

Chart of the Day

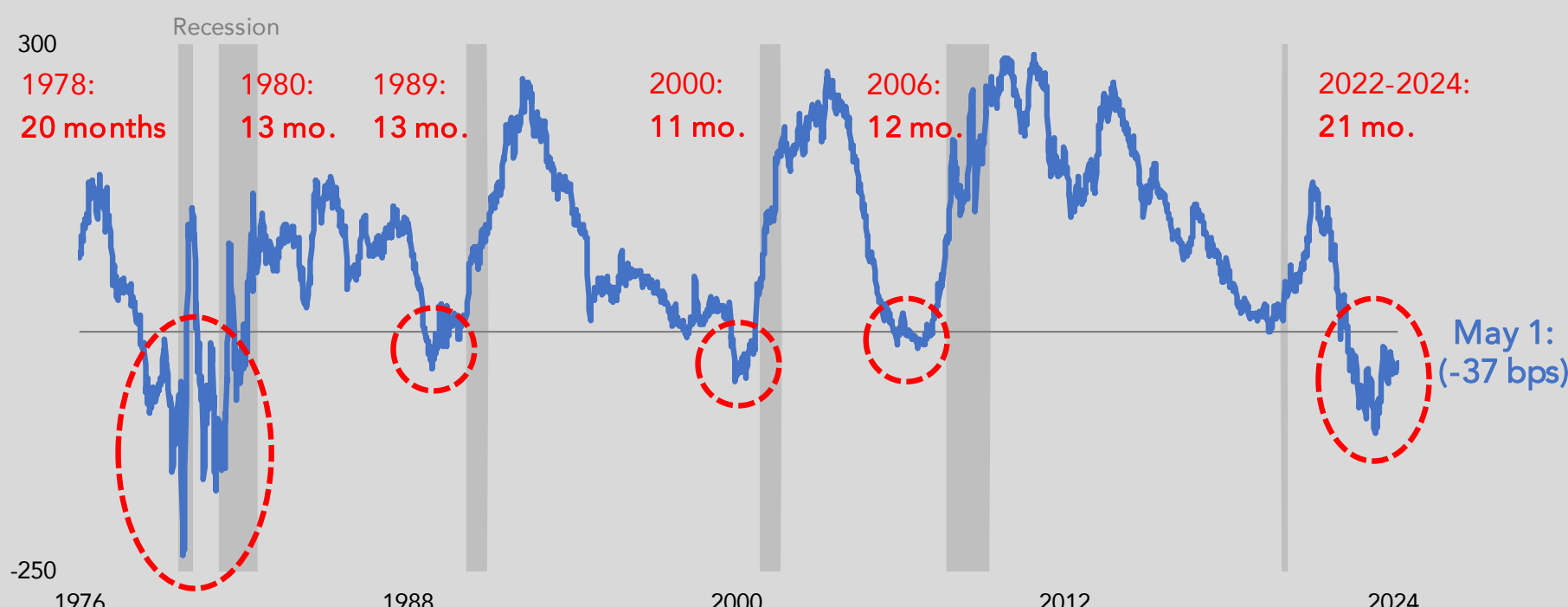


Click or scan to view our website and access past reports, policy notes and more.

mufgamericas.com/insights-and-experience/insights/capital-markets-strategy

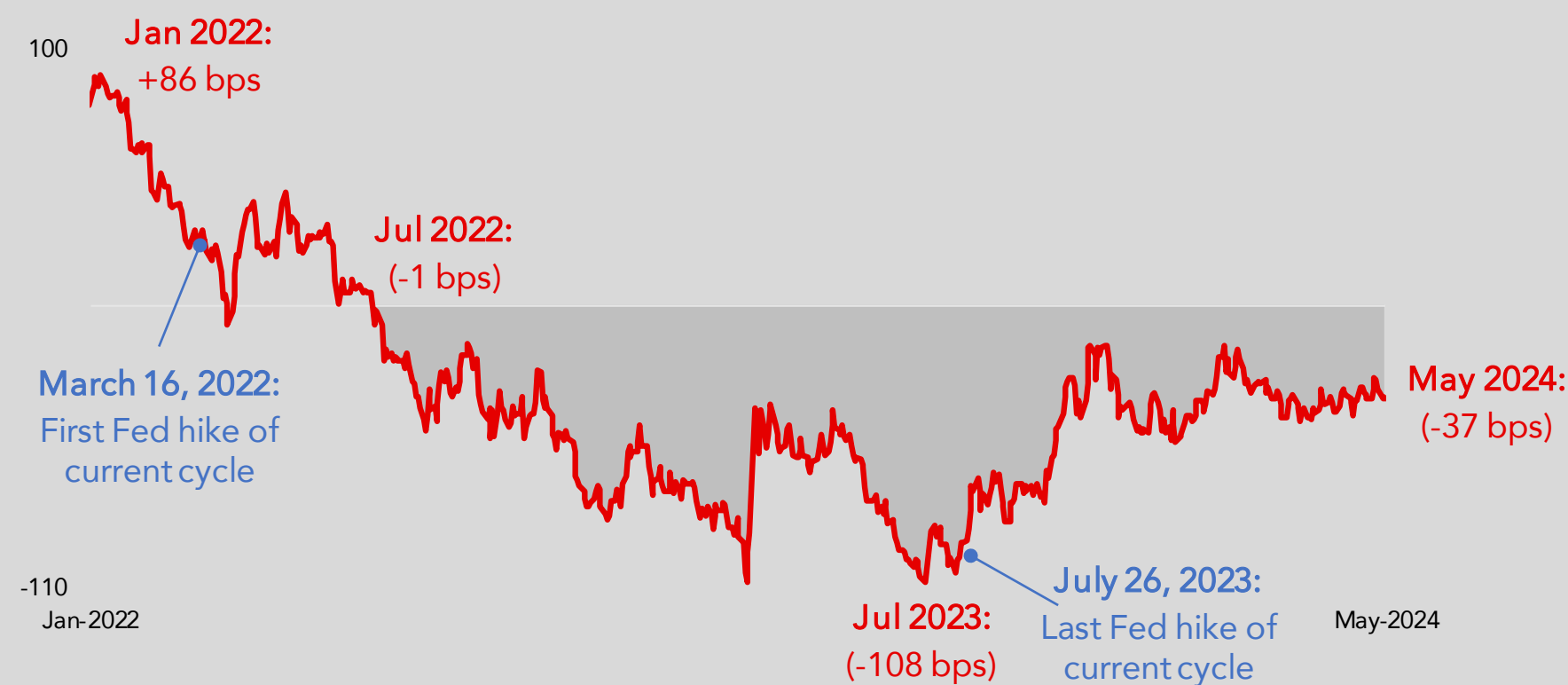
Today's Fed meeting is a reminder of the hawkish repricing in 2024 Fed rate cut expectations vis-a-vis expectations in January. Due in large part to this delay in the policy easing timeline, the 2s-10s yield curve inversion, which began in July 2022, has become the longest inversion period for the UST curve since the 1970s.

Incidents of 2s10s UST yield curve inversion since 1976



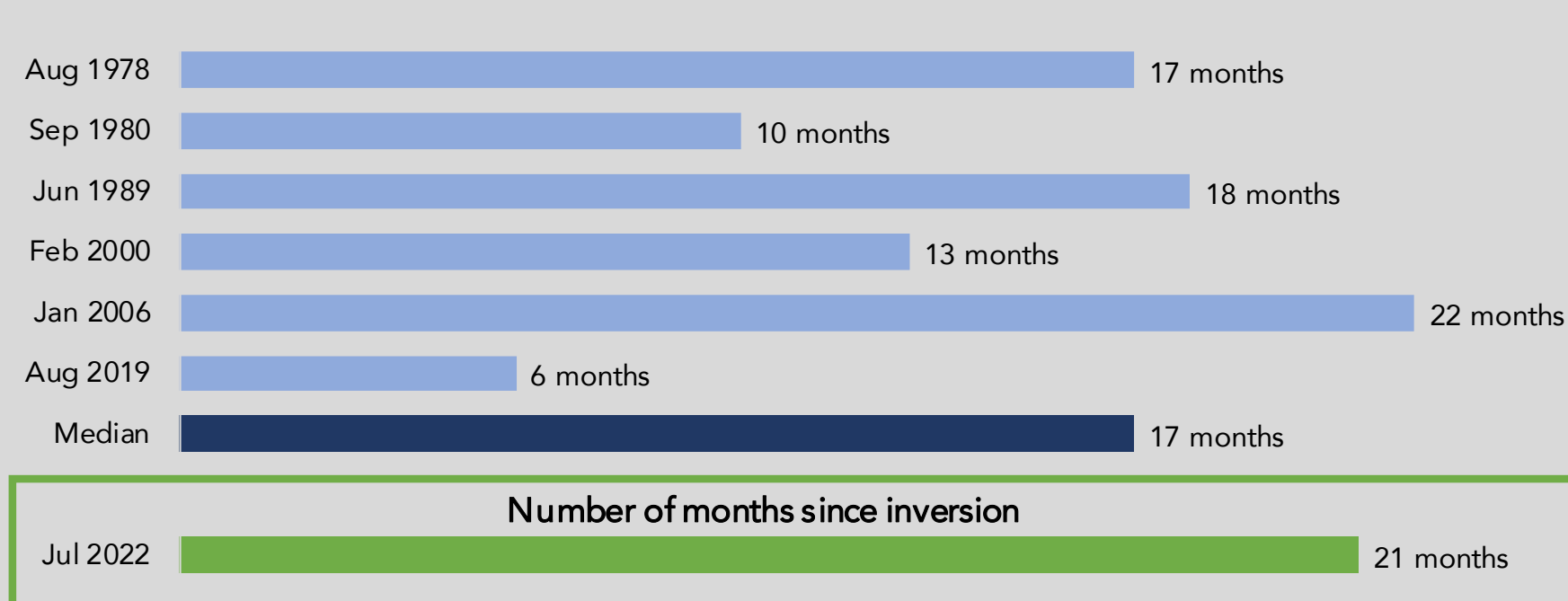
Solid US economic and inflation data have extended the period of US yield curve inversion to the longest in 50 years, thereby rendering this historically reliable predictor of US recession timing less accurate in the current economic cycle. The recent rise in energy prices has also contributed to the increase in inflation expectations as well as the duration of curve inversion. While gradual and continued dis-inversion of the yield curve is the most likely path from here, whether or not the curve breaks free from inversion in late 2024 or early 2025 will ultimately depend on the timing and pace of Fed policy easing.

2s10s UST yield curve



Historically, inversion of the UST yield curve has been among the more accurate signals, with reasonably few false positives, of US recession timing. On average, US recessions have followed approximately 12-18 months after initial inversion. Due to a range of largely unanticipated factors - less rate sensitive US economy, post COVID imbalances (i.e., excess stimulus and savings, tight labor markets) and range-bound energy prices - the current inversion period has well exceeded historic timelines for US recession timing following the moment of initial yield curve inversion.

Number of months between yield curve inversion and start of recession



Source: (1-3) Bloomberg. Data as of May 1, 2024.

Global Corporate & Investment Banking Capital Markets Strategy Team



Tom Joyce
Managing Director
Tom.Joyce@mufgsecurities.com
(212) 405-7472



Hailey Orr
Managing Director
Hailey.Orr@mufgsecurities.com
(212) 405-7429



Stephanie Kendal
Vice President
Stephanie.Kendal@mufgsecurities.com
(212) 405-7443



Angela Sun
Analyst
Angela.Sun@mufgsecurities.com
(212) 405 - 6952

“Macro stability isn’t everything, but without it, you have nothing.”