Before the Bell
Morning Market Brief

September 4, 2019

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MORNING MARKET COMMENTARY: Anthony M. Saglimbene, Global Market Strategist

- **Quick Take:** U.S. futures are pointing to a higher open; European markets are trading up; Asia ended mostly in the green overnight; West Texas Intermediate (WTI) oil trading at $55.13; 10-year U.S. Treasury yield at 1.49%.

- **Sentiment Still Sits In The Bear Camp:** Large swings in the market last month left many investors less confident about the future. As the first FactSet chart shows, and one would assume given the less certain macro-environment today, bearish sentiment has risen aggressively among retail investors over the last few weeks. Market volatility, growing trade tensions, and a slowing growth environment has naturally made more mom-and-pop investors cautious about the stock market. And although bearish sentiment has declined since early August, investors remain predominantly negative on forward stock returns based on the American Association of Individual Investors (AAII) Sentiment Survey.

![Chart showing bearish sentiment](chart)

- As the next FactSet chart shows, bullish sentiment across retail investors is also sharply lower over recent weeks. In the latest AAII sentiment survey, investors reporting they are bullish on stock prices over the next six months declined to 26.1% from 26.4% in the prior survey. Bullish sentiment has now been more than one standard deviation below its historical average for four consecutive weeks, according to Bespoke Investment Group. That is only the 12th such streak in the history of the survey dating back to 1987. Meaning,

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this is one of the rare occasions where bullish sentiment among retail investors has been so low for so long. Generally, bullish and bearish sentiment levels don’t stay at these extreme levels for long and tend to mean-revert back toward their averages over time. Interestingly, last week’s uptick in bearish sentiment came out of the neutral camp. In our view, more retail investors are starting to decide whether their outlook is positive or negative, which could create some additional volatility in the market.

- Although the sentiment data is certainly not going to predict future stock prices, it does highlight how negative retail investors are on the market at the moment. As we highlighted a few weeks ago, from a contrarian perspective, when so many investors are this negative about the future, it can be instructive to think about the possibility of what could go right. In this case, avoiding a recession, and not modeling worst-case scenarios for trade and growth might be useful when so much of the market is now gearing for more pessimistic outcomes. The caveat, however, is to stay balanced and be prepared for both bullish and bearish outcomes that could influence where asset prices head next.

- **Asia-Pacific:** Asian equities finished higher on Monday. Hong Kong Chief Executive Carrie Lam announced the formal withdrawal of the extradition bill that started the unrest throughout the city nearly three months ago. Per the *South China Morning Post*, Mrs. Lam will remove the bill from the legislative agenda, which she already suspended. The move essentially kills the bill and eliminates its chances it could be resuscitated within the Legislative Council’s current term, which ends next year. By formally withdrawing the extradition bill, Mrs. Lam has now met one of the key demands of protesters. It remains to be seen, however, if the move will appease protesters and quickly diffuse tensions in the city. Protests over recent weeks have grown more violent and encompassed demands in addition to eliminating the extradition bill.

- **Europe:** Markets across the region are trading up at mid-day. Late yesterday, UK Members of Parliament (MPs) won a vote that sets up an opportunity to block a no-deal Brexit. In a 328 - 301 vote, MPs voted to seize control of the parliamentary schedule, which now sets up for a vote, as early as today, on legislation that would block UK Prime Minister Boris Johnson from taking Britain out of the European Union (EU) without a deal. The legislation, if passed, would require Mr. Johnson to seek a three-month extension (until January 2020) if a deal is not reached with the EU by October 31st. Although Mr. Johnson is still seeking new elections after he lost his majority in parliament yesterday, opposition parties have said they would only back an election after ‘no-deal legislation’ is passed into law. To hold new snap elections, Mr. Johnson will need a two-thirds majority of parliament to back his move. The prime minister may seek new elections as a way of possibly building back a majority and win a mandate to take the UK out of the EU even if that means without a deal. However, MPs have said such a result would not change anything, and he could risk losing control if opposition parties gain control.
• Bottom line: the Brexit situation is quickly getting a whole lot messier. Very little is being accomplished on forming a new deal or preparing for the withdrawal agreement that the former Prime Minister Theresa May struck with Brussels.

• Five Star Movement members have backed the coalition government with the Democratic Party (PD). According to FactSet, 79.3% of Five Star members supported the union, which was better than the 51% forecasted heading into the vote. Italian Prime Minister Giuseppe Conte is expected to begin the process of forming the new government and filling cabinet positions.

• U.S.: Equity futures are pointing to a stronger open this morning. Following weaker-than-expected data on manufacturing activity yesterday, which contributed to a rough start to September trading, stocks are looking to rebound at the open.

• As we noted here and in After The Close on Monday, investors should expect a more volatile trading pattern this month. We expect investors to increasingly engage in a tug-of-war between determining if the U.S. economic expansion is in its final stages before rolling over or if the lull in growth is a temporary speedbump. In our view, each scenario could have a material impact on where corporate profits are headed, and as a result, where the next leg in stock prices goes. Stock prices are essentially flat over the last year, sentiment is weak, economic data is mixed (at best), and investors are clamoring for safety in bonds. We believe all of this points to a degree of caution and an acknowledgment that the macro backdrop is weaker today then it was a few months ago.

• Get ready for a ramp in market discussion about whether confidence in central bankers still exists and if monetary policies are the problem or the cure to the recent slowdown in global activity. The short answer is it’s probably a little of both. Our view is that policy rates across the globe are already low and are unlikely to have a large impact on economic growth if central bankers decide to press down further interest rates this month. The European Central Bank, Federal Reserve, Bank of England, and Bank of Japan all meet in September, and all are expected to either ease policy or communicate they stand ready to provide more accommodation if necessary. It is also our view that successive rate cuts by the Federal Reserve would be in response to a weakening economic outlook, which would likely be a negative for risk assets. Although some accommodation by central bankers is likely warranted based on the global backdrop, monetary policy can only go so far in helping keep asset prices afloat. Central bankers aren’t easing policy because things look good, and investors should keep this point in mind regardless of what asset prices do over the near-term.

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## WORLD CAPITAL MARKETS

**9/4/2019**  
As of: 8:30 AM ET

<table>
<thead>
<tr>
<th>Region</th>
<th>S&amp;P 500</th>
<th>Dow Jones</th>
<th>NASDAQ Composite</th>
<th>Russell 2000</th>
<th>Brazil Bovespa</th>
<th>S&amp;P/TSX Comp. (Canada)</th>
<th>Mexico IPC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>% chg.</strong></td>
<td>-0.69%</td>
<td>-1.08%</td>
<td>-1.11%</td>
<td>-1.51%</td>
<td>-0.94%</td>
<td>-0.26%</td>
<td>0.67%</td>
</tr>
<tr>
<td><strong>% YTD Value</strong></td>
<td>17.54%</td>
<td>13.94%</td>
<td>7.847%</td>
<td>10.15%</td>
<td>13.42%</td>
<td>16.83%</td>
<td>2.60%</td>
</tr>
<tr>
<td><strong>Value</strong></td>
<td>2,906.3</td>
<td>26,118.0</td>
<td>7,847.2</td>
<td>1,472.3</td>
<td>99,681.0</td>
<td>3,399.2</td>
<td>41,826.6</td>
</tr>
</tbody>
</table>

### Global Developed International Index

<table>
<thead>
<tr>
<th>Region</th>
<th>S&amp;P 500</th>
<th>Dow Jones</th>
<th>NASDAQ Composite</th>
<th>Russell 2000</th>
<th>Brazil Bovespa</th>
<th>S&amp;P/TSX Comp. (Canada)</th>
<th>Mexico IPC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>% chg.</strong></td>
<td>0.92%</td>
<td>0.34%</td>
<td>1.08%</td>
<td>1.15%</td>
<td>1.61%</td>
<td>0.64%</td>
<td>0.79%</td>
</tr>
<tr>
<td><strong>% YTD Value</strong></td>
<td>38.76%</td>
<td>12.24%</td>
<td>14.02%</td>
<td>20.29%</td>
<td>18.66%</td>
<td>7.03%</td>
<td>24.50%</td>
</tr>
<tr>
<td><strong>Value</strong></td>
<td>3,452.0</td>
<td>7,293.1</td>
<td>12,039.0</td>
<td>5,528.8</td>
<td>21,744.1</td>
<td>8,883.1</td>
<td>2,796.1</td>
</tr>
</tbody>
</table>

### Global Emerging Markets

<table>
<thead>
<tr>
<th>Region</th>
<th>S&amp;P 500</th>
<th>Dow Jones</th>
<th>NASDAQ Composite</th>
<th>Russell 2000</th>
<th>Brazil Bovespa</th>
<th>S&amp;P/TSX Comp. (Canada)</th>
<th>Mexico IPC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>% chg.</strong></td>
<td>0.02%</td>
<td>0.00%</td>
<td>0.79%</td>
<td>0.84%</td>
<td>1.61%</td>
<td>0.84%</td>
<td>0.79%</td>
</tr>
<tr>
<td><strong>% YTD Value</strong></td>
<td>9.98%</td>
<td>9.88%</td>
<td>24.50%</td>
<td>7.03%</td>
<td>18.66%</td>
<td>7.03%</td>
<td>24.50%</td>
</tr>
<tr>
<td><strong>Value</strong></td>
<td>1,832.3</td>
<td>1,832.3</td>
<td>2,796.1</td>
<td>8,883.1</td>
<td>21,744.1</td>
<td>8,883.1</td>
<td>2,796.1</td>
</tr>
</tbody>
</table>

### Equity Income Indices

<table>
<thead>
<tr>
<th>Index</th>
<th>% chg.</th>
<th>% YTD Value</th>
<th>% chg.</th>
<th>% YTD Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>JPM Alerian MLP Index</td>
<td>-0.73%</td>
<td>3.14%</td>
<td>23.0</td>
<td></td>
</tr>
<tr>
<td>FTSE NAREIT Comp. TR</td>
<td>1.08%</td>
<td>27.49%</td>
<td>21,517.6</td>
<td></td>
</tr>
<tr>
<td>DJ US Select Dividend</td>
<td>-0.27%</td>
<td>11.75%</td>
<td>2,078.9</td>
<td></td>
</tr>
<tr>
<td>DJ Global Select Dividend</td>
<td>1.06%</td>
<td>-0.48%</td>
<td>205.8</td>
<td></td>
</tr>
<tr>
<td>S&amp;P Div. Aristocrats</td>
<td>-0.49%</td>
<td>15.75%</td>
<td>2,774.6</td>
<td></td>
</tr>
</tbody>
</table>

### Bond Indices

<table>
<thead>
<tr>
<th>Index</th>
<th>% chg.</th>
<th>% YTD Value</th>
<th>% chg.</th>
<th>% YTD Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barclays US Agg. Bond</td>
<td>0.18%</td>
<td>9.30%</td>
<td>2,237.0</td>
<td></td>
</tr>
<tr>
<td>Barclays Hy Bond</td>
<td>-0.12%</td>
<td>10.87%</td>
<td>2,116.8</td>
<td></td>
</tr>
</tbody>
</table>

### Commodities Futures & Spot (Intra-day)

<table>
<thead>
<tr>
<th>Commodity</th>
<th>% chg.</th>
<th>% YTD Value</th>
<th>% chg.</th>
<th>% YTD Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICE Brent Crude (p/bbl.)</td>
<td>1.63%</td>
<td>10.06%</td>
<td>59.2</td>
<td></td>
</tr>
<tr>
<td>NYMEX WTI Crude (p/bbl.)</td>
<td>1.69%</td>
<td>20.79%</td>
<td>54.9</td>
<td></td>
</tr>
<tr>
<td>LME Copper (per ton)</td>
<td>-0.16%</td>
<td>-6.13%</td>
<td>5,584.5</td>
<td></td>
</tr>
<tr>
<td>LME Aluminum (per ton)</td>
<td>0.20%</td>
<td>-7.42%</td>
<td>1,724.5</td>
<td></td>
</tr>
</tbody>
</table>

### Equity Index data is total return, inclusive of dividends.

Note: International market returns shown on a local currency basis. Equity index data is total return, inclusive of dividends.

Each region. Tactical Allocations are designed to augment Index returns over a 6-12 month time horizon. Index weights as of 6/21/19. Numbers may not add due to rounding.

### Ameriprise Global Asset Allocation Committee

#### U.S. Equity Sector - Tactical View

<table>
<thead>
<tr>
<th>Sector</th>
<th>S&amp;P 500 Index</th>
<th>GAAC</th>
<th>GAAC Tactical</th>
<th>GAAC Recommended</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Communication Services</td>
<td>10.2%</td>
<td>Underweight</td>
<td>2.0%</td>
<td>8.2%</td>
</tr>
<tr>
<td>2) Consumer Discretionary</td>
<td>10.2%</td>
<td>Equalweight</td>
<td>-</td>
<td>10.2%</td>
</tr>
<tr>
<td>3) Consumer Staples</td>
<td>7.3%</td>
<td>Equalweight</td>
<td>-</td>
<td>7.3%</td>
</tr>
<tr>
<td>4) Energy</td>
<td>5.0%</td>
<td>Equalweight</td>
<td>-</td>
<td>5.0%</td>
</tr>
<tr>
<td>5) Financials</td>
<td>12.9%</td>
<td>Underweight</td>
<td>2.0%</td>
<td>10.9%</td>
</tr>
</tbody>
</table>

#### Global Equity Region - Tactical View

<table>
<thead>
<tr>
<th>Region</th>
<th>MSCI All-Country World Index</th>
<th>GAAC</th>
<th>GAAC Tactical</th>
<th>GAAC Recommended</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) United States</td>
<td>55.5%</td>
<td>Overweight</td>
<td>+4.3%</td>
<td>59.8%</td>
</tr>
<tr>
<td>2) Canada</td>
<td>3.0%</td>
<td>Equalweight</td>
<td>-</td>
<td>3.0%</td>
</tr>
<tr>
<td>3) United Kingdom</td>
<td>5.0%</td>
<td>Underweight</td>
<td>-1.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>4) Europe ex U.K.</td>
<td>14.5%</td>
<td>Underweight</td>
<td>-1.0%</td>
<td>13.5%</td>
</tr>
</tbody>
</table>

Index weighting represents relative weightings based on the regional market capitalization balance of the MSCI All-Country World Index; may not add due to rounding. The GAAC Tactical Overlay, as well as Recommended Tactical Weights, is derived from the Ameriprise Global Asset Allocation Committee (GAAC). Views are expressed relative to the Index and are provided to represent investment conviction in each region. Tactical Allocations are designed to augment Index returns over a 6-12 month time horizon. Index weights as of 6/21/19. Numbers may not add due to rounding.

### Other Financial Market Data

<table>
<thead>
<tr>
<th>Currency Pair</th>
<th>% chg.</th>
<th>% YTD Value</th>
<th>% chg.</th>
<th>% YTD Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Pound (£/$)</td>
<td>0.94%</td>
<td>-4.38%</td>
<td>0.68</td>
<td></td>
</tr>
<tr>
<td>Australian Dollar (A$/$)</td>
<td>0.44%</td>
<td>-3.67%</td>
<td>0.68</td>
<td></td>
</tr>
</tbody>
</table>

Data/Price Source: Bloomberg. Equity index data is total return, inclusive of dividends.
BY THE NUMBERS: ECONOMIC ACTUALS AND FORECAST:

Current Projections:

<table>
<thead>
<tr>
<th>Actual</th>
<th>Actual</th>
<th>Actual</th>
<th>Actual</th>
<th>Actual</th>
<th>Est.</th>
<th>Est.</th>
<th>Actual</th>
<th>Actual</th>
<th>Est.</th>
<th>Est.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP (Y0Y)</td>
<td>2.5%</td>
<td>2.9%</td>
<td>1.6%</td>
<td>2.4%</td>
<td>2.9%</td>
<td>2.2%</td>
<td>2.1%</td>
<td>3.1%</td>
<td>2.1%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>5.6%</td>
<td>5.0%</td>
<td>4.7%</td>
<td>4.1%</td>
<td>3.9%</td>
<td>3.6%</td>
<td>3.5%</td>
<td>3.8%</td>
<td>3.7%</td>
<td>3.6%</td>
</tr>
<tr>
<td>CPI (YoY)</td>
<td>1.6%</td>
<td>0.1%</td>
<td>1.3%</td>
<td>2.1%</td>
<td>2.4%</td>
<td>2.1%</td>
<td>2.1%</td>
<td>1.6%</td>
<td>1.7%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Core PCE (YoY)</td>
<td>1.6%</td>
<td>1.3%</td>
<td>1.7%</td>
<td>1.6%</td>
<td>1.9%</td>
<td>1.8%</td>
<td>2.0%</td>
<td>1.5%</td>
<td>1.6%</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

Sources: Historical data via FactSet. Estimates (Est.) via American Enterprise Investment Services, Inc.

YoY = Year-over-year, Unemployment numbers are period ending, GDP: Gross Domestic Product; CPI: Consumer Price Index

ECONOMIC NEWS OUT TODAY:


<table>
<thead>
<tr>
<th>Time</th>
<th>Period</th>
<th>Release</th>
<th>Consensus</th>
<th>Actual</th>
<th>Actual</th>
<th>Prior</th>
<th>Revised to</th>
</tr>
</thead>
<tbody>
<tr>
<td>8:30 AM</td>
<td>JUL</td>
<td>Trade Balance</td>
<td>-$53.4B</td>
<td>-$54.0B</td>
<td>-$55.2B</td>
<td>-$55.5B</td>
<td></td>
</tr>
<tr>
<td>2:00 PM</td>
<td>NA</td>
<td>Federal Reserve’s Beige Book on regional economic conditions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NA</td>
<td>AUG</td>
<td>U.S. Total U.S. Vehicle Sales</td>
<td>16.9M</td>
<td>16.82M</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Economic Perspective: **Russell T. Price, CFA – Chief Economist**

- The Trade Balance for July came in generally as expected this morning. Exports were up 0.6% in the month while imports were down 0.1%. On a year-over-year basis, the results were reversed; Exports were down 0.6% while imports were up 0.1%.

- Overall, **today’s report does not materially alter our real GDP expectations for Q3 as the results were generally in-line with our expectations.** With significant additional tariffs in the near-term pipeline, however, trade flows are likely to be more volatile over the next several months, just as they were through much of 2018. On October 1st the U.S. tariff rate on approximately $300 billion worth of mostly industrial goods is scheduled to go from 25% top 30%. Further, the remaining value of Chinese imports representing a 2018 value of approximately $130 billion (mostly consumer goods) will see its first tariff of 15% imposed on December 15th (as currently scheduled).

- Aside from the situation with China, trade is currently being influenced by a number of factors: lower demand for U.S. exports due to slower global growth (much of which is itself due to ramifications of the U.S. /China trade dispute), a modestly stronger U.S. dollar, and the halt in 737 MAX civilian aircraft deliveries from Boeing. Year-to-date, civilian aircraft exports (typically THE largest individual exported good are down approximately 12%.

- **China could yet target the sales of U.S. companies operating in their market.** In 2017, U.S. companies generated sales of approximately $376 billion in China. There’s more to a trade war than just tariffs. When evaluating the economic risk to each combatant, there are several avenues to consider: reduced exports, the inflationary influence of tariffs, currency implications, and hits to consumer and/or business confidence and spending, are usually the key factors studied.

- Today, however, we highlight a factor not often discussed in detail: the sales generated by affiliates of U.S. multinacionales operating directly in China’s domestic market (not to be confused with exports to China). The availability of this data is difficult to accumulate ad what becomes available is quite dated (especially by financial market standards). In fact, the U.S. Bureau of Economic Analysis (BEA) just released its data for 2017 last week (the report is annual).

- According to the report, foreign affiliates of U.S. multinacionales generated sales of $375.6 billion in China during 2017, or about 6% of the total sales generated by U.S. foreign affiliates in the year. Manufactured goods represented the bulk of the business operations at 64%, according to the BEA. Computers and electronic products accounted for 23% of the total, followed by Chemicals (11%), Transportation equipment (8%) and Machinery (7%). Over the preceding 5 years (2012 through 2017), sales in China grew at an annual rate of approximately 10% per annum while total foreign sales grew by just 1%.

- Given this data’s delayed availability, it’s impossible to accurately gauge the impact of the trade dispute on U.S. affiliate sales in China right now. However, the data could become more important should Chinese leaders chose targeting actions against U.S. brands operating in the country as a means of reciprocation against further U.S. tariff actions.
FIXED INCOME NEWS & VIEWS: Brian M. Erickson, CFA, Fixed Income Research & Strategy

• **Treasury Update:** Ten-year Treasury set a new three-year low Tuesday closing at 1.45% as markets began the U.S. trading week with a risk-off tone. This morning 10-year yields lifted higher to 1.48% ahead of the open to U.S. equity trading.

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China’s Cabinet Supports Using Additional Tools; We Highlight Where Our Potential Concerns Lie

• Yesterday we highlighted the range of monetary policy support by global central banks that began in July and that we anticipate continues over the next two weeks as the European Central Bank, Fed, and Bank of England meet and are expected to unveil further support for expansion. Earlier today, China’s Cabinet, the chief administrative authority led by Premier Li Keqiang, called for the use of policy tools including adjusting the targeted required reserve ratio for banks. While this measure is the primary tool in many countries, China uses a range of lending and regulations as its primary tools. And while the Cabinet isn’t the People’s Bank of China, the direct support of the Cabinet serves to more broadly support China’s soft landing.

• Stepping back, we see this move as supportive of using a broader range of mechanisms for use in navigating the deceleration of China’s economy. We see this in a positive light. Our primary concern centers on the potential for events unfold that twist markets and ultimately impact the U.S. economy or the economies of emerging markets in Asia and Africa. For example, we are closely watching the renminbi/USD exchange rate (see chart below) as markets demand more yuan per dollar, and as China’s daily fixing weakens. After rising above 7 yuan/dollar, have few signs of strength have emerged. Certainly, the exchange rate could be influenced by trade tensions, but our concerns rests with the rapid expansion of China’s currency base over the past two decades and the relatively closed nature of China’s economy. As China’s middle class has grown and wealth increased, how might they react to a weakening currency? There are capital controls in place that may result in declining wealth on a global scale as renminbi weakens we will see how eager domestic wealth is to diversify outside of China.

• We are also watching the pace of non-financial corporate defaults. While the pace has been extremely modest, defaults returned to China with 5 failures already this year. The first defaults since 2015. We believe credit markets in China remain vulnerable given 1) the pace of growth seen in corporate debt in recent years, 2) the elevated level of leverage, and 3) the history of government backstop to any and all potential losses thereby incenting pronounced risk-taking. Though the default rate remains significantly below 1%, the social contract underlying China’s economy may begin to come into question should losses spread. Investment losses and the loss of employment may stir unrest in the nation accustomed to a government backstop. Further, of the 15 non-financial Asian corporates rated B3 or lower by Moody’s, China’s corporations represent 11 of them, including four property developers, where restructurings could begin to weigh on real estate valuations.

• Though we believe direct investor exposure to China is limited based on the historically close nature of their markets, we see the principal risk as a quickening slowdown in China’s economic growth or a financial crisis that might emerge as a hang-over from more than two decades of quickened growth. Should liquidity become constrained, we would anticipate the impacts to be felt across global bond markets. *The chart below is sourced from Bloomberg.*

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30yr/3mo Treasury Yield Spread Inverts -

(In basis points)

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