The great recession ended, according to the National Bureau of Economic Research, in June 2009. The average time to recession in the modern era is 58 months—and we are now at 114 months.

In other words: the end is near. And in this very late stage of the business cycle, it is important to reflect on the red flags that presage the turning point.

Recently, the four horsemen of the next recession have reared their ugly heads.

The first is market volatility. The widely followed VIX, the market’s fear gauge, has doubled over the past three months and tripled since the beginning of the year. But this horseman delivers a lot of false prophecies. For example, market volatility spiked during the greatest daily drawdown in modern S&P history, Black Monday in October 1987 —but there was no recession.

This is exactly the reason there are four horsemen—not one.
The second horseman is the realization of anti-growth protectionism. The bluster of last year had no real impact on our economy. However, as 2018 draws to a close, the effects are being felt in the form of decreased trade opportunities. This is not just the U.S. trade war with China and other countries—Brexit is probably the most compelling example. The most famous appearance of this horseman was the Smoot-Hawley tariffs, which are widely believed to have triggered, deepened, and extended the Great Depression.

The third horseman is the stunning result of the recent Duke-CFO survey, a poll with almost 25 years of history. Half of CFOs are planning on a recession at the end of 2019 or first part of 2020. Eighty-two percent believe a recession will be start by the close of 2020. Their job is risk management and they are overwhelmingly convinced a recession is imminent.

The fourth, of course, is the yield curve—something I have been watching for more than 30 years. My 1986 dissertation at the University of Chicago showed that an inverted yield curve, where short-term rates are higher than long-term rates, led to a recession within 12-18 months. The out-of-sample evidence validated my model. Remarkably, there have been no false signals to date. Even the global financial crisis was foretold by an inverted yield curve.

Importantly, the fourth horseman has not reared its head yet, but we are on the precipice. Given the momentum of interest rates—especially given the actions of the Fed this week—an inversion could be imminent. My model argues that an inversion must be realized for a full quarter—not merely a day or a few hours.

We are in dangerous territory. Three of the horsemen are galloping and the fourth is champing at the bit.

All risk managers beware. All asset managers beware. This is exactly the time that you are expected to prove your value. Eyes wide open.

Campbell R. Harvey is Professor of Finance at Duke University and a former president of the American Finance Association.

**LATEST IN SUSTAINABLE INVESTING**

**A Better Approach to ESG?**

**Investing for Profits and Social Benefits**

**Just How Gender-Equity Focused Is That Fund, Anyway?**
MORE FROM NEWS CORP

3 Restaurant Stocks to Consider for 2019 — and 1 to Avoid  BARRON'S NEXT

A Slick Chelsea Pad by the River  MANSION GLOBAL

My husband is unemployed and we are mortified tipping our doormen a pittance  MARKETWATCH

7 Reasons to Accept the First Offer on Your House  REALTOR.COM

When Mutual-Fund Values Get Muddy  WALL STREET JOURNAL