

**Letters to the Editor**

## A timely warning over Treasury bonds

From Daniel Aronoff, Birmingham, MI, US



© Alamy

AUGUST 14, 2017

Sir, Gillian Tett rightly points out that time bombs tick in places we least expect. If we expected them we would likely defuse them ([“The next crash risk is hiding in plain sight”](#), August 11). However, there is a feature that unites all of the “boring” financial instruments cited by Ms Tett that blew up in the past. They were all extremely vulnerable to declines in asset prices; either by magnified losses (as with structured investment vehicles and conduits) or default (as with high loan to value subprime mortgages).

This provides a clue as to where to look for future financial risks. In this light, it does make sense to fight the “last war” and ensure that financial intermediaries are well capitalised and that instruments that are widely held have some limits on potential losses (including home mortgages, which courts should be allowed to restructure in bankruptcies).

Ms Tett’s warning over Treasury bonds is timely. The entire financial system is caught in the predicament that current yields are vastly lower than any plausible societal rate of time discount. If economic theory has any relevance at all to market behaviour, it is inevitable that interest rates will rise (assuming we do not descend into deflation). When that occurs, holders of debt — no matter how safe — will suffer a massive loss of wealth.

This is a ticking time bomb and the only way to mitigate its effects is to effectuate widespread deleveraging, so that the losses do not trigger the further complication of mass bankruptcies and a collapse of credit.

**Daniel Aronoff**

*President,*

*The Landon Companies,*

*Birmingham, MI, US*

**Letter in response to this letter:**

*Unfortunately, deflation is likely to remain alive / From Dr Frank Boll*

[Copyright](#) The Financial Times Limited 2017. All rights reserved. You may share using our article tools. Please don't copy articles from FT.com and redistribute by email or post to the web.