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Macro Roundup Article

Headline: Why Have Long-term Treasury Yields Fallen Since the 1980s? Expected Short Rates and Term Premiums in (Quasi-) Real Time

Article Link: https://www.federalreserve.gov/econres/feds/why-have-long-term-treasury-yields-fallen-since-the-1980s-expected-short-rates-and-term-premiums-in-quasi-real-time.htm

Author(s)	Michael Kiley
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Tweet: Using information available to market participants in each period, Michael Kiley finds that the decline in 10-year Treasury rates since 1990 is attributed to a decline in the expected value of short-term interest rates, with no trend in the term premium.

Summary: A predominant set of tools used in discussions of the yield curve are models that decompose the yield curve into expected short-term interest rates and term premiums. Standard decompositions of the Treasury yield curve attribute much of the trend decline in long-term yields [since 1992] to term premiums. The standard decomposition is based on the entire history of data. These models show a large downward trend in term premiums from the early 1990s (or earlier) to 2022. In contrast to the typical implementation of the approach, the analysis herein only uses information available in real time. Using data only available in real time suggests no trend in term premiums. Rather, the trend decline is attributed to a decline in the long-run expected value of short-term interest rates. This real time approach arguably better captures the information available to investors buying and selling Treasury securities at a given point in time. Importantly, a trend decline in the expected short term interest rate is consistent with a decline in inflation and in the neutral long-run real interest rate.

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