CHART OF THE DAY

June 29, 2016

Spotlight on : 10-2 Yield Curve

A key metric to follow is the relationship, i.e., the spread, between the 10-Year U.S. Treasuries yield and the 2-Year U.S. Treasuries yield.

A widening spread denotes bullishness and economic growth expectations, while a declining spread that goes negative (or inverts) signifies slowing economic growth and, even, the likelihood of a recession.

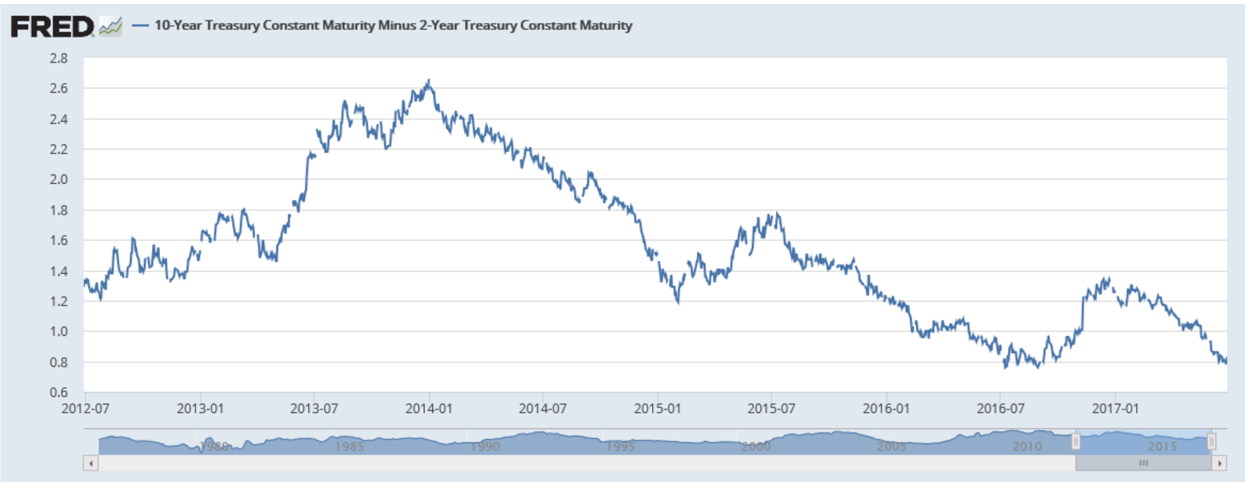
For clarity, a negative or inverted yield curve indicates that long-term debt instruments have a lower yield than short-term debt instruments, given that these debt instruments are of the same or similar credit quality.

Historically, inversions of the yield curve have preceded many U.S. recessions. Thus, the yield curve is considered an important barometer for predicting turning points in the business cycle.

The current (June 27) 10-2 yield curve reading is 0.83x, and falling.

This is nowhere near a recessionary reading of 0.00x. However, the trend is distinctly down and it is close to its five-year low from a year ago and compared to the recent high of 1.34x.

Here is a five-year chart (June 2012-June 2017):



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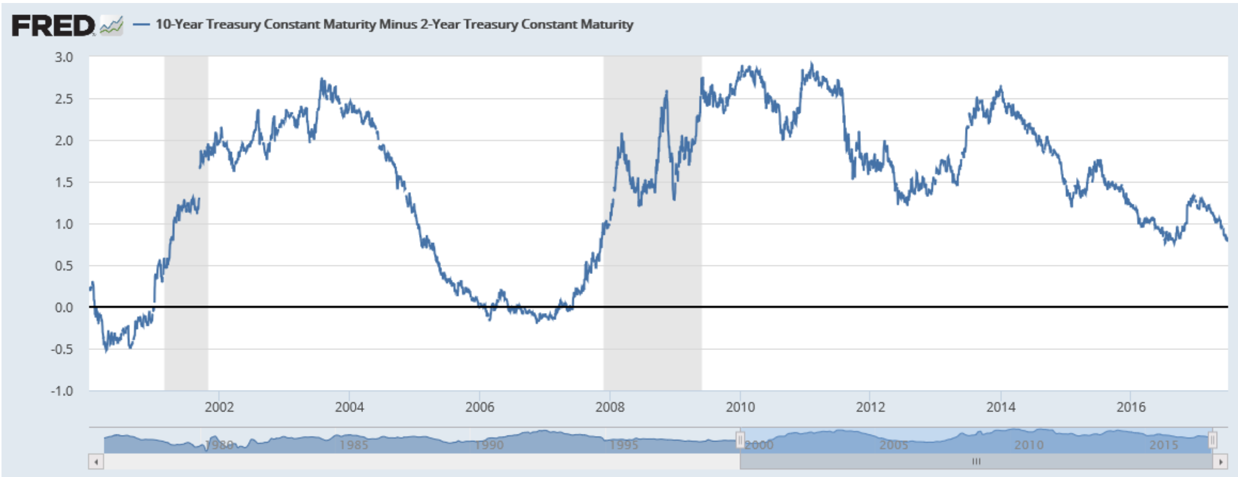
Here is a look at the 10-2 yield curve going back to January 2000. It shows the negative occurrences and the corresponding recessions that soon followed.



COMMENT: *The 10-2 yield curve is nowhere near the 0.00 level needed to denote a recession. With U.S. economic growth moderately motoring along, the possibility of a recession in the United States seems remote at this point.*

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