Executive Summary

Momentum strategies have received great attention since their discovery by Jegadeesh and Titman (1993) and have been detected across all asset classes. Momentum strategies are profitable when recent changes in returns continue in the same direction. Later, Moskowitz, Ooi, and Pedersen (2012) were able to derive time-series momentum on a security's own past performance across all asset classes to predict the future performance.

The combination of these two momentum strategies has been successfully applied across many asset classes, but little research has been focused on the bond market. A broad-based study by Zaremba and Czapkiewicz (2017) was able to figure out three different risk premiums (volatility, value and momentum) and confirmed the existence of momentum premium in the governmental bond market.

Most studies to date have focused on cross-sectional analysis rather than looking more closely at the often-quoted spreads in bond markets. In the momentum strategy, the past performance of the spread is analyzed and strategic long-short positions are taken based on this signal. The trend momentum enters a long (short) position for the recently better (worse) bond future when the spread has widened, otherwise vice versa. The reversal momentum strategy follows the reverse, assuming that a widening of the spread represents an overvaluation of one of the futures.

Durham (2015) was able to find momentum effects on term spreads, while Braun and Högger (2019) found reversal effects on cross-country spreads. No scientific research has yet been focused on cross-country term spreads.

Using an empirical analysis of the proposed momentum strategies the following research question is attempted to be answered.

- Is it possible to generate excess returns on government bond futures spreads by taking strategic long-short positions through the analysis of past price movements?

The results show that trend momentum strategies can be successfully applied in governmental bond pairs. In particular, this effect is significant between European and American futures. The larger the difference between the maturities of the government bonds in the pair, the larger the effect The expected reversal effect on cross-country spreads could not be demonstrated in this paper. Significant excess returns could however be achieved when using a trend momentum strategy in this spread.