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#### **ECONOMY**

## The inventor of the market's most famous recession indicator is confident the inverted yield curve is accurately calling a slowdown in 2024

Phil Rosen Jan 20, 2024, 12:17 PM EST

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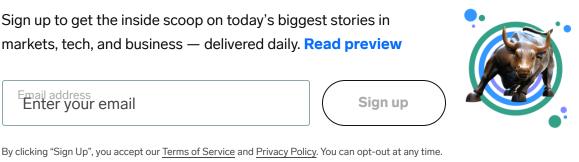


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Jump to	erted yield curve has preceded every recession since 1969.
Main content Search Account	ventor of the famed indicator said it is accurately predicting a urn this year.
When	n the yield curve inverted in November 2022, he said it was a

false signal.

## INSIDER TODAY NEW LOOK





Wall Street has ramped up its soft-landing calls for 2024, but a renowned economic expert who popularized the most famous recession indicator in markets says to <u>expect a downturn</u> this year.

Campbell Harvey is a Canadian economist and researcher at Duke University whose work showed that, for decades, an inverted yield curve — that is, when short-term Treasury yields exceed the yield on

Jump to	rm government bonds — has preceded as US recession.	
Main content Search Account	ck to 1968, the indicator's predictive power is eight for eight, false signals. Harvey told host Jack Farley on the <u>Forward</u>	
<u>Guidance</u> podcast Thursday that given that yields inverted in the fall of		

2022, this suggests a recession will happen in the first or second quarter of this year.

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He had predicted previously that the indicator may turn out to be wrong this time, given the strength in the labor market and other positive economic data. However, he's reversed that outlook.

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my model," Harvey said. "Essentially I was saying it might be possible

to dodge a recession, but this was really contingent on the Fed standing down — and this is one year ago — so standing down and not hiking rates any further. And that is not what happened."

The Federal Reserve hiked rates 11 times in the 2022-2023 cycle, spiking its benchmark rate from near 0% to a range of 5.25%-5.50%.

"As a result, I've kind of revised my opinion," he continued. "Given the circumstances, I think it is likely we do see much slower growth in 2024."

He said the inverted yield curve, in one sense, is a self-fulfilling prophecy as it signals to companies and investors that a slowdown is looming, which then alters spending and business behavior and ultimately leads to less activity.

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Main content Search Account the yield curve causal," Harvey said. "This causality channel lifferent than in the past."

And the inversion itself also isn't the final call on a recession, as experts have noted that it is actually when the curve de-inverts and long-term yields again exceed those of short-term bonds that signals a downturn has arrived.

Given its perfect track record, Harvey noted that the indicator is currently allowing firms to make smarter decisions in the current landscape and operate with more caution. Unlike the global financial crisis in 2008, he said companies are more strategic and managing risk, so he's hopeful that there won't be severe layoffs coming.

"Indeed it could come to the point where the indicator could come to the point where the indicator just loses its ability to forecast," he said, "but I don't think we're there yet."

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