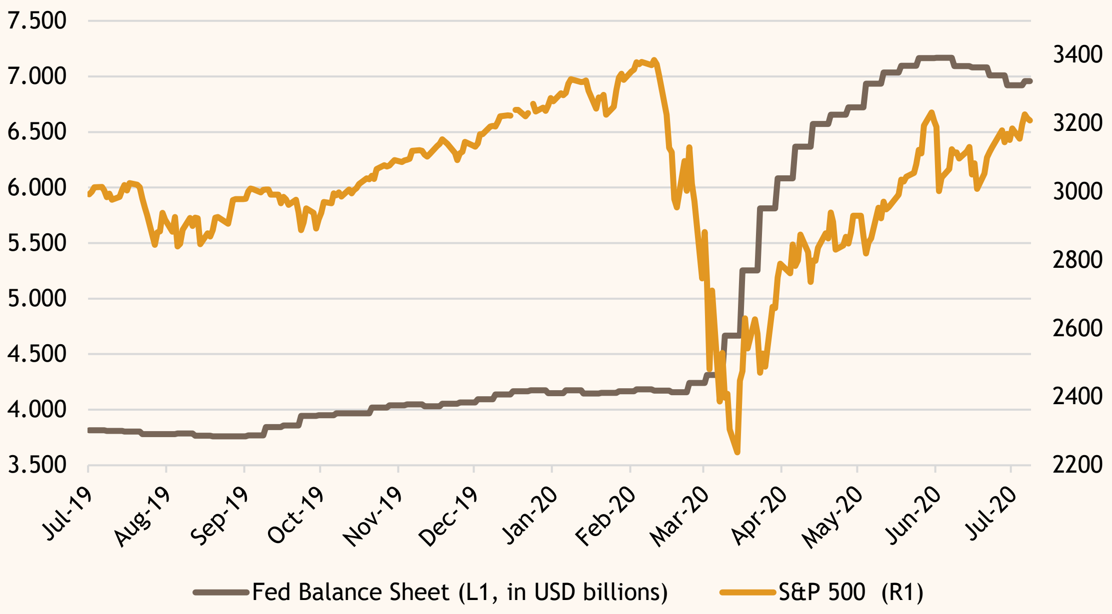
Key Economic Figures/Events of the Week

- News on progress in the development of the vaccine has buoyed markets this week. But markets chose to disregard any news on US-China trade tensions. The rhetoric will intensify as we head into the November elections, but a shift in the stance against China may change post elections, even if the incumbent remains in power.
- The economic data released this week brought both reasons for cheering, as well as for caution. The US retail sales have surprised positively, picking up 7.5% in June, surpassing forecasts of 5.0%. The weekly claims on unemployment, however, are being stuck at the level of around 1.3 million and indicate than the recovery of the labor markets sees a long and bumpy road ahead.
- Therefore, fears of a near-term Fed balance sheet contraction are overblown. Fed's backing is still needed, and as long as Fed is there to support, the sun will shine on the bond markets. The size of the Fed's balance sheet had actually increased to USD 7.01 trillion as of 15 July, up from USD 6.97 trillion one week ago. However, with a pickup in economic activity, the pace of purchases will slowdown, and this may cause unease among investors.

Markets get nervous when Fed stops buying



Source: Bloomberg

- China has reported a 3.2% annualized GDP growth in the second quarter, well ahead from the projected 2.4%. The first to emerge from the lockdown, the Chinese industrial activity has resumed fast, supporting hopes of a quick worldwide economic rebound. Not all is that shiny as it seems, as Chinese consumer sentiment failed to recover with the same fervor as yet.
- With the activity on the primary markets coming close to a stall, and interest rates at record lows, investors are in search for yield, driving inflows into high yield markets. US high yield bond market segment saw a tightening of the credit spreads to the lowest level since March's record highs. We do see potential for further credit spread tightening for the high yield segment, but in the view of the existing risks, the balance is tilted to the downside and we continue being underweight credit risk.

Weekly Investment Insights

- The US mining company Freeport-McMoRan (BB/BB+) has launched an offer to purchase for cash three of its outstanding series of notes. We have decided to accept the offer for bonds maturing in 2023, which would be purchased at 104%. They are currently trading at 103.8% on the markets, which gives a yield-to-maturity of 2.3% and we think the deal is fair for a mining company with a BB rating.

Strategy

The markets are gradually turning on the holiday mode. We continue to believe that the upcoming US presidential elections and a slower economic recovery will be the source of significant uncertainty in the months ahead. This week, we took profits on long-maturity bonds of Telecom Italia (BB+/Ba1) and the Mexican Industria Penoles (BBB). We have already decreased average duration to a comfortable level and increased IG share to the expense of HY, which will allow us to withstand bouts of increased market instability with calm. We consider taking profits on a few other emerging market issues, but only when they reach our price targets.

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

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