Indian Economy · GS - III

Explain the relationship between government bond prices and yields. How does a flight to safe-haven assets during financial market uncertainty influence bond markets and the broader economy?

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 31/10/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Inverse price-yield relationship; safe-haven demand; investor confidence; borrowing costs; global financial stability; market volatility

Model Answer

Introduction

Government bonds are debt instruments issued by governments to raise funds. US Treasury securities are widely regarded as important safe-haven assets in global financial markets.

Relationship Between Bond Prices and Yields

Bond prices and yields generally move inversely. When demand for existing bonds increases, their market prices rise and their yields decline. A rise in selling pressure produces the opposite effect.

Impact of Flight to Safe-Haven Assets

During market uncertainty, investors often shift funds from riskier assets, such as equities, towards government bonds. As reported in the recent US market rally, concerns over technology-sector earnings and AI-related spending triggered demand for Treasury securities and pushed yields lower.

Broader Economic Implications

- Lower government bond yields can reduce benchmark borrowing costs.

- Changes in US yields influence global capital flows and emerging-market financial conditions.
- Sudden movements can affect exchange rates, investment decisions and market stability.

Conclusion

Safe-haven flows demonstrate the close connection between investor sentiment and financial markets. Stable and transparent financial institutions are essential to managing volatility and maintaining confidence.

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