BLOG POST
Negative Yielding Sovereign Debt
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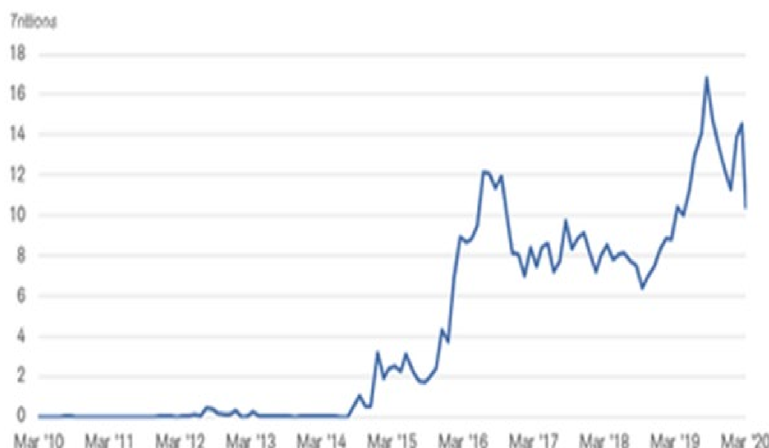
COVID 19 has pushed government bond yields lower, creating even greater numbers of countries dipping in to negative yielding territories. A negative bond yield is one in which the country is paid to borrow. Negative yields have become commonplace among European nations and Japan. In some cases, it was the market that drove rates below zero, rather than the central bank. Inflation can result from falling rates based on the quantity theory of money. Inflation has not taken hold in countries such as Japan and Germany, despite falling rates and negative yielding sovereign debt. The Bank of Japan is moving away from negative rates by purchasing riskier assets such as corporate bonds and equity ETFs. Negative yielding US treasury bonds could certainly be an unintended consequence of Federal Reserve and economic response to COVID 19.

- There is over $10 trillion in negative yielding bonds across the globe (Bloomberg)
- As of April 1, 2020, Switzerland led the charge on the negative rates with a rate of -.75% for a 3 month Libor.
- Investors typically purchase negative yielding sovereign debt for safety, deflationary fears, speculation, and for meeting regulatory requirements.
- Central banks are evaluating following the Bank of Japan's example and purchasing riskier assets than sovereign debt.
- Despite the additional liquidity and negative rates, inflation has not taken shape, giving way to fears of a deflationary recession.

Value of Negative Yielding Bonds in the Global Market



Source: Bloomberg Barclays Global Aggregate Negative Yielding Debt Market Value USD. Monthly data as of 03/17/2020.

Peak Capital Management, LLC, an SEC Registered Investment Advisor