CANADIAN INVESTORS' COURSE

Session 5 – The Economics that move various Investment Assets

Commentary

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We both want 4 more years, KEEP printing Ben!!!

What Causes the Yield Curve to Change?

There are exceptional circumstances that cause changes, but here is the general evolution of change;

1. Economy growing at a good pace, usually growth period is 4.5 to 6 years old
2. Inflation, particularly wage inflation, appears. This makes bond investors nervous. An investor in longer term bonds treats inflation as a major negative. Bond investors generally want to earn yields that are 1-2% above inflation. A 2% real yield is typical on a 10 year bond. As inflation, or the perception of inflation grows, bond prices fall and bond yields go up
3. Rising bond yields are bad for governments because they borrow money. They are also bad for mortgage rates.
4. The Central Banker (Federal Reserve) must raise short term rates which will affect the Bank Rate and borrowers.
5. As this happens, bond investors begin to realize that as the Fed raises its rate, the economy will slow and inflation becomes less of a threat
6. Bond yields on long bonds stop rising, and begin to reverse as the Federal Reserve raises short term rate to a point where the yield curve reverses

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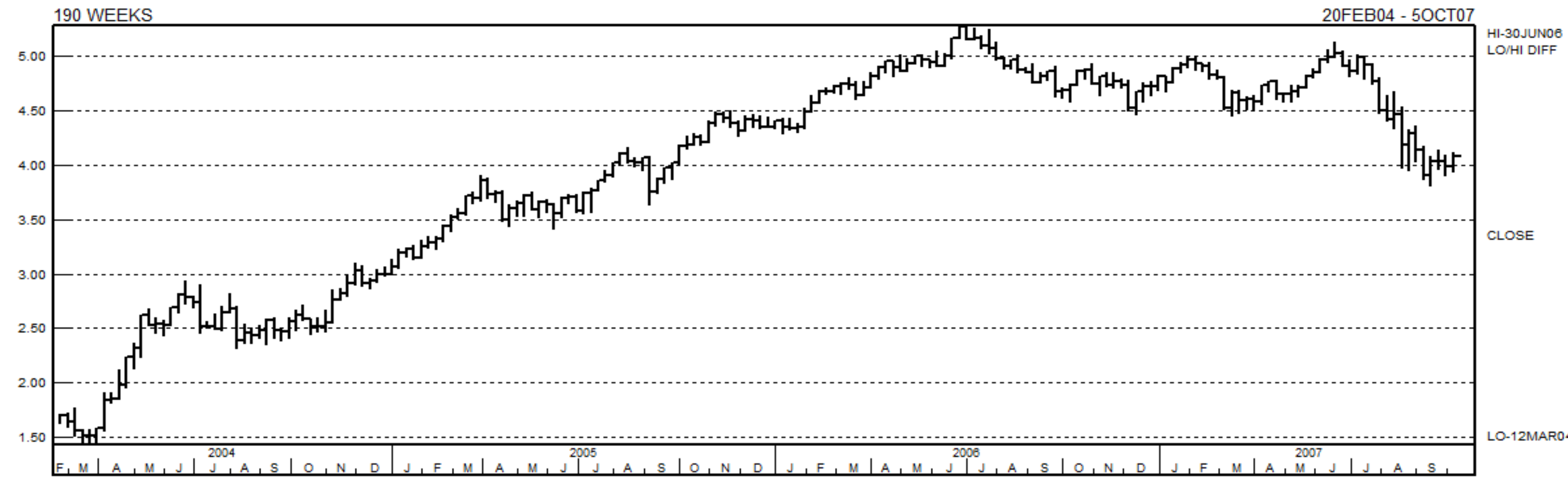
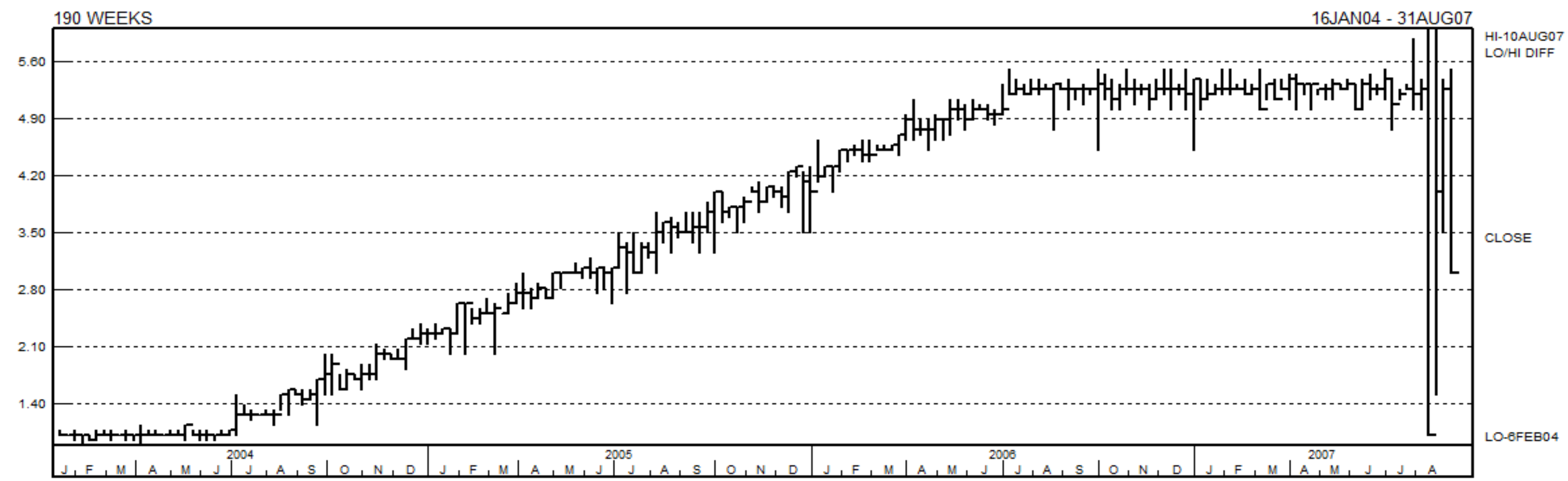
US GENERIC GOVT 2 YEAR YIELD



US FED FUNDS



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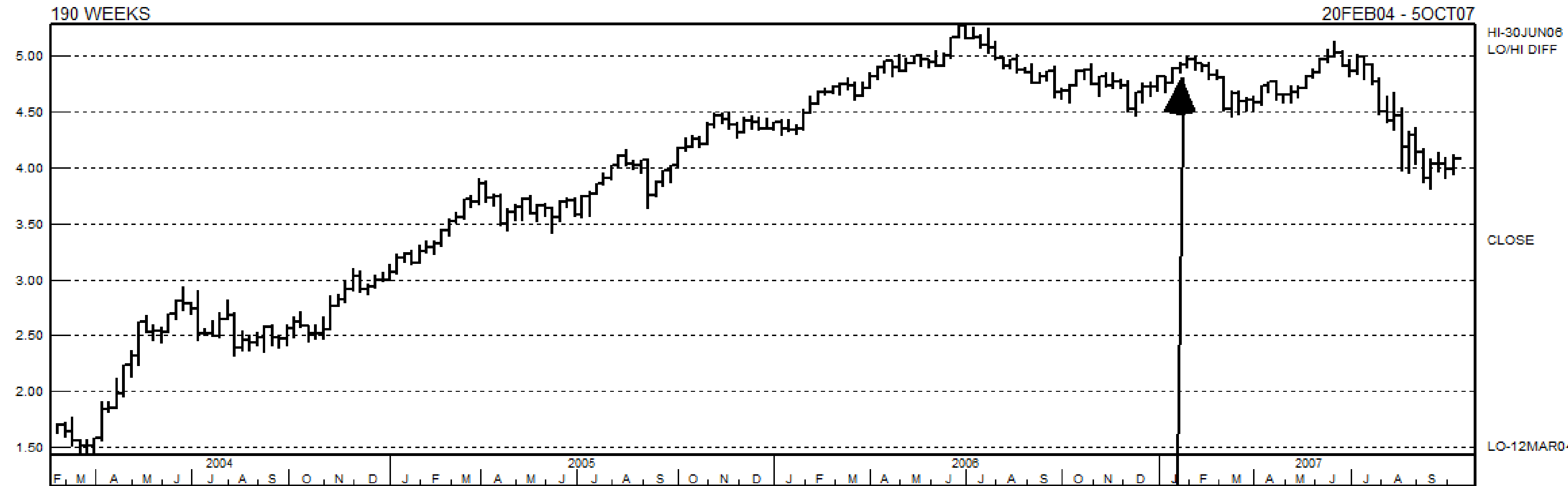
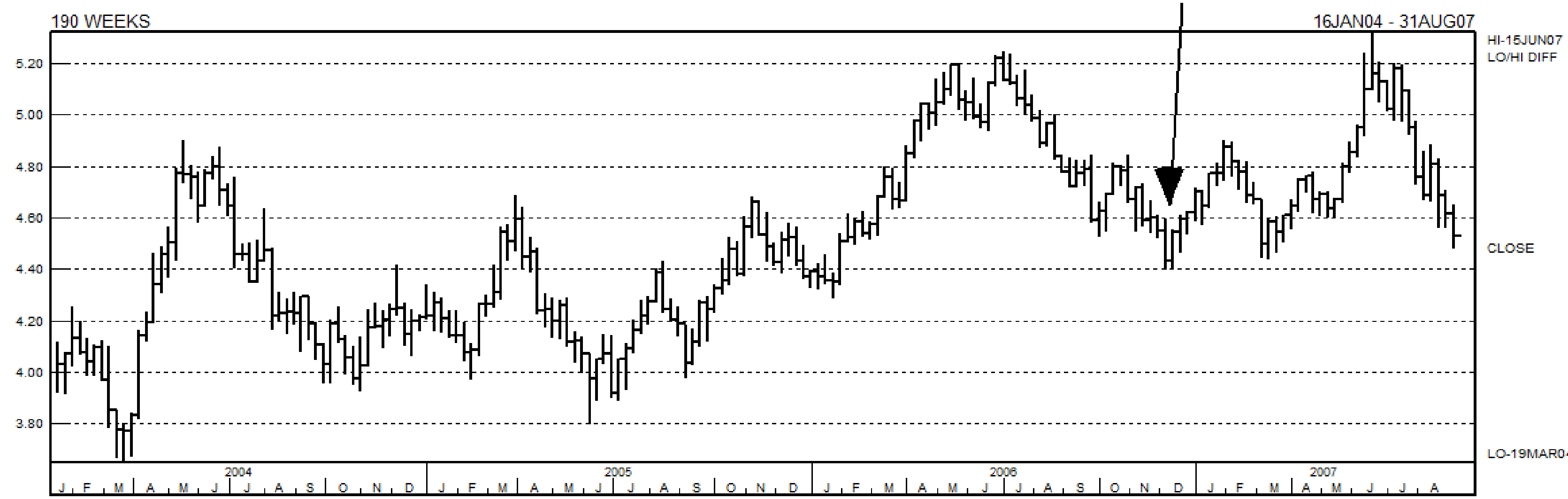


inverted or flat yield curve

US TSY 10YR BOND YLD



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