INFORMATION FOR INVESTMENT PROFESSIONALS

COLUMBIA THREADNEEDLE INVESTMENTS

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In Credit

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David Oliphant

Executive Director,
Fixed Income

Contributors

David Oliphant

Macro / Government bonds, Investment Grade Credit

Angelina Chueh

Euro High Yield Credit

Chris Jorel

US High Yield Credit,
US Leveraged Loans

Katherine Nuss

US Investment Grade Credit

Kris Moreton

Structured Credit

Justin Ong

Asian Fixed Income

Doug Rangel

Municipals

Charlotte Edwards

Responsible Investments

Jake Lunness

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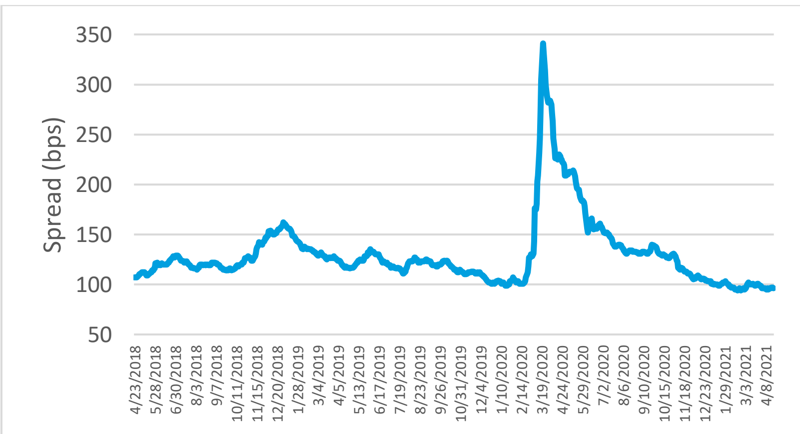
All standstill.

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index MTD return	Index YTD return
US Treasury 10 year	1.58%	0 bps	1.1%	-3.5%
German Bund 10 year	-0.25%	2 bps	-0.3%	-2.7%
UK Gilt 10 year	0.76%	-1 bps	1.3%	-6.2%
Japan 10 year	0.08%	-1 bps	0.4%	-0.1%
Global Investment Grade	96 bps	0 bps	1.0%	-2.3%
Euro Investment Grade	86 bps	0 bps	0.2%	-0.5%
US Investment Grade	95 bps	1 bps	1.5%	-3.1%
UK Investment Grade	93 bps	0 bps	1.1%	-3.1%
Asia Investment Grade	224 bps	-2 bps	-0.5%	-1.4%
Euro High Yield	310 bps	5 bps	0.5%	2.0%
US High Yield	329 bps	7 bps	0.9%	1.8%
Asia High Yield	548 bps	-10 bps	0.6%	0.8%
EM Sovereign	314 bps	2 bps	2.2%	-2.7%
EM Local	4.9%	2 bps	2.6%	-4.3%
EM Corporate	303 bps	0 bps	0.6%	-0.2%
Bloomberg Barclays US Munis	1.0%	-1 bps	1.0%	0.6%
Taxable Munis	2.3%	-3 bps	2.4%	-2.1%
Bloomberg Barclays US MBS	10 bps	2 bps	0.6%	-0.6%
Bloomberg Commodity Index	188.96	2.2%	5.9%	13.3%
EUR	1.2092	1.0%	3.1%	-1.0%
JPY	107.77	0.9%	2.6%	-4.2%
GBP	1.3901	0.3%	0.7%	1.5%

Source: Bloomberg, Merrill Lynch, as at 26 April 2021.

Chart of the week: Global investment grade spreads (2018-2021)



Source: ICE bofAML, Bloomberg, Columbia Threadneedle Investments, as at 23 April 2021.

Macro / government bonds

Government bond yields were little moved last week.

The benchmark US 10-year note ended the week with a yield of 1.58%, barely moved from a week earlier. Inflation expectations, which have risen materially in the last year and driven bond yields much higher in the first quarter of this year have been little changed through April and stand at around 2.3% at the 10-year point. Shorter-term expectations are higher with most analysts expecting a temporary 'blip' higher in prices. The US yield curve has also managed to flatten a little through this month after a period of steepening.

In terms of actual data, US initial jobless claims fell again and hit a new post pandemic low of 547k. For context, one week in March of last year this number was over six million.

UK consumer price inflation came in at a rather benign 0.7% y/y, while the unemployment rate fell to 4.9% (though this measure was below 4% at the end of 2019). Improving business confidence was noted with the composite PMI surprising to the upside and rising to 60.0. Similar readings for France and Germany were recorded at 51.7 and 56.0 respectively.

Covid-19 cases continue to rise in certain parts of the world, notably in India. This is denting optimism in what has been a period of strong economic data generally.

Investment grade credit

While government bond yields were directionless, credit spreads also moved sideways last week. The global corporate bond index ended the week with a spread to government bonds of around 96bps, which was unchanged from a week earlier. Indeed, the index has traded in a remarkably tight range of 94-104bps so far this year **(see chart of the week)**. As we have mentioned, valuations in investment grade (as in other risk markets) remain expensive when compared to both shorter and longer-term averages.

High yield credit

US high yield bond prices were modestly lower over the week alongside lower equities and US treasury yields amid few market catalysts. The ICE Bank of America US HY CP Constrained index returned -0.06% and spreads were 7bps wider. Spreads and yields ended the week at 339bps and 4.03% respectively. Thus far in April, the index has returned 0.90% with BB bonds (+0.97%) outperforming Single B bonds (+0.76%) and CCCs (+0.84%). New issue activity moderated with $6.8bn pricing over the week compared to double-digit volume over the previous eight weeks. According to Lipper, the asset class experienced a $1.3bn outflow.

A negative return week for European High Yield (EHY) with single B underperforming, as the asset class managed through another week of heavy new issuance. The EHY primary market saw €3.5bn across seven deals, many from first time issuers in the EHY space. Though the week started with strong market demand, there was some indigestion by the middle of the week, resulting in spread widening by the end of the week and a €1.7bn issue (Picard, the French frozen food distributor) being pulled due to lack of price agreement. Also, flows were close to flat with very small inflows into ETFs and managed accounts.

Regarding Q1 reporting, news so far has generally been of meeting or beating expectations. One exception was Netflix who announced weak Q1,21 results, but still showed revenue up +24%. The media company also said it no longer need to raise external financing to fund day-to-day operations. It also announced a $5bn share buyback programme, coming after last week's Moody's double upgrade to Ba1.

Another EHY issuer to finally announce restructuring last week was Codere, the Spanish gaming company. It had been downgraded to Caa1 at the height of the March 2020 crash and continued to see credit deterioration since then.

Leveraged loans

Leveraged loan prices were down modestly over the week amid few market relevant catalysts. The average price of the J.P. Morgan Leveraged Loan Index decreased $0.08 to $98.24. Yields and spreads (3-year) increased 3bps and 4bps to 4.81% and 436bps. The index has returned 0.42% in April with Split B/CCC loans (+0.91%) outperforming B loans (+0.41%) and BB loans (+0.25%). The asst class received another $1.1bn inflow over the week, the 15th consecutive weekly inflow.

US structured credit

Agency mortgages were flat for the week, which trailed the performance of the Bloomberg Barclays US Aggregate Bond Index, up 13bps. On a year-to-date basis, however, returns for mortgages have been strong and have outperformed the index by a wide margin. With mortgage rates continuing to grind higher, prepayment speeds are decelerating and were lower than expected in March. Forbearance rates continued to edge lower and now sit at 4.4%. Home price appreciation is continuing the trend from 2020 and is on pace for similar performance this year with demand remaining strong and a dearth of supply, both bolstering prices. Overall, credit performance remained strong, but on both the ABS and CMBS fronts the real story is the lack of supply.

Asian credit

Huarong International, which is the guarantor to the HRINTH US dollar bonds, made further statements last week to ease investor concerns. Huarong International stated that it has returned to profits in Q1,21 and that its operating indicators are meeting targets. The company also stated that it remains focused on reducing risk and ensuring sufficient liquidity. However, additional news flow later in the week about restructuring with haircuts as one of the options still being considered by the regulators as well as Huarong's announcement about further delay in releasing its FY20 results, continue to drive volatility in the HRINTH bonds.

Saka Energi's Q4,20 performance was satisfactory with production level at around 25kbpd and EBITDA of $34m (Q3,20: $18m). The q/q improvement was due to better price realisation. The cash position was $237m at end 2020 and the company targets a daily production of 25kbpd for 2021 and a capex plan of $80-90m. With regards to the tax dispute matters for Saka Pangkah LLC, Saka Energi expects to receive back the tax payment of $39.8m that it made in 2020. The case was overturned in Saka Energi's favour in H2,20, which is also requesting an extension of its $361m shareholder loan (maturing in January 2022) from its parent company, Perusahaan Gas Negara.

Emerging markets

Emerging markets were stable last week as flows into the asset class slowed down with half of the previous week's number at $462m, one third for hard currency and two thirds for local currency. Corporates outperformed sovereigns with spreads narrowing 2bps versus a small widening for hard currency sovereigns.

Primary issuance continues to be strong with bonds from the likes of Columbia and Philippines on the sovereign front and GeoPark and Petronas on the corporate front.

In China, the People's Bank of China announced it is considering a bailout for Huarong by assuming more than $15bn of assets (bad debt). Unfortunately, this good news was offset by news that the company will delay reporting its 2020 results past the 30 April deadline.

After the previous weeks of back and forth sanctions by both the US and Russia, the situation seems to have calmed down as Russian announced it is starting to withdraw troops from the Ukrainian border and jailed opposition leader Navalny ended his hunger strike as private doctors will now be allowed to visit him in prison.

In central bank news, Russia raised rates by 50bps, more than expected, citing inflation concerns and keeping its hawkish tone.

Commodities

The index rose 2.2% last week, bringing performance to an increase of 13.3% year-to-date. Energy was lower with crude oil down 1.7%; this was more than largely offset by the strong performance in base metals and agriculture.

Agriculture prices were higher on the back of the continued Chinese demand (wheat up 9%; corn up 10%; soybeans up 6%) and due to the weather issues in South America. Soft commodities were also higher, largely in sympathy.

Base metals were higher as copper prices continued to climb and iron ore was the best performer for the week. Precious metals were flat on the week, buffeted by the fall in US treasury yields and the softer US dollar.

Summary of fixed income asset allocation views

Fixed Income Asset Allocation Views

26th April 2021

COLUMBIA THREADNEEDLE INVESTMENTS

Strategy and positioning (relative to risk free rate)		Views	Risks to our views
Overall Fixed Income Spread Risk	Under-weight -2 -1 0 +1 +2 Over-weight	▪ 2021 data is shaping up to be noisy once again, but in a much different way than 2020. This time, growth is going to be robust, especially in the US. In addition, issuers on the whole are coming into this environment with better liquidity than before the pandemic. ▪ Valuations in most areas of credit provide much less cushion for volatility. But compared to similar spread levels in the decelerating global economy pre-COVID, we still prefer to carry more credit risk in today's accelerating economy. ▪ Question marks on the sustainability of super easy financial conditions, inflation, & central bank reaction functions do increase uncertainty.	▪ Rapidly rising Treasury yields tighten financial conditions or make all in yields of credit less attractive. ▪ A recovering economy propels spreads to all-time tights, especially if vaccinations accelerate quickly ▪ Geopolitical tensions rise above a simmer, particularly in the US and Russia or China
Duration (10-year) ('P' = Periphery)	P ¥ $ Short -2 -1 0 +1 +2 Long £ €	▪ Valuations suggest lower yields likely ▪ Pandemic scarring keeps reflation credibility low ▪ Fed QE and high personal savings underpin demand for treasuries ▪ ECB likely to lean against rising financing rates ▪ Duration remains best hedge for further risk asset correction	▪ Permanent fiscal policy shift rebuilds reflationary credibility and raises r* ▪ Fiscal largesse steepens curves on issuance expectations ▪ Consumption rebound stimulates long-term inflation expectations ▪ Risk hedge properties deteriorate
Currency ('E' = European Economic Area)	£ ¥ EM Short -2 -1 0 +1 +2 Long E A$ $	▪ US growth outperformance on back of fiscal stimulus boosts USD ▪ ECB increasingly sensitive to Euro appreciation	▪ Vaccine rollout in Europe improves and narrows growth gap ▪ US fiscal push fades
Emerging Markets Local (rates (R) and currency (C))	R Under-weight -2 -1 0 +1 +2 Over-weight C	▪ Favourable advanced economy policy settings support EM assets in near term ▪ EM real interest rates relatively attractive, curves steep	▪ Sharp escalation in global risk aversion, leading to higher EM inflation via fx ▪ EM funding crises drive curves higher and steeper
Emerging Markets Sovereign Credit (USD denominated)	Under-weight -2 -1 0 +1 +2 Over-weight	▪ The long leash markets gave EMs in 2020 is not extending into 2021. Questions about fiscal stability are rising again (see Brazil). ▪ Index composition changes over the last 5 years have added a lot of duration to the sector, leaving it vulnerable. ▪ US growth outperformance is starting to cause weakness in EMFX, and financial conditions for EMs is tightening.	▪ A replay of 2013 occurs with a taper tantrum or swift appreciation of the USD ▪ Growth scars from COVID persist and hurt commodity prices & ability to grow out of deficits. ▪ Governments show little willingness to address deficits post-COVID.
Investment Grade Credit	Under-weight -2 -1 0 +1 +2 Over-weight	▪ Index spreads are back to pre-COVID levels, but the duration of US indices have also lengthened by ~10%. ▪ Issuer balance sheets still look remarkably strong, and cash reserves remain very high. Our base case is that a fair amount of deleveraging can occur with this cash, but as the economic recovery accelerates and COVID moves to the rear-view mirror, the spectre of M&A and shareholder return still looms. ▪ IG has been historically resilient in the face of inflation, even if other sectors may benefit more from it.	▪ IG bonds further cement their place in global investors' portfolios as safe assets, replacing government bonds. ▪ M&A and shareholder returns remain in the backseat of management's priorities for an extended period of time.
High Yield Credit	Under-weight -2 -1 0 +1 +2 Over-weight	▪ Spreads are inside LT averages, even adjusting for the better quality of today's index. But spreads are still wider than pre-COVID. ▪ Access to capital remains easy even through more volatile markets of late, and a return to normalcy disproportionately benefits low-quality credits. ▪ The positive effects of easy financial conditions hit HY later than higher quality sectors, and tighter conditions will hit HY first.	▪ Upside risks include: intensified reach for yield keeps drawing new investors, 2020's downgrade cycle turns quickly into an upgrade cycle. ▪ Downside risks include: travel & leisure habits slowly revert to pre-COVID, commodity sell-offs, or financial conditions suddenly tightening.
Agency MBS	Under-weight -2 -1 0 +1 +2 Over-weight	▪ Fed buying has overwhelmed highly negative fundamentals, as seen by the near-zero spreads in bonds the Fed buys and poor performance elsewhere. ▪ Fed buying cannot be expected to increase in 2021, exposing negative fundamentals and valuations ▪ Duration in the sector is now rising quickly as mortgage rates move higher.	▪ Housing activity slows considerably and prepays move back down to normal levels, without denting households' ability to service mortgages. ▪ The Fed maintains or increases MBS purchases next year.
Non-Agency MBS & CMBS	Under-weight -2 -1 0 +1 +2 Over-weight	▪ Our preference remains for non-agency RMBS in this area. ▪ RMBS: Housing continues to outperform in the recovery as HH balance sheets are strong, demographics are positive, and supply is constrained. Valuations are less compelling, but can provide stable carry in de-risking portfolios. ▪ CMBS: favoured bonds are still 'story' bonds. A return to normal won't look 'normal' for sectors like office space or convention hotels ▪ Spread tightening looks somewhat excessive along the margins of credit quality.	▪ Changes in consumer behaviour in travel and retail last post-pandemic. ▪ Work From Home continues full-steam-ahead post-pandemic (positive for RMBS, negative for CMBS). ▪ Rising interest rates may dent housing market strength, but seems unlikely to derail it.
Commodities	Under-weight -2 -1 0 +1 +2 Over-weight	▪ o/w Copper vs Aluminium ▪ o/w Lead vs Zinc ▪ o/w Soybeans ▪ u/w Livestock ▪ o/w Softs	▪ US China trade war