

INTRODUCING **The Bond Vigilantes**
BLOG TEAM



FIFTEEN YEARS AFTER WE STARTED, THE WORLD LOOKS VERY DIFFERENT, SO WE THOUGHT A DIFFERENT KIND OF STORY WAS NEEDED.

RICHARD
FUND MANAGER
HEROES: MUHAMMAD ALI, WINSTON CHURCHILL

JAMES
FUND MANAGER
HEROES: HORATIO NELSON, LORD PALMERSTON

EVA
FUND MANAGER
HEROES: SIR DAVID ATTENBOROUGH, SIMONE BILES

JIM
THE FIXED INCOME CIO
HEROES: BRIAN CLOUGH, MORRISSEY

BEN
FUND MANAGER
HEROES: RON BURGUNDY, PG WODEHOUSE

MATT
FUND MANAGER
HEROES: JOHN NASH, ARI GOLD

CLAUDIA
EMERGING MARKETS
HEROES: RAOUL WALLENBERG, GANDHI

STEFAN
DEPUTY CIO
HEROES: BILL SHANKLY, THEODORE HERZL

CAN GOVERNMENTS GO BUST?



PREPARE FOR A 1000-YEAR TOUR OF GOVERNMENT DEBT. WITH A CAST THAT INCLUDES MEDIEVAL ITALIANS, BOLSHEVIKS AND BIPARTISAN U.S. POLITICIANS, WE EXPLORE THE HISTORICALLY THORNY ISSUE OF SOVEREIGN DEBT.

IS GOING BUST EVER A REALISTIC OPTION FOR GOVERNMENTS TODAY AND WHAT NEW CHALLENGES LIE AHEAD?



THESE WALLS WILL REPEL ANYTHING!

WHAT ABOUT A SHORT-SELLING ATTACK FROM A SOVEREIGN BOND HEDGE FUND?

SOVEREIGN DEBT WAS A BIG PART OF 13TH CENTURY ITALIAN LIFE, WITH MONEY RAISED BY FEUDING CITIES TO FIGHT EACH OTHER. TODAY WE TALK ABOUT CORPORATES RAISING MONEY FOR THEIR WAR CHESTS, BUT ONCE THIS WAS LITERALLY WHAT IT WAS FOR.



1294, WAR BETWEEN ENGLAND AND FRANCE HITS MARKETS, EDWARD I RUNS OUT OF MONEY AND FINANCIAL FRIENDS, LEADING TO MASSIVE TAXATION. BUT WE HAD TO WAIT UNTIL 1694 FOR TRADEABLE DEBT TO ARRIVE, ALONG WITH THE BANK OF ENGLAND, LEADING TO MASSIVE INCREASES IN GOVERNMENT DEBT OVER THE COMING DECADES.



I NEED A NEW BANK!

SIRE, WE MAY NEED TO WAIT A WHILE...



THERE HAVE BEEN SOME NOTABLE DEFAULTS, ARGENTINA IN 2001, GREECE IN 2012, BUT THE MOTHER OF ALL SOVEREIGN DEFAULTS HAPPENED IN 1918. RUSSIA, SEEN AS A SAFE INVESTMENT, TURNED INTO A POST-BOLSHEVIK BOND-FIRE THAT BURNT PRIVATE INVESTORS IN FRANCE AND BRITAIN.

COMRADES, THE REVOLUTION WILL NOT BE MONETISED!

WAR LOAN GILTS WERE A CONSTANT FEATURE OF BRITAIN'S WORLD WAR I FINANCES, THE 5% BOND ISSUED IN 1917 CAME WITH A MASSIVE PROPAGANDA PUSH, WAS THEN CONSENSUALLY REDUCED TO 3.5% - WHAT TODAY'S AGENCIES MIGHT WELL TERM A DEFAULT - AND WAS FINALLY REPAYED IN 2015



I'VE BEEN MOSCOW FOOLED!

SACRES ROUGE!



WHEN IS A DEFAULT NOT A DEFAULT?

BRITONS

YOUR COUNTRY NEEDS YOUR MONEY

GOD SAVE THE KING

WHEN IT IS STILL THE BEST DEAL AROUND?

GLOBAL DEBT LEVELS WERE HUGE FOLLOWING WORLD WAR II BUT STRONG GROWTH, COMBINED WITH HIGH INFLATION, MASSIVELY REDUCED THE DEBT BURDEN. THE SO-CALLED **GOLDEN YEARS OF CAPITALISM** RAN UP TO THE 1970S BUT GOVERNMENTS' EXPANSION INTO SOCIAL PROVISION, PLUS AN AGEING POPULATION, HAVE CHANGED THE NARRATIVE ON SPENDING WITH MORE DEBT CREATED BY HEALTHCARE, EDUCATION AND PENSIONS.



SPIKING INTEREST RATES AND A HOUSING MARKET IN RAPID DECLINE HELPED CREATE THE 2008 FINANCIAL STORM, DESPITE MASSIVE GOVERNMENTAL BAILOUTS.



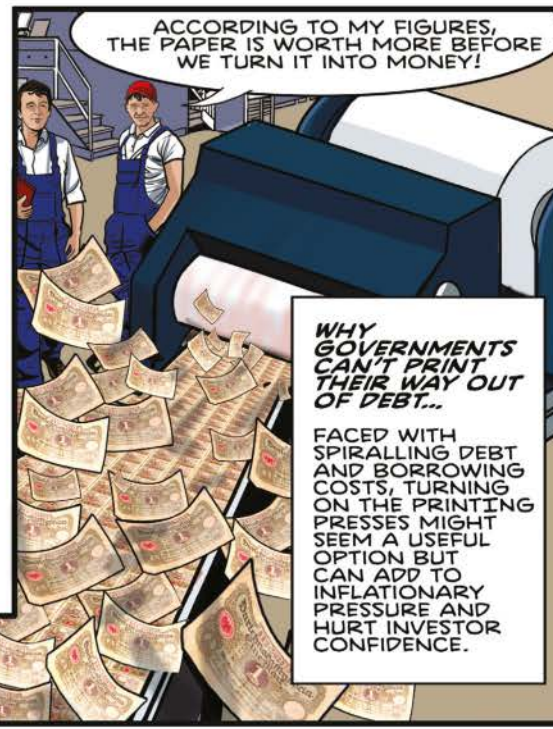
The new debt frontline

FEARS OVER THE SOLVENCY OF BANKS SWITCH TO THE SOLVENCY OF GOVERNMENTS. INVESTORS DEMAND MUCH HIGHER YIELDS IN RETURN FOR LENDING TO CERTAIN COUNTRIES. ENTER ECB PRESIDENT **MARIO DRAGHI** AND THE POWER OF REASSURANCE. CONFIDENCE AND STABILITY GRADUALLY RETURNED, WITH ONE NOTABLE EXCEPTION...



WE WILL DO WHATEVER IT TAKES!

ERR, MR DRAGHI I HAVE GREECE ON THE PHONE



ACCORDING TO MY FIGURES, THE PAPER IS WORTH MORE BEFORE WE TURN IT INTO MONEY!

WHY GOVERNMENTS CAN'T PRINT THEIR WAY OUT OF DEBT...

FACED WITH SPIRALLING DEBT AND BORROWING COSTS, TURNING ON THE PRINTING PRESSES MIGHT SEEM A USEFUL OPTION BUT CAN ADD TO INFLATIONARY PRESSURE AND HURT INVESTOR CONFIDENCE.

SOVEREIGN DEFAULTS ARE RARE BUT THE REASONS FOR THEM ARE OFTEN SIMILAR. FOR EMERGING MARKETS, ECONOMIC STAGNATION, POLITICAL INSTABILITY AND THE SIMPLE WEIGHT OF DEBT VERSUS GDP ARE COMMON TRIGGERS. INVESTOR CONFIDENCE **ERODES**, REFINANCING IS MORE COSTLY AND THE RISK OF DEFAULT INCREASES.



I'M NOT GOING IN THERE



WHEN **COVID** STRUCK, GLOBAL DEBT LEVELS WERE ALREADY HIGH BUT ECONOMIC SUPPORT THROUGH FURLOUGHS AND OTHER SUPPORT SCHEMES STABILISED MARKETS AND EASED LIQUIDITY FEARS. BUT THIS MEANT DEBT CONTINUED TO RISE, PLACING PRESSURE ON FUTURE SPENDING.



DO YOU HAVE AN ANTIDOTE TO DEBT?

INCREDIBLY HIGH DEBT LEVELS DON'T ALWAYS LEAD TO DEFAULT.

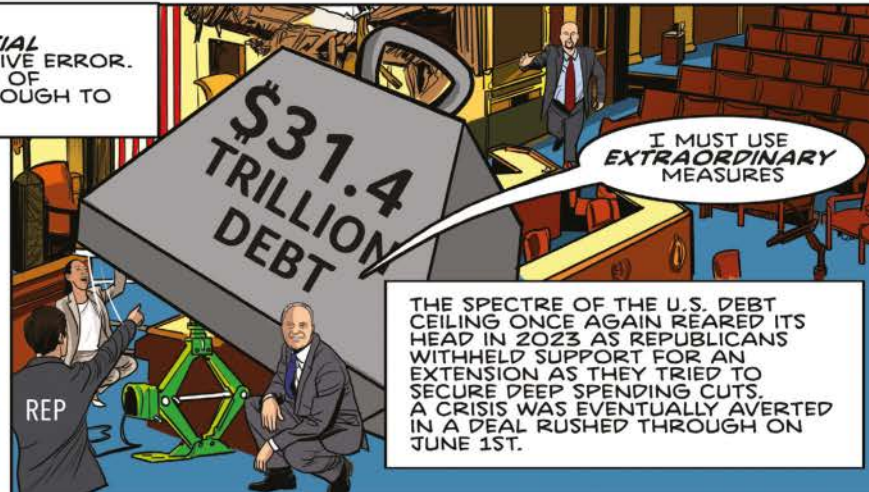
IN THE 1980'S, JAPAN'S ECONOMY WAS THE ENVY OF THE WORLD, SEEMINGLY READY TO BYPASS THE U.S. TO BECOME THE WORLD'S LARGEST ECONOMY.

BUT IT DIDN'T. THE 80'S ASSET BUBBLE BURST IN 1990, CAUSING JAPAN'S ECONOMY TO FALTER, BUT NOT FAIL. THE ECONOMY WENT INTO A PERIOD OF STAGNATION AND DEFLATION THAT LASTED SOME 30 YEARS, KNOWN AS THE 'LOST DECADES' AND THE BANK OF JAPAN CONTINUES TO GRAPPLE WITH THE CONUNDRUM TODAY.



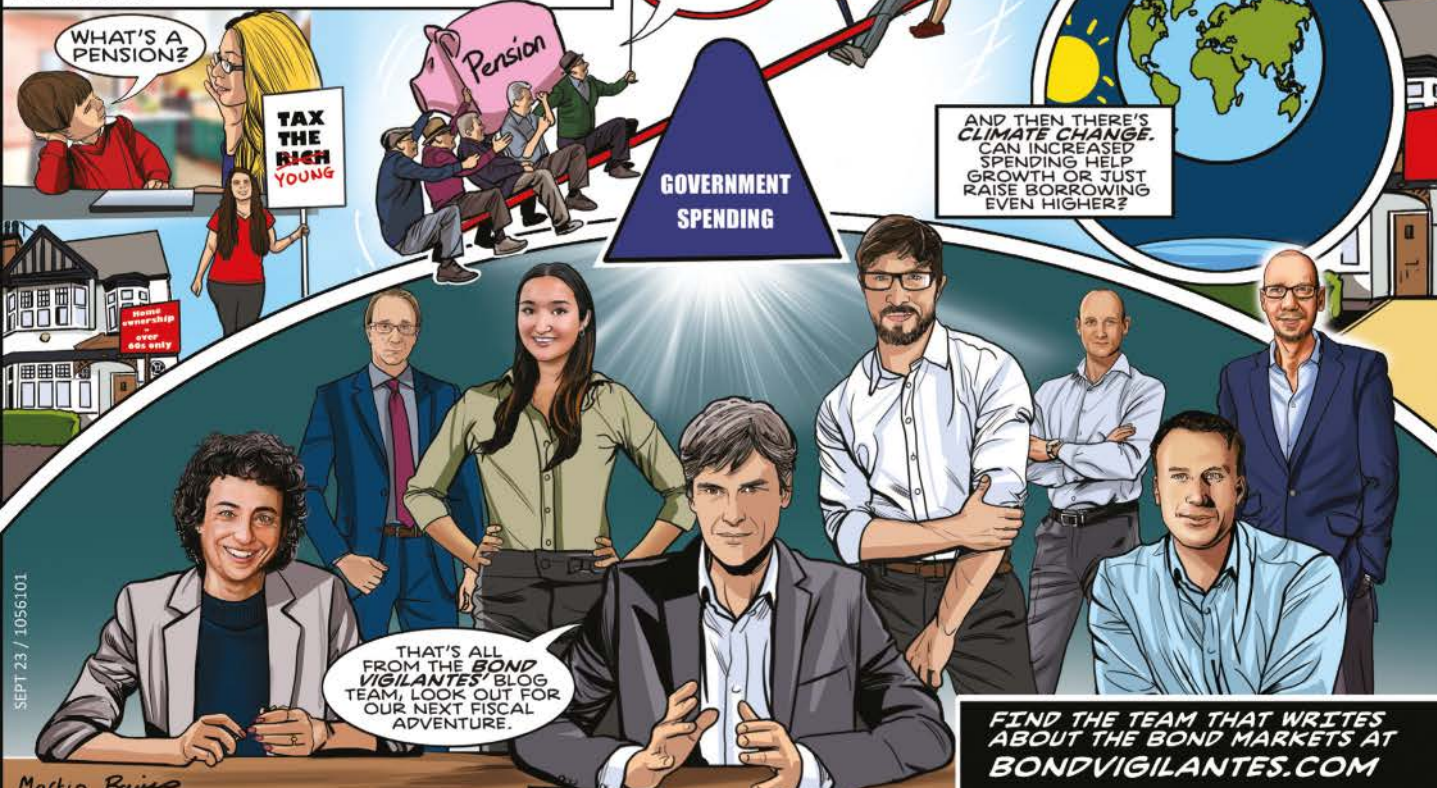
NOT EVEN THE U.S. IS IMMUNE.

IN 1979, AN INADVERTENT TEMPORARY *PARTIAL DEFAULT* OCCURRED DUE TO AN ADMINISTRATIVE ERROR. THIS ACCIDENTAL DEFAULT ON A SMALL BATCH OF TREASURY SECURITIES SPOOKED INVESTORS ENOUGH TO RAISE INTEREST PAYMENTS SIGNIFICANTLY.



THE SPECTRE OF THE U.S. DEBT CEILING ONCE AGAIN REARED ITS HEAD IN 2023 AS REPUBLICANS WITHHELD SUPPORT FOR AN EXTENSION AS THEY TRIED TO SECURE DEEP SPENDING CUTS. A CRISIS WAS EVENTUALLY AVERTED IN A DEAL RUSHED THROUGH ON JUNE 1ST.

WHAT NEXT? AGEING POPULATIONS POSE A CHALLENGE... FUNDS FOR PENSIONS, HEALTHCARE AND SOCIAL BENEFITS ARE NEEDED BUT WITH A DECLINING WORKING AGE POPULATION TO PAY FOR IT ALL.



FIND THE TEAM THAT WRITES ABOUT THE BOND MARKETS AT BONDVIGILANTES.COM