



Sector Performance Following Initial Inversion of Yield Curve

In last week's [Bespoke Report](#), we published a version of the table to the right which showed the S&P 500's performance following the initial inversion of the yield curve (10y/3m) after at least 500 trading days without being inverted. As shown in the performance details, outside of the 1966 and 1973 periods, market performance following the initial inversion of the curve was positive.

S&P 500 Performance After YC Inversions						
First Day Curve	Trading Days Since	S&P 500 Performance (%)				
		One Month	Three Month	Six Months	One Year	
Inverted	Last Inversion					
1/11/66	1044	0.43	-1.73	-6.38	-10.64	
5/31/73	863	-0.66	-0.67	-8.57	-16.84	
10/31/78	1029	3.36	7.28	9.16	9.31	
3/27/89	1853	6.54	13.03	18.77	17.53	
9/10/98	2265	0.43	18.86	31.28	37.90	
1/17/06	1265	0.34	0.19	-3.78	11.51	
3/22/19	3030					
Average		1.74	6.16	6.75	8.13	
Median		0.43	3.73	2.69	10.41	

Going a step further, in today's *B.I.G. Tips* report, we wanted to provide a summary of sector returns following the same periods highlighted in the table above. In the table below, we have provided a summary of median sector returns in the one, three, six, and twelve months after the yield curve initially inverted in each of the six periods above. For each time frame, we have also color-coded the returns by performance rank to show which sectors performed best and worst. Also, recognizing the fact that market returns varied in each period, on the following two pages, we have also broken out sector returns for each of the individual periods.

Looking first at the summary results, in the initial period following an inversion of the curve, the Consumer Discretionary sector is among the worst performers, but then sees a rebound. After a median 4.1% decline in the month after inversion (worst of all sectors), the median return rebounds all the way up to a gain of 9.9% one year out (fourth best among sectors). Conversely, Financials typically are among the best performers three and six months after the curve inverts, but sees its median return sink to 0.4% one year later (worst of all sectors shown). While Transports may no longer be its own stand-alone sector, for most of the periods we looked at it was, and over both the one, three, six, and twelve month periods, it has a better median return than any other sector.

S&P 500 Median Sector Performance Following Initial Yield Curve Inversions								
	One Month		Three Months		Six Months		One Year	
	Median	% Positive	Median	% Positive	Median	% Positive	Median	% Positive
Cons Discret.	-4.1	33	-0.1	33	0.2	50	9.9	67
Consumer Staples	0.8	67	-0.1	50	0.4	50	1.0	50
Energy	0.7	67	2.0	67	4.0	67	12.2	67
Financials	0.7	67	5.8	67	7.2	50	0.4	50
Health Care	0.2	50	2.7	50	0.7	50	7.7	67
Industrials	1.7	67	6.8	67	5.2	67	11.9	67
Materials	1.1	50	1.9	50	0.3	50	4.9	83
Technology	-1.4	33	6.6	67	8.5	67	4.2	67
Telecom Svcs	4.0	50	4.5	67	1.0	50	7.7	50
Transports	5.2	67	8.1	83	10.6	83	14.3	67
Utilities	1.3	50	-0.3	50	0.4	67	3.4	50
S&P 500	0.4	83	3.7	67	2.7	50	10.4	67



In the initial months that followed the 1966 inversion, Materials, Utilities, Financials, and Consumer Discretionary were all weak, while Transports and Technology were the two biggest (and pretty much only) gainers. Six months later, every sector with the exception of Technology was lower, and one year later the only two sectors that were higher were Technology and Financials. The year that followed the 1966 inversion was not friendly to equities.

Sector Performance After 1966 Yield Curve Inversion

Sector	Performance (%)			
	One Month	Three Months	Six Months	One Year
Cons Discret.	-2.6	-0.1	-3.4	-10.5
Consumer Staples	0.6	-2.0	-7.8	-5.5
Energy	0.2	-2.7	-8.1	-9.7
Financials	1.0	-5.6	-8.4	2.4
Health Care	1.9	-2.2	-6.3	-0.8
Industrials	0.7	-1.2	-5.9	-10.9
Materials	-0.8	-7.8	-15.2	-29.0
Technology	6.6	11.3	13.0	17.8
Telecom Svcs	-0.6	-4.7	-7.8	-10.9
Transports	6.6	4.1	-7.8	-15.0
Utilities	-3.5	-6.9	-9.4	-6.2
S&P 500	0.4	-1.7	-6.4	-10.6

The 1973 inversion was even harsher on equities. A month later the S&P 500 and just about every sector were lower with the exception of Financials and Energy. Financials remained strong throughout the first six months that followed the inversion, while Transports also saw strength. One year later, though, both of these sectors were lower and the only gainer was Materials. Sectors that were hit especially hard were Utilities and Technology.

Sector Performance After 1973 Yield Curve Inversion

Sector	Performance (%)			
	One Month	Three Months	Six Months	One Year
Cons Discret.	-9.1	-2.4	-17.9	-20.0
Consumer Staples	-2.4	-1.8	-8.5	-18.3
Energy	1.2	-4.8	-3.2	-20.8
Financials	5.1	18.3	16.9	-1.6
Health Care	-0.8	-1.4	-6.1	-13.3
Industrials	-0.5	-0.1	-8.2	-16.0
Materials	-4.0	-1.7	-6.0	5.1
Technology	-0.8	-2.6	-13.5	-30.0
Telecom Svcs	-0.6	-7.4	-8.9	-13.9
Transports	-4.2	-2.3	7.4	-1.9
Utilities	-2.2	-7.9	-17.2	-31.1
S&P 500	-0.7	-0.7	-8.6	-16.8

Equity market performance following the 1966 and 1973 inversions wasn't friendly to the bulls, but beginning with the 1978 inversion, equity market performance started to improve. Right out of the gate, Transports, Utilities, and Industrials all saw gains of over 3% while Financials and Materials saw sharp declines. One year later, the big winner was Energy, while Telecom Services, Financial Services, and Consumer Staples were the biggest losers.

Sector Performance After 1978 Yield Curve Inversion

Sector	Performance (%)			
	One Month	Three Months	Six Months	One Year
Cons Discret.	-5.6	-0.2	3.9	1.9
Consumer Staples	-2.1	1.1	-2.0	-7.5
Energy	-0.6	5.1	17.3	35.1
Financials	-7.0	-5.5	-3.4	-9.8
Health Care	-0.5	6.7	7.6	8.5
Industrials	3.4	7.6	10.0	10.3
Materials	-6.8	-0.5	1.4	0.8
Technology	-2.7	11.6	13.0	-4.1
Telecom Svcs	-3.4	1.1	-4.0	-13.4
Transports	3.8	2.8	9.4	11.1
Utilities	3.7	6.7	1.3	-0.5
S&P 500	3.4	7.3	9.2	9.3



When the yield curve inverted in 1989, bulls didn't bat an eye. One month later, the S&P 500 was up over 6%, and every sector saw positive returns. Transports and Telecom Services led the way higher with gains of over 10%, while Energy, Technology, and Financials were the only sectors up less than 5%. One year later, Financials was the only sector that was lower, while Technology and Materials were the only other two that weren't up double-digit percentages.

Sector Performance After 1989 Yield Curve Inversion

Sector	Performance (%)			
	One Month	Three Months	Six Months	One Year
Cons Discret.	7.5	15.6	26.3	18.1
Consumer Staples	7.8	16.6	29.5	32.9
Energy	2.2	1.9	9.2	19.9
Financials	4.6	10.9	16.3	-1.6
Health Care	7.8	7.4	24.3	27.0
Industrials	6.6	12.2	17.6	20.8
Materials	6.2	4.2	10.8	4.6
Technology	4.3	1.9	4.1	3.4
Telecom Svcs	10.2	16.7	27.5	26.7
Transports	13.1	17.9	41.1	17.9
Utilities	6.1	16.6	19.5	20.0
S&P 500	6.5	13.0	18.8	17.5

The month that followed the 1998 inversion saw mixed returns with the S&P 500 up marginally and six sectors lower. Once the initial jitters of Long-Term Capital and the Russia crisis passed and the Fed stepped on the gas, equities surged. Six months later the S&P 500 was up over 30% and one year later it was up 37.9%. The Technology sector doubled. Doubled!

Sector Performance After 1998 Yield Curve Inversion

Sector	Performance (%)			
	One Month	Three Months	Six Months	One Year
Cons Discret.	-5.6	17.8	40.3	35.3
Consumer Staples	7.4	16.8	15.9	7.5
Energy	2.9	3.1	5.7	29.0
Financials	-0.2	21.5	40.2	26.7
Health Care	-1.2	14.9	23.9	14.6
Industrials	-1.9	15.3	25.4	38.7
Materials	5.4	4.7	8.0	24.6
Technology	-4.2	33.7	54.4	101.5
Telecom Svcs	8.6	29.5	46.8	46.1
Transports	-7.7	14.5	25.0	17.5
Utilities	8.6	6.4	0.3	7.3
S&P 500	0.4	18.9	31.3	37.9

The 2006 inversion was also followed by mixed market returns. One month later, the S&P 500 was essentially flat with Telecom Services and Transports leading the way higher as Energy and Utilities both declined. Three and six months later, the S&P 500 saw similarly mixed returns, but one year later, the S&P 500 was up over 11% and every sector was up at least 4.5%. The party ended shortly thereafter, however, as the Global Financial Crisis took hold in late 2007 through early 2009.

Sector Performance After 2006 Yield Curve Inversion

Sector	Performance (%)			
	One Month	Three Months	Six Months	One Year
Cons Discret.	0.8	-0.1	-5.4	17.9
Consumer Staples	1.0	-1.3	2.7	13.5
Energy	-4.0	2.1	2.4	4.5
Financials	0.4	0.7	-1.8	14.9
Health Care	0.9	-4.6	-6.9	7.0
Industrials	2.6	6.0	0.4	13.5
Materials	3.0	8.3	-0.9	16.3
Technology	-2.1	-2.0	-16.2	5.0
Telecom Svcs	10.7	7.8	6.0	26.3
Transports	7.7	12.1	11.7	17.7
Utilities	-1.0	-7.2	0.5	10.8
S&P 500	0.3	0.2	-3.8	11.5