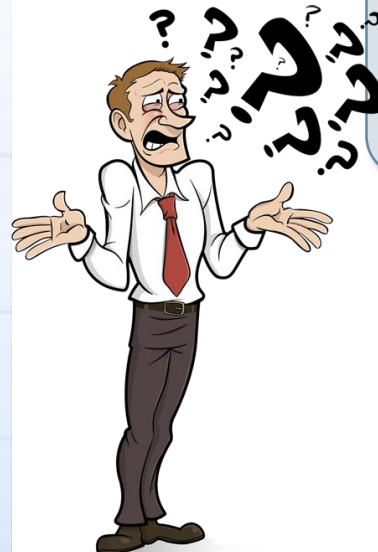
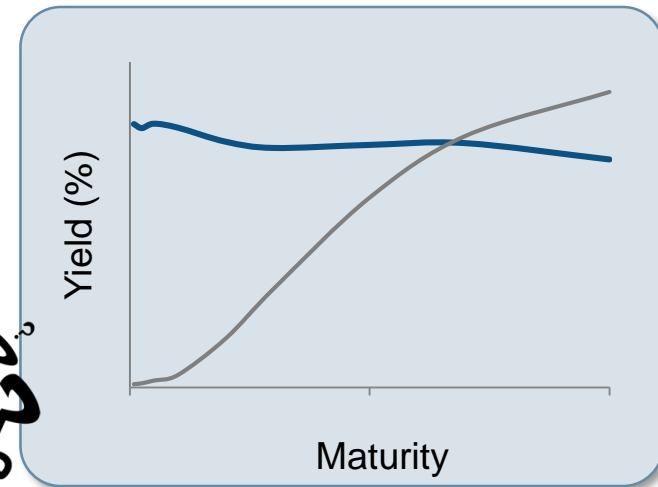


The U.S. Yield Curve Inverted...Now What?

April 2019



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1991 – Joined Payden & Rygel

James Sarni, CFA®, is a Managing Principal at Payden & Rygel and a member of the board of directors. Sarni is a member of the firm's Investment Policy Committee and serves as a Senior Portfolio Manager advising pension funds, insurance companies, corporations, health care organizations, Taft-Hartley plans, universities and endowments. Sarni is also a trustee of The Payden & Rygel Investment Group, the sponsor of the Paydenfunds, for which Payden & Rygel is the investment advisor and a frequent speaker with financial media and is regularly quoted on topics related to investing and the economy.

Prior to joining Payden & Rygel, Sarni was a Vice President and senior portfolio manager at First Interstate Bank where he managed the trust department's commingled bond funds as well as institutional client portfolios.

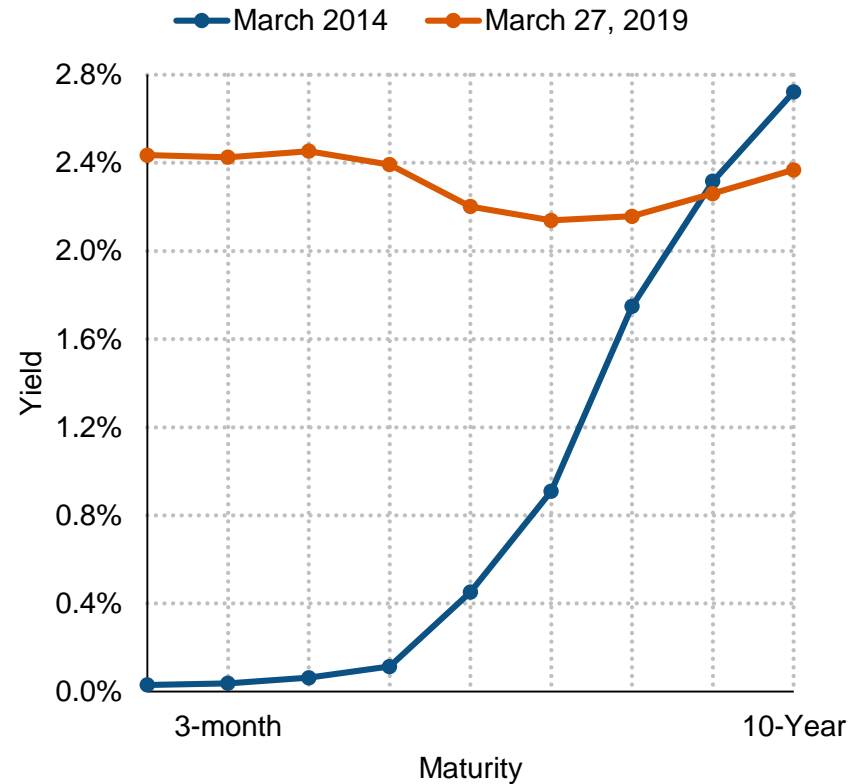
James Sarni is a member of the University of Southern California's (USC) Marshall School of Business Board of Leaders and also the Board of Directors of USC's Center for Investment Studies, the Pasadena City College Foundation, Descanso Gardens and Mayfield Junior School. He is also a member of the CFA® Institute. He is past president of the Washington, DC-based Investment Adviser Association, CFA® Society of Los Angeles and St. Philip the Apostle School board of trustees.

Sarni holds the Chartered Financial Analyst® designation. He earned an MBA with an emphasis in finance and a BS from the University of Southern California.

The Yield Curve Inverted...So What Does It Mean?



- The so-called “yield curve” has inverted. In late March 2019, the yield on the 3-month U.S. Treasury bill rose above the yield on the 10-year Treasury note for the first time since 2007.
- We have long touted the yield curve as a leading indicator of the business cycle, but the “lead time” can be long and variable.
- While we think yield curve inversion remains a useful warning sign, there are important caveats – this time may be different.
- Pay attention to the shape of the curve, but keep calm and carry on for now. Other economic indicators suggest the current business cycle has a ways to go!
- Is there something that worries us? Housing.

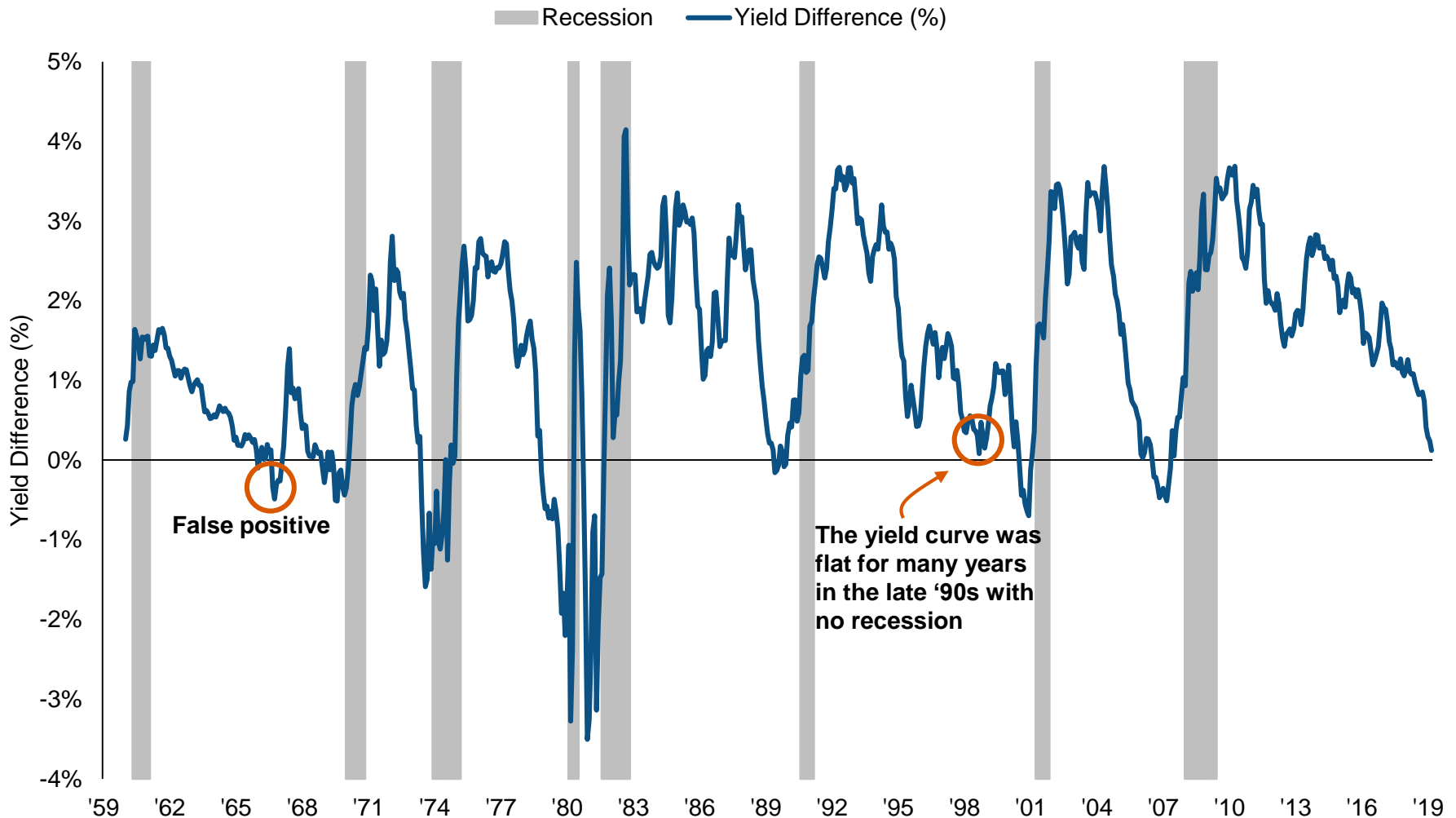


Source: Bloomberg

Yield Curve Inversions Often Precede Recessions... But Not Always!



10-Year U.S. Treasury Note Yield Minus 3-Month U.S. Treasury Bill Yield

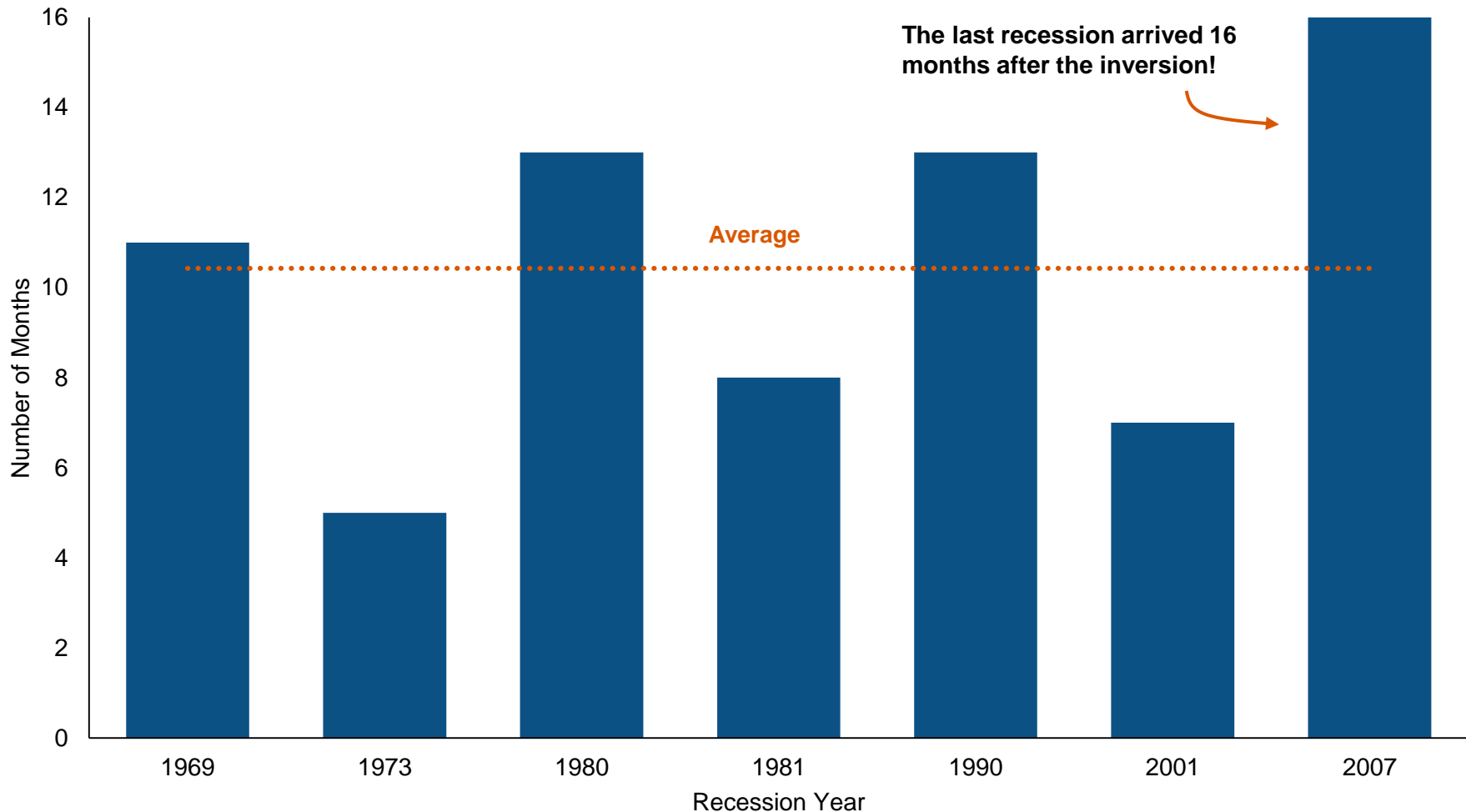


Sources: Federal Reserve, Payden Economics

Yield Curve Inversion Can Be Predictive...With Long and Variable Lags.



Time Lag Between U.S. Yield Curve Inversion and Start of Recession In the Post-War Era

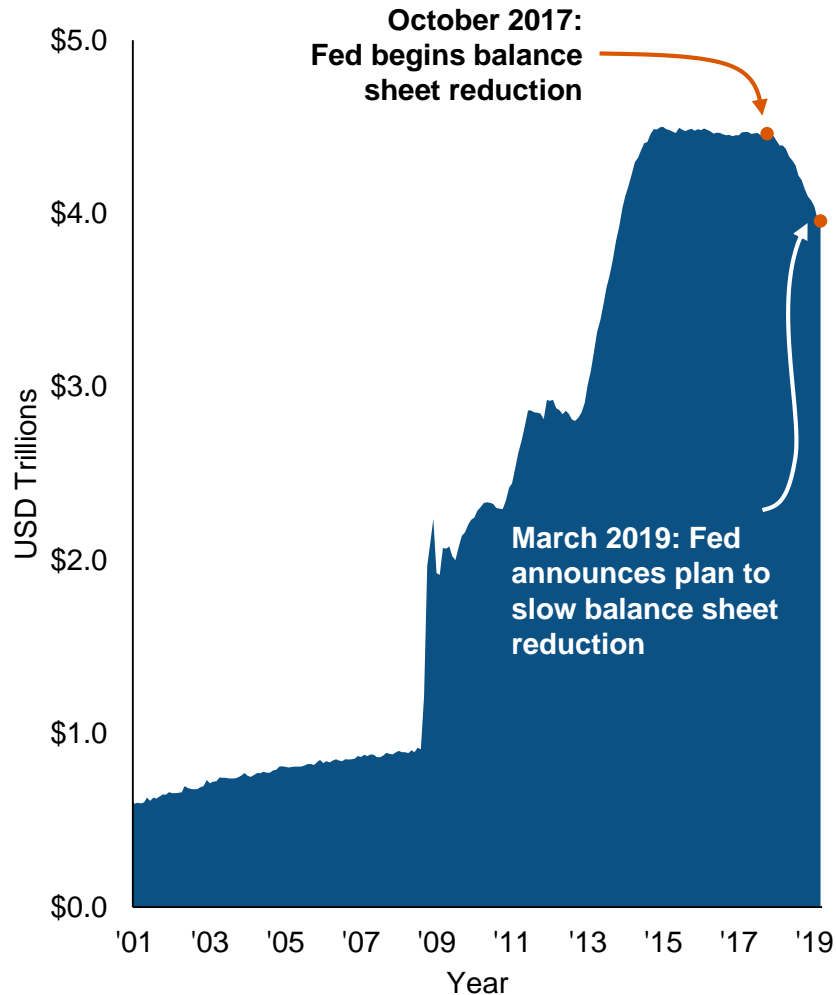


Source: St. Louis Federal Reserve

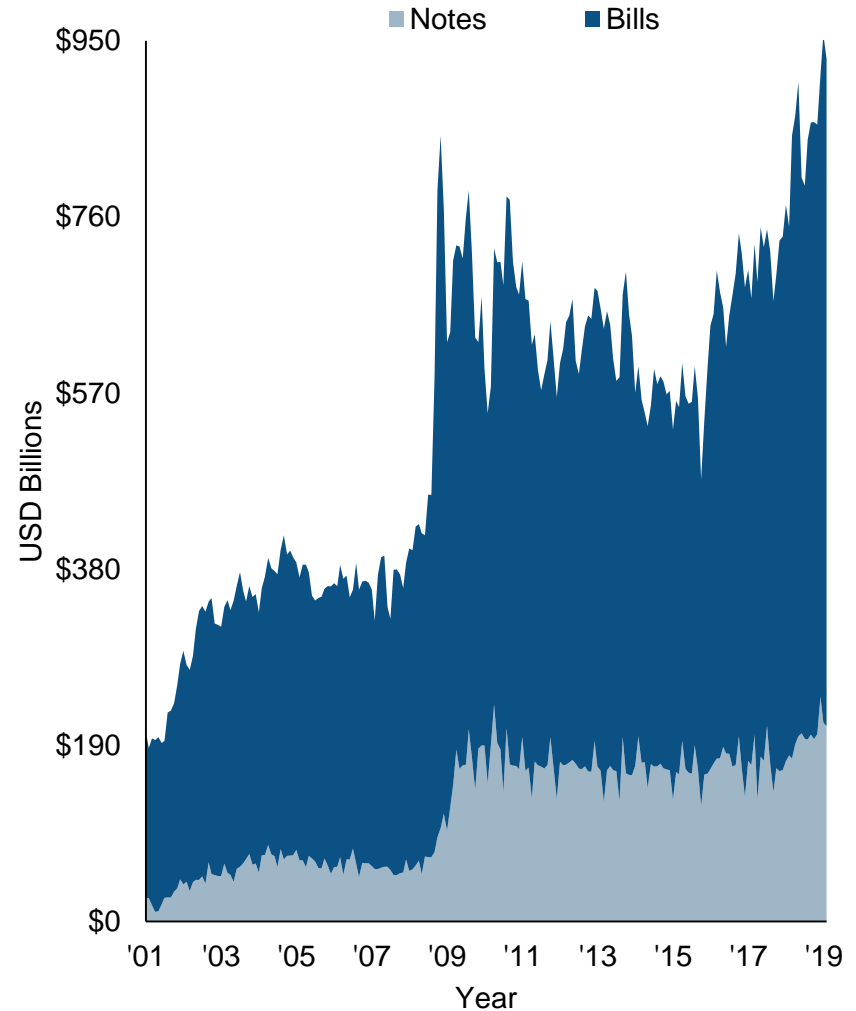
So What About the Fed's Balance Sheet? The Fed Is Now Committed To Keeping It Larger for Longer. Meanwhile, T-Bill Issuance Has Surged.



Federal Reserve Balance Sheet



U.S. Treasury Bills and Notes Gross Issuance (3-Month Moving Average)

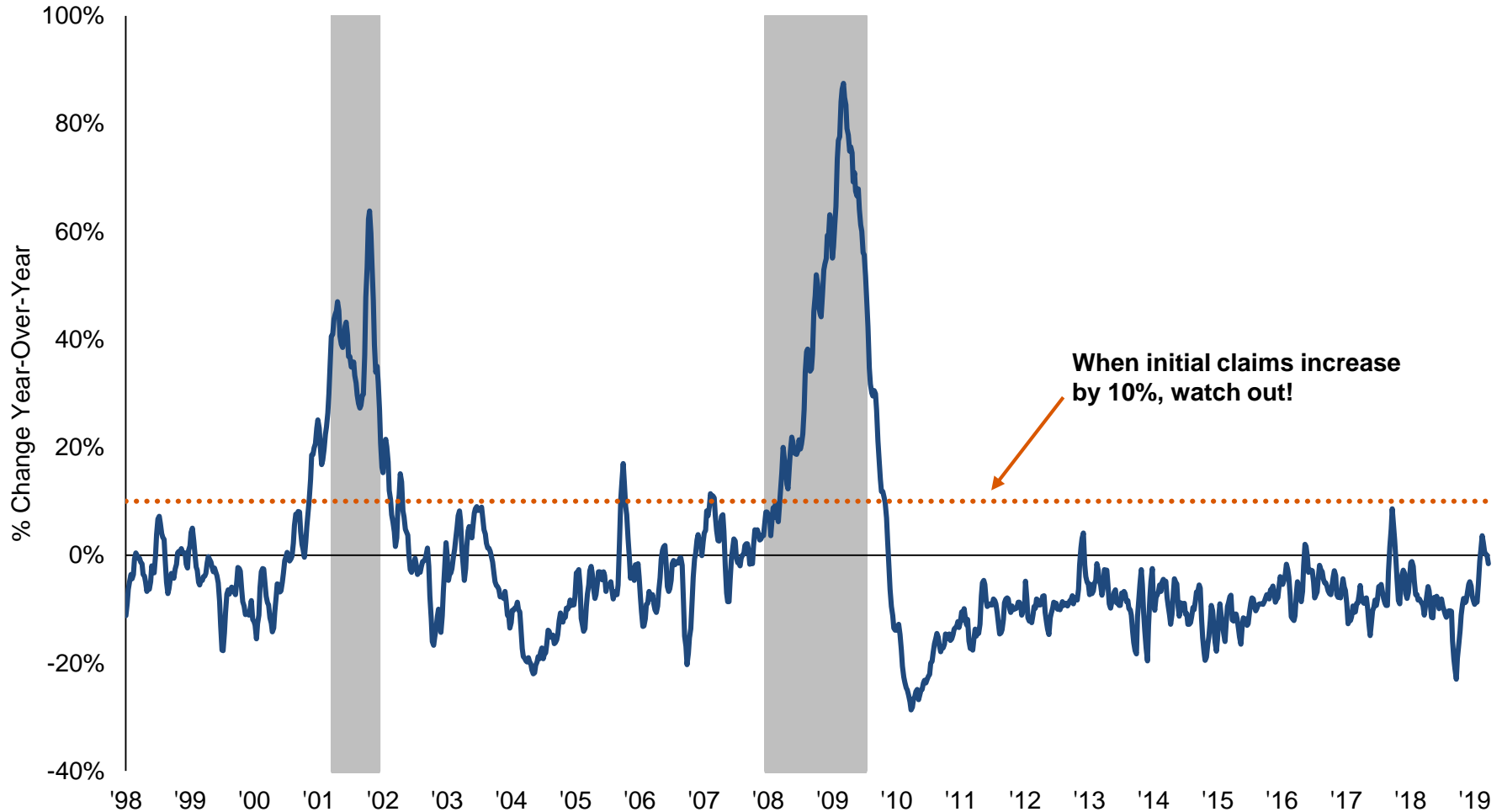


Source: Federal Reserve, SIFMA

Don't Be Too Worried. Initial Claims for Unemployment Insurance Remain Low.

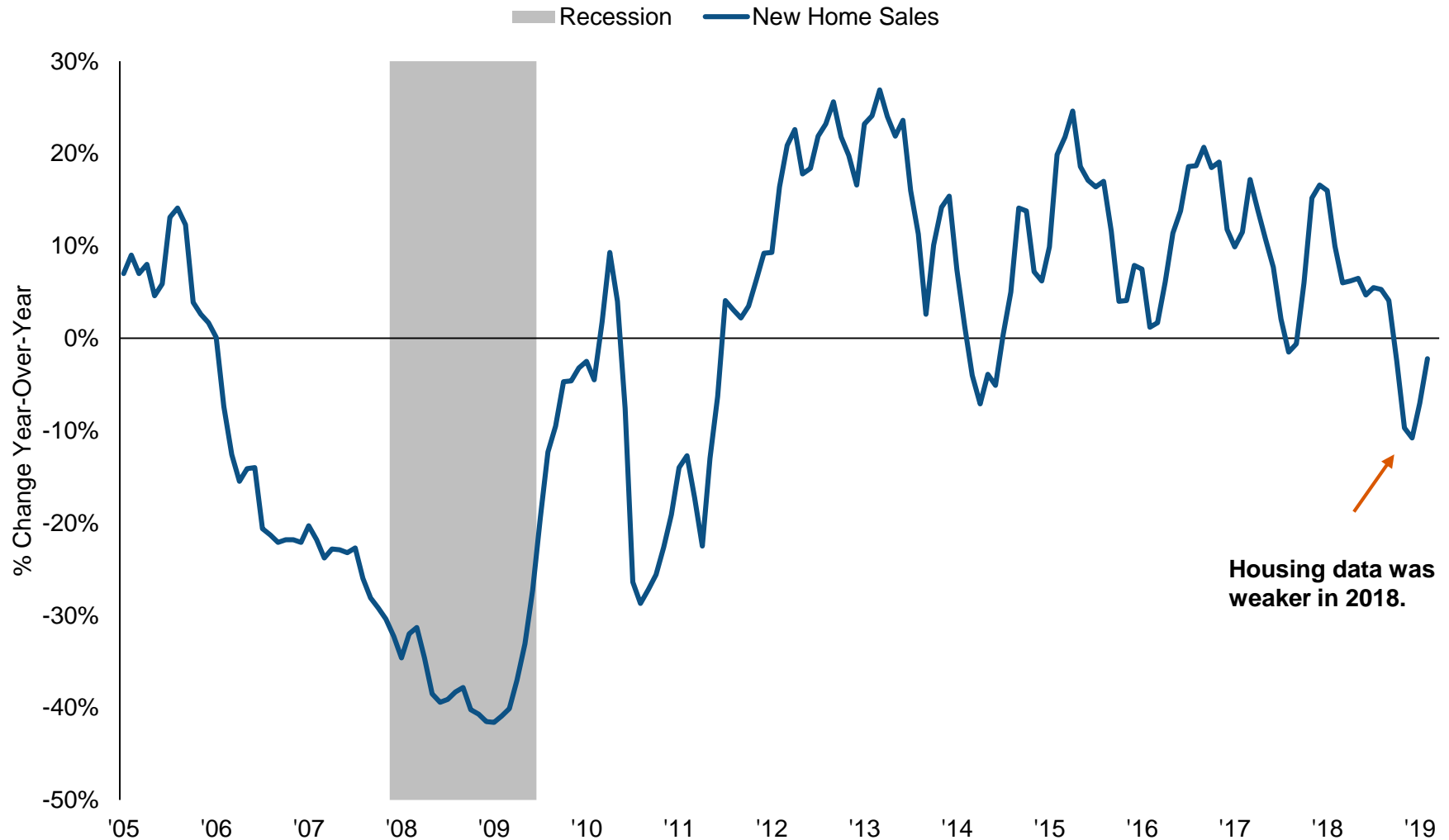


Year-Over-Year Change in Initial Claims for Unemployment Insurance (4-Week Moving Average)



Source: Department of Labor

U.S. New Home Sales 3-Month Moving Average (Seasonally Adjusted Annual Rate)



Source: Census Bureau