FIXED INCOME UPDATE

(1) The Fed acts in line with its broader mandate and introduces three significant, game changing policies in time for them to have an impact:

- Unlimited purchases of US government debt and Mortgage Backed Securities.
- Buying of corporate bonds issued by US companies in the secondary market (the ECB is already doing this for European borrowers and the BoE for UK borrowers).
- Buying in the primary market – underlining the importance of keeping the credit markets moving.

(2) The primary bond market is re-opening. As this accelerates, it will provide an opportunity for broader markets to stabilise – but it will be a gradual process and not a straight line. Issuance highlights:

- Wells Fargo: two part $6bn senior bonds placed successfully – will be added to our buy list.
- P&G: five part $5bn placement 5 yr to 30 yr bonds – will be added to our buy list for corps for RV trades.
- General Dynamics: four part $4 bn placement 5 yr to 30 yr bonds – will be added to our buy list for corps for RV trades.
- Intel: six part $8 bn placement 5 yr to 40 yr bonds – will be added to our buy list for corps for RV trades.
- Coca Cola: five part $5 bn placement 5 yr to 30 yr bonds – will be added to our buy list for corps for RV trades.
- Healthcare Issuance: $3.45 bn for Human and Thermo Fisher.

(3) Government bond markets are beginning to stabilise with volatility subsiding. Despite scaremongering, Treasury market volatility did not approach 2008/09 levels – it was less than half. Of course, there will be a swathe of investors looking to switch out of Treasuries into corporate bonds, which is why the central banks are providing buying support.

(4) Credit spreads are very gradually narrowing (again, this will not be in a straight line) across the spectrum from subordinated financials through to high grade bonds.

- Looking at the CDS market, subordinated financial spreads have narrowed as a whole by 1.00% from recent highs. Please note that we were nowhere near the Euro crisis levels.
- Investment grade credit spreads have narrowed 0.30% from recent wides.

The burning question is when will bond prices reflect this stabilising backdrop?

We are following a number of factors that will gradually help:

- **A stabilisation in equity markets:** The credit markets need to see the end of the panic that has consumed stocks over the past month. London & Capital's Equity team briefing notes will provide an input here.
- **Liquidity in credit markets gradually returning:** This is a function both of investment banks being able to take risk again and investors stepping in to buy. The re-opening of the primary credit market is crucial in enabling a gradual return of stability.
- **Realisation that war-like government action will lead to an economic rebound:** Almost all major and emerging economies have put in place monetary and fiscal support with more to come from the most important economy in the world – the US. A large US fiscal package will help.
- **End to ETF selling particularly in the US:** The Fed has stated that it may well buy bond ETF's (why not equity ETF's you ask and indeed, why not).
- **Within financials there is an understanding that banks are not the battered entities that they were in 2008/09:** They are strong and have been made stronger in the past 2 weeks by central bank action and regulatory changes.

- **Traders and investors are accepting the change to working practices over the next few weeks:** It is an incredible wrench for an OTC market that depends on open discussions, messages and price discovery amongst traders and investors through meetings, discussions, roadshows, briefings and analyst meetings (to name a few). When there is a fracture in the behavioural features that underpin the bond OTC market it takes time for stability to return. We are gradually seeing investment banks stepping up but it will take time and patience. Traders, like the rest of us, are humans and have the same fears and hopes!
- **Companies accessing liquidity and credit lines:** Companies have to show that there is no stigma attached to accessing liquidity at this time as it is vital to ensure employment is sustained. Governments and Central Bankers are actively working with companies and banks to ensure that there is as much liquidity as is needed to ensure that companies can withstand the interruption.
- **The virus numbers themselves:** As humans, we want to see a more positive trend emerging and we are seeing tentative signs of changes in mainland Europe. China will re-open Wuhan on April 8th.

We are now working through the framework set out in the March 20th Market Note in terms of navigating a way forward.

As with equities, we do not want to provide a knee-jerk response but will provide a package of solutions:

- Raising liquidity to add to risk
- Nurturing positions back towards fundamental valuations
- Identifying issuers that may take longer to recover and plot a way out
- Identifying opportunities