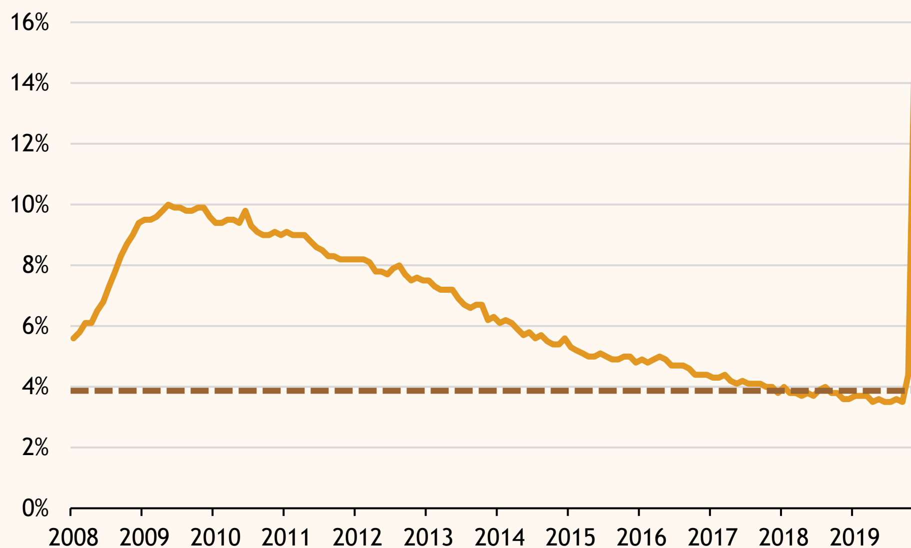
Key Economic Figures/Events of the Week

- The mood on the markets keeps fluctuating between optimism and pessimism. This week, it was slightly tilted to risk-off due to rising number of infections in the US and Germany, among many other parts of the world. Weighing the positive signs of economic recovery and the massive monetary and fiscal support by central banks and governments worldwide against concerns regarding a reinstatement of severe lockdown measures seems an arduous task for the markets. The dilemma has been there for weeks, investors are still hesitant to make up their mind. Volatility will persist.
- On the positive side, the latest PMI around the world are signaling that the economies are indeed on a recovering path. In the US, PMI index for industry climbed from 39.8 to 49.6 points and the one for the services sector improved from 37.5 to 46.7 points. Similarly, in Europe, both indicators showed a significant, V-shaped recovery from May, approaching the 50 mark which conventionally separates GDP contraction from expansion.
- The employment level fails to show the same sharp rebound however. The newly jobless claims number keeps coming higher than forecasts. The latest one, for the week ending 20 June, showed 1.48 million new weekly claims. It decreased only 60,000 from a week ago. One of the Fed's two main tasks is achieving full employment. Data suggests that the labor market recovery to approx. 4% unemployment rate will take years. And this means that the Fed will keep its expansionary mode on until then and stepping back from its quantitative easing program any time soon is very unlikely.

Bringing unemployment rate back to normal is not an easy task for Fed

(number of unemployed as percentage of the US labor force)



Source: Bureau of Labor Statistics, Bloomberg

- News about renewed trade tensions have added to the noise, after the US government announced it is considering imposing new tariffs on goods from the Eurozone. US-China relations didn't fall in the background either. Recently, the US Senate approved sanctions on Chinese individuals responsible for the imposition of new security law for Hong Kong.

Weekly Investment Insights

- This week, US central bank required banks to cap dividends and suspend buybacks through at least the third quarter of this year. Similar requirements were introduced in Eurozone as early as in March'20. The USA lags Eurozone in this aspect, with companies less likely to cancel dividend distributions even in crisis times. Such regulations hurt equity holders, but are positive for bondholders, as they will ensure banks have ample capital to withstand expected rise in defaults this year.
- On Wednesday (24/06), the credit rating agency Fitch downgraded Canadas's sovereign rating from AAA to AA+, amid an increase in the overall public deficit and public debt due to the coronavirus crisis. In normal market conditions, any news regarding sovereign downgrade doesn't get ignored by the markets. In the current situation, Canada's outlook remains far better than many other sovereign in the developed markets. Therefore, the news didn't to affect Canada's borrowing costs and consequently Canadian issuers in our portfolios didn't suffer.

Strategy

Primary markets activity dropped this week. We did not participate in any primary offers, as none of them offered risk-return profile we are looking for. Currently, there are risks to the economic outlook and geopolitical frictions which are not priced in. On the other hand, the expansionary monetary and fiscal policies keep counteracting any negative developments in the markets. At current valuations, a wait-and-see approach is the best choice.

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

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