

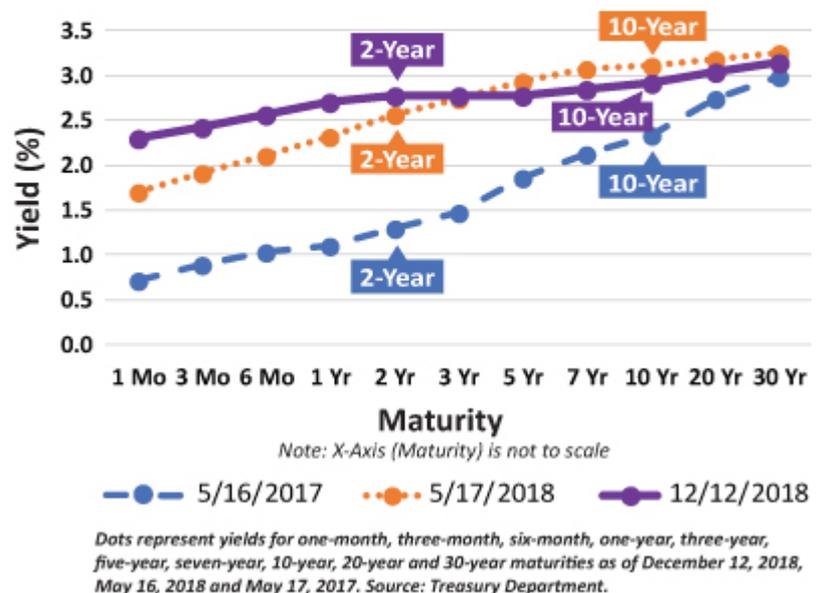
# An Updated Look at the Yield Curve and Stock Market Volatility



Charles Rotblut, CFA  
AAI Journal Editor

Last week, the yield on the five-year Treasury note fell below that of the two-year note. Any investor could have realized a higher yield for tying up their money for only two years rather than for five years. The yield curve—which plots the interest rates for Treasuries of varying maturities—is not supposed to work this way. Under normal circumstances, investors demand higher rates of return for parting with the money over longer periods of time.

## THE YIELD CURVE HAS BECOME FLATTER



Over the seven-day trading period of December 3, 2018, through December 12, 2018, the relative yield of the five-year Treasury compared to its two-year brethren has ranged between a low of -3 basis points (-0.03%) to a high of zero. The negative difference indicates an inverted yield curve (the curve slopes down from shorter to longer maturities) while the equal yields indicate a flat yield curve (the curve resembles a straight line).

The inversion of the five- versus two-year yields drew attention when it first occurred last week. Lower yields for longer-dated Treasuries relative to shorter-dated Treasuries suggest traders expect economic conditions to soften, thereby easing inflationary pressures. If, in contrast, they expect inflation pressures to intensify, they would demand higher yields on longer-dated bonds to

compensate for the expected loss of purchasing power.

While the two- to five-year rates got attention, the bigger yield comparison to watch is the two-year Treasury note versus the 10-year note. This is the yield curve I discussed [back in May](#). An updated version of the chart is shown to the right. While the 10-year note continues to yield more than the two-year note, the gap is narrowing.

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## More on AAll.com

- [Telling Curves: What Bond Yields Reveal About the Markets](#) - In this 2003 *AAll Journal* article, my colleague Wayne Thorp explained the yield curve in greater detail.
  - [A Lifetime Investment Strategy](#) - This timeless AAll guide is worth reading anytime you feel nervous about the market.
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## Highlights from this month's *AAll Journal*

- [Consistent 401\(k\) Participants Have Larger Savings](#) - The cumulative benefit of ongoing contributions and the capturing of long-term investment returns has helped many workers build significant savings.
  - [The Individual Investor's Guide to Personal Tax Planning 2018](#) - Our annual tax and financial planning guide has been updated to help you understand how the new law will impact your 2018 and 2019 taxes.
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## AAll Sentiment Survey

Pessimism spiked to its highest level since April 2013, while optimism fell to an unusually low level. Plus, this week's special question asked AAll members how they expect the U.S. economy will perform over the next six to 12 months. [More about this week's results.](#)

### **This week's results:**

- Bullish: 20.9%, down 17.0 points
- Neutral: 30.2%, down 1.3 points
- Bearish: 48.9%, up 18.4 points

### **Historical averages:**

- Bullish: 38.5%
- Neutral: 31.0%
- Bearish: 30.5%

Take the [Sentiment Survey](#).

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## What's Trending on AAll

1. [The Individual Investor's Guide to Personal Tax Planning 2018](#)
  2. [19 Year-End Financial and Investing Moves](#)
  3. [Social Security and Medicare Can Raise Retirees' Tax Rates](#)
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## The Week Ahead

The first group of early fourth-quarter reporters will announce their earnings next week. There are 14 S&P 500 companies on the calendar including Dow Jones industrial average components Nike Inc. (**NKE**) and Walgreens Boot Alliance Inc. (**WBA**), both of whom will report on Thursday.

The Federal Open Market Committee (FOMC) will hold a two-day meeting starting on Tuesday. Interest rates are projected to be raised by 0.25%. The meeting announcement and updated committee member forecasts will be released at approximately 2:00 p.m. Eastern Time on Wednesday. Chairman Jerome Powell will hold a quarterly press conference at 2:30 p.m.

Elsewhere on the economic calendar, the December Empire State Manufacturing Survey and the December housing market index will be released on Monday. Tuesday will feature November housing starts. November existing home sales will be released on Wednesday. Thursday will feature the December Philadelphia Federal Reserve business outlook survey. November durable goods

orders, the final revision to third-quarter GDP, November personal income and outlays and the University of Michigan's final December consumer sentiment will be released on Friday.

The Treasury Department will auction \$14 billion in five-year TIPS on Thursday.

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## Local Chapter Meetings

AII Local Chapter Meetings offer you a variety of presentations from expert speakers who will give you their view on the world of investing. A bonus of attending a Chapter Meeting near you is the opportunity to meet other AII members who share your interest and enthusiasm for investing. You can even share the Chapter experience with your family and friends by inviting them to attend Chapter Meetings with you!

[Upcoming Meetings »](#)