TAILORED FINANCIAL SOLUTIONS

Glossary of Common Investment Terms

Abenomics	The economic policies advocated by Japanese Prime Minister Shinzō Abe, based upon the "three arrows" of fiscal stimulus, monetary easing and structural reforms.
Active Managers	Refers to investment managers who aim to outperform a particular benchmark/index by making decisions about the type of investment, or which stocks, to buy. The opposite of passive Investing.
Alpha	A measure of a manager's stock picking skill, as it quantifies the value added (or taken away) by their decisions. It represents the difference between the return expected from the fund compared to that actually produced. A positive alpha indicates that the fund has performed better than expected given its beta and a negative alpha indicates that the performance is below expectation. The effectiveness of alpha as a means of performance evaluation is dependent upon the correct benchmark being used.
Alternative investments	An investment that is not included among the traditional asset classes of equities, bonds or cash. Alternative investments include property, hedge funds, commodities, private equity and infrastructure.
Asset Allocation	The act of deciding which categories of assets and in what proportions the "investment" should be allocated to, at any given time, to yield the most attractive risk adjusted returns. This is one of the most important roles of an investment manager.
Asset Backed Securities	**(ABS)** A financial security which is 'backed' with assets such as loans, credit card debts or leases. They give investors the opportunity to invest in a wide variety of income-generating assets.
Balance Sheet	A financial statement that summarises a company's assets, liabilities and shareholders' equity at a particular point in time. Each segment gives investors an idea as to what the company owns and owes, as well as the amount invested by shareholders. Also, sometimes used to describe the asset and liabilities of other entities like the **Federal Reserve Bank**.
Balance of Payments	The record of all economic transactions between the residents of one country and the rest of the world in a particular period. These transactions are made by individuals, firms and government bodies. The balance of payments provides detailed information concerning a country's trade with other nations and also the demand and supply of its currency.
Base Rate	Commonly regarded as the minimum rate that banks use to work out lending rates to their customers. The UK interest rate is set by the **Monetary Policy Committee.**
Bear Market	A financial market in which the prices of shares are falling. A generally accepted definition is a fall of 20% or more in a stock market index over at least a two-month period. The opposite of a **Bull Market.**
Beta	A measure of the volatility of a fund compared to its benchmark. A fund with a beta of 1 is expected to move up and down in line with the market. A fund with a beta above 1 has been more volatile than the market and a fund with a beta less than 1 and more than 0 is less volatile than the market. The validity of a funds beta is dependent upon the correlation to the **Benchmark.** A manager with a beta below the benchmark who matches or beats the return illustrates considerable skill as the returns are not solely reliant on movements in the broader market.
Benchmark	There are different uses of benchmarks in the investment community. One use is to act as a measure of performance, so you can see how the value of a security has changed over time relative to the rest of the market. A second use is to act as a guide or objective for performance of an investment fund.
BoJ	**Bank of Japan,** the Japanese central bank responsible for monetary policy

Bond proxy	An equity perceived to pay safe and predictable income with low volatility – characteristics that are more commonly associated with bonds. They are typically drawn from the utility, consumer staple and pharmaceutical sectors. They might be added to a portfolio to imitate bonds, hence their name.
Bonds	An alternative name for a fixed-income investment. Bonds are a form of debt investment, where the investor lends funds to the bond issuer. In return, the lender expects to receive back the principal and interest (known as coupons). Governments, states, local authorities and companies generally issue bonds.
Book Value	The value of an asset is its value on a company's **balance sheet;** this may differ from its market value.
Bull Market	A financial market in which the prices of shares are rising, especially over a long time. The opposite of a **bear market**.
CAPE	**See Shiller P/E**
CAPEX	Also known as Capital Expenditure. Funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment. It is often used to undertake new projects or investments by the firm.
Capital Account	One of two primary components of a nations balance of payments, the other being the **Current Account.** The capital account reflects net change in ownership of national assets. A surplus in the capital account means money is flowing into the country. A deficit in the capital account means money is flowing out of the country i.e. the nation is increasing its ownership of foreign assets.
Capital Adequacy Ratio	or **CAR** a measurement of a bank's available capital expressed as a percentage of its risk-weighted credit exposures. The capital adequacy ratio is used to protect depositors and promote the stability and efficiency of financial systems around the world. Two types of capital are measured: tier-1 capital, which can absorb losses without a bank being required to cease trading, and tier-2 capital, which can absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors.
Capital Controls	Any measure taken by a government, central bank or other regulatory body which limits the flow of foreign capital in and out of the domestic economy. Measures include taxes, tariffs, outright legislation and volume restrictions, as well as market-based forces.
Carry Trade	A strategy in which an investor borrows money at a low interest rate in order to invest in an asset that is likely to provide a higher return or interest rate.
Central Bank	A national bank that provides financial and banking services for its country's government and commercial banking system, as well as implementing the government's **monetary policy** and issuing currency.
Commodities	Raw goods such as oil, grains, metals and food which can either be bought directly or traded on a commodities exchange. “Hard” commodities are those extracted or mined from the ground whereas “soft” commodities are those farmed or grown on land.
Contrarian	An investment style that goes against market consensus or a conventional approach. Contrarian investors believe that crowd behaviour can lead to mispricing opportunities in financial markets.
Correlation	How far the price movements of two variables (eg, two different assets/funds) match each other in their direction. If variables have a correlation of +1, then they move in the same direction. If they have a correlation of -1, they move in opposite directions. A figure near zero suggests a weak or non-existent relationship between the two variables.
Credit Spread	The difference in the yield of corporate bonds over equivalent government bonds.
Credit Risk	The risk of loss of principal or interest stemming from a borrower’s failure to repay a loan or interest on that loan. Investors in fixed interest investments (bonds) are compensated for assuming credit risk by way of interest payments from the bond issuer. The yields on bonds correlate strongly to their perceived credit risk.
CPI	Consumer Price Index A measure of the rate of change in the prices of goods and services, including food, gas, and electricity. The key measure of inflation used by the Bank of England when considering interest rate decisions.
Currency Hedge	A transaction that aims to protect the value of a position from unwanted moves in foreign exchange rates. This is done by using **derivatives**.
Current Account	One of the components of a country’s balance of payments. The current account measures net cash transfers (broadly money in and money out) that have taken place over a given period of time. If an economy is running a current account deficit, it is absorbing more than it is producing. This can only happen if some other economies are

	lending to it or the economy is running down its foreign assets such as official foreign currency reserve. If an economy is running a current account surplus, it is saving and accumulating reserves of foreign assets.
Cyclical stocks	Companies that sell discretionary consumer items, such as cars, or industries highly sensitive to changes in the economy, such as miners. The prices of equities and bonds issued by cyclical companies tend to be strongly affected by ups and downs in the overall economy, when compared to non-cyclical companies.
Defensive	Defensive companies are those which are less volatile than the market as a whole because their business remains relatively stable in good times and bad.
Deflation	A decrease in the price of goods and services across the economy, usually indicating that the economy is weakening. The opposite of inflation.
Derivatives	A security with a price that is dependent upon or derived from one or more underlying assets. The value of the derivative is determined by fluctuations in the underlying asset.
Duration	How far a fixed income security or portfolio is sensitive to a change in interest rates, measured in terms of the weighted average of all the security/portfolio's remaining cash flows (both coupons and principal). It is expressed as a number of years. The larger the figure, the more sensitive it is to a movement in interest rates. 'Going short duration' refers to reducing the average duration of a portfolio. Alternatively, 'going long duration' refers to extending a portfolio's average duration.
EPS	**Earnings Per Share** The portion of a company's profit attributable to each *share* in the company. It is one of the most popular ways for investors to assess a company's profitability.
Economic Cycle	The fluctuation of the economy between expansion (growth) and contraction (recession). It is influenced by many factors including household, government and business spending, trade, technology and central bank policy.
Emerging Markets	Small stock markets in which investments can be made in newly industrialised countries (NICs) or developing countries.
Equities	Ordinary shares in a company which normally give their holders voting rights.
European Exchange Rate Mechanism (ERM)	A mechanism created to reduce exchange rate variability and achieve monetary stability in Europe in preparation for Economic and Monetary Union. Currency fluctuations had to be contained within a set margin relative to a basket of the participating currencies. The UK left the ERM in 1992 after 2 years leading to the crash known as "Black Wednesday".
Federal Reserve	Also known as "**the Fed"** – is a central banking system of the United States which is responsible for the management of monetary policy. It sets interest rates through the decisions of the **Federal Open Market Committee (FOMC).** It is a quasi-independent government entity, with its leadership appointed by the President which derives its authority from an Act of Congress. It conducts monetary policy independently of the fiscal, political authorities of the government and has a dual mandate to combat inflation and maximise employment throughout the business cycle.
Financial Conduct Authority (FCA)	The FCA and the Prudential Regulation Authority (PRA) are the bodies that regulate the financial services industry in the UK. These organisations superseded the Financial Services Authority on 1st April 2013.
Fiscal Multiplier	A ratio used to measure the effect of government spending on the subsequent income level of that country.
Fiscal Policy	Government policy which uses tax and public spending to change major factors in the economy, such as inflation, unemployment, overall demand and the balance of trade.
FOMC	**Federal Open Market Committee** A committee within the Federal Reserve system which oversees the nations open market operations. The committee makes key decisions about interest rates and the growth of the US monetary supply.
Free Cash Flow (FCF)	Cash that a company generates after allowing for day-to-day running expenses and capital expenditure. It can then use the cash to make purchases, pay dividends or reduce debt.
FTSE 100	A share of the 100 largest companies, listed on the London Stock Exchange, in terms of market capitalisation.
FTSE 250 Index	An index consisting of the 101st to the 350th largest companies listed on the London Stock Exchange
FTSE All Share Index	An index comprising around 600 of more than 2,000 companies traded on the London Stock Exchange. It aims to represent at least 98% of the full capital value of all UK companies that qualify as eligible for inclusion

GDP	**Gross Domestic Product** is the broadest measure of a nation's total economic activity. GDP represents the monetary value of all goods and services produced within a nation's geographic borders over a specified period of time
GFC	or **Great Financial Crisis** refers to the financial crisis that occurred in 2008-9 which sent the global economy into the greatest economic downturn since the great depression in the 1930s
GILTS	Otherwise known as Gilt Edged Securities – are bonds issued by some national governments. Reference to **GILTS** usually means UK gilts, unless otherwise specified.
GDP	**Gross Domestic Product** The value of all finished goods and services produced by a country, within a specific time period (usually quarterly or annually). It is usually expressed as a percentage comparison to a previous time period and is a broad measure of a country's overall economic activity.
Growth Investing	A style of investment strategy focused on capital appreciation. Growth investors, invest in companies that exhibit signs of above-average growth, even if the share price might appear expensive in terms of certain metrics such as price-to-earnings or price-to-book ratios.
Hedging	Trading activity undertaken to reduce risk in a portfolio which can still generate a return.
High Yield	A high-yield bond is a high interest paying bond with a lower credit rating than investment-grade corporate bonds. Sometimes known as a junk bond.
Hyperinflation	When a country experiences very high and usually accelerating rates of inflation, rapidly eroding the real value of the local currency until it becomes worthless. A recent example is Zimbabwe until 2009 when it stopped using its own currency. Further back, the most famous example is a three-year period in the Weimar Republic (modern day Germany) following the First World War. In January 1923 a loaf of bread cost 250 marks, and by November, 200,000 million marks.
Inflation	A measure of how fast prices are rising in the economy measured in the UK by **RPI** or **CPI.**
Information Ratio	Measures the active return of the fund divided by the amount of risk taken relative to the benchmark. The higher the information ratio, the higher the active return of the portfolio given the amount of risk taken.
Investment Grade	A term given to bonds/securities which are regarded as investable and unlikely to carry a high risk of default. Bonds with ratings falling between AAA to BBB- are regarded as being investment grade by leading credit rating agency Standard & Poor's. AAA rated securities are the most highly rated and are classed as having an extremely strong capacity to meet financial commitments - paying interest and repaying capital. AA rated securities are considered to have a very strong capacity to meet financial commitments. A rated securities are regarded as having a strong capacity to meet financial commitments but are more susceptible to adverse economic conditions and changes in circumstances. BBB rated securities are said to have an adequate capacity to meet financial commitments but are more subject to adverse economic conditions. A BBB- (minus) rating is the lowest rating before sub-investment grade or **High Yield** Bonds.
Investment Trusts	A company quoted on the stock exchange which invests in other companies and securities. The value of these investments give the basic value of the shares of the investment trust. The actual trade price depends on supply and demand.
JGB	or **Japanese Government Bond debt** issued by the government of Japan. Similar to **Gilts** in the UK, the Japanese government pays interest on the bond until the maturity date. At the maturity date, the full price of the bond is returned to the bondholder.
Liquidity	1) How easy it is to buy or sell securities in a market without moving the price. Liquidity positively impacts the stock market. 2) The amount of money within the financial system. 3) the amount of cash or investments that can be readily converted into cash in a portfolio.
Liquidity Ratio	financial metric used to determine a debtor's ability to pay off current debt obligations without raising external capital. A short-term measure of a company's strength
Modern Monetary Theory	or **MMT** the idea that governments do not rely on taxes or borrowing for spending since they can print as much money as they need as the monopoly issuers of the currency. Therefore, their budgets are unconstrained unlike a normal household budget, so their policies should not be shaped by fears of rising national debt**.**

Monetary Base	the sum of currency in circulation and reserve balances (deposits held by banks and other depository institutions in their accounts at the Federal Reserve
Money Market Fund	Money market funds invest in high quality, short-term debt securities and pay dividends that generally reflect short-term interest rates
Monetary Policy	The actions of a central bank, that determine the size and rate of growth of the money supply, which in turn affects interest rates. Monetary policy is maintained through actions such as modifying the interest rate, buying or selling government bonds, and changing the amount of money banks are required to keep in reserves.
Moral Hazard	when a party to a contract can take risks without having to suffer consequences.
MPC (Monetary Policy Committee)	A committee of the Bank of England which is responsible for formulating the United Kingdom's monetary policy, mainly through setting of the rate interest at it which it lends to banks – the Bank of England Base Rate. Its decisions are made with a primary aim of price stability as defined by the government's **inflation** target (2% per year on the **Consumer Price Index** as of 2016).that enable the inflation target to be met.
Monetary Stimulus	Government policy of lowering interest rates and quantitative easing used to make the economy grow faster.
Money Supply	The entire stock of currency and other liquid instruments circulating in a country's economy at a particular time. It is made up of cash, coins, and balances held in current and savings accounts that businesses and individuals can use to make payments or hold as short-term investments.
M1/M2/M3 etc	measures of **Money Supply** with each measure include or excluding different parts of the monetary system, such as cash, deposits, institutional funds etc
Mortgage-Backed Security	**MBS** A security which is secured (or 'backed') by a collection of mortgages. Investors receive periodic payments derived from the underlying mortgages. Similar to an **asset-backed security**.
Nominal Value	A value which has not been adjusted for inflation. Within fixed income investing it refers to a bond's par value rather than its current ('market') value. Also used in terms of a country's GDP.
OEIC	An **Open-Ended Investment Company** is a type of open-ended collective investment formed as a corporation in the United Kingdom. OEICs are the preferred legal form of new open-ended investment over the older unit trust. The manager must create shares when money is invested and redeem shares as requested by shareholders.
Opportunity Cost	A benefit that a person could have received but gave up to take another course of action.
Option	A financial contract which gives the right (but not the obligation) to buy or sell a stock at a particular price and within a particular time period.
Output Gap	The output gap is a measure of the difference between an economy's actual output and potential output. A positive output gap means growth is above the trend rate and is inflationary. A negative output gap means an economic downturn with unemployment and spare capacity.
Over the Counter	**OTC** Securities that are not traded on a formal centralised exchange, eg. the London Stock Exchange. Instead, they are traded via a network of dealers. Most bonds and **derivatives** are traded OTC.
Passive	An investment approach that tracks an index. It is called passive because it simply seeks to replicate the index. Many exchange traded funds are passive funds. The opposite of active investing.
PBoC	**The People's Bank of China** is the central bank of the People's Republic of China controlling monetary policy and regulating financial institutions in mainland China.
P/E Ratio	The price-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings. The price-earnings ratio is also sometimes known as the price multiple or the earnings multiple. It is a widely used measure of the relative value of a share or market index. A high P/E ratio being broadly expensive and a low P/E ratio being cheap. P/E ratios can be measured using historic or forward earnings over a variety of different time periods. See also **Shiller P/E.**
Phillips Curve	an economic concept developed by A. W. Phillips stating that inflation and unemployment have a stable and inverse relationship. The theory suggests that with economic growth comes inflation, which in turn should lead to more jobs and less unemployment.

Price Return	The return on an investment or index not including any income paid. In contrast to the **Total Return,** which includes re-invested income.
Price to Book (P/B)	A ratio used to compare a stock's market value to its book value (a company's assets minus its liabilities). It is calculated by dividing the c closing price of the stock by the book value per share. A lower P/B ratio might indicate the stock is undervalued.
PMI	**Purchasing Managers Index** - an index of the prevailing direction of economic trends in the manufacturing and service sectors. It summarises on a scale of 0 to 100 whether market conditions, as viewed by purchasing managers, are expanding (more than 50) , staying the same (50), or contracting (less than 50). The index provides information about current and future business conditions to company decision makers, analysts, and investors
PPP	**Purchasing Power Parity** - an economic theory or method of calculation that uses a basket of goods approach to try to compare economic productivity and standards of living between countries. Some countries adjust their GDP to reflect PPP. Two currencies are considered to be at par when the basket of goods id priced the same in both countries taking into account exchange rates.
Quality Investing	An investment strategy based on a set of clearly defined fundamental criteria that seeks to identify companies with outstanding quality characteristics. The quality assessment is made based on soft (such as management credibility) and hard criteria (balance sheet stability, consistency of earnings or good returns on capital investment in the company).
Quantitative Easing	or **QE.** A monetary policy tool whereby a central bank actively increases the money supply in an economy in a bid to stimulate economic growth. This is typically implemented through large scale purchases of financial assets such as government bonds. Quantitative easing was used by countries such as the UK and United States in the wake of the 2008 credit crisis.
Quantitative Tightening	or **QT** the opposite of **QE** monetary policies that contract, or reduce, the **Federal Reserve** System (Fed) balance sheet, also known as balance sheet normalisation
R^2	A statistical measure of an asset's price movements that can be explained by another asset's price movements. For example, it measures the percentage of a portfolio's movements that can be attributed to changes in its benchmark.
Repo/Reverse Repo	two key tools used by many large financial institutions, banks, and some businesses. These short-term agreements provide temporary lending opportunities that help to fund ongoing operations. The Federal Reserve also uses the repo and reverse repo as a method to control the money supply. Repos and reverse repos represent the same transaction but are titled differently depending on which side of the transaction you're on, buying or selling.
Reserve Ratio	A regulatory requirement that determines the minimum amount of cash reserves that a bank must hold.
Retail Price Index	**RPI** is a measure of inflation measuring the change in the cost of a representative sample of retail goods and services and is published monthly by the Office for National Statistics.
Return on Capital	**ROC** A profitability ratio used to indicate how effective a company is at turning capital into profits.
Return on Equity	**ROE** The amount of income a company generates for shareholders as a percentage of the company's *equity* that is owned by shareholders. It is a measure of a company's profitability as it shows how much profit a company generates relative to the money shareholders have invested.
Risk Adjusted Return	Expressing an investment's return through how much risk is involved in producing that return. Typical risk measures include **alpha, beta, volatility, Sharpe ratio** and **R^2.**
Risk Premium	The additional return over cash that an investor expects as compensation from holding an asset that is not risk free. The riskier an asset is deemed to be, the higher its risk premium.
S&P 500 Index	The Standard & Poor's 500, often abbreviated as the S&P 500, or just "the S&P", is an American stock market index based on the market capitalizations of the 500 large companies having common stock listed on the major US stock exchanges.
Security	A share, bond, or any other financial instrument.
Sharpe Ratio	A measure of the risk adjusted return of an investment. It measures the excess return for every unit of risk that is taken in order to achieve the return. In general, the higher Sharpe ratio, the better the returns on a fund are due to the decisions of the manager.

Shiller P/E — Is a cyclically adjusted price-to-earnings ratio, also commonly known as **CAPE** or P/E 10 ratio. It is a valuation measure usually applied to the US **S&P 500** equity market. representing the market price divided by the average of ten years of earnings (moving average), adjusted for inflation. It attempts to provide a long-term view of the valuation of the S&P 500 using average earnings over the last decade to smooth out the impact of business cycles and other events.

Short Position — Fund managers use this technique to borrow then sell what they believe are overvalued assets, with the intention of buying them back for less when the price falls. The position profits if the security falls in value.

Solvency Ratio — a metric that measures the ability of a company to meet its long-term debts and financial obligations. See also **Capital Adequacy Ratio.**

Sortino Ratio — A variation of the Sharpe ratio that recognises that large positive deviations should not be penalised in the same way as large negative performance returns. The calculation takes into account downside deviations only, whereas standard deviation doesn't recognise the difference between positive and negative return. A higher ratio indicates that the risk of a large loss is lower.

Sovereign Bond — A fixed income security issued by a government in support of national spending and denominated in foreign currency. Sovereign bonds are generally regarded as riskier than government bonds as they are subject to movements in exchange rates.

Stagflation — Stagnant growth and rising inflation. Not a good recipe for a country's economic health.

Systemic Risk — The risk of a critical or harmful change in the financial system as a whole, which would affect all markets and asset classes.

TARGET2 — The interbank payment system for the implementation of the Eurosystem's monetary policy and the functioning of the euro money market. By smoothing large transfers across national boundaries, it aids the integration and stability of the euro area money market. It is also the mechanism whereby financing is provided to countries within the EU such as Portugal, Ireland, Greece and Spain (PIGS) which runs a current account deficit. Balancing liability risk is held by current account surplus countries such as Germany. In the event of default by any of the PIGS, Germany would have a significant liability to the ECB.

Tight Monetary Policy — or to **Tighten** is a course of action undertaken by a Central Bank to reduce spending in an economy that is growing too quickly or to curb inflation by raising interest rates to increase the cost of borrowing and reduces its attractiveness**.**

Tightening Labour Market — When unemployment is falling and there are few job vacancies available, which tends to push up wages, often a sign of impending inflation.

Total Return — The complete return generated by the investment, including income and capital growth.

Trade Deficit — When a country's imports exceed the value of its exports.

Treasury General Account — or **TGA** the account which the US Department of the Treasury uses and from which the U.S. government makes all of its official payments. It is funded mainly through the sale of US Treasury bills and bonds and is a key tool in US **Monetary Policy**. The Federal Reserve Bank of New York holds the Treasury General Account.

Treasury Bonds — or **T-Bonds** issued by the US Federal Government, these are a fixed income security which, as they are backed by the US government, are deemed to be secure. They mature in 30 years from issue.

Treasury Notes — as above, but they tend to mature between 2 and 10 years

Treasury Bills — as above, but with shorter maturities, typically from 4 weeks to one year

TIPS — or **Treasury Inflation Protected Securities** as above but they are indexed to inflation so that the principal value of the bond rises as inflation rises. The principal amount is protected.

UCITS — The European Union (EU) has issued directives that allow carefully regulated funds to operate freely throughout the EU. A fund operating in line with the directives is known as an Undertaking for Collective Investment in Transferable Securities (UCITS) scheme. The regulations aim to give investors a high level of protection.

Undervalued — A security priced below what is considered fair value.

Unit Trust — A pooled investment vehicle created under trust laws. Investors buy and sell units in the fund, based on the bid and offer prices set by the investment management firm.

US Treasury	The department of the US government responsible for executing fiscal policy as established by Congress and the President. The Treasury pays the country's bills, collects revenue through the Internal Revenue Service, and borrows money through the issuance of Treasury securities when Congress fails to appropriate enough revenue to meet the country's spending obligations.
Value Investing	A strategy that identifies and invests in stocks believed to be undervalued by the market. The strategy is based on a thesis that the market overreacts to good and bad news, resulting in stock price movements that do not correspond with a company's long-term fundamentals, giving an opportunity to profit when the price is deflated.
VIX	or **CBOE Volatility Index** is an index of expected future price volatility implied by options contract prices on the US S&P 500 index. It is often called a fear index because its value rises when investors are concerned about future volatility. High values of the index do not imply that the market will fall - they merely indicate that investors expect that prices will move up or down substantially in the future.
Volatility	The amount by which a securities price can vary over a given period.
Yield	The income return on an investment, calculated by dividing income by price. It is often referred to in percentage terms.
Yield Curve	A graph showing the relationship between yield and maturity of bonds with the same risk profile. The shape of the yield curve informs regarding future interest rate changes and economic activity. There are three main types. A normal yield curve is where longer maturity bonds have a higher yield compared to shorter-term bonds due to the risks associated with time. An inverted yield curve is where the shorter-term yields are higher than the longer-term yields, which can predict recession. A flat (or humped) yield curve is where the shorter- and longer-term yields are very close to each other, sometimes a predictor of economic transition.

If you would like any further explanation as to any of the topics or definitions covered in this document, please do not hesitate to contact us.