Supplement

What would yield curve shape be if the COVID-19 pandemic hits the economy?

Yield Curve Movements

The Inverting Yield Curve Is About More Than Recession This Time

By Anchalee Worrachate and Liz McCormick
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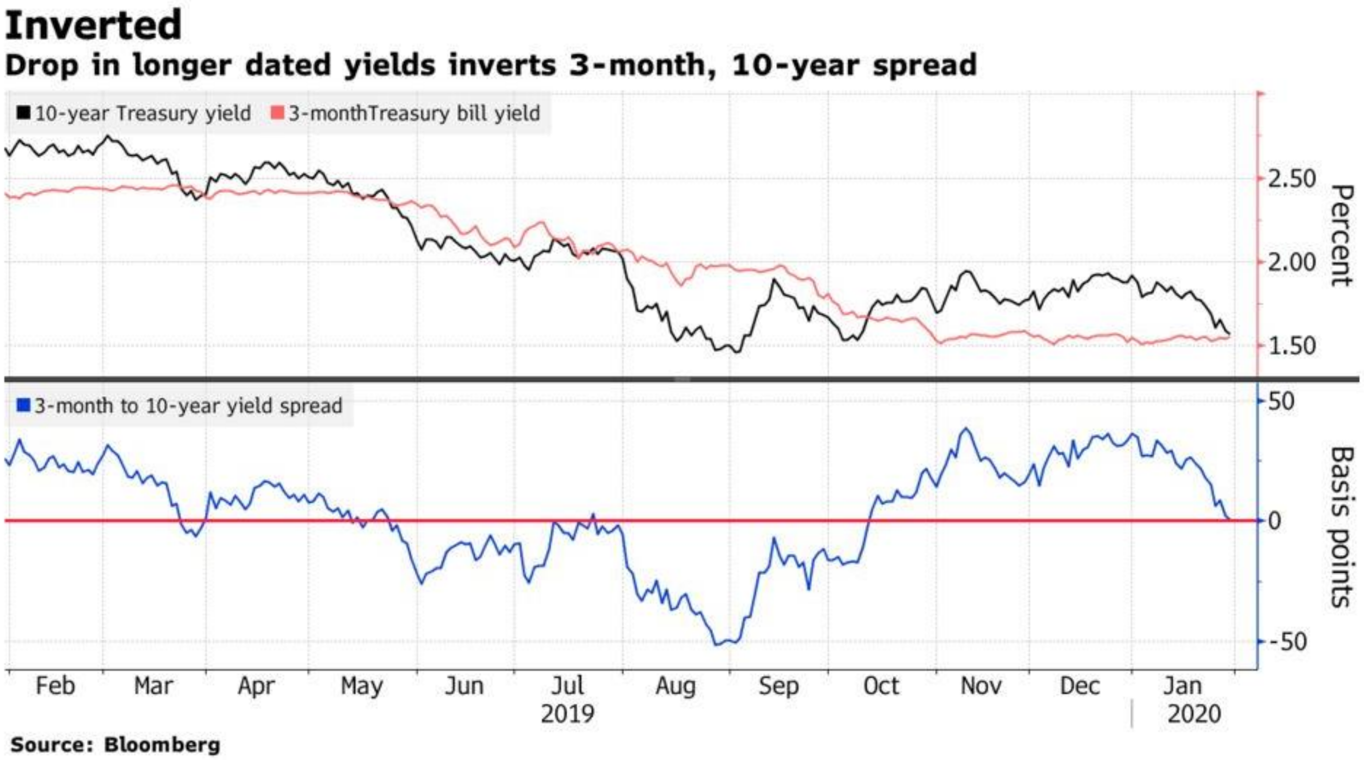

Yield Curve Movements

A key slice of the **U.S. yield curve inverted** on Thursday for the first time since October, reviving memories of growth fears that plagued investors last year and **signaling doubts that the Federal Reserve will succeed in reviving inflation**.

The ***gap between the yield on three-month and 10-year Treasuries at one point slipped to as low as minus 2 basis points*** on Thursday. The ***spread -- seen by some as a <u>warning signal</u> because it has inverted before each of the past <u>seven U.S. recessions</u>*** *-- last reached those levels as economic conditions deteriorated at the height of the* ***trade war****.*

With the **coronavirus outbreak (in January 30,2020)** ***threatening to disrupt the Chinese economy***, concerns about the business cycle are undoubtedly a factor. But more important still are **emerging doubts over the <u>ability and commitment of policy makers</u> to <u>shore up growth and spur inflation</u>**.

https://www.bloomberg.com/news/articles/2020-01-30/the-inverting-yield-curve-is-about-more-than-recession-this-time

Yield Curve Movements

Following his press conference Wednesday, fed funds futures showed **increased conviction by traders that a cut is coming this year**, although they continue to price in just one quarter-point reduction.

The **inversion** *"highlights broader market fears that the* ***virus and its human and economic threat could spread****.* The more that it does, the *more likely it starts to alter consumer and corporate behavior*, thereby ***promoting policy action to mitigate the dangers****."*

"We are closely monitoring the emergence of the coronavirus, which could lead to disruptions in China that spill over to the rest of the global economy"

Jerome Powell, Federal Reserve Chair

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Federal Reserve Chairman Jerome Powell will present the central bank's semiannual report to Congress next week.

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