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BLOG POST

Yield Curve Inversion

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What's been a concern voiced by the investment media for some time continues to happen. According to data from Bloomberg, the yield curve for Treasuries continues to invert. Earlier in the month, the yield for 5-year Treasury notes surpassed the corresponding yield for the benchmark 10-year Treasury bond. Now, for the first time since 2006, the yield on the 5-year note has surpassed the yield on the 30-year Treasury bond. Likewise, we are near an inversion on the 2-year Treasury yield and 10-year Treasury yield. While not a perfect indicator, historically an inverted yield curve tends to proceed a recession.

- What is the bond market telling us? Higher rates for shorter and intermediate term Treasuries are not a surprise given the Fed's commitment to fighting inflation. The longer end of the curve remains somewhat anchored (hence the inversion) given the expectation that higher inflation will be somewhat transitory, although likely longer than initially expected.

- There's speculation about how high rates will need to go in the near term, given that current rates across the curve are well below the current rate of inflation. Real yields are negative across all maturities. There will likely be a continued inversion of the yield curve in the near term as the Fed continues to tighten.