

RECESSION BAROMETER

June 28, 2019

Spotlight on : Recession Barometer Reading

THE eRESEARCH RECESSION BAROMETER

We continue to revise and update our Recession Barometer, which now reflects the average of three different yield spreads. These are:

- 10-Year/2-Year Spread
- Equal-Weight Average of Three Spreads: 20-Year/10-Year; 10-Year/3Month; and 5-Year/2-Year
- Equal-Weight Average of Twelve Spreads: 30-year/20-year, 30-year/10-year, 20-year/10-year, 20-year/5-year, 10-year/2-year, 10-year/3-month, 5-year/2-year, 5-year/3-month, 2-year/1-year, 2-year/3-month, 1-year/6-month, and 1-year/3-month.

The spreads from these three metrics are then averaged to derive the Reading for the Recession Barometer. The following table shows how these metrics have evolved since the beginning of May 2019.

<u>Date</u>	<u>10Year/2Year U.S. Spread</u>		<u>3 U.S. Spreads</u>		<u>12 U.S. Spreads</u>		<u>Combined Spreads</u>	
	<u>Spread</u>	<u>Reading</u>	<u>Spread</u>	<u>Reading</u>	<u>Spread</u>	<u>Reading</u>	<u>Spread</u>	<u>Reading</u>
May 3, 2019	0.21	6.5 X	0.11	8.0 X	0.10	8.0 X	0.14	7.5X
May 10, 2019	0.21	6.5 X	0.09	8.0 X	0.08	8.5 X	0.13	7.5X
May 17, 2019	0.19	7.0 X	0.07	8.5 X	0.07	8.5 X	0.11	7.5X
May 24, 2019	0.16	7.5 X	0.06	8.5 X	0.06	8.5 X	0.09	8.0X
May 31, 2019	0.19	7.0 X	0.01	9.5 X	-0.01	10.0 X	0.06	8.5X
June 7, 2019	0.24	6.5 X	0.03	9.0 X	0.00	9.5 X	0.09	8.0X
June 14, 2019	0.25	6.5 X	0.06	8.5 X	0.04	9.0 X	0.12	7.5X
June 21, 2019	0.30	6.0 X	0.10	8.0 X	0.07	8.5 X	0.15	7.5X
June 28, 2019	0.25	6.5 X	0.07	8.5 X	0.04	9.0 X	0.12	7.5X

Current Recession Barometer Reading: Week Ending June 28: 7.5x

Recession Forecast

The following chart shows when a recession could occur for various post-inversion dates. For inversion, we are monitoring three yield spread ratios, a widely-followed two-maturity metric, an equal-weighted average of three spread readings, and an equal-weighted average of twelve spread readings.

Our criterion for declaring Inversion is that: (1) the Recession Barometer reading must be 10; and (2) two of the three Series must be inverted and one of these must be the 10-Year/2-Year Yield Curve.

Our current “guess” is that a recession could occur 15 months post-inversion (shown in **Red** in the table below). This is a “moving target” and will change with each ensuing month. It will also change with changes in global economic conditions.

We are mindful that a substantial number of Spreads at the short-end are inverted. However, the overall Recession Barometer Reading is only 7.5x and the Spreads for all three Series are still positive, so there seems to be no need to change our 15-month Count-Down period once our Inversion criterion is reached.

Forecasting the Commencement of a Recession

If an inversion occurs during the current month ... then a recession will begin at stated date projections.

Current Month	Inversion +12 Months	Inversion +15 Months	Inversion +18 Months	Inversion +24 Months	Inversion +30 Months	Inversion +36 Months
July/2019	July/2020	Oct/2020	Jan/2021	July/2021	Jan/2022	July/2022

Source: eResearch

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