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Treasury vs. Muni Yield Curves: What Investors Need to Know

Most investors are familiar with interest rates, but it's important to look beyond the headline rate. By looking at yield curves, investors gain better insights into market sentiment. Normal yield curves suggest a healthy market, but steep yield curves indicate the start of economic expansion and inverted yield curves can be a sign of trouble.

Treasury yield curves are often referred to as the "benchmark curve" since they are backed by the U.S. government. Investors often compare other debt instruments to these benchmarks and calculate "spreads" between them. The spread is an important indicator of market sentiment on its own. Although municipal bonds should theoretically have no spread, that's not always the case.

Let's look at the difference between Treasury and municipal bond yield curves, and what investors need to know.

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