INCOME PARTNERS

IP VIEWPOINT

MARCH 2020

Macro View & Outlook

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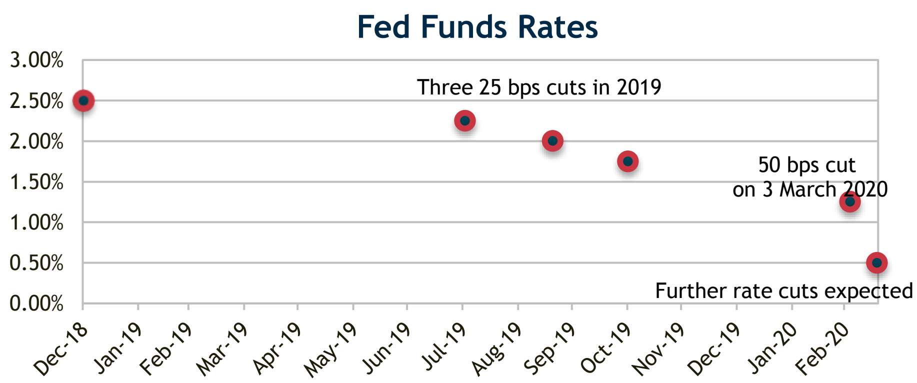
DON'T PANIC, IT'S NOT A FINANCIAL CRISIS NOR A TECH BUBBLE

- We don't believe the current bout of market volatility is a precursor to a financial crisis nor are economies expected to fall off a cliff any time soon in our opinion.
- Instead, what we see is financial markets, which were 3 weeks ago not paying much attention to the expected economic impact of the coronavirus, start to price in more of a slowdown.
- Additionally, US equity markets were richly valued to start with, hence a correction was in order.
- We believe we are about 60% - 70% through the process of pricing in a slowdown, with the S&P down almost 20% from its peak and US Treasury yields down substantially.

SUPPORTIVE FACTORS FOR THE ECONOMY

In fact, once the current re-pricing is complete we see some positives for the US economy – which will help prevent the economy falling off a cliff, potentially prolonging the current expansion and offsetting some of the impact from the coronavirus.



- Lower Short Rate: The Fed has already cut rates 50 bps in an inter-meeting cut this month, and more rate cuts are priced in
- Lower Long Rates: 30Y and 10Y bond yields have dropped to below 1.0% and 0.5% in March. This opens up the room for another round of mortgage re-financing.
- Lower Energy Prices: With oil prices dropping nearly 50% so far this year, we expect consumers to benefit from lower gasoline prices.
- Potential Fiscal Expansion: Being an election year, we believe the possibility of some sort of fiscal expansion in the US is high.

SUPPORTIVE FACTORS FOR FIXED INCOME MARKETS

- While economies will not be falling off a cliff, there will most certainly be a slowdown. This will keep central banks accommodative.
- We expect rates to remain low and look for the 10Y US Treasury to trade between 0.5% and 1.0%.
- This should once again bring the search for yield back in to favor. While equity markets will need to keep grappling with slowing earnings and expensive valuations, yield on offer in Asian credit markets will remain compelling in our view.
- The main risk, in our opinion, is a continued freezing in the new issue pipeline in the US and here in Asia. Given the volatility we've seen the amount of new deals being printed drop significantly. This would be negative for companies needing to re-finance, leading to potentially higher default rates and further market volatility.
    - Our base case is the central bank action, including rate cuts and liquidity injection, should be able to stabilize this situation – but we are watching this closely.

ASIAN CREDIT: ATTRACTIVE VALUATIONS & CREDIT SELECTION REMAINS KEY

- As seen below, the current sell-off has brought Asian credit spreads to levels last seen in 2015 – and this would be a good opportunity

- With the energy and commodity sectors impacted by lower pricing sector and credit selection remain the key for determining performance.
- Even outside of these sectors, there are other credits that could be negatively impacted by the coronavirus, slowing growth and tighter financial conditions. So again, bottom-up credit selection will be important and how we can add value to portfolios.
- We note that anecdotally business is gradually returning to normal in China, which should be positive for selected credits