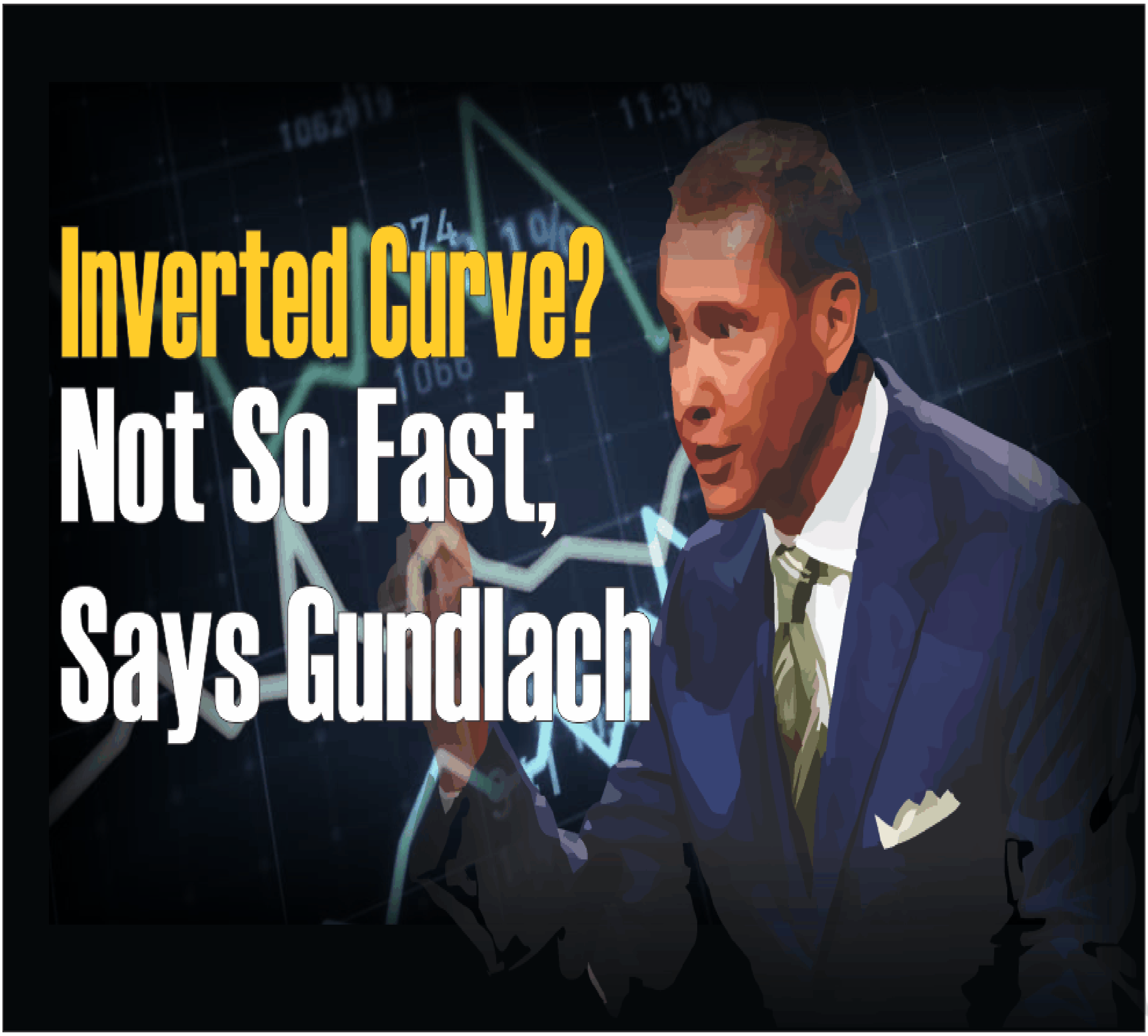

While many pundits have been calling for a flat or inverted yield curve ? a widely acknowledged recession-predictor ? DoubleLine Capital founder, Jeffrey Gundlach, recently argued not so fast. Looking at the difference in yield between the 10-Year and 2-Year U.S Treasuries, Gundlach said in his January 9th, 2018 ?Just Markets? webcast, ?I?ve noticed that the yield curve has stopped flattening.? Gundlach noted at the time that there are more curve-flattening bets now than at any time since 1995, and said that the crowded trade already wasn?t working. Normally, creditors demand a higher yield to lend for a longer period of time, making for an upward sloping yield curve. But the curve can flatten or invert if creditors pile into longer term bonds, sending their yields down, if they anticipate a slowing economy and future low rates Sure enough, after narrowing to 50 basis points on January 4, the difference in yield between the 10-year and the 2-Year has begun to rise again at least for the time being, hitting 62 basis points on February 1.

Gundlach reminded his listeners that the Fed has three rate hikes scheduled for 2018. While that could contribute to flattening or inversion, Gundlach asked listeners to consider the possibility that the long end of the yield curve could steepen. This is in contrast to other asset managers such as Morgan Stanley and T.Rowe Price, who think the Fed?s elevation of short term rates will accompany worldwide central bank balance sheet expansion, buoying demand for long-term debt and leading to a flat yield curve. According to a Bloomberg article, Morgan Stanley strategist, Matthew Hornbach, thinks the U.S. central bank?s plans to shrink its balance sheet is already priced into the market, and that the yield curve will flatten in the third quarter of this year. Gundlach said leading indictors show no recession for the next six months. From the time of Gundlach?s webcast on January 9th through February 1st, the spread between the 10-Year and 2-year Treasuries has widened from 57 to 62 basis points. On Friday, Gundlach tweeted about the Federal Reserve Bank of Atlanta?s GDPNow estimate of 5.4% GDP growth for Q1 2018 and average hourly earnings increases. These developments support an inflationary thesis and a steepening curve. Late Saturday, Gundlach also gave an interview to Reuters? Jennifer Ablan arguing that it was ?hard to love bonds at even 3 percent,? given recent GDP growth estimates. Commenting on the blistering pace of rate increases on parts of the yield curve since September, Gundlach told Reuters that *?this is partly caused by the manic mood and partly caused by the falling dollar and related rising commodities.?* While Gundlach doesn?t think bond yields of 3% are attractive given prospective economic growth, PIMCO?s Dan Ivascyn and Mark Kiesel say 3% yield on 10-Year Treasuries might be a signal to buy, according to another Bloomberg article. The article quotes Ivascyn saying *?[T]here?ll be buyers of bonds if we back up to 3 percent,?*