



What's a Yield Curve Disinversion and Should You Be Worried?

September 11, 2024

Time to read: 4 Minutes

The yield curve flipped in anticipation of rate cuts, but that doesn't mean a recession is imminent. To the contrary, we're excited about opportunities tied to higher-income consumers and consumer staples, among others.

What happened to the yield curve?

After remaining inverted for over two years, the 2yr-10yr yield curve flipped back (or “disinverted”) last week (see chart).

Conventional wisdom says that a yield curve disinversion usually signals a recession. That's because shorter-term bond rates tend to fall when the Federal Reserve lowers policy rates in anticipation of an economic slowdown.

But in our view, that's not what's happening this time around, so it's important to understand what the Fed is thinking before making your own asset allocation decisions.

After inverting in June 2022, the yield curve reversed course last week

Treasury yields (%), 10yr minus 2yr



09/09/24. Source: Federal Reserve Bank of St. Louis. Shaded areas indicate U.S. recessions.

Here's what does (and doesn't) matter

The Fed isn't cutting rates to switch to an accommodative stance. Instead, it signaled that a change in its policy stance is warranted now that inflation is sustainably lower (the stable prices side of its mandate) and to stem further weakness in the labor market (the employment side of its mandate).

Keep in mind that even after the Fed cuts rates, the policy rate will still be above the perceived neutral rate. So monetary policy will still be restrictive—just less restrictive. However, the Fed risks moving too slowly or misjudging incoming economic data.

While some market watchers are concerned, we identify three key reasons why this does not necessarily signal an impending recession:

1. The recent rise in unemployment is attributed more to an increase in labor supply, largely from immigration, rather than a collapse in demand for labor. Though we have seen some softening in demand (e.g. fewer job openings), we do not foresee unemployment escalating uncontrollably.
2. While there is some stress on lower-end consumers, higher-end consumers—having generated tremendous wealth from asset appreciation and higher real incomes — should continue to spend.
3. Economic growth remains close to its trend and 2Q24 GDP was revised up to 3%. Even if there's a slowdown towards the year's end, we anticipate the economy will continue to expand.

Voya IM's views on positioning

Fixed Income

We favor investments tied to higher-income consumers. In addition, we continue to like duration and credit spread as we are not expecting a default cycle. We also believe opportunities further out on the curve, which had been less attractive when the curve was inverted, will arise.

We expect the trend of broader participation into more defensive sectors, which began earlier this year, to persist.

Multi-asset

We continue to overweight US equities with a bias towards higher quality areas of the market while remaining cognizant of any risks or opportunities that may arise.

Tags:

Investment Insights

3848953

Past performance does not guarantee future results. This market insight has been prepared by Voya Investment Management for informational purposes. Nothing contained herein should be construed as (i) an offer to sell or solicitation of an offer to buy any security or (ii) a recommendation as to the advisability of investing in, purchasing or selling any security. Any opinions expressed herein reflect our judgment and are subject to change. Certain statements contained herein may represent future expectations or other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (1) general economic conditions, (2) performance of financial markets, (3) interest rate levels, (4) increasing levels of loan defaults, (5) changes in laws and regulations and (6) changes in the policies of governments and/or regulatory authorities. The opinions, views and information expressed in this commentary regarding holdings are subject to change without notice. The information provided regarding holdings is not a recommendation to buy or sell any security. Fund holdings are fluid and are subject to daily change based on market conditions and other factors.

Navigation

[Investments](#)

[Insights](#)

[Resources](#)

[Forms & Literature](#)

[Financial Professionals](#)

Our Company

[About Us](#)

[Careers](#)

[Contact Us](#)