eResearch

CHART OF THE DAY

June 6, 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.

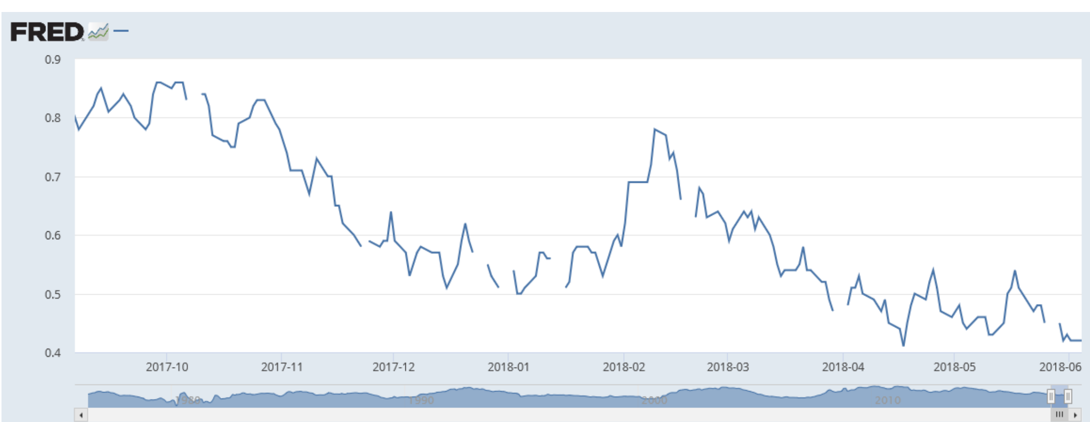
For clarity, a negative or inverted yield curve indicates that long-term debt instruments have a lower yield than short-term debt instruments, given that these debt instruments are of the same or similar credit quality.

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: As shown below, the 10-2 yield curve currently is nowhere near inverting. So, unless there is a dramatic shift in the 10-2 relationship, there should be no fears of an imminent recession.

The current (June 4) 10-2 yield curve reading is 0.42x. This is nowhere near a recessionary reading of 0.00x. However, it is down from the May 18 reading (our last report) of 0.54x.

Over the last nine months, the reading has been yo-yo-ing: 0.85x on September 15, 2017; 0.56x on January 11, 2018; 0.78x on February 9; 0.54x on May 18; now 0.42x. (Recent low was 0.41x.)



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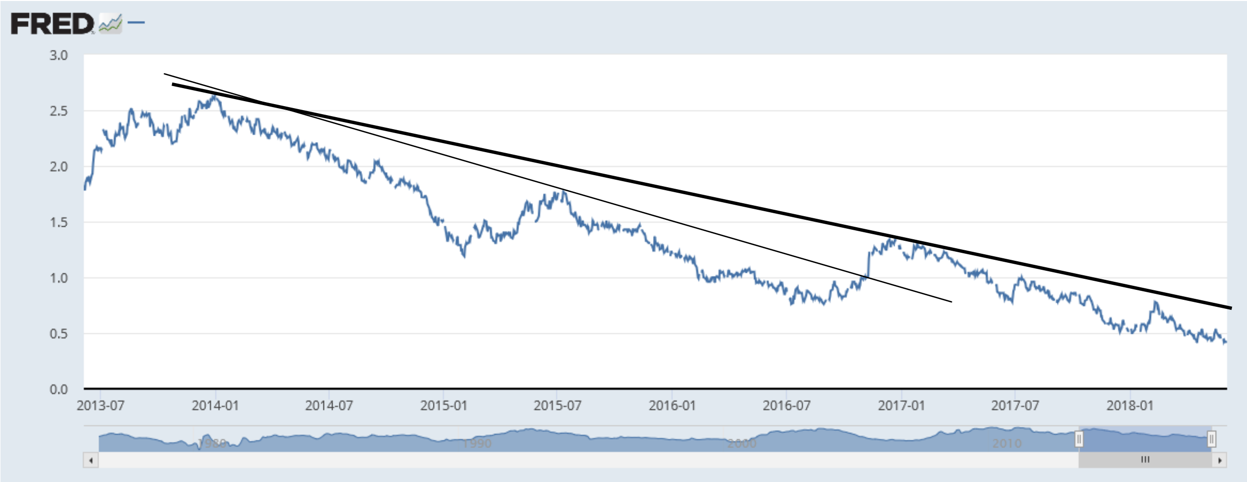
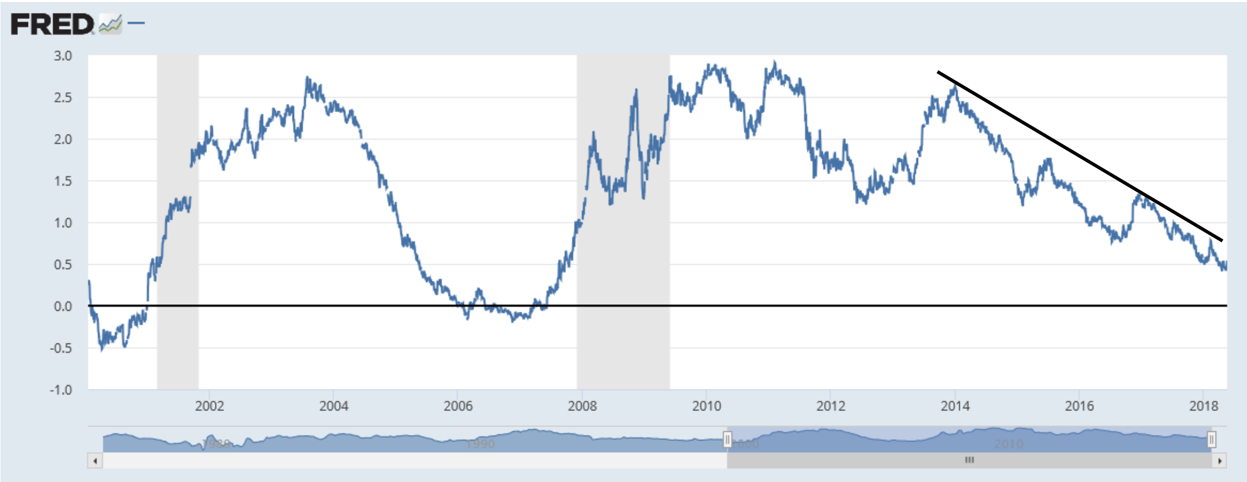
As shown on the five-year chart below (June 2013 - June 2018), the trend is decidedly down, as it is below the long-term, larger, **black** down-trend line.



Here is a look at the 10-2 yield curve going back to January 2000. It shows the negative occurrences (below 0.0x) and the corresponding recessions that soon followed. Currently, despite the falling trend-line, there is no likelihood of a recession looming. The **black** down-trend line is the same as that drawn in the previous chart.



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. However, we will continue to monitor closely that downward trend!*

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