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Term Premia and MOVE Index: A Comparison with Fed's Models

Abstract

We compare estimates of the US term premium derived from Argedion's stochastic volatility model with those publicly available on the Federal Reserve's website, based on the constant volatility models of Kim and Wright (2005), Adrian, Crump, and Moench (2013), and Christensen and Rudebusch (2012). For all these models, we analyze the relationship between the term premium and bond market volatility, as summarized by the MOVE index. We then extend the analysis to the Eurozone, the UK, Japan, Canada, Australia, and Switzerland.