Key Economic Figures/Events of the Week

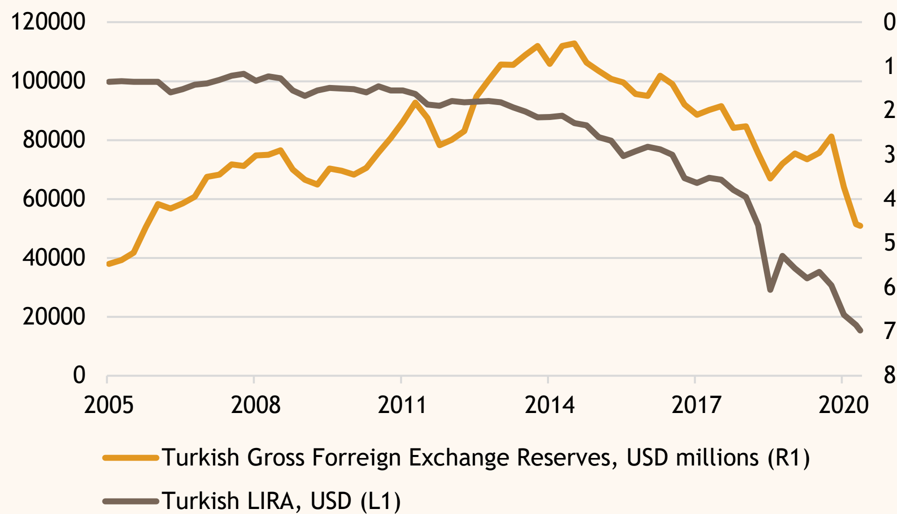
- This has been the week of the Fed policy meeting. As expected, no shift in the policy and regulators have reiterated their commitment to do whatever-it-takes to keep the economy and markets functioning. Earlier this week, Fed has announced an extension to its Secondary Market Corporate Credit Facility until the end of 2020, which has since April provided great support in the bond markets recovery, even though it has not been used much. Looking forward, we expect that it will take several years for labour markets to return to the normal level of employment and for the inflation to get close to Fed's 2% target. Thus, no rate hikes are to be expected in the meantime and that, in turn, will continue to support bond markets. After the 2008/2009 financial crisis, Fed did not raise rates until December 2015 and chances are is that will remain on hold for longer. The question is, what concrete monetary tools will be used for stimulus, whether it will be yield curve targeting or further asset purchases, and markets are waiting for more signs from the Fed.
- Bond markets have seen their rally continue this week, with the sentiment buoyed by better-than-expected corporate earnings reports and a very dovish Fed. Overall, companies have taken steps to withstand the crisis by significantly reducing capital expenditures and costs, and this has resulted in positive free cash flows. At the same time, issuers have been able to borrow under favorable conditions in spring and summer, thus ensuring solid cash buffers and lowering refinancing risks. Increased demand matched by lower supply has led to credit spreads tightening further this week. The US IG credit spreads are now lower, at about 135 bps, which is very close to the long-time average. As for the US HY and EM bonds, they are still quite far from pre-crisis levels and we expect some further tightening on the segment of about 30 bps as per our base-case scenario and 100 bps as per our optimistic scenario, although the path could be volatile.
- The sentiment has lost steam by the end of the week, due to poor economic data. As economies have emerged from strict lockdown measures in May and June, major economic activity indicators have seen a V-shaped surge. Lately, the recovery path has started to flatten. Latest weekly new unemployment claims have come at a yet high of 1.43 million and the second quarter GDP rate came at -9.5% from previous quarter (annualized -32.9%), but both figures are largely in line with the expectations. We are now two months away from the end of the third quarter, which we believe will see the beginning of a new business cycle. But the economy continues to be dependent on monetary and fiscal stimulus.
- On the policy front, the Republican party has announced its proposal of a USD 1 trillion fiscal stimulus. As expected, discussions between the two parties regarding the fiscal package are heating up, and the divergences will slower the approval of the critical relief package. This will be the focus of investors' attention next week and the rise in sentiment will ensue following the approval. A delay until September will most likely weigh on the markets.

Weekly Investment Insights

- Turkish bond market is currently under pressure, with ongoing outflows, mostly from local currency bonds, which we do not own. While last year Turkish bonds have been among top performers in our portfolios, current crisis has amplified some pre-existing market vulnerabilities, with the Turkish government pushing Central Bank to support the currency. And that has led to foreign-exchange reserves melting. The concern has weighed mostly on sovereign bonds, including hard-currency ones, of which we hold just a small position in our portfolios. Corporate Turkish bonds in our portfolios have showed a price decrease of maximum -1.5% over the last five days, while some of them have stayed firm. We believe that CB will have to let lira free float sooner or

later. That has already happened several times in the modern history of Turkey and didn't result in any severe consequences. Both companies and population has already got used to such situations and the major part is ready for such a scenario.

Turkish foreign exchange reserves melting amid efforts to support currency



Source: Bloomberg, Central Bank of Turkey

Strategy

We continue to favour primary market for new acquisitions. We have participated in primary offers of Indian Adani Ports (BBB-/Baa3) and the Mexican mining company Industria Penoles (BBB) but have not received any allocation due to our higher yield limit. With a strong demand for corporate bonds, deals get oversubscribed and new issues are placed very tight, with none to very low premium to secondary market. Going forward, we expect accommodating central banks led by Fed to continue supporting bond markets, which should lead to further spread tightening. Autumn could see a spike in volatility, with much uncertainty surrounding the US elections and the US-China relations and we therefore aim to maintain high credit quality and short duration in our portfolios.

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

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