Anatomy of the Treasury Market: Who Moves Yields?

Manav Chaudhary[*] Julie Zhiyu Fu[†] Haonan Zhou[‡]

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Abstract

We develop an empirically flexible yet tractable model that links Treasury yields to the portfolio decisions of investors. The model measures how sensitive investors are to changes in yields and macroeconomic factors, decomposes yield movements into investor-level drivers, and captures how investor behavior differs around key events. We find that Treasury demand is highly inelastic, with large differences across investors and over time. Since 2008, foreign investors have become far less influential, while the Federal Reserve has played an increasingly important role in shaping yields. During flight-to-safety episodes, domestic—not foreign—investors drive the sharp decline in Treasury yields.

[*]Department of Finance, London School of Economics. M.Chaudhary6@lse.ac.uk

[†]Washington University in St. Louis, Olin School of Business. z.fu@wustl.edu

[‡]HKU Business School. haonanz@hku.hk

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