The Yield Curve Un-Inverts: Time to Celebrate?

Opinions differ on whether this change to a widely followed recession signal means the heat is off.

The yield curve, which inverted last spring to Wall Street's horror, has switched back to its old pattern lately.

That's important because an inverted yield curve is a signal of an impending recession. This augury has proven true through time, with an exception or two. The recession doesn't have to follow right away, mind you, just happen along in a year or so after the curve inverts.

The natural order of finance is for longer-maturity Treasury securities to pay more than shorter-term ones. After all, the longer you hold a bond, the greater the odds that things could go wrong. Like a ruinous inflation could hit in five years, blasting the value of your 10-year Treasury note.

The curve in question involves the three-month Treasury on the short end, and the 10-year on the long. According to Treasury Department statistics, on Oct. 10, the three-month's yield had dipped to 1.68% and the 10-year's yield had risen to 1.67%, almost neck and neck. The next day, the re-inversion occurred, with the three-month staying the same, and the 10-year climbing to 1.76%. As of Tuesday, the spread had widened still more, to 1.63% for the three-month and 1.84% for the 10-year.

Certainly, they still are pretty darn close. They may revert to an inverted curve. The likely reason for their switcheroo is that the Federal Reserve is expected to lower its short-term benchmark today, putting downward pressure on the three-month. And investors are easing away from the 10-year, which they view as a haven security in scary times. Instead, they're putting their money into stocks, which are riskier but rising amid the current optimism over the US-China trade clash.

The broader perspective about the yield curve is that the spreads are tellingly narrow. This betokens something awry in the inverting universe. That's the position of Campbell Harvey, the Duke professor who first spotlighted an inverted curve as a recession signal.

“One thing that's very important is that my model links the slope of the yield curve to economic growth or future economic growth,” Harvey told Business Insider. “And frankly, whether the yield curve's flat or slightly upward sloping or inverted, all that means the same thing. It means low growth.”

Opinions differ, of course. James Paulsen, chief investment strategist at Leuthold Group, thinks the danger may well be diminished. As he wrote on his blog, “a return to the positively sloped free-market curves suggest recession risk has been lessened.”

Not abolished, of course. But for those who need a little good news, this will do.
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By Larry Light
Northeastern State Treasurers, Asset Managers Form Corporate Diversity Coalition

Shareholder activism group aims for more diversity in corporate governance.

Corporations are receiving pressure from shareholders to better align with modern environmental, social, and governance (ESG) concerns, including de-carbonization and retracting from organizations with poor ethical standards.

Now, a group with about $283 billion in assets under management has unified to push for diversity among corporate governance boards “inclusive of gender, race, and ethnicity at companies headquartered in the Northeast,” the Northeast Investors’ Diversity Initiative said in a statement. “The investor coalition intends to leverage their corporate relationships and shareholder rights to encourage boardroom diversity and inclusion.”
Trust Walden, Trillium Asset Management, Zevin Asset Management, and Pax World Funds.

The coalition has cited numerous reports and studies asserting that diversity in a board's governance body is beneficial for returns.

However, despite increasing demands by investors for more diversity, progress in these firms has been slow, according to a May 2019 report from Wilshire Associates. The report cited statistics showing that fewer than 200 of 7,000 mutual funds are run by women, and that women accounted for just over 10% of investment partner or equivalent roles. Additionally, it said people of color make up 22% of the venture capital workforce, with African American employees and Hispanic or Latino employees at just 3% and 4%, respectively.

"An increasing body of research shows that companies with stronger diversity at the senior level tend to outperform those companies that lack diverse leadership teams," said Rhode Island General Treasurer Seth Magaziner. The state's current policy is to vote against all director nominees sitting on boards with less than 30% diversity, inclusive of gender and ethnicity. So far in 2019, they've voted against 73 companies for a lack of diversity.

New York in mid-October called for companies to adopt the "Rooney Rule", asserting "companies have leadership teams that look like they're out of the 1950s." The Rooney Rule is a 2003 National Football League policy requiring that every team with a head coaching vacancy to interview at least one or more diverse candidate.

Companies in the top quartile for racial and ethnic diversity are 33% more likely to outperform on profitability than companies in the bottom quartile, according to a study by McKinsey & Co. McKinsey also found that companies in the top quartile for gender diversity on their executive teams were 21% more likely to experience above-average profitability than companies in the bottom quartile.

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By Steffan Navedo-Perez

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