

ECB Bond Market Contact Group

26 November 2025

Summary of the discussion

1) Hedge Fund activity in Bond, Repo and Futures Markets: Unpacking the Data

Benoit Nguyen (ECB) summarised the activity of hedge funds in government bond cash, repo and futures markets, based on commercial and regulatory data, highlighting the data gaps on hedge fund activity in the euro area. **Nicola Danese (Tradeweb) provided an overview of the behaviour of hedge funds based on trading platform data**. In the government bond cash market, hedge funds rapidly increased their presence in the last 5 years, and currently represent more than half of the transaction volume. In the repo market, the indicators on hedge fund presence are less straightforward to interpret. However, different data sources confirm that hedge fund positioning in the repo market has changed from net cash lending to net cash borrowing.

Hedge fund strategies appear more diverse in the euro area than in the US, where the basis trade is very prevalent and one-sided. The general view was that relative value and auction cycle are currently the most popular hedge fund strategies in Europe, while macro hedge funds have lost prominence. Although hedge funds are increasingly important players in the secondary market for euro area government bonds, net positioning is perceived as nearly flat, as they mainly engage in relative value trades. Interestingly, some members highlighted that recently hedge funds have been holding on to some positions for longer periods, acting more like traditional players.

In terms of the reversal risk if hedge funds abruptly withdraw from the European government bond market, some participants were concerned that more than half of the cash and repo market activity would vanish, while others opined that such an event may result in higher yield dispersion, but not necessarily a change in the yield level. The “talent drain” of experienced traders from sell-side institutions to hedge funds might over time erode dealers’ ability to make markets in stress situations. There was general consensus on the relatively low level of transparency of hedge funds on their operations, which is compounded by the current imperfect data sharing of granular bond market data between market authorities and central banks.

The growing role of non-bank liquidity providers and market-makers on euro area sovereign debt markets was highlighted as a new emerging development. While these institutions are not strictly speaking hedge funds, many are spin-offs from hedge funds. One such non-bank liquidity provider has rapidly gained a large market share of transactions on German government bonds and has announced plans to start making markets in French bonds in 2026. Some members remarked that

these non-traditional players could blur the concept of primary dealership, as they have few or no institutional commitments towards the sovereign issuer.

2) Government bonds as safe assets

Tomasz Wieladek (T. Rowe Price) presented on the changing role of government bonds as safe haven assets. He showed that the correlation between equities and government bonds, usually thought to be negative, was in fact positive for most of 1960-2000 and described the negative stock-bond correlation from 2000 as a historical outlier. The inflation backdrop was put forward as a key driver of the correlation, with periods of high inflation having positive stock-bond correlation, and vice versa.

Members remarked that the instability in the sign of the correlation between bonds and equities made portfolio construction more complicated for institutional investors. They also had mixed views on the near-term correlation regime, given the multiplicity of drivers (e.g. declining inflation but rising fiscal pressures).

Members pointed to the rising role of high grade corporate bonds as alternative safe haven assets, especially since US “hyperscalers” started to issue on the bond market. Many highly rated companies have performed very well and have fewer refinancing pressures than governments. Since 2025, US “hyperscalers” are also sizeable issuers on the “reverse yankee” segment in Europe (i.e. EUR-denominated bonds issued by US firms), therefore competing with public sector bond issuance. However, some members also highlighted that while substitution might be possible at the margin, the sheer market size differential as well as the lower corporate bond liquidity were still significant impediments.

3) The outlook for sustainable finance

Anne Beaudu (Amundi) gave an update on the outlook for sustainable finance. The globally fragmented nature of the global regulatory landscape adds complexity for asset managers for planning, developing and implementing taxonomies. While there has been some retreat from the ESG sector by US asset managers, in other geographies progress continued. In terms of asset classes, equity funds had experienced outflows of late, but bond funds continued to see inflows and overall there was still significant interest overall from institutional investors in sustainable products.

Members discussed the extent to which the US political environment has had an impact on the sector, with some noting that it may provide an opportunity for the EU to become the global benchmark in the space. There were mixed views with regard to how funding for security and defence should fit into sustainable finance. While some saw no issue it being part of the wider ESG offering, some real money investors highlighted faced resistance from clients in terms of their involvement in the area. Members also mentioned “transition finance” as being increasingly in focus, with Japan highlighted as being already being quite advanced here.