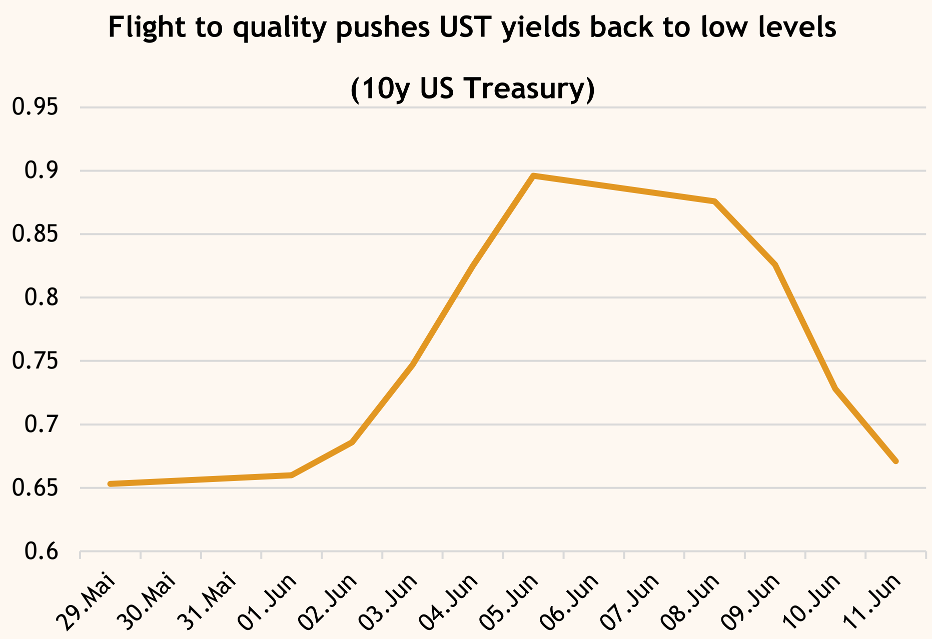
Key Economic Figures/Events of the Week

- The week has started on a full risk-on mode as, buoyed by the unexpectedly positive payroll numbers in May, riskier assets such as HY bonds have enjoyed a particular boost. Thursday (11/06) however has seen an overturn of the situation, which has proved that the sentiment was still fragile. Fears of the second wave of coronavirus infections have resurfaced and the concerns that the economy will take much longer to recover, according to Fed's projections, have led to a correction at the end of the week, more so in the riskier segment of the market. However, we believe the chances of a significant bond market correction as the one in March is low, given extremely accommodating central bank policies and low numbers of highly leveraged players. At the same time, it is clear that the optimism reigning over the markets up to Thursday has been exaggerated, as it ignored existing risks and investors were keen to price in a faster than possible economic recovery. None of the events or data published this week have brought any surprises – rather it has been a week of bringing investors back to reality. The shift from risk-on to risk-off mood has been very well reflected in the movement of treasury yields over the last ten days.



Source: Bloomberg

- This week US Fed has held its 2-days meeting (9-10/06) and the rate has remained unchanged as expected. The regulator sent a clear message that the central bank will maintain monetary stimulus and bond purchases at the current pace until the labor market fully recovers from the crisis. GDP is expected to contract by 6.5% during 2020 and it may take 3 years for the economy to return to pre-virus levels. While the announcement of monetary stimulus should further support bond markets, investors have been disappointed by the forecast of a very prolonged economic recovery.

- Economic data published this week is in line with expectations. The diminishing trend of jobless claims has continued, with 1.55 million of new applications last week, down from 1.88 million the week before. The absolute level is still high, which affirms that the Fed's support will be there for a long time. Excluding energy and food prices, the core inflation rate in May is 1.2% YTD, down from 2.3% as of end of 2019. The data validates Fed's projection of benchmark rates to remain close to zero level up to and including 2022.

Weekly Investment Insights

- On Thursday (11/06), news that the Sultanate of Oman (BB/Ba2) is discussing financial aid from its gulf neighbours have surfaced. The country has high fiscal deficit and is dependent on oil, with the breakeven oil price estimated at USD 82/barrel. We have an exposure of about 2%-5% on Oman bonds through government and government-owned companies. This week, the bonds have recovered to levels last seen in summer 2019. We foresee further credit tightening potential, as current bond yields are higher than those of Bahrain (B+), which is lower-rated and has a worse economic outlook.

Strategy

At the start of this week, we have fixed profits for portfolios with high leverage on some long duration issues which have seen, to a major extent, credit spreads tighten to pre-crisis levels. The end-of-week correction has not been significant on the fixed income markets, however, should prices fall further, we will consider buying some bonds which are on our list of next targets. We keep monitoring primary markets and will continue participating in primary issues if they offer premium to the secondary market. This week we have got an allocation in new 10-year issue of the Indian chemical company UPL (BBB-, 4.86% yield-to-maturity).

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

AXIOMA Wealth Management AG
Bleicherweg 50, CH-8002 Zurich
Tel.: + 41 43 305 07 10
info@axiomag.ch
www.axiomag.ch

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