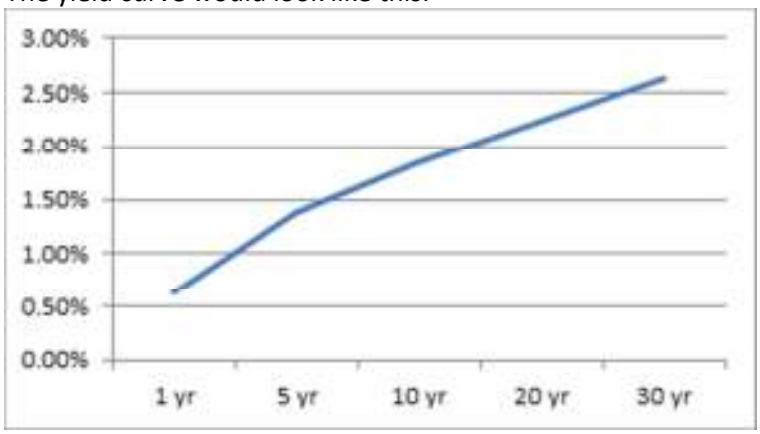
THE YIELD CURVE

With so much chatter about interest rates it's time to talk a little about The YIELD CURVE - The yield curve is the shape of a graph of interest rates at different maturities. For instance, if the interest rates looked like this:

1 yr	0.64%
5 yr	1.38%
10 yr	1.85%
20 yr	2.24%
30 yr	2.64%

The yield curve would look like this:

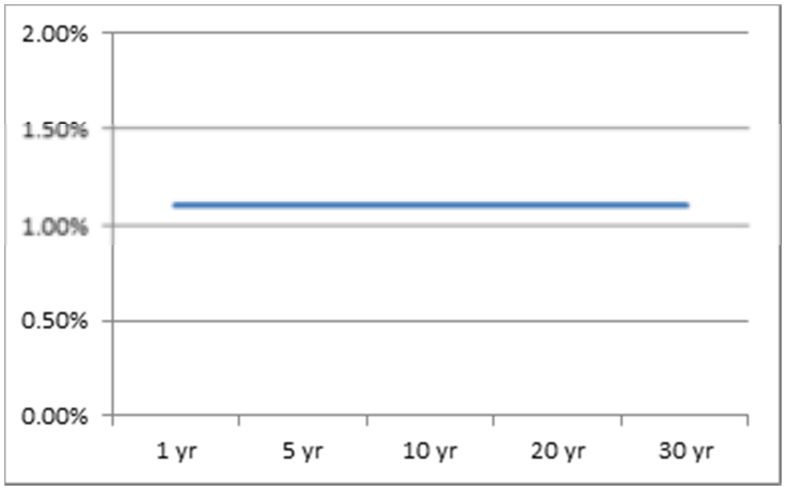


This is called a NORMAL YIELD CURVE, normal because one would normally figure or expect to get more return the longer out one had to go, you'd expect a 10 year CD to give you more than a 6 mo. CD.

So far so good. But what does it mean?

Generally a normal yield curve suggests that the future will be better, the economy will grow, one will get a better return in the future.

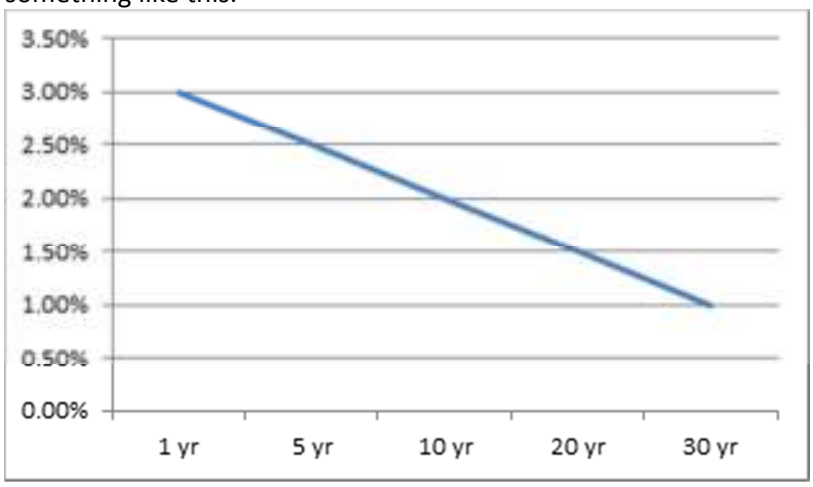
But the shape of the yield curve changes over time and as the economic outlook changes. Sometimes short-term interest rates are the same or very similar to long-term rates and the yield curve would be flat, looking kinda like this:



What might this mean? It means investors do not expect to gain anything by going long, and suggests expectation that the longer outlook is not better than the current or shorter outlook. A flat yield curve is often considered to be a transition period curve to an inverted yield curve.

What's an inverted yield curve?

This is where short-term interest rates are higher than long-term interest rates and would look something like this:



So what does an inverted yield curve suggest? Generally it suggests the future isn't as bright as the present or in other words, might suggest a recession is expected.

Remember, interest rates can change, like currently the chatter is The Fed will be raising interest rates again, maybe even a couple more times this years. But that doesn't necessarily change the SHAPE of the Yield curve. Rates can go up and the shape can still remain NORMAL (per above). The numbers get bigger but the shape stays normal.

To see the current yield curve click here: https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/Historic-Yield-Data-Visualization.aspx