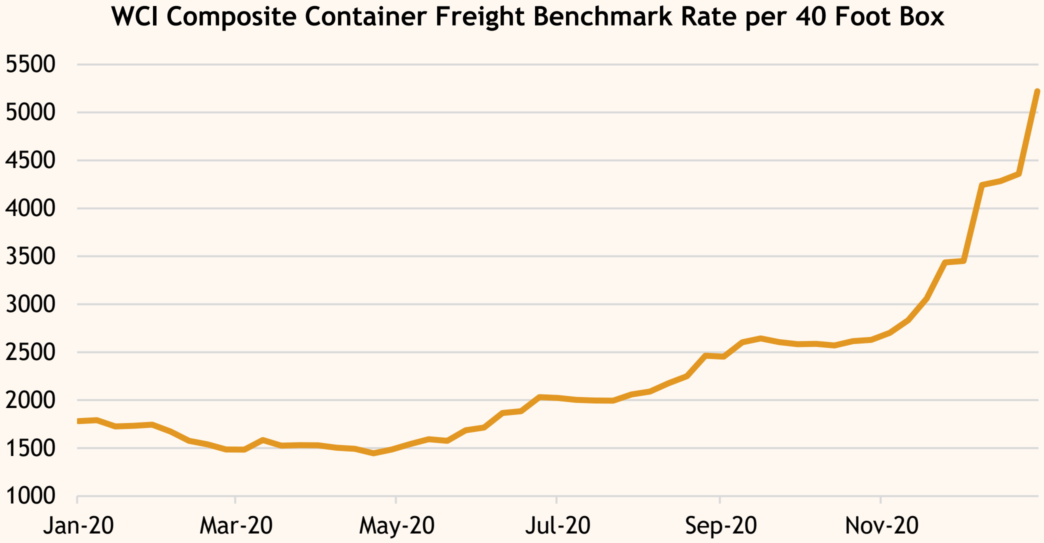
Key Economic Figures/Events of the Week

- A year ago, a new lung infection was spreading in the province of Wuhan in China. It would subsequently burst into a global pandemic. A year on, we know much more about the virus and several vaccines have already been developed - faster than anyone has initially expected. Nevertheless, the virus continues to spread and a lot of questions remain open regarding the availability of the vaccine and new strains of the virus. Markets continue to price in the best-case scenario, wherein a vaccine is widely available few months from now, which would subsequently bring a fast global economic recovery.
- Georgia's runoff elections brought two more sits for the US Senate's Democrats. This has led to a 50-50 configuration, with the Democratic vice-president acting as the tiebreaking vote. As soon as the result have become palpable, markets priced in more fiscal stimulus, and the US 10yr Treasury yields have breached the 1% threshold for the first time since March 2020. Importantly, markets seem to be complacent about the current political configuration, as the political stability and assurance of fiscal support prevail over all other policy concerns.
- Oil prices have surged after Saudi Arabia government has announced on Monday (07/01) its voluntary unilateral cut of an additional 1 million barrels a day. Markets have positively embraced the news, amid fears that the demand will remain subdued as Covid-19 infections continue to rise. Whether the current price is too inflated is left to be seen. It all depends on the speed of the rolled out vaccination campaign, mobility restrictions and on how other OPEC+ members will conform with the agreement.

Covid-19-induced boom in container freight rates



Source: Drewry, Bloomberg

Weekly Investment Insights

- Brazilian petrochemical company Braskem (BB+) has announced the settlement of the civil lawsuit related to the 2018 accident at the Alagoas mine. This is a positive development, as it reduces the uncertainty and the claim is manageable for the company and will not substantially affect its liquidity.

- World's largest container shipping company Maersk is enjoying a surge in container freight rates while operating at full capacity, according to the company's reports. Since the beginning of the pandemic, as the result of a shift in consumer spending from services to physical goods, trend has pushed freight prices up considerably. While the trend will likely start to gradually reverse as mobility resumes and returns to pre-crisis levels, the subsequent rise in demand for container shipping from industrial companies should compensate for it. We have Maersk bonds maturing in 2029 (BBB/Baa3) and continue to hold them as we have a positive opinion on the company's outlook.

Strategy

As the week has commenced, bond market was flooded with new bond issues, which have been met with high demand from investors. We participated in the offer by the Chinese energy company Sinopec (A1/A+) and the Brazilian paper-producer Klabin (BB1), but they were priced at a yield-to-maturity lower than our desired risk compensation. We have received an allocation in the 5-year Latin American e-commerce company Mercado Libre (BB+), issued at 2.375% yield-to-maturity. We have gone into the new year fully invested, as we expect the economy to continue to recover and the Federal reserve policy to remain accommodating. At the same time, due to near-term risks related to the rise in Covid-19 infections, we maintain a defensive stance, favouring credit quality over yield and short over long duration. Nonetheless, if the rise in long-dated US Treasury yields continues, we will consider a marginal increase in duration.

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

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