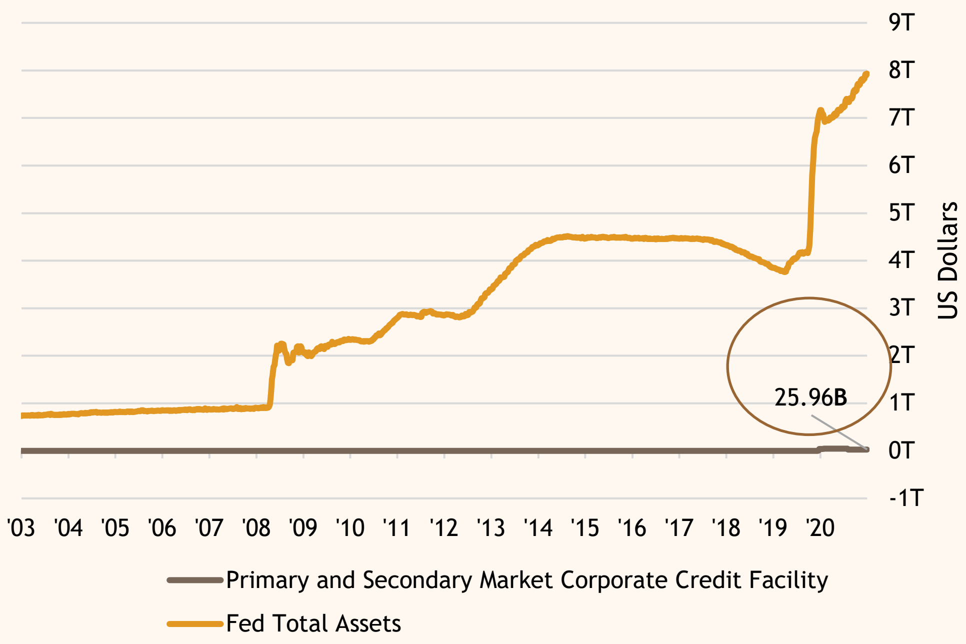
Key Economic Figures/Events of the Week

- The week has been calm, as investors are in a waiting mode ahead of the US jobs market report this Friday (04/06). The US 10-year Treasury yield also seems to have stabilized around 1.55-1.70% where it's been for the last two months.

- US Fed Reserve has announced that it will gradually begin to sell corporate bonds and bond ETFs it has purchased under the Secondary Market Corporate Credit Facility. The facility was employed by Fed, for the first time ever, back in March 2020 to restore confidence on markets and to bring down borrowing costs for corporate issuers. The measure has been successful and coincided with a broad recovery of bond markets from the lows of the pandemic crisis. While this can be righteously considered a start of the balance sheet tapering, the Secondary Market Corporate Credit Facility holdings, at US$13.7 billion, are not substantial compared to the US Treasuries and mortgage assets Fed has added to the balance sheet. Assuming that Fed succeeds with its pledge to sell its corporate bonds holdings 'gradually and orderly', by making adjustments commensurate to the daily trading conditions, we expect that the measure will not have a significant negative impact on the market, which is currently abundant with liquidity. However, it gives a hint, that monetary policy tightening could be on the way during the nearest 12 months.

Fig. 1: Corporate bonds make up just a small portion of Fed's total holdings



Source: Bloomberg

- Meanwhile, the service sector in the US continues to beat estimates. The ISM (Institute for Supply Management) services sector index came in at 64, highest level since 1997. The growth has been wide-scaled, as all 18 services industries represented in the index have reported expansion. It is not just inventory shortages exercising upward pressure on inflation, but labor shortages as well, potentially due to the availability of unemployment benefits which disincentivize job search, as continuing jobless claims have gone up by 169'000 to 3.77 million in the week ending 29 May.

Weekly Investment Insights

- Brazilian meat producer Marfrig has announced, in a surprising move, that it acquired a 31.66% stake in its rival BRF. We see no significant impact for BRF, whereas the deal is a rather negative sign for debt holders of Marfrig, as this deal may hinder the deleveraging strategy. We own bonds of BRF with various maturities ranging between 2022 to 2030 and continue to hold them for the currently attractive risk-return profile. BRF is our preferred issuer among the large meat producers, although if this stays so depends on the management's delivery on its deleveraging commitment.
- Another major meat producer, JBS, has been the target of a ransomware attack, which has led to the shutdown of production facilities across North America, Australia and Canada. It has not affected JBS bonds valuations, as the company has been able to restore operations relatively fast, however, the event has emphasized the vulnerability of companies to cybercrimes. And it is a significant risk factor to consider. It may also become the cause for tighter regulations on cryptocurrencies, as it is the preferred payment method of hackers.

Strategy

This week, we have received an allocation in new 10-year bonds issued by the Brazilian steelmaker CSN Resources (BB-/Ba3), placed at 4.625% yield-to-call. We have also purchased bonds of Scotiabank Peru (BBB+/Baa2), third largest bank in Peru, its parent company being the Canadian Bank of Nova Scotia (A+/Aa2/AA-).

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

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