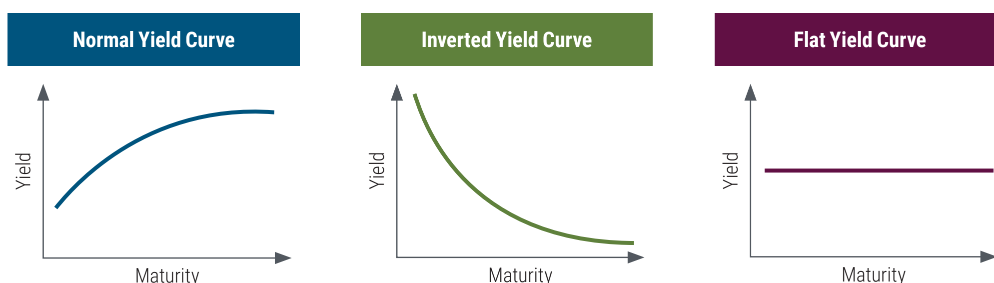
PIMCO

The Yield Curve: What It Means for Bond Investors

The yield curve shows the interest rates (yields) on bonds of similar credit quality across different maturities. For bond investors, its shape helps explain where income is available today and how market expectations may be changing.

The three main yield curve shapes



	Normal Yield Curve	Inverted Yield Curve	Flat Yield Curve
What it shows	Longer maturity bonds offer higher yields than shorter maturity bonds.	Longer maturity bonds offer lower yields than shorter maturity bonds.	Yields are similar for both short and long maturity bonds.
When it happens	Common during periods of economic expansion.	During times of anticipated economic slowdown or recession	When the economy or policy outlook is in transition.
What it means	Market participants expect rates to go up. Investors demand higher yields to commit money for longer periods.	Market participants expect rates to fall.	May signal uncertainty about the future path of interest rates.
How investors may think about it	Balance income today with flexibility over time. For example, spread maturities across time or combine shorter- and longer-dated bonds.	Short-term yields may appear attractive but monitor reinvestment risk if rates eventually fall.	Prioritise flexibility and avoid over-committing to a single maturity.

Considerations for bond investors

- **Where income is available:** Some maturities offer higher yields than others.
- **How long to invest:** The yield curve can highlight trade-offs between locking in yields today and staying flexible.
- **What the yield curve can tell you:** It provides insight into the market's expectations for growth and inflation, but it does not predict the future. The yield curve is one indicator among many and should not be viewed in isolation.

Bottom line

For bond investors, the yield curve provides a simple way to compare yields across maturities and think about how long to commit capital.

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