GPA GOVERNMENT PORTFOLIO ADVISORS

HOW LONG UNTIL THE RECESSION?

September 4, 2019

Jim Bianco of Bianco Research has done some interesting studies of the yield curve, and it's use as a predictor of a coming recession. The data below demonstrates the strong predictive powers of the inversion of the 3-month Treasury bill to the 10-year Treasury note. An inversion occurs when the 3-month Treasury bill is yielding less than the 10-year Treasury note. There have been eight inversions lasting over ten consecutive days over the last fifty years, and a recession has followed every inversion. The average time from the start of an inversion and the start of a recession is 311 days with a minimum spread of 140 days and the maximum spread of 487 days.

How Long Until the Recession?

When the 3-month to 10-year yield curve inverts for **10 consecutive trading days**

Date of Inversion	Consecutive Trading Days Inverted	Date of Next Recession	Calendar Days to Next Recession
1/10/1969	24	Dec-69	325
6/14/1973	177	Nov-73	140
12/8/1978	91	Jan-80	389
11/7/1980	102	Jul-81	236
6/6/1989	30	Jul-90	390
7/31/2000	135	Mar-01	213
8/1/2006	217	Dec-07	487
6/6/2019	41	????	????
Average	**111**		**311**

1/10/1969 = inverted for 24 calendar days, went positive for 33 days, then inverted again for 53 days

6/6/1989 = inverted for 30 calendar days, went postive for 9 days, inverted again for 26 days

6/6/2019 = As of July 31 the inversion has been 41 consecutive trading days.
Positive for 1 day, inverted since (21 days through August 20)

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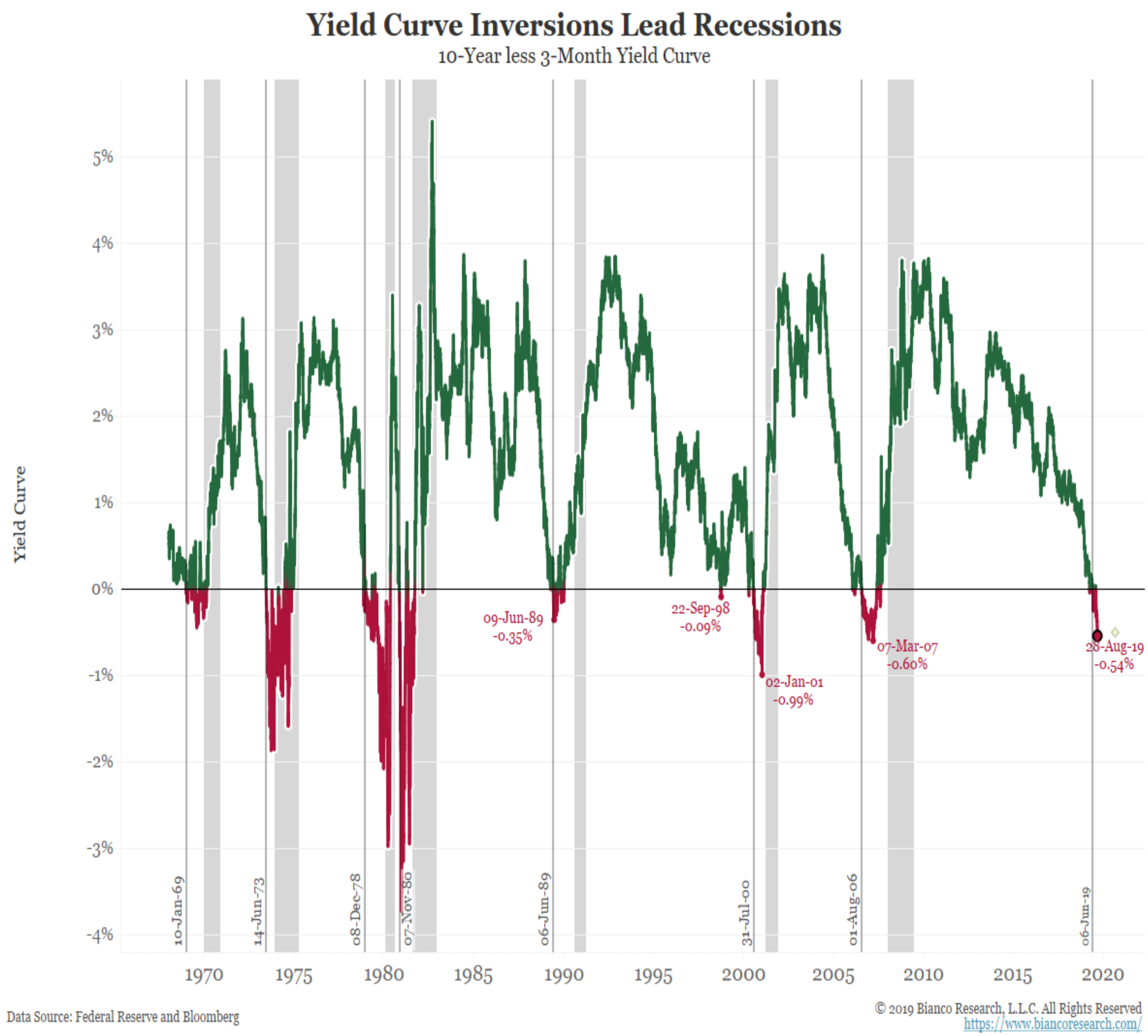
The graph below shows recessionary periods in the shaded areas. The green line is a positive slope to the 3 month Treasury bill to the 10 year Treasury note, and the red line is when this relationship is inverted. Recessionary periods have always followed an inversion between the 3 month Treasury bill and the 10 year Treasury note.



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It is interesting that economists have almost always failed to predict a recession. The graph below displays the percentage of economic forecasters that were predicting a recession at any point in time over the last fifty years. Notice that the highest percentage of forecaster predicting a recession since 1969 was 33.34% during Q4 of 1978. Before the last major recession in 2008, which was the largest recession since the Great Depression, only 23% of professional economic forecasters were predicting a recession. Today, the prediction of a coming recession by economic forecasters is currently 26%. Historically, forecasters have been much less accurate in predicting a coming recession versus the predictive power of an inversion in the 3 month Treasury bill versus the 10 year Treasury note.