

Cycle Peaks of 10-Year Yields

November 3, 2021

The conventional view of 10-year yields has been that they rise throughout the business cycle, and peak toward cycle end as inflation rises. This characterizes the patterns after the 1973 and 1980 recessions. However, since then, rates have generally peaked early in the business cycle.

Our forecast calls for rates to peak in 2022 and begin their descent in 2023. This stands in contrast to the consensus view which expects rates to continue to rise into 2023, which we feel is not supported by the recent behavior of the 10-year yield.¹

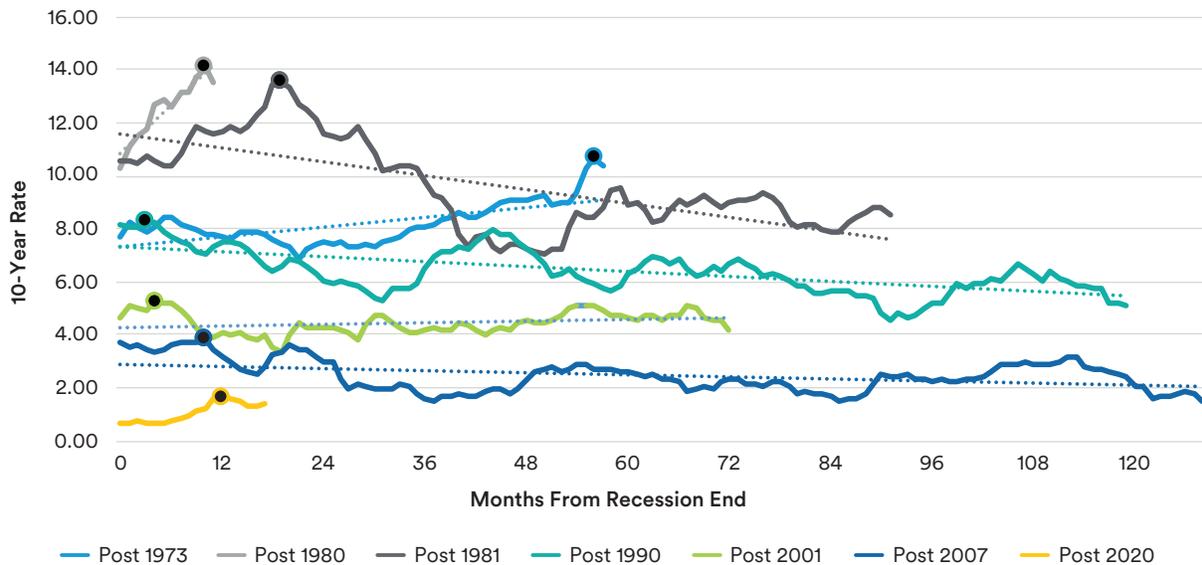
Table 1 | 10-Year Rates, Summary Statistics

Recession onset	10Yr, cycle average	10Yr, cycle peak	Peak timing
1973	8.20	10.65	Nov 1979, close to cycle end (56 months from recession end)
1980	12.52	14.10	May 1981, close to cycle end (10 months)
1981	9.60	13.56	June 1984 (19 months, early/mid-cycle)
1990	6.36	8.28	June 1991, (3 months, early)
2001	4.45	5.28	March 2002 (4 months, early)
2007	2.45	3.85	April 2010 (10 months, early)
2020	NA	1.74	March 2021 (11 months)

Source: NBER, Board of Governors of the Federal Reserve System

In recent business cycles, the 10-year rate might best be characterized as a series of largely separate cycles. Toward the end of each cycle, the Fed has cut rates, forming a new low, and the next cycle appears to never fully escape the new level setting. Moreover, within a cycle, rates tend to oscillate around rates that were achieved in the first several months of a recession, while never exceeding those early rate peaks. See chart below.

10-Year Rates After Recession End



Circles represent peak 10-year rate for the cycle

Source: NBER, Board of Governors of the Federal Reserve System

Economically, it makes sense for rates to be relatively high at the beginning of the cycle. High real rates, and a steep yield curve in particular, denote optimism about the future. Relatedly, the yield curve tends to steepen early in the recovery as yields generally rise ahead of Fed tightening. This is effectively the opposite of the yield curve inversion that takes place toward the end of the business cycle.

Earlier this year in March, the 10-year yield peaked at 1.74%. We believe this level will be surpassed in the coming year with the 10-year rising above 2.0% in 2022. There are a few reasons for this view. First, the Fed is deliberately permitting a higher inflation rate this cycle; letting inflation run hotter than usual may introduce a new dynamic that delays the cycle high. Second, rates are currently on an increasing path with the decline of the delta variant wave, and this may continue as virus optimism improves. Finally, the post-recession growth path has been particularly troubled, particularly by supply chain and labor market problems. The relief from these imbalances—which we expect to take place in the back half of 2022—could create a renewed optimism about the overall economic trajectory.

These are all compelling reasons for the 10-year to drift higher into 2022. However, there are also many compelling reasons why we believe the peak in rates will take place in 2022 and not in 2023 as consensus forecasts suggest. We believe it is wise to pay attention to the patterns of past business cycles that we outlined and note the cycle peak for rates.

Endnote

1 E.g. the Bloomberg Consensus view of the 10-year rate by economic forecasters. On October 13, 2021, of the 33 forecasters listed, only two had a declining forecast from 2022 to 2023.

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Appendix

This appendix contains details for the preceding charts and provides additional information for greater accessibility.

10-Year Rates After Recession End

Note:

- All values are approximate
- Items labeled “Peak” represent peak 10-year rate for the cycle
- The curves have the following characteristics:
 - Post 1973: Declines gradually to 24 months, then rises gradually to 53 months and rises sharply to end at 56 months
 - Post 1980: Rises sharply to 10 months and falls sharply to end at 11 months
 - Post 1981: Rises moderately to 18 months, then declines moderately to 48 months, then rises moderately to 59 months, and then varies by about 1.50% to end at 91 months
 - Post 1990: Declines gradually to 31 months, then rises moderately and declines moderately to 57 months, then rises moderately and declines gradually to 91 months, then rises moderately and declines moderately to 120 months
 - Post 2001: Rises slightly to 4 months, then declines moderately to 9 months, then varies by about 1.00% to end at 72 months
 - Post 2007: Declines gradually to 36 months, then rises gradually to about 54 months, then declines gradually to about 86 months, then climbs sharply to about 89 months, then levels off to 102 months, then climbs gradually to 112 months and declines gradually to 120 months
 - Post 2020: Rises gradually and then declines gradually and ends after about the 16-month mark
- Best Fit Lines for Each Curve (format: From x1, y1 to x2, y2, where x is the months from recession end and y is the 10-year rate):
 - Post 1973: From 0, 7.30 to 56.5, 9.2
 - Post 1980: n/a
 - Post 1981: From 0, 11.62 to 90.76, 7.61
 - Post 1990: From 0, 7.32 to 118.01, 5.52
 - Post 2001: From 0, 4.38 to 72.00, 4.66
 - Post 2007: From 0, 2.87 to 127.01, 2.08
 - Post 2020: n/a
- Source: NBER, Board of Governors of the Federal Reserve System

Months From Recession End	Post 1973	Post 1980	Post 1981	Post 1990	Post 2001	Post 2007	Post 2020
0	7.78%	10.38%	10.59%	8.22%	4.76%	3.75%	0.72%
2.7	7.93%	11.75%	10.74%	8.36% Peak	4.97%	3.53%	0.86%
3.9	8.07%	12.68%	10.59%	8.22%	5.26% Peak	3.39%	0.65%
9.7	7.93%	14.20% Peak	11.82%	7.14%	4.04%	3.89% Peak	1.73%
12	7.78%	n/a	11.75%	7.50%	4.11%	3.24%	1.73% Peak
18	7.57%	n/a	13.62% Peak	6.63%	3.46%	3.39%	n/a
24	7.57%	n/a	11.60%	6.20%	4.25%	3.10%	n/a
36	8.22%	n/a	9.80%	6.63%	4.25%	1.66%	n/a
48	9.15%	n/a	7.35%	7.35%	4.54%	2.38%	n/a
56	10.74% Peak	n/a	8.43%	6.05%	5.12%	2.81%	n/a
60	n/a	n/a	9.01%	6.34%	4.68%	2.59%	n/a
72	n/a	n/a	9.01%	6.70%	4.25%	2.38%	n/a
84	n/a	n/a	7.93%	5.77%	n/a	1.66%	n/a
96	n/a	n/a	n/a	5.26%	n/a	2.38%	n/a
108	n/a	n/a	n/a	6.27%	n/a	2.95%	n/a
120	n/a	n/a	n/a	5.12%	n/a	2.16%	n/a