What is an inverted yield curve? It's a recession's canary in a coal mine.

By SOO YOUN

Friday, August 16, 2019 4:45AM

The Dow Jones Industrial Average suffered its worst day of 2019 on Wednesday, and economists offered an obscure culprit: an inverted yield curve.

What is it, and why did it spook investors?

On Aug. 14, the yield on 10-year Treasury bonds briefly fell below that of two-year bonds. That inversion, last seen in 2007, is viewed by several economists as an indicator of a coming recession.

"If you lock your money up for a longer period of time, you almost always get a higher interest rate," Duke University finance professor Campbell Harvey told ABC News. "However, today, things are backwards - 10-year interest rates are far below short-term rates. This is known as an 'inverted yield curve.' In the past 50 years, we have seen seven inverted interest rate curves. Each one was followed by a recession."

Harvey's 1986 dissertation showed that the yield curve inverted before four recessions. Since then, it has inverted three times, he said, each one before a recession.

Michael Matou
"This stops companies from borrowing and taking out loans because the cost of capital is more expensive," he said. "It's more expensive to borrow money."

Report a correction or typo

SPONSORED CONTENT

Photos Of These Huge Dogs Acting Like Puppies Has Everyone Cracking Up

[Pics] This 'JAG' Star Doesn't Act Anymore, What Does She Do Instead?

Top 6 Cards If You Have Excellent Credit

If You Have Any Of These 20 Toys Around, You Just Became Rich

The Most Successful Attorneys In Durham. See The List

[ Pics] Filthy Tables And Foul Smells Make This The Worst Fast Food Chain In The Country
'Felt like I was robbed:' Raleigh contractor owed $7,000 says he got refund runaround

Don Baylor breaks leg on first pitch

Online Classes You Didn't Know About
pr.offer-mbadegree.com

[Pics] The Story Of 'Deadliest Catch' Just Gets Sadder And Sadder
Science 101

If You Have Any Of These 20 Toys Around, You Just Became Rich
Editor Choice

Clayton High parents demand answers after principal reassigned

Democratic presidential hopeful Kamala Harris will visit Durham

FROM AROUND THE WEB

[Gallery] This Place Is The Most Protected Place On Earth Daily Stuff

[Gallery] This Place Is Strictly Forbidden And Most Protected Place On Earth Daily Choices

These Lucky People Made Small Fortunes From Seemingly Normal Thrift Store Finds Blitzlift

Class of Hogwarts All Grown Up: How the Harry Potter Cast Have Changed From Then to 2019 Popular Everything

TV's shrewdest Shark Shows one of the best ways to utilize $50 The Startup Investor

[Photos] Dog Breeds You Don't Want To Mess With PostFun

MORE FROM ABC11

'Do better:' Community rallies around mom caring for son with cancer after neighbor's spiteful note to clean yard

Spam rolls out pumpkin spice flavor

Miley Cyrus, Liam Hemsworth split after less than year of marriage

PNC Arena to hold hiring event for more than 500 part-time jobs

Defense in Locklear case: "We're not talking about a cold-hearted monster"

Cyntoia Brown released from prison after being granted clemency
Expect baby copperhead snakes to emerge soon in NC

Durham County Sheriff’s Office to start Community Advisory Board

Updated 22 minutes ago