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is on your side

Understanding
the yield curve

Overview

Identifying yield curve trends to refine your strategy

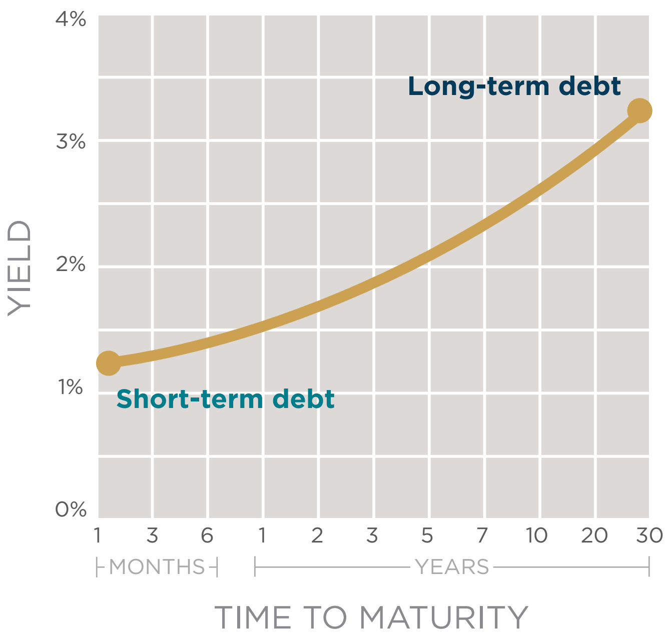
Learn how the yield curve can provide insight into the state of the economy and may help you make more informed decisions about your investment strategy.

The most commonly reported yield curve is based on U.S. Treasury debt securities.

The U.S. Treasury issues debt securities that the public can invest in

These are backed by the U.S. government, **so they have less credit risk than other investments**

However, lower credit risk also **means lower returns**



The yield curve illustrates the returns of U.S. Treasury debt.

- These debt securities have fixed interest rate of return known as yield, when expressed as a percentage
- Long-term bonds offer higher yields because **inflation** tends to decrease the value of future fixed payments
- The yield curve shows the interest rates at all issued **maturities**—currently from four weeks to 30 years

Inflation—the decrease in the purchasing value of money over time

Maturities—time from when the debt is issued to when the investor receives the amount initially invested

The yield curve provides insight into how investors are feeling about the health of the overall economy.

When investors feel confident about the economy

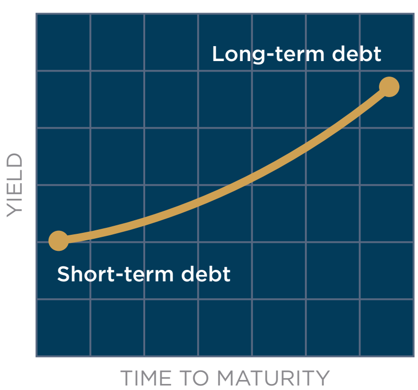
- They're more willing to take risks for higher returns
- Demand for U.S. Treasury securities decreases
- Yields increase as the supply of Treasury securities exceeds demand

When investors think a recession is in the future

- They're less willing to take risks and prefer safer investments
- Demand for U.S. Treasury securities increases
- Stronger demand for Treasury securities drives yields down

The yield curve can take on different shapes, called slopes.

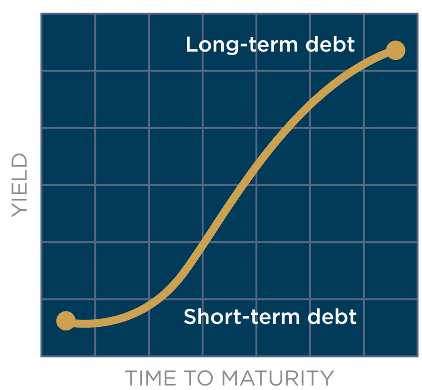
RISING SLOPE



Economic growth
Investors expect normal economic growth

Long-term bond yields
Yields on long-term bonds are higher than shorter-term yields

STEEP SLOPE

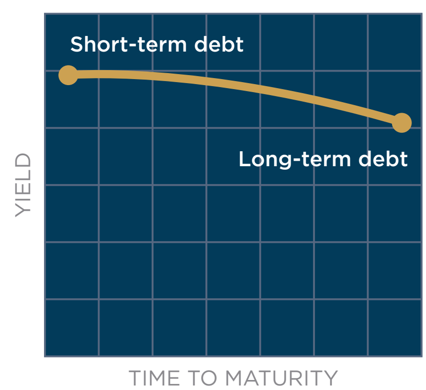


Economic growth
Investors anticipate rapid economic growth

Long-term bond demand
Demand for long-term bonds decreases

Long-term bond yields
Yields on long-term bonds rise higher than shorter-term yields

INVERTED SLOPE



Economic growth
Investors expect an economic slowdown

Long-term bond demand
Demand for long-term bonds increases

Long-term bond yields
Yields on long-term bonds fall below shorter-term yields

The yield curve is a valuable economic indicator that has historically predicted an oncoming recession.

- For the past 50 years, the yield curve has inverted before the start of every recession
- A recession has occurred an average of 18 months after the inversion of the yield curve

Yield curve inversion	Start of recession	Months in between
February 1973	November 1973	9
September 1978	January 1980	16
September 1980	July 1981	10
December 1988	July 1990	19
June 1998	March 2001	33
June 2006	December 2007	18

Let the yield curve help as you work with a financial advisor to identify investment opportunities in various market conditions.

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