Inflation Bond Curve

Inflation indexed bonds, also called inflation linked bonds or real return bonds, are bonds where the principal is indexed to inflation or deflation on a daily basis in terms of a reference index, such as Consumer Price Index (CPI). The primary purpose of these bonds is the transfer of inflation risk.

An inflation indexed bond is designed to hedge the inflation risk of the bond. Inflation bonds are an important vehicle for investors hose liabilities indexed to changes in inflation or wages. They have favorable performance and lower volatility relative to other risk assets. It is favorable to retirement planning and pension funds given its inflation protection. Inflation indexed bonds are less liquid than regular bonds.

Inflation linked bonds are mainly issued by government. There is also a small portion of inflation-linked bonds are issued by commercial financial institutions, that are usually treated as government-issued inflation-linked bonds.

Breakeven inflation rates can be found by comparing the zero-yields on inflation-linked and nominal bonds with the same maturity. However, the breakeven yields found this may be affected by the liquidity premium embedded in the bond.

Reference:
https://finpricing.com/lib/EqRangeAccrual.html