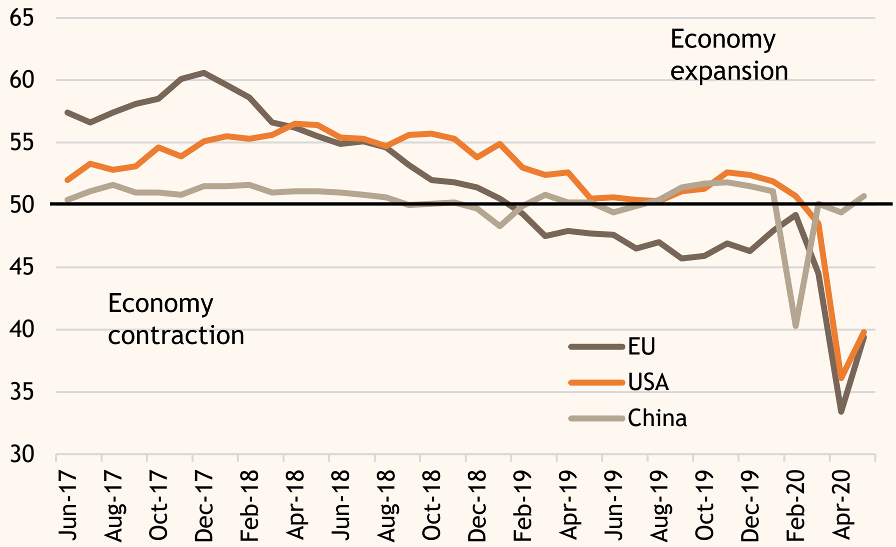
Key Economic Figures/Events of the Week

- Having lagged the rally earlier, HY issues have been in high demand this week, while other segments have stayed at the same price level despite the rise in UST yields. In general, markets have continued to shrug off any negative news, such as the unrest in the USA or the intensifying US-China rhetoric, and welcome any positive factors, such as an ongoing reopening of economies and further monetary and fiscal stimuli.
- PMI data, which is usually treated as a forward-looking guide, has demonstrated positive developments in May in comparison with April. US, EU and China have shown stronger stats while Chinese index managed to cross the '50' threshold which separates economic contraction and economic expansion.

PMI data confirms market hopes that the trough has been passed in April



Source: Bloomberg

- Oil prices have been also moving in a positive direction this week, with Brent breaking the $40 level. Analysts are upgrading their forecast for oil demand as economies reopen, while OPEC+ is reported to favor the extension of the production cut deal. An official meeting is scheduled for the next week (10/06), but markets usually try to guess the result and therefore are governed by rumours to a large extent.
- Both Euro and euro-denominated Eurobonds have been buoyed this week thanks to the 'overdelivered' ECB and the new stimulus package of EUR 130 bln from Germany to boost consumer spending and business investment. The Central Bank has increased bond purchases by EUR 600 bln to EUR 1.35 trln vs previously expected EUR 500 bln and has extended the programme at least until June 2021. Eurozone has no option but to pour trillions of liquidity to revive the economy, however, the lack of cohesion inside the union remains a serious hurdle in terms of timely decisions. We still favour USD-denominated bonds as their universe is greater, the credit quality is better and lending is cheaper vs yield.
- US Treasuries and gold have been treated like 'a leper' this week. 10-year issue yield has risen from 0.65% to almost 1% as of mid-Friday (05/06) thanks to the risk-on rally intensified by quantitative hedge funds which usually follow the trend. Announced plans to place big amounts of UST to cover growing US budget deficit have also added to the picture. We believe that the FED will control absolute levels of yields and would step in to buy excess amounts should this be deemed necessary. At the same time a healthy spread between short and long end of the curve would fit the FED's goal. For most EM bonds the rally in UST yield have resulted in spread compression rather than in price decline.

Weekly Investment Insights

- Amazon (A+) is reportedly in preliminary talks to buy a stake in Bharti Airtel (BBB-/BB+), second biggest Indian telecom, for $2 billion. We have Bharti bonds but they are short-dated and will unlikely react to this positive news. Nevertheless, we believe that Indian bonds do offer value and maintain our exposure to one of the fastest growing economies at the level of 5-7%.

Strategy

Both US and EM bond markets have enjoyed inflows this week. This has helped issuers to place their bonds at minimum spreads to the secondary market and in some cases even at a discount. We have participated in several issues with yield limits and have received allocation only in Southwest Airlines (BBB/Baa1) which have tapped the current 2023 issue at 3.75% yield to maturity and placed a new 7-year issue at 5.125% yield to maturity. We believe that the flows could continue to support the rally given the credit spreads potential to tighten further. At the same time buying at whatever yields in any environment is a sign of overoptimism from our point of view and we prefer to make selective trades.

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

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