Recession probability? More than a year away.

It's safe to say that the U.S. economy has more than enough momentum to stay on a roll straight through the year. The prospect of reduced corporate taxes raises the probability even higher. Yet, as we all know, trees do not grow to the sky and economic growth is not perfectly linear.

Although substantial fiscal stimulus is now in the pipeline, we must remember that the monetary tides are turning in the opposite direction. Three more rate hikes by the Fed appear to be a near certainty and what lies thereafter is unknown.

What's concerning is that as short-term rates climb, the gap between short and long rates narrows. When the gap disappears, the yield curve becomes flat or even inverted, which means that short-term rates are as high or higher than long-term rates. It's akin to putting on the brakes in a car, which tends to raise the rear and lower the trunk.

A flat or inverted yield curve is a necessary, but not always sufficient reason to expect that recession will follow. Indeed, after the last half dozen or so times when the yield curve flattened, recessions happened sometimes . . . and sometimes there was no recession.

When the economic did end up in recession, the span between the appearance of a flattened yield curve and the onset of recession was more than a year, occasionally a lot longer. For those concerned that business is about to hit the skids, it's time for a sigh of relief.

Even so, the stock market has been on one of its longest rallies ever so it's not totally inappropriate to give some thought to when it will end. Equally of interest is the reality that the market trends tend to reflect expectations of what lies ahead, not what's going on now. The question then is how far ahead investors are looking. At the moment, one would think that the answer is "not very far."

These matters aside, I continue to be struck by the preponderance of equities selling with triple-digit share prices. The last time this happened was back in 1999-2000 and we know how things turned out a couple of years later.

Still, the parallels between the euphoria of the end of the last century and today's enthusiasm seem to be few. Valuations are high, but nowhere near as ridiculous as they were then. What's more, the companies that are leading the charge now are those with real bottom lines rather than upstarts with promises of great things to come way off in the future.

Sorting all of this out suggests that the backdrop for investors is encouraging, but at all times it would be prudent to stick to the basics, insist upon substance when making commitments, and keep expectations within the realm of reality and historic norms. However successful efforts proved to be in the year just past, more modest goals would seem to have a greater chance of being met in the year just begun.