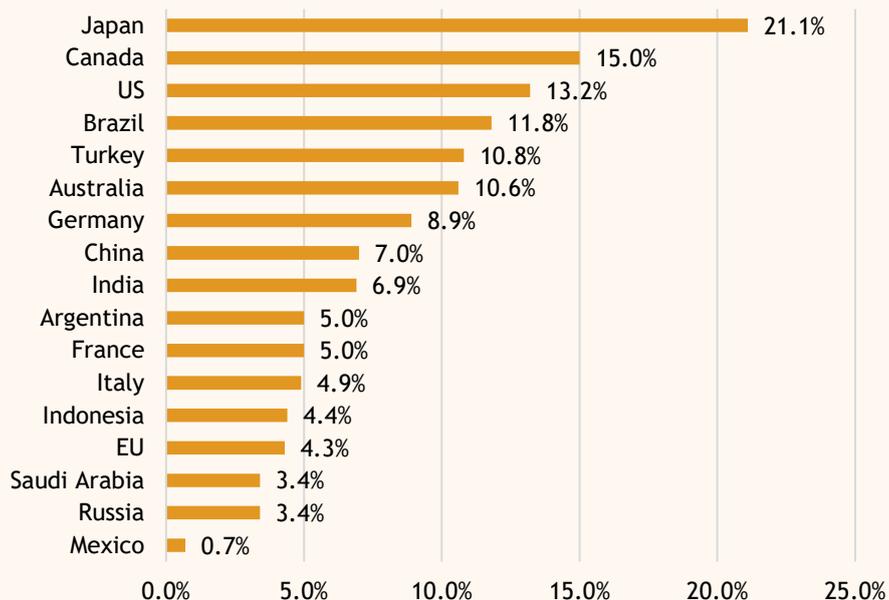


Key Economic Figures/Events of the Week

- The unknowns regarding US elections, the shape of economic recovery, US-China relations and the US fiscal stimulus continue to linger on the markets. Despite uncertainties and the recent volatility in stock markets, the bond markets continue to show resilience. Bond markets have seen inflows continuing, but a slowdown from previous weeks was registered.
- Oil markets have been under pressure recently, amid concerns for the outlook of demand for oil (Brent crude generic closed Thursday 10/09 at USD 40.0/barrel, down from 45.6 in the beginning of the month). This confirms our view that markets have been too fast to price in the best-case scenario of economic recovery and are now waking up to the reality that there is a long difficult road to recovery, and with it the demand for oil will remain under pressure in the months to come.
- Recent polls indicate that the gap in approval rates between the Democratic candidate and the incumbent is narrowing. This suggests we should expect a tougher race and/or disputed elections outcome. And markets do not like uncertainty that brings along.
- The stimulus discussions in the US have been showing no progress so far. With the scope of monetary stimulus approaching limits, the key to supporting economic recovery going forward lies in the hands of the government.

Value of COVID-19 fiscal stimulus packages in G20 countries as of July 2020, as a share of GDP

(calculated using 4Q2019 GDP)



Source: Statista

Weekly Investment Insights

- As we were expecting, President Trump’s rhetoric against China is getting tougher ahead of the elections. The latest link in the story chain is the recently announced intention to block American companies from providing goods and services to Semiconductor Manufacturing International (Baa3). The company is the largest Chinese semiconductor producer and we own its notes maturing in 2025, which saw about 2% decrease in price. With American companies having a large exposure to Chinese semiconductor manufacturers - a ban will be clearly a no-win situation and impact the whole industry. We expect the spirits to calm down post-elections and anticipate more of this type of declarations from Trump in the meantime.

- The Swiss travel retailer Dufry (B1/BB-) has been one of the best performers recently, after the management announced its plan to raise CHF 500 million equity investment, the largest part of it being already secured from an investor. The proceeds will be used to acquire remaining equity interest in Hudson Ltd, which is estimated to bring significant cost reductions, and to provide liquidity while the travel industry is starting to slowly recover. The quality of the management actions is the key in the current environment. Despite being severely impacted by the coronavirus, the company has been able to take the necessary steps to give confidence to investors and we continue to hold the company's bonds.

Strategy

The primary markets saw an abundance of offers this week, after the US Labor Day on Monday. We have acquired new 5-year issues of Japanese automaker Nissan (BBB-/Baa3) and Banco Latinoamericano de Comercio Exterior (BBB/Baa2), a multinational bank which finances foreign trade of the countries in the Latin American and Caribbean region. We acquired the new issue for some unleveraged portfolios where we had cash due to recent selling activity.

The lingering uncertainties coupled with arguably stretched valuations, naturally leads the thought to an upcoming correction. But trying to guess whether this will happen in a week or in 6 months has been proven a loss-inducing strategy and as we have many times underlined, staying invested is paramount. As the common wisdom says, "far more money has been lost by investors trying to anticipate corrections, than lost in the corrections themselves." (Peter Lynch)

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

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