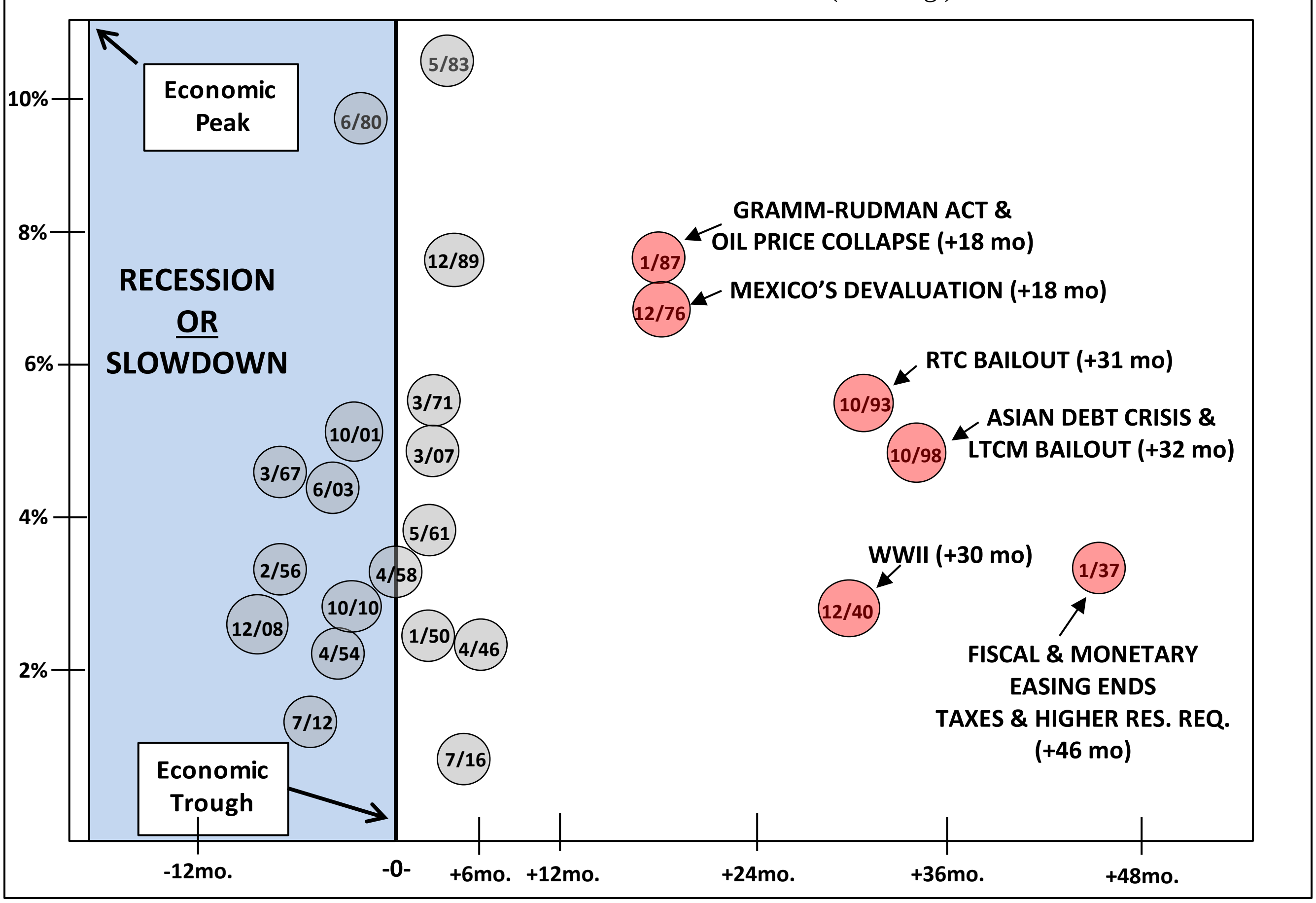
BUSINESS CYCLE DEVELOPMENTS

There are three of seven **Interest Rate Trough Indicators** signaling. The preliminary outlook from the 3rd **IRTI** to the cyclical low in the 10 year T-Note has been six months (+/- 3 mo.). The 3rd **IRTI** signaled in June 2020. So, applying the six month historical average lead-time focuses a cyclical trough in T-Note yields in December 2020 (September thru March) at a *monthly average* level of .59% (.63% to .54%). The 10 year yield is currently at a *monthly average* of .62% for July.

Yields cyclically bottomed in August 2019 at 1.47%, which was two months before the trough in output – coincident with the end of the auto strike in October. This two month lead-time - to the low in the Industrial Production Index - is typical for most observations as seen in the chart below – yields bottom with output. Yields then climbed with the cyclical recovery in output to December 2019 when they peaked December 23rd at 1.93%. With the January 2020 external shock of Covid-19, yields, output and equities all collapsed, which will likely focus the next cyclical bottom in yields in a field of six observations that extend beyond the April 2020 recovery in output – see red labeled circles.



INTEREST RATE AND BUSINESS CYCLE TROUGH CORRELATIONS
10 YR TREASURY YIELD TROUGHS (Mo. Avg.)

Twenty-five percent of the time yields will bottom well past the point of economic recovery. The common thread through each of them is an external shock. The explanation for these yields is money inflows from outside the U.S due to foreign devaluations and war, or domestic fiscal and monetary money flows for bailouts and slow growth. Specifically, in the January 1937 low there was fiscal and monetary easing until mid-1936 when tax rates and payroll taxes were hiked and the Fed raised reserve requirements. So, easing and low yields prevailed for 46 months after the March 1933 trough in output. Currently we're four months from the trough in output in April 2020 and we'll still be stimulating fiscally and monetarily until the election. Coincidently, year end happens to overlay the preliminary outlook based on the three of seven **IRTI's**. However, as pointed out in the July 30th BCD update the first whiff of any tightening will likely reverse yields just as it did in 1937.