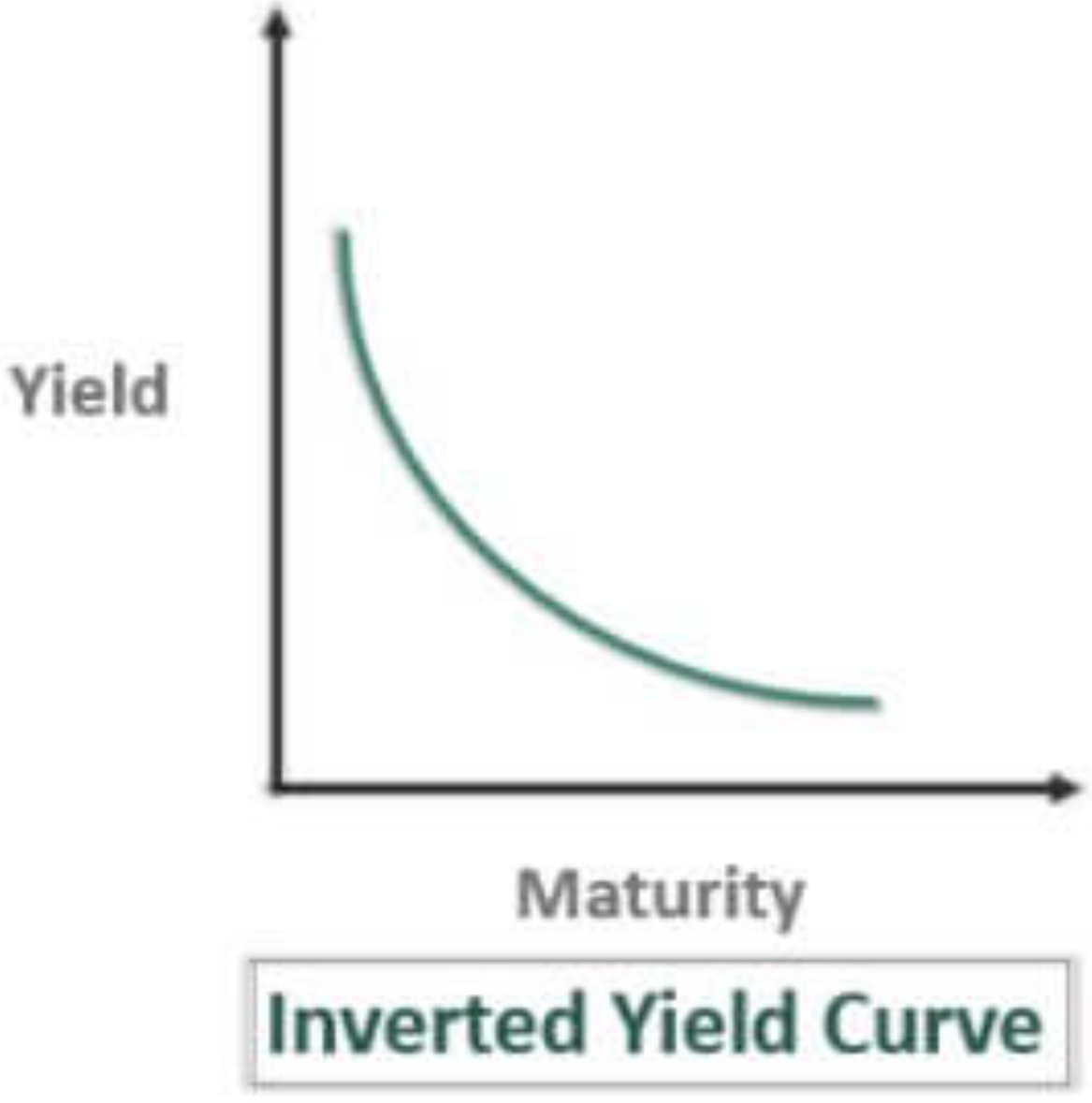
Inverted Yield Curve

Normal Yield Curve



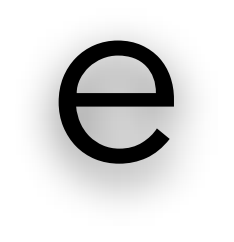
Inverted Yield Curve

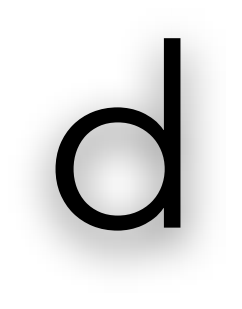
This plot shows a "**normal**" yield curve because yields are higher for longer-term debt

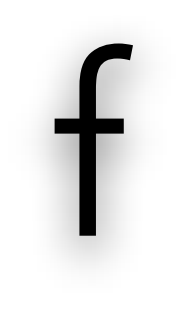
This plot shows an "**inverted**" yield curve because yields are lower for longer-term debt

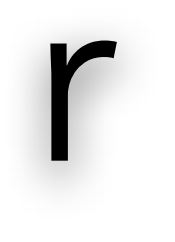
Why does the yield curve get inverted?


a





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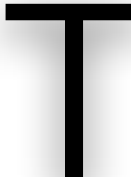

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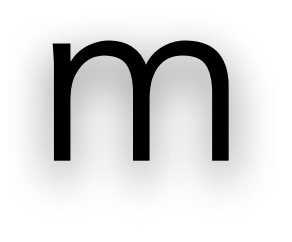
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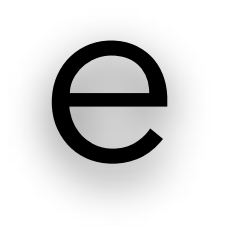

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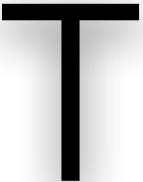

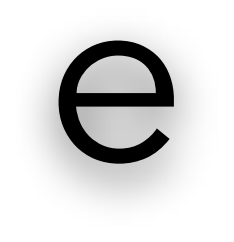

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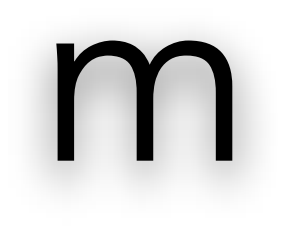

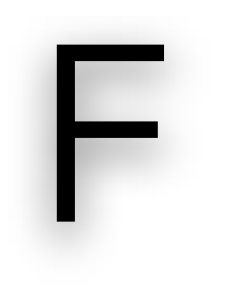

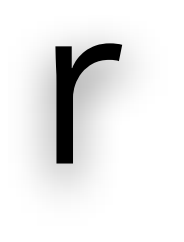

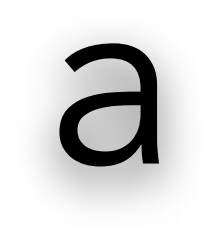
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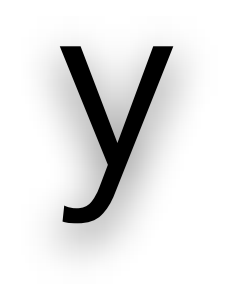
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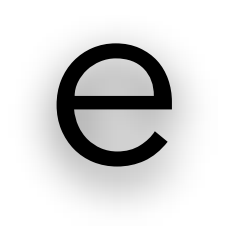

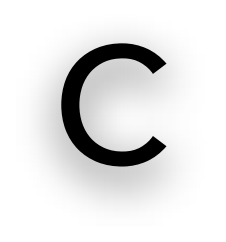
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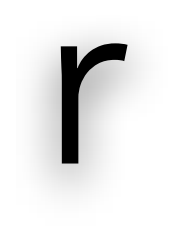

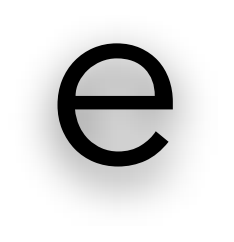


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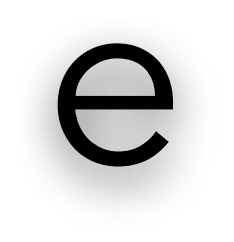

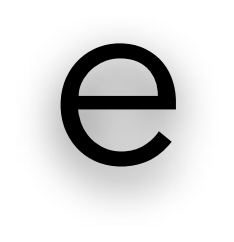

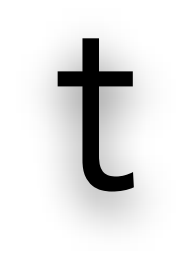


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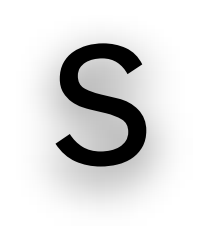


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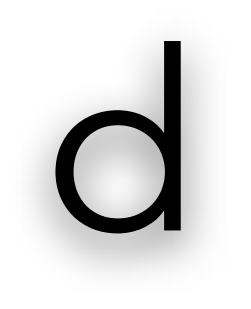

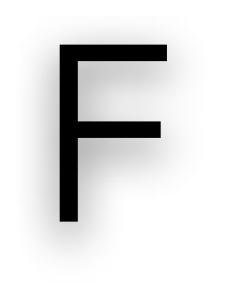

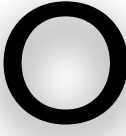


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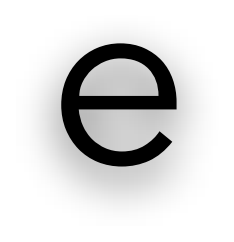

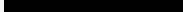

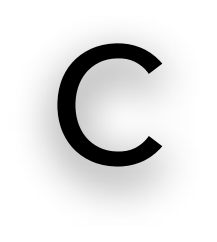
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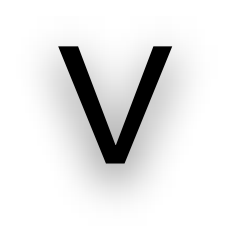

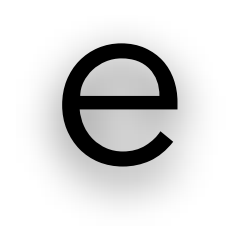

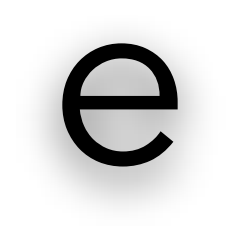

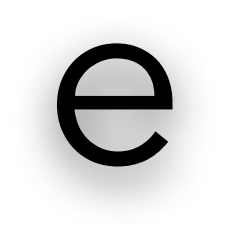

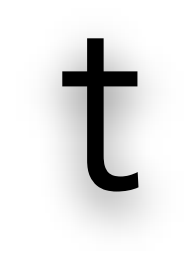

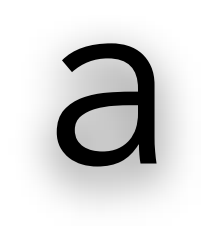
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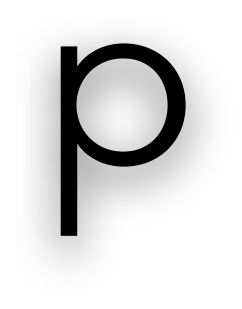

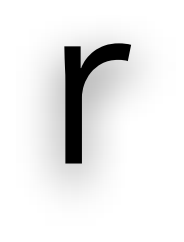

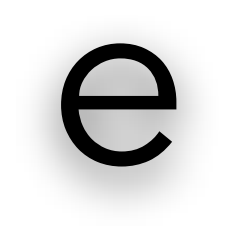


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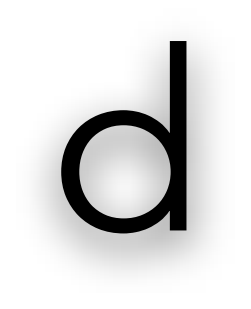
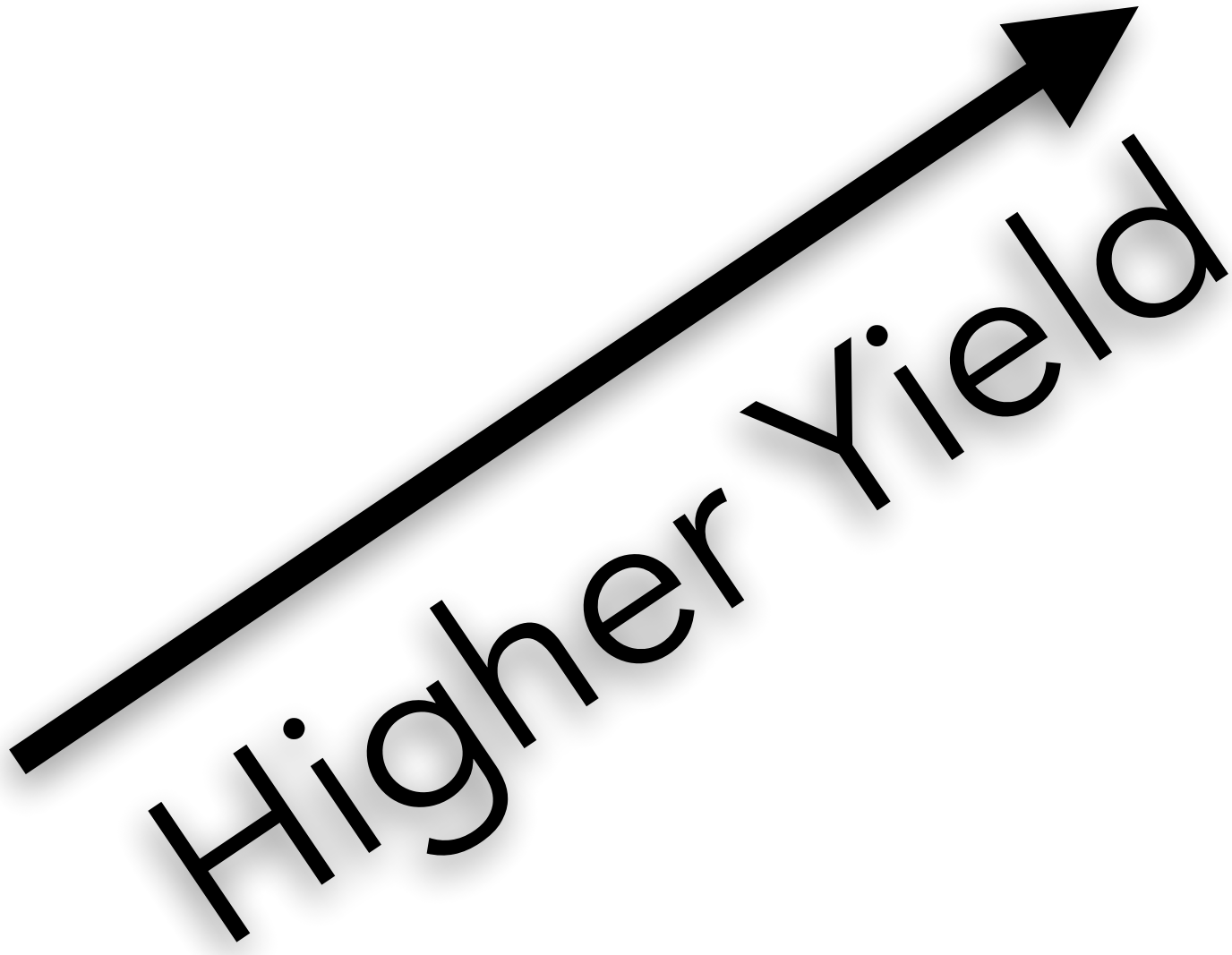
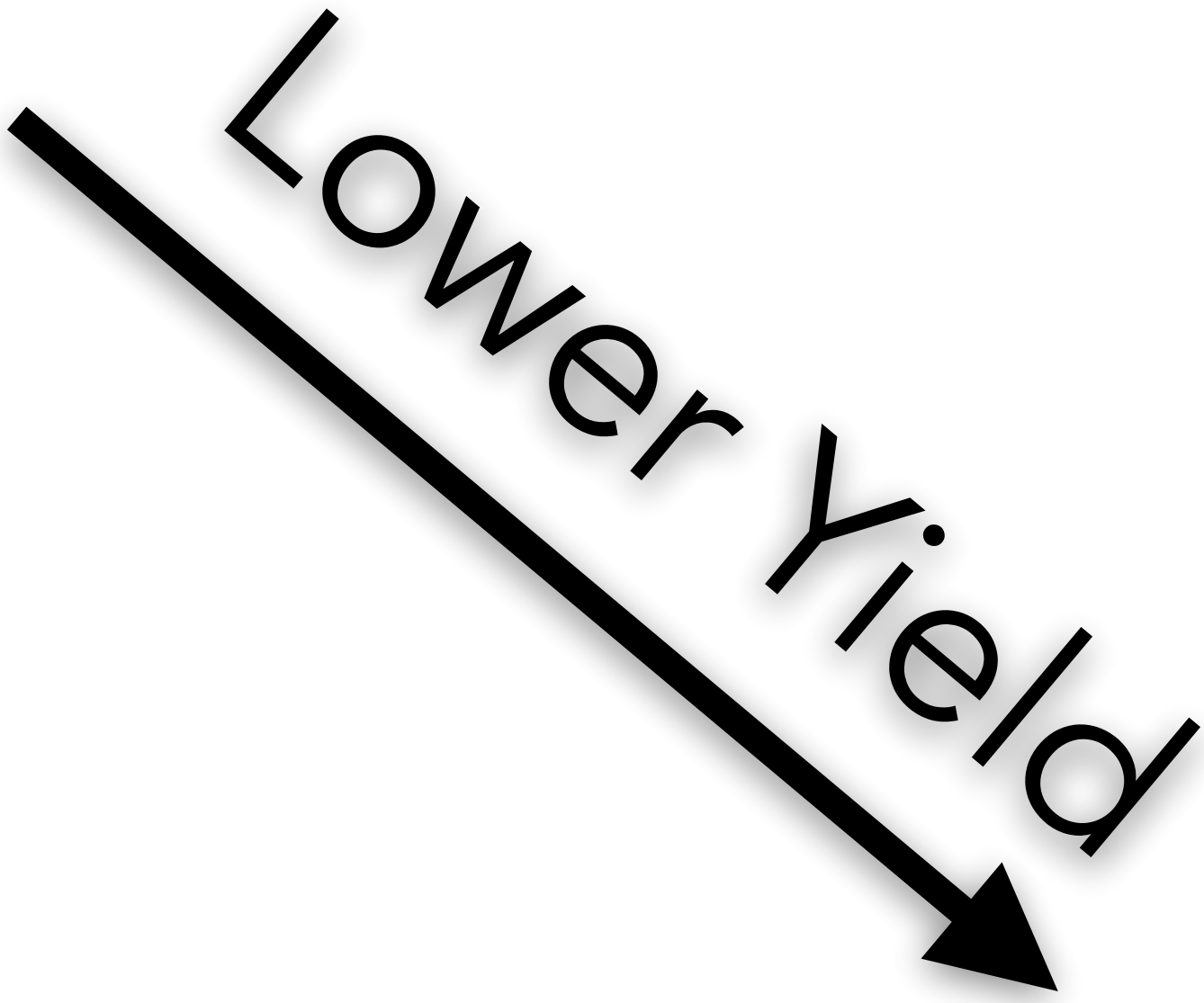



Longer Maturity


Higher Yield

Longer Maturity


Lower Yield

It is less risky to lend money for a short period of time than for a long period of time: interest on short term loans is lower than interest on long term loans


Not normal… somehow lending money short term becames more risky than lending long term…

Spread = Yield for Long Term - Yield for Short Term

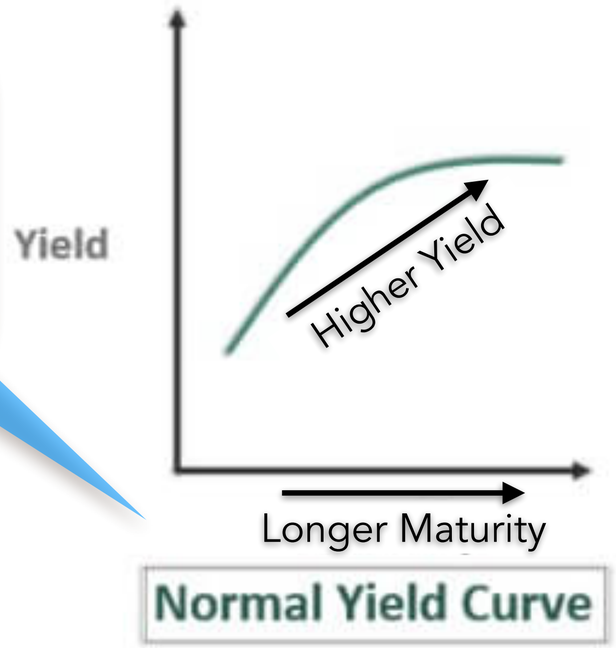
For a **normal** yield curve, we get a **positive** spread

For an **inverted** yield curve, we get a **negative** spread

Inverted Yield Curve

For a **normal** yield curve, we get a **positive** spread

It is less risky to lend money for a short period of time than for a long period of time: interest on short term loans is lower than interest on long term loans

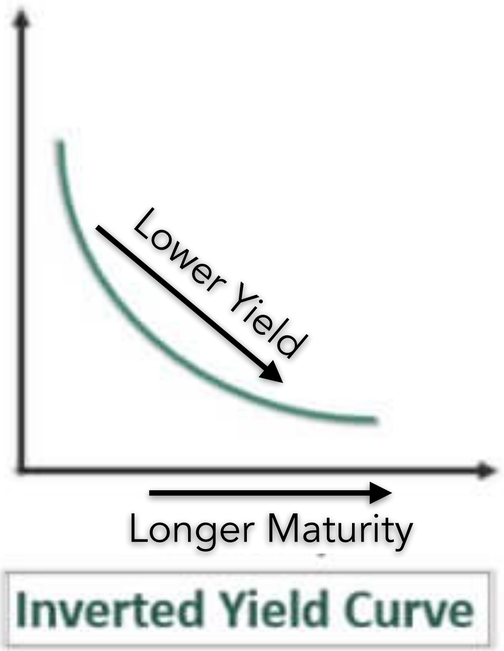


Normal Yield Curve

This plot shows a "**normal**" yield curve because yields are higher for longer-term debt

For an **inverted** yield curve, we get a **negative** spread

Not normal… somehow lending money short term becames more risky than lending long term…



Inverted Yield Curve

This plot shows an "**inverted**" yield curve because yields are lower for longer-term debt

Why does the yield curve get inverted?

Spread = Yield for Long Term - Yield for Short Term

The Bond Market