

CHART OF THE DAY

November 9, 2018

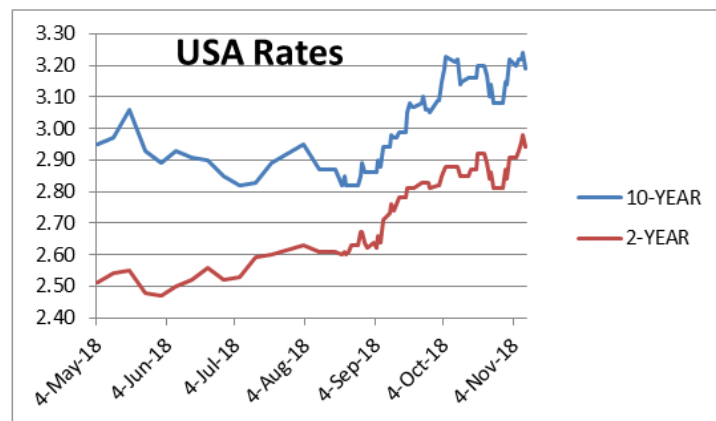
Spotlight on : 10-2 Yield Curve

COMMENT: The yield curve in both the USA and Canada has been rising since the beginning of September. In the USA, the 10-year yield cracked the bench-mark 3.00% level on September 18 and it has stayed above it ever since. The spread between the 10-year and the 2-year yield has remained fairly constant, between 0.26x and 0.35x, but mostly between 0.27x and 0.29x. Currently, it is 0.25x, which is far above levels associated with recessionary fears of a spread of 0.00x. So, no chance of a recession yet.

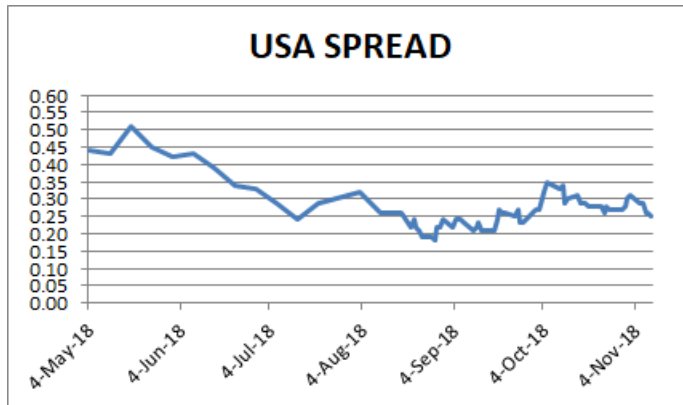
- The 10-year U.S. Treasuries yield has stayed above the bench-mark 3.00% level throughout October, going on a bit of a roller-coaster ride during the month. It reached a high of 3.23% on October 5, retreated to a low of 3.08% on October 26-30, and ended the month at 3.15%. On Friday, November 9, it was 3.19%.

DATE	USA		
	10-YEAR	2-YEAR	DIFF
1-Oct-18	3.09	2.82	0.27
2-Oct-18	3.09	2.82	0.27
3-Oct-18	3.15	2.85	0.30
4-Oct-18	3.19	2.87	0.32
5-Oct-18	3.23	2.88	0.35
9-Oct-18	3.21	2.88	0.33
10-Oct-18	3.22	2.88	0.34
11-Oct-18	3.14	2.85	0.29
12-Oct-18	3.15	2.85	0.30
15-Oct-18	3.16	2.85	0.31
16-Oct-18	3.16	2.87	0.29
17-Oct-18	3.16	2.87	0.29
18-Oct-18	3.16	2.87	0.29
19-Oct-18	3.20	2.92	0.28
22-Oct-18	3.20	2.92	0.28
23-Oct-18	3.17	2.89	0.28
24-Oct-18	3.10	2.84	0.26
25-Oct-18	3.14	2.86	0.28
26-Oct-18	3.08	2.81	0.27
29-Oct-18	3.08	2.81	0.27
30-Oct-18	3.08	2.81	0.27
31-Oct-18	3.15	2.87	0.28
1-Nov-18	3.14	2.84	0.30
2-Nov-18	3.22	2.91	0.31
5-Nov-18	3.20	2.91	0.29
6-Nov-18	3.22	2.93	0.29
7-Nov-18	3.22	2.96	0.26
8-Nov-18	3.24	2.98	0.26
9-Nov-18	3.19	2.94	0.25

May 1, 2018 - November 9, 2018



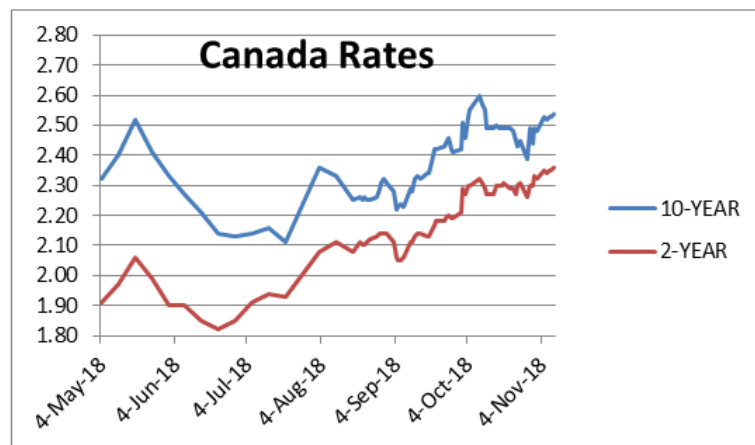
- The ratio of 10-year U.S. Treasury yields to 2-year U.S. Treasury yields on Friday, November 9 stood at 0.25x as compared to 0.27x at the beginning of October.



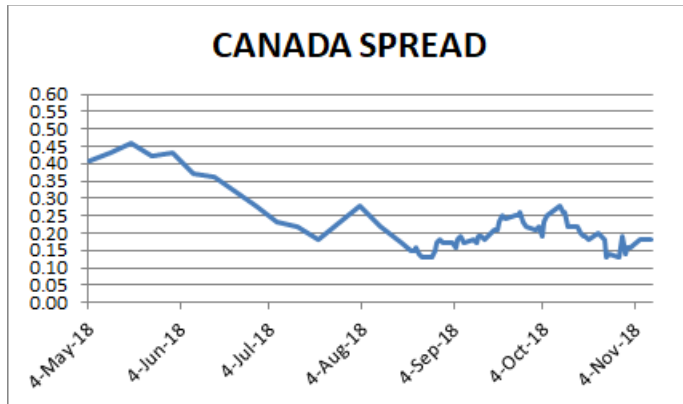
- Canadian rates generally followed the trend in the USA during October. As expected, the 10-year was more volatile than the 2-year. On October 1, the 10-year was 2.42% and by the end of the month, it was 2.44%. It ended Friday, November 9 at 2.48%. The 2-year started the month at 2.21%, ended it at 2.30%, and closed Friday at 2.36%.

<u>DATE</u>	<u>CANADA</u>		<u>DIFF</u>
	<u>10-YEAR</u>	<u>2-YEAR</u>	
1-Oct-18	2.42	2.21	0.21
2-Oct-18	2.51	2.29	0.22
3-Oct-18	2.46	2.27	0.19
4-Oct-18	2.53	2.30	0.23
5-Oct-18	2.55	2.30	0.25
9-Oct-18	2.60	2.32	0.28
10-Oct-18	2.57	2.31	0.26
11-Oct-18	2.55	2.29	0.26
12-Oct-18	2.49	2.27	0.22
15-Oct-18	2.49	2.27	0.22
16-Oct-18	2.50	2.30	0.20
17-Oct-18	2.49	2.30	0.19
18-Oct-18	2.49	2.30	0.19
19-Oct-18	2.49	2.31	0.18
22-Oct-18	2.49	2.29	0.20
23-Oct-18	2.48	2.29	0.19
24-Oct-18	2.45	2.27	0.18
25-Oct-18	2.43	2.30	0.13
26-Oct-18	2.45	2.31	0.14
29-Oct-18	2.39	2.26	0.13
30-Oct-18	2.49	2.30	0.19
31-Oct-18	2.44	2.30	0.14
1-Nov-18	2.49	2.33	0.16
2-Nov-18	2.48	2.32	0.16
5-Nov-18	2.53	2.35	0.18
6-Nov-18	2.52	2.34	0.18
7-Nov-18	2.53	2.35	0.18
8-Nov-18	2.53	2.35	0.18
9-Nov-18	2.54	2.36	0.18

May 1, 2018 - November 9, 2018



- In Canada, the spread on October 1 was 0.21x. On October 31, it was 0.14x, quite a dramatic narrowing. On November 9, it was 0.18x.



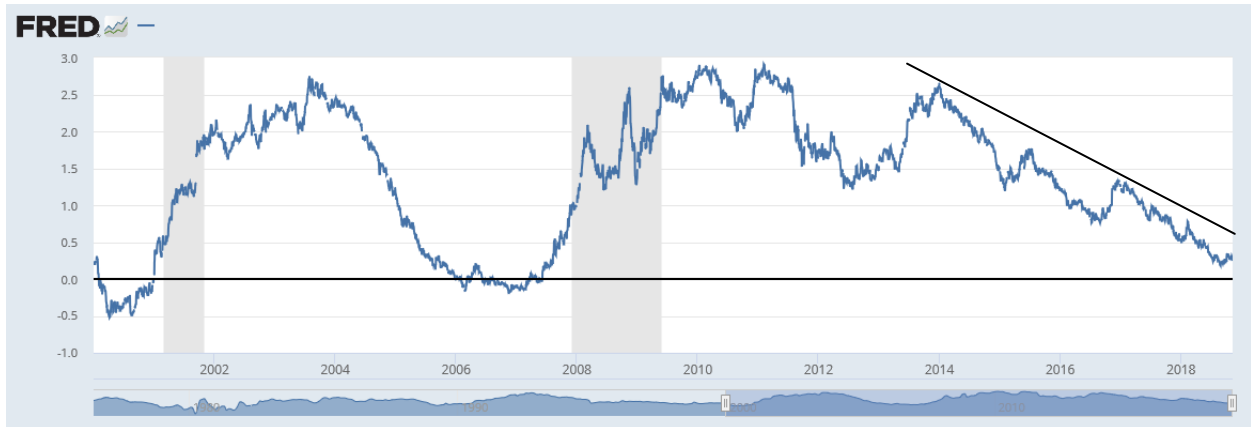
COMMENTARY

- 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 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. The current ratio is 0.25x, down from 0.31x last week.



- Even with the recent pull-back, we are still experiencing the longest stock market up-trend in history. To date, the S&P 500 Index, as shown below, has retreated only 5.4% from its recent all-time high. A decline of 20% is required before a bear market is declared. However, after such an extended period of growth, 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 currently 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.





- 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; interest rates on the rise; tariff threats infecting global trading arrangements and resulting in investment uncertainty; and two+ years of consecutive quarterly earnings and revenue beats/gains such that, going forward, positive comparisons will become more difficult to achieve.

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