

CHART OF THE DAY

August 31, 2018

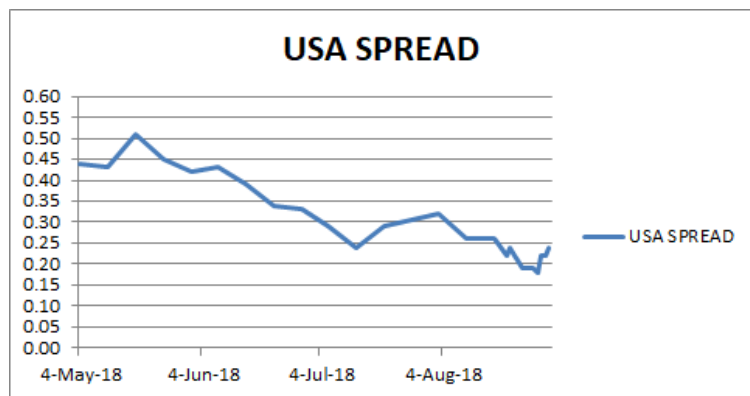
Spotlight on : 10-2 Yield Curve

- The ratio of 10-year U.S. Treasury yields to 2-year U.S. Treasury yields widened this past week by 0.05x and now sits at 0.24x. On June 1, the spread was 0.42x and, at the end of 2017, it was 0.51x. Last week, the 2-year declined 0.01x but the 10-year rose 0.04x.
- In Canada, the spread rose 0.04x with the 2-year rising 0.02x and the 10-year rising 0.06x. The spread now stands at 0.17x. On June 1, it was 0.43x, and was 0.34x at year-end 2017.
- Many in the media have been writing lately that the yield curve is “flattening”. It is not; it is declining, as our charts clearly show.
- A declining spread that approaches 0.00x or that actually goes negative (or inverts) signifies slowing economic growth and, even, the likelihood of a recession.
- A recession usually occurs a few months after the yield curve inverts (see the long-term chart on page 4).
- Sometimes, a negative yield curve gives a false positive (again, see the long-term chart).
- 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.

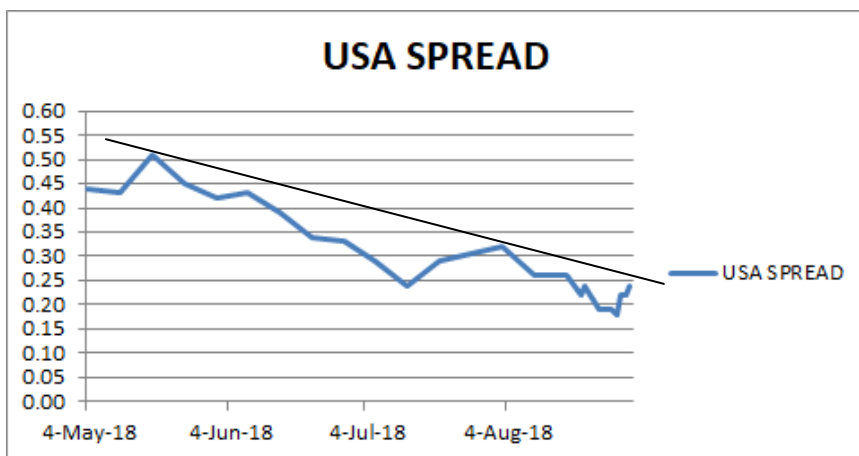
<continued>

U.S. Treasuries 10-2 Yield Ratio

<u>DATE</u>	<u>10-YEAR</u>	<u>USA</u> <u>2-YEAR</u>	<u>DIFF</u>
4-May-18	2.95	2.51	0.44
11-May-18	2.97	2.54	0.43
18-May-18	3.06	2.55	0.51
25-May-18	2.93	2.48	0.45
1-Jun-18	2.89	2.47	0.42
8-Jun-18	2.93	2.50	0.43
15-Jun-18	2.91	2.52	0.39
22-Jun-18	2.90	2.56	0.34
29-Jun-18	2.85	2.52	0.33
6-Jul-18	2.82	2.53	0.29
13-Jul-18	2.83	2.59	0.24
20-Jul-18	2.89	2.60	0.29
3-Aug-18	2.95	2.63	0.32
10-Aug-18	2.87	2.61	0.26
17-Aug-18	2.87	2.61	0.26
20-Aug-18	2.82	2.60	0.22
21-Aug-18	2.85	2.61	0.24
22-Aug-18	2.82	2.60	0.22
23-Aug-18	2.82	2.61	0.21
24-Aug-18	2.82	2.63	0.19
27-Aug-18	2.82	2.63	0.19
28-Aug-18	2.85	2.67	0.18
29-Aug-18	2.89	2.67	0.22
30-Aug-18	2.86	2.64	0.22
31-Aug-18	2.86	2.62	0.24



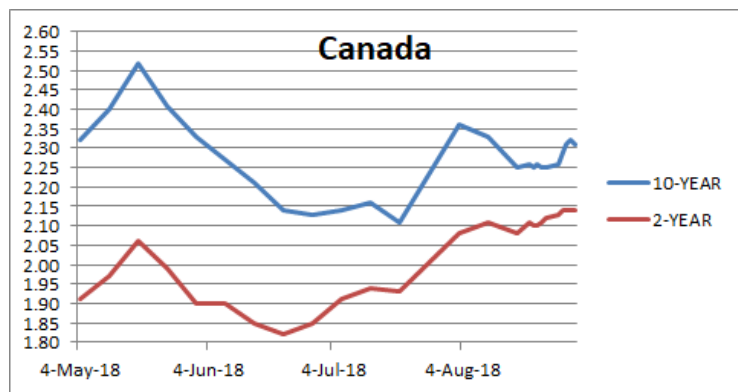
The U.S. Treasuries 10-2 spread is declining and, although it turned up this past week, it still remains below the down-trend line:



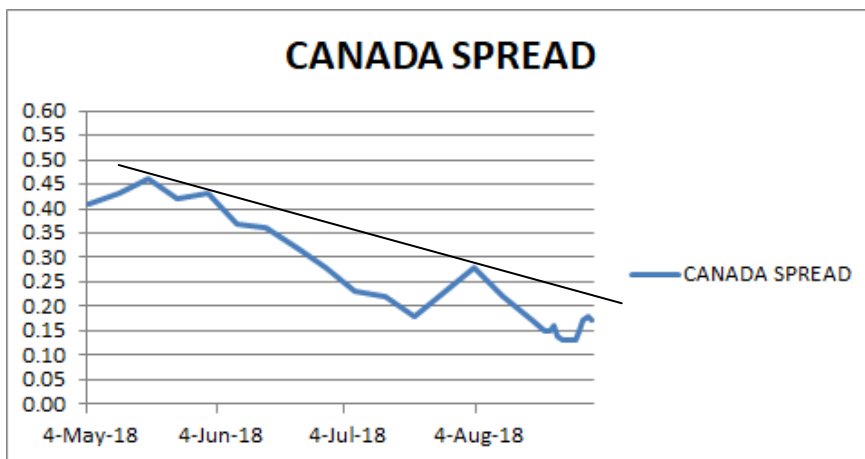
<continued>

Canadas 10-2 Yield Ratio

DATE	CANADA		
	10-YEAR	2-YEAR	DIFF
4-May-18	2.32	1.91	0.41
11-May-18	2.40	1.97	0.43
18-May-18	2.52	2.06	0.46
25-May-18	2.41	1.99	0.42
1-Jun-18	2.33	1.90	0.43
8-Jun-18	2.27	1.90	0.37
15-Jun-18	2.21	1.85	0.36
22-Jun-18	2.14	1.82	0.32
29-Jun-18	2.13	1.85	0.28
6-Jul-18	2.14	1.91	0.23
13-Jul-18	2.16	1.94	0.22
20-Jul-18	2.11	1.93	0.18
3-Aug-18	2.36	2.08	0.28
10-Aug-18	2.33	2.11	0.22
17-Aug-18	2.25	2.08	0.17
20-Aug-18	2.26	2.11	0.15
21-Aug-18	2.25	2.10	0.15
22-Aug-18	2.26	2.10	0.16
23-Aug-18	2.25	2.11	0.14
24-Aug-18	2.25	2.12	0.13
27-Aug-18	2.26	2.13	0.13
28-Aug-18	2.29	2.14	0.15
29-Aug-18	2.31	2.14	0.17
30-Aug-18	2.32	2.14	0.18
31-Aug-18	2.31	2.14	0.17



Similarly, the Canadas 10-2 spread is declining:



<continued>

U.S. Treasuries 10-2 Yield Ratio Since January 1, 2000

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 (shaded areas) that soon followed. Currently, despite the falling trend-line, there is still further to go to reach the inversion level and the possibility of a resulting recession. But, it continues to get closer.



- We are now experiencing the longest stock market up-trend in history, so it is natural to expect, eventually, that the economy will fall into recession. As the long-term chart above shows, once the 10-2 yield curve goes negative, an economic recession soon follows, but it is not coincidental and, interestingly, the recession occurs well after the yield curve has returned to positive and started a sharp rise. Also, as shown in early 2006 in the chart above, it can give a false positive. Despite the discouraging down-trend that is occurring, U.S. economic growth still continues positively and, therefore, the possibility of a near-term recession in the United States still seems remote at this point. However, we will continue to monitor that downward trend.
- There is growing angst among many market pundits that the U.S. Federal Reserve will have increasing difficulty fending off the risk of recession as inflation rises against the back-drop of: an economy at near capacity; unemployment at decade lows; two+ years of consecutive quarterly earnings and revenue beats/gains such that, going forward, positive comparisons will become more difficult to achieve; interest rates on the rise; and tariff threats infecting global trading arrangements and resulting in investment uncertainty.

eRESEARCH DISCLAIMER

eResearch Disclosure Statement

eResearch is engaged solely in the provision of equity research to the investment community. eResearch provides published research and analysis to its Subscribers on its website (www.eresearch.ca), and to the general investing public through its extensive electronic distribution network and through newswire agencies.

With regards to distribution of its research material, eResearch makes all reasonable efforts to provide its publications, via e-mail, simultaneously to all of its Subscribers.

eResearch does not manage money or trade with the general public, provides full disclosure of all fee arrangements, and adheres to the strict application of its Best Practices Guidelines.