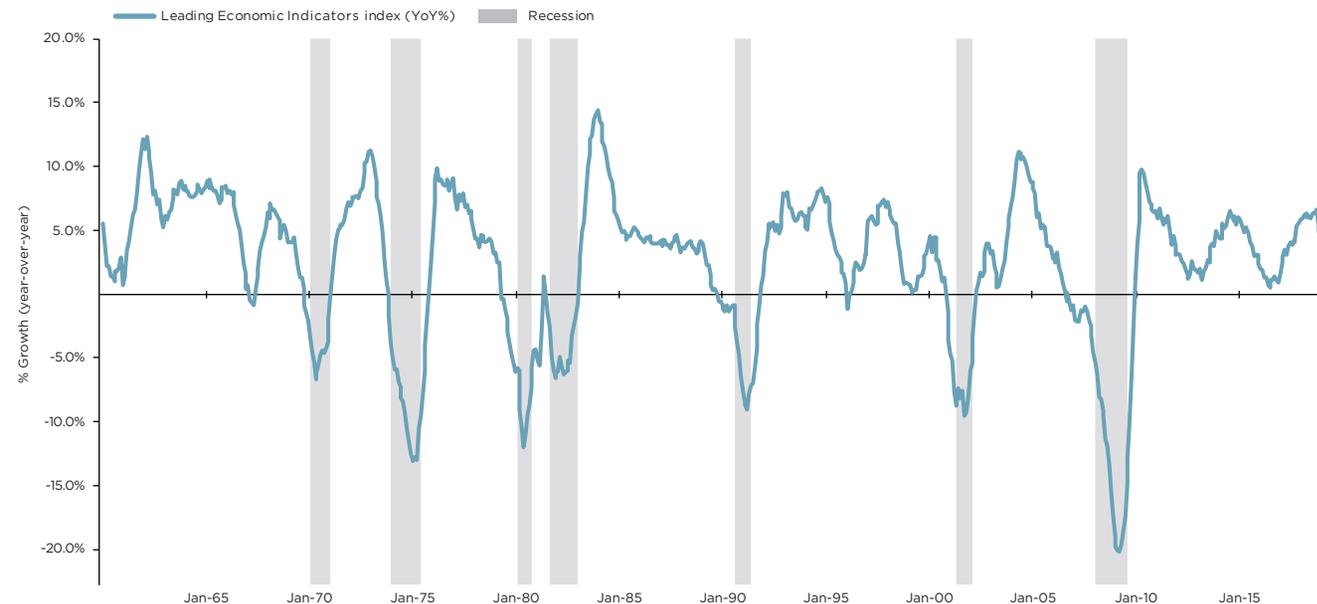


Looking past the yield curve's blind spot



The yield curve can be a useful recession signal, but right now there's more than meets the eye.

Index of leading economic indicators, year-over-year % change
1960 through February 2019



Since the end of last month, investors have fixated on the inverted yield curve, which has a nearly flawless record of signaling recessions over the last 50 years. Usually at this stage of past business cycles, yields on shorter-term Treasuries rise at twice the pace of longer-term yields, as the Fed tightens rates to hold off inflation. That's not happening in the current cycle.

It's rarely advisable to say "it's different this time," but there are unique circumstances affecting interest rates at present. Inflation is practically non-existent, allowing long-term rates to remain low. Plus, an insatiable appetite for income-producing assets and super-accommodative monetary policies around the world have acted as an anchor for rates across the board.

Another effective (not as popular) recession gauge is the index of leading economic indicators. This index represents 10 data points, not just one, so it presents a broader picture of the economy than the yield curve. Since 1970, the index has turned negative in advance of all U.S. recessions with one exception. At present, the index is at +3%, above its average since the last recession.



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