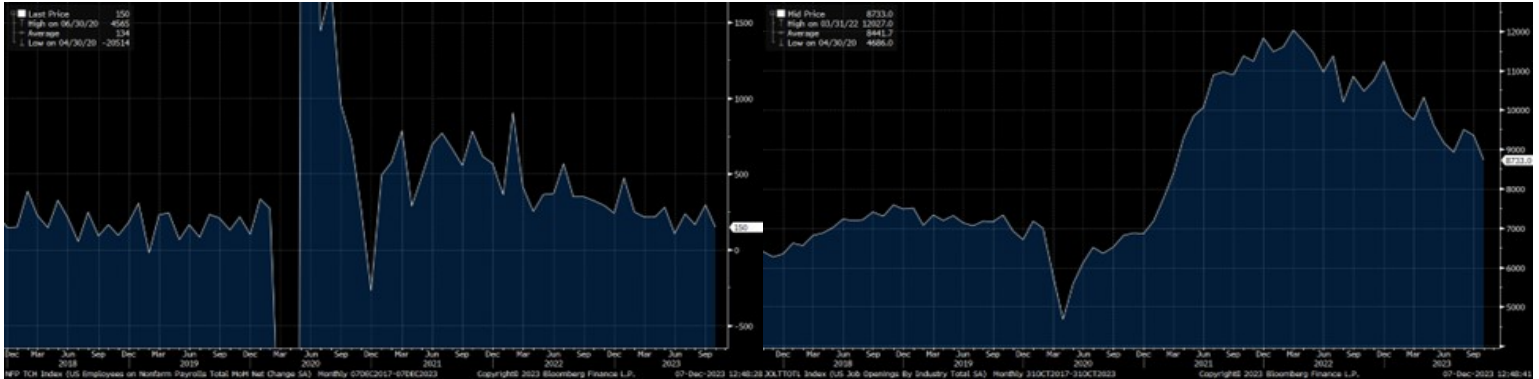


The month of November was frustrating as the economic data indicates that the economy is slowing, yet the market has been pricing most of the changes in the back end of the yield curve vs. the front. The core holding in the program continues to be the 2yr vs. 10yr note steepening trade. As the economy slows further, the Federal Reserve should start to cut interest rates which will push the 2yr up at a faster rate than the 10yr.

Below are a couple of interesting charts that show the relative slowing in the economic data. First is non-farm payrolls (LH side). While far from low, the trend has been steadily moving lower. The market is predicting a small bounce for the report on December 8. The second is JOLTS (US job openings, RH side). As you can see it, too, is moving lower, but still at elevated levels.



A couple more charts below. First, is the Citibank Surprise index for the US. It measures actual data surprises relative to the market expectation (LH side). The RH side is the Consumer Price Index. While it is still above the stated 2% rate that the Fed is targeting, the pace of the decline has been rapid.



All of the above charts point in the same direction; slowing. While none of the above indicators are clearly showing recession, it does appear that we are getting close to that timeframe. One other interesting factoid, the longest inversion of the yield curve has been 21 months during the tightening that started in August of 1978. The current inversion started in July, 2022, has been running for 17 months, and is currently the 2<sup>nd</sup> longest in history. While history may not repeat, it sure does rhyme. This long-standing inversion should soon be coming to an end.

Sincerely,



Stephen Davis  
December 7, 2023

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