

Why Would Anyone Buy a 100-Year Bond?



Two months ago we highlighted an interesting story about Chinese Railway Bonds that were issued 109 years ago and a dispute between China and America over their long-overdue redemption.

But there's another aspect to this story. Why on earth would anyone buy a 100-year bond - one that far exceeds their (and the average person's) life expectancy?

Let me start by saying that although it is rare, companies and governments do issue bonds with a century-spanning term. And currently, 100-year bonds are definitely in strong demand.

For example, earlier this year, the Austrian government placed a €2bn bond issue with a yield of 0.88% – for 100 years.

Now, global bond markets have grown remarkably accustomed to extraordinary events over the last few years, what with the rise of negative interest rates and yields.



But in June, the government of Austria jolted the markets by succeeding in placing this €2bn bond issue on a yield of 0.88% for 100 years.

Yes, you did read that correctly. The Austrian government is borrowing money for a hundred years at 0.88% per annum.

Yet what is even more extraordinary is that this wasn't Austria's first attempt at issuing a cheap 100-year government bond.

Back in 2017, Austria's government issued a bond with a "huge" (by comparison with 2020) yield of 2.1%, for the hundred years to 2117.

The sceptic in you might be guffawing at this point and suggesting that this is surely an example of good money chasing bad - Especially as the 2020 issue was eight times oversubscribed.

But you would be wrong, as the Bond's subsequent price action has amply demonstrated.

The yield on this 2017 bond began dropping from that initial 2.1% almost immediately. Then in 2019 it crashed to below 1% and then at the height of the coronavirus lockdown earlier this year, it fell to below 0.5%.

This slide in yield is because, although the coupon remains at 2.1%, the market price of the bond had increased so much above its issue price, that the effective yield reduces. (when bond prices rise, yields fall, and vice versa). The bond now trades for more than twice its face value.

Flash forward to 2020 and the newest issue is also trading above the issue price, with a decline in the yield in the last few months. Put simply, demand for these bonds has been substantial.

And it's not just Austria which is tapping this demand for the long-term capital - Ireland and Belgium have also issued 100-year debt (in private placements), France has sold 50-year maturities, as has Italy, while Germany is focusing on 30-year durations.

But not every country has jumped on the bandwagon...

Earlier this year US Treasury Secretary Steven Mnuchin said that the US government had shelved plans to issue 50-year bonds because there was little interest among investors.



According to Mnuchin: "we went out to a large group of investors and solicited feedback from our Treasury borrowing committee and I was somewhat surprised that the result was that there's some interest in this, but perhaps not enough that it would make sense to issue those bonds at this time".

But he added that the government hasn't completely abandoned the idea, though investors expect the US government to focus on 30-year duration bonds for the time being.

It's clear that what was once regarded as the preserve of emerging market economies, (both Argentina and Mexico have issued 100-year bonds in the past), has turned mainstream.



Whilst both the US and UK governments might currently be cool on the idea, plenty of other issuers have emerged.

For example, in the corporate world, the Walt Disney Company and Coca-Cola have both issued 100-year bonds in the past.

Why do investors like these bonds?

One thing is clear – investors are currently keen on these bonds, which are described as “ultra-long duration” and you have to ask why?

Firstly, Austria, like many developed world countries, is viewed as low risk, so by investing in its 100-year bond, investors are at least locking in a long-term positive return. Many shorter-duration government bonds in Europe, by contrast, are currently negative yielding.

Secondly, ultra-long duration bonds also benefit from something called “positive convexity”. If you own long-dated bonds with low coupons their yields fall less than the market price increases.



As investment bank JPMorgan puts it: “with a high convexity bond, the price falls less if yields go up, than it increases when yields go down. That asymmetry is very interesting for some investors who can use it as a hedge if interest rates, as some expect, have further to fall.”

Many institutional investors or endowment funds also use 100-year bonds to extend the duration of their bond portfolios to meet certain investment goals.

A university endowment fund, for example, certainly might find these instruments appealing: After all, the educational institution is going to be around for a long time, and it won't be needing to use the funds in the short-term.

As for companies rather than governments, they issue bonds with long maturities for the same reason they do a lot of things - There's a market demand, and the goal of any business is to profit from that demand.

And, when it comes to 100-year bonds, a group of investors does exist that has shown a strong appetite for this sort of debt obligation.



Of course, it's also worth noting that some investors buy 100-year bonds with no intention of waiting to maturity.

Many of these bonds and debentures contain an option that lets the debt issuer partially or fully repay the debt long before the scheduled maturity.

For example, the 100-year bond that Disney issued in 1993 is supposed to mature in 2093, but the company can start repaying the bonds any time after 30 years (2023).

Individual investors doing long-term estate-planning might also be interested in 100-year bonds as a means of passing on wealth safely to their children, grandchildren, and even generations beyond.

Some analysts also see the demand for this type of long-term bond as an indicator of consumer sentiment for a specific company.

After all, who would buy a 100-year bond from a company they didn't believe would last?

Especially high demand for Disney's 100-year bond can mean that many people believe that the company will still be around to pay out the bond a century later.

The Negatives of 100-Year Bonds

On a more pessimistic note, interest in century-spanning bonds can reflect a dismal present-day return on bonds, such as occurred in mid-2019.

Interest rates on 30-year U.S. Treasuries hit all-time lows, and the bonds of other nations had negative yields.

Institutional investors with a mandate to generate income, such as pension funds and insurance companies, might well be willing to go long - very long - in their bond-buying, if it means they'll get a positive return.

Beyond the 100-Year Bond

Believe it not, 1,000-year bonds also exist.



A few issuers, such as the Canadian Pacific Corporation, have issued such bonds in the past.

There have also been instances of bonds issued with no maturity date, meaning that they continue paying coupon payments forever.

In the past, the British government has issued bonds called consols, which make coupon payments indefinitely. These types of financial instruments are commonly referred to as perpetuities.

So if you think a 100-year bond is a long term investment - Think again!