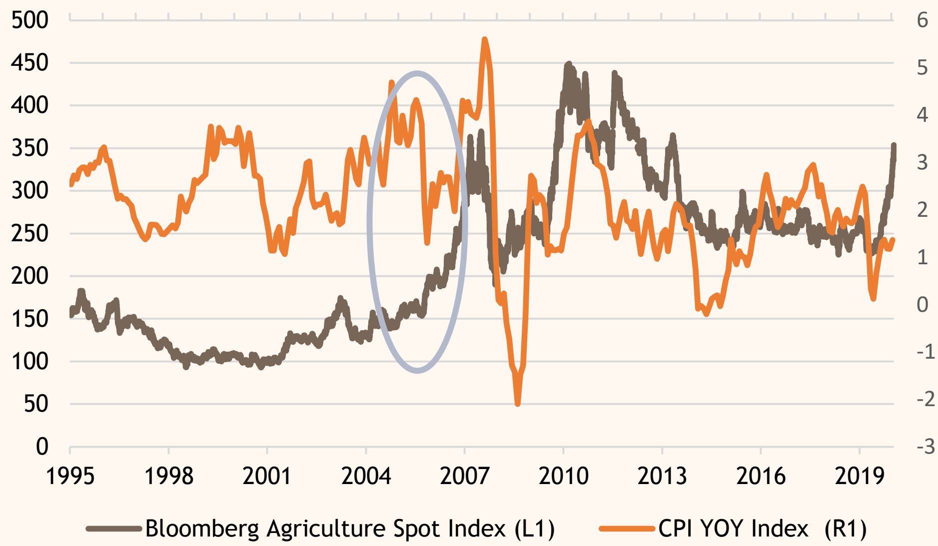
Key Economic Figures/Events of the Week

- Despite a continuing rise in new Covid-19 infections and the toughening of mobility restrictions in many countries, markets have overall edged higher, buoyed by a new relief package of US$1.9 trillion as planned by Joe Biden. Other events, like a second impeachment have gone unnoticed by the markets, as the political support for the economic recovery is all that matters. In the following weeks, the tone will be set by year-end corporate earnings reports. Companies have faired relatively well in the third quarter of 2020, but the pressure on earnings is still on.
- Long-dated US Treasury yields have risen further, with the 10yr yields reaching 1.11% as markets anticipate an increase in government spending in the US. Our base-case scenario implies a gradual increase of long-term yields, as the economy shows stronger signs of recovery, with any destabilizing, substantial rise likely tempered by the Fed's bond-buying.
- Latest inflation numbers in the US point out at the acceleration in consumer prices, which has been driven by a rise in food and gasoline prices. We believe that the trend is temporary, and the chance that there will be a sustainable rise in inflation that would push Fed to raise rates is currently low. Before the 2008 financial crisis, we have also witnessed a surge in food prices which has not translated right away into high inflation. After having shredded further 140'000 jobs in December 2020, the labor market is a long way from getting back to normal but labor-cost pressures remain muted. Therefore, we expect the monetary policy to remain accommodating and rate hikes are not on the radar for the next two years at least.

A surge in food prices doesn't necessary translate in high inflation



Source: Bloomberg

Weekly Investment Insights

- Chinese Lenovo has announced that it will list Chinese Depository Receipts with the Shanghai STAR market. This is a positive news for the company as the new equity issuance would help drive leverage lower. However, we have decided to sell Lenovo (BBB-) bonds we held, as the current yield-to-maturity of 2.8% does not compensate for the risk of being blacklisted by the US government, as it has already happened unexpectedly to the Chinese smartphone maker Xiaomi. The blacklisting would mean that the US persons will be prohibited from buying and holding company's securities, thus depriving it from an important source of funding.

Strategy

As always, we are actively searching for opportunities on the primary market. This week we have acquired new USD-denominated bonds issued by the Mexican Credito Real (BB/BB+), one of the leading non-bank financial institutions providing consumer financing in Mexico, and the Mexico Remittances Funding (BBB-). We don't have currently any strong buy opinion country-wise, we prefer to pick interesting credits taking into consideration geo and industry diversification. Mexico is currently the fourth in terms of geo allocation in Axioma Leveraged Bond Fund and we believe that its population activity as well as it's neighboring position to the USA will help it to quickly regain economic activity.

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

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