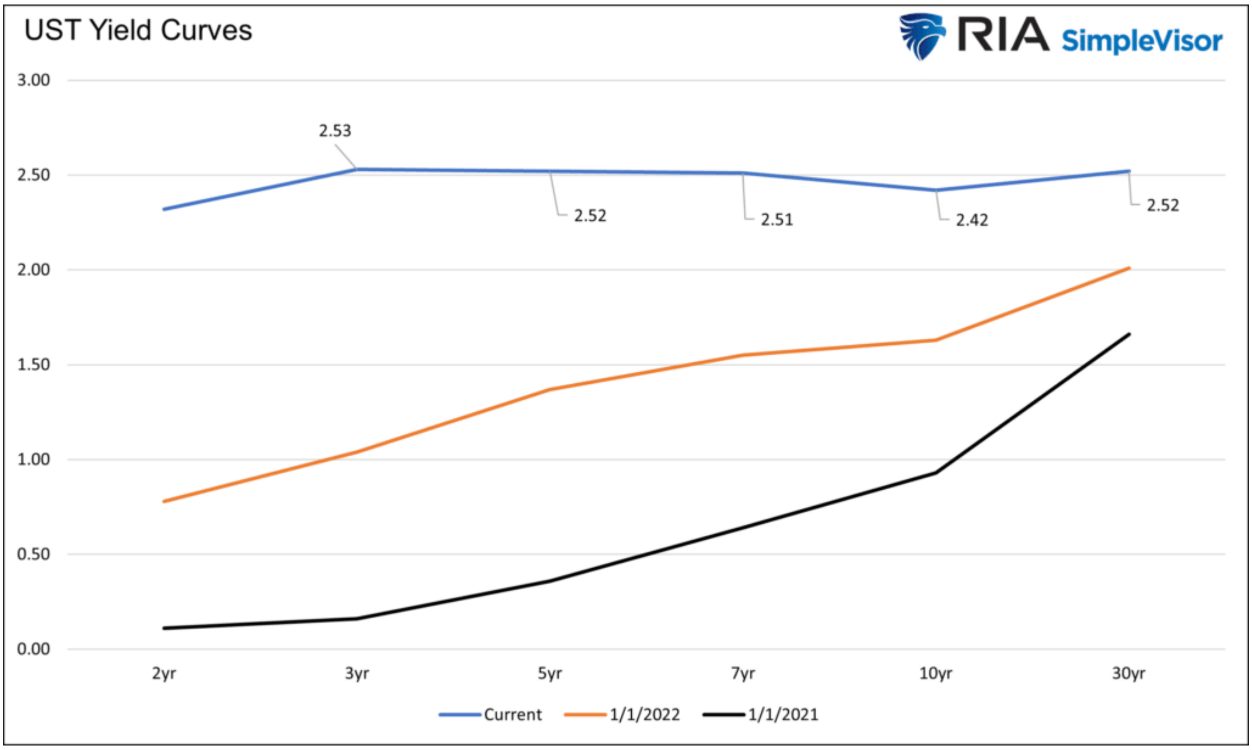
Yield Curve Recession Warning

The U.S. Treasury yield curve continues to flatten and, in some cases, invert and therefore warn of a coming recession. The graph below shows the sharp flattening in the Treasury yield curve over the last three months. It also shows that a large part of the yield curve, as with the 3-year note versus all longer maturity notes and bonds, are inverted, alerting investors to the possibility of a recession. It is worth noting, recessions do not occur when the yield curve inverts but when it comes out of the inversion. Accordingly, the current recession warning is not imminent, but yield curves can shift quickly, as we show. For more discussion of yield curve inversions, read our latest Newsletter- [Inverted Yield Curve History Should Worry Bulls](#).



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What To Watch Today

Economy

- 9:00 a.m. ET: **FHFA House Pricing Index**, month-over-month, January (1.2% expected, 1.2% during prior month)
- 9:00 a.m. ET: **S&P CoreLogic Case-Shiller 20-City Composite**, month-over-month, January (1.50% expected, 1.46% during prior month)
- 9:00 a.m. ET: **S&P CoreLogic Case-Shiller 20-City Composite**, year-over-year, January (18.55% expected, 18.56% during prior month)
- 9:00 a.m. ET: **S&P CoreLogic Case-Shiller U.S. National Home Price Index**, year-over-year, January (18.84% during prior month)

- 10:00 a.m. ET: **Conference Board Consumer Confidence**, March (107.0 expected, 110.5 during prior read)
- 10:00 a.m. ET: **Conference Board Present Situation**, March (145.1 during prior read)
- 10:00 a.m. ET: **Conference Board Expectations**, March (87.5 during prior read)
- 10:00 a.m. ET: **JOLTS job openings**, February (11 million expected, 11.26 million during prior month)

Earnings

Pre-market

- **McCormick**&#2013266080;(MKC) to report adjusted earnings of $0.62 on revenue of $1.47 billion

Post-market

- **Chewy&#2013266080;**(CHWY) to report an adjusted loss of $0.05 on revenue of $2.42 billion
- **RH&#2013266080;**(RH) to report adjusted earnings of $5.60 on revenue of $933 million
- **Micron Technology**&#2013266080;(MU) to report adjusted earnings of $1.98 on revenue of $7.56 billion
- **Lululemon**&#2013266080;(LULU) to report adjusted earnings of $3.27 on revenue of $2.14 billion

Market Trading Update

As noted in the ***past weekend's newsletter***:

> *"While the market did advance this week above the downtrend line, the market is pushing more extreme overbought conditions.* ***While this does not mean a ?sell-off? is imminent, it does suggest either some consolidation or a pullback to support is likely.*** *There is some resistance approaching overhead the market will likely struggle with next week. However, as we head into the end of the month, a further push to the upside is not out of the question as mutual funds, pensions, and investment firms rebalance portfolios for the end of the quarter."*

Such definitely seemed to be the case on Monday as an early sell-off was met with buying for the rest of the day. We are likely closer to the end of this rally than not given a full 61.8% retracement of the decline combined with more extreme overbought conditions. Such is why we trimmed back to weight the recent additions to our portfolio from two weeks ago.

A Little More Inverted Yield Curve History

The quad-panel chart below shows the 4-previous periods where 50% of 10-different yield curves inverted. I have drawn a horizontal red dashed line from the first point where 50% of the 10-yield curves tracked became inverted. I have also denoted the point you should have sold and the subsequent low.

image not found or type unknown inverted yield curve, Inverted Yield Curve History Should Worry Bulls

As you can see, in every case, the market did rally a bit after the initial reversion. However, had you reduced your equity-related risk, not only did you bypass a lot of market volatility *(which would have led to investor mistakes)* but ended up better off than those trying to *?ride it out.?*

In 2019, the yield curve inverted again leading to a 35% correction and recession in 2020.

That?s just history

Currently, only 10% of the 10-spreads we track are inverted. **As such, there is no reason to become overly defensive just yet. But you should be at least paying attention.**

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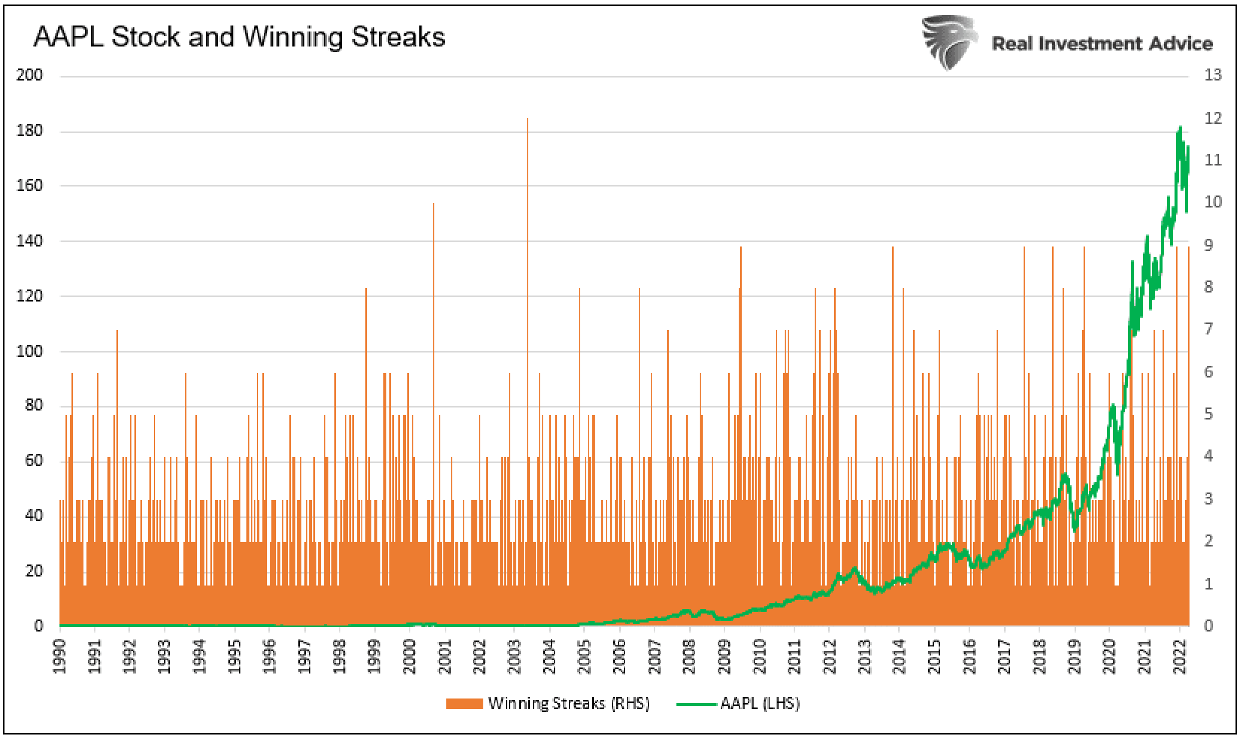
Despite Bad New Apple's Winning Streak Continues

Shares of Apple (AAPL) fell in the morning hours but rallied back in the close to extend is consecutive gains streak to ten days. Per Nikkei, Apple will reduce its iPhone production by about 20%. Weakening consumer demand, inflation, and the Russian invasion of Ukraine are to blame. The graph below shows that the nine-day streak of price gains is the most since 2003 but has been matched on six other occasions since then.



Tesla Splits

Tesla's stock rose by 8% on Monday as the company filed an SEC document to increase the outstanding number of shares of common stock. The purpose of the split is to enable a stock dividend. Per CNBC: *"In other words, if there is a 6-for-1 split, investors will get a stock dividend of five shares for one share of Tesla they own."* Tesla last split their stock in August 2020. Tesla's market cap rose $73 billion on Monday's news, more than the entire market cap of Ford ($66 billion) and GM ($63 billion). Tesla stock is still below its 2022 high but has gained over 30% in just the last two weeks.

Japanese Yen in Freefall

The Japanese yen has been depreciating rapidly versus the U.S. dollar. The yen now sits at a seven-year low. The Bank of Japan's actions to stem higher interest rates are driving the sharp decline. On Sunday night, they offered to buy an unlimited amount of 10-year notes at a yield of 0.25% through month-end. They are effectively trying to cap interest rates at .25%. This is now the second such action this year. Further, Governor Haruhiko Kuroda stated that policy would remain unchanged even if inflation jumped. Year over year CPI is now +2.7%, and producer prices are up 9.3%. Unlike the Fed which is promising at least seven rate hikes, the BOJ is committing to easy monetary policy and it appears begging for more inflation. The weaker yen will put further upward price pressures on imports.

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