Bond Case Briefs

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Century Bonds Make No More Sense Than Millennium Bonds.

- **Century bonds are not an appreciably "safer alternative" to corporate bonds.**
- **Taking on more interest-rate risk when rates are at near-record lows is not an attractive idea.**
- **The current bond rating for a 100-year bond is meaningless 10, 20 or 80 years from now.**

Except for bonds that are rated CCC-, I can think of few decidedly worse investments for an individual fixed-income investor than so-called "century bonds" that are touted in an article titled, "For Yield, Look to 2119" (available behind the Barron's paywall, or in the print edition) in the Oct. 7, 2019 issue of Barron's magazine. Virtually all of the purported benefits cited in the article are flawed.

First, these bonds, most of which are municipals, are presented as a "safer alternative" to corporate default because they enormously extend the maturity date and thereby take on more interest-rate risk. That's quite a leap of logic. How does that make them safer? Municipal-bond defaults do, in fact, occur, and the odds only increase over a 100-year period. Moreover, taking on more interest rate risk at a time when rates are at near-record lows can hardly be an attractive idea. They're not going to stay that way forever, and when rates inevitably rise, a bond's value will fall. When, precisely? Well, that's the problem: no investor will hold a bond for 100 years, but where will rates, and the principal value, be when he does want to sell 10, 20… or 80 years from now? That's not just rate risk – that's a lot of rate risk.

Although the article earnestly tries to make a case for these bonds, such as tax exemption in the issuer's home state (so what, that's true of most munis), and inconsequential track records about particular issuers' payout histories ("Rutgers has been around in some form since 1766, and hasn't had any problems repaying debt in recent decades"), I simply can find no silver lining for individual investors unless they've been given medical, actuarial or divine assurance that they'll live past 100 – at least as to bonds bought at issuance.

And stellar investment grades? How can any long-term bondholder take seriously a current high-quality rating for a bond of virtually infinite maturity? Changes in bond ratings occur on a regular basis, and the likelihood increases substantially over a period of 10 decades. For a century bond, therefore, the current rating is practically meaningless.

The article ends by noting that a century bond issued by a hospital in 2016 is currently yielding 3.8% compared to the 3.2% offered by the lowest tier of investment-grade debt. Well, there's a good reason for that: the hospital bond is at the far reaches of the maturity spectrum, and, as with junk bonds, investors demand to be paid for taking unattractive risk, in this case time risk. Perhaps some audacious municipality will offer a millennium bond sometime soon, at an irresistible rate of 4%! Who could turn that down?

It would be far more judicious for an income-oriented investor to buy, say, a 2028 target-date exchange-traded fund that is currently yielding about 3.3%.* Why would you go out 100 years on a single bond when you can hold one for just 10 years for only slightly less yield?

* Note: The 3.3% yield cited for a 2028 target-date ETF pertains to the Invesco BulletShares 2028 Corporate ETF (BSCS), priced at $22.08 on 10/7/19, the Barron’s issue date. The distribution of $0.0613 on Sept. 23, 2019 would result in an annualized yield of 3.3%: $0.0613 x 12 = $0.7356. $0.7356/$22.08 = 3.3%.

Oct. 23, 2019 2:05 PM ET|2 comments | Includes: BSCS
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