

Dear reader,

In the world of finance, the yield curve has long been regarded as an essential indicator for predicting economic trends. However, recent developments have sparked debates about the reliability of this once-revered signal. Specifically, the inverted yield curve in the United States has raised concerns as it defies expectations and challenges traditional interpretations. In this report, we will explore the significance of the inverted yield curve, its historical accuracy, and its potential implications for the global economy.

Understanding the Yield Curve

The yield curve represents the relationship between bond yields and their respective maturities. Normally, longer-term bonds offer higher yields compared to short-term bonds, reflecting the higher risks associated with longer timeframes. This conventional pattern is intuitive: lenders typically demand greater compensation for lending their funds over extended periods due to inflationary risks and the borrower's creditworthiness.

The Inverted Yield Curve Phenomenon

However, the inverted yield curve flips this conventional pattern, where short-term bonds yield higher returns than long-term bonds. This occurrence is significant because it has historically preceded economic recessions. Investors and market participants have relied on the inverted yield curve as a reliable indicator of a potential downturn.

Recent Developments in the United States

Currently, the United States is experiencing an extended period of yield curve inversion, suggesting the possibility of an upcoming economic slowdown. Although the inverted yield curve has persisted for approximately 12 months, it is important to note that an actual recession has not yet materialized.

Challenging the Yield Curve's Reliability

The prolonged absence of a recession, despite the inverted yield curve, has led to questions about the reliability of this indicator. While it may not conform to historical patterns, it does not necessarily render the inverted yield curve as a false signal. Rather, it suggests that economic conditions and timing may be evolving, necessitating a deeper examination of the factors at play.

Global Implications

Should the inverted yield curve prove accurate and the U.S. economy enters a more challenging phase, it would have far-reaching consequences for the global economy. The interconnectedness of financial markets means that an economic downturn in the U.S. would impact countries worldwide. As such, it becomes crucial to keep a close eye on the economy and adapt investment strategies accordingly.

Our Conclusion

In light of the current extended period of yield curve inversion in the United States, it is important to recognize that we may be witnessing a significant departure from historical norms. While the timing of an eventual recession remains uncertain, we believe that challenging economic times lie ahead. As we continue to monitor these developments, we are committed to providing timely updates and insights through this investment report.

One More Thing! I recently saw a chart that I wanted to share with you.

You may have already seen charts comparing the "normal" S&P 500 with a equal-weighted one in terms of the rally of the S&P 500 and AI. These graphics show that it is primarily the high market capitalization of AI stocks that is driving the index upward. The rally is carried by a few stocks. Even more impressive, however, is when you calculate the S&P 500 without the seven strong tech stocks that have generated the largest gains this year. Then it becomes clear that the US index has been in the negative since the beginning of the year.

AI-related stocks drove virtually all S&P 500 returns this year

