Technical Speculator
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TS Model Portfolios

U.S. Yield Curve concerns

Overview: Inversion

The inversion of the U.S. Yield Curve is the biggest threat to the secular bull market.
This reversal of short term (3-6 months) rates being higher than longer (20-30 year) is a signal of concern. This rate flip occurred in late August. Many economists and market analysis use the shorter time of 10 years verses 20 and 30. In that case, short term rates were higher the long term in early August.
This action shows that investors are losing confidence in the economy.

Why is this happening?

Longer term Treasury yields have been falling this year, largely due to worries that economic growth is slowing around the world. When investors become nervous, they move away from riskier assets like stocks and flock to safe havens like U.S. T-bills, which are among the safest investments. Higher demand raise the price which lowers the yields (**Chart 1**).

Shorter-term rates in contrast, are more influenced by the FOMC rather than investors. And the Fed has raised short-term rates seven times over the past two years to help control the growth of the U.S. economy. The good news is that the Fed has signalled that there will be no more rate increases in 2019. However, if investors continue to feel concerned about the economy, demand for long bonds prices will advance and yields will remain weak.

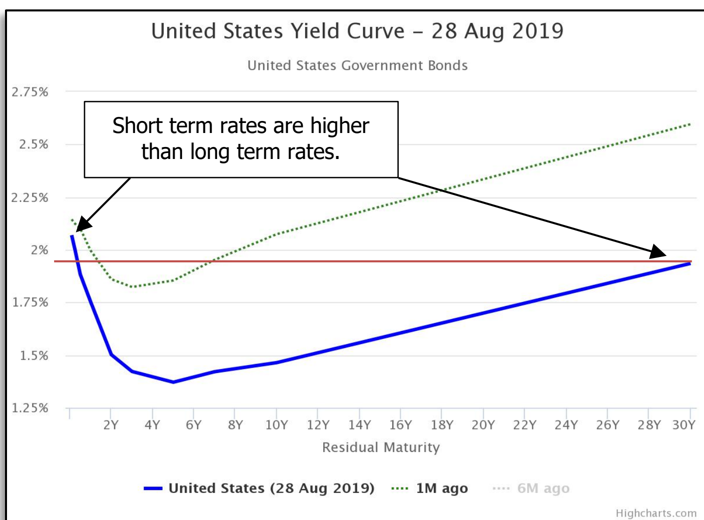

Chart 1

Mounting economic issues

The signs of a U.S. slow down are many. Business confidence (**Chart 2**), a key driver of the economy, has been dropping since mid-2018. This affects hiring new employees, inventories, business expansion plans and many more items.

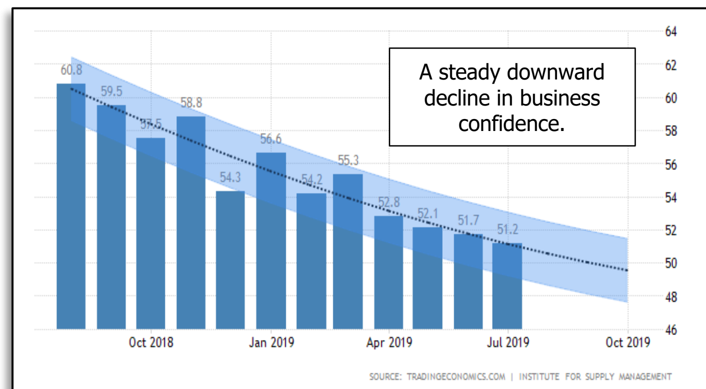

Chart 2

Consumer spending represent the largest component of GDP. This index is just now starting to weaken. This gauge peaked in mid-2018 and lower levels are expected going into Q1 (**Chart 3**).

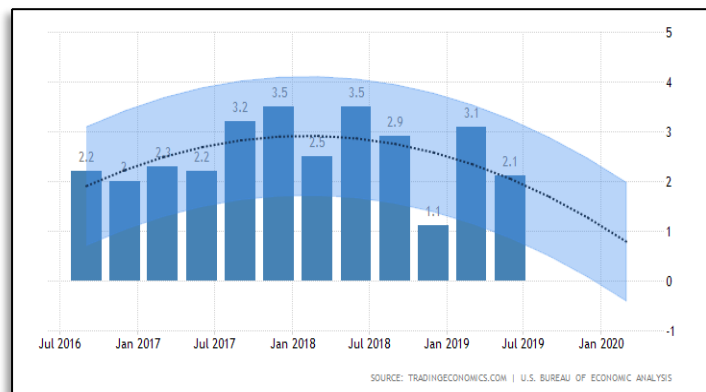

Chart 3

Though there are still plenty of signs of lasting economic strength, (unemployment rate is 3.70%, inflation is low at 1.80% and retail sales YoY are firm). Nevertheless, more and more key economic gauges are pointing to the slowdown for the U.S. economy in the months to come.

The stock market, as a leading indicator on the economy, still indicates no major recession or economic downturn.