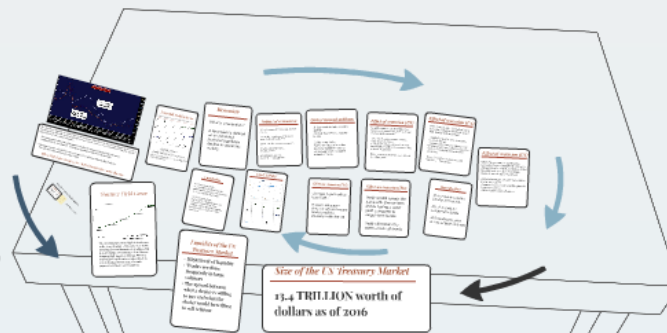


Heading up the US treasury Harvard Case Solution & Analysis



Size of the US Treasury Market
13-14 TRILLION worth of dollars as of 2016

What is a Treasury Market?
The Treasury market is where the United States government raises money by issuing debt.

4 Types of Marketable Debt Instruments (Treasury Securities)

Treasury Bills

- 1, 2, 3, 6, 9, 12 months
- The smallest - difference between the purchase price, and the price paid after at maturity or period to maturity.

Treasury Notes

- 1, 2, 3, 6, 9, 12 months
- 1-10 year maturity

Treasury Bonds

- 10, 20, 30 years
- Longest term of maturity
- All feature the length of debt Treasury and TIPS, Outright Debt etc.

Treasury Inflation Protected Securities (TIPS)

Extremely low risk investment

Marketable Treasury securities

Protected to inflation according to changes in the Consumer Price Index

With inflation, the principal increases. With deflation, it decreases.

Example of Treasury Inflation Protected Securities Adjustments

Example: If you have a \$100 TIPS that has a fixed rate of 2% and the CPI is 3% for the next year, the value of the TIPS will increase to \$103.

Example: If you have a \$100 TIPS that has a fixed rate of 2% and the CPI is -1% for the next year, the value of the TIPS will decrease to \$97.

Importance of the US Treasury Market

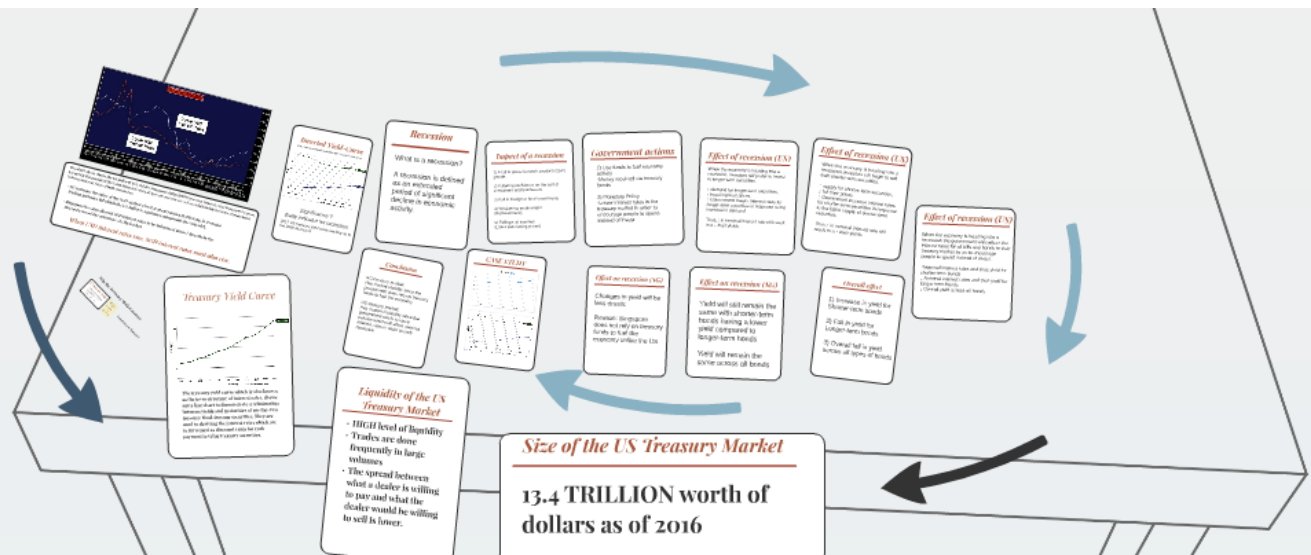
- Important factor in determining market conditions
- The highest rates on Treasury bills are the lowest high yield rates that almost all other investors must seek in corporate bond funds or high yield
- Both the global debt market and the global stock market watch the Treasury market very closely.

Non Marketable Debt Instruments

- 1-10 year, 10-20 year, 20-30 year
- Not all are government-issued debt instruments
- very difficult to buy or sell
- typically sold at a discount to their face value and not tradable for liquidity

Marketable vs. Non Marketable	Marketable	Non Marketable
carries a higher risk	has a marketable value and interest value	only intrinsic value
		carries a lower risk

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4 Types of Marketable Debt Instruments (Treasury Securities)

Treasury Bills

- < 1 year
- do not pay interest before maturity.
- The interest – difference between the purchase price and the price paid either at maturity or prior to maturity.

Treasury Notes

- 2, 3, 5 and 10 years
- i/r paid semi-annually

Treasury Bonds

- > 10 years
- i/r paid semi-annually
- longest time of maturity
- the higher the Marginal Risk Premium (MRP), the higher the i/r

Treasury Inflation Protected Securities (TIPS)

- Extremely low risk investment
- marketable Treasury securities
- Principal is adjusted according to changes in the Consumer Price Index.

With inflation, the principal increases. With deflation, it decreases.

Example of Treasury Inflation Protected Securities Adjustments

- Suppose TIPS pays \$1,000 in TIPS at the end of the year
- in a constant rate of 5%
- No inflation as measured by the CPI.

The investor will receive \$1,000 over the year in coupon payments.

- If inflation rises by 5%
- \$1,000 principal will be adjusted upward by 5% to \$1,050.
- Coupon rate same
- but multiplied by the new principal amount of \$1,050 to get an interest payment of \$52.50.

At the end of maturity, you'll get the original principal or the higher adjusted principal.

What is a Treasury Market?

The Treasury market is where the United States government raises money by issuing debt.

Importance of the US Treasury Market

- Important factor in determining market conditions
- The interest rates on Treasury debt sets the baseline risk-free rate (R^f) that almost all other interest rates such as corporate bond yields are built on.
- Both the global debt market and the global stock market watch the Treasury market very closely.

Non Marketable Debt Instruments

- PURPOSE:** to ensure stable ownership of the money the security represents.
- Most are government-issued debt instruments.
- are difficult to buy or sell
- Frequently sold at a discount to their face value and redeemable for face value at maturity.

Marketable vs. Non Marketable

carries a higher risk	carries a lower risk
has a marketable value and intrinsic value subject to potentially volatile fluctuation in accordance with the changing levels of demand for the security in the trading marketplace.	only intrinsic value depending on the structure of the security, can be considered as either its face value, the amount payable upon maturity or its purchase price plus interest.

What is a Treasury Market?

The Treasury market is where the United States government raises money by issuing debt.

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- i/r p

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4 Types of Marketable Debt Instruments *(Treasury Securities)*

Treasury Bills

- < 1 year
- do not pay interest before maturity.
- The **interest = difference between the purchase price and the price paid either at maturity or prior to maturity.**

Treasury Notes

- 2, 3, 5 and 10 years
- i/r paid **semi-annually**

Treasury Bonds

- > 10 Years
- i/r paid **semi-annually**
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Treasury Inflation Protected Securities (TIPS)

- **Extremely low risk investment**
- **marketable Treasury securities**
- **Principal is adjusted according to changes in the Consumer Price Index.**

With inflation, the principal increases. With deflation, it decreases.

Example of Treasury Inflation Protected Securities Adjustments

- Suppose YOU own \$1,000 in TIPS at the end of the year
- a coupon rate of 1%.
- No inflation as measured by the CPI,

the investor will receive \$10 over the year in coupon payments.

- If inflation rises by 2%,
- \$1,000 principal will be adjusted upward by 2% to \$1,020.
- Coupon rate same
- but multiplied by the new principal amount of \$1,020 to get an interest payment of \$10.20.

At the end of maturity, you're paid the original principal or the higher adjusted principal.

Non Marketable Debt Instruments

- **PURPOSE:** to ensure stable ownership of the money the security represents.
- Most are government-issued debt instruments.
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