

### Key Economic Figures/Events of the Week

- This week markets have focused on digesting corporate earnings reports for the second quarter, which are overall more positive than negative. In the coronavirus story, encouraging news on the vaccine development has outstripped the reports on new infection cases worldwide. Thus, the week has started off with an improved investor sentiment, inflows into risky assets and credit spreads on bond markets narrowing, even though the yields across the US Treasuries curve have marginally fallen.
- The mood has dropped on Thursday (23/07), as the latest report on new job filings in the US (for the week ending 18 July) has showed an increase to a seasonally adjusted 1.42 million, up from 1.30 million the week before. This has awakened investors' worries of a very protracted economic recovery. Since the beginning of the crisis, the US initial jobless claims reports have been perhaps the most monitored data - being cited in the media and economists alike due to it being a leading indicator and the high frequency of publishing. However, reports indicate just the number of newly unemployed and does not count the people that have been newly employed during the reported period. As the economy commenced the recovery, the monthly payroll report, although published with a lag, is better reflecting the labor market situation better. Nevertheless, the overall picture is that of the labor market under severe pressure. What matters to bond investors now is that monetary and fiscal stimulus remains very accommodating for long and inflation remains subdued. This, in our view, is likely to be so in the near- to midterm future.

### De-risking in Europe: Spreads between Italy in Germany 10-year yields seen falling



Source: Bloomberg

- Speaking of fiscal stimulus, the US Senate Republican leader has said that a proposal for a package will be announced next week. As we approach the US elections, we expect both parties to back a generous stimulus package, and we may see the markets rallying following the approval. On the other hand, tough negotiations between the Republican and Democratic parties may delay the approval and this should cause jitters. In Europe the approval of the EUR 750 billion relief fund on Monday (20/07) has seen European assets rallying, contributing to the optimistic mood from the onset of the week. European Union has lagged behind US regarding the stimulus to the economy, but this move places in on an equal footing. The program also included issuance of common bonds, and this will considerably aid the countries that were hit hard by the crisis. The de-risking led to spreads between Italian 10-years sovereign bonds and their German counterparts, considered a safe haven asset, to drop further following the announcement.

### Weekly Investment Insights

- Oil-drilling company Halliburton (BBB+/Baa1) is among the first ones to report their second quarter earnings this week. The company reported a net loss of USD 1.7 billion compared to a profit of USD 75 million a year earlier. However, the company has taken aggressive measures to improve its liquidity by slashing dividends and substantially reducing costs, which in turn has helped to generate USD 456 million in free cash flow, more than analysts have forecasted. It is a considerable positive for the credit profile of the company. At the March sell-off, we acquired Halliburton bonds with maturity in 2030 which have since seen a 24% price appreciation.
- The food processor Brasil Foods (BB-/Ba2) has announced a cash tender offer on three of its outstanding bonds. We have decided to decline the offer, as it offers no premium to the secondary markets. We have slightly reduced the weight of Brazil in our portfolios, but we want to keep Brasil Foods bonds, as they have a favorable risk-reward profile. The bonds we hold are short-maturity and therefore less volatile. About half of company's exports are generated from external markets and the effect of currency depreciation may turn positive for the company.

### Strategy

Bond markets have rallied over the first part of week and we have taken this opportunity to fix profits on some of the few long duration issues still left in our portfolios. August will, as usual, be low in activity, but we expect volatility to increase thereafter, as we head into the US Presidential elections.

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

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