

*Development of European Bond  
Markets: Recent Trends and Further  
Insights*

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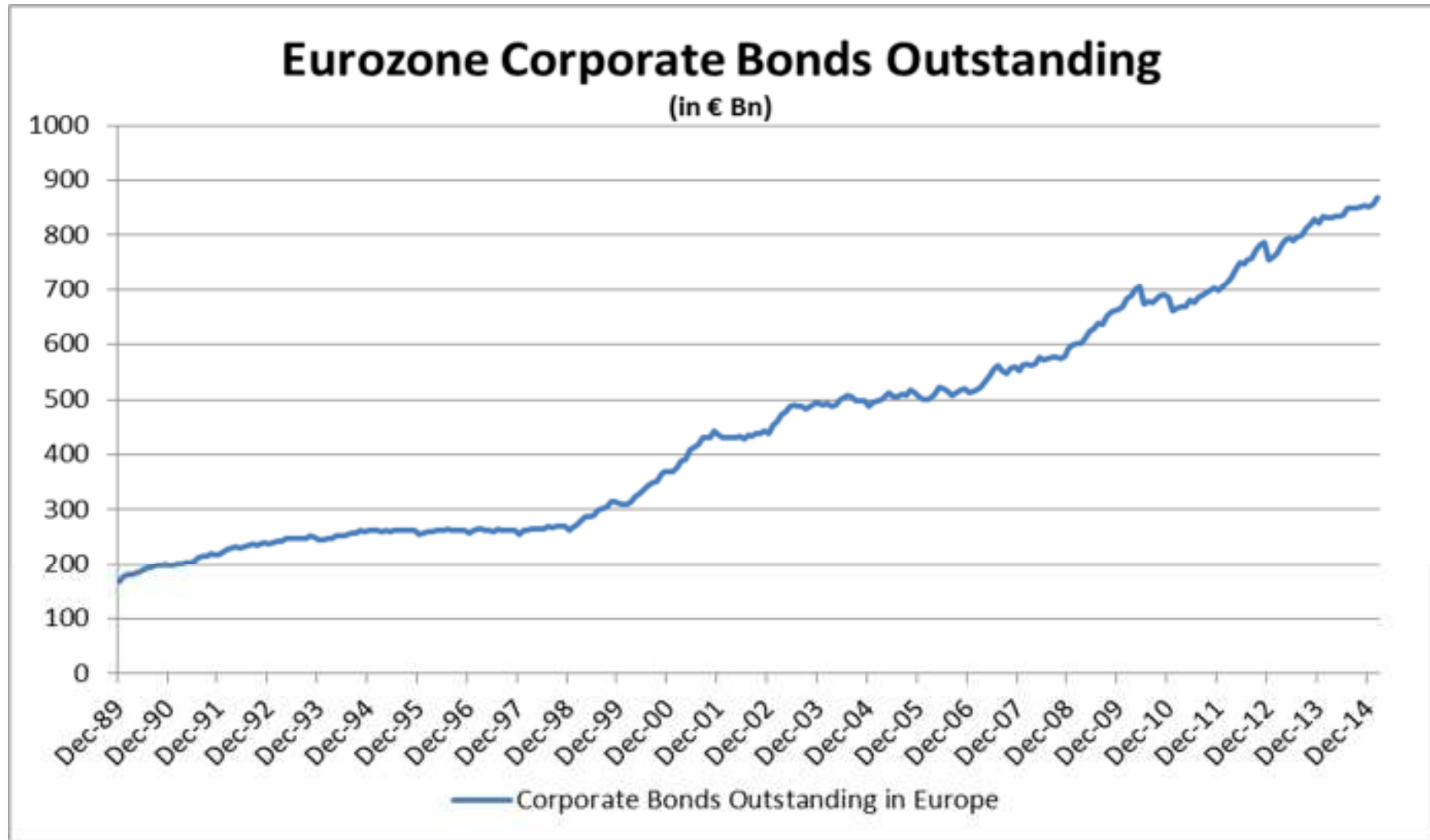
# Summary

- Some context
- Recent Key Trends
- Some Thoughts (maybe some insights?)
- Outlook
  - Short-term (one year)
  - Long-term (longer)
- Conclusion

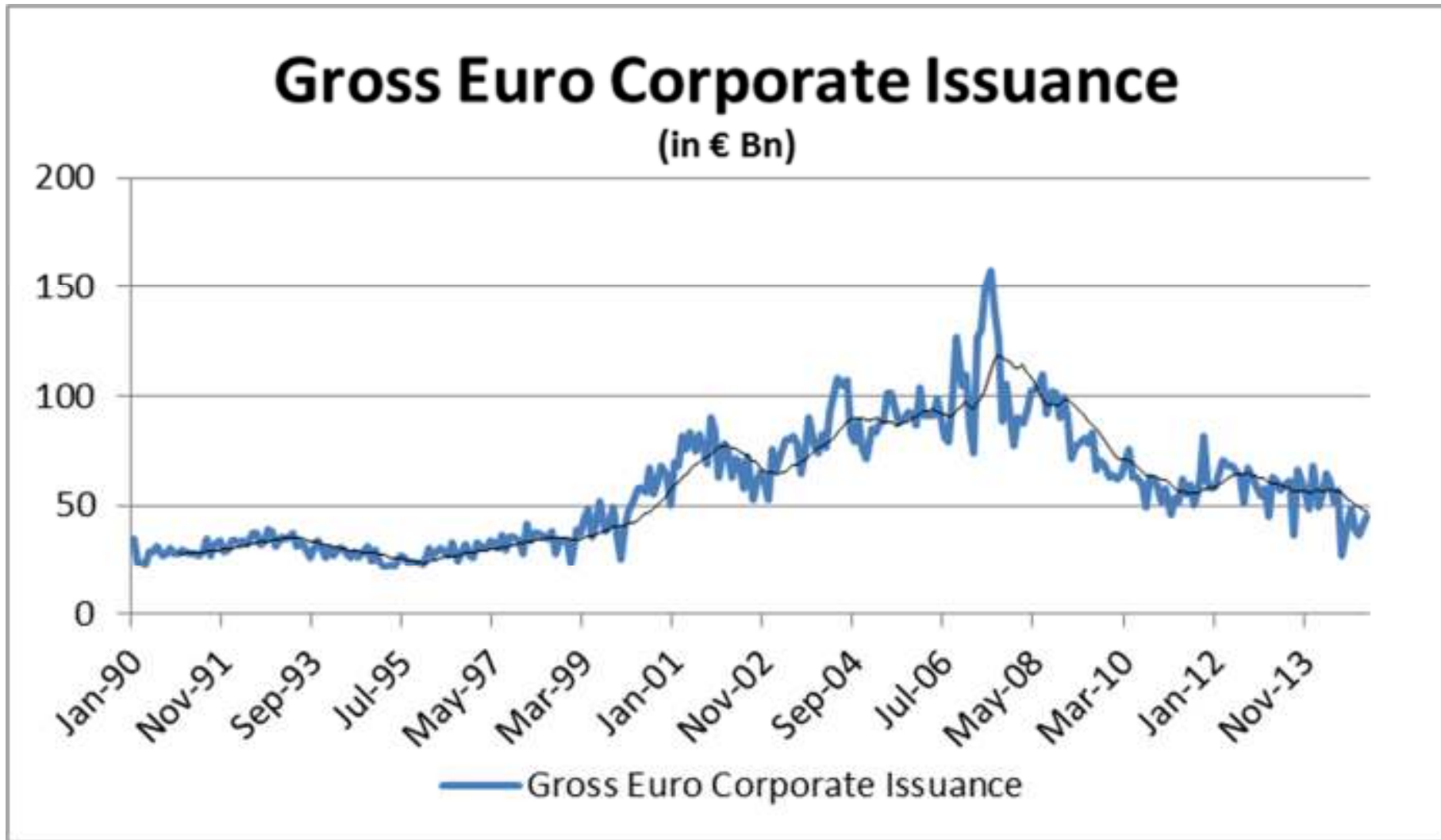
# Some Context

- Market Size
- Market Growth
- Global Economy
  - And the European Economy
- Interest Rates

# Market Size



# Market Growth



# Global Economy

- Global economy remains weak
- Growth anaemic at best
- Even China slowing
- And US growth hides many problems
- Tone of IMF really quite pessimistic
- Has potential growth in Europe fallen?
  - The keys to growth

# Interest Rates

- We know how they got here
- But can they go lower?
  - Yes!
- When will they rise?
  - Not as soon as most believe
  - The spectre of deflation

# Recent Key Trends

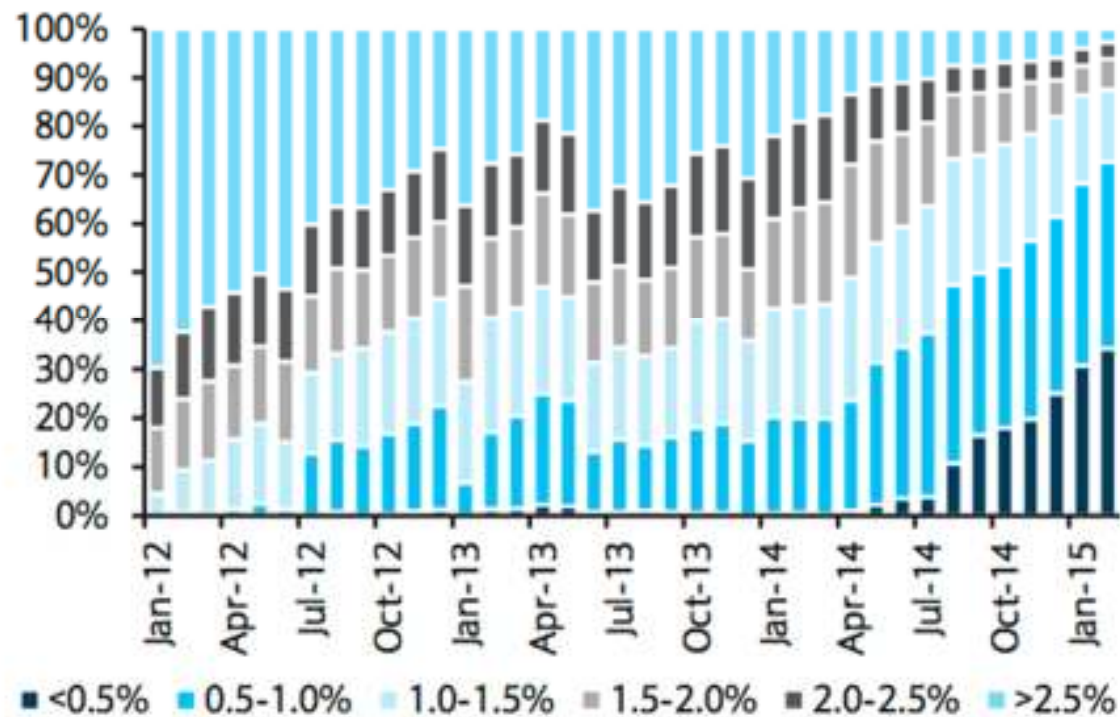
- The direction of interest rates!
  - Weak growth
  - Eurozone bond crisis
  - EBC
  - QE
- ...Does not seem to be helping the bond market
  - At least not the corporate bond market



# The Direction of Interest Rates!

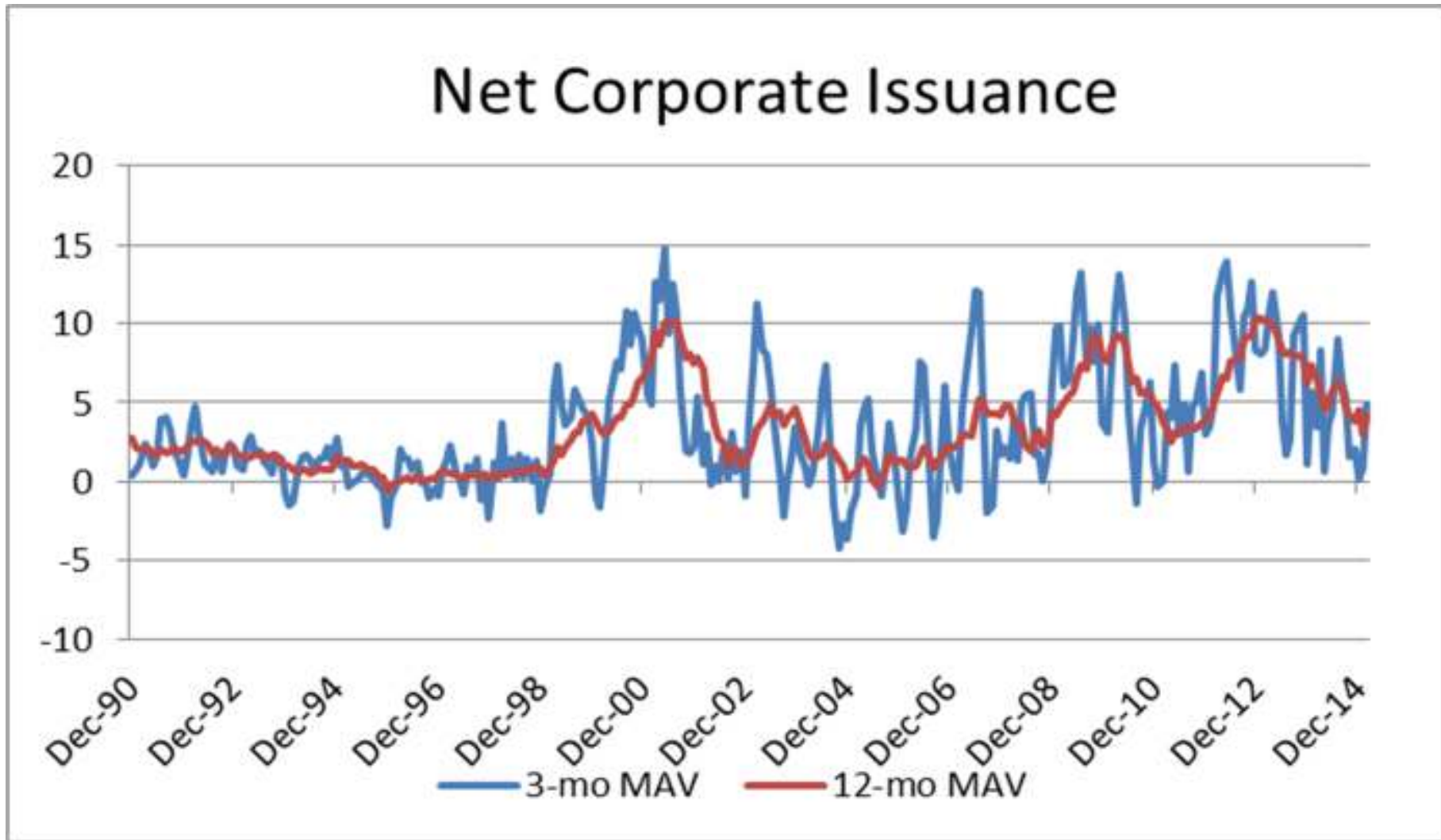
€-IG index by yield bucket

% of index in each yield to worst bracket



Source: Barclays Research

# NET Market Growth



# Some Thoughts (maybe insights)

- Shorting bonds with negative yields is not that simple
- Issuing bonds with negative yields is not that simple
  - But only affecting governments
    - For the moment
- If you can find the demand, what better time to borrow?
  - Demand for the right corporate at the right rate
  - Is HIGH

# Outlook

- Short-term (1-year)
  - Essentially more of the same: rates will stay low
    - (Probably even in the US, but certainly in EZ)
  - Lenders will get used to it
    - And corporate bond issuance should pick up
    - The money has to go somewhere!
- Long-term (>1-year... and maybe never...)
  - CMU
    - Which, if it is achieved will further increase issuer choice
    - And decrease issuer costs
  - Liquidity and long-term investing

# Conclusion

- We are not out of the woods
- Deflation remains a real prospect
- And a real threat
- Growth will stay low
  - i.e. below potential
- And rates will stay low
- A good time to build for the future
  - (strangely enough!)