Yield Curve Inverts as Warning Signs of Recession Flash

‘The shape of the yield curve has ramifications for consumers and business’

by John Sullivan, Editor-In-Chief  •  March 29, 2022  •  13 shares  •  2 minute read
Decades-high inflation continues to take its toll, and potential rate hikes by the Federal Reserve to mitigate its impact caused the U.S. Treasury yield curve to invert on Tuesday for the first time since 2019, a possible sign of recession.

“While concerning, it’s not necessarily a definite sign of trouble, but it does affect many areas of the economy.”

“An inverted yield curve means that a short-term U.S. treasury is paying a higher interest rate than long-term U.S. treasuries,” according to Union Bank. “The inverted yield curve was first coined as a recession indicator by financial
economist Campbell Harvey of Duke University in 1986. During the 1980s, many economists researched the stock market to see if it had predictive properties regarding the U.S. economy, but after seeing the failure of his fellow colleagues, Harvey decided to study a less volatile system, the ultra-safe U.S. bond market.”

While concerning, it’s not necessarily a definite sign of trouble, Reuters reported, but it does affect many areas of the economy.

“Aside from signals it may flash on the economy, the shape of the yield curve has ramifications for consumers and business,” the news service wrote. “When short-term rates increase, U.S. banks tend to raise their benchmark rates for a wide range of consumer and commercial loans, including small business loans and credit cards, making borrowing more expensive for consumers. Mortgage rates also rise.”

It added when the yield curve steepens, banks can borrow money at lower interest rates and lend at higher interest rates. Conversely, when the curve is flatter, they find their margins squeezed, which may deter lending.

**Biden budget**

On Monday, President Biden called for an increase in military spending and funding for law enforcement in his $5.8 trillion budget.

*The Wall Street Journal* said it also seeks higher taxes on businesses and the wealthiest Americans, part of an emphasis on reducing the federal deficit that departs from last year’s budget that laid out ambitious spending increases.
John Sullivan, Editor-In-Chief

With more than 20 years serving financial markets, John Sullivan is the former editor-in-chief of Investment Advisor magazine and retirement editor of ThinkAdvisor.com. Sullivan is also the former editor of Boomer Market Advisor and Bank Advisor magazines, and has a background in the insurance and investment industries in addition to his journalism roots.
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