Did the recession start on Friday, March 10? If it did not, it probably will soon, though we will not “officially” know for months.

The implications of Friday’s SVB insolvency, the 16th largest bank in the US and the 2nd largest US bank failure in US history, should not be under-estimated. Notably, pressure on the financial sector has begun exactly one year after the Fed began raising rates (which was one year ago tomorrow). The intolerance for higher rates across the financial system has quickly become evident.

As such, financial conditions have tightened markedly across the entire credit spectrum from capital markets to banks. The squeeze on the “real economy” is likely to be rapid and strong. Elevated interest rates have now become the transmission mechanism for deteriorating credit conditions. The risk of a rolling series of “unexpected” credit events remains high. Not 2008, but unanticipated casualties of Fed tightening nonetheless.

Back in July 2022, in a publication called “Mixed Signals: An Assessment of US Recession Risk in the Year Ahead,” we assigned an “above consensus” 60% probability of US recession within 12 months (Bloomberg consensus at the time was 47.5%). That probability has since risen markedly. In subsequent months, with inflation high and the Fed rapidly tightening, we proceeded to characterize the forthcoming contraction as one of the most “highly telegraphed” US recessions on record.

Our conclusion was anchored in the fact that every time US inflation rises above 5%, an accelerated Fed tightening cycle, “unintended consequences” and US recession have followed. Additionally, the most accurate predictor of post WW2 US recessions (yield curve inversion), typically with a 9-15 month lag, had just occurred three months earlier in April 2022.

To avoid recession, most of the traditional signals we are seeing would need to be wrong.

Going back to 1950, every time headline US inflation has risen above 5%, an accelerated tightening cycle and US recession have followed.