THE SEASONALITY OF BOND YIELDS

Bond yields, as stocks, have a pronounced **seasonality**. (Our study on **stock market seasonality** can be found on this website www.peterdag.com under *Understanding the Markets* on the left-hand-side of the home page).

The charts below show the **seasonality of bond yields** for two distinct periods: 1969-1983 and 1984-2001. The **1969-1983** years were characterized by rising yields. During **1984-2001** the main trend of bond yields was down. The main features of the seasonality of bond yields are summarized in the following three charts.

Chart 1. Periods of rising or declining interest rates have a slightly different bond yield seasonality.

From 1969 to 1983 the tendency of interest rates was up and the seasonality reflected this major secular trend. **Bond yields rose from January to August (on average) and declined from August to December**.

The period 1984-2001 was characterized by lower interest rates and the seasonality of bond yields reflected this trend by forming a **top in May and then declining until December**.

Based on this seasonal behavior of bond yields, the **investment strategy** that takes advantage of these tendencies is the following.

- Investor should **buy bonds in May-July and sell them in December** because yields tend to decline during these months (bond prices rise when yields decline).

- **Investors should not hold bonds from January to May-July** because yields rise and bond prices decline during these months.

A detailed discussion of the behavior of bond prices during a typical business cycle can be found in **chapter 9** of Dr. Dagnino's book ***Profiting in Bull or Bear Markets***. Several bond investment strategies are also reviewed in this chapter.

Chart 2. A comparison of the seasonality of the **current year with that of the two periods discussed above** provides important timing information. For instance, the graphs shown in this chart reveal that the seasonality of bond yields in 2002 acted very closely to the seasonality of bond yields during the 1984-2001 period. Investors should therefore expect yields to follow closely the seasonal pattern experienced in those years.

Chart 3. **A further refinement** in understanding the seasonality of the current year is to compare current year yields with those of previous years. For instance, this chart shows that the behavior of bond yields in 2002 acted very closely to that of the 1984-2001 period and **it was very similar to the seasonality of bond yields in 2001.**

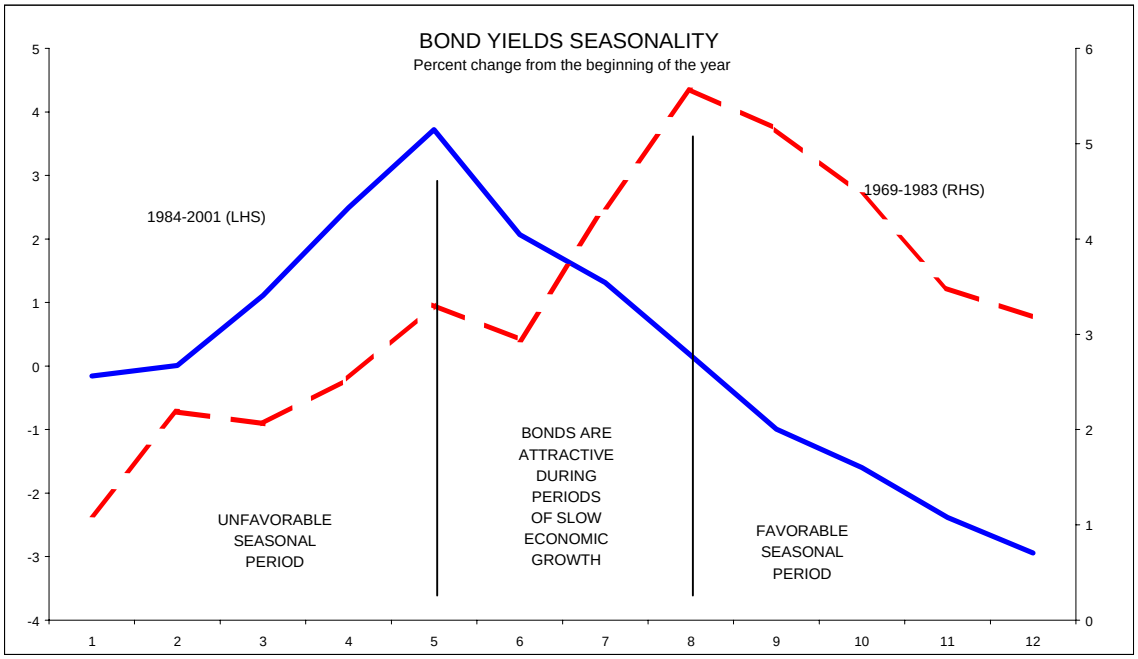


Chart 1. Yields rise from January to May. They decline from August to December.

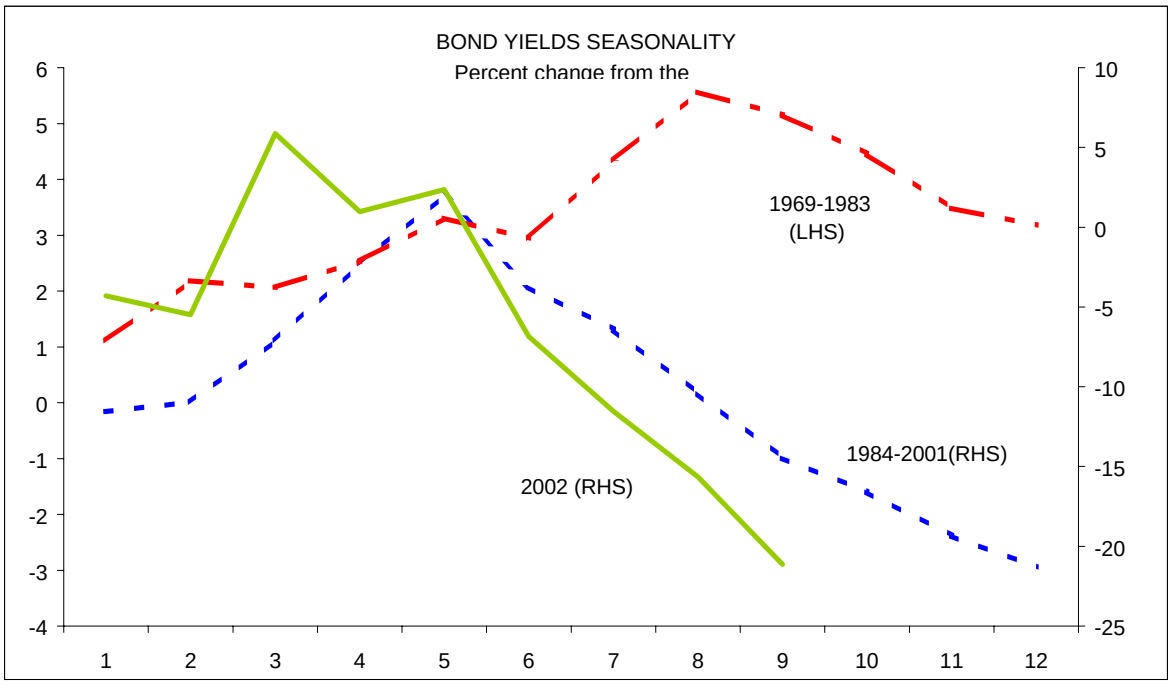
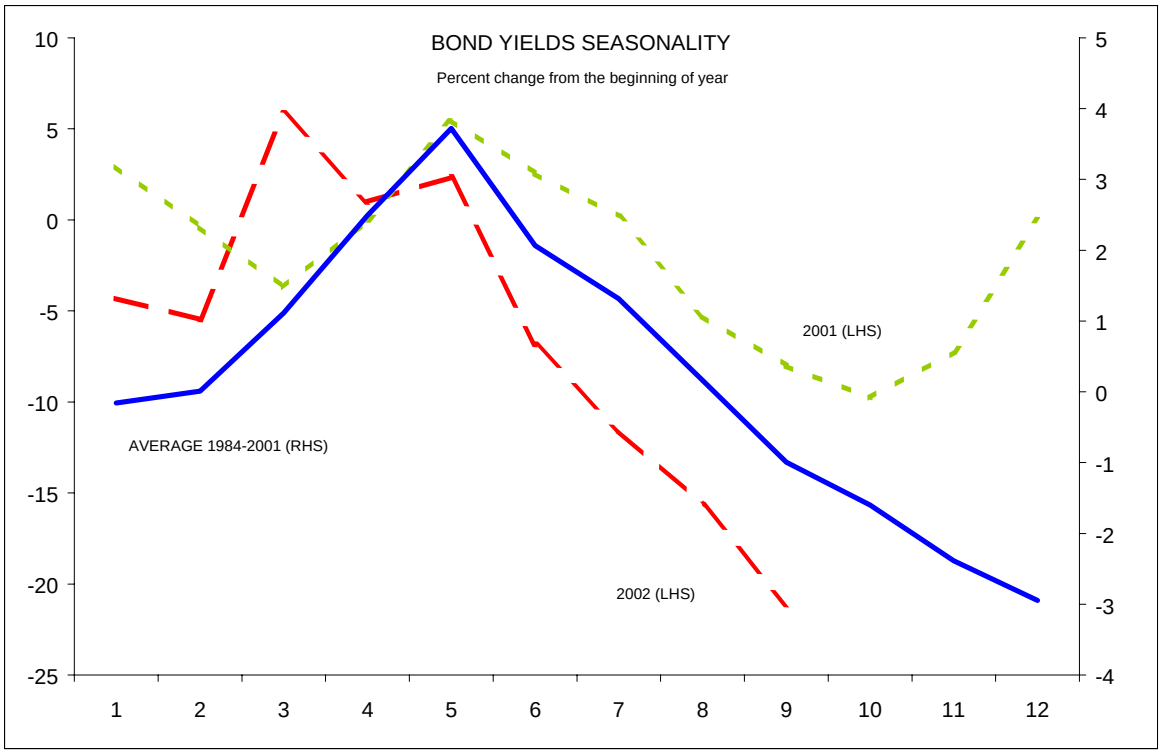


Chart 2. In 2002 yields behaved like the 1984-2001 average seasonality.



<u>Chart 3.</u> In 2002 yields showed the same pattern as in 2001.

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