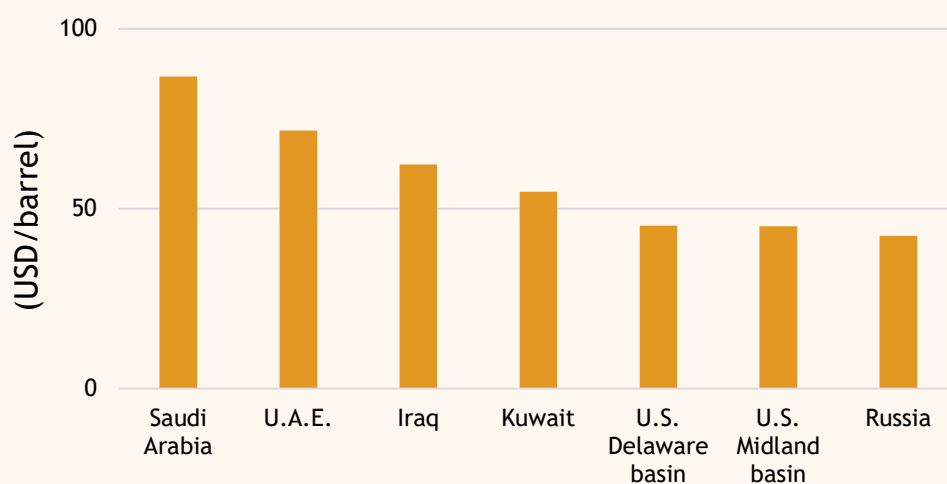


Key Economic Figures / Events of the Week

- Until Monday (09/03) the investment grade (IG) fixed income market demonstrated resilience while the high yield (HY) segment suffered along with other risky markets such as equity or forex. However, OPEC+ breakup over the week-end followed by the fall in oil prices by more than 20% led to liquidity evaporation in fixed income markets. Market players took some time to think over the new environment and come up with new fair levels for bonds. Coupled with intensified outflows this has led to a drastic repricing for a number of fixed income securities. It usually takes several days for dust to lay down and liquidity to restore. At the same time this is usually the high moment to buy single names which suffered more due to the lack of liquidity rather than worsening fundamentals.
- An oil price war was launched by Saudi Arabia over the week-end when Russia failed to agree on further productions cuts inside OPEC+. The real effect on the economy will depend on the length of low prices period, while markets started to price in \$30-35 per barrel as a new reality. It's difficult to forecast oil prices however we prefer to stick to the worst-case scenario while others will mean an upside potential for our portfolios. Our portfolios are focused on IG issuers which are able to service their debt even with lower level of revenues and profitability at whatever reason.

Breakeven oil price for some countries and shale oil producers



Source: IMF, BTU Analytics, Bloomberg

- The already fragile investor sentiment was further damaged after the WHO declared on Wednesday (11/03) the coronavirus officially a pandemic and the travel restrictions imposed by the US authorities on a majority of European countries. While we are sure governments and central banks will work together to provide stimulus to their damaged economies, we acknowledge that this may not be sufficient, and the risk of an upcoming US recession cannot be totally excluded. The consequences will depend on the time-frame within the virus will be taken under control all over the world.
- As signs that the coronavirus concerns started putting pressure on the short-term lending markets, the US Federal Reserve stepped in on Thursday and pumped up more than USD 1.5 trillion liquidity into the markets. We expect that the Fed will not stop here and will announce more stimulus measures next week, probably a launch of a broad quantitative easing program and possibly a further rate cut to boost confidence. ECB policymakers fell short of market expectation, refraining from cutting the interest rates, as widely expected. It announced however additional EUR 120 billion of net asset purchases until the end of 2020.

- After Michael Bloomberg and Elizabeth Warren left the race, the battle for the Democratic presidential candidate nomination will be between Joe Biden and Bernie Sanders. The pandemic has overshadowed the US elections, but we believe that the way the situation is handled and its repercussions on the US economy will play a decisive role on voters' preferences.

Weekly Investment Insights

- The energy sector have been punished hard by the investors this week, even if oil prices have slightly rebounded since then. We believe that this panic creates buying opportunities as some bonds suffered hard primarily due to lack of liquidity rather than due to credit quality deterioration. With this in mind, we made some acquisitions of US pipelines companies of high credit quality at distressed prices.

Strategy

We expect an increase in credit rating downgrades and defaults this year, as coronavirus and low commodity prices would drag on companies' revenues and profitability. Our portfolios consist of high-quality issuers and the duration is around 4 years which helped to protect them during the sell-off and will continue to do so. However, our portfolios could not be immune to what is going in the markets, especially when prices are often reset to 50%-100% bid-offer.

We have started buying some good names at distressed levels to invest the rest of cash where we had it and took leverage of about 3% as of end of Thursday (12/03). We keep monitoring markets and place bids for good names hoping for distressed prices situation to continue. We believe that panic creates opportunities and intent to use them so that our portfolios could outperform market when liquidity situation improves.

We hope you find this information useful and will be glad to answer your questions

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