

European bond markets staged for an unprecedented shift

Published 23 June 2021

WisdomTree

Contributor

To heal the economic scars on the European economy, caused by the Covid pandemic, the European Commission launched a new tool amid the crisis to nurse Europe back to health. In May this year, we witnessed the final issuance of European Union bonds (EU) under the SURE¹ programme bringing the total amount of EU bonds under the programme to €89.637 billion. The EU has become a regular borrower in the capital markets and will see the size of its outstanding EU bond debt grow by around 17 times², from an estimated €50 billion prior to the pandemic.

New EU bond issuance is set to position the EU as the second largest AAA-rated issuer³ in the European bond markets. The asset class could be an attractive proposition for bond investors, given EU bonds are not linked to the credit of one specific country and can be a relative trade proposition to avoid Sovereign bond volatility around national elections for example. Furthermore, the Social or Green label attached to new EU bonds under the SURE and Next Generation EU (NGEU) programmes have attracted an unprecedented amount of attention from investors who are increasingly concerned with meeting environmental, social and governance (ESG) criteria.

What can investors expect going forward?

While borrowing costs for the EU were very low in 2020, yields have risen along with government bond yields globally and investors stand to pick up potentially more attractive yields from the historically safe-haven asset. Much of the rise in bond yields this year has been driven by inflation fear which means, if the inflation trend subsides, we are unlikely to see moves of this size in 2022. Economic prints and the path of economic recovery in the next 5-6 months will provide a guideline for future inflation which will ease the bond markets' nerves. While taper talks have led to some swings in bond yields, the federal reserve (FED) is likely to lead the way on this front and the European Central Bank (ECB) is expected to wait and see. There is still dry powder left in the pandemic emergency purchase programme (PEPP) for the ECB to be in no rush to front-run the recovery. Europe is playing catch up on the vaccination programme and the pace of economic recovery is lagging the US which means the market should pay attention to what the Fed signals for cues on what the ECB will do.

With the pandemic recovery in full swing, the long-awaited NGEU programme is finally operational. The NGEU programme has an envelope of €800bn⁴ and investors can expect EU bonds issuance to average around €150 billion per year between 2021 to 2026. With maturities ranging from 3 years to 30 years, borrowings will be outstanding in the market by at least 2058 highlighting the permanence of the asset

class. With this new precedent, it would not be surprising for the EU to keep this new toolset at its disposal going forward. The EU is set to become a major issuer of European duration going forward and will be an interesting proposition for many investor types.

New issuance under NGEU may slow in 5 years' time, investors will be playing catch up to keep pace with the number of deals coming to market. Strategies that provide investors access to the growing basket of EU bonds will be an easy way to gain exposure to the asset class without having to spend too much time playing catch up in capital markets.

1 SURE stands for Support to mitigate Unemployment Risks in an Emergency and was approved on 19 May 2020

2 Bloomberg, European Commission website, EU bond issuance as indicated by the European Commission European Union Investor Presentation. Historical EU bonds outstanding as reported by Markit

3 Using the Bloomberg Barclays Euro Treasury Bond Index as a reference for the size of the European Treasury market, expected EU bond issuance and rating as indicated on the European Commission website, European Union Investor Presentation

4 European Commission website, Funding Strategy for NextGenerationEU Q&A document dated 14 April 2021

Related blogs

+ [EU bond supply watch: March madness - EU bond issuances continue to attract unprecedented demand](#)

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.