The Yield Curve

PRO PRACTICE WORKSHEET

Work through these by hand or with a spreadsheet. There's no wrong answer, the goal is just practice.

Section 1 - Calculate a 2s/10s Spread

The 2-year yield is 4.6% and the 10-year yield is 4.1%. Calculate the spread and classify the curve as normal, flat, or inverted.

Section 2 - Interpret a Shifting Spread

The 2s/10s spread was +1.2 points six months ago and is now -0.4 points. What does this trend suggest is happening in the bond market's expectations?

Section 3 - Connect to Central Bank Policy

Explain, in your own words, why an inverted curve reflects a bet about future central bank rate decisions rather than current conditions alone.

Section 4 - Check Multiple Pairs

If the 3-month/10-year spread is inverted but the 2-year/10-year spread is not, what might that suggest? Why check more than one pair?

Section 5 - Reflection

Why does this lesson caution against treating an inversion as a precise short-term trading signal?