

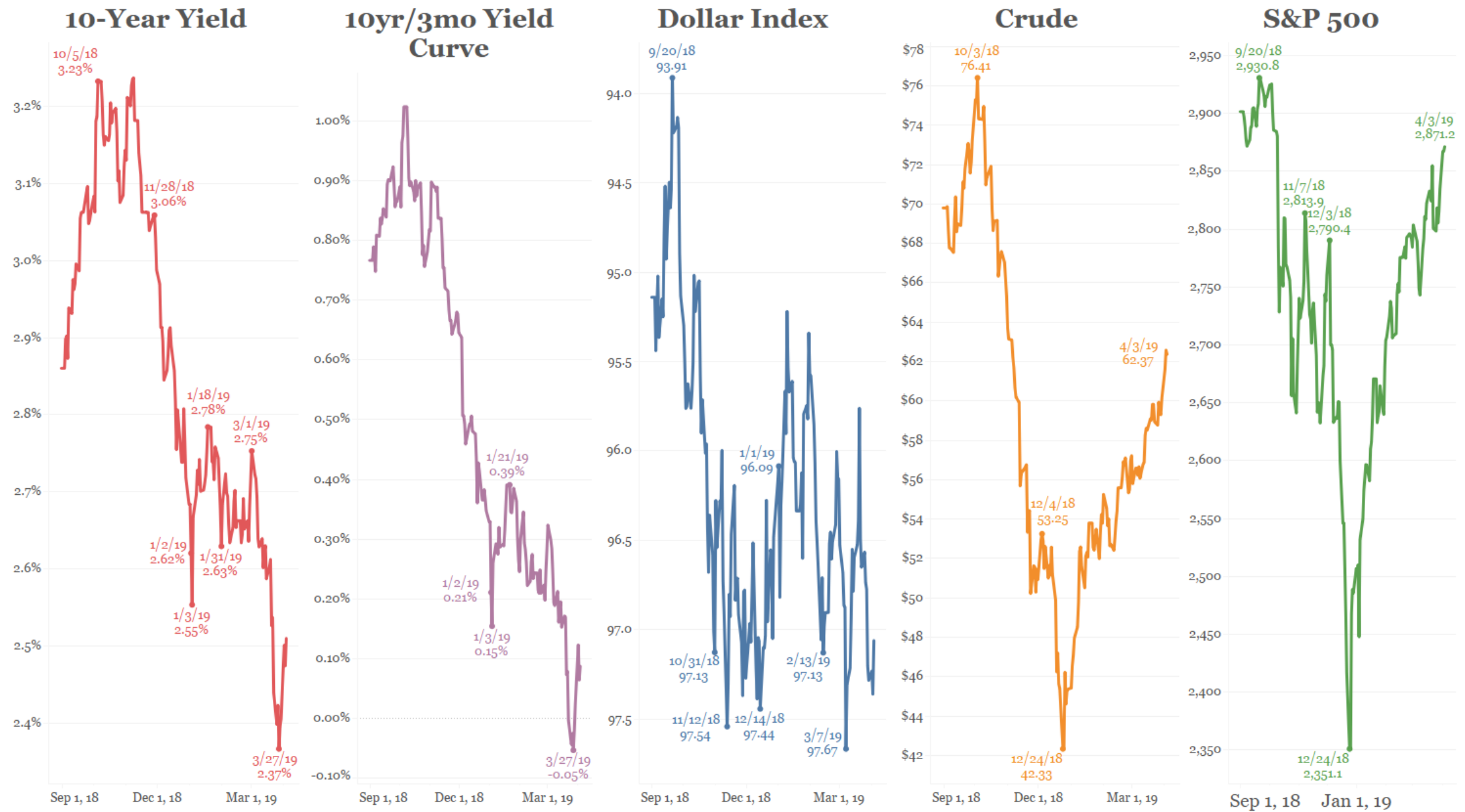
James Bianco

Recession, The Economy and the Yield Curve

Financial Markets Conference – NDSU
April 4, 2019



- **Divergent Markets**
Stocks and bonds offer different messages
- **Is the Economy Showing Recession Signals?**
No, but remember that recessions occur because economies are “murdered”
- **Is An Earnings Recession Coming?**
Not yet but still possible
- **The Economy**
Slowing in the US, Worse overseas
- **Fed Policy**
A Cut is expected by the markets. A hike by the Economists
- **What Does The Yield Curve Mean?**
The Fed is too tight



Source: Bloomberg

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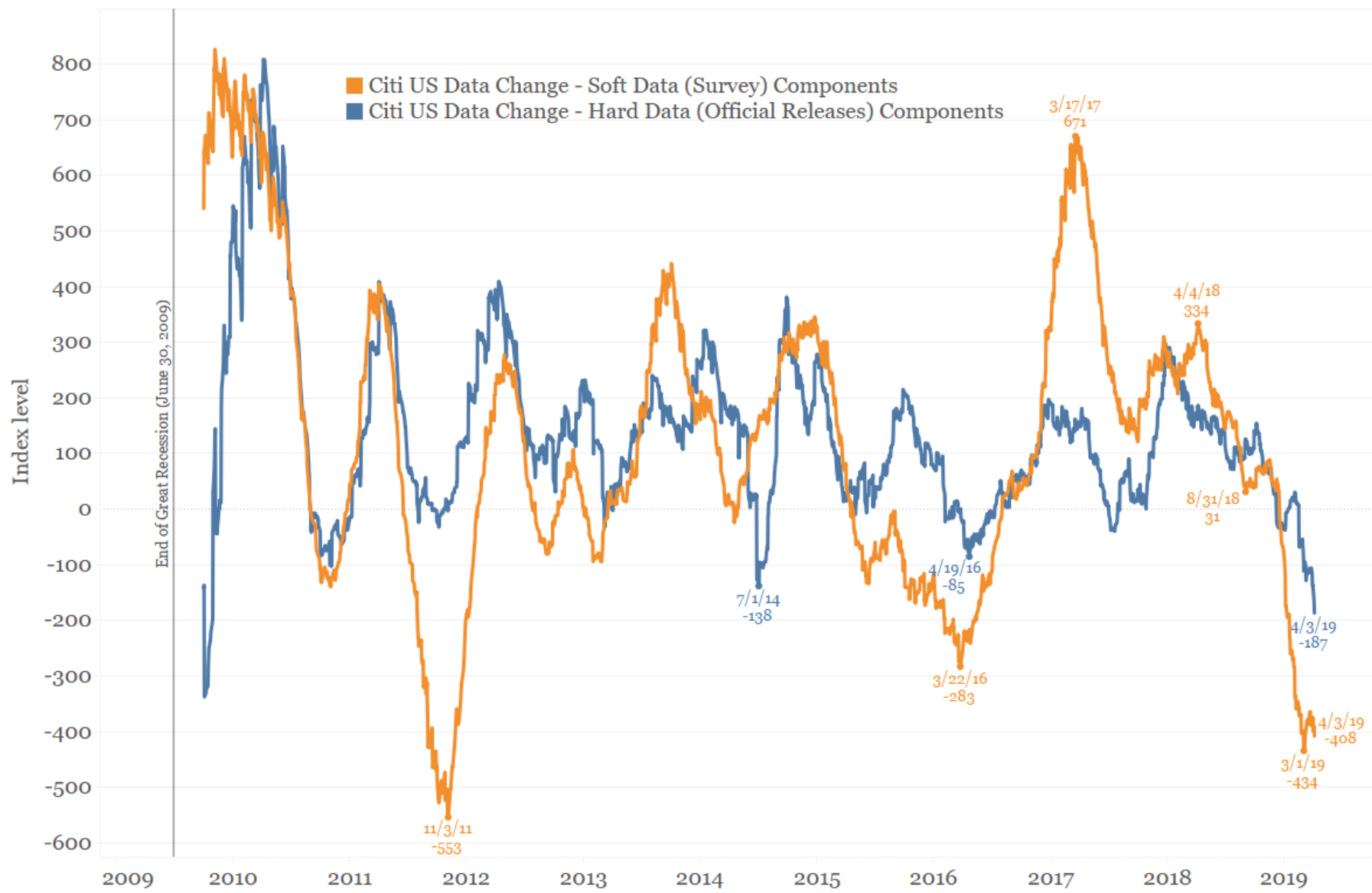
*“There’s really **no reason to think that this cycle can’t continue for quite some time, effectively indefinitely,**”*
Powell said Wednesday at an event in Washington hosted by The Atlantic magazine and the Aspen Institute.
– [Bloomberg](#), October 4, 2018

*I don’t think that expansions just die of old age. Two things usually end them. One is financial imbalances and the other is the Fed, and usually when the Fed ends a recession — ends an expansion, it’s because inflation has gotten out of control and the Fed needs to tighten to bring it down. – **Janet Yellen, January 4, 2019***

*But as Janet says, expansions don’t die of old age. I’d like to say they get murdered, instead. – **Ben Bernanke, January 4, 2019***

Survey-Based Data Collapsing

Citi US Data Change Indices

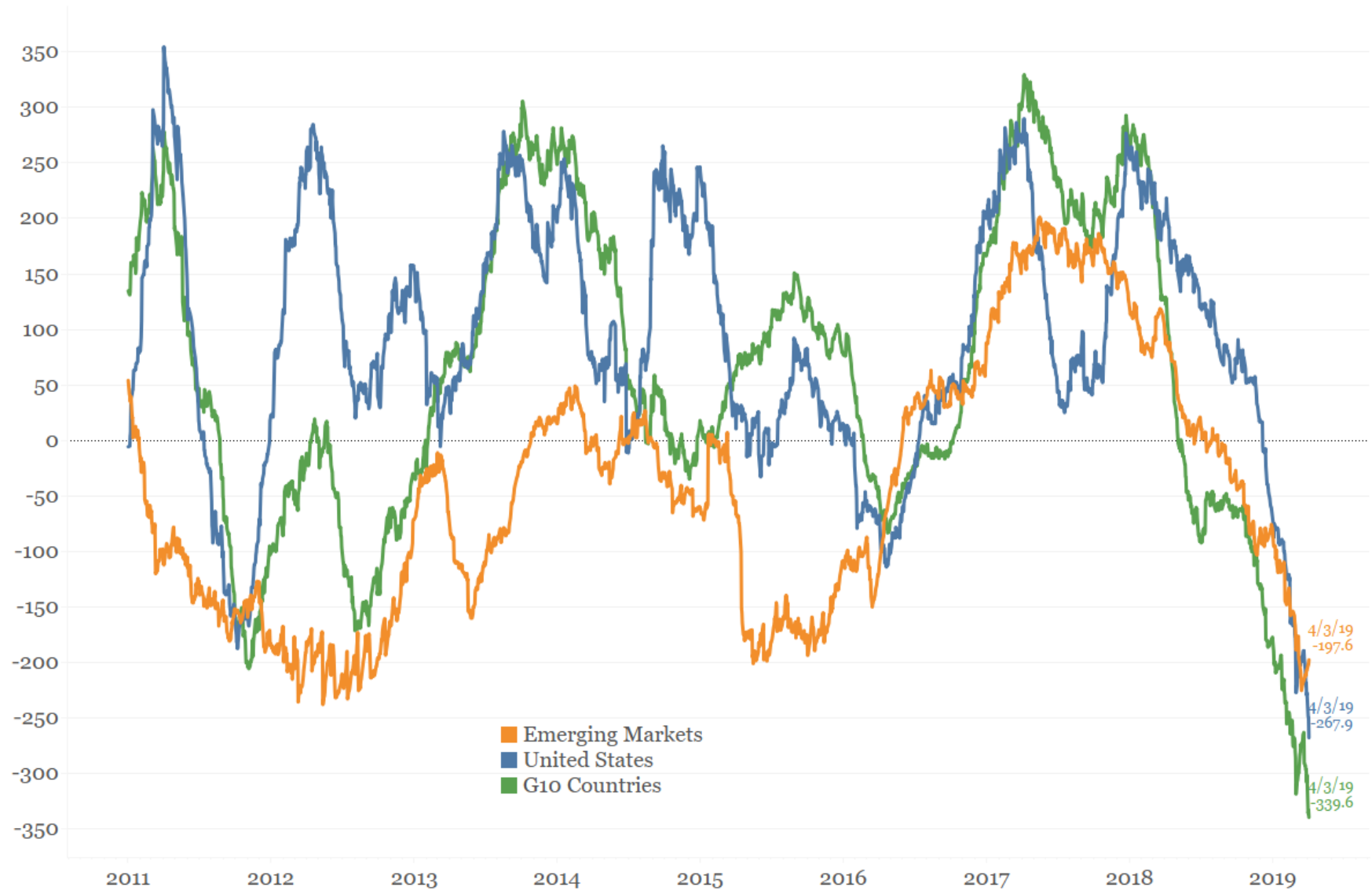


Data Source: Citigroup, Bloomberg

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Economic Growth Trends

Citigroup Economic Data Change Indices

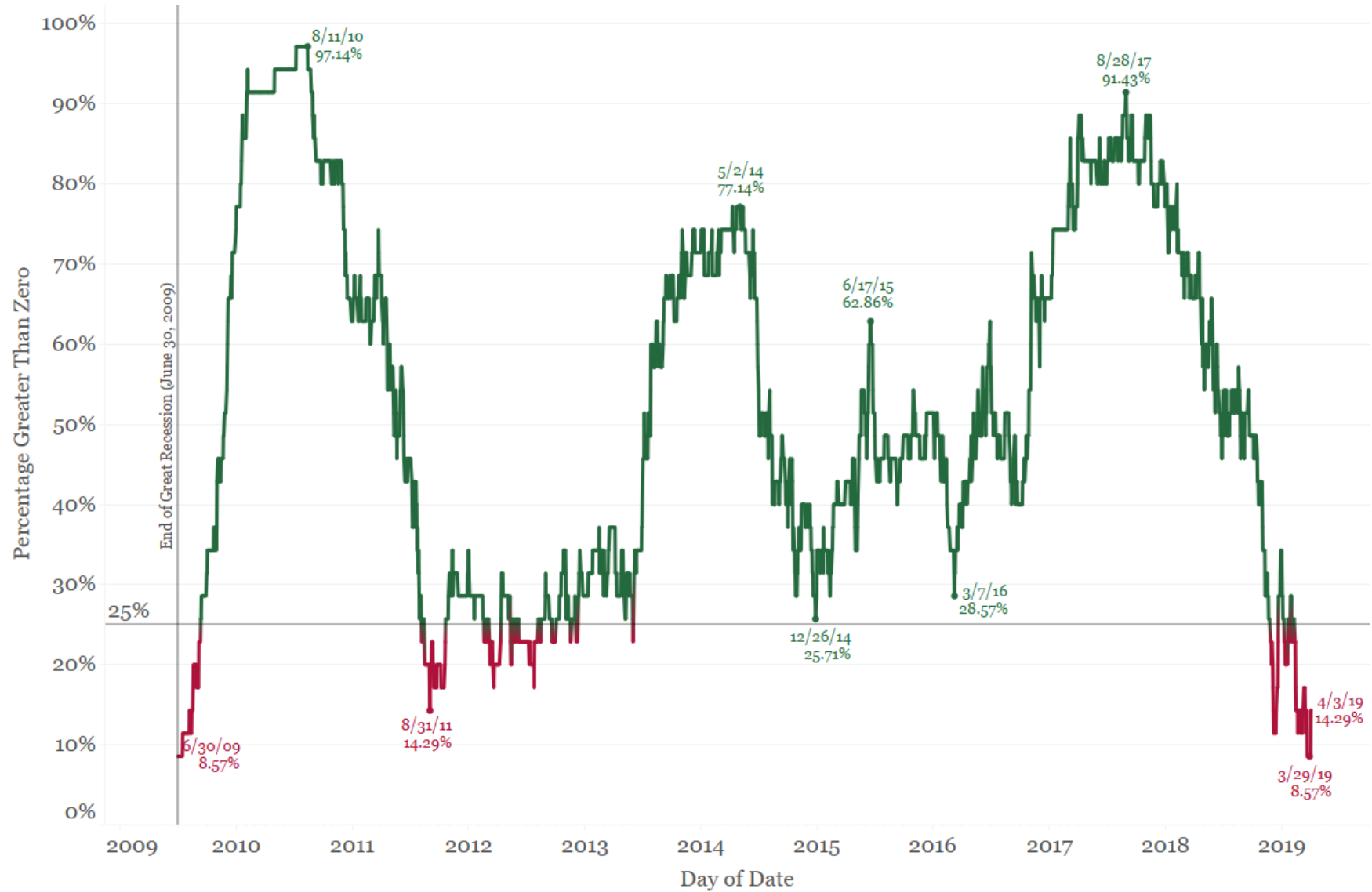


Data Source: Citigroup and Bloomberg

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Percentage of Citi Data Change Measures Above Zero Worldwide

Citigroup tracks over 40 worldwide measures of economic Growth



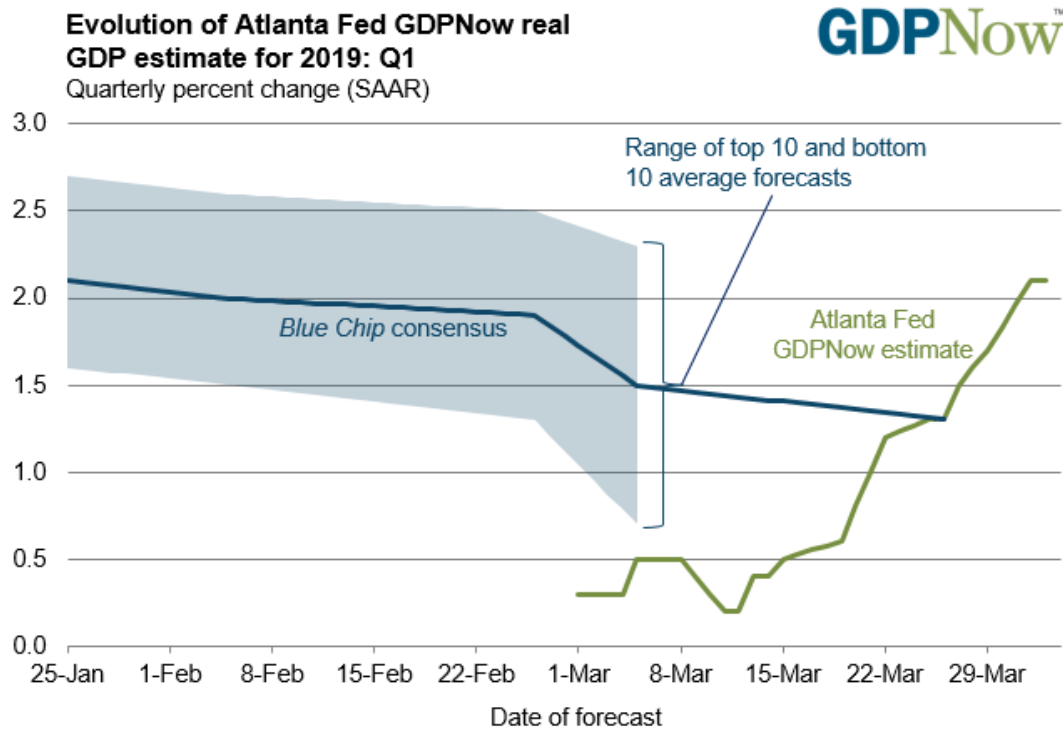
Data Source: Citigroup and Bloomberg

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Latest forecast: 2.1 percent — April 2, 2019

The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the first quarter of 2019 is 2.1 percent on April 2, unchanged from April 1. After this morning's advance durable manufacturing report from the U.S. Census Bureau, the nowcast of first-quarter real nonresidential equipment investment growth inched up from 3.7 percent to 4.0 percent, and the nowcast of the contribution of inventory investment to first-quarter real GDP growth inched down from 0.27 percentage points to 0.21 percentage points.

The next GDPNow update is **Monday, April 8**. Please see the "Release Dates" tab below for a list of upcoming releases.



Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

Mar 29, 2019: New York Fed Staff Nowcast

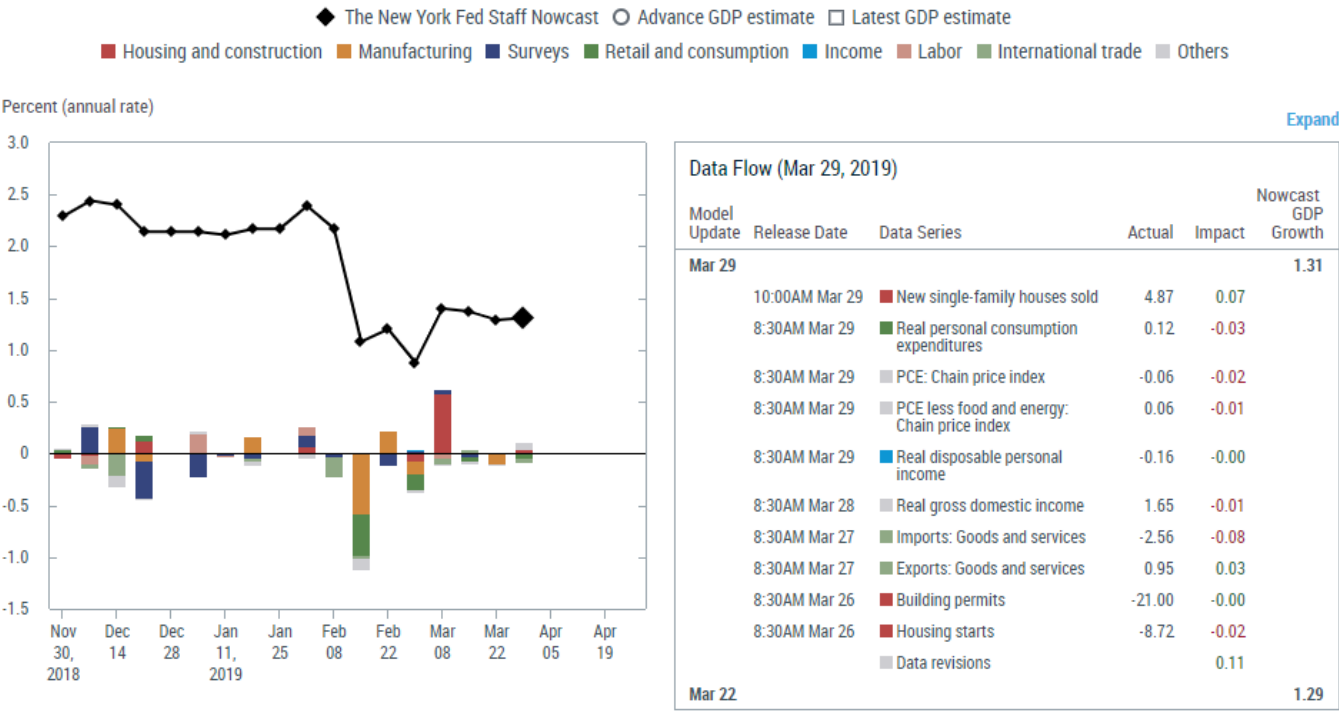
- The New York Fed Staff Nowcast stands at 1.3% for 2019:Q1 and 1.6% for 2019:Q2.

[+ MORE](#)

2019:Q2 | 2019:Q1 | 2018:Q4 | 2018:Q3

Last Release 11:15am EST Mar 29, 2019

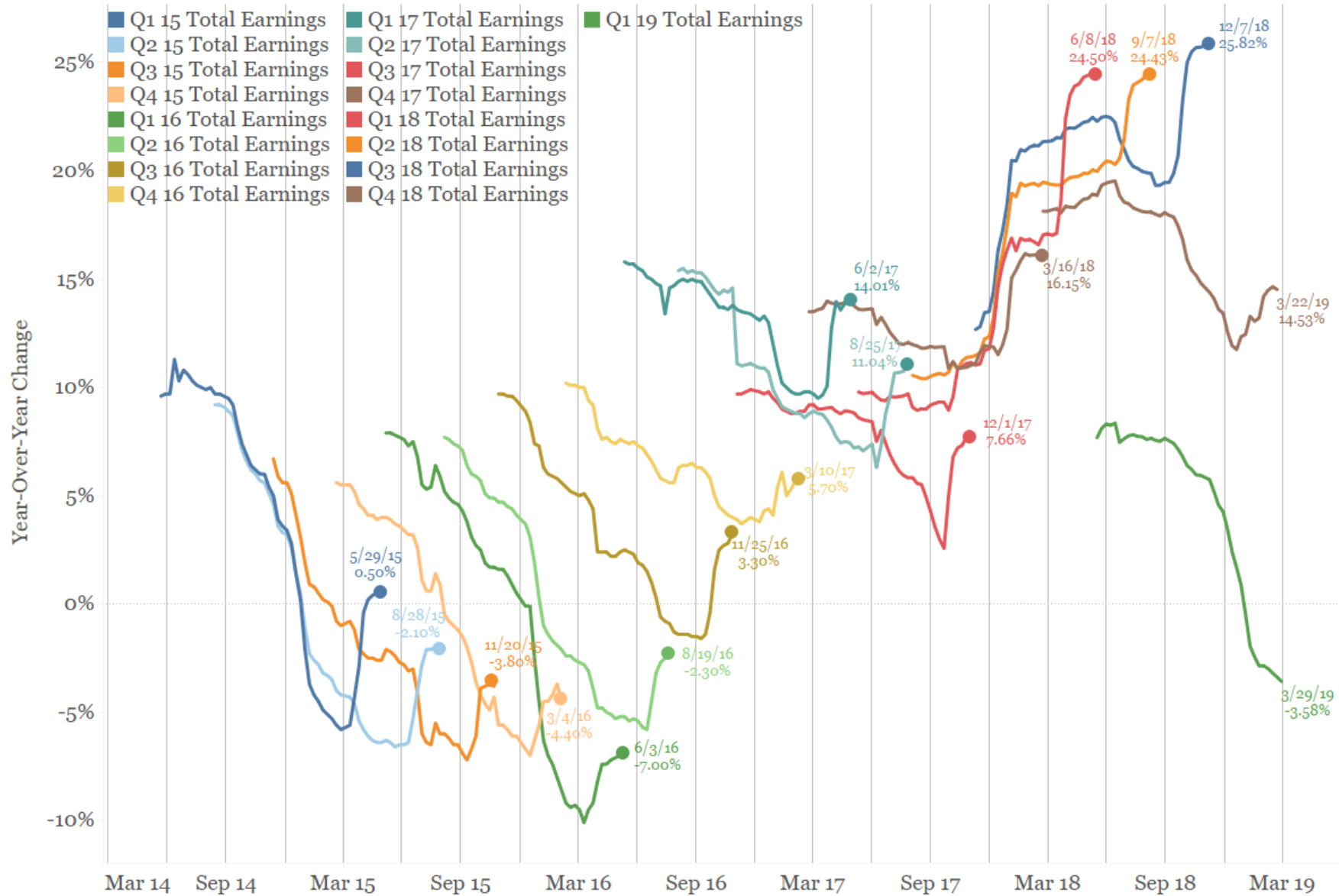
[+ ARCHIVE](#) [LAYOUT](#)



Source: Authors' calculations, based on data accessed through Haver Analytics.

Notes: We start reporting the nowcast for a reference quarter about one month before the quarter begins; we stop updating it about one month after the quarter closes. Colored bars reflect the impact of each broad category of data on the nowcast; the impact of specific data releases is shown in the accompanying table.

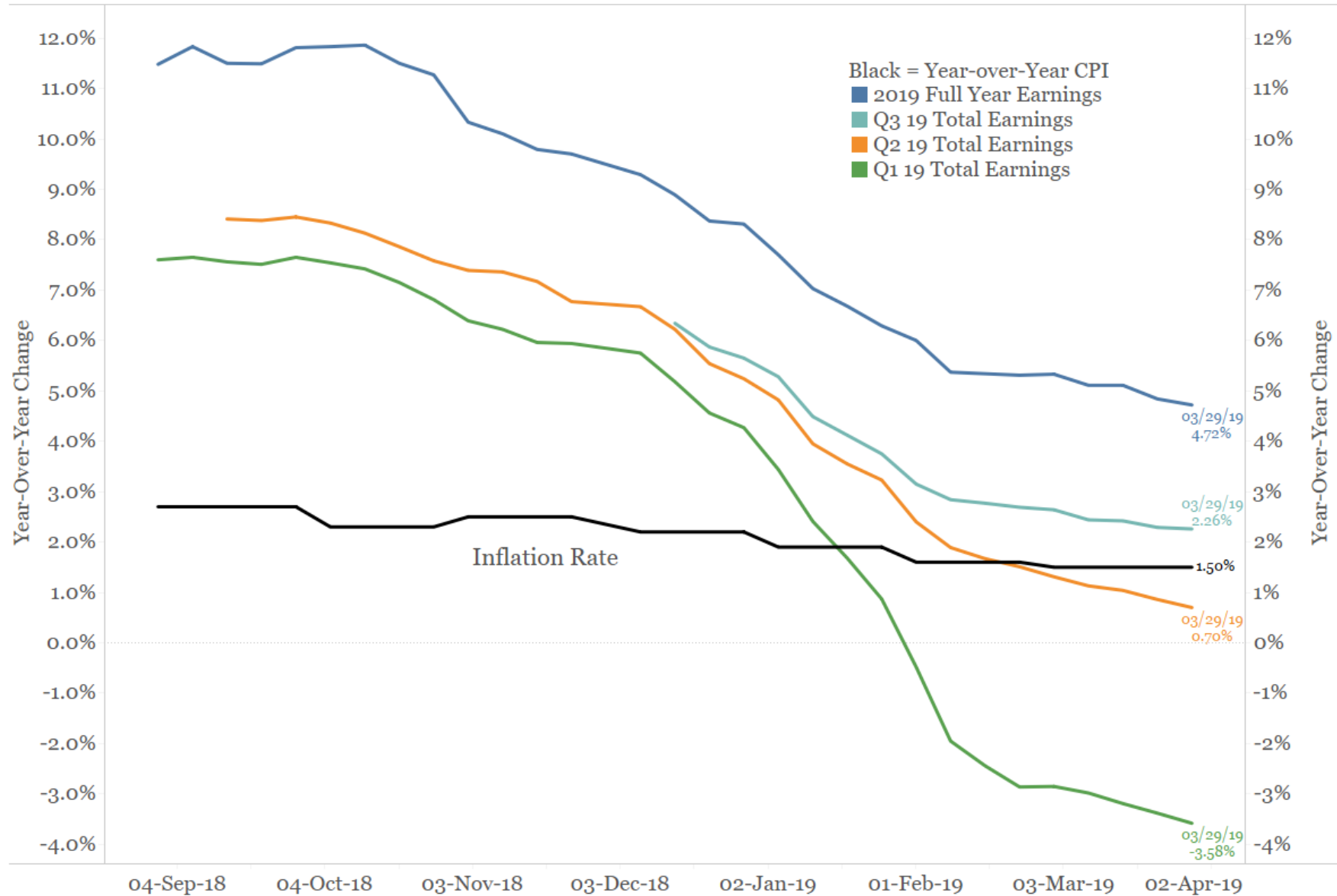
S&P 500 Quarterly Operating Earnings Expectations



Source: Bloomberg

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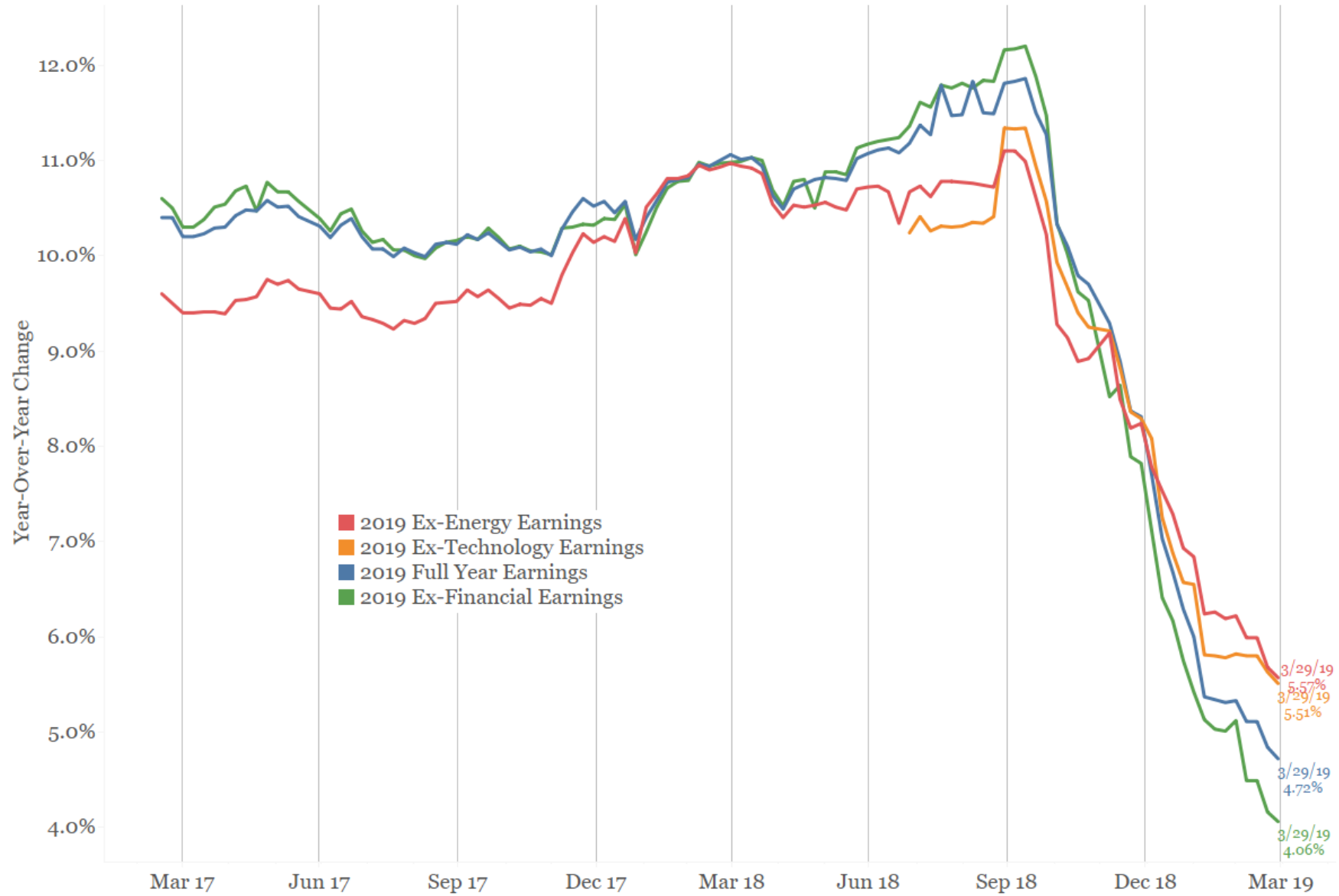
2019 S&P 500 Operating Earnings Expectations



Source: Bloomberg

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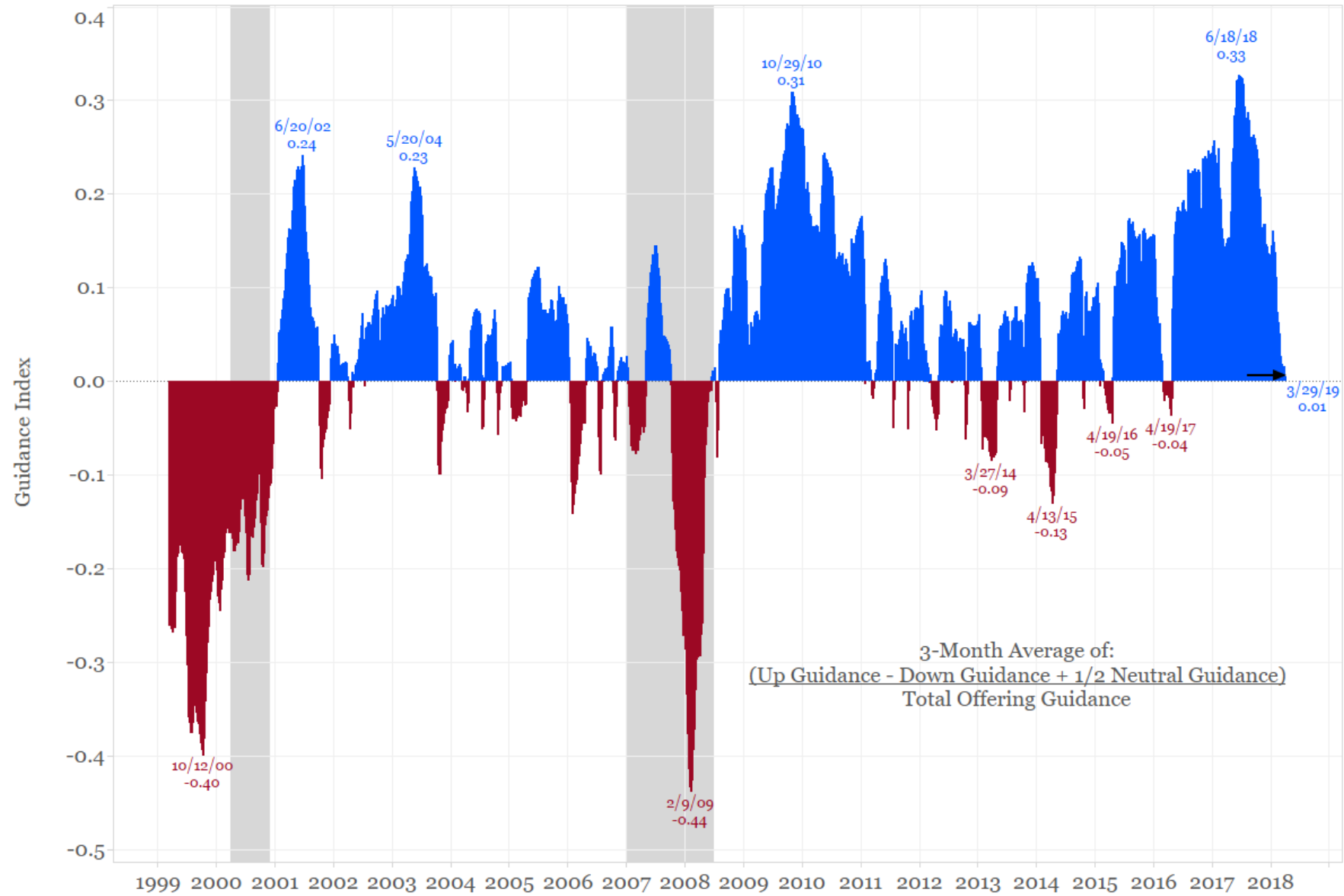
2019 S&P 500 Earnings Expectations



Source: Bloomberg

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Company Offered Guidance Index

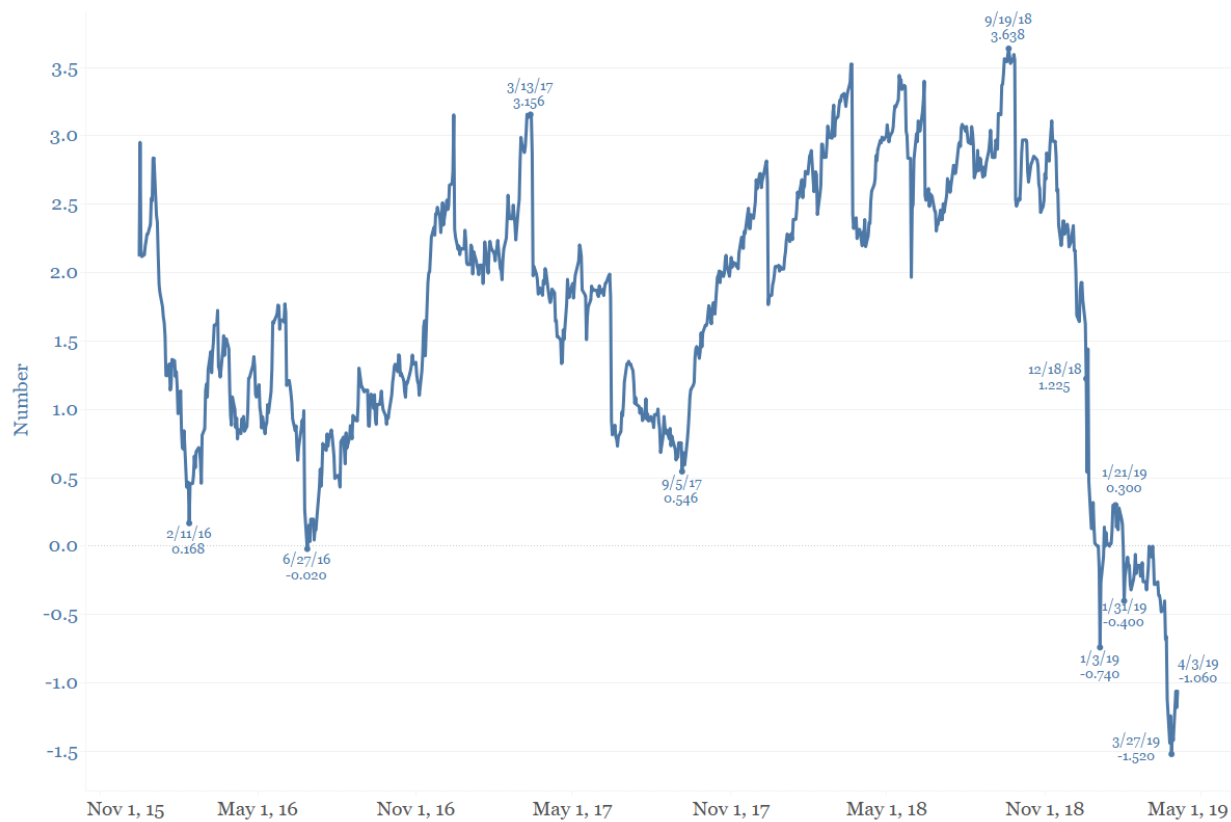


Data Source: Bloomberg

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Current Implied Probabilities			3) Add/Remove Rates ▾						
Dates	Meeting	Calculation	Calculated 04/03/2019		Based on rate 2.25-2.50				
Meeting	Hike Prob	Cut Prob	1.25-1.5	1.5-1.75	1.75-2	2-2.25	2.25-2.5	Fwd Rate	
05/01/2019	0.0%	2.9%	0.0%	0.0%	0.0%	2.9%	97.1%	2.40	
06/19/2019	0.0%	14.0%	0.0%	0.0%	0.3%	13.6%	86.0%	2.37	
07/31/2019	0.0%	19.9%	0.0%	0.0%	1.3%	18.7%	80.1%	2.35	
09/18/2019	0.0%	40.9%	0.0%	0.3%	5.8%	34.7%	59.1%	2.29	
10/30/2019	0.0%	44.4%	0.0%	0.7%	7.5%	36.2%	55.6%	2.27	
12/11/2019	0.0%	56.2%	0.2%	2.1%	13.6%	40.3%	43.8%	2.22	
01/29/2020	0.0%	63.3%	0.5%	4.0%	17.9%	40.9%	36.7%	2.18	

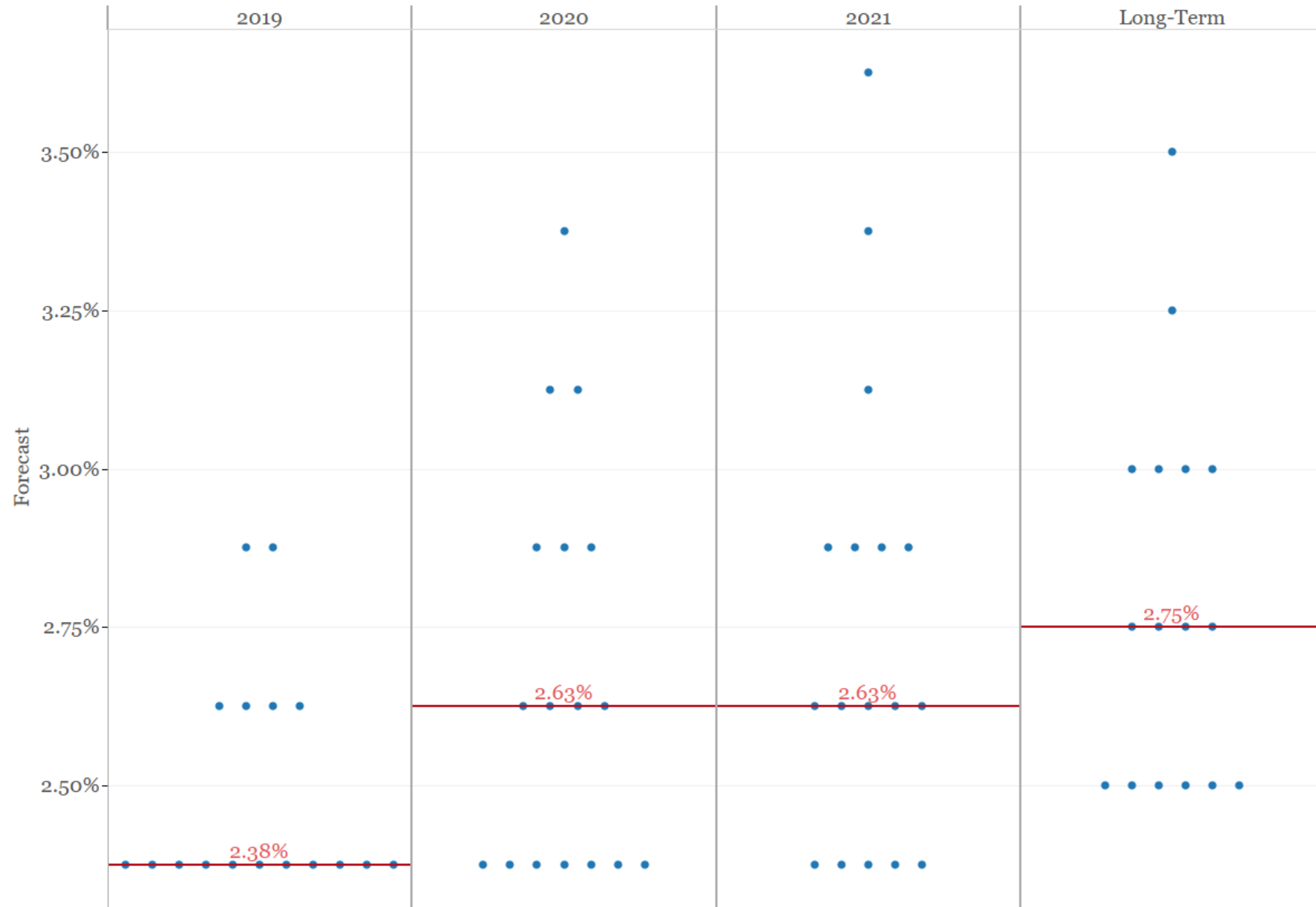
Hikes Priced In Over The Next 12 Months



Source: Bloomberg

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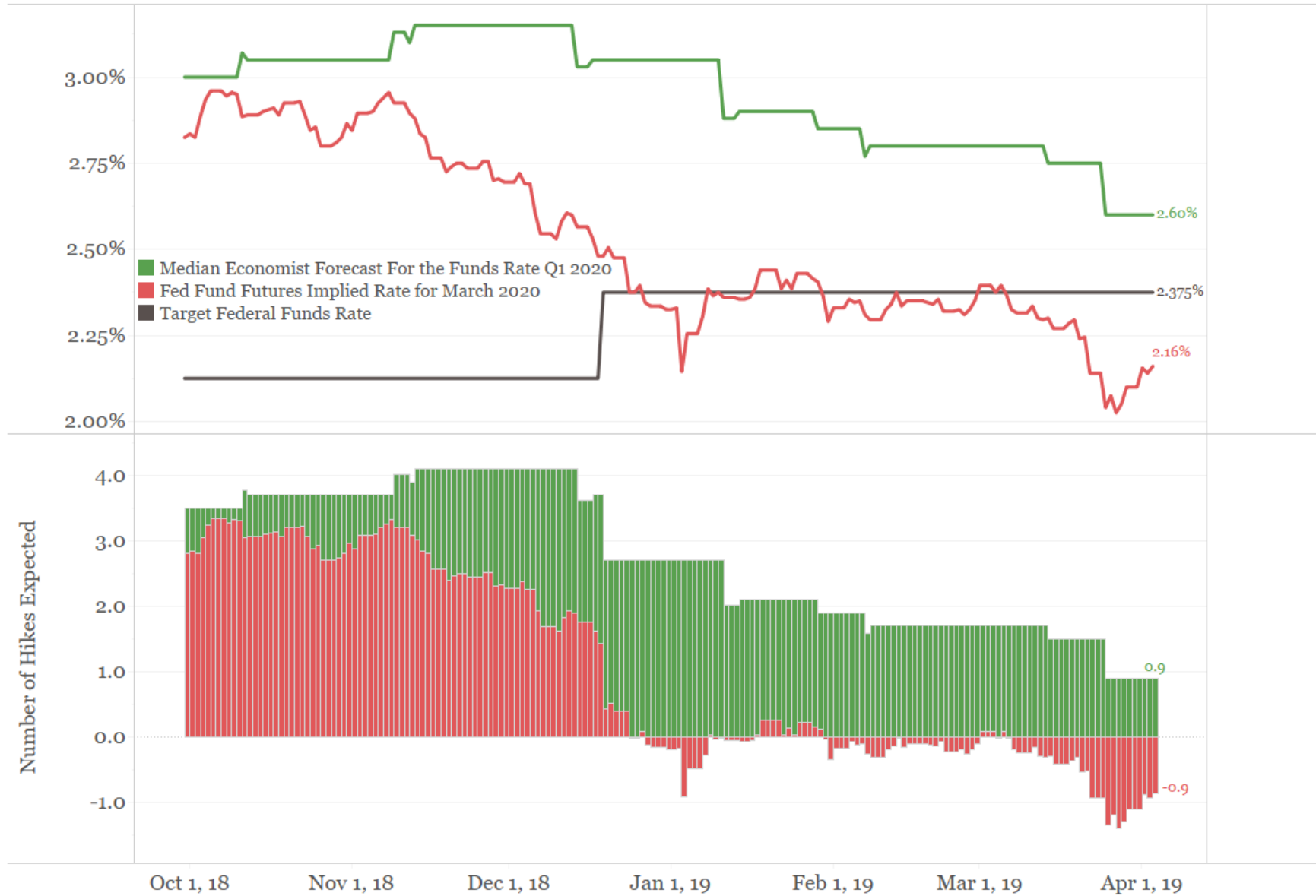
3/20/2019 Dot Chart



Source: The Federal Reserve

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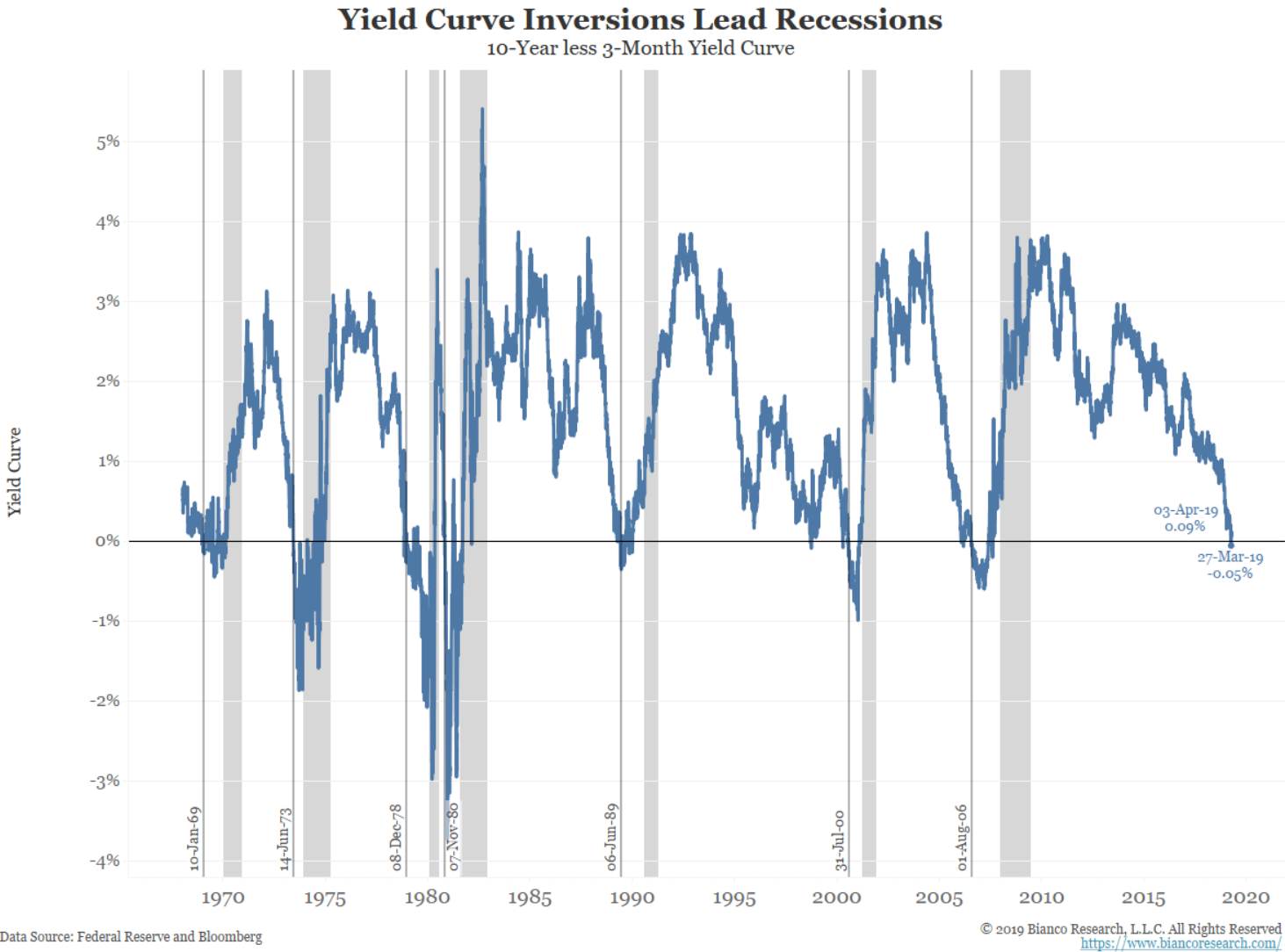
What Is Expected In a Year?



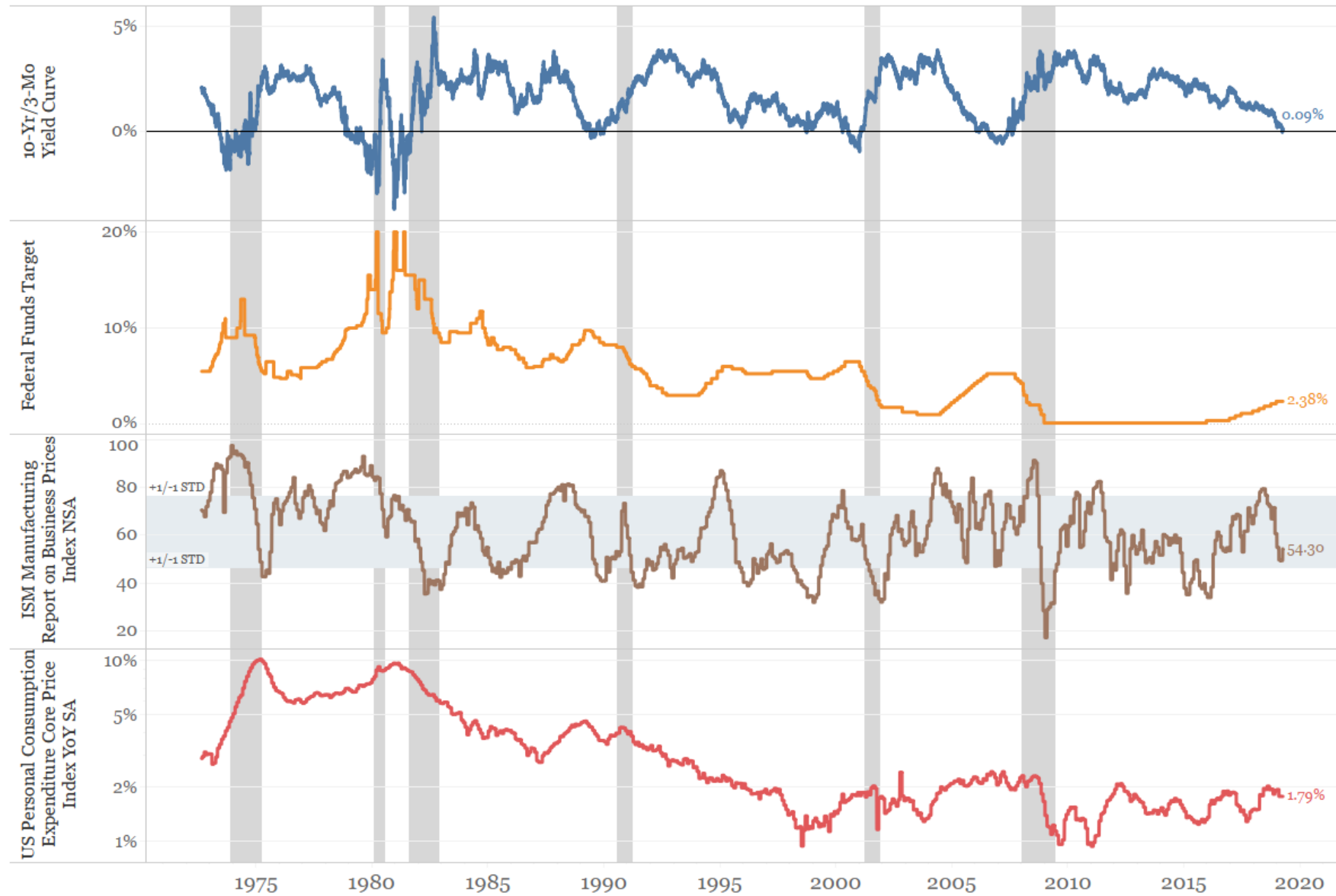
Data Source: Bloomberg

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How Long Until The Recession?		
When the 3M/10Yr Curve Inverts For 10 Straight Days		
Date of Inversion	Date of Next Recession	Days to Next Recession
1/10/1969	Dec-69	325
6/14/1973	Nov-73	140
12/8/1978	Jan-80	389
11/7/1980	Jul-81	236
6/6/1989	Jul-90	390
7/31/2000	Mar-01	213
8/1/2006	Dec-07	487
Average		311



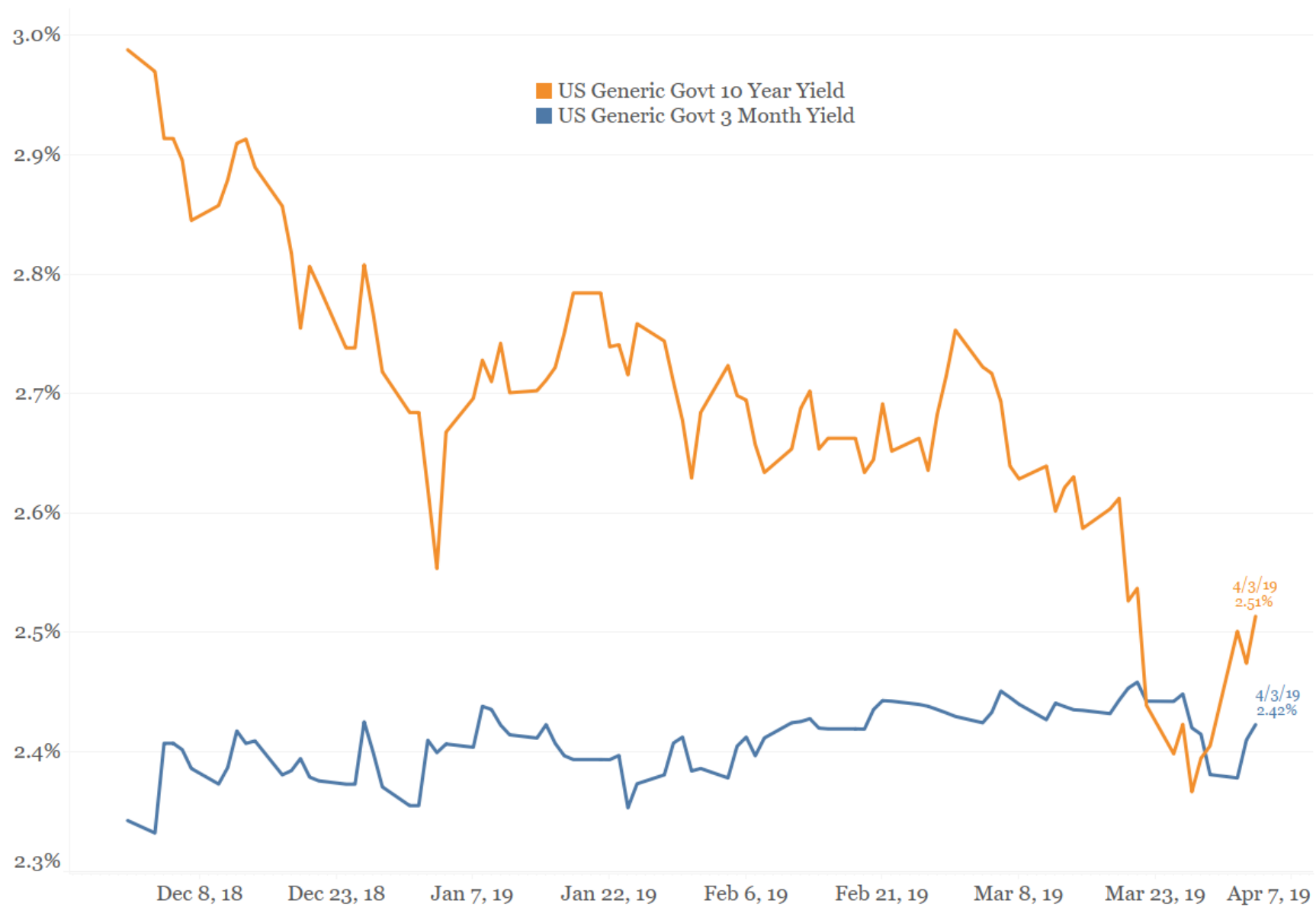
Why Does The Yield Curve Invert?



Data Source: Federal Reserve and Bloomberg

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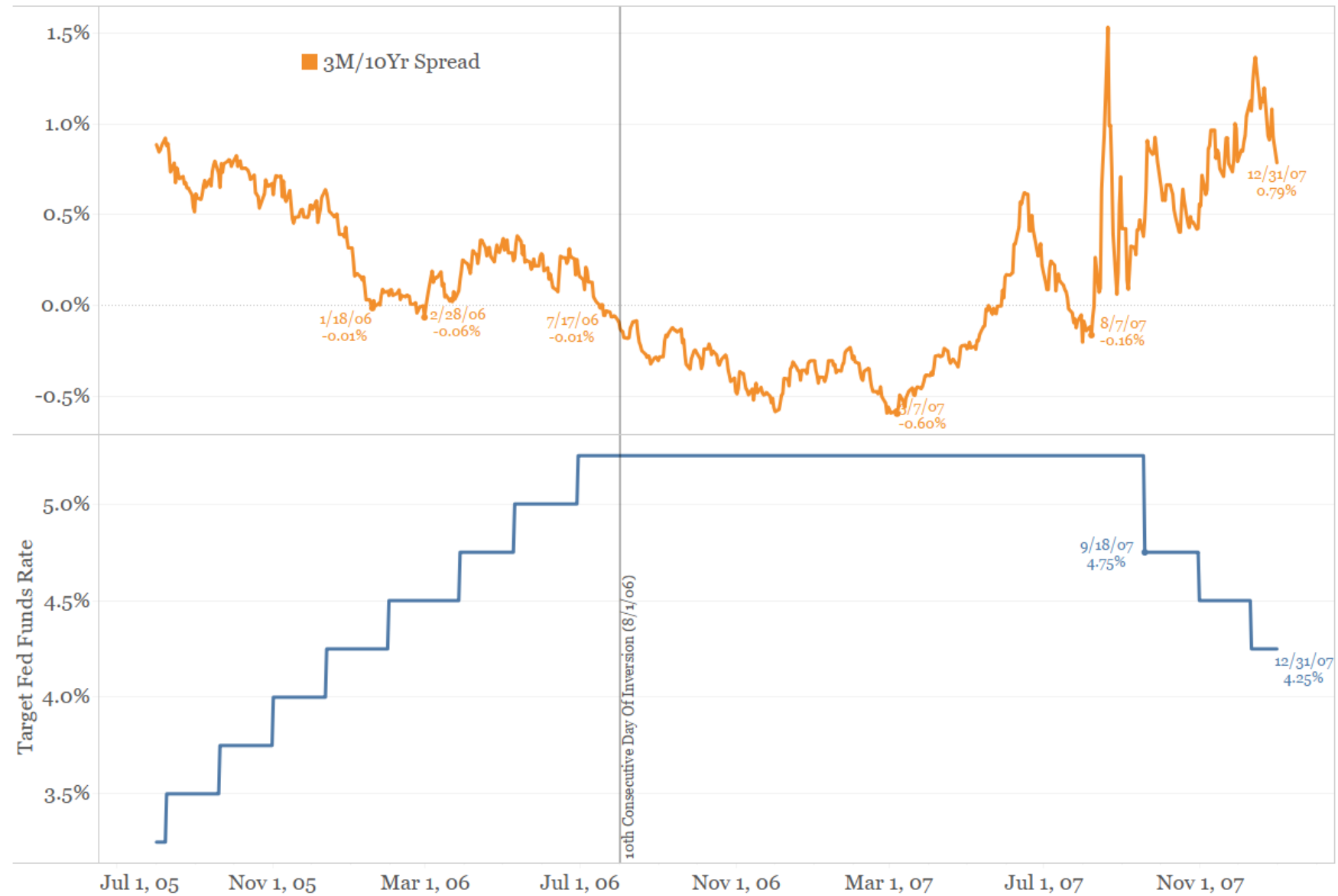
A Bull Flattener



Source: Bloomberg

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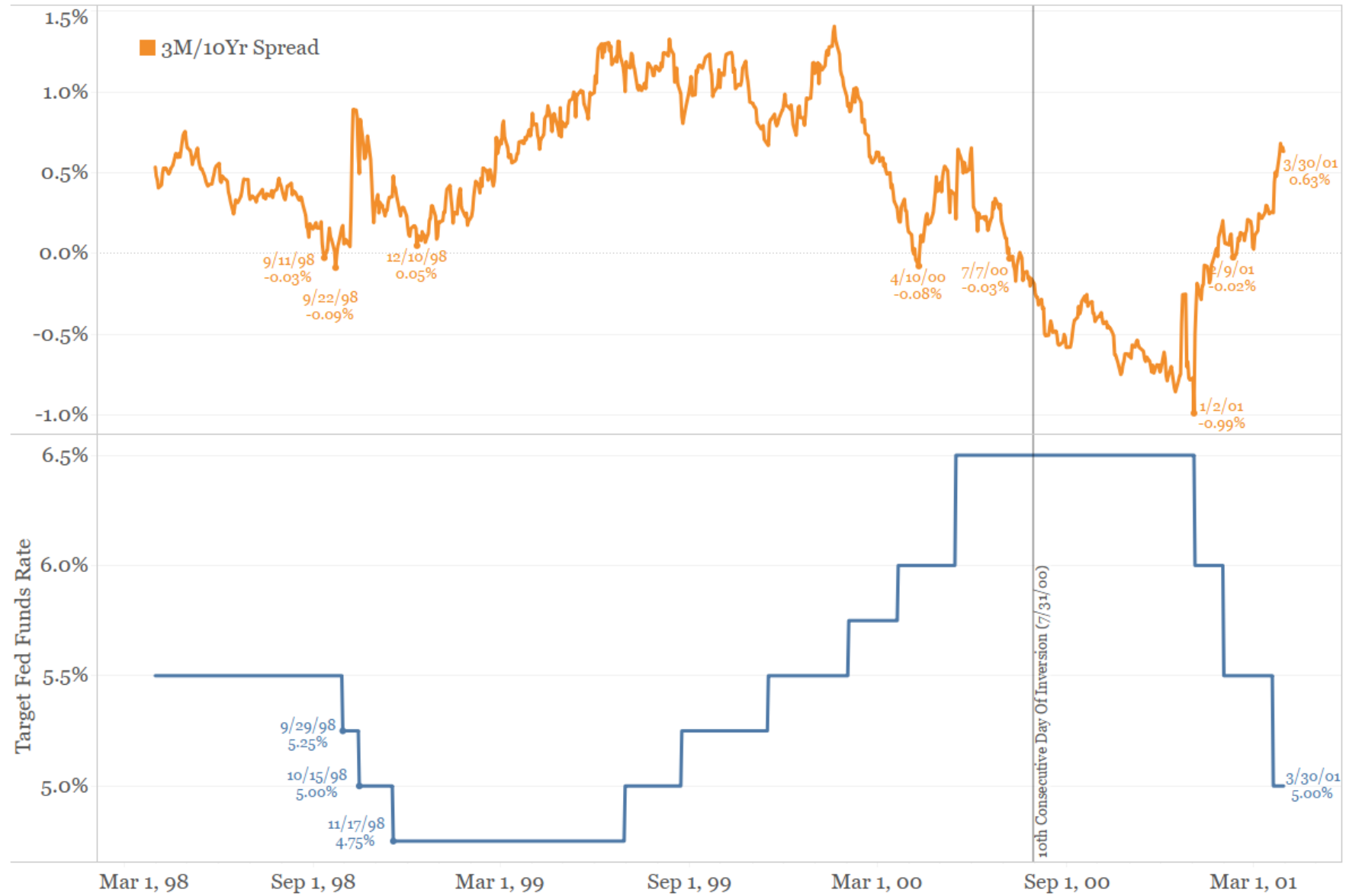
The Yield Curve Often Bounces Off Zero - 2006



Source: Bloomberg

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The Yield Curve Often Bounces Off Zero - 2000



Source: Bloomberg

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