

# Perpetual knowledge bank series: Bond Yield Inversion

By Perpetual Asset Management

9 August 2022



Bond yield inversions occur when the yields on shorter-duration bonds exceed those of longer-duration ones. This does not happen often as investors typically demand higher yields to lock away their money for longer, given the possibility of future rate increases and the risk of inflation. But when the market is worried about a sharp downturn, investors may be willing to accept less

for a bond maturing many years in the future. For some market observers, an inversion in the yield curve is considered a reliable predictor of a recession, although the closely watched US 10-year Treasury yield has inverted with the 2-year Treasury yield in the past without a recession following.

The key point is that bond yield inversions are rare because longer-dated bonds are meant to compensate holders for the higher risk they are taking. For example, a 2.5% yield on 2-year bonds and a 2.5% yield on 10-year ones would signal a flat curve. A 2.2% yield on 10-year bonds would make it an inverted one. Bond inversions generally occur when investors expect the central bank, in this case the Federal Reserve, to tighten in the near-term before loosening in the long run. At the time of writing, the curve is the most inverted it has been since 2000, with yields on two-year Treasuries almost 42 basis points higher than those on 10-year Treasuries.

This analysis has been prepared by [Perpetual Investment Management Limited \(PIML\)](#) ABN 18 000 866 535, AFSL 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

The information is believed to be accurate at the time of compilation and is provided in good faith. This document may contain information contributed by third parties. PIML and PSL do not warrant the accuracy or completeness of any information contributed by a third party. Any views expressed in this document are opinions of the author at the time of writing and do not constitute a recommendation to act.

The product disclosure statement(PDS) for the Perpetual Diversified Income Fund issued by PIML, should be considered before deciding whether to acquire or hold units in the fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website <http://www.perpetual.com.au> .

No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital. Past performance is not indicative of future performance.