

Download Guide To Yield Curve Bootstrapping

Although this is not a direct example of bootstrapping yield curve, sometimes one needs to find the rate between two maturities. Consider the zero-rate curve for following maturities. Now, if one needs the zero-coupon rate for 2-year maturity, he needs to linearly interpolate the zero rates between 1 year and 3 years. The bootstrapping method. To overcome these problems, one constructs a zero-coupon yield curve from the prices of these traded instruments. As a reminder, the zero-coupon rate is the yield of an instrument that does not generate any cash flows between its date of issuance and its date of maturity. Bootstrapping of spot rates Before going into details regarding the bootstrapping algorithm, we should explain the difference between yield curve and spot rate curve. By definition, the yield curve shows several bond yields to maturity (ytm) across different bond contract lengths, or times to maturity (ttm), involving bullet and barbell portfolios due to changes in the shape of the yield curve via shocks to the Dow Jones index. We employ three different yield curve models and bootstrap the bond portfolio performance using a block bootstrap approach to compute the 66 percent confidence intervals. We allow for co-movement among the yield curve factors.