



Recession or Not: What the Longest Inverted Yield Curve in History Tells Us

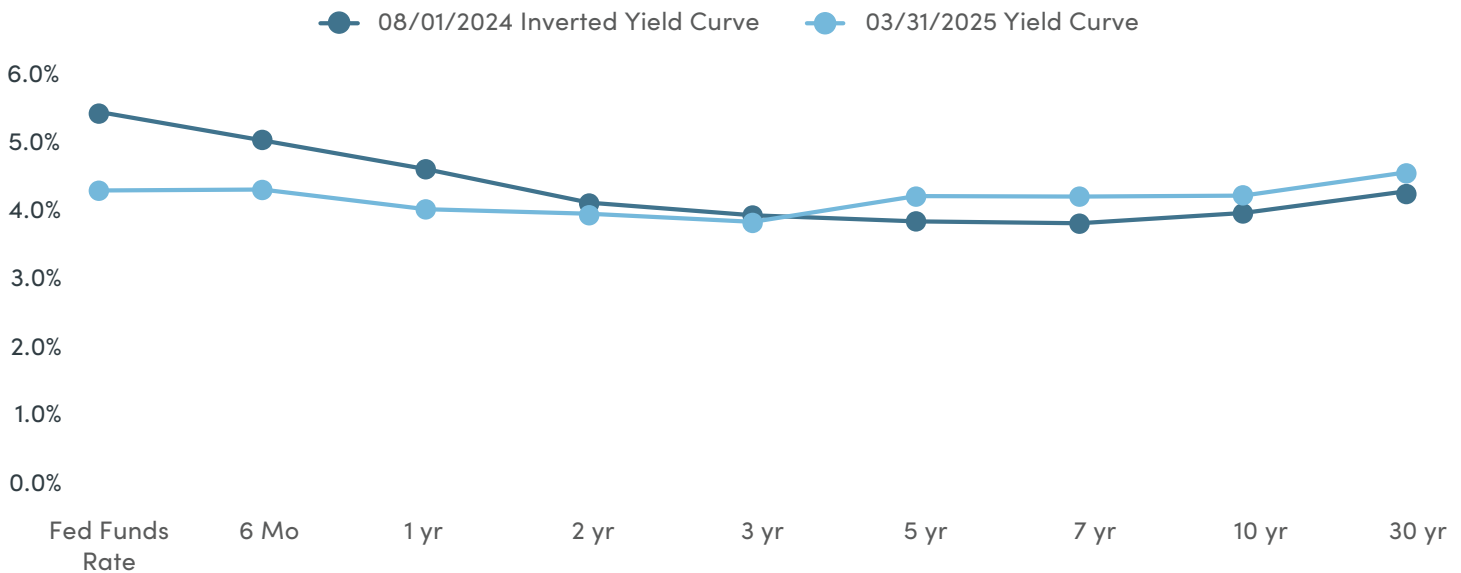
Over the past few months, you may have read financial news about the prolonged inverted yield curve, a phenomenon where short-term U.S. Treasury debt interest rates exceed long-term rates.

An inverted yield curve is normally a reliable predictor of an oncoming economic recession. Still, the recent two-year inversion of the yield curve ended toward the end of Summer 2024 and a recession has yet to show itself. The uncertainty may threaten previous assumptions you have had about where to place your money, leaving you sidelined by indecision.

Is the Yield Curve an Economic Crystal Ball?

The yield curve refers to the chart of current pricing of the U.S. Treasury debt instruments by maturity. The chart displays the interest rates that such instruments pay reflecting the federal funds rate and expectations of future returns.² An inverted yield curve occurs when long-term U.S. Treasury rates become lower than short-term rates and can indicate that investors are pessimistic about the near-term economy and demand higher yields for shorter-term investments.

Yield Curve U.S. Treasuries — Constant Maturity Rates



¹ Reuters.com/markets/rates-bonds/us-treasury-key-yield-curve-inversion-becomes-longest-record-2024-03-21/#:~:text=The%20part%20of%20the%20Treasury,in%20a%20note%20on%20Thursday.

² GuruFocus.com/yield_curve.php

Historically, when the yield on a 10-year note falls below the yield on a 2-year note (i.e. when the “2s10s” yield curve inverts), recessions have followed.³ The first instance of an inverted yield curve occurred back in 1929 just before the Great Depression, which continued for more than a decade. Since the late 1970s, an inverted yield curve has preceded every U.S. recession. Of the seven instances, the interval between an inverted yield curve and the onset of a recession ranged from six to 24 months.⁴

Date the 10 Year-2 Year Spread First Turned Negative	Date the Recession Started	Time from Inversion to Recession
08/17/1978	02/01/1980	17 months, 16 days
09/12/1980	07/01/1981	9 months, 20 days
12/13/1988	07/01/1990	18 months, 19 days
02/02/2000	03/01/2001	13 months, 0 days
12/27/2005	12/01/2007	23 months, 5 days
08/27/2019	02/1/2020	5 months 6 days
04/01/2022	Recession Not Declared Yet	Recession Not Declared Yet

Contributing Factors to Current Volatility in the Market

- **Federal Reserve Policy Uncertainty** — The Fed pausing rate changes can create uncertainty as investors speculate on future monetary policy moves, affecting market confidence.
- **Long-Term Interest Rate Uncertainty** — Unclear direction on long-term rates impacts bond yields, borrowing costs, and investment decisions.
- **Stock Market Declines** — A downturn in equities can signal investor caution, reduce consumer confidence, and trigger further market selloffs.
- **Political Regime Change** — Elections and leadership transitions introduce policy uncertainty, impacting regulations, taxes, and economic strategies.
- **Tariffs and Trade Policy** — Trade restrictions or new tariffs can disrupt supply chains, increase costs for businesses, and slow global economic growth.
- **Economic Growth Concerns** — Slower GDP growth or recession fears can lead to market volatility as investors reassess risk exposure.

Key Considerations During Uncertain Times

1. **Consider rebalancing your portfolio.** Maintaining diversification is key to mitigating market risks. An assessment of your portfolio may entail rebalancing equities and bonds to suit your needs.
2. **Protect against downside risks.** In a recent survey, 53% of pre-retirees and retirees reported that protecting assets was equally important to maximizing gains. This may be a time to consider leveraging annuities that provide tax deferral, guarantees against the loss of principal, and the potential for credited interest.
3. **Maintain focus on your long-term goals.** Regardless of market possibilities, keep your eye on your financial goals and the primary factors that impact them – economic growth, interest rates, and corporate earnings.

³ TKER.co/p/when-the-recession-indicators-failed

⁴ Get.ycharts.com/resources/blog/inverted-yield-curve-what-it-means-and-how-to-navigate-it/

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