Coronavirus and Fixed-Income Markets
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The fixed income markets faced extraordinary turbulence this week. The topic on all bond investors minds was market liquidity. With volatility at an extreme level, liquidity has become significantly reduced across many fixed income instruments, including government bond markets. Bid-ask spreads are several times wider than in normal environments in all areas of both the bond and the currency markets.

While in the early days of this crisis government bond yields fell pretty dramatically, this week yields on most major 10-year government bonds were actually a bit higher on selling pressures. The 10-year U.S. Treasury ended the week up at 85 basis points. The 10-year German Bund was at negative 33 basis points and the 10-year Japanese government bond yield was at a positive yield, up about four basis points. Now these absolute levels of government bond yields remain very low, but we recognize that volatility is likely to persist. And so, despite the low levels, we're keeping duration relatively close to our portfolios, benchmarks or their long-term targets as a defensive measure.

In currency markets, investors paid a high premium for U.S. dollars this week, despite attempts by many central banks and governments to assuage investor fears and inject U.S. dollar liquidity. The broad dollar index was up about 5% on the week and bid-ask spreads widened significantly in both the spot and the forward market. Commodity-related currencies were the hardest hit. But even traditional safe havens like the Swiss franc and Japanese yen lost more than 3% versus the U.S. dollar for the week, proving that in times of heightened stress, the dollar is the ultimate store of value.

Credit spreads continued to widen. The U.S. high yield spreads are now above 1000 basis points. And securitized assets, including commercial mortgage-backed securities and credit risk transfer securities, also sold off significantly. While we don't feel confident calling the bottom of the market, we do think valuations now present an opportunity for investors that have a medium-term view to start taking advantage of these higher spreads. Because even in a weak growth environment, we think market pricing has overestimated the downturn. We're taking a slow and steady approach. As we know, volatility could persist in the near term, but we are looking to selectively provide liquidity amid these attractive valuations. As we move through this crisis, we'll continue to keep you posted on markets and our views.