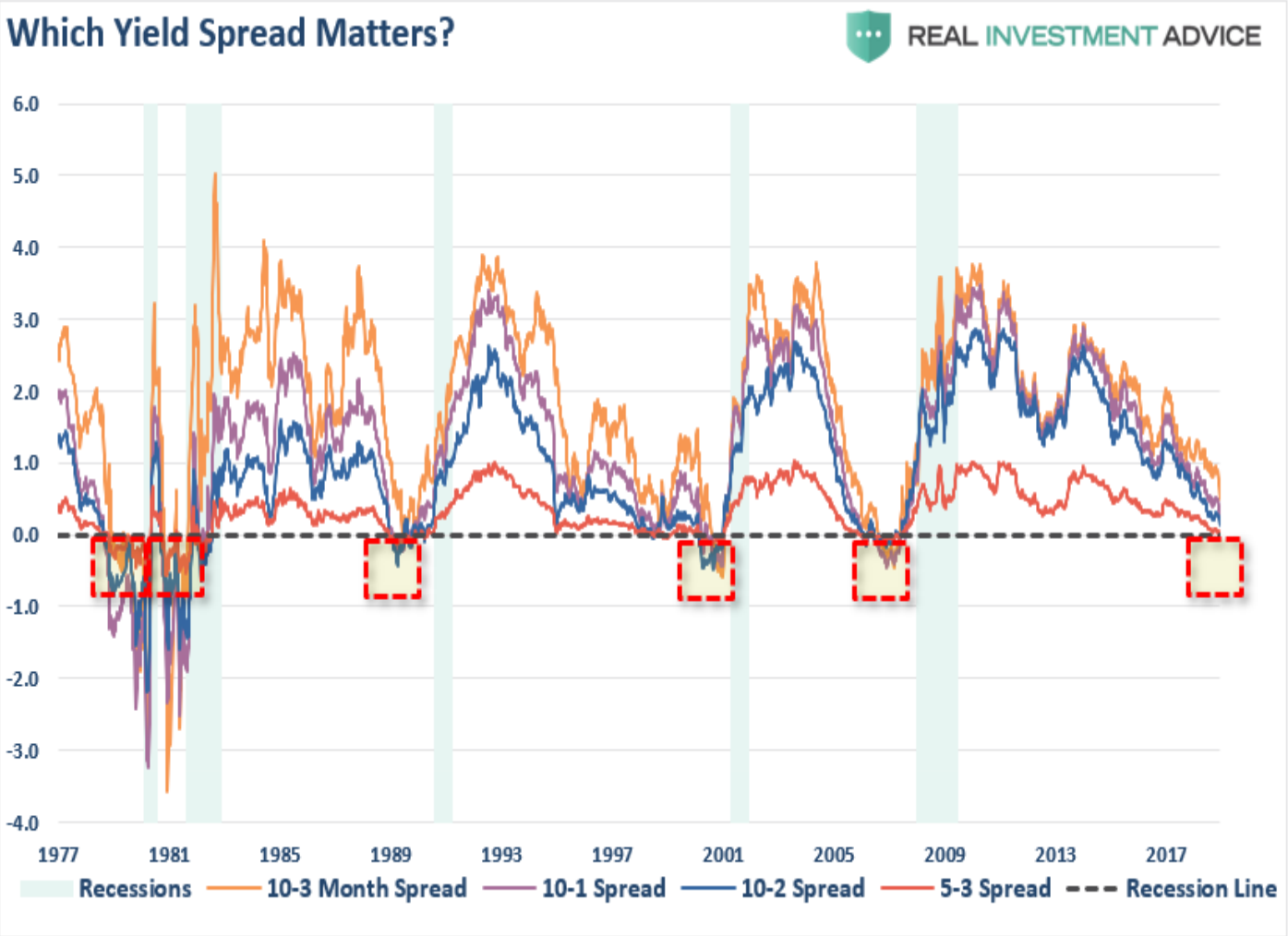
So, have you heard the one about the *"flattening yield curve?"* It almost sounds like the start of a bad joke because there have been so many discussions during this past year on it. However, it has been largely dismissed under the *"this time is different"* scenario as trailing economic data has remained strong and the recent stock market struggles are believed to only be temporary. As I discussed yesterday, however, it is quite likely the message being sent by the bond market should not be dismissed. Bonds are important•for their predictive qualities which is why analysts pay an enormous amount of attention to U.S. government bonds, specifically to the difference in their interest rates. This data has a high historical correlation to where the economy, stock, and bond markets are generally headed in the longer-term. This is because volatile oil prices, trade tensions, political uncertainty, the strength of the dollar, credit risk, earnings strength, etc., all of which gets reflected in the bond market and, ultimately, the yield curve. But which yield curve really matters? **It depends on whom you ask?**

> *"The rate on the 2-year has already jumped above the shorter-term 5-year note, a move that suggests the 'economy is poised to weaken,' DoubleLine Capital's Jeffrey Gundlach told Reuters in an interview on Tuesday. Gundlach, a noted bond investor, has been warning investors to be cautious." - CNBC*
>
> *"Michael Darda, the chief economist at MKM Partners, says people may be too focused on the wrong data. 'Recession forecasting is fraught with difficulty, so it's important that we don't make it more difficult than it has to be by focusing on the wrong indicators, or, at a minimum, less reliable one. It is the difference between the 10-year and the 1-year that everyone should worry about." - CNBC*
>
> *"While inversions have been•reliable recession indicators in the past, the most important relationship ? between the 3-month and 10-year government notes ? is not inverted and thus hasn't triggered the likelihood of a contraction ahead." - CNBC*

Wait, so which is it? My answer is a bit different. When I am looking at technical indicators for the market it is not just *"one"* signal I am looking at, but several. The reason is that sometimes a single indicator can provide a *"false"*•signal. For example, the 200-dma has had several violations which did NOT lead to bigger declines. Therefore, there have been numerous articles questioning the efficacy of that moving average as an indicator. However, if you combine the 200-dma with a couple of other indicators to *"confirm"* the signal being sent, then some of the false readings can be removed. This same premise applies to the yield curve. While the 3-5 yield spread is currently in negative territory, it has not been confirmed by other yield spreads across the spectrum. As shown in the chart below, the best signals of a recessionary onset have occurred when a bulk of the yield spreads have gone negative simultaneously. However, even then, it was several months before the economy actually slipped into recession.



However, as I addressed previously, as with all measures, technical or otherwise, it is the trend of the data which is more important to your outlook than the actual number itself. It is correct that the longer-dated yield curve has not turned negative as of yet.• However, the market is already beginning to adjust to the reality the economy is beginning to weaken, earnings are at risk, valuations are elevated, and the support from Central Banks has now reversed. **So, which one am I watching? All of them.**•Just something to think about as you catch up on your weekend reading list.

Economy & Fed

- **Much Ado About Very Little From The Fed** by Caroline Baum via MarketWatch
- **High Earners Are Making The Fed's Job More Difficult** by Danielle Dimartino-Booth via Bloomberg
- **Did Trump Finally Blink On China Tariffs?** by Allan Golombek via RCM
- **American Capitalism Isn't Working** by David Leonhardt via NYT
- **Powell, The Fed & Data Dependency** by Joe Calhoun via Alhambra Partners
- **Some Advice For Trump In Dealing With The Fed** by Robert Samuelson via RCM
- **Why Powell May Be Praying For A Vote Against Rate Hikes** by Pedro Da Costa via Forbes
- **The End Of Trump's Economic Sugar High** by Patrick Watson via Forbes
- **Too Much Of A Good Thing Is Boring** by Scott Sumner via The Money Illusion
- **Less Inflation Gives Fed Room To Pause** by Ed Yardeni via Yardeni Research
- **Economy Forces Both Trump & Xi To Play Ball** by Stuart Eizenstat & Anne Pence via The Hill

- **The Worst Deal In History - Theresa May's Surrender** by David Brown via The Gatestone Institute
- **Nearly 2/3rd Of Non-Citizen Households Are On Welfare** by Joe Schaefer via LibertyNation

---

Markets

- **The Reason The Market Sold Off Is Worse Than You Think** by Richard Breslow via Zerohedge
- **This Is A Leading Indicator Of Market Peaks** by Upfina
- **Don't Blame The Strong Dollar** by Mark Hulbert via MarketWatch
- **Higher Equity Prices Ahead** By Byron Wein via Real Clear Markets
- **Weighing The Evidence For A Year-End Rally** by Dana Lyons via The Lyons Share
- **3-Charts Show Housing Bubble & Potential Tech Wreck** by Shawn Langlois via MarketWatch
- **The Tale Of Two Bond Kings** by John Coumarianos via CitiWire
- **Cash Continues To Be A Good Position** by JC Parets via AllStar Charts
- **Early Wins For WallStreet Could Derail Santa Rally** by John Crudele via NY Post
- **3-Reasons To Own Long Bonds As Short Rates Rise** by Cullen Roche via PragCap

---

Most Read On RIA

- **Did The Market Miss Powell's Real Message** by Lance Roberts
- **The Tale Of Two Bond Kings** by John Coumarianos
- **The Market Doesn't Care How Fantastic Your Stocks Are** by Vitaliy Katsenelson
- **Don't Forget Supply & Demand Drives Stock Prices** by David Robertson
- **China's "Trump & Dump" or "He Said, Xi Said"** by Doug Kass
- **What Your Financial Plan Says About You** by Richard Rosso
- **Is The Bull Back? Or Is It A Bull Trap** by Lance Roberts
- **Yes, Virginia...A Santa "Rally" Is Coming** by Michael Lebowitz
- **Misdiagnosing The Risk Of Margin Debt** by Lance Roberts

Watch

Research•/ Interesting•Reads

- **What America Has Done To Its Youth Is Appalling** via James Ostrowski via LewRockwell.com
- **Borrowing To Pay For Your Kid's College Is A Bad Idea** by Camilo Maldonado via Forbes
- **5-G Smartphones Are Coming In 2019** by David Goldman via CNN
- **Zuckerberg No Show Highlights FB's Bad Business Model** by Jonathon Trugman via NY Post
- **I Quit FB and IG And Am A Lot Happier** by Christina Farr via CNBC
- **2018 Taxes - What You Need To Know** by Paul Katzeff via IBD
- **Inside The World's Most Elite Trader's Club** by Alastair Marsh via Bloomberg

- **Blockchain's 0.00% Success Rate** by Andrew Orlowski via The Register
- **Have Investors Stopped Chasing Returns** by Kevin McDevitt via Morningstar
- **Why The Yield Curve Inverts** by Mike "Mish" Shedlock via MishTalk.com
- **"I Pencil's" Faith In Freedom** by Lawrence Reed via FEE

> ***?Successful investing is anticipating the anticipation of others."*** *• John Maynard Keynes*

Questions, comments, suggestions ? please email me.