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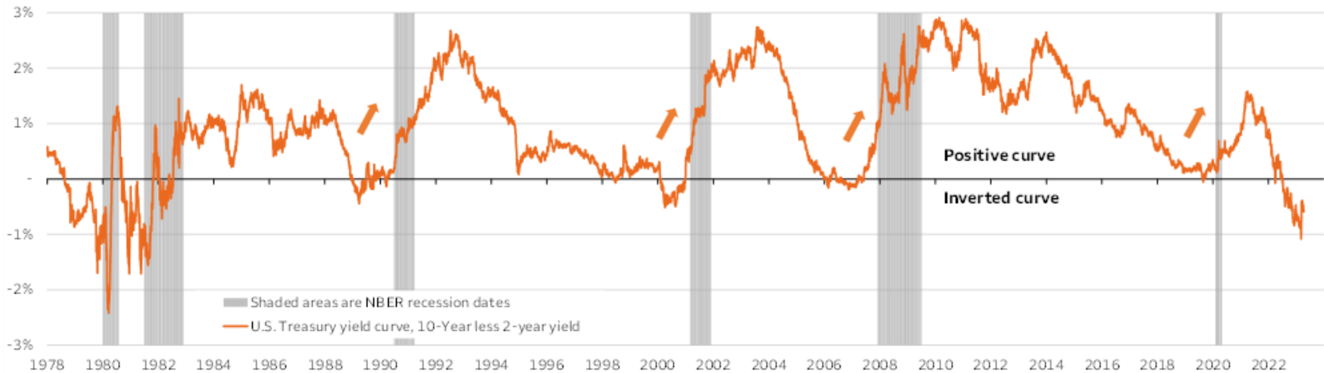
Investment Institute

Chart of the Week

Weekly market analysis on key market indexes | April 25, 2023

What message is the yield curve sending?



Sources: Bloomberg, Wells Fargo Investment Institute, and National Bureau of Economic Research (NBER). Latest data as of April 10, 2023. Arrows indicate periods of yield curve dis-inversion ending in a positive 10-year less 2-year spread and heralding recession. **Past performance is no guarantee of future results.**

When the yield curve is positive again, recession is almost upon us

The financial volatility of early March caused a sharp dis-inversion (re-steepening) of the U.S. Treasury yield curve, raising concerns that recession may potentially be imminent.

In the past, the 2- and 10-year U.S. Treasury (2s/10s) yield curves have been fairly reliable signals of an approaching recession. Less well known is that when the 2s/10s yield curve has sharply dis-inverted and returned to positive territory (in other words, when 10-year U.S. Treasuries once again yielded more than 2-years), recession has often followed.

The chart bears this out, showing that the past four recessions have been preceded by the yield curve moving quickly from an inverted position back to a positive one.

What it may mean for investors

While we believe the latest yield curve dis-inversion is not enough to signal an imminent recession, we believe one may potentially occur in the second half of this year. Instead of investors focusing on the possibility of a recession, we encourage them to seek favorable stock prices and other opportunities a downturn can potentially bring.

Peter Wilson, *Global Fixed Income Strategist*

This chart was excerpted from the Investment Strategy report dated April 17, 2023.

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