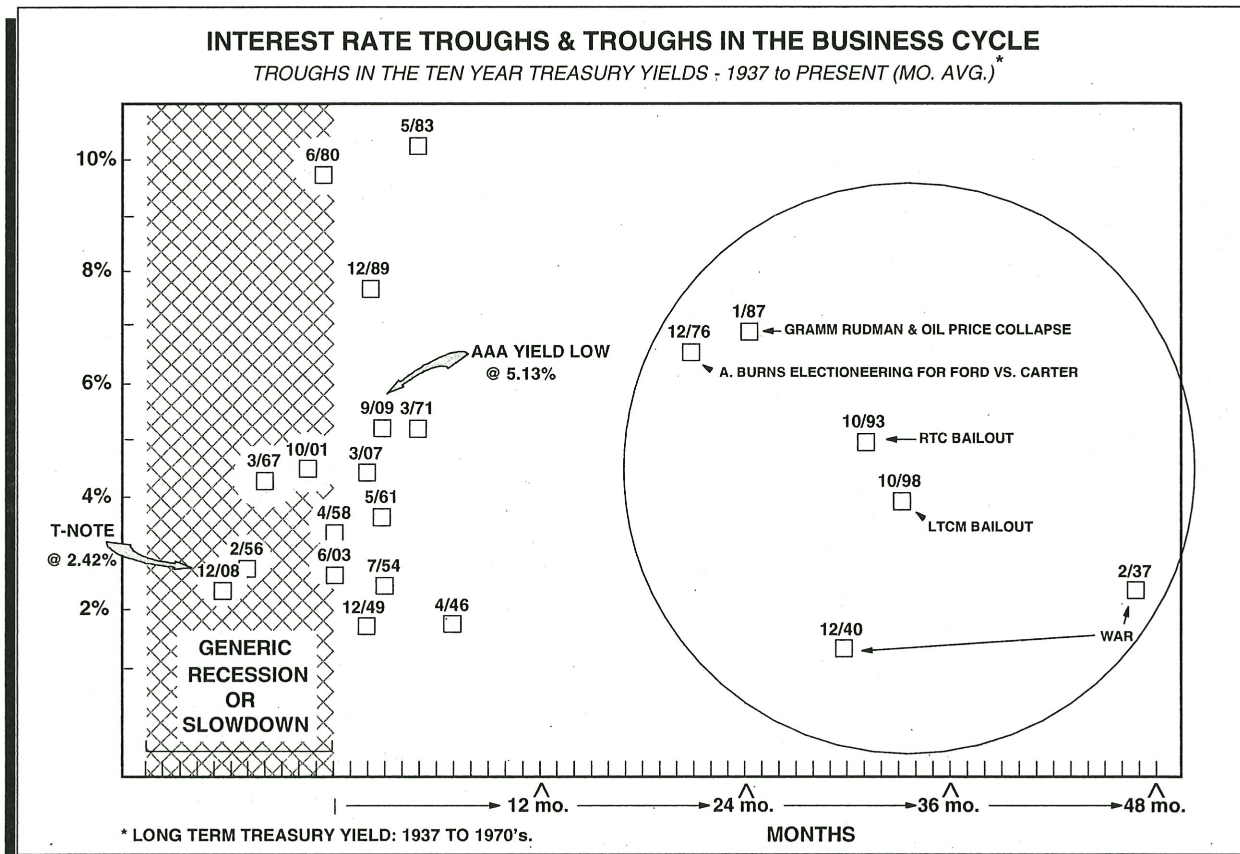
BUSINESS CYCLE DEVELOPMENTS

Treasury yields typically bottom an average of 3 or 4 months after the end of the recession or economic slowdown. Outliers, like bailouts and wars, will draw-out the Treasury low as much as 2 to 3 years after the end of the economic downturn - see chart. Solvency fear spiked T-Note yields to a low far earlier (12/08) than usual, but a proxy for this distortion can be seen in Aaa yields, which hit a *month average* low in September '09 - three months after the recession ended in June '09. So how long will these longer-dated



yields rise? They'll sluggishly drift higher until the next economic peak. Because a zero interest rate policy encourages a carry trade for buying of longer-dated paper looking for yield; hence the zero policy restrains rising yields. The yield rise to the next economic peak is currently projected by the **Business Cycle Peak Indicators,** to be centering in November '10 (Jul. '10 thru Mar. '11). The peak in treasury yields clusters around the economic peak without outliers - unlike troughs. A whiff of slowing or recession should drive quality spreads higher and rally treasuries, as investors seek safety.

Bill Weissert | #11/10 | March 25, 2010