

Making Conclusions II

If a bond yield **decreases**, that means price has _____, which means interest rates have _____.

If a bond yield **increases**, that means price has _____, which means interest rates have _____.

Cause and Effect

Rates bond prices yields

Rates bond prices yields

Cause and Effect

Rates ↑ bond prices ↓ yields ↑

Rates ↓ bond prices ↑ yields ↓

You are an investment banker with \$10 million to invest. Should you put the money into the **stock market** or the **bond market**?

If the Fed is lowering interest rates...



When the Fed **lowers** rates, the economy needs to _____.

Bond yields that are down indicate that bond prices are up, which indicates that interest rates are down, which indicates that the Fed will try to stimulate the economy because it's struggling.

Conclusion: low yields indicate stagnation.

When the Fed **raises** rates, the economy needs to _____.

Bond yields that are up indicate that bond prices are down, which indicates that interest rates are up, which indicates that the Fed will try to slow (stabilize) the economy because it's expanding.

Conclusion: high yields indicate expansion.

Falling Treasury Yields Raise Flags About Economy

Investors' views bolstered that Fed will wait until later in year to raise rates

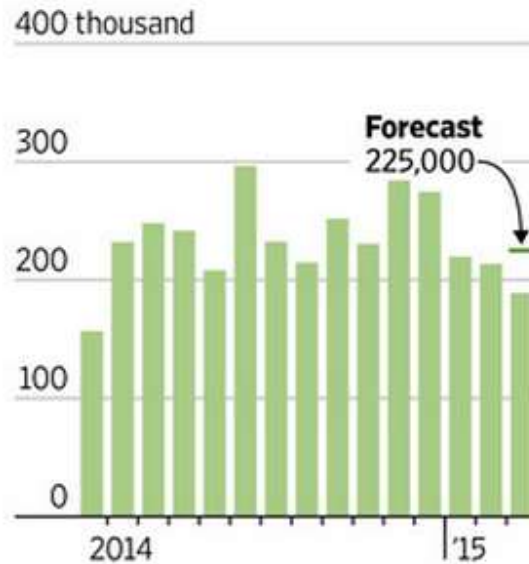
Growing Pains

U.S. Treasury yields are falling anew, as softening data raise concerns that the economy is slowing.

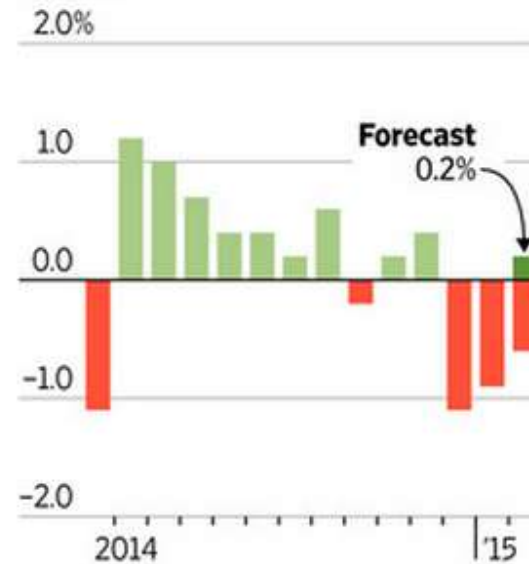
Yield on 10-year Treasury note



Private-sector job growth, monthly change



Retail sales, excluding food services, change from a month earlier



Sources: Bloomberg Finance L.P. (yields); ADP (jobs) and Commerce Department (retail sales) via the Federal Reserve Bank of St. Louis

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