Stirling Bridge
Wealth Partners, LLC

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Mixed Signals. Or, Versions of Inversions.

Ah, the dreary lost art of two-way communication! Some of us recall the good ol' days when arguments between man and woman, husband and wife could be caused by a more limited field of misunderstandings. A glance here. A forgotten task there. A harsh word spoken. A kind phrase withheld. However, with instant electronic technology, it seems we have not improved our ability to communicate clearly to one another. Instead, we have added more dizzying layers of complexity to our already difficult task of conveying well-wishes or concerns or needs.

The same complicating phenomenon that is evolving between men and women is impacting our financial world. Signals (whether weak, robust, or mixed) are spewed forth throughout the globe with nary a millisecond allowed for moderation or reflection.

Lately, press reports have been chock full of tales of a yield curve inversion (a somewhat rare instance when short term interest rates are higher than long term rates). Most specifically by the end of March, the 3-month Treasury yielded a smidge more than the 10-year. For those of you who have paid attention, you might recall that we have endorsed an inverted yield curve as a fairly valuable signal of a possible coming recession.

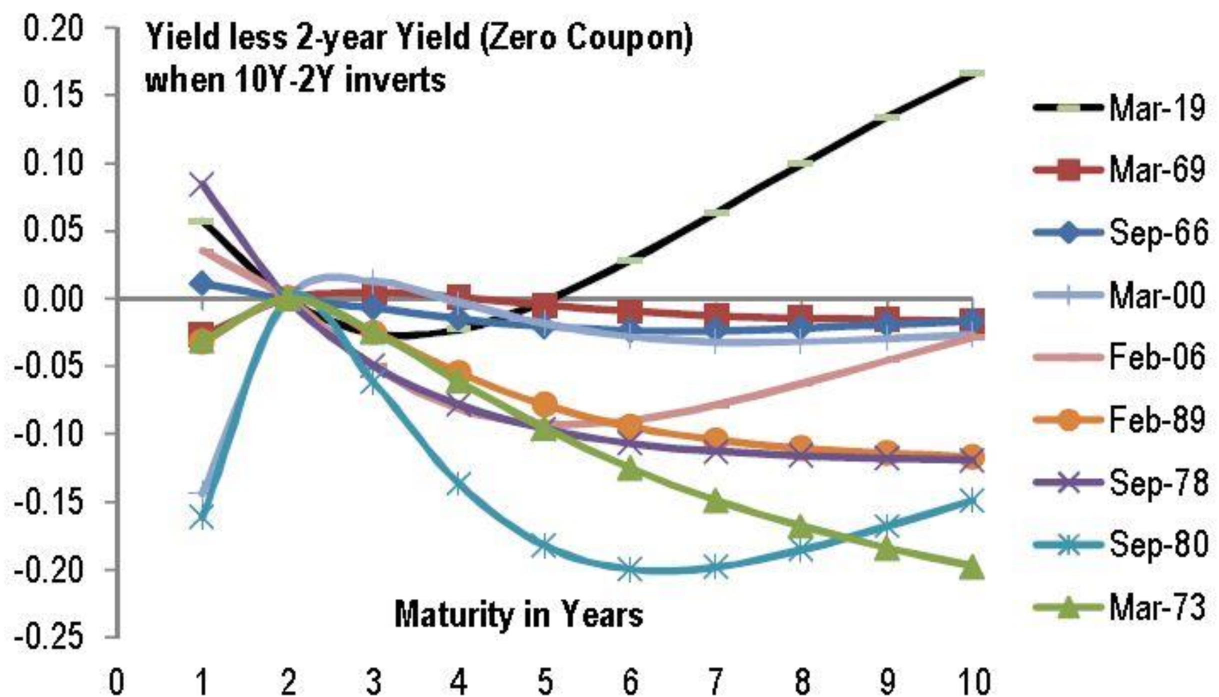
Apparently, many commentators have suddenly taken up this same mantra. And we still ascribe to the value of the shape of the yield curve as an important tool in our forecasting tool chest. It turns out, however, that we must be a little more precise in our speech. When we have used the phrase *inverted yield curve*, we have meant two specific things. First, we have meant that the 1- or 2-year Treasury yields more than the 10-year. AND, second, the overall shape of the curve from beginning to end is downward sloping.

Neither of those is the case at this time.

Nearby is a busy chart. But it does a respectable job at differentiating the current yield curve with previous inversions. By the way, the chart comes to us from a long report courtesy of JP Morgan and we thank them for sharing it with us.

Figure 13: Historical Pattern of Yield Curve When 10Y-2Y Inverts

Yields Based on Monthly Average



Source: J.P. Morgan US Equity Strategy and Quantitative Research

A cursory glance tells us that the March 2019 yield curve remains sharply upward sloping over most of its length compared to several recent inversions. And that is the point.

When an inverted yield curve is actually the strongest, most robust signal for a coming recession is when it is downward sloping over the majority of its length AND when the 1- or 2-year Treasury yields more than the 10-year. That level of detail has been

completely lost on the popular press as they warn of pending doom. They seem to assume a recession is now a fait accompli.

Will we have a recession? Of course. But the current yield curve and current economic and market environments are NOT signaling such an event. Should short term rates remain high and long term rates fall further, then we could say with confidence that the historic signal has surfaced and even strengthened. Absent such a change, we continue to believe the expansion might continue a little longer.

And so, as you go through your day communicating or being communicated to, consider all the ways the message may be getting garbled by the medium itself. You may discover that the signals you are sending and receiving are not entirely what anyone intended.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely

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