



White Paper

Bond Market Focus: Yield Curves and Mean Reverting Rate Expectations

Understanding Return Expectations, Part 9

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Unlike in equity markets, where investors and analysts tend to extrapolate returns even at long horizons, in bond markets investors and economists exhibit mean-reverting rate expectations. There has been a decades-long debate on whether the evolving yield curve shape mainly reflects the market's rate expectations or time-varying term premia. The answer is shifting towards rate expectations, even if those expectations were wrong for decades—predicting rising rates which did not materialize. The new debate is whether those rate expectations were irrational or reflected rational learning when investors faced repeated one-way surprises.

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