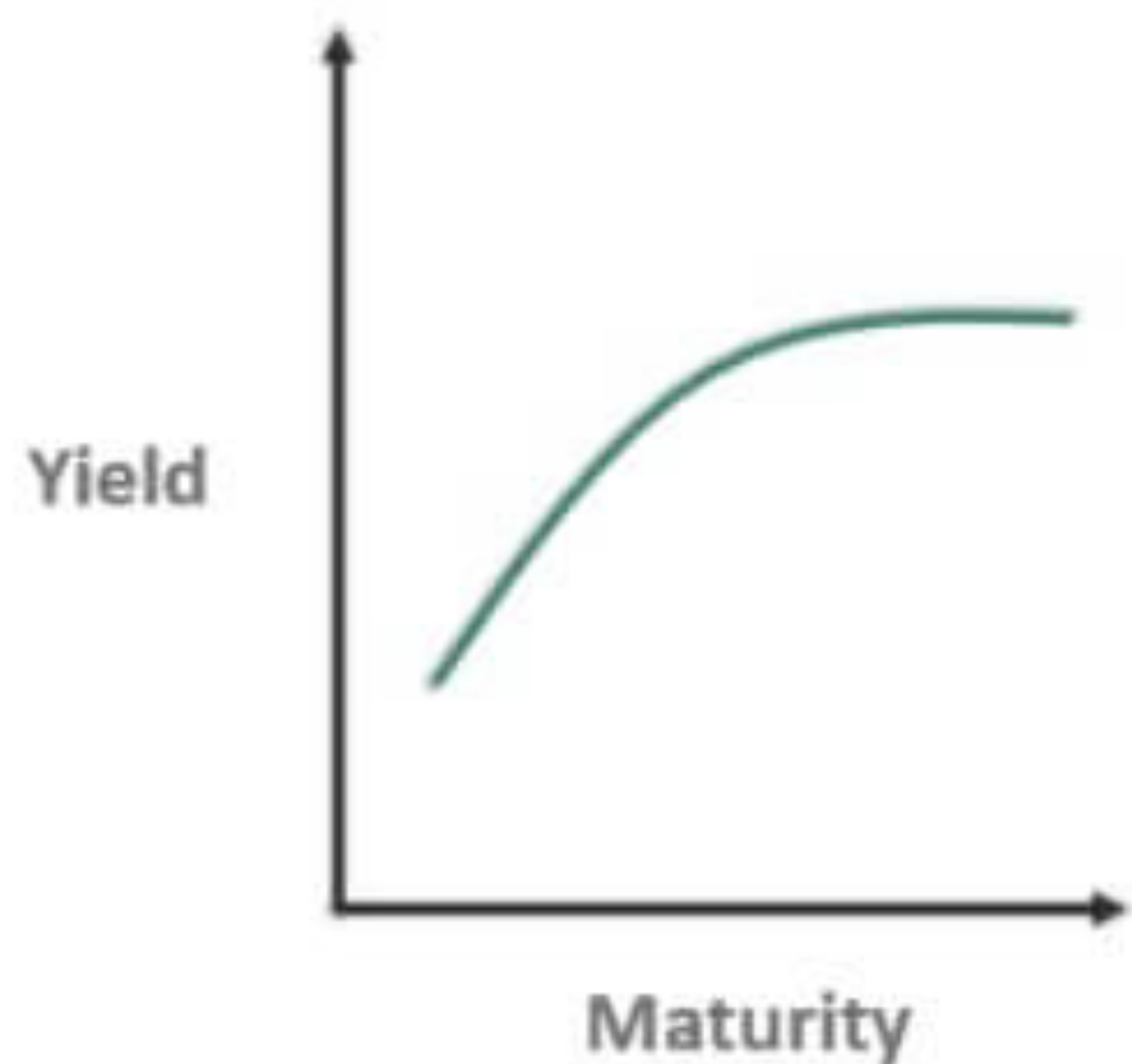
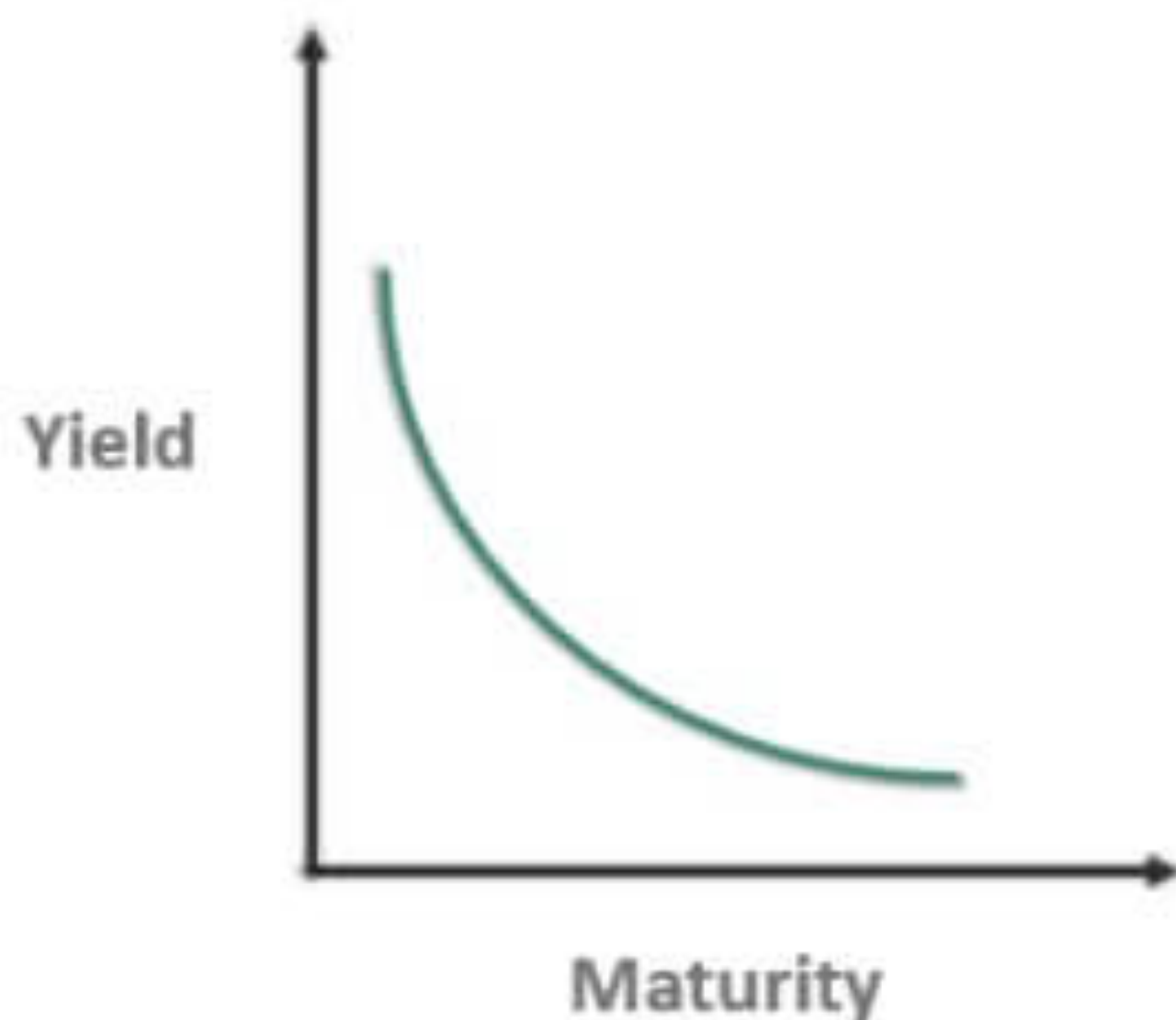




# Inverted Yield Curve



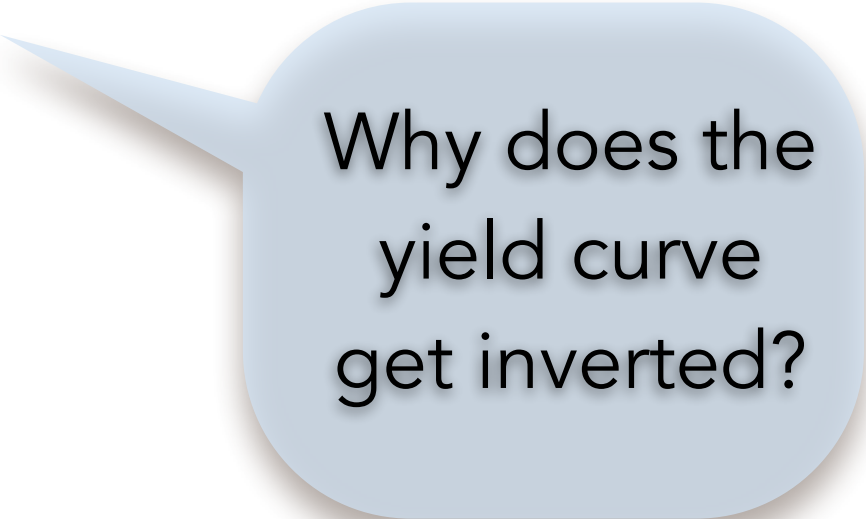
**Normal Yield Curve**



**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?

S









2



[REDACTED]

[REDACTED]

























g













Y

















S



















**F**







2















**V**











U





V





W











































**F**







2



















d

**V**

















V





W

















9



a

















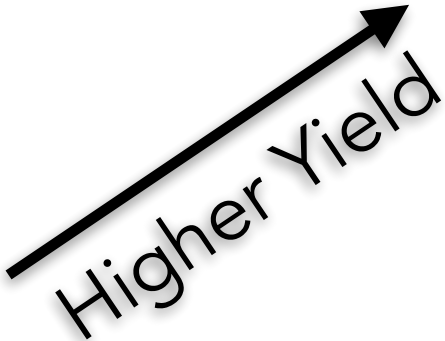


3





Longer Maturity

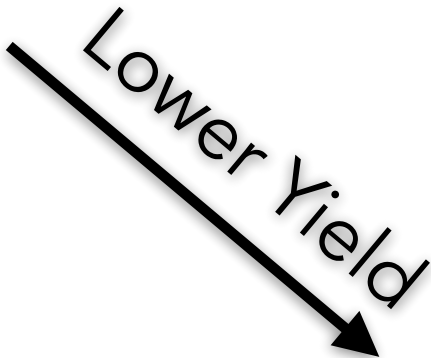


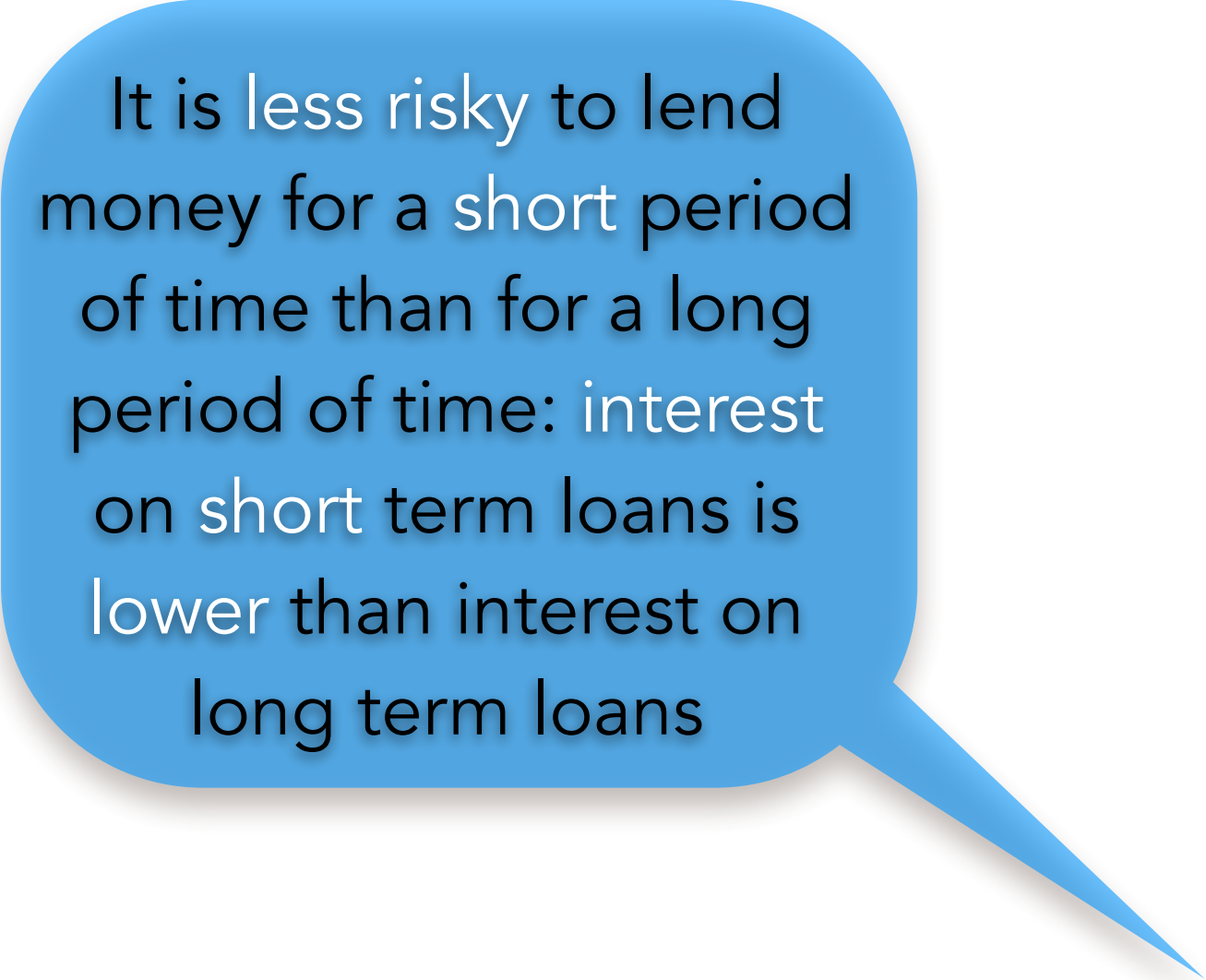
Higher Yield



Longer Maturity

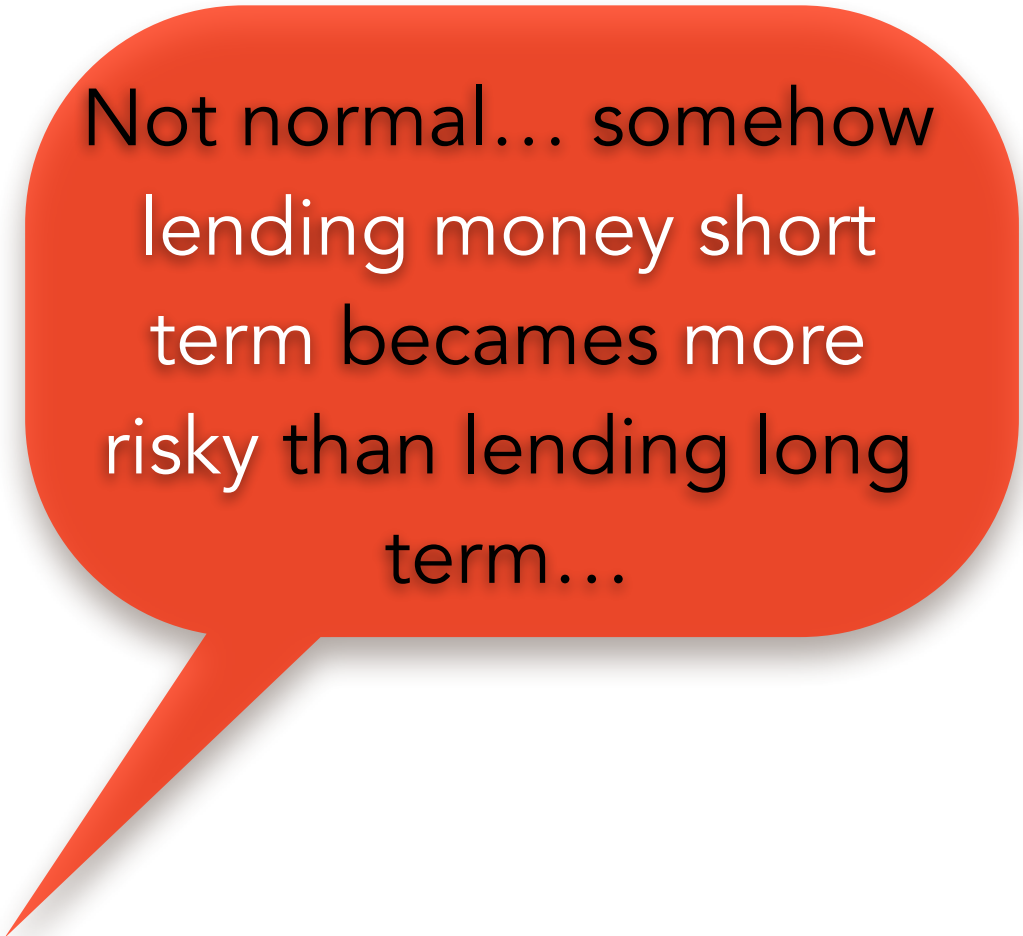
Lower Yield

A black arrow pointing downwards and to the right, with the text "Lower Yield" written above it. The arrow is a solid black line with a triangular head. The text is in a black, sans-serif font, positioned above the arrow and following its downward slope.



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 becomes more  
risky than lending long  
term...

$$\text{Spread} = \text{Yield for Long Term} - \text{Yield for Short Term}$$

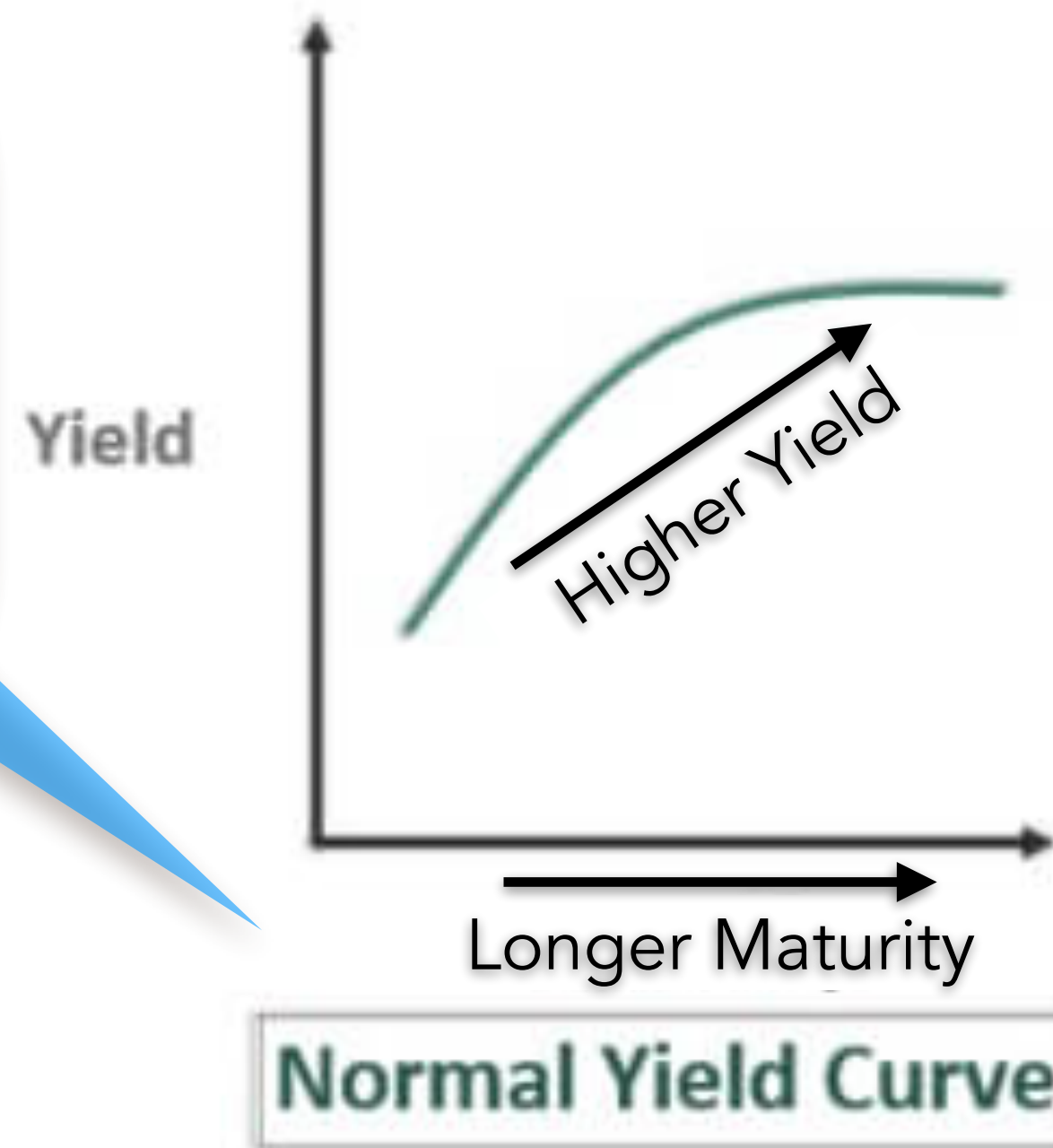
For a **normal** yield curve, we get a **positive** spread

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

# Inverted Yield Curve

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

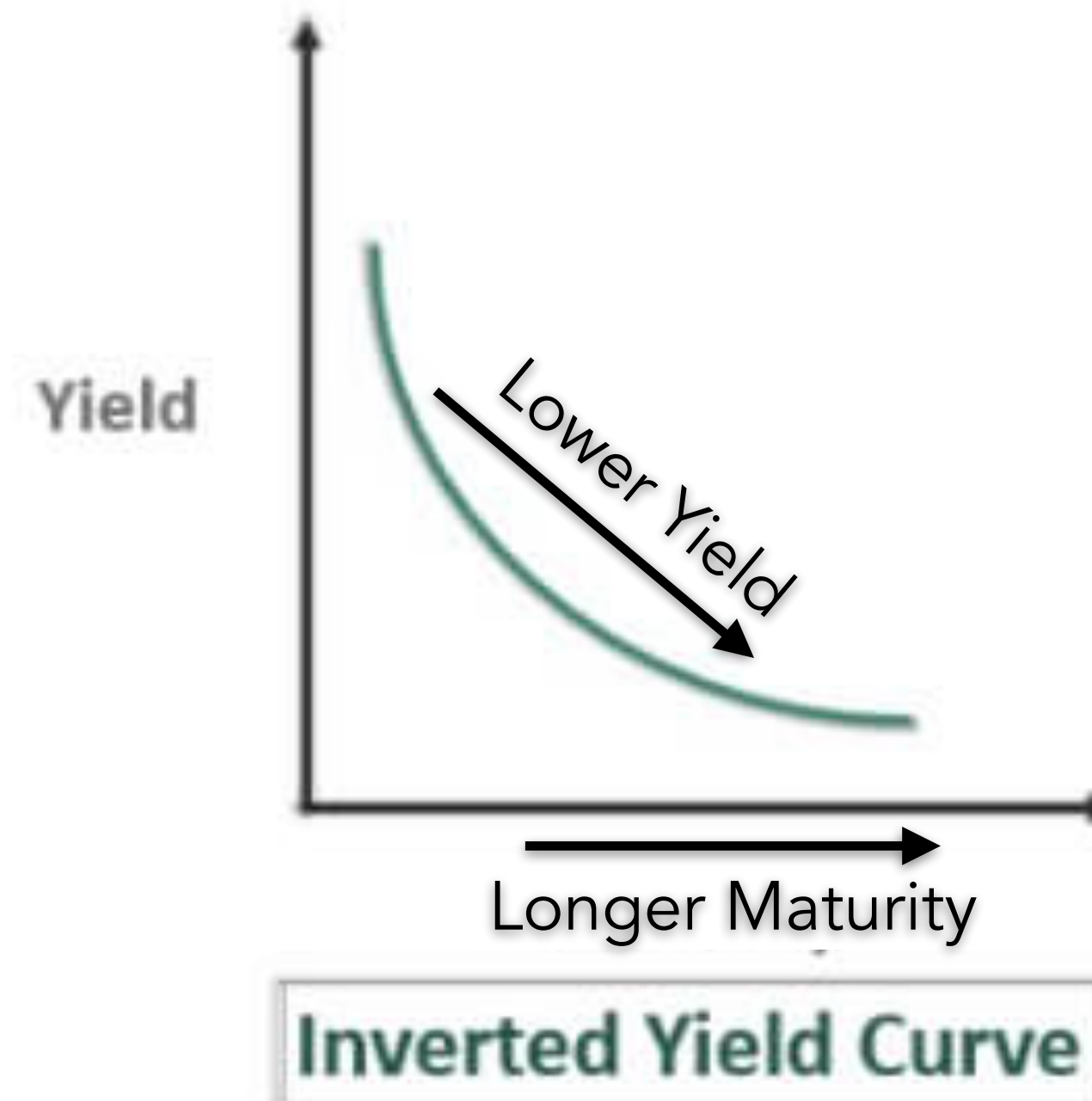
It is less risky to lend money for a short period of time than for a long period of time: interest on short term loans is lower than interest on long term loans



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 becomes more risky than lending long term...



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

Why does the yield curve get inverted?

$$\text{Spread} = \text{Yield for Long Term} - \text{Yield for Short Term}$$

# The Bond Market