Since last month, the yield curve has shifted upward and marginally decreased its upward tilt. The 3-month Treasury-bill rate moved up 31 basis points (bp), from 4.82% to 5.13%, while the 3-year, 3-month spread flattened from 93 to 85 bp, echoing the dip from 110 to 105 bp in the 10-year, 3-month spread. These spreads stand near their respective long-run averages of 80 and 125 bp. To the (admittedly somewhat limited) extent that such a shift expresses changes in market sentiments about inflation, it indicates a mild increase in concern, concentrated more on the short run. To the extent (also limited) that it reflects real factors, it indicates moderate real growth for the next year.

The Treasury-to-eurodollar (TED) spread has changed more dramatically, increasing 58 bp since August and 82 bp since February to its current level of 107 bp. So wide a spread has not been seen since October 1998, the peak of last year’s flight to liquidity and quality. Last fall’s wide spreads, however, had obvious proximate causes in the Russian default, hedge-fund problems, and worries about North Korean missiles. This time, such obvious suspects are missing.

Looking not at interest rates themselves but at percentage changes can provide perspective on market volatility or turbulence. Since fall 1998, markets have been relatively, but not abnormally, stable. Long rates (yields on 30-year T-bonds) have generally fluctuated less than short rates (3-month T-bill yields), providing some evidence that long rates can be thought of as an average of short rates, smoothing their fluctuations over time.