CHART OF THE DAY

November 16, 2018

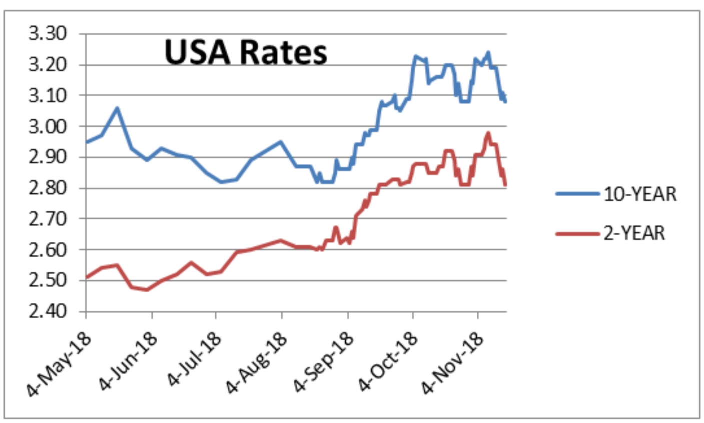
Spotlight on : 10-2 Yield Curve

COMMENT: *Over the past week, yields in both the USA and Canada have been falling. However, U.S. spreads (i.e., the difference between 10-year yields and 2-year yields) have pretty much stayed the same, around 0.25x. However, spreads in Canada for the same two metrics have been falling, to the current 0.14x. These levels, for both countries, are still well above levels associated with recessionary fears, being a spread of 0.00x. So, there is no chance of a recession on the horizon.*

● The 10-year U.S. Treasuries yield rose above the bench-mark 3.00% level on September 18 and has remained north of that mark ever since. Its high was 3.23% on October 5, and then generally retreated to a low of 3.08% on October 26-30, ended the month at 3.15%, and rose back to eclipse the early October high and reach 3.24% on November 8. Guess what? On Friday, November 16, it had tumbled all the way back to 3.08%. Its current trend suggests that it could go back to test the 3.00% level.

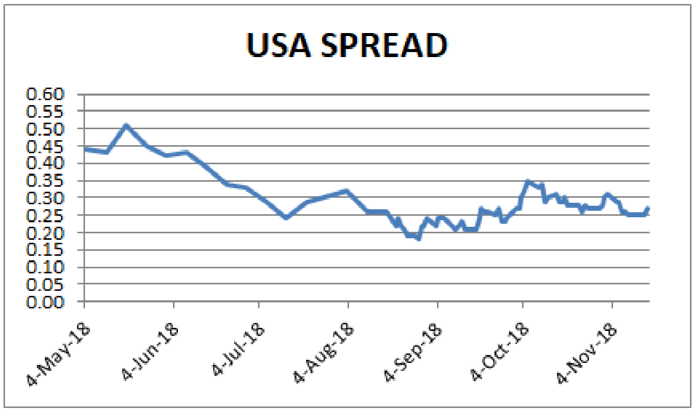
DATE	USA		
	10-YEAR	2-YEAR	DIFF
17-Oct-18	3.16	2.87	0.29
18-Oct-18	3.17	2.87	0.30
19-Oct-18	3.20	2.92	0.28
22-Oct-18	3.20	2.92	0.28
23-Oct-18	3.17	2.89	0.28
24-Oct-18	3.10	2.84	0.26
25-Oct-18	3.14	2.86	0.28
26-Oct-18	3.08	2.81	0.27
29-Oct-18	3.08	2.81	0.27
30-Oct-18	3.08	2.81	0.27
31-Oct-18	3.15	2.87	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
12-Nov-18	3.19	2.94	0.25
13-Nov-18	3.14	2.89	0.25
14-Nov-18	3.09	2.84	0.25
15-Nov-18	3.11	2.86	0.25
16-Nov-18	3.08	2.81	0.27

May 1, 2018 – November 16, 2018



*e*Research Corporation
78 Cameron Crescent, Suite 202 • Toronto, Ontario • M4G 2A3
Telephone: 416-703-6258 • www.eresearch.ca

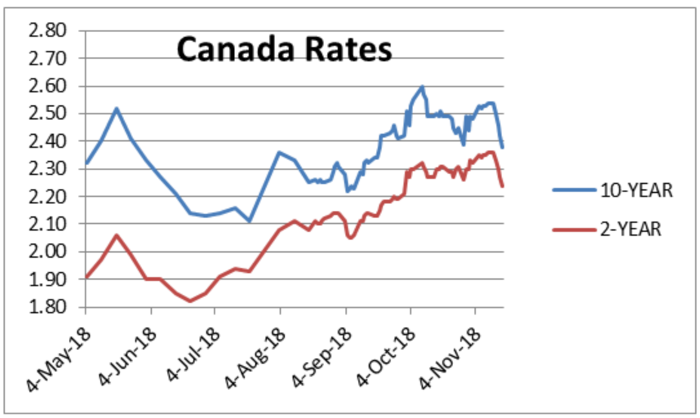
● The ratio of 10-year U.S. Treasury yields to 2-year U.S. Treasury yields on Friday, November 16 stood at 0.27x as compared to 0.29x a month ago. The next chart shows the spread differentials since the beginning of May 2018.



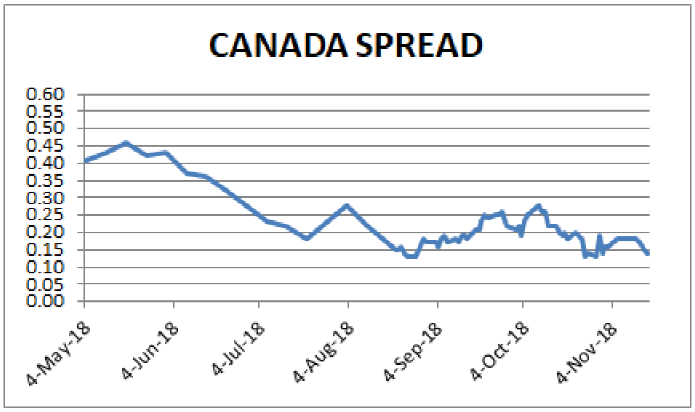
● The trend in Canadian rates differed from the trend in the USA over the past month. In the middle of October, the 10-year was 2.49% and on Friday, November 9, it is now 2.38%. The 2-year over the past month started at 2.30%, and closed Friday at 2.24%. The spreads are narrowing in Canada and are not in the USA.

DATE	-------------- CANADA --------------		
	10-YEAR	2-YEAR	DIFF
17-Oct-18	2.49	2.30	0.19
18-Oct-18	2.51	2.31	0.20
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
12-Nov-18	2.54	2.36	0.18
13-Nov-18	2.50	2.33	0.17
14-Nov-18	2.46	2.30	0.16
15-Nov-18	2.42	2.27	0.15
16-Nov-18	2.38	2.24	0.14

May 1, 2018 - November 16, 2018



● In Canada, the spread in mid-October was 0.19x. On November 16, it was 0.14x.



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.

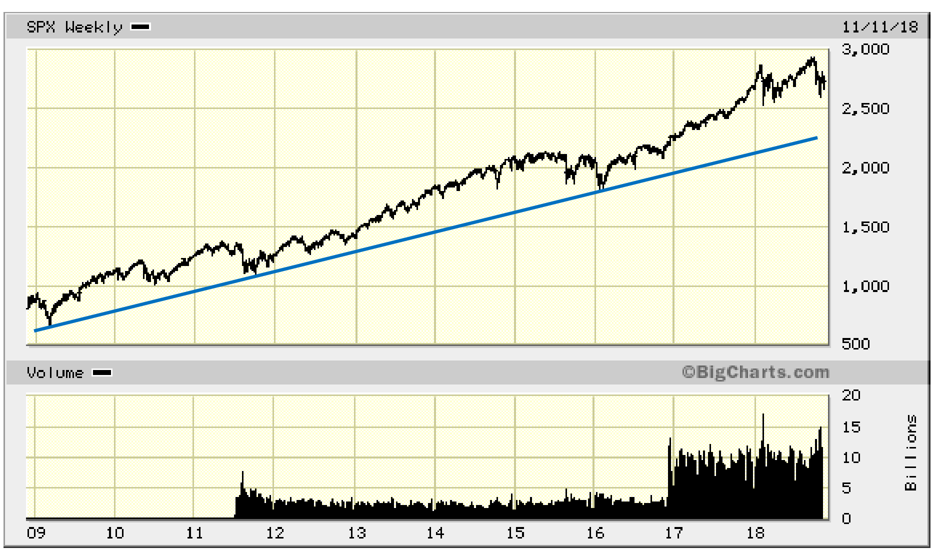
● Historically, inversions of the yield curve have preceded many U.S. recessions. Thus, the yield curve is considered an important barometer for predicting turning points in the business cycle.

<continued>

U.S. Treasuries 10-2 Yield Ratio Since January 1, 2000 (18 Years)

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 0.27x, up from 0.25x 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 7.0% 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.



For clarity, let us have a look at the chart for the past five years, corresponding to about when the current down-trend started. Since the end of august, the spread rose slightly and then has trended sideways. The overall trend still portends a coming recession, but until it approaches 0.00x, that risk is not on the cards.

● 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. Under these circumstances, unless economic growth slows significantly over the next six months or so, there is the likelihood of the Fed slowly increasing interest rates.

*e*RESEARCH DISCLAIMER

*e*Research is engaged solely in the provision of equity research to the investment community. *e*Research 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, *e*Research makes all reasonable efforts to provide its publications, via e-mail, simultaneously to all of its Subscribers.

*e*Research 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.