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What's left in the bond market
Ten products to bet on

The profitability of government bonds is rock bottom right now, but there are still some instruments that offer attractive earnings opportunities in the US and Norway and also with Italian Multi-Year Treasury Bonds (BTP) maturing in 2023 and 2026. For anyone who isn't change-averse, the pound is fine

by **GIANLUCA BALDINI**

■ The Italians' fondness for the bond market is well-known to most, but the financial crisis has seen to it that bonds – especially government bonds – are seen less and less in investors' portfolios. Given that returns are not always exciting, the more savvy investors have started seeking out profitability in the bond markets of emerging countries. Does this means the end of the line for developed market government bonds? Not in the slightest.

"With **Christine Lagarde** now at the ECB, if Germany does not fall into deep recession or edge closer to deflation, the central bank will change direction and we shall see a gradual rise in yields", explains **Paolo Manara**, fee-only financial advisor to Gamma capital markets. "Given the upcoming elections, **Donald Trump** ought to dial down conflicts with China and Germany and this should prevent strain on the US yield curve. In this scenario, inflation-indexed bonds benefit from protected performance and also defend the invested capital as well", he continues. "Italy is the country with the best yields in the euro area (political stability permitting). American government bonds still offer satisfactory yields for those who reckon on the dollar staying stable or strengthening further. The World Bank and Norway offer protection for your savings. Also, here we tax all government securities at 12.5% instead of 26% like other bonds. And finally, supranational and Italian government bonds are exempt from inheritance tax."

Francesco Castelli, bonds chief at Banor capital says, "For anyone with a bond portfolio in the euro area, Italy is one of the few places where you can still find investment opportunities. In Italian securities, the Italian BTP sector (linked to domestic inflation) looks to be the most attractive by far. Bonds maturing in 2023 and 2024 especially offer a yield very similar to traditional BTPs (just over 0.5%). For anyone unafraid to take on exchange rate risk" he continues, "we believe there are good opportunities outside the euro: sterling, for example, is still very undervalued, despite its recent rebound. You would have to go back at least 30 years to see this currency lower than it is now. If the mid-December elections produce a convincing majority, the pound will return to more appropriate levels – despite the many doubts thrown up by Brexit."

So what's the best bet? After taxes, Uncle Sam's bonds maturing in 2025 yield 2.28% net per year. The same goes for US bonds maturing in 2026. Italian BTPs are also doing quite well: the 2023 maturity bond yields 1.3% and the 2026 title returns 1.58%.

BONDS TO KEEP AN EYE ON

Name	Isin	Currency	Expiry	Price	Annual net effective yield
Btpi 20/11/17-23 0.25% (Foi)	It0005312142	Euro	20/11/2023	99,61	1,30%
Btpi 21/05/18-26 0.55% (Foi)	It0005332835	Euro	21/05/2026	99,28	1,58%
Ccteu 15/03/18-09/25 (0.55 A	It0005331878	Euro	15/09/2025	97,28	0,65%
Btp 01/08/05-02/37 4.00%	It0003934657	Euro	01/02/2037	131,28	1,44%
Ibrd eur 0.625% 01/33	Xs1508585772	Euro	12/01/2033	106,18	0,06%
Norway 24/05/12-23 2.00%	No0010646813	Crowns	24/05/2023	102,51	0,99%
Gilt 03/07/19-07/06/25 0.625	Gb00BK5cvx03	Sterling	07/06/2025	100,45	0,47%
Ibrd usd step-up 10/26	Xs1492797334	Dollar	20/10/2026	96,39	2,08%
Usa T-Note15/05/12-22 1.75%	Us912828sv33	Dollar	15/05/2022	100,4	1,36%
Us Tips 15/01/15-25 0.25%	Us912828h458	Dollar	15/01/2025	98,92	2,28%

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Source: Gamma Capital Markets