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Paul Singer says bond market is ‘broken’

Elliott Management head makes ominous warning on state of the global debt market

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by: **Robin Wigglesworth** in New York

Paul Singer, head of $28bn hedge fund Elliott Management, has warned that the global bond market is “broken”, and predicted that the end of the current environment is “likely to be surprising, sudden, intense, and large”.

The prominent Republican former lawyer is famous for having sued Argentina for over a decade after its 2001 sovereign debt restructuring, eventually culminating in a lucrative victory for Elliott earlier this year, when Buenos Aires finally sent $2.4bn to the hedge fund to settle the case.

In his second quarter letter to investors — obtained by CNBC and verified as genuine by the hedge fund — Mr Singer sounded an ominous warning on the state of the global debt market, with more than $13tn of bonds trading with negative yields.

The hedge fund manager said it was “the biggest bond bubble in world history,” and cautioned that investors should shy away from sub-zero yielding debt. “Hold such instruments at your own risk; danger of serious injury or death to your capital!”, he wrote, according to CNBC. He added that “the ultimate breakdown (or series of breakdowns) from this environment is likely to be surprising, sudden, intense, and large”.

Aggressive monetary policy easing by central banks across the world — includingnegative interest rates in a quarter of the global economy and bond-buying programmes by the European Central Bank, the Bank of Japan, and most recently the Bank of England — has supercharged a multi-decade bond rally, pushing borrowing costs to unprecedented levels.

The average yield of the Barclays Multiverse index — one of the broadest bond market gauges — slipped to a record low of just 1.4 per cent earlier this summer, and the 10-year bond yields of Japan, Germany and Switzerland are all in negative territory.

“Negative interest rates were once considered by many economists as a radical strategy or even a mathematical impossibility. But, with other stimulus tools either having limited impact or being labelled as ‘politically unfeasible’, some of the world’s most significant economies are now turning to negative interest rates to arouse moribund economies,” John Kingston, director of global market insights at S&P, said in a report on Thursday.

“However, moving to a negative rate environment, in every circumstance that we’ve looked at, is a clear sign of desperation with the list of potential economic damage from these policies substantial,” he added.

Mr Singer indicated in his latest investor letter that the hedge fund was adding to its position in gold, still saw opportunities in the “distressed debt” of energy companies, and defended the importance of hedge funds in institutional investors’ portfolios, at a time when some are beginning to yank money out of the industry.

“It seems to us that investments and trading strategies which make money in a value-added way, in a different manner than the returns obtainable from the passive ownership of stocks and bonds, are especially good additions to institutional portfolios in the world going forward,” the letter said.