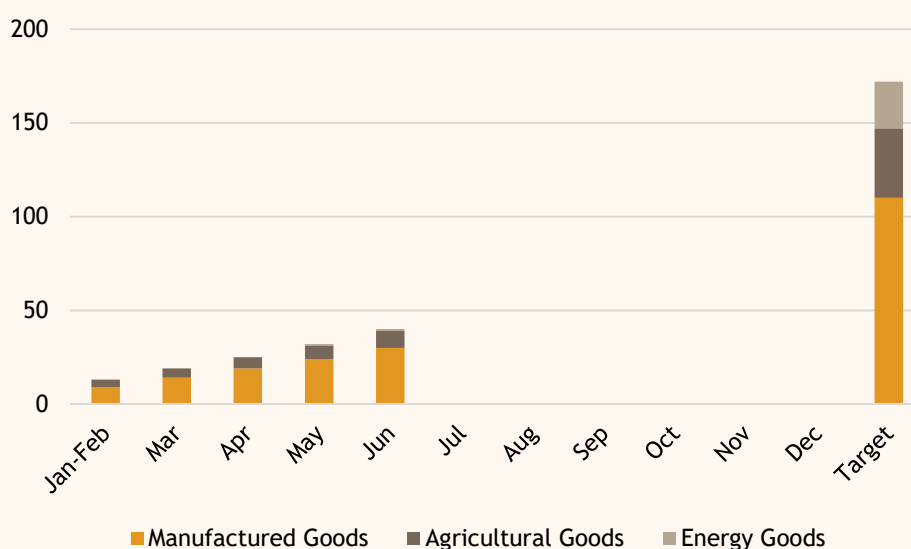


Key Economic Figures/Events of the Week

- The main areas of focus have not changed from the previous week. US fiscal stimulus discussions, US-China relations and Covid-19 statistics continue to capture attention of investors. Although not much is clear yet with these matters, nothing seems to stand in the way of the risk-on mood on financial markets. As monetary policy remains extremely supportive, inflows to bond funds continue, as investors are hunting for yield. Despite existing uncertainties, Fed remains the main driving force on the markets.
- In the US, Democrats and Republicans are at loggerheads over a new fiscal stimulus package even at the time of writing this report. Markets' reaction has remained rather muted initially, not because it didn't matter, but because of the reassurance that a compromise will eventually be reached. But, as time passes, nervousness will increase. Considering the high level of unemployment, the approval of another fiscal package will be critical to the continuation of the recovery. But the approach of the US presidential elections undermines the spirit of compromise. We believe that a deal will eventually be reached, but next week may bring some increase in volatility should we enter Monday without a deal.

China is still far from the 2020 Phase 1 trade deal targets (in USD billion)



Source: Bloomberg

- The US-China trade deal does not occupy the headlines as it did before the Covid-19 crisis. But it does not mean it lacks in importance. Hopes are that more clarity of the situation might be brought by the review of the phase 1 trade deal planned for 15 August. Still, China will most likely fail to fulfill its 2020 commitments for purchases of US products, as stipulated in the agreement. The risk of a deal breakdown will continue to weigh on the markets, no matter who wins the US presidential elections.
- The weekly US jobless report came in at 963'000, for the first time lower than the psychological threshold of one million. Whether the trend will stay remains to be seen. In any case, there is still a long road ahead towards a sustainable unemployment rate.
- US consumer inflation showed a 0.6% increase in July from a month earlier. As the increase was higher than expected, this has caused an increase in US Treasury yields on the longer end of the curve. However, year-on-year, consumer price index reads 1% (core inflation 1.6%). Chances that the inflation comes close to the 2% Fed target anytime soon are low. Thus, no rate hikes are on the horizon and the environment remains supportive for fixed-income markets.

Weekly Investment Insights

- The Swiss Dufry (BB-/B1), one of world's largest operators of airport duty-free shops, has been one of the companies that were hardest hit by the pandemic. Dufry has recently reported a 62% decrease in revenue for the first half of the year compared to the same period in 2019. At the same time, it has taken aggressive measures to strengthen its capital base and liquidity position. The company has been able to secure a USD 450 million in bank loan facilities, placed new shares and convertible bonds and decreased operation costs significantly. Currently, 1000 out of its 2400 shops are operating. Following the 1H20 earnings report, Dufry bonds have seen a price increase of 9-11%. While the travel sector is not expected to fully recover earlier than 2022 by many analysts, we think the company is in a good position to outstand the crisis and the risks are totally priced in the yield offered and we continue to hold Dufry EUR-denominated bonds.

Strategy

Some segments of the fixed income markets have seen significant credit spreads narrowing. We have taken advantage of the risk-on sentiment this week and fixed profits on some issues for which we think there's limited potential of a further price increase and/or which are more prone to volatility, which we believe will rise near-term.

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

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