**Treasury Bond Risk and Return, the Implications for the Hedging of Consumption and Lessons for Asset Pricing**

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*All* consumption-based models of asset pricing imply that the relation between the conditional mean and conditional volatility of *any* asset reflects the effectiveness of holding that asset as a hedge against intertemporal variation in the marginal utility of consumption. For Treasury Bonds of various maturities, we find significant positive relations. Our empirical findings support the conclusion that investors must sell bonds short to hedge shocks to marginal utility, because realized bond returns tend to be high (low) when investors least (most) desire an additional dollar of consumption. Implications for special cases of the general consumption-based model are also discussed.

*Key words:* Treasury bond, excess return, volatility, consumption, hedge.

JEL classifications: G12

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