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BONDS

Over 10 trillion bonds below zero

Economy and central banks revive a market as good as dead

Just yesterday, for the first time since 25 March, the yield on ten-year Bunds rose above zero. Thanks to the clarification (who knows) on Brexit. But, until two days ago, people buying ten-year German government bonds were paying instead of getting a positive return. And it wasn't just the Bunds that were so lucky; more than $10 trillion in government bonds in the world actually have negative returns. And even some corporate bonds "offer" (so to speak) interest below zero. A few weeks ago, LVMH and Sanofi created a stir when they issued new bonds with a negative interest rate. Let's reiterate: this means that the people buying them not only don't earn anything if they keep them to the expiry date, but they actually have to pay. Pay money to lend money.

The reasons for this financial madness are twofold. The demand for government bonds and more secure bonds is plentiful because the global economy is slowing down and because, in 2019, with a resounding U-turn, central banks announced that they would no longer raise interest rates and will no longer seek to normalise monetary policy. In short, it's the global deterioration of the economy and, above all, the response of central banks that is driving this rally of government bonds and bonds perceived as safer. It is no coincidence that yesterday, faced with a possible clarification on the Brexit front, the Bunds also returned yields just above zero. Paradoxically, the same motivations have also driven the stock exchanges to rally. In fact, all financial markets are now dependent on the monetary "drug".

Obviously, at this point, we need to ask ourselves a few questions. In fact, the stock market rally seems to indicate some optimism (of the type, the economy is slowing down but not too much and central banks will inject liquidity again), while the rally of government and other bonds seems to be sending the opposite message (investors are so worried that they prefer to invest in securities with negative rates rather than take a risk). Which of the two markets is sending the right message? Those in the business think that it is the bonds: as Francesco Castelli, CFA of Banor Capital, argues, "Looking at the history of recent decades, at this point in the economic cycle you should listen to bonds". We'll see if that really is the case.

\- **My.L.**