

GREEK GIFTS

Greek bonds have had quite a run. The new government may struggle to deliver on market hopes. Former Prime Minister Tsipras could prove a formidable opponent.

At the start of the Aeneid, Publius Vergilius Maro famously has the Trojan soothsayer Laokoon declare: "Whatever it is, I fear the Greeks, even when they come bearing gifts," Which perhaps goes to show you should not always trust the soothsayers. Investors in Greek government bonds, who took a similarly wary approach after the start of the Eurozone debt crisis, have last out on big price gains in recent years.

Back in 2012, at the height of Eurozone break-up fears, investors were forced to swap their bonds into ones with far longer maturities. And, fortunately for those who kept their calm, the Greek debt restructuring did not turn out to be a Trojan horse, wrecking havoc on the rest of the Eurozone. Under outgoing Prime Minister Alexis Tsipras, Greece even turned into a bit of a bond-market hero in recent years. In part, this reflected polling suggesting a take-over by the center-right in the months leading up to July's legislative election. Having won almost 40% of the votes, Kyriakos, the new prime minister, has pledged further market reforms.

However, much of that hope seems already priced in including Mr. Mitsotakis sticking to austerity of the sort Mr. Tsipras was eventually forced to accept. Our "Chart of the Week" depicts the price of the country's bonds maturing in February 2042 – the longest dated ones from the 2012 debt restructuring. Its value has risen more than five-fold. Its yield, which peaked at 25% in the summer of 2012, now stands at less than 4%. Last week, Greece was able to place a 7-year bond at a yield of less than 2%.

Mr. Mitsotakis' win may prove more fragile than it looks. His surprisingly large parliamentary majority is solely due to a 50-seat majority bonus given to the largest party. And now in opposition, Mr. Tsipras could prove a formidable opponent. In our view, Mr. Mitsotakis will no doubt enjoy a political honeymoon, with hopes running high for some early wins. His poll rating may improve further, as Greece looks set to experience another blockbuster summer for tourism. Heading into fall, however, investors might wish to remember that Greece's epic struggles to restore its government finances may be far from over and that it is still an awfully long time until 2042.

price in euros



■ Greek government bond *

*Benchmark Greek government bond, maturing 2/24/42; Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 7/18/19

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GLOSSARY

Eurozone

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