

# STRATEGY WEEKLY

Document intended for professional clients

6 April 2020 /// n°14-2020

## On the edge

### Key Points

- Unheard-of rise in US jobless claims
- Dividend cut announcements take toll on equities
- \$130b worth of bonds downgraded into high yield in the US
- Gradual improvement in liquidity in credit markets

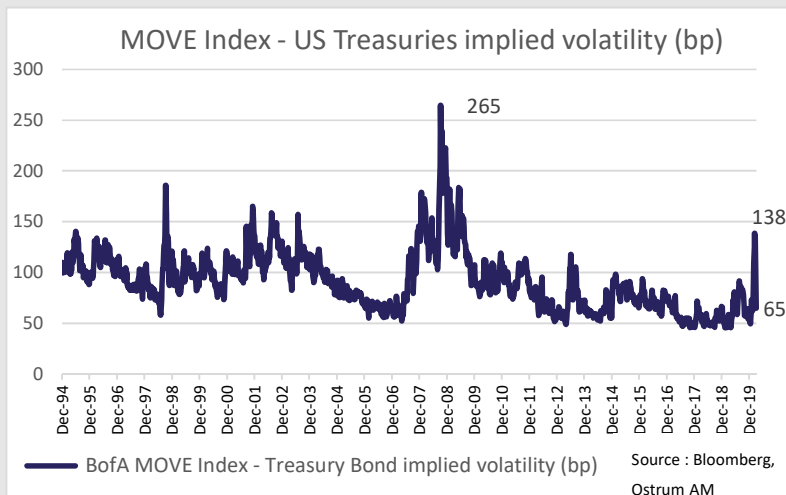
Equity markets fell back last week. In the US, the S&P 500 index lost 2% despite a rebound in oil stocks banking on hypothetical output cuts. Europe underperformed due to dividend cuts. In turn, the Nikkei lost fully 8%.

The strong dollar in spite of concerted Central Bank intervention maintains an unfavorable environment for risk assets. The yield on Treasuries drifted lower. The 10-year note yield (0.59%) is down by 8bp. In the euro area, we have observed a slight yield rise to

-0.44% (+3bp). Sovereign spread volatility is here to stay although high demand at bond sales is reassuring.

Liquidity is slowly returning to credit markets on both sides of the Atlantic. The unfolding recession causes rating downgrades and significant migration into high yield. Synthetic spreads move higher as CDX HY spreads top 770bp. Emerging bonds also faced widening pressure. The EMBI gauge is trading about 650bp.

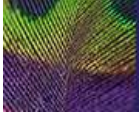
### Chart of the week



Treasuries represent the world's safest asset given the global role of the dollar and absence of credit risk. Their volatility hence is a reliable stress indicator.

The MOVE index is a synthetic measure of volatility across a range of maturities. It hit a weekly close high at 138bp in mid-March. Volatility then fell back to normal at 65bp.

Rapid Fed action hence prevented deterioration comparable to 1998 (Russian default), the 2001-2003 crisis and obviously the 2008 great financial crisis.



## US joblessness at 20%?

The United States, and the New York area in particular, is now the epicenter of the world Covid-19 pandemic. On economic grounds, the unheard-of spike in initial jobless claims gives a sense of the magnitude of output losses. A total of 6.6mn Americans lost their jobs last week. This raises the total of unemployed persons to 10mn since mid-March. The outlook for the next few weeks is dismal. The unemployment rate will increase very rapidly to levels unseen since the 1930s great depression. March non-farm payroll data reported only 701k job losses but the survey is conducted on the week on the 12<sup>th</sup> day of the reference month hence before the catastrophic claims numbers. April data will thus take account of job losses in the millions. California and the New York area, the richest and most dynamic economic regions in the country, have been placed under confinement measures. There is no doubt that 2q20 GDP will collapse. New car sales have already fallen by a third to 12mn at annual rate in March. Sales may fall well below the 2009 low of about 9mn. Real estate will follow, which will put mortgage servicing firms in a very dire situation. The US Treasury worries about chain bankruptcies in the residential mortgage financing industry. The bailout of small servicing firms may fetch \$75b and up. Against this backdrop, ISM survey readings are dubious. As NFP employment data, ISM manufacturing only reported a modest contraction (49.1) whilst the March service gauge indicated expansion (52).

In Europe, available surveys do point to a plunge in service activity. Italy (17.4 in March) is most affected and Spain also faces a major setback. Manufacturing fares slightly better. Partial unemployment schemes and government guarantees are used extensively. All sectors cannot be bailed out. In China, surveys suggest a recovery is starting to unfold but a number of Asian countries worry about a resurgence of the epidemic.

## Oil market: discussing a new equilibrium?

Donald Trump dared to announce the possibility a 10mbpd cutback in output from Russia and Saudi Arabia. An OPEC+ meeting is scheduled this week. Oil demand fell by as much as 25 to 30mbpd in March-April. However, with no effort from the US, which is currently the largest oil producer with 13mbpd of crude, excess supply will continue to prevail. Trump did not mention a cut in US production and seems to expect that a rollback of sanctions on Russia will be enough to obtain an agreement. The oil market swiftly priced in a turnaround in the seemingly hopeless Saudi Arabia's strategy. Brent prices have risen back above \$34. Expectations of an increase in China's strategic reserves also fed the rebound in prices.

## High yield under pressure

The financial backdrop remains challenging for world equity markets. Realized volatility has started to decline although the VIX index is still trading near 50%. Stock indices have turned down owing to widespread dividend cuts. Several utilities companies will scarp dividends this year, including payments related to last year's performance. The bulk of dividends are paid between April and June and markets must reflect this new reality. Euro Stoxx 50 lost 2.4% despite a turnaround in the oil market which benefitted the energy sector (+6%). In turn, the S&P 500 lost 2% over five trading sessions, as financials and utilities lost significant ground. In Japan, Nikkei plunged by 8% despite a new round of fiscal stimulus worth 10pp of GDP.

In bond markets, Fed intervention has significantly contained volatility in US Treasuries. Two-year yields (0.23%) may continue to roll down towards the Fed's repo rate (0.10%). The 10s30s spread was slightly wider whilst curve flattening on 2s10s. New 20-year bond issuance starting in May could be an explanation for steepening pressure at the backend of the US curve. In the euro area, 30-year Bunds are in high demand (-0.05%). Speculative accounts may be raising exposure to steepeners in the US long end whilst putting euro flatteners. Sovereign spreads remain volatile especially ahead of peripheral bond auctions. Spain raised the maximum size of bond auctions, which has weighed on spreads. Spain's 10-year Bonos (+17bp last week) are trading at 118bp against Bunds. BTPs (+19bp) oscillate near 200bp. Portugal managed to issue a 7-year bond borrowing €7b at MS+86bp. Syndicated deal success are reassuring given prevailing downgrade risks on sovereign issuers.

As concerns credit markets, liquidity conditions are slowly improving thanks to support measures from the ECB and the Fed. Tensions at the short end of the curve around quarter end have been reduced. That said, rating downgrades have increased as rating agencies take account of the unfolding recession on corporate cash flows. European IG credit funds continue to report outflows so that spreads remain about 240bp against German Bunds. Financials have tended to outperform lately. In parallel, bail-in risk does impact (to the upside) the spread ratio between senior and subordinated bonds. Selling pressure is most significant in high yield markets especially in the United States. Total debt outstanding of issuers downgraded into speculative grade (\$130b) already topped the 2008 peak. March mark-to-market losses and ongoing rating downgrades have had an impact on high yield investor sentiment and increased upward pressure on spreads.

## Main Market Indicators

<b>G4 Government Bonds</b>	<b>06-Apr-20</b>	<b>-1wk (bp)</b>	<b>-1m (bp)</b>	<b>YTD (bp)</b>
EUR Bunds 2y	-0.66 %	+2	+20	-6
EUR Bunds 10y	-0.43%	+6	+28	-24
<b>EUR Bunds 2s10s</b>	<b>23 bp</b>	<b>+4</b>	<b>+8</b>	<b>-19</b>
USD Treasuries 2y	0.25 %	+2	-26	-132
USD Treasuries 10y	0.64 %	-8	-12	-128
<b>USD Treasuries 2s10s</b>	<b>40 bp</b>	<b>-10</b>	<b>+14</b>	<b>+5</b>
GBP Gilt 10y	0.33 %	-1	+9	-50
JPY JGB 10y	0.02 %	+0	+14	+3
<b>€ Sovereign Spreads (10y)</b>	<b>06-Apr-20</b>	<b>-1wk (bp)</b>	<b>-1m (bp)</b>	<b>YTD (bp)</b>
France	50 bp	+5	+13	+19
Italy	196 bp	-1	+18	+36
Spain	115 bp	+5	+22	+49
<b>Inflation Break-evens (10y)</b>	<b>06-Apr-20</b>	<b>-1wk (bp)</b>	<b>-1m (bp)</b>	<b>YTD (bp)</b>
EUR OATi (9y)	27 bp	-5	-24	-
USD TIPS	114 bp	+19	-18	-65
GBP Gilt Index-Linked	288 bp	+2	-6	-24
<b>EUR Credit Indices</b>	<b>06-Apr-20</b>	<b>-1wk (bp)</b>	<b>-1m (bp)</b>	<b>YTD (bp)</b>
EUR Corporate Credit OAS	239 bp	-2	+122	+146
EUR Agencies OAS	76 bp	+1	+26	+32
EUR Securitized - Covered OAS	64 bp	+1	+20	+23
EUR Pan-European High Yield OAS	794 bp	-8	+382	+490
<b>EUR/USD CDS Indices 5y</b>	<b>06-Apr-20</b>	<b>-1wk (bp)</b>	<b>-1m (bp)</b>	<b>YTD (bp)</b>
iTraxx IG	105 bp	+7	+25	+61
iTraxx Crossover	595 bp	+15	+215	+388
CDX IG	122 bp	+12	+39	+77
CDX High Yield	737 bp	+105	+289	+457
<b>Emerging Markets</b>	<b>06-Apr-20</b>	<b>-1wk (bp)</b>	<b>-1m (bp)</b>	<b>YTD (bp)</b>
JPM EMBI Global Div. Spread	645 bp	+21	+280	+355
<b>Currencies</b>	<b>06-Apr-20</b>	<b>-1wk (%)</b>	<b>-1m (%)</b>	<b>YTD (%)</b>
EUR/USD	\$1.079	-2.1	-4.39	-3.92
GBP/USD	\$1.229	-0.81	-5.83	-7.36
USD/JPY	¥109.08	-1.07	-3.38	-0.46
<b>Commodity Futures</b>	<b>06-Apr-20</b>	<b>-1wk (\$)</b>	<b>-1m (\$)</b>	<b>YTD (\$)</b>
Crude Brent	\$33.2	\$6.8	-\$12.3	-\$30.8
Gold	\$1 644.0	\$23.1	-\$29.8	\$121.2
<b>Equity Market Indices</b>	<b>06-Apr-20</b>	<b>-1wk (%)</b>	<b>-1m (%)</b>	<b>YTD (%)</b>
S&P 500	2 489	-2.08	-16.27	-22.97
EuroStoxx 50	2 767	0.04	-14.40	-26.13
CAC 40	4 298	-1.83	-16.36	-28.10
Nikkei 225	18 576	-2.67	-10.47	-21.48
Shanghai Composite	2 764	-0.30	-8.91	-9.38
VIX - Implied Volatility Index	44.64	-21.79	6.44	223.95

Source: Bloomberg, Ostrum Asset Management

## Writing



**AXEL BOTTE**  
STRATEGIST  
axel.botte@ostrum.com

## Legal information

This document is intended for professional clients in accordance with MIFID. It may not be used for any purpose other than that for which it was conceived and may not be copied, distributed or communicated to third parties, in part or in whole, without the prior written authorization of Ostrum Asset Management. None of the information contained in this document should be interpreted as having any contractual value. This document is produced purely for the purposes of providing indicative information. This document consists of a presentation created and prepared by Ostrum Asset Management based on sources it considers to be reliable. Ostrum Asset Management reserves the right to modify the information presented in this document at any time without notice, and in particular anything relating to the description of the investment process, which under no circumstances constitutes a commitment from Ostrum Asset Management.

Ostrum Asset Management will not be held responsible for any decision taken or not taken on the basis of the information contained in this document, nor in the use that a third party might make of the information.

Figures mentioned refer to previous years. Past performance does not guarantee future results. Any reference to a ranking, a rating or an award provides no guarantee for future performance and is not constant over time. Reference to a ranking and/or an award does not indicate the future performance of the UCITS/AIF or the fund manager.

Under Ostrum Asset Management's social responsibility policy, and in accordance with the treaties signed by the French government, the funds directly managed by Ostrum Asset Management do not invest in any company that manufactures, sells or stocks anti-personnel mines and cluster bombs.

This material has been provided for information purposes only to investment service providers or other Professional Clients, Qualified or Institutional Investors and, when required by local regulation, only at their written request. This material must not be used with Retail Investors.

In the E.U. (outside of the UK and France): Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers S.A. is a Luxembourg management company that is authorized by the Commission de Surveillance du Secteur Financier and is incorporated under Luxembourg laws and registered under n. B 115843. Registered office of Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. Italy: Natixis Investment Managers S.A., Succursale Italiana (Bank of Italy Register of Italian Asset Management Companies no. 23458.3). Registered office: Via Larga, 2 - 20122, Milan, Italy. Germany: Natixis Investment Managers S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Im Trutz Frankfurt 55, Westend Carrée, 7. Floor, Frankfurt am Main 60322, Germany. Netherlands: Natixis Investment Managers, Netherlands (Registration number 50774670). Registered office: Stadsplateau 7, 3521AZ Utrecht, the Netherlands. Sweden: Natixis Investment Managers, Nordics Filial (Registration number 516405-9601 - Swedish Companies Registration Office). Registered office: Kungsgatan 48 5tr, Stockholm 111 35, Sweden. Spain: Natixis Investment Managers, Sucursal en España, Serrano nº90, 8th Floor, 28006, Madrid, Spain.

In France: Provided by Natixis Investment Managers International – a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris. In Switzerland: Provided for information purposes only by Natixis Investment Managers, Switzerland SArl, Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zurich.

In the U.K.: Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (register no. 190258). This material is intended to be communicated to and/or directed at persons (1) in the United Kingdom, and should not to be regarded as an offer to buy or sell, or the solicitation of any offer to buy or sell securities in any other jurisdiction than the United Kingdom; and (2) who are authorised under the Financial Services and Markets Act 2000 (FSMA 2000); or are high net worth businesses with called up share capital or net assets of at least £5 million or in the case of a trust assets of at least £10 million; or any other person to whom the material may otherwise lawfully be distributed in accordance with the FSMA 2000 (Financial Promotion) Order 2005 or the FSMA 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the "Intended Recipients"). The fund, services or opinions referred to in this material are only available to the Intended Recipients and this material must not be relied nor acted upon by any other persons. Registered Office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER.

In the DIFC: Provided in and from the DIFC financial district by Natixis Investment Managers Middle East (DIFC Branch) which is regulated by the DFSA. Related financial products or services are only available to persons who have sufficient financial experience and understanding to participate in financial markets within the DIFC, and qualify as Professional Clients or Market Counterparties as defined by the DFSA. No other person should act upon this material. Registered office: Office 603 - Level 6, Currency House Tower 2, PO Box 118257, DIFC, Dubai, United Arab Emirates.

In Japan: Provided by Natixis Investment Managers Japan Co., Ltd., Registration No.: Director-General of the Kanto Local Financial Bureau (kinsho) No. 425. Content of Business: The Company conducts discretionary asset management business and investment advisory and agency business as a Financial Instruments Business Operator. Registered address: 1-4-5, Roppongi, Minato-ku, Tokyo.

In Taiwan: Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C. Registered address: 34F., No. 68, Sec. 5, Zhongxiao East Road, Xinyi Dist., Taipei City 11065, Taiwan (R.O.C.), license number 2018 FSC SICE No. 024, Tel. +886 2 8789 2788.

In Singapore: Provided by Natixis Investment Managers Singapore (name registration no. 53102724D) to distributors and institutional investors for informational purposes only. Natixis Investment Managers Singapore is a division of Ostrum Asset Management Asia Limited (company registration no. 199801044D). Registered address of Natixis Investment Managers Singapore: 5 Shenton Way, #22-05 UIC Building, Singapore 068906.

In Hong Kong: Provided by Natixis Investment Managers Hong Kong Limited to institutional/ corporate professional investors only.

In Australia: Provided by Natixis Investment Managers Australia Pty Limited (ABN 60 088 786 289) (AFSL No. 246830) and is intended for the general information of financial advisers and wholesale clients only.

In New Zealand: This document is intended for the general information of New Zealand wholesale investors only and does not constitute financial advice. This is not a regulated offer for the purposes of the Financial Markets Conduct Act 2013 (FMCA) and is only available to New Zealand investors who have certified that they meet the requirements in the FMCA for wholesale investors. Natixis Investment Managers Australia Pty Limited is not a registered financial service provider in New Zealand.

In Latin America: Provided by Natixis Investment Managers S.A.

In Uruguay: Provided by Natixis Investment Managers Uruguay S.A., a duly registered investment advisor, authorised and supervised by the Central Bank of Uruguay. Office: San Lucar 1491, oficina 102B, Montevideo, Uruguay, CP 11500. The sale or offer of any units of a fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627.

In Colombia: Provided by Natixis Investment Managers S.A. Oficina de Representación (Colombia) to professional clients for informational purposes only as permitted under Decree 2555 of 2010. Any products, services or investments referred to herein are rendered exclusively outside of Colombia. This material does not constitute a public offering in Colombia and is addressed to less than 100 specifically identified investors.

In Mexico: Provided by Natixis IM Mexico, S. de R.L. de C.V., which is not a regulated financial entity or an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores) and is not registered with the Comisión Nacional Bancaria y de Valores (CNBV) or any other Mexican authority. Any products, services or investments referred to herein that require authorization or license are rendered exclusively outside of Mexico. Natixis Investment Managers is an entity organized under the laws of France and is not authorized by or registered with the CNBV or any other Mexican authority to operate within Mexico as an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores). Any use of the expression or reference contained herein to "Investment Managers" is made to Natixis Investment Managers and/or any of the investment management subsidiaries of Natixis Investment Managers, which are also not authorized by or registered with the CNBV or any other Mexican authority to operate within Mexico as investment managers.

The above referenced entities are business development units of Natixis Investment Managers, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. The investment management subsidiaries of Natixis Investment Managers conduct any regulated activities only in and from the jurisdictions in which they are licensed or authorized. Their services and the products they manage are not available to all investors in all jurisdictions. It is the responsibility of each investment service provider to ensure that the offering or sale of fund shares or third party investment services to its clients complies with the relevant national law.

The provision of this material and/or reference to specific securities, sectors, or markets within this material does not constitute investment advice, or a recommendation or an offer to buy or to sell any security, or an offer of any regulated financial activity. Investors should consider the investment objectives, risks and expenses of any investment carefully before investing. The analyses, opinions, and certain of the investment themes and processes referenced herein represent the views of the portfolio manager(s) as of the date indicated. These, as well as the portfolio holdings and characteristics shown, are subject to change. There can be no assurance that developments will transpire as may be forecasted in this material. Past performance information presented is not indicative of future performance.

Although Natixis Investment Managers believes the information provided in this material to be reliable, including that from third party sources, it does not guarantee the accuracy, adequacy, or completeness of such information. This material may not be distributed, published, or reproduced, in whole or in part.

All amounts shown are expressed in USD unless otherwise indicated.



[www.ostrum.com](http://www.ostrum.com)

Ostrum Asset Management

Asset management company regulated by AMF under n° GP-18000014 – Limited company with a share capital of 27 772 359 euros

Trade register n°525 192 753 Paris – VAT: FR 93 525 192 753 – Registered Office: 43, avenue Pierre Mendès-France, 75013 Paris – [www.ostrum.com](http://www.ostrum.com)

Tél. : 01 58 19 09 80