“Where Have Our Beloved Harleys Gone?”

By Tommy Williams, CFP®

The yield curve may be the pocket watch of economic indicators. It’s been around for a long time and it’s often right, but not always. The yield curve is the difference between the interest paid on two-year government bonds and 10-year government bonds. In normal circumstances, an investor would expect to earn a higher rate of interest when lending money to a government for 10 years than when lending money for two years because there is more risk associated with lending for a longer period of time.

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When the yield curve flattens or inverts, it suggests a shift in investors’ expectations. Financial Times explained: *“The slope made up of bond yields of various maturities has a record of predicting recessions that would make even the savviest econometrician turn pea-green with envy. It is not perfect, but the curve has become flat and inverted – when short-term bond yields are actually higher than long-term ones – ahead of most economic downturns in most major countries since the second world war.”*

In the United States last week, the difference between yields on 2-year Treasuries (2.56) and 10-year Treasuries (2.90) flattened. The gap narrowed to 34 basis points (a basis point is one-hundredth of one percent). The change reflects higher short-term rates, courtesy of the Federal Reserve. It also suggests tariffs and trade issues have made bond investors more pessimistic about prospects for U.S. growth, reported The Wall Street Journal.

Globally, the yield curve is inverted. *“The average yield of bonds in JPMorgan’s broadest Government Bond Index that mature in seven to 10 years last week slipped below the average yields of bonds maturing in one to three years for the first time since 2007…that indicates that investors have a pretty grim view of where the world economy and equity markets are heading,”* reported Financial Times. We’re keeping an eye on developments in the financial markets and will keep you informed.

Though the impact of the yield curve is potentially very important it has been the “tariff war” that is getting all the news coverage. Fear over unintended consequences of tariffs placed on foreign goods led to a very volatile market this week. Harley Davidson dominated the news saying that it would close plants in the U.S. in response to tariffs slapped on steel and aluminum imports to the U.S. They claim that the additional costs of raw products make their product (motorcycles, of course) non profitable. Some say Harley makes most of its profit from accessories (t-shirts, helmets, jackets, saddlebags, etc.)

Perhaps that's only part of the Harley story. Though Harley's have been "King of t0he Road" for years they are undeniably a baby boom generation phenomenon. I sold mine about 10 years ago after a bad wreck on Ellerbe Road. I was one of the lucky ones. Millennials who are the up and coming largest generation do not share our enthusiasm for Harleys. This is made worse by the fact that the old Indian motorcycle has re-emerged as the superior rated bike and has taken market share. The Trump Administration states that Harley is using tariffs as an excuse to shutter plants and move to more lucrative foreign markets. They may be right. But for those of us that still love the way a Harley sounds, it is just a shame. Just one more way things just ain't the way they used to be. Whatever the case, there is no doubt the "tariff wars" with our numerous trading partners has the potential to create adverse economic consequences. It's like an added tax that makes products much more expensive. It promises to dominate the news and rock the markets until everyone adjusts and moves on to another topic. The news cycle moves very quickly these days.

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