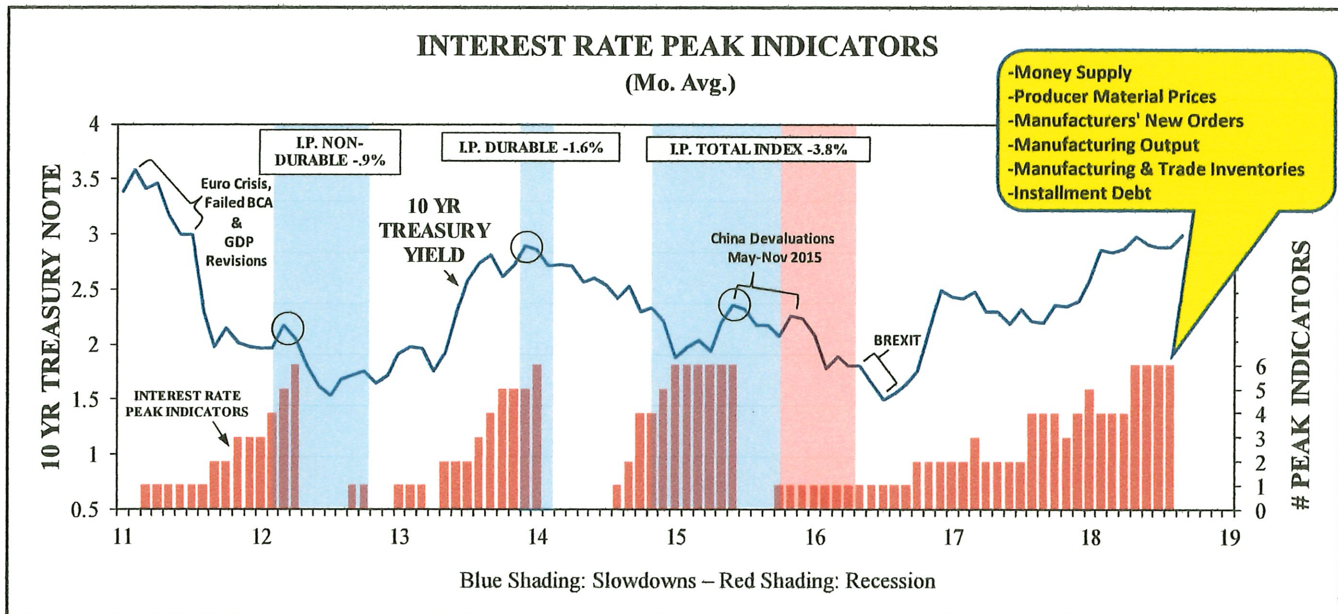
BUSINESS CYCLE DEVELOPMENTS

All six of six **Interest Rate Peak Indicators (IRPI's)** are now signaling. This isn't surprising, as six of eight **Business Cycle Peak Indicators (BCPI's)** are simultaneously signaling in what is expected to be a slowing U.S. economy starting between November 2017 and April 2018. Non-Durable output is always the first to weaken prior to slowing or recession and it's been sputtering since November 2017 – expanding no more than 1.5% for nine months. Yields cyclically peak and trough along with output and this pattern is expected to be repeated.



Blue Shading: Slowdowns – Red Shading: Recession

- Since 2000, there have been eight cyclical interest rate peaks. However, for a majority of these instances, by the time the sixth **IRPI** signaled the peak in the 10 year T-Note yield had already occurred! Obviously, with rates climbing, this current experience is an exception to most of these observations. So, this sixth **IRPI** is more proof – that with more hard evidence of slowing, or an external catalyst stemming from the aggressive Fed tightening policy – yields will once again cyclically decline, which will confound the consensus view. For a history of Fed shocks from tightening in a slowing economy see the August 15th update.
- From the sixth **IRPI** the projected mean-absolute-deviation to the upside for T-Note yields – based upon the past lead-times since 2000 – is a *monthly average* 3.11%. The current *monthly average* for the seven trading days in October is 3.15%.
- Buying treasuries at these levels looks attractive, as the average cyclical decline in yields since 2000 has been 161 basis points. Obviously, if we're expecting a slowing and not recession, then the cyclical decline will be less. The average decline for the slowdowns since 2000 has been about 100 basis points (range: 82 bp to 136 bp).