CHART OF THE DAY

February 13, 2018

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.

COMMENT: There have been some "bear" headlines about the possibility of a recession looming. Poppycock! But, here is a headline from today (February 13): <<"Risks of a recession are rising", says head of world's largest hedge fund>> For the article, click on the following link:
https://www.marketwatch.com/story/risks-of-a-recession-are-rising-says-ray-dalio-2018-02-13
As shown below, the 10-2 yield curve is nowhere near inverting at the moment. So, unless there is a dramatic shift in the 10-2 relationship, there should be no fears of an imminent recession.

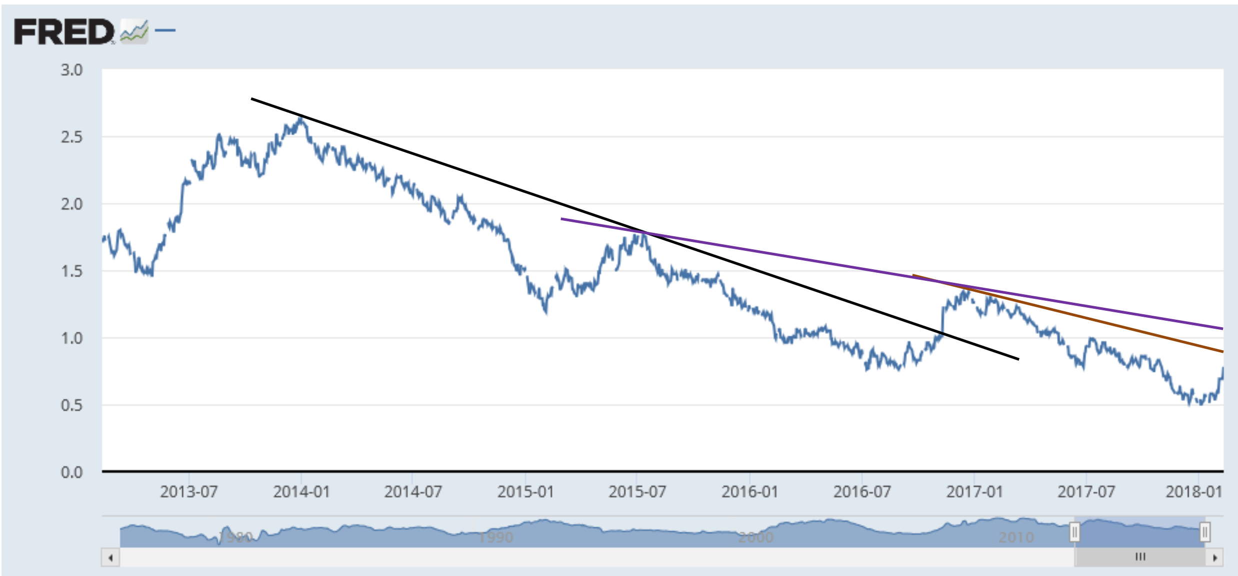
The current (February 9) 10-2 yield curve reading is 0.78x, and rising. (It was 0.80x on September 10 and 0.56x on January 11.)

This is nowhere near a recessionary reading of 0.00x.

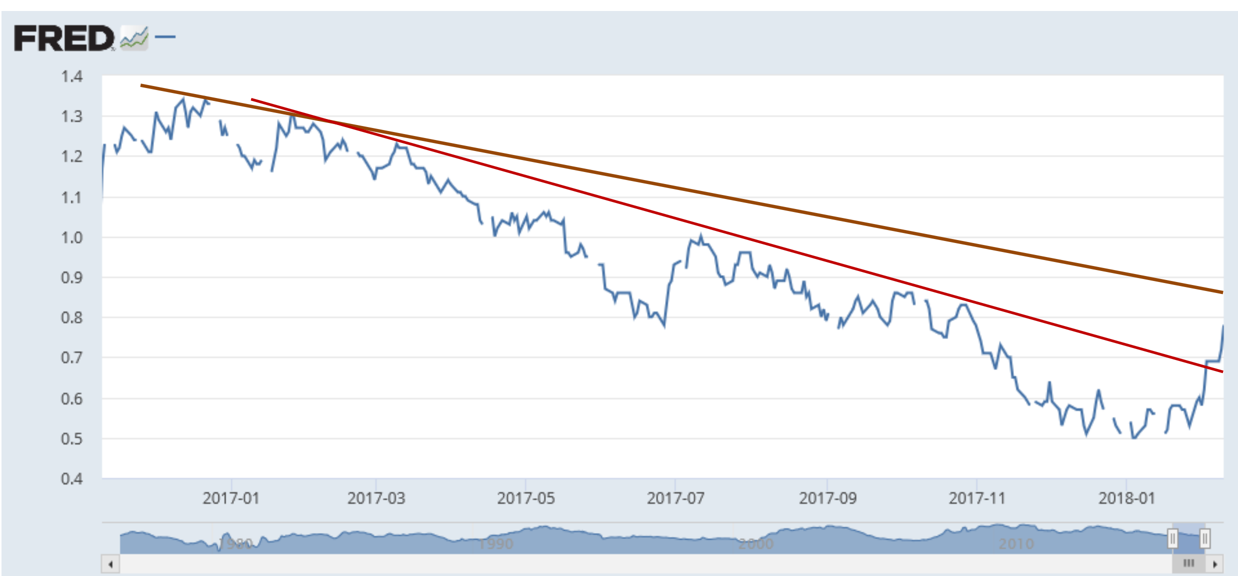
<continued>

The trend is still down being below the secondary **brown** down-trend line (below), but it has successfully bounced off the 0.50x level.

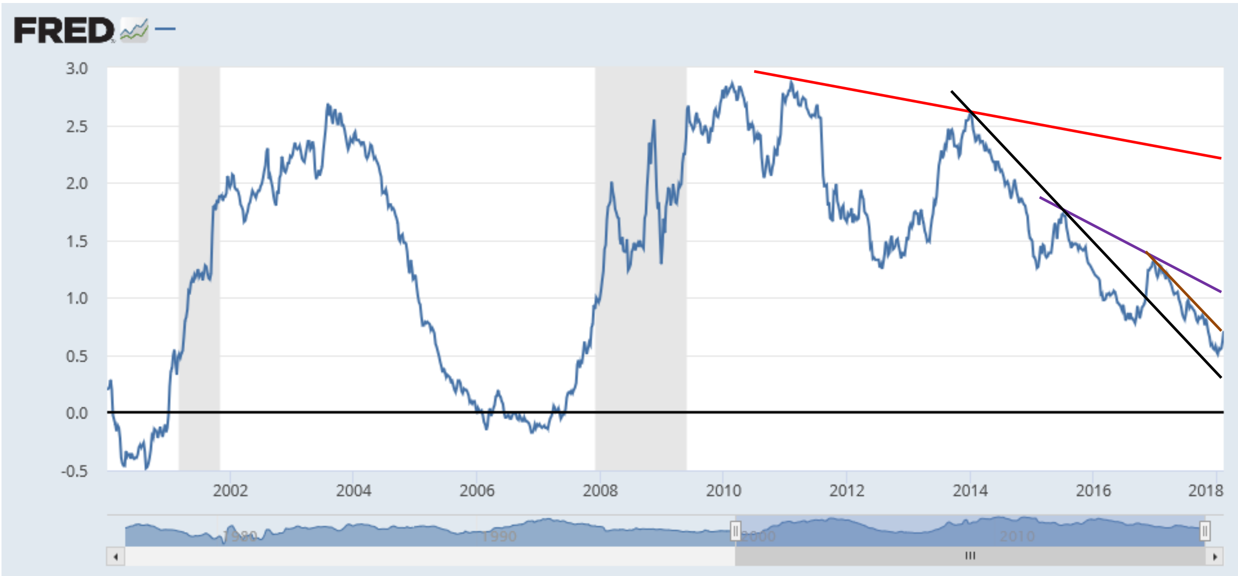
Here is a five-year chart (Feb. 2013-Feb. 2018). The **black** longer-term down-trend is passé. The **purple** down-trend line represents an intermediate trend. The **brown** shorter-term down-trend and the accompanying ratios require further analysis. However, the **purple** and **brown** trend lines represent upside resistance for the 10-2 ratio. These same three down-trend lines are used in a subsequent chart.



Here is that shorter-term look, being from November 9, 2016 to February 9, 2018. The **brown** down-trend line is the same one as in the first chart. The secondary **rust** down-trend line has clearly been broken to the upside. Not exactly pointing to a possible near-term recession!



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. Currently, there is no likelihood of a recession looming.



COMMENT: *As always, it is important for investors to weed out the "noise" that the media loves to pound away at us. If the historic 10-2 yield curve ratio, shown in the above charts, can be considered a reliable forecaster of a recession, and with U.S. economic growth still continuing positively, then the possibility of a near-term recession in the United States seems remote at this point.*

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