Govt bonds have been positioned as secure investment vehicles, but with factors such as the war in Iran, many wonder if the saying remains true.

Varrying. The price investors pay for a bond and the interest it pays are different.

Uganda bond yields tumble as risk premiums normalise

BY DEOGRATIUS WAMALA

In ordinary circumstances, this would appear to be a favourable year for Ugandan government bonds. Global inflation has been slowing, and Africa's risk premium over developed markets has fallen to its lowest level since 2018, according to a JPMorgan index. Investors are once again talking about reforms, growth prospects and long term opportunities rather than focusing primarily on debt concerns. In that context, a 15 percent yield in a frontier market would normally appear highly attractive.

But markets rarely move in isolation. A sharp two day selloff followed the escalation of fighting involving the United States, Israel and Iran. Oil prices spiked amid fears that a prolonged conflict could disrupt Middle Eastern supply, raising transport, food and production costs and risking a return of inflation. Investors began selling bonds in major economies, short term yields rose and expectations of interest rate cuts weakened.

The episode also challenged the traditional view of government bonds as safe havens. Instead of rising during the turmoil, markets swung unpredictably. Some investors moved quickly into cash while others recalled the inflation shock that followed Russia's invasion of Ukraine in 2022. That memory has made markets more cautious whenever geopolitical tensions threaten to push commodity prices higher.

The anxiety

In Uganda, investors in the bond market have also been unsettled, although for somewhat different reasons. In the second to last week of February, the Bank of Uganda offered a 10 year and a 20 year treasury bond, leaving many retail investors surprised by the results.

The 20 year bond cleared at a yield to maturity of 15.49 percent, the first time it had fallen below 16.5 percent since August 2024. The 10 year bond, which matures in 2035, cleared at 14.5 percent even though it carried a coupon rate of 16.25 percent.

The difference arises because the price investors pay for a bond and the interest it pays, the coupon, are not always the same. When demand is strong, buyers may pay above the face value of a bond, which reduces the effective yield. In some cases investors pay roughly 13 percent more than the nominal value.

During 2025, yields were unusually high largely because of election related uncertainty and heavy domestic borrowing. By early 2026 some of that risk had eased. Investors therefore became willing to accept slightly lower returns and were prepared to pay higher prices for bonds, pushing yields below the coupon rate. Many retail investors who only began buying treasury bonds in 2025 had not encountered this situation before, so the higher upfront price came as a surprise.

An oil rig at the Kingfisher oil field. Oil prices remain central to medium term bond market outlook. PHOTO/ COURTESY OF CNOOC

A useful reference point is the 2043 bond issued in July 2023 with a coupon rate of 15 percent. At the time interest rates ranged between 14 and 15 percent. Investors buying in mid 2023 secured yields of roughly 14.6 to 15.2 percent, translating into after tax returns of about 13 percent. That was competitive and consistent with Uganda's macroeconomic profile.

Yields later climbed towards 15.8 percent before settling back into a range of around 15 to 15.5 percent. In that context, a yield of 15.49 percent today broadly reflects where the market traded before political pressures and funding stress intervened.

Financial records from the Bank of Uganda indicate that those pressures intensified as 2024 approached, when market participants began pricing in election related fiscal expansion. At the same time the World Bank suspended new lending to Uganda in late 2023 following legislative developments.

With concessional external funding constrained and elections approaching, the government leaned more heavily on domestic borrowing. By 2025 yields on the 20 year bond had climbed above 17 percent while several other maturities exceeded 16 percent. Even five year bonds offered around 16 percent at certain points.

> **THE NUMBERS**
>
> **17%▲**
> Yield. The 20-year bond yielded this much in 2025.
>
> **Shs102 trillion▲**
> Improved activity. The turnover from the seconday market in 2025.
>
> **15.49%▼**
> Yield. That is what the 20-year bond was cleared at, the lowest since 2024.

The turning point came in October 2025 when the government secured more than two billion dollars in renewed support from the World Bank and the International Monetary Fund over three years. At the time public debt had surpassed Shs110 trillion and the multilateral backing signalled a shift in the external financing landscape.

The repricing

As 2026 began, that external support eased pressure on the domestic bond market. In that light a 20 year yield around 15 percent represents less a collapse in returns than a normalisation as risk premiums compress. Ninety One Plc, a United Kingdom based asset manager, has argued that African bond markets are benefiting from renewed investor appetite. JPMorgan's Africa sovereign spread index shows risk premiums narrowing to levels last seen in 2018.

"At the start of 2025 long term rates averaged in the mid teens. As the election cycle intensified, investors priced in additional risk, pushing yields higher," Simon Mwebaze, managing director of Cornerstone Asset Managers, said.

"Historically election cycles tend to weaken the shilling. This time it strengthened, even during politically sensitive moments. That resilience suggested that investors were differentiating between political noise and underlying macro fundamentals," he added.

Yields peaked around the debut of the 25 year bond, touching roughly 18.25 percent, before easing to about 17.95 percent and then sliding further on subsequent 20 year auctions to around 17.6 percent. After the election they declined further.

Mwebaze notes that the government's spending plans, domestic borrowing targets and growth ambitions will continue to shape the yield curve. Repricing can occur for several reasons, including the rejection of expensive bids or the return of foreign investors. Recent auctions have indeed seen offshore participation re emerge after a period of caution.

Stronger macroeconomic indicators or an improved credit outlook could also compress yields. The Central Bank Rate has remained around 9.75 percent for six consecutive meetings. Inflation has stayed relatively low at about 3.1 percent as of January, comfortably within the central bank's 5 percent target.

Under those conditions the probability of a policy rate reduction appears greater than that of a hike. If the Central Bank Rate falls, further repricing along the yield curve would be likely.

However, periods of heightened global uncertainty can slow that process. During such moments capital tends to flow towards safe haven assets such as gold, cash and United States treasury securities. That shift could flatten the yield curve or slow the pace at which local yields decline.

Uganda's bond market still retains structural attractions. Inflation remains below target, preserving investors' purchasing power, while relative currency stability supports confidence in real returns. Yet Uganda remains a net oil importer for now. A sharp rise in global oil prices would transmit imported inflation into the economy and could push interest rates higher again.

David Bateme, a research analyst at Crested Capital, describes 2025 as a strong year for activity. Secondary market turnover reached roughly Shs102 trillion, up from about Shs59 to Shs70 trillion two years earlier. Primary auction collections rose to about Shs28 trillion while investor participation climbed from around Shs37 trillion in 2024 to roughly Shs47 trillion in 2025, partly due to the introduction of the 25 year bond.

Bateme expects interest rates to remain broadly within current ranges until at least the third quarter, given ongoing infrastructure commitments, oil pipeline investments and preparations for major events such as next year's Africa Cup of Nations football tournament.

"Unless there is a significant policy shift or a sharp reduction in domestic borrowing needs, yields are unlikely to fall dramatically in the near term," he said.

The restructuring

Andrew Mwiima, a financial markets consultant, views the current shift as part of a broader effort to manage a growing debt burden accumulated over recent years.

"For bond investors, falling yields imply lower future coupons. For risk assets such as equities and real estate, however, declining bond yields can increase relative attractiveness and stimulate demand," he said.

For examples, when Kenya Pipeline Company proposed its initial public offering, it argued that declining bond yields created favourable conditions for equity issuance.

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