



Good morning!

The latest reason making stock investors nervous: an “inverted” yield curve. Usually, the yield on longer-term bonds is higher than that of shorter-term bills, i.e., bond investors anticipate inflation in the future and want to be compensated for it. But if bond investors don’t foresee inflation down-the-road, it suggests they think a period of slow growth is on the horizon, possibly even a recession. When this happens, yields on shorter-term debt equal or even exceed the yield on longer-term debt. In fact, the last 7 recessions in the United States have been preceded by an “inverted” yield curve, i.e., the 2-year note yield exceeding the 10-year note yield. As of last Wednesday (8/14/19), the 2-year note yield (1.58%) was nearly equal to the yield on the 10-year note (1.59%) (source: Federal Reserve Bank of Cleveland).

The US Treasury Department has auctioned off 30-year government bonds since 1977. The lowest yield ever on our nation’s 30-year paper until last week was 2.10% on 7/08/16. But when risk aversion becomes the theme of stock investors, Treasury yields can plummet quickly as stock sellers become bond buyers. The 30-year Treasury bond yield fell to 1.98% last Thursday 8/15/19, a record low. Remarkably, the yield on the nation’s long-bond closed calendar year 2018 at 3.02% (source: Treasury Department).

No longer is China the largest nation creditor of the United States. Japan replaced China as the largest foreign holder of US Treasury debt as of June 2019. Japan (\$1.123 trillion) has increased its holdings by \$90 billion during the last year while China (\$1.113 trillion) has reduced its holdings by \$79 billion (source: Treasury Department).

#### Notable Numbers for the Week:

1. **ALMOST THE SAME SCHEDULE** - The US stock and bond markets are **open the same days each year** except for **2 trading days** when the stock market is **open**, but the bond market is **closed** – Columbus Day and Veterans Day (source: NYSE).
2. **UP THE COST** - China has **increased the tariff** that it applies to imports coming into its country **from the USA** by an average of **12.4 percentage points** since May 2018 (source: Peterson Institute).
3. **TWO-THIRDS** - 64% of working Americans are **active participants** in a **defined contribution** plan (e.g., 401(k) plan) or a **defined benefit** pension plan, or their spouse is an **active participant** in a pre-tax retirement plan. This study was released on 8/05/19 (source: Investment Company Institute).
4. **BROKE BOOMERS** - 12.2% of individual bankruptcy filers were **at least age 65** in 2016, i.e., **1 out of every 8 bankruptcies**. 2.1% of individual bankruptcy filers were **at least age 65** in 1991, i.e., **1 out of every 48 bankruptcies** (source: “Graying of U.S. Bankruptcy: Fallout from Life in a Risk Society”).

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