Richard Bernstein Advisors

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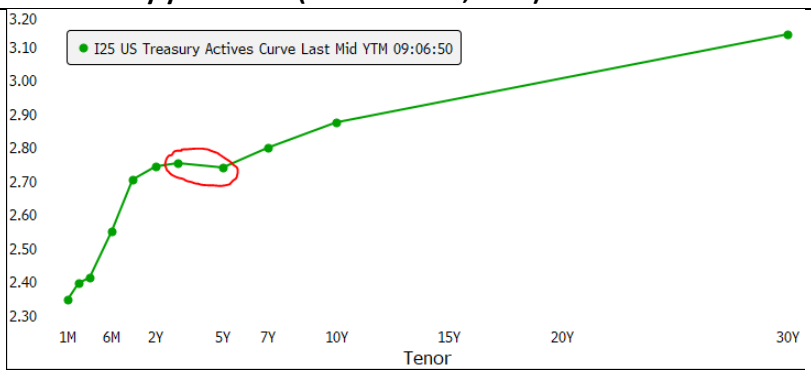
RBA Quick Insights

December 6th, 2018

(Part of) The yield curve has inverted!!!

The fact that yields on 3-year Treasury notes now exceed those of 5-year Treasury notes has garnered an astounding amount of attention, as many are calling this "inversion of the yield curve" a harbinger of the next recession. This is the first time I can remember people ever focusing on this particular portion of the curve. Typically, people tend to focus on either the very front end of the curve (less than 2-year) or, most commonly, a larger portion of the curve (2-year vs. 10-year or 3-month vs. 10-year). Take a look at the chart below and judge for yourself whether the yield curve appears inverted.

US Treasury yield curve (December 6th, 2018)



Source: Richard Bernstein Advisors LLC, Bloomberg

But let's assume for a moment that this is telling us something important about the outlook for the economy. What has the market done historically when this part of the yield curve has inverted? Historically, not only have returns tended to be very strong, but the bear market has generally been years away (see following table).

S&P 500® subsequent returns after 3-year Treasury yields exceeded 5-year yields

3yr > 5yr yield	6m	12m	24m	Months until next bear market
March 24, 1964	8%	14%	20%	23
February 21, 1973	-11%	-15%	-22%	Already begun
June 14, 1976	5%	2%	7%	53
June 23, 1978	3%	13%	33%	29
December 7, 1988	20%	29%	26%	19
January 5, 1998	18%	29%	47%	27
December 19, 2005	-1%	15%	20%	22
Average	**6%**	**13%**	**19%**	**29**
Median	**5%**	**14%**	**20%**	**25**
Positive %	**71%**	**86%**	**86%**	

Source: Richard Bernstein Advisors LLC, Bloomberg

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