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MARKETS

Yields Plumb New Lows, but 'Century Bonds' Remain Scarce

Only a handful of governments have taken advantage of the chance to sell ultralong bonds at the current low rates

By Daniel Kruger and Anna Isaac

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Bond yields in many countries world-wide have fallen to record lows this summer. Yet few governments have responded as many bankers and investors say they should, by locking in ultralow rates for decades.

Germany on Wednesday sold 30-year government bonds at a negative interest rate for the first time, meaning investors are effectively paying the government to hold their money. Europe's largest economy raised €824 million ($914 million) by selling bonds that will be worth €795 million at maturity in 2050.

In the U.S., yields aren't negative. But 30-year government bond yields this month fell below 2% for the first time, prompting the Treasury Department to express interest in selling debt with 50- and 100-year maturities. Yields for 30-year government bonds have fallen below zero in Holland, Denmark and Switzerland, and below 1% in the U.K., Portugal and Spain.

Just a handful of governments have taken advantage of the opportunity to sell ultralong bonds, those maturing in at least 50 years, at such low rates. Ireland and Belgium sold 100-year bonds in 2016, and Austria and Argentina followed the year after. Switzerland, Japan and Sweden have sold bonds maturing in 10 years or more at negative yields.

That has led many investors and analysts to ask why more governments aren't taking action. Many proponents of large-scale bond issuance at ultralow rates say policy makers are missing an easy opportunity to raise funds that could help generate jobs and income by, for instance, financing the rebuilding of crumbling roads and bridges, for starters.

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"There's free money on the table for the U.S.," said Adam Posen, president of the Peterson Institute for International Economics. "There's no reason for the U.S. to hesitate."

The politics of debt issuance have grown fraught in recent years, with government deficits rising in the wake of the 2008 financial crisis and again recently. But markets haven't been concerned about deficits recently, with U.S. yields falling despite a rising budget gap. Those worried about the accumulation of government debt should realize that locking in low interest rates for very long terms is ultimately very prudent, said Mr. Posen.

A few countries have tried. Ireland and Belgium each sold €100 million of 100-year bonds in privately placed deals in 2016. Argentina sold $2.75 billion of that maturity in 2017, while Austria sold €3.5 billion of 100-year bonds that year and followed-on with €1.25 billion more in June.

Before the era of negative interest rates, China sold 100-year bonds in 1996, followed by the Philippines in 1997 and Mexico in 2010.

Some countries, including the U.K., France, Belgium, Italy and Spain have sold 50-year bonds totaling roughly $130 billion since the start of 2014, according to Refinitiv.

German Chancellor Angela Merkel in Sopron, Hungary, Aug. 19. Germany sold 30-year government bonds at a negative interest rate for the first time on Aug. 21. PHOTO: AKOS STILLER/BLOOMBERG NEWS

Ultralong bonds have a natural audience, in institutions such as insurers that have long-term liabilities and need to match them with long-dated assets. Many analysts contend there is generally a dearth of safe, long-term assets right now, and that this shortage is part of the dynamic that has driven bond yields down so sharply in 2019.

That said, investors have some reservations about buying ultralong bonds. They can be volatile and few are outstanding, so liquidity, the capacity to buy or sell at listed prices, can be fleeting. The 100-year bonds sold by Austria have traded at times 70% above face value. Should global interest rates begin to climb, those gains could evaporate.

The value of Argentina's 100-year bonds have fallen by nearly half after Argentina's pro-business President Mauricio Macri lost a primary election this month, indicating that he may be defeated in October's election.

Of the roughly $15 trillion of bonds with negative yields globally, about $3 trillion were sold at their offering with negative yields, while the rest fell below zero as the securities appreciated during the global bond market rally. A bond's yield becomes negative when its value in the market exceeds its principal to be returned at maturity and the sum of all its future interest payments.

Some investors who buy negative-yielding debt own it as a hedge for other parts of their portfolios. Holding bonds with negative yields can also be a more palatable option for institutional investors who face surcharges for keeping deposits in a bank. Others may buy negative-yielding bonds because they believe their prices will appreciate as economic growth slows and inflation falls, conditions many investors expect to prevail in coming months.

One other possible reason for buying them: skepticism that the novel responses of global central bankers to the global growth shortfall will prove effective.

"You're running negative rates and it hasn't had the desired consequence," said Jack McIntyre, who manages global bond portfolios for Brandywine Global Investment Management. "You're going to need something more."

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