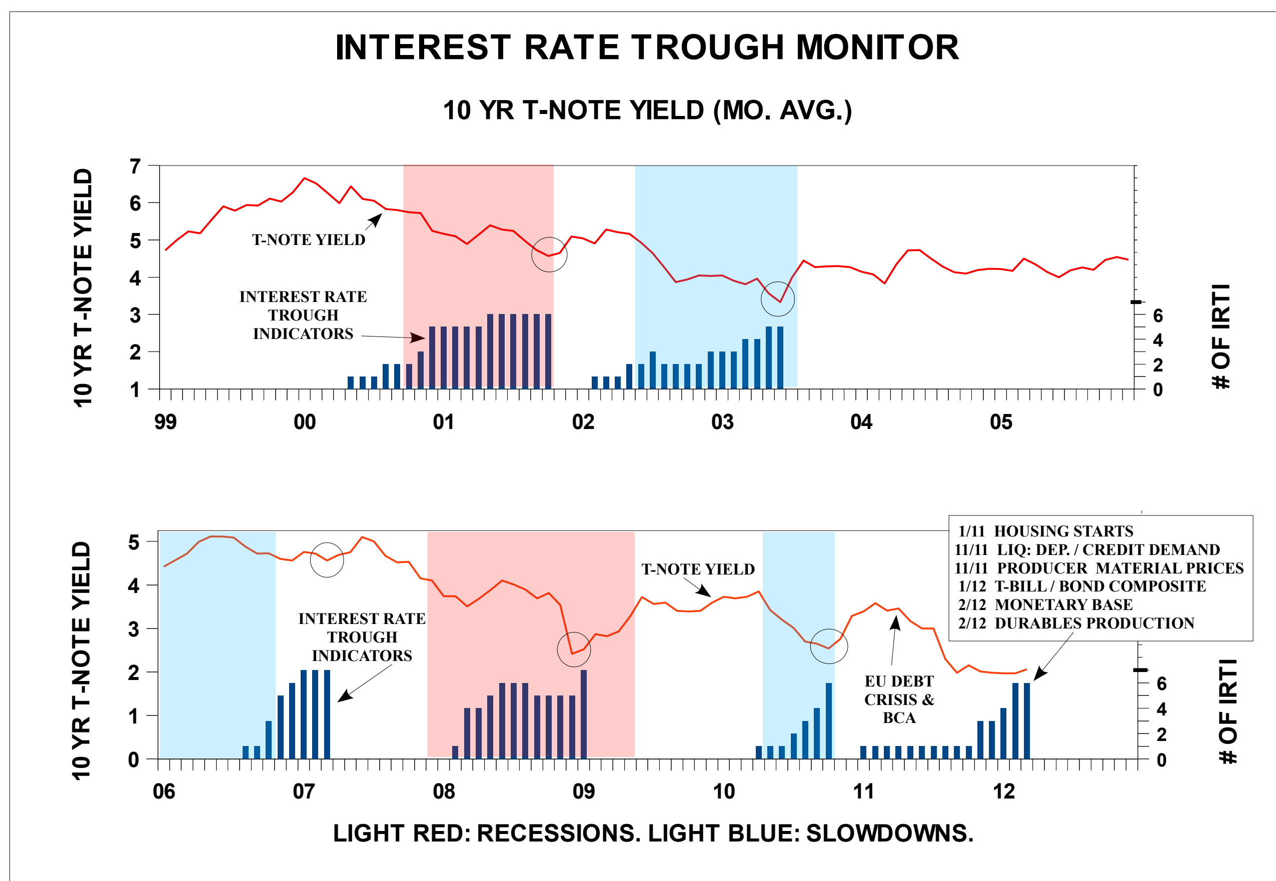
BUSINESS CYCLE DEVELOPMENTS

There are six of seven Interest Rate Trough Indicators (IRTI's) signaling a cyclical upturn in yields. Sell bonds on strength.

There were six **IRTI's** at the bottom of the last economic slowing in November 2010. It wasn't much of a slowdown and it appeared in Non-Durable Manufacturers. But it was enough of a slowing to cause T-Note yields to move lower by 160 basis points, which is a little less than the average decline in yields associated with economic slowdowns. Yields started climbing about the time the 2010 slowing ended and coincident with the sixth **IRTI** in October 2010. Yields kept rising until the spring of 2011, when the EU Debt Crisis and the Budget Control Act surfaced. These exogenous shocks caused yields to fall and then dip further again last October 2011 with Operation Twist. Meanwhile one new **IRTI** appeared in the spring of 2011 and continued to rebuild to the current sixth **IRTI**, which is exactly the



level back in October 2010 – see the bottom chart above. There's been 24 months of **IRTI** appearances and re-appearances and yields have been climbing for only five of the last 24 months, since the initial peak in April 2010. The first **IRTI** to signal, in the re-appearing series, was *Housing Starts* and the last two were *Monetary Base* and *Durables Production* in February 2012 - see the inset above.

It's expected there will be a few short quarters of a cyclical climb in interest rates until the next economic peak, where peaks in yields typically occur, unless there's another exogenous shock. It's likely to be a short rise because of both the five of eight **Business Cycle Peak Indicators** and the three of six **Interest Rate Peak Indicators** that are signaling. Quality spreads usually narrow after yields trough unless there's crisis, like last spring, so the narrowing is over for this elongated decline in yields.