

DANMARKS NATIONALBANK

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PORTFOLIO INVESTMENTS, AUGUST 2019

Large investments in highly-rated bonds

Danish investors have bought foreign bonds for kr. 95 billion since January 2019. The majority of the purchases are bonds with a high credit rating (investment grade), including government bonds from the US and the Euro area as well as highly-rated bank bonds from Sweden and Germany.

At the end of August, Danish investors' total holdings of foreign bonds amounted to DKK 1,288 billion. Of which around 20 per cent have a speculative credit rating, i.e. bonds rated up to BB+.

High credit rating provides a low but safe return

The majority of Danish investors' foreign bond portfolios (DKK 922 billion) is foreign bonds with investment grade. 40 per cent of their total foreign bond portfolio is in AAA-rated bonds, of which German and US government bonds as well as Swedish mortgage-like bank bonds make up the majority.

Low risk is often associated with low and safe returns. Highly-rated bonds can be attractive to have in a portfolio during periods of market disorder, because there is high probability for repayment.

Low credit rating means higher interest rates

Low credit rating for a bond typically gives rise to a higher interest rate to compensate for a greater risk of credit loss. Danish investors have not increased the share of speculative bonds in their holdings during 2019.

It is mainly corporate bonds from US companies and government bonds from a large number of countries, such as Argentina, South Africa and Turkey that make up the largest portion of the Danes' portfolio with speculative credit ratings.

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