ALTUS
WEALTH MANAGEMENT

Advisor *report*
November 2021

Flattening Yield Curve at the Disco

The money lender is truly considered one of the oldest professions on the face of the earth. For as long as written records of history have been kept, notes regarding "lending" and "interest" can be found in many different ancient civilizations. So, the notion of individuals, companies or governments borrowing money to do various things with the proceeds is truly as old as time.

One particular aspect of borrowing and interest rates is that in a "normal" situation one would expect that the longer you lend money to someone or some entity, the higher rate you should expect. For instance, if you are going to lend money to a company and they were going to pay you back in a year, you may charge them 3% for that year. But, if they were going to pay you back in 5 years, you may charge them 5% per year. This is what is known in economics as a "normal" yield curve. As this curve flattens or even inverts (short term rates higher than long term rates) it has sometimes been a predictor of an upcoming recession. Thus, the reason for examining the concept at all.

Another aspect of borrowing is risk. For example, in ancient times, at the peak of the Roman Empire, they issued bonds that may have cost them 5% interest. The armies were strong, taxes were being collected and Roman citizens scooped up these attractive bonds. As the Roman Empire waned and became weaker, bond rates went up as the risk of tax collections and the ability of the empire to pay back its debt became more risky. It is the same reason a Uganda government bond would have to pay a much higher rate of interest to you as an investor compared to a US bond.

If we take the risk aspect out of the discussion for United States bonds and assume the US is not in a decline, (I know some may argue this point) then the only variable to our domestic interest rates should be time. So where are we now? Although we are not completely flat (there still is a slight upslope to the graph) the trend is not promising. With talk of the Fed tapering their buying of bonds on the open market, inflation sticking around longer than expected, and a sense that the government may have to raise rates to fight inflation, the yield curve has taken notice. The curve is saying …"The Fed will raise rates on the short end to control inflation, possibly causing a recession which will lead to a better economy afterward bringing down rates into the future". Got it? Simple right…

The reality is that many things contribute to real recessions. Some predictable, some not(Covid). But, what is real right now to everyone is inflation. Paying more for gas, food and other items could certainly slow down the biggest component of GDP growth… the consumer. And, if that happens to the extent that growth actually declines, the flattening yield curve crystal ball would be correct. The bottom line is that we as americans haven't danced with real inflation since the disco days of the 70's. Let's hope we don't need our platform shoes….

*Disclosure Information on Back

Disclosures

This information is for general purposes and is not intended to provide specific investment advice or recommendations. Opinions, estimates, forecasts, and statements of financial market trends are based on current market conditions and are subject to change without notice. The information does not represent, warrant or imply that services, strategies or methods of analysis offered can or will predict future results, identify market tops or bottoms or insulate investors from losses.

Investing involves risk including the potential loss of principal. Asset allocation & diversification do not ensure a profit or prevent a loss in a declining market. Past performance does not guarantee future results.

Source(s):

https://www.morningstar.com https://www.marketwatch.com
https://www.finra.org https://www.cnbc.com

PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.
Geneos Wealth Management, Inc. is an SEC Registered Investment Advisor and a FINRA registered broker-dealer.
Registration with the SEC does not imply a certain level of skill or training.

Securities and investment advisory services offered through Geneos Wealth Management, Inc. Member FINRA/SIPC