

**Coronavirus and Fixed-Income Markets**  
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It was another wild week in the fixed income markets, with credit markets selling off early in the week, but then recovering somewhat towards the end of the week. We saw government bonds generally end the week lower with US Treasuries down in the high 60 basis point range, Bunds down to almost 50 basis points negative in terms of yield and Japanese government bonds down to around zero again.

In credit markets, we saw high yield down about 15 percent for the year to date and emerging markets down about 13 percent. Even investment grade corporate markets were down for the week, about 6 percent. But the big declines for the week really came in the securitized sector where you now see commercial mortgage-backed securities down about 25 percent for the year. And credit risk transfer securities, which are residential mortgage backed securities, were down 20 to 30 percent depending on security. The only real major sector left on the plus side was US Treasuries, which are now about 8 percent positive for the year.

The money markets have had interesting flows. We've seen negative yields on T-bills along the curve. Liquidity continues to be stretched with bid-ask spreads elevated even in the US Treasury markets. And liquidity has been stretched because of indiscriminate sellers. There have been sellers from exchange-traded funds and mutual funds pushing bonds into the market. And given the regulations and de-risking that traditional dealer banks have faced in the years since the global financial crisis, they're unable to make markets the way that they used to. And so, prices need to decline in order for sales to get done.

But with the announcement of the Fed purchase programs and their support facilities, as well as the potential for stimulus out of Congress, and the central bank actions and policy measures across the globe, we started to see liquidity improve as we moved through the week, particularly in what are usually the more liquid markets like Treasuries, although bid-ask spreads remain elevated across each market sector. One positive sign was that we saw lots of new issuance in the investment grade corporate market. We saw one hundred billion dollars price in new issues in the US investment grade corporate market. That was helpful in terms of tightening up spreads and improving returns in that sector, although as we said, bid-ask spreads remain elevated.

Looking ahead, expectations for growth have been reduced. That means you've got to revisit the fundamentals underlying most credit sectors. But you also have to compare them to the much more attractive valuations that you see in the market. In the corporate bond sectors, expectations for downgrades and defaults have no doubt increased. But at three hundred basis point spread in investment grade corporates and nearly a thousand basis points spread in high yield market, that offers excellent value in select opportunities and attractive return potential over the next year or two.

In the commercial mortgage backed market, concerns over weakness, especially in CMBX 6, which is a derivative contract that we favored, that references 2012 vintages, sold off amid heightened worries around losses in the retail sector, especially malls. We've revisited our thesis and we recognize that while properties are going to struggle in the coming weeks and months, even with severe assumptions for recession, store closure,

lower sales, lower rents; we believe that the double digit yields that are on offer should present positive returns going forward.

And finally, In the residential mortgage market, we've been favoring CRTS, credit risk transfer securities. These are residential mortgage backed securities that are not guaranteed by Fannie Mae and Freddie Mac, but reference mortgages that are guaranteed by Fannie Mae and Freddie Mac. The underlying mortgage borrower is a conforming mortgage borrower. This market has sold off 20 to 30 percent as levered investors, who made up a large part of the market, lost their financing and had to de-lever and sell indiscriminately.

There have also been some concerns over the underlying mortgage borrower and potential for defeasance, where mortgage borrowers get a reprieve on making their payments, which may delay the cash flows to these securities. But at 10 times the spread levels that we saw pre-crisis, these securities offer a compelling return opportunity as the underlying borrower remains secure, in our view. And our loss expectations remain low. We think that these securities should offer a very attractive return going forward.

As we look ahead, we're still not ready to call the bottom of this market, but we do think that for investors that have a medium-term investment horizon, it is the opportunity to start taking advantage of some of these wider spread opportunities. Because even in a weaker growth environment, we think that market pricing currently offers very attractive opportunity. We're taking a slow and steady approach: as we know, volatility can persist in the near term, but we are looking to selectively provide liquidity amid these attractive valuations.

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