Be prepared for the recession, says the man who found the yield curve theory

BY SHONDRA BARNES ON OCTOBER 16, 2019

Professor Campbell Harvey who pioneered the economic forecasting model has warned that it is high time that people started heeding warnings sent out by inverted yield curve and take necessary preventive measures as economic downturn is not far away. Speaking to Josh Brown of Ritholtz Wealth Management, Harvey told that now is the time for people to reflect upon strategy to manage finances in the face of an upcoming downtrend. While it is easy to manage finances when economy is booming, but it is much more difficult during a downtrend. It is better to have a plan that one can follow to manage tough times when recession hits instead of improvising when the problem actually occurs. Harvey has researched on inverted curves that happen during periods when Treasury yields of short term are higher than longer duration yields.

His research revealed during 1986 that inversion between 10 year Treasury yields and 3 month ones have been able to foretell recessions since 1950 and since then three more have occurred. In the most recent cycle which the curve first inverted briefly during this March and then it lowered in May and since then it has stayed at that level. Harvey clarified that the curve should remain inverted for the period of 3 months at a stretch, so that it can
Be considered reliable and in this current situation the indicator is showing “code red”, sign for recession. The one bright spot under current circumstances is that some people that are watching this indicator will plan ahead. The inversion curve points to downturn six to 18 months in the future so businesses have adequate time to plan their investment plans until the storm passes. This delay can lead to slowdown in growth but one can look at this as risk management. Federal Reserve officials also consider the inverted curve as one of the inputs to access the economy said Chairman Jerome Powell.

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Shondra had acquired considerable experience in writing and editing publications before recruited by Daily News Magazine news portal as Editorial Manager. Her key task is to conduct effective business reviews based on the most recent business strategies. Due to her stronghold and understanding over finance, marketing, business, and trade-related topics, she is known as a business counselor among the staff. Her way of explaining business-related topics, verbally & in written form, is quite impressive. She pursued her post graduation in Finance from a UK-based university.

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