CHART OF THE DAY

June 14, 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.

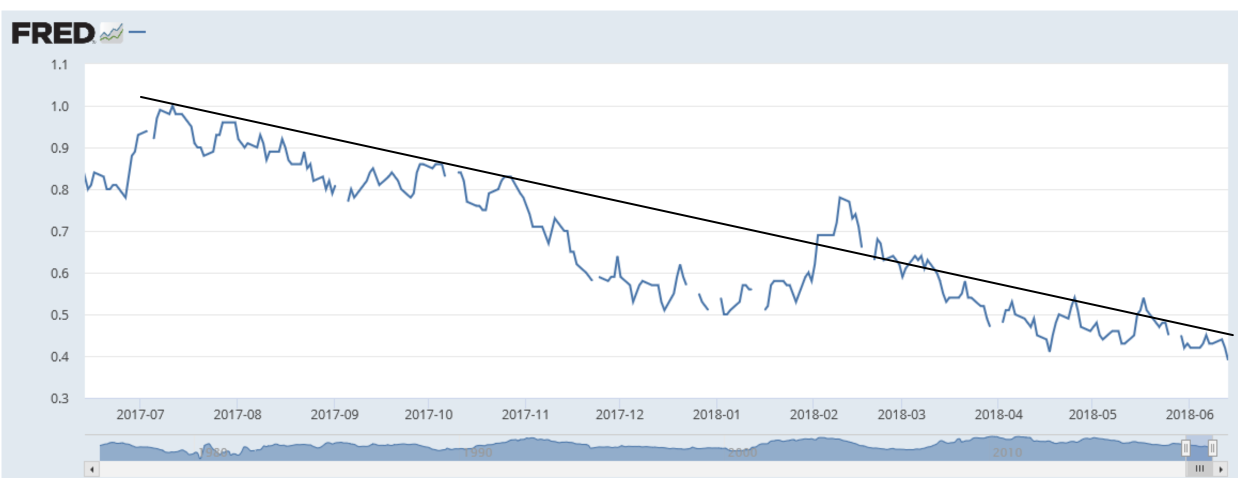
A widening spread denotes bullishness and economic growth expectations, while a declining spread that goes negative (or inverts) signifies slowing economic growth and, even, the likelihood of a recession.

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 13) 10-2 yield curve reading is 0.39x. This is nowhere near a recessionary reading of 0.00x. However, it is down to its lowest level in the last 12 months. The trend is down.



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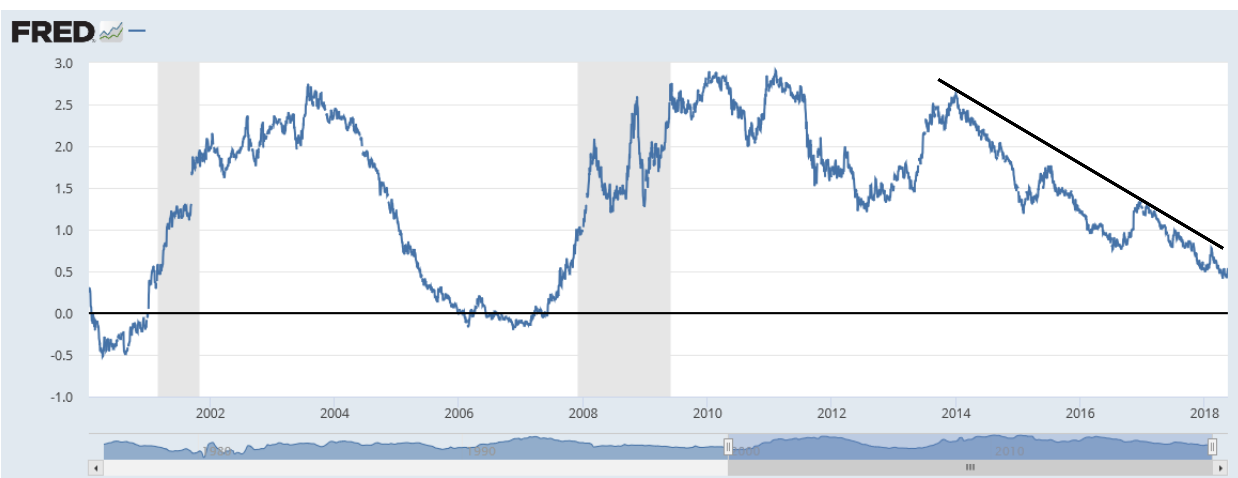
As shown on the five-year chart below (June 2013 - June 2018), the trend is decidedly down, as it is below the long-term, larger, **black** down-trend line.

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: *This being the second-longest stock market up-trend in history, it is natural for economic pundits to warn about the dangers of the economy eventually falling into recession. The longer the rally goes, the louder come the warnings. As the long-term chart shows, once the 10-2 yield curve goes negative, an economic recession soon follows. But, it is not coincidental. And, it can give a false positive: see early 2006 in the chart above. With U.S. economic growth still continuing positively, the possibility of a near-term recession in the United States still seems remote at this point. However, we will continue to monitor closely that downward trend!*

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