

Key Economic Figures / Events of the Week

- At his yearly testimony in front of the Joint Economic Committee of the US Congress on Wednesday, 13 November, Fed Chairman Jerome Powel reiterated US central bank’s intention to keep the benchmark interest rates unchanged, which was in line with what markets expected. He also shared his positive view on the state of the US economy, suggesting a “sustained expansion” is to be expected ahead.
- Consumer price index rose in the US by 0.4% in October, which was mainly due to an increase in gas prices, while the core inflation rose only 0.2%. In yearly terms, consumer prices rose 1.8%, just below the 2% Fed’s inflation target, up from 1.7% last month. Inflation is likely to stay at the same level, allowing Fed further interest cuts if needed.
- As no good news on positive trade talks developments emerged recently, investors’ concerns regarding the global growth slowdown resurfaced, after China’s October industrial production figures disappointed, as it only rose by 4.7%, compared to 5.4% expected.
- Germany’s economy was able to avoid falling into recession, after data released on Wednesday, 13 November, saw a 0.1% GDP growth from the second quarter versus an expected 0.1% decrease. Germany’s output fell by 0.2% in the second quarter. While Eurozone’s economic outlook on the whole continues to be gloomy, the drag in industrial production amid ongoing trade tensions has not yet spread to consumer spending and services.

Low funding costs for investment-grade issuers

Investment-grade corporate OAS plus 10-year Treasury yield



Source: Bloomberg

Weekly Investment Insights

- American pharmaceutical company Abbvie(Baa2) sold almost \$30bn bonds on Tuesday, 12 November, in what was the largest investment-grade bond sales this year and one of the largest in history, with the intention to raise sources for financing the acquisition of its rival Allergan. We already own Abbvie’s debt in our portfolios and we decided not to participate in the offer, as we expected a low yield due to high current demand for investment-grade debt. We think the acquisition is positive for the company and will not lower its


- creditworthiness. Abbvie has recently reported better-than-expected third quarter financial results, and the management projects a 10% increase in the adjusted earnings in the first year following the deal.
- Argentina's state-run energy company YPF(B-/Caa2/CCC) announced on Thursday, 14 November, that it will raise gas prices by 5%, after the government lifted the controls on oil and gas prices this week. Further price increases are to be expected to bring back prices to the market value, after the government imposed restrictions in August. We continue to hold YPF debt, as we believe the company will be able to serve its debt, due to natural hedge against currency depreciation. YPF bonds have recovered 40% from its value lost after the August preliminary elections and we think there is more upside potential.
- Credit rating agency Moody's recently upgraded its economic growth forecast for Turkey, citing stronger-than-expected economic recovery from the 2018 currency crisis, aimed by the government's growth-friendly fiscal policy. Meanwhile, Turkey's President Recep Erdogan met with the US president Donald Trump at the White House on Thursday, 14 November, with investors hoping for a resolution to the tensions between the two countries mainly due to the Turkish government's intention to purchase Russian missile defence system. The meeting evolved on a friendly note, although no concrete steps to solve the issue have been proposed by the two parties and the market stayed neutral following the press conference.

Strategy

We had another week abundant in primary offerings. We acquired the 10-year new issue of the Brazilian steel producer Gerdau (BBB-) at 4.375% YTM, 16.5-year amortizing bonds of Adani Transmission (Baa3/BBB-) at 4.25% YTM and a 10-year new issue of Mexican company Cemex (BB) at 5.45% YTM, all USD-denominated.

We hope you find this information useful and 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



Verband Schweizerischer Vermögensverwalter | VSV
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