

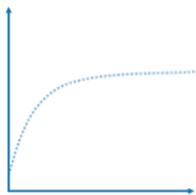
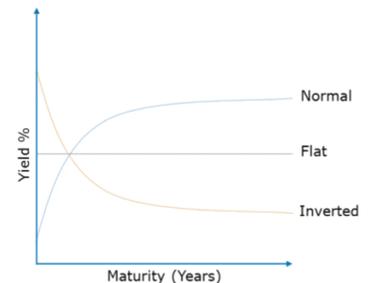


TheNEWS

What the Shape of the U.S. Treasury Yield Curve Suggests About Economic Expectations

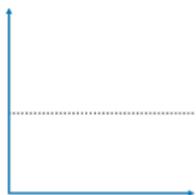
Mark Creger

The yield curve for U.S. Treasuries (yield curve) refers to the relationship between the yield on short-term U.S. Treasury bills and progressively longer-term Treasury notes and bonds. In general, Treasury bills are issued with terms to maturity of one year or less. By contrast, Treasury notes and bonds are issued with longer terms to maturity of between 2- and 10-years and 10- and 30-years, respectively. The shape of the yield curve refers to the relative difference, or “spread,” between longer-term and shorter-term yields. While the shape of the yield curve is constantly evolving in response to a myriad of factors, there are three commonly referenced yield curve formations: normal, flat, and inverted.



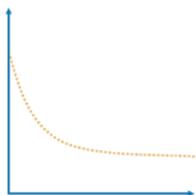
The Normal Yield Curve

A normal yield curve is characterized by lower yields for shorter-term maturities and progressively higher yields for longer-term maturities. A normal yield curve is the most common and generally reflects a stable and expanding economy. The relative steepness of a normal yield curve can provide clues about the current and expected pace of economic activity. For example, a comparatively steeper normal yield curve can reflect accelerating rates of economic growth while a less steep normal yield curve can reflect a slowing pace of economic expansion.



The Flat Yield Curve

As implied by its name, a flat yield curve is characterized by similar yields across both short-term and long-term maturities. In general, a flat yield curve often reflects uncertain or deteriorating economic conditions. Against a backdrop of economic uncertainty, there is little differentiation between short-term and long-term yields, as they converge towards a common level. In a deteriorating economic environment, a flat yield curve may reflect concerns of further economic weakness.



The Inverted Yield Curve

An inverted yield curve results when short-term yields are higher than longer-term yields. Inverted yield curves are rare and generally reflect periods of significant economic slowdown and often recession. Under such circumstance, investors may accept lower long-term yields because they believe economic conditions may deteriorate further and that short-term yields may be lowered to stimulate economic activity. Inverted yield curves have historically exhibited a strong correlation with economic recession.

The persistent flattening trend of the current U.S. Treasury yield curve has been the subject of much discussion amongst economists and market participants. Recently the spread between 2- and 10-year Treasury yields has fallen to its lowest level in over a decade.

Data unaudited. Performance results are shown net of all fees and expenses and reflect the reinvestment of dividends and other earnings. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Investment involves risk, including the possible loss of principal. No assurance can be given that the performance objectives of a given strategy will be achieved. All comments and discussions presented are purely based on opinion and assumptions, not fact. These assumptions may or may not be correct based on foreseen and unforeseen events. The information above is not a recommendation to buy, sell, implement, or change any securities or investment strategy, function, or process. Any financial and/or investment decision should be made only after considerable research, consideration, and involvement with an experienced professional engaged for the specific purpose. Past performance is no guarantee of future results. Any financial and/or investment decision may incur losses.



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The**ECONOMY**

Trade Wars and Twitter

The U.S. economy ended the first quarter on a subdued note as weaker consumer spending, escalating trade war tensions, and disruptive winter weather have diminished growth expectations this year. While the Federal Reserve (Fed) remains committed to two additional rate hikes this year, inflation will need to continue to firm towards two percent for the Fed to follow through on its projections.

The labor market remains on solid ground creating 202k jobs per month this year, well above the estimated 100k required to stabilize the unemployment rate. In addition, corporate fundamentals are strong and should continue to benefit from last year's tax reform bill. Despite this healthy backdrop, the stock market has experienced a renewed bout of volatility as President Trump has ramped up his fair-trade rhetoric. Though much has been made of the President's pro-growth initiatives, a prolonged trade war could derail the health of the U.S. economy.

The yield curve is currently discounting the course of future rate hikes from the Fed over the next few years. While the labor market remains an important data point for economists, inflation metrics will likely take center stage as the market's outlook for the Fed takes shape during the second quarter. Recent history has repeatedly shown the U.S. economy stumbling out of the gate in the first quarter, only to regain its composure as we progress through the calendar year.

Market sentiment is fickle and has been deteriorating as of late. Last year, many investors were ready to take a leap of faith assuming the global economy was poised to accelerate. Although the news has been somewhat somber as of late, it would be foolish to throw in the towel so early this year.

Treasury Yields

MATURITY	4/9/18	3/9/18	CHANGE
3 Month	1.694%	1.659%	0.035%
6 Month	1.903%	1.867%	0.036%
1 Year	2.055%	2.019%	0.036%
2 Year	2.278%	2.258%	0.020%
3 Year	2.411%	2.430%	-0.019%
5 Year	2.598%	2.650%	-0.053%
10 Year	2.779%	2.894%	-0.115%
30 Year	3.012%	3.158%	-0.146%

Source: Bloomberg

Agency Yields

MATURITY	4/9/18	3/9/18	CHANGE
3 Month	1.698%	1.749%	-0.051%
6 Month	1.809%	1.825%	-0.016%
1 Year	1.954%	1.972%	-0.018%
2 Year	2.355%	2.335%	0.020%
3 Year	2.497%	2.499%	-0.002%
5 Year	2.695%	2.741%	-0.046%

Source: Bloomberg

Commercial Paper Yields (A-1/P-1)

MATURITY	4/9/18	3/9/18	CHANGE
1 Month	1.870%	1.750%	0.120%
3 Month	2.220%	2.040%	0.180%
6 Month	2.440%	2.260%	0.180%
9 Month	2.620%	2.390%	0.230%

Source: Bloomberg

Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q4 '17	2.90%
US Unemployment	Mar '18	4.10%
ISM Manufacturing	Mar '18	59.3
PPI YoY	Mar '18	3.00%
CPI YoY	Feb '18	2.20%
Fed Funds Target	Apr 10 '18	1.50% - 1.75%

Source: Bloomberg