MarketWatch

Forget the yield curve, here's who will prevent the U.S. from entering a recession

Critical information for the U.S. trading day

By Barbara Kollmeyer
Aug 15, 2019

Stop obsessing over the yield curve and its power to predict a recession.

That's our call of the day**'s** message, from **The Economic Outlook Group's chief global economist Bernard Baumohl**, who says rising expectations of a global downturn are becoming a little nutty.

This comes a day after recession mongers leapt on the spread between the 10-year and the 2-year Treasury note yield which briefly inverted Wednesday. For those of you who missed the significance of that move, it's a recessionary red flag that has predicted some past downturns. Stocks wasted no time in adding to August's losses.

Back to **Baumohl's** argument, who suggests looking past that argument*:* "The key determinant that will shape the path of the economy this time won't be the yield curve or the direction of the fed-funds rate. It's the extent to which American consumers will offset the damage done by policies that impede world trade and reverse globalization," he told clients in a note.

"All eyes should therefore be laser focused on what households are thinking and doing in the coming months--- and not on some tampered yield curve."

Baumohl says that while yield-curve inversions have accurately pointed to several past recessions, this time it's different. Massive sovereign debt purchases by central banks since 2008 have "hugely distorted the government debt market, effectively tilting the scale so that U.S. treasury yields were skewed down."

And the argument that high interest rates will trigger an economic downturn doesn't compute either: he points out costs of borrowing are among the lowest seen in modern economic history.

Baumohl sees just a 30% chance of a recession over the next year or two. He says investors are right to worry about an escalating trade war with China as businesses have put investments on hold, and more interest rate cuts won't help their plight.

But again, count on the US consumer to help: "Low unemployment, rising real wages, moderate energy prices, the surge in mortgage refinancings and the 7.3 million job openings firms are still desperate to fill --- all suggest that consumers will continue to spend enough to contribute to GDP growth even as businesses retrench," he said.

On that note, retail sales busted past expectations, while Walmart did its part for the sector by also smashing forecasts.

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