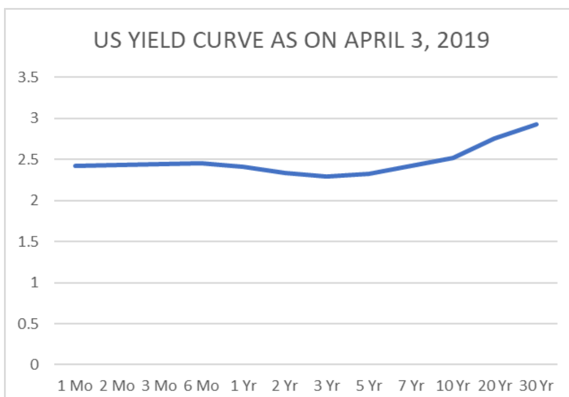
INVERTED US YIELD CURVE

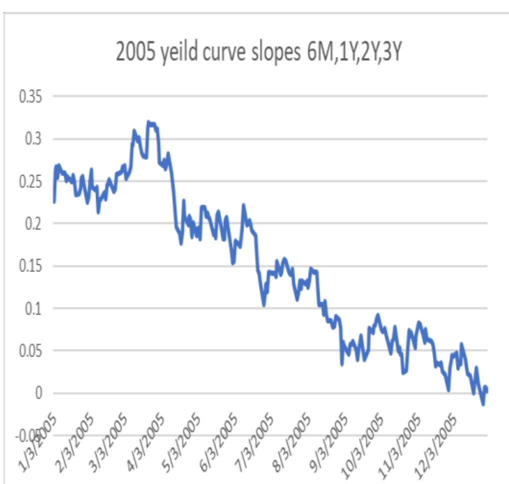
DEGREE OF INVERSION ANALYSIS

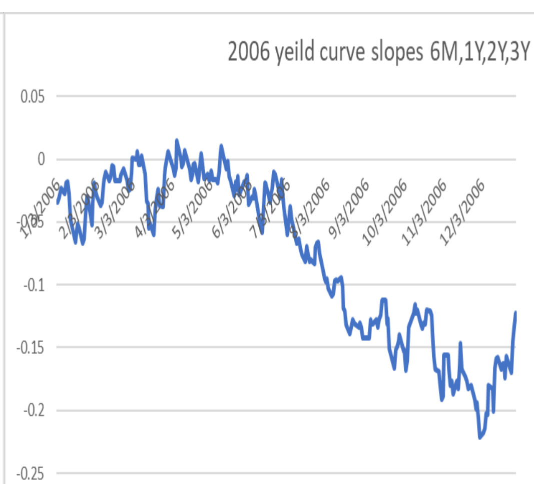
Date	1 Mo	2 Mo	3 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
4/1/2019	2.42	2.43	2.43	2.46	2.41	2.33	2.29	2.31	2.4	2.49	2.71	2.89
4/2/2019	2.43	2.42	2.42	2.45	2.41	2.3	2.26	2.28	2.38	2.48	2.7	2.88
4/3/2019	2.42	2.43	2.44	2.45	2.41	2.33	2.29	2.32	2.42	2.52	2.75	2.93

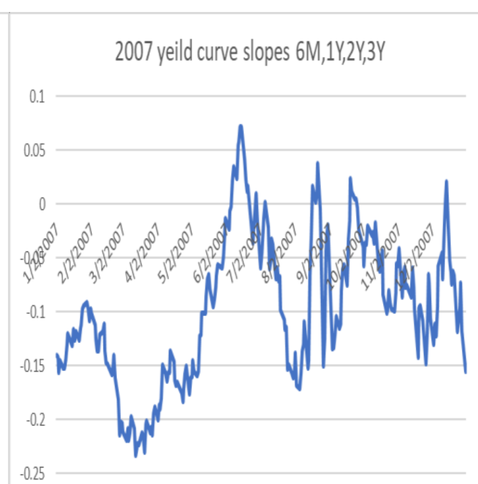
6 Mo	1 Yr	2 Yr	3 Yr
2.45	2.41	2.33	2.29
1	2	3	4

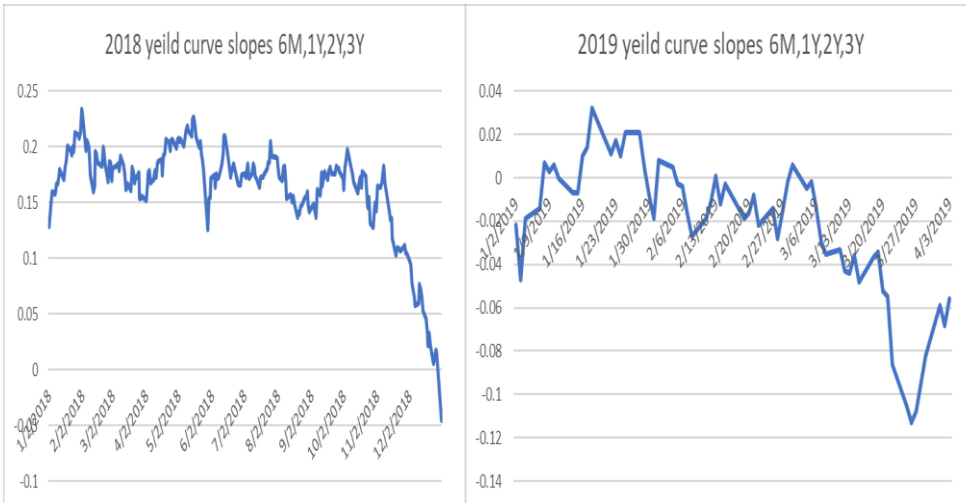
SLOPE -0.056











In these charts we are looking at the slopes which are calculated on the basis of 6m,1y,2y,3y US Treasury yields. Ideally it should never be negative because the interest rates for longer term maturities is more than that for shorter term maturities due to LIQUIDITY PREMIUM AND UNCERATINIES attached to the longer-term investments.

If you look at the 2005 chart it shows that the slope coefficient was positive throughout the year but the slope coefficient was decreasing (A phase of "INFLATION CYCLE"). 2006 chart shows that initially the slope coefficient was positive and even the slope coefficient was slightly increasing, which is a good sign of a healthy recovering economy.

BUT in mid-2006 the slope turns negative. It reached -0.1 in sept, -0.15 in October, -0.2 in November, -0.22 in December. And then in 2007 it reached -0.24 in April.

In 2018 the slope coefficient was positive and even quite stable but was decreasing since October. Then in 2019, initially the slope coefficient was positive and even increasing but it turns negative IN MARCH END.

LOOKING AT THE PATTERNS, ANYONE WOULD SAY THAT IT IS A STRONG INITIAL SIGNAL OF RECESSION IN THE NEAR FUTURE.

THE PATTERNS ARE SIMILAR and EVEN THE CURRENT MACRO ECONOMIC CONDITIONS OF US ARE SIMILAR TO THAT OF 2006. BUT PREMISES ARE ACTUALLY VERY DIFFERENT.

In 2006 the US economy expected inflation as it was being boosted by the easy money circulation/financing supported by subprime mortgage backed securities. In 2007 things became worse and finally it had to burst in 2008. It had nothing to do with US FED POLICY OR US GOVT REFORMS and they even couldn't do anything as it was originated by the US financial institutions only.

In 2018 trump policies including trade reforms, rehaul of US oil, mining and manufacturing industry embraced similar expectations.

SO, what is enforcing a negative yield curve today AND why It is not recession?

1. SUDDEN CHANGE IN US FED POLICY STANCE FROM HAWKISH TO DOVISH

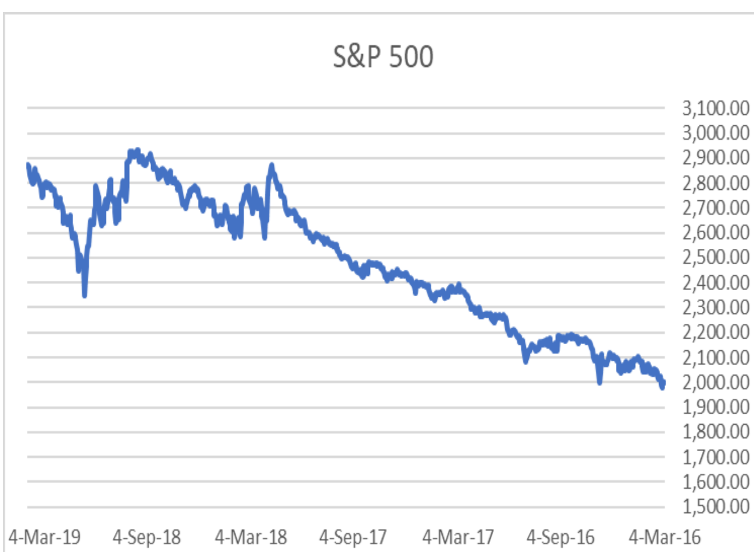
In JANUARY,2019 FOMC, The Federal Reserve made a significant dovish shift in its statement. Powell said that the US economy is doing well but noted growing external risks such as the Chinese slowdown and Brexit. He noted that incoming data adds to the narrative of a worsening global picture. He touted the domestic economy but said slower growth in China and Europe were drags, along with the government shutdown and tighter financial conditions. He also said it was difficult to indicate whether or not we're at the end of the rate hike cycle. He also discussed impact from the most extended ever government shutdown. It will "leave some kind of an imprint."

IN MARCH,2019 FOMC. The Fed underwent a major dovish shift.
Even relative to the market's dovish expectations, the FOMC came off as worried about the US economy:
FED expects US GDP to rise just 2.1% in 2019 (down from 2.3% in December)
The median CPI forecast for 2019 was also cut to 1.8% (from 1.9% in December)
EVEN though these limited parameters do denote some weakness but there is NO EMPIRICAL EVIDENCE POINTING TOWARDS RECESSION WHICH COULD BE SUPPORTED BY US MACRO OR MICRO ECONOMIC CONDITIONS.

So, investors may have taken advantage of this situation and TRADED THE YIELD CURVE in the previous months (Investing in longer term maturities while shorting short term maturities).

2. TRUMP REFORMS

Even though the TRUMP reforms support US businesses explicitly, but are not good for other countries including China, Mexico, South Korea and India which implicitly have negative impacts on US businesses, as these countries are big markets for US companies too. Even looking at the S&P index, it shows true signs of being overbought and has strong resistance levels at 2890-2900 levels.



US BONDS ARE A FAVOURABLE VENUE FOR US INVESTORS at the time when investing in S&P 500 is not favorable and Emerging markets investments exhibits substantial currency devaluation risk because of DOLLAR’s CONTINUED STRENGTHNIG DUE TO necessary measures taken by the FED like

“US fed has stopped buying securities, in fact they are already selling (shrinking their balance sheet). Even issuing new bonds in the market. Shooting up Dollar. Developed- emerging market bond yield spreads have reduced across globe.”