

## What is the Yield Curve and Why is it Important?

There has been much talk in the financial news about the Yield Curve. I will explain the Yield Curve in simple terms and why it has been an important indicator prior to economic recessions.

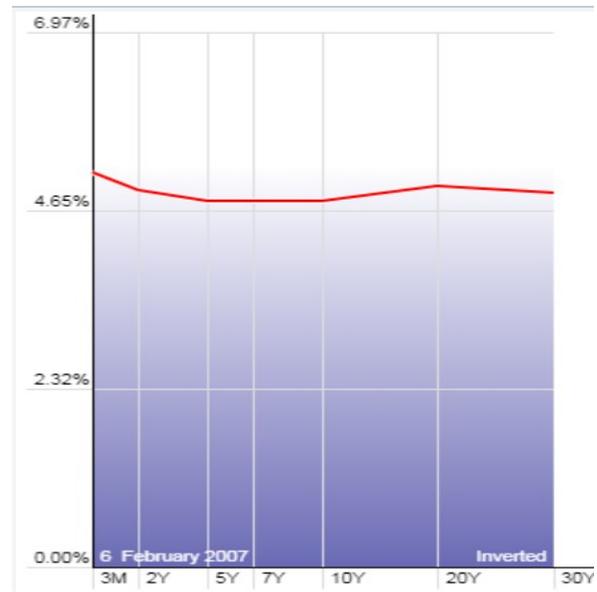
In a normal economic environment, the interest rate we earn on a short-term investment (2 yr. U.S Treasury bond) is less than the interest we earn on a longer-term (10 yr. U.S. Treasury Bond) investment. If we commit our money longer, we expect a higher return for the increased length of time our money is tied up. The yield curve plots the difference in interest rates earned on the two investments mentioned above. A normal yield curve can vary but it looks something like the figure 1 graph below:

Normal Yield Curve (figure 1)



[Stockcharts.com](http://Stockcharts.com)

Inverted Yield Curve (figure 2)



[Stockcharts.com](http://Stockcharts.com)

In this example the short-term interest rate is around 2.32% where the long-term interest rate is about 4.75%.

**An Inverted Yield Has Preceded Previous Recessions.** An inverted Yield Curve occurs when the interest earned on short-term investments is greater than the interest earned on longer-term investments - thus the Yield Curve becomes inverted as shown in figure 2.

### Will the Federal Reserve Cause the Next Recession?

The Federal Reserve affects short-term interest rates and the market affects long-term interest rates. The Federal Reserve has raised interest rates eight times since December 2015 pushing short-term rates much higher. The long-term rates have not moved up with short-term rates, so the current yield curve is flattening as shown in figure 3.

Current Yield Curve (figure3)



Stockcharts.com

Historically a recession has occurred 6-12 months after the yield curve inverts. **Every recession has been preceded by an inverted yield curve, but not every inverted yield curve means a recession will happen.** We will pay close attention to the yield curve to see if it inverts and potentially signals a recession in the future.

### We Have Moved to a New Office

On Friday October 12, we moved to our new office - **Suite 204 located upstairs in the same building.** The owners of the building remodeled the entire floor, so we took the opportunity to design and build a new office for Intermountain Wealth Management. We are excited for the change and the large windows provides more light which makes the office much brighter. We invite you to stop by and see our office or you can see it on Facebook.



To learn how Intermountain Wealth Management can help you manage your investments, please contact us.

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