

Markets are not looking good

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All the signs are that the world economy is in trouble, Brexit or not. This is [from the FT today](#):

The primary measure of the US yield curve watched by the Federal Reserve has fallen to its lowest level since 2007, after a policy shift by the central bank has raised fears over the outlook for the US economy.

Benchmark 10-year Treasury yields sank to 2.52 per cent on Thursday and short-dated, three-month yields marched higher to 2.47 per cent.

Why does this matter? Three reasons.

First when short term interest rates are near enough the same as long term ones then banks cannot make money. Their logic is to borrow short to lend long. In this scenario there is no margin in that. Using the logic of what they think their business model is they cannot make money in this scenario.

Second, the implication is clear: markets think current risks are so high that they are as significant as long term unknowns. They are saying current uncertainty is at least as serious as what might happen over a ten year period. Current risk has to be high for that to be true.

Third, this always presages financial downturn. Markets are apt to get this right. And with sharply declining rates (it is not long since they hit 3%) that is all the more likely.

It's not looking good.

Especially if there is a tipping point. Bring on Brexit.