

CHART OF THE DAY

September 14, 2018

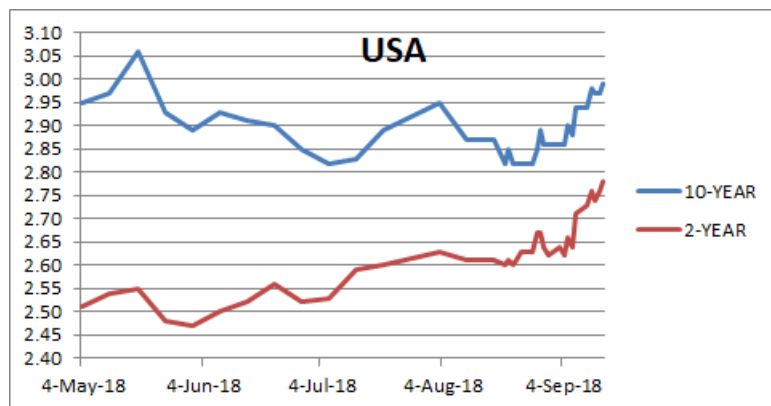
Spotlight on : 10-2 Yield Curve

- The ratio of 10-year U.S. Treasury yields to 2-year U.S. Treasury yields since August 29 has been in a very narrow range of 0.21x and 0.24x, and now sits at 0.21x. On June 1, the spread was 0.42x and, at the end of 2017, it was 0.51x.
- In Canada, the spread since August 29 also has been in a narrow range between 0.16x and 0.19x. Currently, the spread now stands at 0.18x. 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. However, since August 29, the yield curve has been moving sideways.
- 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.

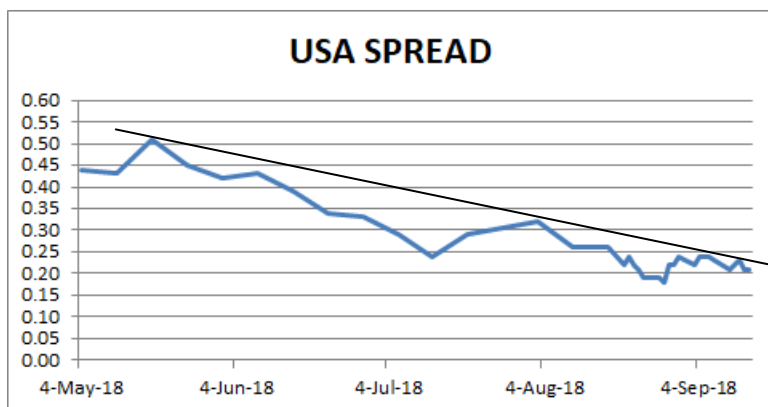
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U.S. Treasuries 10-2 Yield Ratio

<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
3-Sep-18	2.86	2.64	0.22
4-Sep-18	2.86	2.62	0.24
5-Sep-18	2.90	2.66	0.24
6-Sep-18	2.88	2.64	0.24
7-Sep-18	2.94	2.71	0.23
10-Sep-18	2.94	2.73	0.21
11-Sep-18	2.98	2.76	0.22
12-Sep-18	2.97	2.74	0.23
13-Sep-18	2.97	2.76	0.21
14-Sep-18	2.99	2.78	0.21



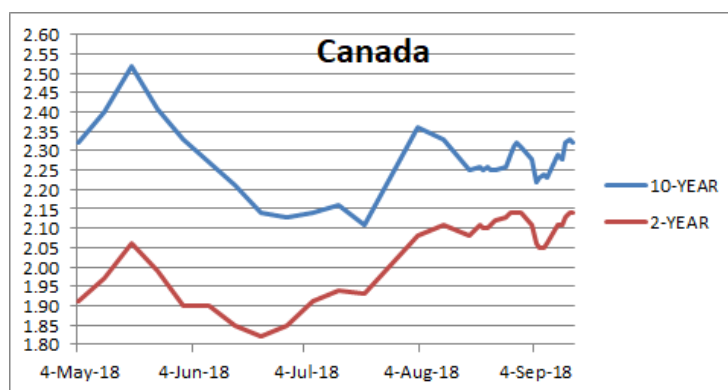
The U.S. Treasuries 10-2 spread has been moving sideways recently and, although it is currently above its recent low, it still remains below the down-trend line:



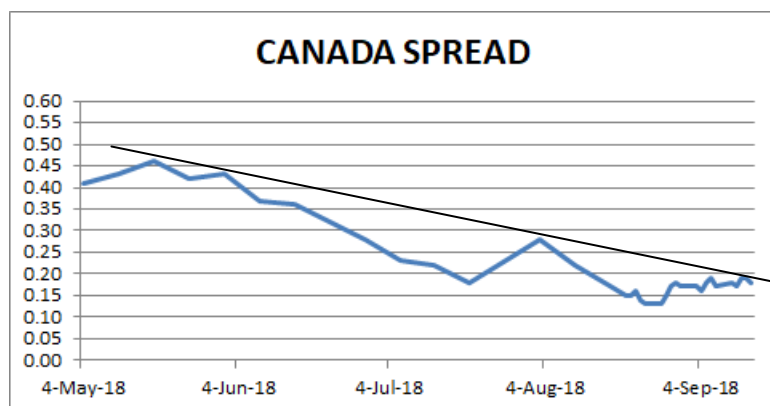
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Canadas 10-2 Yield Ratio

<u>DATE</u>	<u>10-YEAR</u>	<u>CANADA</u> <u>2-YEAR</u>	<u>DIFF</u>
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
3-Sep-18	2.28	2.11	0.17
4-Sep-18	2.22	2.06	0.16
5-Sep-18	2.23	2.05	0.18
6-Sep-18	2.24	2.05	0.19
7-Sep-18	2.23	2.06	0.17
10-Sep-18	2.29	2.11	0.18
11-Sep-18	2.28	2.11	0.17
12-Sep-18	2.32	2.13	0.19
13-Sep-18	2.33	2.14	0.19
14-Sep-18	2.32	2.14	0.18



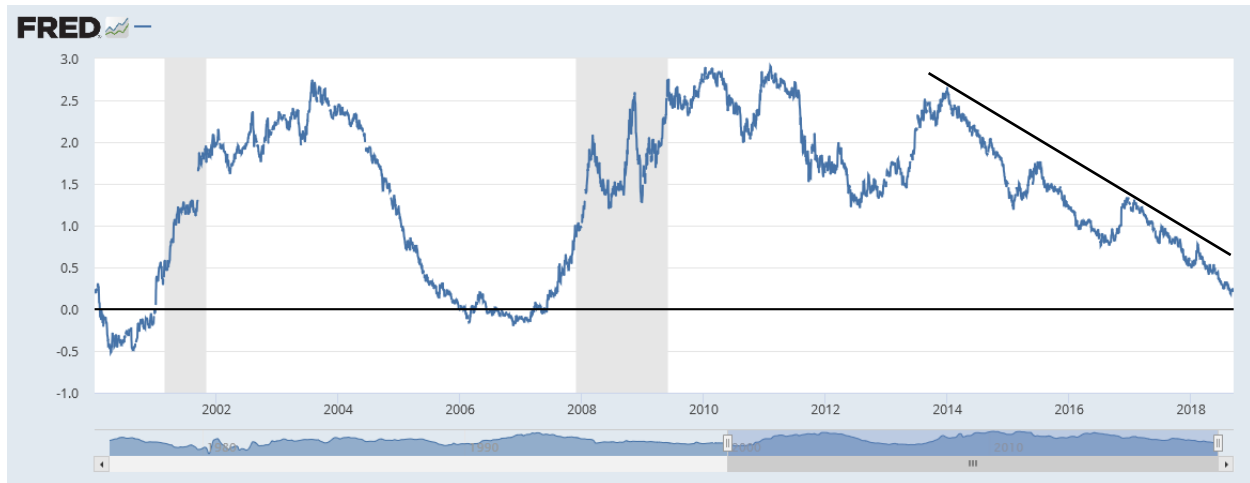
Similarly, the Canadas 10-2 spread is moving sideways but remains below the down-trend line:



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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, at 0.21x, 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.

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