

# A Welcome Reality Check for the European Bond Market

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Fundamental economic trends, including (1) accelerating economic growth in Europe, and (2) a sudden return of inflation in the United States, are combining with growing consensus around policy changes to the status quo including (1) a Trump-administrated weak-dollar policy, and (2) expected rate hikes in the United States and Europe to usher out the unprecedented rosy conditions the European Bond Market had flourished in over the past few years. Rather than view this as shocking, this report stresses that the European Bond market's sudden shift should be viewed as a welcome return to normalcy after a period of perplexing and unsettling low inflation and negative interest rates.

The question isn't whether the bond market will recover to where it was a month ago: it won't and it shouldn't. Instead, the challenge ahead is to price in the damage that the last few years' of excessively dovish policy has done to the region's long-term fiscal health. More than ever, investors now need to take stock of the real possibility of another debt crisis in Southern European countries, notably Greece, Italy, and Spain. This time, with spent resources, a historically strong Euro, and a Brexit-inspired mindset, the ECB may be less willing and able to save Euro-debted countries should their tepid recoveries start to wane. For the moment, these concerns still look a few years away.

Date	Policy	Market Reaction
12-12	Held benchmark refinancing rate at zero. Confirmed that from Jan 2018-September the net asset purchases are intended to run at 30 B euro/month Raised inflation 1.2-1.4.	6 height

Table 1  
*ECB Policies, Last 6 Months*

## The Old Pattern

This situation came about because of XXXXX.

Sample text. Sample text. Sample text. Sample text. Sample text. Sample text. Sample text. Sample text. Sample text. Sample text. Sample text. Sample text. Sample text. Sample text. Sample text. Sample text. Citation of Einstein paper (Einstein, 1905). Citation of Freud book (Freud, 1900).

The most important set of policies to the European Bond Market are the ECB's interest rate policies.

### Asset Purchasing Programs (APP). Europe

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### Sample subsection

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Results are presented in Table 2.

Table 2

*Sample table.*

AAA	BBB	CCC
1.0	2.0	3.0
1.0	2.0	3.0

References

Einstein, A. (1905). Zur Elektrodynamik bewegter Körper. (German) [On the electrodynamics of moving bodies]. *Annalen der Physik*, 322(10), 891–921. doi: <http://dx.doi.org/10.1002/andp.19053221004>

Freud, S. (1900). *The interpretation of dreams*. Avon. (1965 ed.)