycles. Here you can see how our Health Check scored the U.S. economy over the past 50 years, with recessions as defined by the National Bureau of Economic Research (NBER) shaded in grey:

**Health Check depicts the economy’s direction and how fast it is moving**

The Health Check score is just one element in assessing the economy. Much of the movement in capital markets is a result of changes in the direction of the economy as investors try to discern whether data is trending better or worse. The combination of the economic direction trend score and Health Check score allows us to better estimate where the economy stands within the economic cycle.

We calculate the trend by using the three-month moving average of the Health Check score and subtracting it from the 12-month moving average. A number above 50 signals that data is improving while a reading below 50 means the opposite. With both a Health Check score and a trend score, we can provide a visual representation of the current state of the economy in a quadrant format and assign a descriptive label to each quadrant. For example, a Health Check score above 50 (better than average) and a trend score also above 50 (recent data is better than past data) suggests an economy is in an expansion mode. Conversely, a Health Check score below 50 (worse than average) and a trend score below 50 (worsening data) implies an economy in a state of contraction.
The following graph shows the U.S. economy’s trend from just prior to the pandemic’s onset to today. The economy entered 2020 in a neutral to modestly below trend state and moved deep into recession amidst COVID spread and restrictions on mobility and activity early in 2020. The economy shifted into recovery commensurate with positive vaccine developments in the fourth quarter of 2020 and recovered fully into an expansionary condition in early 2021. This economic migration from recession to recovery to expansion coincided with U.S. equities’ significant outperformance compared to traditional core fixed income investments over the same time period. The economy’s trend has slowed notably from the June 2021 high as the economy moves beyond the rapid recovery phase. The current level and trend scores are consistent with historical post-recession recovery, expansion, and deceleration periods.

A Health Check assessment of today’s U.S. economy

A closer look at the important components of the U.S. Health Check provides further insight into how we use the Health Check to analyze economies. We start by looking at the sector (industry) level. The following graph shows differences across various economic sectors in early 2022. The line that crosses at the 50 level indicates a “normal” historical level.

From our Health Check process, summarizing more than 100 data series across ten economic sectors, we surmise that the U.S. economy is decelerating from a high level at the start of 2022, with all sectors registering still above historical activity levels. The high Labor Market score reflects significant improvement in employment conditions, with abundant job openings, rising wages and falling unemployment. Wholesale and Retail activity has improved commensurate with relaxed activity and mobility restrictions, and overall Business Sentiment remains optimistic despite companies experiencing supply chain constraints and persistently high inflation. Overall housing market activity has also slowed from a very high level; housing supply has yet to catch up to demand, limiting transaction activity, while strongly rising house prices are negatively impacting overall affordability.


Important disclosures provided on page 4.
Conclusion

We remain committed to providing industry-leading capital market analysis aimed at enhancing outcomes for client portfolios. Tools like the U.S. Bank Health Check create a process to improve the consistency of our evaluations and provide data-driven investment strategies. If you have further questions about this information and what it may mean for your portfolio, please contact your financial professional.

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Based on our strategic approach to creating diversified portfolios, guidelines are in place concerning the construction of portfolios and how investments should be allocated to specific asset classes based on client goals, objectives and tolerance for risk. Not all recommended asset classes will be suitable for every portfolio. Diversification and asset allocation do not guarantee returns or protect against losses.

Past performance is no guarantee of future results. All performance data, while obtained from sources deemed to be reliable, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for direct investment. The S&P 500 Index consists of 500 widely traded stocks that are considered to represent the performance of the U.S. stock market in general.

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. International investing involves special risks, including foreign taxation, currency risks, risks associated with possible differences in financial standards and other risks associated with future political and economic developments. Investing in emerging markets may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility. Investing in fixed income securities are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Investment in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in high yield bonds offer the potential for high current income and attractive total return, but involve certain risks. Changes in economic conditions or other circumstances may adversely affect a bond issuer’s ability to make principal and interest payments. The municipal bond market is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issues of municipal securities. Interest rate increases can cause the price of a bond to decrease. Income on municipal bonds is free from federal taxes but may be subject to the federal alternative minimum tax (AMT), state and local taxes. There are special risks associated with investments in real assets such as commodities and real estate securities. For commodities, risks may include market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties (such as rental defaults).

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