

A bond is an instrument of fixed income that represents debt owed by a borrower to a lender. Bonds can also be thought of as IOUs “a phonetic acronym of the words "I owe you," is a document that acknowledges the existence of a debt” (Kenton, 2021). between two parties and are a type of securitized asset that companies or governments can trade, just like other securities.

Bond prices and yields provide useful daily signals about the directions of various interest rates and can forecast potential economic growth on a global scale. In a well-diversified investment portfolio, bond returns play a key role. For example, a bond trading at a very high price is typically viewed as a safe and stable investment (Nielsen, 2023). Bonds can be purchased in secondary markets for less than their face value - for instance, an investor would receive exactly that face value if held for the full term of a 2-year bond with a 3% interest rate.

The following impacts would occur if terrorism was ended, nations were mutually disarmed, and free trade policies were adopted universally: To begin with, there would be accelerated economic expansion abroad, which would influence bond yields. When global interest rates rise, bond prices fall, and vice versa. Meanwhile, inflation causes bond prices to drop – the sale price of the investment when held to maturity generates the actual return (Wright & Quadrini, 2009).

Secondly, bond yields would likely decline given the cessation of terrorism and implementation of free trade agreements, signaling an end to armed conflicts. Without the threat of terrorism, there would no longer be an incentive for engagement in fictitious wars. That is, governments would not need to continue purchasing weapons, eliminating the need to issue bonds to raise financing. This would begin to sap momentum from the bond markets.

References:

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