

HOW IT WORKS: THE YIELD CURVE AND BONDS



In the past few weeks the media have been talking about an "inverted yield curve" and why it may be an indicator of a coming recession.

For example, from *USA Today*: "One of the most closely watched predictors of a potential recession just yelped even louder."¹

As a well-informed investor you might want to know what the yield curve is and why so many people look to it as an economic indicator.

The yield curve is simply a line on a graph that compares the return rates at a given point in time of bonds with various lengths of maturity. The most frequently reported yield curve compares the three month, two-year, five-year, 10-year, and 30-year U.S. Treasuries.²

The shape of the curve connecting these points is used as an indicator of future interest rate changes and economic activity. When investors are optimistic about future economic growth, they tend to favor instruments like stocks and so must be paid a higher yield for longer term bonds—a premium for having their money tied up for a longer period. This results in a "normal" upward curve where bond yields are incrementally higher as maturities get longer.

But when investors are unsure about the future, they tend to abandon stocks, replacing them with things like lower risk Treasuries. As demand for long-term bonds increases, the rates they must pay to attract purchasers decreases. As a result, the line on the graph flattens out or even begins arcing downward in what's described as an inverted yield curve.

Several weeks ago three-month Treasury bonds were yielding 2.45% while the 10-year bond was yielding only 2.43%.

According to *USA Today*, "The last time a three-month Treasury yielded more than a 10-year Treasury was in late 2006 and early 2007, before the Great Recession made landfall in December 2007."

Is this a sure sign that a recession is coming? No one knows for certain though you can certainly find lots of people claiming they do.

It's important to remember that the yield curve is simply a snapshot of investor sentiment, just another measure of market activity. Sometimes it's an indicator of an impending recession. But sometimes it's not, as was the case with the inversion of 1966.

Frances Donald, head of macroeconomic strategy at Manulife Asset Management says that it's a sign to take seriously, but "it's too early to tell whether this is indeed a harbinger of recession or a blip."

Some doubts about our current curve as an indicator include the fact that parts of the curve aren't inverted. And late last year the Federal Reserve Bank of Richmond issued a paper questioning whether central bank asset purchases have "tempered the reliability" of the yield curve as a future indicator.³

While the yield curve as a measuring tool itself is the same, the circumstances today in bond markets are very distinct from previous inversion periods. For example, the Federal Reserve's Quantitative Easing [QE] policy for nearly a decade is finally being unwound with incremental interest rate hikes. Interest rate hikes are nothing new. But the QE conditions from 2008 to 2017 were arguably an unprecedented market condition. So maybe today's yield curve does or *doesn't* look like others in history for completely different reasons.

Additionally, because the yield curve is so influential, news of its inversion may lead to a self-fulfilling prophecy. "We're so accustomed to this telling us a recession is ahead," says Donald, "that my concern is businesses and households get so scared they effectively create one."

Since there is no completely reliable indicator of future market behavior, as a prudent investor you should make allowances for all possible activity, both run-ups and recessions, through a globally diverse strategy.

Our planning process takes all this into account, and then help you stick to it as you progress confidently toward your investment and retirement goals.

Have a great weekend!

Source: Efficient Advisors

Golf Tip of the Week



Everyone Needs a Cure for the Shanks

Most people would rather not acknowledge their shanks on the course. But believe it or not, even the ugliest of shanks is fixable.

The first thing you need to do is take a break from the course and head to the range. It's time to check in on some basics. Make sure your posture is correct, with your chest up during the swing. Try not to grip the club too tightly, and always make sure your weight isn't toward your toes.

Set up like you're going to hit it, and then put a tee in the ground just outside the toe of the club. While you're swinging, think about keeping the grip end of the club near your body. The trick is to miss the tee at impact, so you'll hit the ball in the center of the face.

Tip courtesy of David Leadbetter, PGA | Golf Digest¹

Recipe of the Week

Spectacular Blood Orange Tart with Toasted Meringue



Serves 8

Ingredients:

Crust

$\frac{3}{4}$ cup (1½ sticks) unsalted butter, melted
5 Tbsp. sugar
 $\frac{1}{2}$ tsp. salt
1¾ cup, plus 2 Tbsp., all-purpose flour

Filling

1⅔ cups sugar
 $\frac{1}{4}$ cup, plus 1 Tbsp., cornstarch
3 tsp. all-purpose flour
 $\frac{1}{4}$ tsp. salt
2 cups water
1½ cups fresh blood orange juice
3 Tbsp. unsalted butter, softened
5 large egg yolks, lightly beaten

Meringue

5 large egg whites
 $\frac{1}{2}$ tsp. cream of tartar
 $\frac{2}{3}$ cup sugar
1 tsp. vanilla extract

Directions:

Crust

1. Preheat oven to 350°F.
2. Blend together the butter, sugar, and salt in a large mixing bowl.
3. Add flour and stir until the mixture comes together into a soft dough.
4. Carefully press the dough into the bottom of a 9-inch springform pan, going up the sides to about 2 inches.
5. Press evenly along the bottom and sides of the pan, so the dough is about $\frac{1}{4}$ -inch thick. Cover and refrigerate for 30 minutes.
6. Once the dough comes out of the refrigerator, line the inside of the unbaked shell with parchment paper, and put in about 3 cups of any type of dry beans or rice for weight.

7. Place the tart shell onto a baking sheet and bake for 20 to 25 minutes.
8. Remove the beans and parchment and continue to bake for an additional 20 to 25 minutes, or until golden brown, then cool completely.

Filling

1. Put the sugar, cornstarch, flour, and salt, with water and blood orange juice, into a saucepan over medium-high heat.
2. Whisk together and bring to a boil, stirring frequently until the mixture is thick enough to coat the back of a spoon.
3. Blend in the butter and stir until smooth.
4. Whisk egg yolks together in a mixing bowl.
5. To temper the batter, pour ½ cup of the egg yolks into the blood orange mixture while whisking.
6. Continue to temper by whisking the egg mixture into the blood orange mixture, then lower heat to medium and simmer, while whisking until thick.
7. Once the mixture is thickened, remove from heat and cool for 10 minutes, then pour into the baked tart shell.
8. Refrigerate the tart – it should set in about 4 hours, but don't refrigerate longer than 48 hours.

Meringue

1. Prepare the meringue with a stand mixer, using the whisk attachment. Beat the egg whites until frothy, then add cream of tartar.
2. While continuously beating, add sugar, 2 Tbsp. at a time, until it is dissolved into the mixture.
3. Add vanilla, and continue to beat until stiff, white peaks form.

To serve, top the tart evenly with the meringue, creating peaks. Lightly toast the peaks with a brulee torch.

Recipe adapted from Spoon Fork Baconⁱⁱ

Health Tip of the Week



Practice Breathing for Serenity

Breathing deeply is a simple practice for calming your mind and body as well as reducing stress. There are many breathing techniques that can be used with practicing yoga, meditating, or even, on their own. Here is one simple technique can help calm the nervous system, and you can practice it wherever you want – The 4-7-8 Relaxing Breath:

- Exhale completely through your mouth, making a whooshing sound.
- Close your mouth and inhale quietly through your nose, filling your lungs as you quietly count to four.
- Next, hold your breath for a count of seven.
- Exhale completely through your mouth. Push all the air out, making a whoosh sound to a count of eight. You've completed one breath cycle.
- Inhale again and repeat the cycle three more times, for a total of four breaths.

There are many other breathing techniques you can research and try for reducing anxiety, improving lung capacity, and achieving a calmer state of mind.

Tip adapted from www.drweil.comⁱⁱⁱ

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Sources:

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ⁱ <https://www.golfdigest.com/story/how-to-cure-the-shanks-there-we-said-it>

ⁱⁱ <http://www.spoonforkbacon.com/2017/03/blood-orange-tart-with-toasted-meringue/>

ⁱⁱⁱ <https://www.drweil.com/health-wellness/body-mind-spirit/stress-anxiety/breathing-three-exercises/>