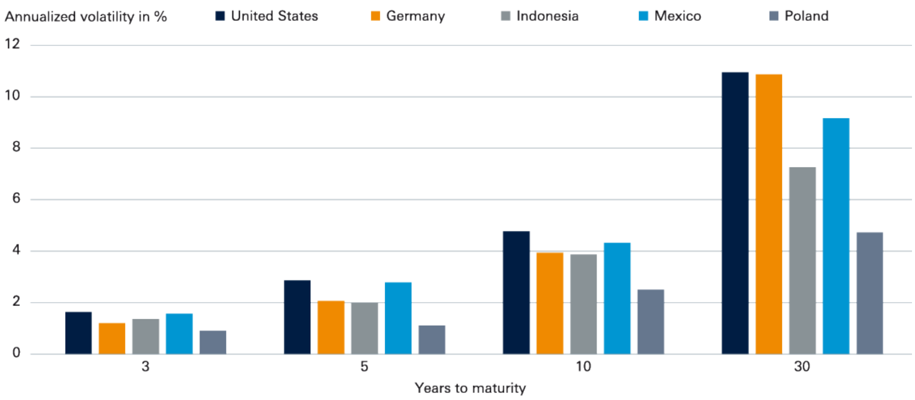
Chart of the week

It's a topsy-turvy world: Lately, the volatility of sovereign bonds from several emerging markets has been lower than that of German Bunds or U.S. Treasuries

For many investors, volatility is an important risk parameter when comparing risks with expected returns. As a general rule, a higher return comes along with larger risks, for example higher volatility. Prices of bonds with long remaining maturities tend to be more volatile than those maturing sooner. This, along with the term premium, is the main reason why long-dated bonds tend to have higher yields than shorter dated ones of the same issuer.

That's exactly what you can currently see, if you look at so-called safe-haven assets, like U.S. Treasuries or German Bunds. But if you compare the price volatility of these bonds with that of comparable sovereign bonds issued by emerging-market governments, a somewhat unusual picture emerges. Lately, U.S. Treasuries have been more volatile than similarly dated bonds issued in U.S. dollars by several emerging markets, as our "Chart of the week" shows. The same is true if you compare German Bunds with euro-denominated Polish sovereign bonds. And that is so despite the significantly higher yields emerging-market bonds continue to offer. That is a bit surprising as investors usually see emerging-market bonds as more risky, which should be reflected in their prices being more volatile. For quite a while now, however, investors have been searching for yield to serve as a buffer against potential losses in case core yields rise. The strong demand in emerging-market bonds is reflected in their relatively low volatility. This picture is unlikely to change much, as long as the positive environment for risky assets - supported by strong fundamental data - continues.



Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH, as of 1/25/18

Glossary

Bunds

Bunds is a commonly used term for bonds issued by the German federal government with a maturity of 10 years.

Emerging markets (EM)

Emerging markets (EM) are economies not yet fully developed in terms of, amongst others, market efficiency and liquidity.

Treasuries

Treasuries are fixed-interest U.S. government debt securities with different maturities: Treasury bills (1 year maximum), Treasury notes (2 to 10 years), Treasury bonds (20 to 30 years) and Treasury Inflation Protected Securities (TIPS) (5, 10 and 30 years).

Volatility

Volatility is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.

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