INVESTMENT FUNDAMENTALS

Bond jargon deciphered.

When it comes to bond investing, the terminology can sometimes feel like a foreign language. In some extreme cases, phrases can mean the opposite of how they sound (e.g., "rates rallied" means that bond prices rose, and rates fell). In this installment of Investment Fundamentals, we break down some of the more common jargon from the world of bond investing.

- **The back end of the yield curve** refers to long-dated maturities, typically 10 years or longer.
- A **basis point**, abbreviated as "**bp,**" "**bip,**" or "**beep,**" equals one one-hundredth of one percent.
- A **bear flattener** refers to a general flattening of the yield curve in response to short-term rates rising relative to long-term rates**.** A **bear steepener** occurs when long-term rates rise faster than short-term rates. Since bond prices fall as yields rise, both scenarios are **bearish**, referring to a market outlook where asset prices are expected to depreciate.
- **The belly of the yield curve** refers to intermediate-dated maturities, typically between two and 10 years.
- **Bond vigilantes** are fixed-income investors who sell their government bonds over dissatisfaction with the issuing government's policies, leading to higher interest rates and increased borrowing costs for the issuer.
- A **bull flattener** refers to a general flattening of the yield curve in response to long-term rates falling relative to short-term rates. A **bull steepener** occurs when short-term rates fall faster than long-term rates. Since bond prices rise as yields fall, both scenarios are **bullish**, referring to a market outlook where asset prices are expected to appreciate.
- **Coupon clipping** (or **clipping coupons**) refers to a strategy of holding bonds for their periodic interest payments (also known as **coupons**) rather than trading them.
- **The coupon stack** refers to a group of bonds with varying periodic payments.
- **The Federal Open Market Committee (FOMC) dot plot** is shorthand for the FOMC participants' forecasts for the target level of the federal-funds rate, depicted as dots on a chart in their quarterly projection materials.
- **The front end of the yield curve** refers to short-dated maturities, typically one year or shorter.
- An **inverted yield curve** occurs when short-term yields exceed long-term yields. While an inverted yield curve historically has predicted economic recessions, it is an indicator—not a forecast.
- **Junk bonds**, also known as high-yield bonds, have credit quality ratings below investment grade (depending on the ratings agency, below BBB- or below Baa3).
- **Munis** is an abbreviation for municipal bonds.
- **Par value** refers to a bond's face value, typically paid in full by the issuer at maturity.
- **Rates rally** when bond prices rise, and rates fall. Bond prices and yields have an inverse relationship.
- **Short-term paper** is a form of short-term debt (e.g., commercial paper) that is not backed by collateral. Rather than paying interest, it is usually issued at a discount, paying full par value at maturity.
- **Yield curve flattening** occurs when shorter-dated yields rise relative to longer-dated yields, either through short-term yields rising or long-term yields falling.
- **Yield curve steepening** occurs when longer-dated yields rise relative to shorter-dated yields, either through long-term yields rising or short-term yields falling.
- **Yield pickup** refers to the additional yield received through investing in higher-yielding, typically riskier, securities at the expense of lower-yielding, typically less risky, securities.

©2025 SEI®

Important information

The information contained herein is for general and educational information purposes only and is not intended to constitute legal, tax, accounting, securities, research or investment advice regarding the strategies or any security in particular, nor an opinion regarding the appropriateness of any investment. This information should not be construed as a recommendation to purchase or sell a security, derivative or futures contract. You should not act or rely on the information contained herein without obtaining specific legal, tax, accounting and investment advice from an investment professional.

Statements that are not factual in nature, including opinions, projections and estimates, assume certain economic conditions and industry developments and constitute only current opinions that are subject to change without notice. Nothing herein is intended to be a forecast of future events, or a guarantee of future results.

Certain information contained herein has been obtained from published sources prepared by other parties, which in certain cases have not been updated through the date hereof. While such sources are believed to be reliable, neither SEI nor its affiliates assumes any responsibility for the accuracy or completeness of such information and such information has not been independently verified by SEI.

There are risks involved with investing, including loss of principal. The value of an investment and any income from it can go down as well as up. Investors may get back less than the original amount invested. Returns may increase or decrease as a result of currency fluctuations. Past performance is not a reliable indicator of future results. Investment may not be suitable for everyone.

Information in the U.S. is provided by SEI Investments Management Corporation (SIMC), a wholly owned subsidiary of SEI Investments Company (SEI).

Information in Canada is provided by SEI Investments Canada Company, a wholly owned subsidiary of SEI Investments Company (SEI), and the Manager of the SEI Funds in Canada.

©2025 SEI®