

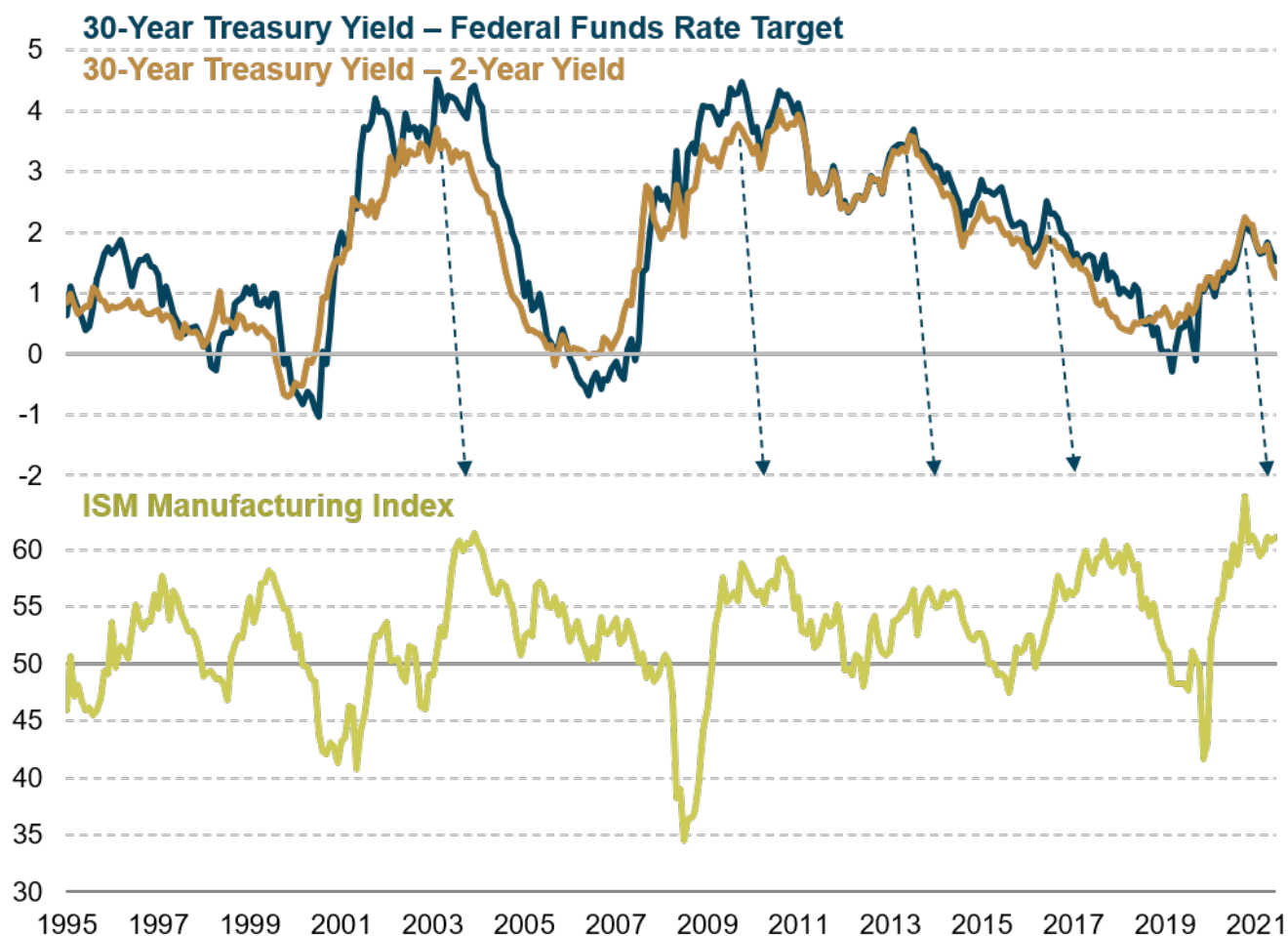
# Chart of the Moment: The Yield Curve Casts Its Vote

*Francis A. Scotland |*

The bull flattening in the U.S. yield curve is sending a clear message to policymakers: The use of demand management tools, like tighter monetary and fiscal policy, to deal with the price/inflation consequences of a supply shock risks a meaningful deterioration in economic growth. The flattening in the curve began in the second quarter of 2021. It coincided with the Federal Reserve's first hint of tapering along with the fall-off in real disposable income that has persisted all year. Asset inflation has propped up spending but itself could be vulnerable to policy restraint. The message to the Fed is clear: Be careful about making too hawkish a pivot or bowing to pressures to short circuit what many see as incipient wage price inflation. The real risk may lie in the other direction.

## U.S. Treasury Yield Curve and ISM Manufacturing Index

% (top), Index (bottom), As of 11/30/2021



Source: Brandywine Global, Macrobond, U.S. Department of the Treasury, Federal Reserve, Institute for Supply Management

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