Twitter Thread by Sajjan Kumar ■



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How bond yields impact the ■■■ stock market & what should investors do ?

@smallcaseHQ
@zerodhaonline

#bonds

#bondyields

#inflation

content via @bsindia

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What is bond and bond yield? @NiftyTeam1

Simply put, bonds are loans the one makes to a corporation or government. The interest payments remain largely unchanged over the life of the loan. Moreover, one receives the principal at the end of the loan tenure if the borrower doesn't default.

Bond yield, on the other hand, is the return that an investor gets on that bond or on a particular government security.

Bond yield and bond prices

A fall/rise in interest rates in an economy pushes up/pulls down bond prices. However, bond yields fall/rise in this situation.

This happens because if RBI, for example, decides to increase interest rates, the bond's price (which is offering similar return as the current interest rates) would fall because its coupon payment is less attractive now on a relative basis. Therefore, investors would chase new bonds with better risk-free return.

Inflation expectation and bond yields

A rally in the stock market tends to raise yields as money moves from the relative safer investment bet to riskier equities. However, if the inflationary pressures begin to look up, investors tend to move back to bond markets and dump equities.