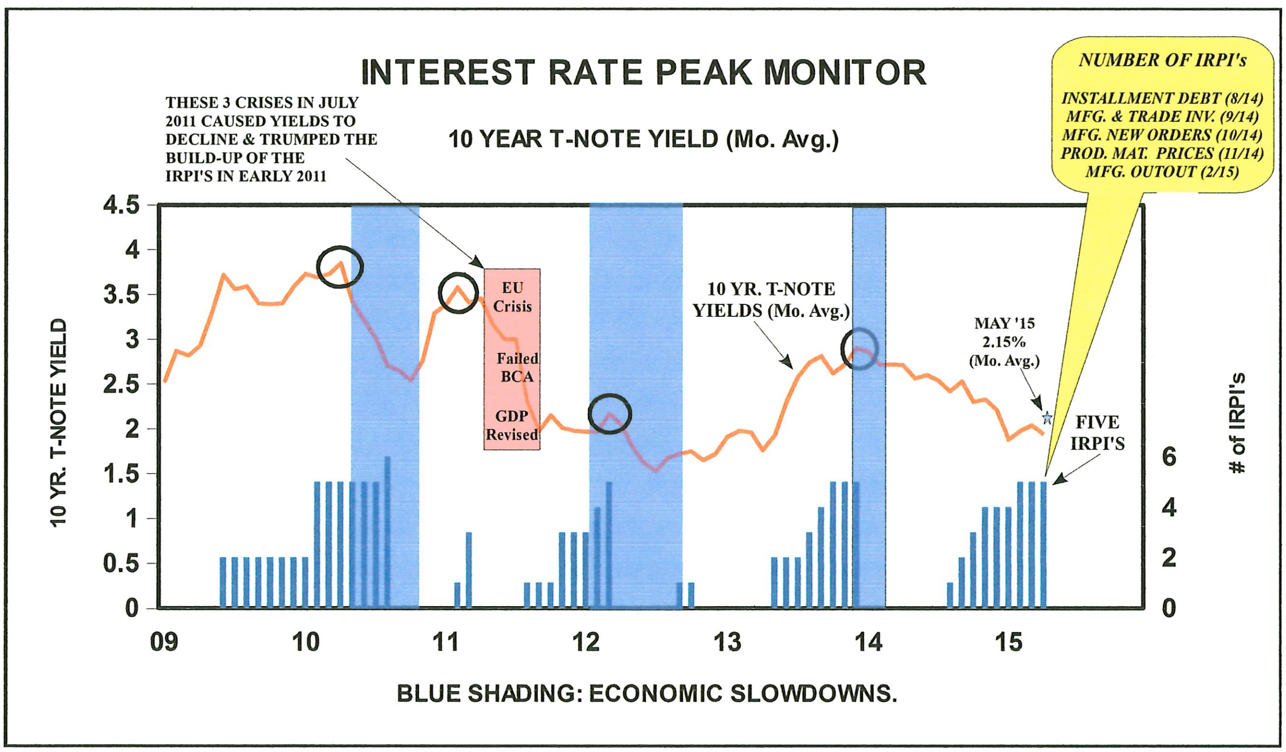
BUSINESS CYCLE DEVELOPMENTS

The **Interest Rate Peak Indicators** are pointing to an imminent peak in yields.

There are now five of six **IRPI's** signaling, which is an increase of two – see call out below for indicators and respective dates. The average lead-time from the 5th **IRPI** to the peak in T-Note yields is two months (+/- 4 mo.), which centers a peak in April 2015 and extends out to August 2015. In the fourth quarter of 2013 there were five of six **IRPI's** signaling and yields peaked in December 2013, which was followed by the negative first quarter GDP and a slowing U.S. economy. There is added support for these **IRPI's** based on the current five of eight **Business Cycle Peak Indicators** that are signaling weakness, also centering in August 2015 (+/- a few months) – see the April 30th report. Yields typically peak with a peak in output, so between the six **IRPI's** and the eight **BCPI's** there are 10 of 14 indicators pointing to some degree of economic slowing that has either already begun, or is about to begin. Since 2000 there has been one recession or slowdown after another, interspersed with slow growth.



Like 2013, when there were five of six **IRPI's** signaling, there were also five of eight **BCPI's** signaling. Once again in 2015, the **IRPI's** and **BCPI's** are doubling up. So there's too much evidence that the current expectations regarding economic growth and the anticipation for higher yields could surprisingly shift lower just as they did in the 4th quarter of 2013. Since 2000 the average decline in T-Note yields, which accompanied either a cyclical slowing or recession, has been -127 basis points. The ensuing peak in yields should be below the previous cyclical peak of 3.04% in December 2013 and, given the average -127 basis point decline, yields could easily exceed the old low in February 2015 of 1.68%. Look for ancillary technical or fundamental data for this view, as the indicators are pointing to buy the bond on weakness.

BCD Research, Inc. May 19, 2015