MIRABAUD Asset Management

FLASH NOTE

THE FED BOOSTS CREDIT PURCHASES

STRATEGY TEAM

- The Federal Reserve increases its support to the US economy with additional measures to provide up to $2.3 trillion;
- The Fed includes fallen angels—investment grade bonds recently downgraded to junk bond status—and high-yield ETFs to its corporate bond program;
- The combined size of its primary and secondary corporate purchase program will reach $750 billion;
- These measures are in line with our recent tactical asset allocation decisions, including the overweight of investment grade bonds.

Primary and Secondary Market Corporate Credit Facility: The Federal Reserve increased the combined size of both facilities to $750 billion—respectively $500bn and $250bn—versus $200 billion at the time of the initial announcement.

More importantly, **the Fed expanded the scope of its purchases to high-yield corporate bonds ETFs and fallen angels**—issuers with an investment grade rating as of March 22, 2020 and subsequently downgraded to no less than BB-/Ba3. While the Fed will not buy the most distressed securities of the high-yield fixed income universe, these measures will help reduce tension in this market. The Fed also expanded collateral to commercial mortgage-backed securities in the Term Asset-Backed Securities Loan Facility (TALF) which provides loans to the private sector.

Other technical adjustments have been made with respect to issuer limits (maximum 1.5% of the potential size of both facilities, maximum 20% of an ETF's outstanding shares) as well as leverage of the Treasury equity provided to the facilities.

Municipal Liquidity Facility: the Fed will offer $500 billion in lending to US States, Cities and Counties. Purchased securities should mature no later than 24 months from the date of issuance.

Paycheck Protection Program Lending Facility: the program will supply liquidity to financial institutions active in the Paycheck Protection Program (loans to small businesses so that they can keep their workers on the payroll).

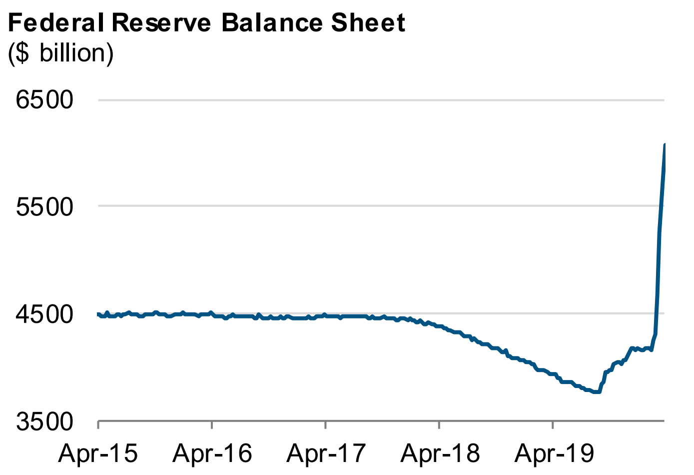
Main Street Lending Program: the Fed will offer up to $600 billion in 4-year loans to small and mid-sized enterprises. Principal and interest payments will be deferred for one year.

Asset Allocation: The additional measures announced by the Fed reinforce its role as the lender of last resort in all market segments and signal the central bank's willingness to do whatever it takes to respond to market dislocations, to the drying up of liquidity and to provide enough financing for the banking and private sector.

The expanded scope of its facilities towards high-yield bonds should lead to a further reduction in credit spreads in particular for the highest quality companies within each asset class.

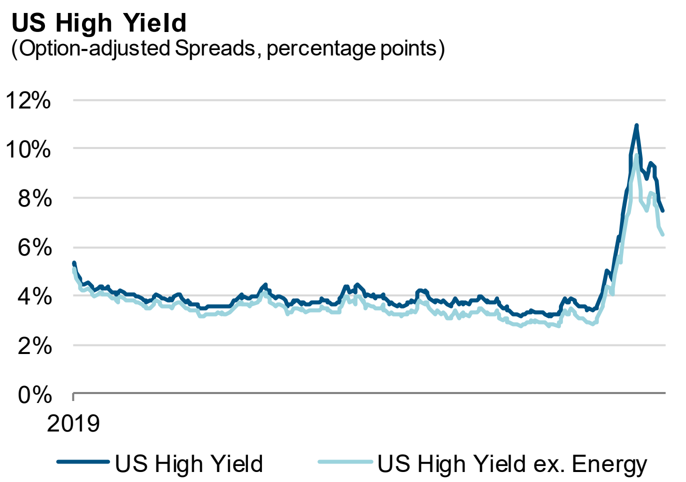
In our asset allocation, we keep our overweight exposure to investment grade bonds and a neutral exposure to high-yield bonds in all currencies.

THE FED BALANCE SHEET HAS NOW REACHED $6 TRILLION



Sources: Federal Reserve, Mirabaud Asset Management

US HIGH YIELD SPREADS ARE NARROWING



Sources: Datastream, Mirabaud Asset Management

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