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## The Bond Yield 'Conundrum' from a Macro-Finance Perspective

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### Abstract

In 2004 and 2005, long-term interest rates remained remarkably low despite improving economic conditions and rising short-term interest rates, a situation that former Fed Chairman Alan Greenspan dubbed a conundrum. We document the extent and timing of this conundrum using two empirical no-arbitrage macro-finance models of the term structure of interest rates. These models confirm that the recent behavior of long-term yields has been unusual - that is, it cannot be explained within the framework of the models. Therefore, we consider other macroeconomic factors omitted from the models and find that some of these variables, particularly declines in long-term bond volatility, may explain a portion of the conundrum. Foreign official purchases of U.S Treasuries appear to have played little or no role.

**Keywords:** Treasury bonds, Federal funds rate[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN\\_ID1003033\\_code370947.pdf?abstractid=1003033&mirid=1\)](#)[Open PDF in Browser \(Delivery.cfm/SSRN\\_ID1003033\\_code370947.pdf?abstractid=1003033&mirid=1&type=2\)](#)

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