

## THE POINT OF NO RETURNS

Yields on 10-year German Bunds have fallen to zero. What's the point of holding government bonds that literally seem to offer no returns?

Some weeks of disappointing economic data, and yields of so-called safe-haven sovereign bonds are back down again. In the case of 10-year German Bunds, the Eurozone's benchmark, yields have even reached zero, as our "Chart of the Week" shows. Buying such a bond today and holding it until maturity will deliver no return for 10 years, even in nominal terms. One will simply get back the principal amount. No wonder that investors have been complaining for years, mourning the good old times when U.S. Treasuries, German Bunds, or British Gilts carried annual coupon rates of 5% and more.

But we believe it would be unwise to consider Bunds as purely buy-and-hold investments. A look at return statistics tells a different story: In 2018, when almost nothing worked in financial markets, 10-year Bunds managed to deliver a positive performance of 2.7% and Treasuries returned 0.9%. In 2019, so far, Bunds produced a performance of 1.8%, and Treasuries 1.9%. In nearly all cases, they have

beaten expectations handsomely (including our own, we have to admit).

One must remember that as a matter of arithmetics when yields fall, bond prices go up. The reverse is also true. If yields were to rise, for example because of a rebound in inflation, that would both hurt bond prices and erode the real value of coupons. The price effects are especially pronounced for bonds with longer maturities. Why then, to return to our initial question, might it still make sense to hold German sovereign bonds, now that they have seemingly reached the point of no return? As we have seen, yields can also fall into negative territory, resulting in rising bond prices and positive performance, even in the absence of any coupon income. Hence, even at zero yield, one might still want to hold some bunds, at least for diversification purposes. Doing so has the potential to help stabilize the rest of one's portfolio when the going gets rough, as demonstrated again in late 2018.



■ Yield on 10-year German Bunds

Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 4/24/19

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## GLOSSARY

### Benchmark

A **benchmark** is an index or other value against which an investment's performance is measured.

### Bunds

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

### Coupon

**Coupons** are interest rate payments made on a bond.

### Diversification

**Diversification** refers to the dispersal of investments across asset types, geographies and so on with the aim of reducing risk or boosting risk-adjusted returns.

### Eurozone

The **Eurozone** is formed of 19 European Union member states that have adopted the euro as their common currency and sole legal tender.

### Gilts

**Gilts** are bonds that are issued by the British Government.

### Inflation

**Inflation** is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

### Maturity

The final payment date of a financial instrument is its **maturity**.

### Nominal

In economics, a **nominal** value is not adjusted for inflation; a real value is.

### Sovereign bonds

**Sovereign bonds** are bonds issued by governments.

### 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).

### Yield

**Yield** is the income return on an investment referring to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

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