Perpetual knowledge bank series: running yield

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There are various methods for arriving at a bond's yield and each way of assessing expected earnings, whether expected or realised, has a role in highlighting aspects of potential risk and return. Running yield measures a bond's return or yield each year as a percentage of the bond's current market value or price. This gives investors a good idea of what they can expect for a return in the current market.

Typically, a running yield is determined on an annual basis, but may be calculated more frequently if desired. Running yield is also sometimes referred to as current return, current yield, or yield to maturity (YTM) when used in reference to bonds. While we have previous discussed the coupon rate of a bond, which represents the nominal yield (calculated by dividing the annual coupon payments by the face value of the debt instrument), the running yield uses the current market price of the bond instead of the face value as its denominator. Therefore, this yield measures the return that an investor can expect if they hold the bond for a full year. However, as with any type of formula, a running yield only provides valuable data if the information used for the calculation is up to date.