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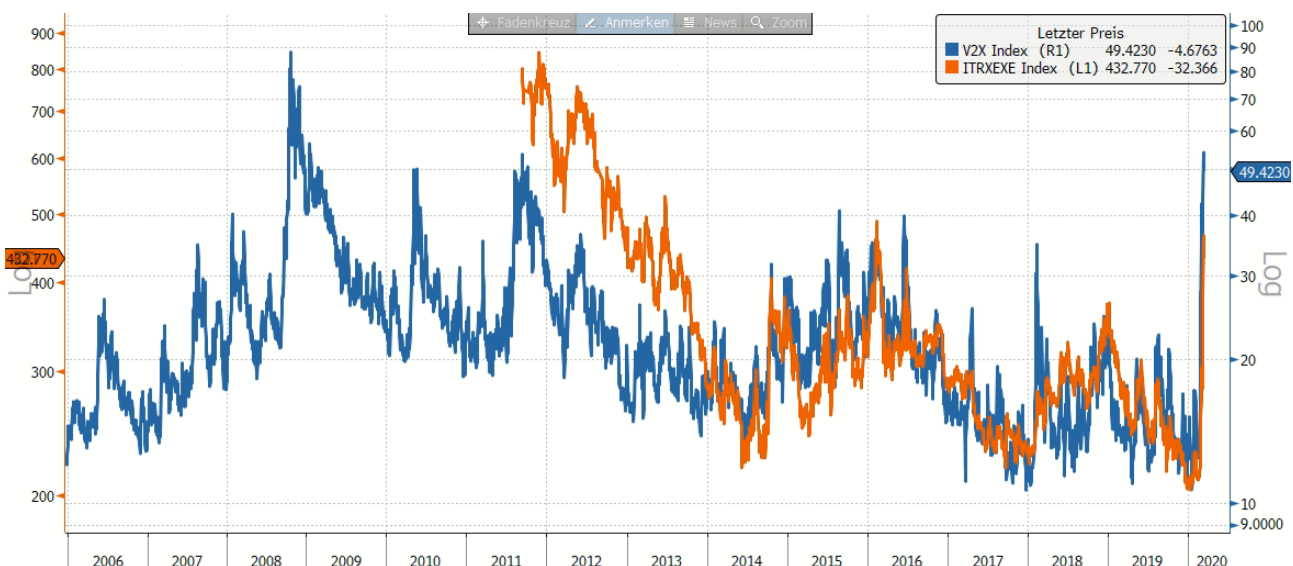
sentix 
expertise in behavioral finance

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Welcome to Absurdistan

Anyone who thought that the bond markets had already experienced their greatest possible exaggeration in the summer of 2019 has recently been proven wrong in the wake of the Corona crisis. We would not have thought that the yield on 10-year Bunds could once again reach a new all-time low. For US bonds we were somewhat more optimistic (and therefore had a long position in our fund here), but a fall in interest rates from 1.5% to 0.5% within a month was beyond our imagination.

For investors in balanced funds, this development was again a blessing, as at least these two asset classes provided valuable diversification for those who were already invested in them. However, many of them were probably not. Most investors said goodbye to German government bonds some time ago and sought their fortune in corporate bonds and similar spread products. However, these bond categories did not represent an effective diversification against falling equities. How could they? After all, the volatility of equities (which tends to rise when stock prices fall) is closely linked to the spreads of corporate bonds.

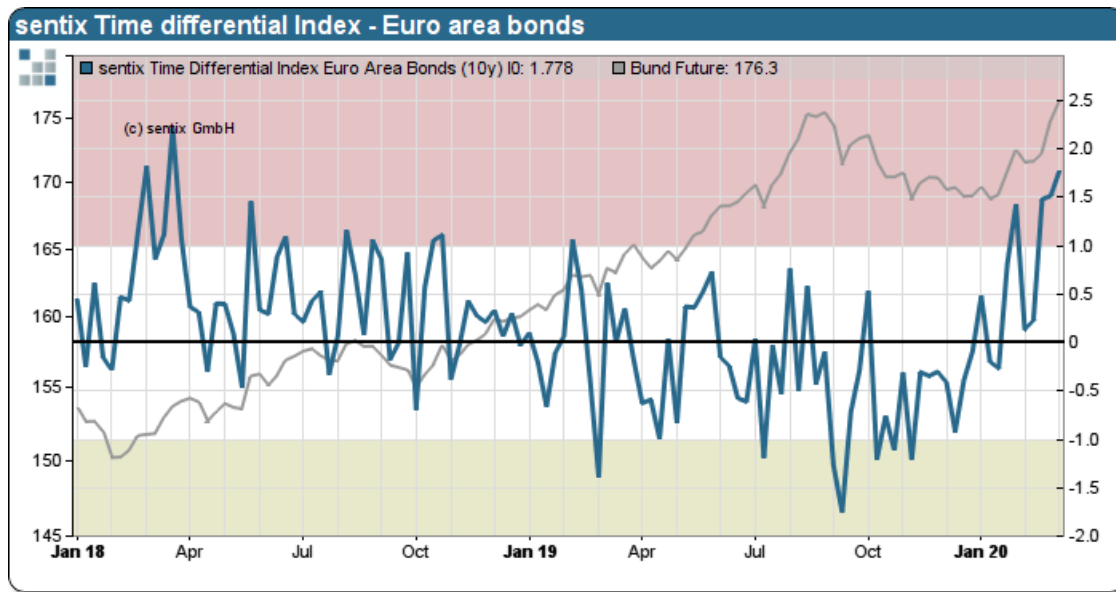


V-Stoxx volatility index for equities and iTraxx Crossover (spreads for bonds in the lower investment grade range)

However, the great uncertainty among investors has led some investors to flee to the supposedly “safe haven” and depressed Bund yields accordingly.

This has led to a large number of data highlights. For one thing, we have already seen a very high level of optimism among investors over the weekend. At the same time the strategic bias, i.e. the perception of value, continued to erode.

All in all, there are high values in the Time Differential Index, which we show below as a normalized Z-Score:



sentix Time Differential Index for Euroland Bonds and Bund Futures

High values in the index (red zone) signal a high short-term orientation: the mood is much better than the value perception. And in principle, this is not a good prerequisite for price gains. This is all the more true as investors buy a market that is not only characterized by a negative interest rate. Rather, the gap between shorter and longer-dated bonds is also narrow. In other words: there is no additional compensation for an investment at the long end.

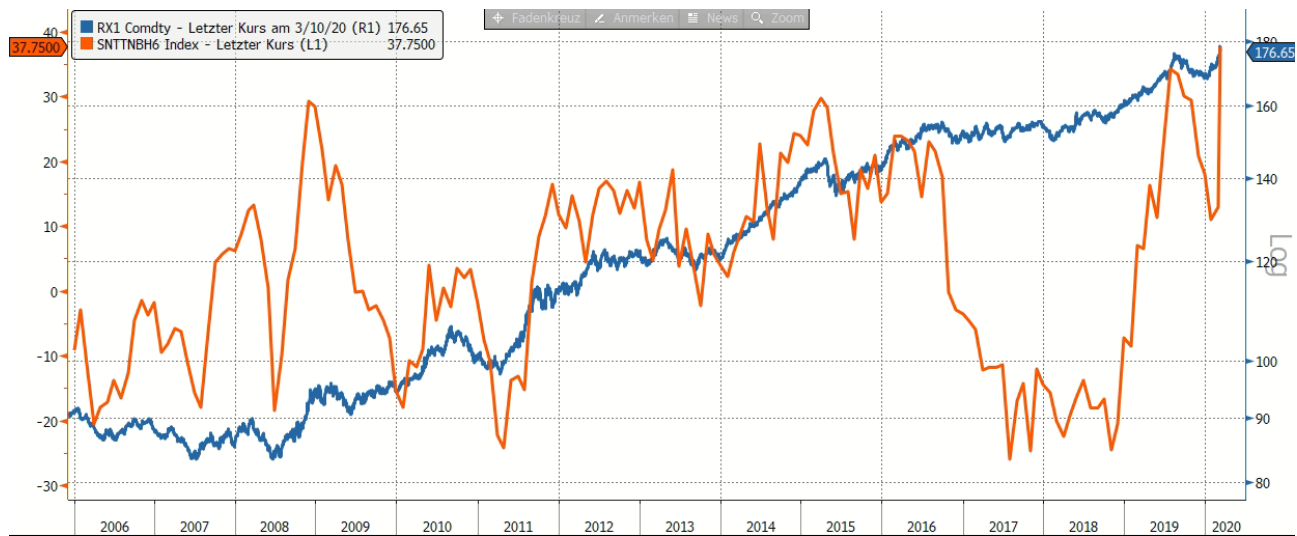
If one assumes that investors who buy such bonds are somehow worried about their money, then the rational investor is faced with two questions: (1) why invest for 10 years instead of 2 years (where the money is safe, at least for 2 years. And that should be enough for the Corona crisis). And (2) why do you buy bonds at -0.8% p.a. for 10 years and lose approx. 18% within 10 years at 1% inflation p.a.! Is this a "safe" haven?

You must believe in the "greater fool", one who is willing to pay an even higher price than you did, to be tempted by this bond segment to make an investment.

Or you have to expect miracles from the "Owl", the president of the ECB. The sentix central bank policy barometer has risen to an all-time high of 37.75 points.

The following chart shows that so much enthusiasm and anticipation about the ECB was not necessarily conducive to bond market performance. Even if Madame Lagarde pulls something great out of her hat, it could result in a "fait accompli" or "sell the fact".

In the worst case, we are not witnessing a wise but a perplexed ECB boss.



sentix Theme Barometer Central Bank Policy and Bund Future (adjusted endless contract)

How small potential gains (if you hold bonds for one year and interest rates remain "stable" negative) are, you can see in the following table (the upper one). Here we have calculated for various bond markets and maturities the return that would be expected as a buy & hold investor until March 8, 2021. Coupon and "roll down" included.

Horizon returns

Per: 08.03.2021

	3M	1J	2J	3J	4J	5J	6J	7J	8J	9J	10J	15J	20J	30J
Germany	-0.47%	-0.82%	-0.99%	-0.98%	-0.84%	-0.81%	-0.93%	-0.76%	-0.53%	-0.46%	-0.28%	-0.54%	-0.18%	0.16%
US	0.40%	0.34%	0.48%	0.59%	0.60%	0.66%	0.83%	0.92%	0.61%	0.60%	0.60%	1.32%	1.68%	1.23%
UK	0.44%	0.32%	0.02%	0.22%	0.17%	0.22%	-0.10%	0.26%	0.49%	0.45%	0.50%	0.83%	0.93%	0.81%
Japan	-0.34%	-0.23%	-0.25%	-0.13%	-0.24%	-0.25%	-0.60%	-0.53%	-0.10%	0.69%	1.18%	0.57%	0.61%	0.59%
Italy	-0.20%	0.08%	0.54%	0.89%	0.98%	1.43%	1.28%	1.80%	1.94%	2.03%	1.78%	2.70%	2.83%	2.61%
Portugal	-0.39%	-0.43%	-0.14%	0.04%	0.00%	0.83%	0.45%	0.40%	1.07%	0.72%	1.35%	1.15%	1.33%	1.91%

Interest rate shift

Per: 08.03.2021 Delta: 50 bp

	3M	1J	2J	3J	4J	5J	6J	7J	8J	9J	10J	15J	20J	30J
Germany	-0.47%	-0.82%	-1.48%	-1.97%	-2.32%	-2.78%	-3.39%	-3.71%	-3.97%	-4.38%	-4.69%	-7.29%	-9.25%	-13.38%
US	0.40%	0.34%	-0.01%	-0.39%	-0.87%	-1.28%	-1.60%	-1.97%	-2.73%	-3.19%	-3.65%	-5.06%	-6.58%	-10.35%
UK	0.44%	0.32%	-0.47%	-0.76%	-1.31%	-1.74%	-2.54%	-2.67%	-2.92%	-3.43%	-3.84%	-5.74%	-7.70%	-11.57%
Japan	-0.34%	-0.23%	-0.74%	-1.12%	-1.72%	-2.22%	-3.05%	-3.47%	-3.54%	-3.25%	-3.27%	-6.15%	-8.27%	-12.31%
Italy	-0.20%	0.08%	0.05%	-0.10%	-0.49%	-0.52%	-1.13%	-1.07%	-1.37%	-1.71%	-2.36%	-3.33%	-4.75%	-7.42%
Portugal	-0.39%	-0.42%	-0.63%	-0.95%	-1.48%	-1.16%	-2.01%	-2.54%	-2.35%	-3.14%	-2.99%	-5.32%	-7.10%	-9.70%

The second, lower table shows what price losses would be threatened if today's interest rates were to rise by 50 basis points, i.e. 0.5%, within a year. All deep red. No wonder that investors' perception of value is so poor.

The bond markets, especially the Bunds, have once again reached absurdity. We have shown in two detailed blogs that investors can expect nothing here. If the economy implodes because of Corona, then in our opinion the bond markets are the worst conceivable place to act as a safe haven. For it is not the "owl" but fiscal policy that must save the economy from collapsing.

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