A BEHAVIORAL FINANCE DISCOURSE: AAA-TREASURY BOND SPREAD DRIFT THEORY

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ABSTRACT

Following the financial crisis of 2008, we find a AAA-Treasury Bond Spread Drift occurs where Treasury rates ceases for a protracted time to influence AAA bond yields. Once AAA yields adjusted to the 2008 market crisis, the elevated AAA bond yields persist despite multiple changes in Treasury yields. Finding no single stock behavioral theory that explains the change in spreads spanning not only industries but also sectors, this study proposes a Spread Drift Theory as a more inclusive explanation for spread gyrations exhibited during present and past stable and unstable economic periods for AAA bonds. We suggest the increased entrance to bond markets by retirees, the perceived strength of economic direction and the discontinuous trading common to risk adverse AAA bond investors are all partially responsible for the mechanism associated with a Spread Drift theory. The Spread Drift caused by the multiple factors is principally centered in the AAA default risk premium.