

Yield Curves Shifting and Flattening, but No Signs of Recession

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We pay close attention to global yield curves. Yield curve inversions (i.e., short rates higher than long rates) have been reliable business cycle peak indicators in the past (see our previous Insight, [How We Monitor the Economy](#)).

Canadian and U.S. yield curves have converged over the last couple of years, mostly due to a rise in the 3-month U.S. Treasury yield to around 1%. Both curves have experienced a shift up in short rates with moderate movement at the long end—in other words, yield curve flattening (see Charts 1 and 2). The spread between 10-year and 3-month rates is at 1.2% for the U.S. and 1.1% for Canada.

While the curves are flattening, we're not worried about a recession in either

country—we're just not seeing any other corroborating data points that are typically seen before the end of the business cycle. Unemployment rates in both countries continue to fall. Inflation remains subdued. U.S. capacity utilization, down from the 80%+ seen before the financial crisis, is holding steady at around 76%. Canadian capacity utilization is the highest in five years at 85%. According to ISM Manufacturing and Non-Manufacturing surveys, U.S. business executives continue to be optimistic about the economy.

We also don't see any excesses or overheated debt levels that would trigger a recession. Most broad equity indices are fully valued, and there are

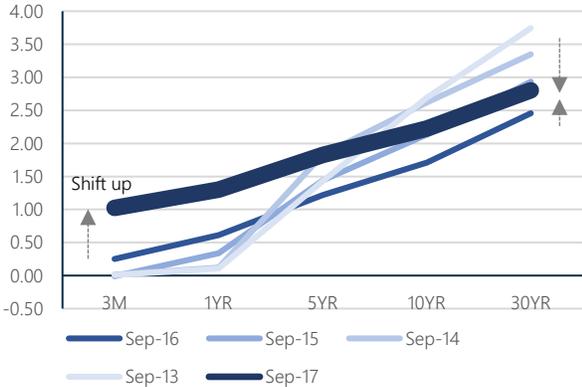
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pockets of runaway speculation (e.g., Tesla, Bitcoin), but we don't see any overblown euphoria in broad equity values. Nor do we see any abuse of potentially destabilizing financial instruments typically seen at the apex of market cycles (although these are tough to see in real-time).

The corporate earnings outlook is positive, and there has never been a recession when corporate earnings are expanding as they continue to today.

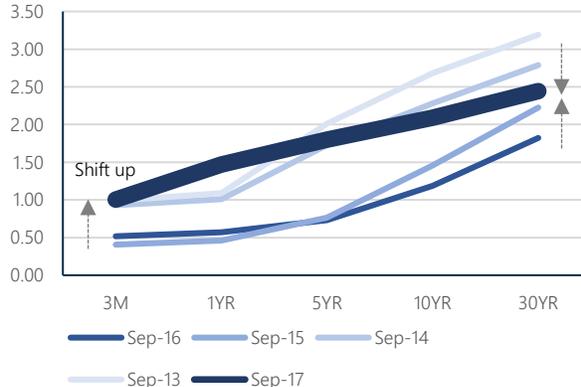
We're not concerned about a recession, but we're not without concerns. Developed markets have increasingly lofty future growth and margin expectations embedded at current levels. High quality, undervalued stocks with favorable risk/reward set ups are hard to come by. As a result, cash & cash equivalents comprise an overweight position in the portfolio of the Generation Global Value Private Trust while we wait for promising opportunities to emerge.

Chart 1. U.S. Term Structure over Last Five Years



Source: FactSet, Trapeze Asset Management Inc.

Chart 2. Canadian Term Structure over Last Five Years



Source: FactSet, Trapeze Asset Management Inc.

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