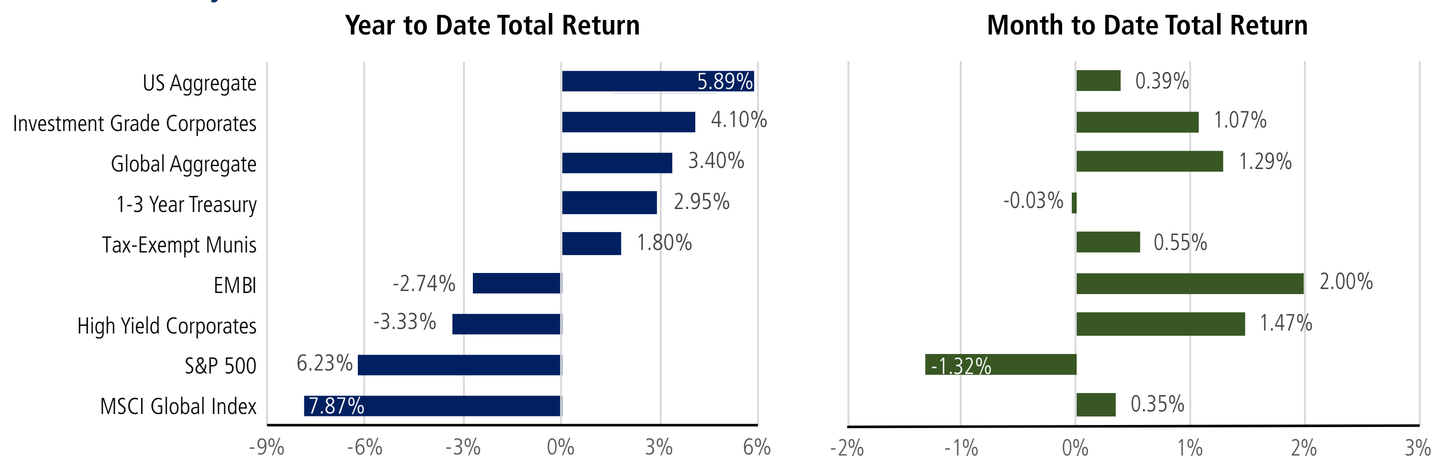
Week Ending **June 12, 2020**

Table for Two

Economic Overview:

Ready for a cozy dinner out? Some regions seem to be feeling more outgoing than others. As the global economy opens, it's happening in a staggered fashion. Germans have seized upon the chance to get out of the home for dinner. Other regions, such as the U.K., remain stuck at home as restaurants are not allowed to open yet. Coincidentally, the countries seeing the fastest rebound in sit-down dining are also the ones that have made the most progress on combatting the virus. Germany's growth in daily cases has plunged from 6,933 to 184, and Australia is reporting just 17 new cases per day. The increase in U.S. and U.K. case counts have plateaued at around 20,000 and 2,000, respectively. The optimist on our team points out that the dark days of mid-March to early-May are over (and he's made a reservation for a sit-down dinner on Saturday night in Los Angeles to prove it). The pessimist says that while a "recovery" is underway, the risk of another outbreak remains, and activity is woefully short of a robust rebound. He also plans to hunker down for the weekend enjoying local cuisine delivered by UberEats. The worst appears to be behind us, but normal is still a long way off.

Total Returns by Asset Class



Highlights of the Week:

- **High Yield:** Efficient use of capital is crucial across market environments. For many high yield issuers, the most efficient use of capital in the current environment is to build a reserve of liquidity by reducing share buybacks, dividends, and, yes, by issuing more debt. The COVID crisis has introduced an extraordinary amount of uncertainty, so while no one can predict what earnings will be over the next year or two, investors should be willing to pay a premium for companies with strong balance sheets and abundant liquidity who can weather the storm.

- **Corporates:** Companies have been issuing out the curve to take advantage of historically low rates despite higher corporate spreads. 61% of all issuance this year has been in 10-year and greater maturities according to J.P. Morgan data. In 2019 it was 54% and going back to 2010 it has averaged 50%. The terming out of debt has come from the front end (3-5 year maturities), which has represented 29% of issuance on the year, a new low, especially when compared to the 10-year average of 44% of issuance.

- **Securitized Products:** Securitized markets continued to see strong performance this week, as continuing claims showed stability and nationwide mortgage forbearance data has been better than expected. Auto and credit card ABS sectors have almost fully retraced the March widening, while CLO and RMBS sectors have retraced about 50-60%. Sectors with fundamental challenges such as aircraft, student loan and rental car have only retraced about 30% of the March spread widening.

- **Equities:** The U.S. equity market fell sharply for the week, which snapped a streak of three consecutive weeks of gains. Equities fell the most in three months as data suggest the COVID-19 virus may still be spreading and the Fed was more downbeat of the economic recovery than expected. The sell-off was broad with all sectors posting losses with cyclical sectors energy, financials, and industrials leading markets lower.

- **Municiples:** Municipal Bond mutual funds realized $2.8 billion of inflows in the most recent reporting week, according to Lipper. This marks the largest cash infusion since January and the fifth consecutive week of inflows. The outlook for June and July remains constructive, with net new-issue supply expected to be negative as coupon and maturity payments to bondholders exceed new issuance from municipalities.

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