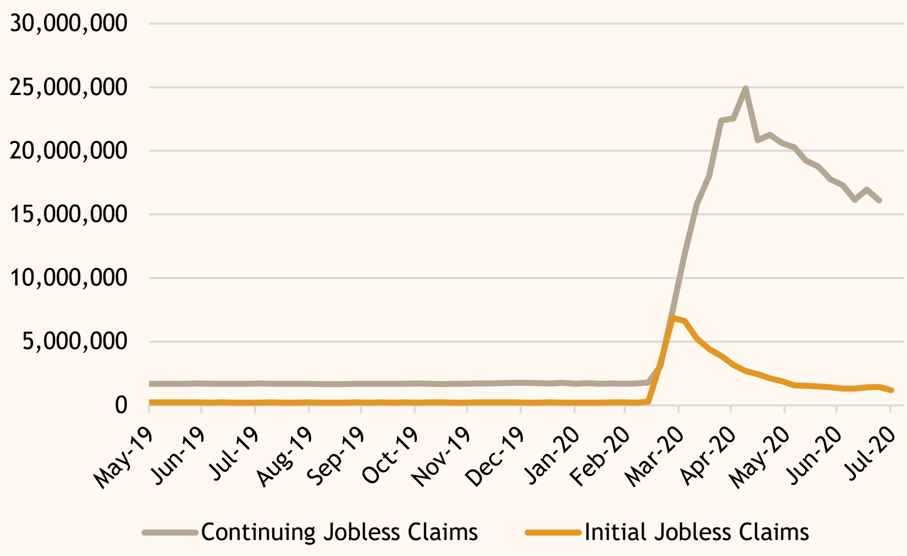
Key Economic Figures/Events of the Week

- The mood reigning on financial markets this week has been rather positive. This is not surprising, given the fact that over 80% of companies have beaten the analysts’ expectations in terms of second quarter reports. Even though most of the companies have seen a sharp decline in earnings, they have taken prudent measures to strengthen their balance sheets and overall have been able to generate positive cash flows, to the benefit of their bondholders. Consumers have also been fast to adapt their consuming patterns to the new realities of the ‘staying-at-home’ regime and the overall damage has been less than previously feared.
- In terms of economic data, this week’s highlights have been the release of July ISM PMIs for the US, along with the weekly unemployment claims. Both the manufacturing and service sector indices have surprised on the upside, climbing to 54.2 (from 52.6 in June) and 58.1 (from 57.1 in June), respectively. The new weekly jobless claims data has also showed improvement, dropping to 1.19 million from 1.43 million last week, better than the 1.40 million forecasted. By comparison, the pre-crisis figure was coming in at just over 200’000 new claims per week on average. Currently the number of continuing claims is at a high 16.1 million. We believe it will take several years to bring unemployment back to the pre-crisis level. This will weigh on consumer confidence, which is disinflationary in nature. Monetary and fiscal stimulus will have to remain in a supportive mode, so no rate hikes are on the horizon in the near future.

Drop in US jobless claims raises hopes, but remain at an elevated level



Source: Bloomberg

- Markets are still waiting for a new round of fiscal stimulus in the US. As expected, the approval process is hurdlesome, as the Republicans and Democrats have not yet reached a common ground on many of the details of the package. Time is in short supply as current supplementary unemployment benefits are set to expire this Friday. We believe that the US legislators have no other choice but to overcome their divergences and approve the new stimulus package. Should the process take long, this will cause market jitters.
- Geopolitical issues have resurged. This week, the US president Trump has signed an order banning US firms and residents from doing business with Chinese tech companies TikTok and WeChat. Now all eyes are on China and a potential subsequent retaliation. The rhetoric on both sides will get harsher as we approach US presidential elections in November, which are yet another source of volatility in the months to come. Earlier this week it has been

- announced that the US and Chinese delegations will hold phone talks mid-month. The talks will circle around the review of Phase 1 of the trade deal, with markets choosing to consider this as a positive development. But, as we have all got used to it by now, the situation with the US-China relations can change overnight.

Weekly Investment Insights

- Bonds of the Argentinian oil company YPF (CCC/CCC+) have rallied this week on the announcement of a sovereign debt restructuring deal agreed between the Argentinian government and its sovereign bondholders. This will allow the state-backed company to secure funds to invest into its production facilities and thus increase output. A further positive catalyst for YPF has been a recent bond exchange offer for bonds maturing in 2021, which has been accepted by the investors and has significantly decreased its refinancing risk. We own YPF bonds maturing in 2027 and 2029, which have seen a price appreciation of 6.4% and 6.0% over the last 5 days.

Strategy

As markets rallied, we have fixed profits on several bonds in some leveraged portfolios. Even though August usually brings a stall in primary market activity, high new bond issuance has continued this week as companies rush to borrow at very low cost. We have not participated in any primary offers this week, as most of them were issued with no to negative concession to the secondary market following a very high demand from investors. We will continue to monitor primary markets closely and we favour interesting EM issuers with solid credit profile. With many uncertainties ahead, we will remain overweight in quality.

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

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