

Recession yes, but not from the Inverted Yield Curve

I don't know how yield curves get inverted but when they do, recessions tend to follow after. Why? Banks borrow short term and lend longer term and an inverted curve means that the bank credit market fails to clear. It results in a credit shortage which chokes off growth.

We will still get our recession, but not for reasons of an inverted curve. Not this time.

The corporate bond market is 3 times larger than it was ten years ago. Big companies don't fund via the banks. The squeeze will be felt by small and mid caps who cannot access the bond market, and households. However, quality consumer loans that get securitized will also escape the credit crunch to some extent as banks lend, warehouse and syndicate.

The curve inversion recession couple will be weaker this time. And yet we will get our recession and this data point will be a spurious one for the history books. All dynamic systems exhibit cyclicalities and while policy and central banks have distorted the frequency and phase of the cycle they cannot prevent it altogether. The trade war will raise underlying inflation levels and weaken growth. But mostly, while QE supported growth it also exacerbated income and wealth inequality by rewarding asset owners over labour. Concentration of capital leads to inefficient allocation contributing to eventual decline. We will get our recession but it's not the curve.