

How Maturities Affect Bond Yields

Bonds are an important part of any investment portfolio and understanding the difference in returns between bonds of different maturities is an essential step for investors. Generally, bonds with longer maturities will earn a higher return than shorter-term bonds. There are several reasons why this is true, and we'll explore them in more detail here by looking at examples from both corporate bonds and treasury bonds.

Corporate Bonds

When it comes to corporate bonds, the main reason why longer-term bonds have higher returns is because they offer greater stability in terms of interest payments. For example, if you purchase a 5-year bond from a company with a 7% yield, you can be sure that the company will make payments according to that rate for the entire duration of the bond.

This provides investors with peace of mind that their investment will remain steady over time. While shorter-term bonds may offer a greater initial yield, it's likely that market conditions or other events could lead to lower yields over time as the market fluctuates.

Longer-term corporate bonds also tend to offer higher yields because the issuing company is taking on more risk when issuing them. The company has to commit to making interest payments for a longer period of time than if it were to issue shorter-term debt. As such, it's necessary for it to offer investors higher yields in order to compensate them for taking on this additional risk.

Treasury Bonds

The same principle applies when looking at treasury bonds – those with longer maturities typically have higher yields than those with shorter maturities. This is because these types of investments are considered to be among the safest options available due to their guarantee by the U.S government (although there are still risks involved).

As such, investors feel more secure investing in these kinds of securities and so they usually require less compensation (in terms of yield) than other kinds of investments do.

As an example, 10-year treasury bonds currently have an average yield of around 1.55%, while 30-year treasury bonds have an average yield of 2%. As we can see here, even though both types of investments provide very low yields compared to many other types of investments out there, longer term treasuries still tend to offer slightly better rates than shorter ones due their added security and stability associated with them being backed by the U.S government.

The Bottom Line On Bond Yields

Overall, it's clear that there is a definite advantage when investing in longer maturity bonds compared to short term ones - especially when looking at corporate or treasury securities where investors receive additional stability and security along with potentially higher returns on their investments.

By understanding these differences between long term and short term bond investing strategies investors are better able position themselves to maximize their returns whilst reducing potential risks associated with volatile markets or unexpected changes in interest rates over time

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