"Safe Havens or Risky Bets? Unpacking Global Bond Returns"

Government bonds are essentially loans made by investors to governments. In return, governments pay interest (known as yields). Because governments can raise revenue through taxes or manage their currency's money supply, these bonds are often perceived as low-risk investments.

Historical Returns

Over the past 125 years, across 21 global markets, government bonds have delivered an average annual real return (after inflation) of around 2% per year. However, returns vary significantly due to several factors:

1) Economic Strength - Bonds issued by stronger economies (e.g., the US) typically offer lower yields, as they are considered safer. In contrast, weaker economies (e.g., South Africa) must offer higher yields to attract investors.

2) Debt Levels - As a government's debt burden grows relative to its economy, investors usually demand higher yields to compensate for the increased risk.

3) Purchase Price - The price paid for a bond greatly influences future returns. Overpaying leads to lower returns, while buying at a discount can enhance returns.

Current Yields (2025)

1) A 10-year US government bond currently yields approximately 4.5% per year.

2) A 10-year South African government bond yields about 10.5% per year in ZAR, reflecting the higher perceived risk associated with the South African economy.

5 Year Returns

Five years ago, during the COVID-19 pandemic, investors sought safety. Capital flowed from risky assets like stocks to "safe haven" assets like US government bonds. At that time:

1) Investors accepted just 1% annual yield for a 20-year US government bond.

2) Yields on South African 10-year government bonds rose from around 8% to over 11%, driven by heightened concerns.

How Did These Investments Perform?

Over the past five years (2020–2025), bond prices adjusted as yields changed, leading to:

1) US 20-year bond: -**9.5% annual return**.

2) South African Bond market: **+10.5% annual return** in US dollars.

The stark contrast in these returns underscores how unpredictable bond investing can be. What seems "safe" or "risky" is often already reflected in bond prices, making actual outcomes less obvious than might seem.

Ian De Lange CA(SA)
Chief Investment Officer

If you have any questions, Ian and our team would love to hear from you on global@seedinvestments.co.za.

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