U.S. BOND AND STOCK YIELDS AROUND BUSINESS CYCLE TURNING POINTS

Sandip Mukherji, Howard University, Washington, DC, USA

dx.doi.org/10.18374/JIFS-14-3.8

ABSTRACT

Expansions are stimulated by low inflation whereas recessions are triggered by high inflation. Since prices of financial assets are depressed/inflated before expansions/recessions, corporate bonds and stocks have higher yields before expansions compared to recessions. Rising/falling prices cause yields of bonds and stocks to fall/rise around the beginning of expansions/recessions. As a result, yields on stocks and highly rated corporate bonds are significantly lower in the initial stages of expansions compared to recessions. Bond yields anticipate business cycle turning points before stock yields do, but stock yields fall/rise longer, and by greater percentages, than bond yields around the beginning of expansions/ recessions.

Keywords: *Bond Yields, Stock Yields, Business Cycles, Turning Points*