



# CANNON TRADING

Since 1988

## **The Yield Curve as a leading indicator.**

**The media likes to use the 10yr vs the 2 yr note spread as their leading indicator of a future recession when an inverted yield curve occurs triggering heightened risks of a recession. The Fed uses the "spread" between the 10yr note and a 3 month bill as a more accurate leading indicator of a recession than the former. (please see the final link below)**

Federal Reserve Bank of New York, *The Yield Curve as a Leading Indicator*,  
[https://www.newyorkfed.org/research/capital\\_markets/ycfaq.html](https://www.newyorkfed.org/research/capital_markets/ycfaq.html)

**Disclaimer:** Recession probability estimates are not official forecasts of the Federal Reserve Bank of New York, its president, the Federal Reserve System, or the Federal Open Market Committee.

**Currently, as of 9/30/26 according to the U.S. Treasury, the 10 yr note settled @ 5.29 % with the 2 yr note @ 4.88 %. .43 bps apart and drawing attention from many financial media outlets as short term rates continue to outpace the rate of change of the longer term rates.**

**As for the relationship between the more critical 10 yr VS. the 3-month rate; 10 yr @5.29% with the 3 mo. @ 4.20 % or a much wider 1.09 bps would indicate a more confident stance that a recession is not in the offing and perhaps, allowing for further tightening without risking a recession.**

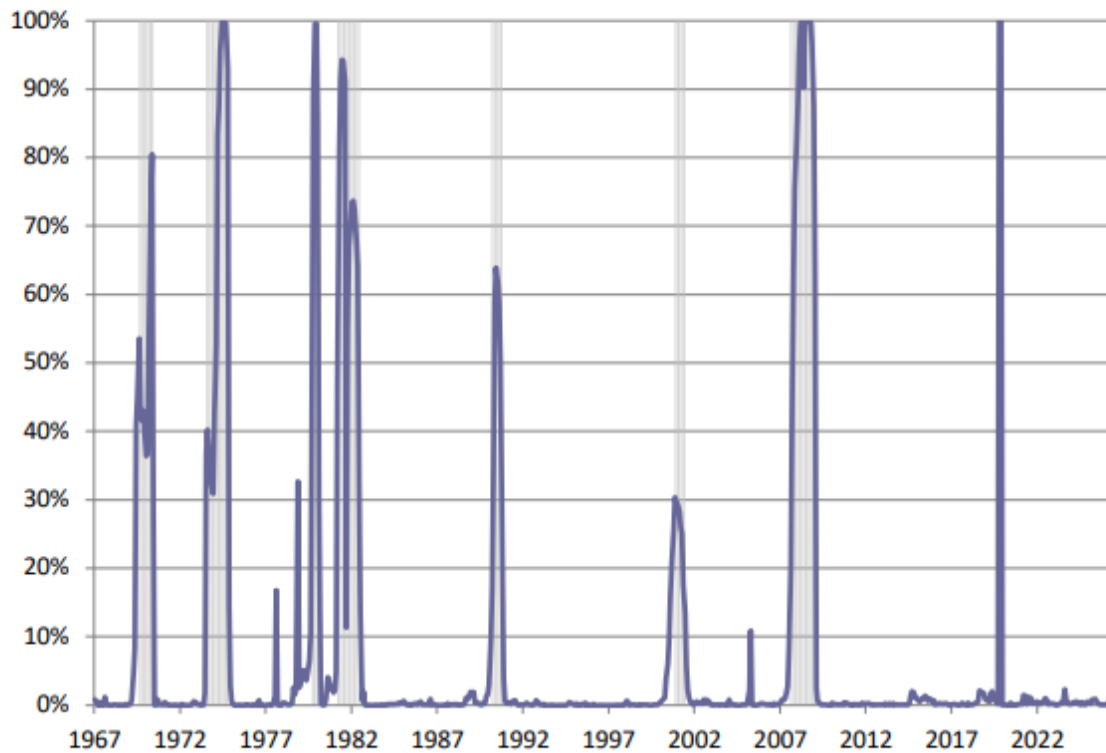
**This from US Treasury :**

|            | <div>  <div> <a href="#">ABOUT TREASURY</a> <a href="#">POLICY ISSUES</a> <a href="#">DATA</a> <a href="#">SERVICES</a> <a href="#">NEWS</a> <a href="#">WHISTLEBLOWER RESOURCES</a> <a href="#">WORKING FAMILIES TAX CUTS</a> </div> <div>            SEARCH         </div> </div> |        |      |      |      |      |      |      |      |      |      |       |       |       |
|------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|------|------|------|------|------|------|------|------|------|-------|-------|-------|
| Date       | 1 Mo                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 1.5 Mo | 2 Mo | 3 Mo | 4 Mo | 6 Mo | 1 Yr | 2 Yr | 3 Yr | 5 Yr | 7 Yr | 10 Yr | 20 Yr | 30 Yr |
| 09/14/2026 | 3.94                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 4.00   | 4.06 | 4.11 | 4.18 | 4.18 | 4.37 | 4.65 | 4.73 | 4.80 | 4.88 | 4.97  | 5.37  | 5.34  |
| 09/15/2026 | 3.93                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 4.00   | 4.06 | 4.11 | 4.19 | 4.17 | 4.39 | 4.67 | 4.76 | 4.83 | 4.91 | 5.00  | 5.40  | 5.36  |
| 09/16/2026 | 3.96                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 4.00   | 4.07 | 4.14 | 4.24 | 4.22 | 4.45 | 4.74 | 4.82 | 4.86 | 4.94 | 5.01  | 5.39  | 5.35  |
| 09/17/2026 | 3.97                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 3.98   | 4.09 | 4.12 | 4.23 | 4.20 | 4.40 | 4.67 | 4.75 | 4.78 | 4.86 | 4.94  | 5.32  | 5.29  |
| 09/18/2026 | 3.97                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 3.98   | 4.10 | 4.14 | 4.24 | 4.24 | 4.44 | 4.76 | 4.83 | 4.86 | 4.93 | 5.01  | 5.38  | 5.34  |
| 09/21/2026 | 3.96                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 4.02   | 4.10 | 4.17 | 4.26 | 4.27 | 4.45 | 4.76 | 4.82 | 4.83 | 4.89 | 4.96  | 5.33  | 5.29  |
| 09/22/2026 | 3.97                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 4.04   | 4.09 | 4.16 | 4.26 | 4.26 | 4.43 | 4.71 | 4.81 | 4.83 | 4.89 | 4.96  | 5.33  | 5.29  |
| 09/23/2026 | 3.99                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 4.07   | 4.10 | 4.19 | 4.30 | 4.31 | 4.49 | 4.85 | 4.97 | 4.99 | 5.05 | 5.11  | 5.45  | 5.40  |
| 09/24/2026 | 4.01                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 4.10   | 4.18 | 4.24 | 4.33 | 4.34 | 4.51 | 4.87 | 4.99 | 5.03 | 5.10 | 5.18  | 5.53  | 5.47  |
| 09/25/2026 | 4.04                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 4.14   | 4.20 | 4.24 | 4.32 | 4.33 | 4.50 | 4.81 | 4.94 | 4.98 | 5.06 | 5.17  | 5.54  | 5.49  |
| 09/28/2026 | 4.04                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 4.14   | 4.20 | 4.28 | 4.33 | 4.41 | 4.59 | 4.92 | 5.01 | 5.06 | 5.15 | 5.24  | 5.60  | 5.56  |
| 09/29/2026 | 4.04                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 4.14   | 4.18 | 4.25 | 4.30 | 4.36 | 4.58 | 4.89 | 4.98 | 5.06 | 5.16 | 5.26  | 5.64  | 5.59  |
| 09/30/2026 | 4.02                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 4.13   | 4.16 | 4.20 | 4.29 | 4.33 | 4.54 | 4.88 | 5.00 | 5.09 | 5.19 | 5.29  | 5.68  | 5.64  |

Typically, the inverted yield curve conversation includes increased risks of a recession,

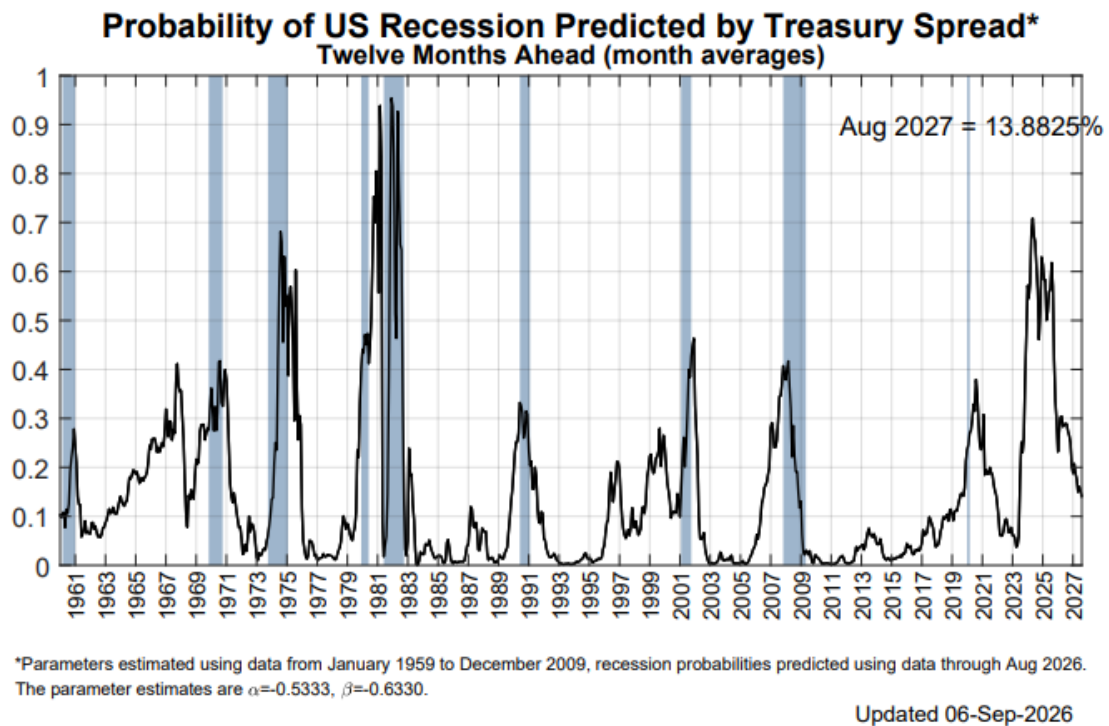
The longest inverted yield curve did not create a recession and occurred during a 16-month time frame between July 2022-November 2023; Portfolio managers understand that duration matters more than the initial inversion. The following Graph was pulled from the St Louis Fed data bank by Professor Jeremy Piger in the econ dept at the University of Oregon.

### Historical U.S. Recession Probabilities June 1967 – August 2026



Notes: These probabilities were generated using monthly data on non-farm payroll employment, industrial production, real personal income excluding transfer payments, and real manufacturing and trade sales. All data was obtained on September 30, 2026. Shaded areas indicate NBER recession dating.

This from the New York Fed less than 1 month ago prior to the last IR increase from the Fed.



**A discussion of Inverted rates nearly always will include the recession risk component.**

The Fed unanimously raised the target range for the federal funds rate by 25bps to 3.75%-4.00% in September 2026 as expected, marking the first-rate hike since 2023. Policymakers noted that inflation remains elevated, and the move aims to support a timelier return to the 2% target. Updated projections showed that 16 of 18 officials see the possibility of at least one more 25bps rate hike later this year with four penciling in two additional rate increases. Chair Warsh again declined to submit his forecasts. Meanwhile, the GDP is seen expanding at a slightly faster pace in 2026 (2.3% vs 2.2% in the June projection) and 2027 (2.4% vs 2.3%). PCE inflation is seen higher this year (3.7% vs 3.6%) but the forecast for 2027 was kept at 2.3%. Core inflation is also seen up in 2026 (3.4% vs 3.3%) but the forecast was left at 2.5% for 2027. The unemployment rate is now projected at 4.1% in both 2026 and 2027, down from the previous forecast of 4.3% for both years. source: [Federal Reserve](#)



**For a discussion of the NY Fed's Interest Rate Leading Indicators for recessions please click on the link below.**

[\*\*https://www.newyorkfed.org/research/capital\\_markets/ycfaq.html#/\*\*](https://www.newyorkfed.org/research/capital_markets/ycfaq.html#/)

**Important: Trading commodity futures and options involves a substantial risk of loss.**

**The recommendations contained in this chart are of opinion only and do not guarantee any profits.**

**Past performances are not necessarily indicative of future results.**