



Does the Yield Curve Matter?

There is a lot of talk in the market about inverted yield curves and a looming recession. The yield curve is inverted when short-term rates exceed long-term rates.

The inverted yield curve has been a widely watched indicator of an impending recession. The inverted yield curve creates a credit crunch which then slows the economy.

Yield curve inversions have preceded recessions, but in my opinion, it is an entirely useless indicator.

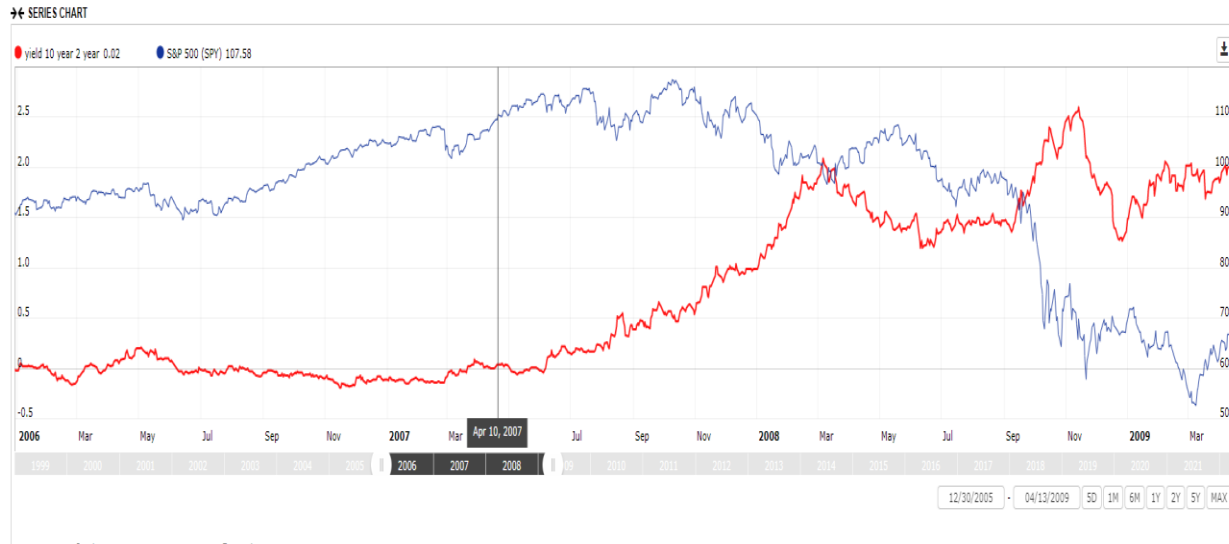
At the Unbounded Wealth Thought Lab we fired up the computers and ran some tests. We looked at the 3-month and 10-year yield curves and the 2-year vs. 10-year rates based on academic research.



The red line is the difference between the ten-year and three-month T-bill. Since 2019 and early 2020, when it briefly dipped below 0, it climbed steadily. It is up to almost 2% right now. No inverted curve there.

Other people use the 10-year and 2-year, but this isn't as reliable.

I want to show the difficulty of using the yield inversion as an actionable signal. Below is a chart for the 10-year and 2-year treasuries and S&P 500 from 2006 to 2009.



The red line is the difference between the 10-year and 2-year. In 2006 it was at 0, so the yield curve is inverted. And for over a year, it hovers right around 0. Then the yield curve straightens itself out during 2007. The signal went away. Then in late 2007 and early 2008, things fell apart. But what exactly was the signal?

It seems that the signal didn't match the bear market in a timely fashion. It shows possible future weakness, but for how long do you stay bearish? Two or three years following the end of a signal? That hardly seems prudent.

There is a problem with the inverted yield curve. While it suggests a recession is coming, the signal often happens *well before* an actual recession. So far before the event that it is not a trigger.

Take a look at this chart. The average recession is 18.7 months away from the 2-year / 10-year yield curve. *A lot* can happen in 18.7 months!

Yield Curve Inversions Start The Shot Clock, But Recessions Can Be Years Away

2 year/10 year Yield Curve Inversions

Date of Inversion	First Month Of Recession	Months Till Recession Starts
8/18/1978	February-80	17.5
9/12/1980	August-81	10.6
12/13/1988	August-90	19.6
5/26/1998	April-01	34.2
12/27/2005	January-08	24.2
8/27/2019	March-20	6.1
	Average	18.7
	Median	18.5

Source: LPL Research, St. Louis Fed 03/30/2022

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

An inverted yield curve may even be bullish for stocks!

Yield Curve Inversions Can Be Bullish For Stocks

2 year/10 year Yield Curve Inversions

Date of Inversion	Bull Market Peak Date	S&P 500 Index Return	Months Till Bull Market Peak
12/13/1988	7/16/1990	33.2%	19.1
5/26/1998	3/24/2000	39.6%	22.0
12/27/2005	10/9/2007	24.6%	21.4
8/27/2019	2/19/2020	18.0%	5.8
	Average	28.8%	17.1
	Median	28.9%	20.2

Source: LPL Research, St. Louis Fed 03/30/2022 (Last Four Inversions)

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In the end, I think the yield curve is much ado about nothing. There are better ways to see whether the market is rolling over, such as simply following trends. Trend following is more timely as well. All that matters is price.

The *Risk-O-Meter* stays on a buy this week.

Last week I suggested moving slowly in buying any new stocks.

It was a poor week for stock investors. Moving slowly helped a lot.

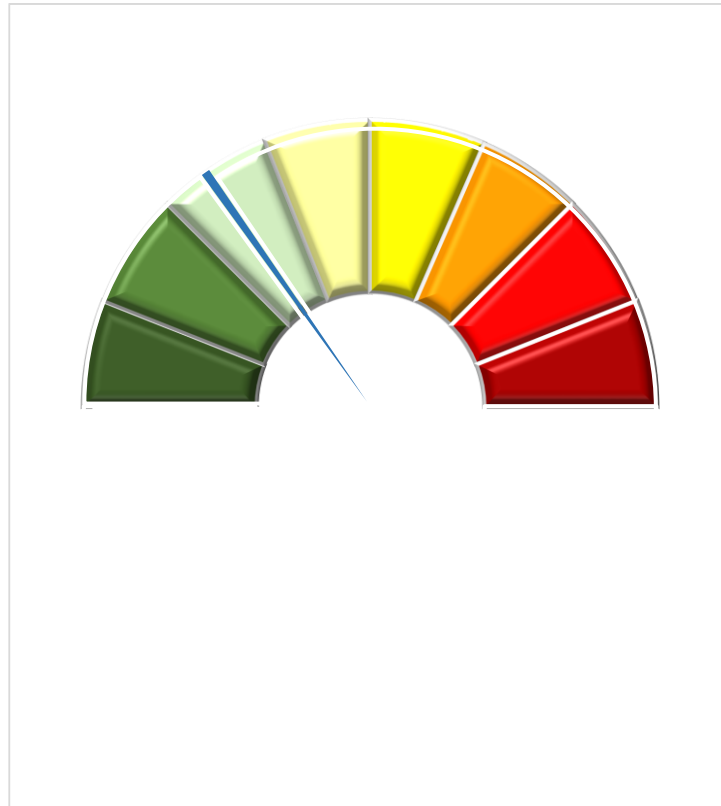
The overbought condition of the market has been worked off a bit.

However, the market is not yet oversold.

We are in no man's land. Your guess is as good as mine as where the market is headed from here in the short term.

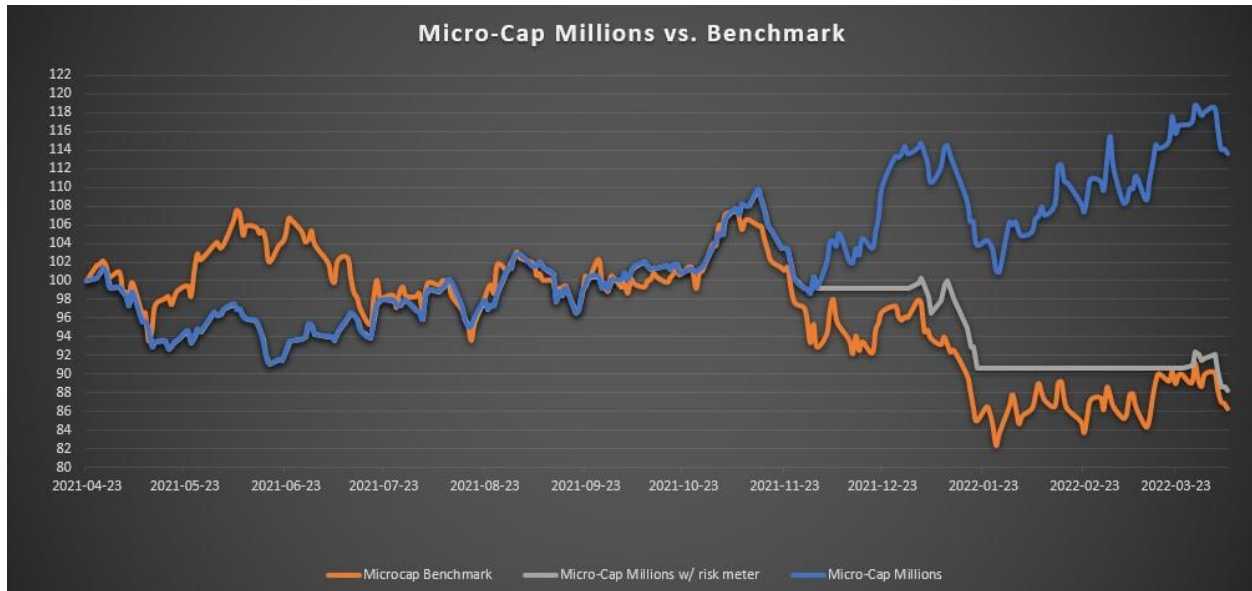
I would not be surprised to see a big smash before we get oversold. The alternative is that the market wiggles up and down and makes little progress in either direction, and time works off the condition.

If risks are low at that point, it will set up an excellent risk/reward buying opportunity.



Micro-Cap Millions

The micro-cap strategy is holding up very well in a very tough environment for stocks. Unfortunately, that is not the case for the other two systems. There have been few places to hide in technology in the past few months. Quality micro-cap stocks have been one area of sunshine in an otherwise gloomy market.



There are three trades this week.

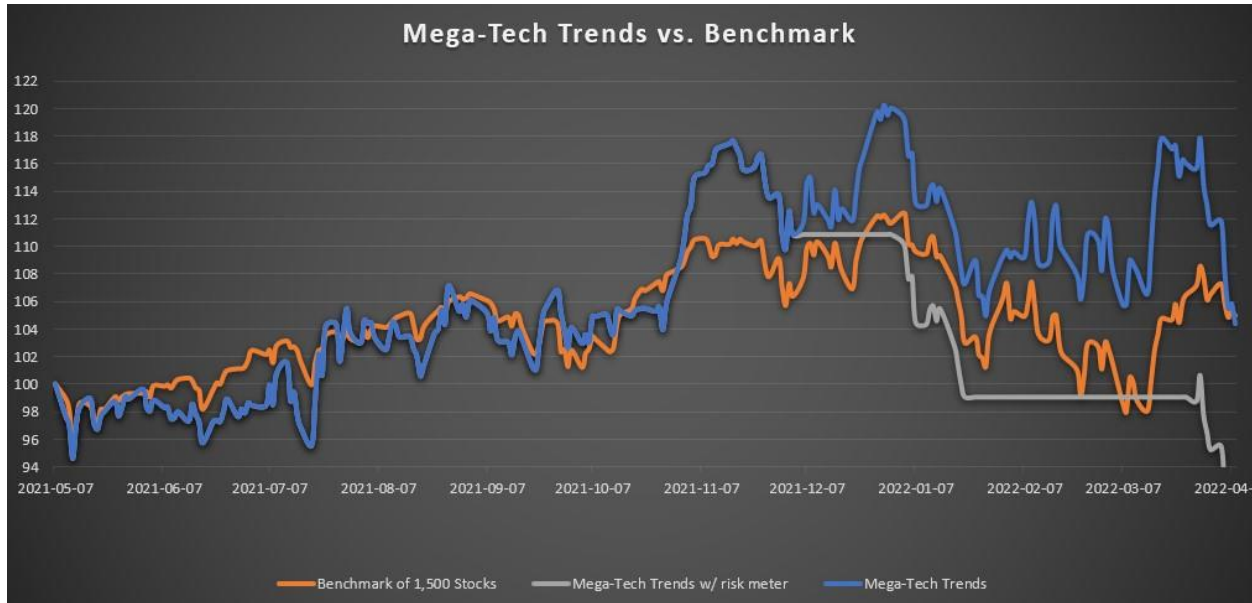
Buy Ballantyne Strong, Inc. (NYSE: BTN), Canterbury Park Holding Corp. (Nasdaq: CPHC), and CyberOptics Corp. (Nasdaq: CYBE)

Sell Emerald Holding, Inc. (NYSE: EEX), Interlink Electronics (Nasdaq: LINK), PsycheMedics Corp. (Nasdaq: PMD)

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
BTN	Ballantyne Strong Inc	0.00%	NEW	Technology
CPHC	Canterbury Park Holding Corp	0.00%	NEW	Consumer Services
CYBE	CyberOptics Corp	0.00%	NEW	Technology
HCKT	Hackett Group Inc (The)	12.38%	18	Technology
HSII	Heidrick & Struggles International Inc	-5.80%	242	Business Services
HSON	Hudson Global Inc	22.74%	45	Business Services
ISDR	Issuer Direct Corp	7.11%	18	Technology
NTIP	Network-1 Technologies Inc	-5.17%	130	Technology
SGA	Saga Communications Inc.	1.48%	242	Consumer Services
WTT	Wireless Telecom Group Inc.	-16.34%	109	Technology

Mega-Tech Trends



No trades this week. Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
ACLS	Axcelis Technologies Inc.	18.06%	213	Technology
AMN	AMN Healthcare Services Inc.	10.15%	25	Healthcare
APH	Amphenol Corp	-2.53%	53	Technology
CNXC	Concentrix Corp	-18.85%	67	Technology
HOLX	Hologic Inc	8.77%	144	Healthcare
JBL	Jabil Inc	-8.25%	18	Technology
KFY	Korn Ferry	-11.65%	109	Business Services
MCS	Marcus Corp (The)	-9.61%	11	Consumer Services
PLAB	Photronics Inc	-15.00%	25	Technology
SNX	TD SYNnex Corporation	-5.22%	60	Technology

Large-Cap Leaders



No trades this week. Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
ADI	Analog Devices Inc	6.10%	39	Technology
ANET	Arista Networks Inc	-6.96%	60	Technology
APH	Amphenol Corp	1.58%	25	Technology
AVGO	Broadcom Inc	2.29%	32	Technology
CDNS	Cadence Design Systems Inc	2.61%	4	Technology
DHR	Danaher Corp	4.27%	249	Healthcare
MSFT	Microsoft Corp	-9.16%	18	Technology
MU	Micron Technology Inc.	0.30%	4	Technology
PAYX	Paychex Inc.	10.22%	45	Business Services
STE	Steris Plc	9.72%	38	Healthcare

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