BUSINESS CYCLE DEVELOPMENTS

<u>There are now six of 7 **Interest Rate Trough Indicators (IRTI's)** signaling a bottom in yields centering in February 2011 (October 2010 thru June 2011)</u>. One of the two Indicators is the *Monetary Base*, which typically leads the cyclical rise in yields by an average of 12 months (+/-10 mo.). The *Monetary Base* (currency, coins and bank reserves) are readily available and plentiful; however, it remains to be seen if these abundant reserves will be drawn into the economy, pushing yields higher. The second Indicator to signal is *Durables Production*, which has typically led the low in yields by 10 months (+/-5 mo.). <u>Six of seven **IRTI's** signaling is clearly a “sell bonds on strength” strategy.</u>

There's also 3 of eight **Business Cycle <u>Trough</u> Indicators** signaling. The 3rd **BCTI** is *Liquidity*

NBER / INDUSTRIAL PRODUCTION TROUGH	TEN YR TREASURY YIELD TROUGH TO ECONOMIC TROUGH		BAA YIELD TROUGH TO ECONOMIC TROUGH		FOOTNOTES FOR UNUSUAL YIELD PATTERNS AFTER AN ECONOMIC TROUGH
11/27 R	4/28	(-5mo)	3/82	(-4mo)	
3/33 R	1/37	(-46)	1/37	(-46)	GREAT DEPRESSION
6/38 R	12/40	(-30)	None	None	FED ACCORD BEGINS 4/42[1.]
10/45 R	4/46	(-6)	3/46	(-5)	
10/49 R	1/50	(-3)	2/51	(-16)	FED ACCORD ENDS 3/51
5/54 R	4/54	(+1)	11/54	(-8)	
7/56 SD	2/56	(+5)	None	None	STEEL & LONGSHOREMAN STRIKE
4/58 R	4/58	-0-	7/58	(-3)	
2/61 R	5/61	(-3)	5/61	(-3)	OPERATION TWIST 2/61 THRU 1965[2.]
7/67 SD	3/67	(+4)	2/67	(+5)	
11/70 R	3/71	(-4)	1/73	(-26)	
3/75 R	12/76	(-21)	9/77	(-28)	FED ELECTIONEERING: FORD VS. CARTER
7/80 R	6/80	(+1)	7/80	-0-	
11/82 R	5/83	(-5)	5/83	(-5)	
7/85 SD	1/87	(-18)	3/87	(-20)	GRAMM – RUDMAN BUDGET RECONCILATION
7/89 SD	12/89	(-5)	11/89	(-4)	
3/91 R	10/93	(-31)	10/93	(-31)	RTC LIQUIDATION (FIRREA 8/89)
1/96 SD	10/98	(-33)	9/98	(-32)	RUSSIA, BRAZIL & LTCM BAILOUT
11/01 R	10/01	(+1)	11/01	-0-	
8/03 SD	6/03	(+2)	6/05	(-22)	
1/07 SD	3/07	(-2)	11/06	(+2)	
6/09 R	12/08	(+6)	? ?	? ?	EMERGENCY ECONOMIC STAB. ACT of 10/08

1. SCRAMBLE FOR YIELD: IN 3/38 BAA YIELDS PEAKED @ 6.3% & FELL THRU 3/46 TO 2.9%. ALL YIELDS ARE MO. AVG.
2. IN OPERATION TWIST 10 YR. YIELDS RANGED 47 B.P. OVER 50 MONTHS & BAA YIELDS FELL 23 B.P. IN THE SAME 4+ YR. PERIOD.

– *GDP*, which monitors M2 vs. orders and shipments. Should these six **IRTI's** hold, <u>yields will likely bottom far earlier than a recovery from the current economic slowing</u>. Talk of “slowing” seems distant given that the double-dip recession isn't mentioned now, but a double-dip wasn't expected when seven of 8 **Business Cycle <u>Peak</u> Indicators** were signaling last March. <u>All the litmus tests then pointed to a slowing and not recession</u>. In the past, heavy-handed tinkering by the Fed and/or Treasury has pushed yields around with policies that hold yields lower and longer than market clearing rates normally allow – see table. <u>These policies have had effects recently and must be equally weighed with the six **IRTI's**.</u>

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