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Why might investors buy negative yield government bonds?

Germany has made history after selling €2bn worth of 30-year bonds that offer no interest payments at all.

It is the first time the German government has issued 30-year debt with a 0% coupon, although it has already taken this step with its ten-year Bunds.

At maturity, bondholders typically receive both the face value back as well as interest payments over the asset's lifetime, but a zero-coupon bondholder only receives the face value.

Government bonds, famed for their reliability, are proving extremely popular at the moment as investors move their money out of more speculative assets such as equities and into 'safe havens'.

That demand has driven their prices up, meaning yields have fallen even further.

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As such, the bonds issued today are now yielding -0.15%, meaning that anyone holding them until maturity is guaranteed to lose money.

So why would anyone do so?

Better than holding cash
There are a couple of reasons actually. First and foremost is that, at the moment especially, it is better than holding cash.

Because the German government is so unlikely to default, it is like paying a small sum to the government to guard your money in a vault.

Investors want returns, but that also needs to be balanced out with liquidity - just ask Neil Woodford.

Because of the voracious appetite for government debt, bondholders can buy and sell their assets swiftly, making it a 'liquid' investment.

Cash is obviously the most liquid of assets, but some central banks, in Europe and Japan, for example, have imposed negative interest rates on cash deposits, which trickles through to the rate banks charge institutional investors.

A highly liquid but only slightly negative yielding government bond might look attractive by comparison.

Safer than most other investments right now
Global equity markets have been increasingly volatile over the past couple of months, as Brexit, the US-China trade war and other examples of political and economic uncertainty cloud the outlook.

While traders like volatility to a degree, they try to spread the risk so their portfolios aren't fully exposed to the unpredictable nature of the market. After all, you wouldn't want to have all of your investments in equities should the

stock market crash, would you?

So putting some of your portfolio into notoriously safe bonds is a risk-averse strategy. You accept that you'll take a small hit for that safety, but that loss might constitute 'over-performance' should other asset classes tumble.

Bond prices could price
Of course, the above reason assumes that the bondholder is a long-term holder.

In times of uncertainty, demand for bonds increases, which, as explained earlier, drives their prices higher, meaning there could be a profit to be made by buying and selling government debt.

Should traders be of the view that this current period of volatility will last for a while longer yet, they might buy bonds now in the hopes that more investors flock to them further down the line.

It might not even need fellow investors to buy in - the central banks have been doing a pretty good job of buying plenty of bonds as they look to stimulate the economy.

Because you have to
While the other reasons are all about speculation or managing risk, there's another, more boring reason why institutions might still be interested in bonds with negative yields: they have to buy them.

Certain institutions are bound by mandates, a set of rules dictated by the banks, pensions funds or insurance companies who provide the bulk of the capital.

Those rules tell the managers that they can only invest in certain things, such as investment-grade bonds.

Some clients are forced by regulators to only buy certain types. Banks, for example, can only buy liquid assets.

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